The Potential for Border Development Zones (BDZs) on South Africa’s Northern Border
Christopher Wood and Clarence Siziba

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Introduction
Small towns represent an uneviable paradox for policymakers. With an underdeveloped commercial base, small consumer markets, inadequate infrastructure, and a depleted workforce - grand efforts to transform small towns look set to fall to an overwhelming economic reality. And yet these same factors mean that small towns will not develop without some intervention, which - barring a sudden discovery of minerals or investment by a very forward thinking firm - will almost certainly have to come from the state. To do nothing is to surrender small towns to the geography of historical determinism.

Developing small towns will require creative use of their particular economic advantages. This paper explores the way border towns can use their unique economic geography as a development strategy. While both regional integration and Special Economic Zones are topical issues in Southern Africa, their meeting point - Border Development Zones (BDZs) - have received comparably little attention. Border Development Zones, are Special Economic Zones (SEZs) that are situated at the border, and explicitly target the development of cross-border production techniques and trade with neighbouring countries. Properly utilised, BDZs can have the triple impact of driving growth, promoting a more equitable geographic distribution of development, and deepening regional integration.

This paper proceeds in five steps. Section 1 explores the literature on the economics of border areas, and introduces the concept of a Border Development Zone. Section 2 compiles a compendium of BDZ case studies, presenting 43 examples of border development projects, and attempts to draw lessons from these experiences. Section 3 presents various policy options on offer in designing a BDZ initiative, drawn from these international experiences. Section 4, examines the Southern African context, looking at patterns of regional integration, existing SEZ structures, and cities on the border with high potential for the development of BDZs. Section 5 concludes, and offers recommendations on a way forward.

The central conclusion of this paper is that the two Special Economic Zone projects currently underway in the border towns of Mahikeng and Musina should include targeted policies that attempt to leverage their location at the border. A number of preliminary suggestions on what these policies should be are included in the final section. This paper forms the first of two studies, the second of which will greatly expand on the strategies available to develop border zones in Mahikeng and Musina.
The Economics of Border Regions

There is relatively little economic literature on the development of border areas, and certainly no unified approach to the topic. Border economics sits at the intersection of multiple fields; including economic geography, rural development theories, and international trade. This interdisciplinarity breeds a diversity of approaches that is mirrored in the diversity of border areas themselves. Border areas are often defined by complex and unique political processes, tied to a geography and set of trade dynamics that make them barely comparable. The heavily industrialised US-Mexico border area, for example, could hardly differ more from China’s desolate border with Mongolia. This is a problem, given that the literature on border economics tends to be disproportionately focused on North America and the Western Europe, with a vast bulk of the topic being defined by the US-Mexico border. Despite these challenges, the literature identifies a few common features of border zones, including shared economic challenges and some unique economic advantages.¹

Economic Barriers

Border regions tend to be economic isolated from the centres of economic development. Although Southern Africa uniquely features numerous capitals within a short distance of their national borders - notably Gaborone and Maputo - border regions are nevertheless largely rural, facing many of the common challenges faced by rural populations.

These problems are often worsened by the transient nature of the population. For borders between countries with large economic disparities, border towns face either a brain-drain of skills leaving across the border², or must cope as the front-line of immigration by those seeking an escape from hardship. While South Africa benefits from a great deal of skilled immigration from neighbouring countries, notably from Zimbabwe, migrant populations in many border towns tend to be young³, often lacking in skills⁴, and with little recourse to the necessary support structures.

Social problems are mirrored in economic barriers. Isolated border towns often feature weak agglomeration economies, neglected physical infrastructure, and insufficient access to skilled labour. Where borders are difficult to cross and include high barriers to trade, investment can be further discouraged by the limiting of market availability - a company sitting on a flat border would face a market reach in a 180 degree, rather than a 360 degree, radius - with the border acting as a boundary to growth.⁵

Economic Opportunities

More central to Border Development Zones are the unique economic advantages on display at the border. Three are particularly important:

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Developed Logistics Networks
Border towns at major crossing points sit on significant transport corridors which, despite the many infrastructure barriers to regional integration, are vastly more developed than in most rural areas. These road and rail networks tend to connect directly to the economic centres on both sides of the border, creating clear pathways for the region to connect to major markets and key suppliers. Hard infrastructure is complemented by the presence of advanced logistics networks. Established transport companies are more likely to have routes that pass through major border crossings, while the development of local transport networks is facilitated by a strong supply of experienced transport and logistics workers. Border towns are similarly well equipped with the expertise to handle the paperwork involved in crossing borders, thanks to the presence of customs and freight forwarding agents. The sum total of sitting on these logistics lines is that businesses in the border region may face lower transport costs for the sale and sourcing of goods than in most rural areas.

Just as cross-border infrastructure can improve logistics costs in border towns, so too can border town development improve cross-border infrastructure. Trade facilitation efforts too often attempt to develop enclaves of development at customs posts while ignoring the broader setting. At Beitbridge, for example, efforts to digitise customs procedures are often undermined by unstable power supply and unreliable internet connectivity. Developing this core infrastructure, which comes with developing the towns themselves, can have a reinforcing impact on regional integration initiatives.

Diverse Economic Structures
While not ubiquitous, the most powerful feature of border towns’ location is the ability to exploit fundamentally different economic structures on either side of the border. In the world of economic theory, with labour that can costlessly relocate to wherever opportunities lie, the costs of labour and capital in close locations either side of a border should equalise. But in the presence of political barriers like border controls and different regulatory requirements, different economic fundamentals can develop right next to each other. The textbook example would be a country with low wages alongside one with advanced technology. The combination of the two is more efficient than the productive capacity of either country on its own. Exploiting those differences requires a level of cooperation, such as the creation of temporary workers passes. This is on display in case of Switzerland, where cross-border work permits are given to workers who commute daily from Italy and France based on the Free Movement of Persons Agreement between the EU and Switzerland. If this is accomplished, the region can take advantage of a geographically unique boost in efficiency.

The most common cross-border economic activity that makes use of these disparities is retail. Currency purchasing power disparities, differing government policy, and basic pricing disparities tend to incentivise cross-border retail in frontier regions - including South Africa. Anecdotal evidence from field work in Mahikeng and Beitbridge described retail as the largest cross-border activity, ranging from simple grocery shopping to the livestock trade. Many of the border zones discussed in this paper, while primarily focused on industrial development, include large retail and hospitality developments. These are often front-loaded into the projects, as reliable sources of growth that give the developments an early boost of success.

Diverse economic structures have remained resilient even in the face of deep integration. This is most powerfully highlighted by the case of the European market, where despite complete mobility of labour and capital, borders still form divides between notably different

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8 Swiss Federal Department of Foreign Affairs, 2013. European Nationals in Switzerland Information on the Free Movement of Persons 14
economies. Swiss textile firms in the South of the country still make use of cheaper Italian labour, which are attracted by the higher wages available across the border. Perhaps the most striking example of this phenomenon is the border triangle between France-Germany-Switzerland. The local airport, Basel-Mulhouse - which straddles the border and includes a French and Swiss side - features significant price differences depending on which side of the terminal one is in. These economic structures are separated by no more than a few brisk steps, but remain significantly influenced by their national setting.

Regulatory Avoidance
The flip-side of taking advantage of different economic structures on either side of the border, is the exploitation of regulatory differences. Firms looking to avoid the costs of labour and environmental protection may find less demanding rules in a neighbouring country, and use border hopping to avoid playing by the social standards of their home country. This effect is reinforced by accountability problems in prosecuting companies that are based in neighbouring countries, but run operations in the country with weaker legal protection. If left unchecked, this driver of border growth can be a vehicle for all-out exploitation of workers and irresponsible destruction of the environment.

Border Development Zones
The potential offered by the unique characteristics of border towns is usually unexploited. The sequencing problem of underdevelopment inherent to most small towns is at play on the border: advantages can be extracted only if there is investment that overcomes barriers to productivity, but this investment tends not to happen because productivity is too low. In the face of this problem, various countries have experimented with the creation of incentive programmes aimed specifically at developing border regions.

These ‘Border Development Zones’, or BDZs, encompass a range of policies. These can include tariff waivers, special exemptions that facilitate the movement of people (such as the use of temporary labour programmes or the lifting of visa requirements), or the lifting of restrictions on foreign capital. Other approaches, notably prevalent in Africa, focus on the development of transport and customs infrastructure, to ease passage across borders. Perhaps the most emblematic initiative is the use of border-focused Special Economic Zones that are either located at the border, or straddle the two sides.

The disparate approach taken to border development reflects the idiosyncrasies of the regions in question, but also points to the underdeveloped nature of the literature on the topic. To the best of the authors’ knowledge, no systematic study of international approaches to border development has yet been completed, and no best practise concepts exist in the field. This is despite an ever-growing number of examples - ranging from the Rio Grande Valley to the Mekong Delta - that can form useful case studies. The section below explores some examples of BDZs, and attempts to identify lessons for potentials attempts by South Africa to develop similar policies.
Border Development Zone Case Studies

Identifying case studies of Border Development Zones presents two major limitations. First, there is little centralised information on BDZs. The concept is a loose one, applicable to a range of initiatives that differ in approach and name from country to country. No resources exist that compile these disparate initiatives into a single list, and for this reason numerous possible case studies are likely omitted from the review below. Second, many of the initiatives are under-researched, notably in China, where more prominent coastal and provincial-level Special Economic Zones encompass the bulk of the (English language) research. The necessarily isolated nature of these zones possibly also reduces the likelihood of research being conducted. This limitation requires that the case studies below make use of some biased primary information (such as information from governments and zone developers), and some unusual resources (such as the use of satellite images). Conclusions on the success of zones are not drawn unless adequate research is available, and in these cases core information will be presented but not extended.

Mexico-US

Perhaps the most prominent example of border development is along the boundary between the US and Mexico. The border is lined with a wall of maquiladoras, Mexican-based factories mostly run by foreign firms targeting the US market. First developed in the 1960s, today the maquiladoras directly employ over 1.2 million people, and account for approximately 45% of Mexico’s exports to the United States. The factories have played a vital part in Mexico’s industrialisation, but their impact is felt on either side of the border. At one point, maquiladoras in Ciudad Juarez created 20% of the jobs across the border in El Paso, while workers from Agua Prieta spend 40% of their wages in Arizona.9

Attempts at border development have a long history in Mexico, which was amongst the first countries to make use of free trade zones, with the 1933 establishment of the Perimetros Libres (Free Zones) in the border towns of Tijuana and Ensenada.10 The need for border development became particularly pressing with the end of the Bracero programme, a temporary work arrangement that for a long time allowed Mexican labourers to enter the United States. Originally an emergency wartime measure to recruit enough labour for weapons production, Bracero was unsustainable in a peacetime United States that, come the 1960s, had grown increasingly unwelcoming of immigrant labourers. The end of the programme was counteracted by the 1964 launch of the Programa de Industrialización Fronteriza (Border Industrialization Programme, or BIP).

The programme allowed for the duty-free import of raw materials into Mexico, and the subsequent export of processed goods into the US with limited duties paid only on the value-added in Mexico. Special certificates were granted that allowed skilled personnel from the United States, such as engineers and factory management, to work in the Maquila. The initial programme was limited to a stretch of 20kms all along the border, and restricted to factories operating in industrial parks developed under an accompanying programme of infrastructure development, the Programa Nacional Fronterizo.11 Pronaf laid much of the groundwork for the BIP, by upgrading basic infrastructure (like power and water), transport linkages (through refurbished road and rail linkages), and establishing industrial parks.12

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Within the first 5 years of the programme 160 new firms located themselves on the border, employing 17,000 people, and growing to 200 firms employing 30,000 people by 1971. These initial factories focused on labour-intensive light manufacturing, particularly electronic components (the focus of about 40% of firms), and textiles (20% of firms). This composition changed rapidly with growing competition from the likes of China and Bangladesh, and the lifting of import restrictions into the United States with the end of the Multifiber Agreement in 2005. While very low-cost sectors like textiles went into decline, investors still favored Mexico for the manufacture of heavier goods (which face substantially higher transport costs) and sectors that require more robust intellectual property laws. This has seen increasing production of televisions (of which Mexico is now the world’s largest producer), automotives, aviation, and pharmaceuticals.

While policy was a powerful facilitating agent, the development of maquiladoras was driven more by the fundamental complementarity of the two economies. Mexico provided low-cost labour with few regulatory restrictions, while the US provided a booming consumer market. Wages are already low in Mexico relative to the US, but total labour costs were driven down by the weak labour and environmental protections offered by Mexican law, and the difficulty posed in prosecuting foreign firms that disobeyed what laws did exist.

In the maquiladoras, the line between exploitation and opportunity has always been as porous as the border itself. Particularly during its early stages, the factories were renowned for exploitative working conditions. Stories abounded of workers handling toxic chemicals with no protection, or of birth defects resulting from long hours in badly ventilated factories. Reports of outright abuse exist to this day, with one study by Stanford Medical School reporting that some female employees were “regularly punched in the stomach, such that they are unable to sustain pregnancies” so firms could avoid the costs of maternity leave.

Firms were often shielded from any liability because of their location across the border. Fly-by-night companies would abandon factories as authorities closed in on exploitative practices, only to pop-up again under a new name in a new location across the border. During this early period, the maquiladoras entered popular Mexican imagination as the epitome of ruthless capitalism and the exploitative relationship with their Northern neighbour.

Conditions have rapidly improved. Improving Mexican regulatory standards and more capable, less corrupt enforcement agencies have helped stem many of the worst abuses. This trend was helped by a backlash against foreign companies employing exploitative practises. The maquiladoras offer a clear example of how powerful border development can be, particularly for less developed countries on the border of large consumer markets (as is the case with South Africa’s neighbours), but the example also highlights the utmost importance of supporting structures being put in place to protect workers and assure firm compliance with regulation. This includes capable domestic enforcement agencies, but also ideally some level of cross-border agreement to facilitate the protection for workers employed by companies that sit outside their own government’s authority.

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13 Ibid.
China

China is the most active modern proponent of Border Development Zones, playing host to 15 Border Economic Cooperation Zones (BECZ), covering six of the country’s 14 neighbours, with four new zones under development, and at least a further five zones run by neighbouring countries. The bulk of the Chinese zones originated from a 1992 decision by the State Council, which created the BECZ and granted their host cities Open status, allowing greater legal scope for the cities to attract foreign investment.\(^{19}\)

This decision was the continuation of a process of opening up that began in 1978 and helped spark China’s subsequent boom. Despite the rapid pace of growth, development in China has always been uneven, concentrated in coastal provinces such as Guangdong and Jiangsu. During the 1990s, when most of the border zones began operation, trade across land borders accounted for only 5% of China’s total trade.\(^{20}\) While the BECZ’s had a pure economic growth rationale, they primarily represent an effort to diversify the geographic distribution of Chinese growth, as well as having more targeted, regional-specific aims.

The BECZs in the North of the country are an effort to promote the cohesion of the Chinese state, by spreading development to regions with high concentrations of ethnic minorities. The North’s autonomous regions - states and prefectures with high concentrations of ethnic minorities, that are granted additional rights of self-governance - received much of the focus of this set of zones. The Xinjiang Uyghur Autonomous Region received four BECZs (including Bole and Jeminay), with two of those placed in the Ili Kazakh Autonomous Prefecture (Tacheng and Yining). Inner Mongolia Autonomous Region received two BECZs, at Erenhot and Manzhouli. For the Northern BECZs, the zones use regional integration as a development strategy, leveraging the border’s strategic location, but they do not explicitly attempt to drive integration.

The Southern BECZ’s are seemingly more focused on promoting integration. Five BECZs are focused on strengthening connections with the East Asian countries of Vietnam and Myanmar, while a further five aim to connect with the Northeast Asian economies of North Korea and Russia. Both sets of countries have important historical linkages to China, as the ex-communist states united behind the Bamboo Curtain. But most also have important economic contributions to make: Myanmar and Vietnam offer linkages to the rapidly developing Mekong Delta productive hubs and the broader East Asia region, while Russia offers an important market for Chinese goods. North Korean cooperation is primarily political, but also represents some economic opportunism, as China is left as perhaps the only viable gateway for trade in goods from the DPRK.

While the structure of the BECZs differ, at their core they share similar incentives to China’s core SEZs, the National Economic and Technological Development Zones. China’s development zones differ from those in many other parts of the world in that their primary drawcards are exemptions from broader national restrictions on foreign investment, capital movements, and other cornerstones of international business. But the zones still do have specific incentives, including preferential infrastructure developed in the zones, access to tax exemptions, dedicated customs facilities and duty waivers, and the availability of land at discount rates. Close collaboration with the Chinese government is also often regarded as a major benefit of investment in the zones.

Total development investment in the BECZ is estimated at $2 billion between 1992 and 2008, a relatively small sum but the standards of large infrastructure projects. One study estimated that this initial investment has yielded “tax output twice of the input, GDP 15 times

\(^{19}\) UNESCAP

\(^{20}\) Xianming Yang, Zanxin Wang, Ying Chen, and Fan Yuan
of the input, industry valued 10 times of the input, and a total export value 32 times of the input", although it is unclear how these estimates are calculated.21

Nevertheless, the success of the BECZs is mixed and contested. While border zones arguably have achieved their objective of stimulating less developed areas, they lag some way behind China’s other Special Economic Zones. In 2008, the total combined output of the BECZ’s was equivalent to 15% of the Western Development Zones (along the coast), and only 1.3% of the output of the (admittedly much larger) National Economic and Technological Development Zones.

The global applicability of China’s experience is somewhat limited by the unique confluence of factors that define the country’s policy environment. In the case of Border Development Zones, these include incredibly rapid growth rates, an extremely strong state, an established track record of using Special Economic Zones, and the country’s location in a fast-growing region with large regional trade flows. Nevertheless, Chinese exceptionalism aside, the country remains the core laboratory for border development zones, and a source of useful lessons.

Table 1 below lists China’s core BECZ’s, all of which were created in 1992/1993.

<table>
<thead>
<tr>
<th>Project/Policy</th>
<th>Border Country</th>
<th>Size (KM/sq)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hekou Border Economic Cooperation Zone</td>
<td>Vietnam</td>
<td>4.02</td>
</tr>
<tr>
<td>Dongxing Border Economic Cooperation Zone</td>
<td>Vietnam</td>
<td>4.07</td>
</tr>
<tr>
<td>Pingxiang Border Economic Cooperation Zone</td>
<td>Vietnam</td>
<td>7.2</td>
</tr>
<tr>
<td>Wanding Border Economic Cooperation Zone</td>
<td>Myanmar</td>
<td>5</td>
</tr>
<tr>
<td>Ruili Border Economic Cooperation Zone</td>
<td>Myanmar</td>
<td>13.5</td>
</tr>
<tr>
<td>Bole Border Economic Cooperation Zone</td>
<td>Kazakhstan</td>
<td>7.8</td>
</tr>
<tr>
<td>Jeminay Border Economic Cooperation Zone</td>
<td>Kazakhstan</td>
<td>0.105</td>
</tr>
<tr>
<td>Tacheng Border Economic Cooperation Zone</td>
<td>Kazakhstan</td>
<td>6.5</td>
</tr>
<tr>
<td>Yining Border Economic Cooperation Zone</td>
<td>Kazakhstan</td>
<td>30</td>
</tr>
<tr>
<td>Heihe Border Economic Cooperation Zone</td>
<td>Russia</td>
<td>41.57</td>
</tr>
<tr>
<td>Suifenhe Border Economic Cooperation Zone</td>
<td>Russia</td>
<td>5</td>
</tr>
<tr>
<td>Manzhouli Border Economic Cooperation Zone</td>
<td>Russia, Mongolia</td>
<td>6.4</td>
</tr>
<tr>
<td>Erenhot Border Economic Cooperation Zone</td>
<td>Mongolia</td>
<td>3</td>
</tr>
<tr>
<td>Dandong Border Economic Cooperation Zone</td>
<td>North Korea</td>
<td>6.3</td>
</tr>
<tr>
<td>Hunchun Border Economic Cooperation Zone</td>
<td>North Korea, Russia</td>
<td>24</td>
</tr>
</tbody>
</table>

While the BECZ’s form the backbone of China’s border strategy, the country’s approach to Border Development Zones has evolved since the 1990s. The most notable shift has been a movement of the zones closer to, and across, the border. In the former case, the Jiegao Frontier Trade Zone sits directly along the border with Myanmar, allowing it to more easily facilitate the movement of goods and people. More interesting perhaps is a move to develop

Cross-Border Economic Zones. As part of China’s cooperation with the countries of the Greater Mekong Subregion (GMS), three of the existing BECZs and SEZs are to be expanded to cross the border into their neighbouring countries, creating transnational zones at Hekou - Lao Cai (with Vietnam), Ruili - Muse (with Myanmar), and Mohan - Moding (with Laos). The test case for this type of development is further North, at the Khorgos International Centre for Boundary Cooperation on the border with Kazakhstan.

China’s border to Vietnam has a long and contentious history, in which development has long been stalled by conflict. The Sino-Vietnamese war began the year after Deng Xiaoping began China’s process of economic reform, and the border played host to skirmishes throughout the 1980s. When normal relations were finally restored in 1989, thousands of Vietnamese waded across the Beilun River to trade with the frontier towns along the Chinese border, a powerful release of the nascent economic potential that had been kept at bay by war.

China had a double incentive to develop the border: to revitalize a region held back by war, and to rebuild economic ties with Vietnam. Perhaps for this reason, the 1992 decision that created the BECZ’s positioned three zones along the Vietnamese border, at Hekou, Pingxiang, and Dongxing. The Hekou zone is amongst the most prominent, and played host to 184 firms as of 2008, with total trade volumes of $633 million, based off industry that is concentrated in logistics and trade services, like export processing and warehousing. Despite the Hekou zone opening in 1993 with the rest of China’s BECZ’s, much of the growth has been fairly recent, as the images below dramatically illustrate.

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22 Ibid
24 Xianming Yang, Zanxin Wang, Ying Chen, and Fan Yuan
Hekou has long been discussed as a potential location for a Cross-Border Economic Cooperation Zone. This zone would physically straddle the border, and be jointly developed by Hekou and Lao Cai, on the Vietnamese side of the border. While a cooperation agreement has been in place since 2005, recent media reports suggest little progress has been made on the zone.\(^\text{25}\)

The Pingxiang zone is primarily a logistics hub, consisting of customs clearing agencies and transport companies, that develop off the city's location at the crossing point of two major highways and the East-West Zhejiang-Jiangxi railway, and on the presence of heavy freight commodities like coal and steel. Dongxing is similarly focused on its role as transit point, particularly for overland freight heading for the ports. The city is an hour away from the Chinese port city of Fangchenggang, and across the Beibu Gulf from the island of Haikou, home to another Chinese Free Trade Zone and a major port. The Vietnam border zones differ from many in this study, in that their focus is overwhelmingly on trading logistics. While all the zones attempt to facilitate trade, other tend to be more diversified, particularly in industrial manufacturing. The Vietnam zones may have been restrained by the broad similarity of the Chinese and Vietnamese economies, both of which feature similar advantages in low-cost manufacturing, and underdeveloped consumer markets. While Vietnam is touted as a possible future destination for firms seeking to escape rising wages in China, for the time being it lacks clear complementarity with its larger neighbour.

**China-Myanmar**

Myanmar and China have a long history of close relations, but economic ties were hindered by Myanmar's isolation from international trade up until the country's opening in the late 1980s. Myanmar's subsequent international isolation under the military junta left China as one of the country's few close partners, and allowed for the development of substantial economic ties. The border itself remains an area of conflict, as the Northern stretch covers

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land claimed by the Kachin Independence Army, a small militant group operating that claims the area as its own.

Given these limitations, the two BECZs targeting Myanmar, Ruili and Wanding, are only 25 kms apart, concentrated at the most important border crossing for the two countries, at Ruili. Both zones focus on three broad industries: textiles, light industrial manufacturing (including refining kerasin wax and some light electrical manufacturing), and agro-processing (including the processing of tobacco, rice and fruit products); while the wider city plays an important role in the trade of jade. Ruili’s contiguous city across the border, Muse, is set to play host to its own Special Economic Trade Zone.26 While this development is still in progress, the long-term vision is for the zones in Muse and Ruili to be merged into a cross-border development zone.

Perhaps the most interesting innovation at Ruili is the Jiegao Frontier Trade Zone. Extremely little information is available on Jiegao, and the authors were unable to gain a more detailed understanding of its operations or relationship with Ruili. The zone appears to be an attempt to experiment with extending the BECZ model. Geng Xiewei, First Secretary of MOFCOM’s Department of Trade, calls Jiegao “Yunnan’s test and demonstration area towards South and Southeast Asia” and explains that the zone will include visa-less movement of people, and exception from all customs controls for goods entering the zone, with customs only involved when goods are imported from the zone.27 Jiegao is an interesting example of a mid-point between an BDZ situated on a border town, and one that crosses national boundaries (such as Khorgas, discussed below in the Kazakhstan section). Its location directly on, but not across the border, may offer some of the benefits of a true transitional zone, without the complexity of policymaking across borders, and is certainly an area in need of further research.


China-Laos
Laos is curiously missing from Chinese BECZ developments, despite its role in the Greater Mekong Subregion and development visions like the Golden Triangle. This may be in part due to the extremely underdeveloped nature of China’s bordering Xishuangbanna Dai Autonomous Prefecture, which remains largely rural. Despite this, a small development was established on the Laos side of the border in 2002, the Golden Boten Special Economic Zone, a grand title for a project in a particularly small border town.

The zone was established to cater to Chinese tourists, and in the Boten zone “Chinese could simply walk across the border without a visa. The town worked on Beijing time, accepted only Chinese currency and spoke only Mandarin Chinese. Electricity and telephone lines ran from China, and electric sockets adhered to Chinese standards.”

With up to $300 million invested in the project, Boten collapsed spectacularly in 2011. Amidst reports of rampant crime, including the ransoming of those who got into debt at the casino, China severed all ties with the zone, cutting off power and phone lines, and leaving the newly constructed hotels and casinos abandoned.

China-Kazakhstan
Four BECZs are situated in Kazakhstan: Yining (the administrative capital of the Ili Kazakh Autonomous Prefecture), Bole (a relatively isolated city in the mountainous North, that sits on the North Xinjiang Railway), Jimenay and Tacheng (two cities on traditional road crossings into Kazakhstan). But the most interesting zone is the Khorgos International Centre for Boundary Cooperation. The ICBC connects two Khorgos on either side of the border - the Chinese city of Korgas, and the Kazakh city of Khorgos. The Chinese side sits on the Jinghe-Korgas railway, a major rail route across Xinjiang that is also the primary connection for Yining’s BECZ, and that connects through Kazakhstan onto a planned freight route that would extend to Germany on a major thoroughfare of China’s Eurasian Land Bridge project.

The Khorgos project is particularly interesting because it is a truly cross-border initiative - the zone physically sits on the border, with 1.85 KM/sq in Kazakhstan, and 3.43 KM/sq in China. The zone is exempt from visa requirements, allowing residents of either country to stay in the zone for a period of 30 days. The centre includes the East Gate Special Economic Zone on the Kazakh side of the border, but the project’s ambitions extend well beyond the SEZ. The Kazak plan for the project (for which information is more readily available) includes the development of international business centres, convention and sporting facilities, entertainment complexes such as casinos and theatres, some 20 hotels, and a culture centre aimed at introducing guests to the national culture of seven Eurasian countries ranging from Kyrgyzstan to Tajikistan.

This is all particularly ambitious for a small, isolated border town. The Chinese side of the border at least benefits from good connectivity to regional hub towns, but road connections

28 Treasures of Laos. “Golden Boten City has been closed down - will it wake up again with help from China?” [http://treasuresoflaos.blogspot.com/2013/04/golden-boten-city-has-been-closed-down.html](http://treasuresoflaos.blogspot.com/2013/04/golden-boten-city-has-been-closed-down.html)


30 Ibid.

31 Website of the Khorgos International Centre for Boundary Cooperation, [http://mcps-khorgos.kz/en](http://mcps-khorgos.kz/en)
to the nearest major Kazakh city of Almaty are poor, although plans are in place to improve these under a large World Bank funded road project. While the Khorgos initiative was only launched in 2011, and is very much a work in progress, development thus far is reported to be very unbalanced. As one report describes it:

On the Chinese side of the border, a four-story shopping mall offers Kazakhstani shoppers a stunning variety of duty-free goods—from iPhones to auto parts and children’s clothes. Visitors can stay in a well-appointed hotel and enjoy solicitous service at a number of Chinese banks. It’s a far different story on the Kazakhstani side of the free-trade zone, which both countries hail as indicative of burgeoning cooperation: Chinese tourists can buy some candy inside a metal shipping container. And that’s about it.32

Part of this imbalance is surely down to geography, as well as the fundamental difference in state capacity between the two countries. But another part points to the unique nature of China’s capacity to develop successful economic zones, whether at the border or otherwise. A history of these developments, a particularly strong state, and a close working relationship between business and government all give China (and states like it) a unique capacity to make even the most isolated SEZs work. While part of this capacity is likely intrinsic to the nature of the Chinese state, other aspects are simply developed capacity, gained from experience, and from facing the types of difficulties encountered by Kazakhstan in the Khorgos project.

Railway, as a change-over point between the different rail gauges between China and Mongolia, and forms the primary trade route between Beijing and Ulan Bator. More than 80% of Mongolia's total trade passes through the Erenhot - Zamyn-Uud border gate.\(^{33}\)

The Erenhot zone is coupled with a Mongolian-run zone on the other side of the border, the Zamyn-Uud Free Economic Zone. Zamyn-Uud is a small town of 9000 people (although this still places it amongst the 25 largest cities in Mongolia), but is directly contiguous to Erenhot, with 8kms separating the centre of each town. Much of the development planned under the Zamyn-Uud zone is focused on building basic infrastructure for the town, including power lines, water facilities and internet connectivity. The zone itself covers 9 km/sq and sits on three pillars: tourism (including hotels, entertainment facilities and restaurants), Commerce (including conference centres, banking facilities and some light processing factories), and industry (covering a range of sectors, including “audio and video equipment, home appliances, electronic goods, textiles, clothing, furniture and souvenirs for export”).\(^{34}\)

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\(^{34}\) 2009 CAREC presentation
Border developments in Mongolia seem particularly challenging, as the country remains sparsely populated, and largely undeveloped. A recent commodities boom around Ulan Bator has reinforced the logic of the zones, but this boom was not at all evident upon the opening of the zone in 1993. It is hard to conceive of Erenhot or Zamyn-Uud being much more than transit centres for trade between the two countries.

Beyond Erenhot, Mongolia is also served by the Manzhouli (or Manchuria) Border Economic Cooperation Zone, which is described in the “China-Russia” section.

China-North Korea
As one of the few countries that maintain a good relationship with the Hermit Kingdom, China accounts for 87% of North Korea’s total trade. The DPRK’s Northern border with China is its primarily connecting point to the world, and is home to two BECZ’s, at Dandong and Hunchun. Dandong sits on Korea Bay, at the northern end of the East China Sea, and is North Korea’s nearest port city outside the restraints of the country itself. The BECZ is set to be linked to the DPRK by a recently completed bridge project, stretching 3kms over the Yalu river from Dandong to Sinuiju, and costing China over $350 million. The bridge is vital to the viability of the Dandong zone, but is currently hindered by a lack of connections on the North Korean side. Even the Chinese state-run newspaper, the Global Times, which initially claimed the bridge would “greatly boost exchange and trade” between the two countries, blamed the bridge’s delayed opening on “North Korea’s failure to build facilities on the other side.”

The DPRK itself has plans to establish Special Economic Zones at Hwanggumpyong and Wihwa, two islands that sit at the point at which the Yalu River, which forms the border between China and North Korea, meets the East China Sea. The islands sit just outside Dandong, and on a sea route that connects them to the port towns that serve Pyongyang.

35 Trademap
There are mixed reports on what industries the zones aim to focus on, with one source claiming a sectoral focus on the “information, tourism and culture, modern agriculture, and light manufacturing” sectors, as well as “marine engineering, special steel, colored steel, and car audio”; and another putting the industry focus on “garment processing, producing consumer electronics, modern and efficient agriculture, culture, creativity and even financial services”.

The island zones could prove an interesting development, offering an area of foreign concession in an otherwise completely closed off country. However, not surprisingly with North Korea, they have been hindered by politics. The point person and primary driving force for the project was Jang Song-taek, who was widely believed to be second in command to Kim-Jong Il, and amongst the few voices in the DPRK calling for incremental economic reform. Jang subsequently fell out of favour with Kim Jong-un, and was purged from his position, executed, and expunged from official North Korean government’s records. His death leaves the island projects without a backer in the North Korean regime, and renders their future uncertain.

Beyond Dandong, Mongolia is also served by the Hunchun Border Economic Cooperation Zone, which is described in the “China-Russia” section.

**China-Russia**

Trade with Russia is a completely different proposition to those of the smaller North-Asian states described above. Russia and China have a long and complicated history, with deep economic ties. China is Russia’s largest trading partner, while Russia is China’s tenth largest export market. There are four BECZ’s along the 4380 km border between the two.

Suifenhe and Heihe sit at opposite ends of the border, Suifenhe at the southern end near the South China Sea, and Heihe in the far North. Suifenhe is widely considered the core focal point of Sino-Russian trade, and in the 1990s was one of only two rail crossings at the border (with the other at Manzhouli). The city connects the cross-country Harbin-Suifenhe railway with the Russian Far East Railway, while also tying into the flow of freight through ports on the Sea of Japan. The Suifenhe BECZ is largely focused on the rail linkage and the accompanying logistics operations, but also features some light manufacturing targeting the Russian market, particularly in textiles.

Cooperation at Suifenhe has extended beyond the BECZ, particularly with the creation of the Suifenhe Sino-Russian Trade Zone, a zone at the border that allows visa-free travel, in particular targeting cross-border retail. The zone will be divided into six components, namely “the Heilongjiang Import and Export Processing Industrial Area, the Comprehensive Bonded Area, the International Logistics Industry Area, the Imported Chemicals Industry Area, the Emerging Industry Demonstration Area, and the Imported Timber Reserve, Processing and Trade Area as well as the Border Economic Cooperation and Investment Service Center.”

More interesting, however, is the introduction of roubles in the town, which now have equal status alongside the Yuan in both retail transactions and financial services. The move is primarily to counteract the illegal currency trade in the city, but could nevertheless act as an experiment in deeper cooperation at the border.

The Heihe zone is partnered with the Russian city of Blagoveshchensk, just across the Amur River. But the more interesting set of examples of BECZs on the Russian border are the

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38 North, “China’s Embrace of North Korea: The Curious Case of the Hwanggumpyong Island Economic Zone”, 19 February 2012. [http://38north.org/2012/02/hgp021712/](http://38north.org/2012/02/hgp021712/)


Manzhouli and Hunchun zones. Both sit on the meeting point of three borders, with China and Russia connecting to Mongolia at Manzhouli and North Korea at Hunchun. In both cases, the zones pair these smaller, less developed countries with two of the region’s largest economies, in an attempt to catalyse the development potential of the three-way meeting point.

Manzhouli is the busiest land crossing between Russia and China, and accounts for the majority of land-based trade between China and Eastern Europe. The potential of its proximity to Mongolia is limited by the lack of a well developed land connection to China, with the major route passing through Russia. Hunchun sits at the junction point of North Korea’s two most important trading partners - China and Russia - and is often used as a waypoint for trade between the DPRK and Russia, particularly to Russian port towns on the Sea of Japan.

**East Asia**

Beyond China, the broader East Asian region has taken up the idea of Border Development Zones, albeit to a more limited extent. Many of the examples on display are nevertheless of particular interest, since they often target regions that are very underdeveloped. In the Riau island initiative discussed below, Indonesia launched a zone to develop an island that had a total employed workforce of only 11,000 people, based primarily on the island’s strategic position on the border with Singapore. BDZs in these settings offer important lessons given the widespread underdevelopment along South Africa’s border.

**Vietnam-Laos-Cambodia**

Vietnam shares aspects of China’s economic history, notably a shift away from a centrally-planned economy using a limited plan of progressive liberalisation, often in a few key locations. Vietnam’s Doi Moi reforms began in 1986, and included within them the creation of China-esque SEZs and free trade zones. Opinions are mixed on the SEZs, with proponents pointing to the country’s rapid recent development; while critics maintain that this surface success is more a reflection of the nascent economic potential of the country after reforms than the result of the SEZs, which remain uncompetitive.\(^{41}\)

One of the core initiatives aimed at reintegrating Vietnam into the regional economy was the creation of the Lao Bao Special Economic and Commercial Zone. Launched in the early 2000s, Lao Bao sits in Quang Tri province in Vietnam’s Central region, on the border with Dansavan in Laos. The Central region is largely rural, with 80% of the workforce employed in the agricultural sector, and 85% of the population living in rural areas.\(^{42}\) Value-added production remains a small but growing part of the region’s economy, and the area ranks 34th of 62 provinces in the Vietnam Chamber of Commerce and Industry’s Provincial Competitiveness Index.\(^{43}\) The region does, however, sit on a major logistics corridor, with rail and road networks that link the region to major ports in the East and onward to Laos, Thailand, and Myanmar in the West.

The project is divided into five zones, as illustrated in Table 2 below.

<table>
<thead>
<tr>
<th>Zone</th>
<th>Size (HA)</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial, Trading and Services Zone</td>
<td>100</td>
<td>Trading, storage, convention centre</td>
</tr>
</tbody>
</table>


\(^{42}\) Mai Van Xuan, Bui Thi Tam. (2011). The economic impact of Lao Bao special economic and commercial zone: A preliminary evaluation. 2.

\(^{43}\) Ibid 6.
Table 2: Component Areas of the Lao Bao Special Economic and Commercial Zone.

<table>
<thead>
<tr>
<th>Area</th>
<th>Value</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>North-West Industrial Zone</td>
<td>27</td>
<td>Manufacturing, in the food &amp; beverage, automobile, electronics, and furniture sectors.</td>
</tr>
<tr>
<td>Cultural Park</td>
<td>27</td>
<td>Hospitality, entertainment, recreation, exhibition</td>
</tr>
<tr>
<td>International Border Gate</td>
<td>30</td>
<td>Customs port, storage facilities, duty-free shopping centre</td>
</tr>
<tr>
<td>Ecotourism Zones</td>
<td>85</td>
<td>Ecotourism, recreation, convention</td>
</tr>
</tbody>
</table>

The zone offers discounted rental rates and concessions on foreign ownership of land, a reduced corporate tax rate of between 100% and 50%, discount development finance from the Vietnam Bank for Investment and Development, and financial support for infrastructure development and marketing. Between 2002 and 2009, the zone attracted 50 projects, at a total capital investment of VND 3,670 billion (around $168 million). As of a review in 2007, China and Thailand were the only foreign investors in the project, while the vast majority of investment (almost 69%) was from domestic sources.

While much of the success of Lao Bao can be attributed to its location in a booming Vietnamese economy with deep fundamental economic advantages, the zone’s location on the border still seems to matter. A 2007 survey of investors found that “Strategic location” was regarded as an important factor by 80% of investors, ahead of “Cheap labour” at 72.7% and “Favorable Investment Policies” at 71.2%. On the flip side of the same survey, the lack of skilled labour was regarded as the greatest challenge, with 68% regarding it as difficult. The skills shortage nevertheless points to one of the most interesting factors of the zone: its focus on skills development. The zone features extensive on-the-job training or short-term courses prior to work, as well as having links to various vocational training schools. After an initial period of slumping exports (possibly because business shifted to the development of the zone), Quang Tri province saw exports surge after 2004, more than quadrupling in a year.

Ibid 12.
One major uncertainty with Lao Bao is the benefits on offer on the Laos side of the border. The SECA is first and foremost a Vietnamese project, albeit located on the border, and it is not clear how benefits are shared amongst the two countries. While the strategic location of the zone is cited as very important, it’s hard to tell whether this refers to the zone’s border location, or its location on major transport routes and links to export ports. Despite this, the zone is a fascinating example for the purposes of this paper, because it was set in an area of extreme underdevelopment, with a rural environment that did not seem suited to hosting an SEZ. Core fundamentals in Lao Bao - notably dirt-cheap labour costs - are undoubtedly attractive, but it nevertheless remains an interesting example of policy overcoming economic geography.

Vietnam has a similar arrangement with Cambodia, at the Moc Bai Border Gate Economic Zone. The key difference with the Lao Bao example is the presence of a corresponding SEZ across the border, the Tai Seng Bavet Special Economic Zone. Bavet and Moc Cai form one urban area, divided by the border post, and are extremely underdeveloped. The only notable economic advantage of the two towns is their location on a portion of the “Great Asian Highway” linking Phnom Penh and Ho Chi Minh City.

The Vietnamese side of the border is considerably less developed, and the Moc Cai zone is primarily focused on providing cross-border retail facilities and logistics support for the flow of goods across the border. The 0.77 KM/sq Bavet zone is considerably more ambitious, hosting a range of quite aggressive incentives, such as a five year corporate tax holiday, large and permanent exemptions on import tax, and exemption from VAT. Very little information is available on the state of the Bavet zone, but unrelated media reports on strike action in the area indicate that Bavet itself plays host to 40 garment factories employing around 20,000, with many reported to be located in the SEZ. Other industries include

45 Nguyen Hong Son and Dang Duc Son. 2011. Improving Accessibility of Financial Services in the Border-Gate Areas to Facilitate Cross-Border Trade: The Case of Viet Nam and Implications for Greater Mekong Subregion Cooperation. 8.
bicycle manufacturing, medical equipment, and some light electrical manufacturing. Beyond industry, Moc Cai casinos attract many visitors from Vietnam, where gambling is illegal.

**Indonesia-Singapore-Malaysia**

An even more extreme setting for a border development zone can be found on Riau Islands, a sparsely populated set of Indonesian islands at the Eastern end of the Straits of Malacca, off the coast of Singapore. The presence of a sea border sets this example apart, but the major islands of Batam and Bintan can be accessed in under half an hour via passenger ferry from Singapore. Like other examples, the islands are located on a major transport corridor, in this case sitting on one of the busiest shipping lanes in the world, and directly adjacent to the world’s second busiest port. The islands were recognised as having the potential to offer two things that Singapore desperately needs: cheap labour and cheap land.

The governments of Indonesia and Singapore reached an agreement to develop the islands in 1989, and were later joined by the Southern Malaysian state of Johor, to form the Indonesia-Malaysia-Singapore Growth Triangle project. At the announcement of the project, total employment on the largest island Batam was just 11,000 - mostly comprised of tourism jobs and those related to offshore oil fields. Batam and the Riau islands in general have long benefited from differentiated economic policy from the rest of Indonesia, including being designated a duty-free zone, but the creation of the Batam Economic Zone further relaxed requirements on foreign ownership and development of land.

The project itself encompasses a wide range of initiatives, including the development of a beach resort on Bintan and the creation of a marine complex servicing the oil industry on Karimun, but of particular interest are the Batamindo Industrial Park and Bintan Industrial Estate. Batamindo was developed on a 40-60 equity share between two government-linked Singaporean firms specialising in construction and engineering, and Indonesia’s largest conglomerate the Salim Group. The division of labour between the two sides was based on their perceived competitive advantages, with the Singaporeans in charge of the development and management of the park, and Indonesians focusing on labour recruitment. The park tapped into the reputation of Singapore, and the country’s Economic Development Board in particularly, as extremely competent economic planners, which reportedly helped bolster perceptions of the initiative and deflected traditional concerns in Indonesia regarding corruption and cronyism.

The park was developed as a small city, built from scratch with its own core infrastructure (power, water, sewage), living spaces (houses, shops, hospitals), and industrial facilities (telecoms, storage centres). The park plays host to numerous multinationals, mostly undertaking assembly activities for export, particularly concentrated in the electronics sector. Bintan follows a similar model, targeting industries that make use of Indonesia’s natural resources, such as the textile and wood processing industries.

Private investment into Batam tripled by 1996, and was accompanied by surging government investment in the island’s infrastructure. The total employed workforce grew from 10,000 to 125,000 over the same period, while exports grew by a factor of 68. Surveys indicated that investment was driven by a number of core Indonesian fundamentals, such as the availability of low-cost labour, but also reflected the importance of the proximity

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to Singapore’s infrastructure and of the reputation of Singapore as an excellent development manager. Bintan saw less spectacular growth, particularly during the winding-down of the Multifiber Agreement, which undermined the investment incentive for companies that had located on the island to circumvent export restrictions by utilising Singapore’s export quota.

Like the case of Vietnam, the Indonesian example re-emphasises the importance of core attractive economic fundamentals - such as high regional growth rates and low cost labour. But it again highlights the possibility for two countries with very different investor reputations and divergent value propositions to both benefit from a collaborative approach.

**Thailand-ACMECS**

Most of the initiatives explored thus far are bilateral projects, largely because of the nature of a border development: barring unique meeting points of multiple countries, borders tend to be inherently dualistic. For a strategy that has regional integration as one of its outcomes, there are few examples of regional organisations explicitly supporting Border Development Zones, but ACMECS is one of the exceptions. The Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy is an economic bloc consisting of five developing countries: Cambodia, Laos, Myanmar, Thailand, and Vietnam. Founded in 2003 on the initiative of (currently exiled) ex-Thai Prime Minister Thaksin Shinawatra, the group aims to use regional cooperation to drive development and close economic disparities in the broader ASEAN region, and includes as its core initiative the development of transport infrastructure linking the five countries.

ACMECS explicitly promotes the use of industrial zones in border areas, stating in a recent declaration that:

(In Industrial and Energy Cooperation, we agreed to...) Encourage the establishment of industrial zones along the ACMECS Countries’ borders and other potential areas along the East-West Economic Corridor (EWEC), North South Economic Corridor (NSEC), the Southern Economic Corridor (SEC) and the “inter-corridor linkages” focusing on green growth and sustainable development to encourage economic linkages and regional value chain as well as preparation for the realisation of the ASEAN Economic Community (AEC) in 2015.49

This aim remains largely unrealised, with the notable exception of the Lao Bao zone discussed above, and developments undertaken by Thailand. Thailand plays a central role in ACMECS, as the largest economy and the initial political driving force of the group. Vietnam is a similarly large economy, but joined a few years after the group’s foundation, and therefore the historical leadership role still largely rests with Thailand.

Thailand has four major border initiatives ongoing with its three contingent ACMECS partners of Laos, Cambodia and Myanmar. These zones are located at Mae Sot-Miyawaddy with Myanmar, Mukdahan-Savannakhet with Laos, and Trat-Koh Kong with Cambodia. A further zone is at Chiang Rai, at the three-way border between Thailand, Myanmar and Laos; and just South of Yunnan province in China. All four are being developed by the state’s Industrial Estate Authority of Thailand (IEAT).

These initiatives are intimately intertwined with the country’s attempts to develop rural areas, a central priority for the Thai government thanks to the high levels of poverty and underdevelopment in rural areas, and the important role these regions play in deciding political power in the Thai political system, particularly under Thaksin Shinawatra and his successors.50 Shifting production to regions also aims to take advantage of lower wages in

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50 Details of regional income gaps can be referred to Ikemoto [2000,pp.59-81]
neighbouring states, and preserve Thailand’s traditional advantage in labour intensive production. This approach is reflected in broader policy, as Thailand’s Investment Promotion Act 1987 revision divides the country into three zones, and offer additional investment incentives for projects in the less developed regions of zones 2 and 3. The border zones also have an explicit regional dimension, driven by both a desire to assist neighbouring countries in developing, and domestic political pressure to stem the inflow of illegal immigrants from neighbouring states, who often receive the blame for various social ills in Thailand.

Thailand developed its first industrial estates in the mid-1980s, but began aggressively pursuing the strategy in the 1990s. The estates are generally considered a success, although it is difficult to isolate their impact during a period in which Thailand more generally achieved rapid rates of growth. As of a study in 2004, industrial estates employed 7.9% of the country’s total workforce. +

The three bilateral border projects are still under development, and have at times seen their progress hindered by the need for transnational coordination. The Mukdahan-Savannakhet Border Economic Zone is expected to be developed on the Laos side of the border, with the Laotian government granting an open-ended lease and a five-year exemption on corporate taxation. The Trat-Koh Kong Border Economic Zone will sit on the Thai side of the border, and target a range of industries; including food, fisheries, glass making, textiles, electronics, and motorcycle and part production. The Mae Sot-Myawaddy Border Economic Zone will initially be based in Mae Sot only, but plans have been mooted to also develop a zone on the Myanmar side of the border. All of the border economic zones are accompanied by developments in their respective regions; including trade facilitation reforms at customs posts, the development of large scale transport infrastructure, and facilities to accommodate and manage foreign labourers.

Other Examples
The best examples of Border Economic Zones, like SEZs in general, are centred in China and East Asia. Cases in other parts of the world are often characterised by unique circumstances at the border, including steep political barriers that are notably difficult to bridge. While there are limits on the ability to draw lessons from these more unusual cases, they nevertheless may offer some insight into the diversity border development policies.

DPRK-Korea
The boundary between North and South Korea is arguably the world’s most dangerous border. The demilitarized zone that runs along the 38th parallel remains heavily militarised and home to the highest concentration of landmines in the world. Movement of people is strictly prohibited by both countries, which remain in a state of war. These steep barriers facilitate particularly divergent economic structures. South Korea is one of the most dynamic manufacturing economies in the world, while the North’s chronic underdevelopment and repressive government creates a vast pool of low-cost labour.

While the tension between the two countries largely precludes taking advantage of these differences, a limited experiment in border cooperation is on display at the Kaesong Industrial Region, an industrial park located on the DPRK side of the border. The project was a concession made by the North Korean government during a period of chronic foreign exchange shortages and dwindling government liquidity, and was embraced by the South Korean administration of President Kim Dae-Jung, under his “Sunshine Policy” of peaceful outreach to the North.51

The complex was developed jointly by Hyundai and the Korea Land Corporation, with extensive support from both governments, and commenced operations in 2005. Beyond access to low-cost North Korean labour, the zone also offers preferential corporate tax rates, duty-free exemptions, credit at preferential rates from the Inter-Korean Cooperation Fund, and visa-less movement of people. By 2010 the zone was home to 118 South Korean firms, employing 42,000 North Korean labourers, and accounting for more than half of all trade between North and South Korea. The plant also generated up to $4 million in revenue every month for the North Korean government.52

The case of Kaesong is certainly unique. There is nowhere in the world like North Korea, and few international relations as fractured as that between the two Koreas. Nevertheless, the project is a good example of how cooperation is possible even in difficult political situations, particularly for geographically concentrated projects. The project has continued to grow despite cooperation being suspended over numerous political incidents. No country in Southern Africa comes close to the repression of the North Korean regime, but success in spite of political volatility does nevertheless bode well for efforts to develop across Southern Africa’s divergent political systems.

Turkey-Greece-Bulgaria

All the initiatives thus far are large scale, government-led projects, mostly featuring special regulatory incentives. Overcoming the large structural barriers found in underdeveloped regions generally requires this level of intervention, but useful smaller initiatives can be facilitated by private sector and civil society projects. An example of just such an initiative is work completed at Uzunkopru, a small town of 50,000 in the North-West of Turkey, on the border with Greece and just South of the border with Bulgaria. The town has traditionally served as a transport corridor onward to these neighbouring countries, but has otherwise remained underdeveloped.

The town advanced a border initiative led by the local chamber of commerce and the Ankara-based research institute Tepav. The initiative targeted local Small and Medium Enterprises, aimed at assisting these firms in undertaking basic processing based on established local production. This included processing olives into olive oil, hazelnuts into hazelnut paste, and tomatoes into tomato paste. While it is too early to judge the results of the initiative, the core message of the Uzunkopru project is that governments do not necessarily have to take the lead in developing border regions. Donor funders, civil society institutions, and organized business groupings can make a meaningful impact; provided that border (and small town) development is a priority on their agenda.

Examples for Further Research

Due to limitations in this paper, not all Border Economic Zones could be presented, and a few remain that warrant further investigation. These include the Iskandar Development region on Malaysia’s border with Singapore, the Sanco Poipet Special Economic Zone on Cambodia’s border with Thailand, the Gyirong Port Economic Cooperation Zone on China’s border with Nepal, and a range of special economic zones that are not explicitly border-focused but are strategically located in border areas.

Border Development Zone Policy Options

No best practise model exists for Border Development Zones, nor would such a model necessarily be useful, given the diversity of border regions. Nevertheless, a few policy options can be identified, based on the international experiences examined above.
Zones or Regions
The first question is whether a border initiative should make use of a Zone or Region approach. While the vast majority of cases in this study have focused on the use of specific zones, initiatives like the Mexican Border Industrialisation Policy were based on regional development projects (such as infrastructure development programmes) and macro policy (such as special arrangements on tariffs and duties). Similarly, while China has a range of zones, the development of all BECZs were accompanied by broader ‘Open City’ reforms, that liberalised the cities’ approach to foreign investment. More general reform policies also have some history in South Africa, notably the usage of temporary worker programmes for Zimbabwean labourers, and many of the regional integration efforts discussed below.

These large region-based policies are, however, more politically complicated, and may have less impact in a context that already has relatively few formal barriers to the movement of goods and people between neighbours (as is arguably the case in South Africa). A zone-based approach empowers authorities to make use of additional SEZ incentives that may be necessary to overcome the barriers to investment inherent to less developed border areas. In an ideal world, a policy of border development zones would be combined with supporting initiatives to develop the border region’s infrastructure and open up the movement of goods and people with neighbouring countries. However, if faced with a trade-off between the two, it would seem that zones are the more practical policy, requiring less high-level political commitment but offering more obviously marketable instruments to drive investment.

Zones Location
There are three options for locating border zones, as illustrated in Figure 1.

![Figure 1: Location Options for Border Economic Zones](image)

First would be the creation of Special Economic Zones in border towns. This is the standard model employed by most of the zones examined in this paper. The primary benefit of this approach is the ability to use the infrastructure of the towns themselves, locating the zone within the border region’s centre of commerce, as well as near to support structures like government hubs and financial service providers.

Second would be to have BDZ’s at the border line, but still located in one country. This would ease the movement of goods and people into the zone, allowing the BDZ to have its own customs administration, avoiding the complex red-tape involved in managing multiple
trade regimes (those applying to BDZs and the general rules). The core challenge of this approach is the distance between the border and the South African towns considered later in this study, which sit around a half an hour drive from otherwise sparse border posts (although Beitbridge does sit contingent to the border). The Ramatlabama border, for example, is surrounded by a few small local villages, but little else. While the cities remain close, the distance to the border may add unnecessary transport expenses to firms and workers.

Third would be the creation of cross-border zones, straddling the border with sections in either country. Modern Border Development Zones are increasingly moving to this transnational model, as a way to concentrate the resources of the two governments, share the benefits of the zone, and simply the management of the zone by the creation of a separate customs area. Crossing the border may improve the impact of the zone; but it also drastically increase the complexity. Cross-border zones will need coordination between bordering governments, and will require the reconciling of two different legal regimes, covering everything from labour issues to SEZ policy.

In the case of the two towns identified in this study, current events have largely resolved this question. Both Musina and Mahikeng are early in the process of establishing Special Economic Zones. The creation of these zones offers a great opportunity to integrate border policies into these existing initiatives. A selection of preliminary recommendations on how this might be done are outlined below.

**Movement of Goods and People**

For the zone to target cross-border trade, it is essential that it facilitates easy movement of goods and people. Thankfully, South Africa does well on both these measures already, and few major changes will be required.

For the movement of people, all of South Africa’s neighbouring countries can enter the country without a visa for a period of 30 days. This degree of openness makes cross-border retail and entertainment immediately possible without any high level changes to immigration policy. Where intervention will be needed is on the issue of work permits. BDZs can focus on employing only those in their host country, but this reduces the zone to an SEZ at the border, rather than a true Border Development Zone. Facilitating the employment of foreign nationals taps into one of the central advantages of these zones - the sharing of the comparative advantages of the countries’ relative labour pools. Movement of people can be facilitated in any number of ways. This paper makes two recommendations on this issue, which can be found in the recommendations section below, but briefly described are: the lifting of the 2014 visa changes and the granting of a fixed number of discretionary work permits to companies operating in the BDZs.

For the movement of goods, South African again benefits from relatively low barriers to trade, as all neighbouring countries are members of either the Southern African Customs Union or the Southern African Development Community. Still, some formal trade exemptions could be put in place. For SACU countries, loosening of requirements on rules of origin would be a powerful and simple win. Rules of origin are meant to prevent circumvention of tariffs - but this is not a concern for goods entering a limited zone of productive activity, since these goods will not have unchecked access to the consumer market. Rules of origin can thus be removed in border zones with very little risk, while creating the dual benefit of simplifying trade and allowing for the identification of ROO that might be harming productive trade in the rest of the economy. For SADC, the Free Trade Agreement remains quite limited, and countries like Zimbabwe maintain a number of derogations from the agreement. Closing some of the remaining barriers would be a clear route forward for BDZs.
While there are gains to be had from reducing these formal barriers, more substantial benefits could be on offer in providing supporting infrastructure that helps companies (particularly smaller firms) to navigate the red-tape of trade. There are any number of support structures that could be used. Establishing dedicated customs facilities, tied to freight forward experts (which are already in good supply in border towns), would be the core of these structures. The creation of testing and certification labs in the zones would be extremely beneficial to border areas that have large livestock and agriculture industries, which still face staunch sanitary and phytosanitary barriers in markets around the world. Warehousing facilities, ideally with integrated customs clearance facilities, would help the zones tap into the flow of goods traded across the border. Some beyond the zone initiatives may also be useful, such as the availability of security vehicles that can accompany convoys of trucks passing through more dangerous areas at dangerous times (including the areas surrounding Beitbridge at night).

**Incentives**

While additional incentives could be offered to draw investment to border areas, this would increase the complexity of establishing BDZs, as it would require amending existing Special Economic Zone laws and procedures. In general, it seems easiest for border zones to make use of established incentives in national SEZ policy - allied to the special BDZ incentives above, which are focused on cross-border activity. This would also assure the coherence of the border zones, and allow for improvements of the zones based on the feedback mechanism of lessons learned from the country's entire network of SEZs. If additional incentives were to be put in place, it would be useful for these to target, firstly, the higher capital investment costs involved in building in more isolated regions, and secondly, the costs involved in transport in and out of the region, such as through partial tax deductibility of certain freight costs.

**Regulatory Regime**

Differences in the regulatory regime on either side of the border, or within zones, have been major drivers of growth at the border, most notably in Mexico. This growth comes at a steep cost, to the livelihoods of workers and the sustainability of the local environment. Exemptions to regulation in the zones, particularly for cross-border zones or those situated in less developed countries, remains an option that may reinforce growth in the BDZs.

Despite this, the authors of this piece maintain that labour and environmental protections, and other important regulation, must be maintained and strictly enforced at the border zones. Abuse is not necessary for the zones to be successful. A better approach would be the development of a close, cooperative relationship between zone management, regulators, and relevant civil society groups (including labour unions). Improved mutual understanding amongst groups is the best model to assure the protection of workers and the sustainability of growth, while being aware of the competitive demands of doing business.
The South African Context
Applying these policies to South Africa requires an assessment of three core issues. First is the state of regional integration, the nature of the economic relationship between South Africa and its neighbours, and the ongoing initiatives that exist under this umbrella. Second, is the framework that exists for the regulation of Special Economic Zones, both in South Africa and in neighbouring countries. Third is the identification of possible border locations that have high potential to host Border Development Zones in South Africa.

Regional Integration
Deepening regional integration is a commonly cited aim of governments across Africa, and is the target of a range of regional policies, from infrastructure development through to negotiations on the creation of a Continental Free Trade Area. Inter-regional trade remains low, at around 12%, relative to major trading hubs in Asia and Europe, which often post regional trade figures at 60% of total trade. Two reasons are commonly cited for the low levels of African regional integration. First, is the high cost of trade, both in terms of formal trade barriers like tariffs, and the presence of non-tariff barriers such as poor logistics infrastructure and inefficient customs procedures. Second, is the lack of diversification in African economies, in which commodity-dominated African states do not produce of goods that neighbouring countries want to buy.

Southern Africa follows a similar pattern to these broad trends, with the exception of South Africa. Figure 2 shows the role of trade with South Africa as a percentage of the total trade of select neighbouring countries, which averages between 29% and 51%. Some studies estimate that South Africa overtrades with some neighbouring countries, relative to expectations at the country’s level of development. This is despite the continued prevalence of non-tariff barriers, and is facilitated by the scale and relatively diversified structure of the South African economy. This trade is relatively one-sided, with South Africa generally exporting finished goods, while importing unprocessed commodities. This pattern make African trade extremely valuable to the South African government, which particularly values value-added exports, but it also complicates the trade calculus of regional integration for BLNS, which often voices concerns of South African dominance of their domestic markets.

54 Trademap data; Lesotho and Swaziland not included due to data limitations.
The central challenge of regional integration, particularly in Southern Africa, is to configure regional integration structures in such a way as to allow for equitable growth amongst countries at extremely different stages of their development, with deep differences in economic structure. Most integration efforts note the importance of diversifying and industrialising African economies, but do not paint a clear direct linkage between integration efforts and that outcome, beyond the creation of a potential larger market for these goods. Trade has the potential to deepen polarization in a regional economy as deeply unequal as South Africa, and the use of supporting interventions like Border Development Zones may assist in offsetting these imbalances.

A range of institutions - including SADC, the African Development Bank, and the Southern African Development Bank - have been working towards improving regional integration in Southern Africa. These efforts are well known and extensively researched, and can generally be placed in three categories. First would be formal trade agreements, aimed at driving down tariffs and aligning regulation. Second are trade facilitation initiatives, such as smoothing customs procedures and improving efficiency at border posts. Third are infrastructure development initiatives, notably improving transport structures such as roads, rail, and ports. These policies play a vital role in laying the groundwork for the success of BDZs.

Durban is the container hub port for Southern Africa. The dominance of South Africa’s busiest port in the region means less traffic goes to other ports in the region. The extensive road network in Southern Africa allows for goods to be moved relatively easily from one country to another. While the quality of roads varies in the region, the major transport

corridors are paved: the North-South Corridor from Durban to Dar-es-Salaam, the Trans-Kalahari Corridor from Walvis Bay to Maputo Corridor; and the Dar-es-Salaam Corridors. Nevertheless, border delays and cumbersome customs procedures lead to slow movement of goods across borders. As a result, SADC has “the highest cost for transporting goods in the world”, with up to 40% of the price of goods traded in the region being made up of transport costs.

The Chirundu One-Stop Border post offers a useful study into how border procedures - and hence costs - can be reduced; allowing for increased and faster movement of freight transport, informal traders and the general public between Zambia and Zimbabwe, as well as more broadly into the region. Since the inauguration of the border in 2009, the clearance period for trucks has been reduced from 2-3 days to only 2-3 hours; while passengers are able to clear the border within 15 minutes. The improved efficiencies at the OSBP ensure that there is quicker movement of goods and people across the borders, which translates to increased welfare gains for consumers downstream. Should more OSBPs be established within the region, increased intra-regional trade and greater economies of scale could result. Southern Africa’s busiest border is at Beitbridge, across the Limpopo River between Zimbabwe and South Africa. It would be highly beneficial to create a one-stop border at this port and help reduce delays and the high level of traffic; however, for the same reason, it would also be a rather uphill task.

SADC is deemed to have better infrastructure than other regions in Africa, however, there is need to improve what is already there before adequate gains can be made. “If Southern Africa’s infrastructure could be improved to the level of the strongest-performing country in Africa (Mauritius), regional per capita growth performance would be boosted by some 3 percentage points.” This means that trade volumes within SADC would grow, while facilitating increased exports to other regions worldwide. However, such expansion and upgrading of infrastructure at a region-wide level would need a lot of capital investment and perhaps even more time - $2.1 billion a year over the course of a decade. More funding would be required to maintain the infrastructure once it is completed. Even if the challenge of infrastructure development is addressed, training has to be conducted to bring policies and procedures in line with what physical structures are in place to facilitate trade. Constructing more one-stop border posts will not automatically translate to shorter waiting times for truckers or passengers – personnel at these posts need to see and experience policies coming alive not just at the regional level, but also at the national level, where much of the implementation will occur.

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61 Ibid 12.


63 Ibid 59.
Special Economic Zone Frameworks
South Africa

Regulation for the creation of Special Economic Zones was introduced to parliament in 2014, and is currently being debated. The SEZ policy builds on a more limited effort toward the creation of Industrial Development Zones, which were introduced during the transition from apartheid in the Manufacturing Development Act (No. 187 of 1993). The IDZs offer a limited range of incentives, relative to international standards. These included tax relief on customs duties, goods for storage, and certain productive inputs; efforts to simplify customs procedures; and certain limited incentives on the development of productive sites and infrastructure.

Four IDZs were opened, each targeting a strategic industrial hub. The Coega and East London IDZs both serve the Eastern Cape’s automotive manufacturing hub, with the East London IDZ directly adjacent to the Mercedes Benz plant and almost entirely comprising original equipment manufacturers.⁶⁴ The Richards Bay IDZ target’s the town’s role as an export port for natural resources, and aims to encourage the beneficiation of these raw materials; while the O.R.Tambo IDZ, situated at Johannesburg’s largest airport, primarily targets the air transport industry.⁶⁵

The IDZs are widely considered to have been a failure. The Zones did stimulate around R11.8 billion of investment, but did so at the cost to the national government of R5.3 billion.⁶⁶ The combined total spending of national and provincial government is estimated at R9.3 billion between financial year 2001/02 and 2012/12, which has resulted in 5137 direct jobs, although a total of 33,000 jobs have been created if short-term construction work is included.⁶⁷ Considering only direct jobs, this puts the price per job at R1.8 million per worker over the period, or R13,750 per month.⁶⁸ The O.R.Tambo IDZ is yet to attract any investment, and the Richard Bay IDZ has only one large investor, Tata Steel.

The good news from the IDZs is that their failure has largely been attributed to the limited nature of the policy. The IDZs didn’t offer many traditional SEZ incentives, such as preferential corporate tax rates, specific investment incentives, discounted land costs, or the easing of labour or environmental regulation. The more limited IDZ policy may in fact prove a useful testing ground, a limited package that allows government to better understand the nuances of running such zones, which can then inform the more substantial Special Economic Zone (SEZ) rollout that is currently underway. Beyond incentives, numerous additional lessons are flagged by the Department of Trade and Industry, such as the importance of having some flexibility in funding models and improving stakeholder coordination.

The much revised SEZ framework offers improved incentives, including: a preferential corporate tax rate of 15% (versus the national average of 28%) as well as additional tax and customs incentives, tax relief for building expenditure, the offering of special employment incentives, and the creation of one-stop shop facility that will provide easy access to the

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⁶⁵ Ibid
⁶⁸ Please note that this figure is for illustrative purposes only. It assumes that the IDZs have run over a period of 11 years, from 2002 to 2013. This round figure is not accurate, as construction of the IDZs does not align with the commencement of the financial year.
bureaucratic channels needed to operate in and export from an SEZ. The new policy sees the development of four distinct types of SEZ.  

1. **Free Port**: “A duty free area adjacent to a port of entry where imported goods may be unloaded for value-adding activities within the Special Economic Zone for storage, repackaging or processing, subject to customs import procedures.”

2. **Free Trade Zone**: “A duty free area offering storage or distribution facilities for value-adding activities within the Special Economic Zone for subsequent export.”

3. **Industrial Development Zone**: “A purpose built industrial estate that leverages domestic and foreign fixed direct investment in value-added and export-oriented manufacturing industries and services.”

4. **Sector Development/Specialised Zones**: “A zone focused on the development of a specific sector or industry through the facilitation of general or specific industrial infrastructure, incentives, technical and business services primarily for the export market.”

Five new zones are to be added to the four pre-existing IDZs and one IDZ currently under construction in Saldanha Bay. A special SEZ fund will be created to finance the development and operation of the Zones, which will work with private investors to implement the project. The SEZs will be overseen by a 15-person board consisting of representatives from the Department of Trade Industry, Department of Public Enterprises, the National Treasury, the South African Revenue Service, state-owned development bank the Industrial Development Corporation, SOEs Eskom and Transnet, and representatives from organized business, labour, civil society, and the expert community.

**Zimbabwe**

Following decades of economic mismanagement, Zimbabwe’s economy is in a fragile state. The unstable economic climate has led to disinvestment and a generally cautious approach to investing in Zimbabwe by many investors. Recently, Rio Tinto sold off its controlling interest in RioZim, effectively, leaving the country. The Indigenisation and Economic Empowerment Act seeks to increase participation of the indigenous majority in the economy, calling for 51% local ownership of all companies. Capital repatriation laws are also restrictive. Inadequate infrastructure, poor power supply, corruption, policy inconsistency and persistent liquidity constraints hamper the ease of doing business. Unemployment is high, with a 2013 estimate being that over 80% of jobs are in the informal sector.

Changing the official currency to the USD in 2009 helped contain inflation to below 5% per annum, from a previous high of 79,600,000,000% in early 2009. Between 2009 and 2012, real GDP grew by an average of 7%. However, this has declined since 2014, with the World Bank estimating that at current growth rates, the economy will stagnate in 2017. Up to two thirds of the national budget is used to pay civil servants. As such, very little is left for investment in infrastructure projects in the country as they have to compete with other national priorities for funding. In 2013, the government unveiled the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZimASSET, 2013-18). While the policy’s... 

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72 Unemployment figures for Zimbabwe vary greatly depending on who what authority one relies on. The ILO Estimate is based on that of the Zimstat at 5.4%. See Sintha Chiumia. 2014. “Is Zimbabwe’s unemployment rate 4%, 60% or 95%? Why the data is unreliable” - http://africacheck.org/reports/is-zimbabwes-unemployment-rate-4-60-or-95-why-the-data-is-unreliable/


74 AFDB. Zimbabwe Report: From Economic Development to Stagnation
Intents are laudable, it is unclear how the government seeks to channel rhetoric into action because funding for the ambitious projects is unavailable.

Taking a cue from similar developments in China, Korea and Thailand, the Zimbabwean government seeks to establish SEZs. Cabinet has approved that the Zimbabwe Investment Act be amended via the Special Economic Zones Bill to be discussed in Parliament to pave the way for their implementation. The government’s main objectives in establishing SEZs include restoring economic activity, attracting investment, creating employment and fighting poverty, strengthening industrial development, promoting development of infrastructure and inclusive growth. China has pledged support to assist Zimbabwe in establishing these SEZs. Investors in the zones are set to benefit from special tax breaks and they would not have to comply with black economic empowerment laws that force foreign companies to sell majority shares to black Zimbabweans.

Previously, Export Processing Zones (EPZs) were established with basically the same objectives. The Export Processing Zones Act of 1995 established a parastatal responsible for establishing export processing zones, attracting investment to the zones, and issuing licences for businesses to operate within them. In 2007 the Export Processing Zones Act was repealed by the Zimbabwe Investment Authority Act. However, industries previously licenced to operate under the previous legal regime were allowed to continue operating under the same beneficial arrangements as before. An interesting thing about these EPZs was that business owners were not required to move to specially designated areas in order to benefit from the incentives offered. Additionally, any industrial endeavour could benefit from the concessions; meaning that there was no systematic application to particular industries. Nevertheless, EPZs were successful in creating jobs and facilitating export-led growth – at least until the economy went into decline.

While EPZs were designed for exports, SEZs will supposedly offer more through manufacturing, value addition and beneficiation. Diamond cutting in Mutare and Harare; tourism in Victoria Falls, and petroleum, gas and chemical production have been approved by Cabinet as pilot projects. It is also envisaged that Bulawayo, Beitbridge and Mutare will also be roped into the programme once implemented. Bulawayo used to be the industrial hub of Zimbabwe. However, many companies have since shut down due to operating constraints; in fact, many former factories now house charismatic churches. Over 100 firms have closed in the last 3 years alone. The inclusion of Beitbridge is very interesting because this could bolster the potential for the establishment of a BDZ.

Botswana

Botswana is the largest exporter of diamonds by value in the world. As a result it has become a middle income country that generally experiences budget surpluses and has extensive foreign reserves. Botswana’s effective management of its mineral resources as well as its prudent fiscal policies has spared it from the resource curse. The public-private partnerships (PPPs) government engaged in with De Beers and Bamangwato Consolidated Resources in the diamond mining sector are a useful lesson for many countries in the region. Indeed, PPPs employed in this manner can be instrumental for the establishment of a border development zone. Bringing together government and the private sector in a

77 Ibid.
partnership for development at the border could ease some of the added stress of either party attempting to bring this strategy to bear without the cooperation of the other.

Botswana has been trying to diversify its economy from dependence on mineral exports since the early 2000s; export earnings from diamonds have declined from 50% to about 25% in the intervening period. The financial and services sectors have become the biggest contributors to Botswana’s GDP. This is due in part to the abolishment of foreign exchange controls, no prohibition of foreign ownership of companies, and low corporate taxes. Additionally, Botswana is rated as the least corrupt country in Africa and has a good governance record.

Despite all these positives regarding Botswana’s economy, the HIV/AIDS epidemic has hit Botswana hard and up to a quarter of the population is infected – amongst adults, 1 in 3 are affected. Furthermore, high income inequality (Gini Coefficient of 0.61), poverty (18%) and unemployment (18%) also contribute to a more sober outlook for Botswana. The benefits of prudent financial management need to filter down to the consumers that deserve it most.

In 1984, Botswana crafted its first Industrial Development Policy. This was designed to consider the diversification of the economy away from dependence on mineral exports as well as the promotion of the private sector. This was reviewed in 1998, when a new IDP was crafted. It placed emphasis on bringing Botswana into a new trading environment consistent with its SACU and WTO obligations; with the overall strategy being the development of competitive industrial and services sectors. Currently, the Industrial Development Policy for Botswana 2014 seeks to drive Botswana’s export-oriented growth and seal its place as an industrialised economy of the 21st century.

The SEZ policy adopted by the government of Botswana in 2010 seeks to create geographically distinct economic areas with their own administrative authority which provides investor-friendly business environment that will make Botswana the most preferred location for both domestic and foreign investment. Botswana seeks to increase FDI by offering them developed infrastructure, a stable and transparent regulatory environment and other targeted incentives.

The government created six specialized zones called “hubs,” which are currently at different stages of development. The Agricultural Hub was created to develop a sustainable and viable agricultural industry, particularly in meat production and irrigated farming. The Botswana Innovation Hub aims at integrating Botswana in the global economy through the generation of a knowledge economy. The Diamond Hub is designed to allow Botswana to take part in diamond cutting, polishing and sales more effectively. In this pursuit, the Diamond Training Company’s relocation from London to Botswana in 2013 has been a step in the right direction. The Education Hub seeks to promote Botswana’s higher education sector for both locals and international students and faculty. The Health Hub’s mandate is the provision of quality healthcare and the development of clinical centres of excellence. The Transport Hub is involved in the promotion of cross-border rail and road links; with particular emphasis on access to ports in neighbouring countries.

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Despite these noble intentions, the implementation of the SEZs policy has been slow. For instance, none of Botswana’s borders operate for 24 hours – the bulk close between 18:00 and 20:00 each day. In addition, Botswana’s immigration policy does not facilitate the easy movement of people for study and/or employment purposes. Within SACU, Botswana has maintained import restrictions on poultry for 31 years to stimulate domestic production. While this has led to local self-sufficiency, poultry products are still 35% cheaper in South Africa, meaning there is a huge loss of consumer surplus. These are a few examples of how Botswana needs to address issues of competitiveness. Botswana can leverage its central position in Southern Africa, and as the host of SADC, to encourage regional integration through the establishment of special economic zones at the border.

**High Potential Border Areas**

The use of special economic zones to develop regions that would otherwise not be attractive to private investment is by definition going to involve swimming against economic fundamentals. Nevertheless, Border Development Zones have a better chance of success if they are placed in areas with more developed industrial and consumer bases. Ideally, such a development would identify more developed towns and cities in pairs, with one on either side of the border.

Gaborone is the most developed border city along South Africa’s Northern frontier. While there is little across the border to pair with, with the closest South African town being Zeerust, an hour and a half away by car, the presence of the capital still makes this very interesting potential area for further study. However, for the time being this study places its focus on South African border towns.

While the vast majority of work applying the concept of BDZ’s in South Africa will be completed in the second phase of this project, for now we identify two pairings that are suitably large and close to the border to host a BDZ: Mahikeng-Ramatlabama-(Lobatse) and Musina-Beitbridge. Table X3 gives a statistical overview of the two South African towns, compared to Johannesburg.

<table>
<thead>
<tr>
<th>Census Data 2011</th>
<th>Mahikeng</th>
<th>Musina</th>
<th>Johannesburg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>291,527</td>
<td>68,359</td>
<td>4,434,827</td>
</tr>
<tr>
<td>Young (0-14)</td>
<td>30.8</td>
<td>28.2</td>
<td>23.2</td>
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<tr>
<td>Working Age (15-64)</td>
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<td>69.2</td>
<td>72.7</td>
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<td>Elderly (65+)</td>
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<td>2.6</td>
<td>4.1</td>
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<td>Growth 2001-2011</td>
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<td>5.53%</td>
<td>3.18%</td>
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<tr>
<td>Unemployment</td>
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<td>Youth Unemployment</td>
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<td>Matric</td>
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<td>Higher Education</td>
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<td>Agricultural Households</td>
<td>20,483</td>
<td>2,261</td>
<td>80,316</td>
</tr>
</tbody>
</table>

84 Botswana Tourism “ports of Entry into Botswana” [http://www.botswanatourism.co.bw/ports-entry-botswana](http://www.botswanatourism.co.bw/ports-entry-botswana)

Table 3: Demographic Overview of Mahikeng, Musina and Johannesburg

Mahikeng - Ramatlabama - (Lobatse)
Mahikeng is the anchor town in the first case, being the most developed South African city on the northern border. The city of 291,527 is the capital of the North-West province and is primarily an administrative centre. The town is a large centre of commercial activity, but the economy is almost entirely reliant on the presence of government, with a retail sector that is built off government activity. Tourism also plays a role, served by a local casino and a number of lodges, but there is no industrial activity to speak of. While Mahikeng is located in an active agriculture region, much of this activity is concentrated in surrounding towns such as Lichtenburg.

Mahikeng lies 29kms from the border, on very good quality roads, and plays host to a rail line passing into Botswana. The border post is quiet and efficient, as most of the heavy freight travels via more Eastern crossings. Ramatlabama itself is by far the least developed of the studied locations, and remains a small village that is not classified as a formal urban agglomeration by Botswana. The town is comprised of five villages, and is governed by tribal authority, sitting at the intersection of three Chieftains and reaching across the border. While Ramatlabama does not seem a suitable location for development, it does benefit from strong infrastructure linkages to Gaborone, and onward into the rest of Botswana.

Given the limitations of Ramatlabama, border plans should perhaps consider extending cooperation to target a more interesting pairing with Lobatse. While the two cities are separated by an hour, Lobatse is far more developed, with a population of 29,000, some light manufacturing, various government facilities including the High Court of Botswana, and a strategic location just 70 kms from the capital Gaborone. The notable presence of an abattoir makes Lobatse well suited to play a role in agro-processing, provided that exceptions can be made on the movement of meat and livestock across the border.

Efforts have previously been made to use a zone strategy to drive development in Mahikeng, through the creation of the Mahikeng Industrial Development Zone. Launched in 2000, the zone was not a success, and closed in 2012, being subsumed into the North West Development Corporation. NWDC is, however, in the early scoping stages of plans to launch a Special Economic Zone in Mahikeng. The zone has not been officially announced yet by NWDC, and so further details are not available, but interviews suggest the zone will focus in particular on agro processing.

Musina - Beitbridge
Beitbridge has an urban population of 42,137 and a rural population of 80,083, compared to Musina’s 68,359. The two city centres are separated by just 17kms, and sit on Southern Africa’s busiest border crossing, handling 400 trucks a day, and connecting South Africa, through Zimbabwe, to the DRC. Field work is still to be completed in the area, but preliminary evidence suggests that both cities’ economies are primarily based on the border, driven by logistics services like transportation and freight forwarding.

The Beitbridge border post is infamous for its inefficiency. Trucks faces an average delay of 3 days, at a cost of $400 per day. Delays at customs create further delays beyond the border, as drivers are required to rest after navigating the crossing process, and must avoid driving the dangerous onward route at night. The border crossing is also plagued by corruption, with bribes of R1,500 ($132) being standard for freight crossing. Given the

88 Ibid
entrenched problems at Beitbridge, and the town’s location contiguous to the border, it may be worth considering a BDZ adjacent to the border, on the Zimbabwean side in particular.

On the South African side, Musina is also the target of a planned Special Economic Zone, being developed by the Limpopo Economic Development Corporation. The zone will aim to create a free produce market that will take part in “processing, packaging and distribution of agricultural produce into the national, international and global markets.”

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Preliminary Recommendations and Way Forward

The experience of international examples point to some concerns on the development of Border Economic Zones in South Africa. Countries without a proven track-record of SEZ development have struggled to successfully apply it in the more difficult economic environment of isolated border areas. Restrained state capacity, for example from South Africa’s tight fiscal situation, could pose a challenge to robust border developments. Neighbouring states are very far from the booming growth centres of East Asia, and towns like Mahikeng and Musina have deeply underdeveloped commercial bases.

Despite this, there are clear positives. Border zones have managed to succeed even in extremely isolated, underdeveloped parts of the world. Developing countries, like Thailand and Vietnam, which face many similar challenges to that of South Africa, have seen some success in developing border zones, even when these face extremely underdeveloped countries like Laos.

Perhaps most importantly, however, is the fact that the two border town’s mentioned in this paper already have Special Economic Zones under development. The question in this case is not whether the state should create zones on the border, but whether the current plans should make provision for Musina and Mahikeng SEZ’s unique economic geography.

The primary recommendation of this paper is that the Musina and Mahikeng Special Economic Zones should include targeted policies that attempt to leverage their location at the border.

Understanding the best ways to do so will require greater knowledge of the zones and their surroundings. Further research; grounded in field work in Mahikeng, Musina and their bordering towns; will be conducted by the authors in the second half of this study. For now, some preliminary recommendations may be advanced, based on international experiences with BDZs, the policy options identified above, and some preliminary field work.

1. **Movement of People:** There are two possible approaches to improving the movement of people in BDZs, both with differing levels of ambition. The less ambitious approach would be the loosening of new regulations on the employment of foreigners, effectively reverting back to the pre-2014 model. Companies operating in the zones could be granted special dispensation to, for example, sponsor foreign work permits without having to first advertise for South Africa employees. The more ambitious, but arguably easier controlled, approach would be for companies within zones to be granted a set number of work permits that they could allocate as they see fit. This approach would be particularly beneficial if the sponsored work permits could be used by the company to bring in workers that are not necessarily based at the zone. This would mean that even if the neighbouring country doesn’t have a particularly attractive labour pool, companies would still benefit, by facing easier processes in the immigration of employees at, for example, their head office in Johannesburg.

2. **Movement of Goods:** Border Economic Zones should be exempt from Rules of Origin. This would greatly reduce the red tape involved in trade, while also facilitating the ability to identify choke points in the current set of ROO. In the limited space of the BDZs, the economic threat of circumvention is negligible. The origin of goods would still need to be monitored by firms, as they would be required when the goods are traded onward. But the lifting of these restrictions would be a huge boost for goods entering the zones themselves. Other exemptions, on general tariff and duty
restrictions, would have to assessed depending on the specifics of the countries in question.

3. **Testing and Certification**: Both zones seem well suited to agro processing. However, the movement of livestock and agricultural produce remains restrictive. Mahikeng, for example, has a one-way trade in cattle, flowing only from South Africa to Botswana, because of the challenges of quarantine restrictions when sending livestock into South Africa. The zones would benefit from the presence of livestock and food testing and certification facilities. These would provide the base infrastructure to help overcome some concerns about the movement of agriculture, while also acting as a useful drawcard for potential agroprocessors.

4. **Duty-Free Retail Centres**: South Africa allows visa-free travel across the border, which is a powerful facilitating agent for cross-border retail. These retail activities are ongoing currently, and could be advanced by targeted developments in the zone, particularly if these retail space were to be declared duty-free zones. Retail and entertainment zones have been front-loaded in many border developments around the world, and have proven to be useful anchor investments that can sustain the zones during the more long-term project of developing an industrial base.

5. **BDZ Works Councils**: Successful SEZs in other part of the world have benefitted greatly from close collaboration between the state and business, as well as involvement with labour and civil society groups. While South Africa’s SEZ policy makes provision for the involvement of many stakeholders at a macro-level, the zone itself would benefit from the use of a “works council” model within its management structure, that facilitates an active and healthy discussion amongst all the stakeholders in the zone. In particular, this council should bring in customs and home affairs officials, to work towards smoothing movement across the border. This model will be particularly important in the case of Mahikeng, which must make use of its strategic position as a hub of government activity.
## Annex 1: Full list of Border Development Initiatives Mentioned in this Paper

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<td>Moc Bai Border Gate Economic Zone</td>
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