Reform Options for Free Economic Zones (FEZ) in the Republic of Armenia

Bjoern Vogler

Berlin/Yerevan, January 2020
Executive Summary

This study identifies reform options for FEZ in Armenia focusing on the four dimensions (1) strategic focus, (2) value proposition, (3) institutional framework, and (4) promotion that are critical for the success of zone programmes

- Since 2013, five FEZ have been created in Armenia of which three are operational (FEZ Alliance, FEZ Meridian and FEZ Ecos). The FEZ in Meghri that has not yet been opened constitutes the only public zone. The other zones are managed by private companies

- While the approach taken in Armenia minimised the initial public outlays, the performance and impact of the zones remained below expectations so far. The assessment carried out identified considerable constraints in all four dimensions:
  - The lack of a coherent strategic framework constitutes a key limiting factor
  - The zones have not a fully convincing value proposition. It relies too strongly upon incentives and does not seem to unlock additional investment potentials for Armenia
  - The potential of private sector involvement is only partly tapped. There is a low level of coordination between the government and the zones as well as amongst the zones
  - Resources and capacities for promotion are limited in most cases. Synergy potentials remain untapped
Executive Summary

FEZ can make an important contribution to economic growth and development. To unlock the potential, a major reform is necessary. At the same time, a reform is more promising than a discontinuation of the FEZ programme

➢ Policy decisions should consider that it takes time for zone programmes to unfold their effects – in most cases five to ten years – requiring a long-term approach

➢ Having just created two new zones, a discontinuation would send out the wrong signal to investors, while a reform would demonstrate commitment towards investment attraction as a priority of the government

– FEZ and similar schemes are well-known and received by investors

– Policy credibility and predictability are important investment climate factors

➢ Zones are used by most competitors. In case of a discontinuation, Armenia would compete based on a rather limited policy package – also taking into account the closure of Business Armenia

➢ Furthermore, a discontinuation of the FEZ programme involves the risk of compensations for residents as well as management companies
Executive Summary

The following recommendations for a reform of FEZ in Armenia can be derived:

(1) Develop the necessary strategic foundations – based on a dynamic perspective

(2) In the long-term, convert / integrate the zone programme into a country-wide innovation-oriented industrial development programme

(3) In the medium-term, focus on innovation-driven and (cross-)border zones

(4) Continue with the zone in Meghri if (a) the land issue can be solved, (b) the geopolitical situation improves, (c) facilitated access to the Iranian market can be ensured

(5) Emphasise target-group oriented infrastructures and services in the value proposition

(6) Reform the incentive regime focusing on targeted, cost-based incentives for specific activities throughout the country

(7) Strengthen capacities, cooperation and coordination within the institutional framework

(8) Assess if PPP models can be used for the development and management of future zones

(9) Intensify the target-group oriented promotion of the zones
Structure

1. Introduction
2. Overview of Free Economic Zones (FEZ) in Armenia
3. Assessment of the FEZ programme
   • Strategic focus
   • Value proposition
   • Institutional framework
   • Promotion
4. Conclusions and recommendations
1. Introduction

Taking into account recent trends at the international level, this policy study identifies reform options for Free Economic Zones (FEZ) in Armenia

- Free Economic Zones (FEZ) or other types of Special Economic Zones (SEZ) – constituting geographically delimited areas in which governments facilitate industrial activity through fiscal and regulatory incentives as well as further infrastructure support and services – are commonly used around the globe.

- According to the latest UNCTAD World Investment Report, there are nearly 5,400 zones across 147 economies. Almost all transition countries use FEZ or similar schemes.

- In light of recent international trends, this policy study assesses the performance of FEZ in Armenia and the potential for increasing their effectiveness – with particular emphasis on the following dimensions and their interaction:
  - strategic focus
  - value proposition of the zones (e.g. incentives, infrastructure, facilities and services)
  - institutional framework
  - promotion
2. Overview of FEZ in Armenia

Since 2013, five FEZ have been created in Armenia of which three zones are operational so far

- The first FEZ was established in 2013 in Yerevan (Alliance FEZ). Since then, four additional FEZ were created
- Active residents are only present in FEZ Alliance, FEZ Meridian and FEZ Ecos which has – in addition to its main site in Hrazdan – premises in Yerevan
- The FEZ in Meghri has not yet been opened due to an unsolved land dispute. The FEZ in Gyumri has been created in 2019. The first resident is expected in 2022 – after the development of the site and infrastructure
- Incentives offered to residents include exemptions from corporate income tax, property tax, VAT and import duties on machinery and inputs
2. Overview of FEZ in Armenia

FEZ in Armenia vary with respect to their type and profile. FEZ Meghri constitutes the only public zone. The other zones are managed by private companies.

- FEZ Ecos (Yerevan) represents an innovation-driven zone for AI / digital solutions with an infrastructure and service portfolio that aims at stimulating innovation (accelerator, R&D centres, HR and marketing services, venture capital etc.)
- As a border zone, Meghri has a broader focus fostering trade and regional integration
- Designed as logistics hub, FEZ Gyumri integrates further target groups (e.g. assembly)
- FEZ Meridian and FEZ Ecos (Hrazdan) constitute specialised zones focusing on selected industries – jewellery / watchmaking / diamond cutting in FEZ Meridian, cryptomining / data centres in FEZ Ecos
- Initially, FEZ Alliance targeted high-tech industries – such as biotechnology, electronics and ICT. A recent decree allows now any type of pioneer manufacturing in the zone.

<table>
<thead>
<tr>
<th>Types of zones used in Armenia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multi-activity zone</td>
</tr>
<tr>
<td>-------------------------</td>
</tr>
<tr>
<td>Alliance</td>
</tr>
<tr>
<td>Meridian</td>
</tr>
<tr>
<td>Meghri</td>
</tr>
<tr>
<td>Ecos (Hrazdan)</td>
</tr>
<tr>
<td>Ecos (Yerevan)</td>
</tr>
<tr>
<td>Gyumri</td>
</tr>
</tbody>
</table>
3. Assessment of the FEZ programme

The performance and impact of the zone programme in Armenia remained below expectations so far – with negligible effects on the overall economy

- FEZ Alliance (created in 2013) and FEZ Meridian (created in 2015) each have less than 10 active residents with approximately 200 employees
  - The majority of investors has a diaspora background. In addition, residents in FEZ Alliance comprise local SMEs
  - With respect to export markets, the main focus remains on EAEU markets – though decreasing recently
  - The occupancy rate amounts to 10-15 % in both zones

- FEZ Ecos has only recently opened its main site in Hrazdan and has attracted 2 residents with less than 10 employees. The opening of the site in Yerevan is foreseen for the first half of 2020. As already mentioned, FEZ Meghri (created in 2017) is not yet operational

- The development company of FEZ Gyumri anticipates substantial employment effects (approximately 15,000 new jobs). However, the first resident is expected in 2022
3. Assessment of the FEZ programme

Overall, the rather moderate performance and impact of the (operational) FEZ in Armenia suggest that this policy tool is not yet used to its full potential

- International experience indicates that zones can make a considerable contribution to economic growth and employment. For instance, in zones in Poland, close to 500,000 jobs have been created, in Malaysia nearly 1 million and in the Philippines 1.4 million

- While Armenia has introduced its FEZ programme much later – Malaysia already started in the 1970s – and has a smaller economy, the results and their development indicate that this policy tool is not yet used to its full potential

- In order to identify reasons and reform options to increase the effectiveness of the zones, this chapter takes a closer look at the dimensions (1) strategic focus, (2) value proposition, (3) institutional framework and (4) promotion

- Considering recent research (e.g. UNCTAD World Investment Report 2019) as well as policy practice, those dimensions play a critical role for the success of zone programmes

- The subsequent sections identify for each dimension good-practice examples and key lessons learnt from international experience and assess how those are reflected by the zone programme in Armenia
3. Assessment – (1) Strategic focus

As confirmed by international experience, a coherent strategic framework represents a key success factor, in particular when the private sector is involved in the development and management of zones

➢ Successful FEZ schemes are based on a coherent strategic framework defining ...
  – goals, objectives and KPIs
  – priority target groups
  – envisaged types of zones (incl. types of locations, infrastructure and services)
  – key elements of the incentive package

➢ Well-designed strategic foundations are of particular importance when zones are developed and managed by the private sector. Otherwise, it can be quite challenging to balance the interests of the state and the private sector

➢ FEZ strategies should not be developed in isolation. They should be aligned to a guiding economic development strategy and designed in their broader policy context
3. Assessment – (1) Strategic focus

The strategic framework should entail a dynamic perspective aligning the focus of the programme to the overall development of the economy

- A dynamic approach represents a further critical success factor. It should be regularly assessed if the zones are fit for purpose or if there is a need to adapt the programme

- Different stages of development require different types of zones
  - Many economies are starting their zone programmes with multi-activity zones focusing on export-oriented manufacturing
  - At a later stage, specialised zones are often used to support industrial upgrading
  - Innovation-driven zones are used in particular in more advanced economies to stimulate innovation and unlock the potential of new technologies
  - Several countries (e.g. Malaysia, Poland) have recently integrated / converted their zone programmes into regional or country-wide industrial development programmes offering incentives to target groups also outside the zones
3. Assessment – (1) Strategic focus

The lack of a coherent strategic framework is limiting the performance and impact of FEZ in Armenia. Most FEZ have been created on an ad hoc basis

- FEZ in Armenia operate in a “strategic vacuum” as …
  - there is no specific FEZ strategy or overarching economic development strategy defining objectives, priority target groups and guiding principles for the zones
  - FEZ are not integrated into related strategies (e.g. sectoral strategies)

- Most FEZ have been created on an ad hoc basis – without thorough planning and selection processes
  - Private companies played a strong role in the selection of the location and design of the zones
  - No zone or management company has been selected competition-based
3. Assessment – (1) Strategic focus

Against this background, the FEZ differ significantly with respect to the type of zones, objectives and target groups – without common strategic priorities

- Looking at the focus and target groups of the zones, it is difficult to derive common objectives – without trade-offs. For instance, if job creation constituted a strategic priority, a zone focusing on cryptomining would not be in line with the objectives.
- As mentioned earlier, the scheme in Armenia is combining a very wide range of zone types, including multi-activity, specialised, logistics, innovation-driven and border zones.
- While it is common policy practice that FEZ programmes have several objectives and combine different types of zones, the spectrum is too broad in the case of Armenia considering the size of the economy and the number of zones.
- There is an attempt to address too many development constraints and potentials with FEZ at the same time. An overarching strategic direction or clear development path is barely recognisable.
- In such a constellation, it is very difficult to generate synergies between the zones as well as between FEZ and related policy tools and areas, e.g. innovation policy.
3. Assessment – (2) Value proposition

An increasing number of countries is using „smart“ incentives targeting specific activities and types of projects – also beyond the boundaries of their zones

- The incentives offered in zones are generally considered an important element of the value proposition
- A number of countries has recently introduced a more targeted approach
- “Smart” incentives are increasingly used ...
  - targeting specific types of investment projects
  - combining different criteria determining the aid intensity and support period (e.g. industry, activity, size and sustainability criteria)
  - replacing profit- by cost-based incentives (linking the incentives to the actual investment or labour expenses)
  - supporting linkages beyond the zones
3. Assessment – (2) Value proposition

At the same time, successful zone programmes place more emphasis on a target-group oriented infrastructure and services portfolio as a means of differentiation

➢ The value proposition should include more than incentives:
  – Target-group oriented infrastructures and services (e.g. training programmes) and “plug and play” models play an increasing role as a means of differentiation
  – Successful zones also compete on the basis of streamlined administrative processes (e.g. customs, registration) and needs-oriented investment facilitation services
  – Value propositions increasingly reflect the sustainable development agenda

➢ Conversely, the failure of zones is often related to problems such as poor site locations, inadequate facilities or maintenance and cumbersome administrative processes
  – Deficiencies in those areas can only be partly compensated by incentives
  – Attempts to alleviate regional economic disparities by setting up zones in rural or underdeveloped areas have proven inefficient in most cases

➢ Finally, a key success factor relates to the alignment of the value proposition – with all its components – to the strategic focus
3. Assessment – (2) Value proposition

Compared with international good-practice zones, none of the FEZ in Armenia has a fully convincing value proposition, considering the needs of the target groups as well as the investment and competitive environment

- The value proposition of the FEZ relies too strongly upon incentives, in particular in the case of FEZ Alliance and FEZ Meridian
  - The incentives cannot compensate deficits related to the state of the premises and the infrastructure
  - Furthermore, those zones do not offer greenfield plots or units for sale to investors or differentiating target-group oriented services

- Investors in Hrazdan can benefit from a range of specific benefits (e.g. target-group oriented infrastructure and services, lower electricity prices and cold weather conditions). However, deficits in the off-site infrastructure constitute a limiting factor

- The value proposition of the foreseen zone in Gyumri and the Yerevan site of FEZ Ecos can also build upon some clearly differentiating elements, e.g.
  - proximity to the airport, logistics infrastructure and social amenities in Gyumri
  - accelerator including equity finance, marketing and HR services in FEZ Ecos
3. Assessment – (2) Value proposition

There are also challenges and constraints limiting the investment potentials that can be tapped by the zones that have not yet been opened

- Equally, in the case of the foreseen zone in Gyumri and the Yerevan site of FEZ Ecos, there are challenges and constraints limiting the investment potentials that can be tapped based on the value proposition
  - While competing locations – such as the Eurohub Logistics Park in Minsk (Belarus) – have locations directly adjacent to established international airports and allow for multi-modality, the zone in Gyumri is located 10-15 min away from the airport
  - In the case of the Yerevan site of FEZ Ecos, the fiscal incentives do not constitute a differentiating feature as start-ups in the IT industry can benefit from generous tax incentives throughout the country including a reduced personal income tax rate
- The underlying investment scenario of FEZ Meghri is seriously compromised by the geopolitical situation, in particular the US sanctions against Iran
- Furthermore, the considerable capital expenditure for developing the site at this location is only justified if a cross-border zone which is one of the most challenging zone types can provide facilitated access to the Iranian market
3. Assessment – (2) Value proposition

Overall, the incentive regime for FEZ in Armenia is not in line with recent international trends in the design of zone programmes

➢ Targeted incentives play a minor role in the current incentive regime
  – Main emphasis is on profit-based incentives, that are less effective and more prone to abuse than cost-based incentives
  – Investors benefit from full tax exemptions regardless of the size and impact of their projects
  – In the case of FEZ Alliance, there is also no targeted approach with respect to eligible activities. In the beginning, there was a focus on defined technology-oriented industries. Based on a recent decree, now any type of pioneer manufacturing in the zone can benefit from incentives
  – With profit-based incentives, countries can lose substantial revenue when firms become highly profitable

➢ Furthermore, the current incentive framework is not fostering linkages between companies inside and outside the zone limiting spill-over effects
3. Assessment – (2) Value proposition

The value proposition of the zones does not seem to unlock additional investment potentials for Armenia

- It should be noted that all residents interviewed were generally satisfied with the zone in which they are located.
- In addition to the incentives, in particular the assistance by the zone management in administrative procedures (e.g. registration, customs and taxation) has been highlighted as major benefit.
- However, all foreign investors interviewed would have invested in any case in Armenia regardless of the zones and their incentive framework. So, the zones and their incentives did not unlock any additional investment potentials in those cases.
- One investor interviewed even was not aware of the customs incentives offered.
- In that context, it has been pointed out that the comparative advantage of some incentives has been reduced due to Armenia’s accession to the EAEU. This applies in particular to export-oriented investment scenarios aiming at EAEU markets.
- According to the interviews, cumbersome administrative procedures related to the zones’ incentive and regulatory framework represent a key challenge for residents.
3. Assessment – (3) Institutional framework

Many countries have recently implemented reforms to increase the efficiency of their institutional framework

- A main focus has been on strengthening capacities and generating synergies, e.g. by …
  - entrusting zone management organisations with the responsibility for more than one zone (see the example from Moldova on the right)
  - establishing organisations that take over complementary tasks – such as zone, infrastructure and township development (e.g. Penang Development Corporation in Malaysia)

Administration of FEZ in Moldova
- Each zone is managed by an administrator who is appointed by and accountable to the Minister of Economy and Infrastructure
- Zone administrators can take over the management of additional subzones based on a request by the local authorities and an approval by central government
- Experience shows that local authorities prefer to partner up with experienced zone administrators with a strong track record
- For instance, the FEZ Balti administers 11 subzones in three regions of the country
- Balti is the most successful zone in Moldova, accounting for more than 50% of jobs created in the country’s zones
3. Assessment – (3) Institutional framework

International experience shows that private sector involvement can provide access to additional resources, expertise and contact networks

- Some of the specialised companies – such as Amata from Thailand or Sembcorp from Singapore – have developed a strong international footprint

- A wide range of models for private sector involvement is used. Innovative PPPs have accelerated zone development blurring the line between public and private zones

- PPP models are not only used for the management of zones but also for projects with residents to improve the investment environment and foster linkages (e.g. Penang Skills Development Centre in Malaysia)

- A clear division of roles and efficient coordination play a critical role for the success of zone schemes, in particular when the private sector is involved

The Vietnam Singapore Industrial Parks (VSIP)

- The seven parks are developed and operated by a joint venture involving, amongst others, Sembcorp Development from Singapore and Becamex IDC Corporation, a Vietnamese state-owned company

- Tasks of the joint venture comprise the preparation of land plots, development of industrial facilities, residential areas and social amenities as well as the provision of utilities and services – such as one-stop shops

- In total, 800 residents have invested USD 11 bn in the parks creating 210,000 jobs
3. Assessment – (3) Institutional framework

In light of international experience, a number of deficits in the institutional set-up can be identified. The potential of private sector involvement is only partly tapped

- With the exception of Meghri, all FEZ in Armenia are run by private companies. None of the management companies has been selected on the basis of a competitive process.
- All private management companies had no experience related to FEZ when they embarked on the project. Thus, the integration of additional specialised expertise could only be realised to a limited extent.
- As each management company is only responsible for one zone, it is also difficult to build up the necessary expertise in the country. At the same time, according to the interviews, there is also a need to strengthen capacities within the government.
- Definitely, the integration of the private sectors helped minimise initial public outlays.
- However, the state of the premises and infrastructure of some of the zones is indicating a lack of both private and public investment.
- In particular, in FEZ Alliance and FEZ Ecos (Hrazdan), deficits in the off-site infrastructure which normally falls in the remit of the state limit the chances to attract investors.
3. Assessment – (3) Institutional framework

Furthermore, a low level of coordination between the government and the zones as well as among the zones has been pointed out as a major shortcoming

➢ It has been emphasised in the interviews, that in general the Ministry of Economy is open for the concerns of the FEZ in the country

➢ However, according to the interviews, there is no clear and effective division of roles with respect to the provision of infrastructure and services
  – In none of the active zones, single-window services are offered by government
  – Substantial public investments in the off-site infrastructure as well as single-window services are only foreseen in the case of the zone in Gyumri

➢ In addition, a platform for the coordination between the zones and government that can also be used for addressing challenges in the regulatory framework is lacking
  – Overall, efforts to reduce the complexity of the regulatory framework should be intensified from the perspective of the interview partners
  – Such a platform would also be helpful for improving the cooperation amongst the zones which has been mentioned as a further challenge
3. Assessment – (4) Promotion

Several zones have recently intensified their promotional efforts – based on a target-group oriented approach

- Successful zones take a targeted approach
  - They combine different promotional activities and measures that are consistently target-group oriented
  - The promotion of a zone is a long-term activity where a systematic follow up and building long-term relationships are of high relevance

- Efficient cross-organisational cooperation represents a further important success factor

- Joint promotional efforts involving different zones as well as investment promotion agencies at the national and regional level are common practice around the globe

<table>
<thead>
<tr>
<th>Tools and activities used for the promotion of zones</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Marketing materials</strong></td>
</tr>
<tr>
<td>• Target-group oriented presentations &amp; fact sheets</td>
</tr>
<tr>
<td>• Image brochure</td>
</tr>
<tr>
<td><strong>Online marketing</strong></td>
</tr>
<tr>
<td>• Dedicated website</td>
</tr>
<tr>
<td>• Social media</td>
</tr>
<tr>
<td><strong>Lead generation</strong></td>
</tr>
<tr>
<td>• Identifying, profiling and contacting potential investors</td>
</tr>
<tr>
<td>• Direct sales (often in the context of events, trade fairs)</td>
</tr>
<tr>
<td><strong>Intermediaries networking</strong></td>
</tr>
<tr>
<td>• Joint identification of investment leads</td>
</tr>
<tr>
<td>• Joint workshops / seminars</td>
</tr>
<tr>
<td>• Articles in publications of intermediaries</td>
</tr>
<tr>
<td><strong>PR activities</strong></td>
</tr>
<tr>
<td>• Publication of articles in relevant media</td>
</tr>
</tbody>
</table>
3. Assessment – (4) Promotion

Against the backdrop of international experience, also in the area of promotion a number of challenges and potentials for improvement can be identified

➢ Resources and capacities are limited in most cases. An ad hoc approach is prevailing
   – Most zones use only part of the spectrum of available promotional tools and activities
   – Main emphasis is on events and intermediaries networking (e.g. cooperating with international law, auditing and tax advisory firms)

➢ There is hardly any cooperation between the different management companies with respect to the promotion of the zones

➢ As Business Armenia was closed down last year, also investment attraction measures at the national level are rather limited
4. Conclusions and recommendations

International experience shows that FEZ can make an important contribution to economic growth and development. But their benefits are not automatic. There are a number of preconditions – that are currently only partly met in Armenia

➢ Amongst others, FEZ can help attract investment, create jobs, boost and diversify exports. They can stimulate innovation, support industrial upgrading and integration into global value chains

➢ Successful zones can be found in very different types of economies regardless of the size and development stage, including small transition economies – such as Moldova

➢ However, the benefits are not automatic. Zones are not a “silver bullet” policy tool

➢ There are a number of preconditions for success that have been elaborated in the previous sections and that are currently only partly met in Armenia

FEZ Balti in Moldova
• FEZ Balti has attracted several automotive investment projects – amongst others four plants of the German supplier Dräxlmaier accounting for 5,000 new jobs
• The zone is successfully utilising synergies between zones and clusters
• An automotive cluster comprising 25 companies, various universities and service providers has been set up
• With the support of resident companies, an engineering college has been opened offering a dual vocational training programme
• A supplier development programme also forms part of cluster-related activities
4. Conclusions and recommendations

Against this background, there is a clear need to reform the FEZ. At the same time, a reform is more promising than a discontinuation of the FEZ programme

➢ Policy decisions should consider that it takes time for zone programmes to unfold their effects – in most cases five to ten years – requiring a long-term approach

➢ Having just created two new zones, a discontinuation would send out the wrong signal towards investors, while a reform would demonstrate commitment towards investment attraction as a priority of the government

➢ Policy credibility and predictability play an important role as investment climate factors

➢ Investors are familiar with zone programmes. FEZ and similar schemes are well-known and received by investors

➢ Furthermore, a discontinuation of the FEZ programme involves the risk of compensations for residents as well as management companies
4. Conclusions and recommendations

FEZ and similar types of zone belong to the most commonly used investment policy tools. Most competing locations have zone programmes in place.

- Zones are one of the most commonly used tools according to a recent UNCTAD analysis of investment policy measures in industrial development strategies.
- After the closure of Business Armenia, investment promotion and facilitation measures have already been significantly reduced.
- In case of a discontinuation of its zone programme, Armenia would compete based on a rather limited policy package.

<table>
<thead>
<tr>
<th>Policy tools</th>
<th>Country classification</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Developed economies</td>
</tr>
<tr>
<td>Incentives</td>
<td>97%</td>
</tr>
<tr>
<td>Special zones</td>
<td>83%</td>
</tr>
<tr>
<td>Investment promotion/facilitation</td>
<td>67%</td>
</tr>
<tr>
<td>Regulation (entry &amp; establishment)</td>
<td>Liberalisation</td>
</tr>
<tr>
<td></td>
<td>Restriction</td>
</tr>
<tr>
<td>Performance requirements</td>
<td>3%</td>
</tr>
</tbody>
</table>

*Source: UNCTAD, 2018*
4. Conclusions and recommendations

Against this background, the following recommendations for a reform of the FEZ programme in Armenia can be derived:

(1) As a first step, the necessary strategic foundations need to be developed

- Priorities of the FEZ programme with respect to goals and objectives as well as target industries / activities and the desired types of zones should be clearly defined

- A dynamic perspective should be integrated providing directions how the zone programme should be adapted to the overall development of the economy

- Taking into account the recommended future positioning which is outlined on the next pages, FEZ should be integrated into related policies and strategies (e.g. SME, investment and innovation policies, sectoral strategies)

- In this context, it is highly recommended to design an overarching economic development strategy that provides guidance for and generates synergies between the different policy areas and tools
4. Conclusions and recommendations

(2) In the long-term, the zone programme should be converted / integrated into a country-wide innovation-oriented industrial development programme

- The focus should be on specific technology areas and (application) industries and the corresponding interfaces that are in line with the country’s competences and competitive advantages and that offer significant employment and welfare effects

- Zones should become an integrated tool at the interface between investment, innovation and entrepreneurship policy – providing the hard and software for FDI projects as well as for SMEs, start-ups and inventors to implement their ideas

- The strategic focus of the programme – and its incentives – should be shifted from the location to the activity fostering linkages beyond zones

- Similar reforms have been implemented, amongst others, in Poland, Thailand and Malaysia

**Polish Investment Zone Programme**
- In several reform steps, the Polish zone scheme has been converted from a profit-based incentive regime with a spatial focus into a cost-based, industrial development programme
- The new Polish Investment Zone Programme – adopted in 2018 – allows investors to benefit from tax exemptions throughout the entire territory
- Investment projects have to meet a minimum number of economic, social and sustainability criteria (e.g. priority industries, R&D activities, environmental impact)
- The maximum aid intensity depends upon the investment location and size of the company
4. Conclusions and recommendations

(3) In the medium-term, the focus of the FEZ programme should be on innovation-driven and (cross-)border zones

- New zones should only be created if they are in line with the outlined development path (e.g. a pharma zone or an SDG-model zone reflecting the sustainable development agenda)
- In light of the new strategic directions, KPIs should be formulated for all existing zones and the monitoring system should be refined accordingly
- For zones not meeting the KPIs, turn-around strategies should be developed
- If the objectives still cannot be achieved, their FEZ status should be phased out
4. Conclusions and recommendations

(4) The development of the zone in Meghri should be continued if (1) the land issue can be solved, (2) the geopolitical situation improves, (3) facilitated access to the Iranian market can be ensured through bilateral negotiations.

- In case, a cross-border zone offering privileged access to the Iranian market cannot be realised, an alternative, more cost-effective site should be considered.
- (Cross-)border zones are one of the most demanding and challenging zone types.
- International experience shows that the development of (cross-)border zones requires an underlying business scenario offering concrete benefits to investors.

**Border zones in Thailand**

- In 2015, Thailand introduced a new scheme focusing on zones in border regions to promote regional integration.
- Residents in the border region between Thailand and Myanmar can benefit from the combined advantages of both countries.
- Thailand offers an efficient infrastructure and access to regional and international value chains.
- Locating next to the border, companies in Thailand can employ day labour from Myanmar to reduce their operating costs.
- The relaxation of border controls and removal of administrative obstacles facilitating cross-border commuting constituted an important prerequisite for the approach.
4. Conclusions and recommendations

(5) The future value proposition of the zones should focus more strongly on target-group specific infrastructures and services and less on incentives

– The value proposition should be aligned to the overall strategic focus of the zones
– The infrastructure and services should reflect the needs of larger investors as well as SMEs and start-ups and should stimulate collaboration within the zone and beyond
– Amongst others, testing and laboratory facilities (depending upon the target group), incubators / accelerator programmes, business development, innovation transfer and networking services could form part of the portfolio
– Social amenities should be integrated into the zones
– Next to companies, universities, research and training institutions could be located in the zones offering industry-oriented R&D, study and training programmes
– The design of the zones should allow residents to start their operations based on a “plug and play” concept. At the same day, investors interested in setting up their own facilities should be able to buy plots or lease them on a long-term basis
4. Conclusions and recommendations

(6) The incentive regime should be reformed focusing on targeted, cost-based incentives for specific activities throughout the country

- “Smart” incentives should be introduced for activities in priority industries and technology areas that leave the investor to decide on his preferred location

- Incentives should be granted to foreign as well as local companies and start-ups establishing new operations

- In addition to the industry and technology area, further criteria could be taken into account to determine the aid intensity and support period (e.g. location, size and sustainability). This way, it would also be possible to provide preferential treatment for investments in zones – at least for a transition period

- Profit-based incentives should be replaced by cost-based incentives, linking the incentives (e.g. tax exemptions) to the actual investment or labour expenses

- Rent-free periods or the sale / lease of land / facilities at reduced prices could complement the incentive scheme
4. Conclusions and recommendations

(7) Capacities, cooperation and coordination should be strengthened within the institutional framework – based on a clearly defined division of roles

– In light of an increasingly sophisticated demand by investors, both the private developers and the state need to strengthen and coordinate their efforts.

– While the state should put emphasis on the regulatory framework, the off-site infrastructure and single-window services, the zone management should focus on the on-site infrastructure and facilities, technical and business development services.

– A joint task force should be set up with representatives of the Ministry of Economy, Ministry of Finance and all zone managements to discuss challenges and solutions. Depending upon the topic, it should be possible to invite external specialists.

– As one of the first initiatives of the task force, the registration process could be streamlined, e.g. by merging and integrating different committees involved in the process (financial, legal, security).

– Cooperation should also be intensified between the zones (e.g. by setting up an association).
4. Conclusions and recommendations

(8) It should be assessed if PPP models can be used for the development and management of future zones

– Existing international and local experience (e.g. Engineering City) should be taken into account

– New zones should be planned based on thorough feasibility studies. Private partners should be selected competition-based

(9) The target-group oriented promotion of the zones should be intensified

– The focus should be on priority industries and activities as defined in the new strategic framework

– Cross-organisational cooperation should be extended (e.g. joint promotional efforts under an umbrella brand)

– To support the promotion of the zones at the national level, adequate institutional structures and capacities for investment attraction should be developed with high priority
Dr. Ricardo Giucci  
giucci@berlin-economics.com  

Bjoern Vogler  
vogler@berlin-economics.com  

BE Berlin Economics GmbH  
Schillerstr. 59, D-10627 Berlin  
Tel: +49 30 / 20 61 34 64 0  
Fax: +49 30 / 20 61 34 64 9  
www.berlin-economics.com