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Special Economic Zones in Thailand and Myanmar

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Special Economic Zones (SEZs), with their mix of tax incentives, trade benefits, deregulation, and other investment privileges, have long been a popular tool for governments to encourage economic development. Thailand and Myanmar are among the latest Southeast Asian countries to embrace SEZs. Every country in ASEAN, except Brunei, now has SEZs. Indeed, the SEZ policies in Thailand and Myanmar are part of a broader regional trend to liberalize trade and investment.

The combination of SEZs with the ASEAN Economic Community's (AEC) lower trade barriers has significant potential to attract investment, generate employment, and spur economic growth in both Thailand and Myanmar. This article provides an overview of the new SEZ policies in these countries.

THAILAND

Last year, the National Council for Peace and Order (NCPO) began a pilot project to establish new SEZs in the provinces bordering Thailand's neighbors. A second phase of SEZ development is planned for 2016, when more SEZs are to be set up in additional border regions. The Thai government's stated goal is to have a network of SEZs that will boost cross-border trade between Thailand and its neighbors.

The initial group of SEZs under the pilot project will be implemented in:

1. Tak Province (bordering Myanmar);
2. Sa Kaew Province (bordering Cambodia);
3. Trat Province (bordering Cambodia);
4. Mukdahan Province (bordering Laos); and
5. Songkhla Province (bordering Malaysia).

The second phase of the program calls for SEZs to be set up in:

1. Kanchanaburi Province (bordering Myanmar);
2. Chiang Rai Province (bordering Myanmar and Laos);
3. Nong Khai Province (bordering Laos);
4. Nakhon Panom province (bordering Laos); and
5. Narathiwat Province (bordering Malaysia).

The Board of Investment (BOI) is the agency responsible for providing the new SEZ incentives. In an announcement, the BOI set out a combination of tax, tariff, and other investment privileges commonly associated with SEZs. Eligible investors can obtain corporate income tax exemptions of up to eight years; double deductions from transportation, electricity, and water supply costs; an additional 25 percent reduction on construction costs for facilities; exemptions on import duties for machinery and inputs; other non-specified "non-tax incentives;" and permission to use foreign unskilled workers. Applications for the incentives must be submitted by December 31, 2017.

The activities eligible for investment promotion in the SEZs are broad. According to Thailand's National Economic and Social Development Board, the activities include: agriculture and fisheries; ceramics; textiles, clothes, and leather goods; furniture; jewelry; medical appliances; automotive, machinery, and parts; electrical appliances and electronics; plastics; pharmaceuticals; logistics; industrial estates; and tourism-supported industries. Further, each SEZ is to have a particular specialty, depending on its geographic location. For example, the SEZ in the southern province of Songkhla is planned to become a center for rubber and seafood processing, as well as halal foods. And the SEZs in Tak province and Mukdahan province, which are along the East-West Economic Corridor (linking the port cities of Mawlamyine in Myanmar with Da Nang in Vietnam), will specialize in textiles and logistics, among other things.

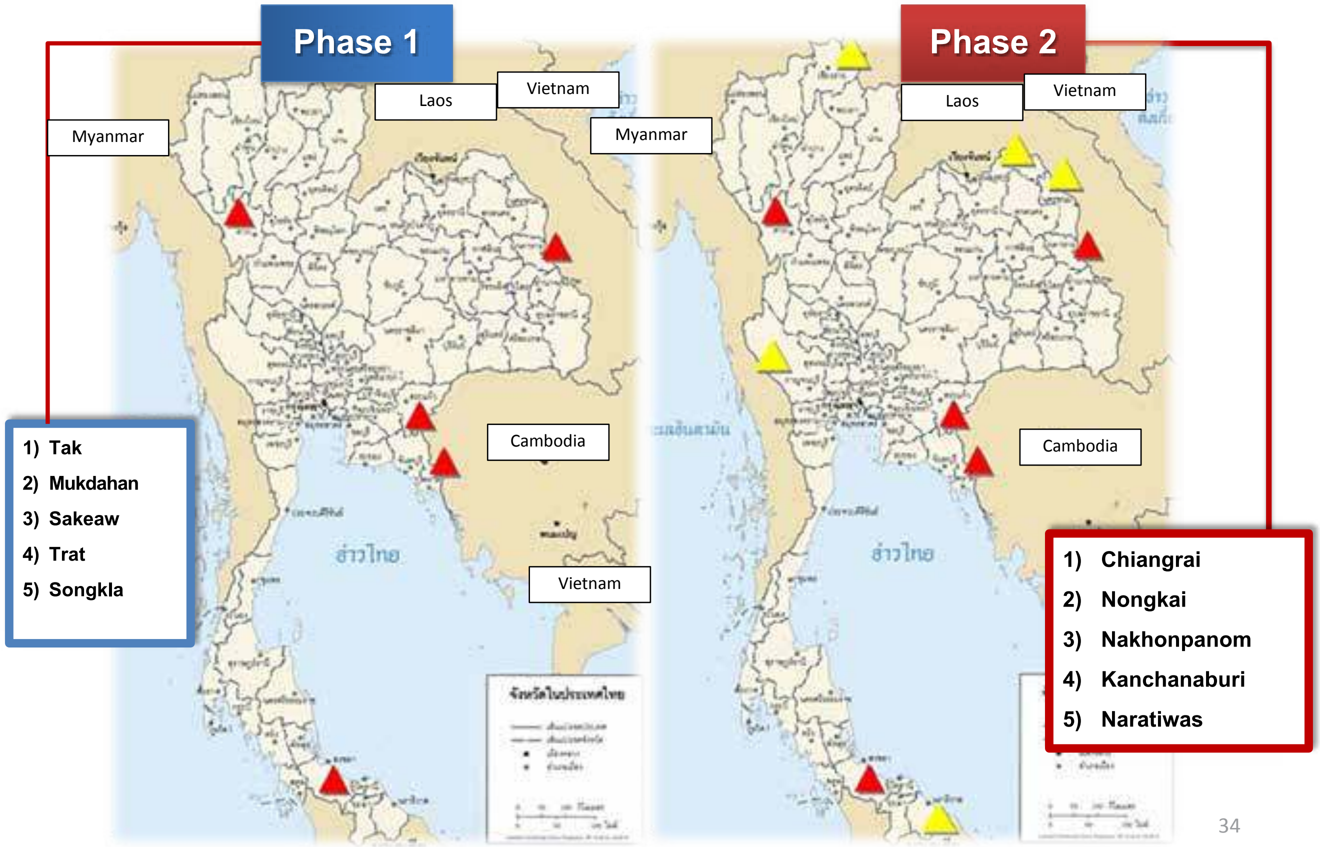
The positioning of the SEZs on Thailand's borders indicates the importance of cross-border trade to the government's economic policies. According to media reports, the Ministry of Commerce is targeting a 50 percent increase in cross-border trade to THB 1.5 trillion. The government further hopes that establishing the SEZs will lead to an increase in border security, with a reduction in smuggling—including human trafficking—across the borders.

MYANMAR

Like Thailand and a number of its ASEAN neighbors, Myanmar has set out on a path to encourage foreign investment through a number of policy and legal initiatives, including the establishment of SEZs. While the formation of liberalized foreign investment rules since 2012 has already encouraged investor forays into Myanmar, a focus on SEZs provides Myanmar with the opportunity to encourage investment in export-focused industries, offering investment incentives and freeing foreign investors from the more burdensome regulatory requirements some encounter within existing foreign investment law procedures.

As an alternative to investment under the Foreign Investment Law of 2012 (FIL), Myanmar established the Myanmar Special Economic Zone Law in January 2014 to facilitate investment in three specific SEZs. These include Dawei, a joint project with Thailand in the Southeast; Thilawa, a joint project with Japan near Yangon; and Kyaukphyu in the Northwest Region, with the cooperation of the Chinese government. Currently, only Thilawa has advanced to the investor approval stage, with investment projects from companies representing Thailand, the United States, Japan, Singapore, France, and Hong Kong already approved or operational. While it is not expected that Dawei or Kyaukphyu will be ready for investor entry in the coming year, Thilawa will continue to see investor applications and approvals throughout 2015 under the Special Economic Zone Law.

Special Economic Zones (SEZs)



Source: Thai Chamber of Commerce

The Special Economic Zone Law, in addition to helping Myanmar meet its domestic and international commitments to economic liberalization, sets out an alternative administrative procedure for the review and approvals of investment applications. While there is a Central Body and a Central Working Body, much local discretion is provided to the Management Committee within a given Special Economic Zone. The Management Committee is the primary point of contact for investors and developers and has the authority to set various zone designations within a Special Economic Zone, such as free, exempted, and promotion zones. Applications approved through the Management Committee may be approved in as little as 30 to 60 days.

Investors approved under the Special Economic Zone Law process also enjoy significant tax incentives, such as an average of 50 percent tax relief during the first five years of operation and partial relief on reinvestments of export profits. In addition, certain export goods produced within a Special Economic Zone may be exempt from customs duties during the first five years of operation, with additional exemptions possible during years six to ten. Finally, import duty relief may be granted for importation of raw materials, equipment, and some goods related to manufacture, with tax relief even extended to profits obtained from offshore sales during the first five years of operation.

Non-tax incentives include the ability for investors to secure long-term leases of up to 75 years, which is more than is currently available for investors under the Myanmar Companies Act or Foreign Investment Law (FIL). There are also freedoms to repatriate profits from operations and protections against nationalization. While financing remains a challenge domestically, there is nonetheless a commitment to improve financial security for investors.

For example, recent rule changes now allow for foreign-owned insurance companies and their joint venture partners to offer services within the designated SEZs. It is expected that the Myanmar government will continue to consider similar measures in the coming months and years to facilitate investment, not only within its designated SEZs, but in the broader investment arena.

CONCLUSION

The development of SEZs in Thailand and Myanmar has the potential to bring significant economic benefits to both countries. Such benefits are compounded when coupled with AEC-related trade and investment growth. Ultimately, however, the SEZs' success will depend on infrastructure development in both countries, and especially in the border areas. Both the Thai and Myanmar governments have approved infrastructure projects related to the SEZs, but it will take time for those projects to be implemented. In Myanmar's case, it may be years before the right level of infrastructure is achieved for its SEZs to fully realize their potential. Investors should take a long-term view of the SEZs and their economic effectiveness. ■

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