Developing Dependency

Special Economic Zones in the Greater Mekong Sub-Region: A Comparative Perspective

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Executive Summary

This report looks at the role of Special Economic Zones (SEZs) in facilitating both regional integration and local development in the Greater Mekong Sub-region (GMS). The ADB defines an SEZ as a specific geographic region with economic laws that are more liberal than a country's typical economic laws (ADB Trade Facilitation Report 2009, 132). Drawing from primary research undertaken in Thailand, Laos and Cambodia, this report unpacks the constraints on the SEZ Model as a driver of those dual objectives in the region.

Regional Integration: ASEAN, GMS & CBTA

ASEAN was established in 1967 by the five original member countries (ASEAN-5) – Indonesia, Malaysia, Philippines, Singapore and Thailand. "The main objective was focused on economic cooperation. Economic growth, social development and regional peace were the driven goals through some decades"(ADB 2008). Within ASEAN different approaches to sub regional integration have been developed. The Greater Mekong Sub-Region (GMS) was established to improve the region's comparative advantage through regional cooperation. The countries that make up the GMS region, namely Cambodia, Vietnam, Lao PDR and Myanmar, are the poorest in the ASEAN region. ASEAN, has in fact, used the GMS framework as its determined push to integrate the less developed four members more deeply and more quickly with the rest of ASEAN.

3 Cs

ASEAN has its own activities that differ from the scope of the GMS program however, and as such, the regional co-operation of the GMS is largely driven by the ADB which has made significant loans to the GMS economies for their development projects towards this objective. The GMS Program seeks ¨to promote sustainable economic development through closer economic linkages between its member states (Bafoil and Ruiwen 2010, 80)." The Program adopted a three pronged strategy, the three Cs, as the defining pillars of regional integration, "enhancing connectivity, improving competitiveness, and engendering a sense of community" (ADB 1996). The promotion of the Cs has been a key determinant in the construction of the GMS as a sub-region since its inception. Important cross-border projects have been developed under this framework, as the interrelations of the first two Cs are conducive to the last one (Community).

The Hard and Soft Aspects

In concrete terms, this was implemented through the adoption of an Economic Corridors (EC) framework that is complemented by the Cross-Border Transport Agreement (CBTA) and the Strategic Framework for Action on Trade Facilitation and Investment (SFA-TFI). The objective of these frameworks was to further encourage and facilitate the development of cross-border networks through service and infrastructure routes whilst simultaneously striving to reduce barriers to cross-border trade. The EC framework seeks to develop transport routes along which development can be fostered through a bottom-up market oriented approach. Whilst the soft aspects, CBTA and SFA-TFI focuses on facilitation of cross border formalities, movement of people, movement of goods, exchange of traffic rights, set requirements for admittance of road vehicles, selection of border crossings (Verbiest 2011).

Challenges

Unfortunately the implementation of the CBTA has been adopted at different paces among the participating countries and further challenges to implement the CBTA agreement has been the lack of institutional capacity at the local level. The complexity of these agreements in tandem with other border rules and regulations and the high turnover of border staff have led to significant knowledge

and implementation gaps in the CBTA. As such it has been hard to translate regional and ministerial level visions into effective action on the local level.

Furthermore, low levels of economic development and poor infrastructure having been identified in ministerial meetings as key challenges have been prioritised in order to capture the benefits intended from these Economic Corridors. Without the soft aspects of connectivity reinforcing the achievements of the hard ones, the GMS Program runs the risk of being a developed network of roads that are underutilised and poorly managed. The software part of cross border transaction is very much dependent on people and institutions and as such institutional capacity ought to be prioritized as well.

A strategy of Economic Co-operation and trade facilitation can only be achieved through the complementarities between hard and soft mechanisms. The vision of regional integration of both ASEAN and GMS is largely driven by the trade facilitation approach (hardware-infrastructure- and software –regulation) that is executed towards the three Cs: Connectivity, Competitiveness and Community. Any positive gains such as growth in trade ratios, increasing FDI and job creation, cannot be sustainable without human development and other such general development activities and as such warrants a place on the policy agenda.

SEZ as Growth Models in Asia

SEZs in Asia have been used as a model of economic growth 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). The most successfully of these initial SEZs was in Shenzhen, as a result this report accepts the Shenzhen SEZ model as the "ideal" Chinese SEZ model. China's SEZ models, Shenzhen in particular, take into account both short-term and long-term growth demands. A 2007 report by the ADB on SEZs indicate that the Chinese model of rapid economic development has appealed to regions seeking a similar pattern of growth. Comparing our SEZs to the Chinese Model can provide possible trajectories based on their conformity and deviation from this "successful" model.

Chinese Model

In the short-term China's SEZs provide the infrastructure necessary for low-cost, rapid manufacturing through liberal economic policies; low tax rates; OSS; and highly developed infrastructure. Short-term manufacturing is encouraged to expand its capability and scope through the presence of industrialization and urbanization; highly developed infrastructure, foreign direct investment; research and development; and universities and skill training centres. Long-term demands encourage a diversity of industry and an emphasis on fostering local growth. By promoting the development of long-term industries China's SEZs has also been able to help its population grow in income level, skill, education in tandem with the companies that make up the SEZ (ADB 2007).

The Asian Development Bank in a report on Special Economic Zones and Competitiveness notes that the Shenzhen SEZ model was unique not just for its ability to promote astronomical growth rates, but because it provides a map for a long-term growth model. The linkage of urbanization and industrialization; University, Skills & Production; Research & Development; Infrastructure; OSS and Tax Incentives provide a systemic growth model. Without a systemic approach to these components the model would be unable to maintain growth over the long-term. The ADB report acknowledged this by cautioning against models that rely too heavily on isolated industrial parks, which lack the Shenzhen approach to an urbanized industrial city. These industrial parks all too often run the risk of

becoming enclaves of productivity and growth, keeping their economic benefits localized and removed from the periphery population.

GMS Case study SEZs

In the SEA SEZs certain aspects of the Chinese model are readily visible, most notably manufacturing and the comparative advantage of low wages. This approach is similar to the mode in which China began its foray into SEZ, but the conditions differ. This report will go beyond this mere observation to further explore if SEA SEZs have embraced the larger systemic approach carried out in China. The objective of this comparison is to establish a clearer understanding of the objectives behind the development of SEZs in SEA in addition to understanding their potential long-term growth trajectory and sustainability.

SEZ´s- Special Economic Zones have become a catalyst of forms of regional development in Asian countries such as China, India, Korea, and the GMS. Ishida draws out a typology that defines the ideal location of these zones in "metropolitan areas," "ports and harbours," "border areas" and "junctions or intersections (Ishida 2005, 1)." Ishida's study also 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. This report looks at three SEZs within the GMS: one of which is located just outside a metropolitan area, and the other two at border areas that also serve as junctions or intersections. The underlying point to take from Ishida's paper is that certain locations are more ideal than others for SEZ development. The SEZs this report looks at have all been developed after the construction of the roads that seek to facilitate the development of economic corridors in the region; something that has been contingent on the development of SEZs along these very roads.

Our approach to characterizing these SEZs has been to deconstruct them along the lines of the following factors that have been defined in the theory as key to the contribution of SEZ performance: Government policy, investment incentives, infrastructure, labour performance and regional and global integration factors. We capture these through the establishment of a monograph of SEZ characteristics, understanding the developer, the development phases of the zones and the nature of the government one-stop-service offices. Our analysis looks at the comparative advantage of each SEZ, the extent of its connectivity and infrastructure, its composition of firms, and the statistics and conditions of its labour force. There are two site visits which include the process of production and the dynamics of this type of production at the meso level. This analysis culminates in implications on governance (both national and regional, local development, and finally the sustainability of these kinds of SEZs.

Although the GMS SEZs are potentially a mechanism for economic growth and local development, a few immediate obstacles ought to be drawn out:

- The SEZs are highly dependent on foreign expertise, capital, demand and technology, which pose risks to their stability and their long term viability.
- The lack of linkages in terms of developing a robust labour force in order to (a) provide firms with an untapped labour pool and (b) facilitate connections with institutes and vocational training centres in order to enhance the skills of its labour force
- Implementation of the CBTA and single-window immigration procedure is delayed and reduces efficiency in cross-border trade

There are several cross-cutting issues for the 3 SEZs examined that speak to their ability – as a unique GMS model – to drive local development and enhance regional integration. With regards to Regional Integration, the SEZs in Phnom Penh, Bavet, and Savannakhet reflect important outcomes

of ADB funded infrastructure projects linking the GMS countries through Economic Corridors. While Connectivity is established in a basic sense, through roads and the CBTA ratification, it should be strengthened and deepened in order to provide genuine incentives for investment, trade and development along the Corridors. Competition and Community have yet to be achieved. In light of this analysis, the SEZ case studies have informed us on their current capacity to deliver on the twin objectives of regional integration and local development.

Regional integration does not occur through infrastructure alone

Based on our empirical research, we conclude that GMS Special Economic Zones are not an example or a case where infrastructure is a driver of the regional integration we have so 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. Furthermore infrastructure developed by the ADB and the SEZs do not provide strong linkage networks that foster horizontal partnerships between SEZs and governments. Without addressing these gaps, and without ensuring the strong performance of the software aspects, these SEZs are unable to deliver on the intended regional integration.

The SEA SEZ model is not a replica of the Chinese SEZ growth model

The core components of the ideal Chinese model are: Urbanization & Industrialization; University, Skills & Production; Research & Development; Infrastructure; One Stop Service Centres (OSS); Tax incentives. The Chinese SEZ model has used the combined policy tools of urbanization & industrialization to promote long-term economic growth fostered by the five additional pillars and continuously improved governance. The SEZs visited included in this research lacked an urbanization & industrialization model and possessed uneven implementation of the five additional pillars. The only concrete similarity between the Chinese model and the SEA SEZ was found in two cosmetic features: the OSS and tax incentives.

SEA SEZs do not foster local development

The strategic objectives of SEZs in the GMS are to stimulate economic growth and local development. This can be seen through the stated objectives by the respective governments. However, in the course of this research it has become clear that while the three SEZs are achieving some economic growth (increased GDP, increased level of trade, increased GNI per capita), without the development of backward linkages they are not actively promoting or contributing significantly to local development. Local development includes individuals' income, education opportunities, health services, and economic opportunities. The lack of a national welfare system and expanding economic opportunities in tandem with the development of the SEZs indicates that increased economic revenue from the SEZs is not being funneled back into improving local economic opportunities.

Conclusion

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 of creating and implementing policies directed towards harnessing local development opportunities through SEZ investment. The subsequent analyses, have questioned the relationships between infrastructure and regional integration; between models and their practical applications and between economic growth and local development.

The GMS SEZs are a particular case in that they do not follow a specific model, as each SEZ benefits from loose networks of firms and government officials and fluid government regulations. Further research must be done on the economic viability of the SEZs, as – in their nascent stages – they risk fostering dependent economic growth. Additional research should also be done into other SEZs in the GMS region, such as those in Thailand, the Chinese provinces and others in Cambodia. In order to gain a deeper understanding of the impact of SEZs on the individual, further work should be done on the impact on workers and the surrounding communities. It is recommended that this research be conducted while the SEA SEZs are still in their early stages of development. This would provide ample time and opportunity for SEA SEZs to make the necessary policy adjustments to promote overall economic growth, regional integration and local development.

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List of Acronyms

ADB – Asian Development Bank

ADBI- Asian Development Bank Institute

ADF – Asian Development Fund

AEC- Asian Economic Community

AFTA – ASEAN Free Trade Area

AIT- Asian Institute of Technology

ASEAN – Association of Southeast Asian Nations

ASW- ASEAN Single Window

BSEZ - Bavet Special Economic Zone

CDC - Cambodia Development Council, which heads the Sub-committee of the Cambodian Special Economic Zone (SEZ) Board

CBTA - Cross Border Transport Agreement

CLMV- Cambodia, Laos, Myanmar, Vietnam countries

EC - Economic Corridors

EWEC – East–West Economic Corridor

FDI- Foreign Direct Investment

GMS - Greater Mekong Sub-Region Program is a sub-regional economic cooperation between Cambodia, the People's Republic of China (PRC, specifically Yunnan Province and Guangxi Zhuang Autonomous Region), Lao People's Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet Nam with the support of the Asian Development Bank.

GDP - Gross Domestic Product

HR - Human Resources

IICBTA – Initial Cross Border Agreement

MICL - Medtecs International Corporation Limited

MSEZ - Manhattan Special Economic Zone

MRC – Mekong River Commission

OSS – One Stop Service

PPSEZ - Phnom Penh Special Economic Zone

SCGT - Southern China Growth Triangle

SEAME - Southeast Asia Ministers of Education Organization

SEA - South East Asian

SEZ - Special Economic Zone

SFA-TFI – Strategic Framework for Action on Trade Facilitation and Investment

SPS - Sanitary and Phytosanitary Stop

SSI- Single Stop Inspection

SIJORI- Singapore, Johor and Riau growth triangle

R&D- Research and Development

TFWG - Trade Facilitation Working Group – GMS

TTF- Trade and Transportation Facilitation

UJIC - Universal Joint International Group

UNESCAP – United Nations Economic and Social Commission for Asia and the Pacific

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Introduction

This report looks at the role of Special Economic Zones (SEZs) in facilitating both regional integration and local development in the Greater Mekong Sub-region (GMS). The ADB defines an SEZ as a specific geographic region with economic laws that are more liberal than a country's typical economic laws (ADB 2009, 132). Drawing from primary research undertaken in Thailand, Laos and Cambodia, this report unpacks the constraints on the SEZ Model as a driver of those dual objectives in the region.

Fundamental factors that contribute to the performance of an SEZ are government policy, investment incentives, infrastructure, labour performance, and regional and global integration factors (Batith 2009). Government policy factors speak to market regulation, political stability and regional arrangements. Investment incentives are essential to the attractiveness of an SEZ as is infrastructure factors such as electricity, water supply, communication and transportation. Labour performance is essential to understand the type of production and the nature of the industry, dependent on the availability of skilled, unskilled and cheap labour. Regional and global integration factors, whether they take the form of bilateral agreements or the lack of quotas, also contribute to the attractiveness and performance of an SEZ. In order to account for this myriad of factors in our assessment, our case study analysis incorporates them through a breakdown of the fundamental aspects of our SEZs along fiscal, productive and technical lines. Identifying factors that affect zone performance can inform a more strategic approach to reducing the costs of doing business in Cambodia, establishing appropriate backward and forward linkages, and in turn increasing the performance of SEZs and therefore their capacity to achieve their underlying objectives, be they regional integration and/or local growth and development.

i. Regional integration

At the regional level we focus on the expected role of infrastructure and trade in facilitating regional integration. The ADB-led initiative of regional integration has focused on the development of road networks through the GMS in order to establish economic corridors within which SEZs are located. Through the concurrent development of soft infrastructures by way of trade agreements and integrated services, the idea is that the Economic Corridors will facilitate the movement of goods, services and people in turn strengthening the regions competitiveness, connectivity and community. In this light, SEZs would be integral to the facilitation of this regional integration and to capture its benefits.

At the local level, we look at the SEZ as a driver of economic growth and local development. Special Economic Zones (SEZs), in which investment incentives are created to draw economic activity to a certain area, are a globally recognized methodology for economic growth. SEZs are unique in that they represent multiple interests and networks. Within SEZs there exist the interests and actors of government ministries, local and international firms, national, regional and local strategies and international linkages through institutions such as the ADB. Although the government establishes the SEZ, the role of firms, local representatives and workers and the government's continued role in the SEZ differs across the region and within countries. Therefore, SEZs present an opportunity to analyze different pathways of development based on the differentiated networks and links.

ii. Economic Growth

Special Economic Zones are means towards economic growth for the following reasons:

- they are supported by multi-level actors, which multiplies their leverage effects
- they contribute to development through spillover effects on their immediate surroundings
- they have the possibility to develop into clusters
- they can support more integrated development (i.e. regional integration)

The ability for an SEZ to drive economic growth lies in the inherent need for collective action between public actors and private investors. For example, the spillover effects of SEZs have ramifications on public services such as education and health, which in turn have direct effects on their host environments both locally and nationally. This report looks at the role of SEZs in being drivers of local growth and development and looks at whether government policy surrounding these SEZs allow for an environment where the costs of an SEZ are minimized and its benefits maximised.

iii. Local Development

The relationship between SEZs and local development is not as clearly defined as one may expect. The ability for a government – be it national or local – to extract profit from SEZs lies in its capacity and the legal foundation of the SEZ. This report looks at the SEZ Models within the region, with a particular emphasis on the Chinese Model as a potential trajectory, as it has been a successful model towards both growth and development objectives. These objectives have been brought out by particular incentives and conditions and this report will look at the extent to which our SEZ models mirror or deviate from the Chinese Model, in turn allowing us to identify the likely trajectory of these SEZs vis-à-vis the Chinese one.

The role of SEZs in driving development are strictly contingent on (a) their successful performance with regards to the growth objective and (b) the capacity of government policy to capture this success by way of establishing appropriate backward linkages. Without doing so, it is likely that SEZ growth will occur in an enclaved manner, which makes its capacity to directly affect its host economy extremely limited, if nonexistent. This report shall look at the extent to which our SEZs are able to achieve this objective.

iv. Constraints

On the regional level there are historical, governance and economic related issues to address; and at a local level, there are horizontal challenges that impede the intended linkages between SEZs and local development. These constraints in turn allow for a deeper discussion on what the necessary conditions are, both organizational and infrastructural, that may better capture the intended objective of harnessing these SEZs towards both regional integration and local development. This report destabilizes the SEZ model and in identifying the lack of backward and forward linkages rejects the notion that it has facilitated regional integration or local development. There has been some growth, but no development.

v. Organisation of Report

Divided into four parts, the report is organized as follows: Upon establishing the general theory on regional integration, Part I will conceptualize the regional integration specific to the GMS Program contextualizing it to the vision of its key players and pillars. The Greater Mekong Sub-Region

Program is a sub-regional economic cooperation between Cambodia, the People's Republic of China (PRC, specifically Yunnan Province and Guangxi Zhuang Autonomous Region), Lao People's Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet Nam with the support of the Asian Development Bank (ADB). The program counts the establishment of Economic Corridors (EC), and Cross Border Trade and Transport Agreements (CBTA & CBTA) amongst its integral pillars. Part I will elaborate further on the theory, vision and operation of the regional integration in the GMS.

Part II consists of a brief introduction to South East Asian SEZ Models, with a particular focus on the Chinese Model and the key components of its successful trajectory. Part III presents three case studies on Special Economic Zones in Laos and Cambodia[1]. Two of the SEZs are located in Cambodia: one on the outskirts of the capital city Phnom Penh, and the other in Bavet, the town on the border with Vietnam. The third SEZ is located in Savannakhet, Laos on its border with Thailand. These case studies constitute the empirical portion of our report and follow the discussion of the Chinese Model because of the marked similarities between them. The Chinese Model as the referenced "showcase model" highlights potential trajectories for our relatively young SEZs. This is not to say that our three SEZs are identical as there are differences amongst them, not least of which is the fact that they are at different phases of development, but this has only served to enrich the robustness of our empirical findings. All three case studies start with a monograph of the SEZ followed by a discussion of its actors and architecture, or governance if you will, obstacles faced, and the sustainability of the SEZ and its goals; all of which are addressed with regards to both regional integration and local development.

Part IV of this report is our analysis which (a) rejects that trade and infrastructure has facilitated Regional Integration (b) rejects the theory that SEZs in Laos and Cambodia are following China's SEZ model for economic growth (c) rejects the concept that the SEZs have generated much growth and local development and (d) presents some policy perspectives on SEZs. A final concluding section draws out the underlying points of our analysis, and locates the relevance of this study and what it could project for the future of regional integration and local development in the area. The question that remains at the heart of this report is *can* these SEZs be, and *are* they in fact, drivers of local development and regional integration?

Methodology

This report is a descriptive- analytical "monograph" that explores Special Economic Zones as a new subject of focus in regional and development literature; it draws from the research relevant models and typologies, and then identifies both analytical and practical concerns with regards to the SEZs concerned and their role in facilitating regional integration and local development.

The research process took place over an 8 month period. In the first four months, the existing literature was reviewed on the following topics: EU and Cohesion Policy, Regional Integration, Local Development, Innovation in Lagging Regions, Special Economic Zones, ASEAN, Greater Mekong Sub region, Background Summaries on each country along historical, political and social lines, Economic Performance of these Countries and relevant fiscal data and trends on growth and FDI etc.

The primary sources of this report were cultivated through field research that took place over a 13 day visit to the region including extended visits in the three SEZs (Phnom Penh and Bavet in Cambodia, and Savannakhet in Laos.) During that process the group interviewed: Firms, Government officials, public officers involved in SEZ organization, civil servants in SEZ areas, border agents, private actors, consultants, and the ADB. In the last four months additional interviews took place with experts in Paris, and the report preparation phase was developed. The interviews were all semi-

[1] Please see Annex 1 and Annex 2, which contain copies of the Laws & Regulations of Special Economic Zones in Laos and Cambodia.

structured interviews with primary sources of information, acknowledging the social interaction between researchers and interviewees, including language barriers. Official data was collected as and when possible in a systematic and non-intrusive way.

The main obstacles of the research were (a) language barriers that affected the capacity to gather information; in turn limiting our ability to develop strong relationship with interviewees and also restricting access to low management workers and locals, both of which are key sources to understanding the conditions of labourers in the Special Economic Zones and (b) insufficient time on the ground. Ideally, we would have been able to stay for a longer period of time in the region as new actors are referenced in the process that we were unable to interview. In terms of process, there was an immigration border issue that created some logistical challenges, however we were able to overcome these issues and on the contrary gained fruitful first hand insights on the cross-border process itself.

Part I: Contextualizing the GMS Regional Integration Strategy

1.1. Historical background and definitions

1.1.1 ASEAN Regional Integration

ASEAN was established in 1967 by the five original member countries (ASEAN-5), namely, Indonesia, Malaysia, Philippines, Singapore and Thailand. “The main objective was focused on economic cooperation. Economic growth, social development and regional peace were the driven goals through some decades (ADB 2008).” The goals have been changing in terms of regional integration in the form of a trade facilitation process and cooperation for development in specific areas. The vision of ASEAN 2020 is to create an economic community. Although that goal is far from being accomplished by 2020, there is a vision of regional integration. However, regional capacity building processes for economic community in terms of institutions, legislations, regulations, funds, among other aspects are still not clear(Guerrero 2008).” The ASEAN countries experimented with several forms of regional co-operation, under different strategies, institutions and constructions. Since 1960 the ASEAN developing countries have promoted regional cooperation programs. The four less developed countries in the region were invited to be part of ASEAN in 1990’s, namely Cambodia, Vietnam, Lao PDR and Myanmar. ASEAN’s role was important in creating the GMS Program.

Than (1997) presents regional co-operation in the form of growth triangles, a model that was fashionable in the region during 1980s, such as the Southern China Growth Triangle (SCGT), comprised of Hong Kong, Taiwan, Guangdong and Fujian, motivated by market forces; and SIJORI, comprising Singapore, Johor and Riau, motivated by national governments. The Growth Triangles concept “refers to the exploitation and complementarities among geographical contiguous countries to help them gain greater competitive advantage in export promotion (Krongkaew 2004, 979).”

Within ASEAN different approaches to sub regional integration has been developed. The main focus of ASEAN has been on connectivity and environmental issues. Connectivity for ASEAN “refers to the physical, institutional and people-to-people linkages that comprise the foundational support that facilitates the means to achieve the vision of an integrated ASEAN Community” (Mekong Media’s Voice 2010). “ASEAN, has in fact, used the GMS framework as its determined push to integrate the less developed four members more deeply and more quickly with the rest of ASEAN […] 9 of the 16 projects have become integral parts of the ASEAN highways” (Association of Southeast Asian Nations 2000). With regards to the ASEAN regional level objective, the GMS is a key platform for ‘connectivity.’ In effect, completing construction of the transportation networks within the GMSE

would form a land bridge between China and India as well as linking China and India to Southeast Asia. In the future, ASEAN is looking to connect the GMS to the other Asian countries by way of energy projects. "ASEAN is pushing a trans-regional energy network consisting of the ASEAN Power Grid and the Trans-ASEAN Gas Pipeline. The scheme, of course, covers the GMS part of ASEAN, with six of the fourteen power inter-connection projects located within the GMS" (Mekong Media's Voice 2010).

Finally, ASEAN has its own activities than differ from the scope of the GMS program. The ASEAN Free Trade Agreement (AFTA[2]) has been developed outside of the GMS framework and operates at different levels. Nevertheless, there are common activities and consistent goals, which cause an overlap of activities (Association of Southeast Asian Nations 2000). The forces that propelled the consolidation of a GMS differ from the factors that draw other regional cooperation models together. It is not a market driven initiative like the SCGT or an intergovernmental driven one like SIJORI. The GMS is a systemic oriented approach under the sponsorship of ADB, in the form of trade facilitation between connectivity investments on hard aspects such as infrastructure and services; and on soft aspects such as the Cross Border Agreement-CBTA that complements the overall strategy.

1.1.2 Greater Mekong Sub-region Program – GMS

The creation of the Greater Mekong Sub-region –GMS- Program specifies the context of the Mekong Region in comparison with other regional integration processes in the world and inside ASEAN. Since the 1990s, the region has seen important changes in its development path. Most of the countries, namely, Cambodia, Laos and Vietnam were catalogued as "less developed" countries according to OECD, and the levels of salary and production are some of the lowest of the world. Consequently, some responses were established by Governments on the national level and by regional organisation led efforts, towards a more liberalized market process. In other words governments looked to change from central planned economies to a more liberalized market approach implying an internal institutional reform process.

Important to note, with regards to trajectory, is the fact that the region has suffered several conflicts in the last decades: Indochina wars, the Thai-Laotian border war, and the civil conflict (Khmer Rouge) on Cambodia among others. The last event is especially important with regard to the issue of historical paths and other consequences that remain and affect the political culture of the country, institutions, social structures, etc. Following decades of conflict, the 1990's brought relative peace and the dissipation of conflict. The conflict related events of the previous decades point out the challenge faced by the GMS Program of overcoming the lack of trust between the riparian members (Chandler 2008; Wyatt 2003).

According to ADB (2002) GMS was born from the example of the SIJORI growth triangle, as a four-country growth area "consisting of two northern provinces of Thailand, Chiang Rai and Chiang Mai, Keng Tung in Myanmmar, the areas of Laung Namtha and Bokeo in Laos, and Xichuangbanna in the South China Province of Yunnan. Two more countries in the Mekong basin, Vietnam and Cambodia, were later included in the ADB-supported technical assistance in 1992 (Krongkaew 2004, 979)." As Bafoil and Ruiwen (2010, 80) noted, "GMS, regional integration is largely driven by ASEAN, but also by ADB which has made significant loans to the GMS economies for their development projects."

[2] The AFTA – Asian Free Trade Area under ASEAN Institutionally, China and Cambodia are part changing from central planned oriented economies to liberalization model. Nevertheless it took 25 years to ASEAN to reach an agreement.

In 1992 the GMS adopted a "three pronged strategy, the 3Cs - Connectivity, Competitiveness, and Community- to reach its vision of a prosperous, integrated, and harmonious sub-region (ADB 2010, "Greater Mekong Sub region Overview)." After the establishment of the pillars, conferences led by ADB identified (after consultations and meetings with representatives of the Governments the sectors) the requisite projects, studies, and joint strategies in order to prioritize actions, goals and resources towards them (Krongkaew 2004). The Program focused initially on seven specific areas of co-operation: "transport, energy, environment, human development, tourism, trade and investment and telecommunications (ADB 1996)." Later, they became nine sectors as more emphasis was given to trade facilitation and investment as different sectors, and more emphasis was put on agriculture as a central feature of the economy in the sub region (ADB 2010, "Greater Mekong Sub region Overview). According to the OECD (1993,25) three motives are found in the rationale of GMS "(1)to increase market access and to promote gains from trade occurring as a result of rationalization and specialization, (2) to enhance political cohesion and (3) to further other trade and economic policy goals." In conclusion, the regional integration process has been largely driven by complex negotiations on cooperation in specific areas.

1.2 What Kind of Regional Integration?

The regional co-operation proposed by donors and the ADB for the GMS Program was ¨to promote sustainable economic development through closer economic linkages between its member states (Bafoil and Ruiwen 2010, 80)." The three Cs were the pillars of the definition of regional integration, "enhancing connectivity, improving competitiveness, and engendering a sense of community (ADB 1996)." The promotion of the Cs has been a key determinant in the construction of the GMS as a sub-region since its inception. Important cross-border projects have been developed under this framework, as the interrelations of the first two Cs are conducive to the last one (Community). Connectivity refers to the fact that "decreasing transport costs leads to improved trade facilitation, better access to public goods and the increased mobility of the different factors of production (Bafoil and Ruiwen 2010, 78)." According to the ADB and UNESCAP (2008) there is a positive relationship for the case of GMS that has to be complemented with an integral trade-facilitation[3] process (Annex 3 Trade Facilitation Chart), in which governance plays a key role.

The main challenges to GMS regional integration, as identified in the ministerial meetings promoted by ADB, were the low levels of economic development and poor infrastructure. Accordingly, special attention was given to those areas (Verbiest 2011). Consequently, "Hard"[4] aspects such as infrastructure in the sectors of transportation, energy, agriculture, telecommunications, were prioritized. As Than elaborates, "This is the reason why most of the coordinating bodies like ADB, UNDP, and MRC-Mekong River Commission[5] have adopted improvement of infrastructure, with funding from multilateral sources, as a priority strategy for the GMS (1997, 44)."

1.2.1 Regional Success and Obstacles

The trade ratios of each of the countries have been expanding through the GMS Program. Given that the region was greatly affected by the Thai crisis in 1997, the GMS countries have experienced growth in the trade-ratio since the creation of the Program (Krongkaew 2004). The region has been

[3] Trade Facilitation- there are various definitions. For the ADB- UN-ESCAP, trade facilitation is "defined to include policies and processes that reduce the cost, time, and uncertainty associated with engaging in international trade but excludes traditional trade instruments such as tariffs, import quotas, and other similar nontariff barriers."(See. ADB 2009)

[4] Hard aspects "Hardware"(Physical) VS Soft aspects "software. (Regulatory).

[5] There are at least six initiatives alongside the GMS that contribute to enhance the Program: The ASEAN-Mekong Basin Development Cooperation(ASEAN-MBDC), the forum for Comprehensive Development of Indochina, the Working Group on Economic Co-operation (MITI)Initiate, the MRC, and sub regional activities of UNDP and other multinational Organizations.

experiencing some attempts at evolution: embarking on a slow and uneven process of market liberalization and attempts to diversify sectors (due to a visible over-dependence on the agriculture sector, a sector sensitive to global trends). In spite of this effort of diversification, the reliance on the agriculture sector continues to persist. In response to this, current efforts are looking to generate other activities that derive from this sector but contribute to other ones. That is to say, choosing to focus on the use of agricultural inputs that can be used to contribute to products sold in other markets such as jewellery or crafts. It is important to acknowledge these attempts at reform. The role of the ADB and other international advisors has been pivotal to this progression.

With its goal of regional integration, the ADB (2000) has been able to expand and increase its operations in Asia during the last two decades, building powerful networks of infrastructure for the GMS countries, and giving technical advice through reporting and negotiations with the member countries. ADB also has been able to establish powerful relations between private and public actors, thus cementing its driving role in the implementation of its regional objectives.

There are three major lessons points to keep in mind: First the ownership of stakeholders over implementation and alliances between private- public are very interesting in the funding and development of huge infrastructure projects on the region. Second, the coordination of the ADB with different stakeholders and Governments has been positive in the construction and development of infrastructure and economic corridors. Nevertheless, there are important concerns with respect to the last phases of implementation concerning the goal of achieving Competitiveness and Community (Verbiest 2011). Finally, the implementation of the first part of regional integration has been a consequence of the needs and the timing of the region (Qian 2009), highlighting the fundamental imperative of political will.

However, there are still many political conflicts at all levels, in terms of local, regional priorities and unequal distribution of benefits among the member countries and governments. At the political level there are internal conflicts, most of the countries (except Thailand) are still struggling to advance into a democratic political system, not to mention the fact that China, Laos and Vietnam continue to be ruled by a single party (Than 1997). There are also a substantial number of territorial disputes among the member-countries of the GMS, between "Thailand and Myanmar or Vietnam and Cambodia, not to mention maritime disputes between Vietnam and China or Thailand and Cambodia (Than 1997, 53)." There are also still problems with regard to illegal immigrant labourers; mostly from other parts of the region entering in to Thailand. (Krongkaew 2004). Nevertheless, the political climate shows stability in the region in comparison with the last decades. Those events that characterized some of the political issues within the GMS countries are translated at a regional level, as there is a gap on delegation process to regional instances in cross border issues: the GMS does not count with a common regulatory system and do not share a common rights system. There seems to be a lack of political will in terms of building shared Governance institutions and agencies that could be a reflection of the diverse institutional paths within the region. Furthermore, some argue that the use of different currencies make the process of trade facilitation costly, which is a clear obstacle for the GMS Program (Than 1997; Krongkaew 2004; ADB 2009). These aspects constitute obstacles on the Governance and the delegation process of managing important regional issues.

Finally, the strategy of GMS is largely developed through the Economic Corridors (EC) framework and is complemented by Soft Aspects[6] such as the Cross-Border Transport Agreement (CBTA) and the Strategic Framework for Action on Trade Facilitation and Investment (SFA-TFI), as a result of a

[6] Special attention is put to "soft"(Software) aspects in the development of a logistics corridor. Software is understood as policies, agreements, frameworks, rules, procedures, regulations, governing along the hardware structures. The term also refers to activities aimed at developing nonphysical assets (eg. Education, capacity and institution building, management and control systems.)

concrete process of negotiation between Governments with the assistance, cooperation, and mediation of ADB. The characteristics of the EC framework and the CBTA are discussed below, along with their successes and obstacles.

1.3 Economic Corridors

This subchapter presents how these economic corridors were created, the different stages to follow and their goals and strategy. The GMS countries "adopted the economic corridor approach to development during the 8th GMS Ministerial Meeting held in Manila in 1998." (ADB 2011, Economic Corridor) The economic corridors are geographically defined areas where infrastructure investments are linked directly with trade, and production opportunities[7] (Annex 2: Map 1 of Economic Corridors and Border Crossing Points for the CBTA).

In the GMS, three major corridors were created with several sub-corridors along transportation routes. In the strategy and plan for each of these corridors, there are several phases to follow. After developing infrastructure through each of the sub-corridors -that has as objective to develop connectivity for the mobility of people, goods and services-, a logistics corridor is proposed as it "integrates and harmonizes the corridor's policy, regulatory, and institutional framework." (ADB 2010, "Greater Mekong Sub-Region Overview", 13). In other words the investments are complemented by efforts under the Cross-Border Transport Agreement (CBTA) and the Strategic Framework for Action on Trade Facilitation and Investment (SFA-TFI) to facilitate the movement of goods, people, and vehicles along the corridor (ADB 2010, "Greater Mekong Sub-Region Overview, 4).

As a complement to the last phase of the strategy, specific activities are proposed such as: "initiation of cooperation and preparation of a business plan to develop the logistics industry in the countries and initiation of efforts to coordinate the planning and establishment of Special Economic Zone (ADB 2010, "Greater Mekong Sub-Region Overview, 18)." These activities are determinants of the consolidation of the overall strategy plan as they will constitute and establish the economic activities through the clustering of the industries along the corridors. This last stage marks the movement from a logistics corridor to an Economic Corridor by achieving the three C's.

The initial focus of the GMS program is the provision of infrastructure and the development of "hard" connectivity aspects. For example, a successful hard infrastructure project was the construction of the first international bridge between Thailand and Laos, which shows increased connectivity through infrastructure (ADB 2009).

As Bafoil and Ruiwen point out, "the economic corridors are a mix of formal (because they are signed by heads of state) and informal mechanisms (they tend to involve local actors) for regional cooperation (2010, 80)." The rationale for the corridors is to foster development along transport routes (artery, road, canal) through bottom-up market oriented approaches. Furthermore, the

[7] In the GMS three major corridors were created with several sub-corridors along transportation routes. The north-south economic corridor (SEE Annex 5 Map 2) "consists mainly of the Chiang Rai-Kunming via Lao PDR Road Improvement Project, and the Chiang Rai-Kunming via Myanmar Road Improvement project, and the Kunming- Hannoi Haiphong multimodal transport corridor project, with the North-South Rail." The East-West Corridor will link (SEE Annex 6 Map 3) "Malawmyine in Myanmar with Mae Sot and Mukdahan in Thailand, across the Mekong River by the Second International Bridge to Savannakhet in Lao PDR, to Dong Ha and Danang in Vietnam" Finally the Southern Economic Corridor (SEE Annex 7 Map 4) "include the Bangkok-Phnom Penh- Ho Chi Minh City- Vung Tau Road Improvement project, and also the Cambodia-Vietnam Central East Corridor Project." Alongside the road projects, important projects on water transportation, power, and telecommunications complement the infrastructure phase. (See Krongkaew 2004:989)

definition by the ADB focuses on the emphasis of bilateral, rather than multilateral, initiatives, with special attention to strategic nodes, particularly at border crossing areas between two countries, and "highlights physical planning of the corridor and its surrounding area, to concentrate infrastructure development and achieve the most positive benefits" (ADB 2011).

The ADB 2010 Economic Corridor Approach has as the following objectives:

"(i) provide a spatial focus to GMS activities, with the backbone, growth centres, and nodal points catalyzing the development of surrounding localities; (ii) open up many opportunities for various types of investments from within and outside the sub-region; (iii) promote synergy and enhance the impact of sub-regional activities through the clustering of projects; (iv) provide a mechanism for prioritizing and coordinating investments among neighbouring countries; and (v) generate tangible demonstration effects (ADB 2010, "Economic Corridor Approach", 3)."

Economic and infrastructure linkages were developed through the forms of economic corridors (ADB 2010, "Greater Mekong Sub-Region Overview). GMS Economic Corridors were designed to create infrastructure projects on prioritized sectors and axes, with the purpose of opening markets, opening frontiers and as a second stage foster trade-logistics, services, and labour in cross border issues to improve competitiveness (ADB 2010, "Strategy and action plan for the Greater Mekong Sub region East–West Economic Corridor."). In other words, fostering cross-borders agreements and foreign direct investment is a comprehensive strategy of Economic Corridors.

1.3.1 Economic Corridors: Success and obstacles

According to the ADB reports, advances on Infrastructure and Transportation strategies developed through soft loans, aid, and cooperation technical assistance by donors and members has had a positive impact in the region, in poverty reduction and economic growth (ADB 2010, Toward sustainable and balanced development: Strategy and action plan for the Greater Mekong Sub region North–South Economic Corridor). Moreover, Fujimura and Edmonds (2006) indicate that cross-border road infrastructure has had a distinctively positive association with "recorded" intra-GMS trade in the last 2 decades and that there is a limited evidence of a trade-FDI nexus vis- à-vis the effects of cross-border road infrastructure on them.

Less developed countries have embraced the migration of FDI from more developed countries in the region towards them as a consequence of a rise in wages in those neighbouring countries. This has improved the conditions of much of the poorest regions that have been prioritized along the corridors (Krongkaew 2004). Nevertheless, this FDI is creating assembly line jobs that do not contribute to human development, as not much educational or vocational training is needed. Each of the member countries still have much more to do in terms of poverty alleviation, education, and relations between sectors (education-government and private sectors). With regards to whether the connectivity has improved access, there is still much more to do. Institutions and channels in which all sectors can dialogue are required for the development and consolidation of a logistics corridor, and to finish the projects along the development of poverty- focused nodes and Special Economic Zones in the prioritize areas, for the consolidation and implementation of the Economic Corridors by 2012.

Finally, there are important costs in terms of education that need to be covered fully by governments and assistance programs as a strategy of human development in the region. Still the question is how to encourage local development and increase the quality of life of inhabitants without adversely affecting the FDI flows towards these less developed nations. Important

developments in institutional capacity and training programs are required towards the development of the trade facilitation approach. In addition, the lack of "economic institutions such as modern financial and payments systems" inhibits ECs from achieving their desired objectives (Krongkaew 2004, 993).

1.4 'Soft' aspects of trade facilitation: the CBTA and the SFA-TFI.

The strategy of Economic Co-operation and trade facilitation is achieved through the complementarily between hard and soft issues. The soft mechanism in the region, the Cross Border Trade Agreement (CBTA), "covers customs and Border formalities exchange of commercial traffic rights, transit regimes, infrastructure standards, and vehicle requirements for cross-border traffic (ADB 2009)."

1.4.1 History

The CBTA agreement was, at its initial stages, a tri- lateral agreement signed in 1999 by the Governments of Lao People's Democratic Republic, the Kingdom of Thailand, and the Socialist Republic of Viet Nam. In the following years, the Kingdom of Cambodia, the People's Republic of China, and the Union of Myanmar acceded to the CBTA agreement. An amendment to the CBTA was signed by the countries of GMS in 2004. Finally, at the eighth ministerial meeting of the GMS countries, members agreed to move towards the ratification of the annexes and protocols (ADB 2009, ADB 2010, "Greater Mekong Sub region Overview").

An Initial Cross Border Agreement (IICBTA) was put in place while the more difficult annexes and protocols were being negotiated. The IICBTA focuses on the self-executing CBTA articles as well as annexes and protocols that have been finalized or are about to be finalized. As part of the negotiations, a Single Stop Window and a Single Stop Inspection under the Memorandum of Understanding (MOUs) are being discussed. Hence, the CBTA focuses on facilitation of cross border formalities, movement of people, movement of goods, exchange of traffic rights, set requirements for admittance of road vehicles and selection of border crossings (Annex 2: Map 1 of Economic Corridors and Border Crossing Points for the CBTA) (Verbiest 2011). Over the last few years, a shift to incorporate a software approach of common regulation strives for the harmonization between the practices of those countries that have locked in a long and a difficult period of negotiation.

As a complement to the Trade Facilitation Strategy, the Strategic Framework for Trade Facilitation and Investment (SFA-TFI) was proposed at the 13th ministerial meeting hold by ADB. From 2005, the SFA-TFI is led by the Trade Facilitation Working Group (TFWG) that develops a regional work program. The Group is responsible for identifying and mapping the national and regional mechanisms to enhance trade facilitation and to take advantage of the advances on the hard aspects on infrastructure. Also, it aims to acknowledge the challenges to enhancing national and regional plans and to determinate capacity building in main areas for trade development (TFWG 2005). The CBTA was intended to be fully implemented by 2010, nevertheless due to political and institutional problems the implementation timeline has been extended to 2012 (ADB 2008).

1.4.2 Challenges of the CBTA

The implementation of the CBTA has been adopted at different paces among the countries as a consequence of the negotiation process of the CBTA, the unmatched timing among the countries, and the lack of ratification of important annexes. The CBTA Program still faces problems on

harmonization at a multilateral level. The negotiations have taken the form of bilateral settings that impose obstacles towards a multilateral negotiation. An additional challenge towards implementing CBTA is the institutional capacity of the GMS program and the internal capacity of GMS governments. As Verbiest (2011, 9) noted, the "software part of cross border transactions is very much dependent on people and institutions."

There are also major challenges towards the ratification of the CBTA annexes. As Bafoil and Ruiwen noted, "there still several resource constrains, problems of streamlining and harmonizing border control documents due to conflicting issues and differences between the legal and regulatory frameworks of the respective member countries, the lack of understanding of the agreement by local officials and also the lack of available information for the private sector (2010, 111)." Furthermore, there is a significant gap between the capacities of local officials versus the planning and negotiation process that has taken place at the ministerial meetings (Mekong Institute 2008 in Bafoil and Ruiwen 2010). In essence, there is a local capacity deficit for the implementation phase.

Without the CBTA in place, there are important problems that impose costs along the development of the Economic Corridors such as the "inconsistent and difficult border crossing formalities and procedures, restrictive visa for truck drivers, restriction on entry of motor vehicles, different standards on vehicles and drivers across countries (Verbiest 2011)." Furthermore, the CBTA requires serious investment to cover equipment and training costs of setting up electronic data systems across countries, to provide a better coordination system between local governments, in cross border aspects.

Another obstacle to CBTA is the potential for illegal movement of goods and persons after the facilitation of cross border movement of people. To address illegal migration, regional public policies must be created and Border Officials must be prepared to know the rules and procedures in order to incentivize legality in the Cross-Border areas. Furthermore, economic relations of bureaucracy have evolved into a relationship of patrimonialism rather than fostering peer and legal relations under the CBTA- Agreements. Moreover, there is no evaluation system to determine the effectiveness of the CBTA. Finally, the ability of SFA-TFI to serve as a complementary initiative in support of CBTA and in addressing gaps in the formulation process and agreements is questioned.

There are still major arguments to increase control and security at the cross border areas, as security is still a major concern for each of the members. Terrorism and sanitary issues are priority issues on the cross border facilitation challenges, and the cases of the H1N1, mad cow and September 11 are positive arguments into a stronger control and regulation framework on the Cross Border facilitation process (ADB 2009). This attempt to impose costs on low local capacities has, as consequence, the requirement of bigger resources and emphasis on the regulatory systems. In conclusion, the governance and institutional framework to implement CBTA is still extremely weak (Bafoil and Ruiwen 2010).

In sum, the CBTA agreement as an instrument of trade facilitation has in fact been adopted, but there is a lack of understanding of it at low levels, lack of communication, lack of harmonization of rules, weak negotiation processes, no education provision for the personnel operating the cross border zones, lack of incentives to enforce the CBTA, and finally a lack of findings on its impact.

This chapter presented the vision of regional integration of both, ASEAN and GMS, largely driven by the trade facilitation approach (hardware- infrastructure and software-regulation) that is executed towards the three C's: Connectivity, Competitiveness, and Community. An assessment is presented along the chapter on the Program that has as obstacles and political conflicts at all levels, the CBTA's

operation and ratification issues, and the lack of Governance, institutions, rules and harmonization, procedures in cross border issues. In addition a lack of understanding and communication between planning and implementation personnel impedes the effectiveness of efforts. Finally, political and cultural barriers are still determinant issues on getting the right incentives to establishing a regional integration process. Positive assessments have been presented under the critical light of sustainability as most of the growth processes in trade ratio's, increasing FDI's and jobs creation cannot be sustainable without Human Development and more general Development activities.

Part II: Regional SEZ Models

2.1 China's SEZ Model

Since China first implemented *gaige kaifang* [national economic liberalization policy] in 1978, it has experienced real term growth of 10% per year (Lardy 2006). During that period its capital growth as a percentage of GDP has steadily outstripped its East Asian neighbours [See Annex 8 Capital Formation as a Percentage of GDP] (Lardy 2006). This export based model of economic growth has been marked by the development of Special Economic Zones, the first of which was started in Shenzhen in 1979. The SEZs are characterized by liberal economic policies; low tax rates; one-stop-service centres (OSS); industrialization and urbanization; highly developed infrastructure, foreign direct investment; research and development; and universities and skill training centres (Favourable Policies).

China's SEZ models take into account both short-term and long-term growth demands. In the short-term China's SEZs provide the infrastructure necessary for low-cost, rapid manufacturing through liberal economic policies; low tax rates; OSS; and highly developed infrastructure. Short-term manufacturing is encouraged to expand its capability and scope through the presence of industrialization and urbanization; highly developed infrastructure, foreign direct investment; research and development; and universities and skill training centres. Long-term demands encourage a diversity of industry and an emphasis on fostering local growth. By promoting the development of long-term industries China's SEZs has also been able to help its population grow in income level, skill, education in tandem with the companies that make up the SEZ (ADB 2007).

A 2007 report by the ADB on SEZ's indicates that the Chinese model of rapid economic development has appealed to regions seeking a similar pattern of growth. This section will examine the similarities and differences between the Chinese and SEA SEZs. Through this investigation we will consider if the SEA SEZ model is a replica of the Chinese SEZ model, and if not, what the central gaps are between these models.

2.1.1 Historical Context

The growth of SEZs in China started with the economic reforms of 1979. During this period the central government began a process of economic liberalization in carefully selected administrative regions, where economic experimentation and foreign investment would be allowed to take place. Places that were designated Special Economic Zones were provided with a mandate to undertake economic liberalization and experimental economic policies. They were intended to give the government the opportunity to explore market-liberalization policies on a small scale without threatening the social stability of the country as a whole.

The first special economic zones were Shenzhen, Zhuhai, Shantou and Xiamen (The World Bank Group 2009, "World Development Report"). The advantage of these locations was that they were located along the eastern coast with access to key ports, which promoted import and export of

goods and materials. Shenzhen and Zhuhai were particularly advantageous in their location due to their proximity to Hong Kong, which remained a British colony during this period. Its proximity fostered an inevitable exchange of knowledge and capital transfer between these zones and Hong Kong, complimenting the central government's determination to transform these regions into areas of economic experimentation.

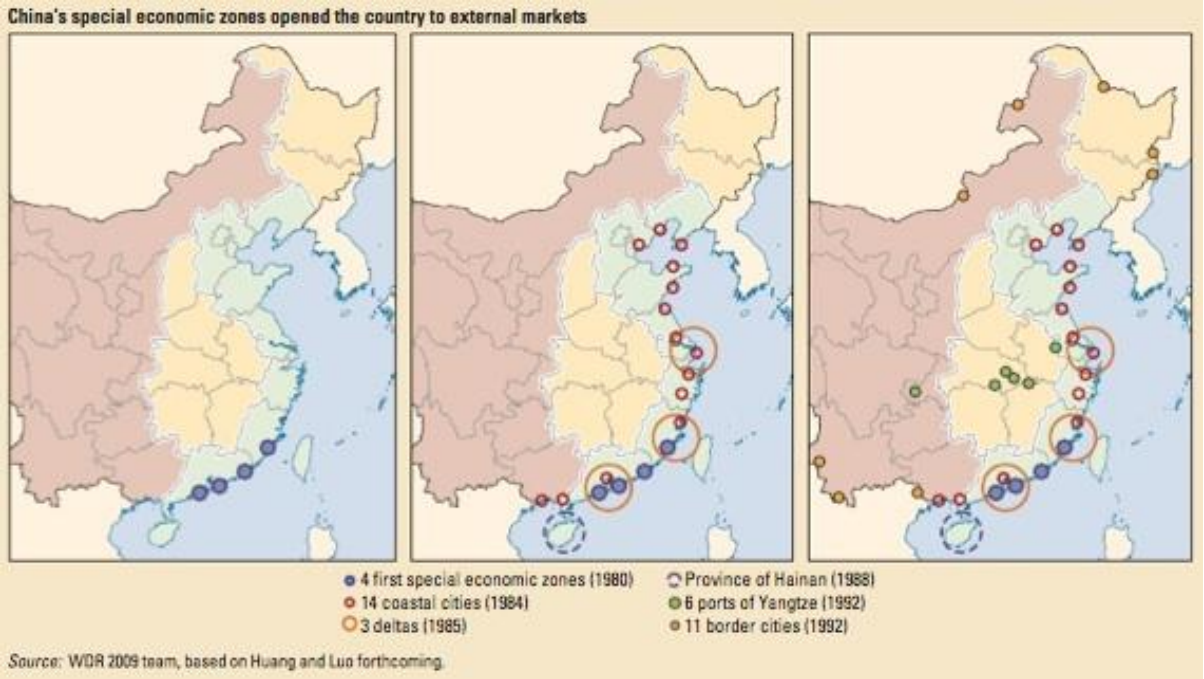


Image 1: China's Special Economic Zones (The World Bank 2009, "World Development Report").

In addition to their strategic location, Shantou and Xiamen were a historically logical place to encourage foreign investment. Both cities in the post 1860s Opium War era were granted as concessions to the foreign powers which had invaded China during this period of conflict. As such, foreigners were granted port access, residency status and the ability to establish foreign embassies. Today much of this colonial style architecture and influence remains in these cities. Despite the fact that China had been relatively closed since the revolution of 1949, these cities still retained an element of foreign influence. This not only made their transition into an area for foreign investment and experiment more palatable to the local and central authorities, it was also culturally and historically acceptable for the nation.

2.1.2 Shenzhen

In this section we will examine the Shenzhen SEZ to understand the Chinese SEZ model. This model will look at the systemic components of a Chinese SEZ namely:

- Urbanization & Industrialization
- University, Skills & Production
- Research & Development
- Infrastructure
- OSS
- Tax incentives

This systemic approach to growth ensures that manufacturing and industry growth is directly tied to innovation, infrastructure, good governance and locally-based skill growth. To this day Shenzhen remains the most successful of the SEZs in China. It covers an area of 2,000 square kilometres and has a GDP of $71.3 billion USD (ADB 2007). This is even more striking when broken down into GDP per capita. In Shenzhen individuals have a per capita GDP of $8,619 USD verses the national average of $2,000 USD (2006) (ADB 2007). The area stretches over six districts and two zones – Luohu, Futian, Nanshan, Yantian, Bao'an, Longgang, Guangming and Pingshan.

2.1.3 Beyond Shenzhen

It should be reiterated that the Shenzhen SEZ model is the most successful SEZ in China to-date. As a result, this is primary reason for selecting this city as a model by which to articulate the Chinese model and compare it in relation to the South East Asian SEZ's researched as part of this report. Despite the success of the Shenzhen SEZ the government continues to provide incentives for export-based production. Investment for domestic consumption is discouraged based on current tax incentives [see: Section 2.1.9: Tax Incentives]. The SEZ model has yet to be updated to promote production targeted at domestic consumption.

Secondly, low-wages in China continue to remain a major incentive to attract investors. In Shenzhen wages for basic workers are between 800-1500 RMB/mo (123-230USD/mo), managers are paid 2000-3000 RMB/mo (300-462USD/mo) (Shenzhen Government, "Taxation & Fees"). This report will show that these wages are higher than those paid in South East Asia, but compared to the cost of workers in Western Europe or the United States where the respective minimum wage is just under 872USD/mo (Portugal) and 7.25USD/hr (US Federal minimum wage), wages in China still retain a comparative advantage (US Department of Labour 2011, "Wages").

2.1.4 Urbanization & Industrialization

Shenzhen's remarkable success is due to its ability to link urbanization and industrialization. Migrants make up 83% of the city's population complemented by growth rates ranging from 44% in the earliest years of the SEZ's establishment to the current growth rate of 15% (ADB 2007). Of this population 50% is between the ages of 25-45 and 21% of the migrant population is 16% and under (ADB 2007). This robust emerging youth population provides the workers necessary to supply the rapid growth of the SEZ in addition responding to the increasing demand for skilled labour. Regional SEZ authorities must thus balance their desire for continued economic growth with the various interests of business leaders, producers, migrant workers and central authorities. To address these competing needs local and central authority planners have embraced the concept of the SEZ as an experimental economic testing ground. Local development policies are circulated throughout the immediate business community and opinions are solicited before the final draft is submitted to the national People's Congress for approval. These policies attempt to balance the need for local growth, FDI and sustainability, thus are targeted at promoting innovation, infrastructure, good governance and locally-based skill growth.

2.1.5 University, Skills & Production

Shenzhen's earliest years focused mainly on promoting traditional industry and low-skilled manufacturing but Chinese authorities quickly understood that if the region wished to remain competitive and experience high levels of growth it needed to expand production into sectors that demanded an increasing level of skill, such as high-tech goods, services and logistics.

Almost immediately, skills training and development grew in tandem with the influx of hi-tech manufacturing. In 1983, Shenzhen University was established to provide investors with a local pool

of skilled workers who could meet the emerging needs of producers within the SEZ. This trend continues today with the recent establishment of South China University of Science & Technology and the Shenzhen University City, an area dedicated to supporting the research of post-graduate students. Today two of China's most famous domestic hi-tech brands, Huawei and Zhongxing, received their start in Shenzhen.

2.1.6 Research & Development.

Shenzhen is keenly interested in promoting research and development within the SEZ. Local R&D further integrates local industries into the supply chain, tying the companies to the region and ensuring that spillover effects of R&D will benefit the surrounding industries and workers. As a result companies are actively encouraged to invest in R&D (Shenzhen Government, "Favourable Policies"). For example, companies who increase their expenditure on R&D by 10% are eligible for a 50% reduction on their corporate tax rates. Those companies involved in integrated circuit technology are given additional tax incentives in the form of refunds to invest in R&D, tax free, within the SEZ.

The SEZ is also interested in attracting the migration of new ideas and technology. In order to do this overseas post-graduate students are encouraged to pursue their R&D work in the SEZ. As an incentive the government provides them with a one-time stipend of 100,000-150,000RMB (est. 15,000-23,000 USD), guidance, evaluation, advising and preferential policies to pursue their research within the SEZ (Shenzhen Government, "Favourable Policies"). This ensures that local authorities are both attracting research while being able to closely monitor it.

2.1.7 Infrastructure

Shenzhen is noted for its strong infrastructure environment, linked by advanced ports, a major international airport, excellent roadways and logistics services. As of 2009, Shenzhen had 10 commercial ports along 29.8 km of coastline (Shenzhen Government, "Investment Environment Overview"). The density of industrial parks in the area further reinforces its primacy as a key logistics centre.

The Shenzhen Bao'an International Airport has 118 domestic routes and serves 37 international destinations. The airport is complemented by a strong rail network. The Beijing-Guangzhou and Beijing-Kowloon rail line both cut through Shenzhen. Additional train service destinations include Zhengzhou, Hefei, Jiujiang, Wuhan, Changsha, Yueyang, Zhaoqing, Shaoguan, Maoming, Heyuan, Meizhou, Shantou and Hong Kong (Investment Environment Overview)

2.1.8 OSS

The comparatively open governance structure goes beyond articulating development polices for the SEZ. The government has also established a one-stop-service (OSS) centre to guide companies through the initial investment procedure and any subsequent taxation, infrastructure and import/export challenges that they may experience. The OSS centre is capable of providing all necessary legal documents to facilitate registration and corporate recognition within the SEZ.

The OSS also facilitates the implementation of the Headquarter Policy, which is designed to encourage companies to establish their regional headquarters in Shenzhen. The OSS will help companies obtain certification which confirms that they are headquartered in the SEZ, and additionally it will grant preferential measures and streamline formal government procedures and services for companies choosing to headquarter in Shenzhen.

2.1.9 Tax Incentives

Shenzhen SEZ provides generous tax incentives to foreign companies choosing to invest in the Shenzhen SEZ. The SEZ has few general rules on taxes as most tax regulation is divided on a sector by sector basis within the SEZ. Those guidelines which do exist are the following (Shenzhen Government, "Taxation & Fees"):

- Foreign investors must pay a corporate tax of 12%
- Foreign investors 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.

2.1.10 Conclusion

The Asian Development Bank in a report on Special Economic Zones and Competitiveness notes that the Shenzhen SEZ model was unique not just for its ability to promote astronomical growth rates, but because it provides a map for a long-term growth model. The linkage of urbanization and industrialization; University, Skills & Production; Research & Development; Infrastructure; OSS and Tax Incentives provide a systemic growth model. Without a systemic approach to these components the model would be unable to maintain growth over the long-term. The ADB report acknowledged this by cautioning against models that rely too heavily on isolated industrial parks, which lack the Shenzhen approach to an urbanized industrial city. These industrial parks all too often run the risk of becoming enclaves of productivity and growth, keeping their economic benefits localized and removed from the periphery population.

In the SEA SEZs certain aspects of the Chinese model are readily visible, most notably manufacturing and the comparative advantage of low wages. This approach is similar to the mode in which China began its foray into SEZ, but the conditions differ. This report will go beyond this mere observation to further explore if SEA SEZs have embraced the larger systemic approach carried out in China. The next section will examine the two most popular growth models in SEA, clearly defining and limiting the scope of this report to the industry SEZ model more commonly seen in China.

2.2 South East Asian Development Models.

Before further exploring the possible linkages between the Chinese and SEA SEZ models, it is important to look at the SEA growth patterns currently in place. Two central models have emerged for South East Asian economic development - tourism and industry. Tourism models seek to capitalize on a combination of natural resources and services [for maps of tourism investment and development sites refer to Annex 9-10 SEA Models]. The recent rise in the popularity of ecotourism model is an example of growth that strives to promote socially sustainable models of economic activity. The government of Laos has invested heavily in promoting the concept of ecotourism. The website "Ecotourism Laos" established and maintained by the Lao National Tourism Authority highlights GMS Sustainable Tourism opportunities as well as the range of services, locations and

attractions which “benefits natural and cultural heritage conservation and local socio-economic development, and spreads knowledge of Laos' unique cultural heritage around the world” (Ecotourism Laos 2009).

In Cambodia the Ministry of Tourism works closely with the International Business Chamber Commerce Cambodia to promote tourism investment opportunities throughout the country (International Business Chamber Cambodia 2009). While ecotourism plays a significant part of the Cambodian Ministry of Tourism’s development plans, high-end casinos, hotels and residential complexes are also play a role in attracting FDI.

It should be noted that the economic conditions in these tourism location are far superior to those of the industrial centres addressed in this report. For example, Pakse and Siem Reap have well developed infrastructure, skills training, hospitals and mid-to-high end services. This systemic structure has led to visibly reduced signs of abject poverty. However this model continues to remain vulnerable to global economic instability which can inversely affect the discretionary income of potential tourists. Additionally, sites for development are limited to some degree by the natural resources of the area.

It is not the intention of this report to explore the viability or sustainability of the tourism model of growth in South East Asia. However it should be noted that in Laos and Cambodia the government actively chooses between industrial or tourism models when deciding to develop domestic regions.

Furthermore, it is important to articulate that while this report does refer to a general SEA development model, Laos PDR and Cambodia are separate countries and have their own unique factors which shape their overall growth. The chart below details some of the statistics which highlight these differences. For instance in both countries individuals live in relative poverty, however they are strikingly different in terms of population. Cambodia has a population of nearly 15 million people, while Laos has a relatively meagre population of 6.3 million. As this report will document, this poses significant challenges for Laos in terms of labour and developing a skilled work force. For Cambodia, extreme poverty levels and low GDP per capita limits the options of many workers when it comes to working conditions and employment options. This report will explore these factors in more depth through case studies in Savannakhet, Laos; Phnom Penh and Bavet, Cambodia.

Indicator	Lao PDR	Cambodia
Income Level (World Bank Classification)	Low income	Low income
GNI per Capita (US$)	$880 (2009)	$610 (2009)
Population	6.3 million (2009)	14.8 million (2009)
Population (%) below national poverty line	35% (2003)	30.1% (2007)
Literacy Rate (% of people ages 15 and up)	73% (2005)	78% (2008)
Unemployment Level	1.4%	7.1% (2004)

Merchandise Trade (as % of GDP)	37% (2009)	105.3% (2009)
GDP Growth (3 year outlook)	2007: 7.6% 2008: 7.3% 2009: 6.4%	2007: 10.2% 2008: 6.7% 2009: -1.9%
Tertiary School Enrolment	13% (2008)	7% (2008)
Informal Payments to Public Officials (% of firms)*[i]	39.8% (2009) 98.3% (2003)	61.2% (2007)

Table 1: Comparison of Socio-Economic Indicators: Lao PDR and Cambodia (The World Bank Group 2011, "Open Data").

*Informal payments to public officials are the percentage of firms expected to make informal payments to public officials to "get things done" with regard to customs, taxes, licenses, regulations, services, and the like.

The following chart provides a comparison between the three SEZ case studies covered in this report. While some information was not evenly obtained either due to lack of information or lack of on-site development, this chart has been structured in such a way as to provide an easy reference and cross-comparison tool.

Dimension	Savannaket, Laos	Bavet, Cambodia	Phnom Penh, Cambodia
Operating since	Est. in 2003	2005	2008
Size	949 hectares	180 hectares	360 hectares
Location	Border	Border	Inland (near capital)
No. of investors	Site C: 34	15	25
No. of operating firms	Site C: 1	9	13
Nationality of Developer	Site A, B, C: Thai, Malaysian, Japanese	Taiwan	Japan & Cambodia
Primary nationality of investors	China, Thailand, France, Malaysia	Taiwanese	Japan
No. of jobs created to date	Including Casino: Est. 2000	4,648	4792
No. of jobs anticipated	100,000	15, 000	50000

Investment to date	--	15 mil operating capital	$137,791,408.00
Industries	Mining, manufacturing, logistics, residential, services	Bicycles, nuts and bolts, footwear, PP bags, diving suits, garment, mattress springs	Garment, footwear, food processing, electrical equipment

Table 2: Comparison of GMS SEZs: Savannakhet, Laos; Manhattan, Cambodia; Phnom Penh, Cambodia (Personal interviews).

Part III: GMS Case Studies - Laos and Cambodia

3.1 Introduction to Case Studies

SEZ´s- Special Economic Zones have become a catalyst of forms of regional development in Asian countries such as China, India, Korea, and the GMS. Ishida draws out a typology that defines the ideal location of these zones in "metropolitan areas," "ports and harbours," "border areas" and "junctions or intersections (Ishida 2005, 1)." Ishida's study also 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. This report looks at three SEZs within the GMS: one of which is located just outside a metropolitan area, and the other two at border areas that also serve as junctions or intersections. The underlying point to take from Ishida's paper is that certain locations are more ideal than others for SEZ development. The SEZs this report looks at have all been developed after the construction of the roads that seek to facilitate the development of economic corridors in the region; something that has been contingent on the development of SEZs along these very roads.

Our approach to characterizing these SEZs has been to deconstruct them along the lines of the following factors that have been defined in the theory as key to the contribution of SEZ performance: Government policy, investment incentives, infrastructure, labour performance and regional and global integration factors. We capture these through the establishment of a monograph of SEZ characteristics, understanding the developer, the development phases of the zones and the nature of the government one-stop-service offices. Our analysis looks at the comparative advantage of each SEZ, the extent of its connectivity and infrastructure, its composition of firms, and the statistics and conditions of its labour force. There are two site visits which include the process of production and the dynamics of this type of production at the meso level. This analysis culminates in implications on governance (both national and regional, local development, and finally the sustainability of these kinds of SEZs.

3.2 Savan-Seno SEZ, Savannaket, Laos

3.2.1 Monograph

The city of Savannaket, the second biggest city in Laos, is located in the Savannaket province, roughly a kilometre and a half from the Thai border, strategically located near the Mukdahan-Savannaket Friendship Bridge and Highway number 9. Highway number 9 cuts horizontally along the East-West economic corridor, cutting west across Laos and into Vietnam and finally east across

Thailand into Myanmar. The province has a population of 890,582 (2009) and covers an area of 21,774 sq. km. The traditional economy of the area has been in agriculture but this has been steadily changing over the last 5 years with largest economic growth happening in the industries and services sector. As of 2010, GDP growth rate for industries as been identified at 16.28% while services have seen at 13.5% growth rate (Savan-SENO SEZ Office 2011).

As part of this developing industrial and service sector, the Savan-Seno Special Economic Zone envisions a future where it will one-day, "become a hub for trade and investment in the region by ensuring a business friend atmosphere accommodating private sector development as an engine for the Lao economic growth (Savan-Seno SEZ Office 2011)." The zone was established on September 9th, 2003 by decree from the Prime Minister of Laos. The Prime Minister's Office continues to oversee the management of the SEZ and, in theory, delegates decision-making authority to the Investment Promotion and Legal Affairs Division; the Properties and Construction Management Division; the Administration and Personal Office; and the One Stop Service Centre.

The following sections will highlight each of the components to the Savan-Seno SEZ. Despite the fact that the Savan-Seno SEZ was established in 2003, progress on the site has been marked by consistently slow development. As a result, as of a 2011 site visit to zone C, only one permanent building and one partially completed building frame had been constructed. The sections below will detail the information gathered to date on this SEZ and its development, however, it should be noted that construction has yet to fully begin.

3.2.2 Developer

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 following sections will provide more detailed information on the developers.

3.2.3 Site & Development phases

The SEZ is divided into four sites and one sub-site. The following is the structure of the SEZ:

Site	Sector	Size	Developer	Progress
Site A	Services	305 hectares	Thai Airport Ground Service	In development
Site B	Logistics	20 hectares	Japan Logitem	Functioning
Site B1	Mining	300 hectares	--	Functioning
Site C	Industries	211 hectares	Pacific Stream Development (Malaysia)	Area cleared, 2 structures built
Site D	Residential purposes	118 hectares	--	Cleared

Table 3: Savan-SENO SEZ Structure (Suzuki and Keola 2008; the Author)

3.2.4 OSS

The One Stop Service (OSS) is a key feature found in many SEZs. For Savan-Seno SEZ, this is no exception and is a key incentive in attracting investors to the area. The OSS helps established companies obtain licensing, meet tax regulation, obtain a company seal, facilitate import/export, procure utilities and assist in labour recruitment.

The OSS is managed by three individuals they are:

- Head of Investment Promotion and Legal Affairs Division
- Head of the Administration Office
- Head of the Properties and Construction Division

The Head of Investment Promotion and Legal Affairs Division stated that he had been sent from the central government to the SEZ to assist his local superiors in supporting and advising the growth of the SEZ. He noted that any investors who experienced any difficulties related to production, export/import, labour, etc need only to contact his office to ensure that those matters were resolved. Additionally, he noted that a central challenge for investors was the import and export of goods. This was due to the complicated regulations regarding the import/export of goods and the local level custom authorities' lack of familiarity with these regulations. The Head of the Investment Promotion and Legal Affairs Division was confident in his ability to ensure that with his intervention, these challenges could be easily overcome.

3.2.5 Comparative Advantage

For businesses choosing to invest in the region, Savan-Seno SEZ competes with neighbouring Mukdahan in Thailand, and the Vientiane region to the north. However, neither of these areas have SEZs. Instead, the comparative advantages of these regions lay in infrastructure, transportation and semi-skilled labour. There have been ongoing discussions to develop a special economic zone in Mukdahan but at this time no SEZ has yet to emerge. Instead, the Thai government is currently emphasizing agricultural development. The Mukdahan Chamber of Commerce has indicated their support for such a project but conceded that the need for agricultural development, the Thai government's focus on this sector, an emphasis on service sector development and a highly transitory population seriously negates any proposal for an SEZ in the near future. Instead investors are drawn to Mukdahan for its semi-skilled work force, growing economy, presence of international firms, established business community and location along Highway 2043 and Laos Highway number 9.

Vientiane's central comparative advantage is that it is the capital of Laos. This gives businesses choosing to invest in the region the advantage of proximity to the central government and transportation hubs. This can reduce the opportunity for local and provincial officers to impede development or impose ad-hoc restrictions on investors. Unlike the Savan-Seno SEZ, the Vientiane International Airport is serviced by six international airlines, including the domestic service provider Lao Airlines. Finally, the Laos National Chamber of Commerce and Industry, which represents the Laos business community by directly lobbying the central government, is headquartered in Vientiane.

Savan-Seno's largest comparative advantage is the fact that it is a SEZ with a low wage work force. As an SEZ it is capable of granting incentives, concessions and services well beyond the capabilities of the Mukdahan provincial government or the Laos central government in around Vientiane. Furthermore as a one of the most populace locations in Savannaket province, Savan-Seno SEZ is able to hire workers at a lost cost to producers. Thus Savan-Seno SEZ is able to offer manufacturing

production sites at a low tax rate, with low production cost. Despite the fact that the region is relatively underdeveloped these low cost production factors give Savan-Seno a significant comparative advantage.

Savan-Seno SEZ is overseen by a relatively small staff, eager to attract investment to the region. The central government is invested in ensuring that the SEZ develops and has sent a delegate to the SEZ's One-Stop Service Centre to provide advice and guidance to the local SEZ authorities. The Prime Minister's Office and the Savan-Seno SEZ authorities have listed the following as the comparative advantages of the Savan-Seno SEZ:

- Political and Economic Stability;
- Strategic Geographical Location;
- Rich Natural Resources;
- Kindness, Politeness and Friendliness of Laotian;
- Free from severe natural disasters;
- Generous Tax Incentives;
- Special privileges on export;
- Economical production cost (labour and utility cost)

3.2.6 Tax Incentives

Taxes for companies choosing to invest in the Savan-Seno SEZ are low and divided by sector. The following charts outline the tax rates for goods destined for export, companies engaged in trade, and service sector companies. Each chart defines the length of the initial tax holiday, starting from the beginning of the company's first profit making year and the subsequent tax rate after the tax holiday period.

These charts demonstrate the incentives the SEZ uses to attract investors. Tax holidays are periods when manufactures are under no obligation to pay tax. The years that count towards their tax holiday, are only those years that they are making a profit. Thus this gives manufactures ample opportunity and time to develop their goods without having to pay taxes. The subsequent tax rate is remarkably low in tandem with the lengthy tax holidays.

Low tax rates complemented by low salaries ensure that Savan-Seno SEZ remains an appealing location for manufactures to produce their goods. Despite various technical and skill-related challenges, this SEZ provides the foundation to appeal to low-skill, high-turn around production operations.

Table 4: Manufactured Goods Produced for Export

Proportion of Goods Bound for Export	Length of Tax Holiday	Subsequent Tax Rate (on the condition of profit)
≥ 70%	10 years	8%
30%-69%	7 years	8%
≤ 30%	5 years	8%

Table 5: Companies Engaged in Trade

Trading Activity	Length of Tax Holiday	Subsequent Tax Rate (on the condition of profit)
Exporting of local products	5 years	10%
Re-exporting imported goods	3 years	10%
Other	2 years	10%

Table 6: Service Sector Companies

Investment Capital	Length of Tax Holiday	Subsequent Tax Rate (on the condition of profit)
≥ 2M USD	10 years	8%
.5-2M USD	8 years	8%
.3-.5M USD	6 years	10%
.15-.3M USD	4 years	10%
.05-.15 M USD	2 years	10%

3.2.7 Land Lease Policy

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.

3.2.8 Connectivity

The key transport link is the east-west corridor linking Myanmar, Thailand, Laos and Vietnam. For investors seeking to export their goods, the Da Nang port in Vietnam continues to remain the key export point. Challenges along the Vietnam/Lao boarder remain and Lao truckers must exchange their cargo at the Lao Bao border with Vietnamese truckers for the final leg of the journey to the Vietnamese port. This same problem presents itself for truckers entering into Thailand via the Friendship Bridge. As a result, the movement of goods across the region from the Savan-Seno SEZ require that companies map a complicated and tightly organized logistical process. This presents a significant challenge for companies who are part of a larger supply chain, where timing is essential for the smooth production of goods.

3.2.9 Infrastructure

The following section details the unit cost of water, telecom, broadband and electricity for the Savan-Seno SEZ, as listed in the Laos People's Democratic Republic 'SEZ Investment Opportunities' Promotional Brochure. The charts clearly show that the prices for these services are negligible and targeted towards producers with large-scale operations.

Water

Total annual cost for water usage in 2010 was priced depending on it if was used for primary manufacturing purposes or merely the enterprise's daily usage.

Primary manufacturing purposes: $.57 per cubic meter

Daily usage: $.68 per cubic meter

Telecom

Telecom rates were equally negligible during this time period, $.25 a minute for international calls and a fixed $.10 a minute for local and long distance mobile use.

Table 7: Broadband

Broadband usage continues to be more relatively expensive but still competitively priced. Registration is free and price schemes are structured to encourage long-term investment, up to a year. The following is a selection of broadband services offered in the Savan-SENO SEZ and the rates converted into US Dollars from Lao Kip [1USD=8000Kip]

Service Type	One Month Advance Payment	Six month advance payment	One year advance payment
128/64 Kbps	$37	$31	$25
512/256 Kbps	$112	$105	$99
2Mbps/512Kbps	$372	$347	$322

Table 8: Electricity

Electricity usage is priced according to residential and non-residential purposes. As we are concerned mainly with the industrial SEZ sites, I will only list that information which is relevant to our research.

Purpose	Sector	2010 $/KWh	2011 $/KWh
Non residential which use low voltage	Industry	$.05	$.05

Non residential which use middle voltage	Industry	$.05	$.05
	General Business	$.07	$.07

3.2.10 Firms

Due to the relative slow progress of the development of the Savan-Seno SEZ not firm other than one relatively small Japanese manufacturing facility has yet to develop. At the time of the site visit to Zone C, in addition to the small Japanese manufacturing facility, one steel frame of a warehouse intended to showcase Toyota mid-sized vehicles had been erected.

3.2.11 Labour

Labour in the region is generally unskilled. While the SEZ authorities cite the growth of service oriented training and the proximity of the University of Savannakhet, it is clear that the skill base of potential labourers is quite limited. The project manager for development at Site C stressed his struggle to find qualified workers for on-site construction. However, he noted that during the 3 years he has been training workers, their ability to learn was rapidly increasing.

As low labour costs are a key driver of investment, SEZ officials were in no immediate hurry to change the current investment model. Officials that we spoke to in our interviews cited the need to attract businesses "which matched the abilities of the workers." Officials at the Savan-Seno Chamber of Commerce spoke of a similar model but did acknowledge the long-term need for training beyond the service and construction industry. Despite this, the Chamber of Commerce had yet to implement any locally driven educational programs. Instead Chamber officials cited training programs for select Lao employees conducted by Japanese investors in nearby Thailand.

3.2.12 Site visit

It is difficult to articulate the Savan-Seno SEZ beyond what has previously been stated as a result of its underdeveloped state. Site C, the centre of the Savan-Seno SEZ is a present a large, barren, packed earth, plot of land. Despite the enthusiasm of the developers and the Investment Promotion and Legal Affairs Division, it is difficult to image a vibrant SEZ of the intended magnitude operating at the current site. To date a number of obstacles remain before this vision can be achieved. These obstacles are a lack of skilled or semi-skilled work force, locally-drive growth, wide spread local demand for services or products originating from the SEZ, governance and resource capacity to match the intended size of the SEZ, developer or manufacture interest in the SEZ, and coordinated logistical services.

3.2.13 SEZ Analysis

The Savan-Seno SEZ is a model that incorporates some aspects of the short-term/long-term Chinese SEZ growth model but fails to develop a systemic approach in implementing the SEZ. Local governance beyond the presence of the Lao SEZ authorities is entirely lacking. Development of the site has been entirely delegated to the developers, ensuring a lack of oversight by regional authorities into how the construction of the site is carried out. Governance in the Savan-Seno SEZ model is limited to the OSS and attracting investors. Unlike the Chinese model, which solicits local opinion in the development of its localized growth model the Savan-Seno SEZ authorities expressed little, if any, interest in the opinions or concerns of those contributing to or affected by the growth of the SEZ.

Beyond the growth of the immediate SEZ, there was little interest expressed by regional authorities in developing practical local growth opportunities. While the Savannaket Chamber of Commerce noted that the University of Savannaket was located near the SEZ, it also acknowledged that the skills taught there were not sufficient to meet the demands of the SEZ. This is strikingly different from the Chinese model of SEZ growth. Within the Chinese SEZs university and local demands are closely tied to ensure that producers have a steady supply of local workers with the skills and capacity to meet their production needs. Local universities actively partner with local producers to ensure that skills training of local students match the needs of local employers. This linkage between universities and local centres of production is essential to achieving and sustaining long-term growth.

Finally, with regards to sustainability, the Savan-Seno SEZ has not looked to the Chinese model for insight on how to develop roots to ensure that long-term growth considerations are met. The Savan-Seno SEZ has clearly grasped the concept of low wages and tax incentives as a means of attracting short-term growth opportunities. However the lack of a systemic approach, similar to the Chinese model to fostering SEZ-wide growth ensures that for the time being, growth is limited to the short-term. Several key factors such as a robust infrastructure and logistics network call in to doubt even the short-term success of the Savan-Seno SEZ. The fact is that despite the SEZ's establishment almost eight years ago, relevantly little progress has occurred beyond the vibrant casino community. This fact also should give Laos authorities pause for thought when it comes to addressing the sustainability of the Savan-Seno SEZ in both the short and long-term.

Box 1. SAVANVegas Casino

The SAVANVegas Casino was constructed in tandem with the Savan-Seno SEZ. The fact that the Casino was constructed prior to the development of the SEZ indicates that local authorities and business partners were eager for immediate growth opportunities. The SAVANVegas Casino is a result of joint investment between Maco, Lao and American business partners. The SAVANVegas Casino is located south of Site C, just off Highway number 9 and employs 1500 individuals. To reach the SAVANVegas Casino drivers must weave between the farm animals, carts, motorbikes on a half-dirt, half-asphalt road. The entrance to the casino is marked by a large, cream coloured sign, with several faux elephant heads aside a giant LED sign. The sign advertises room deals, spa packages and luxury dining offers. The long driveway entrance is lined with palm trees and fertile, decorative foliage. Construction is slightly visible behind the high walls surrounding the property.

The facade of SAVANVegas is composed of giant concrete elephants, acting as support for the enormous roof. Each faux elephant is capped with a blue skullcap, matching the equally ostentatious elephant fountain in front of the building. Inside, the casino is massive, easily accommodating well over 1000-2000 gamblers. Gambling opportunities include roulette, blackjack, craps, poker, electronic slot machines and lottery games. The majority of gamblers are elderly though middle-aged players also pose a significant number. The nationalities of most gamblers include Thai, Vietnamese and Southern Chinese.

3.3 Manhattan SEZ, Bavet, Cambodia

3.3.1 Monograph

The Manhattan Special Economic Zone (MSEZ) which covers a 180 hectare plot of land is strategically located in the Bavet Commune, Svay Rieng Province, on the Cambodian side of the border with Vietnam. Situated on National Road 1, with two big entrances opening out on to the road, the MSEZ

is situated a mere 5km away from the Moc Bai Border Crossing. As a result of this, the MSEZ is strategically located 65km from Ho Chi Minh International Airport and 80km from the Saigon Harbour in Vietnam.

Image 2: Manhattan SEZ Entrance Board (left). Image 3: National Rd. 1 makeshift kiosks on the left, the buildings you see on the right hand side are Vietnamese run hotels (right).

Box 2. MOC BAI – Border Crossing

Image 4: Moc Bai border Crossing (Cambodia side) (left and above); Image 5: Border Check (right)

Bavet border gateway is designed to be the biggest passage by land to Vietnam and the world. "Situated near this gateway, the zone will provide convenience and advantages to the investors of this zone," Manhattan Group's Chairman Clement Yang said at the inaugural ceremony. From the

governments perspective, and as the Premier (Prime Minister Hun Sen) said on the inaugural day of the Manhattan SEZ, the creation of the zone "has brought tremendous benefits for the Cambodian nationals as a whole." “It will create new jobs for those reside in this area, help to increase their family's incomes, attract near-by people into this area, and can transform this area into a newly developed region along the border,” he added (Laos People Daily 2005).

The location makes the MSEZ an attractive choice for convenient and relatively low-cost access to land and sea transportation, as well as raw materials and technical support from Vietnam. While the MSEZ is not the only SEZ in Bavet, it is the only real contender at present. Listing its operating capital as $15 million, the MSEZ, developed by Mr. Clement Yang, began development upon obtaining its license in 2005. We were told the MSEZ is the first special economic zone to be established under the direction of the Royal Government of Cambodia, and according to the article covering the inauguration, was done with the intention of transforming lagging regions, such as the Bavet Commune (Laos People Daily 2005). As with all SEZs in Cambodia, government presence is guaranteed with an on-site One Stop Service (OSS) office that represents the pertinent government offices concerned[8].

3.3.2 Developer

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 MICLs 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. It was mentioned that 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.

Image 6: MSEZ Inauguration with Clement Yang (Developer) and Cambodia’s Prime Minister
Source: www.manhattansez.com

[8] For more information, see Annex 11, which contains a speech by Mr. Sok Chenda, Secretary General of the CDC.

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. There are 5 divisions within the management office and they are concerned with (a) management (b) construction (c) financing (d) customer services and administration and (e) one-stop service office. The On-site MIC management office, also referred to as the developer's office, has a staff size of 15 persons who are distributed across departments A through D. Department E, the one-stop service (OSS) office, 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.

3.3.3 MSEZ Development Phases

The MSEZ's 180 hectares have been divided into 3 phases [Annex 12: MSEZ Phase Map] intended for development as follows:

Phase 1 – Consists of 20 hectares of land which is intended for the construction of the Development Centre of the zone. At present there are administration buildings located in this phase, where the developer's offices and the government one-stop-service 'OSS' offices are located. The rest of phase 1 is intended for administrative and amenity purposes only. The vision is to have a Gas Station, Police and Fire Department, Show Room, Administrative Buildings, a Hospital, Bus Station, Luxury Casino and Hotel, Supermarket and Condominium all located within the Development Centre. However, as things stand, there are just the Developer's and OSS offices present.

Phase 2 – Covers 60 hectares of land, all of which are allotted for rent or sale to customers (factories). The entire Phase 2 has been sold out and almost all customers are fully operational.

Phase 3 – Covers 100 hectares of land and is allotted to sell and rent for customer (factories). They are at present, soliciting customers to sell or rent these plots. Phase three, which is the largest phase of the zone, is mostly flatland at present and is lined at its far end by a short fence and dense jungle that is shared by Cambodia and Vietnam.

Overall – the SEZ has one surrounding fence and two big entrances that open on to the national highway, National Road 1. Both gates feed roads down the entire length of the park in parallel to one another to facilitate connectivity to the highway for all customers regardless of location within the park. These two roads make up the main arteries through which all goods are transported in and out of the SEZ. The National Road 1 itself is part of the larger GMS Economic Corridor and just 5km down from the MSEZ brings one to the Moc Bai Border Crossing The inward most end of the Zone, just beyond its fence is a dense forest shared by both Cambodia and Vietnam. A potentially complex security issue that did not seem of concern to the Developers, it is unclear whether this is because the border is securitized by border patrol, or because the forest is too dense to facilitate the movement of people. Either way it did not seem to be an issue or something that fell into the purview of the Developers concern or jurisdiction.

The MSEZ has allotted space in the Development Centre portion of the zone for amenities, services and entertainment. They are however, yet to be developed. As it stands, the hospital, hotel and police station etc. are services they cannot provide until a later stage of development. With regards to entertainment, at present they can rely on the casino economy located just outside the zone walls. Aside from the services intended for the Development Centre, the MSEZ presents the following list of services to investors:

- Short Term Translators
- Administrative Processing Assistance
- Factory Construction Assistance (after all KPT, which merged with MICL is in a well known specialized name in the construction business, particularly in Taiwan)
- Labour Recruitment
- License Registration
- Close government cooperation (by way of one-stop-service presence)

With regards to services for workers, the Developer mentioned that there is a canteen and informal restaurant on the premises specifically for them, alongside one completed dorm and another one up and coming. We were unable to view either so cannot corroborate these claims or provide details on the quality of these facilities.

3.3.4 One Stop Service

Image 7: OSS Office MSEZ

Image 8: Inside the OSS

The one stop service office is supported and staffed by both the local and central government in order to process applications of companies, issue licenses and certificates of origins, and to process export and import permits to clear customs. The idea with customs is to clear it ahead of time with the relevant government ministries in order to cross through the border without having to be held back by customs processes. As pitched to investors, there is no need for customs inspection of the containers at the border level, smoothing the process and reducing the time frame between transport and delivery. The on-site government authority 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 MSEZ tenant companies. The 5 offices that 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
    i. Recruitment via regional authorities and informs universities and language institutes about vacancies
    ii. Concerns themselves with skill matching: not just in terms of hiring but also to inform the companies how many of the hired need skills training and what kinds of training; but the company itself does the training (sometimes in Vietnam or the Philippines etc.)

- Representative of the Council for the Development of Cambodia (CDC), a sub-committee of the Cambodian SEZ Board

3.3.5 Comparative Advantage

3.3.5.1 Why Cambodia and not Vietnam?

It was pointed out that the developer chose to make an SEZ in Cambodia, and particularly in Bavet because location aside, the land is cheaper (as opposed to Vietnam side) and there are a fair amount of languages that people are more open to learning or already speak, given the growing prominence of language institutes in the area. The locals seem more willing to learn the necessary languages as opposed to say the Vietnamese who do not need to have their labour learn other languages – they all use Ho Chi Minh Port and have training centres in their own country. On the other hand, workers in Cambodia are trained by companies, and companies usually send them to Vietnam, Thailand or the Philippines. Consequently there is a greater need for them to speak other languages. It is also necessary given that all managers, as we have gleaned from conversation with the Ministry of Labour representative (and can certainly confirm this for the firm Bestway that we visited), are foreigners; mostly Chinese or Taiwanese as all management signs and boards are written in Chinese or the pertinent foreign language depending on where the company is from.

Speaking to the point made about land, certainly land in Vietnam compared to Cambodia will be more expensive, particularly in light of the incentives available in Cambodian SEZs. The final point to note is that the location of Bavet, within Cambodia, and the GMS EC (Bavet is at a crucial point on the East West Corridor) is particularly convenient as we have seen it provides easy access to Vietnamese harbours and airports. As a member of the Greater Mekong Sub-region (GMS), Cambodia is poised to benefit from the development of economic corridors (Invest in Cambodia 2011). Bavet's location on the eastern frontier of Cambodia, makes Cambodian access points closer than Cambodian access points, be they Phnom Penh Airport or Sihanoukville Port in the western part of the country.

Some of the listed incentives advertised by the Royal Government of Cambodia are as follows:

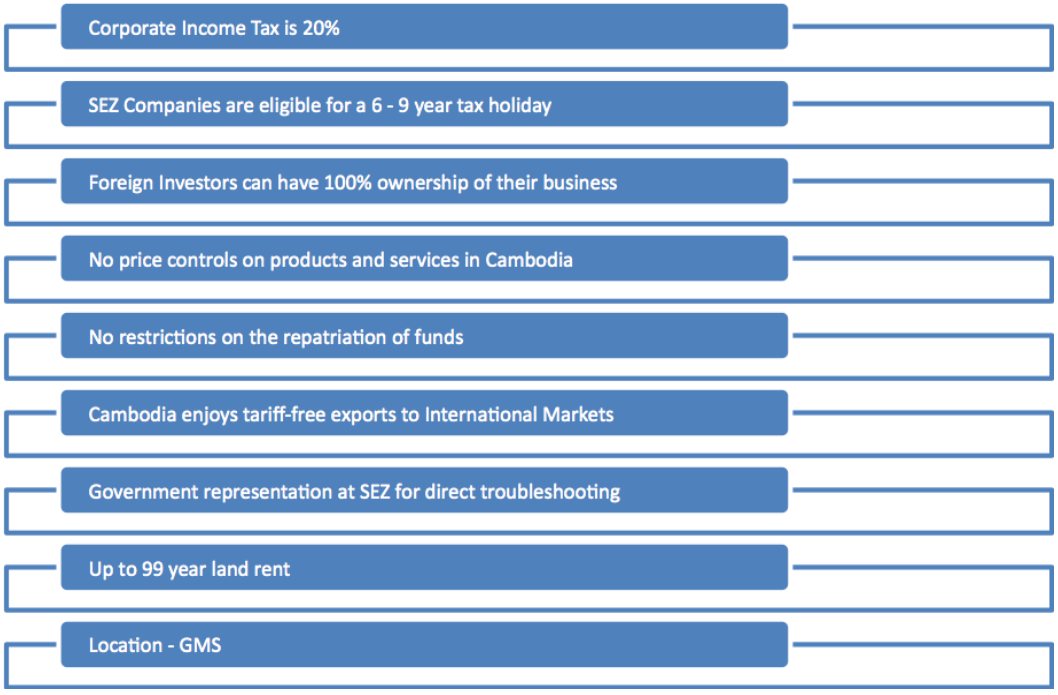


Table 9: Tax Incentives in Cambodia (Invest in Cambodia 2011, "Economic Zones")

The proximity of Bavet, and therefore the MSEZ to the Moc Bai Border crossing, 5km to be exact, has proven to have benefits that extend beyond incentives and shortened transport time (and therefore costs) to tourism. The proximity to the border has facilitated access to the Ho Chi Minh Port, a closer option than the Sihanoukville port. It has also allowed the possibility of importing electricity from Vietnam to Bavet. In light of Cambodia's electricity provision limitations, it has proven to be cheaper in Bavet to import from Vietnam, than to get electricity from Phnom Penh. Finally, an additional comparative advantage is the burgeoning border tourism, casino economy that is located just outside the MSEZ and right by the Border. This is an added advantage that can be used as an appeal to the foreign workers who live in the SEZ as it offers entertainment for the foreign workers, without which perhaps, one could say that the lifestyle offered to them at the MSEZ would be significantly less attractive.

It is perhaps important to note also that Bavet was once a marginalized lagging region, with some of the poorest inhabitants of the country. It had seen little to no growth or development. As such the construction of the Moc Bai border crossing transformed what was once a marginalized frontier into a well situated gateway. In fact, one could argue that Bavet is well located on a GMS economic corridor and as such is a lucrative site, with more than one SEZ planned for development there.

3.3.5.2 Why Manhattan SEZ instead of Bavet SEZ?

The Bavet Commune is slated to have four SEZs developed in its area, in light of this, what would be the Manhattan SEZ comparative advantage over the others? At present the Manhattan SEZ and the Bavet SEZ are the only two in operation, and between the two, Manhattan SEZ at a much later stage of development. Having said that, Bavet SEZ lists itself as having a larger operating capital, $37 million to be exact, compared to Manhattan's listed $15 million. We were unable to make a site-visit to Bavet, but here are some of the differences between them that the MSEZ Developer's office listed to us that might serve as a sort of comparative advantage argument in favour of the MSEZ:

Manhattan SEZ	Bavet SEZ
• Taiwanese Developer • 10 factories operating • 2 factories under construction • 6000 employees total • Diversified products • 180 hectares	• Khmer/Chinese Developer • 3 factories operating • 1 factory under construction • 2500 workers total • Garment products • 150 hectares

Table 10: Comparison of MSEZ and BSEZ Characteristics

While these statistics are basic, and we are unable to corroborate them first hand, it does reiterate the fact that the MSEZ seems to be at a later stage of development than the BSEZ. These statistics are too surface level to make any substantial comparisons, but they do give a sense of the respective SEZs profiles. They also suggest that MSEZ with its diversified clientele might be less vulnerable than BSEZ, as the garment sector[9] is one of the sectors most vulnerable to external shocks and the global market; something that would put it in a position of competitive advantage vis-a-vis BSEZ.

[9] See Annex 13 for an article from the magazine "Invest in Cambodia" which discusses the future of the garment industry in Cambodia.

Box 3. Snapshot of Cambodian Garment Industry

The garment sector employs more than 355,000 people and represents approximately 90% of Cambodia's commodity exports. In total, it is estimated that 1.7 million people depend directly or indirectly on the garment industry. A study by Yamagata (2006) found that the garment industry has had a substantial impact on poverty reduction for the following 3 reasons:

- Entry level workers are in receipt of wages equivalent to or more than USD45 per month, far above the poverty line;
- Females make up predominant share of jobs in the industry; and
- Barriers to employment and promotion to certain job categories are not high.

The garment sector was hit considerably hard during the Global Financial Crisis, as demand from the US and the EU was significantly affected. The sector's contribution to GDP shrank from 2.4% in 1998-2007 to 0.3% and -2.3% in 2008 and 2009, respectively. According to the CDRI/Annual Development Review, the garment sector is vulnerable to external shocks and risks losing competitiveness: "The global crisis, combined with the ending of safeguards against Chinese garments, unsurprisingly triggered a contraction in the US market-oriented, mostly cut-make-trim, 90% foreign-owned, and governance-challenged garment industry of Cambodia" (Myers and Watkins 2011, 28).

For now, the BSEZ is the only competition for the MSEZ but, this is likely not to be the case given the fact that there are two more SEZs due for development in Bavet. Manhattan shall however retain its place of importance as it was the first SEZ set up under the Royal Government of Cambodia and remains a model to which the government shall reference to decide on SEZ matters.

3.3.6 Land

The MSEZ also offers investors a land lease of 99 years; a feature common to all Cambodian SEZs and one of the underlying reasons that the nation is competitive enough to attract FDI. This incentive is a result of the availability and relatively cheap cost of land (perhaps because it is mostly government owned). Such an incentive serves not just as an initial attraction but also makes a long term presence more likely.

3.3.7 Connectivity

Connectivity remains at the heart of the Manhattan SEZ comparative advantage over other SEZs in Cambodia. In light of its proximity to the border, it makes accessing and employing Vietnamese harbour and airports, and by extension access to World Markets, much more affordable and efficient that through Cambodian airports and harbours because of their location in the north or west of the country. Furthermore, it is a lucrative location within the GMS Economic Corridor.

- MSEZ to Moc Bai Border Crossing: 5 km, 5 mins
- MSEZ to Ho Chi Minh Airport: 65 km, 1.5 hrs by taxi
- MSEZ to Ho Chi Minh Port/Saigon Harbour: 80km, 3 hrs for a container

3.3.8 Infrastructure

ITEM	COST	NOTES
Land Lease	$25/m2+ 10% VAT	All leases are for 99 years
Electricity	$0.1265/kwh	The SEZ has a power station on site, but buys its electricity from across the border in Vietnam. Doing so still makes the price cheaper than getting electricity from PP, which costs $0.19 instead.
Water Supply	$ 0.15/m3	
Public Facility Maintenance and Management Fee	$0.04/m2	This is a monthly cost
Transportation Fee: MSEZ to Ho Chi Minh City/Port	$330/Container	For 20 feet containers
	$370/Container	For 40 feet containers
Export/Import Processing Fee	$105+ 0.1% (for Cam Control)	Price per container

Table 11: Infrastructure Costs and Items in MSEZ (As provided by MSEZ Developer's Office 2011)

Proximity to the Vietnamese Border has proven to be lucrative as buying electricity from Vietnam, while not an ideal long term solution, does allow for a drop in the cost of electricity. If the SEZ were to get their electricity from Phnom Penh, their fee would be substantially higher as shown in the chart above. This however, whilst providing a comparative advantage for the MSEZ as compared to other Cambodian SEZ's does not put the underlying infrastructural capacities of Cambodia in too good a light; something that investors may be wary of.

Interestingly enough, for all the talk of border proximity, transportation costs remain high and we were informed that the transportation service providers were Vietnamese mostly, with some Cambodian presence. This decision to sub-contract to Vietnamese transportation service providers might account slightly for this cost in price, but it does not account for the majority of it. The reason for the high transportation costs resides primarily in the fact that the softer parts of the GMS CBTA agreement remains extremely underdeveloped. In order to facilitate the movement of goods and people across these borders and within these corridors, it is essential that the immigration procedures are synchronized into a single window function. At present transport across borders requires two separate checks, which require different documents and follow different rules. Not only is a lot of time spent at these two borders, but a lot of paperwork and legal confusion piles up. This impedes the daily flow of goods. The OSS provides the clearance papers for the trucks and their goods within the zone, but that only takes care of the Cambodian side of things. As such there is still the Vietnamese side to contend with. Consequently the flow of trucks would likely be multiplied if the single window were actually put in place.

3.3.9 Firms

Company	Product	Ownership	Exports to	Notes
IN OPERATION				
Best Way Industry Co. Ltd.[10]	**Bicycles**	**Taiwanese**	**EU**	**~700 empl**
S.Y.G Steel International Co. Ltd.	Screws, nuts and bolts	Taiwanese	EU	~100 empl
King Maker Footwear Co. Ltd.	Shoes	Taiwanese	EU	~1700 empl
Forest Packing	Plastic Bags/Packaging	Chinese	USA	N/A
Sheico Co. Ltd	Diving Suits	Taiwanese	EU	~2500 empl
Ampac Co. Ltd.	Plastic Bags (PE)	American	USA	N/A
Eastern Co. Ltd.	Jeans	Chinese	Africa	~400 empl (looking to expand)
Angkor Co. Ltd.	Mattress Springs	Vietnamese	USA	N/A
Kaonay Co. Ltd.	Sports Shoes (including Puma)	Taiwanese	World Wide	N/A
UNDER CONSTRUCTION (Approx 6 months till operation)				
Visca Co. Ltd.	Plastic Bags (PE)	Vietnamese	USA	-
Morofiji Co. Ltd.	Plastic Bags (PE)	Japanese	Japan	-
Topstar Co. Ltd.	Garment	Taiwanese	N/A	-
ZONE LOTS ACQUIRED (Yet to Construct)				
Header Plan Co. Ltd.	Hardware: Screws, nuts and bolts	Taiwanese	EU	-
Pique Garment Co. Ltd.	Garment	Russian	N/A	-

Table 12: List of Firms in MSEZ according to Phase of Development

As we can see from the list of zone investors above, the MSEZ is not a zone limited to garment production. On the contrary, it would appear that there is a conscious effort to attract a diverse range of firms. It is also important to acknowledge that a fair amount of firms are Taiwanese, owing to the fact that the developer being Taiwanese himself, was either able to attract or better access Taiwanese firms. The first firm, Bestway Co. is listed in red as it is the firm we were able to have a site-visit with.

[10] We were able to go into the Bestway factory that produces the bicycles and there is a later section which details this

3.3.10 Labour

3.3.10.1. Statistics

Of the 7 firms in full operation, not including Kaoway Sports having just opened, there are a total of 4,648 local employees (staff and workers) at the SEZ factories. This does not include contract labour employees for construction or the maintenance of the grounds; they did not collection information on that. The total amount of money spent by all 7 factories on wages for these two categories of employees was a total of USD 364,303.85. The table below summarizes the breakdown of employees by three categories:

- Office Staff or Production Worker
- Local or Foreign
- Male or Female

	OFFICE STAFF										PRODUCTION				
	LOCAL					FOREIGN					WORKERS (ALL LOCAL)				
	M	F	TOTAL	Monthly Expenditure on Salary ($)	Individual Monthly Salary ($)	M	F	TOTAL	Monthly Expenditure on Salary ($)	Individual Monthly Salary ($)	M	F	TOTAL	Monthly Expenditure on Salary ($)	Individual Monthly Salary ($)
Bestway	18	9	27	4,083.33	150	26	7	33	12,545.64	380	308	214	522	16,628.97	31
S.Y.G.Steel	2		2	380	190	2	3	5	1,350	270	35	46	81	6,486	80
Kingmaker	7	7	14	1,400	100	14	17	31	4,650	150	235	1,464	1699	141,974.20	83.5
Sheico	42	62	104	20,800	200	23	34	57	51,300	900	288	1,745	2,033	157,094.98	77.3
Forest Packing	1		1	300	300	3	2	5	600	120	22	38	60	5,918.94	98
Ampack Packing	1		1	150	150		2	2	300	150	14	30	44	3,592.19	82
Leegrow Plastic Pkg.				150		1	1	2	200	100	19	41	60	5,495.24	92

Table 13: Breakdown of Employees by Nationality, Gender and Function (MSEZ CDC 2011)

This chart was compiled with the Jan 2011 information collected by the OSS Department of Labour Representative at MSEZ, which means these are the official statistics that the Government of Cambodia receives and works with.

According to the chart above, there is some local representation at the office staff level, though it is important to note, as our factory visit one-site showed that all office and managerial signs were written in Chinese which meant that (a) the workers were most likely unable to read it and (b) you had to be able to speak Chinese to move up to the level of assembly line supervision or office staff. For the most part however, the majority of the office staff being foreigners. All workers on the production lines are local, there are no foreigners. With regards to the breakdown of employees by gender, we see that there is more representation of women on the working floor level than at the office staff level.

Having calculated the salary by dividing the total amount of expenditure list per month on salaries as per the three categories of breakdown (level, origin, gender), by the total number of workers in that category we see that most firms are paying above the minimum wage of Cambodia which is $61. The Bestway Firm which is a Taiwanese firm that produces bicycles, and also happens to be the factory we visited, pays their workers $31 a month, dramatically below the minimum wage standard.

They do not seem to be penalized in any way, and these numbers are well known to the OSS Department of Labour official. Another oversight to note is that Leegrow Plastic Pkg Co. Ltd. Lists local salary expenditure to be $150.00 yet fails to account for an employee within that category. It is unclear whether this is a data collection error or an opportunity for corrupt practices.

Sheico and Kingmaker both employ a substantial amount of the total number of workers at the SEZ with each firm employing 1,699 and 2,033 workers at the production line level respectively. This corresponds to a daily output of 1,000 – 2,200 full neoprene wetsuits by the former, and 1,200-3,000 pairs of shoes by the latter. It is unknown whether these firms compensate for the output per day, or amount of production beyond a daily minimum, neither is it known whether this compensation (presumably wage related) is shared by the entire line, or by individual; with no data, it is hard to speculate.

3.3.10.2 Conditions

Cambodian Labour Law puts minimum wage at $61/month (with a monthly maximum of 26 working days with 8h shifts at most a day) which means that the daily minimum wage is $2.36. As told to us by the Labour Representative, according to Cambodian Labour Law, Overtime and Holidays require compensation of $2/hour, the idea being that compensation should be double of the daily wage per hour of overtime. If this law is enforced, that is a very high incentive to work overtime and through it, earn much more than a minimum of $2.36 day, though perhaps it was intended to serve as a disincentive to firms encouraging overtime. Having said that, the OSS Department of Labour Representative then wrote down the following pay scale for us to show the possibility of upward mobility in ones career over time, the starting figure and overtime figures do not necessarily correspond to the official data he had cited earlier, but is something to note regardless:

STAGE	APPROXIMATE MONTHLY SALARY (USD)
Start / Undergoing Training	55.00
Overtime	61.00
Post Training	67.00
Group Supervisor	70.00
Administrative Office Staff	100.00 – 300.00 *requires basic knowledge of languages (English, Chinese, Vietnamese) and computer/IT skills
Managerial Level	N/A *Locals are not managers

Table 14: Monthly Salaries in MSEZ

With regards to the conditions and frequency of overtime, the official position is that firms must request permission for overtime from the OSS Department of Labour Representative. The extent to which this is followed, or rather, the extent to which this serves as a likely barrier to overtime is likely to be limited. In fact, the Representative himself told us that workers work 10 – 11 hours a day, which means 2 – 3hrs overtime each day. In light of the expected compensation, we don't necessarily see that figuring in the monthly wages chart presented earlier but it can perhaps account for why most workers seem to earn approximately $80 a month.

In regards to the terms of a workers contract, we were given the following conditions: (a) the firm and not the OSS Department of Labour office prepares the contract (b) officially the contract cites a maximum of 8hrs a day of work for 6 days a week with Sunday off and a maximum of 2 hours overtime per week (c) the minimum length of a work contract is 2 years up for renewal with a 3

month trial period (d) there are 3 months maternity leave provided with 50% of salary compensation (e) sick days are excused providing that a doctor's note is provided. These are the official terms cited in a contract; however the extent to which these are followed is highly questionable given the fact that wages and overtime, two of the five categories are not followed. However, the extent of the contract might be followed given that discussions with the Firm (that also happens to pay the least, well below minimum wage at $33 a month) told us that there was a fairly high turnover of staff, enough for him to complain about it. He also mentioned in passing that if somebody didn't show up to work, they would be fired "no loyalty to me, no loyalty to them, we train them and then they leave."

Image 9: Open Mini Trucks that transport Labourers to work

There are also open mini trucks which collect workers to take them from a central point in Bavet to the MSEZ however there were no additional details provided on the frequency and accessibility of this service. From conversations with the Business Assistant it appeared that most workers not only opted to live outside the SEZ, in their own homes, but also came to work at the SEZ by their own means, whether by foot or bicycle. On the other hand, the foreign manager of the Bestway bicycle factory we were able to visit, a Taiwanese National, mentioned that he preferred to live on the MSEZ premises in the dorms for safety reasons. Perhaps the dorms are designated, or at the very least, already occupied by the foreign middle or upper management, which made them unavailable to the lower level factory workers.

3.3.10.3 Recruitment Process

Protocol requires firms to go to the OSS Labour Department Representative and request a certain number of workers. The OSS Labour Representative then asks the central government in Phnom Penh which in turn forwards the request to the Bureau de Travail (which exists at the provincial levels). However, whether this protocol is followed is uncertain. There is no university in the local province but there are language institutes and vocational training centres both in Phnom Penh and to a lesser extent locally. We did drive by an Asian Languages Institute on National Road No. 1 but it looked more like an empty mechanics garage. When asked whether there were mechanisms present to coordinate with and familiarize students in the area, the response was that there were none, but that the Central Department, by way of Bureau de Travail handles it. This process is of particular interest as it also sheds light on the governance structure that the OSS office is operating on, something that will be touched upon in the section on governance. Having spoken with the firm manager of Bestway, his version was that the OSS office was absolutely unhelpful with the recruitment process, and that it was a real struggle for them as investors with a firm that is fully operational.

Having said that, the OSS Department of Labour Representative cites that his primary function is to organize the labour documents locally and serve as the government representative on communication and issues within the SEZ. Handling labour complaints is one such example. It has to be said that the 3 trade unions that are present in the SEZ are all national trade unions and therefore are not independent of the government.

3.3.10.4 Complaints and Cooperation

According to the OSS Labour Representative, there is a procedure in place to follow up on complaints by labourers that may come their way. Labour complaints come directly and individually to the OSS Labour Representative. The Labour representative in turn sends two controllers to evaluate and follow up on the situation. When asked about an example of a time that their office was of assistance to labour complaints, the Representative recounted this to us: sometimes, workers don't want to deal with the pressure of over time, by law they can work at most 8 hours per day but with overtime they are often working 10 or 11 hours a day. Here at OSS we talked to them to facilitate cooperation on these issues. I am not quite sure what facilitating cooperation implies, but it seems clear that it is less about acknowledging the demands and instead appeasing the expression of such concerns.

With regards to the establishment of trade unions, the OSS Representative had informed us that there were national trade unions present within the zone. In a 2007 review published by the NGO Forum on Cambodia entitled Cambodia Development Watch, which had members of civil society doing a preliminary review of the MSEZ, the workers expressed frustration at the fact that they were allowed to for unions on the condition that their leader would be chosen for them by the factory manager (NGO Forum on Cambodia 2007, 13). They went on to explain how nobody wanted the position of union leader, as any protests would be a direct threat to the leader's employment. Having said that, they needed a forum on which to air concerns about the lack of first aid, and high costs of transportation and living nearby, and without such a forum it would be essential then to use legal means to guarantee certain working conditions. While this publication was dated 2007, and due to the unfortunate fact that we were unable to speak with workers due to language and situational barriers, it seems clear that there has been limited progress on these matters. The reality continues to be that the limited dorm space, is taken up by foreign middle management, and the available rooms are at too high a price for the workers such that almost all workers opt to travel the long distances between home and work daily.

In a discussion with the Bestway firm manager on the turnover rate of employees, he informed us that there was indeed a considerable turnover; he approximated it to be around 40%. According to him, this was a result of competition of firms within the zone that are all facing similar human resource problems. So another way to find labour is to attract the labour of others.

All firms in the SEZ require more educated and skilled people however they struggle to find them in the local areas. The regional university, which is the closest one, does not quite provide relevant courses, and the management and accounting courses they do organise, are not up to the expectations or needs of the firm. Once again he reiterated the struggle to find skilled workers, or even just workers. The OSS Labour offices were criticised for not having a clear strategy with regards to labour employment and it is unfortunate that the OSS Labour office is not really charged with the job of supplying labour to firms. Its function is primarily a bureaucratic one to assess the compliance of documents to official regulations. As a result, the recruitment of labour relies heavily on the networks of their current employees by way of word-of-mouth or familial ties.

According to the manager, the contract is concerned with working hours per day and over time but not with duration, as such hiring and firing are not restricted to the terms of the contract. As such this provides no incentive to build loyalty either to their workforce, or the other way to the firm. As such it is no surprise that the turnover is huge. "We train them one day, and the next day they are gone."

When we asked the Bestway manager what he thought the firm had to offer beyond a salary, he replied the following: we can offer them housing (dormitories provided on the SEZ). The firm has approximately 200 people living in a dormitory with 6 people living in a single room. Few workers opt for this situation, most of them single and young, as others prefer to make the long journey home to their housing in the next locality or even in their shared housing outside of the zone, because this continues to be a cheaper option.

When asked what impact the firm had on local communities, the manager responded point blank "we do not have an impact on local communities." This he attributed to a lack of knowledge and understanding of a market economy and its functioning by both the local inhabitants and the local partners.

3.3.11 Site Visit: Bestway Bicycle Factory

3.3.11.1 Firm Statistics

- Produces bicycles for export to the EU
- Taiwanese company
- Began operations in Feb 2006
- 582 workers (352 men, 230 women; 549 local, 33 foreign) according to OSS statistics and 1500 workers according to the Firm's high level manager who showed us around
- Minimum wage for workers on the production floor (all local): $31/month

Our visit to the Bestway Factory was purely due to the fact that the manager of the firm was a good friend with the OSS Department of Labour Representative. Regular protocol for a site visit requires the submission of a request at least a few days before. We had requested for an opportunity to see a factory in the morning and thanks to his relationship with the Bestway Firm manager, he was able to secure this site visit for us that same afternoon.

Image 10: Bestway Factory Entrance, MSEZ

Upon arriving at the Bestway gate we looked into the vast courtyard with Italian cherub sculptures and an unnecessarily ornate and big fountain in the centre that was not turned on. In terms of buildings, the firm consists of two primary production buildings, a few storage/dry dock buildings and some other smaller buildings that were not part of the tour, so it is unclear what is housed within them or what their purpose is.

Bestway signed on to be a part of the MSEZ at its inception in 2005, being a Taiwanese firm, it is likely that the Taiwanese Developer of the MSEZ was able to garner some Taiwanese firms early on in the process. Bestway is owned by a Taiwanese national who owns a total of 3 firms: one in Taiwan employing about 400 people, one in Vietnam with about 700 workers and finally this one in Bavet with 1500 workers (note that his workers quote does not match the official data in the OSS provided labour table – 582). The purpose of the firm in Bavet is to assemble bicycles for export. The bicycles frames and some of the tubes are produced locally but the majority of the components are imported from abroad.

There are three Taiwanese managers that are at the top of the organizational chart, with 27 Chinese staff members leading the various departments. The rest of the workers are Cambodian.

The firm is currently facing demand changes as the winter season reduces the demand for bikes. Furthermore, the recent crisis in Europe has also contributed to a drop in the demand for bicycles. The real difficulty the firm faces is not so much on the demand side, as it is on the supply side linked to labour recruitment.

3.3.11.2 Organisation

Production of Tubes: The raw materials come from China every two months and they shape them into the required tubes on the first floor of the first building we looked at. There were 120 workers working on this line.

Image 11: Production of Tubes

Welding Process: located on the upper floor of the first building is an assembly line with 130 workers. The line divides up the welding process into different components with 13 lines of ten workers each.

Image 12: The Welding Lines

Cleaning: This part of the process is concerned with the cleaning of the bicycle frames and tubes. This part of the factory has a strong chemical smell to it and the workers are wearing no protective gear. They are wearing slippers or are barefoot, have no gloves, and only some have masks. Given the interaction with chemicals and the requirement of skill, this department is much better paid than other ones.

Image 13: Cleaning the Bicycle Parts

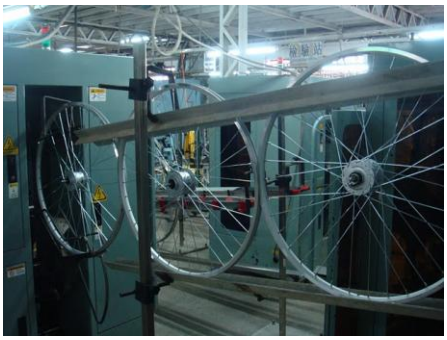
Painting: the painting department has more than a 100 workers, mostly female who are in charge of painting and retouching of the bicycles

Image 14: Painting and Retouching

There is another step where there is a final full coat of spray painted on. This takes place in an enclosed but visible room and one can see a small row of men working on this step; no more than 6.


Final Coat Spray

Assembling the wheels: We crossed over into another building where all the subsequent tasks were along the same production line. Starting the line is the assembling of the wheels that have been imported from Malaysia. A mostly female group of 16 – 18year old looking girls put screws and spokes on the wheel frames.

Tyres: Young men of a similar age (approx 16 – 21) are at this station, apparently this task requires strong arm strength and as such only men do this work.

Putting the Tyres on the Wheels

Assembling:

Putting all the parts of the bicycle together and ensuring it is all well in place

Final Check: Ensures there are no paint scratches, and that the frames are well adjusted to the wheels and all the other parts of the final product are well assembled. There is a supervisor doing (white shirts) a quality control check of each final bicycle that comes down the line.

Image Packaging: Each bicycle is then packed into a cardboard box to be readied for export.

3.3.11.3 Evaluation

The factory was organized along a typical production line process where tasks are specific at each station. The buildings were clean and well organized. As mentioned earlier, the safety gear and protection for workers was very limited if nonexistent and it presents some serious health and safety concerns.

There were strong divides in the organizational structure of the factory, along both ethnic and gender lines, with (a) foreigners being department heads and managers, department heads being Chinese, and managers being Taiwanese, the same nationality as the owner 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 $31 dollars a month salary of the local workers. All workers however are paid the same wages 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. The local supervisors were all men.

Our discussions with the manager reiterated the feeling we had that there was a dramatic sense of isolation of the firm vis-à-vis the local authorities. There is no cooperation with the OSS officials and they have proven themselves to be incompetent to the point where the manager does not actually rely on them for anything. The firm managers had expected more support with regards to education links and recruitment but no such assistance was provided. It is perhaps one of the biggest struggles they face as a firm and consequently one of the biggest drawbacks of the SEZ and the OSS Labour office.

3.3.12 Analysis of MSEZ

3.3.12.1 Governance

What is likely to be a recurrent theme in any SEZ in Cambodia seems to be the very governance structure of the OSS presence at the SEZ. 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 the Firm manager from Bestway told us of 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 there is only a length at which this will go. Furthermore without ties to universities or training institutes it becomes clear that every new recruit is a guaranteed training cost.

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, the conditions of which we do not know. Labour concerns aside, there are other underlying implications of this very top down approach to the governance of the OSS office, and by extension national policy vis-à-vis SEZs. There is a distinct gap between the very specific function of the OSS and its capacity to identify opportunity and provide insight into policy perspectives that could allow for appropriate linkages from the SEZ into the local economy in order to ensure that Cambodia is able to benefit from the presence of these SEZs. The introduction of SEZs is after all a policy or national strategy implemented at the Central Ministry level (in Phnom Penh) but present in a very limited form of the specific OSS functions.

The OSS office sits right beside the Developers office yet the horizontal communication between the two is limited to the request and provision of very specific documentation. It seems at the very least a waste of proximity. This has led to a redundancy in services offered. If you notice, some of the services provided by the Developer's management office seem to overlap considerably with the one-stop-service office mandate. It is unclear whether both offices provide their functions in parallel or whether they work together on these issues as is the intended idea. It certainly warrants noting that there is a need for Developers also to provide similar assistance as the one-stop-service, which might suggest that the one-stop-service office is not doing its job, or unable to do it well as in theory this falls under their jurisdiction.

It would appear that the desire to attract FDI overrides everything else such that the OSS official is for the most part powerless and not really a 'supervising presence' on-site for the Developer. The Developer for the most part is independent and as long as the papers are in order (which is the jurisdiction of the OSS) does not really have to answer to them at all. As was clear in the sections above, there are regulations about wages, overtime and contracts that are not enforced and there has been no penalization of those concerned. It is unclear whether this is a reflection of the sole objective of FDI acquisition or instead the pervasiveness of corruption.

For example, it is clearly noted in official data that Bestway workers are paid 31 USD a month, a figure well below the Cambodian minimum wage. While one cannot decide the extent to which this might affect the overlooking of this low salary, it is important to note that the Manager of the Bestway Firm and the OSS Depart of Labour official are very good friends, which was in fact why we were able to visit a factory at such short notice. The normal procedure to visit a factory requires that you put in a request a few days in advance stating your profile, reasons for wanting to visit, and the number of people you will be. Something we were able to circumvent because of their relationship. One does wonder the extent to which there is a space for lucrative relationships to be made, that allow for such patronage and corruption; perhaps a result of the fact that there are no checks between the local OSS representative and the central government, neither vertical nor horizontal.

As one can imagine, this lack of horizontal networks is not just a governance issue but also leads to a lack of strategic use of resources. The lack of horizontal network building across OSS offices within SEZs in Cambodia is a detriment to the functionality of the SEZ policy as it would seem useful towards shared experiences and best practices. It is something that would of importance to policy makers when looking to situate and manage the presence of SEZs within the Cambodian economy. In short, the communication and coordination flows go in just one direction, and that is towards the central government; and this comes at the cost of horizontal linkages that would do well to facilitate the management and utility of SEZs.

Moving beyond the issues related to jurisdiction and linkages, on the policy level it is somewhat worrisome the extent to which the policy incentives for the SEZ zones look to be an absolute 'hand over' to the developer. While it is true that several of the incentives are similar to the Chinese SEZ Model that proved to be a success, the conditions are substantially different. The most fundamental of which is that there are neither joint venture requirements (or even the presence of domestic firms within the zone), nor service subcontracting requirements for local firms. It is difficult to see how the governance structure and policy on SEZs will be able to capitalize on the opportunities that the presence of an SEZ can have well beyond FDI.

Finally, in line with the fact that the MSEZ is situated not just on the border, but on a well placed point within a GMS Economic Corridor, it is essential that governance issues also are addressed with regards to regional integration measures. The MSEZ in order to truly capitalize on its location ought to work towards being a key node in the Economic Corridor. The first step in facilitating the movement of goods and people along these corridors, which in turn shall achieve the objectives of growth and regional integration, would be to overcome national and local level interests for regional ones, at least to the extent that the single-window service at the border is put into place. The attractiveness of the MSEZ location can only truly be delivered if seamless movement of goods is ensured across the border. It is particularly the case of the MSEZ as opposed to other SEZs in Cambodia, as it stakes its competitive advantage on its proximity to the border.

3.3.12.2 Local Development

With the lack of backward linkages, it is clear that there are several challenges to local development. The fact that the SEZ is buying electricity from Vietnam means that the likelihood of infrastructure development with regards to electricity generation within the region remains muted. It would be an essential step towards development in the region and would remove the MSEZs dependence on Vietnam for electricity.

Additionally, there has been no effort to create a robust labour force that could not only meet the demand in terms of quantity of labour required by these firms, but also enhance their skills by way of vocational training in order to upgrade the quality of their services and consequently the jobs they do within the factory and its corresponding pay scale. Doing so would not only benefit the local economy but also remove a large cost for the firms in these SEZs who have to send them 'abroad' for training. It would also ensure that with an upgrade in skills of labour force, the types of production that the SEZ firms engage in could change as well from a more assembly line approach to more value added final products.

The development of the SEZ, and the policies that support it seem to encourage an enclave approach to growth and development initiatives such that there is relatively no impact on the local economies. Without mandates to subcontract certain services to local firms, it is unlikely that the local host economy can be involved, let alone translate the zone activities to something that can connect the border economies to the more inland ones. The Border economy's tourism sector (casino and sex) seems instead to have had a greater impact on the local population than that of the SEZ, which continues to function for the most part as an isolated entity that just happens to be located in Bavet.

Having said that, it is somewhat hard to judge the impact of the SEZ on local development, given that the SEZs are still in the early phases of their development. The Manhattan SEZ has not yet filled up the majority of its available lots. It is perhaps too early to judge the impacts of the SEZ on local development when after 6 years, of the 180 hectares, only 60 have been sold. While the development of the SEZ itself seems relatively slow, it is perhaps safest at best to point out that the SEZ seems isolated from the reality of its locale.

3.3.12.3 Sustainability

The previous sections feed into a discussion on the sustainability of the SEZ. Perhaps the underlying point is that a comparative advantage of cheap labour is not likely to last in the long run. It is essential to capture the FDI and initial interest in locating somewhere, but after that it is essential to upgrade the skills of the labour force, the infrastructure available and in turn allow for the SEZ to be able to impact the growth and development of both the local region and the country. Manhattan and Cambodia seem to have the incentives right for the initial attraction, but in the long run, there need to be more reasons given for firms to stay.

With regards to the MSEZ in particular, in order to continue to bank on its 'location' it will need to begin putting in place measures to facilitate the movement of goods and people across the border in order to reap the benefits of being located on an economic corridor, or even by a border. At the same time, it ought to shed its dependence on Vietnamese transport service providers, electricity and training locations. In the long run, this raises production, export and labour costs; and who is to say Laos won't emerge as the next location of truly competitive labour costs.

Within a discussion on sustainability it is important to briefly address the issue of policy relevance. The creation of the SEZ is at the end of the day a function of national policy with certain objectives in mind. It is essential that the relevance of the SEZ to these objectives, that are likely to change with time, are not forgotten and continue to inform the countries approach to SEZ cultivation and management. The seemingly pro enclave policy that exists is seemingly short sighted and not looking at the larger more long term objectives. In light of the factors that affect zone performance, namely infrastructure, government services (OSS) for investors, labour performance and raw materials (lack of local inputs, all imported), it becomes clear that the royal government of Cambodia should start taking steps towards developing a policy plan aimed at reducing the *cost* of doing business in Cambodia; with particular improvements in infrastructural development and linkages to the host economy, and the regional ones. Such a policy would better attract further FDI, promote technology transfers, and encourage industry diversification, all of which can and ought to be captured through the SEZ.

Box 4. Border Tourism: Casino and Sex Economy

It is impossible to talk about the MSEZ, Bavet and the Moc Bai Border without talking, at least briefly, about what appears to be a developing Casino Economy. This is relevant not just to explain the ambience of Bavet or its strategies for growth, but also because it has also contributed to a lifestyle appeal for foreign workers based in the zone. Let us first sketch the Tourism economy and then very briefly address its implications.

Bavet Commune has a total of 11 casinos, 1 of which was shut down 6 months after opening, and four others that have are not in operation at present. The casinos that are not in operation, including the short lived Winn Casino, have not been destroyed but are instead shut down and possess an eerie abandoned look to them. This leaves six casinos in operation at present in the Bavet area. As you will notice in the table below, they are all located on the National Road 1 highway that leads to the Moc Bai border crossing. These casinos in fact line both sides of National Road 1 the few kilometres between the Manhattan SEZ and the Moc Bai Border Crossing. All these casinos sit beside, between and opposite other casinos.

The casino economy is reinforced by prostitution, or sex tourism, which is rampant; hotels offer hourly rates and the casinos boast entertainment packages such as special bikini dances. We were unable to take photographs inside any of the casinos, but we certainly did stop by a whole row of them. Each time we went into a casino hotel, the layout seemed similar: past the lobby where there is a security stop, you enter into a general slot machine gaming area, there is usually a club or bar to one side that is completely dark with the ratio of women to men looking something like 3:1. On the other side there is a door that leads into a larger floor, with rich red and gold carpeting, covered with gaming tables. Some games were more animated than others and not all tables were being played on, but the floor and each table was fully staffed.

At every casino we were followed from beginning to end as we walked in, through the gaming floor and out the casino. We did this walk on a Tuesday night and each casino activity ranged from 15 - 20% in use to the more favoured ones like Titan reaching up to 60% activity on the gaming floors.

It must be noted that Cambodians are not allowed to gamble. So the customers at these Casinos had to be either businessmen/investors with interest in the SEZs, foreign workers from the SEZs of Vietnamese short or long trip tourists. This means that this Casino Strip remains an asset, fringe benefit or competitive advantage to the appeal of SEZs in Bavet, most especially the Manhattan SEZ given its proximity. Having said that, when we asked around, it appeared that the Vietnamese

tourists were a great portion of the casino clientele, crossing the border just for the night or for the weekend. It is possible that the casino clientele are daily or frequent clientele from just across the border.

These casinos are visually assaulting with their brightly lit exteriors, gaudy designs and exaggerated trimmings. In particular they are a jarring reality to the dark, barely lit simplicity of the National Road 1 which remains unmarked and as low key as the local inhabitants who set up their kiosks, makeshift restaurants and simple homes. At night given that the border crossing is closed, the only noise comes from the loud music that blares from these Casinos and the occasional motorbike.

Felsentein and Freeman point out that Gambling on the Border can in fact be an economic opportunity to capture (2002). This is especially the case if the existence of the border itself serves to create a monopoly favouring one side over the other. That is to say, if there are no Casinos on the Vietnamese side of the border, this creates a competitive advantage for the Cambodian side. This is further fuelled by the likelihood of tax regimes and other such business incentives being offered by one government over the other. In this case, economic activity is then diverted from one side of the border to the other. "More frequently however, it is the combination of national regulation and a large captive market on one side of the border that is enough to create economic opportunity for agents operating in a less regulated environment on the other side (Felsentein and Freeman 2002, 97)."

Below: Table 15: List of casinos in Bavet, Cambodia

Name	Gaming Machines	Table & Poker Games	Rooms & Suites	Location	Notes
Full House	30	80	80	National Rd 1	In Operation
Las Vegas Sun	150	90	120	National Rd 1	In Operation
Le Macau	35	25	130	National Rd 1	In Operation
New World	n/a	35	90	National Rd 1	In Operation
Titan King	n/a	139	n/a	National Rd 1	Opened Feb 2010 (In Operation)
Muckbay	n/a	n/a	n/a	National Rd 1	In Operation
Winn Casino	-	-	-	National Rd 1	Opened early 2010, Closed Sept 2010
Chateau Casino	n/a	n/a	n/a	National Rd 1	Likely not in operation
Bavet Grand Casino	n/a	n/a	n/a	National Rd 1	Likely not in operation
Casino royale	n/a	n/a	n/a	National Rd 1	Opened June 2009; Likely not in operation
Crown Bavet Casino	n/a	n/a	n/a	National Rd 1	Likely not in operation

The conditions that ensure that economic opportunity is indeed captured, are not limited to the demand side only, it is imperative that those crossing over, also *spend* their money on that side of the border in order to generate economic growth and development. Consequently, we can see the presence of these casinos as a two pronged strategy, not just for tourism, but also perhaps towards local growth and development. Their presence has led to the burgeoning of several Vietnamese hosted hotels, Vietnamese restaurants and a host of other Asian dining options. Prostitution, or the sex economy, feeds into this activity and this also contributes to money being spent locally. It was commonly told to us that 'Vietnamese love to gamble,' and as such it is clear that the captive demand exists the other side of the border. In terms of the growth and development of this tourism model, it shall be contingent not just on national regulation and government support, but on the fact that the Vietnamese side of the border shall continue to be void of Casinos. Finally it is unclear if in the long run, there can be a host of casinos, beside, between, and in front of one another.

The presence of the Casino Economy relates to our MSEZ in two ways (A) firstly it is an alternative source of employment which could further aggravate the labour recruiting situation but also (B) it serves as an attractive lifestyle benefit for foreign workers living within the zone and for hosting potential investors in Bavet.

While one could certainly make the argument that casino and sex tourism is in fact providing jobs/income to the Bavet commune, it is interesting to imagine what Bavet was before National Road 1 and Moc Bai Border Crossing was built; perhaps even more interesting to imagine how it will look 5 years from now. For now, we remain with the small stretch of road, where all the electricity (local or imported from Vietnam) remains concentrated in the excessively lit 5km, near the Moc Bai border crossing, while the rest of Bavet remains blanketed in near darkness.

(Gamingfloor.com 2011)

3.4 Phnom Penh SEZ, Phnom Penh, Cambodia

3.4.1 Monograph

The Phnom Penh Special Economic Zone (PPSEZ) is located on a 360 hectare plot 18 kilometres outside of Cambodia's capital city of Phnom Penh, 8 kilometres from Phnom Penh International Airport and 207 kilometres from Sihanoukville seaport. Opened in April 2008, the PPSEZ is the first SEZ in Cambodia to be fully functioning, with the most developed infrastructure, including its own power plant, water supply, waste water treatment plant and roads. The Cambodian government's administrative branch for SEZs, the CDC, has had offices at PPSEZ since September 2008. Every SEZ in Cambodia has a CDC office located within the vicinity.

3.4.2 Description of the SEZ Land

Before being developed, the land that now makes up PPSEZ used to be rice fields. The surrounding areas are made up of small shops, selling miscellaneous wares and further out are residences. There is no evidence that this area makes up a town or its own city; it has the atmosphere of being "just outside of Phnom Penh". Investors, developers, factory managers and labourers come and go from PPSEZ using National Road No. 4 that runs parallel to the entrance, which is marked with a large

archway that declares “Phnom Penh Special Economic Zone” in Khmer and English across the top and in Chinese down the central pillar.

Image 15: PPSEZ Entrance

Immediately following the archway is the CDC office, the “One Stop Shop” (OSS) and the developer’s office on the left hand side.

Image 16: SEZ Developer Office

Image 17: SEZ Commercial Zone

Other than these initial offices and a small convenience store, the other glass windows of the two storey office complex remain empty. Just outside the PPSEZ archway, however, a two storey, elegant Chinese restaurant is popular among investors, rather than locals.

Following the administrative offices, the land extends into brown, dry fields of grass that has been cordoned off into plots for factories.

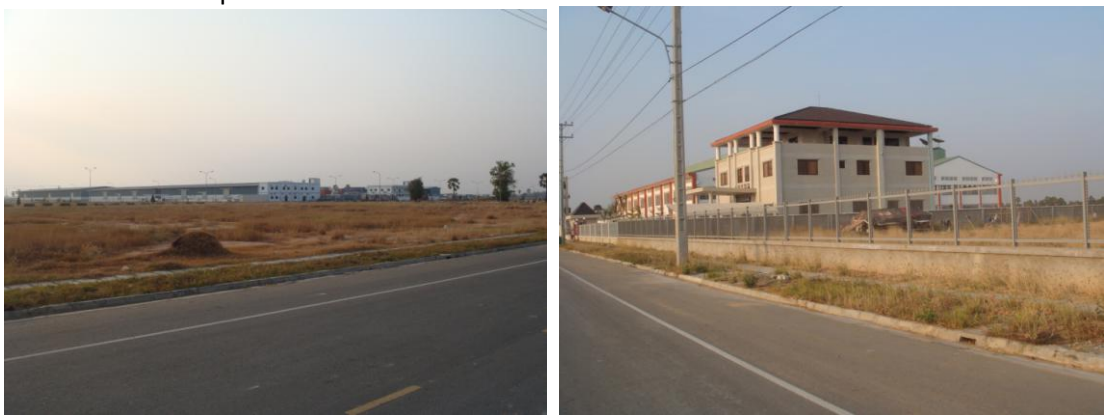


Image 18: SEZ Land and Factory

Simple factory structures dot the land on either side of the main road of the SEZ. Construction workers rest on the side of the road in wood structures and factory labourers come and go by foot following the main road to the exit.

Image 19: Construction in SEZ

Some labourers are brought to the SEZ in the back of pick-up trucks, provided by the factory.

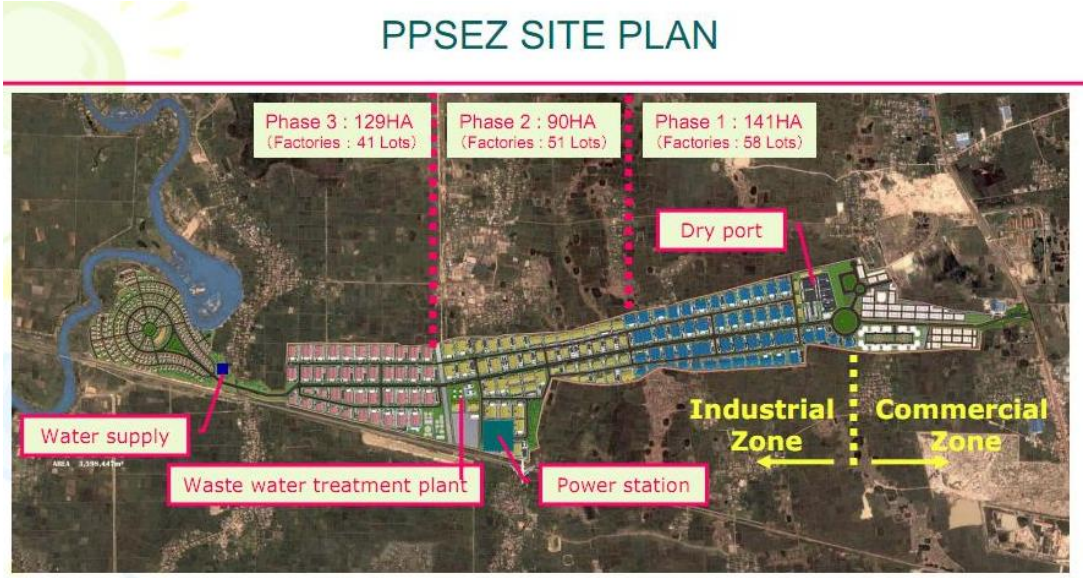
Image 20: Trucks transporting labourers to work

The atmosphere of the SEZ is calm, not the hustle and bustle necessarily anticipated of an 'economic zone'. In between factories the road is quiet and empty.

3.4.3 Development Phases

The initial 141 hectares of land make up "Phase I" of the SEZ and are ear-marked for Commercial and Industrial use. At the time of visiting in February 2011, 95% of Phase I land was sold to developers from Malaysia and Singapore. This area will eventually become shops and housing (directed at investors), a hospital and restaurants. It also includes the SEZ's dry port, which is run by a Singaporean company. Following Phase I, Phase II is 162 hectares of 91 lots which are sold to developers and investors in 1.1 hectare sections. This Phase is ear-marked for factories and also houses the power plant and waste water treatment centre. Finally, Phase III is the last 57 hectares of the SEZ and is ear-marked for the Residential Area. It also contains the water plant as it is close to the Preak Tnout River.

Image 21: PPSEZ Site Plan



3.4.4 About the Developer

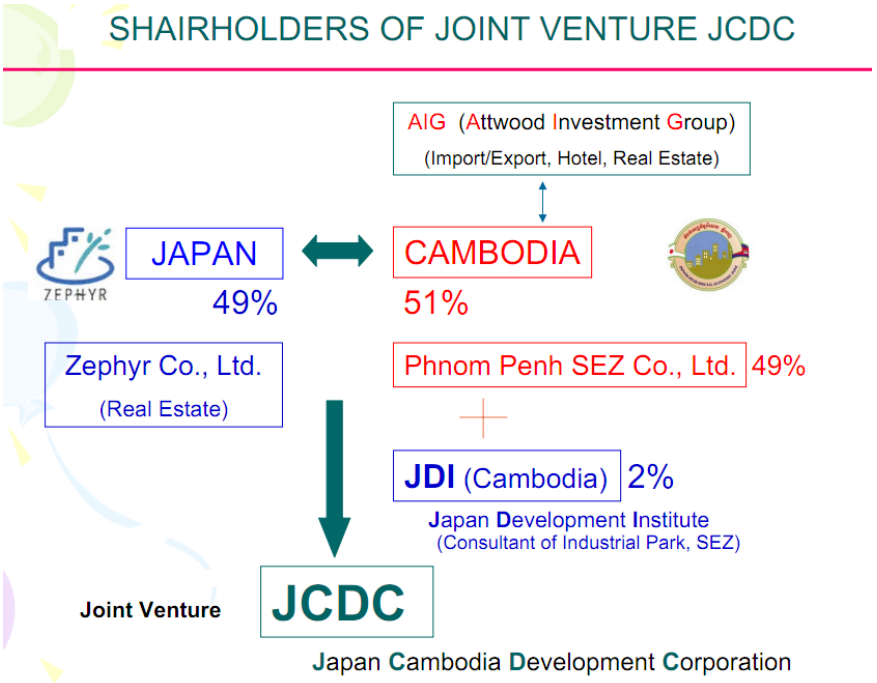


Image 22: Shareholders of PPSEZ

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 (or "the Developer") 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. According to the representative we spoke with, "[PPSEZ] welcomes all industry, as long as it operates within Cambodian law" (Personal Interview). *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.*

The developer's role is to establish and manage the hard infrastructure of the SEZ, such as road networks, dry ports, power, water and telecommunication supplies. In their promotional materials, the Developer boasts its ability to "attract more workers and make them more convenient" by providing 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. The Developer 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 OSS. 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[11]. These services are provided at no extra cost.

3.4.5 The One Stop Service

There appears to be some overlap between the Developer's role and the OSS. 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, the Developer also is involved in these tasks. The OSS Structure is the same as in the Manhattan SEZ. There are representatives from 5 government ministries:

- Ministry of CAMCONTROL
- 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 roles of the OSS personnel are the same as those described in the Manhattan SEZ.

3.4.6 Comparative Advantage of PP SEZ

The comparative advantage of PP SEZ lies in the developed hard infrastructure of the land. It is the most highly developed SEZ in Cambodia and it is strategically located nearby the industrial capital of Phnom Penh. Cambodia labour costs are lower than neighbouring countries Thailand and Vietnam, which gives the country an advantage over its neighbours, but does not give Cambodian SEZs advantages over each other. In a conversation with the CDC Representative at PPSEZ, it was stated that the advantage PPSEZ offers is that is "in the industrial centre of Cambodia." The SEZ Developer mentioned its advantage is the full infrastructure offered to the investor and the customer service provided by the Developer. As long as PPSEZ is the most developed SEZ in Cambodia, it will maintain its comparative advantage. However, Cambodia has allotted land for 21 SEZs. As infrastructure is developed in these areas, PPSEZ may not be the most advantageous choice. Other SEZs located

[11] For more information on the PPSEZ Developer, see Annex 11, which contains an article from the magazine "Invest in Cambodia" that interviews the Managing Director of PPSEZ.

along borders will benefit from continued trade facilitation agreements between GMS countries and will be better situated to benefit from such agreements when the infrastructure is in place. Therefore, the comparative advantage of PPSEZ is somewhat fluid and depends on the speed of development, efficiency of, and placement of other Cambodian SEZs. Without a solid comparative advantage, the sustainability of PPSEZ is questioned, which is explored further below.

In a presentation made by the CEO of the Joint Venture Japan Cambodian Development Corporation, the advantages of Cambodia stated are the following (Kobayashi 2007):

- Cheaper labour costs than China and Thailand (half of China, 1/5 of Thailand wages)
- Strong political will to develop SEZs and political stability
- High index of economic freedom and Foreign Direct Investment
- Least developed country status: "free access to the west"
- Young workforce
- Rapidly improving infrastructure

3.4.7 Tax Incentives

Tax incentives in SEZs in Cambodia are the same per site. Please refer to Section 3.3.5.1 "Why Cambodia Not Vietnam?" which lists incentives advertised by the Royal Government of Cambodia.

3.4.8 Land Lease

In accordance with Cambodian law, the PPSEZ land is available to be leased for 99 years. The Developer then chooses to sell the land to Firms according to its own protocol.

3.4.9 Connectivity

With regard to connectivity, Phnom Penh SEZ benefits from its proximity to Phnom Penh International Airport and the main road running to Sihanoukville Port. In speaking with the various stakeholders within the Zone, however, the location of the SEZ did not appear to be a primary advantage. Mostly, the PPSEZ gains in connectivity through its developed hard infrastructure, making it more attractive to firms who may be worried about Cambodia's ability to provide such services as reliable electricity, broadband and water. Therefore, the PPSEZ helps connect firms to Cambodia, but with regard to connecting products to ports its location is not ideal. SEZ land is ear-marked at Sihanoukville Port and other border towns, which will provide greater incentive in the future to capitalize on their connectivity once the hard infrastructure is in place, which, to reiterate, is the responsibility of the foreign developer.

3.4.10 Infrastructure

As stated previously, PPSEZ is the most developed SEZ in Cambodia. Investors must pay an infrastructure maintenance fee of $0.06/meter square/month + 10% VAT. Industrial land is sold at a price of $50 per square meter. The following infrastructure has been implemented:

- Land development and road network system
- Telecommunication and Internet
- PPSEZ contracts with a Hong Kong company, NEOCOM

- Internet source bypasses Cambodian data centres. It runs from Hong Kong data centre through the NEOCOM router to the PPSEZ Data Centre and its customers.
- Water Supply
- PPSEZ has its own water supply drawing from the Preak Tnout River
- Offers water that is 10% cheaper than Phnom Penh Water Supply Authority
- Power Plant
- The plant is a joint venture between JCDC (the Developer) and a Singaporean company, Colben Energy Limited
- It does not rely on energy provided by the government
- Electricity costs are 10% cheaper than Electricite du Cambodge
- Worker dormitories
- Currently, dorms are built that can house 560 workers
- PPSEZ has plans to develop more residences for workers

3.4.11 Firms

PPSEZ has 13 operating firms and a total of 25 investors with either operating firms, construction under way or planned The investors are primarily Japanese (9 out of 25) which is not surprising since JCDC is a partnership with a Japanese company. After Japan, Taiwan has 5 firms invested in PPSEZ. Other investors include companies from Singapore (3), Malaysia (3), Korea (1), Philippines (1), China (1), Vietnam (1) and Cambodia (1). The largest firm is Evergreen clothing, which employs 2000 workers and exports garments to the US. The smallest firm has only 14 workers. It is a Malaysian construction materials firm. Most firms are export-oriented, but a few sell products to the local market.

PPSEZ FIRMS IN OPERATION					
Company	**Country**	**Industry**	**Total Workers**	**Male/Female**	**Investment Capital (US$)**
Tiger Wing	Japan	Footwear	490	53/437	1.930.618
Ajinomoto	Japan	Food Process	153	107/46	5.470.534
Clean Circle	Japan	Footwear	210		
Dishells Ltd.	Japan	Heat Insulation Products	Unknown	Unknown	500.000
Evergreen Industrial	Taiwan	Garments	2529	975/1554	Unknown
Yi Xiang Co. Ltd.	Taiwan	Hangars	211	65/146	5.000.000
Ji-Xiang Co. Ltd	Taiwan	Carton Boxes & Paper	30	16/14	413.620
Sin Chin Hong	Taiwan	Plastics	199	77/122	2.323.741
Cambodian Success	Malaysia	Steel Processing	15	12/3	988.350

Cambox Private Ltd.	Singapore	Plastic Products	12	11/1	710.000
New Hope Group	China	Animal Feed	25	21/4	5.000.000
PPSEZ FIRMS Under Construction					
Haru Phnom Penh Comic Center	Japan	Comics	118	45/73	648.135
Shin Feng Paper Co. Ltd	Taiwan	Carton Boxes & Paper	50	35/15	1.500.000
Atlas Ice	Malaysia	Ice	12	11/1	1.827.243
Redland Industrial	Korea	Plastics	0	0	5.326.462
Liwayway	Philippines	Food processing	0	0	5.000.000
MKK Co. Ltd.	Cambodia	Cigar	0	0	2.619.100
PPSEZ FIRMS WITH UNKNOWN OPERATING STATUS					
Yamaha Motors	Japan	Motorcycles	Unknown	Unknown	Unknown
Proceeding Ltd	Japan	Japanese Clothing	91	0/91	1.581.470
FST PP Co. Ltd	Japan	Japanese Traditional Clothing	100	85/15	605.150
Minebea Co. Ltd.	Japan	Small-size motors	191	0/191	22.652.417
Agricom Co. Ltd.	Malaysia	Sugar Packaging	Unknown	Unknown	1.901.500
Thibidi Co. Ltd.	Vietnam	Electrical Equipment	Unknown	Unknown	1.500.000
SEZ Infrastructure and Management					
PPSEZ (Developer)	Japan & Cambodia	Developer of SEZ	49	36/13	Unknown
Cambodian Public Bank	Cambodia	Bank	11	7/4	Unknown
Colben Energy	Singapore	Power Plant	61	56/5	53.700.000
Bok Seng Dry Port	Singapore	Dry Port	153	145/8	3.322.700
Zephyr	Japan & Cambodia	Services	3	2/1	Unknown

Yi-Sang PPSEZ Restaurant	Unknown	Restaurant	33	21/4	Unknown
Sok Sokha Co. Ltd.	Cambodia	Construction	46	42/4	Unknown
GRAND TOTAL			**4746**	**1860/2878**	**54.700.000**

Table 16: List of Firms in PPSEZ (including those under construction, operating and infrastructure related projects) (PPSEZ Developer).

3.4.12 Labour in PPSEZ

3.4.12.1 Statistics

As of February 2011, the PPSEZ employs 4792 persons, including 1902 men and 2890 women (Personal interview). In addition to the investing firms' workers, the workforce is also made up of the Developer's Office (49 employees), a public bank (11 employees), a restaurant (33 employees), a service company (3 employees) and a construction company (46 employees). Only 10% are foreign workers, the remaining 90% Cambodian. Workers must be 18 years or older and their paperwork and contract is reviewed by the Ministry of Labour represented at the OSS at the time of hiring. 80% of workers are contracted and 20% have unlimited contracts, according to Ministry of Labour 2011 estimates.

3.4.12.2 Conditions

The minimum wage is $61/month. According to the Ministry of Labour representative, workers also receive $7/month for transportation and $2 for meals. This appears to be a formality, however, and is not practiced. If workers live outside the SEZ, they are transported in trucks to the factory each day. In speaking with a factory manager, we found that labourers did not receive more than their minimum wage. No additional money was given for transportation or food. It was unclear whether workers were provided health insurance; however, by law, each factory must have a doctor on site.

A work day is 8 hours long, with the option of 2 hours of overtime possible upon request. The work week is from Monday to Saturday. According to the Ministry of Labour representative, a maximum of 4 hours of OT is possible per week. This regulation appears to be overlooked. In the factory visit, it was determined that labourers regularly work 10 hours a day.

Most workers live outside the SEZ, although the PPSEZ and factories provide some dormitories. Currently, dormitories only house 560 workers and they are more expensive than options outside the SEZ. Dormitories house 8 people per 25 square meters. A 4 person room costs $25/month. Unfortunately, we were unable to visit a dormitory.

Workers in the PPSEZ are low-skilled and there are few opportunities for vocational training. At the start of employment, workers are trained either within the factory or abroad for 1-3 months. After this initial training, there does not appear to be additional vocational training provided.

3.4.12.3 Recruitment

Labour Recruitment is formally the responsibility of the Ministry of Labour & Vocational Training located within the OSS. Workers are recruited from the surrounding area, but more and more people are recruited from provinces further from Phnom Penh. In speaking with the PPSEZ Developer, it was noted that it has become increasingly difficult to find workers in the areas

immediately surrounding the SEZ. It should also be noted that the area surrounding the SEZ is not very urban or developed. While protocol dictates that the Ministry of Labour assists with recruitment, during our visit to the SEZ we witnessed 15 young women in the PPSEZ Developer's office signing work contracts. A representative of the PPSEZ Developer was overseeing them as they filled the paperwork. Therefore, it is unclear how much of a role the Ministry of Labour plays in recruitment.

In speaking with various stakeholders (including the Ministry of Labour, the PPSEZ Developer and a factory manager), it was stated that there is a shortage of labour in the immediate area surrounding the SEZ and often recruitment takes place in other provinces. It was also stated that there is a greater demand for high-skilled workers and currently the labour pool is low-skilled. In addition, the CDC representative stated there was a drive within the government to develop high-tech industries, which rely on high-skilled workers. There is an evident disconnect between the interest in developing high-tech sectors and the capacity building initiatives to develop high-skilled workers.

3.4.12.4 Complaints

According to the Ministry of Labour, unions exist within the SEZ and its factories; however, it is unclear what role they play in protecting worker rights[12]. The Ministry of labour stated that within the 3 years of operation, only 1 worker strike has been taken to the Council of Arbitration. Any other strikes have been short-lived and resolved on-site. Unfortunately, we were unable to meet with any Trade Union representatives.

3.4.13 Site Visit: Evergreen Apparel

3.4.13.1 Firm Statistics

- Produces garments for export to US
- Taiwanese company
- Began operations in 2009
- 2500 workers (1600 men, 900 women)
- Minimum wage for worker: US$61/monthUS$61/month

Image 23: Factory floor, Evergreen Industrial

Image 24: Factory floor, Evergreen Industrial

Our site visit took place in the afternoon at Evergreen Apparel's factory, the largest factory operating in the PPSEZ. It is located on 2 hectares of land. Evergreen is a Taiwanese company that has been

[12] Please refer to Annex 12: "Memorandum of Understanding on Improving Industrial Relations in the Garment Industry in Cambodia."

operating since 2009 in the PPSEZ and currently employs 2500 local workers (1600 men and 900 women). The company has recently purchased a second plot of land in the PPSEZ and plans to expand to accommodate 5000 workers. We were guided by Evergreen's HR Director (Taiwanese) and accompanied by the representative of the Ministry of Labour representative from the OSS. The Factory Manager was happy to answer all of our questions and guide us through the entire production process of their clothing products. Evergreen makes shorts to export to the US and produces clothing for brands such as North Face, Nautica, Merona (Target), Old Navy and Lee.

We were given a tour of the factory floor, which is a large square room filled with the buzz of sewing machines, the click of button machines and steam from irons. A diagram of the factory floor can be found in Annex 16 Floor Plan of Phnom Penh SEZ. In the room, 2000 workers were at their stations, wearing jeans and t-shirts and, in most cases, flip-flops or barefoot. Each worker wore a head-wrap colour coded to depict their production line and function. Those wandering up and down the aisles of stations wore red hair bands to depict their Supervisor status. Inspectors wore orange hair covers. Florescent lights brightened the room and there was minimal natural light. A water cooling system was located on the far wall, which cooled the work floor. The production process is as follows:

1) Fabric is cut (mostly men workers)
2) Fabric is sewn according to prototype (mostly women)
3) Shorts are washed and trimmed using a machine (mostly women)
4) Buttons are put on the shorts using a machine (mostly men)
5) Shorts are steamed and ironed (men and women)
6) Shorts are packaged and tagged (men and women)

Men primarily work on cutting fabric, buttoning and ironing while most women perform sewing tasks. In addition to the floor workers, Evergreen has 80 inspectors and 50 managers. Managers are either Chinese or Taiwanese, while inspectors and workers are mostly Cambodian. Formally, the work day is 8 hours long; however, the manager explained that all workers put in 2 hours of overtime a day, making a 10 hour workday. To use the restroom, a worker must gain permission from their supervisor. They must leave their ID card with the bathroom monitor when they use the bathroom. The age of workers varied from 18 to 50 years old, however, some workers appeared to be younger than 18 years of age. The legal employment age in Cambodia is 18 years old, according to the Ministry of Labour representative we spoke with. Workers are trained for 1 week at the start of their contract and do not receive additional training after that time. In order to determine where to place a new worker, the Factory Manager does a skills test. A worker may change production lines upon request and if deemed necessary or appropriate by the factory manager. All floor workers are paid the same amount, aside from any bonuses received from reaching the target production. The minimum wage for a worker is $61/month and workers do not receive any additional funds for transportation or food, although this was stated as a regulation by the Ministry of Labour Representative. If a worker does well, he or she can earn up to $110/month, according to the HR Director. Supervisors make about $80-90/month. During each shift, a production target is set. If a team, which is made up of a row of workers working on the same production line, exceeds the target of 850 items they receive a bonus of 500 Cambodian Riels per person. If the team produces 1700 items, a bonus of 1000 Riels per person is given out. Evergreen employs about 50 Chinese workers, who receive approximately $1000/month.

Images 25-28: Working stations in Evergreen Industrial




Worker	Wage
Floor worker (Cambodian)	$61/month + 500-1000R bonus/shift
Inspector/Controller (Cambodian)	$80-90/month
Chinese Manager	$1000/month

Table 17: Monthly Salaries in PPSEZ

The Sewing and Production Line is the largest area of the factory. There are 19 sewing lines, with 65 persons working per line. Each line consists of a number of sewing machine stations, where the worker sits and sews the product. At the end of the line is a board with a prototype of the product pinned for inspectors to compare against. There are also additional photos of what the final product should look like and a description written in Cambodian and Chinese (modern style). The HR Director commented that this is usually the most favoured job by women in the factory, as they can develop a skill that they can use in businesses later. Following sewing, the trimming workers use a vacuum-

like tool to eliminate strings hanging from the product. Belt loops are trimmed by hand using scissors. There are 5 lanes for trimming and 3 lanes for quality control. After trimming, workers fold the garment into large boxes.

After trimming, buttons are adhered to the garment. This is the most dangerous assignment, but workers are not paid more than others. Workers load buttons by hand (no protection) on to button holders and a large needle punches through the button holes and attaches the button to the cloth. The HR Director commented that this is the least favoured job in the factory. In the ironing and packaging area, workers stand while ironing and the area is very hot. There are 20 workers packaging and tagging the product, which is to be loaded onto trucks for export. The truck leaves for Sihanoukville Port once a week. If the order is in a rush, the product will be sent via Phnom Penh Airport. Following the completion of the garment, the cloth scraps are collected and melded together. In this area the workers are older and they look visibly uncomfortable and hot. The workers are placing scrap fabric into machines which melds the fabric together. The area smells of melted plastic.

3.4.13.2 Obstacles from a firm perspective

According to the HR Director at Evergreen Apparel, the biggest obstacle facing the firm is the lack of high-skilled Cambodian workers. There appears to be two issues facing the firm in its attempt to develop a trained workforce:

- shortage of high-skilled workers
- the firm is located far from the main road, which makes it difficult to attract workers

While the HR Director commented that most workers are low-skill, he also indicated that the firm has no plans to implement vocational training or create partnerships with local universities.

3.4.14 Analysis of PPSEZ

In the following, the PPSEZ is examined with respect to governance, local development and sustainability.

3.4.14.1 Governance

Actors within PPSEZ	Sector
CDC	National Government
One Stop Shop Administration	National Government
Developer	Private Sector (foreign)
Investing firms	Private Sector (primarily foreign)
Firm Managers	Private Sector (primarily foreign)
Workers	Private Sector (local)

Table 18: Table of actors and stakeholders within the PPSEZ

Here, we are looking at how the SEZ is governed and how national-local-regional and public-private interests interact. In speaking of governance within PPSEZ the primary issue is the impact of a decentralized policy towards SEZ management, from the government's perspective. What happens within the SEZ is relatively disconnected from national policy. National strategy is implemented from the top down:

National Strategy

↓

Central Ministry (in the capital)

↓

OSS Representative (in SEZ)

National & 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 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 government is 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 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.

In terms of horizontal networks, Cambodian SEZs lack a mechanism to bring stakeholders together across SEZs to discuss challenges and goals. In speaking with the PPSEZ Developer, we learned that a new initiative - the SEZ Association - has been created to bring Cambodian SEZ Developers together. The Association discusses obstacles in Cambodian laws and meets to find solution 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. Although the Association is rather young, it is an important step towards SEZ sustainability and innovation. Horizontal networks between firms and the dual sense of cooperation and competition that is fostered are building blocks for clusters.

3.4.14.2 Local Development

The ability for PPSEZ 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 PPSEZ has been successful in creating just under 5,000 jobs in 3 years. Additionally, SEZ workers are paid a minimum wage of $61/month, which is above the national poverty line (Myers and Watkins 2011). However, if local development is defined in 'soft' terms such as human development, capacity building and service provision the PPSEZ'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.

The Developer and the HR Manager at Evergreen Apparel both commented on the shortage of high-skilled workers available to SEZ firms. There is a high demand to up skill the Cambodian workforce, through education and vocational training; however, none of the primary stakeholders (the PPSEZ Developer, firms and the national government) are taking the lead to implement educational programs to improve the skills of the labour force. This is interesting given that a vocational training mandate is articulated in the Laws and Regulations on Investment in Cambodia. In the regulations, it states: "The zone developer has the duty to cooperate with the Ministry of Labour and Vocational Training in order to facilitate the training of Cambodian workers and to promote new knowledge and skills for workers with specific and effective program" (CDC 2011 66). In speaking with these actors we found that there was no formal connection made with local universities, nor was there an initiative to develop such a partnership. Labourers are trained for a brief time at the start of their contract and they are often sent abroad for this training. The lack of skill-building policies – both from the firm and the national perspective – weakens the relationship between SEZs 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. 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. This is a critical issue as infrastructure, such as electricity, is cited as the greatest barrier to trade (Hallaert, Cavazos and Kang 2011). Hence, without tying Developers to Cambodia's national grid, the government loses out on an opportunity to benefit from the high-tech and reliable power plants implemented within SEZs.

3.4.14.3 Sustainability

The issues of governance and local development essentially feed into the question of the PPSEZs sustainability. The Phnom Penh SEZ is one of the most developed in Cambodia. However, its location may not remain strategic or advantageous in the long run. As CBTA is implemented, cross-border trade of goods and people will become easier, faster and cheaper. SEZs located at border areas, such as the Savanakhet SEZ in Laos and the Bavet SEZ in Cambodia will directly benefit from their location. While this is a potential issue, it is difficult to foresee when CBTA will be fully implemented as it faces its own challenges to governance and overcoming local interests for regional interests. In addition to losing its comparative advantage in terms of location, the PPSEZ also faces a risk in terms of labour costs. Currently, Cambodian labour is cheaper than Thai, Vietnamese and Chinese labour, which attracts firms to invest in Cambodian SEZs. As Laos develops, and, more specifically, implements SEZs and infrastructure, it has the potential to be a competitor to Cambodian's investment draw as Laotian labour is the cheaper.

At the risk of losing its comparative advantage over time, and without developing human capacity of the workforce, what will keep investors from moving to border SEZs or to SEZs in cheaper countries, like Laos? What does PPSEZ offer that will retain investors? Further, in questioning the sustainability of the SEZ one must also look to the impact of the SEZ on Cambodian economic and human

development. If the SEZ program's mission is to achieve economic growth for Cambodia, what kind of economic growth is it promoting? The PPSEZ is owned in part by a Cambodian firm and in part by a Japanese firm, yet the investors are heavily weighted towards foreign firms. Rather than sustainable development, Cambodia's SEZ policy is fostering dependent growth. External shocks to China, Japan or regional GMS countries will greatly affect PPSEZ's ability to maintain its function as a local employer. Therefore, without supplemental policies (either led by firms or the government) to develop the workforce through education and vocational training initiatives, the path of dependent growth will be paved. Genuine local development, as it stands, will be overlooked as growth is exported through foreign firms.

3.5 Conclusion on Case Studies

The monograph and subsequent analyses provide a detailed depiction of 3 GMS SEZs with the aim of beginning to untangle the SEZs role in local development and regional integration. SEZs in the GMS context are a specific case where traditional models cannot be applied. The 3 cases – which are each at different levels of development – boast benefits to firms in the form of low wages, loose regulations, and tax incentives. They also benefit from strategic locations, be it on a border region or close to urban areas. The 3 SEZs are similar in their structure in that each has the following components:

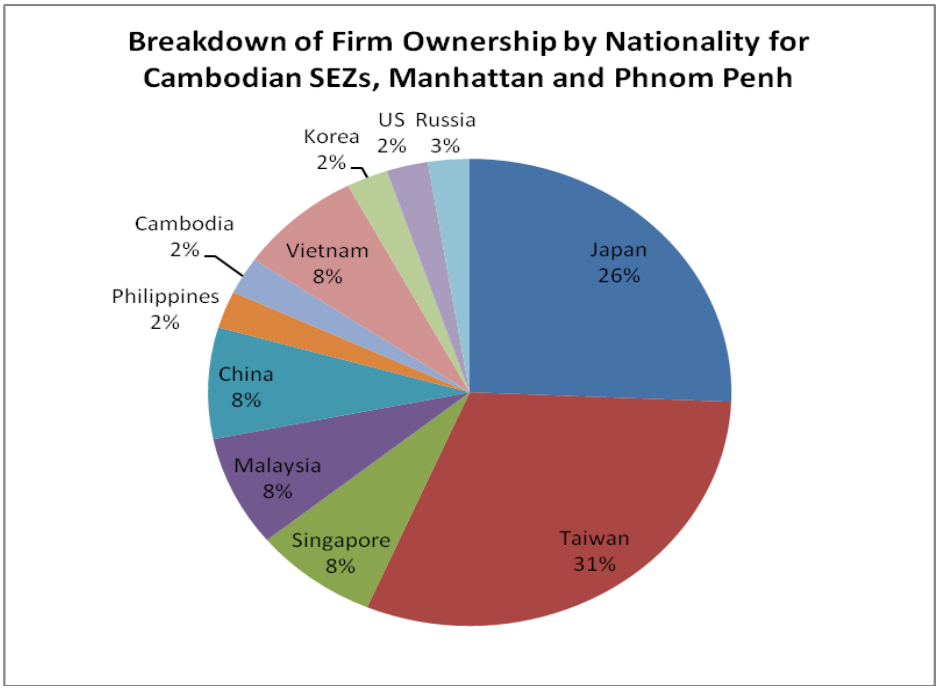
- an established arm of the government dedicated to assisting SEZ growth (OSS);
  fiscal incentives are not targeted at any sector nor do they link firm practices or investments to local territorial and human development
- located along Economic Corridors and/or borders
- Located in areas which lack infrastructure, requiring the SEZ to build its own infrastructure within its borders; explicitly list low wage labour as a comparative advantage.

Although the GMS SEZs are potentially a mechanism for economic growth and local development, several obstacles ought to be drawn out:

3.5.1 Economic Growth

The SEZs are highly dependent on foreign expertise, capital, demand and technology, which pose risks to their stability and their long term viability. The chart below demonstrates how heavily Cambodian SEZs rely on foreign investors. Japanese and Taiwanese investors account for over 50% of the ownership within SEZs and only 2% of the firms are owned by Cambodian investors. Although growth has occurred, the investment atmosphere in Cambodia also presents challenges to foreigners looking to capitalize on the cheap labour and tax incentives. According to one survey, business leaders found corruption and lack of a skilled workforce to be the greatest challenges to their investments (Foreign Business Leaders Survey 2011, “Moving into the Future”)[13].

[13] See Annex 19 for a summary of the survey in “Foreign Business Leaders Survey” 2011. Annex 14 contains an article from the same magazine that discusses the investment atmosphere of Cambodia.



Graph 1: Breakdown of Firm Ownership by Nationality for Cambodian SEZs: Manhattan and Phnom Penh (Note: firms include those operating and those who have purchased land, but are not yet operating).

3.5.2 Local Development

The lack of linkages in terms of plumping up labour supply by way of providing firms with an untapped labour pool as well as facilitating connections with institutes and vocational training centres in order to enhance the skills of its labour force. It is an oversight not to require firms to establish training centres domestically, as it would certainly be of a less cost to them than to be sending workers to Vietnam, Myanmar, Thailand or China for training. It remains a legitimate struggle for firms operating in the zones and can in the long run make the zones unattractive.

3.5.3 Regional Integration

Implementation of the CBTA and single-window immigration procedure is delayed and reduces efficiency in cross-border trade. Within the CBTA framework and in order to facilitate trade within the region, it is essential that the immigration and import/export process be standardized into a single seamless and efficient procedure in order to make crossing the border less time and therefore cost consuming, also eliminating two different sets of procedures and requirements in order to transport goods from MSEZ to Ho Chi Minh City or from Savannakhet SEZ to Bangkok. The relatively free flow of goods and people is key to facilitating trade in the region, but also towards the GMS goal of regional integration.

There are several cross-cutting issues for the 3 SEZs examined that speak to their ability – as a unique GMS model – to drive local development and enhance regional integration. With regards to Regional Integration, the SEZs in Phnom Penh, Bavet, and Savannakhet reflect important outcomes of ADB funded infrastructure projects linking the GMS countries through Economic Corridors. While Connectivity is established in a basic sense, through roads and the CBTA ratification, it should be strengthened and deepened in order to provide genuine incentives for investment, trade and development along the Corridors. Competition and Community have yet to be achieved. In the following Concluding Analysis, the obstacles and issues presented through the SEZ case studies are

examined through 4 lenses: 1) regional integration via hard infrastructure; 2) comparison with the Chinese development model; 3) SEZ role in local development; 4) policy implications for GMS-SEZs.

Part IV: Concluding Analysis

4.1 Regional integration as defined by infrastructure, does not apply to this case

The GMS Program has sponsored big infrastructure projects, most of which encourage private sector investment or ADB investment. In the GMS, infrastructure development can be an opportunity to improve integration and connectivity of markets as it shrinks time and distance 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.

Regional Integration is a broad phenomenon associated with the growth of RIAs- Regional Integration Agreements in the world since the 1990s (Schiff and Winters 2003). For Parsons (1949 in Raschdore 2006: 54), the founder of structural functionalism, he defines the integration process as "functions that every social system- this includes any kind of organization, groups of individuals, communities or States and hence also regions- has to fulfil to ensure survival." For Mattli, (1999) integration is related to trade related aspects such as demand side and supply conditions that enhance market conditions along a region. 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". Moreover, Lombaerde and Longeve (2006) point out the role of institutions and multilevel structures of governance within the delegation process as part of the regional integration. As it is demonstrated in the first part, the GMS introduced a strategy on connectivity through investment on infrastructure seeking competition, and community. The idea was that such a strategy would in turn further drive soft agreements through systemic approaches towards the overall objective of regional integration.

Based on our empirical research in 3 SEZs in Laos and Cambodia, we conclude that GMS Special Economic Zones are not an example or a case where infrastructure is a driver of the regional integration we have so 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 cases on the Special Economic Zones does 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 hamper 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.

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 was 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).

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.

4.2 Special Economic Zones differ from the lagging regions innovation frameworks

Lagging regions are defined in the World Development Report produced by World Bank (2009) as territorial areas with some of the following aspects: low productivity, low income levels, high poverty, high unemployment and stagnant growth. The GMS context does not necessarily reflect these conditions. In fact, GMS countries show a high level of inequality of income, stagnant growth within countries, high unemployment and one of the lowest income levels of the world.

A literature review on lagging regions in Europe and Canada shows different factors that need to be taken into account in lagging regions such as the involvement of several actors, establishing social relations between production structure and political institutional structure. For example, Wiig and Isaksen (1998) present the innovation process in Finn-mark as a lagging region of Norway and present the innovation strategy towards growth and integration. The scholars find that innovation process is a mainly a social process that Involves the relations between production structure and political institutional structure. The innovation process for them is an interactive learning interaction; this means that Research and Development is not just a technical process but a social one as well. It is instead a Collective Learning process- innovation capabilities are achieved through complex production, products and process linkages that are conditioned by short distances.

Furthermore, according to Lundvall and Johnson (1992) the innovation process is a social process, a learning interactive process between learning societies, this is societies of know how's, know who's and know why's. Furthermore, for Todt et.al (2007) the innovation framework in lagging regions in Spain contains strong promotion of institutional settings towards entrepreneurial lock out, public stimulus to spin offs recognition of private sectors, incentives for creation of companies and entrepreneurship spirit. Moreover, for Onsager et. al (2007), a study in Norway highlights the aspects of local interaction 'local buzz', the extra local linkages 'translocal pipelines', the agglomeration process that denotes the co-location of firms in the same or related branches, and finally clustering as grouping of firms activities, interaction and exchange of tacit and codified knowledge. In addition, the Coronado et. Al (2008) study underlines the potential cost of the innovation, the degree of indebtedness of the company, the technical qualifications of its employees, its participation in exporting and/or importing, and company size as powerful factors towards innovation.

Finally, Doloreaux et. Al (2007) analyses the case of La Pocatiere in Quebec Canada, and considers the success of the innovation process to be attributed to the following factors: Relevance of institutional actors-Research Programs, match of interests. Customer and supply relationships, demand side transfers, knowledge exchange, several types of collaborations special economic development agencies, strong international partners.

The case of Special Economic Zones presents other characteristics. First, the production structure is mainly foreign, and is constrained to assembly lines, which presents as economic social structure of job creation on low qualification basis. The SEZ's do not present important high skilled activities or tacit knowledge exchange besides manufacturing activities. Moreover, the interactive learning process is not reflecting the context specific traditional know-how. In the case of the SEZ's, almost all upper level management was foreign while local employees remained largely unqualified.

Second, there is no presence of important research centres along with the productive activities within the SEZ's. The location of any such centres is far away from the SEZ locations. This is evidence of the social relations towards the improvement of production process; that it is not happening through GMS governance or within GMS countries. On the contrary, there is no relation between private sector, epistemic communities, and governance structures towards the promotion of knowledge, and special know-how towards development of lagging regions, and improvement of human resources and life conditions. In this case the 'translocal pipelines' established are mostly geared towards the assembly line production process within the SEZ's as opposed to any kind of 'local buzz.'

Third, incentives for investment are important for FDI, nevertheless, they do not correlate with entrepreneurship activities or the creation of small enterprises; on the contrary, they aim to attract large monies without considering local capabilities.

Fourth as there is some concentration on various sectors concerned with assembly lines, there is no clear agglomeration process inside the SEZ's developing strategy, nor so in practice. This lack of agglomeration constrains any clustering process, as there is no exchange of information or interaction between the firms within the SEZ's. Furthermore, at top levels, there are no important relations between SEZ's at a regional scale, and they do not present important spillovers that present innovation process among the companies or firms of the SEZ's. 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. In conclusion, the elements presented through the case studies differ from other experiences of innovation in lagging region. Thus, Special Economic Zones differ from lagging regions innovation frameworks.

4.3 Rejection on the Chinese Model for South East Asia

This report began with an outline for the Chinese SEZ model of economic growth. Shenzhen, as the first and most successful SEZ in China was our case study as the ideal SEZ in a Chinese model. In the course of this investigation it has become clear that despite China's economic investment in the region and the establishment of special economic zones in SEA, the Chinese model has been neither fully nor successfully implemented.

The components of a successful Chinese SEZ are:

- Urbanization & Industrialization
- University, Skills & Production
- Research & Development
- Infrastructure
- OSS
- Tax incentives

It is important to revisit the original argument that posited the fact that in order for an SEZ to successfully adopt the Chinese model, it must embrace all six of these components to create a systemic short- and long-term growth model. Without one element of this model the replication would neither be the Chinese model nor would it be sustainable in terms of continuing economic growth at the individual, corporate and regional levels.

4.3.1 Urbanization & Industrialization

China's approach to integrating urbanization and industrialization is to bring multi-level governance to SEZ. Policies are driven by both local business needs and local capacity expansion. China has slowly been working to expand the public participatory process to integrate these demands in such a way that it promotes expansive, sustainable growth. It values the opinions of local businesses and uses their collective feedback to craft a development policy that addresses Shenzhen's development objectives and the needs of local businesses and investors. In Laos and Cambodia, the SEZ models are still articulating their policy formation process but a governance system has yet to be established beyond the OSS. At the moment should investors have concerns or requests they address them directly, one-on-one to the OSS or the SEZ authority. However, their opinion on the development of the SEZ is not seen as necessary for the crafting of SEA SEZ policy. For the moment, this may not present a significant problem for the SEZs in Laos and Cambodia since these sites tend to attract investment from a limited range of sectors and the zones have yet to reach their maximum capacity. However, by not having articulated or acknowledged the need for such an approach in the future, it clearly shows that the Shenzhen SEZ model is not being applied in Lao or Cambodian SEZs.

4.3.2 University, Skills & Production

From a long-term perspective stakeholders in Laos and Cambodia have articulated the need for a skilled worked force. However, in the short-term this is not seen by government officials, developers or investors as a top priority for the SEZs despite the fact that in Savannakhet and Phnom Penh universities are located near to the site. This gap between the short-term capacity and long-term

needs demonstrates that the authorities in South East Asian SEZs have yet to apply a fundamental component of the Chinese SEZ model. Authorities in Laos and Cambodia both indicated that their singular competitive advantage is in low wages. However, as globalization continues to shift resources and investment opportunities, low wages are not sustainable as a long-term driver of attracting investment. Additionally this does not give the SEZ the tools or resources to develop beyond its initial growth structure. In Shenzhen authorities recognized that the model for regional economic development would need to improve opportunities for individual workers as well as ensure that workers were capable of providing the skills demanded by investors. Local and central government authorities established a university soon after developing the SEZ to provide the on-site skilled labour which would eventually be demanded. Remaining ahead of the investor's demand curve continues to be the model for training Shenzhen's work force. This stands in marked contrast to the hesitation on the part of SEZ officials in Laos and Cambodia to realistically address the inevitable long-term demands.

4.3.3 Research & Development

Early on Shenzhen clearly recognized the need to attract investors interested in exploring and producing new technologies. Their tax incentive system is set up in such a way to subtly influence the proportion of resources that manufactures spend on R&D. The Shenzhen SEZ also actively works to attract domestic and overseas post-graduate students through stipends, funded research, guidance, and long-term investment opportunity. Neither Laos nor Cambodia have a policy in place (as of yet) to attract these types of investors, nor do they seem interested in pursuing it in the long-term. While Laos and Cambodia may ultimately choose not to expand in the R&D sector, the failure to include additional policy incentives to attract long-term growth sectors clearly shows that these SEZs are not relying on the Chinese SEZ model for economic growth.

4.3.4 Infrastructure

The Chinese model has relied heavily on a robust infrastructure network to support its export driven economy. The SEA SEZ models have clearly recognized this need, making it a central component of their respective investment models. The SEA SEZs have also strategically placed themselves on the North-South, East-West economic corridor which immediately integrates them into the ADB and FDI driven infrastructure networks. The SEA SEZs are linked to infrastructure via a large road network and unlike China do not have immediate access to a large ports system. They must transport their products to Da Nang, Vietnam or the yet to be developed port in Myanmar. The air fright infrastructure is still fairly limited and has yet to be embraced on a large scale. For the time being this will most likely remain the case as the central comparative advantage for the SEA SEZ's is their low-cost factors of production.

4.3.5 OSS

China's SEZ model integrates an active and comprehensive OSS centre. These centres are targeted at reducing the bureaucratic burden for companies to register and set up their plants. The SEA SEZ model has eagerly embraced the OSS component in the development of their SEZs. This may be due in part to the government's active involvement in the creation and development of SEZ. Their involvement in the SEZ facilities the registration process and gives them leverage when assisting manufacturers with the import/export process. However, the SEA SEZ office does not contribute to the governance of the SEZ, unlike the Chinese model. They do not collect local feedback on proposed development policies nor do they solicit opinion on the future development objectives of the SEZ.

4.3.6 Tax incentives

In Laos and Cambodia there are some indicators that SEZ authorities looked to the Chinese model for guidance on establishing incentive packages to attract FDI. FDI, which has been such a strong driver of growth in China with over $100 billion USD invested by foreigners as of October 2010 been be seen as key for promoting growth in the SEZs (Lin 2010). Generous tax incentives, which include lengthy tax holidays and reduced corporate tax rates in both Laos and Cambodia, indicate the governments in these contexts were responding to a similar tax incentive format established in China. However, in Shenzhen, while investors do receive incentives in these forms they are for extremely limited periods. The length of the tax holiday is contingent upon the scope and duration of work to be carried out by the investor. Thus China is able to collect tax revenue earlier in the initial investment period than its counterparts in Laos and Cambodia.

4.3.7 Conclusion

When China established the Shenzhen SEZ it recognized that it would initially need to make it an enclave of liberalization and experimentation. However, it also acknowledged that in order to be sustainable it had to promote growth beyond the short-term perspectives of local manufacturers. As a result it created a systemic economic growth model that subtly influenced the development of producers and the industries which were draw to their SEZs. The Chinese SEZ model has broken with the national "socialism with Chinese characteristics" model and embraced a liberalized economy with low taxes, focused on research and development, participatory governance and localized skills development.

SEA SEZs have recognized that the Chinese model is a strong economic growth tool and have embraced aspects of it, such as tax incentives, infrastructure and OSS. However it is there that the similarities stop. The SEA SEZ's have not come to accept or acknowledge that a systemic approach that fosters long-term and short-term growth in necessary to produce the strong spillover affects seen in China. The reasons for this are not conclusive but several factors such a low governance and institutional capacity; a short-term focus; and the need to attract investors may all contribute to the SEA SEZs partial acceptance of the Chinese SEZ model.

It remains to be seen what the long-term implications of this SEA SEZ model will have for the regions that have adopted it. However it is clear that for the time being local knowledge and skills development will be limited. Unless the SEZ authorities choose to influence SEZ development policy and integrate universities and training centres into the SEZs it is unlikely that much a spillover will occur in the SEZ. Instead we are more likely to see pockets of economic strength tied to the industries that are concentrated in the SEZs. Wealth and economic development will be limited to producers, whose actions and investment decisions will continue to drive the policies of the SEZ.

4.4 GMS SEZs are not achieving local development

The Chinese SEZ model offers a comparative analytical lens to look at the GMS SEZs. As the previous section highlighted, the GMS SEZ does not follow strictly the Chinese model; rather, the GMS SEZ is a loosely linked, dependent and disorganized mechanism through which economic growth and local development are sought. In the following section, the disconnected and non-uniform GMS SEZ structures are analysed from the perspective of economic growth and local development. It answers the question: are the 3 SEZs in question meeting their stated objectives? Further, it aims to highlight potential weaknesses in the GMS "Model" with regard to its ability to foster local development.

Finally, the section concludes the analysis by linking the structural weaknesses of GMS SEZs to the 3 C's adopted by ADB: Connectivity, Competitiveness and Community.

4.4.1 SEZ Objectives: Economic Growth & Local Development

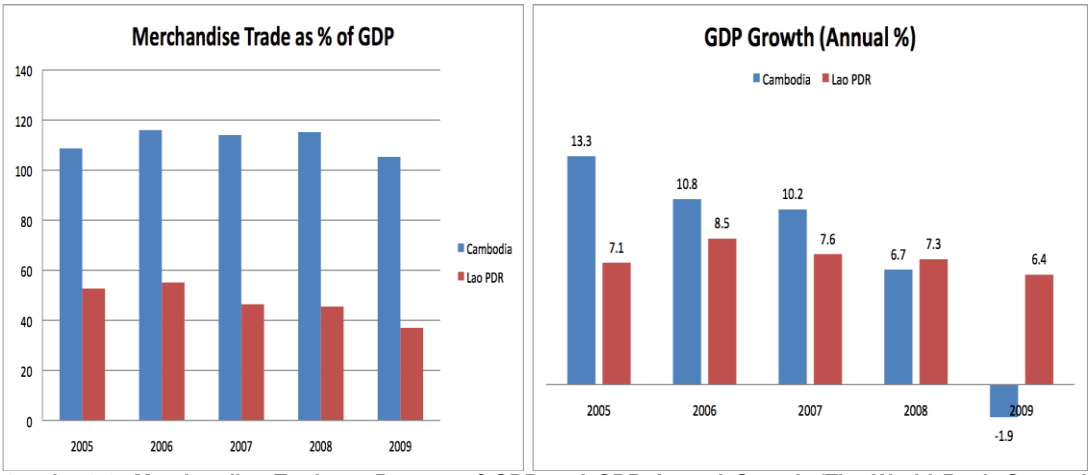
The strategic objectives of SEZs in the GMS are to stimulate economic growth and local development. This can be seen through the stated objectives by the respective government: the Laotian government established the Savan-SENO SEZ in 2003 with the mission to: "sustain high economic growth and to achieve MDGs aiming at exiting from the least developed country status by 2020" (Savan-SENO SEZ Office 2011); and the Royal Government of Cambodia established SEZs in order to "improve the investment climate conducive to the enhancement of productivity, competitiveness, national economic growth, and employment generation in order to reduce poverty (CDC 2010, 54).

4.4.2 Evidence of Economic Growth

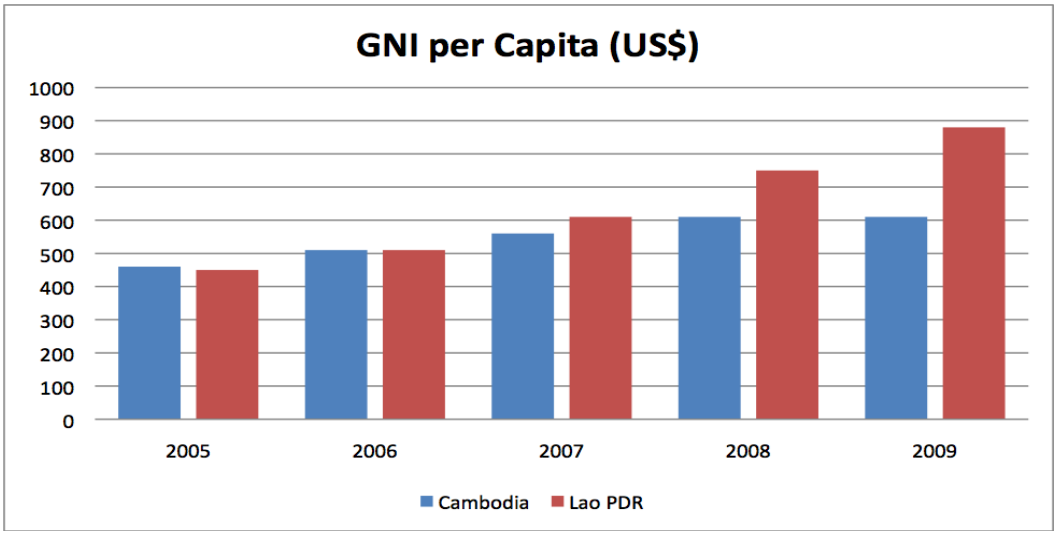
Through the case studies of Savannakhet, Manhattan and Phnom Penh SEZ, we find that SEZs are achieving economic growth without stimulating local development. Indicators of economic growth include:

- Increased production and output (GDP)
- Increased level of trade
- Increased GNI per capita

The graphs below of the aforementioned economic growth indicators evidence 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; Graph 3 shows the increase in GNI per capita over the past 5 years. As SEZs are a primary strategy for the government to increase GDP and trade, their impact is evident.



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 (refer to the graph in Section 3.5.1). 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.

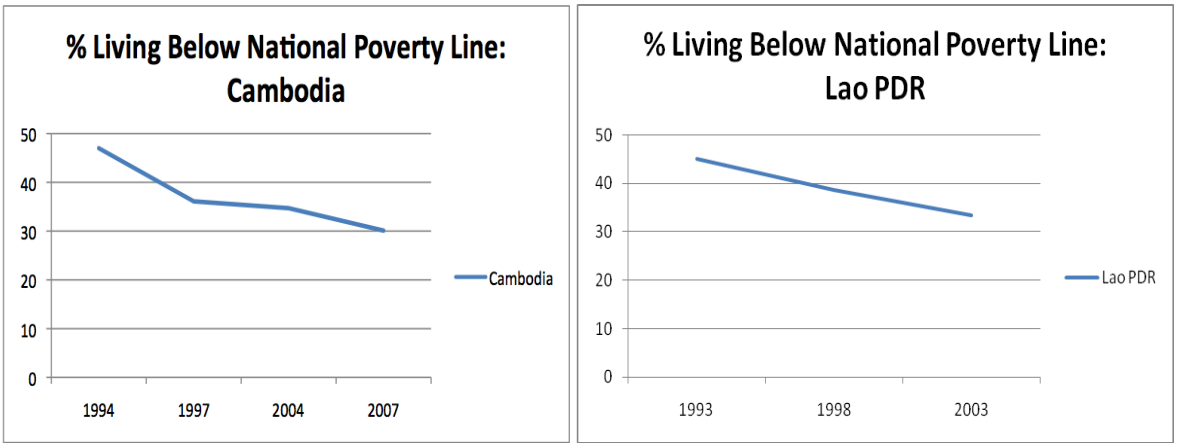
Third, the economic growth model fostered by the GMS SEZ model promotes unsustainable growth, in that it neglects the necessary parallel in human development. While some argue that economic growth is a precondition to human development, studies have also shown how human development and growth create a feedback loop, ensuring that growth is sustained. Ranis, Stewart and Ramirez (2000) demonstrate this relationship between economic growth and human development, stating "Our findings do not deny the importance of economic reforms, but emphasize that a focus on Human Development must be included from the beginning of any reform program. Economic growth itself will not be sustained unless preceded or accompanied by improvements in Human Development" (213). The complimentary policies driving human development are explored further in the following section, which examines whether the GMS SEZs are fostering local development.

4.4.3 Lack of Local Development

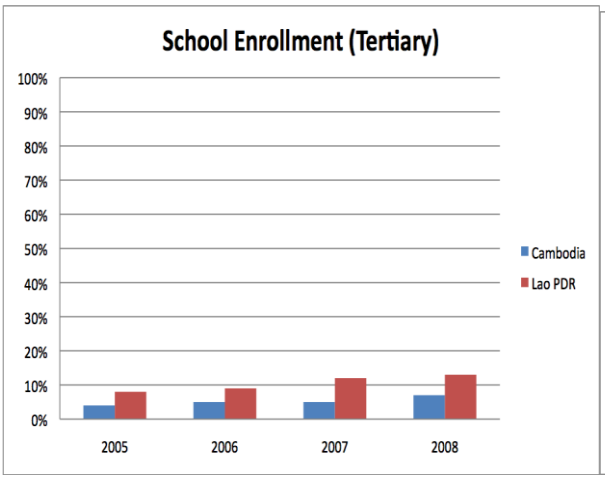
While growth in Laos and Cambodia has occurred over the past 10 years – Cambodia having seen a 9% average growth rate and Laos approximately 7.1% average from 2007-2009, the GMS-SEZ model is failing as a simultaneous driver of growth and local development (The World Bank Group 2011, "Open Data"). Although 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[14]. 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. According to the Human Development report, Human Development "is about creating an environment in which people can develop their full potential and lead productive, creative lives in accord with their needs and interests. Development is thus about expanding the choices people have to lead lives that they value. And it is thus about much more than economic growth, which is only a means —if a very important one —of enlarging people's choices" (UNDP 2011).

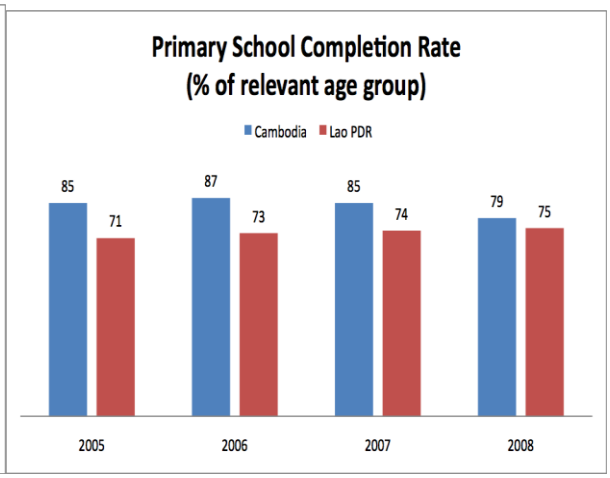
Before rejecting the hypothesis of the relationship between the GMS-SEZ model and local development, the evidence for local development is summarized. Both Laos and Cambodia have seen impressive improvements in the reach of education, poverty reduction and service provision over the past decade.



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 (The World Bank Group 2011, "Open Data")



Graph 8: Primary School Completion Rate, Laos & Cambodia

[14] The relationship between increased opportunities and development is elaborated by Amartya Sen in his book "Development as Freedom" (1999). Sen argues that individual's can escape poverty by realizing their inherent capabilities and gaining opportunity through freedom. Development as Freedom questions the narrow perspective of measuring development and poverty solely through incomes.

From the above graphs of development indicators, it is evident some progress has been made with regards to poverty reduction and 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 capacity development. In the 3 SEZs examined, the following weaknesses reduce their capacity to foster local development, as measured through infrastructure development, human development and poverty reduction.

4.4.4 The GMS SEZ Model presents Structural Issues to Foster Local Development

The following is a discussion of what is lacking in the GMS-SEZ model to facilitate local development. It is an analysis of the weaknesses of the SEZs, demonstrating that such weaknesses feed into a system which misses its objective of local development and produces an unsustainable system.

4.4.5 Governance and weak capacity to implement 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. Currently, the Laotian and Cambodian government appear to be supporting their country's comparative advantage (low labour costs) and not the common good. 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. 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*.

In order to ensure SEZs are drivers for both economic growth and local development, good governance practices must be developed. The effectiveness of SEZs is dependent on the government's ability to identify priority sectors and efficiently allocate expenditures as needed. Rajkumar and Swaroop (2002) find that "the effectiveness of public expenditure is conditional on the quality of governance, with government accountability likely to play an important role" (in Ranis 2004, 5). In the Laos and Cambodian examples, governments lack accountability to the population, and both countries have weak civil society traditions to demand government performance.

4.4.6 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 speaking with government representatives, we found that the SEZ development plan did not incorporate 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.

Education positively affects labour productivity, innovation and the rate of technological improvement (Ranis 2004, 6); all of which are critical components of economic growth and local development. According to Ranis, Stewart and Ramirez, "The education and skills of a developing country's labour force influence the nature of its factor endowment and consequently the composition of its trade" (2000, 202). Without complementary policies linking SEZ development to education systems and vocational training centres, the workforce will remain low-skill, which, in the long-run, will affect the type of sectors that invest in the SEZ and minimize the competitiveness of the industry. Further, an opportunity to develop local capacity and increase opportunities for local workers is overlooked, which is further explored in the following section.

Box 5. Addressing the gap in supply and demand

In speaking with a factory manager at Phnom Penh SEZ, we found that there was a shortage of high-skilled workers and an increasing demand for such workers. Both the factory manager and the Ministry of Labour representative stated they had no current relationship with the local university, nor did there appear to be plans to create such a relationship. The gap between supply and demand for high-skilled workers is recognized, however, it is not being addressed through the appropriate channels, such as education and/or vocational training policies.

4.4.7 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, we find 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, we did find that developers were beginning to meet and share knowledge in the form of an SEZ Developer Association. 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 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. F*irms 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.

4.4.8 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.

The need to develop infrastructure surrounding SEZs is essential not only to benefit local livelihoods and develop towns and cities, but it is also a factor of economic growth. An OECD study of the constraints to trade in developing countries found that the greatest barrier to trade is infrastructure. Within infrastructure, electricity reliability is the most significant binding constraint to trade and growth than other types of infrastructure, such as roads or telecommunications (Hallaert, Cavazos, and Kang 2011).[15]

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."

4.4.9 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 depending 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" (Myers and Watkins 2010 29).

4.4.10 Weak Governance

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 of creating and implementing policies directed towards harnessing local development opportunities through SEZ investment.

[15] See Annex 18, which contains an article discussing the demand for power in Cambodia.

4.5 Policy Implications

Special Economic Zones are themselves brought out of policy, and every policy corresponds to certain objectives. In speaking with government officials on the ground, there were two things we heard recurrently (a) we are not following the Chinese SEZ model and therefore its policy objectives and (b) we were never given a clear answer of the purpose of the SEZ vision beyond FDI and employment generation. Without going into a discussion on whether this response was indicative of a lack of awareness or vision, it is clear that the government officials we met, who were involved with the SEZ both in the OSS and central government offices, are not working towards something beyond their immediate job function. This is particularly worrying in that policy implications of SEZs go well beyond the zone itself, to both international markets and more importantly the host economy. Consequently it is important to understand the implications of Special Economic Zones through a policy perspective in order to draw out some of the necessary conditions to ensure the sustainability of the SEZs and their underlying objectives.

It has often been argued that SEZs may serve as a means to facilitate trade and financial liberalization, enhance resource utilization, and promote economic growth and structural stages (Ge, 1999). Given that for the most part the SEZ *incentives* in Laos and Cambodia seem to follow the Chinese Model, in spite of the fact that government representatives do not seem to agree and acknowledging that the *conditions* are not entirely the same between the two, there are perhaps important lessons to be drawn from the role of SEZs as drivers of both opening up the economy and, when managed properly, affecting the course of economic development.

4.5.1 Experimentation

SEZs provide the host economy the opportunity to experiment on a trial-and-error basis ways in which they can reform and open up their economy at a gradual pace. Like the Laotian and Cambodia economies we looked at, China was also a planned economy looking to open up. In the case of China, the establishment of the SEZs was one of the key ingredients of their policy package in promoting market-oriented and outward –looking measures in promoting economic development. As such, the SEZ can serve as both a window and an entry point for the host country towards these objectives. Given its isolation from the functioning of the larger host economy, measures that prove effective or successful in SEZs can then be extended to the rest of the economy.

4.5.2 Ownership

A crucial difference, between our SEZs and the SEZ model of China is the worrying reality that our SEZs are 100% foreign owned and do not have state owned enterprises or non-state domestic enterprises present in the zones; neither in joint partnership nor full presence. This could prove to be a crucial short sight in SEZ policy as this inhibits linkages and spillovers be they knowledge, technology, production, or network related, something that the previous section points out as a serious inhibitor of local development.

4.5.3 Sector Diversification

SEZs have also been considered generators of foreign direct investment and as such links them strongly to FDI policy objectives. Incentives of an SEZ, if they are flexible enough, can go so far as to garner attraction of specific sectors, implying that in the long run, incentives have an imperative strategic role to play in the expansion or reform of a country's host economy. The specialization of inputs, skills, knowledge and technology that are emitted through the backward linkages from SEZ to

host economy, are contingent on the characteristics within the SEZ itself. Sectoral Patterns certainly have an impact on the host economy and its vulnerability to external shocks, as we have seen to be the case with Cambodia's concentrated Garment Sector focus, something that they have learnt from and are consciously seeking to diversify. As regulations ease and become more transparent, flows of foreign capital respond accordingly to such initiatives.

4.5.4 Dynamic Policy Instrument

With regard to policy, it is essential to keep in mind that SEZ development has not one, but two phases: an initial construction phase and a subsequent expansion phase. As such it implies different areas of focus and therefore objectives and corresponding policy initiatives ought to change with the progress of the SEZ. It is important that from a policy perspective they are seen as a dynamic instrument towards changing objectives. For example, let us look at the case of employment to better illustrate the need for dynamism. In its initial phase, SEZs generate employment opportunities. With expansion, it is essential that the productivity gains are also on the rise, something that is facilitated by linkages such as knowledge and technology spillovers, labour skills upgrading and managerial skills. While one could place the SEZs we have visited in the construction phase, it will be important that policy makers are able to shape its progress as it transitions with time into a phase of expansion. Citing employment generation is certainly not the height of SEZ success. Furthermore, in order to remain competitive, in line with productivity gains, it is essential that there is a more efficiently utilization of natural, physical and human resources, something that is hard to cultivate when there is little coming from the domestic economy as inputs in the SEZs beyond a limited labour force.

In expansion, Chinese SEZs were made to be conduits of backward linkages such that a larger portion of raw materials, components parts and services of different sorts required for SEZ production were supplied by domestic providers. This facilitated a link not only with the host economy but also from the costal SEZ location points, the inland domestic providers. While it is still too early to have such expectations of Cambodia and Laos, it is essential that policy makers know when and how this must be tapped in to, as it will make the difference as to whether SEZs have fulfilled their purpose.

4.5.5 Linkages

SEZs are the departure point for both backward and forward linkages and make possible the access to foreign markets and trade networks whilst also enhancing structural reform within domestic enterprises, including state-owned ones as well. This in turn is interesting as it puts into question the role of government in society and the extent to which it might be redefined. In China, in releasing the burden of overstaffing and other social responsibilities that state-owned enterprises have long shouldered, society-wide welfare systems are developing in areas of medical care, pension, unemployment compensation and housing (Ge, 1999). This is of particular interest as it has brought on welfare reforms that were previously not on the agenda.

4.5.6 Overcoming Dilemma's in Economic Transition

In their article looking at Special Economic Zones as Catalysts for Transition, Litwack and Qian bring to a light an interesting point where the development of SEZs is seen as a response to what they call a central policy dilemma during economic transition: (1) political pressure to satisfy certain social expenditure requirements, and (2) the lack of institutions to constrain the state from expropriation (Litwack and Qian, 1998). According to their theory, the political constraint here implies the need for significant tax revenue in a period of transition. Due to the absence of development institutions

to constraint the state, if tax revenue is low, governments increase taxes ex post and depress incentives for restricting. Consequently, the creation of SEZs leads to resources for direct state investment, but also policies that affect the allocation of private domestic and foreign investment.

4.5.7 Underlying Policy Implications

The underlying point at hand is that there are several policy implications with regards to the development of SEZs that speak not just to the successful achievement of their intended objectives, but also to the sustainability of the SEZs themselves.

1. SEZ incentive packages require a comprehensive strategy to make the investment environment favourable. This means infrastructure upgrade, legal framework development and even changes in government behaviour. Relying on low cost labour and tax incentives as Ge points out, is not sufficient to attract long term FDI, nor sustain comparative advantage.

2. Comparative Advantage as a notion is a dynamic concept and should be treated as such with strategy and policies adjusting to internal and external conditions and demands. Linkages and dynamism, both forward and backward, are essential for structural upgrading.

3. Backward linkages need to be established, monitored and strengthened. As an SEZ model in the longer term can bring about concentration problems without sufficient policy management; regional gaps must be addressed.

4. SEZs and a gradual move towards economic liberalisation is not the end but a means to economic development. It is essential that strategic policy take into account unintended consequences and ensure that economic, social and political costs do not outweigh benefits.

4.5.8 Relevance of Policy Perspectives

Laos and Cambodia are not China, they certainly do not claim to be following the Chinese SEZ Model of Growth and Reform, and finally they are still in the very early stages of their growth and development paths. However, the purpose of this discussion has been to highlight the possible driving roles that SEZs can play, with particular attention to the necessary strategic policies that can channel a trajectory similar to that of China (considered to be a successful one), or at the very least understand the policy implications of an SEZ. They are not as stand-alone as one might think, and they certainly ought not to be. The policy implications of the SEZ tie into the likelihood of their sustainability and the objectives which underlie them.

4.6 Drawing Lessons from the 3 Case Studies

4.6.1 What do they demonstrate about Regional Integration & Local Development?

The 3 case studies developed above, and the subsequent analyses, have questioned the relationships between infrastructure and regional integration; between models and their practical applications and between economic growth and local development. We began the study by setting out the theory behind regional integration through hard infrastructure development and have shown that in the case of the 3 GMS SEZs, infrastructure does not necessarily lead to further integration or to further institutionalization of Economic Corridors, to be specific. We have raised questions of the long-term viability of hard infrastructure to support integration efforts if the

complementary 'soft aspects' are not addressed, if Political-Cultural Barriers are not reduced and if political will does not exist on a national and local level to move further towards integration.

Following this, we drew from the Chinese growth and development SEZ model, using this trajectory to determine whether the GMS SEZs were attempting to imitate the Chinese model, and questioning whether such a model is applicable in the GMS context. The hypothesis that GMS SEZs are following the Chinese model has been rejected on the grounds that the governance structures and objectives of the GMS SEZs are not aligned with the Chinese model. A caveat to this, however, is the fact that the 3 SEZs in our study are in relatively early stages of development: in Laos, the SEZ is still under construction; in Bavet, the SEZ has a number of firms operating, but is still developing infrastructure and land; in Phnom Penh (the most developed) is larger and more operational, but still developing service and commercial areas. Therefore, further studies should be made on these SEZs as they grow.

In theory, Special Economic Zones can be a model for economic growth and development (as seen through the Chinese case), but we do not find this to be the case in the GMS context. Southeast Asian SEZ development is a particular kind of development comprised of loose-coupled relationships and regulations, disconnected institutions and hard infrastructure without the softer components. The lack of local development surrounding the 3 SEZs was seen through the lack of education systems linked to SEZ employment, the lack of infrastructure development in the territories surrounding SEZs and the lack of coherence between employment, capacity development and industrial policy.

The failure for GMS SEZs to act as a model for local development and a driver of regional integration led to a discussion on the coherence and nature of public policies directed towards SEZs. The lessons drawn from the case studies are as follows:

- Lack of policy coherence between national and local governments and between regional (ADB, GMS) and national objectives
- Lack of clear link between infrastructures and economic development
- Incentives are not systemically implemented and actors rely on informal regulatory networks
- Growth is achieved without human development
- Industrial activity and job creation is highly dependent on foreign markets

4.6.2 The 3 Cs – Where do they stand?

GMS countries are interested in benefiting from the hard infrastructure and transport corridors created by the ADB and the ADB has been successfully in implementing the hard components, such as roads and ports. The 3 Cs, however, remain un-met without the softer components in place. The 3 Cs as an objective is highly systematic, but it is implemented in a non-systemic way. The failure to move forward with implementing the CBTA is evidence of the political and cultural power barriers that remain to be broken down. Connectivity is achieved to some extent, but could go much further. With regard to competitiveness, the GMS region remains competitive in terms of wages and labour costs, but long-term competitiveness must be fostered through clustering and diversification; reliance on low labour costs is not a viable long-term strategy. Finally, the pillar of Community is passively pursued by the ADB and GMS Programs. With regard to the SEZs, communities are only receiving employment opportunities and the impact ends there. We find that the unwillingness to

truly overlook national and local interest in order to grasp regional goals hinders the 3 Cs and, in turn, ADB runs the risk of operating infrastructure development without integration.

4.6.3 Looking forward: Implications and Suggestions for Future Studies

This study has provided a detailed account of 3 SEZs in Laos and Cambodia and highlighted the interests, objectives and means of various stakeholders towards local development and regional integration. The GMS SEZs are a particular case in that they do not follow a particular model, as each SEZ benefits from loose networks of firms and government officials and fluid government regulations. Further research must be done on the economic viability of the SEZs, as – in their nascent stages – they risk fostering dependent economic growth. Additional research should also be done into other SEZs in the GMS region, such as those in Thailand, the Chinese provinces and others in Cambodia. In order to gain a deeper understanding of the impact of SEZs on the individual, further work should be done on the impact on workers and the surrounding communities.

While this study has highlighted the instability and risks associated with the 3 GMS SEZs studied, we recognize that there are efforts to implement programs that will improve upon the weaknesses highlighted by this report. Currently, the GMS Program is requesting funding to develop human resources, a major obstacle to implementing the CBTA agreement. Also, great progress has been made with regard to port logistics and the impact of port SEZs will likely play a larger role in regional integration and growth in the near future. SEZs *can* facilitate regional integration and local growth and development, but in the GMS cases we have looked at they *do not*. While progress has been slow and limited, the SEZs this report is concerned with are still at their early stages, which mean that there is still time for evaluation to provide a feedback platform that informs a more strategic approach to SEZ policy going forward.

About the Capstone Team

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