

private sector | development

SYNOPSIS OF PRESENTATIONS DECEMBER 15, 2004

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MAIN THEMES – JAMES CRITTLE

- **Overall focus: Global Experience and Best Practice in SEZs**
- Foreign investment can result in doubling of per capita in 20 years
- 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.
- Zones in general are geographically delimited, have a single administration, are geographically eligible for benefits, and are purpose-built facilities
- Free zones are separate customs areas (recognized under Kyoto Convention), duty free and low tax area, simplified procedures, and have a special regulatory framework
- Traditional approach: Promote exports, fenced-in enclave, public sector monopoly, location in remote areas, 70-80% export requirement - oriented towards FDI, duty-free inputs production only, manufacturing oriented (neglected services and intermediaries), extreme view of territoriality
- Emerging approach: Integrated, large-scale, mega zones; IT systems & networks; Public-private partnerships; Multi-market, not just export; Mixed-used, not just manufacturing; Deregulation and de-monopolization; Streamlined procedures – automation; Resident populations
- Types of zones: Industrial Zone; Free Trade Zone; EPZ; Enterprise Zone; SEZ/FEZ/Freeport
- E.g.s: Singapore, HK, Batam (Indonesia), Labuan (Malaysia), Shenzhen (China), Subic Bay (Philippines), Aqaba (Jordan)
- 1970s: 30 countries – 80 free zone projects - no private zones – total exports (\$6 billion) – direct jobs (1 million)
- Today: 120+ countries – 2000+ zone projects – 1200+ private zones – total exports (\$600+ billion) – direct jobs (50 million, with China alone = 30+ million) – zones in OECD countries
- Zones by region: N. America – 366, C. America – 228, S. America – 41, Europe – 161, Middle East – 39, Asia – 280 (not including China), Africa – 67, Pacific – 14, China – 190
- Leading zone locations – U.S. (266), China (190), Indonesia (115), Philippines (100), Thailand (30), India (13)
- U.S. has the most SEZs in the world. Not coincidental that they have the best BEE

MAIN THEMES – JAMES CRITTLE

- Economic Impact of Zones:
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 integrated development approach
- New Policy and procedures framework: liberalization of policy package, streamlining of procedures
- Measure of success:
 - zones facilitate liberalization efforts (China, Philippines, Jordan)
 - zones as safety valves or stumbling blocks to liberalization (DR)
- Lessons of experience:
 - Zones must be private sector led
 - SEZs/freeports/large-scale free zones can be highly effective
- Key questions: how to ensure zones do not distract from reform; how to undertake government capacity absorption; how to ensure that zone is catalyst for economic reform; how to maximize linkages b/w enterprises inside and outside the zone; how to facilitate integration from a physical planning perspective and to serve as a growth catalyst rather than as enclave; how to maximize economic benefits to ensure long-term competitiveness of zone
- Key policy/institutional requirements to get right: customs, administration, labor market, infrastructure

MAIN THEMES – RAJ MAKOOND

- Overall focus: **Best Practices in Public Free Zones – Mauritius model**
- Economic context of Mauritius (early 1970s): sugar dependency, import substitution, high unemployment, low economic growth, high corporate and income tax, high customs duties, rigid labor laws
- Then, in 1971, joint govt./pvt sector initiative to study EPZ solution to economic challenges
- Given size of country, all of Mauritius was declared as EPZ. Distinct characteristic – not geographically limited
- EPZ sector regime: no corporate tax, duty free, flexible labor regime, fast track clearances, industrial estate option (public and private), concessionary loans
- Well supported by Development Bank of Mauritius, MEDIA, EPZDA
- Success factors: EPZ model; appropriate macro-economic model (SAP 1979-84); BEE within the micro-economy; Preferential Trade Agreements; Inst. Support; FDI (Thatcher effect – HK)
- Very impressive results: GDP growth around 6% b/w 1980-2000, unemployment fell from 21% in 1980 to 4% in early 1990s, macroeconomic stability, significant poverty reduction, seeds of integration into national policy framework
- Challenges today: Textile and clothing sector decline; loss of preferential trade agreement, competition (including Bangladesh!!!), new trade agreement with EU, other post-MFA challenges
- In spite of EPZ success, there are questions related to long-term sustainability
- What next? Restructuring Textiles!!
- Textile Emergency Support Team – enterprise management, production process; reporting to PICT (Policy Implementation Committee on Textile) for policy changes
- Two levels of intervention: Enterprise Assessment, Restructuring, Health check of enterprise

MAIN THEMES – RAJ MAKOOND

- TEST initiates restructuring programs:
 - Productivity Improvement
 - Financial Management
 - International Marketing
 - Productivity Planning and Budgeting
 - Technical skills upgrading
- Corporate Debt Restructuring Committee chaired by Central Bank
- Firm Level Financial Re-engineering
- Major upcoming challenge: international marketing in a competitive environment
- Re-engineering Institutional Support - Enterprise Mauritius (Merger of EPZDA and MIDA)
- The Way forward – Integration
 - New national VAT has already replaced Sales Tax
 - 15% CIT
 - Enterprise Mauritius offering services to the whole country
 - Procedures to be streamlined for all sectors, throughout the economy
 - White Paper on Labour Reforms

MAIN THEMES – SANTOSH HEJMADI

- Overall focus: **Best Practices in Public Free Zones – U.A.E. model**
- Location, location, location – U.A.E. is very strategically located
- Market access: 1.8 billion consumers in largely import dependent countries of South Asia, Africa, Central Asia. Market of US\$ 1.3 trillion
- Free Zone in U.A.E. proved to be extraordinary mechanism of spurring economic growth
- FZ was central to U.A.E. goals of: reducing economic dependency on oil; attracting FDI, creating employment
- Terrific incentives: 100% foreign ownership, complete tax exemption, full capital and profit repatriation, 50 year extended leases, single window clearance
- First U.A.E. FZ established in 1985 in Dubai. Today, there are over 25 FZs in U.A.E, with each emirate having atleast one
- Critical point of acceleration and growth of FZ – Dubai Technology and Media Free Zone in 2000
- DTMFZ was a critical part of Dubai 2010 vision of: **“Have a stable of world-class companies with core knowledge-based competencies which can compete effectively globally”**
- Dubai’s Crown Prince is the visionary here – you need visionaries.
- “What’s good for business, is good for Dubai”
- Dubai has very lofty aims for 2010 as re: GDP levels, per capita GDP, becoming “hub of hubs,” etc.
- There are market and social objectives as well, in addition to economic objectives
- Horizon 1 (short-term): “Do what we do best better” (trade, logistics, transportation, tourism)
- Horizon 2 (medium-term): “Apply core competencies to new areas” (IT enabled, financial, media)
- Horizon 3 (long-term): “Seed investments for future competencies” (R&D, education, pharma, biotech, nanotech, wireless)

MAIN THEMES – SANTOSH HEJMADI

- Dubai Technology and Media Free Zone (TECOM): world's first TECOM FZ
- Targeted market segments in ICT, Media, and Knowledge
- Comprises Dubai Internet City, Dubai Media City, Knowledge City
- Tremendous set-up benefits as re: FZ, single window
- Tremendous operational benefits as re: infrastructure, cluster
- Undertaking a whole-scale transformation in Dubai
- Huge projects being undertaken: Dubai Pearl, The Towers, Advertising in the FZ, CNN Arabic
- TECOM Regulatory Environment: Comprehensive laws and regulations for companies operating in FZ
- Driving philosophy: **“ In the race for excellence, there is no finish line. ”**
- **“We believe that the role of the government should be restricted to legislation and regulation, in addition to the continuous development of the infrastructure - thus making the private sector the engine of the development process.”**
- Economic Impact in just 3 years: 1800 companies; 21,000 knowledge workers; 15 universities and several training institutes ;2 million sq. feet of leased space; US\$ 2 billion of investment; global initiatives (India,Pakistan, Russia)
- Key Factors for success: Industry 'clusters' of companies; Visionary leadership and sustained support; Technical infrastructure designed to world-class standards; Quick decision making and low levels of red tape; Sustained and focused marketing efforts; Quality/Change management and Governance; Dedicated, talented and energetic workforce
- Wider Economic Impact: Nearly 7000 companies from all over the world; Value of exports from the FZs is at around US \$ 17 mln; Jebel Ali Free Zone itself contributing to nearly 35% of the exports;Total FDI over US \$ 5 billion; FZs reflect the sectors of the economy and have contributed not only to the Knowledge economy but other non-oil sectors; Best Practices and raised standards in logistics, ICT, Media, Training, Marketing; Infrastructure development – power, waste & water treatment, telecom, housing
- World Bank Report: **“these industrial areas could hold the key to a genuine economic transformation of the region.”**

MAIN THEMES – ANWAR HARAHSHEH

- Overall focus: **The Aqaba Experience in Jordan in Building an SEZ**
- Location, location, location
- Infrastructure, infrastructure, infrastructure
- Jordan's Economic Reform Strategy:
- ASEZ is perfectly set as an SEZ: 375km², seaports, international open-skies airport, land resources and water supplies, world-class tourist attractions
- Actors: ASEZA, ADC
 - Decentralization of government
 - Education Reform for Knowledge Economy (ERFKE)
 - Socioeconomic Reform Strategy
- Investment incentives: No customs duties; 100% foreign ownership; Flexible labor policies with up to 70% foreign workers allowed; 7% sales tax on a limited range of goods and services sold in ASEZ; Low 5% flat income tax for enterprises; 6% national tax on land purchases; No income tax on dividend transfers; No sales tax on imported goods
- Favorable business benefits under Jordanian law: Economic & transactional freedoms; Private sector friendly policies; Free capital repatriation; Full ownership and management rights Free share transfers; International dispute resolution measures
- Zone's larger governance is divided b/w 6 entities: ASEZA, ADC, Aqaba Port, Aqaba Container Terminal, King Hussein International Airport; Aqaba International Industrial Estate
- ASEZA Services and Best Practices: Investor services one-stop shop; Aftercare services; Aqaba International Industrial Estate (AIIE); Municipal services; Land lease/sale; Port access; Customs consolidation
- Key success factors: qualified labor pool; macroeconomic planning and technical assistance; capacity building; legal business enablers; preferential market access; quality of life; partnership in marketing
- Preferential market access: WTO; USA; EU; GAFTA

MAIN THEMES –ANWAR HARAHSHEH

- Donor Roles in Capacity Building: Training; Assistance in planning; Investor ID search support; Fiscal and financial reform; Best practices; Governance; Public administration reform
- Best Practices in Sector and Market Selection: **Self-analysis** - Existing customer base; Historical trends of investments in Jordan; Rules and regulations; Review of methodology and business model; **Competitive analysis; Customer segmentation**
- Achievements:
 - \$450M investments to date, including:
 - 2 mega tourism projects (\$1B over by 2015 & 10K new jobs)
 - 310 land sale/lease agreements
 - 800% cumulative increase in licensed construction
 - 4 grand shopping malls, 2 operating 2004, and 2 to open early 2005
 - 1,500 additional hotel rooms by 2007
 - Employment increase of 63% over the last three years
 - Revenue increase to the GoJ Treasury from ASEZA collection
- However, none of this would have been possible 43 months from 2001 had ASEZA not received serious help from His Majesty

MAIN THEMES – RAJENDRA SINGH

- Overall Focus: Mahamumbai SEZ: Lessons learnt
- Location, location, location
- Infrastructure, infrastructure, infrastructure
- “Success of SEZ will certainly write Economic History”
- Government Policy Framework: Fiscal Incentives and Regulatory Benefits
- Infrastructure Developer Framework: Self-contained, Integrated, connected & Self-managed
- Government + Developer Operating Environment Framework: Ease, self-certification, Efficiency & productivity
- New Indian SEZ Framework – headed in the right direction. Lots of reason for optimism
- India headed for hassle-free Operating Environment for Business
- India provides boldest policy framework in 55 years
- SEZ Act, to be promulgated shortly, will:
 - consolidate and provide permanence to all incentives and enablers
 - provide a comprehensive policy framework for zone administration
 - delegate powers to Developer to implement the same

- Labor laws need to be changed
- Contract Acts should not be applied
- Use SEZs as a laboratory for reform
- Mahamumbai – Navi Mumbai funding problem
- Private – public partnership between the two has gone very well
- Location, location, location
- Finest connectivity is reqd.
- Half have failed because they have been located in land locked areas based on political considerations
- Second, you have to have the best consultants
- Road goes to JNPT which is 7 km away
- Three state highways closeby
- Sahar Airport is 90 minutes away
- Largest availability of skilled workforce from adjoining Mumbai and Navi Mumbai
- Idea is to be world class
- Proximity to financial center
- Transformation of the regional economy
- If you want the knowledge economy, work towards it
- Development of women – especially in horticulture
- Give the devil his due – China
- Flexible labor laws – China has it, not yet in India. But will be there soon...
- Land acquisition is the most complicated process..results in delays, resettlement, associated costs increase
- We need to create geography, not re-write history!!