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**THE ESTABLISHMENT OF MALAYSIA-THAILAND
SPECIAL BORDER ECONOMIC ZONE (SBEZ):
THE POTENTIAL OF BUKIT KAYU HITAM AS
NORTHERN ECONOMIC HUB**

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ABSTRACT

The major thrusts of regional development are to achieve balances in social and economic development across regions and states and to raise the standard of living and quality of life of the people. Consequently, developments of border areas of Malaysia and Thailand, particularly the border towns of Northern Corridor Economic Region (NCER), i.e. Wang Kelian (Perlis), Padang Besar (Perlis), Bukit Kayu Hitam (Kedah), Durian Burong (Kedah), and Pengkalan Hulu (Perak) will benefit the people living in the border areas and for the mutual benefits of the two countries. It further promotes greater cooperation in trade and investment in the border areas. Therefore, there is a need to conduct a feasibility study and to take strategic approach in developing special border economic zone to ensure that whatever development would not be in conflict with the states' interest or policies in relation to the development of such border areas.

Keywords: Border development, Special Border Economic Zone, Northern Economic Hub, Bukit Kayu Hitam

INTRODUCTION

The importance of Bukit Kayu in macro planning of Kedah, NCER and IMT-GT will be discussed based on the following blueprints:

- Kubang Pasu Local Plan 2002
- Kedah Maju 2001-2010 Action Plan
- Northern Corridor Economic Region Socioeconomic Blueprint 2007-2025
- The Indonesia-Malaysia-Thailand (IMT-GT): Building a Dynamic
- Future. Roadmap for Development 2007-2011
- Feasibility Study of Sadao Special Border Economic Zone

This study covers the area of Bukit Kayu Hitam – Changlooon – Sintok with an estimated size of 13,489 hectares as outlined under the Kubang Pasu Local Plan, 2002. The development of the study area comprises of three growth centers: Bukit Kayu Hitam, Changlooon and Sintok. Bukit Kayu Hitam focuses on industrial activities, Changlooon focuses on trading and Sintok focuses on education, namely Universiti Utara Malaysia. These growth centers can also be called the Bukit Kayu Hitam-Changlooon-Sintok triangle.

Existing development in Sintok, as well as in Changlooon and Bukit Kayu Hitam, appear to have taken place independently of each other without taking advantage of the potential linkages among them. To avoid imbalanced development, planning for these areas should be done concertedly with the proposed SBEZ in the study area. Bukit Kayu Hitam is situated on the proposed ASEAN Highway Network which includes Malaysia's North-South PLUS Highway up till Singapore. Its location, together with its relative closeness to major Thai towns such as Hatyai, Songkla and Yala, could turn it into an important entry/exit point into Malaysia from Thailand by road.

The Kedah Maju 2010 Action Plan, which covers the period from 2001 – 2010, has been outlined to help fully realize the vision of the Kedah State, i.e. to achieve a developed state status by the year 2010.

The main challenge for the Kedah State in the Kedah Maju 2010 Action Plan is to ensure that the people of Kedah Darul Aman can enjoy a level of development that guarantees comfort and prosperity. The “growth with equity” approach to achieve a holistic and balanced development and the focus on long-term growth will ensure the achievement of this goal. Four items which are emphasized for a balanced development are:

- To achieve GDP growth rate of 15 percent annually.
- To re-distribute the state’s wealth accrued as a result of economic development fairly amongst all in the society.
- To develop human resources that are knowledgeable for long-term economic development and global competitiveness as well as create a society that is patriotic, resilient and moral.
- To carry out physical-balanced development throughout the state towards robust development to ensure the environment and natural resources are preserved for future generations.

Objective of the Study

The broad objective of this study is to look into the feasibility of establishing a special border economic zone (SBEZ) with a view to provide a guideline in formulating strategies and systematical development plans for the study area. The specific objectives are:

- i. To examine the existing development plan of Bukit Kayu Hitam and Kubang Pasu in Kedah.
- ii. To identify the potential and the viability of the establishment of Bukit Kayu Hitam Special Border Economic Zone.
- iii. To identify priority areas and recommend alternative options for the development of Bukit Kayu Hitam Special Border Economic Zone, taking into account the growth, socio-economic, physical development and security objectives.
- iv. To carry out comparative analysis of the strategies of Bukit Kayu Hitam and Sadao Special Border Economic Zones.

Coverage of the Study

This study will cover the **Bukit Kayu Hitam-Changlooon-Sintok (BP2)** with a focus on the following analysis: Importance of Bukit Kayu Hitam; Institutional set-up of Bukit Hitam; Industrial estates and

free zones; Malaysia – Thailand cooperation; Economic performance & development activities/sectoral economic analysis; Population, housing, labor force and poverty; Infrastructure and support services; Social and community services.

FINDINGS OF THE STUDY

The Importance of Bukit Kayu Hitam

The importance and significance of Bukit Kayu Hitam are found in only a few economic development plans: Kedah Maju 2001-2010 Action Plan, Northern Corridor Economic Region Socioeconomic Blueprint 2007-2025, Asian Development Bank IMT-GT Development 2007-2011, and Unisearch Chulalongkorn's Sadao Special Border Economic Zone Feasibility Study.

In Kedah Maju 2001-2010 Action Plan, Bukit Kayu Hitam (and Kota Perdana) is mentioned briefly under the Industrial Development Project chapter, i.e. *seluas 1,659 ekar akan dibangunkan dengan kemudahan infrastruktur, logistik dan bertaraf bebas cukai. Kawasan ini akan menjadi pusat operasi peringkat antarabangsa.*

Under the NCER blueprint, it is noted in passing, *a highway that runs from Ipoh in the south to **Bukit Kayu Hitam** in the north which is a town that shares a border with southern Thailand.* Bukit Kayu Hitam is designated as '*...border tourism*'. **Kota Putra**, which is part of new border town in Durian Burung (Padang Terap, Kedah), is pointed out briefly in the NCER blueprint under the proposed Trans-Kedah Hinterland Highway project.

No detailed macro economic planning for Bukit Kayu Hitam is given under the Kedah Maju 2001-2010 NCER 207-2025 blueprint. In contrast, ADB provides a specific and detail planning for the development of Bukit Kayu Hitam in the IMT-GT 2007-2011 Action Plan (as of Sept 2007), of which:

- i. To establish common wholesale markets and distribution centers in border areas to facilitate trading, i.e. IMT-GT Plazas Bukit Kayu Hitam, Kedah,
- ii. Kedah Halal Industrial Park at Bukit Kayu Hitam, Kedah

- iii. Border Township Development (which is flagship project): Kota Putra Township, Kota Perdana Township, Danok-Bukit Kayu Hitam
- iv. Use of SBEZ as a production base for industrial estates in Kota Perdana and Kota Putra, and use Penang Port in Malaysia as trade gateway for Thailand and the western world. Besides that, the SEBZ is used to promote economic potential of Songkhla and Satul Province by measures to attract investments and technology.

Institutional Set-Up: NCIA

The existing State and District institutional set-ups are unable to promote aggressively the industrial development of Bukit Kayu Hitam. On the other hand, the development of Kota Perdana is still on the drawing board under the Kubang Pasu local structure plan and yet to be implemented. The industrial development of Bukit Kayu Hitam and Kota Perdana can be fully coordinated and developed systematically under Northern Corridor Implementing Agency (NCIA) with Northern Gateway (which owns Kota Perdana) and PKNK as board members.

Industrial Estates and Free Zones

Under the Free Zone Act 438, Bukit Kayu Hitam has been declared as free commercial zone. Thus, there are obstacles to implement SBEZ. The types of Special Border Economic Zone that needed to be set-up in Bukit Kayu Hitam must complement the comparative advantage that Bukit Kayu Hitam has. It seems that Specialized Park or Specialized Zone is conducive to the development of Bukit Kayu Hitam in becoming a logistic, packaging & redistribution and halal hub.

Malaysia-Thailand Cooperation

Large amount of FDI from Thailand flows into the food manufacturing industry in Malaysia and Selangor is the main host of Thai's. Unfortunately, Kedah in general and Bukit Kayu Hitam in particular, received very little of it. With the setting up of a Special Border Economic Zone, the attractiveness of Bukit Kayu Hitam and the whole border town areas will be more important not only to Thai investors but also other investors in the Southeast Asian region.

With the increase of bilateral flow of people and vehicles through Bukit Kayu Hitam and Sadao, commerce and trading activities will expand in the region. This will create more employment and reduce income disparities of the region's population.

Economic Performance and Development Activities/Sectoral Economic Analysis

It is apparent from observations and interviews conducted, that Bukit Kayu Hitam has a great potential to become an important regional hub in logistic and repackaging & distribution activities due to its strategic location and excellent road connectivity, from Thailand & Indo-China in the north, to Singapore in the south.

Currently, even without big government incentives, its comparative advantage has led to the growth of the logistic activities in this area. However, manufacturing companies have difficulties doing business here and quite a few have move out and some are planning to do the same. It is evident that by enhancing its comparative advantage, other supporting economic activities will grow as well.

Unlike some growth centers in Malaysia, the development of Bukit Kayu Hitam as a logistic and repackaging & distribution hub would only exert gradual demand on the existing infrastructures and labor supply. The gradual growth of Bukit Kayu Hitam as a logistic and repackaging & distribution hub will be supported by the gradual growth of its infrastructures and labor supply without putting huge pressure on its surroundings.

Population, Housing, Labor and Poverty

As mentioned above, the gradual growth of Bukit Kayu Hitam would not put a pressure on comparative advantage. In fact, the current excess of unskilled workers could easily be absorbed by the growing economic activities. The nature of the logistic and repackaging & distribution hub needs mostly unskilled labors that can easily be supplied by the area. This will reduce out-migration of labor and eventually will attract others to migrate back to their home towns in Kedah.

Infrastructure and Support Services

With the development of Bukit Kayu Hitam as a logistic, packaging & redistribution, and halal hub, it is expected that the infrastructure

and support services will grow as well. The most pressing and urgent matter at the moment is the capacity of Bukit Kayu Hitam CIQ. Current CIQ cannot handle the increase of freight haulage and passenger transports. Logistic companies have repeated voice their dissatisfaction with the current traffics at the CIQ. Many cargos and containers take on an average of 4 hours to be processed and this put and added cost burden on the companies. To become a regional logistic hub, this matter must be addressed urgently or else Bukit Kayu Hitam will loose its attractiveness.

POLICY RECOMMENDATIONS

Introduction

Based on our findings in the Sectoral Analysis, the study area has the following comparative advantages;

- i. Easy access to material inputs in NCER and Southern Thailand
- ii. Near to local and export market of both regions
- iii. Cheap cost of land in the PKNK Industrial Estate
- iv. Competitive wage rate of local labors
- v. FDI Incentives
- vi. ASEAN Highway Network which includes the Malaysia North-South Highway

These factors, and supported by the industrial survey, lead us to conclude that the area is feasible to be a SBEZ.

Location/Boundary of SBEZ

This study covers the area of Bukit Kayu Hitam – Changloon – Sintok with an estimated size of 13,489 hectares as outlined under the Kubang Pasu Local Plan, 2002 (see Figure 1).

From this study area, we propose that the SBEZ encompasses the following plots of land (3,976 hectares) (see Figure 2);

- i. Land owns by PKNK (809 hectares)
- ii. Land owns by Northern Gateway (2,843 hectares)
- iii. Land owns by Kedah Agro (currently, 324 hectares)

The size of the proposed SBEZ as compared to the study area is approximately 30 percent, of which Northern Gateway owns 72 percent and PKNK owns 20 percent of the proposed SBEZ. The remaining 8 percent owns by Kedah Agro. This implies that Northern Gateways plays a leading role in the industrial development of the SBEZ.

We believe that these plots of land are suitable for SBEZ for the following reasons:

- i. They are big plots that are owned by private entities and thus easier to be developed by the owners.
- ii. With few owners, there will be less bureaucracy and faster implementation of development.
- iii. These plots are all in close proximity of each other. Thus, development could easily be coordinated as well as overseeing the rules and regulations in the SBEZ.

Cooperation among all Stakeholders

The successful development of SBEZ, in large part, depends on the close cooperation of all stakeholders in the project, mainly the landowners (PKNK & Northern Gateway), Kedah Government and the Federal Government. Without the involvement and commitment of these concerning parties, it is doubtful that the creation of SBEZ will greatly benefit the development of this area.

Currently, PKNK has developed its 1st and 2nd phases of land with the size of 136 hectares (335 acres). The 3rd phase is coming up for development with an area of 137 hectares (339 acres); Phase 3A: 92 hectares (228 acres) and Phase 3B: 45 hectares (171 acres). Approximately 405 hectares (1,000 acres) are now being replanted with rubber while the rest of its land of 172 hectares (426 acres) is undeveloped.

Northern Gateway, on the other hand, has yet to develop its land of 2,843 hectares (7,024.75 acres). It divides the development of Kota Perdana into two zones: Kota Perdana Free Zone in the east and Trade and Housing Zone in the west.

Since most of the land required for development is owned by PKNK and Northern Gateway, thus we would propose that close consultations

by the federal and state governments with these two companies are held to coordinate and synchronize the plans and developments of this area, including the issues of development planning and financing.

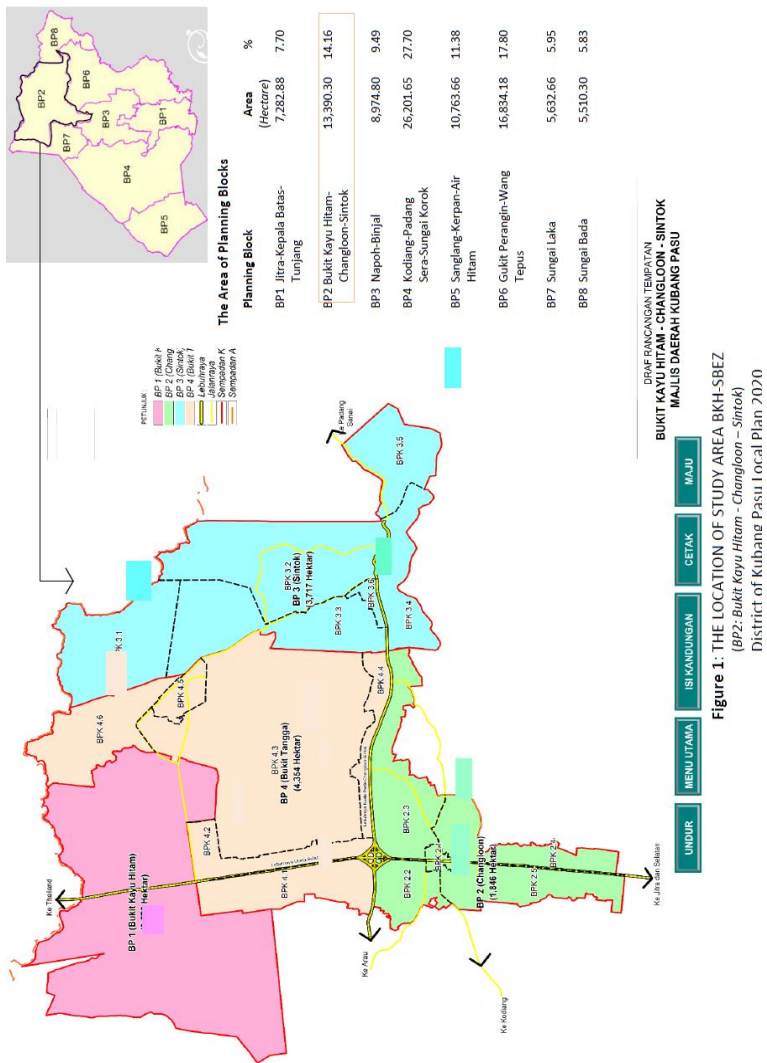
Proposed Type of SBEZ

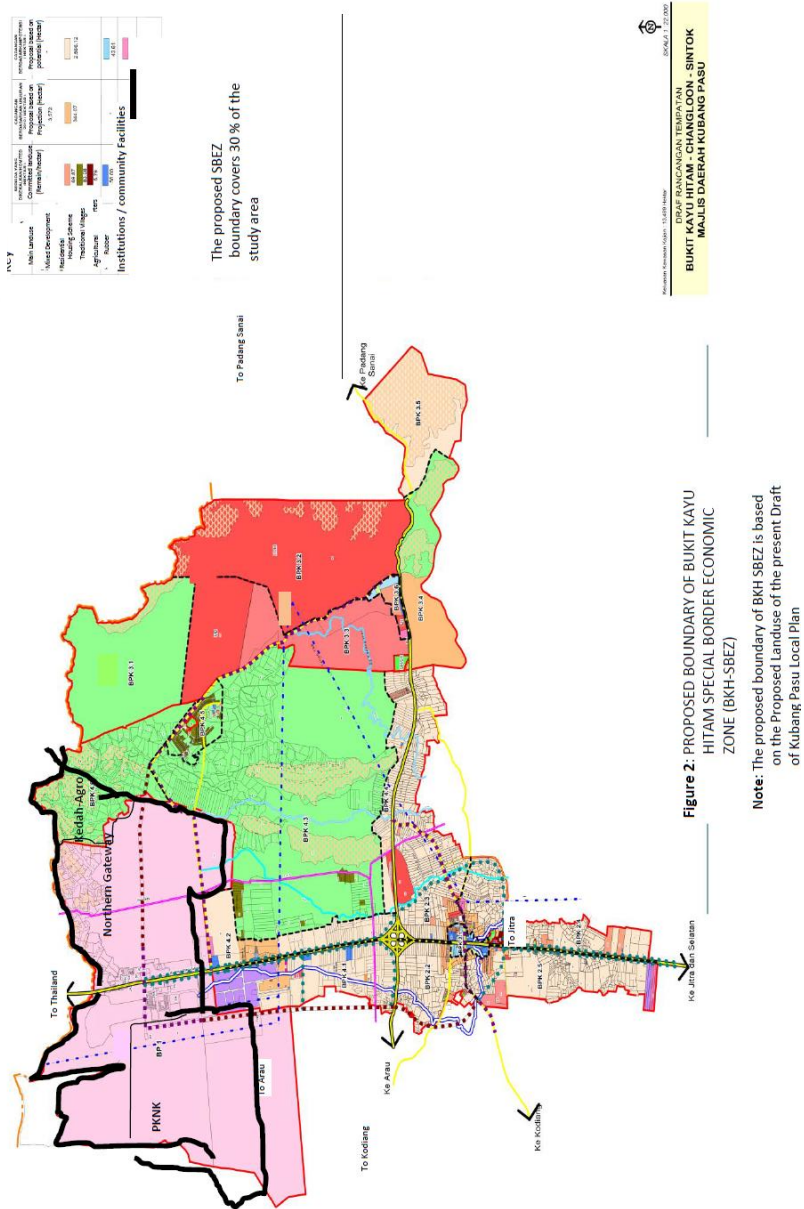
The existing Special Economic Zone (SEZ) in Malaysia consists of Free Trading Zone, Free Commercial Zone and Free Industrial Zone as being described in Chapter 5. FTZ already exists in Bukit Kayu Hitam, called Kompleks Bebas Cukai Bukit Kayu Hitam and being operated by Cergas Jaya Sdn Bhd.

FCZ in Bukit Kayu Hitam has been gazetted in the Free Zones Act 438 but yet to be implemented. There is no FIZ status in Bukit Kayu Hitam. Furthermore, Kedah as a whole, including Bukit Kayu Hitam, has not been accorded with a promoted area status by MIDA (2008) as compared to the Eastern Corridor (covers Kelantan, Terengganu and Pahang) and the state of Perlis. Currently, the existing logistics companies and manufacturing factories at the PKNK Industrial Estate only being given incentives according to applications, such as Nichias (owned by Japanese firm) and ACM (joint ventured by Sime Darby-Boeing-Hexcel) which were given the LMW status.

As a whole, those companies at PKNK Industrial Estate are still in operation despite the lack of incentives due to other factors, mainly market location and cheaper land rentals offered by PKNK (the 1st phase (Phase 1A & Phase 1B) that was sold earlier was priced from RM3.50 – RM5.50 per square feet). For example, Keloil-PTT LPG Sdn Bhd operated in the Industrial Estate because for exactly those two reasons; it sources its liquid gas from PITT Thailand and markets its product to the northern states of Peninsular, and Keloil paid RM3.5 per square feet or RM6 million for a 60 year-lease of its lot.

Thus, to strengthen the value-adding economy of SBEZ, we propose that the area is accorded with FIZ status, in addition to the existing FCZ and FTZ. Consequently, SBEZ should be given the promoted area and promoted activity status under the Promotion of Investments Act 1986 so that with this status it will enhance the competitiveness of existing and new companies and factories in SBEZ.





Proposed Type of Investors

To further fulfill the objectives of the Joint Development Strategy (JDS), we propose that the priority of new investments in the SBEZ comes from the Malaysian -Thai investors. This is the unique attribute of Bukit Kayu Hitam SBEZ with the view to *prosper thy neighbor*.

Other foreign investors could also invest in SBEZ by collaborating with the Malaysian or Thai partners. Nevertheless, individual foreign investors are also welcome to invest in the area subjected to differing incentive schemes. This measure would create a value-adding economy in the region and positive economic externalities will be confined and benefited the northern belt region.

Proposed Industries

Based on the existing comparative advantage of the study area, we acknowledged the following industries that we are proposing as to have value-adding economic activities; logistics hub, Halal hub, resource-based SMEs, waste-to-wealth SMEs, and food-based SMEs.

Logistics Hub

Many trade activities between Thailand and Malaysia are being conducted by road and rail transport services. Bukit Kayu Hitam dominates the road transport service while Padang Besar mainly handles rail transport. Based on the 2007 Malaysia-Thailand bilateral trade data, the value of total trade that passed through Bukit Kayu Hitam was worth RM11 billion. This accounted approximately 65 percent of the total Malaysia-Thailand bilateral trade values by road transport. Hence, Bukit Kayu Hitam has a comparative advantage in land transport. This is further strengthen by the fact that Bukit Kayu Hitam is situated on the proposed ASEAN Highway Network which includes Malaysia North-South PLUS Highway up till Singapore.

There are more that 30 forwarding agents involved in road transport services in Bukit Kayu Hitam. In our industrial survey, we found that the majority of companies at the PKNK Industrial Estate are logistics service providers. The bigger players are EH Utara, E.A.E. Freight Forwarding, Mayglobe Logistic and Overland Total Logistics Services. The current practices of loading and unloading of cargos and containers between Thai and Malaysian logistics firms are mainly

operated at PKNK Industrial Estate. This is partly due to the facilities provided by the Malaysian firms as well as taking advantage of the Malaysia Road Transport Act that permits movement of Thai heavy vehicles without insurance policy requirement within the 2 km limit from the Bukit Kayu Hitam CIQ.

Thus, to create a value-adding economy to the existing and new logistics activities, we propose the followings;

- i. The logistics industry in Bukit Kayu Hitam should be accorded as promoted activities with accompanying logistics incentives (see appendix for the tax incentives for integrated logistics services).
- ii. The CIQ should be expanded and upgraded to fulfill current and future needs to handle increasing traffic volume. The modernization of the CIQ would also help minimize operating cost of firms. (Currently, the expansion of the CIQ is managed by the federal government). We would like to note that the issue of congestions at the Bukit Kayu Hitam CIQ is not a new one. It is an important matter that needs to be solved urgently. Currently, even with the congestions, Bukit Kayu Hitam handled 65 percent worth (or RM11 billion) of the total Malaysia-Thailand bilateral trade values by road transport, according to the 2007 data. Thus, the expansion of the Bukit Kayu Hitam CIQ would not only lead to more trade between Malaysia and Thailand but also contribute significantly to the economic growth of the region.
- iii. To further expedite the handling of exported goods from SBEZ, we propose that the Penang Port Commission be involved in the clearing process of the exported goods.
- iv. The 2 km limit should be replaced to cover the whole SBEZ area.

Halal Hub

HDC, in its 2009 blueprint, has already identified four Halal Parks for the NCER region; namely Sungai Petani Halal Park in Kedah, Padang Besar Halal Park in Perlis (both are initiated by MECD), PERDA Halal Food Park in Kampong Kubang Menerong, Pulau Pinang (initiated by MITI) and Perak Halal Park (initiated by the state SEDC).

Sungai Petani Halal Park will be the main production for agriculture in the Northern Corridor Economic Region (NCER) which can produce, manufacture and process the products from the northern states and also Thailand. Agriculture cluster in the region would include paddy, fruits and herbal products. Padang Besar Halal Park in Perlis will concentrate on the local products. PERDA Halal Food Park in Kampong Kubang Menerong, Pulau Pinang will also be concentrating on local products. Perak Halal Park will concentrate on agriculture products with special preference for meat and meat products. Production of Halal ducks, poultry, cattle and goats will be the main function in this cluster.

The reason for proposing Bukit Kayu Hitam Halal Hub is basically to capture the incentives under the halal hub promotion and thus making Bukit Kayu Hitam attractive for investors. Furthermore, being next to the Thai border, Bukit Kayu Hitam is an attractive place for Thai investors to set up companies and utilized the Malaysian Halal Certification advantage for export purposes to exploit, among others, the US-Thailand bilateral Free Trade Agreement and the proposed US-Malaysia bilateral Free Trade Agreement.

We propose that the Halal Park which is to be set-up in the SBEZ has the following attributes;

- i. It is initiated by PKNK. At this moment, PKNK has already conceptualized of having a second Halal Park (besides Sungai Petani) at the PKNK Bukit Kayu Hitam Industrial Estate.
- ii. The area is more than 40 hectares (100 acres) that falls under the category of *Halal Park/Halal Distributive Park/Halal Logistics Park*. This category of Halal Park is different from those in Sungai Petani and Padang Besar partly because of the land size - Sungai Petani and Padang Besar are 14 hectares (35 acres) each, which falls under the category of Halal Food Park (more than 4 hectares / 10 acres). This proposed Halal Park has a variety of products and not confined to just one or a few categories.
- iii. Cooperation in Halal R&D between agencies and universities is encourage, such as between Prince Songkla University and MARDI Bukit Tangga. This follows the initiative taken by HDC to encourage cooperation in Halal R&D between Thailand and Malaysia. HDC had signed an MOU on cooperation programs with Halal Science Center, Chulalongkorn University on 7

May 2007. Among the purpose of the MoU are to build up capacity development for both countries, knowledge sharing of R&D, development of Halal Standard and related IMT-GT matters. HDC and UPM (representing Malaysia) participated in the exchange of scientists program through a short training on analytical techniques in detecting *haram* ingredients in food conducted at the Halal Science Center, Chulalongkorn University on 17-23 August 2008. The training program enhanced networking and relationship among participants and created researchers. It is also a platform for sharing the latest information and expertise among scientists and researchers.

Resource-based SMEs

Bukit Kayu Hitam-Changloon-Sintok is predominantly an agricultural area with rubber and palm oil as its main crops. However, best to our knowledge, there is hardly any resource-based factories in this area that utilized local resources as inputs in their production. These kinds of activities have great potentials in this area and should be encouraged to be developed here.

Currently, there are no rubber factories in Bukit Kayu Hitam-Changloon-Sintok despite having quite a number of rubber plantations in the area which are owned by Felda (2,144 hectares), Risda (1,399 hectares), PKNK (405 hectares) and Lim Chow Chong estate (405 hectares). However, interestingly enough, there are quite a few rubber factories in Sadao (for example, Safe Skin factory that is producing medical-related rubber products) just across the border.

Having a large area of rubber plantations in Bukit Kayu Hitam-Changloon-Sintok, and in Kubang Pasu and the surrounding districts makes it possible and viable to set-up a rubberwood industry in SBEZ. The demand and popularity of rubberwood and its products in Japan, the US and Europe has stimulated the growth of the downstream processing of the timber in Malaysia. This has in turn attracted the development of similar rubberwood processing industries mainly in the neighboring countries of Indonesia and Thailand. Presently, rubberwood is being used in a number of industries in Malaysia. It has outperformed some of the traditional furniture timbers for export. It is estimated that out of RM1.5 billion worth of furniture exported from Malaysia in 1994, about 70 percent (RM 1,050 million) came from

rubberwood. It is projected that the country will achieve an export of RM2.5 billion worth of furniture by the year 2000.

Thus, we believed that, with proper incentives, SBEZ can attract investors to set-up resourced-based industry in this area.

Waste-to-Wealth SMEs

During the recent cabinet reshuffle, the government has renamed the Energy Ministry to the Ministry of Energy, Green Technology & Water. The emphasis on green technology shows the commitment of the government to conform to environmentally friendly practices for the country in the near future. As such, we propose that incentives be given to Waste-to-Wealth industry to promote these environmentally friendly practices.

Currently, one factory at the PKNK Industrial Estate, Protab Agrobases Packaging, is involved in the waste-to-wealth activity. It uses palm-oil empty fruit bunch to produce disposable health products, but it sourced the raw material from Taiping. With the growing area of palm-oil in the northern region, the availability of the raw material will not be a problem.

At the moment, the cost of processing empty fruit bunch is four times higher than processing recycle paper. However, turning empty fruit bunch into fiber does not involve chemicals and thus can be safely used in producing disposable health products, as being done by Protab Agrobases Packaging. With proper incentives (to make empty fruit bunch as competitive as recycle paper), the government can encourage the use empty fruit bunch to replace recycle paper in the paper industry and the other types of Waste-to-Wealth SMEs.

Food-based SMEs

Although there are many small-scale farms in the Bukit Kayu Hitam-Changloon-Sintok area that are producing fresh produce, none is involved in food-based manufacturing. Maker Recipe is the only food-based factory that is located at the PKNK Industrial Estate. It produces food spices in cooking but sourced its inputs from outside of the study area. Currently, the Sime Darby's Sweet Corn Farm is only producing fresh produce, but it has the intention to produce corm-based products

in the future. Thus, we would propose that proper incentives be given to these activities to encourage more local, Thai and foreign investors to be involved in the food-based industry. We also believe that the Thais have good technologies and are very innovative in food-based activities, and thus their participations and collaborations with their Malaysians counterparts should be encouraged.

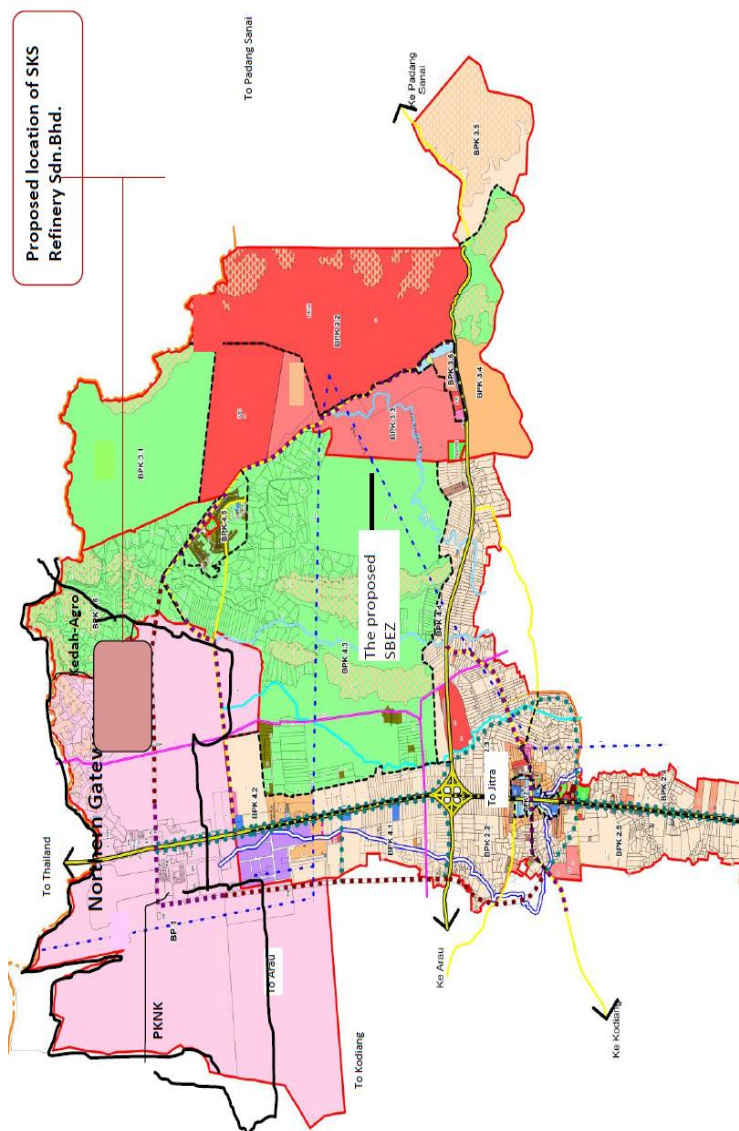
Labor Mobility

From our industrial findings, the supply of local low skilled labor is not a problem. However, the problem of high turn-over rate among these workers is prevalent mainly due to the lack of commitment to their work. To overcome this problem, many companies and factories at PKNK Industrial Estate sourced their labors outside from the study area (neighboring districts). Certain economic activities, such as plantations, are having problem in getting local labors even with employment opportunities. For example, the Sime Darby's Sweet Corn Farm has to employ legal foreign labors due to this problem. Thus, we propose flexibility be given to employers in SBEZ to employ foreign labors, when necessary, particularly from Thailand.

Oil Refinery and Petroleum-Based Industries

Our study so far, has proposed several industries to be set-up in the SBEZ based on the comparative advantage of the study area. However, the industrial development of Kota Perdana is not based on the existing comparative advantage of the study area. But instead being proposed by Northern Gateway/SKS Refinery to be developed into an oil refinery and petroleum related industries. It is of interest to note that comparative advantage can be created but its sustainability depends heavily on its future returns.

SKS Refinery Sdn Bhd has proposed to finance, build and operate a 250,000 barrel a day oil refinery at Kota Perdana during the first phase of the project which is expected to be operationalized by 2011/2012. We expect that with the existence of the oil refinery, other downstream petroleum-based activities would be possible and should be considered. Thus, we proposed that incentives should also be given to these industries so as to attract investors. Currently, there are two factories at the PKNK Industrial Estate that are involved in petroleum-based activities, namely Keloil-PTT LPG and Nulogittec Industries.



CONCLUSION

The SBEZ is feasible in Bukit Kayu Hitam. However, the success of creating a value-adding economy in the study area depends mainly on the concerted industrial development action plans of both, PKNK and Northern Gateway, and with the proper fiscal incentives and financial supports from the state and federal governments.

We believe that with the creation of the SBEZ, there will be spill-over effects on neighboring border towns such as Padang Besar and Durian Burung as shown in the following chart. Bukit Kayu Hitam is feasible as a SBEZ and has the potential to be a logistic, manufacturing, and halal hub due to the following reasons:

- i. It is strategically located and well connected by road transport from Singapore in the south to Thailand, Indochina and China in the north through the ASEAN highway network.
- ii. The projected increase of freight haulage and passenger transport by road to and from Thailand and Malaysia will increase the significance of Bukit Kayu Hitam as northern and southern gateways.
- iii. A new Bukit Kayu Hitam CIQ for heavy vehicles is urgently needed to alleviate the current traffic congestions with becomes an unnecessary added costs to businesses.
- iv. Thailand investments in Malaysia are concentrated in food manufacturing industries. Most of its FDI is channeled to Selangor. With FDI incentives provided by the government, Bukit Kayu Hitam will be an attractive alternative location for new Thai food manufacturers, especially in halal food industries.
- v. Factories and companies in BKH can easily sourced their material inputs from and market their products to Thailand and Northern Malaysia. Furthermore, cheap source of low-skilled labors due to abundance of labor supply in Kubang Pasu are readily available.
- vi. The success of creating a value-adding economy in the SBEZ depends on the concerted industrial development plans of both, PKNK and Northern Gateway, and with the proper fiscal incentives and financial support from the state and federal governments.

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