

DMITRIS' OPENING REMARKS

I am delighted to be here to welcome the eminent panelists and experts from around the world, Mr. C.M. Vasudev, Executive Director to the World Bank for India, Bangladesh, Sri Lanka and Bhutan, Mr. S.N. Menon, Special Secretary in the Ministry of Commerce, representatives from the governments of Afghanistan, Pakistan, Bangladesh, Sri Lanka, Bhutan, Nepal and Maldives, and all the distinguished participants gathered here to participate in the IFC/FIAS sponsored regional workshop on Economic Zones in South Asia. Senior government officials, private sponsors, developers, operators, potential business owners, representatives from financial institutions from eight countries in the region are present here today to talk about infrastructure requirements, policy regimes, management structures, location choices and other key issues associated with Economic Zones.

Though South Asia is one of the fastest growing regions in the world it is characterized both by low foreign direct investment (FDI) and low levels of manufacturing. FDI data suggests that South Asia continues to attract FDI worth only about 1 percent of GDP annually as opposed to roughly 4 percent of GDP for China. Maldives is the only country in the region that manages to attract FDI close to the average for emerging market countries at over 2 percent per year. A possible explanation for this could be in that key areas such as the availability of infrastructure, levels of taxation and regulations, South Asia lags other regions that have been more successful in attracting FDI. In India, only 7% of employment is in organized industry and services.

All the countries in the region have launched reform programs, some with more success than others because they recognize that trade liberalization, industrial deregulation, and improving access to infrastructure are essential for them to reach their full potential of growth and ability to attract FDI. However, they also recognize that it will take time for these reforms to take effect at the national level. It is for this reason that there is a high level of interest in South Asia in the successful experience of other countries such as China in establishing Special Economic Zones, not as an alternative to broad-based liberalization and reform but as a way to accelerate progress by concentrating on building a world-class investment climate within specific zones.

In view of the strong interest expressed by the regional governments in the successful establishment of economic zones in their countries, we thought it would be helpful to convene experts with global experience in the development of economic zones, to share lessons of the successes and failures of economic zones and also identify the ingredients for successful economic zones.

Economic Zones – of which Export Processing Zones, Special Economic Zones, Free ports are examples - have become popular trade policy instruments since their modern revival in the 1990s. While in 1970 only a handful of countries permitted an economic zone, in the late 1990s, the total number of economic zones exceeded 500 and were located in more than 75 countries. Economic Zones are typically defined as “an industrial estate, that specializes in manufacturing for export offering firms free trade conditions and a liberal regulatory environment.” The primary goals of Economic Zones include: providing an internationally competitive and business friendly environment for exports, for attracting FDI, generating employment and income, acting as channels for transmission of technology and know-how, and accelerating the host country’s economic growth.

IFC's strategic priorities in the region, are to promote competitive industry, increase the availability of quality infrastructure, help improve the investment climate to facilitate increased private investment both domestic and foreign. Our investments in SEZs will be driven by these priorities and be decided on a case-by case basis as long as they make a positive contribution in any of these areas.

In India we see a good potential for attracting FDI in manufacturing and services. There is a growing trend of overseas companies looking for an alternative to the Chinese market to source merchandise. This trend has been borne out by Walmart recently announcing sourcing \$1 billion in merchandise from India. India can cash in on this opportunity, provided the Indian exporters and manufacturers have access to adequate infrastructure services and are not overburdened by regulations. SEZs can help provide this. There could be other Walmarts - Indian manufacturers locating in SEZs with their assured integrated infrastructure and hassle-free business environment could become large volume exporters. In Sri Lanka and Bangladesh export processing zones have been successful – particularly in promoting garment exports. The challenge here is to diversify beyond garments.

We believe that SEZs could engender infrastructure development and urban development in the regions where they are set up. They can also contribute to technology transfer, generate employment and higher incomes and through their demonstration and catalyst effects have a positive influence on policy makers in the host country. They can act as a free market oasis for foreign exchange earnings and job creation. They can also be used as an experimental laboratory, a la early SEZs in China, to test free market and reforms before implementing them at the national level. However, we also recognize that if the rest of the economy does not liberalize, the zone, no matter how successful, will stay an oasis and be limited in its contributions.

I hope this workshop will provide a meeting ground for the distinguished experts in the field, practitioners, policy makers, investors and industrialists and provide a forum for these different parties to exchange perspectives and explore new possibilities of working together.