An Overview of Large-Scale Investments in the Mekong Region

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Cover: Dam on Nam Ou river, Lao PDR, 2014.
Photo credit: Michael Dwyer

CONTENTS

Introduction

"Investment in itself is not that bad. It depends on what type of investment we are talking about. Is it an investment which allows the private sector to have all the control over our fundamental human rights to basic services, for instance health, education, utilities, etc., or are we talking about government/state investment to improve public services, where it purposely serves the majority among us?"

Pisey Ly, technical support staff to the Cambodian Grassroots Cross-Sector Network.[1]

"The rich human and natural resource endowment of the Mekong region has made it a new frontier of Asian economic growth. Indeed, the Mekong region has the potential to be one of the world's fastest growing areas."

Asian Development Bank[2]

Rice field of Battambang province, Cambodia, 2016. Photo credit: Ridan Sun

Across the Mekong region, 'development' has become synonymous with rapid economic growth, to be achieved through predominantly large-scale, private investments.
The development model promoted by the region's governments prioritizes trade and investment liberalization, and privatization. Private investment is sought in virtually every sector of the economy from energy, oil, minerals, agriculture and food processing to education, health, tourism, manufacturing, pharmaceuticals, transportation and urban infrastructure. This paper presents an overview of these investment trends in the Mekong region, the regulatory and policy changes designed to facilitate large-scale foreign and domestic investment, and the impact of such investment in Special Economic Zones (SEZs), especially on the living and working conditions of workers in these SEZs.
The paper offers a critical perspective on the scale and range of large-scale investments in the region and how these investments privilege large investors over local populations and public interest.

For over two decades now, IFIs—especially the Asian Development Bank (ADB) and the International Finance Corporation (IFC)—and the region's governments have promoted the Mekong region as a favorable investment destination, promising large investors easy and secure access to land, water, minerals and labor; freedom from laws and regulations that may limit their revenues and; protection from protests, strikes and resistance from workers and local populations. Large investors on their part are attracted by the promise of raw materials, cheap labor, low taxation, assured markets and legal protection.
All governments in the region are increasingly putting into place investment friendly regulation and offering incentives to attract both domestic and foreign investors. Public investment in goods and services necessary to ensure the welfare and wellbeing of the majority such as health, education, clean water, sanitation, transportation, protection/ insurance against disasters, etc., are also being brought into the frameworks of public-private partnerships (PPPs).

The Mekong region derives its name from the Mekong River and encompasses the province of Yunnan in the Peoples' Republic of China (China), Union of Myanmar (Myanmar), Kingdom of Thailand (Thailand), the Lao Peoples' Democratic Republic (Laos), Kingdom of Cambodia (Cambodia) and the Socialist Republic of Vietnam (Vietnam). The Mekong is the world's 12th longest river and drains approximately 795,000 square km across six countries through a large network of tributaries that themselves form many sub-basins. From its origins in the snow-fed plateau of Qinghai-Tibet, the river passes through and shapes a wide range of topographies including the Tibetan Plateau, Three Rivers Area and Lancang Basin that form the Upper Mekong Basin, and the Northern Highlands, Khorat Plateau, Tonle Sap Basin and Mekong Delta that make up the Lower Mekong Basin.[3]

The region is renowned for its environmental, social, cultural, biological and environmental wealth and diversity. From water, timber, flora and fauna, to gemstones and minerals, the natural wealth of the region provides a strong base for diverse domestic and local economies. The ebb and flow of the Mekong River and its tributaries between the dry and wet seasons support numerous lakes, riverine, swamps, wetlands and backwater ecosystems rich in biodiversity, such as Cambodia's Tonle Sap Lake and Vietnam's vast Mekong Delta in the lower Mekong Basin. The Mekong River is considered second to the Amazon in terms of natural biodiversity and supports the world's largest freshwater fish species, and thus, too, the livelihoods of at least 60 million people.[4] Changes in the Mekong River or its tributaries would result in significant changes in the entire region's environment and economy.

About 329 million people inhabit the Mekong region[5] with more than 136 million of this population found in the labor force,[6] and comprising over 70 distinct ethnic and linguistic groups located across the countries in the region. About 80 percent of the population are dependent on small-scale agriculture and artisanal fishing for livelihood, with more than half of the protein source of the region's people coming from fish. The region is home to an extraordinary variety of agricultural practices, as well as land, forest and water stewardship methods, many of which have evolved from age-old traditional practices and local knowledge. These include traditional irrigation, upland swidden fields, wet rice cultivation, river-bank gardens, dry area farming and seasonal fisheries. Rural communities generally meet their food and income needs through rice, tuber and other crop cultivation, horticulture, hunting, fishing and foraging. For most rural people, fields, forests, woodlands, wetlands, rivers/streams, lakes and hillsides serve as crucial sources of food, medicinal plants, housing and occupational materials and non-timber forest products (NTFPs).

Countries in the region vary considerably in terms of economic status. Myanmar, Laos and Cambodia are categorized as Least Developed Countries (LDCs) and are the smallest economies in GDP/per capita income terms, but they surpass their larger neighbors in terms of natural resources and environmental wealth. Thailand is arguably the most prosperous in terms of income, consumption and economic activity in the region. China, Thailand and Vietnam have made important domestic investments in health, education, basic and financial services, science and technology and labor-force development. Myanmar, Laos and Cambodia, however, continue to rate poorly in social indicators, with little national public investment in key social sectors. Policy makers in these three countries seem to expect that aggressively attracting Foreign Direct Investment (FDI) will create the required conditions that will improve socio-economic indicators in a short span of time resulting in their countries' transition from being LDCs to middle-income.

Chasing Investment Capital

While all Mekong region governments seek FDI, Cambodia, Laos, Myanmar and Viet Nam (CLMV) are especially attractive to foreign investors because of their natural resources and relatively young workforce that can be pulled into global value chain (GVC) production arrangements. FDI flows to CLMV increased by 38 per cent ($17.4 billion) in 2015. In 2014-2015, investment increased on average in manufacturing, finance and infrastructure, albeit with differences by country.[7]

A local employee of Stora Enzo Company leaning against a pile of eucalyptus trees inside the commercial plantation setting up in the village of Ban Lapeung, Ta-oy district, Salavan province, Lao PDR.
Photo credit: Anthony Gueguen/CCL

FDI flows to the Mekong region countries go to a wide range of sectors: resource development for energy and extractive industry (oil, gas, coal, minerals, mining, hydropower, power transmission grids); forestry, agriculture, land and water; manufacturing; transportation infrastructure (roads, highways, railways, ports and deep seaports, airports, railways); services (finance, banking, hospitals, education, water and sanitation); tourism, real estate/property and urban development (luxury housing, townships, sports-clubs, hotels, resorts, transportation, shopping malls, casinos); telecommunication and technology; Industrial Zones (IZs), Specific Economic Zones and Special Economic Zones (SEZs), and Export Processing Zones (EPZs).

FDI levels vary across countries depending on domestic laws and regulations, incentives and attractiveness to regional and global value chains. Also, investment is not solely foreign, as there are domestic investors and state private enterprises. Many resource development projects in infrastructure, energy and extractive industry sectors are public-private partnerships involving host government enterprises, corporations owned by national tycoons and foreign investors—which could be state enterprises or private corporations. In Cambodia, Laos and Myanmar, FDI in agriculture has poured into land concessions with long-term land leases (up to 99 years) at low rates. These lands are planted to boom crops such as rubber, maize, sugarcane and cassava, which in turn are processed into food or industrial products.[8]

The Mekong region governments, especially CLMV, are formulating, enacting and amending domestic laws, policies, processes, regulations and institutions to provide incentives and protections for investors, and establish enabling environments for large-scale investment. These include investor-friendly "one-stop service" for processing investment applications and licenses; and favorable conditions for investment protection, foreign equity, taxation, foreign exchange administration, expropriation of lands from local populations, employment of foreign workers, and land/building ownership, among others. Regulatory and legal reforms generally align with international trade and investment standards to meet the demands of free trade-investment agreements that the Mekong countries have entered into.

FDI in services contributed to almost half of the GDP of the Mekong countries in 2015. The share in GDP of investments in the industry sector could also be viewed as substantial. (See Table 1) Nevertheless, the rise in investments in each sector and their shares in GDP growth have not necessarily translated into narrowing inequalities in wealth, and in access to and control of resources, which have remained in the hands of powerful elites, cronies, corporations, and some politicians.

TABLE 1: SHARE OF INVESTMENTS IN GDP IN 2015

Country	Investment by sectors	Percentage of GDP
Cambodia	Agriculture	28.2%
	Industry	29.4%
	Services	42.3
Laos*	Agriculture	24.8%
	Industry	34.7%
	Services	40.5%
Myanmar	Agriculture	26.7%
	Industry	34.5%
	Services	38.7%
Thailand	Agriculture	9.1%
	Industry	35.7%
	Services	55.1%
Vietnam	Agriculture	18.9%
	Industry	37.0%
	Services	44.2%

Sources: ADB, Asian Development Outlook: Asia Potential Growth, 2016; ADB, Key Indicators for Asia and the Pacific 2016 Country Tables
Note: * Data on Laos from ADB, Key indicator for Asia and the Pacific 2016 is only available in 2014.

Cambodia

Private investment in Cambodia is also in a wide range of sectors, from agro-industry to small–scale fair trade agriculture and roadside repair shops.[9] Three main sectors namely services, agriculture, fishery and forestry, and industry were the main contributors to GDP in 2015: services accounted for 42 percent, agriculture, fishery and forestry for 28 percent, and industry for 29 percent.[10] Other priority sectors for investment are energy, extractive industry, finance, banking, infrastructure and technology. As per the Cambodian Government's website, of the cumulative FDI approved from 1994-2014, the largest share came from China (23.97 percent), followed by South Korea (10.68 percent). FDI from Malaysia, Taiwan, Hong Kong and Thailand were also significant, particularly in the garment industry. FDI rose to an estimated USD 1.8 billion in 2015, up by 8 percent from 2014, contributing to 10 percent of GDP.[11]

Cambodia's national economic policy as well as investment framework and regulations make it the most liberal economy in the Mekong region with the friendliest economic environment for both domestic and foreign investors.[12] Investment incentives available to foreign investors include 100 percent foreign ownership of companies, corporate tax holidays of up to eight years, a 20 percent corporate tax rate after the incentive period ends, duty-free import of capital goods and no restrictions on capital repatriation. Foreign investors can also apply for economic land concessions.

Administration office of Phnom Penh Special Economic Zone, Cambodia, 2016. Photo credit: Sokunthy Ros

These investment projects, however, have been linked to land grabbing and eviction of local communities. Land grabbing and land conflicts have been identified as crucial, chronic issues in Cambodia.[13] Also, to ensure a more secure business climate for large investors, investors are not held legally accountable for any environmental damage and for workers' welfare in case of bankruptcy. Workers have launched protest actions against these policies, but the response of the government has been to use military or police force to intimidate and repress workers and communities negatively affected by investment projects. In the garment industry, for instance, low wages and poor working and living conditions remain the key challenges faced by workers, 85 percent of whom are women. In one protest action in 2014, four workers were killed and at least 38 other workers and supporters were severely injured by government security forces; one boy was disappeared; and 23 workers were arrested at that time. Many local union leaders were also sued by companies during a nationwide demonstration by workers to demand minimum wage increase in 2014.[14] At least three environmental activists who protested against investment liberalization were jailed in 2015.[15] Local labor unions, community leaders/representatives and other activists who demand justice, accountability and equity are seen as opponents of development by the government.

Myanmar

FDI in Myanmar is mainly in natural resource extraction, such as mining, and in the power industry. FDI also flows into manufacturing, transportation and communication, real estate, hotels, tourism, livestock, fisheries, agriculture, construction, industrial estates and zones and SEZs.[16] Most of these investments were approved during the previous military regime, including three large SEZs: Dawei special economic zone (DSEZ) in Southeastern Tanintharyi region; Thilawa special economic zone (TSEZ) in Yangon; and Kyauk Phyu special economic zone (KPSEZ) in South-Western Rakhine state.[17] As of October 2016, China accounted for 32.67 percent of total FDI flows to Myanmar in 133 projects; Singapore accounted for 26.35 percent; Hong Kong, 13 percent; and Thailand, 6.17 percent.[18]

The current government of Myanmar has revised many policies to liberalize its economy, including eliminating multiple exchange rates; reducing trade restrictions; reforming tax policy and administration; passing new arbitration, investment and labor laws; and easing some of the administrative hurdles to doing business in the country. The law on investment was revised and passed in 2016 despite concerns raised by many civil society organizations (CSOs) about such drastic liberalization.

Laos

FDI in Laos in 2015 went to seven sectors: electricity generation, agriculture, mining, industry and handicrafts, services, garments and hotels/restaurants. Investments in electricity generation accounted for 44.78 percent of total FDI, followed by agriculture at 36.76 percent, mining at 14.49 percent, and industry and handicrafts at 2.89 percent.[19] Vietnam had the largest investments in Laos in said year, with three projects accounting for more than 466 million USD of investment capital, followed by Malaysia with two projects worth 430 million USD of investment capital and China with five projects worth 88 million USD of investment capital.[20]

The Lao Government offers several advantages to domestic and foreign investors, such as: trade privileges that Laos also enjoys in other countries; plenty of unexploited natural resources; hydropower potential; large areas of fertile agricultural land; variety in tourism development sites; low labor costs; social-political stability and low political risk; and liberal laws and regulations creating favorable business and investment environments.[21] In the region, Laos has arguably the least protection for local people from the destruction wreaked by large investment projects. Lao people have no say in the country's development strategy, nor do they have adequate legal recourse or access to justice when their rights are violated, their lands taken and environments poisoned. Those who criticize and protest against the government's actions are dealt with harshly.

Vietnam

Vietnam attracted over USD13 billion in FDI in 2012. Approximately 1,100 new FDI projects amounting to USD 7.85 billion were licensed and 435 on-going projects received additional registered capital of USD 5.15 billion.[22] Manufacturing and processing was the most attractive industry for foreign investors, inviting a total of USD 9.1 billion investments which accounted for 70 percent of the country's total registered capital. Second was the real estate sector with USD 1.85 billion or 14 percent of registered capital, and the retail and repair sectors came third with USD 483 million or four percent of registered capital.[23]

In 2013, Japan was Vietnam's largest source of FDI from among 58 countries, with a total of newly registered and expanded capital amounting to USD5.1 billion, which accounted for 39.5 percent of total capital investment. Singapore ranked second with USD 1.7 billion, followed by South Korea with USD 1.2 billion.

The new Vietnamese investment law passed in 2014 and enacted in 2015 has allowed foreign investors to invest in all sectors except for six prohibited sectors, if the investors are in line with the country's Economic Master Plan. Foreign investors are permitted five types of investment arrangements: Joint Venture (JV), Business Cooperation Contract (BCC), 100 percent Foreign-Owned Enterprises (FOEs), Build-Operate-Transfer (BOT) and Merger and Acquisition (M&A). The current law on investment gives domestic and foreign investors equal treatment. Foreign investors are exempt from import duties on goods imported for their own use and which cannot be procured locally, such as machinery, vehicles, components and spare parts for machinery and equipment, raw materials, inputs for manufacturing, and construction materials that cannot be produced domestically.

The Mekong Delta is being marketed as an important investment destination by Vietnam, Australia and Germany, through the Integrated Coastal Management Program (ICMP) being implemented by GIZ. A promotional publication by the ICMP lists the following as reasons for investing in the Mekong Delta: strong economic growth; excellent investment climate; direct transport links and excellent infrastructure; 17 million consumers; strong workforce and high social standards; a booming agriculture and aquaculture industry; climate change as business opportunity; and ample opportunities for future investment expansion. The Vietnamese government offers numerous incentives to foreign investors in preferred sectors and geographic areas, such as enhanced transportation infrastructure, industrial parks, reduced corporate income tax (CIT) rates, tax holidays, special enterprise zones, favorable permission and licensing procedures, exemption from land rent and other policies that reduce costs for foreign investors. The government has also set lower minimum salaries in districts where it wants to attract commercial investment.[24]

Thailand

Thailand received USD 14 billion worth of FDI in 2014.[25] Japan, together with the US, Germany, UK and France, have been the constant top sources of FDI for Thailand in the last decade.[26]

In 2014, the Board of Investment of Thailand (BOI) announced a new, seven-year (2015-2021) strategy to further invite investments, including Thai overseas investments.[27] The main strategy would be to provide privileges to foreign investors that would invest in areas such as research and development (R&D), innovation, value creation in the agriculture, industrial and services sectors, Small and Medium Enterprises (SMEs), and those that would promote fair competition and inclusive growth. It is the government's belief that these privileges will help enhance national competitiveness in both regional and global markets.[28] Under the strategy, FDI was also to be directed towards SEZs. Sectors for investment in the SEZs are automotives and parts, electrical appliance, electronics and telecommunications equipment, agro-processing, logistics, medical equipment manufacturing, medicine production, industrial estates/zones, textiles and garments, and tourism related industries. Investors would be granted corporate income tax incentives; 10 years of double deductions from the investors' costs of transportation, electricity and water supply; exemption from import duty on machineries; exemption from import duty on raw material; non-tax incentives for land ownership; and permission to bring in experts. There were 13 targeted SEZs where the government was keen to provide more incentives.

A detailed list of investments by sector, company, country origin is provided in the Annex.

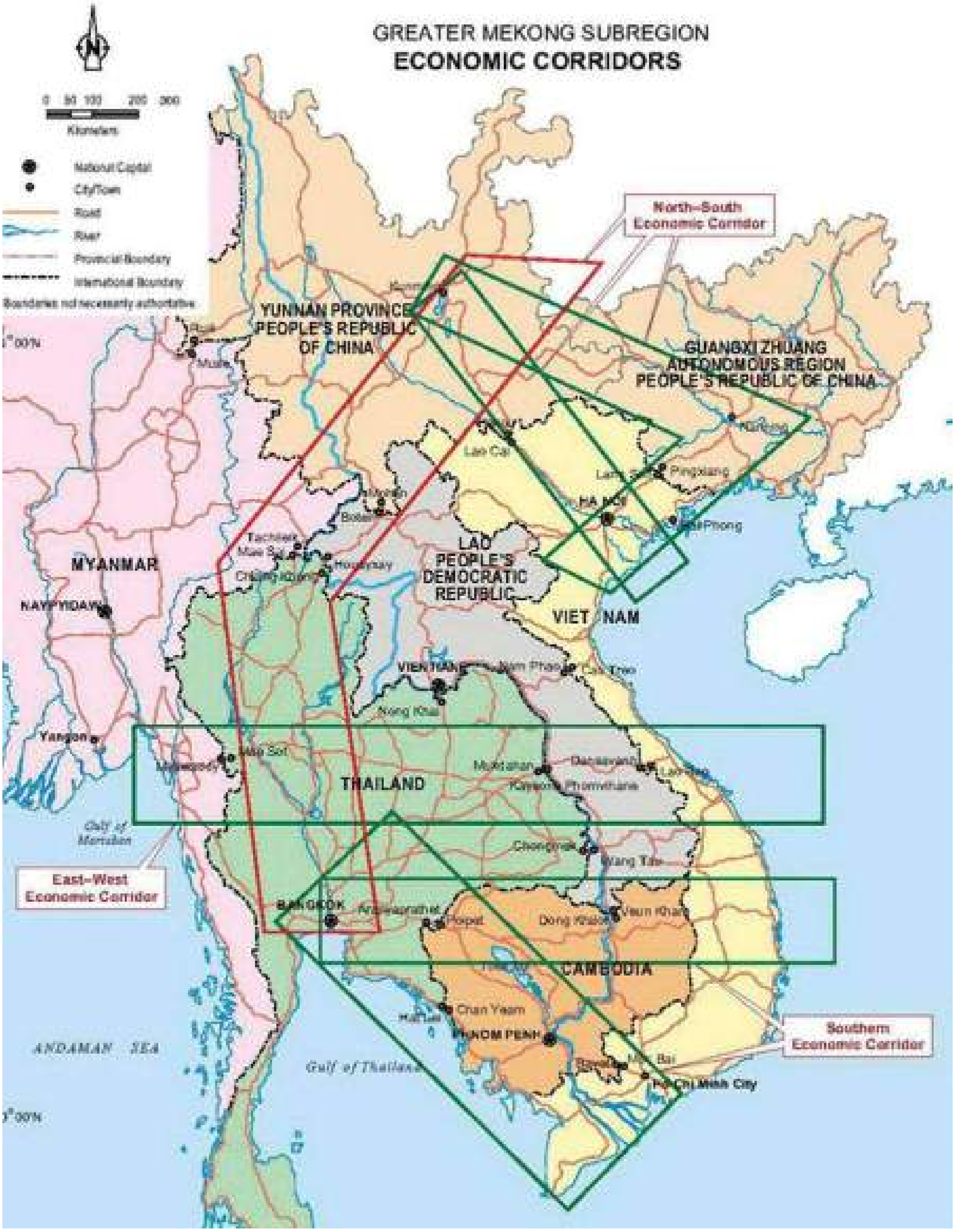
Regional and Global Frameworks

The investment climate in the Mekong region is greatly influenced and shaped by IFIs such as the ADB, World Bank (WB), International Financial Corporation (IFC) and Asian Infrastructure Investment Bank (AIIB), as well as by bilateral donors such as China, Japan, Germany, United States, the European Union (EU), South Korea, Russia, Thailand, Vietnam and India. IFIs, and national commercial and export-import banks are financing mega

Many of the resettled villagers were farmers, but they did not receive replacement land when they were resettled, so they lost livelihoods. After 3 years, they are still negotiating to receive an area of common land to use for farming, Thilawa Special Economic Zone, Myanmar. Photo credit: Earth Rights International

energy, transportation and multi-sectoral infrastructure projects, while bilateral aid is usually tied to support for private investments from donor countries. Mekong countries are simultaneously members of several regional and sub-regional investment programs, as well as bilateral, regional and global trade-investment agreements.

One of the earliest regional programs that facilitated economic integration and economic growth in the Mekong region was the ADB-led Greater Mekong Subregion Economic Cooperation Program (GMS). Initiated in 1992, the GMS continues to aim to transform the rich human and natural endowments of the Mekong region into a region-wide free trade and investment area through ambitious multi-sector investments in transportation (road, railways, air and waterways), energy, urban expansion, telecommunications, tourism, trade facilitation and agriculture. Infrastructure projects worth about US$11 billion that were started in 1992 have either been completed or are still being implemented under the GMS.[29] GMS projects have been developed almost entirely by ADB staff and private consultants and firms, and financed through loans and tied grants from the ADB and bilateral donors. Host governments repaying the debts may contribute financing and facilitate these investments through various policy measures and land acquisitions. The GMS has, in a sense, "pioneered" region-wide PPPs whereby private sector revenues have been enabled through public financing.



Source: Asian Development Bank

Since 1998, the development of economic corridors has been central to the GMS strategic framework. Economic corridors are zones or pockets of high infrastructure development intended to attract private investment in multiple sectors, for which host governments must put in place policies and regulations that would enable energy production and distribution, agricultural processing, manufacturing, tourism, private service provision, the creation of SEZs and industrial parks, etc. At present, there are three "flagship" corridors: The East–West Economic Corridor (EWEC) from Danang in Vietnam to Mawlamyine in Myanmar; North–South Economic Corridor (NSEC) from Kunming in China to Bangkok in Thailand; and the Southern Economic Corridor (SEC) between Southern Vietnam and Bangkok. Investments in physical infrastructure, trade and transport facilitation, border and corridor towns development, investment promotion and enterprise development, have been largely focused on these three zones. These economic corridors are likely to be extended or re-aligned to ensure the adequate inclusion of Myanmar, Laos and the main cross-border trade routes between China-Myanmar, Myanmar-Thailand and China-Laos. Cross regional roadways ("transport corridors") are likely to be transformed into full-fledged economic corridors through the development of SEZs, cross border economic zones and industrial production areas, and are projected to absorb migrant labour from Laos, Cambodia and Myanmar, and connect local enterprises to regional-global value chains.[30]

Information about investment priorities and potential projects can be found in the publication *The Greater Mekong Subregion Regional Investment Framework Implementation Plan (2014-2018).*[31] Regardless of the sector, or language about poverty reduction and building resilience to climate change, the central elements of the GMS vision are commodification, privatization and markets controlled by large corporations. Economic corridors are accompanied by Biodiversity Conservation Corridors, as in Laos, Cambodia and Vietnam, which cover two million hectares of forest and non-forest lands and serve as the "green" component of a supposedly sustainable development approach. The agricultural strategy includes promoting agribusiness investment, building global competitiveness in food safety, modernizing agricultural trade, e-commerce, weather-based insurance systems, biomass technologies and eco-labelling for market access, among others. The emphasis is on integrating the region's subsistence farmers into regional/global value-chains led by agribusiness corporations and re-directing agricultural production from self-sufficiency towards feeding regional and global markets. The GMS Tourism Sector Strategy (TSS) aims to develop and promote the Mekong region as a single tourism destination characterized by "a diversity of good quality and high-yielding sub-regional products."[32] Promotion of tourism is linked to support for economic corridors and infrastructure projects such as airport upgrades, road upgrades in tourist attraction areas, riverbank development, water supply, electricity, markets, landscape beautification, etc.

Except China, the Mekong region is composed of member-countries of the Association of Southeast Nations (ASEAN), whose end goal for economic integration is the establishment of the ASEAN Economic Community (AEC). The AEC "envisions ASEAN as a single market and production base, a highly competitive region, with equitable economic development and fully integrated into the global economy."[33] Full realization of the AEC is expected to enable free flow of capital, goods, labor and skills across the ASEAN region and make the ASEAN a single investment destination. ASEAN has initiated several agreements to facilitate the establishment of the AEC, among them the ASEAN Trade in Goods Agreement (ATIGA), ASEAN Framework Agreement on Services (AFAS), ASEAN Comprehensive Investment Agreement (ACIA) and ASEAN Agreement on the Movement of Natural Persons (AAMNP). These agreements are designed to help investors keep production/business costs low and revenues/profits high by making it easier for them to get licenses, permissions, investment capital, raw materials, labor and production inputs, and access to markets through joint ventures and PPPs. Investor confidence is boosted through legal infrastructure to protect investors' rights and investments, access to information and opportunities to make inputs into policy-making.[34]

Cambodia, Laos, Myanmar, Vietnam and Thailand are members of the Thailand-initiated Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS) that was launched in 2003 to increase economic cooperation, especially along border areas to transform them to "zones of economic growth."[35] At the seventh ACMECS Summit that was held in Hanoi in October 2016, ACMECS leaders reiterated their commitment to achieving economic growth through GVCs, boosting cross-border transportation infrastructure, easing cross-border trade and investment, developing industrial zones along economic corridors and enhancing the role of the business sector in ACMECS.[36]

In 2015, China and the five Mekong countries launched the Lancang-Mekong Cooperation (LMC), a sub-regional economic cooperation mechanism that will link trade and investment within the Mekong region with China's Belt and Road Initiative, and with the AIIB. In their first meeting in March 2016, the LMC Heads of State committed to pushing forward infrastructure investments in water, land and air transportation, energy production and transmission, telecommunication, economic and industrial zones in border areas, the Regional Comprehensive Economic Partnership (RCEP) and trade-investment facilitation.[37]

New generation free trade agreements (FTAs)—also called "economic partnership agreements"—contain measures that will facilitate investment, including changing domestic regulations. All the Mekong countries are members of the World Trade Organization (WTO) and the China-led RCEP. ASEAN has already negotiated FTAs with China, Japan, South Korea, India, Australia and New Zealand. Negotiations to launch an FTA between ASEAN and the European Union (EU) were suspended in 2009 to allow the EU to first develop bilateral FTAs with ASEAN countries. The EU now has an FTA with Vietnam and is negotiating an investor protection agreement with Myanmar.[38]

Vietnam recently signed the Trans-Pacific Partnership (TPP) and Thailand is seeking the possibility of joining. To date, 398 International Investment Agreements (IIAs)[39] have been signed by the governments of this region. China alone has signed 149 IIAs, followed by Vietnam with 83, Thailand with 62, Laos with 40, Cambodia with 39 and Myanmar with 25.[40]

Special Economic Zones (SEZs)

> *"The expansion in the number of SEZs from about 500 in 1995 to over 4,300 in 2015 shows the strong and rising interest in this form of policy experiment, though the success record is somewhat mixed... If designed right, SEZs can become drivers of increased trade, foreign direct investment (FDI) and better economic policy-making and reforms. Moreover, as countries develop, areas with SEZs can be transformed from mere manufacturing sites to hubs for innovation and modern services."*
>
> Shang-Jin Wei Chief Economist, ADB[41]

An SEZ is an area demarcated and designated to enhance industry competitiveness, attract FDI, develop and diversify exports, create jobs, and pilot new policies and approaches. The zone is set up with various special privileges for investors that include tax exemptions for raw material imports and corporate income tax exemptions; tax incentives; availability of inputs, factory buildings and warehouses for production; facilities for transactions and basic services such as transportation, electricity and water; strategic location with easy access to sea ports and transport hubs; and by-passing or weakening of national labour and environmental protections. SEZs are free ports, free trade zones, export processing zones, free industrial zones and enterprise zones. An SEZ is considered a foreign investor-friendly business setup, where it is easier to implement projects because investors/businesses do not have to be involved in site clearance and infrastructure construction, and pay no duties when importing raw materials if the end products are exported. Custom warehouse keepers in SEZs can provide transportation services and act as distributors for the goods deposited, though additional services relating to customs declaration, appraisal, insurance, reprocessing, or packaging require the approval of appropriate customs offices. Most SEZs have a "one-stop service" facility to shorten investment procedures and facilitate trade flows.

Company ownerships in SEZs can be purely public or private, or ownership can be shared by public and private sector partners. SEZ development has been integrated into the national economic development plans of the Mekong countries to realize rapid, high economic growth. SEZs are seen an important tool to attract FDI and as opportunities for investment expansion across borders. For private investors, an SEZ is an opportunity to access regional and global markets, taking advantage of land, services and cheap labor offered by the host country. There are more than 500 SEZs in the entire Mekong region in various stages of implementation.[42] In Myanmar, the three biggest SEZ projects—Kyauk Phyu, Thilawa and Dawei—are in development stages, whereas, 14 SEZs in Cambodia, more than 400 SEZs in Vietnam, 10 SEZs in Laos and one in Yunnan are operating.

Governments and promoters of SEZs claim that SEZs create jobs, increase employment opportunities, decentralize development, bring modernity to rural provinces and bridge the gap between urban and rural areas. However, according to workers' unions and labor rights organizations, job creation alone is not enough. Employment must ensure that workers' rights shall be respected and protected as well as decent working conditions and living wages for the workers. In an interview with Focus in July 2016, a union leader (who requested anonymity for security reasons) in the Sihanoukville Special Economic Zone (SSEZ) in Cambodia spoke about poor working conditions, and intimidation and punishment of workers if they tried to join a union; of forced overtime and threats of dismissal and non-extension of contracts, and poor wages. Unionizing is tightly restricted, especially if workers want to form a local union affiliated with an independent union. Ill treatment of workers are manifested in the changing of sections in the production line, cutting of salaries, prohibition of overtime work even when workers needed this, verbal abuse of workers and non-extension of employment contracts. Minimum wages inside the SSEZ are also generally low. Some factories pay according to the labor law and some do not obey the law.

Focus also interviewed an independent union leader and male worker in another SEZ in Cambodia, the Phnom Penh Special Economic Zone (PPSEZ) on July 2016 and both requested that their identities not be disclosed. They reported that unionization is restricted in the PPSEZ, especially with unions that were involved in the 2014 wage-increase strikes. If companies know that workers are trying to set up a union in their company, those workers are punished and in worst cases, fired. Once workers are fired from a company, they cannot find another job in the same SEZ since their names are recorded and circulated among the rest of the companies in the same zone.

A rubber plantation in Savannakhet by a Vietnamese company.

Because of financial constraints, there has been little progress in the operationalization of the Dawei Special Economic Zone (DSEZ) since 2012. However, reports from various constituencies, including the Tavoyan Women's Union (TWU), Dawei Development Association (DDA), Tenassarim River and Indigenous Peoples Network (TRIP NET), Dawei Development Research Association (DRA) and other relevant civil society organizations that have been working closely on this issue, show that the DSEZ project development process has already resulted in negative impacts in many communities. Affected communities have lost their livelihoods due to land confiscation, the destruction of farmlands and restricted access to the coast for fishing. Some villagers have been compensated for their losses, but others have not. Key impacts include food insecurity, parents' inability to send children to school and sexual harassment of women committed by the newcomers to the local community because of the DSEZ development process.

In 2014, two reports, namely *Our Lives Not for Sale* by TWU and *Voices from the Ground: Concern Over the Dawei Special Economic Zone and Related Projects* by a group of CSOs and social movements, were published to give voice to concerns regarding the DSEZ development. The reports presented information about the project size, SEZ developers, expected workforce and industries for investment, as well as the project's direct negative impacts on local people, compensation issues and the project's free, prior and informed consent (FPIC) process. The reports also outlined the number of requests made by local communities and civil society groups to both the Burmese and Thai governments and the project developers. These mainly included calls for the immediate suspension of the project, a return of any confiscated land to their original owners, to stop restricting local peoples' access to the coastal area, allow all roads built for the project to be used freely by the public and hand over buildings constructed at the project site to local communities to be used for the benefit of the public.

Two more research reports followed: *We Used to Fear Bullets Now We Fear Bulldozers: Dirty coal mining by military cronies and Thai Companies, Ban Chaung, Dawei District, Myanmar,* published in October 2015 and *Transnational Investments and Responsibility for Social and Environmental Justice: Lessons from industrial development policies and practices of Japan and Thailand* published in early 2016. The first report exposed how the DSEZ project was pushed ahead despite clear opposition from local communities. It documented the serious harm done to villagers' health, livelihoods, security and way of life, and the devastating contamination of local rivers and streams. It also called for the suspension of mining operations in the communities' area. The second report examined the failures of three large scale industrial projects built in Japan and Thailand over previous decades that resulted in the devastation of local communities' lives and their environments.[43]

The DSEZ development is expected to bring in change and modernity to the whole of Tanitharyi region. However, Saw Frankie, the Director of Trip Net, an organization that works to support the struggles of and protect the identity of the Karen community in

Kamoethway, a village located about 10 kilometers from the DSEZ, has expressed his concerns about the negative impacts of the project rather than the benefits it will bring to local communities.

> *"The DSEZ development will make it easier for outsiders' accessibilities to the whole Dawei. This is including the agri-business companies that will possibly switch the local communities' traditional agriculture that they have been practicing for ages to a cash crop plantation growing corns, cassavas and rubber, where communities will completely lose their livelihood and identities in the future."*
>
> Saw Frankie

Investors' Interests over Peoples' Rights and Nature

Large-scale domestic and foreign investments in the Mekong region have been justified by host governments, international policy institutions, IFIs and other financiers as critical to achieving economic growth, increasing economic competitiveness, modernizing agriculture, utilizing "unproductive" or "idle" land and resources in more profitable ways and creating/increasing employment. But these investments have also involved the exploitation of natural resources (especially land and water) and labor. Overall though, the decrease in public investment and social and environmental protection, and increase in privatization and PPPs across the region, indicate that the public function of the state has been shrinking. In the pursuit of economic growth, governments have been stepping back from their roles of ensuring the welfare and basic rights of their citizens, and public interest itself is increasingly articulated in terms of private sector and large investor interests. While wealth has increased in capital cities and large towns, rural areas remain impoverished and with little access to basic services.

Every country in the Mekong region has special government departments devoted to wooing and negotiating contracts with large private and public investors, donors and creditors. But there is little official recognition or even acknowledgement of the investments made by peasant farmers, artisanal fishers, indigenous peoples, local small-scale entrepreneurs and workers; of how their lives, livelihoods, incomes and environments have changed because of the large-scale investment pouring into and flowing through the region. Local populations make significant and valuable investments in their farms, fisheries, horticulture, eco-systems and communities: they protect forests, rivers, lakes, wetlands, common lands and biodiversity; they produce majority of the region's food and industrial goods and are the foundations of local economies. But their investments and their rights as investors are not protected in the same ways as the interests of large-scale investors. Investment friendly policies and regulations have lowered standards and levels of labour protection and failed to improve working conditions, wages and benefits for workers.

Land is compulsorily acquired for projects in agriculture, industry, energy transportation, tourism and real estate/property development, in both urban and rural areas. Hydropower projects on the Mekong mainstream and other rivers in the basin (such as the Salween, Nam Theun, Mun, Sekong and Sesan) have altered water levels and flows, resulting in the flooding of forests, farms and river banks. Land is being expropriated from farmers, fishers and indigenous peoples, even as local communities are often forcibly relocated to make way for dams, canals, power stations, etc. Long-term land leases to investors—whether for plantations, tourism, real estate or SEZs—have resulted in landlessness, unemployment and food insecurity. Agricultural lands and water sources have become dangerously polluted by overuse of hazardous chemicals. In agrarian societies, land, water, forests and their associated 'resources' are not simply economic assets. Often the sole source of livelihood, they are equally the foundations of life, culture, knowledge and collective memory.

Myanmar, Laos and Cambodia have become suppliers of natural resources (land, timber, seeds, plants, minerals, hydropower, coal and gas), agricultural commodities (cassava, corn, banana, sugarcane, soybean, tea, coffee, vegetables, cashew nuts) and industrial tree crops (rubber, teak, eucalyptus, acacia and specialty woods) to wealthy and politically well-connected foreign and domestic investors. As the natural wealth of these countries are drained to feed investors' markets and bank accounts, benefits to local populations—especially in rural areas—are hard to find. Exporting primary commodities and natural resources and selling top-soil to agribusiness companies is entrenching, not alleviating poverty, while further deepening inequality. Garment factories in these countries are filled with young, mostly female workers, many of whom work long hours so that their families can hold on to the small family plots that are usually their only source of economic security. And while a factory worker may have a bit more money than a peasant farmer, work conditions and compensations are far from adequate. Displaced farmers who become plantation workers receive low wages and are often not paid for several months.

Contract farming is being aggressively promoted in every Mekong country to integrate small-scale farmers and fishers into regional/global production and processing value chains. It is also being projected by some development organisations and IFIs as viable alternatives to large-scale land acquisitions by investors. While contract arrangements may provide some income to farmers in the short term, contract terms are controlled by agribusiness corporations and middle-men, and do not usually favor small-scale agricultural producers. In Cambodia and Laos, smallhold farmers are facing acute financial distress because of contract farming related debts. Thailand's experience over the past 30 years of leaving its smallhold farmers vulnerable to market forces with no protection, is a cautionary tale. In Cambodia, Laos and Thailand, agricultural debts and distress migration are high, and many farming families have lost their lands due to heavy debts that they are unable to service. Those who were once able to live off their lands, forests and rivers are now trying to survive as workers in the construction, service, hospitality and entertainment industries where working conditions can be precarious, poorly paid and exploitative.

The tourism industry spans a wide range of goods and services, from immigration procedures, air, rail, land and water transportation, hospitality and accommodation to providing food, drink, historical legacies and artifacts, cultural and environmental preservation and security, which generate employment, incomes and public revenues (through a range of taxes). At the same time, tourism has served as magnet for the exploitation of precious resources, goods and services such as land, water, electricity and food which can lead to the depletion of resources because of over-consumption (for example, water, fish and other aquatic species) and environmental pollution. The physical infrastructure required to make tourism possible—airports, roads, resorts, hotels, restaurants, waterfronts, parks and shopping areas—have often physically displaced local communities and destroyed local food and water sources. Tourism has also been associated with the expansion of the sex industry, human trafficking and physical insecurity, especially of women, children and youth.

One of the most critical questions regarding investment trends in the Mekong region is how they affect local economies, employment, livelihoods, the environment, food security and access to essential services for the region's peoples, majority of whom are engaged in subsistence production and rely greatly on their immediate environment for survival. Trade and investment agreements are rarely developed through the participation of local populations or communities, nor are the negotiations of these agreements and the agreements themselves subject to national democratic oversight. Negatively impacted, peoples have little or no access to justice and reparations, while the investments, profits and immunity of large investors are protected by law, or informal arrangements and relationships. Under such conditions, benefits to local populations from large scale investments are likely to be too little, too late.

A Banana plantation in Luang Phabang, Lao PDR. Photo credit: Michael Dwyer

ANNEX

List of New Private Investments in the Mekong Region, 2015 & 2016.

Location	Project	Sector	Company	Company's Country of Origin	Value ($ million)	Announcement date*	Remarks
Cambodia	Tatay River hydropower plant	Power	National Heavy Machinery Corporation	China	540	September, 2015	Inaugurated commercial operation of the 246 MW power plant, the country's sixth Chinese-built plant, in December 2015
Laos	Wattay Airport expansion	Transport	Hazama Ando Corporation	Japan	61	2015	Expansion project, scheduled for completion in 2018
	Hongsa Mine Mouth power plant	Power	Banpu and Ratchaburi Electricity Generating	Thailand	3700	December, 2015	With Lao Holding State Enterprise, completed and commissioned the first thermal plant in December 2015, after China National Electric Engineering constructed it
	Power transmission (Kohing-Naphia and Namxam Houamuang lines)	Power	China Machinery Engineering Corporation (CMEC)	China	484	2015	Constructing the two lines at estimated costs of $338 million and $146 million respectively
	Sekong Coal-Electricity integration project	Power	China National Heavy Machinery Corporation (subsidiary of China National Machinery Industry Corporation (Sinomach)	China	2100	2016	Includes a coal mine and 2 X 350 MW power plant
	Nam Ngiep 2 hydropower project	Power	China International Water & Electric Corporation	China	...	2015	Completed construction of the second BOOT (build, own, operate, transfer) hydropower investment project in 2015
	Hongsa power plant	Power	China National Electric Engineering Company	China	1680	2015	Completed construction of the Hongsa 3 x 626 MW power plant in 2015; most output to be sold to Thailand
	Nam Mang 3 hydropower plant	Power	China International Water & Electric Corporation	China	..	2015	..

Location	Project	Sector	Company	Company's Country of Origin	Value ($ million)	Announcement date*	Remarks
Myanmar	Hanthawaddy International Airport	Transport	JGC Corporation Yongnam Holdings Changi Airports International	Japan Singapore Singapore	1500	2016	Signed the framework agreement in 2016; concession agreement expected to be signed in later 2016 and construction to begin in 2017
	Kyaukphyu Special Economic Zone	Special economic zone (SEZ)	CITIC China Harbor Engineering China Merchants Holdings TEDA Investment Holdings Yunnan Construction Engineering Charoen Pokphand	China China China China China Thailand	14000	December, 2015	Won the contract to build and operate the SEZ, including construction of a deep sea port
	Yangon Expressway	Transport	Halla Corporation and Lotte Engineering & Construction	Republic of Korea	620	2015	With a local partner, proposed to construct a 20.5 km highway to link Yangon to Bago
	Telecommunication towers	Telecommunication	OCK	Malaysia	75	2015	With a local partner, constructing 3,000 telecommunication towers for Telenor Myanmar; will invest $75 million to construct 920 towers
	Yeywa hydropower plant	Power	Energy China	China	..	2015	..
	220 kV Transmission Line	Power	Hubei Electric Engineering	China	..	2015	Completed a 150 km double circuit transmission line from Shweli hydropower station to the Tagaung Taung nickel mine
Thailand	China-Thailand railway project	Transport	China Railway Construction Corporation	China	..	2015	Awarded the contract to construct an 867 km railway line connecting Nong Khai province, Bangkok and eastern Rayong province

Location	Project	Sector	Company	Company's Country of Origin	Value ($ million)	Announcement date*	Remarks
Vietnam	Nam Dinh 1 Thermal Power Plant	Power	Consortium of ACWA & Taekwang Power	Saudi Arabia	2200	2016	Building a 1,200 MW thermal power plant on a 25-year BOT basis
	Vinh Tan 3 Energy JSC	Power	CLP	Hong Kong (China)	..	2015	Secured financing facility from China Development Bank to build Vinh Tan 3
	SonLa Cement Plant	Other	China National Heavy Machinery Corporation	China	..	2015	Won the contract to design, build and install equipment for a cement plant
	Quynh Lap-2 Thermal Power Plant	Power	Posco	Republic of Korea	..	February, 2016	Won a contract to build the 1,200 MW power plant, the company's second power plant construction in Viet Nam
	Mong Duong 2 power plant	Power	Posco AES China Investment Corporation	Republic of Korea United States China	2100	May, 2015	Completed and started commercial operation of the power plant in October 2015, with Doosan Heavy Industries (Republic of Korea) as the EPC company and subcontractors including Yokogawa Electric (Japan)
	Duyen Hai II thermal power plant	Power	Teknik Janakuasa (subsidiary of MMC) (Malaysia)	Malaysia	2200	2015	Won the contract to build the power plant, scheduled for completion in 2020
	Ca Mau gas processing plant	Oil and gas	Posco Engineering and Construction	Republic of Korea	249	2015	WIth its local partner, awarded the EPC contract for the plant
	Intelligent transportation system	Transportation	SK C&C	Republic of Korea	..	2015	Received a license to build the system for the Hanoi-Haiphong Expressway

Source: ASEAN Investment Report 2016.

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Farmers harvesting in Otdar Meanchey province, Cambodia, 2016. Photo credit: Ridan Sun

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