



Special Economic Zones

The Right Stage for Growth



Competing for capital and companies, a growing number of countries are opening special economic zones (SEZs) to attract big-name investors, specialised service providers and SMEs alike.

Red carpet instead of red tape – special economic zones (SEZs) around the world are currently reinventing themselves and are developing a more tailored and complete offering for companies seeking to explore opportunities outside their home countries. While SEZs have long been an integral part of trade and investment policies, in times of a global economic slowdown, there is increasing awareness that SEZs need to move to the next level to attract foreign direct investment and foster economic progress. ►

SPECIAL ECONOMIC ZONES FEATURE



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Evolving Concept

Special economic zones have been around for much longer than many people might think, with the first modern one being established at Shannon airport in Ireland in 1959. In the 1980s, China truly embraced the concept when it decided to create a zone in Shenzhen that transformed the city into an export powerhouse. Thanks to its SEZ, Shenzhen has become a metropolis that is home to some 18 million people, and its growth story has been dubbed 'The Miracle of Shenzhen'. Since then, authorities in China and all over the world have expanded the number and scope of SEZs.

It is estimated that there are close to 4,500 SEZs globally, and according to *The Economist* three out of every four countries have set up at least one economic zone. Today, a variety of different setups are subsumed under the SEZ concept, including export processing zones, free zones, free trade zones, industrial parks, as well as science and innovation parks to name but a few. Besides China, countries such as Singapore, Malaysia, the UAE, South Korea, Jordan, and Panama are home to some of the most admired SEZs.

SEZs Offering

These zones have succeeded in providing the right business environment, while putting policies in place that allow companies to grow and thrive. SEZs usually offer tax incentives for companies investing in the designated areas, trade and customs benefits, as well as streamlined regulatory processes. They are given a business environment that is more liberal and more effective than that of the national territory. Not all SEZs are equal and suitable for any kind of operation. Corporate managers and planners are urged to compare the different offerings carefully when scouting potential locations. In fact, many zones today have a specialised

focus, ranging from cluster activities in areas such as pharmaceuticals, automotive, maritime and aerospace to dedicated support services for smaller companies and even start-ups – signalling an important shift compared to a focus on attracting large multinationals in previous years.

Mixed Results

While there have been many SEZs success stories, there have also been failures. In particular SEZs in Sub-Saharan Africa are struggling to take off. Some clusters have promised industrial development and employment, only to incur heavy costs for governments and taxpayers. Observers say that some were not even fulfilling the basic requirements to attract investment: a good labour supply, transport connectivity and a strategic location. Analysts emphasise

that improving infrastructure – in particular through investment in roads, railways and ports – can have a bigger impact on the success of a zone than tax incentives.

Despite their mixed reputation, SEZ also have advantages. They are widely seen as a way to support wider economic reform strategies, as well as allowing economic policy makers to experiment with strategies and regulations that might be difficult to push through nationwide. However, too much government interference can also mean SEZs lose their competitive edge to achieve far-reaching economic transformations. In an effort to strengthen their ability to innovate, many economic zones have already seen the transition from government to private sector management.

The Next Generation Zone

Economic zones around the world are now seeking to up the ante in what they offer. Successful next-generation clusters not only provide world-class infrastructure and financial incentives that attract businesses in the short term, but seek to differentiate themselves from their competitors. Sector specialisation will gain in importance, with special economic zones becoming truly special and a magnet for companies operating in the target industry. As more smaller and medium-sized companies seek to tap markets outside their home country, there is also demand for more sophisticated support services in areas such as marketing, distribution, access to capital and financing as well as talent and technology development. Economic zones of the future will not only provide a plug-and-play environment for companies but will support them in identifying business avenues and seizing new opportunities. ■

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SPECIAL ECONOMIC ZONES FEATURE

ESBAŞ – The Aegean Free Zone

A Model Industrial Park

The Aegean Free Zone has become the partner of choice for more than 170 companies and a competitive location for high-tech industries.



In the short span of little more than 25 years, the Aegean Free Zone has become a recognised address for forward-thinking manufacturing and export processing companies. Located in the district of Gaziemir in İzmir City, which was once a small Turkish village with a population of 10,000 people, the Zone is today home to a cluster of highly respected companies. Operated by private company ESBAŞ, which stands for Aegean Free Zone Development and Operating Company, it has attracted over 170 companies. "We offer foreign enterprises very competitive prices as well as the same high-quality standards of facilities and services that they would expect to receive in their own home countries," says Dr Faruk Güler, CEO of ESBAŞ.

German companies such as PFW, which manufactures and assembles aircraft construction components for Airbus and Boeing, as well as German fashion houses such as Hugo Boss and Roy Robson, have already discovered the advantages of operating in the Aegean Free Zone. Situated at the crossroads of

Europe, Caucasias, Africa and the Middle East, the Aegean Free Zone stretches over 2.2 million square metres of land in İzmir, Turkey's third largest city. The İzmir Adnan Menderes International Airport is just 4 kilometres away and the Port of İzmir, Turkey's top exporting seaport, 12 kilometres.

A Catalyst for Growth

ESBAŞ has become an engine of economic growth, for the region and for Turkey. "Today, ESBAŞ hosts more foreign direct investment and employs more workers than any of the 18 other free zones in Turkey." In 2015, the total trade volume generated was US\$4 billion. "One third of all investment in Turkey's free zones reaches the Aegean Free Zone, which provides employment for some 18,200 people," says Güler.

Since ESBAŞ was founded in 1990, the company has focused on attracting high-tech investment, in particular in the aerospace industry. "To facilitate investment, we helped establish an aerospace clustering association, and we will continue our quest to attract more players from this sector on the back of our state-of-the-art infrastructure, our young and low-cost workforce as well as the many financial incentives on offer."



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A Host of Advantages

The Aegean Free Zone provides a unique set of advantages to companies with a manufacturing focus, including two important tax breaks. Manufacturing companies can benefit from a 100% exemption from corporate tax, and if a company exports 85% or more of its production, the company's employees are exempt from income tax. There are also no stamp taxes, no tariffs and no duties levied on companies operating in the Aegean Free Zone. ESBAŞ also provides all essential business basics such as energy, water, telecommunication, natural gas, loading and unloading services, as well as health and child care facilities.

Expansion Ahead

ESBAŞ' achievements have not gone unnoticed, and the Turkish Zone has become a role model for the development and operation of special economic zones worldwide. Güler explains that they are regularly contacted to provide consultancy or to be part of new free zone projects all over the world. Expansion lies also at the heart of ESBAŞ' plans for the future. "We have signed a protocol agreement with the Turkish Ministry of Economy regarding the extension and expansion of the Aegean Free Zone," says Güler. "This has become our priority project. We need more land because our current capacity has almost been reached, but we are keen to partner with more players." ■

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Tanger Med Zones

Gateway to Global Markets

Morocco's Tanger Med Zones have quietly emerged as a manufacturing and distribution hub for international companies.



TANGER MED ZONES

Attracting an investment of US\$ 1 billion from car manufacturer Renault-Nissan, which has set up the largest car plant in Africa, is one of the biggest success stories of Morocco's Tanger Med Zones. The free zone, developed over an area of 12 million square metres and fully integrated with the Tanger-Med port, has built up a first-class automotive cluster, but it is also marketing itself as an attractive investment destination for a number of other sectors. A total of 590 companies, active in industries such as aeronautics, electronics, textiles, agri-food, logistics and, of course, automotive, have established operations in Tanger Med. "We have long had a focus on the automotive industry but diversification and attracting companies from new sectors has always been one of our goals," says Jaafar Mrhardy, Managing Director of Tanger Med Zones.

Unrivalled Connectivity

Located strategically on the Strait of Gibraltar, at the conjunction of major maritime routes, the Moroccan zone offers access to a host of target markets through the Tanger Med Port, a global transshipment gateway with 8 million TEU container handling capacity, offering connections to some 170 ports worldwide. These strong fundamentals, coupled with political stability in an otherwise unstable region and a set of financial incentives, have enabled

Tanger Med to meet the expectations of global players and attract international companies originating from China, Europe, Japan, India and the US. Besides Renault-Nissan, Siemens, Everis, Arcelor-Mittal, General Electric, Ford, Delphi, Lear Corporation, Sumitomo, DL Aero, Grupo Antolin, and Yazaki are using Tanger Med Zones as their base to export to global markets.

Continuously Improving

Mrhardy admits that attracting international investors is a challenge for all free zones. "To address this challenge, we had to design an attractive financial regime, in addition to offering other support services," he says. For instance, companies operating in the free zone are exempt from corporation tax and VAT. "We assist and guide investors not only at investment stage but also once they are operational." To offer investors first-class transport links, the Tangier-Tetouan region has invested heavily in infrastructure in the past five years. A programme of road repairs and upgrades



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has been put in place, while the government is building a high-speed train link from Casablanca to Tangier. "Those investments make the region of Tangier-Tetouan a hotspot for international investors and business people," says Mrhardy.

Embracing Change

As a dynamic commercial location, the Tanger Med Zones are not afraid of change. "The world economy has developed dramatically in recent years. In particular, the emergence of the digital economy has been a game changer; and trading and investing have had to rapidly evolve alongside it. The challenge is to ensure that our regulatory structure keeps up with this development," says Mrhardy.

He is also keen to create new revenue streams. "We have already identified renewable energies as a future growth area. Morocco always had a keen interest in this sector. We have wind turbines

all over the north coast, as well as a solar plant that is set to become the world's largest once it is fully operational." Within this scenario, the Tanger Med Zones position themselves as key partner for international companies. "Our ultimate aim is to create more high value jobs for the region," says Mrhardy. ■



TANGER MED ZONES: REGIONAL PLATFORM FOR INDUSTRIAL COMPETITIVENESS

