



**The Thailand-Malaysia Special Economic Zone (SEZ):
Addressing Balanced Development, Border Security & the Beginning of ASEAN
Synergy**

Edwin Oh Chun Kit and Kat W. Wong

Malaysia and Thailand, the two dynamic economic engines of Southeast Asia share approximately 656 kilometres of border via Northern Peninsular Malaysia and Southern Thailand. Around 83% of this boundary is land, with the remainder forming river boundaries such as Sungai Golok in Kelantan.¹ The twin towns along these borders like Padang Besar (Perlis, Malaysia) - Padang Besar (Songkhla, Thailand) and Bukit Kayu Hitam (Kedah, Malaysia) - Danok (Songkhla, Thailand) serve as vital checkpoints for socioeconomic exchange.

Recognizing the potential of border areas like these as hubs of socioeconomic activity and connectivity, Thailand's National Council for Peace and Order (NCPO) introduced the Policy on Special Economic Zones (SEZs) in 2014 as a transboundary economic initiative to foster economic growth in border cities and enhance their connectivity with other cities within the ASEAN community. This policy was aimed to produce 10 SEZs via two phases starting in 2015 and 2016 targeting five distinct districts respectively.²

In the context of Malaysia and Thailand, formal large-scale conversations regarding SEZs happened in late 2023 when Malaysia's Prime Minister Datuk Seri Anwar Ibrahim and his Thailand counterpart (now former Prime Minister) Srettha Thavisin announced that both countries agreed to turn the border shared between the two countries into a trade zone - pointing out industries like the halal industry, manufacturing and tourism. They also acknowledged that the national security of northern Malaysia and southern Thailand are also areas that need to be looked into.³

Earlier this year, preliminary talks gained momentum. In a recent overture to Thailand, Datuk Seri Anwar Ibrahim proposed a dynamic partnership that would see Malaysian private companies and innovative start-ups play a pivotal role in developing these SEZs, infusing the project with added dynamism and investment. Efforts to dredge the Sungai Golok estuary to deal with flood issues was also brought up by Datuk Seri Anwar to Maris Sangiampongsa, Thailand's Foreign Minister in the proposal.

Achieving Balanced Development

The stability of the Malaysia-Thailand border is crucial for many reasons - encompassing security, economic, and geopolitical factors.

¹ <https://e-journal.uum.edu.my/index.php/jis/article/view/jis2018.14.8/1037>

² <https://thailand.opendevlopmentmekong.net/topics/special-economic-zones/#ref-1952-5>

³ <https://www.nationthailand.com/world/asean/40031817>



Both Malaysia and Thailand need to balance development and reduce regional economic disparities in the respective countries, reduce poverty and foster social cohesion for the long run. Addressing this through the Malaysia-Thailand SEZ could well be the next step forward to put a stop to social and political unrest in the southern provinces of Thailand and address the economic disparities in the northern states of Malaysia.

Particularly for Thailand, in the southern provinces with significant Malay-Muslim populations, their unique historical, cultural, and socio-political challenges further underscore the need for balanced development for the sake of the nation's long-term stability.

In the same context, Malaysia's northern states, such as Kedah, Perlis, Perak, and Kelantan, have historically lagged behind more developed regions like Kuala Lumpur, Selangor, and Penang. These northern states have higher rates of poverty, lower household incomes, and less developed infrastructure therefore balancing economic development helps bridge this gap, preventing economic inequalities from becoming entrenched. It also ensures that economic benefits are more evenly distributed, which contributes to a more equitable society.

For both Malaysia and Thailand, the economic cooperation is also likely to bring about better trade relations, boosting agricultural and tourism sectors, potential creation of high-impact economic projects or establishment of industrial parks where both countries could jointly promote human capital development, job creation, transfer of technology as well as enhance bilateral cooperation in development policies. Other areas of cooperation include improving infrastructure and connectivity, and enhancing national security of both nations.

Strengthening economic ties between the two nations supports broader ASEAN economic integration. This cooperation should set an example for other Southeast Asian countries to work together on economic zones, fostering regional stability and growth – creating synergies that are strategic to the success of the region.

Follow up talks and implementation

The recent and rather sudden transition of power in Thailand with Paetongtarn Shinawatra assuming the role of Prime Minister, introduces elements of uncertainty regarding the advancement of the SEZ initiatives. While the recent verbal groundwork laid by Srettha's administration along with Datuk Seri Anwar marked a promising step towards shared economic benefits and vertical integration in the region, shifts in Thailand's leadership necessitates a recalibrated approach from Malaysia. The fluid nature of political mandates in Thailand could result in either the deceleration or redefinition of the bilateral agenda. Consequently, it is crucial for Malaysia to act with strategic urgency, engaging the Shinawatra administration to consolidate commitments and expedite the SEZ collaboration.

As official discussions between the two governments resume, when it does, it becomes increasingly imperative to delineate clear implementation strategies for the proposed Northern Malaysia–Southern Thailand SEZ, complete with well-defined timelines and actionable frameworks. Although this transborder initiative has generated significant optimism, many prospective industry stakeholders remain largely uninformed about the finer details, aside from the potential involvement of start-ups. While it is understandable that these negotiations are still in their nascent stages, INSAP underscores the urgency of prioritising certain foundational elements, given that the existing



infrastructure and operational landscape are not yet adequately equipped to facilitate meaningful progress.

Firstly, the enhancement of public transport and cross-border connectivity stands out as a crucial area requiring attention. While the current infrastructure is adequate for light use - such as leisure travel and smaller-scale economic activities - the limitations become glaringly apparent when considering the demands of a fully operational SEZ. For instance, despite having transit points like Padang Besar, there is a noticeable absence of seamless integration. Can this current network of transport be able to actually support continuous and efficient movement of larger socioeconomic magnitude between the two regions? We believe this will be a big task for the current infrastructure in place. In contrast, examples of efficient cross-border connectivity can be seen in the Johor-Singapore Causeway, where streamlined immigration procedures and frequent transport services facilitate smooth transit for working professionals, students, and tourists alike. If the SEZ is to fulfil its potential as a unified economic corridor, substantial investments in improving transport infrastructure and connectivity are essential to enable the free and uninterrupted flow of goods, services, and talent at larger scales across the border.

Another critical area that warrants comprehensive attention is the enhancement of border controls and security protocols. The Malaysia-Thailand border, particularly in regions like Sungai Kolok and Betong, has historically been prone to illegal activities, such as smuggling, human trafficking and even acts of insurgency over the years due to porous border security and insufficient monitoring. This raises concerns about the potential risks that could arise if the SEZ is established without robust measures in place to ensure the safety and integrity of both countries. To address these challenges, implementing an integrated border management system, complete with advanced surveillance technologies like biometric identification and real-time data sharing between Malaysian and Thai authorities would be crucial in creating a safer environment conducive to economic growth. There should also be an increased security presence in the short areas between the border and the actual checkpoint.

The SEZ's development must also transcend beyond conventional industries like tourism. While tourism will undoubtedly play a role – it cannot be the sole pillar of growth. Datuk Seri Anwar's proposal to integrate start-ups and SMEs into the SEZ ecosystem is a strategic move, especially considering the proposed SEZ area's relatively underdeveloped economic landscape. By focusing on nurturing start-ups and SMEs, there's an opportunity to cultivate an agile and innovative economic environment from the ground up that can adapt to evolving market demands, thereby driving more sustainable and diversified growth. This approach allows for the creation of a dynamic economic base that is not only resilient but also capable of fostering true vertical integration from the outset between Malaysia and Thailand, enabling the SEZ to emerge as a genuine hub for regional collaboration and technological advancement.



Creating the “ASEAN Synergy”

There is no doubt that Malaysia will continue the ASEAN centrality and integration agenda in order to make regionalism work, when it takes over the ASEAN Chairmanship in 2025. At the same time, Malaysia and ASEAN for that matter, needs to acknowledge that the bilateral arrangements and cooperations between member states are also important components that could complement the ASEAN framework as a whole.

The issues in ASEAN and its member states itself varies and there will not be a one-size-fits-all solution, and hence strong leadership on the part of driving a regional strategy which requires having everyone agree on the same thing is crucial but yet not always easy. Cognizant of the many economic and social challenges shared by or common among ASEAN member states, bilateral arrangements such as the Malaysia-Thailand SEZ may as well serve to tackle the weaknesses of multilateral arrangements, while allowing space for ASEAN itself to work out the specifics that involves all 10-member states.

INSAP still views ASEAN as an important bloc which has become the third-largest population group with 680 million people in the region and an economy worth an estimated to be around USD 3.7 trillion in 2022.⁴ The effectiveness of ASEAN integration lies only with the effective leadership taking on the bull by its horns in navigating through the complex dynamics of this region. Perhaps, in seeking that, Malaysia’s chairmanship could also be guided by a renewed strategy – that of seeking synergies be it from a bilateral or multilateral approach. Both approaches should complement each other, not compete.

That being said, the Malaysia-Thailand cooperation should not just excite these two countries. It should be taken more seriously from the ASEAN perspective as it explores the various strategies to achieve the region’s objectives. Effective bilateral arrangements and economic integration could lead to better resolutions for the region’s challenges. We will leave discussions on the reformulation of sub regional development in the next paper.

Rather than competing, this collaboration presents an opportunity for genuine integration through joint operations, where industries complement rather than compete with each other, embodying true vertical integration. This approach perfectly aligns with what could be an ASEAN Synergy 2025 – though not an official vision, it embodies the spirit INSAP believes we should strive for. Instead of just talking about integration, we need to push for real synergy, moving beyond the buzzword we have been using for years, to create a truly interconnected and cooperative ASEAN. INSAP hopes Malaysia will champion this spirit when it assumes the ASEAN chairmanship soon, setting the tone for a more united and synergized region.

If ASEAN continues to struggle to achieve the desired integration over the decades, perhaps it is time to shift the mindset to how member states could focus on creating synergies in a globally competitive landscape and heightened attention in the region due to geopolitical tensions elsewhere.

30 September 2024
Kuala Lumpur
//END

⁴ <https://asean.org/wp-content/uploads/2023/12/ASEAN-Statistical-Yearbook-2023.pdf>



ABOUT AUTHORS

Kat W. Wong is the Director of the Institute of Strategic Analysis and Policy Research (INSAP), with over 25 years of expertise in Malaysian political analysis and nearly two decades of experience in navigating Malaysia's complex bilateral and multilateral relations in her roles across both government and private sectors.

Edwin Oh Chun Kit is a Researcher at INSAP with a background in economics and finance. His research interests encompass Malaysia's socio-economic development, social welfare protection and youth development. He also advocates for shared prosperity and stability in the region.

For information on INSAP, please contact:

INSTITUTE OF STRATEGIC ANALYSIS AND POLICY RESEARCH (INSAP)

Suite 5.01, Level 5, Wisma MCA
163 Jalan Ampang, Kuala Lumpur
MALAYSIA

Website: www.insap.org.my

Email: insapmalaysia@insap.org.my