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**Article**

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# SPECIAL BORDER ECONOMIC ZONES BETWEEN MALAYSIA AND THAILAND

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## ABSTRACT

The evolving landscape of global trade and economic cooperation has spurred the establishment of Special Border Economic Zones (SBEZs) as a comprehensive strategy to catalyse economic growth and enhance collaboration between neighbouring countries. These zones have developed as a distinctive economic strategy to harness the potential of cross-border collaboration, while addressing the particular socio-economic difficulties of border regions as globalisation continues to change the dynamics of global commerce and investment. However, the main challenge to such an effort is understanding how to fully tap the potential of the SBEZs to facilitate cross-border trade, drive economic development, and advance regional integration while simultaneously minimising potential hazards and unfavourable effects. This article provides an in-depth analysis of the relationship between Malaysia and Thailand and the relevance of a SBEZ between the two neighbors. It aims to pursue these objectives: (1) To delve into the historical trajectory of economic progress in the relationship between Malaysia and Thailand, (2) To critically examine the importance of the SBEZs in the Malaysia-Thailand context from various aspects, and (3) To critically evaluate the SBEZs by comparing the economic development of Malaysia and Thailand and by analysing the factors that led to the Thailand-Malaysian SBEZ. Content analysis was used to analyse the secondary data obtained from journals, publications, and official reports. The findings are as follows: 1) There have historically been several economic periods in the relationship between Malaysia and Thailand; 2) In the Malaysia-Thailand region, Special Border Economic Zones are significant in terms of their role in trade facilitation, economic growth, investment, industrialisation, and regional economic balance; and 3)Three factors had an effect on the development of the SBEZs.

**Keywords**: Regional development, development economics, economic zones, special border economic zones, borderland.

## INTRODUCTION

Established in 1993, the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) subregional initiative has made significant strides in fostering unprecedented economic growth and promoting shared regional development through coordinated policy efforts. However, according to the Asian Development Bank (ADB) in 2015, the gains in intra-subregional trade and investment have been relatively modest, as highlighted in the midterm assessment of the IMT-GT Implementation Blueprint for 2012-2016. This indicates that member states have not fully capitalized on their comparative advantages to establish a robust regional production base. Special Economic Zones (SEZs), Subsidiary Border Economic Zones (SBEZs), and other production facilities play a crucial role in facilitating the growth of interconnected production networks across regions and borders within the IMT-GT framework. The emphasis on this strategic endeavour is evident in the IMT-GT Vision 2036, as outlined by the Centre for IMT-GT Subregional

Cooperation (CIMT) in 2017, and further reinforced through the IMT-GT Implementation Blueprint covering 2017 to 2021, as detailed by CIMT in the same year. These initiatives prioritise the establishment and expansion of SEZs, SBEZs, and similar infrastructural setups to stimulate economic integration and development throughout the IMT-GT regions.

Nonetheless, sustained efforts and strategic planning are required to fully realise the potential of these initiatives and achieve the desired levels of economic growth and regional prosperity.Since the early 1960s, maquiladoras were used to introduce the SBEZs in Mexico (on the US-Mexico border). In the opinion of Aggarwal (2022), border regions possess certain advantages over other parts of the country. These advantages include their climatic characteristics, factor endowment, geographic closeness to foreign markets, as well as a relatively large likelihood of determining cross-border forward and backward links and regional cooperation. The SBEZs incorporate the concept of Special Economic Zones (SEZs). An SBEZ, on the other hand, is a designated area for bilateral projects that might involve a range of tasks, including the construction of infrastructure, the establishment of transportation and logistics hubs, and the general sector. The SEZs, on the other hand, typically have just one management and administration, are physically guarded (locked), and offer certain incentives and other benefits to companies who put their headquarters there. An SBEZ is a geographic area that is close to an international border crossing. Helping a border area's economy grow is the goal within the framework of a subregional developmental plan. Similar to the SEZs, SBEZs function according to the following principles: (1) Investors are free to import and export despite remitting obligations or being subject to foreign exchange control; (2) Regulatory processes such as licencing are encouraged; and (3) Businesses typically are exempt from paying corporate taxes, local taxes, and VAT. To boost global investment and trade, stimulate business throughout the IMT-GT corridors, along with greatly enhanced economic and social well-being of the people living in neighbouring provinces, the main objective of the SBEZs is to draw investors to profitable ventures which encourage subregional value chains.

Several important factors form the basis of evaluating the SBEZ border area. The capability of enterprises to utilise the zone's resources, along with advantageous tax rules and fewer customs regulations, are important components. Being an integral component of the IMT-GT transportation region system is the primary goal of the SBEZs, which help the system evolve from a means of transportation corridor into an economic corridor. A regulatory and legal framework is another essential component of the SBEZs. SEZ development is often accompanied by the need to simplify the regulatory framework, which will raise awareness of the frontier zone. An additional component is the socio-economic development strategy. To adapt the SBEZs through a comprehensive approach surrounding business, tourism, the retail sector, and growth in industries, they must take into account their strategic context within the socioeconomic growth of the assigned border zone. The next element is the service for SME development and business development. Major backward supply lines and subcontracting connections can be established with surrounding small and medium-sized businesses. These alternatives include the sharing of information and direct finance from large corporations, such as collateralising receivables from those big corporations that are participating in the supply chain. It is anticipated that in order to integrate SMEs into the large-scale value chains in the area, pro-poor initiatives will need to be implemented using a very broad implementation strategy that includes a variety of capacity-building techniques. Lastly, there are links to Indonesia, such as: (1) possible gathering of raw materials along with exports of goods that are processed by the zone's enterprises; (2) major Indonesian companies investing in large value chains; (3) unskilled and highly skilled labour supply for supporting industries in the SEZ and associated industrial areas; and (4) education and training in learning foci that incorporate an internship in the SEZ business operations or associated industries on the outside the SEZ zone.

## LITERATURE REVIEW

### Malaysia and Thailand Bilateral Relations

Malaysia is a founding member of the Association of Southeast Asian Nations (ASEAN) and the Organisation of Islamic Cooperation (OIC). It also takes part in several international bodies, including the United Nations (UN), Asia-Pacific Economic Cooperation (APEC), and Non-Aligned Movement (NAM). While maintaining friendly relations with all countries and remaining neutral are the formal pillars of Malaysia's foreign policy, the country places a high priority on the stability and safety of Southeast Asia. Thailand, meantime, frequently takes part in regional and international institutions. It has close ties with neighbors such as Malaysia, Singapore, Indonesia, the Philippines, and the other ASEAN member states, and it is an active member of the regional organisation.

Relations between Thailand and Malaysia existed long before the Melaka Sultanate was established in the early 15th century. The relationships survived a 150-year British colonial hiatus (wherein the four northern Malaysian states of Perlis, Kedah, Kelantan, and Terengganu were not colonial subjects), as well as the resentment caused by the cession of these four states in 1909 (Suwannathat-Pian, 2002). Thailand's bilateral relations with its two other immediate neighbours, Singapore and Indonesia, are seen as the least difficult. Similarly, Thailand's stance is to have the least dispute with Malaysia, relative to its other nearby neighbours, Laos, Cambodia, and Myanmar. Malaysia-Thai relations were mostly peaceful, with the exception of a brief period in 2004 when unrest in Thailand's Southern Provinces (Deep South) escalated (Khalid & Loh, 2017). Notwithstanding the troublesome nature of the Southern Provinces, the situation of bilateral connections was mostly unaffected, i.e., reasonably maintained. During the 1960s, the relationships grew into a regional comradeship and then into the current strong partnership in regional cooperation. The first Prime Minister of Malaysia, Tunku Abdul Rahman, was descended from Thailand and he maintained high-level interpersonal contacts during his 37-year government term (1957–1969). Conversely, Thailand's elite reciprocally recognised Malaysia as a unique neighbor and kept cordial bilateral ties (Ganesan, 2010).

In 1967, ASEAN started to provide a similar level of organisational coherence at the wider regional level. When the Second Indochina War ended in 1975 with the victory of the communists, ASEAN was motivated to confront challenges to Thai sovereignty and the sovereignty of Malaysia. As a result, between 1975 and 1988, ASEAN gave the bilateral relationship structural cohesion and support.

Malaysia and Thailand have decided to promote trade and investment cooperation. Economic expansion and border-to-border rail along with highway connectivity became priorities for both countries. In an endeavour to end the issues of growth and development, impoverishment, and unemployment in Southern Thailand, the two governments are currently pushing for the growth of the Sadao-Padang Besar and Bukit Kayu Hitam Special Economic Zones in the south to provide jobs and income for the inhabitants. Thailand intends to promote border trade expansion with Malaysian investors in six industries: oil and energy, rubber-based products, cars, sugars and rice, and tourism.

Bilateral trade between the two nations has increased throughout the past five years, averaging 10.54 percent annually. The preceding year saw USD 26.5 billion in bilateral trade involving Malaysia and Thailand. The two countries have agreed to strengthen their trade ties by regularly scheduling Joint Trade Committee meetings at prearranged intervals. Since June 2016, Malaysia has been significantly hit by the decline in oil prices, as it is the main net exporter in Asia. This is because an important part of Malaysia's economy is the export of natural resources, petroleum, and agricultural products. In addition, Malaysia is the world's leading manufacturer of palm oil, rubber, and tin.

## The Economic Growth of Malaysia and Thailand

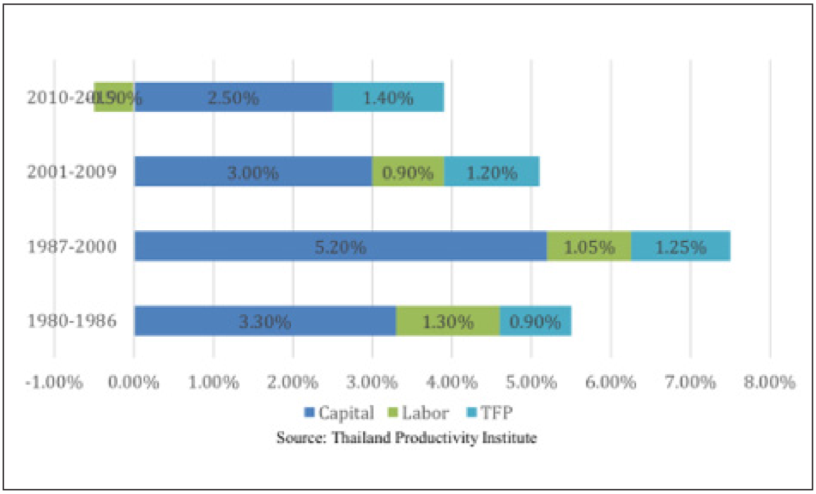
ASEAN (2015) asserted that the three ASEAN economies—Indonesia, Malaysia, and Thailand—had a "growth miracle" whereby their national incomes had increased, raising the people's living standards. Malaysia established the New Economic Policies (NEP) between 1970 to 1990 to enhance social services and infrastructure for a higher standard of living. The nation encountered challenges while trying to enhance its industries, which among other issues resulted in a high public debt between 1980 and 1985. Worse yet, Malaysia suffered a commodity shock in 1985 when the price of tin and palm oil resulted in a 30 percent drop in export prices. Figure 1 illustrates how this caused the GDP growth rate to drop from 7.76 percent to -1.03 percent in 1985 and the public debt to GDP ratio to reach a height of 103.4 percent (Athukorala, 2010; Snodgrass, 1995). In reaction to the recession, the government opted to scrap its heavy industrial policy. Private investments were also made more lenient in 1986, which raised the overall level of investments. The amount of foreign direct investments (FDIs) recorded by Malaysia ranged from USD 500 million in 1986 to USD 2.3 billion in 1990, with Japan serving as the country's principal source. The amount of capital accumulated would rise as a result of higher investments since they would cause investment per worker to exceed depreciation per worker. In the long run, this prompted a higher level of output per worker, which increased to over 5 percent in the period 1987-2000 and suggested a higher standard of living (Austria, 2021). As a result, Malaysia's capital account flows rose from 4.76 percent in the period 1980-1986 to 5.20 percent in the period 1987-2000. The growth miracles occurred between 1987 to 1996, when there was an average growth rate of 9.5 percent (Athukorala, 2010).

Thailand switched from increasing domestic savings to increasing total investments in the 1980s. Therefore, officials thought Thailand should prioritise exports between 1980 and 1986 while providing incentives for investment and lowering tariffs. Upon signing the Plaza Accord in 1985, Thailand's baht weakened considerably to correspond with the other major currencies, making it the world's top exporter of rice at the time (Jansen, 2001). Due to the poor R&D spending in 1985—0.16 percent of the GDP—there was little to no technical advancement.

Following the strengthening of Japan's yen in 1987, which forced Japanese businesses to seek for more affordable production facilities, Thailand had seen a boom in FDIs from USD 163 million in 1987 to USD 1.78 billion in 1989. Figure 1 illustrate that there was a higher standard of living and that the increase in exports and FDIs led to an increase in investments, which in turn overtook depreciation per worker. This resulted in an increase in capital per worker, and ultimately, an increase in output per worker in the long run. Figure 1 and Figure 2 also demonstrate that capital is still the main driver of growth in the 1980–2000 period (OECD, 2020).

**Figure 1**

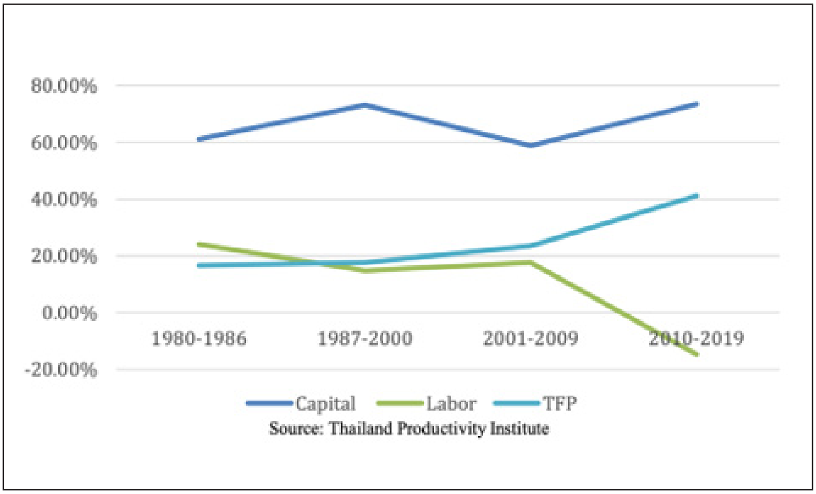
*Thailand's GDP Growth Components, 1980-2019*




*Note.* Source is Thailand's Productivity Institute.

**Figure 2**

*Thailand's Share in GDP Growth (%), 1980-2019*




*Note.* Source is Thailand's Productivity Institute.

In a nutshell, during the 1970s Malaysia which was a middle-income nation, had transitioned from a producer of raw materials to an emerging multisector economy. By 2020, Malaysia hopes to become a high-income country and will also encourage the investment of Islamic finance, high-tech industries, biotechnology, and services, which will strengthen the value-added supply chain. A range of initiatives and regulations known as the Economic Transformation Programme (ETP) were aimed at accelerating the nation's economic expansion. In 2009, Malaysia inaugurated a Special Economic Zone (SEZ) which covered the entire micro-region of the East Coast Economic Region (ECER). This expansive zone stretches from the northern municipality of Kerteh, Terengganu, down to the southern reaches of Pekan, Pahang. This strategic move was aimed at fostering economic development and attracting investments across the ECER, emphasizing its potential as a thriving economic hub. This initiative was undertaken as a component of a focused decentralization strategy, aiming to facilitate comprehensive growth across the residential, commercial, educational, industrial, and service sectors within the region. It had emphasized the integration of various elements, employing a high-density cluster approach to ensure synergistic development and enhance the overall economic landscape. Within this designated SEZ, the plan had entailed the establishment of four distinct zones tailored to support and amplify specific industry clusters, namely manufacturing, petrochemicals, tourism, ICT, and logistics. These zones were strategically designed to concentrate resources and efforts, fostering synergy and efficiency within each sector while simultaneously promoting broader economic diversification and sustainable development goals. The ECER SEZ is the official name for this submicro area, which did not have a separate governmental structure though .

In contrast, Thailand's continuous prosperity can be attributed in large part to its exports of industrial and agricultural goods, primarily electronics, agricultural products, autos and their parts, and processed foods, as well as to its advanced infrastructure, free-market economy, generally pro-investment laws, and robust export sectors. Thailand's economy started to grow and modernise in the late 19th and early 20th centuries when numerous initiatives were made to enhance agriculture and significant adjustments were made to the public administration and corvée labour system (unpaid labour performed by the aristocracy).

## METHODOLOGY

Content analysis is a qualitative research technique commonly used to carefully examine textual, visual, or auditory content in order to draw important themes, patterns, and insights. It entails classifying and analysing the information included in texts, media, and other forms of communication. Content analysis was used in this study to examine secondary data from a variety of documents, including government regulations, reports, academic literature, news items, and official comments, in the context of the SBEZs. It comprised six important steps, namely (1) Data collection, (2) Coding scheme, (3) Coding process, (4) Data analysis, (5) Drawing a conclusion, and (6) Reporting. The research process for the Malaysia-Thailand Special Border Economic Zones involved several key steps. Initially, the necessary documentation, comprising regulations, studies, news items, reports from governmental and non-governmental sources, academic papers, and old records, was assembled. Subsequently, a coding scheme was developed to categorize the content into themes such as “Objectives of SBEZs,” “Impact on Regional Development,” “Trade Facilitation,” and “Investment Promotion.” Each document underwent a thorough reading to identify relevant phrases, sentences, or chapters that could be categorized under the appropriate codes. The coded data was then subjected to analysis to identify patterns, trends, and linkages, employing both quantitative and qualitative techniques to determine frequency and explore deeper meanings. Finally, the results of the content analysis were interpreted to draw inferences and establish links between various themes. The significant findings related to the Malaysia-Thailand Special Border Economic Zones will be reported and discussed in the following sections.

## RESULTS AND ANALYSIS

### Exploring the Economic Growth Trajectory of Malaysia and Thailand

The relationship between Malaysia and Thailand has historically progressed economically through different phases, which can be characterised by changes in economic policies, industrialisation plans, and regional cooperation initiatives. Geopolitical reasons, bilateral agreements, and regional measures to promote economic growth and collaboration have had an impact on the economic ties between these two nations.

Since achieving independence in 1957, Malaysia has experienced remarkable economic growth, positioning itself as the foremost industrialising nation in the surrounding region. Initially, Malaysia's economy was heavily reliant on agriculture, with entrepot trade primarily centred in the free ports of Singapore, Penang, and Malacca. However, following independence, Malaysia swiftly transitioned towards import-replacement industries (Rasiah et al., 2015; Jomo, 2013; Rasiah, 1996), recognising the risks associated with over-reliance on commodity trading. In response, the government embarked on diversification efforts, prioritising manufacturing and establishing Special Economic Zones (SEZs) and Growth Enhancement Zones (GEZs) as cornerstones of national development objectives. Concurrently, significant reforms to the corvée labour system and public administration during the late 19th and early 20th centuries marked the beginning of Thailand's economic modernisation (Kelly et al., 2012). This momentum gained further impetus with the inception of Thailand's inaugural National Economic and Social Development Plan in 1961, which placed significant emphasis on infrastructure enhancement and agricultural development (Pombhejara, 1965). These concerted efforts underscored Thailand's commitment to laying the groundwork for sustained economic growth and development.

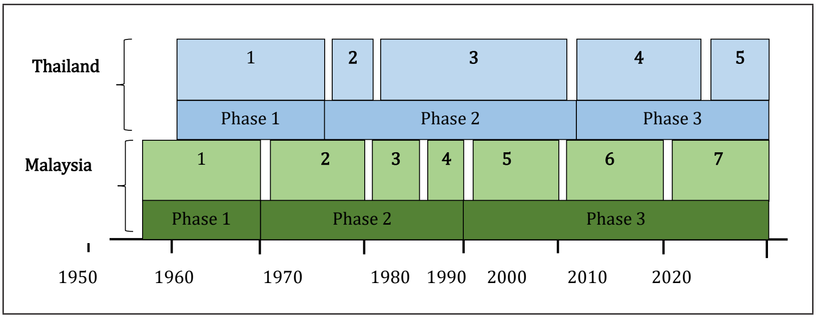
In both Malaysia and Thailand, the progression of economic zone adaptations delineates three distinct phases of industrial strategies (refer to Figure 4). The initial phase of growth in Malaysia (1957-1970) witnessed the targeted development of specific industries through mechanisms like tariff protection, quotas, and the establishment of vital infrastructure to meet domestic market demands. Central to Malaysia's early expansion was the establishment of Growth Enhancement Zones (GEZs), pivotal in realising the industrialisation agenda. In contrast, Thailand's initial phase (1961-1966) concentrated on fortifying the agricultural sector and advancing infrastructure, including the construction of irrigation dams, hydroelectric power facilities, and other public amenities, all of which served as foundations for economic progress (Meesook et al., 1987). During the second phase, particularly in the 1960s, there was a notable surge in the number of indigenous import-substituting enterprises. Subsequently, the government redirected its development emphasis towards growth along the lines of social restructuring and equitable regional distribution by the late 1960s due to severe unemployment and social instability (Government of Malaysia, 1971, Second Malaysia Plan 1971-1975). This period witnessed the amalgamation of export-oriented policies with import substitution strategies, leading to the establishment of Export Processing Zones (EPZs). These zones were designed to attract labour-intensive assembly-type activities utilising imported components, thereby driving growth through trade and generating employment, thus accelerating economic expansion during the second phase (1971-1990).

Following Malaysia, Thailand regained the lead in the second phase. Midway through the 1970s, a series of economic catastrophes occurred, including the 1973 oil glut, the closure of a US military base that halted the rise in spending on defense, and a decline in agriculture. To foster a climate that was welcoming to investors, the Investment Promotion Act B.E. 2520 was passed in 1977. In order to support the expansion of the country's industrial sector, the IEAT Act (1979) was passed. It provided the framework for creating, managing, and preserving integrated industrial ports and industrial estates. Thailand is currently in the stage of cluster-based industrialisation, with economic zones acting as its core element. Industrial parks started to proliferate in the early 1900s, especially along the Eastern Seaboard, which turned into a hub for the petrochemical and automobile sectors. FDIs from China, Taiwan, and Japan have had a considerable impact on economic growth during this time. Thailand gradually ceased enforcing controls and protective measures to encourage business and financial investment in industrial parks. After Singapore, Malaysia, Indonesia, and the Philippines, Thailand soon switched to a high-growth trajectory and was referred to as the fifth Asian Tiger (Hussey, 1993).

Vision 2020 was introduced in 1991, marking the beginning of the third phase in the economic growth of Malaysia.  By placing a strong priority on technology and knowledge-driven growth and promoting equity, this effort was intended to accelerate the structural shift from low-valued to high-valued firms. High-tech parks and the Silicon Valley-inspired Multimedia Super Corridor (MSC) were consequently built. Following the Asian financial crisis of 1997, the quest for increased competitiveness gained impetus. Five regional economic arteries were established in 2006 as part of a comprehensive strategy by the Malaysian government. This calculated action was aimed at supporting Malaysia's continuous attempts at economic development. This was carried out by carefully evaluating the potentials of various locations and developing competitive cities. This endeavour involved integrating economic zones into urban planning frameworks, aiming to optimise regional economic growth. The 10th Malaysia Plan (2011-2015) further advanced this agenda by prioritising high-density integrated cluster development, envisioning a highly productive society underpinned by robust infrastructure, substantial industrial investment, and innovation (Government of Malaysia, 2010). Following the Asian financial crisis, Thailand underwent a strategic shift towards enhancing industrial competitiveness, marking the onset of its third development phase. During this period, considerable emphasis was placed on the establishment of numerous high-tech parks. Notably, the Eastern Economic Corridor (EEC) was designated as a Special Economic Zone (SEZ), with a primary focus on Industry 4.0 initiatives aimed at propelling Thailand towards becoming a high-value economy. Subsequently, Subsidiary Border Economic Zones (SBEZs) were introduced to facilitate the relocation of agriculture and labour-intensive industries from central areas to border regions, leveraging the availability of inexpensive labour and resources in neighbouring countries. This move aimed to bolster cross-border supply chains and foster economic development in border areas, reflecting a concerted effort to promote regional integration and growth.

**Figure 3**

*Phases of Economic Development in Malaysia and Thailand*



*Note.*

| Malaysia | | Thailand | |
|---|---|---|---|
| No. | Strategic Focus of Industrial Policies | No. | Strategic Focus of Industrial Policies |
| 1 | Growth | 1 | Growth (agriculture & infrastructure) |
| 2 | Growth with social restructuring & regional equity | 2 | Growth (light manufacturing) |
| 3 | Growth with expanding the manufacturing | 3 | Growth accompanied by industrial dispersion via zoning |
| 4 | Efficiency & competitiveness | 4 | Competitiveness & regional development |
| 5 | R&D, innovation, & competitiveness | 5 | Competitiveness |
| 6 | Shifting to a knowledge-driven economy while maintaining a balance in industrial development | | |
| 7 | Economic transformation with balanced development | | |

## The Importance of Special Border Economic Zones in Malaysia and Thailand

### *Trade Facilitation and Economic Growth*

Trade between Malaysia and Thailand have received significant facilitation from the Special Border Economic Zones (SBEZs) in the two countries. These zones create designated areas where trade restrictions are eased, customs processes are simplified, and infrastructure is developed to enhance the smooth movement of goods. These zones are situated near international borders to improve access to both nearby markets and global supply chains, thus nurturing export-oriented businesses and fostering economic growth (Sakyi et al., 2017). The positive effects of increased trade extend beyond the zones, benefiting regional businesses, various sectors, and creating employment opportunities (Jiahao et al., 2022). Trade facilitation refers to the measures and procedures aimed towards simplifying international trade activities. In the context of the SBEZs between Malaysia and Thailand, trade facilitation plays a critical role in promoting cross-border trade by reducing barriers, cutting bureaucratic complexities, and enhancing customs and logistics efficiency. This is essential for encouraging trade within these zones as it paves the way for smoother trade operations and more effective cross-border interactions. A proposed model by Liang et al. (2021) delves into the impact of trade facilitation on cross-border e-commerce transactions by considering factors such as infrastructure, customs clearance environment, government-governance capabilities, and cross-border logistics services. This model also aims to incorporate interaction terms between government-governance capabilities and customs clearance environment to explore potential differences in the effects of different trade facilitation elements. This modelling approach seeks to uncover the nuanced impacts of various trade facilitation components on the size of cross-border e-commerce transactions, shedding light on the multifaceted nature of trade facilitation's influence.

***Investment and Industrialisation***

In the Malaysia-Thailand setting, the SBEZs deliberately leverage incentives including tax breaks, fewer regulations, and streamlined administrative procedures to entice FDIs (Tsuneishi, 2008). As a result, the SBEZs act as catalysts for industrialisation, technology transfer, and information sharing (Dolata, 2008). These zones support a wide range of businesses in the manufacturing, logistics, and service sectors by promoting economic diversification and advancing the technological prowess of the host countries. Through a range of advantageous incentives and streamlined processes, the SBEZs are carefully created to establish a climate favourable for attracting FDI, both locally and globally.

The industrialisation within the Special Border Economic Zones (SBEZs) can be examined in the context of Malaysia and Thailand. These zones often target specific industries to foster specialisation and efficient resource allocation. This focused approach encourages innovation and the growth of industries. The concentration of related industries can lead to a "cluster effect" where shared suppliers, resources, and knowledge enhance collaboration and expansion among businesses. The SBEZs contribute to economic diversification by attracting industries that might not otherwise exist in the region, reducing dependency on a single sector and promoting stability. This industrialisation generates jobs across all skill levels, spanning across administrative roles, support services, manufacturing, and logistics. Some of the SBEZs prioritise sustainable industrialisation by incorporating advanced techniques and tools to mitigate environmental impacts.

***Regional Economic Balance***

Furthermore, the Special Border Economic Zones of Malaysia-Thailand play a pivotal role in diminishing regional economic disparities through strategic mechanisms. By attracting investments and fostering industrial activities, the SBEZs effectively channel economic vitality to border regions, invigorating infrastructure development and nurturing local entrepreneurial endeavours (Krainara & Routray, 2017). These zones are deliberately sited in historically less-developed border areas, concentrating on economic endeavours where developmental prospects are most needed. Consequently, the concerted efforts from both the governments and authorities are manifested in infrastructure enhancement within the SBEZs. The infusion of upgraded transportation networks, utilities, and facilities entices enterprises and investors to regions that previously lacked essential infrastructural foundations, thereby propelling economic dynamism and advancement.

The allure of the SBEZs also extends to both local and foreign investments, producing a ripple effect that reaches beyond the confines of the zones themselves. This phenomenon attracts an influx of additional businesses and investors to the surrounding regions, amplifying economic engagement and multiplying growth opportunities (Dolata, 2008; Tsuneishi, 2008). In tandem with investment attraction, the industries cultivated within the SBEZs sow the seeds for the growth of local supplier networks. These networks capitalise on the demand engendered by the SBEZ businesses, hence bolstering economic progress in the proximate areas.

Moreover, the burgeoning industries within the SBEZs significantly contribute to addressing unemployment disparities, particularly in regions with high unemployment. The diverse range of jobs emerging across varying skill levels uplifts the local workforce and aids in the distribution of income. Simultaneously, the SBEZs are crucibles for skill enhancement and training to provide local inhabitants with required competencies that can bolster their competitiveness in the employment market. This deliberate cultivation of skills concurrently mitigates regional skills gaps, fostering a more competent and adaptable labour force.

In sum, the collective impact of the SBEZs will enhance regional economic development by incubating enclaves of economic vitality and progress in areas historically plagued by economic limitations (Najimudin et al., 2020). The consequential effects of these zones' inception transcend their physical boundaries, cascading benefits across adjacent territories and coalescing into a harmonised and equitable regional area of development.

## Comparing Economic Development in Malaysia and Thailand

Thailand and Malaysia share a common border; on the Malaysian side of the border are the states of Kedah, Kelantan, Perak, and Perlis, while on the Thailand side are the provinces of Satun, Songkhla, Yala, and Narathiwat. Figure 4 depicts the border crossing points.

**Figure 4**

*Border States and Provinces in Thailand and Malaysia*

*Note.* Source is Lord & Tangtrongjita (2014).

| | Malaysia Side | | Thailand Side |
|---|---|---|---|
| 1 | Wang Kelian (Perlis) | 1 | Wang Prachan (Satun ) |
| 2 | Padang Besar (Perlis) | 2 | Padang Besar (Songkhla ) |
| 3 | Bukit Kayu Hitam (Kedah) | 3 | Sadao (Songkhla ) |
| 4 | Durian Burung (Kedah) | 4 | Ban Prakob |
| 5 | Pengkalan Hulu (Perak) | 5 | Betong (Yala ) |
| 6 | Bukit Bunga (Kelantan) | 6 | Ban Buketa (Narathiwat) |
| 7 | Rantau Panjang (Kelantan) | 7 | Su-ngai Kolok District (Narathiwat) |
| 8 | Pangkalan Kubur (Kelantan) | 8 | Takbai (Singkhla) |

The Southern Border Special Zones include Satun, Songkhla, Yala, Narathiwat, and Pattani (which do not border Malaysia). It is worth noting that the per capita income levels in the Thai provinces sharing borders with the Malaysian states of Songkhla and Perak, as well as Yala and Kedah, demonstrate a remarkable equilibrium. This observation indicates a significant degree of economic similarity between these areas. This symmetry in income distribution underscores the interconnectedness and economic coherence between the neighbouring provinces of Thailand and Malaysia. Such a balance hints at the shared economic dynamics and collaborative opportunities between these regions.

Three components had an impact on the creation of the SBEZs. The first factor was the ASEAN framework for regional cooperation. ASEAN was formed in 2015 as the Thai government planned to join and forge commercial connections with its neighbours. The founding members of ASEAN—Indonesia, Malaysia, the Philippines, Singapore, and Thailand—signed the ASEAN Declaration on 1 August 1967 in Bangkok, Thailand. These targets centered on fostering collaboration across various domains, such as economic, social, cultural, technological and educational ones, and on advancing peace and stability in the region by unwaveringly upholding the fundamental tenets of the Charter of the United Nations (ASEAN, n.a).

The Growth Triangle between Indonesia, Malaysia, and Thailand was the second cause (IMT-GT). Former Malaysian Prime Minister, Tun Dr. Mahathir Mohammad, was the one who proposed the idea of the IMT-GT and it was supported by both the former President of Indonesia, Suharto, and the Prime Minister of Thailand, Chuan Leekpai. The IMT-GT was officially formed in Langkawi, Malaysia in 1993. The MT-GT provides a sub-regional framework to promote economic integration and collaboration among the member states' provinces. It promotes private sector-driven economic growth and contributes to the development of the sub-region by utilising the natural complementarities and comparative advantages of the member countries (Indonesia-Malaysia-Thailand, n.a). As a result, plans for border development were established and Malaysia and Thailand's business connections were strengthened.

The third justification was Malaysia's development plan for the Northern Corridor Economic Region (NCER). The framework assisted in fostering border development in both Malaysia and Thailand. The Malaysian government is making an effort to promote the NCER in order to raise income levels and hasten the rate of economic growth in northern Peninsular Malaysia. Between 2007 and 2025, the NCER have been conducted in three major stages. Phase I (2007–2012) identified potential investors and conducted several high-impact projects in major economic sectors, in addition to installing priority infrastructure. Phase II (2013-2020) was aimed at hastening regional growth by enhancing and expanding the private sector's participation in economic development. The establishment of a commercial network and connections between domestic and foreign companies would serve this purpose and enable local companies to access global markets. Finally, the goal of Phase III (2021–2025) is to establish the targeted goods and services of the region as global market leaders.

Malaysia and Thailand both have similar growth prospects and objectives. In the Songkhla province, the SBEZs created an industrial zone and a logistics centre near the Malaysian border at the Sadao border (IMT-GT Working Group on Trade and Investment, 2010). The key industries for the governments of Malaysia and Thailand in the border region are very similar. The government's current strategic plan includes the development of Thailand's southern border provinces as a base for the production and processing of rubber and oil palm, a hub to manufacture halal food for export, and a gateway to the IMT-GT (Center for International Trade Studies, 2013). While in Malaysia, it is the ECER and NCER which were given top priority, as well as the production of rice, rubber, and palm oil. Paddy constitutes over 42 percent of the 800,000 hectares of prime agricultural land in the NCER, followed by oil palm at around 49 percent, and rubber and sugar cane at 3 percent each (NCIA, 2014). Next, the "Joint Development for Production Chain of Palm Oil Industry" was proposed as a collaboration plan in the palm oil industry (Center for International Trade Studies, 2013). The programme would support Thailand's attempts to improve the quality of its seeds and incorporate them into industrial regions, much like what was done in Malaysia. The programme promotes cross-border investment and builds integrated supply chain management and distribution networks across the IMT-GT member countries. Another possible area of cooperation between Malaysia and Thailand is the halal food industry, particularly following their status as leading halal food exporters worldwide, apart from Indonesia and China. Additionally, Malaysia's adoption of halal standards for food and non-food items in 2004 has ensured its leadership as one of the most sought-after exporters in the worldwide halal market.

## DISCUSSIONS

The subregional effort known as the IMT-GT was founded in 1993 and has since become a key player in stimulating substantial economic growth and promoting cooperative regional development. Although there had been significant progress, the intermediate assessment of the IMT-GT Implementation Blueprint 2012-2016 revealed challenges in efficiently utilizing competitive advantages to establish a robust regional production framework. In response, the IMT-GT Vision 2036 and the IMT-GT Implementation Blueprint 2017–2021 have underscored the strategic significance of leveraging assets such as the SEZs, the SBEZs, and other production facilities.The inception of the SBEZs finds its roots in the establishment of the maquiladoras along the US-Mexico border in the early 1960s. These zones aimed to exploit the favourable attributes of border regions, encompassing climatic conditions, resource accessibility, proximity to foreign markets, and the potential for cross-border synergies. Such initiatives form the bedrock of the IMT-GT's vision, promoting economic integration and facilitating sustainable development throughout the subregion.

The adoption of the SBEZs within the IMT-GT framework reflects a strategic move to capitalise on similar advantages, facilitating economic integration and growth across borders. Furthermore, the IMT-GT Vision 2036 and the IMT-GT Implementation Blueprint 2017–2021 have highlighted the imperative of enhancing regional connectivity and cooperation to maximise the potential of the SEZs, the SBEZs, and other production facilities. By fostering collaboration and leveraging each member country's strengths, the IMT-GT initiative aims to create a resilient and dynamic regional economic landscape that benefits all participating nations. Expanding upon the notion of the SBEZs, Special Economic Zones (SEZs) have been devised to promote bilateral initiatives, focusing on infrastructure development and serving as pivotal hubs for transportation and logistics. Unlike traditional SEZs, the SBEZs are strategically positioned in close proximity to international border crossings, playing a significant role in driving economic expansion within the subregion through various critical mechanisms.

Similar to the SEZs, the SBEZs operate on the same principles and offer investors with duty-free import and export privileges, streamlined regulatory procedures, and exemptions from local, state, and federal taxes as well as VAT. The main goal of the SBEZs is to entice investments that support subregional value chains, thereby boosting international trade and investment, igniting economic activity along key corridors, and benefiting the social and economic well-being of the local population. The efficiency of the SBEZs in the Malaysia-Thailand border region is evaluated in terms of several important aspects. These elements include a company's ability to take advantage of the resources available in the zone, advantageous tax laws, and simplified customs rules. Additionally, a key factor in the success of the SBEZs is the transformation of these zones from merely transportation corridors to economic corridors. To streamline the development process and increase awareness of the border region's potential, a well-defined legal and regulatory framework is needed. The SBEZs must also be incorporated into designated border areas' socio-economic development strategies to establish integrated models of commercial, touristic, retail, and industrial growth. Additionally, the SBEZs can help small and medium-sized firms (SMEs) flourish through ties by subcontracting networks and backward supply lines, which will help the local business ecosystem to expand. Strategies like pro-poor programmes are therefore required to achieve inclusive growth by incorporating SMEs into the bigger value chains of the region. Connections with nearby nations, like Indonesia, can include labour supply, education and training programmes, large corporate investment, raw material imports, processed goods exports, and labour supply.

Thailand's and Malaysia's paths to economic development have been divided into separate stages. Since the 1970s, Malaysia's "growth miracle" has changed the country's economy from one centred on commodities to one that is emerging across multiple sectors. Changes in industrial policies and strategies like the New Economic Policy (NEP) have been crucial to this change. Thailand underwent a similar transformation in the 1980s, moving from a focus on exports to one on investment and commerce. To entice foreign direct investment, advance industrialisation, and spur economic progress, both countries have taken advantage of programmes like the SEZs and the SBEZs.

Through the strategic alignment of policies and concerted action, the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) project has emerged as a driving force behind accelerated economic growth and the promotion of inclusive regional development. This collaborative endeavour has yielded tangible results, propelling economic prosperity and fostering socio-economic advancement across the participating nations. However, the journey towards sustained progress requires continuous commitment to cohesive strategies and proactive measures. By further strengthening cooperation and leveraging synergies, the IMT-GT initiative holds the potential to unlock even greater opportunities for shared prosperity and enhanced well-being throughout the region. Within this context, the creation and use of the Special Border Economic Zones (SBEZs) have greatly aided in attracting investments, facilitating trade, and preserving the stability of local economies. The comparative experiences of Malaysia and Thailand with the SBEZ deployment show how these zones act as catalysts for economic growth, encourage cross-border commerce, boost investment, and contribute to a more balanced regional growth. The Malaysia-Thailand border region's economy is being shaped by the SBEZs through strategic planning and ongoing collaboration, ultimately promoting development and prosperity.

## CONCLUSION

As the swiftest industrializing nation in its subregion, Malaysia has experienced impressive economic advancement since gaining independence in 1957. Initially reliant on rubber and tin exports, Malaysia transitioned from an agrarian economy to a focus on entrepôt trade through Singapore, Penang, and Malacca. Recognizing the risks of relying too heavily on commodity trade, the government pursued economic diversification, particularly through the promotion of manufacturing via Special Economic Zones (SEZs) and Growth Enhancement Zones (GEZs). The industrial evolution in Malaysia can be delineated into three main phases, which have been marked by changes in economic zones. In contrast, Thailand embarked on its economic development journey in the late 19th and early 20th centuries, with efforts to enhance agriculture and modernize public administration, including reforms in the corvée labor system. When Thailand's first five-year National Economic and Social Development Strategy was introduced in 1961, with an emphasis on expanding agriculture and infrastructure, there was a significant acceleration in its economic development.

Subsequent to this, three distinct eras of industrial development policies have been identified in Thailand, namely between the period 1961-1975, 1976-2001, and 2002 onwards. Despite originally lagging behind in terms of rapid industrial expansion, Thailand had advanced thanks to the creation of multiple economic zones that were in line with the country's development goal. Despite both nations inheriting governmental systems, differences in culture and economics emerged due to the historical legacies of Malaysian colonization. The economic gap between Thailand and Malaysia is particularly notable, prompting bilateral efforts such as the establishment of the Southern Border Economic Zone (SBEZ) to foster sustainable and equitable development along their shared borders. The development of the Straits of Malacca Economic Corridor has focused on the large-scale development of the SBEZ, guided by a master plan and implementation strategy for the bordering provinces of Thailand and Malaysia.

An SBEZ is defined as a geographic area along an international border designated for bilateral projects, including infrastructure development, transport and logistics hubs, and the facilitation of cross-border trade and investment. The incremental approach to collaboration between Malaysia and Thailand in establishing the SBEZ underscores the complexity and time-intensive nature of such endeavors. Transitioning from informal to formal collaboration mechanisms indicates progress towards achieving long-term goals, including the administration of a unified SBEZ. The IMT-GT Implementation Blueprint for 2012-2016 organizes project areas within the IMT-GT connectivity corridors, serving as conduits for subregional development.

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