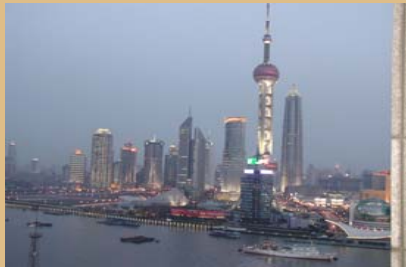


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Special Economic Zones



Global Experience and Best Practices

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- Definitions
- Growth of Modern Zones
- Economic Impacts
- Zone Development Trends
 - Concept and development approach
 - Policy and incentive framework
 - Institutional framework
 - Operational and management structures
- Lessons Learned
- Key Issues and Future outlook

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

Types of Zones



	Objective	Typical Size	Location	Eligible Activities	Markets
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 ²	Mixed	Multi-use	Domestic, internal, export

Examples of Specialized Zones



Petrochemicals industry	Map Ta Phut Zone, Thailand
Financial services	Labuan Offshore Financial Center
Technology Parks	Singapore Science Park
Trade logistics	D1 Logistics Park, Czech Republic
Airport-based zones	Kuala Lumpur Airport Free Zone
Tourism zones	Baru Island, Colombia
Internet zones/cities	Dubai Internet City

An SEZ is not an FTZ or EPZ



Free Zone/EPZ

- Small areas, enclave operations
- Eligible activities restricted
- Duty free importation restricted
- Export requirement, restricted sales to national market
- Restricted labor regime
- No residents
- Limited deregulation
- Authority has limited powers
- WTO compliance issues

SEZ/Freeport

- Large area—locational flexibility, internal market
- All activities eligible
- Full duty-free imports
- No export requirement; full sales to national market
- Liberal labor regime
- Resident population
- Deregulated utilities
- One-stop authority
- WTO consistent

Examples of SEZs/Freeports



City-States

- Singapore, Hong Kong
- Macau, Gibraltar, Dubai



Islands

- Batam, Indonesia (1978, 416 km²)
- Labuan, Malaysia (1990, 92 km²)



Cities/Provinces

- Inquique, Chile (1975, 2.4 km²)
- Shenzhen, China (1980, 327 km²)
- Subic Bay, Philippines (1992, 300 km²)
- Aqaba, Jordan (2000, 375 km²)



Zones within Zones—The Unique Case of China



Special Economic Zones—5

Open Coastal Cities—14

Free Trade Zones—15

EPZs—17

**Economic and Technological
Development Zones—54**

**High Technology Development
Zones—53**

**Border Economic Cooperative
Areas—15**



**Growth and Economic
Impacts**

Growth of Modern Zones



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

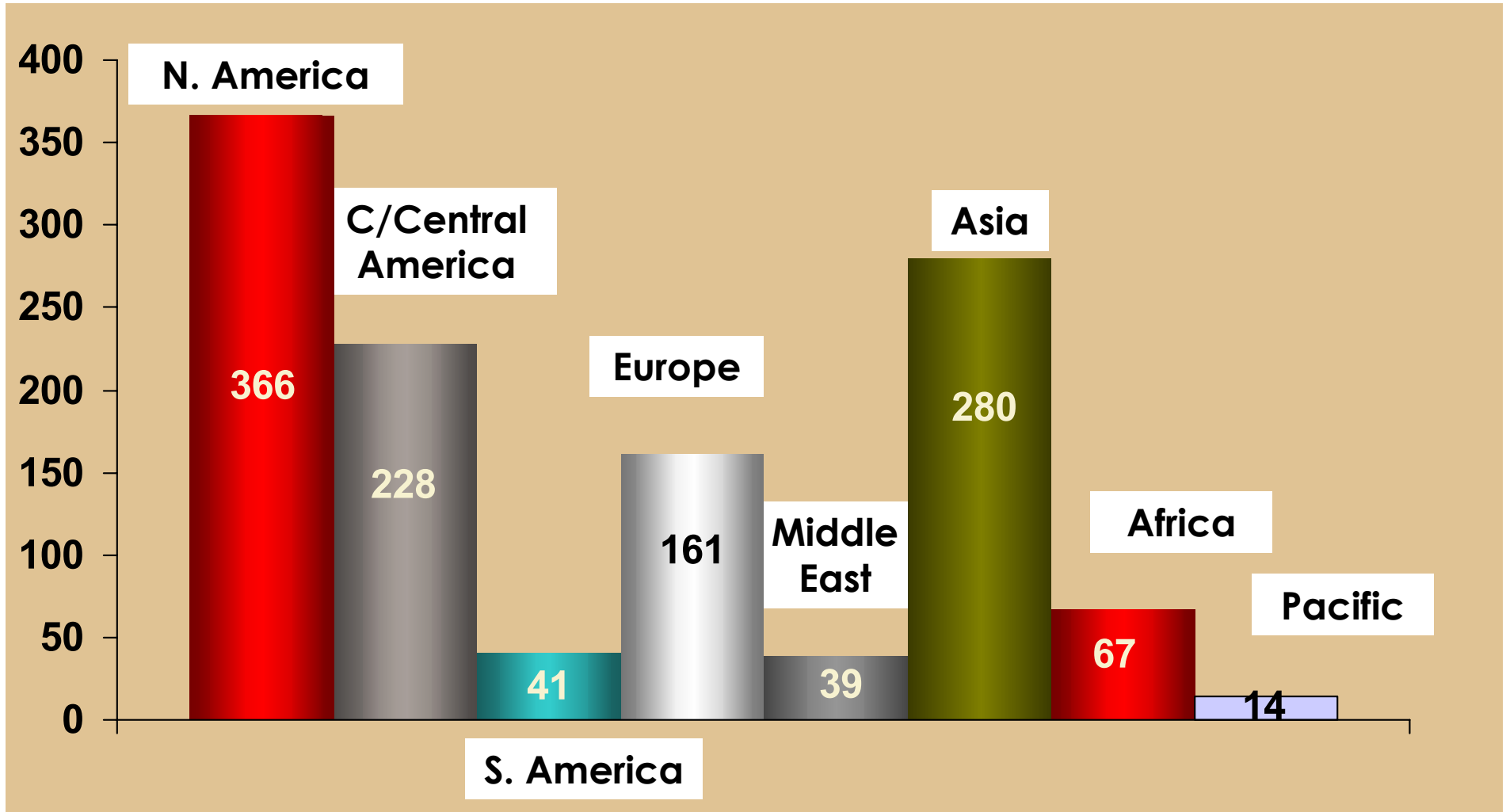
Total exports: \$600+ billion

**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 (15 EPZs)	\$4.2	200,000
Philippines	100	\$27.0	907,000
Thailand	30	\$4.7	120,000
India	13	\$1.3	87,000
Sri Lanka	9	\$1.2	150,000
Bangladesh	6	\$1.2	120,000
Taiwan	5	\$6.1	90,000
Pakistan	4	\$0.1	40,000
S. Korea	3	\$5.0	80,000

Contribution to National Exports, Selected Countries



Country	% of Total Exports
Dominican Republic	81%
Mauritius	77%
Philippines	67%
Costa Rica	51%
Turkey	45%
Sri Lanka	37%
Bangladesh	20%
Taiwan	<5%
India	<5%
Brazil	1.4%
Pakistan	<1%

SEZs and Freeports



	Exports (billions)	% of National Exports	Cumulative Investment (billions)	Direct Employment
Inquique, Chile	\$1.0	<1%	--	20,000
Batam, Indonesia	\$7.0	11.5%	\$4.0	173,000
Shenzen, China	\$48.0	14.0%	\$28.0	3 million
Zhuhai, China	\$8.0	1.7%	\$8.0	1.5 million
Shantou, China	\$5.8	1.1%	\$10.0	2.5 million
Xiamen, China	\$9.0	1.9%	\$18.4	
Hainan, China	\$2.5	<1%	\$7.0	2 million
Labuan, Malaysia	\$.70		\$7.0	50,000
Subic, Philippines	\$2.84	7.9%	\$11.0	50,000
Aqaba, Jordan			\$1.1	9,000

Summary of Economic Impacts



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



Zone Development Trends

Why Are Zones Changing?



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

Zone Development Approach—Traditional Concept



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



Physical features

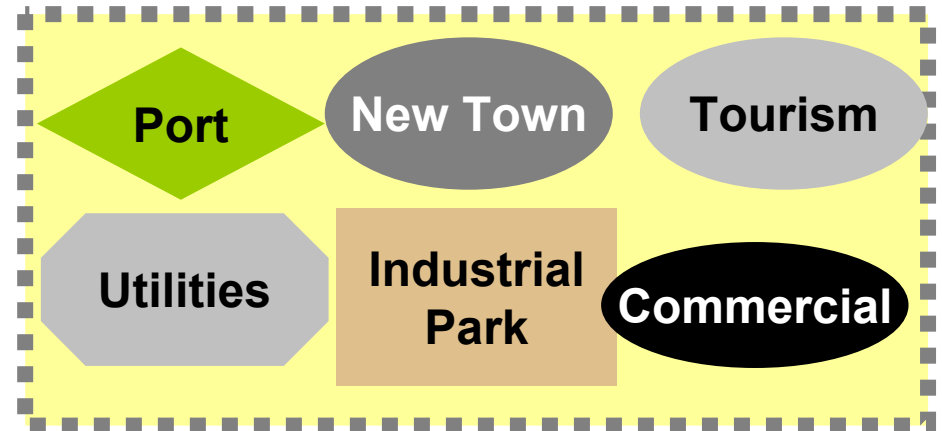
- Integration, large-scale, mega zones
- IT systems & networks

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



Trends: Policy & Incentive Framework



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

Trends: Institutional Framework



Old Framework

FZ 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

FZ 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

New Partnership Approach



Government Role

- Land lease or sale
- External infrastructure
- Regulation of regime
- Maintenance of common areas
- Workforce development
- Social & municipal services

Private Sector Role

- Internal infrastructure
- Property development
- Utilities—power, telecommunications
- Provision of shared services for enterprises
- Outsourced functions on behalf of government
- Investment promotion

Importance of Information Technology

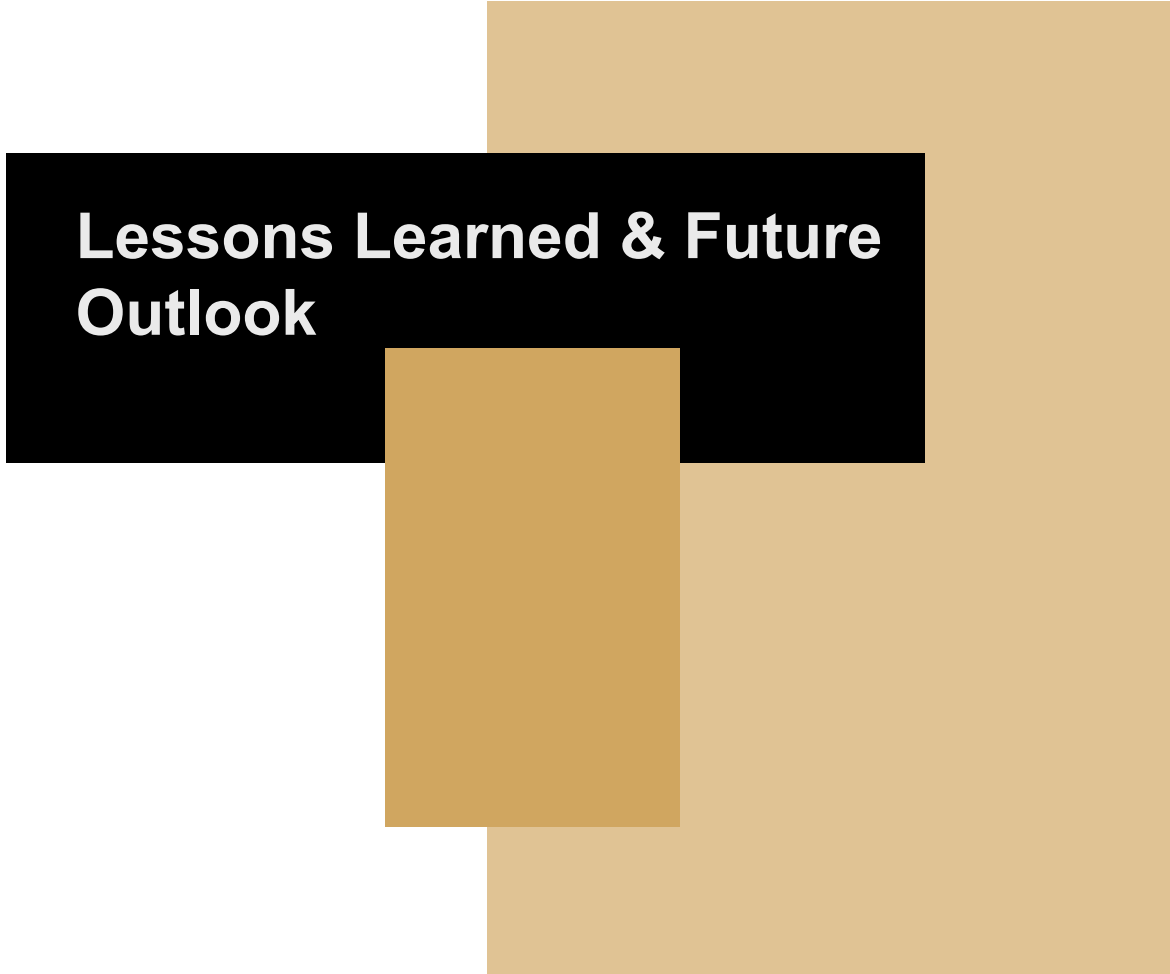


Separation of roles but integration of systems

- Zone Authority; Zone Manager/Operator; Customs/other government; Licensed enterprises

Key characteristics

- Web based; direct input
- Payment processing capabilities
- Consignment tracking capabilities
- Strong Virtual and Physical Security systems
- Robust networking and telecommunications infrastructure and services
- e-government



**Lessons Learned & Future
Outlook**

Why Have Some Zones Failed?



Public sector development of zones

- Physical development; not phased
- Subsidized or over-designed facilities
- Poor locations (growth pole, politics)
- Poor maintenance, services, promotion, crowded facilities

Uncompetitive policies

- Reliance on tax holidays
- Rigid eligibility requirements
- Poor labor policies and labor relations, suppression of unions
- Lack of incentives for private zone development

Why Have Some Zones Failed?



Bureaucratic procedures and controls

- Complex investment approval procedure
- Cumbersome customs procedures
- Excessive monitoring/reporting requirements

Inadequate institutional structure

- Too many agencies involved in zone regulation
- Lack of authority, funding, in regulatory body

Lack of an integrated development approach

- No provision of off-site infrastructure
- Lack of public-private partnerships

Some Key Success Factors



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)

Emerging Issues & Future Outlook



Global environment

- Compatibility with WTO and regional FTAs
- End of Multi-Fibre Agreement quota system
- Cargo and trade security mandates

Zone development

- How to involve the private sector—public/private partnerships
- Maximize economic benefits—need for zones to catalyze reform

Future outlook

- Is the rationale diminishing?



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