Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation (COMCEC)

COMCEC

Special Economic Zones in the OIC Region: Learning from Experience

COMCEC Coordination Office
October 2017

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For further information please contact:
The COMCEC Coordination Office
Necatibey Caddesi No:110/A
06100 Yücetepe
Ankara/TURKEY
Phone : 90 312 294 57 10
Fax : 90 312 294 57 77
Web: www.comcec.org
E-book: http://ebook@comcec.org
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List of Acronyms

ASEZA	Aqaba Special Economic Zone Authority
ADC	Aqaba Development Corporation
BOT	Built Operate Transfer
CAGR	Compound Annual Growth Rate
E&E	Electrical and Electronics
EPZ	Export Processing Zone
ETDZ	Economic and Technological Development Zone
EZ	Enterprise Zone
FDI	Foreign Direct Investment
FEZ	Free Economic Zones
FIZ	Free Industrial Zone
FTA	Free Trade Agreement
FTZ	Free Trade Zone
FZ	Free Zone
GBS	Global Business Services
GDP	Gross Domestic Product
GST	Goods and Services Tax
HIDZ	High-tech Industrial Development Zone
JTC	Jurong Town Corporation
LMW	Licensed Manufacturing Warehouse
MIDA	Malaysian Investment Development Agency
MOU	Memorandum of Understanding
MNC	Multi-National Company
OIC	Organisation of Islamic Cooperation
PDC	Penang Development Corporation
PPP	Public Private Partnership
PSDC	Penang Skills Development Centre
SEZ	Special Economic Zone
SME	Small-to-Medium Enterprise
SSO	Shared Services and Outsourcing
TME	Tanger Med Engineering
TMSA	Tanger Med Special Agency
TMU	Tanger Med Utilities
TMZs	Tanger Med Zones
WTO	World Trade Organisation

Executive Summary

The objective of this report is to provide a comprehensive reference document to support policy formulation, programme design and implementation of Special Economic Zone (SEZ) projects within OIC member countries. It may also be used to guide member countries in the reforming of existing SEZ projects.

This report serves as a database of experiences, lessons learnt and best practices in the process of considering and deploying SEZs and provides an objective assessment of the effectiveness of SEZs in the delivery of expected and achieved economic benefits, as well as their drawbacks and limitations.

The objective of the study is to achieve the following:

1. To provide a resource document on OIC SEZs;
2. To explore the performance and economic impact of SEZs implementation in the OIC Member States; and
3. To provide policy options and guidelines for establishing successful SEZs.

Defining Special Economic Zones

In broad terms, SEZs can be defined as demarcated geographic areas contained within a country's national boundaries where the rules of business are different from those that prevail in the national territory.

The result of these enhanced conditions is that the zone is provided with a business environment which is intended to be more conducing to value added through private sector investment from a policy perspective and more effective from an administrative perspective than that of the national territory.

Underpinning the development of SEZ programmes there are many multi-faceted reasons for their selection as policy instrument. Broadly however they are typically concerned with achieving a number of economic and policy objectives such as increasing foreign direct investment, facilitating economic diversification and reform and generating employment.

Critical success factors for SEZs include their ability to attract investment and create jobs, their ability to deliver structural transformation and to catalyse economic reforms; and their impact on social and environmental objectives.

Global SEZ Experiences

It was estimated that there were around 3,500 special economic zones worldwide by the mid-2000s. Although many of these are single factory zones, it shows a rapid expansion since the mid-1980s when it was estimated that there were just over 170.

The predominant typology has changed from Traditional EPZs to more mixed special economic zones with multiuse developments incorporating industrial, commercial, residential and even tourism activities. Some are moving to highly specialised developments focusing on high-end services such as ICT and biotech. Another trend is to see the increasing importance of private sector involvement and a move away from purely publically funded schemes.

In countries which initially developed SEZ formats for industrial growth, from the 1950s to the 1970s, the ongoing focus has tended to be on the continuation or closure of existing SEZs in the context of national economic policy reforms. In contrast, a number of countries which implemented SEZs more recently from the 1980s and into the 2000s, have increasingly focused on how to enhance their zones' competitiveness in the context of the thousands of other zones now in operation. One of the most pressing challenges for SEZs globally therefore, and particularly new ones coming on-stream now, is how to assert a unique investment proposition that maximises competitiveness and goes beyond standard format infrastructure provision or increasingly common forms of fiscal incentivisation.

As the number of SEZs increases globally and they are increasingly seen as a policy tool to attract investment it will also become increasingly important for zones and countries to look beyond administrative borders and develop integrated approaches to SEZ development; particularly with regards to legal and regulatory frameworks such as export policies and fiscal incentives.

SEZ Development in OIC Member Countries

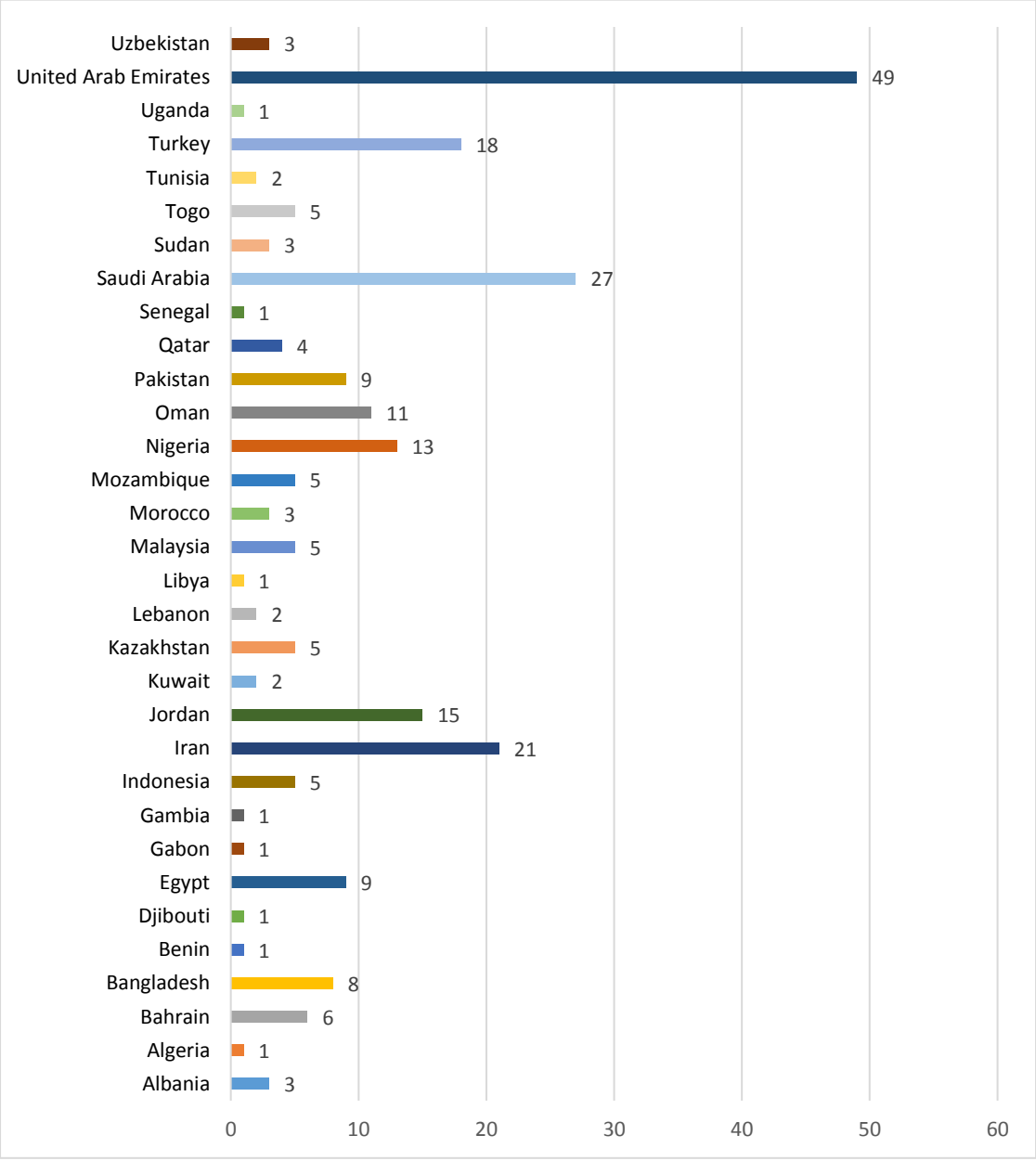
In total it is estimated that there are approximately 242 SEZs operating within 33 OIC Member Countries. SEZ development has been a key focus within the Middle East with the UAE (20%), Saudi Arabia (11%), Iran (9%), Jordan (6%) and Oman (4%) accounting for approximately half of all SEZs within OIC Member Countries.

Comparative analysis indicates that the most common typology recorded within OIC Member Countries are Free Trade Zones (FTZs), following by Export Processing Zones (EPZs), Hybrid EPZs and Special Economic Zones (SEZs). Analysis of these zones show that they cover a very broad range of common sectors similar to those recorded globally within SEZ programmes. Analysis of spatial characteristics found that like many global trends, SEZs within OIC Member Countries were typically located close to both port and airport infrastructure nodes with some of the most successful SEZs incorporating port development either within or adjacent to the zone.

Analysis of employment and enterprise statistics, whilst limited by reliability and availability, indicates that there is a significant range in the density of employment and firms between SEZs within OIC Member Countries. However it is noted that those zones with well-established zone authorities and investment agencies have become very successful at attracting both enterprises

and generating jobs within their respective zones. This is reflected within the key successes of SEZ development in OIC Member Countries which are predominantly found within Asian and Arab OIC regions.

Figure E1 - Total Number of SEZs by OIC Member Country



Source: BuroHappold Analysis 2017

This study has also highlighted the difficulties in regions such as African in SEZ development which has faced significant challenges in generating significant economic impacts due to issues including poor governance and regulatory environment, inefficient zone management

arrangements, unreliable and poor quality infrastructure and some political and social developments; all of which have had detrimental impacts on investment.

Conclusions and Recommendations

Based on the information and data available to the authors, this report has shown that at present there are approximately 33 OIC Member Countries which have established SEZ programmes, with a number more who have aspirations to develop future programmes. Whilst data is not available for all zones, there has been a clear increase in the number of zones established since the start of the millennium with 63% of zones established since 2000 within OIC Member Countries.

Whilst it is acknowledged that there are no 'one-size-fits-all' solutions to SEZ development there are a number of key success factors which have been identified which government, operators and investors could implement in the design, implementation and operation of SEZ programmes within OIC Member Countries. These experiences have informed the following recommendations:

Organizational Success Factors

- SEZ programmes need to be programmed and designed as core components of a national economic strategy;
- An evidence-based approach should be used to demonstrate why SEZs constitute an appropriate form of policy intervention;
- The economic rationale for the development of an SEZ programme also needs to be grounded in an appreciation of the existing factors constraining economic performance;
- It is important to determine the right type of SEZ development model and this should be aligned to the policy objectives. Flexibility in model development is important to present the most attractive value proposition to the market;
- SEZ programmes should be driven by a range of government departments and agencies in order for it to be successful;
- Executive support for an SEZ programme is critical for ensuring that all those in government understand that the programme is an executive priority;
- Formulation of SEZ working groups can be a key tool in ensuring that the full range of issues and opportunities that an SEZ programme generates is captured and to ensure lateral support from relevant stakeholders;
- It should be clearly defined as to how the SEZ programme will be governed and how investors will be attracted and serviced. This may include the establishment of an oversight body;

- Legal and regulatory framework should specifically consider investor requirements;
- Investment promotion agencies or 'one-stop-shops' are effective tools for targeting inward investment in SEZs and to facilitating a significantly more attractive environment for potential investors;
- Fiscal incentives should be focused on the sectors and strategies which are being targeted by the proposed zone programme and should not be used as the main differentiator between competing zones.

Economic Success Factors

- The correct choice of SEZ target industry-sectors should be based on a robust feasibility study to ensure that the comparative advantages of the country, region or site are fully utilised and that the key challenges and risks have been considered;
- When designing SEZ programmes consideration should be given to trade policy, strategic and sectoral focus, zone typology, policies on domestic participation and policies on access to local market to ensure favourable conditions for facilitating backward and forward linkages between the SEZ and domestic economy; and
- There should be a clear vision from the inception of an SEZ programme on which economic impacts are being targeted and the extent of the impacts. These should be monitored on a regular basis to ensure that targets are being met.

Physical / Spatial Success Factors

- Zone should be designed to exploit pre-existing advantages that are the products of concentration, such as the presence of existing infrastructure such as ports or airports which offer international connectivity;
- Site selection should considered early on in developing a national SEZ strategy and should utilise a number of key criteria linked to target industry-sectors and associated investors and tenants;
- The provision of high quality infrastructure is a key comparative advantage when looking to attract FDI;
- Options for governments and zone authorities to work with development partners or to secure PPP arrangements with the private sector to facilitate investment in infrastructure can be successful models of infrastructure financing and operation.

1 Introduction and Background to the Study

1.1 Purpose of this Report

The objective of this report is to provide a comprehensive reference document to support policy formulation, programme design and implementation of Special Economic Zone (SEZ) projects within OIC member countries. It may also be used to guide member countries in the reforming of existing SEZ projects.

This report serves as a database of experiences, lessons learnt and best practices in the process of considering and deploying SEZs and provides an objective assessment of the effectiveness of SEZs in the delivery of expected and achieved economic benefits, as well as their drawbacks and limitations.

The objective of the study is to achieve the following:

- To provide a resource document on OIC SEZs;
- To explore the performance and economic impact of SEZs implementation in the OIC Member Countries;
- To learn from successful zones in non-OIC Member Countries; and
- To provide policy options and guidelines for establishing successful SEZs within OIC Member Countries.

1.2 Report Structure

The structure of this report corresponds to the following key stages set out below:

- **Section 2**: defines SEZs, including an overview of the dominant typologies, governance structures, incentive regimes, infrastructure offerings and the economic and financial objectives which underpin SEZ development;
- **Section 3**: explores the trends, experiences and factors of success and identifies the challenges confronting non-performers across SEZs globally;
- **Section 4**: provides an overview of SEZ development within OIC Countries including desktop analysis of the nature and performance of these SEZs. A process of comparative and competitive benchmarking has been undertaken against a selected series of SEZs;
- **Section 5**: provides a detailed overview of SEZs in four OIC Member Countries and two Non-OIC Countries through case study analysis of their performance and economic impacts; and
- **Section 6**: provides conclusions and recommendations based on the findings of the study analysis with particular focus on policy design and implementation in determining the success and failure of SEZ projects.

2 Special Economic Zone Typologies

2.1 Introduction

This section aims to define what SEZs are, the different typologies which exist, as well as the governance structures, incentives regimes, infrastructure offerings and the economic and financial objectives which drive development of SEZs within different zones both in OIC Member Countries and elsewhere.

This section will outline the broad typologies of SEZs and the broad motivations and objectives behind the deployment of SEZs as a policy tool as well as the various incentive schemes used in SEZ development.

2.2 Definition of SEZs

In broad terms, SEZs can be defined as demarcated geographic areas contained within a country's national boundaries where the rules of business are different from those that prevail in the national territory. These differential rules principally deal with:

- **Investment conditions** – including the provision of infrastructure, serviced land and flexible lease and purchasing options;
- **International trade and customs** - typically access to imported inputs free of tariffs and duties;
- **Taxation** – including the elimination of corporate taxes, VAT, other taxes and labour contributions; and
- **The regulatory environment** – such as more efficient processes for company set up, licensing and operations, often through establishment of a 'one-stop-shop' arrangement.

The result of these enhanced conditions is that the zone is provided with a business environment which is intended to be more conducive to value added through private sector investment from a policy perspective, and more effective from an administrative perspective, than that of the national territory. In this sense SEZs can be characterised by three distinctive attributes:

1. A dedicated regulatory regime;
2. A dedicated physical infrastructure; and
3. A dedicated governance structure.

With regards to the regulatory regime, SEZs typically require a separate legal framework that has to be passed by national government and/or parliament.

In addition to specific legal, regulatory and administrative conditions, SEZs are also defined by their spatial characteristics. Development of SEZs globally shows that zones are typically

developed alongside physical infrastructure such as port and airport infrastructure which connect zones to regional and global markets as well as connect zone producers to inputs and sources. In addition SEZs are typically provided with real estate, roads, electricity, water and telecommunications to support the activities of the enterprises operating within the zones and to create a business environment conducive to inward investment. This provision can be used to differentiate SEZs from the domestic economy in countries where significant challenges exist in providing low-cost and reliable infrastructure.

2.3 Working SEZ Typologies

The World Bank[1] defines SEZs as falling within six broad typologies:

- **Free Trade Zones (FTZs)**: also known as commercial free zones, they are usually fenced in, duty free areas offering warehousing, storage and distribution facilities for trade, trans-shipment and re-export operations;
- **Export Processing Zones (EPZ)**: are typically industrial estates aimed primarily at the production of goods destined for foreign markets;
- **Hybrid EPZs[2]**: are typically sub-divided into a general zone open to all industries and a separate EPZ area reserved for export-orientated, EPZ-registered enterprises;
- **Enterprise Zones**: are intended to revitalise distressed urban or rural areas through the provision of tax incentives and financial grants;
- **Freeports**: typically encompass much larger areas. They accommodate all types of activities, including tourism and retail sales, permit on-site residence, and provide a broader set of incentives and benefits;
- **Single Factory EPZs**: provide incentives to individual enterprises regardless of location; factories do not have to locate within a designated zone to receive incentives and privileges; and
- **Specialised Zones**: such as science/technology parks, petrochemical zones, logistics parks and airport based zones.

The following table provides a broad overview of the physical characteristics, economic objectives, typical activities and example case studies within each identified typology globally.

[1] World Bank (2008), SEZs: Performance, Lessons learned and Implications for Zone Development.

[2] This definition has been included although it is acknowledged that there is currently some debate within the World Bank over the validity of this SEZ type.

Table 2-1 - Special Economic Zone Typologies

	Free Port	Industrial Free Zone / EPZ	Commercial Free Zone	Financial Services Zone	IT / Science Park	Tourism Zone	Special Economic Zone	Enterprise Zone
Physical Characteristics	Entire city or jurisdiction	Enclave or industrial park	Warehouse area, often adjacent to port or airport	Business park-adjacent to city	Business park – near university	Entire jurisdiction	Entire province or municipality	Part of city or entire city
Economic Objectives	Development of trading centre and diversified economic base	Development of export manufacturing / assembly industry	Facilitation of trade and imports	Development of off-shore banking, insurance, securities hub	Development of technology-intensive industry	Integrated tourism development	Deregulation, private sector investment in restricted area	Development of SMEs in depressed areas
Typical Activities	Trade, service, industry, banking etc.	Light industry and manufacturing	Warehousing, packaging, distribution, trans-shipment	Financial services	Data processing, software development, computer graphics	Resorts and other tourism	All types of industry and services	All
Typical Examples	Hong Kong, Singapore, Batam	Ireland, Korea, Malaysia, Dominican Republic, Kenya	Jebel Ali, Colon, Mauritius, Iran	Bahrain, Dubai, Mauritius, Uruguay	India-Bangalore, China – Dalian, Poland-Krakow	Colombia – Baru, Philippines-Cagayan de Oro, Jordan- Dead Sea DZ	China-Hainan and Shenzen, Jordan – Aqaba, Philippines – Subic Bay	US, Europe

Source: BuroHappold 2017

2.4 Organisational Structure

SEZs are also defined by their organisational structure with regards to how and who is involved in their development, operation, regulation and marketing. There are a number of key governance roles which vary between zones, these include:[3]

- **Regulator** – typically a government body with oversight authority. The regulator typically ensures that the regulatory environment is more streamlined and efficient than that found domestically;
- **Developer** – can either be a public or a private body which is responsible for design, planning and managing the development of infrastructure and facilities within the SEZ; and
- **Operator and Service Providers** – again can either be a public, private or quasi-public body responsible for day-to-day management of services to the site investors, tenants and workforce.

The various roles and responsibilities involved in these governance structures as well as their relationship to existing public sector ministries, departments and agencies can often result in institutional complexity. This can lead to ineffective coordination in delivering the outcomes of an SEZ programme. One of the key solutions to this is the creation of a 'One-Stop-Shop' which can help to improve the efficiency of approvals for initial set-up and ongoing operations as well as providing a key link between business and government, reducing excessive bureaucracy. One-Stop-Shops can also play a key role in marketing and attracting investment to an SEZ as well as providing 'aftercare' to tenants to ensure that continuing investment needs and requirements are met.

There can however be political difficulties in establishing effective One-Stop-Shops as it requires some government ministries, agencies or departments to yield powers, particularly with regard to the delegation of decision making and legal powers on matters such as visas, permits and license approvals.

2.5 Ownership of SEZs

Since the establishment of the first modern SEZ in Shannon, Ireland in the 1959, the number of SEZ projects has increased exponentially. In particular there has been an increase in the number of privately developed and operated zones worldwide. A key factor behind the rise of private zones is the realisation that SEZs can be profitably operated on the part of developers and that the burden on public sector resources can be reduced.[1]

[3] Farole, Baissac & Gauthier (2012) Special Economic Zones: A Guidance Framework for Policymaking.

The emergence of public-private partnerships (PPPs) has also become more common place within SEZ development, with a number of different models evolving, including:

- Public sector provision of off-site infrastructure and services (utilities, connections, roads etc.) as an incentive for private sector investment within on-site infrastructure and facilities;
- Public sector assembly of land parcels with secure title and development rights for lease to private sector zone development groups;
- Build-operate transfer (BOT) and build-own-operate approaches to on-site and off-site zone infrastructure and facilities with government guarantees and/or financial support;
- Contracting private management companies for the management of public sector owned zones or lease of public sector owned assets by a private operator; and
- Equity-shifting arrangements whereby a private contract manager of a government-owned zone can exercise a purchase option once pre-defined performance levels have been reached.

The role of the private sector within SEZ development has resulted in a more diversified offer for investors, with zones incorporating a wider range of facilities, services and amenities. It has also been observed that private zone development has resulted in SEZs and Industrial Estates being developed on an integrated basis rather than a stand-alone basis, alongside the provision of business support services and specialized facilities which cater to higher valued added industries and thus subsequently higher rental values.

It has been noted[45] that in some cases private-led zones result in reduced development and operational costs (from the perspective of the host country) and perform better in economic terms, such as increased FDI and job creation. These zones typically offer better facilities and amenities and attract 'higher end' types of activities and as a result have tended to be more profitable and have better social and environmental performance standards than public sector led zones.

2.6 Economic Rationale for Establishing SEZs

Whilst there are many multi-faceted reasons behind the deployed of SEZs, they are typically concerned with achieving one or more of the following economic and policy objectives. These are outlined in further detail in this section. The purpose of this section is to provide a broad overview of the typical economic rationale behind the establishment of SEZ programmes.

[4] OEDC (2009) Towards Best Practice Guidelines for the Development of Economic Zones.

[5] FIAS (2008) Special Economic Zones: Performance, Lessons Learned and Implications for Zone Development.

Further detail on the success of such programmes and their key challenges is set out in Section 3 and Section 4.

2.6.1 Attracting Foreign Direct Investment (FDI)

The vast majority of SEZs are created to achieve greater levels of foreign direct investment within the host country. The creation of SEZs can highlight to foreign investors that a country or state is committed to foreign investment and can incentivise investment. The creation of more effective investment environments with greater transparency and competitiveness can also encourage and enable increased levels of FDI. By providing a variety of incentives, as well as a higher quality physical operating environment, SEZs are utilised to attract investment that might not otherwise consider the country as a possible location for investment. SEZs can also reduce the risks to investment within locations and markets which are considered challenging.

Box 1 - Poland SEZs – FDI Stimulation[6] [7] [8] [9]

Poland established its SEZ programme in 1995, with FDI incentivisation a key aim of the programme. It was recorded that between 1970 and 1985 the average annual FDI inflow to Poland was $US 6.7 billion. Following adoption of the SEZ programme in 1995, the FDI inflows into Poland totalled $US 158.6 billion over the period to 2010. It was recorded that over this period FDI in SEZs was in excess of $US 21.9 billion demonstrating the significant contribution these zones made to FDI inflows following their establishment.

2.6.2 Facilitating Economic Diversification

Economic diversification objectives are often a key driver in SEZ implementation, particularly within Countries which have identified an overreliance on specific natural resources to support economic growth. SEZ development can help to facilitate the gradual emergence of services and an export-oriented manufacturing sector. A key success story has been the creation of Mauritius'

[6] UNCTAD, *Inward and Outward Foreign Direct Investment Flows, Annual, 1970-2013* (2014) <http://unctad.org/en/pages/DIAE/World%20Investment%20Report/Country-Fact-Sheets.aspx>.

[7] Ministry of Treasury, Government of Poland, *Special Economic Zones in Poland: A Boost for FDI* (2013) <http://msp.gov.pl/en/polish-economy/economic-news/4425,Special-Economic-Zones-in-Poland-a-boost-for-FDI.html>.

[8] UNCTAD, *Inward and Outward Foreign Direct Investment Flows, Annual, 1970-2013* (2014) <http://unctad.org/en/pages/DIAE/World%20Investment%20Report/Country-Fact-Sheets.aspx>.

[9] EY Special Economic Zones Beyond 2020: Analysis of Current Activities and an Outlook for their Existence (2011) <www.uokik.gov.pl/download.php?plik=11856>; KPMG, A Guide to Special Economic Zones in Poland (2009) <https://www.kpmg.com/PL/en/IssuesAndInsights/ArticlesPublications/Documents/A-Guide-to-Special-Economic-Zones-in-Poland.pdf>; UNCTAD, Inward and Outward Foreign Direct Investment Flows, Annual, 1970-2013 (2014) <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>.

EPZ which has contributed to national diversification away from sugar exports to the clothing and services sector.

A further, associated benefit of SEZs is the transfer of knowledge and innovative processes from inward investors into the wider economy. SEZs are often targeted towards investors that can not only viably establish operations in a country but which also have the potential to transfer new business and industrial processes into the economy, as well as more efficient business operations and behaviours. This can occur 'naturally' through the procurement of inputs via local supply chains and enhanced local competition, or proactively via complementary policies and obligations that require the incoming investor to actively share knowledge and business practice.

Box 2 - United Arab Emirates – SEZ Programmes and Economic Diversification[10]

Economic diversification has been a primary aim of the establishment of Free Trade Zones within the UAE and of the UAE's Vision 2021 strategy. In the first instance, a number of FTZs were established in the 1980s to 1990s, the most prominent example being the Jebel Ali Free Zone in Dubai and competitive re-exporting activities quickly established themselves within the zones, outside of the domestic controls and regulations stipulated by the traditional 'Kafala' (sponsorship) system.

It is now estimated that free zone trade accounts for a third of the UAE's non-oil economy and approximately 80% of non-oil exports. These zones have been extremely successful in stimulating non-oil trade and investment within the emirates. Particular examples include the establishment of the Dubai International Financial Centre, which has been crucial in increasing non-oil exports and services within the Emirate within a *sharia*-compliant financial sector. Similarly Abu Dhabi established the TwoFour 54 zone to drive investment and activity within the Emirates' Arabic media and entertainment industry.

It is recorded that the UAE now accommodates a total of 47 free zones with a focus on a broad range of sectors including trade, clean energy, industry, ICT, media, finance, gold and metals and health care.

2.6.3 Employment Creation and Skills Upgrade

A large number of SEZs have been implemented in areas of depressed economic growth and high unemployment to stimulate significant job creation, reduce poverty rates and increase living standards. The creation of SEZs can also facilitate human capital development, reduce social problems, generate government revenue streams (from income taxation), reduce government expenditure on unemployment benefits and provide markets for domestically produced goods and services.

[10] Shayah, M and Qifeng, Y (2015) Development of Free Zones in United Arab Emirates.

Depending on the regulatory and legislative framework, SEZs can result in significant direct employment provision for local workers. SEZs can also generate significant indirect employment opportunities within local supply chains as companies within the zones source inputs from outside the zone across the domestic economy. Indirect employment multipliers range from approximately 0.25 indirect employees per direct employee within Mauritius' EPZ to 2.0 indirect employees per direct employee within Honduran SEZs.[11]

In terms of labour force, businesses within SEZs are also more likely to provide employment opportunities for women than those outside of SEZs given the propensity for targeted business activities to be non-dependent on manual labour. Previous evidence suggests that female employees can account for between 60% - 70% of the SEZ workforce globally, with some zones comprising up to 90% female workforce.[12]

Furthermore, through prioritising and targeting specific types of investors in key sectors, SEZs can be used as a mechanism for developing and upgrading the local and regional skills base. This in turn will have an additional positive impact on regional and national competitiveness as well as poverty alleviation.

Investors can be targeted on the basis that they will create job opportunities with higher level skill requirements and that this will in turn improve overall skill levels across the local labour force. Often this process requires complementary activities on the part of the host government, offering education and skills programmes that help create an appropriate labour supply for the investor and its associated supply chain. The creation of jobs that have more sophisticated technical and managerial characteristics are often sought from FDI. In many cases, senior managerial jobs will have to be filled by nationals of the investor's origin country, due to a lack of these skills locally. However, again with appropriate complementary policies, involvement with educational institutions and obligations placed upon the investor, these skills can also be developed within the local labour force.

[11] Gokhan Akinci and James Crittle, 'Economic Performance and Impacts', in Gokhan Akinci and James Crittle (eds), Special Economic Zones: Performance, Lessons Learned, and Implications for Zone Development (WB Group, 2008)

[12] WB Group, 'Fostering Women's Economic Empowerment Through Special Economic Zones: Comparative Analysis of Eight Countries and Implications for Governments, Zone Authorities and Businesses' (Report, June 2011)

Box 3 - Jordanian SEZs and Employment Opportunities for Women[12]

There are a number of examples where SEZs have been used to promote employment opportunities for women, particularly within developing countries. It is observed that SEZs can often provide the first entry into formal sector employment for women within some developing countries and, as such, are seen as increasingly important drivers of economic empowerment for women, as well as increasing zone and enterprise competitiveness.

Jordanian SEZs are one such example of zone development which has focused on increasing women's access to employment opportunities. It is estimated that within the country's six SEZs, approximately 55% of the workforce are women. The government has incorporated a number of initiatives such as meals and transportation for rural women working within the economic zones, as well as outreach programmes targeting rural women, in explaining how the zone programmes work and the potential benefits and opportunities available.

It has been observed that of the Jordanian women employed within the economic zones, approximately 70% had no previous work experience, indicating the significant opportunity of the zone programmes as entry points for women to engage with the formal employment sector. This participation has been enabled by initiatives such as the 'Satellite Factory Programme' which targets rural women and provides them with access to employment opportunities in proximity to their villages and skills training to enable them to succeed. This has helped to increase the number of domestic women employed within the economic zones and address key barriers to entry for women such as limited work experience and low mobility.

2.6.4 Wider Economic Reform and Experimentation

Globally, SEZs have been implemented as a tool to develop and diversify exports as they reduce anti-export bias whilst keeping protective barriers intact. SEZs can assist in wider economic policy reform by allowing countries to experiment with more liberal economic legislation, regulations and policies for their economies. This includes providing incubators for new policy in countries where reform is contentious, allowing countries to build the political capital necessary for the implementation of nation-wide economic policy reform.

China's SEZs are a particularly good example of where SEZs have been used to introduce and test FDI, legal, land, labour and pricing policies before extending them to the rest of the country.

Box 4 - China and Economic Reform through SEZs[13][14]

China is one of the most documented examples of successful economic reform in recent history. Through the adoption of its Open Door policy in 1978, the country has managed to achieve rapid economic growth and establish itself as the world's second largest economy.

China's SEZ programmes in particular have been noted as important drivers of this economic growth and reform, allowing the Government to successfully test the market economy and acting as demonstrator areas for the rest of country. The established SEZs have had notable success in attracting new institutions, technology and management practices to China which has resulted in significant contributions to national GDP, employment, exports and FDI in-flows.

The initial approach to SEZ development was incremental with four SEZs established in Shenzhen, Zhuhai, Shantou and Xiamen. China used these zones to test market based economic policies and reforms as well as experimental laws, regulations, land, tax, labour, finance, customs and immigration policies prior to implementing them in the wider domestic economy.

Each of the SEZs comprised large areas which benefited from unique financial, investment and trade conditions with the objective being to encourage innovative, pragmatic and open economic policies which could potentially be rolled out to the rest of the country. These conditions were found to have a dramatic economic effect on the performance of these zones with Shenzhen, for example, achieving 58% annual growth in GDP, compared to a nationwide average of 10% between 1980 and 1984.

Following the success of the initial four SEZs, further programmes have been developed to open up the economy further, including Economic and Technological Development Zones (ETDZ), High-tech Industrial Development Zones (HIDZ), FTZs, EPZs amongst others.

It is noted that SEZs have made a significant contribution to China's success by providing successful testbeds for new market economies and institutions as well as serving as role models for nationwide reform.

2.6.5 Foreign Currency Accumulation

Some SEZs are established to assist in foreign currency accumulation due to their ability to produce goods and services which are sold within foreign markets and paid for in foreign currency. Foreign currency accumulation can therefore be a key objective of SEZ development where there is a need for countries to manage inflation levels and respond to balances of payment crises.

[13] Zeng, D (2011) China's Special Economic Zones and Industrial Clusters: Success and Challenges.

[14] Zeng, D (2015) Global Experiences with Special Economic Zones – Focus on China and Africa. World Bank.

A notable example is in the case of the Kaesong Industrial Complex in North Korea which was developed on the basis of an agreement between Hyundai Asan, a South Korean company which initiated the SEZ project, and the government of North Korea for a total payment of 942 million USD. It is estimated that during its operation the SEZ also generated 20-34 million USD per annum for the state of North Korea and provided a significant source of foreign currency accumulation.[15]

2.6.6 Creating Clusters of Specialised Economic Activity

For many governments adopting SEZ strategies, a key consideration is how the country can quickly develop clusters of industrial activity that will become specialised, internationally differentiated and create high-value products and/or services. SEZ strategies and site selection is sometimes targeted towards particular industry sectors where economic assessment suggests that niche specialisms can be developed quickly. This can be linked to existing specialisation within the country or to the availability of relevant feedstocks or raw materials inputs. In recent strategies adopted by GCC member countries, for example, SEZ strategies have been developed based in part on an attempt to create or deepen clusters of sector-specific activity. This is considered to be a key determinant of both economic diversification (away from dependence on hydrocarbons in this case) and improved international competitiveness.

2.6.7 Deepening and Extending Industry Value Chains

Linked to the above point, a primary objective underpinning many plans for SEZ development is a sustained attempt to extend and deepen industry value chains. Again this is often pursued where existing industrial activity provides a basis for moving further into downstream (and sometimes upstream) value chain segments. Examples include several African and Asian countries with significant activity in the clothing, textiles and apparel (CTA) sector. It is common for these countries to have substantial activity and employment in one aspect of the value chain which might include production of cotton feedstock, or alternatively garment assembly. In many instances other aspects of the value chain including intermediate elements such as design or spinning may be absent. The SEZ policy in these cases is often geared towards attracting investors that can essentially 'plug' the value chain gap and create a deeper industry value chain in-country. This is seen as facilitating greater resilience in the industrial system – it will become reliant on activity outside of the country – as well as yielding higher values from production processes.

Similar approaches are taken in countries with major commodities or mineral extraction sectors. In this case SEZ policies are often targeted towards extending the process of minerals

[15] Victor Cha, The Impossible State: North Korea: Past and Future (Harper Collins, 2013)

'beneficiation' again with a view to extending value chains and creating greater values in-country from extraction and production processes.

Furthermore, some countries currently developing SEZ programmes are considering how the zone format could be used to target investors and operators that can facilitate development of more fully integrated production processes. Again this is often seen in the case of CTA and agro-processing industries, but also with other manufacturing sub sectors. The aspiration here is to attract anchor operators and additional components of supply chain networks and enable this to become more integrated into the existing sectoral base. This is likely to generate higher values from downstream integrated activity, to help embed the sector in-country and to build in additional resilience related to economic or other structural shocks.

2.7 Incentive Schemes used in SEZs

The incentive schemes used in SEZs can broadly be separated into either fiscal or non-fiscal incentives. Incentives are utilised to address pre-existing constraints or barriers to investment which may otherwise deter investors from selecting the zone for investment. The different types of incentive schemes are outlined in more detail below.

2.7.1 Fiscal and Financial Incentives

Fiscal incentives typically relate to forms of tax or duty reduction or exemption, ease of profit repatriation and/or the provision of specific subsidies such as financial assistance for infrastructure development or land purchases. Fiscal incentives are either standardised at the country level or at the individual zone level. Almost exclusively, fiscal incentives will involve lower import and export taxes and tariffs compared to the domestic economy.

Financial incentives typically consist of financial support to individual enterprises to encourage them to locate within the SEZ. They may be used to overcome perceived disadvantages of the location for investors and can often include investment in infrastructure to alleviate site challenges or contributions to meet relocation, training or land costs.

Typical fiscal and non-fiscal incentives observed in global SEZ development include:

- Income tax allowances;
- Exemption of exported products from import duties;
- Exemption of exported products from indirect taxes;
- Exemption of imported goods used in production processes from import duties;
- Exemption of waste generated by the production process from export duties;
- Exemption of goods stored in the SEZ from duties and indirect taxes; and
- Exemptions from other non-specific tax subsidies, including taxes imposed by national, regional and local authorities.

2.7.2 Non-fiscal Incentives

Since most countries with SEZs offer some form of fiscal incentives, competition has increased to attract investment as the number of zones worldwide has grown. Non-fiscal incentives, related to the ease of operations within zones are therefore also key considerations for investors when choosing where to locate.

Typical non-fiscal incentives can include:

- Single-window fast track clearances;
- Simplified export-import procedures and customs clearances;
- Ease of restriction on foreign workers;
- Repatriation of profits;
- 100% foreign ownership; and
- Allowing sale of goods to the domestic tariff area.

Non-fiscal incentives which facilitate the ease of doing business within SEZs are now often cited as more important to investors than the implementation of fiscal benefits, particularly with regards to the provision of a genuine 'one-stop-shop' which can expedite the acquisition of licenses and fast-track clearance processes. [16]

Box 5 - Expedition of Permits and Clearances

Philippines

The Philippines Export Processing Zone Authority (PEZA) has signed a Memorandum of Agreement with the Department of Environment and Natural Resources, which has eased environmental clearances. The authority also provided a 24 hour service to companies located within the zones and can assist with processing visas for foreign nationals. In particular, foreign nationals within a PEZA registered enterprise are allocated a special non-immigrant visa which allows multiple entries.

[16] A. Mukherjee et al. (2016) *Special Economic Zones in India*. ICRIER, India.

Box 6 - Flexibility of Labour Laws[17] [18]

Republic of Korea

Certain provisions of the national Labour Standard Act are not applicable to the Free Economic Zones (FEZs) and therefore enterprises within the FEZs are not obliged to meet quotas for special categories of workers such as elderly people. There is also greater flexibility to hire temporary (outsourced) workers for longer periods.

Bangladesh

The labour laws within the Bangladesh EPZs are regulated by special EPZ labour laws; the EPZ Workers Association and Industrial Relations Act 2010 which specifies the types of workers welfare associations which are allowed within EPZ areas.

China

Enterprises within Chinese SEZs can enter into enforceable labour contracts with specific term limits as well as having the right to dismiss unqualified or underperforming employees as well as adjusting wage and compensation rates to reflect the market situation.

2.7.3 Lessons Learnt in Incentive Schemes

Whilst incentives are a key component of the SEZ model in increasing the attractiveness of a location for investment, there are many examples of unsustainable models of incentive schemes being deployed in a globally competitive environment. Given the exponential growth in zone programmes globally in recent years, fiscal incentives are now an ineffective tool for differentiation between SEZs. Policy makers therefore need to establish an incentive framework that does not rely on the assumption that fiscal incentives will be the key differentiator between their zone and competitors. [19]

It has been observed that whilst conditions such as high quality infrastructure provision and effective customs environments are strongly correlated with successful SEZ programme outcomes measured by exports, investment and employment. In contrast, fiscal and financial incentives were found to generally not be correlated with SEZ outcomes [20], with greater importance afforded to the wider investment climate.

The 'ease of doing business' is one of the key components of a successful investment climate and this can be facilitated through the effective deployment of non-fiscal incentives and their ability to streamline administrative and regulatory processes which undermine the competitiveness of

[17] Korean Free Economic Zones, (2015) http://www.fez.go.kr/global/en/why/incentive.do#tab3.

[18] ProLogis, (2008) Research Bulletin: China's Special Economic Zones and national Industrial Parks – Door Openers to Economic Reform.

[19] Farole, T and Akinci, A (2011) Special Economic Zones: Progress, Emerging Challenges and Future Directions.

[20] Farole, T (2011) IBID.

business environments for investment. A typical vehicle for delivering these services is through the provision of a 'one-stop-shop' which provides the link between investment and government.

Incentives and Free Trade Agreements / Customs Unions

When developing incentive regimes there may also be conflicts between free trade agreements or customs unions and fiscal incentives which are still subject to regional trade framework agreements. This can lead to overlapping trade environments and increased complexity which can erode the attractiveness of the investment climate.

Conflicts have also been identified with regards to the creation of an uneven investment landscape if investors are able to leverage incentives on offer within an SEZ whilst simultaneously 'exporting' their products and services to the Regional Trade Agreement (RTA) under the preferential market access terms of the specified trade area.[21] This can lead to conflicts between RTA producers and SEZ producers.

Potential conflicts may also arise between SEZ programmes and RTAs with regards to 'trade triangulation'. This occurs where goods produced outside of the SEZ host country are imported into the SEZ under a preferential duty scheme and are then exported from the SEZ into the RTA customs territory free of duties and taxes. This can lead to foreign companies exploiting the SEZ and RTA frameworks by importing goods and adding minimal local value added.

Economic Effectiveness of Incentives

It has been noted that in some circumstances, such as within the African context, incentives have typically been deployed to compensate for an overall lack of competitiveness in the form of extended tax holidays, subsidised real estate and utilities and direct financial incentives to individual investors to attract investment.[22] This can lead to a 'race to the bottom' and result in SEZs becoming tax havens for companies which may have invested in the host country in the absence of a zone programme. Critics of SEZs states that they can often result in resource distortion and are thus a sub-optimal strategy for development compared to country wide or regional economic reform programmes.[23] The deployment of incentives should be carefully considered from the outset to ensure that they incentivise investment at a reduced cost when compared to the deployment of alternative incentives and achieve policy objectives with a minimum leakage of tax revenue.[24]

[21] DLA Piper, (2017) Special Economic Zones Best Practice Guide and Case Study Booklet, manuscript.

[22] ADBG (2015) Special Economic Zones in Fragile Situations: A Useful Policy Tool?

[23] Engman, M, O, Onodera and E, Pinali (2007) Export Processing Zones: Past and Future Role in Trade and Development.

[24] Tuomi, K (2012) Review of Investment Incentives: Best Practice in Attracting Investment. ICG, London.

Policy makers need to carefully consider the balance of their incentive schemes, aiming where possible, to develop incentives which are focused on the sectors and strategies which underpin the zone programme and do not result in long term fiscal or financial commitments.

3 Learning Lessons from Global SEZ Experience

3.1 Introduction

It was estimated that there were around 3,500 special economic zones worldwide by the mid-2000s. Although many of these are single factory zones, it shows a rapid expansion since the mid-1980s when it was estimated that there were just over 170.

The predominant typology has changed from traditional EPZs to more mixed special economic zones with multiuse developments incorporating industrial, commercial, residential and even tourism activities. Some are moving to highly specialised developments focusing on high-end services such as ICT and biotech. Another trend is to see the increasing importance of private sector involvement and a move away from purely publically funded schemes.

Critical success factors for SEZs include their ability to attract investment and create jobs, their ability to deliver structural economic transformation and to catalyse economic reforms; and their impact on social and environmental objectives.

The ability to attract investment is highlighted by fDi Magazine's global ranking of economic zones which awarded Dubai Multi Commodities Centre (DMCC) the title of Global Free Zone of the Year 2016. One of the judges' reasons cited was the bespoke nature of the developments within the Free Zone which are custom made for investing companies. In addition, the zone has digitised service provision allowing investors to log on to any device anywhere across the globe to access its services. Setting up a business in the zone has also been streamlined and can now be undertaken in 15 days whilst business renewals can be undertaken in just four days. Again, these processes are digitised allowing investors to access the relevant paperwork in hours.[25]

3.2 Emerging Global Trends

In the last five decades, more than two-thirds of all countries around the world have developed SEZs and, as noted above, over 3,500 SEZs are now in operation globally. Collectively, these SEZs account for over 850 billion USD in international exports and provide direct employment for more than 66 million people worldwide. SEZs have been implemented both in emerging market economies, including Brazil, China, India, Russia and South Africa (it is less developed countries that are normally associated with SEZs), as well as in advanced economies, such as Canada, France, Singapore, the UK and the US[26].

In countries which initially developed SEZ formats for industrial growth, from the 1950s to the 1970s, such as India, Indonesia, Ireland, and the Philippines, the ongoing focus has tended to be

[25] FdI Magazine, (2016) Global Free Zones of the Year 2016.

[26] DLA Piper, (2017) Special Economic Zones Best Practice Guide and Case Study Booklet, manuscript.

on the continuation or closure of existing SEZs in the context of national economic policy reforms. In contrast, a number of countries which implemented SEZs more recently from the 1980s and into the 2000s, such as Iran, Kazakhstan, Nigeria, Poland and the UAE, have increasingly focused on how to enhance their zones' competitiveness in the context of the thousands of other zones now in operation. One of the most pressing challenges for SEZs globally therefore, and particularly new ones coming on-stream now, is how to assert a unique investment proposition that maximises competitiveness and goes beyond standard format infrastructure provision or increasingly common forms of fiscal incentivisation.

There has also been an emerging trend of cooperation between countries in developing SEZs, the most notable example being state sponsored economic cooperation between a number of African countries and China. This cooperation emerged in 2000 following the 1st Ministerial Conference of the Forum on China-Africa Cooperation (FOCAC) in which China pledged to facilitate best practice sharing of SEZ development with African countries.[27] In 2015 it was recorded that SEZs had been developed in six African countries; Algeria, Egypt, Ethiopia, Mauritius, Nigeria and Zambia.[28] These zones are seen as an important vehicle for the relocation of Chinese manufacturing activity away from mainland China to Africa and different forms of financial support are available from the China-Africa Development Fund for investors. Further interest and investment in Chinese-led SEZ development is likely to grow following adoption of the 'One Belt, One Road' policy in China and its emphasis on cross-border economic cooperation zones.

A number of key trends, in both industrial and policy terms, are now impacting upon how countries determine their international trade and FDI polices and these are also increasingly influencing the development plans for SEZs across many regions. Global industrial trends include the following[29]:

- Expanded global production networks and increasing utilisation of systems of niche international suppliers particularly in higher-value and more specialised manufactured goods;
- Increasing importance of supply chain management (logistics costs being increasing at a higher rate than manufacturing costs, particularly in regions poorly served by infrastructure such as Africa);

[27] UNDP, (2015) If Africa Builds Nests, Will the Birds Come? Comparative Study on Special Economic Zones in African and China.

[28] Xiaoyang, T (2015) How do Chinese 'Special Economic Zones' Support Economic Transformation in Africa?

[29] Global SEZ Team - World Bank Group SEZs as an Institutional Micro Climate (presentation) http://www.tepav.org.tr/upload/files/haber/1305893756-1.ETIENNE_R._KECHICHIAN__SEZs_as_an_Institutional_Micro.pdf

- Contract manufacturing & outsourcing, as well as more sophisticated segmentation of production processes across different suppliers, especially in sectors such as Textiles and Apparel;
- Increasing importance of service industries in many countries' national economic diversification programmes and a need to balance service sector growth with evolving manufacturing specialisation;
- Decline of pure export platforms that involve limited value addition;
- Competitive advantage driven by sales, distribution & customer relationships rather than low costs of production alone;
- Co-location of sales support with manufacturing to attract integrated manufacturing clusters; and
- Compliance and CSR polices, environmental regulation and influence of more 'ethical' consumption patterns.

In addition, there are a number of policy trends that are also influencing SEZ programmes and delivery approaches across the globe and these include:

- Global trade integration through WTO;
- Deepening of regional trade blocs and customs unions, particularly in Africa and Asia;
- Global and regional push for harmonization of tax incentives, partly to avoid problems of 'tax inversion';
- Push for harmonization of investment rules;
- Climate change agenda – this includes countries' evolving polices to develop greater industrial resilience, as well as investors' desire to locate production processes in places that will mitigate the risk of climate change impacts adversely affecting production and increasing operational costs;
- Environmental and social agenda, as well as ethical and fair trade approaches;
- Liberalization of telecommunications and information technology sectors;
- Crack-down on off-shore tax havens and tax inversion; and
- Trade and supply chain security in the face of political instability, conflict and climate change related shocks.

Other recent research has suggested that the popularity of SEZs had previously been based in part on the simplicity and effectiveness of arrangements around tax exemptions for

businesses[30]. When looking for a site for a new project, investors begin by conducting a search across numerous countries and hundreds of sites with a view to specifying the optimal place for doing business. Corporate advisers Ernst & Young, in discussions with investors, have been observing a noticeable trend that the tax exemption within the SEZs is becoming less important in the process of selecting sites, particularly in the developed-world context. This is because given the high investment costs, investment projects lasting several years and market pressure reducing profitability in many industries, the effective time for taking advantage of the exemption sometimes becomes shortened to 3 years. Therefore other aspects of the operating environment, including provision of infrastructure, skilled labour and effective routes to market become more important.

Another major trend in global development of SEZs focusses primarily on their environmental and sustainability credentials and this has led to the increasing emergence of the 'Eco-Industrial Park' as an SEZ format. It is suggested that in the next era of industrial zone development, sustainability and eco-industrial growth will play paramount roles in minimizing environmental and social risks while generating profits for firms.[31] This combination will help governments scale-up and leverage sustainable infrastructure to fulfil their commitments to meet the UN Sustainable Development Goals[32] and other international climate actions.

There are tangible drivers behind this changing paradigm of industrial zones including a visible shift in the procurement preferences of the leading global buyers whom the zone enterprises primarily cater to, especially in the light manufacturing sector. Multinational buyers are showing strong preferences for greener and more sustainable supply chain management that compels suppliers to produce in an environmentally compliant, resource-efficient, safe, and socially responsible manner. The growing availability of 'reduce-reuse-recycle' technology for industrial waste has also heightened the pressure on industries to improve their management of waste and resources and look for mechanisms to grow and operate in a symbiotic fashion.

The efficiency and strategic agglomeration of firms will enable companies to take advantage of joint infrastructure, efficient management of operating risks, and improved resilience to climactic conditions.[31] The trend toward EIPs has been growing organically in most developing countries. Although consensus is absent on what definitively constitutes an EIP, World Bank preliminary research has identified over 254 operating or planned zones or parks that would likely fit a stringent definition. The bulk of these EIPs employs some level of ecological and

[30] Ernst & Young (2011) Special Economic Zones beyond 2020 Analysis of current activities and an outlook for their existence

[31] Kechichian, E. and M.H. Jeong, (2016) Mainstreaming Eco-Industrial Parks: Conclusions from the Eco-Industrial Park 2015 Event in Seoul, Washington D.C.: World Bank

[32] http://www.un.org/sustainabledevelopment/sustainable-development-goals/

sustainable practices, but further research is needed to find out what practices are actually employed and how well they work in particular circumstances.

3.3 Development of Cross Country and Tripartite SEZs

As the number of SEZs increases globally and they are increasingly seen as a policy tool to attract investment, it will become increasingly important for zones and countries to look beyond administrative borders and develop integrated approaches to SEZ development; particularly with regards to legal and regulatory frameworks such as export policies and fiscal incentives. It is suggested that the rapid expansion of regional trade agreements (RTAs) offers the potential for SEZs to focus on logistics or cross-border trade and to facilitate regional synergies, although it is acknowledged that to date there have been limited efforts by SEZ programmes to create these synergies. [33]

Whilst examples to date concerning cross country SEZ programmes are limited there are a few notable example of previous and future programmes which have focused on border trade. These are discussed in the boxes below.

Box 7 - Central America Maquiladoras Programme[34] [35]

Maquiladoras are companies which are wholly or predominantly owned by foreigners. The role of these companies is to assemble products for export to US or other foreign markets. Macquiladoras are subject to special customs treatment, less expensive labour costs and lower operating expenses. Once a Maquiladora Permit has been obtained from the relevant government, the Maquiladora has the right to import raw materials duty free into the country of origin for manufacturing, assembly, repair or other processing.

This programme first adopted in the Domincan Republic, Mexico and Honduras in the 1960s and was designed to take advantage of cheap labour costs within the countries and to attract manufacturing industries who wished to export to US markets.

In Mexico a Border Industrialisation Programme was adopted in 1965 to increase employment opportunities for Mexican workers returning from US following the demise of the Bracero Programme. It is estimated that there are now over 2,800 Maquiladora companies operating in Mexico, of which over 90% are located within the border zone and account for over 55% of Mexico's exports and employing over 1.1 million people.

[33] Koyama, N (2011) SEZs in the Context of Regional Integration: Creating Synergies for Trade and Investment.

[34] http://teamnafta.com/manufacturing-resources-pages/2016/4/18/nafta-and-the-maquiladora-program

[35] Farole, T and Akinci, G (2011) Special Economic Zones: Progress, Emerging Challenges and Future Directions.

Box 8 - Thailand's SEZ Programme

Thailand approved its SEZ programme in 2014 with the primary aim of driving regional economic growth and targeting cross border trade. At present it is estimated that cross border trade accounts for approximately 10% of total trade volumes within Thailand, but the SEZ programme aims to increase this to 50% once fully deployed.

The programme aims to target investors interested in accessing labour and importing goods, including raw materials and parts from countries neighbouring Thailand. The zones will aim to develop supply chains and increase the domestic consumer market along Thailand's border.

Target industries and activities include agriculture, manufacturing of textiles, ceramics, furniture, gems, medical equipment and electronics as well as logistics, pharmaceuticals and tourism.

Box 9 - Kaesong SEZ Programme

SEZ programmes can also be used to promote reform and encourage diplomatic relations as in the case of the Kaesong SEZ which was established by North and South Korea. Formed in 2003, the Kaesong Industrial Complex, when it was operational, employed approximately 47,000 North Korean workers and 121 South Korean enterprises generating a total of $300 million in output.

The initial concept of the SEZ was to allow South Korean firms to utilise cheap North Korean labour within manufacturing activities. The secondary benefit was to promote liberalisation and economic reform within North Korea as well as provide the North Korean economy with much needed foreign currency accumulation. It is estimated that the North Korean government accumulated approximately $2 million per month from workers fees, land lease fees and other payments. In addition, the government received a $12 million lease payment from the Hyundai Asan Company who developed and operated the zone.

Key perceived factors of success included an increase in North and South Korean political cooperation and acceleration of economic reform within North Korea as well as benefiting the South Korean economy. However, overall economic performance has been low primarily due to relatively small numbers of SMEs located to the zone and decreases in productivity. In addition, there has been little evidence that the North Korean economy has improved since the creation of the zone (Nam, 2012)

Unfortunately due to some political developments within the region, the Kaesong Industrial Complex is currently closed demonstrating the fragility of cross border zones, particularly within geographies of conflict.

Box 10: Khorgos – Eastern Gate Special Economic Zones

The Khorgos Eastern Gate SEZ sits on the border of Kazakhstan and China and there is a vision to create a 5,750 hectares trade and logistics zone which will capitalise on the zone's geographic location as a hub between China, South Asia, the Middle East and Europe. The zone is a key element of the 'New Silk Road' and 'One Belt, One Road' programme which aims to expand links between Asia, Africa and Europe and to increase trade. In 2017, an agreement was signed between COSCO Shipping Corporation and Lianyungang port for the joint development of the SEZ.

The vision is to create a total of 50,000 jobs by 2020 and to create a residential area for 110,000 people. The zone will include a new dry port (including a container terminal), a logistics zone and an industrial zone with ambitions to create a 'one stop shop' where products can be manufactured, warehoused, imported, exported and transhipped.

The zone will focus on warehousing and transportation activities, food, leather, textiles, metals and mineral products manufacturing as well as manufacturing of machinery and will boost Kazakhstan's export volumes.

3.4 Key Challenges to SEZ Success

The implementation of SEZs globally has been uneven, with SEZ development in some countries drawing criticism with regards to negative social, economic and environmental impacts. This includes impacts such as:

- Discrimination of women – including lower wage levels, lack of training or skill upgrading and use of trainees to lower wage costs;
- Suppression of labour standards and core labour rights including trade unionisation;
- Poor employment conditions – including workings hours and health and safety policies;
- Lax environmental standards – including the relaxation of standards and regulations within SEZs[36]; and
- Creation of 'enclaves' at the expense of countrywide policy reform.

These key challenges and points of critique with regards to SEZ development globally are explored in further detail below.

3.4.1 Labour Rights, Wages and Working Conditions

A key criticism of SEZ development, particularly within developing countries, has been with regards to labour rights and working conditions. It has been observed that SEZ laws often

[36] Akinci and Crittle (2008) Special Economic Zones: Performance, Lessons Learned and Implications for Zone Development. FIAS, USA.

include anti-union and labour-suppressing aspects which have been criticised for their negative impacts on SEZ workforces. Significant issues have been identified with regards to:

- Restrictions on the freedom of association and collective bargaining;
- Bans on the right to strike; and
- Non-observance of national labour legislation within zones.[37]

Whilst progress has been made in recent years through the efforts of trade unions and non-governmental organisations (NGOs) as well as improved enforcement by the International Labour Organisation (ILO) there are still discrepancies in the implementation of policies and enforcement practices.

Women's rights have also previously been a subject of criticism within SEZ development due to practices of gender discrimination and gender related barriers in zones such as equal pay, pregnancy and childcare, suitable working hours and forced dismissals. In some cases with regards to the SEZ development, labour rights and working conditions may be ignored.

It is noted however that when considered in the context of global SEZ development, these issues are most prevalent within a small number of zones, and in particular are almost wholly associated with older, government run SEZ programmes focusing on lower value products and outputs.

[37] Ibid

Box 11 - Workers Rights in India's SEZs[38] [39]

Within India, studies have found that whilst in practice general labour laws are upheld through the Special Economic Zones Act 2005, in practice labour laws and welfare measures are virtually non-existent. The ability of workers to organise trade unions and undertake strikes is undermined by the labelling of economic activity within these zones as a 'public utility service' and thus strikes constitute an illegal activity. This has led to trade union activity being widely discouraged within India's SEZs and the adoption of poor wage levels, below minimum wage in many cases, and long working hours adopted as typical practices.

It is recorded that within Indian SEZs there is a large proportion of workers operating under casual or informal contracts and as such can be hired and fired frequently. This has led to high labour turnover, absenteeism, stress, fatigue, low productivity and labour unrest. There are also recorded observations of wage malpractice with only permanent employees securing minimum wage salaries whilst contract and informal workers are in the form of daily, monthly or piece rate payments. This has also led to unregulated working hours and excessive overtime practices are observed given the unsure nature of the contract employment and fear from workers of losing their jobs if they are unable to meet production targets. A report within the Falta SEZ found that workers often worked 12 hour days but their employment cards were only punched for 8 hours.

Health and safety practices within many Indian SEZs were also found to be inadequate, with dehydration, heat stroke, heat rashes and gastrointestinal common medical issues, particularly during the summer months where high productions targets make it difficult for workers to take on adequate quantities of fluids and food.

3.4.2 Environmental Impacts

Criticisms of SEZ development has historically included environmental concerns, with the experiences of the Mexican *maquiladora* plants, being the most notorious for environmental degradation. In the Mexican experiences, a combination of weak monitoring and enforcement by local and national environmental authorities combined with the rapid growth of *maquiladora* plants beyond the capacity of waste treatment infrastructure, resulting in significant adverse environmental impacts on local communities outside the SEZs. It was also observed that there was a perception that environmental laws could be weakened within the *maquilas* because of their priority sector status.[40]

It is acknowledged however that as SEZ development has moved from single factory EPZ programmes such as within Mexico and Mauritius towards models of industrial park development it has become easier for developers to provide more effective facilities and utilities

[38] Mansingh, P, Suneetha, E and Sreejesh, N (2012) Trade Unions and Special Economic Zones in India. ILO.

[39] Parwez, S (2014) Modified Labor Welfare Measures for Special Economic Zones and Implications.

[40] Williams (1995) The Maquiladora Industry and Environmental Degradation in the United States–Mexico Borderlands.

for occupiers and for governments to implement more stringent environmental monitoring and enforcement practices. In addition, investors have begun to require greater environmental management within zone development.

3.4.3 Economic Reform

Employment generation is often a key driver of SEZ implementation, however some critics have argued that where SEZs are developed as 'pressure values' against high rates of unemployment, they reduce the incentive for countrywide economic reform and instead divert reform energies potentially creating isolated free market enclaves. SEZs need to be grounded within wider economic development strategies, within which SEZs are a key element in order to successfully stimulate wider economic performance, linkages with domestic economy and economic reform.

SEZ programmes result in markedly different treatment of enterprises within and outside of economic zones and this can lead to imbalances where domestic firms are not protected from the incentives afforded to firms within SEZs. Typically these advantages are addressed through restrictions such as limiting exports from SEZ producers to the domestic economy.

Where enclave markets are created it is noted that the long-term effects of the SEZs on the domestic economy are significantly reduced, and the much vaunted backward and forward linkages[41] and technology transfer spill overs are minimal. In particular it is observed that where SEZs are focused on low-skilled, assembly type operations, these activities are not typically conducive to technology transfer. In addition, where higher value added operations such as advanced production activities, software or business services are clustered, enclaves are often formed de-linking the zones from the rest of the economy with the exception of the labour force it directly services.[42]

A key example of this was the establishment of the first industrial free zone in the Dominican Republic. It was recorded that of the 500 businesses within the zone, only a very small percentage of material inputs from domestic customs areas demonstrating the difficulties in establishing backward linkages between the zone and the local economy.[43]

[41] Backward linkages are defined as linkages which create demand for intermediate inputs from the domestic economy, i.e. where enterprises within the domestic economy supply MNCs within SEZs. Forward linkages are established where a supply of intermediate inputs for domestic enterprise are created, i.e. firms within an SEZ provide inputs for downstream MNCs within the domestic economy.

[42] Milbery, W (2007) Export Processing Zones, Industrial Upgrading and Economic Development: A Survey.

[43] FIAS, (2008) Special Economic Zones: Performance, Lessons Learned and Implications for Zone Development.

Box 12 - Backward and Forward Linkages within Dominican Republic SEZs[44] [45]

A number of studies have found that the Dominican Republic has a poor record with regards to fostering backward and forward linkages with the domestic economy. It is observed that there has been an historic reliance on imported inputs, which has increased in recent years as the Dominican Republic has joined more sophisticated global value chains and reduced its reliance on traditional garment production which formed the basis for many of the original EPZs.

This is primarily a result of more production stages of the value chain being conducted within the SEZs, the result being that an increasing proportion of inputs are imported rather than being sourced domestically. An economic census conducted by the Central Bank in 2014 found that there were also significant variations between the sourcing of inputs between different industries. It was recorded that traditional zone enterprises such as textiles and clothing and footwear sourced approximately 28% and 22% of their inputs domestically. In contrast, industries with greater links to global value supply chains such as medical and surgical equipment and electrical equipment source approximately 3% of inputs domestically. It was found that the majority (87%) of SEZ companies also import their machinery from outside the domestic economy.

Three primary reasons have been given for the Dominican Republic's performance in fostering backward linkages (Willmore, 1995):

1. Until 1993 each sale from the customs territory to an EPZ company required an export license – this discouraged domestic firms from creating supply chain linkages with EPZ firms;
2. Absence of effective legislation to facilitate the 'temporary' import of goods which are incorporated into exports. This made products within the customs territory uncompetitive in the EPZ markets; and
3. Tariff and non-tariff barriers to imports were high so manufacturers producing for the small domestic market would not be expected to be competitive. In addition local products were uncompetitive in price and quality compared to imported goods.

Efforts to foster stronger development of backward linkages now include initiatives from the national commission for SEZs (CNZF) such as the organisation of match-making rounds in 2015 which included 60 business to business meetings. CNZF is also training domestic producers on the quality certifications required to become suppliers to SEZ firms.

[44] World Bank, (2016) Special Economic Zones in the Dominican Republic: Policy Considerations for a more Competitive and Inclusive Sector.

[45] Willmore, L (1995) Export Processing Zones in the Dominican Republic: A Comment on Kaplinsky. World Development, Great Britain.

4 Trends in SEZs in OIC Member Countries

This section provides a broad overview of SEZ performance and experiences within OIC Member Countries. This analysis has been informed by a broad desk-top study of the nature and performance of SEZs across OIC countries including some comparative benchmarking analysis of OIC SEZs. This section also draws upon experiences of SEZ development and performance within OIC Member Countries to demonstrate particular achievements and challenges and provide discussion of particular major failures in terms of performance.

4.1 Profiling SEZs within OIC Member Countries

Previous research has been used to identify[46] those OIC Member Countries which have either established SEZ development or are pursuing SEZ development. In addition, further research has been undertaken to update and validate the number of OIC Member Countries with SEZ programmes. This analysis is outlined below in Table 4-1 and demonstrates that the following countries have established or are pursuing SEZ programmes.

Table 4-1 - OIC Member Countries with SEZ Development

OIC Arab Region	OIC Africa Region	OIC Asia Region
Algeria	Bangladesh	Albania
Bahrain	Benin	Indonesia
Egypt	Djibouti	Iran
Jordan	Gabon	Kazakhstan
Kuwait	Gambia	Malaysia
Lebanon	Mozambique	Pakistan
Libya	Nigeria	Turkey
Morocco	Senegal	Uzbekistan
Oman	Sudan	
Qatar	Togo	
Saudi Arabia	Uganda	
Tunisia		
United Arab Emirates		
Yemen		

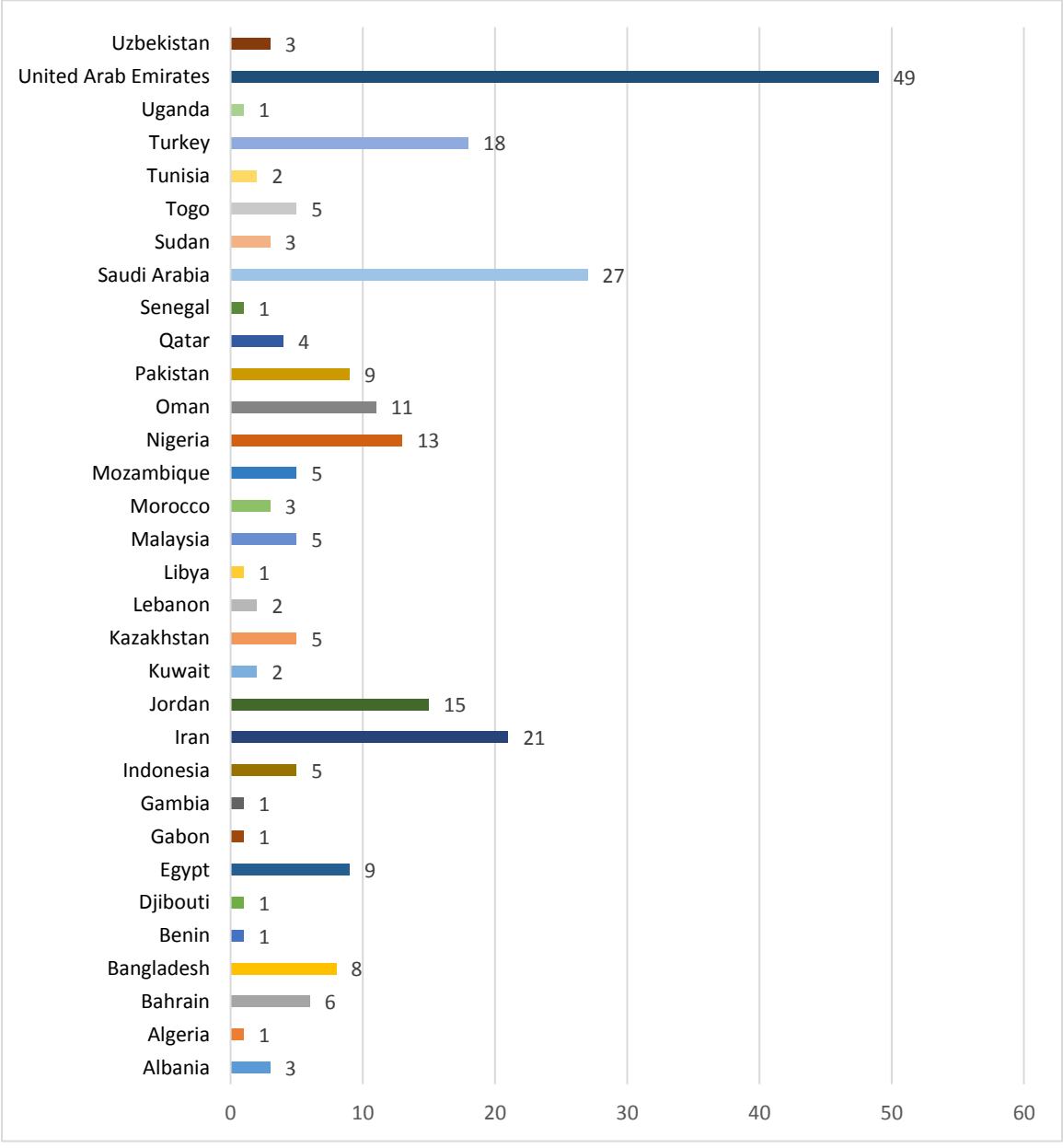
Source: BuroHappold Analysis 2017. FIAS (2008)

[46] World Bank (2008) Special Economic Zone: Performance, Lessons Learned and Implications for Zone Development.

4.1.1 Geographical Distribution

In total it is estimated that there are approximately 242 SEZs operating within 33 OIC Member Countries. This is shown below in Figure 1. It can be seen that SEZ development has been a key focus within the Middle East with the UAE (20%), Saudi Arabia (11%), Iran (9%), Jordan (6%) and Oman (4%) accounting for approximately half of all SEZs within OIC Member Countries.

Figure 1 – Total Number of SEZs by OIC Member State



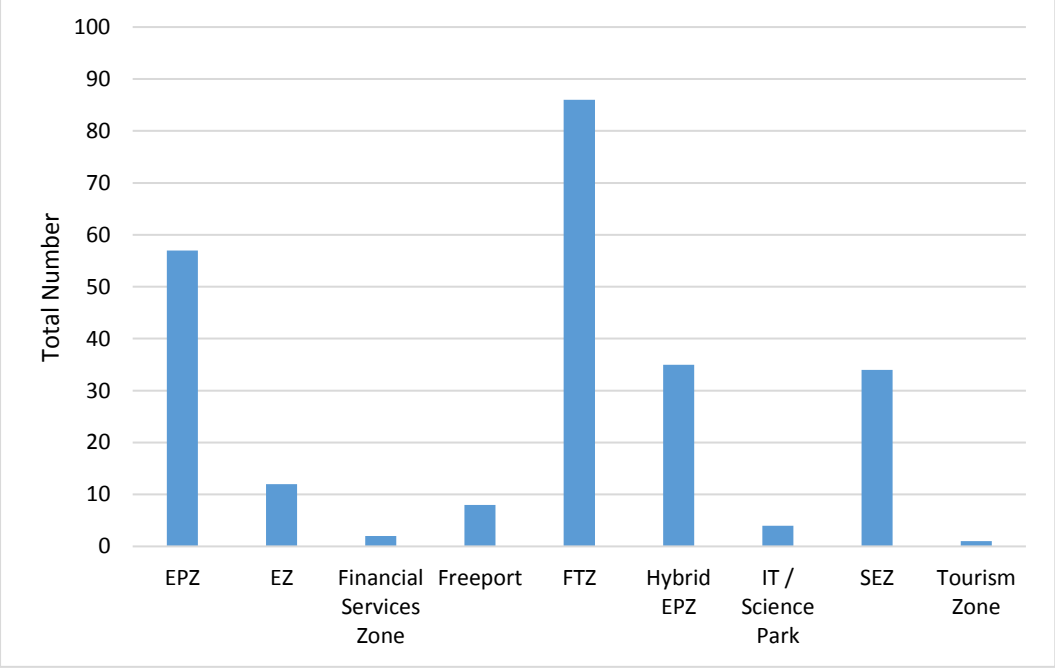
Source: BuroHappold Analysis 2017. Note: OIC Member Countries with no SEZs recorded are excluded from this figure.

4.1.2 SEZ Typologies

Comparative analysis has also been undertaken with regard to SEZ typology. The most common typology recorded within OIC Member Countries, as shown in Figure 2, are FTZs, following by EPZs, Hybrid EPZs and SEZs.

Drawing on the analysis from Figure 3 it can be seen that there is a clear focus on FTZs within the United Arab Emirates and Turkey whilst the distribution of EPZs is more even across the OIC Member Countries. Iran in particular has undergone a significant programme of SEZ development within recent years accounting for just under half of all SEZs recorded within OIC Member Countries.

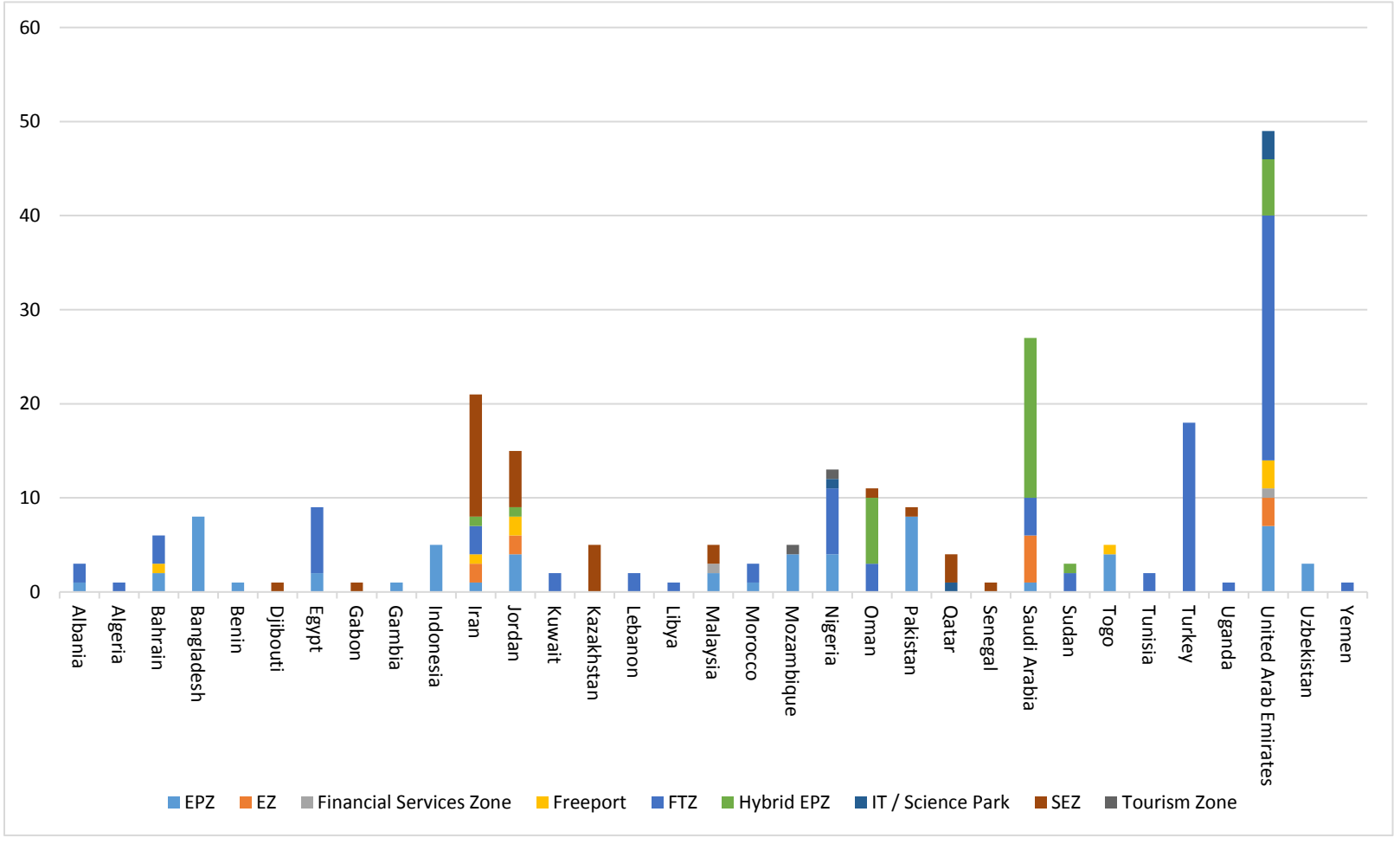
Figure 2 – Total SEZs by Typology within OIC Member Countries



Source: BuroHappold Analysis 2017

Figure 3 indicates that across the OIC Member Countries, approximately 36% of SEZs are FTZs, whilst approximately 25% are classified as EPZs. Hybrid EPZs and SEZs also account for approximately 15% and 14% of zones within OIC Member Countries respectively.

Figure 3 – SEZ Typologies by OIC Member Countries



Source: BuroHappold Analysis 2017

Figure 3 above indicates that the majority of FTZs within OIC Member Countries are contained within the United Arab Emirates (31% of total FTZs) and Turkey (21% of total FTZs). Egypt also accounts for approximately 8% of FTZs within OIC Member Countries illustrating that FTZs are most commonly located within the MENA region.

In contrast it can be seen that EPZs are most commonly located within Asia, with Bangladesh (14% of EPZs), Pakistan (14% of EPZs) and Indonesia (9% of EPZs) accounting for over one third of total EPZs within OIC Member Countries. EPZs are also observed to be the most common form of zone within Sub-Saharan Africa (SSA) with Togo (7% of EPZs), Mozambique (7% of EPZs) and Nigeria (5% of EPZs) accounting for approximately 19% of EPZs within OIC Member Countries.

Hybrid EPZs are observed to be almost wholly located within the MENA region with Saudi Arabia (49% of Hybrid EPZs) and Oman (20% of Hybrid EPZs) accounting for over two thirds of Hybrid EPZs within this region.

4.2 SEZ Benchmarking within OIC Member Countries

As outlined above there are a large number of SEZs within OIC Member Countries. Given there is insufficient data readily available to enable effective benchmarking across all OIC SEZs, we have selected a total of 23 zones to analyse in more detail and to draw insights and lessons from, These zone are listed below in Table 4-2 and are representative of SEZs from within the Asia, Arab and African OIC regions. These case studies have been selected based on the quality of information available for comparative and competitive benchmarking.

Table 4-2 - Zones Selected for Comparative Benchmarking within OIC Member Countries

No.	Zone	Country	Year of Establishment	Sectoral Focus
1	Bahrain International Investment Park	Bahrain	2010	Manufacturing and international service operations.
2	North Sitra Industrial Estate	Bahrain	N/A	Re-export activities including machinery and equipment
3	Alexandria Public Free Trade Zone	Egypt	1973	Food processing, chemicals and petrochemicals, fertilizers, petroleum services, engineering and electronics and medical equipment manufacturing
4	Nasr City Public Free Zone	Egypt	1973	Pharmaceuticals, medical equipment, engineering and electronics
5	Suez Trade Free Zone	Egypt	1975	Ship maintenance industry, maritime services companies, petroleum business, metal products processors/manufacturers and weaving
6	Tanjung Api-Api	Indonesia	2014	Rubber, oil palm and petrochemical activities
7	Bitung	Indonesia	2014	Fish processing, shipyard industries, coconut processing, food industry, metal industry, distribution and logistics activities
8	MBTK	Indonesia	2014	Oil palm industry including industrial, logistics, processing and export activities
9	Aqaba Free Zone	Jordan	2001	Tourism, heavy industries, light industries, services, commercial, logistics/warehousing, transportation, education, health & environment activities
10	Kings Hussein Business Park	Jordan	2010	Mixed-use technology sector and front and middle office activities
11	Ma'an Development Area (MDA)	Jordan	2008	Light, medium and heavy industries, ceramics, plastics, electrical appliances, renewable energy and tourism activities
12	Bayan Lepas Free Industrial Zone	Malaysia	1972	Electronics and electrics, healthcare instrument manufacturing, Petrochemicals and shared business services and outsourcing activities
13	Port Klang Free Zone	Malaysia	Unknown	Manufacturing, trading and logistics activities clustered around regional

No.	Zone	Country	Year of Establishment	Sectoral Focus
				distribution centres and international procurement centres
14	Iskandar	Malaysia	2006	Electrical and electronics, petrochemical and oil and gas, food and agro-processing, logistics and tourism activities
15	Tanger Med Free Trade Zone	Morocco	2003	Automotive and aerospace industry and logistics and distribution activities
16	Kenitra Automotive Free Zone (Atlantic Free Zone)	Morocco	Unknown	Automobile-related activities and other export activities, industrial logistics and shared support services
17	MidParc	Morocco	2011	Aerospace and electronic sectors
18	Ogun Guandong Free Trade Zone	Nigeria	2008	Construction materials and ceramics, ironware, furniture, wood processing, medicine, computers and lighting manufacturing activities
19	Lekki Free Zone	Nigeria	2008	Transportation equipment, textile and light industries, home appliances and telecommunication manufacturing activities
20	Mersin Free Zone	Turkey	1986	Manufacturing, logistics and warehousing with a focus on industrial and agricultural products and activities
21	Antalya Free Zone	Turkey	1985	Tourism, maritime manufacturing, machinery manufacturing and repair, medicine, agriculture, textiles and electronics activities
22	Jebel Ali Free Zone	UAE	1985	Warehousing, medical supply/instrumentation, machine tools, construction, food processing, electronics, chemicals, stationery, fashion industries
23	Ras Al Khaimah Free Trade Zone	UAE	2000	Storage, manufacturing, packaging, processing and assembly activities, consulting and services activities and trade activities

Source: BuroHappold Analysis 2017. Note: where information is not available N/A has been used.

This section provides a broad overview of the spatial characteristics of these SEZs as well as some analysis of their economic characteristics. Analysis of these zones shows that they cover a very broad range of common sectors similar to those recorded globally within SEZ programmes. These include:

- Electronics and electrical appliances;
- Logistics, warehousing and distribution, air logistics and aviation industries;
- Steel manufacturing, machine tools, engineering and heavy machinery;
- Advanced engineering, advanced materials, medical supply/instrumentation, medical technology, high-tech & light industries;
- Automotive and automotive components;
- Petroleum processing and distribution;
- Energy;
- Chemicals and fertilisers;
- Pharmaceutical products and biotechnology;
- Construction and construction materials;
- Timber and timber products;
- Furniture manufacture;
- Clothing, shoes, jewellery, textiles and fashion;
- Food processing, food products and household products;
- Marine equipment and marine engineering;
- Software and technology;
- Stationery and packaging materials;
- Telecommunication;
- R&D;
- Education (specialised) recreation and leisure;
- Business services, consulting and trade activities; and
- Health and environment.

The above list is not comprehensive but is indicative of the most commonly observed industries and activities within the analysed sample of SEZs within OIC Member Countries.

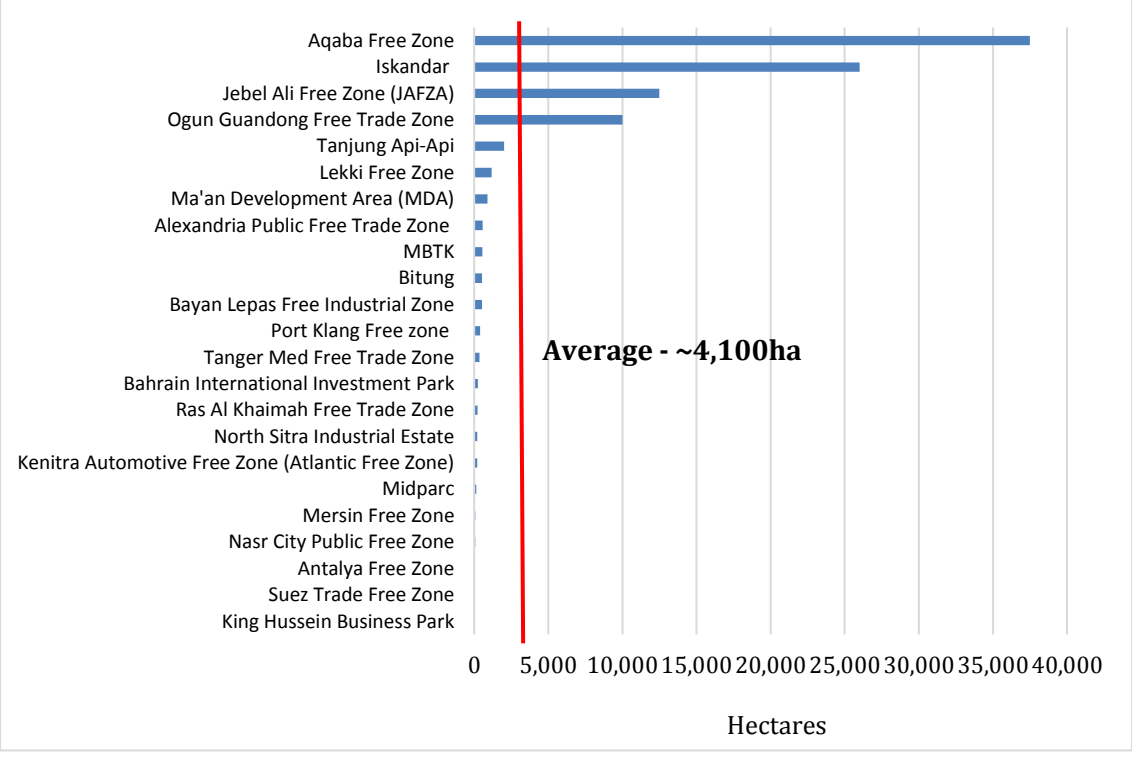
4.2.1 Spatial Characteristics

Connectivity and access are considered to be key to the success of economic zones. In order to be physically and economically linked to both domestic and international markets, proximity to major transport and logistics infrastructure is important.

Size of Zones

Analysis of the selected SEZs indicates that the average size of economic zones within OIC Member Countries varies between 12ha to 37,500ha. The average size of zones was recorded as approximately 4,100ha. This is representative of the broad nature of the selected zones as well as the activities located within them and their industrial focus. The smaller zones tend to be focused on the service sector and high value manufacturing and industrial activities which the largest zones are focussed on export processing, industrial, energy and petrochemical activities.

Figure 4 - Size of Selected SEZs within OIC Member Countries



Source: BuroHappold Analysis 2017

When looking at size of zones by typologies it can be observed that the largest zones, particularly those over 10,000 hectares are Freeports, SEZs and FTZs, whilst EPZs within OIC Member Countries are observed to be smaller; between 12 hectares and 2,000 hectares.

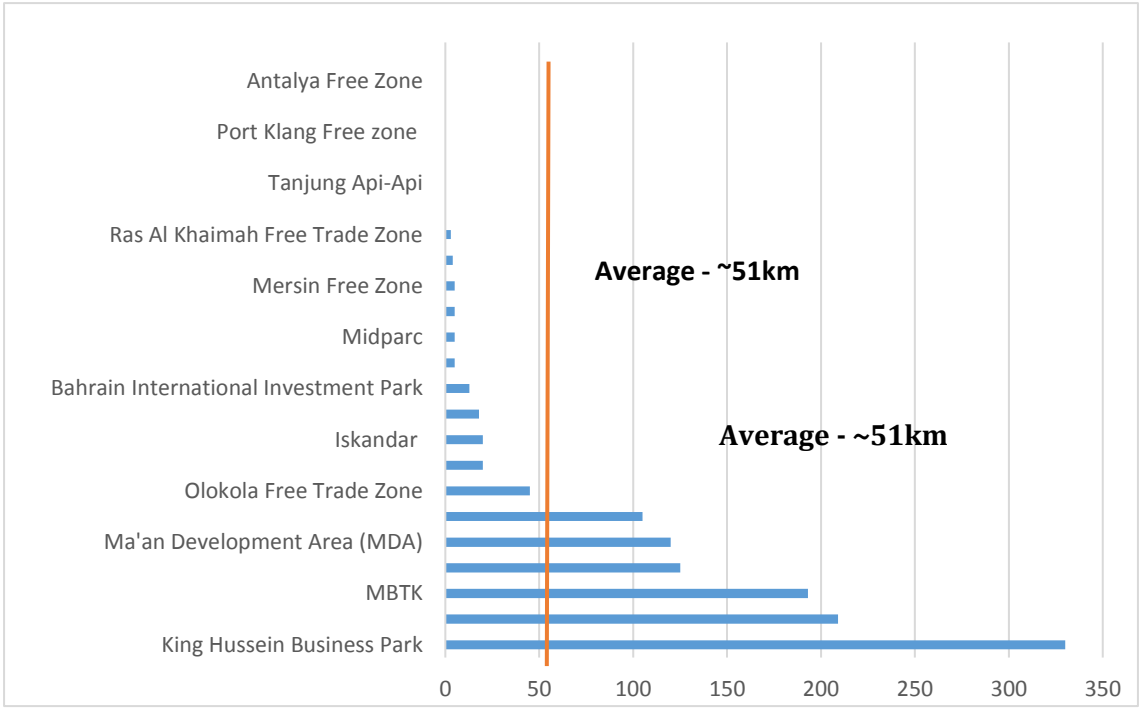
Distance from Nearest Port

Sea ports play an important role in facilitating external trade and internal market exchanges. They also provide services to a number of industrial sectors and, therefore, are key when it comes to the successful development of economic zones within OIC Member Countries. Having an appropriate carrying capacity and internal infrastructure aligned with the requirements of industrial sectors served is essential. As shown below, a number of SEZs selected for comparative benchmarking are port based and have been developed within close proximity to port facilities.

Additionally, a majority of the ports serving economic zones have a sizeable storage, warehousing and logistics function – this enables them to act as buffers to regulate the flow of goods to and from the zones.

Analysis shows that proximity to a port influences the nature of the activities undertaken in the zone with a number of those very close to a port having bonded warehouses and focusing on logistics and re-export.

Figure 5 – Distance from Major Ports (km) within Selected OIC Member State SEZs



Source: BuroHappold Analysis 2017

As shown in Figure 5, the average distance of the analysed economic zones from the nearest serving major port is approximately 51km. It is observed that some of the most successful examples of SEZs include close proximity to port facilities and ease of access to enable to flow of

goods and services through the port. One of the most successful examples of this is Jebel Ali FTZ in the UAE.

Box 13 - Jebel Ali Free Zone[47]

Jebel Ali Free Zone – Strategic Port Access

Established in 1985, the Jebel Ali Free Zone benefits from proximity to one of the largest integrated (port and airport) transport and logistics hubs in the Middle East. Located within 4-6 hours of flying distance from Europe and Asia, and within 2-3 hours flying distance to the rest of the Middle East region, the zone is strategically positioned to serve a sizeable regional and international market.

The zone is located close to one of the largest ports in the region with a capacity of ~13 million TEU (Twenty Foot Equivalent Units) and can serve a number of industries reliant on maritime logistics.

The Jebel Ali Free Zone currently accommodates approximately 7,000 enterprises and is estimated to contribute up to 25% of Dubai's non-oil GDP and over 50% of Dubai's total exports. It is regarded as one of the most successful FTZs within the MENA region benefiting from its strategic geographical position and connectivity to African, European and Asian markets.

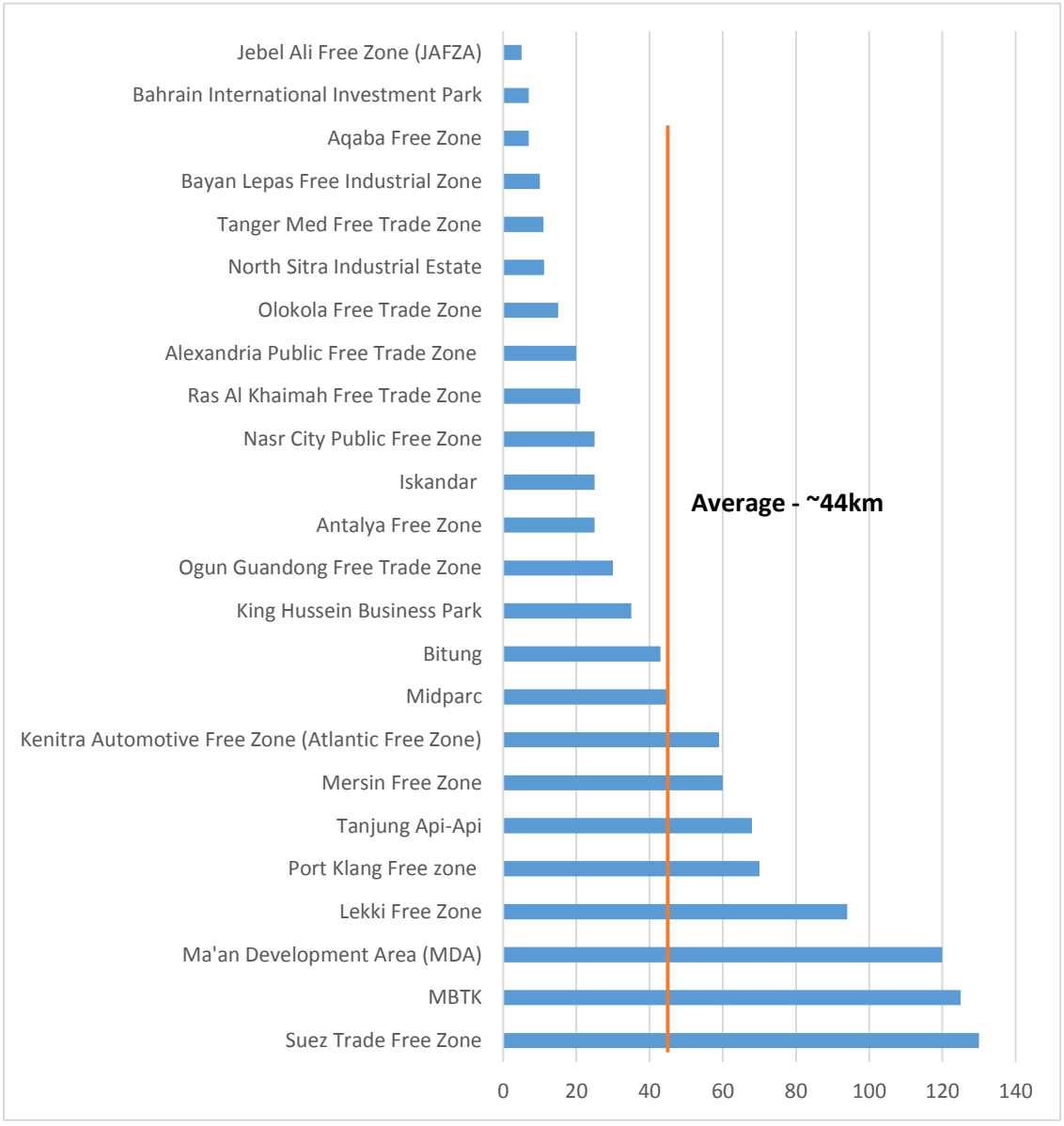
Distance from Nearest Airport

Proximity to an airport is another key success factor for economic zones worldwide. Airports not only provide zones with linkages to domestic and international markets, but also act as hubs for global supplier networks. The role of airports in catalysing industrial activity and enabling value chains is considered crucial in the development of zones.

Airports can have a symbiotic relationship with economic zones and industrial clusters by having a positive impact on the effectiveness and operational efficiency of industries served. In turn, industries can help boost airports' performance by enhancing asset utilisation. Key transport infrastructures such as airports and ports also add to the business attractiveness of a region, thereby making them more competitive.

[47] Jing & Yong (2014) The Successful Operation of Dubai Jebel Ali FTZ on Shanghai FTZ Development Enlightenment.

Figure 6 – Distance from Major Airport (km) within Selected OIC Member SEZs



Source: BuroHappold Analysis 2017

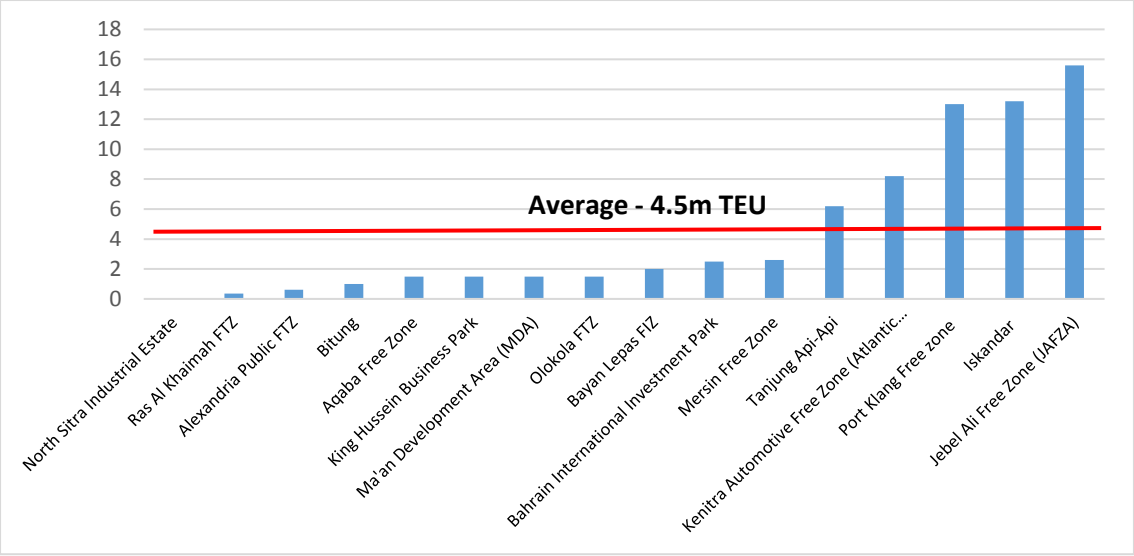
As shown in Figure 6, the average distance of the selected zones from the nearest airport is approximately 44km, which is shorter than the average distance to port facilities.

Nearest Port Cargo Capacity

It is observed that the economic performance of zones not only relies on their proximity to ports, but also on the capacity of the ports to handle appropriate volumes of maritime cargo. Storage, warehousing and distribution functions are equally important for ports to be able to serve and support economic activities effectively.

Figure 7 below indicates that the average carrying capacity of ports within proximity to SEZs within OIC Member Countries is 4.5 million TEUs.

Figure 7 – Capacity of Ports in Proximity to Selected OIC Member SEZs (million TEU)



Source: BuroHappold Analysis 2017

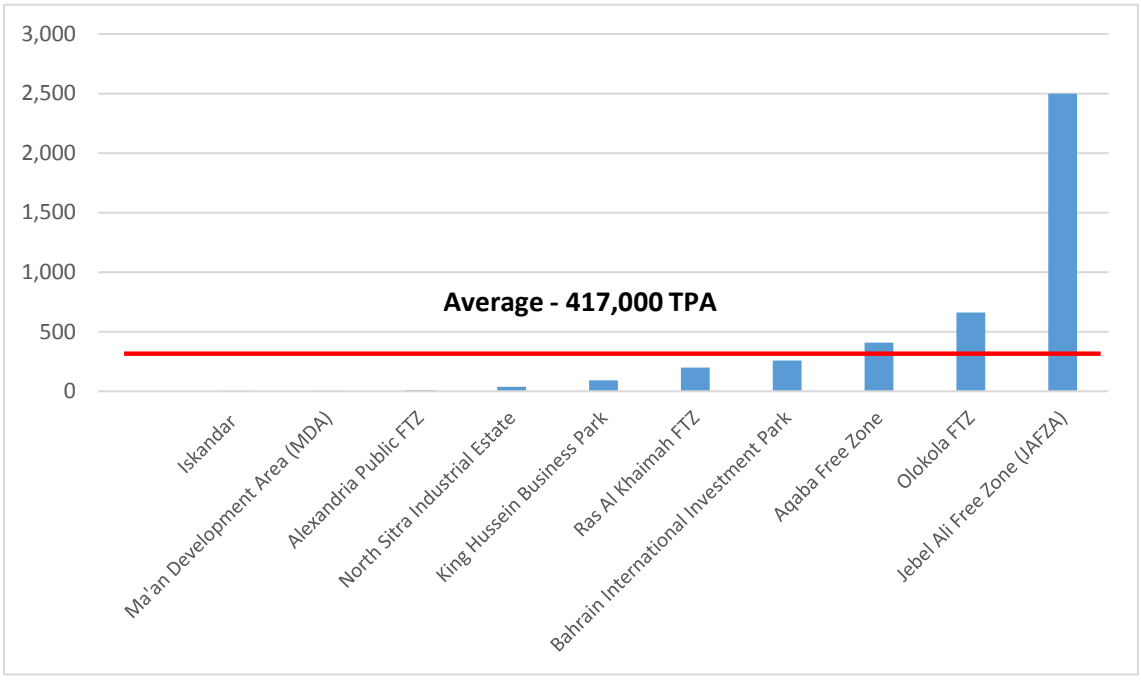
A further consideration relates to the shipping lines and services that utilise a port. The size and volume of a port facility will not in itself guarantee movements of goods in and out of the location. The port must also be considered desirable by a sufficient number of shipping and cargo companies in order to support commercial activity successfully.

Nearest Airport Cargo Capacity

Similar to the carrying capacity of the nearest serving ports, the capacity to handle air cargo determines the effectiveness of airports to serve economic zones, thereby in turn, impacting the likelihood of their success.

Figure 8 indicates that the average cargo capacity of airport within proximity of SEZs within selected SEZs is 417,000 t.pa. It should be noted however that the lack of data with regards to airport cargo capacity and the significant capacity recorded within Dubai International Airport which lies within close proximity to Jebel Ali Free Zone, has distorted these figures to some degree.

Figure 8 – Capacity of Airports in Proximity to Selected OIC Member SEZs (000 tonnes per annum (TPA))



Source: BuroHappold Analysis 2017

Summary

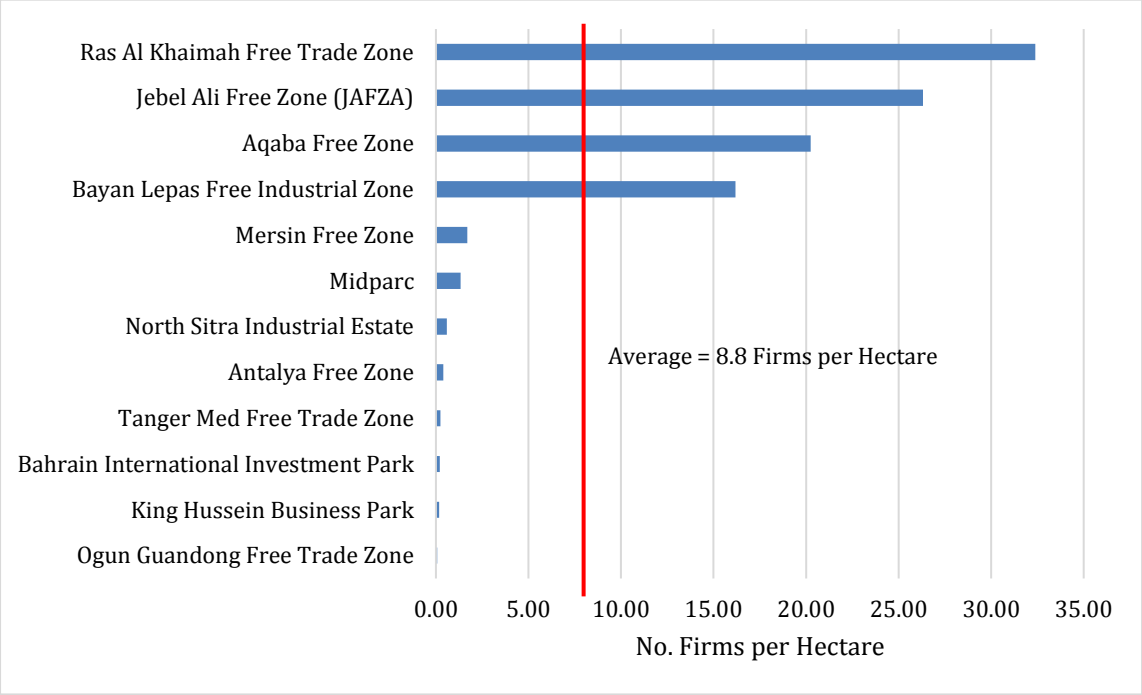
The above analysis indicates that some of the SEZs selected for benchmarking have very good access to strategic infrastructure which has supported their development and growth. Examples such as Jebel Ali which has excellent accessibility to both a large port and international airports demonstrates the critical relationship between SEZ development and infrastructure accessibility and capacity for developing successful SEZs.

4.2.2 Economic Characteristics

Employment and Enterprises

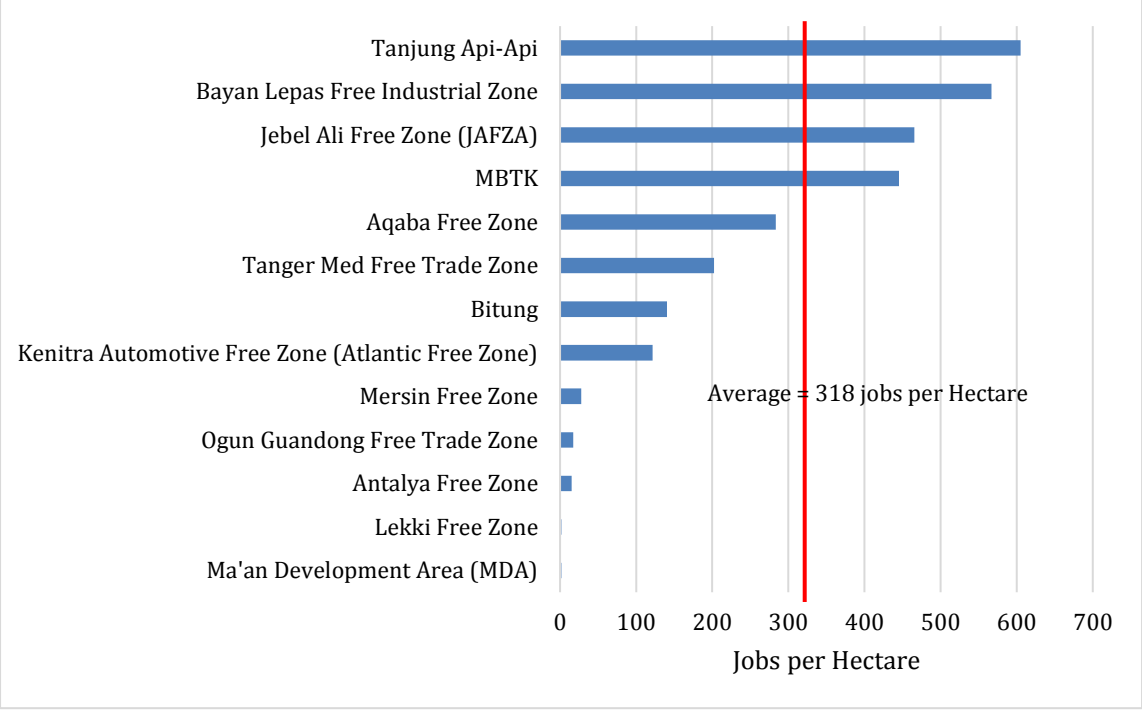
At the typology level, the two key indicators used for the analysis are - average number of companies per hectare and jobs created per company. Due to incompleteness of data, the figures presented below are based on those zones for which available, reliable data was provided. Although not fully representative they give some indication of the trends within the different typologies. This analysis is presented within Figure 9 and Figure 10.

Figure 9 - Firms by Hectare within Selected OIC Member SEZs



Source: BuroHappold Analysis 2017. Data included where available.

Figure 10 - Jobs per Hectare within Selected OIC Member SEZs



Source: BuroHappold Analysis 2017. Data included where available.

Figure 9 illustrates the significant range in the density of firms within selected SEZs in OIC Member Countries. Whilst the availability of data restricts the size of the sample which can be analysed it can be observed that some zones are more successful than others in attracting enterprises to the zones. It is recorded that there is an average of 8.8 firms per hectare within the analysed economic zones; ranging from 32.4 firms per hectare within the Ras Al Khaimah FTZ to 0.06 firms per hectare within the Ogun Guangdong FTZ.

A similar pattern is observed when analysing the number of jobs per hectare within selected OIC SEZs. An average of 318 jobs per hectare is recorded, ranging from approximately 600 jobs per hectare within the Tanjung Api-Api SEZ to 2 jobs per hectare within the Ma'an Development Area.

It can be seen that those zones with well-established zone authorities and investment agencies have become very successful at attracting both enterprises and generating jobs within their respective zones. A good example of this are the Jebel Ali Free Zone and Ras Al Khaimah FTZ which have generated a significant amount of employment and attracted a large number of enterprises to set up in the zone. The 'One Stop Shop' approach to business development is prevalent amongst many of the zones but those zones which offer a fully inclusive or 'single window' service are observed to be more successful at attracting investment.

It should be acknowledged however that the sectoral focus of SEZs will also have a significant impact on the density of enterprises and employment found within them. For example zones which focus on logistics functions will contribute fewer enterprises per hectare given the larger land requirements of these types of sectors. Equally, sectors which have less labour intensive requirements will record smaller employment densities per hectare compared to more labour intensive industries such as textiles and garments. It is therefore important to understand the wider economic context when considering the economic success of SEZs and to consider a range of indicators to facilitate this judgement.

Box 14 - Dubai Free Zones Council – Coordinated Approach to Incentives and Policies

Dubai Freezone Council

The vision of the Dubai Freezone Council is to support the free zones within Dubai to become the leading destination for investment globally. The council acts as the primary forum for coordination of free zone activities including review of legislation and policies that regulate the zones.

The Freezone Council has developed a comprehensive strategy for the free zones in Dubai and proposes and reviews policies and rules with regards to enterprise registration. In 2017 the Council approved a new strategic plan to support the Dubai Plan 2021 and the individual free zone strategies.

The success of Dubai's free zone policies is evident in the economic performance of the zones where it is recorded that approximately 225,000 employees works within approximately 19,000 enterprises within the free zone boundaries.

4.2.3 Incentives

There are a range of incentives offered by the different zones for firms choosing to locate within the zones. A comparative matrix of fiscal and non-fiscal incentives is presented below in Table 4-3.

Table 4-3 - Comparative Matrix of Incentives within Selected OIC Member State SEZs

Zones	Fiscal Incentives	Non-fiscal Incentives
Bahrain Bahrain International Investment Park North Sitra Industrial Estate	0% corporation tax (with a 10 year guarantee) Duty free access to all GCC markets Exemption from import duties on raw materials and equipment Duty free imports of raw materials and equipment for manufacturing	100% foreign ownership 100% repatriation of capital No recruitment restrictions No minimum capital required
Egypt Alexandria Public FTZ Nasr City Public Free Zone Suez Trade Free Zone	5% income tax vs 10-20% outside SEZ 10% unified income tax vs 20% outside SEZ Duty free import of capital equipment, raw materials and intermediate goods	Accelerated customs service within SEZ Access to sales within domestic market Duty on sales to domestic market will be assessed on the value of imported inputs only
Indonesia Tanjung Api-Api MBTK Bitung	Exemptions on corporation tax depending on scale of investment - from 20%-100% VAT and Luxury Sales Tax exempt for certain taxable goods Exemption from import duties for certain goods to SEZs	Permission to hire foreign workers in directorial or managerial roles Ease in regulations with regards to land ownership and land acquisition Granted land rights for those who already have land Ease in regulations with regards to immigration of foreign business people

Zones	Fiscal Incentives	Non-fiscal Incentives
	Exemptions for import of raw direct materials and supporting materials for production purposes No import income tax No tax agency incentives Reduction in property tax in compliance of law and regulation	
Jordan Aqaba Free Zone	5% income tax on income generated from activities within ASEZ in certain sectors Exemption from social service tax Exemption from sales tax on majority of goods and services Exemption from annual land and building taxes on utilised property Exemption from taxes on distribution of dividends and profits on activities in ASEZ and outside Jordan No tariffs or import taxes on imported goods for individual consumption and registered enterprises	No foreign equity restrictions on investment in tourism, industry, retail and other commercial services 100% foreign ownership available No foreign currency restrictions Full repatriation of profits and capital Streamlined labour and immigration procedures - project may employ up to 70% foreign labour as an automatic right
Jordan King Hussein Business Park Ma'an Development Area	5% income tax on activities within the economic zone Exemption from taxable income from export Exemption from sales tax on goods sold into (or within) the economic zone Exemption from import duties on all materials, instruments and machines within economic zone Exemption from social services tax Exemption from dividends tax on income accrued within the economic zone	No restrictions on foreign ownership Streamlined business procedures, licensing for expatriates and property registration/transfer procedures Flexible labour regulations Improved enforcement of intellectual property rights Streamlined customs regulations Clear land ownership policy
Malaysia Bayan Lepas FIZ Port Klang Free Zone Iskandar	Pioneer firms receive exemption from corporate income tax and development tax of 5% for tax holiday period of 5 to 10 years. Unabsorbed capital allowances incurred during the pioneer period can be carried forwards Investment Tax Allowances are also available for companies which cannot obtain pioneer status and allows an allowance of 60% on capital expenditure	100% foreign ownership allowed for companies exporting >80% No equity restrictions Foreign exchange administration flexibilities and expatriate positions Unrestricted employment of local and foreign workers for some sectors Protection of intellectual property

Zones	Fiscal Incentives	Non-fiscal Incentives
	within five years. This allowance can be offset against 70% of its statutory income for each year of assessment reducing corporate income tax. Exemption from payment of sales tax Exemption from payment of excise duty Exemption from payment of service tax Reinvestment allowance	Expedited timescale for license applications Human Resource Development Fund Special industrial building allowance for training Deductions for approved training, pre-employment training and non-employee training
Morocco Tanger Med FTZ Kenitra Automotive Free Zone Midparc	Full exemption from corporate tax for first five years following by fixed rate of 8.75% for 20 year period Subsidies for some industries through Hassan II fund Contribution of up to 30% of cost of buildings Contributions of up to 10% of costs of acquiring new capital goods Total state participation up to 15% of total investment Contributions of up to 30% of total land acquisition costs Import duty exemptions VAT exemptions for capital costs such as equipment good, materials and tools required to achieve investment projects	Support system for operators in training efforts Training plan tailored to needs of the automotive sector
Nigeria Ogun Guangdong FTZ Lekki Free Zone	100% tax holidays for all federal, state and local government taxes, rates, duties and levies	Provision of offsite infrastructure
Turkey Mersin Free Zone Antalya Free Zone	Exemptions from corporate income tax Free transfer of profits Income tax exemptions over salaries providing a minimum of 85% of goods are exported Exemption from custom related taxes on imports to economic zones	100% foreign investment is allowed No minimum requirement for capital investment Sales to domestic market is allowed No restrictions on work permits for expatriate employees Stocks can be kept in FTZs for unlimited periods of time Incentives and advantages are available to all firms regardless of their origin
United Arab Emirates Jebel Ali Free Zone	0% corporation tax for 50 years (renewable concession)	100% foreign ownership allowed No restrictions on repatriation of capital

Zones	Fiscal Incentives	Non-fiscal Incentives
Ras Al Khaimah FTZ	0% import and re-export duties 0% personal income tax Low land rates	No restrictions on employment No restrictions on hiring of foreign employees Zero currency restrictions Access to land through long-term renewable leases

Source: BuroHappold Analysis 2017

As Table 4-3 demonstrates, within the selected OIC SEZ case studies, a broad range of fiscal and non-fiscal incentives are offered. It is observed that there are a number of common incentives deployed to attract investments to SEZ, many of which have commonality with global observations in SEZ development. The key regulatory, fiscal and financial incentives identified in the above analysis are presented below:

- Regulatory incentives:
  - Enhanced ability to employ foreign nationals; granting of visas and work permits;
  - Guarantees against nationalisation, expropriation and price controls;
  - Greater flexibility in repatriation of profits; and
  - Higher share of foreign business ownership.
- Fiscal Incentives:
  - Exemption from corporate and personal income tax;
  - Reductions in customs duties, import/export tariffs and VAT on items related to investment; and
  - Income tax exemption (mostly for an extended duration of ~5-15 years).
- Financial Incentives:
  - State financed infrastructure;
  - Repatriation of profits;
  - Soft loans from national development banks; and
  - Preferential rates for land and utilities.

4.3 Evaluation of SEZ Development in OIC Member Countries

The following matrix provides a comparison of the SEZs selected for the comparative and competitive benchmarking exercise including additional factors such as cost of energy and competitive advantage.

Table 4-4 - Comparative Analysis of Selected OIC member state SEZs

Comparator Matrix	Indicators									
	Size	Distance from Port	Distance from Airport	Organisation / Operator Characteristics	Cost of Power ($ per kWh)[1]	Cost of Water (per m^3)[2]	Competitive Advantage	Firms / Ha	Jobs / Ha	Year Established
Bahrain International Investment Park	247	12.8	7	Public	0.05	1.06	Food and Electrical Manufacturing	0.20	n/a	2010
North Sitra Industrial Estate	200	4	11.2	Public	0.05	1.06	Re-export / warehousing	0.60	n/a	n/a
Alexandria Public Free Trade Zone	570	20	20	Public	0.30	0.24	Petrochemicals and textile manufacturing	n/a	n/a	1973
Nasr City Public Free Zone	76	125	25	Public	0.30	0.24	Textiles, paper and leather manufacturing	n/a	n/a	1973
Suez Trade Free Zone	32	0	130	Public	0.30	0.24	Petrochemicals and metals manufacturing	n/a	n/a	1975
Tanjung Api-Api	2,030	0	68	Public	0.09	1.01	Export processing, logistics, rubber processing and petrochemicals	n/a	605.26	2014
Maloy Batuta Trans Kalimantan	557	193	125	Public	0.09	1.01	Palm oil industry and logistics	n/a	445.34	2014
Bitung	534	0	43	Public / Private	0.09	1.01	Fishing industry and food manufacturing	n/a	140.53	2014
Aqaba Free Zone	37,500	5	7	Public / Private	0.09	2.20	Tourism, logistics, heavy and light industry	20.24	283.40	2001
King Hussein Business Park	12	330	35	Private	0.09	2.20	Technology and services	0.18	n/a	2010

Comparator Matrix	Indicators									
	Size	Distance from Port	Distance from Airport	Organisation / Operator Characteristics	Cost of Power ($ per kWh)[1]	Cost of Water (per m³)[2]	Competitive Advantage	Firms / Ha	Jobs / Ha	Year Established
Ma'an Development Area (MDA)	900	120	120	Public	0.09	2.20	Ceramics, plastics, electrical manufacturing and renewable energy	n/a	1.60	2008
Bayan Lepas Free Industrial Zone	525	18	10	Public	0.11	0.43	Electronics, engineering, automotive and medical manufacturing	16.19	566.80	1970
Port Klang Free zone	405	0	70	Public	0.11	0.43	Export and logistics	n/a	n/a	n/a
Tanger Med Free Trade Zone	350	0	11	Private	0.13	n/a	Automotive manufacturing	0.24	202.43	2003
Kenitra Automotive Free Zone (Atlantic Free Zone)	198	209	59	Private	0.13	n/a	Automotive manufacturing	n/a	121.46	n/a
Midparc	140	5	45	Private	0.13	n/a	Aerospace and electronics manufacturing	1.34	n/a	2011
Ogun Guangdong Free Trade Zone	10,000	105	30	Private	0.13	n/a	Pharmaceutical manufacturing	0.06	17.21	2008
Lekki Free Zone	1,176	5	94	Private	0.13	n/a	Industry and logistics	0.03	1.82	2008
Mersin Free Zone	84	5	60	Private	0.08	1.29	Light industry and warehousing	1.70	27.75	1986
Antalya Free Zone	62	0	25	Private	0.12	1.06	Textile manufacturing, tourism and maritime	0.40	15.40	1985

Comparator Matrix	Indicators									
	Size	**Distance from Port**	**Distance from Airport**	**Organisation / Operator Characteristics**	**Cost of Power ($ per kWh)[1]**	**Cost of Water (per m³)[2]**	**Competitive Advantage**	**Firms / Ha**	**Jobs / Ha**	**Year Established**
Jebel Ali Free Zone (JAFZA)	12,500	0	5	Private	0.12	2.44	Warehousing, logistics and re/exports	26.32	465.59	1985
Ras Al Khaimah Free Trade Zone	223	3	21	Private	0.13	2.08	Metals manufacturing, warehousing and services	32.39	n/a	2000

Source; BuroHappold Analysis 2017

1. *Average cost of power (per kWh) has been based on national averages in the absence of information available for the individual economic zone.*

2. Average cost of water (per cubic metre) has been based on national averages in the absence of information available for the individual economic zone.

n/a = information not currently available

Table 4-4 summaries the comparative analysis between the selected SEZs within OIC Member Countries against key evaluation criteria. It can be observed that the most successful zones in terms of total employment and numbers of firms, were those zones which were located in close proximity to major port infrastructure with large capacity for movement of imports and exports.

In particular it can be seen that those zones with a sectoral focus on the export / re-export of goods and heavy industrial activities generated the most jobs per hectare whilst those focused on light manufacturing activities such as textiles and pharmaceutical products generated the least number of jobs.

As previously discussed it was also observed that those member countries with established zone authorities and investment agencies were the most successful in terms of employment and enterprise generation indicating that these are key factors to success.

Whilst this section has attempted to identify key drivers of success within benchmarked OIC member country SEZs, it should be acknowledged that factors which contribute to success are also likely to be very context specific. The importance of prevailing economic conditions should be acknowledged and this is reflected in the comparative analysis of zones such as Jebel Ali within the UAE (an advanced development economy) and those zones such as Lekki Free Zone which is located within a developing economy.

4.4 Key Successes of SEZ Development in OIC Member Countries

Some of the most successful SEZ programmes within OIC Member Countries have managed to facilitate the evolutionary development of zones from first stage enclave-type zones focused on employment and skill upgrading through increasing FDI volumes in export orientated activities to second stage diversification of the production base of the domestic economy. In a number of cases it is apparent that the economic diversification of domestic economies has been facilitated by the introduction of SEZs and attracting new manufacturing and service industries to replace or supplement traditional resource based economies. As mentioned earlier in Box 2, the United Arab Emirates has been one of the most successful economies globally at implementing the free zone model to attract high value activities to achieve their objectives of diversifying into non-oil sectors.

Box 15 - Malaysian EPZs[48]

Malaysia is one of the most successful OIC Member States in terms of achieving industrial evolution through SEZ development. The Industrial Strategy adopted in 1987 focused on EPZs as growth poles from which integration with the domestic economy was promoted with the aim of increasing the volume of domestically sourced products to MNCs within the zones and increasing backward linkages with the domestic economy. This approach resulted in domestic suppliers acquiring new skills and competencies.

In addition, MNCs within the EPZs invested in the existing skills and knowledge of their staff resulting in a high proportion of Malaysians occupying managerial and technical occupations. This demand for skilled workers and managers also resulted in public/private sector collaboration in skills development such as the creation of the Penang Skills Development Centre in 1989 in the Bayan Lepas Free Industrial Zone.

This transfer of technology and knowledge can be observed in the number of Malaysian executives within MNCs in Malaysia. It is further demonstrated by the gradual movement of research and development facilities to Malaysia, facilitated by the strength of Malaysian technical staff.

In 2006 it was estimated that SEZs within Malaysia accounted for 72% of FDI, 83% of exports and 5% of employment; predominantly within the E&E sector.

Box 16 - Bangladesh EPZs[49]

Bangladesh, in 2015, provided employment for approximately 450,000 workers within eight EPZs which accounted for approximately 20% of total exports (US$ 55.19 billion). In the period 2002-2008 export values were US$ 11.0bn, compared to a total of US$ 31.7bn between 2009-2015. This indicates significant growth over recent years of approximately 187%. However, whilst export values have increased following the introduction of EPZs, it has been noted by some that zone development has had little success in economic diversification with garment production still the primary production activity despite aspirations to increase the number of high technology industrial activities.

Bangladesh has however been very successful in generating employment opportunities for women with approximately 64% of the zone workforce comprised of women.

There has also been notable successes in countries such as Egypt which have managed to leverage Chinese investment to implement successful SEZ programmes. A good example of this is the Suez Economic and Trade Cooperation Zone which has been developed in partnership

[48] Asian Development Bank (2015) Asian Economic Integration Report 2015: How can Special Economic Zones Catalyze Economic Development.

[49] Bangladesh Export Processing Zones Authority (BEPZA) (2016) BEPZA Annual Report 2015-2016.

with the Tianjin Economic-Technological Development Area (TEDA) Investment Holdings group.

Box 17 - Egypt TEDA Zone – Chinese Investment[50] [51]

By 2013 it was recorded that the TEDA zone had attracted 49 companies, with 38 operational generating a workforce of approximately 1,000 workers and total investments of $358 million. Companies located within the zone either sell within the domestic market, export to China or serve other third party countries.

The zone's partnership arrangement has been more successful than other examples of Chinese investment in African SEZs due to balanced joint ownership agreements, including 25% from Egyptian parties including banks and state owned enterprises, and clear management and organisational structures. The management structure is tiered and includes a high level joint China-Egypt Task Force for the zone. Additionally the zone has an individual Egyptian SEZ Authority which operates under the Prime Minister, there is a licensed JV (Main Development Company) which has authority to develop the zone and a development company (Egypt TEDA) which executes what has been licensed to the Main Development Company.

Given the close relationship in operating, developing and managing the zone, there are also active joint marketing activities both in China and in other global markets.

The zone has also benefited from a clear structured legal framework with regards to labour and suppliers which states that one foreign employee is allowed for every nine Egyptians employed. It is estimated that the first stage of the TEDA zone has generated 1,800 local workers of which approximately 5% are Chinese.

4.5 Challenges of SEZ Development in OIC Member Countries

4.5.1 Key Challenges within OIC Member Countries

In terms of economic performance, SEZs within sub-Saharan African (SSA) OIC Member Countries have performed comparatively worse than other in other regions, with some zones struggling to generate positive employment generation and export performance. Whilst not specific to OIC Member Countries, the following data in Table 4-5 demonstrates the economic performance of SSA zones compared to selected regions.

[50] Zeng, (2015) Global Experiences with Special Economic Zones: Focus on China and Africa. World Bank.

[51] Bräutigam, D.A. and X. Tang. (2013) Going Global in Groups: Structural Transformation and China's Special Economic Zones Overseas

Table 4-5 - Estimates of Direct Employment and Exports in SEZ Regions

Region	Direct Employment (million)	Exports (US$ million)
Sub-Saharan Africa	1.0	8,605
Asia and Pacific	61.1	510,666
Central and East Europe and Central Asia	1.6	89,666
Middle East and North Africa	1.5	169,459

Source: FIAS (2008)

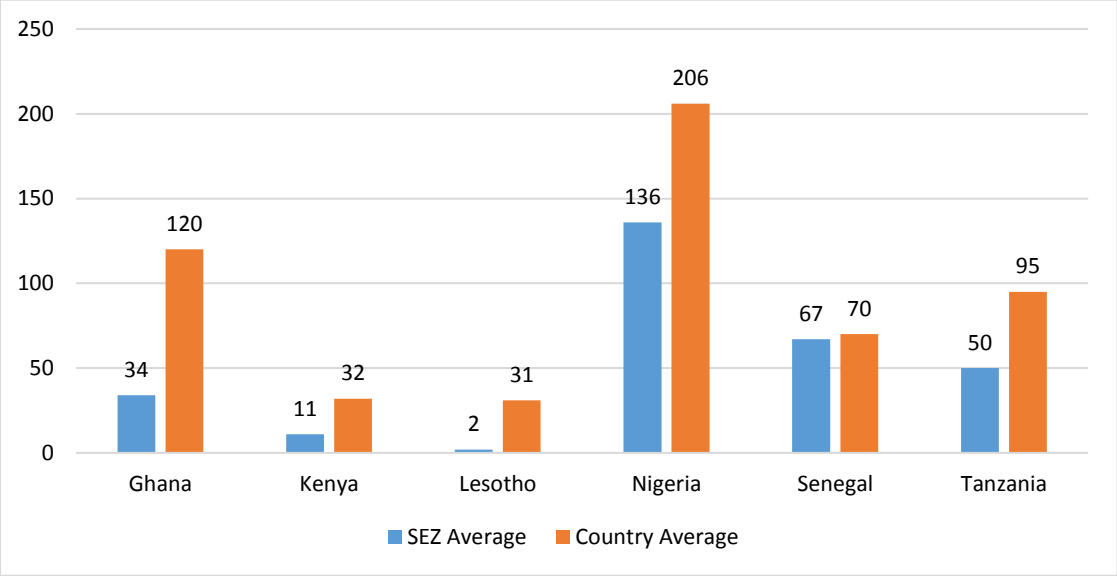
Key reasons for poor economic performance includes (but is not limited to):

- Poor governance and regulatory environment - including ease of doing business.
- Poor business environment – including lack of 'one-stop-shops';
- Inefficient zone management arrangements;
- Unreliable utilities infrastructure – including power supply issues;
- Poor quality transport infrastructure - including port / airport capacity; and
- Some political and social developments – which negatively affects investor confidence.

4.5.1.1 Key Challenge 1: Infrastructure Provision

A particularly acute example of challenges facing SEZs within OIC Countries within SSA is the provision of high quality infrastructure. This is evident when examining the average monthly downtime of electricity supply within African SEZs, with a particular focus on Nigeria. It is clear that Nigeria still suffers from significantly greater disruption due to power shortages than other OIC Member Countries such as Senegal and other SSA African countries with SEZ development. Nigeria has however managed to reduce downtime averages compared to area outside of SEZs by approximately 50%. This is presented below in Figure 11.

Figure 11 – Average Monthly Downtime due to Power Outages – SSA African SEZs



Source: Farole 2011

Infrastructure provision is an acute challenge with many zones constrained by the quality and provision of infrastructure. Power, gas, roads, ports and telecom infrastructure are particular challenges and there has been a recent trend with regards to Public Private Partnerships (PPP) to solve these constraints. Given the typical size of investments required to service these zones however, there is a strong requirement for solid commitment for Government for these projects alongside active participation of the private sector.

Box 18 - Infrastructure Financing in Nigerian SEZs

Within the Lekki Free Zone, a concession has been granted by the Lagos State government to build a sea port near the zone and there are plans to build an airport for the planned Lekki metropolis. The Ogun-Guangdong zone also faces challenges in terms of off-site roads, power and gas but a potential investor has agreed to build a power plant for the zone.

4.5.1.2 Key Challenge 2: Legal, Regulatory and Institutional Framework

Another key challenge of SEZ implementation within OIC Member Countries has been issues related to the legal, regulatory and institutional framework. It is noted that countries such as Nigeria have implemented SEZ development with either outdated or non-existent frameworks even though SEZ developments have been launched and made operational. Particular examples include the Lekki Free Zone and Ogun-Guangdong Zone in Nigeria.[52]

[52] Zeng, D (2012) SEZs in Africa: Putting the Cart in Front of the Horse?

Investment arrangements are often undertaken on a Memorandum of Understanding (MOU) basis and as such there is a lack of transparency and clarity of roles and responsibilities between government departments and regulators when investors come to engaging with public bodies. This can lead to confusion and lack of transparency with regard to the regulatory, legal and operational environment and lead to perceptions of increased investment risk.

The lack of an effective legal, regulatory and institutional framework can also hinder the ease of doing business within SSA SEZs. The costs of business are typically higher within these countries than in other regions in terms of registration, licensing, taxation, trade, logistics, customs clearance, foreign exchange and service delivery.[53]

Box 19 - Legal and Regulatory Framework in Nigerian SEZs[54]

A key example of this is within Nigeria where the NEPZA legal framework for Free Zone implementation does not apply to the current free zone operations. This means that at present, the legal act does not allow products which are made or processed within Nigeria's free zones to be imported to the domestic market. Whilst new regulations introduced by NEPZA and the Nigerian Ministry of Trade and Investment allow for the import of products that meet a minimum of 35% value addition and payment of customs duties the Customs Administration does not currently acknowledge these regulations. This has detracted from potential investment within Nigeria's SEZs.

There have also been challenges in the design of the institutional frameworks for regulating SEZs, with experiences of conflicts between public and private operators within certain OIC Member Countries such as Bangladesh.

Box 20 - Conflicts between Public and Private Operators - Bangladesh

In Bangladesh the same authority, the Bangladesh Export Processing Zone Authority (BEZA) is responsible for delivering zone development, management and regulation as set out within the institutional and legal framework. Despite passing a law allowing for the provision of private zones however, the first privately developed zone project languished for 8 years awaiting for approval for its operating license.

4.5.1.3 Key Challenge 3: Zone Management and Institutional Knowledge

Given a lack of institutional capacity within some OIC Member Countries, there have been significant challenges in facilitating effective zone management practices particularly with regards to fostering an efficient business environment including the provision of a 'one-stop-

[53] Zeng, D (2015) Global Experiences with Special Economic Zones: Focus on China and Africa.

[54] World Bank (2012) An Overview of Six Economic Zones in Nigeria: Challenges and Opportunities.

shop' for investors. Within some zones, particularly within Sub-Saharan Africa (SSA), this has hindered the promotion of zones and the facilitation of investor interest.

The operational 'know-how' and lack of institutional knowledge is a key challenge for developers when identifying partners to provide the operational and zone management functions. There have however been some successes in this regard in certain zones such as the Lekki Free Zone based on the influence of Chinese Investment. The Chinese stakeholder has conducted several workshops/study tours for local partners to understand the Chinese/East Asian experiences in SEZ development and to facilitate knowledge sharing practices.

4.5.1.4 Key Challenge 4: Poor Quality Business Case and Economic Rationale

The scale, geographic location and development model of SEZs are key challenges for OIC Member Countries and there have been particular examples of where a lack of economic rationale for SEZ development has led to failure of the zone. In order to achieve success there must be a clear link between the attributes of the zone and government policy objectives to ensure that the zone programme is solidly rooted and is likely to attract strong political and institutional support. In addition, SEZs need to be integrated into the wider economy and a clear understanding of how SEZs can help to address national economic development and economic priorities needs to be established.

Box 21 - SEZ Development in Nigeria – Calabar EPZ

The decision to establish EPZs in Nigeria in the 1990s was based on a vision to increase manufacturing exports. A decision was made to establish a 'flagship' EPZ in the Cross Rivers State in the City of Calabar. At that time however, Calabar was not a major manufacturing or logistics centre within the country and the port of Calabar was relatively small compared to other ports within Nigeria. The port was not located in a strategically advantageous location and as such there were significant challenges in attracting export-orientated investment to the zone. As a consequence, the zone failed to develop as planned.

There have also been documented challenges in terms of developing a strong economic case for site location and sector selection. In some OIC Member Countries there may be a strong political will regarding the decisions about site location and sector selection. International experience has shown that the location of an SEZ in a country, and particularly its proximity to major trade gateways such as ports and airports, is critical to SEZ success and growth.

Box 22 - SEZ Development in Bangladesh

Bangladesh has seen great success in terms of attracting investment to the EPZs located within the main cities of Dhaka and Chittagong, as well as the recently established Dhaka-Chittagong corridor. However the three zones within the northern (Uttara EPZ) and western (Ishwardi and Mongla EPZs) parts of the state have struggled to attract investment and suffer from poor economic performance. All of these EPZs are located more than 600km from the nearest international port and hundreds of kilometres from major centres such as Dhaka. A combination of poor quality transport and utilities infrastructure have compounded the comparative disadvantages of these locations and has resulted underdevelopment of the manufacturing clusters and poor access to supplies and imports.

4.5.1.5 Achieving Positive Economic Impacts

Like global trends in SEZ development, many zones in OIC Member Countries are established to achieve economic objectives such as increasing FDI flows, diversifying exports and encouraging spill over or linkages with the domestic economy.

Perceptions of the host country as a location for doing business can be a significant barrier to attracting investment to zones within OIC Member Countries. It is acknowledged that without a marketable product to sell to foreign investors then investment is unlikely to localise itself in a Zone. Negative perceptions of business environments include regulatory uncertainty, poor intellectual property protection and legal frameworks, inadequate infrastructure provision and perceptions of corruption.[55]

Box 23 - Dakar EPZ – Challenges to Investment[56] [57]

Dakar faced some challenges with regards to its attractiveness to investment and its bureaucratic procedures. At the time the zone was closed in 1999 it accommodated just 14 active enterprises after 25 years of operation. Cling and Letilly (2001) identify the following problems:

- Excessive bureaucracy involving different institutions in the country, especially customs;
- Unnecessarily long delays in obtaining necessary permits (often more than one year);
- Unrealistic goals imposed on potential investors, both with regard to jobs to be

[55] Moran, T (2011) International Experience with Special Economic Zones – Using SEZs to Drive Development in Countries Around the World.

[56] FIAS (2008) Special Economic Zones: Performance, Lessons Learned and Implications for Zone Development.

[57] Cling, J and Letilly, G (2001) Export Processing Zones: A Threatened Instrument for Global Economy Insertion?

Establishment of backward linkages can be hampered by the placement of zone enterprises within global markets meaning that many companies import inputs through established supply chain networks rather than procuring inputs within the domestic economy. This is often facilitated through exemptions from customs and VAT on imported raw materials and machinery. At the same time, domestic suppliers face issues in meeting the quality standards necessary to supply inputs to zone enterprises. This can result in the suppression of backward linkages apart from within low value added products such as bulk packaging and service and maintenance activities.

Box 24 - Backward Linkages in Tunisian SEZs[58]

Tunisia's EPZs struggled to generate backward linkages with the domestic economy primarily due to a tax regime which limited the potential for trade between the garment sector within the EPZs and the textile sector within the domestic economy. Whilst seemingly complementary in terms of linkages, Tunisia's EPZ have historically generated very little in the way of domestic supply chain linkages given import duties are payable on domestic inputs to EPZ companies. In contrast EPZ companies are able to access high quality, established global supply chains and import inputs exempt of duties and often at a lower price and better quality than domestic inputs.

[58] Moran, T (2011) International Experience with Special Economic Zones – Using SEZs to Drive Development in Countries Around the World

5 Lessons Learnt from SEZ Case Studies

Whilst the previous sections have focused on developing a broad overview of the state and performance of SEZs both internationally and across the OIC Member Countries, this section presents the findings and analysis of a detailed review of six major and successful zones within four OIC Member Countries and two non-OIC Member Countries.

The four OIC case studies are represented within each of the main OIC regions; Africa, Asia and Arab Groups. Two case studies from OIC Member Countries, namely Malaysia and Morocco have been investigated as field visits, while other case studies from OIC Region, namely Nigeria and Jordan and Non-OIC case studies, Singapore and Ethiopia have been analysed through desk studies.

5.1 Methodology

The detailed case study examples have been compiled through a combination of desktop study and site visits. The site visits were used to gain qualitative and qualitative data from the following key stakeholders (where possible):

- Investors;
- Investment Promotion Agencies;
- Government;
- SEZ Developers;
- SEZ Regulators; and
- SEZ Operators.

Interviews with key relevant stakeholders were undertaken as part of the case study site visits and focused on the key themes and questions outlined within Annex I. Data was collected through interviews and perspectives on key challenges and success factors were explored to offer detailed insights into lessons learnt. The findings of these interviews are presented within each of the field visit case studies in this section.

A number of desk based case studies have also been undertaken drawing upon existing databases of benchmarking data, professional experience and knowledge and publically available research material.

The following table outlines those case studies which have been identified for the purpose of this report. These case studies were selected based on their geographical location within each of the OIC's three regional groups; Arab, Africa and Asia. In addition, based on the consultants expert knowledge and discussions with World Bank colleagues these zones were judged to represent successful cases for analysis to determine lessons learnt and best practice amongst OIC Member Countries. Additionally, zones such as Tanger Med Zone, Aqaba and Lekki Free

Zone have been acknowledged as globally successful zones by organisations such as fDi Intelligence which undertake annual awards recognising global success in free zone development. [59] Others, such as Penang FIZs are globally recognised successes in SEZ development.

Table 5-1 - Detailed Case Studies – Selected Zones

Zone	Region	Case Study / Desk-top Study
Lekki Free Zone	Nigeria - Sub-Saharan Africa	Desk-top Study
Bole Lemi Industrial Zone	Ethiopia - Sub-Saharan Africa	Desk-top Study
Penang Free Zone	Malaysia - Asia	**Case Study Visit**
Jurong Freeport	Singapore - Asia	Desk-top Study
Tanger Med Zones	Morocco - MENA	**Case Study Visit**
Aqaba Free Zone	Jordan - MENA	Desk-top Study

The following section examines each of the six case studies in turn, to develop a detailed review of the four OIC Member Countries' and two non-OIC Member Countries SEZ experiences in terms of economic performance and lessons learnt within the individual SEZs. This also includes analysis of economic data available at national and regional levels to gain a broad understanding of the impact of the identified SEZs on national and regional economies. Where information and data is available the case study analysis seeks to establish the success of the SEZs in creating backward linkages, generating employment, enhancing value added exports and attracting foreign direct investment.

[59] fDi (2015) fDi Global Free Zones of the Year 2015. Available from: http://www.fdiintelligence.com/Locations/fDi-Global-Free-Zones-of-the-Year-2015-Winners.

5.2 Case Study 1: Penang SEZ, Malaysia

5.2.1 Overview and Description

This case study focuses on the State of Penang in Malaysia. The State is divided into two halves; Penang Island which is located on the Strait of Malacca and Seberang Perai which is a narrow stretch of hinterland on the mainland of Malaysia bordered by Kedah in the East and North and by Perak in the South.

Penang benefits from strong trade related infrastructure including the Bayan Lepas Airport and the Seberang Perai sea port.

Table 5-2 - Penang SEZ Overview

Zone	Primary Activities
Established	1972
Area	~ 3,160 ha
No. of firms on-site	~830
Authority in Charge	Penang Development Corporation (PDC)

Source: PDC interview (2017)

Vision and Objectives

In the early 1960s, following a period in which Penang's trade-dependent economy had stagnated, the State government embarked on a programme of import substitution based industrialisation to boost the local economy. However, given its relatively remote location within North West Malaysia and the small domestic market, many industries failed within the first three years. By the end of the decade, these programmes had not succeeded in stimulating economic growth within the state and as a consequence Penang's per capita income was 12% lower than the national average, whilst unemployment had reached 9%.[60]

Following the loss of Penang's free-port status in 1969, the Malaysian government commissioned a study by Robert R. Nathan Associates to analyse the challenges and opportunities for Penang's economy. The report identified that an export-led growth strategy would be the only viable solution with a focus on Bayan Lepas given its transport accessibility (proximity to the airport) and access to a large pool of labour.

[60] Athukorala (2014) Growing with Global Production Sharing: The Tale of Penang Export Hub, Malaysia

The electronics industry was subsequently selected as the priority sector based on its significant employment generation potential and compatibility with Penang's role as a centre for tourism as a 'clean' industry.

Development of the SEZ

The first Free Trade Zone (FTZ) within Penang opened in August 1972 and was named the Bayan Lepas FTZ. The zone aimed to attract businesses and investment within industries which depended on the movement of materials and products by air-transport, including; electronics, medical supplies and other precision and machining industries. The Bayan Lepas FTZ was subsequently extended into three further phases.

In 1980, a second FTZ opened in Seberang Perai close to the sea port. Given its proximity to the port, this zone was designed to attract industries producing bulk items such as household electrical appliances.

Within close proximity to the FTZs, the PDC also developed five industrial estates which were set up to accommodate supportive and ancillary industries related to businesses and industrial activities within the FTZs. This requirement resulted in the creation of two categories of free zones; the Free Industrial Zones (which replaced the original Free Trade Zones) (FIZs) and the Free Commercial Zone (FCZ) which were created to cater for the needs of trading and services businesses.[61]

Penang has undergone significant industrial transformation since the 1960s when trading and agriculture were the dominant activities. Following the introduction of the FTZs and the industrial estates Penang has fostered a strong manufacturing based economy. The following figure outlines the transformational change within the Penang SEZs from basic assembly functions to high value manufacturing and research and development activities.

[61] Chai and Im (2009) The Development of Free Industrial Zones – The Malaysian Experience.

Table 5-3 – Penang Industrial Zone Development

	Setting Up of MNCs	Beginning of Mechanisation	High Automated Manufacturing	Diversification Beyond Semi-conductor Activities	Moving Up the Value Chain
Trading Agriculture	Low cost Labour intensive operations	Precision tooling Local contract manufacturing Semiconductor-automation Assembly & test Consumer electronics Development of local supporting industries	Hard disk drive Test system development Supply chain management R&D applications Vertical integration EMS	LED – packing & testing Wireless/RFIP Medical devices Biotechnology Optoelectronics Solar support Local SME migrating to system design & development Aerospace / avionics	SSO Design & development LED – solid state, chip, display / design Integrated solar industry Computing & mobiles electronics

Source: Penang Development Corporation (2017)

5.2.2 Spatial Profile

The Penang Free Trade Zones, Free Commercial Zones and associated Industrial Estates cover an area of approximately 3,150 ha. The spatial profile of each of the zones and industrial estates is detailed below.

Table 5-4 – Spatial Profile – Penang SEZ

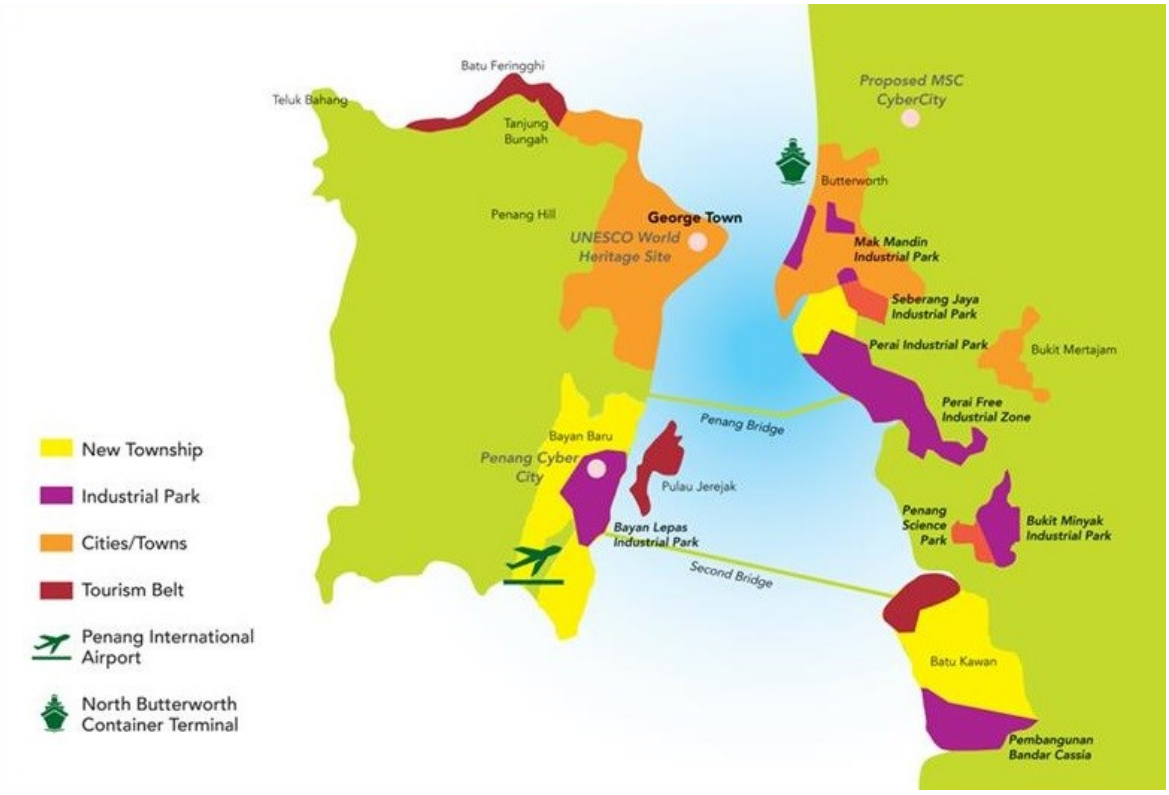
Zone	Gross Area	Type (FIZ / FCZ / Industrial Estate)	Distance to Nearest Airport	Distance to Nearest Port
Bayan Lepas	520 ha	FIZ / FCZ[62]	0km	20km
Prai	930 ha	FIZ / Industrial Estate[63]	20km	7km
Mak Mandin	100 ha	Industrial Estate	25km	2km
Seberang Jaya	30 ha	Industrial Estate	25km	2km
Bukit Tengah	320 ha	Industrial Estate	25km	11km
Bukit Minyak	600 ha	Industrial Estate	30km	20km
Batu Kawan	650 ha	Industrial Estate	20km	30km

Source: BuroHappold Analysis 2017

[62] Within Bayan Lepas land situated within Mukim 12, District of Barat Daya and land is designated as a Free Commercial Zone. This includes the Air Cargo Forwarding Agents Warehouse Complex within Penang International Airport

[63] Within Prai the Prai Wharf is designated as a Free Commercial Zone

Figure 12 – Penang FIZs and Industrial Estates



Source: PDC (2017)

5.2.3 Legislative and Regulatory Framework

Special Economic Zone Act and Regulations

5.2.3.1 Legal

In 1971, Malaysia passed the Free Trade Zone Act to create Export Processing Zones within Malaysia. Penang SEZ in Bayan Lepas was the first zone to be set up in 1972.

As industrialisation spread rapidly across Malaysia there was a corresponding development of trade and services such as bulk breaking, repacking, re-labelling and other ancillary activities attributed to the export market which required bonded areas or free zones to facilitate these new activities.

These free zone categories are governed via the Free Zones Act 1990 and the Free Zones Regulations 1991 which replaced the original Free Zones Act 1971. Under the Free Zones Act 1990, the Minister of Finance may declare an area to be a free zone, primarily for the manufacture of goods for export.

Box 25 – Penang SEZ Success Factors – Evolution of Legal Framework – PDC Interview

The PDC emphasised the importance of developing flexible legal frameworks to maximise investor choice. They highlighted the conflicts between the FTZs and supporting industrial estates in the early phases of the Penang FTZ programmes due to the differences in incentives offered within and outside the zones. In 1967 the LMS customs regime was introduced to allow licensed warehouses to be established within the industrial estates and to incentivise investment outside of the FTZs.

5.2.3.2 Regulations

In order to qualify for location within the Penang FIZ, a business has to export a minimum of 80% of its output and its raw materials and components should be primarily imported although the Government does encourage the use of local supply chains. In addition, businesses can apply to the Ministry of International Trade and Industry to reduce its export condition to 60% under special circumstances.

Licensing, Ownership and Zoning Restrictions

Within the Penang Free Trade Zones and the industrial parks, land is typically offered on a sale or lease basis. Sale of land is typically made on a leasehold basis for a period of either 60 or 99 years.

Incentives

Under the Free Zones Act (1990) and Free Zones Regulations (1991) companies located within an FIZ or with LMW status are eligible for a number of fiscal incentives.

- Duty free imports of raw materials – including packaging materials and machinery and equipment, this excludes:
  - Fuel;
  - Office furniture; and
  - Equipment such as air conditioners, construction materials, food and drink, vehicles and spare parts and wearing apparel for employees.
- Exemption from payment of sales tax;
- Exemption from payment of excise duty; and
- Exemption from payment of service tax.

5.2.4 Organisational and Administrative Profile

The economic reforms within the late 1960s and early 1970s included the creation of a new statutory body, the Penang Development Corporation (PDC), in November 1969. The PDC was formed under the State Enactment as the principal development agency for the state. Its legal

status enabled it to react much more proactively compared to government departments which faced bureaucratic constraints due to the relationship between the State and Federal governments[64]. The PDC took on the role of coordinating the interaction between the municipal administration and the state government.

The PDC's primary objectives in terms of FIZ and Industrial Estate development within Penang is to develop, plan and implement development projects. This includes industrial park development, township development (residential accommodation) urban redevelopment, affordable housing and investments. Crucially, the establishment of an autonomous, quasi-public body enabled the PDC to gain the powers to borrow money from banks. This has allowed the PDC to increase its land holdings and develop Penang's industrial areas in line with its master planning vision.[65]

Box 26 – Penang SEZ Success Factors – Masterplan Approach – PDC Interview

The PDC identified that Penang's key value added was the integrated masterplan approach PDC have deployed in development of the FIZs and Industrial Estates. The provision of land for industry, high quality infrastructure and supporting amenities and leisure uses to support the working population are identified as key differentials for investors when choosing to invest within Penang. For this reason, the PDC also observe that private industrial parks have not been as popular as the PDC developed zones and estates given the PDCs reputation for masterplan development and management of FIZs and Industrial Estates.

Throughout the development of FIZs and Industrial Estates within Penang, the PDC has retained the role of 'master developer' but in some instances has developed Public Private Partnership (PPP) arrangements with the private sector to deliver developments.

A recent example of this is the memorandum of understanding (MOU) between the PDC, Temasek and the Economic Development Innovations Singapore Pte Ltd (EDIS) to establish a new Business Processing Outsourcing Prime (BPO Prime) and the Penang International Technology Park (PITP). To facilitate this development a new joint-venture company (JVCo) was established.

InvestPenang was also established in 2004 to take on the role of industrial promotion from the PDC. InvestPenang has a remit to explore the key factors which underpin investment within the State and to strengthen the supply chain and industrial ecosystem which support MNCs within the FIZs and Industrial Estates.

[64] Interview with Mr Dato Cheri Singh (former chairman of PDC) and BuroHappold 2017.

[65] Interview with Mr Dato Cheri Singh (former chairman of PDC) and BuroHappold 2017.

Box 27 – Penang SEZ Success Factors – Penang Investment Promotion – Interview with Former PDC Members

Former PDC members involved in the establishment of the corporation and the Bayan Lepas FIZ identify coordinated promotional activities as key to attracting foreign investment to SEZs. In the early 1970s there were proactive efforts to market the FTZ to foreign investment through industry fairs and by matchmaking SMEs with MNCs. These activities are identified as key factors in securing the original eight anchor tenants within the Bayan Lepas FIZ.

The importance of a central organisation to plan, promote and manage the SEZ was also identified as a key success factor by those involved in the zone's initial phases of development. The members noted that the existence of a central group always a coordinated proactive approach to investment promotion.

Box 28 – Penang SEZ Success Factors – Penang Competitive Advantage - InvestPenang Interview

InvestPenang have a wide remit with regards to assisting investors with implementing projects and implementing initiatives to improve the attractiveness of Peneng for investment. A key differential identified by InvestPenang is their focus on the 'liveability' of Penang. The organisation frequently works with federal government agencies on promotional activities including developing policies for state housing, housing for international workforce and even elements such as international schools. The organisation see these types of activities as key to attracting international investment within key target sectors.

The organisation also acts as the voice between investors and the Federal Government to lobby on their behalf with regard to national policies and incentives. This forms part of the organisation's efforts in 'post-investment' care which was identified as a key component in ensuring that the continuing needs of the industries and firms located within the zones are catered for.

5.2.5 Economic Profile

Sectoral Focus

The Penang SEZ currently has a strong manufacturing base in electronics, engineering, automotive and medical devices focused on the following investment sectors within industry and services.

Table 5-5 – Penang Sector Focus

Industry	Services
Electrical & Electronics	Global Business Services (GBS) and Shared Services & Outsourcing (SSO)
Electronic Manufacturing Services (EMS)	IC Design and Development
Light Emitting Diodes (LED)	ICT / Software Development and Creative Multimedia
Life Sciences / Medical Devices	Principal Hub / Operational Headquarters
Aerospace / Avionics / Automotive Software	Logistics and Transportation
Renewable Energy (RE)	Healthcare and Wellness Services
Halal and Food Processing	International Education
	International Education
	Meeting, Incentives, Conferences and Exhibition (MICE)
	High Value Tourism / Hospitality

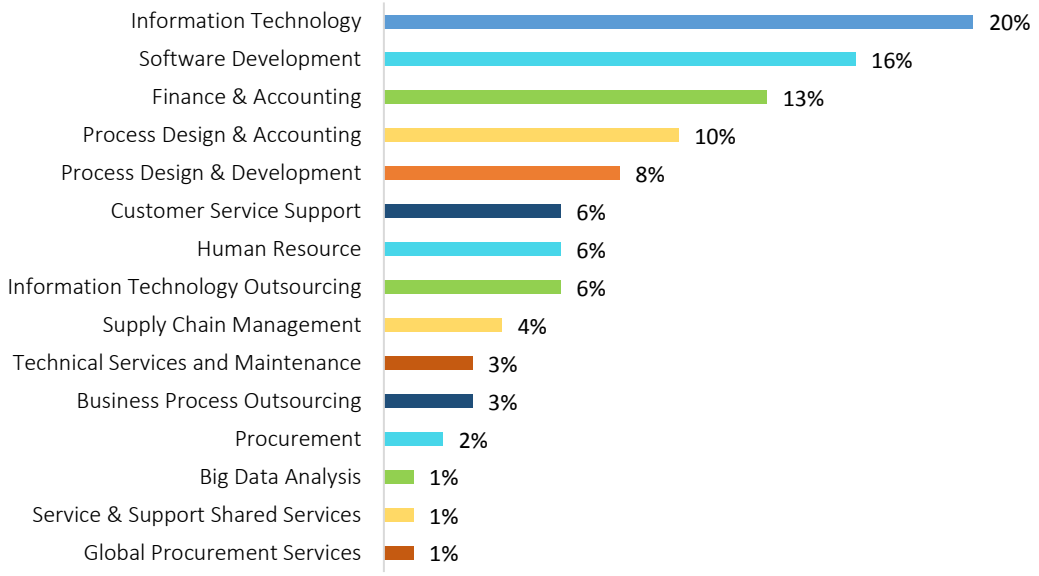
Source: PDC (2017)

In addition, Penang is home to some of the world's top EMS companies including Benchmark Electronics, Flex, Jabil, Plexus and Sanmina-Sci. A number of the world's largest LED producers are also based in Penang such as Osram, Broadcom, Lumileds and CREE.

Penang has also attracted significant investment from the medical devices sector and is now home to approximately one third of medical companies in Malaysia (55 out of a total of 190 companies). In 2016 Penang contributed over RM5 billion of total value of medical devices export from Malaysia. Some of the major medical devices investors include St Jude Medical, Braun, Ambu, Haemonetics, Toshiba, Agilent Technologies and Symmetry Medical.[66]

A recent focus for Penang has been promotion of investment from Global Business Services (GBS), Shared Services and Outsourcing (SSO) and IT sectors. In total there are now more than 40 GBS and SSO companies operating in Penang of which the vast majority (~80%) are captive based companies. It is estimated that in total more than 8,000 high value jobs have been created, with the majority created within the financial and accounting, engineering and IT sectors. In 2017, Luxoft, a leading provider of software development services and innovative IT solutions opened a Centre of Excellence (CoE) at Wawasan Open University and an 'Automotive Software University' in Penang. The company will invest a total of $55.6 million over the next five years in human capital and technology.

Figure 13 – Penang GBS / SSO / IT Sector Focus – %. Companies



Source: Invest Penang Interviews (2017)

[66] Invest Penang interview with BuroHappold 2017

Real Estate

The PDC offers real estate options including the sale of land to industrial investors as well as 'ready-made' industrial buildings and serviced land lease.

Box 29 – Penang SEZ Success Factors – The Role of PDC in Development and Operation – Interview with PDC

The PDC identifies that its role has changed over time from simply selling industrial plots of land to investors to developing land and buildings and leasing them to companies wishing to locate within the FIZs and Industrial Estates. They identify that this 'Build and Lease' model of development has attracted companies which don't wish to invest large capital sums upfront in land and buildings but which are keen to invest in production and R&D activities. This has been a key success factor in attracting higher companies higher up the value chain engaged in R&D and global business service activities.

Economic Performance

The headline economic performance of the Penang FIZs, FCZs and Industrial Estates is summarised below in Table 5-6.

Table 5-6 – Penang SEZ - Economic Performance Summary

Economic Performance Indicator	Performance Summary
Foreign Direct Investment ($)	It is estimated that the FIZs, FCZ and Industrial Estates have attracted a total of $16 billion since 1999.[67]
Number of Companies within SEZ	It is estimated that there are approximately 4,000 of which 10% are Multi-national Companies (MNCs)[68]
Direct and Indirect Job Creation	In total it is estimated that the FIZs and Industrial Estates have created more than 250,000 direct and indirect jobs. Between 2008 and 2016 it is estimated that 139,133 direct manufacturing jobs were created within Penang's FIZs and Industrial Estates.[69]
Export Values ($)	$29 billion in 2016 which equates to approximately 14.5% of total exports
Total Annual Output ($)	No data is collected at the FIZ/Industrial Estate level. However, data for manufacturing activity within the State of Penang shows that in 2013 total

[67] It should be noted that whilst statistics are not available for the FIZs and Industrial Estates, consultation with key stakeholders as part of interviews conducted in the site visit indicate that the majority of FDI within the manufacturing sector is concentrated within one of the FIZs or Industrial Parks developed by PDC.

[68] As previously noted, statistics are not available for the FIZs / Industrial Estates, however it is expected that the majority of manufacturing firms and enterprises are located within these areas.

[69] As previously noted, statistics are not available for the FIZs / Industrial Estates, however it is expected that the majority of manufacturing jobs are located within these areas.

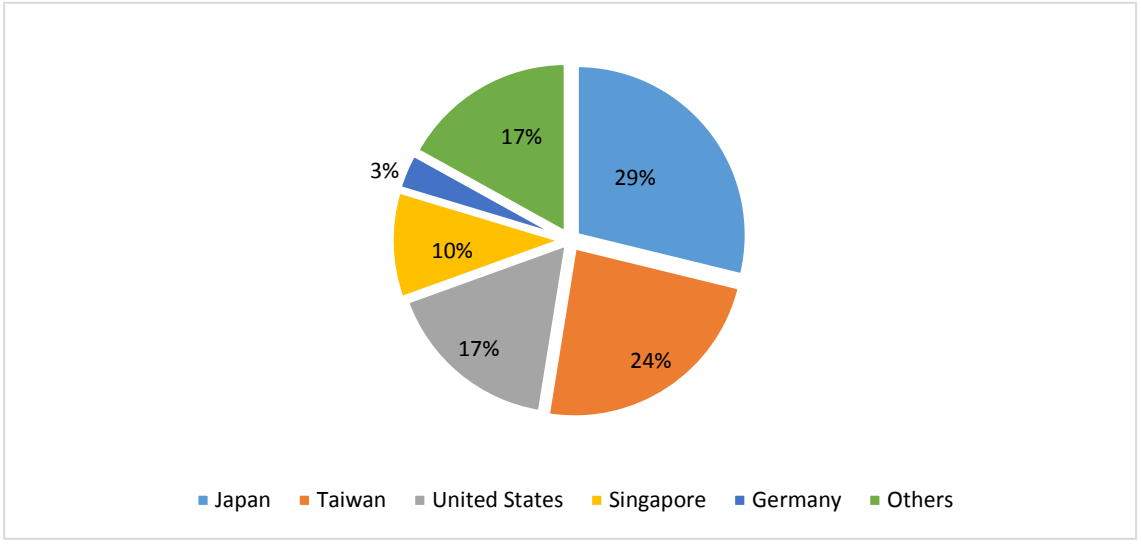
	GDP was $6.3 billion. This equates to approximately 14% of total manufacturing GDP within Malaysia as a whole. It is important to note that interviews with PDC indicate that the vast majority of manufacturing activity is contained within Penang's FIZs and Industrial Estates. This analysis therefore gives an indication of the contribution Penang's FIZs and Industrial Estates have on both regional and national output within the manufacturing sector.

Source: Malaysian Investment Development Authority (MIDA) (2016), PDC Interviews (2017)

The success of Penang's transformation from unemployment of approximately 16% in the 1960s to approximately 2.1% in 2016 [70] has been underpinned by rapid expansion of the manufacturing sector and in particular the E&E sector.

In total over 300 multinational companies have located within Penang, with the majority falling within the E&E sectors. These companies are predominantly from Japan, Taiwan and the United States as shown below in Figure 14.

Figure 14 – Origin of Multi-national Companies within Penang



Source: Invest Penang Interviews (2017)

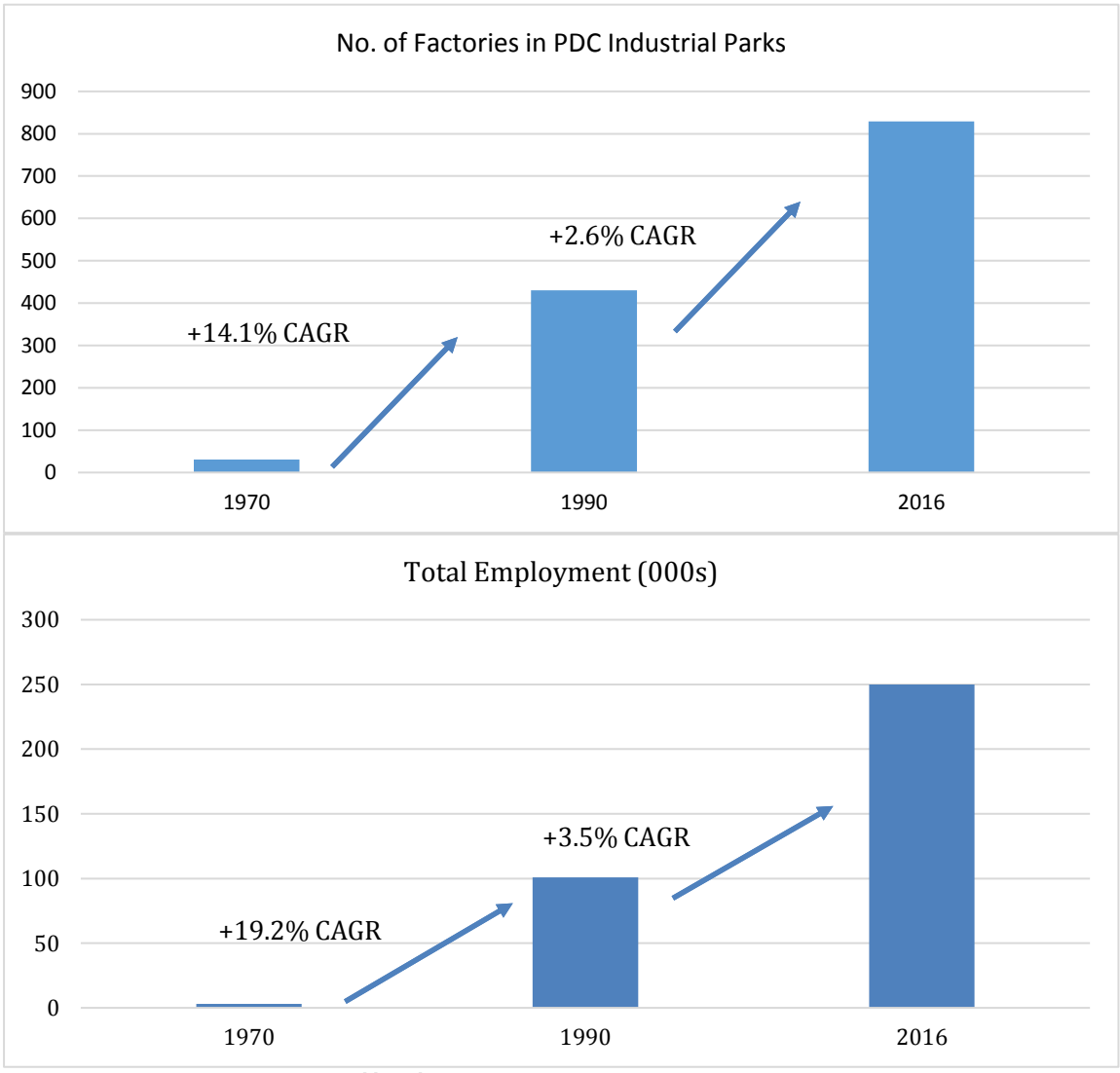
It is estimated that Penang contributes 80% of Malaysia's total output from back-end semiconductor activity, demonstrating the significant contribution it makes to the sector within the national economy. The significance of this contribution is further demonstrated when it is considered that Malaysia contributes 10% of back-end semi-conductor output globally making

[70] Malaysia Statistics Centre, (2016) Principal Statistics of the Labour Force, Pulau Pinang, 1982-2016.

Penang one of the world's leading locations for micro-electronics assembly, packaging and testing. This has attracted the likes of Intel and AMD to Penang's industrial zones.[71]

Penang's ability to attract multi-national investment has enabled it to undergo significant economic transformation since the adoption of the Free Zone policy in the 1970s. This is illustrated below in Figure 15 and demonstrates the rapid economic growth in Penang between 1970 and 1990.

Figure 15 – Economic Growth within PDC Industrial Zones



Source: PDC Interviews 2017. BuroHappold Analysis.

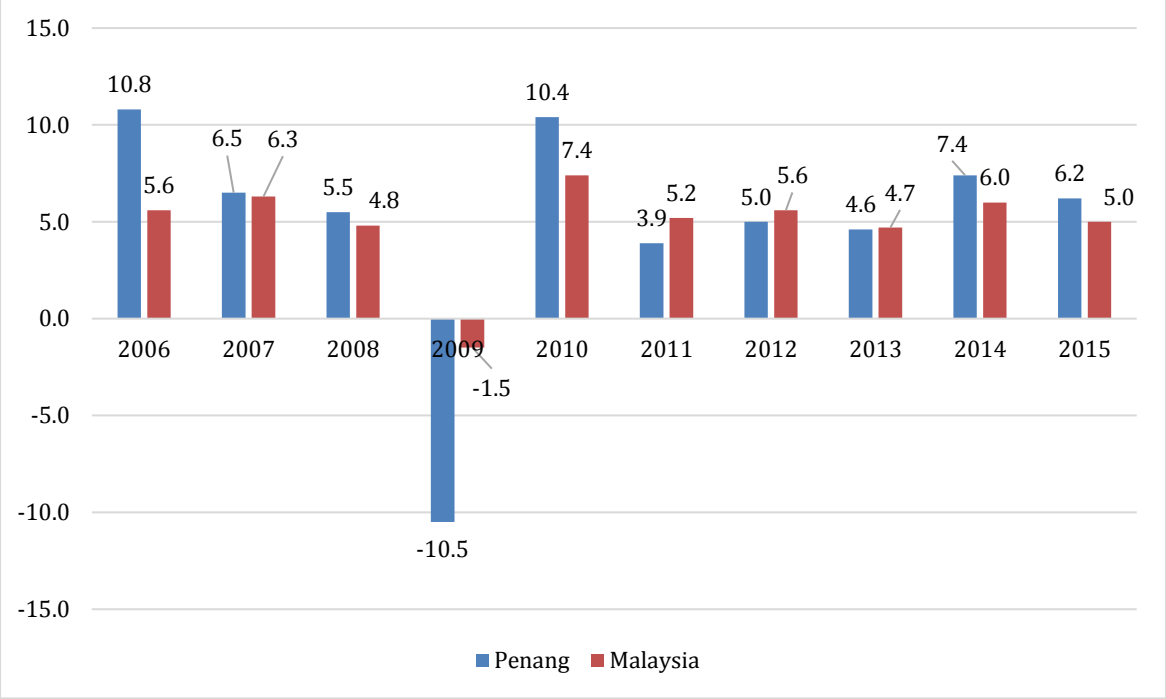
[71] Invest Penang Interview with BuroHappold 2017

It can be seen that between the establishment of the Beyan Lepas FTZ in the 1970s and the 1990s there was a very strong growth in enterprises locating within the FTZs of approximately 14% CAGR. Between the 1990s and 2016 growth in both enterprises and employment has continued but at a significantly smaller level as the industrial estates reached occupancy and operations were transformed into higher value added activities away from basic assembly functions.

5.2.5.1 Relationship to Regional and National Economy

As shown in Figure 16 the Penang economy typically outperforms the national average, but given its strong dependence on global manufacturing activity there was a sharp downturn in growth between 2008 and 2009. Following the crisis, Penang's growth has improved and in 2015 was again outperforming the national average. Penang's strong manufacturing base centred on the electronics industries clustered within its FIZs and industrial estates help support this growth.

Figure 16 - GDP Annual Growth Rates – Penang and Malaysia



Source: Department for Statistics Malaysia. Note: Growth rates for 2006-2010 are based on 2005 constant prices whilst growth rates for 2011-2015 are based on 2010 constant prices

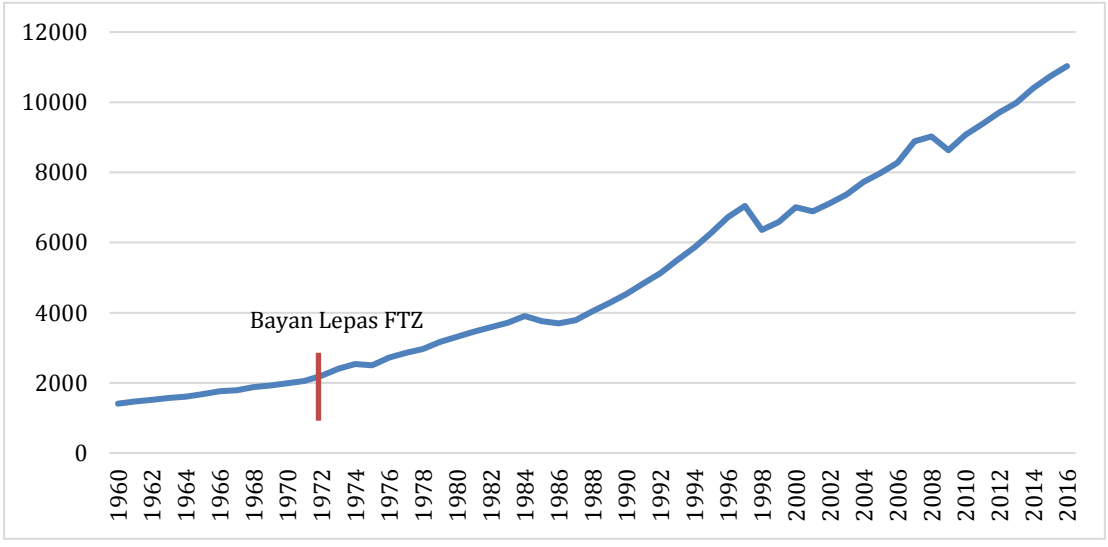
Data indicates that Penang currently accounts for 7% of national GDP but when the manufacturing sector is isolated the state accounts for 14% of total manufacturing GDP nationally.[72]

To examine the effect of the Penang FTZs on the Malaysia economy a number of indicators have been examined to illustrate the economic performance of the zone in:

- Increasing GDP performance;
- Increasing export values; and
- Attracting further FDI inflows.

This analysis is presented below in Figure 17, Figure 18 and Figure 19.

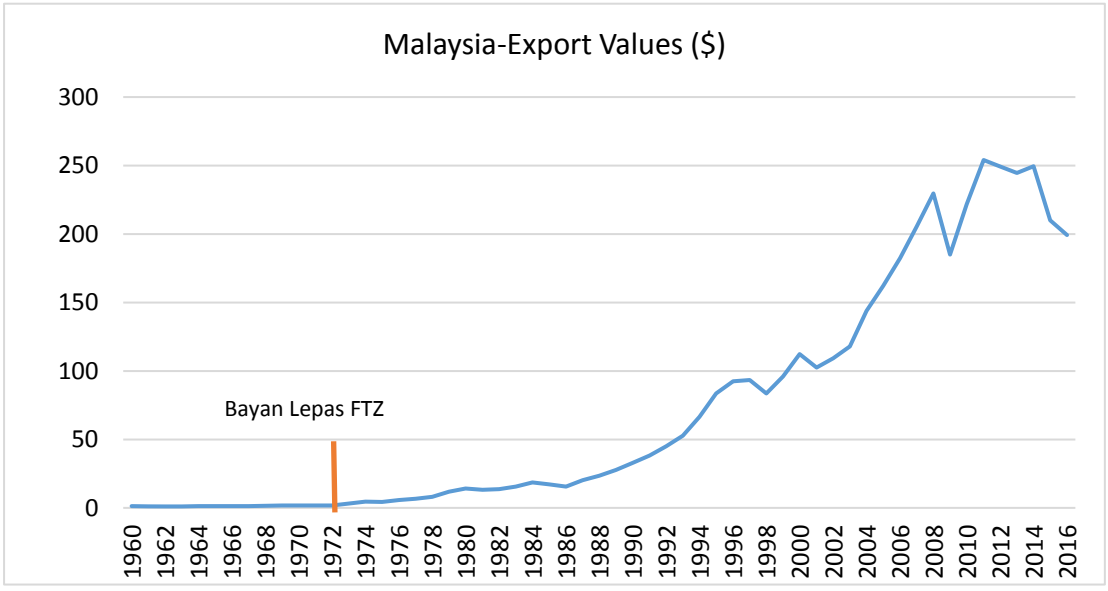
Figure 17 - Malaysian GDP per Capita (constant $)



Source: World Bank (2017) World Bank Open Data. Available from: https://data.worldbank.org/

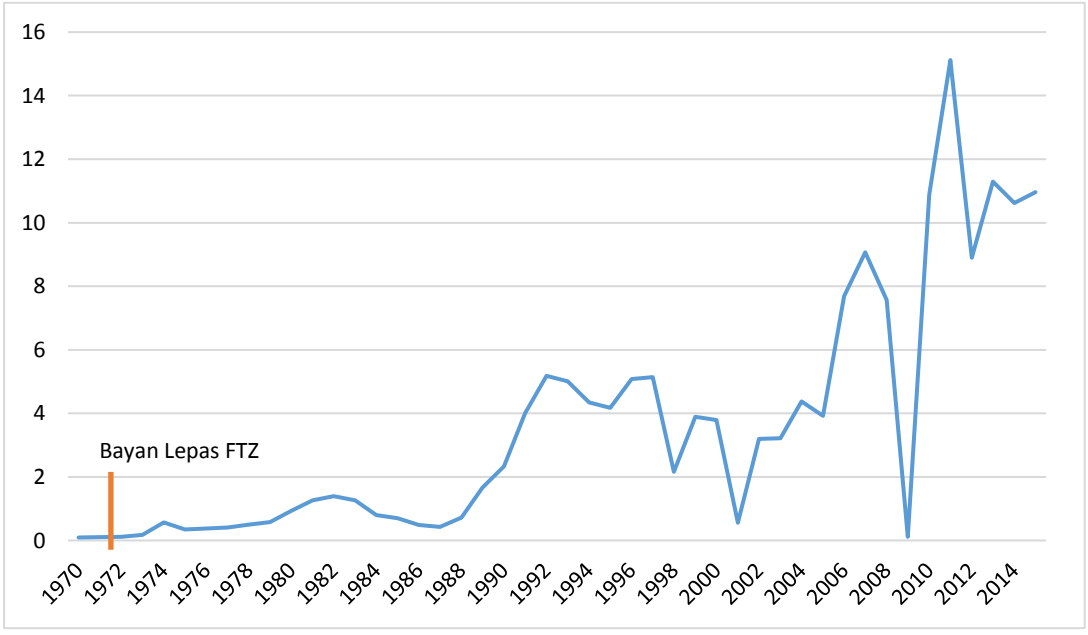
[72] Statistics Centre Malaysia (2015) Malaysia Economic Statistics – National Accounts.

Figure 18 - Malaysian Export Values ($Bn)



Source: World Bank (2017) World Bank Open Data. Available from: https://data.worldbank.org/

Figure 19 - Malaysian FDI – Net Inflows ($Bn)



Source: World Bank (2017) World Bank Open Data. Available from: https://data.worldbank.org/

The analysis illustrates that there is a relationship between increases in Malaysian GDP per capita and export values, particularly from the start of the 1990s when the Penang FTZs and Industrial Estates began to move from simple assembly functions to higher value added component manufacturing and R&D activities.

The relationship between the Penang FIZs and net inflows of FDI is less clear but there is a noticeable increase in FDI inflows between 1972 and 1974 which coincided with the arrival of the anchor tenants in Penang and the emergence of the electronics industry in Penang.[73]

Whilst it should be caveated that this growth cannot be wholly attributable to Penang's FIZs, the Malaysian electronics industry developed strongly over this period, with $12.7 billion over the period 1996 to 2005,[74] the majority of which were made within FIZs in Penang and Selangor. Given this industry has been a significant contributor to Malaysian exports, this clearly demonstrates the importance of these zones over this time period in localising inward investments and promoting export activities within the E&E sector.

Box 30 – Penang SEZ Success Factors – Economic Strategy – PDC Interview

The PDC make reference for the need to ensure that Penang's economic resilience is considered when implementing economic development strategies and defining the sectoral focus for the FIZs and Industrial Estates. The PDC have undertaken a number of studies to examine how Penang can diversify its economic base to reduce its reliance on the electrics and electronics sector. The PDC identify recent projects such as the Bayan Baru Business Improvement Distict which will include a new BPO facility as evidence of how they have attempted to attract new sectors and industries to Penang. Diversification of the economic base is identified as a key factor in ensuring Penang's future economic success.

Skills and Training

The Penang Skills Development Centre (PSDC) was established in 1989 and was the first industry led skills training centre to be established within Malaysia. The centre operates as a not for profit organisation with a mission to pool resources amongst the 4 free trade zones and 4 industrial estate within Penang providing up-to-date industry specific training and educational programmes in support of identified operational requirements.[75]

The PSDC is now recognised as a world model for partnerships between government, academia and industry. It serves as a key broker between the needs of industry and higher education

[73] Whilst this analysis has attempted to demonstrate the economic effects of the Penang FTZs on the domestic economy it should be caveated that there may be a number of economic reasons for the performance of the indicators analyzed. A more detailed econometric analysis would be required to isolate the exact impact of the Penang FTZs on the indicators observed.

[74] Chai, Y and Im, O (2009) The Development of Free Industrial Zones – the Malaysian Experience.

[75] Penang Skills Development Centre (2017) Available from: http://www.psdc.org.my/about-us/category-1/company-profile/

institutions and other training providers, helping to identify the skills and training needs of the business community.

The PSDC was initially established in collaboration between the PDC and representatives of Intel and Motorola who helped to coordinate and establish the centre. The PDC provided the initial building and the land for the centre and responsibility of a management council which was formed of private sector representatives. The Management Council is currently comprised of 11 elected, 4 appointed office bearers and 9 ex-officio members.[76]

Box 31 – Penang SEZ Success Factors – Skills and Industry – Interviews with Former Members of PDC

Interviews with former members of the PDC involved in its establishment, identify that the close collaboration of the PDC with industry partners has been key to the success of the Penang Skills Development Centre. Industry funding and involvement within the establishment and operation of the centre has enabled Penang to foster a highly skilled workforce which directly meets identified needs of MNCs and industry.

Those interviewed identify that the presence of a highly skilled workforce has been a key factor in retaining electric and electronic MNCs throughout the evolution of the Penang FIZs and the movement up the value chain into higher value activities such as research and development and global business services. The ability of Penang to integrate its domestic workforce into higher value activities and in particular managerial and technical positions has embedded MNCs and supporting industries within Penang's FIZs.

The PSDC is 80% financed by the private sector with 149 member firms which represents 60% of the Penang workforce. Of these member firms, 32% are electronic companies, 22% engineering and 19% manufacturing.[77]

To date the PSDC has trained over 200,000 participants through more than 10,000 courses since its inception in 1989. It has pioneered local industry development initiatives, assisted in the input and formulation of national policies pertaining to human capital development and has contributed directly to the Malaysian workforce transformation initiatives.

In 2016 the Centre executed its Industry 4.0 initiative to support the new phase of industrial development within Malaysia. As part of this initiative the PSDC will aim to become a centre of

[76] PDC interview with BuroHappold 2017

[77] OECD (2011) Higher Education in Regional and City Development: State of Penang, Malaysia

excellence for Industry 4.0 within Penang and Malaysia by providing leadership, a platform for best practice learning and talent development support through Shared Services facilities to meet the current needs and demands of industry.[78]

5.2.6 Summary Success Factors

Governance and Regulatory Framework

5.2.6.1 Strong vision underpinned the Island of Penang's growth potential with political support

The vision for Penang was developed through strong state government support led by Chief Minister Lim Chong Eu who aligned job creation policy objectives with emerging opportunities for international specialization through links to global production networks. This strong political will was attractive to initial investors who were attracted by well-designed investment promotion strategies (including FTZ status), infrastructure development, skills development and links between local and foreign firms to identify requirements.

The long tenure of the Chief Minister and his management team (for over 20 years) also helped to foster a sense of developer confidence with regards to policy direction and political certainty.

5.2.6.2 Establishment of a central entity as developer and operator of the FIZ and Industrial Estates

The PDC has been very successful at developing and operating the FIZs and Industrial Estates. The corporation was established prior to the creation of the first Bayan Lepas FIZ and was tasked with the responsibility of driving forward socio-economic growth, urban redevelopment, affordable housing and promotional and investment activities.

The Corporation's key successes have stemmed from its strategy to plan and develop industrial areas with high quality infrastructure and facilities, supported by township development including affordable housing.

The autonomy of the statutory body is also key to its ability to perform its functions effectively as the central point of strategy formulation, implementation and coordination. This enabled the PDC to foster a strong business community with a firm commitment to FDI promotion and an impression of very easy conditions for conducting business.

The availability of land within the early stages of FIZ development was also identified as a key factor in attracting MNCs to locate within Penang.[79] Ownership of the land by PDC gave

[78] Interview with InvestPenang, PDC and BuroHappold 2017

[79] Interview with PDC's original chairman, Mr Dato Cheri Singh

guarantees and certainty to investors that land was available for development and the ease of agreeing leases or purchase of land differentiated Penang from competitor locations.[80]

5.2.6.3 The PDC established a process of 'post-investment' care to ensure that business needs, demands and concerns are continually met

The PDC has established institutional mechanisms to maintain close links with MNCs within the Penang FIZ and Industrial Estates and thus allows the PDC to maintain a clear understanding of investor requirements. This allows the corporation to be flexible to changing investment climates and to address investor needs and requirements on a continual basis.

5.2.6.4 Establishment of a separate investment promotion agency

In 2005 a restructuring exercise was undertaken in order to streamline the PDC. This resulted in the Industrial Division of the PDC being taken over by InvestPenang whose responsibilities were specified as industrial and service sector promotion.

The creation of InvestPenang allowed the PDC to focus primarily on the provision and setting up of industrial estates, infrastructure, township development and sale of industrial land.

Financial and Economic Climate

5.2.6.5 Strong anchor tenants – the 'Eight Samurai'

From the outset, the PDC identified that attracting strong MNC anchor tenants would be crucial to the success of the zone. Focusing on the electronics sector the PDC managed to attract National Semiconductor (US), Advanced Micro Devices and Intel in 1971. In the following years between 1972 and 1975 a further five MNCs established themselves in Penang; Osrum (German), Hewlett Packard (US), Bosch (German), Hitatchi (Japanese) and Clarion (Japanese).

Once the 'Eight Samurai' were established in Penang, a network of ancillary industries began to emerge to meet their input requirements resulting in the rapid growth of local tooling and equipment manufacturing firms.

5.2.6.6 Ability to upgrade value added manufacturing activities and retain anchor tenants

A key success factor in Penang's growth has been the ability to retain key anchor tenants (of the eight samurai, seven still remain) and to facilitate structural transportation of the export activities. Driven by domestic cost pressures (such as increasing wages and rents) there was a shift away from simple assembly processes towards component design and testing as well as regional and global headquarter functions. Activities also include corporate and financial

[80] Interview with Mr Dato Cheri Singh and BuroHappold 2017

planning, R&D, product design and tooling, sales and marketing. Penang is also used for global training and skill enhancement programmes.

5.2.6.7 Diversification of manufacturing activities and industries

In addition to the electronics industry, Penang has managed to diversify its production base into complementary electronic product lines such as medical services and equipment, light emitting diodes (LEDs) and photovoltaic design and development. This has been enabled through the strong cluster of electronic manufacturing firms and a global reputation for a skilled workforce adept within these industries.

5.2.6.8 Establishing backward linkages between MNCs and domestic economy

The PDC has been successful at fostering local sub-contracting capacity and in establishing relationships between MNCs and domestic companies. The PDC maintains a database of local suppliers which it uses to provide matchmaking services with MNCs. Knowledge of local supply chain capabilities has been a crucial element in fostering backward linkages and encouraging technology transfer.

Skills and Training

5.2.6.9 Establishment of the PSDC

Prior to the PSDC, the PDC were engaged in conducting vocational training programmes to meet demand for skilled labour from MNCs. The PSDC was then formed in the late 1980s in close collaboration with MNCs to meet targeted skills and training requirements. The centre has also received strong support from the federal government which offer tax deductions for MNC contributions to PSDC training schemes and their own skills and training development programmes.

5.2.6.10 Development of strong backward skills linkages with the domestic economy

The presence of foreign MNCs within Penang have had a significant impact on human capital development within the economy. This is evident through the decision of MNCs within Penang to locate high value activities and headquarter functions within global production networks to the FIZs and Industrial Estates. It is estimated that only 8% of CEOS in foreign companies in Penang are foreigners and many MNCs utilitse the managerial and technological expertise of their Penang operations when expanding to other countries.[81]

[8181] Athukorala, P (2012) Growing with Global Production Sharing: The Tale of Penang Export Hub, Malaysia.

5.2.7 Summary Lessons Learnt

- Development of a strong political vision is key to supporting the development of the SEZ programme and attracting investment. It is observed that a strong vision can lead to more effective promotional efforts, in this case through the creation of the PDC which obtained a degree of autonomy from the Federal government allowing it to create bespoke incentive packages.
- Investment in skills and training development allowed the PDC to firstly attract a number of anchor tenants in the inception of the SEZ programme but also to retain these tenants as the nature of their operations shifted from basic assembly to higher valued added activities. This is encapsulated by the creation of a bespoke skills and training centre in collaboration with the private sector and the strong representation of Malaysians within managerial and technical positions within existing MNCs today.

5.3 Case Study 2: Jurong SEZ, Singapore

5.3.1 Overview and Description

Singapore has a total of 10 Free Trade Zones (FTZs) in five geographical areas operated by three FTZ authorities. The focus of this case study is on the Jurong Island FTZ which is operated by Jurong Port Pte Ltd.

Jurong Island industrial zone and freeport are located in the south of Singapore. They are connected together by the Jurong Highway and are located approximately 5 km from each other. The Jurong FTZ is located around the Jurong Port, incorporating the industrial estates of Jurong Town and the adjacent Jurong Island.

Jurong Island itself is an artificial island, formed by an amalgamation of seven smaller islands, through a series of land reclamation projects between 1995 and 2009.

Jurong port and free zones are highly acclaimed as some of the best in the Asia Pacific region. Jurong Island is a petro chemical focused zone that is supported by world class port facilities, it consist of over 100 mainly large firms including Shell with a total investment of approximately USD42 billon.

Table 5-7 - Jurong SEZ Overview

Zone	Primary Activities
Established	Late 1990s
Area	~ 3,000 ha
No. of firms on-site	>100
Authority in Charge	Singapore Economic and Development Board (SEDB)

Source: BuroHappold Analysis 2017

Figure 20 – Jurong Island and Freeport - Overview

Source: Jurong Island, Singapore Business Review 2009

Vision and Objectives

Singapore is a free port and as such has attractive excise and import duty conditions. The country's free trade policy is at the core of its international trade policy and virtually all goods which enter Singapore are duty-free.

FTZs were established in Singapore in the 1960s to facilitate entrepot trade in dutiable goods.[82] The FTZs in Singapore were primarily developed for transhipment cargos and they provide 72 hour free storage for import/export of conventional and containerized cargo and 14 day free storage for transhipment / re-export cargo.

In addition to FTZs, Singapore also adopted distriparks and warehouse schemes including bonded warehouses and licensed warehouses. Bonded warehouses were formulated as an extension of FTZs and allows imported goods to be removed from the FTZ and stored in a bonded warehouse allowing suspension of Goods and Service Tax (GST).

Licensed warehouses allow a designated area to store dutiable goods such as liquor, tobacco, motor vehicles and petroleum with the duty and GST payable suspended.

[82] KMI (2005) Free Trade Zone and Port Hinterland Development. UN ESCAP, KMI.

Development of Jurong Port and Industrial Zone

The development of Jurong Port and Industrial Zone commenced in 1961 with ambitions to address growing unemployment and ambitions for industrialisation. Jurong was selected as suitable for port development given its natural deep-water harbour.

The Port project was developed by the Singapore Economic Development Board (EDB) and was developed between 1963 and 1965. In 1963, the Prime Minister Lee Kuan Yew launched the development work for the $14 million Jurong Wharf which was designed to allow the largest ocean-going vessels to berth in the Port.

The Port project was completed in 1966 with a total of five deep water berths. In 1967 work was then undertaken to convert Jurong harbour into a full industrial port which could accommodate bulk handling equipment. The EDB also developed Jurong Industrial Estate over this period and provided factory sites within the estate for either purchase or rental. The industrial estate was equipped with all amenities and road and rail access.

5.3.2 Spatial Profile

Jurong Island and other free zones in the area benefit from proximity to one of the region's largest ports thus can exploit the advantage of easy access to global connectivity and markets.

Singapore is situated amongst other large south Asian export competitors, such as: Malaysia, Indonesia and the Philippines. The creation of Jurong Port cemented Singapore's claim as a regional and global trading entity. This allowed it to compete the lower value semi-manufactured goods markets and progressively climb up the value chain to the position they are in now.

Changi International Airport is Singapore's main hub airport which is approx.49 km away, and includes the Airport Logistics Park of Singapore (ALPS), the airports Free Trade Zone. This can be accessed through Singapore's modern road infrastructure. Numerous cargo operators fly from here with destinations in the wider region, the MENA and Europe.

Jurong Island is located to the southwest of the main island of Singapore and is linked to the main island by a 2.3km causeway known as the Jurong Island Highway which was opened in 1999. The spatial components which make up the Jurong FTZ are outlined in Table 5-8 below.

Table 5-8 – Jurong FTZ – Spatial Components

Component	Description
Jurong Port	The main gateway terminal to and from Singapore Jurong Port. It handled approximately 17.33 million tonnes and 320,000 twenty-foot equivalent units (TEUs) of containers in 2014. The port also includes 178,000 m^2 of FTZ warehousing facilities, has capacity to load and unload dry and liquid bulk cargo, and contains a dedicated common user facility to deal with cement.
Bayan LogisPark	The Park is 80ha and was developed by the JTC Corporation in 2003. This facility is dedicated to transhipment and breakbulk operations for bulk liquid petroleum and petrochemical products supporting manufacturers in Singapore and within the Asian chemicals industry.
Tuas Biomedical Park	A world-class manufacturing hub, hosting process development and manufacturing operations of major pharmaceutical, biotechnology and medical technology companies. Companies located here are able to benefit from access to local highly skilled employees, research expertise, and good air and sea logistics.[83]
Seletar Aerospace Park	The Park incorporates clusters of various aerospace industry businesses including maintenance, repair and overhaul of aircraft and components; manufacturing and assembly of aircraft engines and components; business and general aviation activities; as well as training and research & development.
Offshore Marine Centre	The Offshore Marine Centre area is focused on clustering marine and offshore industries up and down the value chain.
Clean-tech Park	The Park focuses on the clustering of high value research, consultancy and manufacture of cutting edge sustainable technology. Initially focused on showcasing innovative resource efficiency technologies it has since attracted leading-edge public and private R&D organisations

[83] http://www.jtc.gov.sg/industrial-land-and-space/pages/tuas-biomedical-park.aspx

Component	Description
	such as the Nanyang Environment & Water Research Institute (NEWRI), the Energy Research Institute @ NTU (ERI@N), and private research companies like DHI Water & Environment (S) Pte Ltd that specialises in water and environmental research and consultancy.[84]
One North	R&D park designed for the sciences (medical, IT, engineering) focusing on an involvement of the knowledge economy.
Institute of Chemical and Engineering Sciences (ICES)	An autonomous national research institute under A*STAR (Agency for Science, Technology and Research). It was created to undertake exploratory research, process development and optimisation, and run pilot-scale projects to support the top energy and chemical companies located nearby. [85]

Source: BuroHappold Analysis 2017

5.3.3 Legislative and Regulatory Framework

Special Economic Zone Act and Regulations

The Singapore Free Trade Zones Act was passed on 1st September 1969, of which Jurong Port was the first FTZ. The FTZ Act was initially passed to support the development of Jurong Industrial Zone.

The Act covers the five FTZs at Port of Singapore, Jurong Port, Sembawang Wharves, Pasir Panjang Wharves and Airport Logistics Park of Singapore.

The FTZ Act specifies that:

- Goods of any description, except those specifically prohibited by law, may be bought into a free trade zone, be removed from the free trade zone, destroyed or sent into customs territory or into another free trade zone in the original packaging or otherwise and, unless otherwise distributed, sorted, graded, cleaned, mixed or otherwise manipulated, or manufactured. However, when the goods are exported from a free trade zone into customs territory, standard customs procedures apply; and

[84] http://www.jtc.gov.sg/our-partnerships/Pages/case-studies.aspx

[85] https://www.edb.gov.sg/content/edb/en/industries/industries/chemicals.html

- Any activity carried out within the free trade zone must be notified to its authority in order to obtain permission; and
- The authority shall permit customs offices to be established in a free trade zone and shall provide adequate facilities for officers of customs whose duties require their presence within or at the perimeter of the zone.

Licensing, Ownership and Zoning Restrictions

JTC adopts a light touch approach to administering activities in the zones. In order to qualify, a firm must adhere to a set of qualifying criteria which include, but are not limited to the following:

Table 5-9 - Jurong Qualifying Criteria

Criteria	Qualifying Characteristics
Fixed Asset Investment	Plant and machinery - A company locating will have to declare their overall investment figures and state a reason why they are that value
	Buildings and civil works (B&C) - A company will also have to meet the minimum buildings and civil requirements. This includes a set of design standards. Firms will have to provide a set of cost figures indicating the expected building standard.
Plot Ratio	Companies are required to declare their plot ratio and floor area requirements, these vary depending on site usage.
Value Added	The firms will be considered on the value added, this is the total difference between the total output and total operating costs. Firms who project a higher value added production will have a greater chance of entry.
Credibility of Firms Business Proposal	The credibility and quality of the business proposal will benefit their application process.

Source: JTC (2017) Policies for Industrialists

Incentives

The key incentives offered to firms locating inside the zone include:

- Jurong port- no taxes on the import , export or re-export of goods;
- Investor is liable for 5 year tax holiday then a 5 year 10% corporation tax agreement; and

- Selected industries get up to 50% investment allowance.

The plug and play model provides all the infrastructure for a specific industrial activity, therefore different units are leased at different prices depending on the industrial zone and the quality of the facilities. JTC tender the standard factory launch quarterly, these are launched on a lease or tenancy basis. The aforementioned set up criteria apply. The prices exclude any service of energy and water these services are available for supply at competitive rates.

Regional Headquarters Programme

Singapore introduced the programme to provide appropriate incentives according to the level of commitment the headquarters put into Singapore. [86] The Headquarters Programme offers two incentive packages commensurate with the scale and value of the headquarters operation.

The Regional Headquarters Award offers a concessionary tax rate of 15 per cent for 3 years plus up to an additional 2 years based on incremental qualifying income from abroad. If a company qualified for a regional headquarters award satisfies all the minimum requirements by year three of the incentive period, it will enjoy the 15 per cent concessionary tax rate for an additional two years on qualifying income.[87]

Companies with headquarters in Singapore include manufacturers like Seagate, NEC, Matsushita Electronics, Pall Filtration, Bax Global and Siemens Medical. Asian MNCs (multinational companies) which conduct their global businesses from Singapore headquarters include Indian-based companies like the Scandent Group, Tata Consultancy, and Singapore System Access (EDB, online).[88]

5.3.4 Organisational and Administrative Profile

The Singapore Economic Development Board (SEDB), a central government department, founded Jurong Island and Port which in turn established the semi-autonomous Jurong Town Corporation (JTC) in order to administer the port and surrounding industrial zones.

The SEDB's goal is to catalyse sustainable economic development in Singapore. The JTC's remit is to manage and build infrastructure that support the goals of Jurong and Singapore, this includes managing industrial zones and creating industrial zones that support sectoral

[86] United Nations. Economic and Social Commission for Asia and the Pacific (2005) Recent developments in FTZs and port hinterlands in Asia and Europe, Chapter 4, p. 48

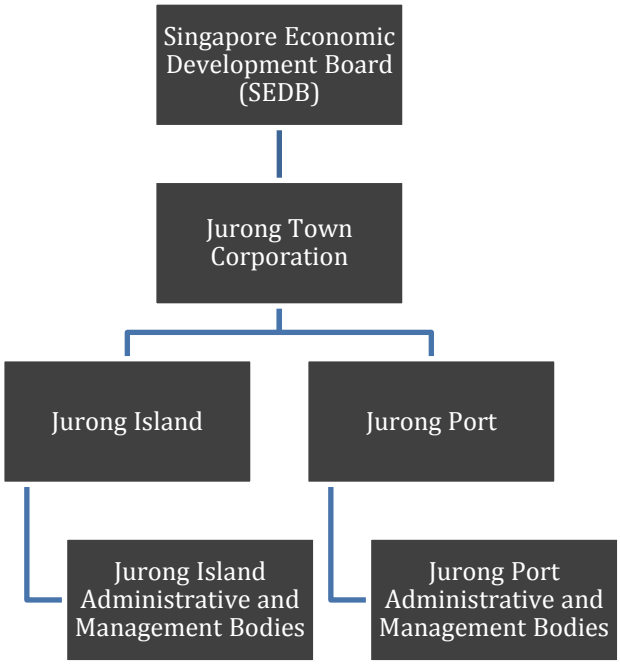
[87] ibid

[88] United Nations. Economic and Social Commission for Asia and the Pacific (2005) Recent developments in FTZs and port hinterlands in Asia and Europe, Chapter 4, p. 48

integration and the creation of jobs. JTC deals with the administration of new firms entering the zone as well as current firms.

At a high level, the organisational structure can be described by the organogram below:

Figure 21 – Jurong Island and Freeport Organogram



Source: BuroHappold Analysis 2017

5.3.5 Economic Profile

Jurong Island has acted as a catalyst for other economic activities in Singapore. More than 400 companies trading in petroleum and petroleum products have since been established in Singapore, attracted in part by the storage capacity available, and the financial incentives as mentioned in Section 5.3.3.[89] The presence of many petrochemical company headquarters on Jurong Island has, in turn, generated activity in subsidiary businesses, such as marketing and sales, research and development, logistics, and other professional services.

Jurong Island has established itself as Singapore's energy and chemical hub and has attracted investment from 95 leading petroleum, petrochemical, speciality chemical and supporting companies such as BASF, Lanxess, Exxonmobil, Dupont, Mitsui Chemical, Chevron Texaco, Shell,

[89] http://www.businesstimes.com.sg/energy-commodities/special-feature-jurong-island/falling-value-and-output-raise-questions-about

Sumitomo Chemical, CIBA and Huntsman. Within the 'Chemical Hub' there are now approximately 8,000 employees and it has attracted over SGD 30 billion of fixed asset investments.[90]

Sectoral Focus

The Jurong Port was set up in in the 1960s with the support of industrial areas that were producing labour intensive products for local consumption. With the support of the port, Jurong industrial zone became export orientated. During the 1980s, the production shifted to higher value added goods. This coincided with the opening and rebranding of zones, including the petrochemical based Jurong Island. Currently, the industrial zones, with the support of Jurong port, produce very high value goods. Additionally, Jurong port has engaged in the knowledge economy by establishing a multi-disciplinary consultancy group known as Jurong International. This shift to high value technologically advanced activities has diversified Singapore's export portfolio and given it an advantage over its regional competitors.

A clustering of industries encouraged by the set-up of zones designated for specific activities has allowed for sectoral integration between firms up and down value chains. A 'plug and play' model has been applied, all of the buildings and infrastructure have been developed, and firms simply have to move in.

Jurong Island now has the world's largest petrochemical (plastics, petroleum, chemicals) industries operating within it, bringing quality high value employment. Jurong is also in the top 10 petrochemical hubs. Many of the world's leading energy and chemical companies, have established a presence on Jurong Island, including BASF, ExxonMobil, Lanxess, Mitsui Chemicals, Shell and Sumitomo Chemicals. Presently, Jurong Island has successfully attracted investments in excess of S$35 billion.[91]

Real Estate

Industrial facilities provided by JTC include:

- Ready-built standard factories, ranging in size from 944m^2 to 4 200m^2, providing a functional layout for the different needs of customers;
- Flatted factories, located in 35 of the industrial parks in Singapore. These industries are designed to integrate marketing, management, production, storage and other industrial facilities, with sufficient open production areas, lifts and loading bays; and
- Stack-up factories.

[90] DE International (2014) Singapore – Oil and Petrochemical Industry

[91] https://www.edb.gov.sg/content/edb/en/industries/industries/chemicals.html

Economic Performance

The economic performance of the Jurong Island FTZ is summarised below in Table 5-10.

Table 5-10 – Jurong Island FTZ Economic Performance Summary

Economic Performance Indicator	Performance Summary
Foreign Direct Investment ($)	>$37 billion from companies such as BASF, ExxonMobil, Lanxess, Mitsui Chemicals, Shell and Sumitomo Chemicals[92] In 2015 it was recorded that Jurong Island attracted a total of $890 million in new investments from 11 different companies.[93]
Number of Companies within SEZ	>100
Direct and Indirect Job Creation	>8,000
Export Values ($)	Jurong Island generates approximately $2.4 billion USD in petrochemical exports annually
Total Annual Output ($)	Whilst no statistics are available for Jurong Island FTZ, the chemicals industry contributed approximately $49 billion to the Singapore economy in 2016.

Source: BuroHappold Analysis 2017

Since its inception Jurong Island has grown to be considered one of the world's largest and fully integrated petro-chemical parks. In total it can be seen that the Jurong Island FTZ has now attracted over 100 enterprises since it was established generating in excess of 8,000 new jobs.

Whilst no data is available for Jurong Island FTZ, the use of statistical data for the petro-chemicals industry within Singapore can help provide an indication of the FTZ's contribution to the national economy, given it holds a significant proportion of Singapore's chemicals industry.

The development of Jurong Island has enabled Singapore to achieve the vision of increasing industrial production and has resulted in the development of a chemical hub which now constitutes over one quarter of domestic exports of major non-oil products.[94] As Figure 22

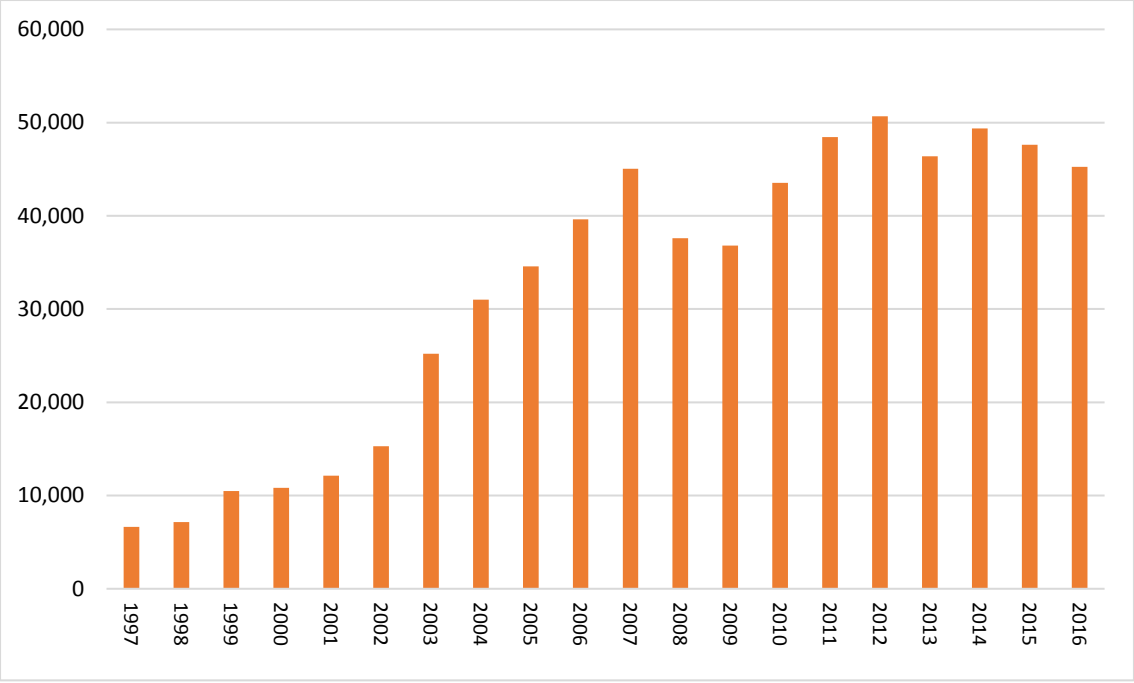
[92] EDB (2016) Energy and Chemicals 2016 – Year in Review

[93] JTC, (2015) JTC Corporation Annual Report FY2015.

[94] Singapore Statistics (2017) Domestic Exports of Major Non-Oil Products, Monthly

demonstrates, exports of chemical products has increased significantly since the establishment of Jurong Island in the late 90s.

Figure 22 - Domestic Exports of Chemical Products in Singapore – 1997 to 2016 ($m)



Source: Singapore Statistics (2017) Domestic Exports of Major Non-Oil Products, Monthly

In terms of total output it can be seen that the chemical industry within Singapore contributed approximately $49 billion in output to the national economy in 2016, comprising approximately one quarter of total manufacturing output, an increase from approximately 20% in 2000.[95]

In addition it can be seen that FDI within the chemical and chemical products sector accounted for 8% of total manufacturing FDI within Singapore in 2015, and approximately 2% of national FDI in-flows. Whilst this is a relatively modest contribution, it should be noted that the industry only accounts for 4% of total manufacturing employment and 3% of total enterprises.[96]

5.3.5.1 Relationship with National Economy

To examine the effect of the Jurong SEZ on the Singapore economy a number of indicators have been examined to illustrate the economic performance of the zone in:

- Increasing GDP performance;

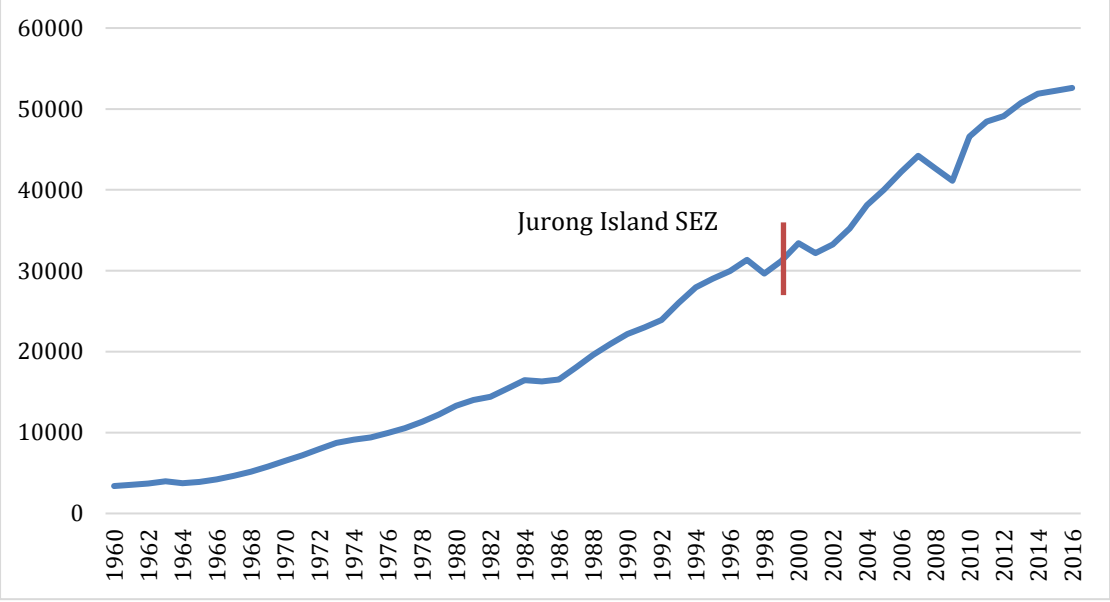
[95] Singapore Statistics (2016) Total Output by Industry Cluster, Annual.

[96] Singapore Statistics (2016) Manufacturing Employment by Industry Cluster / Manufacturing Establishments by Industry Cluster.

- Increasing export values; and
- Attracting further FDI inflows.

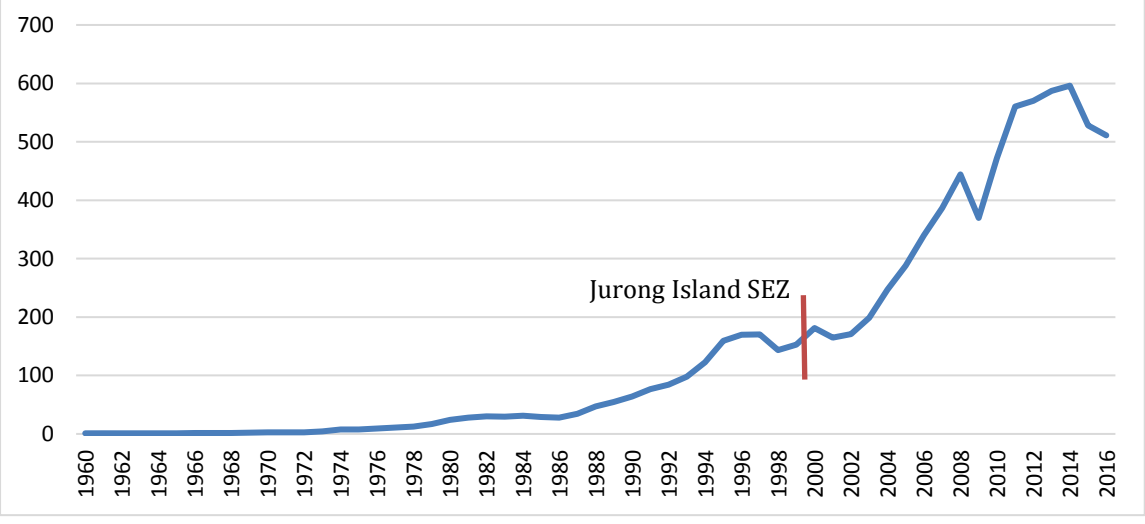
This analysis is presented below in Figure 23 and Figure 24.

Figure 23 - Singapore GDP per Capita (constant $)



Source: World Bank (2017) World Bank Open Data. Available from: https://data.worldbank.org/

Figure 24 - Singapore Export Values ($Bn)



Source: World Bank (2017) World Bank Open Data. Available from: https://data.worldbank.org/

The analysis presented above indicates that the economic performance of Singapore with regards to GDP per capita growth and exports improved considerably following the opening of

the Jurong Island SEZ. The opening and establishment of the Jurong SEZ led to creation of one of the leading global maritime multipurpose ports with the capacity to hand bulk, general and containerized cargo as well as petrochemical production. This has helped to drive the economic performance of the state.[97]

5.3.6 Summary Success Factors

The key strategies contributing to Jurong Island's success can be summarized as follows.

Governance

5.3.6.1 Strong Vision and Government Support

The development of the FTZ occurred with very close cooperation with Singapore's Government.

The Jurong Island Version 2.0 initiative was recently developed by government agencies such as EDB, JTC, PUB (Singapore's National Water Agency) and EMA (Energy Market Authority) in order to ensure the long-term competitiveness and sustainable growth of Jurong Island. [98] The vision aims to focus on five areas; water, environment, energy, alternative feedstock options and transport and logistics. As part of this initiative Jurong Island will introduce shared pipelines, utilities and logistics to enhance the 'plug and play' model which currently exists.

5.3.6.2 Effective marking and promotional activities

Strong marketing campaigns were developed to target international firms, supported with a competitive incentive programme.

5.3.6.3 Establishment of Free Trade Agreements (FTAs)

The government has been proactive in opening doors for businesses through bilateral and multi-lateral initiatives such as FTAs. The government has concluded FTAs with the USA, ASEAN, Australia and New Zealand, Kingdom of Jordan, China, India, Japan, South Korea, Costa Rica, Switzerland, Liechtenstein, Norway and Iceland, GCC, Panama, Peru with Brunei and Chile.

5.3.6.4 Government actively supports innovation and research and development activities

The Singapore Government has focused on promoting innovation within the offshore sector and to support this has established a number of high quality research and development institutions to develop the sector further on Jurong Island. This includes the:

[97] Whilst this analysis has attempted to demonstrate the economic effects of the Jurong SEZ on the domestic economy it should be caveated that there may be a number of economic reasons for the performance of the indicators analyzed. A more detailed econometric analysis would be required to isolate the exact impact of the Jurong SEZ on the indicators analysed.

[98] http://www.multinine.com.sg/CCDS%20Editorial%202013_JTC%20Corporation.pdf

- Maritime Research Centre (MRC) – initiative by the Maritime and Port Authority of Singapore (MPA) and the Nanyang Technological University (NTU) in 2001;
- The Centre for Offshore Research and Engineering (CORE), an initiative by the Singapore Development Board (SDB) and the National University of Singapore (NUS) in 2003; and
- The Marine and Offshore Technology Centre of Innovation by SPRING Singapore and Ngee Ann Polytechnic (NP) in 2007.

Infrastructure

5.3.6.5 Strong provision of physical infrastructure to facilitate industrial development

Jurong Island has developed world class infrastructure and connectivity which has allowed it to develop key links to major trading hubs and manufacturing bases by both air and sea globally. As a consequence major shipping and logistics providers have chosen to locate their regional headquarters within Singapore.

5.3.6.6 Innovative solutions to utilities provision and 'plug and play' model of operation

Jurong Island has developed a system of industry integration which allows companies to 'buy' and 'sell' feedstock and products allowing the output of one plant to deliver inputs for neighbouring plants. In addition third party providers enable companies to outsource functions like waste water treatment, steam or hydrogen as well as storage requirements to support manufacturing plants. This integration of both utilities and logistics functions has enabled Jurong to create production synergies and to improve cost efficiencies by providing for integrated industrial activities.

5.3.6.7 Outsourcing of Infrastructure Operations

Companies within Jurong Island are able to outsource non-core manufacturing operations such as utilities provision, waste treatment, logistics and storage. This has translated into lowering of fixed capital investments by 10-15% within the Jurong Island zone and has therefore increased the attractiveness of investment by generating a better return on capital deployment.

Financial and Economic Climate

5.3.6.8 Responsiveness of industry to meet market conditions and support of the zone to accommodate change

There have been three distinct phases of development, with industries on Jurong Island evolving to position themselves competitively in regards to changing global trends. The FTZ has shifted its focus from heavy industry, to technology, and then knowledge-intensive activities.

The Island has incorporated both industrial and commercial developments as a means of diversifying economic activity in the FTZ, in order to address shortfalls in Singapore's economy [99]

5.3.7 Summary Lessons Learnt

- Jurong Island has started to develop innovative infrastructure solutions to increase its attractiveness to investors. This includes new 'plug and play' models of operation which has improved cost efficiencies and created production synergies for enterprises located within the island.
- The Singapore government continues to support the development of Jurong Island through initiatives such as Jurong Island Version 2.0. This helps to improve the attractiveness of the island as a place for investment as it outlines a clear strategy for development, particularly with regards to new technologies and infrastructure as stated above.

[99] http://lbms03.cityu.edu.hk/oaps/is2009-6930-dmy438.pdf

5.4 Case Study 3: Tanger Med SEZ, Morocco

5.4.1 Overview and Description

The Tanger Med Zones (TMZ) is an ecosystem of diverse economic and industrial activities. This unique ecosystem is one of the key reasons for its rapid success since the inception of the project in 2003.

The TMZ project involves the gradual and long-term implementation of business parks, industrial, logistics and tertiary activities in the hinterland of the Tangier port and in the wider area around the Strait of Gibraltar. The Strait's intrinsic competitive advantages offer a platform for rapid economic development, which the TMZs have taken advantage of to achieve growth.

Table 5-11 – Tanger Med Zones

SEZ Typology	Free Trade Zone
Established	2003
Area	3,000 ha
No. of firms onsite	>750
No. of jobs created	~65,000
Authority-in-charge	Tanger Med Special Agency (TMSA)

Source: BuroHappold Analysis 2017

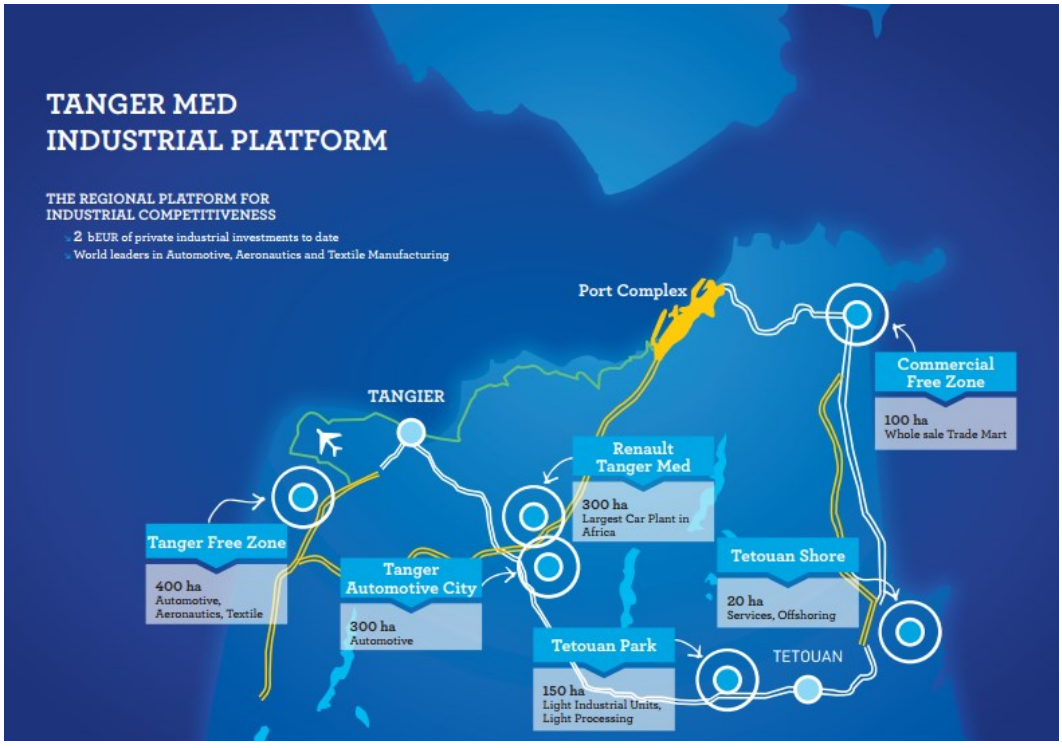
The TMZs, coupled with strategic infrastructure consist of a number of individual zones. A description of these zones and their associated activities is provided below:

Table 5-12 – Tanger Med Zones Overview

Zone	Key Components	Primary Activities
Tanger Med Port Logistics Free Zone	Port Tanger Med 1 Port Tanger Med 2 (currently under construction) Port Tanger Med Passengers Zone Franche Logistique (Medhub) Tanger Med Port Centre	Logistics and post-processing activities
Tanger Free Zone (TFZ)		Automotive, aeronautics, electronics, textiles and agro-business
Tanger Automotive City (TAC)		Automotive, aeronautic and renewable energy
Renault Tanger Med		Automotive – dedicated vehicle terminal
Tetouan Shore & Tetouan Park		Light industry, logistics, offshoring activities
Findeq Commercial Free Zone		Wholesale and retail

Source: Tanger Med Special Agency (2017)

Figure 25 - Tanger Med Industrial Platform Overview



Source: Tanger Med Special Agency (TMSA) 2017

In total, the Tanger Med Zones extend over a total land area of 3,000ha and constitute a platform for regional competitiveness in the industrial, logistics, services and trade sectors. The zones are ideally located, at only 14km from Spain and situated on the Strait of Gibraltar which offers the platform of unique comparative advantages with regards to access to European, African, Asian, North American and South American shipping routes. It is estimated that approximately 20% of global maritime trade passes through the Strait of Gibraltar, thus providing Tangier port with a naturally advantageous location for stop-overs and exports to Europe and the rest of the world. This has resulted in the port rapidly becoming a transhipment hub within the region.

Vision and Objectives

In July 2002, on the occasion of the Speech from the Throne, the decision to establish a "*major structural, port, commercial and industrial complex on the banks of the Strait, east of Tangier*" was taken by His Majesty King Mohammed VI. His Majesty committed Morocco to a long-term project, punctuated by the gradual commissioning of the various infrastructures of the project, opening the way for the accelerated development and improved competitiveness of the Moroccan economy.

The purpose for the creation of the TMZ was primarily one of regional economic development, based on a vision to drive growth within the north of Morocco taking advantage of its unique geographical position.

Beyond the realisation of the port infrastructure, the aim was to build and ultimately manage an integrated project of multiple dimensions, be they economic or territorial. Anchored to the global trade flows, the success of Tanger Med was conditioned from its conception to the ability to set up a project to the standards of its competitors, the major port, industrial and logistics platforms worldwide. This royal vision has facilitated full support from Moroccan government officials, investors and citizens.

Box 32 – Tanger Med Success Factors – Pillar 1 Royal Vision – TMSA Interview

Discussions with TMSA indicated that the key success factors of five key pillars of success, the first of which was the strong vision as set out by His Majesty King Mohammed VI. This strong vision has resulted in a strong political will to implement the Tanger Med projects. This long-term vision has also been critical to developing the fully integrated industrial cluster.

Development of the SEZ

The different zones, and their supporting infrastructure, were developed quickly and in line simultaneously with the overall vision to create an 'integrated cluster' supported by world class infrastructure and services. All developments and infrastructure within the TMZs were started at the same time and there were little or no gaps in provision of infrastructure and institutional support, with all initiatives developed to a high quality and to meet international standards.

The simultaneous development of the individual industrial zones and Tanger Port, as well as road and rail infrastructure linking the different hubs of the region has enabled an ecosystem of zones to develop and thrive. All of these carefully planned developments support each other, creating a virtuous circle of prosperity and economic development in the region. These activities revolve around industrial and logistics functions, including automotive, aeronautic, textiles, logistics, electronics, services and agribusiness sectors.

5.4.2 Spatial Profile

The spatial profile of each of the Tanger Med Zones is detailed below.

Table 5-13 - Spatial Profile – Tanger Med Zones

Zone	Gross Area	Distance to Nearest Airport	Distance to Nearest Port	Distance to Nearest Highway
Tanger Free Zone	400 ha	3km	56km	5km
Tanger Automotive City	300 ha	60km	30km	10km
Tetouan Park	150 ha	60km	60km	30km
Tetouan Shore	20 ha	90km	62km	8km

Source: Moroccan Ministry of Industry, Investment, Trade and Digital Economy (2017)

Infrastructure Provision

The development of Tanger Med came together with investment within major infrastructure to support the industrial hub of Tangier, including strong telecommunication infrastructure to attract high-tech and offshore services industries.

In addition to the Tanger Med Port complex which is discussed in further detail below, the success of the Tanger Med Zones is also underpinned by rapid investment in infrastructure by the Moroccan Government. In development of the Tanger Med Zones the government invested heavily in road and rail infrastructure to link the Port with the individual zones and with the rest of Morocco. This investment has included:

- A 61km freeway connecting the North freeway (Rabat – Tangier) with the SEZ;
- A freeway linking the commercial zone to the port;
- A two-lane expressway linking the Port to Fnideq which is the site chosen for the Commercial Free Zone;
- A 45km rail link connecting the SEZ to the national rail network;
- A 35km freeway linking Tangier and Asliah;
- Upgrading of the Tangier – Tetouan road to an expressway; and
- A 38km expressway linking Tetouan and Fnideq.

This infrastructure was financed by the Moroccan government to support the rapid development of the Port and the associated industrial platform.

Tanger Med Port and Logistics Complex

The rapid growth of Tanger Med Port is both a key enabler and driver of growth across the wider Tanger Med Industrial Platform. The primary objective driving the development of Tanger Med port is to develop an effective port platform integrated with transhipment activities, import export activities and to support added value logistics operations.

The Tanger Med port complex currently consists of:

1. **Tanger Med Port 1**: includes two container terminals, a railway terminal, hydrocarbons terminal, bulk goods terminal, and vehicle terminal;
2. **Tanger Med Port 2**: is currently under construction but when complete will include two container terminals;
3. **Tanger Med Passengers Port:** includes the access zones and border inspections, the 8 berths of boarding passengers and trucks, regulations zones, and the ferry terminal;
4. **Medhub Logistics Free Zone:** includes 50 hectares of land surface as well as last generation warehouses and offices for rent; and
5. **Tangier Med Port Center** – TMPC: 30,000m^2 of offices, banks, food court, multi service spaces. These are all connected to the train, bus and maritime station.

Container Terminal

The first container Terminal (TC1) started operations in 2007 followed by the second container terminal (TC2) a year later with capacity to handle 2.8 million TEU. These two terminals allowed the port of Tangier Med 1 to become a major container transhipment hub in the west of the Mediterranean and the port now has the capacity to receive the largest container ships in the world (400 m LOA, 18,000 TEUs). By 2014 the volume of containers had reached 3 million TEU making it one of Africa's largest ports and it now serves 174 ports in 74 countries worldwide, with new connections being added frequently. It can reach France in <48h, the USA in <10 days and China and Australia in <20 days.

Construction of Tanger Med II is now underway following investment of €825 million and once complete will increase the capacity of the port to 9 million TEU making it Africa's largest port. The port operations will be run by Marsa Maroc and APM Terminals which are both currently present within Tanger Med I.

In addition to its role as a strategic platform of container transhipment on East/West (Asia/Europe) and North/South (Europe/Africa) routes, Tangier Med I plays an essential role in terms of connectivity and in the promotion and development of (Import/Export) traffic in Morocco. Tangier Med I - with its diverse infrastructure links including rail and highways – plays a very important role in connecting the port to the hinterland and supporting the development of trade between Morocco and the rest of the world.

The Port also contains a Railway Containers Terminal, which strengthens its offer in infrastructure and port services. The railway terminal offers a wide network of connections to the main cities of the Kingdom and is connected to the Dry Port in Casablanca (MITA). The Terminal Railway continues to provide advanced logistic solutions to the maritime companies, land carriers, freight forwarders and importers/exporters with a delivery service of containers between the Tanger Med 1 port and the different economic centres of the Kingdom.

Renault Vehicles Terminal

The Renault vehicles terminal is spread over an area of 13 ha with a nominal storage capacity of 6,000 vehicles. It is intended to treat the annual output of 400,000 vehicles produced by the factory Renault Melloussa. It contains a railway terminal connected to the factory Renault Melloussa to allow rapid transport of vehicles from factory to port.

TMPA has given a concession agreement contract for 30 years at Renault for the design, financing, realization, exploitation and maintenance of the vehicles terminal.

Multi-users vehicles Terminal

Adjacent to that of Renault and spreading over an area of 5.5 ha, with a storage capacity of 2,800 vehicles and able to process up to 100 000 vehicles per year, the multi-users vehicles terminal has the same breakwater with two quays capable of receiving the transporters of ships of the latest generation (up to 240m in length), as well as technical and administrative buildings to provide quality services.

Vehicles railway Terminal

The vehicles railway terminal has 4 channels with a utile length of 240 m enabling to treat a half-ream per rail line and an unloading dock. This terminal is connected to the national rail network. Each vehicle train can carry up to 240 vehicles.

Hydrocarbons Terminal

Horizon Tangiers Terminal SA (HTTSA) is an oil storage terminal at the port of Tangier Med with a total capacity of 500,000 m^3 in 19 above ground storage tanks of fuel oil, Mogas, diesel, MDO and other blended products. It contains a truck/rail loading facilities, and two berths to serves barges from 3,500 to 10,000 DWT and tankers from 30,000 to 120,000 DWT.

Medhub

Tanger Medhub is positioned to be a world class logistics hub directly connected to Tanger Med Port. It covers an area of 200 hectares offering warehouses, offices and land plots for rent. It is focused primarily on value added logistics such as consolidation, distribution and supply including the distribution of goods to other free zones within Morocco.

The Medhub logistics zone provides a single customs area with a simplified customs declaration for the flow of goods including the possibility of the transfer of goods between Medhub and all customs offices.

The zone currently covers an area of approximately 50ha but is currently being expanded to a total of 200 ha. The zone offers a wide range of real estate options including ready for use office and warehouse units as well as lease options for serviced bare land options.

In 2016, Decathlon started its logistics operations within the Medhub zone with the take up of over 20,000 sqm of warehouse space. The facility will be the second largest Decathlon logistics facility in the world and will primarily focus on re-export activities to Mediterranean and West African markets.

Box 33 – Tanger Med Success Factors – Pillar 2 Infrastructure Investment – TMSA Interview

Investment in infrastructure was another identified key success factor drawn from discussions with TMSA. The port's geographic location was identified as one of the primary contributors to Tanger Med's unique value proposition and competitiveness. The port enables enterprises within the Industrial Platform to deliver to Europe and the rest of the world. The fact that Renault have now expanded their exports to South America from Tanger Med was provided as a key example of this connectivity.

The integrated infrastructure network which connects each of the zones was also identified to have been a key factor in attracting foreign investment and creating a unique value proposition for export orientated automotive industries. Each of the zones within the Tanger Med Industrial Platform are also connected by highways allowing rapid connectivity to Tanger Med Port for the export of goods. The utilities offer within each zone is also of very high quality, built to international standards to ensure that investors receive the same quality of services as within their countries of origin.

5.4.3 Legislative and Regulatory Framework

Special Economic Zone Act and Regulations

Morocco's Special Economic Zones were set forth by Law 19-94 (Dahir No. 1-95-1) on January 26th, 1995. The zones are exempt from customs regulations, foreign trade and exchange control restrictions which are in place within the domestic economy. Further information on these fiscal incentives is provided below.

The country has made significant progress since the degree of the SEZ law in improving the release and clearance procedures for the SEZs. It is recorded that operators within the zones are now able to conduct 30 operations remotely including the release and clearance of goods, digital signature of customs declarations and e-payments. In addition, an agreement between Customs and the Directorate-General of Taxation has now permitted approved economic operators to exchange tax data, reducing tax-related procedures.

Licensing, Ownership and Zoning Restrictions

The Tanger Med zones are structured to allow either rental or purchase of land parcels.

Incentives

The Moroccan Industrial Strategy aims to strengthen the attractiveness of Morocco through the definition of a value proposition specifically for automotive equipment suppliers and manufactures. The Government have developed an '*Offer Morocco for the Automotive Sector*'

initiative, which is orientated around three central components including an attractive incentives framework.

Fiscal Incentives

Fiscal incentives include:

- Exemption from customs duties and VAT;
- Exemption from registration fees and stamp duty on capital and land acquisition costs;
- Exemption from business tax for the first 15 years;
- Exemption from corporate tax during the first 5 years (a fixed rate of 8.75% for the next 20 years);

Non-fiscal Incentives

Non-fiscal incentives include:

- No restrictions on foreign exchange or repatriation of funds;
- No restrictions on local / foreign ownership;
- There are no restrictions on investments – same level of rights protection as elsewhere in the world; and
- Coherence training program.

Hassan II Fund

The Hassan II Fund is a framework agreement related to support for industrial investment, signed on the 15th, March 2016, between the Hassan II Fund for Economic and Social Development (FHII), the Industry Directorate of the Ministry of Industry, Trade, Investment, and Digital Economy, and the Ministry of Economy and Finance. It is focused on the following sectors:

- Manufacturing equipment for the automotive industry;
- Manufacture of components and assemblies of electronic subassemblies;
- Manufacturing equipment for the aviation industry; and
- Manufacturing operations related to nanotechnology, micro-technology and biotechnology.

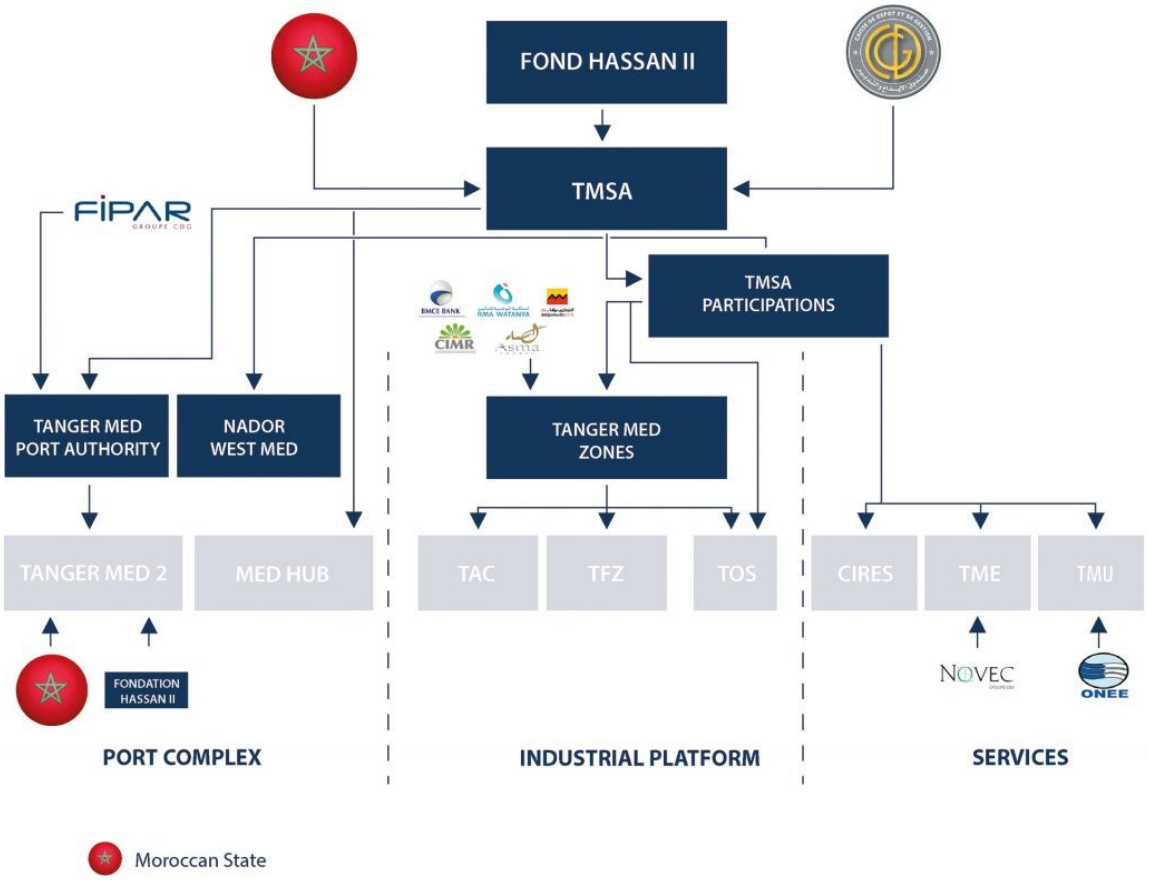
The Hassan II fund can be used to contribute to:

- Up to 30% of the cost of the building based on a unit cost of 2,000Dh/m^2;
- Up to 10% of the cost of acquiring new capital goods (excluding the import duties and taxes); and
- Up to 30% of land acquisition costs.

5.4.4 Organisational and Administrative Profile

The TMZs are developed, managed and operated by the Tanger Med Special Agency (TMSA) which is a unique state agency, bringing together the key project partners. In addition to TMSA there are a number of subsidiaries which have been developed to manage the port complex, the industrial platform and the service and utilities functions. This is set out below:

Figure 26 - Organisational Profile



Source: Tangier Med Special Agency (TMSA)

TMSA

TMSA was established under Decree No. 2-02-644 of September 10th, 2002 and is the public authority over the Tanger Med Port and SEZs. It is a limited company with a Management Board and Supervisory Board with capital reserves of 818 million MAD held by the Hassan II Fund for Economic and Social Development and is responsible for the regional development, urban planning and the management of the Industrial platform and of Tangier Med port. It has been endowed with public prerogatives including public authority missions on the port and the free zones, in accordance with common law provisions on the matter.

All the prerogatives of TMSA are set by Decree-Law, establishing the special zone of development Tangier Mediterranean. In this framework, the Moroccan State has entrusted TMSA with the following main tasks:

- All the technical and economic studies relating to the port and the free zones, the preparation of a general scheme for the development of the special development zone;
- Mobilization of the funding needed to implement the Tangiers Med project components;
- Development and operation of the new port and logistics, industrial, commercial and tourist areas;
- Commercial promotion of the port and business areas;
- The concession, where appropriate, of activities in the port and free zones;
- Administration of the public domain of the area; and
- The management of the port by carrying out the missions of the Port Authority.

TMSA acts as a regulator and central point of contact for all branches of the Tanger Med Activities, allowing for greater cooperation, faster processes and easier administration and operation of activities.

TMSA is also the single point of contact for investors – they are assigned one business account manager to manage the relationship. The organisation acts as the 'One Stop Shop' for investors and provides a central point of contact for the organisation of the zones both through TMSA and their subsidiaries which are outlined in further detail below. This organisational structure allows TMSA to expedite the issuing of licences and permits. Notably:

- Setting up the legal entity can take 48 hours;
- Construction permits can be delivered in 7 days; and
- Operational license can be delivered in 7 days.

Box 34 - Tanger Med Success Factors – Pillar 3 One-Stop-Shop – TMSA Interview

Discussions with TMSA found that whilst business (fiscal and financial) incentives are considered to be important in attracting investment they are not necessarily key to the success of the zones. It is considered that the ease of doing business, particularly with regard to the administrative processes and the establishment of a one-stop-shop have been more important factors to success. Investors deal with one entity and are provided a business account manager to facilitate the process. It was also commented that the streamlining of administrative procedures such as obtaining licenses and permits have been key factors in increasing the ease of doing business within the zones.

Tanger Med Port Complex

In 2008, TMSA initiated a process that led to the establishment of a subsidiary dedicated to port activity, the company Tanger Med Port Authority SA (TMPA). This was done in order to optimize the operational efficiency of the two core businesses of TMSA which are: the port and the zones of activities, and in order to enhance development capacities.

TMPA is a public limited company with a board of directors, and a capital of 1,250 billion dirhams. (MAD). The capital is allocated as follows: 70% for TMSA, Tangier Mediterranean Special Agency, and 30% for FIPAR, the investment company of CDG Group, according to the Memorandum of Agreement signed in July 2008 between TMSA and ''La Caisse de Depot et de Gestion (CDG)'.

In January 2010, all the public missions and prerogatives related to the management and development of the port complex were transferred by Decree of Law from TMSA to Tanger Med Port Authority allowing TMPA to act as a port authority of the port Tangier Med.

Aligned with the modern port governance practices, The Port Authority of Tangier Med focuses its missions on the management and the infrastructure development, the coordination and the animation of the port community and it ensures the reliability and performance of the services provided to the customers of the port platform.

Aside from the Tangier Med port passengers, the main port activities of the complex Tangier Med are entrusted to private operators facilitated by a framework of concession contracts. These operators invest in the superstructures and the equipment of the port and provide services that meet the international standards of quality, safety and security. For example the first container terminal (TC1) is operated through a 30 years concession contract granted in 2005 to APM Terminals Tangier, a subsidiary of APM Terminals Group, and of AKWA Group.

The Tanger Med Port Authority (TMPA) is currently undertaking construction of the Tanger Med II Container Facility. To fund development of this infrastructure the TMPA has secured a EUR 200 million loan from the European Investment Bank (EIB) and a $178 million loan from the

Arab Fund for Economic and Social Development in addition to $459.8 million in capital resources. In addition, the port operator, Marsa Maroc, is investing $407 million in superstructure and equipment as part of the concession agreement.

The Tangier Med port 2 will contain two container terminals. Marsa Morocco is the concessionaire of the Container Terminal 3 (TC3). Terminal 4 (TC4) is conceded to APM Terminals.

Industrial Platform

Tanger Med Zones is the operational vehicle of TMSA in its capacity as a majority shareholder alongside its institutional partners for the development of the industrial platform. In addition to TMSA the Tanger Med Zones has private sector investment from CIMR, ASMA Invest, RMA, ATTIJARIWAFA Bank and BMCE Bank.

Each of the zones within the industrial platform are managed by subsidiaries of TMSA including:

- Tanger Free Zone Company;
- Tanger Automotive City Company; and
- Tetouan Shore Company.

Each company acts as an independent entity that each manages their own zone. However, they are TMSA subsidiaries, which allows for helpful and fast cooperation between investors and any other administrative unit.

Services

In addition, Tanger Med created three subsidiaries for service activities supporting the safe, reliable and comfortable operation of all zones:

- CIRES Technologies – specialises in security and safety, networks and communications and digital infrastructure;
- Tanger Med Engineering - a maritime and civil engineering consultancy created and run by TMSA. It offers design, supervision and management services for large-scale engineering projects. TME is responsible for the development and management of the Tangier Port complex, overseeing infrastructure design and supervision; and
- Tanger Med Utilities - TMU is a TMSA subsidiary (owned by TMSA), created to provide high quality utilities services to Tanger Med.

Tanger Med Foundation

The Tanger Med Foundation for human development consolidates the TMSA Group's strategy in terms of social responsibility and sustainable development. Created in May 2007, the Foundation supports community-based associative initiatives in the Tangier-Tetouan region. Tanger Med Foundation supports different association-related initiatives in the northern region

of Morocco. In partnership with local authorities and government institutions, the Foundation focuses on four main pillars:

- Education;
- Healthcare;
- Professional Training; and
- Social Cohesion.

In particular, professional training has been at the heart of the TFZ development. By creating a professional school, they insured that a pool of qualified students would be trained next to their facilities. This has allowed for trainings to be shaped towards the needs of the TFZ, with frequent internships and a human resource pool of highly qualified applicants already present on site.

This has also allowed to source human capital in the region of Tangier, therefore benefitting regional inclusion and social inclusion as well as promoting gender equality in the zones.

5.4.5 Economic Profile

Today, the Tanger Med zones constitutes an integrated industrial platform developed over an area of 3,000 ha with more than 600 active companies representing a yearly export turnover of EUR 4 billion. Overall, EUR 8 billion were invested in the Tangier industrial zones and port, of which half came from private investors, and half was publicly financed.

These strong fundamentals have enabled the zones to meet the expectations of global players and successfully attract globally recognised automotive, aerospace and logistics firms including APM Terminals, EuroGate, Renault-Nissan with the largest car plant in Africa, Arcelor-Mittal, General Electric, Delphi and Lear Corporation.

Sectoral Focus

The following table outlines the sector focus of each of the Tanger Med Zones:

Table 5-14 – Tanger Med Zones Primary Sectoral Focus

Zone	Primary Sectoral Focus
Tanger Free Zone	Aeronautic, electronics and textiles
Tanger Automotive City	Automotive
Tetouan Park	Industrial processes and logistics
Tetouan Shore	Offshoring activities including Information Technology Outsourcing (ITO), BPO (Business Processing Outsourcing) and Knowledge Process Outsourcing (KPO)

Source: TMSA (2017)

Real Estate

The following table identifies the land ownership and rental options available within each of the Tanger Med Zones. Each zone is subdivided into plots of land, which investors can either rent or purchase based on the zone arrangements. Additionally, investors can decide to rent or purchase the land with pre-built buildings, or alternatively they have the option to construct their own bespoke facilities on serviced bare land options.

Table 5-15 - Commercial and Lease Offer – Tanger Med Zones

Zone	Commercial Offer	Land Parcel / Building Lease Rates	Land Parcel Purchase Rates
Tanger Free Zone	Land Parcel Lease Land Parcel Purchase	95 – 1,100 DHS / M² /month	600 DHS / M² / month
Tanger Automotive City	Land Parcel Lease Land Parcel Purchase	65 – 1,250 DHS / M² / month	657 DHS / M² / month
Tetouan Park	Land Parcel Purchase	n/a	1,800 DHS / M²/ month
Tetouan Shore	Building Lease	90 DHS / M² /month	n/a

Source: Moroccan Ministry of Industry, Investment, Trade and Digital Economy (2017)[100]

The Tanger Med Zones have a comprehensive real estate offer which includes:

- Sale of vacant land – transfer of ownership;
- Lease of standard industrial buildings (pre-constructed) with an average contract duration of 3, 6 or 9 years; and
- Lease of bespoke industrial buildings (pre-constructed) with an average contract duration of 10 years.

The Tanger Med Zones have an average service/estate charge of 0.5 euros per sqm per year for land.

[100] http://www.zonesindustrielles.ma/?lang=en

Economic Performance

The economic performance of the Tanger Med Zones is summarised below in Table 5-16.

Table 5-16 – TMZs Economic Performance Summary

Economic Performance Indicator	Performance Summary
Foreign Direct Investment (EUR)	A total of EUR 3.5 Billion has been invested within TMZ since the inception of the zones which represents approximately 8% of total FDI inflows since 2003. The vast majority of this investment was provided by Renault in 2012.[101]
Number of Companies within SEZ	There are currently 750 active companies within TMZs as of 2016
Direct Job Creation	In total over 65,000 jobs have been created within the Tanger Med Zones and Port. Renault on its own created 9,600 direct jobs.[102]
Indirect Job Creation	Whilst information on indirect job creation is not currently available it is know that Renault Tanger Med have generated more than 30,000 indirect jobs from production activities
Export Values ($)	In 2016 the Tanger Med Zones generated a total export turnovers of EUR 5.5 billion. This accounts for approximately 25% of total Moroccan exports in 2016.[103]
Average Annual Output (EUR)	No data is currently available on annual output.

Source: BuroHappold Analysis 2017. Interview with Tanger Med Special Agency 2017.

The impact of the Tanger Med Zones on the Moroccan economy has been significant, with over EUR 3.5billion since its inception in the early 2000's. The majority of this investment was provided by Renault when they established their factory in Melloussa in 2012. This investment

[101] BuroHappold Analysis 2017 and Dhaman (2016) Morocco: Inward and Outward FDI. Available from: http://dhaman.net/wp-content/uploads/2016/02/Morocco.pdf.

[102] UN Economic Commission for Africa, (2017) Economic Report on Africa – 2017

[103] BuroHappold Analysis 2017 and WITS (2015) Morocco Trade at a Glance.

helped to catalyze the industrial shift within the region and nationally from phosphate manufacturing to the automotive industry.

The successful location of Renault in the Tanger Med Zones had a significant impact on both the regional and national economy with regards to the automotive industry. It is recorded that following Renault's arrival, an estimated 30 international subcontractors followed, establishing production activities within the Tanger Med Automotive City Free Zone. It is estimated that now, 80% of the country's automotive sector enterprises are located within the Tanger Med Zones demonstrating the significance of the zones to the automotive industry.[104]

Box 35 - Tanger Med Success Factors – Pillar 4 Market Access – TMSA Interview

In discussions with TMSA it was identified that market access has also played a key factor in the Tanger Med Zones success. This includes Free Trade Agreements (FTAs) with both the European Union (EU) and the United States (US). It was noted that given Morocco is the only African country to have a FTA with the US, this places it at a competitive advantage within the region with regards to attracting investment across the Tanger Med Industrial Platform. This market access has been facilitated by the rapid expansion of the Tanger Med Port and the increasing number of connections to ports internationally.

5.4.5.1 Relationship with Regional and National Economy

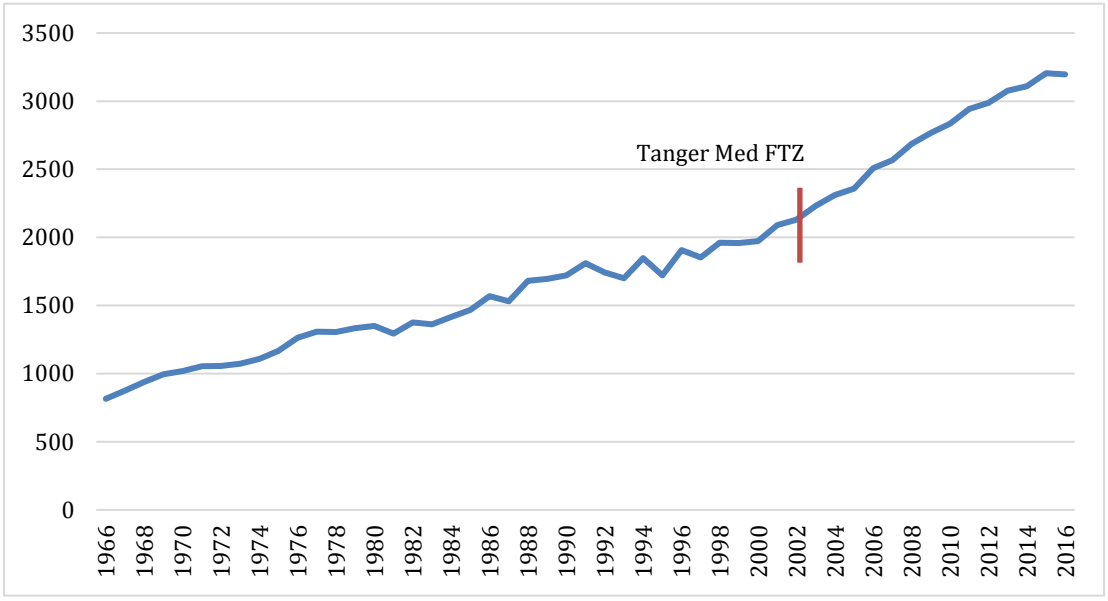
To examine the effect of the Tanger Med SEZ on the Moroccan economy a number of indicators have been examined to illustrate the economic performance of the zone in:

- Increasing GDP performance;
- Increasing export values; and
- Attracting further FDI inflows.

This analysis is presented below in Figure 27, Figure 28 and Figure 29.

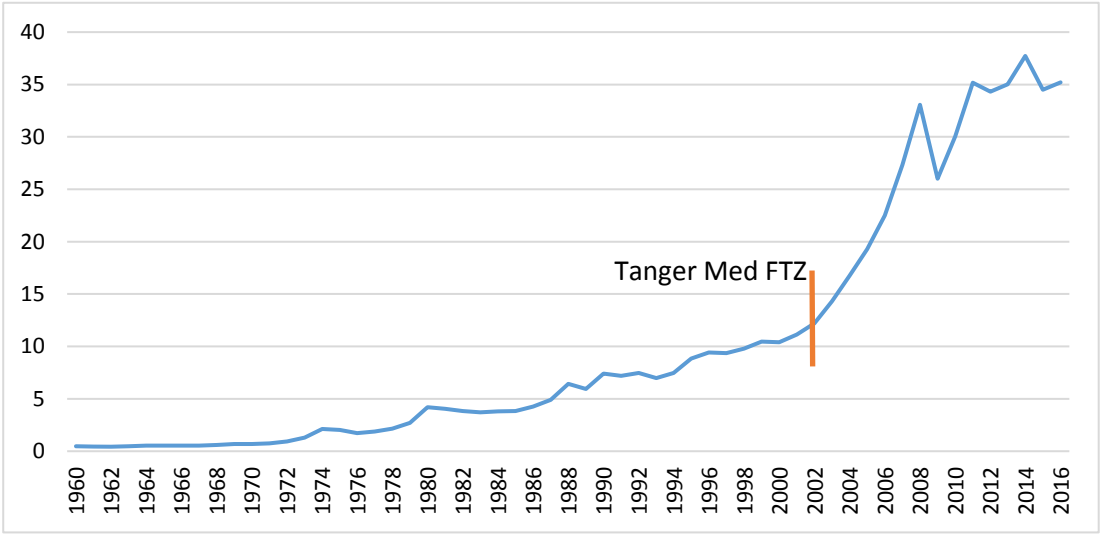
[104] UN Economic Commission for Africa, (2017) Economic Report on Africa – 2017

Figure 27 - Morocco GDP per Capita (constant $)



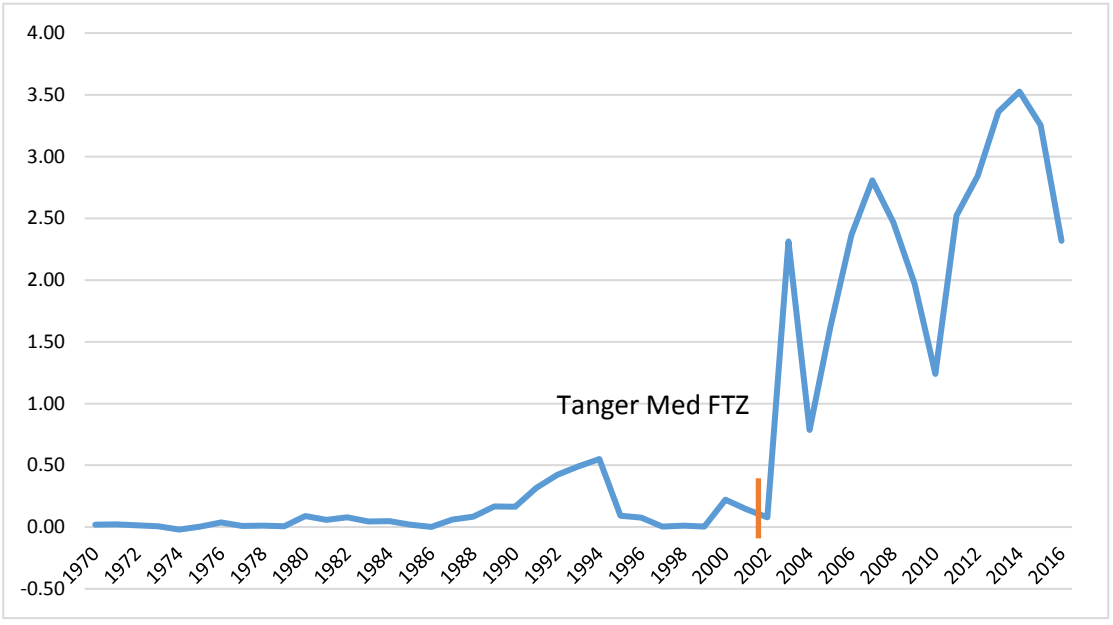
Source: World Bank (2017) World Bank Open Data. Available from: https://data.worldbank.org/

Figure 28 - Morocco Export Values ($Bn)



Source: World Bank (2017) World Bank Open Data. Available from: https://data.worldbank.org/

Figure 29 - Morocco Foreign Direct Investment – Net Inflows ($Bn)



Source: World Bank (2017) World Bank Open Data. Available from: https://data.worldbank.org/

The analysis presented above indicates a relationship between export values and FDI in-flows following the establishment of the Tanger Med zones. Between 2000 and 2008 export values increased approximately 218% whilst between 2000 and 2016 FDI in-flows increased by approximately 950%.[105] As outlined in earlier analysis it is recorded that the Tanger Med Zones account for approximately 25% of total exports in 2016 demonstrating the strength of the relationship between the export orientated automotive industries located within the Tanger Med Zones and their contribution to national exports. It has also been estimated that of FDI in-flows between 2003 and 2016, FDI in Tanger Med Zones accounted for approximately 8% of total investment.

Skills and Training

Morocco has the appropriate human resources to allow companies to increase competitiveness and add value to their activities. The country has a very young population, with 64% of Moroccans being aged under 34. In total there are 40,000 graduates every year (including 10,000 engineers) which provides labour tailored to the needs of companies settling in the zones.

[105] Whilst this analysis has attempted to demonstrate the economic effects of the Tanger Med Zones on the domestic economy it should be caveated that there may be a number of economic reasons for the performance of the indicators analyzed. A more detailed econometric analysis would be required to isolate the exact impact of the Tanger Med Zones on the indicators analysed.

Additionally, specific education trainings were developed for specific industries and in collaboration with the private sector. Technical centres and engineering schools opened campuses on the TFZ, allowing for tailored, practical trainings, providing high skilled workforce to the zones. These have been in line with the sectors attracted to the zones. In particular, aeronautics, automobile and offshoring have been the target sectors of this education initiative.

For example, Siemens recently opened a training centre providing high quality education for all new employees joining their wind turbine manufacturing plant. The centre has trained over 500 employees since April 2016.

The Automotive Careers Training Institute was also set up with the support of Renault and public investment to facilitate local training of the workforce for the factory. It was founded in 2012 and since has trained over 6,500 people.[106]

Box 36 - Tanger Med Success Factors – Pillar 5 Qualified Labour Force – TMSA Interview

The fifth pillar of success identified by TMSA is the presence of a qualified labour force within the Tangier- Tetouan region. Key to this success has been the establishment of 27 training centres developed with government funding, with training costs also subsidised by central government funding. TMSA also identified the importance of continual discussions with companies and industries to identify skills requirements and needs. This proactive approach to skills development in their opinion has resulted in a skilled Moroccan workforce which is a key strength for investors looking to locate within the region, particularly within the automotive, aerospace and logistics sectors.

Box 37 – Standard Profil Interview – Tanger Med Free Zone

Standard Profil manufacture automotive sealing systems and are located within the Tanger Med Free Zone. When asked to identify the key attraction of the Tanger Med Free Zone for investment the costs of labour and the quality of labour were presented as two primary reasons. It was noted that the Moroccan labour force was recognised to be amongst the highest quality of any Standard Mobil manufacturing facility globally. Standard Profil also indicated that the presence of a technical school within the zone was a key factor in providing a highly skilled workforce. The majority of technical workers within the Standard Profil factory come from this school and then undergo further internal training.

Other key reasons for investment included:

- The fiscal and financial incentives offered;
- The presence of a one-stop-shop – TMSA helped the firm to expand operating hours to allow 24 hour working;
- The geographical proximity to Spain – where Standard Mobil's key customers are based; and
- Proximity of the port for facilitating export of goods.

[106] Renault 2014 - https://group.renault.com/en/our-company/locations/our-industrial-locations/tangier-plant/

Box 38 – Siemens Gamesa Interview – Tanger Automotive City

An interview with Siemens Gamesa identified that the Tanger Med's skilled labour force was a key factor in the decision to invest within the Tanger Automotive City zone. Siemens have their own training facility and have so far trained over 500 workers during the current start-up phase. The facility will eventually export blade turbines to Europe.

Other identified reasons for investment included the provision of bespoke infrastructure to enable the facility to export blade turbines to the port easily and efficiently. This included bespoke design of the highway access to allow turbines to be transported via specialist trucks to the Tanger Med Port.

5.4.6 Summary Success Factors

Governance

5.4.6.1 Political stability

Investors are usually more inclined to invest in politically stable environments. This ensures smoother operation, reduced uncertainties and more robust trading relationships. Overall, political stability is a pre-requisite for a business-friendly environment and reduces the risk profile of any investment.

5.4.6.2 Strong vision and government support

Direct involvement of Government officials in attracting and supporting foreign investors has been crucial in attracting high-visibility anchor tenants to the zones. The regional and national visions were developed around the economic potential of the SEZ development, which also included large-scale infrastructure developments in the country.

5.4.6.3 Administrative support and facilitation from central entity (TMSA)

TMSA's work has been crucial in facilitating the setting up and operation of new activities in the site. This single administrative unit allows linking up of all the zone specific agencies and their subsidiaries, allowing for efficient administrative processes and optimisation of resources.

5.4.6.4 Use of Public-Private Partnerships

The use of public-private partnerships as a fundamental aspect of both the development and operation of Tanger Med Zones has been used to great success. The TMSA is a public – private partnership and the agency has a number of subsidiaries such as TME and TMU which follow the same structure. The use of PPP's has enabled the private sector to invest in the development of Tanger Med Zones and to participate in the operation of facilities such as Tanger Med Port. This has bought private sector expertise to Tanger Med Zones and has resulted in the successful

growth and operation of key assets such as Tanger Med Port which in turn has supported the rapid growth of export orientated industries within the zones.

Financial and economic climate:

5.4.6.5 Economic stability

Macroeconomic stability is crucial for an ambitious, growing company that may consider investing in an SEZ. The following indicators show the positive trends taking place in Morocco during the successful development of the zones.

- High GDP growth over last decade;
- Public debt reduced from 68% to 48% of GDP;
- High level of investments (>30% of GDP);
- Unemployment reduced from 14% to 9%; and
- Reduced inflation (1.8%).

5.4.6.6 Fiscal and financial incentives

Exemption from customs duties and VAT, registration fees and stamp duty on capital and land acquisition costs, business tax for the first 15 years and corporate tax during the first 5 years (a fixed rate of 8.75% for the next 20 years) form part of the financial incentives that were set up in the SEZ. These incentives have offered a competitive advantage for investment. In addition, it was decided to impose no restrictions on foreign exchange or repatriation of funds, no restrictions on local/foreign ownership, and no restrictions on investments – at the same level of rights protection as elsewhere in the world.

5.4.6.7 Strong and supportive banking system

Local actors in the financial services sector, growing internationally through a strong foothold in Africa, have allowed the financing of large projects (including land, CAPEX and training programmes)

5.4.6.8 Strong anchor tenants – Renault, Maersk, Arcelor-Mittal, General Electric etc.

Attracting powerful anchor tenants at the outset of the SEZ was crucial in paving the way for further investments in different sectors. In automotive, Renault decided to build the biggest plant in Africa in the Tangier region. Renault-Nissan is now the single largest producer of cars worldwide, and has exported over 1 million cars from the Tangier port. These successful investments have given credibility to a project and act as catalysts for investments in their market segment.

5.4.6.9 Trade agreements with relevant markets

Morocco has a unique set of Free Trade Agreements with access to 1 billion customers in Europe, Africa and north America, as well as being a stop-over destination for ships globally. This is a unique advantage for export-focused companies, which represent the majority of activities in SEZs.

Infrastructure

5.4.6.10 Adequate infrastructure and connectivity – a rail connection to the port was built for Renault

Major infrastructure upgrade – new airports, ports, rail, roads, energy and telecom have allowed for export-focused companies to invest in the region. This allows products to be transported quickly, safely and efficiently to global markets.

5.4.6.11 Easy to buy/lease/build on land (with financial help form Hassan II fund)

The flexibility and wide range of options that TMSA offers potential investors intends to help foreign and local companies to relocated in the SEZ in the most convenient way. Facilitation of financing, planning and administrative issues is therefore made simple.

5.4.6.12 Security & utilities

A safe environment is provided to companies settling in the SEZ. Security and safety, but also reliable internet connections, heating, water, wastewater and solid waste services are provided at international standards.

5.4.6.13 Rapid construction of zones and parallel infrastructure projects (port took 4 years only to build)

Rapid construction of manufacturing plants, shells and transport infrastructure

5.4.6.14 Affordable housing for workers

Affordable housing is crucial for local workers to be able to work in the SEZ.

Skills:

5.4.6.15 Adequate and affordable labour force

An affordable and highly skilled labour force is now available in Morocco. This is the result of major investments in the education sector, including professional training centres within and outside the SEZs. This now allows for investors to hire local professionals and to contribute to job creation and sustainable development of the local economy.

5.4.6.16 Local expertise in line with investor requirements

One of the strategic objectives of SEZs, has been possible through development of local expertise and training of individuals. A priority at company-level, this is also a magnet for innovation and higher skills standards in the region.

5.4.7 Summary Lessons Learnt

- Large scale investment in infrastructure allowed the Tanger Med Zones to capitalise on their strategic geographic position on the Strait of Gibraltar. Investment in the port, road infrastructure and a dedicated rail link enabled the zones to attract the likes of Renault, a key anchor tenant.
- The Tanger Med Special Agency was created specifically to oversee the development of the port and the industrial platform. It has autonomy from central government and has created a number of subsidiaries which are public / private. This organisational structure has enabled it to respond flexibly to investor requirements and to meet the needs of future growth.
- The strategy for the Tanger Med Zones is well defined and was based on a sound economic rationale with regards to the types of industries and activities which should be targeted and the geographic location of the industrial platform and supporting infrastructure. This plan has enabled the region to capitalise on its comparative geographic advantages and is key to its economic success.
- There has been significant investment in skills and training in collaboration with industry to ensure that the local workforce is available to support industry requirements.

5.5 Case Study 4: Aqaba Free Zone, Jordan

5.5.1 Overview and Description

As one of the successful Freeports in the region, Aqaba is a case study in mixed use development with private sector participation and decentralisation at the heart of its success. Aqaba has successfully leveraged its tourism potential apart from its focus on traditional industrial and manufacturing sectors to emerge as a leading special economic zone in the region. Aqaba is ranked amongst the leading international free zones of the future by fDi Intelligence (part of the Financial Times group).

Table 5-17 – Aqaba Free Zone Overview

SEZ Typology	Free Trade Zone
Established	2001
Area	~37,500 ha
No. of firms onsite	>5,000
No. of jobs created	~70,000
Authority-in-charge	Aqaba Special Economic Zones Authority (ASEZA)

Source: BuroHappold Analysis 2017

The Aqaba SEZ began functioning in 2001 following the introduction of the Aqaba Special Economic Zone Law No.32 in 2000. It began functioning in early 2001 and was formally established in May 2001. The SEZ covers the Kingdom's only port, Aqaba Port, and its immediate surroundings including Wadi Rum. The SEZ covers approximately 375 sq.km of territory.

Vision and Objectives

The SEZ proposal was developed following a period of weak economic performance within the Kingdom in the late 1990s. Jordan, at this period, was suffering from a large stock of foreign debt, high unemployment and a significant proportion of the population living under the poverty line and was struggling to achieve GDP growth above population growth. To address these issues the government acknowledged the need to implement structural economic adjustment programmes.

The Aqaba SEZ was implemented as a means to drive private sector investment within the south of the Country and to radically transform the city of Aqaba, including its administrative system and institutions. The primary objectives of the zone were to:

- Attract investments by creating a world class competitive business environment;
- Improve the quality of life and prosperity of the local community; and
- To ensure continuing development on the basis of transparency and efficient utilisation of resources.

The SEZ now operates as a world class business hub and leisure destination on the Red Sea and is a significant driver of economic development within Jordan.

Development of the SEZ

In December 1999 the Jordanian Economic Consultative Council (ECC) was established by Kind Abdullah with the purpose of monitoring the implementation of vital socio-economic, administrative and educational reforms. The ECC was a crucial instrument in driving transformational institutional change within Aqaba given it was appointed directly by the King and personally supervised by him, allowing it to bypass existing institutions within the state such as parliament and the cabinet.

The ECC developed an integrated plan for Aqaba which was endorsed by the King in April 2000.

5.5.2 Spatial Profile

The Aqaba Special Economic Zone is situated in the Gulf of Aqaba leading to the Red Sea; the ASEZ extends to the land borders of Israel and KSA and embraces territorial waters of Egypt, hence providing strategic access to the regional and international markets.

The zone, acting as a regional multimodal transport hub, benefits from the proximity to the port, airport and roadways infrastructure. The port of Aqaba, situated within the zone, has a capacity of ~1.5 million TEU. It provides international firms access to high quality logistics, storage and distribution infrastructure apart from providing access to skilled labour force.

The zone also benefits from its proximity to the King Hussein International Airport which operated under the 'open skies' policy offering preferential incentives and rates to trading partners. The airport has an estimated cargo handling capacity of ~400,000 tons/annum.

The zone is strategically located to serve the rest of the GCC region and is at a few hours of flying distance from Europe, Middle East and the rest of Asia.

Proximity to a large urban centre also offers the zone a distinct advantage in terms of access to a larger market base, access to skilled labour force and a vibrant urban setting – all important factors in driving ASEZ's attractiveness.

Figure 30 - Aqaba SEZ Location

Source: BuroHappold 2017

Infrastructure Provision

Aqaba SEZ is served by both a deep-water seaport and an International Airport and is well connected to a network of modern highways which connect Aqaba to the surrounding region.

The port areas includes the Main Port, the Middle Port and the Southern Industrial Port. Further details are provided in Table 5-18 below.

Table 5-18 – Aqaba Ports Overview

Port	Purpose
Main Port	Comprises 12 berths and can handle vessels with a draft up to 14.4m. Used for handling general cargo, grain and phosphate export.
Middle Port	Comprises 7 berths including Mo'ta Berth, Moshterak Berth, the Container Terminal, Ro-Ro berth and Yarmouk Berth (passenger terminal) These berths are primarily used for handling containers, rice, livestock, cement, vegetable oil and passengers.
Southern Industrial Port	Comprises 4 berths including an Oil Jetty, Timber Berth and an Industrial Terminal These berths are used primarily for handling oil, timber and serve the imports and exports of the industrial complex products such as fertilisers, sulphur, salt, potash and chemicals.

Source: Aqaba Ports (2017)

5.5.3 Legislative and Regulatory Framework

SEZ Act and Regulations

The Aqaba Special Economic Zone Law was established in 2000. Under Article 3 of the Law it states that the "*aim of the establishment of the Zone is to enhance economic capability in the Kingdom by attracting different economic activities and investments*".[107]

The SEZ law established the Aqaba Special Economic Zone Authority (ASEZA) and mandated that it should have juridical personality with financial and administrative autonomy. The law enabled the ASEZA to acquire movable and immovable property and perform all legal acts necessary to achieve its objectives including concluding contracts, accepting aids, grants and donations and litigating. The ASEZA is the regulator for the Aqaba SEZ.

[107] Aqaba Special Economic Zone Authority (2000) The Aqaba Special Economic Zone Law no (32) for the Year 2000 and its amendments.

Licensing, Ownership and Zoning Restrictions

The Aqaba SEZ offers a range of options for potential investors with regards to land ownership including options for the purchase or lease of land. The SEZ Law includes use or lose it provisions which enable the ASEZA to repossess land at fair compensation.

Incentives

The range of Incentives offered to companies choosing to locate in Aqaba SEZ includes:

Fiscal Incentives

Fiscal incentives include:

- A 5% tax rate on all net business income (in contrast with a 35% rate for other parts of the country), except that from banking, insurance and land transport activities;
- No social services tax, or annual land and building taxes on improved property;
- No customs duties on imports into the Zone;
- A limited 7% sales tax on the consumption of selected personal goods and hotel/restaurant services (as opposed to a 13% levy for other parts of the country);

Non-fiscal Incentives

Non-fiscal incentives include:

- No foreign equity restrictions on investment in tourism, industry, retail and other commercial services. This includes approval for 100% foreign ownership;
- No foreign equity restrictions on investment in tourism, industry, retail and other commercial services;
- Availability of land for lease or sale;
- Streamlined labour and immigration procedures – a project may employ up to 70% foreign labour as an automatic right;
- Full guarantees on rights and ownership; and
- Direct loans and equity investment made by ASEZA in businesses choosing to locate on site.

5.5.4 Organisational and Administrative Profile

The zone is developed and operated by a single autonomous institution tasked with its planning, development and operation – Aqaba Special Economic Zones Authority (ASEZA). With its board of six ministerial-level commissioners, ASEZA is one of the first attempts at decentralisation of economic development in the Kingdom. As a result, the operating model is attractive to private investors looking for more efficient and less bureaucratic procedures.

ASEZA

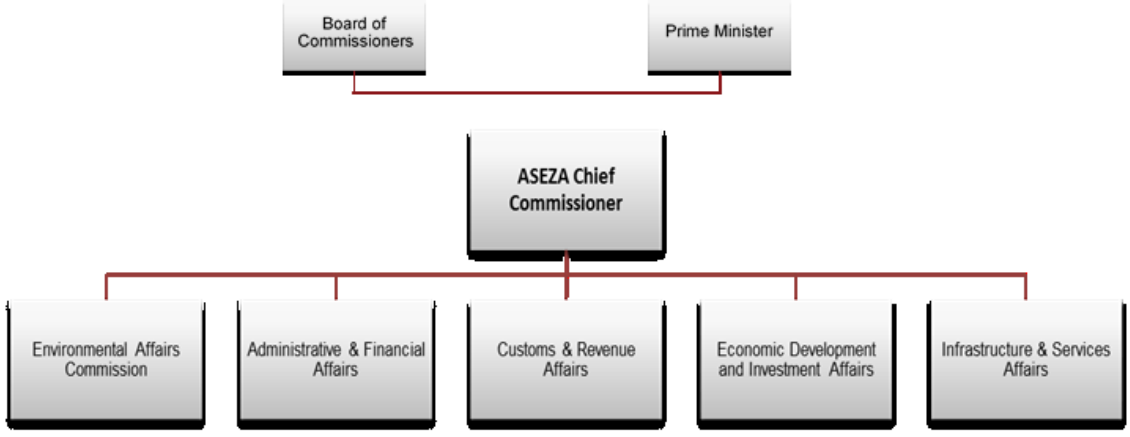
Upon its creation and according to the ASEZ Law, the ASEZA subsumed the functions and employees of both the Aqaba Regional Authority (ARA) and the Aqaba Municipality. The ASEZA tasks include developing the area for investments, increasing job opportunities and preventing monopoly of economic activities. The ASEZA's vision for Aqaba is to:

1. Create a world-class business hub and leisure destination, enhancing the quality of life and prosperity of the regional community through sustainable development; and
2. To transform the city of Aqaba and its surroundings into a driving force for the economic growth of Jordan and the Middle East.

ASEZA has adopted a service-oriented model with an aim to assist investors with setting up of their businesses in the zone through a one-stop-shop. Although, ASEZA started out with a separate customs commission, the customs function has now been taken over by the Jordanian National Customs.

The ASEZA includes five main branches as shown in Figure 31.

Figure 31 - Aqaba SEZ Organisational Profile



Source: BuroHappold Research (2017)

Land ownership and lease terms are decided by ASEZA with the occupier based on the requirement of the facility needed to be set up. ASEZA also facilitates provision of basic infrastructure such as utilities, ICT etc. The development of ASEZA is governed by the 2001-2020 masterplan which outlines the aim and vision to integrate the free zone into the wider area masterplan. Part of the plan is also to focus on attracting private payers in infrastructure development.

The operational aspects of ASEZA also offer further insight into the factors driving its success. The zone operates a one stop shop to help businesses register their interest in operating in the zone.

Aqaba Development Corporation (ADC)

The ADC was formally created in 2004 as the development arm for Aqaba SEZ. The ADC is jointly owned by the Government of Jordan and ASEZA and has a mandate to:

- Develop the SEZ
- Build new infrastructure and required superstructure
- Expand existing utilities;
- Create necessary business enablers for the SEZ; and
- Manage and operate its key facilities.

Within the SEZ, the ADC owns the ports, airports and strategic parcels of land as well as the development and management rights for these strategic infrastructure assets in addition to other key infrastructure and utilities assets. ADC's approach is to optimise private sector participation in the development and management of these assets.

A key example of this has been the development of public-private partnerships at Aqaba port which have transformed the development and operations of the port terminals. This was initiated by the passing of Privatisation Law 25/2000 which allowed port ownership to be transferred to the ADC so that it could move ahead rapidly with policy reforms. In the face of strong opposition from Parliament to the partnership, the government decided to implement a short term management contract initially lasting two years. Under this structure the private sector was only responsible for providing management services and not any port infrastructure. This was seen as a suitable structure to test the potential viability of a public private partnership at the container terminal, after which a 25-year joint venture could be entered into depending on performance.[108]

In 2004 APM Terminals signed a 2 year management contract within the ADC. During this period the ACD measured the operator's performance based on selected indicators to measure progress. These reforms were identified to bring about almost immediate change and resulted in anchorage waiting times being eliminated and average port stays being reduced from 8 days to a few hours. By 2007 container dwelling times were down to 16 days and port productivity had more than tripled from 9 moves an hour to 28.

These changes were primarily attributed to increased productivity and performance following investment of $30 million in soft and hard infrastructure which included 100% computerisation of the container terminal. More flexible shift systems were also implemented which increased productivity of port activities.

[108] Cebotari and Dennis (2008) A Public-Private Partnership Brings Order to Aqaba's Port. IFC and World Bank.

5.5.5 Economic Profile

Established under the royal patronage in 2001, the Aqaba Special Task Force was constituted to transform Aqaba into a leading hub for investors and tourists alike, combining business and leisure. Over the past decade, ASEZ has made significant progress by positioning itself as a leading hub for trade for the rest of the country and the region. Leveraging its physical attributes and development vision, the zone has managed to carve out a value proposition in response to the emerging market demand for leisure and industrial activities over the last decade.

The vision to develop Aqaba SEZ and facilitate economic reform within the Kingdom has been successful with annual average GDP growth averaging 7% since 1999, which is more than double the rate of growth (3%) which was previously recorded before the economic reforms were introduced. Aqaba SEZ and Jordan's five other SEZs have been key to this success and particularly in their promotion of economic development, employment provision and FDI incentivisation. It was recorded that between January 2001 and August 2013, Aqaba SEZ attracted a total of 400 million USD in investment and was placed 20th in fDi Intelligence Magazine's ranking of Global FZs of the Future.[109]

Sectoral Focus

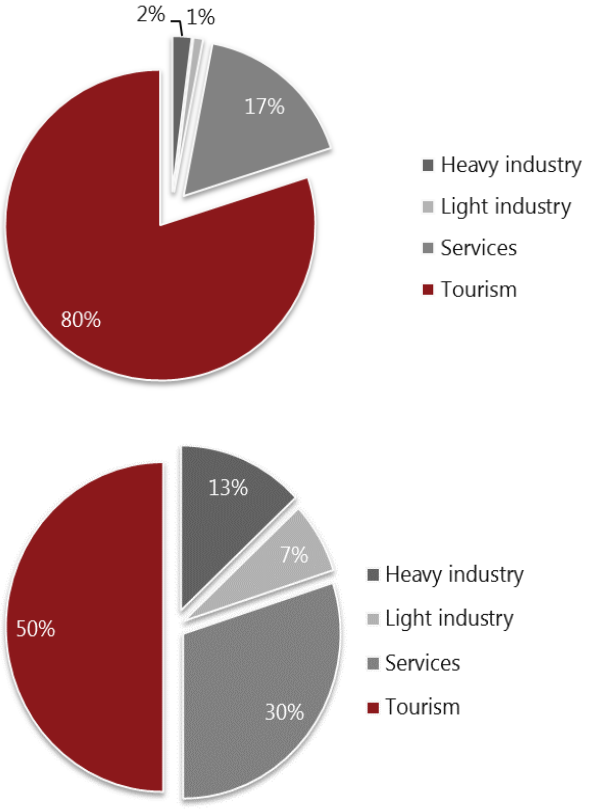
The 2001-2020 Masterplan outlines the key land uses to support the growth and development of desired sectors and economic activities. The key development uses include: mixed use commercial, residential and logistics; airport zone with logistics and storage; resort, leisure and recreation zone; urban space; a specialised logistics zone and the southern industrial zone including the port, industries and supporting logistics functions.

As far as the industrial land use in ASEZA is concerned, the current mix only partially reflects the 2020 Masterplan ambitions and targets. While the tourism sector is over-represented in the actual land-use mix, industrial land take is below the masterplan targets. These figures, however, are indicative and it is expected that during the course of ASEZA's development, the disparity between the planned and actual may come down.

Key sectors/industries present in the zone include: Tourism, Heavy industries, light industries, services, commercial, logistics/warehousing, transportation, education, health & environment. The zone targets 50% of investments in the tourism industry, 30% in a variety of services, 13% in heavy industry, and the remaining 7% in light industry. The charts below show the indicative actual (left) and planned (right) land use mix.

[109] MEED (2013) *Jordan Economic Zones. Available from:* http://www.meed.com/supplements/2013/meed-guide-to-economic-zones/jordan-economic-zones/3183327.article

Figure 32 - Aqaba SEZ Land Use Mix (Actual – Left vs Planned – Right)



Source: Jordan Investment Board – ASEZA Presentation

Real Estate

In terms of costs to be borne by businesses choosing to locate in the industrial estate in the northern part of ASEZA, the following rates are applicable:

- Rental rate for developed land (USD per sqm per annum): 5.50-7.00;
- Rental rate for standard factory building (USD per sqm per annum): 32-37;
- Selling price of developed land (USD per sqm):
    - Lots up to 5,000-9,000 sqm: 60-85;
    - Lots up to 10,000-19,000 sqm: 56-70;
    - Lots up to 20,000-39,000 sqm: 50-63; and
    - Lots up to 40,000 sqm above: 45-55.
- Selling price for standard factory building (USD per sqm): Starting at 320.

Economic Performance

The economic performance of the Aqaba SEZ is summarised below in Table 5-19.

Table 5-19 – Aqaba Economic Performance Summary

Economic Performance Indicator	Performance Summary
Foreign Direct Investment (USD)	Aqaba has managed to attract a total of $400 million USD in investment since was established in 2001. The zone has also attracted projects, primarily within the hotel and property development sectors, valued in excess of $8 billion USD. The Aqaba SEZ was placed 20th in fDi Intelligence Magazine's June/July 2012 rankings of Global Free Zones of the future.
Number of Companies within SEZ	There are currently 300 active companies within the Aqaba SEZ, of which approximately 70% are Jordanian and 30% international.
Direct and Indirect Job Creation	There is an objective to create 70,000 direct jobs over the period to 2025 within the Aqaba SEZ. In 2005 it was recorded that a total of 10,000 new jobs had been created within the SEZ.
Export Values ($)	Information for Aqaba SEZ is not available. However, in 2006 it was recorded that the Aqaba Industrial Estate which falls within the SEZ generated garment exports of approximately $12 million.
Total Annual Output ($)	Information not disclosed

Source: BuroHappold Analysis 2017

It is recorded that the Aqaba SEZ had a significant impact on the local economy growing 25% faster than trends recorded before its establishment. The SEZ has now developed into a strong hub for tourism and logistics activities.[110]

[110] United States Agency for International Development (2007) Review of Free Zone and Industrial Estate Policy and Practice in Jordan: Implications for Local Development.

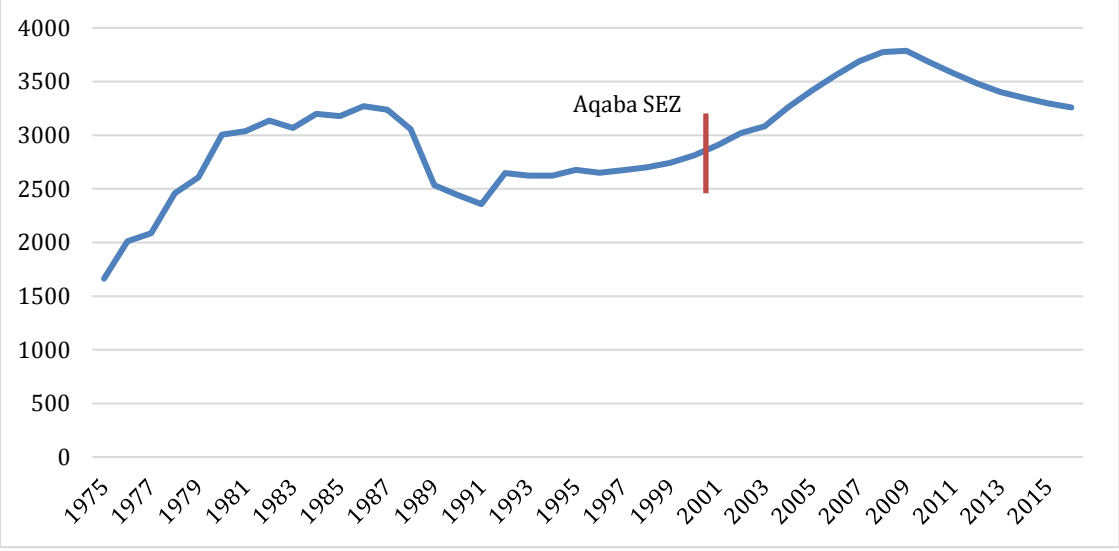
5.5.5.1 *Relationship with Regional and National Economy*

To examine the effect of the Aqaba SEZ on the Jordanian economy a number of indicators have been examined to illustrate the economic performance of the zone in:

- Increasing GDP performance;
- Increasing export values; and
- Attracting further FDI inflows.

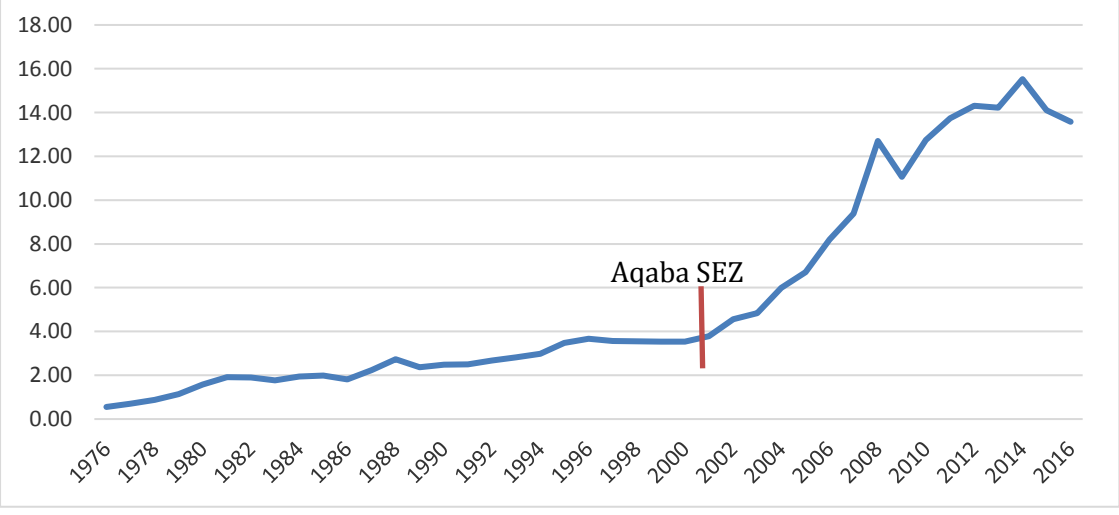
This analysis is presented below in Figure 33, Figure 34 and Figure 35.

Figure 33 - Jordan GDP per Capita (constant $)



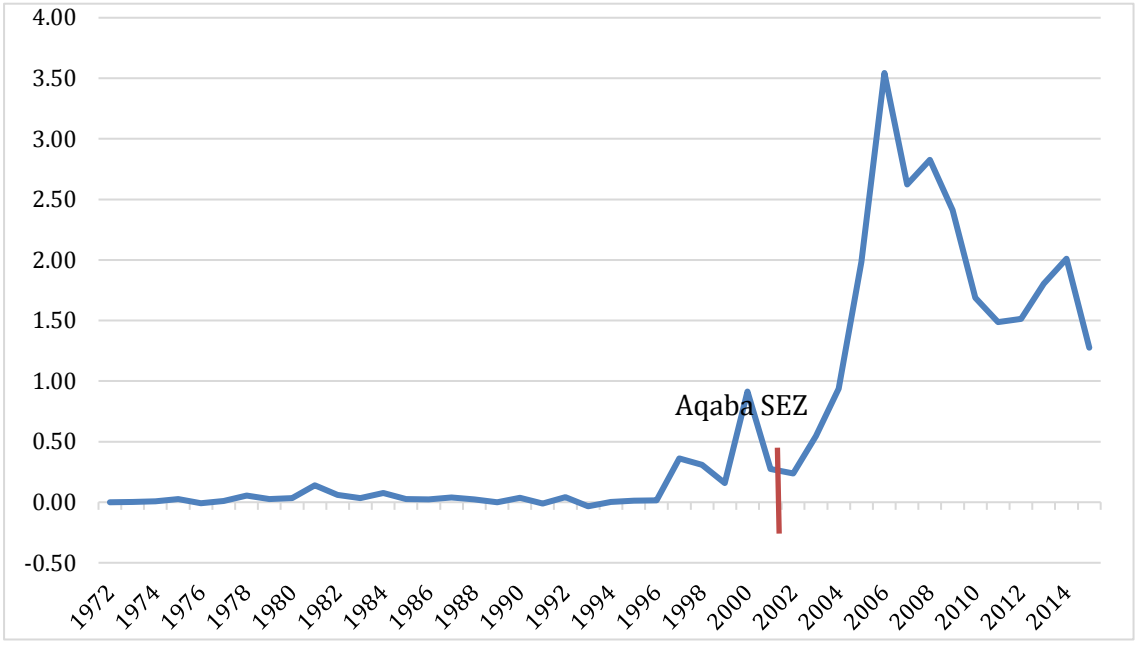
Source: World Bank (2017) World Bank Open Data. Available from: https://data.worldbank.org/

Figure 34 - Jordan Export Values ($Bn)



Source: World Bank (2017) World Bank Open Data. Available from: https://data.worldbank.org/

Figure 35 - Jordan FDI – Net FDI Inflows ($Bn)



Source: World Bank (2017) World Bank Open Data. Available from: https://data.worldbank.org/

Looking at the Jordanian economy more broadly it can be seen that there have been significant increases in GDP per capita, export values and FDI inflows following the opening of the Aqaba SEZ. Analysis indicates that export values increased 179% in the six years following the opening of the Aqaba SEZ whilst FDI in-flows increased by approximately 1,087%.[111]

At the regional level it was recorded that the Aqaba Governorate GDP increased by 13% following the creation of the Aqaba SEZ, an increase of almost three points above the underlying trend prior to its creation.[112] The creation of the zone was recorded to generated an additional 180 million (JD) in additional output for the domestic economy by 2005 with employment growth of approximately 10,000 jobs. The largest contributors to this growth are identified as manufacturing and transport and communication sectors.

[111] Whilst this analysis has attempted to demonstrate the economic effects of the Aqaba SEZ on the domestic economy it should be caveated that there may be a number of economic reasons for the performance of the indicators analyzed. A more detailed econometric analysis would be required to isolate the exact impact of the Aqaba SEZ on the indicators analysed.

[112] Rockler, N (2006) The Impact of Aqaba Special Economic Zone on the Jordanian Economy.

5.5.6 Summary Success Factors

Governance

5.5.6.1 Strong vision and government support

The King was personally involved in establishing and promoting the zone. Despite some strong domestic opposition the King's support was critical in enabling the zone to be established.

5.5.6.2 Creation of an effective legal, institutional and regulatory framework

Throughout development of the zone a series of feasibility studies were undertaken to examine the potential legal, regulatory and institutional frameworks for the zone. This involved detailed organizational audits of the existing government bodies to determine their relative strengths and weaknesses and institutional capacity. These studies were undertaken with the vision for an integrated overarching authority which ultimately resulted in the formation of ASEZA.

The design of ASEZA was undertaken through an exhaustive analysis of every interface between Government and the private sector and a consideration of which parts of government in which they should be integrated. This resulted in the formation of partnerships between the Jordan Investment Board and the Jordan Tourism Board to ensure coordinated and collaborative marketing.

5.5.6.3 Creation of a 'One Stop Shop'

The extensive process of establishing the institutional framework allowed Jordan to create a truly effective 'one stop shop' and resulted in US$450 million in investment, 310 land sale/lease agreements, an 800% cumulative increase in licensed construction, a 63% increase in employment and Government revenue increases of 835% for sales tax and of 430% for income tax within ASEZA's first three years of operation.

Financial and Economic Climate

5.5.6.4 Fiscal and financial incentives

The Aqaba SEZ offer special fiscal incentives which have created an attractive business environment for global investors. This includes duty free imports of goods from the National Customs Territory and overseas, exemption from social service tax, exemption from sales tax on the majority of goods and services and exemption from annual land and building tax as well as no foreign equity restrictions on investments and 100% foreign ownership allowed.

Infrastructure

5.5.6.5 Provision of high quality infrastructure

The Aqaba SEZ offers investors full service utility networks including power, telecommunications and global international communications connectivity through Fibre Optic Link Around the Globe (FLAG).

5.5.6.6 Attractive Real Estate Offer

Potential investors have access to serviced land and facilities for light/medium manufacturing, warehousing, residential and commercial uses.

5.5.7 Summary Lessons Learnt

- A number of detailed studies were undertaken in the development SEZ programme, particularly with regards to the legal and regulatory framework. The subsequent design of this framework has enabled the zone to create a very efficient and successful business environment and has increased the ease of doing business within Jordan for external investors. This is evident in the significant increase in FDI in flows following the creation of the Aqaba SEZ.

5.6 Case Study 5: Lekki Free Zone, Nigeria

5.6.1 Overview and Description

The Lekki Free Zone (LFZ) was designated a Fee Zone in 2008. It is situated in the east of the commercial hub of Nigeria, Lagos.

The LFZ is part of the overall multi-use development plan for a new city on the Lekki peninsula, which includes residential, commercial, industrial, logistics and recreational development as well as a new airport and deep water port.

Each parcel of land in the LFZ is allocated to a developer, after they have been awarded a license to do so. There is a mix of private developers and joint venture or partnership agreements involving government organisations. One such joint venture is for the development of the Southwest Quadrant.

This was initiated by the China Civil Engineering Construction Corp. (CCECC) in 2003. CCECC had been operating in Nigeria for over a decade by then and therefore had time to formulate a strategy to help develop a new Fee Zone. In March 2006, a Chinese consortium, CCECCBeiya ("Beyond") was set up in Beijing, followed two months later (May 2006) by the establishment of a partnership between that consortium and the Nigerian government to establish the Lekki Free Zone Development Company (LFZDC). In November 2007, the Lekki zone won support in the second Ministry of Commerce of the People's Republic of China (MOFCOM) tender.

The Lekki Free Trade Zone has thus far shown good progress in being an example of cooperation between different levels of government (federal, state and municipal), as well as international cooperation, with a large part of the zone being a Chinese-African joint venture.

Figure 36 – Lekki Free Zone

Source: Guardian (2017) Lekki Free Zone. Available from: https://guardian.ng/business-services/lagos-woos-investors-to-lekki-free-zone/

5.6.2 Spatial Profile

The Lekki Free Trade Zone lies on the peninsula east of Lagos, with the Atlantic Ocean to the south and Lekki Lagoon to the north. It is 70 kilometers from the Murtala Mohammed International Airport and is located 50 kilometers away from Apapa Port. In addition to the Apapa Port, a new multi-purpose deep water port is being built at the LFTZ. The new port is scheduled for completion in 2019 and is being developed by the Tolaram Group (Sponsors), together with the Nigerian Port Authority, the Lagos State Government and other strategic investors.

In line with the Lekki sub region master plan, the entire LFTZ covers an area of 16,500 hectares and it is divided into two peninsulas by the Lekki Lagoon, parcel A (southern peninsular) and parcel B (Northern peninsular).

The LFZ is further divided into four (4) quadrants namely:

- **Southwest Quadrant (phase 1)**: This quadrant is already being developed. It is a mixed use industrial area focused on: Comprehensive public facilities; Mixed industries including light and medium industries; Logistics and distribution (standard factories and warehouses) of good made in the zone and those intended for exporting; Low and medium density residential areas; It also has areas for recreation, and buffer zones along the beach coast
- **Southeast quadrant (Phase 2)**: This area is planned to accommodate petro-chemical related industries. It is being development by the Dangote group – as a private developer. The Dangote's plan is to build a refinery and fertilizer plant here.
- **Northwest quadrant (Phase 3)**: This area would have a similar role to the South West quadrant which is a general mixed-use industrial area. This quadrant will be developed after the SW quadrant is almost fully developed and after the new airport has been developed. Portions of this quadrant (approximately 1000ha) are being developed but it is in the early stages in comparison with the Southwest quadrant.
- **Northeast quadrant (Phase 4)**: This quadrant offers a mixed-use urban area as a new waterside town providing a range of employment, commercial, residential, community and recreational uses. It will complement the role of the other three quadrants and act as the city administrative, business and residential center for the whole of the LFZ. This quadrant has not yet been developed.

Infrastructure

The Lekki Free Zone exits on 16,500 of land but the not all the land has been developed. As each quadrant has been developed, so new infrastructure has been built in that particular area. Thus

far, it is the Southwest, Southeast and portions of the Northwest quadrant that are being developed.

The power supply in the zone is provided by 12MW of from General Electric Gas Generators. The water supply is currently supplied by several bore holes but this is seen as a temporary measure, until the construction of a permanent water treatment plant is completed. Telecommunications infrastructure plans have not been completed yet but the mobile phone networks cover the Lekki Free Zone area, according to the LFZDC.

The Lekki Free Zone also houses a customs processing centre and container terminal. There are also plans under way to build a new Port and a new International Airport on the Lekki Peninsula, to add capacity for the fast growing city of Lagos, as well as to cater for the Lekki Free Zone investors.

Box 39 – Lekki Free Zone – Challenges in Infrastructure Provision – Interview with Lekki Free Zone Authority

The Lekki Free Zone Authority identified that the main challenge facing the Lekki Free Zone at present is the slow development of additional infrastructure. The large sum of money required to develop new infrastructure, including new roads, but particularly the new port and airport, means that different sources of finance need to be found – not only from the state and federal government but from development banks and or private investors.

5.6.3 Legislative and Regulatory Framework

Background of SEZs in Nigeria

After the challenges faced by the first, second, third and fourth national development plans between 1962 and 1985, Nigeria undertook a structural adjustment programme in 1986. The objectives of programme included promoting investment, stimulating non-oil exports and providing a base for private sector-led development; promoting the efficiency of Nigeria's industrial sector; privatizing and commercializing state-owned enterprises to promote industrial efficiency programme. The programme also resulted in the development of new legislation, including the Privatisation Act of 1988 and the Public Enterprise Act of 1989. The Structural Adjustment Programme was soon followed by the New Industrial Policy of 1987. This industrial policy had a strong focus on export promotion and this focus led to the creation of legislation to achieve these goals. In 1992, Nigeria adopted the Export processing zone development strategy via Decree No. 63. This laid out the goal of promoting exports, attracting foreign investment, encouraging economic diversification and building Nigeria's industrial sector. This was soon followed by the Nigeria Investment Promotion Commission (NIPC) Act in

1995, which led to the establishment of NIPC and the focus on more coordinated investment promotion efforts.

Out of these pieces of legislation, the framework for Nigeria's Free Zones was created. Vision 2020, as well as National Economic Empowerment and Development Strategy (NEEDS) have most recently provided the policy framework in which Free Zones have been prioritized and the most recent development of the LFTZ has happened. Importantly, the Federal Government of Nigeria also recognised the need to more effectively involve state governments as well as the private sector. This coincided with greater political stability and consistent economic growth in Nigeria in the early 2000s. These factors led to the Free Zone programme gaining significant momentum and the development and investment into the Lekki Free Zone.

SEZ Act

The overarching piece of legislation which guides the Free Zone programme is the Nigeria Export Processing Zones Act (2004). This law stipulates that the licensing, monitoring and regulation of Free Zones Scheme in Nigeria is vested in the Nigeria Export Processing Zones Authority (NEPZA).

The Act states that a zone may be operated and managed by a public, private or a combination of public and private entity under the supervision of and with the approval of Nigeria Export Processing Zones Authority (NEPZA). The NEPZA regulations also include investment procedures, regulations and operational guidelines for EPZs in Nigeria.

SEZ Regulations

5.6.3.1 Licensing

Any enterprise wishing to do business within an EPZ in Nigeria must first apply in writing to NEPZA for permission. NEPZA may grant a licence for any approved activity in an EPZ to an individual or business. That business does not, however, need to be incorporated in Nigeria. The granting of a licence by NEPZA shall constitute registration for the purposes of company registration within an EPZ. A licensed enterprise does not need to comply with the rules of local incorporation in Nigeria, governed by the Companies and Allied Matters Act 1990 (which provides for the incorporation of companies and incidental matters). This is because the granting of a licence by NEPZA is evidence of a company's registration in an EPZ in Nigeria.

There are a number of different types of Free Zone status as follows:

- FTZ;
- EPZ;
- Export Processing Farm (EPF);
- Science and Technology Park (S&TP); and
- SEZ.

The types of licences issued by NEPZA are as follows:

- Free Zone Developers Licence: granted to either a public or private entity or a combination of the two for the establishment, operation and management of an FZ in Nigeria under the supervision, monitoring and regulation of NEPZA;
- Free Zone Enterprise Licence: granted for an enterprise to undertake an approved activity within an FZ. These activities could be manufacturing, trading or service provision; and
- Export Processing Factory/Export Processing Farm Licence: granted to an export-oriented manufacturing enterprise or farm located in Nigeria which has the capacity to export over 75% of its production.

5.6.3.2 Customs Regulations

The Export Processing Act allows for the receipt in foreign currency, by an approved entity, of payment for goods and services supplied to customers within Nigeria. This means foreign investors can charge for their services in their own currency and are not bound by the sometimes restrictive provisions of the Central Bank of Nigeria Act 2007.

An approved foreign investor is allowed to receive payment for goods and services supplied within the Customer territory in USD$ or the prevailing Central Bank of Nigeria (CBN) current exchange rate in Nigerian Naira (₦) only. Foreign investors are therefore only allowed to charge for their services in USD$ or equivalent in Naira (₦) based on the current CBN exchange rate.

Incentives

5.6.3.3 Fiscal Incentives

Fiscal incentives for investors (as per the Nigerian Free Trade Zone policy):

- 100% tax holiday from all Federal, State and Local Government taxes, rates, duties. However, companies within the Zone are expected to provide PAYE (Pay as You Earn) contributions to the host state for all workers residing outside the Zone. In the event that expatriate workers reside outside the zone, the same is applicable but the contribution will be calculated by the State Internal Revenue Board of the State Government;
- Duty-free and tax-free import of raw materials and components for goods destined for re-export; and
- Duty-free introduction of capital goods, consumer goods, machinery, equipment, and furniture.

Fiscal Incentives for Developers

- 100% tax holiday for all Federal, State and Local Government taxes, rates, duties and levies.

Non Fiscal Incentives

Non-fiscal incentives for investors as per the Nigerian Free Trade Zone policy:

- One stop approval for permits, operating licenses and incorporation paper;
- Permission to sell 100% of manufactured, assembled or imported goods into the domestic Nigerian market with import duty calculated on the basis of the value of the raw materials or components used in assembly not on the finished products;
- 100% foreign ownership of investments;
- 100% repatriation of capital, profits and dividends;
- Waiver of all expatriate quotas, and import and export licenses;
- Prohibition of strikes & lockouts (10 years);
- On-site customs office, immigration and police station; and
- One-stop-shop services through NEPZA.

Non-Fiscal Incentives for Developers

- Provision of offsite infrastructure; and
- Rent free arrangements during construction of premises, after which rent is determined by the Zone Authority or Management

5.6.4 Organisational and Administrative Profile

The Nigeria Export Processing Zones Authority (NEPZA) is Nigeria's Investment Promotion Agency for investment into the Free Zone areas in Nigeria. The licensing, monitoring and regulation of Free Zones Scheme in Nigeria is the responsibility of the Nigeria Export Processing Zones Authority, as outlined in the Nigeria Export Processing Zones' Authority Act 63, of 1992. The state governments are also, however, involved in contributing to the development of the zones. This may be in the form of financial contributions, as well as promotion of the Zone alongside the Zone Authority or Management to attract and encourage foreign investment.

In the case of the Lekki Free Zone, NEPZA together with the Federal Government of Nigeria has authorised the Lekki Free Zone Development Company (LFZDC) to be the sole entity to develop, operate, administer and manage the South/West Quadrant of the Lekki Free Zone project. The Lagos State government is involved through its ownership of Lekki Worldwide Investments Ltd. An MOU has been signed between the three parties to facilitate development of the Lekki Free Zone.

The LFDZ is owned as a joint venture between a Chinese consortium - China-Africa Lekki Investment Co. Ltd (CALIC) – 60%, the Lagos State Government – 20%, and its sub-entity, Lekki Worldwide Investment Ltd – 20%. The Lagos State Government's equity share is in return for providing the land and the 50-year right to operate the zone to the Chinese consortium.

5.6.5 Economic Profile

Real Estate

The State Government contributed towards the construction costs of the zone infrastructure, in partnership with the developer.

Sector Focus

The Lekki Fee Zone is targeting a wide array of investment in the following areas:

- Light industry manufacturing: Light Industries; Solar Panels Assembly; Furniture; Garment; Building Materials; Plastic Products; Telecommunication Accessories;
- Heavy industry manufacturing: Textile manufacturing; Equipment / Machinery; Assembly; Cement/Fertilizer; Aluminum Sheets; Export Processing; Steel Pipe Mill; Agro Allied Chemicals;
- Oil & Gas: Petroleum Product Storage and Distribution; Blending Plant and Crude processing;
- Real Estate: Residential - Middle /High Income Houses; Hotel and Guest Houses; Office Apartments; and
- Tourism.

The focus of particular sectors is determined by different developers of the different quadrants. The Lekki Free Zone Development Corporation, which has developed the Southwest quadrant for example has focused on light and heavy industrial manufacturing. The Southeast quadrant being developed by the Dangote group is set to develop a petroleum refinery, fertilizer processing plant, sub-sea gas pipeline project, as well as a petro-chemical project.

Labour

Due to the zone's close proximity to Lagos, there is a large labour pool for businesses to draw on. The population of Lagos is around 20 million people, with a literacy rate in Lagos State of 92%, presenting a large semi-skilled workforce.

Costs

Table 5-20 - Costs within Lekki Free Zone

Labour cost- minimum wage	Electricity costs - kWh	Rental rates
USD 50 / month[113] Approved Zones are required by law to pay in line with global best practices and not below the FGN minimum wage.	N45 per Kw/Hr[114]	- Warehouse Rental - USD50 per square meter per annum - Standard Factory Rental: same as the rental for warehouse - Sublease fee for manufacturing - USD25 per square meter for unprepared land - Sublease fee for manufacturing - USD35 per square meter for prepared land - Sublease fee for Oil and Gas - USD200 per square meter[115] - Sublease fee for Real Estate related investment- USD200

Source: Various – see footnotes

The factor costs in Nigeria, by international benchmark standards, differ by input. While labour is fairly affordable by international benchmark standards, the cost of electricity and rent is not as cheap as other countries in Africa. Nigeria has to a certain extent overcome these cost factors through its good location and specific offerings, catering to Chinese investors in the Southwest quadrant and catering to the Dangote Group's requirements in the Southeast quadrant.

Market Focus

The Lekki Free Zone is a mixed-use zone and therefore focuses on investors that want to export as well as target the local market.

Nigeria is a signatory to AGOA and therefore exporters have duty free access to the US market for products stipulated under the agreement – including textiles and apparel.

The EU has initiated (but has yet to finalise) an Economic Partnership Agreement with 16 West African states, in the Economic Community of West African States (ECOWAS) – which includes Nigeria – and the West African Economic and Monetary Union (WAEMU). Once this agreement is in place, Nigeria will have even better access to EU markets, across a range of products.

[113] The new proposed minimum wage being considered in Nigeria at present is, however, over three times this amount at about USD155/month at current (Aug 2017) exchange rates

[114] http://lfzdc.org/wp-content/uploads/2017/04/INVESTMENT-GUIDE.pdf

[115] Ibid

Economic Performance

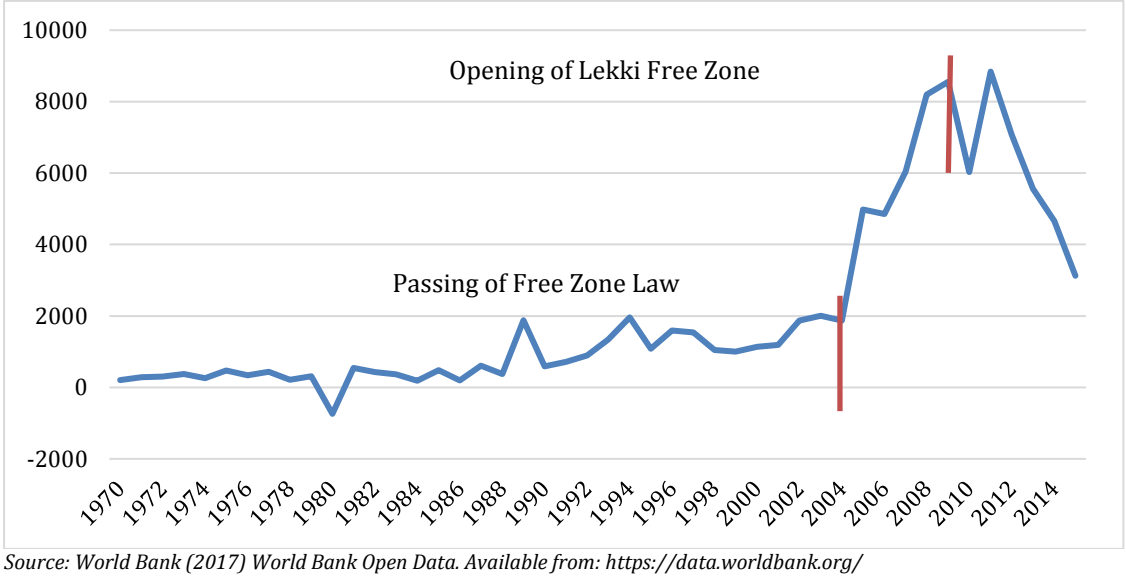
Table 5-21 – Lekki Free Zone Economic Performance

Economic Performance Indicator	Performance Summary
Foreign Direct Investment (USD)	Investments into the Lekki Free Trade Zone, LFTZ has risen to over $15 billion in the last 11 years (2007-2017) according to the Lagos State Government[116]
Number of Companies within SEZ	The number of investment projects has reached 49, according to Paul Osaji, partner at Paul Osaji and Co. Estate Surveyors and Valuers. [117]
Direct and Indirect Job Creation	Information not available
Export Values ($)	Information not available
Total Annual Output ($)	Information not available

Source: Various (see footnotes)

In terms of broader economic impact of the Free Zone programme across Nigeria, the economic performance of the country as a whole, in terms of FDI and exports, has improved considerably since the adoption of the Free Zone programme.

Figure 37 - Nigeria FDI – Net inflows ($)

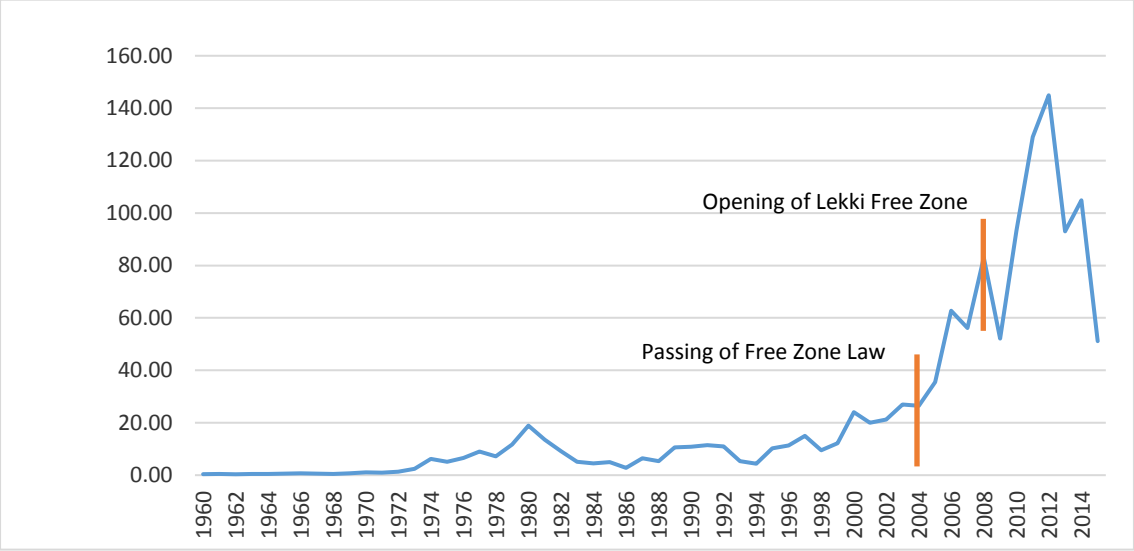


Source: World Bank (2017) World Bank Open Data. Available from: https://data.worldbank.org/

[116] https://www.thisdaylive.com/index.php/2017/05/11/lekki-free-trade-zone-investment-rises-to-15-billion/

[117] http://punchng.com/experts-highlight-opportunities-in-lftz-dangote-refinery/

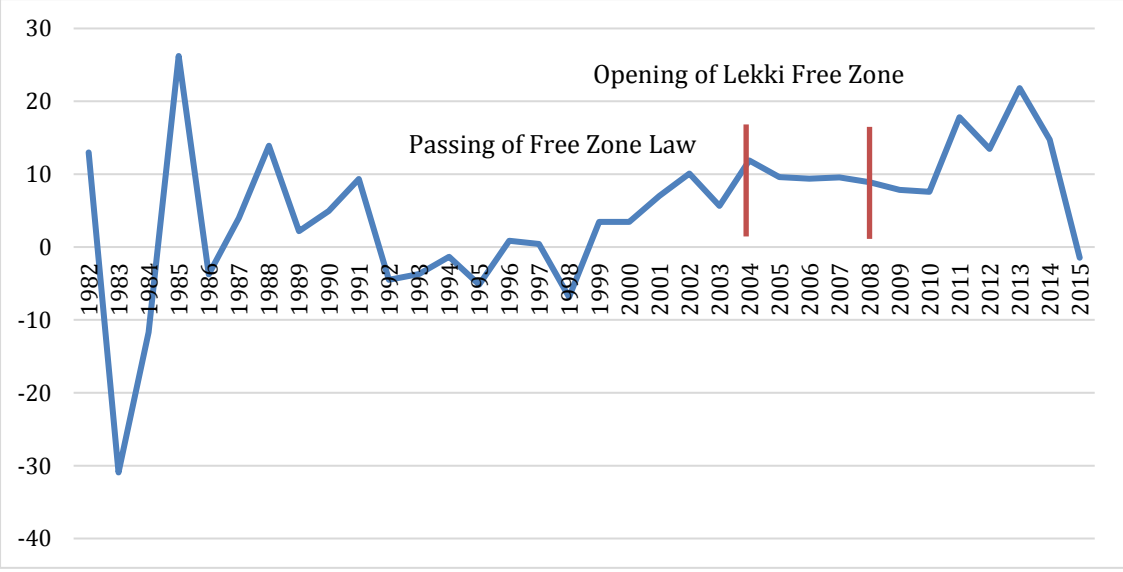
Figure 38 - Nigeria Exports of Goods and Services (current $ Bn)



Source: World Bank (2017) World Bank Open Data. Available from: https://data.worldbank.org/

While much of this can be attributed to investment in the oil sector and exports of oil, there is also a strong likelihood, particularly between 2010-2015, that the Free Zone programme has contributed to higher levels of investment and exports. This can be demonstrated by the growing contribution of manufacturing in the country (see figure below) – a focus area of the Free Zone programme.

Figure 39 - Manufacturing Value Added (% of GDP)



Source: World Bank (2017) World Bank Open Data. Available from: https://data.worldbank.org/

Box 40 – Lekki Free Zone Success Factors – Economic Success Factors – Interview with Lekki Free Zone Authority

The Lekki Free Zone Authority comment that Nigeria's success in advancing the Free Zone programme in the early 2000s was built on political stability, economic growth, and a changing approach to economic policy – whereby state governments were more heavily involved in the management of economic development programmes. In particular the involvement of the private sector in the development and operation of the Lekki Free Zone is identified as a key factor which determined success with regard to the operation and development of the zone.

5.6.6 Success Factors and Challenges

Success Factors

The Lekki Free Zone has attracted significant investment and built significant investment as a result of some crucial factors, including:

- Partnership between Nigerian and Chinese governments;
- Significant involvement of the private sector, particularly Chinese investors – including in the development and operation of the zone;
- Good location being close to Lagos, the commercial hub of Nigeria – including the busiest port in West Africa, an international airport, and a large potential workforce;
- Attractive incentive regime;
- Effective cooperation between different levels of government – Federal, State and Municipal government;
- Evolution of legislation and regulation in Nigeria, accompanied by greater political stability and consistent economic growth helped the Free Zone programme in Nigeria advance significantly in the early 2000s. This led to increased levels of investment and development of new zones, including Lekki Free Zone.

Challenges

Nigeria's LFTZ has faced a number of challenges in its development and operation. Although significant progress has been made, the development path of the project has faced many obstacles along the way. Among them are the following:

- Financing constraints and partnership disputes: Construction of the Zone's infrastructure and first buildings was delayed for a period because of financial constraints on the part of the Chinese consortium – this was caused by issues with the partnership terms within the Chinese consortium and a subsequent restructuring of the consortium;

- Miscommunications over terms of partnership: Expectations between the Nigerian and Chinese partners were at odds with one another with regards to capital investments and responsibility for building infrastructure in the zone; and
- Local community disputes about resettlement terms, the construction of utilities lines through their communities, as well as the employment of Chinese workers for construction. This caused project delays and resulted in transferring 5 percent of the shares of the Nigerian partner to the local community.
- Limited infrastructure on the Lekki Peninsula is proving to be a stumbling block for businesses needing to transport goods and people to the port or airport in Lagos. The new port is still in the development phase and the airport is still at the feasibility phase, as discussions between the government, firms conducting the feasibility assessment and investors are ongoing.

These key challenges are now being addressed through various strategic reforms in the Free Zones Administration in Nigeria.

Summary Lessons Learnt

- Learning from past experiences (where only the Federal Government of Nigeria were involved) helped the Lekki Free Zone change the way Free Zones were governed and operated. The inclusion of State government and private sector helped catalyse the development of the Lekki Fee Zone;
- Choosing a location attractive to investors has been key to Lekki's development – with the zone being near Lagos (Nigeria's commercial hub), a major port, airport and other major infrastructure;
- Providing an environment in which it is easier and cheaper to do business than the broader national territory. Nigeria has provided this through both non-fiscal incentives (such as the one-stop-shop), as well as fiscal incentives (such as tax holidays and duty exemptions on imported raw materials for processing);
- Key partnerships with the private sector – and in the case of Lekki, the Chinese private sector. There has been significant involvement of the private sector in the development and operation of the zone; and
- Having a stable political environment helped grow investor interest in Nigeria and in turn the Lekki Free Zone.

5.7 Case Study 6: Bole Lemi Industrial Park, Ethiopia

5.7.1 Overview and Description

The Bole Lemi Industrial Park is located in the Addis Ababa Metropolitan region. It is Ethiopia's first industrial park, developed by the Industrial Parks Development Corporation (IPDC). The first phase of Bole Lemi started operations in 2014. It is focused on the clothing, textiles and apparel sector and aims to export the vast majority of the products from the industrial park.

Figure 40 – Bole Lemi Industrial Park

Source: BBC (2017) C&H Garment Factory.

5.7.2 Spatial Profile

The first phase of Bole Lemi covers an area of 156 ha, within the Addis Ababa Metropolitan. The site is located southeast of the city centre, 9km east of the Addis Airport. It is connected to the road network, but does not have direct access to the Addis Ababa-Djibouti Highway. The distance to the nearest seaport, which is the Port of Djibouti is more than 500 km. However, the park is located relative close to the Modjo Dry Port with a distance of approximately 50 km.

Phase 2 of Bole Lemi Industrial Park is under construction, covering approximately 186 ha of land, adjacent to the first phase of the park.

Infrastructure

On-site infrastructure is provided for by the developers of the park. In the case of Bole Lemi, it is therefore the responsibility of the Industrial Parks Development Corporation. Off-site transport infrastructure is the responsibility of the national government.

With regards to specific on-site infrastructure:

- Power supply in the industrial park is provided by a temporary mobile power substation;
- Water and waste treatment services are still under development; and
- The site has a dedicated fire prevention and protection, as well as park security.

In terms of administrative infrastructure, aiming to assist investors:

- There is a one-stop-shop on site;
- There is a custom clearance service for imported raw materials and exported products.

5.7.3 Legislative and Regulatory Framework

Background of SEZ Development in Ethiopia

Ethiopia's move to incorporate SEZ into the country's economic direction, derives from the main economic development policy – the Growth and Transformation Plan 2010/11 – 2014/15 (GTP). The GTP aims at addressing a range of developmental indicators, while also providing a framework for industrialization for SEZs through a policy matrix (GTP/PM) targeting specific sectors. The GTP is complimented by Ethiopian Investment Policy, which is supported by accompanying legislation the Investment Proclamation No.769/2012, which among other things ensures the protection of private property rights and the repatriation of capital and profit.

Industrial Parks were also identified as way in which to address two of the most frequently mentioned grievances by investors in Ethiopia, namely access to land and government being seen as an impediment to investment (in terms of red tape and policy and regulation). The industrial park programme was therefore seen as a tool to address these impediments to further investment by liberalising business conditions in a limited geographical area.

Bole Lemi was given further impetus by Ethiopia being a signatory to the United States' African Growth and Opportunity Act (AGOA). These conditions led to the World Bank financing the development of Kilinto Industrial Zone and the Bole Lemi Industrial Zone, with further expansion of Bole Lemi II, being approved in early 2014. Bole Lemi is administered by the Industrial Parks Development Corporation (IPDC), under the Ethiopian Investment Commission.

Legislation

The Industrial Park programme is governed by the Industrial Parks Proclamation No. 886/2015, as well as the Investment Proclamation No.769/2012. Industrial Parks Proclamation aims to:

- Attract private sector participation in manufacturing;
- Enhance competitiveness of economy; and
- Creates jobs and achieve sustainable economic development.

The Act also lays out the rights and obligations of the developer, including to:

- Develop the industrial park land;
- Operate the industrial park;
- Provide services to investors in the industrial park as the operator;
- Sub-lease the land;
- Rent or sell immovable assets to investors;
- Make space available for the one-stop-shop facility;
- Take advantage of incentives offered;
- Aim to link local businesses into supply chain;
- Replace expatriates with Ethiopians by training local employees; and
- Can sub-lease development or operation of site.

The regulations lay out in more detail timeframes of these obligations. A number of the new regulations are currently being gazetted and await finalisation (given the Industrial Park programme is fairly new in Ethiopia). Some of the regulations have, however been signed off.

SEZ Regulations

5.7.3.1 Land Tenure

Land lease term: 60-80 years at nominal rate for factories & residential quarters.

Factory rental has a renewable 10-year term.

Incentives

Fiscal incentives

Fiscal incentives for manufacturers:

- Exempted from income tax up to 8 - 10 years;
- Exempted from duties & other taxes on imports of capital goods, construction materials, spare parts with a value of 15% of capital goods after business license, raw materials for the production of export commodities & vehicles;
- Loss carry forward (for half on income tax exemption of period granted); and
- No taxes on exports.

Fiscal incentives for developers:

- Exempted from income tax up to 15 years (outside Addis Ababa); and
- Exempted from duties & other taxes on imports of capital goods, construction materials, spare parts, 15% of capital goods after business licence, raw materials & vehicles.

Non-fiscal incentives

Non-fiscal incentives for manufacturers:

- Expedited procedure of securing entry, work permit and certificate of residency for expatriate personnel working in industrial parks and their dependents; and
- Customs facilitation - transport of imported raw materials straight from customs post to factory through bonded export factory scheme.

Non-fiscal incentives for developers:

- Provision of essential infrastructure, including dedicated power substations;
- One-stop government services within the parks premises; and
- Land lease term: 60-80 years at nominal rate for factories & residential quarters.

5.7.4 Organisational and Administrative Profile

Ethiopian Industrial Parks Development Corporation (IPDC) was established in 2014, as a public enterprise. One of its primary mandates is to develop and administer Ethiopia's industrial parks, including leasing developed land as well leasing and transferring, through sale, of buildings on the industrial park land.

The IPDC, works with the Ethiopian Investment commission and the Ethiopian Revenue and Custom Authority to provide a one-stop-shop service for investors investing in the designated industrial parks.

5.7.5 Economic Profile

Real Estate

Services available in Bole Lemi industrial park:

- One-stop-shop (on site and in EIC's HQ in Addis Ababa);
- Facilitation and after care;
- Cafeteria, banking & other common services; and
- Custom clearance service for imported raw materials & exported products. [118]

Sectoral Focus

The park focuses on the following sectors:

- Apparel and Textiles; and

[118] http://www.investethiopia.gov.et/investment-opportunities/strategic-sectors/industry-zone-development

- Leather and Leather Products (Shoes).

Labour

Due to its location on the southeast of the Ethiopian capital Addis Ababa, Bole Lemi can draw on a big and diversified labour base. The approximate size of the labour force in Addis Ababa is 2.03 million. 30% of this workforce will have primary education while the proportion of the labour force with secondary education is estimated to be 15%. In order to ease hiring skilled workers, collaborative relationships with technical vocational education and training (TVET) institutes have been established. However the TVET institutions are still at early development stages and not yet able to respond adequately to the labour needs.

Costs

Labour cost-minimum wage	Electricity costs - kWh	Rental rates
Minimum wage in Ethiopia is on average 50 USD[119]	US$0.03/kWh[120]	USD 1/m2 in the first five years USD 1,25/m2 rate the following 5 years. [121]

Source: Various – see footnotes

While Ethiopia's labour costs are not as low as some of the low-labour cost competitors, the cost of utilities and rental rates are very low. Together with effective government agency coordination and the low factor costs, Ethiopia has attracted significant investment in recent years.

Markets being focused on (e.g. exports to particular countries/regions or focused on local market)

The economic goals of the industrial park are to attract foreign investment, expand exports and boost employment. As a result of economic focus and the types of incentives offered, 95% of the products being produced in the industrial market are exported.

Bole Lemi promotes itself as destination for clothing, textile, apparel and shoe firms wanting duty-free market access to USA through AGOA & to the EU through duty free access EBA

[119] http://allafrica.com/stories/201411100627.html

[120] Invest in Ethiopia (Brochure) - EMERGING MANUFACTURING HUB IN AFRICA - Textiles and Apparel

[121] http://www.investethiopia.gov.et/images/pdf/Factor_Costs_2014.pdf

(Everything But Arms) agreement, given its position as a Least Developed Country qualification for EBA (Everything But Arms) agreements.

Economic Performance

Table 5-22 – Bole Lemi Free Zone Economic Performance

Economic Performance Indicator	Performance Summary
Foreign Direct Investment (USD)	Total FDI thus far into the Bole Lemi Industrial Park has reached over USD 41 million[122].
Number of Companies within SEZ	Information not available
Direct and Indirect Job Creation	Over 13,000 jobs have been filled since opening of the park
Export Values ($)	Exports from Bole Lemi for the 2nd half of 2016 and 1st half of 2017 amounted to approximately USD 24 million
Total Annual Output ($)	Information not available

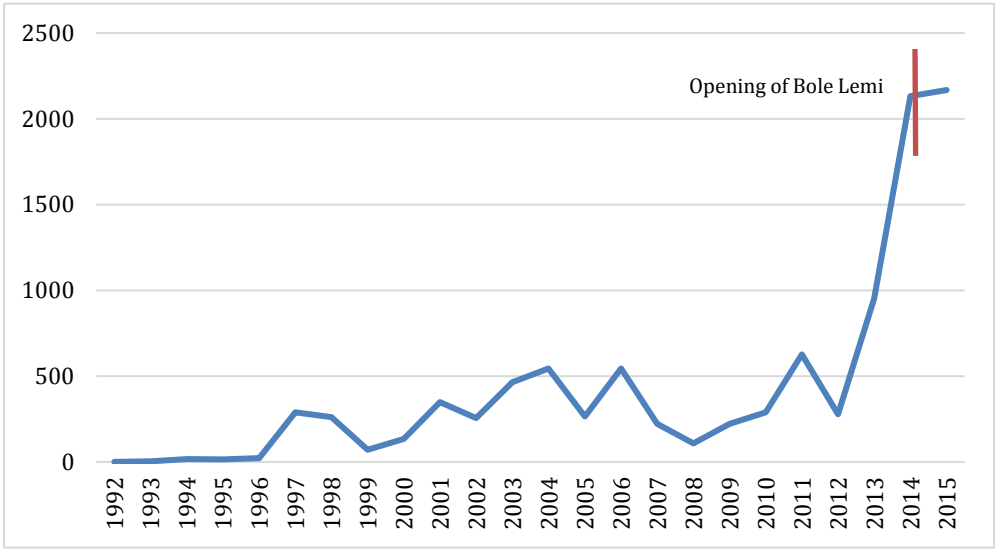
Source: Various (see footnotes). BuroHappold Analysis 2017

Bole Lemi has successfully attracted Foreign Direct Investment (FDI) through investors, such as the George Shoes Group and Nitton Apparels Manufacturing from China, Ashiton Apparel and Vestis Garment from India, Jay Jay Garment from Sri Lanka and Shintis Garment from South Korea.

Looking at Ethiopia more broadly, there have been some huge growth in the economy, including in the attraction of FDI and the growth of the manufacturing sector. This growth is mainly due to country-wide structural reforms and it is too early to judge the performance of the industrial parks in contributing to this.

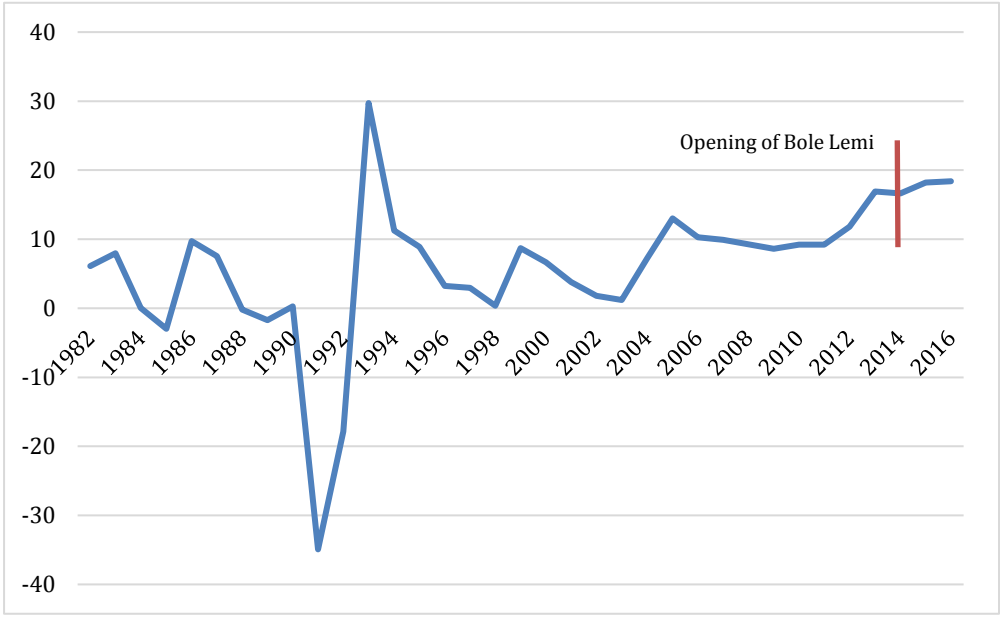
[122] Figures provided by Ethiopian Investment Commission – September 2017

Figure 41 - Foreign Direct Investment – Net Inflows (current $ millions)



Source: World Bank (2017) World Bank Open Data. Available from: https://data.worldbank.org/

Figure 42 - Manufacturing Value Added (annual % growth)



Source: World Bank (2017) World Bank Open Data. Available from: https://data.worldbank.org/

5.7.6 Success Factors and Challenges

Success Factors

- Well-coordinated government agencies, particularly the investment promotion agencies and government departments have facilitated investment in a deliberate and strong way. The EIC in particular took a methodical approach to understanding

investor's concerns and then finding the right kind of investors by taking the following steps:

- Looked at issues in those sectors that require improvements and tried to solve these problems through the Industrial Park Programme;
- Looked at countries where there was growing investment in that specific sector; and
- Started targeting investors by - approaching companies directly; facilitating meetings an interest through the business diplomacy sections of the embassies; visiting investors face-to-face; taking the advice of investment advisors; organising site visits; signing MoUs with interested investors.

- Cheap labour and low price electricity have made certain manufacturing activities more affordable than regional competitors, such as Kenya/
- Incentives:
  - The strong incentive package offered under the investment promotion legislation and regulation has made investment more attractive;
  - Streamlined government involvement;
  - Effective one-stop-shop services at the park level – lowering the costs of doing business;
  - Strong ties with international donors (World Bank, Chinese Development Bank);
  - Good transport infrastructure, close to highways and airport; and
  - Expansion of the Industrial Park into Phase 2, based on the achievements of Bole Lemi Phase 1.

Challenges

- During development of the zone there were some challenges, including:
  - Delays in the infrastructure and utility services developments, including access to power and water – with delays in connecting the zone to reliable sources of power and water; and
  - There were at times disputes among involved government entities in development of the zone. These issues have mostly been resolved since the zone has become operational.
- During operations, other challenges have been encountered, including:
  - High rate of employees turnover (because of ability of competing labour markets in and around surrounding area ~ particularly because of Bole Lemi's proximity to the capital city where other sectors have large demands on labour);
  - Raw material shortage (most raw materials and accessories are imported);

- Lack of industrial work culture & low productivity (factory workers have limited or no prior exposure to industrial work culture);
- Communication barriers between workers and managers – most front line workers are young rural migrant with little formal education; and
- Lack of competent local supervisors and managerial capabilities.

Summary Lessons Learnt

- The drive to promote and attract investment into the Bole Lemi Industrial Park was achieved through a well thought out investment strategy process. This included a well-coordinated effort from government agencies aimed at targeting specific investors to mitigate existing concerns and weaknesses within the Ethiopian investment environment. The investment promotion efforts were also specifically targeted at particular businesses in particular sectors, after feedback from market research;
- The relatively low cost of doing business in Ethiopia's Industrial Parks has been a defining feature of its investment attractiveness, with very low cost of electricity and relatively low cost of labour (particular in relation to regional competitors). The Industrial Park offering was also bolstered through a strong incentives package; and
- In terms of lessons learnt from the challenges faced by the Industrial Park, it was clear that skills – both in terms of factory workers and line managers – needed to be rapidly improved in order to effectively cater to the needs of investors.

6 Synthesis and Conclusions

6.1 Introduction

Based on the information and data available to the authors, this report has shown that at present there are approximately 32 OIC Member Countries which have established SEZ programmes, with a number who have aspirations to develop future programmes. Whilst data is not available for all zones, there has been a clear increase in the number of zones established since the start of the millennium with 63% of zones[123] established since 2000 within OIC Member Countries.

The study demonstrates that there have been notable differences in the success and impact of SEZ development across OIC Member Countries and whilst there are examples of success and failure of SEZ development within each regional groups (Asia, Arab and African) it is demonstrated that there have been notable challenges in developing SEZ programmes within the African countries in particular.

A number of case study and site visit examples have been used within this study to identify the key challenges faced by OIC Member Countries when developing and implementing SEZ programmes, as well as the key success factors which underpin the most successful examples of those cases examined.

This section now presents specific conclusions and recommendations based on the findings of the analysis presented above and the extensive literature review of SEZ experiences and performance. These recommendations have been formulated based on the analysis of OIC SEZ performance, global SEZ experiences and the case study experiences but are derived for the OIC as a whole.

Whilst it is acknowledged that there are no 'one-size-fits-all' solutions to SEZ development, there are a number of key success factors which have been identified which government, operators and investors could learn from in the design, implementation and operation of SEZ programmes within OIC Member Countries. These challenges and success factors are now examined in further detail below and focus on key Organisational, Economic and Physical/Spatial factors.

6.2 Key Organisational Factors

6.2.1 Vision and Strategy

The first step in considering SEZ development is to define whether an SEZ is the appropriate policy tool to address the underlying economic requirements driving consideration of the SEZ

[123] Based on data available for 140 zones across OIC Member States.

programme. Early decisions on the appropriateness of SEZ programmes is critical to ensure that political support remains constant throughout the development programme.

Observation of the performance and success of SEZs within OIC Member Countries and internationally suggests that SEZs tend to be more successful where they are programmed and designed as core components of a national economic strategy. This requires a clear indication and quantification of the specific economic strategy priorities that are best served nationally and regionally by SEZs, with an evidence-based case as to why SEZs constitute an appropriate form of policy intervention. Furthermore, definition of the specific performance outcomes and metrics to be addressed by SEZs should also be clearly articulated.

The economic rationale for the development of an SEZ programme also needs to be grounded in an appreciation of the existing factors constraining economic performance. Where key constraints relate to skills, wages and productivity or structural issues such as geography or scale then SEZs should not be considered the primary policy tool for intervention.

Robust Economic Rationale

The development SEZ programmes should be underpinned by a robust economic rationale which clearly defines both the economic objectives and targets of the proposed programme Extensive analysis of the country's economic performance, constraints to growth and investment climate should be undertaken to determine whether the development of an SEZ programme is a suitable policy tool.

Selection of SEZ Model

It is important to determine the right type of SEZ development model (e.g. CFZ, EPZ, FTZ or wide area SEZs and Freeports). The type of SEZ should be aligned to the policy objectives and in some instances could include innovative configurations in order to present the most attractive value proposition to the market. This again, should be informed by a robust economic analysis of existing constraints and barriers to growth and align with national/regional policy targets and objectives.

Alignment with National Economic Strategy

The implementation of SEZ programmes should be considered with regards to a national economic strategy which identifies how SEZs will link to certain parts of the economy. Successful SEZs are firmly entrenched in national economic strategies with clear definition of their potential role in driving economic change and in achieving defined economic priorities.

Examples from OIC Member Countries

Malaysia – Penang

In the case of the Penang FIZs (originally FTZs) a strategy was developed to use free economic zones to attract key anchor tenants within the E&E industry which could be used to generate large scale employment opportunities and drive economic growth within the State. This was linked to national objectives targeting investment within the E&E sector. The alignment with the national vision and objectives ensured political support and increased investor confidence when choosing Penang as the location for investment.

6.2.2 Political Capital

There is evidence to suggest that where the responsibility for decision-making with regard to SEZ development is determined by a single government ministry or authority, it will lack the political support and direction to achieve success.

It is key for a SEZ programme to be supported by a range of government departments and agencies in order for it to be successful. While the initiative may be led, for example, by a Ministry of Trade and Industry, there are other crucial government departments who oversee issues such as infrastructure development (e.g. roads or ports agencies), work permits for foreign workers (e.g. Ministry of Labour), customs procedures (e.g. revenue service), and investment promotion (e.g. investment promotion agency). These departments or agencies not only have to be involved but need to buy into the SEZ programme to facilitate effective delivery of services to the SEZ programme.

It is also important for the executive in government to support the SEZ programme. This can be done directly through a president or vice-president, for example, sitting on the SEZ board or for a representative from the office of the president to be involved at a board level or management support level. Executive support for an SEZ programme helps ensure that all those in government understand that the programme is an executive priority and that effective administration of the programme is a priority.

One tool, which can bring together different government stakeholders is SEZ working groups.

SEZ Working Groups

The formulation of SEZ working groups can be a key tool in ensuring that the full range of issues and opportunities that an SEZ programme generates is captured and to ensure lateral support from relevant stakeholders. Farole, Baissac and Gauthier (2012)[124] suggest that an effective working group should be composed of highly experienced government technicians who have a

[124] Farole, Baissac & Gauthier (2012) Special Economic Zones: A Guidance Framework for Policymaking.

deep knowledge of the country's economic challenges, policies legislation and economic development projects. They suggest that a suitable working group could include:

- At least one astute political and policy "power-broker" or "insider," for instance (but not necessarily) from the office of the Head-of-State or Head-of-Government;
- At least one relatively successful representative of the private sector, actually engaged in business as opposed to simply on the executive of a chamber of commerce, and engaged in a competitive market (as opposed to a monopolistic or oligarchic one); and
- At least one senior, seasoned Civil Service technocrat (ideally at the Cabinet or Permanent Secretary level), in (or retired from) a Ministry interacting with business, accustomed to confronting the limits of what Government actually can and cannot accomplish.

It is also advocated that the establishment of Working Groups be aided by international experts in a facilitation role.

Examples from OIC Member Countries

Jordan - Aqaba

As was in the case of Aqaba SEZ, the creation of a SEZ working group attached to the Presidency or the Office of the Prime Minister helped to ensure that the group retained autonomy throughout the planning and development process of the SEZ programme.

6.2.3 Legal and Regulatory Framework

When determining the legal framework, consideration should be given to what extent a SEZ law is required and whether regulations, legislative amendments or a contract law or concession could offer similar benefits. The key benefits to avoiding the creation of an SEZ law is time, given laws can take many years to be passed.

In designing the legal and regulatory framework it is key to define how the SEZ programme will be governed and how investors will be attracted and serviced. In broad terms, careful consideration should be given to development of a legal and regulatory framework that genuinely creates a 'special' economic operating environment and that is clearly differentiated from the normal economy of the country. This should not mean 'compensating' for weaknesses in the wider economy, but should involve establishment of an extra-territorial area that provides truly beneficial investment and trading conditions and is fully complementary to the country's forward strategy for economic growth.

Design of Institutional and Administrative Frameworks

A clear and well defined institutional and administrative framework must be defined in the law, where the role of different government departments or agencies is strictly laid out. The oversight of the SEZ programme must, first and foremost be defined – e.g. if it is decided the ultimate oversight is to be handled by a SEZ board, then the role of make-up of that board must be laid out. Once the oversight body is defined, then there must a clear path for SEZs to be designated, developed and operated, with a clear understanding of each – i.e. who designates an SEZ as such, who qualifies to apply for designation (public sector agencies, private sector organisations), and what are the processes to follow to achieve successful designation. The same detail needs to apply for the development and operation of the SEZ.

Alignment with Domestic Legal and Regulatory Environment

A key challenge for countries initiating SEZ programmes is to ensure that the SEZs do not create unnecessary distortions in terms of either the national trading or legal environment. For example, where SEZs are targeted towards sectors that are already present to some extent in the country, there is a need to avoid any perceptions of 'unfairness' on the part of sectoral operators already located in the mainstream economy. It is common for existing industrial players to feel aggrieved that newcomers are being given special treatment or additional incentives that are not available to incumbents. This can be avoided where the SEZ strategy is clearly defined and targeted at anchor operators or value chain segments that are either missing in the country or very under developed.

Consideration of Investor Requirements

The legal and regulatory framework should specifically consider investor requirements. It should consider the individual needs of the specific target sectors and particular regulatory challenges which need to be overcome in attracting inward investment in particular industries and from a range of origin countries. Experience suggests that legal and regulatory frameworks which reduce administrative burdens, costs and time relative to the domestic environment will foster increased amounts of FDI. The most common tool for achieving this is through the provision of a 'one-stop-shop'.

Implementation of One-Stop-Shop (OSS) Arrangements

Evidence from the case study examples and global SEZ experience indicates that the establishment of one-stop-shops can be effective tools for targeting inward investment in SEZs and to facilitating a significantly more attractive environment for potential investors with regards to ease of doing business. This helps to increase investor confidence and one-stop-shops can help to appease investor concerns about the domestic regulatory and investment environment.

There are a number of significant challenges associated with the design and implementation of OSS structures. Firstly, the range of activities, services and functions that should be included within the OSS needs to be defined and agreed. Following this, significant effort will have to be expended in agreeing the mechanism for the various entities involved to pass over control of functions to the OSS. These functions will be wide-ranging and will include: customs processes, business licencing, environmental permits, training and labour force related activities, utilities and energy. Brokering agreement across this diverse range of government functions will be extremely time-consuming and should not be under-estimated.

Examples from OIC Member Countries

Malaysia – Penang

Prior to the formation of Invest Penang, the PDC carried out inward investment and promotion activities for the state of Penang and its FIZs and Industrial Estates. In 2004, Invest Penang was created however to formalise the 'one-stop-shop' responsibilities and functions of the PDC. The promotion agency now provides comprehensive information on Penang's investment opportunities and facilitates every stage of the investment process.

Nigeria – Lekki Free Zone

The creation of new legislative and regulatory policies in Nigeria with regards to Free Zone development, coupled with greater political stability and economic growth has enabled the Free Zones programme to advance significantly in the early 2000's.

6.2.4 Incentives Framework

The reduction of administrative burdens is key to a successful SEZ programme. Non-fiscal incentives, which facilitate the ease of doing business within SEZs, are now often cited as more important to investors than the implementation of fiscal benefits, particularly with regards to the provision of a genuine 'one-stop-shop' which can expedite the acquisition of licenses and fast-track clearance processes. [125]

With regards to fiscal incentives, there is a key balance that needs to be maintained between offering investors, for example, lower taxes and over-subsidising the SEZ programme. Incentives are key to attracting inward investment within SEZs and should provide the zone with clear, comparative fiscal advantages compared to areas outside the zones. The rapid increase of SEZ development globally, however, provides challenges in defining unique incentives programmes and introduces a risk that governments will pursue a 'race to the bottom' in order to undercut more mature economies and zone developments.

[125] A. Mukherjee et al. (2016) *Special Economic Zones in India*. ICRIER, India.

Where possible incentive frameworks should be standardised at the country level to ensure that competition between zones within a single state does not result in the adoption of unsustainable packages of incentives which may undermine economic performance and achieve 'value for money'. In addition, examples from successful SEZ programmes within OIC Member Countries and globally indicates that incentives packages which include 'sunset clauses' benefit from avoiding unsustainable guarantees of fiscal incentives.

Targeted Incentive Frameworks

Locus Economica - legal SEZ experts - recommend that incentive frameworks should typically be based on:

- Low reliance on tax holidays and other fiscal incentives;
- Simplicity of taxes (maximum three to four taxes);
- Avoidance of duplication of national tax administration; and
- Elimination of indirect taxes.

Very importantly, fiscal incentives should be focused on the sectors and strategies which are being targeted by the proposed zone programme and should not be used as the main differentiator between competing zones. There should ideally be a clear and transparent link between national economic priorities, target industry-sectors suitable for the SEZ programme and associated incentivisation.

Examples from Case Studies

Ethiopia – Bole Lemi Industrial Park

The Bole Lemi Industrial Park created a strong incentives package which was developed through well-coordinated government agencies aimed at targeting specific investors to mitigate existing concerns and weaknesses within the Ethiopian investment environment. This included pro-active investment strategies and well-designed investment legislation and regulation which has resulted in a more attractive investment proposition within the zone.

Malaysia – Penang FIZs

Incentives within the Penang FIZ are determined at the federal level by the Malaysian government which offers a comprehensive range of incentives targeted at priority sectors and industries. Malaysia has historically taken a pro-active approach to incentive programmes, transitioning from export orientated incentives prevalent at the beginning of their FIZ programmes and moving to incentives aimed at technology transfer, R&D activities and skills and training initiatives as they have sought to facilitate a shift to higher value added activities and industries.

6.2.5 Institutional Frameworks

Some of the most successful SEZs within OIC Member Countries have established new institutions to regulate, operate and develop SEZs. The ability of new institutions to operate from a new and relevant mandate, including new systems and procedures, allows them to provide a new set of skills and a new culture of performance, transparency and autonomy from established government institutions.

In circumstances where countries are considering multiple SEZs or moving from a single SEZ to a multiple zone country, then establishment of a single SEZ authority should also be considered to regulate all of the zones. An overarching authority enables the leverage of existing expertise and avoid the potential pitfalls of multiple authorities competing with one another and creating investor confusion.

It is also key for the SEZ authority to have involvement from different government departments/agencies, as well as the private sector – whether direct or indirect (i.e. sitting on the board of the SEZ authority or just providing necessary input, e.g. granting of business licenses / work permits).

There is also an important role for the private sector in the separation of regulation and operation of SEZs. Whilst it is appropriate for the public sector to retain authority for regulating economic zones, there is increasing evidence that the incorporation of the private sector into the operation of zones can yield a number of benefits. This includes increased efficiencies as well as investment in infrastructure on BOT agreements.

Examples from OIC Member Countries

Morocco – Tanger Med Zones

The TMSA was established as a special public – private agency with public prerogatives, tasked with the responsibility of driving the economic transformation of the Tanger Med region. The specific objectives of the agency are to focus on the execution of projects and to manage the large land reserve which has been granted to it and through its subsidiaries manages the operation of the Tanger Med Port and the Industrial Platform. This has been very successful through effective cooperation with the private sector.

6.2.6 Zone Development and Operation

Successful zone development and operation require a clear understanding of who is responsible for each task. The development of an SEZ is often an expensive undertaking if additional infrastructure is built. The organisation / authority (if not the same as the operator) responsible for the development of a zone must see a return on the capital outlay (whether economic or financial). The development must also take into account the requirements of the potential investors – e.g. kinds of businesses and their needs; additional infrastructure, which connects the zone to major transport nodes (e.g. roads, railway lines, ports and airports).

The operation of the zone is as key as the development. A successfully operated zone will provide efficient services to the investors, while also making a financial return. Successful development and operation is often likened to a real estate development, where money spent on building of real estate and servicing of tenants is recovered through rent and sales.

Coordination across relevant ministries, departments and agencies is a critical success factor for SEZ performance, either through a dedicated autonomous SEZ authority or through other means such as a 'one-stop-shop'.

The effective coordination of administrative, legal and regulatory policies is essential to fostering an efficient business environment and attracting FDI. Less successful zones have deployed 'one-stop-shop' models but often these are utilised for marketing purposes rather than providing the efficient investment processing functions which are required. These institutional bodies often come up against political resistance given perceptions of power transfer from ministries and departments. A common mistake is to implement options which cause the least resistance however it is recommended that the model of one-stop-shop is considered separately from its political merits.

6.2.7 Involvement of the Private Sector in Zone Development and Operation

Particularly within fragile economies, the involvement of the private sector within SEZ development and operation can help to bridge the gap between institutional and capacity weaknesses. This could include assistance with the design and management of zones including determination of incentive regimes.

Experience suggests that the most successful zones do tend to be those operated by the private sector and where the relationship between private operator and government regulator is clear delineated, positive and open. A careful balance needs to be struck between the private operator achieving a suitable revenue and profit level from the SEZs operation, while at the same time the Government parties are able to achieve their stated economic and social goals. This requires clear and positive dialogue between all parties in order that public and private objectives can be aligned appropriately.

Examples from OIC Member Countries

Nigeria – Lekki Free Zone

The Lekki Free Zone has attracted significant investment through a partnership between the Nigerian and Chinese governments. There has been significant involvement of the private sector, particularly Chinese investors, in the development and operation of the zone.

6.3 Key Economic Success Factors

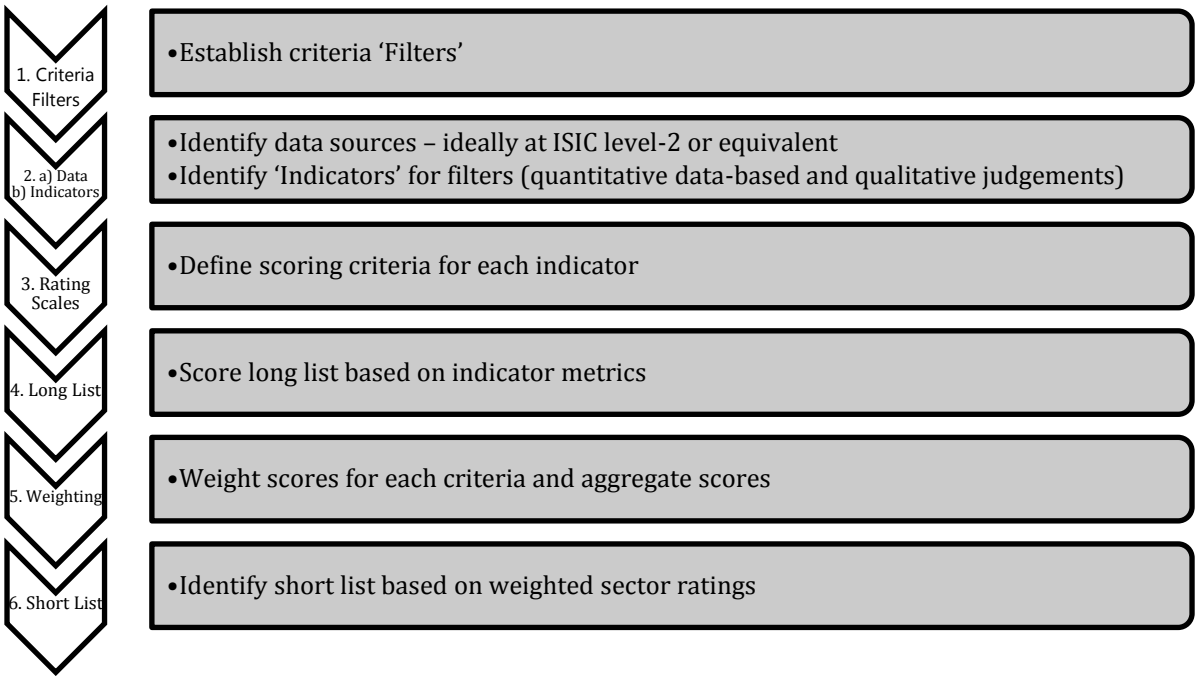
6.3.1 Selection of Sectors and Activities

The correct choice of SEZ target industry-sectors is important to ensure that the comparative advantages of the country, region or site are fully utilised and that the key challenges and risks have been considered. This includes consideration of advantages such as labour force, skills and training levels, proximity and capacity of input suppliers and preferential market access. A key component of this is the identification and selection of the most appropriate sectors based on a robust economic understanding of:

- Economic policy objectives;
- Existing competitive advantages; and
- Activities which would add most value in the context of the vision and rationale for the SEZ development.

The selection of sectors should be based on a robust feasibility study undertaken through a data driven methodology such as illustrated below. The sector selection framework should be developed in line with national economic priorities and strategies.

Figure 43 – Sector Selection Methodology



Source: BuroHappold Engineering 2017

Additionally a forward strategy should also be developed to identify clear pathways up industry value chains with strategies formulated for fostering both backward and forward linkages within the domestic economy.

6.3.2 Links to National and Domestic Economy

Criticisms of SEZs as economic enclaves is a common point of contention given that they operate outside of the regulatory environment and operating constraints of the domestic economy. This can lead to limitations with regards to knowledge and technology spill-overs. One of the main barriers to backward linkages, particularly in developing countries, is weaknesses in the scope and quality of goods and services within the domestic economy.

It is recommended that when designing the SEZ programme design that consideration is given to important strategic and policy decisions such as trade policy, strategic and sectoral focus, zone typology, policies on domestic participation and policies on access to local market. These decisions will have a significant impact on the facilitation and success of backward linkages within the domestic economy. In particular, the removal of export requirements and tax exemptions is becoming more commonplace within modern SEZ development and this is facilitating a more open model of development which encourages greater integration between zones and the domestic economy.

Examples from OIC Member Countries

Malaysia – Penang FIZs

The PDC adopted a proactive approach to promote domestic linkages and increase domestic inputs to MNCs. This included encouraging MNCs to develop local subcontracting relationships through providing institutional support and creating links with local vendors. In the early formation of this zone this included compiling a database of local vendors and their capabilities. The Malaysian government also assisted in supporting domestic vendors through the introduction of minimum capital requirements on foreign machine tool firms and expanding incentive schemes to local firms.

6.3.3 Economic Impact Performance Indicators

A successful zone is one where there are key economic impacts achieved – through job creation, FDI, exports, contributions to the gross value add of the economy, technology and skills transfer, and linkages to the local economy. In addition, SEZ programmes can have broader transformational impacts on the economy, such as economic diversification and industrialisation.

In order to achieve these impacts, there should be a clear vision from the beginning, which impacts are being targeted and the extent of the impacts. Unfortunately this is often not done in a precise way and specific targeted impacts are not identified or the extent of the impacts are not properly quantified.

It is key for an SEZ programme to identify targeted economic impacts through the sectors being targeted, the size of the zone, the markets being targeted and the types of investors that could be attracted.

6.3.4 Investment Promotion

Evidence from a number of successful zones both within OIC Member Countries and globally indicate the importance of effective investment promotion, particularly with regard to attracting inward investment and FDI. SEZs should develop specific marketing strategies to promote the value proposition of zones to investors.

In some circumstances, SEZs can be used to demonstrate to foreign investors that a country is open to new investment or that identified zones offer enhanced conditions, be they economic, physical or regulatory, that are more attractive for investment than the domestic economy. Investment promotion activities are therefore crucial in demonstrating the value proposition of SEZs to foreign investors and stimulating FDI inflows. Our analysis has shown that these activities are most effectively coordinated by either central entities responsible for the operation, development or regulation of zones. In addition, case studies such as Malaysia

indicate the importance of coordination between zone authorities and national investment promotion agencies in terms of developing targeted promotional policies.

6.4 Key Physical / Spatial Factors

6.4.1 Proximity to Transportation Nodes

One of the most common factors characterising SEZs that have not been successful is poor site location, often determined through political rather than economic and technical considerations. Examples of this include the Philippines Bataan EPZ. Poor site location can often result in heavy capital expenditure requirements which governments are unable to support adequately.

Farole, Baissac and Gauthier (2012)[126] suggest that there are broadly two key principles to locational choice for SEZs; economic decentralisation (or dispersion) and economic concentration. It is observed that SEZs are typically poor decentralisation performers unless the location has a natural competitive advantage (such as in the case of Tanger Med Zones). Evidence suggests that zones are more successful when they exploit pre-existing advantages that are the products of concentration, such as the presence of existing infrastructure such as ports or airports which offer international connectivity.

Site selection should considered early on in developing a national SEZ strategy and should utilise a number of key criteria. These criteria should be linked to target industry-sectors and associated investors and tenants, physical routes to key markets, access to feedstocks, raw materials, other productive inputs and supply chains, access to labour markets, access to urban centres and associated services. One of the most important considerations is proximity to or access to major trade related infrastructure such as sea ports, airports, intermodal freight systems and transport services more broadly.

Examples from OIC Member Countries

Morocco – Tanger Med Zones

The Tanger Med Zones undertook a number of detailed background studies to establish the appropriate geographical location for the development of the port and industrial platforms in order to capitalize on the regions comparative geographic advantages. This was part of the wider masterplan and vision for regional development of industrial zones. The vision was heavily predicated in the establishment of a successful port facility in which to drive growth in export orientated industries.

[126] Farole, Baissac & Gauthier (2012) Special Economic Zones: A Guidance Framework for Policymaking.

6.4.2 Investment in Infrastructure

Infrastructure provision is one of the key influences in the success of SEZ development, particularly within developing or fragile states. The provision of high quality infrastructure will be a key comparative advantage when looking to attract FDI. The delivery of high quality utilities infrastructure in particular is a key challenge but is a key investment determinant, particularly with regards to reliability and cost. Experience of SEZ development demonstrates a clear relationship between the economic performance of SEZs and the quality of hard and soft infrastructure.

There is also the potential for governments and zone authorities to work with development partners to facilitate investment in infrastructure such as through the provision of low cost capital loans. PPP arrangements have also been successfully utilised, such as in the case of Tanger Med Zones to fund infrastructure development.

Examples from Case Studies

Morocco – Tanger Med Zones

The Tanger Med Port Authority (TMPA) is currently undertaking construction of the Tanger Med II Container Facility as part of a PPP agreement with Marsa Maroc and APM Terminals and has also secured funding from development bodies to meet the capital costs of investment.

Singapore – Jurong Island

The JTC are currently developing the Jurong Rock Caverns project on Jurong Island. Once complete this will be the first commercial underground rock caverns facility for liquid hydrocarbon storage within Southeast Asia. This innovate approach to infrastructure development will reduce the use of land for low value storage purposes whilst increasing the capacity of the Island to attract further investment from the petro-chemicals industry and providing further value add to its competitive advantages within the region.

7 Annex I – Case Study Site Visits – Additional Details

7.1 List of Interviewed Persons

Table 7-1 - Details of Stakeholders Interviewed – Tanger Med Zones

Name	Position	Organisation
Mehdi Tazi Riffi	CEO	Tanger Med Special Agency
Ahmed Bennis	Director International Business Development	Tanger Med Special Agency
Youssef Imghi	General Manager	Tanger Med Engineering
Anouar El Haossasse	Business Development Manager	Tanger Med Port Authority
Rachid Wafdi	Procurement	Siemens Gamesa Energy
Kamilia Allouch	Director of Human Resources	Standard Profil

Table 7-2 - Details of Stakeholders Interviewed – Penang FIZs

Name	Position	Organisation
Lee So Cheran	Chief Operating Officer	Invest Penang
Shahril Cheah	Senior Manager – Corporate Communications Division	Penang Development Corporation
Nur Syuhada	Assistant Manager – Corporate Communications Division	Penang Development Corporation
Mr Dato' Seri Singh	Former Head of Penang Development Corporation	Penang Development Corporation (formally)
Ms Lim Pao Li	Former officer at Penang Development Corporation	Penang Development Corporation (formally)
Anna Ong	Former officer at Penang Development Corporation	Penang Development Corporation (formally)

Table 7-3 - Details of Stakeholders Interviewed – Lekki Free Zone

Name	Position	Organisation
Olumide Ashaju	General Manager: Projects & Corporate Finance	Lekki Free Zone Authority

7.2 List of Interview Questions

The interviews conducted during the site visit were semi-structured informal interviews based around the following three key themes of 1) inception and planning, 2) current operation and growth and 3) investment strategy.

Inception and Planning

- How was the SEZ originally designed and planned?
- What are/were the government's main objectives in establishing an SEZ programme? What outcomes was it trying to achieve in both the short and long term?
- Can you explain the process of establishing legal framework?
- Can you explain the process of establishing the policy framework?
- Can you elaborate on the process of establishing institutional framework?
- How does the relationship between operators, investors, developers and the regulator work?
- Site selection – how was the location selected? What criteria were used to identify sites?
- Sector selection and feasibility – how were the demand conditions assessed? What competitive advantages is the SEZ considered to have relative to other locations and competitor countries?
- How was the industrial base developed over time?
- Anchor tenants, phasing and growth strategy?
- Can you identify any particular implementation challenges?
- Land Ownership;
- Infrastructure availability/provision (road/rail, shipping, energy, water, waste treatment, telecoms);
- Labour force availability; and
- Legal framework.
- What is the specific categorisation of the zone – FTZ, Bonded Zones, Special Economic Zones etc.

Current Operation and Growth

- Identification of key Overview Statistics
    - Number of firms;
    - National origin of firms/occupiers;
    - Tenancy / Occupancy rates;

    - Size (ha);
    - Lease rates; and
    - License Types – industrial, commercial, service etc.
- Development strategy and programme – how was the site developed and by whom?
- How is on-site infrastructure developed?
- Are any superstructures provided (e.g. factory shells)?
- Is there a 'master developer' and/or sub-developers for individual plots?
- Management and operational structure:
    - Ownership structure;
    - Financing;
    - General restrictions on entry;
    - Sectoral restrictions on entry;
    - Operator characteristics;
    - One Stop Shop – is there one? (i.e. Government entity which deals with all Govt departments and licencing arrangements on behalf of the investors / occupiers); and
    - Off-site, enabling infrastructure – whose responsibility?
- Which sectors are most successful in the SEZ and why?
- Connectivity with major transport infrastructure;
- Incentives strategy for attracting different sectors/investors;
    - Fiscal;
    - Regulatory;
    - Financial;
    - Infrastructure; and
    - Real Estate.
- Key economic performance indicators:
    - Job creation – in which industries, sectors?
    - What share is 'direct' employment versus 'indirect'?
    - Skills development and labour market improvement?
    - Local supply chains;
    - Export values;
    - FDI;

    - Upgrades in production;
    - Integration and linkages of the SEZ with the wider economy – knowledge transfer; and
    - GVA.
- How the SEZ has created stronger relationships with trading partners/countries; and
- Details of particular lessons learnt.

Investment Strategy

- Operational and governance structure;
- Relationship between SEZ developer, operator and regulator;
- Market and promotional strategy for potential investors, occupiers and tenants; and
- Legal and regulatory environment.

8 Annex II – Bibliography

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