



It is widely believed in Azerbaijan (also in some post-Soviet states) that it is only possible to make a decision to invest state budgetary funds in the development of Free Economic Zone (FEZ) projects if at least two mandatory conditions are met:

1. Availability of a feasibility study proving the high efficiency of the project and an appropriate economic model demonstrating the forecast of the return of funds;
2. The presence of anchor investors with whom written agreements have been reached regarding their investments in future projects of the FEZ prior to the start of budget investments in the infrastructure of the FEZ.

China in the late 1970s. One of the poorest countries in the world, with a degraded economy as a result of the numerous economic experiments that were "ideologically justified". A striking example, depicting the degree of degradation in more than just the economy: in February 1979, the Chinese People's Army attacked Vietnamese positions along the entire Sino-Vietnamese border.

Less than 20 days later, the Chinese troops advanced so far and so successfully into Vietnam that China announced the imminent capture of Hanoi and the overthrow of the revisionist regime.

By April 19 of the same year, Vietnamese troops were driving the Chinese back into China, forcing them to sign a peace treaty.

In such critical political and economic environment, Deng Xiaoping announced an "open door policy" to attract foreign investment into the Chinese economy (1978) and led to the subsequent creation of "special economic zones" (1979).

Deng Xiaoping and his team of reformers, Chinese or foreign consultants, did not and could not prepare a feasibility study proving the high efficiency of creating "free economic zones", and there was no corresponding economic model for forecasting the return on investments in these projects. There was a conviction of the need for reforms, there was a conviction of the need to create conditions attractive for investors (exemption from taxes and customs duties are not among the most important conditions), and there was an understanding of the need to provide guarantees which would make it acceptable for potential investors to fulfil these conditions.

In January 1979, the Shekou Industrial Zone of Shenzhen was founded, becoming the first experimental area in China to "open up". And, this gradually formed "Shekou model" of development then widely spread to other parts of



China, not only by establishing new “special economic zones”, but mainly using new knowledge, advanced technologies, management skills and methods arising from “special economic zones” experience in the base economy of China, and it was the main factor of unpredictable growth of China’s economy.

In 1958, when the Irish government decided to establish an export-oriented manufacturing zone in the area adjacent to the Shannon Airport, there was no feasibility study that could justify the need and effectiveness of such a zone; likewise, there was no feasibility study substantiating the effectiveness of the Jebel Ali Free Zone project or the various successful projects of this kind implemented in other countries.

The exception to this is the post-Soviet space (the first FEZ “Yantarny” was created back in 1991), where at the initial stages of the creation of free, special, economic, technological, innovative zones, parks, territories so on and so forth, it was obligatory to provide a feasibility study in order to adopt a decision on establishment of a free zone.

As a rule, all feasibility studies showed the high efficiency and quick payback of such projects, while the results of the implementation of these projects, to put it lightly, were much more modest than declared in the feasibility study. Besides, among these projects there is not a single one that would have the same large-scale impact on the economic development of the country or even the region in which they are located, as those implemented in China, Ireland and other countries.

The reason for this is that every FEZ project is a unique product that is created prior to the advance of demand. There were no requests from potential investors to create an export-oriented manufacturing zone in Shannon in 1958, “special economic zones” in China in the late 1970s, the Jebel Ali Free Zone in 1979, or other successful projects.

Investors did not apply to the governments of these countries with a request or proposal to create free zones. Investors did not assess the possibilities of investing in non-existent or proposed projects to create free zones. Investors were interested in real opportunities that existed at the time of the decision to invest: the presence of a detailed legislative, regulatory and institutional framework acceptable for investors, as well as, or even more important, the presence of a developed territory with off-site and on-site infrastructure and utilities.

Many people have the opinion that it is worth adopting a law on free economic zones, which would guarantee exemption from all taxes, customs



duties and other benefits. Thus, thanks to such law the next day or year there will be a queue of investors ready to invest in the FEZ and the Free Zone Authority by concluding certain agreements on their future investments in the zone, can start investing budgetary funds in the development of the territory of the future FEZ.

In reality, there is not a single example of a successful FEZ, where investors would take on any obligations before they are convinced in the following:

- 1) the appropriateness of the legislative, regulatory and institutional framework of the SEZ;
- 2) the presence of a developed territory with ready to use off-site and on-site infrastructure and utilities, as well as with ready to use warehouses, industrial buildings and offices.

Specific examples

Jebel Ali Free Zone was created under Ruler's Decree in 1979. Jebel'Ali Free Zone Authority (JAFZA) commenced operations with potential investors at the end of 1985 with completed legislations (September 1985), ready to use serviced (off-site, on-site infrastructure and utilities) industrial land plots, standard size office units and warehouses to provide ready built facilities to potential investors. All this infrastructure was created at the expense of budgetary funds and without any direct or indirect obligations on the part of potential investors.

Potential investors appeared when JAFZA was able to demonstrate (starting from September 1985) a detailed package of legislative and regulatory acts attractive to investors and, at no less importance to potential investors, ready for use serviced land plots, standard size office units and warehouses.

All this was implemented in advance of demand and in order to create demand. Today, 20% of Dubai's GDP is formed by Jebel'Ali Free Zone and related businesses.

In all countries where free zone projects are developing more or less successfully, or are those who are intending to successfully develop such projects, either within the law on free zones or in other regulatory legal acts



binding the administration of a free zone, there are clear formulations: "... a special economic zone shall be a designated geographical area, where business enabling policies, integrated land uses and sector-appropriate off-site and on-site infrastructure and utilities shall be provided by the country's government "or"... off-site and on-site infrastructure and utilities are provided by a country's government or authority of special economic zone."

Why states, governments and/or Free Zone Authorities assume such obligations (and the associated risks):

- guarantees of creation and implementation of legislative, regulatory and legal acts attractive to future investors;
- guarantees of providing to future investors serviced industrial land plots with off-site and on-site infrastructure and utilities for the implementation of their business projects, and often in addition to this, ready-built facilities (industrial buildings, warehouses, offices) without any preliminary legally binding agreements with potential investors.

Because there are no sane investors who are ready to take on any legal obligations, especially those related to direct or indirect financial encumbrances, without seeing the final product. Moreover, based on their experience and the experience of other companies, they are convinced that this product significantly differs from the declared, promised parameters every time it's enacted, even within the same country.

An example of the approach of potential investors (and/or organizations representing their interests) to the projects of this kind (not only to the Alat FEZ).

15/08/2020. Conference-call with the participation of the Alat Free Economic Zone Authority on the one hand, and, on the other hand, the representatives of Business Sweden (BS is jointly owned by the Swedish State and Swedish business sector with a mandate and a mission to help international companies gain access to the Swedish market and assist Swedish companies grow global sales and develop their businesses outside of Sweden), Swedish export-credit agencies and other participants, who had received information about the Alat FEZ in advance.

After a detailed presentation (according to a previously agreed upon agenda) on all aspects of the Alat FEZ project, the first question was: why are you sure that your project will be more successful than numerous unsuccessful projects in your neighbouring countries? Why are you sure that your project will be more attractive to investors? After they received answers to these and other such questions, the head of Business Sweden stated "what you told us



sounds attractive, so let's make a preliminary agreement (without any obligations on the Swedish side): as soon as the restrictions caused by COVID-19 are lifted, we will fly to Baku and, together with you, analyse all the documents regulating the activities of the Alat FEZ as well as the relationship between the Free Economic Zone Authority and foreign investors, to see how attractive they are for investors and how all details of the aspects of relationship between Free Zone Authority and investors are regulated there."

"If the result of our analysis is positive, the next step will be to ask you to show us the territory allocated for the Alat FEZ to make sure that off-site and on-site infrastructure and utilities, as well as office accommodation, are ready within the advanced development area of 60 hectares. If the quality and readiness of the territory and infrastructures are acceptable, we will be ready to recommend to the interested Swedish companies to invest in the development of their business projects in the Alat FEZ in accordance with the criteria you have set, and even provide, if necessary, assistance in financing their projects through our export-credit agencies and other financial institutions."

The exact same approach is demonstrated at every conference call held with representatives of business associations representing the interests of companies in their countries and representatives of individual companies.

The participation of our highly qualified, reputable consultants in the presentations and discussions we hold with potential investors and business associations gives a special value to our statements, explanations, and evidences.

Some information about our consultants

Well-known and highly experienced Irish company, Garland Ormond International, responsible for the:

- a) development of the masterplan for 850 ha territory of the Alat Free Economic Zone (masterplan is finished);
- b) detailed design of the first phase (60 ha);
- c) supervision of earthworks and construction (of on-site infrastructure, custom plaza and office building) of the first phase of AFEZ which is scheduled to be operational in July 2022.

The consultant team engaged to guide the legal and institutional development of AFEZ and the Authority of AFEZ, is made up of experienced practitioners in economic development. This includes two former CEO's as well as senior marketing and property managers from Shannon Development



(Shannon Free Zone Authority), which established the world's first export-oriented manufacturing free zone in Shannon in 1959 (it was formally inaugurated in 1960).

In addition to the Shannon experience, the consultant team has worked with free zone authority in all parts of the world on the development and establishment of new industrial and special economic zones.

Brief information about the Shannon Free Zone (by the way, the world's first "Duty-free" began operating in the Shannon Airport back in 1947) and the situation in which the decision was made to create this zone.

1950's-1960's Ireland was very different from the globally trading and open economy that it is today. More than 50% of Ireland's labour force worked in agriculture. Decades of protectionism of the Irish industry resulted in a lack of innovation and poor business practices. The main exports of Ireland were live animals with value-add generated outside of Ireland – in the UK, the main trading partner of Ireland at the time.

Mass unemployment, difficult living conditions, and lack of prospects forced the Irish to emigrate in mass to the USA, Canada, UK, Australia, New Zealand and other countries. If in the 1860s the population of Ireland was more than 6 million people, by 1960 it was less than 3 million.

Here is a short explanation of how unfavourable the situation was in Ireland at the time: Ireland's GDP per capita in 1960 was US \$686.

It was:

- 2.0 times less than that of the UK;
- 3.3 times less than that of Canada;
- 4.4 times less than that of the USA.

In comparison, in 2019, Ireland's GDP per capita was US \$79300.

It was:

- 1.93 times greater than that of the UK;
- 1.71 times greater than that of Canada;
- 1.17 times greater than that of the USA
- and 2.1 times greater than that of the United Arab Emirates (more than 40% of UAE exports is crude oil)

Let's get back to the Shannon Free Zone

Shannon Free Zone was established in 1958 by a decree of the Irish government and the Shannon Free Zone Authority "Shannon Development commenced its daunting task on January 28, 1959" (quote from an official document of Shannon Development).



Construction (off-site, on-site infrastructure, utilities and warehouses and industrial buildings in advance of demand) of the 300 acres (approximately 120 ha) site beside Shannon Airport commenced by the Shannon Free Zone Authority in 1959 and it was formally inaugurated in 1960.

From day one the Shannon Free Zone was designed to provide advanced infrastructure, warehouses, industrial buildings, offices, and a business-friendly environment for foreign direct investment in export-oriented manufacturing sectors and internationally traded services.

It was very important for the purpose of successful development of the Shannon Free Zone to establish a business-friendly environment with fiscal and financial incentives, but even more important was the ability of the Shannon Development (Free Zone Authority) to provide investor-ready industrial land plots, warehouses, industrial buildings, and offices in advance of demand which only the Irish government's funding could enable. And it was the main driver of the rapid and successful development of Shannon Free Zone.

While fiscal incentives for Shannon Free Zone investors have been reduced (tax and incentives are now the same for companies operating within and outside of the Free Zone), one critical Shannon Free Zone policy is constant: if you want to be attractive to investors, if you want to be successful, invest in infrastructure and buildings in advance of demand to create demand. "The availability of high quality, flexible accommodation is a key reason why international companies continue to look towards Shannon Free Zone as their preferred investment choice" (quote from Shannon Development official documents).

In the early 2000s, the US company Zimmer Biomet (company designs, develops, manufactures and markets orthopaedic products. Zimmer Biomet has operations in more than 40 countries around the world and sells products in more than 100 countries) decided to create its own division responsible for design, development and manufacturing of orthopaedic products in Europe.

It is true that by this time, as I mentioned before, fiscal incentives for Shannon Free Zone investors had been reduced; nevertheless, the reason for Zimmer Biomet to choose Shannon Free Zone was due to the fact that among all the proposals made to the Zimmer Biomet representatives for the placement of their enterprise, Shannon Free Zone was the only one who made an offer they could not refuse: serviced land plots, ready for use office units and an industrial building. An agreement between Shannon Development and Zimmer Biomet was reached in 2005, and Zimmer Biomet had already begun their production in the Shannon Free Zone by 2008, subsequently opening a



second facility in Ireland outside the Shannon Free Zone. Today, Zimmer Biomet is one of the largest Irish exporters of high-tech products.

In 1966 19 FDI companies operated in the Shannon Free Zone and Shannon exports in 1966 were over €32 M (in current €) and it was 30% of Ireland's total exports.

In 2019, Shannon Free Zone exports exceeded €4 Billion and it was less than 3% of Ireland's total exports.

In 2019 Ireland's total exports exceeded €150 Billion.

The economy of Ireland shifted from an agriculture to a knowledge-based economy, focusing on high-tech industries and services, which accounts for more than 80% of Ireland's export.

From small beginnings when Shannon Free Zone started, Ireland's external trade now drives Irish economic growth.

And the reason: from day one of its, the development of the Shannon Free Zone was a pilot-testing of export-led industrial growth for Ireland, from day one at Shannon, the focus of the government was on adding value to the Irish economy – a crucial feature of an export-oriented manufacturing free economic zone versus a free trade zone.

When Shannon Free Zone started, Ireland had little history of internationally trading manufacturing, but Irish people, who worked with foreign companies that set up in Shannon Free Zone were exposed to international standards and began to realise that they themselves could set up their own sub-supply or internationally trading enterprises.

Irish workers, technicians, engineers learned quickly and used new knowledge and skills to set up their own businesses.

Classic examples of local Irish enterprises and entrepreneurship arising from free zones experience, knowledge and skills.

Boart Longyear (USA, founded in 1890) has operated at Shannon Free Zone since the early 1960's in the manufacturing and supply of various niche products, systems to the natural resource industries and the construction and quarrying industries worldwide.

In 1977 Paddy Purcell (former executive at Shannon Free Zone enterprise Boart Longyear) decided to establish his own company Mincon.

Today, Mincon Group plc is a global engineering business, specialising in the design, development, manufacture and service of rock drilling tools and associated products for a variety of applications.



Mincon Group plc now has state-of-the-art factories in Ireland, Australia, Canada, Finland, Sweden, South Africa, the UK and the USA.

Molex (USA, founded in 1938) leading provider of electronic components and solutions has operated at Shannon Free Zone since the early 1970's.

In 1986 ex Molex engineer Ron O'Brien decided to establish his own company named Modular Automation – design, build and control automated equipment provider. Now Modular Automation employs more than 170 people in Ireland. Key customers of Modular Automation products are companies from USA and Japan (more than 45 % of export), such as VISTAKON (division of Johnson and Johnson), Boston Scientific, STRYKER.

Ei Electronics is an international market leader in fire protection and gas detection products and services.

Originally set up in the early 1960's as a subsidiary of USA company General Electric. Following a management buy-out in 1988 Ei Electronics moved from foreign to 100% Irish ownership.

Now Ei Electronics has production units in Shannon, Germany and UK with more than 800 employees.

SMITHSTOWN LIGHT ENGINEERING, founded by Brian King, in 1974 with a workforce of 4 skilled toolmakers.

In 1984, entered a partnership with Shannon subsidiary of Molex (USA) strengthening their position servicing the electronic industry.

In 1990's moved towards specialising in medical device manufacturing.

In 2006, returned to 100% Irish ownership when Molex accepted an offer from SMITHSTOWN for their share in the company.

Now SMITHSTOWN employs more than 130 people specialising in the provision of precision engineering solutions to the top medical device and orthopaedic companies globally. Key customers of SMITHSTOWN:

DePuy Synthes (division of Johnson and Johnson); Medtronic plc (American Irish-domiciled medical company); COOK medical (medical device company, USA); VISTAKON (division of Johnson and Johnson) and STRYKER (USA, medical technology company).

There are many more such examples of local sub-supply or internationally trading Irish enterprises arising from free zones experience, knowledge, and skill.



These examples demonstrated how successfully government of Ireland used the development of Shannon Free Zone as a pilot-testing of export oriented industrial growth for Ireland.

These examples demonstrated how the economy of Ireland shifted from an agriculture to a knowledge-based economy, focusing on high-tech industries and services, which accounts for more than 80% of Ireland's export (in 2019 more than 150 billion €).

The model of investing in infrastructure ahead of demand to attract FDI, which was pilot tested in Shannon now applies to all of Ireland and has resulted in GDP per capita growth from US \$686 in 1960 to US \$79300 in 2019.

And this model of investing in infrastructure ahead of demand has also been successfully applied in many countries, including China, Singapore, Taiwan, UAE.

It was very important for the purpose of successful development of the "free (special) economic zones" in these countries to establish a business-friendly environment with fiscal and financial incentives, but even more important was the ability of "free (special) economic zones" authorities to invest in infrastructure ahead of demand to attract FDI, which only governments funding could enable.