

How Can SEZs Catalyze Economic Development?

DECZ Project Session 1

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Outline

- Definition and Types of SEZs
- Evolution of SEZs
- SEZs and Development Strategy
- Economic Impact of SEZs
- Cross-border Economic Zones
- Success and Failure Factors
- Future of Zones

Definition of SEZs



clearly defined geographically

single management or
administration

liberal and streamlined business
procedures

Types of SEZs: By Modality

Economy	By Modality		
	Private (%)	Public (%)	Total (no. of zones)
Bangladesh	11	89	8*
Cambodia	100	0	14*
PRC	12	88	1515*
Myanmar	—	—	3*
Kazakhstan	0	100	10
India	74	26	615*
Malaysia	23	77	530
Pakistan	0	100	7*
Philippines	92	8	460*
Republic of Korea	10	90	102
Sri Lanka	6	94	14
Thailand	84	16	110
Viet Nam	89	11	411

* with PPP component

Evolution of SEZs

➔ *Second best and temporary distortionary measure*

First Stage

- Import substitution
 - Job creation
 - Foreign exchange earnings
- (BAN, CAM)



Second Stage

- Technological spillover
 - Demonstration effect
 - Domestic industrial development
- (MAL, THA)




Third Stage

- Test bed for structural reforms
 - Agglomeration economies
 - Growth pole for development
- (PRC, KOR, TAP)

Development Strategy and Institutions

➔ How to enhance nationwide impact:

- link to national development plan
- enabling legal framework
- dedicated governing authority



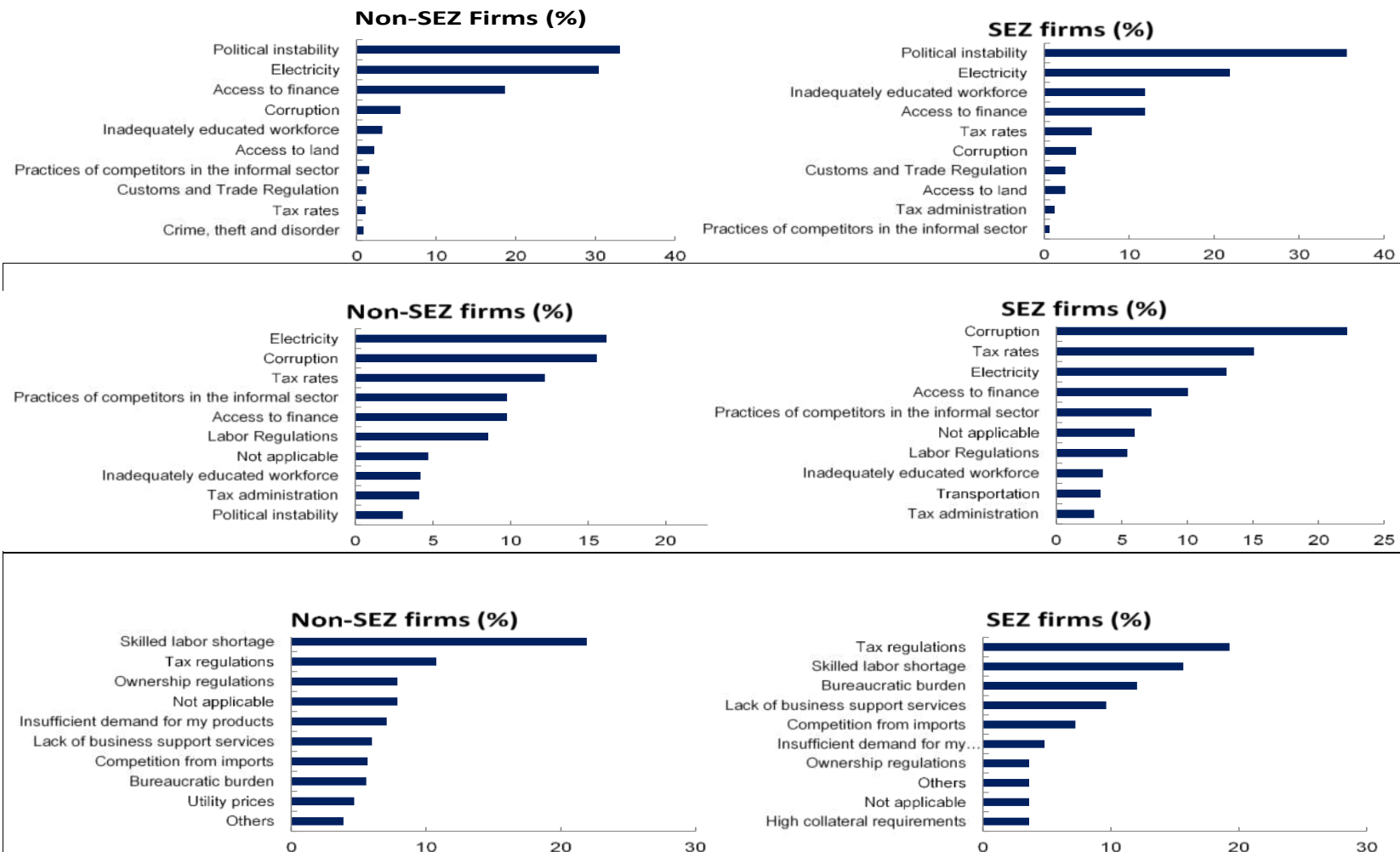
National development strategy	<ul style="list-style-type: none">• BAN, PRC, KOR, MAL, PHI (1995~), IND (2005~), INO (2009~), VIE
Industrial development	<ul style="list-style-type: none">• CAM, KAZ, SRI, THA
Little linkage to the development strategy	<ul style="list-style-type: none">• IND (1965-2005), INO (1973~2009), NEP, TKM

Economic Impact of SEZs: Exports and FDI

Exports				
	SEZ Existence	No. of SEZs	SEZ Law	SEZ Authority
Asia	0.03	0.11*	0.40*	0.27*
Africa	-0.40*		-0.43*	-0.49*
EU	0.34*		0.16*	0.11*
Latin America	-0.41**		-0.08	0.79**
World	-0.08*			

FDI		
	Without Time dummy	With Time dummy
Developing Asia	1.86*	0.82*
Africa	0.47*	0.21
Developing Europe	0.25	-0.03
Latin America	1.25**	0.46
World	0.89*	0.29

Perceived Obstacles

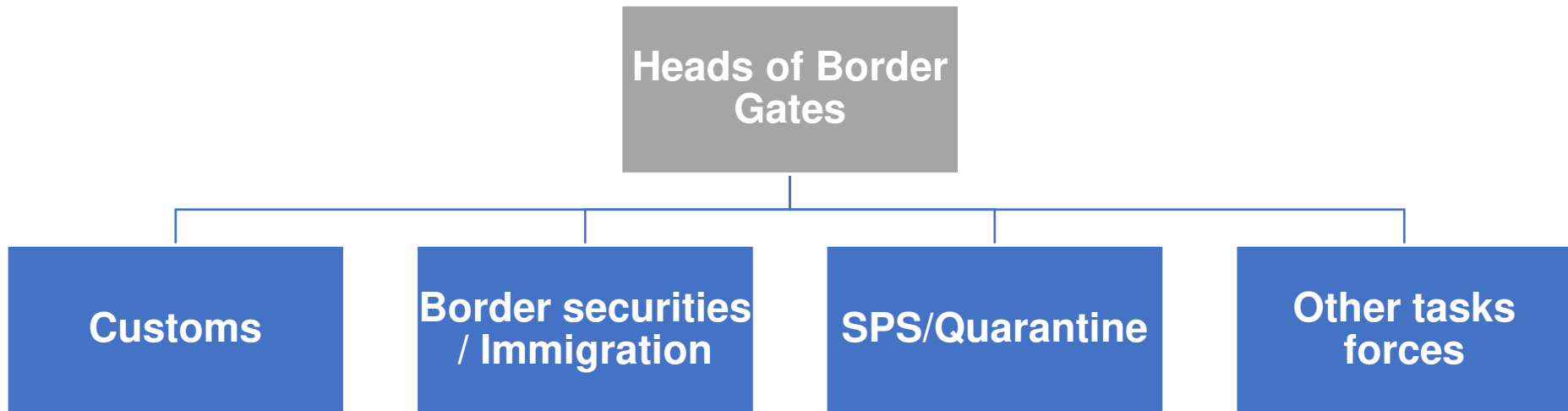


Source: ADB calculations using data from World Bank Enterprise Survey (WBES).

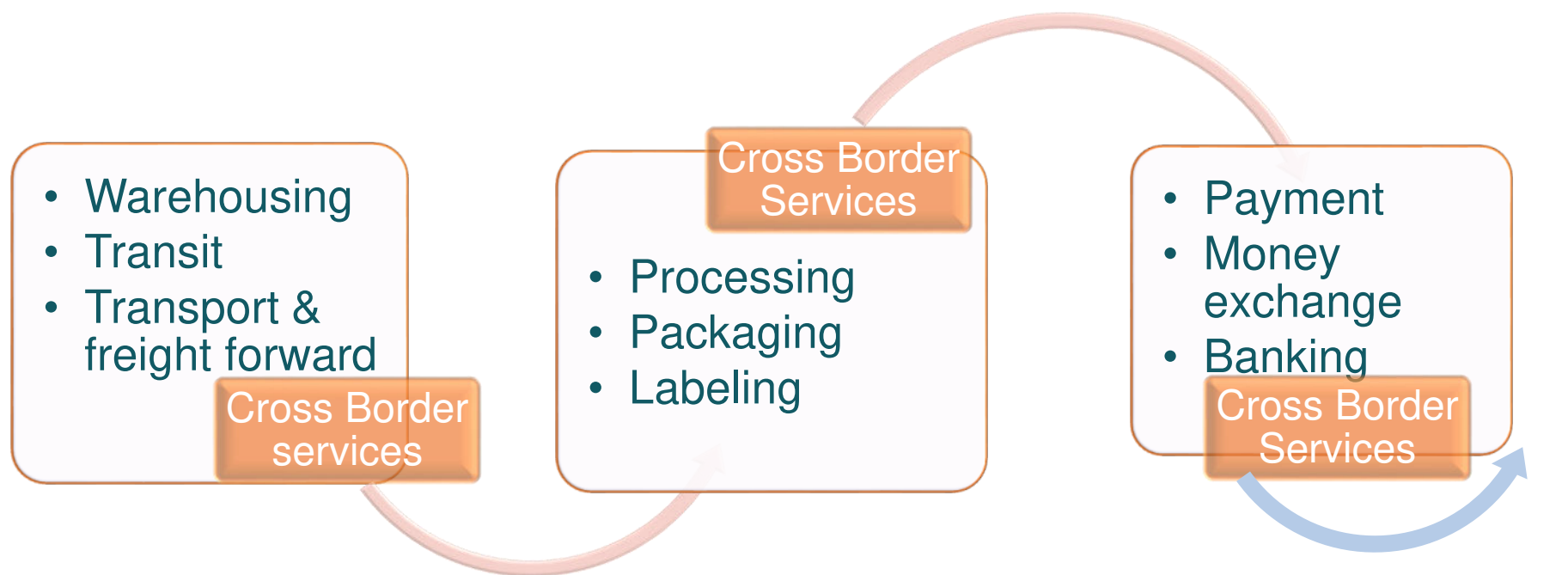
Cross-border Economic Zone



Border Gate Management



Cross-border Services



Single Window for Simplification of Administrative Formalities

Key Factors

- ***Soft infrastructure***
 - Policy and regulatory framework
 - Institutional development
 - Technical operations and functions set for the CBEZs
 - Capacity building
- ***Hard infrastructure***
 - Access roads to and those running in the CBEZs
 - Electricity and telecommunication networks
 - Water supply and sanitation systems
 - Production and trade support facilities

Conclusion



Success and failure factors

Success factors

Fiscal and non-fiscal incentives

Factor costs

Strategic location, multimodal connectivity

Institutional capacity

State and local governments' commitment and policy stance

Failure factors

Ambitious goals relative to country's comparative advantage

Zones as industrial islands (physical enclaves)

Governance and rent seeking

Wrong positioning

Lack of localized strategy for upgrading industrial value chain and creating technology spillovers

Link with development strategy and industrial policy

Backward and forward linkages with domestic economy

Looking ahead

- The popularity of SEZs still remains strong under changing environment (growth of services, knowledge economy)
- Urban development and smart cities will increasingly become integral part of future zones
- Approach should be tailored to country's economic and developmental context
- Linkage to development strategy and institutions are crucial factors

Thank You!