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Leading Examples of Free Trade Zones in Developing Countries (with an in-depth perspective upon Algeria)

A Dissertation Submitted to the HSC in Conformity with the Requirement for the Degree of Doctor in Finance

Candidate Ali Bouchemal

Committee Members

Dr. Prof. Amor Lalaoui	Professor	Higher School of Commerce	- Presedent
Dr. Prof. Keddi Abdelmadjid	Professor	Algiers 3 University	- Advisor
Dr. Prof. Tahar Lahrache	Professor	Higher School of Commerce	- Examiner
Dr. Malek Merhoune	A // Professor	Higher School of Commerce	- Examiner
Dr. Houcine Zakaria	A // Professor	Algiers 3 University	- Examiner
Dr. Daoud Saddallah	A // Professor	Algiers 3 University	- Examiner

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Abbreviations

ACIA: Algerian Agri-Food Industry Consortium

AGCR: Annual Global Completeness Report

ANDI: National Agency for Investment Development

CACI: Algerian Chamber of Commerce and Industry

CNIS: National Centre for Customs Data and Statistics

CNNI: Nation Committee for Industrial Competitiveness

DMCC: Dubai Multi Commodities Centre

EU: European Union

FDI: Foreign Direct Investment

FPCI: Industrial Competitiveness Promotion Fund

FTZ: Free Trade Zones

GCI: Global Competitiveness Index

GDP: Gross Domestic Product

GCR: Global Competitiveness Report

GFCE: Gross Fixed Capital Formation

IMF: International Monetary Fund

JAFZA: Jebel Ali Free Zone

LFI: Local and Foreign Investors

NIA: National Investment Authority

OEC: The Observatory Economic Complexity

OPEC: The Organization of the Petroleum Exporting Countries

TIFA: Trade and Investment Framework Agreement

TI: Transparency International

Trips: Trade-Related Aspects of Intellectual Property Rights

SEZ: Special Economic zones

SHPFTZ: Shanghai Pilot Free Trade Zone

UAE: United Arab Emirates

UNCTAD: United Nation's Organization for Trade and Development

UNIDO: United Nations Industrial Development Organization

WEF: World Economic Forum

WTO: World Trade Organization

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Declaration

The contents of this thesis are the work of the sole author alone, and have not
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information derived from it should be acknowledged.

Acknowledgements

“My Lord, enable me to be grateful to your favour which you have bestowed upon me and upon my parents and to do righteousness of which you approve. And admit me by your mercy into [the ranks of] your righteous servants “27:19 Quran

Dedication

To my brother's Soul

Introduction

Problem Presentation

A nation's prosperity depends, to a great extent, on the role that foreign trade plays when it comes to that country's economy, mainly because of its significant impact on the value of the national income. Therefore, most countries work hard to improve their chances of global trading by increasing export.

Free trade zones **FTZ** are being developed across the world to enhance the economic activity in the hosting country by offering various incentives to local as well as foreign entities operating in that zone.

Success or efficacy of the concept of FTZ is evident from the fact that the number of countries that are adopting and introducing these zones are increasing with each passing day.

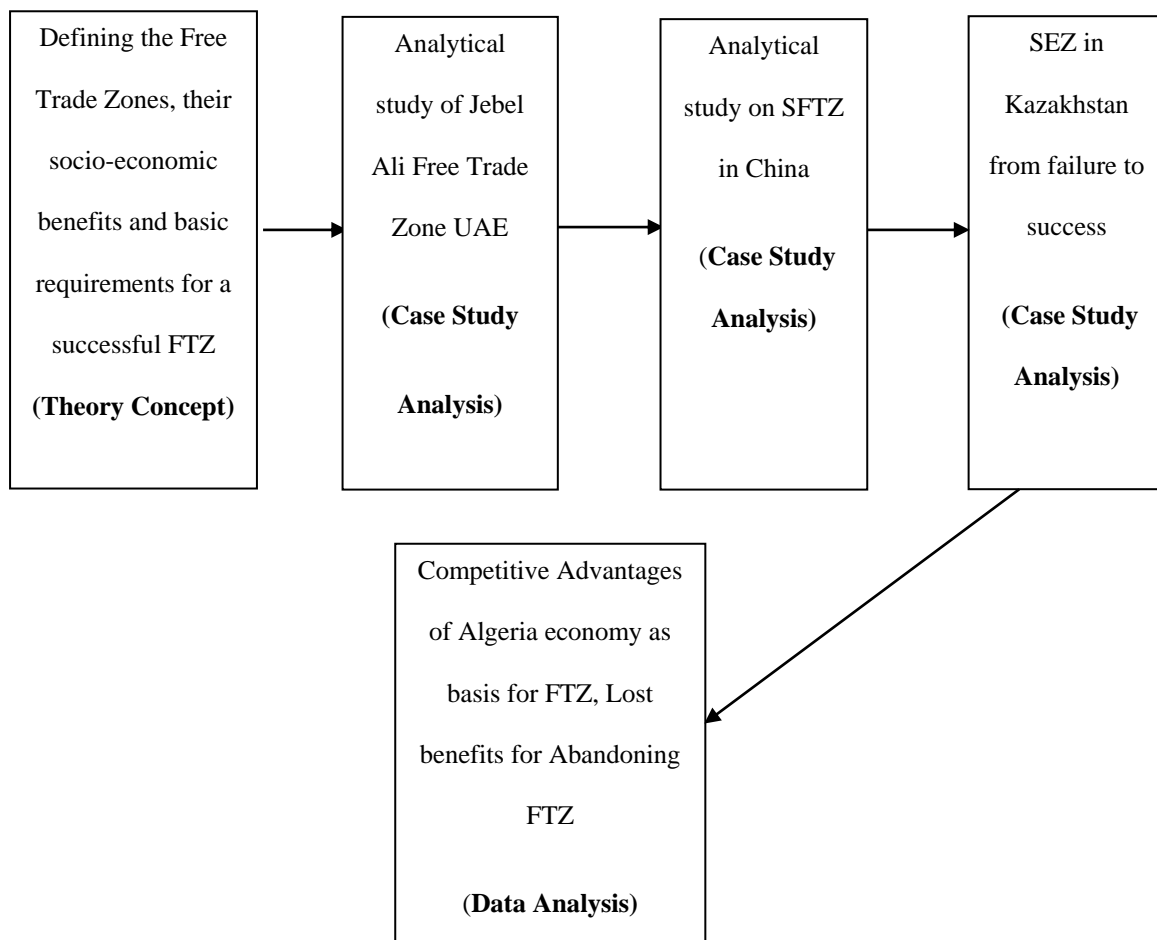
A sense of competition amongst the contemporary zones has led to the introduction of innovative incentive packages linked with state-of-the-art facilities which are offered to investors. The concept, therefore, is a successful one. However, the degree of success and quantum of investment / economic activities is linked to other factors such as the zone's geographical location, rules, regulations and fiscal policies as well as the overall economic environment of the particular country.

Like many countries around the world, Algeria is trying to diversify its economy and encourage local and foreign investors **LFI** to increase Foreign Direct Investment **FDI**, and reduce its reliance on hydrocarbons. In order to find out how Algeria could have benefited from FTZs, I have chosen three case studies from the most successful FTZs in the world: the Jebel Ali Free Trade Zone (**JAFZA**) in the United Arab Emirates, the Special Economic Zones (**SEZ**) in Kazakhstan and the Shanghai Free Trade Zone (**SPFTZ**) in China. The selection of these three countries is not random, but was mainly because of some social and economic resemblance between the UAE, Kazakhstan, China and Algeria. In addition to the success of JAFZA, SEZ and SPFTZ which made them leading examples of FTZs in the world, both UAE and Kazakhstan, rely heavily on fuel and gas to finance their economies like Algeria, Kazakhstan was following planned economy like Algeria, and China is also one of the main trading partners of Algeria. Nonetheless, and regardless of the great success of some FTZs around the world and their positive contributions to their hosting countries' economies, the Algerian FTZ never saw the light and as a matter of fact the order No. 03 - 02 of July 19, 2003 which set out the guidelines of free zones in Algeria and which was published in the Official Gazette of the Republic of Algeria No. 43 of July 20,2003, was cancelled by Act No. 06 - 10 of 24 June 2006 which was published in the official Gazette number 42 for 25 June 2006, meaning that it never started. This dissertation is therefore focussed on how Algeria can benefit from the free trade zone model based on three successful experiences in some developing countries?

Despite the fact that Algerian FTZs have been frequently mentioned in popular media and among Algerian policy makers in the last two decades, research on the likelihood of their success in Algeria is virtually non-existent. Therefore, there is a strong need for exploratory research in this untouched area and this speaks volumes on the benefits and insights derived from this study.

Research Design and Method of Research

The research design of this study can be described as follows:



Thus, this study should answer four research questions:

- What are FTZs, and what are their key success factors?
- Why FTZs succeeded in the UAE, Kazakhstan, and China and what are the benefits to the hosting countries economy?
- Was Algeria ready for the FTZ System?

➤ What were the obstacles of FTZs in Algeria, and what Algeria could have gained if it did not abandon FTZs?

Both, the analytical approach as well as the comparative approach have been utilised in this study.

The analytical approach analyses various literature dealing with the relevant free trade zones and their impact on the hosting countries.

The comparative approach is used to show the elements affecting the success of these FTZs and to compare them to the Algerian FTZ and economy.

This study also seeks to review the description and analysis of data obtained from published statistics and reports obtained from some international organisations; embassies as well as government agencies, which have been evaluated in both Arabic and English with regards to the theories of the place of FTZs in the economic development of a hosting country.

This study concerned itself mainly with the description and analysis of data obtained from an up-to-date survey carried out by the author in 2018, and from published statistics and writing. This was placed in the context of an evaluation of the relevant written material in Arabic and English which deals with the theories of the place of the Free Zone in economic development.

Data collection was based on written materials, such as books and articles, plus some official reports from the authorities of the three chosen zones and from other international organisation

To achieve the main aims of the research, the author conducted some Skype interviews and conferences calls with several selected officials dealing with the admin side of the FTZ. The researcher also travelled to three countries, Egypt, Kazakhstan and Ireland to conduct interviews and to get some data and reports related to the research task.

The researcher has concluded a series of proposals to attract more national, Arab and foreign investments to any future FTZ in Algeria.

Previous Studies

I have looked at the following dissertations:

» **Yasser Ali Alkadi**, The economic feasibility of free zones, comparative study of Egypt and South Korea, PHD thesis, Almanoufiya University, Egypt, 1992

This was a comparative study between the Korean experience of FTZ and the Egyptian one , the researcher was over-generous when speaking about the theory of FTZ, and tried looked at each zone like an economic unit and whether it had some kind of economic and financial efficiency or not.

The researcher could have used some leading experience from the Arab world as case study or at least a shining example from any developing country.

» **Tahanni Ahmed Shamloula**, The role of industrial export zones in industrial Development, PHD thesis, Alexandria university, Egypt, 1993

The study concentrated on the role of the exporting free trade zone as a mean of economic diversifications, and analysed the contribution made by the following zones on FDI, Employment and exportation (South Korea, Taiwan, Srilanka, Philippines, and Mexico). The researcher tried to analyse some historical data for quite long period due to the unavailability inability of recent stats. The study neglected other socio economic benefits of FTZ

» **Ali Bouchemal**, Analytical study of free trade zone and perspectives in Algeria, Higher School of Commerce, Algeria 1996

The study focused on the South Korean experience and tried to forecast it future in Algeria, like previous studies, the theory aspect took most parts of the thesis and the chosen case was not a leading figure in the world of FTZs

» **M'nuar Ousrir**, Free areas under global economic changes with a study of some developing countries 'experiences (analytical theory), PHD thesis , Youcef Benkhada university, Algeria, 2005

Even though it shed some light on the proposed FTZ in Algeria but it never highlighted what would make Algeria a good place for successful free trade zones ,Like previous thesis thus study never mentioned to the way they managed the chosen free trade zones beside the chosen case studies are no were near the top FTZ in the word

» **Nadia Hassan** , Reasons for the failure of order number 02 - 03 on free zones as a mechanism to implement the Algerian strategy of investment, legal proximity to the light of legislation, PHD Thesis, Faculty of Law Studies , Algiers University, 2007

This was a well presented juridical study and due its nature there was less focus on the economic benefits and salient features needed for any successful FTZ The researchers also made mention to some TV interviews and non-academic newspaper in her references which is always hard to cross check

» **Imen Ahmed Marae**, The management of free zone – comparative study - applied on the free public zone of the city of Nasser in the Arab republic of Egypt, PHD Thesis, Cairo university, Egypt, 2009

The study focused on the challenges facing the administration of public free trade zones in Egypt, and even though it shed some light on how Egypt can benefit from other successful trade zones in the world but it didn't analyse what made the chosen zones successful and didn't provide tangible suggestion on how to turn things around in the Egyptian FTZs

Research Hypotheses

My main hypothesis is that the free trade zone system has many positive impacts which will speed up the development process of a hosting country's economy.

The sub-hypotheses are as follows:

- There are a range of planning and administrative factors that affect the realisation of the economic goals of free trade zones which relate to the capability of FTZ administration to control and challenge investors on their rate of progress.
- No matter how generous the incentives and exemptions granted by a hosting country are, such incentives will not attract long term investment, unless the country puts in place all the basic requirements for a successful FTZ.
- The effect of FTZ is almost identical on the Economy of UAE, Kazakhstan and China, and if they did not provide all elements of success, they wouldn't have achieved such great results.
- Despite the great success of some FTZs around the world and their positive contributions to the many hosting countries, the system will not be successful in Algeria, unless the nation's fiscal, legal and banking systems are reviewed and unless Algeria set up the right environment in which the FTZs can flourish.
- Algeria missed a great opportunity of economic diversification by abandoning the FTZs, but there is always room for recovery.

Limits and Constraints of the Study

The limits of this study are that it does not include examples from other failed FTZs.

In addition, the data adopted in the study was not for a uniform time period but was taken from different time periods. Moreover, most of companies working on the chosen FTZs never replied to the questionnaire and the researcher had to reply on published reports

Research Objectives

The study is designed to contribute to the economic researches by providing a deeper understanding of the basic requirements for any successful FTZ, and the lost benefits to the Algerian economy for abandoning the FTZ system.

A practical contribution of this paper is that its attempt to provide insightful information to assist local and foreign investors and the Algerian government in making informed decisions when designing FTZs or when planning to invest in these zones.

This study contributes to the contemporary management literature reviewing and analysing the strategic development process that determines the Algerian FTZ's trajectory in today's global economy. It presents the emerging international business research stream with a new direction for the on-going discourse of importance of FTZs. It also contributes to the development of grounded-theory application in studying investment behaviour in country-specific settings.

Furthermore, the theory developed from this study distinguishes itself from other Internationalisation process theories in that it acknowledges the concurrent influence of FTZs' geographic locations, managing authorities, socio-economic infrastructure and the interrelationship of these factors. Unlike the existing theories developed by the ecological school, which only account for the potential influence of external factors, this theory incorporates both internal and external factors into its explanation.

This study will examine the investment climate in Algeria and major barriers for the FTZs in this country and will define the benefits of the FTZs by analysing data from the three chosen countries.

In conclusion recommendations will be made relating to the improvement and successful existence of any future FTZs in Algeria

Structure

After the Introductory Chapter which covers the theory and types of FTZs and their basic requirement, Chapter Two describes Jebel Ali Free Trade Zone in the UAE, one of the top FTZs in the Gulf region. Chapter Three discusses the Special Economic Zone in Kazakhstan and how Kazakhstan managed to turn the SEZ around from a total failure to one of the most successful FTZs in the world. The objective is to learn from that experience when implementing such a special customs' system in Algeria. Chapter Four discusses the SFTZ, which is the first Chinese FTZ.

The last and Fifth Chapter sheds light on the Algerian economy and intends to estimate opportunities lost because of the abandonment of FTZs in Algeria.

The study concludes with results and recommendations with regards to what Algeria must consider if it decides to adopt the FTZ in the future.

Chapter I

Free Trade Zones – Definition, Characteristics and Pre-Requisites

1-1 Introduction

Free Trade Zones (FTZs), often referred as Foreign Trade Zone, Special Economic Zone and Free Port etc, is a geographical zone where goods and materials can be manufactured, traded and exported while enjoying various liberties in the form of taxation, duties, special tariffs and other facilities offered to attract / facilitate business. These zones are developed in the areas which offer glaring geographical incentives for doing business, like airports, seaports and other areas of interest (Encyclopedia Britannica).

FTZ also denotes a geographical zone, which has more liberal economic laws as compared to the ones being in vogue in the other parts of the country. The key rationale of FTZ is to remove all the obstructions pertaining to tariffs, customs and duties from seaports, airports, or borders. The dividends accrued from this initiative include rapid turnaround of cargo ships / planes as consequence of reduced formalities pertaining to production and distribution (F.I.A.S Report, 2008).

1-2 Free Trade Zones – Definitions & Terminologies Surrounding the Concept

The universal concept of FTZs is uniform in nature. However, its definitions differ for different countries mainly due to varied desired objectives set by the governments for every FTZ. Free Trade Zones have been defined by different organizations, experts and countries in different yet mutually analogous terms. Some of the examples of the definitions used in different parts of the world are discussed in the succeeding paragraphs: -

According to the perspective of the Philippines government, they consider FTZs as the specified areas which already have or are likely to be converted into agro-industrial, commercial, recreational, investment, banking, and financial centres” (Special Economic Zone Act of Philippines, 1995).

Aqaba SEZ in Jordan has been established with the stated aim to augment economic capacity in the country by attracting diverse economic activities and investments (Article 3 of the Aqaba Special Economic Zone Law no. 32 for the Year 2000).

Some experts claim that a FTZ is a part of explicitly ascertained and isolated area of land with an exclusive tax, customs and imports regulations which differ from the ones being implemented in the mainland of that country. FTZs usually enjoy a status of extra-territoriality. The main purpose behind establishing FTZs, is to act as principal business hub for companies desirous of carrying out business activities with the outside world, not precisely to the country that the FTZ belongs (Farole, 2011).

Kozakiewicz, 2015 asserts that FTZs are aimed at uplifting exports, facilitate manufacture and trade to attract investment (FDI), in the country. They also trigger and enhance economic

as well as technological growth in that country, by generating commercial activities whereby, goods are landed, imported, exported, handled, processed, assembled and manufactured with companies accruing various financial benefits.

FTZ is a designated area that abolishes traditional trade barriers, such as tariffs, and reduces bureaucratic procedures. These zones are targeted to augment International market presence of that county by attracting new business and investments by international players. However, according to few experts FTZs are intended to boost exports, stimulate production and competition amongst the companies, to attract FDI, minimizing regional disparities, and to inspire technological advancement and economic growth (Farole, 2011).

FTZs are generally established around key zones, where economic activity can flourish with ease and with minimal teething issues. Areas like seaports, airports and locations geographically suited to facilitate trade and related functions are best for establishing the FTZs. These zones, owing to inherent advantages in terms of relaxed regulations, taxes, duties, are gradually seeking a pivotal importance in propelling global trade, (Zeng, 2010).

FTZ concept, indeed, has proven to be so beneficial that an ever-increasing number of countries are now adopting the zones. Moreover, this enhanced interest has also introduced adoption a new concept of Free Zones. As the old concept of Free Zones revolved around immobile, labour-consuming and driven by enticements, the new FTZ paradigm focuses more towards a vibrant, investment oriented and management driven. This overall process contributes towards establishing an all-encompassing mechanism for economic development (F.I.A.S report, 2008).

1-3 Explaining Terminologies Surrounding the Concept

According to Bost, 2010, the Atlas of the Free Zones in the World has accumulated 45 diverse terms used in relation to the concept of FTZs. These names are often used interchangeably, and the nomenclatures have more to do with marketing than the conceptual parameters of FTZs. Similarly, World Bank has also followed the same approach of using different terminologies like “Special Economic Zone” while discussing about “Free Zones” (Farole, 2011). Few of such varied terminologies used to refer to concept of Free Zones are mentioned in the figure below and explained in succeeding paragraphs: -

Figure1. 1 Terminologies Used for Free Zones



Source: F.I.A.S 2008 & Farole 2011

- **Export Processing Zones (EPZ):** EPZs are the geographical zones that offer advantages for manufacturing related activities. EPZs are intended to have a peculiar focus on exports, however, a considerable no of such zones also permit non-exporting activities (F.I.A.S report, 2008).
- **Free Ports:** According to Rodrigue and Notteboom, 2009, Free ports are considered as a wider scope of the concept of Free Zone owing to their expanded outlook covering far larger areas to incorporate a large variety of activities to fuel economic growth in the country.
- **Special Economic Zones (SEZ):** According to Wang, 2013, Special Economic Zones are the practical manifestation of the concept of Free Ports, mainly inspired by Chinese experience to be used as an instrument for promoting Foreign Direct Investment (FDI) in specified areas.
- **Enterprise Zones:** These zones are exclusively designed to revitalize economically troubled areas (both urban as well as rural) by extending incentives relaxations in terms of taxes, duties and financial assistance. Most of these zones are situated in industrialized countries like United States of America (USA), France and United Kingdom (F.I.A.S report, 2008).
- **Single Factory EPZ:** Incentives and schemes offered in this type of zones are mainly aimed at benefitting individual enterprises and are not restricted to a specified area or location. These factories can opt for receiving incentives without physically locating to certain specified zone. Countries adopting single factory EPZs include, include USA, Mauritius, Sri Lanka, Madagascar, Mexico and Costa Rica (Woolfrey, 2013).

While considering single factory zone scheme as an exemption due to difference in its approach and applicability, most of the concepts and paradigms discussed above point at the fundamental characteristics / principles of FTZ concept, that includes following (F.I.A.S report, 2008):

- Specified, protected area managed by a single authority.
- A custom made incentive and regulatory framework.
- Incentive eligibility basing on location.

Table 1.1 Types & Characteristics of Different Zones

Types of Zones						
Type of Zone	Development Objective	Physical Configuration	Typical Location	Eligible Activities	Markets	Examples
FTZ	Support Trade	Size < 50 hectors	Parts of entry	Trade related activities	Domestic, re-export	Colon Free Zone, Panama
Traditional EPZ	Export manufacturing	Size < 100 hectors	None	Manufacturing, other processing	Mostly export	Karachi EPZ, Pakistan
Hybrid EPZ	“	“	“	“	Export and domestic market	La Karanang Industrial estate, Thailand
Free Port	Integrated Development	Size > 100Km	“	Multi use	Domestic, international and export market	Aqaba SEZ, Jordan
Enterprise Zone	Urban Revitalization	Size < 50 hectors	Distressed Urban or Rural areas	“	Domestic	Empowerment zones, Chicago
Single Factory EPZ	Export manufacturing	Designation for Individual Enterprises	Country Wide	Manufacturing, other processing	Export market	Mexico Madagascar Mauritius

Source: F.I.A.S, 2008

1-4 Historical Evolution of Free Trade Zones Concept

FTZ as a concept is not a modern one. Its conception dates back to the evolution of Western Civilizations. Historical evidence suggests existence of such models in 300 BC timeframe located in Greek islands of Delos. Introduction of these zones enabled these islands to become richest in the world in that century. Similarly, the Romans had provisions of free cities which enjoyed following privileges (Haywood, 2000)

- Few of these cities could coin money.
- They could formulate their own laws.
- They were absolved of paying annual tribute to the Roman Emperor.

In 12th century, the Hanseatic League established trading colonies throughout European areas like Hamburg, and Steelyard in London.

Prior to 1920's the free zone concept was mainly being practiced by the developed countries. With the passage of time the concept gradually expanded in the rest of the world. In 20th century, the concept of free port also experienced both functional as well as geographical diffusion. The concept has gradually expanded from typical seaports operations to encompass River Free Ports with examples of Brazil, Lake Ports with examples as Chicago, Airports with examples as Shannon, Ireland and inland ports with examples as Zona Franca Florida Sur, Uruguay. According to Barbier and Véron, 1991, Shannon's free zone was the first modern trade zone created in 1958. This airport was initially used as a logistical base for American aircrafts. it gradually expanded to offer a host of logistical services including packaging, customization and manufacturing.

Table 1. 2 Terminologies Used for Free Zones and their Users

Term	Main Users / Time Frame of First Usage
Free Trade Zone	Traditional term Used since 19 th Century.
Foreign Trade Zone	India (1983)
Industrial Free Zone	Ireland (Pre – 1970s)
Free Zone	UAE (1983)
Maquiladores	Mexico (Early 1970s)
Duty Free Export Processing Zones	Ireland (1975)
Export Processing Zones	Korea (1975)
Special Economic Zones	Philippines (1977)
Investment Promotion Zones	Sri Lanka (1981)

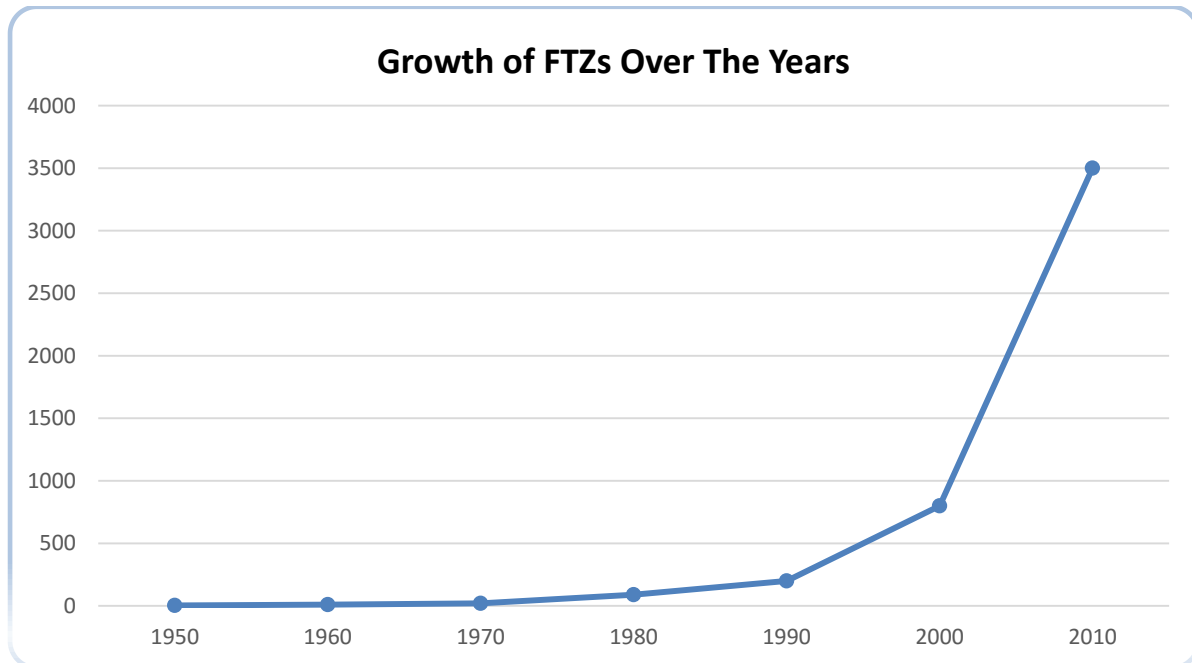
Source: Kusago and Tzannatos, 1998

Emergence of European Union witnessed reduction in the benefits of FTZs, which meant that development of economic and regulatory milieu is deeply connected with significance of Free Port in its regional context. The success of FTZs was also badly affected by the protected status of American industries. However, a far greater access to American market was afforded by trade liberalization inspired by General Agreement on Tariffs and Trade (GATT). This led to rapid establishment of FTZs across sea, air and land entries.

According to Bolle and Williams, 2012, Number of Free Trade Zones in 1970s was approximately 50, which expanded to about 100 in 1984, more than 200 in 1993. The figure has swelled to about 3,500 FTZs situated in 135 countries across the globe. These zones are accommodating work force to the tunes of approximately 66 million individuals, across the world. Majority of these FTZs are situated in developing countries, with the largest once

located in China, Singapore and the United Arab Emirates (UAE). For instance, Shanghai FTZ located in China has covered area of 11 km² and has accommodated 4,600 companies (including 280 foreign enterprises).

Figure 1.2 Growths of Free Zones



Source: UN and ILO Data, reported in Bolle and Williams, 2013

1-5 Free Trade Zones – Conceptual Underpinnings

Rationale behind Establishment of FTZs: According to F.I.A.S report 2008, the rationale i.e. the purpose as well as desired end results behind established of free zones is different for developing and developed countries. The causes behind this difference are discussed below: -

- **Developing Countries:** Traditionally, the rationale behind development of free zones in developing countries entailed infrastructural as well as policy related rationale. A generalized FTZ policy compendium for a developing country entails following features Madani (1999): -
 - Relaxations in the duties levied on imports and exports
 - Simplified customs regulations, well managed administrative mechanisms.
 - Liberal foreign exchange policies.
 - Taxation related incentives.

All these measures are designed to enhance an investment's competitiveness and minimize costs of doing business. Zones aimed at boosting exports are designed in a manner to facilitate the exporters to compete in international market by facilitating the manufacturers of exports goods.

- **Developed Countries:** Unlike developing countries, rationale behind free zone development in Developed countries is quite varied in nature, basing on peculiar

requirements / end results aimed to be accrued by that country. For instance, FTZ programs in Korea and Japan, are specifically designed to encourage Foreign Direct Investment. At the same time, Ireland developed Shannon FTZ aiming at addressing the economic disparities between Northern and Southern part of the country. A large number of enterprise zone, programs in the France, USA and UK, are aimed at revival of economically distressed urban and rural areas. Nevertheless, improving business productivity and manufacturing competitiveness emerges as the fundamental rationale behind adoption of free zone programs in majority of developed countries, Madani (1999), Cling and Letilly (2001).

1-6 Policy Reasons for Development of FTZs

According to Madani (1999), Cling and Letilly (2001), there are 4 fundamental policy reasons behind establishment of FTZs for all countries in general while for developing countries, in particular: -

- **To Facilitate Broader Economic Reforms:** Free zones are means of minimizing anti-export tilt, while maintaining the requisite protective barriers. They also act as fundamental instrument in allowing a country to grow and diversify its exports. FTZs aval in Taiwan and the Korea follow this pattern.
- **Employment Generation:** FTZ programs established in countries like Tunisia and Dominican Republic have been developed in a manner so as to act as vigorous, employment generation programs that have contributed considerably towards the betterment of the economy.
- **Facilitate Experimentation of New Economic Policies:** China's free zones fall in this category. Numerous fiscal, economic, legal, labour, and even pricing policies had been defined and tested in these zones, before their application on rest of the country.
- **To Attract FDI:** Most of the free zone programs, especially in the Middle East, have been intended to attract FDI.

1-7 Major Trends in Zone Development

Since the development of inaugural FTZ in Ireland, the conceptual parameters pertaining to zone development have undergone tremendous variations. Some significant developments are discussed below (Sinclair, 2001):

- **Enhanced Flexibility in Geographical and Conceptual Domains:** Traditionally, FTZs have been established as "specified zones" both in terms of location as well as policies. Provision of incentives and privileges were firmly managed. Qualifying firms were forced to have bulk of their orientation (80-100%) towards exports. Locations of the zones were mainly selected around distant areas or near transport centres. Historically, onus of zone development has been lying on Governments with the aim of acting as engine of growth for development at regional level. Last 2-3 decades have seen this relatively rigid concept changing quite considerably (F.I.A.S report, 2008).
- **Increasing the Role of Private Outfits in Zone Development:**

Failure of many state – owned zones in few countries followed by a rising interest of private parties towards investments in FTZs led to another very significant deviation from traditional thinking on the concept has been to permit establishment of FTZs, anywhere in a country rather than restricting them to selected areas, mainly remote areas. (F.I.A.S report, 2008).

- **Redefining the Role of Zones in Economic Development:**

Ongoing wave of globalization and liberalization of trade has led to a large-scale broadening in the nature, scope and financial outcome and roles traditionally expected from the FTZs. According to Sinclair (2001), conventionally FTZs had been linked to a closed economy with the objectives to include, enhance exports, job creation, and transfer of technology through mutual cooperation. Whereas, now FTZs are considered as significant instruments to enhance mutual trade and ensure up gradation of the host economy.

- **Integration of Zones in Domestic Economy:**

Another significant trend towards zones development is integrating these zones into local economies. Countries are trying to augment their economies by plugging key gaps in their economies through development of purpose oriented, objective specific and targeted zones. Traditional FTZs are being modernized / augmented by offering new flexible approaches. This change in approach is evident from the new policy packages and development approaches of new FTZs across the world (F.I.A.S report, 2008).

1-8 Pre-requisites / Salient Features for an Efficient FTZ Model

As discussed earlier, establishment of FTZs may differ according to the purpose of establishment and desired outcomes, however, certain key features stay constant in every FTZ program, irrespective of the purpose (F.I.A.S report, 2008). These features are discussed below:

- **Most Modern Infrastructure Facilities:** Irrespective of the objective, a modern FTZ should entail, latest / sophisticated infrastructure in terms of availability of land for various purposes, basic amenities, round the clock availability of electricity, gas and other energy resources, logistic services, business centres and other allied facilities as per the specific requirement / nature of each zone (Granados, 2003).
- **Flexible Set of Regulations:** This is the most significant aspect contributing towards success (or failure) of a FTZ. The companies established, doing business in the zone, especially the foreign firms need to be “felt at home” by offering a relaxed set of regulations, lenient customs / excise procedures and overall minimal bureaucratic hiccups. Establishment of “One Window Operation Centres” and “help desks” to facilitate corporations in their business ventures can help a great deal in attaining investor’s confidence which is critical for FTZ success (Granados, 2003).
- **Attractive Location:** FTZ should be in such a manner which suits most of the companies / corporations intended to be attracted for investments and commencement of their business activities in the zone. It should entail all those features of an effective

Off- Shore destination, to attract maximum companies for doing business in these FTZs (Granados, 2003).

- **Export Oriented:** Ideally, FTZs should be aimed to enhance production of goods aimed at being exported to foreign countries. Efforts must be made to facilitate companies specifically dealing with export related business activities (Granados, 2003).
- **Incentives:** Incentives are the best possible measure to attract companies in establishing their business in a particular FTZ. Detailed incentives being offered or can be offered by FTZs are discussed in final segment of this chapter (Granados, 2003).
- **A Comprehensive Legal Framework:** FTZ should entail a comprehensive legal framework, to safeguard interests of both Public and private enterprises without undermining the privileges / authority of the government. This, once enforced in true letter and spirit, contributes a great deal in enhancing confidence by the investors, both domestic as well as foreign (Granados, 2003).
- **Partnership between Public and Private Sectors for Development of FTZs:** FTZ framework entailing enhancement of public-private partnership for the overall economic improvement portrays a scenario of Win-Win for all the parties involved in the process (Granados, 2003).

Figure1. 3 Salient Features of an Efficient FTZ Program



Source: F.I.A.S report, 2008

1-9 Best-Practice Policy Framework for a Successful FTZ Program

Primary ingredients of an ideal best-practice policy framework for FTZs entails following elements (F.I.A.S report, 2008):

- **Notion of Extra-Territoriality:** According to Revised Kyoto Convention, FTZs are to be considered “out” of the local customs boundaries. However, they must be entitled to all national certificates of origin and participate in commerce / business access agreements.
- **Equal Dealing, Rights, Privileges of Private and Government FTZs:** Any government which is desirous of benefitting from full spectrum advantages of FTZs, it must provide a level playing field to both Public as well as private FTZs. It implies that Governments must ensure that public FTZs are not given unfair advantage on various aspects pertaining to conduct of business, and other governmental regulations. This will ensure a healthy competition and provide convenient environment for expansion of business and boosting the economy of the host country.
- **Standardized Zone Designation Criteria:** A general set of standard features i.e. basic criteria pertaining to technical, financial and regulatory aspects required for FTZs are globally available. Every country can tailor specific requirements related to own environments, but the bottom line is that facilities at par with these standard criteria are to be made available for enabling optimized outcomes as desired / designated for each type of business.
- **A Vibrant Labour Regime:** According to international experts, quality and efficiency of the labour has direct bearing on the long-term success / productivity of the FTZs. In order to attain this standard set of procedures and obligations ascertained by International Labour Organization (ILO), on the labour rights and privileges are to be adhered.
- **Establishment of an Empowered / Autonomous FTZ Authority:** Authority responsible for running affairs of FTZ assumes pivotal significance towards success or failure of that zone. Ideally a fully empowered zone authority comprising of all stake holders i.e. Govt officials (Political hierarchy, bureaucrats) and private sector representatives be established. This authority should be fully empowered towards policy making, budget and other related aspects.
- **Efficient Procedures for Registration of Firms / Businesses:** This process involves establishment of a simple declarative investment registration system instead of establishing a regime that needs investment approval. Procedures should be such that all companies and business ventures do not need to move from door to door for getting their businesses registered. An efficient system should be in place to facilitate their activities.

- **Facilitate Delivery of Secondary Licenses and Permissions:** Once companies are in the process of establishing / expanding their businesses inside a FTZ, they may require additional infrastructural or other allied facilities. A centralized system aimed at facilitating these outfits will help them in flourishing their businesses.

Table 1.3 Basic Policy Framework for FTZs

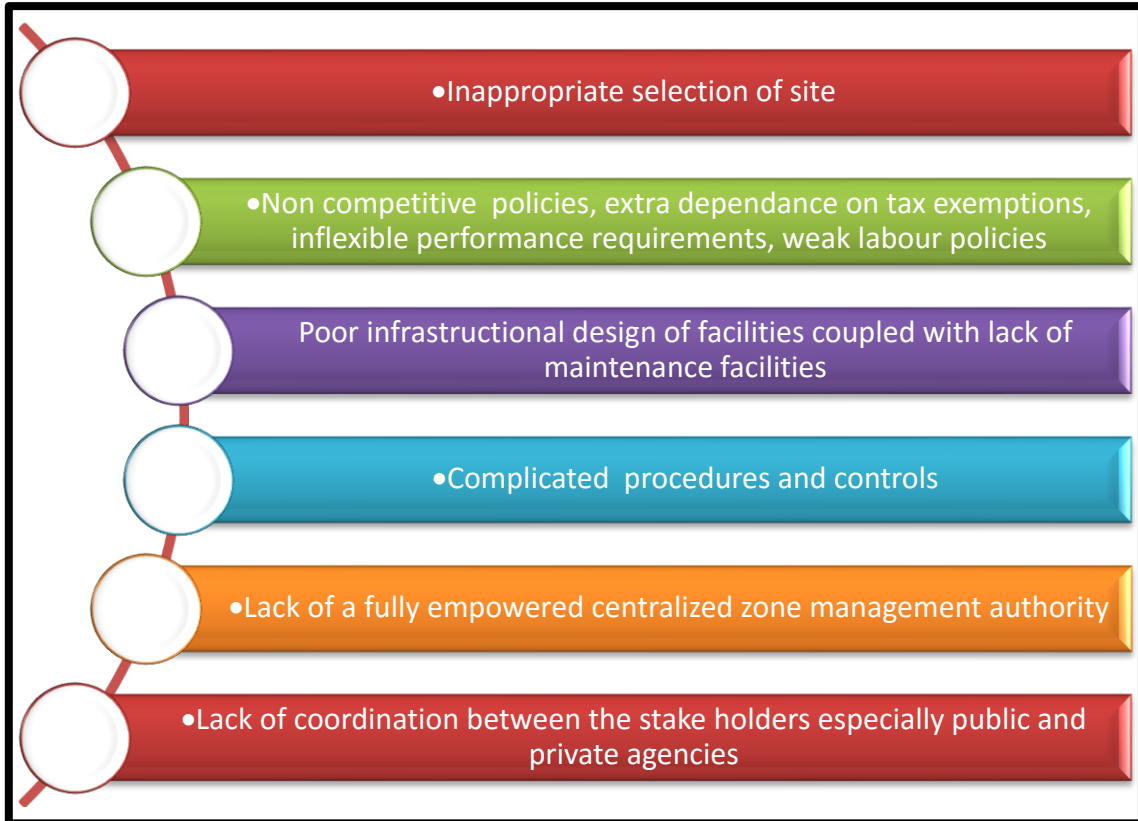
Basic Policy Framework for SEZs	
Parameter	International Standards
Concept of Extraterritoriality	<ul style="list-style-type: none"> • Outside domestic customer territory. • Eligible for national certificates of origin. • Eligible to participate national trade agreements and arrangements.
Eligibility for Benefits	<ul style="list-style-type: none"> • No minimum export requirement. • Manufacturers and services. • Foreign and local firms. • Expansion of existing enterprises. • Private developers of zones.
Foreign and Local Ownership	No limitations; Equal treatment.
Private Zone Development	<ul style="list-style-type: none"> • Clearly define in legislation. • Specific zone designation criteria. • Eligible for full benefits. • Competition with Government zones on a level playing field.
Sales to the Domestic Market	<ul style="list-style-type: none"> • Liberalized. • Provided on a blanket basis rather than case to case basis. • Treated as import into domestic market. • Subject to payment of import duties and taxes.
Purchase from Domestic market	<ul style="list-style-type: none"> • Treated as exports from domestic market. • Enterprises eligible for indirect export benefits.
Labour policies	<ul style="list-style-type: none"> • Full consistency with ILO standards. • Specified dispute settlement mechanisms

Source: F.I.A.S Report, 2008

1-10 Common Obstacles to Zone development

Most common causes / hindrances behind failure of a FTZ include following: -

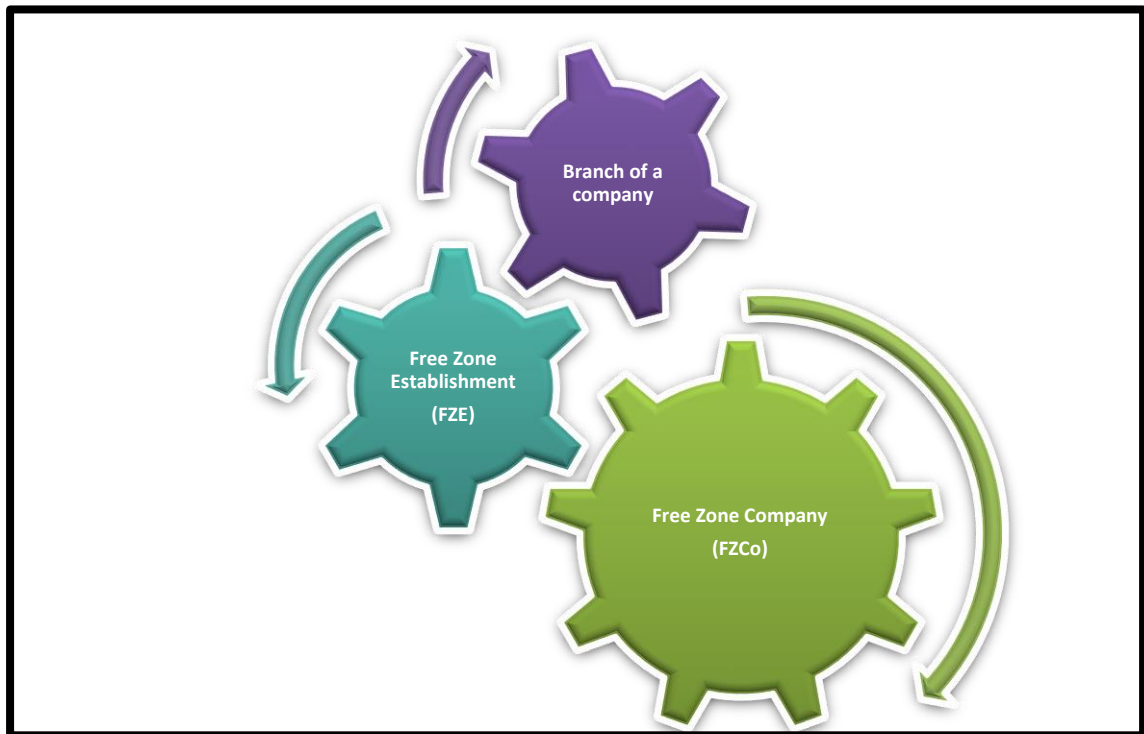
Figure1. 4 Common Obstacles to Zone Development



Source: F.I.A.S report, 2008

- **Setting Up Business in a FTZ.** Each type of a free Zone has specific laws associated with it. Depicted below provides the 3 categories based on business activities.

Figure1. 5 Setting Up a Business in FTZ



Source: F.I.A.S report, 2008

1-11 Impacts, Significance and Benefits of FTZs

FTZs entail a whole spectrum of impacts on various dimensions of the host country, in addition to the economy. Few of the significant ones are discussed below (Aggarwal, 2007):

Economic Benefits

Economic benefits that can be accrued from FTZs are appended below:

- **Employment Creation:** Apart from the overall economic perspective, a primary objective of any FTZ is employment generation. FTZs tend to create these job opportunities by rapid urbanization. This urbanization often results while diverting some part of the agricultural activities to manufacturing. However, the overall net gain from industrialization surpasses the disadvantages resulting from reduction in agriculture activities (Aggarwal, 2007).
- **Export Enhancement and Development:** Export development, growth as well as diversification is also a major dividend earned from establishment of FTZs. This aspect gets further significant in case of developing countries who mainly rely on the export of primary products. FTZs in the Middle East and Africa contribute considerably towards enhancement of manufactured exports (Aggarwal, 2007).

- **Growth in the Foreign Direct Investment (FDI):** According to the experts and empirical evidence available, FTZs can enhance FDI of their respective countries by offering congenial business environment, with state-of-the-art facilities and a comprehensive incentive / legal framework (Aggarwal, 2007).
- **Increase in Foreign Exchange Earnings:** A gradual rise in the Foreign exchange earnings is another outcome of an efficient FTZ. The overall economic influence of zones is enhanced as local value addition is elevated. Zones in some of the East Asian Countries have played significant role in enhancing local purchases of zone-based goods and services. Moreover, owing to increased export earnings, resulting into decline in the overall cost of imports for local buyers is also likely to be have positive impact on the exchange rate (Aggarwal, 2007).
- **Technological Advancement and Industrial Upgradation:** Apart from other economic benefits zones have played a pivotal role in the technological advancement and in turn upgradation of industrial output of the host countries. Overall process entailing diversification of export bases also lead to upgrading the skill element of their output. These zones also help in generating transfers of technology and knowledge spill-over which results in production of non-traditional goods by local companies (Tiefenbrun, 2012)
- **Budgetary Impacts:** Budget related impact of the FTZs mainly hinge upon tax policies and fiscal incentives being on offer to the qualifying outfits. Most of the FTZs typically offer a set of fiscal incentives to the operating outfits, these incentives include Tax holidays or reduced tax rates, exemption on import duties, indirect tax abatements, and so on, (Lafargue, 2008).

Social Impacts

- **Labour Standards, Wages, and Working Circumstances:** Ever since the evolution of the concept of Free Trade Zones, concerns regarding Labour rights and incentives, especially in the developing countries, have been on the rise. Main areas of concern include effects of FTZs on labour, especially in gender's context, pay, packages and incentives and benefits, worker rights and working conditions. International Labour Organization (ILO), has played a very proactive role towards managing / ensuring the labour rights under the umbrella of FTZs. This has led to an overall betterment of labour policies and practices within zones (**Haeun, 2005**).
- **Human Resource Development:** Owing to their peculiar nature in terms of technological advancement, FTZs play a significant role in up gradation, and skill development of the workforce by formal training as well as “hands on, on job training”. Experts appreciate the knowledge spill over effects of various zones, particularly the ones related to higher value-added or knowledge intensive industries (Madani, 1999).

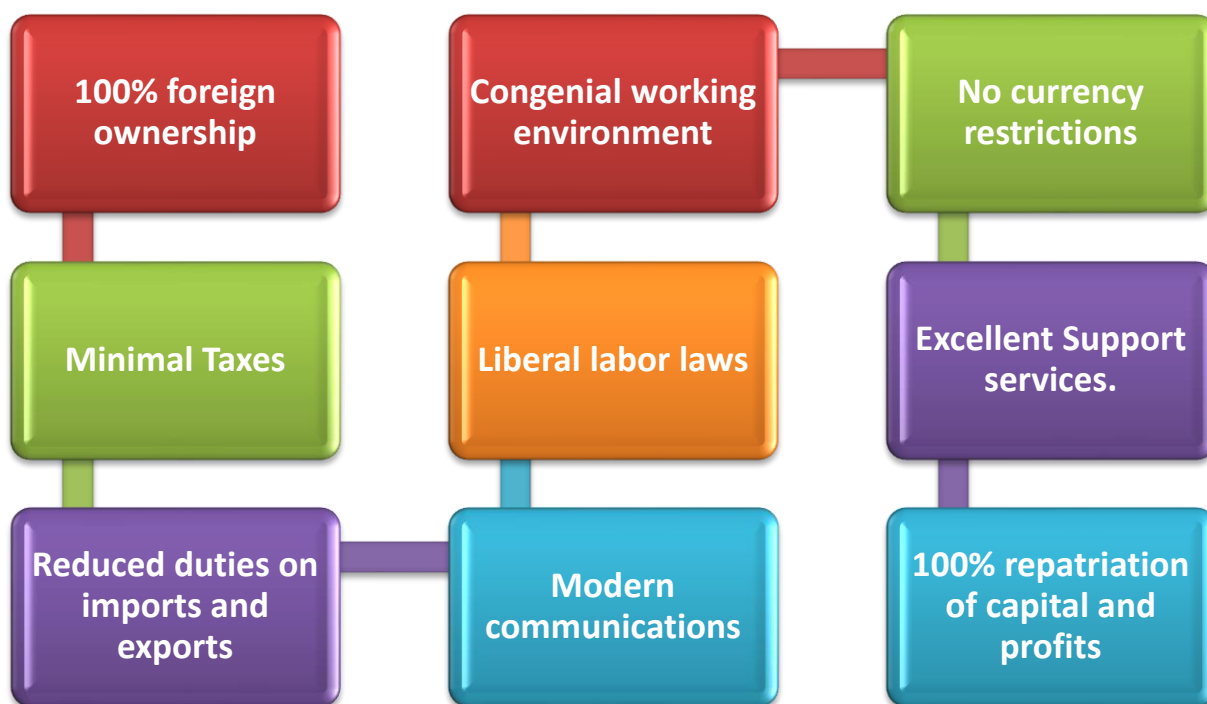
Environmental Impacts

Development of huge infrastructure along with various industrial outfits in FTZs can have a considerably damaging impact on the Environment, if not regulated and monitored appropriately. Non-availability of requisite waste treatment infrastructure and facilities can result into serious health hazards especially for nearby population (Williams, 1995). However, modern day FTZs entail purpose-built facilities to deal with the environmental impacts of these zones. Similarly, more proactive zone-specific environmental regulations also play a significant role in managing the negative impacts of these zones on the environment.

Benefits of FTZs Specific to Companies

Benefits rendered by FTZs for companies working inside the zones are reflected in the figure below:

Figure1. 6 Benefits of FTZs in relation to companies



Source: F.I.A.S report, 2008

1-12 Regulatory / Legislative Aspects Pertaining to FTZs

The Kyoto Convention also known as the International Convention on the Simplification and Harmonization of Customs Procedures defines FTZs as a particular class of “Special Economic Zones” and “a part of the territory of a World Customs Organization (WCO)

Contracting Party, where any materials produced are subject to a different (generally lenient) set of custom duties than being levied on the other parts of the host country (F.I.A.S report, 2008).

The Kyoto Convention also entails that a country's lawmaking should specify the prerequisites pertaining to the formation of FTZs. It should also stipulate the type of items allowed to be manufactured / permissible to these FTZs. Nature of the operations / processes allowed to be executed during the operation cycle of good manufacturing and supply may also be identified. Similarly, customs regulations may be tailored in a manner to allow relevant authorities to have comprehensive checks on the process of goods manufacturing and distribution.

Monitoring and control of trade in these zones has been exercised inconsistently, which has led to spread of a common misperception that FTZs are 'extraterritorial' and thus not liable to the national customs or other trade regulatory authorities / laws. This discrepancy and misperception may lead to a scenario that facilitates illegal activities in some of these zones. The World Customs Organization has endeavoured to tackle this issue by rendering guidelines in the Revised Kyoto Convention, in the following domains (**Polner, 2011**):

- Unequivocal customs jurisdiction over FTZs.
- Rules on origin of goods.
- Procedures for customs transit and trans-shipment.

However, a few countries have implemented the Revised Kyoto Convention, so far.

1-13 Conclusion

Free Trade Zones are being developed across the world to enhance the economic activity in the host country by offering various incentives to the local as well as foreign entities operating in that zone.

Concepts of free zones have evolved over past decades with its conceptual parameters, dimensions and linked terminologies also varying over the period of past few years.

Success or efficacy of the concept is evident from the fact that number of countries adopting and introducing these zones are increasing with each passing day. Senses of competition amongst the contemporary zones have led to introduction of innovative incentive packages linked with state-of-the-art facilities to be offered for the investors. The concept, therefore, is a successful one. However, the degree of success and quantum of investment / economic activities is linked with the factors like geographical location, rules regulations and fiscal policies and overall economic environment of the peculiar country.

From here on, our discussion will focus on specific case studies from the developing world. FTZ models of countries like United Arab Emirates, Kazakhstan and China will be discussed in detail to draw relevant conclusions for their subsequent application to the other aspirant countries. First in the Line would be Jebel Ali Free Zone also known as Jafza. Various

features of the Jazfa including the policies, regulatory mechanism, contribution of the zone towards national economy and the overall measures leading to the success of this zone will be covered in detail in the Chapter 2.

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Chapter II

Jebel Ali Free Zone – Dubai

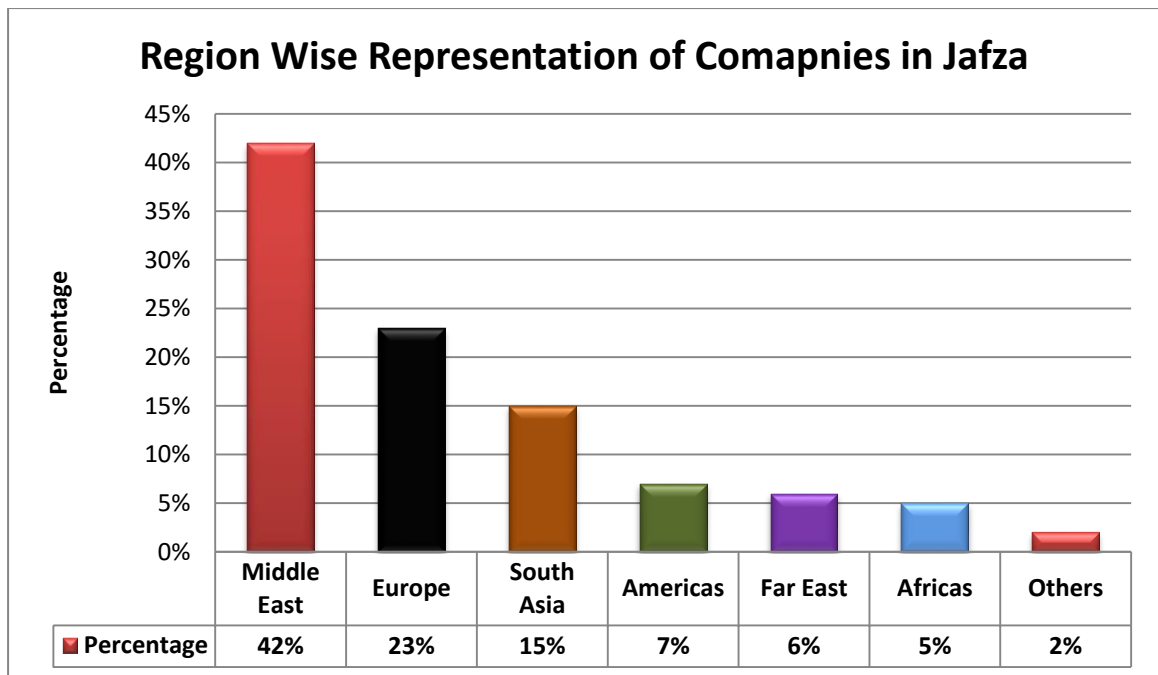
2-1 Introduction

Jebel Ali Free Economic Zone (Also known as Jafza) was established by Emirates of Dubai at the Western fringes of the state in 1985 (Jafza, 2019). Jafza initiated its operations by providing office spaces and ware housing facilities to a rather modest number of companies i.e. 19. Since its inception, Jafza has been gradually expanding the ranges and variety of services / facilities being provided to its clients to become one of the largest free zones in the world. (The Economist, 2015)

Owing to multifarious advantages / incentive being on offer (details in the succeeding parts of this chapter); Jazfa has been turned into one of the most valued business destinations in the world (Shayah & Qifeng, 2015). From the modest figure of 19 companies, today Jafza houses an astounding number of companies (more than 7000) operating within its localities, and the figure is ever expanding. Similarly, number of customers of Jafza has also increased manifold from the initial number existent in first decade i.e. 500. This number is also on the path of a rapid growth. As of now, Jafza acts as a hub of numerous business owned and operated by citizens more than 100 countries. With a fabulous value for trade amounting to 87.6 billion dollars, its accounts for over 32% of FDI and 50% of total exports of Dubai (Jafza, 2019).

Jafza holds businesses from world's most distinguished business outfits; presence of approximately 150 companies belonging to Fortune 500 is testimony to the fact. Region wise distribution of these companies is as under:

Figure 2. 1 Region Wise Representation of Companies in Jafza



Source: Jafza, 2019

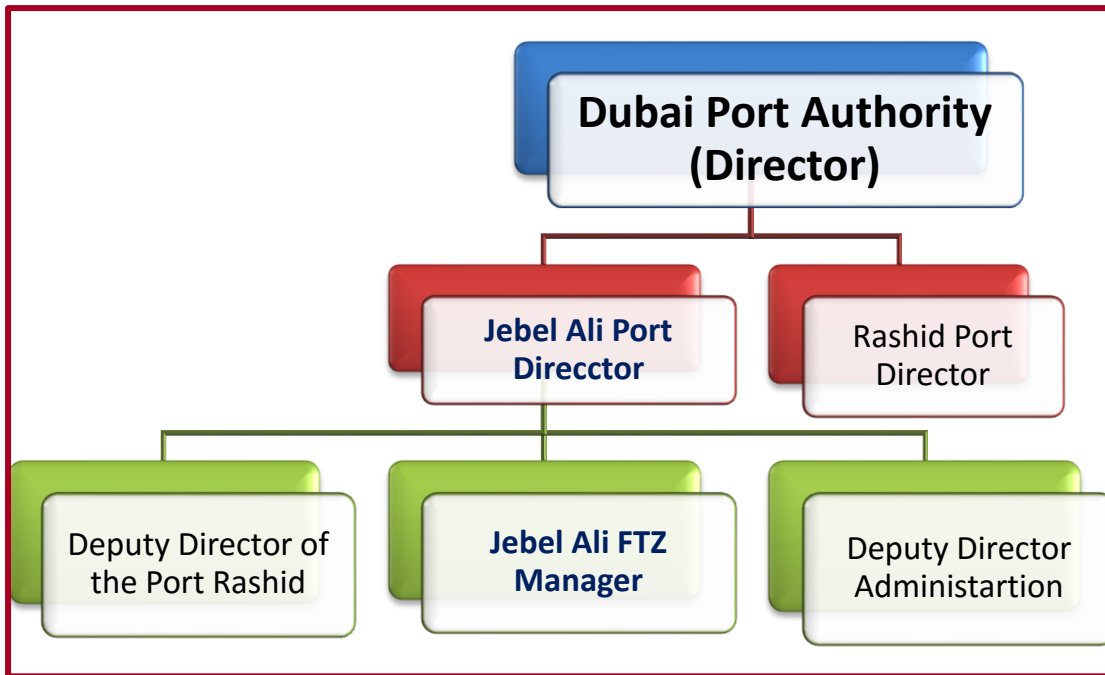
Jafza holds the unique distinction of being the first free zone qualifying for ISO certification in 1996. It implemented online communication in 1998, whereas Jafza introduced the largest Customer Relationship Management (CRM) system in the region in 2007. Owing to its productivity, Jafza has been earning acclaim at various international platforms. (Jafza, 2019)

Jafza spans over an area 140 km² and offers purpose-built office spaces, warehouses and dedicated areas for other commercial activities. Being situated in Dubai, which holds a huge customer base being global hub for trade and business, state of the art logistics infrastructure is considered as Jafza’s main source of attraction. Besides, Jafza has the unique distinction of being located between two largest international logistic enablers i.e. World’s 8th largest port and biggest Cargo airfield. Connected by a six-lane highway, Jafza enables transportation of custom bound goods from one place to another within one hour. Cutting edge facilities like custom built office spaces, warehouses, office spaces and land for large-scale manufacturing / extensive warehousing, distinguish it from other zones in the region. (FIDFINVEST, 2018)

2-2 Jebel Ali FTZ Management System

In order to streamline the management of Free Trade Zone and allied ports in a specialized manner, Government of Dubai decided to establish Dubai Port Authority, in 1991. The authority was responsible to handle the functions of assets like Rashid port, Jebel Ali port and Jebel Ali free trade area, in a unified manner. Hierarchy of the port included 2 x directors and 3 x deputy directors for effectively managing the affairs of the ports and free zone. Functions of banking, customs, transportation and public security were also unified under this authority, to ensure minimal red tapes for the investors / businesses (Jing & Yong, 2014).

Figure 2. 2 Dubai FTZ Management Organization Structure



Source: Jing and Yong (2014)

However, according to Jing and Yong (2014), Jebel Ali FTZ enjoys relative independence in different facets of its functioning and has following rights:

- Land procurement.
- Decisions pertaining to nature, type and quantum of industries which would be established inside the zone.
- Decisions, plans related to functioning of the factories, warehouses and other infrastructure.
- To determine / implement costs of various services being offered by the FTZ for clients.
- Decisions pertaining to usage of facilities / services inside the FTZ.

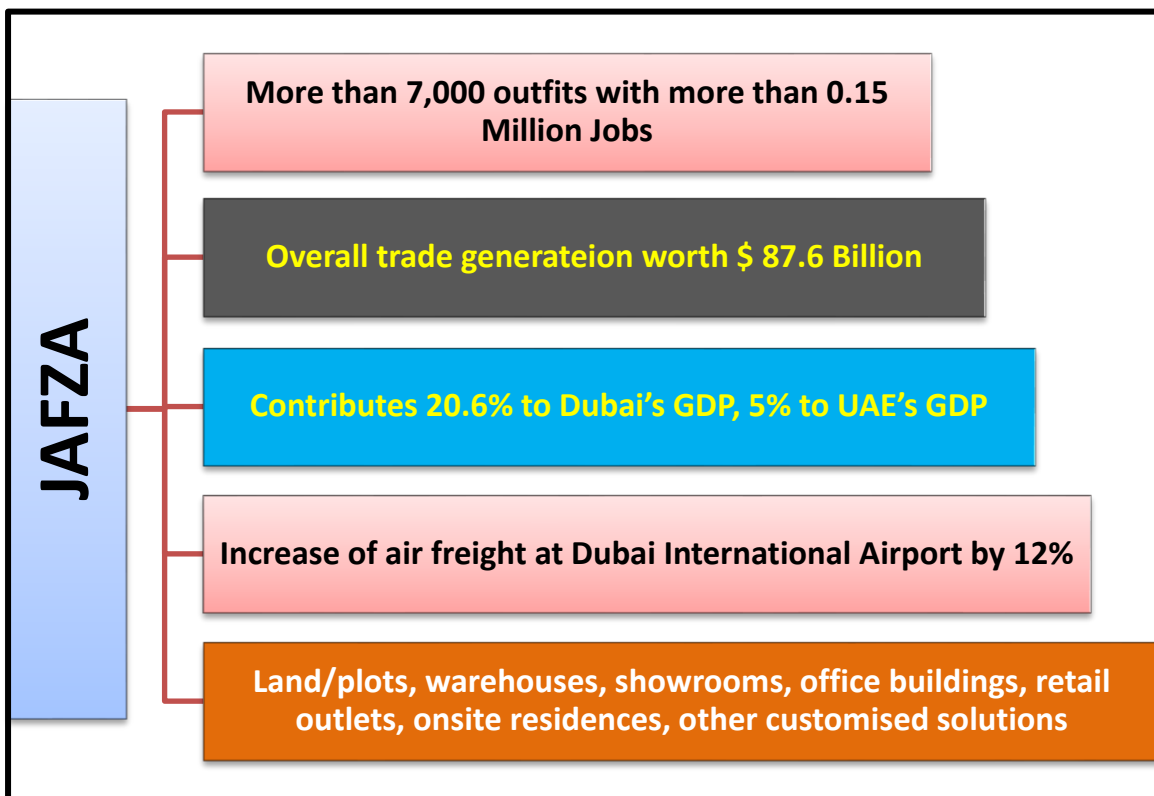
2-3 Jafza Contribution to the National Economy

According to the official prospectus of Jafza Sukuk (2019), owing to its inherent advantages like location, state of the art customized facilities suiting various businesses both at global as well as regional level, provision of value driven solutions suiting the customer requirements, Jafza has paid a pivotal role towards the economic growth of Dubai. Consistent investment friendly policies of the government have made it one of the most preferred investment destinations, across the globe. Salient features are discussed below:

- Non-oil exports from JAFZA alone, amount to more than 50% of the total Non-Oil exports of Dubai.
- Similarly, Imports from JAFZA amount to more than 31% of total Non-Oil imports of Dubai.

- Business activities by JAFZA companies have contributed towards employment creation for more than 0.16 million individuals, which is a considerable figure.
- Jafza has also been instrumental in the immense growth of cargo / commercial activities at also immensely participated to the unbelievable overall development of Dubai's ports.
- Apart from the direct contribution, Jafza companies have made meaningful contributions in the indirect sectors like transportation, hospitality and tourism.
- Another major contribution of Jafza is in relation with enhancement and augmentation of human capital of the local citizens. Working with the best business outfits, managers and mentors within the country and abroad, broaden the overall horizon and performance landscape of the local workers. Whole range of varied experiences and expertise brought about by the foreign businessmen plays a significant role towards performance enhancement of youth, thus making immense contribution towards Dubai's economy on long term basis official prospectus of Jafza Sukuk (2019).

Figure 2. 3 Highlights of Jafza's Success



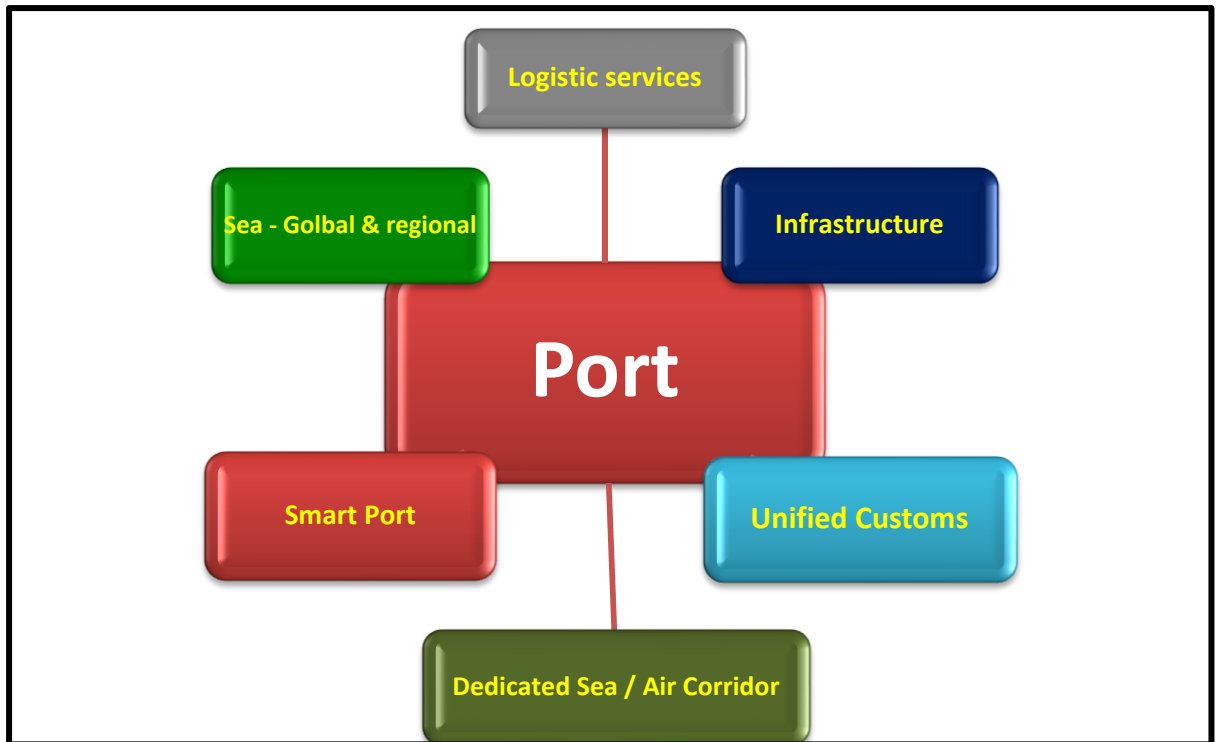
Source: DP World Official Brochure, 2017

2-4 Salient Features of Jebel Ali Port

According to the official brochure of the Dubai Port (DP) World, Jebel Ali Port is the most important infrastructural feature of Jafza. It has played a significant role in bringing Jafza to its current stature. Possessing state of the art cargo and other related facilities, Jebel Ali port

is one of the most sophisticated and most productive ports in the world, which has been accepted by the Journal of Commerce (JOC) due to its quality management, safety and security features. Salient characteristics of the port have been discussed in this part of the chapter to enable us to understand the causes behind success of Jafza.

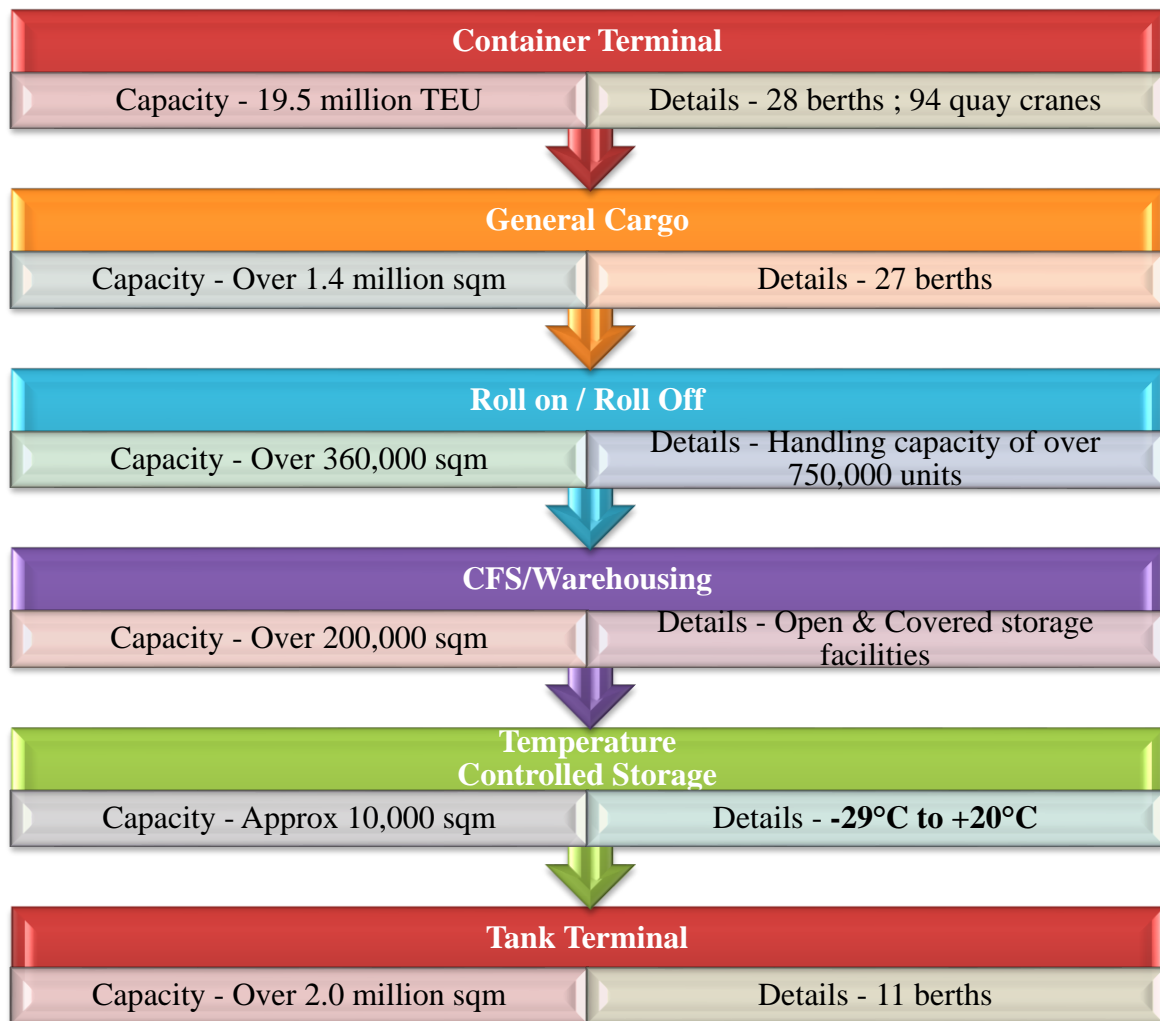
Figure 2. 4 Significance of Jebel Ali Port



Source: DP World Official Brochure, 2017

The below tables show the Salient Features of Jebel Ali Port

Table 2.1 Salient Features Jebel Ali Port



Source: DP World Official Brochure, 2017

Table 2.2 Salient Features Jebel Ali Port

Container Facilities					
Features	1st Terminal	2nd Terminal	3rd Terminal	4th Terminal	Total
Capacity (Million TEU)	9.0	6.5	4.0	3.1	22.1
Area (Million square meters)	2.05	3.0	0.7	-	5.75
Quay Length (meters)	4,875	3,000	1,862	1,200	10,937
Number of Berths	15	8	5	-	28
Depth (meters)	16	16	17	18	
Quay Cranes	46	29	19	13	107
General Cargo Facilities					
Area (Million square meters)	Over 1.4				
Quay Length (meters)	4,855				
Number of Berths	27				
Depth (meters)	15				
Yards	<ul style="list-style-type: none"> • Over 360,000 square meters • Capacity: 750,000+ Vehicle units 				
RORO Storage	<ul style="list-style-type: none"> • Multi- stage parking facility • Capacity of 16,200 square meters / 12,173 CEU with 7 floors of storage facility. 				
Oil & Petrochemical Handling Facility					
Area (Million square meters):	Over 2.0				
Number of Berths:	11				
Depth (meters)	14				
Container Freight Station/ Warehousing					
Area	134,343 square meters				
Covered area for Storage	Over 80,000 square meters				
Storage area – open	Over 220,000 square meters				
Cool Store					
Area Floor area	3,900 square meters				

Capacity	3,261 pallets	
Chambers	3	
Temperature	+10°C to +20°C	
Cold Store		
Floor area	5,765 square meters	
Capacity	9,991 pallets	
Chambers	9	
Temperature	-29°C to +13°C	
Commercial Trucking		
Proven capability for door-to-door pick-ups and deliveries Equipment (In Numbers):	<ul style="list-style-type: none"> • Terminal Tractors 53 • Trailors 92 	
Cost Effects of Various Facilities		
Amenity	Area / Size	Expenses in UAE Local Currency (Dirham)
Land	Minimum of 5,000 square meters	30 to 80 per square meters
Already made factories, Office spaces, show rooms and warehouses showrooms with office	313 to 1110 square meters	188,000 to 666,000 per square meters
Office Spaces	27 to 100 square meters	2,000 to 2,500 per square meters
Registration Fee for Free Zone Enterprise	-	10,000 (One Time fee)
Registration Fee for Free Zone Company	-	15,000 (One Time fee)
Registration Fee for Branch of a Comapny	-	5,000 (One Time fee)

Source: DP World Official Brochure

2-5 Types of Companies inside Jafza

According to Shayah and Qifeng (2015), Like every free zone Jafza also holds certain special type of companies. Main types of these companies are discussed below:

- **Limited Liability Company (LLC).** This type of company is more suitable for outfits desirous of undertaking retail business. This allows flexibility of performing trade both locally as well as globally.
- **Free Zone Company (FZCO).** This type of company mainly deals with international trade while local trading has to be processed through a local representative. It can be formed by 2 to 5 stake holders.
- **Offshore Company.** This type of company is established exclusively for business / trading outside UAE.

- **Free Zone Establishment (FZE).** Free Zone Establishment is a distinct legal entity which can be established by a single shareholder.

2-6 Types of Free Zone Licenses in JAFZA

Following types of licenses are applicable for the companies intending to do business in Jafza (PKF, 2018):

- **Industrial License.** Industrial license permits the owner the import of raw materials; allow manufacturing of specialized products while exporting these completed products to any global destinations.
- **Trading License.** This permits owner to carry out import, export, distribution and storage of items specifically mentioned on the license.
- **General Trading License.** This permits owner to carry out import, export, distribution and storage of items strictly in accordance with the Jafza rules.
- **Service License.** This license deals with permission to companies for provision of multiple types of services as per the provisions of the relevant authorities.
- **National Industrial License.** Industrial license is issued to the companies involved in industrial production and manufacturing. It permits the companies an ownership or shareholding with the local citizens.

Table 2.3 Types / Cost of Licenses in Jafza

Nature of License	Nature of Activities Permitted	Likely Annual Expenses Effect (Local Currency)
Trading License	For conducting miscellaneous trading activities.	5,500 - 9,000 (7 - 12 products)
Industrial License	For conducting various manufacturing activities.	5,500 - 9,000 (7 - 12 products)
Service License	For conducting various Services related activities.	8,000
E-Commerce License	For conducting various business / services related activities using electronic platforms.	30,000
National Industrial License	For conducting various manufacturing activities at industrial (large scale) level.	30,000
Innovation License	For conducting various activities related to Research and Development (R&D), and subsequent development of new products.	

Source: PKF, 2018

2-7 Jafza One

Jafza One is a state of the art, modern commercial hub, situated in the heart of Jafza. Owing to its location and allied facilities it plays a significant role towards value addition and investment attraction towards Jafza. One of the main reasons of business success is an inspiring work environment (PKF, 2018).

Being a purpose-built commercial centre, Jafza One acts as Flagship business venture for Jafza. It comprehensively caters for a wide array of corporate requirement under a centralized system to facilitate the businessmen investing in Jafza. Being ideally located, Jafza One contains purpose-built spaces for corporate offices, business headquarters, residential complexes and executive suites, while duly taking full advantage of scenic views across Jafza, Jebel Ali Palm, Jebel Ali Port and Sheikh Zayed Road (PKF, 2018).

Jafza One encompasses an area of more than 100,000 square meters dedicated for offices, including multi story office towers. Office sizes vary to suit different users ranging from small to large outfits. It has state of the art exhibition centers, convention halls, theatres and conference rooms (PKF, 2018).

2-8 Causes of Success of Jebel Ali Free Zone

Success of Jebel Ali Free zone has primarily been materialized by a comprehensive set of advantages / incentives offered by the state i.e. Dubai for doing business in Jebel Ali Free Zone. Few of these incentives are discussed below:

Superior Geographical Location of Dubai – A Heaven for Investment / Business

According to Jing and Yong (2014), Dubai has historically remained a busy commercial arena. Its appreciation as a great business hub in the 13th century is found in the literature of Marco Polo. The state has not only maintained its stature as a regional business hub, rather it has been gradually broadening its sphere of business influence. It is currently one of the busiest business centres across the globe. Considering the abundant prospects for business and investment, Dubai is rightfully ascribed as the corporate capital of Middle East region.

Apart from its own incentives / facilities, few significant characteristics of Dubai which contribute towards success of Jafza are discussed below (Jafza Official Website):

- Dubai is an open economy which is completely integrated with the world economy and connected with major economic activity centres across the globe like Middle East, Europe and Africa. This pivotal location is the main ingredient of Jafza's success.
- Dubai is one of the safest cities in the world with a fair judicial system and a very low rate of crime.
- The businesses inside Dubai are serviced by international and local financing and banking institutions in a befitting manner.

- Modern educational system catering for requirements of various cultures and languages is an important hall mark of the city.
- State of the art healthcare system meeting the requisite global standards is another important attraction of Dubai.
- Cultural diversity in the form of more than 200 nationalities and cultures alludes towards the globalization trends in Dubai.

Facilitation and Incentive Driven Preferential Policies at Jafza

One of the major reasons behind such great success of Jafza lies in its policies, rules and regulations aimed at facilitating and incentivizing the companies doing business in it. Jafza acts as a customized platform for global connectivity providing connections with a network of highly skilled and successful business leaders. Its operations are characterized by a simplified functioning environment shaped around streamlining overall operations (Jing and Yong, 2014).

Figure 2. 5 Jafza Incentives Framework



Source: Jing and Yong, 2014

As per the law in vogue, foreigners can establish a business in UAE only with the partnership of local citizens with minimum share of 51%. However, Jafza has its peculiar regulations wherein foreigners can establish a business with 100% ownership / funding, without the requirement of any local guarantor or joint venture. This helps a great deal in attracting Foreign Direct Investment by making it a favourite investment destination. Few of such preferential, incentive-oriented policies applied in Jafza are discussed below (Jing and Yong, 2014):

- 100% foreign ownership and investment is allowed.
- Any international company commencing business in Jafza is exempted from income tax for 50 years, the period is extendable to 65 years on request.
- There are no restrictions on remittances of capital and the profit.
- No income tax is levied on import and export goods.
- Registration and other documentary formalities and procedures for commencing business are simplified and facilitated by efficient management.
- There are no restrictions on minimum capital investment.
- Processes entailing staffing / recruitment of employees for the companies have been simplified with minimal restrictions / limitations on the employers.
- An efficient mechanism of economical, cost effective supply of energy has been put in place.

Sophisticated Infrastructural Services

Another hallmark of Jafza distinguishing it from other zones is a comprehensive set of infrastructural facilities. As briefly discussed earlier, Dubai Government has made immense investments in establishment and development of both software as well as hardware part of the zone. Tremendous communication infrastructure, traffic facilities, high speed internet & data transmission, education, health, recreational facilities as well as basic amenities are a great source of help for all investors. Special issues have been organized and managed in a manner that equipment, operational machinery and administrative echelons of huge logistic companies can be accommodated (Jing and Yong, 2014).

Jafza has Light Industrial Units (LIU) which provide quality, thermally insulated custom-built units obtainable on rent. These units also entail essential requisites for establishment of offices and are of two types. These include units based on warehouse design for providing storage facilities and factories aimed small scale production and assembling of various products (PKF, 2018).

Unique Land Management Policies

Land in Jazfa can be rented and leased but cannot be sold. The companies securing the property on lease or rent can be used for all types of prescribed purposes like establishment of offices, workshops and warehouses. In case a company decides to vacate the premises, the area will again be offered for lease / auction. In the overall context, rents from leasing the lands becomes the primary source of income for the Jafza authorities. This land management mechanism not only ensures regular income for Jazfa authorities, in addition it also ensures that national land stays intact while the underdeveloped areas are developed without causing much burden on the national exchequer (Jing and Yong, 2014).

Special Employment Policies

In order to facilitate the foreign companies as well as workers for investment and working in Jafza, a number of steps have been taken by the government. These include simplification of

procedures for visa application, reduction of visa charges and provision of certain number of free visas to companies according to the quantum of their investment (Jing and Yong, 2014).

Provision of Specialized Value-Added Support Services

Jafza authorities have arranged a wide array of value-added services, which help through which help the customers in expanding their business with easy. Few of these services are discussed below:

- **Expert Advice on Current Investment Climate and Future Expansion**
Authorities at Jafza consistently endeavor to attract more investments by facilitating existing customers by providing latest information. This information is in the form of guiding customers on setting up new business, exploring the unexplored current avenues of investment while simultaneously identifying areas likely to be in the focus during near future. The overall scenario enables Jafza to attract new investments while retaining confidence of existing investors (Sherif, 2012).
- **Offering Avenues for Business Collaboration**
Jafza provides considerable opportunities to its customers for carrying out joint business ventures. It does so by providing platforms, like local and international visits, where business groups can interact with each other and basing on the mutual requirements, can formulate mutual collaboration (Sherif, 2012).
- **Business Delegations:** Jafza authorities regularly conduct events and plan trips of its customers to local and international business destinations. This enables the companies to achieve access to various global markets related to their own business as well as areas of current / future focus (Sherif, 2012).
- **Use of State-of-the-Art Communication Technology**
Approach of Jafza authorities towards providing customer centric technological solutions is another significant hall mark of Jafza's success. Dubai Trade Portal and JAFZA Link are the web solutions that enables the clients the flexibility to focus on their main businesses. Dubai Trade Portal, considered as the innovative portal, synergizes all the services of myDPA, eMirsal, e-ATA and myJAFZA sites within a single portal based on Arabic and English language) portal. Similarly, Dubai Trade is an essential instrument for the business and transportation industry, providing users with round the clock secure access to all services with a single log on (Sherif, 2012).

Flexible Licensing Regime

Apart from the facilities discussed above, another hall mark of Jafza's success lies in its flexible licensing regime. For instance, National Industrial License is issued to international manufacturing companies with 51% ownership rights. This license permits these companies to enjoy similar status / privileges enjoyed by companies of AGCC (Cooperation Council for the Arab States of the Gulf) Countries.

Jafza facilitates its clients by providing additional options on the classification of business licenses, thus allowing them to carry out a variety of activities under the same license. Jafza licensing regulations allow a company to carryout upto 7 business ventures under the ambit

of one activity group, up to 12 business ventures under the ambit of two different business activity groups, or up to 17 business ventures under the ambit of three different business activity groups (PKF, 2018).

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Chapter III

Free Zones Experience of Kazakhstan

3-1 Introduction

In the last chapter we have learnt about the success story of Jebel Ali Free Economic Zone (Also known as Jafza), established by Emirates of Dubai at the Western fringes of the state in 1985. Measures taken by the emirates from expanding its wings from provision of office spaces and ware housing facilities to a rather modest number of companies i.e. 19 to bringing at a position of one of the most convenient business hubs of the world. Jafza gradually expanded the ranges and variety of services / facilities being provided to its clients to become one of the largest free zones in the world.

In this chapter we will focus our research on studying the free zones experiences of Kazakhstan. How Kazakhstan initiated the concept of free zones, what were the initial outcomes and how did the country managed to overcome the issues to gradually expand its free zones to the current levels of success.

3-2 Free Zones in Kazakhstan – from Failure to Success: A Historical Background

Concept of economic zones in Kazakhstan dates back to late 1990's. These zones were established to ensure social as well as economic development of the regions in general and country, in particular. However, these zones remained unproductive and thus gradually rolled back (Kazhyken, 2008).

A host of reasons identified by the specialists regarding the causes of failures of these SEZs. Significant reasons included corruption, misuse of development funds, errors in the planning process, infrastructural development programs, suitability of the selected areas / regions in terms of location and size, insufficient logistical infrastructure (Kazhyken, 2008, Nevmatulina, 2013).

Therefore, in 1996, it was decided by the government to revitalize the concept of “Special Economic Zones (SEZs)” instead of previously established “Free Zones”. Objectives of establishing these zones were dovetailed in four cardinal aspects, which are mentioned in Figure 3.1 (Nevmatulina, 2013):

Figure 3.1 Purpose of Creating SEZs



Source: ADB & CAREC, 2018

Several regulatory as well as legislative frameworks were gradually and systematically introduced till 2011 to make these zones as investment friendly. The latest step in this regard is the SEZ law of 2011 which ascertains the basis of state regulation of the establishment and functioning of the zones (The SEZ Act, 2011). According to this law, the purpose of the Special Economic Zone is "to develop the most advanced production environment with high-productivity and competitiveness, to attract investment and new technologies in relevant industries and regions, and to improve the employment." In other words, the introduction of SEZ becomes a mean of achieving the main directions of economic policy of Kazakhstan, that are "Diversification of the economy," "Innovation" and "Regional development" (JICA et al, 2015).

During November 2014, President of Kazakhstan launched a fresh policy for economic development named "Nurly Zhol". This policy allocates the financing from the National Fund for undertaking development of infrastructure in the field of logistics, manufacturing, energy, utilities and housing, assistance to small and medium sized businesses and job creation. As a specific measure for developing industrial infrastructure, the government declared the allocation of 81 billion Tenge to complete the construction of infrastructure facilities in the existing SEZs (JICA et al, 2015).

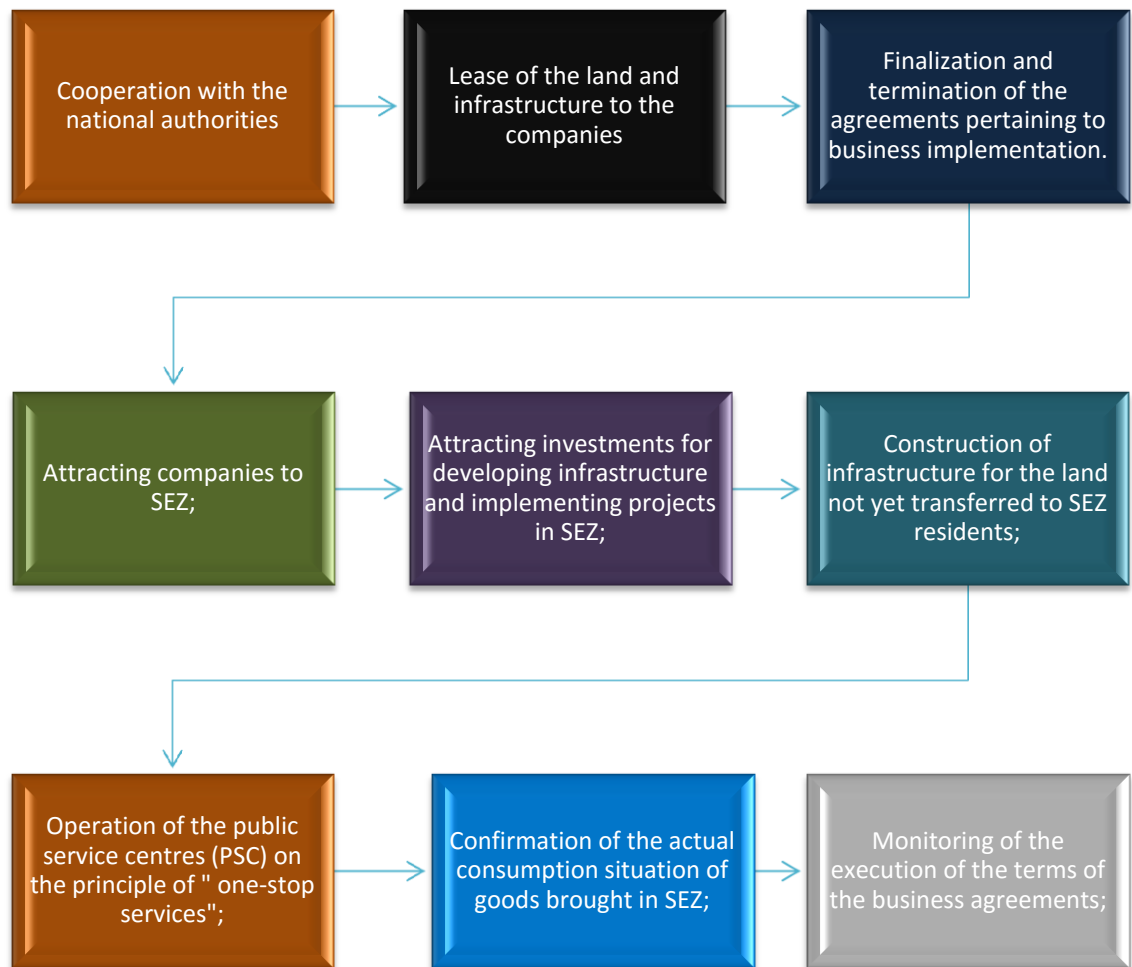
3-3 Institutional Mechanism of SEZs in Kazakhstan

In Kazakhstan, the period of operation of SEZ is 25 years from its foundation. No matter when a company became a resident of the SEZ, that SEZ will be abolished automatically after 25 years from its foundation. After the abolition of SEZ, a company will have the right to repurchase the site of SEZ according to the local land laws. The government of the Republic of Kazakhstan develops a basic plan of the national policy with respect to the

establishment and activities of the SEZs. Ministry of Investment and Development (MID) is responsible for the development and management of all SEZs (JICA et al, 2015).

In addition, for better management and operation of the SEZs, a management company has been established in each SEZ. These management companies are either fully owned by the state / regional authorities or partially owned by private companies. But even in the latter case, the state or regional authority spends its budget for the infrastructure development by holding a certain number of shares of the management company (JICA et al, 2015). The SEZ Act 2011 defines the functions of the management company as follows:

Figure 3.2 Functions of the Management Company



Source: ADB & CAREC, 2018

3-4 SEZs in Kazakhstan – Current Status / General Overview

There is a total of 10 Special Economic Zones in Kazakhstan. Each SEZ has been established under a special presidential decree and having peculiar purposes. List and core goals of these SEZs have been mentioned in figure 3.3:

Figure 3.3 SEZs in Kazakhstan



Source: ADB & CAREC, 2018

All types of entrepreneurial activity in the SEZ are divided into the priority and auxiliary activities. Basic distinction between the two is that agents of auxiliary activity not covered by the special economic zone regime. Priority activity types are that answer the purpose of creation of this particular zone. The goods in the zone have a special status and are regarded as being outside the customs territory. On the export-import operations can be established additional privileges and exemption from customs levies and taxation etc (Nevmatulina, 2013). As of now, out of the 10 x SEZs, envisaged basic infrastructure has been completed for six SEZs to include following (ADB & CAREC, 2018): -

- Burabay
- Ontustik
- Saryarka
- Seaport Aktau
- Khorgos-East Gate
- Park of Innovative Technologies (PIT)

Figure 3.4 Map of SEZs in Kazakhstan



Source: Kaznex Invest, Ministry of Industry and New Technology, Kazakhstan, 2017, ADB & CAREC, 2018

So far, the government has invested approximately T275 billion in basic infrastructures. The other main features of the SEZs are as follows (ADB & CAREC, 2018):

Figure 3.5 Additional Features of SEZs in Kazakhstan

The operating costs of SEZ management companies and the provision of infrastructure facilities are funded largely by and, to some extent, by local governments (akimats).

The local government provides a free plot of land to each SEZ for the entire period of the SEZ's existence, with the right to purchase once the SEZ regime expires.

The SEZs have "positive," rather than "negative," lists of eligible activities, confined mainly to manufacturing.

Each SEZ has a "single window" for dealing with customs and tax matters.

The SEZs have simplified procedures for recruiting foreign workers.

Source: ADB & CAERC, 2018

Development background, functioning details, goals and eligible activities for these SEZs are briefly covered in succeeding paragraphs: -

3-4-1 SEZ "Astana New City"

Astana became the new capital of Kazakhstan in December 1997. Since the transfer of capital to Astana, the city has been actively developed. As part of such urban development, the SEZ "Astana New City" became the first SEZ which was established in June 2001, with the total area of 7,562.3ha. It entails 6,531.1 ha of the new administrative and business centre, 598.1 ha of the first industrial zone, 433.1 ha of the second industrial zone, and 72.41 ha covered by light rail system (JICA et al, 2015).

The SEZ is expected to contribute to improve the investment climate and benefit for both the state and investors. The priority sectors for this SEZ include construction, machinery manufacturing and light industry. Salient features of the SEZ are appended below (ADB & CAREC, 2018):

Table 3.1 Salient Attributes of SEZ Astana

Salient Attributes	
Law	Presidential Decree dated 29 June 2001, No. 645
Core Objectives / Goals	To accelerate the city’s development by drawing investments and using state of the art infrastructure development technologies, create high-tech competitive industries, and invent new products.
Year Created	2001
Area	7,562 ha
Management Company	Public Institution “Department of investment and development of Astana city” serves as the management company of SEZ Astana – New City.
Eligible Activities	<ul style="list-style-type: none"> ○ Manufacturing of other nonmetallic mineral products. ○ Production of machinery and common use electronic devices. ○ Production of rubber and chemical products. ○ Production of items related to metallurgy industry and electric lighting gadgetry. ○ Production of food and stationary related items. ○ Manufacturing of furniture, motor vehicles and railway locomotives. ○ Manufacturing of air and space aircraft. ○ Other infrastructure related projects / products.

Source: JICA et al, ADB & CAERC, 2018

3-4-2 SEZ "Innovation Technology Park"

The SEZ "Innovation Technology Park" is in village called Alatau in the city of Almaty. It was established in August 2003. It was called "Information Technology Park" at the time of foundation, and then renamed the "Innovation Technology Park" in 2011 (JICA et al, 2015). In the area of 163ha, companies in the fields of IT, telecommunication instruments and electronics are primarily attracted to the SEZ. Infrastructure was developed in the first stage during 2003-2011, and production facilities were established at the same time. (JICA et al, 2015).

As a result, the number of companies registered in the SEZ was increased, reaching more than 150 as of May 2015. Among those companies, 70% of them implements the IT-related projects, and 10% are the foreign companies. The Government aims to increase the number of foreign companies to 60 and the total resident companies to 250 by 2020. In addition, one of the most important issues for the SEZ is to increase the number of manufacturing companies that can produce the exportable goods and earn 40% of revenues from the exports in the future. The main project of the second phase is the construction of the oil and gas

research centre of information technology of the Kazakhstan-British Technical University. It is a private research centre to be established at the expense of an oil company, and will primarily conduct researches, development and engineering (JICA et al, 2015). Salient attributes of the SEZ are appended below (ADB & CAREC, 2018):

Table 3.2 Salient Attributes of SEZ, PIT

Salient Attributes	
Law	Presidential decree dated 18 August 2003, No. 1166.
Core Objectives / Goals	To develop IT and other new technologies.
Year Created	2003
Area	163 ha
Management Company	The management company is the Autonomous Cluster Fund, a not-for-profit organization funded by the government.
Eligible Activities	<ul style="list-style-type: none"> ○ Conducting R&D in the domain of IT, telecommunications electronics, renewable energy, instrumentation, resource saving and nature management. ○ Designing, development and production of software, databases and hardware related products. ○ Provision of data centre services like storage and processing of electronic information. ○ Production of new technology using artificial intelligence. ○ Manufacturing of machines, gadgets and products to be used in Information and Communication Technology related industries. ○ Manufacture of wireless communication equipment. ○ Manufacture of electronic equipment like measuring, optical, lighting devices. ○ Planning and conduct of educational activities in the domain of innovative technologies according to the spheres ascertained by the government.

Source: JICA et al, ADB & CAREC, 2018

3-4-3 SEZ "National Industrial Petrochemical Park"

The SEZ "National Industrial Petrochemical Technology Park" was established in 2007 in the Atyrau region, which is also called "the Oil Capital of Kazakhstan"; as it accounts for about 40% of the total oil production in Kazakhstan. It has two of the world-class oil reserves, Tengiz and Kashagan, with the oil reserves estimated to be 4 billion tons (JICA et al, 2015).

Primary objective of this SEZ is to promote investment into the region by taking advantage of the geographical and economic features of the Atyrau region. The Ministry of Energy of Kazakhstan and the "United Chemical Company" hold ownership of the SEZ. The total land area of the SEZ "National Industrial Petrochemical Park" is 3,476ha (JICA et al, 2015). Salient features of the SEZ are appended below (ADB & CAREC, 2018):

Table 3.3 Salient Attributes of SEZ, National Industrial Petrochemical Park

Salient Attributes	
Law	Presidential decree dated 19 December 2007, No. 495.
Core Objectives / Goals	The National Industrial Petrochemical Park was created to develop projects in the petrochemical industry for hydrocarbon processing; attract investment in petrochemical plant construction on the basis of public–private partnerships; help integrate Kazakhstan into international system of producing and marketing the petrochemicals, conduct research and undertake innovative scientific and technological projects; and train or retrain specialists at petrochemical plants.
Year Created	2007
Area	3476 ha
Management Company	The management company of SEZ "National Industrial Petrochemical Park" is 97.5% owned by the Ministry of Energy, and 2.5% belongs to the United Chemical Company, which is fully owned by Samruk-Kazyna, a state-owned company.
Eligible Activities	<ul style="list-style-type: none"> ○ Manufacturing of chemical products; ○ Production of petrochemical products; ○ Establishment of facilities intended for implementation of priority activities in accordance with the design and cost-estimate documentation.

Source: JICA et al, ADB & CAREC, 2018

3-4-4 SEZ "Khorgos - Eastern Gate"

The SEZ "Khorgos - Eastern Gate", is located on the border with China, was established in November 2011. The SEZ "Khorgos – Eastern Gate," with its site area of 5,740 ha, consists of the International Centre of Boundary Cooperation "Khorgos" (ICBC), the dry port, logistics zone and industrial zone. Dry port is operated by KTZ Express in close cooperation with the DP World, a Dubai-based experienced logistics management company. The SEZ "Khorgos - Eastern Gate" is located on the Silk Road, a strategic distribution channel between the East and the West. Salient features of the SEZ are appended below (ADB & CAREC, 2018):

Table 3.4 Salient Attributes of SEZ Khorgos

Salient Attributes	
Law	Presidential decree dated 29 November 2011, No. 187
Core Objectives / Goals	Khorgos–East Gate’s goal is to become an effective transport, logistics, and industrial hub.
Year Created	2011
Area	5740 ha
Management Company	JSC “Management company of SEZ Khorgos–East Gate” is 100% owned by the Kazakhstan Railways Company (KTZH), which is fully owned by Samruk-Kazyna, a state-owned company
Eligible Activities	<ul style="list-style-type: none"> ○ Warehousing, transportation, production of food, chemicals and textile related items. ○ Production of leather, mineral and finished metal products less machinery. ○ Construction of venues for conducting different exhibitions, museums and other related infrastructure on requirement basis.

Source: JICA et al, ADB & CAREC, 2018

3-4-5 SEZ "South" (Outustyk)

The SEZ "South (Outustyk)" was established in July 2005 in the Sairam district, a district which is relatively close to Shymkent, the biggest region of the country. The purpose of the SEZ is to develop and strengthen competitiveness of cotton processing, textile, spinning and garment industries, attracting world-famous textile manufacturing companies, and introducing advanced technologies to improve productivity. The priority sectors of the SEZ besides cotton processing and textile are carpets, leather products and paper manufacturing (JICA et al, 2015). Salient features of the SEZ are appended below (ADB & CAREC, 2018):

Table 3.5 Salient Attributes of SEZ Ontustik, South

Salient Attributes	
Law	Presidential decree dated 6 July 2005, No. 1605
Core Objectives / Goals	The aims of Ontustik SEZ are to accelerate the development of the region; to promote the growth of cotton-processing enterprises, and of the textile and garment industries in general; to attract investment from international brands in Kazakh textile products; create high tech industries; and to improve the quality and expand the variety of manufactured textile products.
Year Created	2005
Area	200 ha
Management Company	Akimat of South Kazakhstan oblast is shareholder of JSC, The management company of SEZ Ontustik.
Eligible Activities	<ul style="list-style-type: none"> ○ Manufacturing of finished textile products, except apparel. ○ Manufacturing of other knitted and knitwear. ○ The production of clothing, except clothes made of fur and leather. ○ Spinning, weaving and finishing production. ○ Production of nonwovens, except clothing. ○ Production of wood pulp and cellulose. ○ Other related facilities / products.

Source: JICA et al, ADB & CAREC, 2018

3-4-6 SEZ "Chemical Park Taraz"

The SEZ "Chemical Park Taraz" is the newest SEZ, which was proposed by the Sovereign Wealth Fund "Samruk-Kazyna" and established in November 2012. The Management Company of the SEZ "Chemical Park Taraz" is 100%-owned by "United Chemical Company,". The purpose of the SEZ is the development of the chemical industry. The size of this SEZ is 505 ha, and it is in the Zhambyl region.

Apart from incentives such as the exemption of taxes and customs, attractiveness of this SEZ would be found in the point that "Chemical Park Taraz" is located close to the production area of natural gas and other resources of the chemical products, as well as the good accessibility to the major potential markets – such as neighboring Russia, China, Uzbekistan, Kyrgyzstan, and so on (JICA et al, 2018). Salient features of the SEZ are appended below (ADB & CAREC, 2018):

Table 3.6 Salient Attributes of SEZ Taraz Chemical Park

Salient Attributes	
Law	Presidential decree dated 13 November 2012, No. 426
Core Objectives / Goals	The main aim of Taraz Chemical Park is the formation of new chemical-production facilities that apply highly effective technologies to improve the quality and expand the variety of manufactured textile products.
Year Created	2012
Area	505 ha
Management Company	Akimat of Pavlodar Oblast is a shareholder of JSC, The management company of SEZ Taraz.
Eligible Activities	<ul style="list-style-type: none"> ○ Manufacturing of chemical and petrochemical products. ○ Development of related facilities and infrastructure.

Source: JICA et al ADB & CAREC, 2018

3-4-7 SEZ "Burabay"

The SEZ "Burabay" was established in January 2008. The size of this SEZ is 370 ha and is located in Burabay district of the Akmola region. The purpose of the SEZ is the development of competitive tourism infrastructure which attracts local and foreign tourists. The Management Company of the SEZ "Burabay" is the "Department of Regional Committee of Tourism Industry of the Ministry of Industry (JICA, 2015). Salient features of the SEZ are appended below (ADB & CAREC, 2018):

Table 3.7 Salient Attributes of SEZ Burabay

Salient Attributes	
Law	Decree of the President of the Republic of Kazakhstan dated 15 January 2008, No. 512
Core Objectives / Goals	Burabay SEZ was created for developing a highly competitive tourism infrastructure to accommodate domestic and foreign tourists.
Year Created	2008
Area	370 ha
Management Company	Territorial body of the Investment Committee of MID serves as the management company of SEZ "Burabay".
Eligible Activities	<ul style="list-style-type: none"> ○ Tourist services ○ Development of tourist attractions including residences and other entertainment and related facilities.

Source: JICA et al, ADB & CAREC, 2018

3-4-8 SEZ "Seaport Aktau"

The SEZ "Seaport Aktau" has been established in 2002 in the Mangistau region at the coast of the Caspian. It produces approximately 25% of all oil production of Kazakhstan and is the centre of the oil and gas industries of the country. Aktau seaport, which consists of 4 oil ports and 3 dry cargo berths, can access to Iran in the south, Russia in the north, and Azerbaijan in the West through the Caspian Sea, as the port of reshipment (JICA et al, 2015).

The SEZ has been expanded to 2,000ha due to the successful implementation of the three companies. The SEZ consists of 6 separate sub-zones and the coastal zone. Infrastructure development in the SEZ "Seaport Aktau" started in 2008. Salient features of the SEZ are appended below (ADB & CAREC, 2018).

Table 3.8 Salient Attributes of SEZ Aktau Seaport

Salient Attributes	
Law	Presidential decree dated 26 April 2002, No. 853.
Core Objectives / Goals	Aktau Seaport SEZ's goals are to accelerate development in the region, preparing the country's economy for entry into in the global economic system, create high-tech and competitive industries, invent new products, attract investment, improve the legal regulations on market relations, introduce modern management, and address social problems
Year Created	2002
Area	2000 ha
Management Company	Akimat of Mangistau Oblast is shareholder of JSC Management Company of SEZ Aktau Seaport.
Eligible Activities	<ul style="list-style-type: none"> ○ Manufacturing of wide range of electric products including household electrical appliances to high powered electric motors and generators. ○ Production of leather, chemical, plastic products and mineral products. ○ Production of items related to metallurgical industry, petrochemical products and basic pharmaceutical products. ○ Establishment of related facilities and infrastructure.

Source: JICA et al, ADB & CAREC, 2018

3-4-9 SEZ "Saryarka"

The SEZ "Saryarka" is established in the Karaganda region, which positions manufacturing, mining, agriculture, electric power, construction and building materials as strategically important sectors for the achievement of economic growth in the region. Priority industries in this SEZ are iron and steel, metalworking. They are especially interested in the production of

rare metals such as tungsten, vanadium and molybdenum (JICA et al, 2015). Salient features of the SEZ are appended below (ADB & CAREC, 2018):

Table 3.9 Salient Attributes of SEZ Saryarka

Salient Attributes	
Law	Presidential decree dated 24 November 2011, No. 181.
Core Objectives / Goals	Saryarka SEZ was created to develop the metallurgical and related industries. Basic aim is to attract international manufacturers to ensure development of competitive, high-value-added products in these industries. The overall process will help integrate Kazakh products into the worldwide production and marketing system.
Year Created	2011
Area	535 ha
Management Company	Akimat of Karaganda Oblast is shareholder of JSC Karaganda Invest, the management company of SEZ "Saryarka".
Eligible Activities	<ul style="list-style-type: none"> ○ The metallurgical industry, including production of metal products, especially engines and turbines. ○ Manufacturing motor vehicles, IT, electronic and optical products; ○ Production of industrial refrigeration and ventilation equipment, purification apparatus for liquid minerals and cleaning equipment for oil refining, chemical industry. ○ Production of machinery for agricultural, mining industry, and processing of food, beverages and tobacco products. ○ Establishment of related facilities and infrastructure.

Source: JICA et al 2015, ADB & CAREC, 2018

3-4-10 SEZ "Pavlodar"

The SEZ "Pavlodar" is established in the Pavlodar region sharing borders with Russia. In the Pavlodar region, fuel energy, metallurgy and chemical industries have been well-developed, and the processed products of these industries are exported to Russia, Italy, China, Turkey, Japan, etc. Currently, 169 industrial-related projects are currently implemented in the SEZ "Pavlodar" with the total of US \$8.9 billion, within the framework of the "State Program for Accelerating Industrial-Innovative Development of Kazakhstan in the 2010-2014". As one of these projects, the SEZ "Pavlodar" was established in 2011, focusing on chemical and petrochemical industry as a priority sector. The SEZ "Pavlodar" covers a total area of 3,300ha (ADB & CAREC, 2018):

Table 3.10 Salient Attributes of SEZ Pavlodar

Salient Attributes	
Law	Presidential decree dated 29 November 2011, No. 186.
Core Objectives / Goals	Pavlodar SEZ's goal is to develop the country's chemical and petrochemical sectors, with a focus on the production of export-oriented, high-valued-added products, using high-tech, environment-friendly, and safe modern technologies.
Year Created	2011
Area	3300 ha
Management Company	Akimat of Pavlodar Oblast is a shareholder of JSC, The management company of SEZ Pavlodar.
Eligible Activities	<ul style="list-style-type: none"> ○ Manufacturing of chemical products and petrochemical products. ○ Development of related facilities and infrastructure.

Source: JICA et al 2015, ADB & CAREC, 2018

3-5 SEZs in Kazakhstan – A Summary

Table 3.11 SEZs in Kazakhstan - A Summary

Name of SEZ	Location	Management Company (authority) / shareholders	Priority sectors	Year of foundation	Area (ha)	Number of companies
"Astana New City"	Astana	National SEZ "Astana New City" – Astana city.	Construction, machinery manufacturing and light industry	June 2001	7,634.71	92
"Innovation Technology Park "	Almaty region	AO SEZ " Innovation Technology Park " (Min. Investment and Development) / 100% by Min.	Information technology and innovation	January 2003	163	153
"Seaport Aktau"	Mangistau region	AO SEZ "Seaport Aktau" (Mangistau region.) / 100% by region	Metallurgical industry, machinery and equipment	April 2002	2,000	33*

"National Industrial Petrochemical Park"	Atyrau region.	AO SEZ "Nint" (Min. Energy) / Min. Energy 51%, TOO "United Chemical Company" 49%	Petrochemical industry	December 2007	3,475.9	21*
"Ontustyk"	South-Kazakhstan region.	AO SEZ "Ontystik" (South-Kazakhstan region) 100% by region	Light and textile industry	July 2005	200	24
"Burabay"	Akmola.	Tourism	January 2008	370	3	
"Saryarka"	Karaganda region.	AO "Karaganda Invest" / Karaganda region 51%, TOO «Total Quality Service» 49%	Metallurgical industry and metal processing	November 2011	534,9	17*
"Khorgos - Eastern Gate"	Almaty region.	AO SEZ "Khorgos - Eastern Gate" (KTZh: Kazakhstan Railway) / KTZ Express 100%	Logistics	November 2011	5,740	71
"Pavlodar"	Pavlodar region.	AO SEZ "Pavlodar" (Pavlodar region) / 100% by region	Chemical and petrochemical industry	November 2011	3.300	25*
"Chemical Park Taraz"	Zhambyl region	AOI SEZ "Chemical Park Taraz" / TOO "United Chemical Company"	Chemical industry	November 2012	505	3

Source: JICA et al, 2015

3-6 Performance / Contribution of Kazakhstan's SEZs towards National Economy

Before discussing impact of SEZs on the economy, it is pertinent to discuss significant aspects of Kazakhstan's economy. Salient features are appended below: -

Table 3.12 Basic Data about Kazakhstan's Economy

General Details			
Land area (1,000 km ²)	2, 724.9		
Population (1, 000)	17, 797.03		
Form of government	Constitutional Republic (Presidential system)		
Last presidential elections	April 2015		
Economic Data			
GDP	184.39 bn USD	GDP share by sectors, value added (%)	
Annual GDP growth percentage	1 % (Annual)	Agriculture	4.83
GDP per capita at current prices (USD 1000)	7.51	Industry	33.52
Net inflows of FDI as percentage of GDP as of 2015	3.57	Services	61.65
Inflation rate, consumer prices (annual %, 2015)	6.6	In % of GDP	
Currency exchange rate	342.2	Exports of goods and services	32.64
Merchandise trade (% of GDP)	46.4	Imports of goods and services	29.16
Main exports (% of total merchandise trade)	Main imports (% of total merchandise trade)		
Fuel exports	60.74	Manufacturing imports	77.83
Manufacturing exports	18.42	Food imports	11.72
Ores and metals exports	14.77	Fuel imports	6.10
Education, employment and social inclusion			
Percentage of GINI coefficient, as of year 2014	27.8%		
Quantum of labour force available (1000)	9244.53		
Net unemployment rate as percentage of available labour	5.23		
Percentage of women in the total	49%		

labour available.	
Percentage of inactive women population	34%
Percentage of inactive elderly population (ages between 55 years to 64 years)	42.4%
Percentage of enrollment in Primary education	87.3%
Percentage of enrollment in Secondary education	97.5%
Percentage of enrollment in Tertiary education	46.2%

Sources: OECD & World Bank, 2017, OECD, 2016, IEA, 2014

SEZs and FDI in Kazakhstan

According to the CAREC and ADB diagnostic study regarding performance and effects of SEZs in Kazakhstan (2018), the Astana–New City, PIT, and Aktau Seaport SEZs have met with success, accounting for most of the goods produced in Kazakhstan’s SEZs. Judging from the most recent comprehensive data available (for 2015), the three successful SEZs, as well as Saryarka, have more or less achieved their specific targets concerning production, investment, and employment (ADB & CAREC, 2018).

FDI has accounted for more than half of total investment in the Aktau Seaport and Saryarka SEZs, while it is 6% of total investment in the Astana–New City SEZ. In the case of the PIT its investment has exceeded its target. Similarly, SEZ Burabay has achieved its targets regarding production, investment, and employment. Among the other five SEZs, Ontustik has exceeded its export as well as its production and modest FDI targets. The remaining 4 x SEZs are vying to achieve desired results. Both the National Industrial Petrochemical Technopark and Pavlodar SEZs have substantially exceeded their employment targets (ADB & CAREC, 2018).

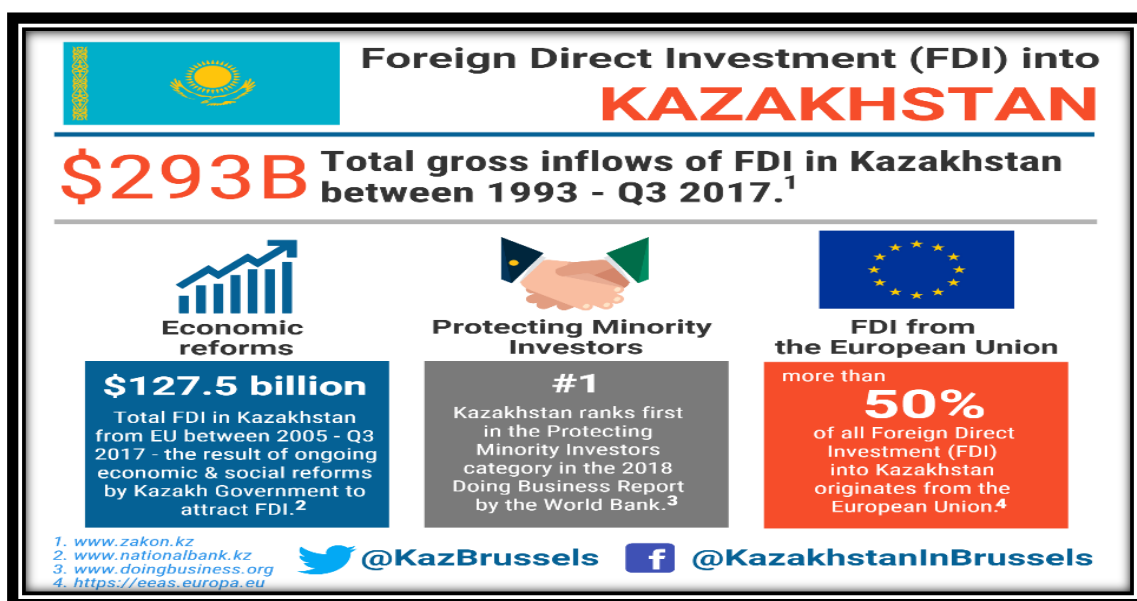
While there is little data on exports from the SEZs, it would appear that they accounted for 0.08% of total exports in 2016. Astana–New City accounts for more than half of all the SEZs’ total production, and its production is oriented entirely toward the domestic market, particularly the new capital city’s construction and development. The much smaller production in the PIT is also apparently oriented largely toward the domestic market. The SEZs’ strong orientation toward the domestic market may be partly due to the various tax preferences that enterprises have enjoyed in the zones (ADB & CAREC, 2018).

One of the main objectives of the SEZs is to attract new investment, especially FDI, together with the technological progress and managerial know-how that FDI would bring (and which are major sources of TFP growth). The SEZs, so far, have attracted 8% of total FDI in

Kazakhstan for 2015. The SEZs’ orientation toward the domestic market may also be partly due to local content requirements aimed at encouraging import substitution. In fact, all the SEZs except for Taraz Chemical Park have local-content targets ranging from 18% to 100%; these have largely been accomplished, and in some cases, considerably exceeded. Although it is unclear how the targets were reached, it may have been due to local-content rules, to tax relief, or to other forms of financial assistance that were contingent on local-content rules (ADB & CAREC, 2018).

Kazakhstan has been listed by the World Bank in its report of “Doing Business”, 2017, as amongst the 10 countries who have introduced most improvements in their business regulations (World Bank, 2017). One of the significant steps in this direction was creation of the concept of One-Stop-Shop for assisting investors regarding all facets of the investment process i.e. from information till commencement of business including obtaining licenses etc (OECD, 2017).

Figure 3.6 FDI into Kazakhstan between 1997 - 2017



Source: National Bank of Kazakhstan, 2018

Performance of Economic Zones in Kazakhstan – An Analysis

The assessment of economic zones in Kazakhstan focuses on following broad quantitative economic indicators (OECD, 2018):

- FDI.
- Employment
- Exports.

The current SEZ Act 2011 has the following objectives for SEZs: -

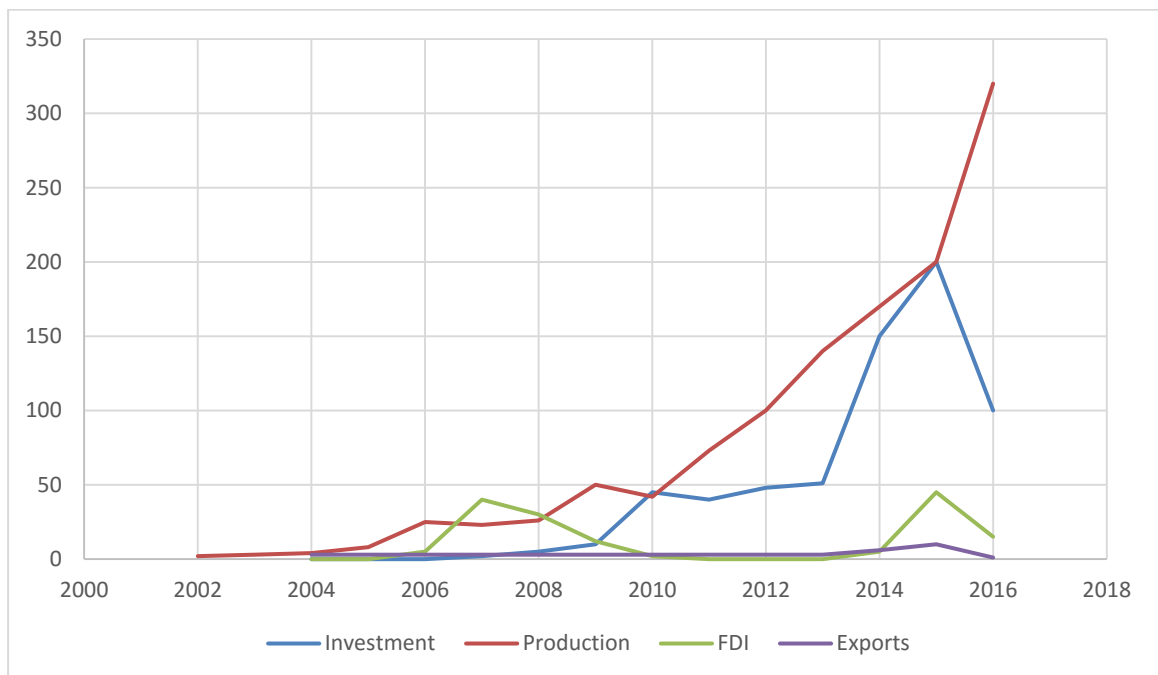
- Attract investments and increase employment.

- Introduce new technologies into sectors of economy and to regions.
- Accelerate the development of modern, high productive, competitive industries.

The performance of SEZs against the backdrop of these three objectives has been assessed in succeeding paragraphs.

Investment and Employment Promotion

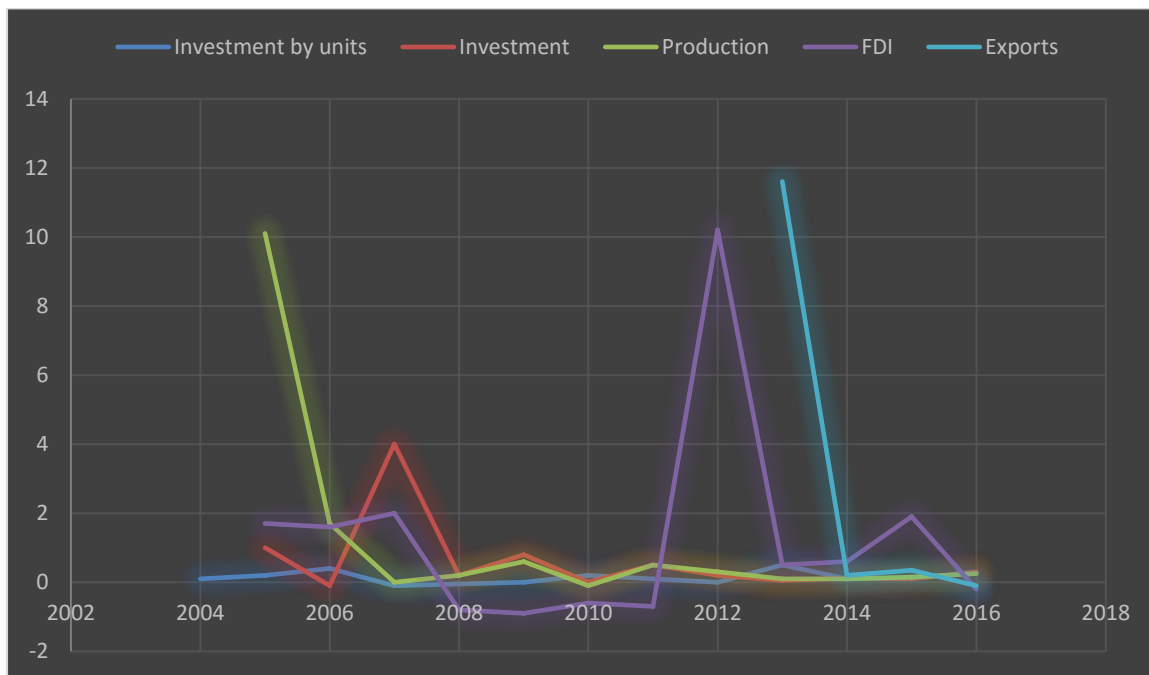
Figure 3.7 SEZ Exports, Production, Investment, and FDI, 2002–2016 (T bn)



Source: CAREC and ADB, 2018

Figure 3.7 presents a comprehensive picture of investment, production, FDI, and exports in the context of SEZs. It shows that investment in SEZs increased more than 10 times from T40 billion in 2003 to around T470 billion in 2015. Production also increased from less than 1 billion in 2004 to over 339 billion in 2016. However, increased investment and production have not been accompanied by increased exports. Since 2011, there has been consistent reporting of exports; their share has remained between 3% and 6% of total production (OECD, 2018). Similarly, FDI inflows have been insignificant and inconsistent, with only 2 years (2007 and 2015) showing substantial FDI inflows. However, SEZs have been instrumental in generating employment, which grew from a mere 29 to around 11,527 in 2016, at an average annual rate of 30.4% (OECD, 2018).

Figure 3.8 Annual Growth Rates in Exports, Production, Investment, and FDI, (2002–2016)



Source: CAREC and ADB, 2018

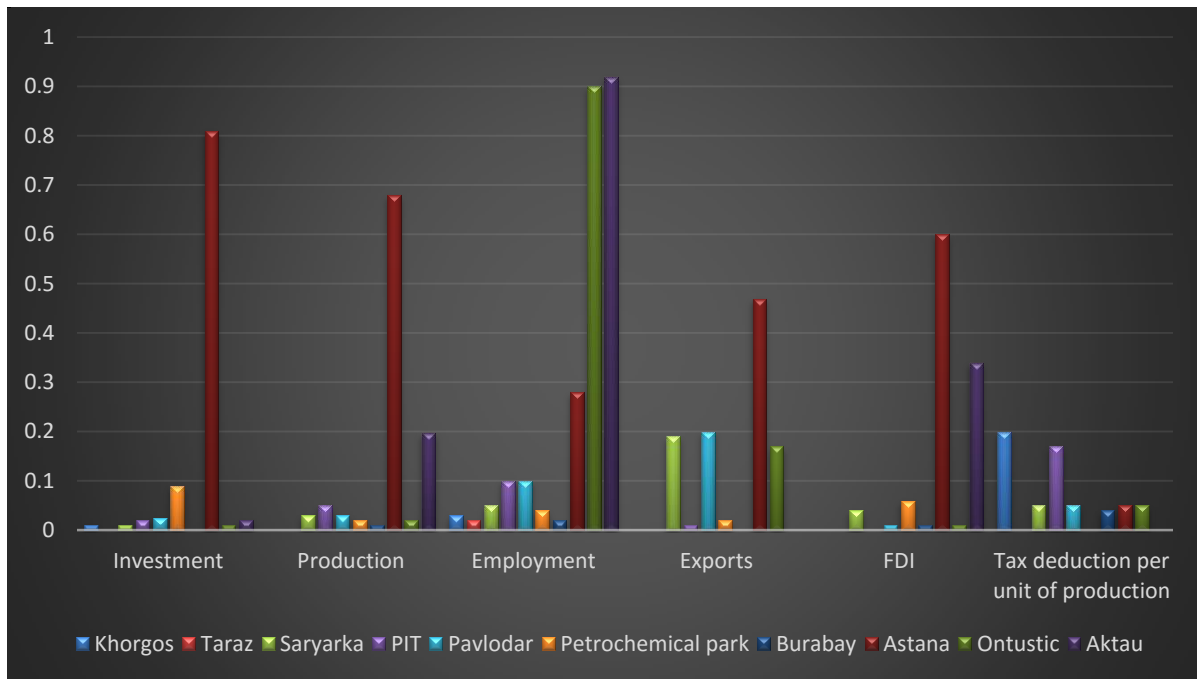
Figure 3.8 presents the annual growth rates in exports, production, investment, and FDI. The rates of growth have been close to zero. High initial growth rates can be attributed to low bases. It is worth noting that the SEZ Act 2011 did not impact on the growth of production, FDI, or even total investment. Even while production and investment grew, the growth rates do not show acceleration. SEZs are set up mainly to promote private investment, in particular FDI. However, the growth rate of FDI inflows have been hovering around zero. More worrisome is the fact that even private domestic investment does not have substantial presence in the zones. In fact, interviews with officials revealed that most investment in SEZs comes from state owned companies, either directly or through daughter companies. Thus, the government itself is a major beneficiary of lucrative incentives offered in the zones. It is not clear if this investment is additional in the sense that it is induced by the presence of SEZs (OECD, 2018).

Zone-Wise Analysis

Of the 10 SEZs, 3 have started their operations recently: Khorgos-Eastern Gate, National Industrial Petroleum Park, and Saryarka. No data is available on Taraz SEZ. Of the operational SEZs, Astana emerges the leader in terms of key indicators of investment, production, exports, and FDI; PIT is the leader in employment generation. FDI inflows are small in all SEZs, except for Astana and Aktau. The National Industrial Petroleum Park, Pavlodar, and Saryarka have also been constantly attracting FDI. These SEZs are also reporting exports, along with Astana and Ontustik. It must be noted that only three SEZs—Chemical Park Taraz, Ontustik, and Pavlodar—have export requirements (ADB 2017).

Astana emerges as the leader in exports, and Technopark did not report any FDI or exports. It is also noted that tax deduction per unit is inversely related to production. This is an important observation, which implies that as production increases, the fiscal cost falls (OECD, 2018).

Figure 3.9 Share of Exports, Production, Investment, FDI, and Tax Deduction of SEZs of Kazakhstan - 2016



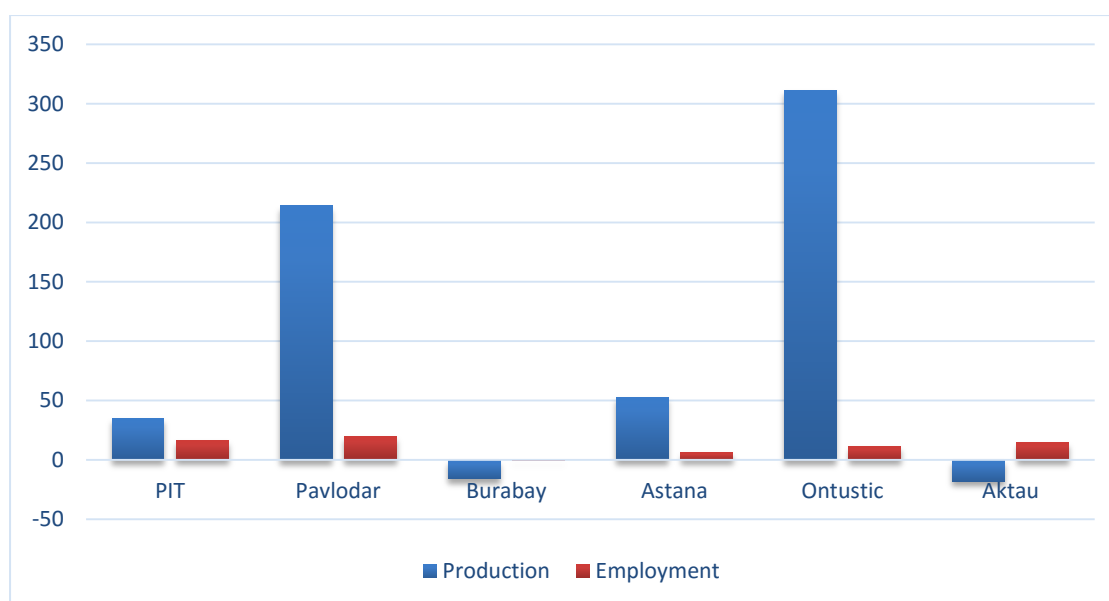
Source: CAREC and ADB, 2018

Figure 3.9 summarizes the growth in production and employment of the six SEZs operating in 2011. The two fastest-growing SEZs were Ontustik and Pavlodar, followed by Astana and PIT. Of the remaining two, Aktau showed a decline in production but a rise in employment, while Burabay was declining in both production and employment. While the average growth rates in production look impressive, the base figures are rather small. These figures also hide annual volatility (OECD, 2018).

Introducing New Technologies into Sectors of the Economy

The focus of SEZ policy in Kazakhstan has been to attract FDI to obtain technological know-how. The underlying assumption is that FDI is accompanied by new knowledge, technologies, products, and processes. Technologies and skills are expected to spill over, not only to other zone firms, but also to entrepreneurs in the domestic mainland through vertical (i.e., backward) and horizontal (i.e., forward) linkage effects, catalyzing productivity growth (Johansson 1994). These effects are, however, contingent on the type of investment attracted to SEZs (OECD, 2018).

Figure 3.10 Annual Growth Rates in SEZ Production and Employment, 2002-16



Source: ADB & CAREC 2018

Figure 3.11 Some Examples of Technology Transfers in Kazakhstan SEZs

Special Economic Zone	Foreign Companies	Technology
Astana	<ul style="list-style-type: none"> Alstom, France General Electric, United States Astana Solar, subsidiary of Kaz Atom Prom 	<ul style="list-style-type: none"> Electric train cars Diesel locomotives Latest production equipment from Europe to produce PV modules with domestically produced Silicon
Almaty	<ul style="list-style-type: none"> 15 foreign companies of 150 as of May 2015 Planned: Kazakh–British Technical University 	-
Pavlodar	<ul style="list-style-type: none"> Khimprogress, a joint venture with a company China 	Petroleum coke
Saryarka	<ul style="list-style-type: none"> Böhmer, Germany Izoplus, Central Asia, with German capital Hyunwoo, joint venture with Korea 	<ul style="list-style-type: none"> Valves Thermal insulation pipes Steel pipes, plastic products, and parts of thermal insulation materials for fixing the pipes

Source: JICA, MRI, JATRN (2015), CAREC and ADB, 2018

As already stated, a large proportion of investment has come from state-owned companies. This has severely limited the scope of technology transfers in the zones. There are also little data available to assess the quality of FDI that is coming into zones. There are, however, a few instances of technology creation in SEZs available from non-official sources (Figure 3.11). These examples are very few, but they are indicative of the potential of SEZs in attracting new technologies. It is also indicated that there is a need to maintain more detailed data on investment in SEZs to better inform policy makers (ADB & CAREC 2018).

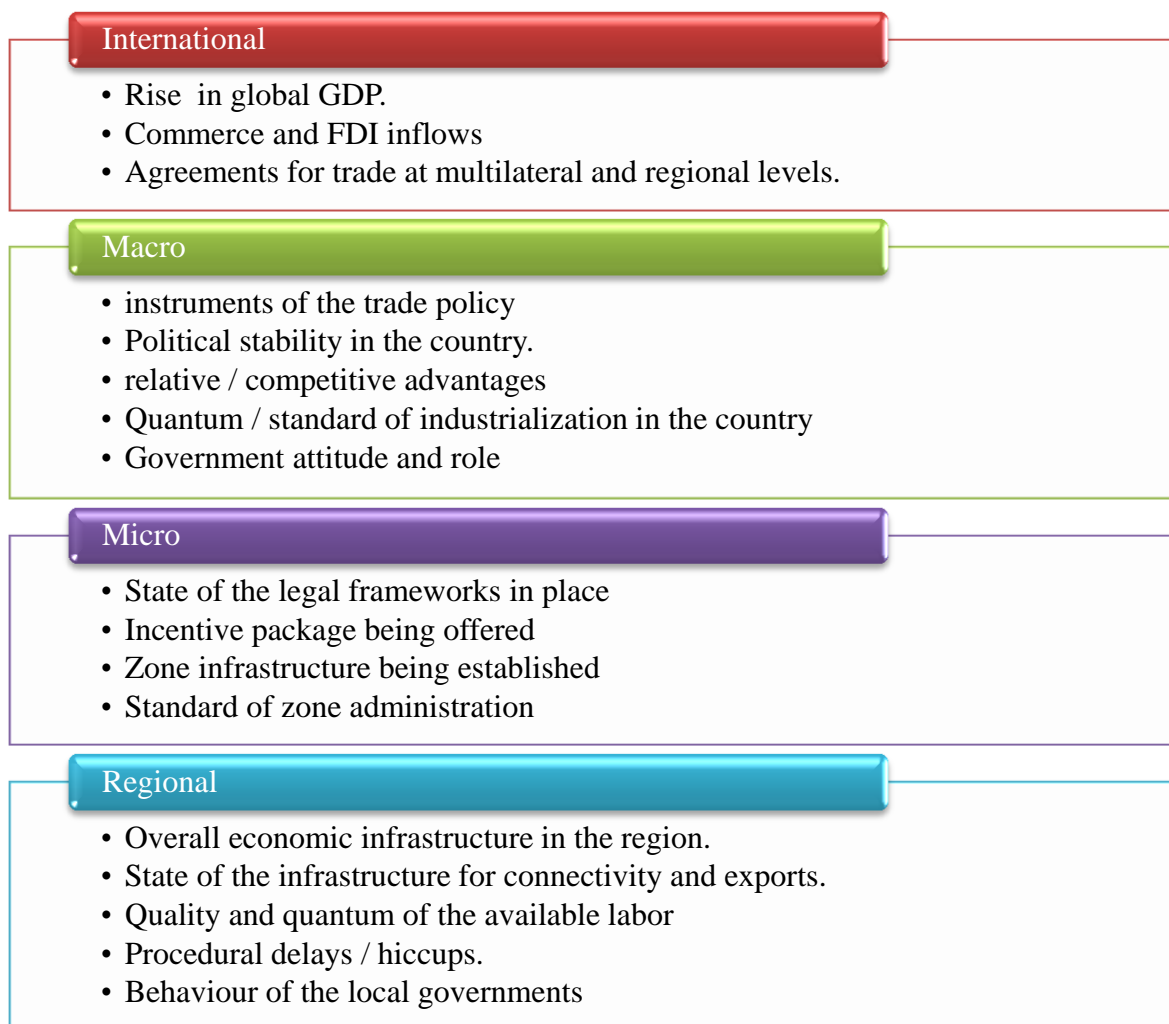
Accelerating Spill overs for the Development of Modern, Highly Productive, Competitive Industries

There are little data to analyse the spill over effects from SEZs in Kazakhstan. However, considering that SEZs have not generated substantial activity, this is a foregone conclusion. As discussed in the previous chapter, the SEZ sector can play an important role in promoting and strengthening technological capabilities. As an example, in 1991, only 2.8% of Shenzhen's manufactured exports were high-tech. By 2004, they amounted to \$30.6 billion, accounting for 51.2% of manufactured exports (Lie 2006).

By 2007, in all large SEZs in the People's Republic of China, over 40% of the total industrial output was from high-tech industries (Zheng 2010). But, SEZs must generate a critical mass of economic activity to set the conditions for the subsequent process of growth. In Kazakhstan, zones have yet to witness the flow of substantial private innovative investment to make an impact on the process of industrialization (ADB & CAREC 2018).

Kazakhstan has adopted first-generation EPZs type SEZs with public ownership, small size, and fenced-in boundaries. In what follows, the investment climate in these SEZs is analysed. A dig into the literature reveals that the performance of SEZs and IZs is influenced by several factors, which can be seen as a four-level hierarchy (Akinci and Crittle 2008, Madani 1999, Yuan and Lorraine 1992, Sit 1988).

Figure 3.12 Critical Success Factors for Attracting Investments in SEZs



Source: CAREC and ADB, 2018

3-7 Why SEZ Experience in Kazakhstan has been Successful?

This part of the chapter will discuss different steps to include actions, legal and administrative procedures introduced by the Government in Kazakhstan to make its SEZ experience a successful one, especially amongst the developing world. Salient aspects are discussed in the ensuing paragraphs: -

Introduction of Special Laws, Decrees, and Other Legislation Pertaining to Special Economic Zones

The SEZs in Kazakhstan are regulated by a set of specially introduced legal provisions / instruments / legislation to ensure smooth functioning and commercial activities in the zones. Significant types of legal provisions are listed below: -

Figure 3.13 Significant Legal Provisions for SEZs



Source: CAREC and ADB, 2018

These laws and regulations act in a manner to facilitate the functioning of SEZs with minimal interference and ensuring ease of investment, setting up business by the foreign companies (CAERC, 2018).

Introduction of the State Program of Industrial-Innovative Development of Kazakhstan (2015–2019)

This program was aimed at addressing constraints relating to SEZ development such as quotas and permits to attract foreign labour needed by companies operating in the SEZs, and suggested ways to improve the efficiency of SEZ development. The measures intended to be adopted in this program included ensuring stability of the legislation, preferential tax regimes

and establishment of unified authority for establishment and management of the SEZs. The program is mainly aimed at stimulating diversification as well as competitiveness in country’s manufacturing industry. The program also aims to improve the Entrepreneurial Code, amendments of the Code on Customs Affairs, the Tax Code and Legal provisions related to SEZs,” in order to provide stability and guarantee the preservation of tax preferences for SEZ participants during the entire SEZ operating period (CAREC and ADB, 2018).

Institutional Reforms under “National Plan - 100 Concrete Steps”

On 20 May 2015, the President’s Decree “On the National Plan—100 Concrete Steps” was issued. It calls for five institutional reforms (Figure 3.14): -

Figure 3.14 National Plan - 100 Steps



Source: CAREC and ADB, 2018

Step 63 of the National Plan specifies that two innovative clusters should be developed as a foundation for a knowledge-based economy. The program is expected to establish two innovation clusters as under (CAREC and ADB, 2018):

- Nazarbayev University, in Astana, focusing on the development of basic and applied science. The “Astana Business Campus, will have research centres and laboratories to carry out joint research projects and development activities, as well as the commercialization of technologies they develop (CAREC and ADB, 2018).
- The Park of Innovation Technologies (PIT), in Almaty, focusing on the transfer of advanced technologies. This cluster joins participating enterprises of the PIT SEZ, large research and education institutes in Almaty, and other legal entities. The PIT will also try and seek to attract local and foreign high-tech companies for the implementation of specific industrial projects (CAREC and ADB, 2018).

Initiatives for Protection of Foreign Investors

Several initiatives aimed at protection of foreign investors from various fears, act as a major incentive for numerous international investors to invest in Kazakhstan. For instance, “Entrepreneurial Code” introduced in 2016, entails comprehensive set of guarantees for foreign investors including protection of their rights and property, especially related to the Governmental actions. The Code provides degree of protection to the investors according to the volume of investments carried out by them. Few additional measures are appended below (CAREC and ADB, 2018): -

- Government has introduced institutions of “Investment Ombudsman” and the “Business Ombudsman” to save companies from red tape related hurdles as well as from demands of commissions, bribery and kickbacks etc.
- Several bilateral investment treaties and multilateral agreements related to investor protection have been signed by the government. These agreements ensure protection of rights of the investors and to provide fair opportunities regarding disposal / redressal of the conflicts.
- Government has also endeavored to streamline the judicial system in a manner to offer special considerations and quick legal procedures for resolving issues of the investors.
- Supreme Court of Kazakhstan has established a dedicated Judicial Board to expedite settlement of disputes related to contracts between investors and government bodies.

Introduction of Nurly Zhol State Program of Infrastructure Development for 2015–2019

The objective of the Nurly Zhol State Program is to connect the regions of Kazakhstan by modernizing the country’s logistical, social, and industrial infrastructure. The program emphasizes that industrial infrastructure is a prerequisite for the efficient operation of SEZs and IZs as sources of economic growth in the regions, and notes that the underdevelopment of Kazakhstan’s infrastructure has had a negative impact on the implementation of government programs aimed at diversifying the national economy (CAREC and ADB, 2018).

The priority of the Nurly Zhol State Program is to complete the construction of infrastructure at various SEZs including the National Industrial Petrochemical Park and Khorgos-East Gate, as it is believed that development of both these SEZs will promote the development of the petrochemical industry and increase the transit potential. The National Industrial Petrochemical Park consequently received funding of T68.5 billion from the National Fund of the Republic of Kazakhstan in 2015, and T10 billion in 2016 (CAREC and ADB, 2018).

The government project Integrated Gas and Chemical Complex-Phase 1, in the National Industrial Petrochemical Park, will get T35 billion from a single accumulative pension fund created through the issuance of bonds by the Samruk-Kazyna National Welfare Fund. In 2015, the National Fund of the Republic of Kazakhstan allocated T12.35 billion to the completion of the infrastructure of Khorgos–East Gate SEZ. Kazakhstan Temir Zholy, the national railway company, is co-financing the completion of Khorgos–East Gate’s infrastructure under the Nurly Zhol State Program, contributing T23.7 billion during 2015–2019. The infrastructure development projects like Nurly Zhol State Program using financing from the National Oil Fund for the development of the infrastructure of the SEZs and industrial zones can contribute significantly in the overall output of SEZs in Kazakhstan (CAREC and ADB, 2018).

Adoption of Corporate Governance / Public - Private Partnership for SEZ Development

An investment friendly public – private partnership-based governance system for SEZs has been put in place by the Government of Kazakhstan. After the Decree of the President regarding the creation of a particular SEZ, the central government or akimat (local government) makes a decision on whether to establish or participate in the establishment of a management company for the SEZ. The central government, akimats, nongovernmental legal entities and foreign legal entities with experience in SEZ operations may become founders of the management company (CAREC and ADB, 2018).

If a SEZ is created on the initiative of the central government or akimat, over 50% of the voting shares of the management company are owned by the state, unless otherwise stipulated in the decree of the President on the creation of the SEZ. When a SEZ is created on the initiative of a nongovernmental legal entity, at least 26% of the voting shares will be owned by the state. The first meeting of the founders of a SEZ is then held within 30 days after the government’s decision regarding the extent of its own participation in the creation of the management company. The board of directors of the management company then elects two independent directors from a group of candidates recommended by the Single Coordination Centre and by the National Chamber of Entrepreneurs of the Republic of Kazakhstan (CAREC and ADB, 2018).

The National Chamber of Entrepreneurs serves as the head of the strategic planning committee of the management company’s board of directors. Next there is the process of dividing up the voting rights among the management company’s current shareholders.

Each SEZ is managed by a joint stock company that is owned by a government body or a state-owned enterprise. The management companies of three SEZs are overseen by government ministries: those of Burabay and the PIT by the Ministry for Investments and Development (MID), and that of the National Industrial Petrochemical Park by the Ministry of Energy. The PIT is managed by the Autonomous Cluster Fund,” which was created on 10 April 2015. Its activities are regulated by the Law “On Innovation Cluster–Park of Innovation Technologies (CAREC and ADB, 2018).

The Special Administrative & Legal Regime of the Special Economic Zones

A special legal regime applies to participants operating within the territory of any SEZ. The special legal regime for SEZs entails a combination of terms and conditions regarding the operation of SEZs, in accordance with the national laws on SEZs, taxes, customs, and land, as well as the legislation on employment (CAREC and ADB, 2018).

Each SEZ has a detailed list of permitted activities. The current scope of activities reflects the government’s targeted sectors and priority areas. The special legal regime is applicable only when a SEZ participant engages in the priority activities defined for that particular SEZ (and consistent with the objectives of that SEZ’s creation). If the SEZ participant derives more than 10% of its revenue from any activity that has not been specified for that SEZ, then it loses all its investment incentives, including the exemption from export duties and the CIT (with the exception of the PIT, whose companies are allowed to earn up to 30% of their revenues from activities that have not been specified). Consequently, a “positive” list of permitted activities limits the number of possible investors, as not all the activities of a SEZ based company can be foreseen.

Public service centres provide SEZ participants with all the services they need, in accordance with the “one-stop-shop” principle. These services include registration of businesses, licensing, and permission to export and import, among others. The purpose is to facilitate the collection and preparation of the required documents. The one-stop shop is also part of the government’s effort to promote e-governance (CAREC and ADB, 2018).

Tax Preferences

SEZ participants enjoy an exemption from tariffs on goods imported into their SEZ territories and then exported. There is an exemption for imported goods when these are (CAREC and ADB, 2018):

- (i) Re-exported to another SEZ in Kazakhstan or another EAEU member country, or
- (ii) Used in the production of SEZ goods for export.

Kazakhstan levies export duties on only a few goods. Goods exported from a SEZ to the rest of the customs territory of the EAEU are not subject to export duties. However, goods exported from a SEZ to a destination outside the customs territory of the EAEU are subject to

export duties. The VAT is zero for goods that are fully consumed during activities corresponding to the reasons for the SEZ’s creation and that are included in the list of eligible goods established by the government. There was also a zero VAT for goods fully consumed in the process of building the Astana– New City SEZ. But goods produced in the SEZs are subject to the full VAT when sold in the domestic market. Companies operating in a SEZ are exempted from corporate income tax (CIT), value-added tax (VAT), and property and land taxes. Participants of the PIT SEZ are also exempted from social taxes for 5 years, on the condition that payroll expenses comprise at least 50% of annual revenues and that 90% of the payroll budget be spent on Kazakhstan residents (CAREC and ADB, 2018).

Table 3.13 Tax Preferences for Special Economic Zones

Type of Tax	Inside Special Economic Zones (%)	Outside Special Economic Zones
Tariffs on imports	0	6.9%
Duties on exports	0	various rates
Value Added tax (VAT)	0	12.0%
Income Tax (Corporate)	0	20.0%
Tax for the Property	0	1.5%
Tax for the Land	0	\$0.26–\$31.30

Source: CAREC and ADB, 2018

Non-Tax Incentives

According to MID’s Strategic Plan for 2016–2018, two SEZs under the ministry’s management (Burabay and the PIT), as well as the IZ in the Alatau District of Almaty city, receive funding from MID. In accordance with MNE data, in 2015, MID provided T4 billion for the creation of a new IZ in the Alatau district of Almaty city. It budgeted T2.5 billion for 2016 for the new IZ. The State Program of Industrial-Innovative Development of Kazakhstan for 2015–2019 suggests new mechanisms for funding the infrastructure of SEZs and IZs: Bayterek National Managing Holding is borrowing from the National Fund through the issuance of bonds to fund program activities. Public investment under the program is based on two approaches: repayable and non-repayable. The non-repayable approach is being used to finance infrastructure for SEZs and IZs, including allocations from the National Fund, and to finance SEZ development and management (CAREC and ADB, 2018):

Land issues

According to its latest amendments, the SEZ Law allows the creation of SEZs not only on state-owned land, but also on land that is privately owned by citizens and/or nonstate entities. Private landowners may transfer land to the SEZ’s management company for temporary compensated use (rent) in accordance with their contracts. A company based in a SEZ can get a free plot of land for the entire period of the SEZ’s existence, with the right to purchase after the expiry of the SEZ regime (CAREC and ADB, 2018).

Streamlined Procedures and Regulations

Every SEZ has a state revenue committee within the Ministry of Finance to deal with customs and tax issues. Companies in the SEZs can invite foreign workers without requiring work permits. There is simplified visa regime for citizens of 19 countries. The investor service centres in each region provide public services to investors (CAREC & ADB, 2018).

Establishment of Dedicated and Empowered Management Companies

The government is keen to bring in experienced international companies to manage SEZs, as exemplified by DP World's consulting work for Khorgos–East Gate. The most reliable source of financing for management companies at this stage is the funding contributed as statutory capital by the central or local governments which receives money from the National Fund. In addition, management companies are trying to generate their own revenues by supplying utilities (electricity, gas, water, logistical services) at competitive rates to SEZ members (CAREC & ADB, 2018).

Priority Investment Projects

Companies implementing a project included in the List of Priority Activities approved by the government enjoy tax and nontax preferences. In order to qualify for tax and other preferences, a company must have following attributes: -

Figure 3.15 Prerequisites for Tax Exemption



Source: CAREC & ADB, 2018

Companies can use a “one-stop-shop” to deal with matters concerning investors’ questions for the Committee on Investments (under MID), the simplified visa regime, and work permits for foreign employees (CAREC & ADB, 2018).

Strategic Investment Projects

Companies implementing a strategic investment project receive an exemption from the CIT for 10 years. There is also a zero rate for the property tax, land tax, and land utilization tax (CAERC, 2018).

3-8 Conclusion

An endeavor has been made in this chapter to cover up salient aspects pertaining to the SEZs development model adopted by Kazakhstan. How concept of SEZs in Kazakhstan, which initially confronted failure has become a vibrant system after rectifying the shortcomings and adopting the right kind of policies and incentives to make them successful. The factors contributing towards the success along with few hiccups being confronted have also been discussed in detail.

It can be accrued that the Government of Kazakhstan is making all out efforts to make the country as one of the most investment friendly countries in the world. A huge amount of capital has been invested for the development and subsequent processing, functioning of the SEZs and IZs.

Dedicated companies for the establishment and operation of the zones, supported by the federal as well as the local governments are playing pivotal role for enhancing the productivity and attracting FDI in the country. Investment friendly policies, remodeling of relevant rules and regulations, measures to enhance protection for the investors, simplified and quick legal procedures for dispute resolution are the highlights of the Kazakhstan model of the SEZs.

Next chapter will entail a detailed overview of the features entailed by the Shanghai SEZ, China. All the factors contributing towards its success will be discussed, threadbare.

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Chapter IV

Shangai Pilot Free Trade Zone (Shpftz), China

4-1 Introduction

In the previous chapter we have learnt about the free zone experiences of Kazakhstan. How Kazakhstan initiated the concept of free zones, what were the initial outcomes and how did the country managed to rectify the shortcomings and adopt the right kind of policies and incentives to make them successful. The factors contributing towards the success along with few hiccups being confronted have also been discussed in detail.

This chapter will focus on studying the Shanghai Pilot Free Trade Zone (SHPFTZ), China on the similar lines. Different aspects of the SHFTZ, its salient features, preferential policies and reasons for success are discussed in succeeding paragraphs.

The Shanghai Pilot Free Trade Zone also known as SHPFTZ, is termed as the first modern free trade zone developed by China in the famous city of Shanghai. The zone symbolizes efforts of the modern Chinese leadership to open up its economy for the global arena. Unlike traditional economic zones Shanghai Pilot Free Trade Zone which are aimed at enhancing economic activity at domestic and international level, SHPFTZ has been developed while considering more far reaching aspects. Apart from the features similar than normal FTZs, SHPFTZ presents three glaringly distinguishing aspects, which are peculiar to China (Björkgren, 2015):

Figure 4. 1 Distinguishing Aspects of SHPFTZ

SHPFTZ offers multifarious preferential policies related to trade and customs, at par with other FTZs

- SHPFTZ has been designated as a testing ground or pilot project for practising fresh reforms in economic domain

- SHPFTZ offers businessess across the globe, a simple Platform for hassle free penetration in Chinese market

Source: Björkgren, 2015

Formally inaugurated on 29 September 2013, SHPFTZ initially incorporated 4 distinguished special economic areas and area of approximately 29 Square Kilometers (Björkgren, 2015).

Figure 4. 2 Map of SHPFTZ



Source: FBIC, 2015

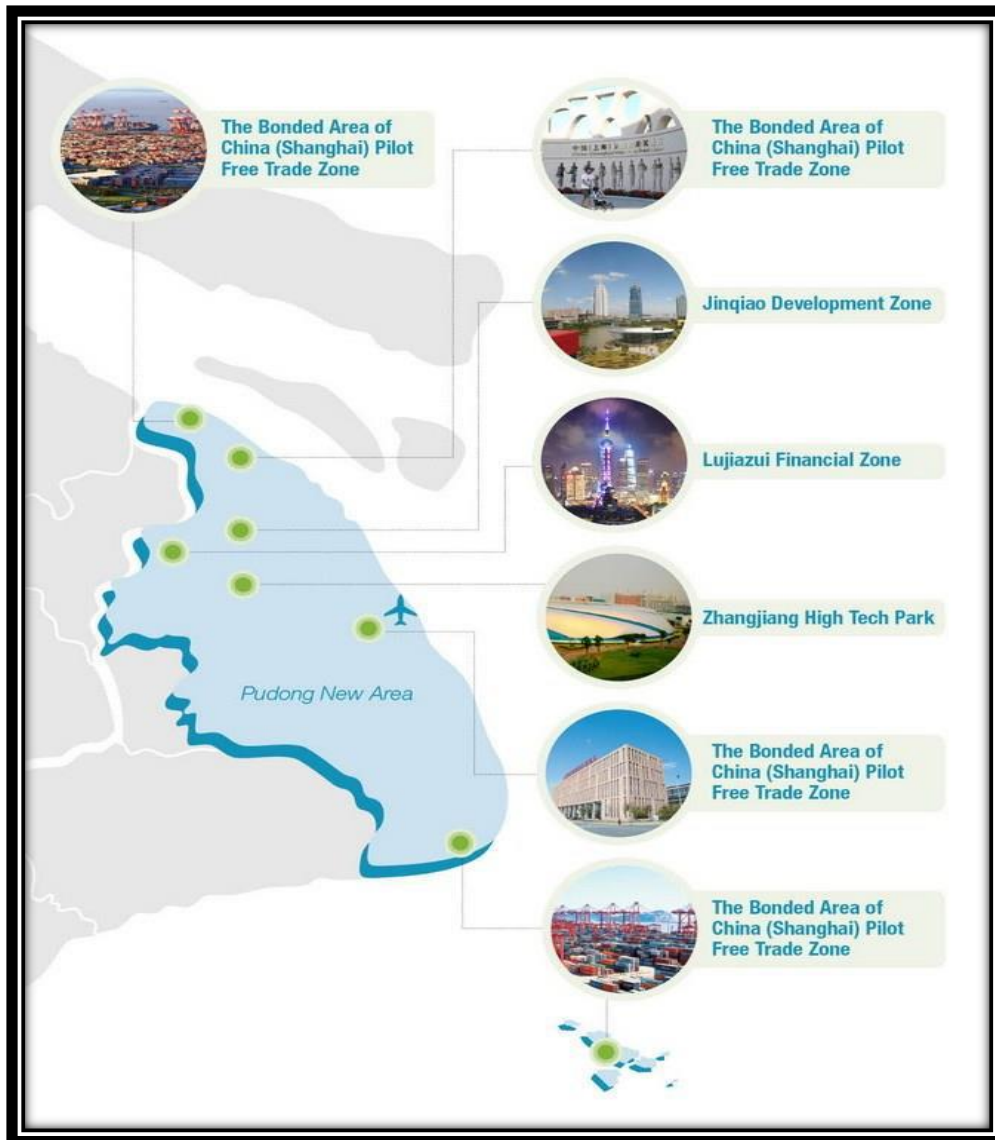
The zone was further expanded in April 2015, by incorporating 3 additional zones and an overall area of more than 120 square kilometres. Summary is as under (FBIC, 2015):

Table 4.1 Development Timelines of SHPFTZ

<u>Phase</u>	<u>Timelines</u>	<u>Area</u>	<u>Zones</u>
Phase - 1	29 September 2013 to April 2015	28.78 Sq Km	1) Waigaoqiao FTZ. 2) Waigaoqiao Free Trade Logistics Park. 3) Yangshan Free Trade Port Area. 4) Pudong Airport Comprehensive FTZ.
Phase - 2	April 2015 from to date	120.7 sq km	1) Jinqiao EPZ 2) Lujiazui Financial Zone 3) Zhangjiang Hi-tech Park

Source: FBIC, 2015

Figure 4. 3 SHPFTZ Bonded Area and Zones



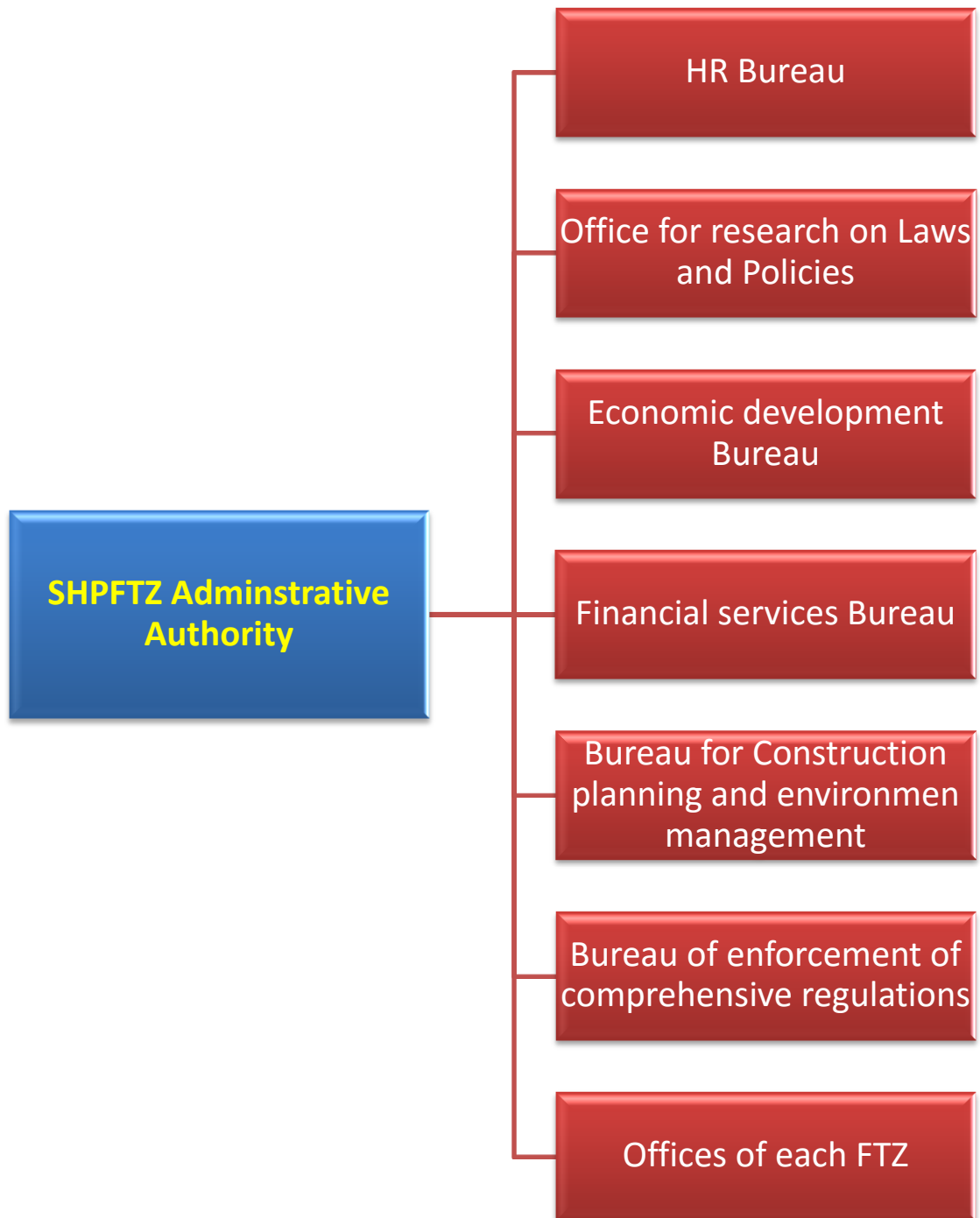
Source: FBIC, 2015

4-2 Salient Features of SHFTZ

4-2-1 Organization

The Administrative Committee established by the local Government is responsible for managing the affairs of SHPFTZ. Its organizational structure is appended below: -

Figure 4. 5 Organization of Administrative Committee



Source: Zhu, 2014

The charter of duties for Administrative Committee are as under:

Figure 4. 5 Functions of administrative committee



Source: Zhu, 2014

4-2-2 Lujiazui Financial and Trade Zone

Lujiazui Financial and Trade Zone, spanning over an area of approximately 25 sq kms acts as the principal functional zone for Shanghai World Financial Centre (SWFC). This area being a comprehensive financial system in terms of financial markets, infrastructure and environment, provides an opportunity for execution of multifarious financial functions under one platform. Owing to a considerable rise in the usage of RMB (Chinese Currency) in the international market, Lujiazui has been attracting increasingly high numbers of local as well as international institutions (SHPFTZ, 2018).

Aimed at encouraging investment, trade liberalization, globalization and innovation in financial regulatory services, Lujiazui Financial and Trade Zone endeavors to create a financial system conforming to latest international regulations and institutional arrangements to produce a modern service industry. It is home to various financial institutions as appended below (SHPFTZ, 2018): -

Table 4.2 Institutions inside Lujiazui Financial and Trade Zone

Type	Institutions	Number
Licensed Banking Financial Institutions		
Banks		214
Security Firms		320
Insurance companies		200
Licensed Non-Banking Financial Institutions		1500
Miscellaneous Institutions		
Multinational companies		<ul style="list-style-type: none"> • 300 Headquarters • 87 Regional Headquarters
Shipping institutions		1078

Source: SHPFTZ, 2018

4-2-3 Jinqiao Economic and Technological Development Zone

Jinqiao zone comprises of a total area of approximately 21 sq kms and it is a principal functional zone for various industrial outfits to include advanced manufacturing, production, emerging strategic and ecological industries. It also aims at developing modern strategic industries basing on the international financial governance management systems. The zone endeavors to provide services to economy, projects and enterprises and focuses on cooperation and the integration of resources among the parks (SHPFTZ, 2018).

4-2-4 Zhangjiang High-Tech Park

Zhangjiang Park is considered as the most significant high-tech industrial zone in the region covering a total area of approximately 80 sq kms. It was established in 1992, however, it has gained the real impetus since the local government decided to lay more emphasis on this park in 1999. Since then it has seen very rapid growth in the types on industries being established in the zone. Kangqiao Industrial Park & International Medical Zone and Zhoupu Fanrong Industrial Area were incorporated in the park in 2010 and 2012 respectively. Significance of the zone can be ascertained from the fact that it is house to more than 10,000 outfits

belonging to diverse nature of industries to include IT, culture, biomedicine and environmental protection industries (SHPFTZ, 2018).

Information Technology (IT) Industry.

The IT industry has seen a lot of interest by the leading local as well as global IT companies and research and development institutions. The park houses R&D setups of 8 out of world's top 30 and 11 leading Chinese IT related industries (SHPFTZ, 2018).

Bio-pharmaceutical Industry.

The Park has formed a dedicated setup for the pharmaceutical industry which house all the necessary wherewithal and facilities required for R&D, manufacturing as well as marketing the new medicines. Its success can be measured from the fact that the park is house to R&D centres from top 7 international pharmaceutical industries. As a whole, the park entails more than 400 pharmaceutical related R&D institutions (SHPFTZ, 2018).

Cultural and Creative Industries.

The park is also home to few of the best-known international culture and creativity related outfits who specialize in movie production digital as well as animations, TV, and other latest media aspects like online games and creative designing. Since 2011, the park has been designated by the Chinese Cultural Ministry as demonstration park for international culture (SHPFTZ, 2018).

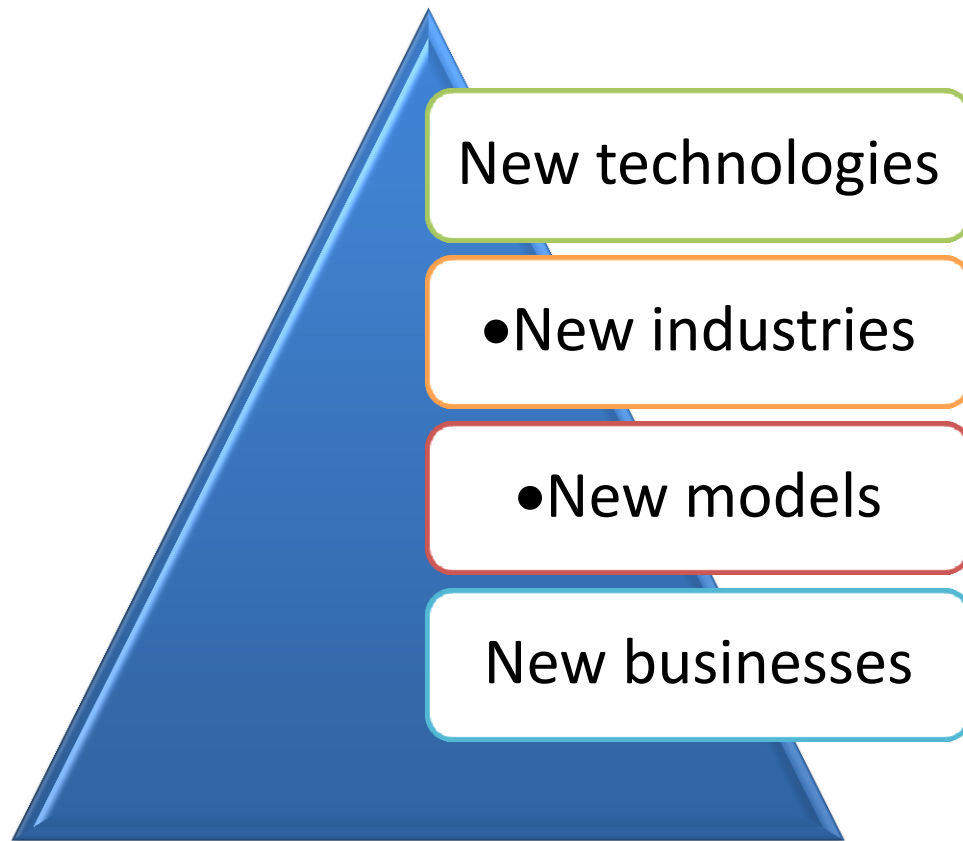
Environmental Protection Industry.

The park also lays special emphasis towards the R&D as well as production of the Green industry. The top Chinese enterprises are working in the domain of water purification plants / processes, energy conservation and development of biological fuels (SHPFTZ, 2018).

Global Science and Technology Innovation Centre

One of the most significant hall marks of the park is to act as an international innovation centre in the field of science and technology. It focuses on creating entrepreneurship base for following fresh areas of economies (SHPFTZ, 2018): -

Figure 4.6 New Areas of Economy



Source: SHPFTZ, 2018

The park has made significant headway in this field by establishing more than 20 universities and research institutions, while simultaneously housing more than 400 R&D platforms of the national as well as international stature (SHPFTZ, 2018).

4-2-5 Shanghai FTZ Bonded Area

The SHPFTZ bonded area was established in 2013 with an area of approximately 29 sq kms and encompasses 4 main areas. This area is the test bed for execution of various reforms related to governance, financial matters, FDI and tax policies. Areas of the zone are briefly described below (SHPFTZ, 2018): -

4-2-6 Waigaoqiao Free Trade Zone

Waigaoqiao FTZ was established in 1990 and covers an area of approximately 10 sq kms. Designated as the foremost demonstration area for promotion as well as innovation in the imports and exports. The Chinese central government has granted the zone with the status of "National Base for International Cultural Trade" (SHPFTZ, 2018).

4-2-7 Waigaoqiao Free Trade Logistics Park

This park was established in 2003 with an area of approximately 1.03 square kilometers. Augmented by the Waigaoqiao FTZ, the park has become a significant platform for establishment of state-of-the-art global logistics industry. The park has unique incentives in terms of using sea communication resources of Shanghai Port and the privileged policies for FTZ (SHPFTZ, 2018).

4-2-8 Yangshan Free Trade Port Area (FPTA)

Yangshan FPTA, was established in 2005 and covers an area of approximately 14 sq kms. Owing to its significance as an integrated zone for both the port as well as the bonded area, the FPTA is considered as a prominent distribution zone for the goods destined for EU and USA. The zone has equal significance for both domestic market as well as international trade (SHPFTZ, 2018).

4-2-9 Pudong Airport Free Trade Zone (PAFTZ)

Pudong Airport FTZ was established in 2009, covering an area of approximately 4 sq kms. The zone has been planned as pilot project for airport services industries and activities related to airfield logistics. The zone is a hub of distribution centres from the top logistics companies across the globe. A chain of industries entailing the air distribution centres, finance & leasing, express transshipment and display centres for luxury goods is also available in the FTZ (SHPFTZ, 2018).

4-2-10 Expo Area

The Expo Area emerges as the significant feature of the latest developments in SHPFTZ. The area is witnessing a rapid development of hubs of economy related to shipping, finance and high-end service industries. The area comprises of 3 land parcels called Pudong, Yaohua and Foreshore land parcels (SHPFTZ, 2018).

- Pudong land parcel is a public activity centre which entails activities related to culture and related exhibitions, tourism and entertainment.
- Yaohua land parcel deals with activities related to entertainment and culture with special focus on ecological tourism and modern living.
- Foreshore land parcel aims to become a hub for multiple non-financial organizations, sports facilities including media facilities.

4-3 Priority Focus Sectors

The Chinese authorities have focused on the services sector development in the SHPFTZ. The objective behind this decision is to rise the domestic consumption and shift the focus of economic growth from government led investment towards market driven factors. The six service sectors prioritized in the development are appended below (Björkgren, 2015): -

Figure 4. 7 Priority Services Sectors in SHPFTZ



Source: Björkgren, 2015

4-4 Reasons for the Success of SHPFTZ

There are several factors which have contributed towards the success of SHPFTZ. Few of the significant ones are discussed below:

‘Negative List’:

The Negative List is the official document which identifies limitations levied on industries, businesses and investments in the zone (Björkgren, 2015). The firms or businesses placed on Negative List are not eligible for the incentives offered to the companies not available on

negative list (Lu, 2014). Negative List is one of the most significant attractive features of the SHPFTZ, its salient aspects are mentioned below:

Figure 4. 8 Salient Aspects of Negative List

It implies that SHPFTZ permits / facilitates investment in all sectors less few on the Negative List

for the sectors not on the negative list, the zone reduces the registration / business commencement steps to a bare minimum level

For the business / trade / production in the unrestricted sectors, foreign investors are treated at par with the domestic ones

This type of approach , although practised in the other parts of the world, has been adopted by China for the first time, as China has been following a "Positive List Approach" which restricts foreign investment in very few sectors

The list specifies the sectors where foreign investment is either encouraged, restricted or prohibited. Related sequences of actions and incentives are also specified against each category.

Source: Björkgren, 2015, ECA & SHPFTZ, 2018

Relaxed Visa Policies:

China has introduced relaxed visa policies for the foreign investors as well as qualified individuals applying for visa or residential permits for China in general and SHPFTZ, in particular. The SHFTZ companies have the permission to provide electronic visas to the highly qualified individuals, who will then be given visas on arrival. Similarly, entry and exit procedures are also been managed in SHPFTZ (Leclaire and Shira, 2015).

Special Incentives for Financial Leasing Companies:

Financial leasing companies for a major portion of SHFTZ apparatus, therefore, several preferential policies have been adopted to facilitate these companies. Few significant ones are mentioned below (Leclaire and Shira, 2015): -

- Commercial factoring has been permitted to the leasing companies, but it has to be relevant to their core business.

- Various facilities like encouragement in financial leasing for overseas to enhance the global outreach of RMB have been offered to leasing companies.
- Financial leasing companies have the permission to open a special account for cross-border RMB and they can freely seek money from abroad.

Faster and Simpler Business Registration:

SHPFTZ has reduced long traditional procedures of business registration to very basic and simple filing procedures. The simplified processes help the investors in saving the time as well as finances (ECA, 2015).

Table 4.3 Procedural Flow Chart for Establishing Business in SHPFTZ

Establishing a business in the SFTZ: Procedures flow-chart	
Step	Time Frame (Working Days)
Contract obtainment	Client's disposal
Registration of Name	3-5
Processing of application through One-stop	4
Registration related documentation	1
Application for the company chop	1
Registration process for foreign exchange	1
Opening of accounts (RMB & Capital)	5-10
Registration for foreign trade operator	5
Registration for customs	10
Registration for commodity inspection	1
Registration for E-port	10
Financial & Statistical registration	1-4

Source: ECA, 2015

Easier Cross-Border Movement of Goods:

The procedures as well as requirements in the SHPFTZ have been so simplified and streamlined that movement of goods and items to / from China has become quite easy and quick, as compared to the same process outside the FTZ (ECA, 2015).

Faster Customs Clearance:

Several positive reforms at policy level have made customs clearance process in SHPFTZ as simple streamlined and faster. These reforms include online declaration, establishment of

One window operation for filing processes, introduction of faster declaration, inspection and clearance processes. The process is further streamlined at Pudong Airport, where overseas cargo is processed within 24 hours of receipt. These steps once combined together have simplified and expedited the processing of custom clearance of goods from SHPFTZ (ECA, 2015).

Freer Cross-Border Movement of Capital:

One of the most significant provisions entailed in the SHPFTZ business environment is related to hassle free movement of capital within the country and abroad. The processes have been simplified in a manner that the investors can transfer their capital between their offshore and SHPFTZ accounts, without any hinderance, thus addressing one of the biggest challenges being confronted by the businesses in China (ECA, 2015).

Freer RMB Usage:

SHPFTZ offers, as part of its innovative policy in financial matters, the opportunity for the integrated usage of Chinese currency into their overall operations with remarkable ease. The step facilitates businesses to carry out their business functions in a more efficient in terms of capital efficiency, smooth and cost-effective manners (SHPFTZ, 2018).

Easier Engagement in e-Commerce:

SHPFTZ lays a special emphasis on the e-commerce and a major step to facilitate foreign enterprises in this field entails lifting the restrictions on them for independent businesses. Now the foreign companies in the field of e-commerce can operate independently instead of the previous condition of making a joint venture with a local Chinese company. Additionally, there is no geographical restriction on these services, as these can be provided to the entire country from SHPFTZ without any extra taxes (ECA, 2015).

Special incentives for Outbound Investments:

SHPFTZ offers special incentives for the outbound investments to make it a great attraction for the related businesses. Some of these incentives are discussed below (ECA, 2015): -

- SHPFTZ has streamlined and made the process of record filing very quick. Similarly, the automation-based integration enables a single submission to the banks to cover all related formalities, in this regard.
- SHPFTZ offers special accounts for remittances of funds out of China for the purpose of investments are very reasonable rates.
- SHPFTZ also allows the businesses based in the zone for offshore borrowing of Chinese currency for the purpose of investments inland and abroad.
- The zone also permits the businesses based inside the facility to offer external guarantees without getting approval beforehand.
- The policy changes also facilitate Chinese citizens and companies to invest abroad with far more ease, irrespective of the area of investments.

Taxation:

The SHPFTZ provides specific tax incentives on selective aspects for both individual as well as company level taxation in terms of income tax, VAT and other customs duties as well as taxes. Few of these are discussed below (ECA, 2015): -

- SHPFTZ offers the provision of paying certain types of corporate income taxes in easy installments.
- Similarly, Individual income taxes especially for the stock's businesses can also be paid in installments.
- SHPFTZ offers exemptions on the customs duties especially for import of different type equipment / machinery required to be imported by the manufacturing industries installed inside the zone.
- The zone also has the provision of refunding taxed levied on exports under a special scheme.

Banking and Finance:

Movement of money to and from China has remained a major issue for the foreign enterprises located in China. However, SHPFTZ has introduced some policy changes which have eased up the process to a considerable extent. Few of these measures are mentioned below (ECA, 2015):

- All the banks operating in SHPFTZ, must establish a special and independent accounting system for the companies functioning inside the zones.
- A special type of accounts called Free Trade Accounts (FTAs), have been opened in SHPFTZ, these accounts facilitate the businesses to easily transfer money abroad or with in their multiple free trade accounts.
- SHPFTZ regulations also permit the transfer of funds between the free trade accounts and the main personal accounts of the companies. Whereas, the maximum amount of money transfer has been capped at 50,000 US dollars, anywhere outside the zone.
- SHPFTZ permits the companies to raise financing in local or foreign currencies without seeking approval, beforehand. Similarly, limits of borrowing have also been doubled from the previous limits.
- SHPFTZ has waived off the lower limit foreign currency deposits previously kept as USD 3 Million.

Shipping, Logistics and Customs:

Reforms and policies in these areas have been given special emphasis owing to their overarching impact on all types of businesses and industries functioning inside the SHPFTZ. Few of the incentives are discussed below (ECA, 2015):

Ship Transport

Incentives offered to Shipping industry are discussed below (ECA, 2015):

- The SHPFTZ offers the goods with exemptions on import tariffs at Yangshan Port, till the time these remain within the zone. exemptions apply at so long as goods remain in the SFTZ
- SHPFTZ also allows the foreign firms to own and run the sea vessel management firms.
- Several relaxations in terms of registration of vessels, crew members and overall registry have been offered inside the zone.

Customs

Customs related incentives offered in SHPFTZA are discussed below (ECA, 2015):-

- SHPFTZ allows a time cushion of 2 weeks in which the companies can seek a delay in the customs formalities from the date of arrival of these goods in the zone.
- Procedural formalities for the overseas shipments have also been reduced, and these can now be delivered using a mere shipping bill.
- Different types of paperless declarations can be made online.
- There are several other incentives to the importers and exporters in terms of timings of inspections, customs declarations and maximum duration for transfer of goods outside the zones.

Opening-Up Measures

One of the biggest advantages SHPFTZ offers is regarding the frequency as well as quantum of openness of its service and manufacturing industries. This can be gauged from the fact that since 2013, the zone has offered 54 opening up measures for various industries, the quantum as well as frequency of these opening up measures is only being practiced in SHPFTZ (SHPFTZ, 2018).

4-5 Contributions of SHFTZ to the Chinese Economy

4-5-1 Economic Activity in Various Components of SHPFTZ

In 2010, the Jinqiao Economic and Technological Development Zone, Jinqiao Economic and Technological Development Zone (South Park) and Nanhui Industrial Park gained positive momentum of economic growth and various economic indicators achieved rapid growth year-on-year and set a record high. Achievements / contribution of these two zones towards the economy are mentioned in the table below (SHPFTZ, 2018): -

Table 4.4 Contribution of SHPFTZ to Chinese Economy

Area of Economy	Contribution
Total industrial value	218.813 billion yuan (\$34.1 billion)
Contracted foreign investment	738 million U.S. dollars
Actual received foreign investment	314 million U.S. dollars
Domestic registered capital	1.643 billion yuan
Tax revenue	8.361 billion yuan
Local fiscal revenue	2.095 billion yuan
Fixed-assets investment	7.51 billion

Source: SHPFTZ, 2018

Similarly, contributions by the Pudong Airport Industrial Park towards the economy are mentioned in the table below:

Table 4.5 Contribution of SHFTZ to Chinese Economy

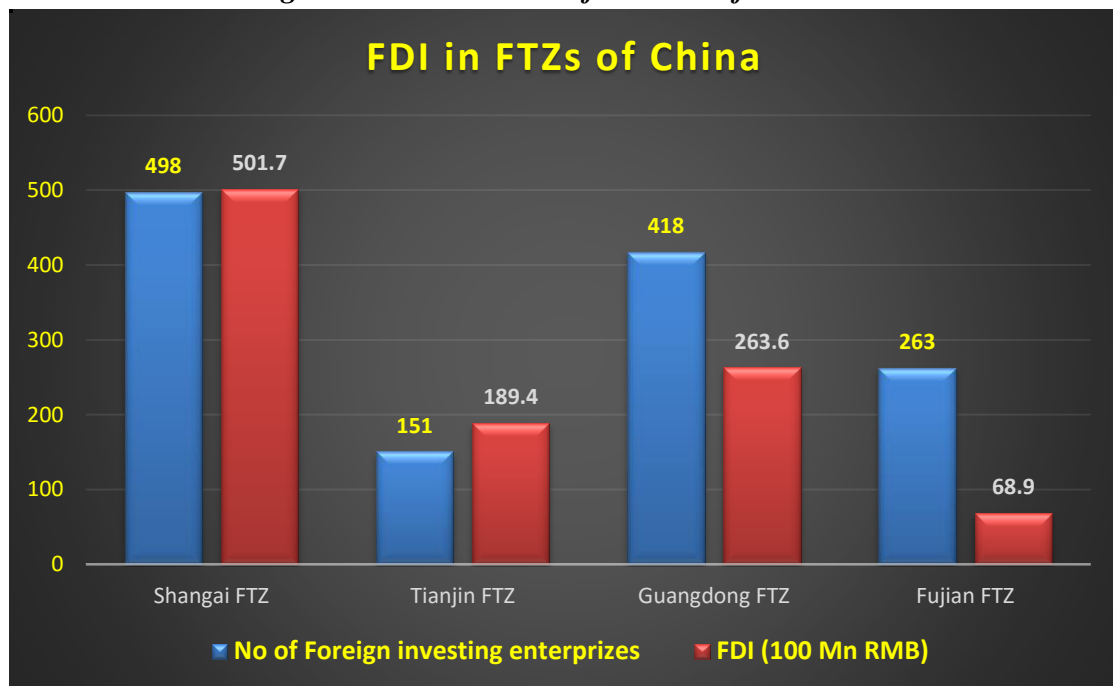
Area of Economy	Contribution
Total industrial value	16.438 billion yuan (\$34.1 billion)
Contracted foreign investment	245 million U.S. dollars
Actual received foreign investment	255 million U.S. dollars
Domestic registered capital	1.034 billion U.S. dollars
Tax revenue	1.111 billion yuan
Fixed-assets investment	2.488 billion yuan

Source: SHPFTZ, 2018

4-5-2 SHPFTZ - The Best Performer in Attracting FDI in FTZs of China

Almost all FTZs in China have received high rates of FDI along with a greater number of foreign investors and enterprises. However, SHPFTZ has been the top performer in both the departments i.e. it has attracted the greatest number of foreign investors and maximum amount of FDI. Details are shown on the chart below (Shira, 2016):

Figure 4.9 Economic Performance of SHPFTZ



Source: Shira, 2016

4-5-3 Capital flows since the SHPFTZ

According to the data described in the table below, it can be ascertained that the capital flows of China have raised since the introduction of the SHPFTZ. Before commencement of the SHPFTZ, the volumes of inflows and outflows used to be approximately 300 to 400 billion USD. It can be observed that beginning from the fourth quarter of 2013 (i.e. after SHPFTZ), the capital outflows have gradually raised to 620 billion USD. Far sharper rise is observed in the capital inflows, which have raised from 402 to 636 billion USD (Yao & Whalley, 2015).

Table 4.6 Capital Inflows since Establishment of SHPFTZ

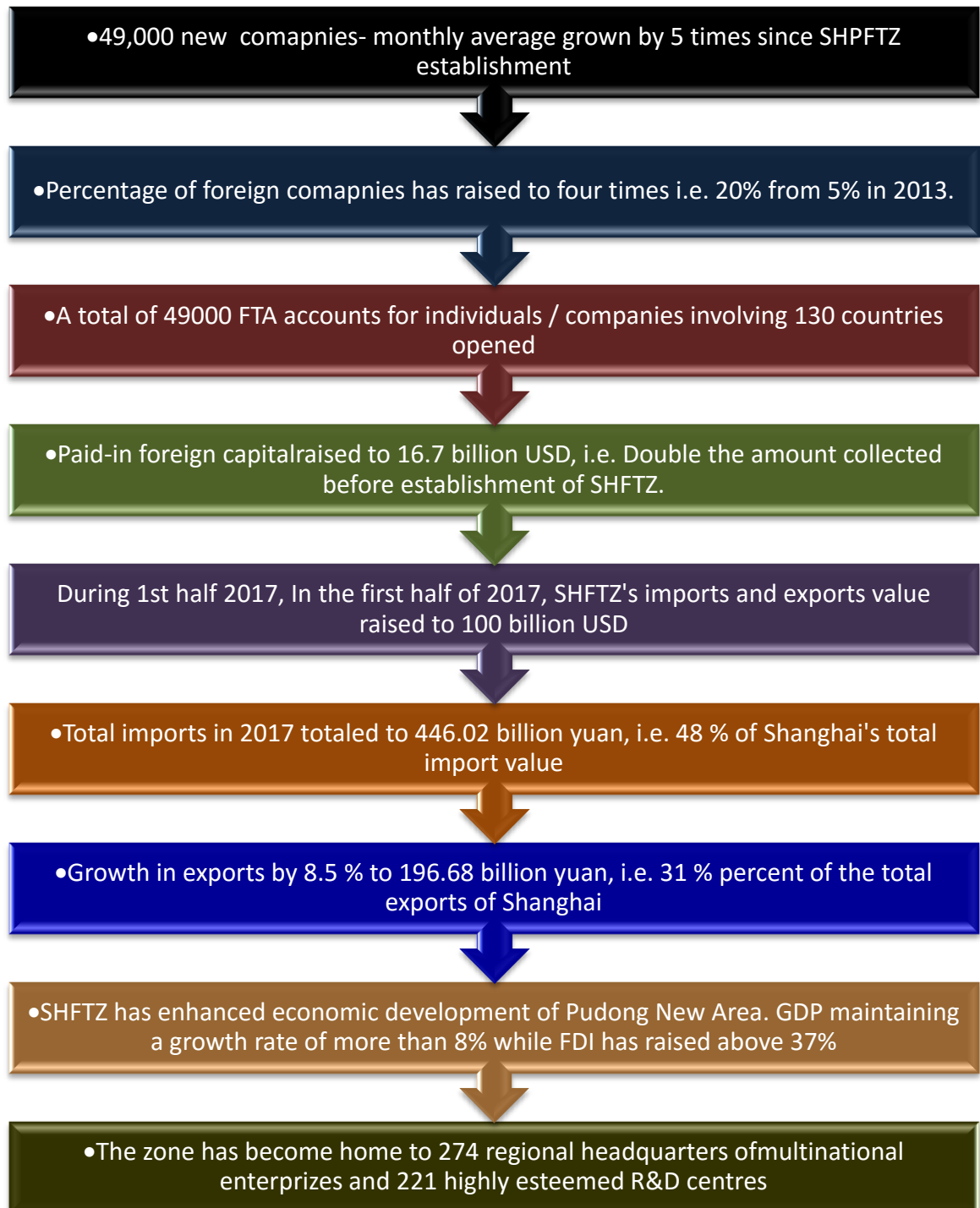
	1 st Qtr 2013	2 nd Qtr 2013	3 rd Qtr 2013	4 th Qtr 2013	1 st Qtr 2014	2 nd Qtr 2014
Assets (Capital Outflow)	457.30	227.65	482.50	555.19	602.64	620.95
Direct Investment	67.89	79.61	73.99	126.36	93.20	90.56
Portfolio Investment	22.44	22.95	17.93	40.83	40.33	26.20
Other Investments	366.98	125.09	390.58	388.01	469.12	504.19
Reserve Assets	157.08	47.07	97.57	130.99	125.90	22.75
Liabilities (Capital inflow)	368.81	199.92	402.49	428.28	508.83	636.56
Direct Investment	35.96	33.99	39.83	53.10	39.53	51.24
Portfolio Investment	8.36	12.98	7.90	14.36	17.99	11.65
Other Investments	324.48	152.95	354.76	360.83	451.31	573.67

Source: Yao & Whalley, 2015

4-5-4 SHFTZ'S Economic Performance in The Past Four Years

Salient features of economic performance of SHFTZ during the past few years are summarized below (SHPFTZ, 2018):

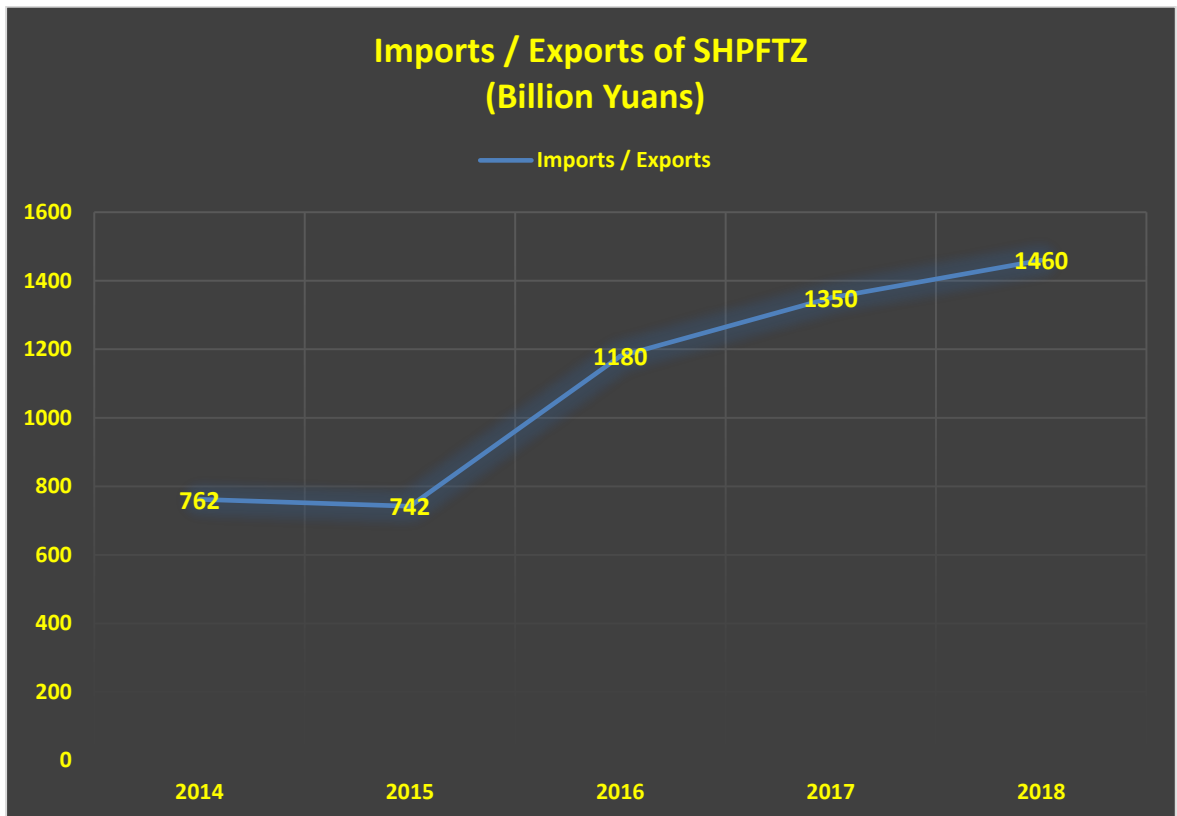
Figure 4.10 Economic Performance of SHPFTZ



Source: SHPFTZ, 2018

Similarly, imports and exports of SHPFTZ have always been on a gradual rise, which is playing a positive role in Chinese economy.

Figure 4.11 Imports / Exports of SHPFTZ



Source: SHPFTZ, 2018

4-5-5 Rise in Yearly Throughput of SHPFTZ

Since the establishment of SHPFTZ, there has been a gradual rise in the yearly throughput of the Shanghai port. This aspect is reflective of the performance and increased utility of this port by various users. Overall impact of the increased throughput is the rise in the economic activity in SHPFTZ (Hong, 2018).

Table 4.7 Rise in Yearly Throughput of SHPFTZ

Year	Yangshan Area			Waigaoqiao Area			
	Container Throughput	Year Ratio	Vessel Visit	Container Throughput	Year Ratio	Cargo Throughput	Year Ratio
2013	1436	+ 1.5 %	12504	1622.03	+5.6	15178.2	+ 6.4 %
2014	1520	+ 5.8 %	12587	1716.41	+5.8	15761.93	+ 3.8 %
2015	1540	+ 1.4%	13917	1816.37	+5.8	16387.57	+ 4.0 %
2016	1561	+ 1.4%	13977	1836.9	+1.1	16525.3	+ 0.8 %
2017	1652	+ 5.8 %	12144	1985.1	+8.1	17754.4	+ 7.4 %

Source: Hong, 2018

4-6 Conclusion.

SHPFTZ emerges as one of the most successful Free Trade Zones of the Modern era. As reflected from its title, it was established as a “Pilot” FTZ, where the Chinese government wanted to experiment reforms of various types and at various tiers.

The reforms at the governance, administration, management along with the steps taken to open up Chinese economy by offering numerous facilitates and incentives to local as well as foreign businesses has paid off. China has offered similar incentives in its other FTZs which is a good omen, not for the Chinese economy alone, rather for the Global economy in general.

Now we have discussed three case studies, where FTZs have been made successful by using different policies which have been tailored to suit the ground realities of the respective countries. An endeavor will be made in the next chapter to apply these ingredients of success to Algerian economy and formulate a suitable FTZ model for the Algerian economy.

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Chapter V

Relevance of FTZ Model for Algeria – in the Light of International Experiences / Case Studies

5-1 Introduction

The chapter aims at ascertaining the relevance of FTZ model for Algeria while studying the successful FTZ models discussed in the preceding chapters of this thesis. A systematic approach has been adopted to draw the relevant conclusions by initially carrying out an overall economic overview of the Algerian economy; its key facets, challenges, and hindrances for establishing FTZs.

I will be reviewing the historical development of the Algerian economy as a basis of FTZs policy. I will then, look at the competitive advantages of the Algerian economy and its international trade pattern. This will be done by looking at the geo-economic location of Algeria, trade of balance, natural and human resources, and other factors affecting FDI in the country. Furthermore, I will shed light on other competitive advantages of the Algerian economy. This section presents the macro-economic and structural interventions in the development planning system that were seen to be fundamental for FDI and FTZ

The third and most significant section discusses why reversion to FTZ model is important for Algeria and its economy in the light on contemporary experiences. The section further goes on to discuss recommendations / steps for making its own experience a successful one basing on positives learnt from the three case studies.

5-2 Algeria's economic development

5-2-1 Centrally Planned Economy

At the time of Algerian independence on the 5th of July 1962 it had an underdeveloped colonial economy (Constitution of Algeria, 1963). The economy was characterized by little exports and many imports in even good to satisfy basic needs. Majority of its population worked mainly in the agricultural sector (Guillot, 1960:11). Its pre-independence economy was composed of a labour market made up of two groups. These comprised of the Europeans Labour market and the Muslims (Lambert, 1962). Its immediate post-colonial economy was characterized by a weak human capital that was a result of asymmetric education (Darbel and Rivet, 1962). The Algerian economy has had several phases of economic planning that tried to diversify its economy and remove dependency on hydrocarbons.

At independence Algeria adopted an economic development strategy organized by means of an agrarian revolution (Kielstra, 1978). This dictated for the compulsory purchase of land owned by the colonialists, which was fully implemented with the 1962 Tripoli Program. The program initiated an agrarian reform policy with mandatory purchases of big estates as well as the creation of state-owned farms together with production cooperatives (Kaldor, 1963).

This led to self-organization of Algerian farm workers into committees of self-management of farms that had been left by European farmers.

It can be cogently argued that industrialization was Algeria's policy since independence. This is affirmed by the 1976 National Act. This Act states that Algeria was to follow industrialization as a national development strategy to aid industrial sectors. This was mainly focused on chemical, steel and hydrocarbon industries that are assumed to have potential external impacts on other sectors of the economy. Industrialization was also chosen as a strategy because it was a mean of reducing unemployment that had been inherited from colonialism. Although industrialization policy aimed at the chemical industry, hydrocarbons industry, goods industry, and iron and steel industries, it was supposed to have an impact on agriculture (Mohammed, 1993). This was because these industries were supposed to produce goods as in-puts in agriculture.

From 1967, the development plan of the Algerian economy followed a centrally planned command system. This saw its first four-year development plan from 1970-1973. It is through this plan, that the country was able to attract huge investments. These investments were financed through oil revenues at an average investment rate around 28.3 % from 1970 to 1973. Later, this was to rise to 40.4 % from 1973 to 1978, getting to a peak of 47.8 % in 1978 (World Bank, 2003:12). It is this foundation that opened up to the policy of import substitution that ensued into heavy manufacturing in Algeria. This led to rapid development in manufacturing leading to high levels of employment in country. However, the employment was mainly public and industrial controlled by state enterprises (Zoache, 2012).

Although, Algeria tried to liberalize the economy, trade remained dominated by the state as it was a central planned economy. At this level, the economy was organized in such way that it allowed for an increase in the export of its local products. But state-run companies were given a monopoly and protection over imports of products in their areas of trade. For example, steel monopoly was awarded to the National Steel Association (SNS) and the National Society for Mechanical Engineering (SONACOME) had a monopoly over imports of mechanical engineering products (Benis, 2004).

5-2-2 Early 1990s: Transitional economy -structural adjustment and foreign trade liberalization-

The efforts to reform foreign trade started in early 1980s increased with the fall of the oil prices in 1986. This established a system of export diversification and amended the law that had allowed the state to be the only monopoly in foreign trade. It was during this period that licenses to import goods without a payment receipts were first issued. This made it possible to import goods without payment in foreign currency from the Central Bank. The deterioration of the economy resulting from the decline in the oil prices led to extensive reforms and propelled privatization to become an urgent matter. This was aimed at encouraging other exports so that they would bring in more foreign reserves. There were other policies that were implemented to liberalize the economy during this period and these included: -

- (1) Introduction of tax incentives in 1986 to improve the price competitiveness of exports. They also involved an exemption from the tax imposed on the portion of industrial profits attributable to export as well as exemption from payroll-based lump-sum payments.
- (2) Establishment of an export subsidy that was intended to reduce the effects of the overvaluation of the dinar exchange rate. This was set depending on the type of product and the status of integration.
- (3) Creation of foreign exchange accounts for export companies and for important companies to pay for their imports
- (4) All new exports received a subsidy on the 50 % freight of the goods to be exported.
- (5) For foreign companies and experts that were operating in Algeria repatriation period for foreign currency incomes was given a period of four months.

The 1990s-oil slump led to instability in the political and social context of Algeria with serious political troubles from 1997-1998. This turmoil led to economic downturn in the country ensuing into a deficit and public debt. This period was characterized by rising public debt, inflation and high levels of unemployment together with poor growth. This economic situation had a negative effect on the manufacturing sector. The sector could not be sustained and therefore Algerian public enterprises experienced enormous losses, which led widespread unemployment. It is during this period that the country tried to implement International Monetary Fund (IMF) stabilization programs. These entailed a microeconomic stabilization program that lasted one year and a structural adjustment program, which took a period of three years.

Although these programs were meant to revitalize the Algerian economy, it still experienced a recession with high levels of unemployment, a huge unbalanced balance of trade and high levels of inflation. This period was characterized by high levels of unemployment close to 30 %, a budget deficit of around 8.7 % of GDP and a rapid growth of the money supply (+21 %). During the stabilization programs by the IMF and the World Bank Algeria could obtain loans from the Paris club to stabilize its economy. During structural adjustment programs the country promoted economic liberalization policies of privatization, reduction of tariffs, control of wages and reduction in investment expenditures (Greater Algiers index). It is these programs that marked Algeria's transition from a socialist command economy to a market-oriented economy (Ozzzir, 2009).

This period was marked by structural adjustment programs especially aimed at the external payments' crisis. This was a result of dealing with the weakening of the country's external financial status that led to rearrangement of debt repayment aided by the International Monetary Fund (IMF). During this program foreign trade and policy had to be reformed by introducing fundamental changes. These changes included a full liberalization of imports and

making easy access towards foreign currency. This allowed for Dinar to be easily converted with the view of regulating imports into the country (Dahmani, 1999).

The Central Bank of Algeria in 1994 changed the needs for financing imports by making sure that a banking domicile was a necessary requirement (Bank of Algeria, 1994). In addition, commercial banks were given an oversight over import dealings, this saw an enactment on how a number of import transactions were to be carried out. They included cash transactions, debit payments from the foreign currency account and from supplier credit lines for exports together with government credit. The process of liberalizing the economy continued in Algeria culminating into negotiations with the European Union. To complete the process of liberalization, in 2002 a committee recommended Algerian accession to the World Trade Organization. The process was further cemented by Ordinance No. 01-02 of 20 August 2001, which reduced customs tariffs putting it at a maximum rate of 30% (Bakir, 2012).

Furthermore, the government started a new industrial export strategy in 2007 through the Ministry of Industry. This was aimed at re-industrialization policy as well as boosting and diversifying the exports. The objectives of the policy were:

- To develop the energy-intensive sectors that Algeria possessed a comparative advantage
- To improve industrial integration to reduce imports of components and semi-finished products that could be produced locally.
- To support promote innovative technology-based industries especially those in areas of information and communication technology as well as biotechnology.

Following these policies and structural adjustment programs, the Algerian economy became more stable. This was sided by an increase in oil prices, which led to a favourable balance of trade with excess liquidity in the banking system. The objective of the Algerian government was to liberalize its economy so that it could initiate the growth of the private sector. The realization of this objective was aided by the peaceful period the country was enjoying and an increase in the oil prices. The increase in the oil prices from US \$ 13 per barrel in 1998 up to \$60 in 2005 facilitated the stabilization of the economy. In addition, the increase in oil prices lead to more flexibility and liberty for the government to proceed with the reforms of the economy. Consequently, the country launched an Economic Recovery Program (ERP) for 2001-04.

This was aimed stimulating aggregate demand as well as containing the rising levels of unemployment by government investment in infrastructure to improve agricultural production. This led to a reduction in the national unemployment levels through increased construction and agricultural work. Although government policies had a positive impact on unemployment, it did not have a positive impact on manufacturing. During the same period, the Algerian government tried to promote private investment both in small and medium enterprises. It is during this period that Algeria started using the finances from its hydrocarbons to finance industrial development in the country (Bonin, 2009).

5-2-3 Algeria's Economic Diversification Policies post 2000

In cooperation with Algeria's global partners, the state designed four transformation or modernization programs which focused on several business categories

➤ The countrywide program to increase manufacturing effectiveness: This national program was launched by the Ministry of Industry, as it has put in place a Directorate General for Industrial Competitiveness. This program was developed in cooperation with the United Nations Industrial Development Organization, and the purpose was to promote and improve attractiveness of 1000 companies by 2006 (Benabdallah, 2008) with a focus on both public and private businesses (Lahcen, 2013). The main promotions happened in 2002. In accordance with the 2000 Finance Regulation, an Industrial Competitiveness Promotion Fund (FPCI) was put in place to financially support those improvements. The National Committee for Industrial Competitiveness (CNCI) has been in charge of developing the clauses and conditions for FPCI implementation. The outcomes of the program did not achieve its anticipations, it also didn't manage to attain its objective of promoting 1000 businesses by 2006 (Benabdallah, 2008).

➤ Euro Development PME/PMI program (EDPME): This one was launched in accordance with a contract between the European Commission and Algerian Government. It wanted to support the private business by assisting small and medium-sized enterprises as well as industries, in order for private companies to create further significant impact on economic growth regarding Algeria's position about the Association Agreement with the European Union. The program was directed by the Ministry of Small and Medium-sized Enterprises and the European Commission Delegation to Algeria, in cooperation with small and medium-sized enterprise agents. Thus, the program, which was handled by Euro Development PME/PMI, was launched in July 2002 with a donation of fifty-seven million euros. The program was completed 31st December 2007 minus any concrete achievement (African Economic Outlook, Algeria, 2014).

➤ Algerian Government program for the modernization of small and medium-enterprises: The Ministry of Small and Medium-sized Enterprises launched this program in February 2007, and it was planned to be executed for 6 years. Its motivating aim was to promote enterprises (small and medium scale). According to decisions taken by the Council of Ministers on 8th March 2004, the program was allocated a budget of one billion DA per year. The National Agency for the Development of Small and Medium-sized Enterprises supervised the program as it was intended to supplement the current promotion strategies (Pera, 2017).

➤ Introduction of export intermediaries to support small and medium-scale businesses to achieve a base in export trade:

For instance, in 2008, the Algerian-French Export Consortium (CALFREX) was formed by the National Agency for the Promotion of Foreign Trade (ALGEX) and the National Chamber of Agriculture in Algeria, and the Optima export association in France. This aimed at supporting the sale of agricultural goods as exports. The motivation for the partnership was through a collection of Algerian exporters and French suppliers located in Marseille. This Consortium was formed to act as a public limited corporation: the Algerian commission owns 60% of the Consortium while the French owns 40%.

The Consortium consists of three groups with two being in Algeria and the other one is based in France. They try to improve the value of agricultural goods by making sure that products are branded properly and marketed around the globe. In 2013 the United Nations Industrial Development Organization (UNIDO), two agri-food export associations were set up i.e. the General Industrial Agri-food Products Consortium (GIPA) for animal proteins, and the Algerian Agro-cereal Consortium (AAC) for cereal foodstuffs.

The Algerian Agri-food Industry Consortium (ACIA) was founded in 2014 and it includes 45 firms and encourages the export of agri-food stuffs. It conducts advertising events as well as product classification for its stakeholders. In 2015, many trade carnivals were prepared by this consortium and it has previously given aid to eighty firms. This was followed by a formation of a consortium focusing on date fruit trade in Tolga in Biskra province with twelve producers.

Nonetheless, the country's logistics competence seems to be fragile as Algeria is graded the 140th out of 150 nations under the World Bank's Logistics Performance Index (Barkir, 2012). The country's logistics' ability is challenged by two major limitations:

- Constraints associated with inefficiency of the port capability that led to an additional expenditure of approximately \$750 million in 2009.
- Gaps associated with organizational collaboration between different stakeholders engaged in overseas trade logistics processes.

Some measures are being implemented to respond to the above challenges:

- A project is planned to improve the ports of Algiers, Oran, as well as Djen-Djen port (Bakir, 2012).
- The Bejaia port leadership and Portek, a firm originating from Singapore, have started a plan to improve the freight container packing zones;
- The Skikda port has supported innovative equipment;
- Sufficient storage and facilities outside the ports have been constructed;
- Interventions have been inaugurated to encourage private sector business in water transport;
- A team has been set up to enable commercial activities at the ports and airports by collaborating with various shareholders participating in the logistics chain

- (including transport operatives, taxes, banks, clearing and forwarding representatives, technical control superintendents and port employees);
- The Algerian Chamber of Commerce and Industry (CACI) has set up a team to enhance logistics and transportation to support and restructure logistics abilities and diminish logistics-associated charges.

5-3 Algeria – Shift Balance of Economy from Oil to other Sectors

In May 2016, the Algerian government approved a three-year economic approach known as new growth model. This strategy is based on the belief that the oil prices will always be rising by at least 10% annually through 2019. According to Pera (2017) this strategy has enabled the country to come up with the following economic objectives:

- Improve non-oil economic growth by 6.5% annually from 2020 to 2030.
- Increase manufacturing inputs to 10% of Gross Domestic Product by 2030.
- Promote agriculture modernization in the country.
- Reduce the growth of local energy intake from 6% in 2015 to 3% by 2030.
- Develop the economy at 7% annually.

The beginning of 2017 has seen the government enact policies of attracting FDI by opening up the economy to the foreign investors. This has been through facilitating investors and assuring them of repatriating their profits. This strategy has been adopted in line with the Algerian's policy of economic liberalization and privatization (UNECA, 2017).

In order to establish the complete advantages of the Algerian economy to attract more FDI into the future FTZ, I will be looking at the geographic and economic status of the country, its human resources, in addition to the infrastructure development and other competitive advantages.

5-3-1 Algeria's Geographic and Economic Status

Nestled against the Mediterranean coast of North Africa, People's Democratic Republic of Algeria was born in 1962 when it retrieved its independence from France following a seven and half year war.

It has borders Western Sahara, Libya, Morocco, Mali, Mauritania, Niger and Tunisia by land and Spain and Italy by sea

Algeria is made up of 48 provinces and more than 1,500 communes with a 2019 population estimated at 42.68 million, making it the 34th most populous country. It is also the 10th largest country in the world and the largest country in Africa

Due to its geographic or economic status, Algeria could be one of the best places for FTZs because it represents the link between Europe and Africa.

Figure 5.1 Algerian Map



Source: <https://images.app.goo.gl/GewvAhh4R8DjMfaA6>

With a manageable population in economic terms of about 42.68 million. Algeria is one of the most sparsely populated countries in the world with just 15.9 people per square kilometre (38/square mile). The capital and largest city is Algiers.

The major factors Algeria can consider beneficial is its geographic location of being situated at the middle of the Maghreb nations (Aptheloz and De Saint-Laurent, 2004). Depending on Europe, Africa and Arab states, Algeria is strategically located for the sustainable as well as improvement of its investment prospects comprising FDI. Definitely, Algeria's strategic situation enables it to simply have access to prospective neighbouring markets, and calls for export based FDI strategies, which permits Algeria to exercise networking partner relationship with EU to form a Free Trade Zone (UNCTAD, 2004).

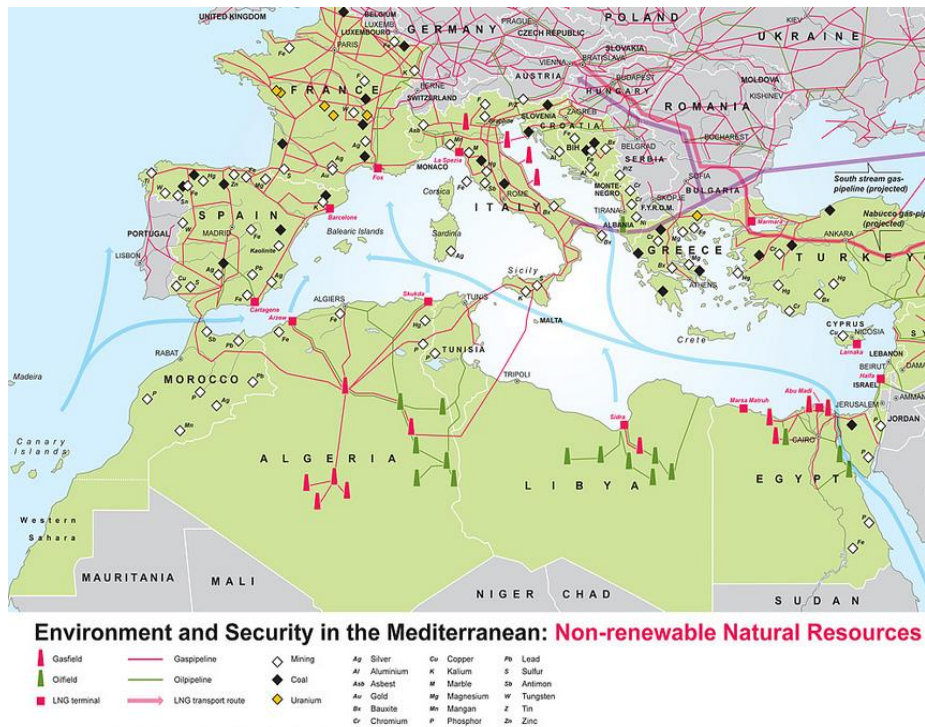
Nevertheless, the contemporary socio and geopolitical scenario of Algeria have been difficult to maintain because of the lack of proper and centralized force that can provide the decision-making processes in the country.

Algeria's economy is dominated by its export trade in petroleum and natural gas, commodities that, despite fluctuations in world prices, annually contribute roughly one-third of the country's gross domestic product (GDP)

Petroleum and natural gases are the country's most important mineral resources. Algeria currently exports about 90% of its crude oil to parts of Western Europe. Its largest gas and petroleum deposits are found mainly in the Eastern Sahara and these are transported to various seaports by means of pipelines

The country has some of the most important oil fields that are generating 22 billion USD for its economy. The proved reserves are estimated at more than 12 billion barrels of crude oil and 4.5 trillion cubic meters of proven natural gas in the country of which 45 billion is exported (OPEC, 2019). The amount of balance and levels of the reserves that Algeria holds are tremendous.

Figure 5.2 Energy Map of Algeria and the Mediterranean



Source: OECD (2019)

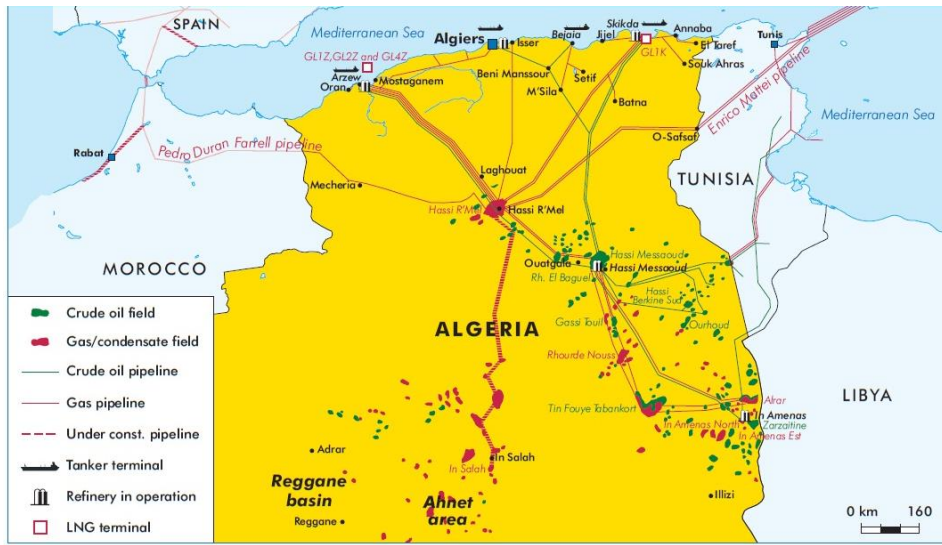
The energy area is a component of business interest for external investors, and Algeria is ranked as the third biggest provider of natural gas globally and as the fourth energy provider to the European Union (EU). Basically, Algeria has been a steady supplier to the European Union for over 30 years (<http://www.oilandgasinternational.com>).

The Oil and Gas Journal (2007) indicates that, Algeria comprises approximately 12.3 billion barrels of confirmed oil properties and is ranked the 3rd biggest on the African continent after

Libya and Nigeria. On the other hand, the report indicates that Algeria’s resources are still not entirely explored with respect to possible forthcoming hydrocarbon findings. Through this key factor, it is necessary to note that energy capacity comprising of oil and gas, has been vigorously supported by the government of Algeria. This practical strategy concerning energy growth in the country could act as a model for other upcoming companies.

The following map shows the Major Oil and Gas Fields Infrastructure

Figure 5.3 Major Oil and Gas Fields Infrastructure



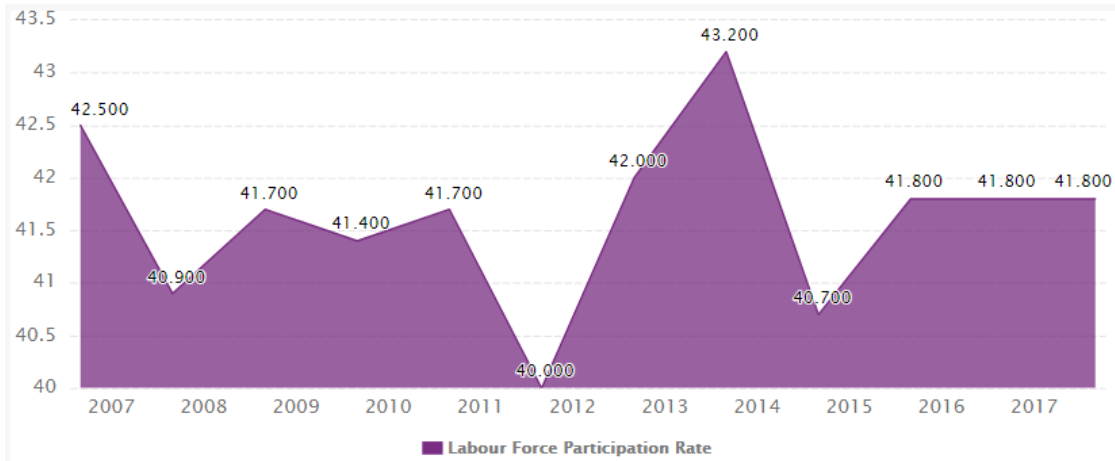
Source: COP (2019)

In summary, the country is rich in the natural reserves of oil and gas and this can keep the Algerian economy stable.

5-3-2 Adequate Human Resources

The country has enough human resources comprising of 65.5% of Algeria’s population which consists of people with the age of 15 to 64 years (i.e. 11,777,618 females and 11,976, 965 males) and these are ready to study and become professionally experienced. The country approximately has 70% of the educated individuals and 40,000 learners are registered in fourteen institutions of higher learning per annum nationally.

Figure 5.4 Labour Force Participation Rate in Algeria

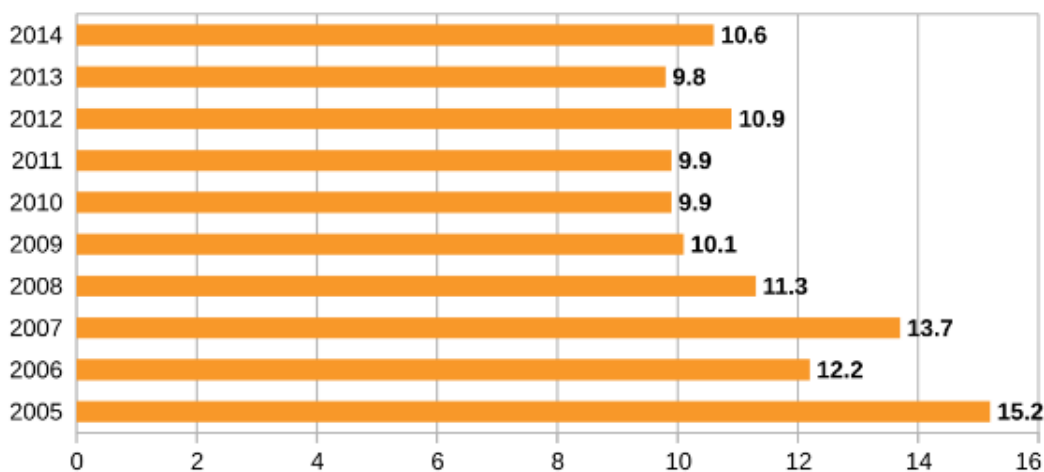


Source: CEIC (2019)

In the case of the labour force, Algeria’s capability is at more than 12 million in the country. The labour force’s participation remained at 41.8 per cent in the previous fiscal years with the unemployment rate at 11 per cent by the end of the 2017 fiscal year (CIEC, 2019). This means that the country has large population with no employment perspectives.

Unemployment rate was 11 per cent by the end of the 2017 fiscal year (CIEC, 2019). This means that the country has large population with no employment perspectives.

Figure 5.5 Algeria's Employment Rate



Source: Fancack (2019)

These numbers show just how much the economic situation is bad. Especially when producing jobs for the Algerian citizens.

The present status of such low numbers has the main reason being related to the unavailability of the required skill labours as per the economy of the country. Meaning that the country and its dependence on hydrocarbon has limited the levels of the experts that are important for the country's economic diversity. Conversely, there is a high brain drain that has led to the migration of the Algerian population to other areas.

The low labour expenses may be considered as one of the major factors favouring the Algeria's competition and encouraging overseas financiers. Nevertheless, it should be noted that, the Guaranteed National Minimum Wage (SNMG) is responsible for determining remunerations in Algeria, for a job period of forty hours.

5-3-4 Infrastructure development and other competitive advantages of the Algerian economy

Algeria underwent a massive investment and development campaign to bring the country into the present global competitive level.

Algeria has established road network of primary; Motorway and secondary road system to 104, 000 kilometres.

Algeria's rail network used to be in a deplorable condition. However, enormous investments and influx of development in the infrastructure has been witnessed in the past two decades. The state-owned company has been investing in such an amount that the railway network is now considered the best in Africa. By the current statistics, the overall network has been on more than 112, 000 kilometres rail network (OBG, 2019b). Algeria's most ambitious of these development plans is the mending up the old and destroyed railways tracks. As well as the project of Relizane-Tiaret-tissersilt railway line of 185-kilometer track. In addition, it has plans to build more lines and enhance the network with an investment of 47 billion USD investment and budget allocations (OBG, 2019a). These investments and the amount of the concentration that the country has placed upon the infrastructure development for transportation and other related fields is one of the largest competitive advantages.

The other important competitive advantage is the development and establishment of water management. In recent years, the country has been investing hugely and heavily into the infrastructure of providing the water resources for citizens and businesses. The result of such investments by end of the year 2023, Algeria is going to have 139 Dams in its place (OBG, 2019a). The development of these dams will also lead to further integration of electricity into the national grid that will enhance on further economic ability. Desalination and water treatment plants have also been installed that includes the Magtaa plant near Oran that shall contribute profits of as much as 15 million USD annually. This plant is the world's largest ultra-filtration membrane that has a capacity of 50, 000 cubic meters of water filtered daily (WT, 2019). Overall, Algeria's competitive advantage has been greatly stressed from the development of these initiatives for gaining water management infrastructure.

In summary, to ensure economic sustainability of the country, Algeria has accomplished a fashionable infrastructure system which keeps developing slowly and entails the following components.

- Ports cover 1000 kilometres especially at the coast (Mediterranean Sea) because of Algeria's location. This makes some of the ports to be dedicated for mainly the export of petroleum goods while others are used mostly for fishing and tourism activities.
- Airports: Algeria has 51 known airports and 30 deal with aeronautics while 12 are responsible for international trips.
- Universities: Algeria's literate population comprises about 70% for instance 14 universities admit 40,000 students per annum nationwide. More universities and vocational trainings are being setup.

Another major competitive advantage that Algeria has is the development in the education sector.

In the 90s, with high petroleum prices, the country thrived with the development in the economy, and the most important of the investments attained was the development of the universities and the scientific and educational fields as well.

Santander (2019) has identified that investments in Algeria has been reaching toward important agreements in the education sector in the country since 2016. These included the investments from Saudi Arabia, UAE.

Moreover, Turkey has been showing interest in investing into the country, there are have been creation of the Turkish-Algerian Business forum that took place in 2018. This investment and the setting of the business forum pushed into the development of the genesis centres in the urbanized cities like Algiers, Oran, etc.

In short, the above competitive advantages were the reasons why we say several investors from the European countries like Italy, Spain and France.

5-3-5 Political security and stable macroeconomic environment

The improvement of the macroeconomic environment at the start of 1990s is a clear indication of the stability of the country's economic status. This is continuously indicated by the sustained rise in the GDP. Therefore, Algeria is currently in a promising position to take key actions to define its economic prospects. It should be noted that, in terms of political security, , Algeria has achieved a satisfactory position particularly after the amnesty, which was confirmed by the 1999 Referendum, and followed by the Peace and National Reconciliation Charter, confirmed on September 29, 2005, which successfully led to the country's stability.

Focusing on Algeria between 1996 and 2006, the World Bank's annual report 2007 emphasizes a positive assessment in political indicators for government control which is due to the above-mentioned economic and political stability. (<http://www.worldbank.org/wbi/governance/>)

Currently, as the OECD has declared, Algeria is regarded as a low -risk nation, and with a better political situation, both internally and externally.

5-3-6 Economic Integration at Regional Level

Since 1990s. Algeria has signed numerous joint venture contracts and agreements for dual levy evasion, with several countries worldwide. Through regional integration, Algeria is among the partner states of the Arab Maghreb Union (which comprises Libya, Algeria, Morocco, Mauritania and Tunisia), importantly expanding export prospects for Algerian goods. Furthermore, Algeria is among the member states of the African Union as well as the New Partnership for Africa's Development.

In addition, during 2001, Algeria signed a contract with United States (the Trade and Investment Framework Agreement (TIFA), thereby successfully establishing a new commercial link between the two states. Algeria too acknowledged a treaty, as a control of the European Union's motivation to ensure resilient linkage with her neighbours in Eastern Mediterranean Sea and Southern Africa. It is anticipated that this treaty would lead the

country to apply new investment developments, particularly in its banking and monetary structures, eventually increasing FDI entries into its economy (KPMG, 2009).

Furthermore, the ascension of Algeria into the World Trade Organization (WTO) is important for the nation and would result into a stable integration of the Algeria into the global economy (WTO, 2008). This will improve on the climate for investment in the country. Certainly, through the new developments, the domestic economy has generated competitiveness in the private sphere. Additionally, in the area of intellectual asset ownerships or entitlements, the guidelines have begun to be consistent, regarding global values recommended by the TRIPS Agreements, hence generating new investment forecasts.

5-4 International Trade and Investment in Algeria

Algerian growth is mainly influenced by reliance on the hydrocarbons composed of oil and gas exports. This saw the growth at 2.8% in 2013, which was followed by a decline in the economic output by 5.5% of the GDP from the hydrocarbon sector. It can be argued that the hydrocarbon sector has been falling for almost nine years. The decline has been a result of an immediate impact on the decline in energy production as well as an indirect impact of the increasing internal demand for energy use. As a consequence, by 2013, the hydrocarbon sectors contribution to the economic development of the country was at 1.9%.

By 2014, there was a sharp decline in by at least 40% in oil prices with a barrel of oil at an average \$55 compared to \$111 in 2011. Conversely, growth as a result of an increase in the prices for hydrocarbons rebounded in 2013, which led to an increase in the economic growth of the country. However, the growth in the country was mainly a result of a strong domestic

demand driven by public spending. This was in investments such as public investment, redistribution policies, and public-sector employment, civil service as well as wage increases. This saw a composite public spending rising to 6.8% by 2014 with the household consumption rising up to 5.3% (Algeria, Ministry of Finance Directorate, 2014).

Complementing the growth driven by the hydrocarbon sector, government spending contributed about 5.6% of GDP in 2014. Additionally, the construction sector added 0.7% supplemented by transport and communications at 0.5% and trade by 1.2%. By 2015 GDP growth remained at 3.9% despite of low oil prices. The non-hydrocarbon sector contributed more to the growth of the economy by 5.5%. This was mainly driven by agriculture, transport and telecommunications and trade, which were mainly driven by an increase in imports (Algeria, Ministry of Finance Directorate, 2015). The increase in the GDP by public investment was mainly caused by an increase in the imports. This saw a capital expenditure budget increase from 1.921 billion DA in 2010 to 3.154 billion DA in 2015. The countries capital expenditure imports were around 32.4% in 2014.

This was on the background that the government had formulated ambitious five-year development plans. These plans aimed on State-funded structural investments mainly in housing and infrastructural projects. Given, the falling oil prices, these plans were realized through major budget deficit increases at around -15.5% of GDP. The areas with the highest rates of growth were agriculture at 7.6% transport at 6% and trade followed by construction at 6% and 5.3% respectively. As a consequence of relying on hydrocarbons, Algeria enjoyed a trade balance surplus of 1.89 billion DA in 2011. However, its exports fell by 34.6% while imports increased by 54% in 2015.

5-4-1 The Investment Climate and Policies

Algeria has put in place different types of approaches that can help to establish an open investment climate in the country (Jameh, 2008). It should be acknowledged that these approaches are progressively significant due to the fast speed of globalization and technological advancement that resulted into liberalization of companies and trade guidelines in the third world nations. In general, and specifically for Algeria, the greatest significant policies implemented to encourage investment include the following:

5-4-1-1 Privatization

The declaration of the privatization governing policy executed in 1995, trailed by the new legal framework (Ordinance N.01-04, August 20, 2001) marked the country's shift to the market economy. For instance, the privatization of one thousand and two hundred (1,200) government commercial businesses demonstrates this shift obviously as a plan concerning FDI desirability and is backed by the fact that presently all public business companies qualify for privatization (Meyer, 2009).

To comprehend this strategy, it is important to explain the idea of privatization from Algeria's context so as to appreciate this approach. In the 2001 Ordinance, privatization refers to "any transaction resulting in a transfer, to physical or moral persons of private law

other than public enterprises, ownership: All or part of the social capital of companies owned directly or indirectly by the state and or legal persons under public law, transfer of social shares, or subscribe to increase the capital; Assets constituting an autonomous business of State-owned companies” (<http://www.mppi.dz>).

In addition, It must be mentioned that, in line with the 2nd section 2001 Ordinance regarding the increase of external investment involving FDI, complete or incomplete privatization is regarded as an investment activity with a support to a domestic firm’s investment in currency or in kind, and in a complete or incomplete privatization (KMPG Guide, 2009). Furthermore, the norm of freedom has been acknowledged by the 2001 ordinance and this paves the ground for investment in different areas. This provides for some proportion of the resources seized by external investors (apart from hydrocarbons, which require foreign financiers to possess no more than 71% of capital).

Various recommendations were embraced by the National Council for Investment since 2004, in the speeding rate of privatization, for better dynamism in the inquiry of new collaborations and for the inaugural of holdings, in order to change it to an actor in the privatization course through encouraging public businesses to start up their investment to the private sector, both local and overseas, via the Economic Policy Review (EPR). This policy also offers incentives to financiers, both local and external, and puts new regulations to support investment. The management of foreign direct investment in Algeria is subjected to the control of the following agencies: The Ministry of Participation and Investment Promotion and the National Agency for Investment Development (ANDI), the National Council for Investment (CNI).

Currently, Algeria is considered as the only nation in the Maghreb, whose economy is altering, particularly through privatization strategy to influence different sectors and shows the degree of transparency of the state, (Aptheloz and De Saint-Laurent, 2004). Meanwhile from 2005, 350 public enterprises have initiated their private investment and 100 public enterprises were privatized in mid2008 (<http://www.mppi.dz>).

5-4-1-2 Capital incentives

The capital incentives are predominantly associated with taxes they take into consideration investors businesses and provide for contracts on entire or portion of the tariffs in a specific time frame or for a fixed period. These are known as tax discounts or exemptions during the short or long period of time and differ according to the investment sector. Specifically, in Algeria, the National Agency for Investment Development (ANDI) offers some of the commercial tax incentives to encourage overseas investors, which can be shortened by the General Regime: the regions to be developed and the Investment Agreement Regime. Furthermore, incentives are offered to businesses whose production and business are export based. Additionally, Algeria’s 5 free trade zones where businesses are exempted from entire levies, taxes and other charges (<http://www.mppi.dz>).

5-4-1-3 Structural and Legislative Framework Development

Legislative Framework Development is a plan aiming at improving effectiveness, through lessening the diversity of regulations managing investment so as to obtain openness and simplicity for both external and domestic investors (Meslem, 2009). This has been demonstrated in different evaluations of laws, choices and measures associated to the investment field right from 2001.

This trend shows the need for the government to support and improve the investment conditions through implementing new rules as well as applying incentives to both internal and external investors. Therefore, the establishment of both the legal and structural contexts is among the top significant strategies implemented by Algeria so as call for FDIs (Foreign Direct Investments).

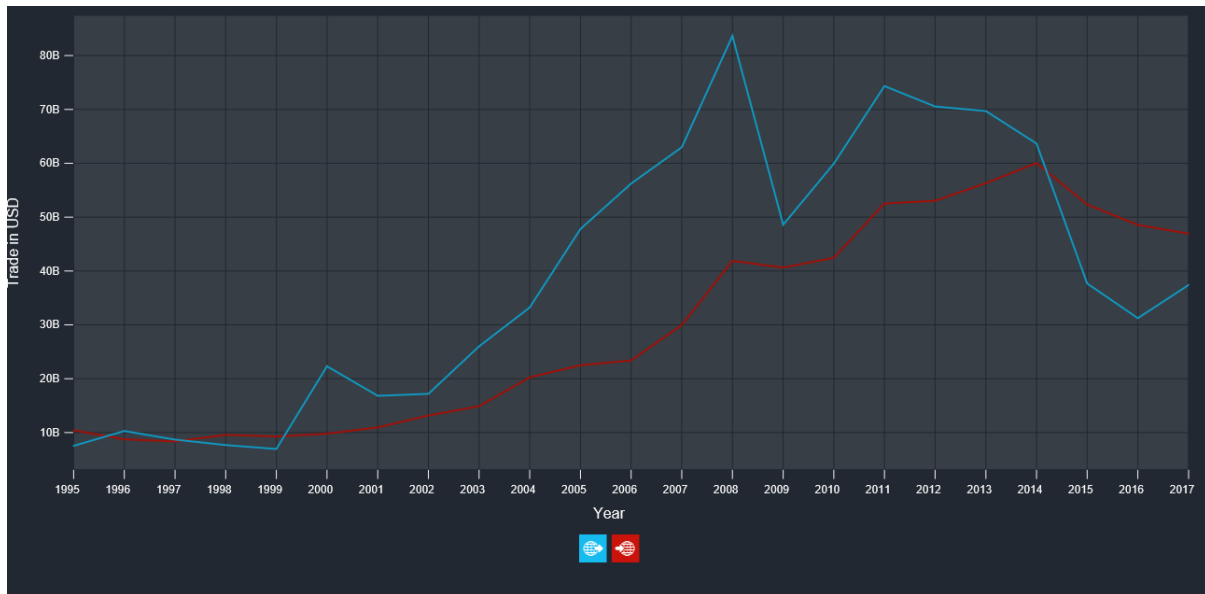
Nevertheless, among the successes of Algeria in this sector is the National Agency for Investment Development (ANDI) and this is a state agency with a managerial style, made to assist both local and foreign investors. This body was formed in 1993 pursuant to the Law of Investment Development in Algeria, and through the years, this body has turned to be a simple reference for both local and foreign investment having key position, appreciations to the panoply of rules guiding investment. On this note, Algeria started currently trying to offer a suitable investment environment with several opportunities for support and incentives to interest external investors by establishing legal and legislative ways of simplifying the course of investment and safeguarding investors and their businesses.

5-4-2 Algeria's Trade of Balance and Foreign Trade Investment

5-4-2-1 Algeria's Trade of Balance

According to OEC 2018, as of 2017 Algeria had a negative trade balance of \$9.5B in net imports. As compared to the trade balance in 1995 when it still had a negative trade balance of \$2.89B in net imports.

Figure 5.6 Algerian Trade Balance 1995 -2017



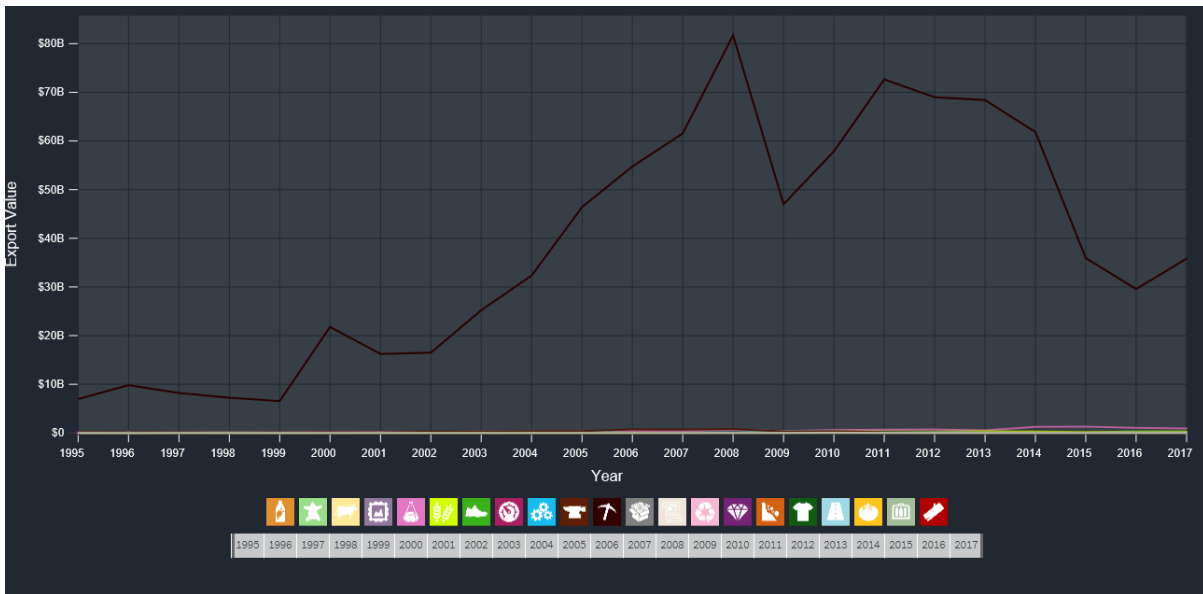
Blue: Export, **Red :** Import

Source: OEC 2018

The above chart shows that the export was dominating until recent years, when during the period 2012 / 2017 the exports of Algeria have decreased at an annualized rate of -12.2%, from \$70.5B in 2012 to \$37.4B in 2017, making it the 56th largest exporter in the world. and the 94th most complex economy according to the Economic Complexity Index (ECI).

The economy of Algeria has an Economic Complexity Index (ECI) of -0.812 making it the 94th most complex country. Algeria exports 24 products with revealed comparative advantage (meaning that its share of global exports is larger than what would be expected from the size of its export economy and from the size of a product's global market).

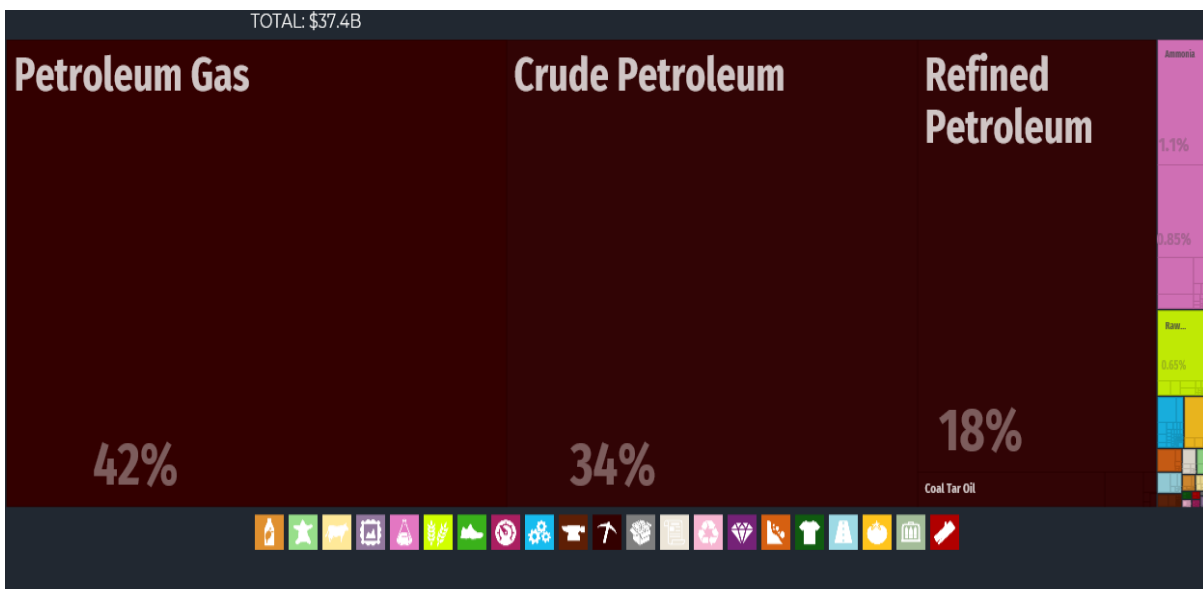
Figure 5.7 Algerian Exports 1995 -2017



Source: OEC 2018

During the period 1995-2017 period, Algeria’s top exports were petroleum Gas (\$15.6B), Crude Petroleum (\$12.8B), refined Petroleum (\$6.89B), Carol Tar Oil (\$427M) and Ammonia (\$425M).

Figure 5.8 Algeria’s most exported products

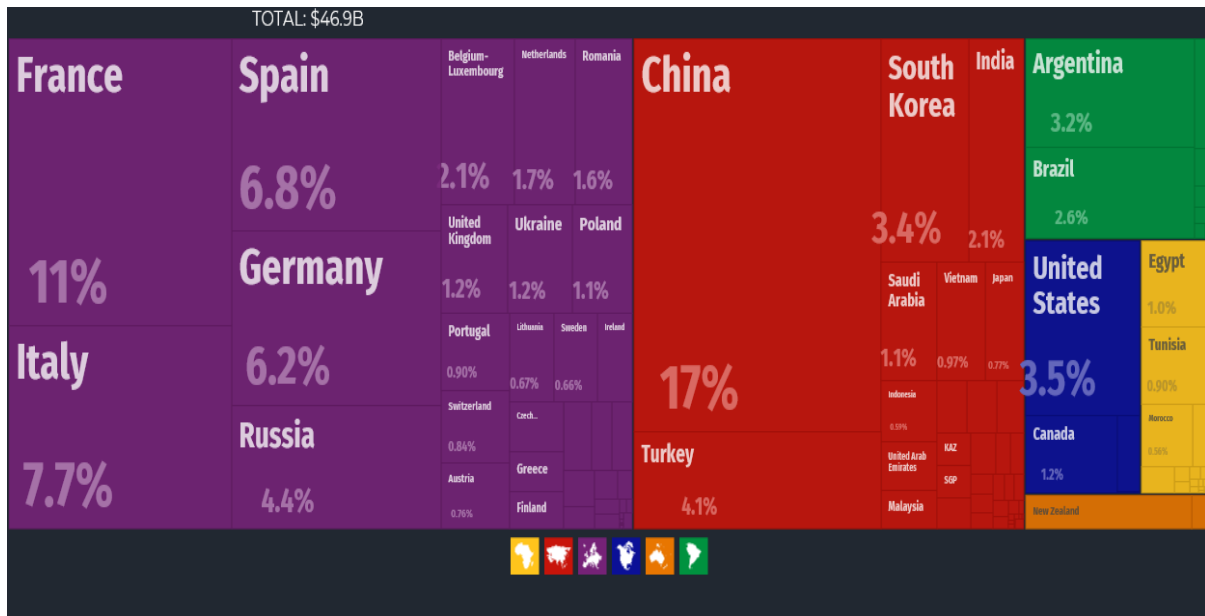


Source: OEC 2018

Ant the top export destinations were Italy (\$5.36B), Spain (\$4.72B), France (\$4.23B), The united states (\$3.7B) and Turkey (\$2.27B).

(\$1.76B), Wheat (\$1.7B), Refined Petroleum (\$1.56B), Concentrated Milk (\$1.2B) and Packaged Medicaments (\$1.17B).

Figure 5.11 Algerian Imports



Source: OEC 2018

5-4-2-2 Algeria’s FDI

In Algeria, appreciation goes to the desirability of the hydrocarbons department including the changes implemented by the state presently, FDI influxes are improving significantly, however not as adequately as equated to the prevailing prospective. Specifically, the robust export performance introduced to Algeria by export based FDI including the energy sector, mining and extractive companies has certainly facilitated Algeria to improve its export arrangement and create progressive influence through capital influxes, foreign currency and tax incomes (<http://www.promex.dz.>, 2008).

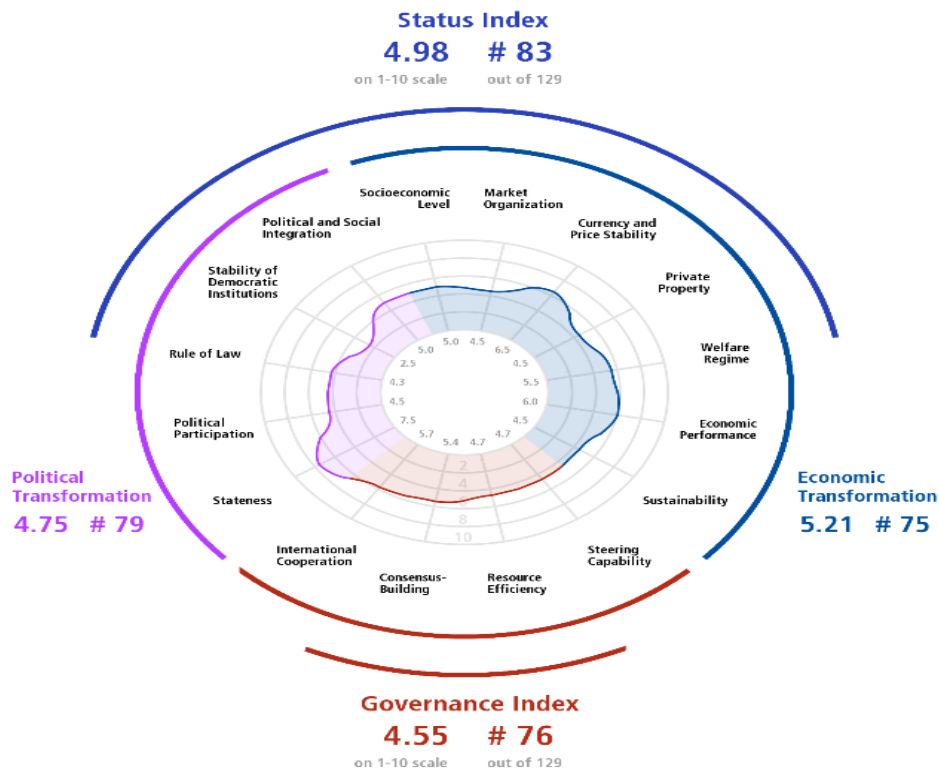
Table 5.1 Algerian Foreign Trade Figures

Foreign Trade Indicators	2013	2014	2015	2016	2017
Imports of Goods (million USD)	55,028	58,580	51,501	46,727	46,129
Exports of Goods (million USD)	64,974	62,886	37,787	28,883	34,925
Imports of Services (million USD)	10,276	11,244	10,522	3,069	11,082
Exports of Services (million USD)	3,701	3,460	3,622	3,561	2,985
Imports of Goods and Services (Annual % Change)	9.8	8.4	6.4	-3.0	n/a
Exports of Goods and Services (Annual % Change)	-5.7	0.2	0.6	7.9	n/a
Imports of Goods and Services (in % of GDP)	30.4	31.9	36.5	35.3	36.3
Exports of Goods and Services (in % of GDP)	33.2	30.2	23.2	21.0	24.0
Trade Balance (million USD)	9,945	352	-17,841	-19,959	n/a
Trade Balance (Including Service) (million USD)	2,923	-7,907	-25,463	-27,407	n/a
Foreign Trade (in % of GDP)	63.6	62.1	59.7	56.3	60.4

Source: (OEC, 2019)

The latest report that has been submitted by United Nation's Organization for Trade and Development (UNCTAD) gave a good insight into the situation regarding Algeria. According to the UNCTAD (2019) report, the foreign direct investment inflow for Algeria has been at positive 1.2 billion USD. This amount is quite low in comparison to 2012 when it was a positive 1.5 billion USD. This decrease in foreign investment is mainly regarding the development of the Arab spring that resulted in their loss of foreign investors. However, with the present status, it seems that the country can reach the former numbers. In the case of the FDI outflow, the country is experiencing a negative sign of 4 billion USD (WEF, 2019a). This means that the domestic investors are taking efforts and are trying to generate investment from the domestic market rather than the foreign.

Figure 5.12 Algeria Country Report



Source: (BTI, 2019)

This shows that the domestic markets are starting to gain back the confidence of the local investors. Therefore, the growth in this confidence will lead to the development of the increase in the forging investment. Thus, there will be a positive sign of the country and its path towards reaching the progressive and stable economic situation

The assessment of FDI flows to the country between the years 2000 to 2006 provides only a small outlook of the effects of foreign companies, especially FDI, on Algeria’s economic development, encompassing funding (credit), technology transmission, and occupation, balance of payment and production expansion, as well as export size. However, the assessment of these improvements shows a sign of Algeria’s future opportunity to expand in different areas including the following.

5-4-2-2-1 Finance and Investment

Since the introduction of the Algerian economy to FDI, the investment rate (percentage of GDP) has undergone a remarkable improvement, attaining 44% in 2000 (UNCTAD, 2014). For the time being in the same year, the impact of FDI on gross fixed capital formation (GFCF) was very small at 3.8% only. It should be noted that, the higher percentage of saving in the country has now been utilized to support investments. Subsequently, the assessment of the similar source summarizes that FDI is not a vital factor of financing businesses in Algeria.

The financial and banking departments have experienced some reforms; however, it should be noted that, they continue to be old-fashioned in their management systems. This has not

been fast in improving current service delivery and giving new goods and services to their customers. Currently, however, and since the introduction of the Regulations on Currency and Credit in 1990, banks have been progressively resorting to private financiers both to provide trading licenses to several private financial institutions, domestic and external.

For more economic consistency, financial and banking structures have to be designed widely and transformation needs to influence administration, productivity, efficiency and marketing. Currently, several developments were initiated to result into enormous financial improvements (IMF, 2013). Therefore, this development trend shows that the government's interest is to develop a modern and vibrant financial and banking system through privatization, specifically a great indication to external financiers.

5- 4-2-2-2 Technological advancement

Specifically, in Algeria, it is hard to determine qualitatively the effect of external investment on the area of technological advancement and diffusion. On the other hand, improving domestic and foreign businesses like FDI in areas with top-level technology for instance electronics and telecommunications, seems to have a big impact and play an important function, however relative, in Algeria's economy as a motivating factor for economic development. Certainly, while developing agreement between foreign investors, especially MNEs, the concern of the domestic private sector is mainly on technology transmission. Through this, for instance, the electronics area has gained from technological advancement via FDI, appreciation goes to the progress of domestic subcontracting firms like Philips, BYA Electronics, LG, Samsung, among others.

Furthermore, external investors find huge, untapped and uncompetitive market. In this respect, Algeria is a very interesting market for telecommunication and Information Communication Technology fields with government control on the fixed telephone system as well as other associated services. Nevertheless, this area experienced important changes and in 2000, the country has put in place a fundamental change with regulations impacting on the post and telecommunications that changed the ordinary management structure into profitable business with shares.

The most obvious issues in technology transmission are those resulting from privatization. In Algeria, foreign companies have introduced their skills and knowledge to allow changes the previous government-owned companies into economical and privatized businesses. Additionally, in terms of transparency to external investors, the telecommunications department has been exposed to rivalry in mobile telephone, and a permit has been approved to Orascom, a foreign private firm from Egypt. This department has also gained from this participation of foreign companies into the area of fixed networks that previously were very insufficient, irrespective of the high demand. Definitely, Algeria had merely 2.6 million fixed networks in the year 2002 for 30 million people, signifying a tele-density rate of 6%, however it obtained a rate of 10.2% in 2003, a robust development, (UNCTAD, 2004). Thus, the liberalization tendency began especially in 2003, with the consent of the 3rd mobile telephone license to foreign financiers, followed by the introduction of the government

telecommunications control, Algeria Telecom's funds to private sector in 2004, and encouraging rivalry for the fixed telephony department in 2005.

Through advanced information technology (IT), Algeria is a very pleasing marketplace particularly while considering the exciting development prospective for computer and internet application. Currently, Algeria has even achieved a notable improvement in several private local and external internet access suppliers, though users in contrast with other nations in the area are very small (UNCTAD, 2004).

5-4-2-2-3 Opportunities for job creation

Financial data has shown that FDI serves an important role in creating employment opportunities for both skilled and unskilled labour, thus basically reducing joblessness. Specifically, in Algeria, despite current developments, unemployment rate in 2006 was relatively high, impacting negatively about 12.3% of the lively inhabitants, though it has reduced than in the past years. On the other hand, several jobs have now been generated, thanks remarkably to the local private department which serves an important part in creating large prospects for employment chances in all divisions of the country.

Conversely, FDI has created few employment prospects since it mainly exists in the energy, mining and banking sectors. And, studies have shown that these FDI sectors only create few employment opportunities, (UNCTAD, 2004). Nevertheless, the telecommunications and manufacturing departments have created numerous employment opportunities. Generally, the CEO of ANDI noted that, FDI in the country was assessed clearly in 2006 in respect to employment generation, making 81,000 jobs with stock choices and 202,534 overall jobs by FDI ventures.

Given the structure of international trade, the Algerian government has tried to diversify its economy from relying heavily on hydrocarbons. This has seen the authorities shifting their focus on investment Policies.

5-5 Algerian Free Trade Zones – Dream Never Come True-

5-5-1 The Establishment of Free Trade Zones in Algeria

The increased inflation rate and the unemployment rate in Algeria made the country focus on the establishment of free trade zones (Aptheloz and Saint-Laurent, 2004).

Besides this, among the other reasons for taking the initiatives of free trade zones in the country are associated with promoting the exports in order to further develop an efficient relationship with the other countries as well as the provision of foreign currency.

The need to develop FTZs have become imperative in recent years than they have been in the previous years.

As previously discussed, the current trade deviation is such that the country is under a severe trade deficit.

The latest report indicates that it has a negative balance of trade with as much as 18 billion USD in the previous economic reports released (OEC, 2019). The total of 90 per cent of the export is solely related to oil exports, while 60 per cent of all the income is generated from this (SG, 2019). Falling oil prices have led to the development of severe crises like the situation in the country. Therefore, with the large deficit in between the export and import, the country's need to develop the free trading zones became a necessity. This way it can also improve on the employment opportunity in the country as it will enhance the business sector.

The free trade zones were also encouraged for attracting investment in the country thus ensuring its development through the investment made by both national as well as foreign investors (Stevenson, 2014; Pera, 2017).

Five zones in Algeria were planned; these were in the four coastal cities of Ghazaouet, Mostaganem, Annaba, and Skikda together with the southern border town of Tamanrasset. In addition, a “cyber city” is being developed on the outskirts of Algiers (Christiansen, 2009).

It is clearly stated in Ordinance 01-03 that the zones are essentially meant to make a special contribution to the government. However, with the new liberalization policies, this has now been abandoned in favour of an open policy for investment.

5-5-1-1 Bellara Customs Free Trade Zone

So far only one FTZ has been established in Algeria based in Bellara, located next to the port of Jijel (Christiansen, 2010). It started in 1997 as a traditional duty-free area next to the port, but authorities had the intention of developing it into an export zone attracting light industry from abroad and drawing on locally available primary resources such as agriculture, fisheries, and forestry. The zone is about 523 hectares however; its cumulative investment and the number of companies involved are not well known (Chrisstiansen, 2010).

Figure 5.13 Port of Djendjen Algeria: The Custom Free Port



Source: <http://logistical.dz/wp-content/uploads/2016/08/18.jpg>

5-5-1-2 The Algeria-China Jiangling Potential FTZ

The Algeria-China Jiangling Free Trade Zone is to be developed without any local partners by Jiangling Automobile Group from Nanchang, Jiangxi province and Zhongding International Group.

This Chinese company has more than 40 sales agents in Algeria. Zhongding International Group is tasked for construction and engineering of Pingxiang Coal Group (PKCC). This has been operating in Algeria for over 17 years in the construction industry.

The Algerian zone was projected to have a total investment of US\$556 million and a land area of 500 hectares, with a first development phase on 120 hectares. It planned to attract 30–50 Chinese enterprises into an industrial park focusing on automobiles and construction materials.

However, establishment of this FTZ has been in limbo since 2008 because of changes in Algerian investment laws, which require to be jointly owned by an Algerian national (Brautigham, 2009).

5-5-2 The Legal and Administrative Frameworks of Free Trade Zones in Algeria

In a move to liberalize its economy, the Algerian government has passed different ordinances specifically designed to improve the investment climate in the country. Therefore, investments have been recommended in specially designated geographical areas. These schemes enjoy benefits of the general regime as well as benefits that pertain to exemption from customs duties on goods and services even if they have been imported or obtained locally when they are used for the benefit of investment. In addition, the scheme enjoys an exemption from property on transfer tax on real estate purchases that are used as part of investment.

The scheme also provides benefits for VAT on goods and services that are utilized in the for the benefit of investment. More exemptions are offered in fixed duties at a reduced rate of 0.2% when registering Articles of Association of the company as well as capital gains. The state is also able to offer support in some infrastructural expenses that are fundamental for the execution of the investment (Aberrahmane, 2010). Investors taking part in this scheme enjoy a ten-year tax exemption that covers the company profit, the professional activity as well as the land taxes (Mohammedi, 2010). In case, the investment is very important for the country an Investment Scheme Agreement is carried out between the two parties.

The investment agreement is advantageous in that during the investment period because it enables the investor a tax-free period. The investors also receive exemption from all kinds of duties and levies on all that might have been imported or even locally procured. They are

provided with services that involve exemption for transfer duties that accrue on real estate acquisitions as well as advertising.

It is these measures the government uses to provide incentives to investors so that they can stimulate growth in specific areas. In additions, these measures are intended to create long-term relations between the Algerian government and the companies. Through these relationships, the government is able to stimulate domestic training of the population, build local infrastructure and stimulate local markets. Conversely, Ordinance 01-03 has attempted to identify investors that will have a long-lasting impact on Algeria. Ordinance 01-03 targets companies that can have a long-term impact with Algeria and at the same time a legal framework for the investment to take place (UNCTAD, 2003).

The framework that governs the tax exemptions for FTZs is provided by Ordinance 03-02 of July 19, 2003 however, it seems that the Algerian government has not put into practice its plans of designing Special Economic Zones (Algeria-US Dept. of State, 2016). The legal framework of this rule contains features that govern the customs-free zone. It states that a FTZ can be set up on land, which is fully owned by a private person or co-operate entity (Ordonance 03-02, 2003).

Broadly, this law applies to any entity in Algeria; this can be a resident or non-resident in the country. Among the incentives, in establishing these zones are that there is need for authorization to establish one. However, one only needs to declare the investment to the National Investment Authority showing that the investment is made in convertible currency or dinars.

Although the Algerian government has not relied heavily on FEZs, it has shown that they are an important strategy for attracting investment in the country. Although the FTZs in Algeria operate outside the customs area they are still subject to Algerian exchange control laws. In addition, the law allows that at least 50% of the goods and services produced in the zone can be sold freely within the customs area.

5-5-3 Incentives and Exemptions by the Free Trade Zones in Algeria

The business transactions in the FTZ areas are carried out in foreign exchange. The Algerian Central Bank is involved in the process of foreign exchange, however, the trades in duty free areas including the other areas are considered as foreign trade activities.

The Algerian government has decided that the foreign traders can set up storehouses while the foreign investors, in the free trade zones, will not be responsible to pay either custom duties or taxes (OCED, 2004).

The framework of investment will facilitate the exemption from tax for the real estate purchases as well as on transfer in payment return. Besides this, for articles of the capital rise and incorporation, the request for fixed registration tax will be allowed to a much lower rate of 5 per 1000 (OECD, 2003). Benefits of VAT on goods and services have also been offered with more freedom in some of those particular areas with fixed duties. Such exemptions are

provided at much reduced rates of **0.2%** during registration of the company's Articles of Association.

On the imported products that may be utilized in investment directly, only **3%** of the custom duty has to be paid.

The Algerian government also offers investors with reasonable support in terms of offering expenses to be utilized in the development of infrastructure (Aberrahmane, 2010). The businesses, for a time frame of at least three years, will also be permitted for benefits on investment success. Furthermore, it has further been decided that the investors that will take part in the scheme development will be offered with the benefit of exemption from tax including the tax on land owned by the companies, their professional activities and profits for a period of ten years (Mohammedi, 2010).

In agreement with the law in place and depending on the decision of the agency, the investments, maybe for a period of 5 to 10 years since when its operation is commenced from contractual expenses, commercial and manufacturing activities or profit taxation. In addition to this, after the operating period, the investors will receive 50% of a reduced rate on reinvested profits (Tahir, 1999).

Concerning the export processing zones, open permission has been granted to the firms especially on the investments as allowed by the Algerian Central Bank. Such investments might be considered in export processing zones that are characterized, according to the demands of custom procedures, by either storage, imports, exports or re-export activities. As only those investments in these zones are allowed that are carried out in foreign exchange, they are further exempted from levies, custom taxes, duties or fiscals. There, however, are certain exceptions associated with the dues and contributions to the social security system (official) as well as the duties and taxes on a vehicle that are utilized for the purpose of promoting tourism in the country (OCED, 2003).

Foreign investors in such zones will not be obliged to pay taxes as well custom duties. Foreign traders may set up customs storehouses to store merchandises for sale in the country (OECD, 2004). In such areas, business transactions are conducted entirely in foreign exchange cited by Algerian Central Bank. Trade among firms in the duty-free area and those established in other parts of the nation will be regarded as foreign trade activities in terms of present investments.

Businesses created in specific areas which are categorized as places to be supported or areas of commercial development with some of the benefits discussed below. The businesses will be permitted for a maximum time frame of 3 years from the time of the Agency's notice and the subsequent benefits on success of the investment.

Excused from the tax on transfer in return for payment, for all real estate purchases, done within the framework of the investment (OECD, 2003)

- Request of the fixed registration tax at low rate of 5 per 1000 for articles of incorporation and capital rise.

- Having responsibility of entire or partial liability by the public, after assessment by the agency, for payments on the infrastructure required for the success of the investment.
- Exemption from Value Added Tax on products and services utilized directly in the success of the investment, whether they are purchased from other countries or got from the local market, as the products and services are planned for implementing processes independent of VAT.
- Application of the low rate of 3% customs duty on imported products utilized directly in the success of the investment.

Such products might be sold off or transferred in agreement with the law in place, after confirmation by the responsible organ. Depending on the Agency's decision, the investments might be provided with the following exemptions:

- The investments are exempted for at least a period of 5 years and maximum time frame of 10 years from the time when the investment commenced operation, from profit taxation, contractual expenses; these exemptions apply to manufacturing and commercial activity (Tahir, 1999).
- In addition, the investments receive exemptions from the date of acquiring the investment; these exemptions apply to land tax on real estate that is part of the investment, for a lowest period of 10 years.
- A decrease by at least 50% of the reduced rate on profits reinvested in a specific area, after the operating period referred.
- When it applies to exports, the exemptions should be from taxation on corporate profits, contractual payments and tax on industrial and commercial activity, in proportion to the export turnover and that is after the operating period.
- The taking over of total or partial liability by the State for employer's contributions to the official social security system, on the remuneration paid to the entire staff, for a period of 5 years, which may be extended on the decision of the Agency.

In as far export processing zones EPZ are concerned, the investments are exempted in the following manner. There is an open permission on investments like capital inputs, which are allowed by the Central Bank of Algeria. These investments might be put in areas of the country's territory, known as Export Processing Zones. These zones are characterized by exports, imports, and storage, processing or re-export activities in accordance with demands by customs procedures.

These zones only allow investments that are carried out in foreign exchange quoted by the Central Bank of Algeria. Therefore, these investments are exempted from all fiscal, para-fiscal and custom taxes, duties and levies however, with exceptions of the following:

- Duties and taxes on the motor vehicles for tourism purposes other than those related to the operation;

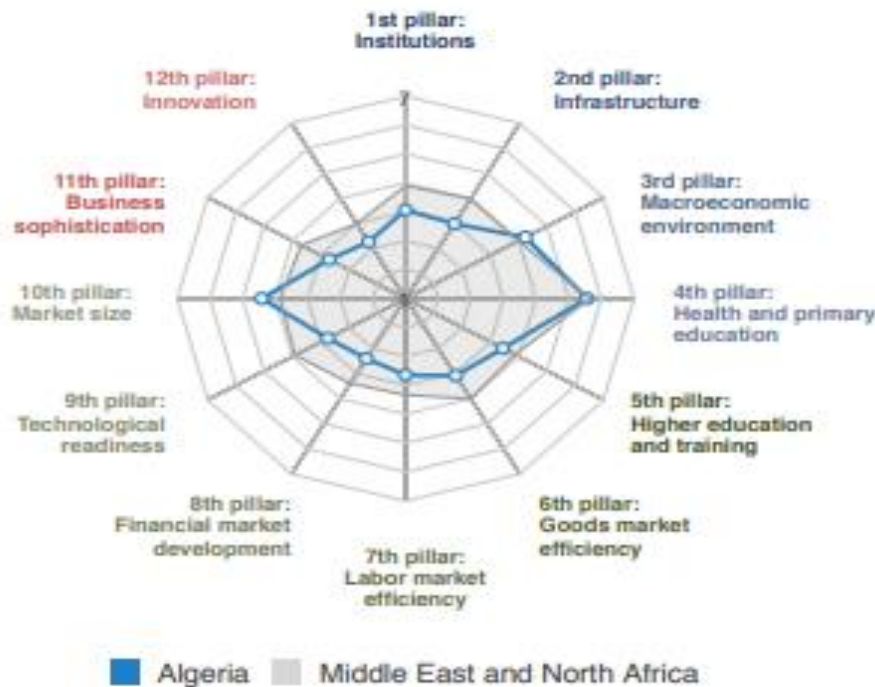
- Contributions and dues to the official social security system.

That said and regardless of these incentives there are many obstacles and challenges to any future FTZ in Algeria.

5-5-4 Constraints to Algerian FTZ

According to the 2019 WEF report, the competitiveness of any country is based on the following important pillars. These are; institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication and innovation.

Figure 5.14 Points Marked on Each Pillar with Comparison to Rest of Middle East



Source: (WEF, 2019a)

According the report Algeria is positioned at 86th out 137 countries in the global competitiveness. Therefore, Algeria should make many efforts in diferents areas if it has serious intention to increase FDI .

In line with previous analysis of the Algerian economy, the proposed FTZs can not play a mojour role in increasing FDI because they are faced with many challenges and obstacles which can can be summarised in the below diagram

Figure 5.15 Obstacles of FTZs in Algeria



Source: Created by the Author

5-5-4-1 Pandemic Corruption

When it comes to trading and constraints that can hamper in the success of the FTZs, its corruption from all levels of government bodies is the source. This is the existing loophole where government officials can be part of corruption with impunity (Bakari, 2017).

Corruption's main source is people's inability to achieve their financial requirements, as well as the weak law enforcement agencies (Uslaner, 2017). This difficulty in handling and maintaining prevalent inefficiency and patronage in the public administration is an exceptional reason that is creating barriers (Souag and Assaad, 2018).

The development of pandemic corruption is a situation which is causing immense loss to Algeria's economy.

The level of corruption in Algeria is backed up by most of the international organizations , for example and according to the World Economic Forum's Global Competitiveness Report for the period 2018-2019, Algeria ranked 92nd out of 140, with 53.8 points out of a total of 100, after it was ranked 93 in 2017.

The annual Global Competitiveness report is one of the most important economic measurements of the world, especially that it measures different sectors, including quality of institutions, infrastructure, information technology, macroeconomics, health, labour market skills, the commercial and financial sector, business sector and innovation capacity

Table 5.2 The Global Competitiveness report 2018

Rank	Economy	Score1	Rank	Score
1	United States	85.6		+0.8
2	Singapore	83.5		+0.5
3	Germany	82.8		+0.2
4	Switzerland	82.6		+0.2
5	Japan	82.5	+3	+0.9
6	Netherlands	82.4	-1	+0.2
7	Hong Kong SAR	82.3		+0.3
8	United Kingdom	82	-2	-0.1
9	Sweden	81.7		+0.1
10	Denmark	80.6	+1	+0.7
11	Finland	80.3	+1	+0.5
12	Canada	79.9	-2	-0.1
13	Taiwan, China	79.3		+0.1
14	Australia	78.9	+1	+0.7
15	Korea, Rep.	78.8	+2	+0.8
16	Norway	78.2	-2	-0.8
17	France	78	+1	+0.6
18	New Zealand	77.5	-2	-0.6
19	Luxembourg	76.6	+3	+0.6
20	Israel	76.6		+0.4
21	Belgium	76.6	-2	
22	Austria	76.3	-1	+0.2
23	Ireland	75.7		-0.3
24	Iceland	74.5		-0.1
25	Malaysia	74.4	+1	+1.1
26	Spain	74.2	-1	+0.4
27	United Arab Emirates	73.4		+1.1
28	China	72.6		+0.9
29	Czech Republic	71.2		+0.3
30	Qatar	71	+2	+0.6
31	Italy	70.8		+0.3
32	Estonia	70.8	-2	
33	Chile	70.3	+1	+0.9

34	Portugal	70.2	-1	+0.5
35	Slovenia	69.6		+1.1
36	Malta	68.8		+0.3
37	Poland	68.2		+0.2
38	Thailand	67.5	+2	+1.3
39	Saudi Arabia	67.5	+2	+1.6
40	Lithuania	67.1	-2	+0.7
41	Slovak Republic	66.8	-2	+0.6
42	Latvia	66.2		+1.4
43	Russian Federation	65.6	+2	+1.7
44	Cyprus	65.6	-1	+0.9
45	Indonesia	64.9	+2	+1.4
46	Mexico	64.6	-2	+0.5
47	Oman	64.4	+14	+3.4
48	Hungary	64.3		+0.9
49	Mauritius	63.7		+0.8
50	Bahrain	63.6	-4	-0.2
51	Bulgaria	63.6		+1.2
52	Romania	63.5		+1.3
53	Uruguay	62.7	-3	
54	Kuwait	62.1	+2	+0.5
55	Costa Rica	62.1	-1	+0.4
56	Philippines	62.1	+12	+2.3
57	Greece	62.1	-4	+0.3
58	India	62	+5	+1.2
59	Kazakhstan	61.8		+0.7
60	Colombia	61.6	-3	+0.1
61	Turkey	61.6	-3	+0.2
62	Brunei Darussalam	61.4	+2	+1
63	Peru	61.3	-3	+0.2
64	Panama	61	-9	-0.6
65	Serbia	60.9	+5	+1.7
66	Georgia	60.9	+1	+1.0
67	South Africa	60.8	-5	-0.1
68	Croatia	60.1	-2	
69	Azerbaijan	60	-4	-0.2
70	Armenia	59.9	+2	+1.0
71	Montenegro	59.6	+2	+1.4
72	Brazil	59.5	-3	-0.2
73	Jordan	59.3	-2	+0.1
74	Seychelles	58.5	+10	+3.3
75	Morocco	58.5	+2	+0.8

76	Albania	58.1	+4	+0.8
77	Viet Nam	58.1	-3	+0.1
78	Trinidad and Tabago	57.9	-2	+0.1
79	Jamaica	57.9	-1	+0.5
80	Lebanon	57.7	-5	-0.1
81	Argentina	57.5	-2	+0.1
82	Dominican Republic	57.4		+1.8
83	Ukraine	57	+6	+3.1
84	Macedonia, FYR	56.6		
85	Sri Lanka	56	-4	-0.4
86	Ecuador	55.8	-3	+0.4
87	Tunisia	55.6	-1	+1
88	Moldova	55.5	-1	+0.9
89	Iran, Islamic Rep.	54.9	-1	+0.4
90	Botswana	54.5	-5	-0.5
91	Bosnia and Herzegovina	54.2	-1	+0.3
92	Algeria	53.8		+0.3
93	Kenya	53.7		+0.4
94	Egypt	53.6		+0.4
95	Paraguay	53.4	+1	+0.5
96	Guatemala	53.4	-5	-0.1
97	Kyrgyz Republic	53	+3	+1.1
98	El Salvador	52.8		+0.4
99	Mongolia	52.7	-4	-0.2
100	Namibia	52.7	-1	+0.3
101	Honduras	52.5	+2	+1.2
102	Tajikistan	52.5	-5	-0.6
103	Bangladesh	52.1	-1	+0.7
104	Nicaragua	51.5	-3	
105	Bolivia	51.4		
106	Ghana	51.3	-2	+1.4
107	Pakistan	51.1	-1	+1.3
108	Rwanda	50.9	-1	+1.3
109	Nepal	50.8	-1	+1.3
110	Cambodia	50.2	-1	+0.8
111	Cape Verde	50.2	-6	+0.4
112	Lao PDR	49.3	-2	+0.7
113	Senegal	49	-2	+0.6
114	Cote d'Ivoire	47.6		
115	Nigeria	47.5	-3	-0.5
116	Tanzania	47.2	-2	+0.8

117	Uganda	46.8	-4	-0.2
118	Zambia	46.1	-3	+0.6
119	Gambia, The	45.5		+0.8
120	Eswatini	45.3	-4	+0.2
121	Cameroon	45.1	-3	+0.2
122	Ethiopia	44.5	-2	+0.6
123	Benin	44.4	-1	+0.8
124	Burkina Faso	43.9		
125	Mali	43.6	-4	-0.1
126	Guinea	43.2	-3	+0.3
127	Venezuela	43.2	-10	-1.9
128	Zimbabwe	42.6	-4	+0.6
129	Malawi	42.4		+1.8
130	Lesotho	42.3	-4	+0.9
131	Mauritania	40.8	-3	+0.1
132	Liberia	40.5	-2	+0.6
133	Mozambique	39.8	-8	-2.1
134	Sierra Leone	38.8	-3	+0.1
135	Congo, Democratic Rep.	38.2	-8	-2.6
136	Burundi	37.5	-4	-1.0
137	Angola	37.1		
138	Haiti	36.5	-5	+0.7
139	Yemen	36.4	-4	+0.98
140	Chad	35.5	-6	

Key
Europe & North America
East Asia & the Pacific
Eurasia
Latin America & the Caribbean
Middle East & North Africa
South Asia
Sub-Saharan Africa

Source: GCR 2018

Among the sub-indicators on which the architects of the competitiveness index were based, the country occupied a very backward position in the spread of corruption by its 96 globally, and also in the area of budget transparency (116).

In censorship and disclosure criteria, Algeria ranked 131 globally, the same rank on what the country put in place in the development of legislation to combat conflicts of interest.

Transparency International conducted a survey in partnership with the African Foundation and National Partners of the Arab Barometer Network on people and corruption in nine Arab countries including Algeria, and the results were published in 2016 and were as follows:

- 34% of Algerians said that all or majority in the public sector were involved in corruption, while 41% said that only some were involved, and in response to the question of the study: Do you think the government's efforts are good or bad in fighting corruption?
- 69% of Algerians said the government's record was bad, and 14 percent of the country's government sector employees said they had paid bribes in the past 12 months.
- On the most corrupt sectors, the 1,200 respondents in the poll said that tax officials top the list, followed by Members of parliament, government officials, local council members (39%), and then corporate executives.

Corruption is prevalent in the private economic sectors and in the government sector, particularly in the area of energy which is the backbone of the Algerian economy.

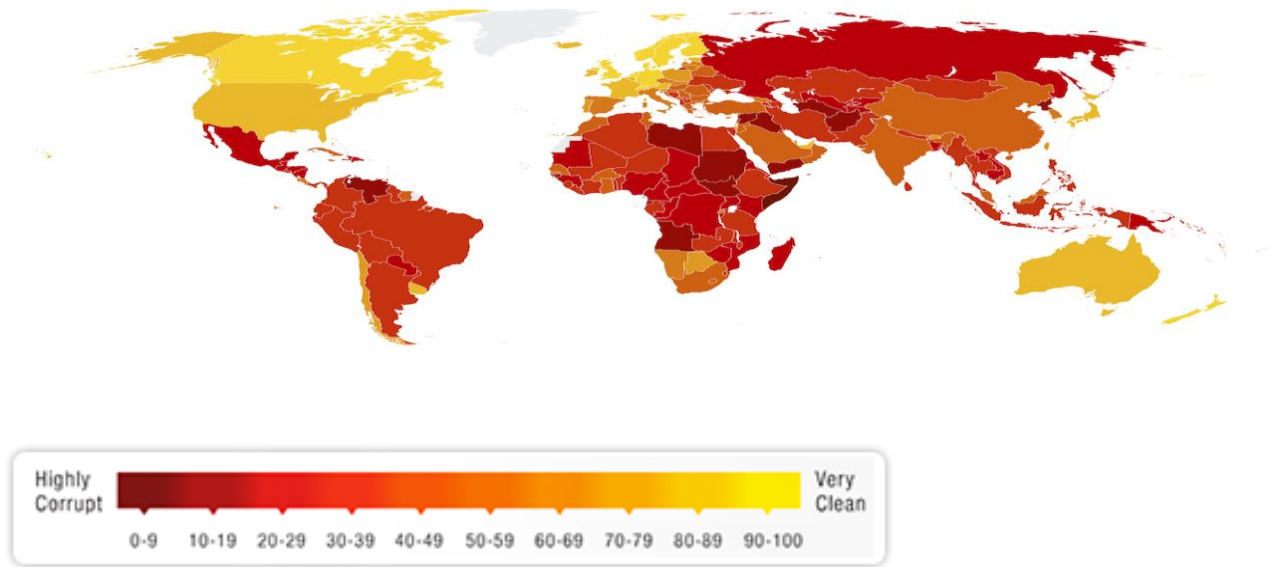
The leaks of Panama also mentioned the names of 79 individuals and economic institutions in Algeria involved in these practices, including owning companies in tax havens in Africa such as Guinea and Nigeria, and in Europe such as France, Italy and Spain, and in Arab countries such as Egypt and the UAE.

Furthermore, the website of the Alliance on 10 September 2018, indicated that the Algerian Government had embarked on an investigation into Money laundering practices following information disclosed by the press investigation.

The authorities' investigations included the use by an Algerian businessman of two companies registered in tax havens to inflate the import of dried milk bills to Algeria, in order to benefit from the largest amount of government aid earmarked for this vital nutrient, which has been the result of millions of dollars in the state treasury.

According to Corruption Perceptions Index and despite the work of many governments tried to fight corruption and increase transparency, Algeria remains highly corrupt.

Figure 5.16 Corruption Perceptions Index 2017



Source: TI 2017

Since 2012, several countries declined in a region stricken by violent conflicts and dictatorships, corruption remains endemic in most Arab countries while assaults on freedom of expression, press freedoms and civil society continue to escalate. In this environment, it is no surprise that 19 of 21 Arab states score below 50. However, the below table shows that Algeria is taking small steps towards fighting corruption and increasing transparency and integrity.

Table 5.3 Corruption perceptions index 2017

Year	2017 Score	2016 Score	2015 Score	2014 Score	2013 Score	2012 Score
Algerian's Score	33	34	36	36	36	34

Source: TI 2018

Despite some incremental progress Algeria is still failing in the fight against corruption. Powerful individuals in Algeria have actively influenced government policies and diverted public funds and state assets for their own self-interest and enrichment at the expense of citizens. This reduces anti-corruption efforts to merely ink on paper, where laws pass, but are rarely enforced or implemented

Algeria's main negative indicators alleged by Algeria were the quality of infrastructure (the country, occupied 88 globally), and at the level of human resources skills also at 88 globally and dynamic of action at 113 globally.

5-5-4-2 Complex, opaque bureaucracy

The worst problems in Algerian's business environment are administrative red tape, excessive administrative procedures for business operations, arbitrary interventions of Governmental administrative bodies, government officials harassing and creating difficulties, and lack of transparency and accountability of government administrative agencies

Similarly, Algeria has a complex and opaque bureaucracy, witnessed in several methods of initiation. The VAT on several items ranges from 7 to 17 per cent, depending on the product (GCA, 2019). This creates reluctance in purchasing which means inability for government to earn. Moreover, changes or notifications are not done with public knowledge or prior notification.

The worst problems in Algerian's business environment are administrative red tape, excessive administrative procedures for business operations, arbitrary interventions of governmental administrative bodies, government officials harassing and creating difficulties, and lack of transparency and accountability of government administrative agencies.

5-5-4-3 Ineffective Associations and Poor Business Services

Algeria has ineffective associations and poor business services which are seen imperatively in customs clearance, time taken by a foreign country to operate and receive their products into their hands ranges between weeks to months. importers are required to provide government certification of conformity and quality from the independent third parties in Arabic, there is also the need for the inclusion of the "Visa Fraud" note that indicates product inspection has been successfully conducted (Export.GOV, 2019).

It is only through this process the company can release their product from clearance. This delay vital time and productivity. In the end, harming business activities in market and in the long run, the economy of the country is suffering.

5-5-4-4 Algerian Market and Industrial Capacity

Algeria's market capacity has been known to be quite low in terms of competitive ability. The pillar of innovation and sophistication factor for business is the lowest with 124th global ranking. As earlier discussed, the country has a good market capacity, their inability to efficiently develop market and labour has led to the tremendous loss in the ranking.

Additionally, their financial market is also significantly low at 135th, making it extremely difficult for the financial sector to aid the businesses in setting up their businesses through loan and investment opportunities (WEF, 2019). This shows that there is a lot of potential in the market of Algeria. However, due to the lack of development and improvement in the existing market; it has not been able to remain competitive. As the world has reached a digital

age, Lake (2017) explained that it's the best time to address the issue of the lack of infrastructural availability on the internet users in the country because of small infrastructure. Using this and integrating education with the contemporary requirements, it will be able to quickly develop into a better system with higher capacity. In other words, the diversity in the economy and country's concentration on education can change the situation.

5-5-4-5 Lack of Access to Investment Capital

Algerians lack access to investment capital that can be seen due to high dependence on oil. Historically, high oil prices were what led to their development and stable economy. This led to false hope of continuous prosperity which meant that inefficiency and narrow versioned officials were unable to diversify their economy (D'Amato and Del Panta, 2017). This is the source of the harmful economic situation in present state. Algeria requires high levels of investment capital to ensure new business development opportunities to be harnessed.

Collateral and land-use regulations make it quite difficult for enterprises to access bank loans so that many enterprises have to borrow money from informal markets at very high interest rates establishing business associations is quite difficult because of complicated procedures involving multiple agencies and steps, possible denials on the grounds that an association in that field already exists.

Once established, they do not operate effectively because they lack the necessary resources such as funding, qualified staff, and training, and they receive no standard privileges such as tax exemptions on income from core activities and tax deductions for dues paid by members. At present, many business associations are neither able to provide business services adequately nor satisfactorily represent their members' interests. Business services are weak due to government misperceptions about the role of business services in the economy, the excessive number of internal service provisions made because of quality concerns, difficult regulatory framework, and lack of specialized capabilities and /or customer orientation among providers.

5-5-4-6 Inadequate Education and weak legal System

There is high deficiency of properly trained educators, which is why the country has an inadequate education system. Algeria has witnessed increased enrolment with rise in education expenditure by government. In total, more than 500, 000 children lack proper education from the ages of 5 to 14 (Bernaoui, Issolah and Hassoun, 2015). Such barriers are due to inadequacy in infrastructure for education. There is no proper implementation in education policy in schools. Overall financial and political management of the education is inadequately controlled due to non-centralised budgeting system. Generally, the education funding is placed at 7 percent of the GDP, yet inefficient in giving quality education as the international test scores recorded being lower than 20 percent (Soledji, 2019). This resulted in lack of skilled and trained individuals. The current percentage of 6 per cent in unemployment is dangerously reaching to higher levels as the country is not able to control these issues

(Madoui, 2015). Algeria's high unemployment ratio is regarding ineffective education, thus making it incapable of providing required level of education.

Algeria's education system has been unable to provide the training needed to help people succeed in business. In other words, graduates cannot meet the demands of the society in the new competitive and increasingly globalized business environment

In Algeria, criminal and civil laws are not separated and are often ambiguous. Its business laws and policies have various conflicts and inconsistencies; consequently, maintaining conformance with applicable regulations requires much time and vigilance. Moreover, decrees and statements from the central government are rarely specific enough. Hence, considerable authority for the interpretation of laws rests with the designated authorities. The matter becomes even worse when new laws and policies, many of which do not supersede old ones, are promulgated.

Many regulations, especially tax and customs regulations, are designed to control rather than facilitate firms' development

5-5-4-7 Limited access to Effective Information Channels and Ease of Doing Business in Algeria

Access to information and their channels are not effectively established in Algeria. A need to address this lack of information is important. By integration of the mobile network with 4G and 5G network, it is possible. Rural regions of the country do not have facilities due to lack in infrastructure of telephones and optic cables. Overall, people in rural regions live a more primitive life, thereby, less likely to attain global educational levels.

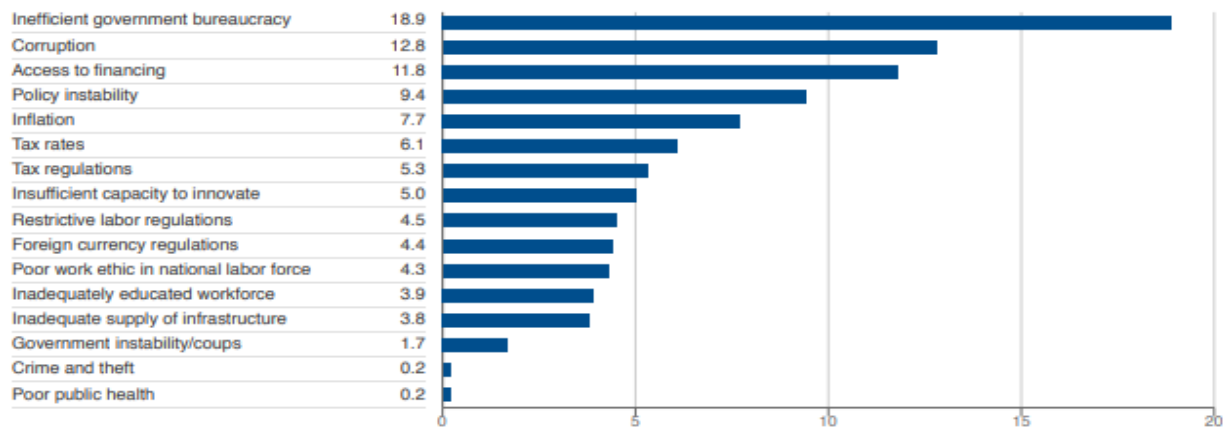
Algeria has a corrupt, inefficient and highly opaque government systems, making very hard for businesses to grow. The statistical analysis of the country has shown that it is ranked as the 87th most competitive country in the world. In terms of the basic requirements of the (1 as worst and 7 as best) pillars, the country has their institutions ranked at 99th while the infrastructure of the country is marked at 105th. Additionally, Algeria is ranked in the bottom when there is the consideration of the market. Although they are ranked at 37th in market size, it is being ranked at 135th in goods and labour market efficiency (WEF, 2019). These rankings show that the country has a lack of the basic requirements to expand its economy and provide the platform for development. In short, the country lacks the necessary aptitude which will help them establish the infrastructure for the zones of free trade that can compete with other FTZs.

Algerian managers operate with far less information than managers in other countries would tolerate. They face serious shortages of key information about products, markets, technologies, trends, etc. simply because up-to-date and high-quality information sources are rare in Algeria and managers' ability to search for information is restricted by many barriers

Finally, and sum up this section, I can say that the most important and the largest value is based on the inefficiency in the government and its bureaucracy (WEF, 2019b). In other

words, it is the inability of the political forces to conduct and apply the proper changes and values that are needed to develop on the situation. This, in retrospect, has been followed directly by the corruption in the government and the government officials. Therefore, the overall necessity that the government of Algeria requires to understand is that their FTZs, to become the beacon of progress in the country is only through the addressing of the two of the most profound problems. The publications that were made by the World Economic forum is particularly surrounding the global competitive index (GCI).

Figure 5.17 Graphical Representations of the Most Problematic Factors in Algeria



Source: (WEF, 2019b)

5-6 Why Reversion to FTZ Model is Important for Algeria? – Lessons from Contemporary / International Experiences.

As we are aware that Algeria has put the idea of establishing FTZs on its territory on the back burner. However, there are so many compelling reasons to encourage the Government and its economic team to have a relook onto the idea. This relook is necessary because as non-adoption a FTZ system can result into putting the Algerian economy at relative disadvantage than the countries with almost similar potential but they are accruing more economic benefits by embracing the latest business trends in the world; FTZs being the most significant model.

We will discuss the aspects in detail once we ponder upon applicability of our three case studies to the Algerian economy. However, for now if a single most compelling logic for adoption of FTZ model is to be presented, it can be China. An almost closed economy like China, with all its peculiarities and differences from the contemporary economic models, had to adopt FTZ model to embrace the latest trends. Tremendous economic diversification opportunities afforded by Shanghai Pilot Free Trade Zone (SHPFTZ) have already been covered in the previous chapter. More importantly number of FTZs dealing with varying nature of economic activities have been introduced by China. Similar policies have been adopted by other developing countries especially Kazakhstan and UAE, both of whom rely heavily on the energy sector as a pillar of economy.

Succeeding paragraphs will emphasize on the need for development of FTZs for Algeria, and what has been missed out so far by non-adoption of the model, basing on historical examples and current global trends towards adoption of FTZs with varying degree of the scope of work, by the countries across the world.

5-6-1 FTZs – A Historically Proven and Time-Tested Concept

Significance of FTZs in global economy can be simply ascertained by examining the growth this concept has witnessed both in terms of numbers as well as diversification of the economic subjects being dealt by the zones. With the initial traces of successful zones observed as early as 300 BC in the Greek era, the concept has been validated across ancient and current civilisations like Roman Empire down to modern states (Haywood, 2000).

Another relevant conclusion drawn from the historical evolution of the FTZ concept is its linkages with the countries having ports. Most of the countries having ports like Algeria have been adopting some form of FTZ or Free Ports system to boost their economy. Similarly, historically speaking the concept of FTZ, which was attributed / practised mainly by the developed nations prior to 1920s, have mainly been owned and adopted by the developing nations since then.

Consistent expanding adoption of the FTZ model by the developing countries cannot be without success as well as positive contribution of the system to their economies. This is a great attraction for developing countries like Algeria who have huge potential to benefit from adopting the FTZ model.

5-6-2 Rapidly Rising Number of FTZs across the World – A Testimony to their Economic Benefits

Number of Free Trade Zones in 1970s was approximately 50, which expanded to about 100 in 1984, more than 200 in 1993 (Bolle and Williams, 2012). The figure has swelled to about 3,500 FTZs situated in 135 countries across the globe. In other words, number of FTZs have witnessed phenomenal increase of approximately 18 x times, since 1993. These zones are accommodating work force to the tune of approximately 66 million individuals, across the world. Majority of these FTZs are situated in developing countries, with the largest once located in China, Singapore and the United Arab Emirates (UAE).

The rising numbers coupled with the growth and the fact that these zones are mainly situated in the developing countries make a perfect recipe for the other countries like Algeria to have a relook towards their approach towards FTZs.

5-6-3 Particular Relevance of FTZs towards Developing Countries like Algeria

FTZs are particularly advantageous for developing countries like Algeria. As discussed during the economic overview of Algeria in the initial segment of this chapter, Algeria confronts economic issues which are quite similar to most of the developing nations. Lack of economic diversification limited or declining FDIs, limited exports, and limited employment

opportunities for the citizens are the main economic challenges confronted by the developing countries.

According to many experts who have analysed the existing FTZ models, FTZs have played a great role in addressing these issues for different countries especially the developing ones. Therefore, it can be accrued that by non-adopting the FTZs countries like Algeria may be at a relative disadvantage and may be on the losing end. Few of such aspects having relevance to Algeria have been summarized below:

- **Learning from Success Stories of the Countries with Similar Economic Outlay**

FTZs facilitate countries to expand and diversify their economies, thus improving overall economic outlook. Countries like Algeria can particularly benefit from the FTZ experience of Oil rich countries like UAE and Kazakhstan, that how they have used their respective FTZs, especially Jabel Ali Free Zone (Jafza), to diversify their economies towards multi-dimensional facets.

- **Test Bed / Pilot Platforms for New Economic Reforms for the Developing / Host Countries**

FTZs act as a perfect Laboratory for practicing various economic / governance reforms. For instance, China in Shanghai Pilot Free Trade Zone (SHPFTZ) has piloted numerous economic policies for implementation in the other parts. Even the zone was named as “Pilot” zone with experimenting new reforms as one of the major objectives of its establishment.

Algeria which has been striving hard over the past few years to work out appropriate set of policies to drive the economy towards a consistently positive and vibrant direction, can utilize its FTZ(s) on the similar lines. The country may experiment various kinds of economic, fiscal, monetary, trade, tariffs and other related policies inside its FTZs to work out the best possible sets of policies

- **Address Un - Employment Vis a Vis Development / Value Addition of Existing Human Resource for the Host Countries**

As discussed earlier, the existing FTZs have accommodated more than 66 million workforce across the globe. This number is on a gradual rise with the ever-increasing number of FTZ across the world. Apart from the growing number, training, skill development and exposure of the local workforce with the international experts, managers and staffers also helps in value addition of the local workforce.

This value addition benefits both individuals as well as countries by increasing their demand both locally as well as globally, which brings in foreign remittances. Country like Algeria can particularly benefit from this provision in terms of employment generation as well as value addition to their employees.

- **Attraction of New and Enhancement of Existing FDI in the Host Countries**

As most of the FTZ programs are being established in the developing countries with the aim of attracting new FDI while reinforcing the existing investment opportunities available in the country.

For instance, Jafza initiated its operations by providing office spaces and warehousing facilities to a rather modest number of companies i.e. 19. However, it has been gradually expanding the ranges and variety of services / facilities being provided to its clients to become one of the largest free zones in the world (The Economist, 2015). Owing to multifarious advantages / incentive being on offer (details in the succeeding parts of this chapter); Jazfa has been turned into one of the most valued business destinations in the world (Shayah & Qifeng, 2015). From the modest figure of 19 companies, today Jafza houses an astounding number of companies (more than 7000) operating within its localities, and the figure is ever expanding. As of now, Jafza acts as a hub of numerous business owned and operated by citizens more than 100 countries. With a fabulous value for trade amounting to 87.6 billion dollars, its accounts for over 32% of FDI and 50% of total exports of Dubai (Jafza, 2019).

Similarly, SHPFTZ and Kazakhstan's Free Zones are also contributing considerably towards the overall increase in FDI as well as other economic activities in their respective countries. It is anticipated that Algeria can also benefit from the successful experiences of China, UAE and Kazakhstan by molding its policies in favour of establishing FTZs inside its territory with right kind of environment, policy framework and appropriate incentives.

- **Gradual Rise in the Foreign Exchange Earnings and Improvement in the Exchange Rates of the Host Countries.**

In the developing countries who possess an efficient FTZ system, a gradual rise in the overall foreign exchange earnings has been observed. The zones act to elevate the local value addition and enhance local purchases of zone-based goods and services. Moreover, owing to increased export earnings, resulting into decline in the overall cost of imports for local buyers is also likely to have positive impact on the exchange rate (Aggarwal, 2007). Both these aspects are of prime importance to Algeria which aims at enhancing the foreign exchange earnings as well as improving the exchange rates. Therefore, adoption of a FTZ model is likely to help Algeria in addressing these issues.

- **Introduction of State of the Art Scientific and Technological Footprints in the Developing Countries.**

Apart from other economic benefits FTZs have played a pivotal role in the technological advancement and in turn up gradation of industrial output of the host

countries. Overall process entailing diversification of export bases also lead to upgrading the skill element of their output. These zones also help in generating transfers of technology and knowledge spill-over which results in production of non-traditional goods by local companies (Tiefenbrun, 2012).

During discussion on the case studies of China, UAE and Kazakhstan, we have observed that hundreds of multinational firms, corporations and outfits have established their offices inside SHPFTZ and Jazfa. These firms include the topmost performers of their respective domains. Quite understandingly once these forms who are global leaders in their respective fields operate under the ambit of a FTZ inside a particular country, they tend to leave their footprints in every walk of life. The overall process results in immense betterment for the host nation's economy.

This facet may have the prime significance for Algeria because introduction of FTZs is likely to add much needed impetus in the industrialization and technological advancement of the local industries as well as work force.

The reasons discussed in the above-mentioned paragraphs lead the researcher to believe that by delaying the adoption of a viable FTZ model, Algeria is certainly at the losing end of the scheme of things. The rapid pace with which developing countries are introducing FTZs with innovative "incentive packages" for both local as well as foreign investors, is leading them to accrue the economic benefits discussed above. However, the quantum as well as efficacy of these economic incentives is subjective and mainly depends upon the policy framework and efficiency of the operating / management mechanisms being adhered to by the respective governments / FTZ authorities. The next section will now focus on the recommendations or key take – aways from the three case studies discussed in the previous chapters and their applicability to the Algerian FTZ environment.

5-6-4 Key Recommendations & Steps

Applicability of the Case Studies in Algerian Context

As discussed earlier, this section will encompass the recommendations regarding applicability of pertinent aspects from the three case studies discussed in the earlier chapters. It is understood that establishment of FTZs may differ according to the purpose of establishment and desired outcomes, however, certain key features stay constant in every FTZ program, irrespective of the purpose. The case studies especially regarding UAE and Kazakhstan have been discussed mainly because of their similarities with Algeria as economies of both countries rely considerably on petroleum products. Hence the steps, measures, policies adopted can be modified to suit Algerian requirements.

- **Step 1: Create A Congenial Environment to Attract Investors – Provide State of the Art Infrastructure and Allied Facilities.**

Irrespective of the objective, availability of the state-of-the-art infrastructure and best possible facilities to create a congenial working and living environment especially for the foreign companies and workers, is of the prime significance. A modern FTZ should entail, latest / sophisticated infrastructure in terms of availability of land for various purposes, basic amenities, round the clock availability of electricity, gas and other energy resources, logistic services, business centres and other allied facilities as per the specific requirement / nature of each zone. Moreover, a FTZ should be located in such a manner which suits most of the companies / corporations intended to be attracted for investments and commencement of their business activities in the zone. It should entail all those features of an effective Off- Shore destination, so as to attract maximum companies for doing business in these FTZs.

Once we consider the success stories of FTZs like Jafza, we find them at the pinnacle for providing these facilities. Being situated in Dubai, state of the art logistics infrastructure is considered as Jafza's main source of attraction. Besides, Jafza is located between two largest international logistic enablers i.e. World's 8th largest port and biggest Cargo airfield. Cutting edge facilities like custom built office spaces, warehouses, office spaces and land for large-scale manufacturing / extensive warehousing, distinguish it from other zones in the region.

Establishment of Jafza One a modern commercial hub with state-of-the-art facilities, plays a significant role towards value addition and investment attraction towards Jafza. Being a purpose-built commercial centre, Jafza One comprehensively caters for a wide array of corporate requirements. It contains purpose-built spaces for corporate offices, business headquarters, residential complexes and executive suites.

Shanghai Pilot Free Trade Zone (SHPFTZ) and Kazakhstan's free zones have catered for similar arrangements for setting up their zones and aimed to provide best possible facilities inside their respective zones.

Best possible location, infrastructure and facilities are the foremost and the fundamental requirements for any successful FTZ. Algeria needs to take a leaf out of the book from any of the three case studies discussed. The existing FTZs can be tailored to meet the above-mentioned requirements while all future FTZs can be built while analysing the infrastructural advantages offered by these FTZs.

The best possible way forward for Algeria can be to select a high priority "Pilot" zone on the lines of SHPFTZ, equip it with the state-of-the-art infrastructure and allied facilities which are at par, and even better, than the ones provided by the existing zones. Make it a "poster child" or icon for the new look for the Algerian economy and then cash on its experience for developing the remaining zones.

- **Step 2 - Establish of a Fully Empowered / Autonomous FTZ Management Authority.**

It can be concluded from all the three case studies that authority responsible for running affairs of FTZ assumes pivotal significance towards success or failure of that zone. Ideally a fully empowered zone authority comprising of all stake holders i.e. Govt officials (Political hierarchy, bureaucrats) and private sector representatives be established. This authority should be fully empowered towards policy making, budget and other related aspects.

The foremost example in this regard is again attributed to Jafza. In order to streamline the management of Free Trade Zone and allied ports in a specialized manner, Government of Dubai decided to establish Dubai Port Authority, in 1991. In order to avoid long bureaucratic red tapes, time delays and corrupt practices, hierarchy of the port included only 2 x directors and 3 x deputy directors for effectively managing the affairs of the ports and free zone. Functions of banking, customs, transportation and public security were also unified under this authority, to ensure minimal red tapes for the investors / businesses. The port authority is autonomous in taking decisions regarding Land procurement, nature, type and quantum of industries and to determine / implement costs of various services being offered by the FTZ for clients.

Similarly, SHPFTZ also has a very high-powered Administrative Committee to look after the affairs of the entire zone. The committee is fully empowered in managing affairs of the zone to include, Policy formulation, planning, promotion and administrative management of various projects in SHPFTZ. Oversee construction, land management, environmental protection and human resources, inside the SHPFTZ. It is also responsible to manage affairs related to investments, fiscal matters, business and commerce and industry.

These examples have lessons for Algeria to follow, once the government decides to undertake a FTZ program, it has to formulate an autonomous, empowered and competent authority or committee to oversee the affairs of the zone. Degree of autonomy and freedom enjoyed by the authority is directly proportional to the success of the zone.

Step – 3: Establish a Peculiar and Comprehensive Legal / Regulatory Framework for the Zones.

This is the most significant aspect contributing towards success of FTZs in China, UAE and Kazakhstan. All three countries have enacted peculiar legal and regulatory frameworks for their respective zones which are mainly aimed at facilitating the foreign investors. The companies established, doing business in the zone, especially the foreign firms need to be “felt at home” by offering a relaxed set of regulations, lenient customs / excise procedures and overall minimal bureaucratic hiccups. Establishment of “One Window Operation Centres” and “help desks” to in Jafza, SHPFTZ and Kazakhstan’s zones have facilitated corporations in their business

ventures can help a great deal in attaining investor's confidence which is critical for FTZ success.

Similarly, a FTZ should entail a comprehensive legal framework, to safe guard interests of both Public and private enterprises without undermining the privileges / authority of the government. This, once enforced in true letter and spirit, contributes a great deal in enhancing confidence by the investors, both domestic as well as foreign.

All the three case studies have exemplified the significance of these legal and regulatory measures. Investors are most concerned about the safety of their investments and the privileges during litigation matters. Any zone authority which inspires the investors to believe that their legal rights are protected, and they won't face any unjustified treatment in case of legal issues, is likely to gain the confidence of investors. Algeria can learn from their experience to formulate such laws and regulatory regime which can be termed as "investor friendly" and hence can result into attracting large number of foreign investors, which can provide much needed impetus to the economy.

- **Step - 4: Introduce a Comprehensive, Elaborate, Attractive and Innovative Incentive Framework for Foreign Investors**

Once we have a look at all successful FTZs in the world, especially the three case studies which have been evaluated during the course of research, one can easily say that the single most compelling reasons for success of these zones is the package of incentives that are offered by the zones especially to the foreign investors. It is quite simple to understand that in order to motivate an investor to pull out his hard-earned money from one country and invest it in a new country needs to have a really attractive and incentivised package. This is what has been adopted by these countries to make their zones successful.

Special Administrative Regimes for the zones have been introduced by these countries. These regimes entail incentives like reduction / exemption on various taxes, tariffs, duties on various products and activities carried out inside the zones. Similarly, facilities established inside all the three zones, on the principle of One Stop Shop cater for all needs of the investors under one roof. All zones, especially SHPFTZ have considerably reduced the procedure involved for establishing a business and thus the time period has come down to a very few days. Financial and fiscal liberties enjoyed by the companies inside the zones in terms of usage of currency, opening up of special accounts inside the zones have also led to huge success of the zones. Very liberal policies related to Visa, manpower and labour have also played a very pivotal part in enhancing the attractiveness of zones for the foreign investors.

Algeria can take a leaf out of these zones by introducing an incentive framework which is comprehensive, attractive and peculiar to Algeria's own ground realities. If

the country is successful in achieving this objective, there is no point that Algeria's FTZs won't meet success like the case studies.

- **Step – 5: Link Academia with FTZs – Follow Innovative Clusters Model**

Once we study the three case studies, one step which has been taken by both Kazakhstan and SHPFTZ is to link its academia with the innovation processes taking place in the zones. This single step is highly beneficial for their respective countries because it effectively finances, patronizes and indigenizes numerous processes, which hitherto has been adopted by only the foreign experts. By effectively linking academia with the economic activity, this has direct bearing on development of knowledge economy base of their respective countries.

For instance, in Kazakhstan, The Park of Innovation Technologies (PIT), in Almaty, focuses on the transfer of advanced technologies. The PIT innovation cluster joins participating enterprises of the PIT SEZ, large research and education institutes in Almaty, and other legal entities to try and seek to attract local and foreign high-tech companies for the implementation of specific industrial projects (CAERC, 2018). For this purpose, Nazarbayev University has established, the “Astana Business Campus” at SEZ Park of Innovative technologies Nazarbayev University, will have research centers and laboratories to carry out joint research projects and development activities, as well as the commercialization of technologies they develop.

Similarly, SHPFTZ has gone miles ahead and have made significant headway in this field by establishing more than 20 universities and research institutions, while simultaneously housing more than 400 R&D platforms of the national as well as international stature.

Algeria can follow these footsteps to connect its higher education institutes and R&D institutions with its zones to benefit from the expertise of the multinational corporations and institutions. This will result in immense benefits for the Knowledge economy of the country as well.

- **Incidental benefits - Promote Algerian Culture and Creative Industries**

Apart from the purely economic benefits the zones are very effective in terms of helping the host government to promote its own culture as well as creative industries. SHPFTZ is a living example of the same as it is also home to few of the best-known international culture and creativity related outfits who specialize in movie production digital as well as animations, TV, and other latest media aspects like online games and creative designing. Since 2011, the park has been designated by the Chinese Cultural Ministry as Demonstration Park for culture.

By establishing zones, Algeria can reap benefits in terms of not only promoting its culture and creativity, but it can earn revenues by attracting foreign tourists.

5-6-5 Miscellaneous Recommendations for Overall Improvement of Algerian Economic Outlook

Having discussed recommendations peculiar to establishment of FTZs in Algeria, Now I will recommend certain miscellaneous measures which will help improve the economic outlook of Algeria in Short, Medium- and Long-term basis. For Algeria to fulfil its dream in creating successful FTZs, make the best use of some of its geographical poles, encourage its anti-corruption policies, and reassure LFIs, there needs to be a sea change in the way it approaches institutions, political rights, checks and balances and other pillars of democracy. These recommendations are appended below:

- 1- The Algerian government must take long-term action to establish transparent and accountable institutions, prosecute wrongdoing and allow for citizen engagement and participation. Civil society has a crucial role to play here.
- 2- Secure political freedoms with heightened accountability and better protection for whistle-blowers, journalists and activists.
- 3- Review electoral laws to ensure parliament is strong and effective, with a special focus on transparent political campaign financing.
- 4- Enable local and foreign investors to capture international business opportunities by relaxing tax and foreign currency control as well as introducing further reforms to reduce bureaucracy and remove protection for state-owned enterprises with regards to export.
- 5- Select specific areas to initiate experimental free zones in Algeria, such as Mostaganem in the West and Annaba in the East. This requires a comprehensive planning process that includes the provision of high-quality services. This entails prompt ports and airports preparation and providing the regions concerned with the best available equipment. In addition to the necessary means of transportation, loading, unloading and lifting, preparation of land in accordance with the current development in all fields, especially wired and wireless communication and lastly safety and security including road networks leading to these zones' construction and fortification.
- 6- Identify all fields and activities in which investment will be permitted; based on their integration with existing projects that serve the national economy.
- 7- For Algerian FTZs to be competitive in the international market, the quality of the Algerian labour force must improve. The government should open its education system to allow market-driven curricula in higher education and vocational training institutions, rather than dictating that they follow rigid content guidelines that must be approved by the Ministry of Education, Ministry of Vocational Genesis, and the Ministry of Higher Education.
- 8- Create an efficient banking system, a clear economic policy, and a realistic tax system.
- 9- Join the Open Government Partnership (OGP), a multilateral network of governments and civil society organisations committed to fighting corruption. OGP is an important platform that promotes transparency worldwide.

- 10- Encourage domestic investment as international investors will not invest unless the participation rate of local investors is significant. The level of local investment is a good indicator of internal stability.
- 11- Help to reduce the LFI search costs by providing quality information rather than censoring what information they can access. Since businesses are increasingly using the internet to find customers and gain market information, the government can provide news feeds for market updates and develop e-portals for business matching. In fact, LFI are always watchfully waiting for quality information from the government, but currently information too general and often at macro level.
- 12- Ensure that as soon as any free trade zone begins operations that the FTZ managing authority should evaluate and follow up the project activity and address any deficiency or deviation, as well as follow up on the levels of achievements of these projects in order to take strict measures with the investors who delay activities or do not adhere to their agreements.
- 13- Algeria must promote the participation of civil society and protect activists and journalists in exposing and fighting corruption. Cracking down on political dissent, enabled by draconian laws such as anti-terrorism and cybercrime laws, must end. Without serious reform, corruption will continue to flourish, further exacerbating the political and economic instability of the region and hindering its social and economic development.

5.7 Conclusion

This chapter has endeavoured to highlight the significant aspects of Algerian economy through a detailed overview from different angles. An insight into the socio-political and economic scenario of the country has been carefully and elaborately discussed, with an aim to find out obstacles which led the government to postpone the idea of introducing FTZs in the country. Furthermore, this chapter gradually and systematically shifts its focus on the core idea of this thesis and that is “to encourage the Algerian government to have a relook on its policies and introduce FTZs while learning from successful examples as discussed in the thesis”.

Although there had been some progress towards the FTZ program in the past, there is still need by Algeria to identify more specific zones for tax breaks and other incentives to allow more foreign investments in the country. This is necessary given to what happened to the Algeria-China Jiangling Free Trade Zone, which stalled because of the law that requires joint partnerships with locals. Their investment policy still needs to be more open and to create more incentives in attracting investors in the country. It is through such an open policy that they will implement their policies on FTZS and spur industrial development in the country

On one hand the Algerian government started many industrial export strategies through the Ministry of Industry. This was aimed at re-industrialization policy as well as boosting and diversifying the exports outside hydrocarbons so that they would bring in more foreign reserves. And on the other hand, the industrial structure is currently old fashioned with the

new technological advancement including industrialization. For this purpose, in various sectors, Algeria should invest in industrial development and improve local market productivity and exports.

The existence of natural resources is a key advantage for Algeria's economy. The country's natural resource endowments like oil, gas and others that are largely not fully exploited especially phosphates and iron ore is a component of business interest for external investors, and Algeria is ranked as the third biggest provider of natural gas globally and as the fourth energy provider to the European Union (EU). Therefore, if it combines this with its geographic location of being situated at the middle of the Maghreb nations it can make them a good selling point for any future FTZ

The most important of the scenarios that Algeria should tackle and try to curb the pandemic of corruption in the country by enforcing harsher and more severe punishment for the perpetrators. In this way, the businesses and the prevalent problems can be lessened. At the same time, the government should quickly take on the necessary steps that will diversify the economy. For instance, they should improve on their agricultural industry and fulfil their needs as per the requirements. As a whole, the diversification can improve their ranking in the global competitiveness and thus improve on the situations like the rising unemployment. This chapter focuses on emphasizing need of introducing effective, viable and competitive FTZs in order to address these problem areas. It is quite evident from the fact that since 2013, numbers of free zones around the world (especially in the developing countries) have increased by approximately 18 times the figure before 2013. Such is the growing impact of FTZs on the economies of the host countries that almost every country is trying to establish maximum possible zones inside their territory to benefit their economy in multiple spheres. An endeavour has been made to motivate Algerian Government by illustrating rationale based on International experiences that why reversion towards a FTZ model is important for Algerian economy to prosper. Benefits of the zones on the local economy in terms of raising FDIs, human resource development, diversification of economy and numerous socio-cultural impacts have been elucidated to support the point of view. This entire discussion entails inbuilt points which allude towards how Algeria might have been at loss by not embracing the idea.

Consequent to above, an effort has been made to render recommendations / steps which Algeria can learn specifically from the countries discussed as case studies in the previous chapters. Different initiatives introduced by these countries like setting up a peculiar administrative / legal frame work peculiar to the zones, how the zones have been managed to yield the desired end results, special incentive regimes like exemptions / reductions on taxes, duties.... etc. and other measures which Algeria may adopt in case it decides to opt for an FTZ model have also been discussed.

In a nutshell, taking into account the financial considerations attained by Algeria throughout the previous years, it can be summarized that the commercial and financial situation is increasing effectively and that this contribution shows that Algerian market is committed and prepared to allow foreign businesses, involving FDI throughout top economically active

areas. Thus, it can be summarized that overall economic situation in Algeria is ripe for reinvigoration of an effective FTZ program to boost its economy.

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Conclusion

Following extensive research on this topic, we have come to the following conclusions:

- Considering the rapid growth of FTZs during last couple of decades, especially in the developing countries, it can be accrued that these zones are exceeding beneficial for the host country.
- Considering the case studies discussed in this thesis, especially the successful experiences for the two oil reliant economies of Kazakhstan and UAE, it can be assumed that Algeria may be missing out a trick by not pursuing the FTZ model, which can be equally beneficial for Algerian economy.
- It is also emphasized that all the countries have successful FTZs, especially the three case studies, are signatory to numerous bilateral, multilateral, regional and international trade / economic arrangements like WTO. However, these agreements / arrangements do not effect establishment and subsequent functioning of the zones. Therefore, Algeria can also work on its FTZ program following the available precedence.
- In case Algeria decides to go for a FTZ program, it will have to create conducive environment for the investors by establishing requisite administrative and legal framework, polices for all kinds of incentives and provide state of the art infrastructural facilities. However, all this has to be done by moulding and tailoring expertise of the successful countries to suit Algerian requirements.
- Algeria possesses necessary prerequisites of establishing an efficient FTZ program. In case right kind of policies, incentives and other measures as adopted by the successful models are followed, Algeria can reap associated economic benefits especially regarding considerable rise in the FDI.

When analysing data on the Algerian economy, it was evident that the Algerian governments approach to FDI had never changed and oil was always one of the major exports; however, fluctuating oil prices, plus an extremely high dependence on it was the reason that the economic stability cannot be maintained in the country This creates other constraints for the economy of Algeria with non-assuredness in the future's stability, this may be the reason why the FTZ never saw the light.

There is no doubt in the fact that FTZ model can meet setbacks at certain occasions for certain countries. Like what happened in the case of Kazakhstan, their FTZ experience of 1990s failed, not because FTZs were not relevant to the environment in the country. Rather the issues were in the domain of policy making and its implementation. Instead of totally abandoning the concept, once the country assessed their shortfalls in a realistic manner, and made remarkable pertinent changes in their FTZ mechanisms. Once the required corrections in the domains of policy making, infrastructural development, site selection, charters of the zones and financial management were put in place by the government, FTZs in Kazakhstan

have gradually commenced paying desired dividends. All three countries discussed as the case studies are maintaining effective trade / economic relations on bilateral as well as multilateral levels, however, these relations have no negative impact on their FTZ development.

This similar situation can be applied to Algeria, who can re-assess the overall applicability environment of the FTZs for the country and find out a viable model suitable to the Algerian conditions and thus mitigate the losses incurred by the country by not adopting this model and gain all the advantages while maintaining all the obligations under the existing bilateral, regional and global obligations being the member of various agreements as well as economic

The review and discussion of various aspects of this subject has produced general results, results specific to **JAFZA**, **SEZ** and **SPFTZ**, and results specific to Algeria.

General Results

- 1- FTZs are geographic areas where business and trading activities are being carried out which have peculiar, often different, sets of laws regarding taxation and custom regulations.
- 2- It is apparent that even though tax exemptions have provided a huge motivation for investment and funds runoff to FTZs, the provision and availability of infrastructure will always be a greater motivational factor. Likewise, the actual success of any FTZ on the extent to which the authorities in charge of their management are able to follow up and monitor project activities, whilst addressing any shortcoming or non-compliance as well as observing and monitoring execution rates and readiness to impose strict sanctions on investors who may not be willing to abide by the set rules and regulations
- 3- Any country trying to adopt this kind of special customs system must answer one fundamental question: do I have all elements needed for a successful FTZ?
- 4- The most important factors contributing to the financial success of any FTZ is its geographic location. A free trade zone should be well located, well equipped, and well administered. The location of facilities should be such that they can easily serve markets to support a zone-based operation. Transport facilities which link the zone, whether locally or internationally with the market and suppliers, are a significant aspect of this.
- 5- Facilities inside the free trade zone should be at least adequate and should preferably equal to the quality of facilities outside the FTZ
- 6- The FTZ should be administered efficiently, removing any complicated rules. This means that administrative restrictions and controls should be kept to a minimum, in order to speed up the processing of documents and carrying out of required processes.
- 7- The FTZ system generally has a positive effect on the hosting country's economy, as FTZs are an important resource in gaining access to foreign exchange, lowering unemployment rates and reducing their balance of payments deficits, Nevertheless,

FTZs can have negative effects if hosting countries do not control free trade zones from the outset and can lead to a dysfunctional employment structure, the emigration of skilled labour thus leading to a shortage of labour in a specific country, which may in turn hinder the economic development of areas abandoned by those workers.

- 8- The FTZ is not established in order to facilitate import into the hosting country, or to invade national markets, but its goals are determined in the framework of the export process, and export free zones are considered the best types of free trade zones, due to the availability of jobs, increased production capacity, as well as its contribution to deploying advanced technology from industrialised countries.

Results from the three Chosen Zones

- 1- **UAE's JAFZA** was aimed at attracting foreign investment and advanced technology in order to stimulate the Emirate's economy and provide the foundation for creating an industrial base.
- 2- The high level of competitiveness of the United Arab Emirates' economy helped secure the success of JAFZA. The economy's main strength lies in the quality of its enabling environment, as companies can operate under stable macroeconomic conditions, making use of good infrastructure and one of the highest levels of Information Communication and Technology **ICT** adoptions in the world.
- 3- The advanced technology deployed in JAFZA helped to develop the domestic industrial sector in the UAE.
- 4- The success of JAFZA may hide some underlying concerns about the way the UAE funds its projects; as a matter of fact Dubai has become a money laundering paradise, where the corrupt and other criminals are able to buy luxurious property with no restrictions (Centre for Advanced Defence Studies C4ADS 2018 report).
- 5- The main reason which led to the failure of **Kazakhstan's** early experience of **SEZ** was the inappropriate use of public funds aimed at the development of these zones. The high level of corruption was a strong obstacle to the increase in the inflow of foreign investment and the development of the institutes of market economy.
- 6- The strategic location of Kazakhstan's SEZs enables faster delivery of products and services to European markets and other markets in the Middle East and the Asia Pacific regions. SEZ also offers Local and foreign investors LFI the appropriate conditions needed to carry out business.
- 7- The key attributes of SEZ include the availability of preferential tax rates such as the zero charges on real property. The SEZ also features global programmes for start-up companies that offer venture financing. These set of attributes make the SEZ a desired destination for global investors.
- 8- As an active participant in the Eurasian Economic Union, Kazakhstan uses its membership alongside the special economic zones to increase its trading activities in this economic region (ADB, 2018). It enacted special legislation in 2011 that

- provides clear definitions for the role of these economic zones with marked borders.
- 9- The data analysed on SEZ shows that an increasing number of foreign companies are venturing into Kazakhstan and seeking to hire local workers. This is expected to foster development and the introduction of the entrepreneurial culture in return for the experience and knowledge offered by the investors
 - 10- **China's SPFTZ** is a type of service platform dominated by the consolidation of diverse government systems. It has been demonstrated that the adoption of this one-stop service platform supports the activities of different companies by ensuring a high level of synchronisation to achieve optimal efficiency.
 - 11- The secret of the success of the SFTZ is due to the continued support of the Government, the expertise, competence and accuracy of Chinese workers, in addition to the interaction of those regions with the Chinese economy where they play a leading role in economic development.
 - 12- The main factor contributing to the success of the SFTZ is the feasibility of the registration of new businesses and administration systems.

Results Specific to the Algerian Context

These findings have several implications for the research community, policy makers, and future managers of Algerian FTZs., and can be summarised in the following results:

- 1- Like many other African countries, the post-independence government in Algeria adopted a Socialist policy characterized by five-year development plans. However, the economic hardships it underwent made it adopt structural adjustment programs imposed by the IMF. These were the foundation of its economic liberalization policy that started in the 1990s. It is this planning that was seen as a foundation for the development of industrialization and FTZs policy
- 2- A prolonged period of low oil prices since 2014 forced Algeria to re-balance its economy, and after a combination of economic, social and political factors it had no choice other than to diversify and aid the growth of the economy. Therefore, Algeria adopted many changes into its fiscal system to increase economic activity in non-oil industries.
- 3- The Algerian investment policy still needs to be more open and to create more incentives in attracting investors in the country. It is through such open policy it will implement FTZs and spur industrial development in the country.
- 4- Algeria is currently in a promising position to take key actions to define its economic prospects. It should be noted that, in terms of political security, Algeria has achieved a decent and satisfactory position particularly when the government granted amnesty which was confirmed by the 1999 Referendum, and followed by the Peace and National Reconciliation Charter, confirmed on September 29, 2005, which successfully led to the country's stability.
- 5- The high corruption in Algeria is caused because of inefficient government officials, complex and opaque bureaucracy, and a weak legal system.

- 6- In the absence of separation of powers, and without strong and transparent public institutions and accountability mechanisms, the introduction of anti-corruption laws and regulations becomes more lip service than real and much needed political and institutional reform. Fighting corruption in Algeria requires serious and genuine political will for change and reform. To break away from politically corrupt institutions, Algeria must take long-term action to establish transparent and accountable institutions, prosecute wrongdoing, and allow for citizen engagement and participation. Civil society has a crucial role to play here.
- 7- The structural barriers affecting growth in Algeria and the birth of any FTZs are the lack of access to credit, poor anti-corruption control systems, a stiff labour market, and an inadequate legal system.
- 8- The contemporary socio and geopolitical scenario of Algeria have been difficult to maintain because of the lack of a proper and centralized force that can provide the decision-making processes in the country. This also includes the lack of proper methodology to take up the FTZs in Algeria like in other Northern African and Middle Eastern countries.
- 9- Enormous investments and influx of development in the infrastructure has been witnessed in the past two decades. Algeria has established a road network of primary; motorway and secondary road system of up to 104,000 kilometres, and a rail network of more than 112, 000 kilometres. Algeria is now considered as the most solid nation in the whole of Africa. This is one of the largest competitive advantages to attract investors to the FTZs
- 10- Algeria developed new dams as well as desalination and sewage water treatment plants. Massive investment and budget allocation have been made with regards to developing infrastructure. In 2005 for instance there were 75 dams. However, new investments ensure the setup of 9 new dams by 2023, and this will meet any industrial needs for future FTZs in the country.
- 11- The existence of natural resources is a key advantage for Algeria's economy. The country's natural resource endowments like oil, gas and others that are largely not fully exploited especially phosphates and iron ore is a component of business interest for external investors, and Algeria is ranked as the third biggest provider of natural gas globally and as the fourth energy provider to the European Union (EU). Therefore, if it combines this with its geographic location of being situated at the middle of the Maghreb nations it can make them a good selling point for any future FTZ
- 12- The structural characteristics of the Algerian economy will allow this country to be one of the most suitable areas not only for the assembly, supply and repair of ships but also for transit trade as well as for establishing heavy, petroleum and petrochemical industries.
- 13- The Algerian's laws and decrees that had been issued with regards to FTZs essentially do not rely on a precise definition of free trade zones, nor the main and strategic objective before which they were established. This can be counterproductive and has been considered a barrier to the success of the FTZs

- 14- The excuse given by the Algerian government for abandoning the FTZ has no justifications as many other members of WTO and other countries which signed free trade agreements , had a very successful FTZs and use these zones as an influencing factor when negotiating free trade deals

Suggestions for future research

Although this research has achieved the objective of confirming the hypothesis stated at the thesis' induction there is still much work to be done for a comprehensive understanding of this subject.

Our access to the above results in this research makes us stand before several other issues related to the free trade zones system; I am hoping that these questions can provide other researchers with a ground for deeper research in this field.

Question 1. How can you turn around a FTZ from failure to success?

Question 2. What are the financial and economic valuation measures that can be used to analyse the profitability of free zones?

Question 3. Furthermore, another interesting research direction is to extend these research findings to study the link between FTZ and FDI in Maghreb countries?

Question 4. What is the impact of FTZ development specifically on the domestic markets in the light of latest trends in the zone developments?

Research Recommendations

For Algeria to fulfil its dream in creating successful FTZs, make the best use of some of its geographical poles, encourage its anti-corruption policies and reassure LFIs, there needs to be a severe change in the way it approaches institutions, political rights, checks and balances and other pillars of democracy. To this end, I make the following recommendations:

- 1- Enable local and foreign investors to capture international business opportunities by relaxing tax and foreign currency control as well as introducing further reforms to reduce bureaucracy and remove protection for state-owned enterprises with regards to export.
- 2- Reduce LFI marketing costs. The government should launch campaigns to promote Algeria's image in areas where it has comparative advantages. It should also have policies to protect investors against political risks.
- 3- Help to reduce the LFI search costs by providing quality information rather than censoring what information they can access. Since businesses are increasingly using the internet to find customers and gain market information, the government can

provide news feeds for market updates and develop e-portals for business matching. In fact, LFI are always watchfully waiting for quality information from the government, but currently information too general and often at macro level.

- 4- For Algerian FTZs to be competitive in the international market, the quality of the Algerian labour force must improve. The government should open its education system to allow market-driven curricula in higher education and vocational training institutions, rather than dictating that they follow rigid content guidelines that must be approved by the Ministry of Education, Ministry of Vocational Genesis, and the Ministry of Higher Education.
- 5- Execute an effective legal and judicial system that protects investors against arbitrary actions and enables them to enforce their rights easily and quickly.
- 6- Create an efficient banking system, a clear economic policy, and a realistic tax system.
- 7- Encourage international investors to work within the proposed FTZs, especially those who have investment in this kind of special customs systems by giving them profitable opportunities similar to those available in FTZs in other countries.
- 8- Establish experimental free trade zones in desert regions because of possible market in neighbouring countries.
- 9- Identify all fields and activities in which investment will be permitted; based on their integration with existing projects that serve the national economy.
- 10- Encourage domestic investment as international investors will not invest unless the participation rate of local investors is significant. The level of local investment is a good indicator of internal stability.
- 11- Secure political freedoms with heightened accountability and better protection for whistle-blowers, journalists and activists.
- 12- Review electoral laws to ensure parliament is strong and effective, with a special focus on transparent political campaign financing.
- 13- Ensure that oversight agencies and judicial institutions are independent to help rebuild trust between the people and the government.
- 14- The Algerian government must take long-term action to establish transparent and accountable institutions, prosecute wrongdoing and allow for citizen engagement and participation. Civil society has a crucial role to play here.

- 15- Algeria must promote the participation of civil society and protect activists and journalists in exposing and fighting corruption. Cracking down on political dissent, enabled by draconian laws such as anti-terrorism and cybercrime laws, must end. Without serious reform, corruption will continue to flourish, further exacerbating the political and economic instability of the region and hindering its social and economic development.

- 16- Algeria should explore of the African Free Trade Agreement (FTA) and its accession to the Chinese silk initiative to seek markets and investors for any future free zones.

- 17- Algeria should provide guarantees for possible investors by signing international treaties and agreements that prevent expropriation or nationalization.

- 18- Providing political will that completely eliminates dependence on hydrocarbons and opens borders will have a major impact on the success of any future FTZ.

- 19- It is necessary for Algeria to harmonize its investment strategies and the investment objectives of local and foreign investors if it decides to go back to FTZ system.