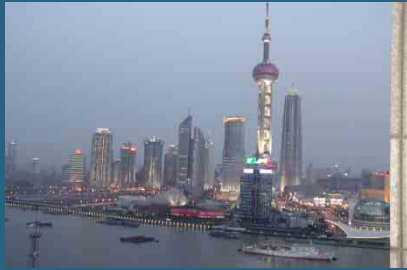


Special Economic Zones

Cambodia Aiming for Best Global Practice



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Relevance of SEZs to Private Sector Development

Some key questions to help understand the role of SEZs in PSD:

- Do zones distract from economic reform OR improve overall investment climate?
- Do zones absorb too much government technical and managerial expertise or become islands of excellence?
- Do zones maximize linkages between enterprises in the zone and outside to ensure high net exports and maximize value-added?
- How can zones maximize economic benefits, such as transfer of skills, management know-how and technology to ensure the long-term competitiveness of the zone?
- How best to involve the private sector in zone development, promotion and management?
- How to determine the right level of infrastructure investment within and outside a zone?

Economic zones can catalyze economy-wide reforms in the medium to long-term

Traditional Benefits

- Boost employment
- Increase and diversify exports
- Attract FDI/ retain domestic investment

Dynamic Benefits

- Transfer technology and skills
- Stimulate local economy through linkages
- Streamline administrative and regulatory interfaces
- Pilot new economic policies



Catalyst for scaling up reforms but no substitute
for wider investment climate reforms

Zones: jump-starting reforms around the world

South Korea

→ Tested liberal FDI policies in free zones before removal of restrictions nationwide

China

→ SEZs as platforms to test many reforms in land, tax, labor regulations, etc.

Mexico

→ Maquiladoras used as a step towards overall trade liberalization under NAFTA

Jordan

→ Customs automation piloted in Aqaba SEZ before roll-out
→ Automation of business registration in zones first

**Modern zones
as catalysts for
wider national
policy and economic
reform**

Taiwan

→ Liberal electronics policies led to sector take-off in economy

Jamaica

→ Telecom deregulation in Montego Bay Free Zone before countrywide telecom deregulation

Kuwait

→ Liberal foreign ownership policies tested in Kuwait FTZ and extended
→ PPI (outside utilities) first in zones



Traditional concept has not endured the test of time

Objective

- Promote exports

Physical Characteristics/Dev. Approach

- Fenced-in enclave
- Public sector monopoly

Policy Features

- Zone located in remote areas—enclaves
- 70-80% export requirement; oriented to FDI
- Duty-free inputs production only
- Manufacturing, neglected services, intermediaries
- Extreme view of extra-territoriality
- Tax incentives

Institutional Features

- Zone Authority own, operate, regulate the zone
- Zone funded by government; typically subsidized services & facilities
- Zone Authority exerts little power over other government bodies
- Most zones cater to manufacturers
- Logistics/services are not given importance



Issues With Traditional Concept

Public sector development of zones

- Subsidized or over-designed facilities
- Poor locations (growth pole, politics)
- Poor maintenance, services, promotion, crowded facilities

Uncompetitive policies

- Heavy reliance on incentives
- Rigid eligibility requirements
- Poor labor policies and labor relations
- Complex procedures
- Small market size

Lack of an integrated development approach

- Too many agencies involved in zone management and regulation
- Lack of public-private partnerships
- Poor backward/forward linkages

A new zone development approach

Emerging Concept

Physical features

- Integration, large-scale, mega zones
- IT systems & networks

Development Approach

- Public-private partnerships

Policy Framework

- Multi-market, not just export
- Wider range of activities permitted
- Mixed-use, not just manufacturing
- Deregulation and demonopolization
- Streamlined procedures, automation
- Shift towards universal tax incentives
- Adherence to universal labor rights

Institutional Framework

- Zone authority regulates activities only within zone
- Private developer builds/owns/operates zones on cost-recovery basis
- One-stop shop
- Zone enterprise designation extended to service intermediaries



Best Practice – Dubai

Jebel Ali Free Zone (JAFZ)

- JAFZ was formed with the full support of the Dubai Government
- Integrated Development Approach emphasized
- Strong private-public partnership, with clear roles for each
- Comprehensive and liberal regulatory framework, along with one-stop shops
- First rate incentives regime, along with flexible labor environment
- Infrastructure and superstructure was subsidised until FZ was self-funding
- Initial Government support greatly assisted JAFZA in achieving commercial credibility
- Government commitment enabled JAFZA to avoid speculators looking for short-term ROI
- End Result: Government support allowed JAFZA to focus on its long-term strategic goal of economic diversification

Best Practice - Philippines

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 Companies.
- Under PEZA, Philippines has shown dramatic improvements in investment climate.
- End Result – PEZA is a shining example of successful regulatory reform improving overall investment climate in the country