THE SPECIAL ECONOMIC ZONE:
A REGULATION OF CROSS-BORDER TRADING IN A DEVELOPING ECONOMY

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Abstract

Special economic zones (SEZs) have been used by many developing countries as a policy tool to promote industrialization and economic transformation (Zeng, 2021). This qualitative research aims to explain the readiness that drives the development of the Tak special economic zone of government agencies and entrepreneurs located in Mae Pa subdistrict, Mae Sot district, in Tak province of Thailand, in terms of both its social and economic aspects. In-depth interviews were conducted with ten key informants, employing purposive sampling. Content analysis and NVivo software were used to analyse the qualitative data. The findings revealed that the main obstacles and problems in developing the Mae Pa subdistrict special economic zone to achieve sustainability in the operation of government agencies are unclear bureaucratic regulations and a lack of legislation supporting the work of related agencies at the national and local levels. By inviting the prime minister to work groups in various committees, the government should prioritise the subdistrict administrative organisation. A town plan with the establishment of a centre for the integration of the Tak special economic development zone of each area based on public opinion, particularly among those who will be affected by this development, should be designed.

Keywords: Development, Special Economic Zones, SEZ, Social, Economics


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1. INTRODUCTION

The economy is intricately intertwined with the fabric of our daily lives (Jangjarat, Kraiwant, Satiypayong, et al., 2023). Indeed, the dynamics of economic progress, accompanied by social, cultural, and technological advancements, have exerted profound influences on the transformation of our lifestyles (Kraiwanit et al., 2019). According to The World Bank (2020) and Zeng (2021), special economic zones (SEZs) are utilised by developing countries as a strategy to promote industrialization and economic transformation. Special economic zones can facilitate participation in global value chains, as recognized by the World Development Report 2020. However, the outcomes of special economic zones vary globally, with some regions, particularly in East Asia, experiencing more success compared to others, such as those in sub-Saharan Africa, which still face challenges in making the zones fully functional. Special economic zones are designed to address market failures by complementing market forces. These failures include issues with land markets, such as land
unavailability, ownership complexities, and resettlement problems. Inadequate industrial infrastructure, such as power, water, gas, telecom, and waste treatment facilities, can also hinder industrial agglomeration within special economic zones. Furthermore, poor regulatory and business environments caused by coordination failures within or between governments and the private sector can impede the effectiveness of special economic zones as industrial policy tools. Overcoming these challenges is crucial for the successful implementation of special economic zones and achieving sustainable economic development in developing countries.

The Mae Sot border special economic zone was established on 19 October 2004 in accordance with the cabinet resolution to transform Mae Sot into a city of border trade and economy, which is in compliance with the government’s policy of spreading development to different regions in accordance with the development plan. It is a district with high potential and readiness, including economic investment in the industrial, agricultural, and agricultural sorghum sectors. Furthermore, the Myanmar government has approved the development of the Trilateral Highway project, which will connect Southeast Asia and South Asia. This makes the route from Mae Sot to Yangon, which is approximately 493 kilometres long, vital because Myanmar’s terrain can be linked to countries with large markets such as China, India, and Bangladesh, implying that connecting with Myanmar is an important opportunity for distributing products to other countries (Momint, 2016; Office of the National Economic and Social Development Council, 2023). Furthermore, the spread of the COVID-19 virus since the end of December 2019 has resulted in the government putting in place measures to control and prevent the outbreak, such as restricting the movement of people both within and between countries, including foreign workers, as well as closing areas or limiting travel on various transportation systems. Furthermore, the fighting between the Myanmar Army and ethnic military forces along the Mae Sot border has hampered the operations of shops and factories, resulting in a significant drop in sales. As a result, the Mae Sot special economic zone development project could not be completed as planned (Guina & Tangtrongjita, 2021; Pinitwong, 2019; Pinitwong, 2023). The development of the Mae Sot special economic zone in the Mae Pa subdistrict of Thailand’s Tak province is an important subject of study. Recognizing the significance of this zone’s long-term sustainability for the well-being of individuals and the growth of entrepreneurs, the researchers undertook this study with a focus on understanding the factors that contribute to its development. The research aims to explore the readiness of government agencies and entrepreneurs in driving the development of the Tak special economic zone, considering both its social and economic aspects. By examining the factors that influence its development, this study contributes to our understanding of the challenges and opportunities associated with the creation of the Mae Sot special economic zone, providing valuable insights for policymakers and stakeholders.

The paper is structured into six main sections, beginning with the introduction as the starting point in Section 1. Section 2 provides a comprehensive literature review. Section 3 outlines the research methodology employed in the study. In Section 4, the findings of the research are presented. These findings are then thoroughly discussed in Section 5. Finally, Section 6 concludes the study by summarising the main findings, highlighting any limitations, and offering recommendations for future research.

2. LITERATURE REVIEW

A special demarcated area or geographic area known as a special economic zone is one that has different economic laws from the rest of the country and is regarded as a duty-free enclave. Although the special economic zone’s primary goal is to draw foreign direct investments, due to its superior infrastructure, it also attracts domestic businesses. China, Poland, the Philippines, and Russia are a few of the nations that have implemented the special economic zone policy successfully. In addition, special economic zones are created to support the nation’s fast economic expansion. The main goals include fostering domestic and international investment as well as promoting the export of goods and services. One of the major advantages of special economic zones is the development of infrastructure and the generation of employment opportunities (Balasubramanian, 2022).

According to Bräutigam and Xiaoyang (2011) and Zeng (2016), special economic zones or industrial parks can serve as valuable instruments for promoting industrialization and structural transformation, but only when specific conditions are met. Reflecting on over 50 years of experience with special export zones, a mixed picture emerges. Notable failures have been more common in Sub-Saharan Africa, while significant successes have been observed primarily in Asia and Latin America. This varied track record fuels the ongoing debate surrounding the purpose and justification for utilising special economic zones as a means of economic development. Special economic zones encompass a wide range of types, including free trade zones, export processing zones, economic and technology development zones, enterprise zones, high-tech zones, as well as industrial parks, science and technology parks, and free ports. Table 1 provides an overview of the most prevalent types that have emerged in recent years.
Table 1. An overview of common types of special economic zones

<table>
<thead>
<tr>
<th>Name</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free trade zones</td>
<td>Free trade zones, referred to as commercial-free zones as well, are enclosed areas where trade activities take place without the imposition of tariffs. These zones provide services such as warehousing, storage, and distribution facilities to support trade, transshipment, and re-export operations.</td>
</tr>
<tr>
<td>Export processing zones</td>
<td>Export processing zones are industrial areas designed primarily for foreign markets, providing companies with favourable trade conditions and a permissive regulatory environment. Generally, there are two types of export processing zones: comprehensive zones that accommodate various industries, and specialised zones that cater exclusively to specific sectors or products.</td>
</tr>
<tr>
<td>Comprehensive special economic zones</td>
<td>Comprehensive special economic zones, also known as multi-functional economic zones, are expansive areas that encompass a combination of diverse industrial, service, and urban amenities. In certain instances, these zones can encompass an entire city or jurisdiction, as seen in examples like Shenzhen city and Hainan province in China.</td>
</tr>
<tr>
<td>Industrial parks</td>
<td>Industrial parks, also called industrial zones, are largely manufacturing-based sites. Some multi-functional zones similar to comprehensive special economic zones (listed above) exist, but usually operate at a smaller scale. The parks normally offer a broad set of incentives and benefits.</td>
</tr>
<tr>
<td>Bonded areas</td>
<td>Bonded areas, also known as bonded warehouses, are specific buildings or other secured areas in which goods may be stored, handled, or undergo manufacturing operations without the payment of duties that would ordinarily be imposed. To some extent, a bonded area is similar to a free trade zone or free port. However, the major difference is that a bonded area is subject to customs laws and regulations, while a free trade zone is exempt from these provisions.</td>
</tr>
<tr>
<td>Specialised zones</td>
<td>Specialised zones include science or technology and logistics parks, as well as petrochemical and airport-based zones.</td>
</tr>
<tr>
<td>Eco-industrial zones or parks</td>
<td>Eco-industrial zones or parks prioritise enhancing the ecological aspects by minimising waste and enhancing the environmental performance of businesses. These zones frequently employ the concept of industrial symbiosis and incorporate green technologies to promote energy and resource efficiency. As a response to pressing environmental issues, an expanding array of countries are adopting this innovative zone model.</td>
</tr>
</tbody>
</table>

Source: Zeng (2016).

According to Krainara and Routray (2015), the Greater Mekong subregion (GMS) experiences increased interdependence in trade and commerce due to regional economic integration. Their study examines the factors contributing to the growth of cross-border trade between Thailand and its neighbouring countries: Cambodia, the Lao People’s Democratic Republic (PDR), Malaysia, and Myanmar. Using time series data from 1996 to 2012, the research analyses the patterns and trends associated with this trade expansion. Over the years, there has been a notable surge in local and regional cross-border trade, as well as increased mobility of individuals. The majority of goods traded across the border are manufactured in Bangkok, its surrounding areas, and Thailand’s eastern region. Although Thai border cities currently play a significant role as distribution centres, industrial development in these regions has not fully capitalised on the trade’s potential. To address this issue and promote balanced development within Thailand and its less developed neighbouring countries, the establishment of emerging border economic zones is proposed as both a strategy and a means of reducing interregional and intraregional disparities while fostering integrated borderland development.

In Krongkaew’s (2004) research, the focus is on the development of the GMS. The GMS Economic Cooperation was established in 1992 with the participation of six countries that share the Mekong River: Cambodia, the Lao PDR, Myanmar, Thailand, Vietnam, and China’s Yunnan province. The Asian Development Bank (ADB) provided assistance in forming this collaboration. The nine key areas of focus for this cooperation include transportation, telecommunications, energy, tourism, human resource development, environment, agriculture, trade, and investment. Over the past decade, numerous projects have been completed or initiated, such as the construction of North-South, East-West, and Southern Economic Corridors, which are road networks linking these GMS member countries. Other achievements include the establishment of electricity trade between the Lao PDR and Thailand, as well as agreements to facilitate cross-border movement of goods and people. The collaboration holds significant potential benefits due to the open, market-based economies of the GMS members. However, challenges may arise from differing levels of development and relative political instability in some member countries, potentially hindering progress and limiting the full advantages of this subregional cooperation.

Warr et al. (2009) utilise a general equilibrium framework to examine the regional economic impacts of infrastructure enhancements aimed at reducing cross-border inter-regional trade costs. The analysis specifically focuses on the economic benefits of the Second Mekong International Bridge connecting Mukhathan province in Thailand and Savannakhet province in the Lao PDR. The results indicate that in the short term, the reduction in transportation costs resulting from improved inter-regional transportation facilities will lead to a moderate increase in trade volumes in both directions and a slight improvement in real consumption in both regions. Over time, the economic benefits for both regions will be significantly higher as investors respond to the altered incentive structure by making new capital investments and workers relocate to areas with higher labour returns. However, the findings do not support the commonly held belief that the advantages of cross-border infrastructure projects are predominantly concentrated in the wealthier region.

Brussevich (2020) conducts an analysis of the socio-economic consequences of Cambodia’s SEZ program during the period from 2007 to 2017. The findings indicate several positive outcomes resulting from the program, such as increased employment rates among women and a reduction in income inequality in the districts hosting the SEZs.
However, the benefits appear to be skewed towards landowners rather than workers, as land values in the treated districts have risen while real wages have remained stagnant. The study reveals that the presence of multiple SEZs in a district has had limited agglomeration effects. Interestingly, there has been a worrying increase in high school drop-out rates in districts with a higher concentration of SEZs. Furthermore, the SEZ activities are concentrated in areas with better access to infrastructure and transportation networks, exacerbating the economic disparities between remote and less developed regions. Although the SEZ program has had positive spill-over effects on female employment and income inequality, its impact on overall formal employment and wage levels is constrained. This limitation is attributed to the program’s primary focus on attracting foreign investment for export diversification, rather than targeting economically disadvantaged areas as observed in SEZ programs in advanced and emerging economies. The paper concludes by recommending key policy priorities to enhance the positive socio-economic spill-overs from SEZs in Cambodia. These include investing in energy, transportation, and water and sanitation infrastructure to encourage SEZ establishment in economically disadvantaged areas and promote linkages with domestic firms. Additionally, investment in human capital is crucial to attract foreign investment in technologically advanced sectors and support long-term diversification strategies. Lastly, shifting from tax holidays to tax incentives linked to investment size can promote sustainable investment and mitigate rent-seeking behaviour among investors.

Thame (2020) examines the emergence of cross-border SEZs, a novel form of transnational economic zones that are being developed worldwide. The paper provides an introduction to this concept, discussing its rationale, and investigates the current state of development in mainland Southeast Asia. Specifically, the study focuses on zones located along the borders of China with the Lao PDR, Myanmar, and Vietnam, as well as Thailand’s borders with Myanmar, the Lao PDR, and Cambodia. The findings shed light on the inconsistencies in terminology and the highly context-specific nature of zone models. It emphasises the importance of considering the implications for statehood by drawing on existing literature on state transformation. The research argues that successful cross-border SEZs necessitate close cooperation and inclusivity. However, the study reveals limited evidence of such collaboration occurring in the region. In conclusion, the paper suggests that the optimistic expectations expressed by proponents regarding the contribution of these zones to inclusive and sustainable development may face challenges. The lack of significant progress in achieving cooperation and inclusivity raises concerns about the realization of these aspirations.

3. RESEARCH METHODOLOGY

The objectives of qualitative research involve exploring various contexts in which individuals or groups make decisions and take action, as well as providing explanations for the occurrence of observed phenomena. The qualitative research process consists of four key steps: research design, data collection, data analysis, and report writing. In-depth interviews play a crucial role in obtaining detailed information on specific topics, enabling researchers to achieve their research objectives (Limna et al., 2022; Sonsuphap, 2022; Viphanphong et al., 2023). Therefore, a qualitative approach was employed as the research strategy. Additionally, in accordance with the recommendations of Sarkorn et al. (2022), in-depth interviews were conducted. Primary data results were obtained by reviewing secondary data to formulate appropriate key survey questions for the in-depth interviews, utilising the documentary method. Purposive sampling, a qualitative research technique in which researchers use their expertise to select a sample that provides the most valuable insights, was employed. The objective was to gather comprehensive information about a specific phenomenon or population (Siripipathanakul et al., 2022). Hence, purposive sampling was utilised as the sampling method. According to Jangjarat, Kraivanit, Limna, et al. (2023), qualitative research generally views a minimum of six interviews as the appropriate amount for achieving data saturation. Therefore, a group of ten participants consisting of academics, experts, and stakeholders, who met the specified criteria, were selected for the interviews. The selection criteria included the following: 1) being Thai nationals, 2) being over 18 years old, and 3) having relevant knowledge and experiences related to special economic zones. To ensure adherence to ethical research practices and obtain informed consent, participants were provided with detailed information about the study’s goals and objectives before their participation in interviews or any other research activities, as recommended by Limna, Kraivanit, Jangjarat, et al. (2023). This process allowed participants to make an informed decision regarding their voluntary involvement in the study, fully understanding the purpose and nature of the research.

Content analysis is a qualitative research method that involves systematically and objectively describing and quantifying specific phenomena by making valid inferences from verbal, visual, or written data (Bengtsson, 2016; Limna, Kraivanit, & Siripipathanakul, 2023). Furthermore, Mortelmans (2019) suggests that NVivo is a valuable tool for enhancing the depth and breadth of analysis. Thus, the content analysis method and the NVivo software program were employed to analyse the qualitative data collected through in-depth interviews, following the recommendations of Limna, Kraivanit, Jangjarat, and Maskran (2023).

4. RESULTS

The value of border goods at Mae Sot customs checkpoint in Tak province was approximately 100 billion baht per year, and the total value was 79,664.08 million baht, which was the commercial value of the highest border among the provinces with trade borders with Myanmar such as the Ranong, Mae Hong Son, and Mae Sariang checkpoints, and so on. As a result, Mae Sot customs checkpoint in Tak province offered great potential in
terms of border trade, with the result that the government announced Mae Sot district as one of the special economic development zones. In terms of the operation of government agencies, there are major obstacles and problems, including unclear governmental regulations and a lack of legislation to support the work of relevant agencies at the national and local levels. Moreover, Mae Sot district in the Tak province of Thailand welcomes large investments from Chinese businessmen worth more than 450 billion baht who have worked for the development of the Mae Sot SEZ without any obstacles to conducting business from the government, especially in Mae Sot, Tha Sai Luad, and Mae Pa subdistricts, which are the main areas according to the government’s policy. According to information received from Mae Sot municipality, there is still a lack of clearly responsible agencies, with only the provincial governor serving as chairman and coordinating with the government via the SEZ coordination centre, which has no decision-making power. Furthermore, the implementation of various projects and benefits announced by the government in the current special economic zone is unclear and unappealing to investors.

The government announced the development goal of the special economic development zone in Tak province to be a transfer centre between countries and labour-intensive industrial networks. Currently, freight forwarding entrepreneurs face difficulties in utilising storage space due to cargo vehicles registered in Thailand that can transport goods to Myanmar, while Myanmar freight vehicles are not permitted to cross the border into Thailand to deliver goods. Furthermore, the second Mae Sot customs checkpoint was only 44% effective, resulting in a lack of interest in the warehouse business or warehouses in the Mae Sot and Mae Pa areas. In addition, Mae Pa subdistrict currently lacks the budget and concrete government support for the implementation of SEZ projects, such as for road maintenance and construction, as well as for consumption and drainage in water management. Land prices are skyrocketing, particularly in flood-prone areas, and there is an increasing problem of farmers not having enough land to make a living as a result of haphazard development. There is a dearth of accurate knowledge regarding farmers and communities, including the implementation of various projects according to the office of the prime minister’s order, which allocates the budget used to take care of the original localities of the various agencies involved. For example, to build a road network in the area, the subdistrict administrative organisation must use their own budget. This is incompatible with the efficient implementation of the project to develop the SEZ.

The potential of the local budget management of the Mae Pa subdistrict administrative organisation and the people in the Mae Pa community who will jointly determine the direction of developing the area into a SEZ where all sectors participate will thus determine the direction of development in various areas. As a result, the development of Mae Pa subdistrict to support the advancement of a SEZ for sustainability is based on human resource as well as social and economic growth in order to reduce negative impacts on the people in the area and beyond.

The interpretation and analysis were also based on NVivo. Figure 1 and Figure 2 depict the word frequency query (word cloud), and hierarchy chart (tree map).

**Figure 1.** Word frequency query (word cloud)

![Figure 1: Word frequency query (word cloud)](image1.png)

*Source: Authors’ elaboration, using NVivo.*
5. DISCUSSION

The main obstacles and problems in the development of the special economic zone in the Mae Pa subdistrict area to achieve sustainability in the operation of government agencies are unclear bureaucratic regulations and a lack of legislation to support the work of related agencies at the national and local levels. The work still lacks a clearly responsible agency in the development of the Mae Sot special economic zone, particularly in Mae Sot, Tha Sai Luad and Mae Pa subdistricts, which are the main areas according to government policy. The potential advantages announced by the government in the current special economic zones are also unclear, resulting in a lack of interest in the warehouse business in the Mae Sot and Mae Pa areas. Further to that, there is an issue with the city planning law, which has not been updated to reflect the actual use of the area. These findings correspond with the results of a similar study concerning the development of the GMS by Krongkaew (2004) that there are issues concerning the various levels of development, as well as the relative lack of political stability in some member countries, which may stymie progress and prevent reaping the full benefits of this subregional cooperation. To address these challenges and promote the successful development of the special economic zone, the study suggests certain measures. It proposes that the government should prioritise the subdistrict administrative organisation by involving the prime minister in various committees and work groups. This high-level engagement can provide the necessary support and attention needed to overcome bureaucratic hurdles.

The subdistrict administrative organisation is a vital public-facing agency that will be in charge of driving the Tak special economic zone project’s development. The government should prioritise the subdistrict administrative organisation by inviting the prime minister to work groups in various committees. There should also be a town plan with the establishment of a centre for the integration of the Tak special economic development zone of each area based on public opinion, particularly among those who will be affected by this development. For example, the administrative centre should be established in Mae Pa subdistrict because it can support Tak's special economic development better than Mae Sot municipality, including the ability to support the project to build a second airport. In terms of subdistrict operations, the government should expedite the enactment of legislation to systematically support the development of the Tak special economic zone. The decentralisation of power and budget to subdistrict administrative organisations to provide information to the public and interested parties, as well as listen to their opinions, will be an important mechanism for driving development in line with the needs of all parties, because in the past, the process was an order from the prime minister’s office that was passed by the governor without asking for subdistrict administrative organisations’ opinions.

Regulating cross-border trading in a developing economy is a complex task that requires careful consideration of various factors. The goal of regulation is typically to foster economic growth, protect domestic industries, ensure fair competition, and maintain financial stability. It is important to note that the specific approach to regulating cross-border trading may vary depending on the unique circumstances of each developing economy. The regulatory framework should be designed to strike a balance between promoting economic growth and protecting domestic industries, while also considering the country’s long-term development objectives.

6. CONCLUSION

The research findings highlight several obstacles and challenges faced in establishing the Mae Pa subdistrict special economic zone and ensuring its long-term sustainability. One key issue identified is the presence of unclear bureaucratic regulations, which hinders the smooth operation of government agencies involved in the development process. Additionally, a lack of legislation supporting the work of relevant agencies at both the national
and local levels poses a significant challenge. Furthermore, the research recommends the creation of a town plan that incorporates the establishment of a centre for the integration of the Tak special economic development zone. This plan should be developed based on public opinion, particularly from those who will be directly impacted by the development. By incorporating the perspectives of the local community, the plan can better address their needs and concerns, contributing to a more sustainable and inclusive development process.

In conclusion, this study sheds light on the readiness and challenges surrounding the development of the Tak special economic zone in the Mae Pa subdistrict. The findings emphasise the importance of clear regulations, supportive legislation, and inclusive planning processes to ensure the successful and sustainable operation of the SEZ. Implementing these recommendations can enhance the social and economic aspects of the zone, benefiting both the government agencies involved and the local communities affected by the development. Limitations of the present study include the small sample size of ten key informants, which may not fully represent the diverse perspectives and experiences of all stakeholders involved in the development of the Tak special economic zone. Therefore, the findings should be interpreted with caution and may not be generalizable to other contexts. Moreover, conducting interviews with a larger and more diverse group of participants, including government officials, entrepreneurs, local residents, and other relevant stakeholders, would offer a broader range of perspectives and insights. The study solely relies on qualitative data obtained through in-depth interviews. Including quantitative data, such as online surveys or economic indicators, could have provided a more comprehensive understanding of the social and economic aspects of the special economic zone development. For further research, satisfaction with the development of the Tak special economic zone of communities and entrepreneurs in Mae Pa subdistrict, as well as strategies to improve the quality of life, social value and development of natural resources and environmental management system for the long-term sustainability of the Mae Pa subdistrict administrative organisation in the Mae Sot district, Tak province, should be investigated.

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