



An SEZ basically refers to an enclave within the state that operates under a separate administration. The private investors who invest in the SEZ receive special treatment in services, duties and tariffs, and are allowed to operate under a more relaxed regime of investment regulations. The social, environmental and labor standards imposed on the investments are more lenient than in national regulations and laws.

If the current trend of growing numbers of SEZ continues (while at the same time, proper laws and regulations are not put in place), there is a serious risk that people in the GMS might become vulnerable to human rights violations, forced eviction and loss of livelihood.

The creation of SEZ is one of the major components of the ADB's Action Plan towards the realization of "economic corridors." The ADB invests in a network of roads, railways and transmission lines in the Mekong Region to improve connectivity between the countries. The Bank refers to this infrastructure as "economic corridors" instead of roads or railways, when these are cross-boundary and bundled with other infrastructure and industrial estate along their stretch. SEZs are located at the nodes of this network of infrastructure development, and are often close to the borders of other countries or near a port.

CONTEXT

Facts and Numbers

- About 10 SEZs are currently in operation in Laos and Cambodia.²
- The number of SEZs in the Mekong Region is expected to be more than 60 zones by 2015; fifty-four (54) SEZs are to be established in Laos and Cambodia alone (See Table 1).

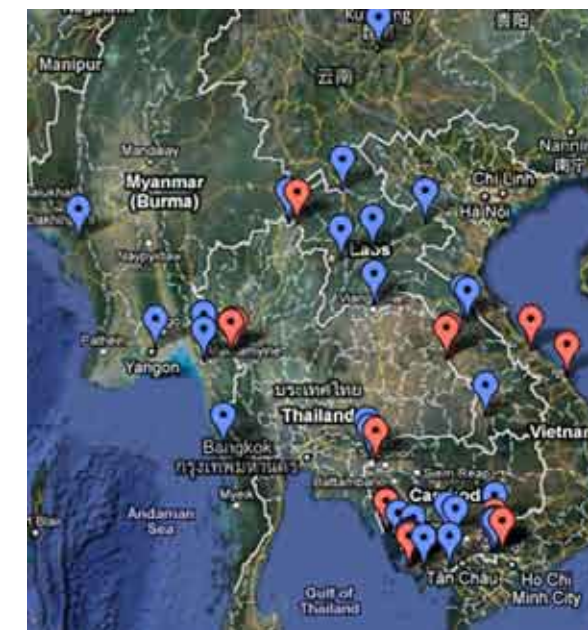
Table 1: Numbers and Trends of SEZ in GMS (2011-2015)

Country	Total (2011)	On-going (operational)	On-going (implementing)	Proposed	Total (2015)
Burma***	6	0	0	6	6
Cambodia	24	6 (2009)	16	n.a	24
China*	1	1	n.a	n.a	1
Laos	8	5	??	3	32
Thailand***	6	0	1	5	6
Vietnam**	4	4	n.a	n.a	4

*Yunnan Province and Guangxi Zhang Autonomous Region
 ** Only SEZs that are being mentioned in the ADB's Action Plan for Economic Corridors
 *** Estimate figures based on news reports
 Sources: ADB (NSEC, EWEC and SEC Action Plan), Cambodia Special Economic Zone Board, Laos' National Committee for Special Economic Zone

WHAT IS RELEVANT FOR THE DIFFERENT STAKEHOLDERS?

- The Mekong countries see Special Economic Zones as a useful instrument in the promotion of economic growth.³ Cambodia, China, Laos and Thailand have integrated SEZ development as part of their national economic development strategy.
- SEZs are instrumental in the realization of a competitive single market. SEZs and regional integration are mainly in the interest of private companies. For the companies of emerging economies such as Thailand and Vietnam, the creation of SEZs located just over the border in poorer countries such as Laos and Cambodia is profitable mainly because it provides access to a cheap labor force and the available cheap land.
- It is also common practice for companies to move a factory across borders in order to benefit from the preferential treatment that poor countries temporarily receive through international trade agreements, such as in the case of a Cambodian garment company that has free market access to the United States, Canada, Japan and Australia.⁴



Note: Flags indicate SEZs planned for 2015, including SEZs already in operation. Red flags indicate SEZs with ADB involvements (see GMS development matrix on page 6)

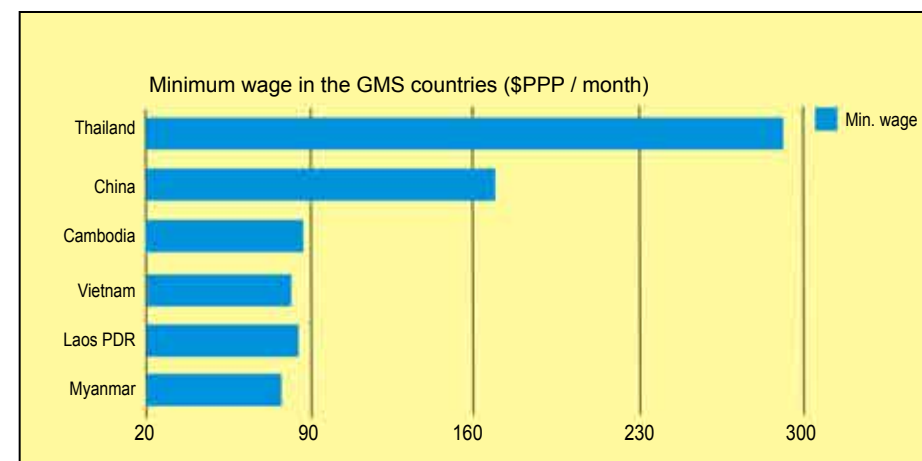


Figure 1: Minimum wage in the GMS
 Note: Wages in Cambodia and Myanmar are estimated.
 Source: ILO (2010). Global Wage Report 2010/11

ADB and SPECIAL ECONOMIC ZONES

ADB and the Greater Mekong Subregion Program

SUMMARY

The Asian Development Bank (ADB), the biggest multilateral donor in the region, is actively involved in helping the Mekong countries set up Special Economic Zones (SEZs). According to the latest information available, the ADB has supported five (5) SEZ-related projects in Thailand and Laos, and another 31 SEZ projects have been proposed at the end of 2006. The total estimated cost of these projects is well above US\$1 billion.¹

SEZs are seen by the ADB as a useful tool to attract investments, create jobs, and boost industry competitiveness, which, in the end, should result in economic growth. SEZs, at the same time, fail in complying with the social and environmental safeguards of the Bank.

WHO IS AFFECTED?

If the current trend of growing numbers of SEZs continues, while at the same time, proper laws and regulations are not put in place, there is a serious risk that people in the GMS might become vulnerable to human rights violations, forced eviction and the loss of livelihood.

- The Laotian and Cambodia governments lease substantial amounts of land to private investors.
- Since 2005, around 15% of Cambodian land has been signed over to private companies, a third of them foreign, using leases under which they promise to develop the plots and provide jobs.⁵
- Land concessions granted to companies are accompanied by the forced eviction of people without any (proper) compensation paid to them. A number of households are being displaced in Laos and Cambodia. Information about compensation and rehabilitation are often not made public by the governments.
- SEZs are seen as an important means of job creation. But labor circumstances in the factories are very harsh. Workers often work overtime hours to earn just enough income to survive. Often, the workers are composed of migrants who are paid cheaply. Workers get paid for every piece of product they finish. They have temporary contracts and employers do not provide them with any protection or insurance against illness or injuries. In SEZs, the right of assembly is not recognized. Some of the labor practices are in breach of the

OECD guidelines⁶ for multinational companies and/or the International Labor Organization conventions.⁷ The latter has been signed or partly signed by the Mekong country governments.⁸

- Many SEZs have been set up in countries where citizens have no power in decision-making and where there is no official avenue available through which they can voice their concerns.

WHAT IS THE ROLE OF ADB?

- Since 2001, ADB has been involved in 41 SEZs-related projects under the investment sector of the GMS program. The total estimated cost of those projects is US\$1 billion.
- The ADB provides technical assistance to the development of SEZs, and helps in drafting national economic development strategies, investment laws and decrees on Special Economic Zones.⁹
- The ADB also co-finances the construction of necessary infrastructure to connect the SEZs with harbors and cross-boundary markets. The North-South, East-West and Southern Economic Corridor¹⁰ along which the SEZs are located, are co-financed by the ADB.
- The Asian Development Bank Institute (ADBI), the ADB's think-tank, has played a significant role in producing pro-SEZs views.

CASE EXAMPLE

Sihanoukville Special Economic Zone (SSEZ) and Land Eviction in Cambodia

What:	Establishment of the largest private-run SEZ project in Cambodia. The project is expected to attract 300 foreign companies to invest in the zone and generate 80,000 new jobs in Cambodia.
Where:	Along the GMS Southern Coastal Corridor, Bith Traing commune, Sihanoukville (Krong Preah Sihanouk) province, Cambodia.
When:	2 nd phase (2008-2011); The project expected to be completed by 2015.
Cost:	US\$320 million
Key agencies:	<ul style="list-style-type: none"> - Cambodia International Investment Development Group Co.,Ltd. (CIIDG) - Jiangsu Taihu Cambodia International Economic Cooperation Investment Co, Ltd. (JT-CIEC) - The Cambodia Development Council (CDC)

"Now we have to pin our hope to NGOs. People are no longer capable of depending on themselves. We are short of money and rice. Before, we did some farming, and now we no longer have fields to plant rice. Before, I was able to feed my seven children. Now there is nothing."¹¹

Amnesty International (AI) and the Cambodian League for the Promotion and Defense of Human Rights (LICADHO) have reported that 117 Cambodian families have lost their homes in one day and some have been arrested due to a forced eviction.¹² The arrests and evictions were made by the Cambodian police at the Mitaheap 4 village in Sihanoukville on 20th April 2007. No further investigation from the Cambodian government has followed. One year after this forced eviction, the construction of SSEZ began in Sihanoukville. SSEZ is the biggest SEZ project in Cambodia,

and co-financed by a joint venture between Cambodian and Chinese private companies. SSEZ developers claim that it will be similar in size to that of a city. It will host 300 factories and companies, and create at least 80,000 jobs in Cambodia. The Cambodian PM Hun Sen has addressed that the project is a new symbol of China-Cambodia economic collaboration.¹³

Because of its location, SSEZ will benefit from the GMS Southern Economic Corridor (SEC). In the SEC Action Plan 2009-2013, ADB encourages the "establishment of SEZ in the border areas and joint development of border economic zones" to promote and facilitate cross-border trade and investment along the SEC.¹⁴

ADB is currently seeking private financing of three (3) SEZ projects in Cambodia which include the construction of the Sihanoukville export processing project.¹⁵

Thailand's SEZs: Chiang Rai Special Border Economic Zone (CRSEZ)

What:	Establishment of the first pilot SEZ project in Thailand. The project includes the construction of a new industrial estate, inland container depots (ICD) and commercial piers in the Mekong river.
Where:	Along the North-South Economic Corridor. The SEZ covers the three districts of Mae Sai (border with Burma), Chiang Saen and Chiang Khong (border with Laos) in the Chiang Rai province, Thailand.
When:	Began in 2003
Cost:	US\$100 million
Key agencies:	<ul style="list-style-type: none"> - Thailand's National Economic and Social Development Board (NESDB) - Industrial Estate Authority of Thailand (IEAT) - Paphamart Group

CRSEZ was a project proposed by the Thai government in 2002, which was to be the first of its kind in the country. Before the CRSEZ came into existence, there had already been many Export Zones established across Thailand.¹⁶ These have been subjected to all the national environmental and social regulations. But the CRSEZ has a different philosophy. CRSEZ was planned to be a pilot project with an independent zone administrator, who was delegated by the Prime Minister of Thailand. The CRSEZ aimed to minimize state regulation and bypass the usual complex bureaucratic procedures and law system, in order to attract foreign capital and investments.

The most important project in the CRSEZ is the construction of an industrial estate in Chiang Saen. In 2003, IEAT chose an area of 480 hectares outside the town of Chiang Saen for its construction without consulting local citizens (and EIA was urgently conducted). According to the local civil society,

the project caused severe harm to the Chiang Saen cultural heritage, agricultural areas and livelihood of local communities. Cooperation between local civil society and farmers in Chiang Saen succeeded in putting a stop to the construction of industrial estate in the area. In 2005, the CRSEZ project was resurrected by the relocation of the industrial estate construction site to the Chiang Khong district, where the GMS North-South Economic Corridor passes through. But so far, progress has not been made in the construction of the project.

Since 2002, ADB has funded two (2) TAs related to the establishment of CRSEZ. In 2005, a SEZ Bill, which was issued by the Thaksin Shinawatra's administration, did not pass in parliament because of the strong public reaction it has received. Currently, the legalization of Thailand's SEZ plan is still on hold.

CHALLENGES

- In order for the SEZs to be financially viable, economic corridor development is needed. The ADB claims that the SEZs connected to its corridors have to meet ADB and national environmental and social standards.
- National investment laws and decrees on the establishment and management of SEZs like the Cambodian, only weakly refer to national labor laws and environmental protection measures to be taken.¹⁷ There are no references made as to the obligations of the SEZ to conduct Environmental Impact Assessments, or Environmental Management plans. There are no requirements for monitoring systems to be set in place. There is no representation of workers, and/or trade unions in the Economic zones board. There are no formal grievance mechanisms in place.
- Not all relevant information concerning the planning and realization of SEZs has been publicly disclosed. Governments do not scrutinize whether or not the different administrations operate in compliance with environmental, labor and social standards, and SEZs cannot be controlled by trade unions or civil society organizations. The actual benefits of SEZs remain unclear in these cases.
- As the ADB stated in a Technical Assistance report for the Laos government in 2008: "While there is a temptation to attract investments by offering special financial incentives rather than building underlying competitive conditions, it should be noted that these approaches have the potential to distort national fiscal policy and hurt environmental and labor standards."¹⁸

The ADB Safeguards and Accountability Mechanism Policies

The ADB safeguard policies are supposed to guide all ADB operations so that they meet the Bank's minimum social and environmental standards. The ADB requires its clients to comply with these standards, otherwise the Bank may withhold the financing of a project or activity that are not in compliance.

You can find the Safeguards on the ADB's website: <http://www.adb.org/Safeguards/default.asp>.

The ADB has created an Accountability Mechanism that holds the Bank accountable to its own safeguards policies. It responds to grievances from citizens about the environmental and social impacts of ADB-funded projects.

You can find the Accountability Mechanism on the ADB's website: <http://www.adb.org/AM-REview/>.

FURTHER READINGS

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Land for SEZ conversion/Photo by Pieter Jansen

Greater Mekong Subregion Program

The Asian Development Bank and the GMS are unknown among most citizens of the Mekong countries, in spite of the impact they create on many people's lives and on the natural resources the people depend on.

The ADB is a regional development bank that aims to achieve poverty reduction in Asia through the promotion of economic growth. It is a public bank supported by countries and their citizens' taxpayers' money.

In the Mekong countries, the ADB, through the GMS, has pledged a lot of money into building large-scale infrastructure such as roads, railways and high-voltage transmission lines. The idea behind such endeavor is to enable the private sector to earn profit and generate growth for the society as a whole. Furthermore, ADB believes that a regional single market generates more profitable business opportunities for companies than local markets.

Special Economic Zones are seen by the ADB as a useful tool for private sector development. An SEZ basically refers to an enclave within the state that operates under a separate administration from the state. The private investors who invest in the SEZ receive special treatment in services, duties and tariffs and are allowed to operate under a more relaxed regime of investment regulations.

According to civil society groups, the market integration process in the Mekong lacks well-established and effective legal and decision-making frameworks. The SEZs cope inadequately with the environmental and social safeguards which borrowers of the ADB are obligated to follow. This creates the risk that infrastructure would be built at the expense of the environment and people's livelihoods.

Overview: Special Economic Zone projects based on the latest ADB GMS development Matrix (last updated October 2006)

TA / Loans	GMS programme	Projects	
Loans (24)	NSEC (1)	INV030: Establishment of Special Border Economic Zone in Chiang Rai Province: Enforcement of SBEZ Laws	
		INV011: Special Border Zone (SBZ) in Mae Sot, Thailand INV013: Special Border Zone (SBZ) in Mukdahan, Thailand INV014: Savan-Seno Special Economic Zone (SEZ) INV015: Livestock Processing in Savannakhet INV016: Wood Processing in Savannakhet INV018: Timber Complex in Lao Bao Industrial Zone (IZ), Quang Tri, Viet Nam INV019: Wood Processing in Lao Bao INV020: Building of Warehouses in Lao Bao Special Economic Zone INV021: Expansion of the Lien Chieu and Hoa Khanh Industrial Zones, Da Nang, Viet Nam INV022: Developing the Remaining Infrastructure Part of Lien Chieu Industrial Zone INV023: Small and Medium Industry (SMI) Park at Phu Bai Industrial Zone, Hue, Viet Nam INV025: Special Border Zone (SBZ) at Myawaddy, Myanmar INV026: Chan May Trade Development Promotion Zone	
	EWEK (13)	SEC (9)	INV032: Koh Kong Industrial Estate
			INV033: Poipet Industrial Estate
			INV034: Ban Laem-Kamrieng Industrial Estate or Ban Pakkad-Pailin Industrial Estate
			INV037: Sihanoukville Export Processing Zone
			INV039: Moc Bai Cross-Border Economic Zone
			INV040: Trang Bang Industrial Estate
			INV041: Tram Vang Industrial Estates
			INV042: Sa Mat Cross-Border Economic Zone
			INV043: Than Phu Trung Industrial Estate
	Facilitating Cross-Border Trade and Investment (1)	INV007: Institutional development, laws and regulations improvement (2003-21)	
	TA (12)	NSEC (6)	INV005: Feasibility study for the establishment of a Special Border Economic Zone in Chiang Rai Province, Thailand (n.a)
			INV006: Development Study of the North-South Economic Corridor (2006 - 07)
			INV010: Establishment of Special Border Economic Zone in Chiang Rai Province: Area Development and Supporting Plan (n.a) INV027: Feasibility study for the establishment of an industrial estate in Chiang Saen district, Chiang Rai Province, Thailand
	EWEK (4)	SEC (2)	INV028: Establishment of Special Border Economic Zone in Chiang Rai Province: Establishment of Industrial Estate
			INV029: Establishment of Special Border Economic Zone in Chiang Rai Province: Improvement of Supporting Mechanisms
			INV001: Feasibility Study of Establishing Special Economic Zone/Industrial Base in Savan-Seno, Lao PDR (2005 - 2006)
			INV012: Feasibility Study on the Establishment of Special Border Economic Zone (SBEZ) in Mae Sot District, Tak Province, Thailand
			INV024: Harmonization of Industrial Zone Management Policies and Rationalizing Industrial Zones
			TRD024: EWEK Trade and Investment Information System
			INV036: SBEZ New Towns Feasibility Study
	INV038: Thuong Phuoc Free Trade Area Promotion		

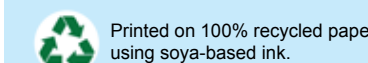
Endnotes:

- ¹ ADB's GMS Development Matrix (last updated October 2006). <http://www.adb.org/GMS/Projects/devmatrix.asp>
- ² See Cambodia Development Council http://www.investincambodia.com/economic_zones/sezs.htm. (accessed on 10 MAR 2011), Laos' Department of Foreign and Domestic Investment <http://www.invest.laopdr.org/special%20zone.htm> (accessed on 10 MAR 2011) and ASEAN-Japan Centre http://www.asean.or.jp/ja/invest/about/eventreports/2010/201021.html/2_Mrs.%20Bouatha%20Khattiya.%20pdf (accessed on 10 MAR 2011).
- ³ See: Law on Investment of the Kingdom of Cambodia, No. 148 ANK.R.BK. and also: Lao Law on Investment Promotion, no 2/NA (2009).
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- ⁶ http://www.oecd.org/department/0,2688,en_2649_34889_1_1_1_1_1,00.html
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- ⁸ Thailand for example deliberately has not signed the Right on Assembly.
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- ¹⁶ Thailand's Board of Investment http://www.boi.go.th/english/how/industrial_estates.asp (Accessed on 10 MAR 2011).
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