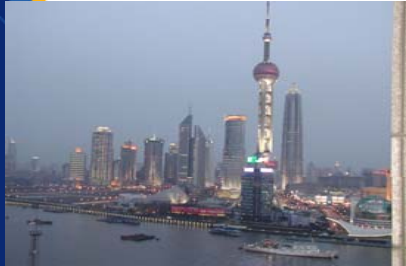


Regulatory Reform

and

Special Economic Zones

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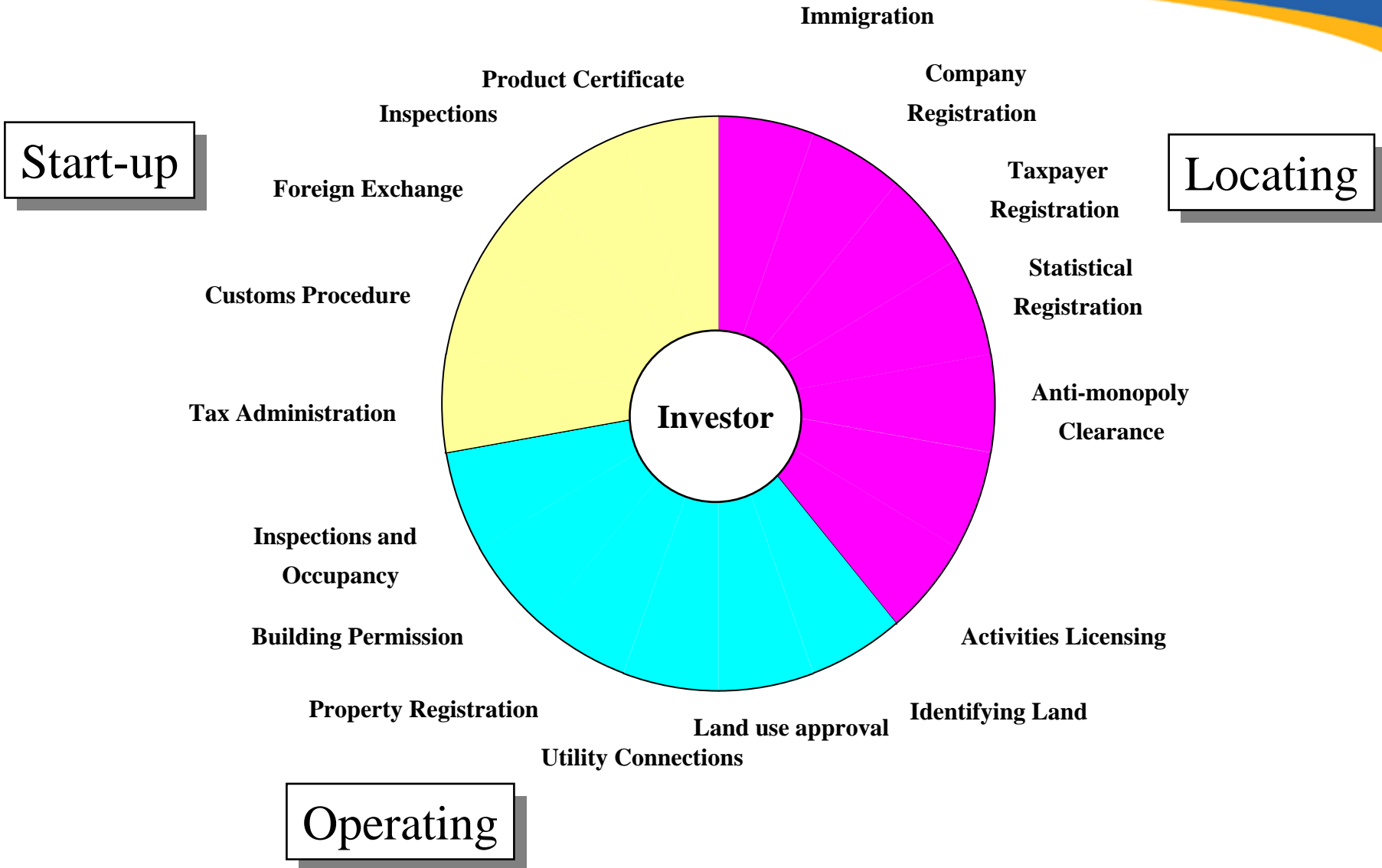
Jean-Paul Gauthier
Foreign Investment
Advisory Services
(FIAS)

December 14-15, 2004

BRAC Centre

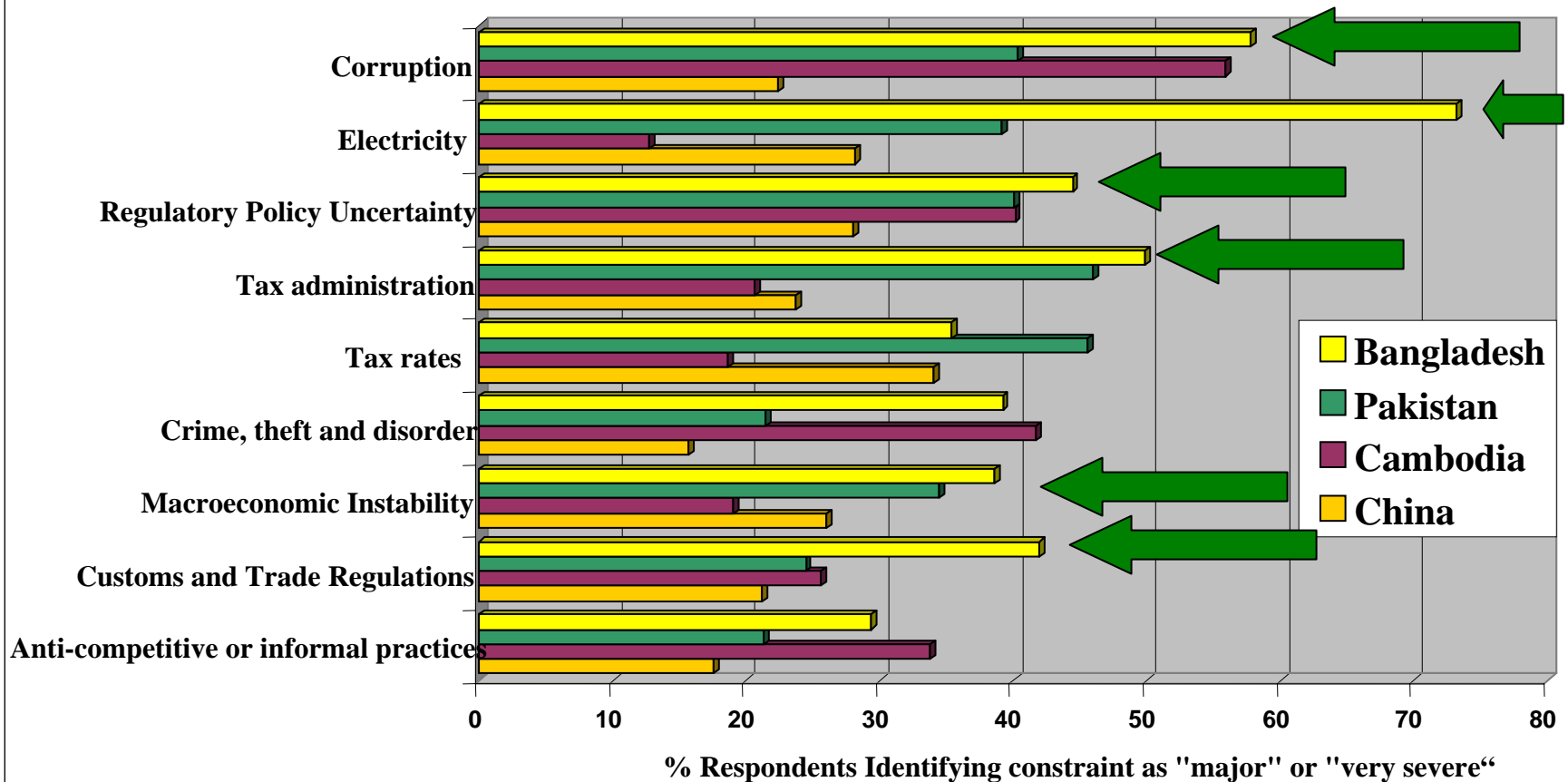
Dhaka, Bangladesh

Typical Business Regulatory Interfaces



Bangladeshi firms view regulatory constraints as severe

Comparison of General Constraints in Asia

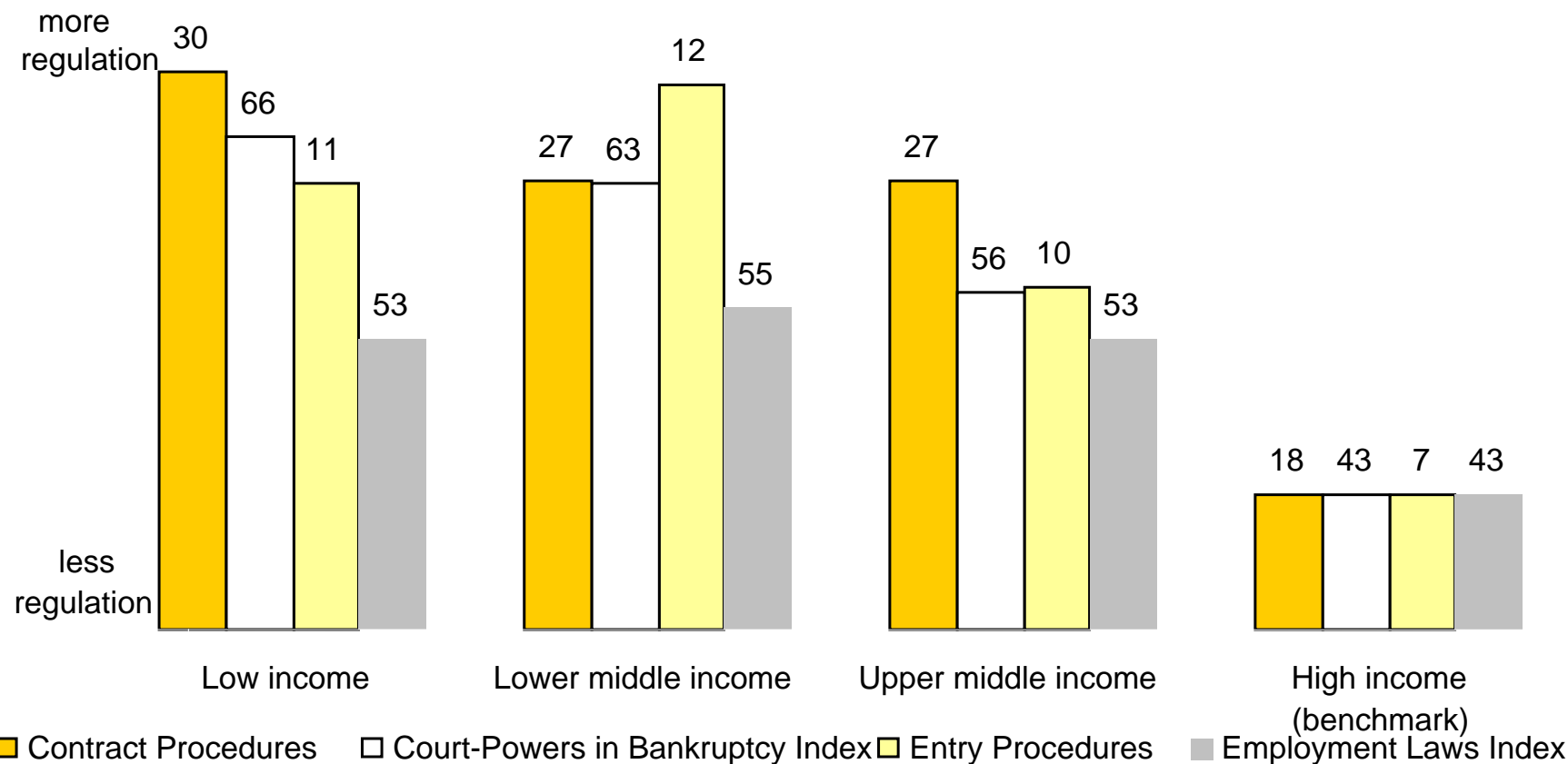


Economic Impact of Good Business Regulation

- Helps markets function, by enabling proper allocation of market and firm resources
- Reduces opportunities for rent-seeking
- Strengthens incentives for formal participation in the economy
- Reduces the costs and risks of business
- Fosters investment
- Increases firm productivity
- Helps economies to grow and create jobs



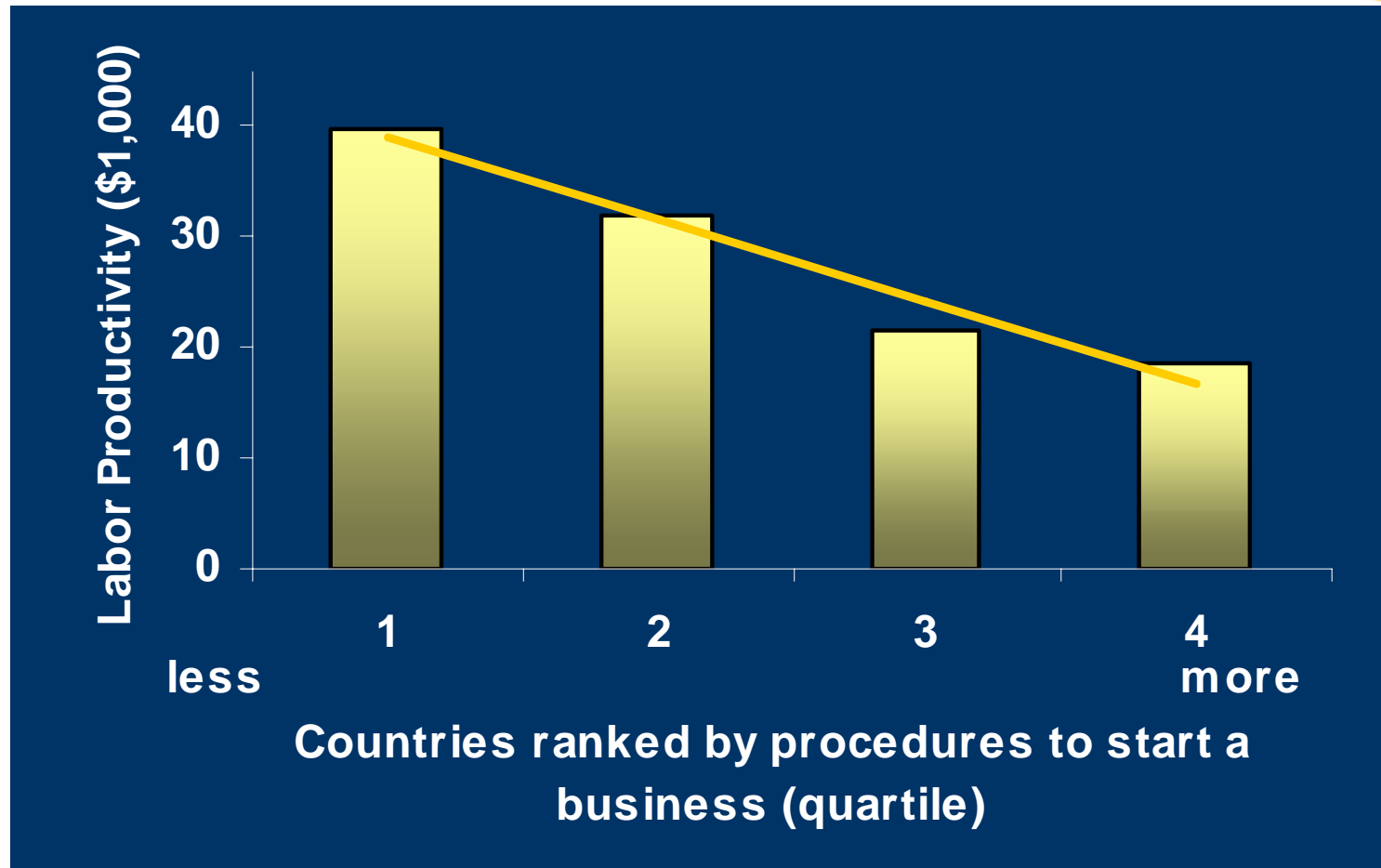
Heavy Regulation is Correlated with Under-Development



Source: World Bank Group, Doing Business 2004

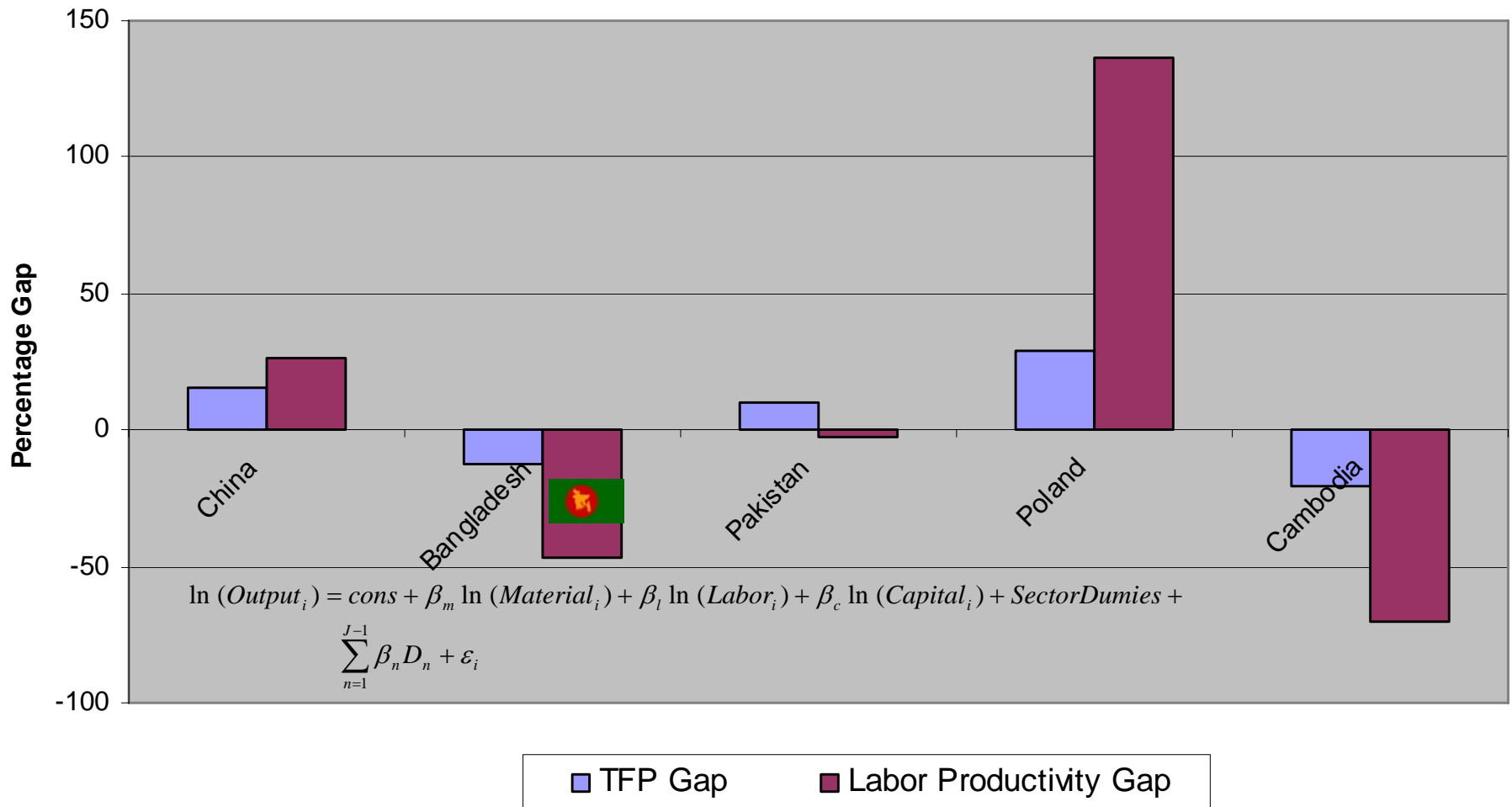
Administrative procedures reduce business productivity

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Bangladesh's productivity challenge

Performance Gaps (Nominal Exchange Rate, India=100)



Some regulatory reform options available to Bangladesh

- Application of international regulatory norms
- Periodic policy analysis and benchmarking, combined with change management efforts
- Systematic policy analysis prior to legislating (e.g. “Regulatory Impact Assessment”)
- E-governance
- Piloting of reforms on a limited basis, to build institutional capacity and political capital

- SEZs are not a panacea for economic challenges but have significant impacts, including:
 - Employment generation, especially for women (43M direct jobs, 60M indirect jobs -BearingPoint 2004)
 - Higher pay levels and working standards (Poland, Philippines)
 - Higher exports, especially in smaller countries (\$400bn in trade, 14.3% of total national exports –BearingPoint, 2004)
 - Skills and technology transfer (Malaysia, Dominican Republic -Rhee '90; Wang, '90; Cho, '90; Amirahmadi & Wei, '95; Madani, '99)
 - Economic diversification (Philippines, Kenya, UAE, Taiwan, Mauritius)
 - Increased economic growth (+0.52% to GDP -Sinclair, 2002)
- Modern SEZs' benefits need not be “inside the fence,” but can catalyze and/or pilot national policy and economic reform

China

Philippines

South Korea

Jordan

Kuwait

Malaysia

Costa Rica

UAE

Mauritius

Jamaica

Zone Picture in Bangladesh



- In addition to Land Ports, 6 EPZs including Chittagong, covering an average 141.7ha each
- All of these Zones are publicly-owned and managed at this time
- 17.6% of national exports (BearingPoint, 2003) and \$1.35bn total exports in FY04 (Factiva, Oct. '04)
- Employ 3.3% of national workforce (ILO, 2003)
- \$700M in investment, including \$220M from S. Korea and \$103M from Japan (Factiva, Oct. '04), and \$103M in 2003 alone (BearingPoint, Oct. '04)
- Other investors include: China, USA, UK, India, Belgium, Pakistan, and Bangladesh
- 196 EPZ firms
- High worker know-how & productivity (Kamal Siddiqui, 11/11/04)
- Investments in Oil & gas, high-tech industry, leather, textiles, food processing, pharmaceutical, industries, clothing

Policy Features of Traditional “Export Platform” EPZs

Duty-free treatment, in return for 70%+ export requirement, extraterritoriality, and segregation from the national economy
Manufacturing-oriented (neglecting services, intermediaries, logistics)

Tax Incentives (offered by both successful and failed zones)

Oriented to FDI (Rigid eligibility and performance requirements)

Poor labor policies and labor relations, sometimes too rigid reverse (Liberia, Senegal), often the reverse (Philippines, Bangladesh, Nigeria, Pakistan, Sri Lanka, Egypt, Namibia, Zimbabwe, Iran, Sudan, Honduras, Indonesia, Madagascar)

Administrative barriers (e.g., 40p Egypt Zones Application taking 12+ months to process)

Determinants of Modern Zones' Regulatory Framework

Today's Investors need:

- Flexibility in terms of resource allocation (labor, capital, equipment & inputs, etc.)
- Global Supply & Logistics Chain Competitiveness, predicated on...
 - Input and Consumer Market Access
 - Scalable Economies
 - Access to cluster of vendors & market intermediaries
 - Rapid physical transfer of merchandise
- Competitive locational advantages, including reliable infrastructure, utilities, and multi-modal transportation links
- Productive, skilled labor
- To comply with customer CSR (Corporate Social Responsibility) expectations

Today's Governments need:

- To comply with the international, rules-based trade regime of the WTO

SEZ regulatory frameworks thus increasingly...

- Offset regulatory operating constraints, by streamlining and automating regulatory interface with Government
- Integrate the host country's comparative advantages
- Integrate large areas, with internal markets
- Integrate broad economic activities, and foster clusters
- Meet investor needs in terms of investor services (including government services) to compete with other zones
- Deregulate markets (for product, utilities, transportation services)
- Adhere to universal labor norms
- Decentralize regulation to make it area-specific and bring it to the “consumer of regulation”

Considerations in Making Zones Effective Pilots and Catalysts of National Reforms

A Government considering Modernizing its Zone Program today should ask itself the following questions:

- What will attract maximal value-added activities within the zone?
- How can zones maximize linkages between enterprises within and outside the zone to ensure dynamic economic growth and high net exports?
- How can zones be integrated into a local community from the economic activity and physical planning perspectives?
- How can a zone maximize transfer of skills, management know-how, and technology, to ensure the long-term competitiveness of the zone and of the national economy?
- Are the general national and zone policy trends both aligned toward liberalization, openness, and competitiveness?
- Is the zone regulatory environment supportive of business development and thus “credible”?

“Best Practice” SEZ Policy Elements

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- **Tax**
 - IASC norms
 - Max 3-4 taxes
 - Automatic incentives
 - Unified tax and social security filings, inspection and collection
 - Competitive with region and country
 - Eliminate indirect taxes
 - Low, flat tax on SEZ and offshore income; regular taxes on income from transactions in CT (Malaysia, India, Panama)
- **Business Registration**
 - One-stop shop
 - Declarative system
 - Minimal licensing requirements
 - All non-prohibited activities eligible
 - Elimination of foreign investment restrictions / Equal treatment
 - Deregulated utilities
- **Labor and Immigration**
 - Liberalized termination & layoff
 - Freely-negotiated productivity packages
 - Transparent foreign worker regime
 - Unified multiple-entry Visa / Work Permit / Residency / ID / Social Security Card
 - Visa-free temporary entry
 - Permanent residence visas
- **Planning**
 - Localized, integrated, flexible and streamlined planning and controls
 - Clear environmental guidelines
 - Clear property rights and guarantees
 - Fast-Track Environmental Permitting for Small Development Projects
 - Permitting Desk Officers

“Best Practice” SEZ Trade Facilitation Policy Elements

- All non-prohibited imports enter duty-and-tax-free
- Un-capped duty-paid domestic sales
- Treatment of domestic sales to zones as “constructive exports” eligible for export incentives
- Freedom of enterprises to sell internally
- Defined duty-free consumption
- Streamlined Kyoto-Compliant Customs procedures
 - Selective Inspections
 - Coordinated Inter-Agency inspections
 - Single, Simplified, and Anticipatory declarations
 - On-site clearance
 - Customs clearance credit lines
 - Fast-track clearances for certain items
 - Annual pre-clearance level agreements
 - 24 on 7 Customs Clearance
 - 24 hour clearance ceiling
 - Interactive « EDI » Clearance system
 - Automated system, with post audit controls

- Dhaka- Chittagong Economic Corridor
- “Dhaka-Tangail Road” Economic Corridor
- Dhaka-Mymensing Economic Corridor
- Proposed Malaysian SEZ
- Kanchpur China Commercial Hub
- Korean EPZ in Chittagong