

Economic Security and Competitiveness: Using Special Economic Zones to Drive Job Creation in MENA

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The purpose of this paper is to provide practical, useful guidance to individuals and entities involved in the design, development and implementation of Special Economic Zones (SEZ's), broadly defined, in the Middle East and North Africa (MENA) region. This guidance can help increase the chances of creating competitive SEZ's that house and promote growing companies and industries that in turn create sustainable jobs.

This is a practitioner's guide to SEZ development. It is intended to inform policy makers, developers, regulators and others involved in zone planning and implementation on leading practices for effective zone development. This paper forms a step-by-step guide to the

important decision points and the elements that practitioners should address. In doing so, it draws on a broad set of research and experiences, including a detailed review of the literature, interviews with practitioners and developers, and the authors' practical experience advising governments on industrial development and city building. Monitor has collaborated with Head of Programme, Alexander Böhmer and Policy Analyst, Anders Jonsson of the MENA-OECD Investment Programme on a series of research efforts, workshops, trainings and reports on special economic zones over the course of 2012. This paper benefited greatly from their input through this collaboration.

Introduction and Context

Special Economic Zones¹ (SEZ's) are a potentially effective tool governments can use to shape and drive industrial growth. Some of the more effective SEZ's have, over their lifetime, generated a significant return on their original investment by fostering thriving, highly competitive industries that collectively have attracted significant foreign direct investment, created new jobs and increased the economic output of host countries. SEZ's also are especially helpful in giving governments the freedom to test innovative approaches to investment promotion, regulation and industrial policy that might not be practical to implement on a broader scale in the rest of the country.

Yet as they pursue their SEZ's, governments should be mindful of a sobering fact: while some SEZ's have been effective, many more have failed to meet stakeholders' expectations. Zones are often mishandled and, in many cases, fall far short of achieving the goals they were set up to accomplish.

The mixed track record of SEZ's mirrors observers' conflicting opinions on the concept's viability. One widely held view of SEZ's is that they are an ineffective policy tool because they create enclaves within a country's economy that do not translate into larger economic reform, and they often fail to create the number and types of jobs intended. However, another widely held view is that SEZ's are useful economic development tools because they allow governments that are typically averse to making changes in their economic policy to pilot different reforms and, when effective, more credibly extend those reforms to the larger economy. In a sense, both arguments have merit, as there are examples of SEZ's to support both perspectives.

However, the purpose of this paper is not to argue the merits of the SEZ concept. Rather, given the growing trend toward zone development in Middle East and North Africa (MENA), our goal is to provide practical, useful guidance to individuals and entities involved in the design, development and implementation of SEZ's in the MENA region that can help increase their chances of delivering positive results—i.e., of creating competitive SEZ's that house and promote growing companies and industries that, in turn, create sustainable jobs. Indeed, a common thread running through many SEZ efforts in the region is the overarching aim to create a significant and sustainable base of industry, which can lead to job creation for local citizens. Zones that build and support

competitive industries are more effective in achieving whatever objectives they were created to support, including job creation.

To that end, this paper represents a practitioner's guide to SEZ development. It is intended to inform policy makers, developers, regulators and others involved in zone planning and implementation on leading practices for effective zone development. This paper forms a step-by-step guide to the important decision points and the elements that practitioners should address to be effective in zone development. As such, this paper will not delve into the technical details of zone regulation. Instead, it explores some of the high-level challenges SEZ developers face and the important factors that enabled some of the world's effective SEZ's to overcome those challenges. In doing so, it draws on a broad set of research and experiences, including a detailed review of the literature, interviews with practitioners and developers, and the authors' practical experience advising governments on industrial development and city building.

In short, this document is designed to serve as a valuable guide to MENA governments as they pursue SEZ developments with critical national importance. While targeted to a specific region, the important factors explored here are relevant to zone development in many geographies.

Important Factors in SEZ Development and Implementation

The topic of SEZ's is not a new one; much has been said and published on the concept in the 50 or so years since the first SEZ's began to take shape. However, much of the existing literature is descriptive and analytic in nature—for instance, discussing incentives, the impact of SEZ's on the nature and pace of national economic reform, and the impact of zones on labor regulations. In general, there is a dearth of practical and actionable advice that builds on existing knowledge of leading practices for SEZ development—and even less about how to make these zones effective in helping meet the objectives highlighted by many MENA governments.

Furthermore, while the literature often discusses labor issues in SEZ's, it has not tackled directly and specifically the individual challenges MENA countries face in creating jobs through industry and the possible role SEZ's can play in promoting such job creation. Historically, SEZ's have been established in locations where inexpensive labor—a meaningful enticement for prospective tenant companies—is plentiful, and they

are still often viewed as locations for the production, assembly, or re-export of high volumes of low-value-add goods. However, countries in MENA and elsewhere are increasingly viewing zones as part of their toolkit for creating an enabling environment for competitive and diversified industries.

Recognizing the urgency with which MENA requires jobs and the significant investment associated with SEZ development, we embarked on an effort to study the many SEZ's in the region to determine why some SEZ's have met or exceeded expectations and others have fallen short (Figure 1). By distilling the findings of this research, and combining those findings with our own insights gained through years of experience in advising governments and private firms on different aspects of SEZ development, we have identified seven important factors that can help create better conditions for an SEZ.

1. Clarify strategic goals in relation to competing objectives (e.g., job creation, industrial diversification, etc.)

The first factor, and one that underpins the other factors, is having clearly articulated strategic objectives for the zone. A broad group of individuals involved with an SEZ—from policy makers to developers—should share an understanding of the SEZ's goal, agree on the

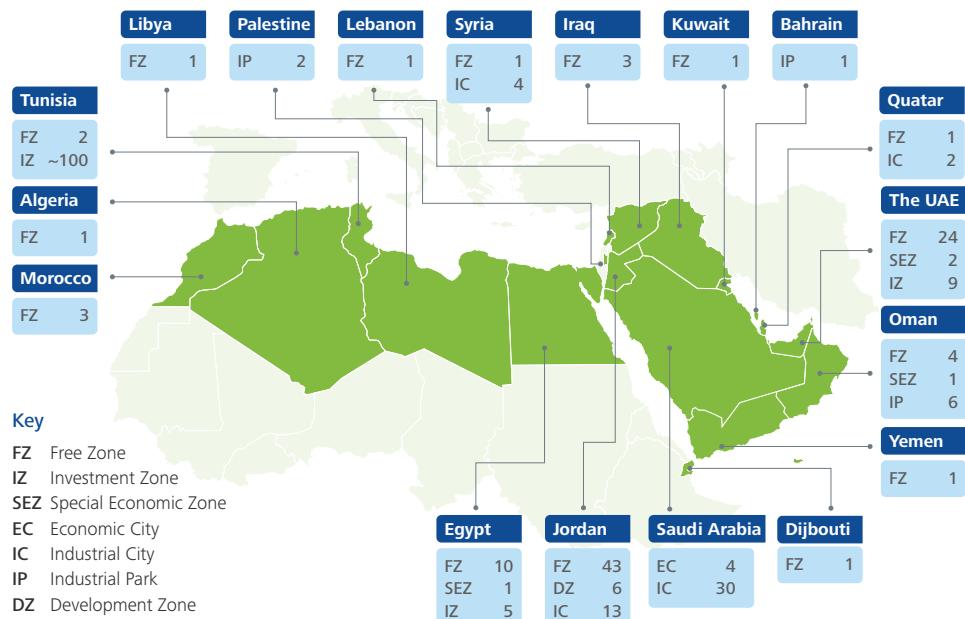
priorities for the SEZ's development, and help subsequent zone development activities and processes focus on achieving those priorities. Doing so will enable leaders to make clear strategic choices about what the SEZ should—and mostly what it should not—attempt to achieve.

Commonly articulated goals for many MENA governments involve GDP growth, economic diversification and development of downstream industries and job creation. These are very important objectives and countries understandably sometimes make the mistake of trying to accomplish many of these at once or in rapid succession—often including them all in their long-term economic plans and visions. However, while these goals are individually attractive, the paths toward achieving them can conflict with one another. For example, high-export industries might not employ many people, and opportunities for diversification may contribute little to GDP growth, at least initially. Not surprisingly, pursuit of conflicting goals can lead to one goal's canceling the impact of the other. Consequently, those developing an SEZ should be clear on which goals the zone is trying to achieve and which it will forgo.

The primary goal—or small set of mutually compatible goals—selected has clear implications for the subsequent steps of development: once articulated, later

Figure 1: Monitor's Comprehensive Survey of all Zones in MENA¹

A growing number of special economic zones are being established across the region



¹ Based on comprehensive secondary research and select primary research, August 2012
Zone types as classified by national authorities

actions should be designed to assist the realization of that goal. This is especially true of the prioritization and selection of industries the zone will seek to attract, which we cover shortly.

In essence, decisions about tradeoffs should be made throughout the process. Knowing that an SEZ likely cannot contribute to meeting all national economic development objectives, a government should take a disciplined approach to deploying zones for narrow and clearly defined purposes. This is easier to accomplish if clearly defined targets and metrics exist—such as specific job creation targets or levels of contribution to GDP the SEZ should make within a particular timeframe. Clearly stating goals upfront, and defining how progress toward those goals will be measured, allows a government to make informed choices about strategy and design as it proceeds with SEZ development and to bring others along.

One example of an instance in which this principle has been applied with some effectiveness is in Royal Commission for Jubail and Yanbu (RCJY) cities in Saudi Arabia. RCJY was established in 1975 to develop the Saudi manufacturing sector. The Royal Commission's mission is to "Plan, promote, develop and manage petrochemical and energy intensive industrial cities through successful customer focus and partnerships with investors, employees, communities and other

stakeholders." The cities have been effective in part because the Royal Commission clearly defined the cities' strategic focus and goals at an early stage: cities were developed specifically to leverage the Kingdom's natural resources—especially oil and gas—into higher value petrochemical and related sectors that employ skilled Saudi labor.

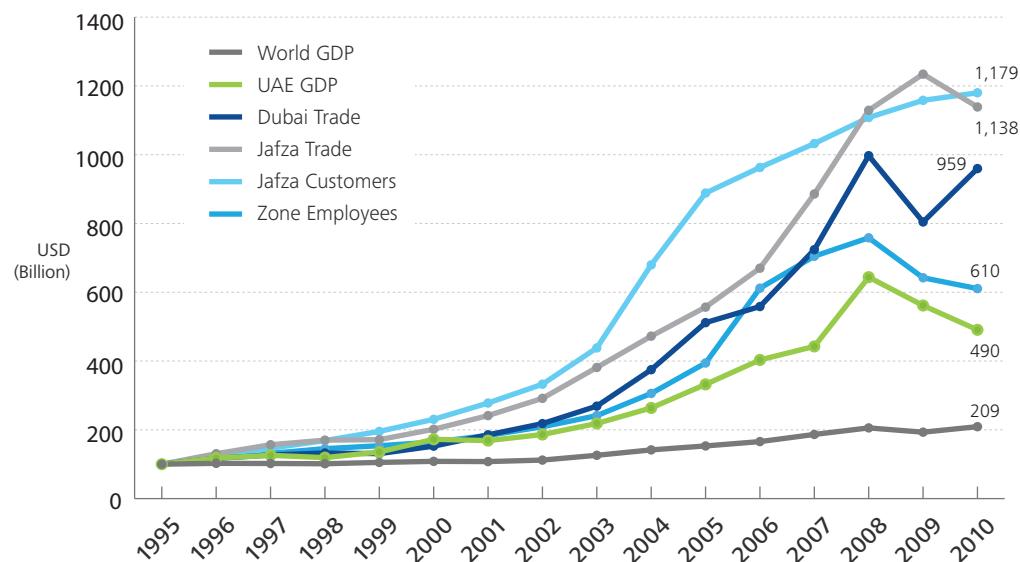
With clearly articulated goals for the cities, the Royal Commission was able to subsequently offer appropriate infrastructure and design and implement associated institutions and services to support the petrochemical industry. For instance, training centers were built to help Saudis develop the skills they needed to work in the petrochemical sector. The Royal Commission has also included features to increase the efficiency of business processes and transactions, including automated information systems and electronic processing.

Today, the cities have been notably effective in employing Saudis in petrochemicals jobs. Saudization rates are relatively high, with Saudi employment growing at a faster compounded annual growth rate than non-Saudi employment².

While having one clear focus is important, it is possible to meet more than one objective over time—something the Jebel Ali Free Zone Authority (JAFZA) has achieved (Figure 2). Created in 1985, JAFZA began as an export-focused zone. As it has grown, it has diversified: by

Figure 2: Jebel Ali Free Zone Performance in Context

Jebel Ali Free Zone has experienced success across a number of economic dimensions



Source: World GDP: IMF, World Economic Outlook Database, Mar 2011. UAE GDP: IMF, World Economic Outlook Database, Mar 2011
Dubai Trade & Jafza trade: Statistics Department, Dubai World. Jafza Customers, zone employees: FreeComs, EZW

2004, JAFZA's industrial base had expanded significantly, with 22 percent of economic activity in manufacturing including petrochemicals, food and beverage, plastics, metal products, electronics and automotive products, located in the zone. That same year, JAFZA contributed 17 percent to Dubai's non-oil economy.³ Since 2008, JAFZA has sustained more than 160,000 jobs in the UAE through its companies, accounted for over 50 percent of Dubai's total exports, and accounted for 20 percent of FDI inflows into the UAE.⁴ The zone's accomplishments have also helped catalyze interest in other industry-specific developments, including Media City, Dubai Metals and Commodities Center, Heavy Equipment Zone and others.

2. Prioritize appropriate target industries

Once the strategic goal for an SEZ is identified, developers can then set about attending to the zone's components, beginning with prioritizing high-potential competitive industries that should be targeted and encouraged. One of the overriding principles for choosing industries is that they should be internationally competitive to create new value for the country in which the SEZ is located. If they fail to become competitive, they will likely continually draw resources from the broader economy and may actually destroy value rather than create it.

At a basic level, targeted industries should include those that are appropriate for the prospective SEZ's location—meaning, they can leverage the location's assets and can be competitive given regional market conditions. Each particular location offers its own mix of strengths and weaknesses, and some industries will fit well with that mix while others simply will not. The challenge is to identify the industries that either fit that mix already, or that could with appropriate investments. As exciting and innovative as the aerospace industry may be, it will not take root in a location that lacks a deep pool of highly skilled engineers and a dense network of supplier and supporting industries. Conversely, while the transportation and logistics industry may not have as high a profile as aerospace, it could for obvious reasons offer substantial potential to an area with a seaport, airport, multiple highway intersections, and proximity to markets.

Regional differences come into play as well. Resource-rich countries, especially in the Gulf Cooperation Council (GCC), will have a different set of opportunities and resources to leverage than resource-poor countries. Levant countries tend to have strong human capital, which they could leverage to attract high-value-add

industries, while North African countries could use their close proximity to wealthy European markets as a springboard into industries producing goods and services relevant to that potential customer base.

Industries also should be tested for whether they will help meet the zone goals articulated at the outset. For example, a goal to create a certain number of local jobs could suggest some industries and sub-industries are better options than others. Companies in many high-tech industries such as biotechnology and information technology tend to be highly mechanized with small workforces. Thus, such firms are poor choices for an SEZ whose principal goal is to create jobs. Industries that employ more people—such as tourism, transportation and logistics or vehicle assembly—might be better options for an SEZ designed to spur job creation.

This type of reasoning should extend to sub-sector selection. For example, within the information and communications technology (ICT) sector, software development requires highly skilled workers and low capital investment while networking is capital intensive and requires a comparatively lower-skilled workforce. Thus, the quality of jobs created is also linked to sector targeting. Ultimately, the type of jobs that an economy can offer is dependent both on the level of sophistication of local industry and the extent of economic diversification.

When determining target industries, governments should consider the assets their locations have to offer and to which industries those assets might be attractive. For instance, they should know which factor advantages—including minerals and other sorts of natural resources, as well as human resources—are available near the SEZ. They also should understand what sorts of infrastructure—highways, rail, or port, for instance—already exists at or near the proposed SEZ's location and which industries might find such infrastructure important to their ability to operate.

The following questions also can help guide an assessment of the market environment for potential industries:

- What markets and other pools of demand are easily accessible?
- What other types of industries are prevalent in the area, and what industries are missing that might interact with and sustain these preexisting economic activities?
- What is the regional competition? Are there other countries nearby that are trying to attract the same

industries and, if so, how well are they positioned for success?

- Are similar SEZ's already in place in other nearby countries and, if so, does it make sense to enter that market or will we be crowded out by existing and established competition?

Is there a cluster being developed in another part of the country that could be complementary—either in terms of inputs or outputs—to the industries being considered for the new SEZ? It will likely be more difficult to attract anchor tenants and build competitive zones targeting companies that manufacture goods requiring inputs that are not readily available locally or for which there is not a clear market.

Another element that should factor into target-industry identification is the country's current economic development context: on what national or regional programs, or stakeholder interests in certain industries, could the proposed SEZ build? It might be beneficial for a country to pursue an industry that could also further other compatible existing agendas.

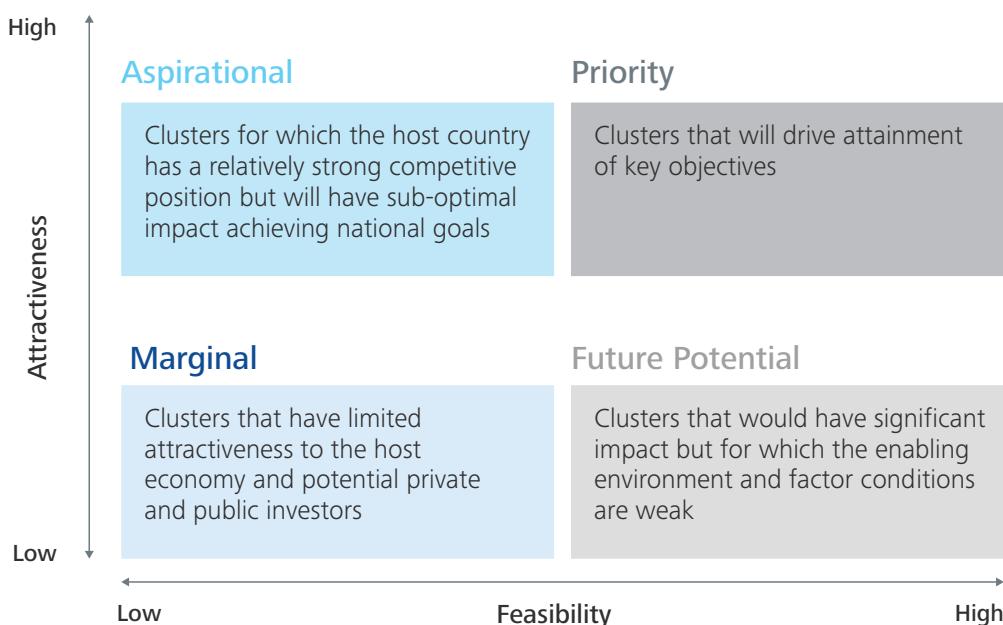
Beyond being internationally competitive, the sectors and sub-sectors targeted for the SEZ should be compatible with the circumstances of the local economy. For example, financial services and business services are two

industries that require many highly skilled employees and might be considered highly attractive targets for that reason. However, for such clusters to be effective, there should be substantial demand for financial and business services in the local economy. In some MENA countries there might be, but in many there is not. In the case of the latter locations, development of such clusters may not be an effective course..

One tool that can help governments prioritize target industries is the framework illustrated in Figure 3. Using this simple matrix, a government can plot industries it is considering—those that broadly make sense for the proposed SEZ—along two dimensions: feasibility (the extent to which the country has the ability to create an SEZ that could support, sustain and grow the industry); and attractiveness (the extent to which the industry could help the country achieve its goals). By comparing each prospective industry on these two dimensions, a government can gain a clear understanding of which industries have potential (e.g., those that are growing and require substantial labor) and which might be more difficult to attract and support (e.g., those that require resources or infrastructure that are in short supply in the country). The industries that exhibit the highest potential and the lowest barriers should be the top priorities.

Figure 3: Attractiveness and Feasibility Matrix

Prioritizing industries that will be successful requires consideration of a number of dimensions



For example, one country that has used such an assessment to help evaluate its prospects in attracting pharmaceutical and medical device manufacturers to an SEZ was particularly interested in understanding how well plastic medical instrument producers could help achieve the SEZ's job-creation goals. On the attractiveness dimension, such manufacturers did not score highly: to produce plastic medical devices requires little labor, apart from those who operate the machines that shape the devices. However, inputs required to produce those products—plastics and petrochemicals—are relatively available locally and there is easy access to the relevant machinery. Thus attracting and supporting such companies is not difficult, which means the sector scores highly on the feasibility dimension.

It is important to note that the decision to target certain industries should not necessarily be final. In fact, decision makers should remain flexible and open to refining decisions based on new trends or developments. Admittedly, this can be difficult: when a government has advanced in its development of an SEZ, it can be reluctant or even unwilling to revisit its decisions simply because of the investments it already has made. However, such a mindset can be ineffective, as it ignores the dynamics of the marketplace and changes in political, geographic or economic conditions that could affect the SEZ's ability to achieve its goals. Instead, those involved in creating the SEZ should periodically re-evaluate their industry choices, using the metrics discussed earlier, to determine whether the SEZ can deliver on initial objectives—and, if required, take appropriate action to adjust their approach or modify their goals.

3: Build a strong case for investment of government resources to gather broad stakeholder support

Parties embarking on the development of an SEZ should be clear on one important fact: getting an SEZ off the ground is a significant undertaking requiring active participation and support—not to mention substantial monetary investment—from many parties. And it is possible for the various incentives offered to companies to locate in an SEZ—including tax breaks, inexpensive land, deep discounts on water and electricity, and other such subsidies—to end up costing more than the development generates in positive returns for the country. That is why it is crucial for those involved to build a strong business case for the SEZ.

The goal of the business case is simple: demonstrate that the SEZ's net positive impact on the country outweighs the development's short-term costs. Not only is a business case an important tool for soliciting government support, it is equally important in forcing developers to work through the full economic cost of the development.

The business case should clearly illustrate the impact the zone will have on the host economy. Specifically, it should (1) include a discussion of how the zone will help meet existing overall national economic goals, (2) weight the costs of incentives and plan for their eventual phasing out, and (3) articulate direct and indirect benefits including job creation, diversification, cluster development, etc. Importantly, benefits should include not only financial returns, but also non-financial benefits such as indirect job creation and spillover effects that will come from connecting firms inside the zone with local firms. For instance, if a country is building a textile cluster within an SEZ that requires inputs such as cotton, a spillover benefit could be the stimulation of the market for local farmers who grow that crop. Such an additional advantage of the SEZ is not captured in a traditional financial assessment. Another non-financial measure is a general improvement in the country's economic ecosystem: do the SEZ's foster a market for inputs that other companies in the country can provide, or produce outputs than can be used in the local economy as well? Such benefits are as important as the financial returns the SEZ's companies generate.

Similarly, the business case should consider potential negative effects on the local economy and determine how such impacts can be minimized or avoided. For example, the availability of land inside an SEZ could erode the value proposition for locating outside of the zone. Thus, developers should take steps to limit the pulling of companies from the host economy into the zone.

The business case also should provide a formal plan for phasing out incentives and subsidies. While financial incentives typically are important to attract companies to a new SEZ, they should be limited over time so the SEZ does not become a drain on public resources. Thus, the business case should contain "sunset clauses"—specific dates on which these financial breaks expire or predefined milestones after which exemptions and other incentives are no longer applicable (e.g., export levels). Such clauses clearly communicate to stakeholders when

the SEZ is expected to become self-sustaining without the need for public money.

4. Make a sustainable offering to companies based on a financially attractive value proposition

Making a well considered and persuasive case for investment of government resources in SEZ's is only half of the equation. The other half is making the program attractive to the private sector. Yet attracting businesses can be a major challenge. What can a country do to make its SEZ a place where profitable businesses want to locate and grow?

When crafting its offer to companies, a government should strive to attract tenants and generate maximum possible returns. It is also important to craft an offering for investors that is differentiated from the host economy and will not be undermined by developments and advancements in the host economy's business environment. Offering sector-specific incentives can help, because such incentives are less likely to be reproduced in the economy outside of the SEZ or introduced as part of broader business environment upgrades in the host economy. Therefore, an important feature of a strong value proposition is the presence of and access to the resources the industries need. If attractive zones were prioritized, then the country will already have some natural appeal based on the comparative advantages of the location.

A SUCCESSFUL ZONE MUST BE MORE THAN A COLLECTION OF ANCHORS IN A GIVEN SECTOR. IT SHOULD ALSO INCLUDE THE SUPPORTING INDUSTRY AND ACTIVITY, THE "GLUE" THAT MAKES THE ZONE AN EASIER OR MORE PROFITABLE PLACE TO DO BUSINESS.

An effective zone should be more than a collection of anchors in a given sector. It should also include the supporting industry and activity, the "glue" that makes the zone an easier or more profitable place to do business.

Securing anchor tenants at the launch of an SEZ can be critical to establishing the credibility and desirability of a particular SEZ—much like an anchor tenant in a traditional retail mall or shopping center does. Anchor tenants—which can be either a local industry leader or a regional operation of a multinational organization—can send a strong signal that the location is a good one and can be a magnet for attracting other companies. They can serve as market-makers, pulling with them demand

for inputs (building the local supplier market) or creating inputs into downstream industries. For example, the Research Triangle in North Carolina was built in the late 1950s, but it wasn't until after it attracted IBM, a technology company, in 1964 that the zone really took off.

Depending on the industry, some investors will be drawn to a location because of the availability of certain targeted incentives or access to resources. To be effective, a country should design its anchor-attraction strategy to be compatible with the type of anchor it is trying to attract. For example, countries often use capital incentives to attract certain industries such as automotive manufacturing and assembly. Access to inputs from supporting industries and availability of appropriately trained labor are also important to automotive original equipment manufacturers. However, for capital-intensive industries such as metals extraction and processing, the scale of investment is so large that the cost of capital incentives is prohibitive.

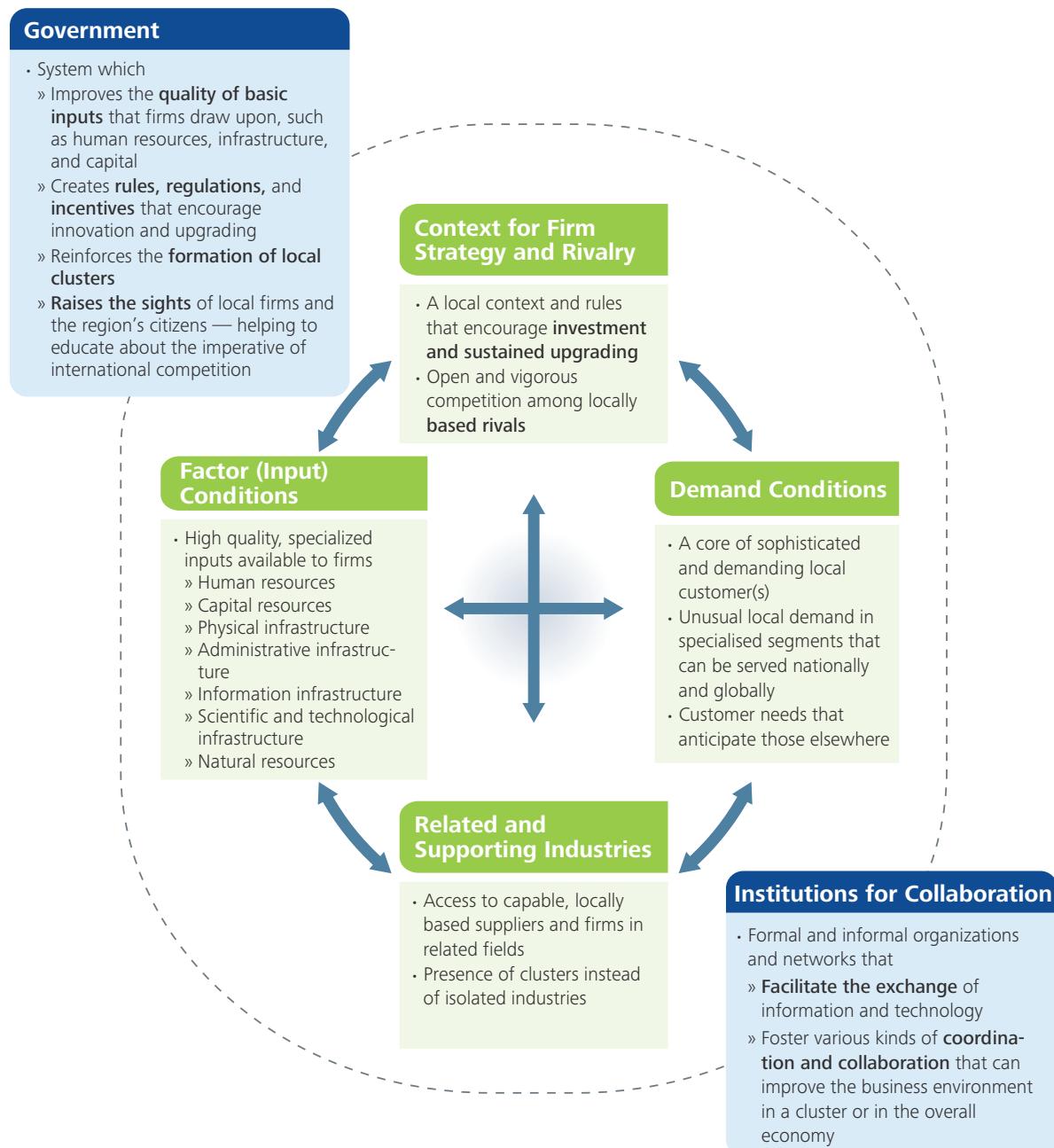
Overall, however, an effective zone should be more than a collection of anchors in a given sector. It should also include the supporting industry and activity, the "glue" that makes the zone an easier or more profitable place to do business. Sometimes this can be done through offering incentives to small and medium enterprises or by government actively taking a role in certain service provision. In other cases, the conditions for organic development of advantages, once put in place, can generate competitive advantages. Jebel Ali's results in light manufacturing reflects this fact. The industry benefited from proximity to a large community of workers with the specialized skills—casting, forging, welding, molding, etc.—required by the industry.

The offer should signal to investors that the zone developers are aware of these considerations, and that while offering incentives and attracting anchors, they are also aiming to build a sustainable zone that can provide opportunities for growth and will evolve to remain competitive. This means signaling plans to build a competitive business ecosystem including attention to the context for tenant company rivalry, related and supporting industries, factor conditions and demand conditions as summarized in Figure 4.

Beyond these factors, there are some operational issues a country can address to increase its attractiveness to prospective companies. One of the more basic is to create a credible, predictable and transparent regulatory environment. Companies want to know precisely under which rules they will do business and that regulations will be enforced consistently and openly. A country

Figure 4: Michael Porter's Diamond of Competitive Advantage

The Porter Diamond Model provides an effective framework to assess the attractiveness of a sector from an investor's perspective



known for capricious application of rules, hidden fees, unclear processes, or constant and unforeseen changes in its regulatory structure will not be seen as a particularly attractive place in which to do business. Widespread efforts in many countries to improve their positions in the World Bank's Ease of Doing Business rankings are evidence of the importance of managing these factors. Countries understand that these issues matter to investors. The popular but difficult to execute "one-stop shop" is another mechanism that can be employed to expedite business processes for investors. When done effectively, one-stop shops allow investors to handle registrations, licensing permits, taxes, export certificates, and other such transactions in one convenient location on site in the SEZ.

Similarly, access to infrastructure can heavily influence a company's decision. Authorities should be able to identify if the SEZ is connected to the required kind of infrastructure—roads, rail, or ports, for instance—that allows goods to flow to and from tenant firms and offers sufficient capacity to accommodate future development and growth. For companies and industries with very specific requirements, appropriate infrastructure should be available. Heavy, bulky, low-value goods such as steel require ships and rail for transport. High-value, light goods such as drugs typically travel on planes. Consumer goods that need to get to multiple retail outlets require good roads with little traffic, while financial and business service providers require direct connections at their airport. Finally, basic utilities are critical. A country that cannot offer companies uninterrupted access to electricity and water, and fast and reliable telecommunications, will face major competitive challenges in convincing companies to locate in its SEZ.

5. Ensure sufficient organizational capacity to effectively manage SEZ development

Building an SEZ is a complex undertaking. For that reason, a government launching an SEZ will require sufficient organizational capacity to manage the effort. In some cases, a national entity that has the mandate to oversee SEZ development may already exist, while in others it may be absent. If historically several entities in the same country have been responsible for different types of zones, ambiguity surrounding the roles and mandates of various public entities and the institutional framework in which they operate may impede SEZ development. Furthermore, regulatory and development functions may be dispersed across several different agencies or ministries. Regardless of the situation, an orchestrating organization should keep the different

players moving in the desired direction to determine that the SEZ is designed, developed and launched on time and within budget, and that the required regulatory frameworks are clearly defined. This orchestrating entity requires a high-level mandate, and the board of that entity should include stakeholders from each relevant sector, especially existing industrialists, experienced domain practitioners and representatives of important ministries and national agencies.

Involving important public and private stakeholders early in the planning process is essential (i.e., during development of the SEZ's strategic focus, identification of objectives and selection of target industries). Doing so helps gain these stakeholders' support of the program and promote their cooperation and assistance during later stages of development as transportation, workforce, regulatory, funding/financial, and other issues arise. Having important public and private stakeholders engaged from the beginning will make them more likely to assist in addressing these issues.

In addition, public entities involved in zone development can do their jobs better if they have access to industry-specific knowledge that can help them shape zone offerings to meet the requirements of target investors. Access to a certain level of knowledge and insight into an industry allows the responsible public entity to be aware of the nuances that make a difference to investors in specific industries. It also gives entities the scope to increase internal microeconomic competitiveness within the zone.

Depending on the configuration of the zone authority and the level of integration between it and national investment and industrial promotion entities, there may also be a strong case for developing market intelligence capabilities—fully functional business and supply chain components—both physical and strategic. This could be a major competitive advantage and branding opportunity for a new zone.

Beyond stakeholders within the country, foreign investors also can provide additional resources to help manage and execute specific phases of SEZ development. Large multinational firms are often a desirable anchor tenant because of their ability to pull suppliers and downstream producers to a new location with them. Therefore, international investor outreach capabilities and an understanding of in-country foreign direct investment (FDI) attraction and coordination efforts is another important function that should be developed in coordination with SEZ planning.

6. Configure the physical layout and ecosystem to provide industries with competitive advantages

We discussed earlier some of the tools or levers countries can use to make their SEZ more attractive to businesses. Here, we take a deeper look at some of the tactical steps governments can take to tailor the physical layout of the SEZ to meet the requirements of target businesses.

Customizing an SEZ to attract businesses begins with gaining a detailed understanding of the required infrastructure, building characteristics, zoning and ancillary facilities of the focus industry or industries. Once they have defined the detailed requirements a focused industry deems critical, decision makers can engage the master planners and infrastructure professionals to translate those requirements into a physical reality—infrastructure, facilities and amenities, and zoning plans.

Infrastructure such as ports, roads, storage, and rail lines form the “backbone” of the SEZ’s physical layout, and this backbone can differ considerably by industries being pursued (Figure 5).

It is important to build the SEZ in a way that makes sense for the targeted industries.

In some cases, pre-building storage facilities, offices or factory space geared toward targeted companies could give an SEZ an advantage. Indeed, a ready-made facility that addresses their requirements could be very attractive to many companies looking to avoid potentially long and costly construction processes.

These and other public investments can help reduce a company’s initial CAPEX requirement, thus making the location more attractive.

Zoning can also help tailor a physical layout and ecosystem to provide competitive advantage to target companies. Governments have used zoning to allocate land to prioritized industry types and to concentrate similar industries together in a way that optimizes the value chain and encourages cluster-driven spillover benefits. For instance, it may be beneficial to locate plastics and packaging producers near plastic medical device manufacturers because many of their outputs and inputs are complementary. The important factor is for decision makers to think through this issue early in the SEZ development process so zoning can be developed in such a way that fosters synergies within or among different industries.

To assist the people side of business, governments should use their understanding of target industries to develop accommodations and amenities to attract and retain the required workforce—particularly training that builds the skills these industries need to be effective. Physical training schools or centers provide a strong signal that the government is serious about developing the local workforce to be productive in industries being pursued. Importantly, such facilities should involve the private sector in the creation and delivery of training curricula, as businesses tend to have a deeper understanding of the talent requirements of specific industries.

Figure 5: Industry Specific Zone Infrastructure

A detailed understanding of the required infrastructure, building characteristics, zoning and ancillary facilities is required to attract tenants

- **Industries such as steel, mining, timber, and auto** will require access to sea and rail.
- **Agriculture** will need cold storage, and a cold chain (i.e., refrigerated transport) to market.
- **Manufacturers of steel girders** need wide streets capable of supporting significant traffic of heavy trucks.
- **Business process outsourcers** will need reliable and fast broadband connections.
- **Data storage companies** use considerable electricity, and because they like to keep their “green status” they often want energy from non-fossil sources.
- **Business and financial services** need large office buildings, parking, efficient subways, and good airport connections.
- **Companies focused on entrepreneurship and innovation** will look for fun, mixed-use space that concentrates people close together where they can interact and share ideas.

7: Enable collaboration to encourage local job creation

By incorporating the preceding factors into their SEZ development process, decision makers can significantly improve their chances of creating competitive local industries—job creators—that can make substantial contributions to their economies. However, governments can increase and accelerate the creation of sustainable local jobs, especially in cases where significant expatriate labor is required to launch an industry, by putting in place additional measures that will prepare locals to work in these industries.

As concentrated centers of industry, economic zones can be designed to help overcome some of the challenges of local employment that exist throughout the economy.

AS CONCENTRATED CENTERS OF INDUSTRY, ECONOMIC ZONES CAN BE DESIGNED TO HELP OVERCOME SOME OF THE CHALLENGES OF LOCAL EMPLOYMENT THAT EXIST THROUGHOUT THE ECONOMY.

As physical planning evolves, developers should allocate sufficient space for people to interact and exchange ideas. This consideration should be made early in the thinking and should be a guiding principle for organizing the spatial layout of the zone. Because many tenants in target industries will likely represent different parts of the value chain, participants will not be direct competitors but rather will share common requirements, constraints and opportunities. Design of shared facilities and space should emphasize cross-industry linkages, complementarities and allow for the creation of shared resources, including trained workers.

In fact, as concentrated centers of industry, economic zones can be designed to help overcome some of the challenges of local employment that exist throughout the economy. These include: challenges in finding suitable talent (a problem of matching), challenges in finding suitably qualified talent (a problem of training), and challenges of providing evolving talent to match the requirements of industry (a problem of alignment).

Institutions can help address these challenges by offering better recruitment of employees, better training options and more relevant training materials. Linkages between training institutions and industry are especially important to make effective training available to the local workforce. Such “demand-led” training programs are facilitated by the physical infrastructure, but they include a strong policy dimension as well, as a number of public and private stakeholders involved in training, education and human resource management should be brought together to provide the required facilities. Therefore, zone developers have a role to play in bringing this group of stakeholders together to address common workforce challenges. Consortia of co-located employers in similar industries can jointly offer their guidance and point of view on recruitment and selection of trainees, core curriculum requirements, appropriate assessment tools and effective job placement mechanisms. Trainers and educators can then work with this input to provide a service that will graduate useful and productive employees who will find work in the industry or industries housed in a particular zone.

Such programs have been executed effectively outside of zones. For example, the Monyetla Work Readiness Programme, designed to prepare young unemployed South Africans in the local business process outsourcing

Figure 6: Monyetla Employer-led Consortia Training Model

Multiple stakeholders should be engaged in crafting industry-appropriate job training

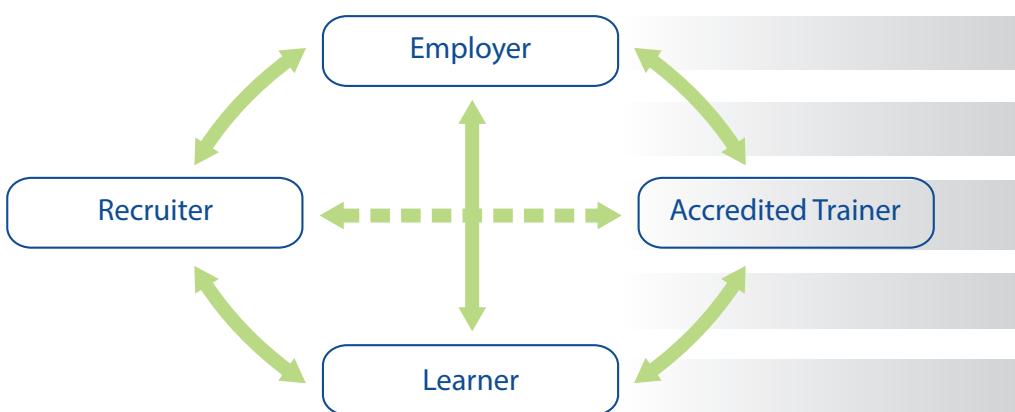
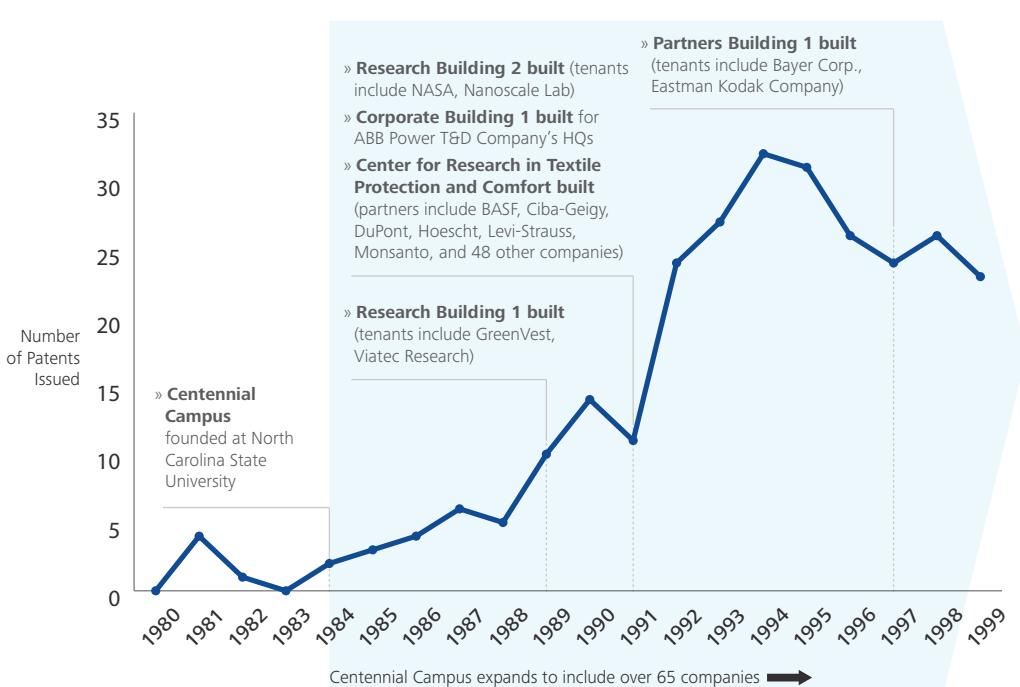


Figure 7: University-Industry Institutions for Collaboration Patents Issued to North Carolina State University, 1980–1999

University-Industry linkages can help foster a highly creative and productive environment



industry, has produced considerable results using such a model (Figure 6). In the pilot phase of this project, launched in 2008, the program trained and employed approximately 80 percent of enrolled trainees. The program, now in its third phase, has been equally effective in full implementation. Bringing such targeted training capabilities into a zone could significantly strengthen the zone's value proposition and contribute to the long term competitiveness and sustainability of the zone's industries.

Locating the SEZ near an educational institution that will produce graduates with the education and skills that are valuable to target industries also can make the SEZ much more attractive. Prospective companies may value the fact that they will have access to workers in the immediate area who are already prepared to be productive in their industry. Centennial Campus in North Carolina, a 1,340-acre research park adjacent to North Carolina State University's main campus in Raleigh, offers an example of the potential impact of university-industry linkages. Centennial Campus was founded in 1984 as a "technopolis" of corporate, government and academic R&D facilities and business incubators, with a town center, executive conference facilities, a hotel, upscale housing and recreational

amenities. Over the years, the campus has become one of the biggest magnets for research-intensive industries, and now boasts as tenants leading companies in the textile, pharmaceutical, chemical, and energy industries. This, in turn, has fostered a highly creative environment for the production of intellectual property in these sectors (Figure 7).

In this case, the existence of a targeted set of industries within the zone can be an advantage, as a critical mass of demand for certain skills can drive the creation of specialized training centers. However, often times having training centers, universities and other educational institutions nearby is not enough. There is no guarantee that companies in the SEZ will automatically find and hire graduates of these programs. That is why governments should consider playing a more active role in two important areas: understanding private sector skill requirements and communicating those requirements to training institutions to encourage these institutions to include them in their curricula; and, once people finish their training or schooling, fostering a connection between them and potential employers to help match people with the appropriate employment opportunity.

Figure 8: Focus on Job Creation

Key success factors can be applied to maximize the job creation potential of zones

| | |
|--|--|
| Clarify strategic goals | Define the value proposition |
| A country looking to boost employment should clearly articulate job creation as the purpose and objective of the SEZ. This will have implications for the approach to each subsequent step of development. | Countries should ensure labor regulations make it easy for target companies to create jobs. Some of the key regulations to address would be the policy for hiring expatriate labor, the ease with which foreign workers can get visas, the tax limit on expatriates workers' salaries, and the length of time companies can hire foreign workers and the penalties for violating that limit. |
| Prioritize target industries | Build organizational capacity |
| Countries should pursue companies and industries in which there is a need for many workers or high-quality labor, even if the direct financial benefits may not be as strong as other industries. For example, within the context of the full range of potentially competitive industries, countries that have prioritized job creation should target labor-intensive industries such as tourism, transportation and logistics. These industries also create a broad range of jobs that require basic and advanced skill sets, creating opportunities for different wage levels. | Countries should involve educational and training institutions early in the process and ensure that their curricula are tightly linked to prospective employers' skills needs. This has been done effectively outside of the zone context, as cited in the Monyetla example from South Africa. |
| Build the case for investment | Customize physical layout |
| Countries should focus on the job-creation impact of SEZ's as the primary value proposition to gain internal government buy-in, highlighting both direct and in-direct job creation impact. Other considerations include the quality of jobs created, if workforce upgrade and skilled employment are a target for the host country, opportunities for skilled employment should be highlighted. As zones develop and industries become more mature, there is scope to think about building out the value chain within the zone and therefore moving downstream into high value adding and higher wage industries. For example, moving from basic to advanced petrochemicals, from basic assembly to more advanced goods, etc... such opportunities should be evaluated at the outset. | Countries should ensure they tailor the layout of the zone to the industries they have identified as job-creators. In addition, special consideration should be given to the placement of training institutions in order to facilitate maximum opportunity for exchange between the private sector employers and educators. |
| | Foster stakeholder collaboration |
| | Countries should ensure the SEZ has access to appropriate training and educational institutions and that the physical and spatial layout of the zone is conducive to cross-sector collaboration, facilitating and encouraging the easy flow of ideas and information. |

Other more innovative policy mechanisms for encouraging employment of locals also exist. For example, government can encourage the private sector to hire local talent by subsidizing salaries or even paying them directly for a short period of time. One particularly innovative approach could be for a country to create its own human resources management entity to handle talent issues important to a target industry. Such an entity would have responsibility for providing employment services to the target sector, such as talent matching, training and placement; keeping employees on the public entity's payroll until their competence has been demonstrated, thus reducing the risk of employing un-tested local workers; and developing a pool of

qualified local labor from which to supply the sector's talent requirements. Such a formal approach to talent building and management could give a government an advantage over others in attracting the desired industries to national SEZ's.

Finally, an SEZ can have job-creation impact by collaborating with firms outside of the zone, encouraging spin-offs or local suppliers—small to medium-size enterprises that, in turn, will create demand for workers in their industries. SEZ's can thereby have a strong multiplier effect on job creation outside of the physical zone as well.

Conclusion

Throughout their history, SEZ's have exhibited much potential but, at times, an equal amount of controversy. Often, the optimism inherent in the theory of SEZ's clashes with the reality of implementation, resulting in SEZ's that fail to live up to expectations and become magnets for criticism and, in some cases, have a net-negative impact on national finances.

Yet SEZ's such as Jebel Ali Free Zone and the Royal Commission Cities of Jubail and Yanbu, among others, have taught us that there are ways to create an environment conducive to results. As discussed, the countries that developed these and similarly effective SEZ's understood that accomplishment is underpinned by defining and holding a strong strategic focus, clearly articulating goals, and selecting the appropriate industries to pursue. They also recognized the critical importance of building a strong business case for the SEZ that could engage the support of internal stakeholders as well as persuade target business to open up shop there. They

have the organizational capacity to manage the many stakeholders that should work together to build zones that cater to the requirements of target industries, and create the conditions for close collaboration of the entities and institutions that can facilitate a productive labor force.

By incorporating these important factors into their own SEZ development initiatives, other decision makers can create thriving SEZ's that serve as magnets for job creators, diversify the local economy, and help improve the quality of life for citizens.

While the factors explored in this document are germane to the development of many SEZ's, regardless of goals, it was important to specifically tie these factors to one of the more pressing priority of governments in the MENA region: job creation (Figure 8). Based on our research and experience, we identify specific choices SEZ developers can make across each factor to increase labor impact from economic SEZ's.

Endnotes

- 1 Throughout this paper we will refer to "special economic zones" as a broad category that includes investment zones, free zones, special industrial zones, etc.
- 2 Yanbu Industrial City Economic Review, Q2 2011, Report No. 4
- 3 "Jebel Ali Free Zone International," IFC Special Economic Zones Workshop, 29th April, 2004, New Delhi
- 4 JAFZA website: <http://www.jafza.ae/en/about-us/jafza-facts-at-a-glance.html>

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