

# Second Meeting of the Working Group on Investment Zones in Iraq

**Session 2 – Attracting Investment Zone Users**

**Case Study: The Dubai Free Zones**

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# Overview

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- Brief history of Dubai's free zone development
- Expansion of the free zone model to Dubai and beyond
- Why some free zones succeed and others fail
- Key lessons

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# Jebel Ali Free Zone



# Brief History of Jebel Ali Free Zone (JAFZ) (1)

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Dubai in 1973



Dubai in 1990



- Jebel Ali Port was ambitious infrastructure project to create the largest port in the Middle East and the world's largest manmade port
- Constructed through the 1970s, complete in 1979

# Brief History of Jebel Ali Free Zone (JAFZ) (2)

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- Jebel Ali Port became a “free zone” in 1980 after a year of operation—at which point, the only characteristic of a free zone was a “customs free” zone for re-exports
- In 1985, the Jebel Ali Free Zone Authority (JAFZA, not to be confused with JAFZ) was established as an independent authority to manage JAFZ
- In 1986, the free zone became independent of Dubai municipal laws
- In 1992, “establishments” (FZEs) (limited to one shareholder) could be incorporated to allow for independent business inside free zone
- UAE Commercial Companies Law amended in 1998 to “carve out” the free zones, allowing establishment of “Free Zone Companies” inside JAFZ (FZCOs)

# JAFZ Today

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- JAFZ developed over time in response to needs of businesses
- Home to more than 5,000 FZEs and FZCOs acting as local establishment of many independent traders and major industrial and trading multinationals
- By some estimates, responsible for as much as 30% of the GDP of Dubai
- After 15 years of development, JAFZ became a model that Dubai could replicate

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# Dubai Airport Free Zone and other free zones



# Brief History of Dubai Airport Free Zone (DAFZ)

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- Neighboring Emirate of Sharjah established its own airport free zone in 1995
- Not to be outdone, Dubai established DAFZ in 1996
- DAFZ rules largely followed JAFZ rules—however, independent Dubai Airport Free Zone Authority (DAFZA) established
- Originally envisioned as a free zone for air freight trading, DAFZ developed into MENA headquarters for multinationals, due to:
  - Convenience of the airport
  - Very effective bureaucracy



# Expansion of the Dubai Free Zone Model

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- In 2000, Dubai set up the first non-trade free zone, **Technology, E-Commerce and Media Free Zone (TECOM)** with independent **TECOM Authority** managing the free zone
- TECOM was a major success—it brought companies to Dubai that had previously not been established in the Middle East
- TECOM was followed by other specialized service-sector freezones that included:
  - Dubai Internet City
  - Dubai Media City
  - Knowledge Village
  - Dubai Multi Commodities Centre
  - Dubai Industrial City
  - Dubai Health Care City

# JAFZA v.s. DAFZA v.s. TECOM Authority

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- Dubai basically copied JAFZ rules in establishing DAFZ—however, DAFZA authority was established as separate authority from JAFZA
- TECOM Authority was also independent—and was so successful that it grew to manage TECOM affiliate free zones, and today manages ten free zones
- Later, DAFZA and JAFZA each administered additional free zones
- Today, many believe that DAFZA has earned a reputation as being most effective free zone authority
- Free zone authority competition allowed Dubai to experiment with different styles and approaches to free zone administration

# Dubai Free Zones in 2011

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- Initial “trial and error” process key to improving the free zone model
- More than twenty functioning free zones, additional free zones announced but not yet operational
- Dubai actually profits from “free zone tax holiday”—the headline benefit attracts foreign businesses, but Dubai makes money as licensor and landlord, not as tax collector
- Original idea that free zone businesses could only operate inside the geographic limits of the free zone has been maintained in “trading” free zones of JAFZ and DAFZ where customs control exit-entry of goods
- This distinction is less clear-cut for the service industries

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# Why have Dubai free zones been successful?



# Why are Dubai free zones so popular? (1)

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<b>What they say... (the myths)</b>	<b>However... (the realities)</b>
100% Foreign Ownership	Manageable foreign ownership restrictions outside the free zone
100% Repatriation of Capital and Profits	No real restrictions outside the free zone
0% Corporate, Personal Tax	No real taxes outside the free zone
Quick business establishment	Business establishment outside the free zone can be quicker
No restrictions on recruiting foreign national labor	No real restrictions outside the free zone

# Why are Dubai free zones so popular? (2)

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In truth, the real benefits to foreign investors in the free zones are:

- Developed infrastructure (although JAFZ infrastructure is ageing)
- Customs-free trading zone
- Independent free zone authority and “one stop shop” bureaucracy
- Almost all documentation can be in English

The JAFZ model of a free trade port has been copied by many countries. However...

# Why have many free zones failed?

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Many believe that JAFZ is successful because:

- customs-free trading
- tax holidays
- no foreign ownership restrictions

Although these are important, many overlook other important factors:

- infrastructure
- “one stop shop” independent authority and streamlined bureaucracy
- documentation in English language
- easy access to information

Many JAFZ imitation free zones without these key elements have stalled

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# Creating new free zones / investment zones





# First steps

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- Identify goals in creation of “free zone” or “investment zone”:
  - Attract foreign investment?
  - Concentrate existing and future foreign investment in one geographic area?
  - Increase trade?
  - Appeal to particular industry or sector?
- Goals should shape the development of the free zone

# Investment Zone Design

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- Iraqi law has a number of existing pro-investment elements:
  - 100% foreign ownership in most sectors
  - Investment licenses available for major projects
- What benefits can a new investment zone offer?
  - Independent free zone authority? Streamlined bureaucracy?
  - Tax holiday? (Similar to investment license benefit?)
  - Free customs zone for port or airport?
  - Will business established inside the free zone be the same as in Iraq (Limited Liability Company, Joint Stock Company, etc.) or different type of entity (“Investment Zone Company”)?

# Investment Zone Management

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- Who will manage the investment zone?
  - Importance of independent authority
  - Importance of basis in law of such authority
- Role of independent authority?
  - Licensing authority?
  - Act as agent for local or central government?
  - Act as agent for government agencies in investment zone geography?
  - Replace functions of local or central government?
- If multiple free zones established, consider benefits of establishing multiple authorities

# CONCLUSION