

CHAPTER 3

GOLDEN TRIANGLE SPECIAL ECONOMIC ZONE AND CHANGES TO THE TONPHUENG BORDER LANDSCAPE

In this chapter, I will focus on the establishment of the Golden Triangle SEZ in Lao PDR, and in particular its impacts on Tonpheung district and the nearby border landscape. I will also explore the government policies and regulations introduced in relation to the SEZ, focusing on the villagers living in Tonpheung district and the changes to their lives caused by the new regulations.

3.1 Adoption of Special Economic Zones in Lao PDR

A **Special Economic Zone (SEZ)** is a geographical area that has special economic regulations in place that are often different to those that apply to other areas of a given country. The regulations applied to SEZs are generally market-oriented and conducive to foreign direct investment, and include tax incentives and lower tariffs. The definition of an SEZ has evolved over the years, but in general it is a geographically distinct area that is often physically secured or fenced-in. An SEZ will tend to have a single management or administration, streamlined investment procedures, and in many cases a separate customs area providing duty-free benefits (Norbert Klien, 2013). In addition, the regulations introduced along with SEZs tend to contain measures conducive to foreign direct investment, and when conducting business in an SEZ, a company will usually receive tax incentives and have the opportunity to pay lower tariffs (Investopedia, 2013).

SEZs have been introduced in a number of countries, with varying degrees of success. The successful East Asian countries have developed their economies and attracted FDI through the use of SEZs; for example, in China, Singapore and Malaysia the SEZ model has been used successfully to enhance FDI and develop globally competitive industrial clusters. Shenzhen's phenomenal success since the 1980s has been replicated in other regions of China, to good effect. In fact, China's economic transition essentially began with the establishment of SEZs in the late 1970s (Rasagam, 2009). However, some more unsuccessful countries have lacked the

capacity to design and implement SEZs effectively, with problems including a lack of framework clarity, difficulties with the physical planning and land administration processes, and an insufficient level of regulatory and administrative knowledge.

Many developing countries have introduced SEZs in the expectation that they will be the engines of growth for their economies and help to achieve industrialization. However, to be successful, governments need to enact the appropriate legislation, create a focused administrative infrastructure to govern the SEZs, offer highly attractive incentives and also locate the zones in the best possible locations. The overall investment climate (infrastructure and governance) in a country matters if an SEZ initiative is to be a success in terms of competitiveness (Rasagam, 2009).

China was very successful in implementing SEZs under Deng Xiaoping in the early 1980s. The most successful SEZ in China, Shenzhen, has developed from a small village into a city with a population over ten million people within twenty years, and following the Chinese example, SEZs have been established in several other countries since that time. In the first half of the 1980s, the government of China designed five cities as SEZs, so it is often said that China is the birthplace of such schemes. The characteristics of SEZs are diverse, but they can all be defined as a specific geographical region with economic laws that are more liberal than a country's typical economic laws. Many SEZs contain bonded zones, export processing zones (EPZs) or free trade zones, and provide special incentives, including tax exemptions or reductions for investors (ISHIDA, 2009).

SEZs were formally introduced in Cambodia in 2005, where there are currently 22 approved SEZs. In Laos, SEZs were first introduced in 2000, with the Lao government selecting Svan-Seno to be the first SEZ, backed by the government itself – which also developed its infrastructure. Later, in 2003, Boten-Daen Kham was designed as a Border Trade Area, and then in 2007 the Lao government signed an agreement to create an entertainment complex in Tonphuang (Dok Ngiew Kham Project in Bo Kaeo Province). Then, in 2009, the Vientiane-Nonthong industrial area was opened (Mounphoxay, 2011).

Lao PDR is one of many countries around the world in which SEZs have been established. The Golden Triangle SEZ in Tonphuang District was first established in

2007, and was fully accepted as an SEZ in 2010, after a law on investment in the area was approved (no. 443/PM, dated 26th October).

Special and Specific Economic Zones (both SEZs) are forms of economic development that embrace the ‘one-door’ service mechanism, creating a “smaller administrative unit but [in a] wider society”, and laying the foundation for gradual industrialization. These zones also help turn land into capital and, in the case of Laos, optimize strategic locations along the east-west corridor, creating special locations to attract both domestic and foreign investment. These areas offer tax and duty incentives, promote infrastructure development and production for export, as well as skills development and the transfer of modern technologies in relation to environmental protection, plus promote the culture and historical value of an area, and also ensure sustainable development (Lao Document, 2012)

According to Lao Deputy Prime Minister Mr Somsavat Lengsavad, the development of SEZs is particularly necessary and urgent during periods of intense economic competition. Mr Somsavat, who is President of the Lao National Committee for Special Economic Zones (NCSEZ), also said at an SEZ meeting in Vientiane that investors seek to do business in countries with good facilities in place. His comments arose in response to the fact that many countries in the Southeast Asia region have been developing SEZs of their own to attract investors and accelerate economic growth. The development of SEZs in many countries is likely to create more options for investors in terms of doing business in countries, with better facilities and incentives created. The current SEZ developments in Laos include That Luang Marsh Specific Economic Zone in Vientiane, the Savan-Seno SEZ in Savannakhet Province, the Golden Triangle SEZ in Bo Kaeo Province, Boten Denkham Specific Economic Zone in Luang Namtha Province, Vientiane Long Thanh Golf development in Vientiane, and the Phoukhiew Specific Economic Zone in Khammuan Province.

“In 2007, the Lao government agreed to concede 800 hectares of Khuan village’s land in Tonpheung district to the Dok Ngiew Kham Group, with the aim to developing [*sic*] the area into the golden triangle economic zone over a period of 50 years”, said provincial governor Mr. Khammanh Sounvileut at the opening of the associated checkpoint. Dok Ngiew Kham, the Chinese company developing and

running the massive zone in Bo Kaeo Province, unveiled a new building recently, adding a casino and a luxury hotel, and these operations remain the key revenue generators in the area.

However, the SEZs in Laos, and particularly in Tonpheung District, have been well developed in terms of the supporting infrastructure, such as communications systems and river embankments, and also in terms of providing livelihoods to local people (Bouatha, 2011).

3.2 Political Economy of the Special Economic Zone; Setting Development in Tonphueng District.

The SEZ in Tonphueng district is not the newest zone in Laos. This SEZ is the third to have been opened in Laos since 2007; and was officially opened in 2012. This zone is under the cooperation of the Lao and Chinese governments, its objective being to absorb both domestic and foreign investment.

This SEZ is located in Tonpheung district and shares a border with Thailand and Myanmar. It is also close to the Chinese border, making it easier for the developer to attract Chinese tourists and investors. Dok Ngiew Kham Group has built roads, embankments from Donsao to Khuan villages, water supplies, power lines and accommodation for 1,200 employees. Also, the company has built 114 new houses for Khuan residents, a village included in the project. Also, this development area has been focused on agriculture, which is central to the villagers' participation; there is also a plan to build a high technology rice mill. In addition, this SEZ has emphasized tourism services; creating a tourist site for the old city of Souvannakhomkham, one with historical roots in the area. Therefore, there are two major projects planned; a golf course; and an international airport, in this area. The company has also built seven hotels containing 600 rooms, a casino, a horse racing track, a livestock farm, a zoo and gardens; a commercial center, a brick factory and a concrete factory.

The developer of and key investor in the Golden Triangle SEZ in Bo Kaeo province is the President of the Dok Ngiew Kham Group – a Mr. Chao Wei (Daniel Schearf, 2012), and he said that Kings Roman said it would build a new economy in the area, based on a glittering new casino. The Chinese-run Kings Roman casino is one of the most noticeable and flashy landmarks on the Lao side of the Mekong River

around the Golden Triangle. Kings Roman signed a 99-year lease with the Lao government to develop and run the SEZ on an area of rural land spanning more than 100 square kilometers. The plans are ambitious. "Here will be the airport. Here will be the industrial zone. Here will be a bridge to connect with Thailand and Burma; the whole project will be finished within the next twenty years," explained a staff member while pointing at a map. For now, the future airport's runway is still just a road, but construction is going at a brisk pace, with workers chopping down forests and flattening hills. Hundreds of people displaced by the building works have already been relocated, and given new houses in the recently opened Golden Triangle Village. During a recent gathering for a funeral, new residents played cards, gambled and talked about life in the company-built village.

The new village has been built, and the villagers already live there. A temple has been built also, and the company has given the villagers compensation for the land lost; however, some of the houses to be built in the new location have not been finished as yet.

(Leopard, 2012) stated that the government has given the developer the green light to build an international airport, which will bring in more foreign tourists and investors. The developer expects that this massive project will create about 5,000 jobs and envisages that about 300 domestic and foreign companies will set up business in the zone. The Lao government has given the private sector the go ahead to invest in special and specific economic zones as it has no funding of its own. The government established the first state owned SEZ in Savannakhet province in 2003, but infrastructure development was very slow because the government was constrained by a very tight budget. (Leopard: 2012) also mention that the government plans to build 41 SEZs nationwide, with ten of them to be built over the next ten years. The developers of these zones benefit from special incentives, including the right to import duty free fuel and vehicles, approve investments and set taxes for businesses that operate in the zones. Such incentives are aimed at attracting foreign investment. Zone developers also have the right to manage their own security operations as they see fit.

The SEZs were officially introduced in 2000; the first SEZ is situated in Savannakhet, a province in the southern part of Laos, and the zone is entirely

government managed. This area has allowed 27 companies to invest, but currently there are 26. Secondly, an SEZ in Boten Daen Kham was established in 2003; covering 200,000 square meters. One company from China has invested in this zone, which is focused on commercial and services development. This zone was set up to be a center for the distribution of commodities produced in China around ASEAN countries; to raise the population to 60,000 people, create 10,000 to 20,000 jobs for Lao inhabitants and promote the area to be a model of development.

3.3 Discussion on Resettlement in Laos

Since the 1990s, the economic and political context in Laos has changed; the country has officially adopted a market economy model, but has retained its political organization, re-opening international borders and improving the road infrastructure, plus encouraging more international aid and private investment. As a part of this, resettlements have occurred, and some highland villages have been moved and/or merged. These changes have been made to reduce the social gap between the Khmu sub-groups, because they have suffered relatively from the wars and from socialism in recent decades. As a result, some Khmu Rok villagers now feel disillusioned, though the Khmu Yuan are more optimistic than they were before (Pholsena, 2006, in Evrard 2010).

Evrard and Goudineau (2003) state that across Southeast Asia, planned resettlements have been used by states as a means to implement development projects or programs such as the construction of dams, the transfer of people from highly populated areas (e.g. in Vietnam and Indonesia), or the establishment of new settlements (in Cambodia, Vietnam and Laos). This last category often concerns the so-called 'ethnic minorities' or 'hill tribes' — that is, social groups whose culture and geographical territories separate them from the main national groups (the Han in China, Kinh in Vietnam, Lao in Laos, Khmer in Cambodia and Thai in Thailand). These minority populations, which usually practice forms of slash-and-burn agriculture, are mainly found in mountainous borderlands, which constitute strategic areas from both a political and economic (forest resources) point of view. Increasingly, they have been moved downhill and resettled — through negotiated or forced displacements — within the context of rural development policies, those which

aim to 'settle' or stabilize their agricultural practices and to accelerate their social and cultural integration. These planned resettlements are also explicitly conceived as a way of enabling the national authorities to exercise better control over the population and to exploit the natural resources of the highlands. They show that rural development programs in Laos face two major problems. On the one hand, they are often unable to achieve their initial objectives of eradicating slash-and-burn agriculture by resettling the hill tribes in the lowlands (as was previously done in Thailand) and improving the livelihoods of the rural populations. On the other hand, these planned resettlements generate new migrations, which local administration find difficult to control. To understand these 'resettlement-induced' forms of mobility, it is necessary to examine both the forms of social organization of these populations, and the local context in terms of inter-ethnic relationships. In order to illustrate the resettlement process more precisely, Guerin et al. (2003) focused on one example in Luang Namtha Province in the north of Laos. The Lao case differs from those of Thailand and Cambodia (where the highland minorities account for 1% and 10% of the population respectively, as against nearly 40% in Laos), and also Vietnam, where most of the state-sponsored migrations have taken people from the lowlands to the highlands (for information on resettlement projects in neighboring countries, see Guerin et al. (2003) for Cambodia, Hardy (2003) for Vietnam, and McKinnon and Vienne (1989) for Thailand).

Evrard and Goudineau, (2004) state that the Lao country once insisted they had to "bring development to the mountainous areas", and point out that now, highland villages are moved to the lowlands. This reversal occurred in the early 1990s, with the tacit approval of aid agencies, which have begun to play an increasingly important role in the national economy. The rationale behind resettlement is to gather highlanders in the plains or in the foothills, where land is available and services can be provided at lower costs. Official discourses in particular emphasize the need to eradicate shifting cultivation, which is presented as the main cause of poverty and as an obstacle to "permanent and sustainable activity" (*chatsan asib khong ti*). Each district has had to evaluate and map out its capacity to develop wet-rice agriculture, cash crops production, and other new activities such as crafts or tourism. If the highland population exceeds the technical capacity of the district, the

province orders the surplus population to relocate to other districts. Also, Rigg (2009) states that from as early as 1968 and until the end of the 1970s, the Lao country's leaders insisted on the need to "bring development to the mountainous areas", an idea which had never been expressed by any previous regime. Yet, after 1985, it was the highland villages that were to be moved nearer to the nerve centers of development - to benefit from rural development policies. There seem to have been a number of reasons for this reversal. First, it can be seen as a consequence of the failure of previous policies, such as land collectivization or efforts to build education and sanitation facilities in the highlands. Second, it appears to have been an attempt to rationalize the rural development policy; it is less expensive and more efficient from the Lao point of view to move villagers from remote areas to those with existing services, rather than take the services to them. It might also be considered a necessity, since there is an obvious lack of space for irrigated agriculture in upland territories, and in a country with one of the lowest population densities in Asia, it might make sense to offer these villagers a chance to settle in the larger river valleys. Moreover, the development agencies, upon which the Lao government has become more and more dependent since the end of the 1980s, have generally favored this strategy more than they have criticized it. For instance, the Lao Upland Agricultural Development Project funded by FAO, the World Bank and UNDP, announced in 1989 that 60% of the 1.5 million people engaged in shifting cultivation at that time should be established in permanent settlements by the year 2000 (Lao Upland Development Project, 1991: 8). Although this did not mean that all these 900,000 people should be moved, it appears, fourteen years later, that for many of them resettlement to the lowlands has been the only way of gaining access to public services and of securing their land rights.

Rigg (2008) discusses the role and effects of resettlement policies in the uplands of Laos, as already highlighted, saying that while there are strong reasons to indicate that this broad policy has, in many instances, been inimical to the interests of upland peoples, there is some evidence of a process of "re-territorialization from below" having taken place. People like to work with, around and below the policies that the state puts in place, and so villagers, even in a one party state such as Laos, often find ways to resist and subvert these policies. Viewed from the village;

therefore, policy effects are often – as Li found in the case of Indonesia – filtered through and enshrined in local political cultures, so that “...minorities become implicitly re-drawn as ‘victims’ of state policies and are left largely devoid of agency, autonomy or power.” The reality is rather different. Minorities often leave their homes, abandon their lands and rebuild their lives voluntarily – if not always willingly. Purpose is allayed with energy, direction with initiative, and intent with resolution. In this way there occurs a process of reterritorialization from below, an unscripted and energizing transition that takes the resettled and displaced and transforms them, once more, into villagers, albeit “new villagers” (Rigg, 2005; pp. 110-111).

To understand the context of the recent resettlement process in Khuan Village, it is important that the dynamics of the current situation be clearly distinguished, first, from the traditional patterns of mobility shown by the villagers and, second, from the huge shifts in terms of population, housing, gardens, paddy fields, animals, schools, temples and other forms of compensation that have occurred throughout history, prior to, during and since the establishment of the SEZ.

In addition, a rubber plantation in southern Laos was studied by Pinkaew (2011), who states that the most rapid change to have taken place among the study villagers was the loss of their land to a transnational enterprise, to which they had to adapt immediately. They were also forced to leave their agricultural and become laborers. Pinkaew calls this change “de-peasantization”, and her study community has been destroyed, including the households’ food security, the local economy, and even the environment and local ecology. This has led to the villagers having to adapt and re-arrange their labor system in many ways, in order to cope with the lifestyle change.

The government in Laos is seeking to transform what it considers to be a traditional, rural economy, into a modern, market-oriented system, by eradicating shifting cultivation, changing the way that land is allocated and by relocating communities. It intends for this to take place alongside the provision of improved roads, markets and government services, promoting new opportunities such as plantations based on cash crop production (Bechstedt et al., 2007). Rural development is one of the key national priorities for the Lao government, and since the beginning of the 1990s, this has been characterized by the implementation of regional

development plans centered on the construction and improvement of roads in order to open up remote areas. However, the majority (80%) of the country is mountainous and many villages remain very isolated. However, Lao PDR is still one of the poorest countries in the world, ranked 133 of 177 in terms of human development (UNDP, 2006)

The case of the Golden Triangle SEZ is definitely different from previous resettlements, for among the usual list of promoted activities are more interesting areas such as agriculture and an industrial zone, plus there are plans to turn it into a zone called *Na Khone* or the ‘New City Development Project’ (Lao Government, 2011). Khuan village is a typical settlement in the Lao border area, and is more than 500 years-old (households survey, 2012) - situated within the Golden Triangle SEZ area. This village has a long historical narrative, as described by the villagers in the area. There is no written record of when the Yuan group from Lamphun started migrating to this area and how they led their lives in the border area, or who the original residents of this area were. There are not many groups currently living in this area, only the Yuan and Lue group reside there. It is believed that the recent residents are descendants of the Yuan ethnic group in Thailand, which occupied this area before Laos changed its administrative system in 1975. Stories tell of an old city called ‘Souvannakhom-kham’ in this area, and members of the local groups tell bedtime stories to their children about this, stories passed down orally from generation to generation. Recently; however, since 2007, huge amounts of change have been caused by the SEZ development program, as described in the development plans of the Lao government and transnational enterprises, such as Dok Ngiew Kham Co. Ltd.