4th Webinar in the Rethinking Regional Attractiveness Series

OECD

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ISSUES NOTE

Enhancing the Attractiveness of non-Metropolitan Areas:
the role of Special Economic Zones

Wednesday 15 March 2023, 16:00-18:00 (CET)

[Simultaneous **English I French I Italian I Portuguese I Spanish** interpretation]

Register: https://meetoecd1.zoom.us/webinar/register/WN_l1iYdRLxRau9LmA5CbdeKw

The 4th webinar in the Rethinking regional attractiveness series: **Enhancing the attractiveness of non-Metropolitan Areas: The role of Special Economic Zones**, is organised by the **OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE)**, in collaboration with the **Directorate for Financial and Enterprises Affairs (DAF),** the OECD **Trade and Agriculture Directorate (TAD),** and the **Development Centre (DEV),** and with the support of the **European Commission (DG REGIO)** and the **Costa Rica Investment Promotion Agency (CINDE)**.

It will provide an opportunity for participants to hear from a panel of international experts and practitioners as they share knowledge and experiences on the advantages and challenges associated with **Special Economic Zones** and how they can facilitate regional development outside metropolitan areas, with a particular focus on the agriculture sector. The webinar will inform the OECD's work on *Rethinking territorial development policies in the new global environment*, and the wider CFE activity on Regions in Globalisation.

The role of Special Economic Zones: then and now

The history of Special Economic Zones (SEZs) extends back to the mid-twentieth century when the Shannon Airport in the Southern Region of Ireland – a common stopover for trans-Atlantic flights – became the first ever duty-free airport. It eventually became a free trade zone that attracted business from near and far. After emerging in Europe, and despite criticism in some parts of creating anti-competitive niches with limited multiplier effects, SEZs were seen by many countries, and particularly developing economies, as the pinnacle for territorial development, proliferating across much of Asia, Africa, and Latin America through the latter half of the century.

Today, SEZs span every continent and can be categorised according to their i) economic development strategy, ii) the incentives they offer to investors and iii) their management typology. For example, ***Free Trade Zones*** (FTZs), as in the case of Shannon, are often located in or near ports, airports or rail hubs, offer limited commercial incentives, and focus more on warehousing and logistics and trade facilitation to facilitate import and export activity. Other types of SEZs include ***Economic Revitalization Projects***, as in Italy's southern regions where the intent is to stimulate economic activity through tax incentives and/or the diversification of existing industrial structures through investment attraction; ***Specialized Economic Zones***, which offer deep incentives that focuses on a single industry; ***Diversified Zones***, which offer deep incentives for a wide variety of industries, and; ***Foreign Trade Zones***, which are a type of Free Trade Zone that exist exclusively in the US / Canada, such as the Port Alberta FTZ, in the Edmonton Metropolitan Region of Alberta, Canada, and where investors are eligible for duty and tax relief, as well as value-added manufacturing to create Canadian labelled products. SEZs can also vary in their management structure, with management companies being either public, private or a combination of both, and often working hand in hand with investment attraction agencies (Adrianople Group, 2021[1]).

Spreading the benefits of the SEZs within the regions

As outlined above policymakers today utilise SEZs for a range of purposes in order to meet the individual needs and development goals of targeted zones – whether they be urban and infrastructure rich, or non-metropolitan in nature – including revitalising distressed areas or supporting the development of selected industries or sectors. Others see SEZs as potential vehicles to promote more balanced regional development, where the benefits accrued extend beyond the immediate vicinity of the zone. There are many examples that illustrate where this is already happening. In Poland, the use of Diversified SEZs, for example the Slupsk and Pomeranian SEZs in the Pomerania region, that offer a variety of incentives, logistics and warehousing support, and which are connected to the broader regional innovation and enterprise ecosystem, have stimulated significant growth, especially is the country's less developed regions (Ambroziak and Hartwell, 2017[2]). Looking deeper at the impact of SEZs across 35 regional economies in the EU, (Arbolino, Lantz and Napolitano, 2020[3]) show a significant differential in impacts based on the zone typology and whether the investment is aligned with broader regional industrial policy objectives. Overall, regions neighbouring with SEZs are positively affected by their existence however the quality of both institutions and infrastructure inform the overall impact. In particular, strong transport infrastructure connecting regions can help to increase territorial spillovers. It is important for policymakers to take a systems view when deciding where and how to develop special economic zones to deliver inclusive and sustainable regional development beyond urban centres, development that leverages the existing and potential strengths of non-metropolitan areas, e.g. food and agriculture (Box 1).

Box 1. The Case of Costa Rica: Using SEZs to enhance the attractiveness of non-metropolitan areas

New legislation offers an opportunity to bolster investment outside the greater metropolitan area

Signed into law in February 2023, the Law 10.234 *Strengthening of Territorial Competitiveness for Attracting Investment Outside the Greater Metropolitan Area (GMA)*, creates 11 new incentives (below) for investment attraction in the six regions outside of the GMA.

Chief among these incentives is the expansion of Costa Rica's Free Trade Zone regime (*Zonas Francas*) to sectors where the non-metropolitan regions have both a comparative advantage and signs of future development potential. These include the health services sector, the agrifood sector (including livestock and fisheries), as well as sustainable adventure parks that leverage the region's major natural / tourism assets. Yet the law goes further to facilitate processes for investors and coordinating actors across levels of government to strengthen the regional value proposition for prospective foreign investment.

11 New incentives for investing outside the greater metropolitan area

1. **Expansion of New Free Trade Zone Regime Categories:**
   g) Health services sector
   h) Inputs (including agricultural, livestock, and fishery inputs)
   i) Sustainable adventure parks
2. **Strengthening of the One-stop Investment Window (VUI)** to speed up the paperwork for setting up and operating a company
3. **Reduction of the initial investment amount required** for companies setting up outside an industrial park and the GMA
4. Reform that permits free zone park management companies located outside the GMA to provide the necessary services so that free zone companies already installed or to be installed in said park can develop their productive activities; these services include the integration of distributed energy resources needed by the companies for their operation.
5. **Regulation that urges INA** to promote academic offerings that address the technical and professional needs of the companies
6. **Regulation that urges MICIT** to include regional connectivity plans
7. **Regulation that enables ARESEP** to promote regional development through competitive rates beyond the cost model
8. **Possibility for INDER** to form public-private partnerships with domestic or foreign investors
9. **More opportunities for service companies** outside the GMA (Service Eligibility Index)
10. **Strengthening of formal jobs** by reducing the social charges for less competitive regions
11. **New types of investment** to be considered as new free trade zone investment (infrastructure and training)

Note: With reference to the figure above, INA = *National Institute of Learning*; MICIT = *Ministry of Science, Innovation, Technology and Telecommunications*; ARESEP = Regulatory Authority for Public Services;

Source: Information on Law 10.234 provided by CINDE, Costa Rica's FDI promotion agency

This webinar **Enhancing the attractiveness of non- Metropolitan Areas: The role of Special Economic Zones**, will explore how rethinking the approach to regional development can make areas beyond urban centres more attractive to investors and talent and support sustainable and resilient development. It will cover issues such as:

1. Rethinking regional development outside metropolitan areas
2. The role of Special Economic Zones: opportunities and challenges
3. Spreading the benefits of the SEZs within the regions

References

Adrianople Group (2021), *OpenZoneMap*. https://www.openzonemap.com [1]

Ambroziak, A. and C. Hartwell (2017), "The impact of investments in special economic zones on regional development: the case of Poland", *Regional Studies*, Vol. 52/10, pp. 1322-1331, https://doi.org/10.1080/00343404.2017.1395005. [2]

Arbolino, R., T. Lantz and O. Napolitano (2020), "Assessing the impact of special economic zones on regional growth through a comparison among EU countries", *Regional Studies*. [3]