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**RESEAU D'ETUDES ET DE RECHERCHES SUR LA COHESION ET LES TERRITOIRES EN EUROPE**

## **European Union – South East Asia Institutions and regional development policies**

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Several models of regional development have emerged. On the one hand, the European Union which seems to be the most advanced model of regional integration in terms of institutional structure, on the other hand South East Asia where several initiatives coexist and even overlap, may it be ASEAN or Greater Mekong Subregion. The objective of this study aims at analysing the way public policies of regional development are built in both regional areas in order to examine the results of these policies in terms of territorial equalities. Are these models based on innovation? Do they lead to a polarisation between growth centres and lagging behind areas? How do the public policies determined at supra-national level address such differences?

In order to address these questions, the study is based on two parts. The first one is dedicated to a theoretical comparative analysis of the Europeanisation and Aseanisation process. The second part aims at illustrating a specific development strategy in Asia based on special economic zones. This study has been written on the basis of interviews. We would like to thank you the interviewees for their time and the information delivered. The second part has been written together with Nicolas Diaz, Sophia Guerin, Allison Morris, Sophia Sen and we would like to thank them for their work.

## First part: Europeanisation and Aseanisation: Regional Development Policies. What to compare ?

Several studies have convinced us not to compare EU with ASEAN for a variety of reasons that fundamentally refer to the gap between institutions<sup>1</sup>. EU is based on the principle of “pooling sovereignty” and *subsidiarity*<sup>2</sup> which fuels “multilevel governance” backed by strong institutional capacities<sup>3</sup>. ASEAN relies on the principles of “sovereignty”, “non interference”, “non use of force” and “mutual accommodation”<sup>4</sup>. The principle of sovereignty highlights the refusal of any supra national rule; non interference means tolerance of non democratic states<sup>5</sup>; and mutual accommodation implies search for consensus<sup>6</sup>. In light of these basic differences between EU and ASEAN, is it possible to carry out a comparison between both regions? We postulate that such a comparison is in fact possible, provided that we decide not to deal with institutions but instead with states and local capacities to understand how actors can adapt to external pressures. We compare Eastern Europe<sup>7</sup> with the Greater Mekong Subregion (GMS) by starting from the fact that from a historical perspective both sub regional ensembles – Eastern Europe and Southeast Asia - share the same destiny. For decades, and even centuries, excepted Thailand, they were occupied by foreign occupation and some States

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<sup>1</sup> See the last ones mentioned : *International politics*, 2010, vol.. 47, ¾, see the articles, P. Murray N.Rees “Introduction. European and Asian regionalism!: Form and Function”, pp. 269 – 275, and Lay Hwe Yeo, “The everlasting Love for comparison. Reflections on the EU’s and ASEAN’s integration”, in Roger e. Canet, ed. *The United States and Europe in a changing world*, Dordrecht: Republic of Letters, Publishing 2009, pp. 185 - 205

<sup>2</sup> This complex term refers to the tasks and fields exclusively depending on each level (EU, state, region, department) and defining administrative responsibility.

<sup>3</sup> The “multi level governance” can be defined as “A system by which the responsibility for policy design and implementation is distributed among different levels of government and special purpose local institutions (private associations, pacts among several local public authorities, districts and cooperation projects within national borders or across national borders, public-private partnership »See C F Sabel, J. Zeitlin, 2008, “learning from differences : the New Architecture of Experimentalist governance” in the EU, *European Law Journal*, May.

<sup>4</sup> The Treaty of Amity and Cooperation signed in 1976 has set out the terms initially mentioned in the Bangkok declaration of ASEAN in 1967 Respect of territorial integrity, Political sovereignty of fellow signatures, Renunciation of the use of force Non interference Treaty of amity and cooperation.

<sup>5</sup> “ASEAN was founded in order to help defend the prevailing social order” , Lee Jones, « ASANS’s Unchanged Melody ? The Theory and Praticce of « non interference » in Southeast Asia », *The Pacific Review*, vol.23, n°4, sept; 2010 p. 485

<sup>6</sup> “The principle of non interference in the internal affairs of members countries and the search for accommodation and consensus have traditionally guided decision-making and behaviour in the association – collectively termed “the ASEAN way” has remained a constant feature of ASEAN institutions” Yueng Faong Khong, Helen E. S. Nesadurai, “Hanging together, institutional design and cooperation”, in *Crafting cooperation*, p. 33 34

<sup>7</sup> Here are mentioned the eight former soviet type states that joined EU in 2004 : The three baltic states and the four central ones : Poland, Czech Republic, Slovakia and Hungary, lastly Slovenia. Lastly In 2007 the remaining Bulgaria and Romania became EU members.

were liquidated as such<sup>8</sup>. For this reason both regions very highly praise “national sovereignty”. This position leads to important consequences about further policies and politics.

The first part targets *politics* by stressing certain similarities concerning political security objectives that are shared by both regional ensembles (I). The second part isolates some *policies* like privatization and regionalisation policies and it concludes that it is relevant to compare EU and ASEAN (II).

### I. Political and economic capacities

Let us start by considering the historical perspective in order to assess the basic objectives in each region. Differences can rather easily be identified but at its core, the politics reflect important similarities.

Basic objectives were not the same<sup>9</sup>. In Europe, founding members hoped to build a strong community based on an increasingly integrative market thanks to protective institutions and rules. Competition thanks to highly standardized protection is the singular alchemy that intends to jointly achieve growth, redistribution (solidarity) and territorial balance<sup>10</sup>. These terms –growth, solidarity, territories - are indeed the main components of the cohesion policy. The “strategy 2020” overarches this general objective<sup>11</sup>. In South East Asia, the internal market of founding members was not considered sufficient for many reasons, mainly because purchase power and autonomous production capacities were low<sup>12</sup>. For non-democratic regimes which feared both communism and “Great Powers” – Russia, China and Japan - the solution could only come from the integration to world - wide dynamics. These regimes expected economic returns in order to better legitimize their political domination. Liberation of trade was the best option. The 1980’s and half of the next decade showed that their calculations were right.

For these reasons, politics are different in both areas. Consequently, the dynamics of construction of regional ensemble by the actors address different objectives<sup>13</sup>. In the EU, it was placed under the

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<sup>8</sup> For Southeast Asia, see F N. Tarling, 1999, *The Cambridge History of South East Asia, vol 2, part one, From 1800 to the 1939s*, (edited by), Cambridge University Press Cambridge University Press; Osborne, M. 2010, *History of Southeast Asia*, 10<sup>th</sup> edition ; Milton Owen 2006, *History of Modern South East Asia*, NUS Singapore, Nicholas Tarling, 2001, *Imperialism in Southeast Asia*, Routledge. For Eastern Europe, see See Berendt, I., 1996, *Decades of Crisis. Central and Eastern Europe before World War II*, University of California Press Janos C, 2000, *East Central Europe in the Modern World, The Politics of the Borderlands from Pre to Post-Communism*, Stanford University Press

<sup>9</sup> Axel Berkowski, “Comparing EU and Asia Integration processes. EU a role Model for Asia ? *European Policy centre*, issue paper, 22, Brussels

<sup>10</sup> The territorial dimension of the cohesion policy appears late in the development of the Cohesion policy. Initially it was focused on economic (growth) and social (employment) cohesion.

<sup>11</sup> The strategy 2020 has been adopted in 2010 at end of the Lisbon Strategy These strategies frame programming periods of EU intervention (Structural funds) by indicating several targets addressing growth (RD), employment, territorial balances, level of education, energy targets, etc.

<sup>12</sup> Douglas Webber, « Trade and security? Political integration in an insecure region”, in Herbert Dieter, 2007, *The evolution of regionalism in Asia*, Routledge, pp. 147 – 159.

<sup>13</sup> Kyell A. Eliassen and Catherine Borge Arnesen, “Comparison of Europe and Southeast Asia” in pp, 203 - 221 *European union and new regionalism. Regional actors and global governance in a post-hegemonic area* (Mario Telo, edit), 2d edition, 2007, Ashgate p. 215

impact of governments which were firmly decided to build up a strong common regulative framework. In South East Asia, it was much more the business networks that were supported from the top thanks to trade regulations and US protection - even if a divide existed between those who claimed for more self autonomy and those for more security<sup>14</sup>.

### 1.1. Political reasons and regional security

However, both regions have been pushed by strong political reasons concerning security<sup>15</sup>. As Douglas Webber says economic reasons are insufficient to explain supranational rules: both are born out of a fear of communism and fears of hegemony<sup>16</sup>. Both shared the conviction that only organized trade could consolidate peace by enlarging economic exchanges and benefits for all. Politically, in Europe, forging a common organization was an urgent task in the 1950's not only in order to limit the negative capacity of Germany over Europe, but also to face the great powers - US and Russia. The economic rules have been successively accumulated into a dynamic that has unfolded with spillover effects, before different crises stopped this harmonious but successful development. Here Haas and Moravcic In Southeast Asia, as well, politics gained momentum. ASEAN was created in 1967 after several trials to face increasing communist threats<sup>17</sup>. States more or less shared same values – at least anti-communist ones – and were widely supported by US funds and armed forces<sup>18</sup>. But it was necessary to wait up to 1976 to see the first ASEAN political declaration.

For all of our cases –in Eastern Europe and in South East Asia – the main collective value is represented by national sovereignty that is considered to be non-negotiable. From the crucial experience of historical liquidation<sup>19</sup>, it is understandable they are firmly linked to the principle of national sovereignty. No supra national authority means that states remain absolutely sovereign and cannot be forced to delegate any part of their sovereignty. For this reason, no leader can emerge and no hegemon can claim leadership. Small states have a strong interest in adhering to regional ensemble because the immediate consequence is both economic advantage and increasing capacity to limit the bigger neighboring states.

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<sup>14</sup> Amitav Acharya, 1991 *Crafting operation*

<sup>15</sup> the 18 April 1951, the 6 pioneering countries thanks to the Treaty of the European Coal and steel community « *resolved to substitute for historic rivalries a fusion of their essential interest ; to establish, by creating an economic community the foundation of a broad and independent community among peoples long divided by bloody conflicts...have decided to create a European Coal and Steel community* » The declaration of Bangkok in 1967 specifies « *To accelerate economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of south east Asian Nations*”.

<sup>16</sup> Douglas Webber, « Trade and security? Political integration in an insecure region”, in Herbert Dieter, 2007, *The evolution of regionalism in Asia*, Routledge, pp. 147 – 159.

<sup>17</sup> Nicholas Tarling (edit), 2006, *Regionalism in South east Asia, To Foster the Political Will*, Routledge

<sup>18</sup> Amitav Acharya, 1997, “Ideas, identities and institutions –building : from the ASEAN way to the Asia pacific way ? *The Pacific Review* 1997p. 322

<sup>19</sup> Thailand is an exception by having never occupied by foreigners. All the other ASEAN current states did not exist during long perdio of tim or were framed by foreigners Cambodia, or even were created like Laos.

In South East Asia, despite numerous conflicts - between Malaysia and Singapore and Thailand, Thailand and Myanmar, Laos and Cambodia, and finally Cambodia and Vietnam -, the main benefit of ASEAN has been its capacity to curb such conflict. Indonesia and Malaysia feared China and dissemination of communist subversion. Thailand and Singapore feared Vietnam and post war intervention. Thailand, Singapore and Malaysia were more in favour of strong US military presence against Indonesia, which was in turn an argument supporting regional autonomy and neutralization. However the desire to avoid conflict became the common objective that brought them together; it was in fact the fundamental objective of ASEAN in 1967. Despite all these difficulties and obstacles, ASEAN is a success. It has been the best guarantee against any war, and it has succeeded in integrating CLMV<sup>20</sup>. Particularly concerning Vietnam's integration, the reconciliation of opposed interests was really difficult. Indonesia and Malaysia recognised Vietnam and were afraid of the return of Great Powers (China first). Adopting an opposing position, Thailand and Singapore desired the support of Great Powers because they were afraid of the USSR / Vietnam alliance and also because Vietnam pursued Khmer groups into the Thai territory.

Lastly by belonging to such an international arena member states can be respected. Each Southeastern Asian state presides ASEAN for 6 years; in the EU it is for 13 years<sup>21</sup>. Provisory alliances are therefore the key word. They are based on a minimal agreement, meaning the capacity for each member to say "no". What is the result of such a picture drawn from various opposing interests? The main consequence is that despite these numerous oppositions and potential conflicts, interests are closely intertwined by the same priority: security. As Alan Dupont emphasizes, what supports security in this region is the conviction that sovereign states are mutually linked and that their destiny depends on themselves<sup>22</sup>. Security means to do everything possible to avoid conflict (that in the past led to regional disintegration) and as a consequence guaranteeing the welfare of all states. What differentiates South East Asia from Eastern Europe is not the basic principle of national sovereignty or the objective of security, it is instead the manner in which these regions seek to achieve common goals. If we consider the perspective of leadership, interests are the same.

## II. What kind of policies to compare between Central Europe and Southeast Asia?

Having assessed the relevance of the comparison when we focus on politics, let us now assess policies. We sketch four policies which are of major importance to understand transforming processes in both sub regions. Then we conclude by addressing the concept of governance.

### 2.1. Enlargement processes

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<sup>20</sup> In 1997 the Malaysian Foreign minister said "the institutions of norms of acceptable conduct and behaviour among its members" is one of "ASEAN's great achievements" quoted Acharja, 1991 p 195

<sup>21</sup> Up to 2013 when the Treaty of Lisbon will be fully enforced;

<sup>22</sup> Alan Dupont, 1996 "Is There An Asian Way" *Survival*, summer, vol. 38 n°2, pp. 13 – 33

First we look at enlargement policy itself, considered from the most fundamental factor: the historical liquidation of national sovereignty. As said above, all states disappeared from European and Southeast Asian maps for a substantial period of time, with the exception of Thailand. Consequently, this has led to a fair amount of resistance to any further enlargement from these new Member states. Due to the very constraining process of adjustment, once they are integrated states, as said above, are reluctant to any further “sovereignty pooling”. Both enlargements – in the 1990’s in Southeast Asia and in the 2000’s in Eastern Europe - led to a blockage of historical dynamics which previously supported more pooling sovereignty and more decentralized trends<sup>23</sup>.

*Capacity to limit any hegemony*

In both areas there was an important interest from middle and even small states to limit hegemony of the biggest players. In Europe, the role was filled by Germany. There was no doubt that France was firmly attached to the objective of restraining the economic power of Germany, once its political power was annihilated at the end of World War II. The first economic community of steel and coal bounded Germany to its western partners. The objective was the more the European institutions, the less the German capacity to harm. In Southeast Asia, the role was filled by Indonesia which Thailand, Singapore and Malaysia wanted to restrain by agreeing to the creation of ASEAN.

While the end of communism did not drastically change the picture, it did however strengthened small states in both regions at the expense of stronger ones. The last EU enlargement seems to have stopped any further enlargement dynamic by strengthening capacities of new members. They can now not only refuse any more “pooling sovereignty” but can also strongly block decisions which bring about more federalism. Furthermore, they can set up new alliances which are directly built against the so called “old” Europe<sup>24</sup>, in other words the “German / French motor”. The wide and open support that these new members provided to American armies in Iraq was a major signal in favor of new European external alliances. New European members were able to successfully limit former European leadership. They were all the more successful given that Germany felt itself less bounded to previous partners. A similar trend can be observed in Southeast Asia. New ASEAN members - CLMV - have not only strongly contested any blame addressing their lack of domestic human rights, but also sharply criticized any attempt to more collective “flexible engagement” or more “constructive intervention”. This was the policy of Thai authorities who wanted to make ASEAN more cohesive. Indonesia was weak since Suharto’s fall. Singapore was too small to be an indisputable leader. Almost all of these new member states are afraid of emerging strong NGOs supported by international networks.

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<sup>23</sup> For Southeast Asia, see D. Webber, for Eastern Europe see F. Bafail, 2009

<sup>24</sup> The former US secretary of State Donald Rumsfeld qualified in 2004 EU members opposed to American engagement as “Old Europe”, opposed to the “New” ones, embodied in new member states.

Therefore new members have remarkably succeeded by manipulating numerous weaknesses of ASEAN founders<sup>25</sup>.

## 2.2. Privatization and industrial relations

In both regions during the last decade, the most important policy for former or still existing communist regimes was the privatization policy. It results from the capacity of some interest groups to exert pressures in order to shape rules for their own benefit. To compare dynamics of privatization in both regions is relevant to understand how economic and political elites can recombine their resources by manipulating new rules in order not only to be much wealthier but more secured at the end of the process<sup>26</sup>. The major challenge here is to understand under what kind of critical juncture forces actors to change. How does one understand the shift from an economic policy to another one – for instance from Import Substitutions to the Export Oriented Industrialisation in Southeast Asia or from the soviet type economy to the market economy in Eastern Europe? What is the importance of corruption and how can new property rights secure a more stable social consensus?

By the way of privatization policies, both Southeast Asian and east European regions have been the theater of a strong economic and social deregulation. Because both types of economies are now export oriented they need much more competitive product than before and support from FDI which are considered the most important levers for growth. Such a situation calls for reduced trade union activity and pacified social situations. More workers' rights, increasing participation and higher capacities to negotiate are therefore not positively considered by ruling elites. One of the most stringent paradoxes of these transitory periods is that there is no correlation between increasing political democracy and increasing industrial democracy. It is all the more paradoxical that in both regions collective

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<sup>25</sup> As Acharya says, the alternative principle of “constructive engagement” failed and the “participative regionalism” did not occur”. Amitav Acharya, 2003, “Democratization and pthe Prospects for Participatory Regionalism in Southeast Asia, *Third World Quaterly*, vol. 24, n°2, (Governing the Asia Pacific : Beyond the “new Regionalism”, pp. 375 – 390.

<sup>26</sup> For eastern Europe see Stark (David) and Laszlo Bruszt, *Postsocialist Pathways. Transforming Politics and Property in East Central Europe*. Cambridge: Cambridge University Press, 1998 Orenstein, Mitchell A, *Out of the Red. Building Capitalism and Democracy in Post-Communist Europe*. Ann Arbor: University of Michigan Press, 2000. For Eastern Asia, see Pasuk Phongpaichik, Chris Baker, (editors), 2008, *Thai Capital, after the 1997 crisis*, Silkworm Book



agreements are signed only in a few foreign firms<sup>27</sup>. An important area of research may one day explain why the level of trade unionism is so low in both regions<sup>28</sup>.

In both areas, a particular type of management emerged called “management through flexibility”. Embodied in the globalization dynamic it was based on the same principles largely inspired by the Japanese experience (even if misinterpreted). Transferred to the western world in the 1980s, it brought with it various tools like “quality circles”, team objectives, search for “spirit of enterprise” and better, “firm identity”. All these tools were correlated to technical measures aiming at reducing transaction costs within various departments, from production to sales and to supply chain where suppliers and subcontracts were forced to reduce their costs. In general, all of the participants to the value chain were invited even forced to reduce their costs taking for themselves various flagships valorizing “0 defaults”, “0 stock”, “0 waiting time”. This dynamic of transfer made Eastern Europe a remarkable field of liberal experiments without social support. In Southeast Asia this Japanese inspiration was only seen as a tool to discipline the working force. The positive aspects of the Japanese model concerning long term employment and highly regulated industrial relations were not taken into account. Furthermore, these tools were accompanied with both material and symbolic rewards which ironically replicated methods already implemented in soviet type economies where the “best” workers were identified within campaigns of stimulation joining departments, enterprises and even regions. But quantitative results of these campaigns were totally manipulated and final decisions were pre-decided by the top management in accordance with trade unions<sup>29</sup>. Everyone was aware of these manipulations. Attention should be paid to the consequences of such a “management by flexibility” regarding the previous patron - client dependence. It is now shifting to more individualized relations. Traditional forms of paternalism evolve into more professional management, which legitimizes comments by some observers that “in progress” southeast labor management councils are similar to EU councils<sup>30</sup>. The concept of “patrimonial bureaucracy” or “bureaucratic paternalism”<sup>31</sup> should be deepened. In Eastern Europe confusion in this respect leads to low union membership and weak

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<sup>27</sup> For Southeast Asia, see Christopher L. Erikson et alii, 2003, “From core to Periphery ? Recent Development Relations in the Philippines”, *Industrial relations*, vol. 42, n°3, July, pp. 368 – 395p. 384. For Central Europe, Bafoil, 200ç 7<sup>th</sup> chapter. F Deyo, “The social construction of development labor system South east Asia Industrial restructuring” F. Deyo, in Garry Rodan, Kevin Hewison, Richard obison, 2001, *The political economy of South east Asia. Conflicts crises and change*, 2d edition, Oxford University press pp. 252 – 282, p. 271; Teri L. Caraway 2009, “Labor rights in East Asia : Progress or Regress?” *Journal of East Asian Studies*, 9, p. 160 concerning Eastern Europe see Daniel Vaughan Whitehead, 2003, *EU Enlargment versus social Europe? The Uncertain Future of the European Social Model*. Cheltenham, Edward Elgar 2003. See to Vayghan Whitehead, 2005, *Working Employment Conditions in New Member States*. Geneva: ILO.

<sup>29</sup> Donella Caspersz « the « talk » versus the « walk » : High Performance Work System, labour Market flexibility, and Lessons from Asian Workers” *Asia Pacific Business Review*, vol 12 n° 2, 149 – 161, 2006

<sup>30</sup> Christopher L. Erikson et alii, 2003, “From core to Periphery ? Recent Development Relations in the Philippines”, *Industrial relations*, vol 42, n°3, July, pp. 368 – 395.

<sup>31</sup> Frederic C. Deyo, *Beneath the Miracle. Labor Subordination in the new Asian Industrialism*, Univesity of California Press, 1989 p. 199

collective action. In Southeast Asia, increasing ethnic and religious awareness has led to an emerging class consciousness nurtured by a strong feeling of deprivation and intimate feeling of illegitimacy of ruling order<sup>32</sup>.

Backing the “management by flexibility” an important gender divide can be already observed in both regions where this gender criteria induces different collective capacities<sup>33</sup>. In the future it should represent an important new comparative field. This divide isolates two paths: the “high path” characterized by high skill sectors; the “low path”, by low skill and female workers. The former appears to be more the domain of men, while the latter are devoid of investment and left without any capacity to get out of the local market. In accordance with this gender differentiation, a deep gap differentiates men who benefit from better collective protection guaranteed by collective agreements and those from the domestic firms, which are characterized by a lack of collective agreements mirroring the “light” industry, including textiles, leather, clothes, etc. Finally, this divide indicates a deep differentiation about the work contract itself. Formal and protected jobs are massively occupied by men – at least in Thailand, as Charenloet shows it, and unprotected, subcontract and informal jobs are mainly occupied by children and women.

### 2.3. The regionalisation policy

The regionalization policy, the third policy we are looking at, results from multi-ethnic profiles of all states from both regions, except Poland which has been strongly homogenized since 1995<sup>34</sup>. Because of the presence of many minorities which are concentrated in certain territorial areas, most of the states refused to implement a regionalization policy. In Eastern Europe it was mainly for political reasons. Indeed Central states did not want to devote strategic capacities to social groups which were previously either political occupants - like Russians in Baltic States and Turks in Bulgaria- or the most economic powerful group : such as the case of the Hungarian minority located within the Romanian Transylvania region. Southeast Asia faces similar cleavages between centres and peripheries - in Indonesia, Philippines, Thailand, Malaysia, and to a lesser extent in Laos - even if minorities are different from the political and economic perspectives<sup>35</sup>. They do not refer to former occupants and they are counted among the poorest social groups.

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<sup>32</sup> Vedi R . Hadiz, « the indonesia labor movement. Resurgent or constrained”, in *Southeast Asian Affairs* 2002, pp 130 142

<sup>34</sup> See Bafoil (François), dir., *La Pologne*, Fayard, 2007.

<sup>35</sup> For South eastAsia, see Jörn Dosch, 2007, *The Changing Dynamics of Southeast Asia Politics*, Lynne Rienner Publishers; Marc Askew, 2010, « The Spectre of the South : Regional Instability as National Crisis”, in *Legitimacy Crisis in Thailand*, (edited by Marc Askew), Silkworm Books. For Eastern Europe, Bafoil, 2009, « Regionalisation and decentralization in Poland : A europeanian process in a comparative perspective”, in *Regional Development and the European Union. A comparative Analysis of Karabüçk, Valenciennes and Katowicz*, (F. Bafoil & A. Kaya, ets), Istanbul Bilgi University Press

## Reprendre les ppales différences

Table 3. Minorities in some Eastern countries, 1930 / 1990

	Czekoslovakia	Poland	Hungary	Romania	Bulgaria
1930	51% Czech, 23% German, 16% Slovak 5% Hungarian	65% Polish 16% Ukrainian 10% Jews 6% Belarussian 2% German	87% Hungarian 6% German 5% Jews	75% Romanian 6% Jews 5% German	87% Bulgarian 10% Turks 1% Jews
1990	3% Hungarian / 1,4% Roms	0,8% Belarussian, 0,8% Ukrainian,1% German	5,6% Roms	4,5% Roms 6,6% Hungarian	3,5% Roms 9,5% Turks

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Philippines	Indonesia	Tailand	Singapore	Cambodia	Vietnam	Laos	Myanmar	Malaysia
The first important group : Tatalog 30% ; the 2d = 25% ; 87 recogn languages	250ethnic groups	80% thai + 15 minorities	chinese (75%) ; Malaysian 15% Indian 10%	85,4% Khmers 12 minorities Viet (7,4%) Cham (3,5%) Chinese 3,2%)	60 minorities	Lao 58% 12 minorities (Hmong 1,9%)	130 minorities registered and Bamar = 65% of Birma	malaysian <50% chinese 30%

Another policy of comparison which should deserve attention is that of the regional development policies, that are based on an assortment of alliances between a variety of actors. Certain approaches focus on EU interest groups, lobbies, policy networks, etc<sup>36</sup> which are strongly framed by EU rules. Within such a view the concept of “regionalism” is an insistence on institutions or state driven development.. On the contrary, other approaches, particularly the literature on ASEAN, opposes this kind of “regionalism” due to the weak political and institutional approach of ASEAN to “regionalisation”<sup>37</sup>. This last term of “regionalization” concerns different economic networks which

<sup>36</sup> Adrienne Heritier 2007, Explaining institutional change in *Europe* Oxford University Press, , Beate Kohler Koch, 2002, European Networks and Ideas : changing national policies, *EIoP* vol 6, <http://eiop.or.at/eiop/texte/2002-006a.htm>

<sup>37</sup> Richard Higgott, 1997, “De facto and de Jure regionalism : the double discourse of regionalism in Asia Pacific” *Global society*, 11 : 2, pp. 165 – 83 Richard Higgot, “The theory and practice of a region. The changing global context” in B. Fort, D Webber, Regional integration in East Asia and Europe, Convergence or divergence ? Routledge, pp. 17 – 38, Peter J. Katzenstein, 1999, « Regionalism and Asia », CSGR 3d annual conference, after the global crises : what next for regionalism ? Scarman House, University of Warwick, 16 – 18 September 1999; Katzenstein P., *A World of Regions: Asia and Europe in the American Imperium*, Ithaca NY: Cornell University Press, 2005.; Katzenstein P., “Regionalism in comparative perspective”, *Arena working paper*, 1996, [www.arena.uio.no/](http://www.arena.uio.no/); Pempel, J-T, (edit.), *Remaping East Asia, the construction of a region*, Cornell University Press, 2005. B. Fort, D Webber, 2006, Regional integration in East Asia and Europe, Convergence or divergence? Routledge. Mario Telo, edit, 2007, *European union and new regionalism. Regional actors and*

highlight the role of Chinese and Japanese investors and business networks. The distinction between these two approaches is essentially that of institution-driven versus market-driven regional development policy. One can follow Prasenjit Duara when he says, that “*region formation in Asia is a multipath, uneven and pluralistic development that is significantly different from European regionalism*”<sup>38</sup>. Some authors prefer to insist on the opposition between contracts and identities<sup>39</sup>. It is highly valuable to analyse this kind of regional construction from “below” by comparing interest groups in both regions as these particular socio economic ‘alliances’ reflect and build societal consensus. This in turn opens the door to analysis about different “political economies”.

The EU “europeanisation” literature delivers an interesting theoretical framework to understand the “bottom up” process of creating collective rules<sup>40</sup>. Among different scholars Börzell and Riese emphasize the capacities of domestic actors - State, regional and local actors - to resist the adaptive pressure from EU rules by using and recombining their own resources and alliances. These resources can be either symbolic (values and ideas) or material (interests). The alliances address foreign and domestic, economic and political partners. In such a perspective, history matters. The neo institutionalist approach which underlines the capacity of rules to stabilize consensus and make possible collective action highlights the concept of “path dependency”<sup>41</sup>. Accordingly, the authors emphasize several major categories. The first category refers to the concept of “transfer” and issues about who transfers how and what is transferred during the adaptation process<sup>42</sup>. The second category

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*global governance in a post-hegemonic area*, 2d edition, Ashgate. Mark Beeson, 2007, *Regionalism and Globalization in East Asia. Politics, security and economic development*. Palgrave See also, footnote 1.

<sup>38</sup> Prasenjit Duara, 2010, Asian Redux : Conceptualizing a Region for Our Times *The Journal of Asian Studies*, vol. 69, n°4 nov., p. 981

<sup>39</sup> Regionalism : “*the expression of increased commercial and human transactions in a defined geographical space*” vs regionalization “*the expression of the common sense of identity and destiny combined with the creation of institutions that express that identity and shape collective action*” p. 196 Paul Evans “Between regionalism and regionalisation : policy networks in the nascent east asian institutional identity”, pp. 195 – 215 in *Remapping East Asia, The construction of the region* (edited by T. J. Pempel, Cornell University Press, 2005

<sup>40</sup> Cowles, Maria Green, Caporaso, A. James, and Risse, Thomas, eds., 2001, *Transforming Europe: Europeanization and Domestic Change*, Ithaca, NY: Cornell University Press., Börzell Tanja, 2001, Pace-Setting, Foot-Dragging and Fence-Sitting. Member State Responses to Europeanization, Queen’s Papers on Europeanization, no. 4, at: <http://www.qub.ac.uk/ies/onlinepapers/poe4-01.pdf> Börzell, Tanja, 2003, “Shaping and Taking EU Policies: Member State Responses to Europeanization”, in Queen’s Papers on Europeanisation, No 2/2003, <http://ideas.repec.org/p/erp/queens/p0035.html> Börzell Tanja, Thomas Risse, 2000, “When Europe Hits Home: Europeanization and Domestic Change”. EioP. <http://eiop.or.at/eiop/text/2000-015a.htm>.

<sup>41</sup> This approach of “path dependency” has been used since the very beginning of the eastern European transforming process in order to emphasize the role of long term history in setting up new rules, leading to the approach of “hybrid” systems of rules. Stark, David, ‘Recombinant Property in Eastern European Capitalism,’ *American Journal of Sociology*, 4, 1996, pp. 993-1027. Stark (David) and Laszlo Bruszt, *Post-socialist Pathways. Transforming Politics and Property in East Central Europe*. Cambridge: Cambridge University Press, 1998. Stark, David and Gernot Grabber, *Restructuring Networks in Post-Socialism: Legacies, Linkages, Localities*. London: Oxford University Press, 1997

<sup>42</sup> The policy transfer in which Claudio Radaelli describes the “*processes of construction, diffusion and institutionalisation of formal and informal rules, procedures, policy paradigms, styles, ‘ways of doing things’ and shared beliefs and norms.*” These processes are “defined and consolidated within the EU policy process and then incorporated in the logic of domestic (national and sub-national) discourse, political structures and public policies” (“Europeanization, solution or problem ?” <http://eiop.or.at/eiop/2004-016>. See also, Radaelli, Pasquier, 2005). Radaelli, Claudio M. (2004), “Europeanisation: Solution or problem?”, in European Integration online

refers to institutions and rules. Here, authors underline the informal nature and the capacity of domestic actors to adapt these rules in accordance with their own historical experience<sup>43</sup>. The last category refers to the “mismatch” between both levels: EU rules and domestic institutions. The “mismatch” is a relevant indicator to show the lack of compatibility between both levels (EU and domestic.)<sup>44</sup> Thus, the higher the level of incompatibility between EU and domestic law, the greater the pressure and the larger the conflicts. Moreover, because other actors are in the game - like civil societies - the game becomes more complex: the mismatch can play out not only at the central level - among strongly regulated ministries for instance - but among many actors who can be dissatisfied and even refuse supra national rule. Finally, there are some “veto players” that contest the game and block any EU rules adoption thanks to their strong institutional resources. After 1990, this approach was successfully extended to Eastern Europe<sup>45</sup> by pointing out the crucial aspect of political conditionality<sup>46</sup>.

#### 2.4. The concept of governance

Tackling these different policies from a comparative perspective leads us to compare the concept of governance. EU has developed a huge rationalization of system of exchanges between political, economic and social partners, at different levels: EU, State, Regional, departmental, local levels. This “*multilevel governance*” is considered by some scholars the added value of the EU because in principle such an architecture allows for efficiency and justice. All political, economic or social actors are invited to participate at their own level<sup>47</sup>. Multilevel governance makes possible the basic EU

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Papers (EIOP), Vol. 8 (2004), N° 16;  
<http://eiop.or.at/eiop/texte/2004-016a.htm>

<sup>43</sup> Therefore such an approach is also backed by the neo institutionalist approach for which rules are embodied in historical path “Informal elements like national and local culture, traditional and popular ideologies, political representation also play a central role in the adoption and rejection of EU influences.”

<sup>44</sup> “*The lower the compatibility between European and domestic processes, policies and institutions, the higher the adaptational pressures*”, Risse and Börzell, 2002, p. 5

<sup>45</sup> Grabe, Heather, 2006, *The EU’s Transformative Power: Europeanization through conditionality in Central and Eastern Europe*, London, Palgrave. Kutter Amelie, Trappmann Vera (Hrg), 2006, *Das Erbe des Beitritts, Eurtopäisierung in Mittel und Osteuropa*, Nomos Verlag. Lippert, Barbara and Umbach Gaby (2005) *The Pressure of Europeanisation: From post-communist state administrations to normal players in the EU system*. Baden-Baden: Nomos Verlagsgesellschaft. Bafoil, François, 2009, *Europeanisation and globalization in Central and Eastern Europe*, Palgrave.

<sup>46</sup> Schimmelfennig Franck, Sedelmeier Ulrich, 2005, « *Conceptualizing the Europeanization of Eastern and Central Europe* », *the Europeanization of Central and Eastern Europe*, Ithaca, Cornell University Press. Sedelmeier, Ulrich, 2005, “Eastern Enlargement: Towards a European EU?”, in: Helen Wallace/Wiliam Wallace, *Policy-Making in the European Union*, Fifth Edition, Oxford: Oxford University Press 2005, p. 402 – 428 Sedelmeier, Ulrich, ‘Eastern Enlargement: Towards a European EU?’, in: Helen Wallace and William Wallace, *Policy-Making in the European Union*. Fifth Edition, Oxford: Oxford University Press, 2005, pp. 402–428. Lippert, Barbara, ‘Erfolge und Grenzen der technokratischen EU–Erweiterungspolitik,’ in: A. Kutter, V. Trappmann (eds.), *Das Erbe des Beitritts. Europäisierung im Mittel- und Osteuropa*, pp. 57 – 74. Vachudova, Milena Anna, *Europe Undivided. Democracy, Leverage and Integration after Communism*. Oxford University Press, 2005

<sup>47</sup> As the EU adviser Fabicia Barca depicts it, the multilevelgovernance is “*a system by which the responsibility for policy design and implementation is distributed among different levels of government and special purpose local institutions (private associations, pacts among several local public authorities, districts and cooperation projects within national borders or across national borders, public-private partnership*”, Barca, F. , 2009, « An Agenda for a Reformed Cohesion Policy, A Place-based Approach to Meeting European Union Challenges and

principle of *subsidiarity* meaning that pertinent tasks have to be achieved at the appropriater level and consequently at the exclusion of the other ones. In ASEAN, such a “*subsidiarity*” does not exist because of the strict domination of national sovereignty. The lack of pooling sovereignty prevents ASEAN from covering pertinent topics. It also mirrors ASEAN’s incapacity to tackle supra national problems like haze, Asian flux, even terrorism, even if Lee Jones has recently defended the fact that ASEAN was a relevant umbrella to make pressure on resisting states like Cambodia in 1997 and Myanmar in 2006<sup>48</sup>.

But does the fact that ASEAN architecture does not share the multilevel governance as the EU mean that we cannot speak of “multilevel governance” when it comes to ASEAN? What EU intends to define by highlighting *connectivity* (accessibility), *cooperation* (partnerhip) and *concentration* (growth)<sup>49</sup> is exactly what ASEAN defends by arguing of *Connectivity* - the economic corridors-, *Community* - between people - and *Coordination* - of different policies and actors -. The three “C” are the pillars of the definition of regional integration “enhancing connectivity, improving competitiveness, and engendering a sense of community”<sup>50</sup>. Moreover, the importance of networks and their capacity to structure at different levels of political, social and economic life allow us to speak of multi-level governance. “Asian values” allow them to re-organize the surrounding environment<sup>51</sup> even if Ravenhill considers that multiplication of meetings and informal discussions does not makes ASEAN a bloc comparable to EU<sup>52</sup>. From this perspective, a comparison is possible if we intend to compare dynamics of “nationalizing” shared rules by member State.

## Conclusion

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Expectations », EU, DG Regio, April 2009, 218 pages, p.13. See too, A.Mairate, “The « Added Value » of the European Union Cohesion Policy”, *Regional Studies*, vol. 40, n° 2, 2007, pp. 167-177.

<sup>48</sup> Lee Jones, « ASANS’s Unchanged Melody ? The Theory and Praticce of « non interference » in Southeast Asia », *The Pacific Review*, vol.23, n°4, sept; 2010, 479 – 502

<sup>49</sup> *The Green Paper on Territorial Cohesion* published by the EU Commission in 2008 {SEC(2008) 2550} summarizes EU ambition by proposing a balanced and harmonious development of European territories following three axes: *Concentration* in order to avoid excessive concentrations of growths ; *Connecting territories* by linking to transport networks, energy networks, new technologies and services of general economic interest *Cooperation* between people at different levels in order to overcoming division resulting from lack of concentration and connection.

<sup>50</sup> ADB (1996). Economic Co-operation in the greater Mekong Subregion: facing challenges. Manila, Asian Development Bank.

<sup>51</sup> “Singapore has adopted top down salad bowl approach to manage its ethnic pluralism. Emphasizing Asian values is a possible way for sidestepping both the potentially disintegrative pulls of Chinese, Malay and Indian cultures and the potentially absorptive reach of Western influences. Geographically undefined Asian values are not the temporary expression of the cultural arrogance of one of Asia’s miracle economies. Lacking a distinct identity, Asian values offer Singapore’s political elites a plausible ideology for building a new state ” Peter J. Katzenstein, 1999, « Regionalism and Asia », CSGR 3d annual confrence, after the global crises : what next for regionalism ? Scarman House, Univesity of Warwick, 16 – 18 september 1999, p. 7

<sup>52</sup> It would mean « to confuse hyperbole with reality, a proliferation of meetings with institutionalization and proposals with binding policy frameworks” John Ravenhill “A three bloc world ? The New Asian Regionalism”, *Intenational relations of the ASIA – Pacific*, 2002, 2, pp. 167 – 195

Why starting the comparison from the institutional perspective is irrelevant ? Mainly because the “pooling sovereignty” process is not similar in both regions. Supra national rules do not have the same weight on domestic actors. Under ASEAN regulation, states remain the most important actors. The dynamic of europeanisation presented below in Table 1 presents the institutional capacity of EU architecture to weight on domestic levels and opposed to it, the very weak ASEAN institutional capacity. In both regions, domestic milieu are characterized by different interest groups which can resist to the adaptive pressure from the supra national level. In the case of EU, some of these groups are in favour of the integration, others are opposed. The greater the presence of existing institutions, the stronger the interest groups and consequently the likelihood of conflict. These conflicts depend mainly on two factors: first, the institutional design, meaning the nature of the supra regional rule (strong versus weak) and the forms of control; second, the profile of actors: “veto power” actors are either in favour of or hostile to supra national rule. The length of negotiation with EU experts reflects such conflict. Negotiations of some chapters lasted more than 40 months while others took less than 10 months<sup>53</sup>. Finally, results can be either the pure *adoption* or *adaption*<sup>54</sup>.

Tab. 1. Components and dynamics of Europeanisation / Aseanisation processes

	EUROPEANISATION	ASEANISATION
<b>1. EU Actors and institutions</b> (supra national level)	<b>EU institutional plurality</b> : the variety of the institutions : the European Commission the Court of Justice, the Parliament); some DG (enlargement, DG Regio, Agriculture, energy, etc) and the complexity of the rules (community field, shared or national) Conflicts between different DG (enlargement / Regio)	<b>ASEAN secretariat</b> (very small : 70 people; in 1993, 31), The head s called for 2 years (1976) then 3 (1986) then 5 since 1993. Mandated to initiate, advise, coordinate and implement ASEA activities. ASEAN summit take place twice a year The staff, appointed on the same principles. No strong Institutions but a huge variety of agreements (trade and economic facilities) and multilateralism Promotes dialog with a lot of economic, business bodies (and around 60 ngos)

<sup>53</sup> For instance the 6<sup>th</sup> chapter concerning competition requested more than 40 months in Czech Republic, Hungary, Poland and 49 months in Romania. The 13. Chapter, concerning “Employment and social policies” was shorter adopted within 4 months in Lithuania, 6 months in Bulgaria, 13 months in Estonia.

<sup>54</sup> Adoption is the translation of the supra regional rule into the domestic legislation. It was the case when no previous legislative framework existed in a given field (for instance some aspect of social requirements linked to the market completion). Adaptation is the more interesting figure because it refers to the capacity to “recombine” resources with current rules. It opens the door to the interpretation in terms of the “path dependency” which does not define a pure historical continuity – from the past to the present – but more a social innovation which takes place under different strong constraints.

<b>2. Adaptive pressure</b> Nature of the rules	<b>Strong rule</b> : security (duty) implying monitoring control and strict compliance from candidates <b>Weak rule</b> : depending the national states or supported by the Open Method of Coordination (OMC).	<b>Weak rule</b> (consensus and principles of non use of force, non interference and basic principle of the primacy of the national sovereignty) Primacy of national interest / sovereignty : no forced duty for collective action (which could be oriented against a member state).
<b>3. Domestic level</b> Conflicts and negotiations	<b>Institutions</b> “fit / misfit” the more the institutions at the domestic level the more the conflict with EU rules. <b>Actors</b> : “veto power” and facilitators, interest groups, pressure groups The <b>hegemon</b> France / Germany which determines several alliances and policies	<b>Strong institutions at the domestic level</b> <b>Informal exchanges</b> , partnerships Meetings, <b>Consensus</b> based on top down approach of the public policies But <b>emerging actors</b> : NGOs and civil societies (management of water), villages, political demand of democracy (participation) <b>The lack of a hegemon and of leadership</b> , the role of Great Powers (USA, Japon, China), the growing importance of China, etc.
<b>Results</b>	<b>Transfer</b> (strict adoption, less resistance, less conflicts) <b>Adaptation</b> (translation) <b>Reject</b>	<b>Lowest common denominator</b> of the common rule and primacy of the domestic legitimacy

Some scholars conclude that only weak states can produce a weak regional ensemble like ASEAN. But other scholars conclude on the opposite : Southeast Asian states can strongly use this supra national ASEAN weakness to reinforce their own features of non democratic regimes<sup>55</sup>. In the same vein Stubbs speaks of “regional resilience” and concludes to a rather powerful ASEAN because the Southeast Asian Region creates domestic stability and regulates conflicts. Radically different from this kind of polity the EU is based on democratic rules and links this political conditionality to the enlargement to new member. For these reasons polities cannot really be compared. However a comparison of certain key policies allows for a more comparative result. Therefore we have stressed the importance of enlargement, privatization, and regionalization policies. All these policies can be compared in order to better understand the concept of “strong state” et “weak state”.

If we consider how new members of each regional ensemble succeeded to prevent further sovereignty pooling, we are incited to admit that new states are stronger with membership and former members appear rather weak. By having emphasized the fundamental principle of national sovereignty, both new members have put on the fore front of the reflection the definite importance of historical development, collective identity and national feeling. If at the end, states of both regions enrich the reflection in terms of strong states versus weak states, it is not just because they reveal capacities to manage centrifugal forces thanks to particular types of coordination between central and peripheral

<sup>55</sup> “ASEAN was founded in order to help defend the prevailing social order”, Lee Jones, 2010, “ASEAN’S unchanged Meloy ? The theory and practice of “non interference” in Southeast Asia”, *The Pacific Review*, 23 : 4, p. 485



actors<sup>56</sup> but it is also because they highlight the links between the national and supra national level. European states are strong because they support strong collective rules but Southeast Asian counterparts can be also defined as strong because they can limit any further pooling sovereignty. By limiting collective political rules, they enclose the game within economic barriers and can be legitimized as non democratic regimes. On the other side, new states from both regions can be defined weak because corruption is huge. It is known that in both regions processes of privatization were fully manipulated by former elites who could use their assets to turn out rules and in this way they excluded to a wide part of the population to the decision – making process. Eastern Europe was the theater of a massive corruption<sup>57</sup>.

Furthermore, it is not necessarily true that the EU being much more institutionally equipped than ASEAN is in a better position to face current world-wide challenges. What is useful to consider is not institutions but much more bottom up dynamics which stress the importance of regional networks. Regionalization dynamics supported by economic networks in both regions witness the definite importance of interest groups, foreign direct and stability within each region investors and particular alliances between all of them. All of them are the support of various political economies.

Lastly, we see that in the EU the current weak legitimacy of EU rules<sup>58</sup> does not prevent the huge increasing EU trade. The same can be said for ASEAN which experiences an increasing internal trade despite weak institutions<sup>59</sup>. It is worthy to compare how both regional ensembles map their own territories and address similar policies. Special economic zones (SEZ) deserve particular attention. These zones support fiscal policies which are very similar in both regions and for some of them lead to the emergence of clusters. For this reason, it is interesting to compare how each regional ensemble targets social and economic policies and how efficient and equitable objectives of development can be balanced or ignored.

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<sup>56</sup> Peter Dauvergne, 1998, *Weak and strong States in Asia – Pacific Societies*, (edited by), Allen and Unwin. Joel S. Migdal, 1994, « strong states, weak states : power and accommodation », *Understanding political development* (Myron Weimar, Samuel P. Huntington), pp. 391 – 434, Joe S Migdal, 2001, *State in Society. Studying how states and societies transform and constitute one another*, Cambridge University Press

<sup>57</sup> Concerning New European member states, among numerous books see Tom Gallagher, 2009, *Romania and the European Union How the weak vanquished the strong*, Manchester University Press. For Southeast Asia see Pasuk Phongpailit, Sunsidh Piriyaangsam, 1994, *Corruption and Democracy in Thailand*, Silkworm Books

<sup>58</sup> This current EU weakness from Eastern side refers to « enlargement fatigue » likely to legitimize to stop any further institutional EU deepening and widening. From both sides of Europe it has to mentioned the deep political mistrust that the very low citizen participation to EU elections in 2009 has reflected, then the very low profile of Commission authorities, and finally the lack of solidarity within the euro zone.

<sup>59</sup> François Bafoil & Ruiwen Lin, 2010, Relooking at the Role of Transport Infrastructure in Trade, Regional Growth and Governance: Comparing Greater Mekong Subregion (GMS) and Central Eastern Europe (CEE) Published in *Journal of Current Southeast Asian Affairs*, <http://hup.sub.uni-hamburg.de/giga/jsaa/article/view/262/262>

## Second part: Dependent Growth. Three case studies of Special Economic Zones in Laos and Cambodia

Ideally, Special Economic Zones (SEZs) are supposed to develop a variety of networks and links: between firms (network), local milieu (of the firms), regional areas, and eventually international linkages<sup>60</sup>. SEZs can be considered drivers of development because they are supported by different actors indicating that collective action and multi-level governance are the key factors of success. Furthermore, they are intended to be conducive to development by spillover effects in their immediate environment, and are expected to lead to more developed economic forms, such as clusters. Finally, SEZs are thought to support more integrated development, as in regional integration. This term of regional integration can be defined from three perspectives we will discuss below in order to assess whether Cambodian and Laotian SEZs fit these conditions and can be considered drivers of development. By doing so we will deepen the concept of “dependent growth”. The first perspective is linked with the GMS project of regional development. The second perspective is linked with the historical example of Chinese SEZs. The last perspective refers to institutions of development. Let us briefly recall them.

As demonstrated in both Chapter 2 and 5, the Greater Mekong Subregion (GMS) is pursuing a three pronged strategy of enhancing connectivity, competitiveness and community. Such a strategy is based on developing both hard and soft infrastructure; the idea being that extensive infrastructure development would improve regional connectivity, which would in turn assist regional integration initiatives. While commending the infrastructural developments thus far, both Verbiest and Strange also acknowledge the various difficulties that emerge, primarily at the border areas, because of the lack of consistent and collaborative governance. This lack of established and well functioning governance mechanisms (both vertical and horizontal) constitutes a significant impediment towards the assumed causal link between infrastructure and development<sup>61</sup>. As appears to be the case in the

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<sup>60</sup> This article stems from a larger study that was conducted by a group of Master of Public Affairs (MPA) students at Sciences Po Paris, with the aim of contributing to the debate by exploring the experiences of South East Asian’s regionalism – in particular, in the contexts of the GMS. To support this research, study trip was made to Thailand, Laos and Cambodia in February 2011. See the report *Dependent Growth, SEZ in the Greater Mekong Subregion* (Nicolas Diaz, Sophia Guerin, Allison Morris, Sophia Sen, Under the direction of Prof. Bafol), MPA sciences Po, 120 pages. MPA. 2011, 132 pages, [www.coesionet.ceri-sciences.po.org](http://www.coesionet.ceri-sciences.po.org)

<sup>61</sup> An important literature underlines causal links between regional infrastructure and development. See Banomyong, Ruth, P. Cook, and P. Kent (2008), *Formulating Regional Logistics Development Policy: The Case of ASEAN*, in: *International Journal of Logistics Research and Applications*, 11, 5, 359-379. Brooks, Douglas H. and Jayant Menon (eds.) (2008), *Infrastructure and Trade in Asia*, Cheltenham, UK; Northampton, MA: Edward Elgar. De, Prabir (2008), *Impact of Trade Costs in Trade: Empirical Evidence From Asian Countries*, in: *Trade Facilitation Beyond the Multilateral Trade Negotiations: Regional Practices, Customs Valuations and Other Emerging Issues*, Bangkok: United Nations Publication, 281-310. Duval, Yann (2008), *Economic Cooperation and Regional Integration in the Greater Mekong Subregion (GMS)*, Trade and Investment Division, Staff Working Paper 02/08, UNESCAP. Roland-Holst, David, Jean-Pierre Verbiest, and Fan Zhai (2008),

GMS, the causal link between infrastructure and development is significantly constrained due to the lack of a sense of community, which hampers communication and collective action across entities. By focusing on special economic zones (SEZ) in the GMS, our first objective in this chapter is to show that development cannot occur mainly because central and regional institutions are missing.

Second, SEZs in Asia have been used as a model of economic growth and development since China first launched four coastal SEZs in 1979. Broadly speaking these initial sites emphasized localized liberal economic policies, export-oriented industries and low factors of production (primarily wages). Empirically, and as the “Chinese SEZ model” has demonstrated, SEZs are expected to concentrate growth and progressively lead to local development<sup>62</sup>. Based on the case study of the Chinese city Shenzhen, it has been shown that successful development through SEZs is a combination of: industrialization and urbanization; highly developed infrastructure; foreign direct investment; research and development; and universities and skill training centers. In addition to the aforementioned components, Chinese SEZs are characterized both by liberal economic policies and tough political rule and are based, on one hand, on low tax rates and low wages, and, on the other hand, on highly profitable incentives<sup>63</sup>. Lastly, the economic zone in China represents a very particular pattern of new public and private cooperation: the central government allows a private investor to lease land for a certain period of time, during which time the private investor must develop the zone and provide all facilities to those companies investing in the zone. This “systemic” approach to growth ensures that manufacturing and industry growth is directly tied to innovation, infrastructure, good governance and locally-based skill growth<sup>64</sup>. Our second objective is to assess whether such forms of innovation exist in our Cambodian and Laotian SEZs and if not, why?

The last aspect of the definition of regional integration refers to the institutions of development. For Deutsch regional integration is a mix of shared identity and formal and informal rules which make

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*Growth and Trade Horizons for Asia: Long Term Forecasts for Regional Integration*, Research Paper No. 2008/106, UNU-WIDER. François Bafoil & RuienLin, 2010, “Relooking at the Role of Transport Infrastructure in Trade, Regional Growth and Governance: Comparing Greater Mekong Subregion (GMS) and Central Eastern Europe (CEE), Journal of Current Southeast Asian Affairs, <http://hup.sub.uni-hamburg.de/giga/jsaa/article/view/262/262>

<sup>62</sup> ADB 2007; Naughton, 2009, p. 145sq. As Naughton shows it, the “Chinese model” is itself a tentative replication of Japanese success. Citat p.33 remain Naughton Segal

<sup>63</sup> foreign investors must pay a corporate tax of 12%. Those who produce over 70% of good bound for export enjoy an initial 2 year tax holiday and a 50% tax reduction for a following 3 years. Subsequently, they are charged a 10% corporate tax. Foreign investors in the service sector with an investment of 10 years or longer, greater than \$5 million USD have a 1 year tax holiday and 50% reduction on corporate tax for 2 years. Joint investment companies who invest for a period greater than 15 years in port and dock construction are granted a tax holiday of 5 years and a tax reduction in the subsequent 5 years.

<sup>64</sup> ADB 2007, “Special Economic Zones and Competitiveness”, PRM Policy Note Series Review Committee? ADB, Manila.

possible collective action<sup>65</sup>. Lombaerde and Longeve point out the role of institutions and multilevel structures of governance within the delegation process as part of the regional integration process<sup>66</sup>. This remark invites us to consider to which extent local institutions connected with SEZs can support and enhance community and shared identities.

Our main thesis in this work is that under Laotian and Cambodian conditions, SEZs have proven to be driving a very different kind of development – that which is highly dependent on external investment and fails to foster local development. In 2011, we carried out three empirical case studies of SEZs in Laos and Cambodia and this informs our reflections on the need to cultivate institutions and governance within the region in order to support links between economic growth and local development. Specifically, the three SEZs examined were the Manhattan SEZ in Bavet, Cambodia, Phnom Penh SEZ in Phnom Penh, Cambodia and Savannakhet SEZ in Savannakhet Laos. We have hypothesized that without strong cooperation between political and economic actors located at the central, regional and local level, growth driven by SEZs is not conducive to long-term development. The GMS SEZ case studies provide evidence that the SEZ model in the Laotian and Cambodian context suffers from a de-regulated structure, where weakened governance is exacerbated by a neglect to create and implement policies that truly harness local development opportunities via SEZ investment.

In the first part we present some positive components of Cambodian and Laotian growth and economic success linked to SEZs (I). In the second part, we insist upon specific features of Cambodian and Laotian SEZs which mainly refer to the organization (II). Far from replicating the “Chinese Model”, Southeast Asian SEZs havenot led to a functioning kind of regional and local development. Therefore, in the fourth part, we identify a situation of “dependant growth” by stressing the lack of institutional support and functioning governance (IV).

#### I. Economic growth and Local development

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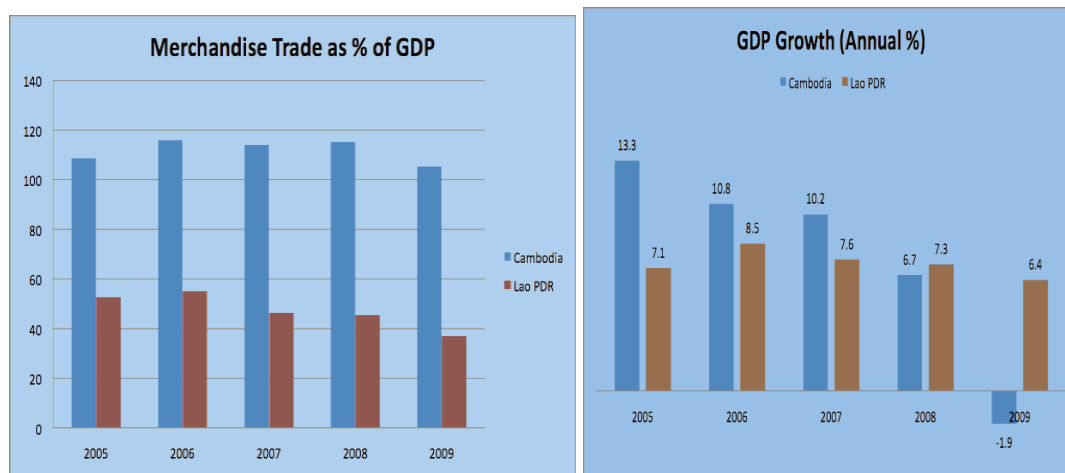
<sup>65</sup> In accordance with Karl Deutsch, a group has “become integrated when integration is defined as the attainment of a sense of community accompanied by formal or informal institutions or practices, sufficiently strong and widespread to assure peaceful change among members of a group with “reasonable” certainty over a “long period of time”Karl Deutsch, “Security community” in James Rosenau (ed), 1961, *International Politics and foreign policy*, N York Free press, quoted in Amitav Acharya, “Ideas, identity, and institution-building : from the “ASEAN way” t the “Asia-Pacific way”, *The pacific review*, 1997, vol. 10, n°3, pp. 319 – 346 Based on Deutsch’s approach, Katzenstein insists on political and economic transactions, and the social ways of communication that differentiate groups of countries. Far from being limited to formal aspects of rule, integration implies a lot of informal connection.

<sup>66</sup> For Lombaerde and Longehove (2006: 1), regional integration refers to the “process of complex, social transformations characterized by intensification of relations between independent sovereign states”.

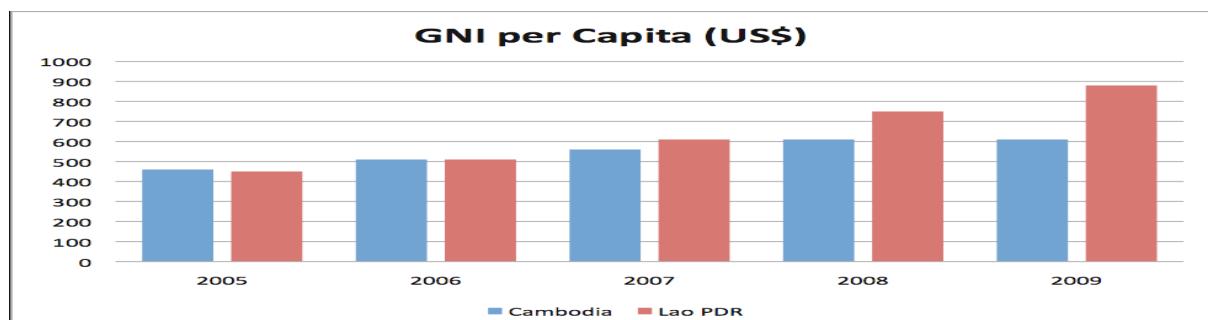
Before focusing on the local development level it is important to mention some positive links between GMS SEZs and economic growth. Two indicators help us to present them: economic (GDP and trade) and social (poverty reduction and wages) indicators.

### 1.1. Evidence of Growth through Economic Indicators

It is evident that the Savannakhet, Manhattan and Phnom Penh SEZs are places of economic growth. Through the case studies, we find that SEZs are achieving economic growth without stimulating local development, which argument will be developed throughout the remainder of this chapter. Indicators of economic growth include: increased production and output (GDP); increased level of trade; and increased GNI per capita. The graphs below of the aforementioned economic growth indicators is evidence of the growing economies of Lao and Cambodia: Graph 1 shows the significant levels of merchandise trade as they contribute to GDP; Graph 2 shows the annual growth rate of Cambodian and Laotian GDP over the past 5 years; and Graph 3 shows the increase in GNI per capita over the past 5 years.



Graphs 2-3: Merchandise Trade as Percent of GDP and GDP Annual Growth (The World Bank Group 2011, “Open Data”).



Graph 4: Gross National Income Per Capita, Cambodia & Lao PDR (The World Bank Group 2011, “Open Data”).

Three caveats must be noted in setting forth the evidence of Laotian and Cambodian economic growth. First, the economic growth is highly dependent on the foreign market – this is both in terms of demand for products (export-oriented) and investors (most firms in SEZs are foreign). Hence, Laotian and Cambodian economies are highly susceptible to external risks and shocks that are beyond their control. This can be seen in Graph 2 depicting GDP growth. The GDP Growth shows the substantial impact the 2009 Global Financial Crisis had on Cambodia’s economy, which is likely a reflection of its extremely high levels of merchandise trade and its reliance on the garment sector. A second caveat to the impressive growth levels is the continued lack of local demand and low levels of imports, both of which are complimentary to sustaining economic growth. A majority of the firms operating within the 3 SEZs visited are foreign owned and export-oriented. Without building up local demand, Cambodia’s and Laos’s economies continue to be vulnerable to external shocks. Further, the absence of local demand speaks to the ability for the SEZ model to drive local development. Third, the economic growth model fostered by the GMS SEZ model promotes unsustainable growth, in that it neglects the necessary parallel in human development. While some argue that economic growth is a precondition to human development, studies have also shown how human development and growth create a feedback loop, ensuring that growth is sustained (Ranis, Stewart and Ramirez, 2000).

## 1.2 Evidence of Economic Growth through Social Indicators

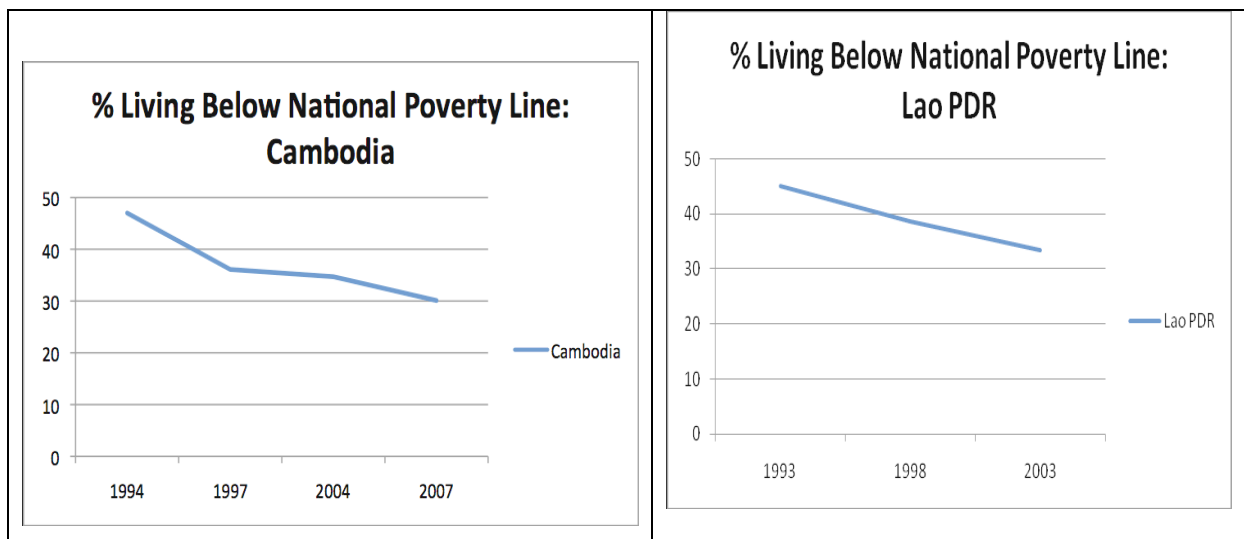
While economic growth in Laos and Cambodia has occurred over the past 10 years – Cambodia having seen a 9% average growth rate and Laos approximately 7.1% average from 2007-2009 - the GMS-SEZ model is failing as a simultaneous driver of growth and local development<sup>67</sup>. Although populations are seeing increased incomes, development requires that increased incomes are paired with increased opportunities. The concept of local development incorporates individuals' income, education opportunities, health services, and economic opportunities. In addition to moving from a life of subsistence and uncertainty to a life where basic needs are met, development requires attention to feedback aspects, such as innovation, capacity building and technological transfer.<sup>68</sup>

Before rejecting the hypothesis of the relationship between the GMS-SEZ model and local development, the evidence for local development is summarized in the below table. Both Laos and Cambodia have seen impressive improvements in the reach of education, poverty reduction and service provision over the past decade.

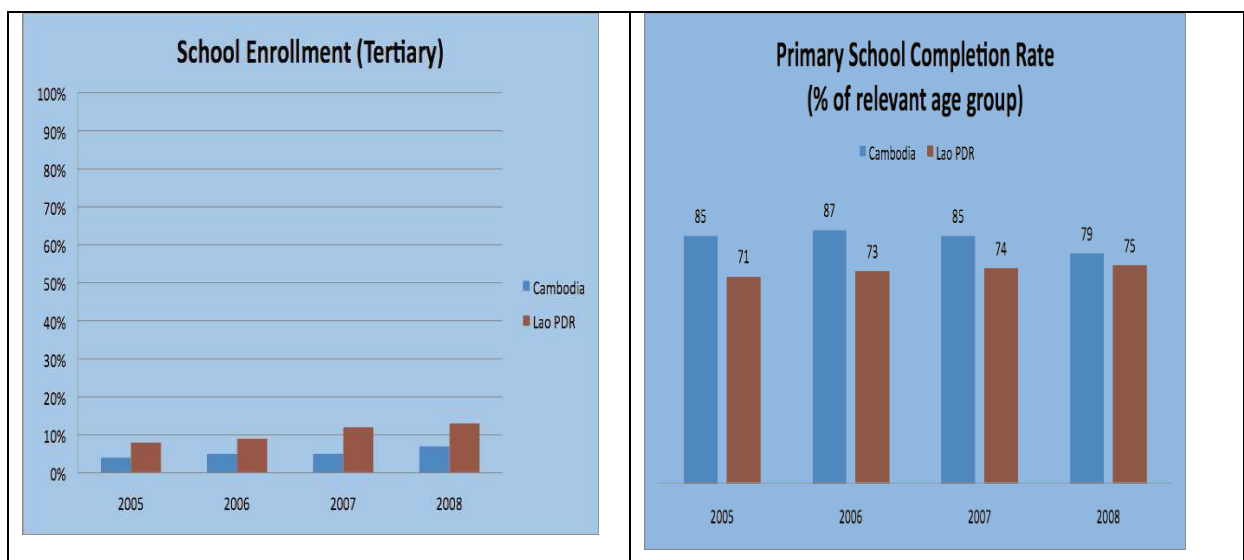
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<sup>67</sup> The World Bank Group 2011, “Open Data”

<sup>68</sup> UNDP 2011



Graph 5-6: Percent of population living below the Poverty Line, Cambodia & Laos (The World Bank Group 2011, “Open Data”).



Graph 7: Tertiary School Enrolment, Cambodia & Laos Graph 8: Primary School Completion Rate, Laos & Cambodia<sup>69</sup>

From the above graphs of social development indicators, it is evident some progress has been made with regards to poverty reduction and improving education levels in Laos and Cambodia. However, the extent to which the GMS-SEZ model will foster a further improvement of socio-economic indicators is questionable. The linkages between the SEZ firms, employment and capacity building do not exist; nor are there complementary government policies in place which aim to bridge these gaps in

<sup>69</sup> The World Bank Group 2011, “Open Data”.

capacity development. In the 3 SEZs examined, their weaknesses reduce their capacity to foster local development, as measured through infrastructure development, human development and poverty reduction.

## II. Three case studies: Incentives and Organization.

Let us now consider our three case studies which comply to two main features of Southeast Asian SEZs. Ishida draws out a typology that defines the ideal location of these zones in “metropolitan areas” in order to capitalize on available manpower, “ports and harbours,” and “border areas” to better exploit export facilities, and in “junctions or intersections” in order to accumulate benefits linked to comparative advantages<sup>70</sup>. For this reason, Ishida’s study points out the benefit of the objective to develop Economic Corridors in the GMS region, as this has guided the choice of ideal SEZ locations. Aveline – Dubach completes the picture by insisting on four features of SEZ location: “A large scale area where land is developed in accordance with a comprehensive plan...An area served by roads, infrastructures, utilities and services,...Sale and lease of factory buildings for manufacturing purposes...Controlled development with restrictive covenants for the benefit of both the occupants and the community at large”<sup>71</sup>. Our three SEZ are located in two places : “Metropolitan area” and “border area”, and are characterized by the main features above mentioned concerning equipment.

In our analysis we distinguish two major levels: the investment incentives and the internal organization. This section proceeds as follows: first, each SEZ is briefly presented; second, we describe the tax incentives and the organization of GMS-SEZs, including a closer look at the One Stop Service that manages each SEZ on behalf of the respective government.

### 2.1. Profile of GMS-SEZs

The first SEZ is the Laotian *Seno-Savanakhet Zone* which is located closed to the Laotian / Thai border along the Mekong River<sup>72</sup>. The vast area of land dedicated to the SEZ is divided into 4 sites. Site A is located at the Mekong International Bridge and is over 305 hectares of land dedicated to commerce and some service and logistic activities. Zone B is majority (70%) state owned and Zone C

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<sup>70</sup> Ishida 2005

<sup>71</sup> Natacha Aveline –Dubacjh, “the Role of Industrial Estates in Thailand’s Industrialization. New challenges for the future”, in Patarapong Interakumnerd, Yveline Lecler, edited by), *Sustainability of Thailand’s Competitiveness. The policy challenges*, 2010, ISEAS Publication, pp. 175 – 206.

<sup>72</sup> In 1998, the Laotian government participated to a GMS program in order to consider the project about economic corridors from South China to Madaman Sea (Myanmar). The gvt needed to get benefits from Economic corridors in order to mobilise cooperation with the 4 countries (CLMV). The gvt asked the Japanese gvt to provide study project in order to establish a SEZ. In 2002 the gvt established these 2 projects based on these studies.



is for housing developments. Since 2002, SEZ authorities have worked on acquiring land to organize zone D, which would be 118 hectares).

The two other SEZs studied are located in Cambodia. Cambodia has 22 SEZ locations, of which only 7 are currently operating and 15 other ones are under construction and seeking foreign partnerships. The SEZs are scattered across the country: 2 in Phnom Penh, 5 in Sihanoukville, 4 in Bavet, 1 at the Thai border and 2 bordering Laos. The first Cambodian SEZ studied is the *Manhattan* SEZ which is located in Bavet, at the Cambodian / Vietnamese border. The SEZ is divided into three parts: Part 1 (20 hectares) for commercial and retail development; Part 2 (60 hectares) for factories; and Part 3 (100 hectares) is for factories and housing, but is not yet equipped. The second Cambodian, *Phnom Penh* SEZ, is located just outside the capital and is the most highly developed SEZ in Cambodia with 3,500 workers and 10 operating firms. The smallest firm employs 14 persons (a Malaysian firm exporting construction material) and the biggest firm employs 2000 persons (a Cambodian firm exporting clothes).

#### Comparison of GMS SEZs: Savannakhet, Laos; Manhattan, Cambodia; Phnom Penh, Cambodia

	<i>Savanakhet (Laos)</i>	<i>Bavet (Cambodia)</i>	<i>Pnom Pehn (Cambodia)</i>
operating since	2003	2005	2008
size (Has)	949	180	360
Location	Border	Border	Inland (30kms from the capital)
N° of Investors	site C 34	15	25
N° of operating firms	site C 1	9	13
Natonality of developer	Malaysian, Japanese	Taiwanese	Japanese / Cambodian
N° of jobs created to date	Including casino 2000	4648	4792
N° of jobs anticipated	100 000	15 000	50 000
Investments to date	-	15 millions operating capital	138 millions
Industries	mining, residential services manufacturing, services	Bicycles, footwear, PP bags, garment, mattress spring	garment, footwear, food processing, electrical equipment

Source : personal interviews

## 2.2. Tax Incentives in the GMS-SEZs

Tax incentives are of definite importance to attract foreign investors. But because the CLMV countries (Cambodia, Laos, Myanmar and Vietnam) are poor ones, the risk is that they lead to a situation of a competitive “race to the bottom,” which in turn builds a precarious environment of “dependent growth”. In fact, in the GMS-SEZs tax rates are remarkably low in tandem with the lengthy tax holidays. Low tax rates complemented by low wages ensure that all of these SEZ remain an appealing location for manufacturers to produce their goods.

In the Laotian SEZ, tax incentives are divided first in tax holidays - 2 – 10 years starting from profit making year-; then Corporate profit tax ( 8 – 10%), then Personal income tax which are 5% for both local and foreigners and finally loss carry forward 5 years. Taxes and customs duties are exempted for all exports manufactured products and for all material imported. Investors can lease land within the SEZ for a maximum of 99 years, during which period 12 years will be exempt from lease charges. This lease period can be extended upon the Savan-Seno SEZ approval. Lease holders can sub-lease the property during this period with no restrictions or caveats.

Tax incentives are the same in all Cambodian SEZ since they are ruled by an official document<sup>73</sup>. Corporate income tax is 20%, SEZ companies are eligible for a 6 – 9 years holiday. Foreign investors can have 100% ownership of their business. There is no price control on products and services and no restriction on the repatriation of funds. Investors can lease land up to 99 years.

Despite drawbacks such as the complete lack of infrastructure (water, electricity), security concerns, and an uncultivated labour force, these SEZs and the accompanying tax incentives provide the appropriate foundation for low-skill, high-turn around production operations. Incentives are the major signal of “flexibility” which characterize every SEZ. The second component of this “flexibility” is the very low social law as we will see below.

## 2.3. Organization of a SEZ

In each of the three SEZs, the organization of the zone is directly under the responsibility of the Developer whose role is to establish and manage the hard infrastructure of the SEZ, such as road

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networks, dry ports, power, water and telecommunication supplies and even a worker canteen and dormitories. The Developer sells plots to primarily foreign companies and coordinates with the company to facilitate the opening and running of their factory. He acts as a liaison when needed, providing information on administrative procedures to investors, for example assisting with obtaining investment licenses. Specifically, the Developer helps companies obtain their industrial registration with the Ministry of Industry, which is not represented in the One Stop Service, the government's managerial arm within the SEZ. The Developer also provides recruitment support to investors. They go to provinces on behalf of investors to recruit workers and they assist in settling labour issues. Overall, the Developer is a coordinator and guarantor for investors. These services are provided at no extra cost.

#### *Savan-Seno Special Economic Zone, Laos*

Investment in the Savan-Seno Special Economic Zone is being driven primarily by the Lao Savan-Seno Special Economic Zone Authority. The physical development of the site is delegated to a developer at each site who is responsible for building the infrastructure, managing the site, hiring and training construction labourers. The Developer is of Malaysian origin.

#### *Manhattan Special Economic Zone, Cambodia*

The Manhattan Special Economic Zone (MSEZ) is developed and operated by Manhattan International Co. Ltd (MIC). MIC is a subsidiary of KPT Industries Ltd., which is a leading ceramic tile manufacturer in Taiwan. The majority shareholders in KPT are the Universal Joint International Group (UJIC) and Medtecs International Co. Ltd. (MICL). Traditionally, KPT was a manufacturer of construction materials however, upon merging into MICL in 2005, KPT has drawn from MICL's experience and resources as a multinational corporation with businesses in strategic sectors, and chosen to diversify its ventures. The establishment of a Special Economic Zone in Manhattan is one such venture. The Zone developer, Mr. Clement Yang, is Chairman of MICL and it was he whom named the zone Manhattan after the much loved island city, and commercial capital of the United States of America. Mr. Yang (a Taiwanese national) has developed another SEZ, also called Manhattan, in Taiwan, making a grand total of 3 Manhattans in the world. Mr. Yang, aside from being Chairman and CEO of MICL and developer of this zone, is also the largest shareholder in the MSEZ. MIC has set up a management office that is headed by a general manager who supervises and is responsible for all affairs of the MSEZ. Located beside the MIC is the one-stop service (OSS) office, which is staffed by the Cambodian government and is intended to be the point of liaison for both the Developer and the Companies with the Cambodian Government. The presence of the OSS office is a feature common to all SEZs within the GMS and is in theory a crucial governance mechanism.

### *Pnom Pehn SEZ*

PPSEZ is owned and managed by a joint venture company, Japan Cambodia Development Corporation (JCDC). JCDC is 49% owned by a Japanese real estate company, Zephyr Co. Ltd. And 51% owned by the Cambodian company Phnom Penh SEZ Co. Ltd, which is associated with Attwood Investment Group of Cambodia. In addition to owning PPSEZ, JCDC has received approval for 18 SEZs, including SEZs near Sihanoukville and on the Thai and Vietnam borders with Cambodia. With regard to PPSEZ, it does not appear that JCDC aims to specialize in a certain sector. The strategic objective of PPSEZ is to develop a “new town” which will incorporate commercial, residential and industrial zones. It aims to employ 50,000 workers. There are plans to build a vocational centre, apartments, shopping centres, hospitals and banks within the SEZ.

#### 3.4. The One Stop Service (OSS)

The One Stop Service (OSS) is a key feature of the GMS SEZs. The OSS is supported and staffed by both the local and central government<sup>74</sup> and is responsible for processing applications of companies, issuing licenses and certificates of origins, and processing export and import permits to clear customs. In a word, the OSS officers are the key actors who help companies obtain licensing, meet tax regulations, obtain a company seal, easily import and export, procure utilities and recruit labour<sup>75</sup>. The OSS role in customs is to clear products ahead of time with the relevant government ministries to facilitate an easy and quick border crossing that is not held back by customs processes. As pitched to investors, there is no need for customs inspection of containers at the border level, smoothing the process and reducing the time frame between transport and delivery. The on-site government authority, OSS, assists investors with the difficulties they may encounter when trying to establish business operations within Cambodia, and as such works toward ensuring a smooth and efficient operation of the SEZ tenant companies.

In some cases, there appears to be some overlap between the Developer’s role and the OSS. One example of this overlap is in labour recruitment. The OSS’s role is to assist investors in administrative processes and the Ministry of Labour representative is in charge of handling labour issues. However,

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<sup>74</sup> In the case of Manhattan the OSS is managed by three individuals they are: the Head of Investment Promotion and Legal Affairs Division , the Head of the Administration Office and the Head of the Properties and Construction Division. In the case of Savan seno, the Head of Investment Promotion and Legal Affairs Division has been sent from the central government to the SEZ to assist his local superiors in supporting and advising the growth of the SEZ.

<sup>75</sup> 5 offices represent the Royal Government of Cambodia and make up the one-stop-service office are as follows: Ministry of CAMCONTROL – that concerns itself with quality control of goods ; Ministry of Commerce ; Ministry of Customs and Excise ;Ministry of Labour and Vocational Training ; Representative of the Council for the Development of Cambodia (CDC), a sub-committee of the Cambodian SEZ Board

the Developer also is involved in these tasks. Moreover, difficulties which have been mentioned concerning the Cross Border Transport Agreement (CBTA) in the previous chapters can be found here: because central ministries are operating vertically and do not cooperate together, at the local level this limit is obvious. Obstacles are numerous concerning governance as will see below.

### III. Dependent growth: Lack of coherence in public policies.

Our hypothesis is that without strong governance and strong coherence between public policies SEZs are not conducive to development. Growth can occur, and in our SEZs it does occur to the extent that we define growth as the increasing profits of owners and extremely limited and precarious local impact such as minimal job creation, but it does not lead to development which can be defined as a capacity of local / regional actors to organize backward and forward linkages. As Perroux says<sup>76</sup>, development refers to the capacity of public policies to make inequalities socially acceptable. Indeed, an important aspect of dependant growth is the deep inequalities referring to huge social, professional and gender cleavages. Finally, in our regions, cleavages separate hierarchical levels (central, regional and local) and local actors. The weaknesses of the GMS-SEZs feed into an unsustainable system which misses its objective of local development. ‘Dependant growth’ relies on these different aspects of non-compatible inequalities that disconnect both central / local political actors and public / private players. The remainder of this section identifies the weaknesses of the SEZs from a policy perspective; these weaknesses in turn feed into a system of dependant growth.

#### 3.1. Weak capacity to implement macro policies

In order to drive economic growth and local development, it is essential that the government and its officials have the capacity, power and will to implement policies that support SEZs and their economic communities. In addition, the fluidity of centralized vs. decentralized power structure presents opportunities for corrupt practices. While power is highly centralized in both contexts, the physical distance of the SEZ from the capital allows administrators posted in the SEZ some “flexibility” to achieve government interests outside of the regulatory framework. For example, although a representative of the Ministry of Labour is posted at each Cambodian SEZ, labour laws are not enforced, meaning that workers do not have their own organizations. Trade unions are not officially forbidden, but there are none existing within the zones. In our guided tour, we were told that workers stay 2 hours of overtime *each day*, when the legal regulation is 2 hours of overtime *per week*. We were also informed that working conflicts are solved through informal channels.

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<sup>76</sup> F. Perroux, 1960, *Economie du XX siècle*, PUF.

### *3.2 Lack of Complementary policies in the areas of education, vocational training and innovation*

The SEZ model applied in Laos and Cambodia fails to acknowledge the links between education and vocational training, the demands for higher-skilled workers and the drive to attract high-tech industries. Access to quality education and vocational training programs are critical to build capacity and stimulate innovative practices within firms. In both countries the percent of the population that has completed tertiary education is below 20% and in speaking with firms in the Cambodian SEZs we found that most middle-level managers at factories were foreign workers because the Cambodian workforce lacked the necessary skills. In each site visited, the SEZ development plan did not incorporate the development of education systems or vocational training programs. Currently, in the active SEZs in Cambodia, workers are sent abroad for 2 weeks of training before starting at a factory. After this initial training period, no additional training is given. Further, of the 3 SEZs visited, none had established links (informal or formal) with local universities to ensure graduates would have the skills required to take middle- or upper-management positions with foreign owned factories in the SEZs.

### *3.3 Lack of Infrastructure Development in Areas Surrounding SEZs*

Cambodian and Laotian regulations do not tie SEZ infrastructure development to local infrastructure development in areas immediately surrounding the zone. For example, in Cambodia, the Phnom Penh SEZ has a water treatment plant and an electricity plant within the zone, which are owned and operated by foreign firms. No effort is made to develop the infrastructure surrounding the zone, nor is the developer required to link in to the national grid. In the Manhattan SEZ, electricity is imported from Vietnam as it is cheaper and more reliable than the Cambodian grid. A similar situation exists in the Laotian case, in which the national grid is unreliable and limited, requiring foreign investment to develop infrastructure aimed at SEZ functionality rather than territorial and local development.

In addition to its ineffective approach to workforce development, the PPSEZ also fails to improve service provision for the local population. The Cambodian SEZ strategy places all infrastructure development on the Developer. As already said, the Developer must build hard infrastructure within the Zone, with the understanding that the government will assist in connecting the Zone to the main road network. However, by placing full responsibility in the Developer's hands, the government loses the opportunity to gain infrastructure and services from the investment. In the case of PPSEZ, the water and electricity plants are located within the SEZ and are managed by foreign companies. There is no benefit to the local population in the form of available general services and there is no benefit to national service providers in the form of gaining business from the SEZ.

Without conditions that require developers to improve infrastructure (such as: water, electric, telecommunications, transport services) surrounding the SEZ, local development is not impacted by the capital investment in the SEZ. For example, when asked what he thought his firm's impact was on the local community, a factory manager at Manhattan SEZ replied: "Nothing. We have no impact." This is a critical issue as infrastructure, such as electricity, is cited by the OECD as the greatest barrier to trade (Hallaert, Cavazos and Kang 2011). Hence, without tying Developers to the national grid, the government loses out on an opportunity to benefit from the high-tech and reliable utility and infrastructure development implemented within SEZs.

### *3.4 Lack of sector diversification*

Without an industrial policy guiding SEZ development, the GMS-SEZ model is at the hands of foreign developers and the government loses the power to drive sectoral growth and diversify the export market for Cambodia and Laos. Currently, Cambodia relies heavily on the garment and footwear sectors, both of which are extremely vulnerable to external shocks. By relinquishing the industrial development of SEZs to foreign investors, the GMS low-income countries risk fostering dependant economies which expose their population to external shocks, increasing unemployment periods and welfare needs. Further, the need to capitalize on other industries, such as rubber, pepper, rice and tourism, and to avoid developing low value-added sectors is noted by the Cambodian Development Resource Institute: "The limited diversity and sophistication of Cambodian-made garments also deprived the sector of insurance against cutbacks in demand for its dominant garment products. The majority of garment factories in Cambodia have been engaged in cut-make-trim, the simplest activity in the value chain, with the lowest value addition"<sup>77</sup>.

## IV. Dependent growth. Lack of governance

What is likely to be a recurrent theme in any SEZ in Cambodia and Lao seems to be the very governance structure of the OSS presence at the SEZ. This section explores how the SEZ governance structure is feeding into the dependant growth system.

### 4.1. Central ministries and OSS

National and Central Levels have minimum horizontal contact with Firms or Developers. OSS has the most on-the-ground contact with developers and their interests. The OSS and Developer must strike a careful balance in order to create the opportunity for a fully functioning and prosperous SEZ. While

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<sup>77</sup> Myers and Watkins 2010 29

the OSS has the power to shut the operation down, it is not in national interest to do so. At some level, the Developer must ensure that OSS is 'on his side' so as to ensure smooth processing for its investors' administrative needs. At the same time, OSS does not have enough power to sway the Developers' actions, as national strategy prefers SEZ activity and investment over none and wants to develop a friendly FDI culture. Therefore, Developers and Investors are given much room to manoeuvre, therefore benefiting from informal rules, networks and relationships. For example, in PPSEZ the Ministry of Labour's role is to ensure that no worker is below 18 years of age; however, if the Minister strictly enforces this rule he will only exacerbate the shortage of workers that firms and developers complain about. Therefore, it is not in the interest of the SEZ's growth to enforce this regulation. From the national perspective, there is no incentive to enforce this regulation as education is limited and employment is preferred to unemployment

The Cambodian and Laotian governments are taking a risk in the governance structure implemented for SEZs in that much power is relinquished to the private sector, which often represents foreign interests. As there is no local or provincial government representative within the SEZ, there does not appear to be an outlet for provincial officials to drive SEZ strategy. The top-down national strategy is represented in SEZ implementation and private sector interests lead SEZ development. From a regional perspective, aside from trade facilitation measures, there does not seem to be a connection between regional integration and the Cambodian and Laotian SEZ strategy. Regional programs developed by ADB, for example the CBTA agreement, are met with competing interests on various levels as it moves towards the local level. The SEZ policy is inherently nationalistic in its growth goals: bring firms in to employ local workers and build infrastructure. It lacks a horizontal network of national SEZ policymakers in the GMS region to share knowledge on how SEZs can benefit from further integration.

#### 4.2. Labour office

The OSS office itself does not establish horizontal communications with the provincial labour office, or the provincial governors. Instead the traffic of information and requests seems to channel in one direction: upwards directly to the Central Government. While this may not come as much of a surprise given the countries' governance structure at large, it certainly makes the facilitation of pertinent backward linkages a fundamental problem not just in terms of missed opportunities to channel growth and development to the local or regional economy, but also because it is a large source of stress for firms with regards to labour recruitment.

The fact that there are no horizontal channels of coordination with universities in the region, provincial governors or at the very least the provincial department of labour, makes for a very laborious and



inefficient recruitment mechanism. As such it is no surprise that a Firm manager we spoke with mentioned his great disappointment with the OSS Labour office and the constant struggle they face in trying to recruit workers. As a result they have had to rely heavily on word-of-mouth by their current employees though that can only go so far. Furthermore, without ties to universities or training institutes it becomes clear that every new recruit is a guaranteed training cost for the firm.

This vacuum in the labour recruitment process provides an opportunity not only for patronage and corruption, but also for the employment of middle men to ensure access to labour supply.

#### 4.3. Firms. Lack of cohesion

Firms present another important feature of lack of coherence in the SEZ governance system, leading to strong inequalities. First, in all the visited firms, the production structure is constrained to assembly lines, which presents as economic social structure of job creation on low qualification basis. The SEZ's do not offer high skilled activities or tacit knowledge exchange besides manufacturing activities. There are strong divides in the organizational structure of the visited factories, along both ethnic and gender lines, with (a) foreigners being department heads and managers, and (b) the organizational structure of the assembly line has women doing cleaning and assembling of screws, while the men do the welding, painting, packaging and inspecting. The ethnic divide leads in turn to a wage one, where managers and department heads make substantially more than the minimum wage of \$60 dollars a month salary of the local workers. All workers however are paid the same wages initially, but there is an increment relative to the years of working experience in the firm. Bonuses are delivered in accordance to productivity. There does not seem to be an age divide as all workers look to be in the age range of 16 – 21yrs old. Managers are of a slightly older age range. At each stage of the production process, there is also a local supervisor present at each station, he is paid slightly more than the usual worker wage and he has been promoted there because he has worked for many years doing that specific job very well. In the factories visited, the local supervisors were all men.

Furthermore, incentives for investment are important for FDI, nevertheless, they do not correlate with local entrepreneurship activities nor do they utilize (thereby supporting the creation of) small local enterprises; on the contrary, they aim to attract large monies without considering local capabilities.

Another issue in firm governance is the concentration of various sectors concerned with assembly lines and the lack of a clear agglomeration process inside the SEZ's developing strategy. This lack of agglomeration constrains any clustering process, as there is no exchange of information or interaction between the firms within the SEZs. Furthermore, at top levels, there are no formal relations between SEZs at a regional scale, and they do not produce important spillovers that lead to innovation among the companies or firms of the SEZs. Finally, as most of the job creation is at the bottom production

process there is little income –purchase capacity that could result in customer-supply relationships. On the opposite, the case studies demonstrate the lack of interaction between markets inside the SEZ's and lack of horizontal relations that could derive from an innovation process.

#### 4.4. Lack of knowledge and technology transfers

An important aspect of the SEZ model as a driver of economic growth is the opportunity to capitalize on the proximity of firms, which can develop horizontal networks thereby promoting innovation, competition and cooperation. In the GMS-SEZ context, however, there is a lack of horizontal networks both within the SEZs amongst firms and across SEZs amongst developers. In Cambodia, where SEZs are more developed than Laos, developers are beginning to meet and share knowledge in the form of an SEZ Developer Association. The Association discusses obstacles in Cambodian laws and meets to find solutions to regulatory issues. The members also discuss “best practices” and share knowledge. It appears that while SEZs are competing for investors, the SEZ Association represents a forum for cooperation. But this Association is still in the nascent stages and it is difficult to discern whether its focus will be overcoming bureaucratic obstacles with regard to Cambodian regulations or whether it will truly function as a forum for product and process related knowledge sharing.

SEZs primarily consist of foreign firms investing in Cambodia or Laos to benefit – as seen above - from the tax incentives and low production and labour costs. In order to harness the potential of SEZs to impact economic growth and local development, it is essential that foreign investment and firm activity is paired with genuine knowledge and technology transfers but no research centers accompany the production activities within the SEZs. The location of any such centers is likely to be in the company's home office, far from the SEZ locations. Firms are bringing in technology and production processes to the country, yet the formal transfer of knowledge of such processes is overlooked if Cambodian workers are not in management positions and do not have education to support entrepreneurial endeavours. Within the current SEZ model, Cambodia and Laos are not gaining from knowledge transfers, as middle- and upper-managers are foreign workers. It is also unlikely that there will be technology transfers, since foreign firms maintain the freedom to exit the market at any time and an entrepreneurial sector does not exist within either country.

#### 5. Dependant growth and deregulated structures

The three case studies have shown that the governance structure and policies associated with GMS-SEZs are feeding into an unsustainable and dependant system, which fails to advance local development. Let us conclude by insisting on three dimensions that witness the characteristics of

dependent growth: (i) uncertainty about efficient local development (ii) lack of connectivity (iii) lack of community.

### 5.1 Uncertainty about Local Development

The ability for the GMS-SEZ case studies to foster local development is difficult to assess. First, the concept of local development must be further defined. If local development is defined in ‘hard’ terms, such as employment, then the SEZ are successful: PPSEZ has created just under 5,000 jobs in 3 years 100 000 are expected from Seno Savanakhet. Additionally, SEZ workers in Cambodia are paid a minimum wage of \$61/month, which is above the national poverty line. However, if local development is defined in ‘soft’ terms such as human development, capacity building and service provision the SEZ’s impact is weakened Further, the lack of local actors in the SEZ undermines the capacity for development as networks and partnerships with local institutions, such as universities, are overlooked.

Second, an important “local” characteristic associated with SEZ development must be mentioned, which is the fact that large casinos exist in 2 of the 3 SEZ sites (Savanakhet and Manhattan). Obviously casino and sex tourism are in fact providing jobs and income to the local community - in Savanakhet, the casino employs more than 1500 workers, and more than 4000 Thai commute daily from the Thai border city Mukdahan to Savanakhet to gamble. Nearby Manhattan SEZ, there are numerous casinos along the “economic corridor” which leads to the Vietnamese border. Their presence has led to the burgeoning of several Vietnamese-owned hotels, restaurants and a host of other Asian dining options. Prostitution, or the sex economy, feeds into the ‘casino economy’ and this also contributes to money being spent locally.

The casinos serve as an attractive lifestyle benefit for foreign workers (mostly firm managers) living within the zone and they are a place to host potential investors. To a certain extent, the casino economy, which is in effect intended to be a tourism as development strategy, can serve as a microcosm reflection of the larger GMS SEZ reality which is also characterized by a lack of local ownership, visible signs of dependant growth, and little to no local investment (in the community) or development. For all these reasons it is an important component of “dependant growth”, resulting in the alienation of local population to foreign richer people.

### 5.2 Infrastructures and connectivity

In the GMS, infrastructure development can be an opportunity to improve integration and connectivity of markets as it reduces time and distance for trade, which can lead to the further establishment of the

regional integration process. At the same time, infrastructure can be a burden if there is not enough capacity created to operate and maintain it. Based on our empirical research in 3 SEZs in Laos and Cambodia, we conclude that GMS SEZs are not an example or a case where infrastructure is advancing regional integration as we have defined. The GMS SEZs have failed to harmonize incentives, cross border rules, cross border cooperation objectives, regional governance and multilevel structures of governance. They do not present social, economic, political or cultural structures across the region nor is the subsystem conducive to regional integration from infrastructure driven regional integration. There is also a gap between regional market integration, the SEZ cases do not reflect any horizontal relations between them; not even at a national level. To sum up there are systemic problems in the approach to hard and soft aspects of trade facilitation towards regional integration.

The infrastructure hypothesis towards regional integration is limited through a number of cases of the research. For example, dry ports are not integrated with the logistics' strategy and investors and production sectors are not capitalizing on horizontal networks of cooperation. This exacerbates costs that in turn hampers competitiveness, but also, this impact market structures and the economic subsystems in terms of demand and supply side conditions; all of which are potential factors of the integration process.

Furthermore, infrastructure networks although they have an impact on proximity as intensive, extensive relations between diverse stakeholders and social structures; in the GMS program this aspect is not very visible. There are no relations between labour, education institutions and other administrative institutions towards the construction of regional social structures, market integration, specialization, and market demand side and supply conditions among the territories. Moreover, high costs remain as a result of structural problems in terms of capacity building, policy and cultural barriers, education, and a disconnected clustering process; aspects that reject the infrastructure as the driving factor towards trade facilitation and regional integration. As substantial costs persist within this approach, other strategies and incentives ought to be explored.

### *5.3 The lack of community*

To further compound the process of regional integration, very few local institutions act alongside the regional focus; on the ground, we find local institutions to be working in their own interests. At the regional level there are also multilevel governance gaps. Both issues are exhibited by the failure to meet CBTA implementation deadlines in the lack of formative process, harmonization of rules, negotiation process, incentives to promote the agreement, lack of communication, etc. There are no the proper multilateral structures of negotiations inside the GMS Program to accelerate the harmonization time and the ratification of the annexes that complement the infrastructure. But also the infrastructure

connectivity process has failed on pushing to further governance structures in order to manage economic corridors, infrastructure connections or social structures within the region to push for a systemic approach on soft issues.

The field research demonstrates that within the SEZs there is a phenomenon of isolated infrastructure as there is miscommunication at several levels, and there was no development of national electricity, water, health or education services in surrounding areas, which would enhance connectivity and community (2 goals of the Economic Corridors). Finally, the GMS case is evidence that infrastructure is not necessarily conducive to driving regional integration. We find that infrastructure development fails to foster the 3 Cs – Connectivity, Community, and Competition. There is a lack of the socioeconomic component therefore community seem to be overlooked in order to foster other prioritized areas. This is the main difference with SEZ examples in Eastern Europe, as the next chapters will show it. Civil societies and NGOs are thought as a necessary component of development.