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Learning from Thilawa Special Economic Zone



In brief

- Firms in Thilawa Special Economic Zone (SEZ) have created around 5,000 jobs inside the zone as of 1 February 2018.
- Analysis suggests that the most important benefit for workers in the zone is the knowledge and skills they acquire on the job. This benefit is even more important among managers, suggesting that knowledge transfers from workers transitioning to companies located outside of the zone may be an important channel through which the SEZ will benefit the rest of the Myanmar economy.
- To further promote knowledge transfers, the zone could take a more proactive role in facilitating investors attracting local talent, particularly managers. To do so, it is necessary to better understand the characteristics of local managers and how they match with the skills required by investors. Additionally, the zone should further policies to attract high-skilled labour in the zone and develop a job-matching platform for managers.
- A number of challenges remain including the long commuting times which could deter talented workers from working in the SEZ. There is also a low share of inputs sourced from domestic companies located outside of Thilawa, meaning direct spillover to outside firms through the sourcing of domestic inputs are likely to be low in the short-term.
- High-quality data collection will remain important for measuring the successes and challenges of Thilawa SEZ for developing services that enhance its positive impact, as well as for drawing lessons for promoting job creation through FDI elsewhere in Myanmar.

*This project was funded
by IGC Myanmar.*

Introduction

Special Economic Zones (SEZs) are becoming increasingly popular amongst policymakers aiming to spur job creation and economic development in Myanmar. Yet there is little knowledge on how to best leverage their advantages in order to achieve these aims. As such, it is critical that the Government of Myanmar builds evidence through learning from existing SEZs. This brief presents research the IGC has carried out in partnership with the Thilawa SEZ Management Committee (TSMC) on the performance to date of Thilawa SEZ and presents suggestions on how to increase its impact.

Thilawa SEZ, adjacent to Thilawa Port, is located 20 km southeast of Yangon city, covering 2,500 hectares. The development of the zone is undertaken jointly by the Government of Myanmar and the Japan International Cooperation Agency (JICA), along with private consortiums from Myanmar and Japan. While the development of Thilawa SEZ was initiated in 2011, it commenced commercial operations in September 2015. As the first SEZ developed in Myanmar, it represents a unique opportunity to examine how the zone benefits the economy and experiment with different policies that can be applied in other zones or the broader economy.

The IGC's research is based on survey instruments developed in collaboration with TSMC to collect firm-level and worker-level data covering: production capacity, investments, supply chain details, worker demographics, remuneration, current/past employment, commuting patterns, and benefits and challenges of working in the zone. In addition to participating in the surveys, firms also submit quarterly employment reports that track the ratio of domestic to foreign workers, and the career trajectory of workers operating in the zone.

Job creation

There are approximately 5,000 workers hired by 38 firms operating in Thilawa SEZ as of 1 February 2018. Figure 2-1 shows the distribution of firm size where size corresponds to the total number of employees. As a comparison, the yellow bar represents the distribution of firm size as per the 2016 Myanmar World Bank Enterprise Survey¹, giving a sense of the size of firms in the broader economy. Firms in the SEZ are typically larger than firms operating outside the zone.

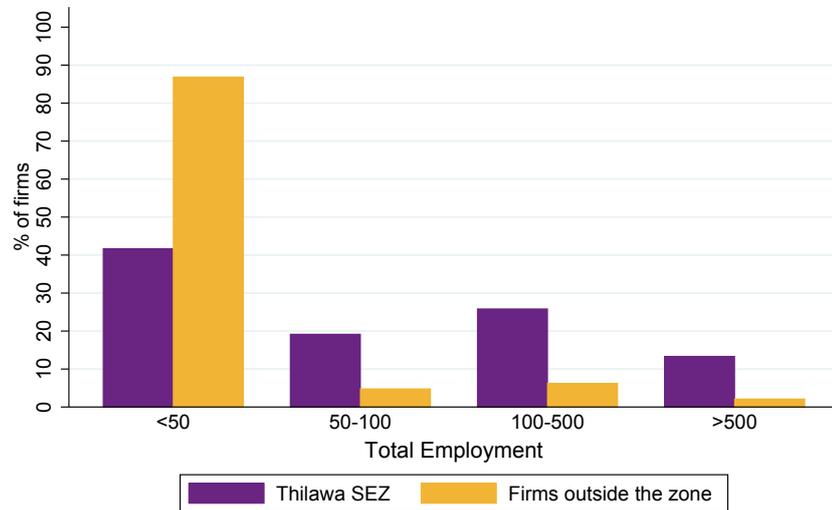
Firms in Thilawa SEZ are operating either in the Free Zone or in the Promotion Zone. The Promotion Zone is for firms serving the domestic market while firms in the Free Zone need to export at least 75 percent of their production. The 2014 Myanmar SEZ Law specifies that business in the Free Zone and Promotion Zone receive corporate tax exemptions for the first seven or five years, respectively. Additionally, investors are exempted from customs duties and other taxes for capital goods they import. Free Zone firms are exempted from customs duties and commercial tax, including the imports of raw materials.

Figure 2-2 shows that large-scale electronics and garment manufacturers in the Free zone have created the most jobs. The average number of employees in a firm in the Free

1. 2016 Myanmar World Bank Enterprise Survey (WBES) selected the sample using stratified random sampling. The survey applied stratification based on industry, establishment size and region. WBES is used as a representative sample of the size of the firms in Myanmar.

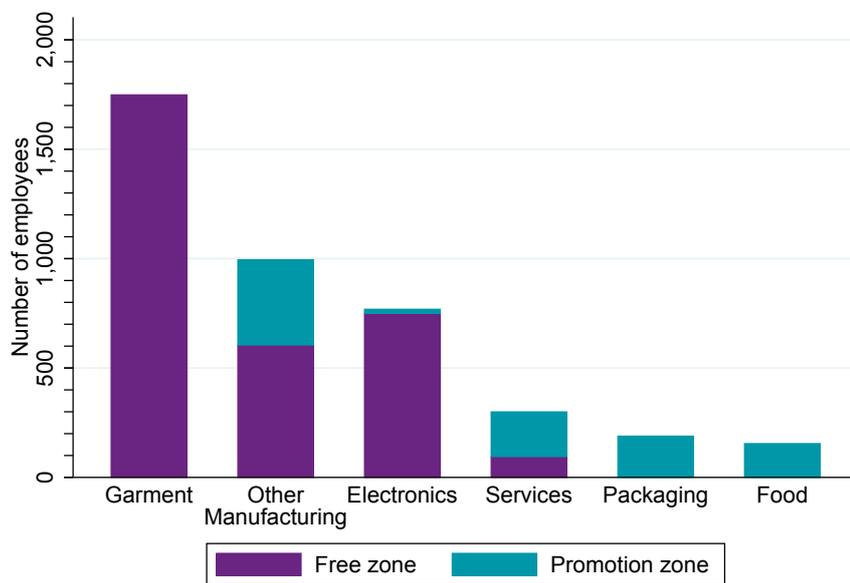
Zone is around 250 versus 50 in the Promotion Zone. This gap is due to the difference in industry specialisation between the zones. Large-scale employers, such as garment firms, are mostly operating in the Free Zone.

Figure 2-1: Distribution of firm size by zone



Source: Quarterly Employment Reports and 2016 World Bank Enterprise Survey

Figure 2-2: Firms by sector



Source: Firm survey

Benefits of working in the zone: Knowledge spillovers

One of the main benefits of SEZs is that they facilitate knowledge transfers between foreign companies in the SEZ and local companies, referred to as spillovers.

How do spillovers emerge?

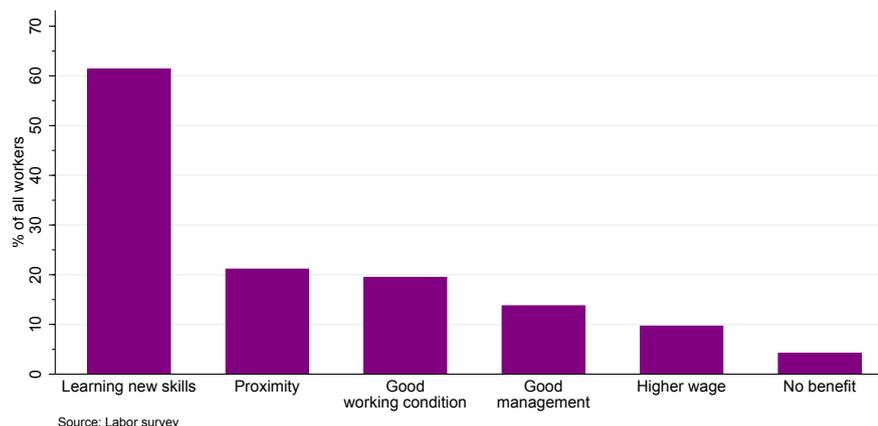
One important channel of knowledge transfer could come from labour mobility. Foreign firms operating in SEZs typically use more advanced technology and therefore need to provide skill upgrading to the local managers and workers they employ. If these workers move outside the zone to join other domestic companies or create their own business, valuable skills and knowledge acquired inside the zone are shared throughout the country.

How large could these spillover effects be in the case of Thilawa SEZ?

Figure 3-1 shows the types of benefits that are considered the most important for workers in the SEZ. The survey data reveals that the most important benefit of working at the zone for employees is learning new skill sets. The second most important benefit of working in the zone is proximity, i.e., how close they live to the zone. Considering that the vast majority of the workers are locally hired, this result is not very surprising.

“Approximately 62 percent of the managerial work force responded that human resource management skills are the most important set of skills learned inside the zone.”

Figure 3-1: Most important benefits for workers



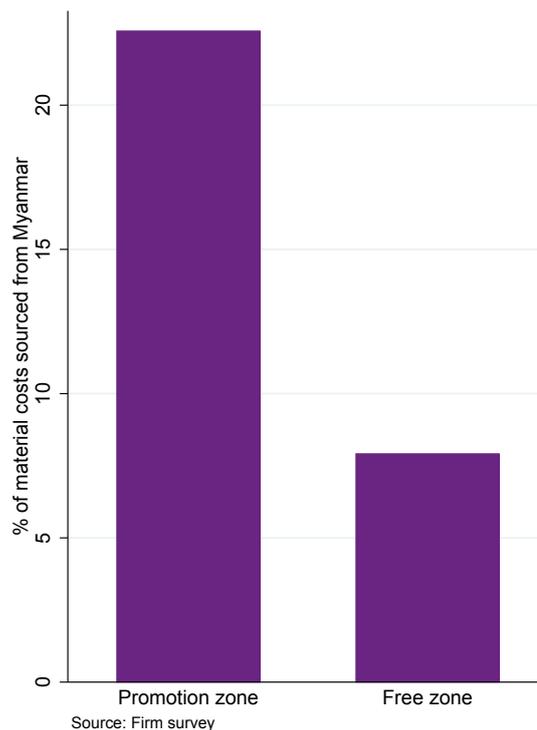
Local content is relatively low

Another channel through which spillovers could be generated from the zone is explicit linkages between zonal and non-zonal firms through the selling or buying of intermediate inputs. By engaging with firms with more advanced

technology, higher quality output and better management practices, domestic firms could learn how to operate more efficiently.

Although domestic capability may develop in the long run to provide inputs for firms in the SEZ, domestic input sourcing is currently not significantly high. The percentage of material costs sourced domestically is less than 20 percent in the Promotion Zone and lower than 10 percent in the Free Zone (Figure 4-1). Low domestic input sourcing in the SEZ is not driven by a particular sector, except for food processing firms, where 50 percent of input materials were sourced domestically on average.

Figure 4-1: Percentage of material costs sourced domestically



The share of firms that are outsourcing services domestically is also low. For seven main services (IT, electrical maintenance, security, cleaning, equipment maintenance, logistics, and pest control), only 10-30 percent of firms in Thilawa SEZ are outsourcing from domestic firms.

Challenges for workers in the zone

Figure 5-1 shows the main challenges expressed by workers in the SEZ. The long commuting time and lack of services around the zone are the most salient problems. Long commuting distance is the most significant problem for managers. As Figure 5-2 shows, around 65 percent of managers commute for more than 2 hours per day. Lacking local amenities such as restaurants and convenience stores are also important disadvantages of working in Thilawa.

Figure 5-1: Main challenges expressed by workers

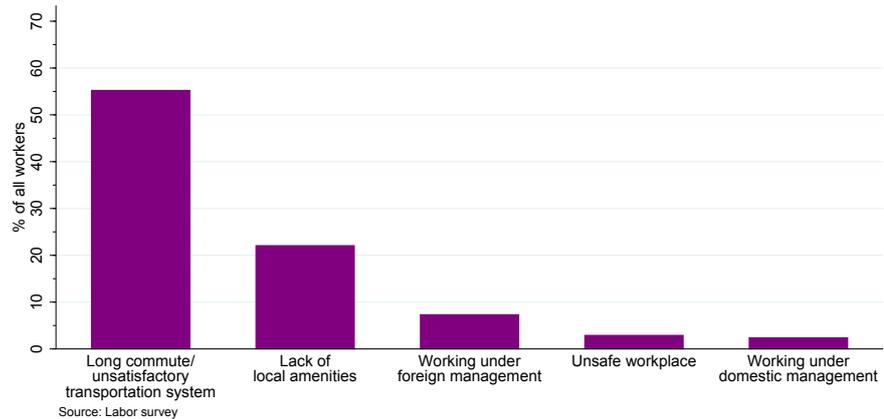
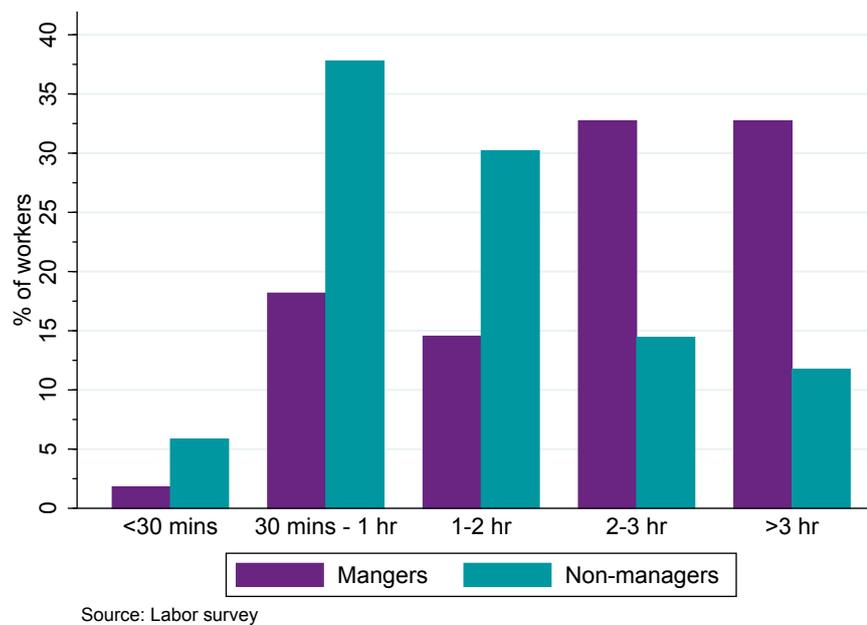


Figure 5-2: Commuting time by position



Way forward

Based on the IGC’s research in Thilawa SEZ, the following actions are recommended to stimulate more knowledge spillovers to the domestic economy and maximise Thilawa SEZ’s contribution to job creation and economic growth in Myanmar.

1. Understanding managers and spillovers of managerial skills

Superior business practices are strongly correlated with better firm performance in terms of higher productivity, profitability, and survival

rates. This is why skills acquired by senior and mid-level managers in the zone could be a critical source of spillover benefits for the Myanmar economy through improving its competitiveness. In order to learn how the Government of Myanmar can support such spillovers, it is important to understand the characteristics of managers and the skills that companies are seeking, as well as how managers learn advanced skills.

2. Policies to attract skilled labour

Myanmar mid-level and senior managers are likely to be the main sources of knowledge transfers from Thilawa SEZ to the rest of the economy. In order to attract skilled managers, it is important to address the challenges they face working in the zone, identified as long commuting distances and a lack of local amenities. As such, enhancing the transportation system and developing local amenities should be a priority. Additional favourable policies could be implemented such as local housing provision.

3. Development of job-matching platform

The IGC's research indicates that 55 percent of managerial workers found their jobs via recruitment firms. To support firms in finding the right workers, a job-matching platform could be established by the SEZ. Designing an efficient platform requires a rigorous analysis of the skills and qualifications required by the firms, as well as the characteristics of potential applicants. The IGC's next round of surveys on managerial workers inside and outside the SEZ will investigate these issues. Considering the high demand for skilled workers inside the SEZ, facilitating the job matching process will promote the inflow of skilled managers into the zone while significantly lowering the cost of job searches for potential workers and firms.

4. Fostering local content

As successful SEZs in China, Taiwan, and South Korea demonstrate, SEZ firms' connection with the domestic market will stimulate job creation outside the zone, as well as rapid knowledge and technology spillovers through value chains. It is not likely that supply linkages will fully emerge in the short-term as they require well-developed local industries which can maintain stable cost advantages in the global market. Despite such challenges, carefully designed policies that encourage the utilisation of local content by zonal firms could also be pursued in the long run.