

INTRODUCTION TO SPECIAL ECONOMIC ZONES AND KEY FACTORS FOR THEIR SUCCESS



WORLD ECONOMIC PROCESSING ZONES ASSOCIATION

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GENERAL DESCRIPTION OF SEZS

What is a Special Economic Zone (SEZ)?

- Geographically bounded area of land with infrastructure, a **streamlined operating environment and a special policy framework**
- Designed to **attract investment** and **create jobs** in manufacturing, services, logistics or other specialized economic activities
- Should deliver **dynamic, as well as static, benefits**

General Elements of the SEZ Concept:

- Dedicated infrastructure
- “Credible” business regulatory environment
 - Policies and procedures supportive of business development
 - Freedom of enterprises to sell internally
 - Investment restrictions eliminated
 - Streamlined procedures
- Incentives
 - Special Duty-free Customs Regime
 - Labor Incentives
 - Tax Incentives
- Institutional Identity
 - Zone Regulatory Authority
 - One-Stop-Shop / Single point decision-making

There are approximately **4,300 zones** worldwide today

SEZs often fail. They must be well designed and well implemented to succeed.

GENERAL DESCRIPTION OF SEZS

SEZs are not a “magic bullet” that can solve any problem. Therefore, it is critical to identify the objectives of the SEZ program and ensure SEZs are the right answer.

Potential Objectives of SEZ Programs:

- Sparking / incubating reforms in key areas constraining growth (e.g., China)
- Enabling new, integrated development across sectors and industries
- Attracting foreign investment
- Increasing exports and foreign exchange
- Economic diversification (e.g., Madagascar, Mauritius)
- Employment growth (e.g., South Korea, Philippines, Indonesia, etc.)
- Encouraging entrepreneurship/SMEs

Well-structured zones programs can achieve these objectives by:

- Liberalizing the economy within the zones to create new opportunities not available in the rest of the country
- Allowing for physical infrastructure to support this liberalization (public & private)
- Providing strong government support for private sector driven development strategy
- Streamlining/Consolidating regulatory requirements and service delivery

IMPLICATIONS ON SEZ PROGRAM

- Zones should **maximize the country's comparative advantage**
- Zones should be geared to achieve a **long term dynamic contribution to the economy** and:
 - Encourage domestic firms and institutions to contribute to and invest in the zone
 - Allow access for zone products to the domestic market (the Iraqi consumer market is the single most important point of attraction to potential foreign non-oil investors)
 - Encourage zone firms to cooperate with domestic firms, through investment, purchasing, service and other commercial and equity deals (the Government can perhaps take minority stakes)
- **Foster the integration of the zone into the rest of the economy**
- Zones should be a **generational commitment** that develop over a long time

CRITERIA FOR SUCCESS

- Encourage the linking between the zone and the economy
- Ensure that the zone is an integral component of the national development strategy
- Engage over the long term on delivery and continuous improvement of the zone
- Develop, strengthen and update administrative capacity
- Provide the right investment and operating environment, with the right infrastructure, the right governance structure, the right regulatory regime, and the right partners, focused on the right sectors in the right place

SEZ POLICY

SEZs must grow out of the nation's development goals and an assessment of the main constraints to achieving them

Essential Questions for the Development of the SEZ Policy:

- What will be the '**Unique Selling Proposition**' of the SEZ regime relative to others in the region?
- How **competitive** are neighboring countries' investment regimes relative to the proposed SEZ regime?
- Is the SEZ program a **national priority** (i.e., is there real government commitment to the SEZ program from a financial/public investment perspective; government commitment to take action on SEZ legal and institutional needs)?
- What is the **political appetite** to do what is necessary, in terms of changes to the investment policy environment, to make the SEZ regime a truly 'special' one?
- Even if one makes these changes, will the SEZ have a truly **credible business regulatory environment** from an international business perspective? Does the proposed regime truly protect investors from the counterproductive constraints in the national investment environment?
- Even if the answers to the previous questions support the establishment of an SEZ regime, **is it realistic to assume that government institutions (whether new or existing) will be able to administer** it effectively?
- ❖ Once the policy framework has been developed, the selection of SEZ locations must be based on **rigorous studies of market demand**

MAKING ZONES TRULY SPECIAL

Potential 'soft' offerings:

- **Liberalized Business regulatory environment**
 - **End-to-End**, including: Land –Environment –Start-up –Labor & Entry –PPPs –Capital –IPR –Product Certs & CSR –Dispute Resolution
 - **Reengineered administrative barriers**, in terms of steps, cost, and time to:
 - obtain licenses and regulatory approvals
 - deal with ongoing government compliance
 - **Single authority** in which a single body has the power to reduce licensing requirements
 - **“Sector levers”** –not just “transversal” regulatory improvements
- **Liberalized trade & customs policies**: Should be WCO and WTO compliant, facilitate trade and market access, ideally have an internal market
- **Investment and fiscal incentives**: Should be ‘competitive but not excessive,’ tied to outcomes, and avoid “race to the bottom” and transfer of revenue to private sector, OECD ‘red flags’ and WTO prohibitions on subsidies

MAKING ZONES TRULY SPECIAL

Examples of Value-Added Services provided in SEZs:

- Childcare facilities
- Medical clinics
- Product exhibition centres
- Commercial centres
- Training facilities
- Tax shelter plans
- Business advisory and other professional services (e.g., accounting, financial planning, auditing, etc.)
- Repair & maintenance centres
- Repair & maintenance centres
- Common warehousing facilities
- On-site banking facilities
- On-site housing
- On-site customs clearance and trade logistics facilities
- High-speed telecommunications and internet services
- Networked buildings
- **Conferences and networking events**
- **Recreational facilities**

SUMMARY OF KEY LESSONS

- SEZs must have a strong “business case” and demonstrated market need, which should determine the zone’s location and design
- Location, transport economics, and logistics flows/patterns and costs are key
- Successful SEZs often leverage strategic assets to attract investment. For example:
 - Major seaports or other infrastructure assets (e.g., Jebel Ali Port and Howard Airport, Panama)
 - Strategic nexus of regional or global trade (e.g., Panama Canal, Port of Aqaba)
 - Major multinational anchor investors (e.g., Dell, Singapore Tech, etc)
 - Existing cities or tourism (e.g., Aqaba)
- Governance (regulatory and operational) capacity is critical
- The business environment must be better than the national average. Therefore, reforming actual policy constraints is more important than fiscal incentives to make a successful zone
- SEZ Agencies that exert a positive impact on the business environment generally do so by:
 - Having power and resources to perform a wide range of government functions independently, including functions normally assigned to other municipal, state, or national government agencies. Power to facilitate and simplify others.
 - Simplifying and streamlining procedures and regulatory requirements for businesses to make government interactions less burdensome, costly, and time consuming, especially through a one-stop shop
 - Properly allocating responsibilities between the private and public sector according to which sector will better perform them.
 - Providing high-quality and efficient customer service

FINAL THOUGHT: WHAT MATTERS MOST TO INVESTORS IN AFRICAN SEZs?

Investment criteria	Rank
Cost and quality of utilities	1
Access to transport infrastructure	2
<i>Business regulatory environment</i>	3
<i>Tariffs, duties, rules of origin</i>	4
Level of corporate taxes	5
Access to skilled labour	6
Access to suppliers	7
Access to low cost labour	8
Availability and cost of land and buildings	9

Infrastructure, that can be delivered without SEZs

Rank above taxes, labour, superstructure

Source: Survey of African SEZ investors in World Bank (T. Farole), 2011