Senada

Symbiotic relationship between FTZ and port: How to manage them for maximum benefit

Presented By: David Wignall

Introduction

- Definitions and descriptions
    - Ports as economic engines
    - What is a Free Trade Zone?
    - What is an Special Economic Zones?
- The symbiosis of Ports, FTZs and SEZs
    - Jebel Ali Free Trade Area
    - Shenzhen Special Economic Zone
- Key success factors for FTZ and SEZ
- Regulatory needs
- Conclusions

Ports as Economic Engines

- Trade
  - The exchange of goods for mutual benefit
  - Involves transportation of those goods
  - Ports fundamental node in transportation
- The Entrépot
  - The spice trade
  - Malacca, Penang, Singapore
- Modern Ports: Origin, Destination, Hub
  - 1997/8 furniture exports from Surabaya
  - Cocoa exports from Sulawesi
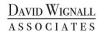
Free Trade Zones (FTZ)

- Direct successor to the Entrépot
  - Allows trade with minimal control
  - No import or export duty
- Main activities:
  - Storage
  - Distribution
  - Repackaging
  - Assembly
- Successful at nodes
- Must have access to a port

Special Economic Zone (SEZ)

- Special legal and economic framework
- Provides incentives to invest
  - May include FTZ
- Needs to seek "comparative advantage"
  - Energy cost
  - Labour cost
  - Raw materials
  - Location at node
- Must have access to a port

The Symbiosis

- To succeed a port must have
  - Location
  - Key traffic
- A port can succeed without FTZ or SEZ
- FTZ or SEZ need excellent transport
  - Cost, reliability and convenience
- An FTZ or SEZ very dependent on ports
- An FTZ or SEZ can make a port succeed
  - Must be very large for this to happen
  - Usually a port needs more than an SEZ/FTZ

The Symbiosis – In context

- For a container terminal to succeed
  - Not have excessive CAPEX/OPEX demand
  - Throughput potential of 500,000 TEU
- Container generation
  - A large clothing factory 6,000 TEU/year
  - A furniture manufacturer 1,500 TEU/year
  - Electronics fab. > 1,000 TEU/year
- To support a terminal an SEZ must have
  - 85 clothing factories; 300,000 employees
  - 300 furniture factories; 400,000 employees

The Symbiosis – In context

- For a tank terminal to succeed
  - Not have excessive CAPEX/OPEX demand
  - Great location
  - No supporting infrastructure
- Other examples

Jebel Ali Free Zone Area

- 1975 decision to build Port
  - Operational 1979
  - Slow growth in traffic
- 1985 decision to develop Free Trade Area
- Both major Government investments
- JAFZA is a true port/FTA symbiosis
  - 15 year gestation period
  - Success driven by location and policies
- Regulatory structure
  - Single autocratic process
  - Little or no control

Shenzhen SEZ

- 1979 policy decision – Deng Xiaoping
- All SEZs located close to ports
- Shenzhen located around Hong Kong
- Comparative economic advantages
  - Labour costs
  - Access to Hong Kong
    - Mobilisation of Capital
    - Port
- No port development until "success"
- Regulation lax, single coordinating body

Keys Success Factors

- Long term Government commitment
- Clear economic advantage
  - Capital, Labour, Skills etc...
  - Tax and duty regime CLEAR and CONSISTENT
  - Appropriate incentive structure
- Must have good access to Port
  - Doesn't need to be "own"
  - Must evolve over time
- Single point of contact for regulation
- Regulation must be clear, consistent...

Advantages of Batam

- Access to cheap Labour
- Potential access to cheap skills
- Access to cheap land
- Location
  – Near Singapore
- Islamic country?
- Potential for access to finance?

Regulation and Batam

- Access to and for Labour
  - No impedance to immigration
- Imports and exports
  - Low or no tax and duty
  - Simple customs and security
- Land...
  - Ownership, leasing
  - Approval
  - Environmental controls
- Access to Singapore

Port Regulation in Batam

- Stage 1: Low cost access to Singapore
  - Roll on roll off
  - Minimal border controls
  - No duty or tax
- Stage 2: Offer sites to developers
  - Clear
  - Consistent
  - Competition

Thank you

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