

# Border Development, Resettlement and Adaptation in a Special Economic Zone

A Case Study of Khuan Village, Tonpheung District,  
Bo Kaeo Province in Lao PDR

Souksamone Sengchanh



## Series Foreword

The monographs that comprise the Critical Perspectives on Regional Integration series have emerged from dissertations based on original primary field research, and written as a major part of the requirements for the Master of Social Science (Development Studies) program of the Regional Center for Social Science and Sustainable Development (RCSD), in the Faculty of Social Sciences, Chiang Mai University.

As Senior Editorial Adviser, I was engaged by the Center to conduct an overview of the dissertations—dating back to 2001 and now well over 100 pieces of work—and select which of them would best illustrate the quality of graduate student research. This was by no means an easy task, but it was decided to choose primarily those written in the past few years, given that empirical research in social science tends to date rapidly. Another consideration was that the monographs should give expression to the main theme of the series of Critical Perspectives on Regional Integration.

As the selection and editorial work proceeded it was then decided to organize the publications into sub-series focused on different parts of mainland Southeast Asia. The first several volumes focus on Myanmar, covering such subjects as livelihood strategies, changing ethnic identities, borders and boundary-crossing, and the commoditization of culture within the context of ethnic tourism. Following volumes are devoted to Thailand, Lao PDR, Vietnam, and Cambodia.

The series also illustrates the concern to bring together social science and natural science knowledge in order to further the understanding of sustainable development issues. Over some 20 years Chiang Mai University has developed considerable research expertise in such fields as resource management, environmental impact assessment, upland agricultural systems and indigenous knowledge, health, and ethnic and gender relations. Teaching and research in development issues also deploys social science concepts within the development field to address decision-making, policy and practice, and the responses and adaptations of local populations.

This current monograph series also focuses on the processes of social, cultural, economic, political and environmental change among populations and territories undergoing rapid transformations within the Greater Mekong Subregion (GMS) and the ASEAN Economic Community (AEC).

*Victor T. King*

Senior Editorial Adviser, Critical Perspectives on Regional Integration Series

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Tonpheung District of Bo Kaeo Province is one of the poorest areas in the Lao People's Democratic Republic (Lao PDR), which is one of the world's Least Developed Countries (LDCs). As the district faces major shifts from subsistence agriculture to a market economy, many local villagers have been deeply affected and forced to adapt; some rather successfully and the rest with strenuous—if not continuing—difficulty.

Khuan Village is one site of specific and influential economic change. In hopes of participating in the neoliberal global economy, the Lao PDR government has adopted a strategy of constructing Special Economic Zones (SEZs), where economic policies—unique to the rest of the country—foster economic growth. This case study investigates the SEZ in Tonpheung District and analyzes the effects of new economic enterprises on the livelihoods and quality of life of locals in Khuan Village. Most families received little to no legal assistance in the negotiation processes for their land and resources; the result is that most locals did not, or feel they did not, receive appropriate compensation. This study focuses on how the amount of financial and social capital possessed by a family prior to the changes caused by SEZ policies has directly affected their ability to adapt to these changes and form new livelihoods.



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## Chapter 1

# Introduction

### Historical Background and Statement of the Research Problem

The Government of Lao (GOL), as one strategy for economic development, has been focused on turning the country's natural resources—including human labor—into capital. Land reforms have been a key factor in this economic transformation, encouraging foreign actors to invest substantially in the economy and development of Laos via foreign direct investment (FDI). This policy has been in place since the New Economic Mechanism (NEM) was introduced in 1986.

Chusak (2011) has reviewed the economic reforms currently taking place in Laos under the NEM, arguing that they pose a challenge in terms of agrarian transformation as a part of the post-socialist development of this landlocked country. This change has involved a transition from agricultural subsistence to a market economy. Change has happened in a top-down percolation, from the state to local communities, in the form of increasingly intensive agricultural production and increased commercialization of the subsequent products. State-sponsored irrigation and mechanical systems, coupled with a demographic shift, have led to intensive land use and a number of land tenure changes. To cope with looming land conflicts, the Lao state has instituted a series of land laws to promote the legal recognition of private property. This has led to the abandoning of customary land rights based on kinship relations for a system based on individual ownership. Market transactions for land are now prevalent—including rentals, sales and mortgages. However, land has grown

increasingly scarce as the banks of the Mekong River continue to erode, resulting in the loss of many households' cultivated land.

The creation of economic dynamism through land cultivation has been particularly noticeable in Special Economic Zones (SEZs). SEZs are geographic areas with economic laws, regulations and policies different from those in the rest of the host country. In Lao PDR, the formation of such zones has been based on land concessions and transference to specific activities such as mining projects and rubber plantations. SEZs have allowed investors to use the land for their own objectives, opening the way for numerous forms of investment. They are located at the country's borders, where land is available and the close proximity to neighboring countries allows foreign investors to move in more easily.

FDI has increased in recent years, particularly with the enactment of FDI Law No. 02/NA, Article 59 on 8 July 2009, which is aimed specifically at promoting investment in Lao PDR (Lao government, 2009). In addition, the SEZ initiative was designed to attract both FDI and domestic investment, promoting job creation for locals—a design that also allows for land leasing, duties, taxation incentive policies, imports, exports, re-exports, investment licenses, and migration policies, as appropriate. It is clear that the allowance of the flow of FDI promoted the international flow of labor into target areas. The flow of goods and people across the border between China and Southeast Asia started to accelerate in 1990 (Evans, 1999). The growth and success of the Chinese economy can be attributed to its recent open-door policies and economic reforms, which have improved its economic viability in relation to neighboring economies, the whole of the Association of Southeast Asian Nations (ASEAN), and the rest of the world. China has continuously pursued an export-oriented strategy, attracting FDI and encouraging export manufacturers to produce goods for the growing markets of developing nations (Wong, 2007).

China has dedicated a significant amount of aid and investment to Laos since 2000. Most funds have contributed to the overall economic growth of the country in the forms of hydropower projects, mining and agricultural activities, and hospitality. Chinese expansion in Laos continues year after year and has led to an expansion of Chinese markets through the cooperation of both governments. In the Southeast Asian region as a whole, and in the highlands of Laos in particular, both old and new Chinese groups have played a



fundamental role in developing regional economies (Rigg, 2002). According to Lyttleton (2004), as a result of an Asian Development Bank (ADB) initiative, numerous road projects have taken place in Laos since 1996. The result has been a substantial influx of Chinese people and goods, particularly in border areas. Laos is the heart of Southeast Asia and an important link to the five neighboring countries of Burma, Cambodia, China, Thailand and Vietnam—perhaps because or perhaps in spite of being landlocked between them. Many institutions of and within these countries have supported SEZ programs, such as infrastructure projects like the R3 road running from China into Thailand via northern Laos.

Pinkaew (2011) has described a specialized lease of 3,000 hectares (ha) from the GOL to the Kings Romans Casino in 2007. This duty-free space, spanning the shared borderlands of Laos, Myanmar and Thailand, was named ‘The Golden Triangle’—stretching into Laos’s Bo Kaeo Province along the ‘R3A North-South Economic Corridor.’ The Golden Triangle SEZ is home to my study area. In the local language, the area is referred to as *Ban Khuan*; *Ban* means ‘village.’

As a result of the SEZ project, local villagers are supposed to have better quality of life and receive compensation for the losses of their paddy fields, gardens, houses, vegetables, fruit, animals, fish, orchards and other crops—all based on reasonable prices. In reality, a 50-year concession to interested companies forced the displacement of local people—such as the Yuan and Dai Lue ethnic groups—with the support of the local government. Buildings in the area have been sold or leased for the duration of the concession, which, according to the SEZ agreements, can be extended for another 25 years—after which ownership will revert to the Lao government. The central features of the SEZs in this area are the same as those of the Boten Dankham SEZ, including a three-star hotel-casino complex with shops, small restaurants, staff dormitories, and apartments (Nyíri, 2009). However, among the list of promoted activities are more interesting ones such as agriculture and industry, and there are plans to turn the area into a zone called Na Khone, or ‘New City Development Project’ (Lao Government, 2011). As a result, the project has already displaced many households, and according to the leader of the compensation team, approximately 127 households on 928 ha of land have already been taken out of production due to the building of the zone.

My research focuses on the rural Khuan Village within the Golden Triangle, approximately 40 kilometers away from Houay Xai District, the provincial capital of Bo Kaeo Province. Most of the households in this village rely on subsistence farming and selling their crops to agencies, locals, neighbors, and those from Thailand who come to the village to buy directly from their houses—an activity that brings in a good income every year. According to the head of the village, they can earn an average of more than 1,200 USD per annum per household from these activities. The rice fields in the village cover 191,620 ha and produce 884,750 tons of paddy rice, amounting to 1,915 kilograms of paddy rice per hectare per household every year.

In addition, the area is traditionally a crucial agricultural region, with high levels of paddy production, permanent cultivation, cash crop-growing, fruit production, animal rearing and other farming activities. This has had an adverse social effect on the farmers' neighborhood relations, identities and culture, all of which have developed over many generations according to their daily practices and production processes, which have also been disrupted with the arrival of the SEZ.

### *Statement of the Research Problem*

My research aims to go beyond merely empirical observations of the impacts of these border developments and will illustrate that the development process has forced the local people in my study area to resettle their families after undertaking negotiations with investors and the central, provincial and national governments without any legal assistance. Furthermore, I look at how local people have coped with the rapid changes that have taken place as a result of SEZ development in their area.

### *Justification for Focus on the Problem in Border Studies*

Most previous studies about development and resettlement in Laos have focused on internal resettlement, in which people have been relocated due to government land acquisition for development projects. These movements have greatly (and mostly negatively) impacted people—along the border areas in particular—due to governments' unwillingness to investigate the potential impacts beforehand.

At the national level, SEZs in Laos are designed to provide many opportunities for both the nation-state and the people, the key goals aimed at sustaining economic growth, removing Laos from the Least Developed Country (LDC) list, reducing poverty, and creating jobs. To support these goals, laws promoting investment in SEZs were promulgated at the National Assembly of 8 October 2009; later some of the established SEZs provided opportunities for land and resource development within the country through access to land concessions. Under these schemes, developers have been able to expand their investments into various areas and activities. For example, along the Chinese border in northern Laos, an SEZ called ‘Golden Boten,’ which covers about 4,000 acres of land, has been leased out to a casino operator in Boten District, Luang Namtha Province. Its central features include a hotel, a casino complex, small restaurants, staff quarters, and apartment buildings. At the ‘Golden Triangle’ SEZ, in which my research site is located, 827 hectares have also been leased and developed.

Locals living along the border in the Economic Quadrangle have been a part of this cooperative development scheme since it was launched in 2003. Tonpheung is an agrarian district in which people grow rice and corn for export to neighboring countries like Thailand—the basis of their subsistence livelihoods, which also includes farming, growing vegetables, and so on. My study project came about because the SEZ initiative was supposed to help develop the region and modernize individual and family lives. In contrast, since the launch of the SEZ, huge and jarring changes have occurred, as the communities were generally not made aware of the concessions granted on their land, nor of the details of the development projects initiated.

The land concessions given out by the Lao government have led to a huge influx of Chinese businesses throughout the country, a change that has been particularly noticeable in Tonpheung District, Houay Xai—where a Chinese market for bananas and rubber is supported by plantations and run by Chinese investors. Moreover, the casino project located in the Golden Triangle SEZ has changed border regulations and created an area of deregulated trade along the Mekong River—affecting local peoples’ trade activities. Furthermore, the autonomous SEZ has the right to establish subjective regulations for employees; such policies and transnational investments have attracted huge quantities of capital and technology to the border area.

## Research Questions

- How has the Golden Triangle SEZ shaped and changed the border landscape in Tonpheung District, and what impacts have the enterprises of transnational investment in the SEZs had on local people's lives?
- How have the different economic backgrounds of the local people affected the ways in which they have adapted their livelihoods? How has the establishment of the SEZ led to the transfer of local people's land to the hands of investors? What negotiations have taken place with regard to resettlement compensation and what have been the consequences of these negotiations?
- How have the people in Tonpheung District adapted to the development schemes initiated by the SEZ, and what have been the implications on their lives?

## Research Objectives

- To understand the ways in which the SEZ has shaped and changed the border landscape in Tonpheung District, plus explore the impacts the new economic enterprises have had on local people's livelihoods.
- To investigate how the different economic backgrounds of the people in the study area have affected the ways in which they have had to adapt their livelihoods and how the SEZ has forced the locals to transfer their land to investors, plus the negotiating processes used in relation to the resettlement compensation offered and the results of such negotiations.
- To study how the local people in Tonpheung District have adapted to the development schemes within the SEZ, and what the impacts of such schemes have been in terms of their everyday lives.

## Research Methodology

In my research, I applied a quantitative approach to obtain the useful and necessary data for an explanation of the phenomenal processes of the provision of farmers with information, as well as the adaptation strategies of



different household classifications. I also studied the compensation negotiation processes between locals and enterprises with respect to the losses village land, community land, farmland, farmyards. Community land includes rice fields, gardens, spaces for growing corn and vegetables, space for growing fodder for the cattle, community buildings (such as the schools, village offices and sacred forests, or *pa sak sith*), forest space, houses and all other space associated with their daily lives (including trees, houseplants, etc.).

### **Research Site**

Ban Khuan, from now on referred to as Khuan Village, is a Yuan village located approximately 45 kilometers from the central district of Bo Kaeo Province, which borders the Golden Triangle. The village was established more than 100 years ago, and the original residents were mainly Yuan from Lamphun District in Chiang Mai, Thailand. There were some families from Sayabouly Province, mostly from the Lue, who moved and settled down in this village between 1975 and 1984 due to a lack of natural resources; government policies had begun to focus on mobilization and resettlement because many hectares of paddy fields had been abandoned by their owners due to war.

As a result of the increase in Lue population in recent years, they have become the largest group in the village, larger than the Yuan. In the years following 1975, the Lue arrived and found many empty houses and paddy fields, called *na-siin-seuak*. They moved in, cultivated the land, and made the houses their own. In 1984 more Lue migrated to the village to buy land from the government, though they had never owned paddy fields or gardens.

147 families live in 130 households in Khuan Village; the total population is 472—242 males and 230 females. 75% belong to the Lue ethnic group, while 25% are Yuan. According to the wealth ranking developed by the village headman and village authorities, around 56 of the households can be classified as wealthy, 35 as middle-income and 39 as poor. The main occupation of Khuan villagers is agriculture, but some work as government officials, village traders, village laborers, or non-agricultural laborers. The level of education in Khuan varies from primary school to technical college level, but the majority of the population did not attend or complete primary school.



Figure 1.1: Map of research site

### *Data Collection*

I collected primary data from household surveys, group discussions, in-depth interviews, participatory observations of villagers' daily lives, and key informant interviews. Although, I gained approval from the heads of the village to interview individual households, time limitations and the large population of the research site (472 people across 130 households) permitted the interviewing of only 50% of the households, or 65 out of 130.

Samples Selected	No. of Households	Percentage
Village		
Khuan Village	(65) 130	
Household Ranking in Khuan		
- Well-off households	28	43.0
- Medium-income households	17	27.0
- Sufficiency households	12	17.7
- Poor households	8	12.3
Total	65	100

**Table 1.1: Research sample selection** *Source: Survey, group discussion, 2012*

According to the information from Mr. Kongchan, the village headman, the households in Khuan Village can be classified into three groups: (1) well-off households—most have a modern house with modern amenities such as chairs, sofas, TVs, a CD-DVD player, a car, a van or motorcycle, more than ten hectares of gardens and paddy fields, and an animal; they face no problems in terms of food or rice consumption, (2) middle-income households—have a house, but less amenities than the well-off villagers, have their own motorcycles but no van, and also have between five and ten hectares of gardens and farms; they also do not suffer from rice or food consumption shortages, (3) the poor group—the majority of whom are newcomers who have moved from other villages. They have no gardens or paddy fields and did not have a very strong background in the previous village, so they did not have property prior to moving to the village where they planned to engage as village labor. Khuan Village has numerous natural resources, such as the river and forest; these and the markets are villagers' main sources of income, food and consumer products.

The household surveys were conducted in numerous ways, including through the uses of questionnaires, notes and an MP3 recorder. The local people sometimes felt uncomfortable when I asked them the list of questions I had on paper, and they also thought I was an official from the central government, which made them unwilling to tell me the amount of gardens, trees and farmland they had, as this would have impacted their tax rates. A number of government and International Non-Governmental Organization (INGO) researchers were also present in Khuan Village, in addition to individual researchers from Laos and other countries—all conducting research at the same time. Some of them gave money in exchange for villager interviews, which presented a problem

for me, as it meant I was just another researcher among many trying to gain their cooperation. Despite the limited time and funds available, I received a strong level of cooperation from the villagers; I sometimes shared lunch and dinner with them, so that we could have friendly discussions about emerging phenomena in the village. Moreover, my participation in local villagers' daily lives, as well as with other classes of people, helped me to understand the new livelihood strategies that have been utilized in the new village, particularly the adaptation approaches and the new forms of consumption.

### *Data Analysis*

I used all data to assist in the answering of my research questions and resolve any outstanding issues that emerged during my research. I also used the information I gained to analyze the changes that have taken place in terms of social relations and livelihood strategies, and the adaptation techniques used by each household during their livelihood transition. In addition, the information helped me to understand border development strategies and the social stratification and changing consumption patterns revealed by local people as a result of special economic zones—a government priority.

In accordance with the data I collected from the household surveys and village authorities, I categorized the households into different social groups in order to reflect the diversity and complexity of local adaptation strategies. Moreover, I apply theories and concepts—reviewed in Chapter Two—in order to analyze and understand the phenomena I observed at the research sites. I pay special attention to the relevance of theories and the nuances of empirical field data. At the end of the data collection process, primary data was input into Microsoft Excel and analyzed.