

Main Ingredients of a Successful Free-Zone

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Abstract

Free zones are described as economic zones in which goods and services are subject to internal or external trade. As a general rule, the main characteristics of free zones are to have 100% of foreign ownership, the ease of repatriation of capital and profits, tax-free operations, among other advantages. Now, as a standard practice, there are extremely important elements required for successful free zones such as location and accessibility, government support, the town's livelihoods, and a clear regulatory framework. On the other hand, there are certain characteristics that are seen as good to have as strong human capital, a work environment and strong marketing and regional visibility. In this paper, ten key ingredients or components of a successful Foreign Trade Zone are highlighted. These elements need to be acquired in order to have a successful free zone, so that it can contribute to the country's economy. It should be noted that these key ingredients would certainly foster the success of a free zone if they were adopted, implemented in the field and closely monitored.

Keywords: Free-zone; business model; human capital; business sustainability; work environment

1. Introduction

It is well known that free zones are regarded as economic zones where goods and services are traded and contribute to the country's gross domestic product (GDP). The attraction of free zones lies in the low cost of logistics, cutting red tape and bureaucratic processes that create job opportunities and attract investment. The first free zones started in the 1960s and started to expand exponentially in the 1980s. Today, there are more than 5,400 economic zones across the globe. Nearly a fifth of them have been created within the last five years. Many experts now anticipate the creation of over 500 new economic zones in the next few years. Government authorities around the world work tirelessly to create such economic zones that would entice business and technological innovations economic benefits (Wu et al., 2021).

The United Arab Emirates (UAE) is a good example, with over 45 free zones in the country's seven emirates. The first free zone formally established in the United Arab Emirates was in the Jebel Ali free zone (JAFZA) in 1985 (Mogielnicki, 2021). It currently hosts more than 7,500 companies from various regions of the world (Villegas & Dixon, 2020). Currently, there are over 61,000 companies operating in the free zones of the UAE and the number is constantly increasing thanks to the support of the government, advanced infrastructure, flexibility of labor laws among others. Without any doubt, Dubai has the lion's share of freezones in the nation with over 30 economic zones hosting companies that are serving the emirate, the country and the region spanning from Southeast Asia to Middle East and North Africa.

One of UAE's success stories is the TECOM Group, which was established in 1999 with its first free trade zone, Dubai Internet City (DIC), shown in Figure 1. This zone has gained a huge success regionally and internationally after its launch prompting major global IT companies such as Oracle, HP, IBM, Microsoft and many others to establish their regional branches to serve the entire Middle East and North African regions. Currently, DIC has over 1.5 million square feet of prime commercial office space and more than 1,400 businesses with over 10,000 employees (DIC, 2022). Over the past two decades, TECOM Group has clearly demonstrated how effective these free zones can be and how far they can go. It has significantly played a major role in Dubai's economy by hosting over 13 economic and free zones focused on IT, media, outsourcing, education, real estate, industry and manufacturing as well as biotechnology and sustainable technologies.

Figure 1: Dubai Internet City (Gulf News, 2019)



The Dubai International Financial Centre (DIFC) shown in Figure 2, which is located in the heart of Dubai, is another example of a successful zone catering specifically the financial sector and it is considered a high-end financial district serving the Middle East region (DIFC, 2012). On the legal front, the DIFC has its own courts governed by the English common law framework to better serve its partners (Sliwinski, 2022), (Strong & Himber, 2009). Such freezones, among others are considered to be well established and hugely successful and above all, they demonstrated major growth and resilience in the past, especially during an economic slowdown in 2008 and currently with COVID-19 pandemic as they moved from strength to strength due to agile business strategy.

Depending on their size and the industries they serve, free zones typically make a sizable economic contribution to any given government. According to the Dubai Free Zones Council (Khaleej Times, 2016), for instance, in 2018 Dubai Free Zones contributed about 32% of Dubai's GDP. As predicted by Dubai Free Zones Council (Middle East Business, 2022), these Zones' contributions are expected to total approximately \$68 billion by 2030.

We have seen the emergence, merging, and rebranding of free zones over the past few years, in addition to their growth and expansion. On the other hand, we observed the disappearance of free zones as a result of various internal factors, such as rigid business models, a lack of marketing and exposure, and subpar product offerings with a serious lack of innovation. An economic downturn, a global pandemic, and fierce competition in the local and regional markets are additional examples of external factors.

Figure 2: Dubai International Financial Centre (CFO Engage, 2019)



El Shimy (2008) provided a thorough description and statistics of UAE free zones, the investment climate, and elaborated some criteria for having a successful free-zone in one of the early reports published on the UAE's free zones. Absandze (2016), on the other hand, identified barriers to the growth of free industrial zones. Later, Suthikarnnarunai (2017) emphasized the importance of the free zone's location as a key success factor. In a similar vein, Hamrouni (2019), Ben-nun (2021), and others have highlighted only a few crucial factors that must be taken into account when choosing the economic zone. Simonovic and Kostic (2022) highlighted the incentives offered by local self-government to contribute to a more favorable investment environment compared to other locations. Now, while everyone else has mentioned a few economic zone success factors, they haven't fully described all of the components or factors that would ensure the economic zone's success. Therefore, the goal of this paper is to highlight all of the crucial components or ingredients that a free zone must have in order to succeed, be able to expand financially and operationally, and significantly impact the nation's economy.

2. Main Ingredients of a Successful Free-Zone

Free-zone success could be attributed to a variety of variables, but the following components or variables are unquestionably the primary motivators of their success:

2.1 Government Support: It would take the strong backing of the government or other authoritative empowered entity to ensure a successful economic zone, especially when it comes to the enforcement of effective labor laws, ease of corporate registration, and practical real estate, commercial, and trade policies. Additionally, local governments could aid companies operating in the free zones by highlighting business-valuing priorities. Chiu et al. (2011) highlighted five factors that will impact business operations in free zones namely government administration efficiency, cheap rates and charges,

simplified customs procedures, clear regulations, and free tax incentives. Priorities like SME funding, encouraging companies to move to online sales, investing in business development, and encouraging business owners to develop online solutions to meet global needs, among others, are required to draw and keep businesses in free zones (Muntean, 2021).

2.2 Strong and correct human capital: A zone's set vision and accomplishment of its objectives are supported by its human resources, which are regarded as the foundation of any organization. Whether a company is a small or medium-sized enterprise (SME) or even a multinational corporation, there are five strategic components that would help it be profitable. These elements are, specifically, sales, operations, finance, technology, and human capital. Despite the fact that each of these elements is equally important, a successful business strategy is now thought to be primarily driven by a strong and appropriate human capital (Sarvadi, 2019). Research has shown that there is a very strong role of human capital as the main key in driving economic growth of a business both directly and indirectly (Prasetyo & Kistanti, 2020). Qualifications, abilities, experience, and, most importantly, positive business and professional attitudes are the main factors that determine the strength of human capital.

2.3 Professional work environment: A professional work environment should be assumed in the free-zone to make sure that the employees are accountable, well respected, and have a

common goal, which will encourage the employees to be more creative within the workplace. Respect for clients, coworkers, and authoritative figures is established through this success factor. Furthermore, a free zone with a solid reputation for professionalism and good will is one that will endure. Professionalism also promotes a respectful workplace environment, which should result in conflicts been resolved in a fair and effective manner (Hutton, 2015). Also, it was found out that there is a strong correlation between quality of economic development improvement in the business environment with the human capital structural upgrading (He & Yao, 2022). The ideal physical workplace (facilities, layout, and location), work culture among the employees with respect to company values, and employee communications make up the work environment. Moreover, working conditions can be exhibited through employment terms and the workplace's inside and outside recreational activities that would promote happiness.

2.4 Regulatory Framework: The adoption of a clear, transparent, and efficient regulatory framework and governance model characterizes a successful economic zone. For instance, PricewaterhouseCoopers (PWC) gave a great overview of 8 effective governance practices that could be implemented at the

corporate level. These eight techniques are as follows: Governance framework, documentation and processes, laws and regulations compliant policies, effective board reporting while outlining an important agenda and minuting it, director training, and board evaluations are all examples of governance components (PWC, 2020). These procedures could undoubtedly be applied at the level of a free zone. Another crucial area that we may need to consider as a company is business continuity. It demonstrates the organization's pragmatism and capacity to maintain crucial operations both during and after a disaster, civil unrest, or war has broken out. Business continuity planning establishes risk management practices and procedures with the goal of preventing disruptions to mission-critical services and quickly and smoothly restoring the full operation to the organization (Sullivan & Crocetti, 2020).

2.5 Location: The location of a free zone should be a business owner's top concern because it serves as a crucial strategic link between stakeholders and zone-based business owners (Balbontin & Hensher, 2021). Some business owners, however, would downplay the significance of a zone's location because they conduct the majority of their operations online while they are at home or somewhere else. However, the location of any business entity sends a clear message to the relevant clients and stakeholders that the company is here to stay and that, after the business transaction is complete, all parties' rights will be protected by the zone's regulatory framework. Furthermore, the location's prominence would undoubtedly improve the zone's reputation and visibility in the local market (Oppong, 2018).

2.6 Infrastructure: For a free zone to promote quality of life and achieve economic growth, modern, developed infrastructure and facilities are unquestionably regarded as essential. An infrastructure typically consists of eight components, including resilience, social and digital infrastructure, government services, energy and water infrastructure, and transportation (Spacey, 2018). The organization's commitment to adopting a digital transformation strategy is crucial for improving the customer experience. It should be implemented in all operational departments and accepted by all organizational hierarchies serving the clients as part of the digital customer journey (Bui & Nguyen, 2023). The success of the zones requires the integration of many related development sectors such as transport, infrastructure, information technology, laws, and commercial facilities at all levels. However, it was found out that most crucial element for any business to sustain would be the digital infrastructure (Spasenić et al., 2022).

2.7 Marketing and Visibility: To highlight business offerings and advertise the services provided by the zone, strong and ongoing marketing efforts as well as regional visibility and exposure through participation in Roadshows, workshops, conferences, and exhibitions may be required. Furthermore, social media platforms are very powerful marketing tools that could be very helpful in promoting the zone locally, regionally, and globally. For business-to-business (B2B), buying behavior makes digital content marketing (DCM) a strategic priority for the zone (Terho et al., 2022). Now generally speaking, there are many advantages to such an approach, as the free-zone would increase its brand recognition both locally and internationally. Additionally, social media may enhance brand loyalty through engaged customers, improve search engine rankings through search engine optimization, and most importantly, achieve the desired savings due to the cost effectiveness of social media marketing (Thmbre, 2020).

2.8 Business Sustainability: Generally speaking, a strong, realistic, and sustainable business model must have been developed for every successful economic zone. The idea of business sustainability was first introduced in the 1970s, when research projects were conducted to address business economics beyond profit and loss (P&L) statements. As a result, a new idea known as the "Green Business Model" was developed (Meadows et al., 1972). The sustainable business model would consider social and environmental factors that influence economic growth. By identifying potential revenue streams, the target market, the goods and services offered, and the expected returns on investment, self-sustainability of the project, and rate of return, among other factors. Moreover, foreign direct investment could be geared towards development of the zone's modern services,

that are characterized by high intelligence concentration, high added value, low resource consumption, low environmental pollution and industrial clustering, and enhancement of the modernization level (Liu et al., 2018). The business model should also be flexible and adaptable to any market circumstances that may be vulnerable to unanticipated business or economic disruptions like an economic downturn, local and regional competition, an imposed international embargo, or even pandemics.

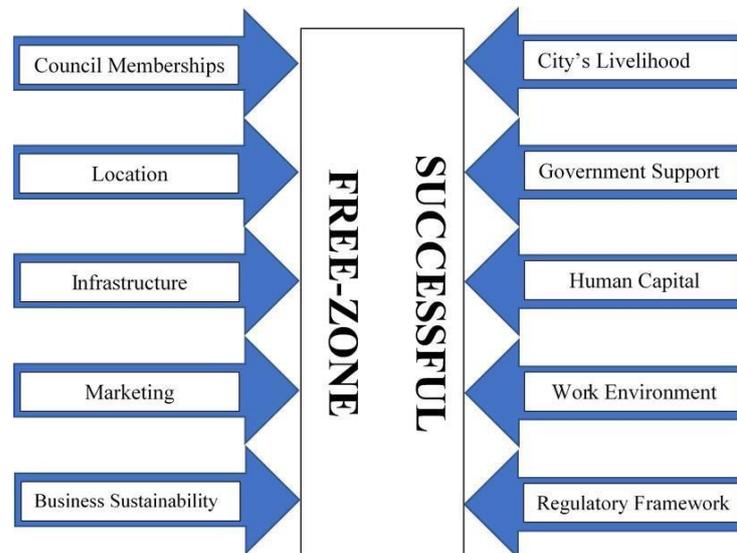
2.9 City's Livelihood: The livelihood of the city is a crucial factor that would unquestionably propel a successful free zone. It should undoubtedly foster a sense of community by providing access to clean water, fresh air, and welcoming spaces (Caves, 2005). When evaluating how safe a city is for living, working, and even starting a business, it is also important to consider its safety and security. Small and medium-sized enterprises (SMEs) provide essential jobs, goods and services contributing to social and economic stability within their neighbourhoods. Crime threatens the stability of SMEs and is one

of the leading reasons these businesses fail (Kennedy, 2022). As it takes into account consumer prices, crime rates, and the standard of medical care, among other statistics, Numbeo Quality of Life ranking would be the appropriate indicator in this situation. In contrast, since the published data has not undergone peer review, it may not be reliable enough to be relied upon, leading some authors to speculate that it may have published false survey results (Woodcock, 2017).

2.10 Council Membership: To share best business practices, adopt new practices, and possibly seek the next practice, the business owner is advised to be a member of a professional society or a club of a relevant business nature (Capello & Buijs, 2020). In the free zones, there is the World Free Zones Organization (World FZO), a global not-forprofit organization, is the most well-known organization that welcomes free zones as members. It offers one authoritative, collective voice that represents the interests of free zones all over the world. The World FZO was established in May 2014 by its 14 founding members in Dubai, United Arab Emirates. The World FZO is the only truly international, multilateral organization for zones in existence today, having its registered office in Geneva and its main office in Dubai. The organization's mission is to unite various free zones, including local, national, and those for knowledge exchange, education, and training, networking, and business development. The World Free-zone Organization's (World FZO) other goals include establishing rules for the creation and management of free zones as well as standards for free zones that will improve the local and global economic ecosystem.

Generally speaking, any government that has free zones operating under its auspices and is sincerely working to achieve sustainable economic growth and prosperity must ensure the success of those zones in order to support its economy. The government must therefore make it easier for the zones within its jurisdiction to obtain the aforementioned 10 ingredients, which are enumerated and depicted in Figure 3. Even though there may be some exceptional examples of successful free zones that don't possess all ten of the aforementioned components, their success rate is unquestionably lower than that of free zones that do. These essential components could also be used by any type of business set up to achieve the desired successful results.

Figure 3. Elements of a successful free-zone.



Conclusion

The key components of a successful free zone were highlighted in this paper. Without a doubt, if they are put into practice and closely monitored, the ten organizational components that were present would significantly contribute to the success of the free-zone. Today, it is accepted practice that having successful free-zones depends on a number of crucial factors, including location, government support, the city's economy, and a clear regulatory framework. On the other hand, there are some characteristics that are regarded as desirable, including strong and appropriate human capital, a positive workplace culture, and strong regional and national marketing. But if and only if the zone's administration adopts and adheres to each of these demands, the free zone will unquestionably be a success. But even without fulfilling all ten of these requirements, there are a select few exceptional free zones in the world that are quite successful and have thus achieved the desired operation and financial growths. Having said that, any government that oversees free zones that are directly boosting its economy must ensure the success of those zones. Additionally, any organization or business entity could adopt these essential components of success and they would undoubtedly achieve the desired results.

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