

Special Economic Zone/Industrial Park Development in the CAREC Region

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Outline

I. RETA Background

II. Preliminary Findings

III. Next Steps

I. RETA Background

Why this TA?

- ❑ Boost economic corridor development
- ❑ Importance of SEZs/IPs
- ❑ SEZ development challenges remain

Envisaged outputs:

Output 1: Two diagnostic studies of SEZ/IP development

Output 2: Two strategic frameworks for SEZ/IP development

Implementation period

January 2015- September 2017

II. Preliminary Findings

Literature review

Defining SEZ

- ✓ *clearly defined geographically*
- ✓ *single management or administration and separate customs territory (usually tax free)*
- ✓ *streamlined business procedures applied*
- ✓ *firms qualify for streamlined customs, tariffs and taxation procedures*

II. Preliminary Findings

Key roles in SEZ Development Process

Regulator

Administers the SEZ regime

Developer

Develops the SEZ infrastructure and facilities

Operator

Day-to-day management

Enterprises

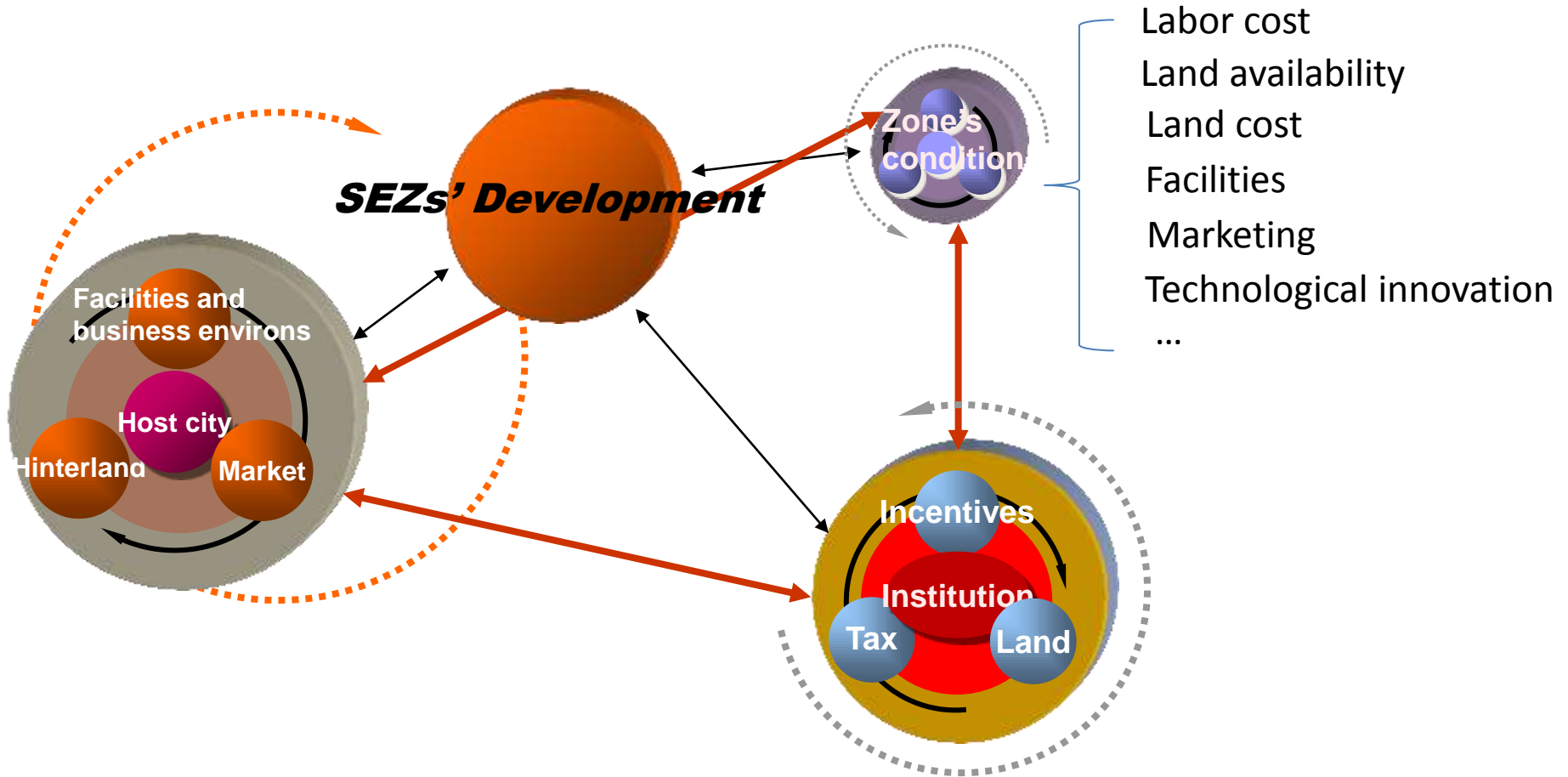
End-users and ancillary service providers

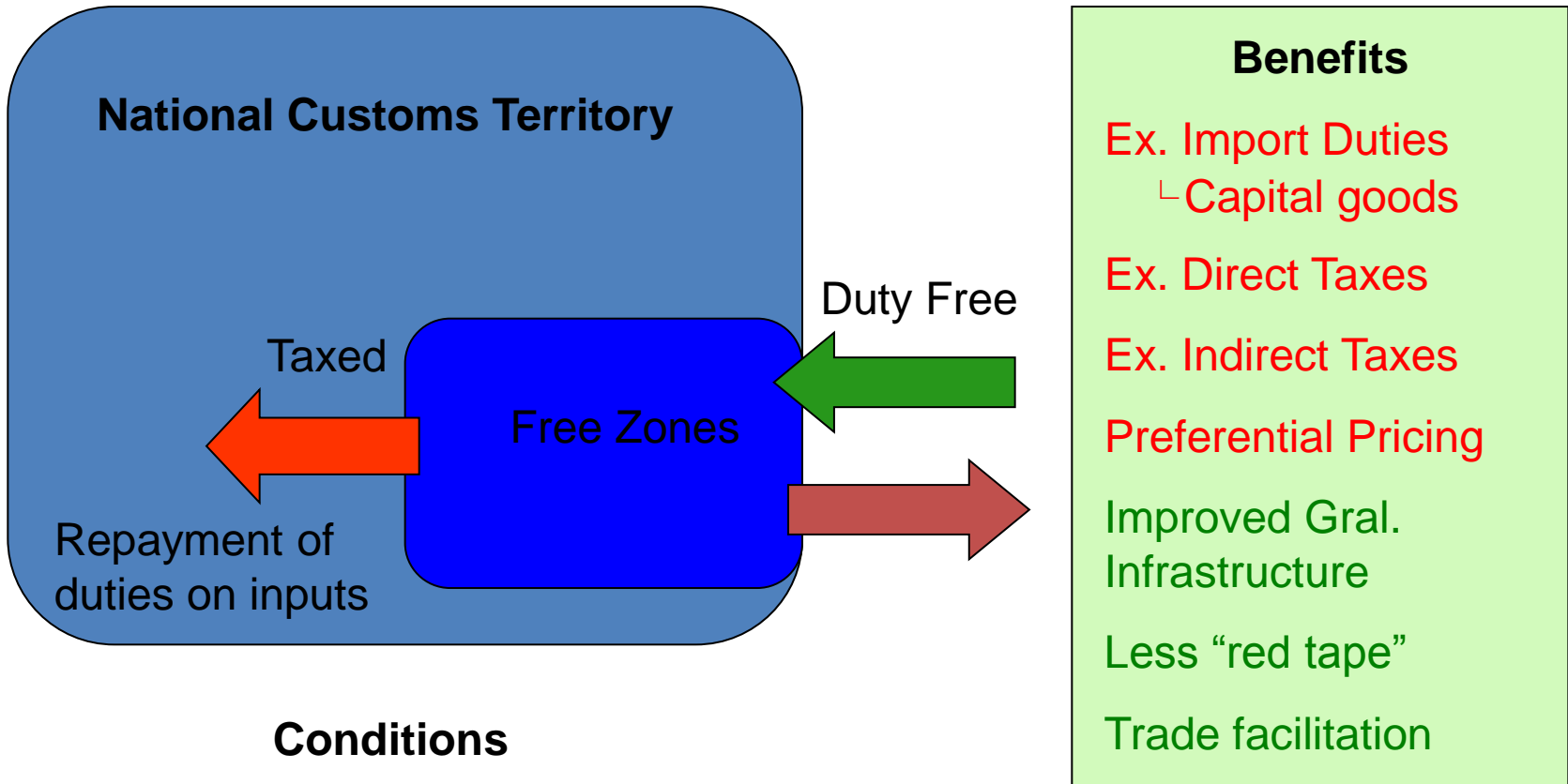
Other
Stakeholders

Community organizations, NGOs, labor unions

II. Preliminary Findings

Overall Framework of SEZ Drivers





Conditions

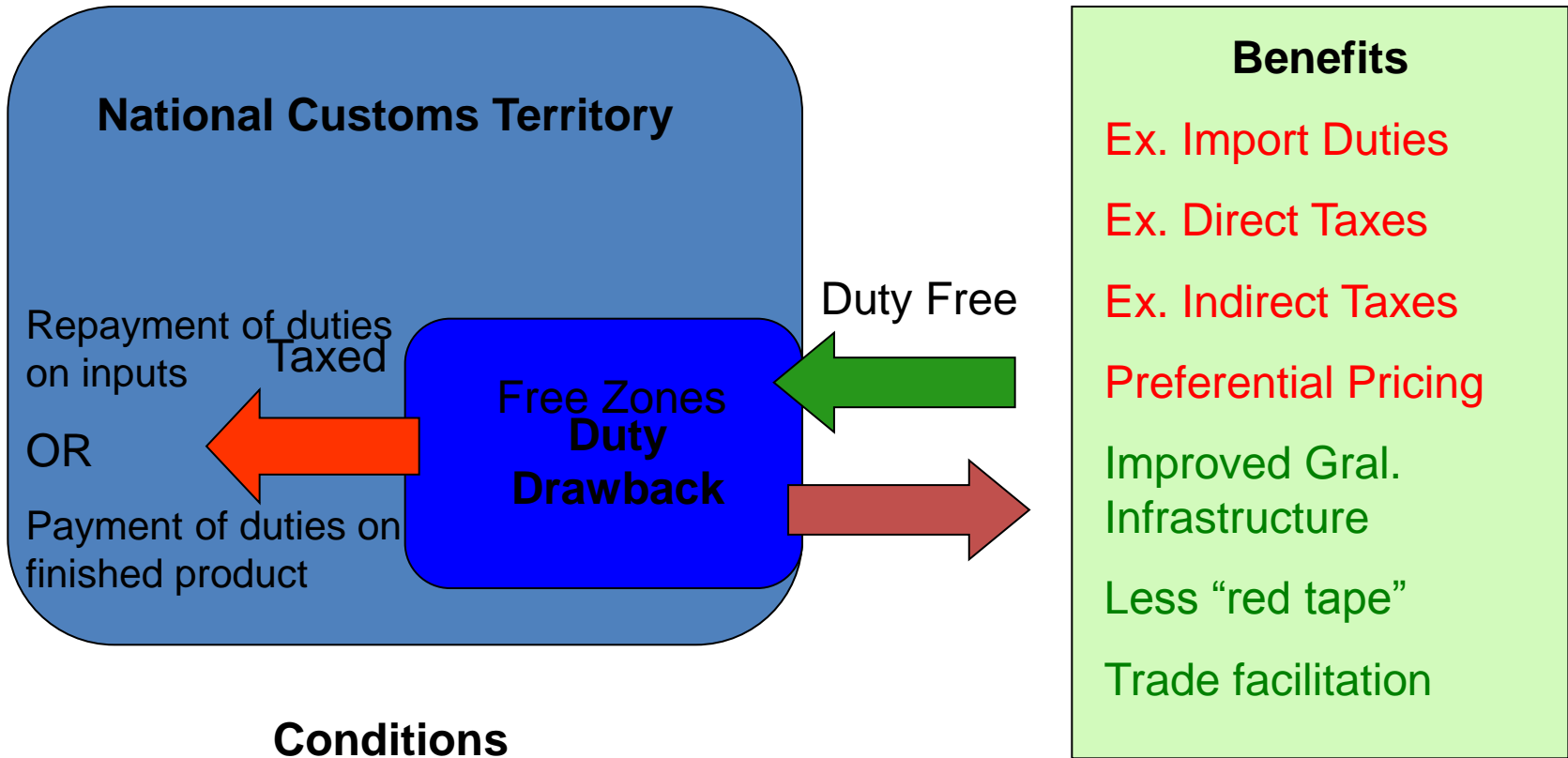
Geographical limits

Authorization and licensing → Of Free Zones

Export requirements → Of Companies

Performance requirements → Quantitative

Restrictions on sales into NCT → Tax repayment



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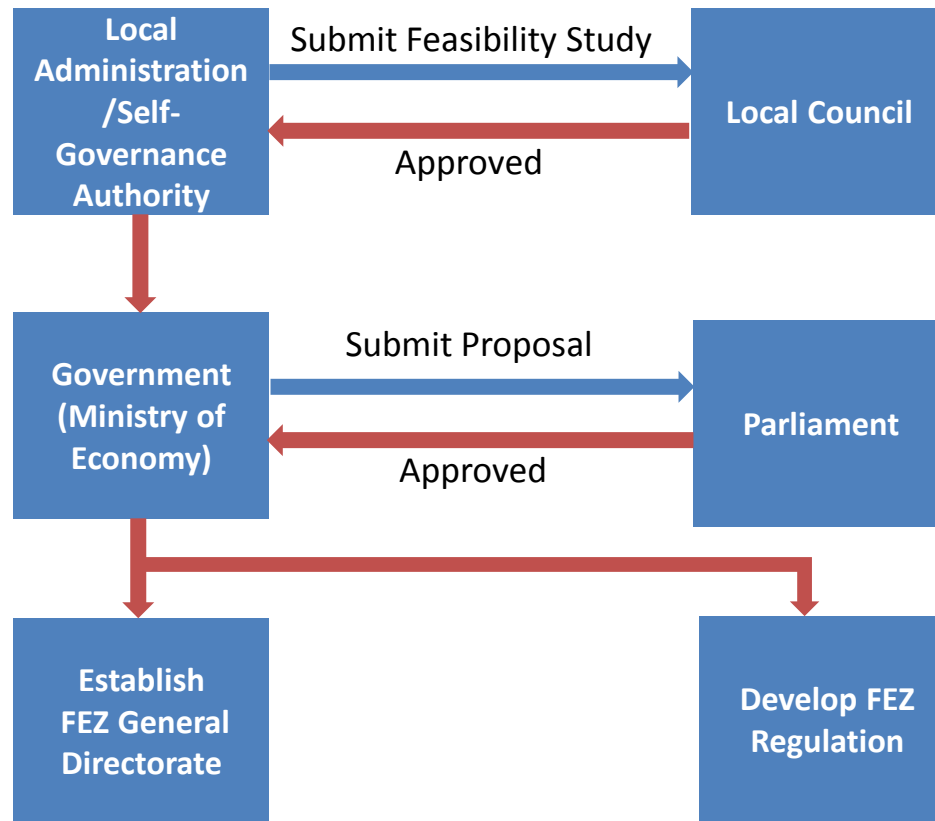
II. Preliminary Findings

Overview of the Kyrgyz Republic Case

- ❑ First Law On FEZs in 1992, new law effective in January 2014
- ❑ 5 FEZs in *Bishkek, Naryn, Karakol, Maimak and Leilek*, only FEZs Bishkek and Naryn maintain some operations
- ❑ Scope of activities: construction materials, light industry, radio telecommunications equipment, pharmaceutical production, agriculture, exploration and development of precious metals and minerals

II. Preliminary Findings

KGZ: Decision Making Process for FEZ Establishment



II. Preliminary Findings

KGZ: Tax Preferences in FEZs

Table: Tax Preferences in the Kyrgyz Republic's FEZs

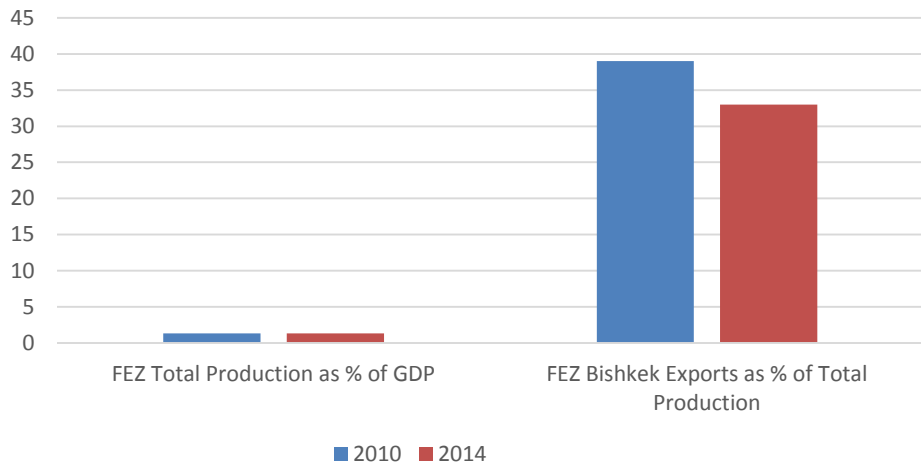
<u>Type of tax</u>	<u>Inside FEZs</u>	<u>Outside FEZs</u>
Import tariff	0%	4.6%
Export tax	0%	various rates
VAT (standard rate)	0% ¹	12%
Corporate income tax	0%	10%
Property tax	0%	0.8%
Land Tax	0%	various rates

¹ Goods produced in the FEZs and sold in the domestic market are subject to full VAT only insofar the proportion of production sold in the domestic market exceeds 30%.

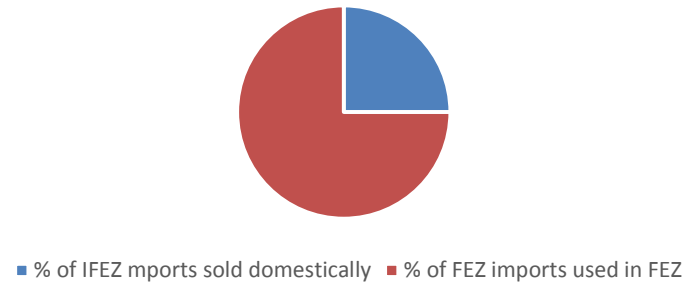
II. Preliminary Findings

KGZ: FEZs Performance

FEZ Production and Exports



Utilization of FEZ Imports



FEZ Exports as % of Total Export of Goods and Services



II. Preliminary Findings

HTP in the Kyrgyz Republic

High Technology Park (HTP)

An exterritorial zone with its own regime for legal and physical entities that are registered as residents of the HTP and carry out their activities in accordance to the Law on HTP.

Legal framework set in July 2011. The law prescribed **3 Activities** :

- *Software development;*
- *Export of information technology and software; and*
- *Creation and provision of interactive service centers*

** It's noteworthy that the Law precludes manufacturing factories.*

II. Preliminary Findings

HTP in the Kyrgyz Republic (*con't*)

High Technology Park (HTP)

- ❑ **Governance structure:** overseen by a 9-member Steering Committee; Chairman is appointed by the PM
- ❑ **Requirements for HTP residents:**
 - > 80% of goods and services exported; and/or
 - > 80% of income earned from exports of goods and services
- ❑ **Tax incentives:** exempt from VAT, Sales Tax, Corporate Income Tax for 15 years and personal income tax reduced to 5%
- ❑ In January 2013 the first HTP was created, in November 2015 begun operations
- ❑ To date, 12 residents and 100 workers. Main consumers from RF and KAZ

II. Preliminary Findings

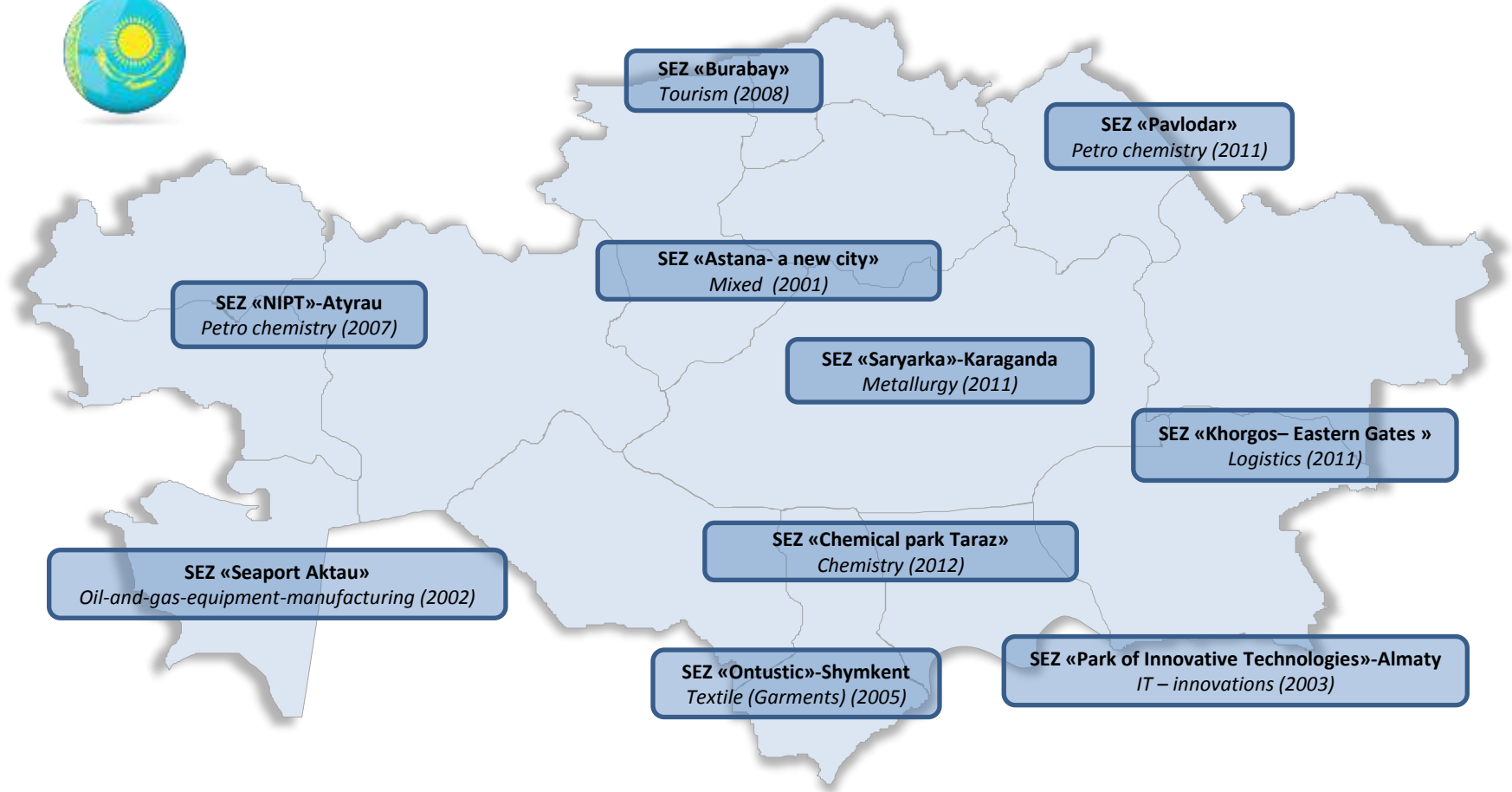
IPs in the Kyrgyz Republic

Industrial Parks (IPs)

- ❑ Three categories: Greenfield, Brownfield and Integrated
- ❑ Governance structure: overseen by a Steering Committee, consultative body of civil society, experts, public authorities
- ❑ Tax incentives: exemptions from import duties, property tax, land and corporate income tax for 5 years

II. Preliminary Findings

SEZs in Kazakhstan



10 SEZs – all publicly-owned

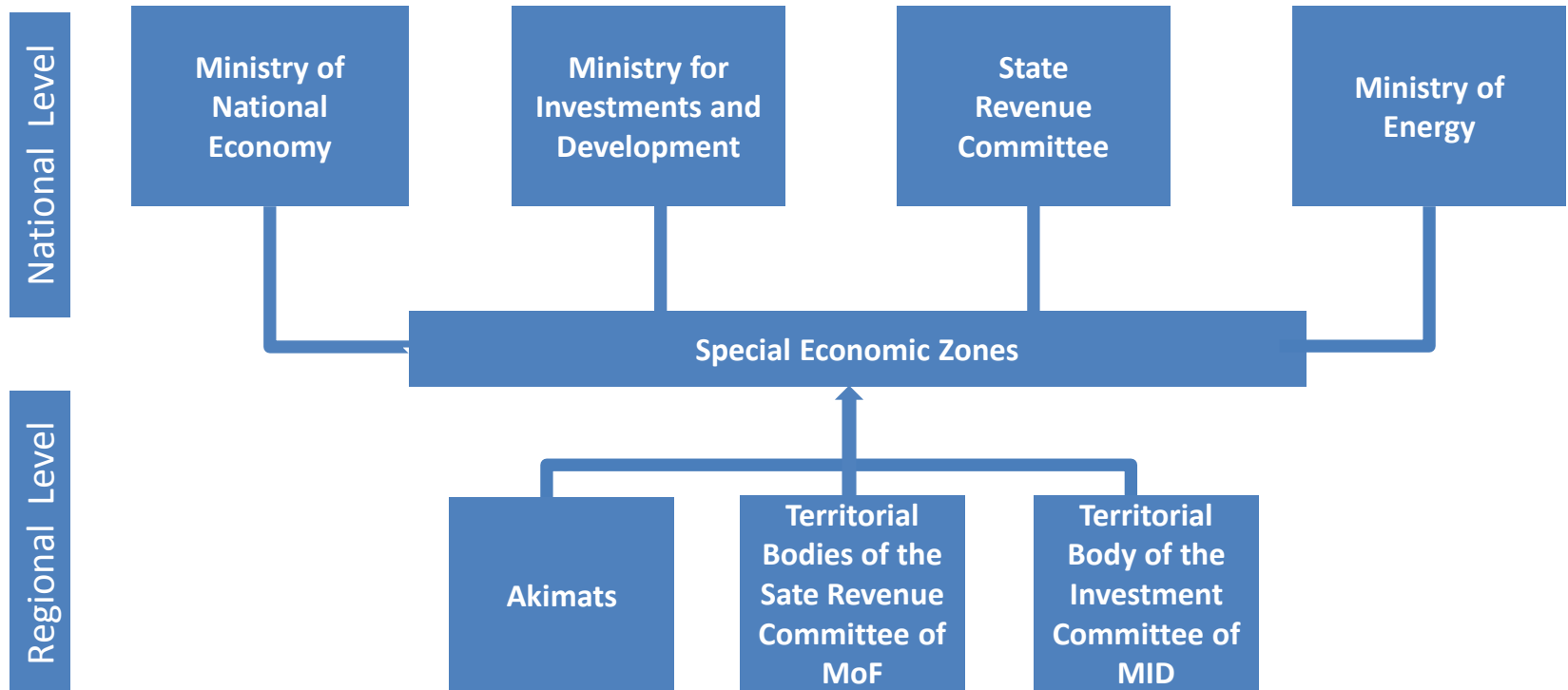
II. Preliminary Findings

Overview of the Kazakhstan Case

- ❑ SEZ law approved in July 2011, amended in October 2015
- ❑ All infrastructure expected to be completed by 2019
- ❑ T261 bn has spent on SEZ infrastructure development, T300 bn more requested
- ❑ In 2015, total production in all SEZs amounted to T750 billion, half of which in Astana SEZ
- ❑ Total investment amounted to T1,961 billion, 85% of which in Astana SEZ

II. Preliminary Findings

KAZ: Institutional Set-up for SEZ development



II. Preliminary Findings

KAZ: SEZ SWOT Analysis

Strengths

- SEZs spread across the country near raw material sources
- All SEZs have been decreed
- Most SEZs located outside key economic centers
- Diverse industries targeted

Weaknesses

- Centralized coordination and management difficulties
- Different owners of SEZs complicate approval process and supervision
- Most SEZs at initial stages of development with limited production activity

II. Preliminary Findings

KAZ: SEZ SWOT Analysis (*con't*)

Opportunities

- Kazakhstan's strategic location connecting China and Europe
- Granted time for investors to enjoy benefits before sunset clause
- Utilization and improvement of regional resources

Threats

- Competition from SEZs located across geographical regions
- Limited connectivity to global markets
- Uncertain global economic scenario

II. Preliminary Findings

IZs in Kazakhstan

Industrial Zones (IZs)

Non-agricultural land with utilities, provided by the state to private enterprises for allocation and operation of industry facilities.

- KAZ has no specific law on IZs.
- MID is in charge of policy-related and legislation-related issues.
- MNE provides funds for infrastructure/facilities development.
- SEC manages IZs.
- As of November 2015, 50 IZs registered in the local governments, of which 10 are operating and 40 are under construction.



Procedures of IZ creation

II. Preliminary Findings

International Constraints on USE of SEZs

WTO Rules

- No WTO rules on SEZs *per se*, subject to such rules, notably those in the **GATT** and especially the **ASCM** and **TRIMs**
- Definition of **subsidy** in ASCM includes **tax revenue forgone**
- **Subsidies** contingent on export performance or use of local content **prohibited**
- **“Actionable”** subsidies are **“specific”** and have **“adverse effects”**
- **GATS** applies to trade in services, in which the concepts of MFN and National Treatment are of particular relevance

II. Preliminary Findings

International Constraints on USE of SEZs (*con't*)

EAEU Rules

- Concerning tax incentives or other forms of subsidies, the EAEU rules resemble those of WTO rules.
- Regulated by EAEU Treaty's Article 27 - "Establishing and Functioning of Free/Special Economic Zones and Free Warehouses"
- Article 17 of the Customs Union Agreement on SEZs: goods exempted from tariffs, indirect taxes when imported into such zones are subject to those tariffs and indirect taxes when entering the rest of territory of the EAEU

II. Preliminary Findings

Suggested Guidelines on the Design and Role of SEZs/IPs

- I. Orient **towards exports** rather than domestic markets;
- II. Rely on trade and investment **facilitation measures** instead of tax and non-tax **incentives**;
- III. Facilitate **linkages** with local economy rather than development of enclaves;
- IV. **Streamline regulatory framework** and procedures;
- V. Use short **“negative” lists** rather than long **“positive” lists** to determine eligibility of activities;

II. Preliminary Findings

Suggested Guidelines on the Design and Role of SEZs/IPs

- VI. Permit a wide range of **service activities** as well as manufacturing in the zones;
- VII. Improve **governance of management companies** and their role in zone development;
- VIII. Require **Fee-based** management and other services (with full cost recovery, if not for profit);
- IX. Adopt **PPP model for infrastructure development**;
- X. Enable high productivity and therefore creation of relatively **high-wage jobs**;

II. Preliminary Findings

Suggested Guidelines on the Design and Role of SEZs/IPs

- XI. Foster **centers of technological excellence** in collaboration with local firms, educational and research institutions;
- XII. Achieve high environmental, labor, safety, health and other **standards**;
- XIII. Improve transparency as to the benefits of zones in relation to their costs;
- XIV. Promote greater coordination of these zones within each country and among CAREC partners; and
- XV. Some form of trade adjustment assistance (or income redistribution) should be an integral part of any economic development strategy.

III. Next Steps

Finalization of Diagnostic Studies July-August 2016

Final Draft Report

by 15 August 2014



Draft Structure of the Strategic Frameworks by November 2016

Draft Structure Paper

by January 2017



Draft Strategic Frameworks by April 2017

Draft Report

by May 2017



Country Consultation Workshops by June 2017

Finalization of Strategic Frameworks

by August 2017