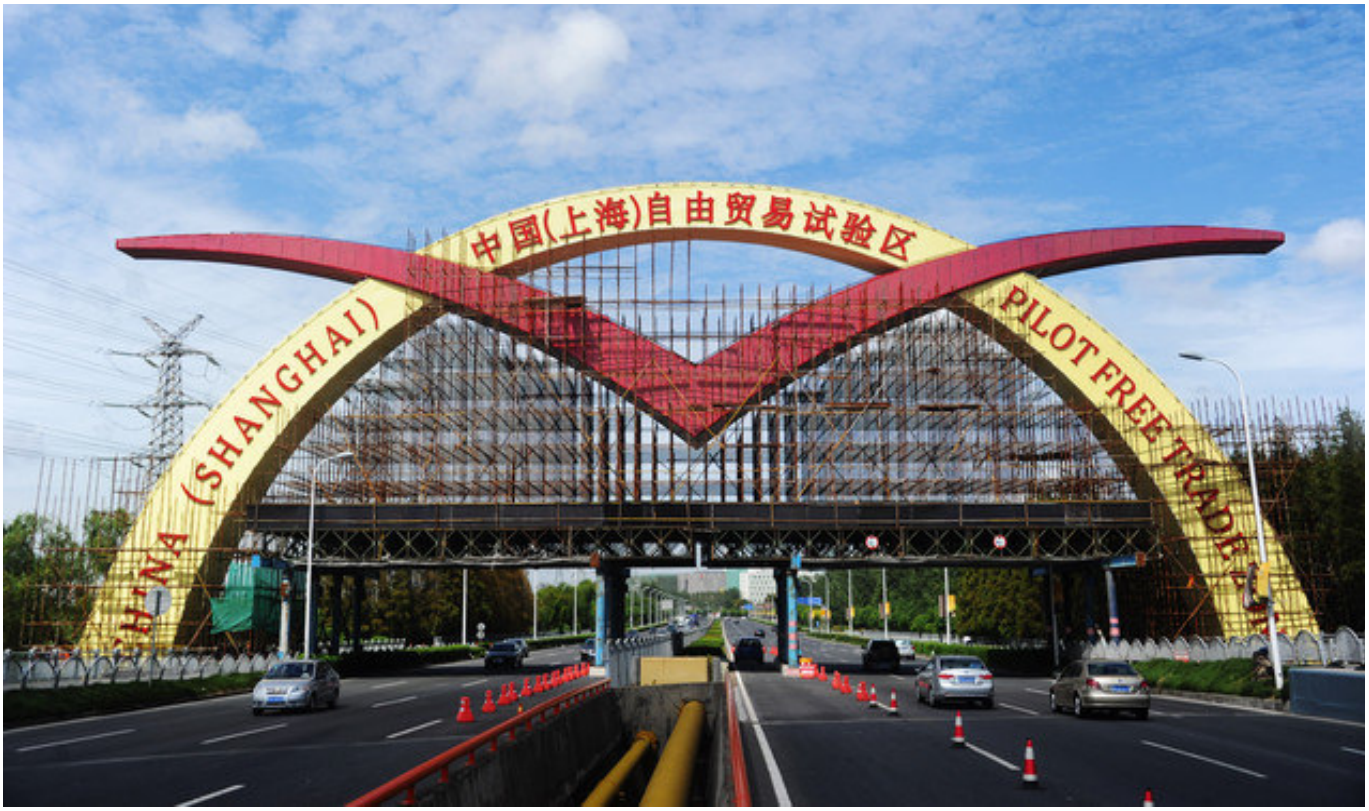
Regional Economic Cooperation and Integration in Asia

INPUTS AND MATERIALS



Expert Hearing

Special Economic Zones in a Regional and Global Context – Economic Significance and Impact

Shanghai, 25-26 August 2014

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On behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ)

Contents

List of Abbreviations

ADB	Asian Development Bank
AEC	ASEAN Economic Community
ASEAN	Association of Southeast Asian Nations
BEZ	Border Economic Zone
BIDA	Batam Industrial Development Authority
BIMP-EAGA	Brunei Darussalam-Indonesia-Malaysia-Philippines East Asian Growth Area
BMZ	German Federal Ministry for Economic Cooperation and Development
CAFTA	China-ASEAN Free Trade Agreement
CAREC	Central Asia Regional Economic Cooperation
CASS	China Academy of Social Sciences
CAWD	China Academy of West Region Development
CBEZ	Cross-border Economic Zone
CCP	Chinese Communist Party
CCSEZ	China Centre for Special Economic Zone Research
CDC	Council for Development
CEM	Contract Electronics Manufacturers
CEPT	Common Effective Preferential Tariff
CFZ	Customs Free Zones
CICA	Conference on Interaction and Confidence Building Measures in Asia
CICP	Cambodian Institute for Cooperation and Peace
CIEM	Central Institute for Economic Management
CSEZB	Cambodian Special Economic Zone Board
CSFTZ	China (Shanghai) Free Trade Zone
CSIS	Centre for Strategic and International Studies
E&E	Electrical and Electronics Industry
ECER	East Coast Economic Region
EOI	Expression of Interest
EPZ	Export Processing Zone
EUCCC	European Union Chamber of Commerce in China
FDI	Foreign Direct Investment
FEXZ	Free Export Zones
FEZ	Free Economic Zone
FTZ	Free Trade Zone
GASS	Guangxi Academy of Social Sciences
GDP	Gross Domestic Product

GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GIZO	General Industrial Zones
GMS	Greater Mekong Subregion
GTI	Greater Tumen Initiative
GVC	Global Value Chain
IDP	Industrial Development Policy
IFTZ	Institute of Free Trade Zone
ILO	International Labour Organization
IM	Iskandar Malaysia
IP	Industrial Park
ISEAS	Institute for Southeast Asian Studies
IZ	Industrial Zone
JICA	Japan International Cooperation Agency
KMI	Korea Maritime Institute
Lao PDR	Lao People's Democratic Republic
M&A	Mergers and Acquisition
MIER	Malaysian Institute of Economic Research
MJTD	Myanmar-Japan Thilawa Development, Ltd.
MMST	Mitsubishi-Marubeni-Sumitomo Thilawa Development Co., Ltd.
MNC	Multinational Corporation
MP	Mongolian Parliament
MTSH	Myanmar Thilawa SEZ Holdings Public Limited
Myanmar ISIS	Myanmar Institute of Strategic and International Studies
NAFTA	North American Free Trade Agreement
NCER	Northern Corridor Economic Region
NCSEZ	National Committee of Special Economic Zone
NEM	New Economic Model
NGO	Non-governmental Organization
PBG	Pan Beibu Gulf
PPP	Public-Private Partnerships
PRC	People's Republic of China
R&D	Research and Development
RCI	Regional Economic Cooperation and Integration in Asia
REC	Regional Economic Corridors
RMB	Renminbi
RoK	Republic of Korea
RoO	Rules of Origin
RTA	Regional Trade Agreement

S-NCSEZ	Secretariat to the National Committee of Special Economic Zone
SASS	Shanghai Academy of Social Sciences
SEZ	Special Economic Zone
SHUFE	Shanghai University of Finance and Economics
SIJORI	Singapore-Johor-Riau
Sino-US BIT	Sino-US Bilateral Investment Treaty
SME	Small and Medium Enterprises
SWP	German Institute for International and Security Affairs
TNC	Trans National Corporation
TPP	Trans-Pacific Partnership
TSEZ	Thilawa Special Economic Zone
TSEZMC	Thilawa Special Economic Zone Management Committee
UNESCAP	Economic and Social Commission for Asia and the Pacific
USA	United States of America
USAID	United States Agency for International Development
USD	US-Dollar
VAT	Value Added Tax

Expert Forum Agenda

Monday, 25 August 2014

09:00-09:30 **Welcoming Remarks**

Prof. Dr. Dong Xuebing, Executive Vice President, China Academy of West Region Development (CAWD), China

Dr. Jürgen Steiger, Deputy Country Director, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), China

Dr. Saskia Schmidt, Consul, Department for Economic Affairs, Consulate General of the Federal Republic of Germany, Shanghai, China

H.E. Sok Chenda Sophea, Minister Attached to Prime Minister and Secretary General, Council for the Development of Cambodia

Mme. Bouatha Khattiya, Deputy Minister of the Government's Office, Vice Chair of the NCSEZ, Head of the Secretariat to NCSEZ, Lao PDR

09:30-10:00 **Keynote Speech: Many Levels – Various Zones: Which Type Suits Best at Given Development Stage?**

Dr. Aradhna Aggarwal, Associate Professor at Delhi University, India

10:00-10:30 Coffee and Tea Break / Group Photo

10:30-12:00 **Special Session: China (Shanghai) Free Trade Zone**

Speech: Prof. Dr. Sun Yuanxin, Deputy Director, Institute of Free Trade Zone (IFTZ), Shanghai University of Finance and Economics (SHUFE), China

Moderator: Dr. Jürgen Steiger, Deputy Country Director, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), China

Panel Speaker:

Dr. Stefan Sack, Vice President and Chairman of the Shanghai Board, European Union Chamber of Commerce in China (EUCCC)

Prof. Dr. Wang Zhongmei, Head of International Trade Study, Institute of World Economy, Shanghai Academy of Social Sciences (SASS), China

Prof. Dr. Heribert Dieter, German Institute for International and Security Affairs (SWP), Germany

Prof. Huang Xianhai, Executive Vice-President, Institute of Economics, Zhejiang University

12:00-13:30 **Lunch Buffet**

1st Floor, Hengshan Picardie Hotel

13:30-15:00 **Panel Session 1: Special Economic Zones: Catalysts or Costly Barriers?**

Speech: Prof. Dr. Heribert Dieter, Senior Fellow, German Institute for International and Security Affairs (SWP), Germany

Moderator: Dr. Francis Hutchinson, Coordinator of Regional Economic Studies Programme, Institute for Southeast Asian Studies (ISEAS), Singapore

Panel Speaker:

Prof. Dr. Yuan Yiming, China Center for Special Economic Zone Research (CCSEZ), China

Prof. Dr. Zakariah Abdul Rashid, Malaysian Institute of Economic Research (MIER), Malaysia

Dr. Raymond Atje, Senior Fellow, Centre for Strategic and International Studies (CSIS), Indonesia

Dr. Kim Beom-Jung, Director, China Research Centre, Korea Maritime Institute (KMI), Republic of Korea

Session Q & A (30 min.)

15:00-15:30 Coffee and Tea Break

15:30-17:00 **Panel Session 2: Avoiding Isolated Enclaves: Benefits for the Local Economy**

Speech: Dr. Francis Hutchinson, Coordinator of Regional Economic Studies Programme, Institute for Southeast Asian Studies (ISEAS), Singapore

Moderator: Dr. Aradhna Aggarwal, Associate Professor at Delhi University, India

Panel Speaker:

Dr. Chap Sotharith, Advisor and Chief of Cabinet, Former Executive Director and Member Board of Directors, Cambodian Institute for Cooperation and Peace (CICP), Cambodia

Dr. Nguyen Dinh Chuc, Deputy Director, Department for Investment Policies, Central Institute for Economic Management (CIEM), Viet Nam

Aung Khin Myint, Member of Central Executive Committee, Chamber of Commerce, Myanmar Institute of Strategic and International Studies (Myanmar ISIS)

Tsolmon Tsagaach, Senior Lecturer, Commerce Programme, Business School, National University of Mongolia, Mongolia

Q & A (20 min.)

17:45 Pick-up at Hengshan Picardie Hotel lobby and bus transfer to restaurant

18:30-20:30 **Official Dinner**

Restaurant:

Xiao Nan Guo

20:30 Pick-up at restaurant and transfer to the Bund

21:00-22:30 **Sightseeing at the Bund**

Tuesday, 26 August 2014

09:00-09:30 **Keynote Speech: Silk Road Strategy – Economic and Trade Cooperation between China and ASEAN**

Prof. Dr. Dong Xuebing, Executive Vice President, China Academy of West Region Development (CAWD), China

09:30-11:00 **Panel Session 3: Cross-Border Economic Cooperation: Fighting Structural Deficits of Border Regions?**

Speech: Prof. Dr. Chen Yao, China Academy of Social Sciences (CASS), China

Moderator: Prof. Dr. Heribert Dieter, Senior Fellow, German Institute for International and Security Affairs (SWP), Germany

Panel Speaker:

Mme. Bouatha Khattiya, Deputy Minister of the Government's Office, Vice Chair of the NCSEZ, Head of the Secretariat to NCSEZ, Lao PDR

Dr. Ngov Penghuy, Director and Associate Professor, Cambodian Satellite Campus, Nagoya University, Japan

Dr. Lei Xiaohua, Assistant Researcher, Guangxi Academy of Social Sciences (GASS), China

Zhang Yan, South-South Policy Team, United Nations Development Programme (UNDP) China Office

Session Q & A (20 min.)

11:00-11:30 Coffee and Tea Break

11:30-12:00 **Keynote Speech: China (Shanghai) Free Trade Zone**

Tan Jinghua, Vice General Secretary and Director, Supervision Bureau of Shanghai FTZ

12:00-12:15 **Closing Remarks**

Prof. Dong Xuebing, Executive Vice President, China Academy of West Region Development, Hangzhou, China

Dr. Jürgen Steiger, Deputy Country Director, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), China

12:15-13:30 Lunch Buffet

1st Floor, Hengshan Picardie Hotel

13:30-16:00 Transfer to

Field Visit to China (Shanghai) Free Trade Zone

16:00 **Transfer to City Centre** (time at free disposal)

18:00 **Optional Dinner Buffet**

1st Floor, Hengshan Picardie Hotel

I. Executive Summary

On 25-26 August 2014, the „Regional Economic Cooperation and Integration (RCI) in Asia“ Programme of Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH convened a conference on „Special Economic Zones in a Regional and Global Context - Economic Significance and Impact” in Shanghai, China. The following pages summarise the purpose, main themes and results of this event.

As the number of Special Economic Zones (SEZ) is currently on the rise throughout Asia and policymakers are seeking to further optimize industrial strategy formulation and economic policy design towards effective SEZ implementation with regards to job creation, spillovers, and productivity enhancement, the two-day conference facilitated an exchange of views on the current scientific discourse as well as an evidence-based policy dialogue on SEZ among policy makers and academia from ASEAN countries, Mongolia, ROK and PR China. Participants discussed this economic policy tool from various angles: looking into existing successful Chinese SEZ policies and the newly established Shanghai (China) Pilot Free Trade Zone, aggregating policy insights from developing and transition countries all across Asia, as well as contrasting international experiences and best practices, presented by most prominent international experts in the field of SEZs and economic development, Ms. Aradhna Aggarwal from Delhi University, Mr. Heribert Dieter from the German Institute for International Politics and Security and Mr. Francis Hutchinson from Institute for Southeast Asian Studies (ISEAS), with the regional perspective.

Ms. Aggarwal opened the conference with a keynote speech on the variety of SEZs. She emphasized their rapid development and increasing popularity in developing and emerging economies, as well as the need to adapt them to the individual development stage of an implementing economy. Three panel sessions followed Ms. Aggarwal’s introductory speech. The first focused on the new Shanghai Free Trade Zone, emphasising its peculiar nature and its importance as testing ground of the next set of economic and financial reforms planned by the Chinese leadership, among them the internationalization of the RMB. The second panel session focused on country-based experiences and an impact analysis of Special Economic Zones on local economies. The vivid discussions concluded that SEZs can be catalysts of development as well as failed experiments, such as in the Mongolian case. In this context, Ms. Aggarwal underlined the importance of a proactive economic policy as a recipe for success. A capacity to attract and most importantly keep investors is crucial: *“getting them to stay or to grow, that is the difficult part”*, concluded Mr. Hutchinson. The third panel session, on the second day of the conference, focused on the role that SEZs can play to promote cross-border cooperation and regional economic integration through the establishment of cross-border economic zones and the involvement of neighboring governments, the private sector and local communities. It was followed by an insightful field-trip to the Shanghai Free Trade Zone.

The conference led to significant knowledge-sharing among the participants and gave them practical policy recommendations to support the implementation of SEZs in their respective home countries. As his Excellency Minister Sok of Cambodia emphasized, the event took place at a timely moment for the

implementation process of Cambodian SEZs, and the information gathered in the course of the conference would prove crucial for economic policy advice to his country.

The main finding of the fruitful discussions that took place is that an SEZ should not merely be used as an engine of industrialization, as was the case in many Asian developing countries in the last decade, but as a tool of economic policy, which implies its integration in a comprehensive national development strategy. Therefore, his Excellency Minister Sok appositely concluded when he said *"There is no one size fits all!"*.

II. Background and Introduction

Background

Special Economic Zones (SEZ) look back at a successful history, not only in the PR China, which has just opened a flagship zone in Shanghai, but also in other parts of the world. Nevertheless, they have always been subject to substantial debates among researchers and policy makers. Proponents emphasise the usefulness of these zones as policy tools to integrate the domestic economies into the global economy and to trigger productivity growth through knowledge spillovers, technology diffusion, and advantages associated with industrial clustering. These theoretical arguments are backed by successful examples in various settings and for differing objectives across the globe. Opponents, on the other hand, point to those cases where the establishment has not led to tangible results with regards to job creation, spillovers, and productivity enhancement.

Recently, political momentum in the PR China, Mongolia, and Southeast Asia has shifted towards even greater support for SEZ. This trend can be documented by a rising number of zones across the region as well as by a more formal anchoring of the subject in government strategies, for instance through the establishment of the "National Committee for Special Economic Zones" in Lao PDR. Moreover, Cross-Border Economic Zones are increasingly in the spotlight of national as well as local governments, thereby becoming a distinct element of Asian regional cooperation efforts.

Approach and Objective

In light of strong political commitment as well as growing international attention sparked by the opening of the China (Shanghai) Free Trade Zone, the RCI Programme facilitated an expert hearing on "Special Economic Zones in a Regional and Global Context – Economic Significance and Impact" at Hengshan Picardie Hotel in Shanghai, PR China, from 25-26 August 2014. The conference was a two-day event aiming at exchange and discussion of the current scientific discourse on SEZ in respective home countries among policy makers and academia from PR China, Mongolia, and ASEAN member states. Moreover, renowned international experts such as Ms. Aradhna Aggarwal, Delhi University, one of the most significant researchers in the field of SEZ, shared a global perspective on the subject.

Against this background, the conference took place on two subsequent days. Day one was divided into four sessions with the objective to shed light on following aspects:

- **Many Levels – Various Zones: Which Type Suits Best at Given Development Stage?** SEZ serve various goals, ranging from traditional objectives of triggering exports or supporting industrial clustering to being pathway for the transformation of the domestic economy towards an increasingly market-oriented structure such as in the case of the China (Shanghai) Free Trade Zone. Moreover, they are being utilised in countries of every income level, partly focusing on high-end technology but also partly on low-skilled labour intense production. While there have been successful examples of SEZ in both developed and less developed countries, it remains unclear which specific type of zone can contribute most to national development at a given level of development. Which focus has turned out to be a successful strategy for low-, middle- and high-income states respectively?
- **Special Session on China (Shanghai) Free Trade Zone:** Promoted by Premier Li Keqiang as a symbol of China's continuous commitment to economic development, the China (Shanghai) Free Trade Zone (CSFTZ) enjoys worldwide attention since its inauguration end of September 2013. Covering four bonded zones on the outskirts of China's commercial capital, including Waigaoqiao FTZ, Waigaoqiao Free Trade Logistics Park, Yangshan Free Trade Port Area and Pudong Airport Comprehensive FTZ, CSFTZ is regarded as a crucial measure to strengthening China's integration into the global architecture of trade and finance, eventually leading to the nationwide promotion of additional FTZs. Taking into consideration the widely observed adaptability of FTZs to the specific characteristics of each host country, what are the particular characteristics of CSFTZ and how is the zone embedded in the overall process of reform and opening-up? Furthermore, after nearly one year of operation, what are the achievements so far?
- **Special Economic Zones: Catalyst or Costly Barrier?** As SEZ are subsidised by governments through various incentive mechanisms, government budgets are directly affected by the success of the respective zones. Binding government resources, which are already tremendously scarce in most developing countries, SEZ thereby effectively competing with other government programmes in health, education, and infrastructure. Foregone revenue due to reduced or waived taxes for instance, has led to criticism in this context. It remains unclear whether investments by governments in zone pro-

grammes have been successful in terms of triggering economic development. Is support of SEZ hence an appropriate means to kick start and foster sustainable development?

- **Avoiding Isolated Enclaves: Benefits for the Local Economy?** Effects of SEZ on the local economy, specifically in terms of employment, human capital development as well as knowledge, and investment spillover are demonstrated by some but not all SEZ. In PR China for instance, the cities of Shanghai and Shenzhen have shown remarkable progress, which can at least partially be traced back to the establishment of SEZ. Various aspects are to be taken into account whilst setting up this kind of zones and discussions on best practices in this context are thus far inconclusive. Which sectors should be selected to maximise the effect on the domestic economic structure, which location should be preferred and how should incentives be designed to maximise backward spillover effects on the local economy but also to minimise negative social implications, which have often been linked to SEZ by its critics?

The second day of the conference was divided into two parts. First of all, the expert hearing proceeded and touched upon one additional central issues:

- **Cross-Border Economic Cooperation: Fighting Structural Deficits of Border Regions?** In order to encounter structural deficits in border regions and to foster cross-border cooperation, cross-border zones enjoy enormous popularity among Asian governments. Nevertheless, it has not conclusively been decided under which circumstances and how they can act as an effective tool. Are there cases in which they should be preferred to economic zones limited solely to one single state? How have they performed with regards to developing the local economy and structurally weak border regions? Have they contributed to upgrading processes in border regions, which have often not benefited from regional cooperation due to these weaknesses? Moreover, have they triggered profound efforts to strengthen regional cooperation and integration?

For the second part, an introductory keynote speech was held by a representative of the SCFTZ administration prior to the field trip to respective zone for all participants aiming at the familiarisation with basic concepts as well as operational aspects of the Chinese landmark SEZ.

III. Welcoming Remarks

Prof. Dr. Dong Xuebing, Executive Vice President, (CAWD), PRC

Dr. Jürgen Steiger, Deputy Country Director, GIZ, PRC

Dr. Saskia Schmidt, Consul, Department for Economic Affairs, Consulate General of the Federal Republic of Germany, Shanghai, PRC

H.E. Sok Chenda Sophea, Minister Attached to Prime Minister and Secretary General, Council for the Development of Cambodia

Mme. Bouatha Khattiya, Deputy Minister of the Government's Office, Vice Chair of the NCSEZ, Head of the Secretariat to NCSEZ, Lao PDR

At the beginning of the expert hearing on day one, Prof. Dong Xuebing, Executive President of CAWD, Dr. Jürgen Steiger, Deputy Country Director of GIZ China, Dr. Saskia Schmidt, Consul of the Consulate General of the Federal Republic of Germany's Department for Economic Affairs, H.E. Sok Chenda Sophea, Minister Attached to Prime Minister and Council for the Development of Cambodia's Secretary General, as well as Mme. Bouatha Khattiya, Deputy Minister of the Government's Office, Vice Chair of the NCSEZ, and Head of the S-NCSEZ (above pictures starting from left), expressed their sincerest delight to be taking part in the conference and greeted the participants with warm welcoming remarks.

In their speeches, all emphasized their excitement about the conference's venue in Shanghai as centre for PR China's most current reform efforts and actual site of the spectacular hallmark SEZ Shanghai (China) Free Trade Zone. Looking forward to vividly exchanging and discussing latest academic and practical SEZ insights, their benefits and downsides, as well as latest global and regional trends, they opened the stage for two days of knowledge-rich and profound presentations of experts from all over the world.

IV. Keynote Speech: Many Levels – Various Zones: Which Type Suits Best at Given Development Stage?

Aradhna Aggarwal, Associate Professor at Delhi University, India

Since the early 1990s, there has been a dramatic growth in the number of Special Economic Zones (SEZs) with a growing number of countries increasingly focusing upon them as engines of industrialisation. According to the International Labour Organisation's (ILO) database, the number of SEZs has increased from a mere 500 across 73 countries in 1995 to 3500 across 130 countries in 2006. In parallel, with this explosive growth in number, zones are also undergoing significant change, both in their form and function. New varieties of zones have evolved and are subsumed within the category of SEZs. Interestingly, almost all developing countries now have more than one variety of SEZs with different terminologies being used to differentiate them. The fact that SEZs have not had an unequivocal success has not deterred developing countries' policy makers from experimenting with SEZs as an engine of expanding and modernising an economy. Successful countries continue to extend them to newer directions while not-so-successful ones seem to be resolute to take bolder measures to emulate the success of successful countries.

Changing Macroeconomic Environment and Evolution of SEZs: The Global Experience

SEZs in their traditional form originated in today's developed countries when they were developing as a tool to promote trade and to develop their domestic industries. They first emerged in the form of free ports, free cities, and free zones, which flourished during the Middle Ages in Europe. This period coincided with the rise of mercantilism in Europe. Based on the premise that national wealth and power were best served by increasing exports and collecting precious metals in return, the mercantilist policy advocated an elaborate tariff regime to discourage imports and to protect domestic industries. But foreign trade of most countries during that time depended on transiting trade and not on domestic production, and therefore, there was a need to create free trade areas to overcome high tariff barriers and to foster the re- export or entrepôt trade without opening the domestic market to foreign goods. Free ports and cities spread from Europe to Asia, Africa, and America when mercantilist states started to acquire trading posts in these continents to expand their exports.

Since then, the original concept of SEZs has changed over time with the changing macroeconomic environment and has acquired different designs and objectives in different contexts. Innovative features have been incorporated to the basic design to tap their potential, and to gain a competitive edge over international competitors. They have evolved from being trade-oriented to development-oriented, from being purely an economic tool to a social and political tool, and from carrying out structural reform to interna-

tional regional cooperation. With change in economic needs, the composition of economic activities also evolved from pure transhipment trade to processing of, first, goods and then services. Manufacturing-based EPZs have also moved away over time from labour-intensive to skill and technology oriented processing. While fiscal incentives still remain an attractive feature of these zones, they are now essentially competing on the basis of facilitation, facilities, and services. They are no longer primarily located near ports/airports. Rather, they are flexibly located in interior and border regions depending on the objective of their establishment.

Zone Type	Time Period	Geographical Scope	Characteristics
Free Trade Zone	Industrial Revolution in the second half of the 18th century	Europe	Fenced-in area in or adjacent to a port/airport or in any jurisdiction within which commercial operations are conducted without import or export duty payments.
Export Processing Zone	Beginning from 1920s when an unprecedented depression was stalking the economies of the West; from 1960s world-wide diffusion	Spain, Puerto Rico, Ireland; Asia Caribbean, Latin America, Africa	Delineated industrial estates in which goods enter duty free for processing and export, and in which investors are offered in addition to custom duty exemption, a relaxed regulatory environment.
Enterprise Export Zone (Maquiladora System)	Introduced in the mid-1960s	Mexico	Maquilas are not developed as geographically delineated areas. Instead, they are specially designated individual enterprises specialising in manufacturing or services for exports. These enterprises enjoy exemption from custom duties, get other tax benefits, and operate in a liberal regulatory environment. This model was later replicated in several developing countries.
Special Economic Zones (SEZs)	At the end of 1970s	PR China	SEZs are mega open industrial towns spread over several square km and these have played an important role in attracting FDI and promoting exports in China. These zones have strong local governments. They have all the powers of a provincial government. These are third generation SEZs and they introduced radical changes in the concept of SEZs. China has used them as a means of learning and diffusing new technologies, acquiring information about the world, observing, and absorbing new management techniques, and as a means of testing special policies not meant for the rest of the economy. SEZs have also become a central force underlying the emergence of the Chinese metropolises and their transformation into global cities.

Additionally, the current wave of globalisation and explosion of information and communication technologies has driven fragmentation of production processes into geographically dispersed networks across several sectors in manufacturing and services technologies, eventually inducing a surge of innovative SEZ models from 1991 onwards. Possibilities of outsourcing/off-shoring have emerged even in the service industries triggering Global Value Chains (GVCs) in this sector also. These developments have opened up a range of opportunities for developing countries to find a niche for themselves in which to specialise rather than be competitive along the entire production chain. However, market forces alone cannot ensure an effective integration of developing countries' firms in GVCs due to market and production failures that characterise the former. SEZs, by offering a favourable investment climate, provide a platform to reap the benefits of these opportunities. New innovative models are being adopted to exploit

the potential merits of SEZs.

Zone Type	Geographical Scope	Characteristics
Sector Specific SEZ		Offer facilities configured to the needs of specific industries
Service-based SEZ		Focus on trade in services
Country-specific SEZ		Set up by foreign companies/government and are expected to bring in substantial FDI. Some noted examples of this type of SEZs are: Taiwanese investment zones in China; Chinese, Australian, and Saudi Arabian EPZs in Pakistan; Singaporean SEZs in Indonesia; and a Korean EPZ in Bangladesh. More recently, the Chinese government has made significant investments in Africa to establish SEZs in several African countries.
Hybrid SEZ		Sub-divided into a general zone open to all industries with a separate EPZ area reserved for export-oriented, EPZ-registered enterprises.
Logistic Park		Offer value added services such as cross-docking, customisation, kitting, labelling, management reporting, merge-in-transit, manufacturing support, order taking, pick-and-pack, repair or refurbishment, reverse logistics, special packaging, and sub assembly. Associated services such as call centre management, consultancy services, and customs brokerage are also provided. Their emergence has resulted in the development of port hinterland areas as logistics-oriented complexes.
Border Economic Zone	China, Vietnam, Thailand and countries in the Mekong region	Set up in border areas to exploit comparative advantages of border areas. Borders have their own spatial advantages due to their climatic conditions, factor endowment, spatial proximity to the foreign market, and the relatively high potential for developing cross-border backward and forward linkages. BEZs can capture these advantages by promoting economic activity and turn these peripheral areas into core areas.
Growth Triangle	Indonesia-Singapore-Malaysia GT; Tumen River Delta PRC-Russia -North Korea; Cambodia-Laos- Myanmar; Thailand-Vietnam-PRC; Indonesia-Malaysia-Thailand; and Brunei Darussalam-Indonesia-Malaysia-Philippines East Asian Growth Area (BIMP-EAGA).	Economic and social transaction space, covering parts of three adjoining countries to improve their regional competitiveness. They bring together the resources of these countries to foster economic development.
Cross-border Economic Zone	Hekou-Lao Cai and Pingxiang-Dong Dang CBEZs on China-Vietnam border, Ruili-Muse CBEZ on China-Myanmar border, and Mohan-Moding CBEZ on China-Laos border	Spread over well-defined, geographical proximate areas in border regions covering two or more countries. They are established by integrating BEZs on both sides of the border to catalyse economic activity and to promote regional cooperation.

Evolutionary Approach to SEZ Benefits

SEZs originated as a tool to address domestic distortions associated with tariffs. In a tariff distorted economy they offer duty free access to raw materials for export production with an objective to offset the anti-export bias. EPZs thus benefit the economy by generating trade-based effects such as employment and foreign exchange. They can also benefit the economy through backward and forward linkages by generat-

ing benefits for the economy in terms of financial flows (wages, electricity tariffs, taxes, profits channelled to domestic shareholders, and payment for local inputs) to the domestic economy. But such linkages remain insignificant. In the contemporary era of globalization, the rationale of SEZs was challenged. However, a new heterodox thinking emerged recognizing SEZs as an internationally viable platform attracting FDI in an open economy. They are expected to overcome the numerous production and institutional failures that developing countries are faced with due to particular macro-economic policies of the government or a chronic lack of capable institutional actors. The presence of foreign firms in SEZs can generate important spillovers by creating backward and forward linkages with the domestic economy by promoting human capital and productivity, which have catalyst effects on the domestic economy. By offering a good investment climate, they can also be instrumental in inserting domestic companies (in particular SMEs) in the global value chains. They can thus generate substantial benefits by addressing distorting policies and inefficiencies in designated areas.

Despite the evolutionary approach to benefits, SEZs are still viewed as trade enclaves within which manufacturing for exports occur under virtual free trade. They continue to be a tool to tackle underlying distortions and inefficiencies in the domestic economy. The basic premise is that they only represent a second best policy instrument to correct the effects of distortive policies and other factors inhibiting industrialisation; and that the first best would be to address these institutional and other constraints on an economy-wide basis. While they are associated with colossal revenue forgone in tax incentives and large government expenditures in the creation of infrastructure, they do not add significant value. By grafting import-dependent production activities onto local economies, they perpetuate low skill assembly-type operations and, in turn, increase dependency on Trans National Corporations (TNCs). They attract footloose investors, suppress labour rights, and divert resources from the domestic economy without adding to investment.

However, there is evidence that new opportunities and choices are emerging for TNCs to locate production in developing countries; not merely to take advantage of cheap labour but to also gain access to expanding markets and as part of their overall managerial strategy to reduce transaction and logistics costs. Their decision to relocate production depends on the host country's competitive advantages, and provides the latter an opportunity to focus on its core advantage. Further, entry into global chains either through FDI or offshore-outsourcing (domestic investment) promises domestic firms access to a global pool of new technologies, skills, capital, and markets, up-gradation of firm-level capabilities from 'learning' through technology diffusion and exposure to international best practice systems of corporate governance.

The Chinese success story has demonstrated that SEZs can be a crucial tool in cluster-based industrialisation. SEZs are associated with agglomeration economies. Specialisation of activities within these clusters can create a pool of skilled labour, external economies in the form of lower transport and logistics costs, lower communications costs, (to the extent that utilities are shared) lower infrastructure costs, and knowledge spillovers. These external economies can have strong positive effects on investment inflows in

the first place. Initial investment attracts more foreign and domestic firms due to localisation economies and promotes further specialisation, thus launching a process of "circular and cumulative causation" or chain reactions. The cluster can further expand by the tendency of spin-offs and suppliers of both the clustered industry and related industries to locate near the zone. SEZs can thus act as a self-reinforcing system in which the clustered industries make up a mutually supporting whole with "benefits flowing forward, backward, and horizontally", and lead to a still larger concentration of manufacturing in that region. International trade also assists this process. Secondly, geographic proximity of firms can act as a major driving force for innovation, learning, and knowledge spillovers and, in turn, promote competitiveness. These processes can take place in all clusters, but 'traded' (export-oriented) clusters are more important than 'non-traded' clusters. They can thus generate a process of development that is: accelerated; circular, in that one gain feeds off another; cumulative in its effects; and self-reinforcing. They may be linked with the theory of big push or the concept of growth poles. There is thus a need to move beyond a "trade-based second best tool" perspective to "cluster based industrial development based approach" to evaluate the benefits of SEZs.

How to Design and Model SEZs to Reap the Benefits of SEZs? Learning from Successful Countries

Traditionally, it was believed that a streamlined, prompt, and efficient bureaucracy in all stages of the creation and running of an SEZ, efficient customs controls, location near port/airport, world class infrastructure, and attractive incentives are crucial for the success of SEZs. Over time, understanding the determinants of SEZ success has also evolved. It has become increasingly known that both international and domestic factors are crucial for the success of zones as engines of industrialisation and growth. While international conditions define opportunities and constraints for SEZs, domestic conditions shape the investment climate in which a country's SEZs operate. A variety of micro, meso, and macro climatic factors are believed to determine the success of SEZs at the domestic level. While the macro level factors involve economy-wide policies, resource situation, and constraints. The micro climate is determined by the incentives (fiscal and non-fiscal regulatory relaxation), administration, designs, and facilities (infrastructure and efficient governance) offered by zones. Between the two extremes lies the meso climate, which is determined by regional factors and include regional economic infrastructure, export infrastructure, and availability of labour. Following these prescriptions, most countries have been offering a comprehensive package of incentives, world class infrastructure, a highly relaxed regulatory regime and efficient governance within SEZs and have been segmenting them from the rest of the economy, protecting them from the spillover of the investment climate outside their zone. Following the Chinese success, however, several countries are focusing on creating large open comprehensive mega parks with their own provincial governments in place. Different models have been adopted to ensure success of SEZs. But success remains limited. A pertinent question is "Do the type of SEZs matter in determining their effectiveness"? Evidence indicates that there is more to SEZs than just the master plan, design, or facilities provided.

An in-depth analysis of successful countries highlights that there are at least two crucial factors that are

not sufficiently highlighted in their success stories:

(1) Strategic planning in the implementation of SEZ regime that encompasses the vision, mission, objectives, and strategies that are required to achieve the objectives;

(2) A dynamic approach is required which responds to changing macro-economic contexts in which the programme is operating.

Analysis of global experience shows that there are two strategic approaches to establish SEZs: the trade based second best solution approach and the cluster development approach. From the trade perspective, SEZs are trade enclaves offering certain advantages to overcome existing barriers. Their success thus depends on the extent of advantages and facilities offered by them. They are a tool to facilitate production systems (GVCs) largely driven by TNCs to avail of tax and tariff privileges and /or cost differentiation, promoting capital intensive production and distorting the production structures of the economy. To ensure spillover effects, policy makers lower the transaction barriers between the SEZ and domestic economy units. But from this perspective, SEZs essentially remain insulated from the wider economy as trade enclaves. This is because they are essentially grafted onto host economies; they do not reflect or feed into the actual or potential strengths of the host economies. They thus start hitting the limitations. Cluster development based approach on the other hand views SEZs as geographically concentrated government-promoted agglomerations of internationally competitive enterprises. Their advantages are, thus, rooted in localisation economies arising out of knowledge spillovers, resource sharing, and labour pooling.

From this perspective, the success of SEZs depends on their potential in activating synergetic forces that generate spin offs leading to decreasing costs of production and continuing concentration. An SEZ may fail to trigger this self-reinforcing mechanism if it is not embedded in the local economic milieu. Unless it represents a synergy with other actors in the region, it cannot initiate or augment the dynamics of a cumulative and circular process. In the proposed framework, therefore, SEZs should be strategically located in or around existing clusters, either natural or government-promoted. Alternatively, the government can plan large open SEZs or foster the development of clusters of several small SEZs. In that case, the objective should be to generate a critical mass of activity to attract more economic activity in the region and the government needs to take a proactive (not reactive) approach to create an environment to promote spinoffs and agglomeration economies.

Their establishment should not be seen from a static perspective. Domestic conditions change over time. Endogenous changes take place when SEZ-assisted development takes place and in response, economic structures change. To harness the SEZ potential in diversifying and modernising the economy, the state must re-evaluate its policies and objectives against these changes, and modify and adapt them. The more flexible the state is in adapting to changing economic realities, the more successful is its SEZ programme. Thus, a continuously unfolding and dynamic set of policies is key to the success of SEZs; and there is a compelling need for strategic intervention in ensuring the success of SEZ-led industrialisation.

Four Lessons Learned from the Experience of Successful Countries

(1) Zones cannot be insulated from the broader institutional and economic context in which they are situated. They must draw on the competitive strengths of the economy in static terms, and in the process to upgrade them. If an SEZ is implanted in a regional economy inorganically and, therefore, fails to embed its operations in the local economic milieu, it ends up maintaining negligible linkages with the outside economy. Unless it represents a synergy with other actors in the region, it cannot initiate or augment the dynamics of growth processes.

(2) They should not be used as a reactive way to make up for institutional bottlenecks of the economy; governments need to use them as a proactive means to push industrial development in new directions and integrate them with their industrial policy.

(3) Strategic policy intervention that includes vision, clarity about the goals, the creation of a legal and institutional framework, and a continuously unfolding and dynamic set of policies is key to the success of SEZs. There should be clarity about the objectives and realism about the underlying model. The goals set for SEZs need to be realistic, achievable and flexible in comparative national and international frameworks and should continuously be re-evaluated. Dynamic learning and institution building are essential components of a strategic SEZ policy.

(4) Much depends on commitment that reflects intense focus on growth, knowledge of the necessary, and sufficient conditions for SEZ-induced growth, and belief in the strategy adopted for growth; and the spirit of experimentation with imaginative policymaking informed by a strategic medium- to long-run vision and commitment.

V. Special Session: China (Shanghai) Free Trade Zone

5.1 Speech

Prof. Dr. Sun Yuanxin, Deputy Director, Institute of Free Trade Zone (IFTZ), Shanghai University of Finance and Economics (SHUFE), PRC

The construction of China (Shanghai) Free Trade Zone (CSFTZ) is a national strategy, which reflects the national needs of China's current reform course. This year in May, Chinese President Xi Jinping visited CSFTZ. He said: "Shanghai Free Trade Zone is a large test field to sow seeds, nurture them carefully, manage them well and to protect them in order to expect a good harvest, therefore cultivating a variety of experiences to further promote the opening-up." For the outside world, the charm of CSFTZ lies in its many innovative reform practices, its new content, its dynamic and continuous deepening. It indicates the scope of reforms and future economic practices. Currently, everyone is analysing these reform measures. What is their impact and influence on future investment opportunities? What are the future trends? According to foreign media, CSFTZ is marking the Chinese reform course of moving closer to the direction of international economic systems that are market-oriented, have strong legal foundations regarding standard rules of international trade, and high standard investment systems.

CSFTZ's Background, Rationale, and Mission

The construction of CSFTZ is deeply embedded in the international and domestic context. Internationally, the TPP (Trans-Pacific Partnership) Agreement as well as the Sino-US BIT (Bilateral Investment Treaty) investment protection agreement negotiations are on-going. These international negotiations imply a new set of rules for international trade and investment. For example, the management of foreign investment access through a negative list and improved transparency in the management of foreign investments; the adherence to competition neutrality principles, which imply that the government should treat all types of enterprises equally, therefore not favouring state-owned enterprises anymore; enhanced protection of investments, intellectual property rights, as well as better environmental and labour standards. Furthermore, these negotiations touch upon investment disputes and arbitration, as well as on new topics such as e-commerce, online banking, supply chain management, and digital trade products. Currently, all these issues are not very familiar within China, or have at least not been practiced yet.

Domestically, China's economic development is in a bottleneck stage, realizing that the reliance on strong governmental regulation to stimulate macroeconomic growth is not effective anymore. Within the next stage of development, there is a need to better stimulate the market dynamism, the vitality of enterprises, and especially the transformation of government functions. The past system, comprising of government

enterprises and an excessive administrative examination and approval system, has been overly complicated.

The World Bank report "Doing Business in 2012: Doing Business in a More Transparent World" pointed out that if the time required for starting-up companies is reduced by 10 days, it will increase the investment rate by 0.3 %, which leads to GDP growth increase of 0.36%. Under certain conditions, an administrative approval system is necessary. However, there exist also some negative effects: Firstly, it can be very tiresome, time-consuming, inefficient, and lacking of transparency; Secondly, it may hinder the role of market mechanisms and foster the rule of man instead of the rule of law, resulting in a mismatch of resources; Thirdly, it is very likely to cause rent-seeking and corruption, thus reducing the government's credibility.

Therefore, China needs to promote reforms, development and high investment standards, thus playing a decisive role in the allocation of market resources. However, since China is a big country and new reforms always involve an economic and political risk, the government sees the need to first have a testing and exploration field before carrying out reforms in the whole economy. This task fell to Shanghai. In general, Shanghai Municipality has been selected for four reasons:

(1) Shanghai is an open international metropolis with a population of 24 million people. As one of China's windows to the outside world, it has always had a strong international influence.

(2) Shanghai's hinterland economy is vast and its economic development sustainable. Within approximately an hour's drive on the high-speed rail, there are more than 20 cities. The accumulated size of the population reaches therefore nearly 130 million people, which is equivalent to the total size of South Korea's economy. Of each USD 1 from imports and exports, USD 0.53 are produced by Shanghai and USD 0.47 by other cities of the Yangtze River Delta. As a world port, all the surrounding cities import and export goods via Shanghai to the rest of the world and vice versa.

(3) CSFTZ has good ports, an airport, and an excellent infrastructure. CSFTZ consists of four test areas, covering a zone of 28 square kilometres. It comprises Pudong International Airport and the two deep-sea ports Waigaoqiao Port and Yangshan Port. Waigaoqiao Port is a ten thousand tons deep-sea port, Yangshan Port a one hundred thousand tons deep-sea port; at Yangshan Port, the world's largest container vessels can dock, which have a capacity of 18.000 containers per shipment. The second world largest deep-sea port is Singapore, which maximum capacity is slightly lower than Shanghai's. Third and fourth are Hong Kong and Shenzhen, whose yearly container shipment is more or less 80% of Shanghai's. As one of China's important foreign trade hubs, CSFTZ's annual port import and export volume will be approximately about USD 800bn, accounting for one-fifth of China's overall imports and exports, and thus exceeds India's and Singapore's total annual import and export volume. The parks overall import and export volume will approximately reach USD 1.100bn, accounting for one fourth of Shanghai's import and export value. Currently, 8.000 enterprises are residing within the park, mainly engaged in international trade, port services, logistics, and manufacturing, thus accumu-

lating annual tax payments of more than RMB 400bn a year. Amongst the 102 export-oriented parks within China, it is the economically most beneficial one.

(4) The central government has trust in Shanghai. In the past, Shanghai executed the given reform task of the central government very well. The construction of CSFTZ aims to build an upgraded version of the Chinese economy, to open-up the economy, and to build a new system. It has two specific objectives. First of all, it is a national "experimental field", in which the central government established the first experimental FTZ and rule of law in line with international requirements. It serves to test new policies, and pays attention to problems that may arise. Gathered beneficial experiences will be copied and extended to other parts of China. Therefore, CSFTZ is engaged in a preferential policy trial. The second goal is to build a high level FTZ, namely a high level economic park. These two objectives are mutually complementary. Of course, the Shanghai municipal government also hopes to become a testing ground for more economic functions, i.e. establishing a gold trading market, an international energy trading centre, an import product consumer base, various property trading centres, a head quarter economy etc., thus fostering a coordinated development of the park and Shanghai as such, eventually promoting Shanghai's long-term development. As a result of these two goals, CSFTZ is both an economic park but also incorporates different aspects than normal economic parks do.

In September 2013, the State Council issued the "Framework Plan for the China (Shanghai) Pilot Free Trade Zone", assigning five key tasks to CSFTZ for the next 2 – 3 years to come. These include: (1) Promotion of investment liberalization, (2) trade liberalization, (3) financial liberalization and innovation, (4) government function transformation, and (5) improvement of the legal and tax environment.

(1) Better access for foreign investments through the negative list, opening up of the service sector, and building of a foreign investment promotion system.

(2) Promotion of the "Open Primary Line; Efficient Security and Strictly Controlled Secondary Line" customs control system. "Open Primary Line" refers to the opening of a first customs control line from outside the zone into the zone, allowing goods to enter the zone first and to declare them afterwards. "Efficient Security and Strictly Controlled Secondary Line" refers to a second customs control line from the zone into rest of the economy, including the use of electronic identification technology and enhanced electronic information networks for a convenient in- and outflow of goods. At the same time, new trade formats are being fostered, such as a bulk of commodity trading platforms, bonded exhibitions, financial leasing, cross-border e-commerce, outsourcing, cultural trade etc., as well as allowing businesses and individuals to set up a "free trade bank account" to ease the remittance of funds and settlement abroad.

(3) Promotion of market-determined interest rates, Renminbi capital account convertibility, cross-border use of RMB, cross-border financing, foreign exchange management reform, and other pilot measures, such as allowing businesses and individuals to set up a "free trade bank account" in order to ease the remittance of funds and settlement of accounts abroad.

(4) Reduction of government approval for projects, establishment of a social credit system, establishment of a public enterprise information system, governmental information sharing, and efficiency improvement of the official administration system.

(5) Examples: Explore overseas equity investment, explore offshore business development tax policies, research multinationals overseas investments and offshore business profit tax, and reduce existing corporate income tax from 25% to the international average.

Negative List Management for Foreign Investment Access Reform

The Negative List Management for Foreign Investment Access is one my personal research fields. It is very important and difficult reform step, which is related to the China – U.S. Strategic Economic Dialogue. Therefore, I will introduce a few specific aspects:

(1) Overall design of the Negative List Management for Foreign Investment Access. The Negative List Management for Foreign Investment Access belongs to the category of investment management. China's investment management system reform, including the reform of the foreign investment system, incorporates two important tasks, which shall be completed over the next 2-3 years. First of all, exploration of a negative list management system method for foreign investment access prior to national treatment; second of all, implementation of a unified market access system, which draws from a negative list through which all kinds of market players can, equally treated by law, enter the Chinese market outside the scope of the negatively listed items. The Foreign Investment Negative List (or also called "list of non-conform measures") is a sort of non-inclusive opening method by which not in the negative list included industries and foreign capital enjoy free access and national treatment. The national treatment for foreign investment is divided into two types, pre-entry and post-entry. The pre-entry foreign investment treatment includes amongst others several stages such as establishment, acquisition, and expansion. CSFTZ's negative list is in accordance with China's "Classification of National Economic Industries". Currently, 20 industrial categories are existing, 18 of these, excluding both social organizations and international organizations, are included in the negative list. Areas, which are not included in the Negative List, follow internal and foreign investment management and registration management principles for foreign funded company set-ups, changes, and implementation of foreign investment projects. For areas, which are included in the Negative List, an examination and approval management system is put into practice. According to its design scheme, about 85% of foreign investments do not need to pass again administrative examination and approval, but only need to register. This way, foreign investment access can be significantly facilitated and related uncertainties reduced.

(2) Revision of the Negative List. In September last year, Shanghai Municipal Government issued the Negative List (2013 edition). End of June this year, they issued an amended version, the 2014 edition. In respect to openness, transparency, and international practices, they have made great progress. More specifically, the 2014 edition reduced the scope of prohibited or restricted foreign investment access from 190 regulations to 139, therefore adjusting the regulations by 26.8%. 14 management measures

were abolished, and 19 relaxed, further increasing the opening ratio by 17.4%. In the real estate sector for example, the 2013 edition included four special management measures. By abolishing the paragraph on "Restrictions on Foreign Investments in Land Development" in 2014 on the other hand, these were reduced to three. Furthermore, restrictions on import-export product certification companies were abolished; cancellation of outward investment qualification requirements for certification agencies. In the financial industry foreign investment is not anymore prohibited, it is restricted. These limits are simply more in line with the relevant conditions of the PBC or other relevant supervisory authorities. In addition, regarding further aspects of the Negative List such as design and expanded investment caliber, they all experienced modification. In terms of written expression, restrictions on foreign investment were tried to be written more clearly and understandable, giving clearer quantitative criteria. After promulgation of the 2014 edition of the Negative List, the world wide overall reflection was very well. Of course, the Negative List cannot suddenly open everything at once. This is particularly related to China's industrial endurance, but also to international investment protection agreement negotiations, in which it is impossible to play out all cards at once. A more objective evaluation of foreign media can be condensed into one sentence: "The Negative List (2014 edition) is moving into the right direction."

(3) Expansion of service sector opening. Regarding the service section of the Negative list, we have also service sector liberalization measures, which seek an expanded opening based on the list's regulations. In total, it includes six regulations that cover the opening up of 18 industries, such as financial services, shipping services, business services, specialized services, cultural services, societal services as well as 6 other areas which include amongst others the specialized health insurance service industry.

(4) Implementation of a unified domestic and foreign market access system. CSFTZ adopted a new business registration system. On a trial basis, companies registered capital by a "Paid-in System" to a "Subscription System", relaxing amongst others the registration conditions for registered capital, abolishing the minimum registered capital of RMB 30.000 for companies with limited liability, and eliminating the previously demanded share provisions of RMB 5.000.000 for companies with limited liabilities. Trial implementation of "First Photo Card then Licensing" registration system, which only takes 4 working days after application to obtain the required business license to operate in particular industries.

(5) Implementation of the Asia-Pacific Doing Business Plan to attract high quality investments. For foreign headquarters and logistics centres, the Asia-Pacific Doing Business Plan is implemented. To meet the conditions of Asia-Pacific logistics, they shall receive support through the "X+1" policy. "X" refers to certain conveniences regarding business registration procedures, customs, public security, foreign exchange etc.. For example, when an enterprise registers it can give itself an "Asia-Pacific" name, the public security office will facilitate convenient expatriate visa, and in terms of foreign exchange, they will be provided experimental foreign exchange settlement centres etc. "1" refers to customized

measures. Hoping to expect better services for foreign companies, CSFTZ designed a set of complementary measures around the Negative List foreign investment management system, which are continuously improved.

Results of CSFTZ's Step-By-Step Reform Stages

Since CSFTZ's listing in late September last year, its overall operation is well. From January to June this year, it accomplished an income of RMB 740bn, which is a yearly increase of 11,2%. According to listings at the end of June, CSFTZ comprised a total of 10445 newly set-up enterprises and 1245 newly set-up foreign funded enterprises, of which Hong Kong (492 enterprises), the U.S. (113 enterprises), and Taiwan (110 enterprises) rank amongst the top three investment sources. In terms of financial innovations, the cross-border settlement within the zone achieved a total amount of RMB 80bn, which is a yearly increase of 1,7-times, and accounts for 12,7% of Shanghai; handling of a two-way intra-group cross-border RMB capital pool, consisting of 17 enterprises with a currency fund pool of RMB 7.8bn.

In July, an agreement has been signed with Artemed Group to establish the country's first fully foreign owned hospital in CSFTZ. After establishment, Artemed Group will introduce the world's most advanced medical equipment and best medical teams to provide world-class medical services to patients in China and worldwide. In August, Amazon's branch in China has signed a memorandum of understanding (MOU) with the Shanghai FTZ and Shanghai Information Investment Limited (SII). The deal paves the way for Amazon to bring millions of its e-commerce product offerings from around the world directly to Chinese customers. Under the pact, Amazon will open its new cross-border e-commerce platform in the free trade zone. The online retailer will also establish a logistics and warehouse centre in the FTZ, whereby imported goods will enter China via the zone's cross-border e-commerce platform. Also as part of the deal, products from small and medium-sized enterprises in China can be sold to Amazon customers across the world.

Of course, the initial results of CSFTZ's economic operations are not the most important aspect. The Central Government hopes to test policy results and detect related policy issues and systemic problems, which can be summarized and avoided in the national implementation rollout. For example, regarding the management of the Negative List for foreign investments, results so far show that the existing foreign investment laws and regulations are uncoordinated and incomplete, functions of government departments are overlapping, and some policies incorporate cumbersome procedures etc. This particularly relates to the improvement of laws and regulations and the necessity to reform the administrative organizational structure. Thus, in order to promote the Negative List management system in the whole country, it is necessary to amend the existing laws. Therefore, the Ministry of Commerce is currently enforcing to combine the "Law of Foreign-Capital Enterprises", the "Law of Chinese-Foreign Equity Joint Ventures", and the "Law of Chinese-Foreign Contractual Joint Ventures" into one unified "Foreign Investment Law".

As of now, the establishment of CSFTZ is still facing many shortcomings. Therefore, the British government has arranged a study group to provide advise for the FTZ test area. This year in May, it has provided an interim report. In September this year, they will provide the final report to the Chinese government.

Against this backdrop, we are hoping to hear more comments and suggestions from more international experts regarding all kinds of aspects.

5.2 Summary Panel Speeches and Commentaries

Dr. Stefan Sack, Vice President and Chairman of the Shanghai Board, European Union Chamber of Commerce in China (EUCC), PRC

Prof. Dr. Wang Zhongmei, Head of International Trade Study, Institute of World Economy, Shanghai Academy of Social Sciences (SASS), PRC

Prof. Dr Heribert Dieter, German Institute for International and Security Affairs (SWP), Germany

Prof. Dr. Huang Xianhai, Executive Vice President, Institute of Economics, Zhejiang University, PRC

Subsequent to Prof. Sun Yuanxin's thorough introductory presentation on SCFTZ, Dr. Stefan Sack, Vice President and Chairman of the Shanghai Board, European Union Chamber of Commerce in China (EUCC), PRC, Prof. Dr. Wang Zhongmei, Head of International Trade Study, Institute of World Economy, Shanghai Academy of Social Sciences (SASS), PRC, Prof. Dr Heribert Dieter, German Institute for International and Security Affairs (SWP), Germany, and Prof. Dr. Huang Xianhai, Executive Vice President, Institute of Economics, Zhejiang University, PRC made short comments on the given topic. The following passages will summarize and highlight the essence of their main statements:

Dr. Stefan Sack:

Dr. Sack emphasized that the topic of the economy of SCFTZ is not paramount, but rather the topic of the reform process of China. He believes that in time the trip of Prime Minister Li Keqiang to Shanghai in 2013 prior to the implementation of SCFTZ will be compared to Deng Xiaoping's visit to Shenzhen (as part of his South China tour) in 1992. European companies are expecting the Negative List to shrink fast. It shrank in January and in June by 35%. However, some of the items removed from the list, such as gambling, were already forbidden by local law. Now, it seems that a swift shrinking of the Negative List is rather unlikely as it will only be updated yearly.

Prof. Dr. Wang Zhongmei

Prof. Dr. Wang pointed to limitations of SCFTZ. She emphasized that the area of 28 sq. km. might be too restrictive and that a municipality could be too low as executive level. Other issues, which she stressed included deficient substantive reforms on sector regulation, slow progress regarding the Negative List, lacking transparency and predictability, policy renting, as well as still existing monopolies.

Prof. Dr. Heribert Dieter:

Prof. Dr. Dieter suggested that – in view of the reform and liberalization aspects of SCFTZ – the name "Shanghai Free Economic Zone" would better reflect the nature of this zone.

Prof. Dr. Huang Xianhai:

Mr. Huang emphasized the difference between common SEZs and the Shanghai Pilot FTZ: A normal FTZ focuses on trade and tax reduction policies. The Shanghai FTZ however emphasizes investment and financial reform. It is the start of a push to deepen the reforms and align China on the newest international regulations.

VI. Panel Session 1: Special Economic Zones: Catalysts or Costly Barriers?

6.1 Speech

Prof. Dr. Heribert Dieter, Senior Fellow, German Institute for International and Security Affairs (SWP), Germany

The debate on Special Economic Zones (SEZ) receives new momentum. Of course, SEZ show great diversity, but the most extreme case is the Shanghai Pilot Zone – which represents a testing ground for an entirely new monetary policy.

In my presentation, I will address three issues:

(1) Historically, what has been the contribution of SEZs to economic development?

(2) What is the relationship between Special Economic Zones and Regional Trade Agreements? Are they fully compatible?

(3) The Shanghai Free Trade Zone: What are the potential benefits, and what are the risks?

The Historical Perspective: What are the Benefits from Special Economic Zones?

What I am not considering is Export Processing Zones – they may have contributed to specific development strategies in the past, but their importance is declining. EPZs were successful for example in the Dominican Republic and other countries. However, their contribution to development has been somewhat limited. And, in today's world of production networks, their economic utility appears to be declining: Manufacturing requires large-scale development and the availability of suppliers – which results in the increasing popularity of greater SEZs, not smaller EPZs (Aggarwal 2006).

I am thus referring to what the World Bank calls SEZ for Integrated Development – large, multi-enterprise areas within a country. The most prominent example is of course Shenzhen, developing from a 30.000 people fishing village to a cosmopolitan city of 14 million – within one generation. Essentially, Shenzhen was "tabula rasa" – built from scratch (Yeung et al. 2009, p. 223).

How is an SEZ defined? According to Thomas Farole (2011), a SEZ is "a demarcated geographic area within a country's national boundaries where the rules of business are different from those that prevail in the national territory". Of course, diverging rules in the SEZ mean more liberal investments conditions, lower taxation and fewer investment restrictions. A first hint to the Shanghai SEZ: How robust is the demarcation between Shanghai and the rest of China? Or isn't there any? Today, SEZs often are experimental laboratories for the application of new policies and new approaches. China has been pioneering that approach: SEZs were permitting to test incremental reforms – thus permitting to avoid a Big Bang approach so often applied in the West – recall Margaret Thatcher's reform agenda.

SEZs have been very popular – their number grew from 176 in 47 countries in 1986 to 3.500 in 130 countries in 2006. Thereof, more than 100 SEZs are in China alone (Brautigam 2011, p. 70). A relatively new development is the establishment of Chinese SEZs in other countries. In this regard, going global means that China is establishing SEZs elsewhere. There are two reasons for this development: First, SEZs abroad increase demand for Chinese-made equipment. Second, exporting from African and other SEZs may result in reduced vulnerability in the event of trade conflicts between China and the USA or the EU.

However, looking at the historical experience, one immediately recognises that SEZs are not a uniform success story. They also incorporate deficiencies: The value-added in SEZs has often been low, often they are characterized by assembly rather than complex manufacturing, and at times zones have helped to avoid countrywide reforms (FIAS 2008, p. 33).

On the Compatibility Between SEZs and Regional Trade Agreements

Two simultaneous developments, both SEZs and Regional Trade Agreements (RTAs), have become more and more popular. This trend is not surprising. Both are policy tools that aim at enhancing trade and investment of countries and regions. Regional trade agreements do that across borders – aiming at enhanced economic growth in the participating economies.

The trend towards RTAs is unbroken – about 400 in operation and another 200 being negotiated. But the relationship between SEZs and RTAs is rather difficult. Some RTAs exclude companies from SEZs and do not permit their participation in unrestricted trade within the FTA. Simply put: Products from SEZs are not granted origin status. The problem is called "trade triangulation". If products from the SEZ are granted origin, products from non-participating third countries may enter the FTA via the SEZ – and thus undermining the trade policy of the FTA member countries. As a footnote: Economies participating in an FTA continue to implement their own trade policy – and often have widely diverging levels of protection. Also, rules and certificates of origin are administratively complex and cause significant costs for companies that expect duty-free status for their products. Utilization rates, i.e. the percentage of trade that is done by utilizing preferences – rather than paying the tariff – are often shockingly low.

Most FTAs consider this issue – and have tried to create rules of origin that are permitting the inclusion of goods from SEZs. Yet, there are also exceptions: In NAFTA, the importation of goods produced in Mexican SEZs is not permitted – regardless of the local content. But even when products produced in SEZs are permitted for duty-free trade within the FTA, producers often face substantial obstacles: Regularly, SEZ-manufacturing is characterized by a high import ratio – which then disqualifies a product from intra-regional free trade. A possible solution are very generous RoO, but that opens the door for triangulation.

In essence: The compatibility of SEZs and FTAs is an issue, and policy makers are faced with dilemmas: a) either generous RoO, or b) the de-facto exclusion of SEZ-products from intra-regional trade. A solution – not only for this issue: The creation of large scale customs unions, which would both facilitate trade and reduce the risk of trade diversion. The European Economic Community started as a customs union – but the political requirements for such an endeavour are high.

The Shanghai Pilot Zone, its Purpose and Potential

The Shanghai Pilot zone differs from other SEZs. But: it can be seen as a continuation of China's economic policy – testing a novel approach in one region before applying it at the national level. In essence: the aim is what Herbert Grubel called "selectively targeted deregulation" (Grubel 1982, p. 46). But what does Beijing want to achieve? What are the goals of Chinese monetary policy?

The stated goals are clear: Opening the capital account within five years, achieving "basic capital account convertibility", and elevating Shanghai to a first-class financial centre within ten years (Eichengreen 2013, p. 1). In addition, Beijing wants to internationalize its currency, the Yuan. It intends to create a challenge to the dollar. China wants to create a currency that is used a) as a store of value b) a medium of exchange c) and a unit of account. In plain English: The world shall save in Yuan, trade in Yuan, and issue invoices in Yuan. Beijing wants to reduce exchange rate risk for Chinese companies, and it wants to reduce transaction costs in trade as well as trade finance.

A second goal is the improvement of the PRC's financial institutions – which over time would increase their international competitiveness. But, and above all: If successful, the PRC could reduce its US-Dollar reserves and would eventually lose less money: Today, the US-Dollar holdings are a waste of money because their return – US Treasuries – is so low. Yu Yongding said in this regard that the costs of holding ever greater reserves of US-Dollars are higher than the costs. Whilst the aim is clear, the path there is less obvious.

As Eichengreen emphasizes, the situation today shows some similarities with the situation 100 years ago: The old leading international currency, the Pound, showed signs of weakness, but the new champion, the US-Dollar, showed structural deficiencies. The USA corrected that: The Federal Reserve Act of 1913 allowed U.S. banks to open branches abroad; in addition, the establishment of the Federal Reserve System created a lender of last resort for the financial system (Eichengreen 2013). However, as we know, the USA failed to create a stable financial system.

Some success for China: The Yuan is much more frequently used for trade settlement. The Chinese Central Bank has negotiated swap agreements with Australia, Japan, South Korea and other countries – swapping domestic currency against foreign currency. In December 2011, China and Japan agreed to promoting bilateral trade in the respective domestic currency. There are some "panda bonds", which are Yuan-denominated bonds issued by non PRC-issuers, and an emerging "dim sum" bond market. But the figures are low: Yuan-denominated payments still only account for 1.4% of global payments, compared to 42.5% for the US-Dollar. And, the market for Chinese assets is small: Whilst there are USD 56.000bn worth of US assets, USD 29.000bn worth of Euro-denominated assets, the figure for Yuan-denominated assets is a mere USD 300bn (Economist, 21st June 2014, p. 67).

However, the key issue remains unresolved: How can China solve the "Impossible Trinity of International Finance". According to Mundell and Fleming s model in the early 1960s, every country can only accomplish two out of the three following policies: 1) Unrestricted capital flows, 2) fluctuating exchange rate,

and 3) independent monetary policy. If the latter is set, there exist either restrictions on capital flows or the fluctuation of the exchange rates. China has been quietly easing restrictions on capital flows – but that is exposing the currency to either severe depreciation or, more painfully, appreciation. If the assessment is correct that the Chinese financial sector requires a cleaning-up process, the question is whether Beijing should not reverse the order: Domestic financial reform first, internationalization later. As Eichengreen points out: "… a more open capital account will require comprehensive changes in China's macroeconomic and regulatory regime" (Eichengreen 2013).

How was confidence and trust – essential for investors – developed in the past? In general, investors – both private and official – expect a stable and predictable policy environment. Regularly, international currencies – the Dutch Guilder, the Pound, the US-Ddollar, the Euro – have been embedded in political systems that warranted limited interference in monetary policy. And: attracting international investors is essential for market liquidity, but liquid markets are essential for attracting international investors. Simply put, investors prefer to being able to sell when it suits them – which is easier in liquid markets.

Regarding CSFTZ, there exists a structural problem though: How to separate Shanghai from the rest of the country? As Herbert Grubel highlighted in 1982, two conditions must be met for SEZs. There must be a need, and "it must be technically feasible to achieve a separation of the regulated and deregulated market" (Grubel 1982, p. 47). Exactly the latter will be the challenge: Once the floodgates are open, it will be difficult to control movements of capital. Sequencing is thus the key to successful reform, and if badly managed the internationalization of the Yuan could end prematurely.

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6.2 Panel Speech

Prof. Dr. Yuan Yiming, China Center for Special Economic Zone Research (CCSEZ), China

"The Catalyst to the Nation's Take-off: The Case of Shenzhen SEZ"

Shouldering Historic Missions and Industrial Structure Changes

Shenzhen is located on the frontier of the Pearl River Delta and forms a linking bridge between Hong Kong and mainland China. Shenzhen Special Economic Zone (SEZ) was the first of its kind during the early period of modern China's reform. It served as "window" of China to the outside and trial field for economic reform, in which policies such as land-use right sales, banking and finance system reforms, personnel system reforms, and government body reforms were first implemented and tested.

The development of Shenzhen SEZ over the last decades can be divided into three main stages. The first stage during the 1980's is characterized by a fast expansion of labour intensive industries. The manufacturing sector had been a basic electronic industry that was based on a "three processing industries and one compensation" model. Thus, industrial activities included processing raw materials on client demand, assembling parts for the client, processing according to client samples, and compensation trade in foreign trade business. From 1980 to 1999, Shenzhen's GDP increased from USD 0.146 bn to 210.396 bn with an average annual increase of 31.2%. Additionally, the industrial structure underwent changes by leaps and bounds (see table 1).

Table 1: Industrial structure changes 1979-1990 (in %)

Year	GDP	Primary Industry	Secondary Industry	Tertiary Industry
1979	100	**37**	**20.5**	**42.5**
1980	100	28.9	26	45.1
1981	100	26.9	32.3	40.8
1982	100	22.9	38.1	39.0
1983	100	17.2	42.6	40.2
1984	100	11.1	45.5	43.4
1985	100	6.7	41.9	51.4
1986	100	7.9	39.2	52.9
1987	100	8.3	39.4	52.3
1988	100	6.6	41.3	52.1
1989	100	5.9	43.7	50.4
1990	100	**4.1**	**44.8**	**51.1**

In the second stage during the 1990s, the initiation of high-tech industrial production had been the second relay force to growth. Major high-tech industrial clusters included modern electronic information, biotechnology, new materials, and electromechanical integration (see table 2).

Table 2: Proportion of high-tech in total output value (in %)

Year	
1988	**4.5**
1991	8.1
1994	17.2
1995	20.5
1996	28
1997	35
1998	35.4
1988	**4.5**

The third stage, beginning from the year 2000 on, is characterized by a search for new sectors to support accelerated long-term growth. Thus, innovation as source of high-tech industries has become the driving force for industrial upgrading:

- Output value of high-tech products reached USD 202.0bn in 2013
- Independent intellectual property in high-tech products accounted for 60%
- High-tech products accounted for more than 50% in total industrial output value
- Added value accounted for 35% of Shenzhen's total GDP
- High-tech exports accounted for 46% of the city's total exports.

A Significant Contributor to Growth of the Whole Country

Recording an annual GDP of 235.6bn and average per capita GDP of USD 22.198, Shenzhen as high-tech industry centre, financial services hub, and maritime transport services centre had been China's most competitive municipal city in 2013. From 1979 to 2013, Shenzhen has been ranking first in total trade value attributed to cities in China. The starting point of Shenzhen's rapid economic growth had been triggered by its export-oriented growth strategy starting in the early 1980's, and eventually leading to accelerated growth in foreign trade over the following decades.

How did Shenzhen Affect the Rest of the Economy?

Thus, after 30 years of China's economic reform and opening up to the world, the city has developed some characteristics of an export-oriented economy. While the annual total volume of trade was merely USD 17bn in 1979, this figure had surged to USD 537.4bn by 2013, with an annual growth rate of 36.4%. Even when faced with the world financial crisis in 2008, total imports and exports through Shenzhen still grew by 4.3%, totaling USD 299.95bn. Against this background, during the decades Shenzhen has (been):

(1) The starting point of China's export-oriented growth strategy,

(2) reduced poverty in other regions through high levels of FDI, which were partially dispersed along the large pools of immigrant workers from other Chinese regions – especially from the Western part of China,

Fact box: FDI in Shenzhen

- FDI has made a tremendous contribution to Shenzhen's industrialization.
- In 1980, FDI only amounted to USD 0.73 million.
- After 30 years, the average growth rate of Shenzhen's foreign capital has increased to 28.6%
- In 2008, the inflow of foreign capital was USD 4.03bn, a 10.1% growth compared to the previous year.
- Sector proportion: Manufacturing accounts for 37.5%, transportation, storage, and postal services for 7.5%, tenancy and business services for

(3) served as a relay station for foreign investments, which then expanded to Central and Western provinces and cities,

(4) a stable source of national fiscal contributions: In 2002 for example, tax revenues of Shenzhen accumulated to approx. RMB 42.7bn, of which RMB 38bn were directly transferred to the Central government, and

(5) a training base for entrepreneurial training and development.

Lessons Learned: Experiences from Shenzhen

(1) Wisely chose the location for establishing SEZ.

(2) Mobilize rural surplus labour to create a multi-cultural background.

(3) Implement efficient policies and a flexible operation system to integrate and utilize both domestic and overseas economic resources.

(4) Give priority to encourage foreign investment in the form of processing trade form rather than FDI during the economic take-off time, thus providing more employment opportunities for low skilled labour.

(5) Stable primary processing industry rather than premature capital-intensive and tech-intensive industry can give full play to the poverty reduction effects of foreign capital

6.3 Panel Speech

Prof. Dr. Zakariah Abdul Rashid, Malaysian Institute of Economic Research (MIER), Malaysia

"Special Economic Zones: Catalysts or Costly Barriers? The Malaysian Perspective."

SEZ are usually set up in a strategically located region, which can bring both advantages and disadvantages for the national economy. Even without establishing SEZ, a strategic region is able to attract an extra-ordinary interest among local, regional, and global investors. The region has a natural advantage in terms of readily available infrastructure, skilled labour, and located rights in the stream of heavy regional and global trade traffic.

An example of Malaysian SEZ is Iskandar Malaysia (IM). IM is the key Southern development corridor in Johor, Malaysia. It has been set up to become the most developed region on Malaysia's Southern Peninsular, where living, entertainment, environment, and business seamlessly converge within a bustling

and vibrant metropolis. IM's total investment in nominal terms has increased more than eleven times during the period of 2006-2013 and was mainly contributed by private investment, which were almost evenly distributed among the sectors manufacturing, properties, and others Other investments include: Utilities, emerging technology, tourism, education, healthcare, finances, logistics, retail, and industrial activities.

MI Development Plan: Snapshot of Projects

By size, the region is three times the size of Singapore and 48 times as big as Putrajaya. By 2025, the region is expected to house a total of three million people, create 1.46m jobs, produce a cumulative investments of RM 383bn over the next 20 years, and produce a GDP of USD 93.3bn There is a strong probability that the SEZ will be a success if it focuses on high multiplier sectors that spur aggressively backward and forward linkages to the rest of the corridor.

Malaysia New Economic Model

Malaysia is on the Malay Peninsula, comprising 14 states, in Southeast Asia. Additionally, the nation includes Sabah and Sarawak on the island of Borneo. The country is administered by a federal system of administration. In various national development plans, Malaysia explicitly emphasizes that it aspires to become a developed country by 2020. SEZ are therefore serving as catalytic economic policy tool to kick start economic growth. The New Economic Model (NEM) is an integral plan of this long-term vision, chartering the structural and technological transformation into a more robust economy, thus achieving the national development goals of high income, inclusiveness, and sustainability.

Alongside specifically labeled SEZs, regional economic corridors (REC) are used as an economic instrument to redress regional disparity, which is a major contributive factor to the overall income disparity in the country. Initiated under the Ninth Malaysia Plan to bridge regional development imbalances throughout the country through public-private partnerships (PPP), the overall objective is to balance a country's national development spatially. There are five regional economic corridors, which can be considered as

SEZ. These are namely: (1) East Coast Economic Region, (2) Iskandar Malaysia, (3) Northern Corridor Economic Region, (4) Sabah Development Corridor, and (5) Sarawak Corridor of Renewable Energy. Generally, all the corridors offer two types of incentives, general and sector-based. The former refers to specific fiscal and tax incentives, while the later refers to incentives pertaining the recruitment of workers and foreign exchange administrative rulings. Sector-based incentives are given to key sectors, namely (1) electric and electronics, petrochemicals, and oleo chemicals, (2) food and agro-processing, (3) logistics, (4) tourism, (5) education, (6) creative industries, (7) financial services, advisory services, and consulting services. ECER is one of them.

Malaysia's Economic Corridors

Data on SEZ Economic Structure

Plan to establish SEZs such as IM corridor must include thorough prior analysis to identify strategic economic sectors and quantify the multiplier impact regarding household income, employment, and output of any exogenous final demand. The SEZ analysis has to detail out the economic and social structure. IM, for example, has identified 8 strategic sectors, namely property development, retail services, leisure and tourism services, logistic services, financial services, creative industry (studios and production houses), higher education services, and health care services that are given priority for development. These sectors are chosen by a deliberate policy to spur growth of the corridor.

A rigorous study on the structure of the corridor reveals that, as the sectors are essentially service sectors, they have good forward linkages but poor backward linkages. Since the IM's strategic sectors are not really key sectors, they generate lower multiplier on output and employment. The IM's strategic sectors have lower impact on the corridor than the key sectors. However, each strategic sector has its own strength on generating multiplier effects on output, household income, and employment. For instance, amongst all IM's strategic sectors, the property development sector has the strongest effect on output, the higher education sector on household income, and leisure and tourism on employment.

Conclusion

In a nutshell, by setting up SEZs, economic growth of the region in particular and of the national economy in general can be secured more effectively. By not setting up SEZ, the region will certainly face many obstacles of economic development as it is overly exposed to investments and business activities. However, setting up SEZ creates additional cost, i.e. establishing a proper regulatory framework, institutions, and providing physical infrastructure. SEZ are indeed a catalyst not a costly barrier to growth and development. They only become a costly barrier if they are not designed properly – that means with little professional and scientific input and/or managed poorly – which may crowd-out private sector participation.

6.4 Panel Speech

Dr. Raymond Atje, Senior Fellow, Centre for Strategic and International Studies (CSIS), Indonesia

"Special Economic Zones: An Indonesian Perspective."

Background

In 2009, the Indonesian government introduced a SEZ law. Seven regions have been designated as future locations of SEZ. Moreover, in the past the government has been experimenting with SEZ in Batam and the surrounding islands. According to Indonesia's SEZ Law:

- SEZ can be an export processing zone, a logistic zone, an industrial zone, a technological park and other type of economic zone, or any combination of these activities
- Firms in SEZ are entitled to extensive tax and customs as well as non-fiscal incentives
- FDI is exempted from ownership limitations (as stipulated in the negative list of investment)
- Special set up for labour relation institution

Batam: An early experiment with SEZ

Batam has evolved from a small fishing village of 6000 people in 1970 to a medium size metropolis of 1,150, 000 people in 2012. Batam Island is located around 20 km from Singapore (around 45 minutes by ferry). To attract companies to locate there in the mid 1980s, it had been designated as a bonded zone. Within the bonded zone, firms were exempted from VAT, luxury goods sale tax on imported goods, and export duties, etc. From the 1990's onward, Batam became a part of Singapore-Johor-Riau (SIJORI) growth triangle. As part of the SIJORI agreement, the export processing zone Batamindo Industrial Park has been established in Batam in 1991. Batamindo is a joint venture between two Singapore's enterprises and Salim Group of Indonesia. However, within few years Batamindo began to face competition from a number of industrial parks that were subsequently established in Batam. The benefits, investors received in Batamindo, included:

Investment in Batam 2010 -1013 (in bn. USD, cumulative)

Source	Government	Foreign	Domestic	Total
2010	2.92	5.94	5.73	**14.59**
2011	2.99	6.02	5.73	**14.74**
2012	3.09	6.78	5.82	**15.69**
2013	3.37	6.95	5.82	**16.14**

- Generalized System Preference facility,

- waiver of VAT,
- exemption from import and export duties,
- 100% foreign ownership,
- land lease up to 80 years and extendable,
- foreign investment licence for 30 years and extendable,
- preferential corporate and income tax, and
- profit can be repatriated.

In 2004, the Indonesian government began to apply VAT and luxury goods sales tax on companies in Batam, except for exporting firms. Eventually, in 2007 Batam became a free trade zone (FTZ):

- No import and export duties and taxes,
- no VAT for all processing industry for export purposes,
- GSP facilities with donor countries,
- double taxation avoidance agreements with 58 countries, and
- common Effective Preferential Tariff (CEPT) for ASEAN member countries.

Prior to the transformation into a FTZ, the government began to devolve authority from the central government to local (district or municipal) governments in 2001. This led to a conflict between BIDA and the municipal government in Batam over the division of authority between the two institutions. It remains to be seen whether the FTZ council can resolved this conflict.

Lessons Learnt from the Development of Batam

To the extent that Batam may be considered a success endeavour, it does not mean that it can be easily replicated in any other place. The development of Batam is owed to a number of factors:

- Extensive government investment in infrastructure development, such as building roads, power plants, a seaport, and an airport, etc.,
- its proximity to Singapore and being a part of SIJORI helped boosting FDI, and
- institution: single authority (Batam Industrial Development Authority - BIDA) to issue business licence, approve investment etc., and, hence, speeded up the process (one-stop service).

SEZ: Catalyst or Costly Barrier?

At this stage of development, an important question regarding Batam is: Do export-oriented companies in Batam still deserve to receive tax and other pecuniary incentives? Maybe not, it seems that Batam is no less attractive for investment than any other place in Indonesia. The question as whether SEZ are a catalyst or a costly barrier is one that may not have a straightforward answer. It depends on the types of incentives being offered to SEZ. For example, tax exemption and other pecuniary incentives should be temporary, and their application should have a time limit. The extent to which the government should invest in infrastructure development, usually depends on the location of the SEZ in question, that is its proximity to the population centre, the level of development of the surrounding regions, etc. All in all, arguably it would be better if the government improves the overall investment climate, such as removing red tapes, eradicating corruption, removing barriers to entry, etc.

An Example of a Newly Proposed SEZ: Morotai Island

Morotai is one of the outer most islands in the northeast of the country about 3 hours flight from Jakarta. Its size covers 1,800 sq. km, and its population surmounts 54,000 people (2012). However, the island lacks of infrastructure. Nevertheless, it is being proposed to be a:

- Export processing zone
- Logistic zone
- Industrial zone
- Tourism zone

Given the location, even with substantial government investment, it is doubtful that the island will become a vibrant economic centre.

6.5 Panel Speech

Dr. Kim Beom-Jung, Director, China Research Centre, Korea Maritime Institute (KMI), Republic of Korea

"Special Economic Zones in Korea"

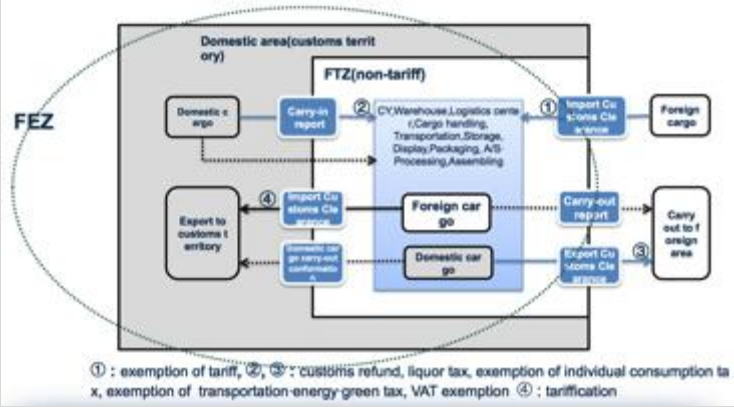
To improve the balance of payment, Special Export Zones (SEZ) in waterfront areas were required. Therefore in 1969, the South Korean government promulgated the "Act on the Establishment of Free Export Zones", eventually establishing Free Export Zones (FEXZ) in MASAN (1970) and IKSAN (1973). As these zones only served for the handling of productions in process manufacturing, they were similar to Export Processing Zones (EPZ).

Following in 1999, the "Act on the Promotion of the Designation and Operation of International Logistics Infrastructure" was published, leading to the designation of Pusan/Gwangyang Port (2000) and Incheon International Airport (2003) as Customs Free Zones (CFZ) in order to improve the country's logistics and business policy.

In 2000, the government decided to transform FEXZs into Free Trade Zones (FTZ). In 2003, manufacturing oriented FTZs and logistics oriented CFZs were integrated. Therefore, manufacturing oriented export free trade areas expanded its functions to manufacturing, logistics, and trade. By the end of April 2014, 7 industrial park-type (Masan, Gunsan, Daebul, Donghae, Gimje, Youlchon, Ulsan), 1 airport-type (Inchoen International Airport), and 5 port-type zones (Pusan, Gwangyang, Incheon, Pyeongtaek-Dangjin, Pohang Port) were set up, covering an area of nearly 31.78 million sq. m.

The concept of Free Economic Zones (FEZ) was introduced in 2003. These are similar to Special Administrative Regions in the areas of manufacturing, logistics, medical services, education, broadcasting, and finance. They are designed to build a comprehensive business environment, encouraging foreign investment, and promoting balanced regional development. Subsequently, over the following years a number of FEZs has been established, such as Incheon, Busan-Jinhae, Gwangyang Bay Area in 2003, Yellow Sea, Daegu-Gyeongbuk, Saemangeum-Gunsan in 2008, and Chunbuk, East Coast in 2013. In total 8, FEZs have been designated and are currently in operation.

Structure of FEZ in South Korea



Comparison of FTZ & FEZ

Sector	Free Trade Zone (FTZ)	Free Economic Zone (FEZ)
Legal basis	▪ Act on the designation and operation of FTZ	▪ Act on the designation and operation of FEZ
Objective	▪ Promoting Foreign investment ▪ Stimulation of trade development ▪ International logistics facilitation ▪ Regional development	▪ Promoting Foreign investment, ▪ Enhanced national competitiveness ▪ Regional balanced development
Authorized administrator	▪ Industrial parks-type: Minister of Ministry of Trade, Industry & Energy ▪ Port-type: Minister of Ministry of Oceans and Fisheries	▪ Mayor and Governor
Location	▪ Non-tariff area ▪ Industry cluster	▪ Special administrative regions
Entry qualifications	▪ Foreign investment companies ▪ Local companies ▪ Manufacturing, logistics, trade, and business services	▪ Foreign investment companies ▪ Manufacturing, logistics, residence, hospitals, education, foreign, broadcasting, and finance
Tax exemption	▪ Corporate tax (income tax): 100% for 3 years, then 5 0% for 2 years ▪ Local tax: can be exempted for 8-15 years ▪ Conditions for exemption: – Manufacturing: USD 1,000m – Logistics: more than USD 500m	▪ Corporate tax (income tax): 100% for 3 years, then 50% for 2 years ▪ Local tax: can be exempted for 8-15 years ▪ Conditions for exemption ▪ Advanced manufacturing & tourism: USD 1,000m ▪ Logistics: more than USD 500m
Customs	▪ Customs Duty (import goods and capital goods) ▪ No VAT	▪ Capital goods without customs duty for 3 years
Rental fee	▪ 100% exempted for foreign investment company	▪ Determined by operation government

Port Hinterlands in Korea

In order to enhance the value added logistics capability, strengthen the node connection between global logistics and inland logistics, attract multinational investment, and provide high added-value services, the

"Harbour Act" had been revised in 2001. Therein, "port hinterlands" are defined as land for providing sophisticated infrastructure, such as service facilities, harbour waterfront facilities, business facilities, and residential areas. Their aim is to create added value and invigorate the port-related industry. According to the second revised version of the "Harbour Act" of 2012, there exist two types of port hinterlands. While the first type includes logistics and manufacturing, the second type is more extensive, incorporating business, purchasing, information processing, neighbouring convenience, and recreational facilities as well as residential areas, medical services, education & research, cultural, welfare, sports, and tourism. Until 2015, the designated areas for this type of SEZ shall be extend to a total area of 18.480m sq. m. Currently, South Korea has eight port hinterlands, including Incheon, Pyeongtaek-Dangjin, Mopko New Port, Gwangyang, Masan, Pusan New Port, Ulsan, and Pohang Port. Regarding the management and operation regulations, following characteristics should be highlighted:

- 1st port hinterland category: Exemption of land leasing fee
- 2nd port hinterland category: Land is sold in lots, tenants are evaluated before registration, poor performing tenants will receive higher renting prices

Business Categories

Business category	Note
▪ Cargo handling, transportation, storage, ▪ Display, or supported businesses	▪ International freight forwarder, international ship brokering, packaging, A/S processing, or assembling businesses ▪ Shipping storing supplements, such as fuel, drinking water, and food
▪ Export-driven manufacturing and wholesale businesses	
▪ Foreign manufacturing companies which can drive to achieve better throughput	
▪ Knowledge service industry	▪ E-commerce, software development, and supply businesses, telecommunication services, computer programming, information services, R&D, and security system services
▪ Business which can support tenant companies	▪ Finance, insurance, customs clearance, tax, and accounting
▪ National organization or public institution (directly related to management and performance only)	

Implications

(1) **Designate SEZs to strengthen incentives**. It can be advantageous to provide multiple incentives by designating FTZs and FEZs at the same time. However, an occurring disadvantageous side effect can be the overlapping of management agencies, thus leading to a prolonged period for project approval and development.

(2) **Expand target businesses and continuously explore successful policies.** Push ahead with the development of a sophisticated port hinterland infrastructure by allowing the registration of manufacturing. Set up a systematic policy by means of thorough planning and detailed management standards.

(3) **Strengthen management of tenant companies after registration**. Simple logistics businesses alone cannot increase throughput and provide added-value services. Therefore, it is recommendable to boost the competitiveness of tenant companies, vitalize the businesses in port hinterlands, and maximize the creation of added value.

(4) **Implement a business performance and value-added activity oriented management system**. In this context, it is necessary to continuously expand the target business category and to thoroughly establish performance and value-added activity standards.

(5) **The government must continuously enhance investment promotion.** Establish various development scales according to the country's multiple needs and vitalize overall private investments.

In a Nutshell: Key SEZ Success Factors

(1) The setting up of SEZs needs a clear purpose and the implementation of proper protection measures for extraterritoriality business activities.

(2) Perfect legal protection system.

(3) The management organization of the SEZ has 'strong' authority.

(4) SEZ possesses its own idiomatic preferential policies, i.e. foreign exchange transhipment or one-stop service.

(5) Fast and convenient managerial customs supervision in the SEZ.

Recommended Reading Materials:

www.unescap.org

- Free Trade Zone and Port Hinterland Development
- KMI & UNESCAP, 2005

http://www.ftz.go.kr http://www.fez.go.kr

VII. Panel Session 2: Avoiding Isolated Enclaves: Benefits for the Local Economy

7.1. Speech

Dr. Francis Hutchinson, Coordinator of Regional Economic Studies Programme, Institute for Southeast Asian Studies (ISEAS), Singapore

"Getting them to come, that is the easy part. Getting them to stay or to grow, that is the difficult part".

(Dato Chet Singh, Penang Development Corporation)

'Take-away'

There are solid reasons to promote SEZ-based strategies as a first step. Data from two Southeast Asian countries shows structural transformation but little sectoral transformation. However, it is premature to 'write' off SEZ-driven growth strategies. There is little alternative. Structural transformation is still important, and most sub-national governments focus on land management and attracting investment, but not social capital, learning among local firms, and constructing value chains. International experience shows that this focus is common, and the effort involved in acquiring technological capabilities and building 'soft infrastructure' is underestimated.

Architecture of SIJORI Territory

- **Johor**: 3.3m people
- **Riau Islands Province**: 1.6m people

Mapping The Electronics Sector in Singapore, Johor, and Riau Islands (SIJORI)

Mapping the electronics sector in Singapore, Johor, and Riau Islands (SIJORI) has been a joint project between the Institute for Southeast Asian Studies (ISEAS) and L. van Grunsven, Department of Economic Geography, University of Utrecht. The aim of research was to understand precisely how the electronics industry in Singapore, Johor, and Batam has evolved over the past 20-25 years:

- What sectoral transformation do we see?
- What are the perspectives for upgrading for regions located to a strategic hub?
- Is there a link between events in Singapore and the other locations?

The research undertaking had been divided in several stages: First, we collated and analysed data on nationality, sub-sectors, entry, and exit from Johor and Batam. Then, we conducted company interviews in Johor and Batam to understand upgrading (if any occurred). In a further step, data on nationality, sub-sectors, entry, and exit from Singapore had been collated and analysed. Lastly, we conducted (more) company Interviews in Johor and Batam as well as Singapore

Economic Transformation: Structural vs. Sectoral Transformation

Structural transformation presents usually a shift from agriculture to manufacturing and services. It represents a move towards more sophisticated, 'modern', and value-added economic activities, and is usually a response to big levers of policy, i.e. macro-economic stability, directing credit, and enforcing property rights. It leads to a systemic administrative structure that is typically centralized, less complex, and more impersonal. Sectoral transformation on the other hand, represents upgrading within sectors, thus creating new production activities, speeding up technological learning, and disseminating innovative practices. It is more complex, technically intense, and provides diffuse benefits. Essential elements represent sustaining communication, constructing/maintaining relationships of trust, and monitoring commitments.

The Electronics Sector in Singapore, Johor, and Batam

Singapore is a pioneer of export-oriented industrialization, following the Multinational Corporation (MNC)-led 'model'. Its government actively pursued to promote the establishment of industrial parks, provision of tax incentives, and acquisition of partnerships. Furthermore, it long sought to offshore land as well as labour-intensive tasks. Against this policy framework, over the last two decades the electrical and electronics industry (E&E) sector has grown in absolute terms, in output and value added; contracting in employment has become more skill- and capital intensive rather than labour intensive; and the industry sector has been narrowed, recording an increase in high-tech, -precision, and –value, i.e. more semiconductors/IC and data storage as well as fewer consumer electronics and peripherals.

Johor (Malaysia) and Batam/Riau Islands (Indonesia) share a comparative advantage in land and labour. Due to their close proximity, there is a long tradition of exchange. They have a similar national expression of interest (EOI) framework, show a stable macro-economic environment, and equally follow the MNC-led model. Moreover, both countries are strongly committed to national and local level industrialization by fostering development of free trade zones (FTZ), bonded warehouses, tax incentive schemes, and good infrastructure. Yet, there exist also major differences between both, such as income, educational attainment, and ease of doing business. Furthermore, while Johor is pursuing an active technology policy, Batam/Riau Islands is rather inactive. Also, their government structures are differing, Johor being federal and Batam/Riau Islands first showcasing a unitary then a decentralized system.

Electronics Sector Development and Structural Transformation (in %)

Johor

Sector	1990	2004	2012
Primary	28.9	12.5	12.4
Secondary	32.2	41.9	37.4
Tertiary	38.8	44.2	49.1

Batam/Riau Island Province

Sector	2004	2010
Primary	13.1	9.9
Secondary	59.3	58.5
Tertiary	34.5	35.9

The electronics sector in both locations Johor and Batam/Riau Island Province has grown from 1990, leading to structural transformation in both locations. E&E was the key driver, with other sectors growing later. Both are wealthy territories within their national context. Johor being the most developed state. Riau Islands Province, second wealthiest after Jakarta federal territory.

Following an initial period of convergent growth, Johor and Batam diverged after 2003. In total, 179 firms arrived in Batam since 1999. 62 of these are still operating, which equals a survival rate of 35%. Only few new firms have settled down and there exists a high rate of attrition clustered around specific events. In Johor on the other hand, 409 firms have arrived since 1995, of which 274 are still operating (survival rate of 67%). The firm complex is larger, more stable, and continuous to grow. Thus, compared to Batam, the survival rate and total number of firm entries into Johor is two times higher. In 2003, Johor's firm complex was only 50% bigger than Batam's, now it is four times as large.

Local Firms and Upgrading?

Both Johor and Batam experience some participation by local firms. In Johor, we recorded 22 Malaysian firms (5% of total; 28% survival rate) and 25 Japanese-Malaysian joint ventures. In Batam, we documented 6 Indonesian firms (3% of total; 100% survival rate). However, these firms showed only little joint venture activity. In comparison, while Malaysian firms appear to be more locally grown and vulnerable, Indonesian firms are part of large consortiums.

Against this background: has an upgrading process taken place? On a first glance it is apparent that Batam's E&E sector experienced shrinkage of consumer electronics, a slight increase in components, and growth of contract electronics manufacturers (CEM). Jahor experienced a little shift, including shrinkage of consumer electronics and wiring devices as well as an increase in sub-assembly and lighting. However, both countries were not able to capture offshored product spaces from Singapore.

According to the results of our interviews with 13 firms in Batam, of which 5 were Singaporean and 3 Japanese, there has been no significant functional evolution in these companies. Their product portfolio still includes product parts rather than full products and the upgrading is linked to industry evolution, with only few radical developments. Automation is prevalent, but only in response to a scarcity of labour. Technology is developed elsewhere, and then transferred. For more than half of the firms, high-end capabilities are 'irrelevant'.

In Johor, we conducted Interviews with 27 firms, 7 of them being Singaporean and 16 Japanese. Most of them have remained static, while 10 had a minor upgrading to low-level research and development

(R&D), procurement, and marketing. I a bit more than half if the companies, we documented an evolution in the product portfolio as new products are introduced. However, it is still static within the corporate hierarchy with only some major upgrading. Automation took particularly in those places that assumed more complex functions. Like in Batam, technology is developed elsewhere, and then transferred. High end capabilities are at a low level, but in 10 firms increased R&D have led to hiring of technical staff.

Conclusions?

A structural transformation has relatively easy happened regarding the liberalization, infrastructure, labour, and cost-argument. Johor is maintaining this cost argument, and its outlook is relatively positive. Batam on the other hand, has not been able to maintain this. Its outlook is bleak. However, the sectoral transformation in both locations is more challenging:

- Relatively stable position in regional division of labour,
- little movement towards more sophisticated sectors/niches,
- stable/stagnant position within corporate hierarchy,
- little in the way of acquisition of additional capabilities, and
- relatively little local participation.

Their focus of policy attention had been on preferential provision of hard infrastructure, tax incentives and relaxed strictures on local equity as well as labour. But, what about?

- Matchmaking between flagship firms and (local/international) suppliers,
- co-location of potential customers,
- technology mapping,
- targeted skills provision,
- collective facilities (to test prototypes),
- knowledge generation – libraries, market intelligence, and
- stewardship of local economy to nurture related branches.

Architects of Growth? Some lessons

What is the role for sub-national governments in fostering industrialization? We analyzed 10 cases, and particularly saw their role limited to hard infrastructure and incentives. They displayed great entrepreneurial ability to:

- Raise money (bonds, real estate speculation, borrowing) (Cebu),
- market and promote,
- lobby the centre for investment, incentives, and
- improve local business environment (Da Nang).

We found some examples of co-location (Chengdu), and some of joint ventures and strategic investments (Tamil Nadu) or public goods (Chengdu, Tamil Nadu). However, we found little selectivity, no attempt to 'steer' the economy, and little in the way of technology mapping or in promoting local firms. Though, exceptions were North Brabant, Singapore, and Gumi City (RoK).

Singapore – Jurong Island

- Petrochemical industry began in late 1960s
- Reclamation began 1995
- Inaugurated 2000

For the project Jurong Island in Singapore, 7 islands were brought together with a total geographic size of 30 sq. km. Today, it is one of the top three refining centres. Its sector accounts for 32% of manufacturing output. In total, there are 94 firms, representing a large base of MNCs plus Singapore Petroleum Company Ltd, Singapore Refining Company (Petrochina):

- Sectoral 'health' rather than profits,
- value chain analysis,
- targeted recruitment overseas,
- co-location of incoming firms next to potential clients,
- encouragement to upgrade and generate jobs, and
- public goods - Institute of Chemical and Engineering Science.

7.2. Speech

Dr. Chap Sotharith, Advisor and Chief of Cabinet, Former Executive Director and Member of Board of Directors, Cambodian Institute for Cooperation and Peace (CICP), Cambodia

"SEZ: Avoiding Isolated Enclaves and Benefits for the Local Economy – The Cambodian Case"

What is a Special Economic Zone?

The term special economic zone (SEZ) is commonly used as a generic term to refer to any modern economic zone. In these zones, business and trade laws differ from the rest of the country. Broadly, SEZs are located within a country's national borders. The aims of these zones include: increased trade, increased investment, job creation, and effective administration. To encourage businesses to set up in the zone, more liberal policies are introduced. These policies typically regard investment, taxation, trading, quotas, customs, and labour regulations. Additionally, companies may be offered tax holidays. The creation of SEZ by the host country may be motivated by the desire to attract foreign direct investment (FDI). The benefits a company gains by being in a SEZ may mean that it can produce and trade goods at a globally competitive price. Each country individually determines the operating definition of its economic zones.

SEZ in Cambodia

Impressions of Cambodian SEZs

In Cambodia, SEZ refers to special development areas for economic sectors, including industrial and other related activities. It encompasses terminologies such as General Industrial Zones (GIZO) and Export Processing Zones (EPZ). Each SEZ has a production area, which may include a free trade area, service area, residential area, and tourist area. In general, a SEZ must have:

- An area of more than 50 hectares with a precise location and geographic boundaries,
- a surrounding fence,
- a management office building, zone administration offices, and necessary infrastructure, and

- water sewage network, waste water treatment network, location for storage and management of solid wastes, environment-protection measures, and other related features as deemed necessary.

Legal Framework and Status

In December 2005, the Cambodian Special Economic Zone Board (CSEZB), which is a branch of the Cambodian Council for Development (CDC), was established to manage SEZ. CSEZB is responsible to issue, permit (in form of a sub-decree), and to allow the establishment throughout the country. The centerpiece of national SEZ regulation is the "Sub-Decree No. 148 on the Establishment and Management of the Special Economic Zone", issued on 29 December 2005. As of now, about 30 SEZs already got permits. However, only 13 of these are fully or partially in operation. Locations of SEZ vary across the country, amongst others including Phnom Peng, Sihanoukville, Syay Rieng, Kompong Cham, Kandal, Kompot, Banteay Meanchey, and Koh Kong. The main rationales for setting up SEZ in Cambodia are following:

- Plenty of young and cheap labor,
- opening new markets,
- high economic growth,
- pro-business and pro-trade government,
- political stability and strong leadership,
- liberalized investment policy, and
- strategic location in ASEAN and linkages with East Asia.

Anticipated benefits are manifold, ranging from attracting FDI and promoting trade and export oriented

Transportation means for Cambodian SEZ workers

industries to reducing migration stream pressure from the countryside to urban areas, decreasing unemployment, overcoming regional development gaps, and supporting a favourable business environment.

Challenges

Yet, alongside potential benefits, the challenges, which Cambodia is facing in SEZ, are various as well. Especially, balancing welfare of labor – low salary – and promoting investment – employment – is particularly difficult for government. Other prominent issues include:

- Poor Infrastructure,
- high electricity cost,
- land speculation,

- lack of skilled labour,
- lack of human resources,
- low salary,
- poor work condition and safety (lack of proper canteens, health facilities, and transport),
- many strikes (political involvement),
- weak national social safety net, and
- competition from neighboring and countries in region such as Vietnam and Myanmar.

Working conditions in most SEZ

Future Prospects

Due to the location of seaports and coastal areas, especially Sinahoukville and Koh Kong should be promoted. In these regions, particular emphasis should be given to cross-sectoral policies targeting infrastructure, public services, businesses, and related activities. Moreover, in order to gain full benefits of ASEAN Economic Community to be realized in 2015, border areas, especially alongside Thailand and Vietnam, should be given priority as the neighbouring countries provide cheaper electricity and markets for export products to be distributed throughout the world. Finally, the incentives in SEZ compared to Cambia's "Law on Investment" should be re-examined as well as labour disputes and industrial relations settled.

Conclusion

SEZs in Cambodia brought huge benefits to the nation in terms of fostering local development and narrowing regional development gaps. Moreover, the economic policy tool efficiently reduced the migration stream pressure from the countryside to urban areas, especially in the capital Phnom Penh, which is densely populated and congested. In general, SEZ have good prospects in terms of production and future development – nevertheless, one has also to keep in mind that they are also facing diverse challenges. However, Cambodia has a strong and stable government that is dedicated to development and has a clear-sighted vision of fostering regional economic integration. Thus, Cambodia will be able to overcome domestic pressure, to comply with its AEC commitments, and to reap maximum benefit from SEZ promotion.

7.3 Speech

Dr. Nguyen Dinh Chuc, Deputy Director, Department for Investment Policies, Central Institute for Economic Management (CIEM), Viet Nam

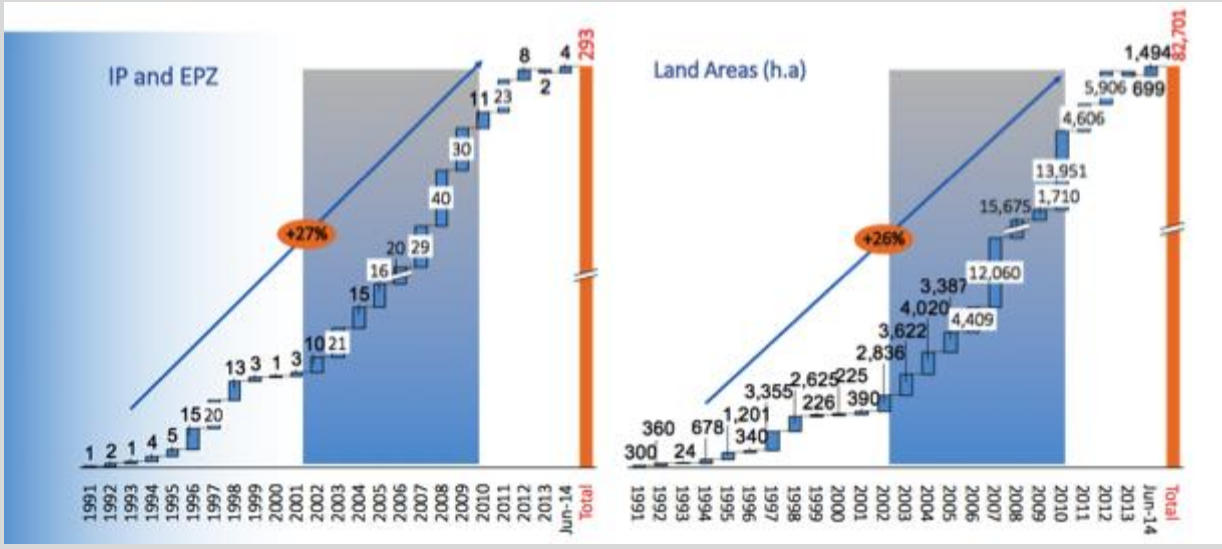
"Economic Development in Vietnam – Development and Contributions"

Today, a plurality of different zone types is located within the geographical boundaries of Vietnam. These include Industrial Parks, Export Processing Zones (Border-Gate Economic Zones and Coastal Economic Zones), and Industrial Cluster Sites, which serve mainly for traditional manufacturing villages and handcrafted goods, and Special Administrative-Economic Zones.

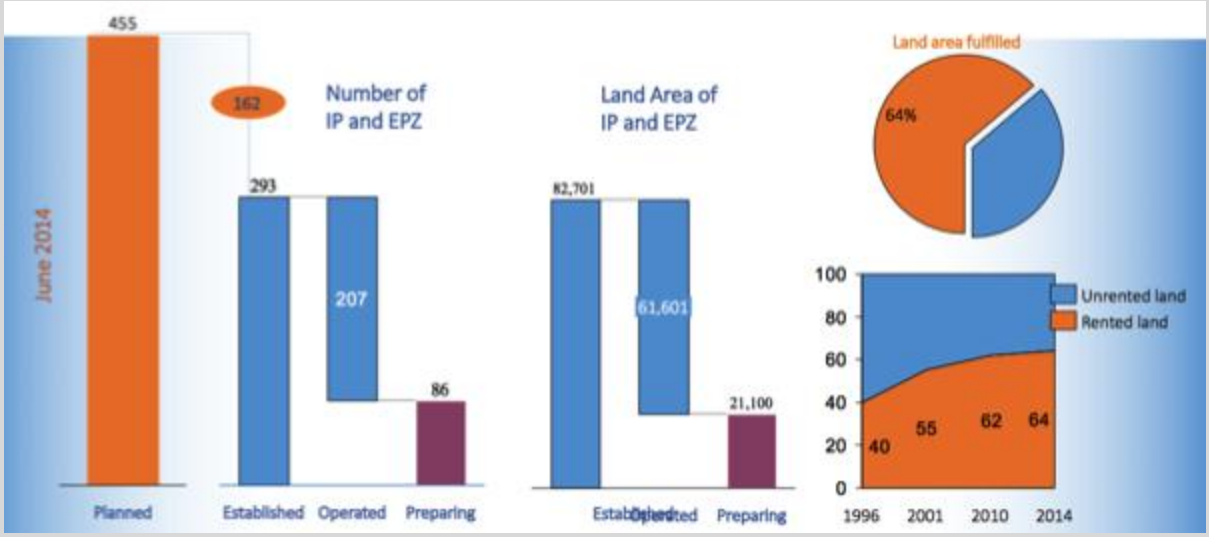
The following charts will provide a thorough overview of Vietnamese Industrial Park's and Export Processing Zone's quantitative characteristics and contribution to the overall economic situation of Viet Nam. Finally, a very brief overview of the location of Vietnam's Special Administrative-Economic Zones will be given.

Industrial Parks (IP) and Export Processing Zones (EPZ)

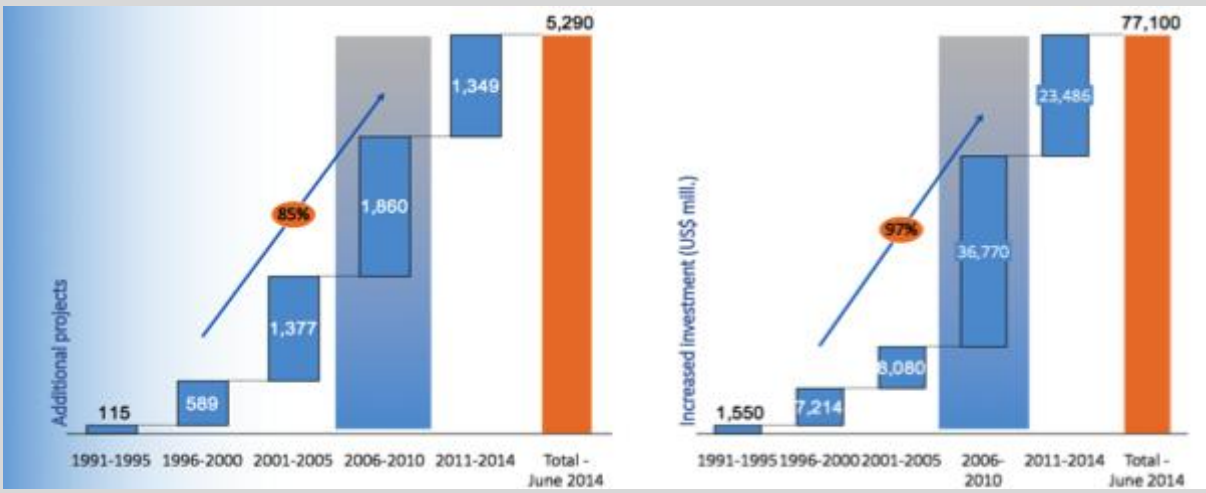
Increase total umber of IPs/EPZs and land area in h.a., 1991 – June 2014



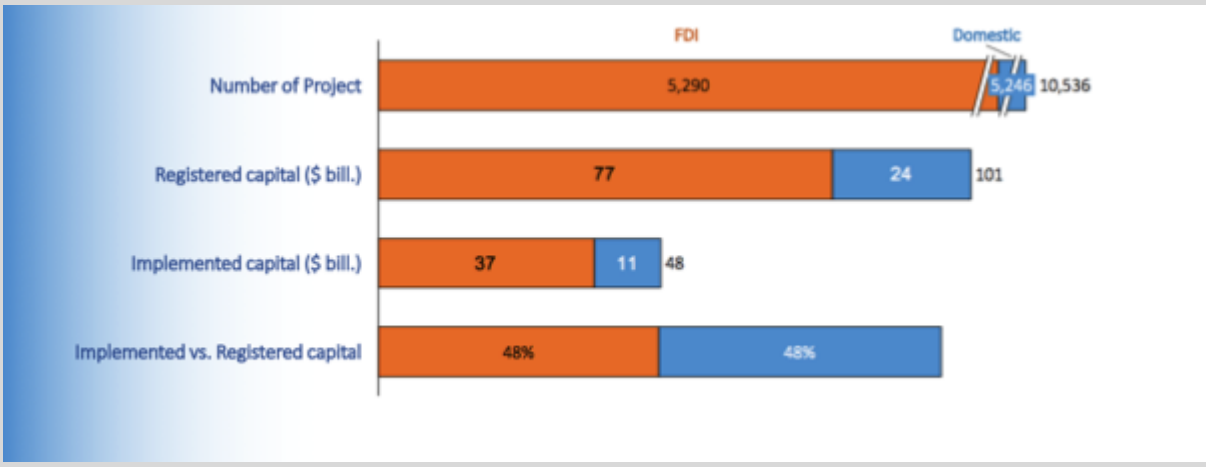
June 2014: Number, land area, and renting of IPs/EPZs



Foreign invested projects in IPs/EPZs, 1991-June 2014

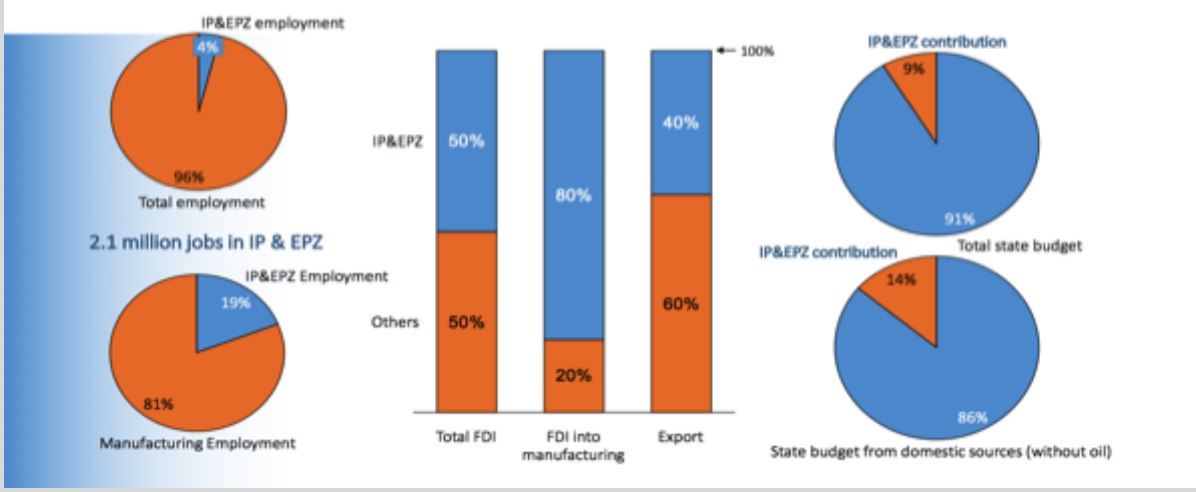


FDI vs. domestic total economic activity in IPs/EPZs



Share of Border Gate and Coastal Economic Zones within the category IPs/EPZs

IPs/EPZs overall national contributions



Spillover of FDI

Random-effects model of spillovers of FDI

	Total of Enterprise		Manufactoring Enterprise		Services Enterprise	
	2000	2007	2000	2007	2000	2007
Δ horizontal (output)	.834***	.918***	-.112***	-.165***	-1.330***	-1.616***
Δ horizontal (labour)	-.942***	-.114***	-.349***	-.255***	-2.927***	-2.912***
Δ forward	3.028***	.471***	-1.571***	-.408***	2.147***	3.001***
Δ backward	.182***	.032***	-.941***	-.652***	.539***	.689***
Số quan sát	1114128	1114128	853477	853477	260651	260651
R-2						
Within	0.4524	0.4505	0.4758	0.4745	0.4886	0.4888
Between	0.0001	0.0030	0.0117	0.0107	0.0296	0.0146
Overall	0.4297	0.4278	0.4529	0.4524	0.4424	0.4400

Note: ***, **, *: denote the significance of 1%, 5% and 10% respectively.

Fixed effects model of spillovers of FDI

	Total of Enterprises		Manufactoring Enterprises		Service enterprises	
	2000	2007	2000	2007	2000	2007
Δ horizontal (output)	.834***	.918***	-.112***	-.165***	-1.329***	-1.619***
Δ horizontal (labour)	-.941***	-1.137***	-.349***	-.254***	-.292***	-2.911***
Δ forward	3.029***	.472***	-1.575***	-.409***	2.181***	3.023***
Δ backward	.182***	.033***	-.941***	-.652***	.538***	.689***
Observations	1114128	1114128	853477	853477	260651	260651
R-2 Adjusted						
Within	0.4524	0.4505	0.4758	0.4745	0.4886	0.4888
Between	0.0001	0.0030	0.0117	0.0107	0.0294	0.0145
Overall	0.4297	0.4278	0.4529	0.4524	0.4424	0.4399

Note: ***, **, *: denote the significance of 1%, 5% and 10% respectively.

Nguyen Dinh Chuc et al., 2013, Technology transfer and FDI's spillovers on Vietnamese domestic firms, mimeo

Locations of Special Administrative-Economic Zones in Vietnam

7.4. Panel Speech

Aung Khin Myint, Member of Central Executive Committee, Chamber of Commerce, Myanmar Institute of Strategic and International Studies (Myanmar ISIS)

Myanmar – An Overview

Myanmar is the largest country in mainland Southeast Asia with a total land area of 676,578 sq. km. The country is bordered in the West and Northwest by Bangladesh and India, by China in the North, and Laos and Thailand in the East. To the South, Myanmar shares the coastal waters of the Bay of Bengal and the Andaman Sea with Malaysia and Singapore. Myanmar's geographic location provides advantages to be a trade gateway that connects the different emerging economies in Asia.

SEZs and Local Industrial Zones in Myanmar – FDI Projects

When having a look at Foreign Direct Investment (FDI) projects prior to the introduction of the New SEZ Law, one sees that such projects were already existent. As table 1 highlights, different countries have varying interests and reason for such endeavours.

In Dawei, Thailand and Japan are investing in the construction of deep sea ports and industrial complexes in order to establish a new international trade route and GMS gateway. China, on the other hand, is investing in the set up of a deep sea oil terminal and pipeline from Kyauk Phyu to Yunnan Province, thus

establishing a new logistics route for China's energy supply. Finally, Japan is interested in Thilawa port to promote export trade.

Country	Location	Reasons for Investment	Result
Thailand, Japan, and Myanmar	DAWEI	▪ Developing deep sea ports and industrial complexes	▪ New international trade route ▪ GMS gateway
China	KYAUK PHYU	▪ Set up of a deep sea oil terminal and pipeline to Yunnan Province	▪ New logistics route for energy supply
India	SIT TWAY	▪ Development of the ports of Sitway ▪ Kaladan Multimodal Transport project	▪ Gateway to North-eastern part of India
Japan	THILAWA	▪ Development	▪ Promote export trade

Before establishing these FDI projects, a large number of Domestic Industrial Zones (IZ) had already been established throughout the geographic boundaries of Myanmar since 1995. Examples include Hinthada, Myaungmya, Pathein, Pyay, Pakokku, Yaenangyaung, Aye Tharyar, Mandalay, Meikhtila, Myingyan, Mawlamyine etc. More currently set up zones include amongst others Bago, Pha-an, Myawaddy, or Yatanapon. Additionally, Myanmar has currently three SEZ, namely Kyauk Phyu, Dawei, and Thilawa. The eligibility criteria for the set up of mentioned zone types include:

- Being accessible from international borders or local markets.
- Being part of a regional development programme area.
- Having water resources, electricity, and sufficient land.

Current Institutional Framework of SEZ in Myanmar

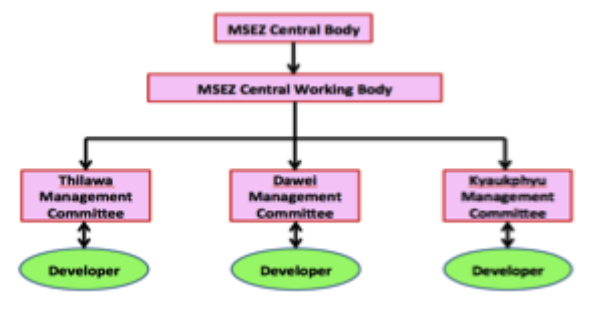
The legal system in Myanmar is currently undergoing many much-needed structural changes. Foreign investors are often surprised to find laws from the early 20th century still in existence, such as the Myanmar Companies Act from 1914. Since its first session in 2011, the current daungsu Hluttaw (Myanmar's Parliament) understands the importance of a sound legal framework, and is fore actively updating the existing legal landscape – particularly arcane laws. However, potential investors do not need to know every law listed in Myanmar's legal code. Thus, only the most relevant legislation is compiled in table 2.

Table 2: SEZ Legislation

- Securities and Exchange Law (2013)
- Myanmar Citizens Investment Law (2013)
- Central Bank Law (2013)
- Foreign Investment Rules (2013)
- Foreign Investment Law (2012)
- Law Amending the Commercial Tax Law (2011)
- Private Industrial Enterprise Law (1990)
- Financial Institutions of Myanmar Law (1990)
- State-owned Economic Enterprise Law (1989)
- Burma (Myanmar) Companies Act (1914)

In January 2011, the official Myanmar SEZ Law was enacted, shortly thereafter followed by the government announcement in December the same year that it will be revised with the help of a foreign consultant. Eventually, in January 2014 the old law was revoked and replaced by the new "Myanmar Special Economic Zone Law No. 1/2014, which consists of 96 sections organised in 18 chapters. Included is amongst others the formation of a central authority for SEZ, a SEZ Central Working Body, as well as management committees for each zone (graphic 1). While the central institutions are responsible for Myanmar's overall SEZ policy, the management committees are responsible for setting wage levels as well as monitoring the ratio of local and foreign labour. According to law, local skilled labour should compose a minimum of 25% in the first year, 50% in the second year, and 75% in the third year.

Graphic 1: SEZ Authority



Graphic 2: Tax Incentives

Additionally, tax incentives for developers and investors are specified (graphic 2). Investors leasing land for a period of minimum 50 years, are receiving income tax exemption, which is granted up to 7 years starting from the date of launch. Developers, on the other hand, receive an income tax exemption up to 8 years.

On-going SEZs in Myanmar

Myanmar has worked out a 75-year plan to develop its **Dawei SEZ** in Southern Tanintharyi region, seeking a strategic partnership with Japan in addition to Thailand and inviting international tenders as well as developers for the implementation of the SEZ project. The plan, organised in five phases of different duration, will be implemented on a total land area covering 44,850 18,164 hectares.

The construction of **Kyaukphyu SEZ** in Rakhine State will be divided into three parts, with separate companies selected for each one. The construction for the 404 hectares SEZ, located on an island in the Bay of Bengal off Rakhine State, will be divided into three sections: one for the deep sea port, another for industrial zones, and a third one for housing estates.

Thilawa SEZ is only 20 km away from down town of Yangon City, which is the centre of economic activities of Myanmar. It is supposed to be developed not only for manufacturing but also as an advanced modern city. Expected types of industries include:

- Light industries (labour intensive, non traditional sectors),

- high-tech industries,
- logistics and transportation sectors,
- financial, insurance and medical service sectors,
- new township and commercial sectors, and
- R&D, incubation, and vocational training.

It is the first SEZ in Myanmar which is developed through a Public-Private Partnership. A special purpose company, Myanmar-Japan Thilawa Development, Ltd. (MJTD), founded in October 2013 by Mitsubishi-Marubeni-Sumitomo Thilawa Development Co., Ltd. (MMST, an investment company for MJTD that builds, sells and, operates industrial complexes in Thilawa), Thilawa SEZ Management Committee (TSEZMC), and Myanmar Thilawa SEZ Holdings Public Limited (MTSH, a local investment company for local enterprises and other entities that build, sell, and operate industrial complexes in Thilawa), will run the project funded with JICA equity participation. The shareholder composition is Japan (MMST, JICA) 49% and Myanmar (TSEZMC, MTSH) 51%. Against this background, the external infrastructure, such as container terminals, power supply, water supply, sewage, access roads, telecommunication etc. will be developed by the government of Myanmar, drawing from official Japanese development assistance.

Expected Impact of SEZ for SME Development in Myanmar

The government has great expectations regarding both static and dynamic economic benefits from TSEZ. However, the major issue involved is the big gab between domestic IZs and TSEZ. In general, Myanmar's national SEZ law stipulates the objectives of promoting local and foreign investments within its geographic boundaries, creating new employment opportunities, and establishing industries next to SEZs. (Article No. 4 (f), Myanmar SEZ Law) From my understanding this means: "to promote the flow of domestic and foreign investments in SEZs and to establish backward and forward linkages among the industries in and surrounding the SEZ with the creation of new jobs." Thus, the SEZ scheme provides great opportunities to improve quality and productivity of local SMEs by facilitating participation of local industries in business activities from major and qualified foreign investors. Yet, the big question mark for the local industries of Myanmar is: "Is the SEZ scheme a "Disaster" or "Opportunity"?

7.5. Panel Speech

Tsolmon Tsagaach, Senior Lecturer, Commerce Programme, Business School, National University of Mongolia, Mongolia

"Case of Mongolia: Challenges of Establishing SEZs Successfully"

How is the SEZ Policy Embedded in the Overall Mongolian Economic Development Process?

Successful development of SEZs is often seen as main economic driving force for Mongolia's heavily mining-based economy. Thus, the industrial policy section of the "Action plan of Government of Mongolia for 2012-2016" includes several SEZ related objectives, such as completing the infrastructure of Zamiin Uud FEZ as well as of Altanbulag and Tsagaannuur FTZs by the end of 2015. Moreover, the first infrastructure construction phase of Choir Logistics Zone shall be finalized.

In 1995, the Mongolian Parliament (MP) passed the first legal act for establishing SEZs under the name "Concepts for Establishment of Free Economic Zones". Following, in 2002 the "The Law of Free Trade Zones" was declared and initiated first provisions for the establishment of FTZs. Additionally, laws on the legal status of several FTZs were passed by the MP in 2003 and 2004.

Mongolia is following a free trade policy and has opened its market almost completely for foreign investments. Thus, in order to increase export capacities, foreign investment flows, and to obtain latest technology, the government had decided to establish 4 FTZs in different areas of Mongolia. Zamiin Uud FEZ is located at the biggest trade port between Mongolia and China. Altanbulag FTZ, on the other hand, is located at the Northern border of Mongolia, being the main port to enter Russia. Tsagaannuur is located at the crossroad of 4 countries (China, Kazakhstan, Mongolia, and Russia). Finally, Choir has the most favourable location in terms of logistics and transportation.

What are the Main Economic Rationales and Anticipated Benefits Behind Mongolia's SEZ Strategy?

There are several expected benefits from SEZs, including:

- Positive impact on export growth, composition, and import-substitution sector. Mongolia's main export products are all mining-related products (89.2% in 2012) and almost all consumer products (close to 90% in 2013) are being imported.
- Improvement of manufacturing sector. The GDP share of this sector was only 8% in 2012. It is anticipated that the most important benefit will be an increase in manufacturing through foreign and domestic investments, especially in the case of Zamiin Uud.
- Development opportunities for regional and rural areas. Overall employment, businesses, and the local economy are supposed to be greatly benefitting from successful SEZs.
- High technology, management skills, and know-how are most sought-after benefits from SEZs.

What Kind of Zones Were Implemented and Why?

Zone	Type of Zone	Location	Objectives	Targeted Sectors
Altanbulag	FTZ (Trade Facilitation & Logistics)	▪ Mongolia-Russian border ▪ 25 km from Sukhbaatar City ▪ 335 km from Ulaanbaatar	▪ Important transport corridor connecting China, Mongolia and Russia ▪ Free access to third country markets ▪ Developing into a major trade, industry, commerce, and service center in Northern Mongolia	▪ International trade between Russia, China, and Mongolia ▪ Becoming a link between Asia and Europe ▪ Hotels, resorts, and auto service centers ▪ Promotion of rent free spaces for businesses that operate in auto parts or construction material sectors
Zamiin Uud	Free Economic Zone (Trade Facilitation & Logistics)	▪ Mongolia-China border ▪ South of Zamiin-Uud city	▪ Creation of a major commercial, industrial and tourism center ▪ Increase of economic welfare, jobs and business opportunities for residents of Dornogobi and Umnugobi province ▪ Benefitting from the transport corridor linking Russia and China	▪ Foreign trade, manufacturing, tourism, resorts, casinos, and warehousing
Tsagaannuur	FTZ (Trade Facilitation &Logistics)	▪ 68 km away from the provincial capital Bayan-Olgiy ▪ About 1,720 km away from Ulaanbaatar	▪ Accelerate development of Western Mongolia through foreign and local investments ▪ Create more jobs and business opportunities for local residents.	▪ International trade between China, Kazakhstan, Mongolia and Russia. ▪ Heavy and light industries, hotels, resorts, service industries
Choir	Free Economic Zone (Manufacturing)	▪ Provincial capital of Gobi Sumber ▪ About 240 km away from Ulaanbaatar	▪ Accelerate development of Sainshand Industrial park ▪ So far, legislation for this FEZ is not yet adopted. There is a possibility to cease its existence due to the establishment of Sainshand Industrial Park.	

Economic Assessment of Zones: Impact on the Local Economy in Terms of Foreign Investment, Knowledge and Technology Transfer as well as Standard of Living.

In 2004, USAID conducted an "Assessment of Mongolia's Free Trade Zone Program and Site Evaluation" for Zamiin Uud FEZ. In the report, two major recommendations were emphasized in order to make the FEZ program successful, competitive, and to align it with international standards. First, it noted that the government had not conducted an economic cost-benefit analysis for the establishment of the FEZ. Second, no full commercial feasibility study for the FEZ had been conducted including market assessment,

market planning, infrastructure requirements, implementation planning, as well as business and financial modelling.

Altanbulag, which opened in June this year, is a more completed zone in terms of infrastructure. Unlike Zamiin Uud, proper feasibility studies were conducted and a detailed master plan finalized. Also, the cost for infrastructure constructions are fully funded by government so far (however, in 2013 its budget took a cut). According to the Governor of Altanbulag Sum, Altanbulag FTZ has already started providing benefits to the local economy. As dams, sewerage, roads, and lights were constructed, 120-250 new jobs were created and the market for local herders, farmers, and small shops is growing. However, because all the projects are dependent on government sponsored tenders and bids, planning actions, and construction works, the future development of the zone is uncertain.

Outlook: What are the Benefits/Good Practices in Regards to Zone Implementation and Sustainable National Economic Development? Where are Bottlenecks/Areas of Improvement?

According to the abovementioned USAID report, we are expecting following possible outcomes from successfully established SEZs: Projected tax revenues, revenues from granting concessions, licenses, rights, or production-sharing agreements, job creation, introduction of new technologies and management know-how, as well as backward and forward linkages with other local firms, eventually leading to the formation of clusters and increased incomes. However, there are also potential costs, such as losses of tax revenue due to tax breaks, expenditures on infrastructure paid by the government, and a negative environmental impact or other negative externalities. Regarding areas of improvement, there are many, starting from the top down to the bottom:

- Laws on FTZs are not completed. Only main activities are legalized but not supporting or supplemental activities and processes. For example, there are no specific rules regarding urbanization, social needs, and living environment of workers. The laws need to be renewed.
- Lack of continuity of government policies towards SEZs. To illustrate, the latest opening of Altanbulag FTZ was its 4th official opening.
- Poor credibility and responsibility of administrative SEZ offices. To choose strategic investors for Zamiin Uud FEZ, GoM held at least two times closed tenders. Two companies won. The first one was a British company, the second American. Both companies couldn't fulfill the initial obligations, thus the contracts were terminated. The establishment stage took at least 4 to 5 years.
- Need of reliable feasibility studies and detailed master plans for all SEZs.
- Lack of financial funds for developing SEZs to the required level.
- Bureaucracy and too heavy-structured SEZ governing offices. Even though these offices have sufficient personnel, they still outsource functions. They outsourced for example the organization of Altanbulag FTZ's opening ceremony to a NGO. Eventually, it was a failure.

Conclusion

To conclude, Mongolia has 4 SEZs on paper, one of them is recently opened others are still in the construction stage. The Laws are not completed. SEZs are doing poor works. We have lots to do:

- SEZ development is based on mining industries/M&A, joint ventures, or licensing. There is no relationship between Mongolia's competitive advantage and SEZs.
- Creating or changing existing SEZ into joint SEZs with Chinese SEZs. In the East, there could be collaboration with Erlian or new Chinese FTZs. In the West, Mongolia could cooperate with Khorgos or other new FTZs.
- During his visit, Chinese president Xi Jinping agreed to establish Joint SEZs between China and Mongolia. He approved that Mongolia will have favourable conditions regarding transportation cost and routes through Chinese territories. It will make a huge difference for trade and manufacturing in SEZs.
- The building of meat processing and other food facilities in Altanbulag FTZ should be based on demand estimations of Siberia and Ural's areas of Russia (because Mongolia has a quota on food products only in this area).
- Need of "one at a time approach" to all these separate "Industrial Parks", "Logistics Centres", "Cluster cities", and so forth. There is a wise Mongolian saying that if you chase two rabbits at one time then you will be left empty-handed.

VIII. Keynote Speech "One Belt and One Road" and Economic and Trade Cooperation between China and ASEAN Countries

Prof. Dr. Dong Xuebing, Executive Vice President, China Academy of West Region Development (CAWD), China

The Ancient Silk Road

The Ancient Silk Road incorporated a series of trade and cultural transmission routes through regions of the European and Asian Continents including North and East Africa. It was a trade route, a "bridge" connecting the West and East.

"One Belt and One Road" Proposal

The current "One Belt and One Road" strategy proposal on the other hand, is a key strategic decision made by President Xi Jinping to deal with the profound changes of the global situation and to coordinate the overall domestic and international situation. "One Belt and One Road" highlights to build a win-win "community of interest" and "community of destiny" of the common development and prosperity.

Map of the Ancient Silk Road

In December 2013, Chinese President Xi Jinping pointed out in a Central Economic Conference of a CCP Central Committee that is a strategic vision of the great rejuvenation of the Chinese dream. The "One Belt and One Road" strategic concept fits the needs of the countries along the routes, and opens up a new window of opportunity for these countries to achieve complementary economic and trade advantages. It is designed to forming a new pattern of all-dimensional opening up and to boosting regional cooperation. The promotion of the "Silk Road economic belt" construction pays close attention to strategic planning and improvement traffic connectivity. Additionally, it serves to build the "Silk Road On the Sea of the 21st Century", thus enhancing the maritime transportation network.

On May 2014, Chinese President Xi Jinping delivered a keynote speech at the Fourth Summit of the Conference on Interaction and Confidence Building Measures in Asia (CICA). He emphasized that the New Silk Road will connect "China's Dream" with the "World's Dream". China will work with other countries to speed up the development of an economic belt along the Silk Road and a 21st Century maritime silk road, and hopes that the Asian infrastructure Investment Bank can be launched at an early date. China will get

more deeply involved in the regional cooperation process, and play its due part to ensure that development and security in Asia facilitate each other and are mutually reinforcing.

Layout "One Belt One Road"

On 5 June 2014, Xi Jinping attended the Opening Ceremony of Sixth Ministerial Conference of China-Arab States Cooperation Forum. He delivered and important speech in which he stressed to further promoting the Silk Road spirit and to deepening the China-Arab Cooperation. China wants to build a "community of common interests" and a "community of common destiny". He hopes that the two sides will promote the Silk Road spirit and take the joint construction of the Silk Road Economic Belt and the Maritime Silk Road of the 21st Century as a new opportunity and new starting point to constantly deepen China-Arab strategic cooperative relations of comprehensive cooperation and common development.

Current Status and Challenges of Economic and Trade Cooperation

The cooperation with ASEAN countries is developing quickly, with the platform upgrading and scope widening. Their bilateral trade is expanding, mutual investment is deepening, and the cooperation platform is steadily upgrading. However, the development of economic and trade cooperation with countries along the route is not balanced and the structure is relatively simple. Low traffic connectivity limits the potential of further cooperation and the management of multinational cooperation needs to be greatly improved.

Prospects on Economic and Trade Cooperation with ASEAN Countries

China and ASEAN countries should develop a global vision and common strategic thinking, adhere to serve the overall diplomatic strategy, cultivate friendly neighborhood relations, realize mutual benefits, implement more proactive opening-up strategy, and co-ordinate the use of two kinds of resources and markets to form a pattern of all-dimensional opening-up trade. Additionally, they should enhance the level of economic and trade cooperation platform and promote the restructuring, transformation and upgrading of trade.

It is recommendable to actively adjust and optimize the vertical division industrial chain system according to the changing trends of industrial comparative advantages between China and ASEAN. Furthermore, they should speed up the construction of an industrial level division system between China and ASEAN and encourage enterprises to pass through the industrial chain, industrial parks, and industrial clusters.

IX. Panel Session III: Cross-border Economic Cooperation – Fighting Structural Deficits of Border Regions?

9.1 Speech

Prof. Dr. Chen Yao, China Academy of Social Sciences (CASS), PR China

Background and historical evolution of "cross-border economic cooperation zone"

The opening-up of border areas is an important component of the Chinese all-dimensional opening-up strategy. In the current stage, the social and economic development of border areas still falls far behind that of coastal regions. Reducing this regional imbalance is of great importance to China, for it not only optimizes the overall opening-up structure, but also contributes to the political stability of border areas. Therefore, fostering the opening-up of border areas has strategic significance.

In 1992, China launched the border opening-up strategy and has since then successively set up 16 "border economic cooperation zones". However, for a long time, the volume of trade in those areas usually remains at a low level, the function of border areas as gate way and trade corridor is not well fulfilled, and the manufacturing industry remains underdeveloped. As a result, the existing opening measures could no longer meet the need of the accelerated development of border areas. Against this background, China seeks to formulate new models to further foster the economic development and opening-up process of border regions. In 2005, China brought up the concept of "cross-border economic cooperation zone", which can be seen as a progression of "border economic cooperation zone". By now, the central government has approved more than ten applications. Since 2012, China has approved and established several national-level key development and experimental zones such as Dongxing, Ruili, Kashgar, Horgos, Manchuria and Erenhot to further encourage the opening-up of border areas.

About "cross-border economic cooperation zone"

"Cross-border economic cooperation zone" is a sub-regional economic cooperation zone in border areas with preferential politics such as export processing zones and free trade zones, which is supported by two or more than two central governments of related countries.

There are generally two kinds of processes regarding the set-up of cross-border economic cooperation zones. In the "bottom-up" process, the initiative is taken by a national government. By adopting preferential policies and measures in port areas, one encourages the collaboration of the other side, which eventually leads to the establishment of cooperation on cross-border economic cooperation zones. In the "top-down" process, on the other hand, the central governments of related countries negotiate directly with

each other, reach agreements on a framework plan or contract, and collaborate jointly on its implementation. In China, except for the Horgos International Border Cooperation Center, the establishment of most cross-border economic cooperation zones follows the first pattern.

Problems and challenges

With regard to the development of cross-border economic cooperation zones in China, the following problems and challenges are identified:

General conditions: Due to historical and natural conditions, as well as the surrounding environment, the volume of open economies in border areas is generally limited, and the economic and trade cooperation with neighboring countries remains at a low level.

Unsound cooperation mechanisms: The cross-border economic cooperation is still in the starting phase. Not only the development of infrastructure falls behind, but the current clearance mode is very complicated as well. The cooperation mechanisms need to be further optimized to simplify customs procedures and provide a convenient environment to facilitate the flow of production factors.

Issues of sovereignty transfer: The free flow of production factors is the main characteristic of a cross-border economic cooperation zone. Yet the management of people and goods crossing the border, as well as customs and inspection, require mutual transfer of sovereignty, which is sometimes difficult to achieve and requires high mutual political trust.

Complexity of operation. Agreements need to be reached between two national governments with regards to customs procedures, industrial planning, administrative and judicial regulations as well as traffic management. Misoperation can further hinder the flow of production factors.

In the case of China's and Vietnam's cooperation for example, the idea of setting up a cross-border economic cooperation zone was brought up as early as 2005. Two years later, local governments of both sides signed framework plans and memorandums, which agreed on the establishment of the Sino-Vietnamese Pingxiang – Dong Dang, Dongxing – Mong Cai and Longbang – Tra Lihn cross-border economic cooperation zones. So far, however, the setting-up process is still facing a lot of difficulties.

Tendencies and prospect

The opening-up of border areas is the weak point of Chinese open economy, but it also means that the potential and chance of further opening-up lies in border areas. Favorable conditions for accelerating the opening-up of border areas are manifold. The neighboring countries of China are rich in human and energy resources and have experienced fast economic development in recent years. Additionally, they indicated strong desire to conduct economic and trade cooperation with China. Jilong of Tibet, Jimunai of Xinjiang, Guangxi and Yunnan are good examples in this regard.

Last year, as President Xi Jinping visited Central and Southeast Asia, he brought up the "Silk Road Economic Belt" concept and the "Maritime Silk Road of the 21st Century" concept. The "one belt and one

road" concept is strongly echoed by related countries and brings great opportunities to the opening-up process of Chinese border areas.

To summarize, the operation of cross-border economic cooperation zone involves complex challenges such as customs supervision, standard conformance, industrial planning, as well as administrative and judicial management. As in most cases, no precedent cases and general solutions exist so those challenges have to be solved in a "trial and error" process. Therefore, joint efforts and mutual trusts are essential. With regards to the problems and challenges described above, attention has to be paid when it comes to location choice. First of all, good political relationships with neighboring countries and strong cooperation desires are essential. Secondly, cross-border economic cooperation zones should be located in port areas with a long history of cross-border trade practice and cross-border cooperation such as economic and technical cooperation. Last but not least, it should be set up in relatively developed areas that can provide economical support.

9.2 Panel Speech

Mme. Bouatha Khattiya, Deputy Minister of the Government's Office, Vice Chair of the NCSEZ, Head of the Secretariat to NCSEZ, Lao PDR

"SEZ Development in Lao PDR"

SEZ in Lao PDR

Starting from 2002 onwards, Lao PDR has currently set up a total of 10 SEZs, namely Savan-Seno (2002), Boten (2003), Golden Triangle (2007), VITA (2009), Saysetha (2010), Phoukyo (2011), Thatluang Lake (2011), Longthanh (2012), Dongphosy (2012), and Thakhek (2012). (graphic 1 and table 1). Most of these zones are privately developed (50%), followed by Joint Ventures (30%), and government operated zones (20%). In total, the Lao government runs three zones, China four, Taiwan one, Vietnam one, and Malaysia one (graphic 2).

Graphic 1: SEZ in Lao PDR

Graphic 2: Developer Shares of SEZ

Table 1: Location, Set up Period, and Land Area

SEZ	Location	Set Up	Land Area (ha)
Savan-Seno	Savannaket	2002	954
Boten	Luangnamtha	2003	1,640
Golden Triangle	Bokeo	2007	3,000
VITA	Vientiane Capital	2009	110
Saysetha	Vientiane Capital	2010	1,000
Phoukyo	Khammuan	2011	4,850
Thatluang Lake	Vientiane Capital	2011	365
Longthanh	Vientiane Capital	2012	557
Dongphosy	Vientiane Capital	2012	53
Thakhek	Khammuan	2012	1,035

Policies and Strategies on SEZ

The government pursues several policies and strategies by setting up SEZs within Lao's national boundaries:

- Implementation of the national socio-economic development plan
- Promotion of economic development and investments in target areas
- Further integration of Lao's economy into the regional and world economy;
- Simplification of national investment procedures through the implementation of one stop services

Lessons Learned – SEZ

(1) SEZ development is a crosscutting issue. Thus, it requires cooperation from all sectors and local authorities

(2) Public-Private Partnership for SEZ development is a good approach, combining the needed expertise and resources. Each party must have clear roles and responsibilities

(3) Involvement of local communities as well as labour policies should be considered during the stage of conceptualizing a SEZ

(4) In order to stimulate rapid infrastructure development, incentives should be time-bound

Cross-Border Economic Zones in Lao PDR

Cross-border Economic Zones (CBEZ) are a relatively new concept in Lao PDR. Thus, presently there exists only a limited understanding on the potential benefits and challenges for the country. Yet, the first CBEZ – Boten (Lao PDR) and Bohan (PRC) along the North-South Economic Corridor – is currently being conceptualized. At the moment, the development of its underlying cooperation strategy is in progress and will be finalized by the end of 2014.

Additionally, other potential areas are being considered as CBEZ, including Thakhek and Savannakhet province (East-West Economic Corridor).

Boten Specific Economic Zone (CBEZ)

Location	Louangnamtha Province
Foundation year	2003
Land size	1640 ha
Land tenure	50 years
Developer	Private
Investment areas	▪ Logistics ▪ Trade and services ▪ Tourism

9.3 Panel Speech

Dr. Ngov Penghuy, Director and Associate Professor, Cambodian Satellite Campus, Nagoya University, Japan

"SEZ in Cambodia: Its Merits and Challenges"

Background of SEZ in Cambodia

Issued in December 2005, the Sub-Decree No. 148 is the main reference point for the establishment of SEZ in Cambodia. As of now, a total number of 30 SEZ have been licensed by the government – of which only 10 are in operation. Per definition, the main characteristics of Cambodian SEZ are following:

- More than 50 hectares of land
- Surrounding fence
- Management building
- Compliance with technical requirements, regulations, basic construction rules, environmental standards, etc.

Types of Economic Zones in Cambodia

The main types of zones are industrial parks, primarily located in Phnom Penh area for housing and traditional garment factories, and Special Economic Zones (SEZ). SEZs can be divided into three categories, such as border areas (Thailand: Koh Kong and Poi Pet SEZ; Vietnam: Tai Seng, Manhattan, and Dragon King SEZ), Phnom Penh area (Phnom Penh SEZ), and international airport areas (Sihanouk ville and Sihanouk ville port SEZ).

Cambodian SEZ from a Regional Perspective

(1) Close Proximity with Thailand:
- Wage/skill differential → Division of labour
- Thailand on relatively high value-added production, while Cambodia on relatively low value-added one

(2) ASEAN economic integration:
- Low or no tariff among ASEAN members
- Cambodia as part of the regional production chain

Merits and Challenges

SEZ investors receive one-stop services (members of Special Economic Zones Board of CDC, Customs and Excise Department, CAMCONTROL, Ministry of Commerce, and Ministry of Labor and Vocational Training). Also, 10% of VAT is refundable. Moreover, the infrastructure quality is relatively good, though the quality differs from one to another. Finally, SEZ provide a potential engine for industrial diversification in addition to Cambodia's major garment industry.

However, SEZ also pose several challenges. Electricity fees are high and the electrical supply in some SEZ is rather unstable. Furthermore, SEZs could not find tenants as expected. Other issue areas include mobilization of workers, working/living conditions of workers, and limited backward linkages, which lead to high cost of production. Finally, cluster effects are almost not existent.

Conclusion

In Cambodia, SEZ are developed as part of the national industrial development policy (IDP). However, a policy shift from "welcome all" to "targeted FDI" attraction is needed. Additionally, collaboration between foreign firms and universities in regards to human resource upgrading is essential for strategic and sustainable growth.

9.4 Panel Speech

Dr. Lei Xiaohua, Assistant Researcher, Guangxi Academy of Social Sciences (GASS), PR China

"Promoting the Construction of Cross Border Economic Cooperation Zones - Creating an Upgraded Model Area of CAFTA"

Current Situation of China-ASEAN Cross Border Economic Cooperation Zones

Both Chinese provinces Guangxi and Yunnan are connected to ASEAN countries by common mountains and rivers. Thus, in order to promote the China-ASEAN Free Trade Agreement (CAFTA), both provinces put forward the construction of cross border economic cooperation zone (CBEZ). Currently, CEBZs being explored and planned by China and ASEAN countries are Dongxing-Mong Cai (PRC/Vietnam), Pingxiang-Dong Dang (PRC/Vietnam), Hekou-Lao Cai (PRC/Vietnam), Ruili-Muse (PRC/Myanmar), and Mohan-Boten (PRC/Lao PDR).

CBEZ	Contract	Intl. Org.	Feasibility Studies	General Planning	Process of Report and Approval	
Dongxing-Mong Cai	Guangxi (PRC) and Quang Ninh (Vietnam) signed a *Cooperation Agreement* in Sept. 2010			Finalization of Common General Planning in Nov. 2013	**Vietnam:** Submitted Common General Planning to national government	**PRC:** Submitted Common General Planning to the State Council
Pingxiang-Dong Dang	Ministry of Commerce Guangxi (PRC) and Lang Song (Vietnam) signed *Memorandum* in Jan. 2007	▪ ADB ▪ UNDP	Evaluation by experts from PRC and Vietnam: Feasibility study report published by PRC in Jul. 2007	Finalization of Common General Planning in Nov. 2013	**Vietnam:** Submitted Common General Planning to national government	**PRC:** Submitted Common General Planning to the State Council

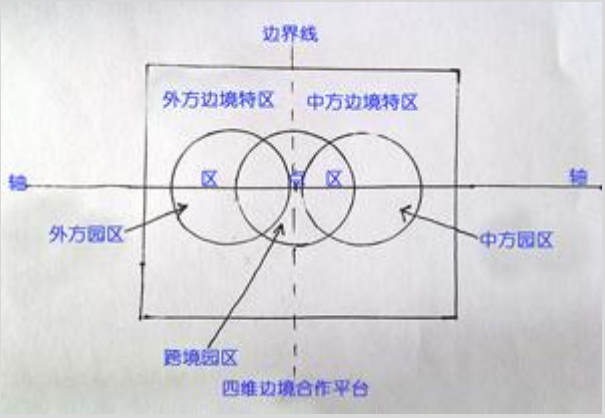
Longbang-Tra Linh	Baise (PRC) and Cao Bang (Vietnam) signed a Cooperation Agreement in Nov. 2007					
Hekou-Lao Cai	Yunnan (PRC) and Lao Cai (Vietnam) signed a Framework Agreement in Jun. 2010	▪ ADB ▪ UNDP	PRC finished a feasibility study report in May 2009	Finalization of Common General Planning in Nov. 2013	**Vietnam:** Submitted Common General Planning to national government	**PRC:** Submitted Common General Planning to the State Council
Mohan-Boten	Yunnan (PRC) and Namtha (Lao PDR) signed Meeting Minutes in Jun. 2012					**PRC:** Submitted Common General Planning to the State Council
Ruili-Muse	Ruili, (PRC) and Muse (Myanmar) signed Sister-City Relationship Agreement in Oct. 2012					**PRC:** Submitted Common General Planning to the State Council

Thoughts about CBEZ Development

CBEZs are being promoted as an integral part of GMS and CAFTA in order to enhance cooperation efficiency, promote free trade, and increase investments in border areas. Preferential policies and a sophisticated business environment will help to absorb investments and accumulate economic resources, thus strengthening these regions. Eventually, these will become important trade hubs that connect joint logistic, commerce, and technology projects among PRC's Southwest areas and other nations. Therefore, CBEZs will promote economic and social development of both involved countries based on equality and mutual benefits.

The establishment of bilateral CBEZs starts with unilateral actions in respective countries, which aim at guiding and encouraging the corresponding border areas to adopt similar policies. Thereafter, both parties will negotiate the concrete terms, eventually signing a joint agreement. Finally, CBEZ operations will be realized. The CBEZ construction design of the common core zone will have following characteristics (graphic 2):

Graphic 2: Design of CBEZs



- The core zone is a closed area consisting of adjacent districts on both sides of the border. Connecting transport channels and will be constructed by both countries. According to conventions regarding CBEZ development in China, the areas on both sides will exceed a distance of more than 10 km measured from the border.

- It contains areas with integrated functions and superimposed policies, such as bonded zone and an exclusive port. It is supposed to become a high-end cooperative platform for enhancing standardization, scale expansion, marketization, and internationalization.
- The core zone will be under joint supervision by customs of both countries.

Problems and Difficulties

(1) **Preferential policy differences**: According to the recent situation, there exist mixed reactions from Vietnam and China. Some preferential policies, which are needed by Guangxi and Yunnan to realize the CBEZ, are difficult to accomplish. Thus, the final plan will depart from previous expectations.

(2) **Difficulties regarding the synchronous construction on both sides:** Problems related to the construction of CBEZs need more time for communication and negotiations; the economic strength of Vietnam's border provinces to finance constructions is too weak, thus making it difficult to promote infrastructure construction synchronously; Sensitive subjects involving the transfer of sovereignty, such as supervision, laws, and regulations, are difficult to negotiate.

(3) **Fear about political risks**: Although there are no conflicts at the Sino-Vietnamese border, the territorial dispute in the South China Sea has not been solved yet, which inescapably effects bilateral economic and trade cooperation. An example is the violence against Chinese companies in Vietnam on May 13th, 2014.

Next Steps

(1) Study intensively and modify the **Common General Planning** together, targeting at key industries, reforms, and overall policy support. Research industrial trends according to cross border and free trade features. Identify the industrial demand for the Chinese side of the park, and which industries are attracted by Vietnam. Aspire to achieve industries of similar quality but different structure, thus leading to a rational division of labour. Combine industrial selection with bilateral resources, cross border resources, logistics, labour policies, and market factors.

(2) **Departmental work and reformation.** The leading group of Guangxi and Yunnan CBEZs demands each department to streamline its administration and delegate power to the CBEZs. Gain support for the specific cooperation content from the counterpart countries. Finalize the first round of communication with the Central Government's counterpart department in a timely manner.

(3) Do not wait and rely on others, **build infrastructure in advance**. Seize the time to build the traffic routes connecting Vietnam to China. Accelerate the construction of Hanoi-Lao Cai high way, Beilun River's second bridge, and passages of Dongxing Park, Pingxiang Park, and Vietnam Park.

9.5 Panel Speech

Zhang Yan, South-South Policy Team, United Nations Development Programme (UNDP), China Office

"Promote China-ASEAN Economic Integration: Cross-Border Economic Cooperation Zones at the China-Vietnam Border (UNDP Project)"

CBEZ Project Background

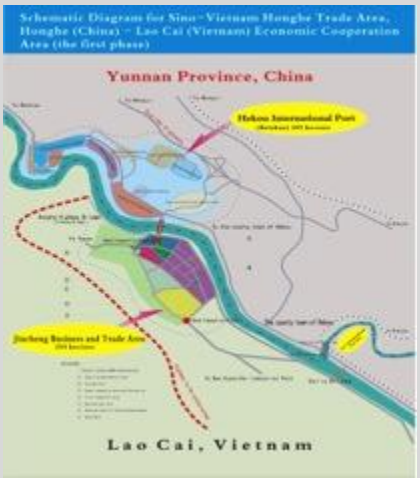
China's participation in international trade institutions, fora, and agreements has expanded greatly in recent years. Accession to the World Trade Organization in 2001, was accomplished after fifteen years of protracted negotiations. Like the USA and European Union, China also seeks to negotiate regional and bilateral agreements to create integrated markets with preferential rules that go beyond the WTO disciplines. China has concluded trade agreements with its own Special Administrative Regions of Hong Kong and Macao, and free trade agreements (FTAs) with ASEAN, Chile, Pakistan, and trade and economic framework agreements with Australia and New Zealand that lay the groundwork for FTAs to come.

China's regional and bilateral trade agreements stand out both for their content and motivations. Unlike other comprehensive FTAs adopted by the U.S. and EU, Chinese FTA's have been noted for their diversity and a negotiation preference for initial streamlined agreements, followed by subsequent elaboration, rather than one-off treaties.

At the Heads of State summit held in Nanning in October 2006 to commemorate the 15th anniversary of China-ASEAN relations, former Chinese Premier Wen Jiaobao called for increased bilateral cooperation, expanded economic ties, and accelerated implementation of the China-ASEAN Free Trade Area (CAFTA). Against this backdrop of commitments in the context of ASEAN, China and Vietnam have embarked a on an ambitious program to develop "two corridors, one circle" of economic growth to accelerate integration of their economies. The concept, announced in 2004 by the two countries' top political leaderships, seeks to facilitate and promote trade and investment between Kunming (Yunnan Province, China) and Haiphong via Hanoi (Vietnam) and Nanning (Guangxi Zhuang Autonomous Region, China) and Haiphong, also via Hanoi. Commitments to this goal were reiterated during the November 2006 China-ASEAN summit.

Experimental and ambitious policies to concentrate investment and attention at their border with Vietnam, and thereby stimulate China's investment and commercial relationships through Vietnam with the rest of the Mekong region and ASEAN, could help to stimulate Yunnan's and Guangxi's engagement with international trade and thereby promote growth and human development in these two provinces. The potential for cross-border economic zones (CBEZ) to catalyze investment, trade, and tourism between

China and Vietnam, Laos, and the rest of the GMS, and to stimulate a greater outward orientation in hitherto isolated Yunnan and Guangxi regions is therefore significant.



Key Targets and Results

Through support for two cross-border economic cooperation zones (CBEZ) in Yunnan Province and Guangxi Zhuang Autonomous Region on the China-Vietnam border, the CBEZ project's long-term target aimed at increasing cross-border economic cooperation between China and Vietnam and thereby facilitating implementation of the China-ASEAN FTA. In the short term, i.e. over the three year life of the project, the project focus laid on:

- Enhance understanding of cross-border economic cooperation zones (design, structure, policy framework, operational rules) and the potential social risks that may accompany them,
- participate in CBEZ planning, policymaking, and implementation at multiple levels of government (both within China and between China and Vietnam), encouraging collaboration with non-governmental sectors to provide input and give feedback, and
- serve as a demonstration model for CBEC in other cross-border contexts around China.

In order to achieve the intended project outcome of increased regional integration, three major outputs were achieved:

Opportunities for learning provided	14 trainings were held with more than 1000 people participated (gender); 16 visits arranged.
Planning for and implementation of CBEZ will be supported, with public-public and public-private partnerships established	Steering committee established for providing guidance and advice to CBEZ policy making process. The establishment of the public-private advisory board.
Continuous learning practices will be adopted	Experiences of the project applied in other CBEZ projects.

Contributions to the Regional/Local Development

(1) The project has become the China's national cross-border collaboration and development strategy;

(2) Contribute to the GMS' effective economic and trade cooperation;

(3) Confidence building;

(4) Experience of the project has been promoted and applied in China and Southeast Asia;

(5) Influence on the social environment (social impact assessment).

Experiences and Lessons Learnt

- **Partners for project implementation:** Commerce departments had advantage of operating the project;
- Different **stakeholders** and many institutions involved in multinational cooperation - Policy development;
- A standardized **working system** and specialized criteria for business were established;
- Promotion of the CBEZ in same pace by **participating governments**

X. Keynote Speech: China (Shanghai) Free Trade Zone

Tan Jinghua, Vice General Secretary and Director, Supervision Bureau of Shanghai FTZ

At the end of September 2013, China launched the Shanghai Free Trade Zone (FTZ), which is supposed to promote the liberalization of international trade, to attract foreign and domestic investment, to establish an administration system with convenient procedures and to provide an area with lower operating costs. By establishing the FTZ, China chose Shanghai to take the lead in the opening-up process and hopes to use the open policy to force further reform.

On 18 September 2013, the Chinese State Council issued the Framework Plan for the China (Shanghai) Pilot Free Trade Zone. According to the framework plan, the major tasks of the FTZ are to explore innovation of institutional and administrative system, to foster function expansion, to expand the opening-up of service sectors, and to strengthen protection through regulatory system enhancements. Among these tasks, innovation of the institutional and administrative system is the most important one.

The innovation of institutional and administrative system can be divided into the following four fields which will be introduced separately: Innovation of investment management system, innovation of trade regulation system, innovation of the financial opening-up system, and innovation of a joint supervision system.

Innovation of Investment Management System

The Pilot FTZ adopts "National Treatment" on foreign investment permission and implements special administrative measures on foreign investment access, the so-called "Negative List". For projects that are not stated in the "Negative List", foreign investors and domestic investors will receive the same treatment, by going through filing procedures instead of approving requirement. This registration-based filing requirement also applies to the general outbound investment projects. Besides, SCFTZ also conducts pilot reforms of the industry and commerce mechanism to optimize the business environment. Furthermore, the industry and commerce authority will cooperation with administrative authorities to establish a mechanism of "one form" declaration and "one window" acceptance for foreign investment project approval and enterprise establishment.

Innovation of Trade Regulation and Supervision System

To create a new model of supervision, the FTZ will simplify the import supervision model to realize "Frontier Opening", which means enterprises are allowed to bring goods into the FTZ with import manifests before completing the customs declaration formalities with an entry and exit record list. And, at the same time, it will strictly enforce "Second-tier Effective and Efficient Control". Meanwhile, the supervision techniques and approaches will be improved to pilot the model of "import quarantine and relaxed import

inspection". With other words, an inspection and quarantine model of "easily import and export, with strict quality and safety risk control" will be promoted. In regard to logistic aspects, the goods circulation formalities within the FTZ will be streamlined. Goods circulation between enterprises within the FTZ will be accelerated according to a "consolidated declaration and independent transportation" approach. The FTZ will explore a categorized supervision model to monitor goods based on their import status and establish an integrated administration system of domestic and foreign trading business.

Innovation of the Financial System

The FTZ also aims at accelerating the innovation of the financial system. Under proper risk control, the FTZ will pilot free trade account system, interest rate liberalization, the cross-border use of RMB, explore a convertibility administration system to facilitate financing and investment and deepen the reform in foreign exchange administration.

Joint Supervision System

The FTZ will set up a joint supervision system, which includes an improved security review system, an anti-monopoly investigation system, and social credibility system. A public announcement system of enterprises' annual reports and an operation abnormality name list system will be established to record enterprises that fail to disclose annual reports within the statutory period. The FTZ also promotes a joint supervision and enforcement system with information shared by multiple government departments. And, in addition to relevant administrative authorities, social forces are also encouraged to take an active part in market supervision.

To conclude, with the words of Han Zheng, the Party Secretary of Shanghai, the Free Trade Zone is to build a pilot model, which can be popularized and copied. Some of the current management and supervisory models no longer suits our needs of opening-up and integration in the international economic system. Therefore we muss accelerate the functional transformation of government, which requires reform in administrative system. As far as the reforms go, now comes the hard part. We need to open up to further encourage, even to force reform implementation. That's the meaning of innovation.

About the Organisers

中国西部发展研究院

Co-organiser: China Academy of West Region Development (CAWD)

China Academy of West Region Development (CAWD) was jointly established by the National Development and Reform Commission (NDRC) and Zhejiang University (ZJU) in October 2006 to promote academic research, technological services, and talent training. The establishment of CAWD serves the implementation of the Chinese Communist Party (CCP) Central Committee's spirit to promote cooperation between China's Eastern and Western regions, coordinate regional development, exert the advantages of teaching, research, and advancement of talent in ZJU in order to strategically support the economic and social development throughout PRC's Western provinces.

Guided by a high-level, open, and forward-looking development direction, whilst integrating various scientific advantages and agglomerating talents, CAWD focuses on theoretical and applied research on strategic issues regarding Western development. Its areas of expertise aim at providing proficient policy advice, technological services, innovative talent management, international exchanges and cooperation, therefore acting as a key research and training base for promoting East-West interaction and regional development.

Aiming at fostering sustainable economic growth in China's Western region, CAWD is aspiring to become one of the leading and most significant scientific research centres providing technological services, talent recruitment and training as well as international exchange. Furthermore, CAWD is guided by the objective to act as a renowned research institute bridging East-Mid-West academic thinking and as domestically and internationally recognised advisory body for official policy making.

GIZ "Regional Economic Cooperation and Integration (RCI) in Asia" Programme

Background

Regional economic cooperation and integration are consensually seen as keys to Asia's future development, whose architecture is built largely on subregional initiatives with so far only few, lean regional institutions. Subregional economic cooperation initiatives provide platforms for groups of countries, economies and territories to join the integration process at their own speed. They aim at promoting cooperation in specific areas, like trade and transport, investment, tourism, energy or environment. Given the development gaps in the region, it is even more important to make regional cooperation inclusive and to ensure that the smaller countries can access benefits from regional actions.

Our Approach

The RCI Programme supports regional and national stakeholders in the context of subregional cooperation initiatives by providing capacity building, organising trainings and dialogue events, and conducting sector studies.

Fact Box RCI	
Commissioned by	German Federal Ministry for Economic Cooperation and Development (BMZ)
Key Subjects	Trade and investment facilitation, port cooperation, local cross-border economic cooperation and social implications of economic integration
Overall term	July 2011 – June 2015

The RCI-Programme supports the subregional initiatives ASEAN-China Pan-Beibu Gulf (ACPBG) Economic Cooperation and Greater Tumen Initiative (GTI). It furthermore involves Central Asia Regional Economic Cooperation (CAREC) and Greater Mekong Subregion (GMS) Economic Cooperation in peer-learning and knowledge exchange measures. Wherever suitable, European integration experiences are included.

Focus Areas

- Addressing functional aspects of regional cooperation and integration within ACPBG by organising studies and sectoral as well as organizational capacity development.
- Contributing to the implementation of concrete projects in the GTI priority areas of trade, multi-destination tourism, and local cross-border cooperation.
- Promoting peer-to-peer learning and exchange of good practices among regional initiatives, leading to pilot replication of lessons learnt.

List of Participants

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RCI Team

Lisa Brueckner, Programme Manager at GIZ in Beijing, holds an interdisciplinary degree in area studies China and international economic law. She has worked in the field of economic policy advice for more than 3 years, focusing on trade and cross-border economic cooperation. In her current position she is responsible for the overall implementation of RCI Programme measures. She also coordinates activities of the Economic Policy Forum, an emerging economies think tank alliance supported by GIZ, in China and maintains working relations with Chinese members of the network. Prior to joining GIZ, Lisa was in charge of liaison management at the German Pavilion during the 2010 World Exposition in Shanghai.

Magnus C. M. Brod, an economic sociologist by training, works as Programme Manager at GIZ. He studied in Marburg, Hamburg and London with a focus on regional trade, statistics and social change. Currently based in Beijing, China he is responsible for trade facilitation in Northeast Asia (Mongolia, Korea, Japan, and China) as well as maritime economy in Southeast Asia. Before joining GIZ, Magnus has worked with the German Institute of Global and Area Studies (GIGA) in Hamburg. His professional focus is regional trade networks and trade facilitation. Additional responsibilities revolve around the use of modern media and communications in the context of economic development.

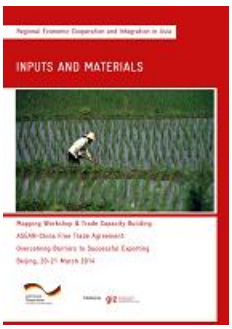
Stefan Hein, Programme Manager at GIZ in Beijing, has a background in finance and political economics. He joined the RCI Programme in September 2012 and is primarily responsible for the topics of trade facilitation within the framework of the ASEAN-China Free Trade Agreement (ACFTA), trade finance and social implications of economic integration. Prior to joining GIZ, Stefan has worked at Landesbank Baden-Wuerttemberg (LBBW) in Stuttgart focusing, among others, on structured finance and investment strategies.

Torben Niemeier, a political scientist, currently based in Beijing, working for the RCI Programme as consultant. He studied in Mannheim as well as Paris with a focus on international relations, international political economy and macroeconomics. Prior to joining the RCI Team, he gained first working experience with GIZ in the sector project "Sustainable Economic Development" in GIZ headquarters, Eschborn, Germany. For the RCI Programme, he mainly contributes in the areas of trade facilitation and maritime economy in Southeast Asia.

Other Publications by RCI

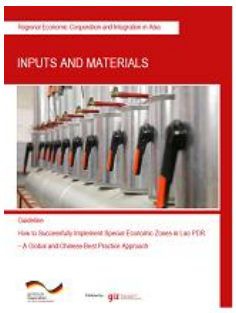
The GIZ RCI Programme publishes regular updates on its activities to offer insights and disseminate regional knowledge on integration processes in Asia. To download please refer to http://www.scribd.com/Rci ASIA or http://de.slideshare.net/RCI-Asia

Inputs and Materials

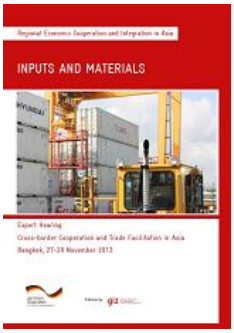


Mapping Workshop - ASEAN-China Free Trade Agreement

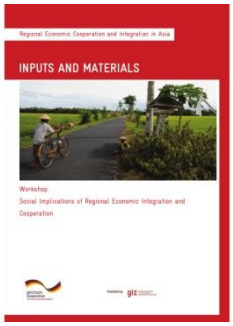
Development of Ferry Boat Routes in Northeast Asia



How to Successfully Implement Special Economic Zones in Lao PDR



Cross-Border Cooperation and Trade Facilitation in Asia



Social Implications of Economic Integration

Single Window Implementation and Business Process Analysis: Regional Best Practices

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