

Special Economic Zones

China's Experience and Lessons Learned

Special Economic Zones (SEZs) have been established in many countries as a mechanism for attracting foreign direct investment, accelerating industrialization and creating jobs. Not all SEZs have been successful, and a review of experience indicates factors that contribute to success.

China has successfully leveraged SEZs for economic transformation. Initially SEZs were used to experiment with market-oriented economic reforms and build experience, before reforms were implemented more widely. Now, a wide range of SEZs have been established to take advantage of local conditions. These encompass large, national zones (whose objective is to foster broad-

SEZs have made significant contributions to China's economic progress.

based, comprehensive economic development), high tech industrial development zones, free trade zones, and export processing zones, as well

as others at both national and regional level. Although there is no single model, all successful Chinese SEZs are supported by conducive government policy and commitments.

SEZs have made significant contributions to China's economic progress. In recent years, it is estimated that they have accounted for 22% of national GDP, 46% of FDI, 60% of exports, and generated in excess of 30 million jobs. In some regions, industrial parks account of as much as 80-90% of GDP growth. National level industrial parks (especially agro-tech parks and agricultural demonstration zones) make a demonstrable contribution to farmers' incomes. On average, agricultural incomes within these parks are over 30% higher than incomes in surrounding villages.

SEZs and industrial parks have also spurred technology and innovation. Overall in China, the contribution of technological development in agriculture stands at 55.2%, while industrial park-based contribution rates reach roughly 70%, nearly the average level for developed nations. China's overall technology commercialization rate is only about 10%, but industrial parks in China boast a commercialization rate of over 60%.

Several African countries have launched SEZs since the 1970s, but to date they have not matched China's

THE CHINA EXPERIENCE WITH SEZS

SUCCESSFUL SYSTEM EXPERIMENTATION:

SEZs allowed for experimentation.

THE POWER OF REFORM:

institutional reforms within the SEZs promoted synergy between a host of domestic and international factors, accelerated growth, and most importantly served as a model for emulation and replication.

DRIVING NATIONAL DEVELOPMENT:

the SEZ model powered development for the national economy and society at large.

INCREASED OPENNESS:

the establishment of SEZs offered a vehicle and platform for the entry of capital, technology, and talent from around the world.

RESOURCE CLUSTERING:

SEZs boosted research and development in new technologies and powered the development of industrial sectors.

Continued on back...

FEATURES OF SUCCESSFUL SEZS

- Geographically delimited area.
- Single management or administrative structure.
- Sound physical infrastructure.
- Separate and efficient customs provisions.
- Streamlined 'doing business' procedures.
- Technology learning, innovation and upgrading.
- Clear goals, vigorous benchmarking and competition.
- Strong vision and commitment from political and managerial leadership.
- Experimental approach, building on success.
- Pragmatism, flexibility, autonomy and efficiency of local government/zone management.
- Incentives and lack of political interference.
- Attractive to FDI and diaspora.
- Strong linkages with domestic economy.

Continued from page 1

successful experience, frequently because the requisite combination of factors is lacking. Based on China's experience, key actions include:

- Identify the needs of both the host

country and the investor and design SEZs that can be replicated.

- Understand the local conditions and comparative advantages.
- Institute and implement conducive policies for industry, finance, talent

and taxes.

- Formulate SEZs that facilitate local entry and integrate primary, secondary, and tertiary industries.

- Establish dialogue and cooperation mechanisms between SEZs and Government, build and extend industrial value chains, and integrate research and development.

- Develop and implement management and operational structures that incorporate best practices and exploit local and investor strengths.

- Require SEZs to be internationally and locally competitive and avoid proliferation of non-viable zones.

- Ensure compliance with strong environmental standards and encourage use of green technologies.

- Focus on provision of social services and benefits as well as industrial development.

SEZs are not a panacea, and must be properly planned, managed and operated to be successful.

REQUIREMENTS FOR SUCCESSFUL SEZS IN AFRICA

Legal, Regulatory and Institutional Framework:

Establishment and consistent adherence to appropriate overarching framework.

Business Environment: Streamlined procedures for registration, licensing, trade logistics and customs clearance to reduce costs of doing business.

Strategic Planning and Demand Driven Approach:

SEZs driven by strong business interests and integrated into national development plans.

Infrastructure: Good, reliable and affordable transport, energy, water, and telecoms services.

Zone Management and Operations: Understanding of how successful SEZs are managed and operated by Government and private sector.

Ownership and Policy Consistency: Strong, consistent and long-term Government ownership.

Compensation and Resettlement: Quick and effective resolution of claims due to land acquisition or resettlement.