

**Enhancement of Chinese Overseas Economic and Trade Cooperation  
Zones in BRI Participant Countries: Cambodia as a Case Study**

by

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June 2019

Research Report

Presented to

Ritsumeikan Asia Pacific University

In Partial Fulfillment of the Requirements for the Degree of

Master of International Public Administration

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## **CERTIFICATION PAGE**

I, XU Huijing (Student ID 51218626) hereby declare that the contents of this Master's Thesis / Research Report are original and true, and have not been submitted at any other university or educational institution for the award of degree or diploma.

All the information derived from other published or unpublished sources has been cited and acknowledged appropriately.

XU Huijing

2019/06/14

## **ACKNOWLEDGEMENTS**

I would first like to thank my supervisor Professor Tatsufumi YAMAGATA. He spent a lot of time overseeing my work, discussing with me, reading my paper thoroughly and very carefully, and giving critical and professional suggestions and comments. I am also very indebted to all the professors in International Public Administration for generous and professional suggestions and comments on my research.

I am also grateful to my parents and friends. They gave me help as much as they can and cheered me up when I was down. Last but not least, I would like to thank Japanese government for giving me the precious opportunity to study in APU.

June 14, 2019

XU Huijing

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## SUMMARY

In the context of Belt and Road Initiative (BRI), Chinese outward investment, in particular that of manufacturing, has increased greatly. To promote the investment further, Chinese overseas economic and trade cooperation zones (OETCZs), as important platforms of international capacity cooperation, have been placed importance. The number of OETCZs has also grown rapidly under the framework of BRI. However, only a batch of OETCZs are well-operated and well-functioning.

To figure out strengths as well as weaknesses of Chinese OETCZs, this paper chooses Cambodia as a case study and makes a comparison between Sihanoukville Special Economic Zone (SSEZ), a well-functioning Chinese OETCZ and another pair of top SEZs in Cambodia, namely Phnom Penh SEZ (PPSEZ) and Manhattan SEZ (MSEZ). The comparison is mainly about infrastructure, composition of zone investors regarding nationality and industry, and linkage with externalities. The result shows that SSEZ has gained some competitive advantages but still needs to make improvements when compared with PPSEZ. There is a need for SSEZ to diversify zone investors from the perspectives including nationality and industry, as well as establish a linkage with domestic Cambodia to gain long-term development. Based on the conditions of SSEZ,

some policy recommendations have been given to the development and enhancement of Chinese OETCZs.



# Chapter 1: Introduction

## 1.1 Background of the Research

As a country with strong manufacturing power, China is facing the problem of overcapacity, which would hamper the sustainable economic development. Belt and Road Initiative (BRI) to some extent can help to alleviate this problem, as BRI participant countries are mainly developing countries where there is a need of industrialization. Besides, one of the five guiding principles of BRI highlighted by Chinese President Xi Jinping at the first Belt and Road Forum is a road of opening up<sup>1</sup>. Under this initiative, Chinese outward investment has been increasing since its pronouncement in 2013<sup>2</sup>. In these investments, the outward investment of manufacturing has greatly increased. In 2016, the outward investment of manufacturing reached \$ 29 billion, 14.8% of total outward investment and ranking second among all the industries (Wu, 2017). This increasing outward investment of manufacturing can not only benefit Chinese enterprises by promoting more export of commodities and services, but also contribute to the creation of job opportunities and the provision of comparatively advanced technologies for

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<sup>1</sup> Xi Jinping (2017) Speech at the Opening Ceremony of the Belt and Road Forum for International Cooperation, 14 May 2017.

<sup>2</sup> Retrieved on January 5, 2019, from <https://www.yidaiyilu.gov.cn/xwzx/gnxw/67911.htm>.

investment recipient countries (Yang, 2018). These benefits for China as well as recipient countries contribute to the need to promote and improve the outward investment of manufacturing.

In order to promote the outward investment of manufacturing, Chinese government has formulated many policies. Among them, industrial cluster development helps to attract outward investment manufacturing enterprises (Sun & Xu, 2015; Li, 2018). Overseas economic and trade cooperation zones (OETCZs), which are China's version of special economic zones (SEZs) built overseas, created and promoted by Chinese government, have played an important role in promoting relevant enterprises to cluster in the process of outward investment (Sun & Xu, 2015). In the year 2006, Chinese government made a policy decision of the establishment of up to 50 OETCZs all over the world (Brautigam & Tang, 2011) to promote Chinese enterprises going global in groups. Since the announcement of BRI, the number of Chinese OETCZs has increased. Up to September 2018, 113 OETCZs have been established in 46 countries, among which 82 (over 70% of the total number) have been established in 24 BRI participant countries. OETCZs in BRI participant countries have brought 873 enterprises, an accumulated investment of over \$ 30 billion and more than \$ 2 billion tax revenue to investment

recipient countries<sup>3</sup>. The establishment and operation of OETCZs are in accordance with the win-win cooperation of BRI. However, only 20 of all the OETCZs have been developing well and become the state-level zones with the approval of the Ministry of Commerce and the Ministry of Finance<sup>4</sup>. The important role and the limited number of well-functioning OETCZs highlight the necessity of promoting Chinese OETCZs.

Among BRI participant countries, Cambodia has a close relationship with BRI, as “an integral constituent of President Xi Jinping’s BRI”<sup>5</sup> as well as a key hub of the Marine Silk Road (Chen S. A., 2018). What’s more, as to the manufacturing sector, Cambodia has been attracting an increasing number of Chinese enterprises. Besides, in Cambodia lies Chinese OETCZ, Sihanoukville SEZ (SSEZ), which had been established before the announcement of BRI. SSEZ has been operating well and has become one of successful SEZs in Cambodia as well as a typical example of Chinese OETCZs. By studying well-functioning SSEZ and comparing this Chinese OETCZ with other SEZs in Cambodia, this research tries to figure out the progress and the improvement-needed aspects of well-functioning Chinese OETCZ, and then accordingly put forward some policy recommendations as to the promotion of Chinese OETCZs.

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<sup>3</sup> Retrieved on January 4, 2019, from <http://fec.mofcom.gov.cn/article/jwjmhqzq/tjsj/201811/20181102810220.shtml>.

<sup>4</sup> Retrieved on January 4, 2019, from <http://fec.mofcom.gov.cn/article/jwjmhqzq/tjsj/201811/20181102810220.shtml>.

<sup>5</sup> Retrieved on January 4, 2019, from <https://www.khmertimeskh.com/5088419/cambodia-key-country-belt-road-initiative/>.

## **1.2 Definition**

### *1.2.1 Special economic zones (SEZs)*

SEZs have been studied since the appearance, as they can greatly promote economic development especially within the specific areas. SEZs can be defined as “demarcated geographic areas contained within a country’s national boundaries where the rules of business are different from those that prevail in the national territory. These differential rules principally deal with investment conditions, international trade and customs, taxation, and the regulatory environment; whereby the zone is given a business environment that is intended to be more liberal from a policy perspective and more effective from an administrative perspective than that of the national territory” (Farole, 2011). There are often four policy objectives for SEZs to fulfill one or more: attract foreign direct investment (FDI), alleviate unemployment, support economic structural reform, and experiment new policies and approaches (Farole & Akinci, 2011).

In different countries, the basic requirements for SEZs, including the minimum land area, minimum amount of capital investment, the requirement for zone investors, as well as the main purpose, would vary. For the developing countries, SEZs mainly provide good infrastructure and services within a specific area to attract more FDI and achieve the economic enhancement. While for the well-functioning countries, SEZs can be utilized

to stimulate the economic development of the less developed areas and reduce the regional inequality.

### *1.2.2 Overseas economic and trade cooperation zones (OETCZs)*

OETCZs are the concept proposed by Chinese government and refer to the overseas special economic zones invested by a Chinese-funded enterprise that is registered in the mainland of China (excluding Hong Kong, Macao and Taiwan) and having independent legal personality. Under most circumstances, inside the OETCZs are complete infrastructure, definite leading industries, sound public services, and agglomeration and radiation effects<sup>6</sup>. OETCZs are promoted and supported mainly by the Ministry of Commerce, and include various types of economic and cooperation areas, like processing zones, development zones, special economic zones, and technological industrial parks (Zhu & Fan, 2017). These special areas are mainly designed to be important platforms to attract investment (Bräutigam & Tang, 2012).

### *1.2.3 Belt & Road Initiative (BRI)*

BRI is short for the Silk Road Economic Belt and the 21st Century Maritime Silk Road, which is an initiative put forward by Chinese government in the year 2013. It

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<sup>6</sup> Retrieved on November 20, 2018, from <http://fec.mofcom.gov.cn/article/jwjmhqzq/article02.shtml>.

mainly includes five cooperation priorities: policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bond. In the context of this initiative, industrial capacity cooperation is an important part of the international cooperation to achieve win-win results<sup>7</sup>.

According to *Building the Belt and Road: Concept, Practice and China's Contribution* published in May 2017, there would be five major directions. As to the One Belt, there would be three directions: from northwestern China and northeastern China to Persian Gulf and Mediterranean via Central Asia and Russia; from northwestern China to Persian Gulf and Mediterranean via Central Asia and West Asia; from southwestern China to Indian Ocean via Central South Peninsula. While the One Road would be implemented mainly in two directions: from Chinese coastal ports to Indian Ocean via the South China Sea and the Straits of Malacca, extending to the Europe; from Chinese coastal ports to the South China Sea, extending to the South Pacific.

### **1.3 Significance of the Research**

Under BRI, the most important initiative in current China, and with the increasing outward investment of manufacturing, Chinese OETCZs have been important platforms for international capacity cooperation. The study of well-functioning Chinese OETCZ in

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<sup>7</sup> Retrieved on November 20, 2018, from <https://www.yidaiyilu.gov.cn/>.

a BRI participant country is a means to do a research from a practical perspective and a way to put forward some advice for the relevant government departments as to the plan and development of future OETCZs related to manufacturing. On one hand, this can contribute to the promotion and improvement of OETCZs and then benefit relevant Chinese manufacturing enterprises, because among an increasing number of manufacturing enterprises that have invested in BRI participant countries since the pronouncement of this initiative, some have invested and operated in Chinese OETCZs. On the other hand, the well-constructed and well-developed OETCZs would promote and improve Chinese investment of manufacturing in BRI participant countries, make contribution to the economic development of China as well as the investment recipient countries, and even help with the implementation of BRI.

#### **1.4 Objectives of the Research**

After the gathering and analysis of relevant data of Cambodian SEZs, this research is meant to measure the operating status of Chinese OETCZ. It aims to figure out what strengths well-functioning OETCZ have gained as well as future measures that need to be taken to help OETCZs to make improvement. To achieve this goal, case study and comparative analysis would be utilized. In the research, Cambodia would be chosen as a

case study. Besides, from SEZs in Cambodia, Chinese OETCZ SSEZ and another two top SEZs, Phnom Penh SEZ (PPSEZ) and Manhattan SEZ (MSEZ), would be chosen to make a comparison, to find out advantages as well as disadvantages for Chinese OETCZs.

### **1.5 Limitation**

There are some limitations to this study. First limitation is that of the case study method. Cambodia would be chosen as a case study. Though Chinese OETCZ in Cambodia has been well operated as well as well functioning, the strengths and weaknesses of this OETCZ cannot be applied to all Chinese OETCZs. Then policy recommendations would be only partly applicable. Secondly, there is a problem with data availability. Different sources online may lead to different data regarding the number of and other relevant information about SEZs in Cambodia. Besides, relevant Cambodian authorities have not published much updated detailed information about SEZs, such as the list of enterprises in every SEZ and detailed information of enterprises in SEZs. Then identification of relevant data may be not accurate without other official resources, which may lead to the lack of accuracy in the process of analysis. In addition, published information about Chinese investment in Cambodia is very general, including information about the investment of SSEZ. To be more specific, only the list of enterprises



in the year 2014 is available online, though the leading industries have not changed much in SSEZ according to the interview with the staff in the enterprise running SSEZ.

## **Chapter 2: Literature Review**

### **2.1 BRI and Chinese Outward Investment of Manufacturing**

Chinese outward investment of manufacturing plays an important role in the development of China. According to Yang, Wu, and Chen (2017), the outward investment of manufacturing can enhance the productivity of Chinese parent firms. Although this kind of investment has increased a lot, challenges and risks exist in Chinese outward investment of manufacturing (Lin, Meng, & Zhang, 2018), and there is a need of improvement, for which many scholars have figured out various recommendations from different perspectives. As the trap of low-end production in the global value chain (GVC) greatly hindered the outward investment of manufacturing (Chi, 2017; Meng, 2016), there is a necessity to develop a complete global value chain (Meng, 2016) and obtain a higher end in the global value chain (Chi, 2017). Besides, the improvement of the overall arrangement of the industrial chain (Xu & Na, 2018) and the enhancement of the competitiveness of the whole manufacturing industry (Wang & Hou, 2017) are necessary for the development of Chinese outward investment of the manufacturing. What's more, in the process of investment, a combination of large, medium-sized, and small enterprises would be beneficial regarding the great role of enterprise group (Wang & Hou, 2017).

In the context of BRI, manufacturing should also be attached with great importance. BRI mainly emphasizes on economic development at least from Chinese perspective and includes a lot of pre-existing projects (Cheng, 2019), as international capacity cooperation is the main part. Meanwhile, manufacturing industry plays a dominant role in the international capacity cooperation (Xu & Li, 2018). Considering the significance of manufacturing to the implementation of BRI, Xu and Li (2018) paid attention to the advantageous category of Chinese manufacturing industry and argued that policies, which aim to promote investment under the BRI, should be formulated and specified based on the advantageous status of different industries as well as the need of outward investment.

## **2.2 BRI and Cambodia**

As to BRI, Cambodia plays an important role in the implementation. ASEAN is the key area to the implementation of BRI. Besides, for China's Maritime Silk Road Initiative (MSRI), a part of BRI, the Southeast Asia is a focal part. As a Southeast Asian country, Cambodia is a key hub of MSRI (Chen S. A., 2018), located in the central part of ASEAN as well as the intersection of three directions among the five key directions in the context of BRI (Pan, Shi, & Jiang, 2018).

As to Cambodia, the BRI is enthusiastically accepted. Cambodia embraces the BRI

(Chheang, 2017), as Chen S. (2018) argued that considering the degree of support to BRI, Cambodia ranks the first tier among Southeast Asian countries and strongly supports BRI. There are several reasons for this well-developed cooperation. Firstly, the friendship between China and Cambodia has developed well since the year 1958 when the formal diplomatic relation between Cambodia and China was established (Hing, 2017). Secondly, this bilateral relationship has been strengthened and become closer under the BRI. The BRI can provide a large number of opportunities for Cambodia's economic development and Cambodia-China bilateral economic cooperation in addition to the development of Cambodia-China political and diplomatic relation. BRI can go with Cambodian needs to diversify the industrialization and at the same time can be complementary to the national development strategy of Cambodia, as BRI can help to diversify the sources of the growth and expand the economic horizon to strengthen the economic competitiveness of Cambodia (Chheang, 2017). Besides, there is a great need of infrastructure in Cambodia, as Cambodia suffers from poor connectivity (Chong, 2017). The BRI aims to promote the regional connectivity, which coincides with the needs of Cambodia. More specifically speaking, key BRI infrastructure projects, including the Phnom Penh-Sihanoukville motorway to connect the capital with the coastal SEZ, new Phnom Penh airport and new Siem Reap airport (Repo, 2018), can make a great contribution to the improvement of

Cambodian infrastructure and connectivity. Thanks to these key projects, Sihanoukville Port has been attached with importance, as the Phnom Penh-Sihanoukville motorway is the first expressway in Cambodia (Heng & Po, 2017). The relevant plan of this port is to enhance Cambodian connectivity to Chinese markets. In addition, the SEZ in Sihanoukville established by Chinese enterprises is a focal BRI project between China and Cambodia, as SEZ development has been one of the seven key areas of Cambodia-China cooperation under BRI (Chheang, 2017).

In summary, Cambodia has become an important partner regarding the implementation of BRI as well as the international capacity cooperation with China (Pan, Shi, & Jiang, 2018).

### **2.3 SEZs and Cambodian SEZs**

Many researchers have studied SEZs since their establishments. With the passage of time, there may be a need for SEZs to make a change based on the changing conditions and circumstances. According to Muchlinski (2013), there is a division of the old role and new role of SEZs. The old role of SEZs mainly refers to low labor cost, light assembly, and export-oriented enclave, while the new role means attracting higher skill and higher technology investment and promoting economic integration between the domestic and

international economies. The transfer from the old role to the new role can simplify the investment process for both domestic and foreign enterprise and serve to improved working conditions and better environmental protection. However, in the process of transfer, it would be hard to escape the “low-value-added” trap and enter the “high-value-added” phase (Muchlinski, 2013). After all, the number of SEZs in the world is very large, but not all the SEZs are functioning well. Successful SEZs may have some shared characteristics, including the availability of high-quality infrastructure, well-developed land, good facilities, relevant supporting services, streamlined regulations, expedited customs administration and other simplified procedures (Wahyuni, Astuti, & Utari, 2013). Besides, to measure the operation of a SEZ, some tool or model may be utilized. There are ten main tools for the development of a cluster-based competitiveness initiative (Shakya, 2009). Among these tools, eight are applicable to the analysis of SEZ, including cluster mapping, product and market segmentation, SWOT, GAP analysis, Porter’s five force analysis, value chain analysis, market trends analysis and competitive positioning analysis.

In recent years, SEZs in the Greater Mekong Subregion (GMS) has attracted a lot of attention from scholars, because countries in this region adopted the policy of SEZ and regarded SEZs as the engine of the economic development. The GMS cooperation

mechanism, which was initiated by Asia Development Bank (ADB), has been closely related to the regional development as well as the development of SEZs in this region. ADB has put forward three Economic Corridors (Diaz, Guerin, Morris, & Sen, 2017) in order to achieve more economic development, connectivity and regional integration in this region. Economic Corridors can be regarded as important concrete tools for the implementation of regional integration (Diaz, Guerin, Morris, & Sen, 2017) as well as the development of SEZs in this region. Among these corridors, the Southern Economic Corridor is scheduled to connect Bangkok in Thailand and Ho Chi Minh–Vung Tau in Vietnam<sup>8</sup> through Siem Reap and Phnom Penh in Cambodia. Then in the context of GMS and regional integration, Ishida (2005) believed that ideal location for SEZs in GMS can be defined as metropolitan areas, ports and harbors, border areas and junctions or intersections. Other scholars have also done researches concerning SEZs in this region. Considering the importance of Economic Corridors and the relationship between Economic Corridors and SEZs, GMS Secretariat (2016) studied the role of SEZs in the development of these economic corridors and argued that SEZs can be engines for the economic development and activities in GMS economic corridors, especially in the border areas. However, many obstacles lie in the development of SEZs in this area,

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<sup>8</sup> Retrieved on May 9<sup>th</sup>, 2019, from <http://www.gms-cbta.org/Southern%20Economic%20Corridor>.

including the heavy dependence on the foreign capital and technology as well as the improvement-needed quality and the potential shortage of local labor. Besides, generally speaking, SEZs in GMS has not fostered local development because of the lack of backward linkages with the local (Diaz, Guerin, Morris, & Sen, 2017). Meanwhile, some researchers paid attention to other aspects of SEZs in this region. Walsh (2013) focused on the social issues concerning SEZs in GMS while admitting that the establishment and maintenance of SEZs in this area aim to promote export-oriented manufacturing and obtain rapid economic development. In addition, some more specific researches have been carried out and concentrated on the border SEZs in this area. Arnold (2012) did some research into the EPZ type, which is the major type of SEZs rapidly emerging in GMS, and focused on the geopolitics of SEZs, especially border SEZs. Border SEZs, closely related to the economic corridor of GMS apart from the policy support of Cambodia (Tam, 2019), can be regarded as important facilities of the integration into the regional and even the global economy.

As to Cambodian SEZs, most literatures about SEZs in GMS have mentioned and made an analysis, because Cambodia is a member of the GMS and the regional development and Cambodia's development can be complementary with each other. Under researches done in the regional level of GMS, the SEZs in Cambodia possess some



characteristics and special aspects. Although SEZs in the border areas, mainly between Cambodia and Vietnam or between Cambodia and Thailand, are located along GMS corridors, these SEZs are not meant to promote the cross-border trade. Deep-sea ports may offer more important incentives for the existing and intended zone investors (GMS Secretariat, 2016). In this process, Cambodian authorities have been playing a prominent role in facilitating border SEZs to ease cross-border flows of inputs and manufactured goods (Arnold, 2012). Aziz, Li, Sinclair and Yang (2012) made an analysis of SEZs in Cambodia in relation with the analysis of FDI in Cambodia and the situation in Thailand. During the research, a comparative analysis of Chinese and Japanese FDI as well as the case study of PPSEZ, SSEZ and Sihanoukville Port Special Economic Zone (SPSEZ) has been made to support the argument that there are obstacles for SEZs in Cambodia from the perspectives of governance, incentives, resources, strategy and regional integration. More specifically speaking, the weak and unperfect governance, not perfectly implemented tax incentives, lack of skilled labor, domestic market and good infrastructure, absence of relevant strategies, and the underdeveloped regional integration would all have a negative effect on the SEZ development in Cambodia.

Apart from the regional level researches, relevant researches have also been done with the focus on SEZs in Cambodia. JICA and JDI (2013) did a research into Cambodia's

SEZs to offer advice for Japanese small and medium-sized enterprises (SMEs). For this purpose, the research focused on SEZs in Bavet Region where these SEZs were popular to Japanese enterprises and made an analysis of many specific and detailed aspects of the SEZ development including infrastructure conditions, labor market, transportation and so on. This analysis included advantageous factors as well as problems for SEZs in this area and then some forecasts were also made based on the analysis. Besides, to obtain a relatively whole picture of SEZs in Cambodia, Warr and Menon (2016) made an in-depth analysis of SEZs in Cambodia and figured out main characteristics of Cambodia's SEZs. The zone developers in charge of the establishment and management of the zones are mainly from the private sector. The main challenges for the SEZ development in Cambodia are mainly lack of infrastructure, trade facilitation, and electricity supplies, in addition to that labor quality needs to be improved and the corruption needs to be reduced. Under this condition, they also argued that there is a need of five to ten years of incubation period to achieve the status of well operating and the goal of large-scale employment. What's more, Sau (2011) also made an analysis by combining SEZs in Cambodia with factors such as economic corridors, ports and roads, and drew a conclusion that the main purpose of establishing SEZs in Cambodia was the decentralization of the development in order that the increased employment and poverty reduction can be enjoyed in more

cities in addition to the capital city Phnom Penh.

#### **2.4 Chinese OETCZs and the One in Cambodia**

OETCZs, Chinese overseas SEZs, have a close relationship with Chinese outward investment of manufacturing. Masiero, Ogasavara, & Risso (2017) argued that going global in groups, namely the participation in Special Economic Zones (SEZs), can bring diverse advantages to relevant enterprises, which was supported by Hong & Zhang (2011). Hong and Zhang (2011) found that Chinese OETCZs can greatly contribute to the increasing Chinese FDI. As a whole, Chinese OETCZs can bring benefits to relevant enterprises inside by providing good infrastructure (Masiero et al., 2017; Dong, 2018), internal cooperation (Sun & Xu, 2015), and the support from the local government (Zhu & Fan, 2017) to decrease the risk of investment for enterprises inside (Dong, 2018; Bräutigam & Tang, 2012). And the degree of the promotion of Chinese FDI by OETCZs would even exceed Bilateral Investment Treaty and Free Trade Agreement (Li, Long, & Zhang, 2016).

Besides, Chinese OETCZs have been playing a focal role in implementing BRI apart from helping relevant Chinese manufacturing enterprises. As an innovative way of outward investment as well as a Chinese phenomenon of jointly going global, Chinese

OETCZs have been regarded as essential platforms of implementing international capacity cooperation within the BRI framework (Pan, Shi, & Jiang, 2018). Many scholars have studied Chinese OETCZs from different perspectives in the context of BRI, including the current situation, effect, significance, and relevant industrial policies. The existing Chinese OETCZs are mainly led by Chinese enterprise, located in the developing countries, and attract enterprises that are willing to cluster (Bo, Chen, & Hu, 2018). And these Chinese OETCZs can be regarded as the building of BRI in practice (Cheng, 2019). OETCZs can contribute to the industrial upgrading in China (Wang B., 2012; Yi, 2018). Besides, Chinese overseas SEZs are economic instruments overseas, which are established to create new incentives that intend to contribute to economic benefits for not only China but also investment recipient countries (Bräutigam & Tang, 2012). These OETCZs can become platforms for international capacity cooperation (Shen & Zhang, 2016), and enhance the economic interdependence between China and investment recipient countries (Dong, 2018). To promote the development of OETCZs, policies have been formulated and implemented. Zhang (2013) made an analysis on the policies related to OETCZs. He believed that current policies are mainly supportive. At the initial stage of the plan of OETCZ construction and development, the Ministry of Commerce incorporated the construction of OETCZs as one of 13 key projects and allocated 2 billion

RMB (about US\$ 0.3 billion) as the funding for Chinese enterprises that would launch the Chinese OETCZ. Besides, a master plan has been formulated, and the basic requirement and the procedure have been specified and published. During the promotion and rapid development of Chinese OETCZs, many relevant researches have been done. Shen, Jian and Zhao (2018) mainly utilized comparative analysis by picking up four different types of OETCZs, agricultural park, processing zone, service zone and comprehensive industrial park, in Indonesia, Russia, Hungary, and Nigeria respectively. In the analysis, the comparison between OETCZs and domestic industrial zones was also made to figure out the obstacles for the development of OETCZs. According to this research, main challenges for OETCZs include the policy and legal risk, not perfect intergovernmental cooperation mechanism, lack of industrial characteristics, low-level infrastructure, and lack of capable people with international knowledge. Lu (2013) made an analysis of three well-operated OETCZs in Zambia, Egypt and Thailand, based on which some suggestions for the SEZs were found out. These suggestions were related to the choice of the location, the way of investment, the mode of operation, the selection of the leading industry. Hu, Zhao and Wang (2017) argued that China can refer to Singapore's successful experience in the process of establishing OETCZs, like concluding a governmental cooperation framework agreement and promoting the leading enterprises

to play an essential role.

Though under a lot of attentions and supportive policies, the development of Chinese OETCZs as a whole has been slow (Bo, Chen, & Hu, 2018). There is a need to achieve the sustainable development of OETCZs. Bo, Chen and Hu (2018) did some research into the conditions of 20 existing OETCZs. They argued that enterprises in these OETCZs, which are mainly from the low-end industry, have a tendency of industrial cluster. Main challenges they face are the need of establishing bilateral cooperation mechanism, proper industrial positioning, supportive system and so on, the reason for which is that phenomena like improper industrial positioning, blindness in investment<sup>9</sup>, redundant construction<sup>10</sup> and unreasonable location selection are commonly existing in the development of Chinese OETCZs (Hong & Zhang, 2011).

As to the OETCZ in Cambodia, Pan, Shi and Jiang (2018) have made field study to SSEZ and the OETCZ in Thailand, Thai-Chinese Rayong Industrial Zone. Based on the field study and interviews with representatives of enterprises in these two OETCZs, Pan, Shi and Jiang (2018) obtained relatively comprehensive information about OETCZs in Cambodia and Thailand and then figured out challenges for Chinese OETCZs as a whole.

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<sup>9</sup> Blindness in investment means investment carried out without a feasible plan or in-depth research.

<sup>10</sup> Redundant construction refers to the phenomenon that two or more industrial parks of similar function or type in one country or countries nearby.

## 2.5 Critical Assessment

These former researches have highlighted the importance of BRI, the necessity of Chinese outward investment of manufacturing and the significance of Chinese OETCZs in the context of BRI. Researches about Chinese OETCZs have emphasized the need of improvements regarding the long-term development of these zones to promote the outward investment of manufacturing. As to Cambodia, former scholars also did researches about the relationship and cooperation between China and Cambodia, and argued that Cambodia is a very important partner to BRI. Besides, under the framework of BRI, the construction of SEZs, one of the key cooperation areas between Cambodia and China, has been emphasized. SSEZ, as a successfully operating Chinese OETCZ, is the representative case regarding the SEZ cooperation between Cambodia and China. And some researches concerning SSEZ have been done.

However, past researches about Chinese OETCZs were whether made from a general perspective or mainly took OETCZs in different countries or regions as a case study and/or then made a comparison. The comparison between Chinese OETCZs and SEZs of other countries is seldom. Although there existed some comparison between SSEZ and other SEZs in Cambodia, there was no concept of Chinese OETCZ in these researches. Besides, these former scholars only did descriptive comparison, and failed to figure out

in-depth differences between Chinese OETCZs and SEZs established by other countries, not to mention finding out the underlying reasons or possible effects of these differences. In addition, there was not much theory related to SEZs applied in the process of analysis.

Considering insufficient researches about Chinese OETCZs, this research is meant to make a comparison between SSEZ, a well-functioning Chinese OETCZ, and SEZs of other countries in Cambodia with applicable theory concerning SEZ to figure out the operating status of Chinese OETCZ as well as the underlying reasons for the different performance that Chinese OETCZ has gained in the context of BRI.



## **Chapter 3: Research Question and Methodology**

### **3.1 Research question**

Based on the critical assessment, this paper develops the main research question as follows: How successful is Chinese OETCZ compared with other SEZs in Cambodia, a BRI participant country?

To help to find out the answer to the main question, sub questions have been raised:

- i. What advantages has the well-functioning Chinese OETCZ gained in comparison with other SEZs?
- ii. What disadvantages does the well-functioning OETCZ need to handle or get rid of in comparison with other SEZs?

### **3.2 Methodology**

To figure out answers to the above questions, this research would be done mainly with two research methods: case study and comparative analysis.

#### *3.2.1 Case Study*

Cambodia has been chosen as a case study. First of all, China has established SSEZ in Cambodia. SSEZ, among many overseas SEZs established by Chinese enterprises, is

the first SEZ sponsored by Chinese government in Asia (Tillman, 2018), one of the first Chinese state-level OETCZs (Pan, Shi, & Jiang, 2018), and even a moderate successful story of BRI claimed by most Chinese researchers (Cheng, 2019). Established in 2008, the Zone is a pre-existing BRI project. Secondly, there are a large number of SEZs in Cambodia apart from SSEZ. Since 2005, Cambodian government has approved many SEZs (Tillman, 2018), which are mainly established and managed by private sector developers and have attracted export-oriented manufacturing enterprises mainly in labor-intensive sectors (Warr & Menon, 2016). Thirdly, zone developers of Cambodian SEZs are mainly from private sectors including foreign private sectors. The nationality of zone developers would greatly influence the composition of enterprises, as export-oriented enterprises in Cambodia prefer SEZs established and operated by developers from their own country to gain an advantage in dealing with Cambodian government officials (Warr & Menon, 2016). SEZs in Cambodia are likely to be clusters for enterprises from different countries.

All of these make it possible to make a comparison between Chinese OETCZ with SEZs of other countries in Cambodia, which is a BRI participant country. Since all SEZs are located inside Cambodia, they share many similar economic, social and cultural features.

### *3.2.2 Comparative Analysis*

To figure out what measures Chinese OETCZ has taken to promote the investment of manufacturing as well as future actions Chinese OETCZ needs to take, this research would make a comparison between SSEZ and other top SEZs in Cambodia. In the analysis, the comparison would be made mainly from such perspectives as infrastructure improvement, composition of enterprises and linkage with externalities. As to the comparison about the composition of enterprises, it would be related to the composition of investors in nationality and industrial classification. Besides, some theory related to industrial clusters and knowledge would be applied.

### *3.2.3 Theoretical Background*

SEZs are a kind of industrial clusters, which are supposed to generate synergy among investors. In the clusters often exist a combination of industries, which are linked to each other, and other entities, for instance, suppliers of components, services and customized infrastructure (Porter, 1998). SEZs are geographic concentrations of enterprises (Shakya, 2009). Then it can be concluded that the analysis and assessment of SEZs can also be done under the concept of industrial clusters.

The incentive for enterprises to gather in industrial clusters is that some comparative advantages can be obtained compared with areas outside these clusters. Part of these advantages would be knowledge, especially in an era of knowledge. Meanwhile, for the development and advancement of industrial clusters, technology and knowledge would play a very important role.

As to the knowledge in the context of clusters, it entails intra- and extra-cluster knowledge systems (Giuliani, 2005) and there would be a hierarchy of specialized knowledge stocks at both enterprise and cluster levels (Pinch, Henry, Jenkins, & Tallman, 2003). Intra-cluster knowledge can be developed and gained by just being there, as the learning processes would occur among actors embedded in a community – dubbed buzz (Bathelt, Malmberg, & Maskell, 2004). In addition, informal contact between employees in different enterprises within the cluster can be regarded as one of the main carriers of knowledge between firms (Dahl & Pedersen, 2004), which can also promote the formation as well as the dissemination of intra-cluster knowledge. The shared knowledge basis serves to new knowledge and innovations for enterprises in clusters with combination and re-combination of similar and different resources (Bathelt, Malmberg, & Maskell, 2004). Then over time, it is possible that an inter-firm and cluster-specific form of knowledge would be fostered by enterprises in the cluster, which could enhance

the learning capacity of agglomerated enterprises and would promote the dissemination and diffusion of knowledge of different levels (Pinch, Henry, Jenkins, & Tallman, 2003). Then enterprises with enhanced learning capacity and strong knowledge bases can contribute to denser intra-cluster knowledge systems (Giuliani, 2005). After all, a virtuous cycle would be formed, and a cluster-specific advantage would be stimulated.

Apart from intra-cluster knowledge, extra-cluster also plays an important role in the development of clusters. In the era of globalization, interaction with externalities would be very essential, especially for clusters related to overseas markets. New knowledge should be regarded as the outcome of a combination of close and distant interrelationships. Then the linkage between clusters would generate knowledge across clusters (Bathelt, Malmberg, & Maskell, 2004), and strong knowledge bases of enterprises in clusters can help clusters gain more connection with extra-cluster knowledge (Giuliani, 2005). Except for the connection with extra-cluster knowledge, cluster absorptive capacity, defined as the capacity of clusters to absorb, diffuse and creatively exploit knowledge that is acquired from extra-cluster sources, is the key to determine that some clusters could forge ahead compared with others (Giuliani, 2005).

Under these conceptualizations, the interaction among enterprises in clusters, which can be cooperation or competition, and the linkage with externalities would contribute to

knowledge creation, dissemination or integration in clusters. Cluster's absorptive capacity need and can be enhanced with strengthened enterprise knowledge bases. In conclusion, the upgrading in clusters requires enterprises with stronger knowledge bases and more linkages within clusters as well as with externalities, as upgrading entails various forms, like product upgrading, process upgrading, intra-industry upgrading, and inter-industry upgrading.

## **Chapter 4: Comparative Analysis of Chinese OETCZ and other SEZs**

### **4.1 The economy of Cambodia and SEZs in Cambodia**

#### *4.1.1 The Economic Condition of Cambodia*

The average annual GDP growth rate of Cambodia has been over 7% in the past two decades (Heng & Po, 2017). Now Cambodia has become a lower-middle income country<sup>11</sup>, and the agriculture took up 23.4% of the GDP, the industry accounted for 30.9%, and the service made up 39.7% in 2017. As to the state of the industry, main sectors include the garment, light manufacturing, agriculture, and construction.

The rapidly growing economy in Cambodia has been mainly underpinned by the inflows of FDI in recent years (World Bank Group, 2017), as Cambodia has achieved remarkable economic growth with FDI and little enforcement of policies (Ear, 2013). Main incentives for the large number of FDI include the low labor cost, favorable tariff treatment in the European Union and United States (Warr & Menon, 2016), open investment circumstance, and relatively political stability and security<sup>12</sup>. Meanwhile, insufficient infrastructure condition and low labor quality are major challenges<sup>13</sup>.

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<sup>11</sup> Retrieved on May 1<sup>st</sup>, 2019, from <http://www.emergingmarkets.asia/consulting/news/2017/11/25/cambodia-economy-2017/>.

<sup>12</sup> Retrieved on May 5<sup>th</sup>, 2019, from <https://www.yidaiyilu.gov.cn/zchj/zcfg/6692.htm>.

<sup>13</sup> Retrieved on May 5<sup>th</sup>, 2019, from <https://www.yidaiyilu.gov.cn/zchj/zcfg/6692.htm>.

However, as the economy develops, the real wages have risen. Besides, due to the weak infrastructure condition, which has been improved but still needs improvement, logistics costs in Cambodia are still high. These issues to some degree led to the decrease of Cambodia's external competitiveness as to attracting FDI (World Bank Group, 2017).

Apart from the inflows of FDI, the other driver for economic development is international trade. Cambodia is an export-oriented country, and exports of goods as percentage of GDP was about 45%<sup>14</sup>. Among these exports, the export of garment totaled US\$8.02 billion in 2017 (up 9.5 percent from 2016) and made up 72 percent of Cambodia's total merchandise exports<sup>15</sup>. Though the garment industry remains the critical pillar and the important engine for the development of Cambodia's economy, it has been faced with increasing competition from neighboring countries such as Vietnam and Myanmar. While Vietnam has developed upstream in the garment sector, Myanmar has opened up to FDI, and these two countries also have the advantage of low-cost labor (Ly, Martin, & Eduardo, 2016). Then in recent years, the export of Cambodia has begun to diversify. The newly emerging exported products, including electrical machinery, equipment and auto parts, apart from footwear, took up 8.7 percent of total exports in 2016, the percentage of which was less than 2% in 2010 (World Bank Group, 2017).

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<sup>14</sup> Retrieved on May 3<sup>rd</sup>, 2019, from <https://wits.worldbank.org/CountryProfile/en/KHM>.

<sup>15</sup> Retrieved on May 1<sup>st</sup>, 2019, from <https://opendevelopmentcambodia.net/topics/industries/>.



The gradually diminishing advantage of Cambodia and the need to propel and maintain the economic growth necessitates the structural reforms to climb up to a higher end of the value chain to produce more higher-value-added commodities, for example from garment to electrical appliances and components or auto parts, and has contributed to the formulation of Cambodia Industrial Development Policy 2015 – 2025 (World Bank Group, 2017). The goal of the 2015-2025 Industrial Development Policy is to achieve the shift from labor-intensive industry to technology-intensive industry in Cambodia. And under this master plan, the diversification of exports and high-value-added industrial sectors, like electronics, pharmaceutical, construction materials, and household furnishings, are scheduled to be the target industries<sup>16</sup>. To some degree, the emergence of new exported merchandise is a positive sign for Cambodia's economy, the diversification of manufacturing industry. However, improvement-needed infrastructure and lack of domestic supporting industry may hinder the diversification of industries in Cambodia.

As to the economic development of Cambodia, China has played an essential role. China has provided ODA to Cambodia for a long time and has ranked the first place among the countries investing in Cambodia (Pan, Shi, & Jiang, 2018). China's outward FDI flow in Cambodia has increased from \$ 215 million in 2009 to \$ 744 million in 2017,

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<sup>16</sup> Retrieved on May 5<sup>th</sup>, 2019, from <https://www.yidaiyilu.gov.cn/zchj/zcfg/6692.htm>.

while the outward FDI stock in Cambodia has increased to \$ 5,448 million in 2017 from \$ 633 million in 2009. These investments mainly went to industries of hydroelectric power, textile, service, agriculture and so on<sup>17</sup>.

#### *4.1.2 The Development of Cambodia's SEZs*

To improve the investment climate and attract more FDI, Cambodia initiated the plan to establish SEZs in the year 2005.

In Cambodia, the definition of SEZ is as follows according to the SEZ Sub-Decree:

*“A special area for the development of the economic sector which brings together all industrial and other related activities and may include General Industrial Zones and/or Export Processing Zones. Each Special Economic Zone shall have a Production Area, which may have a Free Trade Area, Service Area, Residential Area, and a Tourism Area”.*

The basic requirements for SEZs in Cambodia are as follows: the minimum area of land would be 50 hectares; the location needs to be specified with a fence; the construction of the area for management office, Zone Administration offices and other necessary infrastructures, including roads, electricity, sewage system and so on, should be completed<sup>18</sup>.

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<sup>17</sup> Retrieved on May 6<sup>th</sup>, 2019, from <https://www.yidaiyilu.gov.cn/zchj/zcfg/6692.htm>.

<sup>18</sup> Retrieved on May 6<sup>th</sup>, 2019, from <https://opendevelopmentcambodia.net/topics/special-economic-zones/>.

To secure and promote the development of SEZs, a system of supervising or supporting organizations, including the Council for the Development of Cambodia (CDC), the Cambodian Special Economic Zone Board (CSEZB) and the Special Economic Zone Administration, has been established. This agency provides support from the state level to the SEZ level, provides one-stop service, from the registration to the claim of the import or the export, in the SEZs, and handles complaints or other issues regarding SEZs. Under the management of this system, 47 SEZs have been approved by the Cambodian authority as of the March of 2018<sup>19</sup>. The locations of these SEZs are shown in Figure 1.

This map demonstrates that most SEZs in Cambodia are located in the border areas, especially in the border areas near Vietnam and Thailand. The representative SEZs include MSEZ in Bavet area, near the border between Cambodia and Vietnam, and Sanco Poi Pet SEZ near the border between Cambodia and Thailand. Other SEZs are located in the metropolitan area, for example PPSEZ, or in the port cities, for example SSEZ. Different SEZs have different advantages, though there exist shared advantages including one-stop service, tax incentives for zone investors, relatively better infrastructure than areas outside SEZs and so on.

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<sup>19</sup> Retrieved on May 3<sup>rd</sup>, 2019, from SEZ map by JETRO as of March in 2018.



## **4.2 The Development of Chinese OETCZ in Cambodia**

As to the investment of industrial SEZs, China has been ranking the top from 2014 to 2017 and followed by Japan, Malaysia, Singapore, Taiwan China and South Korea (Pan, Shi, & Jiang, 2018). The largest project is SSEZ, the only state-level SEZ between Cambodia and China. SSEZ is also the largest SEZ in Cambodia at present with regards to the development area and the number of zone investors, one of the key BRI projects in Cambodia, as well as the representative SEZ among Chinese OETCZs in BRI participant countries.

SSEZ has been receiving state-level attention and support from both China and Cambodia. Before the establishment, Sihanoukville SEZ had attracted much attention from the Cambodia's authority. Under an intergovernmental agreement and bilateral coordination mechanisms between China and Cambodia, Sihanoukville SEZ was established in 2008, and has been developed with the joint efforts of a Chinese enterprise Hodo Group, which is a garment giant, Wuxi Taihua Corporation, and Cambodia International Investment Development Group. Even Cambodian Prime Minister Hun Sen voiced support for the joint Cambodian-Chinese mechanism and promoted the establishment of the SEZ<sup>20</sup>. Besides, in 2016, further promotion of the cooperation project

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<sup>20</sup> Retrieved on May 6<sup>th</sup>, 2019, from <https://search.proquest.com/docview/853018644?accountid=130127>.

Sihanoukville SEZ was included in the Joint Declaration between China and Cambodia (Pan, Shi, & Jiang, 2018).

SSEZ is located in Sihanoukville, the only international port city in Cambodia. It owns great advantages as to the location: 3 km from the Sihanoukville airport, 12 km from the Sihanoukville international deep-water port, adjacent to No.4 highway, and only 210 km from Phnom Penh<sup>21</sup>. The area it plans to cover is 11.13km<sup>2</sup>, and the development area for the initial phase has been completed and reached 5.28km<sup>2</sup>. After 10 years of incubation and development, this SEZ has attracted 118 enterprises (100 of which are Chinese enterprises), created over 21000 job opportunities for local people as of the end of 2017<sup>22</sup>, and greatly contributed to the local economic development (Pan X. , 2018). At present, enterprises in the SEZ mainly specialize in sectors such as textiles and garment, bags and leather products, machinery, electronics, and wooden flooring<sup>23</sup>. In the future, SSEZ is scheduled to build up 300 factories and provide up to 100,000 jobs when the construction is totally completed, and the goal of this zone is to “construct a well-facilitated, fully functional, ecological model industrial zone and even the ‘Shenzhen’ of Cambodia”<sup>24</sup>.

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<sup>21</sup> Retrieved on May 6<sup>th</sup>, 2019, from <http://www.ssez.com/en/company.asp?Ione=3>.

<sup>22</sup> Retrieved on January 5, 2019, from <https://www.yidaiyilu.gov.cn/xwzx/roll/70430.htm>.

<sup>23</sup> Retrieved on May 6<sup>th</sup>, 2019, from [http://www.wuxinews.com.cn/2018-10/30/content\\_37163521.htm](http://www.wuxinews.com.cn/2018-10/30/content_37163521.htm).

<sup>24</sup> Retrieved on April 15, 2019, from <http://news.cctv.com/2017/04/14/ARTIK9QnLqH6EV2Ivo95hGeW170414.shtml>.

According to a staff in the Sihanoukville Special Economy Zone Co., Ltd which is in charge of the zone development, the second phase of Sihanoukville SEZ has started. More attention would be paid to sectors such as furniture, hardware and machinery, auto parts and medical instruments. And efforts would be taken to attract more large enterprises. As to the external issues, SSEZ has not developed a close linkage with domestic enterprises or market in Cambodia, which is similar to other SEZs in Cambodia. Except some wood from Cambodia that would be imported to the SEZ to manufacture wooden products, almost all the raw materials or intermediate commodities are imported from other countries. As to issues within Sihanoukville SEZ, there is commercial cooperation among enterprises in the SEZ, especially enterprises related to wooden products. To achieve the sustainable development, SSEZ would not allow the entrance of enterprises from the highly polluted sectors. Besides, SSEZ offers vocational and language training sessions to workers in the established training school in the SEZ or even through cooperation with universities in China to tackle the problem of lacking high-skilled labor. What's more, SSEZ is always fulfilling the social corporate responsibility with the donation to the local, attaching importance to environmental protection, and constructing a medical center in the SEZ.

### **4.3 The comparison between Chinese OETCZ and other SEZs in Cambodia**

#### *4.3.1 Another Couple of Top SEZs in Cambodia*

Among the existing and operating SEZs in Cambodia, Top 3 SEZs are SSEZ, Phnom Penh SEZ (PPSEZ) and Manhattan SEZ (MSEZ) according to the land area and the number of zone investors<sup>25</sup>, and the number of jobs created in the zone<sup>26</sup>. All of these three SEZs were established shortly after the launch of SEZ policy in Cambodia, and located in ports and harbors, metropolitan areas, and border areas respectively.

##### **4.3.1.1 Brief Introduction of PPSEZ**

PPSEZ is located 18 km away from the capital city Phnom Penh, and 8 km away from Phnom Penh International Airport. Besides, it has easy access to Phnom Penh River Port and is connected to the port Sihanoukville with the highway NO. 4, which can contribute to the ease of exports. Besides, PP SEZ is in the heart of the east-west corridor of the GMS, which made it possible to make use of the advantages of the South Corridor project, the linkage between Bangkok in Thailand and Ho Chi Minh City in Vietnam (Aziz, Li, Sinclair, & Yang, 2012).

Apart from the locational advantage, soft infrastructure has been attached importance

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<sup>25</sup> Retrieved on May 9<sup>th</sup>, 2019, from the website of PPSEZ:  
[https://drive.google.com/file/d/1fTkYfb7LK15o\\_oOWIy7nj9jSUg6f9kwb/view](https://drive.google.com/file/d/1fTkYfb7LK15o_oOWIy7nj9jSUg6f9kwb/view).

<sup>26</sup> Retrieve on May 6<sup>th</sup>, 2019, from <https://www.asean.or.jp/ja/wp-content/uploads/sites/2/CDC-1.pdf>.



to this SEZ. Relevant assistance has been given to foster an understanding of overseas zone investors' language and unique corporate culture during the local management and among the work force. In this process, the standards of operation of investors in their home countries can be maintained. Besides, the corruption-free environment has been developed and formed, which can surely make contribution to the improved business environment (Tam, 2019).

What's more, PPSEZ have expanded in Cambodia as well as in the neighboring country Laos. PPSEZ has built up a wholly-own subsidiary Poi Pet PPSEZ in Banteay Meanchey Province. Poi Pet PPSEZ is located in the border area between Cambodia and Thailand, and the nearest deep-sea port is about 250 km away in Laem Chabang, Thailand. Besides, regionally speaking, it would play an important role in route of Ho Chi Minh – Phnom Penh – Siem Reap – Bangkok<sup>27</sup>. As to the expansion into Laos, PPSEZ would take part in the development, management and operation of the Zone B of the Savan-Seno Special Economic Zone (SaSEZ's Site B) with the cooperation with the Namtha Road and Bridge Construction Company Limited and Savan-Seno Special Economic Zone Authority (Sopha, 2015). The cooperation initiated in 2013 marked with the conclusion of the tripartite joint venture agreement, when two Japanese enterprises were in the

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<sup>27</sup> Retrieved on May 7<sup>th</sup>, 2019, from <http://www.ppsez.com/en/our-business/poipet-overview>.

process of constructing factories. One Japanese enterprise is the Nikon Corporation, the operation of which in Laos can contribute to the investment of at least another 20 in the Nikon Group.

#### 4.3.1.2 Brief Introduction of MSEZ

MSEZ is the first SEZ in Cambodia, which gained the approval in 2005. The main and only investor of Manhattan International Co., Ltd, KPT group in Taiwan China, began to build up this SEZ based on the experience of Manhattan Textile and Garment Park in Kampong Cham Province and gathered manufacturers of different phases of value chain in textile sector (Shiraishi, 2013). Its location is in the Svay Rieng province, close to the border area between the Cambodia and Vietnam. It is only 86 km away from Ho Chi Minh City, Vietnam, 65 km away from Phnom Penh International Airport, and 160 km away from the capital city Phnom Penh (connected with the national highway No.1). The location provides a combination of advantages of both Cambodia and Vietnam. The proximity to Ho Chi Minh City can help to reduce electricity and transit costs compared with SEZs in the further inland part (Arnold, 2012) and provide the connection with the port in Ho Chi Minh City to gain easy access to the overseas market. Besides, the location can help enterprises in the SEZ enjoy the advantages of the increasing cooperation between Cambodia and Vietnam (Aziz, Li, Sinclair, & Yang, 2012).

#### 4.3.2 Comparison between Chinese OETCZ and Other Top SEZs in Cambodia

In order to obtain a more comprehensive picture of top three SEZs, a comparison among PPSEZ, MSEZ and SSEZ has been made and relevant information is shown in the

Table 1.

**Table 1: Descriptive comparison of PPSEZ, MSEZ and SSEZ**

Name of SEZ	Sihanoukville SEZ	Manhattan SEZ	Phnom Penh SEZ
Establishment date	March 2008	August 2005	October 2006
Location (province)	Sihanoukville	Svay Rieng	Phnom Penh
Total area	11.13 km <sup>2</sup>	5 km <sup>2</sup>	3.6 km <sup>2</sup>
Zone developer	Jiangsu Taihu Cambodia International Economic Cooperation Investment Co., Ltd & Cambodia International Investment Development Group Co., Ltd	Manhattan International Co., Ltd: Universal Joint International Group (Taiwan China) (Major shareholder)	Phnom Penh SEZ Co., Ltd ( Ms. Lim Chino (Cambodia-Chinese) 78%; Zephyr Co., Ltd (Japanese) 22 %)
Land lease fee	US\$55 / m <sup>2</sup> : 50- year leasing contract US\$45 / m <sup>2</sup> : 40- year leasing contract US\$35 / m <sup>2</sup> : 30- year leasing contract (including 10% VAT +10% WHT)	US\$30-35 / m <sup>2</sup> (excluding tax): 50-year leasing contract	US\$70 / m <sup>2</sup> (including 10% WHT, excluding 10%VAT): 50-year leasing contract ※ VAT exemption for companies exporting 100%

Factory rental fee	US\$2.1 m <sup>2</sup> / month (including 10%VAT+ 10% WHT)	Building: US\$2.00 / m <sup>2</sup> / month (excluding tax) Space around building: US\$1.00 / m <sup>2</sup> / month (excluding tax)	US\$2.50 / m <sup>2</sup> / month ~ (+10%VAT and 10%WHT)
Management fee	Factory lease : US\$0.066 / m <sup>2</sup> / month Land lease: US\$0.044 / m <sup>2</sup> / month (including 10% VAT)	US\$0.04 / m <sup>2</sup> / month (+10%VAT)	Management and Improvement of Infrastructure: US\$0.06 / m <sup>2</sup> / month (+10% VAT) Garbage collection: US\$80 to 300 / month (+10% VAT)
Relevant facilities	One-stop service, logistic company, construction company, hotels, bank, restaurant, supermarkets, training center (Khmer and Chinese language etc)	One-stop service, Restaurant, Mini Mart, Bank, Hotel	One-stop service, bank, Dry Port, Japanese Restaurant, Chinese Restaurant, Vietnamese Restaurant, Mini Mart, Futsal Court and Clinic
Leading industry	Textiles and garment, bags and leather products, hardware and machinery, wooden products etc.	Garment, footwear, electronics, plastic etc.	Garment, food, electronics, packaging materials, footwear etc.
Zone investors	118(increase from 17 in 2013)	33(increase from 15 in 2013)	101(increase from 33 in 2013)

Compiled by the author. Source: official websites of SSEZ, MSEZ and PPSEZ; Cambodia SEZ map by JETRO (updated in March 2018); the report about SEZs in Cambodia by JICA in 2013.

Under the development and management of different developers from different

countries, these three SEZs have different development areas, land lease fees, factory rental fees and management fees. The development area in SSEZ is the largest, while fees in PPSEZ are the highest. However, there lie several similarities among these three SEZs. Firstly, as to the zone developer, all three SEZs are joint investment of Cambodia and foreign country. Secondly, as to the leading industry, three SEZs are mainly related to manufacturing, especially light manufacturing or elementary manufacturing. Thirdly, as to the infrastructure aspect, basic infrastructure has been constructed and the trade facilitation one-stop service and other relevant facilities have become available in these three SEZs. Fourthly, every zone has been attracting more enterprises.

**Table 2: Infrastructure Evolvement of SSEZ, MSEZ and PPSEZ**

Name of SEZ		Sihanoukville SEZ	Manhattan SEZ	Phnom Penh SEZ
Electricity	2012	public transmission; an original power plant of 2MW	public transmission line both from Cambodia (Svay Rieng Province) and Vietnam (main source)	public transmission line
	2015	7 MW from the transmission line of national power company (EDC)	Supply from Vietnam	Supply from public power transmission line. The construction of Colben Energy PPSEZ Ltd, jointly invested by a

				Singapore company and PPSEZ. The power generation capacity (fuel oil) of the power plant in PPSEZ is 13 MW.
	2018	22MW from the city (transformable to 10MW for old facilities) 4MW from backup generato	25MW from the state owned company EDC (Electricité Du Cambodge)	11MW from the power plant operated by Colben Energy PPSEZ Ltd which is a joint-capital of Singapore company and PPSEZ
Electricity fee	2012	US\$ 0.25 / kwh	US\$0.1485 / kwh	US\$0.193/kwh
	2015	US\$ 0.22 / kwh	US\$0.1485 / kwh	US\$0.1898/kwh
	2018	US\$ 0.16 / kwh	US\$0.1654 / kwh	US\$0.1898 / kwh
Telecommunication	2012	Under negotiation	Metfone(to be used)	9 companies (the fibers are under construction)
	2015	Metfone	Metfone 、 Mekongnet 、 EZECOM	12 companies provide fiber optic, 4 companies provide telephone line
	2018	Tel and Internet: Metfone, EZECOM, Online	Tel: Telecom Cambodia (TC) Internet: NTC, EZECOM, Mekong Net, Metfone, Asia Fort, Open Net	14 companies provide fiber optic, 4 companies provide telephone line (Telecom Cambodia, Camintel, Metfone, CoolTel)
Capacity of water disposal	2012	Planning stage	Planning stage	4,500 m <sup>3</sup> / day

				(Phaze 1)
	2015	under construction	-	4,500 m <sup>3</sup> / day (Phaze 1)
	2018	5,000 m <sup>3</sup> / day	5,000 m <sup>3</sup> / day	4,500 m <sup>3</sup> / day by using sewage system
Sewage disposal fee	2012	Free	US\$0.25 / m <sup>3</sup>	US\$0.26 / m <sup>3</sup> ( 80% of the consumptioned amount)
	2015	under construction	US\$0.25 / m <sup>3</sup>	US\$0.26 / m <sup>3</sup> ( 80% of the consumptioned amount)
	2018	US\$0.30 / m <sup>3</sup> (including 10%VAT)	US\$0.26 / m <sup>3</sup> (+ 10% VAT)	US\$0.26 / m <sup>3</sup> ( 80% of the consumptioned amount)
Water supply	2012	plan to develop the filtering facility inside the SEZ	Underground water	5,300 m <sup>3</sup> /day ( Phase 1 ) with a filtration plant inside
	2015	12,000 m <sup>3</sup> / day (the city water system and water supply in the zone)	-	5,300 m <sup>3</sup> / day (Phaze 1)
	2018	12,000 m <sup>3</sup> / day (the city water system and water supply in the zone)	Underground water	14,900 m <sup>3</sup> / day by using water treatment system

Water supply fee	2012	US\$0.50 / m <sup>3</sup>	US\$0.15 / m <sup>3</sup> (+10%VAT)	US\$0.30 / m <sup>3</sup>
	2015	US\$0.50 / m <sup>3</sup>	US\$0.15 / m <sup>3</sup> (+10%VAT)	US\$0.30 / m <sup>3</sup>
	2018	US\$0.50 / m <sup>3</sup>	US\$0.15 / m <sup>3</sup> (+ 10% VAT)	US\$0.30 / m <sup>3</sup>
Development area	2015	3 km <sup>2</sup> of Phase 1 (5 km <sup>2</sup> ) has been developed	-	Phase 1 : 1.41 km <sup>2</sup> ( developed ) Phase 2 : 1.62 km <sup>2</sup> ( developing ) Phase 3 : 0.57 km <sup>2</sup> ( prepared for development)
	2018	Phase 1 (5km <sup>2</sup> ) has been developed	all has been developed	Phase1: 1.41 km <sup>2</sup> (Developed) Phase2: 1.62 km <sup>2</sup> (On sale) Phase3: 0.57 km <sup>2</sup> (Developing)

Compiled by the author. Source: Cambodia SEZ map by JETRO, 2018.03 and 2015.04; JICA & JDI (2013); List of SEZs in Cambodia in the year 2013.

As the infrastructure and connectivity are not good in Cambodia, the condition of infrastructure can greatly influence the development of SEZs and the enhancement of infrastructure can largely benefit each SEZ. All of PPSEZ, MSEZ and SSEZ have made progress in many aspects regarding infrastructure, but improvements that each SEZ has made vary greatly. As shown in the Table2, SSEZ has made great progress in the electricity aspect. It has enhanced the electricity supply and decreased the electricity fee.



And the electricity price in SSEZ is lower than MSEZ and PPSEZ. As to the telecommunication, PPSEZ offers more choices compared with SSEZ and MSEZ. As to the water supply, the condition in SSEZ is better than MSEZ, where underground water is supplied, but the supply capacity is lower than PPSEZ. Besides, the charge in SSEZ is higher than the rest SEZs. In the aspect of water disposal, SSEZ has established a water disposal system, the capacity of which is larger than the other two SEZs, but the cost is higher. In summary, these improvements SSEZ has gained would surely contribute to the enhanced competitive advantage of SSEZ compared with the past, which can be demonstrated by the rapidly increasing number of zone investors in the past five years as shown in Table 1. However, compared with other SEZs, SSEZ does not own absolute competitive advantage from the perspective of infrastructure. Besides, there are other aspects that need consideration when comparing SSEZ with other well-functioning SEZs, especially PPSEZ. To figure out weaknesses as well as strengths of SSEZ more comprehensively, a comparison among top three SEZs regarding the composition of investors by country of origin and industry, and linkage to externalities has been made.

#### 4.3.2.1 Composition of Investors by Country of Origin

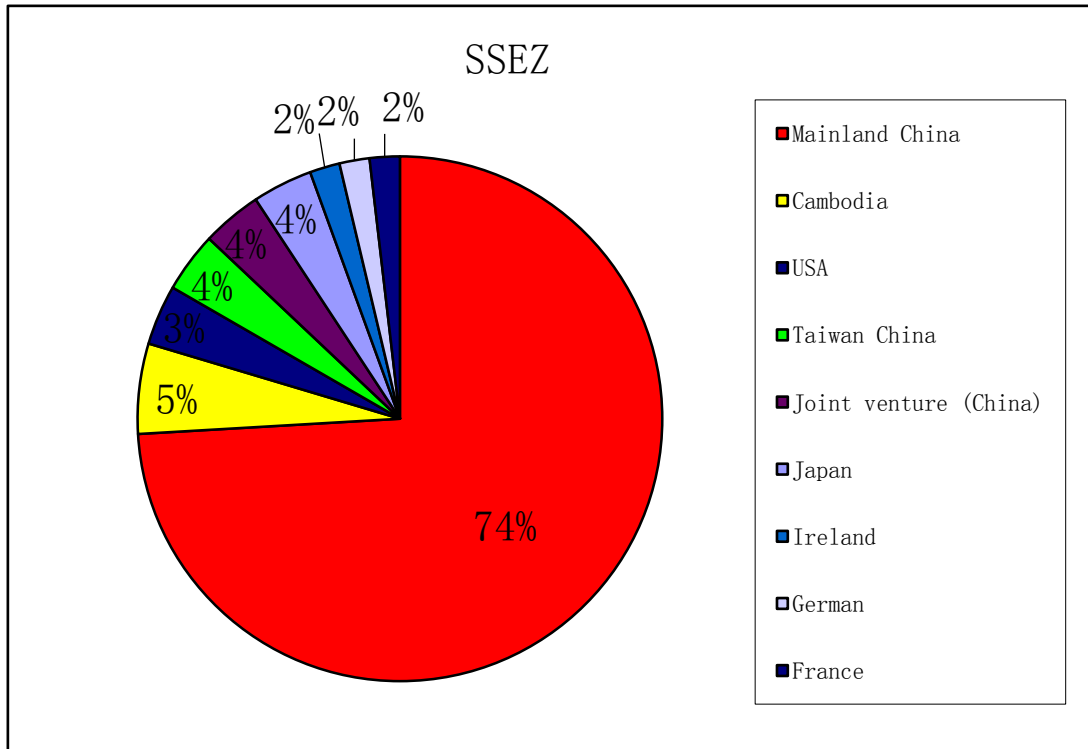
As to the composition of zone investors in these three SEZs by nationality, three SEZs have seen a significant nationality dominance inside the zones. According to the

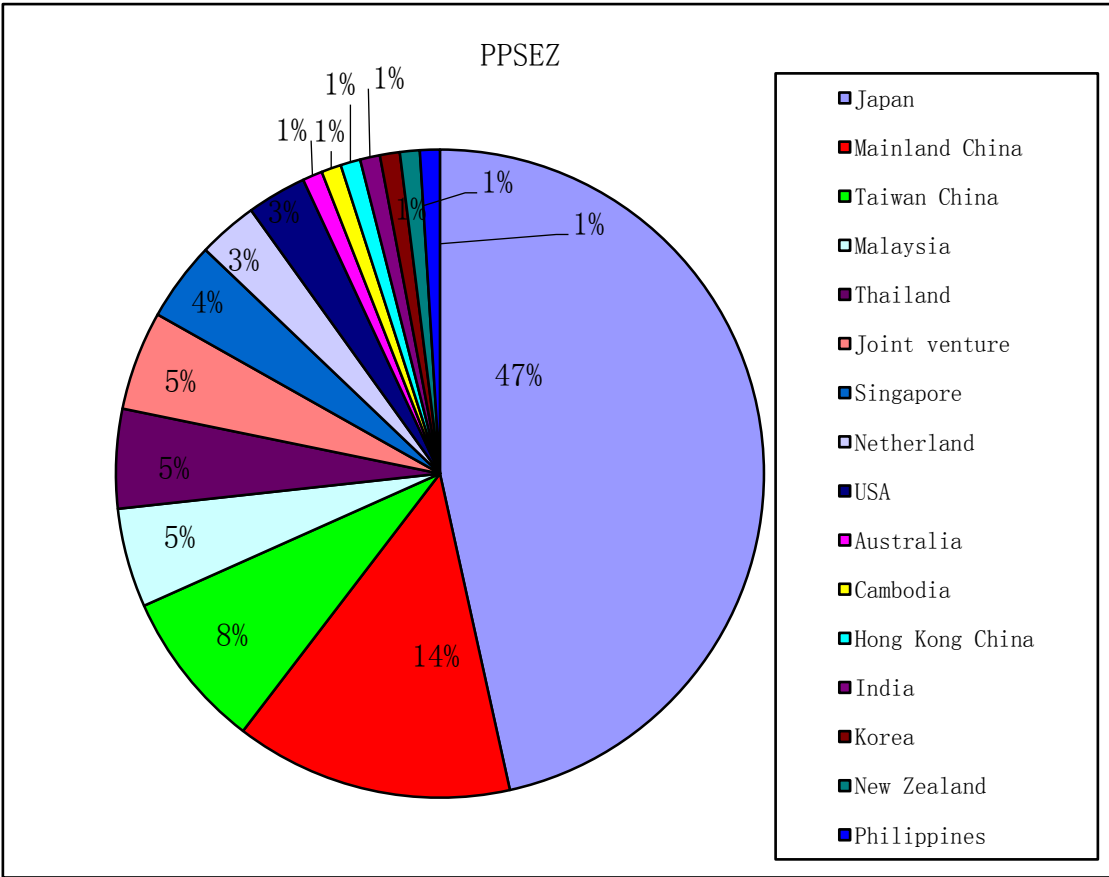
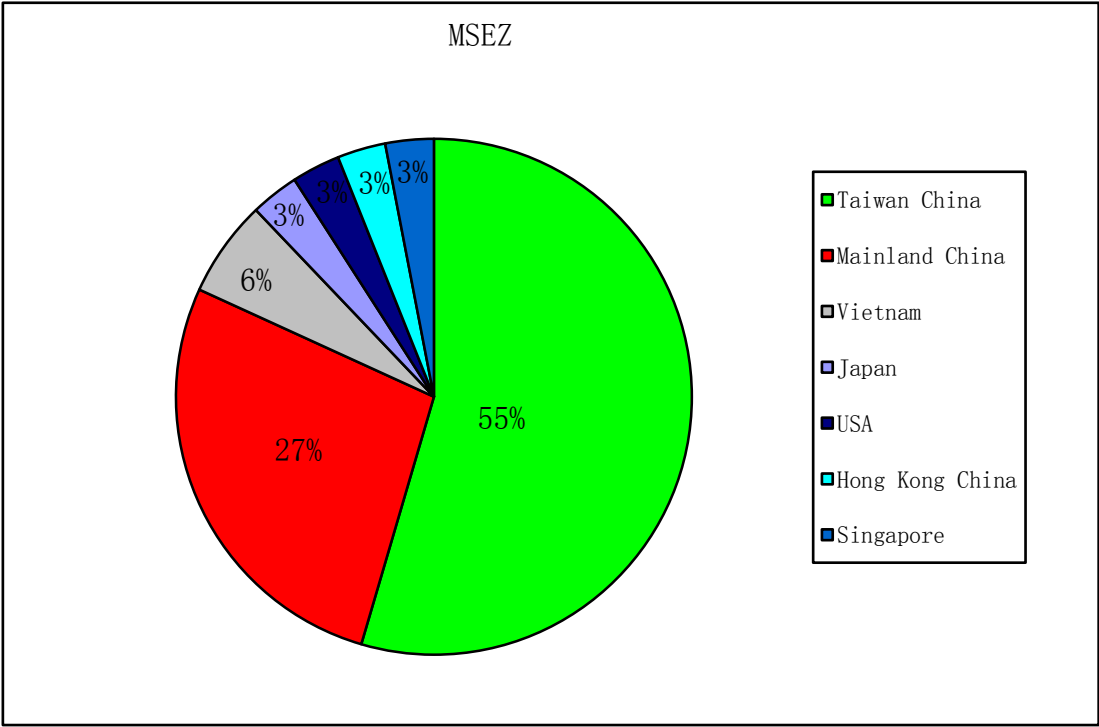
composition of zone investors in three SEZs shown in the Figure 2, enterprises from mainland China, Japan and Taiwan China account for the largest percentage of zone investors in SSEZ, PPSEZ, and MSEZ, respectively. However, the degree of nationality dominance varies. The percentage of enterprises from dominant country (mainland China) is the highest in SSEZ. Meanwhile, PPSEZ consists of enterprises from over ten countries, among which many are developed countries such as Japan, Singapore, Australia, USA and so on. There are more diversified enterprises in PPSEZ regarding nationality.

The significant nationality dominance in these three SEZs is closely related to the nationalities of zone developers. It is worth noting that PPSEZ has attached more importance to language and cultural needs of enterprises from different countries, which could contribute to enterprises from more diversified countries, and paid more attention to the improvement of business environment, which can serve to more enterprises from developed countries. More diverse culture might make contribution to more diversified zone investors. In contrast, the exceedingly high concentration of enterprises from a specific country might hinder the future attraction of enterprises from other countries because of homogeneous culture within the zone. Besides, the existence of enterprises from different countries would help to establish more linkages between SEZs and other countries, and the interaction of enterprises from different countries can create more

opportunities for enterprises in the zone to gain access to various information. Then more diversified enterprises might mean a better cluster-specific form of knowledge.

**Figure 2: Comparison of composition of enterprises by nationality in SSEZ, MSEZ and PPSEZ**





**Source: official website of PPSEZ and MSEZ, presentation of MSEZ in the year 2017, and the list of enterprises in SSEZ (2014) on the official website of Ministry of Commerce of China**

#### 4.3.2.2 Composition of Investors by Industry

As to the composition of enterprises in these three SEZs by industry, different industrial compositions take place in these three SEZs. As shown in the Figure 3, for which industrial classification of enterprises in SEZs has been done based on ISIC Revision 4<sup>28</sup>, these three SEZs are manufacturing-oriented. Manufacturing of wearing apparel and manufacturing of footwear are the dominant industries in SSEZ and MSEZ, mainly out of the influence of leading enterprises and the historical orientation respectively. In the meantime, in PPSEZ, the leading industry is food production, though manufacturing of wearing apparel and footwear also plays an important role. Besides, it can be easily inferred from Figure 3 that PPSEZ has attracted enterprises from more diversified industries. Among these various industries in PPSEZ, manufacturing of motor vehicles is unique, which consists of five Japanese enterprises that manufacture auto parts. In addition, as the value addition is a key indicator to the manufacturing industry, an assessment of manufacturing sectors in these three SEZs has been made according to the classification of manufacturing sectors by technological intensity of UNIDO (refer to Appendix 1). The result in Figure 4 shows that all three SEZs are not high-technology

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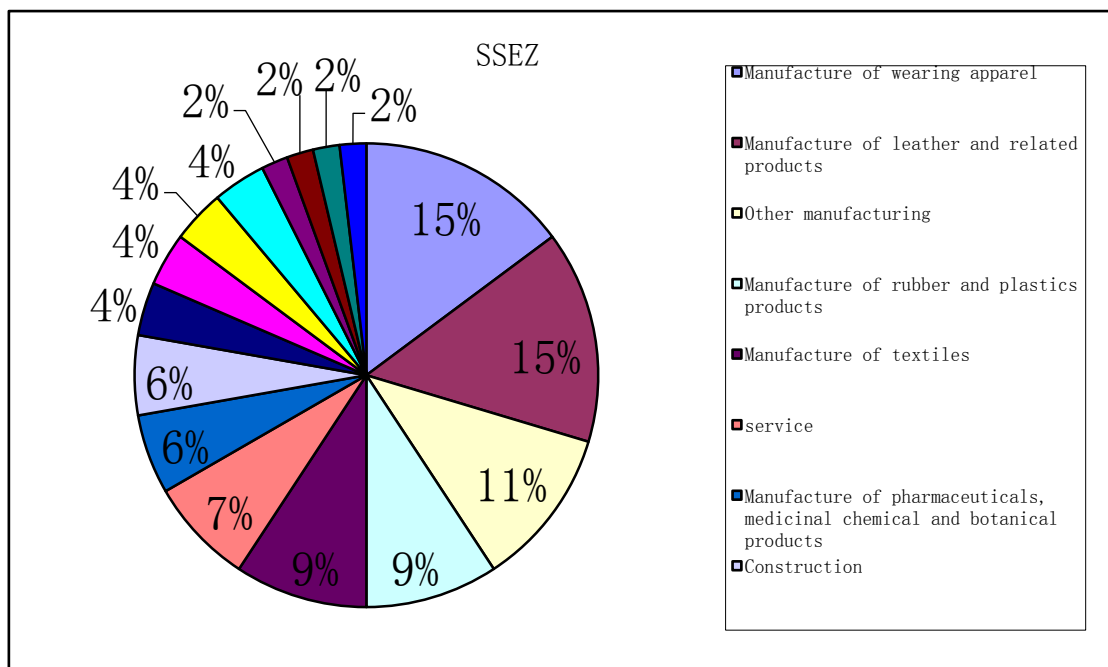
<sup>28</sup> ISIC Revision 4 refers to International Standard Industrial Classification of All Economic Activities Revision 4 established by United Nations.

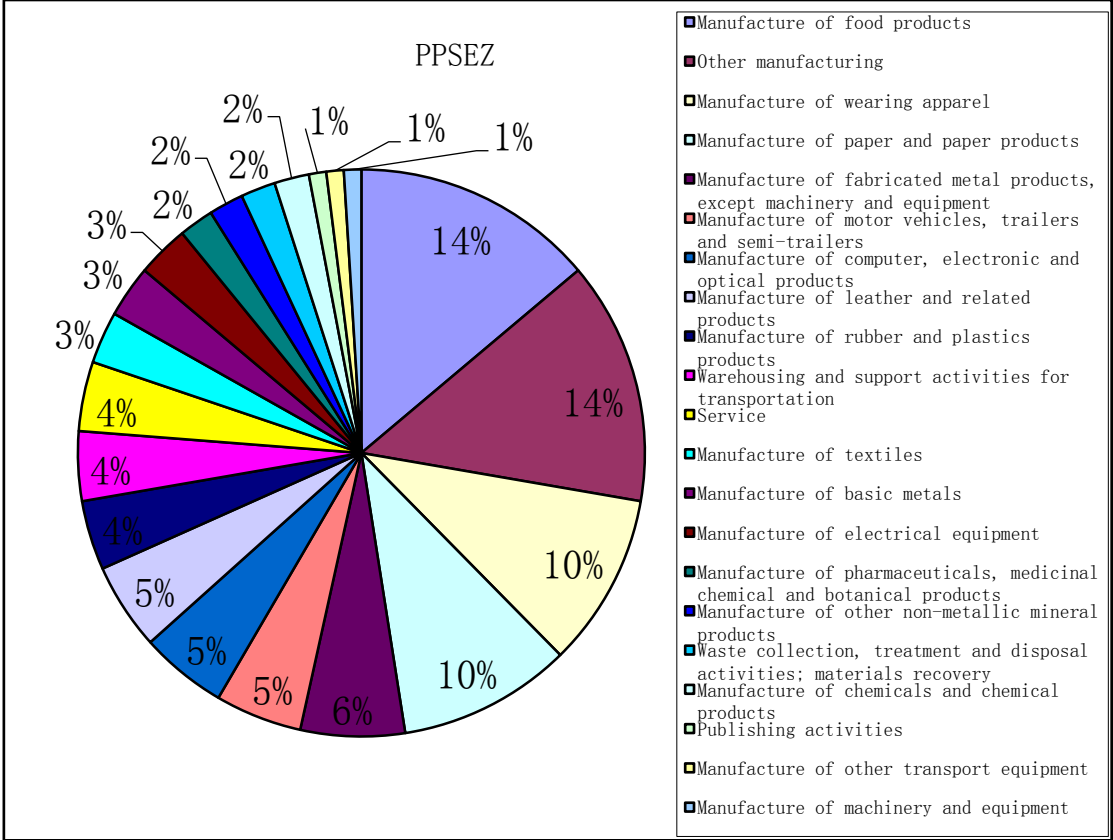
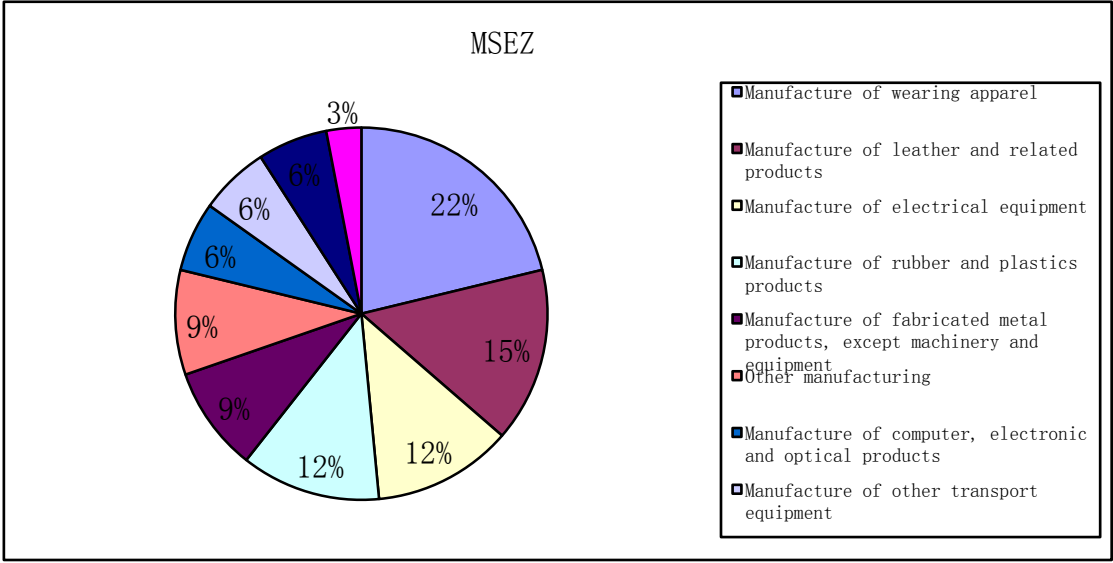
SEZs, as the percentage of enterprises from low-technology manufacturing sectors in these SEZs are all over 50%. However, PPSEZ owns the lowest percentage of low technology enterprises, which mostly deal with processing or assembly without input of much technology. As technology is essential for increasing the added value, the lower percentage of low technology enterprises means there are more high-value-added sectors in PPSEZ, which is a superior structure of industrial composition.

The different composition of industrial sectors in these three SEZs may be to a large degree due to different infrastructure conditions. Though these three SEZs own advantages in different aspects regarding infrastructure, the infrastructure in PPSEZ may be much better than SSEZ and MSEZ as a whole, which can be inferred from the higher charge of land lease fee, factory rental fee, and management fee in PPSEZ (see Table 1). In spite that different locations may have an influence on this distinction, as PPSEZ is located near the capital city and may have access to better basic infrastructure outside the SEZ, the government cannot make decisions on the development of SEZs developed by private sectors. Only zone developers can determine infrastructure and specifications inside SEZs, and the infrastructure in SEZs is almost separated from the outside, which is known as the “enclave” feature. Then the management of zone developers would be the decisive factor over location. As to PPSEZ, it is the goal of helping zone investors run

business to the standards of performance applied in their home country that contributes to the higher standard of infrastructure compared with the other two SEZs. The well-developed infrastructure then contributed to a large number of high technology and higher-value-added enterprises (see Figure 4). Higher-value-added enterprises often obtain stronger knowledge bases, which would have a long-term influence on the cluster absorptive capacity of zones. Then this structure of more diversified industries, which conform with the need of diversifying industrial bases in Cambodia, can promote the development of the zone as well as the local economy.

**Figure 3: Comparison of composition of enterprises by industry in SSEZ, MSEZ and PPSEZ**

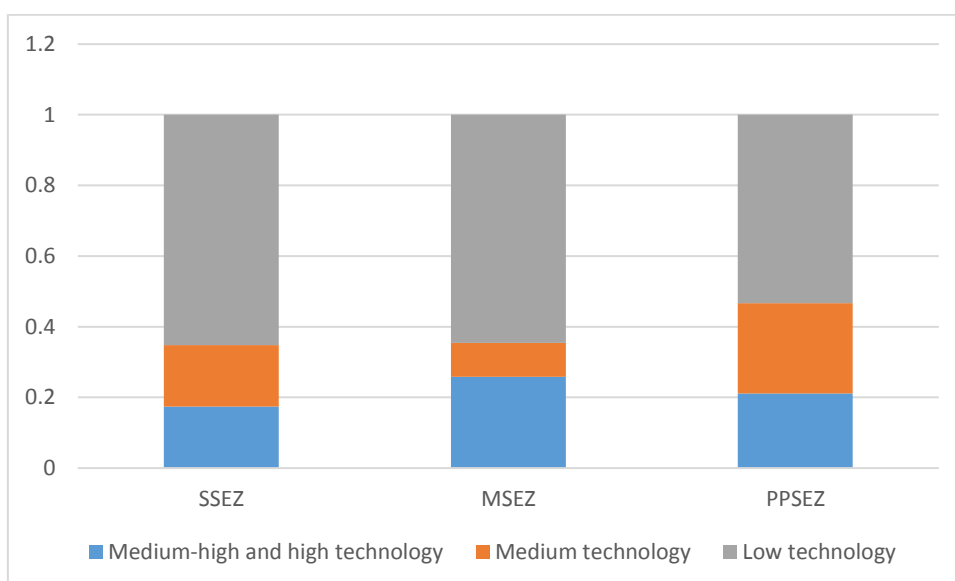




Source: official website of PPSEZ and MSEZ, presentation of MSEZ in the year 2017, and the list of enterprises in SSEZ (2014) on the official website of Ministry of Commerce of China

Figure 4: Comparison of manufacturing industries by technological intensity in SSEZ, MSEZ and PPSEZ





**Source: official website of PPSEZ and MSEZ, presentation of MSEZ in the year 2017, and the list of enterprises in SSEZ (2014) on the official website of Ministry of Commerce of China; Classification of manufacturing sectors by technological intensity of UNIDO.**

#### 4.3.2.3 Linkage with externalities

As to the linkage to externalities, PPSEZ has established a closer tie with the economy outside the SEZ. As SEZs in Cambodia are mostly export-oriented, they are likely to be complete inside the zone, by procuring parts and ingredient from abroad, and ship products abroad, without much linkage with local Cambodian economies. For example, according to the staff in the enterprise running SSEZ, almost all the input and output in SSEZ heavily rely on import and export. These export-oriented SEZs have access to overseas markets. Meanwhile, PPSEZ has established a strong linkage with domestic market in Cambodia. As shown in Figure 5, about 34% of enterprises in PPSEZ supply products to Cambodian local market, 32% of which are enterprises of food manufacturing. Apart from the linkage with domestic market, PPSEZ has a much closer

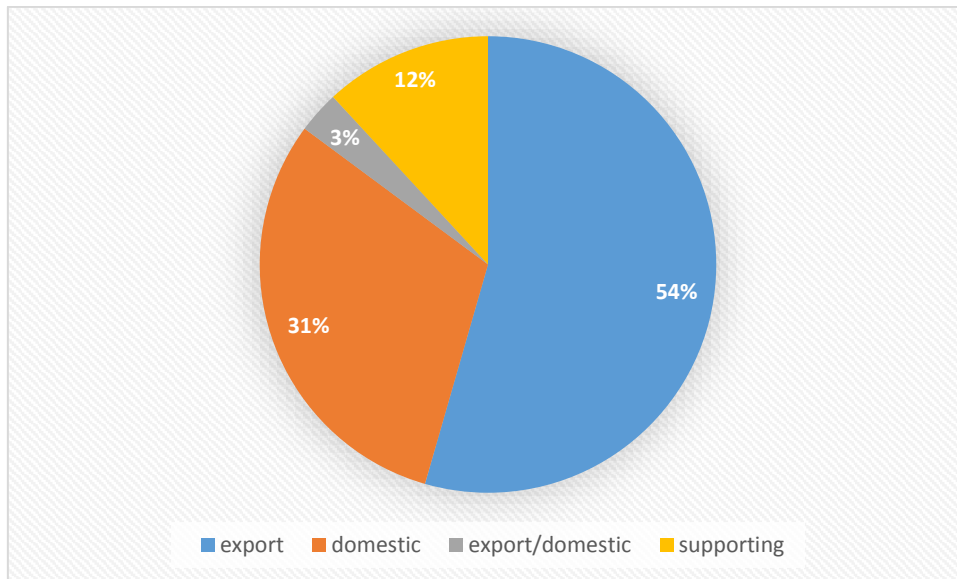
relationship with SEZs in other parts of Cambodia as well as in neighboring country Laos, which is totally different from other two SEZs. PPSEZ has carried out domestic expansion, Poi Pet PPSEZ, and international expansion, cooperation with SEZ in Laos.

As to the unique expansion of PPSEZ in Cambodia might be under the influence of the Southern Economic Corridor by ADB, because ADB co-finances the construction of necessary infrastructure to connect the SEZs with harbors and cross boundary markets. The North-South, East-West and Southern Economic Corridor along which the SEZs are located, are co-financed by the ADB (Both Ends, 2011). This domestic expansion can promote the interrelationship between PPSEZ and other SEZs in Cambodia, which can also enhance the cluster absorptive capacity of PPSEZ. In addition, the construction of Poi Pet PPSEZ would be easier based on the experience of PPSEZ. As to the international expansion of PPSEZ, this may reveal some management principle of Japanese industrial parks. It is more market-oriented as the expansion took place out of needs of some existing Japanese enterprises in Laos. This mode may reduce difficulties in the incubation period for newly established SEZs.

Another issue drawing attention is that different locations may contribute to the different linkages of these three SEZs. The domestic linkage between PPSEZ and Cambodia might be out of the location. Located near the capital city, PPSEZ is much

easier to gain access to local market. However, with economic growth of border areas and port cities, this kind of linkage is likely to be formed in SSEZ and MSEZ as well. The enhanced linkage with local society would bring knowledge creation to the SEZ.

**Figure 5: Composition of enterprises by type in PPSEZ**



**Source: official website of PPSEZ.**

## **Chapter 5: Conclusion and Policy Recommendations**

### **5.1 Conclusion**

This paper makes an analysis of Chinese OETCZs in the context of BRI. Cambodia has been chosen as a case study. From SEZs in Cambodia, SSEZ, which is a Chinese OETCZ, and another two well-functioning SEZs in Cambodia, PPSEZ and MSEZ, have been chosen to make a comparison. The comparison has been done mainly from the perspectives, including infrastructure, the composition of zone investors by country of origin and industry, and linkage with externalities. Results show that SSEZ has gained some advantages in some aspects of infrastructure. However, compared with other SEZs, especially PPSEZ, zone investors in SSEZ are less diversified regarding nationality and industry. Besides, most of manufacturing enterprises in SSEZ are from low-value-added sectors, as the percentage of low technology enterprises is much higher than PPSEZ. What's more, SSEZ has not established linkage with domestic market in Cambodia or other SEZs in Cambodia or neighboring countries. Then many further measures are in need to promote the development of SSEZ.

There are still several remaining issues. Though the percentage of land use in each SEZ is an important indicator as to the operating status, this is not included in the

comparison because relevant data is available only for the year 2014. Besides, this research only deals with economic issues related to SSEZ. Other aspects related to the measurement of operating status, such as social capital and environmental protection, have been ignored.

## **5.2 Policy Recommendations**

Though Chinese OETCZs are constructed by Chinese developers, their legal status is an estate of host countries. This characteristic of OTECZs highlights the necessity of a combination of relevant Chinese policies (refer to Appendix 2) and local conditions for the long-term mutually beneficial bilateral relation. With the analysis of Cambodian top SEZs and existing policies related to Chinese OETCZs, some policy recommendations for Chinese OETCZs can be made.

There are some complementary policy implications inferred from improvement-needed aspects of SSEZ. Firstly, according to the domestic and international expansion of PPSEZ, the consideration of the experience of existing Chinese enterprises in local host countries or the involvement of other OETCZs in neighboring areas would be beneficial when there is a need to establish new OETCZs. Secondly, the well-built infrastructure and better industrial composition in PPSEZ reveal that after basic physical

infrastructure has been completed and the number of entered enterprises has reached the minimum level for the zone operation, Chinese OECTZs need to pay attention to soft infrastructure to meet with language and cultural needs of different zone investors to reduce the dominance of Chinese enterprises and attract more enterprises from other countries. The diverse culture would contribute to the long-term development of OECTZs. Last but not the least, in the context of BRI, Chinese OECTZs are meant to be important platforms to bring mutual benefits to China and local host countries. It would be necessary to change the development mode of OECTZs to meet local needs. Just like Cambodia, most BRI participant countries are less developed countries. The development of labor-intensive assembly or less innovation-oriented production in the initial phase, because of the lack of domestic supporting industries, needs to be changed to higher-value-added sectors when there is a local need of upgrading. There is a need to diversify enterprises in OECTZs with relatively higher technology to increase the possibility of getting rid of low-value-added trap. This can not only promote OECTZs lagging ahead but also bring great benefit to local host countries, which in turn can help achieve fundamental goals of BRI.

#### **Additional remarks**

As a well-functioning OECTZ, SSEZ also offers some measures that are worth taking

in other OETCZs. First of all, official support from Chinese government as well as local host countries is essential and critical for the development of OETCZs, especially in the incubation stage. Secondly, it is better to include local investors as to the investment of OETCZs, which serves to the reduction of operation risks. Thirdly, leading enterprises are crucial for the initial rapid development of OETCZs, which can help to attract a number of relevant enterprises. Fourthly, in less developed countries, infrastructure is essential to the development of OETCZs. Fifthly, to gain long-term development, OETCZs need to fulfill corporate social responsibilities by participating in local charitable activities and attaching importance to environmental protection.

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## APPENDICES

### Appendix 1: The Classification of Manufacturing Sectors by Technological Intensity of UNIDO

United Nations Industrial Development Organization (UNIDO) has developed the classification of manufacturing sectors by technological intensity. In this system, technology classification relies on research and development (R&D) expenditure in the process of manufacturing commodities. High-technology industries are often with a higher R&D intensity, which means the ratio of R&D expenditure to an output measure, usually gross value added. This paper adopts manufacturing industries at the 2-digit level of ISIC Rev 4 by technological intensity, which is shown as follows.

#### Medium-high and high technology

Division 20	Chemicals and chemical products
Division 21	Pharmaceuticals
Division 26	Computer, electronic and optical products
Division 27	Electrical equipment
Division 28	Machinery and equipment n.e.c.
Division 29	Motor vehicles, trailers and semi-trailers
Division 30	Other transport equipment except ships and boats

#### Medium technology

Division 22	Rubber and plastics products
Division 23	Other non-metallic mineral products
Division 24	Basic metals
Division 32	Other manufacturing except medical and dental instruments
Division 33	Repair and installation of machinery and equipment

#### Low technology

Division 10	Food products
Division 11	Beverages
Division 12	Tobacco products
Division 13	Textiles
Division 14	Wearing apparel
Division 15	Leather and related products
Division 16	Wood and products of wood and cork
Division 17	Paper and paper products

Division 18	Printing and reproduction of recorded media
Division 19	Coke and refined petroleum products
Division 25	Fabricated metal products except weapons and ammunition
Division 31	Furniture

## Appendix 2: Policies of Chinese OETCZs

Chinese government began to give official support for OETCZs in the year 2006 (Zhang, 2013) to promote “jointly going global”. The establishment and development of Chinese OETCZs have been under the guidance and influence of a series of encouraging and supporting policies. *Essential Requirements and Application Process for Overseas Economic and Trade Cooperation Zones of China* (Ministry of Commerce, 2006) specified relevant requirements and initiated the rapid growth of Chinese OETCZs. *Opinion on the Agreement for the Promotion of the Construction of Overseas Economic and Trade Cooperation Zones* (State Council, 2008) formulated the principle of OETCZs, namely government guidance, enterprise-led and market-oriented operation. *Notice on Strengthening the Relevant Issues Concerning Risk Prevention in Overseas Economic and Trade Cooperation Zones* (Ministry of Commerce & China Export & Credit Insurance Corporation, 2010) established the cooperation mechanism between the Ministry of Commerce and China Export & Credit Insurance Corporation to reduce and prevent risks in OETCZs. *Model Service Guidelines for Overseas Economic and Trade Cooperation Zones* (Ministry of Commerce, 2015) stipulated the requirements of service in OETCZs from four perspectives, information consultation services, operation management service, property management service and emergency response service, with the purpose of improving zone developers’ service quality and then attract more zone investors. Meanwhile, Ministry of Commerce has offered some expertise by publishing manuals for guiding investment in specific countries.

Apart from above guiding supports, there are official funding and policy bank support for the development of OETCZs. Ministry of Commerce funds OETCZs mainly with the Trade and Economic Cooperation Zone Fund and the Special Fund for Economic and Technological Cooperation. This kind of financial support allows eligible enterprises to receive 200-300 million RMB (about US\$30-50m) in the form of grant and no more than 2 billion RMB of long-term loans (approximately US\$320m) (Masiero, Ogasavara, & Risso, 2017). Two policy banks, China Export-Import Bank and China Development Bank have directly and modestly been involved in economic support for OETCZs in the form of giving loans (Bräutigam & Tang, 2012). Besides, *Notice on Issues concerning Supporting the Construction and Development of Overseas Economic and Trade Cooperation Zones* (Ministry of Commerce and China Development Bank Corporation, 2013) clarified the strengthened cooperation between the Ministry of Commerce and China Development Bank to support the construction of the cooperation zone, which could bring more financial support to OECTZs.



Except for these performance-based subsidies and loans, OETCZs can also gain diplomatic support, which would largely reduce structural risks of local host countries (Masiero, Ogasavara, & Risso, 2017).

As a whole, during the establishment and development of OETCZs, Chinese government has stick to the enterprise-led principle to ensure that these overseas economic cooperation projects would be sustainable even without Chinese government involvement (Bräutigam & Tang, 2012).