Special Economic Zone: Facts, Roles, and Opportunities of Investment

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Abstract—This paper presents an in depth review of Special Economic Zone (SEZ) all over the world. This can be summarized that an establishment of SEZ aims to enhance the prosperity of the country. There are several forms or types of SEZ depend on the establishing objectives, infrastructure of the country, country’s politics, and geographical location. Six types of Special Economic Zone — Free Trade Zone, Export Processing Zone, Enterprise Zone, Single Factory, Free Ports, and Specialized Zone — associated with their characteristics are presented here. It also presents the insights of three leading nations in managing SEZ which include; 1) the United States of America, the pioneer of SEZ, 2) Shenzhen city of China, the most successful model of SEZ, and 3) India, the largest SEZ in the world. Those nations do not merely invest in their own countries. Limitations and benefits in establishing SEZ are also presented. Most of those are about special law, exclusive regulation, a reduction of operation barriers, tax exemption, and financial support. Therefore, this article can be used as a guideline for countries which would like to develop SEZ in the future.

Index Terms—Special Economic Zone, Facts, Roles, Opportunity, Thailand.

I. INTRODUCTION

SPECIAL Economic Zone (SEZ) was established in 1937 in New York, the United States of America (USA) [1]. The other name of SEZ is “Foreign Trade Zone” (FTZ). In 1942, the USA invested in establishing the SEZ in Puerto Rico, since then, other countries have also established SEZ but might be in a different name. Iceland and Taiwan established SEZ in 1960. India established SEZ namely “Export Processing Zone” in 1980. One of the most well known SEZ is Shenzhen Special Economic Zone which established in 1980 [2], [3]. Until now, the Special Economic Zone has been located in more than 135 countries around the world. Especially in the USA, the pioneer of SEZ has 257 areas of FTZ and 545 areas of FTZ subzone [4], [5].

Reference [4] – [6] defined the SEZ as the area with a special privilege that is established specifically by any countries in order to attract the foreign business persons in investing in the country. The privilege might include a special investment policy or rule or regulation and special support in infrastructure e.g., a tax easing, a financial support, issuance of work permit for foreign workers. The businesses have been promoted under the SEZ, including industry, agriculture, commerce, tourism, services or any other operation supporting a Free Trade Area.

II. TYPE OF SPECIAL ECONOMIC ZONE

Generally, SEZ aims to enhance the prosperity of the country. There are several forms of SEZ depend on the establishing objectives, infrastructure of the country, country’s politics, and geographical location [4], [5]. In the past, SEZ was mainly established and operated by the government, which mostly failed. Therefore, several countries changed its rules and regulations in allowing the private sectors to be able to invest and manage the SEZ. Today, 62% of the SEZ is operated by private sectors. Some of it is the joint management between private sector and government [7], [8].

Ref [4] conducted a study about establishing objectives and managing approaches of SEZ in 93 countries over the world in 2008. Total of 2511 SEZs was located in 6 regions: 23 countries in Americas, 19 countries in Asia and Pacific, 12 countries in the Middle East and North Africa, 15 countries in Western Europe, 10 countries in Central and Eastern Europe and Central Asia, and 14 countries in Sub-Saharan Africa. Three years later, the SEZ has increased to 3,000 zones in 135 countries around the world [10]. Furthermore, it can be concluded that the SEZ can be divided into 6 types which included the Free Trade Zone, Export Processing Zone, Enterprise Zone, Single Factories, Free Port, and Specialized Zone [5]. This section briefly describes the characteristics of each SEZ with other names that might be possible [8] – [21].

A. Free Trade Zone (FTZ)

FTZ or in other names such as Foreign Trade Zone, Commercial Free Zones, Free Trading & Warehousing SEZ, etc., is one of the most expansive type of SEZ. It is a tax-free area that provides essential facilities for trading, shipping, import, and export business. By operating in such area, rules and regulation on tariffs, labor, and environment might be exempted or reduced or less controlled [4], [5], [8], [9], [10], [11], [12], [13].

B. Export Processing Zone (EPZ)

EPZ or in the other names - Open Economic Zone or Economic Development Zone is similarly to FTZ in terms
of the estate encompassment, however, the tax benefit and other regulations are different [4], [5], [8], [9], [14], [15], [16], [17], [18], [19], [20], [21]. Hybrid EPZs is established as a general trading area integrated with a special exporting zone. The physical facility or zone of those two might be entirely separated or might be fully integrated.

C. Enterprise Zone

Generally, Enterprise Zone or Manufacturing Zone or Hybrid EPZ is established by the government or local government in various communities. Establishment of this type of special economic zone intends to provide a better quality of life for people in the community and to enhance competitiveness of the community or even the country. A privilege for this type of SEZ is financial assistance for local development [4], [5], [8], [9].

D. Single Factory

Single Factories can be called in several names such as Industrial Estate, Industrial Park, Industrial Zone, IT Park, and Software Park, etc. The purpose of developing this type of economic zone is to increase the specialization of a selected industry in order to increase the ability to compete with the foreigner in the same industry. This type of special economic zone can be established anywhere, regardless of location [4], [5], [8], [9].

E. Free Ports

Free Port or Port Zone or Port or Airport Special Economic Zone is one of the most expansive types of SEZ. Free Port economic zone is typical in promoting activities related to trade in goods or service. Those activities are travel, tourism, and retail sales. The stated businesses within this zone are tariff exempted. However, the excise tax or duty is still applied [4], [5], [8], [9].

F. Specialized Zone

The Specialized Zones can be found in many countries around the world. Each Zone has been established with a special or specific purpose. The well-known examples of Specialized Zones are science and technology parks, petrochemical zones, logistics and warehousing park, airport-based economies, tourist and recreational zones, reconstruction opportunity zone, multi-product special economic zones, the gambling zones, and so on [4], [5], [8], [9].

III. INSIGHTS THE SPECIAL ECONOMIC ZONE LEADERS

This section presents the insights of three leading nations in managing SEZ which include: 1) the United States of America, the pioneer of SEZ, 2) Shenzhen city of China, the most successful model of SEZ, and 3) India, the largest SEZ in the world. Those nations does not merely invest in their own countries, they also expand their investment to overseas.

A. SEZ in the United States of America

In 1934, House of Representatives of the United States of America issued Foreign-Trade Zones ACT of 1934 to allow the establishment of the SEZ under the name or Foreign-Trade Zones (FTZ) [1], [22]. The objectives of the zones were to support and promote the international trade, both of export and import. The first SEZ was founded in 1937, in New York. Until now, there have been more than 257 FTZs and 545 FTZ Subzones in the USA. Both of them were established for custom purposes [23]. FTZ is a designated area which is normally set up in the vicinity of the port, airport, or inland port, while FTZ subzone is allowed to set up outside the FTZ, normally at a manufacturing area.

The establishment of FTZs can be caused by a joint venture between a local government and private sector who petition for such FTZ. By the laws of the United States require that the management of FTZ shall be comprised of four parties – U.S. Foreign Trade Zones Board, U.S. Customs and Border Protection, Grantee, and Operator [24].

The brief detail of each party is as the following:

-- Executive Committee of the Special Economic Zone (US Foreign-Trade Zones Board) was established under the Foreign Trade Zone Act between the Ministry of Commerce of the United States and the Ministry of Finance of the United states belonged to Import Administration, the United State Department of Commerce. The committees were responsible for determination of rules and regulations called Regulations of the Foreign Trade Zones Board for supervising and authorizing the Foreign Trade Zones.

-- The United States Customs and Border Protection (US CBP) was responsible for the customs duties to be the main controlled by CBP Regulations (19CFR Part 146). Hence, almost all of the FTZ, there are CBP’s officers placed permanently.

-- Grantee is a company or investor who made a request for the establishment and management of the Group Foreign Trade Zone. The group which had the rights to make a request for the establishment of Foreign Trade Zone included the private company, non-profit organization (not for profit), Port (Port Authority) or local government such as Economic Development Agency. The request shall be submitted to the Board of Directors of Special Economic Zones of Foreign Trade Zones.

-- Operator is an individual or company who is Grantee employ to be general manager (Administration) in Zone or Subzone.

B. SEZ in India

India is the first country in Asia which realizes the importance of the export zone. Therefore, EPZ or Export Processing Zone is established to promote an export of the country. India has experienced from both success and failure in the establishment of various type of SEZ [2].

In 2000, Indian government found that the establishment of large industrial zone called "Special Economic Zone" played important roles in growing the India's economy [25] and raising the employment rate. To attract a foreign investor to invest in India [26], Indian government invested a world-class infrastructure to support an operation of SEZs. Tax privileges were offered. A bureaucratic system was redesigned to reduce a complexity [27]. On November 1, 2000, the SEZ was originated in India. In 2005 and 2006, the parliament of India issued Special Economic Zone Act 2005 and Special Economic Zone Rule 2006 to provide a legal support for the operation of the SEZ [26], [27].
are 3 channels in getting a SEZ establishing permission India as follows:

-- The first channel, the company (developer) which wants to establish the SEZ shall make the proposal to the government. Then, the government sends the proposal with suggestions to the Board of Approval for the consideration within 45 days commencing from the proposal date of the request made by the company. The approval from the Board shall carry out within 30 days. The company receives the letter issued by the federal government. Later, the company shall inform the details of the necessary information requested to the federal government.

-- Channel 2, the developer can directly submit the proposal through the Board of Approval. The developer will receive the approval within six months from the date of receiving the proposal. The other processes will be the same as Channel 1.

-- Channel 3, the federal government announced for SEZ proposal development from developers in a designated area.

By the Special Economic Zone Act 2005, the approval board comprises of 19 members selected by the federal government. However, Ministry of Commerce and Industry is the president of the board. Others are from the government authorities and agencies [2], [27].

C. SEZ in China

Deng Xiaoping's government proposed to establish the SEZ for the transfer of economic authorities from the federal government to local government [3]. Deng Xiaoping proposed the city near Hong Kong such as Shenzhen to support the case of the United Kingdom had to return Hong Kong to China in 1997. The cities chosen to be a Special Economic Zone include Shenzhen [29], [30], [31] Zhuhai, Shantou in Guangdong Province and Xiamen in Fujian province [32], [33], [34], [35]. Later, Guangdong and Fujian provinces issued the law for the establishment of the Special Economic Zone [3].

The operation of SEZ consisted of 5 styles including the state socialist economy, centralized socialist economies, economic zone by foreign capital investment, economic cooperation and joint ventures between Chinese and foreign and economic personal [36]. Chinese government’s policy allows foreign state enterprises or individuals as well as overseas China, Hong Kong, and Macao invest in China. Within the SEZ of foreign investor gain the privileges of trade about import of machines, raw materials, components, instant products, discounts and tax exemption, foreign currency account balances, transfer profits outside the country, land use rights, residents of foreign business, family and followers, etc. The Chinese government chose the SEZ to be the policy and flexible measure for attracting the investment from foreign countries [37]. Moreover, not only benefit from money, but also the concepts of new innovation for the country development China would get from the benefits [38]. Management of SEZ in China divided into two phases including from 1980 – 1991 and 1992 – present. Detail of each period is as follows:

-- Management of Shenzhen SEZ in the first phase established from 1980 – 1991. Shenzhen SEZ was the first place in China according to the regulations on SEZ in Guangdong province. Later this Law accepted by The Fifth National People's Congress of election in the 15th conference on 26th August 1980. Since Deng Xiaoping desired to have the SEZ of Shenzhen to be the model of the country development, it usually called “The Testing Bed of Deng Xiaoping’s Reform and Opening Up” [3]. The capitalism system used for SEZ was new for China at that time; therefore, the transfer of the federal government on economic authorities to the local government had to be proceeded gradually. At the first phase, the federal government would transfer such authorities to the Guangdong government. However in order to make the SEZ conducted systematical and support from the investors. It determined the special organization for control. The Special Law of Shenzhen SEZ determined to have the “Guangdong Province Committee for Administering Special Economic Zone: GPC to manage the Special Economic Zone in the name of Guangdong province government (section3) and GPC agency of the state. Moreover, GPC established by Guangdong Province Committee for Administering.

-- Management of Shenzhen SEZ in the second phase from 1992-present. The operation of Shenzhen SEZ was systematic in 1992. The State Council has approved Shenzhen Municipal. The Shenzhen Municipal to have the authorities within the Shenzhen SEZ instead of GPC and transferred the management of Shenzhen SEZ to the Shenzhen Municipality. The resolution accepted by The Seventh National People's Congress of election on 1st July 1992. Therefore, Shenzhen Municipal has been the management of Shenzhen SEZ until now [3], [29].

IV. INVESTMENT OPPORTUNITY IN THE SPECIAL ECONOMIC ZONE

A. The United States of America

The United States of America realized that FTZ is a necessary tool for attracting the Foreign Direct Investment (FDI) into the United States and employment for the overall economy [1]. In the present time, The United States investors not only operate the Foreign Trade Zone in the United States, but also expand the operation to foreign countries such as Central America and recently in Sierra Leon. The example of the successful Foreign Direct Investment of FTZ in the United States includes China which had the strategies to establish the Foreign Trade Zone such as the Middle East and Africa, etc. to encourage the international trade. The China established Technology SEZ. That was the same type as the Shenzhen SEZ in Idaho province and Chinese government as a shareholder. This could be said that it was the progress of China international trade to increase capacity in the United States Market. Furthermore, other countries should be encouraged to the manufacturers / exporters who transported the products to the United States to turn to Foreign Trade Zone for expanding and adding the value products in the United States more [39], [40].

B. India

Although the operation with the policy of India could be seen that the Special Economic Zone is far away from the
goal of the government, under the crisis, there is still opportunities for investors from other countries as follows:
-- Opportunity for the investment with Indian companies in establishing and managing SEZ.
-- Opportunity for the investment of manufacturing products in SEZ for distribution in India Market. It seems like this Business Model was more appropriate than export only because the company got benefits from privileges, especially both direct and indirect tax. There were the competitive advantages to compete in the Indian market. Thus, Price-Conscious Consumers consisted of SEZ in various states still wants the foreign investors. In addition, the company would be close to the numerous groups of consumer. It enhances a company a quick response to the market.

However, the investment in India on SEZ should be done carefully because of the qualities of system management, quality and the products of Indian labor and the difference culture of operation which is different from other countries [2], [39], [40].

C. China
China has a policy to encourage foreign investment by establishing the Special Economic zone in Shenzhen [29], Zhuhai Shantou, and Xiamen [34]. It regarded as the important economic zone. The successful factors in several terms included as the following:
-- China’s political system was a single-party (Communist Party) and the local government had to manage under the federal government’s policy without any checks and balances.
-- China's policy defined clear strategies of opening the country with SEZs tool and made policy of operation and development seriously. Therefore, it makes the target area grew up, and the economy developed.
-- The policy of the federal government; the government considered carefully to define and development the SEZ. In addition, there was the connection with the developed zone and cities which could become the good investment areas such as Hong Kong, Taiwan and areas beyond the capital city. Moreover, it realized about the location that was close to the investors, sources of investment funds and technical skills well.
-- Abundant Labors and low cost; this considered the strengths to attract the foreign investors due to China’s large populations.
-- Benefits from investment; China determined the benefits of foreign investors in particular and facilitated the transactions for investors. Furthermore, the complicated processes modified to the simple. Moreover, there was an allowance for the capital and currency movement; thus it is the important thing to attract the investor.
-- The result of China which joined the World Trade Organization (WTO). It is showing the sign of opening the country to liberalization.

However, the countries should take the advantages from investment in FTZ of China for being the distribution center of products from the manufacturers to consumers. Moreover, China had large populations with low cost and qualitative products for consumption in other countries.

V. THE LIMITATION AND CHALLENGES OF ESTABLISHMENT IN THE SEZ

The establishment of SEZ has limitations that must be realized. Due to it might create a long term impact such as environment pollution, and so on [41], [42], [43]. Human rights, Security or Corporate Social Responsibility (CSR) should be integrated in every step in establishing SEZ. However, the SEZ also create benefits as well. Key criteria to consider when establish SEZ includes the following [44]:

1) Location advantage
2) Macroeconomic of the country
3) Industrial investment support
4) Investment Cost
5) Skill labor
6) Management and Service
7) Government Policies
8) Law and regulation
9) Stability and consistency of the government.

VI. BENEFITS AND INCENTIVE OF SPECIAL ECONOMIC ZONE

The establishment of SEZ mostly aimed to attract the investment from the foreign countries and enhance the growth of the country [45], [46]. SEZ could stimulate a countries’ economy and employment rate. It also gained benefit from expansion of infrastructure, currency exchange, technology development, and so on [47]. There were motives in attracting the investment in various forms as follows:

1) The benefit for finance and tax such as income tax exemption or reduction, and duty free tax for import goods.
2) Exclusive residential visa and work permit for foreigner.
3) The special regulation for transaction to home countries.
4) Preserve of environmental.
5) Special law and regulation.

VII. CONCLUSION

In conclusion, the SEZ of each country all has the same direction. Its objectives are to enhance the investment, reduce barriers of operation, and facilitate investors. Hence, during the mid 20th century, the developing countries had used the policies of establishing the SEZ to be the crucial strategies for the country development. The result is that some countries get benefits, but some countries encounter the problems and complexity from the establishment of SEZ. For Thailand and other countries which would like to set up SEZ in the future, It is necessary to understand all aspects of SEZ as well as the impact of SEZ which might have shape the country in the future. The success factors, which associated with each environment and each country, is also investigated and carefully adopted.

REFERENCES


