

SEZs as an Institutional Micro Climate

Global SEZ Team
World Bank Group

1. What are Special Economic Zones and what makes them “Special”
2. Creating centers of business excellence: The role of the investment climate in SEZs
3. Making SEZs work: The SEZ development process
4. The role of Institutions and ensuring the role of the private sector
5. Conclusion and things to consider



1. What are Special Economic Zones and what makes them “Special”

Definition

- ❖ Geographically defined area
- ❖ Administered by a single body
- ❖ Offering conducive incentives (i.e. more liberal and simplified economic regulations) for businesses to physically locate and operate
- ❖ Optimally established and operated as part of a national economic development reform strategy, and not as a “one off” venture
- ❖ Range in size and scope, from individual small industrial parks to entire regions of a country

Typical characteristics of SEZs:

- ❖ Management by single administration
- ❖ Good practice regulatory framework
- ❖ Simplified procedures to establish and operate enterprises
- ❖ Stable and effective business environment
- ❖ Effective labor and environmental standards
- ❖ Flexible master planning and purpose-built facilities
- ❖ Duty-free

SEZs have evolved over time to embrace many common forms.

| Type of Zone | Development Objective | Area and Duty Regime | Typical Location | Eligible Activities | Markets | Examples |
|------------------------------------------|------------------------|------------------------------------------------------|---------------------------------|---------------------------------------|-----------------------------|-----------------------------------------|
| Industrial Park or Estate | Industrial development | Size < 100 ha; not duty-free | Any | Manufacturing | Domestic and export | Most countries have industrial estates |
| Free Trade Zone (Commercial Free Zone) | Support trade | Size < 50 hectares; entire area is duty-free | Ports of entry | Entrepot and trade-related activities | Domestic, re-export, export | Colon Free Zone, Panama |
| Traditional Export Processing Zone | Export manufacturing | Size < 100 hectares; entire area is duty-free | Any | Manufacturing, other processing | Mostly export | Karachi EPZ, Pakistan |
| Hybrid Zone | Export manufacturing | Size < 100 ha; only part of the area is duty-free | Any | Manufacturing, other processing | Export and domestic market | Lat Krabang Industrial Estate, Thailand |
| Freeport/ Free Economic Zone | Integrated development | Size >100 km ² ; entire area is duty-free | Any | Multi-use | Domestic and export markets | Aqaba Special Economic Zone, Jordan |
| Enterprise, Empowerment, Urban Free zone | Urban revitalization | Size < 50 hectares | Distressed urban or rural areas | Multi-use | Domestic | Empowerment Zone, Chicago |
| Single Factory Free Zone | Manufacturing | Individual enterprise; duty-free | Country-wide | Manufacturing, other processing | Domestic and export markets | Mauritius, Mexico, and Madagascar |

SEZ Purpose and Goals

SEZs allow policymakers to address several constraints:

- ❖ Limited access to serviced land
- ❖ Unclear land ownership regime
- ❖ Poor quality of infrastructure
- ❖ High regulatory constraints on investment and business operations
- ❖ Policy uncertainty, institutional volatility, and civil unrest

General SEZ goals are to:

- ❖ Increase foreign direct investment (FDI)
- ❖ Increase exports
- ❖ Create jobs in manufacturing, services, logistics, or other specialized economic activities
- ❖ Act as a catalyst for national reforms



SEZs can provide manageable enclaves to begin to address critical issues.

They can provide:

- A stabilizing force in fragile and conflict affected states
 - Improve security and minimize risk of loss for investors
 - Support local financial intermediation
 - Improve access to serviced land
 - Catalyze the rebuilding of the business environment
- A focal point to address long-term sustainability issues
 - Environment
 - Gender integration
 - Labor practices

Traditional EPZ Concept

Objectives

- Promotion of exports
- Promotion of FDI

Policy Features

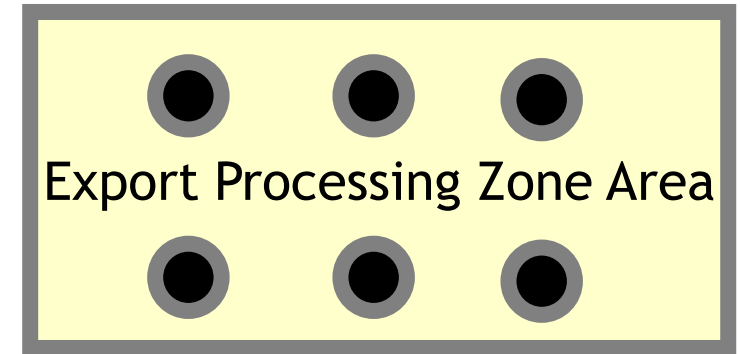
- 70-80% export requirement: oriented to FDI
- Duty-free Area
- Manufacturing-oriented: Neglected services, intermediaries, logistics
- Extreme view of extra-territoriality
- Tax Incentives

Institutional Features

- Zone Authority owns, operates, regulates the zone
- Zone funded by government; typically subsidized services & facilities
- Zone Authority exerts little power over other government bodies
- Separate Customs Area, recognized by Kyoto Convention

Development Approach

- Public sector development of SEZs
- Public subsidies of services & facilities



Trends that changed traditional SEZ approaches

Industrial Trends

- Expanded global production networks
- Increasing importance of supply chain management (logistics costs higher than manufacturing costs)
- Contract manufacturing & outsourcing
- Rise of services
- Decline of pure export platforms
- Competitive advantage driven by sales, distribution & customer relationships
- Co-location of sales support with manufacturing to attract integrated manufacturing clusters
- Compliance and CSR



Policy Trends

- Global integration through WTO
- Deepening of regional trade blocs
- Push for harmonization of tax incentives
- Push for harmonization of investment rules
- Climate change agenda
- Environmental and social agenda
- Liberalization of telecommunications and information technology sectors
- Crack-down on off-shore tax havens
- Trade and supply chain security



Emerging Concepts For SEZs

Physical features

- Integrated, mixed-use zones
- IT systems & networks; purpose-built facilities
- Low-carbon/green focus

Development Approach

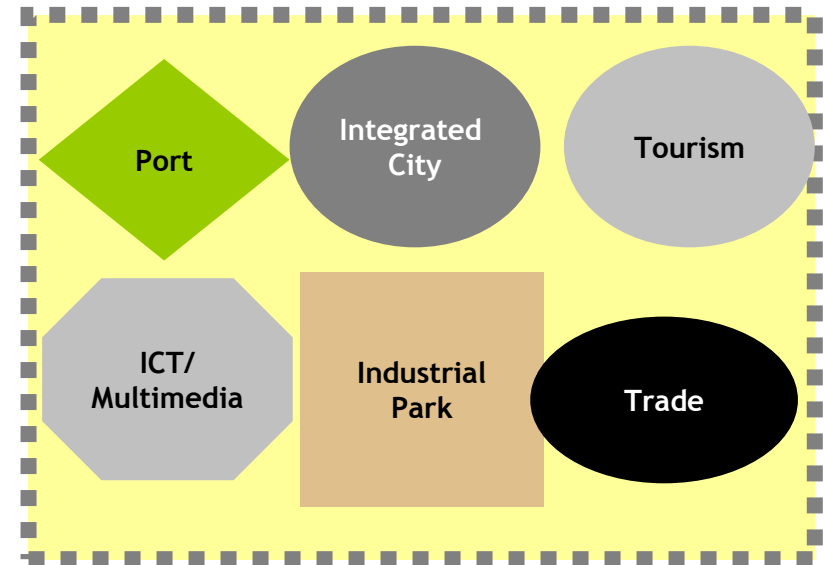
- Competitive partnership between public and private sector
- National implementation strategy
- Account for environmental concerns and CSR

Policy Framework

- Political consensus - identifying 'champions'
- State of the Art Regulatory Environment, streamlined procedures, automation
- Multi-market, not just export
- Wide range of activities permitted
- Deregulation and de-monopolization
- Shift towards universal tax incentives / Low Tax Area
- Climate Change, environmental and social agenda and adherence to universal labor rights

Institutional Framework

- Zone authority regulates activities
- One-stop shop for zone regime regulation

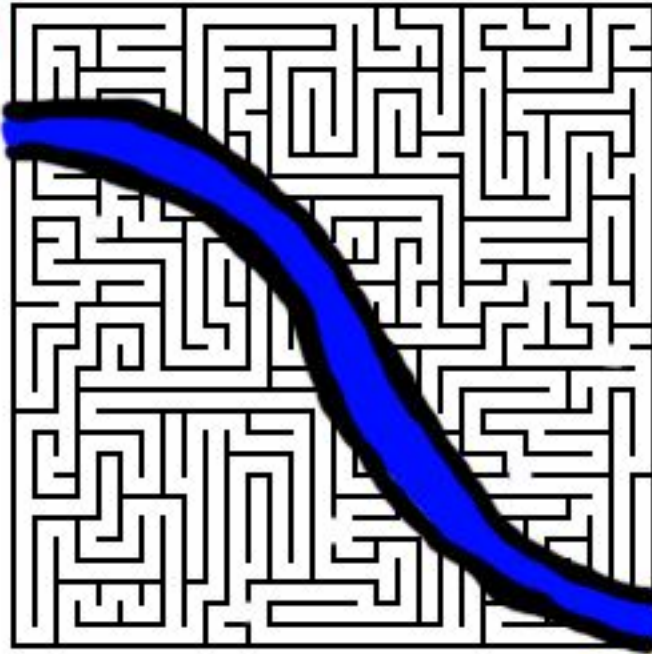




2. Creating centers of business excellence: The role of the investment climate in SEZs

Entrepreneurs and the investment climate

**YOUR
IDEA**



Government Policy implementation

**YOUR
SUCCESS**

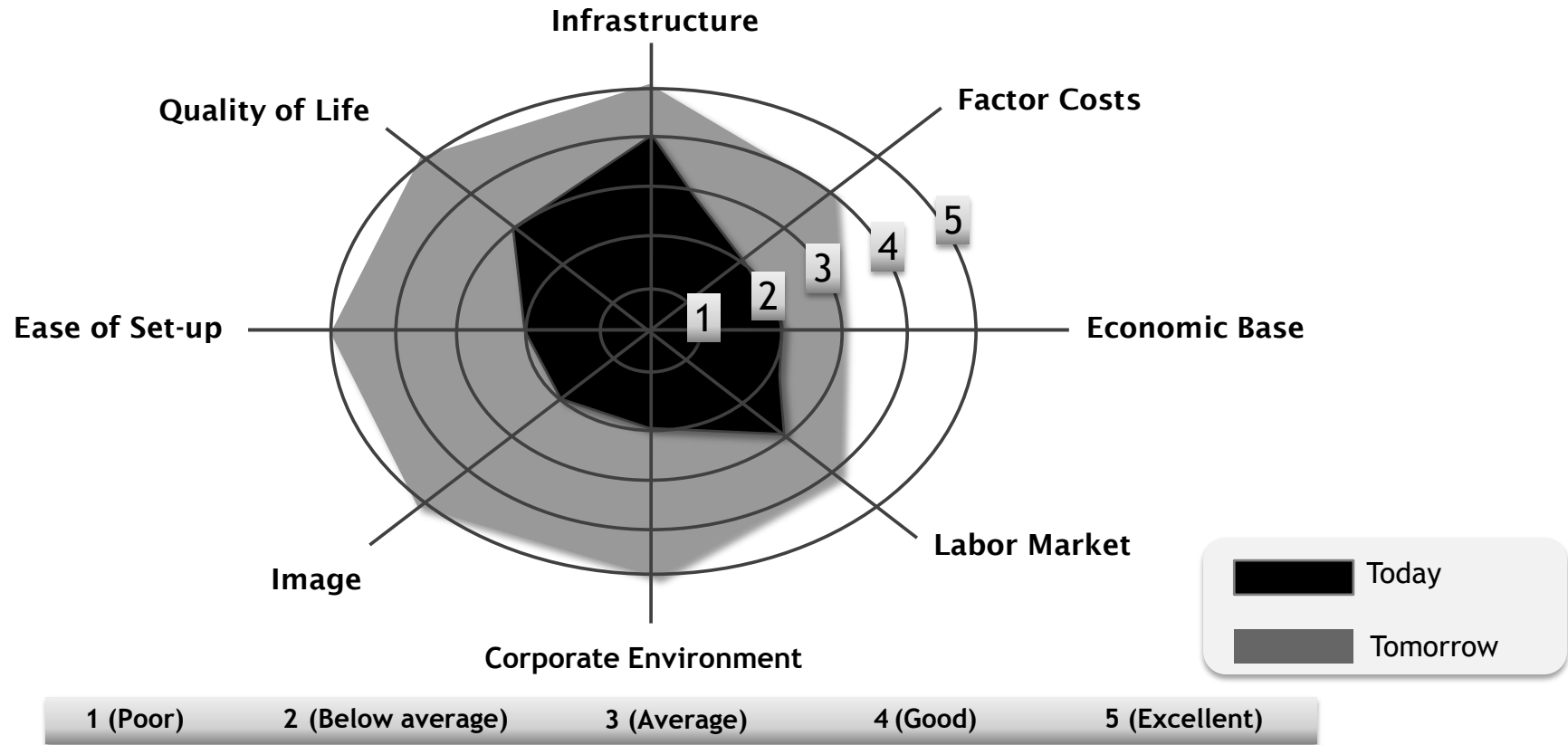
What matters most to investors in SEZs?

Investor perception of criteria determining investment location
(ranked in order of importance)

| Investment criteria | Rank |
|----------------------------------------------------|-------------|
| Cost and quality of utilities | 1 |
| Access to transport infrastructure | 2 |
| Business regulatory environment | 3 |
| Tariffs, duties, rules of origin | 4 |
| Level of corporate taxes | 5 |
| Access to highly skilled labor | 6 |
| Access to suppliers | 7 |
| Access to low cost labor | 8 |
| Availability and cost of land and buildings | 9 |
| Access to local and regional markets | 10 |
| Access to technology | 11 |

SEZ Purpose and Goals

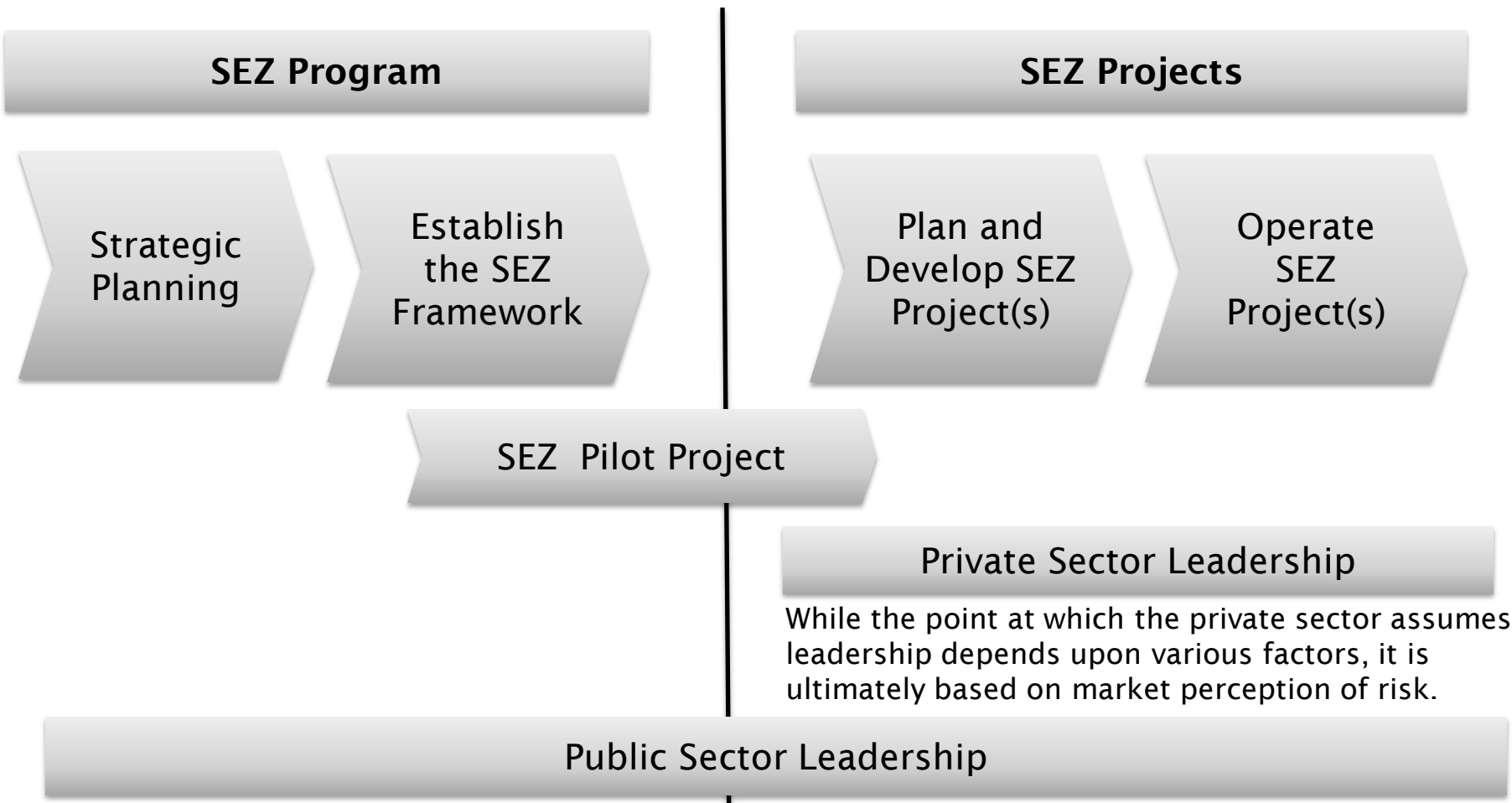
An example of how specific constraints may be addressed through SEZ policies





3. Making SEZs work: The SEZ development process

Steps in the SEZ Development Process



SEZ Program

Strategic Planning

Establish the SEZ Framework

SEZ Projects

Plan and Develop SEZ Project(s)

Operate SEZ Project(s)

SEZ Pilot Project

Private Sector Leadership

While the point at which the private sector assumes leadership depends upon various factors, it is ultimately based on market perception of risk.

Public Sector Leadership

Despite public sector leadership, the private sector should play a consultative role throughout the process.

Basic Steps for Establishing a Framework for SEZ Programs

Step 1: Formulate SEZ Policy – Working with the outputs of the strategic planning process, policymakers should consider the following issues:

- ❖ Legal and regulatory instruments
- ❖ Form of institution
- ❖ Broad investment policies
- ❖ SEZ designation criteria
- ❖ Rights and obligations of developers/operators
- ❖ Securing title to land
- ❖ Land use and environmental regulation
- ❖ Enterprise registration
- ❖ Qualifying activities and enterprise licensing
- ❖ Labor regulation
- ❖ Customs policies
- ❖ Income tax and fiscal policy
- ❖ Penalties for non-compliance
- ❖ Dispute settlement

Step 2: Consult with stakeholders

Step 3: Formulate legal framework – Law, regulations, operating procedures.

Step 4: Establish the institutions.

Establishing the SEZ Framework: Four Roles in the SEZ Program

Regulatory Authority

- Plan/admin regime
- Designating SEZ sites
- Licensing/permitting
- Coordinating public agency inputs
- Monitoring performance
- Ensuring compliance

Owner

- A public or private sector entity
- Legal title to the SEZ land site


Developer

- Owner or a separate entity under contract
- Physically develop site
- Finance, design and construct
- On-site infrastructure and facilities

Operator

- Owner or Developer or third party under contract
- Day-to-day management of SEZs
- Lease/sub-lease lots or buildings
- Operate facilities and services

The **best practice solution** is to separate regulatory authority from ownership, development and operation functions



4. The role of institutions and ensuring the participation of the private sector

Establishing an Institutional Framework: Form of Institution

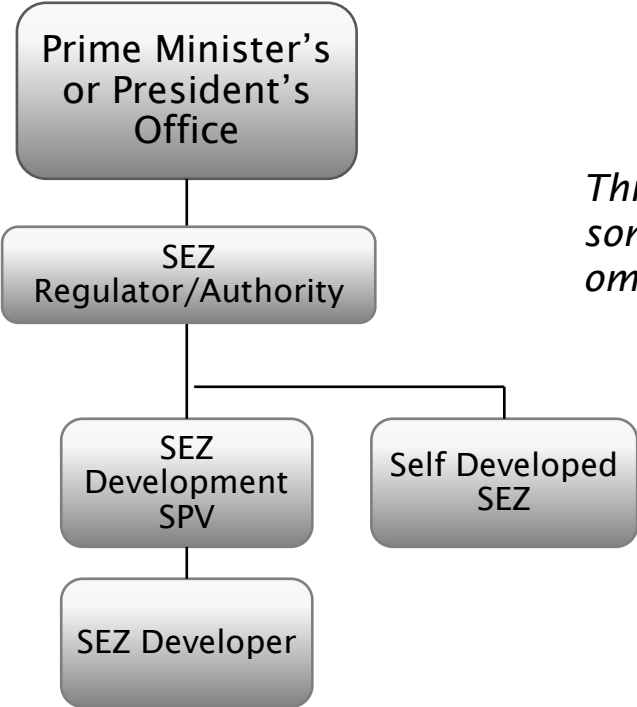
Successful SEZ administrating authorities around the world are public-sector entities that share the following best-practice features:

- ❖ Exclusive regulator and local government function that discourages any development/operating authority;
- ❖ Administrative and financial autonomy, including independent budget;
- ❖ Availability of all PPP mechanisms: Management contracts, concessions, BOTs;
- ❖ MOUs designed to facilitate administrative coordination with other government agencies;
- ❖ Flexible staff hiring, firing, and compensation provisions; and
- ❖ “One-Stop Shop” Facilities: Account-Executive Model
 - Easily-accessible public source for all applicable laws and data;
 - Streamlines all licensing/registration procedures; and
 - Interfaces effectively with host-country government authorities having concurrent jurisdiction over SEZ sites, operations, or activities.

SEZ Good Practice: Institutional Framework

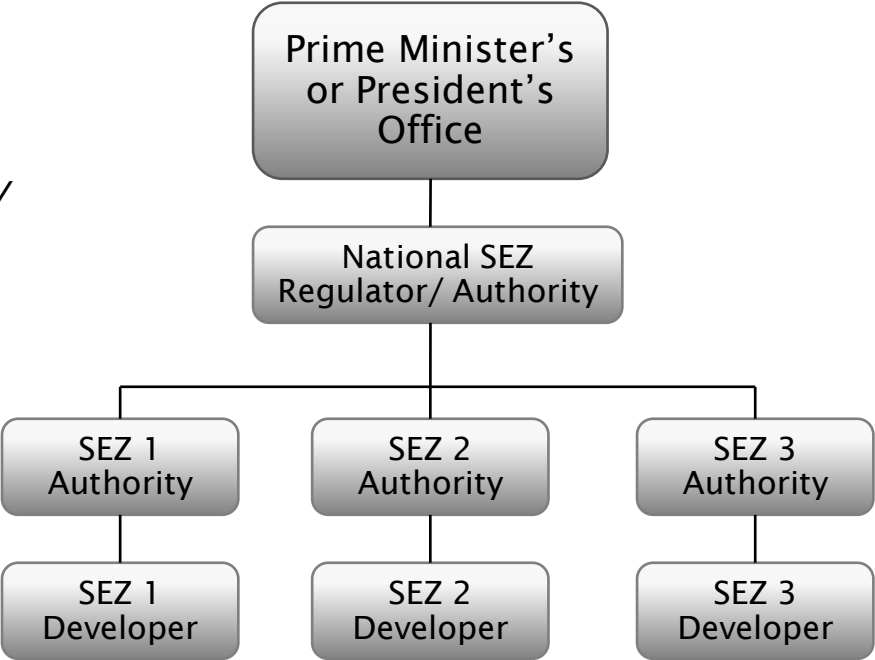
An autonomous and adequately funded Authority is good practice. There are two general options:

Single SEZ Agency



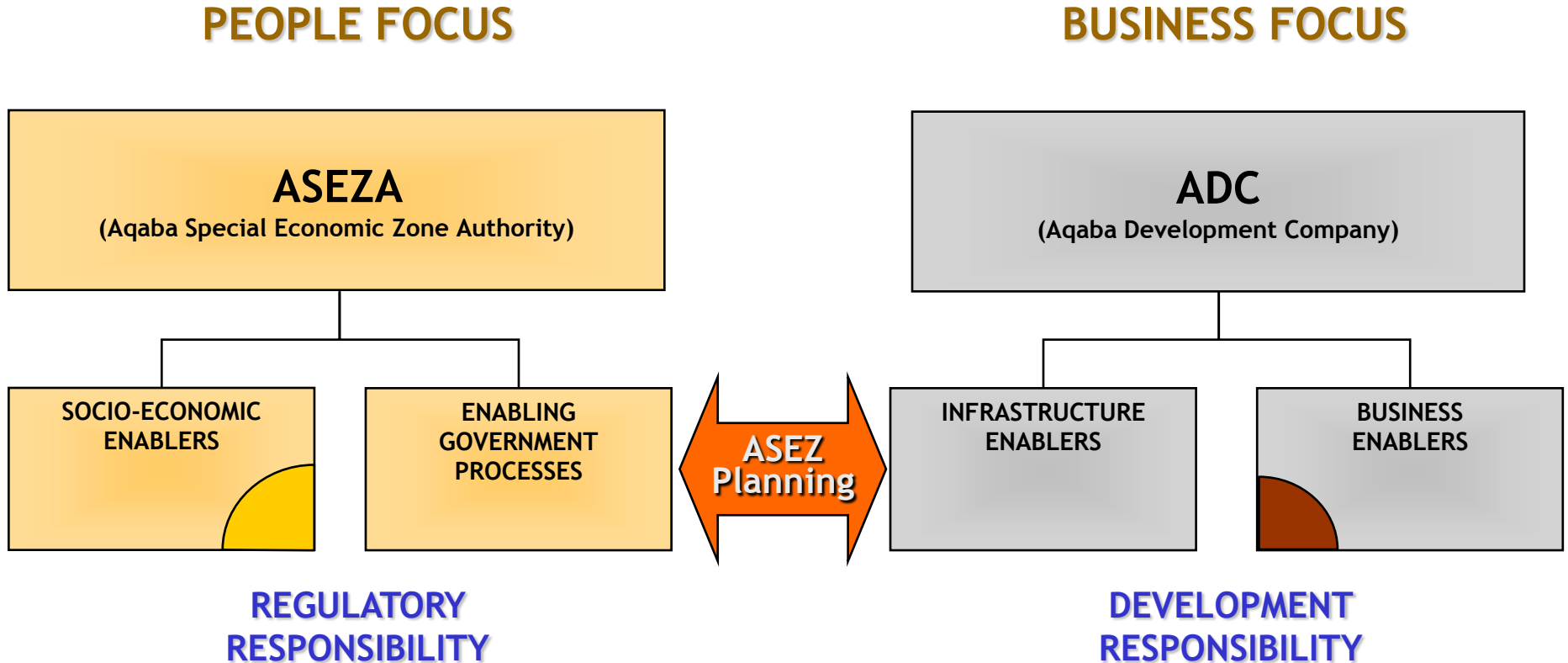
This layer may sometimes be omitted

Multi SEZ Agency

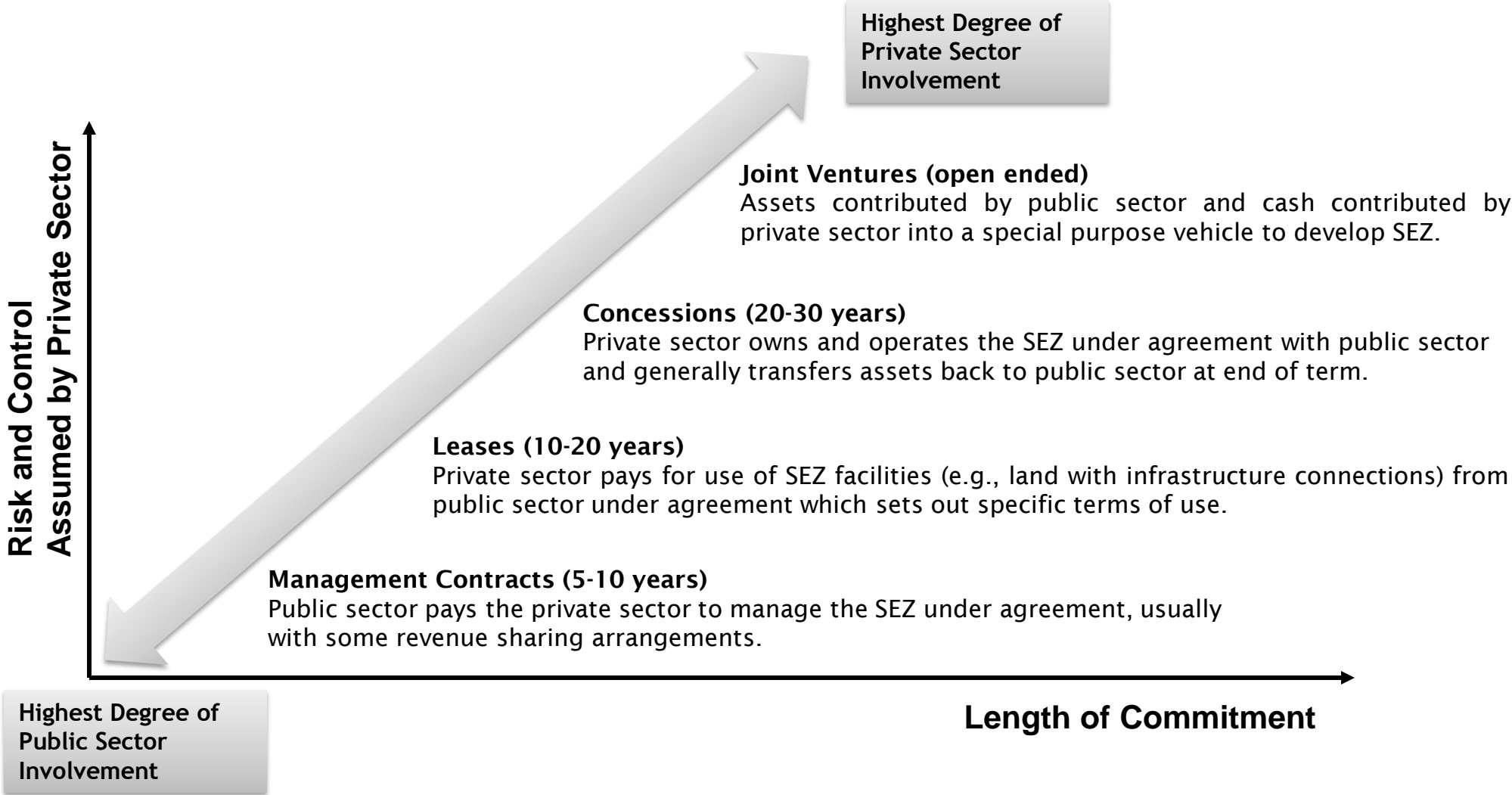


Good Practice: Effective SEZ Authority

Example from Aqaba Jordan



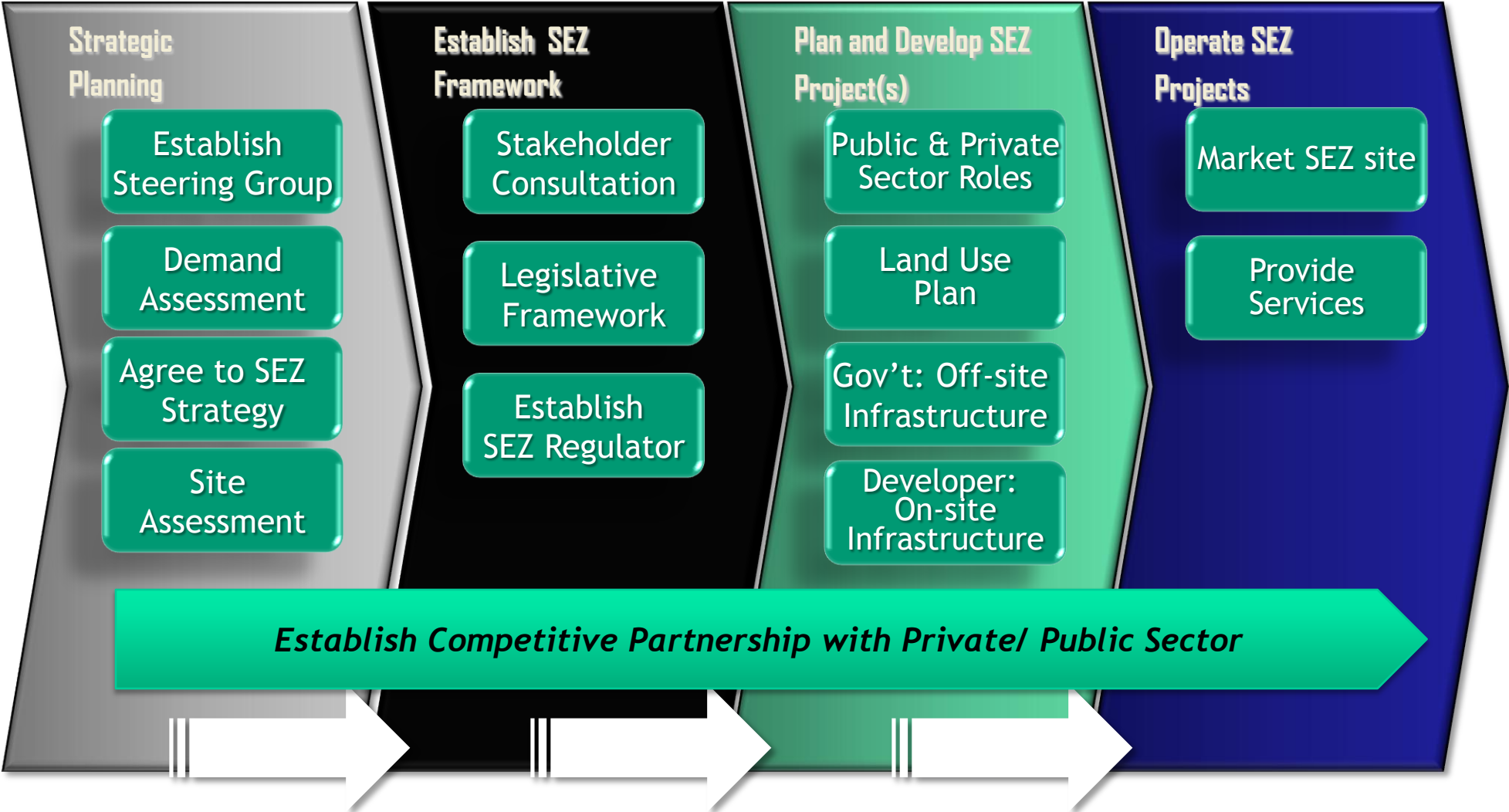
Develop an SEZ: Spectrum of PPP options



Stakeholder Consultation and Working Groups

- ❖ Utilizing the SEZ Strategic Planning Document, the government will engage with relevant stakeholders to obtain public feedback and determine the relevant themes. Methods to accomplish this include the following:
 - White Paper publication & Public Hearings
 - Joint Government - Business Roundtables
- ❖ Once the major issues are formulated, the government organizes and leads working-group sessions on the key topics identified.
- ❖ Themes and sub-themes for these groups may include:
 - **Legal and regulatory:** Existing practices and challenges in implementing improvements, international/regional SEZ best practices, suitable legal instruments for establishing the SEZ regime;
 - **Institutional framework:** Best practices, identification of agencies best positioned to discharge zone administration duties, challenges and solutions for implementation;
 - **Planning:** Implementing a new planning regime, simplifying the process, impacts on public and private sectors; and
 - **Fiscal regime:** Option for tax regimes, implementation challenges.
- ❖ Outputs generated from these groups will greatly facilitate effective design and implementation of the SEZ regime.

Conclusion: SEZ Development process as the premise for the Deep Dive





5. Conclusion and things to consider

SEZs Address Cross-Cutting Issues

SEZs can tackle the following cross-cutting issues:

- ❖ **Good Governance** - SEZs can promote good governance by establishing examples of integrity, effective organizational structures, key performance indicators, accountability, and open positive engagement with the private sector and civil society, and strong customer orientation.
- ❖ **Environment** - The quality of the planning and control functions within the SEZ context allows for strong management of the environment. Also the availability of common infrastructure and a strong institutional framework allows a higher level of corporate responsibility for all SEZ stakeholders.
- ❖ **Labor** - Because of the strong focus on enterprise productivity and best practice labor regulation and dispute resolution in the SEZ context, SEZs offer an opportunity to reform labor rules to improve competitiveness.
- ❖ **Gender and Vulnerable Populations** - The focused SEZ environment can provide security and support services that allow disadvantaged and vulnerable groups to participate in the economy.

Emerging lessons and trends

- Zones are not a panacea to be used to solve all problems - many have failed
- They have to be foremost profitable and fit into the wider industrial policy of a country
- Zones are proliferating - they are not just located in the developing world
- Dynamic, successful zones tend to be private sector-developed/managed
- Shift toward flexible/innovative economic frameworks
- Enhanced focus on business environment and sustainability

Ex-ante design as catalysts for
wider national policy and economic
reform

Platforms for Private Sector Investment and cluster development

Thank You

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