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Policy Exercise No. 1

BORDERTOWN SPECIAL ECONOMIC ZONE (SEZ)

In 2007 two countries, Alphaland and Betaland, created a special economic zone (SEZ) at an undeveloped site along their border ("Bordertown"). Betaland has a larger and more diverse economy, with mature manufacturing, agriculture, and service sectors. Multiple firms from all three sectors are competitive internationally. In contrast, Alphaland derives most of its revenues from the export of natural gas and unprocessed ores. Most of Alphaland's workforce is employed in agriculture, but by combining low labor costs with preferential tax rates, Alphaland hopes to attract multinational corporations that will employ and train local workers to work in the SEZ. Betaland was expected to use its experience in establishing SEZs to help manage the development of Bordertown, and had hoped to benefit from cheaper imports from, and closer ties with, Alphaland.

Unfortunately, two years after its establishment, the SEZ at Bordertown had attracted only minimal participation from international firms. Assets in Bordertown include substantial infrastructure to accommodate heavy industry, manufacturing, and software development. As a free trade zone, customs are also substantially lower than elsewhere in the region. Bordertown is land-locked, but well-maintained roads and railway allow for transportation to several major markets. Nonetheless, of the four companies recently established in Bordertown, three are subsidiaries of manufacturing firms in Betaland that have employed few workers from Alphaland. A fourth firm is a clothing center from an American sporting apparel company that is taking advantage of cheap local labor. These four companies use less than 20% of the available space in the SEZ. More companies must be brought in for Bordertown to sustain itself and for the initial investments of Alphaland and Betaland to pay off.

How can Bordertown be made more attractive to international corporations? Most companies are entitled to five-year tax exemptions. Alphaland and Betaland are open to joint ventures with foreign companies, who could take advantage of financial benefits roughly similar to those found in other SEZs in Central and Southeast Asia. Should Bordertown focus specifically on expanding trade opportunities between Alphaland and Betaland, or should it focus on on developing new industries through foreign investment? What legal arrangements should be considered to make Bordertown more attractive to foreign entities? How can Bordertown's potential be publicized better to multinational corporations? Should Bordertown focus on a single industry or accommodate all interested investors? Should its administration be outsourced to a company that is experienced in managing SEZs, or should Alphaland and

Betaland continue to direct Bordertown's development themselves? Is Bordertown's remote location keeping foreign companies from relocating workers, and if so, how can "quality of life" be improved?

Policy Exercise No. 2

THE FRUITS OF TRADE

A wide variety of fruit trees grow naturally in neighboring countries, Sweetland and Fruitland. These countries have rich and fertile soil and fairly reliable water supply for agriculture. Their economies are largely agriculture-based and they rely substantively on their fruit crops (along with domestic grain production) for sustenance. Both countries could enhance economic growth and create more jobs if they could grow and export fruit on a scale large enough for export. Both countries are land-locked. A potentially large export market exists west of Sweetland, but fruit would need to travel first through a third country, Canningland. Fruitland itself has access to a very large market but needs to transport its fruit through Shippingland, and then send the produce by sea. Both Sweetland and Fruitland suffer from poor internal transportation, but thanks to a recent influx of development aid, they are building new roads and laying railroad tracks that will alleviate transportation problems.

The governments of Sweetland and Fruitland would like to create large fruit industries both for domestic consumption and export to global markets. Rich countries west of Canningland are looking for new suppliers of organic fruit; many countries accessible by sea want to buy either dried fruit or cheap fruit, while many other markets accessible by land or sea are looking for new suppliers of fruit juice. Currently, fruit in Sweetland and Fruitland is grown only in family orchards and sold locally or grown in larger orchards and sold in a few larger cities in both countries. No local firms exist that can store, package, process or transport large quantities of fruit to big developed markets. Several domestic companies could be used for transportation, but none has solid experience in transporting perishable goods internationally. The international fresh fruit market is dominated by a few large corporations that drive down the cost of inorganic fresh fruit by buying in bulk from numerous sources.

How can Sweetland and Fruitland become major exporters of fruit products, and what steps must their governments take to facilitate this process? How can individual orchards be organized or consolidated to increase yield? What are the relative benefits of different approaches--cultivating new land, implementing better harvesting techniques, consolidating individual orchards, forming cooperatives, or shifting to higher-yielding fruit species? Should the two countries focus on mass producing cheap fruit or on cultivating difficult-to-grow but higher-priced organic produce? Can they retain more value or gain more customers by drying fruit domestically? What can the governments do to persuade multinational food/fruit juice companies and other investors to invest in local processing factories? What should be argued in a business proposal to multinationals? How might the two countries get resources to build infrastructure for storing, packing, and processing fruit products? Who should they turn to for help? How might Canningland and Shippingland help facilitate the growth of a successful fruit export industry in Sweetland and Fruitland? What can be done to facilitate cooperation among the governments and private enterprises in all four countries? What benefits might arise for all if a successful fruit export industry develops?

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Policy Exercise No. 3

OPEN BORDERS

Five emerging market countries in Region X have relatively poor trade relations. Multiple inefficiencies exist due to protectionism and a lack of standardized procedures for the movement of goods across borders. Each country feels that letting goods in freely from neighboring countries might hurt local industries and weaken local livelihoods. Trade relations, in so far as they exist among the five countries, are determined on a bilateral basis. As a result, countries A, B, C, D and E rely on multiple customs platforms, making the transportation of goods across borders slow and expensive and discouraging trade at all levels. The legal complexities of the various systems frequently leave room for different interpretations. Restrictions on trade are applied in an ad hoc fashion, and bribery is not uncommon. Numerous illegal cross-border routes exist in order to avoid the slow and costly customs process. These routes are also used for the transport of drugs, weapons, and other contraband. Access to global markets is limited – especially for B, C and D, which are landlocked between A to the west and E to the east – since imported and exported goods are taxed separately at each country's border.

Assume that you are representatives from the Ministry of Trade and Industry of countries A, B, C, D and E. Your presidents have just met in a trade summit and have asked you to work on a strategic plan to remove barriers to trade in the region. Your presidents ultimately want to establish a common market, but in the near and medium-terms, they want a plan that will remove quotas and tariffs from regionally traded goods while allowing non-tariff barriers that recognize differences in domestic safety and packaging requirements. You and your counterparts from the Ministries of Trade and Industry from other countries in the region are meeting at a regional working conference to improve regional cooperation and carry out your presidents' mandate to create a freer trade regime. Part of your task is to develop a centralized authority that will manage customs standards for all five countries and find ways to leverage existing best practices in bilateral relationships.

If the different national customs regulations are replaced with a single regional customs and tariffs regime, what might be the central rules of such a regime and how will they be implemented? Currently, goods are inspected and documented multiple times to verify information about quantity, quality, origin, etc. Official examination systems in each country are mostly incompatible with those of other countries, and officials rarely trust information collected at prior check-points. Think of measures to simplify trade relations among the five countries of Region X. How will costs and delays be reduced? How can trust be built among the different parties and how will compliance be ensured? Where will disputes be arbitrated? Whose help might be enlisted for a smooth transition to a common regional customs regime? What assistance might be solicited from the World Bank, regional development banks, and the EU?