



Original Article

# Responsible Investment Issues in Special Economic Zone Investment in Mainland Southeast Asia

John Wash\*

*RMIT University Hanoi, Handi Resco Building, 521 Kim Ma, Ba Dinh, Hanoi, Vietnam*

Received 13 May 2019

Revised 24 June 2019; Accepted 24 June 2019

**Abstract:** This paper seeks to explore environmental, social and governance issues arising from investment in special economic zones (SEZs) in the mainland Southeast Asian region through a mixture of thick analytical description and multiple case study approach. All the states studied here have embraced the SEZ approach as it offers rapid economic development without any implications for the political settlement, which is considered beneficial by current administrations. Particular emphasis is placed on environmental, social and governance issues in the region covered and some complex issues that have emerged. It is shown that the situation is complex and continually evolving and that there are limited constraints on the actions of corporations. Consequently, there is an opportunity for investors to set precedents and protocols on a progressive basis.

**Keywords:** Economic development; environmental, social and governance issues; mainland Southeast Asia; special economic zones.

## 1. Introduction

Environmental, social and governance (ESG) issues include a wide range of societal issues that go beyond the normal corporate social responsibility (CSR) responses that investing corporations have introduced to meet local requirements and to demonstrate that they

are responsible stakeholders with a commitment to the sustainable development of the host state. ESG issues may include land acquisition, climate change, state-citizen relations and international relations that have historically been seen beyond the responsibility of the investment project. However, corporations can obtain benefits from encouraging local actors to incorporate more advanced technology, managerial know-how and skills into the local economy in a positive sum game investment. Consequently, some corporations will

\* Corresponding author.

*E-mail address:* John.walsh2@rmit.edu.vn

<https://doi.org/10.25073/2588-1108/vnueab.4226>

voluntarily engage with ESG issues as a means of demonstrating they are taking part in responsible investment (RI) with a long-term focus (UNCTAD, 2011:xiii-xiv) [1].

Corporations have the opportunity to demonstrate RI in the CLMTV region (Cambodia, Lao PDR, Myanmar, Thailand, Vietnam) of mainland Southeast Asia. Each of these countries has embraced the concept of the SEZ in the wake of the example of China, where hundreds of millions of people have been lifted out of poverty in part by this means without making any concessions to democracy, human rights or collective bargaining. An SEZ is a "... demarcated geographic area contained within a country's natural boundaries where the rules of business are different from those that prevail in the national territory (Baissac, 2011) [2]." SEZs can take a wide range of forms and the exact nature of any particular example will depend on factors such as state policy, geography and endowment of resources, as well as the state's position along the trajectory of its development. They can include industrial estates (IEs), industrial parks (IPs), free-trade zones (FTZs) and other forms. In early stages, states employ a version of the Factory Asia paradigm of export-oriented, import-substituting, intensive manufacturing based on low labour cost competitiveness and create industrial estates with tax incentives and stable infrastructure to encourage international investment. As that approach reaches the limit of what can be achieved by that method, i.e. the onset of the Middle Income Trap, governments will, for continued development, look to the creation of more advanced forms of SEZs.

This paper explores ESG issues in SEZ investment in the CLMTV region to provide policy recommendations at different levels. It continues with an evaluation of the purposes and nature of SEZs in the context of the CLMTV region. Subsequently, a critical approach is taken to various case studies from the region with a view to suggesting what the factors involved are that will be used to formulate policy recommendations. This

approach is supplemented by a number of personal interviews with various stakeholders.

## 2. Special economic zones

SEZs have become enormously popular with governments throughout Asia and beyond to the extent that there is now scarcely a single country that does not aim to benefit from at least a small number of them within their territory. This is because, at least in part, of the enormous success the Chinese government has achieved in helping raise hundreds of millions of people out of poverty through, to a significant extent, the creation of coastal SEZs. China has a well-enforced household registration system (*hukou*) which meant that a large number of migrants who moved from the agricultural to the industrial sector in the pre-Lewisian point period (when demand for and supply of labour become equal) might have been living without formal registration and this lengthened the low labour cost period, although this is now coming to an end.

Although the SEZ approach has become very popular with governments, that does not mean that it is always popular with the people. In India, SEZs have become strongly associated with land grabs by the state and its allies from the people, mostly subsistence farmers, who are forcibly removed from the land (Whitehead, 2016) [3]. This has also been seen in the Mekong region in the case of, for example, Myanmar's Dawei SEZ, where displaced local people have responded with violence to state appropriation of land (Walsh, 2015) [4] and non-governmental organizations (NGOs) have likened SEZ creation to the negative aspects of dam-building. In Thailand, proposed border SEZs (BSEZs) are meant to take advantage of cross-border complementarities of labour, capital and managerial know-how. In Lao PDR and Myanmar, at least one of the existing or proposed SEZs is aimed at rewarding Chinese investors (individual or organizational) with free space to exploit under conditions of low government scrutiny (e.g. Hance, 2015) [5]. In Vietnam,

meanwhile, SEZs reflect the attempt to create some form of economic equality under conditions of spatial-economic inequality (i.e. some people are better off than others based on where they live). In all of these cases, it is evident that SEZs have diverse impacts on the environment and society and to pose questions as to how they should be governed to try to minimize potential and existing inequalities.

### 3. The CLMTV region

Cambodia, Lao PDR, Myanmar, Thailand and Vietnam (CLMTV) are a group of countries that make up mainland Southeast Asia. Together with Yunnan province and the Guangxi Zhuang Autonomous Region of China, with which CLMTV countries have shared longstanding cultural and historical relations, they represent the Greater Mekong Subregion

(or CLMTVYZ), which is an area designated by the Asian Development Bank (ADB) as a specific development area at a scale to receive its own transnational development plans and associated finance and resources. Referring to the endemic warfare in the region and seemingly implacable enmity between some groups, former Thai premier Chatichai Choonhavan spoke of the need to turn the battlefield into a marketplace. As states have joined the Association of Southeast Asian Nations (ASEAN), peaceful relations have been secured (although with some alarms) as it remains true that no two current ASEAN countries have been at war with each other. As countries have also joined the World Trade Organization (WTO), they have become more firmly bound into forms of economic integration and less likely to behave in an unstable, unilateral manner.

Table 1. Basic Data of CLMTV Countries

Country	Population (millions)	GDP (PPP) per Capita (US\$)	Year Joined ASEAN	Year Joined WTO
Cambodia	15.5	3,487.46	1999	2004
Lao PDR	7.0	5,309.41	1997	2013
Myanmar	51.8	5,468.76	1997	1995
Thailand	68.8	16,097.35	1967	1995
Vietnam	91.7	6,024.35	1995	2007

Sources: World Economic Forum (2016) [6], WTO (2016) [7].

Relations in the region have been dominated by geographical conditions: the most convenient forms of movement have been north-south, along the river valleys that irrigate the region. Principal rivers such as the Irrawaddy, Mekong, Salween and Hong (Red) rivers all rise from the Himalayan plateau to the north and flow, mostly quite sedately, to seas and oceans to the south. By contrast, moving east-west and vice versa requires to travel up and over heavily forested mountains and swampy areas notable for dangerous animals and disease. The Chinese state to the north was politically more important than neighbours to

east and west, who were typically seen as sources of labour, particularly skilled workers, for relocation to fill up the chronically underpopulated region. This is of more than historical interest: the North-South Economic Corridor (NSEC) built under the leadership of the ADB was completed relatively easily and successfully links Shanghai via Kunming in the north to Singapore via Bangkok in the south. However, the East-West Economic corridor (EWEC) has been bedevilled by lack of capital and interest and the technical problems represented by the difficult terrain.

Table 2. Business Indicators for CLMTV Countries

Country	Competitiveness (Rank)	Corruption Index (Rank)	Logistics Score (Rank)	Freedom (Rank)
Cambodia	3.9 (80)	21 (156)	2.8 (73)	42.1 (132)
Lao PDR	4.0 (83)	30 (123)	2.1 (152)	66.4 (170)
Myanmar	3.3 (131)	28 (136)	2.5 (113)	41.8 (131)
Thailand	4.6 (32)	35 (101)	3.3 (45)	44.7 (142)
Vietnam	4.3 (56)	33 (113)	3.0 (64)	74.0 (175)

Sources: World Economic Forum (2016) [6];

Transparency International (2016) [8]; World Bank (2016) [9] and Reporters without Borders (2017) [10].

The CLMTV region was deeply involved with the European colonization period this had various repercussions which are still relevant today:

- Both Vientiane and Phnom Penh are cities were completely abandoned in the twentieth century and this has contributed to the lack of infrastructure in those countries and the lack of urban-rural connections. There are, for example, almost no working railroads.

- Legal systems and organizational roles are based on a variety of different bases and it may be difficult to resolve these in the context of complex contemporary phenomena.

- Lao PDR became, per capita, the most bombed country in the world, while Cambodia still has the most intensive presence of landmines. Preparing land for industrial use (or any other kind of use) can be very dangerous and so takes longer than might be expected.

- Professional capacity is quite low and there is a need for more professionals in a variety of fields.

These factors have added difficulty to doing business in the CLMTV and made it more expensive. Although some transaction costs may be reduced by longstanding personal and institutional links between colonizer and colonized, these have still remained influential. During these periods, companies (mostly but not exclusively non-western) willing to ignore the boycott were able to forge personal relationships and obtain country-specific knowledge that can act as a competitive advantage. However, such advantages are reduced in the case of SEZs, since these offer

the same conditions to all investors. Investing in an SEZ should offer opportunities to investors on a basis similar to the most favoured nation (MFN) basis offered by the WTO.

One final implication of geography is the vulnerability of the CLMTV region to drought and to flooding. In 2011, floods in Thailand led to more than 700 deaths and flooded a number of IEs in Ayutthaya, leading to a breakdown in the international supply chain for automobiles and an economic crisis that the World Bank considered to be the third worst in the world that year (deaths in neighbouring countries were also numerous but did not have the same impact on production). To prevent a recurrence, as well as to convince existing and potential investors that it is committed to prevention, the Thai government announced extensive plans for infrastructure that would ensure effective flood management and opened a series of auctions for different elements of the plan. Unfortunately, there has been very little progress in actually building the infrastructure subsequently but it did indicate that at that moment the Thai government was aware of the importance of the situation. It is notable and will be seen in the pages that follow that new SEZs opened since 2011 or still in the planning stage that zone management incorporates some plans for disaster management of this sort. The reverse problem, drought, has also prompted zone managers to demonstrate that they can provide access to sufficient amounts of water from local suppliers at reasonable cost.

#### 4. Environmental, social and governance issues: Case studies

To illustrate in a non-comprehensive way the ESG issues with which RI requires consideration in the area of research, the following case studies are described:

- The changing development paradigm: Mingaladon Industrial Zone (IZ);
- Practical CSR approaches: Sihanoukville SEZ;
- Developing local skills and competencies: Quang Trung Software Park;
- SEZs in state-level development strategy: Pakse Japan specific economic zone.

Many more case studies could have been included and there are numerous examples of social injustice that could have been considered. For example, Thailand's border SEZ project was reinvented after the 2014 military coup such that the zones would act as internment camps for the country's numerous cross-border migrant workers. Industrial estates such as Map Ta Phut became notorious at one stage for pollution and industrial accidents (Pinyochatchinda & Walsh, 2014) [11]. In Cambodia, workplace resistance against exploitative conditions and in favour of higher minimum wages have been met with resistance, while there has been disturbing evidence of mass deforestation taking place and the means under which the 'blood sugar' of Koh Kong has been obtained (e.g. Le Coz, 2013) [12]. This is not to mention the rather sordid history of cowboy capitalism that took place in Boten Golden Land SEZ in Lao PDR before the government closed it down and reinvented it (cf. Ku, 2016) [13]. However, space constraints dictate that these cannot be explored further.

##### 4.1. Mingaladon industrial zone

Most of Myanmar's industrial zones are concentrated in and around the former capital of Yangon, to take advantage of superior infrastructure facilities there (including air and sea ports) and the supply of local low-cost labour to work in intensive manufacturing

factories (HKTDC, 2016) [14]. Although most trade passes through Yangon's river port, it is not deep enough to accept large container ships and so these use the Thilawa SEZ. Rising land prices and idle IZ use have caused the government to take steps to increase land usage.

IZs in Myanmar are mainly administered by the Myanmar Industries Association (MIA), which was founded in 1993 under the Myanmar Company Act to "promote activities efficiently and effectively with the support of the Government and private agencies. It is self-funded, non-profit making organization and as such, it is truly private independent body representing the entire scope of trade, services and industries in the Republic of the Union of Myanmar (Myanmar Industries, 2017a) [15]." To do so, it provides information on government trade policies, infrastructure, statistical and marketing information. It is located in Yangon. Its main activities are:

- Co-operate with law experts in constructing Foreign Direct Investment Law, Small and Medium Enterprises Development Law, Industrial Policy and Investment Law;
- Organizing and arranging business matching, business opportunities, networking between local and foreign enterprises;
- Publication of the Myanmar Industries newsletter and conducting production workshops and courses;
- Conducting management, industrial production, quantitative and standardization seminars and training sessions with local and foreign expert trainers in order to get skilful workers;
- Consulting and negotiating in some difficulties and problems of industrialists and report problems to associated ministries;
- Organizing member companies to participate in local and overseas expos, trade fairs and exhibitions;
- Facilitating networking through a variety of Chamber/Association activities (Myanmar Industries, 2017b) [16].

Within IZs, factories can operate according to land leasing schemes with the local management committee, since only local

investors can purchase land. Joint ventures with local investors may also be used but not to register land to overseas interests. IZs vary in quality but some have met or exceeded international standards. Mingaladon IZ (MIP), for example, is considered to have better infrastructure and connectivity than most alternatives and that success is demonstrated by its complement of investors. The MIP offers a range of required services: 33 KV/20 MW for Phase I; 5,000m<sup>3</sup> of water from 15 deep wells; wastewater treatment plant with daily capacity of 5,000 m<sup>3</sup>; concrete roads of either seven or eight metres width; 300 IDD and fax lines; dykes, drainage and regulating ponds to prevent flooding; fire pumps and hydrants at 200 metre intervals and 24-hour security service (Mingaladon Industrial Park, 2017a) [17].

Land leases of up to 31 years are possible and the park offers these incentives:

- Exemption from income tax for five years;
- Accelerated depreciation;
- Up to 50% tax relief on profits from exports;
- Right to carry forward and set off losses for three consecutive years from the year loss is sustained;
- Exemption from duties, taxes and raw materials for the first three years of commercial production;
- Guarantee against nationalization and
- Rights to have up to 100% ownership of the company (Mingaladon Industrial Park, 2017b) [18] (Respondents from Mandalay observed that some companies were known to reinvent their companies every three years as taking part in a new type of activity so as to benefit from these or similar incentives).

There are also other IZs located throughout Myanmar, in areas correlated with larger urban settlements. Many of these zones operate more in the agribusiness sector rather than the manufacturing one. Despite its agricultural advantages in terms of land and climate, Myanmar still imports a lot of food, particularly processed foods and there is the possibility for, first, import substitution and, second, innovation in this regard. Yangon and

Mandalay are considered to be two driving forces for growth in the country and they will become more closely enmeshed in the emerging web of transportation infrastructure and the national economic corridors plan. These IZs join a set of different types of SEZs that include the following:

- Large-scale SEZs (i.e. Dawei, Kyaukphyu and Thilawa);
- Small and medium enterprises (outskirts of major urban areas);
- International cross-border FTZs (with China, Thailand, Bangladesh and India);
- Tourism-based Myanmar Economic Zone (MEZ) (Bagan, Inlay Lake and Andaman Marine);
- Resource-based IZs (e.g. fishery processing IP and agro-based IP) (*ibid.*).

Mandalay now has three zones in operation after the third was opened in 2003.

#### 4.2. Sihanoukville SEZ

Sihanoukville SEZ is Cambodia's largest SEZ and covers an area of 1,113 ha. It was established in 2008 and now has more than 100 companies in operation and provides employment to 16,000 people. The majority of the companies, 94, are Chinese but there is also representation from the USA, Korea, UK and Ireland. The goal of SEZ management is to house 300 companies with total employment of up to 100,000 people.

Sihanoukville SEZ embodies the contemporary concept of a zone in that it incorporates a full range of residential and commercial services for the people who live and work there. Restaurants, cultural and entertainment places are part of an integrated service centre. A one-stop government service centre is present on-site, while a sewage plant has been built with a capacity of 5,000 tonnes daily. A training centre offering courses in skills and languages has been used by 10,000 people.

Most income for zone management comes from property management, factory rentals and land leasing. Land may be leased for 50 years.

Initially, factory leasing was popular but confidence among investors increased because investors changed to long land leases and building their own factories (McGrath, 2017) [19].

Investors include Jinchenyuan (Cambodia) Co. Ltd., which plans to manufacture 300,000 pairs of socks per month for export, Bao Li Textile Co. Ltd., Oufeiya Leather (Cambodia) Co. Ltd. and Canadia Bank Plc, according to the Sihanoukville SEZ website (ssez.com).

Management has taken several steps to try to integrate the SEZ into the local community peaceably. The first is to enact a corporate social responsibility strategy with the philosophy: “development and ecology simultaneously, construction and pro-environment simultaneously, economy and culture simultaneously, rights and responsibilities simultaneously, hardware and software simultaneously.” Second, attempts have been made to bring Cambodians and Chinese together. Workers teach Chinese to local Cambodians, while seven local people have been sent to China for vocational training. Hodo University and Wuxi Commercial Vocational technical College have both been involved. All investors and their employees are urged to respect local laws and traditions. Finally, there have been charitable donations: US\$254,000 was given in 2008 to build a local school and a total of US\$106,000 has been given to the Cambodian Red Cross over three years (Sihanoukville SEZ, 2017) [20].

Sihanoukville SEZ positions itself as an integral part of China’s One Belt One Road policy, which it embraces.

#### 4.3. Quang Trung software park

Quang Trung Software Park (QTSP) is one of seven technology parks (TPs) in Vietnam. The others are Saigon Hi-Tech Park, Saigon Software Park, Hanoi IT Trading Center, Da Nang ICT Infrastructure Development Center, National University of Ho Chi Minh City’s IT Park and Can Tho university software Center. As the names indicate, these TPs are located in

urban areas because it is recognised that investors both foreign and domestic as well as the high quality human resources (HR) required to work in them would prefer to live in or around larger cities. TPs depend for their competitiveness on their ability to attract investment in the designated area and so a friendly and dynamic environment is preferable to those incentives such as tax exemptions that are more suitable for intensive manufacturing with low labour cost competitiveness. Government agencies will invest, instead, on providing a salubrious environment.

Investment in software and related technologies is clearly an important complement to manufacturing in attaining high levels of rapid economic development. Not only will it help to locate high value services within the country, but it will also provide opportunities for student graduates to use their skills and to commence lifelong learning activities in an industry which is continuously evolving. The example of the Republic of Korea shows the benefits to the whole economy of upgrading ICT skills of all people and the policy experiment of limiting the policy to specific areas seems prudent. It has certainly been successful as the parks now house more than 700 companies in total, with 220 of them being foreign. Those companies hire around 30,000 staff, which is equivalent to 25% of the national software sector. Financial business activities include the creation of digital content and services, business process outsourcing (BPO), domestic software business consultancy and incubation (Vietnam Briefing, 2017) [21]. These activities indicate that these TPs are closely interconnected with elements of the local economy.

QTSP was originally established by government order in 2000 and came into operation the following year, based in the southern capital of Ho Chi Minh City. The city has a long colonial past and has maintained some links with international investors as a result. Its first designation was Quang Trung

Software City and it offered the following competitive advantages:

- Space, location and growth;
- Excellent network infrastructure;
- Complex functions;
- High quality services, but low cost (QTSP, 2011) [22].

QTSC was successful and became Vietnam's largest software part and attracted investment from the USA, Japan, Korea, and Germany, among others. Companies investing there included HP, IBM, GHP Far East, DIGITEXX, Luxsoft and TUV Rheinland. ISO 9001 was also achieved by the managers, QTSC Development Company (Trinh et al., 2013) [23]. It was seen as a model that could be replicated in Ho Chi Minh City and also in other parts of the country (Vietnam.net, 2014a) [24]. Nevertheless, it faces some problems with the supply of qualified employees, since now only about 20% of qualified employees are available each year.

#### *4.4. Pakse-Japan specific economic zone*

Pakse (also spelled Pakxe) is located in the southern Lao province of Champasak (also spelt Champassak). It is close to the border with Thailand (and also Cambodia and Vietnam) and road and rail links with Bangkok and Laem Chabang are available from there. The purpose of the zone is to host small and medium-sized Japanese companies which would be able to take advantage of the lower labour costs available in Lao PDR for less advanced manufacturing activities which might form part of a Thailand +1 strategy (Kyozuki, 2015) [25]. The site will occupy 625 hectares in total and occupies elevated land some 14 km from Pakse city centre (Rentsbuy, 2015) [26]. Pakse is the only part of the province that has been experiencing net immigration, which suggests its relative economic success, with a population set to double from 2005 to 147,000 by 2025 (Nolintha, 2011) [27]. FDI into Champasak province has continued at a steady rate and has mainly focused on forestry and agricultural sectors. The main sources of investment have

been Vietnam (45%), Thailand (37%), Singapore (9%), South Korea (3%) and China (2%) (ibid.). A specific economic zone (SpEZ) is the name given by the Lao government to an SEZ that has a designated mode of operation within the overall state-level developmental plan.

The opening of the Lao Nippon Friendship Bridge across the River Mekong has led to the creation of a large duty-free shopping area at the Vangtao Chongmek border point and the adjacent Boloven plateau provides access to coffee growing areas, in addition to other agricultural resources. The high-quality soil also supports rubber and bananas, among other crops. Additional nearby facilities include a university, international restaurants, sports facilities and tourism and accommodation sites. Pakse Vocational and Technical School trains students in a variety of trades, including carpentry, construction, electronics, accountancy and dress-making. Each year, around 800 students graduate from their two or three-year courses (Champasak Province, 2009) [28].

##### *4.4.1. Purpose*

The Lao PDR government has been experimenting with new forms of economic geography to promote national economic development in ways that will not challenge the existing political framework. Its priorities include maintenance of equality and unity among the Lao people and the preservation of culturally important institutions and practices. As a result, its SEZ policy has moved slower than some investors might wish and individual projects are kept isolated from the remainder of the country. The limited infrastructure in the country as a whole means that SEZs, once they come on line, are likely to resemble islands of development that are to some extent effectively off-shore to the rest of the economy. Nevertheless, balanced regional development and the attempt to prevent overseas interests taking too much control over local economic development remain important priorities for the national government and this is manifested in various ways in an individual SEZ that might appear irrational to individual investors.

#### 4.4.2. Locators

There is little local competition for most manufactured items but Pakse is home to the production plant for Lao Brewery Co. since 2008, which makes a range of alcoholic and non-alcoholic beverages for distribution throughout the country and which is occasionally open for tours (Beerlao, n.d.).

One company that has taken advantage of the SEZ is Ando, which is based in Kyoto and manufactures traditional Japanese products such as embroidered items. Established in 1923, Ando opened the first of three factories in China in 1996 and, in December 2013, opened Varitha Huaan Ando Lao Co., Ltd (Ando, 2016) [29]. Opening the factory, the Japanese Ambassador H.E. Hiroyuki Kishino said: "I believe that the decision to choose Laos was influenced by several factors. It was made because Laos produces quality raw materials such as organic cotton, silk and so on. Natural dyeing is also appealing. It was made because Lao people are conscientious and good at fine work such as embroidery, which is an advantage for textile fabrics manufacturers like Ando. In addition, it was made because tax and other incentives given by the Lao government are attractive, and so is the relatively cheap and stable supply of electricity (Embassy of Japan in the Lao PDR, 2013) [30] that is produced at the many dams in Lao PDR that are either operational or under construction.

By 2016, eight Japanese and Lao-Japanese companies had invested in the Pakse SpEZ with a total of some US\$5 million in registration fees and employment for 690 Lao citizens (The Nation, 2016) [31]. According to regulations, 50% of revenues will go to the state budget, 20% to provincial authorities, 15% to the districts where the zone is located, 10% to CSEZ for administrative expenses and the remaining 5% to an environmental fund. The initial preparation of the site was conducted by Lao Nishimatsu Co. Ltd. and shareholder Savan TVS Consultant Co. Ltd. was also involved (LNC, 2016) [32].

#### 4.4.3. Location decision

Pakse is located on the border with Thailand and this enables Japanese investors to consider it a suitable site for Thailand +1 activities, in which less advanced manufacturing activities take place in Lao PDR by companies whose more advanced facilities are already established in Thailand. The bridge across the River Mekong is important in this regard and good road links to Bangkok, Laem Chabang and the Eastern Seaboard region make this strategy viable. The connection between Pakse and Vientiane is possible within Lao PDR territory but a double river crossing approach (if deregulation of cross-border trucking is fully arranged) might be more practical. Since Lao PDR is landlocked, access to ports in neighbouring countries at as low a cost as possible is very important.

#### 4.4.4. Significance

The SEZ policy is central to the Lao government's approach to national economic development and, like Vietnam, it is using this strategy as a kind of economic experiment which can be limited in space and time to observe the effects on various state-level policy priorities and ended or changed as deemed appropriate. This is evident in the approach to employment of overseas employees. Since many investors and potential investors are Chinese and, characteristically, Chinese investors wish to use Chinese labour both to build their own facilities and then to operate them, there is a possible source of conflict between the two countries which might be manifested in local conflicts. To avoid this, generous but definite limits are set on the ratio between local and international employees within Pakse and all other SEZs. To date, this has not been problematic at Pakse but the need to develop the skill levels of local employees and possible suppliers is becoming an important issue.

Once SEZ operations are in full swing, they are likely to lead to significant changes in social and gender relations as, for example, women move from the unpaid or informal sectors into the formal sector and, therefore, are able to

access rights and recognition previously unavailable to them. Some accommodation of change will be required as a result and there is a role for both the private and public sectors in administering the changes without making them antagonistic. Accountability and transparency in SEZ governance would be helpful in reducing conflict and civil society might play a role in this aspect.

## **5. Policy formulation and recommendations**

### *5.1. Discussion*

#### **5.1.1. SEZ Governance**

International investors require transparent and enforceable laws as to how their activities will be regulated and how they will be able to repatriate their profits. Home governments will wish investors to retain the profits within the host country so as to promote technology transfer and industrial deepening, among other reasons. This inherent conflict requires a transparent legal situation which inspires confidence among all parties that it will be enforced. In general, this means that a specific law or legal provision regulating the creation and management of SEZs is required.

Governance may be provided by the public sector, the private sector or a combination of the two in some form of public-private partnership (PPP). In most of the CLMTV countries, governance has been mostly provided by the public sector. Private sector involvement has been most commonly seen in Thailand, where SEZs are managed by the Industrial Estates Authority of Thailand (IEAT).

#### **5.1.2. Impact**

The impact of SEZs on the CLMTV countries is still unfolding because countries are only now starting to build them or are planning and building new generation SEZs. However, it is clear that their presence is being used to help individual countries pass through their own versions of the Factory Asia paradigm: that is, export-oriented, import-substituting intensive manufacturing with competitiveness based on

low labour costs. This is a time-limited project because low labour costs cannot be ensured forever and it will lead to the Middle Income Trap - that is, the means by which a country can lift itself from low income status to middle income status will not be able to raise it to high income status and a qualitative change in the economic system is required to effect this. Nevertheless, this approach has brought about or will bring about economic development to each of the CLMTV countries, which also brings about various crises of modernization in the social and political dimensions. IEs intensified this process and had the effect of creating little islands of development within a country that were to some extent isolated from the rest of the economy, thereby promoting uneven development and inequality. SEZs, as discussed previously, are intended to be more integrated into the society and economy as a whole and, consequently, it might be expected that the value generated within them will be more likely to be enjoyed by the country as a whole. It has yet to be demonstrated that this will actually take place. As shown in the section on investment in BSEZs in Thailand, investment that has so far taken place may be characterized, at least to some extent, as investment diversion rather than investment creation. That is, it is investment that would have taken place anyway but the location has changed rather than investment that would not have taken place without SEZ support. For example, when the Thai minimum wage was raised by about 40% to 300 baht (approximately US\$10) daily, a number of low labour cost competitive manufacturing companies began preparations to move to overseas SEZs to continue their low cost strategy.

#### **5.1.3. Social, labour and gender development issues**

SEZs can bring about unprecedented concentrations of people, mostly young and very often women, living and working together. This can provide opportunities for those people to live independently from the remainder of their other household members and to begin personal relationships on their own terms in ways which

were nor previously available to them. Some couples will have the ability to establish their own households. In any case, many of the women move from being unpaid providers of emotional and domestic labour to waged employees living away from home. There can be problems within families when people are unable to adjust to changed relationships.

As SEZs contribute to economic growth within a country, workers in the zones earn more money and are assisted in doing so as the country moves towards and passes the Lewisian point. The country can look to rebalancing its overall economic strategy away from reliance on exporting to growth through domestic consumption. For this to take place successfully, the state will need to realise that the repression of labour rights is neither a sustainable nor a morally acceptable approach and allow wages to rise and low labour cost competitiveness to dissipate. At this point, the state should be making plans to move towards more sophisticated forms of production with the acceptance of social change as less impoverished working classes start to aspire towards political as well as social change. This is not a situation all administrations have approached equably.

#### 5.1.4. Environmental impact

SEZs are generally presented as being environmentally friendly and sustainable and a distinction is drawn, implicitly or explicitly, with IEs, which have attracted a reputation, not always justifiably so, of being dangerous and dirty places. The bases for claiming environmental friendliness for SEZs are as follows:

- Transparency of governance. New laws have been introduced in each country to regulate SEZ governance and, because of the need to attract investors, each has been publicised and may have their own websites. It appears, therefore, that there are greater levels of transparency about how they are to be governed and it is anticipated that this will lead to superior environmental performance;

- Greater scrutiny of industrial activities is possible for all organizations and individuals

through the cameras of mobile telephones and easy internet uploads, not to mention satellite coverage and so environmental degradation and other instances of poor management can become widely known;

- A greater focus on value added rather than low labour cost competitiveness will discourage cost-cutting approaches in favour of improving all standards in the hope that this will result in premium pricing opportunities;

- More resources at the SEZ governance mechanism level will be devoted to providing green solutions to energy and water management, waste disposal services and so forth. Companies investing in such SEZs will be required to meet those standards;

- Finally, it is increasingly becoming evident that competitive advantages will accrue to companies that seek green solutions to the challenges that face them. Companies in CLMTV countries certainly have considerable scope to benefit from renewable energy sources such as solar power.

These factors would suggest that industrial activities to be held within the SEZs of the region will have less impact on the environment than would have been the case had they taken place in the past. However, it has yet to be determined to what extent these desirable events will actually take place.

Finally, previous forms of rapid economic development have taken place in the context of, first, the Cold War and, then, the transition period of formerly Communist nations to market-oriented economies. While that transition continues, the world of international relations appears to be undergoing changes as well. Relationships between countries whose corporations invest in SEZs and their hosts may be different from relationships between countries who invest in SEZs and their hosts. The extent to which this occurs will depend on how well companies meet the expectations of those who have set SEZ requirements. This remains to be seen.

## 5.2. Policy recommendations

The case studies were written in the light of the theoretical background outlined at the beginning of the paper and this then gave rise to the discussion at the beginning of this section. The results of this might be summarised in the following policy recommendations:

- There is a need for various forms of education within SEZs, both to make them more welcoming to inwards investors but also to enhance the capacity of local individuals and communities to contribute to value chains and clusters. Consequently, host governments should encourage investment in educational institutions associated with SEZs;

- Opportunities to promote infrastructure development should be used to enhance green and sustainable approaches, both for their own right and because of the competitive advantages they provide local organizations and systems;

- Trade facilitation enhances cross-border movements and improves the efficiency of trade and investment. Multilateral, bilateral and individual approaches to trade facilitation by states are to be welcomed by states and steps taken to ensure that as many stakeholders as possible will appreciate the benefits that might be brought;

- It is possible still to make short-term profits from squeezing the remaining drops out of the low labour cost competitiveness of local workforces but, while this may form part of an interim strategy, it should be incorporated into a transitional strategy that takes account of longer-term conditions and objectives;

- Cross-border consistency in regulations and governance requirements would help nearly everyone and negotiations for such should be conducted on a most favoured nation basis.

There are many more recommendations that might be provided but which are not supported by the analysis provided here. Additional research might provide a basis for outlining such recommendations.

## 6. Conclusion

This paper has sought to evaluate the ESG issues facing corporations seeking to invest in SEZs in the emerging market CLMTV region through adopting a critical case study approach. As ever, limitations of time and space mean that the confidence with which findings and implications may be generalised are limited. There is, clearly, scope for more research on both longitudinal and latitudinal bases to explore the issues considered here in additional detail.

Limits to the reach of the state have meant that many stakeholders involved in SEZ activities have avoided necessary attention and some abuses have resulted. However, these abuses do little if anything to further the interests of other SEZ stakeholders and so eliminating them would be of overall benefit. Since the states involved are not, currently, leading the way in introducing new safeguards constricting the activities of investors, there is a role for corporate leadership in developing standards and protocols that might contribute to longer-term sustainability.

It is anticipated that on-going research will be able to shed light on whether RI is increasing in importance in the region studied at a time when the international environment seems likely to become more volatile.

## Acknowledgments

This paper incorporates data from a project supported by UNCTAD, which is gratefully acknowledged.

## References

- [1] UNCTAD, Investment and Enterprise Responsibility Review: Analysis of Investor and Enterprise Policies on Corporate Social Responsibility (New York, NY and Geneva: UNCTAD.<http://unctad.org/en/Docs/diaeed20101-en.pdf>), 2011.
- [2] Baissac, Claude, "Brief History of SEZs and Overview of Policy Debates," in Thomas Farole, ed., *Special Economic Zones in Africa: Company*

- Performance and Learning from Global Experience (Washington, DC: World Bank. <http://openknowledge.worldbank.org/bitstream/handle/10986/2341/638440PUB0Exto00Box0361527B0PUBLIC0.pdf/>, 2011).
- [3] Whitehead, Judith, "Intersectionality and Primary Accumulation: Caste and Gender in India under the Sign of Monopoly-finance Capital," *Monthly Review* 68 (2016) 37-52.
- [4] Walsh, John, "The Development of Dawei Special Economic Zone," *The Myanmar Journal* 2 (2015) 9-26.
- [5] Hance, Jeremy, "High-End Laos Resort Serves up Illegal Wildlife for Chinese Tourists", *The Guardian*. <http://www.theguardian.com/environment/radical-conservation/2015/mar/19/high-end-laos-resort-serves-up-illegal-wildlife-for-chinese-tourists/>, 2015 (March 19<sup>th</sup>, 2015).
- [6] World Economic Forum (2016), *Global Competitiveness Report, 2016*, available at: [reports.weforum.org/global-competitiveness-report-2015-2016](https://reports.weforum.org/global-competitiveness-report-2015-2016).
- [7] WTO, "Members and Observers". [https://www.wto.org/english/thewto\\_e/whatitis\\_e/tif\\_e/org6\\_3.htm/](https://www.wto.org/english/thewto_e/whatitis_e/tif_e/org6_3.htm/), 2016.
- [8] Transparency International, "Country Analysis". <https://www.transparency.org/country/>, 2016.
- [9] World Bank, "International Scorecard". <https://ipi.worldbank.org/international/scorecard/2016>.
- [10] Reporters without Borders, "2017 World Press Freedom Index". <https://rsf.org/en/ranking/>, 2017.
- [11] Pinyochatchinda, Supaporn and John Walsh, "Pollution Management and Industrial Estates: Perceptions of Residents in the Vicinity of Map Ta Phut Industrial Estate," *Information Management and Business Review*. 6 (2014) 42-8. <http://bua.rmutr.ac.th/wpcontent/uploads/2016/09/WY-13-56.pdf>.
- [12] Le Coz, Clothilde, "Blood Sugar". <http://www.ruom.net/portfolio-item/blood-sugar/>, 2013.
- [13] Ku, Samuel, "China's Expanding Influence in Laos," *East Asia Forum*. <http://www.eastasiforum.org/2016/02/26/chinas-expanding-influence-in-laos/>, 2016 (February 26<sup>th</sup>, 2016).
- [14] HKTDC, "Myanmar Rising: Industrial and Special Economic Zones". <http://economists-pick-research.hktdc.com/business-news/article/Research-Articles/Myanmar-Rising-Industrial-and-Special-Economic-Zones/rp/en/1/1X000000/1X0A72FF.htm/>, 2016.
- [15] Myanmar Industries, "Background". <https://myanmarindustries.org/index.php/background-2/>, 2017a.
- [16] Myanmar Industries, "Main Activities". <https://myanmarindustries.org/index.php/main-activities-2/>, 2017b.
- [17] Mingaladon Industrial Park, "Internal Infrastructure". <https://www.mingaladon.com/infrastructure-services.htm/>, 2017a.
- [18] Mingaladon Industrial Park (2017b), "Investment Incentives," <http://www.mingaladon.com/investment-incentives.htm>.
- [19] McGrath, Cam, "Sihanoukville Zone Prospers on China Links," *The Phnom Penh Post*. <https://www.phnompenhpost.com/business/sihanoukville-zone-prospers-china-links/>, 2017 (June 12<sup>th</sup>, 2017).
- [20] Sihanoukville SEZ, "Social Responsibility". <https://ssez.com/en/social.asp#/>, 2017.
- [21] Vietnam Briefing, "IT Parks in Vietnam: Present and Future". <http://www.vietname-briefing.com/news/it-parks-in-vietnam-present-and-future7461.html/>, 2017.
- [22] QTSP, "Who We Are", available at: <https://web.archive.org/web/20110501200030/http://www.quangtrungsoft.com.vn:80/index.php/en/about-qtsc/who-we-are?start=3/>, 2011.
- [23] Trinh, Vo Thi Trung, Narumon Sriratanaviriyakul, Matthews Nkhoma and Hiep Pham, "Quang Trung Software City - The Largest Vietnamese Software Park," *Journal of Information Technology Education: Discussion Cases*, Vol.2, Case No.6 (2013), <http://www.jite.org/documents/DCVol02/v02-06-QuangTrung.pdf>, 2013.
- [24] Vietnam.net, "More Software Parks to Go up". <https://english.vietnamnet.vn/fms/science-it/116286/more-software-parks-to-go-up.html/>, 2014 (November 13<sup>th</sup>, 2014a).
- [25] Kyozuki, Tamaki, "Laos OKs Economic Zone for Smaller Japanese Companies," *Nikkei Asian Review*. <http://asia.nikkei.com/Politics-Economy/Economy/Laos-OKs-economic-zone-for-smaller-Japanese-companies/>, 2015 (September 18<sup>th</sup>, 2015).
- [26] Rentsbuy, "Govt Approves New SEZ in Champasak". <https://www.rentsbuy.com/project/economic-zone/pakxe-japan-sme-specific-economic-zone.html/>, 2015 (August 10<sup>th</sup>, 2015).
- [27] Nolintha, Vanthana, "Cities, SEZs and Connectivity in Major Provinces of Laos," in Masami Ishida, ed., *Intra- and Inter-City*

- Connectivity in the Mekong Region, BRC Research Report No.6 (Bangkok: IDE-JETRO Bangkok Research Centre, 2011). [http://www.ide.go.jp/library/English/Publish/Download/Brc/pdf/06\\_chapter4.pdf/](http://www.ide.go.jp/library/English/Publish/Download/Brc/pdf/06_chapter4.pdf/), 2011.
- [28] Champasak Province, “Investment Opportunities in Laos: Champasak Province”. [http://www.poweringprogress.org/new/images/PDF/Champassak\\_10/Champassak\\_10.pdf/](http://www.poweringprogress.org/new/images/PDF/Champassak_10/Champassak_10.pdf/), 2009.
- [29] Ando, “About Ando”. [www.ando-kyo.co.jp/english/about/history.html/](http://www.ando-kyo.co.jp/english/about/history.html/), 2016.
- [30] Embassy of Japan in the Lao PDR, “Remarks by H.E. Hiroyuki Kishino, Ambassador of Japan to the Lao PDR, at the Inauguration Ceremony of the New Ando Factory in Pakse. [http://www.la.emb-japan.go.jp/content-japan-laos-relations/ambassador\\_speech/Ando.html/](http://www.la.emb-japan.go.jp/content-japan-laos-relations/ambassador_speech/Ando.html/), 2013 (Champasak Province on 03 December, 2013”).
- [31] The Nation, “Laos-Japan Economic Zone to Benefit Local Community”. <http://www.nationmultimedia.com/business/Laos-Japan-economic-zone-to-benefit-local-community-30276007.html/>, 2016 (January 2<sup>nd</sup>, 2016).
- [32] LNC, “Nishimatsu Capitalized on Pakse-Japan SME SEZ Development”. <http://laonishimatsu.com/?lang=en&module=news&idz=7/>, 2016.