

# The Key Success Factors of Special Economic Zones

By:  
Teo Eng Cheong  
CEO International  
(Singapore/SE Asia/North Asia)  
Surbana Jurong Group



Shenzhen which had only a population of 30,000, was designated to be the first Special Economic Zone (SEZ) in China in May 1980. Today, Shenzhen is a major business, financial and innovative centre in China.

**There are thousands of Special Economic Zones (SEZs), industrial parks, export processing zones and other similar areas globally. Some are successful in generating significant economic activities. But many are not. Why?**

I believe that ultimately there are five key success factors for SEZs and other industrial parks:-

1. **Clear Objectives;**
2. **Bold Policy Innovations;**
3. **Good Locations;**
4. **Customised Designs; and**
5. **Effective Management.**

## Clear Objectives

First, it is most important to be clear about the specific objectives of setting up the SEZ. The usual reasons include:

- a) Creation of jobs, especially when there is significant unemployment;
- b) Promotion of exports to generate foreign reserves, when there is a shortage of foreign reserves and a trade deficit;
- c) Development of specific industries, eg the tourism sector;
- d) Technology transfer.

While these reasons need not be mutually exclusive, we should recognise that it will not be easy for one SEZ to fulfill all these objectives at the same time. So, it is important to identify the most critical rationale for setting up the SEZ. And given the reasons, the strategies then become clearer. For example: If one

should target foreign Multinational Corporations (MNCs) or local companies, should the sector focus be on manufacturing, or services.

For instance, for many developing countries, creating employment for the masses is critical. In such instances, an obvious strategy is to attract labour-intensive manufacturing activities or to promote the services sectors that are suitable given the education level of the population. However, too often, many government authorities become distracted by the glamour of attracting high-tech industries, which have a high degree of automation and may not create many jobs, thus defeating the purpose of setting up the SEZ in the first instance. The lack of clarity of objectives and an inability to remain consistent, often results in a SEZ that did not accomplish the objectives, but is also unsuccessful.

One of the most successful SEZs is the Shenzhen SEZ in China, started in 1980, when China first opened up its economy. At that time, China was in the midst of an ideological shift from central planning to a market economy. The Shenzhen SEZ thus served as an experiment for China to test out market-based reforms. The objectives were clear and the corresponding policies, such as tax incentives and more liberal business policies were implemented to facilitate these objectives. Even today, Shenzhen

remains as one of the most dynamic and innovative cities in China.

Another example is the China-Singapore Suzhou Industrial Park (CSSIP) which was set up in 1994 for China to learn and implement some of Singapore's industrial development policies. Specifically, it was dedicated to developing an export-oriented manufacturing sector in Suzhou targeted at foreign MNCs. A dedicated government was set up to administer the park and various foreign investment-related policies were liberalised based on Singapore's experience. Today, the CSSIP is one of the top industrial parks in China in terms of industrial output, exports and value-added with more than its fair share of global Fortune 500 companies.

### **Bold Policy Innovations**

Having identified the objectives of the SEZ, the next step is to boldly formulate new policies or liberalise existing regulations. A common failure for many SEZs is to hold back on the necessary policy innovations because of fear of liberalising too quickly. This is unfortunate because the idea of setting an area as a SEZ is precisely to allow for experimentation and liberalisation without affecting the rest of the country. To be successful, the SEZ must inspire confidence that it will be different from other parts of the country. Some typical policy innovations or liberalisations include:

- a) Taxation - Tax holidays or reduced tax rates is probably the first policy innovation for many SEZs. The Chinese industrial zones have used the tax policy of "Two years free of tax, three years at half rate" (liang mian san jian) effectively for many years. Besides corporate income tax, other taxes such as GST and personal income tax can also be tools for liberalisation within SEZs.
- b) Customs regulations - These refer to the exemption or reduction of import tariffs as well as the simplification of customs clearance procedures on goods imported into the SEZ. This is especially relevant for SEZs that are set up to promote exports. The Airport Logistics Park of Singapore (ALPS) is a good example of how customs regulations can be liberalised to stimulate the growth of the air logistics sector.
- c) Labour policies - Where there is a shortage of manpower, labour policies may have to be liberalised to allow influx of migrants, be it from overseas or from other parts of the country.

- d) Financial flows - In countries where there are foreign exchange and capital controls, the SEZ may be a location where such restrictions can be lifted. If stronger promotion is required, low interest loans can even be provided in the SEZ.

### **Good Locations**

The location of the SEZ is another important consideration. If a SEZ is meant to generate exports, then its proximity to ports and airports will be crucial. If the SEZ is meant to develop the manufacturing sector, then its proximity to a suitably educated labour force will determine how successful it will be. If the SEZ is meant to develop the downstream processing industries, eg, food processing, then it should be sufficiently near to farms and plantations. If the SEZ is meant to cater to the local markets, then obviously access to the local consumer is key. Other considerations when choosing a location are the availability of supporting industries and amenities such as banking, dormitories, schools and healthcare.

Too often, the SEZ is seen as the answer to raising the standard of living in an area. However, the remoteness of the area, without much access to raw materials or export channels, may mean that the SEZ is set up for failure. A more practical solution may be to set up the SEZ in a more suitable location and allow people to migrate there over time.

### **Customised Designs**

The masterplan and design of the SEZ must be done carefully to compensate for what the location lacks, to cater to what the investors desire, to address the government's concerns and to integrate with the surrounding area. Too often, this step is overlooked or done too hastily, resulting in subsequent haphazard developments.

First, the masterplan needs to examine the current state and the future requirements of core infrastructure of the SEZ and its surrounding area. For instance, it needs to study the state of connectivity of the SEZ by roads, railways, ports and airports, and determine if more infrastructure needs to be built to enhance connectivity. It also needs to project the future energy needs to ensure that there will be sufficient power as the SEZ grows. And where necessary, plans should be made to develop more power generation and distribution capacity. Other utilities such as telecommunications, water and waste treatment should be similarly examined.

Second, the masterplan needs to cater to the target investor. An automotive park will need large parcels of land, while a logistics park will have big warehouses and an electronics manufacturing SEZ may need smaller built-up factories. For certain SEZs, having access to low-cost utilities is an important consideration and must be designed into the masterplan. For instance, in Singapore, the Jurong Island petrochemical complex has common utilities such as water and gas supplied centrally to the various investors in the complex. The One-North Innovation District of Singapore caters to the bio-medical science and high-tech industries. And it is designed to create an atmosphere of casual vibrancy which stimulates creativity and imagination.

Third, the masterplan and factory design should also take note of the government's concerns. For instance, in land-scarce Singapore, land productivity is important. Building upwards to optimise on productivity is therefore an important aspect of the design of the factory. Even warehouses can have multiple levels with docking bays on different levels to enhance land productivity in Singapore.

Finally, the masterplan must be well-integrated with the surrounding area and compensate for the lack in amenities such as housing, schools and healthcare facilities. Sometimes, an entire township needs to be master-planned and developed next to the SEZ.

### Effective Management

SEZ should last for decades and its benefits may only be felt years after it is built. The long-term management of the SEZ therefore must be efficient and effective. The management team needs to remain true to the vision of the SEZ, adhere to the masterplan and yet have the confidence and flexibility to cater to changes in customer demands, demographics and technology advances.

Increasingly, SEZs are managed on a PPP basis. This implies that the SEZ management may be a private sector company. The contractual agreement between the SEZ management company and the government, and the revenue model of the SEZ management are then important to ensure the long-term sustainability of the SEZ.

The interface between the SEZ management and the government is another important issue for SEZs. A high level of autonomy for the SEZ is usually desirable. This allows the SEZ to be free from the constraints of the other government departments which have

regulatory responsibilities in their respective areas but do not necessarily feel obliged to support the SEZ. Finally, the experience and global network of the SEZ management will be key in determining the success of the SEZ. A management team that has experience dealing with SEZ issues and a large pool of potential investors to promote the SEZ to will be a valuable partner. (Please refer to diagram 1 for a Summary of Key Success Factors of SEZs).



Diagram 1: Summary of the Key Success Factors of SEZs.

### Conclusion

SEZs can be an effective programme for economic development. However, many fail because of confused objectives, timid policy liberalisation, bad choice of location, poor designs or ineffectual management. On the other hand, if the SEZ has clarity of vision, bold policy changes, a carefully chosen location, clever designs and strong management, then it has a good chance of success.

*This article is co-created by Surbana Jurong Academy.*

\*\*\*End\*\*\*

### Connect with us

Teo Eng Cheong

[Engcheong.teo@surbanajurong.com](mailto:Engcheong.teo@surbanajurong.com)