

**Submission
No 10**

ESTABLISHMENT OF SPECIAL ECONOMIC ZONES

Organisation: Penrith Business Alliance
Name: Mr Bijai Kumar
Position: Chief Executive Officer
Date Received: 22/03/2012

22 March 2012

Mr David Elliot MP
Committee for Economic Development
Legislative Assembly
Parliament of NSW
Macquarie Street NSW 2000



Committee Chair,

RE: Inquiry into the Establishment of Special Economic Zones

This submission is being made by the Penrith Business Alliance with respect to the NSW Parliamentary inquiry into the Establishment of Special Economic Zones.

We understand the Terms of Reference for this inquiry as:

“That the Committee inquire into and report on the establishment of special economic zones providing state tax and financial incentives to promote economic growth, employment and investment in regional and rural New South Wales; and any other related matters”

This submission provides information to this inquiry, including criteria, necessary inclusions and other recommendations for the development of a NSW policy to establish Special Economic Zones (SEZs).

Suggested Criteria for Establishing SEZs in NSW;

Any NSW Special Economic Zone (SEZ), or related policy should meet a range of benchmark criteria. These are briefly discussed.

1. SEZ's should be of a size capable of delivering job numbers that significantly impact the NSW economy

A SEZ needs to be large enough to create a scale of new economic activity, investment and jobs significant to the NSW economy. A minimum size criteria upwards of 50 to 100 hectares, or some other justified minimum should be adopted for the establishment of SEZs.

If SEZs are too small, they will fail to create economies of scale in infrastructure delivery and usage, and fail to create other positive economic externalities that only occur at a large scale.

2. Located in proximity to already existing large regional labour forces – say over 1 million workers

The location of SEZs should be so that they can capture the existing skills base of large workforces. SEZ should be located to take advantages of the national growing skills base. Linkages and proximity to Universities and TAFEs should also be emphasised.

A critical mass of at least 1 million workers (within an acceptable commuting range) is seen as a large enough working population to meet to skill needs of a SEZ in an

Australian context. One of the common features of successful international SEZ's is ready access to appropriately skilled workers¹.

SEZs should also be located near labour forces with significant employment challenges to effectively provide a pressure valve for national and state unemployment.

3. Located in rapidly urbanising areas with high job needs

The rapidly urbanising areas of Australia have the most critical employment challenges facing the nation. The National Growth Areas Alliance (NGAA) has shown that Australia's fastest growing Local Government Areas – also have the lowest rates of employment self sufficiency and highest rates of social disadvantage². As shown by the NGAA these issues are shown to be more critical in rapidly urbanising regions of Australia compared to rural and regional areas.

SEZs should be located in places where they can have the greatest economic benefit to the state, along with playing a role in responding to state and national disadvantage. Rapidly urbanising areas, typically on metropolitan fringes offer the best locations to address both these points.

4. Located in areas with high prospects for economic growth, but experiencing challenges in delivering required jobs growth

SEZ should be located in areas where they can take advantage of the states greatest potential for economic growth.

The majority of NSW's most highly skilled workers reside in the Sydney Metropolitan Area (SMA). Similarly, NSW's highest value industries are also located in the SMA³ while 63% of NSW's Gross State Product (GSP) is accordingly created in the SMA⁴.

It is this economic strength that any SEZ should leverage, as opposed to attempting to create SEZs in areas with less realisable and tangible economic potential. In fact, the international literature⁵ unanimously indicates that poor SEZ performance is generally linked to poor location choice.

5. Integrated with/ or complementary to emerging and existing private sector economic zones

The World Bank Group (WBG) notes⁶ that Australia has 10 private sector technology development zones. The WBG also notes that the best international examples of where zone policies have been successful are where the private sector has been involved in leading the development of the SEZ.

It is recommended that any NSW SEZ be developed in close cooperation with the private sector.

6. SEZs should have clear Development Objectives

¹ Special Economic Zones Report, April 2008. World Bank Group

² National Growth Areas Alliance, December 2011, 'Skills and Employment in Metropolitan Growth Areas'

³ <http://www.business.nsw.gov.au/invest-in-nsw/about-nsw/people-skills-and-education/employed-persons-by-occupation>

⁴ RDA Sydney, Metropolitan Sydney Baseline Economic Assessment, August 2011, page 4

⁵ Special Economic Zones Report, April 2008. World Bank Group

⁶ Special Economic Zones Report, April 2008. World Bank Group, page 14

NSW SEZs should have clearly defined economic functions they will perform. For example – create Manufacturing & Logistics SEZs – or Science, Technology or Finance SEZs.

The Development Objective of SEZs should be linked to the existing *comparative economic advantages* of the region the SEZ is located within.

For example, SEZs Development Objectives should reflect the natural economic advantages of the region - not sectors the state has no natural advantages in, for example, cheap manufactured products or labour intensive agriculture.

7. Have strict criteria about firm eligibility, yet flexible land uses

Firm eligibility should reflect a set of stated SEZ Development Objectives and should be strongly enforced in terms of access to incentives. Once firm eligibility is granted, a wide range of flexible land uses should be permitted within the SEZ.

Once firms have demonstrated how they contribute to the Development Objective of the SEZ, highly flexible and generous land uses should be permissible.

8. Have a focus on attracting Foreign Direct Investment (FDI) into the SEZ

Empirical evidence suggests ⁷ that regions/ nations with the highest rates of FDI also enjoy the highest levels of economic growth. FDI is not only used to fund productive economic growth, but also provides many technology and transfer spill over effects for nations with positive net FDI inflows.

The development of a NSW SEZ policy should investigate the specific role the SEZ could play in attracting FDI to NSW – by both multinational corporations (MNCs) and other sources of global equity. The SEZ policies in the Middle East (see Dubai) offer the best examples where attracting FDI has been the primary objective of state-based economic zones.

Developing countries such as China and even smaller nations such as Fiji have used the SEZ concept with great effect to develop *Tax Free Zones* and *Tax Free Factories* which provide significant corporate tax relief and customs duty exemptions to businesses, both local and foreign, which engage in production mainly for export. The twin objectives of such a policy is to generate export revenue and more importantly significant local employment opportunities.

9. Not focus on low cost or labour intensive industries with potential to distort national labour markets

Over the last forty years numerous developing nations have used a range of tax incentives (and other initiatives) to attract jobs and investment to special economic zones. Results of these policies have included the national establishment of low cost manufacturing ‘sweat shops’ in places like India, China and the Pacific Islands.

These types of SEZ would distort national labour markets in Australia and should be avoided by the NSW Government.

⁷ Romer, Paul (1993) Journal of Monetary Economics, No 32, Idea gaps and Object gaps in economic Development page 543-73.

Any NSW SEZ should **not** focus on attracting footloose low value production to NSW. Rather, a NSW SEZ policy should focus on developing and attracting high value-adding sectors, with strong global demand trends.

10. Have a focus on streamlining the roles of regulatory authorities in developing the SEZs.

International experience shows that one of the attractions of a SEZ is the ease of which a firm can establish a facility. An easy to deal with regulatory environment is required to make relocation appealing.

One of the roles the SEZ should play is to create a simple and easy to deal with regulatory environment within the zone.

11. Establishment of a SEZ or policy should *not* be limited to providing Tax and Financial incentives - but extend to the coordination and delivery of 'to the site' infrastructure

The World Bank Group states that:

“experience shows that the use of generous incentives packages to offset other disadvantages (such as poor location or insufficient facilities) is ineffective in terms of overall zone performance, due in large part to the increasing commonality of zone investment incentives in recent years”

Any NSW SEZ policy should **not be limited** solely to tax and financial incentives.

The provision of tax or financial incentives is usually of marginal benefit only to a relocating firm (despite claims from firms receiving tax benefits). A range of other supporting strategies should be employed in SEZs to attract the right type of firms.

Essentially, a firm attracted to a SEZ via tax or other financial incentive, is just as likely to leave the SEZ if another government can offer a better tax/ incentive regime. This creates an unstable 'footloose' environment.

In the PBA's experience, the upfront delivery of infrastructure is regularly cited by investors as the preferred way to provide confidence and certainty that will encourage firms to relocate, invest and establishment in a region. A NSW SEZ policy should therefore include initiatives that aim to provide certainty/ and upfront delivery of infrastructure to SEZ sites.

Infrastructure to SEZ sites should be given Number One State priority!

12. SEZs should also seek to integrate national economic reform with any NSW-based SEZ program

A NSW SEZ policy should aim to integrate with national micro economic reform agendas. In this way an established SEZ will have a greater chance of positively impacting on NSW's economic performance through stronger alignment with national economic reforms.

Other recommendations:

13. A NSW SEZ policy should also consider the following range of incentives to fund infrastructure, and to otherwise incentivise SEZs.

- *Specific Purpose Securitised Borrowing* – issuance of debt instruments such as bonds, debentures and inscribed stocks in the capital market to finance a particular project;
- *Certificates of Participation* – where governments enter into agreements with not-for profit entities that issue bonds to finance facilities that are leased back by the government;
- *Value Capture Levy* - aims to capture the uplift in land value that results from the planning process, development of land, or construction of beneficial infrastructure;
- *Specific Purpose Levies* – implementation of an ad hoc levy to meet specific infrastructure needs of an area;
- *Growth Area Bonds* – issue of bonds to finance infrastructure enhancement that are tied to a specific area repaid through future increased tax revenues collected in a defined area;
- *Business Improvement Districts* – stakeholders within a defined boundary make a collective contribution towards the maintenance and promotion of an area.

Innovative ways of funding infrastructure to SEZ (shown above) should complement any tax and financial incentives offered by a SEZ.

14. That as an outcome of this inquiry, the Government produce a set of *Draft Criteria for Discussion in selecting SEZ's in NSW*

The public release of a *Draft Criteria for Discussion in selecting SEZs in NSW* would increase public debate and allow other expert agencies the opportunity to provide detailed input into an agreed upon set of criteria.

15. The Government provide a short list of possible locations considered throughout the inquiry for SEZs.

This inquiry should provide a short list of sites considered, or suggested as 'possible' locations for a NSW SEZ.

16. Establish a independent NSW Commission (or other independent advisory body) to make recommendations to Government for establishing SEZs

NSW SEZ site selection should be based on sound economic and market principles, not local parochialism or state level politics. An independent advisory body would take the politics out of decision making about NSW SEZs. Alternatively, this role could be tasked to Infrastructure NSW.

17. Seek the support of the Australian Government to establish a policy framework for establishing State-based SEZs in Australia.

The Australian Government should be consulted as to the development of a SEZ policy for NSW. The Australian Government should be encouraged to play a greater role in regional development, with this inquiry potentially used to gain Australian Government support for regional economic development in NSW.

Possible locations for a pilot SEZ in Penrith Local Government Area:

Finally this submission provides four places where a SEZ could be considered for establishment in the Penrith LGA. These include,

(i) Western Sydney Employment Lands Investigation Area (WSELIA)

A 7,000+ hectare green field opportunity to develop a SEZ to meet the employment needs of Western Sydney - could provide up to 30- 40,000 high value jobs in proximity to a regional labour force of almost 2 million people.

(ii) Penrith Health and Education Precinct

A Potential Specialised Economic Centre already nominated by the NSW Government as an important economic location. The NSW Government is conducting a range of state infrastructure planning and coordination roles to support future economic growth of the Precinct - could create 12-13,000 new jobs if supported.

(iii) Penrith CBD

A Regional city CBD needing large scale urban renewal if it is to meet the NSW Government objective to decentralise jobs growth to western Sydney - currently provides 10,751 jobs with potential to double this figure over the next 20 years.

(iv) Dunheved Business Park

A depressed 1940s era Brownfield industrial estate providing 3,113 industrial jobs - with potential to revitalise and grow as a low cost industrial incubator in Western Sydney.

Conclusion

We look forward to reviewing the outcomes of this Parliamentary inquiry and to working with the NSW Government to grow jobs, skills and investment in NSW. We further request that the Inquiry Committee consider conducting one of its meetings in Penrith Regional city.

Yours sincerely,



**Bijai Kumar
Chief Executive Officer
Penrith Business Alliance**

CC: Stuart Ayres, State Member for Penrith and Deputy Chair