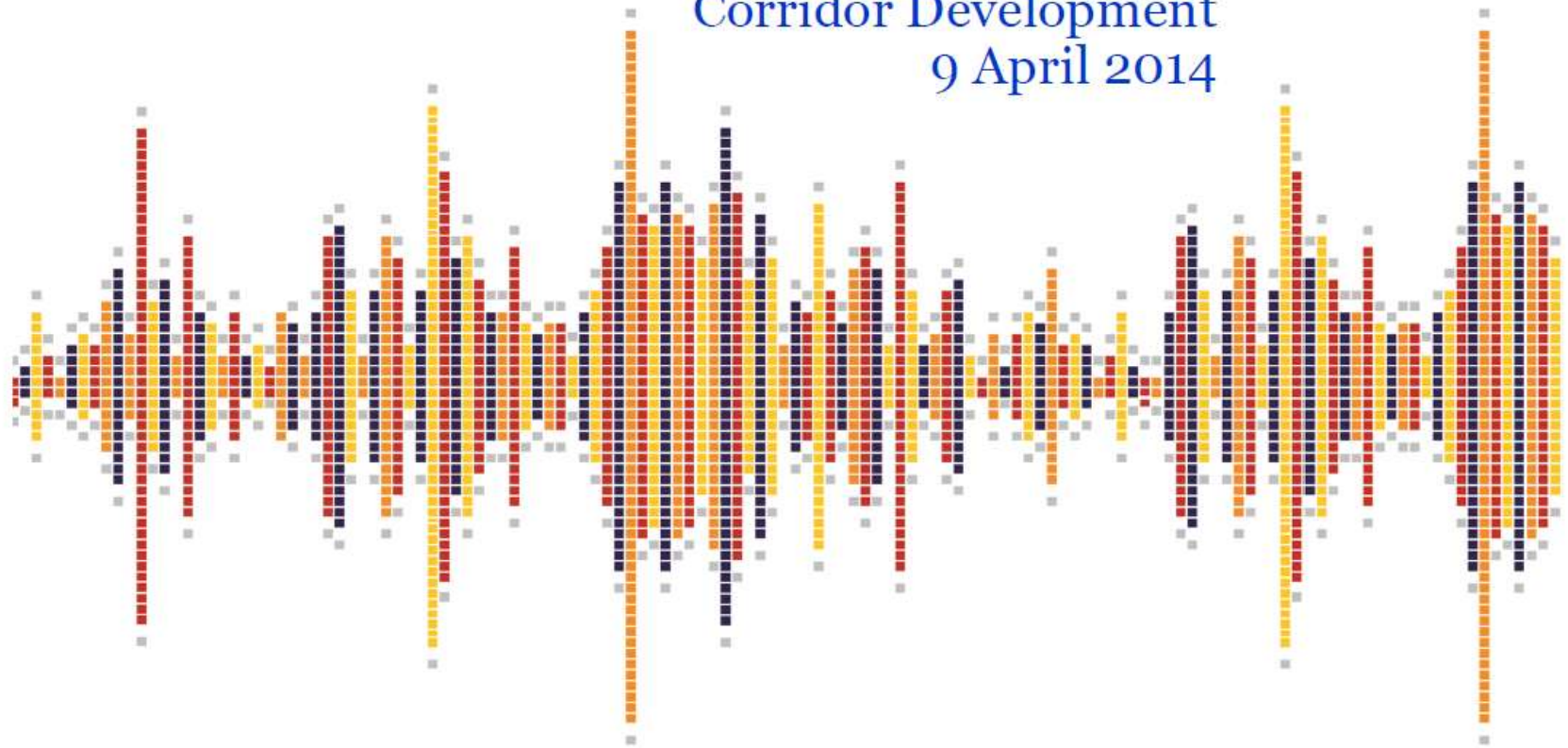


Stimulating Border Economic Transformation

CAREC-IMT Workshop on Economic
Corridor Development
9 April 2014



McKinsey is a leading global management consulting firm, with unparalleled reach, relationships, and talent base

Enduring and established

- Founded in 1926
- Anchored on values, our dual mission:
 - Help our clients achieve substantial, lasting improvements in their performance
 - Build a great firm that will attract, develop, excite, and retain talented people

Global reach and capability

- 100 offices in 56 countries
- 21 global industry sectors
- 8 global functional practices
- USD 400 mn in R&D and developing intellectual capital

Unequaled client base

- More than 96% of the 100 top global corporations
- 76% of 500 largest companies worldwide
- Governments in more than 85 countries, and Ministries of Finance in 50 countries
- Deep, lasting relationships with leaders based on a track-record of impact

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- 116 languages spoken by our consultants
- #1 preferred employer by leading US business schools 10 out of 11 years
- Leadership factory - 230 CEOs of >\$1b revenue companies are McKinsey alumni

What are Special Border Economic Zones (SBEZs)?

Key value proposition

Clusters of related business activities

(manufacturing, services, logistics) with optimal synergies to reduce costs, increase efficiency and provide greater ease of doing business via levers such as



Regulatory incentives including policies and taxation regimes



Good physical infrastructure

necessary for industrial production (e.g. land space to build facilities, utilities)



Better connectivity for movement of goods and people - enables easier access to markets (physical connectivity, logistics support)

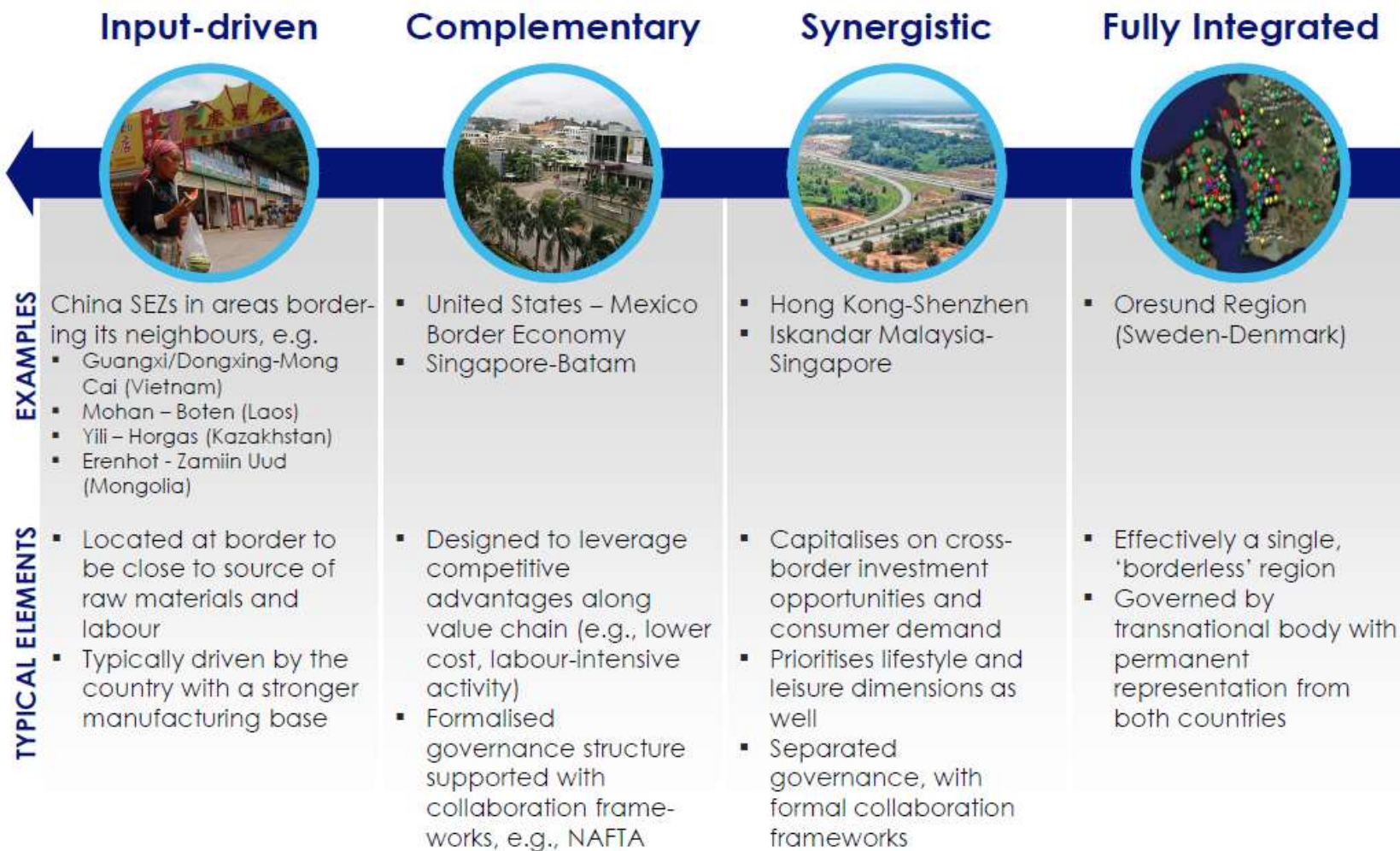


Easier access to raw materials and labour

Distinction from other SEZs

- **Located at/near/across border areas**
- **Designed to increase trade and investment flows** between countries by maximising competitive advantages on both sides (e.g., lower cost labour, land/resource availability, demand for services, technological capacity)
- Usually involves some level of **inter-governmental cooperation** especially to ensure infrastructure and regulatory integration

Cross-border economic development programmes seek to maximise competitive advantages on each side of the border



Cross-border economic cooperation promotes GDP growth, job creation and strengthening of bilateral ties

GDP growth



- Manufacturing-led growth
- Export receipts
- Infrastructure development
- Ancillary revenues from creating and operating SBEZ

Job creation



- Direct jobs
- Indirect jobs

Bilateral ties



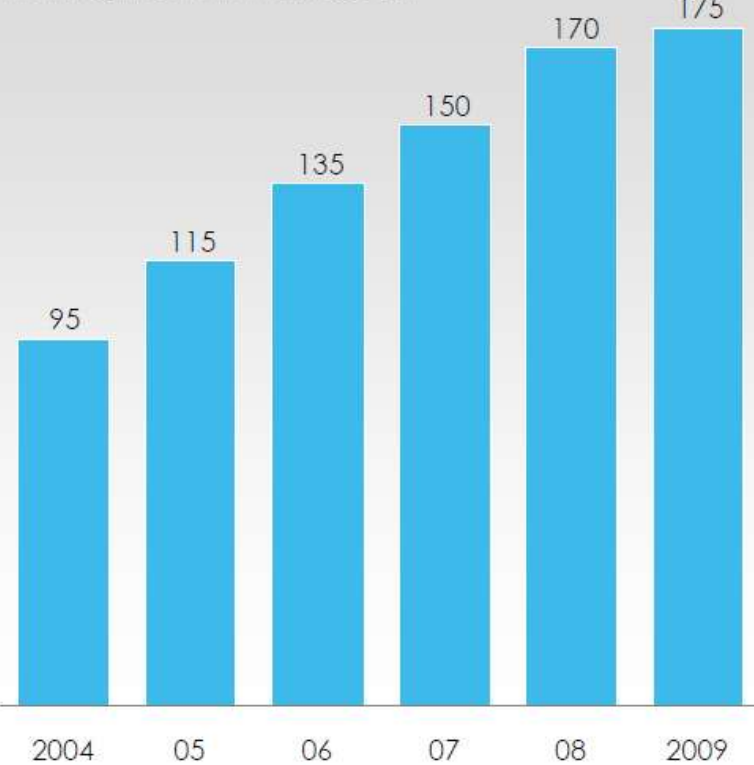
- Trade
- Investments
- G2G cooperation

Example: Hong Kong-PRD border transformation has resulted in increased investments, cross-border movement and trade



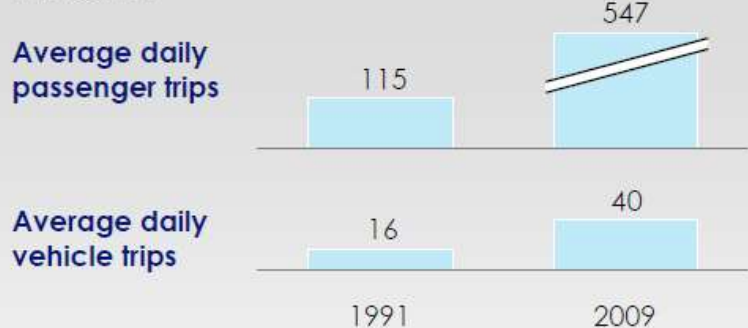
HK investments in PRD have been increasing steadily

HK investments in PRD, USD bn

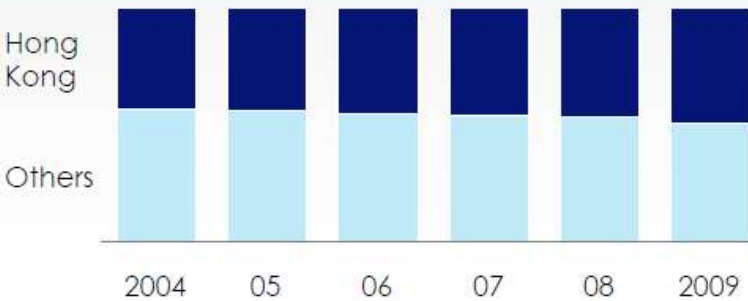


Cross-border movements increased significantly

Thousands



Hong Kong remains the larger trading partner with share of trade increasing over time



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Six key success factors of cross-border economic collaboration

Coordinated Governance
and professional zone
management

Infrastructure to facilitate
operations and movement
of goods and labour

Liveability –
conducive
environment
to work and live

Cross-border
synergies – driven by
interest and willingness
to leverage cross-
border resources

Competitive advantages
to be gained/created
as a result of cross-border
collaboration

Favourable regulatory
environment and fiscal incentives



1 | Example: Chiang Rai special border economic zone



Laszlo Molnar



- The Thai government developed **Chiang Rai as its first special border economic zone (SBEZ) for trade with China, Laos and Myanmar** in 2003 to reinforce economic relationships with China (Yunnan), Laos, and Myanmar
- Relevant infrastructure has been constructed over the last 10 years
 - custom houses and ports to facilitate trade with China built by Thailand; Chiang Saen inland port opened in 2003
 - highway and bridge linking Thailand and China jointly built by the 2 countries; Fourth Mekong Friendship Bridge was due to open in 2013, jointly funded by Thailand & China
 - train project linking Thailand to China approved in 2007; construction started
 - Route 3A highway linking China, Laos and Thailand (254 km)

2&5

Example: Hong Kong and the Pearl River Delta Region



Laal Modif



Hong Kong has been utilizing the Pearl River Delta (PRD) region as a hinterland since the 1980s

- Hong Kong has skilled labour to concentrate on higher value added businesses while PRD has focused on manufacturing activities
- neighbouring Chinese cities have manufacturing capabilities, lower labour cost and access to raw material
- Similarities in language and culture helps in building relationships

Chinese government has invested heavily in building megacities

- Shenzhen has population of over 10 million
- Hong Kong is recognised as a major financial and cultural hub)

3 | Case study: Singapore-Indonesia (Batam)



Lisa Hox



- Singapore signed a tri-partite arrangement with Indonesia and Malaysia in the 1990s in which they agreed to collaborate on a range of developmental projects – **Singapore investments in Batam was a key part of this collaboration**
- Indonesia allows 30 days visa-free entry into Batam for select nationals including Thailand, Malaysia, Singapore and the Philippines
- Batam as a Free Trade Zone and Special Economic Zone is exempt from import duties, value added tax, and luxury goods tax

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Discussion

Which particular elements from these examples are relevant to CAREC and/or your individual countries?

Are there any immediate opportunities that you can see arising across some of your countries?

What will it take for similar collaborations to happen across CAREC countries?