

POLICY RECOMMENDATIONS HIGHLIGHTED BY THE 10TH MEETING OF THE TRADE WORKING GROUP

The COMCEC Trade Working Group (TWG) has successfully held its 10th Meeting on November 2nd, 2017 in Ankara, Turkey with the theme of “*Special Economic Zones in the OIC Member States.*” During the Meeting, Trade Working Group, made deliberations for policy approximation among the Member Countries regarding developing special economic zones. The Room Document, prepared in accordance with the main findings of the research report conducted specifically for the 10th Meeting of the COMCEC Trade Working Group titled “*Special Economic Zones in the OIC Member States*” and the answers of the Member Countries to the policy questions sent to the COMCEC Trade Working Group focal points by the COMCEC Coordination Office. During the Meeting, the participants agreed on the policy recommendations included in the Room Document. The existing document includes these policy recommendations highlighted during the Meeting.

Policy Advice 1: Designing and programming Special Economic Zones in line with national economic strategies for ensuring their complementarity with national economic growth targets and industry sector priorities

Special economic zones are important tools for improving national and regional economic growth and increasing the national income. Whilst SEZs have been pursued by many countries in recent years to drive economic development objectives and to facilitate investment opportunities, the economic rationale supporting the implementation of a proposed SEZ programme needs to be fully grounded in an appreciation of the existing factors constraining economic growth and performance.

Observation of the performance and success of SEZs within OIC Member Countries and internationally, also suggests that SEZs tend to be more successful where they are programmed and designed as logical components of national and regional economic strategies. This requires a clear indication and quantification of the specific economic strategy priorities that are best served nationally and regionally by SEZs, with an evidence-based case as to why SEZs constitute an appropriate form of policy intervention.

Policy Advice 2: Improving economic performance of SEZ programmes through developing unique incentives frameworks – fiscal and non-fiscal - which attract investments and foster effective and efficient business environments

Rationale:

The reduction of administrative burdens is critical to a successful SEZ programme. Non-fiscal incentives, which facilitate the ease of doing business within SEZs, are now often cited as more important to investors than the implementation of fiscal benefits. In particular, non-fiscal incentives can be very successful instruments in improving the overall business and investment environment and increasing the ‘ease-of-doing-business’.

With regards to fiscal incentives, they should be focused on the sectors and strategies which are being targeted by the proposed zone programme and should not be used as the main

differentiator between competing zones. There should ideally be a clear link between national economic priorities and target industry-sectors suitable for the SEZ programme.

Where possible, incentive frameworks can be standardised at the national level to ensure that competition between zones within a country does not result in the adoption of unsustainable packages of incentives. The use of ‘sunset clauses’ can be effective mechanisms to ensure that SEZ programmes avoid unsustainable guarantees of fiscal incentives over long time periods.

Policy Advice 3: Improving the competitive advantage of SEZ programmes through effective site and sector targeting based on a robust understanding of national economic priorities and competitive advantages

Rationale:

The correct choice of site(s) and sectoral focus for SEZ programmes are identified as critical success factors in ensuring that the comparative advantages of the country, region or site are fully utilised.

Sectoral selection should include consideration of advantages such as labour force, skills and training levels, proximity and capacity of input suppliers and preferential market access. A key component of this is the identification and selection of the most appropriate sectors based on a robust economic understanding of economic policy objectives, existing competitive advantages and activities which would add most value in the context of the vision and rationale for SEZ development.

Forward strategies should also be developed to identify clear pathways to progress up industry value chains with strategies formulated for fostering both backward and forward linkages within the domestic economy. It is also important for SEZ programmes to facilitate complementary policies such as skills development and regional supply chain management to promote these linkages and attract increased investments.

One of the most common factors characterising poor performance within SEZ programmes is poor site location, sometimes determined without economic/technical considerations. It is acknowledged that zones are more successful when they exploit pre-existing advantages that are the products of concentration, such as the presence of existing infrastructure such as ports or airports which offer international connectivity or economic considerations such as access to markets, feedstocks and supply chains.

Policy Advice 4: Designing an efficient legal and regulatory framework to create a ‘special’ economic operating environment which considers and complements the existing legal and regulatory environment

Rationale:

The legal and regulatory framework will typically differentiate the SEZ from the domestic economy and it is therefore important for the framework and associated regulations to outline how the SEZ programme will be governed and how investors will be attracted and serviced. The institutional and administrative framework should be clearly defined in terms of the role

of different government departments or agencies and consideration should be given as to whether a unique SEZ law should be established, or whether regulations, legislative amendments or contract law or concessions could offer similar benefits.

The creation of a ‘special’ operating environment should not mean compensating for weaknesses in the wider economy, but should involve establishment of an extra-territorial area that provides truly beneficial investment and trading conditions and is fully complementary to the country’s forward strategy for economic growth.

Consideration should also be given as to how investor requirements are best met through the legal and regulatory framework, particularly within the specific target sectors and any regulatory challenges which need to be overcome to attract further inward investment. This could include the creation of a ‘One-Stop-Shop’.

Analysis of the existing legal and regulatory environment should also be carefully considered, to ensure that the proposed SEZ framework does not result in administrative conflict, tension or increased complexity. The purpose of creating a dedicated SEZ framework is to improve the general ‘ease of doing business’ and therefore increased complexity can be a deterrent to inward investment.

Policy Advice 5: Assigning/Establishing a single SEZ authority to regulate all SEZs within the country and supporting SEZ programmes through active involvement of key stakeholders and development of SEZ working groups

Rationale:

There is a need for establishing a single SEZ authority, where countries have multiple SEZs to regulate all SEZs. Therefore, an overarching authority should be established in the member countries for leveraging existing expertise and avoiding the potential pitfalls of multiple authorities competing with one another and creating investor confusion. Single SEZ authorities help to promote policy continuation and consistency across SEZ programmes, as well as managing the relationship between regulators, operators and developers of SEZ programmes. Careful consideration should be given, however, to the degree of flexibility that must be exercised by the single authority across different zones, this being partly dependent upon the zones’ sectoral focus. Regulators must be able to differentiate in terms of treatment for zones focusing on financial and business services for example, in comparison to those focusing on other activities such as manufacturing or logistics. The possibility of including a legal arbitration function across or within SEZs should also be considered.

Furthermore, it is key for a SEZ programme to be supported by a range of government departments and agencies in order for it to be successful. Executive support for an SEZ programme helps ensure that all those in government understand that the programme is an executive priority and that effective administration of the programme is a priority. Additionally, various government departments and/or agencies may need to contribute or devolve operational responsibilities.

The formulation of SEZ working groups can be a key tool in ensuring that the full range of issues and opportunities that an SEZ programme generates is captured and to ensure lateral support from relevant stakeholders. Effective working groups can be composed of highly experienced government technicians who have a deep knowledge of the country's economic challenges, policies, legislation and economic development projects. Working groups can also provide a useful mechanism for managing the relationship between key public and private stakeholders through the direct involvement of private sector interests.

Instruments to Realize the Policy Advices:

- ***COMCEC Trade Working Group:*** In its subsequent meetings, the Working Group may elaborate on the above mentioned policy areas in a more detailed manner.
- ***COMCEC Project Funding:*** Under the COMCEC Project Funding, the COMCEC Coordination Office calls for project proposals each year. With the COMCEC Project Funding, the Member Countries participating in the Working Groups can submit multilateral cooperation projects to be financed through grants by the COMCEC Coordination Office. For the above-mentioned policy areas and their sub-areas, the Member Countries can utilize the COMCEC Project Funding and the COMCEC Coordination Office may finance the successful projects. The projects may include seminars, training programs, study visits, exchange of experts, workshops and preparing analytical studies, needs assessments and training materials/documents, etc.