



## Asian Integration Report 2015: How Can Special Economic Zones Catalyze Economic Development?

Asian Development Bank

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This Asian Development Bank (ADB) report is the 2015 iteration of the regional economic integration that annually employs an economics-based assessment of the eponymous issues. It consists, for this year, of an overview of trade-related issues and a special chapter concerning the role of special economic zones (SEZ) in enhancing economic development. The analysis and writing are the result of the

combined efforts of an extensive team of researchers, working under the guidance of Chief Economist Shang-Jin Wei.

The first part of the report is neatly summarized in an initial highlights section, which provides eight principal points. The first three of these are listed under trade integration, which are: Asia's trade growth has slowed due to slower global value chain (GVC) expansion and growth moderation in the People's Republic of China (PRC); the Trans-Pacific Partnership (TPP) could be a stepping stone toward further global trade liberalization and the PRC's transformation toward more consumption- and services-led growth presents both challenges and opportunities for other economies (p.viii). These points help establish (if that is still necessary) the position of the ADB and its official mode of analysis: aggregate economic growth is good and one of the principal responsibilities of governments and, certainly, the main purpose of economic policy. This occurs without much consideration of the social, political or environmental impacts of those policies as the only slightly moderated support for the TPP makes clear. The focus is on the macroeconomic, state level and the mode of analysis is quantitative, with various models used to investigate the data that can be obtained and conclusions based on those calculations.

The next set of summary points are gathered under the heading of financial integration: the composition of capital flows matters for financial stability; Asia has become an important source of outward FDI [foreign direct investment] and investments from emerging Asian investors are rising, particularly in developing economies (pp.xiii-ix). These observations seem very obviously to be true, although it is not clear that 2015 is distinctive in this regard. The spread of finance capitalism has become ever more intensive and prevalent.

Finally, there are two observations based on the title of people's movement: Asia is the world's largest source of international migrants and remittances and tourism remain important sources of income for many Asian economies (p.ix). These are again indisputable points,

although the former is largely an artifact of the bank's mandate to represent the bulk of the world's population.

The second and somewhat more interesting part of the report is the special chapter on SEZ. These are spaces of land bounded in time and space in which the laws of a country are varied to the benefit of capital (and generally away from labour) so as to promote inward investment, from domestic or international investors. The SEZ concept has become incredibly popular in Asian countries, as well as further afield, largely because of its successful employment in China as a means of controlling market activities within a state without having to compromise on the overall system of governance. In other words, China could enjoy rapid economic development without having to compromise with the desire for democracy or more personal liberties. Countries which had pursued this approach – the Factory Asia paradigm<sup>1</sup> - and had succeeded, such as Korea, Japan and Taiwan, were subsequently required to renegotiate the social contract between state elites and the people. This has been managed with success in Korea, notably, where a mass movement from below persuaded the ruling elites to take a backward step without large-scale violence. Less successful has been Malaysia, where (for perhaps understandable reasons) the state has refrained from giving people more freedom for fear of social instability. In any case, SEZ now spread across the continent. As the chapter demonstrates, the nature of an individual SEZ has changed as countries have become more open and integrated into global chains of production and consumption and this has implications for the success or failure of an individual project. However, while the chapter does a good job in explaining how these changes have taken place, it is not so well-informed about why these changes have occurred. There is little if any mention of the role of the Cold War in structuring economic activities over the course of several

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<sup>1</sup> That is, import-substituting, export-oriented intensive manufacturing with competitiveness based on low labour costs ensured first by moving people from the agricultural sector to the industrial one and, after the Lewisian point of equality of supply and demand for labour has been passed, by repression.

decades and little consideration of the impact of SEZ on social and gender relations and, hence, the changes in society these have in the medium- and long-terms, which in turn affect the nature of the workforce and of demand for goods and services. Nevertheless, the quality of the data gathered, together in particular with the treatment of institutions and the issue of governance makes this a very useful addition to the growing body of knowledge on this subject.

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