

# SEZ: Performance and Economic Impact

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# Key messages

- Different approaches can be adopted for different policy objectives
- Linkage to development strategy is crucial for broader impact
- SEZs can help expand exports and investments but performance varies across countries
- To be combined with urban development, clusters and RCI efforts

# Definition



clearly defined geographically

single management or  
administration

liberal and streamlined business  
procedures

# Types of SEZs: By Modality

Economy	By Modality		
	Private (%)	Public (%)	Total (no. of zones)
Bangladesh	11	89	8*
Cambodia	100	0	14*
PRC	12	88	1515*
Myanmar	—	—	3*
Kazakhstan	0	100	10
India	74	26	615*
Malaysia	23	77	530
Pakistan	0	100	7*
Philippines	92	8	460*
Republic of Korea	10	90	102
Sri Lanka	6	94	14
Thailand	84	16	110
Viet Nam	89	11	411

\* with PPP component

# Evolution of SEZs

➔ *Second best and temporary distortionary measure*

## First Stage

- Import substitution
  - Job creation
    - Foreign exchange earnings
- (BAN, CAM)

## Second Stage

- Technological spillover
  - Demonstration effect
    - Domestic industrial development
- (MAL, THA)

## Third Stage

- Test bed for structural reforms
  - Agglomeration economies
    - Growth pole for development
- (PRC, KOR, TAP)

# Economic Impact of SEZs

## **National level**

- Presence of an EPZ increases per capita income by 0.9 percent annually based on endogenous growth model using annual country data for 87 countries for the period of 1961-1999 (Tyler and Negrete, 2009)

## **City/municipal level**

- SEZs affect not only levels but also trends in FDI, TFP growth and wages. Most FDI attracted by the SEZs is new activity rather than simple relocation from non-SEZ areas in PRC (Wang, 2013)

## **Firm level**

- PRC's zone program has a large and positive effect on newly entered firms and relocated Firms. Firms in capital-intensive sectors benefit more than those in labor-intensive sectors (Lu, Wang, Zhu, 2015).

# Economic Impact of SEZs: Exports

Gravity Model: 
$$\ln X_{ijt} = \beta_0 + \sum_{i=1}^N \delta_i F_{it} + \sum_{j=1}^M \delta_j F_{jt} + \sum_{i=1}^N \sum_{j=1}^M \beta_{ij} \tau_{ijt} + \rho SEZ_{it} + v$$

## Impact on Exports

	SEZ Existence	No. of SEZs	SEZ Law	SEZ Authority
Asia	0.03	0.11**	0.40**	0.27**
Africa	-0.40**		-0.43**	-0.49**
EU	0.34**		0.16**	0.11**
Latin America	-0.41**		-0.08	0.79**
Middle East	0.06		0.37**	-0.08
<b>World</b>	<b>-0.08**</b>			

# Economic Impact of SEZs: FDI

GMM Model:

$$\ln fdi_{t,i} = \beta_0 + \beta_1 \ln fdi_{t-h,i} + \beta_2 X_t + \beta_3 Y_{t,i} + u_i + v_{t,i}$$

## Impact on FDI

	Without Time dummy	With Time dummy
World	0.89***	0.29
Developing Asia	1.86**	0.82*
Africa	0.47*	0.21
Developing Europe	0.25	-0.03
Latin America	1.25**	0.46
Middle East	1.24**	0.61



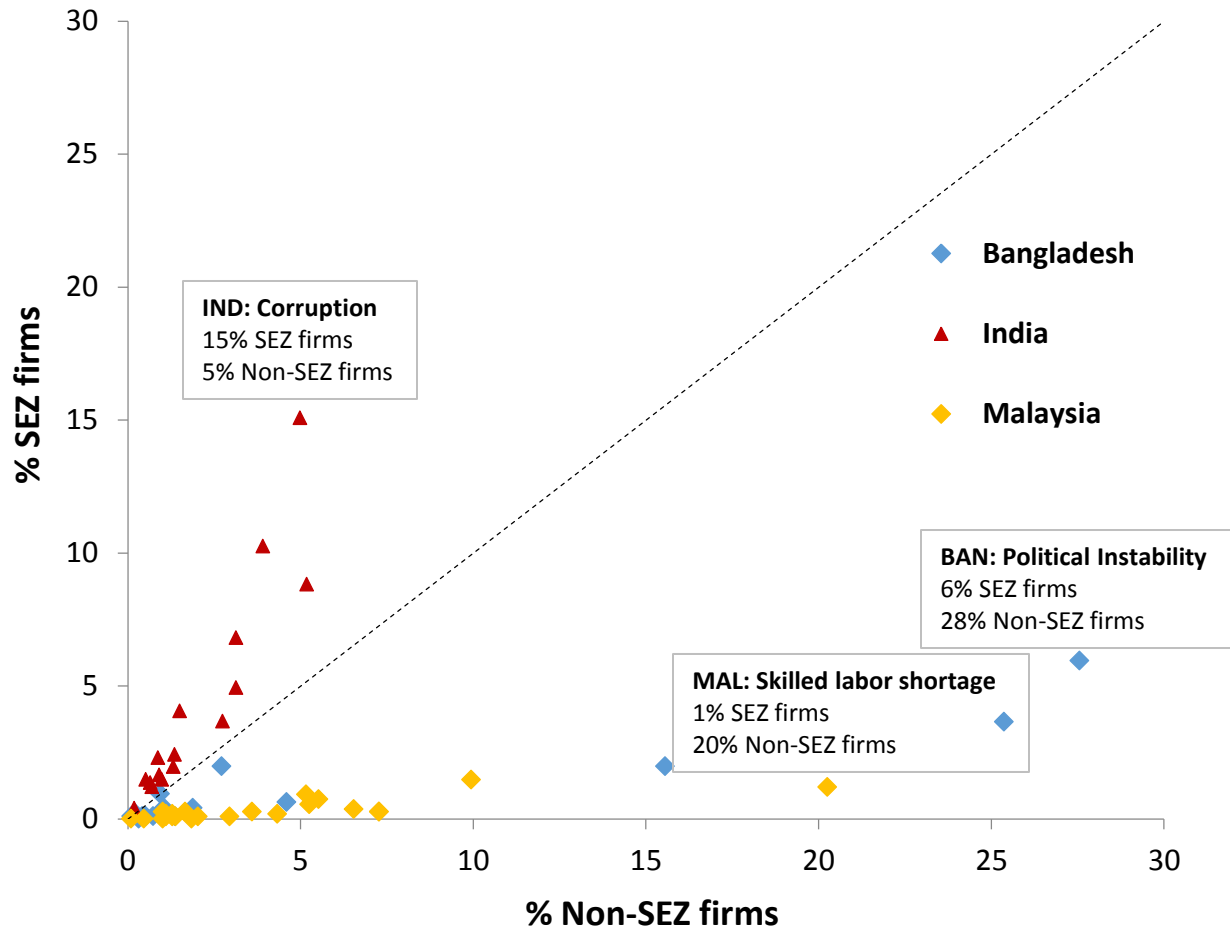
# Nevertheless, impact varies across countries

	<b>Exports (% national)</b>	<b>FDI / Investment (% national)</b>	<b>Employment (% national)</b>
Bangladesh	17.4 (2013)	22.0 (2009)	0.6 (2013)
India	26.2 (2014)	2.3 (2012)	4.2 (2014)
PRC	43.9 (2012)	48.9 (2012)	6.3 (2012)
Philippines	73.7 (2011)	14.5 (2011)	2.3 (2011)
Kyrgyz Republic	14.0 (2012)	14.0 (2012)	0.2 (2012)
Viet Nam	32.0 (2010)*	49.0 (2014)	4.1 (2014)

\* Industrial output

# Main Obstacles in Business

(% of firm respondents)



# Success and failure factors

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## Success factors

Fiscal and non-fiscal incentives

Factor costs

Strategic location, multimodal connectivity

Institutional capacity

State and local governments' commitment and policy stance

## Failure factors

Ambitious goals relative to country's comparative advantage

Zones as industrial islands (physical enclaves)

Governance and rent seeking

Wrong positioning

Lack of localized strategy for upgrading industrial value chain and creating technology spillovers

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Link with development strategy and industrial policy

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Backward and forward linkages with domestic economy

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# Looking ahead

- The popularity of SEZs still remains strong under changing environment (growth of services, knowledge economy)
- Urban development and smart cities will increasingly become integral part of future zones
- Approach should be tailored to country's economic and developmental context
- Linkage to development strategy and institutions are crucial factors

Thank you