

Chapter 2

SEZs in Select Countries: A Comparison with India

Abstract The concept of special economic zones has evolved across the globe. Several developing countries have policies for the establishment of industrial zones that focus on exports and countries have set up strong regulatory and administrative frameworks to support them. Since different countries have different starting points and experiences in developing special economic zones, each country imparts important lessons for India. Using select country cases in Asia, this chapter compares their SEZ policy objectives, administrative structure, incentives, and contribution with those in India and makes recommendations for Indian SEZs.

2.1 Introduction

The origin of SEZs can be traced to the centuries-old concept of *entrepôt*,¹ which has evolved manifold because of the development goals of a country and other economic factors (see Table 2.3 of Appendix 1 for details). The model for establishing economic zones started in developed countries such as the USA and the European Union (EU), but in recent years developing countries have been actively engaging in zone development. Currently, SEZs—in their various forms—are active in more than 130 countries.

Traditionally, the zones were developed exclusively by the government and were primarily export-oriented. Over time, there has been greater private participation and public–private partnerships (PPPs) in these zones. In 2006, 62 % of the zones in developing and transition countries were developed and operated by the private sector (see FIAS 2008). Companies from countries such as China and Singapore are now major investors in SEZs in developing countries such as countries in Africa.

¹An *entrepôt* is a port, city or trading post where merchandise may be imported, stored and/or traded, typically to be exported again. For the evolution of SEZs, see Aggarwal (2012).

SEZs that span two countries are common in the region covered by the Association of Southeast Asian Nations (ASEAN) and governments of two or more countries are jointly developing SEZs along cross-country economic corridors. International organisations such as the Asian Development Bank (ADB) are now actively engaged in developing SEZs along economic corridors.

A regional breakdown of 2,500 zones in developing and emerging economies shows that in 2005, 41 % of the zones were in East Asia, Southeast Asia and South Asia, 30 % in Latin America, 15 % in Europe and Central Asia, 10 % in the Middle East and North Africa and the remaining 4 % in Sub-Saharan Africa (Farole 2011). East Asia, Southeast Asia and South Asia not only have the maximum number of zones, but countries in these regions area have experimented with different types of zones. Although the evolution of these zones is well documented (see Aggarwal 2012; Farole and Akinci 2011), there is hardly any literature comparing these zones to the SEZs in India.

The objective of this chapter is to compare the SEZ policy in India with that of select countries in Asia and to examine how India can learn from their best practices in zone development. This chapter is based on secondary information analysis and in-depth discussions with international experts in zone development,² foreign embassies and foreign zone developers with whom the research team met in India, Manila (Philippines) and Bangkok (Thailand). Zone comparison is based on the objectives and intent to establish zones, the administrative structure and regulatory framework, ownership patterns, contribution to the economy and incentives offered, among others.

2.2 Country Experiences that can be Compared with India

Compared to other emerging markets in the Asia-Pacific, the contribution of the manufacturing sector to India's GDP is low. As a result, India faces competition from other countries in Asia that have similar comparative advantages and have successfully developed manufacturing sector. Much of the growth of manufacturing in countries such as China can be attributed to their SEZ policy, and India can learn from their experiences. Further, a number of countries in Asia such as Philippines are promoting diversification of services and exports through SEZs. These countries are offering tough competition to India in export of services such as IT/ITeS. Countries such as China are experimenting with different types of services SEZ to diversify their services export basket. Their experiences can provide valuable inputs to India.

²ADB, World Bank and consulting organisations such as Deloitte Touche Tohmatsu Limited, Ernst and Young and Japan Development Institute.

Most countries in the region are also actively engaging in trade agreements, leading to the free movement of goods, services and capital across the region and greater integration with global production networks. India, too, is trying to develop its manufacturing sector and diversify its services sector through SEZs. The previous government took measures to integrate with East and Southeast Asian countries through its 'Look East Policy' and various bilateral and regional trade agreements in the region.³ The new government, which came into power in 2014 proposed an 'Act East' policy taking forward the 'Look East Policy', which aims to have greater integration with Asian neighbours.

Seven countries in Asia were selected for comparison with India's SEZ experience: *Bangladesh, China, Philippines, Republic of Korea, Taiwan, Thailand and Vietnam*. Country selection was based on suggestions by the Department of Commerce, Ministry of Commerce and Industry, with the rationale that: (a) some of these countries have similar manufacturing and/or factor advantages (such as labour abundance); (b) they specialise in the production of similar commodities such as textiles and apparel; (c) these countries are integrating with each other through trade agreements; and (d) they have institutional engagements to promote physical connectivity in the region through initiatives like the Greater Mekong Sub-region Economic Cooperation Programme of the ADB, which will enhance connectivity between SEZs in China, Thailand and Vietnam and enable the development of production networks across these countries. Thus, a closer look at the SEZ development policies of these countries will help India to increase its manufacturing and exports and participate in GVCs.

While India was among the first few countries to develop EPZs in the region, it was a relative latecomer in establishing SEZs. India shifted from the EPZ model to the SEZ model only in the year 2000. Compared to this, the development of SEZs in China was part of a broader economic reform programme that started in 1978. Since then, China has experimented with different types of SEZs and has successfully developed SEZs for high-value manufacturing such as Economic and Technological Development Zones (ETDZ). The Republic of Korea started developing EPZs in 1970, which led to a significant structural transformation of the economy. These zones successfully developed backward supply linkages with the rest of the economy through subcontracting, which in turn led to industrial upgrading and technology transfer (FIAS 2008). Taiwan focused on developing EPZs in 1966 to promote exports, because it is a small export-oriented economy. EPZs have helped Taiwan move up the value chain from labour-intensive production to high-value manufacturing (Aggarwal 2012; FIAS 2008). Bangladesh introduced the Bangladesh Economic Zones Act in 2010 to facilitate the development of SEZs in the country.

³India has comprehensive agreements with Singapore, Korea, Japan and Malaysia and regional agreements with ASEAN and the South Asian Association for Regional Cooperation (SAARC). It is now negotiating the Regional Comprehensive Economic Partnership (RCEP) agreement, which is one of the largest trade agreements involving ASEAN, China, Australia, New Zealand, Japan and the Republic of Korea.

Compared to its counterparts with similar advantages, India is lagging behind in terms of the performance of its SEZs. For instance, India and Bangladesh are both labour-abundant countries in South Asia and they are members of SAARC. Both countries compete to get investment in the textiles and apparel sector, but unlike Bangladesh, India has not been successful in developing SEZs for textiles and apparel. Further, several Indian textile and apparel manufacturers are trying to locate to zones in Bangladesh, which has received investment from countries such as the Republic of Korea. Hence, India could learn from Bangladesh's experiences in developing SEZs for textiles and apparel.

China adopted an incremental approach to SEZ development and began by creating four SEZs in Shenzhen, Zhuhai, Shantou and Xiamen. Since then, the contribution of SEZs to the overall economic growth of China has been substantial. SEZ development led to China's growth in the manufacturing sector, enhanced exports, attracted FDI and created employment. SEZs helped China move up the value chain from labour-intensive manufacturing to high-value manufacturing, which has enabled the economy to become a key player in global production networks (Aggarwal 2012; FIAS 2008; Zeng 2011). China is now trying to develop services SEZs that can offer tremendous competition to India in its services exports; in contrast, India has not been able to attract investment in the manufacturing sector in its SEZs. It is, therefore, important for India to examine China's SEZ policy.

Since wage costs in China are rising, companies are looking for alternative destinations for labour-intensive work. India could become an alternative manufacturing hub, and SEZs can be an important cluster development model to replicate China's experience. In addition, China is a key country in the on-going Regional Comprehensive Economic Partnership (RCEP) negotiations and until China's strategies of production network, incentives and other reforms are examined and understood, India will always be at a disadvantage compared with China in trade agreements that include China.

So far, India has not had much success in attracting FDI in SEZs from countries such as the Republic of Korea and Taiwan, despite the Comprehensive Economic Partnership Agreement (CEPA) with the Republic of Korea and engagements at the Secretary-Vice Ministerial level with Taiwan, both of which focus on FDI inflows. A closer look at their policies will help India attract investments from these regions and establish production networks. The Republic of Korea and Taiwan differ in their global expansion of SEZs. While Korean companies have invested in EPZs in Bangladesh, Taiwanese companies are major investors in zones in China.

Taiwan's EPZs are regarded as very successful and its policy has been adopted by other Asian countries, including China. Of late, Taiwan has been concentrating on becoming an international logistics and distribution centre. Pursuant to this, Taiwan has set up free trade ports to attract foreign logistics companies by offering substantial tax exemptions and other incentives. India has also developed policies for free trade warehousing zones and can learn from the Taiwanese experiences.

Among ASEAN countries, Thailand and Vietnam have been able to attract investments in the manufacturing sector. Thailand has been able to use its EPZs to move from low-value-added manufacturing to high-value-added and diversify its

industrial base to include industries such as electronics assembly and component manufacturing, automotive assembly and chemical processing (Farole and Akinci 2011). Vietnam has the advantage of low-cost labour, where it offers significant competition to India. The country has seen substantial reforms and liberalisation since it became a member of the World Trade Organization in January 2007. Today, it is a more open economy than other ASEAN countries such as Thailand. Although Vietnam has been a laggard in zone development, in recent years it has been attracting significant investments, especially in the manufacturing sector, from countries, such as Taiwan, Republic of Korea, the USA and the EU member countries. Vietnam is strategically located in the Asian economic corridors and is also a member of RCEP and the Trans-Pacific Partnership Agreement, led by the USA. India can learn from Vietnam's experiences on how to develop its manufacturing base through SEZs in a fast-track process within a span of less than 10 years.

In terms of the services sector, zone development in the Philippines holds important lessons for India. Like India, the Philippines has successfully developed IT/ITeS zones and has more than 300 zones. In terms of getting investment in the IT/ITeS sector, the Philippines offers stiff competition to India in voice-based business process outsourcing and customer service applications. The country is now trying to diversify into other services such as medical and ecotourism through its SEZs. In recent years, several Indian companies have been investing in zones in the Philippines.

2.3 Snapshot of Zones in the Selected Countries

Most of the comparator countries had closed-door import substitution policies prior to the 1980s. In the 1980s, they started liberalising and integrating with the world market. In the closed economy, zones with liberalised environment helped the countries to integrate with the world and establish production networks. For example, China, the Republic of Korea and Taiwan started focusing on high-technology industries and high-value-added manufacturing in these zones. When countries initiated reforms and liberalisation, zones were used as test beds for deregulating policies and reforms (see Aggarwal 2012) in countries such as China to move away from its closed-door economy to a more open economy. After the East Asian crisis of 2000, Taiwan and the Republic of Korea expanded their zone programme by promoting a new variety of zones and upgrading the existing ones. All the selected countries have experience with different types of zones. Table 2.1 presents a snapshot of these variants in the selected countries.

Countries have different objectives and intent for setting up SEZs. For developing countries, SEZs can be part of the overall economic growth strategy to enhance the competitiveness of the manufacturing and services sectors and to attract FDI (Farole and Akinci 2011; Zeng 2010). It helps them diversify exports while maintaining protective barriers (for example, the country can continue with high tariffs in the DTA) and, at the same time, countries can experiment with new

Table 2.1 Types of zones in select countries that are comparable with India's SEZs

Country	EPZs	SEZs	FTZs	Year of establishment	Zones covered in this chapter	Number of SEZs	Major items of exports
Bangladesh	✓	✓	×	EPZs: 1983; SEZs: 2010	Both EPZs and SEZs	8 operational EPZs as of 2008–09	Apparel and textiles
China	✓	✓	✓	SEZs: 1979; ETDZs: 1984; HIDZs: 1988; FTZs: 1990; EPZs: 2000; Bonded Port Area Zones: 2005	All zones	7 SEZs, 54 state-level HIDZs, 15 FTZs as of 2010, 69 state-level ETDZs as of April 2010, 1,346 provincial-level ETDZs by 2005	Electronics, electrical, LCDs, high technology, etc.
Philippines	✓	✓	×	First EPZ in 1969; Upgraded SEZs in 1995	Focused on zones under the current SEZ regime	300 SEZs as of 2013	IT/ITeS
Republic of Korea	✓	✓	✓	EPZs: 1970; SEZs or Free Economic Zones: 2003	All zones	8 Free Economic Zones/SEZs as of December 2012, 14 Free Trade Zones (8 industrial complexes, 1 airport and 5 ports) as of 2 March 2010	ICT (information and communications technology), electronics, services
Taiwan	✓	×	✓	EPZs: 1966	Focused on EPZs	10 EPZs at the end of 2012	Electronics, semiconductors, electrical, high technology, green power and green energy, digital content and software
Thailand	✓	✓	×	EPZs in 1979 replaced by SEZs in 2007	Focused on zones	49 industrial estates	(continued)

Table 2.1 (continued)

Country	EPZs	SEZs	FTZs	Year of establishment	Zones covered in this chapter	Number of SEZs	Major items of exports
					under the current SEZ regime		Electronics, metal working, electrical, semiconductors, automotive parts
Vietnam	✓	✓	×	EPZs: 1991; Eco-Zones or SEZs: 2003	Both EPZs and SEZs	15 coastal economic zones as of August 27, 2013; EPZs as of 4 June 2013	Consumer electronics, apparel, footwear, luggage, metal work

Source Compiled from Aggarwal (2012) and FIAS (2008): Farole and Akinci (2011); Zeng (2010); Korean Free Economic Zone. <http://www.fez.go.kr/newFestival/default1.html>; Bangladesh Economic Zones Authority (BEZA). http://www.beza.gov.bd/economic_zns.php (accessed on 8 June 2015). Note HIZ refers to High-tech Industrial Development Zones

policies and reforms. It also facilitates the creation of infrastructure through private participation when there is private investment in SEZs.

The Bangladesh Economic Zones Act 2010 states that the objective of EPZs is to provide a special area where potential investors can find a congenial investment climate. This is important given that in Bangladesh the cost of doing business is high. In the Republic of Korea, Free Economic Zones are for attracting foreign investment, while in the Philippines the broad objective is to establish financial and industrial cooperation with industrialised countries through high-technology industries.

In the case of China, the SEZ policy is linked with the macroeconomic policy of the country. The primary objective of SEZs was to serve as a potential economic policy alternative to attract FDI in a closed economy and provide the seed money for modernisation (Aggarwal 2012; Zeng 2011). China used its zones to test market-based economic policies and reforms and used them to experiment with land and tax policies. This enabled China not only to implement reforms (such as labour reforms), but also to attract FDI in sensitive sectors such as retail in a phased manner. Once the policy succeeded in the zones, it was implemented in the whole country. Unlike China, India has not used SEZs to test reforms or liberalise the FDI regime.

Thus, there is a strong push for the governments of Asian countries to attract foreign investment through their SEZ acts and policies. Compared to these countries, the objective of the Indian SEZ Act is generic and refers to the generation of additional economic activity, investment, employment creation, etc., which does not help to distinguish SEZs from other industrial clusters. The objectives of selected SEZs are illustrated in Fig. 2.1.

It is also important to note that since the year 2000, countries such as China saw the simultaneous development of SEZs and industrial clusters. There were inter-linkages of various types of industrial development that led to the establishment of large, multi-purpose zones. Similar zones, such as the National Investment and Manufacturing Zones (NIMZs), have recently been proposed in India under the National Manufacturing Policy 2011, which will encompass SEZs, industrial clusters and integrated townships, among others.

Since the year 2000, countries have shifted their focus towards services-based zones, because of the rise in trade in services. In 2001, to promote logistics services, Taiwan launched the Warehouse Transshipment Special Zone Plan and in 2003, it introduced the Act for Establishment and Management of Free-trade Ports. Logistics was identified as one of 12 strategic services industries by Taiwanese policymakers. The services zones focused on enabling Taiwan to establish production networks and a services value chain. In the early 2000s, the Republic of Korea focused on attracting foreign investment in SEZs, particularly in the services sector with a focus on research and development (R&D) and knowledge-based industries. Free Economic Zones in the Republic of Korea were developed as world-class cities with state-of-the-art infrastructure. Following the global trend, China has recently announced the establishment of services SEZs.

Another reason for diversifying into services SEZs is that services such as logistics play a key role in establishing production networks and GVCs. Some services such as R&D also support the growth of high-value manufacturing.

Country	Bangladesh	India	Republic of Korea	Philippines
Name of Act	The Bangladesh Economic Zones Act, 2010	The Special Economic Zones Act, 2005	Act on Designation and Management of Free Economic Zones, 2003 (amended on April 15, 2010).	The Special Economic Zone Act, 1995
Objectives of the Act	<p>The primary objective of EPZ is to provide special areas where potential investors would find a congenial investment climate, and location free of cumbersome procedures.</p>	<p>The main objectives are:</p> <ul style="list-style-type: none">⇒ Generation of additional economic activity⇒ Promotion of exports of goods and services⇒ Promotion of investment from domestic and foreign sources⇒ Creation of employment opportunities;⇒ Development of infrastructure facilities	<p>The main purpose is to facilitate foreign investment, strengthen national competitiveness and seek balanced development among regions, by improving the business environment for foreign-invested enterprises and living conditions for foreigners through the designation and management of free economic zones.</p>	<p>The purpose, intent and objective:</p> <ul style="list-style-type: none">(a) To establish legal framework and mechanisms for the integration, co-ordination, planning and monitoring of special economic zones, industrial estates/ parks, export processing zones and other economic zones.(b) To transform selected areas in the country into highly developed agro-industrial, industrial, commercial, tourist, banking, investment and financial centres, where highly trained workers and efficient services will be available to commercial enterprises.(c) To promote the flow of investors, both foreign and local, into special economic zones, which would generate employment opportunities and establish backward and forward linkages among industries in and around the economic zones.(d) To stimulate the repatriation of Filipino capital by providing an attractive climate and incentives for business activity.(e) To promote financial and industrial co-operation between the Philippines and industrialised countries through technology-intensive industries that will modernise the country's industrial sector and improve productivity levels by utilising new technological and managerial know-how.(f) To vest the special economic zones in certain areas thereof with the status of a separate customs territory within the framework of the Constitution and the national sovereignty and territorial integrity of the Philippines.

Fig. 2.1 Objectives of the SEZ/Zone Act in select countries, *Source* Compiled by the authors from the SEZ Acts of the respective countries

Moreover, countries such as China, Taiwan and Vietnam became WTO members after the year 2000. Certain export-linked subsidies given to the manufacturing sector in SEZs can be actionable under the WTO. However, since WTO member countries are yet to develop a discipline on subsidies in services, it is easier to subsidise the services sector, which, in turn, can enhance the competitiveness of the manufacturing sector. This has prompted countries to shift to services-based SEZs.

Table 2.1 lists the number of zones in the selected countries and the major exports from these zones. Zones in different countries have specialised in exports of certain products. For instance, in India, the SEZs specialise in exports of IT/ITeS, petroleum processing, gems and jewellery. Countries such as Thailand and Taiwan have used zones to diversify their export basket. In several countries, zones initially started with labour-intensive and assembly line products and gradually moved up the value chain into electronics and other high-value-added sectors. The SEZs in countries such as China contributed significantly to technological upgrading and R&D. In 2007, around 54 HIDZs hosted almost half of China's high-tech firms and technology incubators. They registered around 50,000 patents, more than 70 % of which were registered by domestic firms (Zhong et al. 2009) and they accounted for over 30 % of China's high-value-added products.

2.4 Administrative Framework and Regulation of Zones

Countries have created different types of institutional frameworks and administrative bodies for the regulation, development and management of SEZs. For instance, in Bangladesh, the Philippines and Thailand, an autonomous government authority has been constituted to administer the zones. This authority can be under the Prime Minister's office as in the case of Bangladesh or under the nodal ministry for trade and industry as in the Philippines and Thailand. In India, SEZs come under the Department of Commerce, which is under the Ministry of Commerce and Industry—the nodal ministry for trade and industry (Table 2.2).

In most countries, SEZs have a governing regulation. These regulations are amended and updated from time to time. In almost all countries, at the central level multiple government departments are part of the approval committee. The common ministries/departments involved in the approval process include industry, finance, science and technology, labour, environment, energy, transport, foreign ministry and the tax department. In addition, countries such as Bangladesh also involve the chamber of commerce in the approval process, while others such as Thailand include the tourism authority and real estate developers. In line with the holistic development of SEZs, several government bodies including the Ministry of Culture, Tourism and Sports are involved in the approval process in countries such as Vietnam.

Among the comparator countries, China has been cited as an example of strong government commitment towards SEZ development (Zeng 2011). It has a unique institutional framework for SEZ development and has developed SEZs without a central government act, unlike countries such as India. China adopted an

Table 2.2 Institutional framework and regulatory structure in the selected countries

Country	Governance structure	Main administrative ministry/department and management	Key regulation for zones	Approving authority
Bangladesh	Unitary state and parliamentary democracy	Bangladesh Economic Zones Authority (BEZA) under the Prime Minister's office	Special Economic Zones—The Bangladesh Economic Zone Act 2010	Governing Board of the BEZA is chaired by the Prime Minister
China	Socialist state	SEZs are declared by the central government—National People's Congress. SEZs have political and economic autonomy. They can develop municipal laws and regulations in line with national laws and regulations, including local tax rates and structure	Regulations such as the 1980 'Regulations for The Special Economy Zone of Guangdong Province', which officially designated a portion of Shenzhen as the Shenzhen Special Economy Zone.	Central government
India	Democratic country with quasi-federal governance structure	Department of Commerce, Ministry of Commerce and Industry through Board of Approval. Zones are managed by 7 Development Commissioners	SEZ Act 2005 SEZ Rules 2006 State SEZ Acts and Policies	Board of Approval is chaired by the Secretary, Department of Commerce
Philippines	Democratic government in the form of a constitutional republic with a presidential system	Philippines Economic Zone Authority (PEZA) is attached to the Department of Trade and Industry, Philippines. Special economic zones are organised, administered, managed and operated by an executive committee comprising administrator, deputy administrator, etc. (Except for privately owned, managed or operated special economic zones)	Special Economic Zone Act of 1995	PEZA, chaired by the Secretary of the Department of Trade and Industry; The President proclaims a zone as a special economic zone

(continued)

Table 2.2 (continued)

Country	Governance structure	Main administrative ministry/department and management	Key regulation for zones	Approving authority
Republic of Korea	Democratic government	The Free Economic Zone (FEZ) Planning Office under the Ministry of Knowledge Economy, which was named the Ministry of Trade, Industry and Energy in 2013. Each Free Economic Zone has its own governing council	Special Act on Designation and Operation of Free Economic Zone, 2003 This act was amended on 15 April 2010	Free Economic Zone Committee chaired by the Ministry of Trade, Industry and Energy
Taiwan	Democracy	The Export Processing Zone Administration, a unit of the Ministry of Economic Affairs. Centrally monitored administrative framework	Statute for the Establishment and Administration of Export Processing Zone, 1965, last amended in 2010	Ministry of Economic Affairs
Thailand	Constitutional monarchy. The Prime Minister is the head of the government while the monarch is the head of the state	Industrial Estate Authority of Thailand (IEAT) attached to the Ministry of Industry IEAT monitors and promotes economic zones in the country	Industrial Estate Authority of Thailand Act 1979 and its various amendments	Permanent Secretary, Ministry of Industry, is the Chairman of the Board of Directors
Vietnam	Single-party socialist state, with the president as the head	The Ministry of Planning and Investment is the principal ministry Management boards of the zones also perform the function of direct state management of industrial zones and economic zones in provinces or centrally run cities	Decree No. 29/2008/ND-CP dated 14 March 2008 of the government providing for industrial parks, export processing zones and economic zones Decree 164/2013/ND-CP dated 12 November 2013	Zone approval granted by the Prime Minister

Source Information provided by embassies and government websites of the respective countries

incremental approach to SEZ development under a decentralised model that delegated substantial political and economic autonomy to zone management (Tantri 2011). Under this system, a management committee is appointed for each zone in China that has the autonomy and power of the provincial/municipal government. SEZs such as Shenzhen were upgraded to the level of provinces. These SEZs then have legislative authority to develop municipal laws and regulations in line with national laws and regulations, including local tax rates and structure. This system gave them greater freedom to experiment with reforms, which has helped in the success of the zones. For example, SEZs were the first to establish a labour market, and companies operating in these zones could enter into enforceable labour contracts and had the ability to hire and fire. The case of China reveals that decentralised management with administrative powers helps the zones to focus on good governance. Shenzhen in China was the first city to establish the system of government approval in 24 h. Although some studies have argued that extensive autonomy at the decentralised level has negative impacts such as the incidence of corruption and bribes (Haywood 2004), in general, studies seem to confirm that the decentralisation process has been successful in China.

In other countries, too, there has been decentralisation of power. This implies that different authorities administer zones. There are wide variations in the power delegated to the zone management and the decentralised authorities. For example, in India, Development Commissioners or DCs have been given the power of Labour Commissioner under the SEZ Act 2005 to manage zones. However, due to the quasi-federal governance structure in India state governments still play a key role in regulating labour and some state governments are not willing to give the power of Labour Commissioner to the DCs.

The SEZ Acts of the selected countries do not have measurable targets. However, zones in countries such as China have clear goals and expected targets for production/output, employment creation, exports, FDI inflows and tax revenue. In the Republic of Korea and China, zones compete among themselves to attract investment, and such competition put pressure and accountability on government officials to perform and it has helped them become more efficient (Zeng 2011). Unlike these countries, SEZs in India do not have any measurable performance targets, except that they have to be net foreign exchange earners.

It is important to note that in some countries, SEZs have been given priority status with the Prime Minister or President approving the SEZs or announcing the development of zones (see Table 2.2). In contrast, in India SEZs are approved by a Board of Approval (BoA) with the Department of Commerce as the nodal agency. However, since India has a quasi-federal governance structure where issues such as land, electricity and labour are under the joint jurisdiction of the central and state government, the central government department has limited authority. It is also worth mentioning that the performance of SEZs or success of the SEZ Act and policy does not depend solely on the institutional framework and administrative bodies. It depends on a multitude of other factors including location, ease of doing business, good governance, a transparent policy regime and good infrastructure, which are discussed below.

2.5 Land Acquisition and Choice of Location of SEZs

Identifying the ideal location for an SEZ is crucial for the success of the SEZ. Land acquisition is an important issue in setting up zones, particularly in developing countries. Land has multiple uses and large-scale land acquisition can lead to loss of earnings, food security issues, resettlement issues and social and political issues, among others. Moreover, it is difficult to acquire large areas of contiguous land. The acquisition of land for industrial clusters/zones is a highly debated issue and each country has designed its own framework for land acquisition, compensation and rehabilitation. In some countries, land is acquired or provided by the government, while in others it is the responsibility of the developer—whether private or public—to acquire land. In most of the selected countries, the government or the designated authority for SEZs (such as BEZA in Bangladesh and PEZA in the Philippines) plays a pivotal role in the provision of land for SEZ use. In Bangladesh, BEZA provides land on a lease basis for 30 years and also rents out prebuilt factory units inside the EPZs to ease difficulties faced by companies in accessing land and starting their business.

In China, foreign investors can lawfully obtain the rights for land development and business use for SEZs (Wang 2013). This is a major benefit given to foreign investors in China where there are restrictions on land ownership.

In the Philippines, the government has the power to acquire any private land within or adjacent to the eco-zones for consolidation of land. In Thailand, the IEAT helps companies to purchase/rent land and issues the certificates required for factory establishment. This provision is a huge support for foreign companies, as non-Thai business and citizens are not permitted to own land in Thailand. Lastly, in Vietnam as in India, private companies usually run zones, and for land acquisition, these companies have to negotiate with the existing landowners following government guidelines (Han and Vu 2008).

In India, the Department of Commerce does not help the private developers in land acquisition. It has only laid down certain instructions regarding what kind of land can be acquired for an SEZ. The state governments approve the land, which is acquired for the SEZ. The state government may help the private developer in land acquisition for an SEZ. This is primarily through the State Industrial Development Corporations. The state can build SEZ on its own or through a PPP. The central government can design the regulatory framework for land acquisition. For example, in 2013, India enacted the Land Acquisition, Rehabilitation and Resettlement Act 2013 (also known as the Land Acquisition Act 2013), which laid down the regulations so that farmers and landowners get the right compensation while industry can establish clusters and other infrastructure. Land acquisition for SEZs is covered under these regulations, which implies that SEZ developers have to meet the compensation requirements and other conditions as laid down by the act. State governments have the right to support or oppose these regulations.

A number of investors including SEZ developers have pointed out that the compensation under the act is very high which may lead to non-viable businesses,

especially when developers in other countries get concessional land. This has led to significant debate and discussion on land acquisition. The new government in India led by the Prime Minister Mr. Narendra Damodardas Modi is trying to rework the compensation under the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013.

Overall, land acquisition is a sensitive topic in many countries but in the case of India this is further accentuated by the quasi-federal governance structure, small land holdings and dependence of around 60 % of the population on agriculture. A multi-sector SEZ requires large area of contiguous land and it is often difficult for a developer to acquire the land without government support.

Regarding selection of location, there is a wide range of literature on how China selected its four zones in 1979. While some argue that the locations were carefully selected to have better linkages with Hong Kong, Macau and Taiwan (Jao and Leung 1986), others feel that local political influence played a key role in the choice (Knoth 2000). A more plausible explanation could be that a mix of factors such as distance from ports, availability of cheap land and labour and proactive officials led to the choice of these locations (Lai 2006; Zeng 2011).

In general, zones have grown in close proximity to transport linkages such as ports and airports. Studies also note that smaller zones located in remote areas have often failed, as they could not develop linkages with the rest of the economy. In contrast, strategically located large zones in close proximity to ports and airports are more likely to succeed if they have autonomy, are privately developed and are supported by a strong regulatory framework (Palit and Bhattacharjee 2008).

2.6 Ownership and Development of Zones

Prior to the 1990s, zones were primarily government-owned but since the 1990s, there has been an increasing focus on involving the private sector in zone development and operations. In the early 1990s, countries such as Thailand and the Philippines took a conscious decision to stimulate the development of private zones. Vietnam started its zone development programme in the 1990s with a focus on private developers. Even in China, the government realised that it may not have the necessary finance to develop zones, so it adopted a PPP model in zones such as Shenzhen where there are joint ventures with private developers from Hong Kong in infrastructure projects (Zeng 2011).

Various PPP models have evolved over time. In some cases, the government leases the land to the private sector for zone development or contracts private management for government-owned zones. In other cases, the government may provide the outside zone infrastructure, while the private sector develops the infrastructure within the zones. Countries have also tried out SPVs, build–operate–transfer and build–own–operate models. There are also examples of PPP in skill development and R&D within the zones (for example, the technology innovation centre in Guangdong, China). Overall, studies show that the entry of private

developers has led to the development of state-of-the-art facilities, services and amenities in the zones and led to the provision of a wider range of business support services such as residential facilities, hospitals, schools, shopping malls and sports and leisure facilities, among others. Private players would not invest in zone development unless there is scope for making a profit, and this has led to the development of zones into integrated townships that provide a range of commercial and non-commercial facilities where private players offer relatively low-profit industrial properties along with profitable commercial and residential facilities. Survey participants pointed out that unless private players are allowed to offer this mix, they would not be interested in investing in the zones (also see FIAS 2008).

Studies show that most of the privately developed zones have better physical and social infrastructure compared to zones developed by the government. This has led to high-value industries such as information and communication technology (ICT) moving to private zones, while traditional, labour-intensive industries such as handicrafts, apparel, plastics and footwear are concentrated in government zones. Yet, the success of zones is based on coordination between the private sector and the government. Unless there is close coordination and effective partnership between private developers, central and local government bodies, zones may not succeed (FIAS 2008; Lakshmanan 2009).

2.7 Incentives Offered to SEZs

Studies argue that it may be easier for developing countries to provide benefits within a small geographical area such as SEZs rather than the whole country (Palit and Bhattacharjee 2008). Therefore, the right incentives, which are compatible with the WTO, are crucial for a successful SEZ design in developing countries. Broadly, incentives can be classified into fiscal and non-fiscal incentives. While the former has a direct impact on the income generated by the SEZs, the latter are largely related to ease of operations. Those who favour fiscal incentives (see Farole and Akinci 2011; Zeng 2010) have pointed out that when countries compete to get investment, investors would not locate in developing countries that have infrastructure and other problems if they are not offered fiscal incentives. This is discussed in the next subsection.

2.7.1 Fiscal Incentives Offered to SEZs

Fiscal incentives can be in the form of tax or duty reduction/exemption, ease in profit repatriation and provision of subsidies, among others. Table 2.4 in Appendix 1 lists the fiscal incentives offered to zones by different countries and the eligibility criteria. Most of the countries have clearly specified the benefits offered to the SEZs on their respective ministry website or as part of their zones acts and policies, but

there are exceptions. For instance, China gives incentives at a decentralised level and each zone management designs its own incentive package.

The Republic of Korea provides financial assistance for infrastructure development and for certain types of industries. Companies investing in industries involving highly advanced technology or high-value-added services are eligible for government subsidies for the purchase of land, construction of facilities, start-up of businesses and employment of qualified personnel.

The table further shows that some countries offer preferential treatment to lure foreign investments. For example, foreign firms in China used to have a lower corporate tax than domestic firms and they were also exempt from local income tax (Wang 2013; Zeng 2011). In fact, China has different incentive structures not only for firms located in SEZs and outside SEZs but also for domestic and foreign firms within SEZs (Tantri 2011). Incentives can change over time. For instance, in India the MAT exemption given to SEZs under the SEZ Act of 2005 has been withdrawn in the Union Budget of 2011–12. There are several arguments for and against the incentives given to SEZs in a developing country that has fiscal constraints. It is often argued that fiscal incentives represent revenue forgone, especially in cases where the developing country subsidises firms from developed countries in SEZs. However, if the developing country is able to attract FDI and technology, create employment and enhance exports, as has been the case with China, the benefits are far greater than the revenue forgone and government revenue can increase manifold.

Incentives have to be carefully designed as these can be actionable under the Subsidies and Countervailing Measures (SCM) Agreement of the WTO. While SEZs are not specifically mentioned in the WTO, certain incentives offered to SEZs are subject to disciplines under the SCM Agreement. Studies such as Creskoff and Walkenhorst (2009) have listed incentives that are not actionable under the WTO. These include exempting exported products from import duties and/or indirect taxes and exempting goods stored in SEZs from duties and indirect taxes. Subsidies that are actionable under the WTO include a direct subsidy contingent on export performance, preferential transport and freight charges for export shipments and allowance of special direct tax deductions for exports above those granted on goods for domestic consumptions. There are some grey areas in the SCM Agreement, and in certain cases compliance with the WTO depends on the facts of the particular case. This includes duty-free and tax-free treatment of production equipment used in SEZs.

If zones offer subsidies that are actionable under the SCM Agreement, they can face countervailing duties (CVDs). Hence, to meet the WTO requirements and avoid CVDs, countries such as Thailand have removed mandatory export requirement conditions under their zone legislation (Wang 2013). Vietnam changed its policy from the use of tax-based incentives to offering better services in the zones. In compliance with the WTO SCM Agreement, it separated tax holidays and other fiscal incentives from the SEZ programme. In India, on the other hand, companies located in SEZs have to be net foreign exchange earners within 5 years, which implies benefits given to SEZs are linked to exports and can be actionable under WTO. To make it non-actionable under the WTO, companies and industry associations are now requesting the government to replace direct income tax exemptions with

schemes such as sharing the cost of training employees and bearing part of the transportation costs of employees from home to SEZs. Such incentives are given by the Philippines to the IT/ITeS sector and are non-actionable under the WTO.

Once the foreign company decides to establish a presence in a country, the fiscal benefits help to decide where the company will locate—in an SEZ or in the domestic tariff area. Foreign companies also evaluate the type of fiscal incentives offered. For example, income tax benefits for a limited timeframe may not be beneficial if a company is not making profits, which is usually the case in the initial years when an SEZ is established. SEZ experts argue that tax holidays in countries such as India may encourage income shifting from non-tax-exempt enterprises to tax-exempt enterprises through transfer pricing of inter-company transactions.

While zones continue to give incentives as countries compete to get investment, fiscal incentives are not the only reason why companies select a particular zone. Since most countries give similar fiscal incentives, SEZs will be able to attract FDI and multinationals if they provide non-fiscal incentives, such as ease of doing business, along with fiscal incentives. Palit and Bhattacharjee (2008) point out that cheap labour, a large market and an enabling business environment are more important in attracting FDI. The next subsection discusses the non-fiscal incentives offered to SEZs.

2.7.2 Non-fiscal Incentives and Other Support Offered to SEZs

Several countries offer a variety of non-fiscal incentives and support to SEZs, which eases the cost of doing business. These include single-window fast-track clearances, simplified export–import procedures and customs clearances, lower land rent, 100 % foreign ownership and allowing sale to the domestic tariff area. Over time, these benefits have become more important than fiscal benefits. The key benefits of the zones are ease of obtaining licences and a fast-track clearance process. Countries have adopted various measures to set up fast-track clearances. For example, in the Philippines, PEZA has signed a Memorandum of Agreement with the Department of Environment and Natural Resources, which has eased environment clearances. PEZA also provides 24 × 7 service to companies located in the zones. Most countries provide a single-desk facility or single-window clearances for SEZs through the respective zonal authorities. Sometimes the zonal authorities' help to process visas for foreign nationals as has been the case of Philippines.

Various incentives are given to firms located in SEZs to ease their infrastructure bottlenecks and reduce the cost of establishing operations. Farole and Akinci (2011) mention that BEZA not only helps in getting land but land rates in these zones are highly subsidised. Similarly, land rent in EPZs in Taiwan is assessed at 2.24–5 % of the announced value of land. Further, no rent is charged on buildings within the EPZ for the first 2 years, 40 % discount is applied for the third and fourth years, there is a 20 % discount for the fifth and sixth years, and full rent is charged from

the beginning of the seventh year.⁴ Vietnam also has lower land rates in the zones compared to that in the DTA.

Regarding the different types of support that a government can offer, power is a major problem in developing countries such as Bangladesh. BEZA purchases power from the national grid and sells it to enterprises inside the zone, with a 10 % surcharge. Companies are also allowed to produce power inside the zone in countries such as India and Bangladesh. In China, the government plays a key role in building infrastructure such as roads, electricity and telephone connectivity. The government does not directly finance such infrastructure in most of the zones but supports it through various PPP models.

Countries such as the Republic of Korea, Taiwan and Bangladesh allow sub-contracting with export-oriented industries inside and outside EPZs. Bangladesh allows sale to the domestic tariff area up to 10 %, while Taiwan allows units to sell up to 50 % of their product in the domestic market.

In several countries, zones enjoy flexible labour laws. For example, in the Republic of Korea certain provisions of the Labour Standard Act are not applicable to the FEZs. Employers in FEZs are not obliged to fill up quotas for special classes of workers such as elderly people and they have greater freedom to hire temporary (outsourced) workers for longer periods.⁵ In Bangladesh, the zones have their own labour regulations (EPZ Workers Association and Industrial Relations Act 2010). In China, companies operating inside the zones can enter into enforceable labour contracts with specific term limits, can dismiss unqualified or underperforming employees and can adjust wage and compensation rates to reflect the market situation (ProLogis 2008).

In the Philippines, PEZA-registered economic zone enterprises can employ non-resident foreign nationals in supervisory, technical or advisory positions. PEZA also helps in the visa processing and foreign nationals in a PEZA-registered enterprise are given special non-immigrant visas with multiple-entry privileges. This incentivises foreign companies to invest in these zones.

To encourage foreign investment, the Republic of Korea allows the establishment of foreign educational institutes (schools and universities) and foreign hospitals in FEZs. Subsidies are also provided for the construction of foreign educational and research centres in the FEZs. Private investments in industries that involve highly advanced technology or high-value-added service industries are eligible to receive government subsidies for the purchase of land, construction of facilities, start-up of businesses and employment of qualified personnel.

The local government in China provides various business services to SEZs including legal, business planning, marketing, skill training, laboratories, product testing services and management services (Zeng 2010). The Shenzhen government

⁴http://investtaiwan.org/doc/2013_Taiwan_Investment_Guide_eng.pdf.(accessed on 19 October 2015)

⁵Korean Free Economic Zones. http://www.fez.go.kr/en/economic-indicators_view.jsp?bbsNo=3233&bbsmNo=18&cType=&cText (accessed on 19 October 2015)

has set up an intellectual property office and issued several policies for the protection of intellectual property rights (Zeng 2011). In Taiwan, EPZs provide trade, warehousing, security, technical and other support services.

2.8 Contribution of SEZs

The existing data and information show that SEZs have benefited the selected countries in terms of employment creation, FDI inflows, increase in exports, linkages to global production networks and moving up the value chain to high-value-added industries. However, there are several areas of concern such as displacement of farmers due to land acquisition for SEZs or the relaxation of labour laws in SEZs. This section discusses the contributions of SEZs in India and other comparator countries. Since zone development in different countries occurred at different points in time, most of the information is for different years, which makes it difficult to have cross-country comparisons. Nevertheless, the contribution of SEZs to each country's GDP, exports, technological advancement and FDI flows can be examined based on the existing literature. The literature shows that the contributions vary across countries and it can be both positive and negative.

• Contribution to the GDP and Government Revenue

Experience of the selected countries show that SEZs can contribute significantly to a country's GDP. In 2006, the combined GDP contribution of the majority of SEZs (including the seven comprehensive SEZs, ETDZs, HIDZ and FTZs) was 18.5 % of China's total GDP and 60 % of exports (China Knowledge Online 2009). The establishment of an SEZ impacts the government's revenue collection in two ways. In the initial stages of SEZ development, there is generally revenue forgone due to the incentives given. As the SEZs become successfully operational, revenue earning is likely to exceed the losses and hence the benefits to the government exchequer from FDI inflows, earnings from income tax of employees in SEZs, etc. are likely to outweigh the revenue forgone (CUTS 2007; Menon and Mitra 2009; Shaikh 2010; Zeng 2010, 2011).

• Contribution to Exports

SEZs/EPZs have made a significant contribution to the exports of developing countries. About 20 % of developing economies' exports comes from EPZs (WTO and Institute of Developing Economies (IDE)–Japan External Trade Organization (JETRO) 2011). In 2006, the five SEZs (Shenzhen, Zhuhai, Shantou, Xiamen and Hainan) and 54 national ETDZs contributed about 22 and 15 %, respectively, to the total merchandise exports of China (Zeng 2010). The share of exports from the processing zones in China reached nearly 50 % in 2009 (WTO and IDE–JETRO 2011). In 2008, in Vietnam, SEZs share in manufacturing exports was 41 % (Farole 2011). The share of SEZs in exports of the Philippines was about 78 % in 2005 (FIAS 2008). In Thailand, exports from zones accounted for about 20 % of the

country's exports in 2012 (IEAT 2012), while the share of zones in Bangladesh's exports was more than 17 % in 2009 (Farole and Akinci 2011). In the case of India, exports from SEZs have been increasing over time and the share of exports from SEZs to the national exports has been between 18 and 22 % since 2009–10 according to data provided by the Department of Commerce.

• Contribution to Technology and Development of Value Chains

SEZs not only lead to export growth but they also lead to the development of high-technology products, as has been the experience of China. Prior to the establishment of SEZs, China's exports were in labour-intensive, low-value products. When China started developing SEZs, the country focused on attracting high-value manufacturing into SEZs. After 2001, China became a key player in global exports of both labour-intensive and high-technology products. The bulk of the high-technology products' exports was from the SEZs.

SEZs have been used by countries such as China, Taiwan and the Republic of Korea to experiment with innovative techniques of production and development. They have been pioneers in innovation and technological upgrades. For example, in 2007, 54 HIDZs accounted for almost half the high-technology firms and technology incubators in China. These HIDZs registered approximately 50,000 invention patents (Zhong et al. 2009). Studies show that if investment in SEZs is accompanied by advanced technology and if there are backward linkages between SEZs and domestic firms as in the Republic of Korea and China, it leads to technological diffusion and upgrades of domestic firms.

The linkages with the domestic economy lead to the development of domestic value chains, which through SEZs can be connected to GVCs. The zones can be linked to the domestic economy through local procurement of goods. The degree to which a zone depends on local suppliers can vary with the type of raw materials or capital equipment required to produce the exporting commodity.

The development of domestic and international value chains also depends on the type of product imported. In the initial stages, SEZs may depend on imported technology and hence the import content may be high. Ideally, this should reduce over time with the percolation of technology. For example, in the Shenzhen SEZ in China the import intensity⁶ was initially high (around 56 % in 2008), because it was importing technology (WTO and IDE-JETRO 2011), but it subsequently reduced because the technology became available locally. If the country is dependent on imported raw materials for processing in SEZs, the import content may continue to be high as has been the case of petroleum processing in Indian SEZs.

• Contribution to Investment and FDI Inflows

SEZs have attracted significant investments globally. The investment can be made by central or local governments, and domestic and foreign private zone developers and units. Investments are made to develop infrastructure both within and outside

⁶This is measured as a simple ratio of net exports to total exports.

the zones. In the past, zones were largely developed by the government, but in recent years the private sector is the major investor. Various PPP models have also developed. There have been instances of cross-country inter-government and private sector collaboration in zone development, as in the case of the China–Singapore collaboration in Suzhou Industrial Park, China.

Some countries give disaggregated data for domestic and foreign investment in each zone, while other countries present total foreign investment data or total investment data. In China, the data for SEZs are available at a disaggregated level for the different zones. In 1981, four zones (Shenzhen, Zhuhai, Shantou and Xiamen) accounted for 59.8 % of total FDI inflows into China; Shenzhen alone accounted for 50.6 % of the share. By 2007, total FDI into the SEZs (excluding HIDZs) was about 46 % of the country's total FDI (Zeng 2010). Although the share of FDI inflow declined over time, it still constituted a major part of investment in China. In Bangladesh, EPZs accounted for 22 % of the total FDI inflows in 2009 (Farole and Akinci 2011). In the Philippines, the share of FDI inflows to EPZs rose from 30 % in 1997 to 81 % in 2000 (UNCTAD 2002). By contrast, the share of FDI inflows in SEZs in India in total FDI inflows was only 6.9 % in 2011–2012.

Studies show that FDI inflow and exports are linked. For example, Yeung et al. (2009) argue that Shenzhen's success in attracting FDI is reflected in the export performance of the zone in 2007, which accounted for about 14 % of total exports from China.

Zones can attract FDI through incentives and targeted policies. One factor responsible for large FDI inflows in the Chinese zones was the generous corporate tax rate of 15 % for foreign firms as opposed to 30 % for domestic firms, along with exemption from local income tax (Zeng 2010). Studies also show that the Chinese diaspora played a key role in the success of SEZs in attracting investment and technology (Zeng 2010).

Foreign investors from certain countries have shown an interest in investing in zones in some countries. For instance, investors from Japan have invested in zones in Taiwan, the Republic of Korea, China, Vietnam and Thailand. While the Japanese are key investors in economic corridor projects in India and are building industrial clusters along the economic corridors, they have not shown a similar interest in investing in SEZs or in manufacturing units within existing SEZs. Companies from Taiwan, the USA and the EU (such as Germany) are major investors in zones in China. Within ASEAN, Singapore is keen to invest in zone development in neighbouring countries such as Malaysia and Indonesia. Survey participants pointed out that Singapore's successful investments in zones in neighbouring countries and China could be replicated in India through appropriate government policies. In recent years, China has expressed an interest in investing in SEZs in India. In Bangladesh, the main investors in zones are Korean companies, followed by companies from Japan, China and Taiwan. Taiwanese companies are keen to invest in India (see Pal et al. 2013) and set up global supply chains and production networks as an alternative destination to China; however, the poor infrastructure, the uncertain policy environment related to SEZs and lack of centre–state coordination are preventing such investment.

Discussions with foreign embassies show that several countries would invest in India if the infrastructure outside the zones improves and zones had better connectivity with ports, airports, etc. Moreover, there should be centre–state coordination in SEZ development, transparent governance procedures, single-window clearance and policy and regulatory stability. Also, SEZs and NIMZs should have priority status and a policy vision. The in-depth interviews further point out that the Indian government should focus on utilising land in the existing SEZs and attracting units to notified and operational SEZs rather than giving new approvals for SEZs. The discussions also highlighted that in countries such as India and Bangladesh where the cost of doing business is high, SEZs have to be designed such that they provide ease of doing business.

• Contribution to Employment and Skill Upgrading

The performance of SEZs depends on their ability to create new employment opportunities rather than to shift employment from the DTA. However, due to the lack of data for additional employment, it is difficult to assess whether SEZs have created new employment or there has been a shift in employment from the DTA. In Bangladesh, the share of EPZ employment in the national industrial sector employment was only 3 % in 2008. However, the share of zones in employment in Vietnam is higher, at 19 % in 2008 (Farole 2011). In India, employment in SEZs increased almost ninefold between 2005–06 and 2013–14.⁷

Apart from generating direct employment, SEZs can create indirect employment depending on the extent of backward and forward linkages between the zones and the domestic economy. A study by FIAS (2008) pointed out that while the direct employment effects of SEZs are marginal, the indirect employment could range from 9.6 to 77 million jobs globally. However, Maex (1983) pointed out that due to their high reliance on imports, EPZs have limited impact on indirect employment creation. Overall, the greater the linkage of the SEZ with the domestic economy, the greater is the potential to generate indirect employment.

SEZs in many countries have also contributed to improving the quality of the existing workforce through training and skill upgrading programmes. For instance, in China, the government has established training institutes in the zones to improve the technical and vocational skills of workers. In Taiwan, cooperative training programmes between schools/ colleges and the enterprises in the SEZs have been successful in skill development (Aggarwal 2012). Eco-zones in the Philippines have registered a substantial rise in skill levels with a focus on skill-intensive and research activities (FIAS 2008). Countries such as Thailand, which face a persistent shortage of qualified labour, are taking measures to establish human resource development centres in their industrial estates.⁸ A study by Kusago and Tzannatos (1998) pointed out that three months of on-the-job training is provided to workers

⁷Data provided by Export Promotion Council for EOUs and SEZs (EPCES) and the Department of Commerce.

⁸For details see <http://www.ieat.go.th/en> (accessed on 19 October 2015).

in specific EPZs of countries such as China (Shenzhen), the Republic of Korea (Masan), Taiwan (Kaohsiung) and Thailand (Lat Krabang). The benefits of zone-specific training and skill upgrading programmes can also percolate to the DTA through labour movement as is seen in China and Taiwan (Aggarwal 2012).

It is often pointed out that SEZs have created huge employment opportunities for women. This is because SEZs are allowed to offer flexible wages, and incidents of violation of the minimum wage regulations have occurred in countries such as Bangladesh (Farole and Akinci 2011). Moreover, the share of women in total employment in SEZs is higher than in the economy as a whole, because women can be employed at lower wages. According to one study, female workers in the Madras EPZ (India) were paid wages much below the prevailing minimum wage (Murayama and Yokota 2008). Sometimes, the lower wages of women are due to their lower skill levels. In Bangladesh, women workers earned less than their male counterparts because of the low-skilled work allocated to them (Zohir 2011). This points to the negative impact of SEZs. Women in SEZs can face both wage and non-wage discrimination in the form of hiring and benefits, quality of work, career development and worker's rights (ILO 2003).

• Social and Environmental Impact

Studies show that SEZs can lead to regional inequalities (Aggarwal 2007; Palit and Bhattacharjee 2008). Being fenced enclaves with benefits such as fiscal incentives and relaxed labour regulations, SEZs may not advocate a model of balanced growth. They are built with the idea of creating special enclaves to promote exports and attract FDI and technology inflows. They can have other negative impacts such as land acquisition with the concomitant displacement of farmers, employment of low-skilled women labour and lack of enforcement of labour regulations, among others (Aggarwal 2007; FIAS 2008).

Land acquisition remains the most controversial issue with respect to SEZs (Banerjee et al. 2007; Basu 2007; Levien 2011; Palit and Bhattacharya 2008), especially acquisition of fertile land for SEZs and its implications for food security and the loss of livelihoods for those dependent on that land. Several anti-SEZ movements against land acquisition have flagged issues related to rehabilitation, resettlement and compensation (Aggarwal 2007). Anti-SEZ movements opposing land acquisition have stalled many SEZs in India. Those in favour of SEZs argue that land acquisition is not specific to SEZs and any industrialisation process requires land acquisition. Once the SEZ develops, it can lead to the development of the surrounding area through backward and forward linkages and hence, it can be a tool for the development of backward areas and overall economic development. Many SEZs have world-class infrastructure both inside and outside the zones, which improves the quality of life.

The social impact of SEZs on labour depends on the country's labour policy. Relaxed labour regulations in the SEZ can lead to the suppression of labour standards, a ban on trade unions and poor working conditions (in terms of long working hours and laxity in health and safety norms for labour) (ILO 1998). ILO (2003) and the International Confederation of Free Trade Unions (Perman et al. 2004) have documented that SEZs in Bangladesh had restrictions on freedom of association and

collective bargaining, and there was a ban on the right to strike (FIAS 2008). In China, many SEZs did not have sufficient health, education and transportation services (Zeng 2011) and the average working hours in SEZs were long, varying between 54 and 77 h (Kusago and Tzannatos 1998) compared to the 40-h norm stipulated by the ILO.

Thus, there can be negative social impacts of SEZs unless countries have the right policies to counter them. In developing countries where social indicators are usually low, the negative social impact of SEZs can impinge on human development and overall economic growth. However, if these issues are addressed with the correct policies, SEZs can play an important role in promoting human development. SEZs can positively impact the social indicators by generating employment opportunities (especially for women) and increasing the employability of labour through skill upgrading and training if such facilities are provided in the SEZs. Employment in SEZs can increase income (Aggarwal 2012). SEZs can lead to skill upgrading, improve the quality of life of labour and enhance their productivity. For example, the majority of workers in the Beijing and Guangzhou zones in China reported that employment in the zones has improved their income and living conditions and has led to professional development (Aggarwal 2007).

The environmental impact of SEZs can be both negative and positive. Studies show that SEZs may have a detrimental impact on the environment. By concentrating factories in one area, they can create problems of air and water pollution, accumulation of solid/ hazardous wastes, noise/radiation, soil contamination and chemical and fuel spills, among others (Aggarwal 2012). For instance, according to the Korea Industrial Complex Corporation, 650 industrial parks in the Republic of Korea account for 63 % of the industrial emissions in the country (Farole and Akinci 2011). In China, low technology and labour-intensive manufacturing in many SEZs has created serious environmental problems such as water, air and land pollution and a huge amount of industrial waste (Zeng 2011).

The adverse environmental impacts also depend on the kind of industries operating in the SEZs. For example, a textile industry creates less environmental pollution than a plastics or chemical manufacturing industry. Sometimes, SEZs offer more flexible environment regulations, which leads to the establishment of polluting industries in SEZs (Farole and Akinci 2011). Moreover, to attract foreign investment, developing countries may lower their environment standards in the SEZs, which can cause severe environmental harm (Esty 1996). Hence, there is a need for environment policies that are specific to the zone, region and industry in order to minimise environmental impacts.

Countering the above findings, other studies have shown that firms inside SEZs are less environment polluting than firms outside the SEZs because they are conscious of environment issues. They use more efficient materials and renewable energy to reduce economic costs and environmental impacts (Hart 1995). In addition, firms in SEZs can minimise their compliance cost by sharing it with others in the zone. Peer pressure arising from the rules of conduct promoted by professional networks created within the SEZ may also force firms to adopt environment-friendly strategies (Shah and Rivera 2007).

In recent years, there has been a shift towards environment-friendly SEZs with increasing awareness in the private sector about environmental sustainability. Low-carbon, green SEZs, which reduce the carbon footprint and address climate change mitigation during their operations, are being set up in developing countries. Such SEZs have features such as greenhouse gas emission mitigation, efficient energy and resource usage and a structured waste disposal and recycling mechanism. Countries are also trying to convert their existing SEZs into more environment-friendly SEZs. For example, China is in the process of transforming Jilin City into the first low-carbon city (Farole and Akinci 2011). Many private SEZs in India have taken initiatives to develop green buildings and set up proper waste disposal and recycling facilities (Aggarwal et al. 2008). Indian policymakers are trying to force polluting industries to move out of SEZs through various notifications of the Department of Commerce.

Overall, studies show that developing countries have to restrict polluting industries in SEZs, and they should encourage developers and units to reduce pollution through proper waste management and other technologies. SEZs should also have provisions for sharing infrastructure and resources such as water treatment plants between units inside and outside the SEZs so that they are used to the optimum. The government should promote the use of renewable energy in SEZs through appropriate policy incentives. The governments of developing countries may need to provide support to firms located in SEZs for R&D and technological upgrading in order to raise their environmental standards as is done by China (Zeng 2011).

In short, SEZs can have both positive and negative impacts. Through appropriate policy incentives, the negative impacts can be minimised. No country has the ideal SEZ model and policies related to SEZs are evolving. Ideally, the SEZ policy has to support the growth of business in SEZs in the overall context of the country's trade and development and its international engagements. It is also essential to synchronise the SEZ policies with a country's overall trade and investment policies. This is discussed in the next section.

2.9 SEZs, Autonomous Liberalisation and Trade Agreements

In most countries, one of the primary objectives of SEZs is to facilitate trade (especially exports) and attract FDI inflows. A unit located in an SEZ generally gets the benefit of zero tariffs on imports. However, in recent years, several countries have autonomously liberalised tariffs and, therefore, lower tariffs on imports alone may not be a reason for locating in SEZs. There is a wide range of non-fiscal benefits that can make SEZs more attractive than the DTA.

With globalisation, countries are now engaged in multiple trade agreements. Multilateral trade agreements (for example, between WTO member countries), regional trade agreements (RTAs; for example, the agreement among ASEAN member countries) and bilateral trade agreements (for example, the India-Singapore

Comprehensive Economic Cooperation Agreement) are instruments for removing trade barriers and promoting trade and investment. RTAs and bilateral trade agreements offer preferential market access only to members of the trade agreement through reciprocal reduction or elimination of tariffs and other trade barriers, while the WTO offers such benefits across all member countries on a multilateral basis. Multilateral liberalisation under the WTO can ensure predictability to autonomous domestic reforms and liberalisation; at the same time, it does not lead to trade diversion, as may be the case with preferential trade agreements. Despite these benefits, due to the slow progress of the Doha Round of the WTO negotiations, there has been a proliferation of preferential trade agreements. As of 7 April 2015, some 612 notifications of RTAs (counting goods, services and accessions separately) had been received by the WTO. Of these, 406 were in force⁹ and these account for a sizable percentage of global trade. India and the selected countries, namely Bangladesh, China, Philippines, Republic of Korea, Taiwan, Thailand and Vietnam, are members of the WTO and are actively engaged in bilateral and regional trade agreements. These regional and bilateral engagements have widespread implications on domestic trade and investment policies, including SEZs. To understand the implications of trade agreements on domestic policy, one has to understand the differences between the selected countries and India in terms of trade policies.

First, many countries (for example, Republic of Korea, Taiwan and Thailand) have unilaterally liberalised tariffs or have entered into trade agreements that ensure significant reduction of tariff and non-tariff barriers. With an average applied tariff rate of 13.5 %, India is one of the high-tariff countries of the world. Moreover, the tariff lines are complex and sometimes raw materials have higher tariffs than finished products. Thus, a number of companies in India face an inverted duty structure. Moreover, in its trade agreements, India maintains a long list of sensitive products where it does not undertake tariff reduction. While this can help the government earn revenue and enhance India's bargaining power in tariff negotiations (known as negotiations in trade in goods), different tariff rates for different trading partners can create complexities for businesses operating across multiple countries. It also makes it difficult to source from the most competent manufacturers and establish global production networks. If the preferential trade agreements lead to lower or zero duty for imports for certain product categories (as has been the case with the ASEAN–India Agreement on Trade in Goods and the India–Thailand Early Harvest Scheme), then exports from SEZs to the DTA in India are likely to face a high tariff compared to lower or zero-duty imports from these countries. In such cases, the trade agreements can make SEZs unattractive. Therefore, once a country starts entering into trade agreements, it has to either lower its tariffs autonomously or the SEZs have to be given a special status where they can sell to the DTA at the lowest FTA tariff. Unless one of these is in place, SEZs will be at a disadvantage in bilateral or regional trade agreements.

⁹WTO website. http://www.wto.org/english/tratop_e/region_e/region_e.htm. (accessed on 4 June 2014).

Second, the SEZ policy differs from RTAs in terms of its additional objectives. The additional benefits of a successful SEZ programme include employment generation, infrastructure development and the development of allied industries through backward linkages, which are not generally covered under RTAs. Thus, SEZs can benefit a country more than RTAs if they have the right policy environment. Most countries in Asia have focused on strengthening the additional benefits of SEZs. They have also focused on how SEZs can help to link with the global production network and value chains without the adverse trade diversion impacts of trade agreements. They have used the SEZs to minimise trade diversion and to establish links with global production networks. So far, India has not focused on SEZs as an instrument for the establishment of global production networks.

Third, the fiscal and other incentives given to SEZ developers/units are similar in most countries. However, WTO member countries are redesigning their SEZ incentives to make them non-actionable under the WTO. In a competitive world, unless countries design incentives that are non-actionable under the WTO, they will find it difficult to get units for SEZs. While domestic firms are keen to get incentives, global experiences show that incentives alone cannot attract foreign companies to SEZs. They not only compare incentives across countries, but also look at the ease of doing business.

Fourth, the selected countries have tried to match their autonomous trade policy with the SEZ policy and commitments under the trade agreements. If there is synergy, it will promote trade and investment; if not, then the policies may counter each other. Such policy synergy is complex because many countries have signed several RTAs, and since each RTA has a different set of rules and regulations, this can cause contradictions and complexities. Moreover, RTAs cover several issues that are WTO plus. These can include trade facilitation, harmonisation of standards, environment issues and labour standards, among others. Thus, many of the trade facilitation measures under the SEZ can complement or contradict the RTA of a country (Farole and Akinci 2011). To avoid such complexities, many of the recent RTAs in the region mention policies regarding SEZs and try to synchronise the RTA with the SEZ policy through specific chapters in the RTA.

If the RTA and SEZ policies are synchronised, it can lead to cross-country linkages and the establishment of regional manufacturing and services networks that use SEZs as hubs. These SEZs can be based on each country's endowments and areas of trade specialisation. This might also lead to backward linkages, leading to overall development of all the countries engaged in RTAs. The development of cross-country SEZs needs harmonisation of the policy regimes related to SEZs. Although countries are still trying to harmonise their SEZ policy regime, countries such as Indonesia, Malaysia and Thailand in 1993 launched the sub-regional growth triangle—the 'transnational export processing zone'—to accelerate their sub-region's economic growth and industrial transformation. These three countries have harmonised their regulations relating to government investment, land and labour. This growth triangle has set an example for fostering economic expansion, development of R&D and skill upgrades, where each country leverages its mutual strength (Farole and Akinci 2011). In the same year, 1993–4, Singapore developed

industrial parks in Wuxi and Suzhou in China, which is another example of inter-government collaboration (Brautigam and Tang 2011). China had a clear strategy to learn from Singapore's management experiences (Farole and Akinci 2011) and the joint development of the SEZs provided Chinese policymakers the opportunity to understand Singapore's management practices. Such cross-country partnerships are likely to become more common in the future, where countries will leverage on their mutual strengths.

If India wants to be part of the global production networks and value chain, the country has to understand the concept of economic corridors and cross-country partnerships. The success of economic corridors in Asia is based on the concept of how domestic trade and subsidy policy can be linked to SEZs and trade agreements. India is now actively promoting economic corridors, and the experiences of ASEAN countries in promoting and developing regional and sub-regional corridors will benefit India. As a first step, policies have to be aligned across the different states of India so that there is smooth inter-state corridor development. Once the regulations across different states are harmonised, India can then focus on harmonising the regulatory framework with neighbouring countries such as Myanmar and Thailand through regulatory cooperation, which can be part of the trade agreements.

2.10 Conclusion and the Way Forward

This chapter compares India's SEZ experience with seven countries to understand what India can learn from their experience of SEZ development. The chapter shows that India's experience in establishing SEZs differs from those of other countries in terms of institutional framework, role of the nodal agency and objective of the SEZ regulation, among others. Further, Indian SEZs do not have measurable performance targets against which they can be benchmarked. Unlike countries such as China, Indian SEZs do not compete among themselves and they have no external pressure that would ensure performance.

Indian SEZs are also different from SEZs in countries such as China in terms of the number and size of SEZs. Most countries have an incremental approach to SEZ development where governments approve a specific number of zones; based on the success or failure of these zones, decisions are taken to replicate the model. India has the largest number of SEZs among the comparator countries. However, most SEZs in India are much smaller than SEZs in countries such as China, and therefore, the zones lack economies of scale.

The location of SEZs is important for its success and to promote manufacturing exports. The SEZs have to be connected through a well-developed transport infrastructure including ports and airports. Since land is a scarce resource and all countries face issues related to land acquisition, most countries have realised that such projects need government support. In India, the Department of Commerce plays no role in facilitating land acquisition; however, the state governments sometimes offer support to private developers for acquiring land.

Global experiences show that performance of SEZs depends on several measurable and non-measurable indicators that can vary across SEZs in the same country. Factors such as location, availability of land, price of land, connectivity, infrastructure within and outside the SEZs, autonomy of the SEZs, fiscal and other incentives, supporting regulations and type of governance affect the success or failure of an SEZ. Further, the performance of an SEZ can vary over time.

The viability of SEZs depends on their ability to attract units. However, some countries have been more successful than others in attracting certain types of units and developing competence in certain product categories. If units are located in SEZs in order to import raw materials, import content will continue to be high. By contrast, if units located in SEZs import technology and machinery that later percolate to the domestic economy, import content will not only reduce but there will also be positive technology spillover effects. Therefore, it is important to understand the kinds of units that should locate in SEZs and how SEZs can lead to the development of the domestic economy through backward and forward linkages.

The chapter highlights that if successfully implemented, the revenue gains from SEZs far exceed the revenue losses. Fiscal incentives alone do not attract FDI to SEZs, because all countries tend to give similar fiscal benefits. Instead, ease of doing business makes SEZs attractive to foreign and domestic investors. As countries are liberalising, globalising and entering into trade agreements, unless a country autonomously lowers tariffs, it will not gain from trade agreements or the SEZ policy. SEZs should enjoy the lowest FTA tariffs, and trade agreements signed by the country should take into account its implications on SEZs.

To conclude, SEZs are measures to facilitate trade and investment and to support the development of global production networks and value chains. They are important components of cross-country economic corridor development and trade agreements. They can attract investment in high-technology products, lead to product diversification and promote exports. SEZs can create employment and infrastructure and lead to the growth of the manufacturing and services sector in developing countries such as India if they are supported by the right policy. The Indian government should not only take policy initiatives, but it should also aggressively market its SEZ policy. In most countries, the government, SEZ developers and SEZ-specific authorities work together to attract units and foreign investment to SEZs. They aggressively market the SEZs through the websites of their embassies and other investment portals. India is the only country (apart from Dubai, UAE) that has established a specialised body—the Export Promotion Council for EOUs and SEZs (EPCES) under the Department of Commerce—to promote SEZs. EPCES should have a clear mandate to attract investment in SEZs (including FDI) and to market Indian SEZs abroad in order to attract units to SEZs. This will enable the country to attract investment in SEZs.

Appendix 1

See Tables 2.3 and 2.4.

Table 2.3 Types of zones

Types of zones	Broad features	Development objective	Typical size	Typical location	Activities	Markets	Examples
Enterprise Zone, Empowerment, Urban Free Zone	Enterprise zones are intended to revitalise distressed urban or rural areas by providing tax incentives and financial grants. Most zones are in developed countries	Urban revitalisation	Size <50 ha	Distressed urban or rural areas	Multi-use	Domestic	Empowerment Zone, Chicago, USA
Free Enterprise (Single unit EPZ)	Incentives are provided to individual enterprises regardless of location; factories do not have to locate within a designated zone to receive incentives and privileges	Export manufacturing	No minimum size	Country-wide	Manufacturing or other processing	Mostly export	Mauritius, Mexico
Free Trade Zone (Commercial Free Zone)	Small, fenced-in, duty-free areas that offer warehousing, storage and distribution facilities for trade, transshipment and re-export operations	Support trade	Size <50 ha	Ports of entry	Entrepôt and trade-related activity	Domestic, re-export	Colon Free Zone, Panama
Freeport/SEZ	Freeports are a broad concept and typically encompass much larger areas. They accommodate all types of activities, including tourism and retail sales, permit people to reside on-site and provide a broader set of incentives and benefits	Integrated development	Size >1,000 ha	None	Multi-use	Internal, domestic and export	Aqaba Special Economic Zone, Jordan; Shenzhen

(continued)

Table 2.3 (continued)

Types of zones	Broad features	Development objective	Typical size	Typical location	Activities	Markets	Examples
Hybrid EPZ	Hybrid EPZs are divided into a general zone open to all industries regardless of export orientation and a separate EPZ area reserved for export-oriented, EPZ-registered enterprises	Export manufacturing	Size <100 ha; only part of area is designated as an EPZ	None	Manufacturing or other processing	Export and domestic	Lat Krabang Industrial Estate, Thailand
Traditional EPZ	Entire area within the zone is exclusively for export-oriented enterprises licensed under an EPZ regime	Export manufacturing	Size <100 ha; total area is designated as an EPZ	None	Manufacturing or other processing	Mostly export	Bangladesh, Vietnam*

Sources Compiled from FIAS (2008), Farole and Akinci (2011)

*Bangladesh passed a new Economic Zones Act in 2010 that will open the potential of zone activities beyond the traditional EPZs; Vietnam has various forms of economic zones, among which are EPZs

Table 2.4 Incentives given to SEZs/Zones in the selected countries

	Bangladesh	China	India	Taiwan	Thailand	Philippines	Republic of Korea	Vietnam
Benefits are available to	Domestic and foreign companies	Earlier preferential treatment was given to foreign investors, but now equal treatment is given to both domestic and foreign enterprises with a focus on attracting investment in technology-intensive and high-value-added sectors	Domestic and foreign companies	Domestic and foreign companies	Domestic and foreign companies	Domestic and foreign companies	Preferable treatment is given to foreign invested companies	Domestic and foreign companies
Benefits are targeted at	All zones irrespective of the sector of operation	Benefits targeted at specific sectors. Provincial government gives the benefits	All zones irrespective of the sector of operation	All zones irrespective of the sector of operation	Board of Investment (BoI) Zone in which the industrial estate is located: zone 1, zone 2 or zone 3	Manufacturing enterprises and IT enterprises. The distinction is based on pioneer and non-pioneer projects; others such as tourism, medical tourism and agro-industrial enterprises also enjoy a tax holiday	Manufacturing, business, tourism, logistics R&D, medical institutions, etc.	Specific sectors such as new infrastructure development projects, new manufacturing projects and new services projects

(continued)

Table 2.4 (continued)

	Bangladesh	China	India	Taiwan	Thailand	Philippines	Republic of Korea	Vietnam
Direct Tax Benefits: Income tax/corporate tax exemptions given to developers, units or industries	Exemptions are in a phased manner based on the date on which industries are set up	Exemptions are in a phased manner calculated from the financial year when the enterprise starts making its first business income within the SEZ	Developers are exempt from tax on income derived from the business of developing SEZs in a block of 10 years in 15 years Units enjoy phased income tax exemptions on export income	Investments in R&D are entitled to credit against business income tax payable	Board of Investment (BoI), Thailand provides corporate income tax exemption to projects located within industrial estates or promoted industrial zones, for a specific period Industrial Estate Authority of Thailand (IEAT), the enterprise responsible for setting up Free Zones/SEZs, does not provide any income tax exemption to developers/units	For developers, there is a 5 % special tax on gross income, Targeted units enjoy phased exemptions. After the income tax holiday expires, there is a 5 % special tax on gross income	For developers of Free Economic Zones and units in FEZs and FTZs. Different exemptions are given for FTZs and FEZs. In both cases, exemptions are in a phased manner based on the invested amount	Preferential corporate income tax rate for specific time from the commencement of operations of projects in industrial zones and EPZs These projects may also be given an additional tax holiday or a 50 % reduction in the corporate income tax rate for certain years

(continued)

Table 2.4 (continued)

	Bangladesh	China	India	Taiwan	Thailand	Philippines	Republic of Korea	Vietnam
Duty-free imports of goods (raw materials/capital goods)	✓	✓	✓	✓	✓	✓ (only for units)	✓	✓ (duty-free inputs are allowed if compliant with WTO)
Exemption from other taxes	Dividend tax Relief from double taxation	Export tax	Central sales tax and service tax for developers Central sales tax, service tax, state sales tax and other levies extended by the respective state governments for the units	Commodity tax and business tax on machinery and equipment, raw materials, etc. Business entities in the EPZs are exempt from business taxes for exporting products and labour services or sale of machinery, raw materials, etc. to industries inside EPZs, Scientific Industrial Parks, bonded factories and warehouses	Value added tax (VAT) as well as excise tax on machinery, equipment, components, raw materials and supplies used for the production of goods and other merchandise Export tax	All national and local taxes, zero-VAT and exemption from expanding withholding tax, except property tax for developers. VAT-zero rating subject to compliance requirements, sector-specific exemptions from expanded withholding tax for units. Manufacturing enterprises and IT enjoy exemption of almost all local government fees, licences and taxes	Land acquisition tax and property tax for FEZs development projects VAT for units in FTZs	Reduction in personal income tax of Vietnamese and foreign employees working in the zones. Deduction from the corporate income tax of enterprises of the cost of building, maintaining and renting apartments and other buildings for the use of employees

(continued)

Table 2.4 (continued)

	Bangladesh	China	India	Taiwan	Thailand	Philippines	Republic of Korea	Vietnam
Other benefits	Generalised System of Preference (GSP) is available Duty- and quota-free access to EU, Canada, Norway, Australia, etc. 100 % foreign ownership is permitted Remittance of royalty, technical and consultation fees allowed Full repatriation of capital and dividends	Repatriation of profits and capital investments	External commercial borrowings by units up to a certain amount in a year without any maturity restriction	Reduced land rents	Remittance of foreign currency to the home country is allowed	–	Companies in FTZs can lease land or factories, etc. for an extended period at a low cost, creating favourable business conditions for foreign invested companies Reduction or exemption of rent for foreign invested companies in FEZs up to 100 %.	Reduced land rents in the zones

Source Zone Authority websites for Bangladesh, Philippines, Taiwan and Thailand; Vietnam Industrial Investment Report, 2011 accessible at https://www.unido.org/fileadmin/user_media/Publications/Pub_free/VIIR%20print.pdf (accessed on 10 August 2015); Aggarwal (2012); Zeng (2010); 2013 Doing Business in Republic of Korea, Korea Trade-Investment Promotion Agency

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