

Opportunities and Challenges: Prospects for Mukdahan Special Economic Zone

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Abstract

The government is accelerating the development of Special Economic Zones (SEZs) policy for region-wide development in cooperation with the neighboring countries. This paper aims to consider the opportunities and challenges of the government's policy on Thailand's Special Economic Zones (SEZs) in order to provide clearer view of situations in those areas to the policy makers, investors or people who are interested in this policy. This paper referred to the special economic zone in Mukdahan located on the East-West Economic Corridor (EWEC). The findings showed that the second Mekong friendship bridge in Mukdahan offers the biggest opportunity of Mukdahan to develop its Special Economic Zone; however, logistics facilities are needed. Mukdahan's economy mainly relies on border trade not industry. Furthermore, the small size of land and lack of infrastructure in Mukdahan Special Economic Zone remain the major challenges for Mukdahan to attract investors. The message is clear from the analysis of interviews that it will be a long way for Mukdahan to develop its Special Economic Zone, while activities concerning logistics development might be the right direction for Mukdahan to go. It is recommended that policy makers or policy analysts take into account the uniqueness of each special economic zones in terms of its economic activities and its feasibility and potentials as viable SEZ along with both internal and external factors.

Keywords: special economic zones, Mukdahan, East-West Economic Corridor

■ Introduction

Thailand borders on Myanmar, Lao PDR, Cambodia, and Malaysia; historically it has been involved in many border conflicts and issues. Since the late 1980s, Thai leader intended to transform Indochina from a "battlefield into a marketplace" and turn Thailand into a regional commercial hub. Thailand has had a policy to develop region-wide in cooperation with the neighboring countries that are in compliance with the movement towards openness of market economies in Indochina. The Thai government's policy on the establishment of Special Economic Zones (SEZs) has been launched since January 2015. SEZs are located in border areas. At present, there are 10 SEZs located in the following provinces: Tak, Sa Kaeo, Trat, Mukdahan, Songkhla, Chiang Rai, Nong Khai, Nakhon Phanom, Kanchanaburi, and Narathiwat (The Government Public Relations Department, 2015). In 2014 the government launched a pilot project to set up six special economic

zones in five provinces, namely Tak, Mukdahan, Sa Kaeo, Songkhla, and Trat. In the second phase, which already begun in 2016, seven special economic zones were established in another five provinces—Chiang Rai, Kanchanaburi, Nong Khai, Nakhon Phanom, and Narathiwat. This paper aims to analyze Thailand's special economic zones (SEZs) by attempting to find out opportunities and challenges, in this paper will focus on special economic zone in Mukdahan where located on East-West Economic Corridor (EWEC).

Mukdahan is one of northeastern provinces of Thailand. Mukdahan is Thailand-Lao PDR border province which so-called the border gateway in which the second Mekong friendship bridge is located. Across the Mekong River is Savannakhet which is the second-biggest city in Lao PDR at 1.2 million in population, with growing industrial development in copper, gold and potash mines. Moreover, Mukdahan might be able to joint with the Savan-Seno Special

Economic Zone (Lao PDR) which has investment from various foreign countries i.e. factory producing camera parts (Nikon) and factory producing aircraft seats and equipment (Aeroworks). These are the reasons why the author focus on special economic zones in Mukdahan.

■ The Objective of the study

The general purpose of this paper is to consider the opportunities and challenges of the Government's policy on Thailand's Special Economic Zones (SEZs). As for the specific purpose is to provide clearer view of special economic zones to the policy makers, the investors or people who are interested in this policy, in this paper referred to special economic zone in Mukdahan where located on East-West Economic Corridor (EWEC).

■ Definitions

1. *Thailand's Special Economic Zones (SEZs)*

The government's policy to develop border areas, which connect to neighboring ASEAN countries. Projects investing in the special economic development zones will receive government support which under the Office of the Board of Investment (BOI) under the Ministry of Finance measurement.

2. *The East-West Economic Corridor (EWEC)*

According to Asian Development Bank (2010) the East-West Economic Corridor (EWEC) as one of the flagship initiatives of the Greater Mekong Sub-region (GMS). The route start from Mawlamyine, gateway to the Indian Ocean in Myanmar, connected to Phitsanulok in the lower north region of Thailand as an Indochina cross-road with the North-South Economic Corridor (NSEC). The EWEC then connects to Khon Kaen which has been set as logistics hub, and links to the border gateway Mukdahan, a Thailand-Lao PDR border province, then passes to Hue, Quang Tri which is position as a tourist hub, and ends up at Danang the gateway to the South China Sea.

■ Collection of data and evidences

Data collection for this paper is obtained through literature review from secondary data sources and a qualitative method were employed as the main instruments. Most authoritative sources have been used e.g. Asian Development Bank (ADB), The Thai Board of Investment (BOI), The Institute of Developing Economies (IDE), JETRO, and Commission reports. The entire sources were listed in reference section. A qualitative method by in-depth interview and field trip survey were used. In order to achieve certain purposes and to improve validity and reliability of data the interview, observation and peer debriefing were employed. The researcher conducted semi-structured and unstructured interviews with key informants, namely, the Secretary-General of Mukdahan Chamber of Commerce, the Academician of Mukdahan Provincial Industry Office, the Treasurer of Mukdahan Provincial Treasury Office, and the Assistant Director-General of the Real Estate Information Center Government Housing Bank.

In July 2016, in-depth interview and field trip survey were conducted in Bangkok and Mukdahan as well as field trip survey in Savan-Seno Special Economic Zone (Lao PDR). The in-depth interview has been employed with four key informants; the Secretary-General of Mukdahan Chamber of Commerce, the Academician of Mukdahan Provincial Industry Office, the Treasurer of Mukdahan Provincial Treasury Office, and the Assistant Director-General of the Real Estate Information Center Government Housing Bank. The interview started with identifying its purposes, which were in line with the study's objectives. Once the purposes of the interview were clarified, an interview guide was designed to assist the interviewer during the interview process. It consisted of questions that kept an interviewer on track and helped to maintain consistency across the interviews with the different respondents. All interviewees were formally notified in advance before the interview. After interviews were completed, the information from the interview

was classified and analyzed to support of the study's objectives.

■■ Literature Review

1. *Overview of border provinces in Thailand*

Thailand is located in the center of Southeast Asia and borders with Myanmar in the north, the northwest, and the west, with Lao PDR in the north and the northeast, with Cambodia in the southeast, and with Malaysia in the south. The total length of the borders is 4,863 km (1,800 km with Myanmar, 1,754 km with Lao PDR, 803 km with Cambodia, and 506 km with Malaysia). The borders with Myanmar and Laos in the north and the northwest run mostly along the Mekong River, and the Mekong River flows out of Yunnan Province, China, in the north. Thailand also borders partly on Myanmar, divided by the Salawin River in Mae Hong Son. Part of the border with Myanmar is also defined by the Moei River in Tak Province in the west. Since borders are defined by rivers in many places, the building of bridges has been a significant challenge, and environmental destruction due to the building of dams has become problematic. In the northeast and the south, Thailand has land borders with Cambodia and Malaysia.

2. *Overview of trade and investment in neighboring countries*

In the wake of economic globalization and economic development in Thailand, there is an increased amount of comings and goings in the Thai border areas. In particular, many migrant workers from neighboring countries are flowing in. In terms of goods, the economic interdependence between Thailand and its neighboring countries is growing stronger because most of the trade with each neighboring country is trade through border customhouses, or so-called border trade (Tsuneishi, 2008). At the same time, Thailand is trying to stimulate investment in neighboring countries and making it a policy to utilize the raw materials and labor of neighboring countries in the

vicinities of borders, in particular by developing border economic zones. Since October 2015-February 2016 the total value of the border trade in Mukdahan was 49,213 Million baht. Import value was 27,087 million baht from pure copper, electricity energy, processor, motor and electric devices, and plastic bucket. Export value was 22,125 Million baht from hard disc, printing circuit tank (maximum content 300 liters), fuel, and camera devices. The first quarter of 2016 the total value of the border trade in Mukdahan was 49,212 Million baht which increased 65.98% compare with the same period of last year was 29,649 Million baht (The Office of the Board of Investment (BOI), 2015).

3. *Development of Thai Border Economic Zones*

As reviewed so far, development of border economic zones between Thailand and neighboring countries there has been an intensification in the direction of development of border areas in cooperation with neighboring countries, which are to be composed along economic corridors based on the agreement on the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS) which five official members; Thailand, Lao PDR, Myanmar, Cambodia, and Vietnam (Supatn, 2012). Recently, the government's policy to develop border areas, which connect to neighboring ASEAN countries or so-called Special Economic Zones (SEZs) has been implemented. According to Tsuneishi (2008) mentioned that Industrial Estate Authority of Thailand (IEAT) conducted a feasibility study during February 2005 to May 2006 from such study IEAT was planning to establish a logistics center and small scale industrial estate in Mukdahan.

■■ Interview Results

The in-depth interview was conducted with representatives from public and private sector. All of them expressed the same view that the economic growth rate of Mukdahan has been growing since the second Mekong friendship bridge was opened. Also the land price was went up since then. The Gross

Provincial Product (GPP) was rose from 8% to 15% after the operation of the second Mekong friendship bridge. Most of the value of the economic growth is from border trade and agro-industry sector, namely, in the area has the industry factories, those factories are related to agricultural products which are rubber, sugarcane, and rice. Other types of industries are concrete plants, sand pump factories. As for the service sector has also been increased in the number of modern trade e.g. Robinson, Big C, Tesco Lotus as well as small hotels. Every weekend the people from Savannakhet come to Mukdahan for shopping. Some of the interviewees mentioned that once we go to the department store on weekend we would see nothing on the shelf because all of things were bought by people from Savannakhet. In the near future, the private hospital will be invested by local investor. In Savannakhet, the standard medical center is still not provided. It can be a good chance of Thai investor to start such business.

In terms of Special Economic Zone policy, all interviewees agreed that Mukdahan has long way to go which mean it is quite difficult to develop Special Economic Zone. Although, the economic in Mukdahan is growing, it is not in the industrial sector. Hence, the Industrial Estate Authority of Thailand (IEAT) left this area behind and let Provincial Treasury Office to take responsibility on finding the investor to invest in Mukdahan Special Economic Zone. The small size of land and unprepared infrastructure in Mukdahan Special Economic Zone are still the obstacles to attract the investor. Furthermore, to compare with Savan-Seno Special Economic Zone (Lao PDR), there are foreign companies have already established, for instance, Japanese and Korean companies. For those who invests in Lao PDR they will have benefit from zero rate of customs duties on importation into the European Union which so-call The Generalised System of Preferences (aka GSP) which is a scheme whereby a wide range of industrial and agricultural products originating in certain developing countries are given

preferential access to the markets of the European Union. The GSP scheme is specifically designed to benefit certain developing countries and integrate them into the world economy (Office of the Revenue Commissioners, 2016). Suggestion from the interview was logistics activities might be a right direction for Mukdahan whether logistics hub, speed train or even the airport because Mukdahan is on the route of the East–West Economic Corridor (EWEC). The comparison of value of border trade among Mukdahan, Nakhon Phanom, and Nong Khai, they are three most important border provinces between Thailand and Lao PDR, found that from last quarter of 2015 until January 2016 both Nakhon Phanom and Nong Khai had balance of trade surplus while Mukdahan had a balance of trade deficit.

■ Conclusion and Recommendation

The government is accelerating the development of Special Economic Zones (SEZ) policy to develop region-wide in cooperation with the neighboring countries. In this paper referred to special economic zone in Mukdahan where located on East-West Economic Corridor (EWEC). From the study found that the Gross Provincial Product (GPP) of Mukdahan was rose from 8% to 15% after the operation of the second Mekong friendship bridge. It can be clearly seen that Mukdahan's economy mainly rely on border trade not industry that is a reason why Industrial Estate Authority of Thailand (IEAT) ignore to manage this area. The small size of land and unprepared infrastructure in Mukdahan Special Economic Zone are still the obstacles to attract the investor. Moreover, the study presents that between Mukdahan and Nakhon Phanom, which is located nearby each other as well as Nakhon Phanom is in the second phase of Special Economic Zone which already begun, Mukdahan had less value of trade and balance of trade than Nakhon Phanom. Hence, to develop Special Economic Zone in Nakhon Phanom might be more interesting than Mukdahan. As for external factor,

the interesting investment condition in Savan-Seno Special Economic Zone (Lao PDR) is offered through zero rate of customs duties from GSP scheme, also, there are challenges for Mukdahan to develop Special Economic Zone. The message is clear from the interview that it will be a long way for Mukdahan to develop Special Economic Zone while logistics activities might be a right direction for Mukdahan to go which is in line with Industrial Estate Authority of Thailand (IEAT) feasibility study in 2006 (Tsuneishi, 2008). The recommendation of this policy is; policy makers or policy analysts should concern about the uniqueness in terms of economy activities and possibility of each area with both internal and external factors.

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