

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

Public-Private Free Zones:
Policy, Institutions, and Physical
Characteristics

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1 An Overview of the Aqaba Special Economic Zone Public-Private Free Zone Model

In 2001 the Government of Jordan created the Aqaba Special Economic Zone (ASEZ), a land and sea area of 375 km² that includes Jordan's 27 km coastline. ASEZ is strategically located around the City of Aqaba at the top end of the Gulf of Aqaba bordering three countries, Saudi Arabia, Israel, and Egypt.

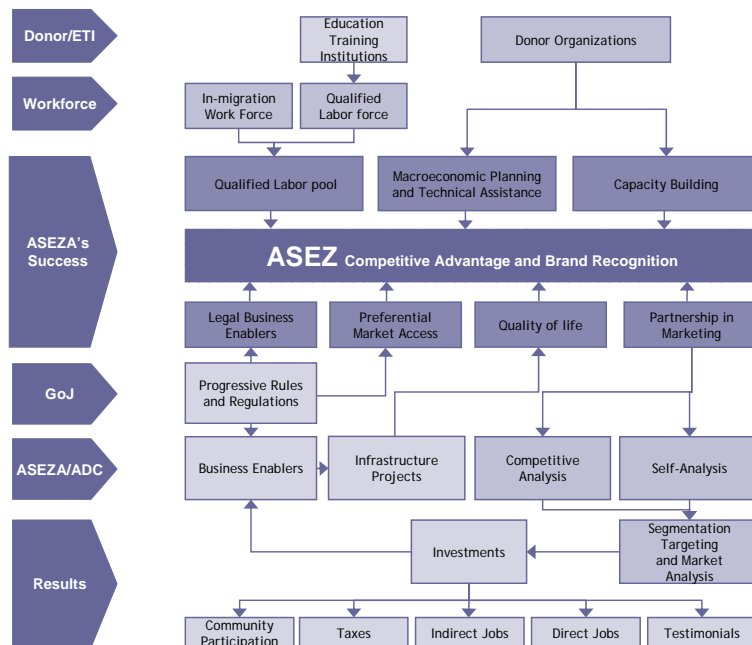
The ASEZ is a key component of the government of Jordan's economic reform strategy. The government of Jordan's economic strategy has three pillars. The first one is decentralization of the government (The Aqaba Special Economic Zone Authority, of "ASEZA," is the example of this), the Education Reform for the Knowledge Economy (ERFKE) and the Socioeconomic Reform Strategy. The zone envisions a modern city of Aqaba fully integrated into the global economy and maximizing its commerce, tourism and industrial potential. ASEZ operates as a liberalized, low tax, duty free multi-sector economic development zone with a simplified business environment and streamlined administrative system designed to attract foreign and domestic investment, maximize private sector participation in the Kingdom's development and build Aqaba into a world class business and leisure destination¹.

ASEZ's success is attributable to a host of competitive advantages, including:

- Partnership in marketing between ASEZA and Jordan Investment Board (JIB), Jordan Tourism Board (JTB), Aqaba Development Corporation (ADC), and real estate developers in the zone
- The ability to offer attractive investment opportunities in tourism, services and industries
- Partnerships with educational institutions and donor organizations
- Access to existing and new markets on preferential trade terms arising from Jordan's World Trade Organization membership and various free trade agreements with the United States, the European Union and several Arab countries
- Facility as a Multi-modal transport hub through which an investor may bring goods and passengers by land, air or sea

¹ ASEZA's Strategic Plan 2003-2005

Requirements for building ASEZ Competitive Advantage, Brand Recognition, and Investments



- Serviced land and facilities for light and medium manufacturing, warehousing, residential and commercial uses
- Aqaba is part of Jordan's Golden Tourism Triangle (Petra, Wadi Rum and Aqaba) and is promoted as a core in the Jordan national tourism strategy
- Significant investment incentives, including:
 - Exemptions from customs duties
 - 100% foreign ownership
 - Flexible labor policies with up to 70% foreign workers allowed
 - 7% sales tax on a limited range of goods and services sold in ASEZ
 - Low 5% flat income tax for enterprises
 - 6% national tax on land purchases
 - Exemptions from income tax on dividend transfers
 - Exemptions from sales tax on imported goods
- Favorable business benefits under Jordanian law, including:

- Economic & transactional freedoms
- Private sector friendly policies
- Free capital repatriation
- Full ownership and management rights
- Free share transfers
- International dispute resolution measures
- Resources of the City of Aqaba including modern infrastructure and urban amenities and the improving quality of life
- Full-service utility networks including power, water, gas, and telecommunications and international connectivity through FLAG
- Clusters of support industries that offer a good base to support core manufacturing enterprises.

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Summary of Key Public and Private Institutional Partners in ASEZ:

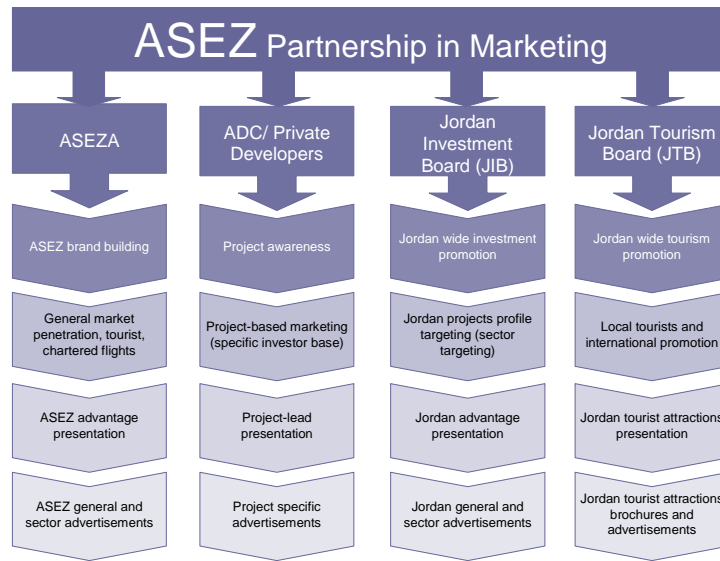
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Entity	Type of Management Organization	Executor
Aqaba Special Economic Zone Authority (ASEZA)	Public	
Aqaba Development Corporation	Management contract	Bearing Point
Aqaba Port	Private	ADC
Aqaba Container Terminal	Management contract	APM Terminals of Denmark
King Hussein International Airport	Proposed management contract	RFP in preparation phase
Aqaba International Industrial Estate (AIIE)	Joint venture	Parsons Brinckerhoff Int. & Suta Construction of Turkey

ASEZA's investment marketing role, since the creation of ADC, is to build brand image for the zone and promote the zone investors and especially the tourism sector. ADC on the other hand along with the other private sector investors, would promote their specific projects and opportunities. ASEZA is also joined the Jordan Investment Board (JIB) to promote the investment opportunities in the zone. ASEZA also entered marketing in partnership agreement with the Jordan Tourism Board (JTB).

Partnership in Marketing: Shared Responsibilities



2 Aqaba Special Economic Zone Authority (ASEZA)

The regulation of ASEZ is vested in ASEZA, a government entity reporting directly to the Prime Ministry. ASEZA has autonomous powers and regulatory independence, and controls: customs, taxation, business registration and conduct, environmental regulation, visa/residency/work permits, land use, building, certain utilities, municipal services, and disposal and use of Government land in ASEZ.

ASEZA is governed by a Board of Commissioners appointed by Royal Decree and headed by the Chief Commissioner.

ASEZA's mission is to develop ASEZ into a leading center of commerce, trade, industry, leisure and education in the Middle East. To realize its mission, ASEZA focuses on two principal areas of responsibility: regulation and development. In terms of its regulatory function, ASEZA has built a regulatory capacity and serves as a single point of service for investors, visitors, residents and enterprises in Aqaba.

ASEZA has developed a master plan for the SEZ's 375 km² that creates a balanced use of land. The master plan allocates land according to the following uses: residential, light and heavy manufacturing, mixed use, commercial, government, buffer, green area, and tourism and wilderness reserve. ASEZA has also implemented several high profile projects such as a major resort development and the outsourcing of management of the container terminal to a reputable operator.

As for its development function, ASEZA and the Government of Jordan (GoJ) created Aqaba Development Corporation (ADC) to carry further ASEZA's enabling environment for private sector development (see below).

3 Aqaba Development Corporation (ADC)

ASEZA has delegated responsibility for ASEZ's development through the establishment of the Aqaba Development Corporation (ADC) on December 31 2003. ADC is a private shareholding company. It is currently wholly owned by the Government of Jordan (50%) and ASEZA (50%). It was formed to take full responsibility for development of ASEZ's strategic assets in a manner consistent with the Master Plan and prudent private sector principles and practices. ADC will acquire substantial assets including the land, Port, and the airport and development rights for land and utilities in Aqaba. This should accelerate their development. ADC is funded through equity contributions and revenues from assets. While initially wholly-owned by the government, ADC will ultimately seek private sector equity participation.

ADC disseminated a Request for Proposals (RFP) to solicit management support services in July 2004. BearingPoint Inc. was selected to jump-start ADC operations by developing its strategy, business plans, and institutional framework, and by providing it with the required management capabilities to address its short- and medium-term priorities through a two-year management contract. The management contract stipulates that BearingPoint will hire local counterparts to take over ADC operations after two years.

ADC is expected to generate the following benefits for ASEZ²:

- Enable ASEZA to focus exclusively on its regulatory function while empowering a dedicated corporation to drive the development of the Aqaba SEZ
- Achieve ASEZ's 'holistic' development through integrated operational and financial responsibility over development matters, including land, infrastructure, utilities and development rights

² ADC Management Contract RFP

- Accelerate development by introducing private sector principles, practices and imperatives to planning and implementing of development projects, including through the use of stringent performance metrics
- Escalate private sector participation in ASEZ’s development, either on a stand-alone basis or through public-private partnerships or other means that optimally leverage ADC and private sector strengths
- Access private sector technical and management resources
- Eliminate potential conflicts of interest within ASEZA by separating its regulatory function from its development function
- Insulate key development decisions from political influence
- Facilitate greater access to market-sourced capital.

The Master Development Agreement and other Development Agreements that are in the process of being drafted, require that ADC undertake development of its vested assets and rights to certain standards, specifications, and timeframes.

ADC is also required to ensure ASEZ’s economic development in such a manner that it act as a catalyst to uplift the quality of life for the people in ASEZ in particular and, in the larger context, the people of Jordan. In this regard, ADC is to create a community fund in which a certain portion of revenues are allocated funding and developing community facilities for “public good projects” such as schools. The precise formula and mandate for this fund have yet to be determined.

4 ASEZ Services

ASEZ serves a wide customer base including the citizens of Aqaba, as well as its investors, and the tourist population. The focus in this paper is on the investor customer base, to which ASEZ provides the following facilities³:

- International Airport with an open sky policy
- Port facilities to handle all types of goods
- FLAG node located in ASEZ
- 1250 MW of electricity available
- Abundant water supply from nearby Disi Aquifer
- Natural Gas through pipeline from Egypt
- Waste water treatment facilities

³ ASEZA marketing literature

ASEZA pioneered an investor services one-stop shop in Jordan. The one-stop shop provides the investor with a redesigned automated business process for obtaining required permits and licenses for operations. 14 entities are housed in one place and ensure the required workflow to obtain the necessary clearances for issuing the permits and licenses. When the investor visits the one-stop shop, he is briefed on the required paperwork, and an account executive is assigned to assist him through the business start-up process. The system allows for automated workflow between various regulatory entities involved in the process.

Since the establishment of ASEZ in 2001, its offerings to zone investors have expanded tremendously. For example, the Aqaba International Industrial Estate (AIIE) caters to investors with the goal of exporting to the US, capitalizing on the Us-Jordan free trade agreement. The AIIE is a 53 hectare of industrial & logistics park, privately operated by a joint venture, Parsons Brinckerhoff Int. & Suta Construction of Turkey. It also contains a specialized training center for workers.

The Aqaba port is comprised of 3 different ports; the main port, container port, and the industrial port. The main port comprises 12 berths with a total length of 2,120m. These berths are used for general cargo, grain, phosphate export, Roll-on/Roll-off (RO-RO), and lighter traffic. The berths serve vessels of up to 70,000 tons with a draft of up to 14.4m.

ADC has contracted APM Terminals of Denmark to operate the container port. The container port comprises 3 berths of 540m in length, and 15m draft and can receive vessels of up to 84,000 tons. The port also contains 337,000m² of storage yards and a RO-RO berth which is 40m long, with a 10m draft.

Finally, the industrial port is comprised of the following:

- An Oil Jetty of 150m length, 24m draft, which receives oil tankers of up to 406,000 tons
- A Timber berth of 80m length, and 7m draft, which receives 14,000 ton vessels and provides livestock handling
- A Cement berth: A dolphin berth of 120m in length and 11m depth. It is equipped with a conveyor belt capable of handling 5,000 tons per day, dedicated to cement exports and vessels of up to 70,000 DWT.
- Industrial Berths:
 - The West Berth is 220m long, with a 15m draft, receives up to 70,000 ton vessels, and is used for handling potash, salt, and sulphur & dry bulk materials.
 - The Eastern Berth is 190m long, with an 11m draft, receives up to 40,000 ton vessels, and is used for handling bulk fertilizer, ammonia, and chemical products.

The port offers warehousing facilities with the capacity shown in the table below.

Use	Capacity
Transit sheds	62,000 m ²
Phosphate storage	410,000 tons
Grain silos	150,000 tons
Covered storage	41,200 m ²
Open storage	245,000 sq
Container Terminal	337,000 m ²
Potash storage	150,000 tones

There are also open storage areas and warehouses (including cold storage buildings) offered by various service providers within ASEZ. New warehousing and storage facilities are currently under development, with capacity expected to expand substantially in the coming months (PwC just signed a Memorandum of Understanding (MoU) with the ASEZA to add 100,000m² of open and covered storage areas). ASEZ also offers secured open storage of approximately 2,000,000m² and plans are underway for 100+ investors also renting/buying land to set up their warehousing/distribution facilities. Furthermore, trucking fleets that provide transportation capacity in excess of 7.5 million tons/year between Aqaba and Baghdad, making it very convenient for investors to access the Iraqi market.

Finally, the King Hussein International Airport operates under an “Open Skies” agreement allowing great flexibility for both passenger and cargo operations, and ADC is in the process of issuing an RFP for a management contract for the airport.

5 ASEZ’s Economic Impact

ASEZ is a key component of the Government of Jordan (GoJ)’s economic reform strategy. It is intended that the impact of establishing the zone be reflected in the national economy as a whole, and in terms of the welfare of the citizens in Jordan (in particular in Aqaba). Significant progress in attracting FDI and significant economic activities are attributable to the creation of ASEZ.

Although the agreement between the GoJ and ASEZA allows ASEZA to retain 50% of the collected income in ASEZ, the GoJ treasury realized the following increases in its revenue since 2001 due to the Zone:

Category	2001/2000	2002/2001	2003/2002
Sales Tax	600%	125%	110%
Income Tax	128%	102%	215%

As for imports and exports through the port of Aqaba, the impact of the Zone has been as follows:

Category	2002/2001	2003/2002
Imports	40%	118%
Exports	114%	33%

As for employment, the creation of ASEZ and the investments since 2001 have generated over 7,000 jobs. The total workforce in Aqaba is over 18,000 strong, with 67% of those employed being Jordanians. The increase in employment due to ASEZ is of 63% over the last three years.

To date and over the last three years, the creation of ASEZ has resulted in over JD300 million in actual investments on the ground including:

- 2 mega tourism projects with a total committed investment of close to \$1 Billion over the next 12 years, creating 10,000 new jobs
- Over 310 land sale/lease agreements
- An 800% cumulative increase in surface space licensed construction
- 4 Shopping Malls, 2 of which have been operating since 2004, and 2 of which are scheduled to open in early 2005
- 1,500 Additional Hotel rooms by 2007
- An Average Growth in Flights of 65%
- An Average Growth in Cargo entering the Zone of 72%

The success that has been attributed to ASEZ is a result of the political buy-in for the project at the highest level. His Majesty the King Abdullah of Jordan served on every occasion as the marketer of ASEZ. As a matter of fact, most of the big investors contributing to the success of ASEZ were approached by His Majesty the King. Furthermore, existing investors represent a positive testimonial to the attraction of investments to ASEZ.

6 ASEZ Challenges

The negative knock-on effect of regional instability has affected Jordan tremendously.

During the last 43 months, although planning initiatives were made, the apparent lack of an integrated development strategy for ASEZ has resulted in unfocused development, and a delay in developing a sufficient supply of amenities and business enablers. ADC will help ASEZA develop a long-term macroeconomic plan to improve the business climate, stimulate the creation of new employment, foster economic growth and alleviate poverty. While ASEZA has the human resources, and can obtain the capital resources, it sometimes lacks the vision that zone-wide macroeconomic planning requires.

For instance, investments in ASEZ need to provide for the employment of the 60,000 people who will enter the Aqaba job market by the year 2020. The market mass required for enterprises to invest in domestically-oriented business-enabling projects is not present, as the population of ASEZ is of under 90,000 people and their purchasing power is limited. With the region's limited population and labor

force, there is also a shortage of managerial and technical skills. Some investors have probed ASEZ for a potential investment, but to realize that during the market study phase, that there is not sufficient demand for the products and services. This issue could be mitigated through appropriately-calibrated incentives policy. These incentives could include exclusivity rights, tax breaks, and marketing in partnership.

The port facilities are nearing full capacity and utilization levels. ADC and APM terminals however plan to address the inefficiencies and capacity constraints.

On an institutional level, ASEZA suffers from a high turnover in key positions. There is also insufficient attention given to staff training and capacity building. These problems are magnified by the fact that ASEZA does not yet have an operational Human Resources (HR) department or performance-based incentive system to retain its employees.

During its first three years, ASEZA targeted the following sectors⁴ for investments in Aqaba:

- Garments
- Textiles
- Electronic Assembly
- Distribution and Logistics
- Tourism
- Health and Education

The successful attraction of investments in these sectors was to secure a core base of industries around which a support industry of local suppliers, shippers, and auxiliary services would emerge. It was estimated that for every person employed in the core base of industries, another person would be employed in the support industry. After three years, there is still no core manufacturing except for fertilizer production, cement, and timber products. However, the tourism industry is taking the majority of investments. The tourism industry in ASEZ contains a mix of upscale and lower end tourist accommodations and attractions. There are several resorts and tourist attractions under construction. Aqaba is now planning to increase its attractiveness as holiday destination as it has found a sector attractive to investors.

These various pressures should be taken into account in the ASEZ macroeconomic planning.

⁴ ASEZA Investment and Marketing Plan November 2002