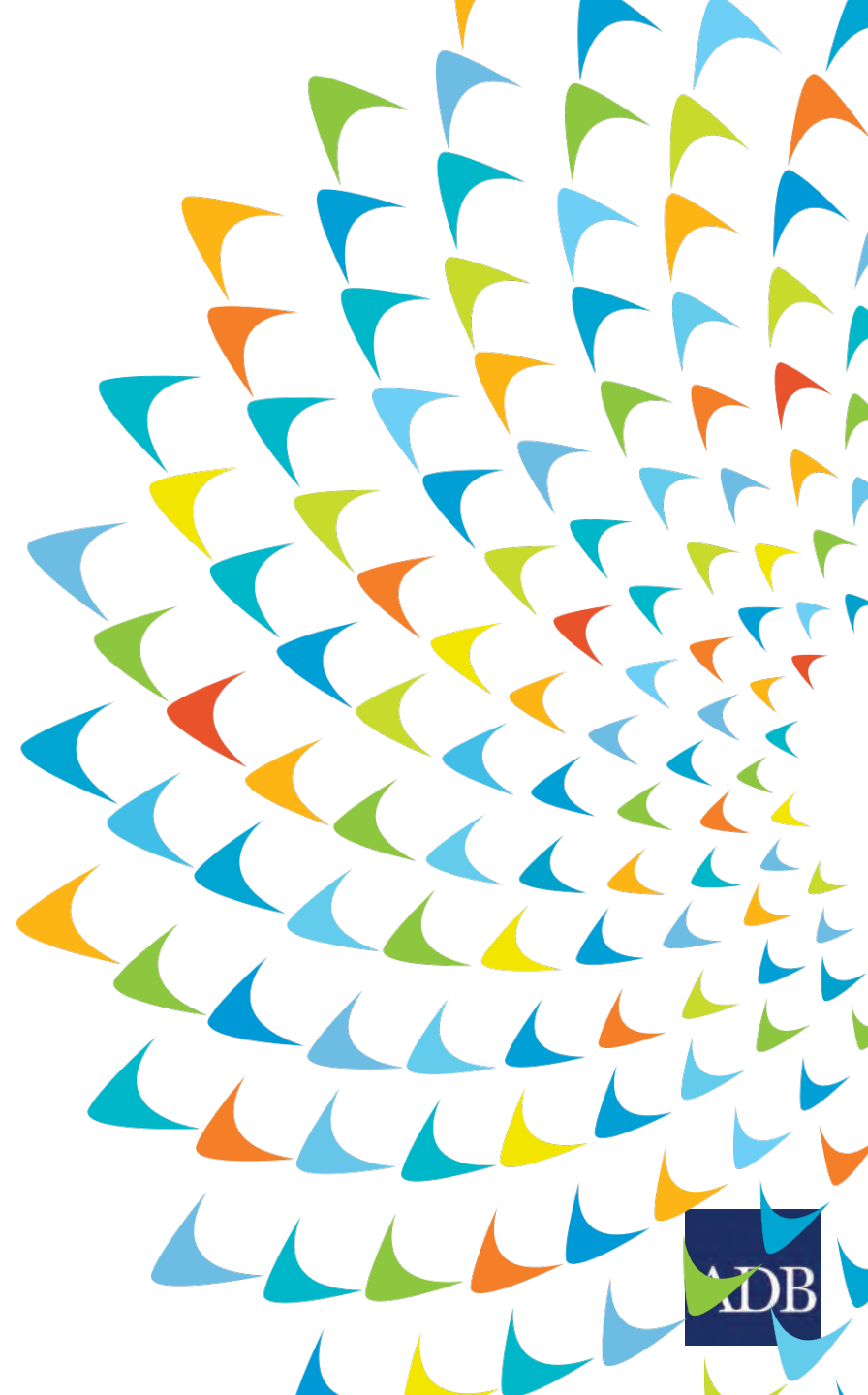




# **Special Economic Zones (SEZs) as Catalysts for Economic Corridors, Value Chains and Production Networks**

Ying Qian, East Asia Department,  
Asian Development Bank

29 Oct 2019, Shanghai,  
People's Republic of China





# Outline

01

**SEZ/Cross-Border Economic Zone (CBEZ):  
Key Concepts**

02

**CASE Studies**

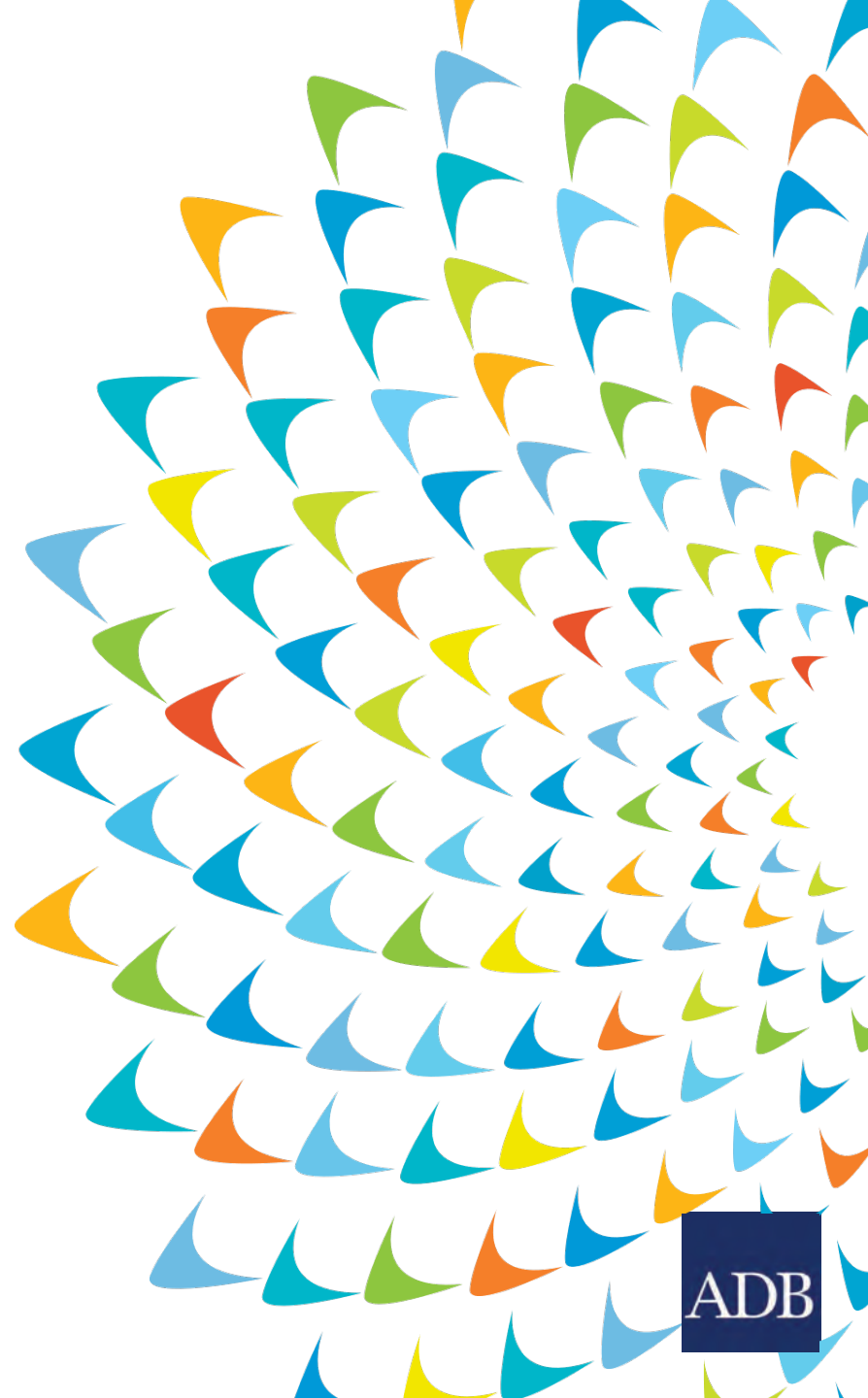
03

**Lessons Learnt**





# SEZ/CBEZ: Key Concepts





# SEZ: Main features

- Clearly defined geographically (*evolving concept*)
- Above average business infrastructure
- More flexible business regulations & streamlined business procedures
- An 'offshore' location (in terms of taxes, customs etc. not literally)
- Facilities geared towards export activities
- Attractive incentive packages for investors



# Key Stakeholders

Regulator

**Administers the SEZ regime**

Developer

**Develops the SEZ infrastructure and facilities**

Operator

**Day-to-day management**

Enterprises

**End-users and ancillary service providers**

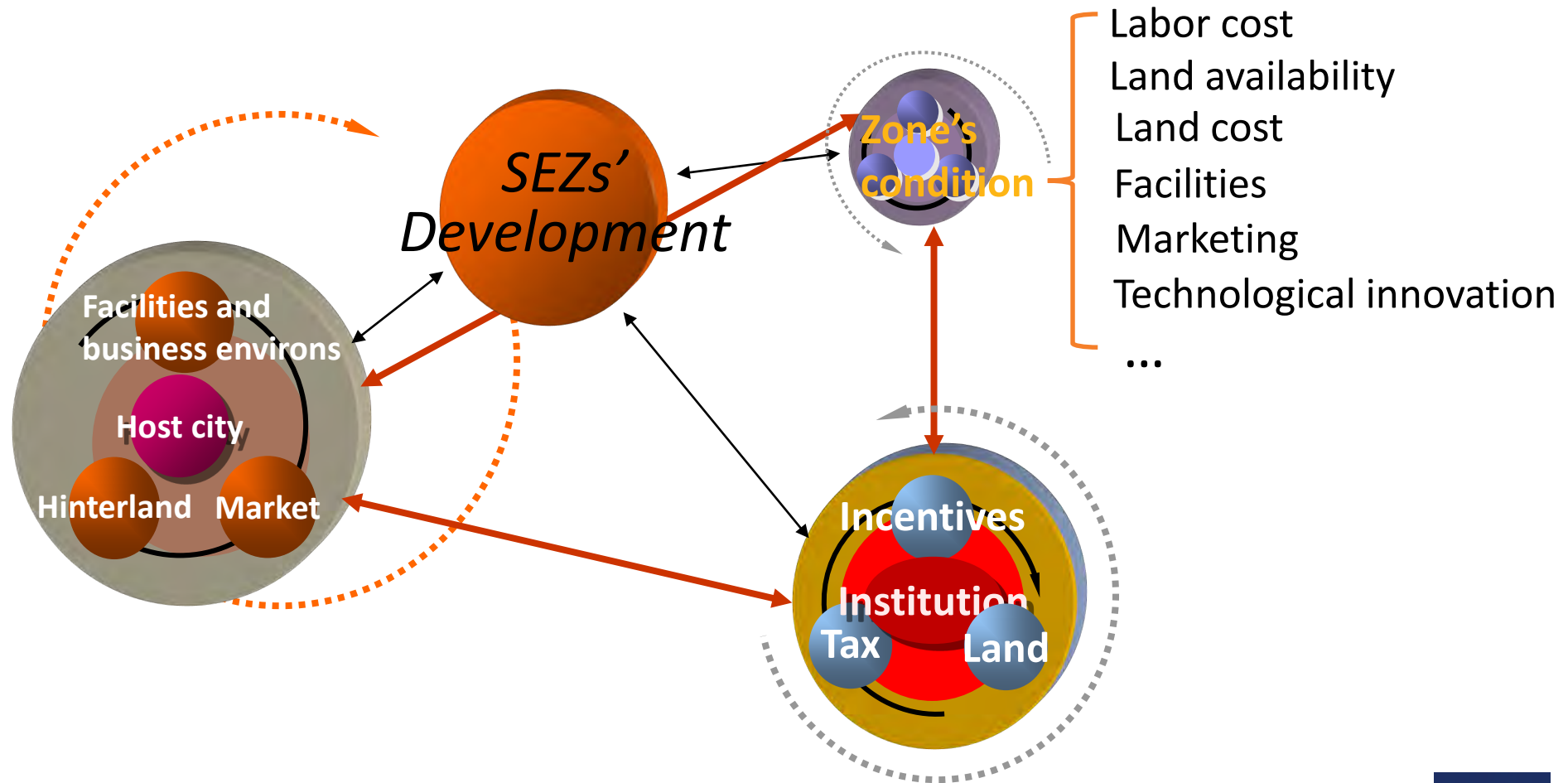
Other  
Stakeholders

**Community organizations, NGOs, labor unions**



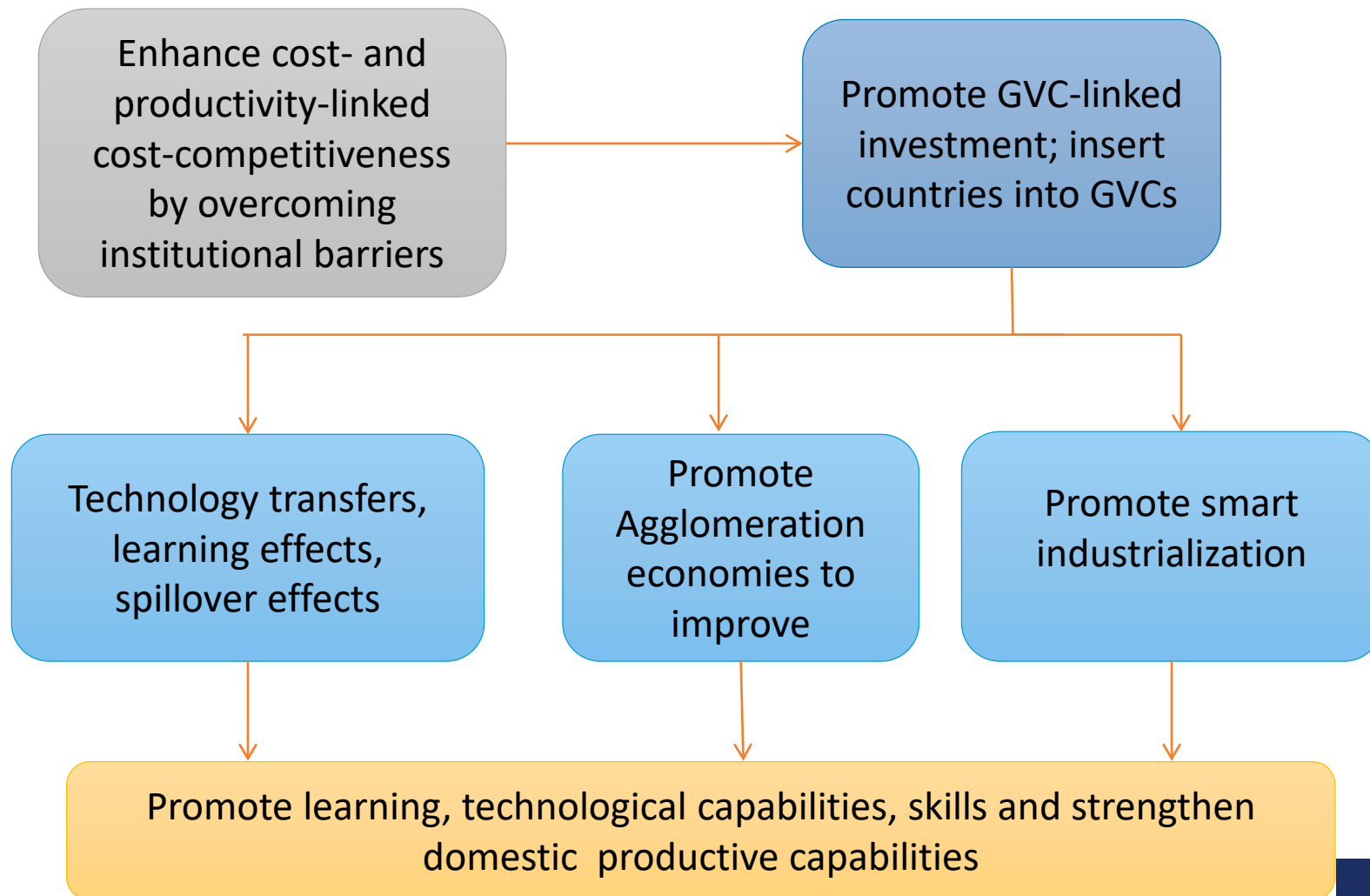
# Overall SEZ Drivers

6



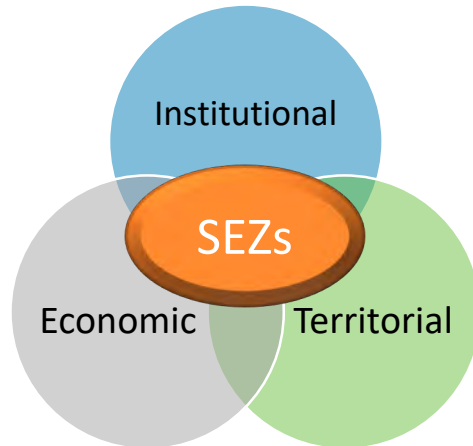


# SEZs for Competitiveness





# SEZs in Chinese Context



- **Establishment:**
  - Request of economic growth
  - Lack of investment
  - from Special Export Zones to Special Economic Zones
- **3 stages:**
  - Stage 1: As new institutional platform (1978-1992)
  - Stage 2: As a new economic growth pole (1993-2006)
  - Stage 3: As a functional urban space (2006- )





# Performance Record of SEZs

9

A checkered history, many SEZs fail in reality

01



02



03



04



This appears to be true in Kazakhstan, Kyrgyz Republic and many other countries

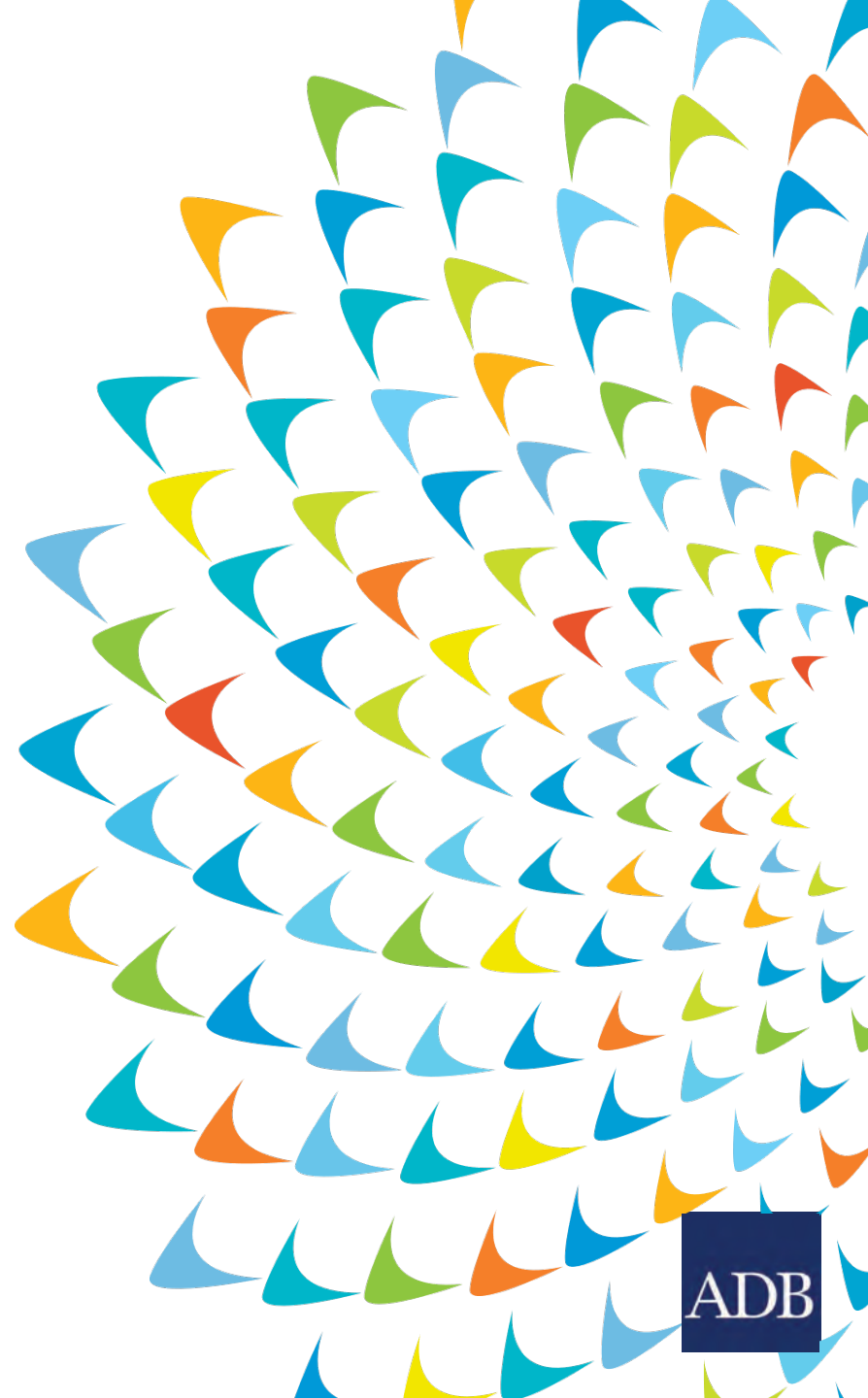
Even in China, where some notable SEZs have been runaway successes, 70% of its SEZs have not.

As India's experience with its SEZs shows, China's success is very difficult to replicate.



# **CASE Studies:**

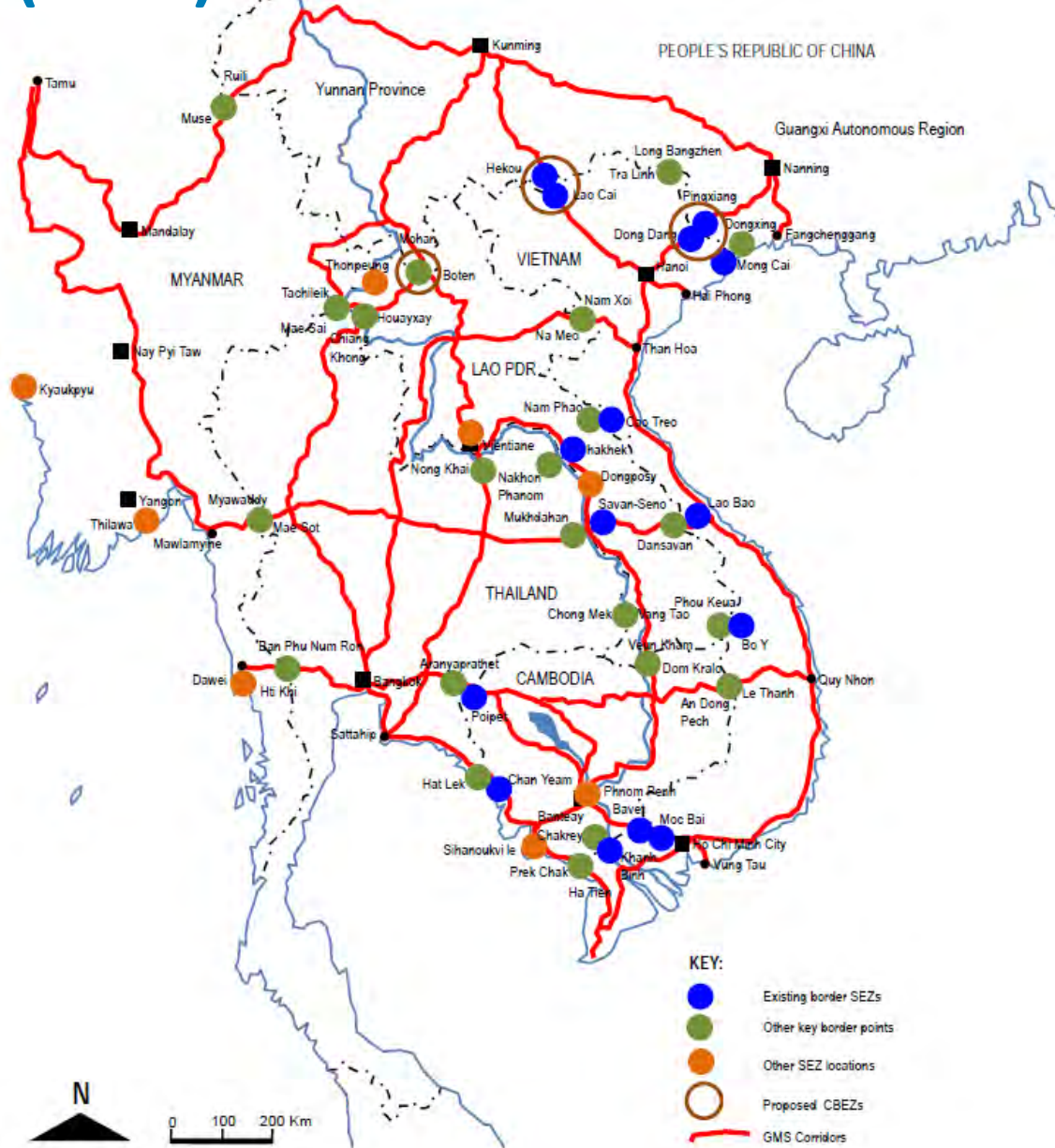
## **Guangxi Regional Cooperation and Integration (RCI) Promotion Investment Program**





# BEZs on Greater Mekong Subregional (GMS) Corridors

11





# SEZ/BEZ in GMS

- In different forms
  - Free zones
  - Free trade zones
  - Export processing zones
  - Free ports
  - Trade and economic cooperation zones
  - Economic technological development areas...
- Enclave type (most common)
- Integrated type (as in PRC, Viet Nam)
- Public (common in 1970s-1990s)
  - governments taking responsibility for planning financing, defining and administering regulations, offering incentives, working with investors, managing real estate, etc.
- Private (since late 1990s)
  - own, develop, and operate
  - 65% by 2010 in developing economies (e.g. 90% in VIE)
- PPP-based

# Guangxi RCI Promotion Investment Program – 2016



- GMS economic corridor development
- PRC-Vietnam cooperation initiatives
- RCI: opening up PRC's border areas
- RCI in PRC CPS
- Guangxi: constraints and untapped potential



# Multitranche Financing Facility (MFF) 2016 – 2026

**Impact:** Greater economic integration

**Outcome:** RCI opportunities realized

**5 Interlinked Outputs:** SME; financial services; e-commerce; BEZ development; connectivity  
**3 Tranches** (\$450 million OCR and Regional set-aside)

**Why MFF?:** long term commitment; flexibility; phased funding; policy dialogue; private sector participation

## Key Features:

- Country ownership and demand-driven
- Focusing on the promotion of cross-border economic activities to benefit people in border areas of PRC and VIE
- Cross-border synergy
- One ADB Approach





# 5 Interlinked Outputs

- Border economic zone development
  - Cross-border connectivity
  - SME development
  - Cross-border financial services
  - E-commerce
- FIL for SMEs
  - Business development services
  - Skills development
  - Cross-border labor mobility
  - Border trade centers



# ADB Financing for MFF

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Component/Output	Tranche 1	Tranche 2	Tranche 3	Total
SME development	83.0	30.5	10.6	124.1
Cross-border financial services	0.0	0.0	15.5	15.5
Cross-border e-commerce	22.3	10.7	13.0	46.0
Border economic zone development	6.9	50.9	58.6	116.4
Cross-border connectivity	0.0	72.5	30.8	103.3
Technical and institutional support	8.4	3.1	1.5	13.0
Financial charges during implementation	9.4	12.3	10.0	31.7
<b>Total</b>	<b>130.0</b>	<b>180.0</b>	<b>140.0</b>	<b>450.0</b>





# Tranche 1 Subprojects – 2016

17

1. Fangchenggang Training Center for PRC and Vietnamese workers and SMEs
2. Pingxiang Cross-border Labor Cooperation Development Park
3. Training for PRC and Vietnamese Worker and SMEs
4. SMEs Financing in Guangxi
5. Smart Port for Longbang Border Economic Zone
6. Pingxiang Border Trade Service Center
7. Exploring PPP Opportunities for Improving Border Service
8. Support on Improving Cross-border Financial and Investment Service
9. Strengthening Business Development in Guangxi
10. Project Management and Capacity Development





# Tranche 2 Subprojects – 2018

18

1. Chongzuo Sino-Viet Nam BEZ
2. Dongxing Changhu Road East Section Construction
3. Pingxiang-Mongcai Cross-Border Road Connectivity
4. Qinzhou Bonded Port Cross Border Trade E-commerce Industrial Park
5. Qinzhou International Cold-Chain Logistics
6. China-ASEAN SME Synergy Innovative Development
7. China-ASEAN Educational Cooperation

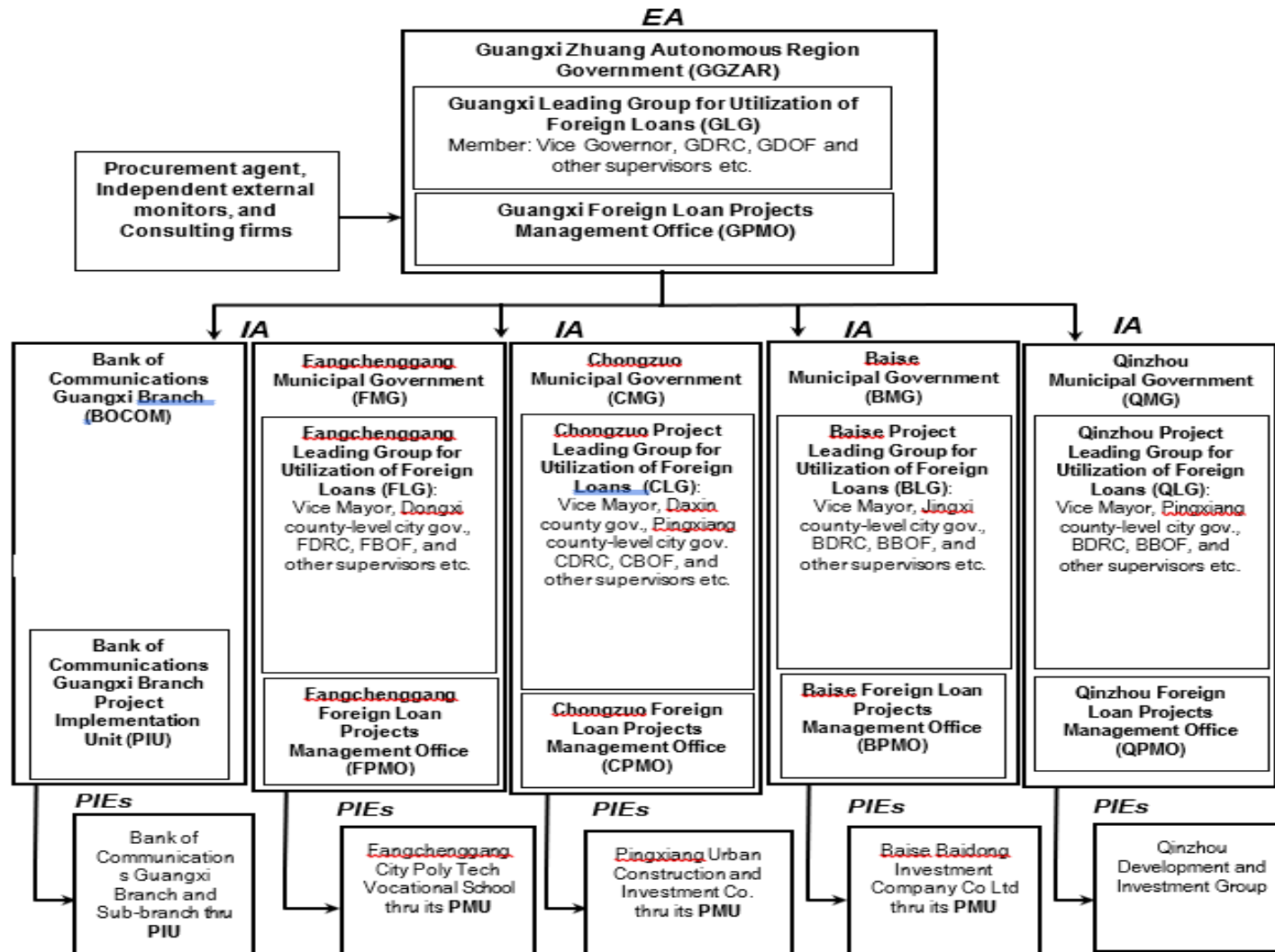




# Project Implementation Arrangement

19

Figure 1: Investment Program Organizational Structure



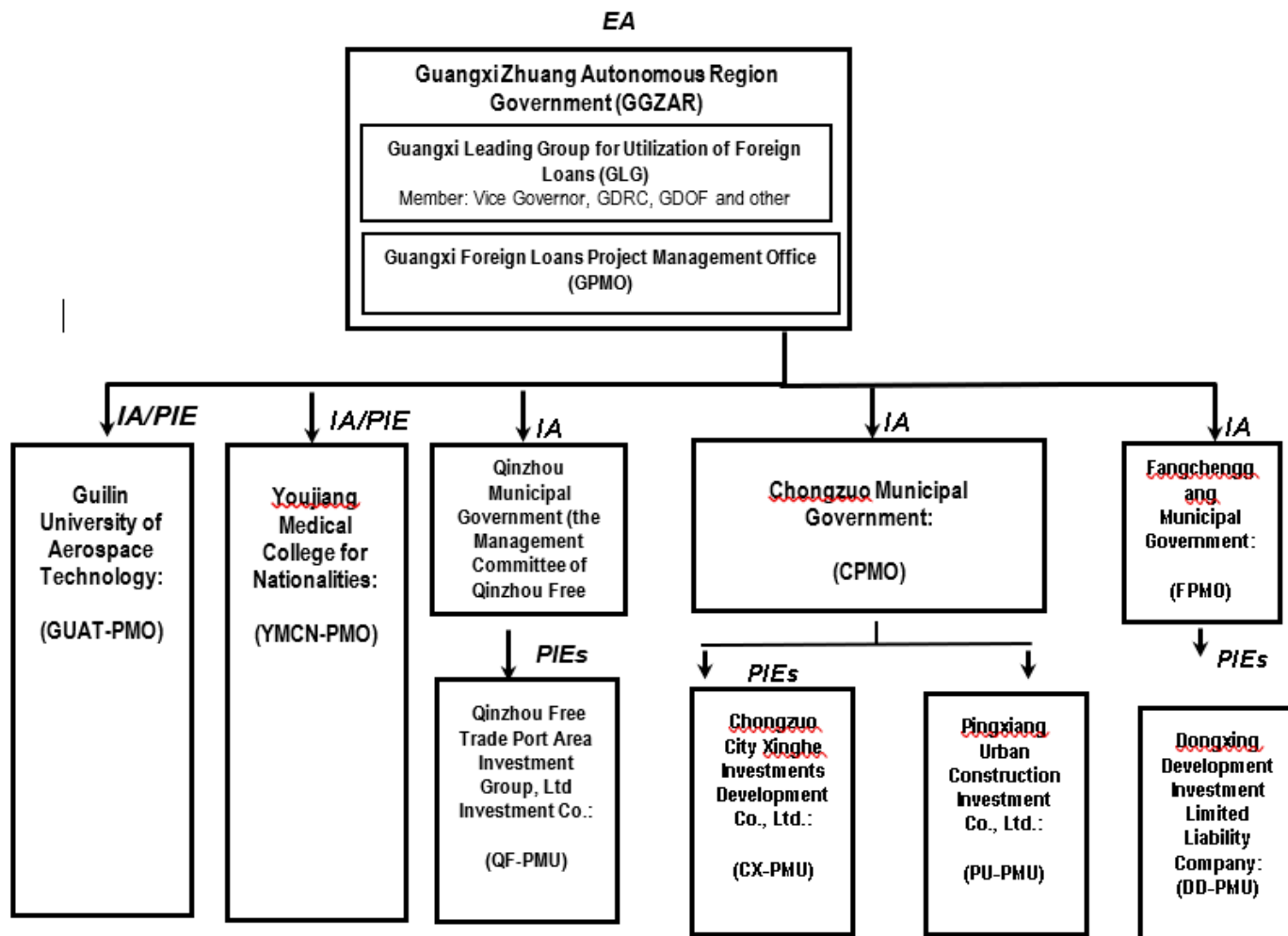
ADB = Asian Development Bank, BDRC = Baise Development and Reform Commission, BBOF = Baise Bureau of Finance, BOCOM = Bank of Communications Co. Ltd. Guangxi Branch, CDRC = Chongzuo Development and Reform Commission, CBOF = Chongzuo Bureau of Finance, EA = executing agency, FDRC = Fangchenggang Development and Reform Commission, FBOF = Fangchenggang Bureau of Finance, GDRC = Guangxi Development and Reform Commission, GDOF = Guangxi Department of Finance, IA = implementing agency, PIE = project implementing entities, PIU = project implementation unit, PMU = project management unit

Source: Asian Development Bank.



# Project Implementation Arrangement for T2

Figure 1: Investment Program Organizational Structure for Tranche 2



EA = executing agency, GDOF = Guangxi Department of Finance, GDRC = Guangxi Development and Reform Commission, IA = implementing agency, PIE = project implementing entities.  
Source: Asian Development Bank.



# Tranche 3 Subprojects – 2021



1. Chongzuo Daxin County Border Roads Improvement
2. Chongzuo Shulong Border-cross point Updating
3. E-commerce Incubation Parks in Fangchenggang, Longbang and Pingxiang
4. Fangchenggang Big-data Center
5. Qinzhou Cloud Computing center
6. Dongxing Cross-border Financial Service Center
7. Promotion of PRC-Viet Nam cross-border policy and operational dialogue, finalizing the joint master plan for BEZ development



# Regional Technical Assistance

## TA9293: Policy Coordination and Planning of Border Economic Zones (BEZs) of PRC and Viet Nam

**Implementation:** 1 March 2017 – 29 March 2019

**Impact:** Improved integration along the GMS North–South Economic Corridor

**Outcome:** Enhanced capacity to develop BEZs in the border areas of PRC and Viet Nam

**3 Outputs:** (i) Policy recommendations for coordinated BEZs development formulated; (ii) Coordination for BEZs development strengthened; and (iii) capacity building of governments conducted



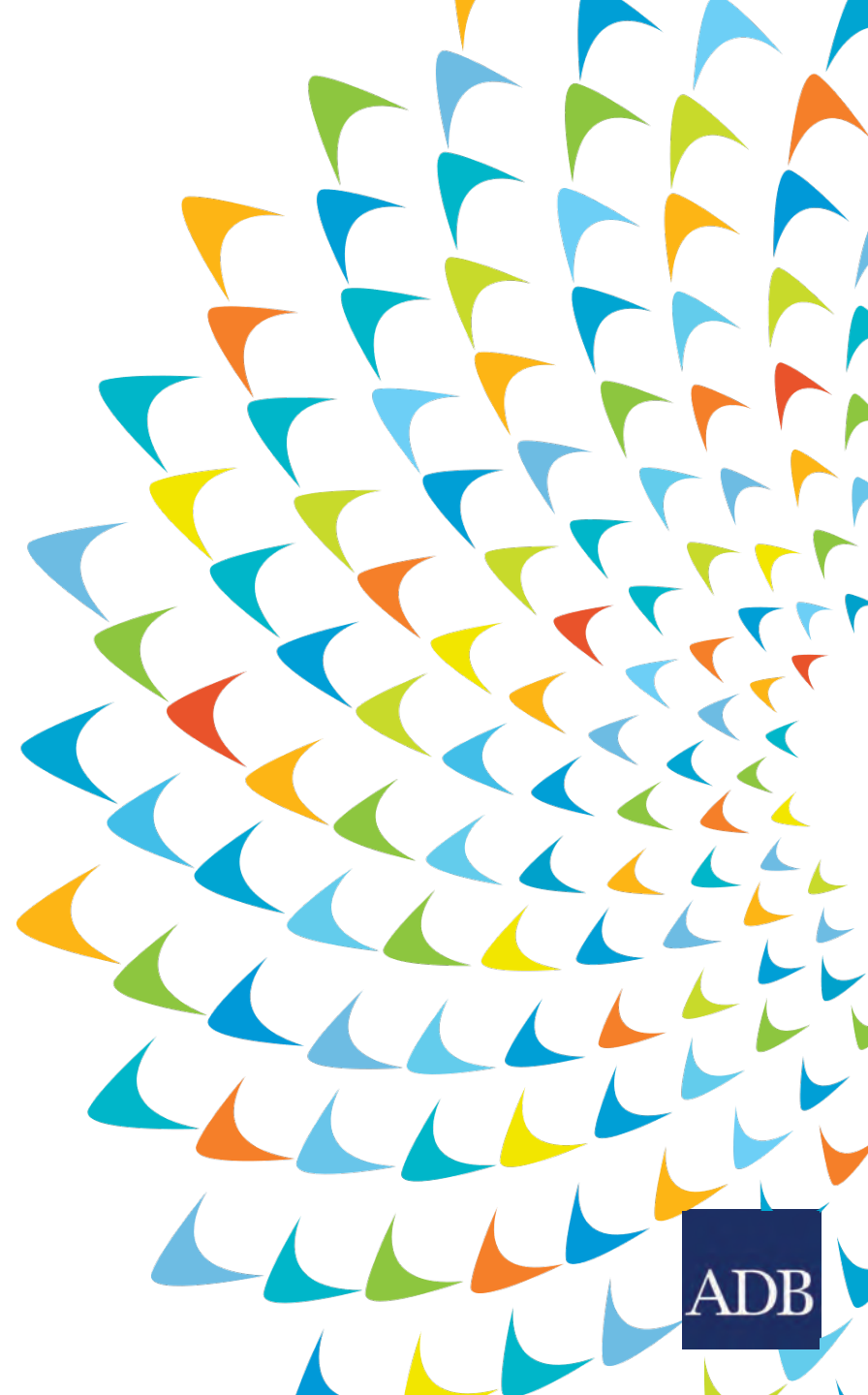


# **CASE Studies:**

## **Inner Mongolia RCI**

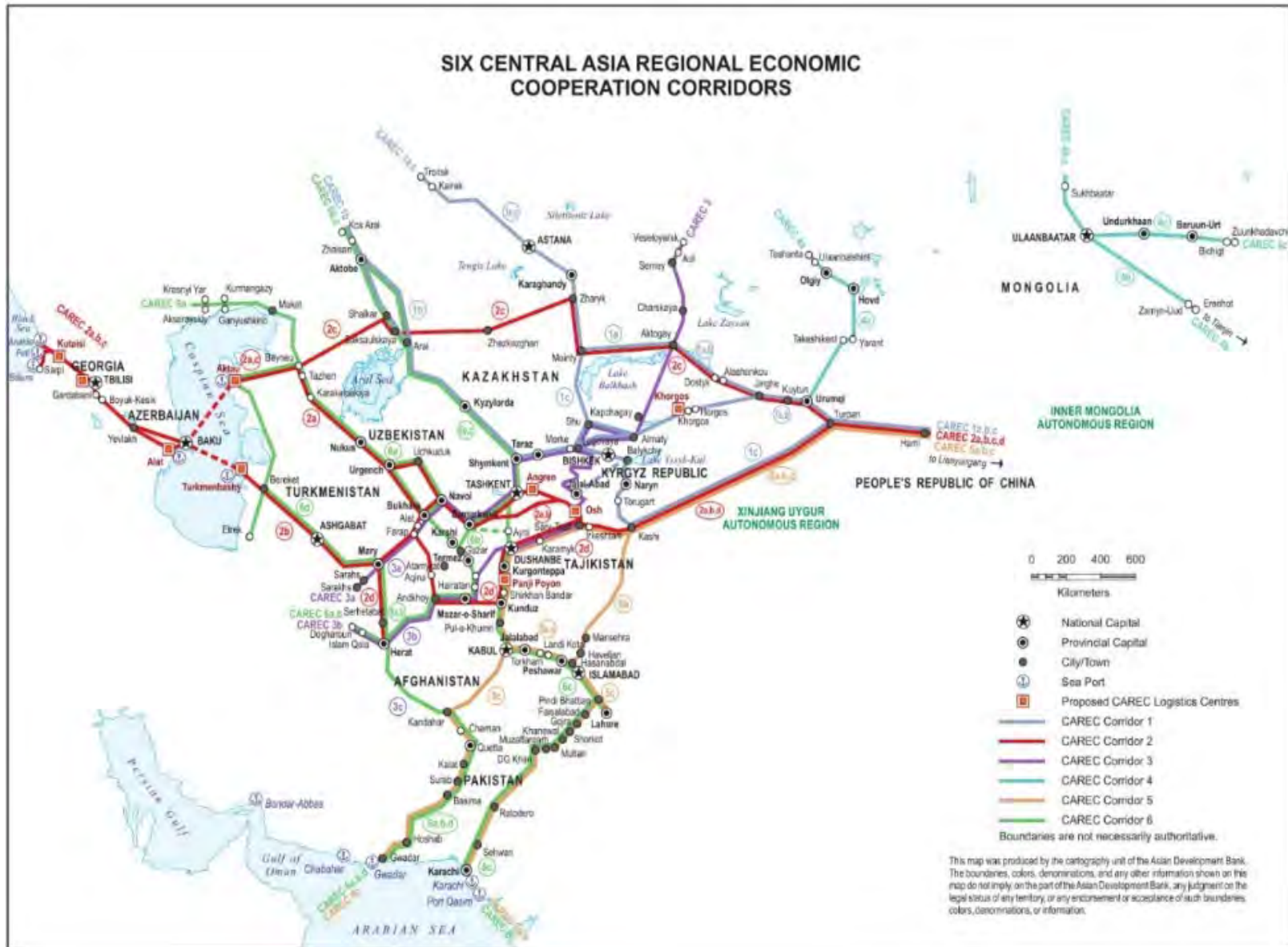
### **Promotion Investment**

### **Program**



# Transport Corridors of the Central Asia Regional Economic Cooperation (CAREC) Program

24







# CAREC 2030 / CAREC Integrated Trade Agenda (CITA) 2030

## 5 Clusters of CAREC 2030

- economic and financial stability;
- trade, tourism, and economic corridors;
- infrastructure and economic connectivity;
- agriculture and water; and
- human development.

## 3 Pillars of CITA 2030:

- Trade expansion from increased market access,
- Greater economic diversification
- Stronger institutions

❖ *Integrating the use of information and communication technology (ICT) across the spectrum of CAREC operations*



# Corridor 4b, 4c and Border Towns

26





# Multitranche Financing Facility 2020 – 2030

27

**Impact:** Sustainable economic development and shared prosperity for the CAREC region achieved

**Outcome:** economic competitiveness and trade along IMAR border areas including areas of CAREC improved and RPGs promoted

**5 Interlinked Outputs:** Border infrastructure, environment, SME; value chain and RCI mechanisms

**3 Tranches** (\$420 million OCR or €382.10 million)

## Key Features:

- Country ownership and demand-driven
- Focusing on the promotion of cross-border economic activities to benefit people in border areas of PRC and MON
- Cross-border synergy





# 5 Interlinked Outputs

- Key infrastructure and services for cross-border connectivity
- Ecological environment and medical services in key border towns
- Inclusive and resilient sheep value chain
- SMEs based in cross border businesses
- Regional cooperation mechanism, technical, project management and institutional capacity



- Financial intermediation loan (FIL) for SMEs
- Business development services
- support programs for female entrepreneurs and women-led SMEs in the border areas



# Subprojects Distribution

## Erenhot

- Inspection Area Project in Erenhot-PRC and Zamiin Uud-Mongolia Cross Boarder Economic Cooperation Area
- Erenhot International Sino-Mongolian Hospital Reconstruction Project
- Erenhot PRC-Mongolia Ecological Environmental Improvement Project (Phase II)
- Urban Area Garbage Collection and Transport Project
- Urban Infrastructure Improvement Project
- Erenhot PRC-Mongolia Ecological Environmental Improvement Project (Phase III)

- Tranche 1
- Tranche 2
- Tranche 3

## Mandula

- Mandula Port Infrastructure Project
- Mandula Port Quarantine and Breeding Sheep Base Project

## Gangqimaodu

- Gangqimaodu Port Expansion Project

## Uliji

- Uliji Port Ecological and Environmental Protection Project
- Uliji Port Infrastructure Project

## Arxan

- Sino-Mongolian Arxan Mutual Trade Zone Project
- Arxan Port International Logistics Construction Project







# Financing Plan (€ million)

30

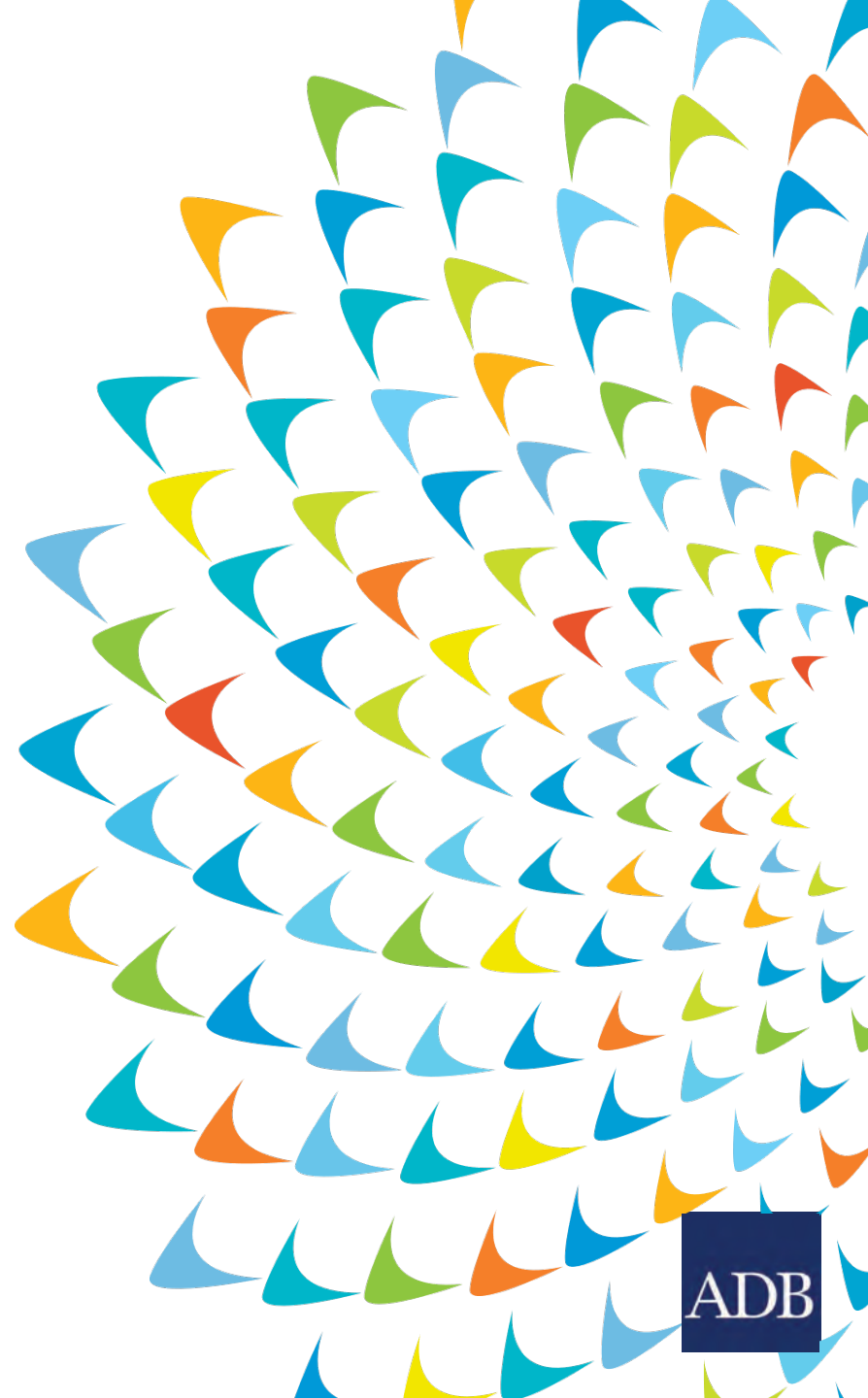
	Tranches 1, 2 and 3 (estimated year of PFR submission)				Share of Total (%)
Source	T1 (2020)	T2 (2022)	T3 (2024)	MFF	
Asian Development Bank					
OCR	178.58	107.72	95.80	382.10	48.81%
Government and Others	115.61	86.09	97.59	299.29	38.23%
FIs <sup>a</sup>	22.64	36.35	0.0	58.99	7.53%
POE <sup>b</sup>	42.50	0.0	0.0	42.50	5.43%
Total	359.33	230.16	193.39	782.88	100.0%

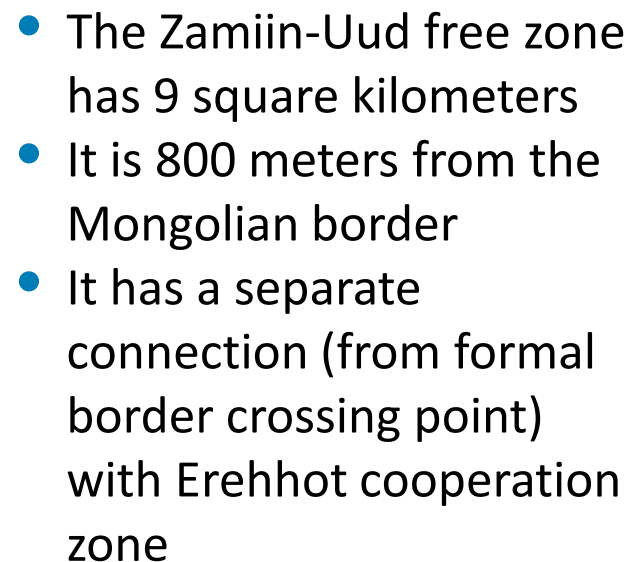
FIs = financial intermediaries, MFF = multitranche financing facility, OCR = ordinary capital resources, PFR = periodic financing request, POE = private-owned enterprise.



# CASE Studies:

## Mongolia RCI Promotion Investment Program









## Challenges

- infrastructure gaps & potential water supply issue
- inexperienced free zone authorities
- uncoordinated planning and procedures

## Proposed solutions

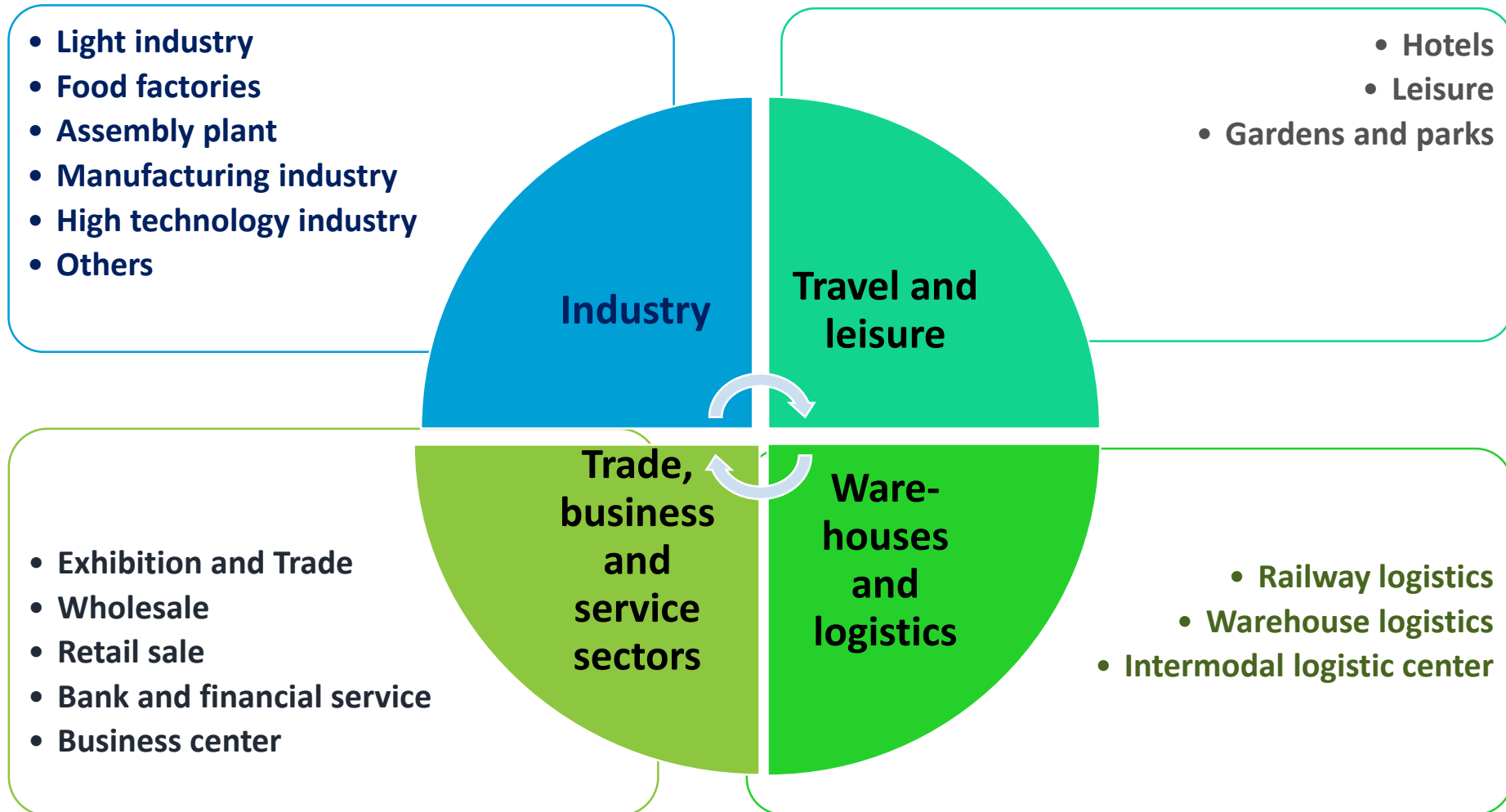
- Infrastructure & facilities constructed
- Management and operation strengthened
- Coordination mechanism for ZU-Erenhot CBEZ port of entry system





# Business Activity in the Free Zone

34



- ✓ Zamiin –Uud Free Economic zone master plan – 2011
- ✓ Law on the Free zone - 2015

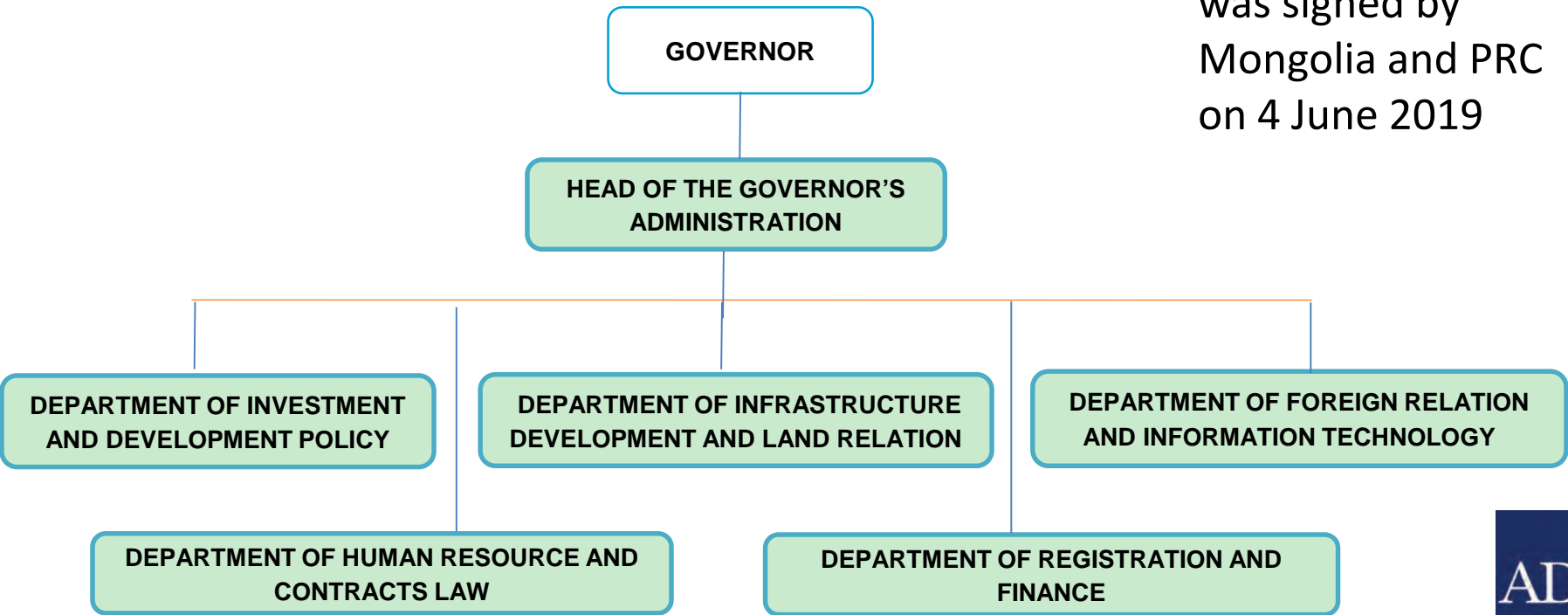


# Governing and Cooperation Mechanism

35



- Agreement on Establishing the Zamiin-Uud-Erenhot Economic Cooperation Zone was signed by Mongolia and PRC on 4 June 2019





# Land Allocation

36

A total of 58 enterprises have been allocated 97.3 ha of land for 66 projects.



- Trade and service
- Hotels
- Factories and warehouse logistics
- Fuel station



# MON: Developing Cross-Border Economic Zone Project

**Impact:** sustainable economic development, economy based on diversified domestic production, greater diversification and linkages with global and regional value chains

**Outcome:** Zamiin-Uud–Erenhot CBEZ developed and operational

**3 Interlinked Outputs:** free zone infrastructure and facilities; management and operation of free zone; coordination mechanism for Zamyn-Uud–Erenhot CBEZ port of entry system

**Project cost** (\$30 million OCR, 2020 Approval)

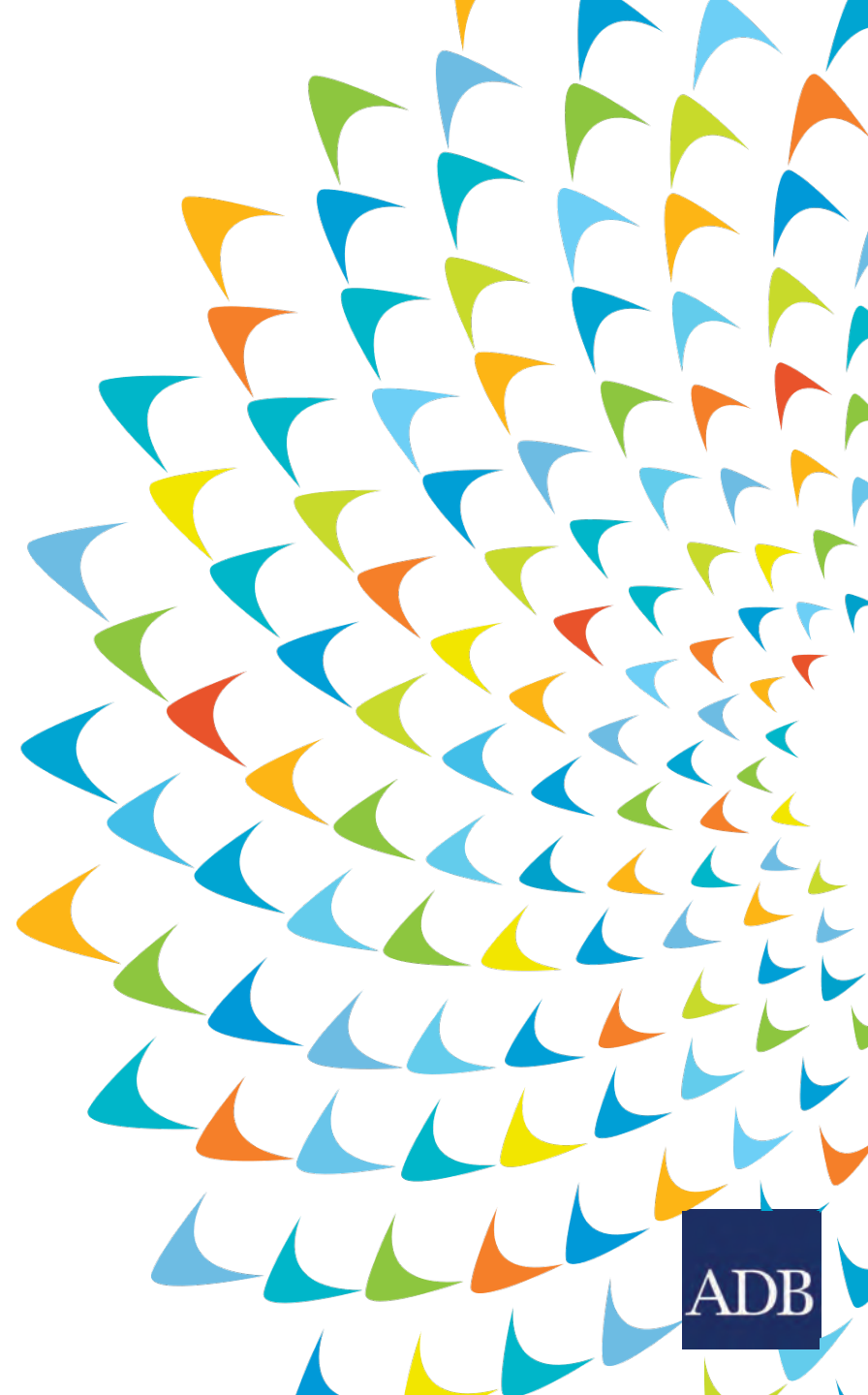
## Key Features:

- Review and further improvement the Master plan of the Zamiin-Uud free zone
- Business and market development strategy, management guidelines and operational manual
- Harmonized procedures (including ICT) for cross-border trade





# Lessons Learnt





# Key Success Factors

- SEZs/CBEZs as experimental reform centers for demonstration and replication
- Infrastructure and connectivity
- Business-friendly services for trade and investment
- Financing, particularly for SMEs
- Skills development (both managerial and job skills)
- Cross-border coordination, not competition



# ADB's Value Added in Addition to being a Financier

- Development financier
- Honest broker for cross-border coordination and “horizontal cooperation” within PRC
- RCI knowledge and capacity building
  - Trade facilitation
  - Institutional strengthening
- Demonstration and replication







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**Thank you.**

