

CIIP

Competitive Industries and Innovation Program

Improving competitiveness and innovation in developing countries' industries

Special Economic Zones

Impact and
Vulnerabilities



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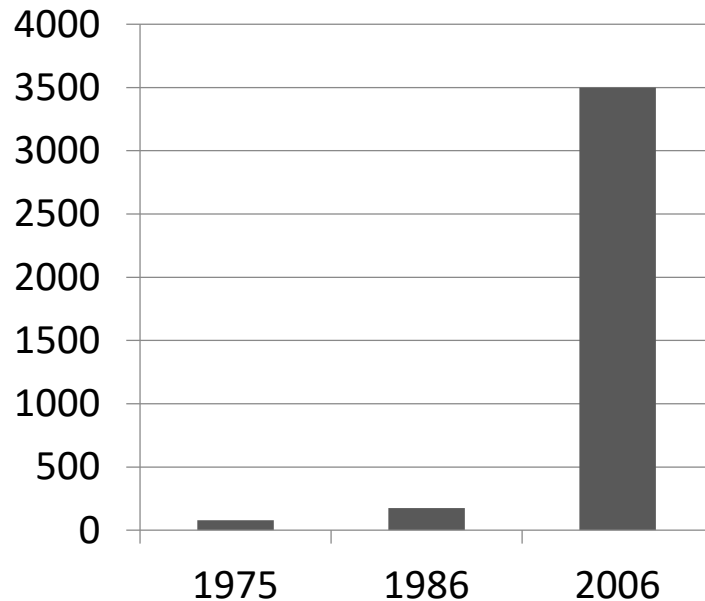
Definitions of Special Economic Zones

DEFINITION:

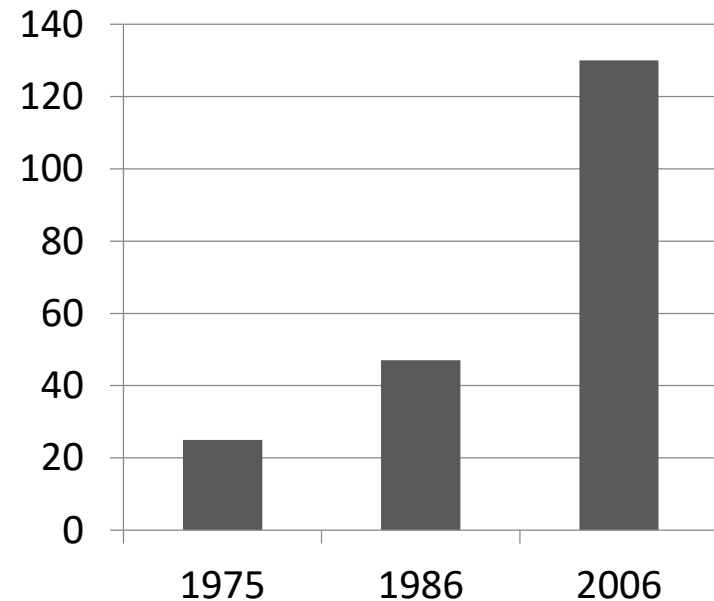
- For the purpose of the empirical analysis, the definition of SEZs:
 - Includes - Traditional and Hybrid EPZs, Freeport/ SEZ, and Enterprise Zones
 - Does not include – Free Trade Zones, Free Enterprises, Technological and Science Parks

The popularity of SEZs has boomed since the 90s

**Number of Special
Economic Zones**
World

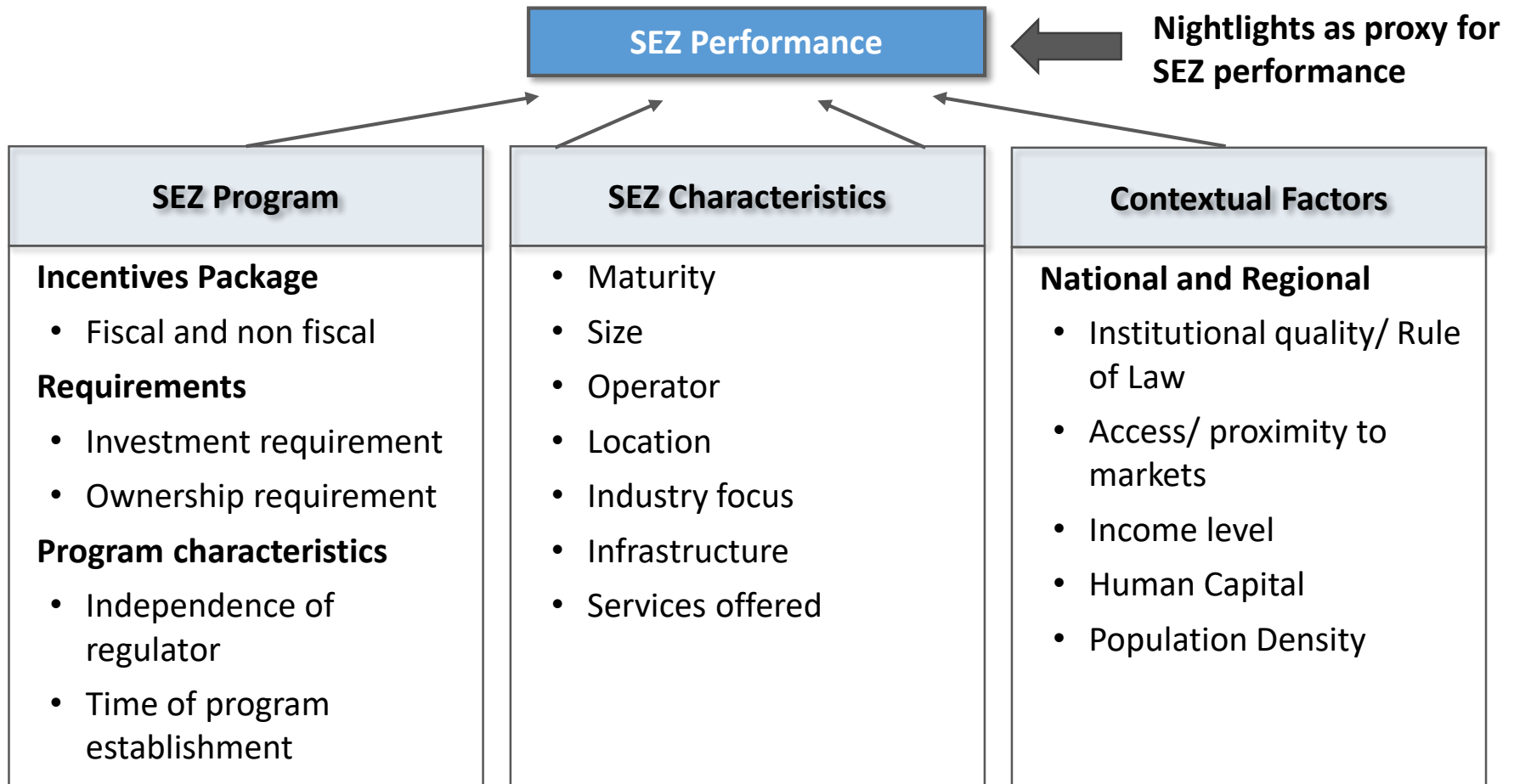


**Number of Countries with
Special Economic Zones**
World



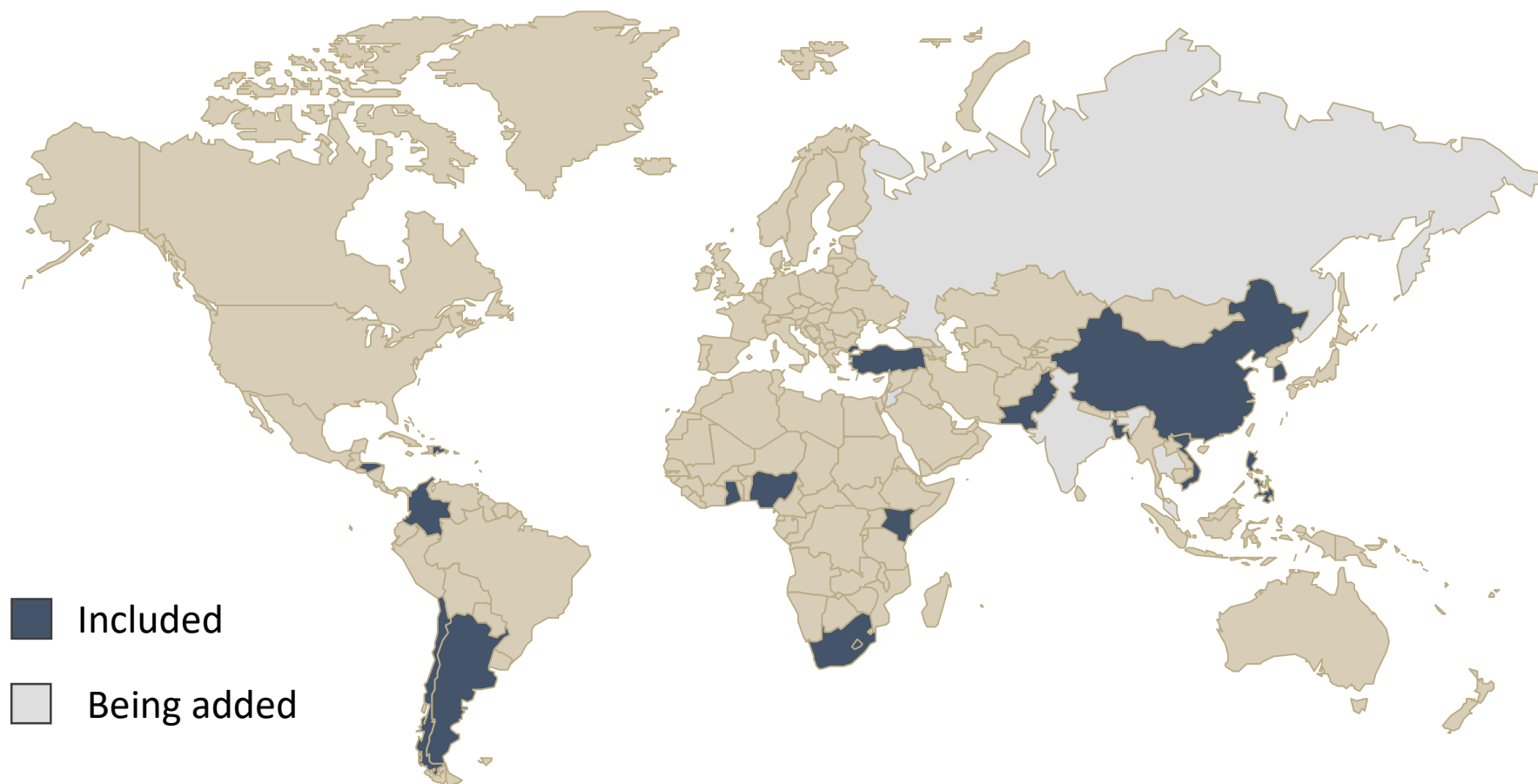
Source: FIAS (2007)

The conceptual framework



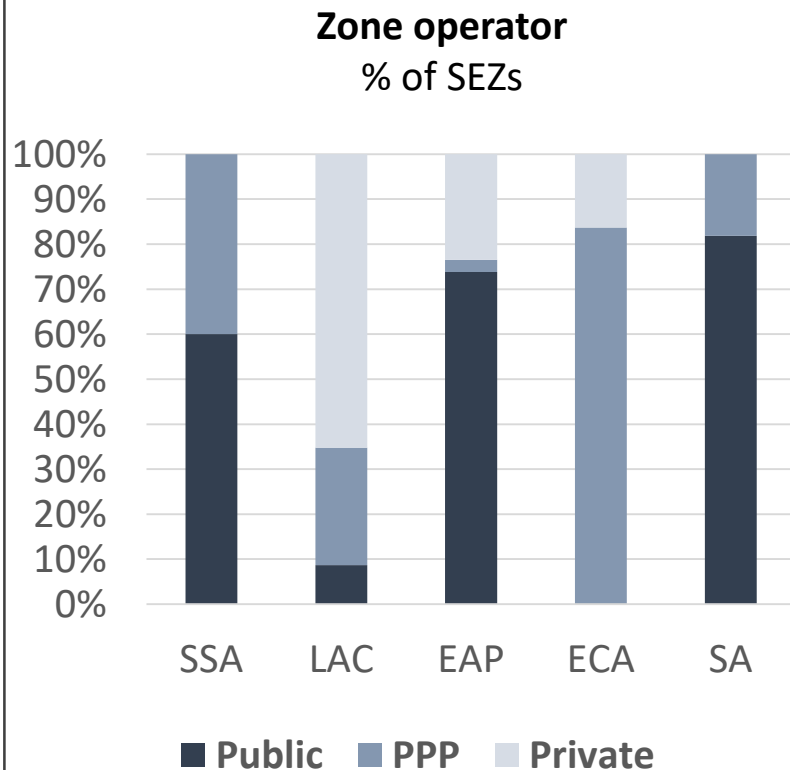
Collecting through desk research, emails and follow up phone calls

237 SEZs in 17 countries – 5 more countries are to be added

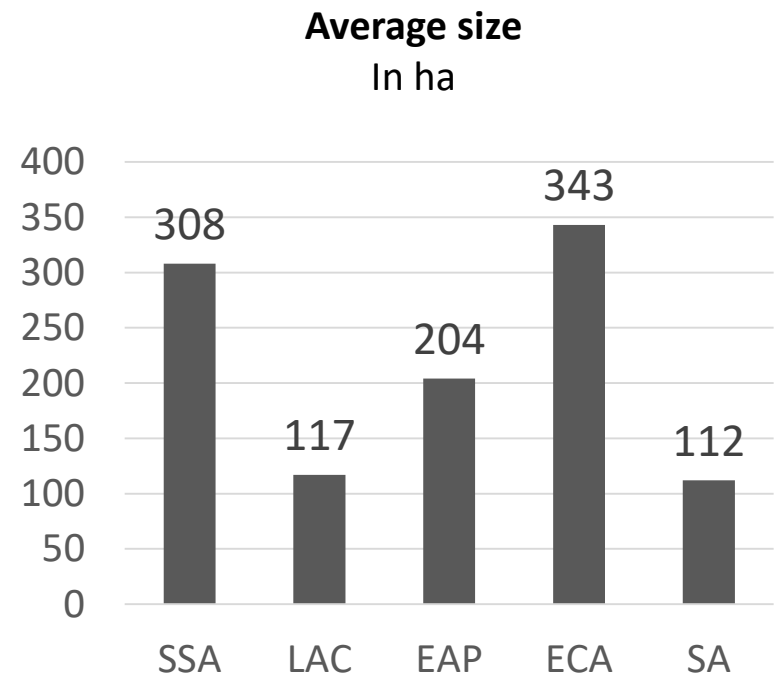


Findings from the data base

Private SEZs are most common in LAC, while public involvement is higher in Asia & SSA



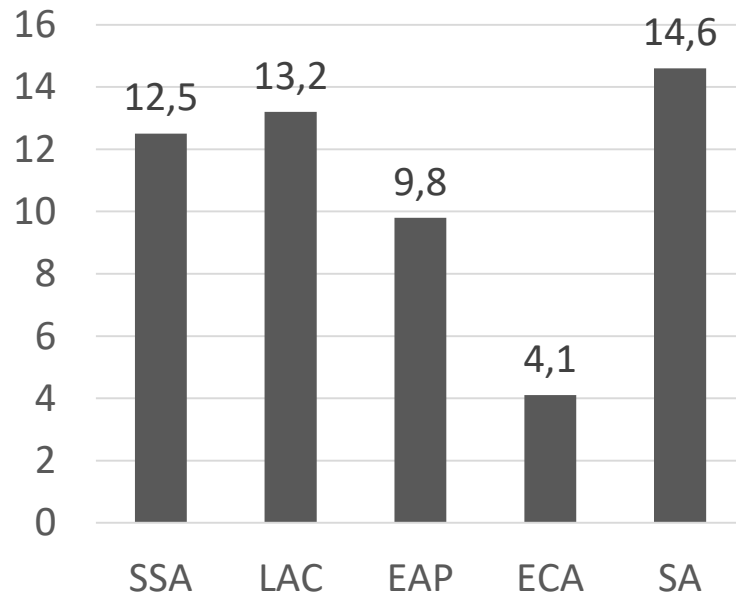
SEZs are largest in SSA and ECA



Findings from the data base

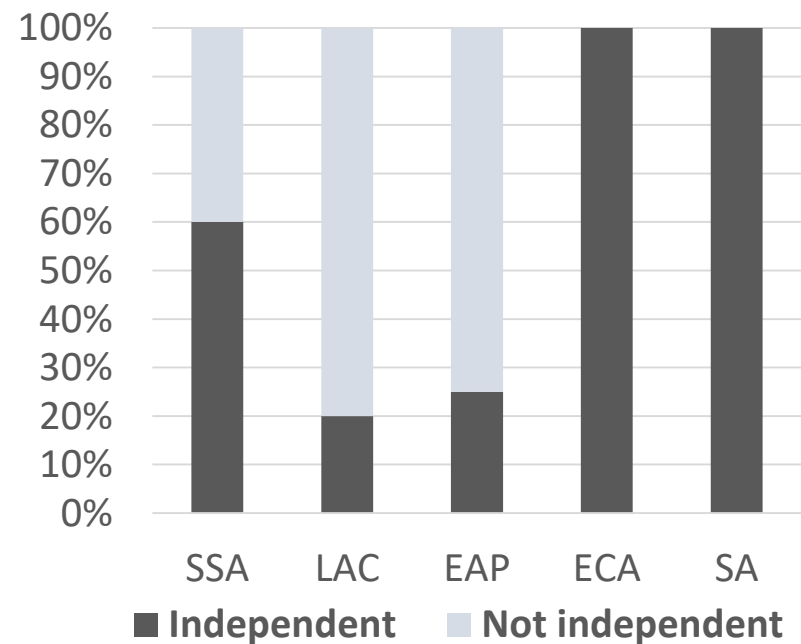
Corporate tax exemptions are most generous in SSA, LAC and South Asia

Corporate tax exemption
Average number of years with 100% exemption



Independent regulators exist across all regions, but are less frequent in SSA, LAC & EAP

Independence of zone regulator
% of countries



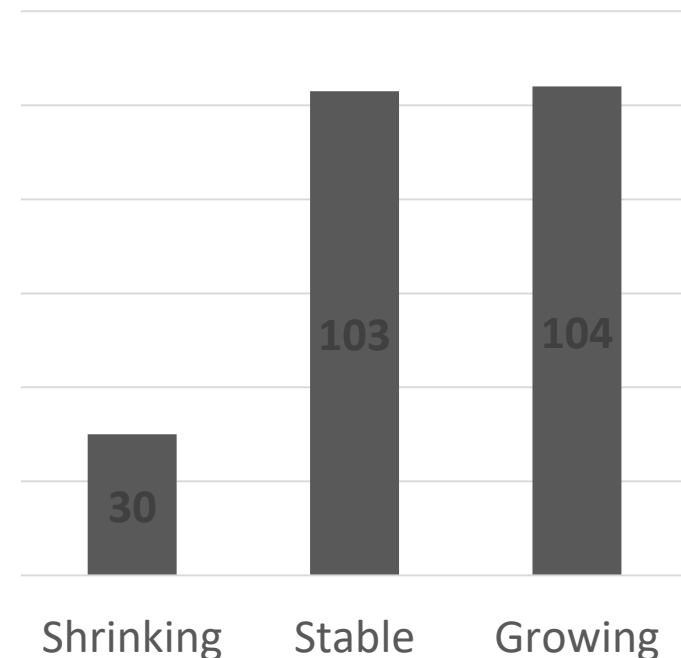
SEZ grew on average by 9.9%, but there is a large variability in SEZ performance across zones

SEZ performance 2007 – 2012:

Average growth of 9.9% across SEZs, **but** median growth of only 2.4% and standard deviation of 21% suggest large spread in performance

SEZ performance 2007 - 2012

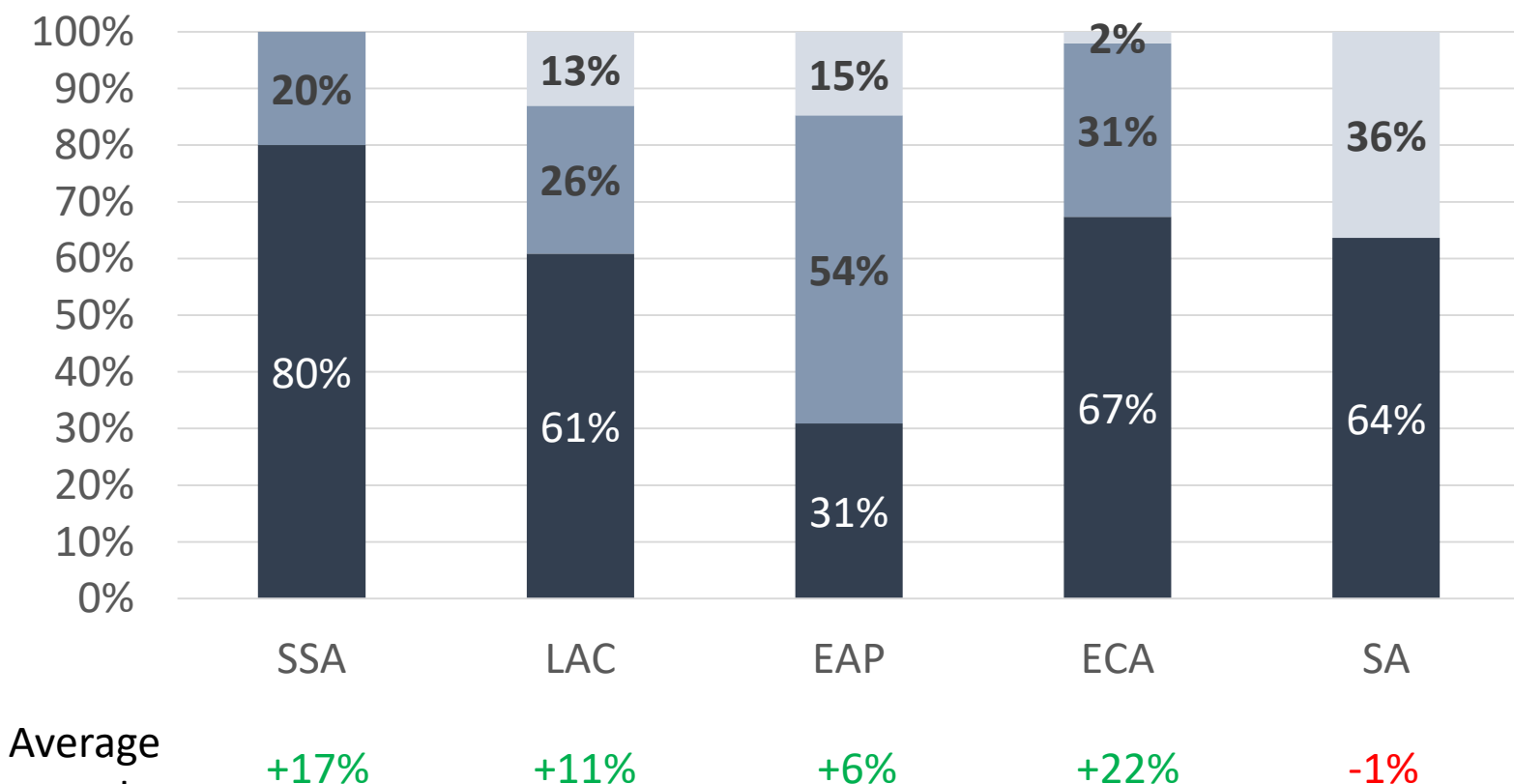
Number of SEZs



Strongest growth in SSA and ECA, but performing and non-performing zones can be found in all regions

SEZ Performance by region

■ Growing ■ Stable ■ Shrinking



Few program and SEZ characteristics are systematically correlated with SEZ performance

SEZ program		SEZ characteristics		Contextual factors	
Subsidized utilities	↑	Years in operation	↓	Proximity to large markets	↑
Corporate tax exemption in wealthier regions	↑	Focus on high-tech	↓	Pre-existing industrial base	↑
Differentiated labour regulations	▬	Type of operator	▬	Regional GDP per capita	↓
National one-stop-shop	▬	Size	▬	Regional educational level	▬
Foreign ownership requirement	▬	Distance Port	▬	Control of corruption	▬
Minimum Investment Requirement	▬	Distance largest city	▬	Regional population density	▬
Independence of zone regulator	▬	One-stop-shop onsite	▬		
Time policy introduced	▬	Power sub-station onsite	▬		



Positive impact



Negative impact

▬ No correlation

Findings from the analytical work

- SEZ performance is highly context dependent – zone and program characteristics that may work in one context, may not in others. There are still some common themes:
- Contextual factors play a major role
 - Investors are looking for cheap locations
 - With proximity to large markets and ideally a proven track record of industrial production
- Zone specific
 - Growth is difficult to sustain over time → SEZ programs can help to make an economy more dynamic in the short/ mid-term.
 - Upgrading the technological component or value-added through SEZs is challenging
- Program specific
 - Utility subsidies most incisive part of incentive packages.
 - Corporate tax breaks only seems to make a difference in more developed countries.

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Thank You



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