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Q&A- Special economic zones growing in popularity; more data required to properly evaluate efficacy: Thibault Serlet, Katarina Serlet, Adrianople Group



The number of special economic zones worldwide is growing rapidly, but more data is needed for investors to evaluate investment returns and conditions on the ground, researchers from the **Adrianople Group** told the Reuters Global Markets Forum on Monday, November 1.

"Conditions and reasons for creating SEZs vary immensely, there are thousands of factors that have a huge impact," Adrianople Group research director Thibault Serlet said.

"Given that the vast majority of SEZs are located in emerging markets, investors often have a difficult time understanding these conditions on the ground, many governments also

included SEZs as a large part of their post-COVID-19 recovery plans," Katarina Serlet, Director of Strategy at the Adrianople Group, added.

Following are edited excerpts from the conversation:

Q: Could you tell us about the Adrianople Group's focus on special economic zones (SEZ) and your latest project?

Thibault Serlet: Special Economic Zones are cities or business parks which have rules for doing business that are different from the rest of their home countries. They are created to improve the ease of doing business in jurisdictions that have various regulatory and legal issues.

Katarina Serlet: For decades, as SEZs have popularized, both academic and trade groups have attempted to catalogue every SEZ globally. Although dozens of SEZ focused papers include the phrase "because of a lack of data further research would need to be done to understand these trends" none of the attempts to build a full global database of SEZs was successful until now. Our Open Zone Map gives the full picture, and we hope that it will spur a new movement in SEZ research. SEZs account for a very large percentage of the world economy. A 2008 World Bank and ILO (International Labor Organization) study estimated that roughly 50% of all manufactured goods either are made in or pass through SEZs. This figure is an estimate - due to the lack of data, the true scale is unknowable. The Saudi Arabian government is creating NEOM at \$500 billion. China has between 300 and 500 SEZs outside of its borders as part of its \$2 trillion Belt and Road Initiative. These massive figures are only growing.

Q: How have SEZs globally grown over the past few years?

Thibault Serlet: UNCTAD (United Nations Conference on Trade and Development) estimates that a third of new SEZs opened after 2018. Our figures seem to confirm this.

Q: From an investment perspective, what are some of the challenges for either businesses or investors looking at SEZs?

Katarina Serlet: From an investment perspective, SEZs like many large real estate or infrastructure projects may face political, environment, and social challenges. Given that the vast majority of SEZs are located in emerging markets, investors often have a difficult time understanding these conditions on the ground. However, many governments also included SEZs as a large part of their post-COVID-19 recovery plans.

Thibault Serlet: One major issue faced by SEZs is that of land expropriation. Investors are tricked into believing that privately funded SEZs are built on "privatized" land. The land has been privatized in the sense that it formerly belonged to the government. In reality, the land might have had squatters living there informally for decades with farms and houses. When the government sells the land to private investors "privatizing" it, it will send out the army to clear the original residents. This can result in unimaginable human suffering. There are widespread accounts of mass looting, rape, and murder. Worse, the residents who have their land expropriated often find themselves resettled into slums.

No sane investors want any part in this. However, it is very hard for investors to identify projects that have these issues without an in-country presence. The only way to know for sure is to ask all of the little old ladies of the village if anyone lived on the land.

Q: Do we have enough data to get a sense of how economically beneficial an SEZ could be to a country?

Thibault Serlet: No, not yet. Everyone has been looking for that data for the last 30 years. I have had my researchers trudge through dozens of academic studies - almost every single one ends with some variation of the following sentence. "Sadly, the research could not be concluded due to the lack of data." I think that even if the data exists, it would still be very difficult. There are SEZs in 80 countries. Conditions and reasons for creating SEZs vary immensely. There are thousands of factors that have a huge impact - the quantities of data collected would need to be way too large. I think that once we finish phase II of our research, academics will be able to draw conclusions for a specific country/market. But I still think that answering the question on a global scale is metaphysically impossible.

Katarina Serlet: Many SEZs kept manufacturing alive during the pandemic. So, yes new projects slowed for a time, but it was the SEZs in many places either quickly implemented work from home, or intelligent quarantines to allow for PPE (personal protective equipment) and necessary medical goods production -- places like Colombia, Cost Rica, Philippines -- the list goes on. Thinking about other benefits, we can look at the World Bank's 2011 report on SEZs which says that "women constitute more than 50 percent and in some cases 90 percent of employment in SEZs in developing countries."

Q: How do you recommend investors looking at SEZs should evaluate their investment potential?

Katarina Serlet: Many groups create SEZs for the sake of creating a zone. They have no target industry in mind. I have literally seen a zone business plan that combined waste management, tourism, and agro-processing. First and foremost, zones need to start with a specific industry and local context in mind. Then, they need to focus on the non-regulatory factors that affect that industry - labor markets, access to raw materials, shipping costs, power, water, security, etc. Finally, once that has been addressed, they can start to look at regulatory issues.

Thibault Serlet: Big U.S. PE (private equity) firms - Blackstone and Warburg Pincus - have been investing hundreds of millions of dollars into Indian SEZs. All of their investments were into zones that focused on a single narrowly targeted industry.

Q: With a renewed focus on environmental, social and corporate governance (ESG) factors in both business and investing, are governments factoring these more highly into their development of SEZs or trying to use this as a selling point?

Katarina Serlet: Absolutely they are. Like we see with many other industries, if you don't include ESG in some form you are going to be left behind.

Thibault Serlet: Many SEZs pay lip service to it, and many do an excellent job. There is an SEZ in Costa Rica called Greenpark - they are carbon neutral, aiming for carbon negative. It also was built by a very savvy businessman who knew how to avoid the pitfalls many of the zones fall into. Zones range from economic miracles - famous examples like Shenzhen in China or Dubai Internet City, as well as lesser-known miracles in places like Rwanda and Colombia. There are many zones that do horribly in terms of human rights and environmental damage. Many zones are actively hurting the people that they are supposed to help. If I had to guess - the distribution would be a completely even bell-shaped curve. SEZs, when implemented by efficient governments, do well. SEZs, when implemented by corrupt governments, do very poorly.

Q: Before we close, any final thoughts for us?

A: Pay attention to SEZs this decade. New SEZs are being built on an unprecedented scale. The geopolitical implications are huge - with China and US jockeying for control of places like Africa and Latin America. Large investment firms have started to notice. Individual SEZs are pushing the envelope ever further - privatizing government functions such as the very core of the legal system. SEZs have even infiltrated pop culture, becoming a science fiction trope in shows like Star Trek and video games like Cyberpunk 2077. My prediction is that the parallel trends of globalization combined with increased governmental inefficiency will lead to an explosion of SEZs, likes of which have never been seen before.

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