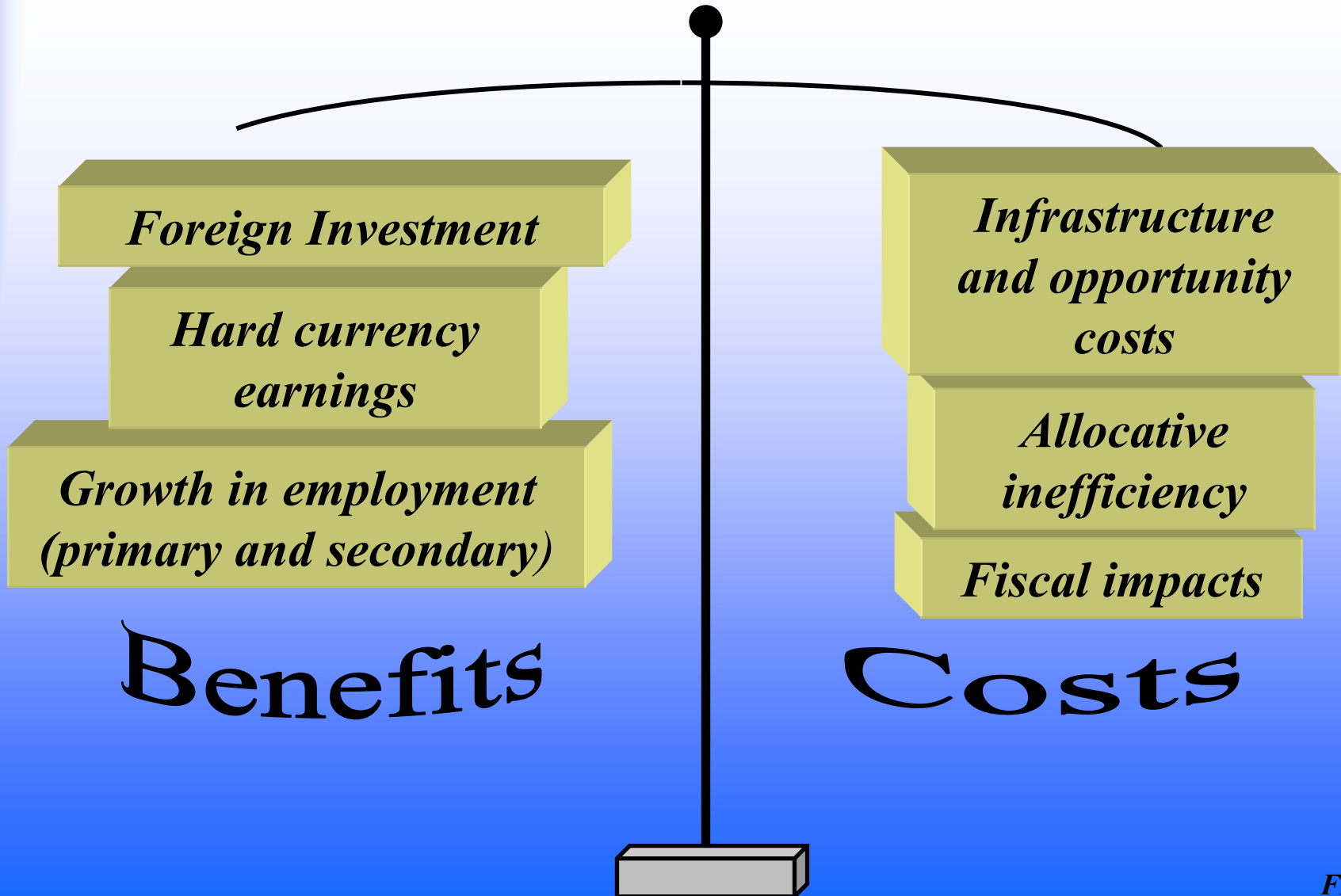


Special Economics Zones:
Lesson of Experience and the Questions
They Raise

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Weighing of Costs and Benefits





Lessons of Experience - Goals

- Under best circumstances zones generally generate employment and foreign exchange though opportunity cost may exceed these benefits.
- EPZs are sensitive to the national economic environment. They will perform better when the country pursues sound macroeconomic and realistic exchange rate policies.



Lessons of Experience - Training

- Unskilled workers receive some training but generally low level.
 - Rather learn industrial work discipline and routine
- local employees and management becoming privy to new:
 - organizational and managerial methods
 - negotiation and marketing skills
 - general business know-how
 - foreign contacts and entrepreneurship .



Lessons of Experience – Catalyst

- A successful zone, per se, is an efficient and competitive industrial infrastructure.
- Provides an industrial set-up which country may lack

These effects, together with the labor training, may be a Zone's lasting contributions to the country in which it operates



Lessons of Experience – Linkages

- In countries with solid industrial base linkages have occurred.
- The transfer of know-how and technology was facilitated by the existing technological sophistication and highly educated labor force.

Linkages fostered were Zones were only one tool in a set of governmental policies to foster economic growth through export promotion



Lessons of Experience – Labour

- Wages in most Zones are equal or higher than average wages outside the zones .
- However lax:
 - Labour, work safety and health laws in many zones have raised concerns with regards to workers' welfare

The type of industrial production, labor market conditions and the country's institutions and regulations play a determining role in establishing the wage rate, workers' rights and work environment in EPZs



Lessons of Experience – Bottom Line?

Zones in the right circumstances can contribute to:

- job creation
- income generation
- human capital development
- act as a catalyst to development of entrepreneurs
- provide a needed industrial infrastructure

However Zones are **not** universally the
“**engines of industrialization and
growth**”



Lessons of Experience – Policy Guidelines

- General
- Taxation and Tariff
- Provision of infrastructure and subsidized utilities
- Labor rights, wages and workers safety
- Administrative and Regulatory



General Economic Environment

- Sound and stable monetary and fiscal policies
 - low inflation
 - budget management
 - independent monetary policy
- Clear private property and investment laws
- Free flow of firms' earnings at market exchange rates



Taxation and Tariff Structure

- Moderate income and corporate tax rates are recommended.
- Provide for accelerated depreciation, rationalize and minimize indirect taxation and licensing practices.
- Ensure that Zones can import and export free of trade taxation and tariffs



Provision of infrastructure

- Encourage private development and management of Zones, including on-site infrastructure
- Provide infrastructure beyond the zone for positive spillover at marginal cost by facilitating transportation and communications
- Resist subsidizing utilities as it will reduce the zones benefits for host countries by encouraging over-consumption



Labor rights, wages and workers safety

- Business friendly labor laws are beneficial.
- Avoid disregard or abuse of workers' safety and labor rights as is the case in some zones.
- Strengthening regulatory and monitoring activities will reduce labor turn-over and absenteeism and improve workers' productivity



Administrative and regulatory guidelines

- Permit locationally diverse zones and export processing firms.
- Ensure adequate infrastructure
- Provide efficient, streamlined and prompt government of Zones
- Encourage establishment of privately owned and managed zones.
- For public zones, minimize bureaucratic red tape by providing the zones with a large degree of autonomy from the central government.



Lessons of Experience

Questions



Distraction from Reform

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



Government Capacity

- 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?



Governance Structures

- How can the zone authority embody advanced governance structures?



Economic Reform

- 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?



Linkages

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



Integration

- 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?



Economic Benefits

- 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



Private Sector

- How to involve the private sector in the development, promotion and management of Zones?



Infrastructure

- How to determine the right level of investments in infrastructure and how to finance these investments?



Bottom Line

- What are the key policy and institutional requirements to get right within a Zone?
e.g.:
 - Customs
 - Administration
 - Labor market
 - Access to infrastructure



Measure of Success?

- **Zones facilitate liberalization efforts**
 - Some consider a successful zone a good model for country policy makers to mimic in formulating liberalizing domestic policies. .
- **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.