

# Middle East Free Zones of the Future 2013/14

DUBAI AIRPORT FREEZONE HAS ONCE AGAIN BEEN AWARDED THE TITLE OF THE TOP MIDDLE EAST FREE ZONE OF THE FUTURE IN **fDi** MAGAZINE'S BIENNIAL RANKING. JEBEL ALI FREE ZONE CLIMBED TO SECOND POSITION WITH DUBAI INTERNATIONAL FINANCIAL CENTRE PLACED IN THIRD. **JACQUELINE WALLS** REPORTS



**D**ubai Airport Freezone (Dafza) has been named **fDi**'s Middle East Free Zone of the Future 2013/14. Dafza has proven its capability in attracting international companies throughout its 16-year history. Figures for 2012 show that the zone is home to 1600 multinational companies, employing almost 13,000 people. The zone reported a record annual growth of 73% in trade volumes in 2012, an increase of Dh69bn (\$19bn). Sales revenue also saw growth of 26% compared with 2011.

## Strategic location

A key factor for the success of any free zone is location. Despite tensions in the Middle East, Dubai remains a key trading hub globally, connecting Asia, Europe and Africa. Dubai International Airport boasts flights to more than 180 international destinations and is ranked the sixth busiest in the world for cargo handling, according to global trade organisation Airports Council International. The airport handled more than 2.2 million tonnes of cargo in 2012, which represented a year-on-year growth of 3.1%. As a result, multinational companies, typically trading in low-volume, high-value products, such as telecommunications, electronics, pharmaceuticals, logistics and luxury goods, have found Dafza an attractive hub due to its strategic location near the airport.

Given the central role aviation plays in the economy of Dubai, authorities have continued to develop facilities at Dubai International Airport, with the recent opening of the first phase of expansion at its Terminal 2. To capitalise on the expected increase in passenger and cargo traffic, authorities at Dafza have continued to expand and improve to attract potential investors.

Director-general Dr Mohammed Al Zarooni explains: "In 2013 we plan to continue improving the free zone as we work to facilitate our tenants' business operations. We are currently in the process of building a project inclusive of a food court with mixed-use recreational business facilities, seven floors dedicated to new offices for international organisations and a building dedicated to Dafza's strategic partners from various government institutions. The main power station will increase capacity by 40% to accommodate this growth. Additionally, we will be adding a multi-storey car park with a capacity for 850 cars, catering to our tenants' needs." The project is expected to exceed Dh300m with phase one completed in 2015.

## Jebel Ali draw

Second in the ranking, Jebel Ali Free Zone (Jafza) houses more than 7000 companies, including 120 Fortune Global 500 enterprises. A major

## TOP 25 MIDDLE EAST FREE ZONES OF THE FUTURE 2013/14

RANK	ECONOMIC ZONE	COUNTRY
1	Dubai Airport Freezone	UAE (Dubai)
2	Jebel Ali Free Zone	UAE (Dubai)
3	Dubai International Financial Centre	UAE (Dubai)
4	Jumeirah Lakes Towers Free Zone	UAE (Dubai)
5	Salalah Free Zone	Oman
6	Bahrain International Investment Park	Bahrain
7	Ras Al Khaimah Free Trade Zone	UAE (Ras Al Khaimah)
8	Rakia Economic Zone	UAE (Ras Al Khaimah)
9	Aqaba Special Economic Zone	Jordan
10	Aqaba International Industrial Estate	Jordan
11	twofour54, Media Zone	UAE (Abu Dhabi)
12	Ajman Free Zone	UAE (Ajman)
13	Dubai Media City	UAE (Dubai)
14	Freezone Sohar	Oman
15	Dubai Silicon Oasis	UAE (Dubai)
16	Tanger Free Zone	Morocco
17	Bahrain International Airport	Bahrain
18	Bahrain Logistics Zone	Bahrain
19	Dead Sea Development Zone	Jordan
20	Dubai Knowledge Village	UAE (Dubai)
21	Dubai Healthcare City	UAE (Dubai)
22	Dubai Biotechnology and Research Park	UAE (Dubai)
23	Dubai International Academic City	UAE (Dubai)
24	Dubai Studio City	UAE (Dubai)
25	Khalifa Bin Salman Port	Bahrain

player in the local economy, Jafza contributes to more than 20% of Dubai's GDP, sustaining more than 135,000 jobs and attracting 20% of FDI into the United Arab Emirates. Established in 1985, the zone is another success story of Dubai's status as a global transportation hub, accounting for more than 50% of Dubai's total exports. Of Dubai's cargo throughput, 25% of all containers pass through the Jebel Ali Port and 12% of all air freight goes through Dubai International Airport.

Jafza is continuing to expand its offerings to entice investors with the construction of a new convention centre complex. In its submission for **fdi**'s Middle East Free Zones of the Future, Jafza states: "One of the prestigious projects currently under way at Jafza is the iconic convention centre complex, which is all set to become one of the UAE's most prominent business landmarks. The Dh2.5bn convention centre complex... will make Jafza the only free zone in the region and perhaps one of the few free zones in the world to have such a facility."

**Sector specific**

Countries in the Middle East have long recognised the need to diversify from their heavy reliance on the oil sector to establish long-term economic sustainability. Following the

region's adoption of free zones, large-scale zones such as Dafza and Jafza have been able to offer advanced infrastructure along with a wide range of facilities in a strategic location close to ports and airports. Smaller free zones have evolved to become highly specialised towards information and communications technology, finance and other service sectors. Although they still offer the traditional free zone business environment, low tax and streamlined bureaucracy, their strengths in attracting FDI lie in industry-specific regulations and facilities, combined with strong links with local universities, helping to create a highly skilled workforce.

Dubai International Financial Centre (DIFC) ranked third in **fdi**'s Middle East Free Zones of the Future 2013/14. Although heavily dependent on factors such as oil prices and political developments, the outlook for the Middle East remains positive with growth in the region expected to double between 2012 and 2014. In light of this expected growth, DIFC is well positioned to cater to the financial needs of the region. Home to 20 of the world's top 25 banks, 11 of the world's top 20 money managers, eight of the top 10 insurance companies and six of the top 10 legal firms, DIFC continues to go from strength to strength, granting more than 170

commercial licences to new firms in 2012, a 27% increase on 2011. In its submission for the ranking, DIFC explains its unique advantage: "DIFC has its own set of civil and commercial laws and regulations and has developed a complete code of law governing financial services regulation. DIFC has created an independent judicial system. The DIFC Courts is the entity responsible for the independent administration and enforcement of justice in DIFC".

**All that glitters**

A new entrant to the ranking, Jumeirah Lakes Towers (JLT) free zone followed DIFC in fourth position. Established just over a decade ago, the Dubai Multi Commodities Centre (the licensing authority for JLT) has enabled the registration of more than 6300 companies at the zone. In 2012 alone the zone attracted an average of 200 companies each month. Although JLT is a mixed-use free zone, it is known for its prominence in the commodities markets. The zone helped enable the flow of \$70bn of gold, \$39bn of rough and polished diamonds, and \$48m of tea (60% of the global market) through Dubai in 2012.

In JLT's submission for the **fdi** ranking, chief executive Malcolm Wall Morris clearly epitomises the importance of free zones to a country's economic stability: "In just over a decade we have turned an empty plot of land into a thriving business community and global commodities hub for trade. If they're successful, we're successful, Dubai's successful and the UAE's successful".

The top performing free zone from Oman was Salalah Free Zone (SFZ), which the judging panel ranked fifth in the 2013/14 Middle East Free Zones of the Future. Situated next to one of the world's largest container ports, SFZ was funded with a \$150m investment by the government and has attracted almost \$3.6bn of foreign and domestic investments. In its submission for the ranking, SFZ states: "With access to the deep-sea port and an international airport, and regionally competitive labour rates, SFZ is set to provide investors with a world-class infrastructure supported by value-added services and incentives that are helping to cement its profile as a major international business and investment hub."

Although not technically a free zone, the Bahrain International Investment Park (BIIP) ranked sixth ►

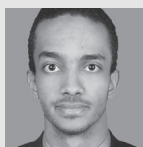
## JUDGING PANEL



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**fDi** Magazine also took into account opinions of specialists in the area of Middle East free zones. These judges opted to remain anonymous.

### METHODOLOGY

**fDi** invited free zones and investment entities charged with attracting FDI to complete a survey based on the incentives, facilities and services each zone offers investors.

We received 19 entries from free zones in the Middle East. We also included eight entries that submitted for the 2012/13 Global Free Zones of the Future ranking, including Ras Al Khaimah Investment Authority, Dubai Media City, Dubai Knowledge Village, Dubai International Academic City, Dubai Studio City, Dubai Healthcare City, Dubai Biotechnology and Research Park, and International Media Production Zone.

A panel of internal and external judges independently reviewed and ranked the entries. Each judge gave a score for each of the 27 zones, based on economic potential, FDI incentives, facilities, cost-effectiveness, FDI promotion strategies, and transportation links, which were then combined to compile the results.

The ranking was based on the survey submitted by entrants. The judges assessed the information provided and combined this with their specialised knowledge of free zones.

as the country of Bahrain enjoys all the benefits of a free zone. Companies based in BIIP, multinationals such as Kraft, BASF and Siemens, enjoy duty-free access to Gulf Co-operation Council markets, 100% foreign ownership and the ability to import duty-free raw materials and equipment for manufacturing purposes. Situated in Salman Industrial City, BIIP boasts excellent connectivity to both the Bahrain International Airport and the Khalifa Bin Salman Port while also benefiting from direct motorway access to Saudi Arabia, and future connectivity to Qatar via the planned Qatar-Bahrain Friendship Bridge.

### Emerging destinations

Unlike neighbouring emirates, which have enjoyed the benefits of oil production, the authorities in Ras Al Khaimah have focused their efforts on developing the emirate's industrial sector. Two free zones from Ras Al Khaimah featured in the top 10 of **fDi**'s Middle East Free Zones of the Future – Ras Al Khaimah Free Trade Zone (RAK FTZ) in seventh position and Ras Al Khaimah Investment Authority (Rakia), ranked eighth.

Established at the turn of the century, RAK FTZ is home to more than 6000 companies from 106 countries, with 2297 new companies registering in 2012. Commenting on the free zone's growth, RAK FTZ chairman Shaikh Ahmad Saqer Mohamed Al Qasemi says: "The success is a clear testament of a clear-cut, visionary strategy to attract businesses and investment to Ras Al Khaimah. The objectives laid down for RAK FTZ were focused on encouraging investment by reducing red tape and legal restrictions; providing excellent customer-focused solutions; delivering simple and effective systems and procedures; and attracting and developing a highly qualified multicultural workforce."

Rakia is a government body that acts as a one-stop shop for investors in the emirate of Ras Al Khaimah. With zones in Al Hamra and Al Ghail, Rakia has issued a total of 5718 licences to investors with a quarter of these licences issued to Indian companies.

The rest of the top 10 was populated by Jordanian free zones – Aqaba Special Economic Zone (ASEZ) and Aqaba International Industrial Estate (AIIE). Most of the current investment in ASEZ is concentrated on the tourism and real-estate sector with the aim to "turn the ASEZ into a world-class business hub and leisure destination on the Red Sea". AIIE has been successful

in attracting companies involved in metals engineering, security industries, clean energy, food, consumer products, logistics, storage and services supporting major tourism projects. In the future, AIIE aspires to become a centre for beta site development, and the assembly and marketing of clean energy systems and products.

### Continuing success

Free zones have played an important role in the development of the Middle East and, in particular, the UAE. The region's location between the developed economies to the west and the emerging economies to the south and east make it a natural centre point for trade, global financial markets and transportation links. The establishment of free trade zones has helped the area to take advantage of its strategic location to diversify local economies away from dependence on oil production.

The continued success of free zones in the Middle East is due to the evolution of zones that now offer more than just a tax haven. Successful free zones provide well developed infrastructure, logistics and independent administration that can be catered to sector-specific requirements. Although political unrest persists in the Middle East, free zones offer a relatively stable environment with the sole focus of business development. Encouraging global businesses into a free zone can benefit the local economy through increased trade and the transfer of knowledge and technology to the local workforce.

Despite the setback of the global economic crisis, countries in the Middle East plan to create free zones and continue with the expansion of existing zones. Major infrastructure developments planned for the region include Dubai's Al Maktoum International Airport, which claims it will become the world's largest passenger and cargo hub, and the Gulf Railway, which aims to link Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE. Although the development of these infrastructure projects has been continually postponed, if they are achieved, they should act as a catalyst to continue growth in the region.

With many countries around the world weighing up the costs and benefits of free zones to boost inward FDI, perhaps they should look to the Middle East, which has displayed the perfect example of how to implement successful free zones offering more than just tax incentives. ■