

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

STATE PLANNING COMMITTEE
LAO PEOPLE'S DEMOCRATIC REPUBLIC

**THE STUDY ON
SPECIAL ECONOMIC ZONE DEVELOPMENT
IN BORDER AREA (SAVANNAKHET PROVINCE)
IN LAO PEOPLE'S DEMOCRATIC REPUBLIC**

MAIN REPORT

February 2001

KRI International Corp.
Nippon Koei Co., Ltd.

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PREFACE

In response to a request from the Government of the Lao People's Democratic Republic, the Government of Japan decided to conduct the Study on Special Economic Zone Development Plan in Border Area (Savannakhet Province). The study was implemented by the Japan International Cooperation Agency (JICA).


JICA sent a study team led by Mr. Hajime Koizumi, President of KRI International Corporation, and organized by members of KRI International Corporation and of NIPPON KOEI Co., Ltd., to the Lao PDR three times from July 2000 to January 2001.

The team held discussions with the officials concerned of the Government of the Lao PDR, and conducted related field surveys. After returning to Japan, the team conducted further studies and compiled the final results in this report.

I hope that this report will contribute to economic development in the Lao People's Democratic Republic and to the enhancement of friendly relationship between our two countries.

I wish to express my sincere appreciation to the officials concerned of the Government of Lao PDR for their close cooperation throughout the study.

February 2001

A handwritten signature in black ink, appearing to read 'K. Saito', with a stylized flourish at the end.

Kunihiko Saito

President

Japan International Cooperation Agency

February 2001

Mr. Kunihiro Saito
President
Japan International Cooperation Agency (JICA)

Letter of Transmittal

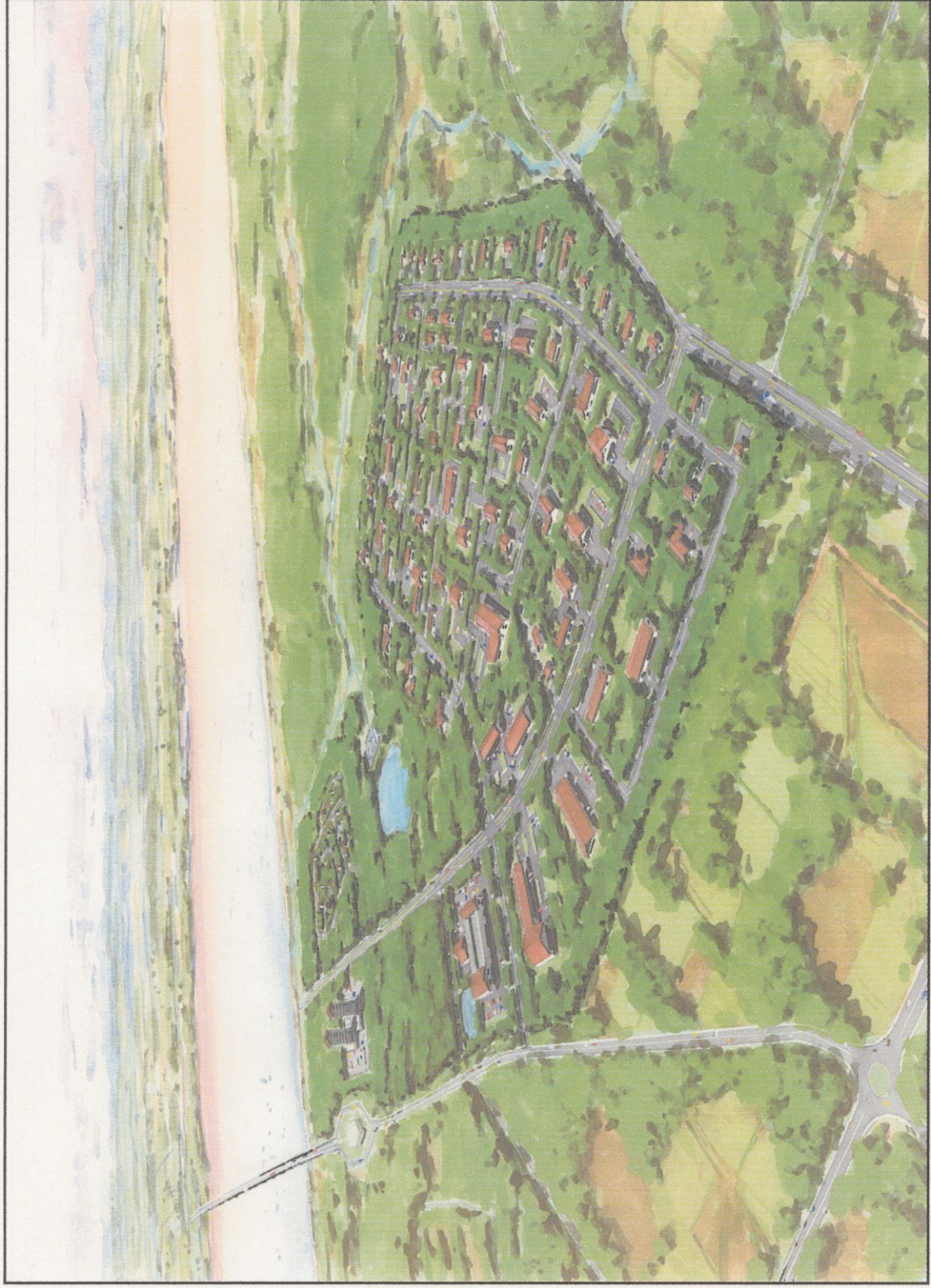
It is with great pleasure that we submit the Final Report of the “Study on Special Economic Zone Development in Border Area (Savannakhet Province) in Lao People’s Democratic Republic”. The Study has been completed by joint efforts of the counterparts assigned by the State Planning Committee (SPC) and our study team.

The Study has worked out a plan to set up a Special Economic Zone (SEZ) in Savannakhet along national route 9 between the New Mekong Bridge and the junction with national route 13. SEZ is proposed to have multiple functions; i.e., logistics and transport-related services, export processing, free markets and trades, and tourism and other service industries. SEZ with these functions will greatly contribute for social and economic development of Savannakhet province and the Lao economy, and for enhancement of economic impacts of the East-West Corridor for which the Government of Japan has been actively cooperating. Our Study team hopes that the Final Report will serve for implementation of the proposed SEZ in conjunction with the East-West Corridor projects.

Our study team would like to express its heartfelt gratitude for kind cooperation extended by SPC and all other parties concerned in Lao PDR. This Final Report is a fruit of excellent collaboration of all participants in this Study.

Hajime Koizumi
Study Team Leader





Savannakhet Special Economic Zone (SEZ)

**THE STUDY ON SPECIAL ECONOMIC ZONE DEVELOPMENT
IN BORDER AREA (SAVANNAKHET PROVINCE) IN LAO PDR
MAIN REPORT
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ABBREVIATIONS

ADB:	Asian Development Bank
AFTA:	Asian Free Trade Area
APB:	Agricultural Promotion Bank
ASEAN:	Association of South-East Asian Nations
CEPT:	Common Effective Protection Tariff
CKD:	Complete Knock Down
DFS:	Duty Free Shop
EDL:	Electricité du Laos
EPZ:	Export Processing Zone
FDI:	Foreign Direct Investment
FIMC:	Foreign Investment Management Cabinet
FTZ:	Free Trade Zone
GRP:	Gross Regional Product
IPZ:	Import Processing Zone
ISIC:	International Standard for Industrial Classification
JBIC:	Japan Bank for International Cooperation
JICA:	Japan International Cooperation Agency
Lao PDR:	Lao People's Democratic Republic
LDC:	Least Developed Countries
LECS:	Lao Expenditure and Consumption Survey
MCT:	Ministry of Commerce and Tourism
MCTPC:	Ministry of Communication, Transport, Post and Construction
MIH:	Ministry of Industry and Handicrafts
MLSW:	Ministry of Labor and Social Welfare
MNE:	Multi National Enterprise
MOAF:	Ministry of Agriculture and Forestry
MOF:	Ministry of Finance
NIEs:	Newly Industrializing Economies
SEZ:	Special Economic Zone
SOE:	State Owned Enterprise
SPC:	State Planning Committee
SME:	Small and Medium-Sized Enterprise
UNDP:	United Nations Development Programme
WTO:	World Trade Organization

Exchange Rate 1\$= 8,000 kip (As of September 2000)

CHAPTER I INTRODUCTION

1.1 Study Background

Economic reforms in Lao PDR started in 1986 when the New Economic Mechanism (NEM) was adopted and steps were taken towards a market-oriented economy. Under NEM, the Lao government promoted development of the private sectors, deregulating price and production controls. Since then, the Lao economy had attained steady growth under the prudent economic policies. However, after the Asian economic and financial crises in 1997, the Lao economy was deteriorated with high inflation and devaluation of the national currency and foreign direct investments (FDIs), which flourished in 1992-1996, have been stagnated.

The framework of development of the Greater Mekong Sub-region (GMS), on the other hand, was mapped out by ADB and six Mekong riparian countries. Located in the center of GMS, Lao PDR has been integrated into various development programs proposed for GMS. One of the spearheaded programs is the East-West corridor, connecting Da Nang in Vietnam and Mawlamyine in Myanmar via Savannakhet in Lao PDR. Cooperation among the GMS countries has been accelerated, particularly since Lao PDR joined ASEAN in 1997.

A concept for development of Special Economic Zones (SEZs) was brought forward by the Lao government for development of the border areas with China, Thailand, and Vietnam. The concept was, however, rather vague without clear definition on functions and roles of SEZs. Since Savannakhet province, located between Thailand and Vietnam, was designated as a priority area for SEZ development and since the government of Japan has been actively involved in construction finance for the East-West corridor via Savannakhet, the Lao government requested the government of Japan to study how SEZ can be developed in Savannakhet province.

In response to the request of the Lao government, the government of Japan decided to conduct a study on Special Economic Zone Development Plan in Border Area (Savannakhet province). In March 2000, JICA and SPC agreed on the Scope of Work for the Study and the JICA Study Team initiated the Study in July 2000.

1.2 Study Objectives

The objectives of the Study are to formulate a development plan of SEZ in Savannakhet province. The development plan includes (i) policy and concept of SEZ as a trigger for economic development, (ii) institutional and legal framework building plan for development and management of SEZ, and (iii) preliminary physical plan.

To achieve the above objectives, the Scope of Work defines that the Study will cover the following items:

- 1) Analysis of potential and direction of economic/industrial promotion by developing SEZ in Savannakhet;
- 2) Formulation of a conceptual plan of SEZ in Savannakhet;
- 3) Formulation of a strengthening plan of administration and legal system for development and management of SEZ; and
- 4) Formulation of a physical development plan of SEZ.

1.3 Study Execution

The Study Team started the field works in July 2000. The Inception Report was submitted by the Study Team and discussed with SPC at the outset of the Study. The Progress Report was also submitted and discussed in October 2000. The Study Team organized an international seminar in Vientiane to learn lessons from the SEZ operations in Asian countries, i.e. China, Korea, Thailand, the Philippines, and Vietnam. After the Draft Final Report was submitted in January 2001, discussions were made with the public and private organizations in Vientiane and Savannakhet. This Final Report has been compiled by incorporating the results of these discussions.

The Study Team has worked closely with the counterpart experts assigned by SPC. The Steering Committee has been organized and the Committee reviewed the reports submitted by the Study Team. A list of the Steering Committee members, SPC counterparts, and JICA Study Team is presented in the table in the following page.

1.4 Report

The Final Report is composed of seven Chapters and four Appendices. In Chapter II, an overview of the Lao economy and industry is presented together with the rationale for SEZ development. The regional socio-economic background and regional opportunities/constraints are summarized in Chapter III. In Chapter IV,

trend of foreign direct investments (FDIs) is reviewed together with potential investment demands for SEZ in Savannakhet. The perspectives of SEZ in Lao PDR are discussed in Chapter V based on lessons learned from the Asian experience. In Chapter VI, the functions, location and physical plan of SEZ in Savannakhet are planned and proposed. In the last Chapter VII, legal and institutional frameworks for SEZ development are proposed.

Table 1.1 Study Members

Name	Position
Steering Committee Members	
Dr. Souphanh Keomixay,	Director General, NERI, SPC
Dr. Khamlian Pholsena	Deputy Director, Planning Dept. SPC
Mr. Sythanh Nantharath	Deputy Dir., Planning/Cooperation Dept. Savannakhet province
Mr. Senkham Vongvorarath	Deputy Director, Dept. of Industry
Dr. Viravanh Khamtan	Director, FIMC
Mr. Phonesana Insisiangmal	Dept. of Foreign Trade, MOCT
Mr. Thanta Kongphaly	Director, NERI, SPC
Mr. Khamphan Sengthongkham	Head, Cabinet of Trade/Industry Council
Mr. Sivath Sengduangohanh	Div. Chief, Dept. Law, Ministry of Justice
Mr. Khamphor Kaikhampithoune	Dept. of Economy, MOFA
Mr. Vongchanch Lorkhamphomtakhoune	Customs Dept., MOF
Mr. Latsamee Keomany	Director, Bilateral Cooperation, CIC
Mr. Khanngoun Khamvongsa	Deputy Cabinet, MCTPC
SPC Counterparts	
Dr. Souphanh Keomixay	Project Director, Director General, NERI
Mr. Thanta Kongphaly	Project Coordinator, Director, IED, NERI
Mr. Sithiroth Rasaphone	Economist, IED, NERI
Mr. Soulideth Soulithone	Economist, IED, NERI
Mr. Khamking Palatkhamon	Economist, IED, NERI
JICA Study Team	
Mr. Hajime Koizumi	Team Leader
Mr. Yoichi Matsui	Sub-Leader, SEZ planner
Mr. Tetsuya Ishii	SEZ planner (organization/human resource)
Mr. Izumi Sakaya	Investment and Trade
Mr. Seiichi Aoki	Industrial planner
Mr. Teruo Matsuda	Land use planner
Mr. Masaru Tokura	Utilities planner

CHAPTER II BACKGROUND: LAO ECONOMY AND INDUSTRY

2.1 Towards Market-Oriented Economy

(1) New Economic Mechanism

Lao People's Democratic Republic (Lao PDR) started economic reform called the "New Economic Mechanism (NEM)" in 1986, as major steps of a transition from a central-planned economy to a market oriented one. Under the NEM, the government promoted the private sector development by deregulating price controls and extending incentives to the private sector, while granting managerial and financial autonomy to state-owned enterprises. The following key reforms were implemented under the NEM¹:

- 1) Price liberalization – Complete price liberalization except for some key utility prices;
- 2) Agricultural reform – Liberalization of agriculture, including introduction of cash payments to farmers for their production, and abolition of state monopoly over rice marketing;
- 3) Public enterprise reform – Increased autonomy for public enterprises, privatization of over 60 public enterprises;
- 4) Fiscal reform – Tax reforms to simplify and improve efficiency of the tax system, consolidation of central and provincial budgets into a single general budget;
- 5) Trade reform – Liberalization of internal and external trade, such as simplification of tariff codes and elimination of most quantitative restrictions and special licensing requirements;
- 6) Exchange rate reform – Unification of a multiple exchange rate system;
- 7) Banking and financial sector reform – Two-tier banking system set up and most aspects of banking activity open to private sector and foreign banks; and
- 8) Foreign investment policy reform – Liberal FDI code promulgated in 1988 with guarantees against nationalization, permission to repatriate capital and profits. More generous FDI Law passed in 1994.

¹ This description is based on UNIDO 'A Comprehensive Framework to Foster Economic Initiative in Lao PDR', May 2000.

(2) Current Economic Situation

In July 1997, Lao PDR gained a full membership of the Association of South-East Asian Nations (ASEAN), which required the country to follow a schedule of reduced import duty rates under the region's Common Effective Protection Tariff (CEPT), within a prescribed time frame. Lao PDR also announced that the country was going to join the World Trade Organization (WTO), apparently showing its intention to accelerate reforms for the transition to a market oriented economy.

Since the introduction of the NEM, the Lao PDR has attained steady economic growth with an annual GDP growth rate of 6 to 8% under prudent economic policies. A market economy has been gradually introduced through implementation of various economic reforms mentioned above. However, the onslaught of the Asian financial and economic crisis and the introduction of relaxed monetary and fiscal policies in 1997, caused the deterioration of economic conditions and slowed structural reforms. The recent sharp depreciation of the Lao currency Kip against the US dollar caused high inflation in 1998 and 1999, though in 2000 the exchange rate has been stabilized thanks to a tighter monetary policy (see Table 2.1).

Table 2.1 Key Economic Indicators

	1994	1995	1996	1997	1998	1999
Real GDP Growth (%)	8.1	7.1	6.9	6.9	4.0	7.3
CPI Change (%)	6.8	19.6	13.0	27.5	91.0	144.6
Budget Balance (% of GDP)	0.4	1.4	2.8	1.8	3.0	na
Current Account Balance (% of GDP)	-17.1	-11.5	-16.4	-16.1	-10.0	-9.9
Debt Service Ratio (%)	3.3	5.7	5.3	8.9	8.4	na
Exchange Rate (Kip per US\$)	719.0	925.0	954.0	2135.0	4274.0	7059.0
GDP Share by Industrial Origin (%)	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	57.6	55.7	53.3	53.3	52.6	52.0
Crops	29.0	26.5	25.1	27.1	27.5	27.7
Livestock and fishery	22.6	22.0	21.4	20.1	19.6	18.7
Forestry	6.0	7.2	6.9	6.1	5.5	5.5
Industry	18.1	19.2	21.1	21.2	22.0	22.0
Mining	0.2	0.2	0.3	0.4	0.4	0.4
Manufacturing	12.9	14.3	15.9	16.0	16.7	16.9
Construction	3.4	3.4	3.5	3.5	2.7	2.7
Electricity, gas and water	1.6	1.4	1.5	1.3	2.1	2.0
Services	24.3	25.1	25.5	25.5	25.4	25.2
Transport and communication	4.8	5.4	5.8	5.7	5.8	5.7
Trade	8.3	8.5	8.7	9.1	10.4	10.4
Others	11.2	11.3	11.0	10.7	9.2	9.1

Sources: IMF, 'Recent Economic Developments January 2000', EIU, and NSC.

The neighboring countries, especially Thailand and Vietnam, have shown faster-than-expected recovery from the crisis. However, having the disadvantage of being a land locked territory prevents Lao PDR from achieving rapid development driven by external economic relations. Further,

with a small population, the country does not have a sufficient workforce, which Thailand and Vietnam have, nor does it have an accumulation of capital or advantages in technology. All these factors cause Lao PDR to still be heavily dependent on foreign aid.

At the moment, the Lao government is trying to stabilize its macro-economy with assistance from foreign countries. In the mid term, the most important factors in revitalizing the Lao economy may be: i) to promote foreign direct investment which contributes to export increase and brings about technology transfer; ii) to strengthen local industries with prudent privatization, and iii) to develop human resources which is indispensable in supporting such economic reforms.

(3) Public Finance and Monetary Sector

The fiscal balance of Lao PDR has been constantly deficit-ridden while the deficit is financed by ODA loan and grants (Table 2.2). In fiscal year 1998/99, tax revenue increased significantly, even after taking account of inflation, due to the strengthening of tax administration by setting targets for small and medium business establishments to be consistent with new tax rate. Since fiscal year 1997/98, the proportion of capital expenditure has significantly increased because of the increasing number of infrastructure construction projects financed by ODA. The overall budget deficit (excluding grant) for the year 1998/99 stood at approximately 9% of GDP.

Table 2.2 Government Budget

Unit: Billion Kip

	1995/96	1996/97	1997/98	1998/99*
Revenue and Grants	274.9	298.2	557.0	1,461.5
Revenue	217.3	228.3	367.0	929.2
Tax	175.9	189.6	290.0	745.4
Non-tax	41.4	38.7	77.0	183.7
Grants	57.6	69.9	200.0	532.3
Expenditure	364.4	412.2	864.6	1,719.0
Current	166.0	192.2	267.5	449.3
Capital and on-lending	198.4	220.0	579.0	1,269.6
Overall Balance	-89.5	-114.0	-279.8	-250.1
Excluding grants	-147.1	-184.0	-479.6	-782.5
Financing	89.5	114.0	279.8	250.1
Domestic	-19.6	-0.5	56.6	-143.1
Net foreign financing	109.1	113.5	223.2	393.3

Note: Estimated for the year 1998/99

Source: Bank of the Lao PDR, 'Annual Report 1999'

Since 1997, the money supply has grown significantly causing high inflation. The Bank of Lao PDR has adopted tight monetary policies by selling treasury bills and Central Bank bills and succeeded in containing inflation (Table 2.3). The ratio of the money supply to nominal GDP, which stands at around 18% of nominal GDP at the end of 1999, gradually increased in the 1990s, indicating development of the financial sector of Lao PDR. However, to promote domestic savings, it is crucial to further improve the credibility of the banking system, as well as maintain stability, consistency and transparency of economic policy as a whole.

Table 2.3 Monetary Survey

Unit: Billion Kip

	1997	1998	1999 (est.)
Net Foreign Assets	250.4	498.2	1,271.0
Net Domestic Assets	155.6	367.8	274.3
Liquidity (M2)	406.0	865.9	1,545.4
GDP at Current Prices	2,200.7	3,745.0	8,700.0
M2/GDP at Current Prices (%)	18.4	23.1	17.8

Note: Figures as of December each year

Source: Bank of Lao PDR, 'Annual Report 1999'

(4) Progress of Transition to Market Economy

As mentioned above, in Lao PDR, the transition of the economy from a central-planned to market-oriented system, with the introduction of NEM, has achieved relative macro-economic stability more quickly than in other economies, although since 1997 the pace of reforms has slowed down mainly because of the East Asian economic crisis.

However, it is crucial for Lao PDR to further consolidate consistent stabilization measures and renew the reform effort to strengthen the economy. Structural reforms are needed particularly in the regulatory environment for the private sector, and in the financial sector.

1) Reforms for Private Sector Development

There are occasional restrictions on the imports of the inputs, general difficulties with importing and exporting materials, and bureaucratic red tape, which hinder the development of private sector activities. Those restrictions have to be removed in practice.

The institutional framework will need to be strengthened to attract high levels of FDI. The regulatory environment often lacks transparency and contains many informal practices that increase the cost of doing business.

Since the beginning of economic reform, approximately 90% of state-owned enterprises (SOE) have been converted to another system of management or have been liquidated. The government still sets production targets and controls the price on certain goods.

2) Financial Sector Reforms

The financial sector is a major obstacle to economic recovery and macroeconomic stability. Central Bank supervision is weak and commercial banking capacity is not good enough. While a series of reforms have been practiced, including the merger of the seven state-owned commercial banks (SOCB) into three, further changes are critically needed in such areas as corporate governance of SOCBs; reduction of government interventions; and upgrading of accounting standards and supervision capacity of the Central Bank. It should be also noted that substantial share of the non-performing loans arises from SOEs.

2.2 Industrial Sector

(1) Overview

The industrial sector comprises mining, manufacturing, construction and electricity. Of total GDP, the sector accounts for 22.0% in 1998, which has gradually increased its share from 18.1% in 1994.

While agriculture is the predominantly important economic sector of the country, accounting for more than half of GDP and 80% of total workforce, the industrial sector has been the leading growth sector which enjoyed the double digit growth in 1993-1996.

Table 2.4 Growth of GDP by Industrial Origin

	1994	1995	1996	1997	1998
Total GDP	8.1	7.0	6.8	6.9	3.9
Agriculture	8.3	3.1	2.3	7.0	3.7
Industry	10.7	13.1	17.0	8.1	8.5
Mining	30.4	-3.7	37.1	28.5	13.7
Manufacturing	7.0	17.7	18.9	9.3	9.6
Construction	17.2	6.8	8.7	5.0	-18.2
Electricity, gas and water	29.0	-8.8	15.0	-1.9	62.7
Services	5.5	10.2	8.7	7.5	4.8

Source: IMF, 'Recent Economic Developments January 2000'

Table 2.5 shows key indicators of the industrial sector in 1999, estimated by UNIDO. As for the number of establishments which have 10 or more employees, non-metallic mineral products, wood and wood products, and

food and beverage are three major industrial-subsectors, while the wearing apparel subsector has by far the largest number of persons engaged, with 15,200 persons or nearly half of total manufacturing employees. The wearing apparel subsector also produces the largest manufacturing output around a third of the total; however, the food and beverages subsector contributed more than the wearing apparel to the manufacturing sector, in terms of value added as the former has higher value added ratio. Nevertheless, it is apparent that labor-intensive subsectors are dominant in the Lao manufacturing sector.

It is a salient feature that in the industry sector, electricity supply has such an important role that, combined together with water supply, it produces 42% of total industry value added although the number of employees are less than 10%, with highest labor productivity of 95,400 kips per person.

Table 2.5 Key Indicators of Industrial Sector in 1999

ISIC	Number of Establishment	Number of Persons Engaged	Gross Output	Value Added	Value Added per Person	Value Added Ratio
	Numbers		Kips million		Kips '000	
Mining and quarrying	14	715	33,471	14,960	20,923	0.45
Manufacturing	410	32,677	1,243,517	468,273	14,330	0.38
15 Food & beverages	74	2,276	233,439	157,860	69,359	0.68
16 Tobacco products	8	853	74,670	56,030	65,686	0.75
17 Textiles	5	375	4,836	275	733	0.06
18 Wearing Apparel	44	15,227	411,566	100,112	6,575	0.24
20 Wood & wood products	79	6,819	189,024	17,187	2,520	0.09
21 Paper & paper products	5	311	5,438	299	961	0.05
22 Publishing & printing	8	386	11,705	4,658	12,067	0.40
24 Chemical & chemical products	23	732	31,755	12,739	17,403	0.40
25 Rubber & plastic products	11	536	24,849	7,267	13,558	0.29
26 Non-metallic mineral products	97	2,473	58,355	36,089	14,593	0.62
27 Basic metals	4	583	23,875	12,376	21,228	0.52
28 Fabricated metal products	9	257	43,515	14,675	57,101	0.34
29 Machinery & equipment	7	218	9,342	2,355	10,803	0.25
31 Electrical machinery	2	104	6,108	696	6,692	0.11
34 Motor vehicles	9	864	69,990	22,750	26,331	0.33
35 Other transport equipment	4	181	32,226	12,537	69,265	0.39
19,30,33,36 Other manufacturing	21	482	12,824	7,885	16,359	0.61
Electricity and water supply	3	3,683	920,678	351,354	95,399	0.38
Industry Total	427	37,075	2,197,666	834,587	22,511	0.38

Notes: ISIC stands for International Standard for Industrial Classification.

Numbers for establishments with 10 and more persons engaged.

Sources: UNIDO, 'Survey of Industrial Establishments, 1999'

Seen in Table 2.6 is output of selected major manufacturing goods, which indicates steadily increased industrial production with some fluctuation in recent years. Although reliability of statistics is not fully confirmed, the manufacturing sector has been no doubt the leading sector of the whole economy.

Table 2.6 Output of Major Manufacturing

	Unit	1994	1995	1996	1997	1998
Hydropower	million kwh	1,197	1,085	1,248	1,219	1,996
Beer	'000 hectliter	102	151	240	286	332
Detergent	tons	700	877	913	870	912
Nails	tons	56	61	544	750	624
Electric cord	'000 m	1,798	2,192	2,441	3,100	2,250
Wood furniture	million kip	6,500	6,622	7,210	7,800	7,155
Garments	million pieces	11	18	19	21	23
Cement	'000 tons	7	59	78	84	-

Source: IMF, 'Recent Economic Developments January 2000'

It is a challenging task to set a scenario of future industrial development of Lao PDR because the country, with limited resources, might face difficulty in following suit of the patterns of industrial development of other ASEAN countries which started with labor-intensive manufacturing in the initial stage of the industrialization and then gradually upgraded their industrial structure through capital accumulation and improvement in technology.

(2) Size and Provincial Distribution of Industry

There are over 20,000 industrial establishments registered under the Ministry of Industry and Handicraft in 1999, as seen in Table 2.7. It should be noted that small scale industries with less than 10 employees account for 97% of the total, while only 108 establishments, or 0.5%, have 100 or more employees, and 494, or 2.5%, have 10 to 99 employees.

Large scale industries concentrate in a few provinces, namely, Vientiane Municipality, and Khammouan and Savannakhet provinces. They are located intensively in Vientiane Municipality in particular, with 64 establishments, or 59% of the total, concentrated there. On the other hand, small scale industries are generally dispersed all over the country, but Luangphabang and Savannakhet provinces have more small establishments than other provinces.

**Table 2.7 Provincial Distributioun of Industry Registered
under Ministry of Industry and Handicraft in 1999**

Province	Size of Establishment						Total	
	Large		Middle		Small			
Vientiane Municipality	64	59%	140	28%	1,045	5%	1,249	6%
Phongsaly	0	0%	2	0%	1,189	6%	1,191	6%
Luangnamtha	1	1%	7	1%	422	2%	430	2%
Oudomxay	0	0%	11	2%	1,292	7%	1,303	6%
Bokeo	0	0%	21	4%	493	2%	514	3%
Luangprabang	0	0%	7	1%	2,347	12%	2,354	12%
Huaphanh	0	0%	3	1%	235	1%	238	1%
Xayabury	0	0%	34	7%	1,020	5%	1,054	5%
Xiengkhuang	0	0%	11	2%	883	4%	894	4%
Vientiane	4	4%	48	10%	1,759	9%	1,811	9%
Borikhamxay	7	6%	31	6%	1,531	8%	1,569	8%
Khammouan	18	17%	11	2%	1,671	8%	1,700	8%
Savannakhet	8	7%	69	14%	1,943	10%	2,020	10%
Saravane	0	0%	18	4%	1,396	7%	1,414	7%
Sekong	0	0%	16	3%	341	2%	357	2%
Champasack	6	6%	53	11%	1,853	9%	1,912	9%
Attapeu	0	0%	8	2%	240	1%	248	1%
Xaysombourn	0	0%	4	1%	137	1%	141	1%
Total	108	100%	494	100%	19,797	100%	20,399	100%

Note: Small: 9 or less employees, Middle: 10 to 99 employees, Large: 100 or more employees

Source: 1975-2000 Basic Statistics of Lao PDR

(3) Industrial Development Plan

In March 2000, The Ministry of Industry and Handicraft prepared 'Industrial and Handicraft Development Plan for the Year 2001-2005'. In the Plan, the industry sector is expected to play a major role for economic growth and promotion of the industry is encouraged for the purpose of both import substitution and export promotion. The following targets are set out to be achieved in the planned period:

- Annual growth rate of industry from 2001 to 2005 - 10.2%,
- GDP share of industry in 2005 - 27%,
- Total industry export value in 2005 - 400 million dollars.

2.3 Trade and Investment

(1) International Trade

Lao PDR suffers chronically from a trade deficit, as the total imports often reach as much as double the total exports. Further, it is believed that there are a lot of informal trade, though no estimate of its magnitude is available.

The main export earners of Lao PDR are wood products, garments, electricity, coffee and motorcycle. Of these, timber and coffee have shown significant increase in recent years. On the other hand, Lao PDR imports a wide variety of goods ranging from capital goods to consumer goods.

Including construction/electrical equipment, materials for garments, fuel and machinery and equipment (Tables 2.8 and 2.9).

Table 2.8 Composition of Imports

	(Million US\$)				
	1994	1995	1996	1997	1998
Total Imports	564.1	588.8	689.6	647.9	552.8
Investment goods	146.1	189.3	277.0	226.8	226.7
Machinery and equipment	32.0	43.8	71.3	52.0	44.4
Vehicles	25.0	36.0	71.7	53.8	39.4
Fuel	21.4	30.8	32.8	38.2	61.8
Construction/electrical eqpmt	67.7	78.8	101.2	82.8	81.1
Consumption goods	276.5	282.8	308.0	267.7	234.1
Materials for garments	51.3	66.3	70.0	73.7	66.8
Motorcycle parts for assembly	34.6	13.3	12.0	24.9	17.0
Gold and silver	46.8	29.5	18.8	50.4	0.7
Electricity	2.4	3.1	2.6	3.2	5.8

Table 2.9 Composition of Exports

	(Million US\$)				
	1994	1995	1996	1997	1998
Total Exports	300.4	313.3	321.4	316.9	336.7
Wood Products	96.1	88.3	124.6	89.7	115.4
Logs	41.8	28.7	34.3	16.7	10.5
Timber	48.5	51.5	78.7	67.4	87.4
Coffee	3.1	21.3	25.0	19.2	48.0
Garments	58.2	76.7	64.1	90.5	70.2
Motorcycle	46.2	17.7	12.5	17.1	17.8
Electricity	24.8	24.2	29.7	20.8	60.7

Main destinations of the Lao exports are Vietnam and Thailand, which accounted for 42.7% and 22.1% of the total exports in 1997, respectively. The heavy concentration of exports to these two countries puts the country in a vulnerable position. Main source of imports, on the other hand, is Thailand which accounts for almost half the total imports (Table 2.10). Although the official import figures are available in Lao PDR only up to 1997, the share of imports from Vietnam is a mere 4%. A Vietnamese figure in 1999 indicates exports from Vietnam to Lao PDR amounted to US\$175 million, or equivalent to 25% of total imports of Lao PDR. At any rate, Thailand and Vietnam have been by far the most dominant trade partners of Lao PDR.

Detailed and comprehensive statistics on Laotian imports and exports with Thailand and Vietnam are not available. However, it is reasonably presumed² that main export products from Lao PDR to Vietnam are wood and wood

² The presumption is based on unofficial raw data provided by the Ministry of Commerce and Tourism, Lao PDR.

products, coffee and other agricultural products, fat products, and mineral products, while main imports from Vietnam to Lao PDR are construction equipment, food, and clothing and utensil. Likewise, main exports from Lao PDR to Thailand are wood and wood products, mineral products and agricultural products while main imports from Thailand to Lao PDR comprise construction equipment, agricultural equipment, and food.

Table 2.10 Direction of Trade

(%)

Exports in Percentage				
	1994	1995	1996	1997
Thailand	25.7	26.6	30.2	22.1
Vietnam	27.0	28.0	49.1	42.7
France	3.4	3.5	2.6	6.3
United Kingdom	0.3	0.3	2.1	4.7
USA	1.7	1.7	0.8	2.2
Germany	3.9	4.1	1.5	5.1
Japan	1.6	1.7	0.5	2.1
Belgium	0.4	0.4	0.6	5.6
Other	36.0	33.7	12.6	9.2
Total	100.0	100.0	100.0	100.0
Imports in Percentage				
	1994	1995	1996	1997
Thailand	47.9	48.9	45.0	51.9
Japan	8.1	8.3	7.6	1.6
Vietnam	4.0	4.1	3.7	3.9
Singapore	2.6	2.7	2.5	0.1
China	3.6	3.7	3.4	0.8
Taiwan	0.8	0.8	0.8	0.7
Hongkong	1.2	1.3	1.2	1.5
Korea	0.4	0.4	0.4	0.5
Other	31.4	29.8	35.4	39.0
Total	100.0	100.0	100.0	100.0

Source: Ministry of Commerce and Tourism

(2) Foreign Direct Investment

1) Foreign Investment Policy

It is an official policy to promote foreign direct investment (FDI) as means of boosting development and economic growth. Foreign Investment Law of 1994 is open and liberal, as some examples show:

- Foreign investment is only specifically prohibited in sectors affecting national security, or in areas deemed detrimental to the environment or public health;
- A hundred percent foreign ownership in all sectors, except hydropower and mining, is permitted;

- Profits are taxed at a flat 20% rate, and expatriate staff incomes at 10%;
- Materials and equipment imported for use of the investor enjoy only 1 percent import duty;

However, the effectiveness of Foreign Investment Law is undermined by the inconsistency of its application. The decline in FDI since 1996, while partly due to the regional economic crisis, is rooted in other factors, such as:

- Other laws, such as Business Law, Mining, and Electricity Laws barring foreign investment in practice;
- Government decrees and ad hoc administrative orders sometimes contradict with the principle of Foreign Investment Promotion Law;
- Bureaucratic impediments to the application process;
- A lack of transparency in the regulatory framework (e.g., intervention of administrative regulations in manufacturing and services activities); and
- An uncertain domestic economic environment.

It is expected that the efforts to become a member of WTO may help promote greater transparency and consistency in the legal and regulatory frameworks.

2) FDI Statistics

Since 1988 up to mid 1999, FDI from 35 countries registered over 750 projects, with total value of over US\$7 billion. The number of approved projects increased rapidly from less than 40 per year in 1988-90 to more than 100 per year in 1994-96. However, since 1997 the number of approved projects has dropped as seen in Table 2.11.

Since 1994 more than 85% of FDI value have come from the Asian countries. Thailand is the largest investor in Lao PDR with 37% of the total value of approved FDI, followed by USA, Malaysia, South Korea, and France.

Sector-wise, the hydropower is the leading sector to attract FDI in value terms, (US\$4.5 billion) accounting for almost two-thirds of the total approvals. Manufacturing, such as wood processing and textiles, and tourism account for 10% of the total (see Table 2.12).

Table 2.11 Foreign Direct Investment (Approval) by Country (in million US\$)

		1994	1995	1996	1997	1998	1999*
Thailand	Number	54	21	17	15	15	7
	Value	2,013.0	35.2	761.5	9.5	65.6	4.7
USA	Number	8	2	4	4	2	5
	Value	4.9	0.1	6.7	0.9	1.2	0.9
Taiwan	Number	6	1	1	2	3	1
	Value	8.2	6.7	0.5	0.3	1.3	0.1
France	Number	11	6	8	5	11	4
	Value	3.0	1.5	1.0	1.0	2.3	0.4
Malaysia	Number	1	2	2	5	2	1
	Value	3.4	5.1	211.2	73.2	3.0	11.4
United Kingdom	Number	1	1	3	1	2	1
	Value	3.5	4.0	17.9	0.2	0.3	41.7
Australia	Number	7	6	0	6	3	0
	Value	7.1	1.7	0.0	5.6	1.5	0.0
South Korea	Number	5	2	6	3	5	5
	Value	2.8	277.4	276.8	6.9	6.6	3.8
Singapore	Number	1	1	1	3	2	1
	Value	0.5	0.2	10.0	2.2	0.4	1.0
Japan	Number	5	5	4	8	5	1
	Value	1.0	5.2	2.8	4.3	2.0	0.7
Germany	Number	4	0	0	1	1	0
	Value	1.5	0.0	0.0	0.1	0.4	0.0
Canada	Number	1	1	0	1	1	1
	Value	0.1	0.3	0.0	0.2	0.7	0.0
Other	Number	14	6	11	15	10	12
	Value	6.5	15.7	1.1	5.8	30.7	8.3
Total	Number	131	63	63	72	68	43
	Value	2,064.3	366.3	1,292.6	113.8	122.5	78.4

Notes: First 10 months for 1999

Total investments value differs from the sector table because the country table excludes domestic portion of FDI.

Source: IMF 'Recent Economic Developments January 2000'

Table 2.12 Foreign Direct Investment (Approval) by Sector

(Million US\$)

		1994	1995	1996	1997	1998	1999*
Agriculture	Number	7	3	6	11	8	8
	Value	6.8	5.1	1.9	6.3	7.9	62.0
Garments/Textile	Number	8	6	4	4	7	2
	Value	12.3	13.1	2.7	2.6	5.0	0.9
Wood-based Industries	Number	5	1	2	2	1	0
	Value	22.4	0.6	12.0	2.1	2.5	0.0
Other manufacturing	Number	20	9	14	13		5
	Value	18.0	46.0	320.1	13.4		4.9
Mining/petroleum	Number	3	9	0	2	3	2
	Value	9.6	27.1	0.0	14.0	8.3	4.7
Trade	Number	16	4	11	8	5	6
	Value	8.9	0.4	7.9	5.0	1.0	2.6
Hotels/tourism	Number	6	1	3	2	4	0
	Value	279.3	0.3	211.7	0.5	1.8	0.0
Electric power	Number	3	1	1	0	0	0
	Value	2,146.0	498.4	231.8	0.0	0.0	0.0
Other	Number	62	21	22	24	30	20
	Value	30.1	24.0	504.4	18.5	96.0	19.0
Total investments	Number	130	55	63	66	68	43
	Value	2,598.3	615.0	1,292.6	142.4	122.5	94.0

Note: First 10 months for 1999

Source: IMF 'Recent Economic Developments' January 2000

The FDI promotion policies, especially concerning which industrial sub-sectors are to be promoted with priority, should be closely related to the industrial development policy itself.

2.4 Economic Development Plans

(1) Mid-Term Prospects

Apart from NEM, the Lao government has implemented four five-year development plans so far. At present the '1996-2000 Social-Economic Development Plan' is about to be concluded without achieving one of its goals, per capita GDP of 500 US\$. The next five-year plan up to the year 2005 is being prepared by the State Planning Committee and its outline is yet to become available.

On the other hand, IMF prepared 'Framework for the Outlook of the Economy to Year 2004' in May 1997 (Table 2.13). According to the report, the IMF envisages annual GDP growth of 6.5% in the years from 2001 to 2004, based on an assumption that Lao PDR continues high investment rate of more than 26% and increase its domestic saving rate to more than 20% after 2001. Judging from current domestic saving rate of less than 15%, reality of the scenario depends on how the government can mobilize domestic saving if Lao PDR seeks to decrease its dependency on foreign savings.

Table 2.13 Economic Projections to the Year 2004 (IMF)

	1996	1998	2000	2002	2004
Real GDP Growth (%)	6.8	7.0	7.0	6.5	6.5
CPI Change (%)	13.0	4.5	4.0	4.0	4.0
Fiscal Balance excluding Aid (% of GDP)	-5.6	-3.5	-2.0	-2.0	-1.8
National Savings (% of GDP)	14.0	14.5	17.2	20.2	21.1
Private Sector	10.7	9.9	10.8	13.1	13.3
Public Sector	3.3	4.6	4.3	2.4	1.9
Domestic Investments (% of GDP)	30.5	28.9	28.3	27.3	26.4
Private Sector	19.5	18.5	18.0	17.2	16.3
Public Sector	11.0	10.4	10.3	10.1	10.1

Note: Projections were made in 1997.

Sources: OECF 'The Lao Economy: Its Current Status and Future Challenges', 1999.

(2) Vision 2020

Besides the new Social-Economic Development Plan, SPC is currently preparing a long-term development plan, called the "Vision 2020". The Vision 2020 will set out targets in order to graduate from the ranks of the Least Developed Countries (LDC) by the year 2020, by adopting three basic policies; (i) to attain sustainability of the Lao economy through a middle-range growth rate (7-8% per annum), (ii) to attain balanced

development by minimizing gaps in the society, and (iii) to protect environment in socio-economic development.

The national priority programs will be defined under the Vision 2020, which will include the following:

- (i) Food production and self-sufficiency,
- (ii) Commercialization of products, including improvement for access to markets,
- (iii) Abolition of shifting cultivation,
- (iv) Development of the rural areas, including introduction of rural pilot development programs,
- (v) Development of infrastructure, including rural road improvement,
- (vi) Human resources development,
- (vii) Development of the service sector, including tourism and information technology services, and
- (viii) Development in the framework of international cooperation (e.g., ASEAN, WTO).

2.5 Highlights of Lao Economy and Rationale for SEZ Development

(1) Highlights

The position and trend of the Lao economy and industries can be characterized as summarized below:

Macro economy

- The economy has been relatively stable with annual GDP growth of 6 to 8% after the initiation of economic reforms in 1986, though since 1997 when Asian economic crisis started, the Lao economy has faced difficulties including high inflation.
- Agriculture is the predominantly important economic sector of the country, accounting for more than half of GDP and 80% of total workforce. However, prospects of the Lao economy towards 2005 and 2010 depend on how the industrial sector will be boosted and contribute as an engine for economic growth.
- External account is structurally deficit-ridden, as current account deficit is financed by foreign capital inflow of ODA and FDI. Promotion of FDI

is particularly important to further finance the country's investment-savings gap.

- Financial and banking system is still immature, which is one of the causes of the low domestic savings rate. Further improvements are required to enhance financial and banking sector.
- There still remains a lack of transparency in the regulatory framework under the transitional period to the market economy.

Industry

- The manufacturing sector, though not significant in terms of the GDP share, has been and will continue to be the leading sector of the economy.
- Because of a number of constraints including small population, limited capital accumulation and insufficient technology, the level of industrial development still remains in the immature stage, keeping labor-intensive or resource-based industries as main manufacturing sub-sectors. Even under such situations, the Lao industries are required to enhance international competitiveness.
- Of the country's 20,000 enterprises, 97% are small industries with 9 or less employees. Particular attention is required to promote SMEs.
- Large scale industries, though small in number, are concentrated in Vientiane, Khammouan and Savannakhet provinces. Necessity of appropriate industrial location (e.g., resources, urban centers transportation and other infrastructure) should be duly taken into account.

Trade and investment

- Total imports always exceed total exports, leaving the country in a huge trade deficit. Export promotion is indispensable to improve balance of payment.
- Main export goods are wood products, garments, electricity, coffee and motorcycles, while imports consist of wide variety of items including consumer goods, capital goods and raw materials. Due to the small size of domestic market, there is a limitation in promoting the import-substitution type of industries.
- Thailand and Vietnam, two neighbors, are by far the most dominant trade partners. These relations will continue under the AFTA free trade regime.

- The number and value of FDI to the country increased rapidly from the late 1980s to the mid 1990s, but sharply dropped after Asian economic crisis. Some specific measures should be taken to revitalize FDI.
- The largest investor in Lao PDR is Thailand, followed by USA. Most of FDI has been made by Asian countries for the last 5 years. FDI should be promoted with due consideration for competitiveness under the AFTA regime.

(2) Rationale for SEZ Development

Judging from review of the Lao economy and industries, it can be concluded that development of the Special Economic Zone (SEZ) will be one of the most effective strategies that the Lao government can adopt for promotion of FDI. Moreover, the development of SEZ may also accelerate the country's transition to the market-oriented economy.

It is obvious that a developing country with limited government budget like Lao PDR, must strategically allocate its resources intensively in the specifically designated area, when it tries to promote foreign investment in the country. By providing infrastructure, facilities, services and special incentives with international standards, which have not been available outside the zone, the country can take a competent position in attracting FDI.

In the last couple of decades in East and South-East Asian countries, the development of various types of special economic zones has played a vital role in promoting FDI to host countries, contributing much to their rapid economic growth. The NIEs, China and most of original ASEAN member countries have had certain types of special economic zones and succeeded in inviting FDI, although the extent of success varies from country to country. With massive flow of FDI, they have benefited from employment generation, export increase, and technological upgrading.

It should also be noted that China has made full use of its Economic Special Zones, first series of which were designated in 1980, in order to encourage introduction of market mechanism into the country. Foreign investors bring to a host country not only capital and technology, but also various market systems such as contract, accounting, labor market and marketing which did not exist in the centrally planned economy. Although market-oriented economy in Lao PDR is disseminated to more extent than in China, at least, of 1980, the construction of SEZ, leading to inflow of FDIs, will surely accelerate the transition to market economy.

Rationalization of SEZ development in Savannakhet, and the functions and facilities the SEZ should be equipped with, are further examined in Chapters V and VI.

CHAPTER III REGIONAL BACKGROUND

3.1 Human Resources in Savannakhet

(1) Employment and Migration

Employment by sector in Savannakhet province, based on 1995 Population Census data, is shown below (Projection for 2010 is also presented for reference.). About 90% of employed persons in Savannakhet are engaged in the agricultural sector. Employment in agriculture means subsistence farmers and unpaid family workers. A person can work as a farmer but temporarily as self-employed in household business or as paid employees. Consequently, the share of “agriculture” tends to appear high.

Table 3.1 Employment Structure of Savannakhet Province

	(1000 persons)	
	1995	2010
Population	671.8	970.1
Economically Active Population (Share to Population)	342.0 (50.9%)	494.5 (51.0%)
Unemployed (Unemployment rate)	8.0 (2.3%)	9.9 (2.0%)
Employed (Share)	335.3 (100%)	484.7 (100%)
AGRICULTURE	300.4 (89.6%)	427.0 (88.1%)
INDUSTRY	6.5 (1.9%)	10.8 (2.2%)
SERVICE	28.3 (8.4%)	46.9 (9.7%)

Source: JICA “The Study on the Integrated Regional Development Plan for Savannakhet and Khammouan Project (hereinafter “SKR Study”)

The high concentration of employment on the agricultural sector implies the following:

- (i) Resource mobilization for industrialization has not been made; and
- (ii) Institutional settings for industrialization have not been developed.

The Mekong Lao and Phouthai – two major ethnic groups of the province – mainly live in the lowland areas where permanent (paddy) cultivation is predominant. These two groups have the best opportunities for access to public services. The other groups who live in the highland areas tend to practice shifting cultivation and have less access to education, health, and credits due mainly to the lack of feeder roads.

Illiteracy rates in such highland areas are substantially high. Thus, the division between rural and urban population in terms of economic opportunities is clear. Urban population in Savannakhet province is estimated to be about 102,000 (15%).

Unless people currently engaged in subsistence agriculture shifts to the more productive economic sectors (industry and service), incidence of poverty¹ will not be decreased.

In addition to the rural-urban division of opportunities, the high rate of out-migration is another important issue for Savannakhet province development option. The following table - though a bit dated - shows a strong movement of out-migration from Savannakhet:

Table 3.2 Population Change 1994/95 of Selected Provinces

Province	Natural Growth Rate (%)	Migration (%)
OUDOMXAY	2.4	4.3
SAYABOURY	2.9	1.5
SAVANNAKHET	2.4	-7.1
SEKONG	4.0	-2.1
XIENGKHOUANG	3.3	-3.3
National Average	2.6	-2.3

Source: NSC-Basic Statistics 94 and 95, Socio-Economic Profile of Savannakhet Province, UNDP April1998

The migration rate is calculated as the difference between the population of 1994 and 1995, minus the natural growth rate. As a result of emigration, real population *decrease* rate of Savannakhet in 1994 - 1995 is assumed to be 4.7%. There is an estimate of temporary out-migration to Thailand of close to 20,000 persons per year².

(2) Development Options

The current employment structure of Savannakhet province suggests that there exist an under-employment problem in the marginal areas. Those people are less likely to have good literacy and education. In other words, they have fewer opportunities to participate in industrial activities compared to those in urban areas. For those living in the marginal areas, basic education and skill development are required, while those living in the urban

¹ Poverty line is assumed to be 18,518 Kip per month. About 37% of population in Savannakhet are below the poverty line.

² Socio-Economic Profile of Savannakhet Province, UNDP April1998

areas require further skill development to accelerate industrialization in Savannakhet. The following two measures are, therefore, necessary for human resources development in Savannakhet:

(i) Expanding Basic Education

The current low enrollment rate and high drop-out rate in basic education are the great obstacles to economic and social development. Appropriate measures should be taken to develop multi-grade teaching system, distance education, and establishment of boarding schools.

(ii) Creating Skilled Personnel and Job Markets

As there is little demand for labor force from industrial sector in Savannakhet Province to date, there is little human resources readily available as worker for industrial production, transportation other services sector. Graduates from vocational schools do not possess adequate skills. This is because of lack of training due to poor facilities and teachings. It is therefore necessary to develop Savannakhet Technical School, which is the largest technical school improve the schools outside Vientiane. Currently it organizes the following 7 courses:

- Carpentry
- Electricity
- Welding
- Personal Computer
- Business Administration
- Auto Mechanic
- Masonry

Total student number is 650 and total staff is 60 in 1999. However, according to the director of the school, the capacity of the school for student is merely 300.

In addition, strengthening of linkage with foreign investors shall be encouraged. For example, Volkswagen together with GTZ established “Lao-German Technical College” in Vientiane. This kind of collaboration arrangement shall be sought further.

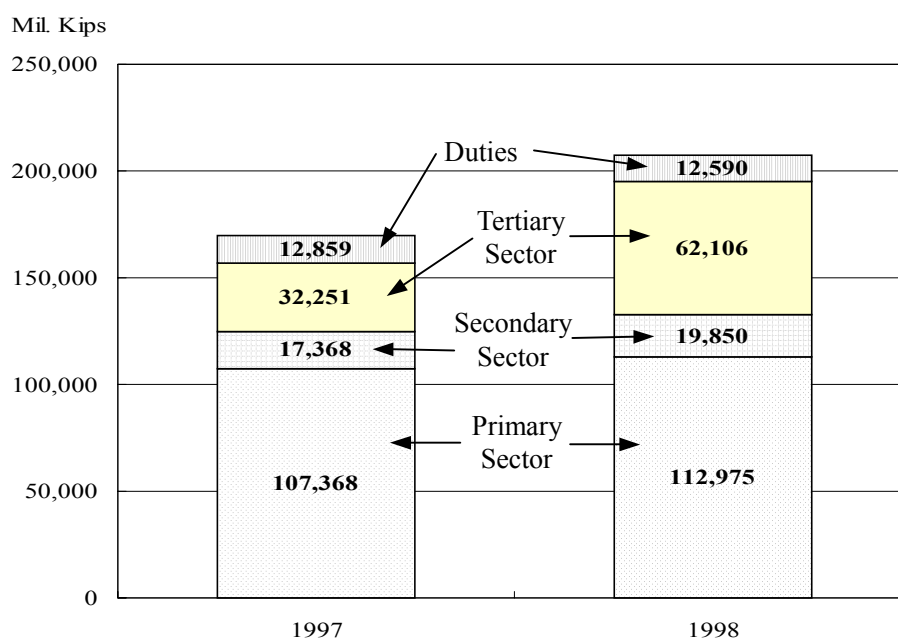
300,000 people are engaged in the agricultural sector in Savannakhet while merely 6,500 in industry at present. Hence there is abundant labor force in Savannakhet though majority of them are at present engaged in subsistence farming. Currently unskilled labor may become semi-skilled and skilled workers through training and education mentioned above (Basic education

and Vocational Training) and learning by doing on the job. The issue therefore is how to train those people engaged in subsistence farming for industry and service employment.

3.2 Savannakhet Economy

(1) Gross Regional Product

GRP(Gross Regional Product) in Savannakhet province recorded 170 billion kips in 1997 and 208 billion kips in 1998. The real growth rate per annum was 22.2%³. The service sector contributed to such a remarkable growth with its growth rate of 92.6%. The principal sector in Savannakhet, however, remains to be agriculture, which accounted for 63.2% in 1997 and 54.4% in 1998. The industrial sector grew steadily (14.3%), but its contribution to the total GRP declined slightly.



Source: Basic Statistics about the socio-economic development in the Savannakhet province, 1998

Figure 3.1 Gross Regional Products at 1995 price

(2) Export and Import

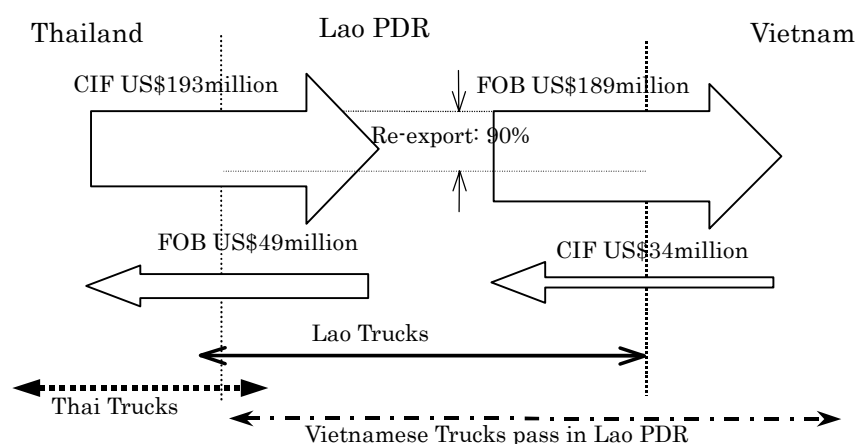
Total value of exports in Savannakhet amounted to US\$238 million in 1998/99. Of which US\$49 million (20.5%) were exported to Thailand and

³ The real growth rate of GDP at the same period was around 6% per annum. The rate of 22.2% in Savannakhet was unusually high.

US\$189 million (79.5%) to Vietnam. There are two categories of export: one is export of the domestic goods (US\$20 million or 8.5%) and the other is the transit goods (US\$218 million or 91.5%). The domestic goods are mainly exported to Thailand and the transit goods mainly to Vietnam.

Total value of import was US\$227 million in 1998/99. The balance of trade, therefore, was in the surplus of US\$11 million. Imports are categorized as domestic usage and transit. The domestic usage was 9.8% (US\$22 million) and the transit was 90.2% (US\$205 million). The proportion of goods exported from and import to Lao PDR has been relatively small or less than 10%.

Trade activities between Lao PDR and Thailand are highly dependent on the boarder-trade. The regional economy, therefore, is measured by the export and import volume of domestic origin and destination (exclusive of transit goods). The economic activities of Savannakhet are therefore estimated to be 10% of the total exports and imports of the province.



Source: Savannakhet Province and SPC

Figure 3.2 Trade Structure in Savannakhet

The major export-import commodities of Savannakhet are summarized as follows:

Export commodities

The manufacturing products, such as garment, accounted for 55.6% to the domestic goods for export, followed by wood and wooden products (31.1%). As for transit goods, agricultural products or foodstuff is predominant (87.5%). Re-export goods are mainly consumption goods

(53.7%), followed by construction materials and sanitary ware (24.0%) and foodstuff (20.1%).

Import commodities

Imports for domestic usage are principally foodstuff (59.0%), followed by construction materials and sanitary ware (25.9%). Re-export goods are predominantly consumption goods (55.1%).

Table 3.3 Export-Import Commodities

EXPORT	US\$	%	IMPORT	US\$	%
Wood and products	3,935	31.6	Foodstuff	13,593	59.0
Mineral	1,172	9.3	Consumption goods	1,726	7.5
Natural forestry products	272	2.1	Construction goods*	5,962	25.9
Agricultural products	55	0.4	Vehicle spare parts	1,212	5.3
Industry products	7,042	55.6	Medical equipment**	537	2.3
Other products	195	1.5	Domestic usage	23,030	100.0
Domestic Goods	12,671	100.0	Equipment for industry	4,404	32.6
Foodstuff	152,556	87.5	Equipment for agriculture	622	4.6
Consumption goods	12,751	7.3	Products for export	8,500	62.8
Construction goods*	4,708	2.7	Import for Factory	13,525	100.0
Vehicle spare parts	4,378	2.5	Foodstuff	1,696	18.7
Transit Goods	174,394	100.0	Consumption goods	5,011	55.1
Foodstuff	1,740	20.1	Industry goods	225	2.5
Consumption goods	4,637	53.7	Construction goods*	1,992	21.9
Industry goods	62	0.7	Vehicle spare parts	72	0.8
Construction goods*	2,074	24.0	Medical equipment**	93	1.0
Vehicle spare parts	110	1.3	Re-export Goods	9,090	100.0
Medical equipment**	21	0.2	*: Construction goods and sanitary ware **: Including Medicine		
Re-export Goods	8,643	100.0			

Source: The study of Socio-Economic Impact on the Use of Route 9, SPC

3.3 Savannakhet Industry: Situation and Prospects

Savannakhet province is reported to be an industrial base in Lao PDR, following Vientiane Municipality. There are 1,846 factories employing 7,218 workers in 1999 (excluding electricity and water supply, of which establishments are 194 and employ 614 workers). The large factories having more than 100 employment are 14 and they employ 2,776 workers⁴. The middle factories are 61 with 1,363 employees and the small factories are 1,771 and they employ 3,079 workers.

⁴ The Department of Industry and Handicraft in Savannakhet categorizes the establishments as three types: 1) Small factory (less than 9 employments), 2) Medium factory (10-99 employments), and 3) Large factory (more than 100 employments).

Table 3.4 Factories and Employment by Factory Scale

	No. of Establishment	(%)	No. of Employees	(%)
Large Factories	14	0.8%	2,776	38.5%
Medium Factories	61	3.3%	1,363	18.9%
Small Factories	1,771	95.9%	3,079	42.7%
Total	1,846	100.0%	7,218	100.0%

Source: Department of Industry and Handicraft in Savannakhet

Major Sub-sectors

The biggest sub-sector in Savannakhet is the food, beverage, and tobacco industry having 1,463 factories of 2,605 workers. From the point of view of employment, the garment industry is the second largest sub-sector, which employs 1,626 workers followed by the sawmill having 1,109 employment. The above three sub-sectors, therefore, employ 5,340 workers or 74% to the total.

Table 3.5 Industrial Establishments and their Employment in Savannakhet

ISIC Code	Sub-sector	Number of Establishment	Number of Employees	Number of employment per establishment
15	Food and beverages*	1,463	2,605	2
16	Tobacco products	1	51	51
18	Wearing apparel	26	1,626	63
192	Footwear	1	1	1
201	Sawmill and plating of woods	12	1,109	92
21	Paper and paper products	1	146	146
22	Publishing and printing	1	17	17
24	Chemicals and chemical products	1	21	21
25	Rubber and plastics	5	131	26
26	Other non-metallic mineral products	65	585	9
27	Manufacture of basic metals	4	61	15
28	Fabricated metal products, except machinery and equipment	24	125	5
29	Machinery and equipment	12	41	3
32	Radio, television and other electronics equipment and apparatus	37	158	4
333	Watches and clocks	20	20	1
341	Motor vehicles	26	133	5
359	Transport equipment n.e.c.	146	382	3
361	Furniture	1	6	6
Total		1,846	7,218	4

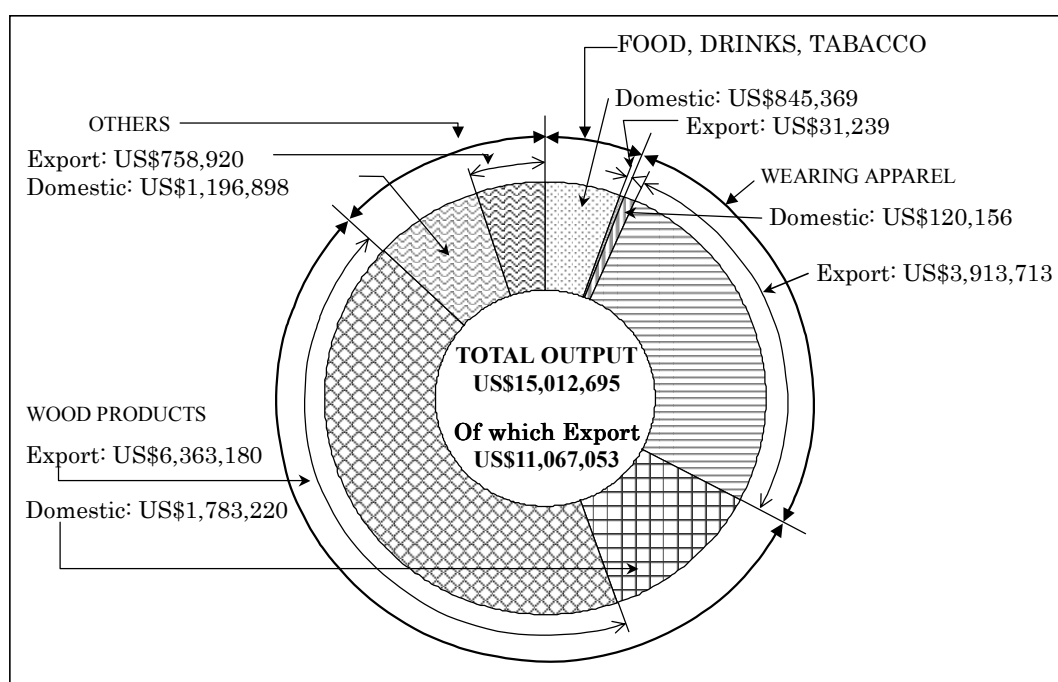
Source: Department of Industry and Handicraft in Savannakhet

Regarding to the number of establishments, the manufacture of transport equipment n.e.c. (Not elsewhere classified) is the second largest sub-sector, however, most of their business is repair works of bicycle and motorbike.

Factories Located in Savannakhet

Large factories (14 factories) and 59 Medium-sized factories are located in Khanthabouly district and the employment are 4,139. As for the small factories, there are 413 factories and they employ 1,128 workers in Khanthabouly district. 5,276 workers or 73% of Savannakhet province are employed in Khanthabouly district.

Out of the 75 large and middle factories, 31 factories are located in the Savannakhet (Urban area of Khanthabouly district) and along the Route 9. The number of employees of the factories is 3,249. Twenty factories are export-oriented and total amount of export is around US\$11 million (1999).



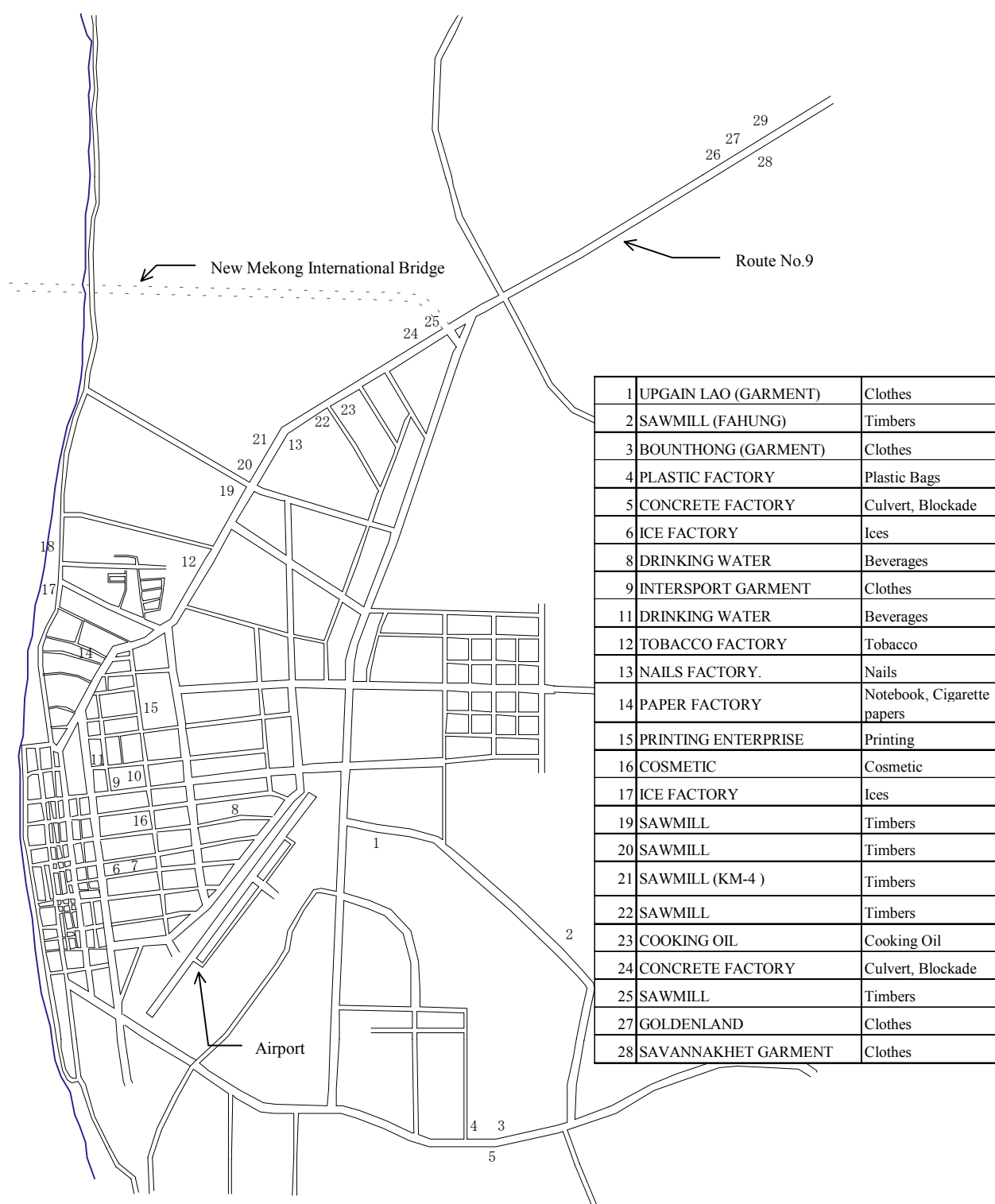
Source: Savannakhet Province

Figure 3.3 Shipment and Export by Major Sub-sectors

Table 3.6 Factories along Route 9

	No.	SALES (\$)	EXPORT (\$)	EMPLOYEES
FOOD, DRINKS, TABACCO	7	876,608	31,239	214
WEARING APPAREL	5	4,033,869	3,913,713	1,523
WOOD PRODUCTS	11	8,146,400	6,363,180	1,094
OTHERS	8	1,955,818	758,920	418
TOTAL	31	15,012,695	11,067,053	3,249

Source: Savannakhet Province



Note: The factories numbered 7,10,18,26, and 29 are closed or in preparation. There are ten more factories located along the Route No.9 to the junction with Route No. 13.

Source: The Savannakhet Province

Figure 3.4 Factory Location Map along Route No. 9

Activities and future prospective in major industry in Savannakhet are summarized as follows.

(1) Garment industry

The garment industry is one of the major export sub-sectors in Lao PDR. In Savannakhet, there are 6 garment factories in operation, contributing to the export. All the garment factories import the whole materials, process (cutting and sawing) and export all products mainly to Europe.

There are several discussions as to whether the garment industry is a promising industry to promote in Savannakhet. The points of discussion are:

- i) As the garment industry is a typical labor-intensive industry, the labor supply is relatively limited, and
- ii) The garment industry is a prime motor of export; however the impact to the national and regional economy is relatively small because of its value added in production process.

These points of discussion are true from the macroscopic point of view. In case of the promotion in Savannakhet, however, the labor force should be carefully assessed. In 1995, provincial population was about 671,000, and it is expected that 2010 population will reach nearly 970,000. The number of employment in agriculture was around 300,000 in 1995 and the increased rate of agricultural employment will be much less than the population increase rate. When 20,000 to 30,000 jobs are to be created by the garment industry (with the existing garment factories employing 200 to 700 respectively, about 30 factories are possible to locate), the labor supply is not considered to be a negative factor for the garment industry in Savannakhet.

With respect to the cost competitiveness, the wage of the garment industry in Savannakhet is reported to be 25% of Bangkok and a half of northeastern Thailand. If the productivity in Savannakhet is 80% when compared to the Thai workers, the processing in Savannakhet has an advantage of 62%-cost-reduction effect compared to that of Bangkok and of 20% to Mukdahan.

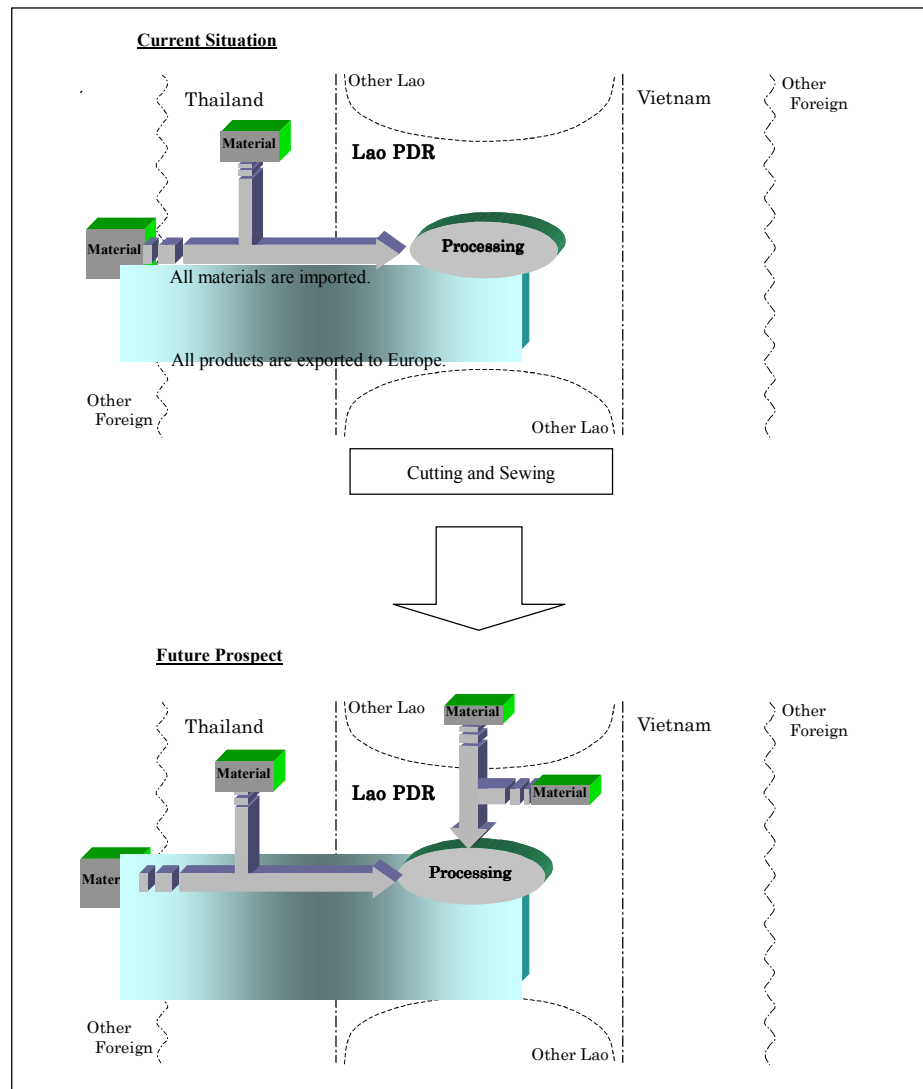


Figure 3.5 Commodity Flow of Garment Sector

On the other hand, there are some issues, to be addressed in evaluating the prospectiveness to promote the garment industry in Savannakhet.

- i) Quantity of potential labor force is sufficient but labor force is not yet accustomed to the “factory work”.
- ii) There is limited supply base of domestic material to the garment industry.
- iii) The effects of expiration of MFA (Multi-Fiber Agreement) in 2005 should be further assessed.

(2) Wood and wooden products

Wood and wooden product sub-sector is a promising industry in Savannakhet. The wood and wooden products, in fact, are major export

commodities. The export products, however, are mainly timbers, with low level of processing. The wood and wooden products industry has been losing opportunities to gain the higher value-added. In order to enhance the degree of processing, existing sawmills in Savannakhet have to modernize their equipment. Promotion of FDI and training of workers will be further required to promote the furniture industry.

The potential market of the construction materials such as a floorboard made by “hard wood” is big. In Canada, for example, the consumers prefer to use the hard-wood-made floorboard rather than that made by “soft wood”, which is rich in Canada. This is an example of new business opportunity for wooden products development based on the Study Team observation. Presumably there are many such business opportunities for local resource-based industry.

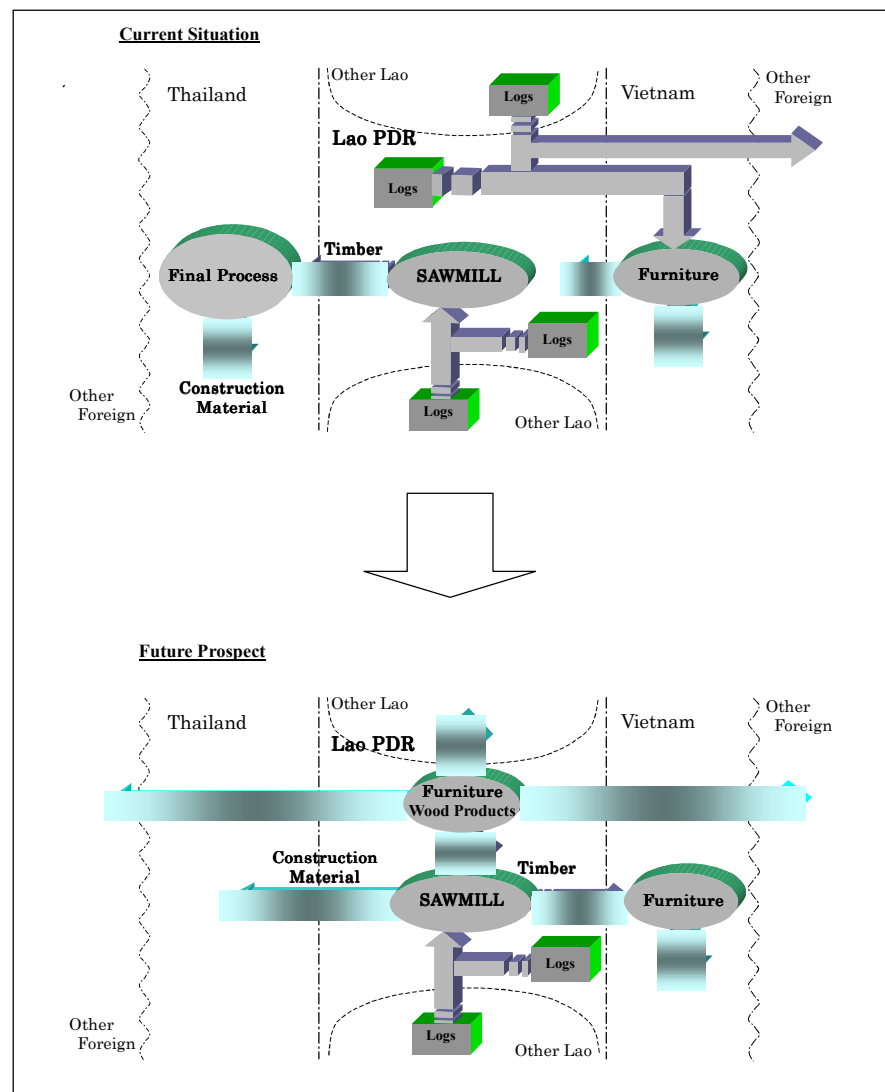


Figure 3.6 Commodity Flow of Wood / Wooden Products

(3) Food Processing

Lao PDR is an agricultural country, and the food processing industry is promising as a local resources-based industry. It should be emphasized, however, that the supply systems of agricultural products are to be secured to promote the food industry.

A vegetable oil manufacturer, located in Savannakhet, for example, suffers from a shortage in supply of raw materials (mainly peanut). Such shortage of materials obstructs investment in final processing equipment. The factory, therefore, produces intermediate products and sends them to Thailand where final products are processed and re-imported to Lao PDR. To raise the processing degree and to gain value-added in Lao PDR, stable supply of raw materials is essential.

In Savannakhet, the food and tobacco industry is the important sub-sector, as mentioned above. Most food and tobacco manufacturers, however, are small factories. Of them, 1,365 factories or 93% of the total are rice mills, which spread throughout the whole province, they employ 2,037 workers followed by the manufacture of other food products such as bakery, noodle, salt and coffee (35 factories and 224 workers).

Table 3.7 Manufacturing of Food and Tobacco in Savannakhet

ISIC Code		Factories	Employment
151	Production, processing and preservation of meat, fish, fruit, vegetables, oils and fats	1	25
152	Manufacture of dairy products	35	127
153	Manufacture of grain mill products, starches and starch products, and prepared animal feeds	1,365	2,073
154	Manufacture of other food products	35	224
155	Manufacture of beverages	27	156
160	Manufacture of tobacco products	1	51
	Total	1,464	2,656

Source: Department of Industry and Handicraft of Savannakhet Province

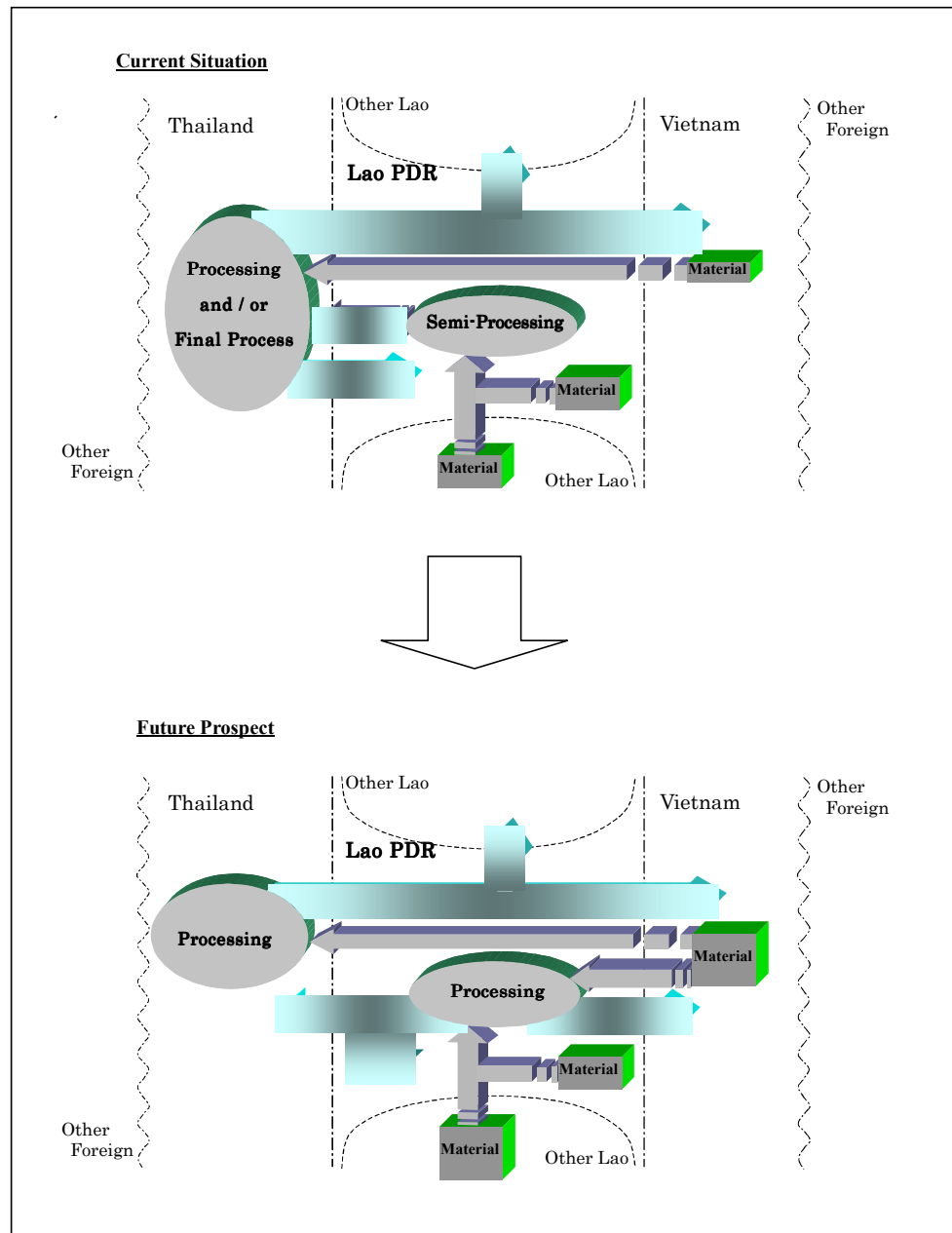


Figure 3.7 Commodity Flow of Foodstuff

(4) Machinery, Electrical and Electronics Equipment

There are four motorcycle factories operating under the Complete Knock Down (CKD) system in Lao PDR, but the total assembling capacity is limited to not more than 20,000. The government sets the quotas for motorcycle assembly. The import duties for CKD parts have been decreased to 61% (it remains still high), but the duties for the final products have also been reduced to the same level. The merit of CKD production is therefore being lost. The role of re-export base to Vietnam will be decreased as the factories in Vietnam are increasing their capacity for assembling.

CKD assemblers, therefore, should focus on the domestic market, which will gradually expand with the increase in income level. They will find it difficult to survive if the quota system is imposed and the import duties for parts are at the same level of the duties for the final products.

In Savannakhet, there is an electrical equipment factory producing electric fans; its production process is to import major parts from Thailand (motor, electronics devices, etc.), to produce plastic parts, and to assemble them. The factory was designed to assemble the consumer electrical equipment such as refrigerators, TVs, air-conditioners, and fans and to meet domestic market demand and export to Vietnam. Due to a shrinking market in Vietnam and Lao PDR, the production of the factory has been reduced substantially. Lessons from this case suggest that the local processing of parts should be promoted, and that some measures should be taken to complement some target industry/products.

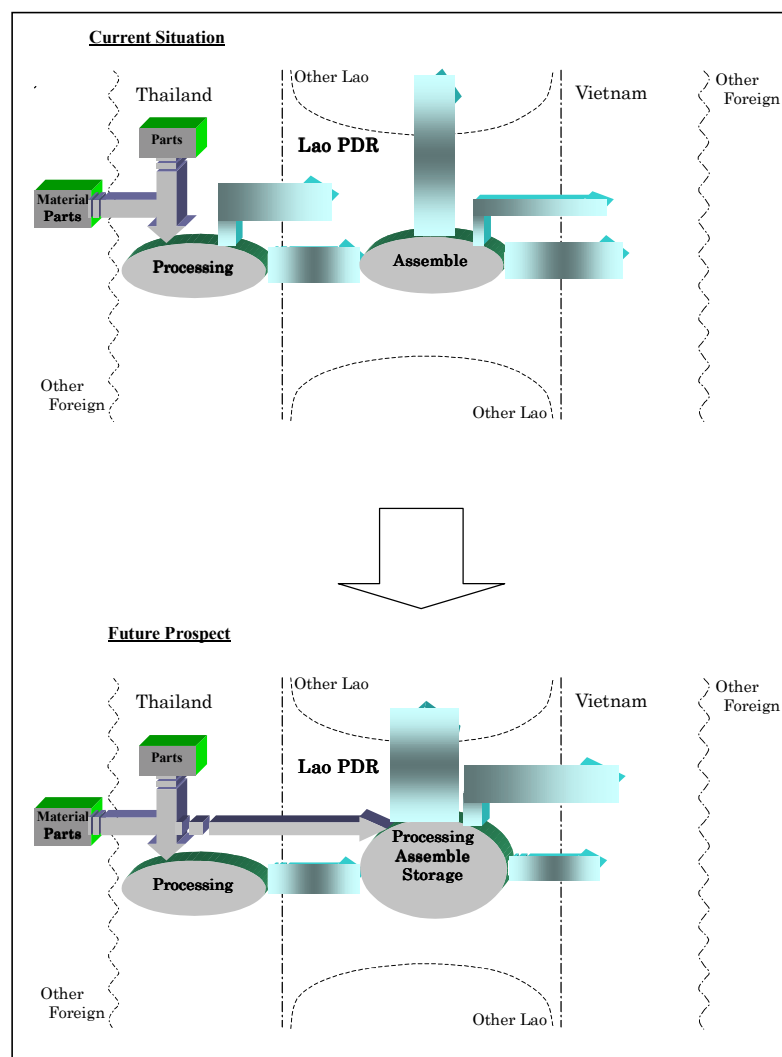


Figure 3.8 Commodity Flow of Machinery / Electronics

3.4 Transportation and Hotel Industries

The transportation industry in Lao PDR is considered as an “infant industry”. There are only 215 trucks. In Savannakhet, there is one transportation company with 29 trucks. When the New International Mekong Bridge is completed, the total amount of the traffic volume will be tremendously expanded as shown in Section 2.6. It is a big opportunity for the transportation companies to enhance or expand their business. The Facilitation of Cross-border Transport of Goods and People Agreement among Lao PDR, Thailand, and Vietnam were agreed. The essence of the agreement is to allow the transportation companies in each country to make business freely so the competition among the three countries will be much serious.

Technological progress in the logistics has been very fast. Productivity improvement utilizing new technology like IT is therefore required. In order to adopt such a strategy, economy of scale may be required. Economy of scale means the more that is produced the cheaper is the price of each operation. Thus, merger of some transportation companies may enhance their competitiveness.

Table 3.8 Transportation Companies and Number of Trucks

No	Name of Enterprise Co & Association	Location	Number of Truck
	<u>Companies permitted by Sector Cooperatives</u>		
1	O T O 1 Trade Transportation Co. Ltd.	Vientiane	52
2	O T O 2 Trade Transportation Co. Ltd.	Savannakhet	29
3	O T O 3 Trade Transportation Co. Ltd.	Vientiane	13
4	O T O 4 Trade Transportation Co. Ltd.	Vientiane	33
5	Trade Transport Enterprise no. 1	Vientiane	22
	Total		149
	<u>Private-Partnership Transportation Companies</u>		
1	Machinery Transport Service Co. Ltd.	Vientiane	44
2	Muang Luang Service Co. Ltd.	Vientiane	10
3	DAFI Petroleum Transportation	Pakse	n.a.
4	Lao Southern Developing Transportation Co. Ltd.	Pakse	n.a.
5	Phou Doy Transportation Co. Ltd.	Vientiane	11
	Total		65

Source: Department of Transport, MTCPC

There are 8 hotels having 245 rooms and 14 guesthouses having 177 rooms. The number of rooms is increasing slightly.

The facilities of hotels are poor and their grade is far below the international standard. The training for the workers appears to be insufficient.

When the New International Mekong Bridge is completed and the foreign businessmen visit Savannakhet, the quantity and quality of the hotels shall be very important. Currently it is difficult to organize meetings and/or seminars in Savannakhet.

Table 3.9 Hotel and Guesthouse

	1995	1996	1997	1998
Number of Hotels	7	8	8	8
Number of Rooms	201	227	227	245
Number of Guesthouses	4	8	10	14
Number of Rooms	34	70	99	177

Source: Basic Statistics, Department of Planning for Savannakhet Province, 1998

3.5 FDI in Savannakhet

Since 1990 up to mid 2000, 22 FDI projects, which accounts for just 3% of the total number of FDIs in Lao PDR, with a total amount of US\$33 million have been made in Savannakhet Province (See Table 3.10). Although detailed data including total employment, output and exports is not available, There is no doubt that their operation has a significant impact on the local economy.

Of all 22 projects, 14 are in the industry sector, 2 in agriculture, one in construction and remaining 5 in the services sector. Country-wise, China has the largest number of investments, committed 6 projects in Savannakhet, followed by Thailand with 5, Vietnam with 3, and South Korea with 2 projects. The biggest ever project is Upgain Manufacturing Company, a 100% Thai-invested garment factory, with an investment of US\$11 million.

Table 3.10 Foreign Direct Investment in Savannakhet Province (1990-2000)

	Company	Business	Form	Limit Year	Country	Total Value: US\$	Share in %	
							Local	Foreign
I	INDUSTRIAL SECTOR					28,374,657		
1	CIGARETTE FACTORY	Cigarette	JV	20	China	1,500,000	40	60
2	SAVAN-GARMENT	Garment	JV	20	France	307,268	50	50
3	VANNAVIT C.P.	Electric parts	JV	15	Thailand	400,000	50	50
4	GOLDEN LAND	Garment	WF	15	Thailand	990,000		100
5	UPGAIN LAO	Garment	WF	15	Thailand	10,950,000		100
6	SAVAN ADVANTAGE FACTORY	Vegetable oil	WF	20	Thailand	200,000		100
7	LANEXANG MIN.	Mining survey	WF	20	Australia	5,000,000		100
8	NAILS FACTORY	Construction material	JV	15	China	300,000	55	45
9	KOLAO DEVEL'T	Car repair, assemble	JV	15	South Korea	1,740,000	10	90
10	K & L ENTERPRISE	Machine repair	JV	15	South Korea	5,000,000	5	95
11	IRON FACTORY	Steel	JV	20	Vietnam	723,000	50	50
12	ELECTRIC CABLE	Small size cable	JV	25	China	363,889	49	51
13	SOCKS FACTORY	Socks production	WF	15	Japan	900,000		100
14	MOTOBIKES ASSEMBLY	Motorbike repair, sales	WF	20	China	500		100
II	AGRICULTURE					300,000		
15	SAVAN PHATANA AGRICULTURE	Animal breeding	JV	15	Taiwan	300,000	30	70
16	D C VA TRADING	Export agricultural products	WF	15	Thailand	167,000		100
III	CONSTRUCTION & COMMUNICATION					600,000		
17	BRIDGE & ROAD CONSTRUCTION.	Construction	JV	10	Vietnam	600,000	50	50
IV	SERVICES					9,018,368		
18	URBAN DEVELOPMENT PROJECT	Hotel	JV	10	Vietnam	77,331	25	75
19	MEKONG HOTEL	Marketing	JV	20	Singapore	4,302,199	25	75
20	NANHAI HOTEL	Hotel	WF	15	China	3,650,000		100
21	MEKONG RESORT	Guest house	JV	10	Finland	720,000	30	70
22	SAVAN-NANHAI TRADING COMPANY	Service	JV	15	China	268,838	5	95
	TOTAL					38,293,025		

Note: JV - joint venture, WF - wholly owned by foreign enterprise. Two branch offices of Vientiane companies are excluded from investment amount.

Source: Department of Planning, Savannakhet Province

3.6 Transportation System

(1) East-West Economic Corridor

A concept of the East-West Economic Corridor proposed by ADB is to link major cities and towns located between Mawlamyine (Myanmar) and Danang (Vietnam) via Konkaen (Thailand), Mukdahan (Thailand), and Savannakhet (Lao PDR) as illustrated in Figure 2.9 below. The corridor crosses the center of the Indo-china peninsula. It forms a land bridge

between the South China Sea and the Andaman Sea. It should be noted that the ADB proposed corridor is characterized by the fact that the corridor excludes the principal industrial and consumption bases in the four countries (e.g., Bangkok, Ho Chi Minh City, and Hanoi).



The East-West Economic Corridor proposed by ADB is illustrated as the arrow from Danang (Vietnam) to Mawlamyine (Myanmar) through Savannakhet (Lao PDR.), Mukdahan, Khon Kaen, and Maesot (Thailand), while the current commodity flow is illustrated as the dotted arrows from Bangkok to Udonthani and Ubon in Thailand and to Vinh (Vietnam) through Nakhon Phanom and Thakhek.

Figure 3.9 East-West Economic Corridor and Commodity Flow

From the viewpoint of mid-term economic development in GMS, at least one or two large markets should be integrated as the prime engine to increase commodity flow along the Corridor.

The major ports in the region are Laem Chabang (Thailand), Hai Phone, Danang, and Vungtau (Vietnam)⁵, which are gateways to the global markets;

⁵ There is a plan to construct the new port in Hatinh Province in Vietnam. It should be included in the further study when the detail of the plan is identified.

therefore the corridor should be connected to the gateway(s). The East-West Corridor in the eastern part is to be considered as a route from Bangkok to north and/or central Vietnam through the central and southern part of Lao PDR. The following routes are to facilitate commodity flow in the region.

- (i) Bangkok⁶ – Udonthani – (Friendship Bridge) – Vientiane – (Route 13, Route 8) – Vinh – (Route 1 / Route 10) – Hanoi / Hai Phong
- (ii) Bangkok – Nakhon Phanom – (Ferry) – Thakhek – (Route 13/12, Route 8) – Vinh - Vinh – (Route 1 / Route 10) – Hanoi / Hai Phong
- (iii) Bangkok – Mukdahan – (New Mekong Bridge) – Savannakhet - (Route 13/12, Route 8) – Vinh - (Route 1 / Route 10) – Hanoi / Hai Phong
- (iv) Bangkok - Mukdahan – (New Mekong Bridge) – Savannakhet – (Route 9, Route 1) – Danang
- (v) Bangkok – Ubon – Pakse – (Route 18) – Danang

Along the five routes, Savannakhet relates to two routes, (iii) and (iv). After the construction of the New Mekong Bridge and improvement of Route 9, Savannakhet will be the access point to connect Bangkok and north/central Vietnam. Subject to capacity expansion and fee reduction at Danang Port, the link from Savannakhet to Danang is expected to be a gateway to the East Asian Market (e.g., Taiwan, Korea and Japan).

To identify the role of Savannakhet, the projection of traffic and commodity volume after completion of the new Mekong Bridge has been reviewed. Based on the actual traffic volume of 70 heavy trucks per day in 1997, the traffic in 2005, 2010, and 2020 is estimated as shown below.

Table 3.11 Daily Traffic Crossing the Bridge: (trucks per day)

	Long Distance	Local	Total
2005	126 - 210	21 - 34	147 - 244
2010	175 - 385	28 - 63	203 - 448
2020	343 - 1,300	52 - 206	395 - 1,506

Source: SAPROF REPORT, JBIC1998

⁶ Laem Chabang Port is included in Bangkok area.

If an average volume carried by each truck is assumed to be 12 tons, the annual commodity volume between Lao PDR and Thailand is estimated as follows:

Table 3.12 Annual Commodity Volume between Lao PDR and Thailand: (tons)

	Long Distance	Local	Total
2005	453,600 - 756,000	75,600 - 122,400	529,200 - 878,400
2010	630,000 - 1,386,000	100,800 - 226,800	730,800 - 1,612,800
2020	1,234,800 - 4,680,000	187,200 - 741,600	1,422,000 - 5,421,600

Source: SAPROF REPORT, JBIC 1998

(2) Prospective role of Savannakhet

In order to identify the prospective role of Savannakhet, the current situation and future prospects are assessed as summarized below

1) Industry

The current situation of industrial development in Savannakhet is summarized as follows:

- Industrial and capital accumulation in Savannakhet is small;
- Export oriented industries are garment and wooden products;
- Import substitution industry is a nail production but its scale is small;
- Processing level of wooden products is premature⁷; and
- Food processing manufacturer faces the material supply problem⁸, and

The future prospect for industrial development are summarized as follows:

- FDI in the manufacturing sector should be promoted,
- Export oriented industry, such as foodstuff, is to be promoted,
- Wood and wooden products are required to enhance the processing level⁹, and

⁷ The wooden products for exports are mainly panels and boards for construction to the Thailand. As for the Vietnam, it is exported as logs predominantly to be used as furniture.

⁸ In case of cooking oil products, shortage of local material (peanuts) is the obstacle to produce the final goods. The refinement of peanuts-oil is only in the intermediate process at the Savannakhet factory. The final refinement is processed in Thailand and re-import to Lao PDR as the final products.

⁹ The technical level of Lao sawmill companies is low compared with the Vietnamese furniture manufacturers. The processing level should be raised by the technical assistance of the foreign companies.

- Light processing such as packaging and labeling will be promoted, subject to expansion of trade volume.

From the industrial viewpoint, Savannakhet will be the center of light-processing industry and local-resource-based industry¹⁰ in southern Lao PDR.

2) Commodity flow

The current situation of commodity flow in the region is summarized as follows:

- Currently the major route of commodity flow between Thailand and Lao PDR is from Nonkai to Vientiane, followed by the route between Nakhonphanom and Takhek. The trade volume of Mukdahan -Savannakhet route is smaller than the above two routes, and
- The trade volume between Thailand and Vietnam via Lao PDR will gradually increase and the transportation route in Lao PDR will be Route 8 and Route 9.

When the New Mekong Bridge is constructed and the Route 9 is improved, the commodity flow will be changed. The future prospect of commodity flow is considered as follows:

- The New Mekong Bridge makes the transport route shift from the Nakhonphanom – Takhek route to Mukdahan – Savannakhet route,
- The commodity flow between Thailand and Vietnam via Lao PDR, therefore, will be shifted to utilize the two routes: Savannakhet – Vinh via Rout 13 and 8 to the north Vietnam, and Savannakhet – Danang via Route 9 to the central Vietnam, and
- The domestic goods produced in the central and southern Lao PDR will be collected to Savannakhet and exported to Vietnam and to Thailand.

(3) Role of Savannakhet

Under the concept of the East-West Economic Corridor in the eastern part and future perspectives, Savannakhet will have the following functions:

- The industrial center of the central and southern Lao PDR,

¹⁰ They include the FDIs.

- The transit station of the domestic export goods to Thailand and Vietnam, and
- The international transit station of the goods between Thailand and Vietnam.

The prospective role of Savannakhet is considered as illustrated below.

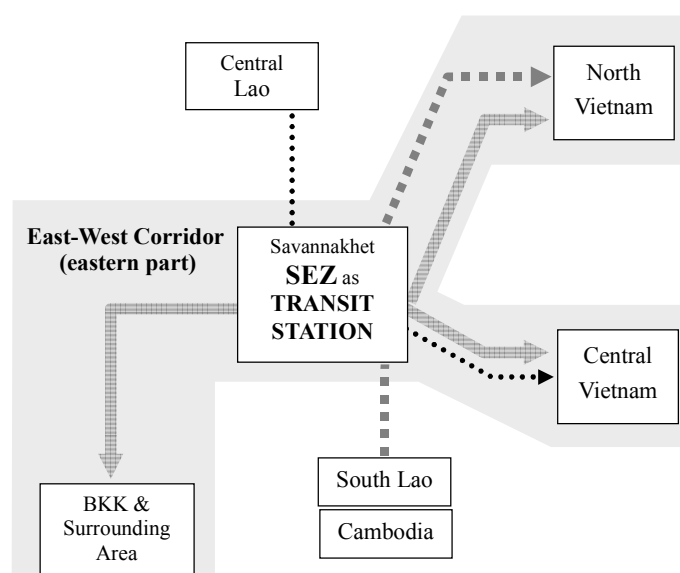


Figure 3.10 Role of Savannakhet in East-West Corridor

3.7 Opportunities and Constraints

(1) Opportunities

By reviewing the social and economic background as noted above, it becomes clear that Savannakhet province has the following opportunities:

- **Rich forestry resources:**
Savannakhet province is rich in forestry resources, and has potential to attain higher value added in the wood and wooden product industry.
- **Abundant land and water resources:**
There extends a vast land for agricultural development and resultant development in the agro-based industry. The region also has abundant water resources from the tributaries of the Mekong River.
- **Direct access to Thailand through the new Mekong bridge**
There are many examples that economic activities in the less developed areas are enhanced by directly connecting to the advanced area. The New

Mekong Bridge will create business opportunities for all the economic sectors by connecting directly to Thailand.

- Shorter time-distance to Central Vietnam:
Route 9 when improved will shorten the time-distance between Savannakhet and the central Vietnam. It brings about expansion of markets.
- Junction of the north-south axis and east-west axis:
In addition to the east-west connection, Savannakhet locates at the junction of the east-west corridor and the north-south axis in GMS. Such a location of Savannakhet will provide various business opportunities (e.g. import – processing – re-export / sales to domestic market, collecting the domestic goods – processing – export, etc.)
- Dual directions to North and Central Vietnam from Thailand:
Savannakhet will develop multiple routes from Thailand to north/central Vietnam. If Savannakhet locates only on the route between Bangkok and Danang, less attractiveness is expected by transporters, exporters, and other investors.

(2) Constraints

Major constraints of Savannakhet province for economic development will include the following:

- Limited population and labor supply:
Savannakhet province has a low population density, and supply of readily available labor is limited. It has disadvantage to attract large-scaled labor-intensive industries to Savannakhet.
- Lack of skilled workers:
The limited industrial accumulation in Savannakhet causes limited supply of skilled labor.
- Weakness in transportation industry:
Transporter is a major player in the free trade regime. Though the role of Savannakhet as its logistic center will increase after completion of the New Mekong Bridge and improvement of Route 9, the weakness of transporters in Savannakhet will make such a big business opportunity lost.

- Limitation in telecommunications:
Telecommunications in Lao PDR remains at the infant stage. Between Vientiane and Savannakhet, the capacity of the telecommunications line is quite limited. As the telecommunications has become one of the most important business infrastructures, this limitation will be a large obstacle in enhancing economic activities. There is no Internet access point in Savannakhet.
- Weakness in marketing:
Due to remoteness from the world markets, Savannakhet province has had limitation in marketing. Raw materials produced in Savannakhet have been processed more in Thailand and Vietnam.

Several constraints of Savannakhet are pointed out above. There is a reference model country for a small country like Lao PDR where conventional economies of scale are not applied. Costa Rica – a small country with 4 million people in Central America – has made considerable success in achieving two of their goals; increased export and FDI. Costa Rica now set its future direction as “K (Knowledge) – economy”.

K-Economy – Costa Rica

High levels of education, a prosperous economy, low crime rates and calm politics have long set Costa Rica apart from its troubled neighbors. You might call it the Sweden of Central America. – The Economist, November 11TH 2000

After stagnating in the mid-1990s, Costa Rican economy surged. Its GDP grew almost 8% in 1999. Increased export and Foreign Direct Investment are the two factors that contributed to the high economic growth. Its population is merely 4 million. Enterprises in Costa Rica, therefore, can not rely solely on internal market or other central American countries' market. Costa Rican government was very much aware of the necessity to penetrate into foreign markets.

Costa Rica's reputation as a stable place, full of skilled workers has long attracted foreign investors. Most recently Intel, which opened its only Latin American chip factory in Costa Rica in 1998. The increase in chip exports (\$2 billion) gave Costa Rica a trade surplus for the first time since 1986. Intel created employment opportunities for 2,000 people. 90% of them have had tertiary education. Computer literacy training is very common. Computer classroom is available at about a half of the primary school.

The government plans to keep growth going by seeking more foreign investment. Manufacturers who export their output get an eight-year tax exemption. Other Central American countries offer more generous incentives but Costa Rica has other advantages. These include democratic tradition, respect for the rule of law and an well-educated workforce.

In addition to computer related production, software development is also booming in Costa Rica. More than 100 software development companies currently operate in Costa Rica, employing more than 1,000 professionals. Total exports of the sector are close to \$200 million.

Costa Rica, according to the Minister of Trade, is seeking to develop its Knowledge-based economy (K-economy). Costa Rica's well educated and highly motivated citizens are the building blocks to enter the Information Era.

These opportunities and constraints will be taken into account in the discussions on objectives, strategies, and functions of SEZ development in Savannakhet in Chapter VI.

(3) Potential Gains for Savannakhet SEZ

NAFTA has bound Mexico into the global high-tech economy and the European Union has developed new trading arrangements with North Africa and Central Europe. These preferential approaches may greatly help the immediate beneficiaries, but harm more distant regions by drawing FDI and trade away. Trade routes linking marginal traders with major markets are much less competitive than the high-volume routes.

A new approach is necessary in helping marginalized regions like Savannakhet to connect to the world economy. The WTO rules reject the application of special incentives to attract FDI, such as export-processing zones and tax holidays, even though these methods have worked for others. When Costa Rica wanted to attract Intel, it gave incentives. Israel has done the same. Ireland's rapid growth was supported by low rates of corporate tax applied to foreign investments.

Potential gains for establishing Savannakhet SEZ are summarized below.

Table 3.13 Potential Gains from Savannakhet SEZ

Potential gains	Remarks
• Linkages with trade partners	In addition to the New Mekong Bridge and the improved Route 9, incentives and facilities are required to attract investments to marginalized region.
• Job creation	Increasing urban population has to find means of livelihood due to decreasing employment opportunities in agriculture
• Development of industrial labor force through Labor training and Learning by doing	People engaged in subsistence agriculture are not accustomed to industrial work. These people will acquire the work discipline.
• Management practice	Technological transfer, knowledge spillover for domestic entrepreneurs.
• Demonstration effects	It can be a good laboratory to experiment with the market economy.
• Provision of Industrial and Service Structure in Savannakhet	Savannakhet and/or Lao PDR do not lose what they did not get (tax and tariff revenue).

CHAPTER IV INVESTMENT DEMAND

4.1 Trend of FDI in Asian Countries

As seen in Section 2.3, Asian countries account for more than 85% of FDI value in Lao PDR, with Thailand being by far the largest investor. It is therefore meaningful, in order to explore investment demand to Lao PDR, to look into the trend of FDI flow from and to Asian countries. For Savannakhet Province, two neighboring countries, Thailand and Vietnam, in particular are the most prospective investors because access from/to these countries will be facilitated in the near future, and the progress of regional cooperation within the framework of ASEAN economic integration may promote further investment.

(1) FDI from/to Asian Countries

Figure 4.1 shows FDI flow from seven East Asian countries. FDI from East Asia in total peaked in 1996 but decreased in 1997 and 1998 obviously due to the Asian economic crisis. While FDI from most countries decreased in 1997 or 1998, or both years, FDI from China increased, though by a small amount, in both years. Thailand and Indonesia, the hardest hit countries by the economic crisis, have reduced their FDI significantly.

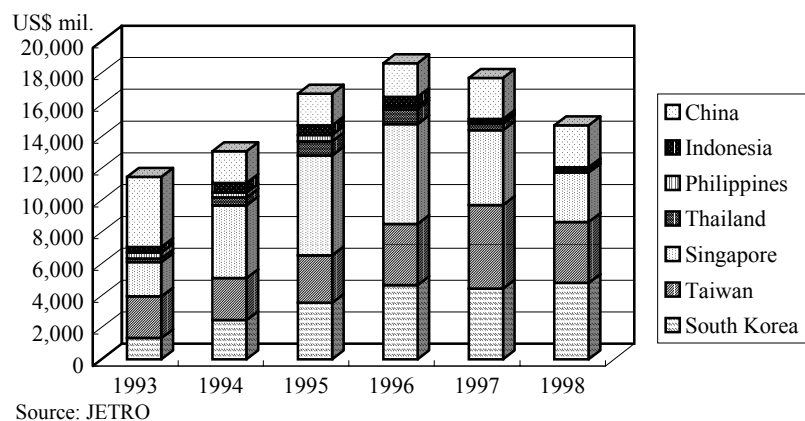


Figure 4.1 FDI Flow from Asian Countries

Figure 4.2 shows FDI to eight East Asian countries. FDI flow to the region has rapidly increased until 1997, but FDI value dropped by 7% in 1998. However, a closer look at the figures reveals that whereas Taiwan, Singapore, Malaysia, and Indonesia contributed much to the decrease in 1998, South Korea, Thailand, and Philippines saw an increase in FDI inflow. This was due to their deregulation in FDI in a bid to recover from the economic crisis.

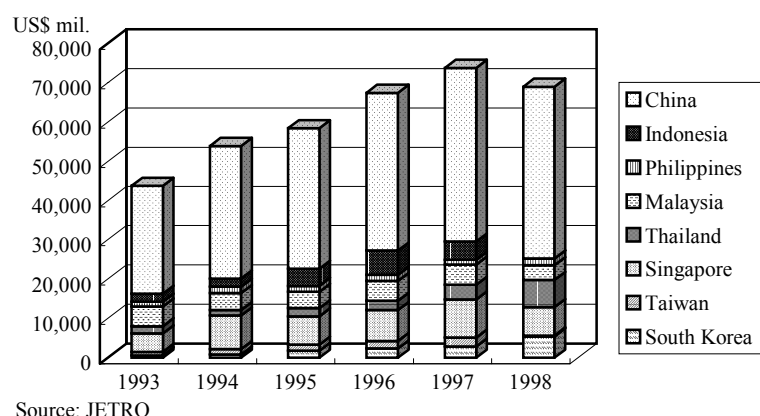


Figure 4.2 FDI Flow to Asian Countries

Although at the moment FDI flows both from and to Asian countries are not as vigorous as before the Asian economic crisis, it is expected that East Asian countries will soon start enhancing FDI activities again as they are showing satisfactorily quick recovery.

As for Japan's FDI (Table 4.1) for the last four fiscal years 1995-1998 (April to March), Asian share has been around 20%. However, in 1998 the total value of new FDI by Japan dropped sharply and the FDI to Asia in particular shrunk to almost half of the previous year. This is attributed mainly to the economic crisis of East Asia and partly to Japan's continued recession.

Table 4.1 FDI from Japan

Unit: Million US\$

	FY1995	FY1996	FY1997	FY1998	FY1995-98
All					
World Total	50,694	48,019	53,972	40,747	193,432
Asia Total	12,264	11,614	12,151	6,528	42,557
East Asia Total	11,763	10,997	11,094	6,169	40,023
Asian NIEs	3,179	3,538	3,411	1,765	11,893
ASEAN 4	4,110	4,949	5,696	3,340	18,095
China	4,473	2,510	1,987	1,065	10,035
Manufacturing					
World Total	18,623	20,258	19,339	12,252	70,472
Asia Total	8,058	6,628	7,317	3,696	25,699
East Asia Total	7,762	6,193	6,681	3,444	24,080
Asian NIEs	1,186	1,235	1,872	633	4,926
ASEAN 4	3,096	3,155	3,296	2,009	11,556
China	3,480	1,804	1,513	802	7,599
Non-Manufacturing					
World Total	31,121	26,741	34,059	28,138	120,059
Asia Total	3,658	4,221	4,596	2,721	15,196
East Asia Total	3,500	4,086	4,245	2,631	14,462
Asian NIEs	1,774	1,796	1,503	1,116	6,189
ASEAN 4	837	1,625	2,294	1,270	6,026
China	890	665	447	245	2,247

Note: Asian NIEs refer to South Korea, Taiwan, Singapore and Hong Kong.

ASEAN 4 refer to Indonesia, Malaysia, Philippines and Thailand

Source: JETRO

By industry, large part of Japan's FDI in Asia, except for Asian NIEs, goes to the manufacturing sector. For the last four years, only 36% of Japan's total FDI have been in the manufacturing, while in Asia the manufacturing has accounted for 60% of FDI. In the fiscal year 1998, FDI much decreased in both the manufacturing and the non-manufacturing sectors, though the magnitude of decrease is even larger in the former.

(2) FDI from NIEs

South Korea is the largest investors among NIEs. Nearly half of FDI from South Korea goes to Asian countries in 1994-98 (Table 4.2). China is the most popular destination of South Korean FDI, accounting for almost half of the total value, followed by Hong Kong, Indonesia, Vietnam, and India. In 1998, 66% of South Korean FDI to Asia was for the manufacturing sector while the equivalent figure to the world total was 52%. Among the manufacturing FDI, Asia is preferred destination for food; leather and footwear; chemical; and non-metal mineral products, most of which are labor-intensive goods (Table 4.3). Korean outbound FDI is characterized with its concentration in Asia especially for labor intensive industries.

Table 4.2 FDI from South Korea by Country (Approval)

Unit: US\$ '000

	1994	1995	1996	1997	1998	1994-98
World Total	2,909,257	4,119,969	5,014,718	5,240,229	4,750,906	22,035,079
Asia Total	1,300,563	1,989,529	2,677,083	2,068,193	2,187,738	10,223,106
Japan	92,108	110,700	46,806	103,281	23,404	376,299
Singapore	1,556	25,750	68,556	57,911	290,974	444,747
Taiwan	3,002	2,493	7,387	4,518	18,700	36,100
Hongkong	93,223	97,027	94,437	242,676	451,368	978,731
Indonesia	-13,828	268,324	185,264	299,119	77,996	816,875
Thailand	16,186	24,798	63,989	223,025	103,756	431,754
Philippines	70,271	6,759	73,326	79,634	90,751	320,741
Malaysia	159,238	-26,251	17,497	57,651	23,282	231,417
India	52,294	177,326	364,500	4,669	74,446	673,235
Cambodia	2,000	500	895	17,717	1,777	22,889
China	724,290	1,072,569	1,414,116	792,429	802,914	4,806,318
Vietnam	117,036	200,351	192,488	110,396	87,504	707,775
Myanmar	-66,128	-3,839	4,219	11,665	3,468	-50,615
Laos	2,890	9,539	30,480	540	5,300	48,749

Source: Institute for International Trade and Investment (ITI)

Table 4.3 FDI from South Korea by Industry
(Approval, Accumulated at End 1998)

Unit: US\$ '000

	Asia	Share (%)	World	Share (%)
Total	13,308,607	100.0	29,205,335	100.0
Mining	425,158	3.2	1,691,026	5.8
Forestry	36,400	0.3	137,096	0.5
Fishery	26,049	0.2	128,528	0.4
Manufacturing	8,752,164	65.8	15,295,079	52.4
Food	416,498	3.1	565,723	1.9
Textile & apparel	1,144,178	8.6	1,711,583	5.9
Leather & footwear	404,015	3.0	450,745	1.5
Wood & furniture	142,720	1.1	250,571	0.9
Paper & printing	213,700	1.6	277,561	1.0
Chemical	899,066	6.8	1,261,770	4.3
Non metal mineral	549,624	4.1	617,137	2.1
Basic metal	487,737	3.7	1,353,684	4.6
Metal semi-products	3,148,392	23.7	6,911,519	23.7
Machinery & eqpmt	536,051	4.0	699,191	2.4
Other manufacturing	810,184	6.1	1,195,600	4.1
Construction	512,308	3.8	728,732	2.5
Transportation	136,972	1.0	350,828	1.2
Trade	1,468,900	11.0	6,407,705	21.9
Other	1,950,655	14.7	4,466,340	15.3

Source: ITI, Japan

Taiwan is the second largest investors among NIEs. FDI from Taiwan, shown in Table 4.4 and 4.5, has similar characteristics to South Korea. In 1994-98, its FDI to Asia accounts for around 50% of the total FDI and as many as 60% of FDI to Asia fall into the manufacturing sector. Electric and electronic machinery has the largest share of Taiwan FDI to Asia, followed by food processing and chemical. Country-wise, China is by far the largest destination of FDI, though not classified as FDI, with 40% of the total FDI value invested there.

Table 4.4 FDI from Taiwan by Country (Approval)

Unit: US\$ '000

	1994	1995	1996	1997	1998	1994-98
World Total	1,616,764	1,356,878	2,165,404	2,863,826	3,296,302	11,299,174
Asia Total	559,471	467,743	661,717	818,743	580,819	3,088,493
Japan	22,731	8,811	6,798	32,342	29,596	100,278
South Korea	375	2,727	6,021	345	1,831	11,299
Singapore	100,732	31,649	164,978	230,310	158,176	685,845
Hongkong	127,284	99,555	59,927	141,593	68,643	497,002
Indonesia	20,571	32,067	82,612	55,861	19,541	210,652
Thailand	57,323	51,210	71,413	57,546	131,186	368,678
Philippines	9,600	35,724	74,252	127,022	38,777	285,375
Malaysia	101,127	67,302	93,534	85,088	19,736	366,787
Vietnam	108,378	108,146	100,479	85,414	110,078	512,495
Other Asia	11,350	30,552	1,703	3,222	3,255	50,082
China	962,200	1,092,700	1,229,200	1,614,500	2,034,600	6,933,200

Note: FDI to China not included in Total

Sources: Institute for International Trade and Investment (ITI), Japan, JETRO

Table 4.5 FDI from Taiwan by Industry (Approval in 1998)

Unit: US\$ '000

	Asia	Share (%)	World	Share (%)
Total	580,819	100.0	3,296,302	100.0
Agriculture & forestry	2,844	0.5	5,203	0.2
Mining	2,676	0.5	2,676	0.1
Manufacturing	355,025	61.1	1,036,884	31.5
Food	55,717	9.6	55,941	1.7
Textile	22,717	3.9	68,497	2.1
Apparel	11,480	2.0	20,294	0.6
Leather	460	0.1	460	0.0
Wood	2,884	0.5	107,285	3.3
Paper & printing	1,903	0.3	1,903	0.1
Chemical	50,850	8.8	89,209	2.7
Plastic	3,906	0.7	7,087	0.2
Non metal mineral	1,869	0.3	1,919	0.1
Basic metal	16,524	2.8	84,560	2.6
Machinery	16,818	2.9	18,377	0.6
Electric & electronics	164,175	28.3	515,112	15.6
Transport equipment	1,374	0.2	46,783	1.4
Precision machine	4,348	0.7	19,457	0.6
Construction	1,669	0.3	1,669	0.1
Wholesale and retail	24,188	4.2	116,343	3.5
Trade	17,762	3.1	173,848	5.3
Restaurant	140	0.0	140	0.0
Transport	24,453	4.2	58,333	1.8
Finance & insurance	132,315	22.8	1,788,760	54.3
Other services	19,747	3.4	110,679	3.4

Note: FDI to China not included in Total

Sources: ITI, Japan, JETRO

(3) Singapore

Around half of FDI amount from Singapore has been rendered to Asia from 1993 to 1997 (Table 4.6). For the last few years, FDI to China has significantly increased, while FDI to ASEAN countries has decreased sharply mainly because of the Asian economic crisis. Singapore's FDI is characterized with its heavy concentration in the financial sector. More than 60% of FDI in 1993-97 went to the financial sector whereas the manufacturing sector accounted for less than 20% of the total (Table 4.7). Further, Singapore banks have been active in purchasing banks in Asian region, such as in the Philippines, Thailand, and Hong Kong.

Table 4.6 FDI from Singapore by Country

Unit: Million Singapore \$

	1993	1994	1995	1996	1997	1993-97
World Total	4,440	7,584	9,380	3,079	11,290	35,773
Asia Total	2,434	5,715	6,266	433	3,935	18,783
ASEAN*	1,210	3,573	3,313	-553	810	8,353
Hongkong	796	1,093	474	-731	937	2,569
Taiwan	44	102	74	-47	60	233
China	369	881	1,549	2,001	1,694	6,494
Japan	20	75	224	-38	149	430
Other Asia	-77	-65	400	159	285	702

Note: In this table ASEAN refers to Brunei, Indonesia, Malaysia, Philippines, Thailand and Vietnam

Source: Singapore Department of Statistics 'Yearbook of Statistics Singapore 2000'

Table 4.7 FDI from Singapore by Industry

Unit: Million Singapore \$

	1993	1994	1995	1996	1997	1993-97
Total	4,440	7,584	9,380	3,079	11,290	35,773
Manufacturing	790	2,492	3,176	-1,186	928	6,200
Construction	57	49	175	-109	-24	148
Commerce	318	515	977	-175	207	1,842
Transport & storage	256	347	320	-27	731	1,627
Financial	2,472	3,248	4,139	4,603	8,097	22,559
Real estate	457	569	671	319	489	2,505
Business services	171	239	-100	-367	881	824
Others	-81	127	20	22	-21	67

Note: In this table ASEAN refers to Brunei, Indonesia, Malaysia, Philippines, Thailand and Vietnam

Source: Singapore Department of Statistics 'Yearbook of Statistics Singapore 2000'

4.2 Results of Investment Demand Survey

Investment demand survey through questionnaires and interviews, meant to seek the future possibility of investment in Savannakhet, was conducted in Thailand and Vietnam in the course of the Study. In addition, the data collected in the past survey of Lao industries was analyzed to complement the surveys in Thailand and Vietnam. Summary of the survey results is presented below, while the detailed results are presented in Appendix 1.

(1) Thailand

Of 78 respondents to the questionnaire survey, 20 enterprises showed interests in SEZ development in Savannakhet. Those enterprises are classified by subsector into:

Table 4.8 Interest Shown in Savannakhet SEZ

Subsector	Nos. of Enterprises
Agriculture & marine product	1
Chemicals	1
Textile & Garment	4
Machinery	7
Transportation	5
Electric & Electronics	2

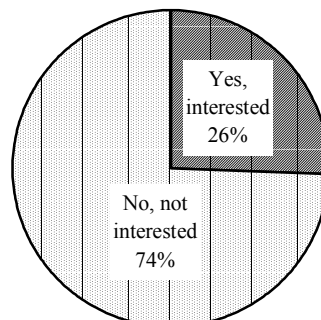


Figure 4.3 Interested in Savannakhet SEZ
- Thai Enterprises n=78

Most respondents, including those interested in Lao PDR, evaluate the Lao investment environment as less favorable. Especially, they see economic infrastructure such as telecommunications and road conditions are of low grade. One and only advantageous factor, which Lao PDR has in terms of investment attraction, is low cost of labor.

The interview survey revealed that even the companies, which gave positive responses in the questionnaire survey, had limited knowledge of Lao PDR. Some potential investors suggested that Lao PDR should utilize, in promoting investment, local resources such as agricultural and forestry products, mineral resources and low cost labor.

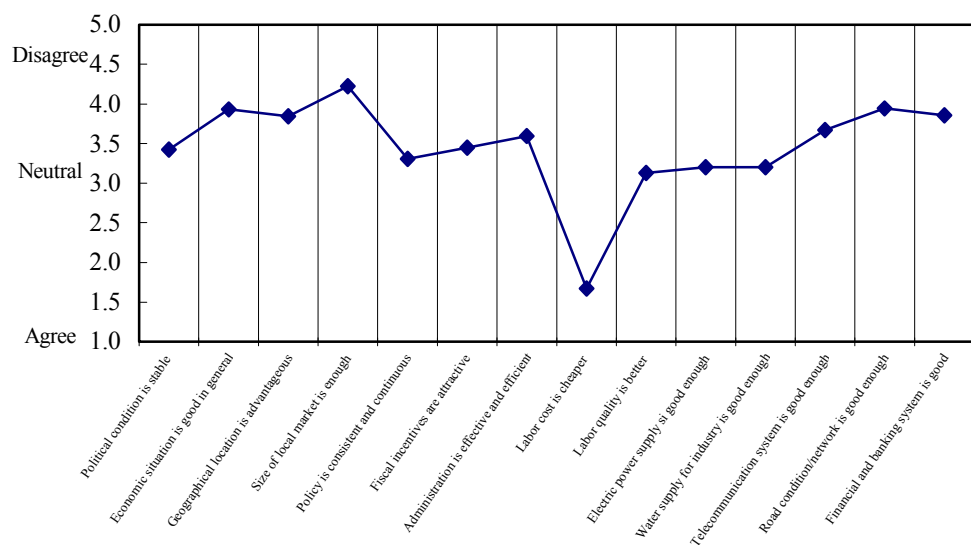


Figure 4.4 Evaluation of Lao Investment Environment by Thai Enterprises

(2) Vietnam

Of 50 surveyed companies in Da Nang, 36 enterprises or 72% gave positive responses, showing interests, more or less, in SEZ development in Savannakhet. Many of them showed their plan of setting up factories in SEZ by giving specific features of the factory such as main products, area, number of employees, etc.

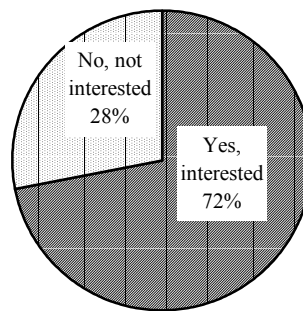


Figure 4.5 Interested in Savannakhet SEZ
- Vietnamese Enterprises n=50

As for general evaluation of the investment climate of Lao PDR, they gave generous, though not high, ratings on various factors, if compared to Thai enterprises' ratings. However, it is found through an interview by the Study Team that their intention to set up factories in Lao PDR is not so serious. Vietnamese enterprises generally assess the Lao investment environment not so attractive.

Especially, it appears that Vietnamese investors prefer using Vietnamese workers if they are to make an investment in Lao PDR because their evaluation of Lao workers is relatively low.

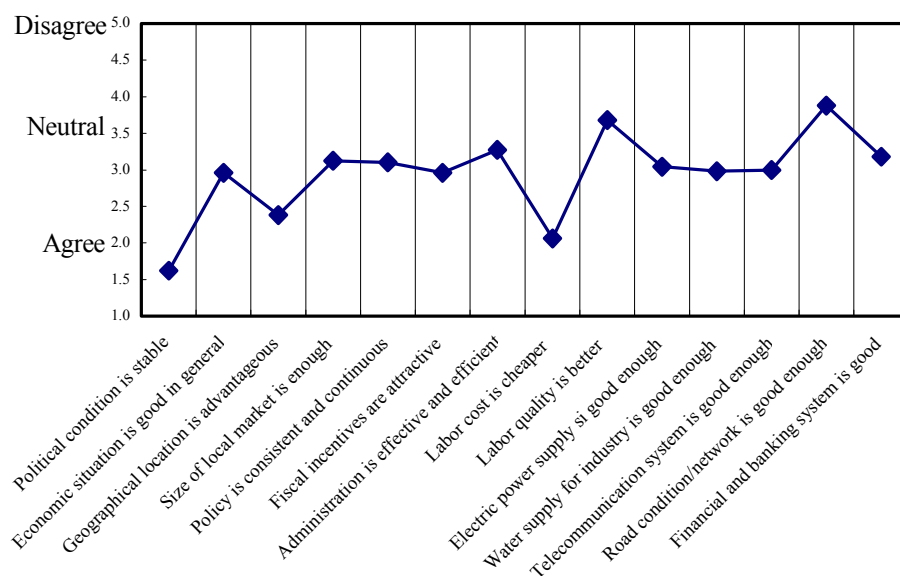


Figure 4.6 Evaluation of Lao Investment Environment by Vietnamese Enterprises

In addition, it appears that FDI in the Savannakhet area will not drastically increase even after 2004 when improvements of Route 9, Route 1 (Vietnam) and Da Nang seaport are envisaged. Reasons are:

- (i) It may take around eight hours from Savannakhet to Da Nang port even with the completion of Hai Van Pass tunnel in Route 1 and improvements of Route 9, with an implication that the time required is almost the same as to access from Savannakhet to Laem Chabang port in Thailand and;
- (ii) Da Nang port is known at present as to impose much more expensive port charges compared with other Vietnamese and Thai ports.

(3) Lao Enterprises

Out of 191 surveyed enterprises, 79 enterprises or 41% list "financial support for export" as the desired governmental support program to the private sector. "Foreign market information services" (30%), "training service for business administration" (24%) and "expansion of bank financing" (22%) are other programs they most require. It is clear that they are eager to seek export market.

Enterprises located in Savannakhet, 28 in total, show a similar tendency, wanting "financial support for export" and "foreign market information services". In addition, "deregulation in plant and equipment investment" is also desired.

Joint venture between Lao and foreign enterprises, 37 in total, too, show generally similar results, though they take more "training service for technology development" and "improvement of laws and regulation" as desired support programs.

4.3 Target Subsectors

(1) Implications of Demand Analysis

A number of problems have been identified through investment demand analysis and examination of the investment environment of Lao PDR. They are:

- Potential investors' knowledge on Lao PDR is rather limited;
- Infrastructure such as road, power and telecommunications is yet insufficient;
- Human resources are insufficient, quantitatively and qualitatively;
- General investment environment, including economic condition is less favorable;

- Promotional activities and institutional setting for investment promotion are yet insufficient.

To tackle these problems in promoting development of SEZ in Savannakhet, strategic FDI promotion is required including the following measures:

- Strategic public information activities on Lao PDR in general and the investment environment procedures, through Internet and diplomatic missions abroad by making full use of the planned “East-West Economic Corridor”;
- Strategic promotional activities, targeting specific industrial sectors and specific regions/countries;
- Upgrading or re-organizing investment promotional institution for more effective FDI attraction;
- Efforts to improve macroeconomic stability;
- Efforts to promote human resources development, including education and training;
- Good infrastructure and training facilities in SEZ (for budgetary reason, small-scale development is recommended);
- Generous fiscal incentives and for SEZ, e.g. duty free and tax holiday;
- One-stop services for investors;
- Special treatment for employment in SEZ and good living conditions for expatriates.

Major problems and possible counter-measures to those problems are summarized in Figure 4.7. It should be kept in mind that in order to attract FDI into the SEZ, fundamental economic policy and FDI promotional activities at national and provincial levels are as essential as the development of and special incentives for the SEZ itself.

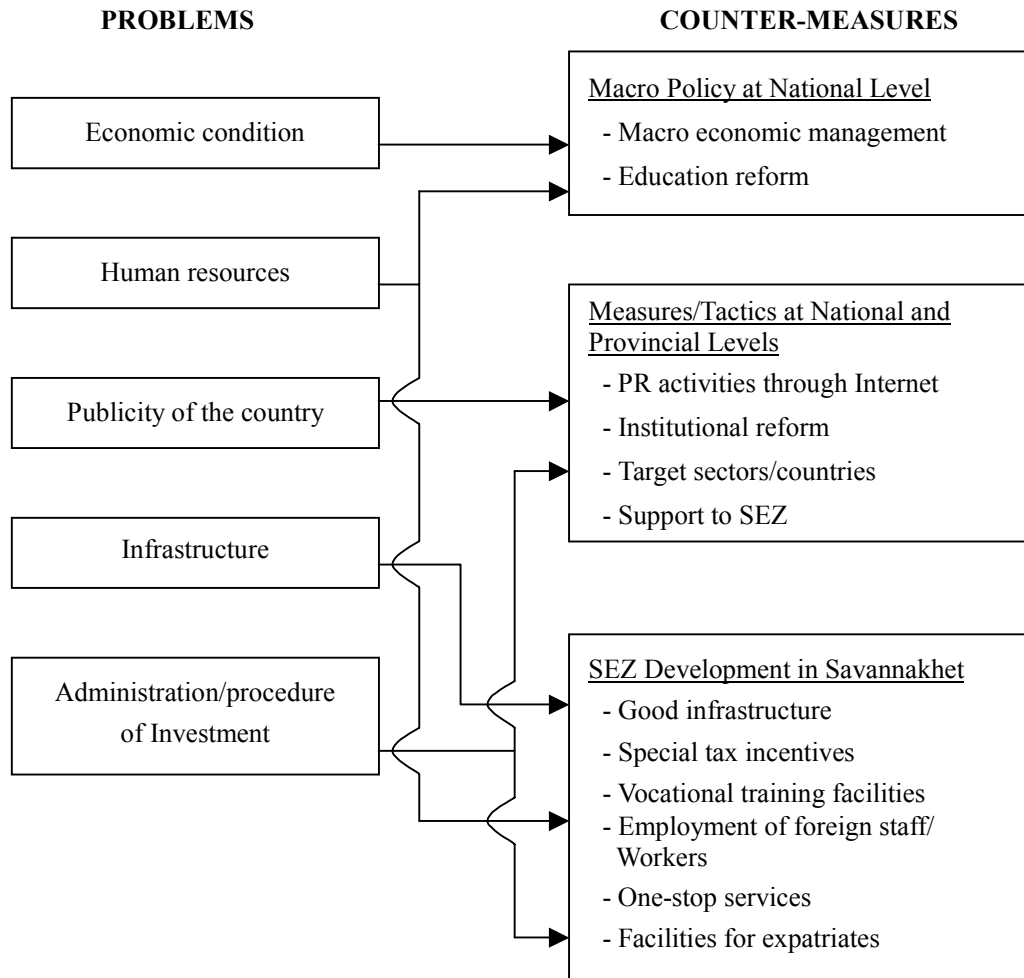


Figure 4.7 Investment Promotion Strategy

(2) Assessment of Target Subsectors

Recent trends of FDI flow from Asian countries, especially from South Korea and Taiwan, show that more advanced Asian neighbors look for production bases for labor intensive industries within the region, as they are losing competitiveness in these industries.

It is clear from the results of investment demand survey that Lao PDR is in a rather difficult position to attract foreign investment, as not many enterprises in Thailand and Vietnam consider Lao PDR as a target for investment. Nonetheless, it is suggested that those industries, which do not require huge amount of investment, but utilize local resources of Savannakhet, existing or potential, are prospective.

It appears that Savannakhet has comparative advantage, at present or in the future, for such industries as resource-based industries, light manufacturing

and assembling. In addition, it is expected that in the wake of completion of the new Mekong Bridge between Savannakhet and Mukdahan and improvement of Route 9, increasing demand for transport related business and tourism facilities would prevail.

Considering these factors, the following subsectors appear to have a good potential for investment and set as targets for promotion in the Savannakhet area:

- 1) Wood processing, including furniture
- 2) Agro-based industry, including food processing
- 3) Garment
- 4) Electric/electronic assembling
- 5) Packaging and labeling
- 6) Transport-related logistic industry
- 7) Tourism and service industry

In addition, specific regions or countries should be targeted in promoting FDI into the SEZ and promotional activities should be intensively extended mainly in those targeted countries. It is most likely that main investors in the Savannakhet SEZ are from East and South-East Asian countries. Particularly the two proximate neighbors, Thailand and Vietnam, may be prominent investors in the SEZ.

(3) Current Situation of Target Subsectors in Neighboring Countries

It is significant to look at current situation of target subsectors mentioned above, in the neighboring countries. A few selected target subsectors/products are described below depending on data availability¹.

1) Wooden furniture in Thailand

Wood furniture is mainly manufactured for exports which account for 70% of the total export value of furniture. Japan and the US remain Thailand's main export markets. There are approximately 2,898 wood furniture manufacturers, mostly being medium and small enterprises. The manufacturers with export capacity tend to be those of medium or large sized ones. In addition, the channels of distribution may be through direct sales, from the manufacturing plants to target customers, or through dealers which are furniture stores, medium and large department stores and through

¹ Parts of information described here were cited from 'Industry Sector Analysis Reports' by BAEF & LAACC (<http://www.tradeport.org/ts/partners/index.html>).

furniture exhibitions. Hardwood is mainly imported from abroad, whereas rubber wood is purchased in Thailand. To produce wood furniture with capacity of 10,000 units per year with 8 working hours daily requires an initial investment of about Baht 18 million².

2) Food processing in Thailand

The market of food processing was estimated at US\$654.9 million in 1997 of which approximately US\$516.7 million were imported. It is estimated that the market for the industry, combined with that for packaging equipment, packaging will grow by 7% in the next few years due to the recovery of the local economy, and the Thai government's master plan to develop and increase value added in the food processing sector. In 1997, there were more than 50,000 large, medium, and small food processing and packaging plants registered with the government. Large firms account for the greatest production capacity and demand for imported food processing and packaging equipment.

3) Food processing in Vietnam

Vietnam is focused on bolstering the efficiency of the food processing sector by increasing the added value of final food products. This has required that the country invest more in food processing factories either by upgrading the existing plants or by building new ones. Thus, the market for food processing and packaging equipment has been gradually growing for the past several years. It is estimated that the market for food processing and packaging equipment in Vietnam will be US\$250 million, of which local production accounts for US\$90, in 1998 and will continue its steady growth at an annual rate of 30% for the next few years.

4) Textile and garment in Thailand

Textile and garment industry has a major contribution to the economy as a whole in terms of GDP, employment, and exports. In 1996, prior to the crisis, GDP in textile subsector accounted for about 15% of GDP in manufacturing or 4.7% of GDP in total. In addition, with around 1.1 million workers, it has the highest employment share in manufacturing, that is, over 25% of workers employed in manufacturing are engaged in textile and garment production. Textile and garment have also been the country's major foreign exchange earners since 1985. In 1995, the export of textile and garment reached US\$6.5 billion, accounting for 11.6% of total exports. The Thai textile and

² 1\$=43.5 baht as of 5 December 2000. 18 million Baht \div \$413.793

garment sector is characterized by a large number of firms in the labor intensive garment and weaving industry and a smaller number of firms in capital intensive spinning and man-made fiber production, and dying and finishing firms. The garment makes the highest contribution to the country's value-added, export earnings and employment in the manufacturing sector. According to statistics, there were 2,856 garment mills. These firms employed more than 850,000 people, accounting for 20% of employment in manufacturing industry. The industry is now responding to the battering of the region's economic recession and the rise of cheaper competition by integrating its upstream and downstream activities.

5) Textile and garment in Vietnam

In Vietnam, textiles and garments are considered part of a single industry. It is an important industry, because it is labor-intensive, employing workers who do not require extensive training, and it has contributed considerably to the export revenue of Vietnam in recent years. Vietnamese firms import a huge amount of textile products. In 1997, 23 countries exported textile products to Vietnam. The biggest players are Taiwan, South Korea, and Japan. Textile products made by Vietnamese companies occupy a small part of the total Vietnamese demand. End users of textile products in Vietnam are garment companies and tailors. There are 130 State-owned garment companies, 394 non-State-owned enterprises and collectives, 88 foreign investment companies, and some 30,000 tailors. State-owned firms have the largest capacity in the garment industry. By joining ASEAN (July, 1995), signing the trading agreement with EU (July, 1996), joining CEPT (1996) and preparing to join APEC and WTO, the future of the Vietnamese textile industry looks very promising. The industry has plans to develop its capacity and will produce one billion meters of cloth of various types by the year 2005.

6) Electronics in Thailand

In Thailand, the electronics industry has played a significant role in the economy during the past two decades. Employing more than 300,000 people within the industry, most electronic products are manufactured by multinational corporations for global markets. With total industry real growth rates estimated at 10% in 1999, far exceeding that of Thailand's GDP as well as the entire manufacturing sector, the electronics sector has become an increasingly important contributor to the Thai economy in terms of production, exports, and employment. In 1997, total exports of electronic

products amounted to Baht 458.4 billion (US\$12.4 billion), representing around 27% of total exports from Thailand. During the same year, 12 of the multinational corporations who have established facilities in Thailand registered export sales of more than Baht 10 billion (US\$270 million). The electronics industry exports for 1998, despite the economic crisis in Thailand, registered an impressive Baht 791 billion (US\$ 1.4 billion) in export sales representing 35% of Thailand's total exports. In overall global production, the electronics and electrical industries have registered consistent growth with combined values increasing from US\$463 billion in 1986 to US\$ 850 billion in 1996, and it is estimated to increase to US\$1.24 trillion and US\$2.2 trillion in years 2001 and 2010, respectively. Thailand is likely to be a world competitor in the electronics industry in the near future.

(4) Prospective Subsectors in Savannakhet

Judging from observations on the status of the target subsectors in Thailand and Vietnam, though information is limited, those subsectors appear to be prospective in the Savannakhet SEZ for the following reasons:

- Wood processing, especially furniture manufacturing, could attract investment from Thailand where domestic and export markets and production technology are somehow established, because of abundant resource availability in Lao PDR.
- Food processing is rapidly growing in both Thailand and Vietnam. Lao PDR, with an advantage of proximity to them and lower labor cost, will have a good chance to penetrate those growing markets by processing foods with local and foreign investment.
- Textile and garment are huge industry in Thailand and in Vietnam. They mainly seek world markets and are faced with fierce competition. It is likely that they locate production base in the SEZ, especially for lower-market oriented production, if provided low cost labor and reasonable infrastructure.
- Electronics, now a major export earner of Thailand, is also promising in Lao PDR in the future. The Lao manufacturers can have a role to support Thai investors, by assembling the products with lower cost.

CHAPTER V PATTERN OF SEZ

5.1 SEZ Concept

(1) General Concept of SEZ

Special Economic Zone (SEZ) originally and literally means any specific zone or area, designated by the authority, where the different economic principles, taxation systems, FDI treatment and other institutional procedures are being applied for promotion of foreign trades, Foreign Direct Investment (FDI), exports and inflow of up-to-date technologies, and consequently increase in employment and development of national economies.

What may often cause confusion in understanding the concept of SEZ is that the word “Special Economic Zone (SEZ)” has been used in two different ways. At the beginning of the 1980s, the People’s Republic of China (PRC) decided to introduce the scheme of “Economic Special Zone” (as in Chinese order), which was applied to four major cities, namely Shenzhen, Shantou, Xiamen, and Zhuhai in her coastal area of Guangdong Province. The word “SEZ” had, ever since then, begun to be used meaning this specific type of Chinese SEZ or similar types. In this Study, the word “SEZ” is used in the meaning first described in this section and does not specifically indicate or mean only a Chinese type of SEZ.

(2) General Objectives of SEZ

Although the objectives of SEZ slightly vary from time, country and case to another, the SEZ concept itself intends to attract, with preferential treatment and incentives, and utilize FDI to achieve its objectives. Such SEZ objectives can be summarized as follows:

- (i) To increase export, particularly non-traditional products export
- (ii) To generate foreign exchange earnings
- (iii) To promote inflow of up-to-date technologies, skills and expertise and transference of them to own nationals
- (iv) To increase employment and to upgrade standards of living
- (v) To strategically develop specific regions
- (vi) To promote strategic industries
- (vii) To raise the level of country’s industries in general
- (viii) To use SEZ as a trigger to activate national economies as a whole

(3) Methods to Operate SEZ and Expected Gains from SEZ

In order to attract FDI, host countries of SEZ, most of which have cheap and abundant work forces, provide FDI with the following advantages and/or incentives to promote investments in the sealed or designated areas, located at strategic points and with good market access.

- Fiscal incentives such as tax holidays, tax-and duty-free imports and exports, reduction of corporate and personal income tax
- Non-fiscal incentives such as the approval of immigration of foreign personnel, preferential visa treatment, on-site customs inspection, flexible employment conditions, freer control of foreign exchange, etc.
- Well-arranged infrastructure and facilities made ready by the government

In return, the government expects to attract investors so that it may collect lease rents, management fees and various charges, promote exports, generate foreign exchange, create and increase employment and upgrade the skill and technologies of workers and improve the national economy. In the region where SEZ locates, there will be more demands for local goods and services from investors and workers in SEZ, which may benefit the local economy.

5.2 Types of SEZ by Function

Types of SEZ can be classified into the following six categories:

- (i) Free Transit Zones (TZ)
- (ii) Free Ports (Free Zones/Entrepot Trade Zones)
- (iii) Free Trade Zones (FTZ)
- (iv) Export Processing Zones (EPZ)
- (v) Economic Special Zones (ESZ)
- (vi) Import Processing Zones (IPZ)

Categories (i) to (v) above are popular in developing countries. They have been developed with the major objectives to stimulate industrialization, commodity flow, increase in employment and foreign exchange earnings, introduction of up-to-date technologies.

Among these categories, Export Processing Zone (EPZ) is the most popular form. According to a report titled “Labor and social issues relating to export processing zones” published by International Labor Office in 1998, EPZ is defined as

“industrial zone with special incentives to attract foreign investment in which imported materials undergo some degree of processing before being exported again”.

Import Processing Zones (IPZ) in category (vi), on the other hand, have mostly been set up in the industrialized countries. IPZ originally aimed to promote general imports, but its objectives have been shifted to assemble parts and/or components imported mainly from developing countries into finished goods in the zones in order to quickly respond to the end-users’ orders in different forms. This so-called Quick Response System (QRS) has become more and more vital for manufacturers of personal computers, some electronics equipment or fashionable apparel, as customers’ needs are widely diversifying. IPZ usually locate close to the major airports, seaports or transportation junctions.

Characteristics of these SEZ are briefly explained in Table 5.1 on the following pages.

Table 5.1 Types of SEZ

	Location	Function	Purposes/Target	Incentives	Required Facilities/Conditions	Implemented country
Transit Zones (Free Transit Zones)	Boarder area (mostly coastal area)	Relaying the imported commodities from a landed country to a neighboring country, which imports commodities.	Gaining commercial profits through loading/unloading, warehousing and logistics services	Import duties shall be exempted for re-export. Duties shall be levied only for domestic sales.	Bonded warehouses, Loading/unloading facilities, Transport system	
Free Ports (Free Zones/Entrepot Trade Zones)	A whole or a part of trading port area designated by the government: in general, sea ports but sometimes airports.	Re-shipment, trans-shipment, processing, conversion, assembling, exhibition etc. of foreign commodities, which go through the port.	Gaining commercial profits through loading / unloading, warehousing, processing, trade and exhibition, etc.	No or minimum duties levied on the passing goods. No or minimum government control over the foreign vessels. Possession /leasing of warehouses/factories is admitted.	Loading/ unloading facilities, bonded warehouses, manufacturing or processing factories, exhibiting facilities, etc. Distribution, banking and telecom. facilities are very vital.	Hong Kong Singapore
Free Trade Zones (FTZ)	A whole or a part of areas designated by the government as a free marketing place at any location near by trading or gate areas, sometimes at boarder area.	Marketing the domestic or imported goods for export or re-export.	Gaining commercial profits through free trading or exports.	No import duties levied on the imported goods for re-export. Exemption of local taxes	Exhibition facilities, market place, banking services, etc.	India
Export Processing Zones (EPZ)	Any location conveniently connected with major trading ports (sea or air) by the roads or sea transportation.	Manufacturing and/or processing the export-oriented goods by utilizing mostly the foreign capitals and technologies or sometimes combining those with the domestic capitals and products.	Exports promotion of processed or manufactured goods. Job creation. Inflow of foreign capital. Introduction of advanced foreign technologies.	Exemption of import duties for the materials, parts or component. Exemption of export duties, local taxes. Lower rate or exemption of corporate tax and free dividend remittance. Approval of higher share of foreign capitals (up to 100%), etc. Refund of VAT for indirect export	Access infrastructure to major trading ports. Satisfactory port facilities. Complete warehousing including bonded warehouse. Sufficient and reliable supply of utilities in the Zones. One-stop administrative services.	Taiwan (EPZ), Korea (FEZ), Singapore, Ireland, Thailand (EPZ), Malaysia (FZ, LMW*), Indonesia (EPTE, BZ**), The Philippines (EPZ), Vietnam (EPZ), India (EPZ), Sri Lanka (EPZ) LMW: Licensed Manufacturing Warehouses BZ: Bonded Zones

	Location	Function	Purposes/Target	Incentives	Required Facilities/Conditions	Implemented country
Economic Special Zones (ESZ)	Relatively large area like one whole city or an island, mainly located at coastal area and separated from other areas	Country inlet of foreign investment and the new technologies. A trigger for the reform of domestic economy on the market mechanism and a keystone to unify with international economy. Drawing-in the foreign market into the country.	Overall regional economic development and diffusion of the experiences of economic reform to other area. Introduction of foreign investment and acquisition of advanced technologies.	Approval of foreign investment in various businesses such as manufacturing, commerce, housing, tourism, public infrastructure. No import duties on capital goods and consumers goods used in SEZ. Reduced corporate tax. Grace period of corporate tax for the manufacturing or export industries.	Aggregated investment of FDI, public investment and local private Investment. Geographical conditions such as the accessibility to developed nations, trade centers or large markets are very vital. Reliable infrastructures, enough and relatively cheap manpower. Attraction for tourists.	China The Philippines
Import Processing Zone (IPZ)	Located close to the major airports, seaports or transportation junctions	Originally to promote general imports but recently shift to assemble parts and/or components imported from developing countries into finished goods in different forms	To respond quickly to the end-users' orders in different forms. In other words, to realize QR System (Quick Response System) in assembling and logistics	Not applicable	Warehouses and assembling factories	Mostly in developed countries

5.3 SEZ in Historical Perspective

(1) Variations

The history of SEZ dates back to the 13th century in Spain when King Alfonso X granted certain commercial privileges to the city of Cadiz. Singapore and Hong Kong had been Free Ports for a long time under the colonial regimes. It was only in the 1970s when SEZ concept, especially EPZ, was widely adopted and materialized in many countries.

EPZ was introduced worldwide for export promotion and it was set by the initiative of host countries. These countries could attract FDI by offering non-fiscal and fiscal incentives, abundant and cheap labor and lands, as well as certain levels of infrastructure in the zones. The current numbers of SEZ set up in the world, most of which are EPZs, are summarized below.

Table 5.2 Distribution of EPZs by Region, 1997

Region	Number of EPZ	Key countries
North America	320	U.S.A. 213, Mexico 107
Central America	4	Honduras 15, Costa Rica 9
Caribbean	51	Dominican Republic 35
South America	41	Colombia 11, Brazil 8
Europe	81	Bulgaria 8, Slovenia 8
Middle East	39	Turkey 11, Jordan 7
Asia	225	China 124, Philippines 35, Indonesia 26
Africa	47	Kenya 14, Egypt 6
Pacific	2	Australia 1, Fiji 1
Total	845	

Source: World Economic Processing Zone Authority

These numbers do not include some private EPZs. For examples, there are many EPZs that have been developed and operated by the private sector in the Philippines. Total number of such private EPZs is reported to be more than 130.

Contrary, in today's world, the international communications and logistics became much easier and faster and more Multi-National Enterprise (MNE) are operating worldwide, seeking new and changing conditions that require more integrated functions of SEZ. The old type of SEZ, which in many cases were the enclave-type and of single function, is losing its significance. Some MNEs even tend to avoid locating at the enclave zones in order not to bind

themselves by tight regulations of the zones operation and to freely seek more suitable locations for their operation.

The requirements that MNEs are currently seeking for in SEZ are summarized as follows:

- (i) Quicker response
- (ii) Shorter lead time
- (iii) Greater flexibility in production
- (iv) Lower cost
- (v) More suitable skill

(2) Evolution of SEZ

Responding to the consumers' diversified requirement, MNEs or even SMEs are getting more demanding for much more flexible, quicker, and freer manufacturing and export operation.

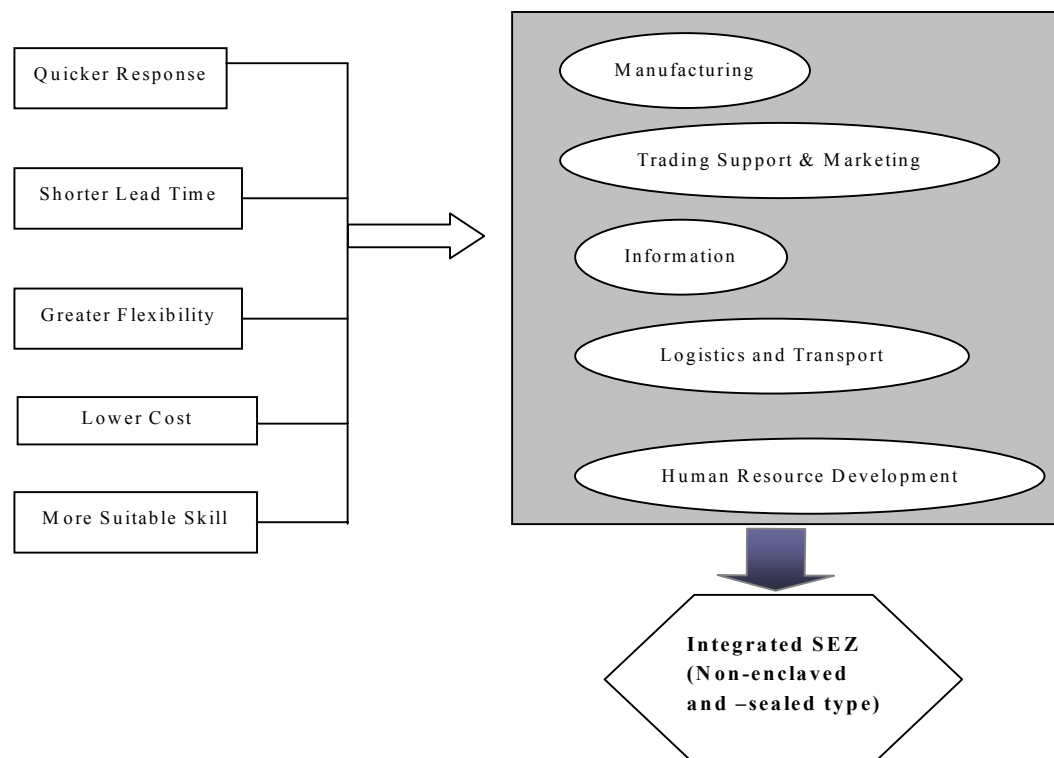


Figure 5.1 Evolution of SEZ

It is therefore likely that the enclaved and sealed-type zones will - where mere manufacturing or processing of products or parts are carried out in an isolated

place with no significant supporting facilities for trade in or around- fade away. Investors will move to more integrated zone concept where they can make use of all the necessary facilities, starting from manufacturing and processing to trading, logistics, marketing services, and even recreational needs.

5.4 SEZ in Asia

(1) General Situation

Among various types of SEZ, Asian countries traditionally put emphasis on developing EPZ due to their urgent needs for creating more employment, generating foreign exchanges, and upgrading technology level.

Taiwan, the Republic of Korea, and Singapore are among the successful examples in attaining all these purposes. Thailand, Malaysia, Indonesia, and the Philippines succeeded in realizing these partly, as they succeeded to attract quite a number of FDI. They, however, are still struggling to establish marketing and trade functions of their own initiatives for generating more value added and also to create closer linkage between FDI and local enterprises for absorbing higher technologies and/or expertise.

To this end, China seems to have succeeded in attaining all the goals by introducing the different approach from EPZ, called Economic Special Zone.

Comparing to other Asian countries, Vietnam adopted EPZ policy late and it seems to have had difficulties in developing EPZ. Trying to improve the situation, they modified Foreign Investment Law in July 2000 but it may take some more time for them to overcome the weak demand from FDI by regaining their confidence.

In order to derive some lessons of Asian countries, the cases of China, Thailand, Vietnam and the Philippines are reviewed below.

(2) ESZ (Economic Special Zones) in China

Chinese ESZ is often cited as a successful example of SEZ though it is different from SEZ in other countries. The most notable difference is that the entire cities or provinces were declared as ESZ in the Chinese case. These SEZ are not merely industrial estates but contain such community functions as residential areas, commercial areas, tourism and recreational facilities, transportation, education and health related facilities. In this case, the investors are entitled to utilize the existing urban facilities, which usually provide much wider supporting functions with the manufacturing firms and export supporting firms. They are also entitled to secure closer contact with

local firms so that both foreign investors and local enterprises benefit from interactive co-operation in manufacturing and export supporting activities.

The autonomy of ESZ authority has been secured and it became possible to provide flexible measures to attract FDI. By intermingling with local communities, FDI could acquire more confident profile about their investment not only in the manufacturing sector but also in such other fields as real estate, tourism, commerce, and infrastructure. Recent tendency of FDI in China shows that their investment in capital-intensive industries has apparently been increasing, while light industries are still the major absorber of FDI.

Despite the moderate fiscal incentives, as well as vague, inconsistent, and fragile legal system, Chinese ESZ seems to have been gaining success. The fundamental reasons are attributable to the progressive opening of the Chinese economy, realization of various supporting industries, fast learning ability of Chinese people, sufficient supply of skilled workers and high-tech engineers. All of them are important for modern manufacturing industries because multi-national manufacturers require quicker response, shorter lead-time and greater flexibility in manufacturing operation. The major reasons for success of Chinese SEZ are summarized below. (Detail explanation of Chinese ESZ is presented in Appendix 2.)

Reasons for Success of Chinese ESZ

- Adoption of integrated concept of SEZ
- Town or province-wise development concept
- Autonomous operation of SEZ
- Opening of Chinese economy
- Hong Kong's function as an inflow entrance for FDIs
- Existence of fast-learning and skilled workers
- Supply of higher grade engineers
- Relatively cheaper labors
- Strong commercial functions
- Locations and transport infrastructure

(3) EPZ in Thailand

Thailand is another successful country, having over 20-year experience in developing EPZ. One of the reasons for their success is that they managed to couple import-substitution policies with export-promotion policies by attracting the light industries in its early stage. Due to less competitive

situation of textiles at that time, Thailand could start with up-stream and middle-stream process which requires heavy investment. By attracting foreign textile industries, Thailand could establish its reputation as a FDI friendly country. The other reason for its success was its open and amicable attitudes toward FDI.

Industrial Estate Authority of Thailand (IEAT), a state enterprise attached to the Ministry of Industry, has been in charge of developing industrial estates of two different categories, namely General Industrial Zone (GIZ) and Export Processing Zone (EPZ). They claim that, as of year 2000, two kinds of industrial estate house 1,500 manufacturing plants with a total investment of 1 trillion bahts and generate over 400,000 jobs nationwide. IEAT develops and manages the industrial estates or sometimes jointly manages the industrial estates developed by private developers. The export value in EPZs rose from 47 billion bahts in 1994 to 205 billion bahts in 1999.

Following its initial success to attract FDI in labor-intensive industries, it has long been struggling to upgrade its FDI to quality investment. By heavily concentrating on metalworking, electronics and electric industries, it looks like gaining the status as regional supplier and exporter of metal-related products, automobile, electronics and electric products and parts.

The Thai EPZ concept, which has been successful so far, will have to be transformed according to its reform plans to match the MNEs requirements. To meet MNE's requirement, it may have to realize smoother customs clearance procedures, promote the export supporting functions such as IT, commercial activities and reliable financial facilities and secure supplying more sophisticated human resources.

Since 1996, the Thai Government introduced the new concept of EPZ where export-related trade and services have been added to EPZ functions. Another trial, in line with the transformation of EPZ, was the establishment of Free Trade Zones in its coastal areas. Although it was cancelled for some reason, the concept was similar to the Philippine's Subic Bay Special Economic and Free Trade Zone and Clark Special Economic Zone. (Detailed explanation on Thai EPZ is presented in Appendix 2.)

Major Reasons for Success of Thai SEZ and Future Issue

- Appropriate timing of establishing SEZ (Less competition)
- FDI friendly policies
- Consistency and flexibility in policies and society
- Necessity for changing SEZ to more integrated form
- Necessity for sufficient supply of more appropriate human resources

(4) EPZ in Vietnam

Vietnam was late in adopting the concept of EPZ. Only in 1991, after they adopted the so-called “Doi Moi” policy, they decided to open up the country for FDI. The initial approach was cautious and the foreign investment law was rather conservative in order to protect their local enterprises and national interest. For instance, they required unanimous principles for important resolutions in the board of directors of joint ventures, regardless of their capital shares or the compulsory hiring of local contractors for factory construction. The customs offices were rather notorious for FDI, licensing was selective, and the approval procedures took a long time.

The first EPZ in Ho Chi Min City, called Tan Thuan, was developed by Taiwanese capital and the Taiwanese concept of EPZ was introduced. It mainly targeted for promotion of SMEs. Coupled with inadequate infrastructure, and mismatch in policies (while promoting SMEs, US\$1 million minimum capital and 100% export obligation was imposed), the Tan Thuan EPZ could produce only a limited effect on FDI promotion. Because of its future potential, many investors were interested in Vietnam as export manufacturing bases and domestic marketplace. According to the information prepared by the Ministry of Planning and Investment of Vietnam in October 2000, the foreign investment of US\$35.8 billion, mainly from Singapore, Taiwan, Japan, the Republic of Korea, and Hong Kong, was registered between 1988 and 1999, but the materialization ratio has been rather low.

After 10 years since introducing EPZ, the export value of FDI in Vietnam has increased by 55.8% from US\$786 million in 1996 to US\$2.5 billion in 1999 but the enthusiasm of foreign investors seems to have already faded away. The other problem is that the export value of domestic enterprises rose only by 15.55% in the same period from US\$6.4 billion in 1996 to US\$8.9 billion in 1999. The technology and expertise transfer have not been successful as expected. Vietnam has been forced to reconsider EPZ policies. For instance, the Foreign Investment Law was amended in July 2000. A Chinese style SEZ

called Economic Zones (EZ) was introduced from 1996 in Mong Cai and 8 other places along the border areas, which put more emphasis on logistics, trade and tourism. They are also examining to adopt other successful concepts in their SEZ policy. The concept adopted in the New East Street Economic Zone of Shanghai and the Subic Bay Special Economic and Free Port Zone of the Philippines may be applied to develop Chu Lai Open Economic Zone in Vietnam. (Detail explanation on Vietnamese SEZ is shown in Appendix 2.)

Constraints of Vietnamese SEZ

- Conservative Foreign Investment Law
- Insufficient examination of SEZ policy target (mismatching between the target and regulations of SEZ policies)
- Attitudes of protectionism (national interest first)
- Inflexible treatment towards FDI
- Hard competition among Asian SEZ

(5) SEZ in the Philippines

The Philippines is also one of the succeeding countries in SEZ policies. The SEZ in the Philippines is called “Ecozone” which is considered to be a separate customs territory. The Ecozone enterprises, which have to export more than 70% of their production in case of foreign investors and more than 50% in case of domestic investors, are granted special preferential incentives that are applied only for Ecozone. While EPZ is designated to provide the manufacturing base for the purpose of export promotion, Ecozone aims to encourage commercial and other service activities, as well as manufacturing sectors, for export promotion.

Its concept was introduced in 1995 by enacting the Special Economic Zone Act (SEZ Act) and the operating authority called “the Philippine Economic Zone Authority (PEZA)” was established under this SEZ Act. Then existing 4 public-owned EPZs in Bataan, Baguio, Cebu and Cavite, which had been operated by Export Processing Zone Authority, and 12 other private-owned EPZs were transferred to under the management of PEZA. PEZA’s new policy for developing Ecozone was that it would not develop any more public-owned Ecozone but promote private-owned ones.

There are as many Ecozones as 135, consisting of the said 4 public-owned and 131 private-owned Ecozones nowadays. Among them, 44 private and 4 public-owned zones already have investors and some 67 private-owned Ecozones are waiting for the authorization by the president of the Republic.

According to the Web site of PEZA, the investment made in the Ecozones between 1995 and 1999 was counted as much as Philippine Peso (hereinafter “PHP”) 530.1 billion (approximately US\$12 billion at the present exchange rate), of which PHP227 billion were by the locators and PHP303 billion by the developers. The 45.7% of the investment made by the locators came from Japan, 15.4% from the USA, 14.6% from the Philippines, 6.6% from U.K., and 6.0% from Singapore. More than half of these investments came from the electronics parts and products sector, 16.3% from electrical machinery, 9.9% from basic metal products, and 6.8% from transport and car parts. Exporting US\$15.8 billion-worth of manufactured goods, which is equal to approximately half of the value of all manufactured goods exported from the Philippines, Ecozone provides more than 600,000 jobs nowadays.

At the same time, the Philippine government has been putting more emphasis on developing freer and more variety of SEZ to attract more FDI. This policy was adopted to attract development of the ex-naval base of Subic and ex-air force base of Clark. Likewise, Bases Conversion and Development Act of 1992 designated the Wallace Air Station, Camp John Hay (Baguio City) and other three ex-military bases as SEZ. (Details and other features of SEZ in the Philippines are presented in Appendix 2.)

(6) Prospect of SEZ in Asia

As reviewed above, the scheme and formula of Asian SEZ have been changing since its earlier stage. It started as a Free Port or Free Transit Zone in Hong Kong and Singapore to provide the base to re-shipment for trade. It also served as re-export base for neighboring countries.

In the 1960s, Taiwan, Singapore, and South Korea introduced the concept of EPZ for promoting their exports. At the beginning, American, Japanese and some of European companies invested in EPZ in these countries, responding to the government requests for promotion of the import-substitution industries. As foreign capitals increased their production and exports in EPZ in these countries, the local enterprises outside of EPZ started production of similar products by using technologies learnt in EPZ. Coincidentally, those countries were famous for their hard working attitudes and learning abilities.

Referring to their success and experiences, such other countries as Thailand, Malaysia, the Philippines, Indonesia, and Vietnam introduced similar concept of EPZ. China also adopted EPZ but it enlarged the concept and integrated different functions in one scheme. Such a multi-functional SEZ was welcomed by MNEs who were urged to respond to the diversifying

customers' needs under fierce competition in pricing. By utilizing multi-functional SEZ, they intensified the integrated export operation and realized quicker response to the market. This tendency appears to continue and become a main stream of Asian SEZ. The Philippines has been successful in setting up similar concept SEZ in former U.S. military bases in rather less developed areas. A schematic concept of this transition of Asian SEZ is illustrated below.

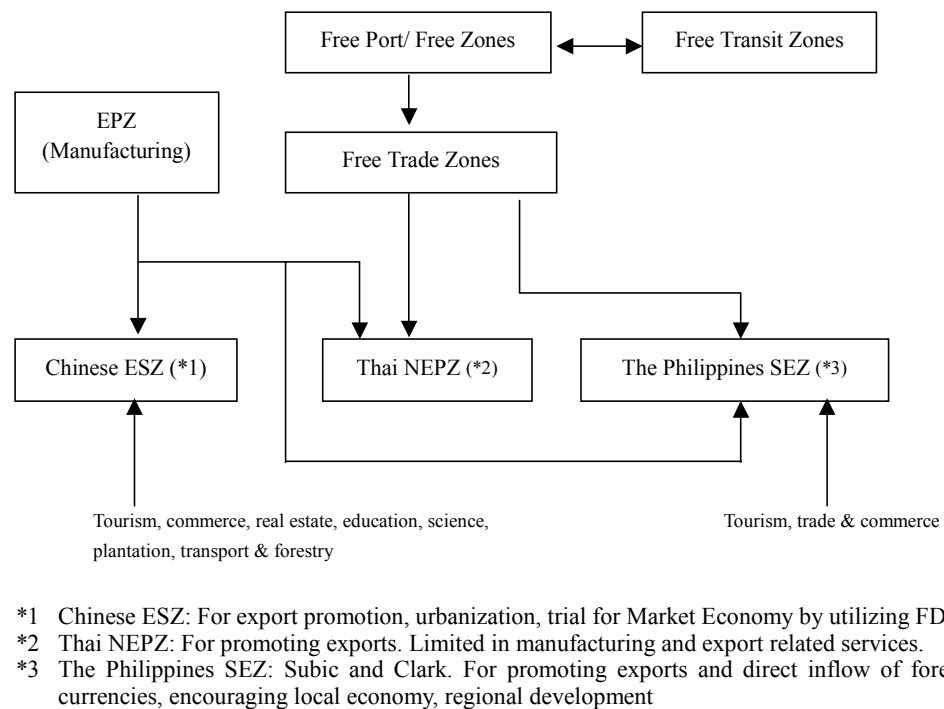


Figure 5.2 Transition of Asia SEZ

In recent years, it has become apparent that various type of SEZ has to be combined and integrated to form a more efficient and effective concept of SEZ. This is not only because many Asian countries begun to feel a limitation of SEZ under WTO, but also because the consumers' requirements have been diversified as information flows so quickly by development of the telecommunications system. The important issue to be addressed in examining the schemes and functions of SEZ is not only to consider the scheme, functions and roles, type by type, but also to think about how to combine and integrate them into an effective and feasible scheme.

5.5 Lessons Learnt from Asian Experiences

(1) Vital Conditions for Attracting FDI

A success in promoting SEZ relies not only on investment incentives that SEZ will be equipped, but also on many other factors that foreign investors may think vital. Before examining conceivable functions of the planned SEZ in Savannakhet, it is worthwhile to know what are vital factors for foreign investors from the experiences of other Asian SEZ. Some of factors vital for FDI are summarized as follows:

FDI Requirement for SEZ

- Existence of basic law
- Conformity of laws and regulations with the aim of encouraging economy and promoting exports
- Consistency of such governmental policies, especially the FDI policies
- Political and social stability (national credibility) and transparency of the social and economic systems
- Freedom in economic activities and authority's assurance for it
- Investment incentives
- Natural resources and industrial infrastructure
- Manufacturing and relevant cost
- Accessibility to major markets and domestic market size
- Human resources availability, cost and quality (learning ability, attitude towards work, quality consciousness, skill or technological background, etc.) of work forces, technicians and engineers
- New Factors: Quicker response, Shorter lead-time and Greater flexibility in production

(2) Success Factors Learnt from Asian Experience

Major factors that lead SEZ operations in China, Thailand, and the Philippines are summarized below.

Factors for Successful SEZ Operation Learnt from Asian Experience

- Definite selection of policy target
- FDI friendly policies
- Consistency and flexibility in FDI policies
- Social and political stability
- Adoption of integrated functions of SEZ concept
- Area, town or province-wise development concept
- Autonomous operation of SEZ
- Opening of national economy (liberalization of domestic market. Less protection of domestic firms)

- Appropriate and sufficient investment incentives
- Assurance of freer use of foreign exchange
- Existence of an inflow entrance for FDI (e.g., Hong Kong for China)
- Supply of fast-learning and skilled workers and higher grade engineers
- Relatively cheaper labors
- Strong commercial functions
- Locations suitable for logistics with sufficient transport infrastructure
- Readiness and appropriate infrastructure

(3) Comparison of Investment Incentives

As examined above, there are many vital factors for success in SEZ establishment. Some of them may be attributable to natural conditions (e.g., geographical conditions), which are difficult to change. However, as long as policies are concerned, there are ways to overcome unfavorable conditions. One of the major factors for FDI attraction and SEZ policies is the investment incentive offered to SEZ enterprises. The incentive schemes vary from one country to another. A comparison of investment incentives in some of the Asian countries is shown in the following pages.

(4) Critical Points to be learnt for Development of SEZ

Singapore's EPZ and China's ESZ may be a few examples to have succeeded in building the linkages between the EPZ firms and the domestic firms problems. Singapore pinpointed the target industries and provided the preferential incentives with such industries, of both foreign and domestic, as electronics and petrochemical-related industries in the past and information technologies and financial industries in recent years. China introduced the concept of multi-functional SEZ with no clear boundary between the premises of EPZ enterprises and local community, and developed one town and province as a whole to upgrade every aspect of regional economy. In the case of the Philippines, Subic and Clark seem to be on the same track in, though in a limited extent and scale. The problems Subic and Clark have is that, although the inside facilities for logistics are well equipped, the location of SEZ itself is not ideal for logistics industry and also that the fenced area of SEZ provokes some obstacles for close forward and backward linkages with local enterprises and industries. These lessons should be taken into account in planning the SEZ in Lao PDR.

Table 5.3 Comparison of Investment Incentives of Asian SEZ

	Chinese ESZ	Thai EPZ	The Philippine Ecozone	Vietnam EPZ
Tax Holiday	2 years (1 year for service industry)	Exemption of payment of income tax for a period granted by BOI	Income tax holiday of 4 to a maximum 8 years for non-pioneer and pioneer projects respectively	4 years tax holiday for manufacturing industries 2 years tax holidays for service industries
Corporate Tax	Reduction to 15% (7.5% for 3years after tax holiday, 2 years for service industry)	50% reduction of corporate tax for 5 years after the expiry date of tax holiday and the first profitable year Exemption from computation of taxable income on royalties and dividend	A special tax rate of 5% of gross income in lieu of all national and local taxes after the income tax holiday Exemption from all national and local taxes, in lieu of which a final tax of 5% of gross income must be paid (Subic) Tax credit for import substitution Tax credit on domestic capital equipment, breeding stocks and genetic materials Additional deduction for incremental labor expenses and training expenses	Reduction to 10% for manufacturing industries (normal: 25%) Reduction to 15% for service industries Refund of corporate tax of 15% for 3 years for re-investment
Other Tax	Business Tax -Exemption on exporting goods -Exemption on imported materials, manufacturing facilities, parts or transport measures -Reduction to half of a normal rate on mineral ores, tobacco or liquor -No incentive given to commercial/transport/ service industries Reduction or exemption of inhabitant's tax Exemption of remittance tax Withholding tax at a flat rate of 10% on dividend, interest, rent, license royalty	No surcharge, excise tax and VAT on machinery, parts, components, bi-products and raw materials for EPZ enterprises	Exemption from VAT, excise tax, valuables taxes and franchise taxes Exemption of wharf dues, export tax, import fees No exchange control Ecozone developers/operators shall pay real property tax	Reduction of remittance tax to 5% Other taxes and fees payable according to the current regulations
Import Duty	Exemption on the goods necessary for manufacturing and construction in ESZ	Exemption or reduction to one-half of import duty on machinery Maximum 10% reduction of import duty on raw materials Export promotion incentives -No import duty on raw materials -No import duty on the items for re-export	Tax- and duty-free importation of capital equipment, raw materials, spare parts, supplies, breeding stocks and genetic materials	Exemption of import duties on machinery, parts, components, moulds and materials for these, raw materials

	Chinese ESZ	Thai EPZ	The Philippine Ecozone	Vietnam EPZ
Export Duty	Exemption of export goods of ESZ enterprises	Export promotion incentives -No export duty on the items produced or assembled by the promoted enterprises	Exempted	
Land Leasing	30-50 years (3 years exemption and half a rate for succeeding 3 years for hi-tech) Pre-determined land rent, to be reconsidered in every 3 years	Approval of foreign ownership of land	From 25 years but easy to extend	Duration of land lease shall conform with the duration of operation (less than 50 years) as specified in investment license.
Domestic Sale for outside on SEZ	Payment of unpaid duties on imported materials	Payment of surcharge, export duty, business tax and other	Up to 30% of income may come from domestic market	Exchange of goods between EPZ enterprise and domestic enterprises shall be considered as export-import activities
Foreign personnel	Hiring foreign personnel beyond the regulation	Only in case Thai nationals are not available, possible to hire	Permanent resident status for foreign investors and immediate family Employment of foreign nationals	Recruit and employ foreigners only for jobs, which require a level of technical and management expertise that Vietnamese citizen can not satisfy.
Other Privileges	Further incentives for investment into certain location Guarantee on remittance of foreign currencies	Approval of loss carry-over Deduction of 25% of initial cost from net profit at any time within 10 years Deduction of 5% of the increased income over the previous year from income	Exemption from SGS inspection Unrestricted use of consigned equipment Remittance of earnings without prior approval from the Philippine Central Bank. Right to freely engage in any business, trade, manufacturing, financial or service activity, and to import and export freely all types of goods into and out of SBF, subject to certain laws and regulations (Subic)	Approval of 100% foreign capital Approval of foreign bank operation in EPZ

5.6 Perspectives of SEZ in Lao PDR

(1) Direction of SEZ Development in Lao PDR

As reviewed before in previous sections, SEZ in Lao PDR should be directed as follows:

Direction of SEZ Development in Lao PDR

- Realization of a market economy within SEZ
- Utilization of FDI to supplement the lack of capital, technologies and expertise
- Industry development and creation of new jobs
- Promotion of technology transfer
- Human resource development

(2) Major Constraints of Lao PDR for establishment of SEZ

Lao PDR has some difficulties in promoting FDI and developing SEZ. They are partly due to geographical reason and partly due to current conditions of the economy. Before formulating development strategies for SEZ, Lao difficulties are to be clearly noted. These difficulties include the following:

Constraints of Lao PDR for SEZ

- Vague government attitude and policies towards FDI
- Non-transparent economic and regulative system
- Lack of adequate legal systems
- Common and mediocre investment incentives
- Lack of government capital to install sufficient infrastructures required in SEZ
- Immature accumulation of private capital to form joint ventures with foreign investors
- Local industries at the infant stage
- Small scattered population
- Under developed human resources

(3) Possible Countermeasures for SEZ development in Lao PDR

In spite of these difficulties, there are possible measures to tackle with the weaknesses, constraints and vulnerability, and to realize SEZ that will bring about favorable effects on Lao PDR. These measures will include the following:

Possible Countermeasures for Lao Constraints

- Legislation of a solid basic law for establishing SEZ, amending the foreign investment law and other relevant laws and regulations
- Firm government commitment on the consistency of SEZ policies
- Introduction of transparent operating system of SEZ
- Utilization of foreign private sectors for developing any sector in SEZ
- Introduction of an adequate foreign currency regime into SEZ
- Provision of full range of investment incentives to SEZ enterprises
- Utilization of foreign engineers and workers
- Promotion of the educational systems (including vocational training) with incentives given to foreign private investor
- Provision of comfortable living environment to attract foreigners
- Upgrading Internet and telecommunications systems in SEZ

(4) Basic Strategy of SEZ Development in Lao PDR

1) Principal issue

The first and most important issue to be addressed is that the SEZ scheme can work merely under the principle of the market-oriented economy that is the economy “of”, “by”, and “for” the consumers. In introducing SEZ concept to Lao PDR, the Lao government will face the same problems as in the cases of China and Vietnam, which were mainly attributable to confrontation of the political system and economic freedom. At least inside the SEZ, the economic freedom has to be respected in every scene. In other words, the policies should follow and serve to the requirement, request, and autonomous movement of the market-oriented economy in SEZ.

2) Organizational Schemes

There are two major categories of Asian SEZ. One is a traditional single-function type and the other is the combined-function type. The Philippines and Thai have an independent operation body connected with the higher public authority. On the other hand, Shenzhen ESZ in China is under supervision of Shenzhen Municipal Government at the local level and there is the Office of Economic Special Zones of Guangdong Provincial Government at the provincial level, which supervises all Economic Special Zones located in the province. Moreover, Guangdong Province itself is under the firmer control of the central government. When this happens, it becomes difficult to run the scheme with flexibility and the investors’ interest would be damaged. Since many investors point out and claim the non-transparency in Chinese scheme, this kind of double control should be avoided. Lao SEZ should be

provided wide independence and autonomy under adequate auditing and checking function, and it should be placed under the jurisdiction of the Prime Minister or equivalent.

3) Functions

Any of the traditional single-type or new combined-type of SEZ is theoretically applicable to Lao PDR. However, in view of the economic and social environment, it is suggested that a combined-type of SEZ be applied in Lao PDR. It should contain manufacturing and non-manufacturing functions such as logistics, light processing, trade and commerce, tourism. In order to reinforce the supporting functions in SEZ, various industries such as education, real estate, infrastructure construction and management should be invited. Details of Savannakhet SEZ functions are discussed in the subsequent chapters.

4) Incentives

With respect to investment incentives, much wider and more attractive incentives should be granted to investors and these incentives will have to surpass the ones stipulated in the existing Foreign Investment Law, Tax Law, Labor Law and other relevant laws, decrees and regulations. The important point is that, although the incentives can be selectively given to the type of investors or industries, they have to be clearly stated and given automatically to any qualified investors. They should not be negotiated on a case-by-case basis or granted at discretion.

The incentives given to the SEZ investors will fall in two categories of fiscal and non-fiscal. They should include but not limited to the following:

i) Fiscal Incentives

- Profit tax holiday: 2-8 years
- Reduction of profit tax: From 20% to 10-15% in case of foreign investment
- Exemption or reduction of turnover tax: Down to a half of the rates stipulated in Article 12 of Tax Law
- Exemption of utilization tax: Exempted for re-export, half rates on fuel for transport company, exempted on beverages for hotels
- Reduction of personal income tax: From 10% to 5% in case of foreign personnel

- Exemption or reduction of minimum tax: Reduction to half a normal rate – 0.5% to 0.25%
- Exemption of import and export duty: Exempted on all the equipment and materials for export or import substitute manufacturing and on selective goods or construction materials for other types of industry
- Modified conditions for calculating taxable income: Stipulations on deductible and non-deductible expenses in Articles 34 and 35, and on carrying-over of loss in Article 36 of Tax Law shall be modified.
- Exemption or reduction of various charges and fees, and withholding tax on remittance or royalties

ii) Non-fiscal Incentives

- Freer use and possession of foreign currencies: Offshore status shall be given to SEZ.
- Fewer regulations on hiring foreign personnel: Free employment of foreign workers within a limit set forth under SEZ Law and Regulations
- Restrictions of worker's rights to some extent: Prohibition of labor strike in SEZ (Setting-up of Labor Relations Office) and simplification and modification of retirement allowances
- Clarification of governmental charges and fees: No charges or fees collected from SEZ enterprises other than these set forth and announced by SEZ Authority.
- Clarification of land lease fees: Land lease fees shall be determined and announced in public by SEZ Authority and the same rates shall be applied to all qualified SEZ enterprises.
- Easier acquisition and faster issuance of licenses such as investment, export and import licenses: One-stop licensing shop to be set up in SEZ with representatives from relevant ministries

Proposed draft of the fiscal incentives applied to Lao SEZ is summarized in the following pages. Those incentives should be principally described in the SEZ Law and the details should be regulated in its Rules and Regulations for Implementation.

Table 5.4 Fiscal Incentives to be granted to the SEZ Enterprise of Foreign Investment

	Manufacturing			Logistics			Commerce		Tourism		Development	
	Export-oriented (min. 70% export)	Import Substitution	General	Warehouse	Transport Company	Forwarding	Wholesale, (Export Agent)	Retail	Hotels	Tour company	Industrial Estate, Factory	Housing, Apartment
Minimum Investment	\$500,000	\$500,000	\$500,000	\$1,000,000	\$1,000,000	\$300,000	\$300,000 (\$100,000)	\$300,000	\$2,000,000	\$300,000	\$2,000,000	\$2,000,000
Profit Tax Holiday	5 years (max. 8 years)	3 years	None	3 years	5 years	2 years	2 years	None	3 years	2 years	3 years	3 years
Profit Tax	10%	10%	10%	10%	10%	15%	15%	15%	10%	15%	10%	10%
Turnover Tax	Exempted	Exempted	Exempted for export and 3-15% for domestic	Exempted	Exempted	Exempted	Exempted for export and 3-15% for domestic	Exempted for export and 3-15% for domestic	Half rates of these in Article 12 of Tax Law (3-15%)	Half rates of these in Article 12 of Tax Law (3-15%)	Exempted	Exempted
Utilization Tax	Exempted	Non-Exempted	Exempted for export	Not applicable	Half of normal rates on fuels (Refund)	Not applicable	Exempted for re-export	Exempted for re-export	Exempted on beverages (Refund)	Non-exempted	Not applicable	Not applicable
Personal Income Tax	5% for foreign personnel	5% for foreign personnel	5% for foreign personnel	5% for foreign personnel	5% for foreign personnel	5% for foreign personnel	5% for foreign personnel	5% for foreign personnel	5% for foreign personnel	5% for foreign personnel	5% for foreign personnel	5% for foreign personnel
Minimum Tax	Exempted	Exempted	0.25%	Exempted	Exempted	Exempted	Exempted	0.25%	0.25%	0.25%	Exempted	Exempted
Import Duties	Exempted Refund for indirect export	Exempted	Exempted on production machinery & 1% on materials	Exempted on building materials and facilities	Exempted on trucks and loading facilities	Exempted on office equipment	Exempted for re-export Exempted on office equipment	Exempted for re-export Exempted on office equipment	Exempted on facilities	Exempted on office equipment	Exempted on building materials, machinery and facilities	Exempted on building materials, machinery and facilities
Export Duties	Exempted	Exempted	Exempted for exports	Not applicable	Not applicable	Not applicable	Exempted	Exempted	Not applicable	Not applicable	Not applicable	Not applicable

Table 5.5 Fiscal Incentives to be granted to the SEZ Enterprise of Domestic Investment

	Manufacturing			Logistics			Commerce		Tourism		Development	
	Export-oriented (min. 50% export)	Import Substitution	General	Warehouse	Transport Company	Forwarding	Wholesale, (Export Agent)	Retail	Hotels	Tour company	Industrial Estate, Factory	Housing, Apartment
Minimum Investment	\$250,000	\$250,000	\$250,000	\$500,000	\$500,000	\$150,000	\$150,000 (\$50,000)	\$150,000	\$1,000,000	\$150,000	\$1,000,000	\$1,000,000
Profit Tax Holiday	Max. 5 years	3 years	None	3 years	3 years	2 years	None	None	3 years	2 years	3 years	3 years
Profit Tax	10%	10%	10%	10%	10%	15%	15%	15%	10%	15%	10%	10%
Turnover Tax	Exempted	Exempted	Exempted for export and 3-15% for domestic	Exempted	Exempted	Exempted	Exempted for export and 3-15% for domestic	Exempted for export and 3-15% for domestic	Half rates of these in Article 12 of Tax Law (3-15%)	Half rates of these in Article 12 of Tax Law (3-15%)	Exempted	Exempted
Utilization Tax	Exempted	Non-exempted	Exempted for export	Not applicable	Half of normal rates on fuels (Refund)	Not applicable	Exempted for re-export	Exempted for re-export	Exempted on beverages (Refund)	Non-exempted	Not applicable	Not applicable
Personal Income Tax	Normal rates	Normal rates	Normal rates	Normal rates	Normal rates	Normal rates	Normal rates	Normal rates	Normal rates	Normal Rates	Normal rates	Normal rates
Minimum Tax	Exempted	Exempted	0.25%	Exempted	Exempted	Exempted	Exempted	0.25%	0.25%	0.25%	Exempted	Exempted
Import Duties	Exempted Refund for indirect export	Exempted	Exempted on production machinery & 1% on materials	Exempted on building materials and facilities	Exempted on trucks and loading facilities	Exempted on office equipment	Exempted for re-export Exempted on office equipment	Exempted for re-export Exempted on office equipment	Exempted on facilities	Exempted on office equipment	Exempted on building materials, machinery and facilities	Exempted on building materials, machinery and facilities
Export Duties	Exempted	Exempted	Exempted for exports	Not applicable	Not applicable	Not applicable	Exempted	Exempted	Not applicable	Not applicable	Not applicable	Not applicable

CHAPTER VI SEZ DEVELOPMENT PLAN

6.1 Objectives of SEZ in Savannakhet

Savannakhet is a commercial center in the central part of the country. However, it has not yet become a real urban and commercial center in its full sense. First, it does not provide enough attraction and living facilities to absorb people from both inside and outside of the country. Basic conditions as a commercial center such as marketing functions, financial functions and telecommunications system are not fully developed yet. Secondly, it does not have modern manufacturing/processing industries. Thus, Savannakhet has serious constraints to overcome in setting up SEZ for manufacturing or processing industries, especially for exports. These constraints include the following:

Constraints for Becoming a Manufacturing Center

- Small and scattered population, with less-motivated workforce
- Low standard of skills, expertise and technologies, with fewer skilled workers
- Scarcity of local funds and financial resources
- Insufficient infrastructure (e.g. Telecommunications, roads, water and electricity)

Taking these factors into consideration, Savannakhet SEZ should aim at the following objectives:

Objectives of SEZ in Savannakhet

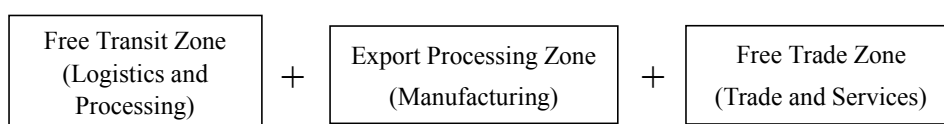
- To innovate such strategic sectors as logistics, manufacturing, trade and commerce, and service industry, in order to set up the functions as a regional center in Indochina Peninsula
- To increase employment and raise standards of living in the region
- To absorb new skills and expertise to upgrade industrial and commercial activities by introducing internationally common practices of business, market conception and sense of quality of goods and services
- To create linkage between SEZ and local enterprises to raise their standard

6.2 Strategy for SEZ in Savannakhet

(1) Basic Concept of SEZ in Savannakhet

Due to those constraints described above, it may not be appropriate to promote manufacturing sector alone in Savannakhet. The strength of Savannakhet rests at its location. Upon the completion of the New Mekong Bridge and improvement Route No.9, Savannakhet is expected to become a real crossroad of goods and traffic both domestically and internationally. Where commodity and people gather, commerce, logistics and tourism will flourish. In other words, Savannakhet SEZ will be more suitable for the combined type of SEZ, consisting of Free Trade and Transit Zone, as well as EPZ. Savannakhet SEZ can also be a marketing center of the Peninsula, by utilizing its geographical advantage to the fullest extent.

Basic Concept of Savannakhet SEZ



The conceptual functions of Savannakhet SEZ will be similar to these of the Philippines' Subic and Clark. At the same time, Savannakhet SEZ should utilize all resources that it is endowed with. This will become more feasible when a SEZ area is designated not as a sealed zone but area-wise zone.

(2) Approaches to SEZ Development in Savannakhet

1) Logistics and processing sector

As noted before, the quick response system has become vital for any industry and logistics play a more important role to realize it. The recent concept of "logistics" means the combined functions of warehousing, cargo terminal, sorting work, light processing and some sort of finishing work. In some cases, as noted in the function of Import Processing Zone (IPZ) (Chapter 5.2), the logistic centers have its own assembling factories to respond to the variety of customers' demands. For Vietnamese manufacturers who wish to penetrate into Thai market, for example, Savannakhet SEZ can provide them with the forward base of final processing, warehousing, and agile logistics. Thai manufacturer may think the same way, targeting to the Vietnamese market. In these cases, Lao

transporters may deliver goods to Thailand or to Vietnam from Savannakhet. Vietnamese or Thai manufacturers may set up excess manufacturing ability for import substitution purpose in Savannakhet SEZ. Some of them may require local materials, bi-products or parts that may be delivered into SEZ from different locations in Lao PDR. Thus, domestic and international transportation will become active and Savannakhet SEZ will become a logistics center.

2) Manufacturing sector

SEZ, in general, is established to absorb and utilize abundant work force, but the Savannakhet appears to be less attractive for labor-intensive industries. Skills, materials, and capitals have not been accumulated in Savannakhet. Consequently, focus will be put on the semi labor-intensive and semi capital-intensive sectors or handicraft type manufacturing at an earlier stage. When human resources and/or materials base is set up adequately, and as long as the labor cost still remains competitive, other manufacturing sector may be invited.

3) Trade and commerce sector

Through activating the logistics function, commodity and people will gather in and around SEZ and then information handling will become important. Traders need places where they can collect and exchange information on business opportunity and merchandise at convenient locations. They may need places where they can see the merchandise (exhibition room), negotiate the business terms (offices), collect and exchange information on new merchandise or technologies (convention and seminar room). Such a trading, commercial and marketing center should be developed in order to widen and strengthen the logistics function of Savannakhet SEZ. Financial functions, trade supporting functions and telecommunications are vital for accelerating trading, commercial and marketing activities.

4) Service sector

Together with the development of commercial and marketing functions, it is desirable to contemplate promotion of the tourism industry. Comfortable hotels, needed by business people, will be indispensable for promoting tourism. If the ideal tourist zone equipped with first class facilities is designed in Savannakhet SEZ, it may attract tourists from Indochina peninsula countries and other parts of the world.

6.3 Functions of SEZ in Savannakhet

(1) Conceivable Functions

Based on strategies discussed above, various functions are conceived at Savannakhet SEZ. They include the following:

Conceivable Functions of SEZ in Savannakhet

- Regional, national and international logistics base (including processing, bottling, light assembling, packaging)
- Production base for light manufacturing industries for exports (both domestic and foreign enterprises)
- Production base for light manufacturing industries for import substitution (both domestic and foreign enterprise)
- Regional and international commercial center and free market place (trading, wholesale and retail)
- Urban resorts and amenity center (hotels and amusement)
- Regional financial center
- Regional and international commercial and technological information center
- Human resources development center (technology transfer, vocational training and higher education)

(2) Proposed Functions in Savannakhet SEZ

Judging from the opportunities and constraints, as well as by referring to lessons learnt from Asian experiences, it is proposed that Savannakhet SEZ be designed with the combined functions as follows:

1) Logistics and processing

- Goods imported from third countries or delivered from other parts of the country will be unloaded, stored in the bonded warehouses or general warehouses, or processed for re-sale, distribution or re-export.
- Cargo terminal is equipped with necessary loading and unloading facilities
- Rent factories for packaging, labeling and sorting of materials and finished products will be installed.
- Warehouses will be operated mainly by the private sector.
- Freezing and low-temperature warehouses are desirably installed for storage and distribution of materials and finished goods, especially of agro-industry.

- Warehousing companies, transport companies, forwarders, processing companies and motor vehicle garages (mechanics) shall be invited.

2) Manufacturing

- In the manufacturing zone, it is recommended that the following products be called in:

Recommended Products in Processing Zone

- | |
|--|
| <ul style="list-style-type: none"> • Wood processing: Assembled or makeup furniture, wooden semi-products, interior parts, parquet, flooring and exterior parts and gardening purpose parts • Agro-processing: Coffee, pickles (radish, cabbage and Chinese cabbage), cooking oil (including bottling and labeling) • Garments and footwear • Electronic components • Handicraft: Lao cotton and silk (Natural dyestuff, hand-spinning and hand-weaving), rattan furniture, bamboo products |
|--|

3) Trade and commerce: Free market place

- Retails of duty-free goods at DFS: Duty free goods to be sold will contain variety of commodity such as liquors, cigarettes, cloths and footwear, foods and beverages, handicraft, etc.
- Wholesale of the imported goods for re-export: The goods from third countries can be imported without paying import duty and sold without turnover tax and utilization tax for re-export.
- Wholesale activities for handicraft, incense woods, gemstones or other Lao-made goods should be promoted.
- Trade agents will be invited for export and re-export promotion.
- Various offices, exhibition hall, and conference and seminar rooms will be constructed, in order to support wholesale and export promotional activities.

4) Amenity (Tourism and service industries):

- Hotels for business people and tourists, which are equipped with sporting facilities and international communication tools including Internet.
- Hotels will have facilities for holding conventions.

- Travel agency and tour operation companies, car rental companies, spots and amusement-related industries are to be invited for investment.

5) Supporting functions

i) Administration center as Headquarters of Savannakhet SEZ authority

- One-Stop-Service Shop for investment licensing and export procedures
- Issuance of various permits and certificates
- Land lease management
- SEZ operational management and security
- Labor service office for recruiting and labor dispute mediation
- Utilities arrangement and operation
- The customs office

ii) Marketing center (established by the public sector)

- Local industry marketing division is proposed. It may utilize electronic commerce method.
- Exports promotion agency of the government will provide overseas market information on the market condition and requirements. It plans and implements the overseas market penetration measures, provides with the explanatory documents on the export procedures, and is consulted with the prospective exporters of Lao.
- Foreign Direct Investment promotion is also carried out in this center.

iii) Property development and utility supply

- Private developer should be invited to develop industrial estates, standard rent factories, offices and conference and seminar rooms for leasing.
- Service apartments and other living quarters for foreigners, which are compounded by fence for security, will be constructed and leased by private developers.
- Utility installation and supply may be handled by private sector.

iv) Financial services

- Both foreign and domestic banks and insurance companies will be invited to locate in the SEZ.
- Savannakhet SEZ will be given offshore status for free use of foreign currencies.

v) Training

- Public vocational school may have branches in the SEZ to give OJT training to the students and to provide internship training at SEZ enterprises
- Private design schools, skill development schools will be called in to Skill Training Center.

The combined functions proposed for Savannakhet SEZ are illustrated in the following page.

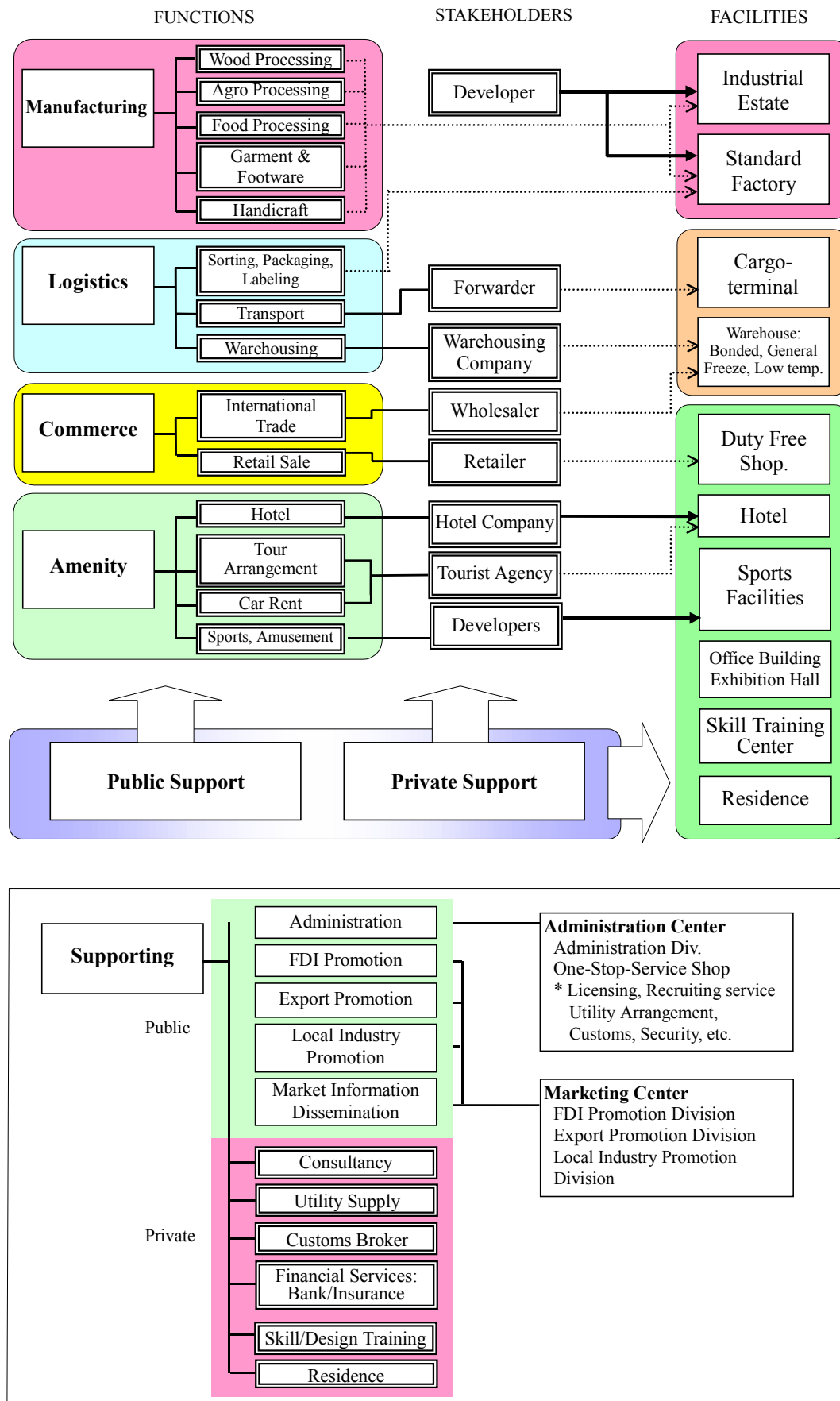


Figure 6.1 Conceptual Functions of Savannakhet SEZ

6.4 Candidates Sites

(1) Introduction

Through the field survey, it has been clarified that the land near the border facilities of the New Mekong Bridge has been planned for custom warehouse. The land to the south of the Bridge access road has been found to be densely populated, but the land to the north of the access road is available.

1) Northern part of access road to the Bridge

Over 300 ha of land is available, extending north of the access road to the New Mekong Bridge.

It has been revealed through discussion with the provincial government that land currently used for warehouses is easily available near the junction of Routes 9 and 13 (near Xeno), as follows:

2) Land currently used for warehouses near Xeno

This site is located about 1 km to the west of the junction of Routes 9 and 13, or 28 km east of Khanthabouly District. The land of 6 ha is readily available, and the hinterland can be expanded to nearly 180 ha.

Prior to the commencement of the Study, some Lao authorities had ideas to develop an industrial estate and a free trade zone (FTZ) as follows:

3) Xaybouly Industrial Estate

The Ministry of Industry and Handicrafts (MOIH) has studied the development of the industrial estate (800 ha) in Xaybouly, located about 25 km to the north of Khanthabouly District.

4) Deansavahn Free Trade Zone

The Ministry of Commerce and Tourism (MOCT) has an idea to develop FTZ in Deansavahn located at the border with Vietnam (near Laobao).

These development concepts were considered as candidate sites for SEZ development in this Study.

Four candidate sites have been identified as listed below (numbered from west to east as shown in Figure 6.2).

Site A : Northern part of access road to the New Mekong Bridge

Site B : Land currently used for warehouses near Xeno

Site C : Xaybouly Industrial Estate

Site D : Deansavahn Free Trade Zone

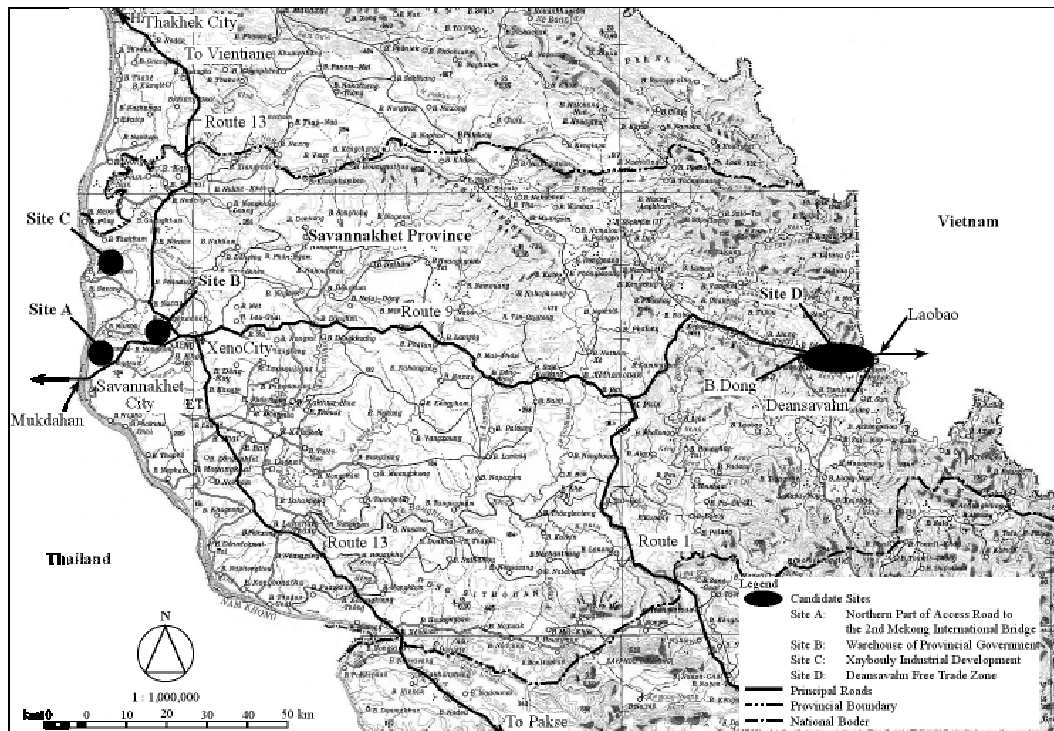


Figure 6.2 Location of Candidate Sites

(2) Evaluation of Candidates Sites

1) Evaluation Flow

The candidate sites have been evaluated to select the recommendable site(s) for implementation of SEZ in Savannakhet.

Requirements of each SEZ function are rated by evaluation factors in three ranks. Characteristics of candidate sites are also evaluated in three ranks. The potential of candidate sites is identified by multiplying ranks of the requirements and characteristics. Figure 6.3 shows the evaluation flowchart of candidate sites.

The evaluation factors consist of the following items:

Social Factors : ①Population, ②Economic Activity

Technical Factors : ①Accessibility, ②Geology, ③Topography, ④Utilities (Electricity, Water Supply, and Telecommunication), ⑤Environmental Impacts

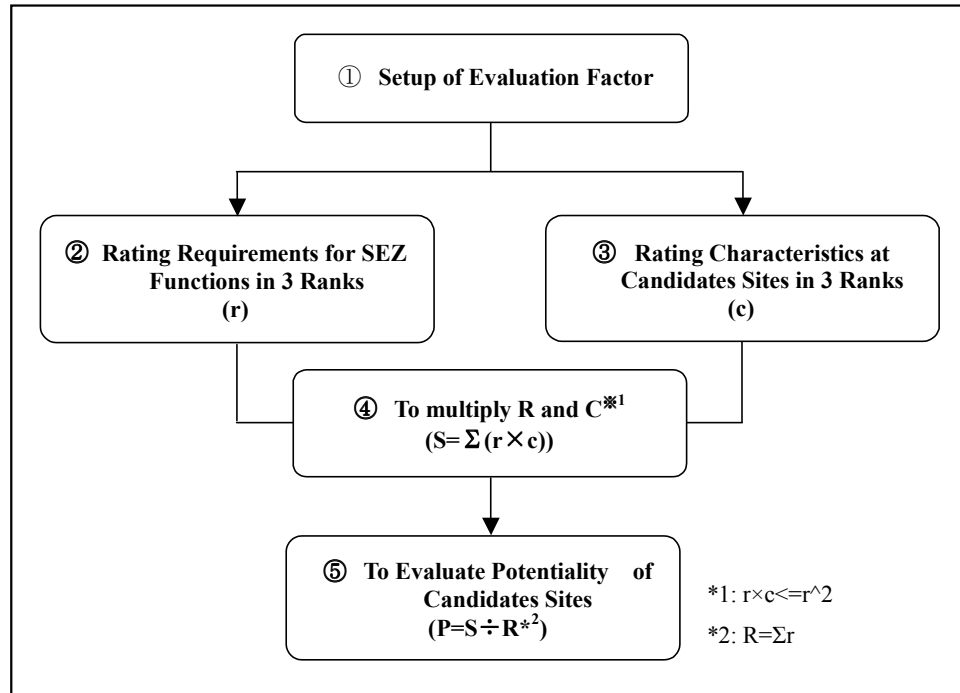


Figure 6.3 Evaluation Flow of Candidate Sites

2) Rating of Requirements for SEZ Functions

Requirements for each SEZ function are rated in three ranks, socially and technically.

The rating makes clear it that both population and economic activity in the social factors are commonly required. In the technical factor, the accessibility and telecommunication are given higher weights.

Manufacturing requires all factors. Logistics and commerce require social factor, accessibility and telecommunications factors.

The rating of requirements for each function is made as tabulated below.

Table 6.1 Ranking of Requirements for SEZ Functions

Functions Requirements	Manufactur-i ng	Logistics (C.T., B.W.)	Commerce (DFS, W.S.)	Amenity (Hotel, G.C.)	Residential	Supporting (M.C., A.C.)
Social Factor						
Population	5	3	3	3	3	1
Economic act.	5	5	5	1	1	5
Technical Factor						
Accessibility	3	5	5	3	3	5
Geology	5	1	1	1	1	1
Topography	3	1	1	1	1	1
Electricity	5	1	1	1	1	1
Water Supply	5	1	1	1	1	1
Telecomm.	3	3	3	1	1	5
(total points:R)	(34)	(20)	(20)	(12)	(12)	(20)
Environ. Impact	Large	Neutral	Neutral	Neutral	Neutral	Neutral

Note: “5” –highly required, “3”-required, and “1”-neutral

C.T.: Cargo Terminal, B.W.: Bonded Warehouse, DFS: Duty Free Shop, G.C.: Golf Course, M.C.: Marketing Center, A.C.: Administration Center

3) Rating of Characteristics at Candidates Sites

The characteristics of the candidate sites are rated in this section. (see Table 6.2) The ideas of rating are summarized in the following comment, and detailed information of each candidate sites is explained in Annex 3.

- i) Accessibility is based on distance from Thailand, which is the largest economic force of neighboring countries.
- ii) Geological data obtained at Site A has been referred to.
- iii) Electricity supply in the province will be a limiting factor at all site until the Nam Theun 2 power station is to be operated in 2006.
- iv) Site A and Site C have advantage in water resource, as closely located to the Mekong river.
- v) Telecommunication demand is to be provisionally met by an optical fiber to be extended from Mukdahan crossing the New Mekong Bridge.

Table 6.2 Characteristics of Candidate Sites

Functions Requirements	Conditions of Sites				Evaluation of Sites			
	Site A	Site B	Site C	Site D	Site A	Site B	Site C	Site D
Social Factor								
Population	97,328	68,759	47,012	38,246	5	3	1	1
Economic act.	The largest city in the province	2 nd largest city in the province	None	Small town	5	3	1	1
Technical Factor								
Accessibility	0 km	25 km (Junction of Route 9 & Route 13)	45 km	260 km	5	5	1	3
Geology	N-value 10 – 30	No data	No data	No data	5	3	3	3
Topography	7 % slope	Undulating land	Undulating land	Flat land along Xepon river	3	1	1	3
Electricity	Insufficient capacity of electric generation				3	3	3	3
Water Supply	Mekong river	Ground water	Mekong river	Xepon river	3	1	3	3
Telecomm.	Insufficient capacity of 34 Mbps microwave				3	3	1	1
Environ. Impact	Housing area around the site	District school in front of the site	Deep forest	Deep forest	Large	Neutral	Neutral	Neutral

Note: The number of population is the district population. Site A: Khanthabouly, Site B: Outhoumphone, Site C: Xayboully, and Site D: Xepon

4) Evaluation of Candidates Sites

Table 6.3 shows the result of evaluation based on multiplied values of the requirements and characteristics.

Table 6.3 Evaluation of Candidate Sites

Functions Sites	Multiplied Values				Potentiality Values			
	Site A	Site B	Site C	Site D	Site A	Site B	Site C	Site D
Manufacturing	142	86	74	76	4.2	2.5	2.2	2.2
Logistics	72	62	20	30	3.6	3.1	1.0	1.5
Commerce	72	62	20	30	3.6	3.1	1.0	1.5
Tourism	24	24	12	18	2.0	2.0	1.0	1.5
Residential	24	24	12	18	2.0	2.0	1.0	1.5
Supporting	70	60	20	30	3.5	3.0	1.0	1.5

Note: Shaded column scores more than 3.0.

Site A has the highest score. The score for the manufacturing function is over 4.0. The score exceeds over 3.0 in manufacturing, logistics, commerce, and supporting functions.

Site B has the second highest score. The logistics and commerce functions exceed 3.0.

Site C and Site D have no function exceeding over 3.0.

The amenity and residential functions are not scored more than 3.0 at all candidate sites, but Site A and Site B have some advantages among the four candidate sites.

Advantage of Site C is the large available land, which is not densely populated. Close to water resource of the Mekong river, Site C has some advantages in the industrial estate development.

Site D has two duty free shops. When Route 9 is improved, flows of passenger and commodity would be increased. However, potentials at Site D could be limited only to the function of free trade zone.

Judging from these ratings, Site C and Site D can not be recommended for SEZ having multiple functions.

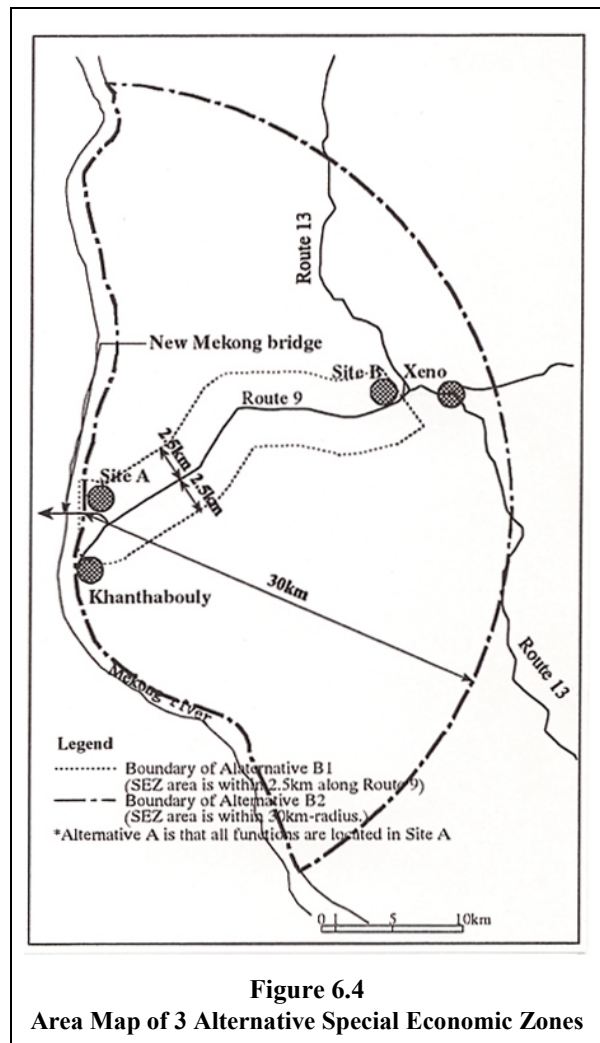
6.5 Development Scenario

(1) Alternative Scenarios

In the previous section, Site A and Site B have been evaluated to have potentials for SEZ. Now three alternatives for SEZ development scenarios that Site A and Site B are conceived as follows:

- Option A : All SEZ functions are located in Site A.
- Option B1 : Both Site A and Site B are developed for SEZ and the SEZ covers the area along Route 9 with 2.5km in width, from the crossing point of the New Mekong Bridge to the junction of Route 9 and Route 13.
- Option B2 : Both Site A and Site B is developed for SEZ, and the SEZ covers the area within 30km-radius from the New Mekong Bridge.

Figure 6.4 shows the SEZ area of the three alternatives. Under the Option B1 and B2, Site B caters for logistics function, and Site A is designated for manufacturing, amenity, residential and supporting functions, according to the evaluation results in the previous section.



(2) Evaluation of Scenarios

Xeno is located at the junction of Route 9 and Route 13, and Xeno could be the terminal point of an international and domestic transportation network. Additionally, land at Site B is already prepared for warehouse while it is difficult to develop industries at Site B as water resource is limited. Activating the potentiality of both sites, SEZ could be successfully developed.

On the other hand, existing FDI factories are mostly located along Route 9 between Khanthabouly and Xeno, and they could be incorporated into SEZ as far as they satisfy requirements for SEZ privilege.

Taking these conditions into account, the most appropriate and recommendable scenario is Option B1; i.e., the area covered within 2.5km from Route 9 between the crossing point of the New Mekong Bridge and the junction of Route 13 and Route 9.

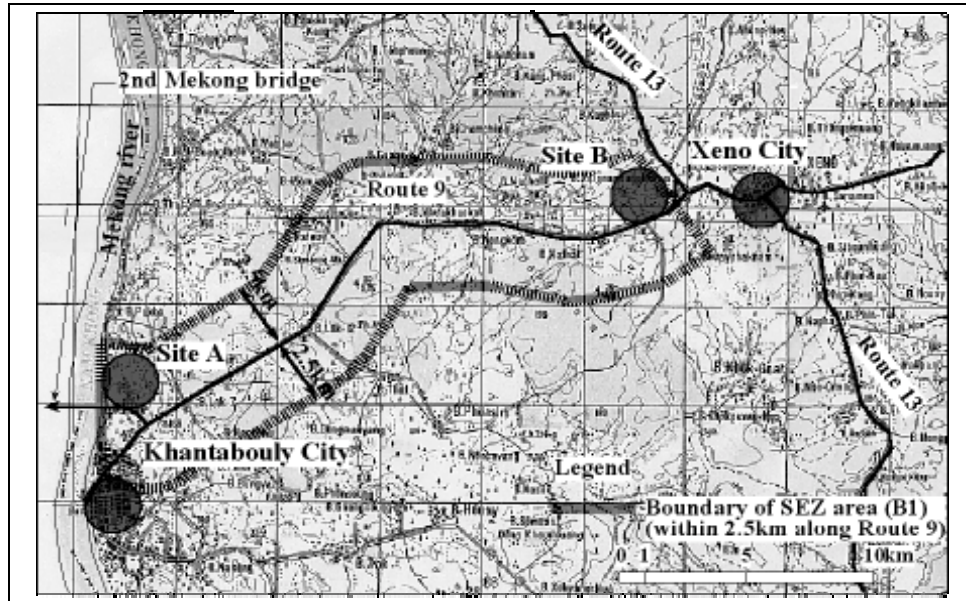
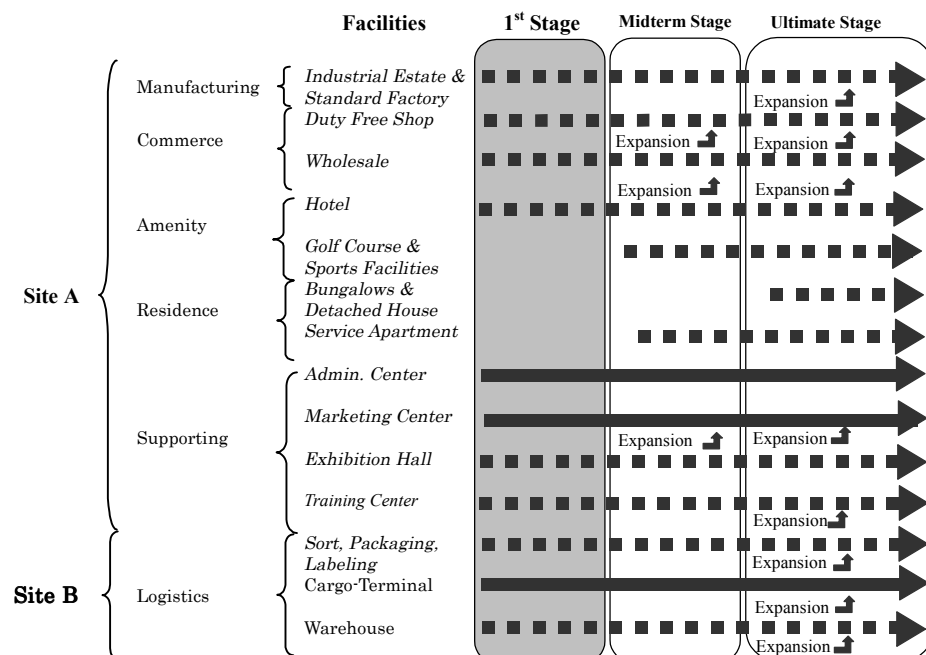


Figure 6.5 Proposed Area of Special Economic Zone (Option B1)

(3) Development Stages

1) Development Stage

It is recommended that SEZ be developed in stages. At the 1st stage, a core of SEZ is established, and then the core will be expanded stage by stage, following the investment demand. Figure 6.6 shows schematic schedule of the development process.



Note: 1) Inclined letter means facilities developed by non-government sector.
 2) ■■■■ : Private sector, ■■■■ : Public sector.

Figure 6.6 Development Stages of SEZ

2) Commodity Flow

It is recommended that imported products for SEZ activity be directly transported to SEZ enterprises through document check at the Border Control Facilities (BCF). Other imported products are transported to bonded warehouses at Site B for custom inspection. Export products follow the opposite procedures.

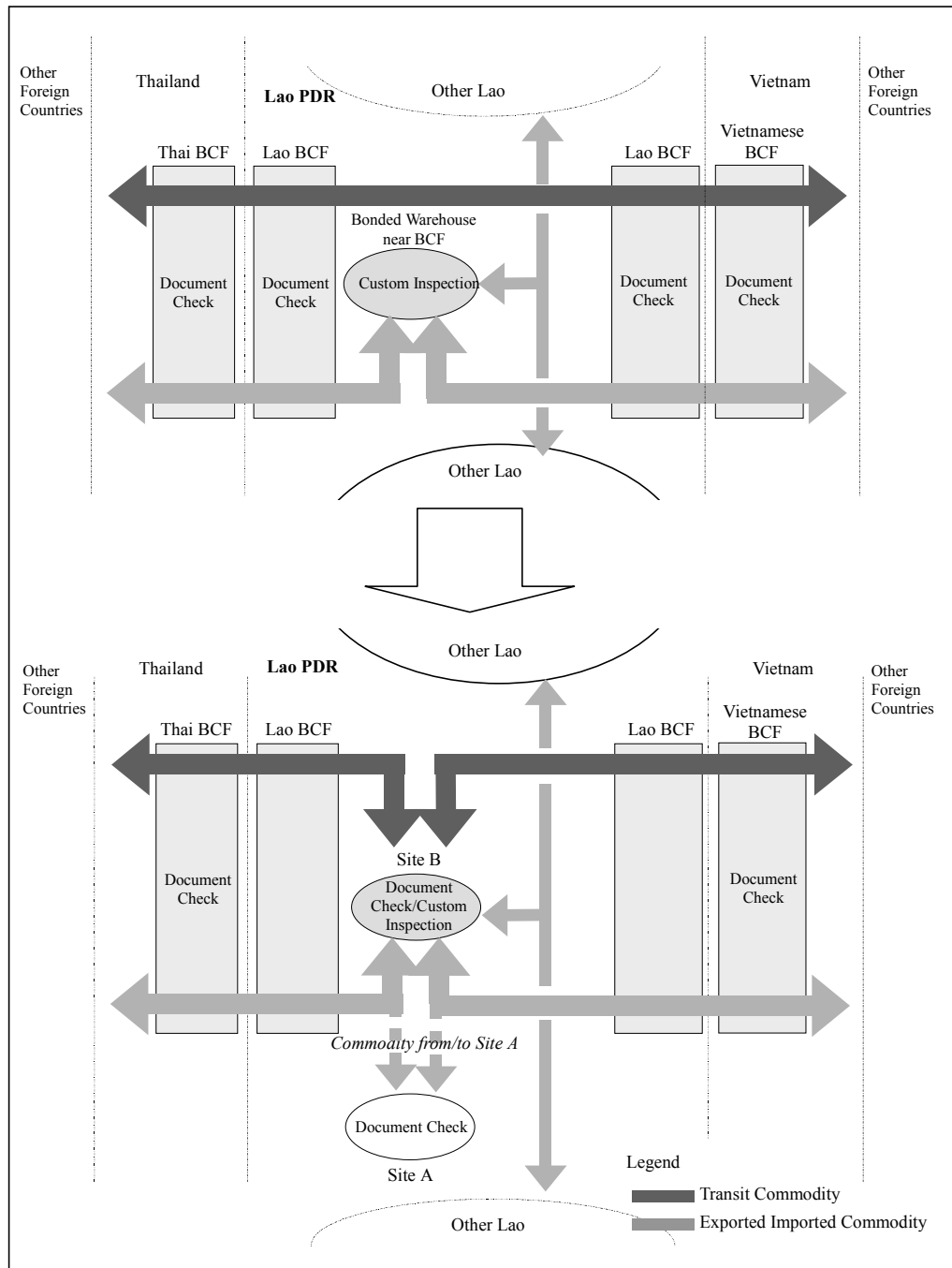


Figure 6.7 Proposed Commodity Flow

6.6 Site A Plan and Facilities

(1) Development Scale

Under the land use plan of Khanthabouly District, Site A is currently designated partly as agricultural area and partly as industrial area. The land use plan should be modified prior to SEZ development.

The whole development area at the ultimate stage is 300 ha. The 1st stage development is planned with the manufacturing area of less than 20 ha. The whole development area at the 1st stage, including roads and green area is planned to be about 50 ha. This presumed that the land development areas will be composed of the following lots:

- i) Less than 0.1 ha : 21 %
- ii) 0.1 ~ 0.25 ha : 29 %
- iii) 0.25 ~ 1.0 ha : 15 %
- iv) 1.0 ~ 2.0 ha : 18 %
- v) More than 2.0 ha : 18 %

(2) Selection of Alternative Land Use Plan for Site A

Two alternative land use plans at Site A have been prepared to examine the recommendable land use. The following preconditions are assumed:

- i) Passenger flow of commerce, amenity and supporting, as well as commodity flow of industry should be separated.
- ii) The land for manufacturing use is located to minimize the influence of other SEZ functions, surrounding residents, and the environment. Amenity area is located on the land of higher elevation to attract visitors.
- iii) The elevation of the land should be over 140 m, as the water level of the Mekong river in 100 years return period is 139 m.

The two alternative land use plans are shown in Figure 6.8, and they are compared as tabulated in Table 6.4.

Through the comparative study, the Option A-2 is recommended for Site A land use plan. It will have better arrangement of functions, accessibility, and drainage.

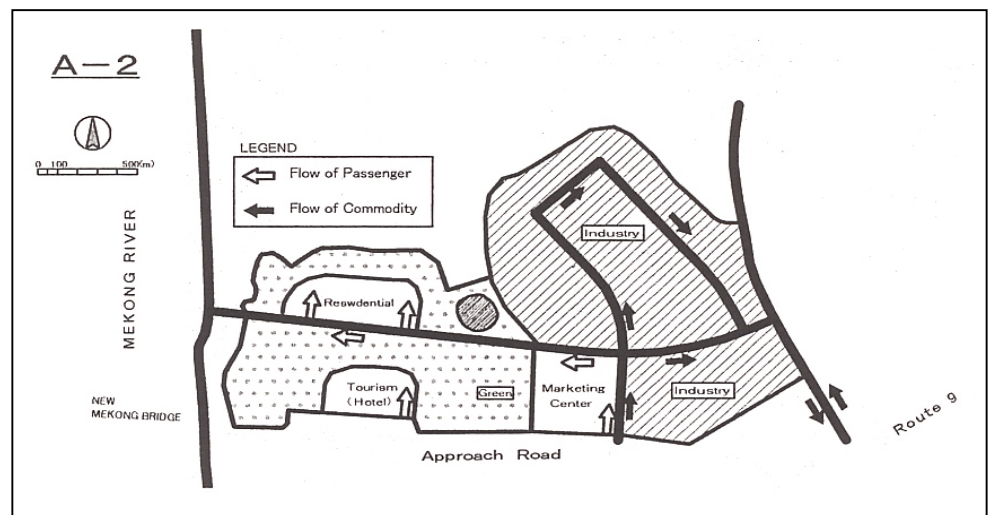
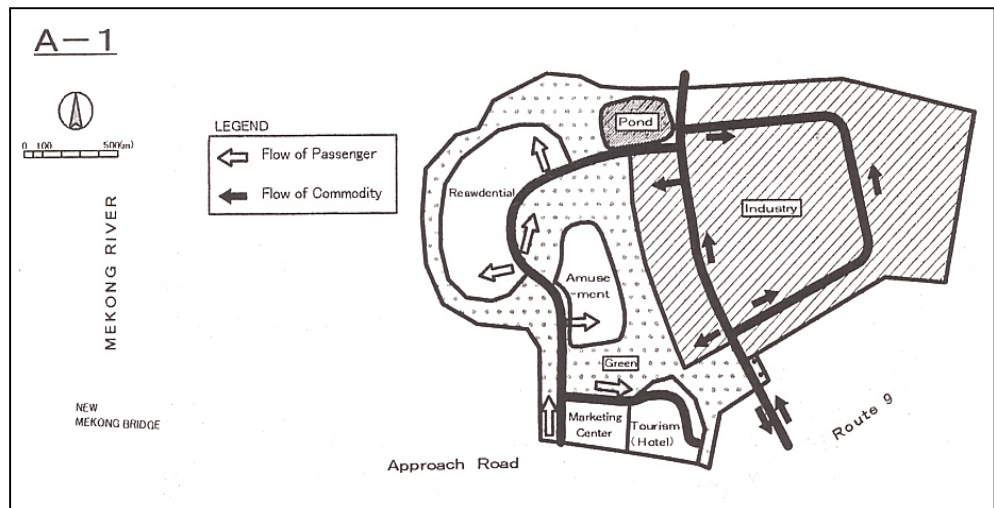


Figure 6.8 Alternative Land Use Plan in Site A

Table 6.4 Comparison of Land Use Plans

Comparison Factors	Comments on each alternative		Evaluation	
	A-1	A-2	A-1	A-2
1. Development Area	<p>① Whole development area is approximately 300 ha located 1.5 km east from the Mekong River. The area covers 1.2 km~1.5 km of north-south and 2.5 km of east-west.</p> <p>② the land is located over 140 m in elevation.</p>	<p>① Whole development area is approximately 300 ha covering 1.0~1.5 km of north-south and 3.0 km of east-west. The area is located 0.5 km east from the Mekong river.</p> <p>② Similar to A-1</p> <p>③ Adjacent to the Lao BCF.</p>	△	○ (adjacent to the Lao BCF)
2. Accessibility	<p>① Access to the Amenity is entrance road from the access road to New Mekong Bridge.</p> <p>② Access to the Industry is enlarged existing road from Route 9.</p> <p>③ The access to the Industry is used for population in the northern part of Site A.</p>	<p>① Access is one entrance in the 1st stage.</p> <p>② east-west road is arranged in the ultimate stage. It connects to existing road along the Mekong river.</p> <p>③ Access in the ultimate stage is similar to A-1. Commodity flow is separated from passenger.</p>	○	○
3. Site Plan	<p>① Industry covers the eastern area of the existing road from Route 9. The area is low land and separated from other functions by green belt and elevation difference.</p> <p>② Amenity is located in the high land.</p> <p>③ Marketing center & hotel is approached from the access road. Hotel is located in the high land for panorama.</p> <p>④ Industry and Amenity is separated by green belt.</p>	<p>① Industry is near Route 9. The access will be change to Route 9 in the ultimate stage.</p> <p>② Hotel is adjacent to the BCF. The land is the highest for panorama of the Mekong river.</p> <p>③ Market center is located at junction of industry and the access road of the Bridge.</p> <p>④ Industry and Amenity is separated by existing valley and green belt.</p>	△	○ (Industry and others are clearly separated.)
4. Earthwork	<p>① Cutting soil is filled in the low land for industry.</p> <p>② Land preparation follows the existing topography in amenity.</p>	<p>① Earthwork is rather big for Industry.</p> <p>② similar to A-1</p>	○	△ (Earthwork volume is larger.)
5. Drainage	The inflow from outside is rather big. The drainage system is necessary for it.	The inflow from outside is small.	△ (Drainage)	○
Total Evaluation	<p>A-2 is selected for the following reasons with some comments.</p> <p>① It has advantages in accessibility, site plan and drainage.</p> <p>② Earthwork volume should be reduced.</p> <p>③ Definite land of 50 ha is available for the 1st stage.</p> <p>④ Green belt will be designed for golf course.</p>			

(3) Site A Land Use Plan

The land use plan at Site A is prepared, in view of the following:

- i) A green buffer zone is planned, between the manufacturing area and the other areas.
- ii) Marketing center area and hotel area will incorporate facilities of commerce, amenity, and supporting as follows:
 - Marketing center area : Marketing center, administration center, exhibition facilities, training center, and wholesale
 - Hotel area : Hotel, service apartment, and duty free shop
- iii) Marketing center is located along entrance road to SEZ.
- iv) Hotel area is selected at the place of higher elevation.
- v) Residential area is located at the northern slope of hills, so as to avoid sunstroke.
- vi) The sewerage treatment plant is allocated at the lowest place for gravity flow of wasted water.

At the 1st stage, 57.1 ha is developed which includes 17.1 ha for manufacturing use, 11.4 ha for hotel area, and 9.2 ha for marketing center. Composition of land use and number of lots are tabulated in Table 6.5 and Table 6.6, respectively.

Table 6.5 Land Use of Site A

Land Use	1 st stage		Midterm stage		Ultimate stage		Total		Note
	Ha	%	Ha	%	Ha	%	ha	%	
Industrial Area	17.1	29.9	-	-	90.5	65.3	107.6	35.2	Incl. standard factories
Hotel Area	11.4	20.0	-	-	-	-	11.4	3.7	Incl. DFS and service apartment
Golf Course	-	-	101.9	92.7	-	-	101.9	33.4	
Marketing Center Area	9.2	16.1	-	-	-	-	9.2	17.1	Incl. AC, WS, TC and exhibition
Residential Area	-	-	-	-	17.7	12.8	17.7	5.8	Incl. detached house and bungalows
Subtotal	37.7	66.0	101.9	92.7	108.2	78.1	247.8	81.1	
Road	10.8	18.9	1.7	1.6	19.1	13.8	31.6	10.4	
WTP	-	-	-	-	1.3	0.9	1.3	0.4	
STP	-	-	0.7	0.6	-	-	0.7	0.2	
Green Area	7.5	13.9	-	-	9.9	7.2	17.4	5.7	Incl. pedestrian way and park
Regulation Pond	1.1	2.1	5.6	5.1	-	-	6.7	2.2	
Sub Total	19.4	34.0	8.0	7.3	30.3	21.9	57.7	18.9	
Total	57.1	100	109.9	100.0	138.5	100.0	305.5	100.0	

Note: DFS - Duty Free Shop, AC - Administration Center, WS – Wholesale, TC – Training Center

Table 6.6 Number of Factory Lots at Site A

Lot Size (ha)	Number of Factory Lots					
	1 st stage		Ultimate stage		Total	
		%		%		%
4.0	2	11.1	2	2.3	4	3.8
2.0	-	-	21	24.1	21	20.0
1.0	4	22.2	17	19.5	21	20.0
0.5	4	22.2	29	33.3	33	31.4
0.25	8	44.5	18	20.7	26	24.8
Total	18	100.0	87	100.0	105	100.0

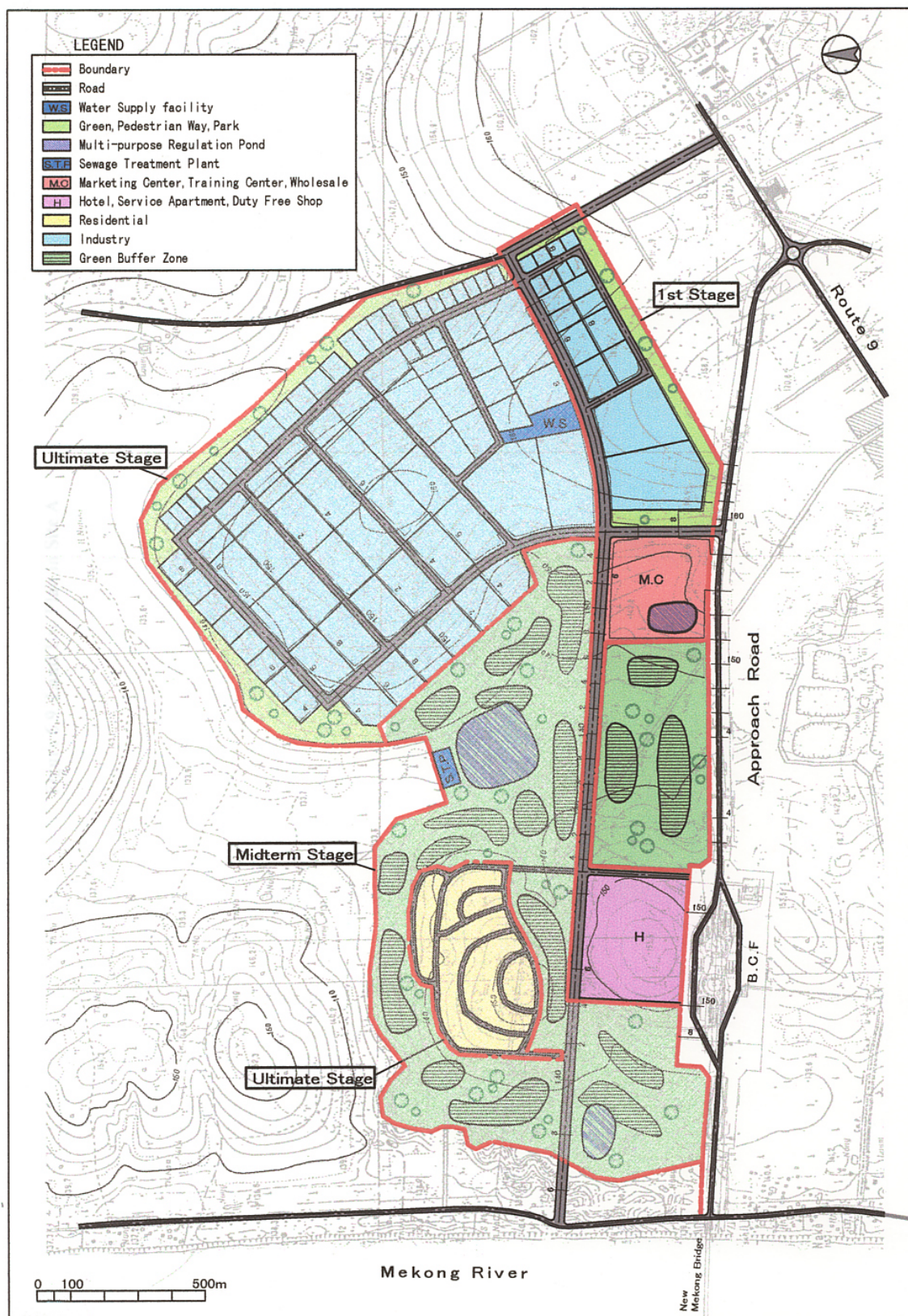


Figure 6.9 Land Use Plan at Site A

(4) Earthwork

Topography of the site ranges from 134.0-168.0m in elevation. There are two hilly areas in east and west sides of the site and a valley extends between them. The hilly areas are down to the north with a gentle slope of 2 ~5 %.

The land for manufacturing use is planned in the eastern part of the valley, and the amenity land is in the western part. The valley separates them as a green belt. The land for amenity use follows the existing topography to minimize the earthwork volume. Land elevation for manufacturing use is designed to balance cutting volume of hills to filling in the valley.

The earthwork also takes the following conditions into account:

- i) Maximum gradient of the road is less than 3.0%.
- ii) Slope of manufacturing lots is more than 0.5 % for rainfall drainage.
- iii) Ground level for building and other facilities should be more than 140 m in elevation.

Consequently, it is planned that cutting volume at the 1st stage is 1,260,000 m³, while filling volume is 980,000m³.

Table 6.7 Earthwork Volume at Site A

	1 st stage	Ultimate stage	Total
Cutting	1,260,000 m ³	2,570,000 m ³	3,830,000 m ³
Filling	980,000 m ³	2,850,000 m ³	3,830,000 m ³
Balance	280,000 m ³	-280,000 m ³	0 m ³

(5) Road System

The road system consists of three road types. Total length is 13,640m. At the 1st stage, the entrance to SEZ is at the junction with the access road to the New Mekong Bridge, and it is separated for commodity flow and passenger flow in the ultimate stage.

An east-west road in SEZ caters linkages between the manufacturing land and the other SEZ functions. It connects to the existing road along the Mekong river. A road cross-section is shown in Figure 6.10.

Table 6.8 Road Length (m)

Type of Roads	1 st Stage	Midterm Stage	Ultimate Stage	Total	Structure
Boulevard Road	2,870	480 (200)	2,900 (470)	6,250	30 m in width, 4 traffic lanes with median.
Main Road	850	-	2,600	3,450	20 m in width, 2 traffic lanes with parking lane.
Sub Road	300	190	3,450	3,940	15 m in width, 2 traffic lanes.
Total	4,020	670	8,950	13,640	

Note: Length in parenthesis is of an external road.

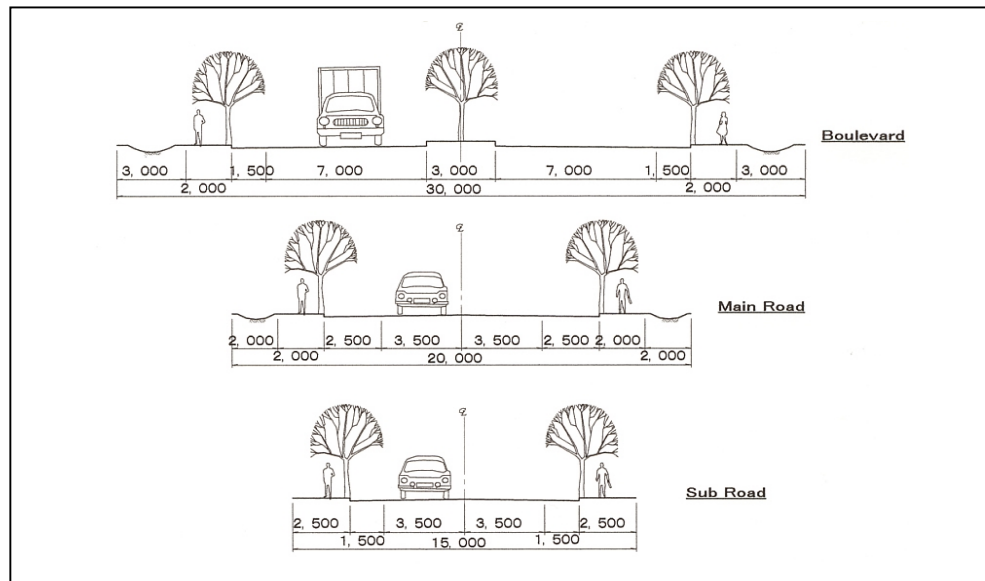


Figure 6.10 Road Cross-section

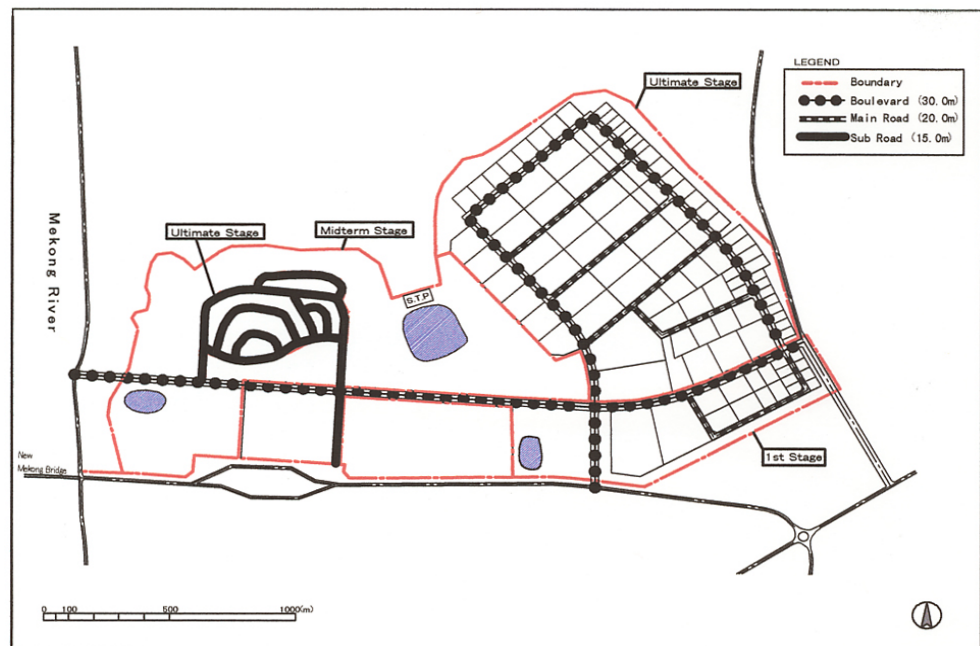


Figure 6.11 Road Layout at Site A

(6) Drainage System

Rainfall in the development area is collected to regulation ponds by U-ditch and culverts. It is drained to the existing river that flows into the Mekong river. The existing river is small and dried up in the dry season. The regulation ponds are necessary to limit rainfall discharge within the capacity of the existing river. The following rainfall intensity has been applied to the drainage design:

- i) 82.0 mm/hr in 25-year return period for regulation pond
- ii) 57.5 mm/hr in 5-year return period for U-ditch and culverts

The capacity of regulation pond is decided by the rainfall discharge of 1,000 m³/ha.

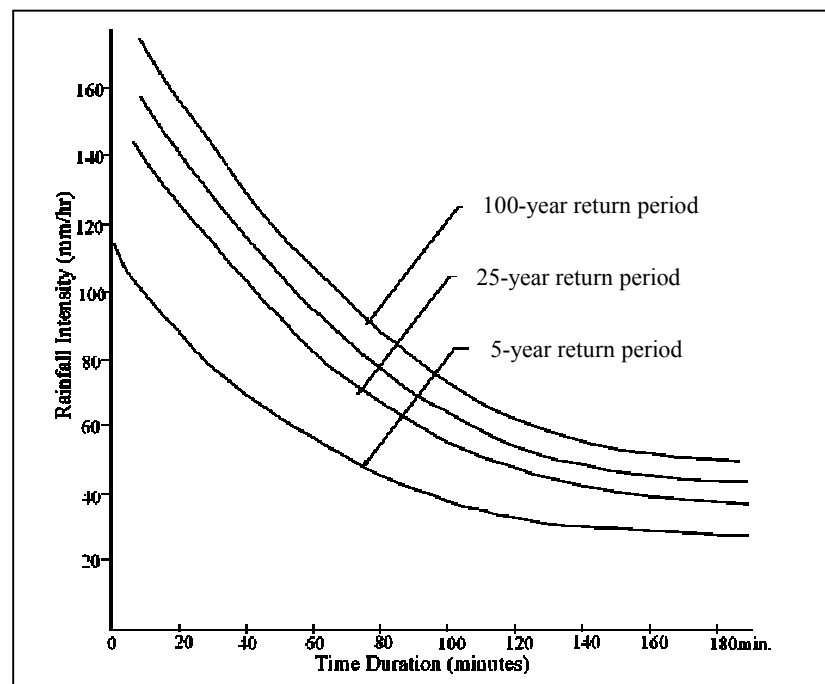


Figure 6.12 Rainfall Intensity (5, 25 and 100-year return-period)

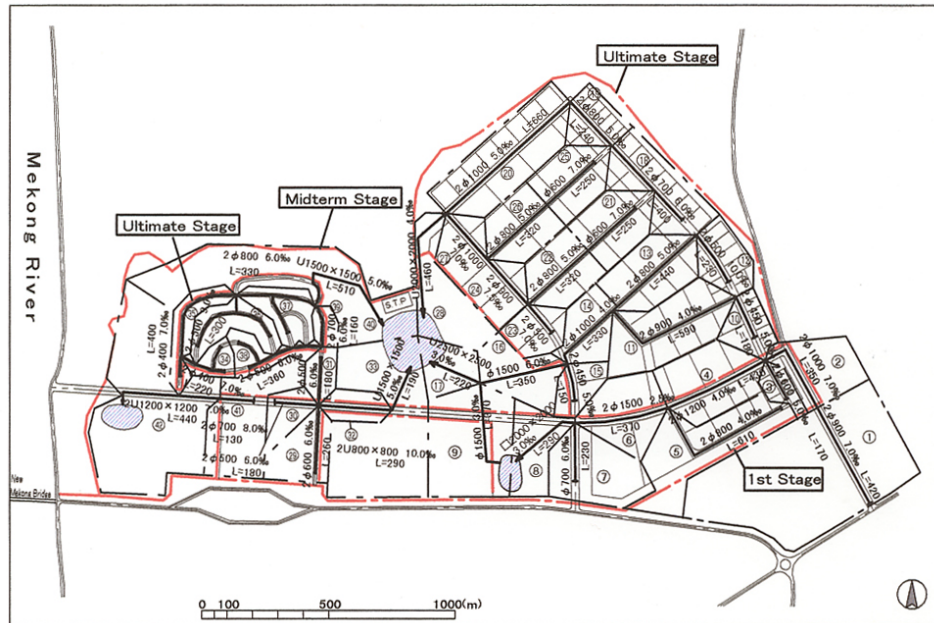


Figure 6.13 Layout of Drainage at Site A

(7) Water Supply System

It is reported that groundwater of less than 50 m in depth is saline and the Mekong river is recommended to be a water source at the ultimate stage. It is noted, however, that according to MCTPC, saline water does not appear in the wells of less than 20 m in depth in Khantabouly. Consequently, the water supply system at Site A is planned in the following manner:

- 1st Stage : Water can be supplied from the Khantabouly Water Treatment Plant which is currently under the basic design stage for its expansion funded by JICA. The distribution pipeline of this project will come to the junction of the access road and Route 9. Water will be lead from the junction to the marketing center area and hotel area. Water for the industrial zone is supplied by gravity from the elevated tank. The supply capacity from the Khantabouly Water Treatment Plant will be 1,500 m³/day.
- Midterm Stage : Wells are developed for water supply to the residential area and service apartment. Prior to explore the wells, quality of groundwater should be closely examined.
- Ultimate Stage : Raw water is taken from the Mekong river. The water is pumped from intake facilities through conveyance pipeline along the east-west road to the water treatment

plant in the industrial area. Treated water is distributed from an elevated tank by gravity.

Water demand for industrial use is estimated at the unit water consumption of 85.6 m³/day/ha. Other water demands for commerce, amenity, and supporting areas are estimated at the unit water consumption of floor area or population in the facilities. The water demand at the 1st stage is calculated to be about 1,500 m³/day, as shown in Table 6.9.

Table 6.9 Projected Water Demand at Site A

Area	Facilities	Water Demand (m ³ /day)			Note
		1 st Stage	Midterm Stage	Ultimate Stage	
Industry	Factories	1,464.4		7,750.0	85.6m ³ /day/ha
Marketing Center	Administration Center	3.0			15 l/day/m ²
	Marketing Center	6.0	4.5	4.5	15l/day/m ²
	Wholesale	10.0	10.0	10.0	20l/day/m ²
	Exhibition	8.0			30 l/day/person
	Skill Training Center	8.0		8.0	80 l/day/person
Hotel	Hotel	26.3			250 l/day/person, 100 rooms
	Duty Free Shop	4.0	4.0	4.0	20l/day/m ²
	Service Apartment		16.8		200 l/day/person, 60 rooms
Residential	Bungalows & Housing			354.0	200 l/day/person, 100 persons/ha
Golf Course	Golf & Sports facilities		10.5		125 l/day/person
Total		1,529.6	45.8	8,130.5	

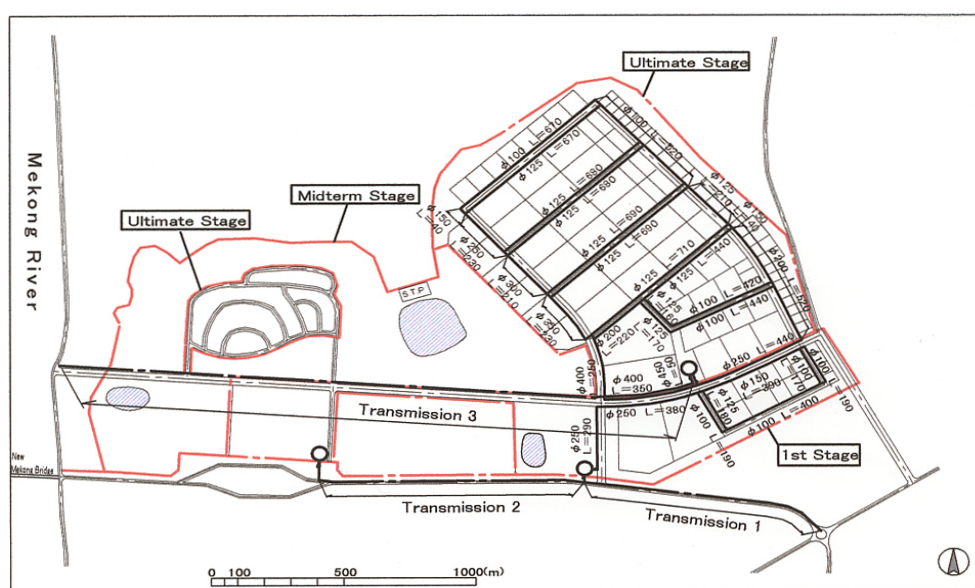


Figure 6.14 Layout of Water Supply Facilities at Site A

(8) Sewerage System

Wastewater in SEZ should be properly treated to avoid water pollution of the raw water. The facilities of wastewater treatment are planned as follows:

i) 1st & Midterm Stages:

All facilities are equipped with septic tanks. The infiltrated water is collected by sewerage pipelines to regulation ponds, where water is diluted. The outflow from the pond is inspected at the gate to the river.

ii) Ultimate Stage:

A sewerage treatment plant of oxidation ditch type is constructed beside the regulation pond on the lowest land in Site A. Wastewater of whole development area is collected by gravity through sewerage pipelines. The system covers the areas of the 1st and midterm stages.

The volume of wastewater is estimated as shown in Table 6.10.

Table 6.10 Projected Volume of Wastewater at Site A

Area	Facilities	Wastewater Volume (m ³ /day)			
		1 st Stage	Midterm Stage	Ultimate Stage	Total
Industry	Factories	1,701.0	0.0	9,022.4	10,703.4
Marketing Center	Administration Center	3.5	0.0	0.0	3.5
	Marketing Center	7.0	5.2	5.2	17.4
	Wholesale	11.6	11.6	23.2	46.5
	Exhibition	9.3	0.0	0.0	9.3
	Skill Training Center	9.3	0.0	9.3	18.6
Hotel	Hotel	30.5	0.0	0.0	30.5
	Duty Free Shop	4.6	4.6	4.6	13.9
	Service Apartment	0.0	19.5	0.0	19.5
Residential	Bungalows & Housing	0.0	0.0	411.2	411.2
Golf Course	Golf & Sports facilities	0.0	12.2	0.0	12.2
Total		1,776.8	53.2	9,456.0	11,286.0

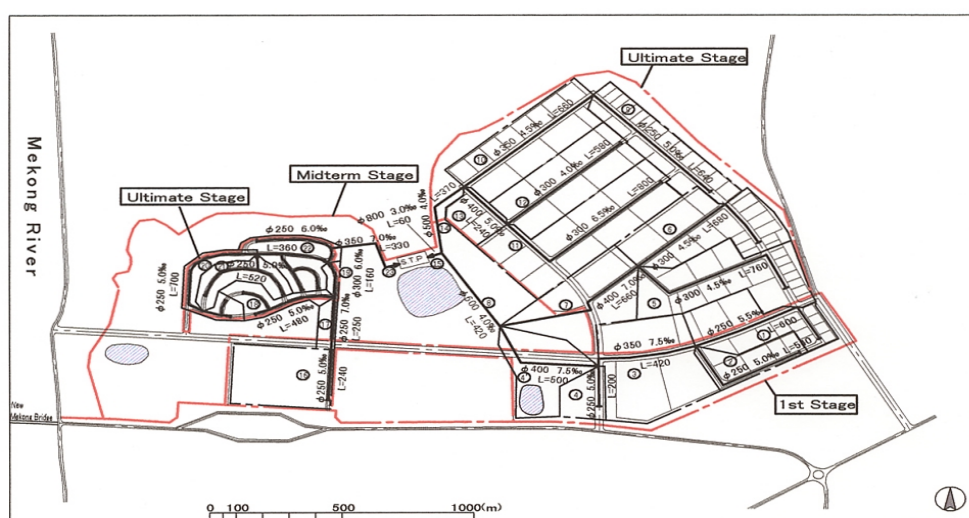


Figure 6.15 Layout of Sewerage Facilities at Site A

(9) Electricity

Electric power demand at Site A is estimated to be 3.5-4.0 MW at the 1st and midterm stages. The demand will increase to around 25 MW at the ultimate stage.

- i) 1st Stage & Mid term stage: SEZ receives the power from the new substation (18.2 MW) in Khantabouly.
- ii) Ultimate Stage: SEZ establishes the new substation (20MVA) to cover the additional demand at the Ultimate stage.

Since the planned capacity of the neo substation is insufficient if it supplies electricity to the gold/copper mine in Xepon, its capacity should be expanded accordingly.

Table 6.11 Power Demand in Savannakhet Province and SEZ (MW)

		1999	2004 (1 st stage)	2005	2006	2007 (Mid. Stage)	2010 (Ultimate Stage)
Demand	Site A	-	3.4	3.6	3.7	3.9	24.9
	Site B	-	0.1	0.1	0.1	0.1	0.2
	Subtotal	-	3.5	3.7	3.8	4.0	25.2
	Savan.province (by EdL)	13.4	37.7 *	54.5 *	57.0	59.5	67.0
	Total	13.4	41.2	58.2	60.8 *	63.5 *	92.2 *
Supply	Pakbo Substation	18.2	18.2	18.2	18.2	18.2	18.2
	New Substation		18.2	18.2	18.2	18.2	18.2
	Nam Theun 2				75.0	75.0	75.0
	Total	18.2	36.4	36.4	111.4	111.4	111.4

Note: * including demand of the gold/copper mine in Xepon.

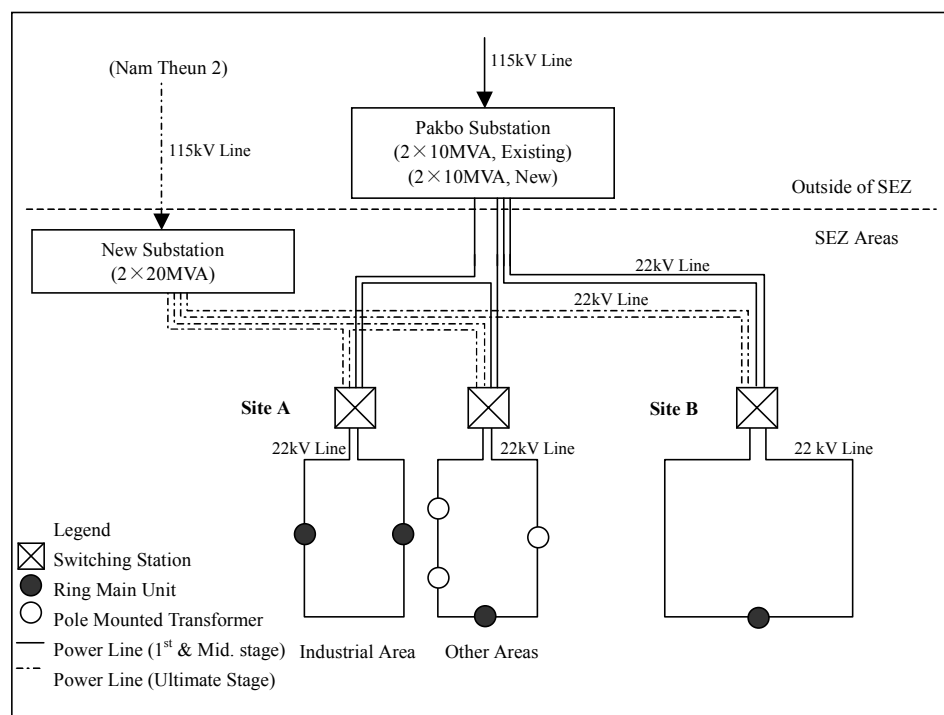


Figure 6.16 Electricity System Plan

(10) Telecommunications

Telecommunication demand in Savannakhet province is currently over the capacity of a 34Mbps microwave, which is the backbone of the provincial telecommunications system. SEZ requires sufficient telecommunications capacity, especially for marketing activity

At the 1st stage, SEZ establishes a new switching station, which connects to existing switching station in Khantabouly and an optical fiber route to be extended from Mukdahan along the New Mekong Bridge.

Table 6.12 Telecommunication Lines Demand

Area	1 st Stage	Mid. Stage	Ultimate Stage	Total
Industry	108 lines	0 lines	522 lines	630 lines
Hotel	73 lines	113 lines	53 lines	240 lines
M.C.	140 lines	70 lines	100 lines	310 lines
Public	30 lines	30 lines	100 lines	160 lines
Housing	0 lines	0 lines	584 lines	584 lines
Total	351 lines	213 lines	1,359 lines	1,924 lines

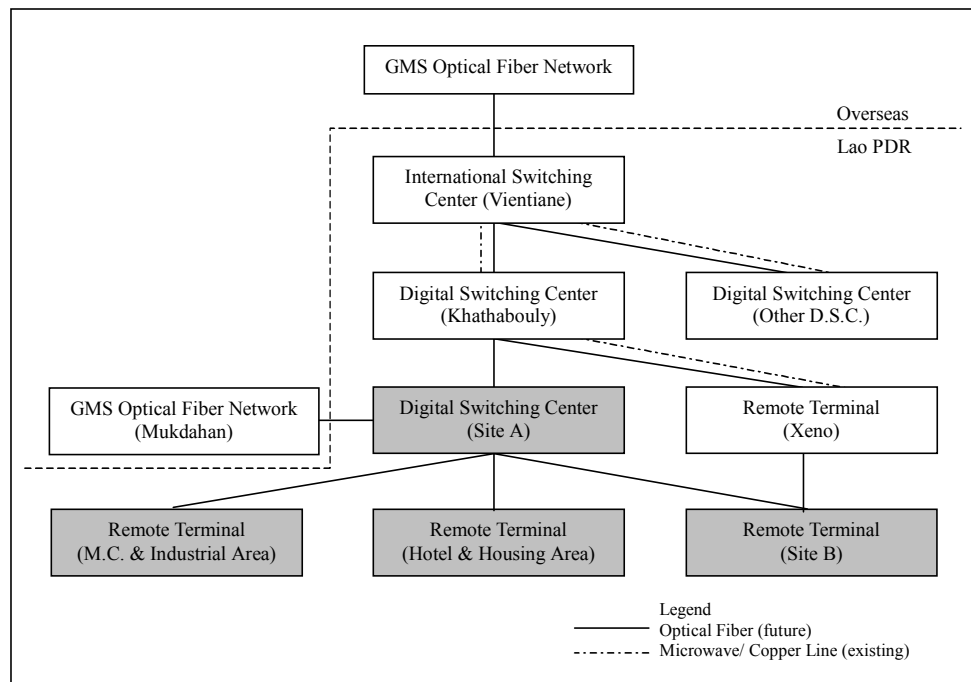


Figure 6.17 Telecommunication System Plan

(11) Buildings

A conceptual plan of buildings in the marketing center area, hotel area, and residential area has been prepared for reference. These areas are developed by private investment.

i) Marketing Center Area

The site plan is proposed as follows:

- Marketing center and wholesale area are located along the entrance road of SEZ.
- Exhibition facility is located between marketing center and wholesale area.
- Marketing center and administration office are in the same building.

Table 6.13 Floor Area in Marketing Center Area

Buildings	Floor Area (m ²)				Note
	1 st stage	Mid. Stage	Ultimate Stage	Total	
Marketing Center	400	300	300	1,000	incl. bank, post office, meeting room, local product promotion center, FDI promotion center, shops
Admin. Center	200	-	-	200	
Wholesale	500	500	1,000	2,000	
Training Center	700	-	700	1,400	
Total	1,800	800	2,000	4,600	

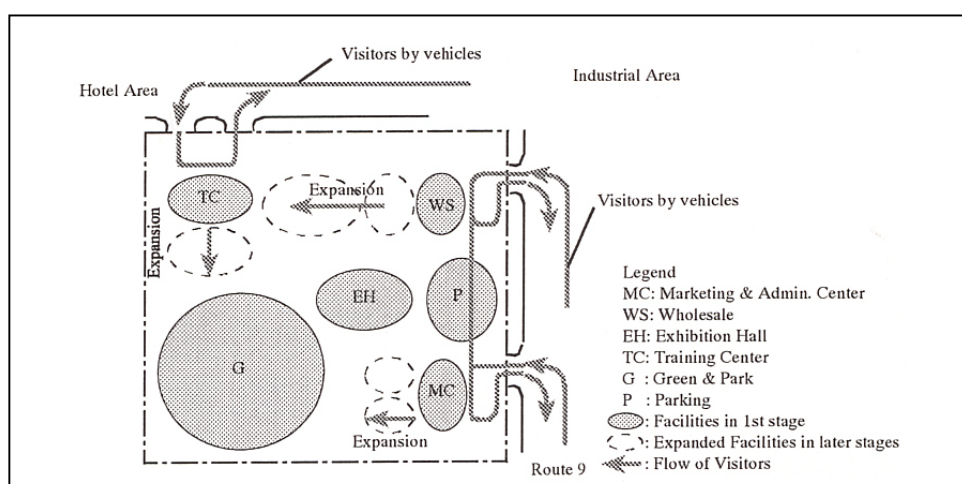


Figure 6.18 Conceptual Plan of Marketing Center

ii) Hotel Area

The hotel area is located at the highest place to ensure a view of the Mekong river and surrounding green belt. Duty free shops are arranged

adjacent to the Border Contract Facility of the New Mekong Bridge. Passenger can access to DFS directly through the pedestrian deck.

Table 6.14 Floor Area of Hotel Area

Buildings	Floor Area (m ²)			Note
	1 st stage	Mid. Stage	Ultimate Stage	
Hotel	8,000	-	-	100 rooms, including restaurants and shops.
Service Apartment	-	6,000	-	60 bedrooms
Duty Free Shop	200	200	200	
Total	8,200	6,200	200	

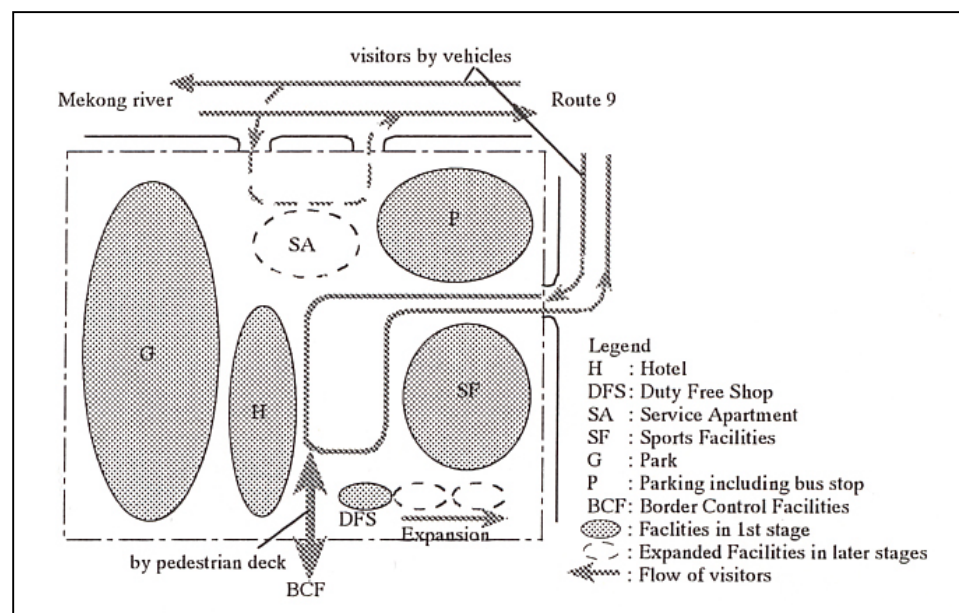


Figure 6.19 Conceptual Plan of Hotel Area

iii) Residential and the Other Areas

The residential area is planned as a low density housing area of 100 persons/ha. Houses are low rising type of two stories. The area is selected to the northern slope of the hill, to avoid sunstroke. The view of the Mekong River is also available. Golf course, park and green area are located in the buffer zone between the manufacturing area and the other areas. The green area surrounding the industrial zone prevents the other areas from noise and dust. Facilities in the park consist of athletic tools (multi-purpose park, game ground), and public open space (park, green field, and walk way).

6.7 Site B Plan and Facilities

(1) Development Scale

The Site B is currently used for warehouse and construction stockyard. The development area at the 1st stage is proposed to be 6 ha. At later stages, the area can be expanded to the north and west. The land use plans for the 1st stage and the 2nd stage, totaling 18.9 ha have been prepared.

2) Land Use Plan

The following conditions have been taken into account in formulating the land use concept:

- i) Easy commodity flows between Route 9, cargo terminal, and bonded warehouse should be maintained.
- ii) Easy expansion to the north and the east is envisaged. The northern expansion can connect to Route 13.
- iii) Flexible expansion should be envisaged. The road of the expansion area forms a circle without road for turn back.

The factory lots are designed for packaging, sorting, and labeling. The lot scale is mainly 0.25ha. The number of lots of the 1st stage and 2nd stage are 4 lots and 21 lots, respectively.

Table 6.15 Land Use at Site B

Land Use	Phase 1		Phase 2		Total		Note
	ha	%	ha	%	ha	%	
Industrial Area	1.1	18.1	5.4	42.2	6.5	34.4	for sorting, packaging, labeling
Cargo Terminal	1.2	19.7	0.8	6.2	2.0	10.6	including custom office
Bonded Warehouse	1.9	31.0	1.4	11.0	3.3	17.5	
Administration Office	0.5	8.2	-	-	0.5	2.6	
Sub Total	4.7	77.0	7.6	59.4	12.3	65.1	
Road	0.9	14.8	2.6	20.3	3.5	18.5	
WTP	0.2	3.3	-	-	0.2	1.0	
Green Area	0.1	1.6	2.2	17.2	2.3	12.2	including pedestrian way, park
Regulation Pond	0.2	3.3	0.4	3.1	0.6	3.2	
Subtotal	1.4	23.0	5.2	40.6	6.6	34.9	
Total	6.1	100.0	12.8	100.0	18.9	100.0	

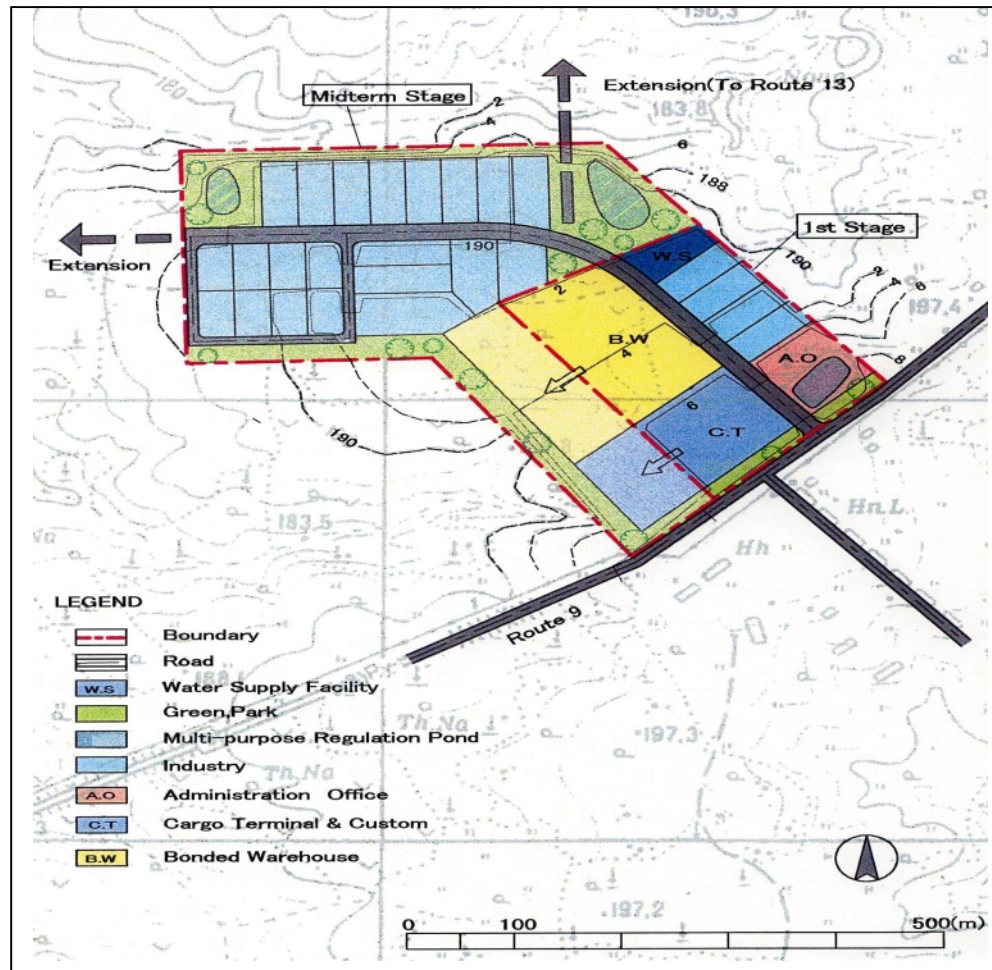


Figure 6.20 Land Use Plan at Site B

(3) Road System

The north-south road from Route 9 is the main road with 20m in width at Site B. It can be extended to Route 13 in the later stage. Two traffic lane roads are designed with cross section similar to the roads at Site A. The roads in the later stages make a circle so that a turn back point at the end is not necessary.

(4) Drainage System

Rainfall at Site B is collected by U-ditch along the roads. The drained water flows through the regulation pond into the Hitat River running at the northern end of the site. The regulation ponds are constructed at the lowest place as the area is expanded.

(6) Water Supply System

According to the feasibility study for water supply and sanitation project in Xeno (ADB), quality of groundwater in and around Xeno is within the WHO standards. However, it is reported that groundwater is saline in deep wells of over 50m in depth. The existing deep well at Site B supplies water to Xeno in the dry season. Pumped water is distributed by gravity.

Table 6.16 Projected Water Demand in Site B

Functions	Facilities	Water Demand (m ³ /day)		
		1 st Stage	Ultimate Stage	Total
Manufacturing	Light Processing	38.5	189.0	227.5
Logistics	Cargo Terminal	42.0	28.0	70.0
	Bonded Warehouse	66.5	49.0	115.5
Supporting	Office Building	3.0	0.0	3.0
Total		150.0	262.0	416.0

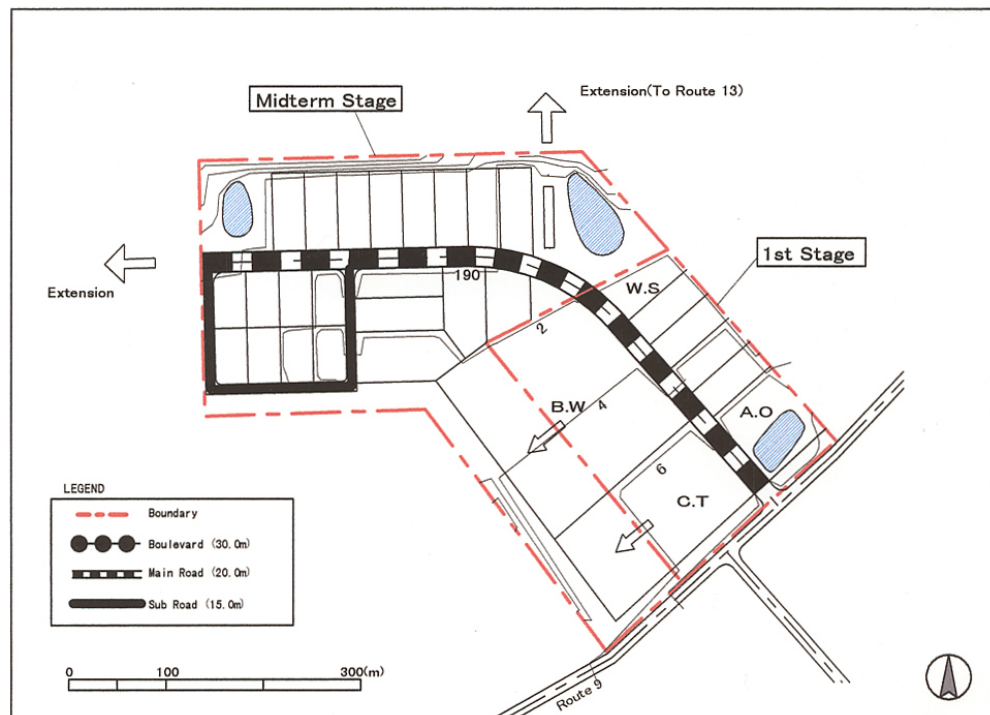


Figure 6.21 Road Layout at Site B

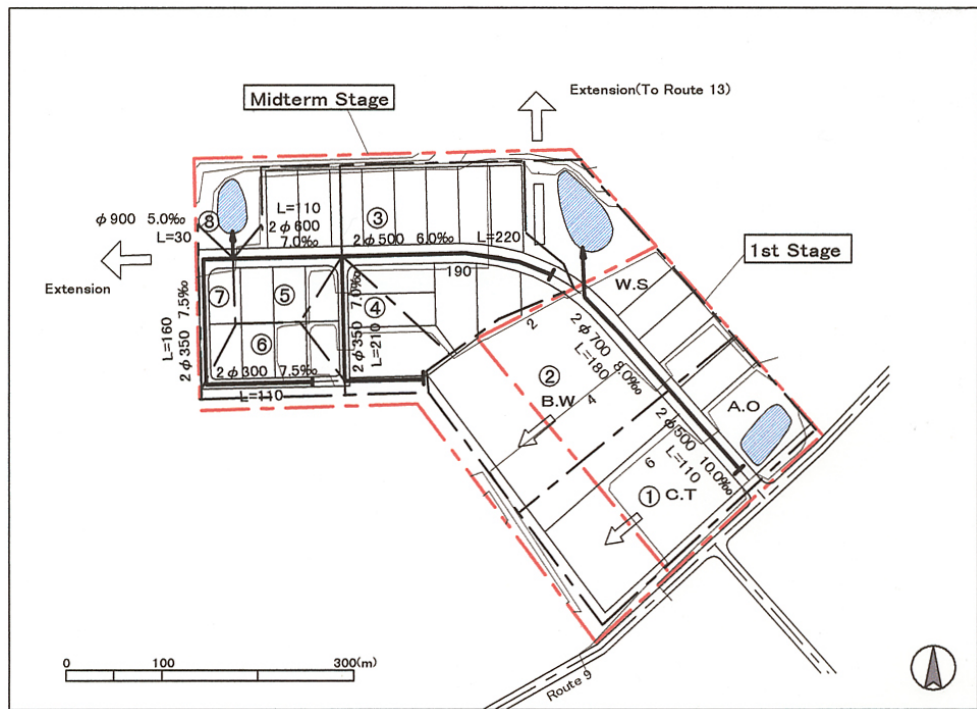


Figure 6.22 Layout of Drainage Facilities at Site B

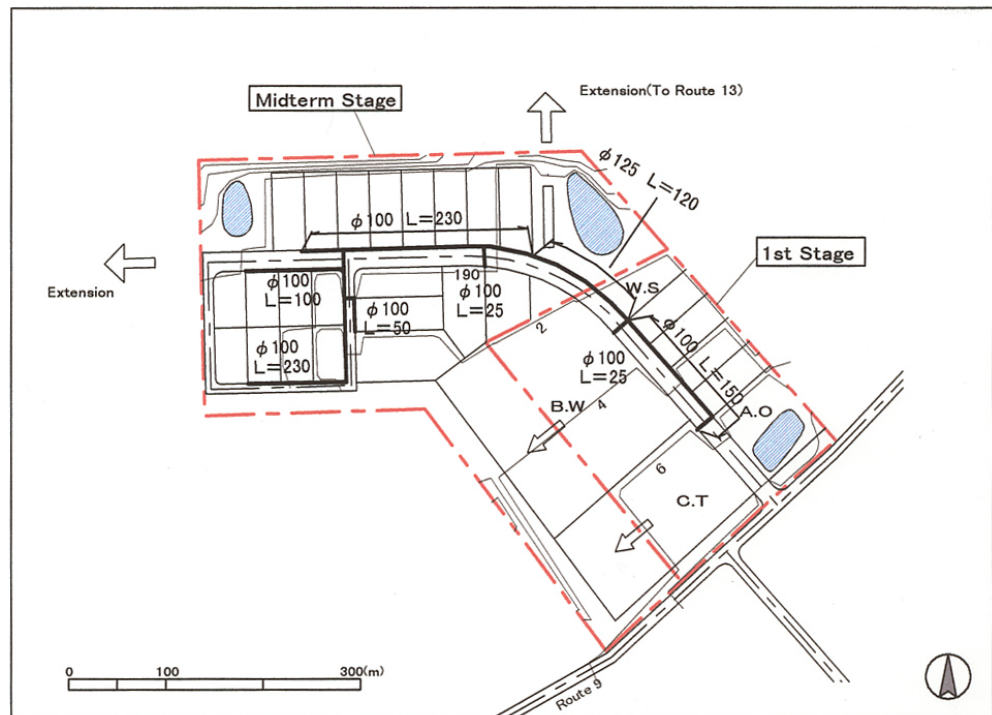


Figure 6.23 Layout of Water Supply Facilities at Site B

(6) Sewerage System

All buildings are equipped with septic tanks. The infiltrated water is collected by sewerage pipeline to the regulation pond where water is diluted and discharged into the Hintat River. As the factories are designed for sorting, labeling, and packaging, they would not discharge polluted water. However, the paddy fields are extended along the Hitat River, and water quality control is required at the outlet of the regulation pond. The volume of wastewater is tabulated below.

Table 6.17 Wastewater Volume at Site B

Functions	Facilities	Wastewater Volume (m ³ /day)		
		1 st Stage	Ultimate Stage	Total
Manufacturing	Light Processing	44.7	219.5	264.3
Logistics	Cargo Terminal	48.8	32.5	81.3
	Bonded Warehouse	77.2	56.9	134.2
Supporting	Office Building	3.5	0.0	3.5
Total		174.2	309.0	483.2

(7) Electricity and Telecommunications System

Site B receives electricity from the existing 22kV line at the 1st stage. In the ultimate stage, Site B receives from the new substation to be constructed at Site A. As noted in the Site A plan, the new substation in Khantabouly should have enough capacity to meet the required demand.

The optical fiber is to be extended from Mukdahan. Switching station at Site B connects Xeno and the optical fiber route.

Table 6.18 Telecommunication Lines Demand

Area	1 st Stage	Ultimate Stage	Total
Industry	32 lines	168 lines	200 lines
Logistics	28 lines	28 lines	56 lines
Admin. office	8 lines	0 lines	8 lines
Public	20 lines	50 lines	70 lines
Total	88 lines	246 lines	334 lines

8) Building

In the cargo terminal area, the custom office, terminal building, and parking are located. The terminal has an administration office, packaging yard, office for Transportation Company, low temperature and freezing storage. The bonded warehouse area has mainly stockyard and low

temperature and freezing storage. The site plan is proposed to facilitate future extension and commodity flow.

Table 6.19 Floor Area of Cargo Terminal

Buildings	Floor Area (m ²)			Note
	1 st stage	Ultimate Stage	Total	
Cargo Terminal	4,000	8,000	12,000	Including offices for transportation company, packaging yard, low temperature and freezing storage.

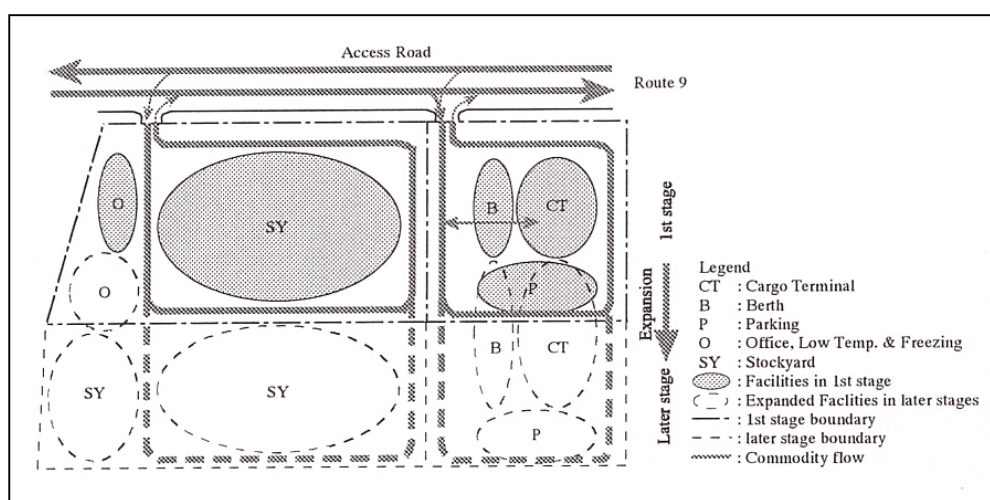


Figure 6.24 Conceptual Plan of Cargo Terminal & Bonded Warehouse

6.8 Estimated Cost

Development cost at the 1st stage has been estimated to be around US\$13.0 million, as show below.

This estimate is made on the assumptions as follows:

- Site A is currently used for paddy fields and forestry. The amount for land compensation is provisional.
- Buildings are developed by private investment. Earthwork is to be done by public investment at the 1st stage.

temperature and freezing storage. The site plan is proposed to facilitate future extension and commodity flow.

Table 6.19 Floor Area of Cargo Terminal

Buildings	Floor Area (m ²)			Note
	1 st stage	Ultimate Stage	Total	
Cargo Terminal	4,000	8,000	12,000	Including offices for transportation company, packaging yard, low temperature and freezing storage.

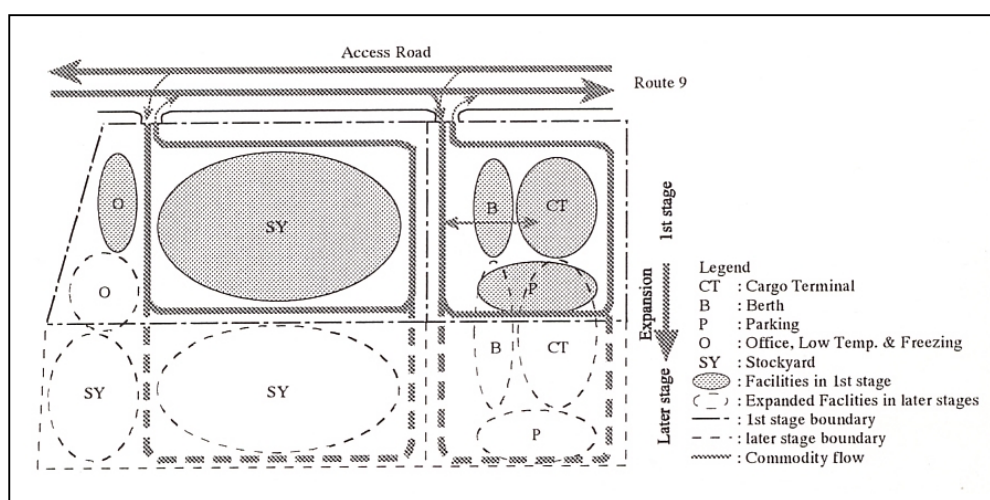


Figure 6.24 Conceptual Plan of Cargo Terminal & Bonded Warehouse

6.8 Estimated Cost

Development cost at the 1st stage has been estimated to be around US\$13.0 million, as show below.

This estimate is made on the assumptions as follows:

- Site A is currently used for paddy fields and forestry. The amount for land compensation is provisional.
- Buildings are developed by private investment. Earthwork is to be done by public investment at the 1st stage.

Table 6.20 Estimated Cost of Site A

(US\$)

Items		1st Stage	Mid. Stage	Ult. Stage	Total
1	Land Acquisition	1,615,600	3,474,200	3,878,000	8,967,800
2	Internal Infrastructure				
2.1	Earthwork				
a)	Clearing and grubbing	54,202	7,173	45,195	106,570
b)	Cut	2,617,020	0	5,337,890	7,954,910
c)	Fill	1,940,400	0	5,643,000	7,583,400
d)	Disposal of Unsuitable Materials	72,800	0	0	72,800
2.2	Road				
a)	Main Road	975,685	231,173	1,145,665	2,352,523
b)	Sub Road	219,569	0	671,622	891,191
c)	Collector Road	67,290	42,617	0	109,907
2.3	Drainage				
a)	Regulation Pond	405,545	890,925	0	1,296,470
b)	Drainage Canal	892,068	0	3,766,170	4,658,238
2.4	Water Supply				
a)	Reservoir	47,837	0	253,202	301,039
b)	Pipeline	63,515	0	670,664	734,180
c)	Water Treatment Plant	0	0	2,660,084	2,660,084
2.5	Sewerage				
a)	Pipeline	113,820	0	367,676	481,496
b)	Sewage Treatment Plant	0	0	3,904,956	3,904,956
2.6	Electricity Facility	565,166	269,183	2,967,290	3,801,639
2.7	Telecommunication Facility	920,370	447,020	1,366,250	2,733,640
2.8	Green & Park	300,000	0	396,000	696,000
2.9	Engineering Service Cost	1,110,634	226,571	3,503,480	4,840,685
2.10	Sub Total	10,365,921	2,114,661	32,699,145	45,179,728
2.11	Physical Contingency	1,036,592	211,466	3,269,914	4,517,973
2.12	Total	11,402,514	2,326,128	35,969,059	49,697,701
3	Total(Land Acquisition + Infrastructure)	13,018,114	5,800,328	39,847,059	58,665,501

Table 6.21 Estimated Cost of Site B

(US\$)

Items		1st Stage	Ult. Stage	Total
1	Land Acquisition	0	358,400	358,400
2	Internal Infrastructure			
2.1	Earthwork			
a)	Clearing and grubbing	664	4,177	4,840
b)	Cut	87,234	372,198	459,432
c)	Fill	83,160	354,816	437,976
2.2	Road			
a)	Sub Road	74,912	100,743	175,655
b)	Collector Road	0	78,504	78,504
2.3	Drainage			
a)	Regulation Pond	0	715,289	715,289
b)	Drainage Canal	88,293	251,180	339,473
2.4	Water Supply			
a)	Reservoir	4,079	7,247	11,326
b)	Pipeline	2,790	10,970	13,760
c)	Deep Well	13,247	23,536	36,783
2.5	Electricity Facility	265,383	269,883	535,266
2.6	Telecommunication Facility	168,000	269,500	437,500
2.7	Green & Park	4,000	88,000	92,000
2.8	Engineering Service Cost	95,011	305,525	400,536
2.9	Sub Total	886,773	2,851,567	3,738,340
2.10	Physical Contingency	88,677	285,157	373,834
2.11	Total	975,450	3,136,723	4,112,174
3	Total	975,450	3,495,123	4,470,574

6.9 Implementation Schedule

The opening of SEZ is targeted to be the opening of the New Mekong Bridge or 2004. The schedule is proposed on the following preconditions:

- i) Preparation of the SEZ law will take about two years.
- ii) Promotion of FDI to SEZ will be initiated as early as possible.
- iii) The SEZ Authority is established after the enactment of the law.
- iv) Prior to the opening of SEZ, training of SEZ Authority staff is required.
The training for more than 3 months will be done at Site B.
- v) The existing factories in the SEZ zone are permitted for SEZ privilege immediately after the opening of SEZ.
- vi) The development area is expanded at Site A and Site B, following the investment demands.

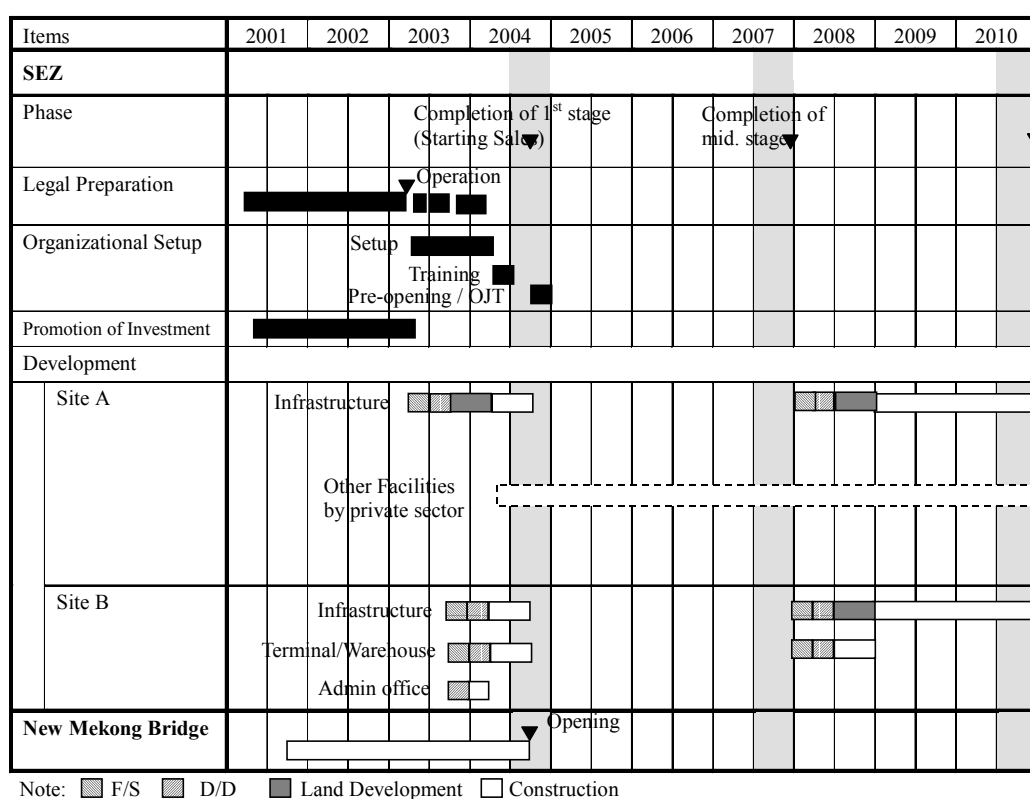


Figure 6.25 Implementation Schedule

6.10 Economic Impact of Savannakhet SEZ

It is not easy to predict economic impacts of SEZ development, as the demands are unpredictable for the long term. The prediction of economic impacts is therefore confined to the impacts in the manufacturing sector, including packaging. As the manufacturing sector is a small part of SEZ, the overall impacts of SEZ development would be much more notable.

Prediction has been conducted in the following manner:

- 1) The number of employees is estimated for each subsector.
- 2) Value added and total outputs are estimated for each subsector, based on the UNIDO Survey on the existing industries.

Besides, the following assumptions have been applied:

- 1) Development area for the manufacturing sector is 100 ha in the year 2010.
- 2) Manufacturing factories for 5 subsectors, namely i) wood processing, ii) food processing, iii) garment, iv) electrics and v) packaging, are expected to be set up in the land of 20 ha each when fully occupied.
- 3) Three (3) cases of projection are exercised; i) conservative case with an occupancy rate of 30% in 2010, ii) base case with an occupancy rate of 50% in 2010, and iii) optimistic case with an occupancy rate of 70% in 2010.

As shown in the table below, the manufacturing sector in Savannakhet SEZ will have employment of 14,000, output of 1,087 billion kips and value added of 416 billion kips at 1999 price for the base case.

Table 6.22 Estimate of Economic Impact of SEZ Development (Manufacturing) in 2010

	Composition of Manufacturing in Savannakhet SEZ	Total	Wood processing	Food processing	Garment	Electronic	Packaging ³
Data for Estimation	Area (ha)	100.0	20.0	20.0	20.0	20.0	20.0
	Employees per ha ¹		120	520	500	150	110
	Value added per employee ² (Kip '000)		2,520	69,359	6,575	6,575	17,403
	Value added ratio ²		0.09	0.68	0.24	0.11	0.05
1. Conservative Case (Occupancy 30%)	Employment	8,400	720	3,120	3,000	900	660
	Value added (Kip mil.)	249,634	1,814	216,400	19,725	209	11,486
	Output (Kip mil.)	652,201	20,160	318,235	82,188	1,898	229,720
2. Base Case (Occupancy 50%)	Employment	14,000	1,200	5,200	5,000	1,500	1,100
	Value added (Kip mil.)	416,057	3,024	360,667	32,875	348	19,143
	Output (Kip mil.)	1,087,001	33,600	530,392	136,979	3,164	382,866
3. Optimistic Case (Occupancy 70%)	Employment	19,600	1,680	7,280	7,000	2,100	1,540
	Value added (Kip mil.)	582,480	4,234	504,934	46,025	487	26,801
	Output (Kip mil.)	1,521,802	47,040	742,549	191,771	4,429	536,012

Notes: 1. Data quoted from Investment Demand Survey in Vietnam.

2. Data quoted from Survey by UNIDO.

3. Value data represented by publishing and printing.

Source: JICA Study Team

CHAPTER VII INSTITUTIONAL FRAMEWORK

7.1 Legal and Regulatory Framework

(1) Principles of SEZ Establishment

In order to overcome the institutional and operational constraints pointed out in Section 5.6 and improve the investment climate for FDI, some basic principles have to be introduced into SEZ in Savannakhet. They will include:

Basic Principles in SEZ Establishment

- Maintain the consistency of the policies
- Secure the transparency both in policy making and operations
- Ensure the accountability to the investors
- Provide the investors with the accessibility to information required
- Keep the ultimate independence in respect of the principles of economic operations, systems, institutions and/or organizations

(2) Legal base for the SEZ

A new legal base is required to introduce the SEZ scheme as free trade zone and separate customs territory and to set up an independent organization for operation of the planned SEZ.

Article 60 of the Customs Law of 1994 stipulates that the National Assembly shall approve the creation of duty free zones on the Government's proposal. Further, a new SEZ Authority, namely Lao Economic Zone Authority (hereinafter referred to as "LEZA"), will have to be allowed to make and implement its own independent policies, which may otherwise conflict with other organizations' interests. The LEZA, therefore, may require the power equivalent to the ministries or provinces and be attached to the higher office of the government, preferably to the Prime Minister's Office.

In this context, a legal base necessary for the planned SEZ shall be a new Law, such a new law will be named as the "Special Economic Zone Law" (hereinafter referred to as the "SEZ Law").

(3) The SEZ Law

1) Purposes of the SEZ Law

A new SEZ Law should be enacted for the following purposes:

Objectives of New SEZ Law

- Clarify purpose and objectives of the SEZ
- Declare the establishment and nature of the SEZ
- Identify the SEZ zones or areas
- Define the legal status and functions of the SEZ
- Adopt its own economic and financial principles
- Establish governing structures of the SEZ (the SEZ Authority)
- Regulate its organization and respective powers, roles and responsibilities
- Define the operational rules and procedures and provide investment incentives
- Regulate the relationship with national government and other entities.

The new SEZ Law also aims at offering the following system and facilities, among others, to attract foreign investors and activate the economies in the zone:

Systems and Facilities offered by The SEZ Law

- Economic freedom based on the market economy
- More rational company operation system
- Full range of investment incentives
- Freer transaction of foreign currencies
- Simpler and clearer license approval system
- More adequate accounting system
- Transparent and freer land leasing and use system
- Flexible labor relations and use of foreign labor
- Assurance on security of the investment

2) Sample draft of SEZ Law

The sample provisions of the SEZ Law were drafted during the course of this Study, with references to the special economic zone laws, acts and /or regulations of the Philippines, China, Thailand, and Vietnam and is proposed as reference for future legislation work of the government of Lao PDR. The whole provisions of the sample draft of Special Economic Zone Law are provided in Appendix 4, of which the blank parts are to be filled in by the government during the course of modification of the sample draft.

Some of the proposed provisions of the sample draft of the SEZ Law are as follows:

Proposed Provisions of New SEZ Law

- The SEZ is a selected area with highly developed or which have the potential to be developed into industrial, tourist or recreational, commercial, servicing agro-industrial, investment and financial center.
- An SEZ shall contain all of the following: export processing zones, free trade zones, free logistics center and tourist or recreational center.
- Enterprises within the SEZ are granted preferential tax treatment and immigration laws are more lenient.
- The first SEZ is to be established within 2.5 kilometers on both side from the Second Mekong Bridge access road and Route 9, starting from the gate of the Lao Check Point near the New Mekong Bridge to the intersection of Route 9 and 13.
- The SEZ can be developed by private, public or the mixed of those initiatives.
- Criteria for the development of other SEZ
- The SEZ shall be developed into a decentralized, self-reliant and self-sustaining center with minimum government interventions.
- Foreign citizens or companies in whatever proportion and Lao citizens or companies may set up enterprises in the SEZ, either by themselves or in joint venture in any sector of industry.
- The SEZ shall be operated and managed as separate customs territory.
- The Lao Economic Zone Authority (LEZA), an independent public corporation attached to the Prime Minister's Office, will be responsible for policy-making, operations and management of the SEZ.
- Fiscal incentives such as tax holidays of 3-8 years, profit tax reduction to 10-15%, exemption of turnover tax, utilization tax, minimum tax, import and export duties, reduction of personal income tax to 5%. Other fees and charges may be reduced for the SEZ enterprises.
- Minimum investment is required to be qualified as SEZ enterprises: US\$100,000 or more for foreign companies and US\$50,000 or more for domestic companies.
- The SEZ shall be given an offshore status in order to make the foreign currency control freer.
- Free remittance of after tax profits
- Land leasing of minimum 30 years and maximum 75 years for foreign investment, minimum 30 years and maximum 50 years for domestic investors and transparent leasing rates.
- Establishment of One Stop Shop Center for facilitating investment license, export/import licenses and other permits necessary for business activities
- Set-up of Labor Relations Center for assisting the mediating labor disputes
- Master Employment Contract for unifying the working conditions in the SEZ enterprises
- Freer use of foreign workers up to 25% of total workforce
- 100% deduction of the value of training expense incurred by the SEZ enterprises for developing skills or managerial abilities of Lao citizens from the taxable income.

3) Alteration or Amendment to Existing Legal System

In order to provide such systems and facilities as mentioned above, it is necessary to introduce new provisions in the SEZ Law, which may amend or surpass the existing laws and/or regulations. As a trial examination, “Law on Promotion and Management of Foreign Investment”, “Land Law”, “Council of Ministers’ Decree No.53 governing The Management of Foreign Exchange and Precious Metals”, “Tax Law”, “Business Law” and “Labor Law” have been studied as noted below. “Customs Law” should also be reviewed in a same manner for modification to fulfill the purpose of the SEZ Law.

Some of the following recommendations are adopted in the sample draft of SEZ Law in Appendix 4. The section numbers shown in the right column of the tables below indicate the article of the sample draft of the SEZ Law where such recommendations are referred. Other recommendations, without references to the section numbers of the SEZ Law, shall be examined in details by the government of Lao PDR further and regulated in the Implementation Rules.

Table 7.1 Law on Promotion and Management of Foreign Investment of 1994:

Items	Law on Promotion and Management of Foreign Investment	Recommendation for Modification in New SEZ Law	Corresponding Article in Draft SEZ Law
Restricted fields of foreign investment	Article 2: Fields detrimental to national security, national environment, public health or national culture	Too vague. Provide the category of restricted industries in Negative List.	Section 7, 26
Nationalization of investment	Article 3: No property or investment nationalized without payment of compensation	Indicate the base for calculating the compensation amount and currencies to be paid.	(Implementation Rules)
Joint venture	Article 6: Minimum 30% of foreign capital	No minimum equity required	Section 7
Conversion of foreign capital into Lao currency	Article 6: Obligatory	No obligation to convert	Section 27
Wholly foreign-owned enterprises	Article 7: Permitted. Must be a new company, a branch, or a representative office.	Do not have to a new company.	Section 7
Articles of Association of branch or representative office	Article 8: Articles of Association of a branch or a representative office be consistent with Lao laws	Theoretically, a branch or representative office is a part of headquarters. Articles of Association of headquarters are not always consistent with Lao laws.	(Implementation Rules)
Land lease	Article 10: Possible to lease land and transfer the leasehold interests, to own the improvements on land and other moveable property and to transfer those ownership interests	Lease rates have to be clearly quoted in public.	Section 30
Freedom from the government interference	Article 10: The government shall not interfere in the business management.	Clearer provision needed.	Section 7
Employment	Article 11: Hiring priority to Lao citizens and investors' obligation to upgrade Lao employees skills through training	Freer employment of foreign workers within targeted and limited ratio and duration. Set up the measures to monitor the investors' obligation to upgrade Lao employees skills.	Section 40
Personal income tax	Article 12: A flat rate of 10% of the income earned in Lao PDR	10% is not low at all. 5% is recommended.	(Implementation Rules)
Accounting system	Article 14: Obligatory use of Lao financial accounting system	Subject to conformity of Lao system with international accounting system required.	(Refer to "Tax Law")

Items	Law on Promotion and Management of Foreign Investment	Recommendation for Modification in New SEZ Law	Corresponding Article in Draft SEZ Law
Profit remittance	Article 15: In conformity with the “law and regulations governing the management of foreign exchange and precious metals”, repatriation of investment earning, capital, personal income may be done.	After tax profits and other earnings of foreign investment have to be remitted freely in the equivalent foreign currencies as invested. Exemption or reduction of remittance tax, if it is compulsory	Section 24 Section 28
Corporate tax and other taxes, duties and fees	Article 16: A flat rate of 20%	Introduction of tax holiday and further reduction in tax rate. Clear statement to name other duties, charges or fees, if any.	Section 23 (Refer to Table 4.4 in Chapter IV) (Implementation Rules)
Import duties	Article 17: 1% on equipment, means of production, spare parts and other materials used in the investment projects or productive enterprises. Exempted for raw materials and intermediate components for processing and then re-exported.	Clearer conditions for exemption.	Section 24 (Refer to Table 4.4 in Chapter IV) (Implementation Rules)
Export duties	Article 17: Exempted for all exported finished products.	Clearer conditions for exemption.	Section 24 (Refer to Table 4.4 in Chapter IV) (Implementation Rules)
Special duty reduction	Article 17: Eligible for raw materials and intermediate components for import substitution processing	Exemption clause to be introduced	Section 24 (Refer to Table 4.4 in Chapter IV) (Implementation Rules)
Tax holidays	Article 18: Granted on case-by-case base.	SEZ is the case for special treatment.	Section 24 (Refer to Table 4.4 in Chapter IV) (Implementation Rules)
Reserve funds	Article 19: Foreign investor shall devote a portion of its profit to various reserve funds	If they are compulsory, specify the amount to be reserved.	(Implementation Rules)
Health and safety of labors	Article 20: Investors take all measures necessary and appropriate to protect workers health and safety and to contribute to social insurance and welfare programs for the workers	Who shall determine the measures to be taken are necessary or appropriate. Clear statement of the programs and possible allotment needed. Deduction of such amount in the calculation of taxable income.	Section 39 Section 42

Items	Law on Promotion and Management of Foreign Investment	Recommendation for Modification in New SEZ Law	Corresponding Article in Draft SEZ Law
Labor relations center		Labor relations center is recommended to set up for recruiting and dispute settlement.	(Implementation Rules)
Disputes	Article 21: First seek to settle through consultation or mediation	Workers strike shall be prohibited in the SEZ. The SEZ authority shall be responsible for dispute settlement.	Section 38
One-stop service center	Article 23: FIMC (or presently CIC) as an one-stop service center for FDI	SEZ Authority offers one-stop service to FDI	Section 36
Investment application	Article 25: An application and supporting documents for FIMC	An investment license for SEZ shall be submitted to the LEZA.	Section 13
Responsibility for monitoring a foreign investment	Article 28: FIMC is responsible to coordinate with concerned ministries and provincial authorities for monitoring and enforcement the implementation of foreign investment.	The LEZA will be responsible for these.	Section 13
Screening of an investment application	Article 26: The duration needed by FIMC (or CIC) for approval: 60 days	The stated duration has to be kept. The shorter the required duration is, the better. Preferably the automatic approval of investment application is admitted.	(Implementation Rules)
Foreign investment approval procedures	No clear guidance for approval and conditions to be applied to each case of investment.	Necessary to make it clearer and simplified. Avoid that different conditions and incentives may be applied for different parties in different situation (discretionary licensing). Approval standards and conditions have to be unified.	(Implementation Rules)
Duration of foreign investment license considered case by case	Now 15 years duration is under consideration of the government.	15 years are too short. It is desirable there is no limitation on license period.	(Implementation Rules)
Investment license renewal	No standards stated for renewal of the investment license	Renewal standards have to be clearly stipulated, in case needing to limit the license duration	(Implementation Rules)

Table 7.2 Land Law of 1997

Items	Land Law	Recommendation for modification in New SEZ Law	Corresponding Article in Draft SEZ Law
Land leasing period for Lao citizens	Article 13: Max. 30 years lease term between the State and Lao citizen	Lao citizens or firms going to invest in the SEZ have to be approved for a longer period. (Minimum 30 years, Maximum 50 years)	Section 30
Authorization of leasing	Article 64: Foreign investors need to get prior authorization for leasing from the Administrative Authority of the province, municipality or special zone. Finance Ministry reserves final decision right.	The SEZ Authority will reserve the right for approval of acquisition and transfer of leasing right.	Section 30
Land leasing period for foreign investors	Article 65: Maximum land leasing period of 50 years for foreign investors and 75 years in SEZ. The actual leasing period shall be determined based on the characteristic, size and condition of the operation.	The maximum periods in the SEZ (75years) are long enough but not foreseeable how much duration is actually approved. The standard leasing period has to be set up in advance for SEZ according to the use purpose. (Minimum 30 years and maximum 75 years)	Section 30
Land leasing price	No description	The prices of land leasing rights have to be determined basing on the market value and to be opened for foreign investors in SEZ. It does not seem to be an appropriate manner to decide the rates by negotiation.	Section 30
Sale, sublease, assignment or transfer of leasing rights	Article 64: There is no provision clearly admitting the foreigners the rights of subleasing, assigning, transferring or selling the leasing rights.	Admit such rights, subject to the prior screening on the basis of formality assessment by SEZ Commissioner.	Section 30

**Table 7.3 Council of Ministers' Decree No.53 dated September 7 1990,
governing The Management of Foreign Exchange and Precious Metals**

Items	Council of Minister's Decree (Foreign exchange)	Recommendation for Modification in New SEZ Law	Corresponding Article in Draft SEZ Law
Use and possession of foreign currencies	Article 5: No one authorized to use foreign exchange directly for transactions in the Lao PDR.... Holders of foreign currency shall present it to a bank or authorized dealer for exchange into Kip.	Free use and possession of foreign currencies in the SEZ.	Section 27
Purchase and sale of foreign currencies	Article 6: Limitation on purchase and sale of foreign currencies	Any firm, shop, restaurant, hotel and individual person can use foreign currencies freely in the SEZ.	Section 27
Exchange rate	Article 9: Exchange rate decided by the Bank of Lao PDR	Any one can decide the exchange rate for use in the SEZ.	Section 27
Obligation of use of Kip	Article 11: Use of Kip for domestic expenditure and prohibition of holding the convertible Kip account	Entirely free use of foreign currencies to be admitted.	Section 27
Travelling expenses	Article 16.1(1): Resident traveller bringing out the foreign exchange within the limit set by the Bank of the Lao PDR	Not limited by the Bank of Lao PDR.	Section 27
Payment by foreign currencies	Article 17: Payment for imports and exports of goods and services, remittance of profit and income require an application in accordance with requirements and regulations of the Bank of the Lao PDR.	Automatically approved by any banks in the SEZ when there is no defect in formalities of the documents, provided that the Bank of the Lao PDR licenses those banks and such foreign investment is registered with the Bank.	Section 27 and 28
Foreign investment	Article 22: Foreign investment be authorized by the Government	Foreign investment from the SEZ is regulated by the LEZA.	Section 27

Table 7.4 Tax Law of 1995

Items	Tax Law	Recommendation for Modification in New SEZ Law	Corresponding Article in Draft SEZ Law
Turnover tax	Article 12: Collected from imports, sales of goods and general services at the rates of 3-15%	Exempted for exports and reduction to a half rates for the promotional sectors	Section 23 Section 24 (Implementation Rules for details)
Utilization tax	Article 23: Collected from some consumer goods at the rates of 10-50%	Exempted for exports and reduction to a half rates for the promotional sectors	Section 23 Section 24 (Implementation Rules)
Profit tax (Corporate or independent business tax)	Article 38: 35% for corporation (Discount to 20% in case promoted by the government and located in city) 10-45% for individuals	Corporate profit tax down to 10-15% both for foreign and domestic investment	Section 23 (Implementation Rules)
Income tax (Personal income tax)	Article 38: Salaries equal to \$625/month or more: 40%	Personal income tax down to 5% for the foreigners	Section 23 (Implementation Rules)
Deductible expenses	Article 34 & 35: Travel costs shall not exceed 0.2% of the annual sales or not more than 6 million Kip per year. Gifts, allowances, presents or prizes shall not exceed 0.15% of the annual sales or not more than 4 million Kip per year. Entertainment fee: None	The actual cost of business trip and guest reception and entertainment expenses of maximum \$500 shall be deducted from the taxable income.	Section 23 (Implementation Rules)
Accelerated amortization	Article 34: Regulation on the amortization period and methods	The amortization period shall be shortened as follows: Machines and equipment: 5 years to 3 years Land transport facility: 5 years to 3 years Office instrument and other supplies: 10 years to 3 years Installation and decorations: 10 years to 3 years Passenger plane: 20 years to 10 years Industrial and trade premises: 20 years to 10 years	Section 23 (Implementation Rules)
Non-deductible expenses	Article 35: Salary and interest paid to share holders or employers cannot be deducted from the annual profit.	They shall be allowed to deduct in the SEZ enterprises.	Section 23 (Implementation Rules)

Items	Tax Law	Recommendation for Modification in New SEZ Law	Corresponding Article in Draft SEZ Law
Carry-over of the loss	Article 36: Possible to carry over the operation loss for three years	Change to five years	Section 23 (Implementation Rules)
Minimum tax	Article 55: 0.5% of annual business income with turnover tax deducted.	Exempted or reduced to a half rate of 0.25%	Section 23 Section 24 (Implementation Rules)
Other charges and fees	Article 58: Tax registration, business permissions, approvals, certificates and other official documents, using of transport roads, travels to enter or exit the country, issuing the entry-exit visas, utilization of satellite telecommunications systems, TV utilization, installation of advertising posters or boards, name-plate of stores, or other services	All charges and fees have to be notified to the public in advance.	(Implementation Rules)
The rates of the above	Article 59: Determined by the Presidential Provision in conformity with real social-economic situation	Those charges and fees shall be exempted or reduced for the SEZ enterprises according to the recommendation of the SEZ authority. All the rates have to be clearly noticed to the public.	Section 23 Section 24 (Implementation Rules)

Table 7.5 Business Law of 1994

Items	Business Law	Recommendation for Modification in New SEZ Law	Corresponding Article in Draft SEZ Law
Negative list	Article 12: Business inconsistent with the laws and regulations of the Lao PDR are prohibited. Article 14: Business reserved for Lao citizens will be determined separately by the government.	These businesses prohibited for the foreign investment shall be clearly stated in the negative list.	Section 7 Section 26 (Implementation Rules)
Reserve funds	Article 23: Limited company shall establish reserve funds appropriate at five to ten percent from their net profit.	No regulation needed.	(Implementation Rules)
Bylaws	Article 27: All companies shall have written bylaws including ----, duration of the company, organization chart, distribution of dividends and responsibility of losses	The profit seeking companies do not have any pre-determined duration of the operation, except the special cases. Organization may be modified frequently. Distribution of dividends may vary every year. Delete those items from bylaws.	(Implementation Rules)
Funds raising from public market	Article 29: Only the public company may mobilize funds from public market and issue debentures.	Private limited company in the SEZ can also raise funds from public market and issue debentures.	(Implementation Rules)
Number of shareholders in a limited company	Article 45: A limited company is a type of company with two or more founding shareholders. The shareholders of a limited company shall not exceed twenty persons.	A limited company can be established by one or more shareholders and the number of shareholders shall not be limited.	(Implementation Rules)
Transfer of shares	Article 47: Transfer of shares to outside personnel shall require the approval of the majority of shareholders representing at least two thirds of the company capitals.	Such transfer of shares shall be approved according to the rules set forth by the general meeting of shareholders and shall not be regulated by the law.	(Implementation Rules)
Minimum capital	Article 48: The company's minimum registered capital shall not be less than 5,000,000 Kips.	In the SEZ the minimum capital (or the amount of the investment) shall be US\$100,000 for foreign investment and US\$50,000 for domestic investors.	Section 7 (Implementation Rules)

Items	Business Law	Recommendation for Modification in New SEZ Law	Corresponding Article in Draft SEZ Law
Chief Executive Officer (CEO)	Article 51: CEO shall be dismissed by decision of the general meeting of shareholders representing over half in the company's total shares.	Dismissed by decision of two thirds of participants at the general meeting, which can be effectively held when shareholders representing more than half of the capitals attend.	(Implementation Rules)
Calling-up of the general meeting of shareholders	Article 53: The shareholders representing half of the company's capitals have the right to convene a general meeting of shareholders.	Shareholders representing more than 10% of the total capitals can convene the general meeting.	(Implementation Rules)
Resolution of the general meeting of shareholders	Article 54 and 56: The resolutions of the general meeting of shareholders are effective when approved by over half the company's capital, except for the modification of the bylaws and approval of new shareholders, which will require two thirds of the votes from the company capital.	The general resolutions can be effective when approved by more than half of attendants at the general meeting. The special resolutions such as modification of Articles of Corporation or Bylaw shall be resolved by the approval of two thirds of the attendants representing more than half of the total capital. Approval of new shareholders shall be resolved according to each company's rule.	(Implementation Rules)

Table 7.6 Labor Law of 1994

Items	Labor Law	Recommendation for Modification in New SEZ Law	Corresponding Article in Draft SEZ Law
Labor union	Article 3: Right to organize mass and social organizations	Any labor strike shall be prohibited in the SEZ and the SEZ authority has to organize arbitral committee to settle labor problems with unions	Section 38
Employment of foreign workers	Article 7: Any labor unit may employ foreign workers with authorization of labor administration when necessary, if no appropriate workers available in the Lao PDR. Detailed scheme shall be established for the transfer of skills to Lao workers	Employment of foreign workers shall be approved by the SEZ authority up to 25% of total workers when job vacancies are not filled with Lao citizens.	Section 40
Labor protection	Article 10: State labor administration shall be responsible for labor protection.	The SEZ committee shall promulgate and inspect the implementation of the labor protection regulations.	Section 37
Role of trade union	Article 11: Negotiations regarding working conditions	Working conditions shall be decided by the SEZ authority and written in Master Employment Contract.	Section 39 (Implementation Rules)
Dismissal of worker to reduce the workers for improving the operation	Article 16: The employer shall draw up a list of dismissed workers in consultation with trade union. Dismissal compensation: More than 10% or 30% of the monthly salaries for total employed period	The employer can decide the workers to be dismissed. The SEZ authority shall regulate the internationally common compensation rate such dismissals in Master Employment Contract.	(Implementation Rules)
Limitation of employer's right to terminate an employment contract	Article 17: An employer is not entitled to terminate employment contract when; Sick and under medical treatment, pregnant, given birth within last 9 months	Some kind of limit such as reduction in wages or restriction of approved period of absence has to be introduced in Master Employment Contract.	Section 39 (Implementation Rules)
Special rights of workers during the notice period	Article 18: The period of treatment of sickness shall not be counted as notice period.	Same as above	Section 39 (Implementation Rules)

Items	Labor Law	Recommendation for Modification in New SEZ Law	Corresponding Article in Draft SEZ Law
Termination measures of employment contract	Article 22: Unilateral termination of contract or dismissal of worker is prohibited unless the opinion of the labor administration has been requested or trade union has been notified.	The termination notice shall be addressed to the SEZ authority and become effective without having the approval of the SEZ.	(Implementation Rules)
Time counted as working hours	Article 26: Hourly break of less than 15 minutes in shift work. At least 5 to 10 minutes break in every two hours.	More efficient, flexible and productive break schedule has to be introduced in Master Employment Contract.	(Implementation Rules)
Sick leave	Article 29: Worker shall be entitled to sick leave with full pay for up to 30 days per year.	Too generous. Shorter period must be adopted in Master Employment Contract.	(Implementation Rules)
Determination of the level of remuneration	Article 40: Workers or trade union or worker's representative shall have the right to negotiate with the employer in respect of salary or wage level.	The level of salary or wage shall be determined by the SEZ authority and described in Master Employment Contract.	Section 39
Settlement of labor disputes over rights and interests	Article 56 and 58: The employer or its delegate shall urgently consider dissolving the claim directly with the claimant.	The Labor Service Center shall be responsible for dissolving the claim.	Section 37

(4) The Rules and Regulations for the Implementation of the SEZ Law

Upon the enactment of New SEZ Law, “the rules and regulations for the implementation of the SEZ Law” (hereinafter referred to as “Implementation Rules”) shall be legislated to provide the detail explanations, procedures and guidelines relating to each provision of the SEZ Law and be issued, probably as a Prime Minister’s Decree.

Such Implementation Rules shall include the following:

- i) Definition and basic guidelines: Definition of terms in details
- ii) Basic right and guarantees: Protection of investment such as government’s guarantee on the repatriation of investment, remittance of earnings and freedom from expropriation and requisition of investment.
- iii) Detailed procedures for application and registration as SEZ enterprises

- iv) Criteria of the establishment of the SEZ and method of the development
- v) Lease of lands and buildings in the SEZ: Terms and conditions for leasing or acquisition of lands or buildings, permits of the construction.
- vi) Tax treatment of merchandise brought into the SEZ
- vii) Entry and exit of goods to and from the SEZ: Approval, permits, marking, certificate and the procedures of loading and unloading
- viii) Inventory system of finished products, raw materials and other assets
- ix) Defense, security and firefighting forces in the SEZ
- x) Provided incentives and application and entitlement for the incentives: Detailed explanation of the incentives for each industrial sector.
- xi) Employment of foreign nationals: Entitlement, length of employment and training requirement for Lao citizens.
- xii) Procedure of remittance of earnings
- xiii) Special accounting treatment and taxation procedures
- xiv) Visa treatment
- xv) Labor and management relations: Labor Relations Center, Master Employment Contract and other requirement for labors.
- xvi) Negative List regarding the foreign investment
- xvii) Business termination procedures, examination procedures of records and premises, investigations, police functions and penalties
- xviii) Other terms and conditions to be located in the SEZ

7.2 SEZ Implementation and Management

(1) Organizations Concerned with SEZ Development and Management

The organizations currently related to industrial, commercial and other service sector development and management are briefly reviewed. They include State Planning Committee, Foreign Investment Management Cabinet, Ministry of Industry and Handicrafts, Ministry of Commerce, Ministry of Finance, and Ministry of Labor and Social Welfare.

1) State Planning Committee (SPC)

Responsibilities of SPC include the coordination, research, supervision and implementation of socio-economic development, international cooperation, and foreign investment. SPC is not the agency for project implementation and management.

2) Foreign Investment Management Cabinet (FIMC)

FIMC is one of the agencies attached to the Prime Minister's Office. FIMC has approximately 50 staff. It has the authority to approve foreign investment under the Promotion and Management of Foreign Investment Law of 1994. FIMC prepared a leaflet called "Policy Guidelines". According to the leaflet, no target industry is specified. Any investment is welcome as long as it contributes to export promotion, foreign exchange earning, human resource development, local resource utilization, and technology transfer. FIMC can contribute to Savannakhet SEZ development and management based on its past experience in policy formulation and regulatory functions for FDI.

3) Ministry of Industry and Handicraft (MIH)

Department of Industry and Handicrafts of the Ministry of Industry and Handicraft (MIH) has functions of policy formulation and provision of assistance to industries. MIH has about 500 staff including those assigned to the provinces. In view of its expertise in industrial development, MIH will cooperate in SEZ development and management in one way or another.

4) Ministry of Commerce and Tourism (MCT)

Department of Foreign Trade of the Ministry of Commerce and Tourism (MCT) is in charge of foreign trade promotion. MCT has about 550 staff. Taking into account its past experience and skills in commerce promotion, MCT will also cooperate in SEZ development and management activities.

5) Ministry of Finance (MOF)

Customs Department of the Ministry of Finance is responsible for study and formulation of the State custom policy and collection of import/ export taxes in accordance with the custom policy in force. Since SEZ may have its own regulations on import and export, participation of the Customs Department in SEZ development and management is important. Customs Department in Vientiane has 86 staff for reference.

6) Ministry of Labor and Social Welfare (MLSW)

As FDI is promoted and employment generation is expected in SEZ, attention will be paid to human resources development and provision of good working conditions. Strengthening of regulatory activities to safeguard workers' safety and labor rights will reduce labor turnover and absenteeism and improve productivity. Therefore the Labor Department of the Ministry of Labor and Social Welfare will greatly contribute to SEZ development and management. The Ministry has 814 staff, while the Labor Department in Vientiane has 16 staff.

(2) SEZ Authority as an Independent Entity

SEZ is a new concept in Lao PDR. As seen above, FIMC has the authority to approve FDI application. MIH supports industry and handicrafts sector while MCT assists in commerce development and export promotion.

A new and independent organization should be set up for implementation of the planned SEZ. Under the Article 40 (8) of the Constitution of Lao PDR, the National Assembly is authorized to give resolution on the establishment of ministries, ministerial equivalent agencies, province or prefecture. It has also the power to define the provincial or prefecture area based on the proposal of the Prime Minister. In other words, the establishment of such an independent SEZ Authority requires a new law that is made by the resolution of the National Assembly.

In Thailand, for reference, the Board of Investment (BOI) which is chaired by the Prime Minister approves investment application and provides various incentives, and the Industrial Estate Authority (IEAT) - a state enterprise attached to the Ministry of Industry - develops and manages industrial estates. IEAT has "One-Stop-Service" that assists investors in a wide variety of issues, ranging from the early stage of site selection through operation and maintenance. The One-Stop-Service provides potential investors with information on investment opportunities throughout Thailand. Investors can meet the following requirements at one point (IEAT):

- Permits and licenses
- Information and advice on:
 - investment and setup
 - tax incentives and privileges
 - physical design of factories

- existing industrial estates and factories
- After Sales Service:
 - assistance in submission of application forms
 - monitoring approval process
- Sales, Marketing and Public Relations Services
- Access to:
 - conference and meeting facilities
 - internet services

The One-Stop-Service is aimed at ensuring investors receive efficient assistance. The proposed SEZ Authority will be equipped with similar one-stop-service.

Experiences in other countries also show that provision of full autonomy reduces red tape and contribute to efficient and prompt operation. It is now proposed that a new organization for SEZ development and management be established as the SEZ Authority.

(3) Functions of SEZ Authority

As discussed in Section 5.3, major functions of SEZ are (i) Manufacturing, (ii) Logistics, (iii) Commerce, (iv) Amenity (tourism), and (v) Supporting (Administration and FDI promotion, and export and local industry assistance).

The government's primal role through the SEZ Authority will be provision of legal framework, FDI promotion, and export and local industry assistance. Some public agencies will be responsible for development of infrastructure necessary for the SEZ, i.e., access road, supply of electricity and water, and telecommunications. The institutional arrangement for SEZ development and management can be summarized as follows:

Table 7.7 Implementation Arrangement for Savannakhet SEZ

	Legal Framework	Adm. and Management	Construction	Operation Maintenance
Industrial Processing	Government	LEZA	Private	Private
Logistics	Government	LEZA	Private	Private
Commerce	Government	LEZA	Private	Private
Amenity	Government	Private	Private	Private
Supporting	Government	LEZA	Private	LEZA

SEZ Authority will consist of Director General, Board of Directors, Auditor, SEZ Administrative Body (Secretariat), and SEZ Advisory Board. Director General is overall coordinator of the policies, plans and programs of the SEZ while Board of Directors is responsible for policy-making of the SEZ. Executive Auditor, who is appointed by the Prime Minister, attends the Board of Directors meeting. Advisory Board consists of the representative of the investors, the representative of the labor union and Vice Governor of the province. Advisory Board will advise Administrative Body (Secretariat) to be established by utilizing the expertise of current related organizations; i.e., FIMC, MIH, MCT, MOF and MLSW. Officials of these ministries will be assigned to Secretariat of SEZ Authority.

The following figure presents tentative organizational setting for SEZ Authority (LEZA).

Once LEZA (SEZ Authority) is established, it may prove effective to envisage a technical cooperation arrangement with neighboring countries' similar organizations, namely IEAT of Thailand, DIPEZA (Da Nang Industrial Estates and Export Processing Zones Authority) of Vietnam, and Philippine Economic Zone Authority (PEZA) of the Philippines.

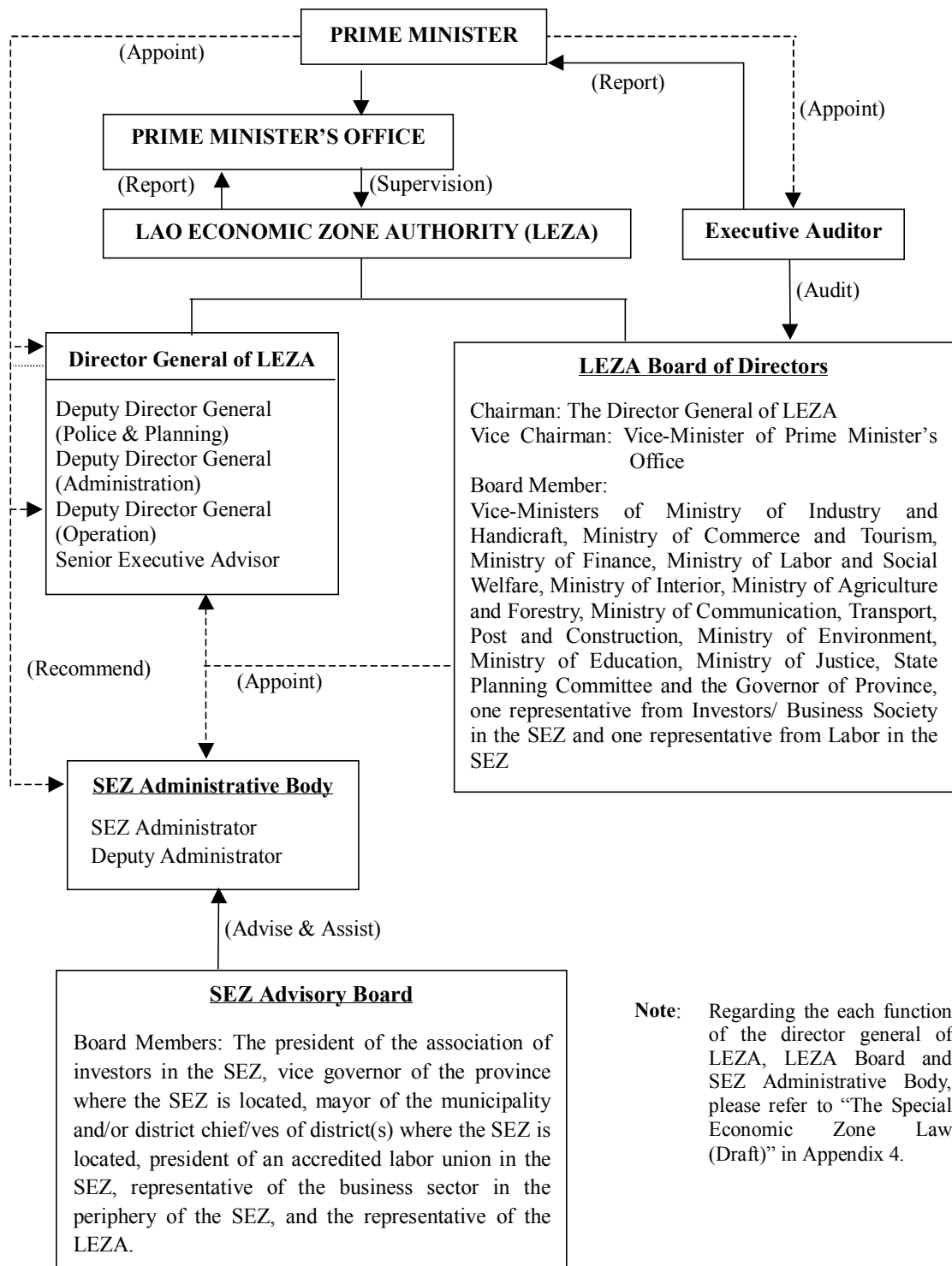


Figure 7.1 The Organization of the LEZA

7.3 Human Resources Development Required for Savannakhet SEZ

In the previous section, administrative framework for development of Savannakhet SEZ was discussed. In this section, human resources required for Savannakhet SEZ is examined.

Savannakhet province has a low population density and supply of readily available workforce is limited. Therefore, labor intensive industry utilizing cheap and abundant workers – common in other countries' EPZ – is not necessarily suitable for Savannakhet SEZ.

It is therefore important to provide workers with training opportunities in Savannakhet province in order to attract FDIs and to kick off industrialization in the border area. There has no doubt been a great deal of knowledge spillover from the creation of SEZ. Previously unskilled labor force has become a semi-skilled and skilled production worker through training and learning by doing on the job. These improved skills and productivity increase the workers' income earning capacity. Domestic firms, which are not located within the SEZ, may also get the benefits from training and skills by hiring workers employed in the SEZ firms. Some employees also receive training at the managerial or supervisory level. This would enrich the entrepreneurial capital of the province. The presence of the FDI firms allows domestic entrepreneurs and workers to benefit from observing and copying the traits.

With these requirements and impacts in mind, the following measures are recommended.

(1) Provision of Skilled Workers Through Upgrading of Savannakhet Technical School

Savannakhet Technical School (STS) is a major provider of semi-skilled worker in the region. STS has various courses including

- Carpentry
- Electricity
- Welding
- Personal Computer
- Business administration
- Auto Mechanic
- General Mechanic
- Masonry

The STS's problems include 1) overcrowded classroom, 2) obsolete equipment and school facility, and 3) lack of teacher of good quality.

Currently there are 650 students enrolled in STS while the standard number of students is 300. STS is popular among the students. The students are mostly from six provinces of the southern region. They study 2 or 3 years after finishing upper secondary level education. Though STS also provides short-term training courses (certificate is given), the opportunities for young workers to participate in such courses are limited.

In order to upgrade the STS's teaching staff and facilities, first it is necessary to clearly set the STS's mission. The main mission of the STS is proposed as “ to produce trained workforce for industry and business”. Having established its mission, the STS shall prepare its development plan. The graduates of the STS will be good workforces for the FDI firms in the Savannakhet SEZ.

Introduction of the mechanism of internship at the STS will be worth studying. STS students may be trained at the factories and enterprises established in and around SEZ. An idea is to contract with Thai enterprises in and around Mukdahan to accept such internship and on-the job training for a certain period.

(2) Introduction of Private Training Courses

In addition to training at the STS, it is desirable that possibilities to invite private training courses in SEZ be examined. Enterprises in SEZ may be encouraged to set up their training courses under the privilege that training expenses are deductible from the profit.

Possibilities to set up private training institutes should also be examined. For instance, training of business administration, computer, hotel and auto mechanics may have chances for training on a private initiative. These training institutes may be regarded as SEZ enterprises.

(3) Establishment of Industry and Technology Laboratory in Savannakhet

There is no industrial and technology laboratory or research institute, which may serve as the technological base of the region, to enhance its technological capabilities, add greater value to its products, and pioneer new industries and fields of technology.

The research center or laboratory works closely with local industry and conducts research that directly corresponds to the varying technological needs of different enterprises. Findings from this research are then

transferred back to industry through technical consultation and guidance. A key element of this transfer process is the on-site engineering consultation the center provides, a proactive approach. The dissemination of patent information is also a center function.

A possibility is to set up a wood-processing technology laboratory in Savannakhet where new technologies for processing are tested and disseminated.

The following figure illustrates required supply/training of and support facilities for Savannakhet SEZ.

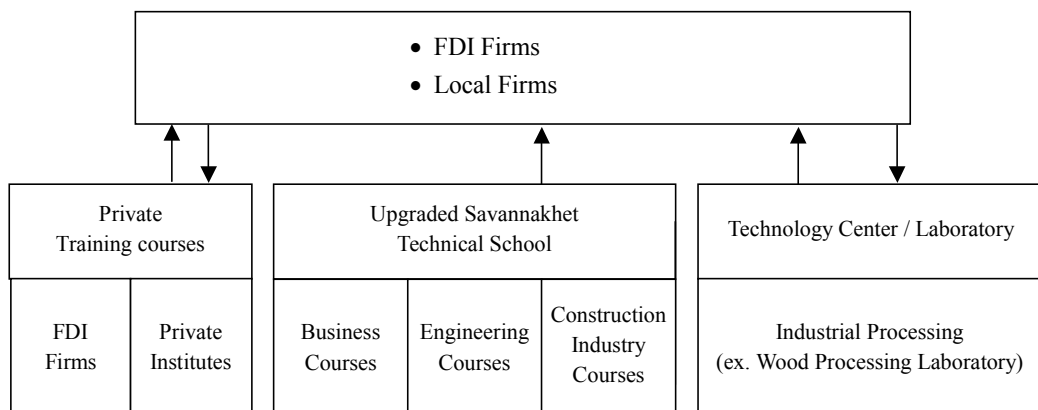


Figure 7.2 Training and Research for Savannakhet SEZ

7.4 Action Plan for Savannakhet SEZ Development

Implementation Schedule for Savannakhet SEZ is proposed to in Chapter 6.5 “Development Scenario”. Actions required for development of Savannakhet SEZ is presented below.

(1) Establishment for Savannakhet SEZ Development Committee (Secretariat)

There are many issues to be tackled with for establishing Savannakhet SEZ – the first SEZ in Lao PDR. First it is necessary to have an organization in charge of SEZ development. The Steering Committee for this study consists of representatives including Savannakhet Province, Ministry of Industry and Handicrafts, FIMC, Ministry of Justice, MCTPC, and Tax office. As described in Chapter 7.2, a new organization for SEZ development and management is required. The new organization named Lao Economic Zone Authority (LEZA) is proposed as an implementing body under the control of the Prime Minister’s Office.

Therefore, the first thing the Lao side should do is to set up a secretariat consists of government organizations of the current Steering Committee. The Savannakhet SEZ Development Committee shall be responsible for overall planning of SEZ preparation.

(2) Preparation of Legal Base for Savannakhet SEZ

As described in Chapter 7.1 “Legal and Regulatory Framework”, in order to establish a SEZ in Lao PDR, enactment of the SEZ Law is required. It requires careful examination of the laws and decrees. The review should be made under the leadership of the Ministry of Justice taking into consideration the concordance with the prevailing laws and decrees. In addition to the drafting of SEZ Law, rules and regulations for the SEZ should be prepared. The SEZ Law and its rules and regulations should be periodically reviewed to incorporate the SEZ into the national economy.

(3) Promotion of Investment

In Chapter IV “Investment Demand”, it is pointed out that potential investors’ knowledge on Lao PDR is limited. It is, therefore, indispensable to inform the potential investors of Savannakhet SEZ. SEZ Development Committee should prepare well-planned investment activities. Incentives offered and potential resources at the SEZ shall be made open. Leaflet on

SEZ and the website of the Savannakhet SEZ shall be prepared. The websites of Subic Bay Management Authority:

<http://www.sbma.com/home.html>, Industrial Estate Authority of Thailand: <http://www.ieat.go.th/t-main2.html> and Okinawa Special Free Trade Zone: <http://www.pref.okinawa.jp/okinawa/intoro.html> will be of good reference.

(4) Coordination of SEZ Development Efforts

Appropriate set-up of SEZ Authority and legal framework, and good management of SEZ are indispensable for its success.

Organization of Savannakhet SEZ Development Committee (Secretariat), preparation of legal framework, promotion of Savannakhet for potential investors require huge efforts and coordination. Coordination is required because many government agencies are involved as stakeholders.

Once SEZ is established and in operation, Savannakhet SEZ shall constitute an integral part of an economic reform and liberalization program. Domestic reforms should be made so that eventually similar incentives and benefits apply to all firms in Lao PDR (perhaps except for tax holidays).

It is therefore recommended that an external advisor to advise on improvement of the environment for FDIs, and promotion of FDIs, as well as on establishment of legal framework and promotion of Savannakhet SEZ.

Appendix-1

RESULTS OF INVESTMENT DEMAND SURVEY

Appendix 1 RESULTS OF INVESTMENT DEMAND SURVEY

1 Survey Methodology

Investment demand survey has been conducted in Thailand and Vietnam. In addition, the data collected in the past survey of Lao companies have been analyzed to complement the surveys in Thailand and Vietnam.

(1) Survey in Thailand

The survey questionnaire was sent by fax in early July 2000 to the selected 531 Japanese invested enterprises operating in Thailand and registered as members of the Japanese Chamber of Commerce, Bangkok. 78 enterprises responded by return fax. The composition by industrial category is shown as follows.

Category	Number of Companies	Number of Responses	Response Rate (%)
Machinery	71	14	14.1
Textile and apparel	52	5	9.6
Food processing	54	7	13.0
Transportation	75	9	12.0
Chemical	88	17	19.3
Electricity	161	21	13.0
Communication	30	5	16.7
Total	531	78	14.7

The Study Team interviewed several enterprises which showed interests in SEZ development in Savannakhet in their answers to questionnaire, by visiting in person or over the telephone.

(2) Survey in Vietnam

The questionnaire, similar to that of Thailand, was prepared for the survey of enterprises operating in and around Da Nang City in Vietnam. 50 major enterprises were selected from various sources and interviewed in accordance with the questionnaire during early and mid July 2000. The composition by industrial category is shown as follows:

Category	Number of Responses
Food processing	5
Textile and apparel	5
Wood products	4
Machinery and electric	6
Other manufacturing	13
Construction	5
Trade and transport	12
Total	50

Further, the Study Team interviewed a few companies which had already some business connections with Lao PDR and showed interests in investing in the country in their answers to the questionnaire.

(3) Survey of Lao Enterprises

A detailed questionnaire survey was conducted in February - March 2000 by the Ministry of Commerce and Tourism and a JICA expert attached to the Ministry, for the purpose of understanding current situation of the major manufacturing and export enterprises in Lao PDR. Three hundred companies operating in four major industrial cities, i.e. Vientiane, Thakhek, Savannakhet, and Pakse, were selected for the survey. Of 300 enterprises surveyed, 191 responded and the composition by industrial category is shown below:

Category	Vientiane	Thakhek	Savannakhet	Pakse	Total
Garment	21	0	3	0	24
Sawn mills	0	7	4	3	14
Wood processing	19	3	1	5	28
Handicraft	9	0	1	2	12
Rice mills	1	1	2	2	6
Mining	5	0	2	2	9
Agriculture	8	1	3	2	14
Trading	2	0	3	2	7
Light industries	47	8	9	13	77
Total	112	20	28	31	191

The Study Team re-arranged some parts of the results of the survey in order to analyze investment environment of Lao PDR and Savannakhet in particular.

2 Findings

(1) Thai Enterprises

Evaluation of Investment Environment

Japanese-invested enterprises operating in Thailand rate the investment climate of Lao PDR as not so favorable in general. While they consider “labor cost is cheap” in the country, almost all factors of investment environment are lowly evaluated. Especially, “market size”, “current economic situation”, “road condition and network”, and “financial and banking system” receive unfavorable ratings.

No significant differences are observed between industrial sectors, though textile and apparel sector’s evaluation is relatively favorable.

However, it was found in the interview survey that even the companies, which gave positive responses in the questionnaire survey, had quite limited knowledge on Lao PDR, implying that the evaluation above is mainly based on their “impression”, rather than experience or study.

Important factors for investment

More than half of surveyed enterprises answer that “political and social stability”, “market size”, “economic condition”, and “quality of labor” are important when making a decision for foreign direct investment. This implies that Lao PDR is in a disadvantageous position in attracting FDI because the country receives low ratings for these factors.

Although “cheap labor”, in which Lao PDR has an advantage, does not seem critical for the enterprises to make FDI in total, textile and apparel, and communication sectors think it important, compared to other sectors.

Relation with Lao PDR

At the moment, only a third of the 78 respondents have any kind of business relations with Lao PDR, with 20 enterprises exporting their products to Lao PDR. In the future, however, more than two-thirds show interests in having some business connection with the country, with 4 companies having intention to set up a factory.

Interests in SEZ

Of 78 respondents to the questionnaire survey, 20 enterprises showed interests in SEZ development in Savannakhet. Those enterprises are classified by subsector into:

Category	Nos. of Enterprises
Agriculture & marine product	1
Chemicals	1
Textile & Garment	4
Machinery	7
Transportation	5
Electric & Electronics	2

Facilities and Incentives for SEZ

"Free zone with no import/export duty for manufacturing and assembling" is the most desired facility in SEZ, with 68% of the surveyed enterprises preferring it, followed by "bonded warehouse" (42%).

Three most important incentives for the SEZ, according to the survey results, are "simplification of procedure", "improvement of power and water supply", and "fiscal incentives".

(2) Vietnamese Enterprises

Evaluation of Investment Environment

Vietnamese enterprises operating in the Da Nang area consider investment climate of Lao PDR as more favorable than Thai enterprises do, even though they do not give high scores. They consider "political condition is stable" and "labor cost is cheap" in Lao PDR, while "road condition and network" and "quality of labor" are most lowly rated.

It was found in the interview survey that unlike in Japanese-invested enterprises in Thailand, Vietnamese respondents had reasonably good knowledge of Lao situation and it is likely that they made the evaluation in accordance with their experience in doing some business with Lao PDR.

Important Factors for Investment

44 out of 50 enterprises answer that "political and social stability" is important when setting up a new overseas factory, also giving "fiscal

incentives” and “economic condition” much importance. Enterprises producing wood products say that “availability of raw materials” is most important.

Like the survey in Thailand, availability of “cheap labor” does not appear to be critical as only 30% of the respondents consider it as important. However, again like in Thailand, textile and apparel sector attach more importance to cheap labor than other sectors do.

Relation with Lao PDR

25 out of 50 surveyed enterprises like to export their products to Lao PDR in the future, although only 3 enterprises have intention to have a factory in Lao PDR. Two of them are from the textile and apparel sector.

Interests in SEZ

Of 50 surveyed companies in Da Nang, 36 enterprises or 72% gave positive responses, showing interests, more or less, in SEZ development in Savannakhet. Many of them showed their plan of setting up factories in the SEZ by giving specific features of the factory such as main products, area, number of employees, etc.

However, it is found through the interview that their intention to set up factories in Lao PDR is not so serious as seen in the questionnaire survey. They generally assess the Lao investment environment as not favorable. Especially, it appears that Vietnamese investors prefer using Vietnamese workers if they are to make an investment in Lao PDR because their evaluation of Lao workers is relatively low.

Facilities and Incentives for SEZ

"Free zone with no value added tax for marketing and shipping" is the most desired facility in SEZ, with 80% of the surveyed enterprises preferring it. Especially, all of trade and transport companies and wood product manufacturers permit that this facility is necessary. "Free zone with no import/export duty for manufacturing and assembling" comes next supported by 69% of the respondents.

Three most important incentives for SEZ, according to the survey results, are similar to the result of the survey in Thailand; “simplification of procedure”, “fiscal incentives” and “improvement of telecommunications” in this order.

(3) Lao Enterprises

Problems in Business

Out of 191 surveyed enterprises, 53 enterprises or 28% list “financing” as a major problem in doing their business. Other problems include “supply of raw material” (23%), “sales” (17%), and “technology development” (17%). Enterprises located in Savannakhet, 28 in total, also say “financing” is the problematic issue.

Problems in Employment

31% of total enterprises admit that their employees’ “skills are poor”, and 29% have difficulty in “recruiting factory workers”. “Quick turnover (job hopping)” (28%) is another problem in employment management.

Desired Support

Of all surveyed enterprises, 79 enterprises or 41% list "financial support for export" as the desired governmental support program to the private sector. This result coincides with their response regarding problems in business where “financing” is a major constraint. "Foreign market information services" (30%), "training service for business administration" (24%) and "expansion of bank financing" (22%) are other programs they most require. It is found that Lao enterprises seek foreign market access but face difficulty in terms of financing, market information and human resources.

Enterprises in Savannakhet show a similar tendency, requesting for "financial support for export" and "foreign market information services", and so on. In addition, "deregulation in plant and equipment investment" is also desired.

Joint venture between Lao and foreign enterprises, 37 in total, too, show generally the similar results, though they take more "training service for technology development" and "improvement of laws and regulation" as desired support programs.

Tables for ANNEX I

(1) Thai Enterprises

Table A.1.1 Evaluation of Lao Investment Environment

	Total No.	Evaluation of Lao Investment Environment (Highest=1 Lowest=5); Average Score						
		Political condition	Economic condition	Geographical location	Size of local market	Consistency of policy	Fiscal incentives	Administration
All	78	3.4	3.9	3.8	4.2	3.3	3.5	3.6
Agro-industry	7	3.3	4.0	3.7	4.1	3.3	3.1	3.3
Textile & apparel	5	3.0	3.0	3.2	3.4	3.0	2.6	2.8
Chemical	17	3.6	3.9	3.6	4.3	3.4	3.6	3.7
Electric	21	3.9	4.3	4.2	4.6	3.5	3.9	3.9
Machinery	14	3.1	4.2	4.0	4.2	3.2	3.2	3.6
Transport	9	2.7	3.6	4.0	4.1	3.1	3.3	3.6
Communication	5	3.3	3.3	3.5	4.0	3.3	3.3	3.5

	Total No.	Evaluation of Lao Investment Environment (Highest=1 Lowest=5); Average Score						
		Labor cost	Labor quality	Power supply	Water supply	Telecommunication	Road condition	Financial system
All	78	1.7	3.1	3.2	3.2	3.7	3.9	3.9
Agro-industry	7	2.0	3.3	2.6	3.0	3.7	4.1	4.0
Textile & apparel	5	1.8	2.8	2.8	2.8	2.6	3.0	2.8
Chemical	17	1.6	3.5	3.4	3.1	3.7	3.8	3.8
Electric	21	1.7	3.1	3.1	3.2	3.8	4.2	3.9
Machinery	14	1.5	2.8	3.3	3.4	4.0	4.2	4.3
Transport	9	2.0	3.1	3.2	3.0	3.5	4.0	3.8
Communication	5	1.3	3.0	3.3	3.3	3.5	3.5	3.5

Table A.1.2 Important Factors for Investment

	Total No. %	Important Factors for Investment							
		Political and socail stability	Economic condition	Market size	Distance from markets	Fiscal incentives	Parent company	Supporting company	Raw materials
All	78 100.0	68 93.2	44 60.3	49 67.1	13 17.8	18 24.7	3 4.1	7 9.6	25 34.2
Agro-industry	7 100.0	7 100.0	4 57.1	3 42.9	1 14.3	2 28.6	0 0.0	0 0.0	5 71.4
Textile & apparel	5 100.0	5 100.0	2 40.0	2 40.0	0 0.0	0 0.0	0 0.0	0 0.0	3 60.0
Chemical	17 100.0	15 88.2	11 64.7	13 76.5	4 23.5	5 29.4	1 5.9	0 0.0	8 47.1
Electric	21 100.0	17 89.5	10 52.6	13 68.4	1 5.3	5 26.3	0 0.0	4 21.1	6 31.6
Machinery	14 100.0	13 92.9	10 71.4	9 64.3	5 35.7	5 35.7	2 14.3	1 7.1	3 21.4
Transport	9 100.0	7 100.0	5 71.4	7 100.0	1 14.3	1 14.3	0 0.0	2 28.6	0 0.0
Communication	5 100.0	4 100.0	2 50.0	2 50.0	1 25.0	0 0.0	0 0.0	0 0.0	0 0.0

	Total No. %	Important Factors for Investment						
		Cheap labor	Quality labor	Partner for JV/tech tie-up	Electricity	Water supply	Industrial estate	Living condition for expats
All	78 100.0	26 35.6	35 47.9	15 20.5	13 17.8	12 16.4	7 9.6	10 13.7
Agro-industry	7 100.0	2 28.6	2 28.6	0 0.0	3 42.9	5 71.4	1 14.3	1 14.3
Textile & apparel	5 100.0	3 60.0	4 80.0	1 20.0	2 40.0	1 20.0	0 0.0	1 20.0
Chemical	17 100.0	1 5.9	6 35.3	5 29.4	2 11.8	3 17.6	3 17.6	1 5.9
Electric	21 100.0	9 47.4	13 68.4	1 5.3	5 26.3	3 15.8	2 10.5	4 21.1
Machinery	14 100.0	6 42.9	6 42.9	4 28.6	1 7.1	0 0.0	1 7.1	1 7.1
Transport	9 100.0	2 28.6	1 14.3	4 57.1	0 0.0	0 0.0	0 0.0	1 14.3
Communication	5 100.0	3 75.0	3 75.0	0 0.0	0 0.0	0 0.0	0 0.0	1 25.0

Table A.1.3 Relation with Lao PDR at Present

	Total No. %	Relation With Laos (Present)										
		Import raw materials	Export products	Receive trainees	Have Lao employees	Have factory in Laos	Hold share of Lao company	Have technical tie-up	Conduct investment survey	Be requested to invest	No connection	Other
All	78 100.0	0 0.0	20 35.1	0 0.0	2 3.5	0 0.0	0 0.0	0 0.0	4 7.0	2 3.5	34 59.6	1 1.8
Agro-industry	7 100.0	0 0.0	1 25.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	3 75.0	0 0.0
Textile & apparel	5 100.0	0 0.0	1 33.3	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	1 33.3	0 0.0	1 33.3	0 0.0
Chemical	17 100.0	0 0.0	1 8.3	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	11 91.7	0 0.0
Electric	21 100.0	0 0.0	6 33.3	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	12 66.7	0 0.0
Machinery	14 100.0	0 0.0	6 60.0	0 0.0	1 10.0	0 0.0	0 0.0	0 0.0	2 20.0	1 10.0	3 30.0	0 0.0
Transport	9 100.0	0 0.0	4 50.0	0 0.0	1 12.5	0 0.0	0 0.0	0 0.0	1 12.5	1 12.5	3 37.5	1 12.5
Communication	5 100.0	0 0.0	1 50.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	1 50.0	0 0.0

Table A.1.4 Relation with Lao PDR in the Future

	Total No. %	Relation With Laos (Future)										
		Import raw materials	Export products	Receive trainees	Have Lao employees	Have factory in Laos	Hold share of Lao company	Have technical tie-up	Conduct investment survey	Be requested to invest	No connection	Other
All	78 100.0	4 10.3	10 25.6	3 7.7	2 5.1	4 10.3	4 10.3	6 15.4	8 20.5	3 7.7	18 46.2	2 5.1
Agro-industry	7 100.0	0 0.0	0 0.0	1 25.0	0 0.0	0 0.0	1 25.0	1 25.0	1 25.0	0 0.0	3 75.0	0 0.0
Textile & apparel	5 100.0	0 0.0	0 0.0	0 0.0	0 0.0	2 66.7	0 0.0	1 33.3	3 100.0	0 0.0	0 0.0	0 0.0
Chemical	17 100.0	0 0.0	4 36.4	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	7 63.6	0 0.0
Electric	21 100.0	2 20.0	3 30.0	1 10.0	1 10.0	1 10.0	1 10.0	1 10.0	2 20.0	1 10.0	5 50.0	2 20.0
Machinery	14 100.0	1 20.0	2 40.0	1 20.0	1 20.0	1 20.0	1 20.0	1 20.0	0 0.0	1 20.0	2 40.0	0 0.0
Transport	9 100.0	1 20.0	1 20.0	0 0.0	0 0.0	0 0.0	1 20.0	2 40.0	1 20.0	1 20.0	1 20.0	0 0.0
Communication	5 100.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	1 100.0	0 0.0	0 0.0	0 0.0

Table A.1.5 Interests in Savannakhet SEZ

	Total No. %	Interst in SEZ	
		Yes, interested	No, not interested
All	78 100.0	20 25.6	58 74.4
Agro-industry	7 100.0	1 14.3	6 85.7
Textile & apparel	5 100.0	4 80.0	1 20.0
Chemical	17 100.0	1 5.9	16 94.1
Electric	21 100.0	2 9.5	19 90.5
Machinery	14 100.0	8 57.1	6 42.9
Transport	9 100.0	4 44.4	5 55.6
Communication	5 100.0	0 0.0	5 100.0

Table A.1.6 Desired Facilities for SEZ

	Total No. %	Facility Desired					
		Free zone - duty free	Free zone - no VAT	Bonded warehouse	Marketing center	Cargo terminal	Other
All	78 100.0	13 68.4	7 36.8	8 42.1	6 31.6	6 31.6	2 10.5
Agro-industry	7 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0
Textile & apparel	5 100.0	4 100.0	4 100.0	1 25.0	0 0.0	0 0.0	0 0.0
Chemical	17 100.0	1 100.0	1 100.0	1 100.0	0 0.0	0 0.0	0 0.0
Electric	21 100.0	2 100.0	1 50.0	2 100.0	1 50.0	0 0.0	0 0.0
Machinery	14 100.0	3 37.5	1 12.5	2 25.0	3 37.5	3 37.5	2 25.0
Transport	9 100.0	3 75.0	0 0.0	2 50.0	2 50.0	3 75.0	0 0.0
Communication	5 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0

Table A.1.7 Desired Incentives for SEZ

	Total No. %	Incentives Desired					
		Fiscal incentives	Removal of govt intervention	Simplified procedure	Improved telecommu- nication	Improved power and water supply	Quality labor/ training
All	78 100.0	39 60.9	17 26.6	45 70.3	21 32.8	45 70.3	21 32.8
Agro-industry	7 100.0	4 66.7	3 50.0	3 50.0	1 16.7	6 100.0	4 66.7
Textile & apparel	5 100.0	3 60.0	1 20.0	4 80.0	4 80.0	3 60.0	0 0.0
Chemical	17 100.0	8 66.7	4 33.3	7 58.3	1 8.3	9 75.0	5 41.7
Electric	21 100.0	12 70.6	2 11.8	12 70.6	4 23.5	13 76.5	6 35.3
Machinery	14 100.0	7 50.0	5 35.7	12 85.7	6 42.9	9 64.3	2 14.3
Transport	9 100.0	5 71.4	1 14.3	5 71.4	3 42.9	3 42.9	3 42.9
Communication	5 100.0	0 0.0	1 33.3	2 66.7	2 66.7	2 66.7	1 33.3

(2) Vietnamese Enterprises

Table A.1.8 Evaluation of Lao Investment Environment

	Total No.	Evaluation of Lao Investment Environment (Highest=1 Lowest=5); Average Score						
		Political condition	Economic condition	Geographical location	Size of local market	Consistency of policy	Fiscal incentives	Administration
All	50	1.6	3.0	2.4	3.1	3.1	3.0	3.3
Food, beverage	5	1.0	2.6	2.4	3.8	2.4	2.8	2.2
Textile & apparel	5	1.6	2.8	2.6	2.6	2.8	2.5	3.2
Wood products	4	1.0	2.0	1.8	3.0	3.0	3.0	3.5
Machinery & elec.	6	2.3	3.3	2.5	2.7	3.0	3.3	3.3
Other manufacturing	13	2.0	3.3	2.1	3.2	3.5	3.0	3.6
Construction	5	1.0	2.6	2.4	3.2	3.4	2.8	3.6
Trade & transport	12	1.6	3.1	2.8	3.3	3.1	3.0	3.2

	Total No.	Evaluation of Lao Investment Environment (Highest=1 Lowest=5); Average Score						
		Labor cost	Labor quality	Power supply	Water supply	Telecommunication	Road condition	Financial system
All	50	2.1	3.7	3.0	3.0	3.0	3.9	3.2
Food, beverage	5	2.8	4.0	3.4	3.8	3.8	4.0	2.8
Textile & apparel	5	2.2	3.2	2.8	2.6	3.4	3.6	3.4
Wood products	4	2.5	3.3	2.8	2.8	2.0	3.3	3.0
Machinery & elec.	6	2.3	4.2	3.8	3.0	3.0	3.7	3.0
Other manufacturing	13	1.7	3.7	3.0	3.2	3.3	4.2	3.5
Construction	5	1.0	3.4	2.8	2.8	2.6	3.8	3.4
Trade & transport	12	2.3	3.8	2.8	2.8	2.6	4.0	2.9

Table A.1.9 Important Factors for Investment

	Total No. %	Important Factors for Investment							
		Political and social stability	Economic condition	Market size	Distance from markets	Fiscal incentives	Parent company	Supporting company	Raw materials
All	50 100.0	44 88.0	33 66.0	27 54.0	9 18.0	34 68.0	1 2.0	9 18.0	25 50.0
Food, beverage & tobacco	5 100.0	5 100.0	2 40.0	2 40.0	2 40.0	4 80.0	0 0.0	1 20.0	3 60.0
Textile, apparel & leather	5 100.0	4 80.0	2 40.0	4 80.0	1 20.0	3 60.0	0 0.0	1 20.0	2 40.0
Wood & wood products	4 100.0	4 100.0	3 75.0	1 25.0	1 25.0	4 100.0	0 0.0	0 0.0	4 100.0
Machinery & electrics	6 100.0	4 66.7	5 83.3	3 50.0	1 16.7	3 50.0	0 0.0	0 0.0	3 50.0
Other manufacturing	13 100.0	10 76.9	9 69.2	9 69.2	2 15.4	9 69.2	0 0.0	4 30.8	6 46.2
Construction	5 100.0	5 100.0	4 80.0	2 40.0	0 0.0	3 60.0	1 20.0	1 20.0	1 20.0
Trade & transport	12 100.0	12 100.0	8 66.7	6 50.0	2 16.7	8 66.7	0 0.0	2 16.7	6 50.0

	Total No. %	Important Factors for Investment						
		Cheap labor	Quality labor	Partner for JV/tech tie-up	Electricity	Water supply	Industrial estate	Living condition for expats
All	50 100.0	15 30.0	11 22.0	22 44.0	7 14.0	6 12.0	2 4.0	1 2.0
Food, beverage & tobacco	5 100.0	2 40.0	1 20.0	2 40.0	0 0.0	0 0.0	0 0.0	0 0.0
Textile, apparel & leather	5 100.0	4 80.0	0 0.0	0 0.0	2 40.0	1 20.0	1 20.0	0 0.0
Wood & wood products	4 100.0	1 25.0	0 0.0	2 50.0	0 0.0	0 0.0	0 0.0	0 0.0
Machinery & electrics	6 100.0	0 0.0	1 16.7	4 66.7	2 33.3	2 33.3	0 0.0	1 16.7
Other manufacturing	13 100.0	3 23.1	5 38.5	7 53.8	1 7.7	0 0.0	0 0.0	0 0.0
Construction	5 100.0	2 40.0	3 60.0	3 60.0	0 0.0	0 0.0	0 0.0	0 0.0
Trade & transport	12 100.0	3 25.0	1 8.3	4 33.3	2 16.7	3 25.0	1 8.3	0 0.0

Table A.1.10 Relation with Lao PDR at Present

	Total No. %	Relation With Laos (Present)										
		Import raw materials	Export products	Receive trainees	Have Lao employees	Have factory in Laos	Hold share of Lao company	Have technical tie-up	Conduct investment survey	Be requested to invest	No connection	Other
All	50 100.0	8 17.0	16 34.0	0 0.0	0 0.0	0 0.0	0 0.0	2 4.3	2 4.3	3 6.4	21 44.7	7 14.9
Food, beverage & tobacco	5 100.0	1 20.0	2 40.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	1 20.0	1 20.0	1 20.0	1 20.0
Textile, apparel & leather	5 100.0	0 0.0	1 20.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	1 20.0	1 20.0	2 40.0	0 0.0
Wood & wood products	4 100.0	2 66.7	2 66.7	0 0.0	0 0.0	0 0.0	0 0.0	1 33.3	0 0.0	0 0.0	0 0.0	0 0.0
Machinery & electrics	6 100.0	1 20.0	1 20.0	0 0.0	0 0.0	0 0.0	0 0.0	1 20.0	0 0.0	0 0.0	3 60.0	1 20.0
Other manufacturing	13 100.0	1 7.7	3 23.1	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	10 76.9	1 7.7
Construction	5 100.0	0 0.0	2 40.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	1 20.0	2 40.0	1 20.0
Trade & transport	12 100.0	3 27.3	5 45.5	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	3 27.3	3 27.3

Table A.1.11 Relation with Lao PDR in the Future

	Total No. %	Relation With Laos (Future)										
		Import raw materials	Export products	Receive trainees	Have Lao employees	Have factory in Laos	Hold share of Lao company	Have technical tie-up	Conduct investment survey	Be requested to invest	No connection	Other
All	50 100.0	6 13.3	25 55.6	0 0.0	0 0.0	3 6.7	0 0.0	2 4.4	2 4.4	1 2.2	10 22.2	4 8.9
Food, beverage & tobacco	5 100.0	1 20.0	2 40.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	1 20.0	1 20.0	2 40.0	1 20.0
Textile, apparel & leather	5 100.0	0 0.0	2 40.0	0 0.0	0 0.0	2 40.0	0 0.0	0 0.0	1 20.0	0 0.0	1 20.0	0 0.0
Wood & wood products	4 100.0	3 75.0	2 50.0	0 0.0	0 0.0	0 0.0	0 0.0	1 25.0	0 0.0	0 0.0	0 0.0	0 0.0
Machinery & electrics	6 100.0	0 0.0	3 75.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	1 25.0	0 0.0
Other manufacturing	13 100.0	0 0.0	9 75.0	0 0.0	0 0.0	1 8.3	0 0.0	0 0.0	0 0.0	0 0.0	3 25.0	0 0.0
Construction	5 100.0	0 0.0	2 50.0	0 0.0	0 0.0	0 0.0	0 0.0	1 25.0	0 0.0	0 0.0	0 0.0	1 25.0
Trade & transport	12 100.0	2 18.2	5 45.5	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	3 27.3	2 18.2

Table A.1.12 Interests in Savannakhet SEZ

	Total No. %	Interst in SEZ	
		Yes, intersted	No, not interested
All	50 100.0	36 72.0	14 28.0
Food, beverage & tobacco	5 100.0	3 60.0	2 40.0
Textile, apparel & leather	5 100.0	2 40.0	3 60.0
Wood & wood products	4 100.0	4 100.0	0 0.0
Macinery & electrics	6 100.0	4 66.7	2 33.3
Other manufacturing	13 100.0	9 69.2	4 30.8
Construction	5 100.0	4 80.0	1 20.0
Trade & transport	12 100.0	10 83.3	2 16.7

Table A.1.13 Desired Facilities for SEZ

	Total No. %	Facility Desired					
		Free zone - duty free	Free zone - no VAT	Bonded warehouse	Marketing center	Cargo terminal	Other
All	50 100.0	24 68.6	28 80.0	3 8.6	10 28.6	5 14.3	1 2.9
Food, beverage & tobacco	5 100.0	3 100.0	2 66.7	1 33.3	2 66.7	1 33.3	0 0.0
Textile, apparel & leather	5 100.0	2 100.0	1 50.0	1 50.0	0 0.0	0 0.0	0 0.0
Wood & wood products	4 100.0	3 75.0	4 100.0	0 0.0	0 0.0	0 0.0	0 0.0
Machinery & electrics	6 100.0	3 75.0	3 75.0	0 0.0	2 50.0	0 0.0	0 0.0
Other manufacturing	13 100.0	8 88.9	6 66.7	0 0.0	2 22.2	0 0.0	1 11.1
Construction	5 100.0	2 66.7	2 66.7	1 33.3	1 33.3	0 0.0	0 0.0
Trade & transport	12 100.0	3 30.0	10 100.0	0 0.0	3 30.0	4 40.0	0 0.0

Table A.1.14 Desired Incentives for SEZ

	Total No. %	Incentives Desired						
		Fiscal incentives	Removal of govt intervention	Simplified procedure	Improved telecommunication	Improved power and water supply	Quality labor/ training	Locaiton (proximity to Vietnam)
All	50 100.0	37 74.0	0 0.0	44 88.0	29 58.0	12 24.0	12 24.0	17 34.0
Food, beverage & tobacco	5 100.0	3 60.0	0 0.0	5 100.0	2 40.0	2 40.0	1 20.0	2 40.0
Textile, apparel & leather	5 100.0	4 80.0	0 0.0	4 80.0	4 80.0	0 0.0	1 20.0	2 40.0
Wood & wood products	4 100.0	4 100.0	0 0.0	3 75.0	2 50.0	1 25.0	1 25.0	1 25.0
Machinery & electrics	6 100.0	5 83.3	0 0.0	6 100.0	2 33.3	2 33.3	1 16.7	2 33.3
Other manufacturing	13 100.0	9 69.2	0 0.0	12 92.3	6 46.2	4 30.8	3 23.1	5 38.5
Construction	5 100.0	3 60.0	0 0.0	5 100.0	5 100.0	0 0.0	1 20.0	1 20.0
Trade & transport	12 100.0	9 75.0	0 0.0	9 75.0	8 66.7	3 25.0	4 33.3	4 33.3

(3) Lao Enterprises

Table A.1.15 Problems in Business

	Total Nos. (%)	Problems in Business							
		Sales	Productions	Technology development	Financing	Recruiting & training	Outside manufac- turer	Raw material supply	Plant & eqpmt investment
All	191 100.0	33 17.3	29 15.2	32 16.8	53 27.7	16 8.4	2 1.0	43 22.5	16 8.4
Vientiane	112 100.0	20 17.9	14 12.5	23 20.5	28 25.0	9 8.0	1 0.9	20 17.9	12 10.7
Thakhek	20 100.0	4 20.0	3 15.0	3 15.0	6 30.0	1 5.0	0 0.0	9 45.0	0 0.0
Savannakhet	28 100.0	3 10.7	6 21.4	2 7.1	9 32.1	3 10.7	0 0.0	6 21.4	0 0.0
Pakse	31 100.0	6 19.4	6 19.4	4 12.9	10 32.3	3 9.7	1 3.2	8 25.8	4 12.9

	Total Nos. (%)	Problems in Business						
		Distribution	Information access	Export	Govt regulation	Tax	Others	No problem
All	191 100.0	21 11.0	9 4.7	15 7.9	16 8.4	18 9.4	8 4.2	6 3.1
Vientiane	112 100.0	8 7.1	6 5.4	13 11.6	12 10.7	9 8.0	5 4.5	2 1.8
Thakhek	20 100.0	4 20.0	1 5.0	1 5.0	2 10.0	7 35.0	0 0.0	2 10.0
Savannakhet	28 100.0	3 10.7	2 7.1	1 3.6	1 3.6	0 0.0	0 0.0	0 0.0
Pakse	31 100.0	6 19.4	0 0.0	0 0.0	1 3.2	2 6.5	3 9.7	2 6.5

Table A.1.16 Problems in Employment

	Total no. (%)	Problems in Employment									
		Recruiting factory workers	Recruiting engineers	Recruiting clerks	Recruiting managers	Rise of wages	Quick turnover employees	Training	Poor skills	Finding replace- ments	Others
All	191 100.0	55 28.8	34 17.8	4 2.1	15 7.9	20 10.5	54 28.3	21 11.0	60 31.4	7 3.7	5 2.6
Vientiane	112 100.0	29 25.9	23 20.5	3 2.7	9 8.0	12 10.7	25 22.3	13 11.6	33 29.5	4 3.6	5 4.5
Thakhek	20 100.0	8 40.0	1 5.0	0 0.0	1 5.0	2 10.0	7 35.0	1 5.0	15 75.0	2 10.0	0 0.0
Savannakhet	28 100.0	9 32.1	5 17.9	0 0.0	2 7.1	2 7.1	10 35.7	2 7.1	4 14.3	0 0.0	0 0.0
Pakse	31 100.0	9 29.0	5 16.1	1 3.2	3 9.7	4 12.9	12 38.7	5 16.1	8 25.8	1 3.2	0 0.0

Table A.1.17 Needed Support by the Government

	Total	Needed Govt Support							
		Develop industrial estate	Deregula- tion in investment	Expand bank financing	Financial support for export	Foreign mkt info servie	Technology info service	Manage- ment info service	Business training
All	191 100.0	31 16.2	34 17.8	41 21.5	79 41.4	57 29.8	25 13.1	21 11.0	45 23.6
Vientiane	112 100.0	12 10.7	16 14.3	17 15.2	49 43.8	38 33.9	15 13.4	10 8.9	21 18.8
Thakhek	20 100.0	7 35.0	7 35.0	4 20.0	8 40.0	5 25.0	3 15.0	5 25.0	8 40.0
Savannakhet	28 100.0	5 17.9	6 21.4	6 21.4	7 25.0	7 25.0	3 10.7	1 3.6	6 21.4
Pakse	31 100.0	7 22.6	5 16.1	14 45.2	15 48.4	7 22.6	4 12.9	5 16.1	10 32.3

	Total	Needed Govt Support						
		Tech develop- ment training	Improve laws and regulations	Simplify admmistr ation	Improve infra for transport	Improve water supply & sewage	Promote business assoc	Others
All	191 100.0	21 11.0	23 12.0	22 11.5	8 4.2	5 2.6	8 4.2	1 0.5
Vientiane	112 100.0	13 11.6	18 16.1	15 13.4	5 4.5	2 1.8	5 4.5	1 0.9
Thakhek	20 100.0	2 10.0	3 15.0	1 5.0	0 0.0	1 5.0	2 10.0	0 0.0
Savannakhet	28 100.0	1 3.6	0 0.0	1 3.6	0 0.0	0 0.0	0 0.0	0 0.0
Pakse	31 100.0	5 16.1	2 6.5	5 16.1	3 9.7	2 6.5	1 3.2	0 0.0

Appendix-2
ASIAN EXPERIENCES

Appendix 2 ASIAN EXPERIENCES

1. ESZ in China

(1) Outline

Table A.2.1 Outline of Chinese ESZ

Name of Scheme	Economic Special Zones
Year of Introduction	1980 (Guangdong Province)
Objectives	To develop international cooperation and technological exchange To promote the construction of the socialistic modernization
Applied Location	Shenzhen, Shantou, Xiamen and Zhuhai
Basic Principles	1) Utilization of FDI for economic development 2) Economic activities based on market-economy mechanism 3) Approval of broad autonomy of ESZ Committee 4) Approval of incentives to FDI
Major Applicable Laws	1) "Regulation on Economic Special Zones in Guangdong Province" (1980) is the first authorized law to regulate the establishment of ESZ. 2) Following it, many provisions were enacted for the purpose of administering and operating ESZ. In Shenzhen City, for example, "Provision on administering properties"(1983), "Detailed Provision on administering the enterprise registration" (1984) and "Provision on the adjustment, reduction and exemption of land use fees"(1984) were established. On the ministries level, such decrees as "Provision for administering foreign and joint venture bank in ESZ"(1985) and "Provision for administering export/import goods, transportation, accompanied luggage, parcel post in ESZ" (1986) were also enacted. 3) Tentative Provision is a provision which is tentatively established with the purpose for applying it to the national economy in the future. "Tentative Provision on the labor remuneration"(1981), "Tentative Provision for administering the enterprise registration"(1981), "Tentative Provision on administering immigration control"(1981) of Guangdong Province and "Tentative Provision on land administration" (1981), "Tentative Provision on introducing foreign technology" (1984) of Shenzhen are among these tentative provisions. "Prime Minister's Tentative Provision on the reduction or exemption of corporate tax and integrated tax of industry and commerce, applied to ESZ "(1984) is also one example of national level legislation of the same nature.

Name of Scheme	Economic Special Zones
Investment Incentives	<ol style="list-style-type: none"> 1) Corporate tax reduction to 15%, with a grace period of 2 years after starting making profit and successive reduction to 7.5% in the following 3 years. (Applied only to the enterprises in the operation for more than 10 years in manufacturing, transport, agriculture, forestry, livestock breeding, etc. For service industries with the investment of more than US\$5million, a grace period of 1 year and 7.5% rate for succeeding 2 year may be applied.) 2) Possible reduction or exemption of inhabitant's tax 3) Exemption of remittance tax for repatriation of dividend derived from Joint Venture operation 4) Withholding tax at a flat rate of 10% on dividend, interest, rent, license royalty for non-resident corporation 5) Exemption of business tax on imported manufacturing facilities, materials, parts or transport measures. Reduction to half of a normal rate on mineral ores, tobacco or liquor. No incentive given to commercial/transport/service industries 6) Exemption of business tax on exporting goods 7) Land leasing period and rent (1981) Manufacturing: 30 years: RMP10-30/m² Commercial (including restaurant): 20 years: RMP70-200 Housing for sale: 50 years: RMP30-60 Amusement (including hotel): 30 years: RMP60-100 Education, science, medical: 50 years Plantation, breeding, culturing: 20 years: Subject to negotiation High-tech project: 5 years exemption of rent and half payment for the following 3 years Land rent reconsidered in every 3 years
Similarity to and Difference from other Asian SEZ	<ol style="list-style-type: none"> 1) Most of the characteristics of other EPZ in Asia applied to Chinese ESZ 2) Manufacturing, agriculture, livestock farming, aquaculture, tourism, housing and construction, Hi-tech research and manufacturing are among the industries that foreign investment is approved, while in other Asian EPZ only manufacturing is approved for investment in general. 3) The area of ESZ is rather wide comparing with other EPZ because the aim of ESZ includes the urban development planning. 4) ESZ aims not only the invitation of FDI but also the diffusion of experiences and achievement of ESZ to all over the countries. 5) ESZ was planned as a part of Chinese political strategies for unification of the country.

(2) Historical Background

As implied in Chinese language of “Economic Special Zones”, the aim of Chinese SEZ was that the country would implement a trial, in the limited region, introducing the market-oriented economy while keeping the political regime of socialism. SEZ prepared infrastructure, relatively cheap and abundant manpower, economical land, investment incentives, legislation and the potentially huge domestic market. The investment incentives themselves were not new, and most of them were already common among other similar schemes of Asian countries (e.g., Hong Kong and Taiwan), which were looking for their economic hinterland due to rapid hike in labor costs in their home countries. They, naturally, were the first respondent to utilize such a Chinese new scheme. Hong Kong enterprises have already had long time business relations with Chinese enterprises in Shenzhen. Many of them even had their own subsidiaries or own factories there. Taiwan liberated its peoples’ visits to Mainland China in 1985 soon after China decided to open up the country and set up the Foreign Investment Law in 1979 and the Regulation on ESZ in Guangdong Province in 1980. The application of ESZ scheme was quite timely.

There were many disturbances between foreign investors and the Chinese authority or Chinese private corporations in the following years, because both private and public sectors in China those days were not familiar with the so-called international business practices, especially in maintaining contracts. Technology level was low, and sense of quality was lacking. Workers and management were used to work only for fulfilling the required or ordered quantity. Nevertheless, Chinese workers were fast learners and so was the management.

Only after the supporting industries in ESZ developed, or at least started to develop, and when the stable operation in ESZ was secured, other developed countries such as Japan, US, EU countries, Korea followed to invest in ESZ. An accumulation effect of manufacturing then took place.

(3) Current Situation

Nowadays, Shenzhen is famous for its production of office equipment and electronics parts/components. It is said that all the necessary parts for up-to-date copying machines can be gathered within two to three days there. Shenzhen ESZ is known as a successful model of the Socialism Market Economy. It is noted, however, there began an argument whether ESZ

should be demolished or not. The main reason for such an argument is that a success of Shenzhen ESZ brought about the effect of widening the economic gaps between ESZ area and other areas. Further, following the entry of China into WTO, discriminatory policies as ESZ will become less sustainable under the free trade regime.

Nevertheless, Shenzhen ESZ accumulated so far FDI of US\$ 20 billion in more than 15,000 projects. Those FDI produce 68% of all Shenzhen's industrial output and 85% of total exports, provide 2 million jobs and bear one third of the government revenue. Shenzhen ESZ aims to attract US\$ 20 billion more in next five years and, by 2010, it targets to realize the per capita GDP of US\$ 10,000- for the population of 5.5 million. The future goals of Shenzhen ESZ are to become a high-tech industrial city, an international port city, China's export and major economic growth center and regional financial center. Shenzhen ESZ seems to go into a new era.

The current situation of four ESZ in China, namely Shenzhen, Shantou, Xiamen and Zhuhai, are summarized in the Table A.2.2.

Table A.2.2 Current Situation of Chinese ESZ

	Shenzhen	Shantou	Xiamen	Zhuhai
Location	Guangdong Province	Guangdong Province	Fujian Province	Guangdong Province
SEZ area	327.5 square km	234 square km	1,516 square km (Region)	1,630 square km (Region)
Population	3.79 million (1997)	1.0 million	1.21 million	643.7 thousand
Natural resources	Over 30 species fishes, 15 metallic minerals, 12 non-metallic minerals, 900 mineral deposits, Fresh-water marble sand, Guanine, Lime stone	Rich in fish resources, high production of fruits and vegetables	Sunshine beaches, mountains and local culture	Rich in aquatic and mineral resources such as porcelain clay, gaolin, potash feldspar and quartz stones. Close to Nanhai oil field.
GDP	RMB 143.6 billion (1999) (US\$4,000 per capita)	RMB 17.0 billion (1996)	RMB 45.8 billion (or US\$5.52 billion) (1999)	RMB 17.5 billion (1996)
Industrial output	RMB 125.55 billion (1997)	RMB 21.1 billion (1996)	RMB 69.88 billion (1999)	
Industrial export	RMB 68.04 billion (1997)			
FDI source	70% from Hong Kong (16,300 projects), Taiwan, Japan, the US, EU	Hong Kong, Taiwan, Japan, Thailand, Singapore and the UK	60 of the 1,000 top multi-national firms in Xiamen	Hong Kong, Macau, Taiwan, Japan, the US, EU
FDI fields	Manufacturing of telecommunication tools, electronics, light building materials and machinery, real estate, commerce, hotels	Manufacturing of electronics, watches, pharmaceuticals, footwear, garments, chemicals, machinery, food processing, ceramics, real estate, hotels, tourism and infrastructure	Electronics, electrical appliances, textiles and garments, footwear, chemical, property, tourism and building materials	Electronics, garments, footwear, toys, plastics and materials manufacturing, tourism and property
FDI amount	US\$2.75 billion in 1999	US\$8.46 billion (Up to 1995)	US\$13.5 billion (up to 1997), US\$ 1.29 billion in 1999	US\$3.0 billion (1990s)
Approved FDI	1,558 projects in 1999	3,825 foreign firms (up to 1995)	More than 4,000 projects (up to 1997), 209 projects in 1999	340 projects (1998)
Exports of SEZ	US\$11.51 billion (1999): 80% designated to or transshipped via Hong Kong	US\$488.74 million (1995)	US\$3.54 billion (1999)	US\$ 6.8 billion (1998)
Import of SEZ	US\$ 11.04	US\$646.21 million (1995)	US\$2.6 billion (1999)	

	Shenzhen	Shantou	Xiamen	Zhuhai
Transportation	Guangzhou - Kowloon Railway, Guangzhou - Shenzhen expressway, Eight port areas, Huangtian International Airport	Shantou International Airport (direct to Hong Kong, Singapore, Bangkok, Kuala Lumpur and Kuching), Shantou Port	Dongdu Port (two 50,000-ton berths, two 30,000-ton berths, four 10,000-ton berths), Yingtan – Xiamen Railway, Xiamen International Airport (direct to Hong Kong, Japan, Singapore)	Zhuhai Port (Two 20,000-ton berths , 100,000-ton coal terminal, 100,000-ton minerals clocks, 80,000-ton cereal and edible oil berth, etc.). Connected by highway to Macau and Shenzhen, Zhuhai Airport (domestic)
Electric power	Electric supply is reliable in SEZ	Huaneng Power Plant generates 3.4MW annually.		800,000KWH
Telecommunications	Generally well-developed	204,000 lines telephone, 63,000 mobile phone users	A program-controlled automatic telephone exchange system	A coaxial and microwave system. 93% of families installed telephone lines.
Other features	48 foreign bank branches, Shenzhen Stock Exchange (44 Chinese firms stocks listed)	Establishing Free Trade Zone of 2.34 square km 8/1993)	Same dialect as Taiwan, 3 million tourist per year,	Corporate tax rate of 15%

2. EPZ in Thailand

(1) Outline

Table A.2.3 Outline of Thai EPZ

Name of Scheme	Export Processing Zones
Year of Introduction	1977
Location	For whole country (11 EPZs as of August 2000)
Basic principles	1) To facilitate the industrial development 2) To exploit FDI by providing with industrial estate, where necessary infrastructures are completed. 3) To promote exports and technology transfer. 4) To develop remote or under-developed regions (Decentralization of industries).
Major Applicable Laws	Investment Promotion Act B.E. 2520 (1977), amended by Investment Promotion Act (No.2) B.E. 2534 (1991) Industrial Estate Authority of Thailand Act B.E. 2522 (1979), amended by IEAT Act (Second Edition, 1991) and IEAT Act (Third Edition, 1996)
Investment Incentives	(For promotional industries, given by BOI) No or a reduction to one-half of import duty on machinery Maximum 10% reduction of import duty on raw materials Exemption of payment of income tax Royalties, dividend - Exemption from computation of taxable income Approval of foreign ownership of land Hiring foreign personnel beyond the regulation Further incentives for investment into certain location Guarantee on remittance of foreign currencies Exports promotion incentives <ul style="list-style-type: none"> - No import duty on raw materials - No import duty on the items for re-export - No export duty on the items produced or assembled by the promoted enterprises - Reduction of corporate tax (For enterprise in EPZ, given by IEAT) <ul style="list-style-type: none"> - No surcharge, excise tax and VAT on machinery, parts, components, bi-products and raw materials - No export duty, VAT and excise tax for export goods - Exemption or refund of taxes and duties for local goods utilized for production

Name of Scheme	Export Processing Zones
Similarity to and Difference from the other Asian SEZ	<p>Combined incentives of BOI and IEAT for exporting companies are not much different from other Asian countries.</p> <p>In new concept of EPZ, trading and services can be located in EPZ and entitled to enjoy almost same privileges as manufacturing companies. This is the similar concept to the Philippines' Clark and Subic EPZ, where the trading, services and tourism are permitted to get incentives.</p>
Types of Industries, Trade and Services eligible for incentives in EPZ	<p>(1) Industries which;</p> <ul style="list-style-type: none"> i) Operate in EPZs prior to 4 January 1997 ii) Are promoted by the BOI iii) Are considered priority industries by the Ministry of Industry iv) Are approved by IEAT Board v) Are specified by the government to operate within the Industrial Estates vi) Have been requested by organizations or the government to coordinate and support the establishment of Industrial Estate for the purpose of such industries vii) Manufacture the products to be used in telecommunications, computing, information services and multimedia services in both the hardware and software modes <p>(2) Trades which;</p> <ul style="list-style-type: none"> i) Purchase and sell the industrial products ii) Purchase and sell the products to be used in manufacturing iii) Collect, store and distribute the industrial products and the products of ii) iv) Pack and re-pack the products <p>(3) Services which engage in;</p> <ul style="list-style-type: none"> i) Warehousing and transportation ii) Trade fair, exhibition and symposium iii) Maintenance and other engineering jobs for machines and equipment iv) Research and development v) Telecommunication services, computing services, information services and multimedia services supporting business, trade and services

(2) Historical Background

In 1977, EPZ was set up under “Investment Promotion Act B.E. 2520 (1977)” and “Industrial Estate Authority of Thailand Act B.E. 2520(1977)” (IEAT Act 1977). Section 36 of IEAT Act 1977 stipulates that “EPZ” means an area designated for industrial activities or other activities beneficial to or connected with industrial activities for the purpose of exporting products. IEAT’s strategy to provide the foreign investors with well arranged and equipped industrial estates at the strategic location worked out, and the numbers of Industrial Estates run by IEAT rose to 29. Among 29 industrial estates, there are 11 EPZs as shown below.

Table A.2.4 Distribution of IEAT Industrial Estates and EPZ

	Industrial Estate		
	General Industrial Zone (GIZ) only	EPZ + GIZ	Total
Zone 1	2	4	6
Zone 2	8	4	12
Zone 3	8	3	11

Note: Zone 1: Bangkok and 6 central provinces
Zone 2 : 10 Provinces surrounding Zone 1
Zone 3 : Other 60 Provinces

Source: Brochure of IEAT

In 1996, the definition of EPZ was amended by IEAT Act 1996 to read that “EPZ means an area designated for industrial activities, trading or services for the purpose of exporting products and other activities beneficial to or connected with industrial activities or service for the purpose of exporting products”. Following this amendment, 9 EPZs became new type of EPZ (NEPZ), where trading and services would be able to get the same incentives as manufacturing industries.

(3) Current Situation

IEAT is a state enterprise attached to the Ministry of Industry and an operating body of EPZ, being in charge of the land management, leasing and sale of properties in EPZ, supervision of working conditions, and implementation of other related business. On top of BOI incentives, IEAT also provide its own incentives, upon approval of BOI. FDI application and incentives are to be processed and examined by BOI and, with approval of BOI for such FDI, foreign investors may apply for the entry into EPZ when they wish, and receive a written permit of the Governor of IEAT. Through

entry into EPZ, foreign investors will automatically enjoy IEAT incentives stipulated under the IEAT Act. IEAT is entitled to inspect and certify activities of foreign investors in EPZ in order to fulfill incentive facilities in compliance with such rules, conditions and procedures as prescribed by BOI.

IEAT is to levy and collect the rents, service charges and management fees for facilities to cover its expenditures and debts or to reserve the funds for expansion of activities and investment. In other words, it is an independent financial entity responsible for profit and loss to be derived from their activities.

IEAT recently planned new type of Free Trade Zone (NFTZ) at coastal area. NFTZ was a combined scheme of the traditional FTZ (trading, warehousing, distribution and exhibition) and manufacturing. They planned to provide enterprises in NFTZ with the following incentives for capital goods, raw materials, parts, components, accessories, etc.

Imports:	No import duty, VAT, excise tax and surcharge
Exports:	No export duty, VAT and excise tax
Local Buying:	No VAT
Local Sale:	Those taxes and charges not exempted

For unknown reason, however, this scheme was not realized and, instead, the aforementioned amendment to EPZ was introduced. NEPZ and NFTZ are very similar and employ wider concept of exporting industries, including trading and services related to export activities.

3. EPZ in Vietnam

(1) Outline

Table A.2.5 Outline of Vietnamese EPZ

Name of Scheme	Export Processing Zones
Year of Introduction	1991
Applied Location	Tan Thuan (HCMC), Soc Son (Hanoi), Do Son (Hai Phong), An Don (Da Nang), Linh Trung (HCMC), Can Tho (Mekong Delta)
Basic Principles	1) To expand economic co-operation with foreign countries (FDI) 2) To support the cause of modernization and industrialization 3) To develop the national economy on the basis of the efficient exploitation and utilization of national resources 4) To promote exports
Major Applicable Laws	“Law on Foreign Investment in Vietnam” (November 1996) “Law on Amendments and Addition of a number of Articles to The Law on Foreign Investment” (July 2000) and relevant Government Decree (February 1997), “Regulation on Industrial Zones, export Processing Zones and High-Tech Zones” (1997) (Originally, “Regulation on Export processing Zones” of 1991 and “Regulation on Industrial Zones” of 1994)
Investment Incentives	No import duty on machinery, parts, components, moulds and materials for these, raw materials Approval of 100% foreign capital Corporate tax of 10% with 4 years tax holiday for manufacturing Corporate tax of 15% with 2 years tax holiday for service industries Refund of corporate tax for 3 years for re-investment Reduced remittance tax to 5% Approval of operation of foreign banks in EPZ
Similarity to and Difference from other Asian countries’ SEZ	Development with foreign capitals from Hong Kong, Malaysia, Taiwan, except Can Tho. Goods transportation escorted by customs officer Only foreign companies or joint ventures for 100% exports allowed to enter into EPZ

(2) Historical Background

In planning EPZ, the Vietnamese Government studied EPZs in Taiwan, Singapore and China and tried to establish EPZs in a more attractive manner.

The first EPZ in Vietnam was approved in 1991 and, under the joint venture with Taiwan capital, Tan Thuan EPZ was developed. The industries entered into Tan Thuan were mainly of light industries such as wood processing, textile and clothing, beverage, plastics, etc. Following it, 5 more EPZs have been developed.

At the initial stage, FDI welcomed such development of EPZ, expecting to utilize the relatively cheap but industrious Vietnamese labors and to penetrate into domestic market with large potential, and the foreign investment application was counted to considerable numbers. Such eagerness of FDI, however, faded away soon as more problems appeared, mainly due to the strict and uncommon regulations of the Foreign Investment Law of Vietnam. The provisions such as the unanimity rule on the Board of Management of joint ventures, the obligation of profits allocation to social welfare and other purposes at the fixed rate or the prohibition of sale of business to anyone other than Vietnamese are among them.

Likewise, many arguments came out about the inefficient and non-transparent work and procedures of the customs and the restriction on hiring workers, as well as unnecessary and frequent inspections carried out by public officers. Affected by such arguments and combined with the economic crisis in Korea, Malaysia and Taiwan which were the major investors to Vietnam, many of the approved foreign investments were not materialized.

(3) Current Situation

The Board of Review, consisting of representatives from the Ministry of Finance, Ministry of Trade, National Bank, Customs Department and People's Committee, is set up in each EPZ to extend one-stop service for FDI approval and admission of entry into EPZ. EPZ is separated from the outside by fences, transportation of goods coming in and out of EPZ should be carried out in containers, cases or crates sealed by customs house and escorted by customs officers. Despite its common investment incentives and operation systems, there remain many vacancies in EPZ.

To improve such a situation, the Vietnamese government amended some clauses in the Foreign Investment Law in July 2000. However, the notorious clause of the unanimity principle on the Board still remains unchanged. At the same time, aiming to simplify and clarify the investment application

procedures, the Ministry of Planning became an authority responsible for developing and managing EPZ and Economic Zone (EZ).

The Vietnam's experience shows that it is vital for SEZ promotion to provide sufficient incentives, to establish competent investment laws, and to realize the correct manner for its implementation. Transparency is also quite important for investors.

Table A.2.6 Major Amendment to “Foreign Investment Law” made in July 2000

(i)	To protect the ownership of invested capital and other legal rights of foreign investors, the amendment provides clearer commitment of the Government.
(ii)	In the event that the interest of foreign companies or parties to joint ventures is damaged by a change in the provisions of the law in Vietnam, the State shall take fair measures to recover the damage, by showing the concrete measurement (It used to say only “take appropriate measures to protect”). The amendment even stipulates concrete measures to do so.
(iii)	Reduction of withholding remittance tax
(iv)	Shorter examination period of FDI application: from 60 days down to 30 days or 45 days
(v)	Unnecessary or extraordinary inspection by public officers is waived and restricted.

Besides EPZ development, Singapore and Indonesian enterprises and Quang Ninh Province in the north of Vietnam also established in 1996 an Economic Zone (EZ) at Mong Cai, which is located on the border with China. For developing EZ, the concept of so-called “New Mechanism” was adopted and Mong Cai EZ was designated to develop as an international logistics, trading and tourism center. There were plans for developing agricultural and fishery-processing industries for exports, as well as construction materials, clothing and machine manufacturing industries for Chinese markets. In Mong Cai EZ, tourism increased by 49% in 1998 and 36% in 1999 over the previous year and the export-import amount rose by 27% in 1998. Following Mong Cai, there have been 8 EZs, namely Lang Son, Lao Cai, Kien Giang, Cao Bang, Ha Tinh, Lao Bao, Kon Tum and Tay Ninh, established or approved at border areas and the central government allowed the local authorities to use 50-100% of local tax revenues for improving the infrastructures such as transportation, power and water supply.

The Industrial Zone Management Board of Vietnam is reported to have expressed their view that they now intend to the apply successful models of the New East Street Economic Zone in Shanghai and the Philippine's Subic Special Economic Zone at its planned Chu Lai Open Economic Zone. One of the key factors is that the success of the New East Street Economic Zone is largely attributable to its autonomy from the central government, with Shanghai authorities being responsible for the zone management. At the same time, the Industrial Zone Management Board proposed to extend the land-lease period from 50 years to 70 years at Chu Lai, to simplify the business start-up procedures, to allow companies to choose foreign legal systems and foreign arbitration to resolve dispute, to authorize the private development and operation of the zones, and to admit automatically whole-ownership and joint ventures of any proportions of foreign capitals.

It is also deemed vital for EPZ and EZ promotion in Vietnam that there should be no discretionary licensing and there should be automatic registration, free hiring and market-determined wages.

Table A.2.7 Vietnamese New Approach

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| <ul style="list-style-type: none"> (1) Softer and freer approach to FDI (Revision of Foreign Investment Law in July 2000) (2) Vietnam intends to adopt the concept of: <ul style="list-style-type: none"> i) New East Street Economic Zone in Shanghai ii) Subic Bay Special Economic and Free Port Zone iii) In the planned Chu Lai Open Economic Zone (3) Ministry of Planning became a management authority of EPZ and EZ (4) Reduction of export obligation from 100% to 80% to be recognized as EPZ enterprises |
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4. Ecozones in the Philippines

(1) Outline

Table A.2.8 Outline of the Philippines' Ecozones

Name of Scheme	Ecozones
Year of Introduction	1995
Applied Location	Baguio City EPZ, Luisita Industrial Park, Bataan EPZ and other 13 locations (4 public-owned and 11 private-owned)
Basic Principles	<ol style="list-style-type: none"> 1) To encourage, promote, induce and accelerate a sound and balanced industrial, economic and social development 2) To provide jobs to the people especially those in the rural areas, increase their productivity and their individual and family income, and thereby improve the level and quality of their living condition
Major Applicable Laws	Special Economic Zone Act of 1995
Investment Incentives	<p>For Export Enterprise & Free Trade Enterprise, registered with PEZA</p> <ul style="list-style-type: none"> • Tax- and duty-free importation of capital equipment, raw materials, spare parts, supplies, breeding stocks and genetic materials • Income tax holiday of 4 to a maximum 8 years for non-pioneer and pioneer projects respectively • A special tax rate of 5% of gross income in lieu of all national and local taxes after the income tax holiday • Tax credit for import substitution • Exemption of wharf dues, export tax, import fees • Tax credit on domestic capital equipment, breeding stocks and genetic materials • Additional deduction for incremental labor expenses and training expenses • Unrestricted use of consigned equipment • Permanent resident status for foreign investors and immediate family • Employment of foreign nationals • Remittance of earnings without prior approval from the Philippine Central Bank <p>For Ecozone Developers/Operators, Facilities, Utilities, Tourism and Domestic Market Enterprises</p> <ul style="list-style-type: none"> • A special tax rate of 5% of gross income in lieu of national and local taxes • Additional deduction for training expenses • Permanent resident status for foreign investors and immediate family • Incentives under RA No. 6957 (Revised Build-Operate-Transfer Law) • Other incentives available under executive order No. 226, as may be determined by the PEZA Board
Similarity to and Difference from other Asian countries' SEZ	Ecozone adopts the flat rate income tax system on the gross income and provide the incentives for import substitute operation, use of domestic equipment and materials, increase of local labor use and training.

(2) Historical Background

The Omnibus Investment Code of 1987 was established as a general law, providing the most comprehensive list of investment incentives to qualified enterprises. According to the regulations of Omnibus Investment, the Board of Investment (BOI) is in charge of publishing Investment Priorities Plan (IPP), which determines the “priority investment area” annually. Investors who are going to invest in the priority investment areas are qualified to the incentives under the Omnibus Investment Code. This Code stipulated that the Philippine nationals must own at least 60% of capital and that minimum 60% of members of Board of Directors must be Philippine citizens, except for the exporting companies.

In contrast to this 1987 Code, Foreign Investment Law of 1991 was the first comprehensive law to open up the country’s economy for FDI by regulating the areas, the form of investment, and the definition of “business” that FDI could engage. Under this law it became possible for FDI to hold 100% equity in any business area except otherwise listed in the Negative List and, unless foreign investors seek for incentives under the Omnibus Code of 1987, there is no need for them to go through BOI. They are only required to register with SEC.

With regard to incentives, the original terms of the Omnibus Investment Code of 1987 have been slightly altered by the succeeding laws. Presidential Decree No.66 enacted the rules for establishment of EPZ in the Philippines with wider incentives. The Special Economic Zone Act of 1995, by which SEZ or “Ecozone” has been established, has regulated the most favorable incentives, as shown in Table A.2.8.

(3) Situation of Ecozone

1) Establishment of Ecozone

The SEZ was established under the Republic Act (RA) No. 7916 (Special Economic Zone Act of 1995). The SEZ is called “Ecozone”, and it is operated by an independent governmental organization, called the Philippine Economic Zone Authority (PEZA). PEZA’s mission is to contribute for the national effort to accelerate employment generation, particularly in the countryside.

2) Types of Ecozone

Ecozone is defined as areas designated by the government for development of the balanced agricultural, industrial, commercial and tourism/recreational regions. It is also developed as an independent community with minimum government interference. There are several types of Ecozones as classified in Table A.2.9.

Table A.2.9 Types of Ecozones

- **Industrial Estates (IE):** Land developed for industrial use with basic infrastructure, pre-built factory buildings and residential housing
- **Export Processing Zones (EPZ):** Special IE where export-oriented enterprises are located. There are four in the Philippines.
- **Free Trade Zones:** Areas nearby ports of entry (seaports and airports). Imported goods may be unloaded, repacked, sorted and manipulated without being subject to import duties. ASEAN agreed to create FTZ by 2003.
- **Tourist & Recreational Centers:** Establishments that cater both local and foreign visitors to the Ecozones including hotels, resorts and sports facilities.

3) Types of enterprise located in Ecozone

Foreign and domestic enterprise located in Ecozone must register with PEZA. They are classified into different categories, according to their activities, and given different incentives. (Refer to Table A.2.10)

4) Incentives for Ecozone enterprise

Regarding the fiscal incentives, Ecozone primarily adopt such traditional measures as tax holiday and tax- and duty-free imports. It is notable that it adopts a special tax of 5% on gross income and that it deducts the training expenses from the profit. It also admits tax credit for import substitution and utilization of domestic equipment and materials, as noted in Table A.2.8.

Table A.2.10 Types of Ecozone Enterprise

<ul style="list-style-type: none"> • Export Enterprise: Manufacture, assemble or process products, which are 100% exported unless a lower percentage is approved by PEZA. • Free Trade Enterprise: Imports and market tax- and duty-free goods within the free trade area in Ecozone • Service Enterprise: Engaged in any one or combination of the activities such as customs brokerage, trucking/forwarding, janitorial, security, insurance and/or banking, consulting or any such services approved by PEZA. • Domestic Market Enterprise: Manufacture, assemble or process the products which are not exported at least 50% for a period of three years if majority owned by Filipino and at least 70% if majority-owned by foreign nationals • Pioneer Enterprise • Utilities Enterprise: Contracted to provide light and power, water supply and distribution, communications and transportation systems in Ecozone. • Facilities Enterprise: Contracted to build and maintain necessary infrastructures in Ecozone • Tourism Enterprise: Operates tourist accommodation such as hotels, restaurants, and sport and recreational facilities in Ecozone • Ecozone Developer/Operator: Develops, operates and maintains the Ecozone, all component sectors and all related infrastructure
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5) Transparency of the conditions and charges necessary in Ecozone

It may be noteworthy that in Philippine SEZ, all the land and building leasing conditions and the property leasing, utilities and manpower rates are publicly disclosed in the printed matters, as well as the fees and charges necessary for registration application, certificates, permits or licenses. With this transparency, Ecozone may count the credibility from foreign investors.

(4) More integrated SEZ

Before Ecozone was established in 1995, the Subic Special Economic and Free Port Zone and Clark Special Economic Zone were designated by the Bases Conversion and Development Act in 1992 for creating the entire necessary industrial and social infrastructure in an integrated form, including housing, transport, recreational and commercial infrastructure in the initial design.

Details of those two zones are as follows.

1) The Subic Bay Special Economic and Free Port Zone (SBF)

SBF was established under a law separate from Ecozone to develop the Subic area into a self-sustaining industrial, commercial, financial and investment center in the Philippines. Its features are summarized below.

Features of the Subic Special Economic and Free Port Zone

- Space: approximately 4,100 hectares
 - i) Industrial: 360
 - ii) Commercial/ Mixed Use: 90
 - iii) Tourism/ Recreation: 245
 - iv) Utilities: 68
 - v) Green Buffer: 2,199
 - vi) Residential: 358
 - vii) Transportation: 325
 - viii) Community Facilities: 263
 - ix) Special Area: 193
- **Work Force:** 66,000 English-speaking workers
- **Operating Body:** The Subic Bay Metropolitan Authority (SBMA), which defines incentives
- **Airport:** Subic Bay International Airport (An Asian hub of Federal Express) with a 2,700-meter runway
- **Seaport:** The Subic Bay has space of 03.61 hectares and 15 meters deep. Subic General Cargo Port (41 ha depot) with one movable and one fixed pier, two berths, a cold storage facility, 22 warehouses, two open storage spaces and a container-stacking yard.
- **Key Sites:**
 - i) Central Business District: 181-hectare for commerce and tourism
 - ii) Subic Bay Industrial Park (SBIP): 153-hectare housing Aces, Taiwan Hitachi, Teco Electric, etc.
 - iii) Subic Commercial Complex: shopping malls, restaurant and entertainment
 - iv) Subic Tecno Park (STEP): 70-hectare Japanese industrial estate
 - v) Forest/Theme Park: Area for a low density and high value resort complex
 - vi) Redondo Peninsula: Scenic zone of 3,800 hectares for developing golf courses, resort hotels and restaurants
 - vii) Battan Techno Park (BTPI): 365-hectare
- **Number of Approved Projects:** 349 operational and 58 non-operational as of February 1999 (Total 407)
 - i) Manufacturing & Assembling: 84
 - ii) Tourism-related including Retailing, Hotels and Restaurants: 92

- iii) Services including Freight Forwarding and Couriers: 40
- iv) Insurance, Financial Services and Consultancy: 26
- v) Schools: 6
- vi) Transportation & Shipping: 17
- vii) Project Management and IT Services: 27
- viii) Estate Development and Management: 14
- ix) Other Serves: 33
- x) Warehousing & Transshipment: 58
- xi) Utilities: 10

The Subic Industrial Park has been developed by the Subic Bay Development and Management Corporation (SBDMC), which is a joint venture among SBMA, China Development Corporation and Century Development Corporation (Taiwan). It is open to any light to medium, non-polluting business engaged in exports and houses electronics manufacturing and assembling, vehicle assembling, pharmaceutical manufacturing, software development and data processing, jewelry, garments, footwear, industrial and electrical equipment and toy manufacturing. The One-stop Export Shop has been in operation, and the Subic Telecommunications Co., Inc. has been set up to provide 100,000 lines.

SBMZ distributes duty-free purchasing coupons equivalent to US\$100 to the inhabitants of neighboring areas every month for shopping in the commercial zone of SBF. In addition, any Philippine citizens can purchase goods at duty-free shops in SBF up to US\$25 at a time.

Incentives for SBF enterprises are defined by SBMA independently from PEZA as follows:

Incentives for Enterprises in the Subic Special Economic and Free Port Zone

- Right to invest up to 100% equity, to freely engage in any business, trade, manufacturing, financial or service activity except in those listed in the Foreign Investment Negative List
- Right to import and export freely all types of goods into and out of SBF, subject to certain laws and regulations
- Right to employ foreign nationals subject to evidence of unavailability of comparably-skilled Filipino within the Philippines
- Tax and duty free importation of raw materials, supplies, capital equipment and other items for consumption within SBF
- No foreign exchange control within SBF and full repatriation of profits is allowed

- Exemption from all national and local taxes such as VAT, franchise taxes, excise taxes, by paying a final tax of 5% of Gross Income Earned (GIE). To enjoy this privilege, the investors must export at least 70% of their production.
- Unlimited purchase and consumption of tax and duty free goods within the SBF

2) The Clark Special Economic Zone (CSEZ)

CSEZ was established under the Executive Order No.62 in 1993, which provides the same incentives and privileges as the Subic Special Economic and Free Port Zone and Ecozones. The features of CSEZ are summarized below.

Features of Clark Special Economic Zone

- **Concept:** New industrial town site and a major civil aviation complex for international passengers and cargo
- **Operating Body:** Clark Development Corporation (CDC), a government-owned and controlled corporation, autonomously operates, manages CSEZ and defines the investment climate under Executive Order No. 80. Clark International Airport Corporation independently operates Clark International Airport.
- **Space:** Approximately 34,000 hectares
- **Available Workers:** 6.69 million with literacy rate of 97%, equal male to female ratio, used to working in a cross-cultural environment
- **Number of Jobs Available:** 25,000
- **Main Zone Area:** 4,440 hectares for industrial areas, central business district, tourism and recreation areas and aviation complex (Civil aviation area: 2,200 hectares with two 3,200m runway and a terminal building for accommodating 1.5 million passengers annually, Industrial area: 1,020 hectares, Mimosa Leisure Estate: 188 hectares)
- **Sub Zone Area:** 29,213 hectares for agricultural projects, corporate farming, contract farming, agro-industries, leisure and theme parks or eco-tourism
- **Number of Investor Firms:** 269 (October 2000)
- **Major Investment Fields:** Electronics manufacturing, semi-conductor industries, quartz crystals, rubber tire production, tourism-related projects and others
- **Features:**
 - i) Strategic location (1 hour from Hong Kong, 2 hours from Taiwan, 4hours from Singapore, Japan, South Korea)
 - ii) Liberal incentive package

- iii) Availability of existing facilities (Facilities for aviation, industrial and commercial, infrastructure such as power station, telecommunication and water supply)
- iv) Land for long-term leasing
- v) One-Stop-Action-Center (OSAC) to facilitate the prompt evaluation and approval of proposed investment for CSEZ within a 30-day period, to ensure expeditious processing of export documents, and also to facilitate the immediate processing of permits, licenses and other pertinent documents by housing agencies desks of concerned government agencies.
- vi) Availability of skilled and English-speaking workers
- vii) Location of the future premier international airport: Inaugurated in 1998 as Clark International Airport with a capacity of 14 million passengers.
- **Course of Future Development:** Developing dry-port serving air cargo of domestic and international flights at the Clark airport as well as sea-bound cargo at the Subic seaport. Setting-up the closer linkage with SBF, other Ecozones in the region and the market, Metropolitan Manila.

At an initial stage, a joint venture of the CDC and private sector operated infrastructure sectors in the CSEZ and, after 2 years, the operation was privatized and it was admitted for a new company to participate in the operation.

For HRD, the CDC set up training center of its own and operates training courses for job seekers with assistance of the foreign investors located in the CSEZ. It also established Polytechnic under cooperation with the schools in neighboring areas to run 3-6 months vocational training courses. Testing Agency located in the CSEZ provides qualification tests to job seekers for the benefit of the CSEZ investors. Labor Services Department of the CSEZ is in charge of the preparation of candidate workers list for easier recruitment and also in charge of mediation for labor dispute within the CSEZ.

Appendix-3

CANDIDATE SITE CONDITIONS

Appendix 3 CANDIDATE SITE CONDITION

1 Topography and Geology in Savannakhet Province

(1) Topography

The undulation of the mountain range flows from the northwest towards southeast with the highest elevation of more than 2,000 m. Savannakhet is a fairly flat lowland province, 75% of which is under 250 m altitude and 25% of which is occupied with mountainous topography. Mild topography spreads with less than 8% slope in the western part of the province. Topography in the eastern part has a slope of more than 20%. More than 30% slope topography are also studied in the eastern part.

Figures A.3.1 and A.3.2 illustrate the distribution of the altitude and the distribution of the slope, respectively.

(2) Geology

The soil samples used in this Study are for the geological survey for the 2nd Mekong Bridge by JICA, and the simple geological survey for the Site C by MOIH.

The basic geological formation consists of a series of sedimentary rocks, the majority sandstone with mudstone and conglomerate, formed in the middle to upper Cretaceous about 65 to 100 million years ago. Typical rocks are fine-grained sandstone, siltstone, and mudstone in reddish brown color. This mudstone with reddish brown color was found around Zeno.

The mudstone is generally found in the upper-most part of the rock beds and the sandstone occurs underneath. N-value in the standard penetration test for the Mekong Bridge ranges from 10 to 20.

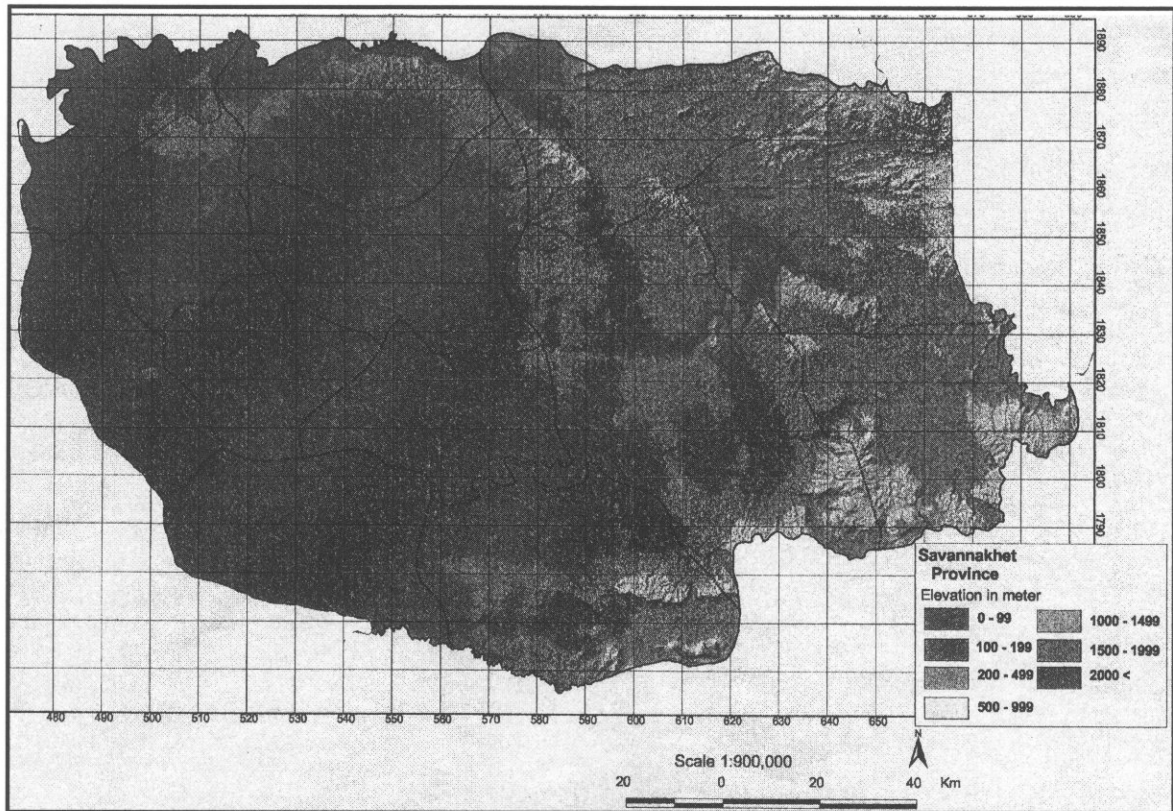


Figure A.3.1 Altitude Distribution Map

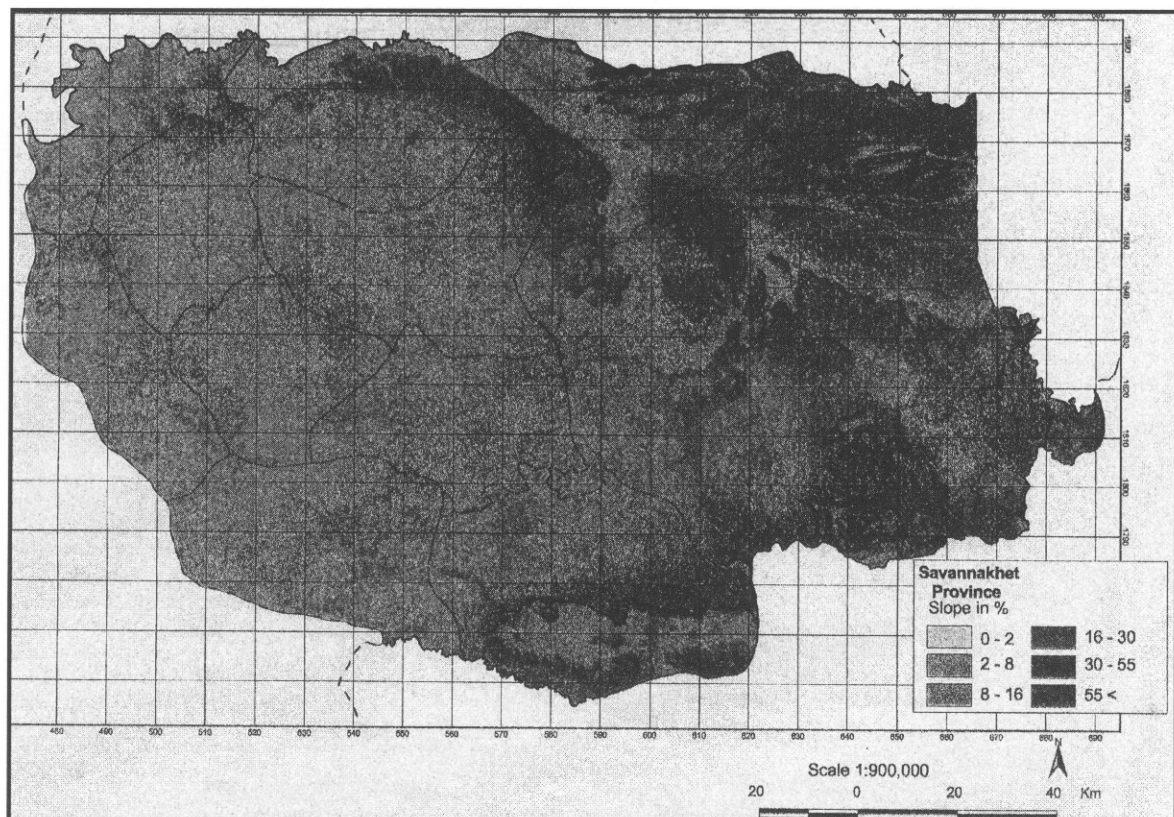


Figure A3.2 Slope Distribution Map

2 Infrastructure in Savannakhet Province

(1) Transportation

1) Transportation in Savannakhet

The road network in Savannakhet province consists of:

- i) Route 13 of north-south direction along the Mekong river, Route 9 of east-west corridors, and Route 1 of north-south direction along eastern mountain ranges. Three national roads of Routes 13, 9, and 1 form the backbone of the road systems in Savannakhet province (Figure A.3.3).
- ii) Most of the provincial roads which connect district centers with other main villages are not paved yet. Most local roads are in poor condition and usable only during the dry season.

In line with the east-west corridors, the construction of the 2nd Mekong Bridge and Route 9 is ongoing and will open in 2003. In addition, the Pakse Bridge was opened on August 2000, and Route 13 is currently under construction. Savannakhet province is expected to be an important base for transportation among Thailand, Vietnam, and Lao RDR by constructing Route 9 and 13.

ADB aids for the road construction project in Khantabouly, and the project is one of the Secondary Town Development Project (STDP). The projects contains the construction of rain water drainage system, solid waste control system, water treatment plant, and parks in Khanthaburi. All programs will be completed around 2003. The Savannakht province established Urban Development Administration Authority (UDAA), and UDAA operates the project.

In addition to road transportation, water transportation on the Mekong river plays an important role in Laos. Khantabouly is connected to Mukdahan on the Thai side by a ferryboat. Savannakhet province has another river port in Kengabao which is recently out of order. After the completion of the above road and bridge projects, the importance of water transportation will be lowered. Currently, domestic air transport is still at a low level. Savannakhet airport with a 1,633 m long runway is undergoing improvements for its terminal building and other facilities. The airport is, however, not good enough to receive middle-range aircraft for regional service.

Four weekly flights are serviced between Savannakhet and Vientiane, and between Savannakhet and Pakse. In addition, Seno has a runway owned by the Army of Lao PDR. The possibility that the province can operate the

runway is very low.

2) 2nd Mekong International Bridge

The bridge crosses the Mekong river and includes connecting roads and approach roads. The connecting roads will connect Route 9 in the Lao PDR and Route No. 212 in Thailand. Moreover, it will contain an at-grade intersection with the Provincial Road A3 in Lao PDR and the traffic changeover in Thailand. This project includes the border control facilities (BCF) on both sides of Lao PDR and Thailand.

The connecting roads, were designed with 2 traffic lanes on the Lao PDR side and 4 traffic lanes with a 11 m wide central median on the Thailand side. Approach roads were designed with 2 traffic lanes with central median both in the Lao PDR and Thailand. These roads have shoulder of 2.5 m width and 80 km/h design speed is adopted.

The location of the Lao BCF is set up between 470 m and 1,070 m from the Mekong riverbank. The BCF are contained in an area of approximately 150,000 m² (600*250 m). The BCF consists of immigration office for passengers, inspection booth for vehicles, bus stop, public parking area, and accommodation for officers.

In the detailed design stage, the transfer type of transport is adapted as the mode of transport. In this type, the passenger crosses the border by a shuttle bus between the BCFs of Lao PDR side and Thailand side. The imported goods except transit goods to the third country are inspected at a warehouse. The Lao PDR, Thailand, and Vietnamese Governments have signed the cross-border transport agreement on 26 November 1999. Currently, the agenda in the agreement is being examined. If it is approved, the transit goods freely pass through Lao PDR to the third country, by combining separate border controls. As for reference, the detailed design predicted traffic volume as tabulated below.

Traffic Volume of Mekong Bridge

Year	Trucks		Shuttle Bus	Car	Total Vehicles
	Long Distance	Local			
2005	126-210	21-34	73-119	80-132	300-495
2010	175-385	28-63	101-222	112-247	416-917
2020	343-1,300	52-206	188-735	209-816	792-3,057

Source: SAPROF Report, 1998 JBIC

(2) Water Supply

Department of Urban Planning and Housing in MCTPC administers water supply works in Laos, but a public corporation under MCTPC carries on the actual business. In Savannakhet, NPS (Nam Papa Savannakhet) carries on business under DCTPC.

Well water, selling water, rain water, and so on covers water supply in Savannakhet province. A part of Khantabouly only enjoys water supply from a water treatment plant. The water treatment plant, with a capacity of 15,000 m³/day, was constructed in 1977. The water is taken in from the Mekong river, and the water is treated through with calcium hypochlorite. Total length of water distribution pipe is 79,276m as of 1993 (Figure A.3.5). The rate of unaccounted water is 20%. Water service population as of 1997 is 53,200 with a service rate of approximately 60%. Currently, JICA is conducting the basic design for the rehabilitation and expansion of the treatment plant. JICA is investigating the service area and treatment capacity.

In Xeno, the second largest city in Savannakhet province, a small part of the central area is served by a piped system. Untreated water from two boreholes is supplied through 63-100 mm diameter pipes with just over 300 metered connections. The army camp has its own independent supply from a borehole. Elsewhere in the town, residents rely on their own wells, or buy water from vendors who obtain it for a number of private wells with pumps and overhead storage tanks.

ADB is carrying out the Small Towns Water Supply and Sanitation Project (STWS). In the project, the feasibility study completed in 1999 and detailed design started in summer 2000. The project aims to supply 22,584 persons or 55.3 l/s in the central area of the Xeno city and 31,886 persons or 97.4 l/s in 2020. The main features of the project in 2010 are summarized below.

According to Questionnaire Survey by ADB, salt is contained in the ground water at deep wells with more than 50 m in depth. 16 km west of Xeno on the road Savannakhet at the village of Nateuy, the villagers make and sell salt. Shallow rock salt and other evaporates in the form of intrusions are found scattered across the ground formation area and cause much down-catchment groundwater to be saline. The usage of groundwater requires high precaution to the quality of water.

At present, 74 people are working in NPS. 24 workers out of them are engineers including workers for the treatment plant. 9 workers are allocated in branches.

Main Components of Water Supply Project in Xeno (ADB)

Component	Approx. Details
Deep wells	10 No. production wells, average yield 4 l/s + 1 No. standby, probable depth 50 m, each with chlorination unit
Collector main	Approx. 4,500 m length of 80 – 250 mm diameter pipe
Elevated reservoir	530m ³ capacity
Distribution pipelines	Pipe diameter: 250 mm Length: 1,130 m
	200 mm 1,150 m
	150 mm 1,940 m
	125 mm 1,360 m
	100 mm 3,920 m
	80 mm 3,200 m
	65 mm 3,530 m
	<u>50 mm 39,050 m</u>
	Total 55,280 m

Source: Small Towns Water Supply and Sanitation Project, 1999, ADB

As for the financial balance, the expense is bigger than revenue. This is because the publicity of water supply works is considered and the service charge is set to the lower price which amounts to a few percent of average income in the province. The balance in 1999 fiscal year shows about 984 million kip revenue and 1,120 million kip expense. It comes out the excess of about 136 million kip expense. Water rates are shown in the table below.

Water Rates

Categories	Description	Water Use in range (per month)	Charge rate (kip/m ³ /month)
Category 1	Domestic Use	1-10 m ³	215
		11-20 m ³	325
		21-30 m ³	375
		More than 31 m ³	430
Category 2	Business Use (restaurant, hotel, shop, factory, etc.)	Flat rate	550
Category 3	Administration office use	1-10 m ³	215
		11-20 m ³	325
		21-30 m ³	375
		More than 31 m ³	430
Category 4	Business (raw material factory, production)	Flat rate	650

Source: Financial data for 1998-1999, NPS

(3) Drainage and Sewer

In Khantabouly (Figure A.3.6) and Xeno, a drainage channel was constructed. The capacity of the channel, however, is not sufficient, so

puddles are formed on and along roads in the rainy season. In rural areas, drainage facilities are not constructed.

In Khantabouly, ADB is constructing a drainage channel as a part of STDP project. This project contains the construction of river bank protection, and the construction will be completed within 2000.

Sewage system is not constructed in the province, so wasted water is discharged and penetrates the ground. STDP project includes a plan that aims for the construction of sanitary facilities for each house in Khantabouly. At present, the project installed public sanitary facilities at two secondary schools and Sayapan temle as the pilot project. However, it is under preparation how to set the charge and how to collect tariff.

In Xeno, just over half of all households have toilets, the majority of which are either lined latrines or toilets connected to septic tanks. More than one third of all households have some formal drainage, the others generally dispose of their non-toilet wastewater to land surrounding the house. STWS project (ADB) includes upgrading of on-site excreta disposal facilities, as below, to mitigate the adverse impact of increased wastewater pollution.

- i) Construction of new lined pit latrines 925
- ii) Construction of septic tanks 163
- iii) Construction of drainage for sludge water 1,125

(4) Electric Power

There is no interconnected transmission grid covering the country, and regional systems are operated with the support of power supply from neighboring countries. In Savannakhet province, Pakbo substation (2*10MVA) receives the power from Thailand and Densavan substation (5MVA) receives the power from Vietnam. 115kV power is transformed to 22kV at Pakabo substation, and the 22kV power is transmitted to Xeno along Route 9. The 22kV power transformed at Densavan substation is transmitted 97km west of the substation along Route 9. This power line joins another power line for small-scale water power plant (80MW) in the southern part of B. Dong village.

According to a power demand forecast by EdL (Electricite du Laos), the capacity of Pakbo substation will be lacking until 2005. EdL has a plan to develop a new hydroelectric dam of 1,000 MW. When Nam Theun 2 is implemented in 2006, the power supply system will be totally shifted to a domestic power supply.

Electric Power Demand Forecast by EdL

	1999	2005	2010
Peak Demand (MW)	13.4	54.5	67.0

296 people are working in the Savannakhet branch of EdL. 70 workers out of them are engineers. 170 are for Khantabouly, 11 are for Xaybouly and Xeno, and 9 are for Deansavanh.

As for reference, electricity rate is tabulated below. The rate grew 1.4 times in a year due to the fluctuation of the exchange rate.

Electricity Rate

Use		Rate (kip/KWH)	Use	Rate (kip/KWH)
Households	0-50	39	Commercial	316
	51-100	88	Business	395
	101-200	132	Government	265
	201-	287	Irrigation	110
International Project Office		0.0969	Industry	265

Source: EdL

(5) Telecommunication

As for the telecommunication system in Laos, 34Mbit/s microwave running north-south direction is the backbone of the transmission route. This route has a connection with Luangprabang, Vientiane, Thakhek, Khanthabuly, and Pakse, which have switching stations for connecting to outside of the city. Laos has only one Gateway located at Manphou telephone office in Vientiane, and the function of Gateway is expected to shared with Pakse.(Figure A3.8)

Number of subscribers reaches 47,035 as of August, 1999, so that the capacity of the microwave is already used up.

The network of telecommunication in Savannakhet covers only 7 areas out of entire 15 areas in the province.

A switching station (for 3,368 lines) for the connection to both inside and outside of the city is installed in Khantabouly. Remote terminal (for 512 lines) is installed in Xeno. The capacity of switching station in Khantabouly will be increased to 1,024 additional lines in December, 2000. Besides above facilities, rural station for high frequency radio is constructed in Atasphangthong.

As for International telecommunication, Laos is connected to Bangkok through an optical fiber route. Bangkok is connected to other countries

through a optical submarine cable in the Pacific Ocean. A plan for an optical fiber network with 2 Gbps to connect each GMS country, was formulated in 1995. (Figure A.3.14) The network consists of three routes: East Route, West Route, and North Route. Laos is a very important location where East Route and North Route overlap.

East Route : Bangkok – Vientiane – Vinh – Ho Chi Minh – Phnom Penh - Bangkok

West Route : Bangkok – Yangon – Meiktila – Keng Tung – Chiang Rai - Bangkok

North Route : Bangkok – Chiang Rai – Luang Namtha – Mengla – Jinghong – Kunming – Hanoi – Vinh – Vientiane - Bangkok

Currently, the East Route is opened, but other routes are not expected to open. For the establishment of SEZ, the optical fibers at North-South Route, additional international exchangers in Vientiane, or new international exchangers in Pakse are needed.

Workers in Savannakhet branch are 55, and 44 workers out of 55 are in Khantabouly. As for reference, the service rate for telephone in Savannakhet is 45kip per minute within city, and 300 kip per minute to Vientiane. Monthly service charge is 10,000kip.

(6) Solid Waste

UDAA also conducts Solid Waste Management Project in Khantabouly. UDAA completed a pilot project in June 1999, and carries out the garbage collection and landfilling. Service area covers 17 areas in Khantabouly, and 32 areas will be covered by 2002. UDAA allots one compactor and two dump trucks for the garbage collection in 17 areas, but UDAA has no prospects for allotting the additional vehicles in case of the extension of target area. Currently, the garbage in an area is collected twice a week, and filled up at the landfill located along Route 9. Recently, the capacity of the landfill is getting scarce, so new landfill will be constructed at Bangsok village in the southern part of Khantabouly. The design capacity for new landfill is ten years.

Financial condition has been in the black since February 2000, as a result of receiving the aids for administration cost from NORAD and UNDP.

(7) Land Use Plan

Land use plans for Khantabouly area (Figure A.3.10) and the city of Seno (Figure A.3.11) have been formulated by MCTCPC. 9 types of land use regulate the cities.

<u>Types of Land Use</u>	<u>Description</u>
Central area (Ua)	Commercial/economic/high density residential area
Area around central area (Ub)	Residential/trading area
Area around the city (Uc)	low density residential/small service area
Natural area (Na)	Reserved area for increasing population in the future
Agricultural area (Nca/Nc)	No construction, except special cases for agricultural and river activities
Green area in the city (Ncb/Ne)	No construction
Expansive natural area (A)	Areas developed into commercial/economic area in the future
Industrial area (I)	Area for industrial activities
Military area (Zc)	Area used for military service

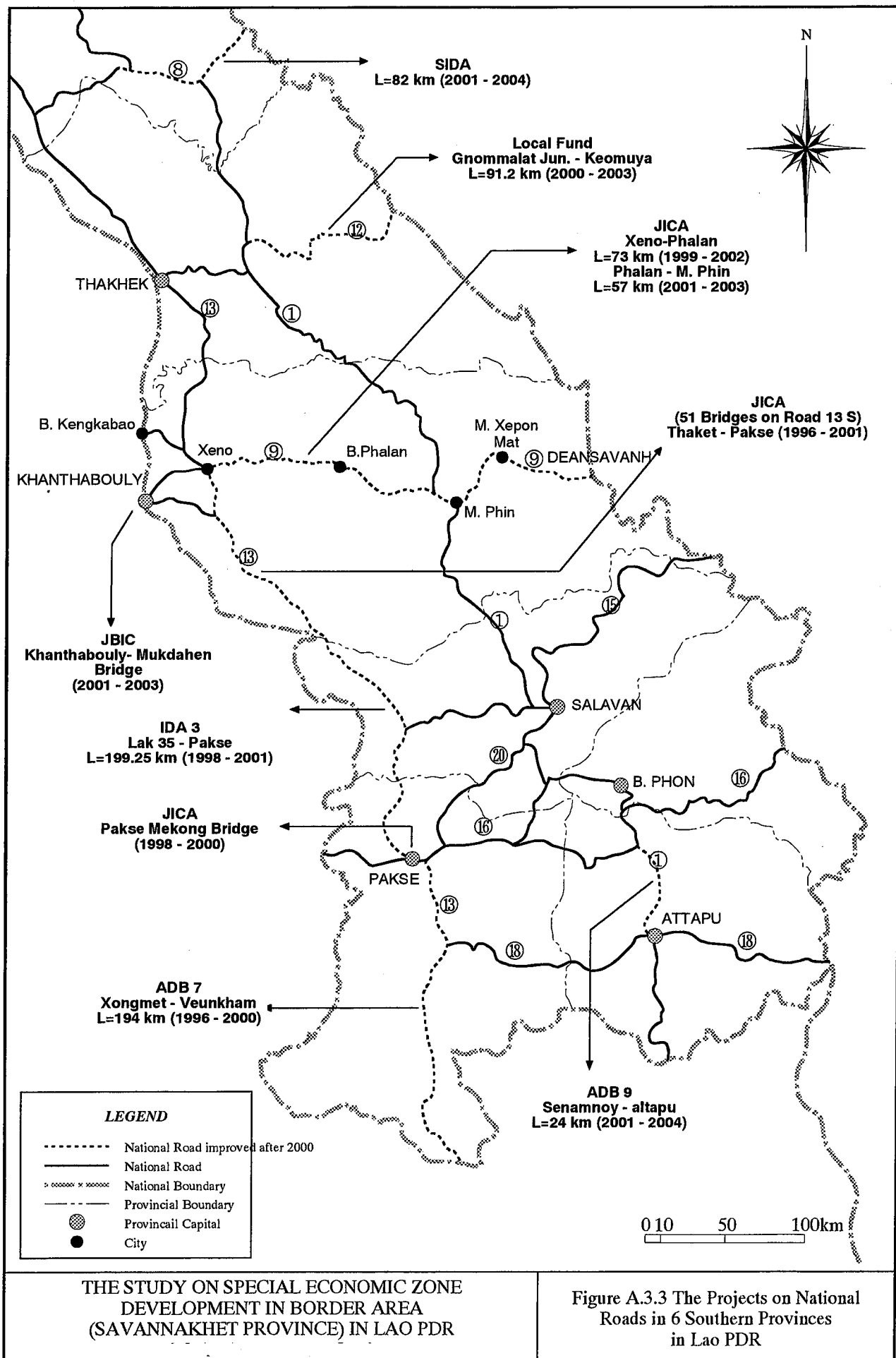
Site A is currently involved in the industrial area (I) and agricultural area (Na), so it is necessary to modify the land use before SEZ is implemented.

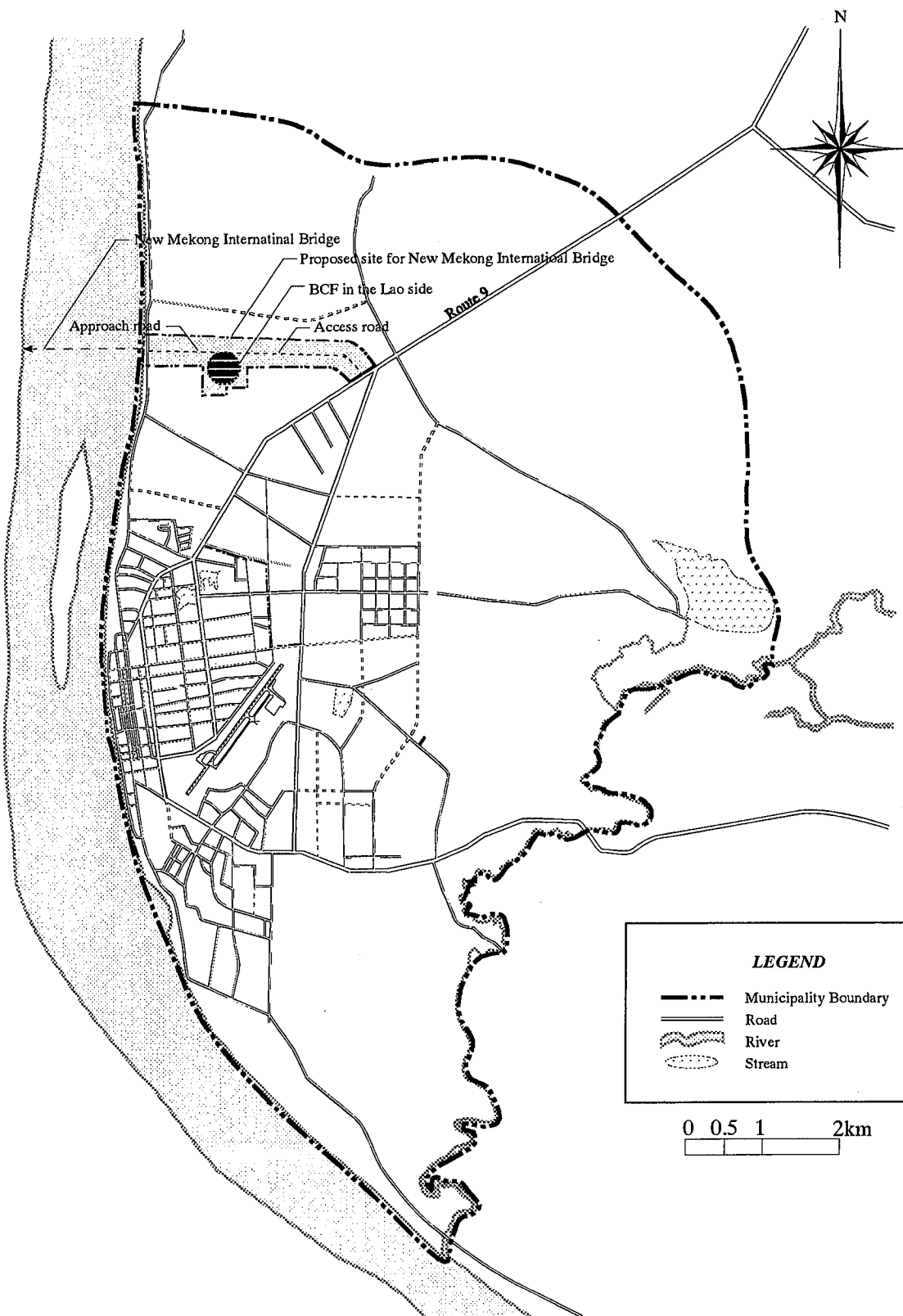
(8) Environment

The Environmental Law was enacted in 1999. The law says that STEA (Science, Technology and Environmental Agency) formulates and enacts the environmental guideline. It also says that all development projects are subject to follow the EIA specified in the guideline. In addition, natural conservation area is specified in the law.

The Forestry Law was also enacted in 1996. Forestry resources are classified into five: reserved forest, production forest, recovery forest, destroyed forest.

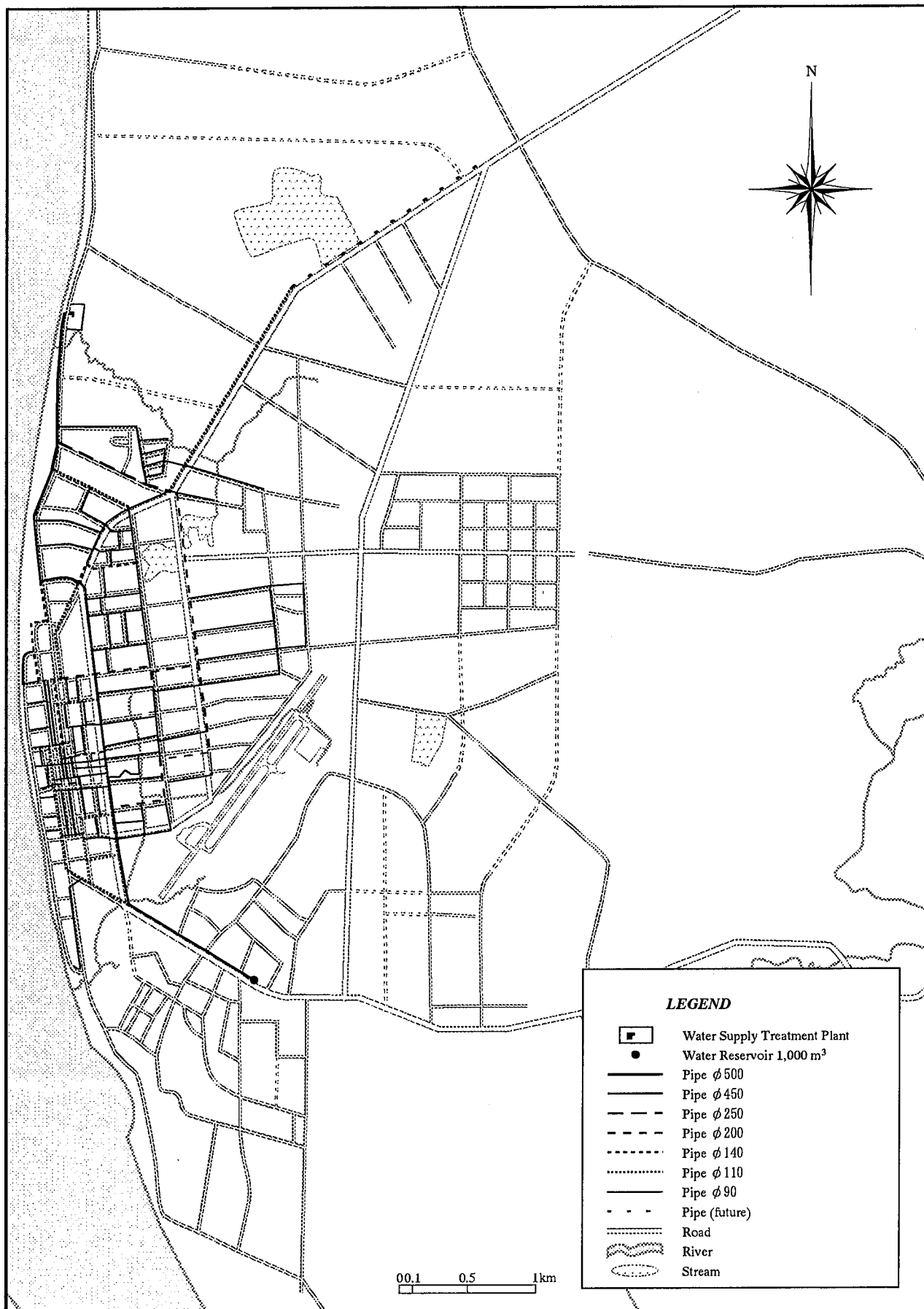
Both natural conservation area and forestry law are not applied to the four SEZ candidate sites.





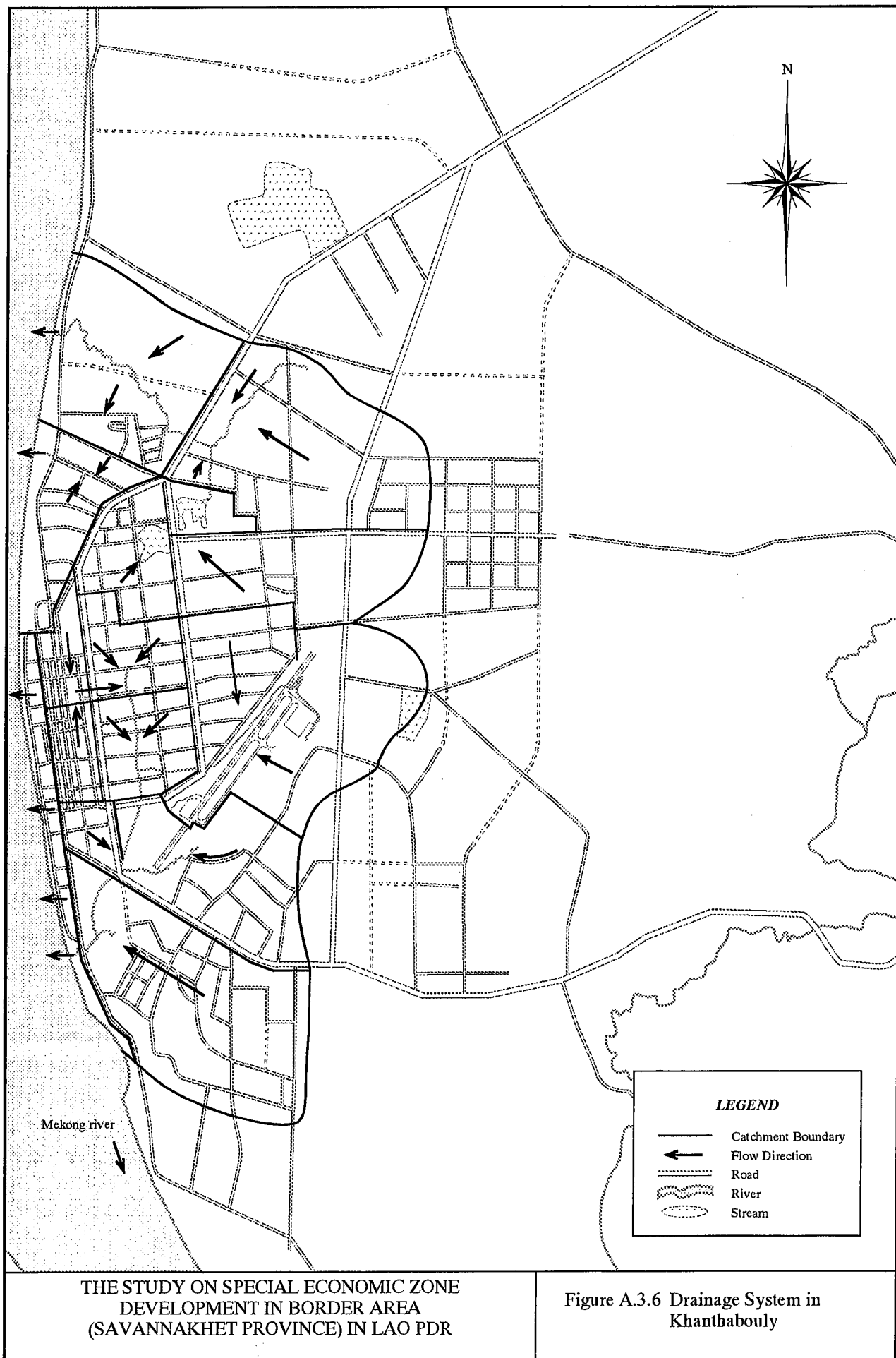
THE STUDY ON SPECIAL ECONOMIC ZONE
DEVELOPMENT IN BORDER AREA
(SAVANNAKHET PROVINCE) IN LAO PDR

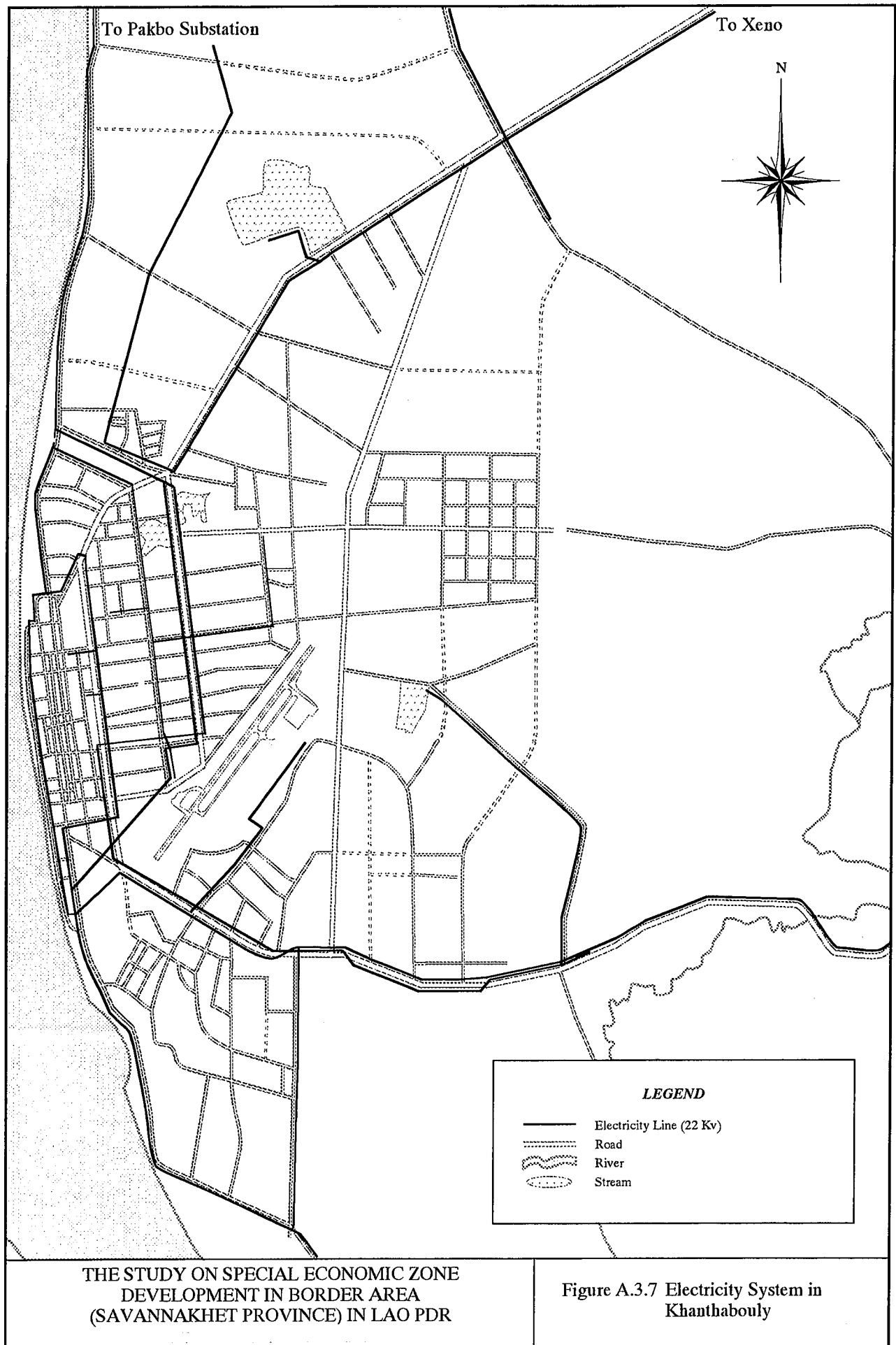
Figure A.3.4 Road Map in Khanthabouly

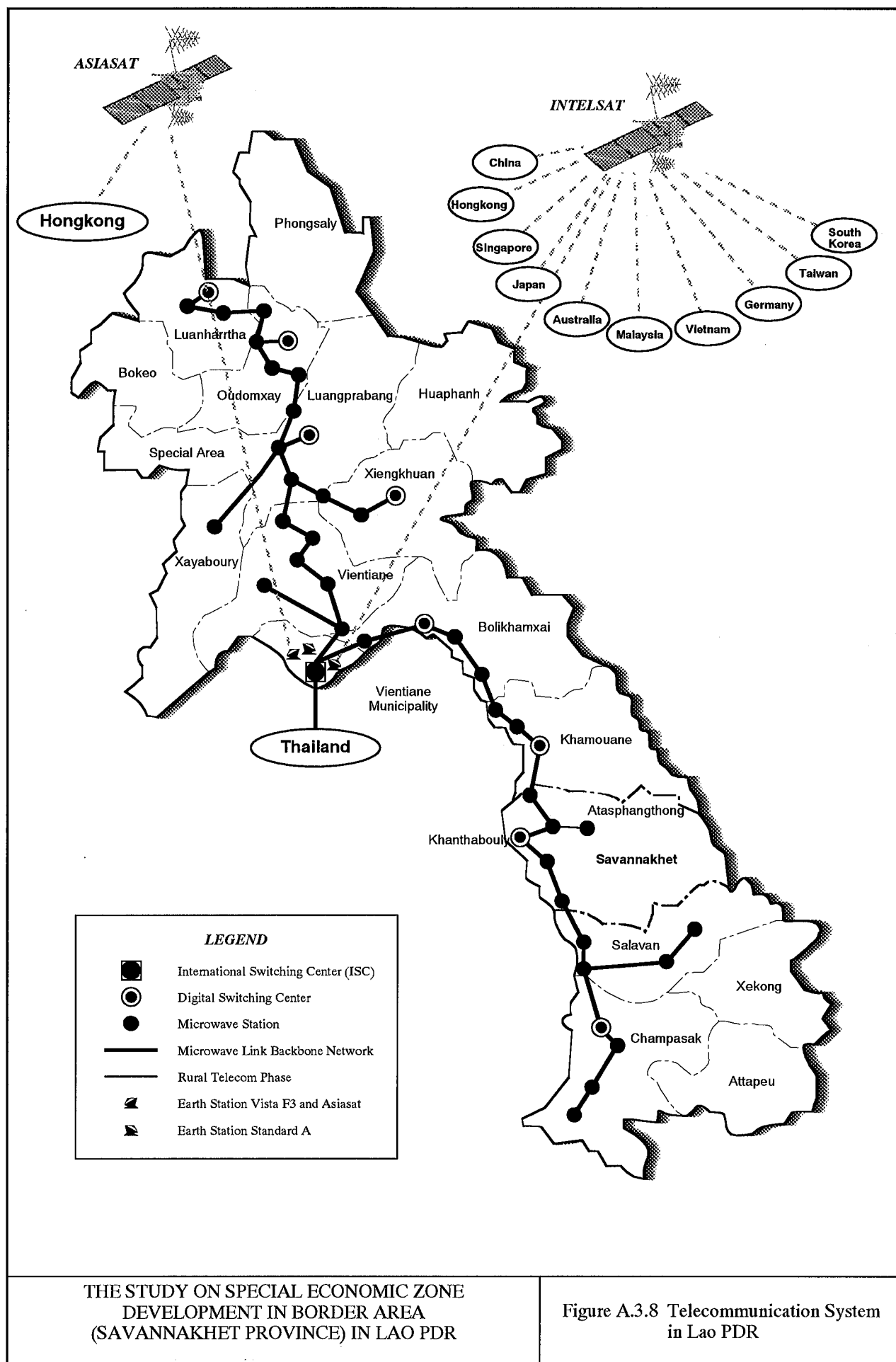


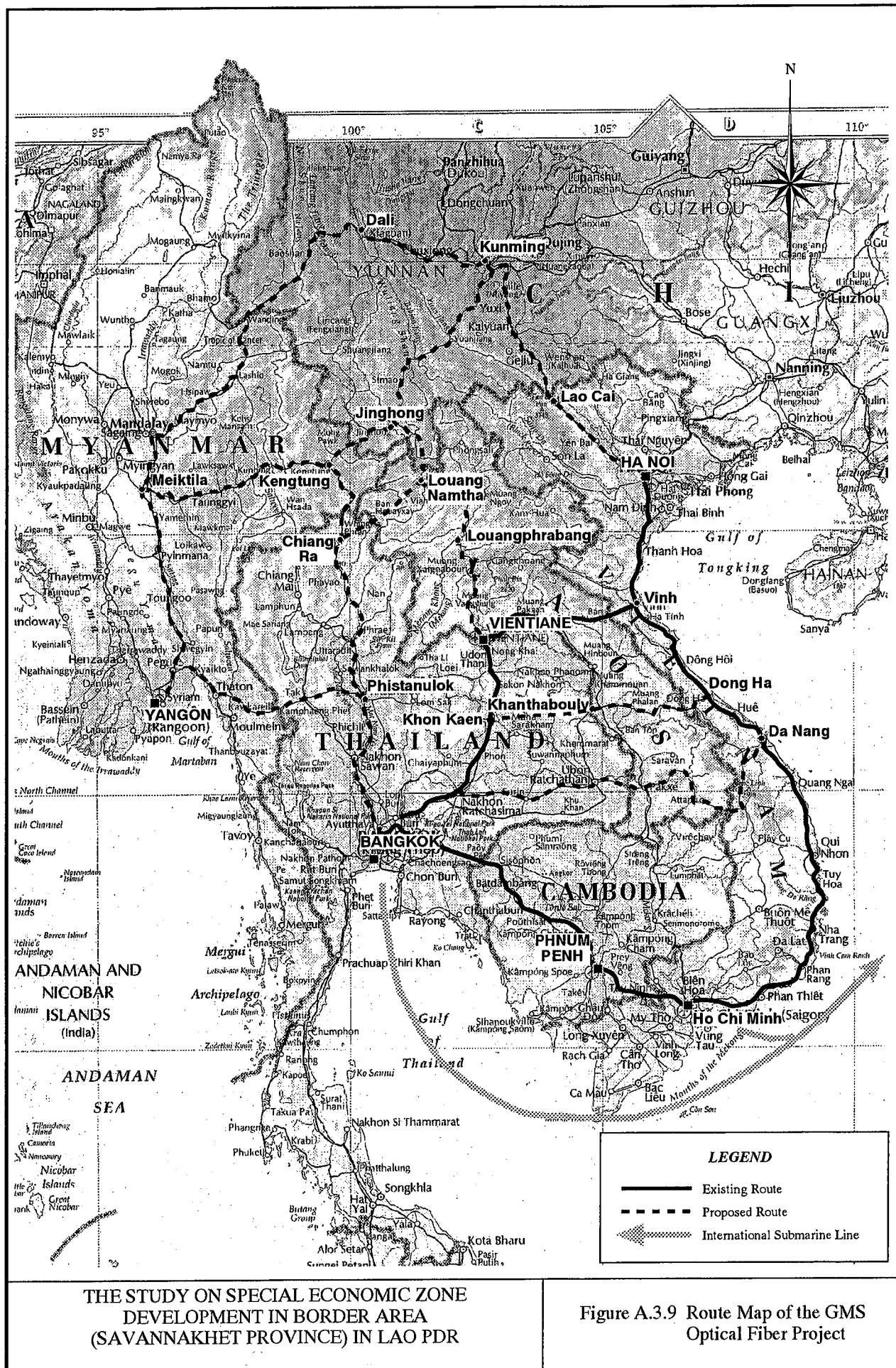
THE STUDY ON SPECIAL ECONOMIC ZONE
DEVELOPMENT IN BORDER AREA
(SAVANNAKHET PROVINCE) IN LAO PDR

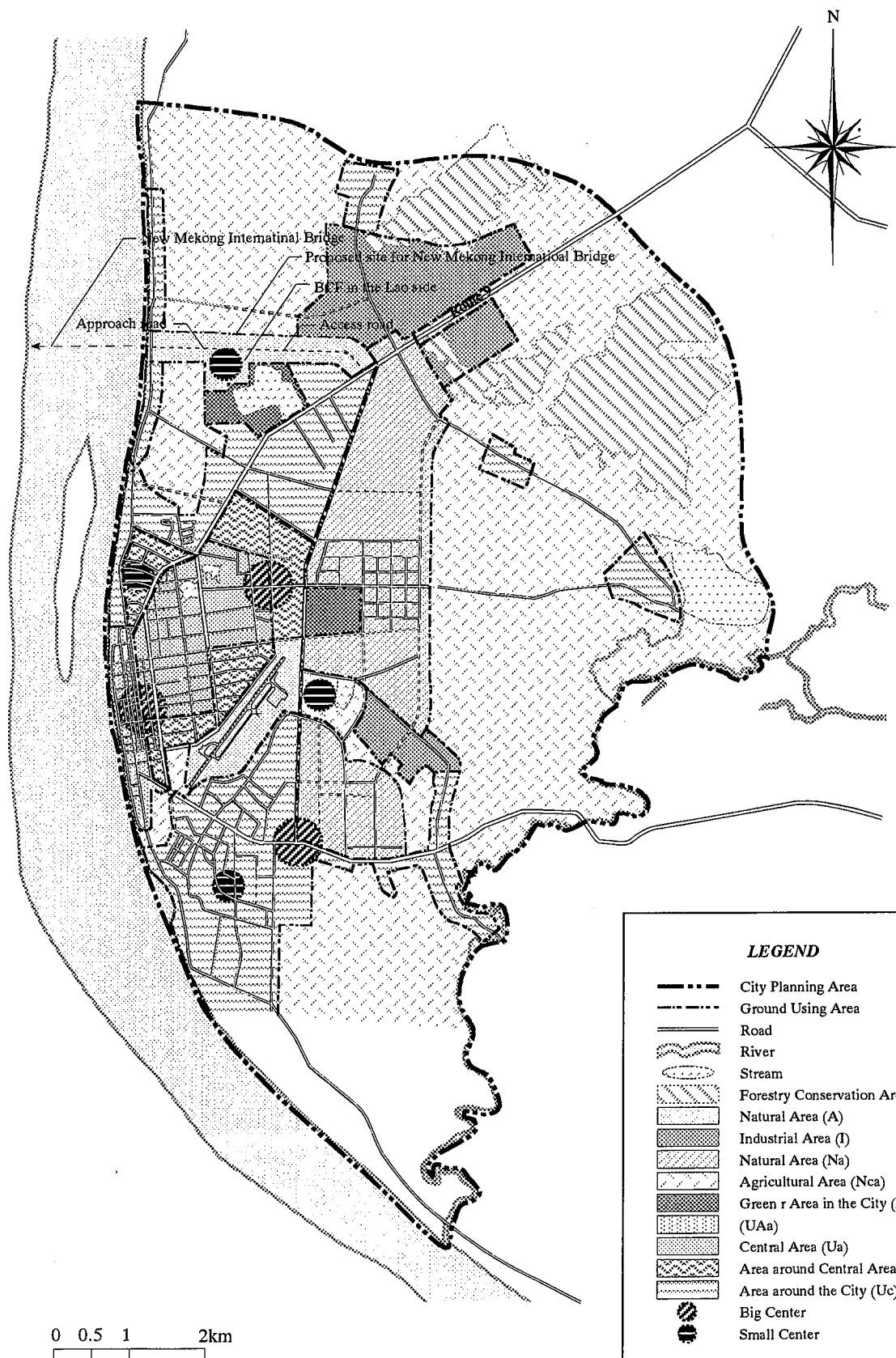
Figure A.3.5 Water Supply System in
Khanthabouly





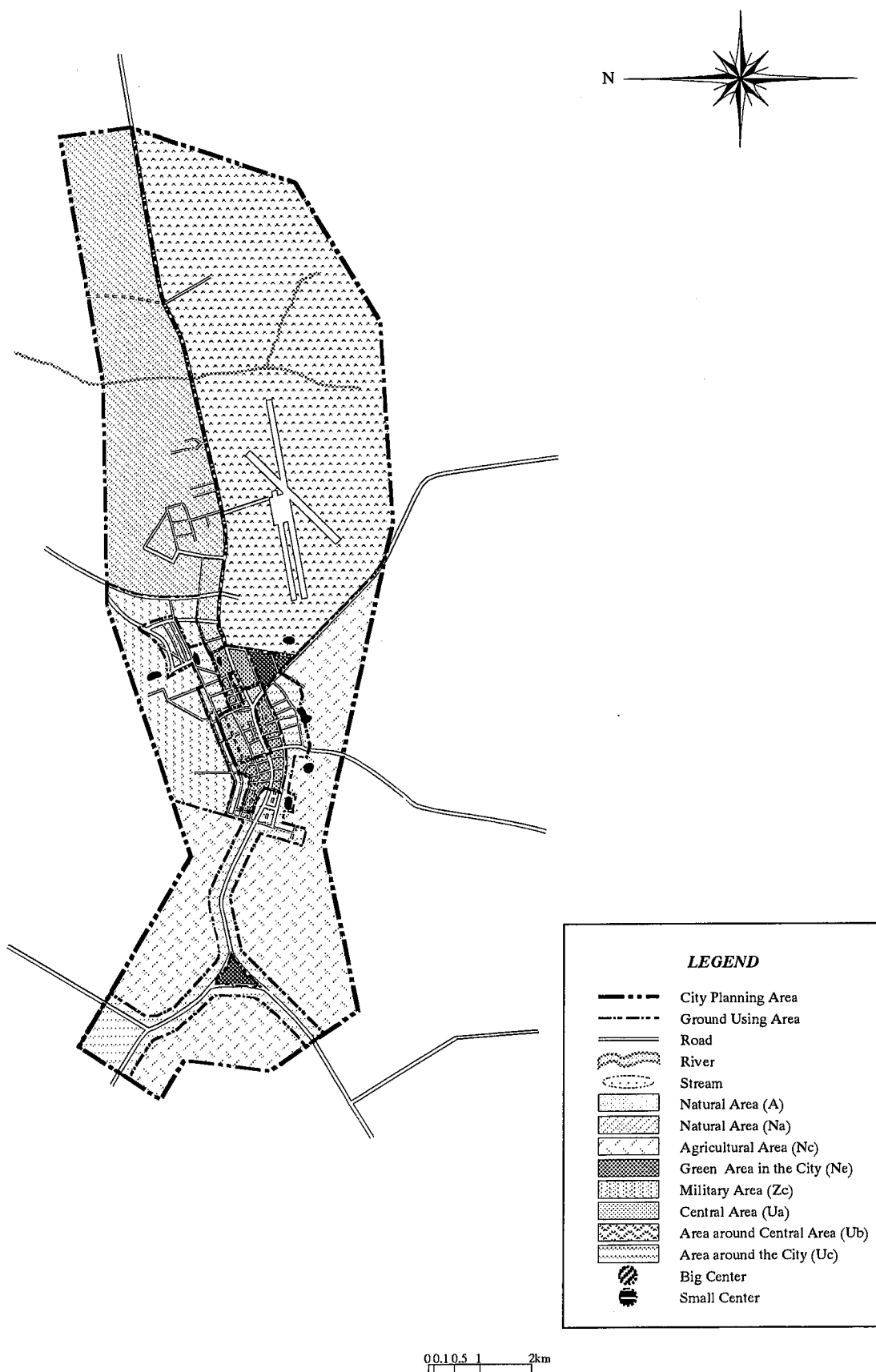






THE STUDY ON SPECIAL ECONOMIC ZONE
DEVELOPMENT IN BORDER AREA
(SAVANNAKHET PROVINCE) IN LAO PDR

Figure A.3.10 Land Use Map
in Khanthabouly



THE STUDY ON SPECIAL ECONOMIC ZONE
DEVELOPMENT IN BORDER AREA
(SAVANNAKHET PROVINCE) IN LAO PDR

Figure A.3.11 Land Use Map in Xeno

3. Candidate Sites

(1) Site A: Northern Part of Access Road of the New Mekong International Bridge

The site is located to the north of Khantabouly city and at the northern part of border facilities of the New Mekong International Bridge. Khantabouly district has 97,328 population and it is the largest district in Savannakhet province. Factories are located along Route 9.

Considering the cost of the expropriation, the lands for housing area are not suitable for the candidate sites. The existing lands for rice fields and forests are mainly selected as the candidate sites (Figure A.3.12).

In the city planning, the site is currently regulated to industrial area and agricultural area. Before development of SEZ, the land use is necessary to modify as suitable for SEZ development.

The site is a hilly area with a gentle slope of 7%, and is surrounded by the valleys. A river runs through from the east to the west of candidate sites, and it flows into the Mekong river. The river is unstable against weather, because it dries up in the dry season and inundates rice fields in lowland in the rainy season. Regulation pond is necessary for development. According to the detailed design for the 2nd Mekong bridge, the flood water level of the Mekong river is 138.5m for 25-year return period and 139.6m for 100-year return period. Therefore, it is advisable that the development area should be in an area with altitude is more than 140m.

The ground is solid with N standard value of 10 to 30 (or 23 on an average), according to the geological survey of the 2nd Mekong International Bridge. Sandstone and mudstone are basic geological formations. The surface ground is classified as stiff to hard clay, with its depth ranging from 6 to 10 m. Under the clay layer, sandstone and mudstone are laid and covered with decomposed rock.

For water supply, the northern part of Route 9 is out of the Khanthabouly water supply system (15,000 m³/day). The basic design is being conducted for the rehabilitation and extension of the treatment plant. The project targets on the year of 2004, and is expected to supply water for Phase I of SEZ.

The groundwater could be obtained in the volume, as the groundwater was encountered at 3 to 5 m below the ground level, in the geological survey, and the aquifer of the Mekong river would have large amount of ground water. However, the data of groundwater does not exist, and the groundwater

volume should be confirmed in advance of the development.

Additionally, in Natuey village along Route 9, the groundwater contains salt. The village produces and sells salt. Salt is also contained in the groundwater at more than 50 m depth wells in Xeno. However, salt is not contained at the wells ranging from 11m depth to 20m depth in Khantabouly. When the groundwater is taken in for raw water, the water quality test must be conducted sensitively.

Telecommunications is installed at few places in Khantabouly. The capacity of switching stations for in and out of the Khantabouly area is 3,368 lines. Additional 1,024 lines will be installed in December 2000. However, the demand of lines is still bigger than the supply of lines. Furthermore, the capacity of the backbone route (Microwave 34 Mbps) running in south-north direction in Lao PDR is already full and the capacity of the only gateway will be full in the future.

As such, south-north route with optical fibers should be constructed as shown in the concept of GMS optical fiber network. Expansion of gateway is also necessary.

For the electricity, 22kV power line runs along Route 9 from Pakbo substation. Until 2005 the power peak demand is over the capacity of the substation, according to EdL. In 2006 a new hydroelectric dam is expected to begin operation, so the power supply is shifted to the domestic supply. Consequently, a new substation is necessary to meet the peak demand before operation of the dam.

When the industry is established in Site A, some environmental protection is necessary to prevent housing area around Site A from noise, odor, and vibration. It is also required to control water quality of wasted water from SEZ, as an intake of Khantabouly water treatment plant is located downstream from Site A.

Figure A.3.12 shows the existing condition of Site A.

(2) Site B: Warehouse near Xeno

The site is located about 1 km to the west of the junction of Routes 9 and 13, or 25 km to the east of Savannakhet city. The Commercial Department of the provincial government owns this site of 6 ha. (Figure A.3.13) The government of Lao PDR proposes that the above site and its hinterland with 180ha are available for the candidate site. There are two warehouse, rice-mill, and stockyards, offices, accommodations for Chinese construction company

at the site. The construction company will rent the site until 2002.

Though ponds and forest are lying at a part of the site, the site is fairly flat. The topographic feature of the hinterland is classified to be a gentle sloped area from south to north. The slope is generally 2 to 5%. However, 1.2 km to the north of Route 9, the Hintat river and its tributaries flow from east to west, so the available area for large flat land will be limited to the south of the river.

No geological data for the site has been obtained, the soil foundation at the site is supposed to be mudstone similar to the soil at the Site A.

According to the F/S report of ADB, there are no substantial rivers within a reasonable distance of Xeno that maintain significant flows in the dry season. Water is currently supplied through pumping up from the well at the site to elevated tank. The provincial government says the groundwater level is 10m depth and the discharge is enough to supply.

The F/S also conducted water quality test, which resulted the quality is moderately hard, chlorides are within WHO drinking water limits. Only disinfection and chlorination units can be installed at the wells. However, saline was found at the well with more than 50m depth in Xeno. To supply suitable water without salt, the quality of ground water should be analyzed.

A telecommunications line accesses to a switching station with a capacity of 512 lines in Xeno. It is primary for meeting the SEZ development to strengthen south-north route with optical fibers and gateway to international telecommunication.

A transmission line of 22 kV is connected to the site. Site. As mentioned in the previous section, the new substation receiving electricity from Thailand is necessary, before the new hydroelectric power supply is operated in 2006.

Figure A.3.13 shows the existing condition of the Site B and related facilities.

(3) Site C: Xaybouly Industrial Estate

The Ministry of Industry and Handicrafts (MOIH) has identified this land. Though it is located within a range of 30 km from Savannakhet city, the actual driving distance is 45 km from the city along the existing road.

The population in Xaybouly district is 47,012. The surrounding area of the site is sparsely populated. At 4 km to the west of the site, there is the Kengabao river port which is not currently operated. Some villages are

existing along a provincial road to the port. There is no factory along the provincial road and the paddy fields are spreading.

MOIH prepared a development plan including an industrial zone and a residential zone. The whole development area is 1,300 ha (Figure A.3.14). MOIH expropriated 800 ha of land for industrial use consisted of agro-industry, chemical industry, light and heavy industry. Currently it is mostly covered by dry forest (765 ha), and partly by paddy fields (35 ha) cultivated by 2 villages.

The soil consists of sand, laterite, clay, and mudstone, according to the soil survey conducted by MOIH. The surface ground is sand and laterite of 3 m in depth. Clay and clay sand layer of 2 m in average lie under the surface layer. Mudstone also lies at more than 10 m below the ground level. The survey reported the soil is not appropriate for agriculture.

Topographically, five valleys intricately run in the site. It is undulated and is also a diverging point of the rainfall catchment areas to the Mekong river and Xiangxao river flowing into the Xe Bangfai river to the north. The elevation varies from 150 m to 180 m, with a slope of about 7 %.

For the water supply, the survey reported that the groundwater level is 9 to 13 m below the ground level. It also recommended that the groundwater is used for domestic water in the villages. MOIH has planned to develop a water supply system. Raw water will be taken from the Mekong river and transmitted to an elevated tank in the site through the purification process. The length of transmission will be more than 4 km.

For telecommunications, there is no line. One relay station for mobile phones is located near the port. The switching station will be required for SEZ. A 22 kV transmission line reaches the western end of the site.

Figure A.3.15 shows location of the Site C, and existing infrastructures.

(4) Site D: Deansavanh Free Trade Zone Site

The Ministry of Commerce and Tourism (MOCT) planned a FTZ near the border with Vietnam at Deansavahn in Xepon district. The plan contemplates a total area of 400 ha along Route 9 and its location will be selected from Deansavahn to Ban Dong village (20 km west from Deansavahn).

The population of Xepon district is 38,246 and the cultivated area is scattered along Route 9. The villages are only Xepon and a border area.

Existing facilities at the border are immigration office and guesthouse for

officials. MOCT recently constructed 2 duty free shops on both sides of Route 9. The shop to the north part of Route 9 is opened, while the other to the south is used for stocking. Both shops have a floor area of approximately 900 m².

Topographically, the site is in a hilly area with a steep slope of more than 20%. The Xepon river flows from west to east in the southern part of Route 9. The slope around the river is generally gentle or 5 % in maximum. The site for SEZ will be selected at the area along the river.

A substation beside the immigration office in Deansavahn receives electricity from Vietnam, and steps down from 35 kV to 22 kV (5 MVA). A transmission line of 97 km is laid along Route 9 up to B. Na village through Ban Dong. The line also joints at Bang Dong with a 22 kV line from a small hydroelectric powerhouse (80 kW).

There is no tapped water. Domestic water in villages is supplied from small dams and deep wells. The water supply for FTZ will take raw water from the Xepon river.

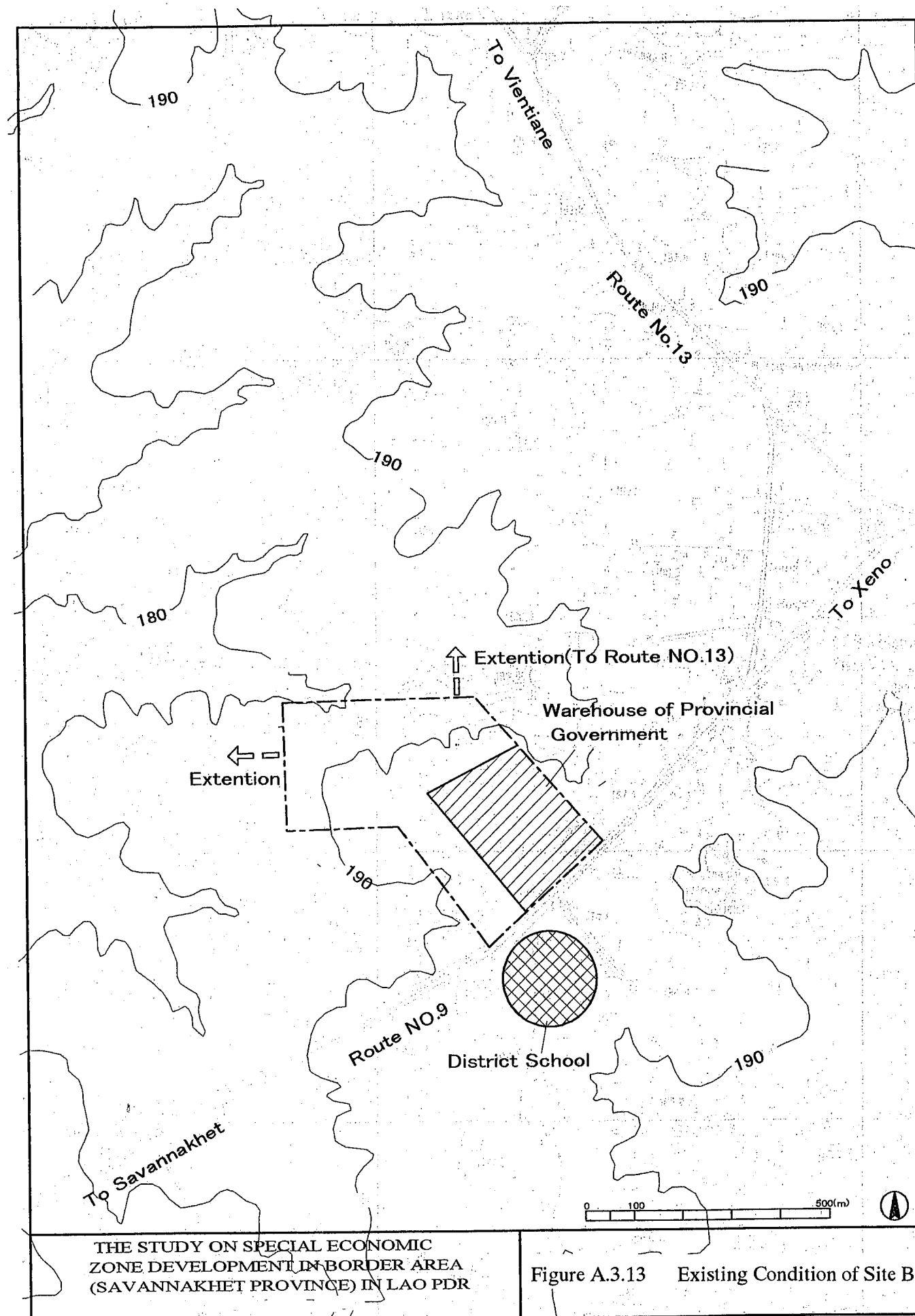
Telecommunications system is not established. In Xepon a high frequency radio station is located 50 km from the border. The switching station will be required for FTZ.

Figure A.3.16 shows the existing condition at the Site D.



THE STUDY ON SPECIAL ECONOMIC
ZONE DEVELOPMENT IN BORDER AREA
(SAVANNAKHET PROVINCE) IN LAO PDR

Figure A.3.12 Existing Condition of Site A



THE STUDY ON SPECIAL ECONOMIC
ZONE DEVELOPMENT IN BORDER AREA
(SAVANNAKHET PROVINCE) IN LAO PDR

Figure A.3.13 Existing Condition of Site B

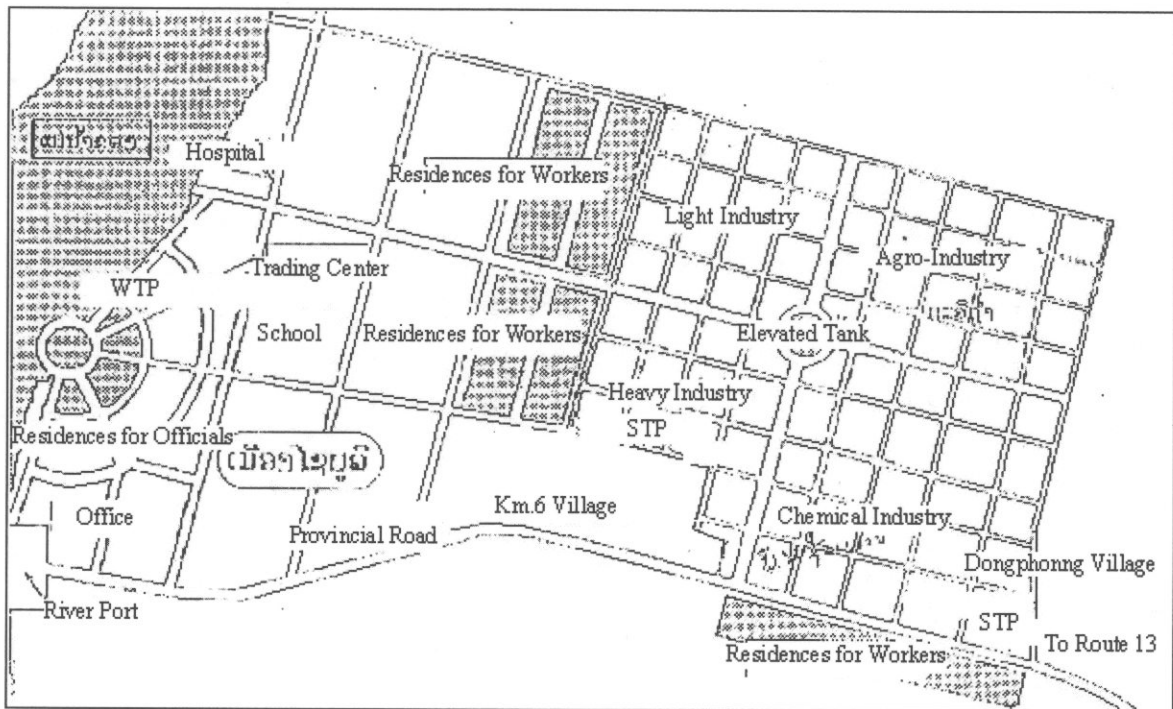


Figure A.3.14 Land Use Plan of Xaybouly Industrial Estate by MOIH

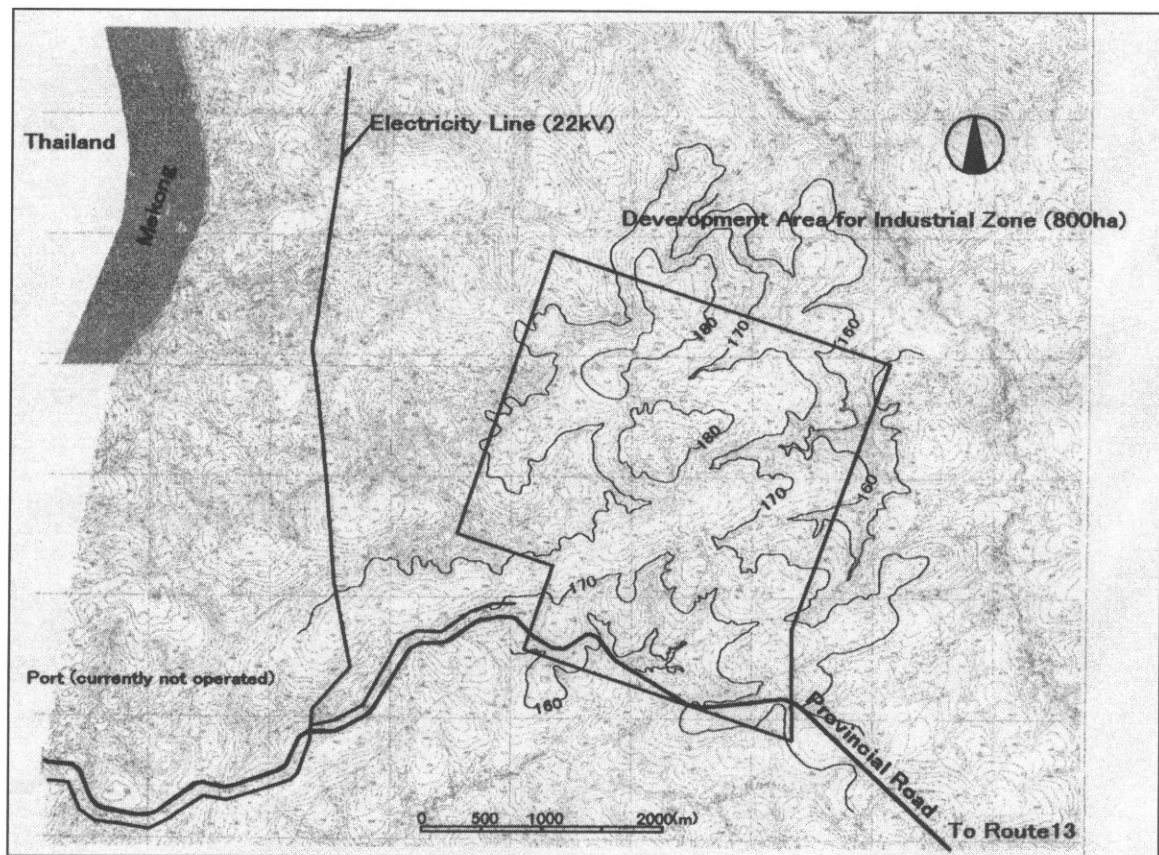


Figure A.3.15 Existing Condition of Site C

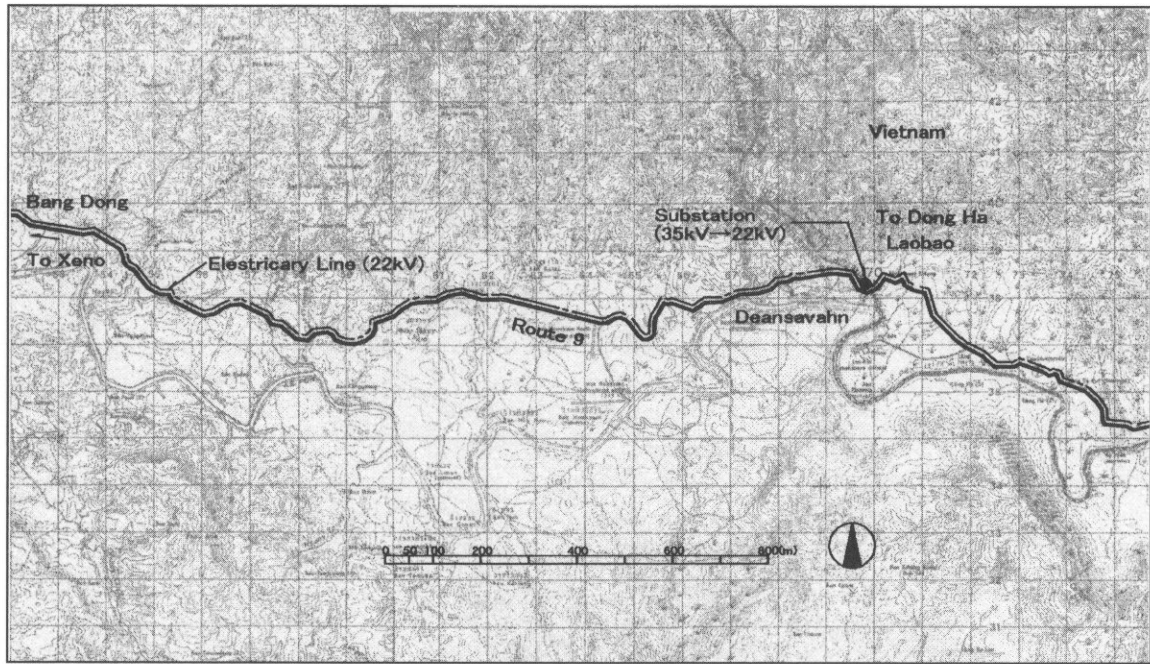


Figure A.3.16 Existing Condition of Site D

Appendix-4

SAMPLE DRAFT OF

THE SPECIAL ECONOMIC ZONE LAW

Appendix 4 SAMPLE DRAFT OF THE SPECIAL ECONOMIC ZONE LAW

THE SPECIAL ECONOMIC ZONE LAW (Sample Draft)

The Lao People's Democratic Republic
The National Assembly of The Lao People's Democratic Republic
Vientiane

Began and held in Vientiane, on (Day, date and year)

[Lao Law No.----]

**AN ACT PROVIDING FOR THE LEGAL FRAMEWORK AND MECHANISMS FOR
THE CREATION, OPERATION, ADMINISTRATION, AND COORDINATION OF THE
SPECIAL ECONOMIC ZONES IN THE LAO PEOPLE'S DEMOCRATIC REPUBLIC,
CREATING FOR THIS PURPOSE, THE LAO ECONOMIC ZONE AUTHORITY (LEZA),
AND FOR OTHER PURPOSES**

*Be it enacted by the National Assembly of the Lao People's Democratic Republic
assembled:*

CHAPTER I PURPOSES AND OBJECTIVES; ESTABLISHMENT AND NATURE OF SPECIAL ECONOMIC ZONES; COORDINATION WITH OTHER SIMILAR SCHEMES

SECTION 1. *Title.* – This Law shall be known and cited as “The Special Economic Zone Law of the Lao People's Democratic Republic”.

SECTION 2. *Declaration of Policy.* – It is the declared policy of the government to translate into practical realities the following State policies in the 1991 Constitution and Law on The Promotion and Management of Foreign Investment in The Lao People's Democratic Republic of 1994 (hereinafter referred to as The Foreign Investment Law), namely:

- (a) “The economic system of the Lao People's Democratic Republic is a multi-sectional economy whose objectives are to expand production and increase

the circulation of goods, and transform the national economy into a market economy in order to develop the national economic base and improve the material and spiritual living conditions of the multi-ethnic people.” (Article 13, Chapter 2, The Constitution)

- (b) “The State protects and promotes all forms of state, collective and individual ownership, as well as the private ownership of both domestic investors and foreigners who invest in the Lao People’s Democratic Republic. The State encourages all economic sectors to compete and cooperate with one another in expanding their production and business activities. All economic sectors are equal before the law.” (Article 14, Chapter 2, The Constitution)
- (c) “The government of the Lao People’s Democratic Republic encourages foreign persons, either individuals or legal entities, to invest capital in the Lao People’s Democratic Republic on the basis of mutual benefit and observance of the law and regulations of the Lao People’s Democratic Republic. Such persons shall hereinafter be referred to as “foreign investors.” (Article 1, The Foreign Investment Law)
- (d) “Foreign Investors may invest in and operate enterprises in all fields of lawful economic activity such as agriculture and forestry, manufacturing, energy, mineral extraction, handicrafts, communications and transport, construction, tourism, trade, services and others. Foreign investors may not invest in or operate enterprises which are detrimental to national security, the natural environment, public health or the national culture, or which violate the laws and regulations of the Lao People’s Democratic Republic.” (Article 2, The Foreign Investment Law)

In pursuance of these policies, the government shall actively encourage, promote, induce and accelerate a sound and balanced industrial, economic and social development of the country in order to provide jobs to the people, increase their productivity and their individual and family income, and thereby improve the level and quality of their living condition through the establishment, among others, of special economic zones in suitable and strategic locations in the country and through measures that shall effectively attract legitimate and productive foreign investments.

SECTION 3. *Purposes, Intent and Objectives.* – It is the purpose, intent and objective of this Law:

- (a) To establish the legal framework and mechanisms for the planning and monitoring of the special economic zones;
- (b) To promote a market economy without intervention of the central and local government in production, commercial and other economic activities;

- (c) To transform selected areas in the country into highly developed, industrial, commercial, services, tourist, agro-industrial, investment, and financial centers, where highly trained workers and efficient services will be available to commercial enterprises;
- (d) To promote the flow of investors, both foreign and local, into special economic zones which would generate employment opportunities and establish backward and forward linkage among industries in and around the special economic zones;
- (e) To stimulate the repatriation of Lao capital by providing attractive climate and incentives for business activities;
- (f) To promote industrial, servicing and financial cooperation between the Lao People's Democratic Republic and industrialized countries through modernized industries that will upgrade the country's industrial sector and improve productivity by utilizing new technological and managerial know-how; and
- (g) To vest the special economic zones on certain areas thereof with the status of a separate customs territory within the framework of the Constitution and the national sovereignty and territorial integrity of the Lao People's Democratic Republic.

SECTION 4. *Definition of Terms.* – For purposes of this Law, the following definitions shall apply to the following terms:

- (a) “Special economic zone (SEZ)” – a selected area with highly developed or which have the potential to be developed into industrial, tourist/recreational, commercial, servicing, agro-industrial, investment and financial centers. An SEZ shall contain all of the following: export processing zones (EPZs), free trade zones, free logistics center (free port) and tourist/recreational center. Enterprises within the SEZ are granted preferential tax treatment and immigration laws are more lenient.
- (b) “Export processing zone (EPZ)” – a specialized industrial estate located physically and/or administratively outside customs territory, predominantly oriented to export production. Enterprises located in export processing zones are allowed to import capital equipment and raw materials free from duties, taxes and other import restrictions.
- (c) “Free trade zone” –a separate security area adjacent to a port of entry where imported goods may be unloaded for immediate transshipment or stored, repacked, sorted, mixed, sold, bought or otherwise manipulated without being subject to import duties. However, movement of these imported goods from the free-trade area to a non-free-trade area in the country shall be subject to import duties.
- (d) “Free logistics center (free port)”- a separate security area near to a port of entry where imported goods may be unloaded for immediate transshipment or stored,

repacked, sorted, mixed, or otherwise manipulated without being subject to import duties. However, movement of these imported goods from the free port area to a non-free-port area in the country shall be subject to import duties.

SECTION 5. *Establishment of SEZ.* – To ensure the viability and geographic dispersal of SEZ through a system of prioritization, the following area is initially identified as SEZ, subject to the criteria specified in Section 6:

- (a) Within 2.5 kilometers on both sides from the Second International Mekong Bridge access road and Route 9, starting from the gate of the Lao Check Point near the Second International Mekong Bridge to the intersection of Route 9 and 13 through the junction of the Second International Mekong Bridge access road and Route 9 in Savannakhet Province.
- (b) Individual factories, established by foreign and domestic investment before this Law is enacted, located in the area of such SEZ and who wish to be granted the incentives hereof, may apply to the LEZA and the LEZA shall assess and evaluate such application and may grant the incentives under this Law when the LEZA finds it applicable and appropriate.
- (c) Individual factories, established by foreign investment before this Law is enacted, located in Khanthabouly district, qualified as export-oriented enterprises according to the classification set forth under this Law and who wished to be granted the incentives hereof, may apply to the LEZA and the LEZA shall assess and evaluate such application and may grant the incentives under this Law when the LEZA finds it applicable and appropriate.

These areas shall be developed through any of the following schemes:

- (i) Private initiative;
- (ii) Local government initiative with the assistance of the national government;
- (iii) National government initiative; and
- (iv) The mixed scheme of the above

The meters and bounds of SEZ are to be delineated and more particularly described in a decree to be issued by the Prime Minister of the Lao People's Democratic Republic, upon the recommendation of the Lao Economic Zone Authority (LEZA), which shall be established under this Law, in coordination with the provincial and/or other local administrative authority, the Central Land Allocation and Land and Forest Granting Committee (the Central Land Committee).

SECTION 6. Criteria for the Establishment of Other SEZ. – *In addition to the SEZ identified in SECTION 5 of this Law, other areas may be established as SEZ in a Decree to be issued by the Prime Minister of the Lao People’s Democratic Republic subject to the evaluation and recommendation of the LEZA, based on a detailed feasibility and engineering study which must conform to the following criteria:*

- (a) The proposed area must be identified as a regional growth center in the medium-term development plan authorized by the central government;
- (b) The existence of required infrastructure in the proposed SEZ, such as roads, telephones, airport, railways, etc., and the suitability and capacity of the proposed site to absorb such improvements;
- (c) The availability of water source and electric power supply for use of the SEZ;
- (d) The extent of vacant lands available for industrial and commercial development and future expansion of the SEZ as well as of lands adjacent to the SEZ available for development of residential areas for the SEZ workers;
- (e) The availability of skilled, semi-skilled and non-skilled trainable labor force in and around the SEZ;
- (f) The area must have a significant incremental advantage over other area in the Lao People’s Democratic Republic and its potential profitability can be established;
- (g) The area must be strategically located; and
- (h) The area must be situated where controls can easily be established to curtail smuggling activities.

Other areas, which do not meet the foregoing criteria, may be established as SEZ in a Decree to be issued by the Prime Minister of the Lao People’s Democratic Republic subject to the evaluation and recommendation of the LEZA: *Provided*, that the said area shall be developed only through local government and/or private sector initiative, and without any financial exposure on the part of the national government: *Provided, further*, That the area can be easily secured to curtail smuggling activities: *Provided, finally*, that after five (5) years the area must have attained a substantial degree of development, the indicators of which shall be formulated by the LEZA.

SECTION 7. SEZ to be a Decentralized Industrial, Servicing, Commercial/Trading, Agro-Industrial, Tourist, Investment and Financial Community. – Within the framework of the Constitution, the interest of national sovereignty and territorial integrity of the Lao People’s Democratic Republic, the SEZ shall be developed, as much as possible, into a decentralized, self-reliant and self-sustaining industrial, servicing, commercial/trading, agro-industrial, tourist, financial and investment center with minimum government intervention. Each SEZ shall be provided with transportation, telecommunications, and

other facilities needed to promote backward and forward linkage among the enterprises inside and outside of the SEZ and to generate linkage with industries and employment opportunities for its own inhabitants and those of nearby towns and cities.

The SEZ shall administer itself on economic, financial, industrial and tourism development, and such other matters within the exclusive competence of the national government.

The SEZ may establish mutually beneficial economic relations with other entities within the country, or, subject to the administrative guidance of the Prime Minister's Office, the Ministry of Foreign Affairs, the Ministry of Industry and Handicraft and/or the Ministry of Commerce and Tourism, with foreign entities or enterprises.

Foreign citizens and companies owned by non-Lao citizens in whatever proportion may set up new enterprises or participate in the management of the existing enterprises through purchasing the share capitals in the SEZ, either by themselves or in joint venture with the Lao nationals in any sector, except those clearly described in the negative list issued by the LEZA, of industry, international trade and commerce, services within the SEZ.

Their assets, profits and other legitimate interests shall be protected: *Provided*, that the SEZ through the LEZA may require a minimum investment for any SEZ enterprise in freely convertible currencies: *Provided, further*, that the investment shall fall under the priorities, thrusts and limits provided for in this Law.

SECTION 8. *SEZ to be Operated and Managed as Separate Customs Territory.* – The SEZ shall be managed and operated by the LEZA as separate customs territory.

The LEZA is hereby vested with the authority to issue certificates of origin for products manufactured or processed in each SEZ in accordance with the prevailing rules of origin, and the pertinent regulations of the Ministry of Industry and Handicraft and/or the Ministry of Finance.

SECTION 9. *Defense and Security.* – The defense of the SEZ and the security of its perimeter area shall be the responsibility of the national government in coordination with the LEZA. Military forces sent by the national government for the purpose of defense shall not interfere in the internal affairs of any of the SEZ and expenditure for these military forces shall be borne by the national government. The LEZA may provide and establish the SEZ's internal security and firefighting forces.

SECTION 10. *Immigration.* – Any investor within the SEZ whose initial investment shall not be less than One hundred thousand dollars (\$100,000), his/her spouse and dependent children under twenty-one (21) years of age shall be granted permanent resident status and the Ministry of Interior shall issue such visas, upon the request of the LEZA.

The Ministry of Interior shall issue, upon the request of the LEZA, working visas renewable every two (2) years to foreign executives, engineers, technicians, workers and other aliens, possessing highly technical skills, which no Lao citizens within the SEZ possesses, as certified by the Ministry of Labor and Social Welfare, or strong and appropriate workability to fill up the vacant positions in the SEZ enterprises, as approved by the LEZA.

CHAPTER II

GOVERNING STRUCTURES

SECTION 11. *The Lao Economic Zone Authority (LEZA) Board.* – There is hereby created an independent public corporation to be known as the Lao Economic Zone Authority (LEZA) attached to the Prime Minister’s Office. The LEZA shall be operated basing on its own financial resources and shall be responsible for profits and losses to be generated from its operation.

The LEZA shall have a director general who is a private person or a government official with the rank of minister and shall be appointed by the Prime Minister. The director general shall be of proven probity and integrity, and a degree holder in any of the following fields: economics, business, public administration, law, management or their equivalent, and with at least ten (10) years relevant working experience preferably in the field of management or public administration. The director general shall be responsible for the management and operations of the SEZ.

The director general shall be assisted by three (3) deputy directors general each for policy and planning, administration and operation, who shall be appointed by the LEZA Board, upon the recommendation of the director general. The deputy directors general shall be with proven probity and integrity, and a degree holder in any of the following fields: economics, business, public administration, law, management or their equivalent.

One (1) senior executive advisor for strategic planning, supervision on the implementation of policy and planning, administration and operation for and of the SEZ, who shall be appointed by the LEZA Board upon the recommendation of the director general, shall assist the director general. The senior executive advisor shall be of proven probity and integrity, and a degree holder in any of the following fields: economics,

business, public administration, law, management or their equivalent, and with at least more than five (5) years working experience preferably in the field of planning and/or management of equivalent special economic zone.

The LEZA shall have the Board, being composed of sixteen (16) members as follows: the Director General of the Lao Economic Zone Authority as Chairman, the Vice Minister of the Prime Minister's Office as Vice-chairman, the Vice Ministers of the Ministry of Industry and Handicraft, the Ministry of Commerce and Tourism, the Ministry of Finance, the Ministry of Labor and Social Welfare, the Ministry of Interior, the Ministry of Agriculture and Forest, the Ministry of Communication, Transport, Post and Construction, the State Planning Committee, the Ministry of Environment, the Ministry of Education, the Ministry of Justice, the Governor of the Province concerned, and one (1) representative from the labor sector, and one (1) representative from the investors/business sector in the SEZ. In case of the unavailability of the Director General of the LEZA to attend a particular board meeting, the Vice Minister for the Prime Minister's Office shall act as Chairman. The LEZA Board shall be responsible for the policy-making of the SEZ. The resolutions of the LEZA Board shall be made with the votes of majority of the Board members attending at the Board Meeting, which shall be effectuated with the attendance of the majority of the Board members.

There shall be one (1) executive auditor, who shall be appointed by the Prime Minister, to attend the LEZA Board meeting as an observer. The executive auditor shall be of proven probity and integrity, and a degree holder in any of the following fields: economics, business, public administration, law, management or their equivalent, and with at least more than ten (10) years working experience preferably in the field of auditing, planning and/or management. He shall be responsible and entitled to make direct and periodical report to the Prime Minister of the Lao People's Democratic Republic, regarding the policies, management and operations of the SEZ.

Members of the LEZA Board, except the director general, shall receive a *per diem* of not less than the amount equivalent to the representation and transportation allowances of the members of the Board and/or as may be determined by the Ministry of Finance: *Provided, however,* That the *per diem* collected per month does not exceed the equivalent of four (4) meetings.

SECTION 12. Functions and Powers of LEZA Board. – The LEZA Board shall have the following functions and powers:

- (a) Set the general policies on the establishment and operations of the SEZ;

- (b) Review proposals for the establishment of the SEZ based on the set criteria under Section 6 and endorse to the Prime Minister the establishment of the SEZ. Thereafter, it shall facilitate and assist in the organization of said entities;
- (c) Regulate and undertake the establishment, operation and maintenance of utilities, other services and infrastructure in the SEZ, such as heat, light and power, water supply, telecommunications, transport, toll road and bridges, post services, etc., and to fix reasonable and competitive rates, charges and fees thereof;
- (d) Fix and collect the reasonable and competitive land leasing rates, service charges or other necessary charges or fees from the investors in case they may locate at the premises developed by the LEZA or from the developer in case they are in charge of developing land, buildings or other necessary facilities basing on sub-leasing rights from the LEZA;
- (e) Approve the annual budget of the LEZA and the SEZ development plan;
- (f) Issue rules and regulations to implement the provisions of this Law in so far as its power and functions are concerned;
- (g) Exercise its powers and functions as provided for in this Law; and
- (h) Render annual reports to the Prime Minister and the National Assembly.

SECTION 13. *General Powers and Functions of the Authority.* – The LEZA shall have the following powers and functions:

- (a) To operate, administer, manage and develop the SEZ according to the principles and provisions set forth in this Law;
- (b) To accept and evaluate the investment plans, and provide the investment licenses in the SEZ;
- (c) To provide, create or modify the investment incentives set forth in this Law;
- (d) To register, regulate and supervise the enterprises in the SEZ in an efficient and decentralized manner;
- (e) To coordinate with local government units and exercise general supervision over the development, plans, activities and operations of the SEZ and the like;
- (f) In coordination with local government units concerned and appropriate agencies, to construct, acquire, own, lease, operate and maintain on its own or through contract, franchise, license, bulk purchase from the private sector and build-operate-transfer scheme or joint venture, adequate facilities and infrastructure, such as light and power systems, water supply and distribution systems, telecommunication and transportation, buildings, structures, warehouses, roads, bridges and other facilities for the operation and development of the SEZ;

- (g) To create, operate and/or contract to operate such agencies and functional units or offices of the authority, as it may deem necessary;
- (h) To adopt, alter and use a corporate seal; make contracts, lease, own or otherwise dispose of personal or real property; sue and be sued; and otherwise carry out its duties and functions as provided for in this Law;
- (i) To coordinate the formulation and preparation of the development plans of the different entities mentioned above;
- (j) To coordinate with the State Planning Committee, the Ministry of Industry and Handicraft, the Ministry of Commerce and Tourism and the Ministry of Communication, Transport, Post and Construction, and the local government units and appropriate government agencies for policy and program formulation and implementation; and
- (k) To monitor and evaluate the development and requirements of entities in subsection (a) and recommend to the appropriate authorities the location, incentives, basic services, utilities and infrastructure required or to be made available for said entities.

SECTION 14. Powers and Functions of the Director General. – The director general shall be the overall coordinator of the policies, plans and programs of the SEZ. As such, he/she shall provide overall supervision over and general direction to the development and operations of the SEZ. He/She shall determine the structure and the staffing pattern and personnel complement of the LEZA and establish regional offices, when necessary, subject to the approval of the LEZA Board.

In addition, he/she shall have the following specific powers and responsibilities:

- (a) To safeguard all the lands, buildings, records, monies, credits and other properties and rights of the SEZ;
- (b) To ensure that all revenues of the SEZ are collected and applied in accordance with its budgets;
- (c) To ensure that the investors/firms and employees of the SEZ are properly discharging their respective duties;
- (d) To give such information and recommend such measures to the Board, as he/she shall deem advantageous to the SEZ;
- (e) To submit to the Board, the ongoing and proposed projects, work and financial program, annual budget of receipts, and expenditures of the SEZ;
- (f) To represent the SEZ in all its business matters and signs on its behalf after approval of the Board, all its bonds, borrowings, contracts, agreements and obligations made in accordance with this Act;

- (g) To acquire jurisdiction, as he/she may deem proper, over the protests, complains, and claims of the residents and enterprises in the SEZ concerning administrative matters;
- (h) To recommend to the Board the grant, approval, refusal, amendment or termination of the SEZ franchises, licenses, permits, contracts, and agreements in accordance with the policies set by the Board;
- (i) To require owners of houses, buildings or other structures constructed without the necessary permit whether constructed on public or private lands, to remove or demolish such houses, buildings, structures within sixty (60) days after notice and upon failure of such owner to remove or demolish such house, building or structure within said period, the director general or his authorized representative may summarily cause its removal or demolition at the expense of the owner, any existing law, decree, executive order and other issuances or part thereof to the contrary notwithstanding;
- (j) To take such emergency measures as may be necessary to avoid fires, floods and mitigate the effects of storms and other natural or public calamities;
- (k) To prepare and make out plans for the physical and economic development of the SEZ, including zoning and land subdivision, and issue such rules and regulations which shall be submitted to the Board for its approval; and
- (l) To perform such other duties and exercises such powers as may be prescribed by the Board, and to implement the policies, rules and regulations set by the LEZA.

SECTION 15. *Administration of Each SEZ.* – Except for privately-owned, managed or operated SEZ, each SEZ shall be organized, administered, managed and operated by the SEZ executive committee composed of the following:

- (a) The administrator who shall be appointed by the LEZA Board upon recommendation of the director general; and
- (b) One (1) deputy administrator to be appointed by the LEZA Board upon recommendation of the director general.

A SEZ advisory body shall be created with the following members:

- (1) The president of the association of investors in the SEZ;
- (2) The Vice Governor of the Province or the mayor of the Municipality where the SEZ is located;
- (3) The chief/ves and/or headman/men of other local administrative authority;
- (4) The president of an accredited labor union in the SEZ;
- (5) The representative of the business sector in the periphery of the SEZ; and
- (6) The representative of the LEZA.

The SEZ advisory body shall have the following functions:

- (i) Advise the SEZ management on matters pertaining to policy initiatives; and
- (ii) Assist the SEZ management in setting problems arising between labor and any enterprise in the SEZ.

Privately owned, managed or operated SEZ shall retain autonomy and independence but shall be monitored by the LEZA for the implementation of incentives and operations for adherence to the law.

SECTION 16. *Personnel.* – The remunerations and other emoluments of the director general and deputy directors general of the LEZA shall be determined according to the same manner and procedures as for the ministers and vice ministers of the central government. The remuneration and other emoluments of senior executive advisor shall be separately fixed by the LEZA Board upon recommendation of the director general with the approval of the Minister of the Prime Minister’s Office.

The LEZA Board of Directors shall provide for an organization and staff of officers and employees of the LEZA, and upon recommendation of the director general with the approval of the Minister of the Prime Minister’s Office, appoint and fix the remunerations and other emoluments: *Provided*, that the Board shall have exclusive and final authority to promote, transfer, assign and reassign officers of the LEZA, any provision of existing law to the contrary notwithstanding: *Provided, further*, that the director general may carry out removal of such officers and employees.

All positions in the LEZA shall be governed by a compensation, position classification system and qualification standards approved by the director general with the concurrence of the Board of Directors based on a comprehensive job analysis and audit of actual duties and responsibilities. The compensation plan shall be comparable with the prevailing compensation plans for the central government officers and shall be subject periodic review by the Board no more than one (1) time in every year without prejudice to yearly merit reviews or increases based on productivity and regulations on compensation, position classification and qualification standards.

The LEZA officers and employees including all Members of the Board shall not engage directly or indirectly in partisan activities or take part in any action, except to vote.

SECTION 17. *Investigation and Inquiries.* – Upon a written formal complaint made under oath, which on its face provides reasonable basis to believe that some anomaly or irregularity might have been committed, the LEZA or the administration of the SEZ

concerned, shall have the power to inquire into the conduct of enterprises or employees of the SEZ and to conduct investigations, and for that purpose may subpoena witnesses, administer oaths, and compel the production of books, papers and other evidences: *Provided*, that to arrive at the truth, the investigator(s) may grant immunity from prosecution to any person whose testimony or whose possessions of documents or other evidence is necessary or convenient to determine the truth in any investigation conducted by him/her or under the authority of the LEZA or the administrator of the SEZ concerned.

SECTION 18. *Prohibition Against Holding Any Other Office.* – The director general, deputy director general, administrators, staff or assistants of the LEZA shall not hold any other office or employment within or outside the LEZA during their tenure. They shall not, during their tenure, directly or indirectly, practice any profession, participate in any business, or be financially interested in any contract with, or in any franchise, or special privilege granted by the LEZA or national government, or any subdivision, agency, or instrumentally thereof, including any government-owned-controlled corporation, or its subsidiary.

SECTION 19. *Disbursement of Funds.* – No money shall be paid out of the funds of any SEZ except in pursuance of the budget as formulated and approved by the LEZA.

SECTION 20. *Full Disclosure of Financial and Business Interests.* – Every member of the board of the LEZA, the director general, the deputy directors general, and their staff shall, upon assumption of office, make full disclosure of their financial and business interests.

CHAPTER III

OPERATIONS WITHIN THE SEZ

SECTION 21. *Development Strategy of the SEZ.* - The strategy and priority of development of each SEZ established pursuant to this Law shall be formulated by the LEZA, in coordination with the Ministry of Industry and Handicraft, the Ministry of Commerce and Tourism and the State Planning Committee: *Provided*, that such development strategy is consistent with the priorities of the national government as may be outlined in the medium-term development plan of the government.

It shall be the policy of the government and the LEZA to encourage and provide incentives and facilitate private sector participation in the construction and operation of public utilities and infrastructure in the SEZ.

SECTION 22. *Survey of Resources.* - The LEZA shall, in coordination with appropriate authorities and neighboring municipalities and provinces, immediately conduct a survey of the physical, natural assets and potentialities of the SEZ areas under its jurisdiction.

SECTION 23. *Fiscal Incentives.* - Business establishments, both foreign and domestic, operating within the SEZ and the foreign personnel of such business establishments shall be entitled to the fiscal incentives as provided for under the Prime Minister's Decree regarding the rules and regulations to implement this Law, or those provide under Law on the Promotion and Management of Foreign Investment in The Lao People's Democratic Republic of 1994, as they may wish.

SECTION 24. *Exemption from National and Local Taxes.* – Corporate profit tax, turnover tax, utilization tax, minimum tax, import and export duties and remittance tax may be exempted for the SEZ enterprises from payment, according to the LEZA incentives policy and as provided for under the Prime Minister's Decree regarding the rules and regulations to implement this Law.

SECTION 25. *Applicable National and Local Taxes.* – National and local taxes under the Tax Law of the Lao People's Democratic Republic of 1995 shall be imposed on all persons and enterprises in the SEZ, except as otherwise provided in Sections 23 and 24 of this Law.

SECTION 26. *Domestic Sales.* – Goods manufactured or imported by an SEZ enterprise shall be made available for immediate retail sales in the domestic market, subject to payment of corresponding taxes and duties on the raw materials or commodities and other regulations that may be adopted by the LEZA Board.

However, in order to protect the domestic industry, public health and/or national culture, there shall be a negative list of industries that will be drawn up by the LEZA. Enterprises engaged in the industries included in the negative list should not be allowed to sell their products locally. Said negative list shall be regularly updated by the LEZA.

The LEZA, in coordination with the Ministry of Industry and Handicraft, the Ministry of Commerce and Tourism and the Customs Department of the Ministry of Finance, shall jointly issue the necessary implementing rules and guidelines for the effective implementation of this Section.

SECTION 27. *Applicability of Banking Laws and Regulations.* – In order to provide the SEZ with offshore status, the LEZA shall create and apply to banks and financial institutions to be established in the SEZ and to other SEZ-registered enterprises, in cooperation with the Bank of the Lao People’s Democratic Republic, the regulations securing the freedom in foreign exchange and other current account transactions (trade and non-trade), foreign borrowings, foreign investments and /or foreign currency deposit. The existing provisions of Law on The Creation of The Bank of The Lao People’s Democratic Republic and The Council of Ministers’ Decree No.53 dated September 7, 1990, The Management of Foreign Exchange and Precious Metals and other pertinent regulations shall be limited to apply to the SEZ only to the extent not to confront with such LEZA regulations.

SECTION 28. *After Tax Profits.* – Without prior approval of the Bank of the Lao People’s Democratic Republic, after tax profits and other earnings of foreign investments in enterprises in the SEZ may be remitted outward in the equivalent foreign exchange through any of the banks licensed by the Bank of the Lao People’s Democratic Republic in the SEZ: *Provided, however,* that such foreign investments in said enterprises have been previously registered with the Bank of the Lao People’s Democratic Republic.

SECTION 29. *Eminent Domain.* – The areas comprising an SEZ may be expanded or reduced when necessary. For this purpose, the central government shall have the power to acquire, either by purchase, negotiation or condemnation proceedings, any private lands within or adjacent to the SEZ for:

- (a) Consolidation of lands for zone development purposes;
- (b) Acquisition of right of way to the SEZ; and
- (c) The protection of watershed area and natural assets valuable to the prosperity of the SEZ.

If in the establishment of a publicly-owned SEZ, any person or group of persons who has been occupying a parcel of land within the SEZ has to be evicted, the LEZA shall provide the person or group of persons concerned with proper disturbance compensation: *Provided, however,* that in the case of displaced agrarian reform beneficiaries, they shall be entitled to the benefits under Article 70 of the Land Law of 1997, in addition to a home lot in the relocation site, and preferential employment in the project being undertaken.

SECTION 30. *Leases of Lands.* – Lands in each SEZ may be leased to foreign investors from the LEZA with approval of the LEZA Board for a period not shorter than thirty (30) years and not exceeding seventy-five (75) years in any case and further renewable on case by case. Such land leasing period for domestic investors, regardless of

the provision of Article 13 of the Land Law of the Lao People's Democratic Republic of 1997, shall, in any case, not be shorter than thirty (30) years but not exceeding fifty (50) years. The standard period of land leasing shall be determined in advance, according to the type of industrial sector, and made open to the public by the LEZA.

Notwithstanding the provision of Article 64 of the Land Law of the Lao People's Democratic Republic of 1997, the LEZA shall approve the acquisition and determine the period of such leasehold to foreign investors without the authorization of the Ministry of Finance. The uniformed land leasing rates shall be publicly announced by the LEZA. The leasehold right acquired under long-term contacts may be sold, transferred or assigned, subject to the conditions set forth by and with approval of the LEZA.

SECTION 31. *Land conversion.* – Any of agricultural lands, forest lands, construction lands, industrial lands and/or communication lands in the SEZ may be converted for industrial, commercial, residential, and other purposes different from their original classifications, subjects to the conditions and procedures set forth by the LEZA.

SECTION 32. *Transport and Transport Register.* – Private transport and related business including private warehouses, cargo-terminals and transport enterprises may operate freely in the SEZ, subject only to such minimum reasonable regulations of local application, which the LEZA may prescribe.

The LEZA shall, in coordination with the Ministry of Communication, Transport, Post and Construction, maintain a transport register for each SEZ as a business register of convenience for internationally transporting tracks and issue related certification.

Tracks of all sizes, descriptions and nationalities shall enjoy access to the dry ports or terminal facilities of the SEZ, subject only to such reasonable requirement as may be prescribed by the LEZA in coordination with the appropriate agencies of the national government.

SECTION 33. *Protection of Environment.* – The LEZA, in coordination with the appropriate agencies, shall take concrete and appropriate steps and enact the proper measure for the protection of the local environment.

SECTION 34. *Termination of Business.* – Investors in the SEZ who desire to terminate business or operations shall comply with such requirements and procedures, which the LEZA shall set, particularly those relating to the clearing of debts. The assets of the closed enterprises can be transferred and the funds can be remitted, as in the same form of

currencies as invested, out of the SEZ subject to the rules, guidelines and procedures prescribed jointly by the Bank of the Lao People's Democratic Republic, the Ministry of Finance and the LEZA.

SECTION 35. *Registration of Business Enterprises.* – Business enterprises within a designated SEZ shall register with the LEZA to avail of all incentives and benefits provided for in this Law.

SECTION 36. *One Stop Shop Center.* – The LEZA shall establish a one-stop shop center for the purpose of facilitating the acquisition of foreign investment license and the registration of new enterprises, the acquisition of import/export license and other license and/or permits necessary for the business activities in the SEZ. Thus, all appropriate government agencies that are involved in registering, licensing or issuing permits to investors shall assign their representatives to the SEZ to attend to investors' requirements.

CHAPTE IV

INDUSTRIAL HARMONY IN THE SEZ

SECTION 37. *Labor and Management Relations.* – Except as otherwise provided in this Law and the implementing rules and regulations, the labor and management relations in the SEZ shall be governed by the existing Labor Law of the Lao People's Democratic Republic.

Employees and personnel in the SEZ enterprises shall receive salaries and benefits and shall enjoy working conditions not less than those provided under the Lao Law and other relevant laws, issuances, rules and regulations of the Lao government and the Ministry of Labor and Social Welfare, unless otherwise provided in this Law and the implementing rules and regulations.

The LEZA shall be responsible for the implementation of labor protection measures and set up Labor Service Center, which assists the SEZ enterprises in recruiting workers and is responsible for mediation of labor disputes.

SECTION 38. *Promotion of Industrial Peace.* – In the pursuit of industrial harmony in the SEZ, a tripartite body composed of one (1) representative each from the Ministry of Labor and Social Welfare, labor sector and business and industry sectors shall be created in order to formulate a mechanism under a social pact for the enhancement and preservation of industrial peace in the SEZ within ----- days after the effectuation of this Law.

Within the SEZ, any form of labor strike shall be prohibited and the LEZA shall be responsible for the mediation of labor dispute.

SECTION 39. *Master Employment Contracts.* – The LEZA, in coordination with the Ministry of Labor and Social Welfare, shall prescribe a master employment contract for all SEZ enterprises staff members and workers, the terms of which provide salaries and benefits not less than those provided under this Law, the Labor Law of the Lao People’s Democratic Republic, as amended, other relevant issuances of the national government. A master employment contract shall clearly itemize all measures necessary and appropriate to protect workers health and safety and to contribute to social insurance and welfare programs for the workers, and provide the necessary amount for them.

SECTION 40. *Percentage of Foreign Nationals.* – Employment of foreign nationals hired by the SEZ enterprises in a supervisory, advisory, technical capacity or those who fill up the job vacancies in order to operate the facilities to the full extent shall not exceed twenty-five percent (25%) of its workforce. Such employment of foreign nationals shall be made upon the approval of the LEZA but without the express authorization of the Minister of Labor and Social Welfare.

The percentage of foreign nationals stipulated in this Section shall be reviewed to adjust every three years by the LEZA, in accordance with the then prevailing situation of Lao workers availability.

Any of the SEZ enterprises shall endeavor to reduce the number of employed foreign nationals by providing the appropriate vocational training to and promoting the technology transfer to workers with Lao citizenship. The LEZA may request the SEZ enterprises, which employ foreign nationals, to prepare and submit to the LEZA such training and technology transfer plans.

SECTION 41. *Migrant Worker.* – The LEZA, in coordination with the Ministry of Labor and Social Welfare, shall promulgate appropriate measures and programs leading to the expansion of the services of the SEZ to help the local governments of nearby areas meet the needs of the migrant workers.

SECTION 42. *Incentive Scheme.* –The total value of training expenses incurred by enterprises and offered to Lao citizens in the SEZ in developing skilled or unskilled labor or for other management development programs can be deducted from the taxable income.

The LEZA, the Ministry of Labor and Social Welfare, and the Ministry of Finance shall jointly make a review of the incentive scheme provided in this Section every two (2) years or when circumstances so warrant.

CHAPTER V

NATIONAL GOVERNMENT AND OTHER ENTITIES

SECTION 43. *Relationship with the National and Provincial Development Plans.* – The LEZA shall determine the development goals for the SEZ within the framework of national development plans, policies and goals, and the administrator shall, upon approval by the LEZA Board, submit the SEZ plans, programs and projects to the provincial government for inclusion in and as inputs to the overall provincial development plan.

SECTION 44. *Relationship with the Local Government Units.* – Except as herein provided, the local government units comprising the SEZ shall retain their basic autonomy and identity. The provinces, municipality, districts and villages shall operate and function in accordance with Chapter 7 of the Constitution of the Lao People's Democratic Republic.

SECTION 45. *Relationship of LEZA to Privately Owned SEZ.* – Privately owned SEZ shall retain their autonomy and independence and shall be monitored by the LEZA for the implementation of incentives.

SECTION 46. *Transfer of Resources.* – The relevant functions of the Committee for Investment and Cooperation of the Prime Minister's Office over the licensing of foreign investments into the SEZ shall be transferred to the LEZA.

CHAPTER VI

MISCELLANEOUS PROVISIONS

SECTION 47. *Funding.* – The funding of the LEZA shall come from the following:

- (a) The annual subsidies and/or appropriations of the national government;
- (b) The proceeds from the rent of lands, buildings, and other properties of the SEZ concerned;
- (c) The proceeds from fees, charges and other revenue-generating instruments which the LEZA is authorized to impose and collect under this Law;
- (d) The proceeds from bonds which the LEZA authorized to float both domestic and abroad; and
- (e) The advance rentals, license fees, and other charges which the LEZA is authorized to impose under this Law and which an investor is willing to advance payment for.

SECTION 48. *Applicability of National Laws.* – National laws shall prevail vis-à-vis SEZ rules, regulations and standards, unless there is a clear intent in this Law or other Acts of the National Assembly to vest the SEZ specific power and privileges not otherwise allowed under existing laws.

SECTION 49. *Authority of the Prime Minister to Advance Initial Funding.* – Subject to existing laws, the Prime Minister of the Lao People’s Democratic Republic is hereby authorized to advance out of the savings of the Prime Minister’s Office such funds as may be necessary to effect the organization of an SEZ which shall be reimbursed by the LEZA at reasonable term and condition.

SECTION 50. *Non-Applicability on Areas Covered by Other Special Laws.* – This Law shall not be applicable to industrial zones, industrial estates, export processing zones, free trade zones and areas to be created under other special laws, and governed by authorities constituted pursuant thereto.

SECTION 51. *Ipsso-Facto Clause.* – All privileges, benefits, advantages of exemptions granted to special economic zones under this Law, shall *ipso-facto* be accorded to the SEZ to be created under this Act.

SECTION 52. *Separability Clause.* – The provisions of this Law are hereby declared separable, and in the event one or more of such provisions or part thereof are declared unconstitutional, such declaration of unconstitutionality shall not affect the validity of the other provisions thereof.

SECTION 53. *Interpretation/Construction.* – The powers, authorities and functions that are vested in the Lao Economic Zone Authority (LEZA) and the SEZ concerned are intended to establish decentralization of government functions and authority as well as efficient and effective working relationship between the SEZ, the central government and the local government units.

SECTION 54. *Repealing Clause.* – All laws, acts, presidential decrees, prime minister’s decrees, executive orders, proclamations and/or administrative regulations which are inconsistent with the provisions of this Law, are hereby amended, modified, superseded or repealed accordingly.

SECTION 55. *Implementing Rules and Regulations.* – The Ministry of Industry and Handicraft, the Ministry of Commerce and Tourism, the Ministry of Communication, Transport, Post and Construction, the Ministry of Finance, the Ministry of Labor and

Social Welfare, the Ministry of Interior, the Ministry of Agriculture and Forest, the Ministry of Environment, the Ministry of Education, the state Planning Committee, the Provincial Government, the Lao Economic Zone Authority and the Ministry of Justice shall formulate the implementing rules and regulations of this Law within ----- days after its approval. Such rules and regulations shall take effect ----- days after the public notice made as Prime Minister's Decree.

SECTION 56. *Effectuation.* – This Law shall take effect upon its approval.