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SEZs: International Best practices

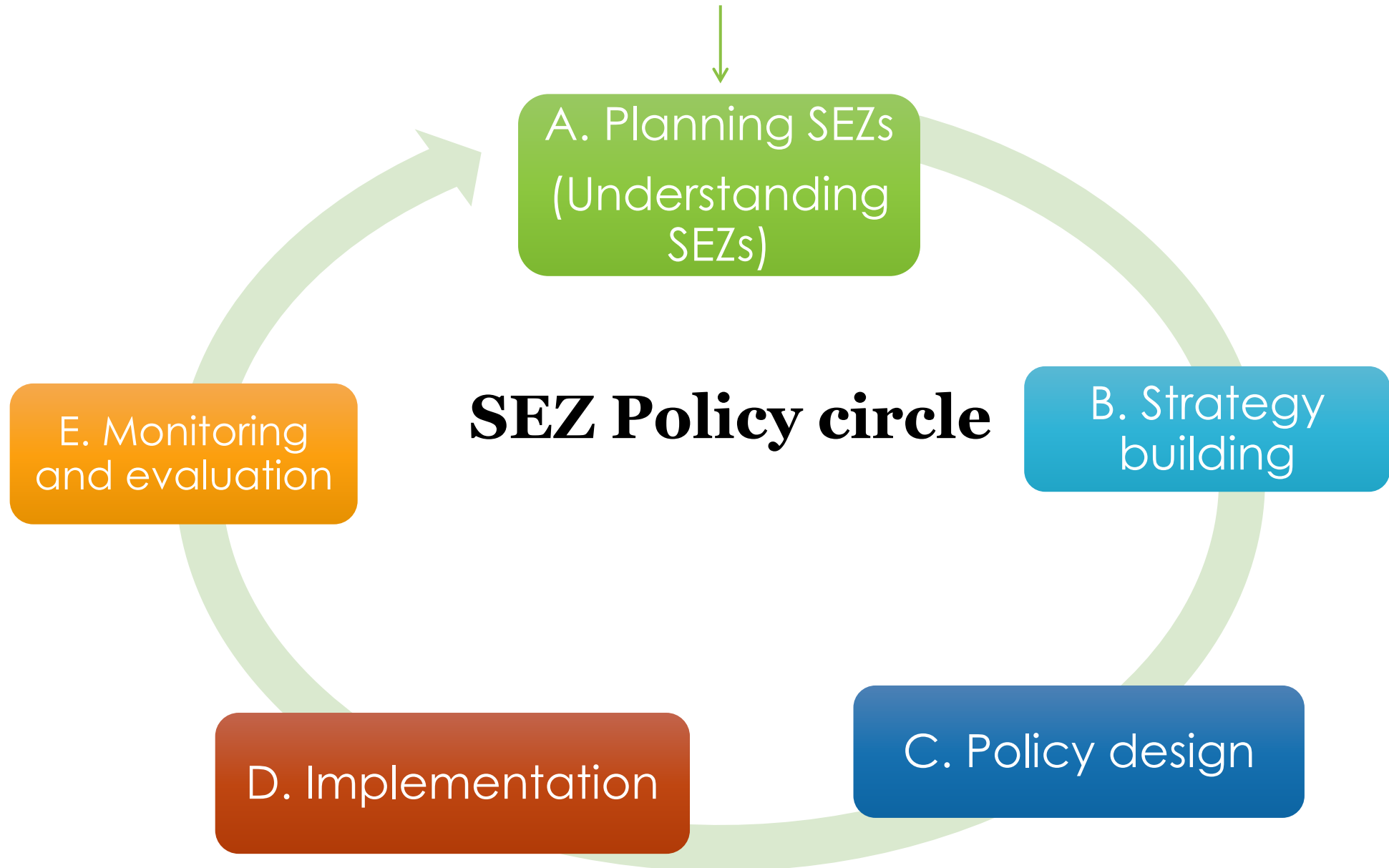
Aradhna Aggarwal

Professor

Copenhagen Business School

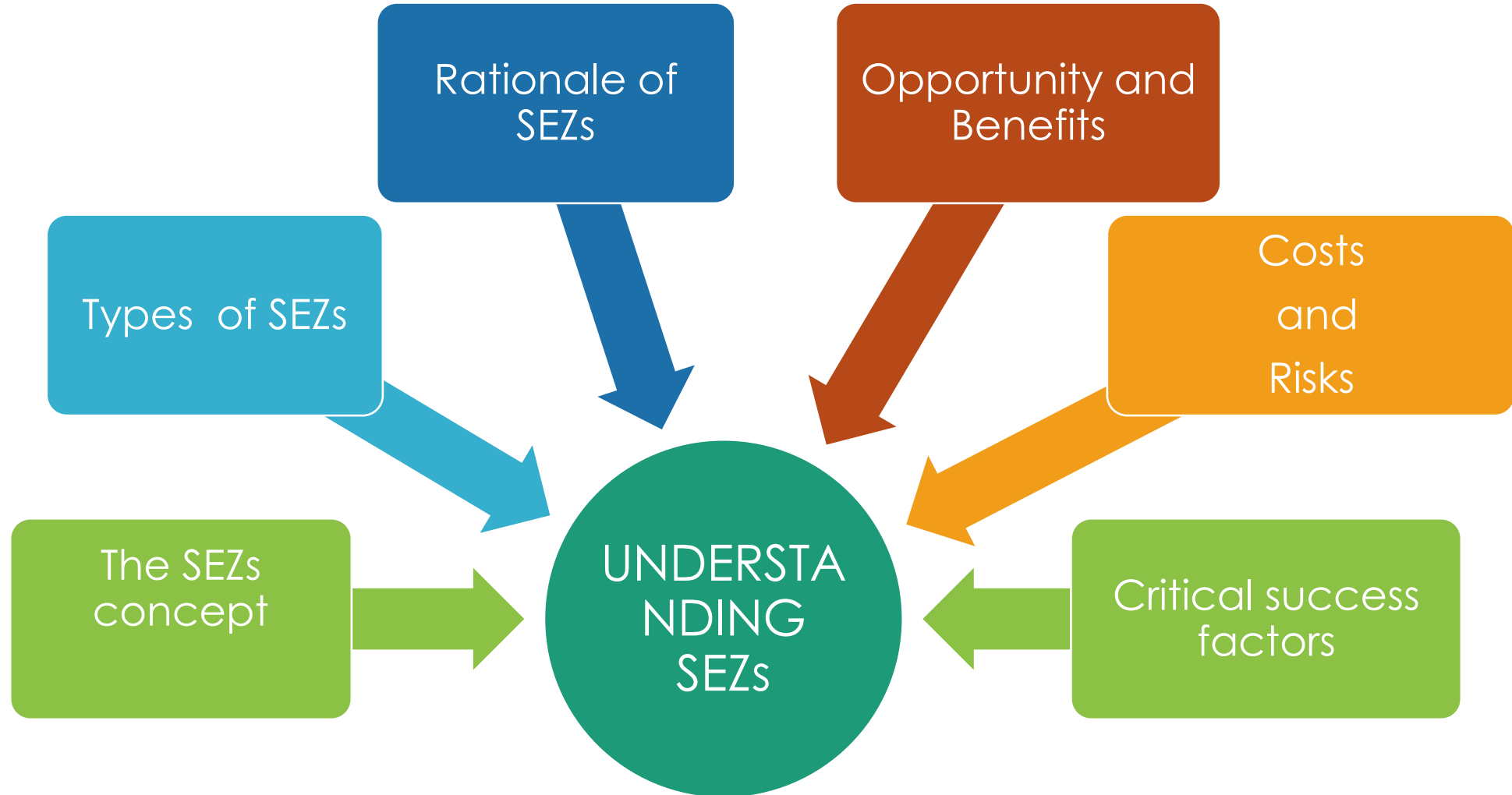
Denmark

Best Practices : The Framework



A. Understanding SEZs : Planning for SEZs

(already covered by Jong Woo in Presentation 1)



B. Strategy Building

Best Practices : Key Questions

1. Why is the purpose of setting up the SEZs?
2. What type of SEZs to address the country's goals?
- 3.. Is an SEZ the correct policy to address the country's goals?
4. What should be the composition of activities : Specialised or mixed?
5. What should be type of the activities : labour intensive, skill intensive, knowledge intensive?

Ascertain the purpose of SEZs

- A clear vision of the overall economic development path that is being targeted and the specific role of SEZs on that path

- Promotion of trade and FDI for foreign exchange? (Sri Lanka)
- Employment generation? (Most developing countries)
- Industrial diversification and modernization? (Most countries)
- High value-added activities? (Taiwan, S. Korea)
- Border area development/lagging region development (Mexico, China, **Thailand**)
- Testing new laws? (China)
- Logistics hub development? (China, Malaysia)

.....Clarity in objectives

Multiple objectives can be conflicting

Multiple objectives can lead to competing priorities, a lack of focus, and an arbitrary incentive package.

Pragmatism in the strategic objectives and vision

- the state must re-evaluate its policies and objectives as economic growth takes place, and modify and adapt them (China, Taiwan and Korea, Malaysia, Thailand vs Sri Lanka, Bangladesh)
- Shenzhen journey: Make in China to Innovate in China (innovation city)

Is an SEZ the correct policy to address the country's goals?

What are the hindrances in investment

Geography of the country,
Factor non-availability
(shortage of labour, skilled labour)
Natural resource curse or others

SEZs may not be effective?

Poor Infrastructure
Weak Business climate
Adverse Trade and Investment
regime
Industrial regulations
Law and order

Appropriate design of SEZs may lead to
success

Given the objectives, what type of SEZs are appropriate?

- **Trade based : logistics, foreign exchange, trade, employment, border development**
 - Free trade zones (commercial zones): logistics hubs for assembling, storage and packaging (Singapore on ports and airports, Malaysia on Thailand-Malaysia border, China,
 - purely trading zones (China-Kazakhstan Border: Duty free shops on both sides of the border)
 - Cross border e-commerce zones: Malaysia, China
- **Production based (FDI, trade, employment, industrialization...)**
 - Traditional Export processing zones
 - SEZs
 - Hybrid zones
- **Integrated zones:**
 - Trade and production based (Bangladesh SEZs),
 - Manufacturing, Trading and tourism zone (TEMA in Ghana)

In deciding the type of SEZs, location also matters...

- city, border, sea/airport, highways, economic corridors, lagging regions.....

Composition of activities : Specialized vs. diversified

- Zone programs that become overly reliant on a single product or market are vulnerable to changing global economic circumstances and evolving competitiveness (gems and jewellery in India for instance).
- If single product SEZs, then define the scope broadly covering the entire value chain (Apparel vs. accessories, Kazakhstan Shymkent SEZ)

What should be the activities : labor intensive, skill intensive, knowledge intensive?

- Targeting industries based on the comparative or competitive advantages:
 - China (labor intensive manufacturing), India (IT), Bangladesh, Sri Lanka, Central American countries and Jordan (Textile) Malaysia (Electronics)
- Targeting GVCs and anchors: Dominican Republic, Ethiopia, South Africa, Indonesia
- Location matters : city, border, sea/airport, highways, economic corridors, lagging regions.....

C. Policy framework

Key Questions: Best practices

1. Should there be a legal framework? What should it contain?
2. What is the best Institutional regime : Regulator, developer and manager of SEZs?
3. What is the best institutional regime to regulate, promote, and administer the SEZ program?
(What will be 'special' about the zone?)

The Legal framework

- Necessary though not sufficient (Most countries have a legal framework; China does not have one)
- Rules and procedures should be unambiguous guiding the entire process of site selection, planning, development, licensing, and operations, one stop shop, land, labor, employment, investment criteria, infrastructure development, incentives,
- Clarity in laws and the roles and responsibilities of all key actors (**PEZA for instance, SEZ laws of Indonesia and Thailand, Uzbekistan and Kazakhstan have revised their laws and made them more elaborate**).
- Predictability and transparency in the government's support for the SEZ program: Grandfathering clause (Sri Lanka)

The institutional arrangement : Three layers

- SEZ regulator: Responsible for policy making (The regulatory Body
 - The regulator is always the public sector. May have representation from the private sector.
- SEZ developers: Infrastructure developers and utility providers.
 - Can be the public or the private sector.
- SEZ managers: Those directly responsible for SEZs governance and rules making.
 - Can be the public or the private sector (but monitored by the state)

Autonomous SEZ regulatory body :

- Most successful countries have autonomous body with representation from various ministries and **the private sector**.
- May be anchored in the highest authority's office.
- Departments based in specific ministries (India, S. Korea, Malaysia) but may have challenges.
- The SEZ regulatory authority should be empowered effectively over different layers of the government and across ministries.

Ownership structures and delegation of powers to developers and managers

- Until the 1990s, most programs were public sector owned. Public sector was the Regulator developer managers,
- Proliferation of private SEZs (Mid 1980s): Regulator (State), developers and managers may be different.
- Evolution of PPP based models (1990s): Identify the appropriate model (Thailand, Malaysia, Indonesia, Philippines all have different models of PPP)
- State- state partnership

Types Institutional arrangements

Fully private: (developers
and managers)

BOO, BDO,
DCMF, DBFO, DBOM)

Lease to private: BBO, LDO

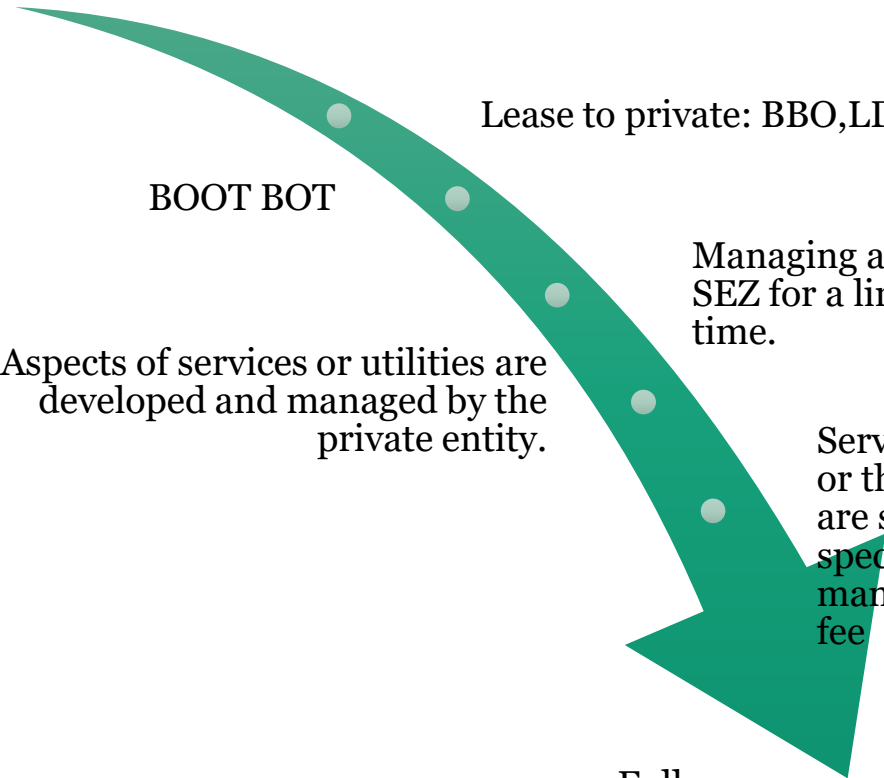
BOOT BOT

Managing a state-owned
SEZ for a limited period of
time.

Aspects of services or utilities are
developed and managed by the
private entity.

Services or utilities
or their maintenance
are subcontracted to
specialist firms for
management for a
fee

Fully government owned and
managed



PPP Models requires

- A Strong legal, regulatory and institutional framework
- Formal coordination mechanism and agreement between private developer and government (zone developer agreement)
- Dispute Settlement mechanism
- (Not always successful).

Operational and regulatory framework

- One stop shop: Registration, Licensing, and Administrative Procedures (**The Philippines, Ethiopia, Bangladesh**).
- Customs, Trade Facilitation, and Transport
 - dedicated customs sub-directorate for the zone program within the zone premise. For private SEZs (sharing the cost: India and Honduras) : Self examination system of India; "green lane" and independent customs supervision 24X7 in China.
- Infrastructure
 - Onsite: including financial infrastructure
 - Offsite,
 - Social (critical if the zone is away from the city)
- Labor standards and dispute settlement
- Land acquisition
- Environment

Fiscal and non-fiscal benefits

- **Fiscal**

- Critical in the early stage
- Designed around the strategic objectives
- WTO compliant
- Have sunset clause

- **Non fiscal**

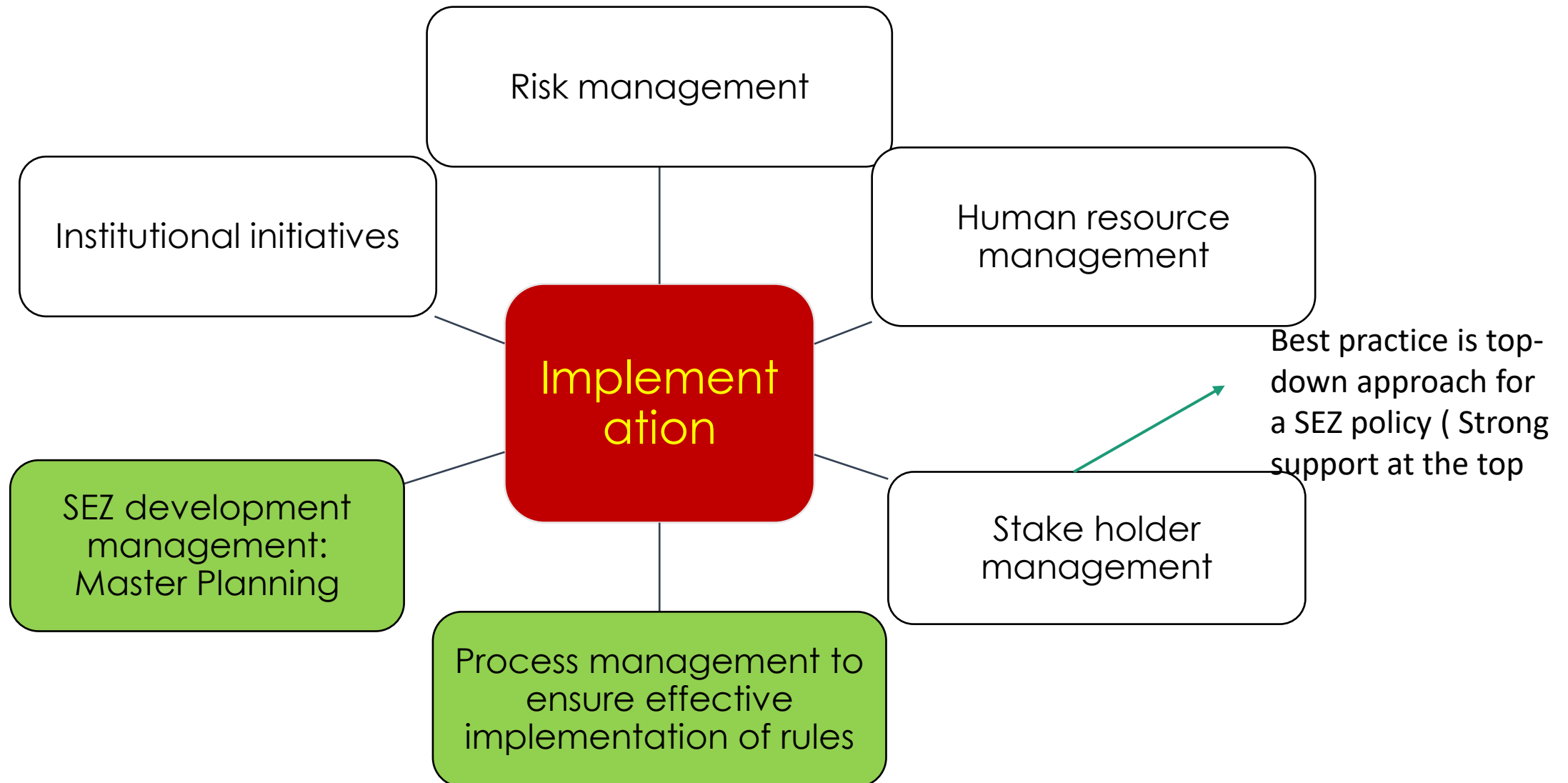
- Relaxation in regulatory regimes based on the objectives (Make SEZs special)
- Relaxations in Foreign exchange regimes and transactions (Overseas banking units)

Linkages with local economy

- Local suppliers should be extended benefits as indirect exporters.
- Trade with domestic enterprise in local currency
- Laws on Subcontracting
- Partial Domestic sales
- the formation of industry associations

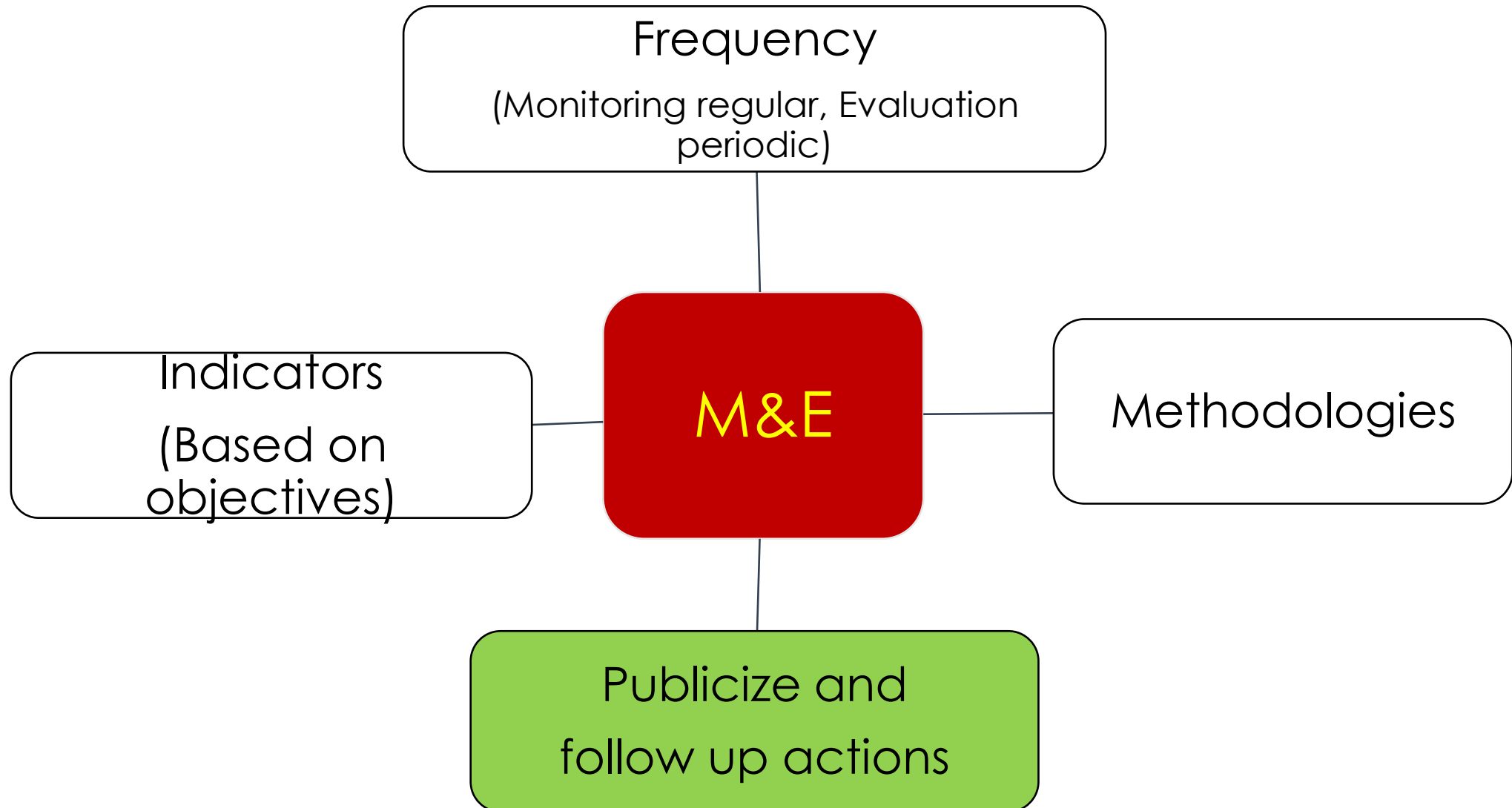
D. Implementation

Best practices



E. Monitoring and evaluation

Best practices



In sum.....

- To unleash the potential of SEZs, a strategic approach is required
- Much depends on
 - Political will, dynamism and experimentation with policymaking informed by a strategic medium- to long-run vision (China): Most countries faced challenges in implementing SEZs but those who learned lessons and addressed them by innovative policy making succeeded (China, Bangladesh, Ethiopia,
 - Chance
 -
 - Proximity and support of a large economy

THANK YOU