



TRADE,
INVESTMENT AND
COMPETITIVENESS

EQUITABLE GROWTH, FINANCE & INSTITUTIONS NOTES

The Dos and Don'ts of Special Economic Zones

Douglas Zihua Zeng



WORLD BANK GROUP

Some rights reserved.

This work is a product of the staff of The World Bank with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Nothing herein shall constitute or be considered to be a limitation upon or waiver of the privileges and immunities of The World Bank, all of which are specifically reserved.

Rights and Permissions



This work is available under the Creative Commons Attribution 3.0 IGO license (CC BY 3.0 IGO), <http://creativecommons.org/licenses/by/3.0/igo>. Under the Creative Commons Attribution license, you are free to copy, distribute, transmit, and adapt this work, including for commercial purposes, under the following conditions:

Attribution—Please cite the work as follows: 2021. *Douglas Zhihua Zeng — The Dos and Don'ts of Special Economic Zones — Markets, Competition and Technology Unit Finance, Competitiveness and Innovation Global Practice — Practice Note. Trade, Investment and Competitiveness*. Washington, DC: World Bank.

Translations—If you create a translation of this work, please add the following disclaimer along with the attribution: *This translation was not created by The World Bank and should not be considered an official World Bank translation. The World Bank shall not be liable for any content or error in this translation.*

Adaptations—If you create an adaptation of this work, please add the following disclaimer along with the attribution: *This is an adaptation of an original work by The World Bank. Views and opinions expressed in the adaptation are the sole responsibility of the author or authors of the adaptation and are not endorsed by The World Bank.*

Third-party content—The World Bank does not necessarily own each component of the content contained within the work. The World Bank therefore does not warrant that the use of any third-party-owned individual component or part contained in the work will not infringe on the rights of those third parties. The risk of claims resulting from such infringement rests solely with you. If you wish to reuse a component of the work, it is your responsibility to determine whether permission is needed for that reuse and to obtain permission from the copyright owner. Examples of components can include, but are not limited to, tables, figures, or images.

All queries on rights and licenses should be addressed to World Bank Publications, The World Bank Group, 1818 H Street NW, Washington, DC 20433, USA; e-mail: pubrights@worldbank.org.



Contents

Acknowledgments	4
I. Introduction	5
II. The Four Dos	9
III. The Four Don'ts	13
IV. References	16



Acknowledgements

This policy note was prepared by Douglas Zhihua Zeng, senior economist in the Markets, Competition, and Technology Unit of the Finance, Competitiveness and Innovation (FCI) Global Practice at the World Bank. The objective of this note is to provide quick guiding principles to countries and economies implementing SEZs domestically. It builds on the SEZ Guidance to TTLs tool and previous work done under that initiative. The author is grateful to Sherif Muhtaseb, Sumit Manchandan, Etienne Kechichian, Maria Miller, Sinem Demir, Noelia Carreras Schabauer, Georgiana Pop, and Gemma Vives, who have contributed to that initiative.

Special thanks to Martha Martinez Licetti (practice manager in the Markets, Competition and Technology Unit of the FCI at the World Bank) for her guidance and supervision, to Caroline Freund (former FCI Global Director) and Mona Haddad (FCI Global Director) for their management support, and to Vincent Palmade and Mariem Malouche for their peer reviews and inputs.

This work has benefited from the financial support under the Umbrella Facility for Trade trust fund that is financed by the governments of the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom, as well as the Competitive Industries and Innovation Program trust fund. The author is grateful for their generous support.



Introduction

Special economic zones (SEZs) have been used by many developing countries as a policy tool to promote industrialization and economic transformation. The World Development Report 2020 also recognizes the possibility of using SEZs as a means of facilitating global value chain participation (World Bank 2019). According to the latest World Investment Report by the United Nations Conference on Trade and Development (2019), zones (including SEZs and other types of zones) are used by more than 140 economies around the world, almost three-quarters of developing economies and almost all transition economies. That number has grown rapidly in recent years, with at least 5,383 zones in 147 economies. Among those zones, most are multi-activity zones. Industry-specialized zones and zones focusing on innovation are concentrated in more advanced emerging markets. Zones in most developed countries are regular zones (without a special regulatory or incentive regime) and focus primarily on logistics.

As a “high-risk, high-reward” instrument, the global results of SEZs in developing countries are quite mixed. Results vary significantly with some regions or countries (especially those in East Asia) in general being more successful while others (especially those in Sub-Saharan Africa) struggle to make zones work (Zeng 2015; World Bank 2019). Even in the same country, it is quite normal to have both successful and failed zones.

As an industrial policy tool, an SEZ is supposed to complement market forces by helping to overcome market failures. Market failures need to be properly identified ex ante and typically include a malfunctioning land market (such as unavailability of land, issues with land ownership, and resettlement), deficient industrial infrastructures (such as power, water, gas, telecommunications, and waste treatment) needed for industrial agglomeration, and a poor regulatory and business environment caused by coordination failures within governments or between a government and the private sector.

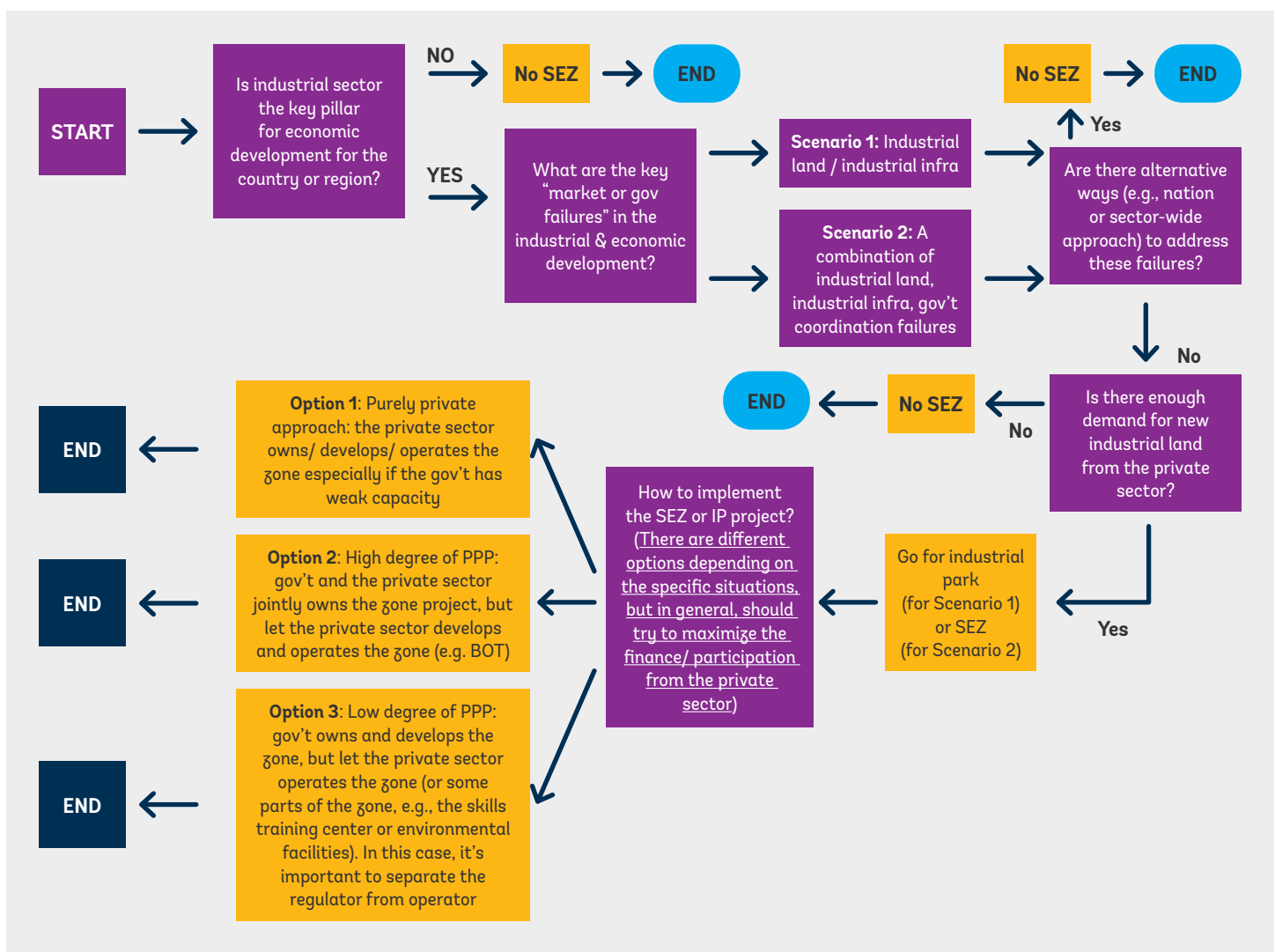
For any zone initiatives, the following key checklist questions can be used to determine whether developing an SEZ is advisable:

1. What is the national or regional industrial and economic development strategy of the host country? Is industrial development the key pillar for economic development? (The sector focus has implications on the choice of instrument.)
2. What are the market and government failures the country or region is facing in implementing such a strategy? (A spatial approach needs to be used to address the market and government failures, not for any other problems.)
3. Is an SEZ or industrial park one of the instruments that could help address such failures? Or, would a land market-wide approach, a sector-wide approach, a value-chain approach, a cluster initiative, or other policy be sufficient? Is there enough demand for new industrial land from the private sector? (A pre-demand survey might be needed to have a good understanding of the market demand).

Depending on the answers to those questions, it might be possible to adopt a zone-based approach. Figure 1 provides a visual illustration of the zone decision-making process and the possible approaches.

> > >

FIGURE 1 - The Decision-Making Process of a Zone Initiative and Possible Approaches



Source: World Bank Group (2021) and author's research.
 Note: PPP = public-private partnership; SEZ = special economic zone

Once it is decided that a zone approach is both necessary and feasible, the host government also needs to decide what type of zone is the most suitable. There are typically two types of zones despite the many names they are given: SEZs and industrial parks. SEZs often involve a “special” legal and regulatory regime (including incentive regimes) and may be appropriate in case the main constraints are related to legal and regulatory issues that affect the business environment besides other constraints, such as land and infrastructures. In other cases, a simple alternative to an SEZ is an industrial

park, which does not require a special legal and regulatory regime. In such cases, an industrial park may be more appropriate because it involves less complex and risky processes. And in many cases, an industrial park or just better land use policies, for example, are needed instead of SEZ regimes (See “CPSD Guidance Note on Zones” and “CPSD Guidance Note on Land”). Therefore, depending on the specific development objectives and constraints, an SEZ can be considered together with other possible options (alternatives), as shown in table 1, though this note will mostly focus on SEZs.

> > >

TABLE 1 - SEZs and Possible Alternatives

OBJECTIVES	POSSIBLE OPTIONS
Locate hazardous industries	Reform of zoning regulations and/or IPs/SEZs
Promote agglomeration economies	Proper zoning and/or IPs/SEZs
Improve the business environment	National reforms and/or SEZs to pilot/demonstrate
Attract large transformative investors	Smart incentives and/or good practice in IPs/SEZs
Facilitate access to industrial land for SMEs	Proper zoning and/or plug-and-play facilities in IPs/SEZs
Help develop linkages between large/small firms	Cluster reinforcement initiatives in or outside IPs/SEZs
Improve worker conditions (including for female workers)	Regulations and/or worker facilities in IPs/SEZs
Reduce adverse impact on environment and address climate change challenges	Improvement of environmental regulations and/or additional environmental facility (e.g., wastewater treatment plants) or renewable energy/energy efficiency investments in IPs/SEZs

Source: World Bank Group (2021).

Note: IPs = industrial parks; SEZs = special economic zones.

For any zone projects, wherever feasible, it is always a good practice to ex ante identify private investment opportunities with strong development impact as well as the eco-industrial park (EIP) approach (UNIDO, World Bank Group, and GIZ 2021; “CPSD Guidance Note on Zones”), together with specific, practical, and feasible measures (policy and regulatory reforms and, when justified, public support) necessary and sufficient to unleash these opportunities.

The mixed global results clearly show that SEZs are not easy to get right, and even successful SEZs¹ usually take 5–10 years to bear results (World Bank Group 2021; AfDB 2015). In low-income countries, the results could take longer. Therefore, a prudent approach is vitally important. Even in the case where an SEZ approach is well justified, policy makers should approach SEZs with a clear objective, a long-term commitment, and a strong technical team. While sufficient funding

is important, the implementation capacity matters even more for the success of a zone program.

Policy makers should actively revise and consider lessons learned from successful SEZ programs. Among those lessons learned, the key elements include having a strategic location; integrating zone strategy with the overall development strategy; understanding the market demand and leveraging comparative advantages; and, most important, ensuring that zones are “special” in terms of piloting reforms for a business-friendly environment and are resilient to various external shocks, such as the COVID-19 pandemic. The lessons can be broadly classified into four dos and four don’ts (see table 2), which will be discussed in more details in the next sections. The lessons can also be mostly applied to regular IPs (without a special regime).

> > >

TABLE 2 - The Four Dos and Four Don’ts of SEZs

DOS	DON'TS
1. Choose the right location	1. Lack of strategic planning and demand-driven approach
2. Foster a conducive business environment with a reform-oriented mindset (use SEZs to pilot policy reforms)	2. Fail to address the critical market and government failures (such as infrastructure and government coordination)
3. Increase the market contestability through a rigorous market demand assessment and private sector participation	3. Poor policy and legal environment and weak implementation capacity
4. Maximize the positive spillovers through an inclusive and sustainable approach	4. Inability to mitigate the environmental and social risks

Source: Author’s research.

Note: SEZs = special economic zones.

¹ As with any other projects, the success of an SEZ project is also defined by its initial objectives. In general, SEZs are measured against the objectives set up in the following areas: (a) direct economic or social benefits—depending on the initial objectives, these could include investment (especially foreign direct investment) attraction, exports, employment generation, industrial output, and foreign exchange earnings and (b) indirect economic or social benefits—these could include indirect employment generation, skills transfer, technology diffusion, and local firm productivity improvement. Given their nature, those benefits are much harder to measure than the more tangible ones. See World Bank (2021) for details.



The Four Dos

There are four essential practices that need to be carefully followed when designing and developing an SEZ program to increase the likelihood of success.



1. Choose the right location

The location choice of an SEZ could be the “make-it-or-break-it” factor. International experience shows that SEZs tend to flourish in core areas and around gateway infrastructure (seaports and airports) (World Bank 2019). Cities offer features that tend to be essential to the success of large-scale, labor-intensive SEZs, including access to deep and specialized labor pools, specialized suppliers and business services, and social infrastructure, as well as connectivity to domestic, regional, and global markets (World Bank 2019). However, many country governments continue to try (and fail) to use zones as regional development tools. Some governments (for example, the Arab Republic of Egypt, Kazakhstan, and Nigeria) put social equality agenda above economic viability when deciding to locate at least one SEZ in each “lagging” or remote region, but few governments have done enough to address the infrastructure connectivity, labor skills, and supply access that the regions tend to lack.

Connectivity among individuals, firms, countries, and regions is increasingly understood as a key factor in achieving competitiveness and sustainable, inclusive economic growth. Connectivity has both physical and policy dimensions. To be a catalyst for structural transformation, zones need the following: to have or to be linked to key elements of transportation infrastructure (such as ports, railways, and highways) with good trade logistics and customs services; to be well matched to local resources that leverage the nation or city’s comparative advantages (such as agro-processing or electronics); to be part of the global value chain; and to be focused not only on exports, but also on the domestic market.

✓ 2. Foster a conducive business environment with a reform-oriented mindset

One of the key objectives of zone programs is to overcome the constraints (both soft and hard) for businesses to efficiently operate in an economy. Instead of focusing largely on fiscal incentives, such as tax holidays and free land, zones should strive to provide an environment conducive to business and to foster firm-level competitiveness, innovation, local economic integration, and social and environmental sustainability (Farole and Akinci 2011). Such programs must provide good infrastructure, such as power, water, roads, and telecommunications. Meanwhile, the SEZ policy framework should be part of the broader national policy context, including investment, trade, and tax policies (Zeng 2010; UNCTAD 2019), and zones can be used to “pilot” policy, legal, and regulatory reforms to support economic development, as evidenced in many East Asian countries. What’s important is to make sure that benefits (e.g., the simplification of customs procedures) can then be made available economywide.

In almost all the successful zones in the world, such as Shenzhen (China), Aqaba (Jordan), Panama Pacifico (Panama), Jurong (Singapore), and Jebel Ali (United Arab Emirates), to name a few, basic infrastructure is of high quality, and public services and aftercare are efficient and effective. One of the important value-added features of SEZs is the one-stop-shop (OSS) service. Since a zone program involves many government stakeholders in charge of such factors as land, transportation, utilities, customs, taxation, finance, immigration, and skills, an effective OSS could make the public services, such as registration, licensing, permits, taxation, and customs clearance, much simpler and efficient. For OSS to work, it’s very important to establish a proper dialogue, coordination, and cooperation mechanism among the central, provincial, and local governments and across different government agencies. Those features—characteristic of model zones in China, Malaysia, the Republic of Korea, Singapore, and United Arab Emirates—make the zones very attractive to investors. Wherever the capacity is permissible, such services could also be extended to firms outside zones by leveraging the increasingly available digital technologies.

In terms of using SEZs as pilots for policy and legal reforms to achieve structural transformation, China, Mauritius, the Republic of Korea, and Vietnam are prime examples. China started with four zones at the initial stage to experiment with market-oriented economic reforms, which involve laws, regulations, taxation, land, labor, finance, customs, immigration, and

others. After the initial successes, China gradually rolled out the zone program and relevant reforms throughout the nation (Zeng 2015). Mauritius leveraged the SEZ program to simplify the investment process and to carry out reforms to promote an export-led growth and structural transformation. The export processing zone model, so successful in transforming Mauritius from its reliance on sugar and vanilla plantations to becoming a major apparel exporter, eventually became obsolete. However, as its source of comparative advantage moved away from low wages, the government returned to the zone instrument to promote emerging industries, such as information and communications technology and financial services (World Bank 2019).

✓ 3. Increase the market contestability through a rigorous market demand assessment and private sector participation

Since a zone program or project is a very expensive undertaking, it requires very careful planning, design, and management. Besides the development costs, which involve the basic infrastructures, land acquisition and development, and green facilities, the project also includes the cost of common services in the zone, as well as the public revenues foregone from the various incentives often associated with a zone program. Many low-income countries must rely on international donors or development agencies to launch such programs. However, the results are not guaranteed. As mentioned, because of the high-risk nature of such programs, many of them end up being “white elephants.” That’s why the implementation capacity of the government or private sector is crucial for success.

Ensuring that the zone programs and projects are actually based on business demand is of paramount importance in order to avoid creating the poorly performing white elephant zones. The planning process should include a rigorous assessment of the demand situation (preferably done by the private sector) that will not only analyze the global, regional, and domestic industrial and investment trends and the local comparative advantages, but also a solid understanding of the demand for industrial infrastructure in the designated area by the business sector, which often involves an investor or pre-investor survey to potential investors (both international and domestic). The demand assessment is typically part of a comprehensive feasibility study of a specific site and serves as the basis for the master planning and economic and financial analyses of the proposed zone. All this information will be used to determine the viability and market contestability of the zone.

To ensure smooth and efficient operations of zones, private sector participation is encouraged and should be provided for in the SEZ legislative framework or in the country's broad land market legal framework, enabling the private sector to invest in different kinds of land, including industrial land. This will not only reduce the financial burden to the government, but also reduce the risks by bringing professional expertise into play, thus increasing the chance of success.

Private sector participation can take the form of either a pure private sector approach or a public-private partnership (PPP) approach, and can be arranged at the different stages of the zone project from planning and development to management and operation. The level of demand, local context, risk appetite of private developers, and government strategy will determine the most suitable configuration of private sector participation, ranging from wholly private to a PPP approach where experienced private sector partners can be brought in to help with the planning, infrastructure development, and management of the SEZ.

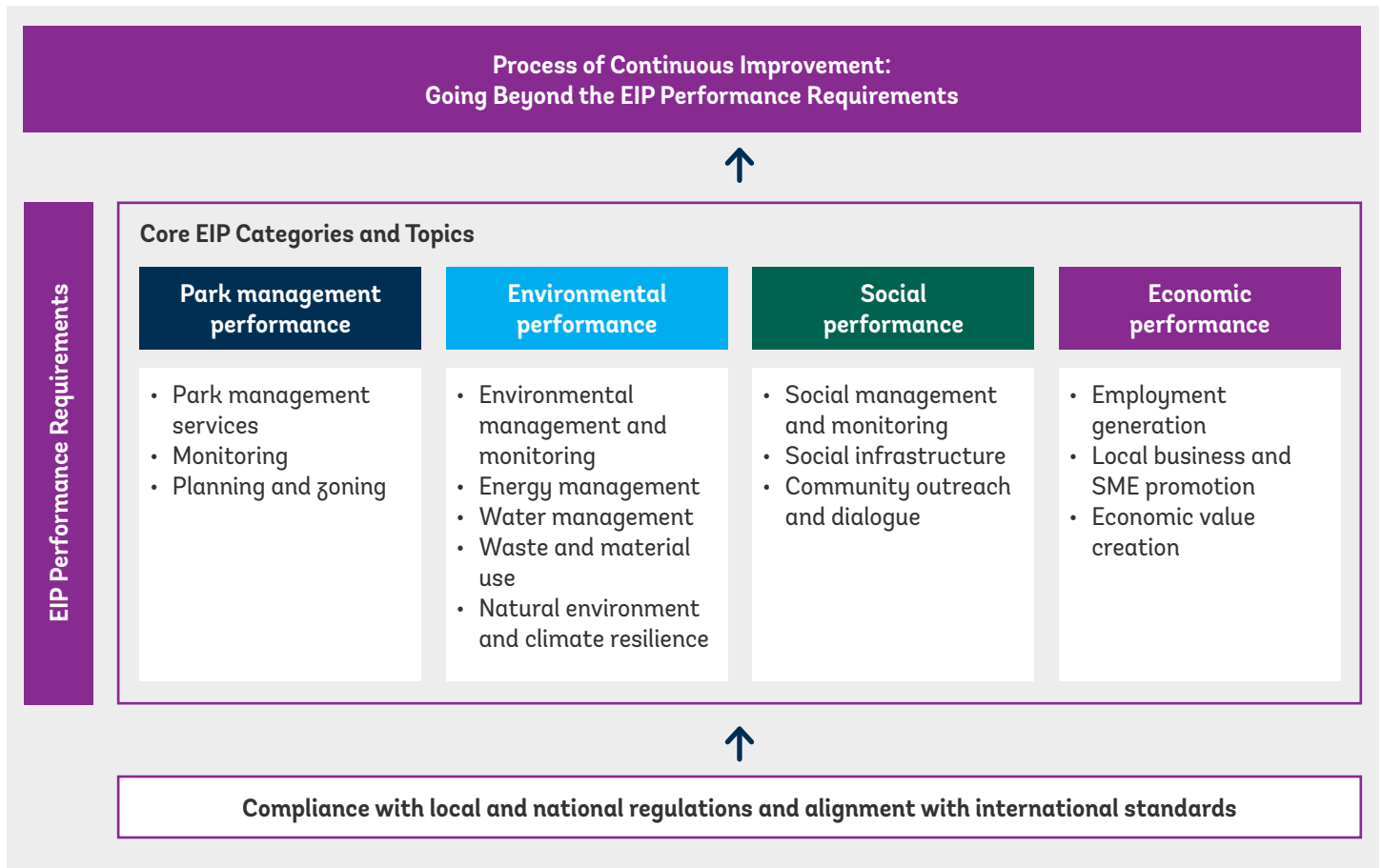
4. Maximize the positive spillovers through an inclusive and sustainable approach

Despite the past successes of some “enclave” model zones (especially export-processing zones) during the 1980s and 1990s, the success of modern zones is increasingly entwined with the local economy to achieve structural transformation of the host economies. Zones need to build on local comparative advantages and try to have local suppliers as part of their value chains through an inclusive approach. Proactive identification of opportunities, matching efforts and training programs between firms within and outside zones, would greatly enhance zones' impact (UNCTAD 2019). In many countries, such as those in Sub-Saharan Africa, zones are often criticized as being enclaves without much linkage to the local economy. Evidence from East Asia shows that, in the long run, zones with strong linkages to the local economy tend to be the most successful (Zeng 2015; World Bank 2019). To fully benefit from the zone programs, governments and zone management need to consider the local comparative advantages as they target priority sectors. Governments and zone management should also help local firms link with zone investors through supply chains or subcontracting relationships (Farole and Akinci 2011; Zeng 2015). These backward and forward linkages hold the potential to maximize spillover effects on the economic benefits (such as technology transfer, skills upgrading, and productivity gains of local firms) that accrue beyond the zone itself.

In addition, it is important to make zones greener and sustainable to upscale their competitiveness stance in the global market. Increasingly rigorous environmental and social standards of international investors mean that SEZs that adopt the principles of eco-industrial development and that align with or go beyond international good practice compliance requirements may have a competitive advantage over other locations competing for the same investors. In this regard, zones are encouraged to voluntarily adopt the EIP framework to make themselves resource-efficient, climate friendly, and overall greener. An EIP can broadly be defined as “a dedicated area for industrial use at a suitable site that ensures sustainability through the integration of social, economic, and environmental quality aspects into its siting, planning, management and operations” (UNIDO, World Bank Group, and GIZ 2017). It has increasingly been recognized as an effective tool for overcoming challenges related to inclusive and sustainable industrial development within the scope of the Sustainable Development Goals (Kechichian and Jeong 2016). However, it is also used to respond to global demands for a green supply chain and to reduce resource constraints through improved resource management and conservation while ensuring national and international climate change commitments are met. While zones can be the pilots, such good practices should be promoted throughout the economy.

An international framework on EIP was launched in 2017 by a partnership among the United Nations Industrial Development Organization, World Bank Group, and GIZ (the German Agency for International Cooperation) to help countries and zones apply the EIP concept. The EIP Practitioner's Handbook was published in September 2018 to provide a step-by-step guide on how to operationalize the framework. The framework covers park management environmental, social, and economic aspects (figure 2) to help practitioners go beyond regulatory compliance. The World Bank Group is currently implementing EIP pilots in Bangladesh, Ethiopia, Turkey, and Vietnam, and has achieved some encouraging results. For example, in Turkey, the results from the diagnostics of 18 zones (5 percent of the total number of zones in the country) suggest potential annual cost savings of US\$95.4 million, with an estimated capital investment of US\$350.3 million, giving a payback of 3.7 years, which would result in a potential overall annual energy efficiency of 1.0 million megawatt hour, carbon reduction of 357 kilotons of carbon dioxide equivalent, water saving of more than 11.7 million cubic meters, waste reduction of around 71.291 tons, and chemical reduction of more than 14,550 tons—all by integrating EIP practices in energy production, material circularity, resource efficiency, and waste and wastewater management.

FIGURE 2 - The EIP International Framework



Source: UNIDO, World Bank, and GIZ (2017).

Note: EIP = eco-industrial park; SME = small and medium enterprise.



The Four Don'ts

Besides the dos, there are some negative lessons in planning, developing, and operating SEZs that should be avoided by all means, which are summarized next as four don'ts.

1. Lack of strategic planning and demand-driven approach

International experience shows that effective zone programs (such as those in China, Malaysia, Mauritius, and Republic of Korea) are an integral part of an overall national, regional, or municipal development strategy and build on strong demand from business sectors. For public zones, governments need to clearly define the role and objectives of the zone initiatives in their overall economic development agenda and to conduct thorough planning that involves all the major stakeholders in the process. Such a process will help to build a consensus within the government and throughout the country or region, thus gaining broad support. To anchor the zone programs on a solid market-based foundation, the private sector must be involved from early on to understand its specific needs and constraints and to test the zone approach. If a zone initiative is justified, the preliminary locations, sectors, and potential investors need to be identified; some cost-benefits analysis needs to be conducted; and a well-thought-out implementation plan needs to be developed.

However, in many cases, a strategic planning process is skipped or compromised. Many decisions are made through a purely top-down approach, without considering the real needs of the private sector. Some zones are politically motivated even without a proper feasibility study, and some are established mainly for equality purpose, not necessarily in line with a country's or region's economic development strategy. Given the nature of SEZs, they may not be a suitable development instrument in a peripheral and remote region. A supply driven SEZ designed without business demand is a recipe for failure.

✘ 2. Fail to address the critical market and government failures

From the economics point of view, an SEZ instrument is justified because of its possibility to complement market forces and to help deal with certain market and government failures. The empirical research by Aghion and others (2015) show that industrial policies allocated to competitive sectors or that foster competition in a sector increase productivity growth. The important market failures and government failures that SEZs are intended to address would include a malfunctioning land market, deficient industrial infrastructure (such as power, water, gas, telecommunications, and waste treatment) needed for industrial agglomeration, and poor regulatory and business environment caused by coordination failures within governments or between the government and private sector. Strictly speaking, an SEZ approach is needed only when all the “failures” exist at the same time, otherwise an industrial park might be sufficient in cases where the regulatory and business environment is not the main constraint to investment, but rather deficiencies related to available and reliable sustainable infrastructure and investor services.

However, in many zones, even the basic infrastructures, such as power and roads, are not properly provided. A World Bank study (Farole 2011) of six African zone programs (Ghana, Kenya, Lesotho, Nigeria, Senegal, and Tanzania) shows that the downtime in zones (measured by hours) because of power shortages is still quite high in absolute terms in most African zones despite some reduction compared with outside zones—on average, the reduction is about 54 percent in African zones versus 92 percent in non-African zones. Also, in many countries, the OSS does not live up to its name because of poor intra- or intergovernmental coordination. In such cases, the SEZs are unable to serve their true purpose. And in some countries, governments decide to implement SEZs to address other policy issues, such as regional development, notwithstanding the location of the zone and access to markets.

✘ 3. Poor policy and legal environment and weak implementation capacity

In an SEZ program, a predictable, transparent, and streamlined (not multiple or even self-contradicting) legal and regulatory framework is essential to provide protection and certainty to the developers and investors and to ensure the clarity of roles and responsibilities of various parties involved. Such a framework also helps to ensure that the zones attract the right investments and are implemented with proper standards. It will also help avoid or minimize unpredictable risks, such as political setbacks or interference and land speculation, among other factors. In addition, the implementation capacity of government or private developers and operators are also among the key determinants of zone success. Governments and private sector players with strong expertise in planning, designing, and developing zones or industrial infrastructure programs tend to deliver better results. Strong, long-term government commitment provides an additional guarantee for the success of zones by ensuring policy continuity and adequate provision of various public goods and services. Meanwhile, close coordination between the central and local governments and clarity over their roles are very important for the smooth implementation of the different programs. In China, Malaysia, the Republic of Korea, Singapore, and other countries or economies with successful SEZ or business hub programs, relevant laws and regulations were already in place or were put in place when the programs were launched. In the implementation processes, various levels in the governments gave strong and long-term support in a concerted effort (Jeong and Zeng 2016).

However, in many low-capacity countries, especially those in Sub-Saharan Africa, the current legal, regulatory, and institutional framework for SEZs is either outdated or does not exist, and in some cases, the zones have been launched or built without a proper framework in place (Zeng 2012). This tends to create a lot of confusion and to deter potential investors. Many governments or private developers and operators have never designed or run a zone program before, and they adopt a “learning-by-doing” approach, which makes such high-risk programs quite vulnerable. In such cases, if zones are indeed necessary, it might be better off to enable the private sector-led industrial zones with better regulations and better public services.

4. Inability to mitigate the environmental and social risks

Because of the nature of SEZ projects, they often need to involve land acquisition and resettlement of displaced people, which makes them highly susceptible to environmental and social risks. Therefore, it is indispensable in SEZ programs and projects to properly identify and assess such risks during the feasibility study and to develop sound mitigation measures. Failing to do so may make or break such projects, which has been the case in some African and South Asian countries, for example.

The choice of zone location should try to involve as less displaced people and businesses as possible to minimize the social risks. Also, a thorough consultation process should be conducted with all the relevant stakeholders, especially the local communities that would be affected by the project. The displaced people should be properly compensated and resettled. As a good practice, the affected people who may lose their means of living due to the project should be trained or reskilled and employed within the zone, as long as they are still at a working age. This can be done jointly by the government and the zone developer or operator. Zones should also adopt a high standard with regard to worker compensation and protec-

tion. To satisfy the needs of underrepresented worker groups (such as female workers), the zone should create an ecosystem to provide services and infrastructure, such as day care centers and kindergartens.

In addition, some zones may host highly polluting sectors, such as textiles, leather, and petrochemicals, and may create severe damages to the natural and living environment. Such situations can cause huge setback or even social unrest. To avoid or minimize such risks, zones should be eco-friendly and environmentally sustainable. An effective way to do so is to adopt the international EIP framework mentioned earlier.

To integrate and operationalize the EIP framework, zones should set up their own EIP performance indicators based on the guidance provided in the EIP Practitioner's Handbook. They also should develop a rigorous system to regularly monitor and evaluate their performances in zone management and in economic, social, and environmental aspects and should report to key stakeholders. The absence of such monitoring, evaluation, and reporting system may result in zones diverging from their initial purposes.



References

AfDB (African Development Bank). 2015. “Special Economic Zones in Fragile Situations: A Useful Policy Tool?” Abidjan, Cote d’Ivoire.

Aghion, Philippe, Jing Cai, Mathias Dewatripong, Luosha Du, Ann Harrison, and Patrick Legros. 2015. “Industrial Policy and Competition.” *American Economic Journal: Macroeconomics* 7 (4): 1–32.

Farole, Thomas. 2011. *Special Economic Zones in Africa: Comparing Performance and Learning from Global Experiences*. Washington, DC: World Bank.

Farole, Thomas, and Gokhan Akinci. 2011. *Special Economic Zones: Progress, Emerging Challenges, and Future Directions*. Washington, DC: World Bank.

Jeong, Hyung-Gon, and Douglas Zihua Zeng. 2016. “Promoting Dynamic & Innovative Growth in Asia: The Cases of Special Economic Zones and Business Hubs.” KIEP Research Paper Policy Analysis-16-01. Korea Institute for International Economic Policy, Sejong, Republic of Korea.

Kechichian, Etienne, and Mi Hoon Jeong. 2016. “Mainstreaming Eco-Industrial Parks: Conclusions from the Eco-Industrial Park 2015 Event in Seoul.” World Bank, Washington, DC.

UNCTAD (United Nations Conference on Trade and Development). 2019. *World Investment Report 2020: Special Economic Zones*. New York and Geneva: UNCTAD.

UNIDO (United Nations Industrial Development Organization), World Bank Group, and GIZ (German Agency for International Development). 2017. *An International Framework for Eco-Industrial Park*. Washington, DC: World Bank.

UNIDO (United Nations Industrial Development Organization), World Bank Group, and GIZ (German Agency for International Development). 2021. *An International Framework for Eco-Industrial Park: Version 2.0*. Washington, DC: World Bank.

World Bank Group. 2021. *SEZs: A Practitioner’s Guide*. Washington, DC: World Bank Group.

World Bank. 2019. *World Development Report 2020: Trading for Development in the Age of Global Value Chains*. Washington, DC: World Bank.

World Bank. 2021. "CPSD Guidance Note on Land." World Bank, Washington, DC.

Zeng, Douglas Zhihua. 2010. *Building Engines for Growth and Competitiveness in China: Experience with Special Economic Zones and Industrial Clusters*. Washington, DC: World Bank.

Zeng, Douglas Zhihua. 2012. "SEZs in Africa: Putting the Cart in Front of Horse?" *Let's Talk Development* (blog), April 9. <https://blogs.worldbank.org/developmenttalk/sezs-in-africa-putting-the-cart-in-front-of-horse>.

Zeng, Douglas Zhihua. 2015. "Global Experiences of Special Economic Zones: Focus on China and Africa," World Bank Policy Research Working Paper No. 7240, World Bank, Washington, DC.

Zeng, Douglas Zhihua, and Nah-Yoon Shin. 2021. "CPSD Guidance Note on Zones." World Bank, Washington, DC.

