

# Prerequisites for a Common Strategic and Legal Framework for Free Economic and Industrial Zones in the Republic of Armenia

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# Outline

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1. Introduction
2. Review of relevant international experience
3. Conclusions and recommendations

# 1. Introduction

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## **This policy briefing assesses prerequisites for and potentials of developing a common strategic and legal framework for Free Economic Zones (FEZ) and Industrial Zones in the Republic of Armenia**

- Based on the law on Free Economic Zones (adopted on 25.05.2011), five FEZ have been created in Armenia of which three are operational (Alliance, Meridian, Ecos)
- According to the law on Industrial Policy (adopted on 19.11.2014), Industrial Zones can be created to foster the development of industrial clusters throughout the country. So far, no Industrial Zone has been created. Recently, one application has been submitted
- Both laws foresee a range of fiscal incentives which – in the case of Industrial Zones – can be flexibly adjusted to the local and industry-specific context. In addition, FEZ also offer customs concessions
- The Ministry of Economy is considering to develop a common strategic and legal framework for both types of zones
- This briefing builds upon the findings from the recent policy study “Reform Options for Free Economic Zones (FEZ) in the Republic of Armenia” (PS/01/2020)

## 2. Review of relevant international experience

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**Zone-based concepts go by different names and come in many varieties. Against this background, UNCTAD has recently introduced a new definition of Special Economic Zones (SEZ) focusing on the aspect of a distinct regulatory framework**

- As part of the World Investment Report 2019, UNCTAD has carried out a mapping of SEZ identifying nearly 5,400 zones in 147 countries (including FEZ in Armenia)
- UNCTAD has introduced a definition of SEZs, which centres on three key criteria:
  - a clearly demarcated geographical area
  - a regulatory regime distinct from the rest of the economy (most often customs and fiscal rules, but also other relevant regulations, such as access to land rules)
  - infrastructure support
- According to UNCTAD, “common” industrial zones or parks, which have a clearly demarcated area and may even provide some publicly funded basic infrastructure, but do not offer a special regulatory regime or incentives, do not constitute SEZ

## 2. Review of relevant international experience

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**Still, in some countries the term “industrial zone” is used for a type of SEZ and falls under the corresponding legislation. At the same time, many strategies combine types of SEZ and “common” industrial zones to generate synergies**

- For instance, the Malaysian Government created two types of SEZ: Free Industrial Zones and Free Commercial Zones. Both types are governed via the Free Zones Act 1990
- Lithuania and Moldova constitute examples of countries clearly separating between SEZ / FEZ with their own regulatory and incentive regimes and “common” industrial zones / parks. Actually, Lithuania has converted some of its industrial zones into SEZ
- Regardless of the country-specific terminology and legal frameworks, different types of zones are frequently combined based on a coordinated approach
- Amongst others, SEZ in the Western Balkans are often located in or around existing “common” industrial zones
  - This way, even companies located outside the boundaries of a SEZ benefit from improvements of the infrastructure, e.g. new roads or extended public transport
  - Furthermore, new linkages and spill-over effects can be supported

## 2. Review of relevant international experience

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According to UNCTAD research, SEZ laws often enable the setting up of a variety of SEZ types. The decree establishing an individual zone then determines which type is chosen

- SEZ laws share some core elements, including provisions on ...
  - SEZ definitions and the different zone models
  - strategic objectives and targeted sectors
  - investment attraction measures (e.g. incentives)
  - institutional matters, administrative procedures and operational conditions
- Approximately a third of SEZ laws assessed by UNCTAD explicitly cover different SEZ types allowing flexibility to design the framework for each individual zone in accordance with the specific situation and objectives
- Amongst others, in the Russian Federation the Federal Law on Special Economic Zones adopted in 2005 is a generic legal framework for the establishment and operation of four major types of SEZs: industrial, technological, touristic and logistical zones

# 3. Conclusions and recommendations

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**Taking into account international experience as well as the findings of the previous policy study, it is recommended that FEZ and Industrial Zones should form part of a common strategic framework**

- As confirmed by international experience, a coherent strategic framework represents a key success factor for the design and implementation of zone-based concepts, in particular when the private sector is involved
- The previous policy study on reform options for FEZ identified a lack of a coherent strategic framework as a key limiting factor for the performance of zones in Armenia
- Under a common strategic framework, FEZ and Industrial Zones could complement each other
- Good-practice examples show that a coordinated approach allows to generate synergies between different types of zones – e.g. with respect to infrastructure development – and to foster linkages and spill-over effects
- Furthermore, a common strategic framework could also increase the effectiveness of investment attraction efforts integrating both types of zones

### 3. Conclusions and recommendations

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**However, a common law integrating FEZ and Industrial Zones does not seem to be advisable as the two types of zones clearly differ with respect to their profiles and regimes**

- As shown in the previous section, in a number of countries, SEZ laws cover different types of SEZ
- However, the different types are usually based on a common regulatory / incentive regime
- In the case of Armenia, Industrial Zones have a profile and regime that is clearly distinct from FEZ
  - The law on Industrial Policy focuses on fiscal incentives. It offers some flexibility with respect to aligning the incentives to the regional and industry-specific context
  - The law on Free Economic Zones is based on a more rigid regime which also includes customs concessions which are much more complex and more likely to be affected by external changes – e.g. in the context of the Eurasian Economic Union

### 3. Conclusions and recommendations

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**The different regimes also need to be reflected by the composition of the committees involved limiting synergy potentials. Regardless of the legal framework, efforts to increase the efficiency of administrative processes should be intensified**

- According to international experience, a further benefit of a common legal framework relates to a streamlining of the institutional structure
- However, in the case of Armenia, the different types of zones also require a different composition of the responsible committees – e.g. an involvement of the customs office for decisions on FEZ
- Thus, a common legal framework would also offer only limited synergies with respect to the institutional structure
- Against this background, the reform focus should be on developing a common strategic framework for FEZ and Industrial Zones – under two different laws
- At the same time, as recommended in the previous policy study, the government – in close collaboration with the relevant stakeholders – should intensify its efforts to strengthen coordination within the institutional framework and enhance the efficiency of administrative processes

# About the German Economic Team



The German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Georgia and Uzbekistan regarding the design of economic policy reform processes and a sustainable development of the economic framework. As part of the project we also work in other countries such as Armenia on selected topics.

In a continuous dialogue with high-level decision makers of the project countries, we identify current problems in economic policy and then provide concrete policy recommendations based on independent analysis.

In addition, GET supports German institutions in the political, administrative and business sectors with its know-how and detailed knowledge of the region's economies.

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