



Teng Long

# How Special Economic Zones Influence Economic Development in East Asia

## A Comparative Study on the Impact of Zouping National Economic and Technological Development Zone and Daegu-Gyeongbuk Free Economic Zone on the Local Economic Development during the Era of Financialization

### Topic and Research Question

Most countries in the world expect to develop their economies by means of the establishment of one or several SEZs around the countries. By 2015, more than 100 countries had established and operated about 4,300 SEZs, and a growing number of new zones were being under construction (Farole and Akinci 2011, 19; "Not so Special" 2015). However, since many of the SEZs are virtually not successful (Zeng 2011, 7), a study on the impact of SEZs on economic development during the era of financialization is of greatly pragmatic value.

This master thesis examines how special economic zones (SEZs) promote local economic development in a landlocked region with a relatively poor natural resources. A question on how the financial sector influences local economic development in such an area will be answered as well. Both of these two questions attempt to investigate whether and why it is still a realistic idea to transplant a successful SEZ model to a second similar region.

### State of the Art

The role of SEZs in boosting local economic growth is still contentious. Many economists preferred fully liberalizing economy nationwide to granting a set of less strict regulations or preferential policies within a small and finite economic zone (Leong 2013, 565), whereas some scholars and policymakers, such as Thomas Farole (2011, 1-2), pointed out that developing countries could take an economic and political attempt within a SEZ first and promoted the entire nation afterwards.

Besides, an increasing trend in financialization worldwide makes this topic more tangled, and the discussions concerning the relationship among SEZs, economic development and financialization are vacant so far. In terms of financialization, the academia shared at least two common views: first, it was becoming increasingly important to the world economy; second, some of its effects had been greatly detrimental to the globe (Epstein 2007, 5). As a result, this research is highly demanded.

### Methodology and Approach

First, Zouping National Economic and Technological Development Zone (Zouping National ETDZ) and Daegu-Gyeongbuk Free Economic Zone (DGFEZ), are chosen according to these standards: the SEZs should be located in a small or medium size region; the regions of the SEZs was a historically poor agricultural area; the locations in which the SEZs are situated should be easily marginalized; the SEZs are set in a landlocked region. Second, three key terms, *special economic zone*, *economic development* and *financialization*, need to be clearly defined, because different definitions may have distinct frameworks. For example, the term *economic development* includes both economic growth and three ethically defined goals, namely, sustenance, self-esteem and freedom from servitude. Accordingly, the other parts of the framework are "Impact of the SEZs on Economic Growth", "Impact of the SEZs on Local Economic Development" and "Impact of the SEZs on Local Economic Development during the Era of Financialization". Third, the measurements in the second part are extracted from the views in these major economic development theories. However, since financialization had eroded the traditional role of SEZs in promoting local economic development, the measurements in the fourth part are based on the theories and the relevant research on financialization.

### Main Facts

The backgrounds of Zouping National ETDZ and the DGFEZ were highly similar. The role of these two SEZs in attracting investment during a short term was remarkable. These two SEZs could promote GRDP growth, even during the 2008 financial crisis. The economic growth driven by the SEZ significantly re-shaped the economic structure in Zouping, but Daegu and Gyeongsangbuk-do had a relatively smaller change in each economic structure. Besides, during 2000-2013, the HDI gradually grew in both South Korea and China.

Due to the difficulty of financing via banking, many companies in Zouping National ETDZ expected self-financing in the financial markets, so the financial

industry rapidly grew. By contrast, the impact of the DGFEZ on the growth of the financial sector was limited.

Both Zouping National ETDZ and the DGFEZ could increase the individual income per capita. For a short term, in a financial crisis, because of government investment, the personal yearly earnings maintained growing. Likewise, the private consumption of Zouping and the Daegu-Gyeongbuk region was even decently raised at the beginning of the global financial crisis. However, when an economic stagnation or recession endured for a relatively long time, the individual annual income would be decreased.

Zouping National ETDZ propelled the growth of the private consumption in urban area. However, the role of Zouping National ETDZ in promoting private consumption per capita did not fully cover the rural area in Zouping. During the 2008 financial crisis and before the enforcement of the policies against the financial crisis, the growth of the private consumption per capita in the urban and rural areas of Zouping, Daegu and Gyeongsangbuk-do significantly declined. Besides, the ICORs of these three regions tended to increase during 2000-2013.

### Results

The SEZs can continue playing a major role in promoting local economic development in a landlocked region when two prerequisites are met, efficient management and a stable world economy.

A new variable "financialization" alters the pattern of regional economic development. The ways of changes in Zouping National ETDZ and the DGFEZ slightly varied. In Zouping National ETDZ, because the startups and the expansion of large corporations highly demanded financing, the financial sector was able to control the pace of local economic growth to some degree. Remarkably, the financial industry in Zouping was highly fragmented. The supervision over the local financial market was considerably weak. Private lending was glutted with the financial sector in the locality. Due to the profitable rewards, many young labor forces chose to work as private lenders rather than sought work in the factories. The real economy in Zouping was greatly

damaged by private lending. By contrast, South Korea was very cautious of the financial sector after the 1997 Asian financial crisis. Moreover, both Zouping National ETDZ and the DGFEZ expected to reduce the reliance on exports by industrial upgrading driven by the 2008 financial crisis. However, the industrial upgrading was still full of uncertainty in these three regions.

The transplantation of a successful SEZ model to a landlocked area is increasingly impossible. The successful transplantation of a SEZ for traditional industries could have a possibility. But, high-technology industries are more adapted in metropolitan areas, so the SEZs in the rural areas will be de-functioned.

As a consequence, SEZs were the driving force of the local economic development during the times of pre-financialization; nonetheless, during the era of financialization, domestic and global markets led by the financial industry re-shapes the role of SEZs in promoting local economic development, which merely act as a breeding ground for economic development during the era of financialization.

### References

All references can be found in the full version of the MA thesis available at <http://othes.univie.ac.at>.

### About the Author

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