

Role of Special Economic Zones (SEZ) in Regional of Development of Thailand

*Dr.Arun Chainit

**Asst.Prof.Dr.Nakamon Punchakhetthikul

Introduction

At the end of last year the ASEAN Economic Community (AEC) became effective, with the aim at trade and customs de-regulation among its members. There are high hopes to make the region a global single market and common production base for investors. Because of this there has been a tremendous effort to face-lift the regions connectivity to support its trade and investment success. One of the example enhancements is the Logistics infrastructure that will inter-connect the Greater Mekong Sub-region (GMS)'s Economic Corridors under the ASIAN Development Bank. So far the budget for this initiative has been approved for around US \$30 Billion under the five-year investment framework implementation plan (2014-2018). This budget has largely been poured into the transport sector. Therefore, the AEC will not only provide a huge market opportunity, but also its members' breadth and depth of products and services should prove to be more diverse and competitive—and poised to gain more distributed market share in the global market. The total merchandise export volume from the emerging ASEAN continent countries alone has already exceeded US \$400 Billion in 2014. From an industry standpoint, according to the survey taken by the U.S. Chamber of Commerce, most of the American firms are very optimistic about the profit outlook in ASEAN. Around 66% of 2015 respondents cite that ASEAN markets will become more important for their worldwide revenues over the next two years and 80% believe that their companies' level of trade and investment within the region will be increased significantly by 2020.

Thai Government pays attention on border areas with neighboring countries to improve trades and investment, quality of life of people in the area, and preparing for AEC integration. The Special Economic Zones in 10 locations in 10 different provinces will be established and can be detailed into 2 phases as the following. Phase 1: There are 6 provinces - Tak, Nong Khai, Mukdahan, Sa Kaeo, Trad, and Nong Khai Phase 2: There are 4 provinces – Narathiwat, Chiang Rai, Nakhon Phanom, and Kanchanaburi in order to have the SEZs development successful, government introduces several measures to improve infrastructures, incentives (tax and non-tax), One-Stop-Service Centers, foreign labor regulations and so on.

Developing the Industrial Estates in SEZs

The industrial estates are the fundamental facility for business operators in manufacturing and services, promoting the expansion on economic in Special Economic Zone is assigned by the government to develop its industrial estates in SEZs, which can be summarized into 2 phases.

Phase 1: There are 6 provinces - Tak, Nong Khai, Mukdahan, Sa Kaeo, Trad, and Nong Khai

Phase 2: There are 4 provinces – Narathiwat, Chiang Rai, Nakhon Phanom, and Kanchanaburi

The industrial estates in 6 provinces in phase 1 will start the development in 2018 and can be operated in 2019. See attachment for details.

Thailand Special Economic Development Zones and its Impact on Real Estate Industry In reference to the Thailand Government's policy to develop border areas, by connecting those areas to neighboring ASEAN countries, to improve the quality of life by promoting trade and investment and most importantly to prepare corridors of development to efficiently connect the ASEAN Economic Community (AEC) member countries. Initially 10 Special Economic Zones were planned to be established in Tak, Sa Kaeo, Trat, Mukdahan, Songkhla, Chiang Rai, Nong Khai, Nakhon Phanom, Kanchanaburi, and Narathiwat. The Government is going to support all the strivings and promote the whole set of projects to bring it to its optimum level of feasibility and productivity mainly by developing basic infrastructure, including tax and non-tax incentives, setting up One Stop Service Center (OSS) and other facilitating measures.

Strategic Location of These Economic Zones

The Special Economic Development Zones (SEZ) is in border areas contiguous to Myanmar, at Kanchanaburi, the People's Republic of Laos, at Chiang Rai, Mukdahan Nong Khai and Nakhon

*Lecturer Department of Public Administration, Phranakhon Rajabhat University, Bangkhen, Bangkok, Thailand

**Lecturer Department of Development Strategy(Ph.D.Program) Graduate School of Phranakhon Rajabhat University, Bangkhen, Bangkok, Thailand

Phanom, Cambodia at Sa Kaeo, and Malaysia at Songkhla and Narathiwat. In the past 5 years (2011-2015), the trade value between Thailand and the four abovementioned countries has grown continuously to an average of 900,000+ million Baht, and will continue to grow, due to the AEC. At present, distribution centers and labor intensive industries are beginning to take interest in investing in these countries in order to access labor and to distribute goods to neighboring countries conveniently, as well as import goods, including raw materials or parts, from neighboring countries to Thailand.

Importance of These Special Economic Development Zones

The importance of these Special Economic Zones has a very vital role in the overall development of Thailand. It gives Thailand a geographically strong position in the Southeast Asian region by directly connecting Thailand to its developing neighbor countries. These economic zones will guarantee the infrastructural betterment and growth of the undeveloped rural areas by industrializing new areas of Thailand which will ultimately result in economic prosperity of people. Rural area will become more connected to major cities like Bangkok, Phuket, Pattaya, Chiangmai, Surat Thani etc. Strong communication and transportation among economically developed zones for sure will attract investors not only from within the country but also cross border investments will come to Thailand. Most certain development expected are in the businesses of cars, smart electronics, medical and wellness tourism, agriculture and biotechnology, food, robotics for industry, logistics and aviation, biofuels and biochemical, digital and medical. This industrial development will trigger the rise in land prices because of the demand for new industrial and commercial property.

Recently according to an article published in Bangkok post, it says that the Industrial Estate Authority of Thailand (IEAT) says it sold 1,750 rai of developed land in the first half and expects better sales in the second half, crediting the government's policy to support special economic zones (SEZs). First-half sales were well above the target of 1,500 rai, said IEAT governor Verapong Chaiperm. The rise in land sales was due to the government's policy to support SEZs and the plan to promote targeted industries. Several privileges offered by the Board of Investment (BOI) helped attract buyers seeking land for expansion and investment. In short SEZs have contributed a good sum to the overall nation's economy and these are the reasons that in spite of political unrest and military interventions in state affairs still tourists are extravagantly spending their resources to come to Thailand and are exploring all the major tourist destinations of country starting from Bangkok. This livelihood of tourism and foreign investment is constantly adding value to Real Estate industry of Thailand.

Thailand special economic zones as one of flagship policies of the current government. Agendas of discussion extracted from on-going research projects specifically focus on the Thai Special Economic Zones (SEZs) launched by the military government. These sets of research projects are part of the consortium of four universities formed to embark on borderland studies funded by Thailand Research Fund (TRF). The panel argues that the Thai SEZ project has been conceived for some period of times before it becomes materialized by the post-coup government equipped with exceptional power to push forward this controversial policy. On one hand, SEZ is seen as an extra economic policy and mechanism driven by the forces of neoliberalism to stimulate investment and economic growth. On the other hand, it is viewed as a spatial technology of government of a neoliberal state to tackle multi-facet challenges of development conundrum in the emerging regional integration to cushion impacts of competitive globalization. A range of issues echoing from different sites and scales have testified the contradictions and disjunction's of development projects being put in place in different localities.

Globalization is an essential power that drives both global economy and politics in the western world direction of development. Although, in theory, the words "Globalization" and "development" are still controversial, obvious effects of such phenomena are how the world are connecting, the widespread of capitalization both in production and marketing aspects, free movements of goods, services, capitals, information and human resources. (Dirlik, 2016) Therefore, globalization has become a factor which supports development processes supporting people with low income. Moreover, it can be said that the development of economy and business thus happened under the context of international systems in which globalization, as a catalyst for multinational conditions, is pushing countries to open for the internationalization.

Thailand's Board of Investment (BOI) estimates that in 2015, 20-25 percent of Thailand's exports were accounted for by border trade. The BOI identifies 13 Thai industries that benefit from SEZs: agriculture; ceramics; autos; electronics; plastics; gems; furniture; textiles; medical equipment; pharmaceuticals;

logistics; tourism; and industrial estates. Companies in target industries will receive an eight-year tax exemption; import duty exemptions on machinery and raw materials; double deductions on transportation costs; cheap electricity and water for 10 years; a 25 percent deduction for facilities construction; faster licensing and permit issuance; improved infrastructure and customs services within the SEZ, and other non-tax incentives. Perhaps the biggest incentive is the exclusive right to use unskilled foreign labour as the Thai workforce is in decline. Because of inadequate infrastructure in the SEZs, the government approved infrastructure development plans for SEZs that saw 2.6 billion baht expended on 45 projects in 2015 and another 79 projects, worth 7.9 billion baht, to be completed in 2016. In July 2014, the government approved initial SEZ development covering the five border areas: 1) Mae Sot district, Tak 2) Aranyaprathet, Sa Kaew 3) Khlong Yai, Trat 4) Mueang, Mukdahan, and 5) Sadao, Songkhla (Sadao and Padang Besar checkpoints) The main objectives of this development are to attract foreign direct investment (FDI), generate employment, improve living conditions through income distribution, improve border area security, and enhance Thailand's competitiveness to prepare for entry into the impending AEC in 2015. Moreover, SEZ establishment will also help tackle the smuggling of migrant workers and goods from neighboring countries. The five pilot areas, which cover the total area of 1.83 million rai or 2,932 sq. km., have great potential for border trade expansion due to their existing production-based business activities, infrastructure, and labor abundance. These areas also have geographical advantages as they are not prone to natural disasters and have sound international security records.

The BOI supports the government's SEZ policy providing incentives in strategic industries that will be located in SEZs. Investment projects in designated SEZ developments will be eligible for BOI's new investment promotion privileges, including the maximum privilege of 8-year corporate income tax exemption and a 50% reduction of corporate income tax for extra five years after the corporate income tax exemption period expires (Figure 2). Even though the BOI places more emphasis on high tech projects involving research & development (R&D), innovation, and value creation, but labor-intensive projects located within the promoted SEZ will also be eligible for privileges as specified by the SEZ Policy Committee. EIC expects that projects that will be promoted are based on each of the SEZs' economic viability, such as, textiles, processed agricultural products, furniture, tourism, and other businesses related to border trade, such as warehouses, logistics, and industrial estates.

On 15 December 2014, the SEZ Policy Committee has not announced the list of businesses eligible for the maximum investment promotional privileges in the promoted SEZs. However, other than an 8-year corporate income tax exemption and a 50% reduction of corporate income tax for extra five years, investors can also enjoy other tax benefits including a double deduction for transportation, electricity, and water utility costs; deduction from net profit of 25% of the project's infrastructure installation; exemption of import duty on machinery; exemption of import duty on raw materials used in manufacturing for export products; and low-skilled immigrant worker employment. Benefits also include other non-tax incentives, such as permission to own land for foreign investors and permission to employ for eigexperts.

In addition, projects that are not listed under the SEZ Policy Committee's promoted businesses but located in a designated SEZ will be eligible for additional benefits, which are a 3-year corporate income tax exemption that shall not exceed 8 years in total. If the project is already given an 8-year corporate income tax exemption, it will then qualify for a 50% reduction in corporate income tax for extra five years in addition to all the benefits mentioned earlier. It is expected that the list of criteria eligible for investment promotion in each SEZ will be announced in January 2015, which will give investors a better picture of the investment promotion policy.

EIC expects Mae Sot, Aranyaprathet, and Sadao to be the three leading pilot areas with great potential for development and sustainable growth. These three areas have better infrastructure, manufacturing activities, and trade portfolios in place compared to other areas. In 2013, the value of total border trade in these three areas was nearly 600 billion Baht, accounting for about 65% of Thailand's total border trade. Mae Sot, in particular, is the most readiness area for SEZ implementation to support high labor-intensive industries, warehouses, distribution centers, and logistics projects. Feasibility studies into SEZ development ahead of the current policy reveal that Mae Sot has long been prepared for future expansion. In addition, Mae Sot is a vital gateway bringing trade, investment, and tourism to Yangon in Myanmar. It is also a manufacturing base for the Myawaddy SEZ in Myanmar, located just 10 kilometers

away. There is a great possibility for establishing parallel projects with SEZ projects in Myanmar that will help enhance bilateral trade and investment.

In terms of work force, Mae Sot is a destination for low-skilled workers from Myanmar. These workers will be essential for labor-intensive industries, such as textiles, apparel, and leatherwear. Geographically, Mae Sot also benefits from being on the west side of the East West Economic Corridor (EWEC), with great potential for warehouse, distribution center, and logistics industries. EIC sees these activities as interesting and having positive growth potential. As for Aranyaprathet, the area also has a great potential as a labor-intensive manufacturing base and other businesses such as wholesale and retail trade centers, transportation, and international warehouses. Like Mae Sot, Aranyaprathet benefits geographically from being on the east side of the Southern Economic Corridor (SEC), with a connecting route to the Poipet O'Neang SEZ (POSEZ) and the Sisopon industrial estate in Cambodia. In addition, Aranyaprathet has access to the sea via seaports in Vietnam. These factors are vital for the transportation and international warehouse industries. Regarding work force; workers from Cambodia are suitable for the textile and apparel industries and the manufacture of processed agricultural products along the Cambodia border. This will also help enhance exports for Cambodia and Thailand, especially for cassava, as Thailand can add value by importing cassava from Cambodia to further process into tapioca chip and starch for re-exporting. Another plus side of Aranyaprathet is that it is an active trading center, especially Rong Gluea Market. During the past five years, border trade in Aranyaprathet grew by 28% with a trade value worth almost 60 billion Baht last year. Sadao is a suitable location for the manufacture of agricultural by-products, especially rubber and seafood. It also has potential to be a trading center and a major gateway for exports to Malaysia, Singapore, and Indonesia. The fact that Sadao is located close to Penang port, Central Port, heavy-duty industrial sites, Halal industrial sites, and rubber industrial sites in Malaysia will help expand Thailand's exports of primary processed natural rubbers, such as rubber gloves, tires, and auto parts to Malaysia.

Thailand's three leading pilot areas have greater investment promotion privileges and infrastructure readiness for attracting FDI compared with SEZs in neighboring countries; Myanmar, Cambodia, and Malaysia. Cambodia appears to have a similar level of investment promotion privileges as Thailand's. Eligible projects in Cambodia will be granted a 9-year corporate income tax exemption, exemption of import duty on raw materials, and permission to own land for up to 99 years. These privileges are similar to Thai policy, putting Cambodia into a state of rivalry with Aranyaprathet district in Sa Kaew. However, infrastructure in Thailand is in considerably better condition, such as utilities (electricity and water), road conditions, and transportation routes. EIC therefore expects that Thailand will perform better in attracting FDI than Cambodia.

Nevertheless, one of the drawbacks that can hinder foreign investment is the acquiring of affordable land. The price of the land has sky-rocketed since the announcement of SEZ locations. Mae Sot, for example, has seen the price of land increase up to five times and it continues to rise. Investors could feel discouraged, as high land prices might affect the investments' viability. In order for a SEZ to achieve its goals, it is advised to encourage infrastructure development for regional connectivity, and truly integrated one-stop services at checkpoints to support impending trade and investment expansion effectively. Investment promotion privileges for SEZs will bring more traffic, footfalls, transportation, and communication activities to these areas, so it is vital to have infrastructure in place beforehand. Transportation development will become essential, such as expanding roads from three to four lanes on routes heading toward border areas, the construction of a motorway route from Hat Yai to Sadao, the construction of double-track railways from designated SEZs to ports near lorry stopover points, and the expansion of Mae Sot airport. In addition, electricity, water supply, and communications utilities in each province must be sufficient to catch up with rapid economic growth in border areas. Because the investment promotion privilege policy emphasizes in labor-intensive industries, to achieve its purpose, the government plans to implement a one-stop service to help facilitate the employment of immigrant workers in border areas. Strategies include the use of smart cards at immigration checkpoints to monitor immigrant workers on a daily basis, and the introduction of health insurance card as a part of healthcare services for immigrant workers. Having all the infrastructure and systems in place will help boost confidence and attract investors.



Completed 8 SEZs with the total area of around 26,055 acres with the aim to add another 13 areas within 2020. The majority of the investors are coming from China, Vietnam and Thailand to set-up operations however the set-up plan for Thailand has been a big step and brought high hopes for the country to move forward in order to stimulate and strengthen its economy during the region's economic integration. The Ministry of Commerce has cited that once the SEZs are ready, the cross border trade, which accounts for around 10% of the total trade volume of the country, will be significantly increased by 50%, bringing its figure to reach THB 1.5 Trillion in years to come.

References

1. Ann Fenwick, Evaluating China 's Special Economic Zones, Berkeley Journal of International Law, Vol. 2, Issue 2 Fall, Article 7, PP. 3, Public
2. URL: <http://scholarship.law.berkeley.edu/cgi/viewcontent.cgi?article=1025&context=bjil>
3. Charin Hansuebsai. (2013), Story from Senator: Mae Sod Special Economic Zone. Retrieved 1 June, 2016 from Website: <http://www.senate.go.th/w3c/senate/pictures/comm/warasarn/feb.pdf>
4. Chartrot Summawattana. (2014), Thailand Border Trade Handicap: Border Special Economic Zone. Retrieved April 20, 2016 from Website: bts.dft.go.th/btsc/files/Documentanalysiselse/4.pdf
5. Department of Export Promotion. (2011), Trade and Investment Manual. Department of Export Promotion, Bangkok: Ministry of Commerce, Thailand.
6. Kanokwan Jongjareanying yong, (2006), Human Community and Economics. Interdisciplinary Study. Lampang: Thamasart University.
7. Meechai Ruchupan Legal Company. (2004), Special Economic Zone Project Management: AnExecutive Summary. Retrieved July 10, 2016, from Website: www.nakhonmaesotcity.go.th.
8. Walsh, John, "Moving beyond Factory Asia in the Mekong Region," paper presented at Thea PISA Conference, Chiang Mai (December, 2014).
9. Sarwade, Walmik Kachru. "A Study of History of Buddhism and its Contribution to Indian Culture." Journal of International Buddhist Studies (JIBS) 6.1 (2015): 35-44
10. Sarwade, D. W. (2015). Industrialization, Vision 2020 and Economic Development of Aurangabad Region of Maharashtra State.
11. Sarwade, W. K., & SB, M. G. (2013). A Study Green Marketing Initiatives by Corporate Sector. Excel Journal of Engineering Technology and Management Science, 1(3).
12. Dr.M.A.Raffey (2011) "New Techniques in Human Resource Management And development" Indian journal of Management Review, Vol.1, No.3, April 2011:32-34
13. Dr.M.A.Raffey (2011) " Impact of globalization on contract marketing" globalization and its impact on agricultural,: 98-100
14. Dr.M.A.Raffey (2011) & hamed Hashmi "CRM- A boon in Insurance" a WTO and Restructure of Co-operatives: 192-194.

#####