4th Webinar in the Rethinking Regional Attractiveness Series

Enhancing the Attractiveness of non-Metropolitan Areas

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KEY TAKEAWAYS

4th Webinar in the Rethinking Regional Attractiveness Series

Enhancing the Attractiveness of Non-metropolitan Areas: The role of Special Economic Zones

15 March 2023

Background

The history of Special Economic Zones (SEZs) – geographically delimited areas where governments offer regulatory and fiscal incentives to companies located within, aiming to stimulate economic growth – extends back to the mid-twentieth century when the Shannon Airport in the Southern Region of Ireland, which was 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.

This OECD webinar on *Enhancing the Attractiveness of non- metropolitan areas: The role of Special Economic Zones* was organised by the **Centre for Entrepreneurship, SMEs, Regions and Cities** (CFE), in collaboration with the **Directorate for Financial and Enterprises Affairs** (DAF), the **Trade and Agriculture Directorate** (TAD) and the **Development Centre** (DEV), and with the support of the **Costa Rica Investment Promotion Agency (CINDE),** and the **European Commission** (DG REGIO). A panel of international experts and practitioners shared experiences and good practices on i) Enhancing the attractiveness of non-metropolitan areas and the role of Special Economic Zones; and ii) SEZs as a tool to promote investment in the agriculture sector to improve the attractiveness of regions.

The webinar benefitted from the participation of **Mr. Wojciech Tyborowski** (Director, Invest Pomerania, Poland); **Mr. Valerio Buemi** (Senior expert in facilitation, market, and institutional relations Special Economic Zone of Eastern Sicily); **Ms. Indiana Trejos** (Vice Minister Foreign Trade, Costa Rica); **Mr. Jorge Sequeira Picado** (General Manager, Invest in Costa Rica); **Mr. Chris McLeod** (Vice President Global Marketing and Communications, Edmonton Global, Canada); **Mr. Alexandre Masse** (Project Leader for the French Territories of Industry policy, National Agency for Territorial Cohesion); and **Mr. Victor Umaña** (Trade and Agriculture Policy Expert, Member of the board of Directors PROCOMER, Costa Rica).

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Key takeaways

- **There has been substantial innovation in terms of what investment zones are designed to achieve, and today SEZs span every continent and are utilised by policymakers for a range of purposes in both urban and non-metropolitan areas**, with objectives including: to revitalise distressed areas, support the development of selected industries or sectors, or facilitate value-added manufacturing or trade.
- **Special Economic Zones vary according to i) regional economic development strategies, ii) incentives offered to investors, and iii) management typologies**. Different types of SEZs include:
    - ***Free Trade Zones*** (FTZs), as in the case of Shannon, which 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
    - ***Economic Revitalization Projects***, such as 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*** and ***Diversified Economic Zones***, which offer deep incentives that focus on a single industry or a wide variety of industries, respectively, as in the case of various zones in Poland (e.g. Slupsk, Pomeranian, and Katowice SEZs).
    - ***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.

Topic 1. Enhancing the attractiveness of non-metropolitan areas and the role of Special Economic Zones

- **SEZs have the potential to promote more balanced regional development, with benefits accrued extending beyond the immediate vicinity of the zone**, however, the overall impact will be informed by the quality of institutions and infrastructure (e.g. strong transport infrastructure connections can help to increase territorial spillovers). As such, SEZ policies need to be an integral part of broader regional development strategies.
- **To deliver inclusive and sustainable regional development beyond urban centres, it is important for policymakers to take an integrated view when deciding where and how to develop special economic zones**. This means two things:
    1. Governance mechanisms for SEZs should be as collaborative as possible, involving different levels of government, as well as industry and civil society.
    2. Ideally, the success of an SEZ should be measured according to its overall economic and social impact, including its role in reducing territorial disparities.
- An SEZ project can both attract international investors and provide opportunities for SMEs to local in non-metropolitan areas while providing opportunities to export to new markets and learn from other FDI firms through R&D collaborations. However, **financial incentives are not always enough to attract investors and businesses** – for some, the offer administrative simplicity with assistance to navigate red tape, along with access to suitable land can be equally important in taking decisions to invest or locate in an SEZ.

Topic 2. Promoting investment in the agriculture sector to enhance the attractiveness of regions

- **Investment in agriculture can play a critical role in increasing income, improving food security, boosting rural development**, and as a vehicle to generate positive spillovers to local economies through employment opportunities, the dissemination of new technologies, and by introducing comprehensive regulatory frameworks (e.g. contract enforcement, ensuring strong capabilities amongst domestic firms, building integrated domestic supply chains). International organisations also have a role to play. For example, the *OECD-FAO Guidance for Responsible Agricultural Supply Chains* provides a common framework and globally applicable benchmark to help agri-businesses and investors contribute to sustainable development and to identify and mitigate adverse impacts.

- **Providing a suitable climate for investment in agriculture** is similar to that for FDI more broadly but will vary from region to region. It is important to take an integrated approach that considers a wide range of policies to develop the necessary transport and IT infrastructure, reduce environmental impacts and administrative bottlenecks for businesses, and promote human capital and skills development along with responsible business conduct. For example, the RENADEL network in Costa Rica seeks to act as a "nation building initiative" by encouraging all key actors (central and local governments, academia and the private sector) to work together with a focus on enhancing the attractiveness of territories.

- **FDI in the agrifood** sector **remains relatively small** compared to services in general. However, FDI can be a driving force for increased participation in value chains and domestic value-added creation. The sector is still an important source of foreign capital in many countries, with agrifood value chain food processing having the largest share of cross border investment activity, and with multi-national players typically driving competition.

- **It is important to understand and communicate the potential benefits of investment in the agriculture sector as a catalyst for regional development.** Attracting investment in the agriculture sector to rural areas can have a catalytic effect to motivate companies that would not typically be aware of the opportunities or consider moving their activities beyond traditional metropolitan investment hubs.