50,000,000
2,000
180,000,000,000
Pilots for Reform?
Key Emerging Lessons

- Zones are not a panacea to be used to solve all problems – many have failed
- Zones are proliferating - they are not just located in the developing world

Modern zones can be catalysts for wider national policy and economic reform

Business Case for more focused Donor involvement
<table>
<thead>
<tr>
<th>Type of Zone</th>
<th>Development Objective</th>
<th>Typical Size</th>
<th>Typical Location</th>
<th>Eligible Activities</th>
<th>Markets</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Factory EPZ</td>
<td>Export manufacturing</td>
<td>Designation for individual enterprises</td>
<td>Country-wide</td>
<td>Manufacturing, other processing</td>
<td>Export market</td>
<td>Mauritius, Mexico, Madagascar</td>
</tr>
<tr>
<td>Enterprise Zone, Empowerment, Urban Free zones</td>
<td>Urban revitalization</td>
<td>Size &lt; 50 hectares</td>
<td>Distressed urban or rural areas</td>
<td>Multi-use</td>
<td>Domestic</td>
<td>Empowerment Zone, Chicago</td>
</tr>
<tr>
<td>Traditional EPZ</td>
<td>Export manufacturing</td>
<td>Size &lt; 100 hectares; total area is designated as an EPZ</td>
<td>None</td>
<td>Manufacturing, other processing</td>
<td>Mostly export</td>
<td>Karachi EPZ, Pakistan, Bangladesh</td>
</tr>
<tr>
<td>Hybrid EPZ</td>
<td>Export manufacturing</td>
<td>Size &lt; 100 hectares; only part of the area is designated as an EPZ</td>
<td>None</td>
<td>Manufacturing, other processing</td>
<td>Export and domestic market</td>
<td>Lat Krabang Industrial Estate, Thailand</td>
</tr>
<tr>
<td>Free Trade Zone (Commercial Free Zone)</td>
<td>Support trade</td>
<td>Size &lt; 50 hectares</td>
<td>Ports of entry</td>
<td>Entrepot and trade-related activities</td>
<td>Domestic, re-export</td>
<td>Colon Free Zone, Panama</td>
</tr>
<tr>
<td>Industrial Zone</td>
<td>Industrial development</td>
<td>&lt; 100 hectares</td>
<td>Mixed</td>
<td>Industry</td>
<td>Domestic and export</td>
<td>Eastern Seaboard Thailand</td>
</tr>
<tr>
<td>SEZ/ Freeport/Free Economic Zone</td>
<td>Integrated development</td>
<td>Size &gt;100 km2</td>
<td>None</td>
<td>Multi-use</td>
<td>Domestic, internal and export markets</td>
<td>China, Subic Bay, Philippines, Aqaba SEZ</td>
</tr>
</tbody>
</table>
A Big Concept and Growing

1970s
• 30 countries
• 80 zone projects
• No private zones
• Total exports: $6 billion
• Direct jobs: 1 million

Today
• 116+ countries
• 2,000+ zone projects
• 1,200+ private zones*
• Total exports: $180+ billion
• Direct jobs: 50 million; China alone: 30+ million
• Indirect jobs: Direct jobs x 1.5 to 2

Does not include single-factory zones or total would exceed 3,000
Distribution of Zones by Region

North America: 266
Central America: 228
South America: 41
Europe: 161
Middle East: 39
Africa: 67
Asia (w/o China): 280
China: 190
Pacific: 14
### Leading Zone Programs and Direct Economic Impact

<table>
<thead>
<tr>
<th>Country</th>
<th>No. of Zones</th>
<th>Exports ($ billions)</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>266</td>
<td>$20.0</td>
<td>400,000</td>
</tr>
<tr>
<td>China</td>
<td>190</td>
<td>$12.0</td>
<td>30,000,000</td>
</tr>
<tr>
<td>Indonesia</td>
<td>115 (15 EPZs)</td>
<td>$4.2</td>
<td>200,000</td>
</tr>
<tr>
<td>Philippines</td>
<td>100</td>
<td>$27.0</td>
<td>907,000</td>
</tr>
<tr>
<td>Thailand</td>
<td>30</td>
<td>$4.7</td>
<td>120,000</td>
</tr>
<tr>
<td>India</td>
<td>13</td>
<td>$1.3</td>
<td>87,000</td>
</tr>
<tr>
<td>Taiwan</td>
<td>5</td>
<td>$6.1</td>
<td>90,000</td>
</tr>
<tr>
<td>S. Korea</td>
<td>3</td>
<td>$5.0</td>
<td>80,000</td>
</tr>
</tbody>
</table>

Source: Bearing Point
Summary of Economic Impacts

• Most zones had a significant economic impact in terms of
  – Rapid employment generation especially for women
  – Higher pay levels and growth rates
  – Exports, especially in smaller countries
  – Skills and technology transfer
• But success has been more limited in other areas
  – Low net exports due to low local value-added
  – Linkages
  – Unclear cost/benefit structure with incentives, infrastructure…
  – Continued levels of administrative barriers
  – Social issues
## Examples of Zones Failures

<table>
<thead>
<tr>
<th>Failed Zones</th>
<th>Failed Zone Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Africa &amp; ME</strong></td>
<td><strong>Africa</strong></td>
</tr>
<tr>
<td>Dakar, Senegal</td>
<td>Senegal</td>
</tr>
<tr>
<td>Walvis Bay, Namibia</td>
<td>Namibia</td>
</tr>
<tr>
<td>Monrovia, Liberia</td>
<td>Liberia</td>
</tr>
<tr>
<td>Athi River, Kenya</td>
<td>Ivory Coast</td>
</tr>
<tr>
<td>Aden, Yemen</td>
<td>Democratic Republic of Congo</td>
</tr>
<tr>
<td><strong>Asia</strong></td>
<td><strong>Asia</strong></td>
</tr>
<tr>
<td>Kandla, India</td>
<td>Pakistan</td>
</tr>
<tr>
<td>Bataan, Philippines</td>
<td></td>
</tr>
<tr>
<td><strong>LAC</strong></td>
<td><strong>Other</strong></td>
</tr>
<tr>
<td>Zolic, Guatemala</td>
<td>Ukraine</td>
</tr>
<tr>
<td>Moin, Costa Rica</td>
<td>Moldova</td>
</tr>
<tr>
<td>Puerto Cortes, Honduras</td>
<td></td>
</tr>
<tr>
<td>Caragena, Colombia</td>
<td></td>
</tr>
<tr>
<td>San Bartolo, El Salvador</td>
<td></td>
</tr>
</tbody>
</table>
Why did they fail?
The Traditional Concept

Objectives
- Promotion of exports
- Promotion of FDI

Physical Characteristics/Development Approach
- Located as fenced-in enclave in remote areas—geographical de-limitation
- Public sector monopoly

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
Public sector development of zones

• Subsidized or over-designed facilities
• Poor locations away from business and urban centers (growth pole politics)
• Poor maintenance, services, promotion, and crowded facilities

Uncompetitive policies

• Rigid eligibility requirements
• Poor labor policies and labor relations, suppression of unions
• Competition on the basis of incentives rather than facilitation and services
• Zone authorities often non-autonomous, inflexible, and focus on regulation
• Poor backward/forward linkages with supplier companies and customers
• Continued high levels of administrative barriers
Issues With Traditional Concept

Lack of an integrated development approach

- No provision of off-site infrastructure
- Lack of public-private partnerships
- Poor zone designation and development criteria
- Mismatched regulatory authority capabilities and requirements
- Poor linkages with the national economy / low net exports

Bureaucratic procedures and controls

- Complex investment approval procedure
- Cumbersome customs procedures
- Excessive monitoring/reporting requirements

Inadequate institutional structure

- Too many agencies involved in regulation
- Lack of authority and funding in regulatory body
Trends Affecting Zones

**Industrial Trends**
- 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

**Policy Trends**
- Global integration through WTO
- Deepening of regional trade blocs
- Push for harmonization of tax incentives
- Push for harmonization of investment rules
- Liberalization of telecommunications and information technology sectors
- Crack-down on off-shore tax havens
- Trade and supply chain security
- End of the MFA
Today’s Investors need:
• Reduced cost of compliance
• Flexibility in terms of resource allocation (labor, capital, equipment, inputs, etc.)
• Global Supply & Logistics Chain Competitiveness, predicated on…
  – Input and Consumer Market Access
  – Scalable Economies
  – Access to cluster of vendors & market intermediaries
  – Rapid physical transfer of merchandise
• Competitive locational advantages, including reliable infrastructure, utilities, and multi-modal transportation links
• Productive, skilled labor
• To comply with customer Corporate Social Responsibility expectations

Today’s Governments need:
• To comply with the international, rules-based trade regime of the WTO
• To comply with ILO commitments
Many zones that have succeeded are characterized by some or all of the following features

- Streamlined legal and regulatory framework
- Public-private partnership approaches for zone development
  - Largely private sector-led; lead role for one developer
- Clear zone designation and development criteria
- Top-level, integrated support of government e.g. Jordan, UAE
- Competition on the basis of facilitation and services rather than incentives
- Zone authority is autonomous, flexible, and focused on regulation
- Regulatory authority capabilities are built-up
- Minimization of public expenditures by locating zones carefully/use existing facilities
Zone Development Approach
Emerging Concept for Success

Physical features
• Integrated, mixed-use, large-scale “mega zones”
• IT systems & networks
• Purpose-built facilities

Development Approach
• Public-private partnerships OR Private developer builds/owns/operates zones on cost-recovery basis

Policy Framework
• Special (“First World”) Regulatory Environment
• Multi-market, not just export
• Wide range of activities permitted
• Deregulation and demonopolization
• Streamlined procedures, automation
• Shift towards universal tax incentives / Low Tax Area
• Adherence to universal labor rights

Institutional Framework
• Zone authority regulates activities within just one zone
• One-stop shop for zone regime regulation
OBJECTIVES – An Example from Aqaba Jordan

THE AQABA OF TODAY AND TOMORROW

1 (Poor)  2 (Below average)  3 (Average)  4 (Good)  5 (Excellent)

Infrastructure

Quality of Life

Ease of Set-up

Factor Costs

Economic Base

Corporate Environment

Image

Labor Market

Today

Tomorrow
Zones as Catalysts

<table>
<thead>
<tr>
<th>South Korea</th>
<th>Kuwait</th>
<th>Jordan</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equal footing policies extended to firms in domestic customs area enhancing competitiveness</td>
<td>FTZ pilot for private infrastructure provision outside utilities</td>
<td>Automated customs systems piloted and implemented in the Aqaba SEZ prior to countrywide roll-out</td>
<td>SEZs have been the platforms to est most of the key reforms such as land, financial sector, labor…</td>
</tr>
<tr>
<td>Almost $200 million of local capital and intermediate goods purchased by zone firms per month</td>
<td>FTZ law liberalizes foreign ownership restrictions; later extended to countrywide FDI law</td>
<td>Aqaba SEZ implements on-line, simple business registration</td>
<td></td>
</tr>
<tr>
<td>Liberal FDI policies tested in free zones before extended countrywide</td>
<td></td>
<td>Aqaba SEZ customs forces merged with national customs to upgrade latter’s capabilities</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Jamaica</th>
<th>Panama</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduce high-speed satellite telecommunications, test regulation</td>
<td>Change the approach form a fast land deal with incentives to integrated development approach with a focus on liberal but compliant policies… that are affecting the other zones in a positive way…</td>
</tr>
<tr>
<td>Open up the possibility for new industries…talk to call centers in Kingston…</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Taiwan and Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilized zones to compensate for infrastructure deficiencies and introduce flexible policies targeting the electronics industry…</td>
</tr>
<tr>
<td>…</td>
</tr>
</tbody>
</table>
SEZ regulatory frameworks thus increasingly aim to...

- Offset regulatory operating constraints, streamlining and automating regulatory interface with Government, and test approaches to streamlining
- Deregulate markets (for product, utilities, transportation services)
- Adhere to universal labor and environmental norms
- Offer globally integrated trade regimes
  - All non-prohibited imports enter duty-and-tax-free
  - Uncapped duty-paid domestic sales
  - Treatment of domestic sales to zones as “constructive exports”
  - Defined duty-free consumption
- Are evolving towards large, integrated economic communities, integrating large areas with internal markets
  - Integrate broad economic activities and foster clusters
The New SEZ Framework

- Business Registration
- Investment Policy
- Tax and Incentives
- Trade Policy
- Investment Promotion
- Customs
- Banking & Foreign Exchange
- Labor & Immigration
- Tourism & Services

- ICT regulation
- Privatization
- Environment
- Transportation
- Utilities
- Property Development
- Land Use
- Security & Policing
- Municipal Services

SEZs need to cover these issues under both National and Local government policy.
STRATEGIC DIVISION OF ROLES
An Example from Aqaba Jordan

PEOPLE FOCUS

ASEZA
(Aqaba Special Economic Zone Authority)

SOCIO-ECONOMIC ENABLERS
ENABLING GOVERNMENT PROCESSES

REGULATORY RESPONSIBILITY

BUSINESS FOCUS

ADC
(Aqaba Development Company)

INFRASTRUCTURE ENABLERS
BUSINESS ENABLERS

DEVELOPMENT RESPONSIBILITY

ASEZA Planning
Clear Division of Institutional Roles: An Example from Aqaba Jordan

ASEZA’s Objective: Foster Economic and Social Development

**Public Good Role:**
- **REGULATION**
  - Regulation of Development
  - Public Health and Safety
  - Security and Immigration
  - Environment
  - Essential Services

**Invest and Develop Role:**
- **NON-COMMERCIAL**
  - Social Infrastructure
  - Public Amenities
  - Shared Services
  - Public Service Assets
  - Key Public Enablers

**COMMERCIAL**
- Land for Investors
- Outsourced Services
- Privatized Infrastructure
- Value Added Facilities
- Market Management

**ASEZA FUNCTIONS**
**ADC FUNCTIONS**

- **INFRASSTRUCTURE INCLUDES**
  - Ports, Airports, Water Companies, Developed and Undeveloped Land
  - Value:$2bn - $4bn
A new Zone Approach in Malaysia

• Rated among top three attractive economy in Asia in some of the key ratings of World Economic Forum
• On “Doing Business” ranking in 2005 Malaysia ranked lower than some economies rated lower then Malaysia in attractiveness of the economy
• Malaysian Gov. Committed to improve standing on Doing Business index in the coming years
• Objective is to increase the economy’s competitiveness and Attractiveness.
Malaysia on Doing Business Index

• Though Malaysia scored well on most criteria, it lost heavily on following criteria.

1. Starting a business
2. Dealing with licenses
3. Hiring and Firing
4. Registering Property
5. Enforcing contracts
6. Closing a business
Though Malaysia scored well on most criteria, it lost heavily on the following criteria:

1. Starting a business
2. Dealing with licenses
3. Hiring and Firing
4. Registering Property
5. Enforcing contracts
6. Closing a business

With 1 & 2 being the most critical, and this is also the subject that we address in this example.
Challenges: starting a business in Malaysia

27+ Agencies, Average 7/8 months for approval
Recognizing Need for Change

- Desire to stay competitive,
- Like all countries has political and cultural legacy impacting policies
- Agreed to use Port Klang Free Zone as a pilot for streamlining policies and processes.
- Commitment and involvement from the highest level
Using Zones as Pilots for policy streamlining

Growing Malaysian Economy

Business friendly environment, infrastructure, Govt. Policies and processes

Piloting new Ideas & sharing learning

Controlled Economic Zone Environment

Bureaucratic Processes Resisting change
Malaysia Line of Thought

- Ensure that the Free zone doesn’t stay just as a tax island, an isolated enclave
- Integrate into the national economy and use as a pilot for streamlining policies
- Clear ownership of a single agency (clear jurisdiction)
- Monitoring development & dynamic action
Biggest challenge was execution of policy and not the policy. I.e. to address the bureaucratic control on the approval process.

Key observations which hold governments departments from rationalising or delegating authority:
- Power & Authority
- Revenue & Earnings
- Responsibility & action (Maintenance National standards)

Initial Recommendations
- \textbf{Withhold power} through checks and audits.
- \textbf{Maintain Revenue} streams
- \textbf{Increase earnings} by \textbf{Reducing} admin \textbf{costs}
- \textbf{Delegate} time consuming administrative action and processes to private authority, with very clear guidelines and SOPs.
- \textbf{Improve standards} to International level

Enforce accountability
Malaysia Line of thought

• Validation of all FZ rules and processes as against the key processes of all 29 agencies being undertaken

• Based on agreed processes the FZ management has to validate all applications.

• Guaranteed time-bound approval on all validated cases by the respective government authorities

• Development on this initiative being reported to and monitored by PMs office

• Lessons learnt from the pilot to be used as inputs for country policy
Economic zones can also catalyze economy-wide reforms in the medium-term

**Traditional Benefits**

- Boost employment
- Increase and diversify exports
- Attract FDI
- Transfer technology and skills
- Stimulate local economy through linkages
- Streamline administrative and regulatory interfaces
- Pilot new economic policies

**Dynamic Benefits**

Catalyst for Scaling Up Reforms Nation-wide and Improving the Overall Investment Climate
A new economic zones strategy in Bangladesh

World Bank-led Multi-Donor Investment Project: Implementation Phase

Multi-Donor BICF Technical Assistance

FIAS/ SEDF Design Phase
Diagnostics & Strategy

- Policy benchmarking study
- Institutional assessment
- Infrastructure needs assessment
- Industrial land market study
- Study Tours
- Stakeholder workshop

Economic zones part of broader reform program committed to by Government and supported by multiple donors
- Develop new economic zones with modern planning practices
- Reform existing economic zones
- Regulatory reform unit with RIA capacities
- Reform of selected administrative barriers to investment
- Capacity building of key Government implementing agencies
- Integrated competition policy framework
- Institutionalized PPD mechanisms

A new economic zones strategy in Bangladesh

World Bank-led Multi-Donor Investment Project: Implementation Phase

Multi-Donor BICF Technical Assistance

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- Reform of selected administrative barriers to investment
- Capacity building of key Government implementing agencies
- Integrated competition policy framework
- Institutionalized PPD mechanisms
Philippines Economic Zones Authority (PEZA)

• PEZA – An IPA attached to the Philippine Department of Trade and Industry
• Established by a Special Act of Parliament in February 1995
• Government has played dual role: promotion and regulation
• First policy decision was to focus all efforts in encouraging private sector investments in SEZs, rather than establish more public SEZs.
• PEZA serves as a “One-Stop Shop”
• Reduced cost of business in PEZA = Improved Competitiveness of Cos.
• Under PEZA, Philippines has shown dramatic improvements in IC
• End Result – PEZA is a shining example of successful regulatory reform improving overall investment climate in the country
Key Emerging Lessons

- Zones are not a panacea to be used to solve all problems
- Zones are proliferating - they are not just located in the developing world
- Zones are evolving towards large, integrated economic communities
- Dynamic, successful zones tend to be private sector-developed/administered

Modern zones can be catalysts for wider national policy and economic reform

- **Yesterday:** China, Philippines, South Korea, Jordan, Kuwait, Malaysia, Costa Rica
- **Tomorrow:** India, Bangladesh…???
Q: How and where have zones served as catalysts for economic reform in developing countries and led the way in alleviating poverty?

Ans: Where zones were designed ex-ante to be prototypes/pilots for broad national reforms and committed to by government officials at the highest levels. Examples include:

Yesterday: China, Philippines, South Korea, Jordan, Kuwait, Malaysia, Costa Rica

Tomorrow: India, Bangladesh…???

Strong demand exists for PSD advice on how to best obtain Zone benefits, especially in South Asia and Africa
What could make these pilots successful

- Top Level Governmental support & Commitment
- Clear Legal and regulatory framework
- Focus on ultimate objectives
- Clear ownership and accountability
- Integrative and collaborative Zones with National economy
- True Public Private partnership
The following key Zone-related challenges remain vital questions to be answered to best serve the PSD Network’s clients:

- How can investment in zones not detract from economic reform but rather improve overall IC, and thus PSD?
- How can zones serve as catalysts of economic reform and have a demonstration effect, rather than serve as an enclave and a safety belt?
- How can zones maximize linkages between enterprises within and outside the zone to ensure high net exports and maximize value-added of activities within the zone?
- How can a zone be integrated into a local community from a physical planning perspective?
- How can a zone maximize economic benefits, such as transfer of skills, management know-how and technology to ensure the long-term competitiveness of the zone, and of the national economy?
- How can the private sector be best involved in zone development, promotion and management, through public-private partnerships, and thus maximize PSD impact?
What will attract maximal value-added activities?

How can linkages between enterprises within and outside the zone be maximized to ensure dynamic economic growth and high net exports?

How can zones be integrated into a local community from the economic activity and physical planning perspectives?

How can zones maximize transfer of skills, management know-how, and technology, to ensure the long-term competitiveness of the national economy?

Are zone policies liberal, open, and competitive, supportive of business, and thus “credible”? 
Why Are Zones relevant to the World Bank PSD Work?

- There are now simply too many zones to ignore
- The economic activity within zones has attained very significant levels
- Emerging findings from recent IFC research data is that Zones have demonstration effects on national economic policy reform
- There is a dearth of quality advice available to client governments on designing effective “best practice” zones and zone regimes
Phase I: Taking an idea to a strategic decision

- Project Identification
- Concept Refinement
- Feasibility, Strategic Decision
- Implementation Road Map
- Policy, Legal and Regulatory Environment

Phase II: Enhancing the SEZ, and securing the private partner

- Parallel Track 1: selecting and supporting the private partner
  - Advisor Procurement
  - Investor Marketing
  - Tender Documentation
  - The Tender
  - PPP Contract
  - Prerequisite to initiating tender

- Parallel Track 2: enhancing zone value
  - Pre-Tender Zone Enhancement
  - Ongoing Zone Enhancement

Phase III: Executing the partnership

- Zone Licensing and Permitting
- Zone Development Monitoring/Control

Policy, Legal and Regulatory Environment

Zone in Operation; Project Success!
A Role for Donor Involvement in Zone Development & Facilitation?

Design Phase
Diagnostics & Strategy

Investment Project

Technical Assistance

Phase I: Taking an idea to a strategic decision
- Policy, Legal and Regulatory Environment
- Pre-Tender Zone Enhancement

Phase II: Enhancing the SEZ, and securing the private partner
- Ongoing Zone Enhancement

Phase III: Executing the partnership
- Public Contract Commitments