

## 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

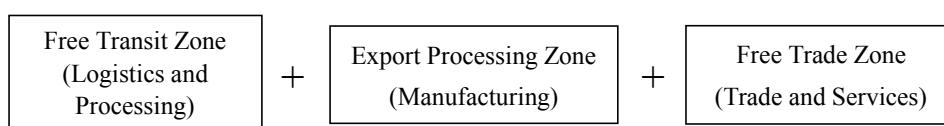
- To innovate such strategic sectors as logistics, manufacturing, trade and commerce, and service industry, in order to set up the functions as a regional center in Indochina Peninsula
- To increase employment and raise standards of living in the region
- To absorb new skills and expertise to upgrade 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"> <li>• Wood processing: Assembled or makeup furniture, wooden semi-products, interior parts, parquet, flooring and exterior parts and gardening purpose parts</li> <li>• Agro-processing: Coffee, pickles (radish, cabbage and Chinese cabbage), cooking oil (including bottling and labeling)</li> <li>• Garments and footwear</li> <li>• Electronic components</li> <li>• Handicraft: Lao cotton and silk (Natural dyestuff, hand-spinning and hand-weaving), rattan furniture, bamboo products</li> </ul> |
|--|

3) Trade and commerce: Free market place

- Retailers 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.

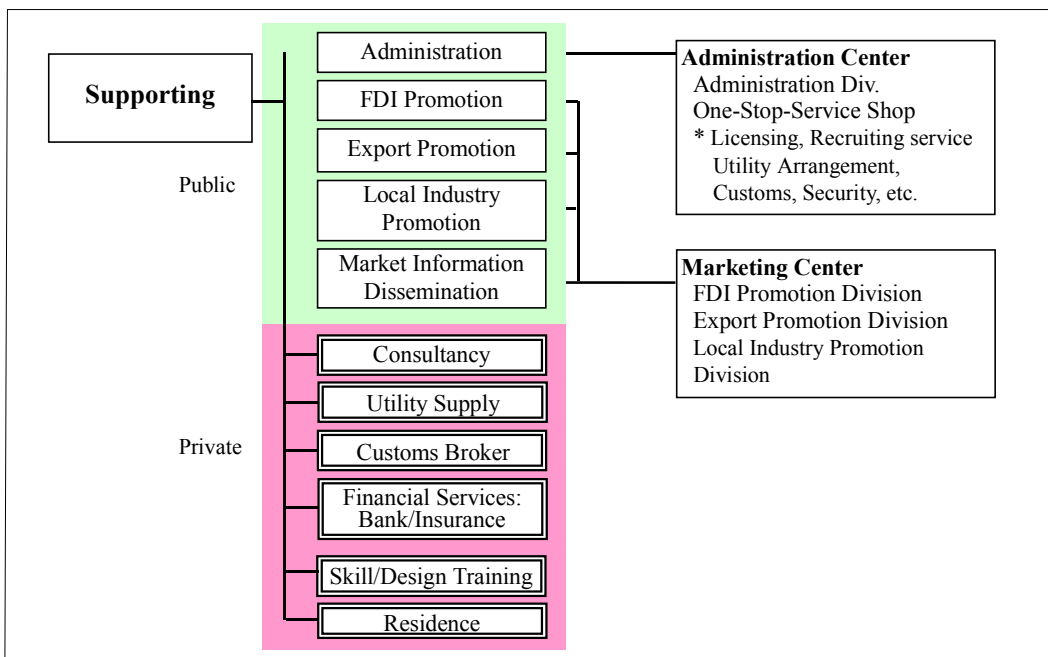
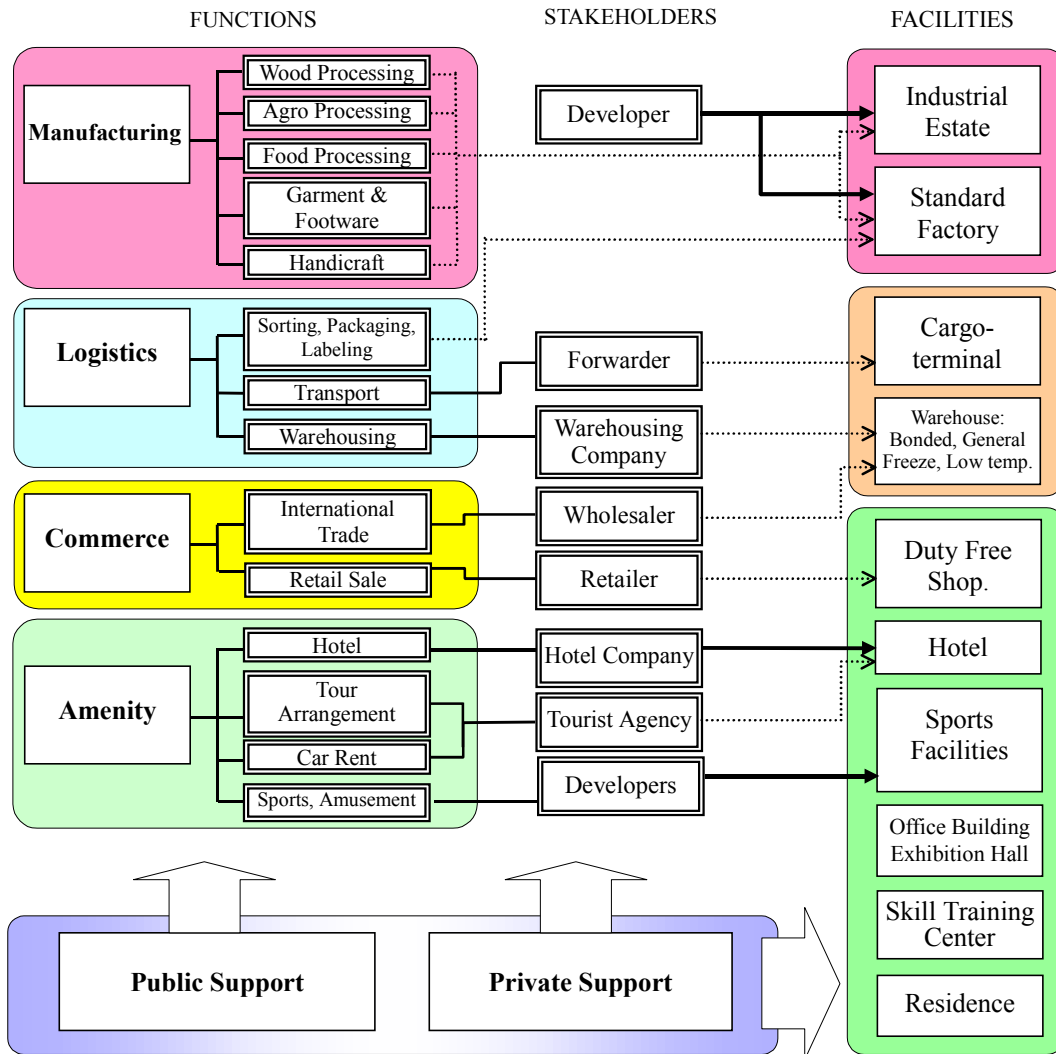


Figure 6.1 Conceptual Functions of Savannakhet SEZ



## 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

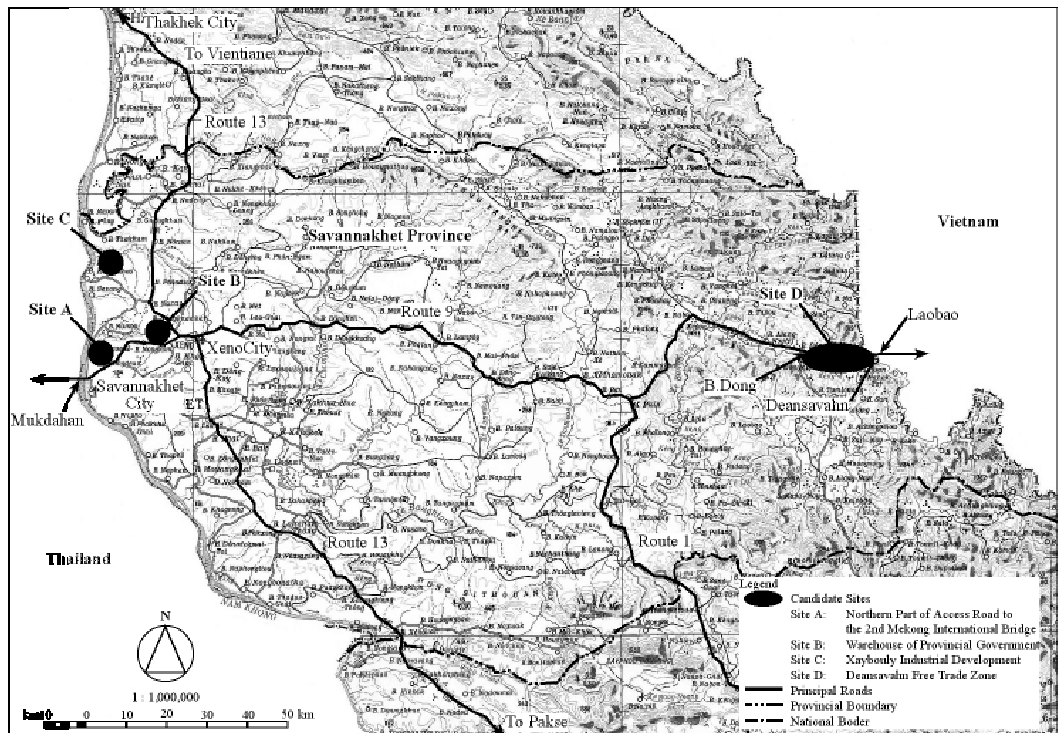


Figure 6.2 Location of Candidate Sites

(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

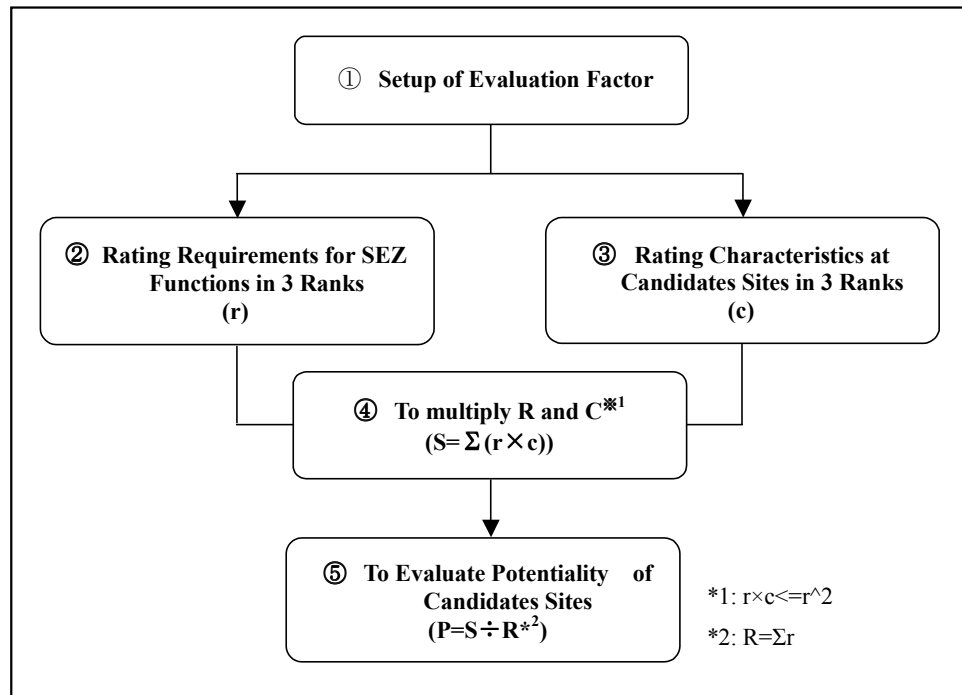


Figure 6.3 Evaluation Flow of Candidate Sites

## 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-ing	Logistics (C.T., B.W.)	Commerce (DFS, W.S.)	Amenity (Hotel, G.C.)	Residential	Supporting (M.C., A.C.)
<b>Social Factor</b>						
Population	5	3	3	3	3	1
Economic act.	5	5	5	1	1	5
<b>Technical Factor</b>						
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
<b>Social Factor</b>								
Population	97,328	68,759	47,012	38,246	5	3	1	1
Economic act.	The largest city in the province	2 <sup>nd</sup> largest city in the province	None	Small town	5	3	1	1
<b>Technical Factor</b>								
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: Xaybouly, 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**

Sites Functions	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**

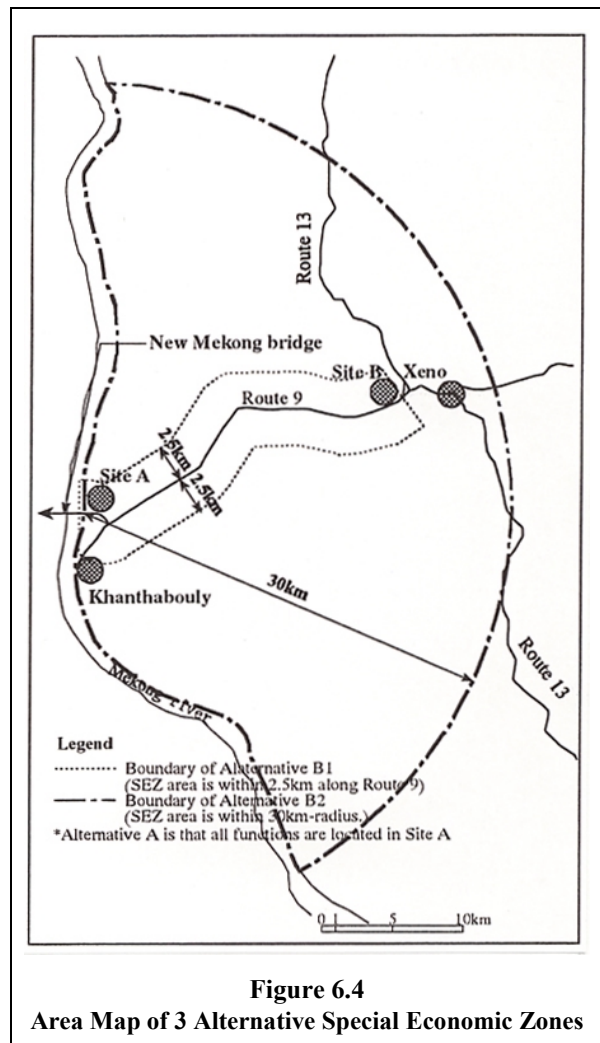
In the previous section, Site A and Site B have been evaluated to have potentials for SEZ. Now three alternatives for SEZ development scenarios that Site A and Site B are conceived as follows:

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.

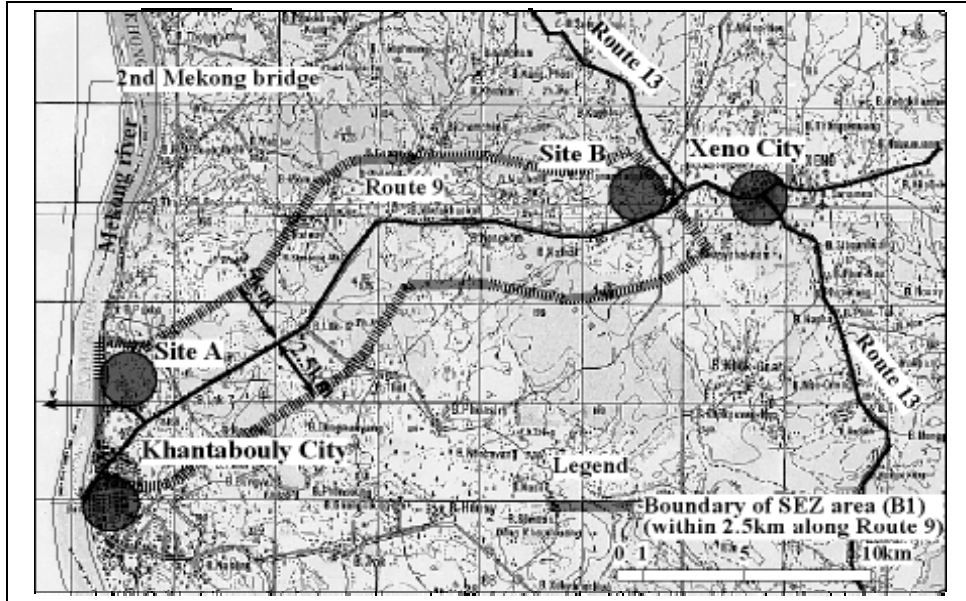
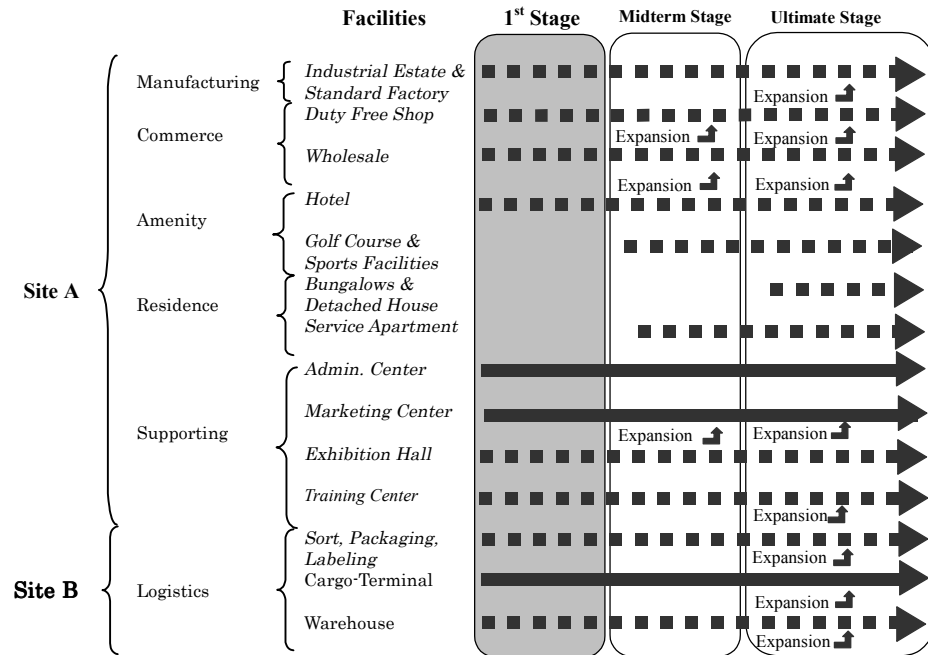


Figure 6.5 Proposed Area of Special Economic Zone (Option B1)

(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.



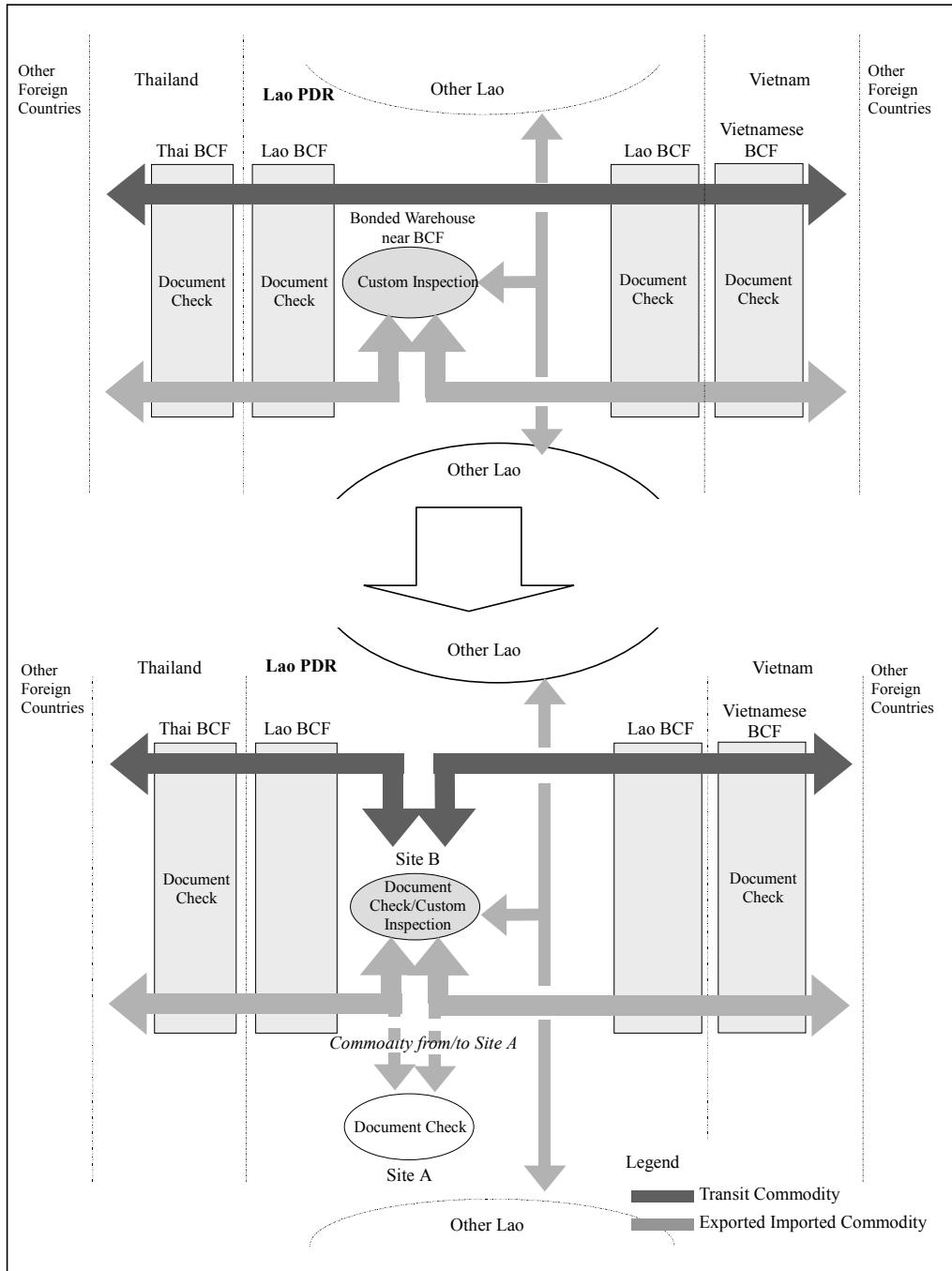
Note: 1) Inclined letter means facilities developed by non-government sector.  
 2) ■■■■ : Private sector, ■■■■ : Public sector.

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**