

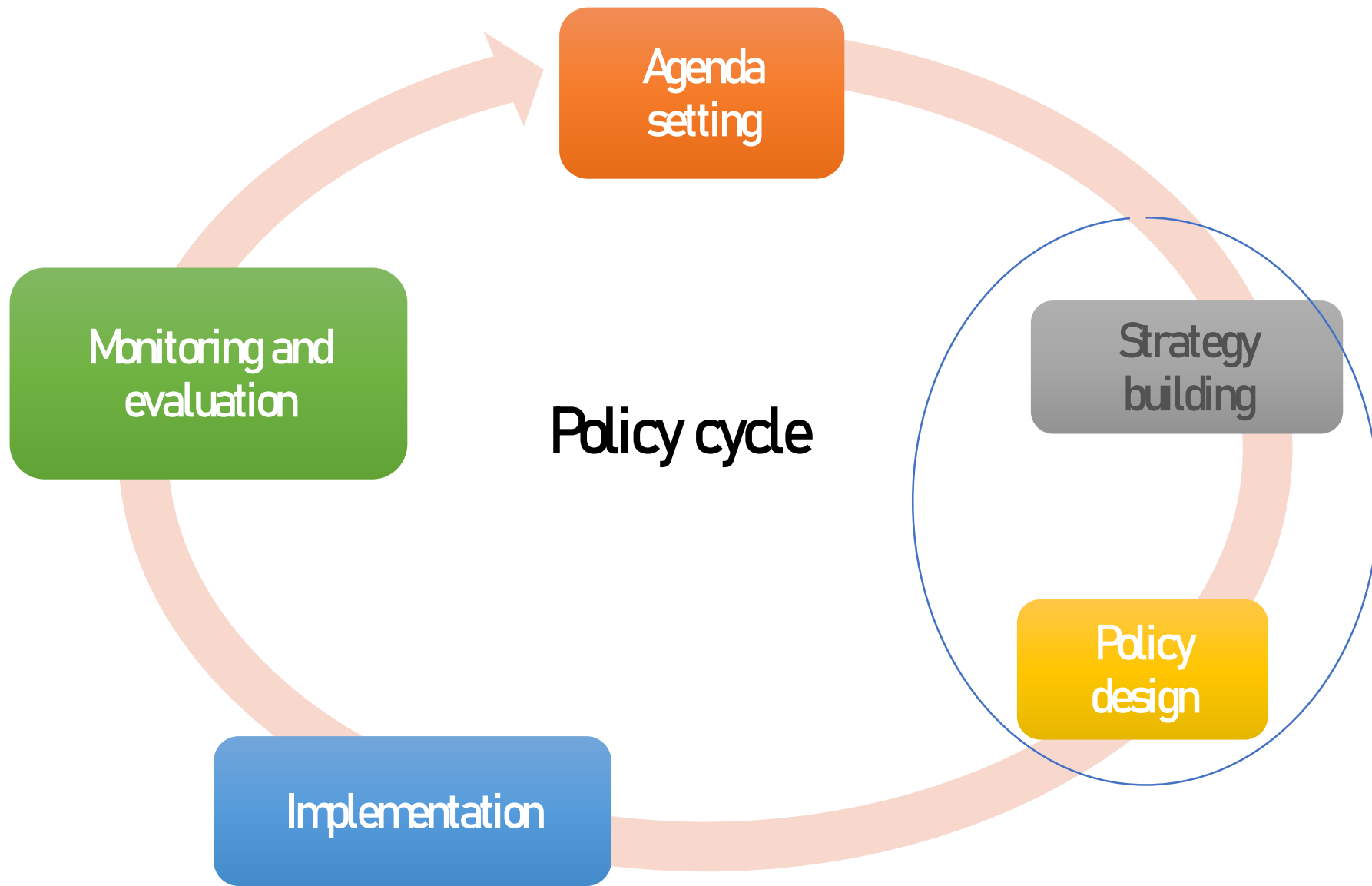
STRATEGY BUILDING AND POLICY DESIGN, FOR EFFECTIVE SEZS

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1. AGENDA SETTING

- Critical questions for the policy makers
 - What are the key development goals,
 - What is the key constraints to development,
 - Can the SEZs address these constraints?
(For instance, is the lack of FDI due to poor industrial infrastructure? Is it due to weak institutions (corruption, complex licensing systems, rule of the law, poor regulations)? Is it due to the geographical factors? Is it due to political fragility (Afghanistan)? Or, political isolation (North Korea)?
 - SEZs or even other industrial parks cannot be the panacea of all development ills.

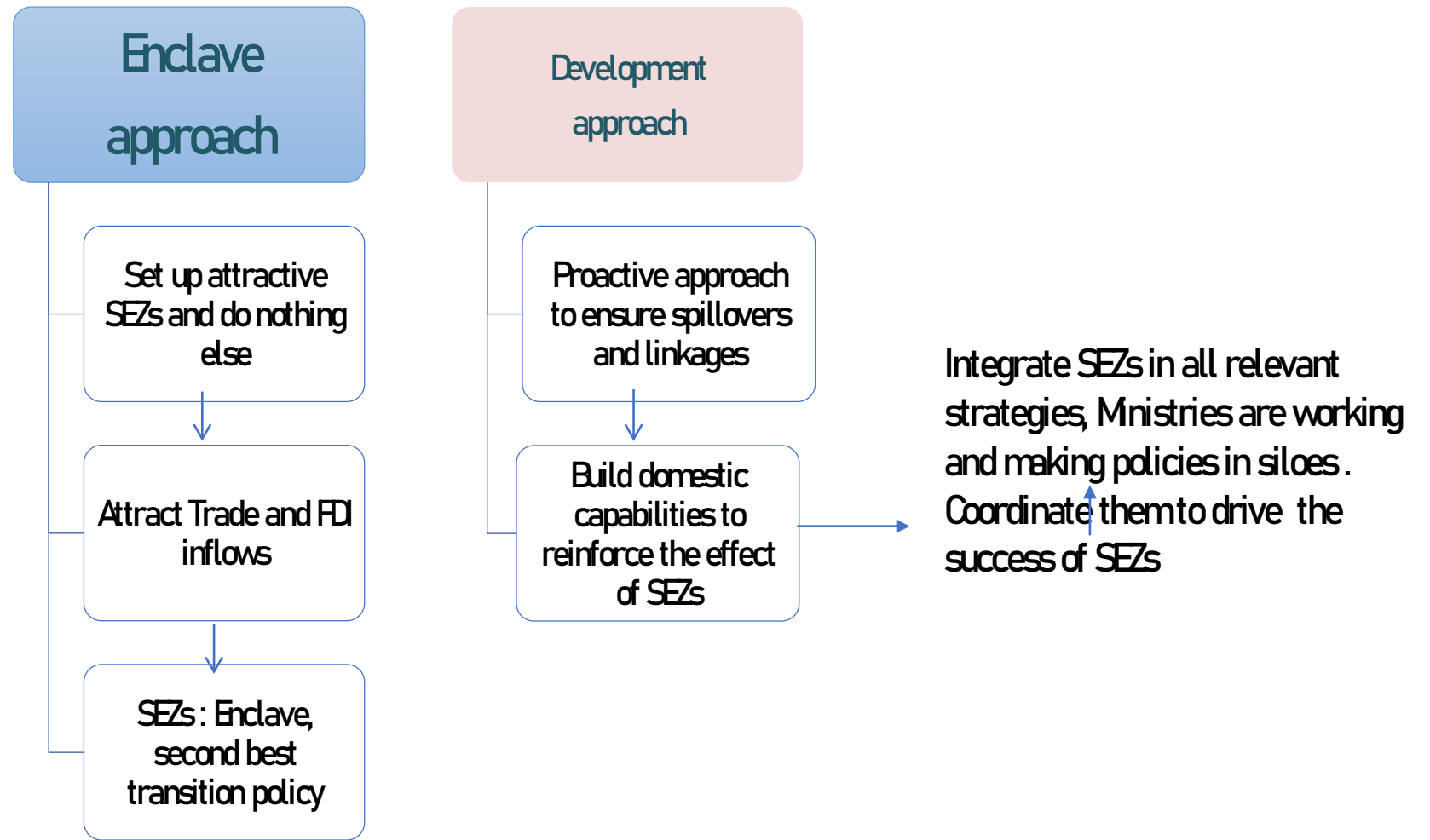
2. STRATEGY BUILDING

STRATEGIC APPROACH

- Key questions:
- What is the broader development strategy ?
- Within this development policy what is the role of trade and FDI ?
- (Examples: Is it just to promote foreign exchange to fund development strategy (most south Asian economies in the 1970s and 1980s)? Is it to promote employment (South Korea in the 1960s)? Is it to promote domestic industrialisation through technology (Most countries now focus on this). But this requires linkages with the domestic economy and the integration of SEZ investment broader development strategy (i.e. the priority sectors, priority activity...) (Bangladesh in 1980).
- SEZs need to be integrated into the broader development policy and strategic approach should be based on this requirement.

MOVE FROM ENCLAVE TO DEVELOPMENT APPROACH

This requires integration of SEZ strategy into development strategy



OBJECTIVES SHOULD BE FOCUSED AND NON COMPETING

- Tinbergen law: At least one policy tool for one objective. Multiple objectives assigned to a single tool can lead to competing priorities, a lack of focus, and an arbitrary incentive packages

• Measurable objectives within the national development strategy



STRATEGIC TARGETING

- Type of zone : Variety of SEZs.
- Targeting location: Two different approaches : China (State selection), India (Market selection)
- Targeting industries: Law of comparative advantage (labour, natural resources, skills, capital)
(diversified/sector focused?)
- Targeting anchors: Costa Rica, South Africa EL-IDZ

3. POLICY DESIGN

Legal framework

Institutional structure

Incentive structure

SEZ POLICY : A VERY COMPLEX PROCESS.

- SEZs: A contentious issue over their development impacts
- Cuts across
 - ministerial portfolios
 - different levels of government
 - different interest groups
- Good practices
 - identify the relevant stakeholders and honestly assess their capacities and resources.
 - Legitimise the policy by involving multiple organisations and stakeholders in policy consultations.
 - The decisions to be taken are....

LEGAL FRAMEWORK

- A well designed legal framework is not a pre-requisite for the SEZs. (China, EPZs of many countries including South Korea and India)
- But it is becoming a necessity due to complex landscape of economic policies in particular industrial parks and institutional structures (private SEZs, international laws..)
- SEZ act should be comprehensive with dispute settlement and penalties etc...
- Many countries support the SEZ act with a battery of other acts. Many others have SEZ rules to support the Act for finer details.
- Should be overriding and should have grand fathering clause.
- All domestic acts should have SEZ provisions

INSTITUTIONAL STRUCTURE (ADMINISTRATIVE ARRANGEMENT)

- SEZ regulator: Responsible for policy making.
 - The regulator is always the public sector. May have representation from the private sector.
- SEZ owners and or developers: Infrastructure developers and utility providers.
 - Can be the public or the private sector.
- SEZ managers: Those directly responsible for SEZs governance and rules making.
 - Can be the public or the private sector.

THE RELATIONS BETWEEN THEM DEPENDS ON OWNERSHIP

- Types of ownership arrangements
 - Public sector ownership (until the mid 1980s) (Including state-state SEZs)
 - Emergence of private SEZs (Mid 1980s) First in Latin America and then spread to other regions. (Fully private or PPP)
- Public ownership : normally the regulator, developers and managers all are public owned. But now new trend emerging with developer being a separate identity (normally public but also private company)
- Private ownership : These stakeholders vary
- Choice of a suitable model is contextual. Pros and cons for both.
- No systematic relationship seen between the ownership and performance.

• **REGULATORY BODY**

- The regulatory body (a vast variety of approaches)
 - Autonomous SEZ regulatory agencies (inter-ministerial) or corporations (Corporate sector based approach) (Sri Lanka, IEAT of Thailand)
 - Anchoring the regulator in the highest authority (Bangladesh Dominican Republic). It reflects the political commitment to SEZs
 - Departments based in specific ministries with or without inter-ministerial representation (China and India)

THE RELATIONSHIP BETWEEN REGULATORY BODEY AND OWNERS/DEVELOPERS/MANAGERS

- Power distribution
 - Regulatory powers
 - Administrative powers
 - Fiscal powers
- China has a highly decentralised system of SEZs through all dimensions of power distribution.
- In most countries only administrative powers given to SEZs. No regulatory or fiscal autonomy.

INCENTIVE STRUCTURE

ONE STOP SHOP TO BOTH DEVELOPERS AND INVESTORS

Governance of SEZs: It is not only about approvals but about setting up SEZs/units and operating in them

- Coordination between different layers of government agencies
- Coordination between different government ministries
- Coordination between regulator, developers and managers.

Good practices

- China: One stop shop, Incentive driven system
- The Philippines: Considered one of the best one stop shops
- Sri Lanka: Port City SEZ
- Ethiopia : Single window
- Dubai
- Bangladesh has OSS Act (however needs to be made more effective).

BUSINESS FACILITATION

- Minimal licensing requirements
- Streamlined custom procedures and trade facilitation (Bonded zones and FTZs of China not only special custom supervision areas but also logistics facilitation)
- Efficient dispute settlement mechanisms for SEZ investor
 - Recourse to binding international investment arbitration, or
 - Dedicated internal SEZ mechanisms for administrative reviews and other matters
- Penalties
 - Provisions of penalties in case of misuse of SEZ premise or non compliance with the rules

FISCAL AND NON-FISCAL BENEFITS

- Fiscal
 - Critical in the early stage
 - Design around the strategic objectives
 - Simple tax system (avoidance of mainland exemptions)
 - WTO compliant: There are possibilities
 - Flexibility (Taiwan of China and Korea)
 - Have a sunset clause
 - Effectively implemented
- Non fiscal
 - Relaxation in regulatory regimes based on the objectives (Moser Baer example in India)
 - Relaxations in Foreign exchange regimes and transactions (Overseas banking units)
 - Permission of giving investment services to tenants
 - Movement of natural persons

INFRASTRUCTURE

- Physical onsite infrastructure
 - Offsite infrastructure: fast track and efficient linkages/provisions
 - Social infrastructure provisions
 - Soft infrastructure : IT related and business services
 - Sector specific infrastructure
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- The plans need to be adequately backed by investments plans/programs for infrastructure to be implemented in a phased manner.

LABOR STANDARDS

- Decent employment
 - ILO norms for labour standards
 - Social auditing certification

Transparent foreign worker regime

- Unified multiple-entry Visa / Work Permit / Residency / ID / Social Security Card
- Visa facilitation (Visa-free temporary entry, Permanent residence visas)

Credible system for resolving employment disputes

Different practices

- Integrated inspection systems
 - Independent labor departments within the SEZs
 - Promoting a culture of compliance through self-assessment:
- Tripartite committees (Sri Lanka):
- Bangladesh's Labour associations

• **LABOR TRAINING AND SKILL DEVELOPMENT**

- Initiation with the help of authority (Penang Skill Development Corporation in Malaysia, India)
- Initiation by private developers (India)
- Initiation by companies
- CSR responsibility imposed by SEZ authority in exchange for concessions (India, China)

ENVIRONMENT

- *Environment standards*
 - No relaxation
 - Environment Assessment systems for SEZs, no such requirement for tenants (India, Vietnam)
 - Promotion of green SEZs (India and China)
 - Encouraging industry associations
- Fast-Track Environmental approval for Small Development Projects
- Clear environmental guidelines

LINKAGES

Lowering of barriers for backward linkages:

- local suppliers should be extended benefits as indirect exporters.
- No need for an export license for the sale of any goods and services to enterprises in a free zone or single factory zone
- Trade with domestic enterprise in local currency
- Subcontracting

Fostering forward linkages

- DTA not at full custom duty
- Duty only on imported components (India: Bad practice)
- Encouraging the formation of industry associations

THUS.....

- To unleash the potential of SEZs, policy-makers need to identify the relevant issues and adopt a systematic approach to address them
- A strategic approach is required to reap the existing and potential opportunities offered by SEZs.

THANK YOU