المؤسسة العليا للمناطق الاقتصادية المتخصصة

Higher Corporation For Specialized Economic Zones

ZonesCorp

Driving Innovation and Economic Diversification

From Free Zones to Special Economic Zones – The UAE Case Study

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The Concept

The free zones definition… the WCO Revised Kyoto Convention… “outside customs territory” for duties, taxes, documentation, and issues to be covered by national legislation.

Free zones have existed for several centuries: Gibraltar (1704), Singapore (1819), Hong Kong (1848), Hamburg (1888) and Copenhagen (1891).

The generic free zone concept has evolved over time resulting in a variety of zones with differing objectives, markets and activities… In recent years, considerable changes: private sector developed zones; the use of PPP for zone development; the implementation of WTO consistent policies…

Free zones are developed to support economic reform; to act as “pressure valves” to alleviate growing unemployment; to serve as experimental labs for the application of new policies and approaches; and to attract FDI.

The Evolution of Free Zones

1970s	Today
30 countries	More than 120 countries
80 zone projects	2000-5000 zone projects
No private zones	More than 1200 private zones
Total exports $6 billion	Total exports exceed more than $600 billion
Direct jobs generated = 1 million	Direct jobs 50 million, of which 30 millions are in China
	Indirect jobs = Direct jobs multiplied by 1.5 - 2

Sources: The 2003 ILO Survey & the World Bank

The MIGA FDI Trends Survey

These 20 factors were cited as the main determinants affecting the decision making process for locating overseas.

The strategic location decision is driven by market potential and the growth of the market share; the proximity to the customer base; the quality and cost of labor, the quality of the transport network, and the incentives offered.

In general, companies look at market demand, reliability of suppliers, economic risks and labor market risks when deciding to locate at a specific zone.

Market access is the most pivotal factor for companies when deciding to go overseas.

Conclusion: Market… market… market…

Factor / Determinant	% 100 most influential
Market access	77
Stable socio-politico environment	64
Ease of doing business	54
Reliability and quality of infrastructure and utilities	50
Ability to hire technical professionals	39
Ability to hire management staff	38
Level of corruption	36
Cost of labor	33
Crime and safety	33
Ability to hire skilled labor	32
National taxes	29
Cost of utilities	28
Roads	26
Access to raw materials	24
Availability and quality of university and technical training	24
Available land with all services in place	24
Local taxes	24
Access to suppliers	23
Labor relations and unionization	23
Air service	23

The UAE Investment Climate

Restrictions on Entry: According to Federal Law 8 of 1984 AKA the Companies Law, foreign ownership is restricted to 49% of companies, other than branches of foreign enterprises.

GCC Nationals: According to Ministerial Decree #4 of 2007, GCC nationals are permitted to hold up to 100% of the equity of the company, except for activities listed as the negative list.

The sectoral restriction or the negative list includes distribution activities in compliance with the Agency Law (Law 18 of 1981); labor supply activities; and pilgrimage activities.

Free repatriation of profits and capital.

Land ownership: more relaxed in Dubai and the northern emirates (freehold status) compared to a leasehold option in Abu Dhabi.

There are enacted legislations in the Emirates of Abu Dhabi, Dubai and Sharjah establishing a general corporate taxation regime (Abu Dhabi decree of 1965; Sharjah decree of 1968; and Dubai decree of 1969). In practice; however, only oil, gas and petrochemical companies; as well as branch offices of foreign banks are required to pay taxes.

There is no taxation on personal income.

Free Zones in the UAE

32 free zones across the UAE, 26 of which in Dubai with activities relating to services and trade.

A common set of incentives: 0% customs duties; no quotas; no foreign exchange controls; unrestricted capital and profit repatriation; tax holidays; streamlined labor procedures; no restriction on foreign ownership; reduction in red tape and bureaucracy; and competitive land rates with long term renewable leases.

The 100% foreign ownership allowed within the UAE free zones played the major role in the success of these zones.

Overlap in the activities… lack of a Fedral Coordination Unit… and several authorities within Dubai: Jebel Ali Free Zone Authority (P&F Authority formerly PCFC), TECOM, DAFZA, DIFSA, and DIA.

The contribution of free zones to the UAE economy is not consistent with their number when studying their impact on the economy with respect to attraction of quality FDI, promoting exports; creating employment opportunities for the local labor force; technology transfer; and creation of linkages with the economy (backward and forward linkages).

The existing free zones acted mainly as re-export hubs.

List of Free Zones in the UAE

Jebel Ali Free Zone	Dubai Airport Free Zone	Dubai Internet City	Dubai Media City
Dubai Metals & Commodities Center DMCC	Dubai International Financial Center	Dubai Auto Zone	Dubai Building Material Zone
Dubiotech	Gold & Diamond Park	Knowledge Village	Hamriyah Free Zone
Dubai Silicon Oasis	Maritime City	Techno Park	Sharjah Airport International Free Zone
Dubai Aid City	Dubai Health Care City	Dubai Auto Parts City	Ajman Free Zone
Dubai Textile City	Dubai Outsource Zone	Dubai Studio City	Ahmed Bin Rashid Free Zone
Heavy Equipment & Trucks Free Zone	Dubai Academic City	Dubai Flower Center	Ras Al Khaimah Free Zone
International Media Production Zone	Dubai Carpet Free Zone	Jebel Ali Airport City	Fujairah Free Zone

PTAs & the Implications on Free Zones

The UAE, the GCC Customs Union and the Unified Customs Law… clear treatment for free zones.

Goods exported from free zones into the local markets are subject to duties (articles 15).

Goods manufactured or originating within free zones are treated as foreign goods even if customs duties have been paid on capital goods/raw materials/intermediary goods (articles 85 & 88).

Free zones goods do not enjoy the “national treatment” and the preferential Certificate of Origin.

GCC Customs Union and PAFTA left manufacturing enterprises located within free zones with a clear disadvantage due to the non-preferential market access.

Conclusion: a new model of zones of special economic nature had to be developed to pursue the economic diversification goal announced by the Federal Government in 2007. More focus to be on zones promoting industrialization.

The Way Forward…

The absence of an investment law is leaving the UAE with a clear disadvantage when compared with neighboring countries competing for the same industries and quality FDI.

A new generation of investment laws aiming at attracting quality FDI introducing the concept of "Special Economic Zones" and opening up certain sectors horizontally across the federation.

High value-added zones with focus on sustainable industries aiming at building an export base in line with the country's competitiveness.

The SEZ model allows each emirate to open up sectors deemed strategic for its diversification… Criteria to be met: minimum investment, technology transfer, and environmental friendliness. Each emirate to present the economic contribution of the zone to the Federal Government in order to be granted the approval.

The SEZ… a model that offers the best of "both worlds"... National treatment for goods and no cap on foreign ownership.

In Abu Dhabi, a free zone law is being under final review… one single authority to avoid any overlap in the activities and to ensure the alignment with the 2030 vision as well as the Government Policy Agenda.

Key Determinants when Moving Forward…

The Twinning Approach: Oil based comparative advantage should not be ignored in the pursuit of non-oil industrialization.

Target Quality FDI and focus on non-financial incentives… creating an investment-friendly environment ensuring technology transfer and know-how transfer by building strategic partnerships.

Capacity Building: To leverage on the technology acquisition, specialized institutes and university based R&D have to be developed and IPR to be enforced. Education and training have to be refocused to suit a knowledge-based economy.

Export Oriented Industrialization targeting larger markets, which is facilitated through preferential trade agreements given the size of the UAE market.

Cluster based zoning model allowing the full integration within the industry value chain deriving synergy benefits.

Enhancing the role of SMEs to allow them to play an active role in support industries stepping away from traditional forms of SMEs.

Infrastructure Development Adopting the PPP Model: Abu Dhabi has pioneered this area by developing the infrastructure in the Industrial City of Abu Dhabi and Al Ain Industrial City through the PPP… A challenging model with its pros and cons…

When Planning Future Zones…

Increasing competition and the "cost-quality trade off"… low-cost manufacturing sites to develop into sophisticated logistics zones to remain competitive.

The UNCTAD "race to the bottom"… the exemptions from national labor regulations resulting in sub-standard conditions… when designing zones, the negative social and environmental impacts have to be taken into consideration.

The Agreement on Subsidies and Countervailing Measures (ASCM) and the Trade Related Investment Measures (TRIMS) are of particular relevance to the establishment and design of zones. Generally, zones are permitted under the WTO. However, not all zones are compliant with the WTO.

Incentives and conformity with WTO rules. "Prohibited" vs. "actionable" subsidies.

Actionable subsidies and the "proof of adverse effects" to the interests of other member countries.

Two types of prohibited subsidies: export promotion subsidies or import substitution subsidies (local content subsidies and export requirements subsidies). Incentives such as exemptions from direct taxes are considered as prohibited subsidies when linked to exports.

Thank you