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## **Book Review: 'The Political Economy of Special Economic Zones: Concentrating Economic Development' by Lotta Moberg**

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Special economic zones (SEZs) with variations known as free ports, free cities, etc have been created in more than 130 countries over the last half century, and to date some 3,000 plus have been formed. Special economic zones typically have no or low tariffs, low tax rates and light regulations. They range in size from entire cities, like Hong Kong, to single buildings. There have been many successes but even more failures. Lotta Moberg is a very smart international economist, who has studied the

pros and cons of SEZs in detail. She presents a very balanced analysis of what works and what does not – and what lessons are to be learned.



*Lotta Moberg*

In the early 1990s, I chaired an economic transition team in Bulgaria as it attempted to transform itself from a communist to a free market, democratic country. Suggestions were made at the time for the creation of a special economic zone to serve as a model of how a free market economy should work, in the same way that Hong Kong served as a model for China and their many subsequent SEZs. Most Bulgarians at the time were enthusiastic about the creation of a special economic zone, but they could not agree among themselves of where it should be located, with several different regions vying for it. The result was they checkmated each other and nothing was done at the time.

What struck me is the widespread recognition that free trade, free markets, private property protections along with low taxes and regulations were good, hence the support for the concept of a SEZ but not for the whole country as I once suggested out of frustration. Bulgaria now has several limited special economic zones.

In her book, Moberg gives a brief history of SEZs going back to ancient Greece, but then concentrates on modern era SEZs which really started with the rise of export processing zones. These zones were most often fenced off areas, engaged in light manufacturing, and without residential

components. Most were focused on developing export industries. Some zones have evolved into major free ports, such as one in Dubai, which is the ninth largest port in the world. Other zones are as small as single factory zones. Some zones are clear additions to local economies, creating more jobs at higher wages; other zones do not justify their costs, particularly when governments have built the infrastructure and the most productive workers are drawn from the rest of the economy into the zone.

Like all forms of economic organization and structure, SEZs have both costs and benefits. Being a former academic, Moberg is comfortable in the language of cost-benefit analysis even though not all her readers may be. She is careful to cite evidence and provide data to support her arguments. The bottom line is she clearly demonstrates properly designed and managed SEZs can have great benefits, or impose disproportionate costs on an economy. There is also no simple answer about which activities are appropriate for a SEZ or how big it should be. Every case is individual, which helps explain the great disparities in outcomes.

Those who create SEZs need to determine where they should be created, but are plagued by not knowing beforehand which activities are going to be the most viable for the zone, and what are the proper incentives that need to be created for the zone to fulfill its potential. The inherent intellectual conflict is with the idea that central planners know best of how to create a free market center. Moberg is at times a bit cynical about the motivations for creating SEZs which she notes: “when the status quo of protectionism is under threat.” She concludes they are better than the status quo if the alternative is no reform. The book is well balanced between giving concrete and interesting case studies; India, China, the Dominican Republic, Dubai, Saudi Arabia, etc. and relevant economic theories behind the zones.

Again, her conclusions are mixed as to whether the SEZs served as examples of reform for the entire country, as has been largely done in China, or just served as opportunity for the well connected to avoid taxes and regulations in order to increase their own wealth at the expense of the country. Even though a number of SEZs have spurred more general economic reform, there is not much evidence that they have done much to foster general political change. SEZs may help reform in the Arab countries by allowing the use of the British created common law which governs almost all the world’s financial centers, and allowing the full utilization of the skills of women. There are several experiments going on in the world with various types of SEZs at the moment, including the free

cities project in Honduras, where I serve on the best practices board. In sum, Moberg is modestly optimistic about the future of SEZs, but coldly realistic about the past and potential failures.

For those who wish to obtain an overall understanding of the potential and pitfalls of SEZs, as well as understanding of the multiple types and past successes and failures, this relatively thin volume provides the best overall description and analysis produced to date.



***Richard W. Rahn***

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