

How Can SEZs Catalyze Economic Development?

DECZ Project Session 1



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Outline

- Definition and Types of SEZs
- Evolution of SEZs
- SEZs and Development Strategy
- Economic Impact of SEZs
- Cross-border Economic Zones
- Success and Failure Factors
- Future of Zones

Definition of SEZs



clearly defined geographically

single management or
administration

liberal and streamlined business
procedures

Types of SEZs: By Modality

| Economy | By Modality | | |
|-------------------|-------------|------------|----------------------|
| | Private (%) | Public (%) | Total (no. of zones) |
| Bangladesh | 11 | 89 | 8* |
| Cambodia | 100 | 0 | 14* |
| PRC | 12 | 88 | 1515* |
| Myanmar | — | — | 3* |
| Kazakhstan | 0 | 100 | 10 |
| India | 74 | 26 | 615* |
| Malaysia | 23 | 77 | 530 |
| Pakistan | 0 | 100 | 7* |
| Philippines | 92 | 8 | 460* |
| Republic of Korea | 10 | 90 | 102 |
| Sri Lanka | 6 | 94 | 14 |
| Thailand | 84 | 16 | 110 |
| Viet Nam | 89 | 11 | 411 |

* with PPP component

Evolution of SEZs

➡ *Second best and temporary distortionary measure*

First Stage

- Import substitution
- Job creation
- Foreign exchange earnings (BAN, CAM)



Second Stage

- Technological spillover
- Demonstration effect
- Domestic industrial development (MAL, THA)



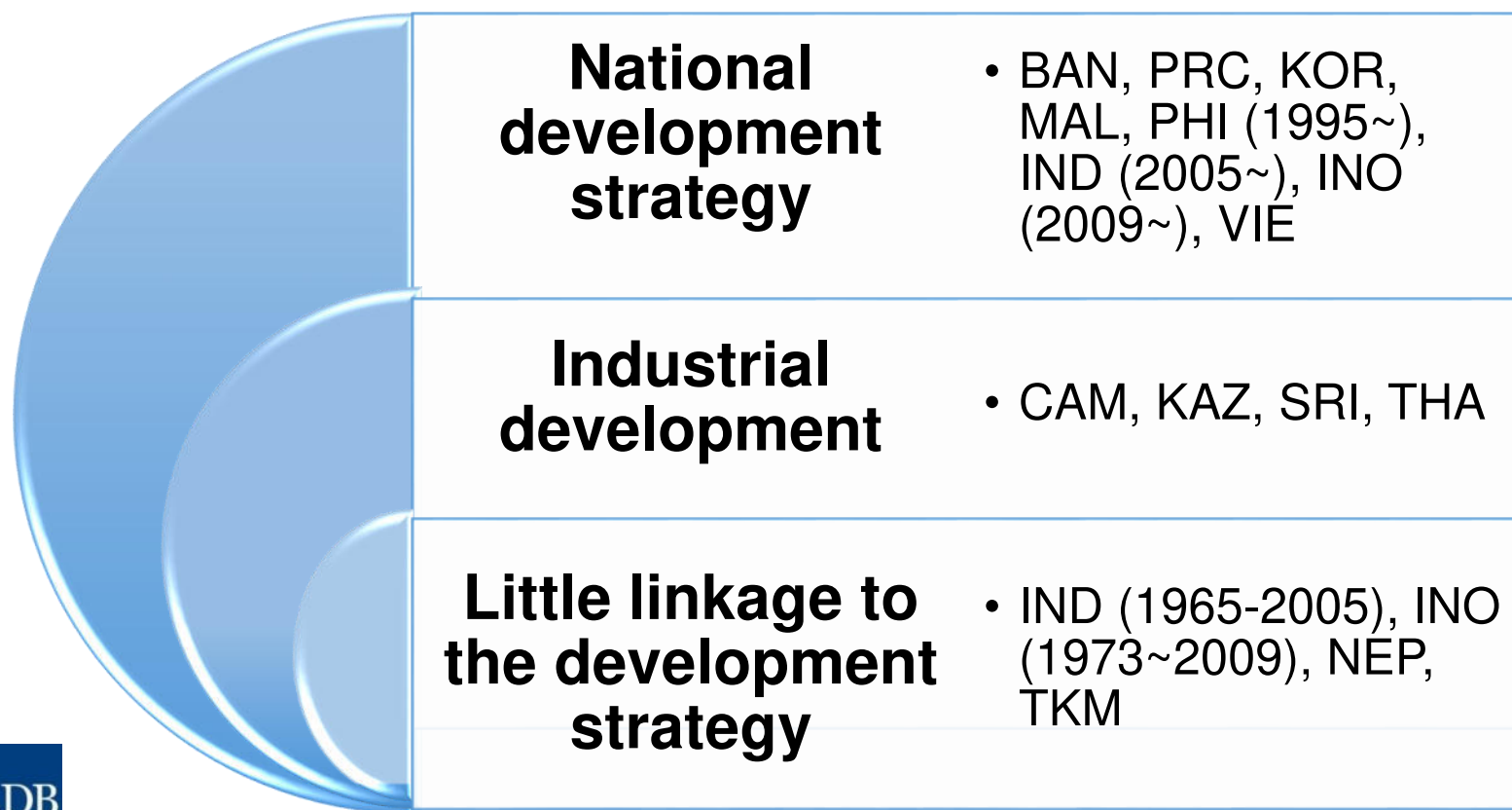
Third Stage

- Test bed for structural reforms
- Agglomeration economies
- Growth pole for development (PRC, KOR, TAP)

Development Strategy and Institutions

➡ How to enhance nationwide impact:

- link to national development plan
- enabling legal framework
- dedicated governing authority



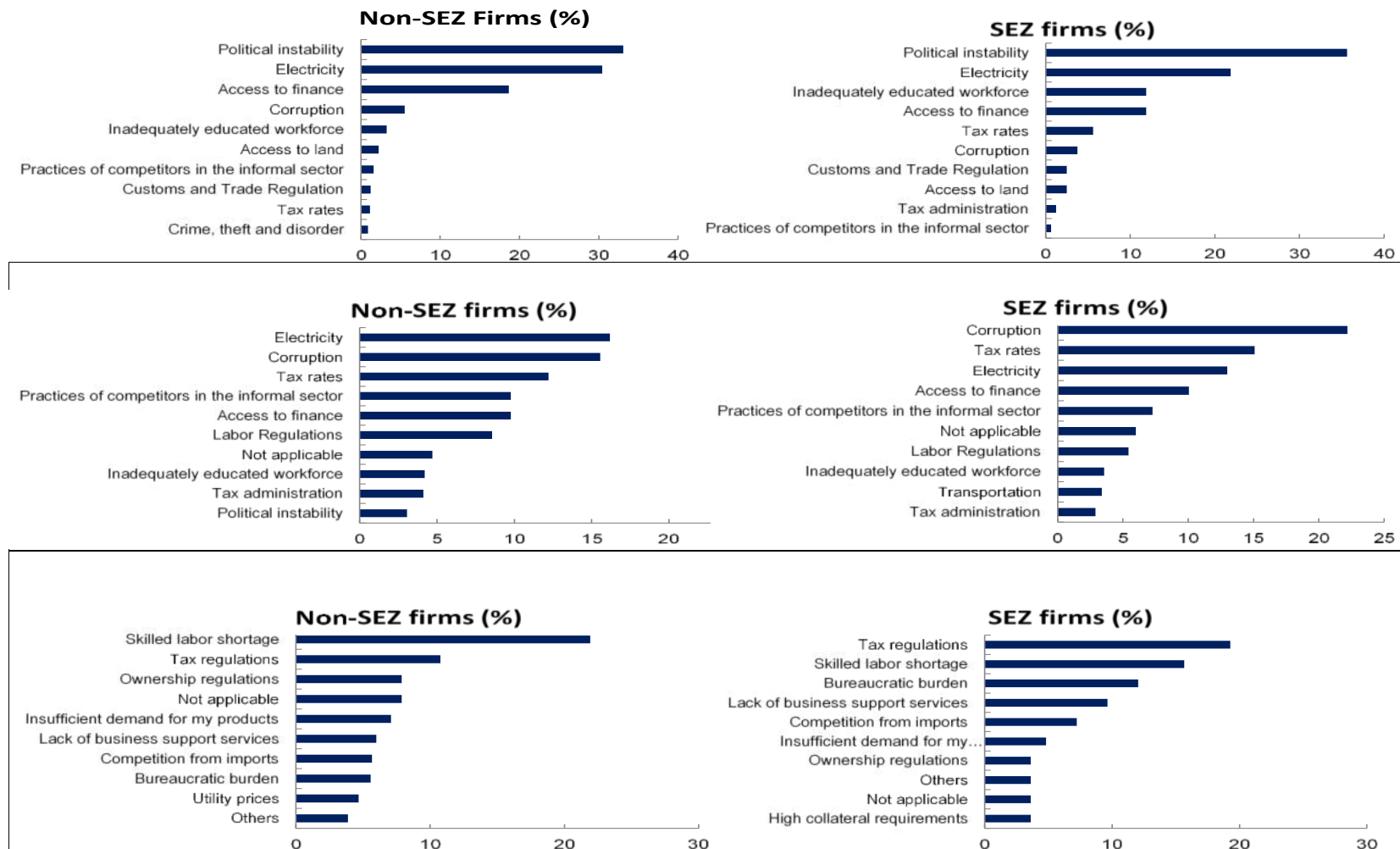
Economic Impact of SEZs:

Exports and FDI

| Exports | | | | |
|---------------|---------------|-------------|---------|---------------|
| | SEZ Existence | No. of SEZs | SEZ Law | SEZ Authority |
| Asia | 0.03 | 0.11* | 0.40* | 0.27* |
| Africa | -0.40* | | -0.43* | -0.49* |
| EU | 0.34* | | 0.16* | 0.11* |
| Latin America | -0.41** | | -0.08 | 0.79** |
| World | -0.08* | | | |

| FDI | | |
|-------------------|--------------------|-----------------|
| | Without Time dummy | With Time dummy |
| Developing Asia | 1.86* | 0.82* |
| Africa | 0.47* | 0.21 |
| Developing Europe | 0.25 | -0.03 |
| Latin America | 1.25** | 0.46 |
| World | 0.89* | 0.29 |

Perceived Obstacles

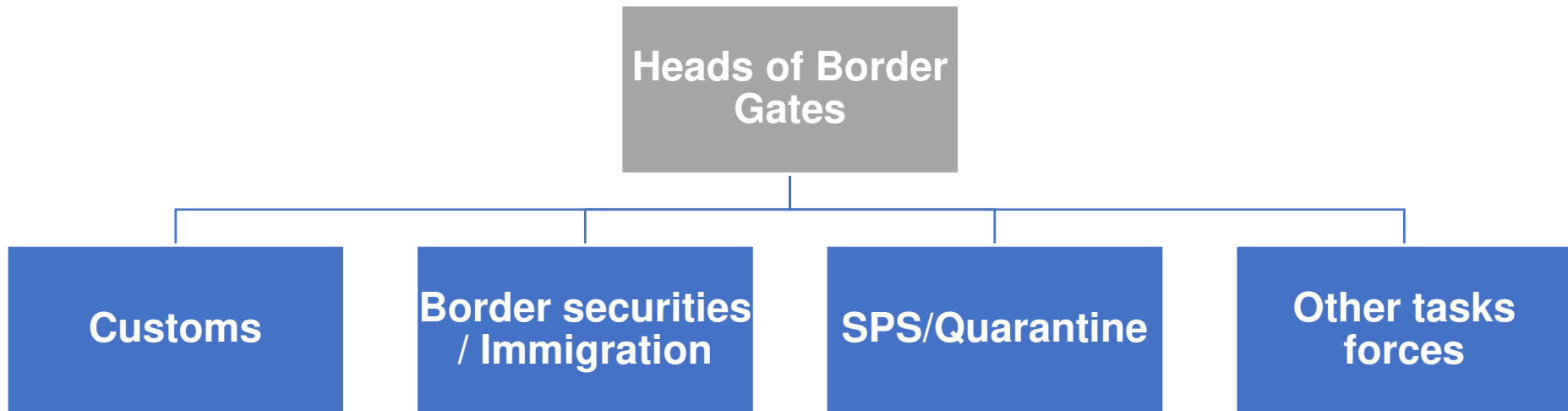


Source: ADB calculations using data from World Bank Enterprise Survey (WBES).

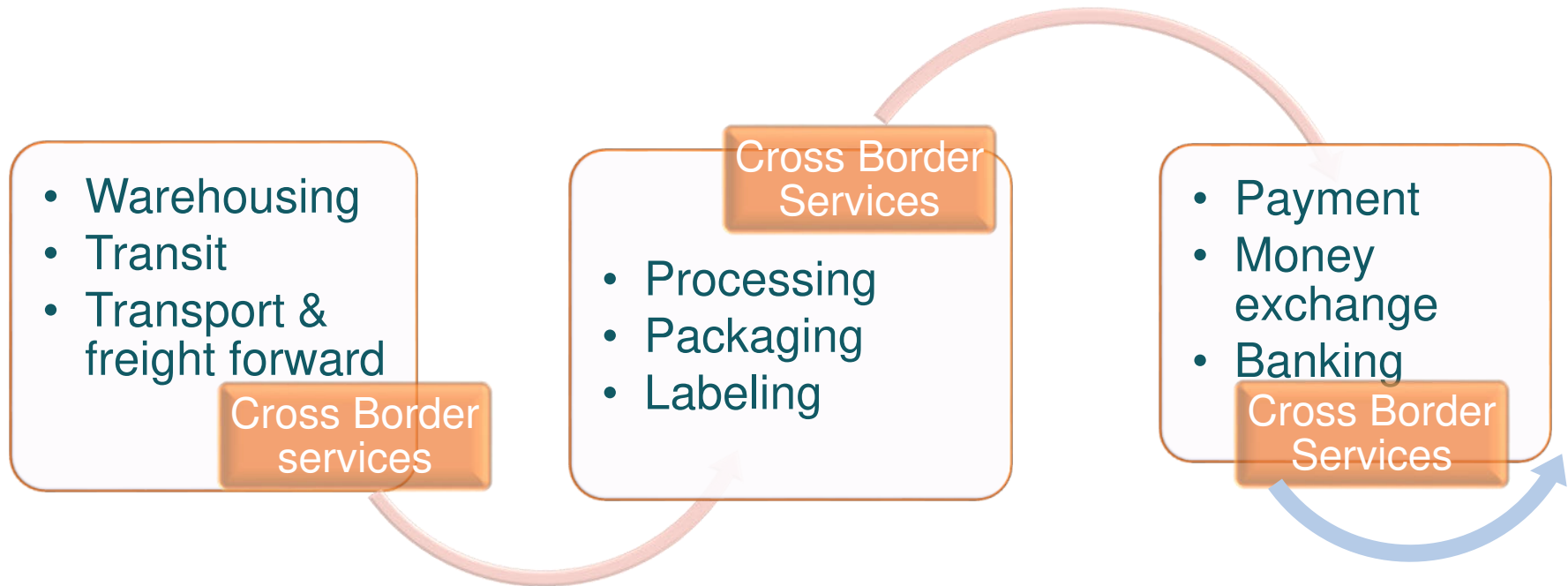
Cross-border Economic Zone



Border Gate Management



Cross-border Services



Single Window for Simplification of Administrative Formalities

Key Factors

- ***Soft infrastructure***
 - Policy and regulatory framework
 - Institutional development
 - Technical operations and functions set for the CBEZs
 - Capacity building
- ***Hard infrastructure***
 - Access roads to and those running in the CBEZs
 - Electricity and telecommunication networks
 - Water supply and sanitation systems
 - Production and trade support facilities

Conclusion



Success and failure factors

| Success factors | Failure factors |
|---|--|
| Fiscal and non-fiscal incentives | Ambitious goals relative to country's comparative advantage |
| Factor costs | Zones as industrial islands (physical enclaves) |
| Strategic location, multimodal connectivity | Governance and rent seeking |
| Institutional capacity | Wrong positioning |
| State and local governments' commitment and policy stance | Lack of localized strategy for upgrading industrial value chain and creating technology spillovers |
| Link with development strategy and industrial policy | |
| Backward and forward linkages with domestic economy | |

Looking ahead

- The popularity of SEZs still remains strong under changing environment (growth of services, knowledge economy)
- Urban development and smart cities will increasingly become integral part of future zones
- Approach should be tailored to country's economic and developmental context
- Linkage to development strategy and institutions are crucial factors

Thank You!