INCENTIVES AND THE ROLE OF SPECIAL ECONOMIC ZONES
OUTLINE OF PRESENTATION

- Incentives
- SEZs
INCENTIVES
THREE VIEWS ON INCENTIVES

- **Orthodox**: Incentives have little or no effect

- **Traditional**: It’s all about the incentives

- **Mixed**: Incentives do matter, but it very much depends on situation, type and structure
THE OVERALL INCENTIVE PHILOSOPHY

Good incentive policy starts with clear goals and an understanding of corporate motivation

- Why give incentives?
- What are the Economic Development Objectives?
- Do incentives work (and when)?
- What types of incentives are available?
- What criteria should be used to award incentives?
- Stipulate on Clawback Provisions
# UNDERSTANDING THE ROLE OF INCENTIVES IN THE CORPORATE INVESTMENT PROCESS

## Strategic Assessment

**Phase 1**
- Define project and goals
- Business requirements

**Phase 2**
- Project assumptions

## Location Screening, modeling & benchmarking

**Phase 3**
- Input cost model

## Cost comparison

**Phase 4**
- Resources for site visits

## Community Evaluations

**Phase 5**
- Define real estate objectives and accommodation needs

## Implementation

**Phase 1**
- Prepare site visits
- Prepare discussions with relevant governments and service providers
- Incentive negotiations

**Phase 2**
- Input cost model
- Set up cost model
- Cost differentials between locations

**Phase 3**
- Site visits

**Phase 4**
- Real estate support

**Phase 5**
- Real estate transaction and acquisition support

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**Notes:**
- Data gathering
- Build model for location analysis
- Present rankings of locations
- Sensitivity analysis
- Exploration of incentives

**Conclusion:**
- Project definition & understanding of strategy
- Determine geographic scope
- Selection of location factors
- Weighting location criteria

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**United Nations Economic and Social Commission for Asia and the Pacific**
THE CURRENT INCENTIVES DEBATE

- Debate is often emotional but without a depth of understanding
- Are incentives a necessary evil, harmful or irrelevant?
- Common belief (World Bank): Race to the bottom, wasting scarce government resources
- International setting and developments (EU, RTAs, WTO, global crisis, rise of emerging markets)
- Consensus growing: incentives are “icing on the cake” but cannot compensate for lack of competitiveness and good business/investment climate
WHY GIVE INCENTIVES?

- To overcome a competitive weakness
- To promote investment in deprived areas
- To attract particular industries/develop a particular sector
- To correct for market failures
- To change the image of a location

Despite funding pressure, Governments feel that they have to offer incentives because their competitors offer incentives - simply to ensure that they are in the game.
TYPES OF INCENTIVES

- Fiscal vs. non-fiscal (financial vs. non-financial)
  - Fiscal: tax concessions/breaks/holidays/import duty exemptions/accelerated depreciation vs. subsidies and grants
  - Non-fiscal: preferential/priority access to land, property, labour, location, infrastructure/utilities, credit

- Discretionary vs. mandatory

- Conditional vs. non-conditional: linked to performance requirements

- Often linked to location in SEZ/EPZ
EXAMPLE INVESTMENT INCENTIVES:

TRAINING

Invest in Malaysia

Incentives for Investments

8. Incentives for Training
9.1 Main Incentives for Training

To encourage human resource development, the following incentives are available:

Investment Tax Allowance

New private higher education institutions (PHEIs) in the field of science and companies that establish technical or vocational training institutions are eligible for an Investment Tax Allowance (ITA) of 100% for 10 years. This allowance can be offset against 70% of the statutory income for each year of assessment. Any unused allowances can be carried forward to subsequent years until fully utilised.

The above incentive also applies to existing PHEIs in the field of science and existing companies providing technical or vocational training that undertake new investments to upgrade their training equipment or expand their training capacities.

The qualifying science courses for PHEIs are as follows:

i. Biotechnology
   - Medical and health biotechnology
   - Plant biotechnology
   - Food biotechnology
   - Industrial and environment biotechnology
   - Pharmaceutical biotechnology
   - Bioinformatics biotechnology

ii. Medical and Health Sciences
EXAMPLE OF INVESTMENT INCENTIVES: EMPLOYMENT

<table>
<thead>
<tr>
<th>Type</th>
<th>Programme Costs</th>
<th>Travel Expenses incurred for each programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conducted in Singapore</td>
<td>50% of qualifying costs capped at S$3,000/- grant per participant per programme</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>Conducted outside of Singapore</td>
<td>50% of qualifying costs capped at S$6,000/- grant per participant per programme</td>
<td></td>
</tr>
</tbody>
</table>

FTS supports the following qualifying costs for external training programmes:

- **Programme Costs**
  - **Fees** charged by external training providers; and
  - **Ancillary costs** (if incurred), comprising only of
    - apportioned basic salaries of internal staff contributing to the development and/or delivery of the programme,
    - material costs,
    - rental of external premises & equipment, and
    - food & refreshments only.

- **Travel Expenses**
  - **Airfare**;
  - **Accommodation** for the duration of the programme; and
  - **Cost Of Living Allowance** for the duration of the programme.
“[As a businessman] I never made an investment decision based on the Tax Code . . . [I]f you are giving money away I will take it. If you want to give me inducements for something I am going to do anyway, I will take it.

“But good business people do not do things because of inducements, they do it because they can see that they are going to be able to earn the cost of capital out of their own intelligence and organization of resources.”

—Paul O’Neill, former CEO of Alcoa and President George W. Bush’s first Secretary of the Treasury
DO INCENTIVES WORK?
MAKING SENSE OF THE EVIDENCE

- Fiscal or other cost-reducing incentives tend to be effective where the investment decision is among two or more similarly attractive locations.
- New start-up projects prefer incentives that reduce their initial expenses.
- Useful for attracting SMEs (but often not a policy priority).
- Established, expanding firms may prefer tax-related incentives that affect profit.
- All firms value transparency, easy to understand, and certainty in incentives policy.
DO INCENTIVES WORK?
EVIDENCE FOR AND AGAINST

For: OECD and academic studies
Typically find corporate tax rates at a country and state level having a negative impact on FDI – with a 1% increase in tax reducing FDI by 1-5%. Most recent 2013 FT study found a very high correlation between corporate tax and FDI performance

Against: PricewaterhouseCoopers/World Bank
Many incentives result in low absolute value and obviously have minor impact on the investment decision. In fact most of them are of this nature
UNIDO’s Viet Nam Industrial Investment Report 2011:
“There is a need to evaluate and streamline the present investment incentive framework and assess the economic benefits resulting from the application of investment incentives to benefiting FIEs. This is especially important in the context of those enterprises operating in manufacturing sectors with high-value-addition potential and characterized by heavy export orientation”

Pham Chi Lan, a renowned independent economist recommends:
“Removing excessive privileges for foreign investors, creating a level playing field for enterprises from all economic sectors, no matter whether they are state-owned, privately-run or foreign-invested, and punishing FIEs that conduct transfer pricing to evade tax”
DO FISCAL INCENTIVES WORK?

Well, Yes and No:

- Incentives have played a huge role in attracting mobile international investment (e.g., Intel in Israel & Ireland, garment factories worldwide)
- In the USA, GM received $1.7bn in local incentives since 2007; South Carolina took on $218m in debt to assist Boeing’s expansion and offered 10-year tax holiday
- But research in the Philippines suggests that over 90% of fiscal incentives go to firms that would have invested anyway
- Companies still close or move facilities after getting incentives
- Difficult to calculate the net cost or benefit – but let's try...
## NPV Analysis

<table>
<thead>
<tr>
<th>Country</th>
<th>Without Incentives</th>
<th>With Incentives</th>
<th>Rank</th>
<th>Gain in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country 1</td>
<td>$16,567,625</td>
<td>$27,395,991</td>
<td>3</td>
<td>65%</td>
</tr>
<tr>
<td>Country 2</td>
<td>$20,630,740</td>
<td>$28,735,666</td>
<td>1</td>
<td>39%</td>
</tr>
<tr>
<td>Country 3</td>
<td>$18,737,794</td>
<td>$25,713,125</td>
<td>2</td>
<td>37%</td>
</tr>
<tr>
<td>Country 4</td>
<td>$15,282,316</td>
<td>$19,811,165</td>
<td>4</td>
<td>30%</td>
</tr>
</tbody>
</table>

## Net Gain Incentives

**Gain in %**

- Country 1: 65%
- Country 2: 39%
- Country 3: 37%
- Country 4: 30%
Performance requirements are frequently exploited by host countries in conjunction with investment incentives as a FDI policy means to achieve economic objectives.

The goal of imposing performance requirements is to tilt the distribution of gains from FDI in favour of the host country.

The linkages between performance requirements and investment incentives derive from the fact that the former may be negotiated as a quid pro quo for incentives: a “carrot and stick” approach is frequently observed here.
PERFORMANCE REQUIREMENTS WHICH COULD BE MANDATORY

- Conform to internationally recognized principles and standards related to responsible business conduct and CSR, including:
  - OECD guidelines for MNEs
  - Guiding principles on business and human rights
  - Global Compact
  - ILO conventions on decent work, including Tripartite Declaration of principles concerning multinational enterprises and social policy (MNE Declaration)
- Environmental assessments and pollution control
- Benefit sharing in natural resources
- Abstain from political meddling and peddling to vested local interests
Performance requirements not linked to incentives are:

1. **Useful development tool**: using performance requirements is an important aspect of development space and can increase the net contribution of FDI to economic and social development. Without these requirements TNCs may use practices which are not conducive to host country development and perhaps not even to the TNC itself.

2. **Counterproductive and disincentive for FDI**: FDI will go somewhere else in a very competitive environment among host countries. If domestic investment climate is superior, FDI will voluntary contribute to local economy without the need for mandatory requirements. In addition, they may create rents that tend to benefit relatively small but well-organized interest groups in society at the expense of the larger public.
The most straightforward criteria are based on capital investment and employment creation, which can be measured accurately.

Quality criteria. Incentives often vary depending on:
- Quality of jobs created
- Sector and/or the type of activity

Incentives awarded should be the amount needed to attract the project (not the maximum available!). This is influenced by:
- Market size
- Corporate tax rate
- What other locations are offering

The incentive awarded should always take into account what the net economic and social benefits of the project will be.
Maximizes return on investment through:
- Earlier revenue generation through accelerated start up
- Optimization of benefits vs. costs; and
- Maintained or improved quality/service levels

Achieves ‘best deal’ with:
- Financial grants and incentives
- Efficient VAT
- Transparent taxation and transfer pricing issues

Provides an objective decision process:
- Independent and transparent
- Based on “Best Practices”
- Minimum use of resources and time to administer and monitor
FINAL THOUGHTS ON INCENTIVES: STIMULATE VERSUS COMPENSATE

“I suppose it is a bit out of the way but we did get a great grant to move here”
SUMMARY: THE ROLE OF SMART INCENTIVES

Incentives can’t:
• Turn a bad location into a good one
• Address gross disconnects between location and business needs
• Create an industry cluster where it doesn’t already want to exist
• Ensure a long-term connection between business and community

Incentives can:
• Create partnerships which benefit both community and company
• Address short-term hurdles
• Fix small regulatory and tax problems
• Create a sense of a community’s willingness to work with business
• Tip the location decision to your favour
RECOMMENDATIONS

- IPAs should have as much knowledge as possible about the project parameters, underlying benefits of the location, and profitability of the location compared to competitors with sensitivity analysis of incentives packages.

- Financial models can greatly assist in negotiating with an investor to understand the profitability/NPV of the project.

- Incentives should be part of the overall investment proposition. Do not lose sight of the fundamentals of why the company is investing and the benefits of your locations.

- Time is money and your soft incentives can be equally important for the investor.

- Stipulate clawback provisions clearly if incentives are tied to performance requirements.
SPECIAL ECONOMIC ZONES
A Special Economic Zone (SEZ) is a geographical region that has laws and regulations that are more liberal or flexible than a country's domestic economic and investment laws.

In some cases, SEZs are fully exempted from national laws regarding corporate income taxes, labour laws and quotas and other restrictive laws.

The term SEZ covers a broad range of special zones, e.g.
- Free Trade Zones (FTZ)
- Export Processing Zones (EPZ)
- Free Zones (FZ)
- Integrated Economic Zones (IEZ)
- Industrial Estates (IE)
- Industrial Zones (IZ)
PURPOSE OF SEZ

- An SEZ is a trade and investment development instrument, with the goal to promote rapid economic growth by using tax and business incentives to attract foreign investment and technology.
- The goal is to artificially create a level playing field to ensure a globally competitive investment climate.
- Special regulations must be in place to avoid distorting effects to the existing domestic manufacturers and service providers.
- Especially in countries with an abundant and cost competitive labour force, SEZs have become a successful instrument to attract significant levels of FDI.
ONE SEZ – MANY DIFFERENT PURPOSES

- Sector specific
  - High-tech zone
  - Bio-tech zone
  - Media city

- Free trade and warehousing
  - EPZ
  - FTZ

- Multi-products
  - Light manufacturing
  - BPO
  - International financial service centers

- Multi services

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BASIC ADVANTAGES OF SEZs

- Dealing with infrastructural deficiencies
- Higher quality supply of utilities
- Stable business climate
- Avoid procedural complexities
- Avoid or reduce barriers raised by monetary, trade, fiscal, taxation, tariff, and labour policies
- Working permits for foreign workers
- Repatriation of profits and dividend
- One Stop Window
INTEGRATION WITH DOMESTIC ECONOMY: EXPECTED SCENARIO

Rest of the world

Intermediate goods
Processed goods
Capital goods
Management
Technical knowledge

SEZ
Total group of eligible companies receiving SEZ status

Domestic economy

Raw materials
Intermediate incentives
Capital goods
Labour
Utilities

Processed goods
Wages
Corporate income tax
Personal income tax
Dividend tax
Dividends
Knowledge spill over
Technical spill over

Remitted profits
SERVICES OFFERED ON-SITE

- Customs clearing agents
- High quality infrastructure
- IT equipment
- Industrial facilities such as water treatment and desalination plant
- Stable power supply with sophisticated back-up generators
- Support service like banking and post offices
- Medical services
- Child care and facilities
There is a spectrum of policy options: from very narrow e.g., only certain types of zones are allowed to a broad and flexible regime, allowing zones for different sectors a broad set of activities within the zones.
## SUMMARY OF OPTIONS: ZONE TYPES

<table>
<thead>
<tr>
<th>Options</th>
<th>Limited type of zones and narrow set of activities (FTZ and EPZ)</th>
<th>Limited type of zones and broad set of activities (e.g. hybrid EPZs)</th>
<th>Flexible Regimes: Wide range of zones and broad set of business activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Suitability</strong></td>
<td>Low: Many sectors and industries are nascent and would benefit from serviced land. Both domestic and export orientated activities are important for job creation</td>
<td>Medium: Hybrid EPZs are preferable to EPZs as allow domestic orientated industry to benefit from the zone infrastructure and value added services</td>
<td>High: A wide range of sectors - domestic and export orientated - could benefit from SEZs. A flexible regime attracts more users and results in greater profitability for developers and operators</td>
</tr>
<tr>
<td><strong>Feasibility</strong></td>
<td>High: The existing programme contains an FTZ and EPZ which are at an advanced stage of development</td>
<td>High: The existing programme contains an FTZ and EPZ which will be modified to allow domestic orientated firms</td>
<td>Low: It is not financially feasible to invest in several different zones. Private sector involvement in development will be key</td>
</tr>
<tr>
<td><strong>Acceptability</strong></td>
<td>Low: The majority of domestic firms which do not yet engage in trade will, in effect, be disadvantaged</td>
<td>Medium: Firms which do not engage in industrial/processing activities will, in effect, be disadvantaged</td>
<td>High: A much wider set of potential private sector developers and users can benefit from the SEZ regime</td>
</tr>
</tbody>
</table>
SEZ GOVERNANCE

Public
- Publicly owned/developed and operated
- Contracting out to private sector for services

Public-Private Partnership
- Public and private ownership and development
- Different PPP arrangements allowed including concessions, JVs

Private
- Privately owned/developed and operated
# POLICY OPTIONS AND EVALUATION: SEZ GOVERNANCE

<table>
<thead>
<tr>
<th>Options</th>
<th>Only publicly owned/developed and operated</th>
<th>Public Private Partnerships including purely private zones</th>
<th>Only privately owned/developed and operated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Suitability</strong></td>
<td>Low: It is likely that the zones will not be as well developed and operated, less efficient and less demand driven</td>
<td>High: SEZs can benefit from higher efficiency, investment and expertise brought by private sector developers and operators</td>
<td>High: SEZs can benefit from higher efficiency, investment and expertise brought by private sector developers and operators</td>
</tr>
<tr>
<td><strong>Feasibility</strong></td>
<td>Medium: Creates a very high financial burden on Government but allows for full control</td>
<td>Medium: Less public finance required to develop zones. However, this will require strong legal, regulatory and institutional framework</td>
<td>Medium: Less public finance required to develop zones. But if zones are not well developed, a burden on government at a later stage can be created</td>
</tr>
<tr>
<td><strong>Acceptability</strong></td>
<td>Low: The private sector will not be able to participate in a major commercial opportunity</td>
<td>High: The private sector will be able to participate in the development of zones. This is in line with the PPP policy of your country</td>
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</tr>
</tbody>
</table>

United Nations Economic and Social Commission for Asia and the Pacific
<table>
<thead>
<tr>
<th>Role</th>
<th>Participants</th>
<th>Functions</th>
</tr>
</thead>
</table>
| SEZ Regulator/Authority       | Government—through an SEZ Authority and other line ministries and agencies  | Responsible for planning and administering the SEZ programme, including:  
• Proposing designation of SEZ sites  
• Licensing and permitting developers, operators and users (tenants)  
• Provision of administrative services or coordinate other public agencies services/inputs  
• Marketing and promotion of SEZs  
• Monitoring and ensuring compliance |
<table>
<thead>
<tr>
<th>Role</th>
<th>Participants</th>
<th>Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEZ Owner</td>
<td>Government, private firm, private landowner, private holding company, or PPP</td>
<td>Owns the physical SEZ, and assumes risk for SEZ development. Collects all or a portion of the profits from SEZ operation.</td>
</tr>
<tr>
<td>SEZ Developer</td>
<td>Government, private firm, or PPP. The owner is often the developer but the</td>
<td>Undertake SEZ feasibility study. Physically develop the site, including financing, designing and constructing the SEZ infrastructure and facilities.</td>
</tr>
<tr>
<td></td>
<td>developer can also be a separate entity under a contractual arrangement with</td>
<td></td>
</tr>
<tr>
<td></td>
<td>the Owner.</td>
<td></td>
</tr>
<tr>
<td>SEZ Operator</td>
<td>Government, private firm, or PPP. Can be the Owner, Developer, or private firm</td>
<td>Run the day-to-day business of the SEZ. Leasing/sub leasing plots to users Provision of facilities and services</td>
</tr>
<tr>
<td></td>
<td>contracted.</td>
<td></td>
</tr>
<tr>
<td>SEZ User</td>
<td>Private firms located in SEZ as tenants.</td>
<td>Licensed/permitted to establish business operations within SEZ.</td>
</tr>
</tbody>
</table>
COMMON OBSTACLES TO SUCCESSFUL SEZ

- Poor strategic planning
- Lack of comparative advantage
- Poor site locations, entailing heavy capital expenditures
- Uncompetitive policies—reliance on tax holidays, rigid performance requirements, poor labour policies and practices
- Uncompetitive or over-generous fiscal incentives
- Poor zone development practices—inappropriately designed or over-designed facilities, inadequate maintenance and promotion practices
- Subsidized rent and other services
- Cumbersome regulations and procedures and restrictive controls on zone activity;
- Inadequate administrative structures or too many bodies involved in zone administration; weak administrative bodies
- Lack of coordination between private developers and governments in infrastructure provision
- Exclusion of merchandise processed in zones from entry under bilateral and regional trade agreements
- No linkage with domestic economy
- Corruption
The starting point of a SEZ policy framework is defining the purpose, type of zones, scope of activities allowed in SEZs and the eligibility requirements (if any) for SEZs users (performance requirements)

- For example: companies qualifying for EPZ status must export at least 70% of total goods (not WTO TRIMS compliant)
- Companies must comply with Standard Industrial Classification codes
- Minimum investment amount or job creation required

These choices have an impact on which sectors and users receive the benefits of SEZs and on the viability and profitability of the zones

- Ensure linkages with the wider economy
- Recommendation: move from SEZ to knowledge processing zones
PLANNING SEZs

• SEZ developments should be demand-driven and respond to market requirements
  – Information is used in Master Planning and Development Phasing
  – Enables “real-world” financial and economic-impact analyses
  – Best ensures that public investments in infrastructure are economically efficient

• Examine potential market appetite and demand (both “pent-up” and new) for investment in manufacturing and commercial sectors bearing in mind the improved business environment offered by an SEZ regime

• Once high-potential industry sectors likely to invest are identified, their requirements are assessed to enable recommendations on infrastructure and policy components of SEZs
The question is not whether Free Zones (or SEZs or Economic Zones, etc.) should offer incentives, it is what kind of incentives they should offer.

Also, should/how should FZ/SEZ incentives differ from other non-FZ investment incentives on offer?
FISCAL INCENTIVES ARE LOSING FAVOUR (UP TO A POINT)

- Zones de-emphasize general fiscal incentives in favour of value-added services
- Differentiation by means of the business environment in the zone
- Remaining fiscal incentives target specific behaviour (capital expenditure, R&D, job creation, value added)
- No fiscal incentives can compensate for a lack of fundamental competitiveness

- Many countries have reduced fiscal incentives (in and outside zones), i.e. India and Philippines
CRITICAL SUCCESS FACTORS FOR SEZs

- Meeting FDI determinants
- Clear purpose and objective
- SEZs are well integrated in national development strategies
- Good governance and management
- Private sector participation in development and management
- Proper regulation and incentive structure (SEZ Law)
- Excellent infrastructure and logistics
- Proper land and resource use planning and rights/zoning
- Multi-modal connectivity
- Proper location
- International demand for products and services produced in SEZs
- Availability of suitable labour
- Competitiveness
- Linkages with domestic economy
- Flexibility and industry/cluster focus
- Sustainability
SEZs IN IRAN: QUITE A FEW (OVER 100)
WHAT IS THEIR PERFORMANCE?

- Kish Island Free zone
- Quesh Free Zone
- Chabahar Free zone
- Salafchegan special economic zone
- Shiraz special economic zone
- Assaluye special economic zone
- Arge Jadid special economic zone
- Payam Airport special economic zone
- Persian Gulf special economic zone
- Lorestan special economic zone
- Amir Abad port special economic zone
- Bushehr Port special economic zone
- Shahid Rajaee Port special economic zone
- Sarakhs special economic zone
- Sirjan special economic zone
- Yazd special economic zone
- Pars special economic energy zone

- Khalij Fars special economic zone
- Petroshimi special economic zone
- Kaveh special economic zone
- Lavan special economic zone
- Rey special economic zone
- Zarandieh special economic zone
- Sahlan special economic zone
- Birjand special economic zone
- Dogharoon special economic zone
- Payam special economic zone
- West Islam Bahad special economic zone
- Atrak special economic zone

Newly proposed:
- Khalkhal SEZ
- Kiyashshar SEZ
- Faridan SEZ
SIMILARITIES BETWEEN FTZ AND SEZ IN IRAN

- Goods produced in both zones are exempt from customs duties when exported to the main land.
- Goods in transit are also exempt from customs duties in both zones.
- Both zones benefit from complete freedom of entry and exit for capital (including foreign capital).
- In both zones, land can only be leased to foreigners (Iranians can buy and/or lease).
- Special labour and employment laws apply in both zones.
- Employing foreign labour is allowed in both zones (subject to a 10% limit of the workforce in the enterprise).
DIFFERENCE BETWEEN FTZ AND SEZ IN IRAN

- Different legal basis
- Different governance (FTZ only by state bodies)
- While there is a 15-year tax exemption in FTZ, tax regulations in SEZ are like the rest of the country
- Retail sale in SEZ are allowed just for foreigners, but in FTZ both Iranians and foreigners can do so
- Visa regulations in SEZ are just like the general rules of the country, but in FTZ visa is given in the borders
- Labour regulations for hiring foreign workers in FTZs are special for those regions while in SEZs it is according to the country’s law
- No retail selling is allowed in SEZs (these are allowed only in Kish, Qeshm and Chahbahar)
ADVANTAGES OF SEZs IN IRAN
HTTPS://WWW.IRANPARTNER.COM/SPECIAL-ECONOMIC-ZONES-IRAN/

- Customs exemption up to the value added and payments for extra customs of foreign parts used in the production process
- Importing necessary machinery for the production line as well as office requirements free from customs duty
- Offering construction and completion licenses free of charge
- Many other advantages for each of SEZ locations according to their local legislation

Question: Do you think SEZs in Iran have fulfilled their objective and are efficient? If yes, what are their success criteria? If not, what were the main problems?
RECOMMENDATIONS FOR SEZs

- SEZs need to create a more attractive investment environment than in the rest of the country.
- However, SEZs should not replace efforts to implement trade and investment reform in the whole country and lead to a race to the bottom.
- SEZs should be located in strategic locations, i.e. close to population and urban centres with sophisticated infrastructure (ports, railroads, roads, etc.).
- SEZs need to be competitive and prevent “enclave” syndrome.
- In particular, the focus of SEZs needs to shift from attracting labour-intensive to innovation-driven investment and involvement of services in the value chain.
- Ideally, modern SEZs should become part of national and subnational innovation systems, with focus on R&D, compliance with international standards and availability of certification agencies, and training of SEZ personnel.
- New SEZs should focus on wielding stronger physical, strategic and financial links with the local economy.
- The provision of excellent infrastructure, reliable power and skilled labour is much more important than incentives.
- SEZs should have a fully operational single window for all investment approvals and facilitation.
- Attractive on-site residential facilities (schools, shopping, R&R) should be available.
Land acquisition should be easy, fair, inclusive and property regulated. Local communities should be involved in the establishment of zones and land purchases, relocation and determining compensation strategies.

A proper cost-benefit analysis of new SEZ (including opportunity costs of used land) should be undertaken.

SEZ regimes should be flexible, allowing a range of commercial as well as manufacturing activities.

Incentives can be provided through regulatory and administrative incentives and facilitation rather than fiscal incentives.

Business development services (including facilities for R&D and skills development) are more important than tax incentives. Incentives should be performance based.

With the rise and spread of GVCs, the location and dimensions and objectives of SEZs may need to be revised. Proper forward and backward linkages with the domestic economy should be forged.
Legal restrictions for domestic investment in SEZs need to be lifted while labour markets need to be flexible: seamless movement of labour between the zones and rest of the economy.

There should be no discrimination between foreign and local companies in treatment.

Zones should preferably have a multi-market orientation, not just for export.

Logistics costs are sometimes higher than manufacturing costs. SEZs need to address logistics, i.e. location and multi-modal transportation links as well as proximity to distribution channels and sales support are important.

SEZs need to be aligned with changing competitiveness as a result of FTAs, in particular mega-regionals such as the AEC, CPTPP, RCEP, etc.

SEZs need independent regulatory bodies backed up by law. The regulatory authority may be different from the development agency.

The private sector should take the lead in development and management; public-private partnerships for infrastructure development and financing work best under proper management and regulatory structures.
Zone designation criteria are helpful in fulfilling zone objectives.
Zones should be managed on a cost recovery basis and should be customer focused.
Cost recovery basis is enhanced by limiting subsidies and charging fees that are based on market prices.
Proper coordination mechanisms among government agencies involved in policy making, investment, trade, zone development, land development, labour, finance and customs etc.) should be established.
Proper coordination between national and local government is also necessary.
Environmental and social sustainability is essential for SEZs but often lacking.
Full transparency is required in construction, bidding and operations.
SEZs need to comply with international standards and rules, i.e. prevailing FTAs and WTO (e.g. TRIMS, SCM Agreement), ILO (on labour standards).
SEZs should be demand-led and be developed based on a demand assessment.
The link between SEZs and multiple FTAs should be reviewed on costs and benefits.
Zone authorities should have sufficient autonomy, particularly over staffing, budgets, spending, and policymaking.

An independent board should oversee the operations of the zone authority. The board should comprise of key government ministers and private sector representatives and report to the highest level of government.

Ideally, private sector representatives should constitute the majority of board membership to ensure flexibility, results-orientation, and customer-focus.
FTZ/SEZs IN IRAN PERFORMANCE TRACK RECORD

- What is their objective? Have they met their objective?
- Have they attracted FDI?
- Have they created employment?
- Have they engaged domestic SMEs?
- Have they contributed to exports and economic growth?
- Have they facilitated women’s employment?
- Have they attracted new technology?
- Have they contributed to regional development?
- Have they met sustainability criteria?
- Have the costs justified the benefits of FTZ/SEZ?
- What is the difference of performance between FTZ and SEZ? Why?
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Presentation available at:
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Your questions please?