

INTRODUCTION TO SEZS: RATIONALE, TYPE, AND CRITICAL SUCCESS FACTORS

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- Understanding SEZs
- Proliferation of SEZs: Some glimpses
- Rationale
- Critical Success factors

1. Understanding SEZs

Economic zones

SEZs

Target export oriented activity with differentiated regulatory regime

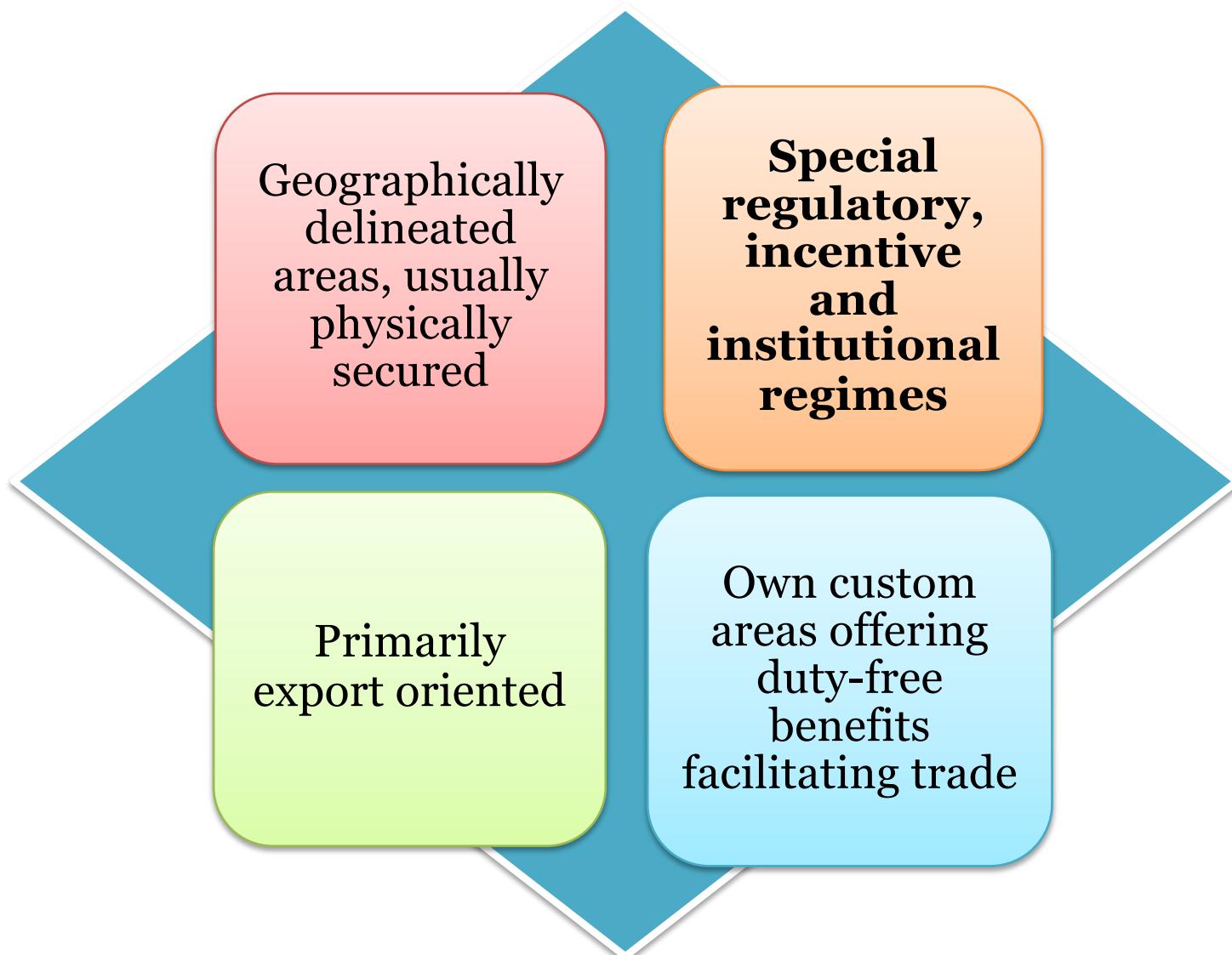
General Industrial Parks

Promote general industrial activity by attracting SMEs

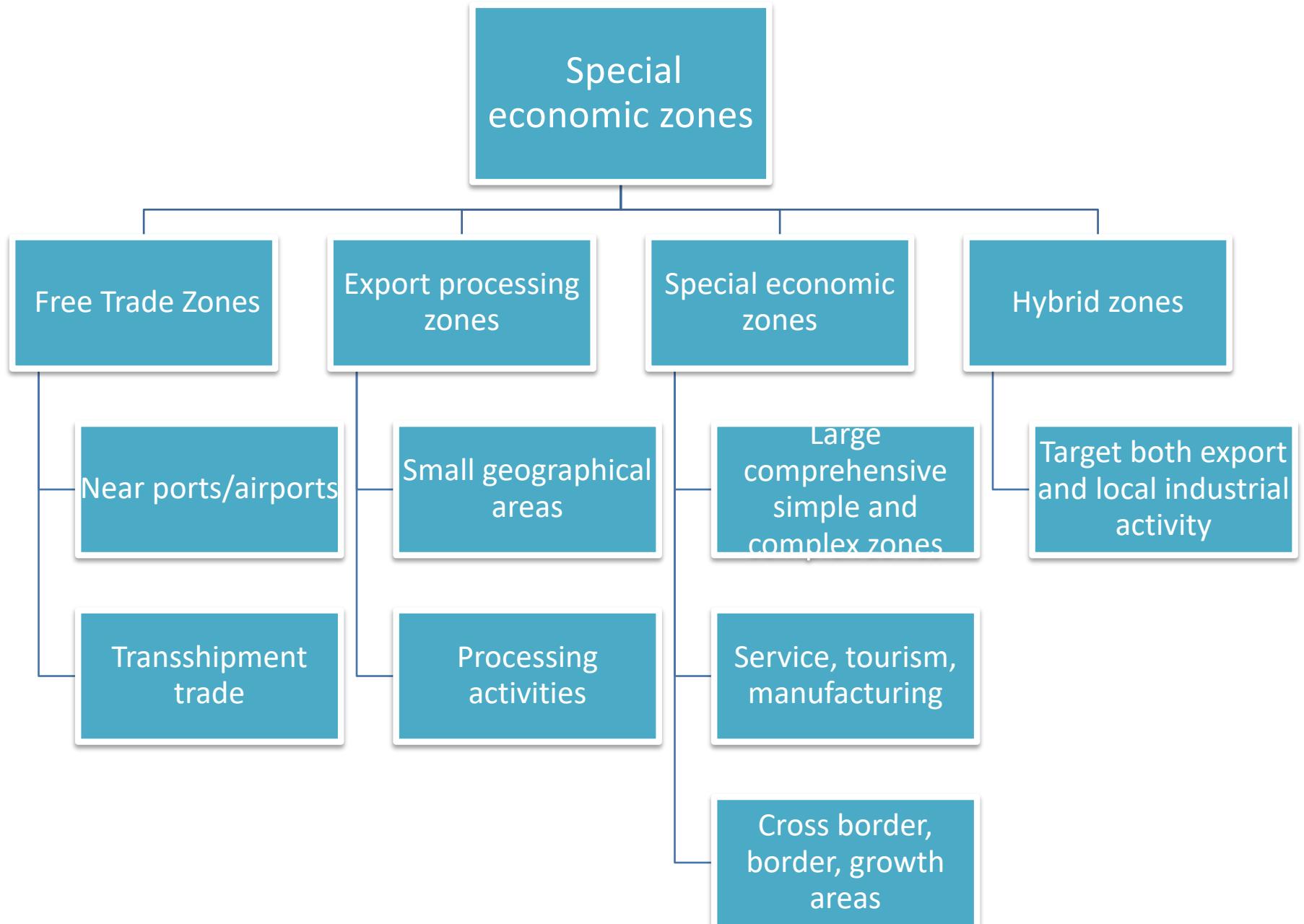
Hybrid Parks

Target both export oriented and domestic market oriented activity

What are SEZs? 4 core elements of an industrial park to qualify as a SEZ.....



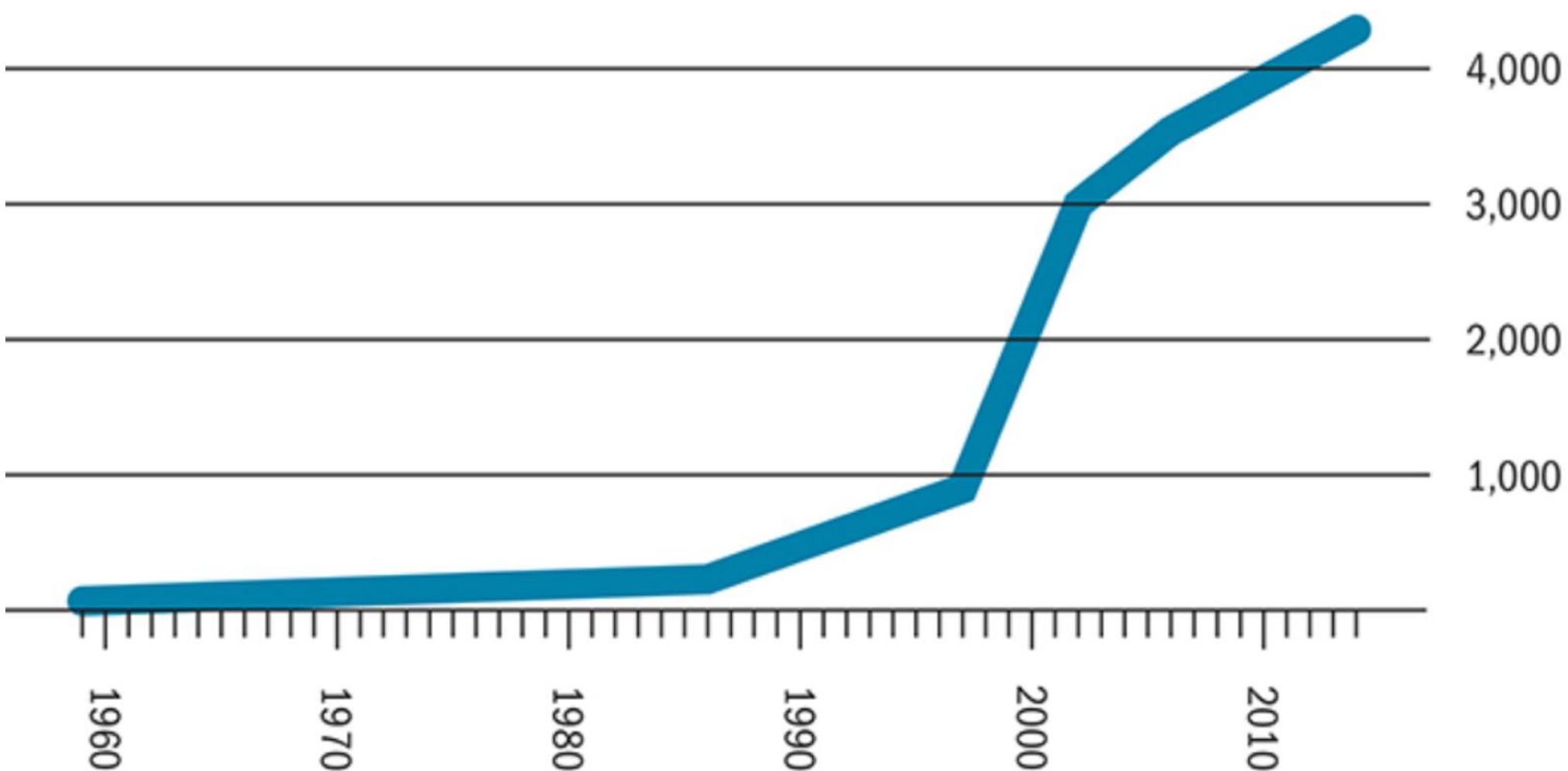
SEZs encompass a variety of zones



2. Proliferation of SEZs

Proliferation of SEZs

- A growing number of countries are setting up an increasing number of FTZs.



Site Selection magazine, [November 2017](#)

There has been evolution of zones with innovative features

- Free port zones are upgraded to logistics parks, to new free trade zones of Chinese variety to digital free trade zones (Malaysia)
- EPZs (industrial estates) are upgraded to SEZs (industrial townships) to Hybrid Zones (Philippines) to
 - Specialised zones (Malaysia)
 - High tech zones: Science parks (Singapore innovation district)
 - Service oriented SEZs (Korean Free Economic zones)
- Emergence of international SEZs
 - Border zones (Thailand, China)
 - Growth Triangles : IMT-GT
 - Growth Area: BIMP_EAGA
 - Cross border zones (Indonesia- Malaysia)
 - Country-specific zones (Myanmar, Cambodia, Indonesia among others)
- Distinction between industrial parks and SEZs is becoming blurred.

SEZs are characterized by

- more comprehensive objectives,
 - high-tech orientation and multi-sectors,
 - multi-preferential policies,
 - flexible locations,
 - larger spatial dimensions, and
 - more regional economic integration.
-
- They are flexibly located in interior and border regions depending on the objective of their establishment
 - Increasingly developed by the private sector

SEZs have evolved

- from being trade-oriented to development-oriented,
- from being purely an economic tool to a social and political tool,
- from carrying out structural reform within a country to international regional cooperation, and
- from labour-intensive to skill and technology oriented processing

Most pronounced evolution of SEZs in Major South East Asian countries

MALAYSIA

1971: EPZs

1975: Enterprise specific zones

1990: Trade based zones

2006: 5 economic corridors

2009: First SEZ in the East Coast Economic Region (one of the economic corridors)

As of September 2013 : 18 FIZs (EPZs), 17 FCZs (trade –based) and 2,110 LMWs (enterprise specific)

INDONESIA

1973: Bonded zones of EPZ variety in Batam and KBN

1993: Enterprise zones (number not known)

1992: The whole of Batam bonded zone

2007: Proliferation of bonded zones. Number increased from 7 in 2007 to 1557, as at end 2012.

2007: BBK; free trade zone

2009: SEZs

Continued....

THAILAND

1977: EPZs and bonded warehouses (distinction between EPZ and industrial estates blurred)

2007: Free trade zone with enhanced benefits

Recently: **SEZs** on the border with Cambodia and Myanmar

PHILIPPINES

1972: EPZs

1995: hybrid zones
(Eco zones)

More than 300 zones

Vietnam

1991: EPZs and industrial parks (over 400 IZs; distinction blurred with only 4 EPZs)

1998: High tech zones

2003: Eco zones (large zones with hybrid features)

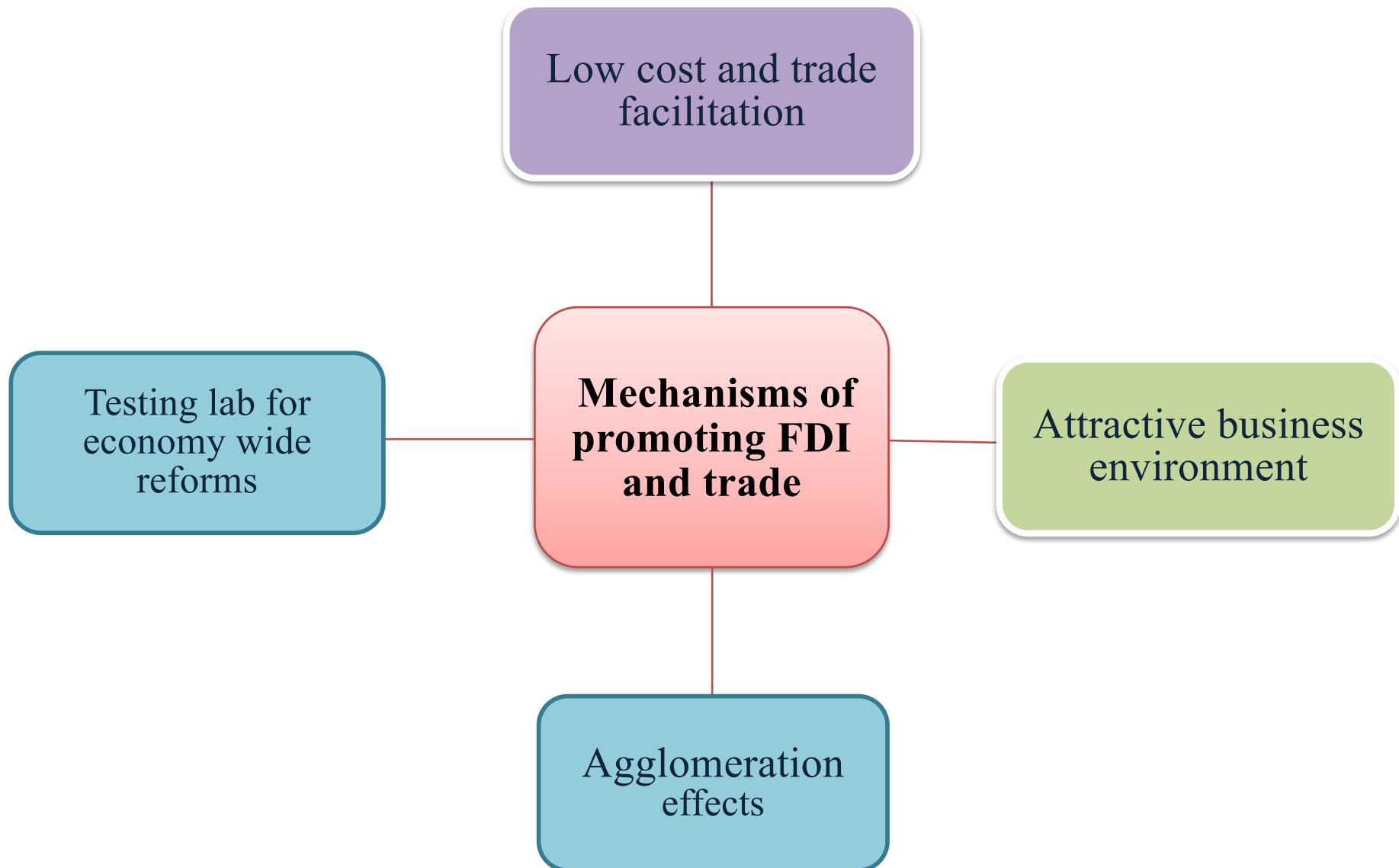
New generation zones under consideration

South Asia

	Initiation of EPZs	Upgrading of EPZs
India	1965	Special Economic Zones 2000 and SEZ act 2005
Sri Lanka	1977	1992: The Island is declared as free trade zone
Bangladesh	1980	2010: SEZ Act
Pakistan	1981	2012: SEZ Act
Nepal	SEZ act, 2016	
Bhutan	SEZ program	
Maldives	SEZ Act 2014	
Afghanistan	SEZ program	

3. Rationale

SEZs can be instrumental in attracting FDI and promoting trade and employment

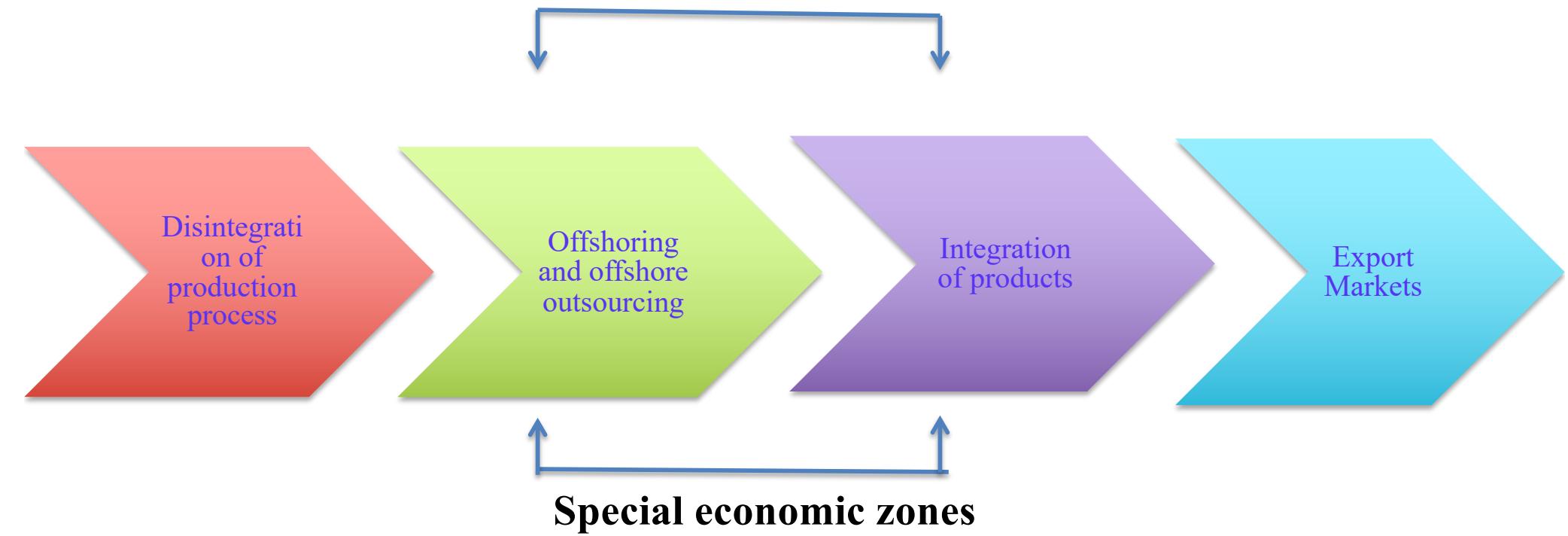


Catalyzing industrialization through SEZs

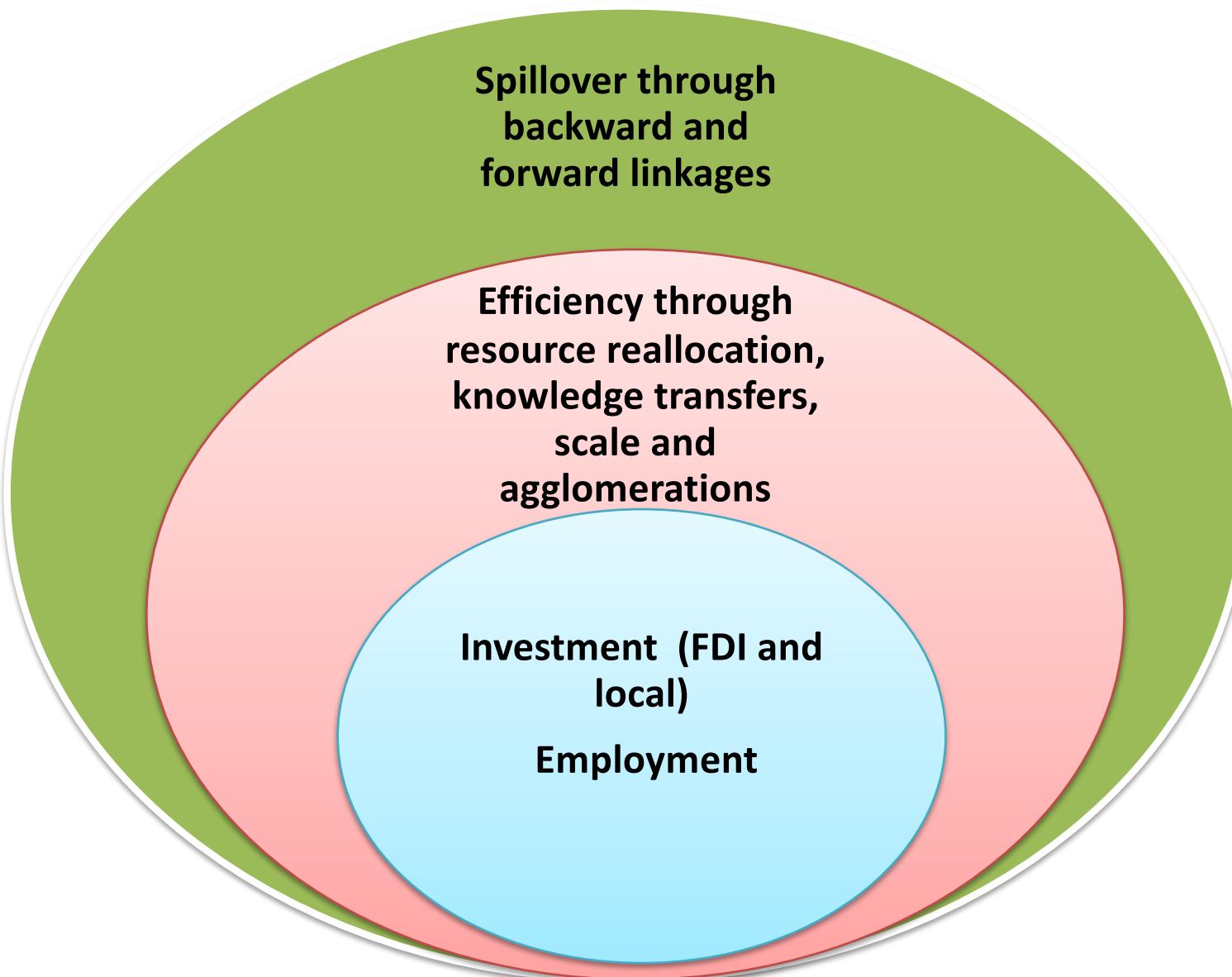
- Changing ways of doing business by foreign direct investors
- Global production and distribution networks (GPDN) across all sectors and production levels
- Countries can insert into the appropriate networks and can gradually upgrade itself for industrialization rather than building the capacity from a scratch.
- **SEZs are the platform to get inserted into them**
- **SEZs can thus compress the catch up period in industrialization**

Rise of Global production networks and SEZs

**GVC linked FDI and
domestic investment**



SEZs and growth drivers



SEZs can bring immense, social, economic and political economy gains

- *Economic:*
 - Technology transfers, productivity growth
 - Economic restructuring, and industrial diversification
 - Spatial development
- *Social:*
 - Employment and better living standards,
 - human capital
 - Poverty reduction
- *Political economy:*
 - Regional integration
 - International relations tool: Soft diplomacy (Mexian maquiladoras in the 1960s, Jordan and Egypt after 2001, Mekong Region)
 - Overseas Development Aid tool

But, there are costs ...

- **Orthodox and heterodox approach**
 - Fiscal burden
 - Diversion of resources from wider economy to SEZs with little additional gains
 - Loss of agricultural land and the issue of food security
 - Labour and environment standards
 - Threat of race to bottom in economic, social and environmental aspects
- **Agglomeration approach**
 - Diseconomies of agglomeration
 - Congestion, pollution, poor living conditions
 - Regional inequities

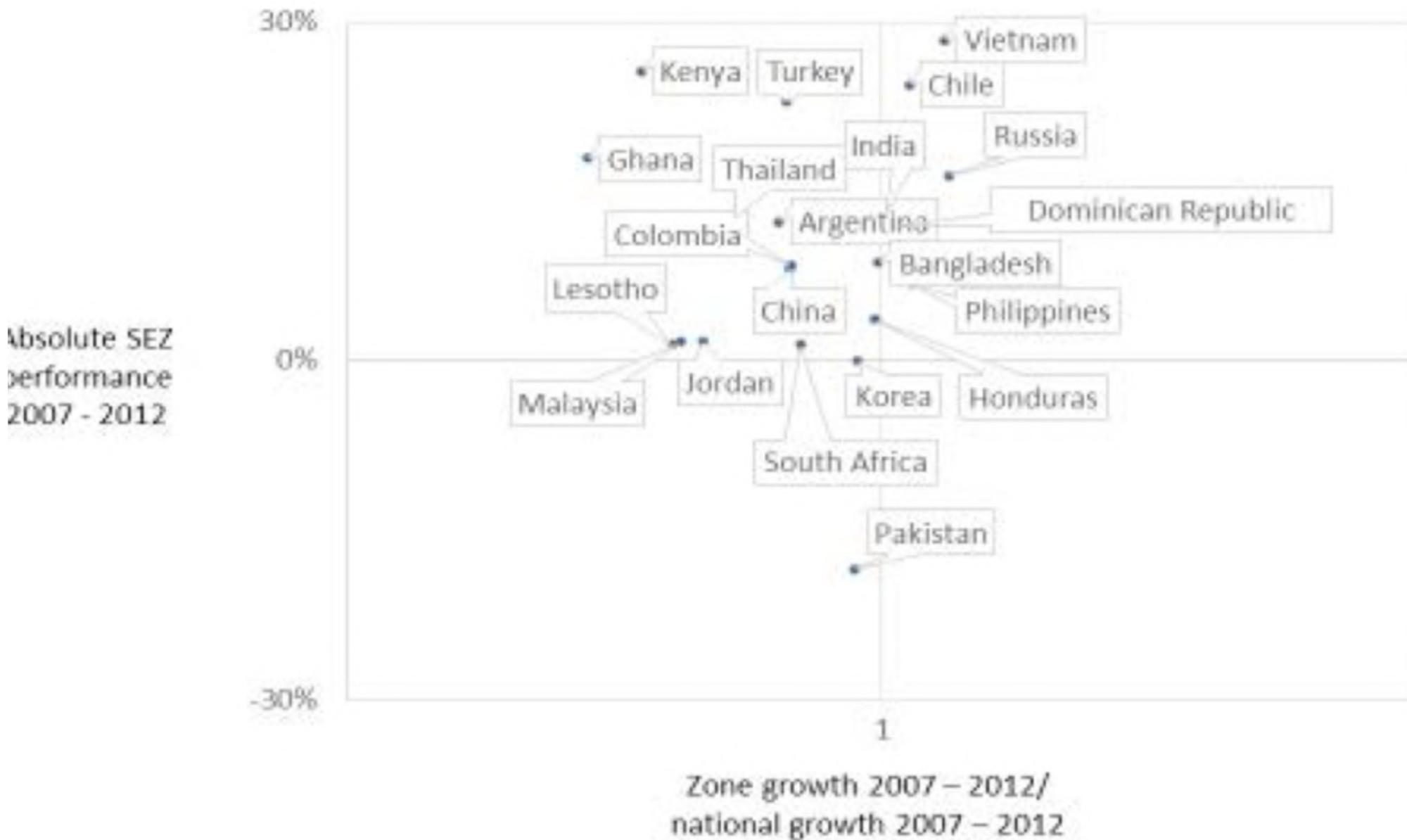
There are risks too

- May not attract large investment due to competition
- They can act as economic enclaves and host countries have the risk of getting trapped into low value chains
- As such, they can even delay the process of industrialization in the wider economy by diverting resources to SEZs from the domestic economy
- Risks in export oriented growth- Business cycles
- Money laundering, smuggling, and other financial risks

International experience shows...

- SEZs are successful in many countries in attracting FDI and creating employment
- but, their role in bringing about development is ambiguous
- A World Bank study shows
 - Young SEZs grow relatively faster. As they age, their growth stabilizes
 - Between 2007 and 2012, out of 346 SEZs across the globe, 33 shrank; 150 remained relatively stable; while 163 grew (less than 50%)
 - Only 65 of the 346 zones grew considerably faster than the national average. The vast majority of zones grew at the speed of the national economy. Twenty-five percent of zones grew well below the national average.

National averages of relative and absolute performance of SEZs: 2007-2012



4 Critical Success Factor

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Three sets of factors

Structural factors critical for positioning SEZs in development strategy

Operational Factors critical for attracting FDI and trade

Strategic factors critical for spillover or development impacts

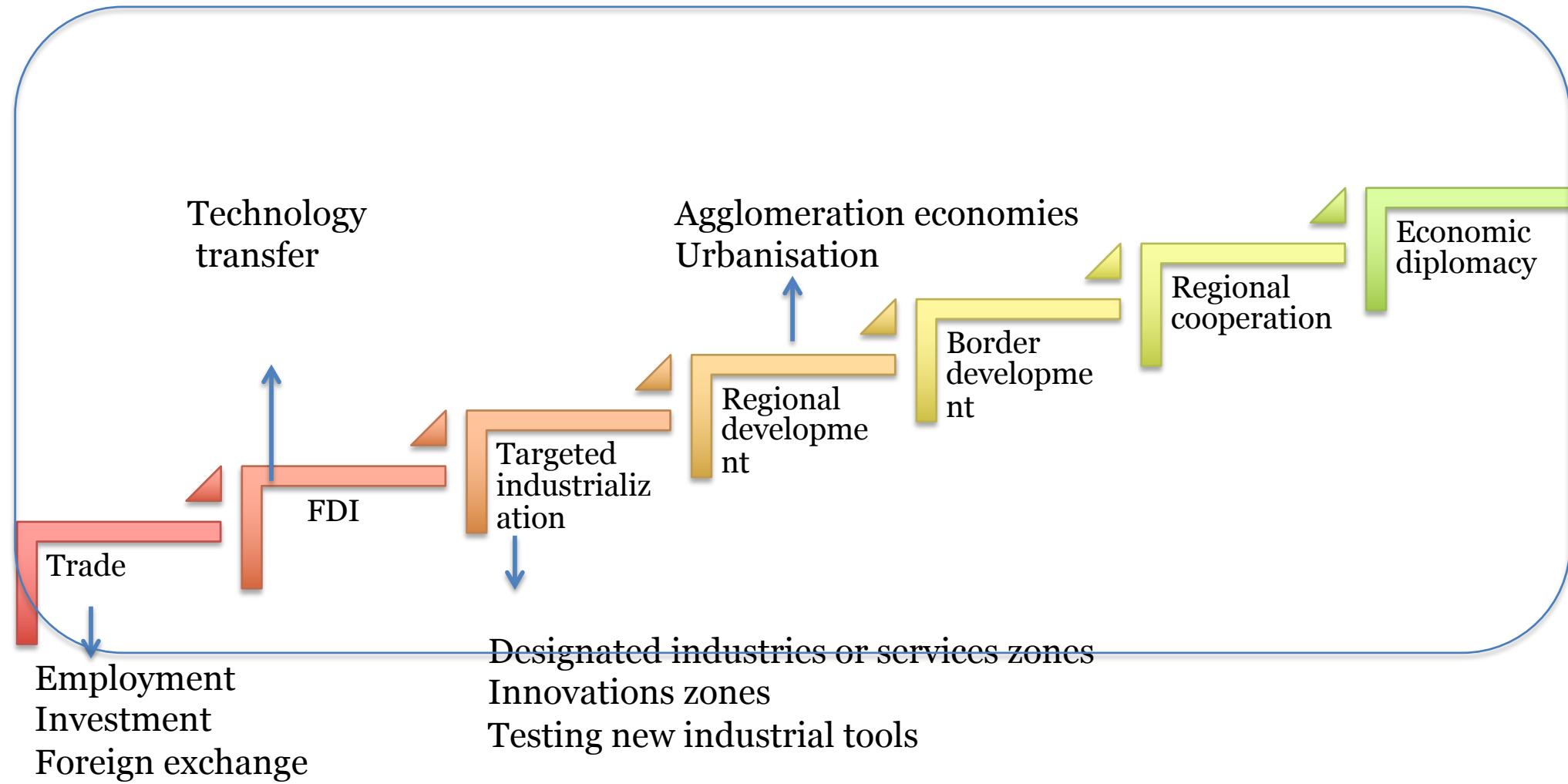
- Careful designing of SEZs

Strategic positioning of SEZs

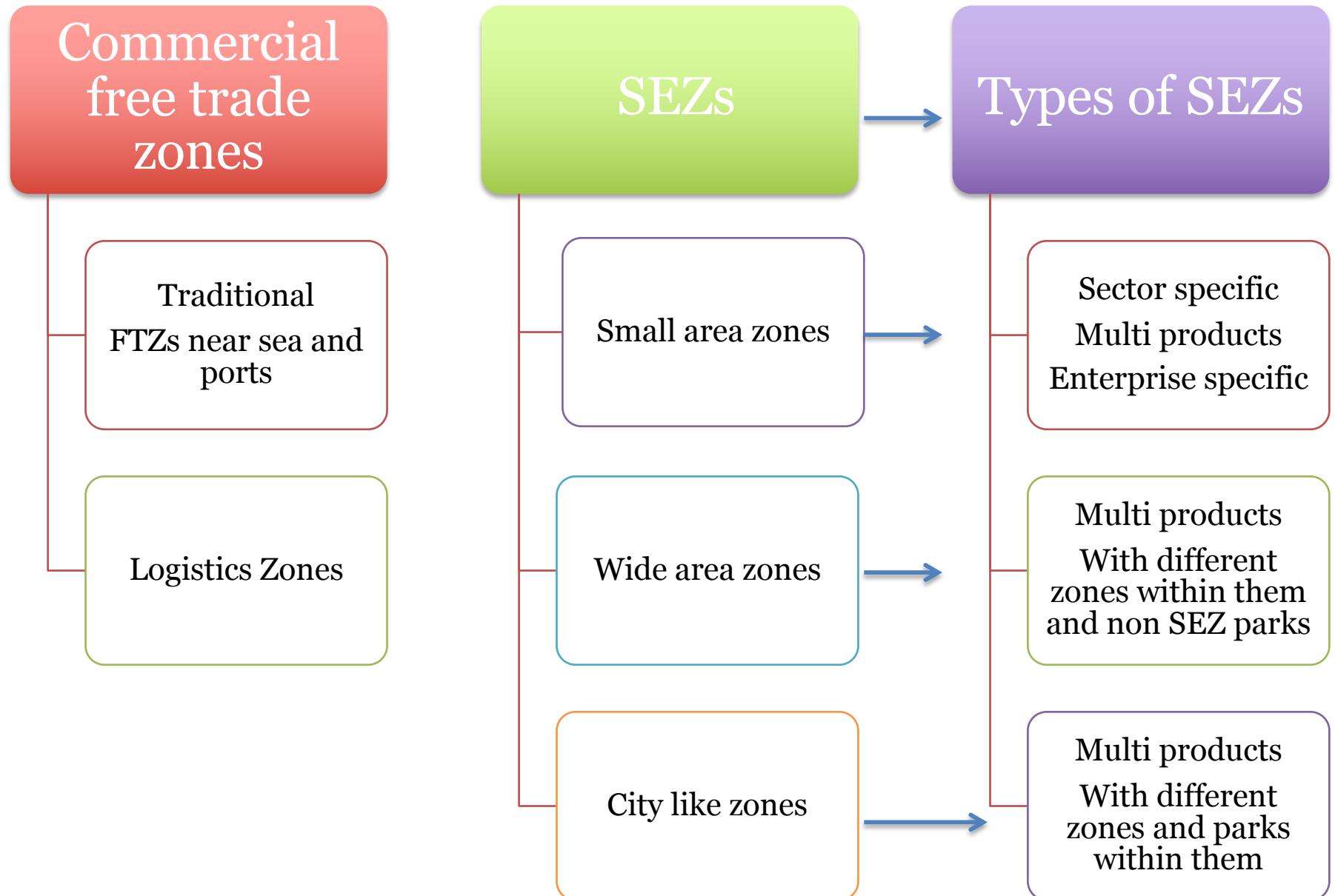


• Have clear Strategic objectives

- Measurable objectives within the national development strategy



Targeting the type of zone



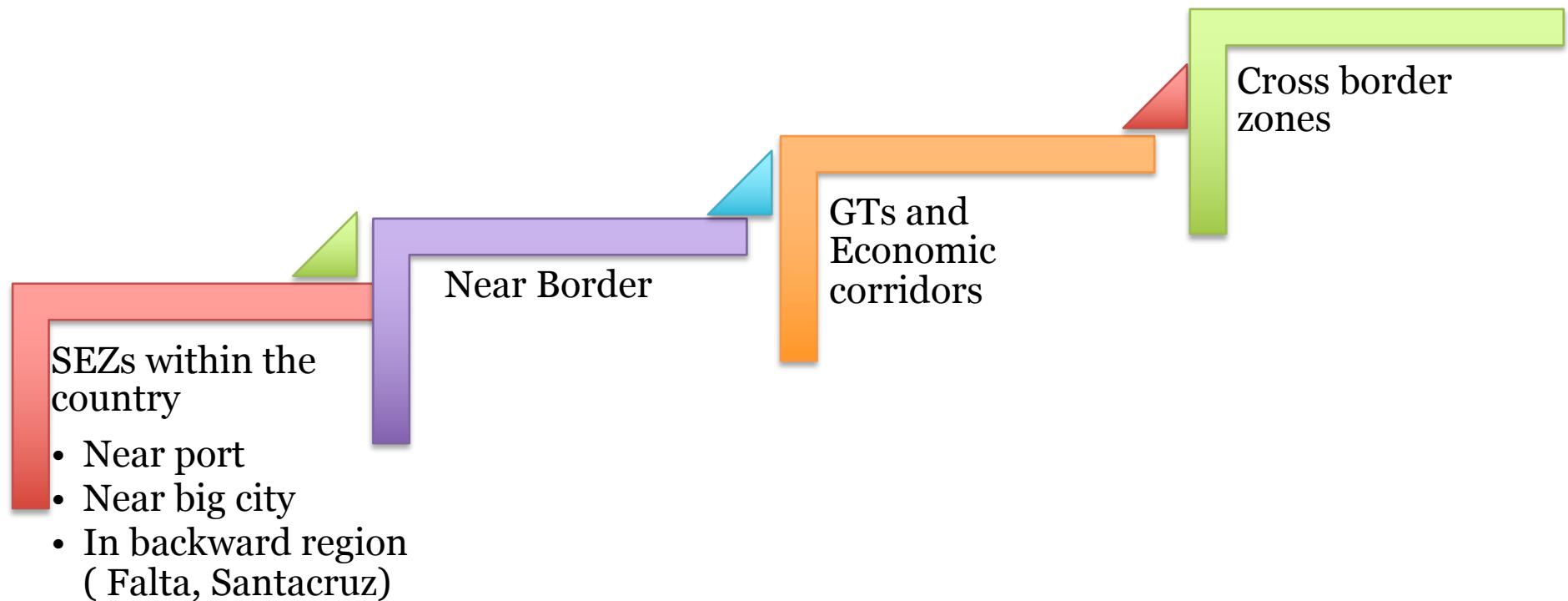
Strategic targeting based on Comparative advantage and SEZs

- Targeting type of zone
- Targeting location: Two different approaches : China (State selection, India (Market selection)
- Targeting industries : North East Asia, Mauritius
- Targeting anchors: Dominican Republic, South Africa EL-IDZ

Size?

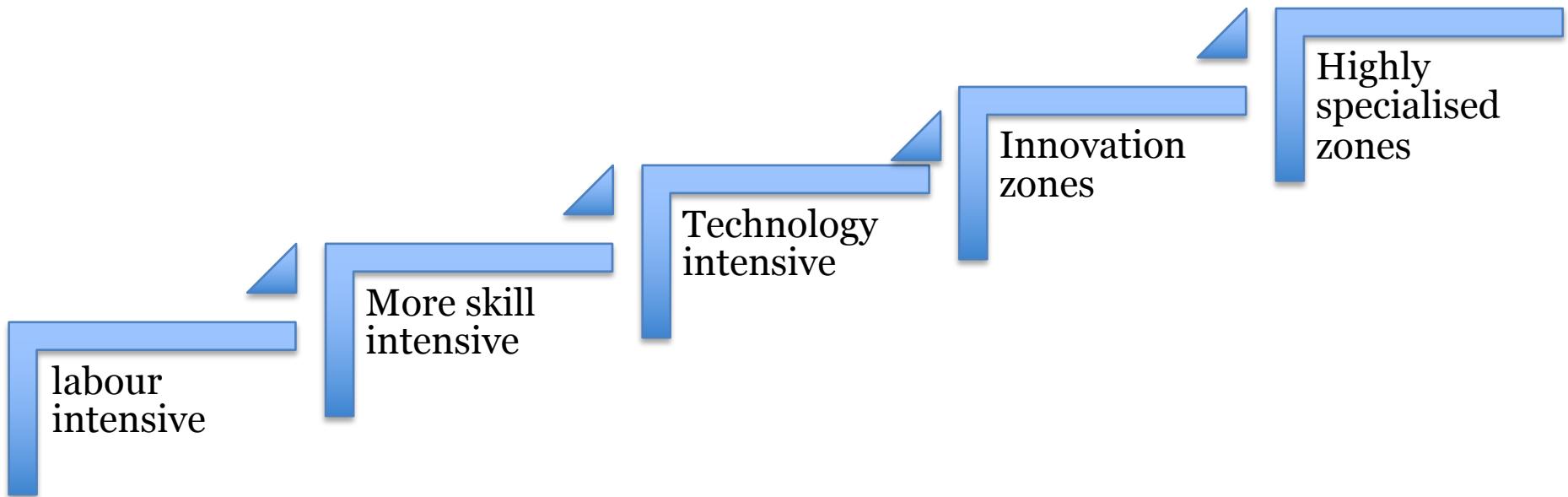
- Size of SEZs varies widely from a few acres to thousands of hectares.
- China has city like SEZs. Cha Lo Border Gate Economic Zone in Vietnam, measures 53,923 hectares.
- Large zones are found to be more successful than the smaller one (Aggarwal, 2005, World Bank, 2017)
- Creating a critical size of activity generates economies of scale of agglomeration benefits,

Targeting Location



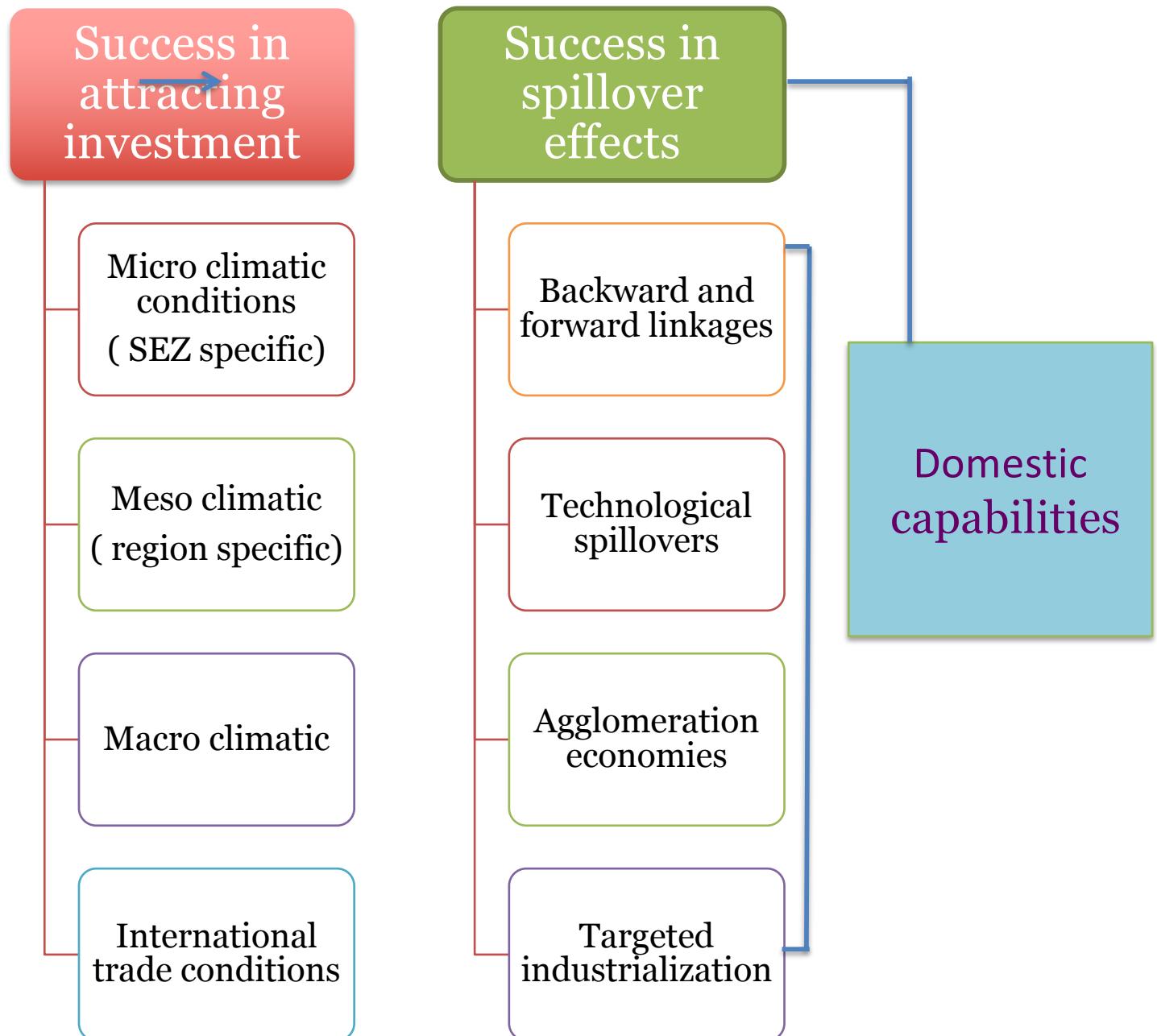
SEZs are not too far from the largest city, in countries with previous histories of industrialization, and with relatively easy access to developed country markets have performed best

Targeting activity consistent with the comparative advantage of the economy

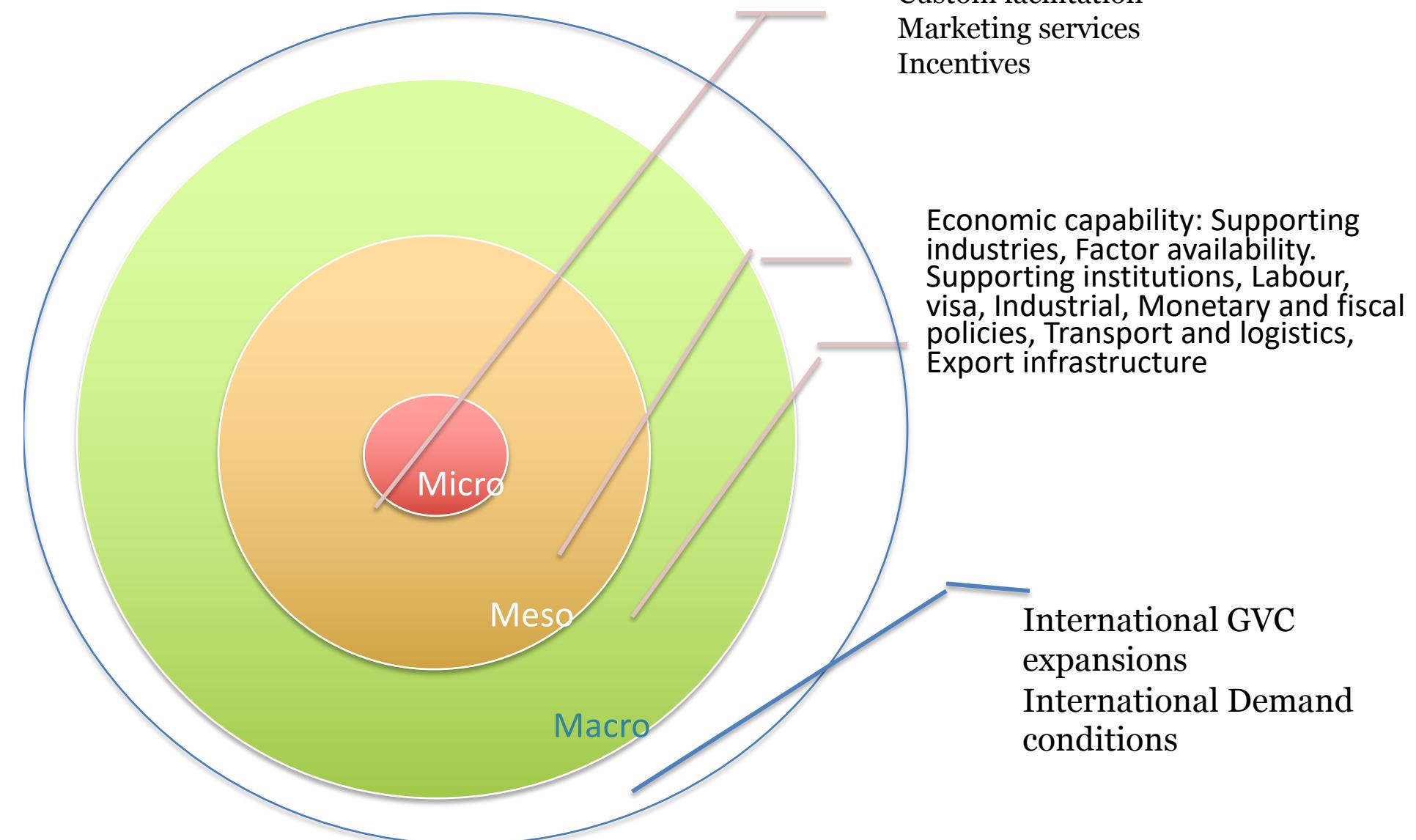


- Factors critical for attracting Economic activity

Success factors are twofold and are context specific



Attracting investment: Critical Success factors



Macro and Meso factors of success

- **Monetary and fiscal policies**
 - Exchange rate regime
 - Control on Inflation
- **Visa**
 - Work permit policies for the workers and executives
- **Factor endowment**
 - Natural resource endowment may create resource curse affecting exports
- **Industrial capabilities**
 - Supporting industries and institutions
- **Labour**
 - Movement of labour within the economy
 - Availability of industrial labour
 - Skill development
- **Trade infrastructure**
 - Transport and logistics
 - Trade related infrastructure

Micro climatic factors

The legal framework

The Institutional framework

The institutional structure of actors: type of ownership:
Private vs. public

Administrative framework

Regulatory body
Relationship between the regulator, developer and operator.
One stop shop
In a federal set up relationship between the centre and provincial governments.
Efficient dispute settlement for SEZ investors

Operational and regulatory framework

Rules and procedures guiding the entire process of site selection, planning, development, licensing, and operations, Custom, trade facilitation and Transport Labour standards
Foreign employment, finance, environment

- Factors critical for spillover effects

Lowering of barriers for backward linkages:

- local suppliers should be extended benefits as indirect exporters.
- No need for an export license for the sale of any goods and services to enterprises in a free zone or single factory zone
- Trade with domestic enterprise in local currency
- Subcontracting

- **Fostering forward linkages**

- Hybrid SEZs
- Domestic tariff area sales not at full custom duty
- Duty only on imported components (India: Bad practice)
- Encouraging the formation of industry associations
- **Encourage both local and foreign investment in SEZs**

- **Promoting clusters in and around SEZs**

- Critical mass of activity
- Synergies with local clusters
- Policies to encourage interactions

- **Targeted industrialization using SEZs**

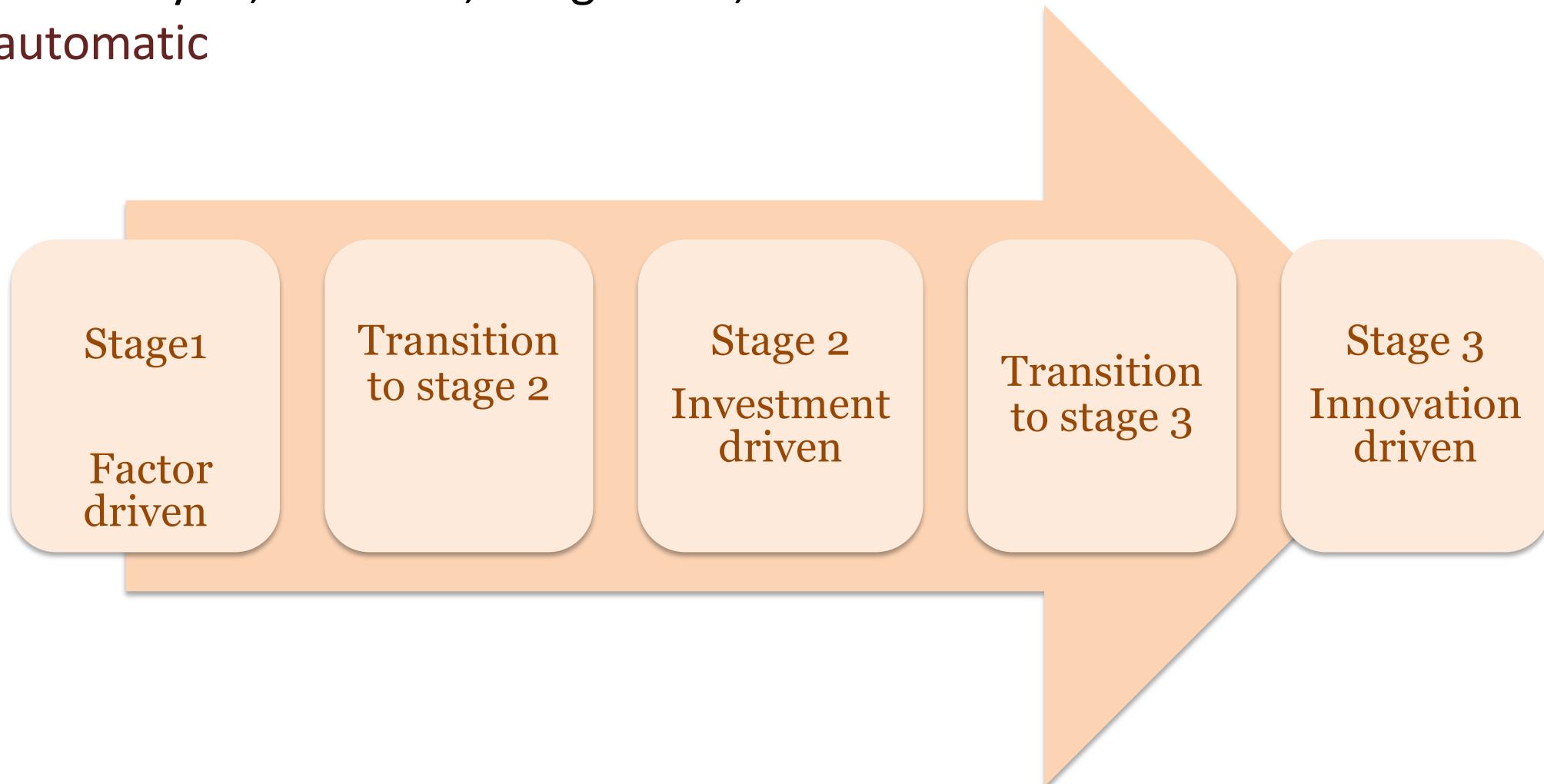
- Identifying and targeting goods and services required by SEZ entrepreneurs:
- Targeting new industries and supporting them through VSI
- Targeting winner firms and supporting them
- Testing new ideas and policies
- Picking winner domestic firms and support

Labor training and skill development

- Initiation with the help of authority (Penang Skill Development Corporation in Malaysia, India)
- Initiation by private developers (India)
- Initiation by companies
- CSR responsibility imposed by SEZ authority in exchange for concessions (India, China)

Upgrading SEZs with economic development

Shenzhen journey: Make in China to Innovate in China (innovation city) vs. Malaysia, Sri Lanka, Bangladesh, Indonesia Transition is not automatic



Thus.....

- A strategic approach is required to reap the existing and potential opportunities offered by SEZs.
- The strategic approach is contextual. It depends on the country specific development goals and constraints. Chinese example cannot be emulated in other countries.
- SEZs are not economic panacea; they need to be set up to overcome the constraints in the development process. They should be therefore need a constant review and upgrading

THANK YOU