

**Submission  
No 24**

## **ESTABLISHMENT OF SPECIAL ECONOMIC ZONES**

**Organisation:** RDA Illawarra  
**Name:** Mr Tony Green  
**Position:** Acting Chief Executive Officer  
**Date Received:** 23/03/2012

23 March 2012

Legislative Assembly Committee on Economic Development  
Parliament House  
Macquarie Street  
SYDNEY NSW 2000

### **Inquiry into the Establishment of Special Economic Zones**

Regional Development Australia (RDA) Illawarra is the peak economic development consultative organisation representing the Illawarra (Wollongong, Shellharbour and Kiama LGAs).

RDA Illawarra has worked with RDA Far South Coast, the Southern Council Group and its Economic Development Practitioners Committee, to prepare an initial submission to the Inquiry into the Establishment of Special Economic Zones.

It was the opinion of these peak Illawarra bodies that this region (Wollongong, Shellharbour, Kiama, Shoalhaven and Wingecarribee) would be an ideal candidate for the establishment of a Special Economic Zone and this group would like the opportunity to make more comprehensive information available to the Inquiry; particularly if further guidance is available following the Inquiry's own initial investigations.

As a further example of how the RDA Illawarra region would provide a value add outcome for the NSW economy as a Special Economic Zone can be seen with the introduction of the NBN.

The recent announcement that saw Wollongong, Dapto and Corrimal announced as part of the next NBN roll out phase will provide this region, for a short period of time, a first mover advantage. Incentives provided under a Special Economic Zone could be used to facilitate existing or new business in the Knowledge Service, high data usage (post production, call centre and back office type operations) to relocate, expand or establish in this region.

RDA Illawarra recognise the importance of the digital economy as a key driver in the ongoing transformation of this region and believe significant economic impacts in Investment and Employment Growth can come from this sector.

RDA Illawarra, RDA Far South Coast and the Southern Councils Group appreciates the opportunity to contribute a submission to this parliamentary inquiry and look forward to receiving further correspondence from you on this matter and look forward to the opportunity to provide a more detail report into the regional benefits and outcomes created by this region being considered a Special Economic Zone.

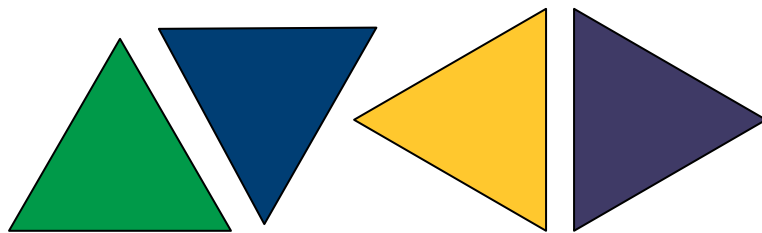
Sincerely,



Tony Green  
A/CEO - RDA Illawarra

# SOUTHERN COUNCILS GROUP SUBMISSION TO NSW LEGISLATIVE ASSEMBLY ECONOMIC DEVELOPMENT COMMITTEE

**22 March 2012**

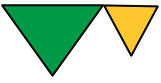


## ESTABLISHMENT OF SPECIAL ECONOMIC ZONES

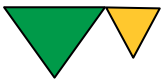
Prepared by: Economic Development Practitioners Committee of SCG  
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## BACKGROUND

### About Southern Councils Group

The Southern Councils Group (SCG) is the peak organisation representing Local Government in the Illawarra and South Coast regions.

Member Councils include Bega Valley Shire, Eurobodalla Shire, Kiama Municipal, Shellharbour City, Shoalhaven City, Wingecarribee Shire and Wollongong City Councils.

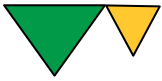
At its meeting held in March 2012, SCG resolved to make an initial response to the Discussion Paper, prepared by the Economic Development Practitioners Committee of SCG and Far South Coast Regional Development Australia (RDA) and Illawarra RDA.

### SCG Region

Southern Councils Group extends across the Illawarra and South East of NSW. The Illawarra region begins just south of Sydney covering 8,485 square kilometres stretching from Helensburgh in the north to Durras Waters 228 kilometres to the south and centres of Bowral, Moss Vale and Mittagong to the west, and is bounded by the ocean to the east. The South Coast region stretches from Durras in the north to the Victorian border in the south and is bounded by the Great Dividing Range to the west and the Tasman Sea to the east, covering 9702 square kilometres.

The residential population of half a million can double, and up to treble, in coastal locations during the summer months from the October long weekend to Easter. With a large multicultural influence in the north of the region, an ageing retirement population in the south and west, and a small but strong indigenous presence in all areas, the region is both historically, geo-physically and socially, a micro-representation of Australia itself. Economically, despite recent adversity the region is significant. With an increasingly diverse manufacturing base, ports at the northern and southern ends of the region, a vibrant tertiary education sector closely allied to the region's entrepreneurial spirit, close proximity to Sydney, Melbourne and Canberra, and a "can do" attitude, it is poised to take advantage of any initiatives such as establishment of a Special Economic Zone (SEZ).

This attitude sees the South Coast region, with the same resident population as Tasmania, attracting more visitation and income from tourism (The Wingecarribee forms part of the Capital Country region for tourism data collection).



South Coast of NSW - 2011	Tasmania - 2011
Population 451,419	Population 507,626
8.4 million (3 million overnight) visitors	1 million visitors
13 million nights	7.7 million nights
\$2.056 Billion	\$1.5 Billion

## THE SCG REGIONAL ADVANTAGE

*Location, Location, Location.*

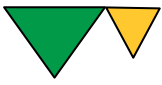
The SCG Region is characterised by its location – central to, and with major transport linkages to Sydney Canberra and Melbourne.

In addition, proposals for

- A 2<sup>nd</sup> Sydney airport at Wilton,
- High Speed Rail from Sydney to Melbourne,
- The Maldon Dombarton Freight Rail line from the Port of Port Kembla to the hinterland,
- Further NBN rollout

All offer a solid base for a SEZ.





## **Committee Terms of Reference**

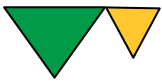
*“That the Committee inquire into and report on the establishment of special economic zones providing state tax and financial incentives to promote economic growth, employment and investment in regional and rural New South Wales; and any other related matters.”*

SCG submits the following information addressing the Committee Terms of Reference:

1. [Current State taxes and an example of how they can impact on regional NSW competitiveness.](#)
2. [Effectiveness of previous Illawarra incentives.](#)
3. [Incentives offered in other States of interest to this region.](#)
4. [Examples from overseas of successful models of interest to the SCG region.](#)
5. [Some commentary on hindrances within the NSW planning system](#)
6. [The SCG Region - Industrial Enterprise Zone in the Wingecarribee](#)
7. [SCG Region - Industry example - Internetrix SEZ experiences in China](#)
8. [SCG Region – the NBN roll-out experience.](#)
9. [Potential regional boundary definitions for SEZs,; and](#)
10. [Optimising current NSW programs such as the relocation grants.](#)
11. [Support for the development of the cultural and natural amenity of a region.](#)

[Attachment 1: Special Economic Zones – An International Overview](#)

[Attachment 2. Special Economic Zones - Clustering for competitive advantage](#)

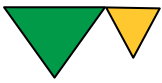


## 1. State taxes and levies that may impact on competitiveness

Table 1 below (sourced from NSW Budget Estimates 2011-12) shows the expected income from State Taxes and Levies for the financial years 2011-12 to 2014-15.

	2009-10	2010-11	2010-11	2011-12	2012-13	2013-14	2014-15	% Growth 2010-11 to 2014-15
	Actual \$m	Budget \$m	Est. Actual \$m	Budget \$m	Forward estimates \$m			
<b>Stamp Duties</b>								
Transfer Duty	3,739	4,049	3,902	3,653	4,271	4,723	5,166	7.3
Insurance	678	700	718	754	787	819	852	4.4
Mortgages	117	132	136	141	4	0	0	..
Marketable Securities	52	47	50	56	2	0	0	
Motor Vehicles	587	606	589	615	635	671	710	4.8
Other	3	0	0	0	0	0	0	..
	<b>5,176</b>	<b>5,534</b>	<b>5,395</b>	<b>5,219</b>	<b>5,699</b>	<b>6,213</b>	<b>6,728</b>	<b>5.7</b>
<b>Payroll Tax</b>	<b>6,138</b>	<b>6,324</b>	<b>6,382</b>	<b>6,619</b>	<b>7,150</b>	<b>7,572</b>	<b>8,001</b>	<b>5.8</b>
<b>Land Tax</b>	<b>2,296</b>	<b>2,328</b>	<b>2,289</b>	<b>2,482</b>	<b>2,643</b>	<b>2,813</b>	<b>2,987</b>	<b>6.9</b>
<b>Taxes on Motor Vehicle Ownership and Operation</b>								
Weight Tax	1,312	1,421	1,474	1,548	1,619	1,689	1,762	4.6
Vehicle Registration and Transfer Fees	307	318	321	333	348	368	382	
Other Motor Vehicle Taxes	35	36	36	38	40	41	43	4.5
	<b>1,654</b>	<b>1,775</b>	<b>1,831</b>	<b>1,919</b>	<b>2,007</b>	<b>2,098</b>	<b>2,187</b>	<b>4.5</b>
<b>Gambling and Betting</b>								
Racing	164	171	165	171	178	185	191	3.7
Club Gaming Devices	640	676	673	690	719	756	795	4.3
Hotel Gaming Devices	425	460	459	480	519	553	589	6.4
Lotteries and Lotto	349	335	307	316	327	335	344	2.9
Casino	116	149	140	145	163	174	187	7.5
Other Gambling & Betting	11	13	13	13	14	15	16	5.3
	<b>1,705</b>	<b>1,804</b>	<b>1,757</b>	<b>1,815</b>	<b>1,920</b>	<b>2,018</b>	<b>2,122</b>	<b>4.8</b>
<b>Other Revenues</b>								
Health Insurance Levy	141	145	145	154	164	174	186	6.4
Insurance Protection Tax	66	69	67	0	0	0	0	..
Parking Space Levy	101	105	93	96	99	103	106	3.3
Emergency Services Contributions	554	626	672	698	662	658	656	-0.6
<b>Waste and Environment Levy</b>	<b>295</b>	<b>385</b>	<b>368</b>	<b>433</b>	<b>460</b>	<b>465</b>	<b>490</b>	<b>7.4</b>
Government Guarantee Fee	439	544	443	574	616	610	682	11.4
Private Transport Operators Levy	14	11	24	19	20	23	24	0.0
Pollution Control Licences	46	50	48	48	48	49	51	1.5
Other Taxes	504	494	737	482	511	521	526	-8.1
	<b>2,160</b>	<b>2,429</b>	<b>2,597</b>	<b>2,504</b>	<b>2,570</b>	<b>2,603</b>	<b>2,721</b>	<b>1.2</b>
<b>Total Tax Revenue</b>	<b>19,129</b>	<b>20,194</b>	<b>20,251</b>	<b>20,558</b>	<b>21,989</b>	<b>23,317</b>	<b>24,746</b>	<b>5.1</b>
<i>Annual change</i>	<i>7.1%</i>		<i>5.9%</i>	<i>1.5%</i>	<i>7.0%</i>	<i>6.0%</i>	<i>6.1%</i>	





► Example of the NSW Waste & Environment Levy

Table 1 illustrates historical, current & predicted landfill levy rates in Victoria (levies in \$ per tonne) as advised on their website.

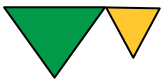
Municipal and industrial waste				
Year	Rural		Metro and provincial	
	Municipal	Industrial	Municipal	Industrial
2001-2	2	2	4	4
2002-3	2	3	4	5
2003-4	3	5	5	7
2004-5	4	7	6	9
2005-6	5	9	7	11
2006-7	6	11	8	13
2007-8	7	13	9	15
2008-9	7	13	9	15
2009-10	7	13	9	15
2010-11	15	25	30	30
2011-12	22	38.50	44	44
2012-13	24.20	42.40	48.40	48.40
2013-14	26.60	46.60	53.20	53.20
2014-15	29.30	51.30	58.50	58.50

All landfill levy monies are paid into the Environment Protection Fund and the monies distributed in accordance with the [Environment Protection \(Distribution of Landfill Levy\) Regulations 2010](#).

Table 2 illustrates the NSW Levy rates, as per a submission prepared by the LGSA.

Year	Sydney Metropolitan Area (SMA) Rate (\$/tonne)	Extended Regulated Area (ERA) (Hunter, Illawarra, Central Coast) Rate (\$/tonne)	Regional Regulated Area (RRA) Adds Wollondilly, Blue Mountains and Northern NSW Councils
1/1/93	4.20	Nil	Nil
1995/96	7.20	Nil	Nil
1996/97	10.00	4.00	Nil
1998/99	17.00	8.00	Nil
2002/03	18.20	9.60	Nil
2003-04	19.80	11.40	Nil
2004-5	21.20	13.20	Nil
2005-6	22.70	15.00	Nil
2006-7	30.40	23.10	Nil
2007-8	38.60	31.60	Nil
2008-9	46.70	40.00	Nil
2009-10	58.80	52.40	10.00
2010-2011	70.30	65.30	20.40
2011-2012	82.20	78.60	31.10
2012-2013	95.20	93.00	42.5
2013-2014	108.60	108.60	54.20
2014-2015	122.40	122.40	66.30
2015-2016	138.70	136.70	78.80
2016 onwards	Annual CPI	Annual CPI	Annual CPI

Levies are between 11% and 25% hypothecated to environmental programs.



A cursory glance at this one example would suggest that NSW waste levy rates are NOT competitive with those in Victoria and becoming less so. The Waste & Environment Levy impacts on:

- ▶ The costs of manufactured goods and products, passed on to consumers
- ▶ The business overheads of SMEs, particularly in regional areas where access to reduction programs is limited
- ▶ The costs of construction of infrastructure
- ▶ Housing affordability, as construction and demolition prices are factored in to new builds and renovations. It is estimated that they add approx \$10,000 to a new home and considerably more to a renovation, particularly including asbestos disposal (to which the levy applies also)
- ▶ Rising housing rental costs, as the levy is passed on by owners
- ▶ Allow other States such as Victoria to realise a growing competitive advantage

Councils in a regional area such as the SCG region have higher transport costs, much higher collection costs (because of dispersed villages and towns) and considerable numbers of visitors and fixed-income residents. These factors impact on seasonal rates of disposal and the ability of councils to recoup costs, thereby creating a degree of non-competitiveness with metropolitan areas and an increased cost of living and cost of doing business imposed on full-rate paying residents and businesses. Regional areas can ill afford these impediments to economic growth.

Furthermore, the NSW Levy is not fully hypothecated as in Victoria. Funds or incentives which could be used to offer special assistance to SMEs to reduce their waste and increase their competitiveness are not being made available for that purpose, particularly in regional areas where such assistance is most required.

## 2. Previous initiatives in the Illawarra

Between financial years 1999-2000 and 2010-2011, just over \$19 million was provided by the NSW Government to 170 companies or organisations in the Illawarra. According to the NSW Department of Trade and Investment, Regional Infrastructure and Services (DTIRIS), 4,292 jobs were created over the 12-year period, through the ILAF: 63% of assistance was for expansion; 25% for start-up; and 12% for relocation.

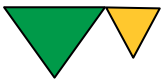
*Source: NSW Parliamentary Library Research Service - e-brief – The Illawarra: An Economic Profile. Section, 3.3: Government Assistance for the Illawarra since the 1990s.*

## 3. Incentives offered in other States

### ▶ Queensland

#### ▶ Investment Attraction Services and Support

If you are an Australian or international company looking to relocate, expand or develop your business in Queensland, the Queensland Investment Attraction team can make the decision and relocation process as simple as possible. The Queensland Investment Attraction team is part of Trade and Investment Queensland - its investment and export promotion agency. Bringing your business to Queensland is made simpler and easier by contacting the



Investment Attraction team. As a single point of contact to government the Queensland Investment Attraction team can:

- give information on business costs, skills availability and other business investment opportunities in Queensland
- organise site visits
- make introductions with local companies and service providers, such as education and training organisations, and raw materials suppliers
- liaise with other government agencies to provide assistance
- provide financial incentives to operate in Queensland (if eligible)

▶ **Food Innovation and Productivity Incentives (FIPI)**

Food businesses can be eligible for a Food Innovation and Productivity Incentive (FIPI) from the Queensland Government. Under the program, dollar-for-dollar grants of \$25,000 to \$100,000 (excluding GST) are available to Queensland food businesses, organisations, cooperatives and associations with innovative projects.

FIPI is seeking projects that will deliver the greatest economic benefit to businesses and to Queensland. Preference is given to projects that embrace new processes and technologies, increase opportunities for collaboration and embed innovative practices in individual businesses or across the industry sector. Examples of projects eligible for FIPI include:

- design and implementation of new technologies for production, processing or distribution practices
- innovative redesign of existing production or processing lines to improve efficiencies and productivity

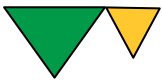
If a project is found to have exceptional merit, funding over \$100,000 may also be considered.

▶ **Business and Industry Transformation Incentives (BITI)**

Businesses can be eligible for one of the Queensland Government's dollar-for-dollar fund-matching grants, known as Business and Industry Transformation Incentives (BITI). These grants are for businesses developing innovative products and processes that will transform and grow their industry in Queensland. Incentives of \$30,000 to \$250,000 (excluding GST) are available for approved projects and are provided for up to 50% of the total cost of eligible activities. BITI can effectively double a business' financial investment. Preference is given to projects that advance key sectors and related supply chains, but funding is also offered to projects from many other sectors.

▶ **Victoria**

Regional Development Victoria supports business in developing and facilitating investment, creating jobs, and increasing the number of innovative enterprises in regional Victoria. Over the coming decades, regional economies will diversify even further, driven largely by global influences and conditions, generating new business and investment opportunities across regional Victoria.



### ► Grow Your Business - Business Development Plan

The objective of the Grow Your Business - Business Development Plan is to provide a business with an opportunity to undertake a comprehensive strategic plan for future growth opportunities. Eligible individual businesses can apply for a grant of 50 percent of total project cost up to a maximum of \$7500. The Business Development Plan will assist organisations to pinpoint where they want to go and how they are going to get there. This allows the business to:

- identify and develop processes that will assist in meeting their overall objectives
- identify further opportunities and put together a comprehensive plan for the future

The Business Development Plan can be used by businesses wanting to develop their overall business strategy, or specific areas such as, but not limited to:

- production/process
- finance
- environmental strategies
- export and marketing
- e-Business development
- supply chain
- human resources and training strategies
- business mentoring

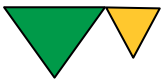
### ► Clothing and Household Textile Building Innovative Capability Scheme (BIC scheme)

The Clothing and Household Textile Building Innovative Capability Scheme is aimed at fostering the development of a sustainable and internationally competitive clothing and household textile manufacturing and design industry in Australia, by providing incentives to promote innovation and associated investment. The Clothing and Household Textile (Building Innovative Capability) scheme ("BIC scheme") replaces the TCF Post-2005 (SIP) scheme from the 2010/2011 program year. The Scheme provides grants relating to eligible expenditure that is directly attributable to research and development activities.

### ► Digital Futures Fund

The Digital Futures Fund promotes the development and diffusion of new ICT capabilities to support Victoria's competitive advantage through the productive use of ICT. The fund supports collaborative projects that demonstrate cutting edge applications of ICT and bring productivity benefits to Victorian businesses. An important objective of the fund will be to promote and disseminate project learnings to increase diffusion of technology across the economy. Through an open, competitive and merit-based process, the Digital Futures Fund provides financial support to collaborative projects that:

- support the development of new ICT-enabled solutions, products, services and business models
- assist businesses to use ICT to improve their productivity, drive growth and improve competitiveness
- encourage ICT companies, researchers and end users to work together to develop ICT-enabled solutions to address key problems and challenges



The Digital Futures Fund has a two stage competitive selection process:

- Stage 1: Applicants submit a short Expression of Interest (Eoi) outlining essential parameters of their project idea. Shortlisted applicants will be invited to produce a detailed business plan for their project.
- Stage 2: Review of Business Plans. Successful applicants will receive funding to implement their project idea, evaluate, report and share learnings and outcomes.

Project funding of between \$50,000 and \$500,000 (ex GST) is available.

#### ▶ South Australia

##### ▶ Programs and Funding

The Department for Manufacturing, Innovation, Trade, Resources and Energy (DMITRE) is committed to assisting South Australian business reach their full potential. DMITRE offers a range of funding programs to encourage business growth and industry development. These programs are aimed at innovative South Australian entrepreneurs, small to medium enterprises and larger organisations wanting to grow their business, diversify local industry and prepare for export. Programs vary in scope and emphasis and have distinct eligibility criteria.

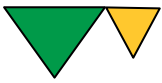
Examples of these are:

##### ▶ Riverland Sustainable Futures Fund

The Riverland Sustainable Futures Fund (RSFF) provides financial support to projects that are a priority for community and economic development with-in the Riverland Region of South Australia. RSFF is a \$20m fund, available over 4 years and is accessible by organisations and businesses to fund projects that "improve infrastructure, support industry attraction and help grow existing businesses". For the purpose of this fund, the Riverland is defined as the region which is contained within the Local Government Areas of the Berri Barmera Council, the District Council of Loxton Waikerie and Renmark Paringa Council. Grants are available for up to 50% of eligible project costs. Applicants must be able to demonstrate the value of the project to the State and/or the Riverland region, and how it either diversifies the economy of the region or builds on the region's competitive strengths.

##### ▶ Enterprise Zone Fund

The Enterprise Zone Fund - Upper Spencer Gulf and Outback (EZFUSG&O) offers financial support to projects that are a priority for economic and community development within the Upper Spencer Gulf and Outback regions. EZFUSG&O is a \$4m grant Fund, available over 4 years and is accessible by organisations for projects that make a major impact in the Upper Spencer Gulf and Outback by changing competitive advantages in its favour. Grants are available for up to 50% of eligible project costs. Applicants must be able to demonstrate the value of the project to the State and/or the Upper Spencer Gulf and Outback region.



#### ► Cleantech Partnering Program

The Cleantech Partnering Program is a \$2.15 million grant program to help small and medium enterprises take new cleantech products, processes and services from conception and early development stage through to market. The program will be delivered over three years from 2010-11.

The following grants are available:

- CleverGreen Innovation Grant - up to \$50,000 for proof-of-concept and commercial viability testing
- CleverGreen Commercialisation Grant - up to \$100,000 on a matched funding basis for commercialisation activities

#### ► Eco-Innovation Program

The \$3 million Eco-Innovation Program helps companies develop innovative solutions that promote resource efficiency and re-use to facilitate the 'greening' of the South Australia's manufacturing industry. The program will be delivered over three years from 2010-11.

The three main elements of the Program include:

- Bringing manufacturing and other businesses together to identify opportunities to collaborate on resource efficiency and waste recovery projects as well as new business opportunities
- Establishing a source of technical advice and an industry resource base to assist firms to improve resource efficiency and re-use
- Funding for innovative infrastructure and technology solutions that demonstrate best-practice, collaborative resource efficiency and waste recovery practices in the manufacturing industry

*References: Queensland Victoria and South Australia State Government websites.*

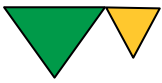
## 4. Overseas Examples of SEZs

Special Economic Zones are widely used overseas. The World Bank estimates that there are approximately 3,000 SEZ's currently operating. They offer lower tax rates. For example: personal income tax (rebates), payroll tax (abolish), stamp duty (abolish), fringe benefits tax (abolish), tax on fuel (abolish or rebate), state based royalties (made unclear by the MRRT), regulatory reductions for businesses operating within the Zones and foreign visitor temporary-worker programs.

China's Special Economic Zones are the source of its industrial growth: Shenzhen, Hainan, Zhuhai, and other ports. Singapore and Hong Kong are free ports. Urban development zones operate in the UK and USA. Honduras is establishing "charter cities". Dubai and parts of the Middle East are SEZs.

#### ► Example – United Kingdom

Budget 2011-2012 made provisions for 21 Special Enterprise Zones. 11 Zones were designated by government and the remaining 10 open for tender, designed to be implemented by local government and recognising that



“Securing economic growth requires local business, the public sector, and communities to be able to act decisively to increase prosperity.”

▶ **Simplified planning rules**

Local development orders allow development to be undertaken with planning permission needing to be obtained from local authorities. The absence of compliance costs and time delays are estimated to save businesses months of delays.

▶ **Tax concessions**

Business rates discount worth up to £275,000 per business over a five year period. Local councils in total control of the business rate levied within the zone.

▶ **Emphasis on under-utilized land and population**

For further discussion and information on the overseas experience please see:

[Attachment 1: Special Economic Zones – An International Overview.](#)

[Attachment 2: Special Economic Zones - Clustering for competitive advantage.](#)

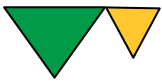
## **5. Planning for investment**

Any Special Economic Zone needs firstly to have a planning process to “facilitate investment”. Currently the NSW planning scheme, as do most planning schemes, at best “controls development”

Investors are visionary and innovative people who think outside the box and seek to lead an economy rather than just participate in it. The hierarchy to enable investment and subsequent development needs to come from high up in the planning process. Any regional planning instrument needs to deliver a HOW component to support the outcomes which the plan strives to achieve.

Based on research into the industry sectors, but not limited to those researched, a regional plan should allow the planning requirements to be adjusted at a state or regional level to facilitate investment. A Regional Investment Group (a multi disciplinary team) would work with the investor, formulate the parameters for such an investment and have these appended to the Regional plan (a 6-12 month process) in much the same way that is amended by a SEPP this would result in a REPP which could apply to a sub-region, a region or multiple regions. The assessment would include investigations into the various impacts – economic, social, and environmental; but have the research material at the front end thus transferring CONFIDENCE for RISK as a region/investor moves through the process.

The above experience is growing in stature throughout the world, as jurisdictions realise that the regulatory planning approach fails to deliver innovation and vision in its broadest context as it applies to a Region.



## **6. SCG Region example - Wingecarribee development of an Industrial Enterprise Zone**

The potential need for a significant industrial enterprise zone was first identified by Wingecarribee Shire Council more than two decades ago. The Moss Vale Enterprise Zone was acknowledged as a suitable precinct for future industrial development, and consequently included in the 1989 Local Environment Plan.

Council further resolved to rezone additional lands north of Moss Vale from rural to industrial as part of its principal Local Environmental Plan (LEP 2006) to facilitate the future industrial development of the Moss Vale Enterprise Zone. The decision was underpinned by a Feasibility Study for Wingecarribee Enterprise Zone, undertaken by Parsons Brinkerhoff and Hill PDA on behalf of Council in May 2006. This confirmed the potential of the site for light and general industrial development, including freight and transport logistics operations.

As noted in the aforementioned study, the Wingecarribee Shire is located 90 minutes from Australia's largest market in Sydney. This location is a competitive advantage for the Shire compared to other regional industrial areas. Major road and rail links such as the Hume Highway and Southern Rail Link connect the Shire's major commercial and industrial centres providing added advantages. This infrastructure ensures that the Shire is well placed to attract business and industry that link to national markets. The 630 ha zone is ideally positioned between Sydney, Canberra and Melbourne markets.

The Shire also benefits from its proximity to the coastal centres of Wollongong and the Shoalhaven.

The 2006 Feasibility Study considered possible employment uses that could be accommodated in the Enterprise Zone. The development concept promoted for the area proposed distinct clusters or precincts of employment development. The potential employment uses identified included light industrial, business park commercial and industrial development, and some larger-scale general and heavy industry such as freight storage and distribution operations associated with existing rail infrastructure and a possible intermodal freight terminal. This was reconfirmed in the Wingecarribee Shire LEP 2010.

The transformation of industry as a result of lean technologies and innovative business practices is likely to impact on the nature of business and industry development within the zone. Tertiary institutions, research and development, and greener industries are forecast.

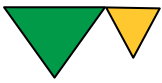
## **7. SCG Region - Industry example - Internetrix SEZ experiences in China**

Internetrix describes their experience in their own words below.

"Internetrix is currently leveraging the benefits of a SEZ in Xiamen, China where we opened our first export office in 2011. The benefits offered through the Xiamen Torch Hi Tech Industrial Development Zone have enabled Internetrix to launch our current 5 year plan in China with confidence. 2012 is year two of our current China plan and without the SEZ we wouldn't have invested to the level we have.

With the University, Port Kembla, closeness to Sydney, the NBN infrastructure already in Kiama and soon to be in more of the Illawarra, and the structural challenges currently facing the traditional local economy, this region is perfectly positioned to be transformed by a SEZ.





Internetrix has been operating in China since 2007. From 2007 to 2010 our representation was in Beijing through Australian expats. In 2011 we ditched that relationship and opened our first export office with our own staff in Xiamen, directly opposite Taiwan and half way between Hong Kong and Shanghai. Leo Zhuang who had worked with us here in Wollongong for 3 years after completing his Masters of Computer Science at UOW returned to Xiamen which is his home city. Xiamen is one of just five Chinese Special Economic Zones.

Our experience in the last 12 months dealing with the Chinese state and federal governments in Xiamen's Special Economic Zone has been considerably easier and more prosperous than the previous 3 years operating from Beijing. Incentives we have received include:

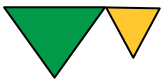
1) 100% rent free in Year one of our lease at the Xiamen Technology Park incubator, Year two will be 50% and year 3 will be 80%. **Action for Wollongong:** Get a Technology incubator park built at IC which is rent free for qualifying businesses in Year 1.

2) Agency for business registration: We have simply dealt with one agency that has completed all the legal and banking documentation processes at no cost. **Action for Wollongong:** Have a one stop shop where you get all ABN, business registration processes sorted out for start up companies, with briefings on the opportunities available through local, state and federal government funding pools.

3) Access to seed funding: As a returning scholar Leo has a wide range of funding that he is accessible for: **Action for Wollongong:** Create an incentive scheme that attracts Alumni back from Sydney, Canberra and around the world to launch their businesses here.

The Xiamen Incubator Technology Park was opened in 1999 and is 25 square kilometres in size and provides incentives for a lot of industries. I have been there twice in the last 14 months and it is difficult to comprehend. Here is a photo from their website: <http://www.xmtorch.gov.cn/>





The other talking point I have is that as a recognised Chinese SEZ, both the PRC and the Provincial Fujian State governments are investing disproportionately more on infrastructure in Xiamen than other cities / regions in the province / in China. Xiamen is actually an island like Hong Kong yet they are extending the bullet train network to down town which connects to Shanghai / Guangzhou, and are building 8 lane German style autobahns in and out of the city to ensure world class infrastructure links for rail, and road. Needless to say the Airport is also excellent.

They also use its SEZ status to trial other policies.

- 1) Xiamen has a Carbon Tax, and all high polluters are being forced to move elsewhere.
- 2) The city has a no-horn policy so the traffic moves quickly and quietly.

Relevant links for further reading on this case study:

[http://en.wikipedia.org/wiki/Special\\_Economic\\_Zones\\_of\\_the\\_People%27s\\_Republic\\_of\\_China](http://en.wikipedia.org/wiki/Special_Economic_Zones_of_the_People%27s_Republic_of_China)

<http://en.wikipedia.org/wiki/Xiamen> -> Industrial Zones section

<http://www.xmtorch.gov.cn/>

[www.internetix.cn](http://www.internetix.cn)

Daniel Rowan, Internetix.

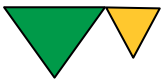
## **8. The NBN Rollout Experience**

As of the 25<sup>th</sup> May 2011 the first stage of the NBN Rollout to the Kiama Downs and Minnamurra areas were completed.

As well as facilitating the rollout from an engineering perspective, Kiama Council has also established local, regional and national partnerships to further the NBN proposals. Council has also taken a leading role in engaging local businesses and the community to maximise the potential of the NBN in our region.

Already Kiama has seen some innovative achievements particularly in small businesses that are now able to participate in the global marketplace. Utilising online opportunities, they have become more competitive and are doing business much more efficiently, capitalising on faster internet speeds and greater download capacity.

Council is working collaboratively with the University of Wollongong and the SCG network of business and community organisations to ensure that the lessons learnt in Kiama can be easily transferred to the broader region, and this will be demonstrated at the NBN Futures Expo being held in Kiama in March 2012.



## 9. Geographic boundaries for SEZs

There would appear to be at least two types of “regional boundaries” as they apply to Special Economic Zones.

- ▶ With regard to incentives and/or tax concessions, within NSW there appears to be a hierarchy of 4 levels of community:
  - ▶ Metropolitan Sydney – characterised by urban development and constrained land for employment and other purposes
  - ▶ Outer Metropolitan – characterised by expanding urban sprawl with logistics and access to transport corridors critical for success (Central Coast, Western Sydney, & South Western Sydney)
  - ▶ Regional communities – characterised by growing populations, developing employment precincts, in-migration from surrounding regions and metro areas (generally > 20,000)
  - ▶ Rural communities – characterised by agriculturally based activities and service communities (<10,000)

Incentives based on Regional distribution of economic growth could see a scale of assistance as follows:

- ▶ Metropolitan Sydney - 0%
- ▶ Outer Metro - 50%
- ▶ Regional - 100%
- ▶ Rural - 150%

The second type that could be devised would provide specific incentives, determined by research and regional commitment and applicability. Additional loadings could apply for special projects or strategies – Example:

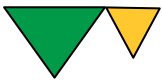
- ▶ +25% - for agricultural processing in zones 3 or 4;
- ▶ +10% - for designated “defence centres”;

## 10. Regional relocation assistance

The current scheme is biased towards people entering retirement and relocating to the coast/country. To satisfy a growing need for younger professionals and technicians in regional areas, the scheme should be opened up to allow, for couples with an age below 40 for example, purchasing into regional areas (zones 3 & 4 above). This encourages critical skills and entrepreneurship to grow in non-metropolitan areas that are facing, and will continue to face, skill shortages, as less training is able to be undertaken in regional areas because of factors such as critical numbers being unavailable for training.

## 11. Cultural & environmental amenity of the SCG region

Population growth in non-metropolitan coastal areas has been primarily driven by the ‘sea change’ phenomenon. This term describes the process of people from larger metropolitan regions cities relocating to regional areas on the coast. Since the 1970s retirees have been the driving force of population growth in non-metropolitan sea



change localities. These people have been driven by the benefits of trading down from high-priced city houses and the attractions of a low-key lifestyle in a high amenity environment (Murphy and Zehner 1998). The sea change phenomenon is arguably stronger today as the 'baby boomer' cohort advance towards retirement.

In recent times, evidence shows more and more young families and young professionals joining into the 'sea change' phenomena in search for a better lifestyle.

Some inland regional areas have also experienced population growth as a result of the same process. This is often referred to as 'tree change'. The tree change phenomenon has not been as widespread as sea change. This has been due partly to higher land values on the coast forcing some prospective 'sea-changers' to consider less expensive inland locations, and partly due to the desire for people seeking a rural lifestyle.

There is also a growing recognition of lifestyle and liveability factors associated with attracting knowledge workers. Knowledge workers place a premium on these factors including the recreation, entertainment, community and cultural infrastructure. They may make lifestyle choices first and income generating choices second. For many, their chosen occupation does not tie them down to any one particular area. They have the choice of working for different (often competing) organisations located in different areas to one another, they can choose to live in one place and work in another or they might choose to live and work in the one location, often working for part or all of the time out of the home office.

Examples of local environmental amenities which local councils take responsibility for include:

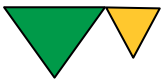
- ▶ improved areas of open space (e.g. parks)
- ▶ restoration of derelict properties
- ▶ creation of outdoor recreation facilities (e.g. playgrounds)
- ▶ improved street cleanliness
- ▶ improved public areas (e.g. town squares and pedestrian-only zones)
- ▶ the provision of paths dedicated to cycling and walking

It is essential that these liveability and amenity factors be taken into account in the creation of Special Economic Zones in NSW, as otherwise a great deal of effort may expended on areas with no real "people appeal". The following provides an overview of the amenity of the seven areas that make up the SCG region.

## ▶ The South Coast

### ▶ **Bega Valley Shire**

Is located at the south-eastern extremity of the SCG region approximately half way between Sydney and Melbourne. The 106-kilometre section of coastline forms the beautiful Sapphire Coast. Inland, higher peaks of the Great Dividing Range give way to rolling hills, and numerous rivers and streams. Undoubtedly it is the natural environment that attracts residents and visitors to the area. The Shire is predominantly rural, with many townships and villages. Land is used predominantly for conservation and timber production. The next biggest land use is



agriculture, particularly dairy farming, with fishing, oyster harvesting, tourism and retail also being important industries. The Shire's population has grown steadily over the past few decades, particularly in the towns and villages.

The Sapphire Coast's unique coastline offers deserted beaches, tranquil rainforests, serene rivers, lakes, and picturesque mountain backdrops. The region offer natural beauty, abundant wildlife, cultural diversity, and great food and wine.

### ▶ **Eurobodalla**

On the South Coast of New South Wales is also an enviable location with plenty to offer. There are natural environments, beaches with pristine waters, an abundance of spectacular scenery and a mild climate. The main centres range from Batemans Bay, which has a population of around 16,000, to the craft villages of Central Tilba and Mogo. Eurobodalla has an estimated population of 37,000. The region has a variety of businesses, quality shops, cafes, restaurants and clubs. Towns such as Batemans Bay, Moruya and Narooma have industrial areas set aside for businesses. While tourism is the main industry in the Eurobodalla, there are many other work opportunities such as manufacturing, retail, service industries, hospitality and much more.

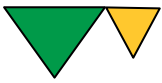
Eurobodalla benefits from a highly developed infrastructure, including roads and telecommunications, a good transport system to the major centres of Sydney, Melbourne and Canberra, a regional airport, and significant established industries. A diversifying market mix means there are opportunities to establish new business activities around Eurobodalla's uniqueness, developing small business enterprises such as manufacturing, creating goods for a niche market, or expanding upon the existing businesses and services.

### ▶ **The Illawarra Region**

The Illawarra region is conveniently located 1 hour drive south of Sydney and offers the best of everything - dramatic landscapes, pristine beaches, scenic drives and towns full of character. These are just the start of what the region has to offer. The growing population and close proximity to Sydney, Wollongong and Canberra gives businesses access to markets of 6 million people.

### ▶ **Wollongong**

Is located 80km south of Sydney on a narrow coastal strip bordered by the Royal National Park to the north, Lake Illawarra to the south, the Tasman Sea to the east and the Illawarra Escarpment to the west. Key economic sectors include manufacturing, education, technology research & development, coal mining, retail services, tourism, port activities, and health and community services. With a proud heritage in steel making and coal mining, the "City of Innovation" is now emerging as an important knowledge services centre, international trade hub and leading University City. Wollongong City Council is serious about attracting new business to Wollongong and assisting existing businesses to grow.



Council works in collaboration with a range of government and non-government agencies and private entities to stimulate economic and cultural activity within Wollongong, attract tourism dollars and improve the city's liveability and its responsibilities as the regional centre.

### ▶ **Shellharbour**

With its numerous pristine beaches, lack of high-rise and crowds, glorious restaurants and buzzing cafes, there is plenty to do, or space to do nothing at all. Many young families are now calling the area home, with new well-serviced housing developments, a marina proposal and a regional airport.

Just over an hour's easy drive south of Sydney, and within three hours drive from Canberra. Shellharbour is framed between the sparkling waters of the Tasman Sea and the magnificent Illawarra Escarpment, with Lake Illawarra to the north and the Minnamurra River to the south.

### ▶ **Kiama**

The Kiama experience starts with pristine uncrowded beaches, rolling green pastures, handmade dry stone walls, heritage architecture and spectacular natural scenery. Relaxed, alfresco style is available at the numerous cafes, restaurants or wineries. Nature can be experienced at its best at the Minnamurra Rainforest, The Illawarra Fly Treetop Walk or whilst viewing the two famous Blowholes. The area has long represented a lifestyle choice, often for those who have "day-tripped" in the past; and this trend is being heightened by those choosing to locate in the area since the NBN rollout.

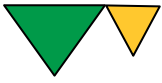
### ▶ **The Shoalhaven**

Is one of the closest strings of coastal villages to Sydney and contains the regional centres of Nowra and Ulladulla. Over the next few years, the Shoalhaven will offer incredible business opportunities. The area has a population over 100,000. Here country values meets city sophistication; residents can enjoy a great cup of coffee, a fine dining or winery experience, see a play, concert or sporting match, send kids to good schools, grow businesses with quality employees and business networks - and still enjoy a community where people each other.

Generally the cost of doing business is lower in the Shoalhaven, there is a skilled pool of available labour, which live within easy commuting distance and the Shoalhaven has the largest amount of affordable industrial land available south of Sydney. Not only is the Shoalhaven a great place to do business it has an excellent lifestyle in which to live. The Shoalhaven remains unspoilt, with pristine beaches, mountains, rivers, lakes and coastal plains. The Shoalhaven's reputation for spectacular scenery has made it NSW's premier regional tourist destination attracting over 1 million tourists each year

### ▶ **Wingecarribee Shire**

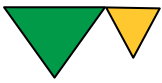
This area is known as the Southern Highlands of New South Wales. Much of the Shire is located at or above 640 metres above sea level. The main towns are Bowral, Moss Vale, Mittagong and Bundanoon. The pattern of development is one of small towns and villages, separated by a semi-rural landscape and from a planning perspective, Council intends to retain this character of the Shire. The Southern Highlands differs from many of its



regional country counterparts in that the services available are expansive and residents will find almost all of their needs can be catered for locally. The Southern Highlands is a unique area. In fact it is hard to find a region similar anywhere else in Australia.

The cultural and environmental amenities of the Shire offer attractions such as magnificent gardens, antiques, heritage and wondrous natural attractions. The area is also a great place to relax, escape, unwind, and rejuvenate within easy reach of two of Australia's major cities.





## Special Economic Zones – An International Overview

### What is a Special Economic Zone

A Special Economic Zone (SEZ) is an enclave of enterprises operating in a well-defined geographic area where certain economic activities are promoted by a set of policy measures that are not generally applicable to the rest of the country. Some of the key characteristics of successful zones are that they offer immediate access to high quality infrastructure, clearly titled land, facilities, and support services. In addition, streamlined regulatory enforcement, simpler business establishment rules and expedited customs administration.

The idea of an SEZ would no doubt seem foreign to many Australians, as their use here has been almost negligible. Yet throughout the world, many nations currently benefit from the prosperity that the reduced taxes and regulations in SEZs bring.

“From Singapore to Shenzhen, SEZs have helped underpin the rapid export-oriented growth of East Asia. In an effort to replicate these sleepy-fishing-village-turned-thriving-metropolis success stories, many countries in the developing world have created economic zones of their own—and their growth has been dramatic. In 1986 the International Labor Organisation’s SEZ database reported 176 zones in 47 countries; twenty years later, in 2006, there were more than 3,500 zones in 130 countries.

Various policy objectives have motivated the creation—and exponential expansion—of SEZs around the world. Generally, governments have created these zones to attract direct foreign investment, to alleviate large-scale unemployment, to support wider economic reform strategies or to experiment with the application of new policies. The model has been extremely successful in many countries, however, such successes have not been universal or without controversy in the past, nor are they guaranteed in the future. In a post-crisis world with a changing macroeconomic and regulatory environment, new challenges have emerged, and some of the principles underlying traditional economic zones are no longer sustainable.

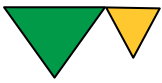
Senior economists argue that it is not the existence of a SEZ regime, a compelling master plan, or even a fully developed infrastructure that will make the difference in attracting investment, creating jobs, and generating economic spillovers to the local economy. Rather, the success, or failure, of SEZs is based upon the relevance of the programs in the specific context and region in which they are introduced, as well as the effectiveness with which they are designed, implemented and managed.

Policy makers need to consider how to make economic zones successful in attracting companies that create jobs, how to ensure that zones are economically sustainable and deliver positive spillovers, and how to foster sustainability from institutional, social, and environmental perspectives as well.”

### Lessons to be learnt

Learning from past lessons will help point policymakers in the right direction going forward, especially as SEZ programs continue to proliferate in the developing world. As new zones are created, flexibility will be needed to





effectively leverage a country's comparative advantage, and more attention will need to be focused on fostering company-level competitiveness, local economic integration, innovation, and social and environmental sustainability. Only by implementing innovative, dynamic, and country-specific approaches will policy makers ensure that SEZs remain effective tools for future economic development

### Only Part of the Answer

There is now a clear understanding that a well-implemented and designed SEZ can bring about many desired benefits for a host-country: increases in employment, Foreign Direct Investment attraction, general economic growth, foreign exchange earnings, international exposure, and the transfer of new technologies and skills. Hence, many countries are developing SEZs with the expectation that they will provide the engines of growth for their economies to achieve industrialisation. However, SEZs are not the panacea for economic ills and to be successful they need high-level political backing and to be supported by a package of generous financial incentives. Governments also need to enact legislation, create a focused administrative infrastructure to govern special economic zones and locate zones in the best possible locations. Overall investment climate (infrastructure, governance) in a country matters in the success of its special economic zones in terms of competitiveness.

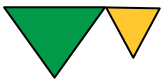
Generally, it is argued that the special economic zone concept is attractive because it is much easier to resolve the problems of infrastructure and governance in a limited geographical area than it is to resolve them countrywide. However, such economic zones cannot be insulated from the broader institutional and economic context of the country and be treated as an economy within the economy. Zones are a part of the economy and require overall improvement in the investment climate to ensure success in the long run. They should not, therefore, be viewed as an alternative to the overall development model. This is perhaps the main reason why SEZs have failed to fulfil the role of engines of industrialisation in most countries on a sustainable basis.

### Incentives

As identified above generous tax breaks and incentive packages on their own will not ensure success for SEZs. They are, however, a critical component and in developing their own incentive package governments should consider the inherent operating costs and conditions strengths and weaknesses of and the requirements of potential investors, take into account the positive economic impact of new investment, and assess the negative impact on short term government revenue.

The range of incentives offered internationally varied considerably, however, the following were most often considered to form the basis of incentive packages:

- ▶ Corporate income tax holiday should commence at profitability and be no less than 5 years
- ▶ Half corporate income tax reduction should be granted after the initial corporate income tax holiday for a period of no less than an additional 5 years
- ▶ Preferential maximum corporate income tax rate for promoted activities/companies/industries of between 10-20%



- ▶ Extra years of tax holidays and lower preferential corporate income tax rate for specifically encouraged industries, e.g. those that generate maximum employment or are located in impoverished or less developed regions
- ▶ Import duties on capital equipment and domestically unavailable raw materials should be exempted
- ▶ Exemption from sales, excise, Value Added (VAT) and other indirect taxes
- ▶ Double/triple depreciation deductions for infrastructure investments
- ▶ Tax credits for R&D expenditures
- ▶ Tax credits for training expenditures
- ▶ Tax credits for provision of employee transportation
- ▶ Extension of incentives to private sector zone developers with longer time periods for incentives due to the lengthier investment time frames necessary for zone development
- ▶ Higher incentive rates and additional incentives for SEZs in the lesser developed areas of the country e.g. double deductions for security, utilities

Other incentives include simplified administrative procedures and heavily subsidised land leases on government owned land.

### **SEZs in New South Wales**

New South Wales is currently seeking to explore the viability of establishing special economic zones through the provision of state tax and financial incentives to promote economic growth, employment and investment in regional and rural New South Wales.

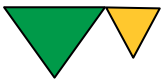
Experience tells us that state tax and financial incentives on their own will not guarantee the success of individual SEZs and New South Wales policymakers need a better understanding of the role and practice of SEZs in order to be better equipped to make effective decisions when planning and implementing SEZ programs. In terms of policy SEZs are only a useful tool when part of an overall economic growth strategy to enhance industry competitiveness and attract interstate or foreign investment.

New South Wales needs a policy that promotes investment, skilled migration, and ultimately leads to sustainable economic growth not just for New South Wales, but provides a contribution to economic growth across Australia as a whole.

#### *References:*

*Blog originally posted on the World Bank Institute Growth and Crisis [website](#).*

*Blog originally posted on the Business Ways [website](#).*



## Special Economic Zones (SEZ) – Clustering for competitive advantage.

### Introduction

Special Economic Zone (SEZ) is a generic term that covers recent variants of the traditional commercial zones or trade zones. The basic concept of a special economic zone includes several specific characteristics: it is a geographically concentrated area, has a single management/authority, targets specific industries/sectors, provides incentives to those target sectors and importantly establishes streamlined procedures to facilitate faster investment and development turnarounds (World Bank 2009).

While SEZs benefit from streamlined processes and higher attention of administrative authorities, the main rationale for the establishment of SEZ is the existence of locally vibrant commercial entities that could with limited support become world-class centres of excellence. SEZs normally operate under more liberal economic laws than those typically prevailing in the rest of the state/country.

SEZs confer two main types of benefits; direct and indirect. Direct economic benefits include employment generation, increased specialisation and higher economic growth rates. Indirect economic benefits include economic multipliers, population growth and increased branding. SEZs are often located in regions that are economically lagging but with the potential to respond to strategic and catalytic initiatives. It is an instrument of regional economic development.

### Types of incentives provided to SEZs

On top of fiscal exemptions and investment grants, SEZs usually offer streamlined business services, such as one-stop shops and simplified bureaucratic procedures. Investments in physical infrastructure and other support services reduce start-up cost, compress development timeframes and are well received for predictability.

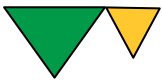
Among the common incentives provided to SEZs include the following:

- ▶ Tax incentives for job creation and industrial investment
- ▶ Tax incentives for new equipment
- ▶ Funds for development and feasibility studies
- ▶ Matching funds for research and feasibility studies
- ▶ State sponsored training and upskilling of workers

It is important to note that this support provided to investors and selected sectors are premised on development projects starting within a short frame of time and restricted to a 5-10 year period.

### Clusters

An important consideration to the development of SEZs is the presence of a group of related firms and supporting industries in a location. Most SEZs have a nucleus to which regional initiatives are intended to support and advance further. It is thus important to note that the foundations of a successful regional economy are a group of clusters not a collection of unrelated firms.



A cluster is defined as a system of interconnection between private and public sector entities. It usually comprises a group of companies, suppliers, service providers, and associated institutions in a particular field, linked by externalities and complementarities (World Bank 2009). A cluster-based approach enables the policy debate and actions to be more strategic and incremental. Understanding the state of clusters within an economy makes it easier to diagnose economic inefficiencies and to specify and prioritise various shortages and impediments to competitiveness and growth (World Bank 2009). It can focus attention on the unique challenges that may be sector-specific and can address institutional and coordination-related issues to leverage additional benefits of positive spillovers. Clusters have been viewed as a mechanism for enabling firms to join their efforts and resources and work with government toward greater regional, national, and international competitiveness.

Often cited in cluster studies include supporting industries, financial providers, educational institutions, and various levels of government. These entities are linked by externalities and complementarities of different types and are usually located near each other. Increasingly, both developed and developing countries use cluster initiatives to promote economic development, a concept supported by the development community at large. Clusters are pillars of economic activities and were cited by large scale studies of economic competitiveness by Michael Porter (1990; 98). Examples of clusters include:

- ▶ Silicon Valley, United State (computers)
- ▶ Detroit, United States (automobile)
- ▶ Penang, Malaysia (Electronic assembly)
- ▶ Cambridge, United Kingdom (Biotechnology)
- ▶ Bangalore, India (Business process outsourcing)

Although clusters come in several different forms and various scholars have tried different typologies, all clusters share one commonality: each comprises a multitude of firms of different sizes belonging to one branch of industry. Literature points to clusters being classified into four categories: Marshallian, hub and spoke, satellite platform, and state anchored. Hub and spoke type of clusters have the highest interdependency and those firms that are small and medium sized.

A cluster-based approach enables the policy debate and actions to be more strategic and incremental. Understanding the state of clusters within an economy makes it easier to diagnose economic inefficiencies and to specify and prioritize various shortages and impediments to competitiveness and growth. It can focus attention on the unique challenges that may be sector-specific and can address institutional and coordination-related issues to leverage additional benefits of positive spillovers.

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