

# Safeguarding Thilawa SEZ: Reclaiming Its Core Principles

Winston Set Aung

- The flagship Thilawa Special Economic Zone, a cornerstone of cooperation between Myanmar and Japan, is increasingly at risk as external restrictions and controls are progressively imposed within the zone, eroding its foundational principles.
- The gradual dilution of a liberal, predictable, and investor friendly climate threatens to undermine investor confidence and the credibility of Myanmar's SEZ model.
- Without urgent corrective measures to restore policy autonomy and clarity within the zone, the long-term viability of Thilawa SEZ as a model for future industrial and investment development may be severely compromised.

## Introduction

Although the Thilawa Special Economic Zone (Thilawa SEZ) was developed and operated under the Union Solidarity and Development Party (USDP) and the National League for Democracy (NLD) administrations (2011–2021) as a flagship project of cooperation between Myanmar and Japan, the concept of SEZs had already taken root during the State Peace and Development Council (SPDC) administration (1988–2011), prior to the USDP assuming office. In the later years of the SPDC, an interministerial committee was established to draft the SEZ Law, and a memorandum of understanding was signed with Thailand in 2008 to develop the Dawei SEZ. As a result, both the SEZ Law and the Dawei SEZ Law were promulgated in January 2011, shortly before the USDP administration took office in April. It may have been intended at the time that future SEZs in Myanmar would be governed by the SEZ Law, while the Dawei SEZ would be governed separately under the Dawei SEZ Law, although in practice the two frameworks proved largely redundant.

During the early years of the USDP administration, when the SEZ concept remained unfamiliar to many policymakers, high level delegations were sent to China to study the experience of the Shenzhen SEZ, including a delegation led by the Vice President in October 2011. While drawing lessons from China's SEZ model, the authorities identified Japan as a strategic partner

for developing the Thilawa SEZ as a flagship government to government project.

Accordingly, the SEZ Law was revised with assistance from Japan to make it more liberal, investor friendly, and aligned with international practices, while the redundant Dawei SEZ Law was repealed. The objective was to establish a predictable and enabling investment environment within SEZs that could be implemented rapidly, even as broader bureaucratic reforms across Myanmar required more time. In essence, the strategy introduced two parallel policy regimes within one country, allowing SEZs to serve as reform laboratories whose successful practices could gradually be extended nationwide.

## What makes Thilawa SEZ distinctive

As intended, policies and standard operating procedures (SOPs) that differed from the more restrictive framework outside the SEZ were introduced, and a One Stop Service Center was established to provide efficient and investor friendly services. These policies and procedures, insulated from the broader regulatory constraints outside the zone, played a central role in making the Thilawa SEZ genuinely distinctive and successful.

Since Thilawa was NOT designed as an export processing zone, it was not expected that exports would necessarily exceed imports. While some industries within the SEZ export a large

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share of their production, others manufacture goods that gradually substitute for imports. Although these industries rely on imported inputs during the early stages of production or assembly, initiatives were introduced to strengthen linkages with domestic supporting industries. Over time, this approach was intended to increase local sourcing, allowing domestic firms outside the SEZ to benefit from industrial activities generated within the zone.

### What is currently at stake

Despite the earlier efforts to establish the Thilawa SEZ as a model SEZ, these achievements have come under increasing strain under the State Administration Council (SAC), later reconstituted as the State Security and Peace Commission (SSPC) following the 2021 coup. Policies and procedures that once made the SEZ successful, liberal, and predictable are no longer effectively insulated from the increasingly restrictive business environment outside the zone.

Interviews with some investors indicate that authorities have introduced successive restrictions, particularly on imports, including the imposition of ceilings on import amounts, based on the narrow misconception that an SEZ must generate exports exceeding imports. They do not appear to understand the SEZ role as a policy experimentation laboratory. Such measures overlook the fundamental principles of SEZ development and the factors that made Thilawa successful in the first place. In several instances, the restrictions imposed through top-down directives, often issued on verbal basis, have even conflicted with provisions of the SEZ Law itself.

If such practices continue, the success of the Thilawa SEZ will gradually erode. This would be a profound loss for both Myanmar and Japan, as one of their most prominent and successful flagship projects risks quietly deteriorating into something far removed from the vision on which it was originally built.

As a result, some investors have already exited, as they can no longer operate sustainably in the deteriorating business environment. It is critical for the authorities to recognize that this outcome is not driven solely by external economic sanctions but is also a direct consequence of domestic policy actions that are eroding the very essence of the Thilawa SEZ.

At the same time, there is a growing risk that departing long-term investors will be replaced by short term, speculative entrants seeking to capitalize on opportunities rather than engage in genuine manufacturing activities. If this trend continues, Thilawa risks devolving into a conventional industrial zone, where land speculation replaces productive

investment, undermining its original purpose. Such an outcome would not only compromise the integrity of the SEZ model but also diminish a flagship symbol of cooperation between Myanmar and Japan.

### Policy implications

Whether the successive restrictions that have undermined the core principles of the Thilawa SEZ will persist under a new administration after April 2026 remains uncertain. However, it is imperative that Myanmar and Japanese experts jointly develop a clear and actionable revival plan, specifying what should be implemented, avoided, or reversed. Such a plan would provide concrete guidance to SEZ authorities and help prevent the continuation of restrictive practices imported from the broader bureaucratic environment outside the zone.

At the heart of this effort, the plan must clearly reaffirm that an SEZ is designed to operate as “two systems in one country,” providing a more liberal, predictable, and investor friendly environment aligned with international practices within the zone, in contrast to the more restrictive framework outside that cannot be reformed rapidly. It must emphasize, particularly to officials across government agencies and those assigned to the one stop service center, that policies and procedures within the SEZ are intentionally different from those applied elsewhere. This distinction is critical, as the replication of familiar administrative practices within the zone undermines its very purpose. If the same rules apply both inside and outside, the zone loses its defining value and becomes indistinguishable from a conventional industrial area. Likewise, if policymakers insist that exports must exceed imports, then the appropriate model would be an export processing zone, not an SEZ.

Restoring investor confidence requires a firm foundation of political and social stability. Such stability cannot be achieved through force or through a unilateral roadmap that disregards the perceptions and concerns of other stakeholders. It must be pursued through compromise and inclusive negotiations involving all key stakeholders.

At the same time, the operational integrity of the SEZ must be restored. The zone should be insulated from external restrictions and burdensome bureaucratic processes that undermine its core functions, and two systems in one country approach should be adopted, allowing the SEZ to operate under a stable and predictable framework while broader reforms outside the zone continue. Only under these conditions can the Thilawa SEZ regain its role as a meaningful and successful flagship project of cooperation between Myanmar and Japan.

(Winston Set Aung/Development Studies Center)