An Assessment of FEZs in Arab Countries: Performance and Main Features

Jamil Tahir

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Abstract

Free Economic Zones (FEZs) have become increasingly important as developing countries seek to attract foreign investment and increase exports and foreign exchange earnings in order to promote trade and growth. As a result, a large number of FEZs has been put into operation throughout the Arab World, and more are in the planning process.

While their features differ from one country to another, similar constraints have impeded their success, which requires careful assessment of their measures and performance. The Jabal Ali Free Zone has proved to be the most successful in Arab countries in terms of investment attracted to the zone, level of exports and foreign exchange earnings, and linkages with the domestic economy. However, to be successful, FEZs in Arab countries have to concentrate on competing on the basis of the services offered and their quality, rather than on the basis of location.

تقييم المناطق الاقتصادية الحرة في الأقطار العربية: الأداء والمعالم الرئيسية

جميل طاهر

ملخص

أصبحت المناطق الاقتصادية الحرة تمثل اهتماما متزايدا في الدول النامية، حيث تسعى هذه الدول إلى جذب الاستثمارات الأجنبية وزيادة صادراتها وكسب المزيد من القطع الأجنبى، من أجل النهوض بالتجارة والنمو. وكنتيجة لهذا الاهتمام، فإن عددا من المناطق الحرة في العالم العربي أصبحت في طورالتشغيل، كما أن هناك العديد منها في مرحلة التخطيط.

وبالرغم من اختلاف الملامح أو الهياكل العامة لهذه المناطق من بلد لآخر، إلا أن هناك قيودا متشابهة تحد من نجاحها، وتحتاج إلى تقييم متأن لعملها وأدائها. وقد ثبت أن المنطقة الحرة في جبل على هى أكثر المناطق الحرة نجاحا في العالم العربى، من حيث اجتذاب الاستثمارات للمنطقة، مستوى الصادرات والقطع الأجنبى المكتسب، وكذلك من حيث الروابط مع الاقتصاد المحلى. لذلك فإنه من أجل نجاح المناطق الحرة في الدول العربية، فإنها يجب أن تركز منافستها على أساس الخدمات المقدمة وجودتها، أكثر من كونها على أساس الموقع.

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Introduction

The growth of Free Economic Zones (FEZs) is an important institutional innovation which spread on the economic scene in the past twenty five years. FEZs have become increasingly important as developing countries seek to attract foreign investment, with concessions on tariffs, taxes and administrative procedures in order to promote trade and growth.

A large number of FEZs has been put into operation throughout the world, and more are in the planning process. It is believed that establishing a FEZ would attract foreign investment, boost exports and in turn, foreign exchange earnings, and create job opportunities. The achievement of such goals will have positive effects on the economy of the host country, and consequently, on its standard of living.

Based on such assumptions, several Arab countries were induced to establish FEZs in an attempt to achieve the previously mentioned goals. In fact, FEZs in Arab countries appeared as early as the 1900s in Aden. Lebanon and Syria established FEZs in the 1950s, Morocco in the 1960s, followed by Egypt, Jordan, and Tunisia in the early 1970s, and the United Arab Emirates in the mid 1980s. In other words, there are presently more than 27 FEZs in operation in Arab countries. A few are now in the process of being established in Qatar, Bahrain, Sudan, and Kuwait.

However, due to macro as well as micro and sectoral level problems, success of most of the FEZs, which depends on a combination of social, economic, and geographical factors, was and is still limited. With few exceptions, FEZs in Arab countries have been unable to attract large amounts of foreign investment as well as foreign exchange earnings. This requires a reassessment of measures that actually exist in the zones where investors are continuously faced with problems and obstacles impeding the operations of their ventures.

The trend toward economic liberalization on one hand, and developments at the international scene such as WTO arrangements on the other, have led to an increasing interest in establishing FEZs. In accordance with Article XXIV of the GATT which allows the establishment of Free Trade Areas and Customs Unions under certain conditions, and based on Arab countries' previous cooperation and integration efforts, an Arab Free Trade Area (AFTA), which was initiated in 1981, came into action in January 1998. However, one of the main issues that still need to be settled within the AFTA context is how to deal with the products of FEZs located within the AFTA.

Against this background, the objectives of the study are:

- To examine the terms and concepts of FEZs and their relevance to Arab economies and to assess the importance of FEZs in promoting economic growth in the host country;
- To examine the trend and development of FEZs in Arab countries,i.e. their main features and structure; and
- To assess the performance of FEZs in Arab countries in promoting exports, employment, trade, etc. This is done by providing comparable information and analysing

problems.

Theoretical Framework of FEZs

Definition and the Concept of FEZs

There is a certain framework that defines the nature of FEZs which includes, among other things, the definition of zones; their impact on growth of host countries; and the elements of their failure and success. There is no clear-cut definition of FEZs. The need for terminology accuracy is for reasons greater than simple clarification, as there are substantive issues involved in the use of terms such as free zone, duty free zone, free trade zone, export processing zone, etc. In general, a FEZ is a "geographically defined area within which certain types of economic activity take place without some of the government taxation and regulation that applies to them in the rest of the economy" (Grubel, 1984, p.43). In other words, FEZs are designated areas free of customs duties and import controls that provide an attractive environment for investment, technology, promotion of exports, and employment opportunities. Free trade zones or commercial FEZs, on the other hand, are warehousing areas where goods are stored and re-exported to the host country or abroad without substantial transformation (ESCWA, 1995). The dominant characterization of free trade zones is that the host country's excise taxes and other foreign trade restrictions do not apply to traffic into and out of the zone and to activities within it (Grubel, *op. cit*. p. 44).

Free trade zones that include export-oriented industrial activities are named export processing zones (EPZs). An EPZ is a designated specialized industrial estate which produces mainly for export and which constitutes an enclave from the trade and customs regime of a country in which free trade applies (ESCAP/UNTC, 1985). As its name implies, an EPZ is mainly concerned with manufacturing activities although trading activities are also carried out in some EPZs. Thus, the term EPZ seems more appropriate than the terms Free Trade Zone or Free Export Zone.

Despite the different concepts and definitions used for FEZs, they are traditionally a part of sovereign national territory designated in which goods of foreign origin can be stored, sold, or bought free of usual customs dues. It is a duty-free market place or a warehouse, which, although situated within national borders, the fiscal reason is regarded as being outside the frontier (Kuznetsov, 1993/4). This definition is used throughout the study to signify FEZs.

The Impact of FEZs on the Host Countries' Economies

FEZs are expected to open up a wide spectrum of possibilities on the economies of host countries. They are not only useful in general terms, but they are even more valuable and attractive in developing countries since they may provide the starting point of industrialization. Although different countries seek to achieve different objectives by establishing FEZs, many of these objectives are similar. Short-term objectives of establishing FEZs are to increase exports and foreign exchange earnings, generate employment opportunities, stimulate investments and accelerate regional development. In the long run, the host country hopes that the zones would also contribute toward the transfer of technology, acquisition and upgrading of management skills and enhancement of linkages with host country's economies (ESCAP/UNTC, 1985).

Attracting Foreign Investment (Capital Flows). A feasible way for a small developing economy to promote its export and develop organized links to the international markets, is to collaborate with foreign investors who would contribute not only in capital but also in management and marketing. A credible free zone with good management and commitment to free trade, accompanied with incentives and facilities, is more attractive to foreign investment than other places in the economy (World Bank, 1992).

FEZs, especially free trade zones in developing countries, can give rise to capital flows which have potentially important welfare implications. It is believed that regulation and protection in many developing countries represent serious barriers to the inflow of capital. The establishment of FEZs which removes such barriers can induce the flow of capital. This raises the productivity of labor, generates linkages, affects and gives rise to income tax revenue from the profit of foreign firms. All these translate into gains in welfare and in turn, development of the host country (Grubel, 1982).

Most developing countries need to stimulate investment to achieve a satisfactory rate of economic growth. The FEZ is a means to attract investment, especially foreign investments. "FEZs provide a show window for displaying the ability and enterprise of the country's work force to attract foreign investment in the country" Grubel, *op cit*., p.20). Because investment expenditure is financed by inflow of foreign capital, which would not have otherwise come to the region, it is achieved without any opportunity cost to the country's scarce capital resources. Clearly, a considerable private capital formation will be required for developing countries in general, and Arab countries in particular, to enhance their growth performance. Foreign investment attracted to the FEZs would contribute to this end.[2]

Promoting Exports and Foreign Exchange Earnings: For most host countries, the main consideration in establishing a free zone, mainly EPZ, is to increase exports and foreign exchange earnings. Many developing countries embarked, mainly after independence, on import substitution industrialization strategies. However, due to their limited markets which imposed constraints to foreign exchange problems, they started redistributing their industrialization strategies towards the export markets. Establishing EPZ was one of the measures which these countries took to promote exports.

Balance of payments problems in many developing countries prompted the authorities to set up free zones. It is generally accepted that EPZ can make a significant net contribution to the balance of payments account of a developing country. However, the importation of a very high proportion of raw materials and intermediate goods means that the net contribution is much less than the gross contribution implied by the increase in the value of exports. It is also believed that contribution of free zones to foreign exchange earnings would rise sharply

[2]For arguments against direct foreign investment, see, for example, Todaro, 1989: 468-481.

as occupancy of the zone increases and would rise again once loan commitments have been fully met (UNIDO, 1980).

Promoting Employment Opportunities. Apart from the need to increase exports and foreign exchange earnings, the next most important objective of many host countries is to generate employment opportunities for the growing labor force. The desire to create employment opportunities figures prominently in the objectives of many free zones located in countries with a surplus of labor force such as Egypt, Jordan and Syria.. In Egypt, the major objective includes to create employment opportunities and improve labor skills; in Jordan, to create new job opportunities for Jordanians and develop their skills; and in Syria, to create job opportunities and upgrade local skills (ESCWA, 1995).

Technology Transfer and Management Skills. Host countries hope to use free zones as springboards for introducing new technology to their economies by encouraging enterprises to diffuse those technologies after assimilating and adopting them (ESCAP/UNCTC, 1985). It is widely believed that in such industries, the direct transfer of technology has been very limited (World Bank, 1992 in REF).

However, in a relatively simple industry with no complicated technology such as footwear and garments, technology transfer exists. It is from foreign technicians and managers working together, from foreign buyers to local firms, movement of employment and so on (World Bank, *ibid*.). To have an effective and fruitful technology transfer, the environment for businesses outside the free zones must be attractive, i.e. import liberalization, deregulation, etc.

Forward and Backward Linkages with the Domestic Economy. The nature of the linkages between activities in the zones and those in the domestic economy is one of the most important key issues. The more extensive the linkages are, the more likely the zones can generate longer term benefits.

The UNIDO document (1980) reports that construction, electricity supply, transportation, etc. are some of the major linkages with the host country economy. Also there are the expenditure multiplier effects through the expanded income of labor force and their demand on host country's consumption goods. However, backward linkages with domestic production seem limited. Except in advanced developing economies that have succeeded in their outward-oriented strategies such as Korea and Taiwan, significant backward links from exports rarely develop in free zones (World Bank, 1992 in REF).

Criteria for Establishing Free Zones: Elements of Success

For a free zone to succeed, the factors that attract firms to them must be known. Should a government or free zone authority not have a thorough grasp of the needs of firms, then the development of a free zone can become a very expensive lesson. The more information available to free zone authorities concerning factors involved in management's decision to locate in a certain area, the more capable authorities will be in providing critical information to interested firms (Badri, 1996).

Studies carried out on free zones in developing countries arrive at the conclusion that the criteria governing the decision to invest in a free zone area include the following:

- **Political Stability:** This is considered the most important factor that attracts capital to the host country. Foreign investment is always hesitant to have ventures in unstable country where interests of such companies are consistently threatened. As a result, the political as well as economic stable climate, plays an important role is establishment and success of free zones.
- **Commitment to Free Economy (Openness):** A suitable macroeconomic exchange rate, and trade policy regime, together with a legal regulatory environment favorable to business are basic and critical elements for a developing economy's entry into the world market. Where there are tariffs and other taxes or restrictions on imports of producer goods, export policies must provide exporters free trade status, which their competitors enjoy around the world. The more committed the host government is to investment and free trade, the more guarantees the foreign firms have, and the more attractive the free zone is to foreign investment.
- **Strategic Location:** Free zones have to be established close to major international markets. In order to succeed, a free zone has to have a good geographical and strategic location, i.e. close to traffic of international trade. For instance, Dubai's strategic location at the crossroads between the East and the West, has made it the leading hub between Europe and the Far East. Dubai's traditional links with nearby Gulf States, the Red Sea, East Africa and the Indian subcontinent have enhanced the success of free zone in Jebel Ali.

Comprehensive theories for location of manufacturing activities have been developed throughout history.[3] In making allocation decision, several determinants or factors are considered, i.e. transportation costs, labor costs, marketing advantages and proximity to auxiliary industries (Badri, 1996). Some economists refer to the best location as the site from which a given number of buyers can be served at the lowest total cost. In this sense, the location theory involves both cost and demand curves (Greenhut, 1996).

- **Availability of Labor and Low Wage Costs.** Because foreign firms and companies are interested in lowering their cost of production, the cost and availability of labor are main factors that attract foreign investment to free zones, and in turn, enhance their success. However, due to many reasons, cost and availability of labor are losing importance nowadays in the face of other factors of a more qualitative nature such as transport conditions and costs, and business establishment conditions.
- **Availability of Good Infrastructure Facilities.** Availability of infrastructure as well as other supply services, is a requirement for a free zone to succeed. Availability of good transportation and communication systems, for instance, in addition to good

[3]For more details about location theories, see among others: Badri and Davis (1995); Coughlin, Terza and Arromdee (1991); Greenhut (1996); and Pietlock (1992).

administrative system away from red tape and bureaucracy, would definitely enhance the success of the zone. For instance, the availability of a modern seaport with twin terminals and a modern international airport, a cargo village, an air-freight handling capability and a Manifest and Documentation System, have enhanced the success of the Jebel Ali Free Zone tremendously.

Infrastructure facilities which would compete with other zones and contribute to the free zone's success include: low cost pre-fabricated warehouses, offices and refrigerated stores, open stores and retail transport facilities, abundant power supply, and highly efficient support services by the engineering and data system. Free flow of capital and tax-free profits and/or returns are also important factors to be considered.

FEZs in Arab Countries: Trend and Main Features

The geographical location of the Arab region allows it to act as a bridge between three continents, namely, Asia, Europe and Africa. Arab countries' strategic location at the crossroads between the East and the West has contributed to their importance in international trade, where they are considered important gateways to large number of people and provide an essential meeting point for production and consumption markets (ESCWA, 1995).

The idea of establishing FEZs in the region is gathering momentum, especially with the general trend in the area towards liberalization and globalization. There are now FEZs in Jordan, United Arab Emirates, Syria, Lebanon, Egypt, Tunisia, Morocco, Djibouti and Yemen. At the same time Qatar, Bahrain, and Kuwait are in the process of establishing FEZs. However, evaluation of FEZs in Arab countries need to be considered seriously before more FEZs are established especially in the light of international developments such as the WTO arrangements and globalization trends and newly emerging economic blocs.

Development of FEZs in Arab Countries: The Trend

The last twenty-five years or so have witnessed a rapid proliferation of FEZs in Arab countries. This period has also seen a rapid expansion of multinational corporation activities accompanied by a great degree of globalization, and now economic developments. Presently, there are more than 27 FEZs in at least 9 Arab countries, and 4 more in the process of being established in four other countries as shown in Table 1.

Table 1. Major FEZs in Arab Countries, 1998

Country	Area (hectares)	Year of Establishment
EGYPT		
Alexandria	472.75	1973
Nasr City	70.56	1973
Port Said	49.42	1975
Suez	32.28	1975
Ismailia	340.00	1979
Safaja	50.43	1992
Domietta	80.00	1992
Al Aresh	Planned	Planned
JORDAN		
Port of Aqaba	100.00	1973
Zarqa	550.00	1978
Jordanian/Syrian borders	400.00	1976
Al Shadiyah		
Sahab	Planned	
SYRIA		
Damascus	2.50	1952
Aleppo	32.00	1974
Latakia	28.20	1974
Tartous	43.60	1974
Damascus Airport	9.20	1976
Adra	68.40	1977
UNITED ARAB EMIRATES		
Jebel Ali – Dubai	10,000.00	1985
YEMEN		
Aden	20.00	1970
LEBANON		
Beirut Port	5.68	1954
Tripole Port	Planned	Planned
MOROCCO		
Tangier		
TUNISIA		
Bizerte		
Zarzis	30.00	1972
DJIBOUTI		
Djibouti		1971

Source: Collated by the author, based on available data from: ESCWA, *Development of FEZs in the ESCWA Region* (1995, pp.14-150; Inter-Arab Investment Guarantee Corporation*, Arab FEZs* (1987).

Location-wise, Egypt has established 7 FEZs since 1975. Jordan, on the other hand, started by establishing 2FEZs, namely in the Aqaba (1973), and Zarqa (1978). However, the free zone in Aqaba later expanded to include industrial as well as special free zones for phosphate based industries, phosphoric acid industry and natural fertilizers. The free zone at Queen Alia International Airport and the Sahab Free Zone are under construction. Also, a joint industrial free zone with Syria was established at the border between the two countries (1976).

The FEZ in Aden, Yemen is one of the oldest in the area. It used to be a free market for foreign goods and commodities. However, this free zone (market) status was canceled by the British authorities in 1961. Yemen's plans to develop a large free zone in Aden are presently under way. The first and second stages to rehabilitate the port and airport of Aden as well as construct warehouses and storage facilities, are scheduled to be finished in the year 2005. The Singapore Port Authorities has been commissioned to build ports and storage facilities in the Aden Free Zone in the amount of 187 million dollars.

The FEZ in Tangiers, Morocco located close to the port was established in 1962. The free zone law allows for the International Commissions whether the goods pass through the zone or not. The land allows commercial transactions related to goods stored in private or public storage. The Tunisian experience is related to industrial exports and financial sector (offshore banking). Law No.38/1972 related to industrial exports, aims at providing job opportunities while contributing to reducing balance of payments deficit as well as promoting use of modern technology. A free zone was established in Bizerte in 1992 with a total area of 460,000 m^2 in a strategic location on the Mediterranean close to Europe and the rest of the Middle East. There is also a free zone in Zarzis.

Djibouti established a free zone in 1971 based on Law No. 193/7. It is located within the Djibouti Port commercial area. The dominant activity is the commercial one compared to industrial or other activities.

FEZs in the Process of Being Established. In addition to existing zones in Arab countries, there are others that are in the process of being established. Construction of a commercial free zone at the port of Beirut is now underway as a result of Lebanon's free zone having been completely destroyed during the civil war. The long-term objective is to establish an industrial free zone in the Karantina district, east of the port. Qatar, in coordination with the UNIDO and UNDP, is in the process of establishing a free zone originally scheduled to start in 1994. The incentives offered to investors in the industrial sector now is similar to those of most FEZs.

Bahrain is also planning to build a new port as part of a new industrial free zone to be established in the northern-eastern part of the country. Kuwait is in the final stages of establishing a free zone at Shuwaikh port, based on the State enacted Law 26/95. In line with the privatization plan, the Higher Supervisory Committee on the FEZs decided to assign the project to the private sector.[4] The main objectives of the zone formulated by the Committee include: stimulating exports which would positively reflect on the Kuwaiti economy; and diversify the economy reducing reliance on oil. Sudan is also in the process of establishing two FEZs, i.e. the Red Sea Free Zone and Aljaily Free Zone.

[4] The National Real Estate Company signed a contract with the Kuwait government to establish and manage the free zone at Shuwaikh port.

Table 2. FEZs in the Process of Being Established in the Middle East.

Kuwait	**Shuwaikh Port**
Qatar	**Doha**
Bahrain	**Northern/Eastern Side**
United Arab Emirates	**Sadiyat - Abu Dhabi**
Sudan	**Red Sea Free Zone** **Aljaily Free Zone**

Like most FEZs in the world, FEZs in Arab countries are located either in or near seaports or near airports and international borders. Such locations would be attractive to low as well as high-value products. Without access to services that are essential to export and industrial operations, some FEZs in Arab countries may find it hard to attract foreign investment.

As of 1998, there were around 27 operational FEZs in Arab countries in addition to few under construction and in the process of being established. The free zone in Jebel Ali is the largest and the most successful, as will be discussed later.

Main Features : Incentives, Facilities and Administration of FEZs

Fiscal and Financial Incentives. Investors in most FEZs in Arab countries benefit from general fiscal incentives, the major ones being the "five freedoms" from: (a) corporate income tax, (b) import duties, (c) import quotas, (d) property taxes and (e) excise taxes. Income tax exemptions may vary for periods up to 20 years. Depending on the case, exemption is total or partial and may be combined with other incentives. Most countries offer a tax exemption period of 5-10 years as shown in Table 3.[5] The duty-free import concession is almost of unlimited duration, being the pillar of the zone. Financial incentives include freedom from foreign exchange controls and guarantees concerning the repatriation of capital invested and the unrestricted remittance of profits, e.g., Egypt, Syria, Jordan, Morocco, and Dubai. Preferential rates for electricity and water supplies, for the lease of land and the rent of standard factory buildings are further incentives granted to industries in most FEZs in Arab countries.

However, the variety and magnitude of fiscal and financial incentives given to FEZs' investors vary from country to another. The Jebel Ali Free Zone, for example, seems to offer the most attractive incentives, where there are no limitations on foreign ownership, no personal and income taxes, and exemption from corporate taxes for almost 30 years.

[5] For further details for variations between Arab countries, see for example, Organization of the Islamic Conference, *FEZs* (1990); The Inter Arab Guarantee Corporation, *Arab FEZs* (1987); ESCWA, *Development of FEZs in the ESCWA Region* (1995); and Diamond and Diamond, *Tax-FEZs of the World,* (1980).

Apart from fiscal incentives (tax exemption), most FEZs offer financial incentives such as exemption from taxes on profits, and from foreign currency controls. Most FEZs permit the unlimited transfer of profits as from the first year of production and repatriation of the total initial investment after a relatively short period of about 3 years (Table 3).

Table 3 shows that FEZs in Arab countries offer a variety of fiscal and financial incentives to investors. The most important incentives are tax exemptions and duty free imports.

Table 3. Major Fiscal and Financial Incentives Offered to Selected FEZs in Arab Countries, 1998

Country	Tax Exemption	Financial Incentives	Customs Exemption
Egypt	- Exemption from taxes and duties - Exemption from general income tax of non-Egyptian employees.[1]	- Exemption from tax on commercial and industrial tariffs. - Exemption from foreign exchange controls. - Freedom of repatriation of invested capital after 5 years. - Nationalization is not permitted.	- Exemption of imports and exports from duties and customs taxes. - Exemption of capital assets from custom duties (except cars).
Jordan	- Exemption from income and social security tax on salaries of non-Jordanians. - Exemption from taxes and fees.	- Exemption of profits from income and social security tax for 12 years. - Freedom of transfer of capital invested and profits to outside the country. - Exemption from foreign exchange controls.	- Exemption from import fees and customs duties of imported and exported to non-domestic markets.
Syria	- Exemption from taxes for entire period the activity is working with the zone. - Exemption from taxes on profits.	- Exemption from foreign currency control. - Freedom to repatriate capital, invested capital and profits.	- Exemption from customs duties. - Exemption from foreign trade provisions (restricting and limitation)
United Arab Emirates	- Exemption from corporate taxes for 15 years, renewable for an additional 15 years. - No personal income tax	- Freedom to repatriate capital and profit. - Modern and efficient communications. - Inexpensive energy. - No currency restrictions. - Full foreign ownership.	- Exemption from import and export duties. - Simplicity of import and export transactions.
Yemen	- Exemption of profits of industrial projects from taxes for five years from date of production. - Exemption of non-profits of commercial establishments as a result of their sales outside the country from income taxes.	- Exemption from foreign currency control. - Nationalization of projects is not permitted.	- Exemption from customs duties. - Exemption of exports and import licenses.
Tunisia	- Exemption of industrial and commercial profits from taxes for 10 yrs., & for 10% for extra 10 yrs. - Exemption from income taxes for first 20 years.	- No restriction on foreign currency. - Freedom to repatriate capital and profits for non-residents.	- Exemption from customs duties.
Morocco	- Exemption from income taxes on goods. - Exemption of profits for taxes from goods.	- Freedom to repatriate capital and profits. - Exemption from foreign currency control.	- Exemption from customs duties. - Exemption of exports and imports from administrative restrictions.

[1] This exemption is conditional upon such income not being subject to similar tax in the investor's home country, or in the countries to which income is transferred.

Source: Collated by the author based on Organization of Islamic Conference, *FEZs* (1990); ESCWA, *Development of FEZs in the ESCWA Region* (1995) Inter-Arab Investment Guarantee Corporation, *Arab FEZs*, (1987); and Bolin (ed.), *Mainline FEZs: Mediterranean, Gulf, Indian Subcontinents* (1995).

Customs Exemptions: Import Duties. In most Arab countries, FEZs are duty-free enclaves with the national customs territory. Imports of raw materials, intermediate products, equipment and machinery required for export production are not subject to the payment of customs duty. Also, most goods manufactured in and exported from a free zone are not subject to sales tax or excise tax.

Apart from its duty-free privileges, FEZs are characterized by the speed and simplicity of import and export transactions. In the Jebel Ali Free Zone of Dubai, for example, time-consuming procedures on importation and exportations are kept to a minimum.

Local Sales and Purchases. Since FEZs enterprises are given duty-free privileges, they are generally not allowed to compete with local firms by selling in the domestic market. Many FEZs in Arab countries restrict or prohibit local sales. Some countries require FEZs to compete with foreign sellers as in the international market.

Syria appears to be relatively liberal with free zone sales, allowing up to 20% of FEZs exports for sale in the local market (Inter-Arab Guarantee Corporation, 1987). However, domestic sales by free zones in some Arab countries, e.g. Jordan, are only permitted under certain conditions.

While discouraging FEZs from selling in the domestic market, host Arab countries encourage local purchases by such firms. For example, local goods purchased by the free zone in Dubai are not subject to excise tax. In some countries, machinery, components, industrial raw materials and supplies purchased from local producers qualify for export incentives.

Facilities and Administration. FEZs in Arab countries are provided with various types of infrastructure facilities and services. These include roads, ports, airports, storage facilities and standard factory buildings. The support services include physical services such as supply of electricity and water, telecommunication facilities; commercial services, such as banking, insurance, shipping and forwarding agents, etc.; and social services, such as medical care, food facilities (Table 4).

Table 4. Major Facilities Offered by Selected FEZs in Arab Countries and their Administrative Authorities, 1998

Country Or Area	Major Facilities And Infrastructure Services	Nature Of Investment Activities	Administrative Authority
Egypt	Maritime trans-shipment and storage in port areas (Port Said). Warehousing for commercial activities. Standardized factory building for lease. Ports and telecommunication. Subsidized water and power supply.	Industrial Storage Commercial	General Authority for Investment and Free Zones (1974)
Jordan	Maritime trans-shipment and storage in port areas (Aqaba). Warehousing for commercial activities (Zarqa). Water, power, and transportation facilities.	Commercial Storage. Industrial. Duty free for cars. General Storage	The Free Zone Corporation (1976)
Syria	Road facilities linking Mediterranean ports. Modern ports on the Mediterranean. Storage and warehousing. Factory buildings on lease.	Industrial. Commercial Storage.	The General Establishment For Syrian FEZs (1971)
United Arab Emirates / Jebel Ali Free Zone	Complete infrastructure and a modern road network. Abundant and inexpensive energy. Accommodation for employees (male or female). Modern efficient communication system. Two modern ports terminals. Storage facilities and modern handling equipment. Availability of information technology's Manifest and Documentation System (MDS).	Storage. Industrial activities. Re-exports. Commercial.	Jebel Ali Ports Free Zone Authority (1985)
Yemen	Strategic Location. Relatively modern port. Limited storage facilities.	Re-exports. Storage. Industrial activities. Ships refueling.	
Tunisia	Modern road network. Telecommunication system. Storage facilities. Shipyard facilities.	Export Industries. Offshore banking.	Investment Promotion Agency (1972). Bizaret & Free Zone Development Company.
Morocco	Modern road network. Water and electricity. Good railroad system. Spacious storage facilities. Factory buildings. Modern telecommunication system.	International Commissioning. Industrial activities. Re-exports.	Ports Utilization Office (1962)

Source: Collated by the author based on Organization of Islamic Conference, *FEZs* (1990); ESCWA, *Development of FEZs in the ESCWA Region* (1995) Inter-Arab Investment Guarantee Corporation, *Arab FEZs*, (1987); and Bolin (ed.), *Mainline FEZs: Mediterranean, Gulf, Indian Subcontinents (*1995).

The most extensive infrastructure facilities are those provided in the Jebel Ali Free Zone.[6] This includes a modern port, generous space, modern communication system, pre-built facilities for lease. Abundant and inexpensive energy is also available.

[6] The two terminals of Jebel Ali and Port Rashid handled 9555 vessels including 4034 container vessels in 1996. The Container Freight Station at Port Rashid terminal also provides covered space in 7 warehouses with a combined capacity of 50,400 sq m and a total 66,000 sq m of uncovered area . See Dubai Ports Authority, *1997 Handbook* (1997: 6-13).

Administration of FEZs in Arab Countries

While most FEZs in Arab countries were originally established as independent governmental entities, they differ in the way they are directed by the concerned government agencies. FEZs are administered by a separate authority which in many cases, is called Free Zone Authority or Corporation, (see Table 4). Generally the Free Zone Authority has representatives from various ministries and is responsible to the Ministry of Commerce or the Ministry of Industry. In this way, the Free Zone Authority is assured of adequate support from the government. The existence of a centralized administrative office in the authority to intercede between firms in the FEZs and other government departments, helps to provide investors with a simple and straightforward administrative procedure, i.e. one window service.

- **Egypt:** The General Authority for Investment and Free Zones is responsible for administering the FEZs, through planning and coordinating of their policies. The General Authority is part of the Ministry of Economy and Foreign Trade which regulates investment in Egypt. The system in Egypt is decentralized where there is a Board of Directors for each zone that determines the projects, the rent and prices of services.

- **Jordan:** The Free Zone Corporation runs the FEZs. The Corporation is relatively independent and works under the supervision of the Minister of Finance, who is also the Chairman of the Board of Directors. which is composed, in addition to the Minister of Finance, of Director General of the Corporation, and one representative of each of the following departments: Ministry of Industry and Trade, Ministry of Finance, Customs, Ministry of Transport and the Central Bank.

The Free Zone Authority which has more power than most authorities is probably the Jebel Ali Port Free Zone Authority in Dubai. The Authority is charged with the supervision of the free zone including laying down the necessary rules to companies operating in the zone and providing companies with the technical, professional and administrative staff. It is managed by a Board composed of 3-5 members appointed by the Ruler (Organization of the Islamic Conference, 1990).

- **Syria:** The General Establishment for Syria Free Zones (GEFZ) was founded according to Legislative Decree No. 18 of February 18, 1971. It has financial and administrative autonomy and is attached to the Minister of Economy and Free Trade. Its functions include, among other things, organizing the activities of FEZs and coordinating their efficiencies so as to serve the economy and develop international commercial exchange (Organization of the Islamic Conference, *ibid*.).

No matter who administers the zone, a Free Zone Authority (Corporation, Establishment, etc.) is usually organized around a number of divisions. Apart from core divisions dealing with administration and finance, the authority may have investment promotion, a marketing and an employment division, e.g. the Jebel Ali Free Zone Authority.

Performance of FEZs in Arab Countries: An Analytical Assessment

The viewpoint on the merits and defects of FEZ as an instrument of economic policy is based on the perception that country's experience is on the whole, positive. The question arises as to how well founded this opinion is. Unfortunately, it is not easy to answer this question.

Assessment of the performance of FEZs is usually based on experts' evaluations. Because quantitative information on zone economies in Arab countries is scarce, and host countries treat it as confidential, the studies of FEZs must mainly rely on data gathered by research missions and investigators.

Despite the positive perception that economists and politicians have about FEZs, the success differs from country to another as well as from region to another. To evaluate their performance in Arab countries, the following have to be carefully considered:

- Evaluation will be limited, based on the availability of data of only certain variables, i.e. exports, imports, investment, etc.
- The data will be limited to only some Arab countries that either issue detailed data, or those the author has access to.
- Assessment of the performance of the FEZs will be carried out putting into consideration the objectives of FEZs in Arab countries i.e. what objectives were achieved and those that were not.

Attracting Foreign Investment and Capital

A major motive for establishing FEZs is to stimulate investment to achieve a satisfactory rate of economic growth. Most countries in the Arab world set up FEZs to attract foreign investment.[7] Table 5 shows investment inflow to FEZs in Egypt as well as number of projects approved by the Investment Authority. It indicates that invested capital in FEZs in Egypt did not exceed 2.35 billion Egyptian pounds for the period 1975-1995 with 467 projects (Abdul Hamid, 1997). Data also indicate that investment for exports in FEZs in Egypt is also weak where most projects are small and do not suit the projects that are directed to international markets. This limits their ability to compete internationally and as a result, exports are not promoted properly.

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[7] Data on investment, exports, imports, etc. of free zones in Tunisia, Morocco and Yemen are not available to the author.

Table 5. Private Investment in FEZs in Egypt for the Period 1975-1995
(Million Pounds)

Year	No. of Projects	Paid Capital	Average Capital Per Project
1975	9	27	3.0
1976	17	79	4.6
1977	41	173	4.2
1978	26	96	3.6
1979	12	138	11.5
1980	25	72	2.8
1981	12	93	4.4
1982	7	119	17.0
1983	14	452	32.2
1984	3	7	2.3
1985	1	3	3.0
1986	4	6	1.5
1987	3	11	3.6
1988	8	35	4.3
1989	5	14	2.8
1990	9	20	2.2
1991	44	139	3.1
1992	30	174	5.8
1993	58	139	2.3
1994	68	268	3.9
1995	71	328	4.6
Total	467	2353	5.0

Source: Abdul Hamid (1997: 49-50). See also General Authority for Investment and Free Zones, *Annual Report* (Various issues).

Investment activities in FEZs are dominant in storage projects that do not require large amount of capital. Storage sector constituted around 69% of total projects approved in 1984 compared to 18.7% for industrial sector (Inter-Arab Investment Guarantee Corporation, 1987, p. 27). Since the end of 1993, the picture has not changed in Egypt with 231 storage projects, compared to 147 industrial projects, and 46 for services (ESCWA, 1995, p. 41). However, storage revenues decreased lately because of the decision to cut storage activities in favor of industrial activities. On the average, investment did not exceed 8% of total private investment for the whole period, compared to 92% that went to the others (inland projects).[8] This actually means that FEZs in Egypt have not succeeded in attracting large new investments in the form of direct foreign investment, especially those of multinational companies.

The level of Egyptian participation in FEZs indicates the inability of the zones to attract foreign investment. Table 6 illustrates the high percentage of Egyptian participation in FEZs. Their share of the total investment amounts to 59%, 20 % of Arab investors and 21% of foreign investors.

[8] For details, see data in Abdul Hamid (1997, pp. 51-52). See also General Authority for Investment and Free Zones (Various issues).

Table 6. Shares in Equity Investment of Different Nationalities as of 30 June 1994 (Million Egyptian Pounds)

	Egyptian		Arab		Foreign		Total	
	Partici-pation	%	Partici-pation	%	Partici-Pation	%	Partici-pation	%
Inland Projects	13,887	61	4,426	20	4,374	19	22,687	100
Free Zone Projects	885	36	658	27	915	37	2,458	100
Total	14,772	59	5,084	20	5,289	21	25,145	100

Source : ESCWA (1995, p. 28); General Authority for Investment and Free Zones (Various issues).

The case is not that different in Jordan and Syria. FEZs in Jordan have been commercially oriented since their establishment in 1973. By 1991, only 17 industrial investment projects had been launched, and by 1995 the number has stood at only 29.

The source of the invested capital determines, to some extent, the ability of the Zone to attract foreign investment. Table 7 shows that 81% of invested capital in FEZs in Jordan came from Jordanian investors, while only 19% came from foreign investors. This defeats the idea of establishing FEZs to attract foreign investment.

The FEZs in Syria have attracted relatively few foreign investments, especially after 1991 when Law No.10 appeared with generous incentives to investors in free zones. There were around 153 investing firms in the FEZs in Syria in 1994, only 13 of which were foreign firms (8.5%).

Table 7. Distribution of Invested Capital in Jordanian FEZs According to Type of Activities and Source of Capital as of 1994 (000 JD)

Source of Capital	Type Of Activities					
	Commercial	Industrial	Cars	Services	Total	%
Jordanian	5972	4225	2723	27302	40222	80.9
Arab	203	200	350	-	753	1.5
Foreign	8410	310	-	-	8720	17.6
Total	14585	4735	3073	27302	49695	100.0

Source: Al Arda and Sahawneh (1996, pp. 48-49).

One of the successful cases in FEZs in Arab countries is the Jebel Ali Free Zone in Dubai. It was composed of 276 companies in 1990, 377 in 1992, and 785 in 1995 (Table 8). However, over 1125 companies from 72 countries have been prospering in the Free Zone in 1997. The total investment in the Jebel Ali Free Zone was around 50 million Dollar (500 million Dirham) in 1986 (Inter Arab Investment Guarantee Corporation, 1987, p. 81). It increased to 600 million dollars in 1990 and 3000 million dollars in 1994, a 600% increase in four years (Kamashke, 1996, p. 22). Table 8 shows that Emirate firms constituted only 18% of total firms in 1995 and 20% in 1992, compared to 70% and 68% respectively for foreign firms. The number of foreign firms has increased tremendously from 257 in 1992 to 431, an increase of 68%, and an extra 28% increase with 551 in 1995. This means that the number of foreign firms in Jebel Ali Free Zone has more than doubled during the period 1992-95. Capital from GCC countries has not changed, mainly because of the similarity of incentives and facilities offered by GCC countries and the Jebel Ali Free Zone.

Table 8. Number of Firms in Jebel Ali Free Zone According to Nationality and Type of Activity for the period 1992-1995

Nationality	Emirates			GCC Countries			Foreign			Joint			Not Known			Total		
Activity	92	94	95	92	94	95	92	94	95	92	94	95	92	94	95	92	94	95
Industry	13	20	16	4	3	6	38	41	53	4	5	16	3	2	-	62	71	91
Industry/ Service	10	17	20	4	2	5	63	90	93	1	7	8	-	2	-	78	118	126
Commercial	16	27	32	9	15	16	106	228	298	2	10	19	6	10	3	139	290	368
Services	38	66	67	7	4	9	50	72	107	2	6	15	1	11	2	98	159	200
Total	77	130	135	24	24	36	257	431	551	9	28	58	10	25	5	377	638	785

Source : Collated by the author based on Kamashke (1996, pp. 23-25); Who is in Jebel Ali Free Zone 1992, 1994, 1995.

Even if it offers similar incentives like other FEZs in Arab countries, the Jebel Ali Free Zone has been able to attract a large amount of foreign capital since 1990. The wider and ambitious concept of administration and service orientation has contributed to such success of the Jebel Ali Free Zone.

Unfortunately, data about FEZs in Yemen, Tunisia and Morocco are not available in order to evaluate their performance properly, especially in relation to attracting investment.

Exports and Foreign Exchange Earnings

One of the main incentives to establish FEZs in Arab countries, as stated in the devised objectives, is clearly related to the desire to shift away from the inward-looking industrial policies towards export-led strategy. However, not all of FEZs in the region have achieved such objective.

Because most of the manufacturing activities in Egyptian FEZs are small-scale and labor-intensive, i.e. textile, food processing, garments, plastic, etc., the value of industrial exports from Egyptian FEZs did not exceed 138 million dollars, compared to 555.6 million dollars for storage revenues in 1993 as shown in Table 9. Total exports of FEZs have increased to reach around 1.3 billion dollars in 1997, only 22% of which was exported outside the country while the rest (78%) to inland (General Authority for Investment and Free Zones, 1997). This is also an indication of the inability to compete in the international markets which led to FEZs to direct their exports to domestic markets.

Table 9. Exports of Egyptian FEZs, 1989-1993 (in million dollars)

	1989	1990	1991	1992	1993
Industrial	**122.3**	**158.2**	**174.9**	**112.6**	**137.6**
Storage	**301.6**	**414.5**	**412.1**	**788.2**	**555.6**
Services	**5.9**	**5.6**	**40.9**	**10.4**	**5.7**
Total	**429.8**	**578.3**	**627.9**	**911.2**	**698.9**

Source: ESCWA (1995, p. 20).

Exports of services (storage) are dominant in the case of Egyptian FEZs where storage activities do not actually need a large amount of fixed capital as well because of the low risk involved compared to industrial activities.

In contrast to Egypt, Syria's FEZs' industrial exports to outside the country (174.2 million SL) were much higher than their exports to the country (61.5 million SL) in 1993 as shown in Table 10. This is a clear indication of the FEZs products' ability to compete in the international market. The picture was almost the same during the first half of 1997 where FEZs' exports to outside the country, have exceeded those to the country. However, total industrial exports have increased in 1997 compared to 1993, which again reflects the increase in the number of firms operating in the zone as well as their capacity to export. In the meantime, their backward linkages with the rest of the economy have been relatively limited. FEZs' imports from the Syrian domestic market did not exceed 31.3 million SL compared to 216.8 million from outside the country in 1993.

Table 10. Industrial Imports and Exports of Syria FEZs for the Years 1993 and 1997*
(in million SL)

	Exports To			**Imports From**		
	The Country	**Outside the Country**	**TOTAL**	**The Country**	**Outside the Country**	**Total**
1993	**61.5**	**174.7**	**236.2**	**31.3**	**216.8**	**248.1**
1997*	**80.2**	**122.7**	**202.8**	**6.5**	**120.8**	**127.3**

*Data only for the 1st half of 1997.

Source: Collated by the author based on data from the General Establishment for Syrian Free Zones in ESCWA (1995).

The ability of Jordanian FEZs to attract export-oriented industries is limited. Exports of commercial sector constituted 43% of total exports compared to 33% for industrial exports in 1993 (Al Arda and Muhamad Sahawneh, 1996). In general, the free zones' exports did not exceed 30 million JD in 1993. Most of FEZs exports in Jordan have been directed to Arab countries which reflects, to certain extent, their ability to compete in the Arab markets. Exports to the domestic market is relatively limited as shown in Table 11. Exports to Arab countries are mainly clothes and spare parts, and to United States markets, mainly clothes and cassette tapes.

Table 11. Geographical Distribution of Jordanian FEZs' Exports, 1993

Country	Value (million JD)	%
Jordan	**4.90**	**16.7**
Other Arab Countries	**15.12**	**52.0**
Europe	**4.50**	**15.4**
United States	**4.6**	**15.9**

Source: Al Arda and Muhamad Sawahneh (1996).

Imports from the Jordanian domestic market did not exceed 0.7% in 1993 which contradicts one of the main objectives of FEZs, namely, the availability of raw and primary material in the host country. Imports from Asian countries exceeded 58% and from Europe 25%. Data on exports and imports of Jordanian FEZs indicate how little the zones fulfilled objectives of exports and foreign exchange earnings.

On the other hand, Table 12 shows the Jebel Ali's total exports have increased from 226.6 million Dirham ($60 million) in 1985 to 2206.2 million ($580 million) in 1990 and to 5928 million Dirham ($1.6 billion) in 1994 (Table 13). Such rate of growth of a free zone's exports (168.7% in four years) reflects the capacity as well as the ability of the zone's authority to increase exports.

Table 12. Exports and Imports of the Jebel Ali Free Zone (Million Dirham)

	1985	1988	1990	1991	1992	1993	1994
Exports	**226.6**	**737.6**	**2206.2**	**2526.1**	**3903.4**	**4797.1**	**5928.8**
Imports	**193.8**	**930.9**	**2804.7**	**3580.4**	**4891.8**	**6050.5**	**8162.5**

Source: Compiled by the author from the Jebel Ali Free Zone Authority (1996), and Kamashke (1996, p. 30).

Imports of the Jebel Ali Free Zone increased from 193.8 million Dirham in 1985 to 8162.5 million in 1994, with a rate of growth of more than 4000%. This increase of imports has been a result of increase in the number of firms operating during the period. To put the growth of imports in the context of the Jebel Ali total trade, Jebel Ali's imports were only 1% of all imports in 1986, which increased to 13% of all goods entering the Emirates through Dubai in 1995 (Sulayem, 1995). Commodity distribution of exports and imports shows the nature of goods exported and imported which, in turn, reflects the zone's success in promoting industrial as well as trade strategies. For example, aluminum articles and petroleum as well as foodstuff, constitute the major elements of exports. It is the same with imports where petroleum and foodstuffs were the main items for the period 92-94, (Table 13).

The ability of the Jebel Ali Free Zone to compete in international markets is reflected in the geographical distribution of exports where most of it goes exported outside the country. Far East and South East Asia countries are at the top of the list followed by Middle East countries (ESCWA, 1995). It has also succeeded in penetrating western markets especially the European Union and the USA markets.

Table 13. Commodity Distribution of Exports and Imports of the Jebel Ali Free Zone for the Period 1992-94 (Metric Tons)

Commodity	Exports			Imports		
	1992	1993	1994*	1992	1993	1994*
General Cargo	13091	31252	23645	33650	67150	49751
Electronics	23962	32340	18761	30674	38451	27579
Textiles	14458	21098	13493	14859	23250	16044
Steel	30191	21847	6695	50672	64457	75854
Foodstuffs (including Free Zone)	28467	78817	61502	282185	425631	316683
Vehicles	3950	1794	664	4646	1901	2210
Petroleum	633014	688364	127433	859768	638807	334038
Chemicals	37420	40395	32280	66635	86007	59561
Leather	698	915	293	1517	834	335
Timber	2744	1578	1669	10851	4892	8340
Aluminum Articles	6094	246182	145897	6110	8626	9740
Other Materials and Articles	29927	48864	38982	37943	66016	49152
Total	824016	1211446	471314	1399510	1426022	94928

* Figures through July 1994.

Source: ESCWA (1995, pp. 35-36).

Employment Opportunities

Apart from the need to increase investment and exports, the next most important objective of FEZs is to generate employment opportunities for their growing labor force. FEZs in Egypt have not exhibited a positive effect on employment opportunities, despite their large size and low wages and salaries in the zones. Labor working in Egyptian FEZs did not exceed 18000 in 1984, generating approximately 48.5 million pounds in 1984 (Inter-Arab

Investment Guarantee Corporation, 1987). By 1987, these projects have generated only 8051 job opportunities, 4656 of which were in industrial, 1708 in storage, and 1615 in service projects. By 1994, around 29207 jobs were created in FEZs (4.5% of which were non-Egyptians), generating around 68 million dollars in income (ESCWA 1995, p. 35). Compared to the number and size of FEZs, this may seem to have a very limited effect on employment opportunities.

In Syria, no recent data are available about labor employed in FEZs. However, the General Establishment for Syrian Free Zones has kept the same number of employees (287) since 1990 (ESCWA 1995, p. 17).

Jordanian FEZs have relatively limited contribution to employment. Total employees in FEZs did not exceed 1000 staff in 1987, compared to a total labor force in Jordan of 500,000 laborers in 1997. FEZs laws indicate that the maximum number of foreigners allowed in any firm should not exceed 25% of the total number of employees. However, some studies have indicated that the total number of labor and employees working in FEZs was around 5500 in 1996 (Al Arda and Muhamad Sahawneh, 1996, p. 67). A study of employee distribution according to nationalities and type of activities showed that 86% of those working in FEZs in 1994 were Jordanians. While this is a positive element in development strategy, this high ratio is due to the fact that most of firms working in FEZs are Jordanian companies as mentioned earlier. The contribution of FEZs in Jordan to employment is relatively limited compared to the number of Jordanians in the work force.

The picture is somewhat different in the Jebel Ali Free Zone. The rate of growth of investment and number of firms operating in the free zone (more than 1125 firms from 72 countries in 1996) generated a large number of employment opportunities. For example, the Jebel Ali Free Zone generated directly 27361 job opportunities, and indirectly 3000 opportunities by 1994. Job categories include unskilled, semi-skilled labor, supervisory and managerial.[9] However, most employees in the supervisory and managerial category are foreigners, mainly from Europe, Asia, and the USA.

In Yemen, the labor force working in activities related to FEZs did not exceed 0.1% of total labor force and 2.5% of labor force in trade and agriculture sectors in 1987 (Inter-Arab Investment Guarantee Corporation, 1987, p. 26). The picture is still almost the same. Statistics about the Tangier Free Zone in Morocco indicate that it has not contributed much to employment. Neither has it contributed to technological changes nor national income as well as balance of payment up till 1988. There were only 1500 employees working in the zone by late 1980s.

It is apparent that the FEZs' contribution to employment is limited in most Arab countries, with the exception of the Jebel Ali Free Zone.

[9] For salaries and allowances of labor, see Jebel Ali Free Zone Authority, *Business Guide,* 1996.

Other Effects

FEZs in Arab countries may have other effects on the economy mainly through their profitability (cost-benefit) and also contribution to the national income. The author believes that a determinant of the success of a free zone is its external competitiveness relative to other zones in the region, rather than its internal profitability as captured by cost-benefit analysis. The rate of return of investment in the zone may be extremely high, but foreign investors may not be attracted. Perhaps, what is needed is an international competitiveness analysis that is carried out parallel to cost-benefit analysis.

The author is not aware of any published study that deals with cost-benefit analysis of FEZs in the Arab world. Consequently, the forthcoming analysis of this issue is based on some aggregate data on expenditure and revenues of the zone.[10]

Rental of land for factories or warehouses is one of the main revenue items of FEZs. Egypt's expenditure on FEZs since they were established in 1974 through 1991, amounted to around 104.3 million Egyptian pounds, 89.5% of which or 93.4 million pounds were infrastructure costs.[11] Around 67% of revenue in 1991 came from corporation dues and 22% from land rental. Land rental fees are relatively high in Egypt compared to other zones in the region.[12] Total revenue from FEZs has more than doubled from 9.56 million dollars in 1989 to 19.42 million in 1993. However, its contribution to the Egyptian GDP in 1993 ($46.9 billion dollars) was minimal.

The picture is almost the same in Syria where revenues in 1993 were more than six times those of 1990.[13] The rate of growth of expenditures was much lower than that of revenues. The rate of annual revenues during the period 1990-1993 (193%) has greatly exceeded the rate of growth of GDP (18%) in the same period. The increase in revenues has been mainly attributed to policies of economic liberalization and reforms started in Syria by 1990. However, despite this rate of increase in revenues, its contribution to GDP has been very limited.

In Jordan, investment of the Free Zone Corporation amounted to 7.4 million Jordanian Dinar during the period 1984-1993, mainly in infrastructure such as water and electricity. Such expenditures (capital expenses), reached the peak (5.6 million JD) during the period 1991-1993 which amounted to 75% of total investment. Private sector encouraged such investment, especially after the Second Gulf War, where the number of factories in the zones

[10] Data on operating and administrative as well as investment costs are not provided by Free Zone Authorities.

[11] Based on data from ESCWA, *Development of FEZs in the ESCWA Region*, provided by the General Authority for Investment and Free Zones, Egypt.

[12] Annual cost for land rental is $3.5 per sq m in Egypt compared to $1.7-2.5 in Jordan, $3 in Syria, and $2.7 in Dubai.

[13] Based on ESCWA, op.cit.: 32. Data compiled from information supplied by the General Establishment for Fre Zones, Syria.

has increased, (Table 14). However, expenditures during this period were 63.5% lower than that during the period 1974-1984. This is due to the fact that large amount of expenditure and investment was spent the early period of establishing the zones. The sharp increase in expenditure for 1992 to 1993, was due to expansion and new projects implemented by the Free Zone Corporation directly after the Gulf War in 1991.

Revenues, on the other hand, started to increase in 1991 (217.6% compared to 1990). Rate of increase of revenues during the period 1984-1993 (29.4%) exceeded that of GDP (8.4%) for the same period. Despite such increase, contribution of revenues to GDP was still very limited, where it did not exceed 0.1% annually. Such contribution was almost the same during the period 1974-1983 (Al Arda and Muhamad Sahawneh, 1996, p. 44). As such, the expenditures/revenue balance was positive during the period 1984-1993, with an average of 1.5 million JD. The balance reached its peak in 1992 to reach 3.3 million JD as shown in Table 14. As in the case of other FEZs in the region, the effects on the Jordanian economy has been limited and negligible.

Table 14. Jordanian FEZs' Expenditures, Revenues, and their Contributions to GDP for the Period 1984-1993 (Million Jordanian Dinars)

Year	Expenditure				Revenue		Gnp		Rev./Gnp	Bal.	
	V A L U E									Rev - Exp.	Rev/Exp
	Capital Exp.	Current Exp.	Total	Rate of Growth	Value (JD)	R. of Growth	Value	% of Growth	%		%
1984	1.12	--	--	--	1.7	--	1498.4	--	0.11	0.58	0.5
1985	0.41	--	--	-63.7	1.5	-11.8	1605.9	7.2	0.10	1.09	2.7
1986	0.06	--	--	-86.0	1.3	-13.3	1772.2	10.4	0.07	1.24	21.8
1987	0.05	--	--	-11.0	1.3	--	1823.4	3.4	0.07	1.25	24.6
1988	0.05	0.67	0.72	-3.1	1.3	--	1901.4	3.8	0.07	1.25	25.4
1989	0.09	0.69	0.78	81.7	1.6	23.1	2068.1	8.8	0.08	0.15	16.9
1990	0.09	0.72	0.80	--	1.7	6.3	2275.3	10.0	0.07	1.61	18.0
1991	0.75	0.77	1.52	737.9	3.7	217.6	2420.1	6.4	0.15	2.95	3.9
1992	1.10	0.93	2.03	56.6	4.5	21.6	2759.6	14.0	0.16	3.33	2.8
1993	3.65	1.14	9.7	211.4	4.5	--	3077.2	11.5	0.15	0.85	0.2
Average					2.31	15.9	2121.1	8.4	0.10	1.56	11.7

Source: Data compiled from Free Zone Corporation *Annual Reports and Investment Guides* (Various issues); Al Arda and Muhamad Sahawneh (1996, pp. 42-46); and ESCWA (1995, p. 31).

Data are not available for expenditures and revenues of the Jebel Ali Free Zone in Dubai. Size of investment, exports and imports as well as job opportunities indicate that revenue could be much higher than in other FEZs in the region. However, expenditures are also expected to be high especially at the early years where infrastructure and operating costs are expected to be high. Cost guidelines for facilities and utilities in 1997 indicate that annual cost of land rental vary from US$2.72 to US$5.45 per sq m. Pre-built factory or warehouse vary from US$25,886 to 34,060 per unit (Jebel Ali Free Zone Authority, 1997, p. 17). Having more than 1125 firms located in the Jebel Ali Free Zone in 1997 gives and indication of the size of its revenue.

Data about FEZs in Yemen show that the rate of revenues to GDP is so negligible to be mentioned. Revenue contribution to the trade sector did not exceed 0.3% - 0.4% during the period 1980-1984. The picture is almost the same in Morocco, where FEZs' revenue or income has not contribute to either balance of payments trade balance or GDP (Inter-Arab Guarantee Corporation, 1987).

Having looked at some of the main issues that determine the success of FEZs in Arab countries, it appears that the success depends on a number of economic, social, and geographical factors in effect within the country and abroad. The fact that a FEZ in general, is a mature phenomenon of the international economy, should not be overlooked. It is believed that an understanding of the features, the objectives, and the mechanism of the zones and their role in the global economy is essential to the success of every zone (Kuznetsov, 1993/4).

However, no matter what the degree of success of each zone may be, host countries in Arab world are likely to gain, although gains might prove to be short-lived. At the very least, new infrastructure projects remain the property of the region irrespective of how successful FEZs will prove in other respects. FEZs should not be treated as some sort of independent and highly productive model of regional economic growth. Rather, they should rather be viewed as dynamic and flexible economic structures that promote open market economy (Manezhev, 1995).

The assessment indicates firstly that even though FEZs in Arab countries have almost similar structure, objectives, and incentives, the degree of success differs from one host country to another. Secondly, the performance of FEZs in Arab countries, is much lower than that in other parts of the world, e.g. Hong Kong, China, etc. This may be attributed to certain problems facing FEZs that need to be reconsidered, where present conditions require a reassessment of the measures that already exist which include, among other things, law and regulation conflict, administration problems, nature of firms, technical and marketing problems.

Obstacles and Problems : Reasons for Poor Performance

Investors in FEZs are continuously faced with problems and obstacles that impede the operations of their firms in the zones. Some are related to macro while others to sectoral and firm levels. Also, some are considered administrative and marketing problems while others are legal and technical ones. Although assessment shows that type and magnitude of obstacles differ from one country to another, the major problems are considered to be similar.

On The Macro Level. Administrative obstacles include, among other things:

- Excessive red tape and bureaucracy where investors have to deal with several departments to obtain licenses, or approvals. The process is tedious and lengthy.
- Lack of actual autonomy of FEZs even though they are accorded financial and administrative authority by law, (ESCWA, 1995, p.28). In Jordan and Egypt, for example, budget requires approval by a Minister or Council of Ministers, in addition to Board of Directors of a Free Zone Authority.

- Unexpected changes in laws and regulations that continuously confuse investors.
- Conflict and overlap of laws and procedures related to FEZs as well as to Customs Authority.

Marketing Obstacles include:

- FEZs lack effective promotional policies. They fail to understand that marketing is a task requiring the attention of top management.
- There is a difficulty in marketing products of FEZs, because FEZs in the region are similar and produce almost similar products. A study of FEZs in Jordan shows that around 30% of investors suffer from this issue (Al Arda and Muhamad Sahawneh, 1996, p.77).

Infrastructure Facilities surrounding FEZs are necessary pre-conditions for attracting foreign investment. However, this is not the case in most FEZs in Arab countries. Infrastructure obstacles include: (a) Inadequate infrastructure utilities and services especially the communication, and (b) The lack or inefficiency of ports used to carry the zones' products and materials necessary for production.

Sectoral and Micro Level. Some problems exist related to the nature of industrial activities such as:

- Small sized industries in the FEZs and their inability to compete in the markets.
- Dependence on imported raw materials which has tremendously increased the cost of production of industrial products. As a result, the ability of industries to compete decreases.
- Limited transfer of technology to industries. It is believed that simple production process generates very few backward linkages with other production activities in the economy; and most of the material that requires technical knowledge are imported from foreign sources. As a result, there is no room to generate or develop local appropriate technologies in the zones. What actually exist are only assembly lines as well as sewing ready made parts (ESCWA, 1996).

Due to recent economic developments in the international scene such as globalization, stabilization trends, Uruguay Round Negotiations, and the establishment of World Trade Organization (WTO), many countries have felt the need to strengthen regional cooperation. Formation of the AFTA in 1996 within the context of the WTO fits into this category. Analysis of AFTA and regional economic cooperation raises the issue of how strategies of integration within Arab countries will affect FEZs established to promote trade and growth. A critical issue is whether firms and companies located in FEZs, have advantages over those located in domestic and regional markets of AFTA member states. This requires a careful and separate study of FEZs' products as well as the principles covering policies of Free Trade Areas toward FEZs.

It is believed that FEZs are going to be more important in the coming decade than they were in the last decade or so. This is because they may be doorways to growth and development that may be opened and closed according to the country's interest and benefits.

Conclusion and Policy Implications

In recent years, FEZs have become increasingly important as countries seek to attract foreign investment for the purpose of promoting growth through increasing exports and foreign exchange as well as employment opportunities and transfer of technology. As a result, a large number of FEZs has been put into operation and many more are under construction throughout the Arab world. There are likely to be substantial gains for the host economies through the creation of trade.

While FEZs in Arab countries offer relatively similar fiscal and financial incentives, their performance differs from one country to another. The Jebel Ali Free Zone is considered the most successful in Arab countries in terms of investment attracted to the zone, level of exports and foreign exchange, employment opportunities as well as backward linkages with the domestic economy. However, other FEZs in the area, have shown signs of success and failure in achieving their objectives.

The ability of FEZs in Egypt, Jordan, and Syria, to attract foreign investment, for example, has been very limited and remained mostly as storage and warehousing areas. In addition, the ability of these zones to compete in the international markets through exports has been weak, leading most of them to direct their exports to domestic markets. The same applies to their ability to create employment opportunities.

The relatively limited effect of FEZs on the host economies, except in the case of Jebel Ali, is mainly due to macro as well as sectoral level obstacles that impeded the operation of firms in the zones. Looking back on the experience of partly successful FEZs in Arab countries, one may identify a number of classical failures at the planning and design stage. They include the choice of inappropriate location for the zone; lack of sufficient basic infrastructure such as telecommunications; inefficient institutional linkages between the Zone Authority and other government departments. As a result, careful consideration of the existing rules and measures is necessary for the zones to succeed. The recommended measures include, among other things:[14]

- Legislative reforms that would take care of numerous contradictions and duplications of laws and regulations in the zones to reduce bureaucracy and give more independence to authorities. Investment laws should remain in force for long periods in order to give investors peace of mind.
- Sufficient infrastructure facilities and services are needed in most FEZs in the region. The availability of such infrastructure would give FEZs in Arab countries a comparative advantage within the region.
- Reforms that encourage the expansion of export industries in the zones, such as removal of barriers to the movement of finished goods in the region. It is

[14] For detailed recommendations to improve the performance of FEZs in the region, see, among others, ESCWA, *Development of FEZs in the ESCWA Region* (1995, p.42-46); and Al-Arda and Muhamad Sahawneh, *Study on FEZs in Jordan: Facts and Outlook* (1996, pp.102-109).

essential to have regulations that attract large and medium-size industries rather than small industries as is presently the case in FEZs in the Arab countries.

- Encourage employment of nationals in FEZs, which may require giving more attention to training of manpower by the Free Zone Authority on one hand, and local and foreign firms, on the other.
- Promotion and marketing of the zones requiring the attention of top management. Promotional and marketing programs should be developed that attract clients and keep them happy. Priority should be given to meeting clients' needs as well as the country's objectives. It makes little sense to invest in land, infrastructure, utilities, etc. only to fail to provide enough investment for marketing and promotion.

Finally, it is worth mentioning that Arab countries have probably been as active as any region in establishing and developing FEZs in the last 10 years. The idea is to get around existing regulations and to provide infrastructure facilities and services to attract foreign investment and in turn, to promote growth. To be successful, FEZs in Arab countries have to concentrate on competing on the basis of the services offered and the quality of such services. In other words, their comparative advantage of liberalization should be in their services. Aggressive FEZs can create good opportunities for themselves within the region, while traditional and slow FEZs who are not able to adopt, quickly become incompetent and uncompetitive and turn into classical examples of failure. It is the job of dynamic managers to seize the opportunity to attract business and investment to the zone.

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