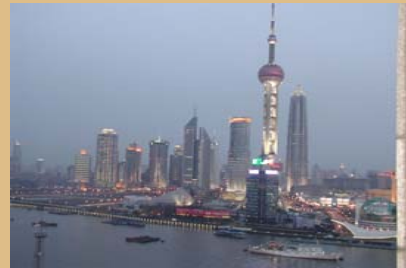


## Special Economic Zones



Global Experience and Best Practices



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- Zones today are evolving towards large, integrated economic communities
- Zones are not just for the developing world
- Modern zones are catalysts for reform not enclave safety valves
- Dynamic, successful zones are private sector developed and administered.
- Zones are not a panacea.

## All Zones

- Geographically delimited
- Single administration
- Geographic eligibility for benefits
- Purpose-built facilities

## Free Zones

- Separate customs area; recognized under Kyoto Convention
- Duty-free and low tax area
- Simplified procedures
- Special regulatory framework

# Zone Development Approach—Traditional Concept

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## Objective

- Promote exports

## Physical Characteristics/Dev. Approach

- Fenced-in enclave
- Public sector monopoly

## Policy Features

- Zone located in remote areas—enclaves
- 70-80% export requirement; oriented to FDI
- Duty-free inputs production only
- Manufacturing, neglected services, intermediaries
- Extreme view of extra-territoriality



# Zone Development Approach—Emerging Concept

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## Physical features

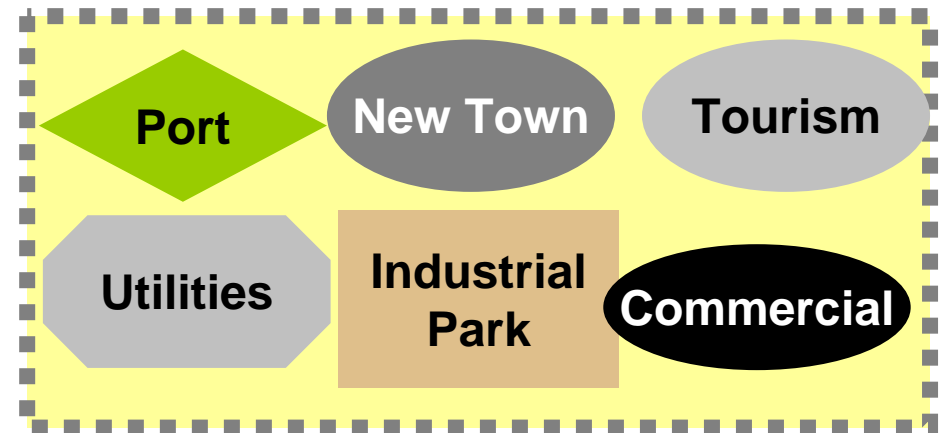
- **Integration, large-scale, mega zones**
- **IT systems & networks**

## Development Approach

- **Public-private partnerships**

## Policy Framework

- **Multi-market, not just export**
- **Mixed-used, not just manufacturing**
- **Deregulation and demonopolization**
- **Streamlined procedures, automation**
- **Resident populations**



# Types of Zones

	<b>Objective</b>	<b>Typical Size</b>	<b>Location</b>	<b>Eligible Activities</b>	<b>Markets</b>
Industrial Zone	Industrial development	< 100 hectares	Mixed	Industry	Domestic and export
Free Trade Zone	Support trade	< 50 hectares	Ports, airports	Mostly trade-related processing and services	Re-export, domestic
EPZ	Export manufacturing	< 200 hectares	Ports, airports	Mostly manufacturing	Export
Enterprise Zone	Urban area renewal	< 50 hectares	Inner city areas	All	N/A
SEZ/FEZ /Freeport	Integrated development	> 100 km <sup>2</sup>	Mixed	Multi-use	Domestic, internal, export



## City-States

- Singapore, Hong Kong
- Macau, Gibraltar, Dubai



## Islands

- Batam, Indonesia (1978, 416 km<sup>2</sup>)
- Labuan, Malaysia (1990, 92 km<sup>2</sup>)



## Cities/Provinces

- Inquique, Chile (1975, 2.4 km<sup>2</sup>)
- Shenzhen, China (1980, 327 km<sup>2</sup>)
- Subic Bay, Philippines (1992, 300 km<sup>2</sup>)
- Aqaba, Jordan (2000, 375 km<sup>2</sup>)



## 1970s

30 countries

80 free zone projects

No private zones

Total exports: \$6 billion

Direct jobs: 1 million



## Today

120+ countries

2,000+ zone projects

1,200+ private zones

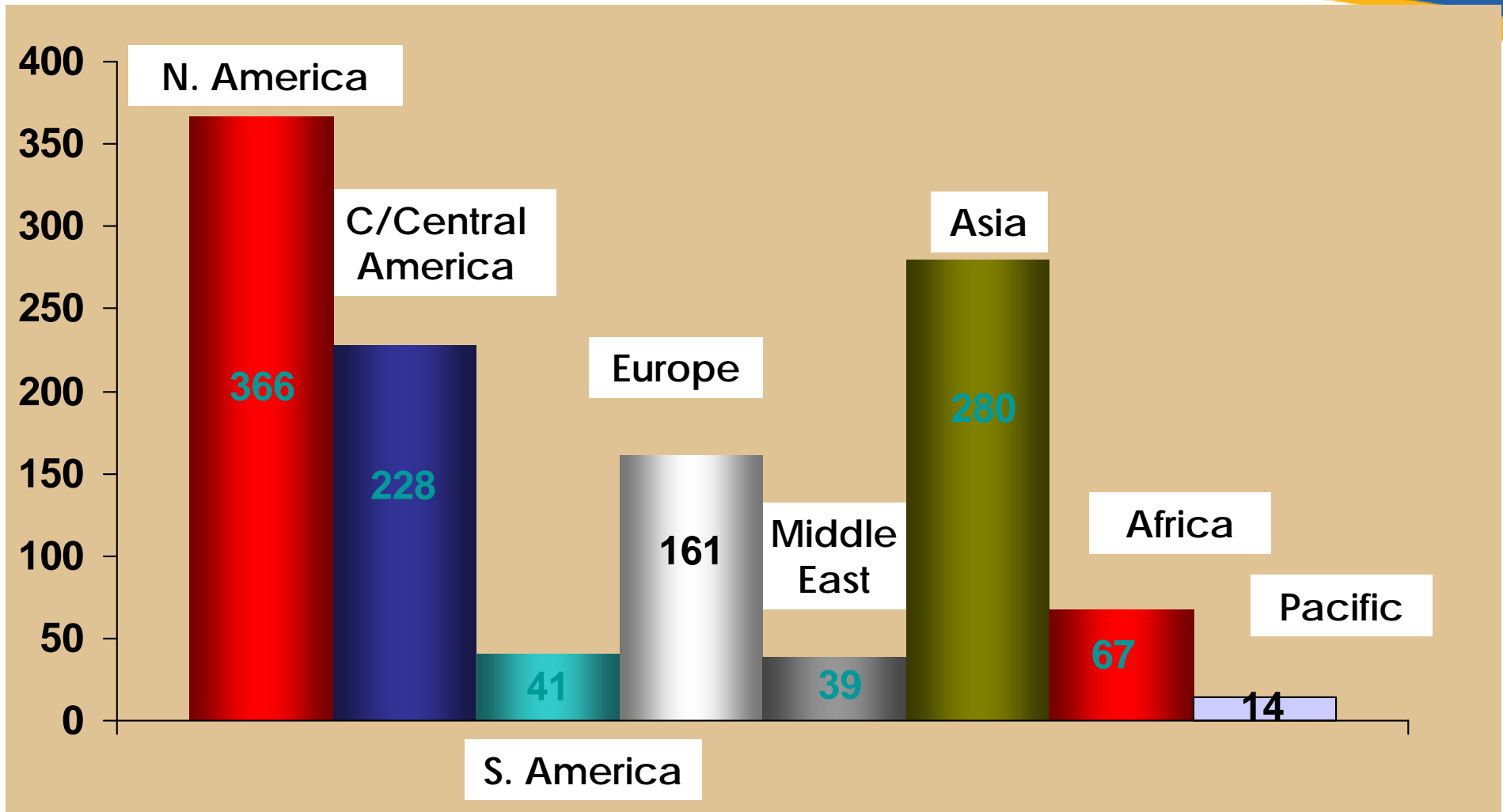
Total exports: \$600+ billion

Direct jobs: 50 million; China  
alone: 30+ million

Zones in OECD countries

Source: ILO, 2003; **does not** include single-factory zones or total would exceed 3,000

# Distribution of Zones by Region



# Leading Zone Locations

Country	No. of EPZs/ FTZs/SEZs/FEZs	Exports (\$ billions)	Employment
USA	266	\$20.0	400,000
China	190	\$12.0	360,000
Indonesia	115	\$4.2	200,000
Philippines	100	\$27.0	907,000
Thailand	30	\$4.7	120,000
India	13	\$1.3	87,000
Taiwan	5	\$6.1	90,000
S. Korea	3	\$5.0	80,000

Most zones have had a significant economic impact in terms of

- Rapid employment generation especially for women
- Higher pay levels and growth rates
- Exports, especially in smaller countries
- Skills and technology transfer

But success has been more limited in other areas

- Low net exports due to low local value-added
- Backward and forward linkages

SEZs/Freeports have made significant contributions but  
...depends on how they were developed

# Why Have Some Zones Failed?

- Public sector development of zones
- Uncompetitive policies
- Bureaucratic procedures and controls
- Inadequate institutional structure
- Lack of an integrated development approach

## Industrial Trends

- Global production networks; contract manufacturing & outsourcing; rise of services
- Smaller number of larger factories for multiple markets; decline of pure export platforms
- Importance of supply chain management (logistics costs higher than manufacturing costs)
- Competitive advantage driven by sales, distribution & customer relationships
- Co-location of sales, support with manufacturing—clusters

## Policy Framework

- Global integration through WTO
- Deepening of regional trade blocs
- Push for harmonization of tax incentives, investment rules
- Liberalization of telecommunications and information technology
- Crack-down on offshore tax havens
- Trade and supply chain security
- End of the MFA

## Old Framework

Zone Authority would own, operate, regulate the zone

Zone funded by government; typically subsidized services & facilities

Zone Authority has little power over other gov't bodies

Most zones cater to manufacturers, not recognizing importance of logistics, services

## New Framework

Zone Authority only regulates activities within the zone

Private developer builds, owns and operates the zone on a cost-recovery basis

One-stop shop set up within the zone for quick processing of permits and paperwork

Zone enterprise designation extended to service intermediaries

## Liberalization of policy package

- Wider range of activities permitted
- Removal of export requirements
- Shift towards universal tax incentives
- Incentives for private developers
- Deregulation and demonopolization
- Adherence with universal labor rights

## Streamlining of procedures

- Emphasis on post audits rather than screening
- New technology (EDI, smart cards)
- Emphasis on facilitation rather than control

## **Zones facilitate liberalization efforts**

- Some consider a successful zone a good model for country policy makers to mimic in formulating liberalizing domestic policies. . . E.g.: China, Philippines, South Korea, Jordan, Kuwait, Malaysia, Costa Rica

## **Zones as a stumbling block to liberalization**

- Others argue that a successful zone may be used as a safety valve, providing jobs and foreign exchange earnings, and thus easing the pressure on policy makers to undertake economy wide reforms.

## Zones must be private sector-led and operated

- Need zone designation and development criteria
- Public-private partnership approaches for zone development
- Need top-level, integrated support of government
- Legal and regulatory framework needs to be streamlined; compete on the basis of facilitation and services rather than incentives
- Zone authority must be autonomous, flexible, focus on regulation

## SEZs/Freeports and large-scale free zones can be highly effective

- Minimize public expenditures by locating zones carefully/use existing facilities
- Ensure that they are private sector-led; lead role for one developer
- Develop a robust legal & regulatory framework
- Ensure that regulatory authority capabilities are built-up (high requirements for administrative capabilities)

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# Lessons of Experience

How to prevent Zones from distracting countries from improving the overall investment climate by giving the illusion that Zones were solving all problems?

How to ensure that Zones do not absorb too much scarce government technical and managerial expertise but to the contrary become a breeding ground for developing new government skills and processes?

How to ensure that the Zone can be a true test case for economic reforms and application of new technologies and governance structures become catalyst for reforms by setting a good example and demonstrating impact?

How to maximize linkages between enterprises in the zone and outside to ensure high net exports and maximize value added?

How a zone can be integrated into a local community from a physical planning perspective and serve as a growth catalyst rather than as an enclave?

How to maximize economic benefits, especially in terms of skills transfer, capacity building, management know-how, and technology to ensure the long-term competitiveness of the zone rather than competing on incentives

What are the key policy and institutional requirements to get right within a Zone? e.g.:

- Customs
- Administration
- Labor market
- Access to infrastructure