



# LECTURE 1

# UNDERSTANDING PAST, PRESENT AND FUTURE OF SEZs

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SHANGHAI, JULY 2023

# THE WORLD IS AWASH WITH SEZS

	1975	1986	1995	1997	2002	2006	2019
Nb. of counties with zones	29	47	73	93	116	130	147
Nb. of zones	79	176	500	845	3000	3500	5383 (507 planned/under Construction)

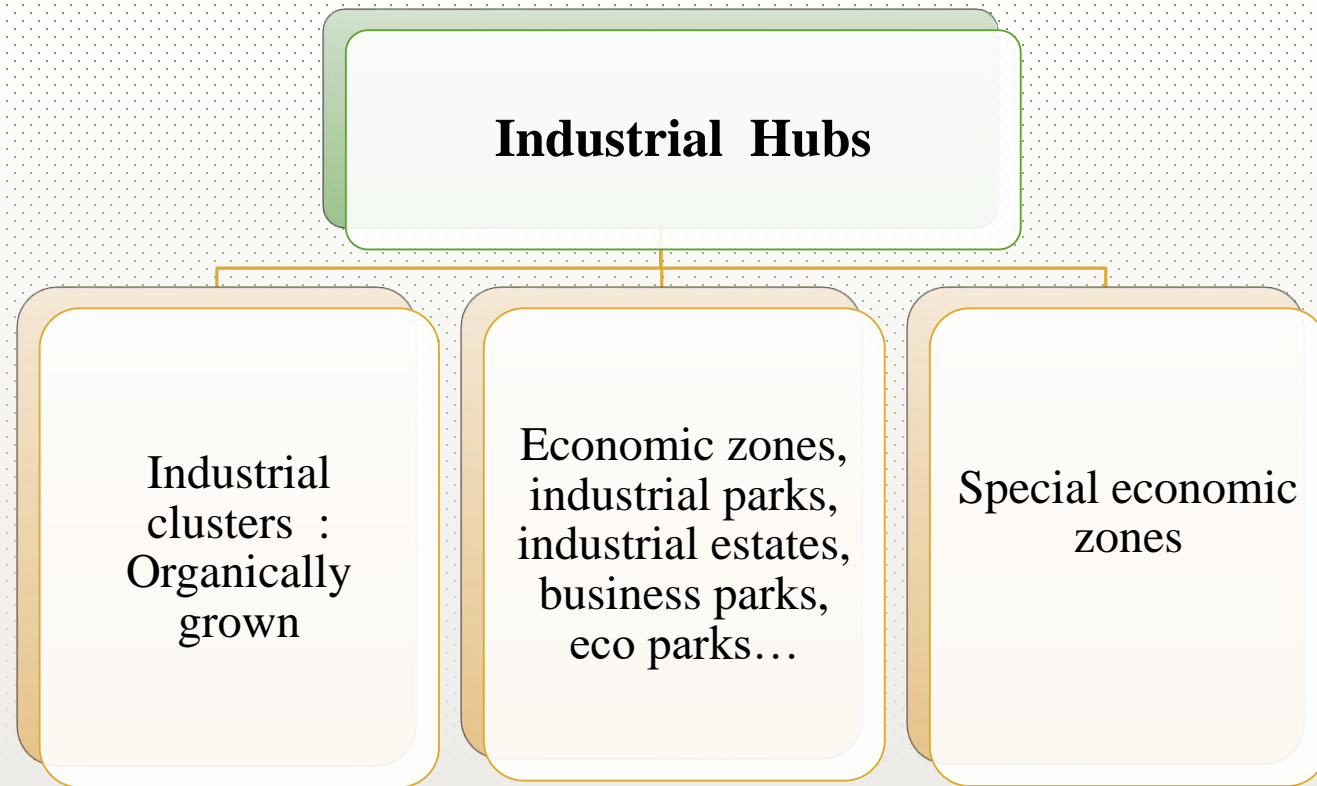
Developing countries: 4772; Asia: 4044; Major SEZ countries: USA China, India, Philippines, Thailand, Indonesia , now Bangladesh, Dominican Republic, Jamaica, Costa Rica



## THE QUESTIONS ADDRESSED HERE ARE

- What are SEZs?
- How have they evolved?
- What is the present status?
- What is the future?

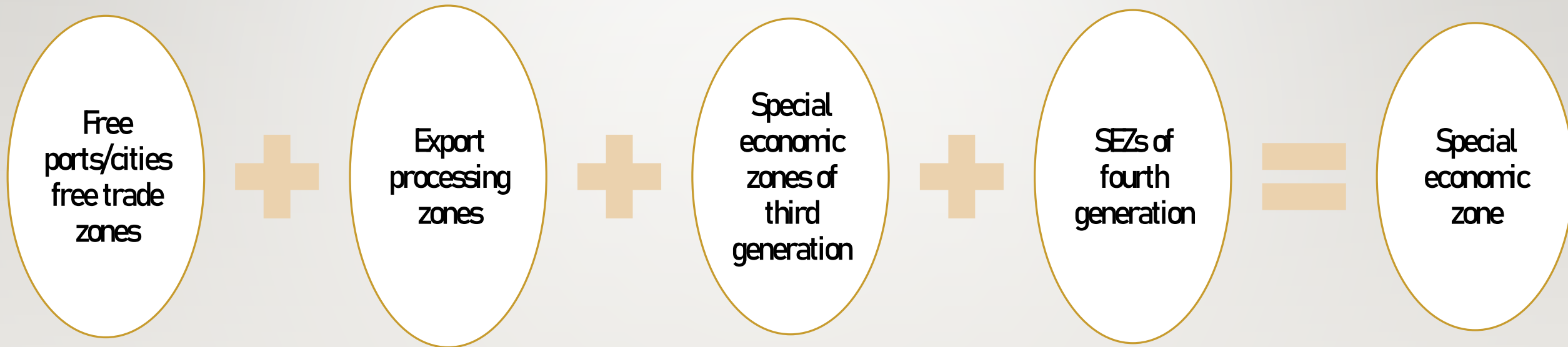
# THERE ARE DIFFERENT TYPES OF ECONOMIC ZONES,



# SEZS ARE POLICY INDUCED ECONOMIC ZONES THAT ARE DIFFERENT FROM GENERAL ECONOMIC ZONES.

- Special regulatory, custom incentives and legal regimes that are different from the rest of the economy.
- They are usually physically secured fenced-in areas
- Set up essentially for export oriented production.
- it has a separate customs area offering duty-free benefits and streamlined procedures FIAS, 2008.
- All economic zones can provide good infrastructure, utilities and single administration but the appeal of SEZs lies in their offering different regulatory regime.....

**BUT THERE IS NO SINGLE IDENTITY CALLED SEZS: SEZS ARE A COMPLEX MIX OF ZONES...**



# CHINA HAS THE MOST TYPES OF ZONES IN THE WORLD

Year	Total National Zones	SEZ	ETDZ	HTDZ	EPZ/Bonded Zone/Comprehensive bonded zones/logistics parks	BECZ	FTZ	Other National zones	Provincial Zones
1980	4	4							
1991	20	5	14	1					
2006	227	5	49	53	73	14		33	1346
2018	567	5	219	156	135	19	10	23	1991

Source : Yu Z. and Aggarwal A. (2020)

CHINA ALSO HAS 2 CROSS BORDER ZONES: WITH KAZAKHSTAN AND LAOS  
 CHINA HAS CROSS BORDER E-COMMERCE ZONES

# STAGE 1: THE EMERGENCE OF FREE TRADE PORTS AND CITIES

- One of the earliest documented cases of a free zone was the Island of Delos in the Mediterranean Sea declared by the Romans to punish Rhodes for not aiding them in the war. It destroyed Rhodes. Delos, on the other hand, flourished..
- Emergence of 'Hanseatic Cities' in the 12<sup>th</sup> century in North Europe for facilitating Transshipment trade:
  - Feudalism
  - Trade restrictions by feudal
  - Free ports and cities set up to overcome these barriers.
  - In free port zones: The transshipment trade is not subject to duties



# SPREAD OF FREE PORTS AND CITIES

Free ports and cities spread to

- Europe in the 16<sup>th</sup> century with rise of mercantilism to overcome high tariff barriers for transshipment trade
- Colonies of European powers with Geographical discoveries and discoveries of new sea routes by merchants

Fell out of favour with capitalism

- Shift from ports and cities to free trade zones in Europe
- USA has 262 foreign trade zones; EU mostly has free trade zones but Poland, Bulgaria and Lithuania also have industrial zones with SEZ advantages.



# FREE TRADE ZONES

- A specific area close to the port considered outside the custom territory for re-export/transshipment exports.
- Allows handling of goods to improve their packaging or marketable quality or to prepare them for shipment, such as breaking bulk, grouping of packages, sorting and grading, and repacking.
- Promote port development ( hub ports in hub and spoke model), income, employment and FDI.
- Free port, free trade zones, bonded warehousing, commercial ( duty free shops) , logistics zones
- Foreign trade zones in the USA, free trade zones such as Rotterdam in EU
- China has a large variety of such zones : Bonded zones, bonded logistics centers, port areas, integrated bonded areas, free trade zones, cross -border e-commerce zones, Cross-border free trade zone with Kazakhstan (retail)
- Jabel Ali in UAE is one of the most successful example of such zones in areas other than China.

# STAGE 2: THE EMERGENCE OF PROCESSING ZONES IN SPECIAL CIRCUMSTANCES IN DIFFERENT COUNTRIES

- Rise of industrial zones in Spain

1929 when great depression set in.

- Free zone of Barcelona, Cadiz, Vigo to promote competitiveness of exports
- Oldest processing zones



- [Illegible text] to promote new industries and non exporting industries to export.



It was in 1986 when Spain became a EU member that the industrial function was withdrawn.

# industrialization and employment.

- The operation boot Strap for industrialization
- The conceptualization of value chains by Arthur D. Little
- The zones came to support value chains to avail low labour cost.
- The entire island was the zone
- But later specific industrial estates also came up



# SHANNON ZONE 1958: TO MAKE USE OF THE AIRPORT WITH CHANGE IN TECHNOLOGY



- Ireland's Shannon airport was used as refueling stop for long route flights
- When long distance flights became possible, an industrial area created for light industries to generate employment at the airport to create employment.
- Light goods were produced and exported from the zone.
- Became instrumental in the knowledge of zones.

# MEXICO AS SINGLE UNIT EPZS: MAQUILADORA? TO GENERATE EMPLOYMENT IN MEXICO AND STOP THE FLOW OF MIGRANTS



- MEXICAN ASSEMBLY PLANTS ON THE US-MEXICAN BORDER.
- CREATED UNDER NATIONAL BORDER DEVELOPMENT PROGRAM (PRONAF)
- OWNED BY BIG US COMPANIES

# THE CONCEPT TRAVELLED TO ASIA: THE PUERTO RICO MODEL TO ADDRESS ANTI-EXPORT BIAS OF THE IMPORT SUBSTITUTING REGIME

- India was the first country which set up the SEZ to create industry inspired by Shannon SEZs
- But the first successful was Kaohsiung Taiwan (China) that patterned on the Puerto Rico design.
- First wave started in the late 1960s when India, Chinese Taipei, South Korea, Malaysia, Philippines, Indonesia, Latin American countries, Mauritius, Madagascar.
- This wave intensified in the 1980s when free trade rush started and several countries started setting up EPZs to promote FDI.

# STAGE 3: LARGE SEZS EMERGED IN CHINA WHICH CHANGED THE CONCEPT FOREVER

- Large open diversified SEZs spread across thousands of kms unleashed unprecedented growth process in the country triggering the golden rush for SEZs.
- Most countries to replicate the success of China adopted the SEZs.
- This led to a transition in the landscape of SEZs.
- SEZs becomes sector specific, High tech, and service oriented ( Finance, IT, Tourism), Agricultural and industrial SEZs of Philippines, Medical tourism SEZs of Philippines, Digital free trade of Malaysia, cross border e-commerce zones, Free ports and SEZs in the Philippines



## Stage 4: New Variety of zones

- Variety of zones proliferated
  - New Hybrid zones with distinction between SEZs and industrial estates becoming blurred.
  - Border economic zones
  - Cross border zones
- Developmental regionalism is a major driver of SEZs
- Economic corridors, Growth areas, regional subregions are some of the initiatives driving these zones.

# EVOLUTION OF SEZS BY OBJECTIVE

- from being trade-oriented (FTZs) to industrial development to economic transformation to urban development
- from being purely an economic tool to a social and political tool (Soft diplomacy):
  - US-Middle East Qualifying zones, EU-Jordan agreement, Chinese zones across countries, Pakistan's reconstruction zones,
- from carrying out structural reform within a country to international regional cooperation, and
  - Growth triangles, Growth areas Cross border and border zones.



- **By Ownership:**

- Public, private, PPP, Foreign government and Foreign companies

- **By activity**

- Trade to manufacturing to services,
- labour intensive to skill intensive to highly technology intensive,

- **Location**

- Near ports and airports to Near big cities to Highways to near GEZs to Borders to beyond national boundaries

- **Policy packages**

- Fiscal Incentives to infrastructure, administrative facilitation, real estate to comprehensive business facilitation



# FUTURE OF SEZS

- Mega global trends emerging which can affect the direction of SEZs,
  - Disruption in GVCs by a series of such events: Financial meltdown of 2008, global economic governance divide (US-China trade war), geo-political conflicts (such as Russia-Ukraine), and covid pandemic,
  - The industrial revolution 4.0 is expected to have far-reaching consequences for the configuration of GVCs
  - Growing protectionism due to internal dynamics due to rising inequalities and unemployment ...

## Contd.....

- Slow down in *GVCs* expansion with increasing reshoring and nearshoring,
- Shift from multilateralism to regionalism. This trend is further supported by growing regionalism and physical connectivity through economic corridors.
- Finally, the global agenda of mobilizing and channelising investment to realize the Sustainable Development Goals (SDGs) in response to climate change, rapid urbanisation, changing demographic dynamics, increasing inequality, and persistence of poverty,

# ONCE AGAIN NEW INNOVATIVE MODELS ARE REQUIRED TO DEAL WITH NEW EMERGING SITUATIONS....

- Shift away from multilateral cooperation towards regional and bilateral solutions including the promotion regional and cross border value chains through regional cooperation and integration.
- Digitally transform the SEZ operations and governance, and foster contributions to industrial upgrading and skills development.
- Considerable pressure on governments, private investors, and SEZs to ensure an alignment of investment and business activities with the SDGs. There is a growing need to adapt the existing SEZ models to align them with SDGs.
- Focus on creating capabilities and potentials within the economy through skilling, promoting entrepreneurship, and technology development.
- Industrialisation is affected by the overall macroeconomic contexts with or without SEZs.



THANK YOU