

An Enabling Environment and Economic Zones for Private Sector Development in Bangladesh

Best Practices in Public Free Zones:
The UAE Free Zone Model and its
Economic Impact

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1 The UAE's Economic Vision and the Role of Free Zones within it

The economic development that UAE has witnessed since its establishment in 1971 owes much to the concept of Free Zones. Free Zones have provided an extraordinary mechanism and environment to accelerate economic development by attracting investment, generating employment and earning foreign exchange, and contributing to economic growth. As a result, Dubai has become a Central hub for regional trade and finance, accounting for about 70 percent of the Emirates' non-oil trade, while Abu Dhabi has taken the lead on the privatization drive.

Since the establishment of the UAE federation in 1971, economic development in the UAE has been characterized by achievements that have far exceeded what might have been expected of a developing state. Realizing the challenges posed by country's heavy reliance on finite carbon resources as the main source of income, the UAE leadership moved early to actively push for diversification of the economic base towards non-hydrocarbon activities such as tourism, re-exports, construction, and banking.

To encourage continued economic growth, the UAE is in the midst of a 20-year economic diversification plan, and the government has allotted roughly \$13 billion toward the development of the non-oil economy. Since 1992, the UAE has tightened intellectual property enforcement as part of an effort to improve standards, although the current regulations are still not entirely WTO compliant. Of further note, the UAE revised its commercial code to clearly specify bankruptcy rules. The emirates are pursuing economic liberalization in various sectors, including in hydrocarbons, petrochemicals, tourism, aviation and airports, power generation, and telecommunications.

Driving this plan in Dubai is General Sheikh Mohammed bin Rashid Al Maktoum, the Crown Prince of Dubai's vision and belief that *"What is good for business is good for Dubai."*

Thus, most of Dubai's development projects are initiated with one goal in mind: they are designed to grow the business and the economy of the Emirate.

As a result, the Emirate of Dubai is by far the most rapidly growing of the seven Emirates. It has the most diversified economy within the UAE and has been judicious in the use of its resources to launch projects that have put Dubai on the world map.

"Dubai Vision 2010, however," the Emirate's economic development strategy is all about Dubai building a more service-oriented and open-market 'knowledge' economy that will have a stable of world-class companies with core knowledge-based competencies, and which can compete effectively

globally. Sheikh Mohammed has specified the following economic, market and social objectives to be achieved by 2010:

In terms of economic objectives, Dubai will have:

- Achieved a GDP of US\$ 30bn
- Achieved a per capita GDP of US\$ 25,000
- Attracted a level of FDI of 4% of GDP
- 25% of GDP created by the knowledge economy sector, while the overall service sector will represent 70% of GDP
- Established a free and open market economy regulated to ensure healthy competition
- Transformed at least 15 Dubai based businesses into market shaping regional / global corporations.

In terms of market objectives, Dubai will be:

- A crucial node in global networks ensuring that it fully benefits from flows of IP, Capital, Information, Trade and People
- A “hub of hubs” at the centre of a network between Dubai, Dublin, Quebec, Hong Kong and Singapore
- An established hub and gateway for Middle East, North Africa, CIS, and the Indian Sub-continent
- The “Image Leader” for its region
- The necessary bridge between Europe and Asia

In terms of social objectives, Dubai will be a society:

- Able to nurture a new class of young, dynamic entrepreneurs and business leaders
- Able to be seen as a “city of choice” for the best and brightest knowledge workers
- Fully capitalizing on the diversity of its human resources
- Having achieved the highest standards in terms of values, behaviour standards and transparency
- Fully integrated into the global community without losing its own identity

Vision 2010 spans three horizons. Horizon I has a short-term impact on the economy, while Horizon III has a long-term impact on the economy.

Each horizon is based on a clear guideline:

- Horizon I - *“Do what we do best, better”*
- Horizon II - *“Apply core competencies to new areas”*
- Horizon III - *“Provide seed investments for future competencies”*

The industry clusters associated with each horizon are as follows:

- Horizon I –Trade, Logistics, Transportation, and Tourism

- Horizon II –Technology enabled services such as Financial, Media, Telecommunications, and Information Technology
- Horizon III –R & D, Education and emerging sectors such as Biotech, Pharmaceuticals, Nanotechnology, and Wireless among others

The Jebel Ali Free Zone (discussed below), Dubai Ports, and Dubai's various leisure and entertainment projects address Horizon I.

The Dubai International Financial Center and the Dubai Technology and Media Free Zone (discussed below) were set up to reach Horizon II objectives.

Projects such as the Dubai Development and Investment Authority and Dubai Capital, among others, have been set up to achieve Horizon III objectives.

2 Entry and Expansion of Free Zones in the UAE Economy

The introduction of Free Zones has transformed the economic scenario of the UAE in a short span of nearly 17 years, bringing about tremendous change in industry and service sectors. In the field of industrial development during the last decade, there has been a quantum leap in what the UAE has been doing and aims for in the near future.

The pioneer of Free Zones in UAE was Jebel Ali Free Zone, which was established in Dubai in February 1985. At that stage, the concept of free zones was a totally new concept to the Middle East. When the Dubai Government issued a Decree establishing the Jebel Ali Free Zone Authority (JAFZA), the announcement received little attention. In business circles, most people had never heard of the Free Zone idea. Even those who were aware of the concept were doubtful as to whether it would work in the traditional work environment of the UAE.

2. During the last decade, a Free Zone was however established virtually every year in different parts of the country. Today, there are over 25 Free Zones in the UAE, with each Emirate having at least one free zone. The Emirate of Dubai clearly heads the free zones table with not only the most number of free zones, but also the most varied types of free zones:

- **DUBAI:** Jebel Ali Free Zone, Dubai Metals and Commodities Centre, Gold & Diamond Park, DUCAMZ, Dubai Aid City, Dubai auto parts City, Heavy Equipment & Trucks FZ, Mohammad bin Rashid FZ, Dubai Internet City, Dubai Media City, Knowledge Village, Dubai Outsourcing Zone, International Media Production Zone, Dubai Health Care City, Dubai Humanitarian City, Dubai Airport FZ, Dubai Silicon Valley, Dubai Carpet FZ, Dubai Flower Centre FZ, and Dubai Textile Village ;

- **SHARJAH:** Airport Free Zone, and Hamriyah Free Zone;
- **AJMAN:** Ajman Free Zone;
- **RAS AL KHAIMAH:** Ras Al Khaimah Free Zone ;
- **UMM AL QUWAIN:** Umm Al Quwain Free Zone; and
- **FUJAIRAH:** Fujairah Free Zone.

What is interesting about Free Zones in the UAE is that the Jebel Ali Free Zone model has been adopted and applied equally successfully not only to industry, but to information technology, education & training, healthcare, automotives and even products such as flowers, textiles, gold & diamonds.

3 UAE Free Zones' Incentives and Policy Framework

The establishment of a Free Zone in an Emirate is typically done through the announcement of a Governmental Decree that defines a physical territory and designates it to be a Free Zone. Usually, the goal of a Free Zone is to increase foreign investment. Like Special Economic Zones in other parts of the world, a UAE Free Zone area is a geographical region that has economic laws that are different from the typical Emirates economic laws. Free Zones, for instance, offer a different policy framework regarding commercial companies, as the domestic UAE economy outside of its Free Zones offers a fairly restrictive regime for foreign companies.¹ In the UAE's Free Zones, the domestic economy's requirement for a local 'sponsor' for the foreign investor has been done away with. Furthermore, more corporate forms are offered in Free Zones than in the domestic economy. Finally, a single window, hassle-free company registration process was also instituted in the Free Zones.

Some laws first adopted for the Free Zones have however now been extended to the rest of the UAE. This is, for instance, the case of the *Electronic Transaction and Commerce Law*, which, after having been piloted in the Dubai Technology and Media Free Zone, is now being rolled out at the federal level across the UAE.

In each of the UAE's Free Zones, a 'Free Zone Authority', which is usually a government body, provides the infrastructure, establishes the policy and legal & regulatory framework, and manages the day-to-day business operations of the Free Zone. This includes managing leasing facilities; registration/incorporation of companies; issuance of licenses to companies in the free zone; and the provision of immigration, customs, and other such government services. In general, most of the Free Zone Authorities (with the exception of the Dubai Internet City and Dubai Media City) fro instance issue the following types of licenses to companies operating in a free zone: Trading License; Industrial License; Service License; and National Industrial License.

The business incentives offered by the UAE Free Zones authorities are more or less the same across the UAE, and can be seen in Box 1 below:

Box 1: Business Incentives offered by U.A.E. Free Zones

- All free zones grant up to 100% foreign ownership
- Exemption from corporate taxation for 15 years
- Exemption from personal income tax
- Complete exemption from customs & commercial levies
- Full repatriation of capital & profits
- Extended (up to 50 years) leases
- Exemption from currency restrictions
- Modern, state-of-the art infrastructure and communications networks
- Minimum of red tape and quick approval procedures through a ‘single-window’ service
- Attractive working environments.

4 Dubai Technology and Media Free Zone (TECOM) – The “New Chip on the Block”

The Dubai Technology and Media Free Zone (TECOM) was born out of Dubai Vision 2010.

It is the world’s first Technology and Media Free Zone set on 400 hectares of land dedicated to provide a regulatory environment and infrastructure to attract, locate and grow regional and global companies from the information and communication technology, media and knowledge industries. Its essential vision is: *“to become an efficient and leading provider of services to foster the growth of Dubai’s knowledge-based economy.”*

Established under a Government Decree in October 1999, the Technology and Media Free Zone comprises three business units:

- **Dubai Internet City:** Dubai Internet City, the IT hub of the region, is the first complete information technology and telecommunications center in the world to be built inside a free-trade zone. It offers modern, full-service office space with cutting-edge technologies that cater to the specific needs of the new economy companies that reside there. Dubai Internet City’s mission is: *“to create an infrastructure, environment and attitude that will enable Information and Communications Technology (ICT) enterprises to operate locally, regionally and globally, from Dubai with significant competitive advantage.”*

- **Dubai Media City:** Dubai Media City serves the same purpose as Dubai Internet City, but for media outlets that have offices in Dubai. Media City opened with more than 50 media outlets in residence, representing all facets of the media community. These outlets include: Reuters; the world's largest news agency, CNBC; the global news broadcaster and MBC; the popular Arabic satellite channel. Dubai Media City's mission is: *"to create and market world class enabling services for the media industry."*
- **Dubai Knowledge Village:** Dubai Knowledge Village is set up to position the Dubai Technology and Media Free Zone as a center of excellence for learning and innovation. This new education and training hub is also set up to complement the Free Zone's other two clusters: the IT hub, Dubai Internet City, and the media hub -Dubai Media City. Dubai Knowledge Village's mission is: *"to build a vibrant, connected learning community that will develop the region's talent pool and accelerate its move to the knowledge economy."*

5 TECOM's Policy Environment

TECOM is structured as a commercial operation, empowered to establish free zone-specific corporate laws & regulations for companies operating in the free zone. Laws such as:

- Dubai Technology and Media Free Zone Private Companies Regulations
- Dubai Technology and Media Free Zone Licensing Regulations
- Dubai Technology and Media Free Zone Employment Regulations
- Dubai Technology and Media Free Zone Codes of Guidance
- Dubai Technology and Media Free Zone Broadcasting and Publication Standards Tribunal Regulation
- Electronic Transactions and Commerce Law
- Law for the formation and protection of the telecommunications network for Dubai Internet City

Some of the laws developed for the Free Zone are now being applied to the UAE on a nationwide basis.

It should be noted that TECOM provides infrastructure and a full range of services for: Commercial, educational, R&D, retail, residential, and recreational facilities. During its start start-up phase, TECOM leveraged international expertise to provide the IT/Telecom services with companies such as Siemens, Cisco, and Sun.

6 TECOM's Cluster-based Investment Strategy

TECOM has applied the 'cluster' strategy to grow its business and that of the companies located in the zone. The individual target industries within each cluster are:

- **ICT** – including software development, web-based e-commerce; back office; business services; and consultancy, sales & marketing
- **Media** – including media and marketing services; broadcasting, printing & publishing; filmed entertainment; music; new media; leisure & entertainment; and business information
- **Knowledge** – including research and development; e-Learning; management development; professional training; IT/media Training; and innovation centers

Companies within and across industry clusters feed business to each other to provide a synergistic environment.

7 Private Sector Role in TECOM

TECOM's encouragement of private sector involvement can be summarized in the below statement of the Crown Prince of Dubai:

“We believe that the role of the government should be restricted to legislation and regulation, in addition to the continuous development of the infrastructure - thus making the private sector the engine of the development process.”

In addition to providing tremendous political support to the TECOM project, the Government of Dubai has provided the required legal infrastructure, and has also continuously invested in the physical infrastructure of the Dubai Technology and Media Free Zone. However, most of TECOM's large real estate, retail, and service projects are led by the private sector. A few major projects are highlighted below:

- **'Dubai Pearl' Project:** This is a US \$ 1billion unique multi-purpose project comprising residential, leisure, trading and business facilities. Dubai Pearl will be located in an area extending from the heart of the Dubai Technology and Media Free Zone to the newly built and world famous Palm Island. Omnix Group of Saudi Arabia, the developers of the project, hope that the Dhs 3 billion project will culminate in the creation of a futuristic city which will amalgamate traditional culture and heritage with state-of-the-art technology to serve modern-day conference, business, leisure and residential requirements. Dubai Pearl

is the largest privately owned project in the UAE and believed to be one of the largest construction projects in the world. It is expected to be completed in May 2006;

- *'The Towers'*: This project involves the construction of 14 towers offering 8M sqft of commercial space within the Dubai Technology and Media Free Zone. In addition to these towers, over 100 commercial and residential buildings are being built by the private sector in the rest of the Free Zone;
- *'Advertising in the Free Zone:'* This unique project, managed by the private sector, includes a first of its kind product: 'Star masts,' which are huge four-sided advertising sign boards of a height of about 10m. The project also includes TV screens, strategically placed all over the Free Zone;
- *Pre and Post Production Media Facilities:* International Broadcasting companies have launched CNN Arabic, and other business news channels, while others have established pre-and-post production facilities in the Free Zone;
- *Leisure and Entertainment Events:* A number of leading companies organize internationally renowned events covering entertainment, art, film, and music events, such as the Dubai Jazz Festival; and
- *Outsourced services:* TECOM has outsourced services such as transportation, security and cleaning services, a boutique hotel, and food courts all over the Free Zone, among others.

8 Economic Impact of Free Zones in the UAE

With the number of zones increasing in the UAE, their impact on the national economy has deepened. Today, UAE Free Zones are home to over 7,000 companies. Total foreign direct investment is estimated to be more than US\$ 5 billion, and the value of exports from the Free Zones has reached over US\$ 17 million. More importantly, Free Zones reflect the many sectors of the economy and have contributed not only to the knowledge economy, but also other non-oil sectors.

Free Zones follow best practices and have thus raised standards in logistics, ICT, Media, Training, and Marketing in the UAE. Free Zones have also contributed to infrastructure development in areas such as power, waste & water treatment, telecoms, and housing, among others. These industrial areas appear to hold the key to a genuine economic transformation of the region.

The Jebel Ali Free Zone best exemplifies the potential of the UAE's Free Zones. It is estimated that this single Free Zone accounts for 36% of Dubai's exports & re-exports. This being the first Free Zone in the country, it has created the benchmark for regulations and incentives for all the others. Its

rapid growth has also provided a powerful economic inspiration to the other Emirates, which subsequently set up their own Zones to attract investment.

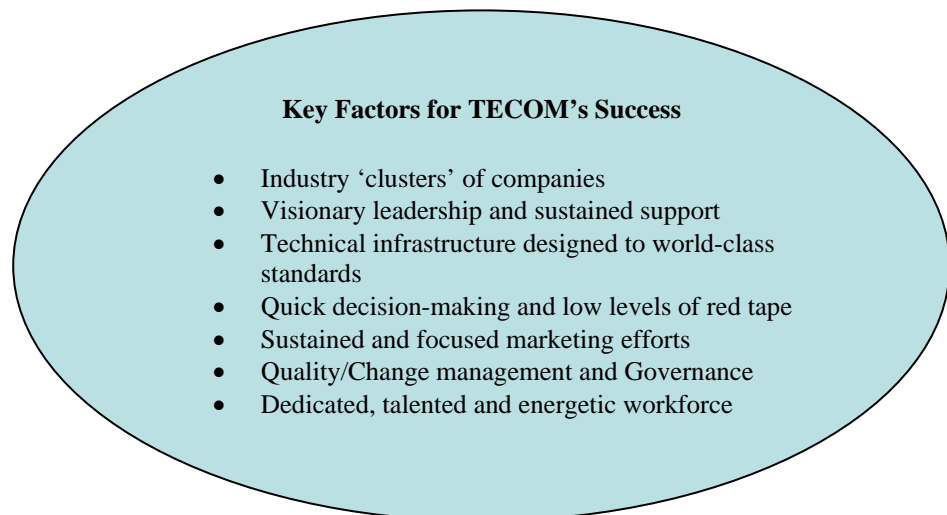
The UAE has become an important destination for investment, largely due to the Free Zone regime. The Free Zones have kept the engine of industrial diversification rolling by attracting foreign investment into the private sector. This is central to the region's overall plan to reduce its economic dependence on oil, while creating employment for its nationals.

The Dubai Technology and Media Free Zone's impact has also exceeded original expectations. The following points illustrate the economic and social impact of TECOM, in just over three years since concept:

- 1,800 companies, including Fortune 500 and industry leaders;
- 21,000 knowledge workers;
- 15 universities and several training institutions ;
- 2 million square feet of leased space, with another 8 million new square feet in 2005-2006;
- US\$ 2bn in investment;
- TECOM initiated laws as related to e-commerce are being applied throughout Dubai and at Federal level;
- Global initiatives from the free zone include media and ICT projects in the Sub continent, Europe and Russia; and
- TECOM has hosted an OECD and WSA Forums.

The key factors for the success of TECOM can be summarized in Figure 1 below:

Figure 1



REFERENCES

For further information on Dubai Free Zones, please refer to the following websites:

<http://www.uaefreezones.com>
<http://www.jafza.co.ae>
<http://www.dubaimediacity.co.ae>
<http://www.dubaiinternetcity.co.ae>
<http://www.kv.ae>
<http://www.difc.org>
<http://www.ddia.ae>

For information on doing business in the United Arab Emirates Free Zones, please refer to:

<http://www.morisonmenon.com>

For additional research information related to Free Zones, please refer to:

<http://www.MadarResearch.com>

ⁱ The Federal *Commercial Companies Law No. 8*, enacted in 1984 and fully in force since 1993, regulates business in the UAE. UAE national equity of 51% is required for nationally incorporated companies and 100% for public or private shareholding companies. A local sponsor or service agent along with a trade license is required for individuals or foreign companies to conduct business in the UAE. Foreign companies are also required to register with the local Chamber of Commerce and Industry, the Economic Development Department, and with the Ministry of Finance. The law provides that commercial companies established in the UAE must take any of the following legal forms:

- **Private shareholding companies:** Minimum set up capital for a private shareholding company is Dhs. 2 million (US \$ 0.545 million) and the Chairman and the majority of the Directors have to be UAE nationals;
- **Public Shareholding Companies:** Public shareholding companies are seen as ideal for large projects because of the large amounts involved. Minimum set up capital is Dhs 10M (US \$ 2.7M). Also, the Chairman and the majority of Directors must be UAE nationals;
- **Limited Liability Companies:** A limited liability company is favoured for a long-term presence. 51% ownership must be by UAE nationals, though management can be either by foreign partners, UAE partners or a third party. Minimum set up capital is Dhs 300,000 (US \$ 81,744) ;
- **General Partnerships:** This is currently not encouraged;
- **Limited Partnerships:** Partnership companies are limited to UAE nationals only; and
- **Partnerships Limited by Shares:** Shareholding or Joint Venture Companies for specific projects, joint ventures are encouraged. A foreign company can collaborate with a local company licensed to do business in that particular activity. The local company is liable and their minimum equity participation is 51 per cent.