Submission No 22

ESTABLISHMENT OF SPECIAL ECONOMIC ZONES

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The Chair
Committee on Economic Development
Parliament House
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Sydney NSW 2000

Email: economicdevelopment@parliament.nsw.gov.au

Dear Sir / Madam

Planning Institute of Australia (NSW Division)
Submission – Inquiry into the Establishment of Special Economic Zones

The NSW Division of the Planning Institute of Australia (PIA NSW) welcomes the opportunity to comment on the 'Inquiry into the Establishment of Special Economic Zones'.

The Planning Institute of Australia is the peak body representing professionals involved in planning Australian cities, towns and regions. The Institute has around 4,500 members nationally and around 1,200 members in New South Wales. PIA NSW plays key roles in promoting and supporting the planning profession within NSW and advocating key planning and public policy issues.

This submission has been prepared on behalf of PIA NSW by Members of the Institute.

Should you wish to discuss any of the issues raised within the submission please contact the NSW Executive Officer, Robyn Vincin, on telephone number (02) 8904 1011 or email nswmanager@planning.org.au .

Yours sincerely,

Greg Woodhams FPIA CPP
NSW Vice President and Policy Convener

Planning Institute of Australia (NSW Division) Inquiry into the Establishment of Special Economic Zones

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The NSW Division of the Planning Institute of Australia (PIA NSW) welcomes the opportunity to provide input into the Inquiry into the establishment of Special Economic Zones.

What are Special Economic Zones?

Special Economic Zones (SEZs) are generally defined as 'geographically delimited areas administered by a single body, offering certain incentives or inducements to businesses which physically locate within the zone.'[1] The aim is to encourage development in certain areas/regions, generate agglomeration economies, and enable more streamlined administration and better servicing of industries, where this wouldn't otherwise have occurred without the inducements.

To be classified as SEZs, special regulatory frameworks and incentive packages which are only available to firms located within these zones are required. Consequently, industrial parks/estates/zones which do not provide specific or special incentive regimes are not generally considered to be special economic zones.

Developing countries have used SEZs as a means of attracting foreign direct investment as well as to increase the competitiveness of domestic industries. By designing export oriented zones to simulate a free trade environment, local and foreign industries exporting from the country are able to compete in global markets.

What typical incentives or inducements are offered to businesses or firms locating in SEZs?

The nature of the incentives or inducements offered to businesses or firms locating in SEZs will depend on what the economic development emphasis is.

Where export sales are a particular focus then special economic zones such as free trade zone, export processing zones and freeports typically offer:

- streamlined customs and administrative controls
- customs or export duty exemptions

[1] The World Bank (2008) 'Special Economic Zones – Performance, Lessons Learned, and Implications for Zone Development' p 2

- import tax exemptions on inputs to exports, with duties being applied only when the goods are removed from the areas for local consumption
- simplified customs procedures

Other financial incentives offered typically include:

- reduced corporate income tax rate
- VAT/GST exemptions
- other tax concessions

In many of the cases quoted in the international literature the special economic zones offer concessional leases on land, or physical facilities to tenants and businesses (such as warehousing, storage, and distribution facilities for trade, trans-shipment, and re-export operations), and other access to infrastructure.

What could a state government in Australia offer?

Most of the financial inducements typically offered in Special Economic Zones (listed above) are not the responsibility of state governments. Realistically, the inducements a NSW government could offer (independent of the federal government) to an enterprise to locate in a particular area are limited to:

- Stamp duty concessions
- Payroll tax concessions
- Land tax concessions
- Infrastructure charge concessions (or reduced price access to infrastructure or facilities paid for by the state)
- Concessional leases on state owned land (where available)
- Relaxed planning controls
- Fast tracked or streamlined planning approvals
- Other regulatory relief

Benefits and potential problems

The benefits from identifying a geographic area where firms may access such inducements would be anticipated to be development that would otherwise not have occurred in that area. The benefits are measured in net income for the area or region, and the positive flow on impacts for households and businesses.

These benefits need to be adequate compensation for incurring the implied costs of:

- reduced state or local revenues (from tax or infrastructure charge concessions),
- reduced revenues or an ‘opportunity cost’ from concessional leases for state owned land,
- underpriced and underfunded infrastructure provision,
- reduced environmental amenity from a relaxation of planning controls and processes (the community endorsed planning controls should by definition imply an optimal array and volume of development potential given environmental constraints – hence any relaxation of these controls would imply that a cost is to be borne by the community),
- elevated attention to a particular class of development approvals (those lodged in the SEZ), possibly at the expense of potentially worthy development proposed elsewhere(this may also give rise to anti-competitive conditions that could undermine the efficiency of an industry),

- social, health and other environmental impacts or risks from a relaxation of other regulations.

There is also the risk that incurring such costs merely re-allocates or distributes development from one area to another (i.e. it would have occurred in any case) or worse, that they are incurred without any associated increase in demand for the goods and services produced by the beneficiary firms so that benefits are not achieved. In many regional areas the absence of demand is fundamental to the lack of depth and diversity in the local economy, and the availability of concessions which aim to reduce input costs may not alter this fact.

For some advocates, the approach of relaxing planning controls or other regulations in a Special Economic Zone would be consistent with a view that they impose costs and unnecessarily stifle development. If net benefits can be demonstrated from this selective approach, then it could also be argued that the regulations should be changed everywhere, to reduce development friction 'economy wide' not just in one supposedly special location.

What is required before a SEZ should be established?

The literature, including the World Bank report quoted earlier[2] stresses that the establishment of SEZs should be in the context of an overall economic development or policy framework.

> *To a great extent, the fate of zone initiatives has been determined from the outset, by the choices made in the establishment of policy frameworks, incentive packages, and various other provisions and bureaucratic procedures. The experience suggests that maximizing the benefits of zones depends on the degree to which they are integrated with their host economies and the overall trade and investment reform agenda. In particular, when zones are designed to pilot legal and regulatory reforms within a planned policy framework, they are more likely to reach their objectives.*

Given the discussion above, and within such a considered policy framework, they should also be subject to a rigorous business case including an economic assessment, where the rationale or justification for the SEZ is underpinned by an examination of costs and benefits, and distributional impacts.

The sustainability of the enterprises being assisted over the medium to long term should be part of the business case analysis. Benefits in early years should not be simply projected forward without consideration of threats and weaknesses that might diminish market prospects in coming years.

The literature also highlights that SEZs are usually supported by physical infrastructure (e.g. new road and rail investments, port loading etc) and facilities (e.g. warehouses, precinct environmental improvements). Indeed this is usually a major 'selling point' to attract firms and industry to SEZs. Again, in an Australian context, it is expected that 'up-front' expenditure on such cost items would need to be justified by a business case.

Conclusion

The benefits from implementing Special Economic Zones in regional areas, and enabling firms to access special concessions in the form of tax or regulatory relief, would be anticipated to be development that would otherwise not have occurred in that area. The benefits are measured

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[2] The World Bank (2008) 'Special Economic Zones – Performance, Lessons Learned, and Implications for Zone Development', p.1

in net income for the area or region, and the positive flow on impacts for households and businesses.

SEZs by definition require the wider community to bear costs (for example, reduced tax revenues or an impact on environmental amenity or qualities by a relaxation of planning controls). These costs should be justified by a business case including an economic assessment.

The establishment of SEZs should be in the context of a state initiated comprehensive regional economic and industry development framework, and they are just one possible tool amongst the many that would be part of such a framework.

The Institute considers that there is merit in implementing Special Economic Zones in regional or rural areas subject to:

1. An assessment of the flow on impacts for households and businesses with a business case demonstrating a positive net outcome for the community as well as the local and regional economy which is weighed against the "costs" of any incentives, relaxation of planning regulations or concessions used to implement the Zone;
2. Any SEZ being identified in a State Strategic Plan and the applicable Regional Strategic Plan supported by an economic and industry framework and including community engagement on a draft Plan;
3. An assessment as to whether a Special Economic Zone (spatially based) as against other mechanisms (e.g. provision of new infrastructure) is the optimum tool to achieve the planned outcome;
4. Any SEZ being identified as an exceptional circumstance to achieve a particular local or regional outcome.

The Institute welcomes ongoing engagement on this issue.

PIA NSW Division
23 March 2012