Strategic Development and Comparative Advantages of Mengla Border Special Economic Zone, China and Chiang Rai Special Economic Zone, Thailand

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Abstract

The aim of this research was to compare the following: 1) policies of the central and local governments of China and Thailand in driving Special Economic Zones, and 2) the benefits and targeted industries of Mengla and Chiang Rai Special Economic Zones that attract business investment. The research employed qualitative research methods, including the analysis of relevant policies, laws and regulations of Thailand and China at both the central and local government levels as well as in-depth interviews with stakeholders. The interviewed stakeholders were selected from four groups related to the Special Economic Zones: state officers, businessmen or entrepreneurs, local people and scholars. The results revealed that the Mengla and Chiang Rai Special Economic Zones have both similarities and differences in development strategies and benefits. The similarities include the context of their establishment, location and goal of reducing inequality between the coastal and the inner areas of the states. The different issues are the model and period of benefits, the utilization of land and the targeted industries. This research also indicates that key success factors for special economic zones, apart from the benefits, are management, infrastructure, and community.

Keywords: special economic zone, benefits, Chiang Rai, Mengla
Introduction

Border trade refers to the activities of entrepreneurs or household shoppers who live in bordering countries and exchange goods along the border or across the border. A border crossing point is a place officially designated by the state as a border checkpoint, temporary checkpoint, checkpoint for border trade or a natural route that has long been used to cross the border (Sujaritthanarak, 1994: 12). Border trade is important as it leads to the flow of funds, products and labor; moreover, it promotes economic development and political rapport between neighboring countries.

Yunnan has been an important province in China since as far back as the 6th century A.D.. In the past, Yunnan was recognized as China’s trading bridge to global connections. Since the era of economic reform and opening-up policies in 1978, Yunnan has once more become a gateway from China to the outside world. In former times, the Ancient Tea Horse Road\(^1\) was a significant economic route, the volume of trade along the Ancient Tea Horse Road forms part of the total trade network between China and other countries (Sigley, 2013: 235-246). After President Xi Jinping’s proposal of the Belt and Road Initiative (BRI),\(^2\) Yunnan was included as part of this “belt” to connect with South Asia and Southeast Asia. As a result, Yunnan came back again as an important strategic point for China’s development in the area.

For these reasons, on July 16, 2015, Mengla district (in Mohan, on the China-Laos border check point in Yunnan province) and five other cities along borders nationwide were approved by the State Council of the People’s Republic of China as special economic development zones (State Council of the People’s Republic of China, 2015). The Chinese government expects these six special economic development zones to be a driving force in their Belt and Road Initiative.

\(^1\) The Ancient Tea Horse Road was a trade route mainly through Yunnan, Sichuan, and Tibet. From the 6th century to the 20th century, people in Sichuan and Yunnan provinces traveled by foot and horseback with pack horses to exchange tea for horses with people in Tibet.

\(^2\) The initiative includes a “belt” of overland corridors and a maritime “road” of shipping lanes (see Kuo and Kommenda, 2018).
Mengla Border Special Economic Zone (Mohan) is located in Xishuangbanna Dai Autonomous Prefecture in southwest China’s Yunnan province. The central and local governments hoped to build Mengla district into a regional transport hub, create green industries and service industries such as tourism, and build roads and railways to connect to Southeast Asia (Thailand Business Information Center in Kunming, China, 2016). However, the project needs substantial resources and investment, as well as an efficient development plan to propel the project to success. In 2015, the local government created a development plan called the Mengla Border Special Economic Zone (Mohan) 2015-2025. To attract significant amounts of investment and labor to this special economic zone, the government offered many motivational schemes, such as tax incentives, legal exclusion and benefits to companies that invest in the area.

Meanwhile, at the northernmost point of Thailand near China, Chiang Rai is becoming an increasingly important economic city, with potential for border trade and tourism and as a logistic hub. Chiang Rai links Thailand with three neighboring countries – the Republic of the Union of Myanmar, the Lao People’s Democratic Republic, and the People’s Republic of China (southern China) (Kritiratpaiboon, 2007). In 2015, the National Committee on Special Economic Zone Development approved Chiang Rai province as one of five areas in Thailand designated as “Special Economic Zones Phase 2,” with the aim of developing the border areas, increasing competitive ability and solving security problems.

From geopolitical and economic perspectives, the Mengla and Chiang Rai Special Economic Zones are comparable. They were established during a similar period, and are only 240 kilometers apart, a short journey of five hours along route R3A. Consequently, the two SEZs are competing with each other to attract investment. The competition will affect the development of the two zones, and so the implementation of various development strategies and benefits to investors is especially important. And if Chiang Rai SEZ has the same
target industries as Mengla SEZ, it may not be able to attract as much Chinese or foreign investment and technology as expected.

Alternatively, the two SEZs could cooperate. Being linked by route R3A \(^3\) would facilitate this and their collaboration would be beneficial to both parties. Thailand and China could pool their expertise in different industries; for example, Thailand has expertise in agricultural products and tourism, and is an important market for products from China. On the Chinese side, China has expertise in the transportation industry and logistics. The two special economic zones could share their experience and help each other. To develop successfully, the Chiang Rai SEZ needs to understand the strategic development of the Mengla Border SEZ. And the two should cooperate to find ways to develop together for mutual benefits, which would lead to a common strategy for continued co-development in the future.

**Objectives of the Study**

1. To compare the policies of the Chinese and Thai central and local governments in driving the Special Economic Zones.
2. To compare the benefits of investing and target industries to attract foreign investors to both Special Economic Zones.

**Research Methods**

The study of the strategic development and comparative advantages of the two economic zones is a qualitative research project that consists of documentary research and in-depth interviews.

The research team studied secondary data from reports, journals, printed media and online media through the collection and review of information related to the development of special economic zones. For the in-depth interviews, the research team created two types of questions. The first type was semi-structured questions, or guided interviews. The

\(^3\) Route 3 Asian (R3A), a 1,887 km road that links Kunming, China with Bangkok, after passing through Laos.
The second type was unstructured questions, or open-ended interviews, which helped the researcher to understand other issues relating to the objectives. For interviewees, the research team selected four sample groups from both the Thai and the Chinese sides — government officials, businessmen or entrepreneurs, local people and academics. In the interviews, the researchers aimed to find out the opinions of stakeholders on the benefits, impact, success factors and obstacles in the development of both economic zones.

### Research Results

**Special Economic Zone, Mengla District: The Strategy to Connect China to Southeast Asia**

Initially, the Chinese government established the Mengla Special Economic Zone as a trial zone, so that it could develop guidelines to apply to other areas in the country. Special policies were set up, including amendments to the law to make it more attractive and beneficial to investors and to facilitate the movement of capital and labor to the zone. In the 80s, the goal of China’s Special Economic Zones was attracting foreign investors, especially overseas Chinese in Hong Kong, Macau and Taiwan, as well as investors from developed countries who wanted to use China as a production base and as a new market. At that time, a great amount of foreign capital investment was coming into the country because China offered many advantages, such as cheap labor and rich resources. Foreign Direct Investments (FDI) boosted China’s economy, making it the fastest-growing economy in the world. China’s development model has become a blueprint that other developing countries imitate.

But today, China’s Special Economic Zone policy has changed because China no longer has the advantage of cheap production costs. The Chinese government now encourages both private and state enterprises to “go out” and seek investment opportunities abroad. And the present strategy for the economy, and for security, is to connect
China to neighboring countries and to new markets. The border area also has new production bases in order to maintain the competitive advantage of Chinese products in the world market.

Since 2013, the Chinese government has approved the establishment of six special economic zones along the border, consisting of the following: 1) Manzhouli, Inner Mongolia Autonomous Region; 2) Dongxing city, Guangxi Zhuang Autonomous Region; 3) Ruili, Yunnan province; 4) Erenhot, Inner Mongolia Autonomous Region; 5) Mengla district (Mohan), Yunnan province; and 6) Suifenhe-Dongning, Heilongjiang province. The zones are pilot projects to test the potential of developing such areas, opening up opportunities, connecting neighboring areas, and developing the full potential of the areas in which they are located (Thailand Business Information Center in Kunming, China, 2016). The special economic zones are consistent with the BRI and the 12th Five-Year Plan national strategies, which focus on developing local areas in the country and reducing the economic inequality between coastal and inland areas.

Mengla Border Special Economic Zone is a pilot area for the development of China’s southwestern border with neighboring countries and at present it consists of two projects.

1. The Key Pilot Development and Opening up Zone (国家重点开发开放实验区) covers an area of 4,000 square kilometers in the towns of Mohan, Mengla, Mengman, Menglun, Mengpeng and Guan Lai. This project is intended to promote Mengla district as a center of regional trade and investment and to develop the transportation sector, which provides important links between China and Southeast Asian countries. Chinese or foreign companies that are registered to invest in this special economic zone will receive three types of investment benefits, as shown in Table 1, below.
### Table 1 Benefits of investing in Mengla Border Special Economic Zone

<table>
<thead>
<tr>
<th>Investment Services</th>
<th>Use of the Land</th>
<th>Tax</th>
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<tr>
<td>- Enterprises with an annual tax payment of more than 20 million yuan shall be directly contacted by the head of Investment Promotion and Cooperation to receive special privileges on top of the announced privileges.</td>
<td>- Investors investing in infrastructure projects, such as water, electricity, telecommunications, and roads, shall, in accordance with the law, give priority to the development rights of surrounding land under the same conditions.</td>
<td>- Standardized businesses at the local level, industrial level, or national level will receive tax relief of one hundred thousand, 3 hundred thousand, and 5 hundred thousand yuan respectively.</td>
</tr>
<tr>
<td>- Enterprises with a one-time fixed assets investment of more than 500 million yuan, the world’s top 500, and China’s top 500 enterprises, which will invest in new projects in the county, and enterprises that operate eco-friendly products, energy saving products, and clean energy projects with a one-time investment of more than 100 million yuan will be able to receive preferential investment promotion more than that announced.</td>
<td>- Investment projects that correspond to the National development plan will receive special privileges for the payment of land use fee within a period of 1 year.</td>
<td>- Businesses that can register 5 product licenses in one year will receive 50,000 Yuan in tax relief from the government.</td>
</tr>
<tr>
<td>- A one-stop service will be established to help business people, who come to invest.</td>
<td>- Investment projects that correspond to the National development plan will receive, as special privilege, up to 70% reduction in land use fees.</td>
<td>- Companies that have received national technology awards will receive tax subsidies as follows: Excellent level: 1 million yuan; outstanding level: 7 hundred thousand yuan; very good level: 5 hundred thousand yuan; good level: 3 hundred thousand yuan.</td>
</tr>
<tr>
<td>- Foreign investors will receive a long-term residence permit, or get a multiple entry visa.</td>
<td>- For industrial projects with a total investment of more than 5 million yuan (including agricultural product processing enterprises), the area of administrative office and living service facilities required for industrial projects shall not exceed 7% of the total land area of industrial projects while obtaining industrial land.</td>
<td>- Businesses that have received the provincial technology award will get subsidies as follows: Excellent level: 5 hundred thousand yuan; outstanding level: 4 hundred thousand yuan; very good level: 3 hundred thousand yuan; good level: 2 hundred thousand yuan.</td>
</tr>
<tr>
<td>- Standardized businesses at the local level, industrial level, or national level will receive tax relief of one hundred thousand, 3 hundred thousand, and 5 hundred thousand yuan respectively.</td>
<td>- Businesses that can innovate, or create new inventions, will receive 20,000 yuan subsidies from the government.</td>
<td>- Businesses that have received national technology awards will receive tax subsidies as follows: Excellent level: 1 million yuan; outstanding level: 7 hundred thousand yuan; very good level: 5 hundred thousand yuan; good level: 3 hundred thousand yuan.</td>
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</tbody>
</table>
Investment Services Use of the Land Tax
- Businesses in the sectors of advanced technology, cultural tourism, agriculture, medicine, health, public health, education, sports or other public interest businesses, retail business, logistics, wholesale business, which are subject to tax according to state regulations, can request for investment promotion privileges, as follows: tax exemption in the first 5 years; 50% tax reduction for the next 5 years.
- Tax exemptions do not apply to businesses, such as hotel operations, new 4-star hotels, rental business, and real estate trading. And mining, basic privatization, and real estate businesses are not included in the tax benefits schemes.

Table 1 Benefits of investing in Mengla Border Special Economic Zone (Cont.)

<table>
<thead>
<tr>
<th>Investment Services</th>
<th>Use of the Land</th>
<th>Tax</th>
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Source: Processed by the researcher

2. The Mohan-Boten Economic Cooperation Zone (中国老挝磨憨—磨丁经济合作区) covering an area of 21.23 square kilometers, is divided into 4.83 square kilometers in China, and 16.40 square kilometers in Laos. This is the second cross-border economic cooperation zone established by China and a bordering country, following the China-Kazakhstan Horgos international frontier cooperation center, which began operation in 2013.
In 2003, the Laotian government set up a 1,640-hectare area (about 6.3 square miles) in Boten town as special economic zone, known as Boten Golden City. A Hong Kong-registered company signed a 30-year land lease for this development and built a large casino called Golden City, with nightclubs and a karaoke bar. However, when the Chinese police investigated the death of a man in the casino, they found that the casino was involved in money laundering and other crimes. Therefore, the Chinese authorities forced the casino to close down in late 2011.

In 2013, the Hai Cheng Group from China and the Fuk Hing Group from Hong Kong received a concession for 99 years, under the name of the Mohan-Boten Economic Cooperation Zone. Currently, there are over 100 million US dollars of investment projects in this economic zone. The economic cooperation zone focuses on being a center of trade and investment, for tourism, agro-processing industries and financial sectors. The many projects include tax-free shops, hotels and shopping centers. The area is referred to as the “Hong Kong of Laos,” and foreign investors can register 100 percent of the business.

At present, in Laos there are 12 special economic zones. Fifty-one foreign companies operate in the 12 zones. Twenty-nine of these are Chinese companies. In fact, Chinese investors have become the leaders in investment in Laos in terms of both the number of companies and investment amount. Many scholars have explained this phenomenon in Laos as the neoliberal exception. They describe the East Asian variety of neoliberalism as a mobile toolkit of pragmatic, problem-solving operations, where planners may selectively and opportunistically deploy across the region (Ong, 2006). And now the investors from China use the Chinese capital expansion model in special economic zones throughout the Mekong subregion countries. The Lao state’s role in the process of development of SEZs has diminished. Full planning and regulatory authority of the zones is now granted to zone developers (Laungaramsri, 2016).
Special Economic Zone, Chiang Rai Province: The Strategy of Linking Southeast Asia to China

The concept of establishing a special economic zone in Thailand first occurred after the end of the Cold War era, during the Chatichai government, under the policy of “transforming a battlefield into a marketplace.” Because of this policy, the Thai border trade with neighboring countries has grown continuously up to the present time. Border trade has played an important role in regional development and national economic security. And it has been key in creating economic cooperation with the neighboring countries in the region. Nowadays, most of the products exported through border checkpoints come from inner areas. There are no production bases on the Thai border itself; however, and consequently, border areas do not enjoy sustainable development (Asian Development Bank, 2016).

Chiang Rai is Thailand’s northernmost province, and it borders on Laos and Myanmar. This is an important strategic point for border trade. In the past, Chiang Rai as a gateway to trade with neighboring countries, participated in many development projects, including the Quadrangle Economic Cooperation, which was initiated by the private sector of the four countries in 1993, focusing on cooperation in trade, investment, tourism, and transportation. The Quadrangle Economic Cooperation covers northern Thailand, Myanmar, Laos, and southern China (Yunnan province). Another project was that of the Greater Mekong Sub-region (GMS), which comprises six countries: Thailand, Myanmar, Cambodia, Vietnam, Laos, and southern China. Funding and academic support for the GMS has been provided by the Asian Development Bank (ADB) over a period of 20 years.

From 2004 to 2013, Chiang Rai’s border trade value grew 7.6 times in 10 years. In 2004, it was worth approximately 4,025 million baht, expanding to 30,514.11 million baht in 2013 (OBEL, 2015). Chiang Rai is expected to play an important role, as trade and investment value increase in Thailand’s northern border area. Border areas like Chiang Rai have the potential to attract investors for development.
Promoting balanced development for emerging border economic areas is expected to improve the quality of life of the people and solve security problems.

The ASEAN Economic Community has also emerged in the region to promote the concept of ASEAN connectivity and free movement of capital and labor. In Thailand in 2015, the Thai government established 10 special economic development zones. The first phase, which started in 2015, includes the five provinces of Tak, Mukdahan, Sakaeo, Trat and Songkhla. The second phase, which commenced in 2016, focuses on Kanchanaburi, Nongkhai, Narathiwat, Nakhon Phanom and Chiang Rai.

**The Use of Benefits to Attract Investment in Special Economic Zones**

The Chiang Rai and Mengla SEZs offer many benefits to attract investors. If we analyze these, we can see that the most attractive benefit of Chiang Rai SEZ is corporate income tax because the investor can request tax exemption for up to 13 years. But at Mengla SEZ, investors can request tax exemption for only 10 years. The most attractive benefits of Mengla SEZ are the right to use the land and subsidies (Table 2). But such advantages or incentives do not necessarily guarantee investment. For Chiang Rai SEZ, Chinese investors in interviews expressed concern about the uncertainty of investment policy, lack of infrastructure and property rights to land. According to Thai law, foreigners cannot own land in Thailand, unlike China’s Mohan-Boten Economic Cooperation Zone, where foreign investors can register 100 percent ownership and land development rights are provided to developers for a lease of 99 years. That is the reason why so many Chinese investors prefer to invest in that zone.
Table 2 Comparison of benefits between Chiang Rai and Mengla SEZs

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Chiang Rai</th>
<th>Mengla</th>
</tr>
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</table>
| Corporate income tax   | 1. Exemption of corporate income tax for a period of 8 years, with a corporate income cap not exceeding 100 percent of investment (excluding cost of land and working capital).  
2. A 50 percent reduction of the normal rate of juristic person income tax on the net profit deriving from the promoted activity for a period of 5 years counting from the expiry date of the corporate income tax exemption. | 1. Revenue tax deductions for investors (Exemption of corporate income tax for a period of 5 years and a 50 percent reduction in an additional 5 years)                                                   |
| Land                   | n/a                                                                                                                                                                                                     | Reduce rental rates by 10 to 50 per cent or exclude rental fees, land use for industry, to promote criteria.                                                                                          |
| Machinery              | 1. Exemption of import duty for machinery.  
2. Exemption of import duty for raw materials and essentials used in the production of products for export for a period of 5 years. | n/a                                                                                                                                                                                                  |
| Labor                  | Permission to employ foreign unskilled workers in the promoted project, according to the conditions prescribed by the board.                                                                        | n/a                                                                                                                                                                                                  |
| Subsidies              | 1. Double the deductible costs of transportation, electricity and water supply for a period of 10 years counting from the date in which revenue is generated.  
2. Permission to deduct 25 percent of investment costs on the installation or construction of facilities used, counting from the date the revenue is generated. | Granting an annual subsidy of one million yuan for the industry to promote.                                                                                                                            |
| Investment services    | Set up the One Stop Service (OSS) Investment Coordination Center, Chiang Rai Province.                                                                                                                   | Establishment of a center for investors in customs, finance, and land in Mengla district.                                                                                                             |
| Others                 | n/a                                                                                                                                                                                                     | Rewards for new innovations                                                                                                                                                                           |

Source: Processed by the researcher
Conclusion and Discussion

From the data, we can see that the special economic zones of Chiang Rai and Mengla have many things in common. Both are border areas, far away from the capital city. Both have abundant natural resources, but lack development. In the ranking table for infrastructure development, quality of life, population income, etc., Mengla and Chiang Rai are ranked at the bottom of the table. According to Thai statistics, from 1998-2015, Chiang Rai province had an average income per capita of 71,257 baht (National Statistical Office of Thailand, 2015), making it among the five provinces with the lowest monthly income per household in Thailand. Although Mengla SEZ records an average income per capita of 125,540 baht (25,108 yuan), it is ranked 40th in Yunnan province (National Bureau of Statistics of China, 2018).

Because of the different characteristics of Chiang Rai and Mengla areas, they each target different activities to promote. The Chiang Rai SEZ has a wider scope of activities, with 10 major target activities and 10 additional target activities. Mengla SEZ focuses on four main target activities, covering agriculture, tourism, construction and energy, but the investment amount is greater than that of the Chiang Rai SEZ (Table 3).

Table 3  Comparison of important characteristics between Chiang Rai and Mengla SEZs

<table>
<thead>
<tr>
<th></th>
<th>Chiang Rai</th>
<th>Mengla</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>Located on the northernmost border of Thailand</td>
<td>Located on the southernmost border of Yunnan province, China</td>
</tr>
<tr>
<td>Strategic location</td>
<td>Connects the ASEAN Economic Community (AEC)</td>
<td>Connects the Belt and Road Initiative</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>71,257 baht</td>
<td>125,540 baht</td>
</tr>
<tr>
<td>Target activities</td>
<td>10 main target activities and 10 other target activities. Currently,</td>
<td>4 target activities. The main goals are in agriculture, tourism, construction and energy.</td>
</tr>
<tr>
<td>promoted and</td>
<td>there are 117.50 million total investments, most of which are agriculture</td>
<td>Currently, only in the special economic development zone, the joint venture between Mohan-</td>
</tr>
<tr>
<td>investment value</td>
<td>and services such as crop drying and silos.</td>
<td>Boten. Hai Cheng Group has invested 10,000 million yuan (about 47,023 million baht) in</td>
</tr>
<tr>
<td></td>
<td></td>
<td>infrastructure.</td>
</tr>
</tbody>
</table>

Source: Processed by the researcher
Even when comparing the benefits of the two special economic zones, the difference in benefits has limited implications for attracting investment. This study shows that more important factors for the investor are stability and continuity. Based on our analysis, better benefits, or better infrastructure and facilities, are not the primary reasons that investors make the decision to invest more money in Mengla SEZ than in Chiang Rai SEZ. Rather, investors feel more confident investing in Mengla because they can receive a land lease of 99 years. And in the future, Mengla district will invest in mega projects, such as high-speed trains and an airport that will be opened in 2020, potentially enabling this area to connect with Southeast Asia.

It should be said that, although the special economic zones will help stimulate economic growth, generate employment opportunities and develop the infrastructure of the area, rapid development that lacks sufficient planning can also affect the way of life of local people in negative ways. From the interviews, we found that both special economic zones, in Thailand and China, pose similar problems, especially rapidly rising land and house prices, for ordinary people. According to the Dai people (Tai) who live in Mengla district, property prices have increased more than 2-3 times from 2,000 yuan/m$^2$ to 5,000-6,000 yuan/m$^2$ in just five years. Many migrants, working both temporarily and permanently, have invested in real estate, causing the price to become higher than what the local people can afford to pay (Zhuo, [pseudonym], 21 October 2018). Assessment of the performance, success or failure, of the SEZs should consider not only economic profits, but also the price that the society and the local people have to pay.

On the positive side, in the future, both the Mengla and Chiang Rai SEZs can easily be linked by roads, railways, waterways and air. The two SEZs can be developed into a special contiguous economic zone, using their different strengths to complement each other, thereby creating numerous mutual benefits at the local, national and international levels.
References


Websites


Interview