Sustainable SEZs

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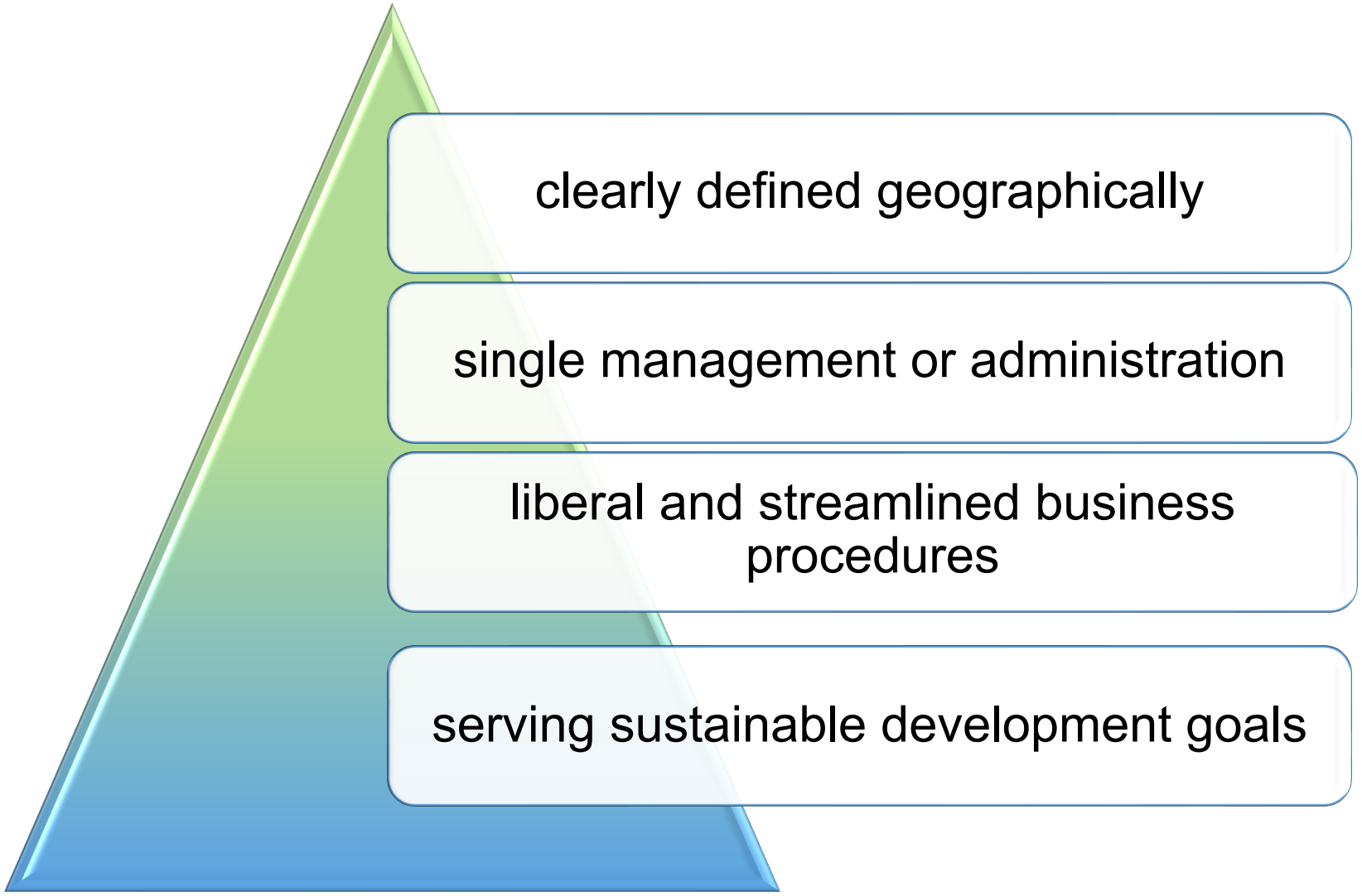
Concept


clearly defined geographically
single management or administration
liberal and streamlined business procedures
serving sustainable development goals

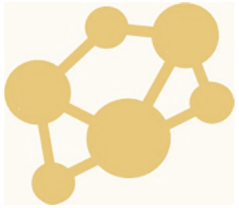
Post-COVID-19 production and trade landscape: Going digital, e-commerce, and building sustainability

Increased use of digital tools and real-time data:

- Enhance processes and performance

E-commerce:

- Increase in both B2B and B2C transactions
- The shift to online shopping: post COVID-19 B2C e-commerce will likely remain high



Reconfiguration of supply chain and ESG emphasis:

- Regionalization and reshoring of supply chains
- Diversification of supply chains
- Environment, social and governance

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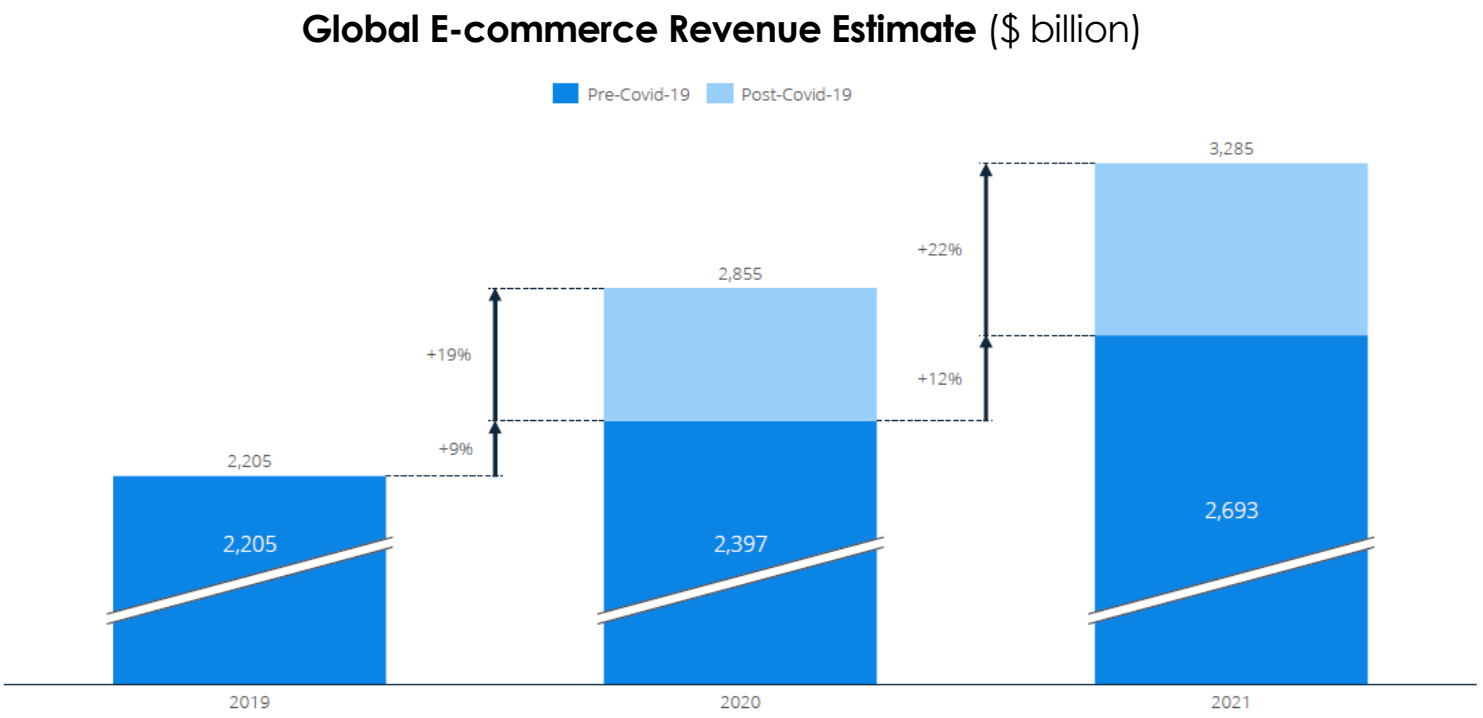
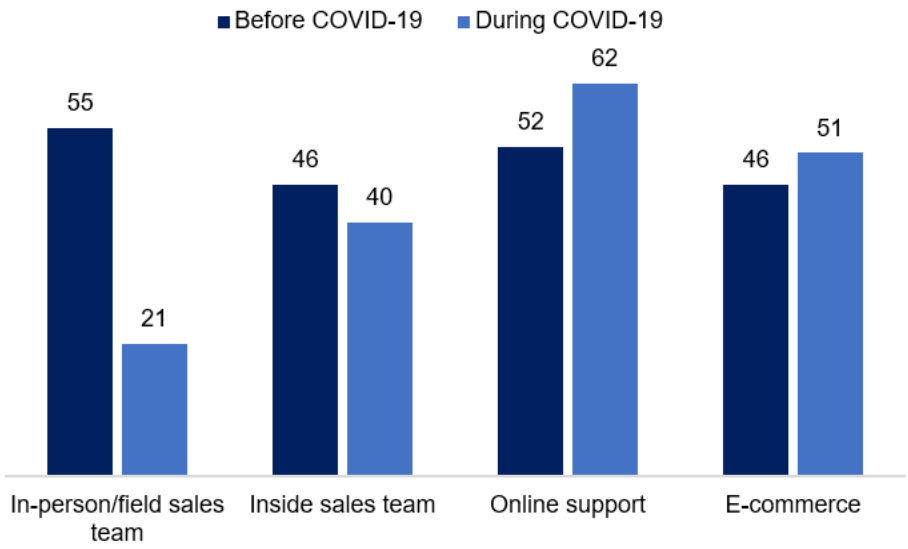
Global e-commerce revenues have increased by additional 22% in 2021 due to COVID-19



Source: Statista Digital Market Outlook 2021.

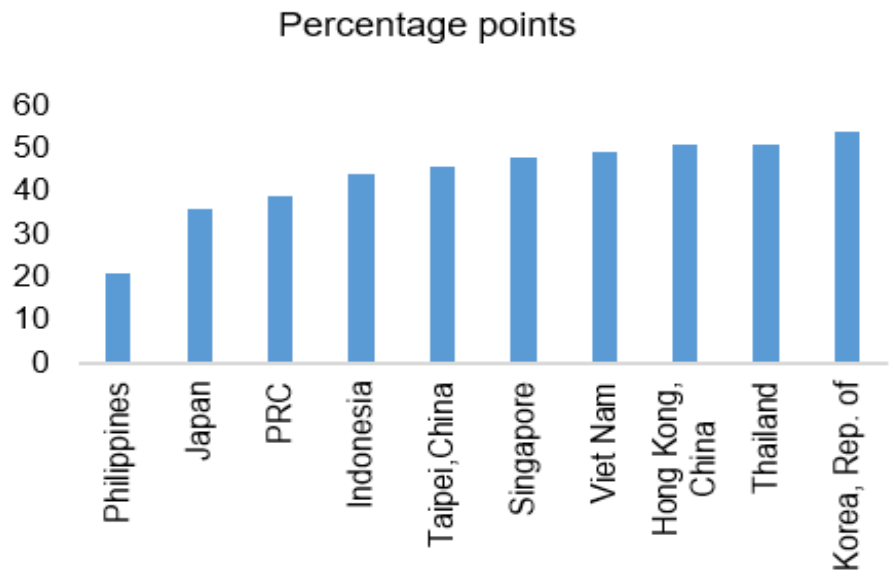
Transition into B2B and B2C E-commerce

Adjustments of B2B companies during COVID-19



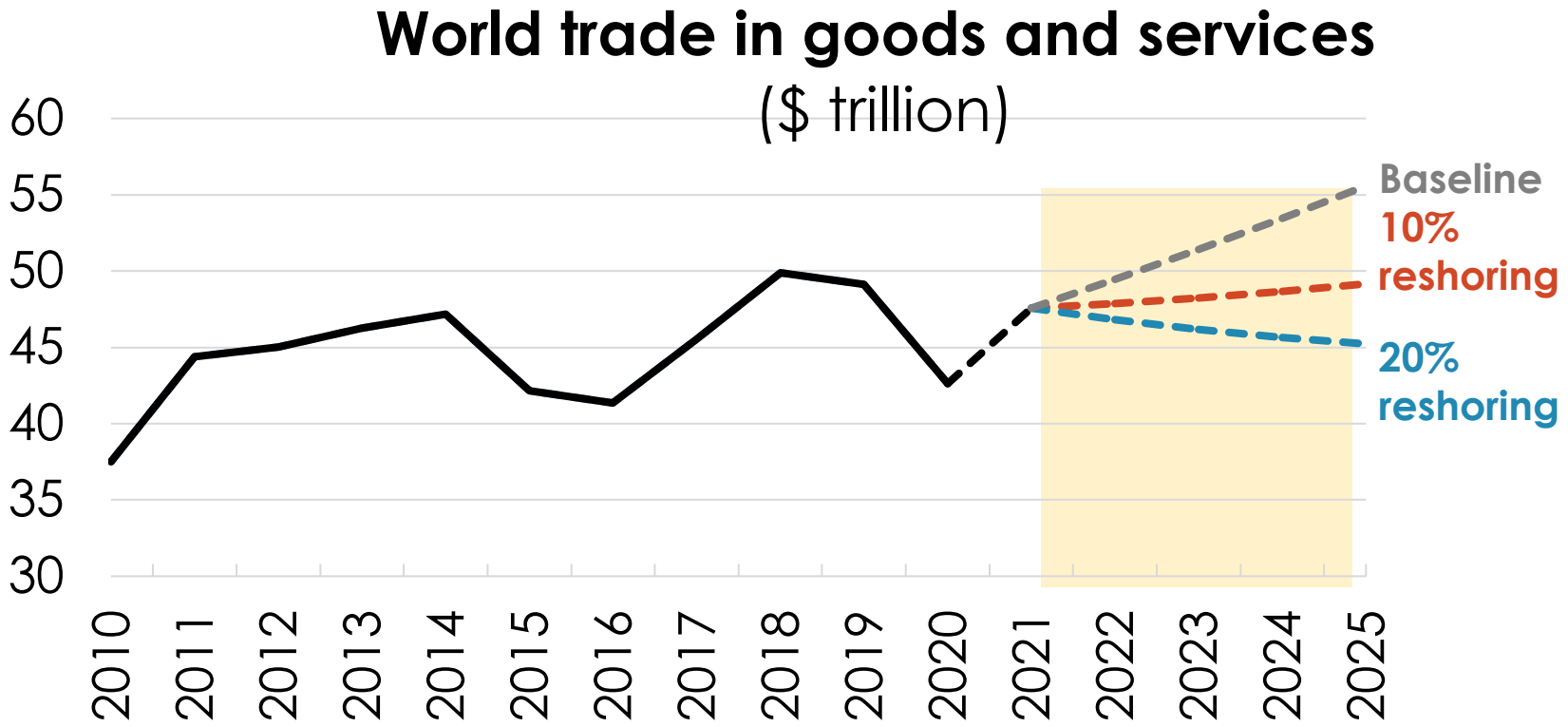
Note: The question were "In what ways was your company's product or service sold before COVID-19?" and "Now today, in what ways is your company's product or service sold during COVID-19?". The survey period is April 20-28, 2020.
Source: McKinsey & Company (2020).

Net Change in online purchase May 2020



Note: The net change in behavior data refer to the difference in the proportion of survey respondents that indicated they increased online purchases and those that say that online purchase has decreased. The raw data are from Statista citing the results of Rakuten Insight Surveys from May 7 to 30, 2020.
Source: ADB Staff estimates.

Estimated impact of supply chain reshoring on trade



Notes: Based on assumption of 50% substitution rate, which means that 50% of reshored capacity is replaced by domestic production. Reshoring rate (10% and 20%) refers to the share of imported intermediate goods for further processing for exports and outsourced production that the main exporter will cut-off. IMF World Economic Outlook October 2020 forecasts were used to estimate world trade in goods and services for 2020 and 2021 and average trade growth in 2010-2021 for the baseline 2022-2025 period.
Sources: ADB calculations using data from ADB. Multi-Regional Input-Output Tables based on methodology by Wang, Wei, and Zhu (2014); International Monetary Fund. World Economic Outlook April 2019 and October 2020 Databases; and World Bank. World Development Indicators.

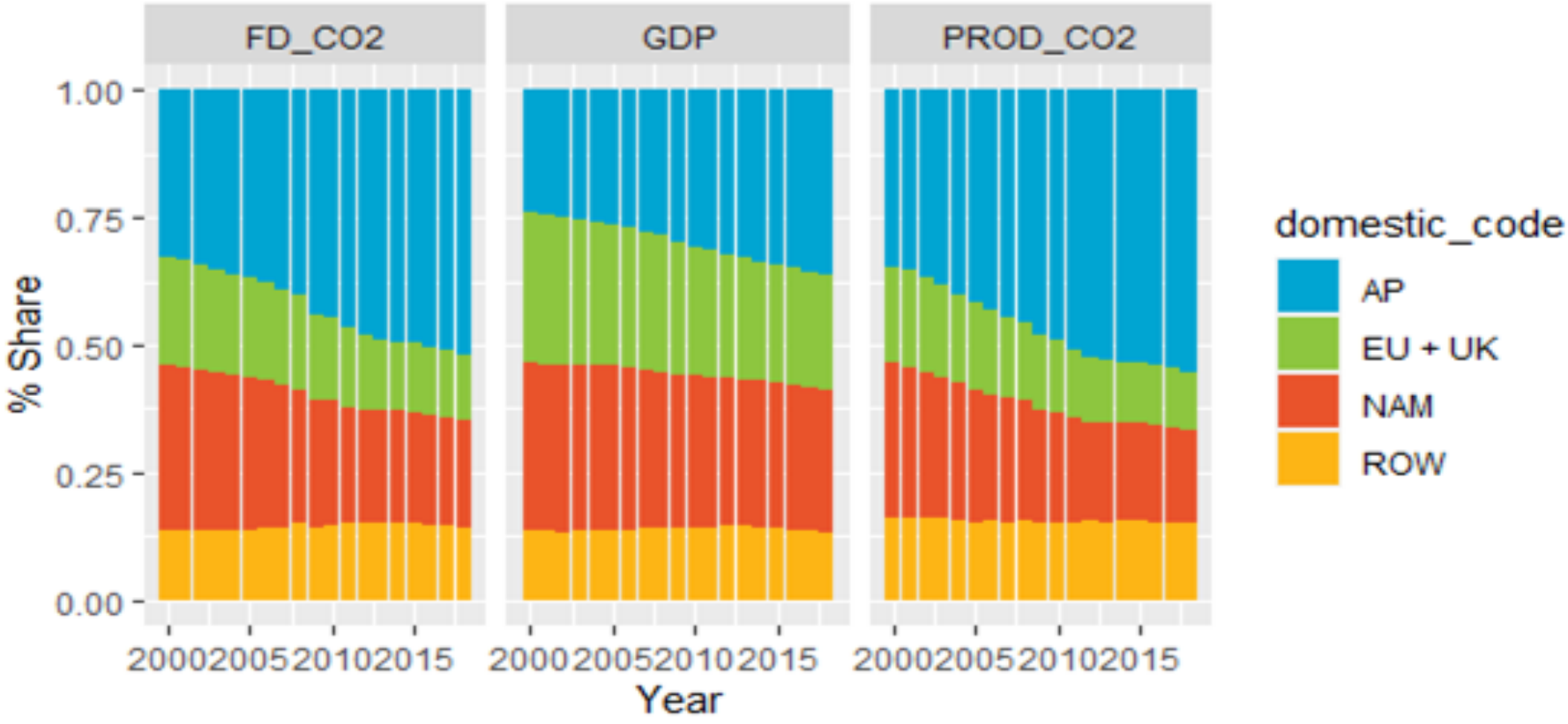
Estimation of impact of reshoring on exports

Simulation Results: % Change in Exports Due to Reshoring

Region	100% Substitution Rate			50% Substitution Rate			30% Substitution Rate		
	30% Reshoring	50% Reshoring	100% Reshoring	30% Reshoring	50% Reshoring	100% Reshoring	30% Reshoring	50% Reshoring	100% Reshoring
Asia and the Pacific	-8.79	-14.64	-29.29	-12.30	-20.50	-41.01	-13.71	-22.85	-45.70
Central Asia	-15.60	-26.01	-52.01	-17.68	-29.47	-58.94	-18.51	-30.85	-61.70
East Asia	-8.56	-14.26	-28.53	-11.80	-19.66	-39.32	-13.09	-21.82	-43.64
South Asia	-8.36	-13.93	-27.86	-11.24	-18.74	-37.48	-12.40	-20.66	-41.32
Southeast Asia	-8.31	-13.85	-27.71	-13.31	-22.19	-44.37	-15.31	-25.52	-51.04
The Pacific and Oceania	-13.17	-21.95	-43.90	-15.08	-25.13	-50.26	-15.84	-26.40	-52.81
European Union	-8.14	-13.56	-27.12	-13.82	-23.03	-46.07	-16.09	-26.82	-53.64
Latin America	-8.89	-14.81	-29.62	-14.12	-23.54	-47.08	-16.22	-27.03	-54.06
North America	-11.11	-18.51	-37.02	-14.08	-23.47	-46.93	-15.27	-25.45	-50.89
Rest of the World	-8.96	-14.94	-29.88	-13.50	-22.51	-45.01	-15.32	-25.53	-51.06
World	-8.92	-14.86	-29.72	-13.34	-22.24	-44.48	-15.11	-25.19	-50.38

Notes: Reshoring rate refers to the share of imported intermediate goods and outsourced production that the main exporter will cut-off. Substitution rate refers to the capacity of local manufacturers to produce enough intermediate goods to compensate for the cut-off of imported intermediate goods and outsourced production.
Sources: ADB calculations using data from ADB. Multi-Regional Input-Output Tables; and methodology by Wang, Wei, and Zhu (2014)

Share of Regional GDP and CO2 Emissions Embodied in Production and Final Demand to World Total, 2000-2018



Source: ADB estimate based on OECD TECO2 data

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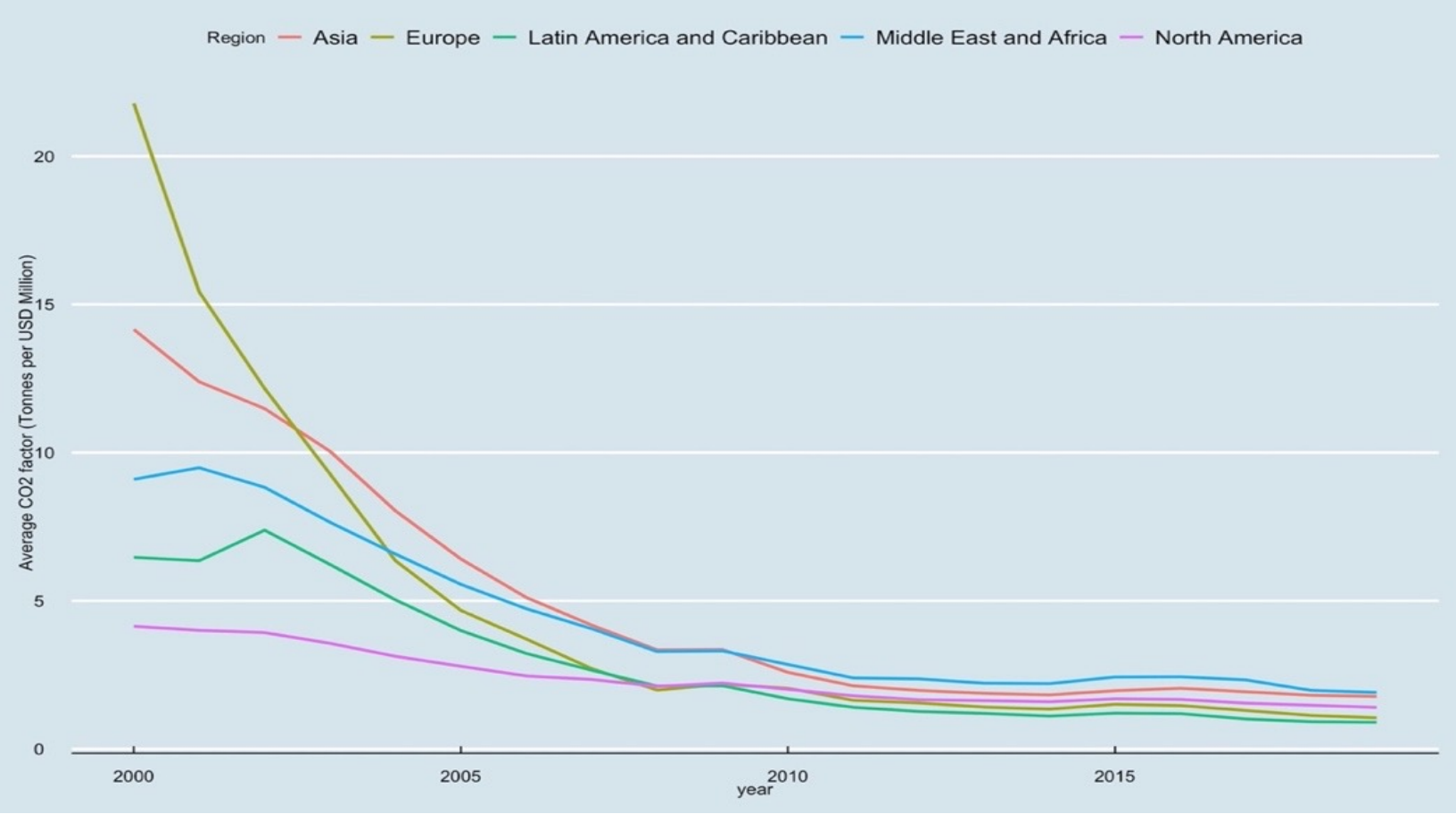
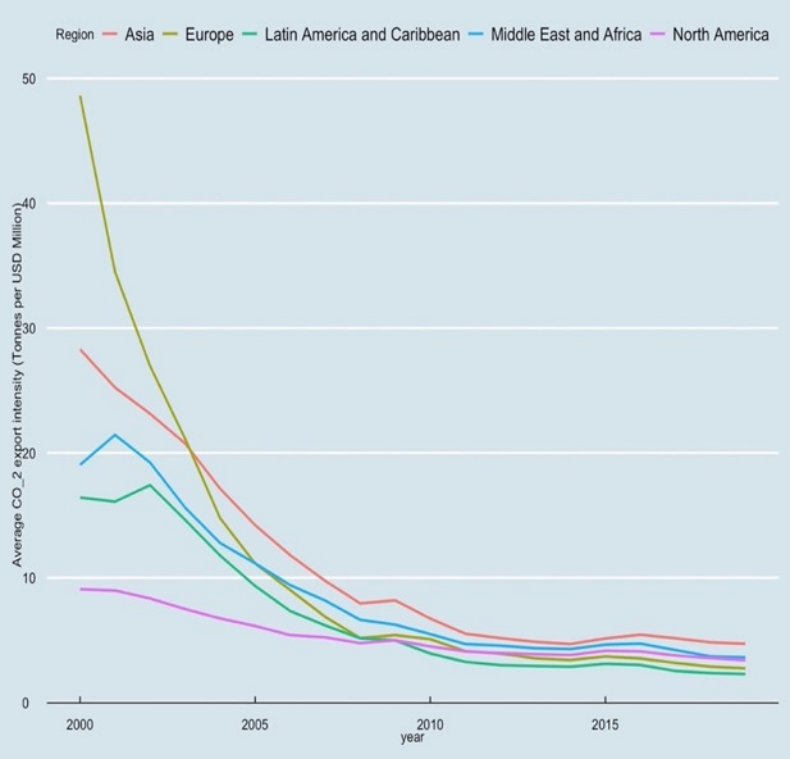
Emission Factor (CO2 emissions relative to GDP), 1995-2019



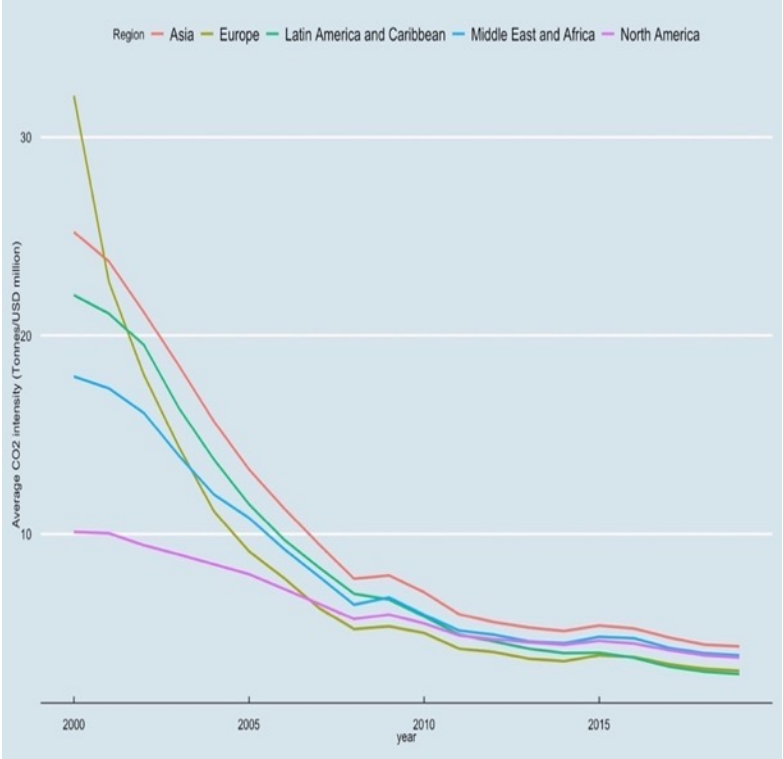
Source: ADB estimate based on OECD TECO2 data

CO2 Emissions Intensity of Exports and imports, 1995-2019

Exports

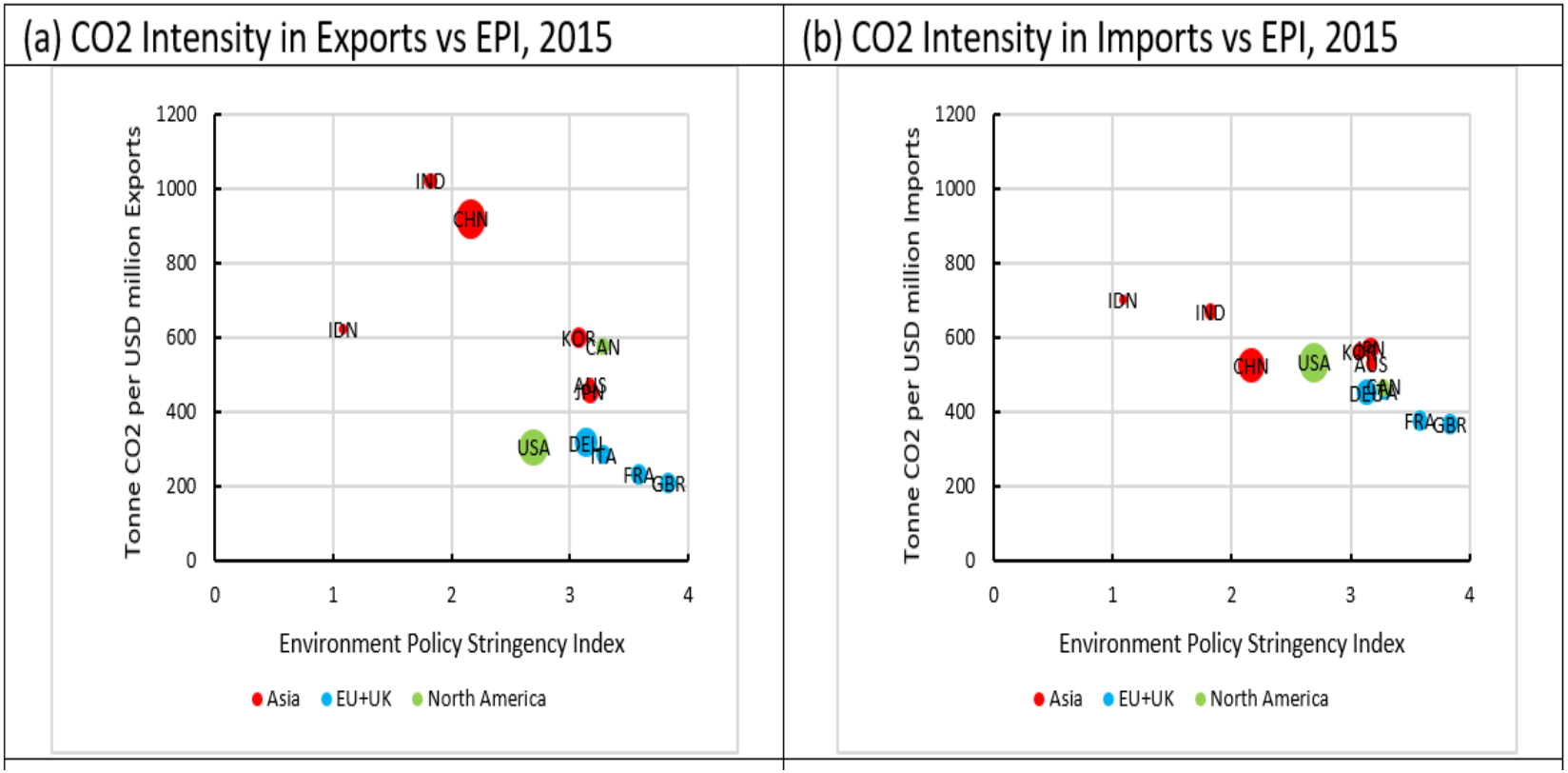


Imports



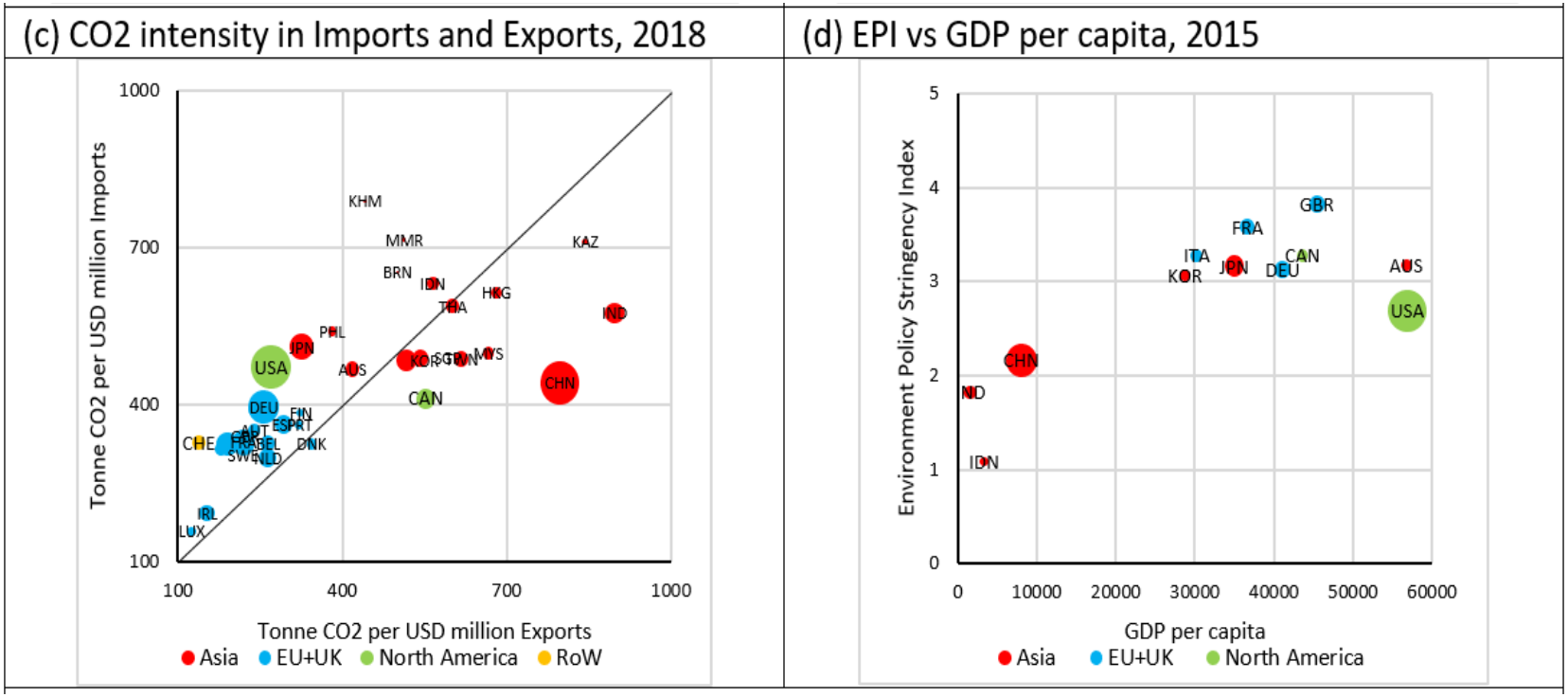
Source: ADB estimate based on OECD TECO2 data

CO2 intensity in exports and EPI: steep negative correlation
CO2 intensity in imports and EPI: flatter negative correlation



Source: ADB estimate based on OECD TECO2 data

Asian economies show more CO2 intensity in exports than imports
Higher income economies are more likely to employ stringent environmental policies



Source: ADB estimate based on OECD TECO2 data

Changing global environments

Tighter environmental and labor standards:

- E.g., Cross-border adjustment mechanism

Constraints in discretionary policy incentives:

- E.g., Inclusive Framework

ESG scoring and sustainability requirements:

- Influence on business activities
- Impact on financial intermediaries
- Accelerating energy transition

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New Generation SEZs

Success factors	Failure factors
Rationalize fiscal and non-fiscal incentives	Ambitious goals relative to country's comparative advantage
Innovative capacity	Zones as industrial islands (physical enclaves)
Strategic location, multimodal connectivity	Governance and rent seeking
Institutional capacity	Wrong positioning
State and local governments' commitment and readiness to cope with international regulatory challenges	Lack of localized strategy for upgrading industrial value chain and creating technology spillovers
Resilience and environmental sustainability	Extreme efficiency maximization bias

Link with development strategy and industrial policy

Embracing sustainable development goals

Key messages

- The popularity of SEZs still remains strong under changing environment (growth of services, knowledge economy)
- Different approaches can be adopted for different policy objectives
- Linkage to a country's development strategy is crucial for broader impact
- SEZs should help expand exports and investments in a sustainable manner
- Climate mitigation and adaptation should be embraced
- Energy transition, product recycling, sustainable infrastructure, improving labor conditions are to be emphasized
- Digital transformation will underpin both goods and services trade
- Backward and forward linkages with domestic companies are crucial
- To be combined with urban development, clusters and RCI efforts

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Thank you