



Restoring economic growth to Grand Bahama Island

# GETTING SUSTAINABLE SPECIAL ECONOMIC ZONES ESTABLISHED IN FREEPORT

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CAMBRIDGE  
STRATEGY  
GROUP

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## Purpose of this deck / executive summary

- This report outlines, in objective and practical terms, what it would take to establish successful Special Economic Zones (SEZs) in Freeport. It is intended as a briefing note to familiarise the members of the REEF committee with the concept of SEZs and their applicability in Freeport. As such, it does not necessarily represent the current policies or views of the GBPA.
- It has become common practice to downplay Freeport in favour of emphasising GBI as a whole. This report recognises Freeport's context within GBI and The Bahamas, but focuses on the topic of SEZs within Freeport / the 'Port Area' - i.e. the area that is subject to the Hawksbill Creek Agreement (HCA).
- Freeport is itself a SEZ under the terms of the HCA and one of the first to be established in modern history. However it is unable to function as such because key provisions of the HCA (provisions that in markets where SEZs are very successful are regarded as key to their success) have been diluted, frustrated or nullified. In particular, processes for regulatory approvals have become difficult and access to expatriate talent severely curtailed. The range of businesses that can be successful in Freeport under these constraints is radically smaller than in competitor SEZs.
- To this adverse regulatory environment must be added risks of inundation and damage to property from hurricanes and the possibility of permanent inundation through sea level rise.
- For several decades now, Freeport has suffered a succession of major business failures, almost all of which have been attributed to a difficult business operating environment and unacceptably high levels of business risk. This means that those in the global business community who are aware of Freeport have a generally negative perception of its value proposition.
- The above makes it very difficult to attract international businesses of any size or global standing to Freeport, excepting those that find the value proposition offered by Freeport Harbour compelling enough to overlook the disadvantages. It is impossible for most kinds of SEZ (as the term is generally understood) to exist in Freeport under current circumstances.
- Against this backdrop, however, Freeport benefits from a number of very compelling characteristics that offer strong opportunities to develop thriving SEZs. Successful SEZs at scale would be radically transformational to the Bahamian people, providing better (not just more) jobs, entrepreneurial opportunities and social benefits. For the nation as a whole, it offers the opportunity of a positive trade balance, a significantly reduced debt/GDP ratio and the return to investment-grade ratings for Bahamian sovereign debt.

# Abbreviations and terms used

**CAGR** - compound annual growth rate

**CEC** - Cayman Enterprise City

**Charter City** - In the context of this report an arrangement whereby a 'host' and a 'guarantor' form a mutually beneficial partnership in developing or uplifting a city. The host provides the land and a guaranteed influx of its citizens seeking employment opportunities. The guarantor, in exchange, provides the capital to build the city and create new jobs. A charter city can also simply be a city granted a special jurisdiction to create a new governance system. For instance, 125 of California's 478 cities are charter cities.

**Clusters / Industry Clusters** - groups of similar and related businesses in a defined geographic area that share common markets, technologies, worker skill needs, and which are often linked by buyer-seller relationships

**EMS** - environmental management system

**EoDB** - 'Ease of Doing Business' (as defined by the World Bank)

**ESG** - environmental, social, governance (the three pillars of 'sustainable business')

**GBI** - Grand Bahama Island

**GBPA** - Grand Bahama Port Authority

**GFS** - Global Fulfilment Services (a Freeport-based consulting and management firm)

**HCA** - Hawksbill Creek Agreement

**KPI** - key performance indicator

**Masquiladeros** - a variant of SEZ first used in Mexico and now in other Latin American countries, where a single factory or other building is designated as an SEZ.

**MVP** - minimum viable product

**Port Area** - The area of GBI defined as being within the ambit of the HCA

**PSF** - professional service firm

**SEZ** - Special Economic Zone

**UAE** - United Arab Emirates

**UNCTAD** - United Nations Conference on Trade and Development

**ZEDE** - Zone for Employment and Economic Development (Spanish: *Zonas de empleo y desarrollo económico*)



# The City of Freeport's credentials as an SEZ

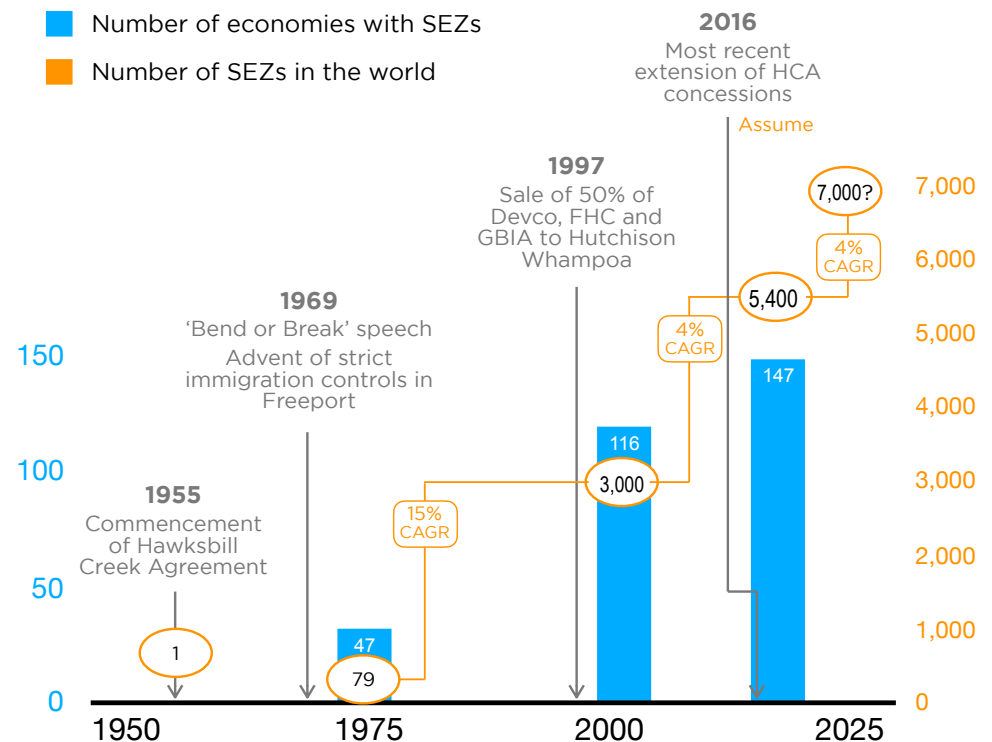
- Freeport is one of the first SEZ in the world, preceding the Shannon Free Zone in Ireland (often claimed to be the first) by four years but not quite as old as the Colon Zona Libre in Panama, which was established in 1948. Freeport under the HCA was already 30 years old when Dubai's famous Jafza Free Zone was established in 1985.
- Notwithstanding, neither a landmark World Bank book on SEZs (Farole & Akinci, 2009) nor a chapter dedicated to SEZs in UNCTAD's current World Investment Report (UNCTAD, 2019) nor a comprehensive article on Charter Cities (Cao, 2019) *even mention Freeport at all!* It is as though Freeport has entirely disappeared from awareness in the study of Free Zones / SEZs.
- A half-century of government efforts to emasculate the HCA and draw Freeport more under the mantle of central Government, and the GBPA responding to protect its interests, has radically reduced Freeport's attractiveness as an SEZ. The Treaty and the GBPA have proved resilient to challenges both legal and extra-judicial, together with gratuitous attacks in the media, but the resulting environment has prevented the GBPA or its business partners from developing anything like the SEZs that now thrive across the world.
- It is seldom constructive to contemplate what might have happened had other roads been travelled, but the opportunity cost to The Bahamas of not having implemented effective SEZs in Freeport a decade or more ago likely runs well into **billions of dollars** lost to the Bahamian economy, to jobs not created, to Bahamian businesses not established and grown.
- Obstacles to developing a sustainable SEZ offering in Freeport today are no less formidable than they have been for many years. What has changed though is the economic context. Exacerbated by the COVID-19 pandemic, The Bahamas today faces challenges unprecedented in its history. The need is dire to very quickly grow the economy, create jobs, reduce the level of national debt and diversify away from the monolithic dependence on tourism.
- The ability to establish thriving SEZs in Freeport lies at the core of achieving this. An entirely new approach is required, though, which will require constructive collaboration between GBPA and Government on a scale not seen in > 50 years.

Neither a landmark World Bank book on SEZs nor a chapter dedicated to SEZs in UNCTAD's current World Investment Report nor a comprehensive article on Charter Cities even mention Freeport at all!

## At growth rates achieved over the past two decades, the number of SEZs worldwide might exceed 7,000 by 2025

- SEZs are a well established, mature feature of the global economy. Following rapid growth in the number of SEZs in the early years (15% CAGR from 1975 to 2002) the rate at which new SEZs are being established has slowed to 4% p.a.
- According to UNCTAD, by 2019 the Latin America and the Caribbean had 486 SEZs in existence (excluding >8,000 masquiladeros in Mexico), 28 new SEZs under development and 24 being planned
- North America (mostly the USA) also had 262 SEZs already established
- Worldwide, the number of SEZs in existence in 2019 was 5,383 (47% in China); the number of new SEZs under development 474 and 507 being planned.
- At the CAGR for new SEZs that prevailed from 2002 to 2019, the world will likely have >7,000 SEZs by 2025.
- The question will therefore not be what accommodations and compromises investors need to make in order to establish businesses in Freeport's SEZs, but what value proposition can be offered, better than those offered by rival SEZs, to induce them to establish in Freeport and differentiate Freeport's SEZs in an increasingly crowded market.

*With >7,000 SEZs expected worldwide by 2025, and several very prominent and direct regional competitors targeting the same group of prospective investors/licensees, Freeport's SEZs will need to be highly competitive, well differentiated and branded, and strongly marketed*



CAGR = compound annual growth rate

# Well conceived, properly implemented SEZs offer the only serious opportunity to fundamentally diversify the Bahamian economy

- The 2009 Global Fulfilment Services (GFS) report's projections regarding growth in workforce and contribution to Bahamian GDP would need to be updated to yield new plausible scenarios but they were based on assumptions that remain broadly valid (although somewhat modified by subsequent geo-economic and socio-political global shifts) and in line with results achieved with successful SEZs at scale in other countries.
- The bulk of the economic benefit to Bahamians would include from significantly increased:
  - demand for business and services supplied by Bahamian-owned businesses in the mainstream economy, outside of the SEZs, hence opportunities for Bahamian entrepreneurs to establish and grow businesses
  - opportunities to develop Bahamian-owned businesses within the SEZs
  - more highly skilled (and hence highly paid) jobs for Bahamians within the SEZ companies
  - VAT collections, work permits and other remittances to the fiscus from those businesses and by the increased Freeport population
  - visitors to GBI to visit those working in the SEZs, hence enhanced demand for tourism products, leisure services and restaurants
  - business travellers to Freeport to do business with companies in the SEZs, creating further demand for hotels and other accommodation
- Exports from the SEZs offer the opportunity for a positive trade balance and significantly enhanced foreign reserves.
- If a business case is proved and funding secured for a knowledge industry and professional services office park, if that were located in a depressed part of downtown Freeport (for instance the derelict properties to the west of Ranfurly Circus) then that would rejuvenate the Freeport central business district generally as well.
- Good and services produced in SEZs could be permitted under controlled circumstances to enter the mainstream economy, (naturally after payment of applicable duties and/or VAT) enhancing the quality and range of goods and services available in the country, while reducing costs.

# On the face of it, opportunities would appear to exist (but robust business cases need to be proved) for a range of specialist SEZs

*A critical success driver common to ALL these SEZ clusters (and for Freeport and GBI generally) is to develop resilience against hurricanes and sea-level rise. Even more than establishing common ground between government and the GBPA to create an investor-friendly environment, this is the most important issue to resolve. Without it, all else is pointless.*

## Potential to exploit in the short term (launch in <24-36 months)

● High potential    ● Medium potential    ● Low potential    ○ N/A (Area of development focus not requiring SEZs)



### Maritime cluster

An SEZ that builds on the existing industries located at Freeport Harbour, extending to businesses adjacent to the maritime industry - especially those that would benefit from the proximity of the harbour and airport.



### Sustainability and resilience cluster

An SEZ focused on businesses / others working on resilience to climate change of islands and other low lying coastal areas would be highly differentiating, newsworthy, strongly brand-building and it addresses a topic of key national importance.



### Airport cluster

Strong opportunities exist for an aviation-based SEZ if the airport can be protected from flooding during hurricanes and from sea level rise. An effective storm surge barrier to the north of the runway is needed.



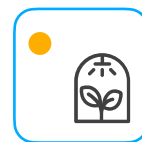
### General industrial cluster (Hybrid SEZ)

Although the SABC is the obvious long term location, in the short term it faces the same inundation challenges as the airport cluster. The SEZ would also need to integrate sensibly with other industries already in place in Freeport.



### Technology cluster

Better EoDB\* could attract smaller tech companies but a scaled tech SEZ requires specialised infrastructure, including digital, easier access to global talent, access to capital and other drivers difficult to establish in 24-26 months except as a pilot (CEC\*\* being a parallel).



### Agriculture + marine resources cluster (Hybrid SEZ)

Marked as medium potential to exploit within 24-36 months because easily scalable. Not all agricultural activities would fall within SEZs, which could be limited to specialist facilities such as vertical farming. Unusually for such a SEZ, most if not all its produce would be intended for the local market.



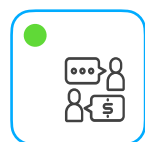
### Healthcare cluster

If the SEZ campus were to be built around the [urgently required] new hospital, that would open the possibility of international healthcare groups as with Cayman Health City and also a better medical school.



### Learning cluster (Hybrid SEZ)

A learning SEZ would focus on businesses delivering online education and face-to-face training delivered in Freeport. It could include new campuses for University of the Bahamas and BTVI. Although a promising long-term opportunity, other options might be more viable for short-term focus.



### Knowledge industry + PSF\* cluster

Marked as high potential to exploit within 24-36 months because easily scalable and pilot phases can be housed in existing office buildings in Freeport while a campus is built. CEC\*\* is the obvious parallel.



### Tourism cluster (not an SEZ)

Existing and currently planned facilities do not require SEZs although a hotel / chefs school could be incorporated into the learning cluster.



Successful SEZ's are carefully designed, based on deep knowledge of the needs of the industries and businesses being targeted



Deeply understand their needs

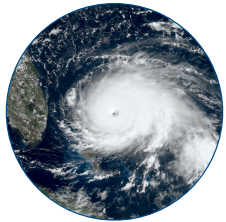
Build a value proposition that meets those needs extremely well (better than competitor SEZs)

Make sure that doing business is painless, minimising bureaucracy

Make expatriate employees feel welcome and at home

... and then they will come  
(and stay)

## A number of roadblocks must be cleared, for SEZs to succeed



### Threat of storm surge + sea level rise

*Damage to property as a result of hurricanes and ambient sea level rise through global warming is likely the greatest deterrent to all but short-term investment in Freeport. In the medium to long term, this is also the most severe existential risk to Freeport and GBI generally, and all other Bahamian islands, and the most difficult and expensive to mitigate. Placing the SEZ in a location above projected storm surge levels is not adequate because SEZ licensees will also be affected by damage and distress outside of the SEZs.*



### Tough business operating environment, especially for foreign-owned businesses

*It is well-nigh impossible for businesses that rely on the global talent pool for skills that are absent or poorly represented in the Bahamian talent pool to thrive in Freeport. Immigration reforms that apply in the SEZs (only) would rectify this without endangering Bahamian jobs. Regulatory and administrative hurdles add to the burden and risk. Even where work permits can be secured for expatriate workers, many find living in Freeport difficult, especially for spouses. Access to capital and exchange controls are further impediments for Bahamian entrepreneurs.*



### Conflict / confusing roles between government and the GBPA

*Conflict between governments and SEZ operators are common but what is unique in the case of Freeport is the length over which it has persisted and the deeply debilitating effect that it has had on investor sentiment towards establishing in Freeport. Duplication of and confusion between regulatory roles of government and GBPA, long approval times and shifting requirements are especially damaging to investor / licensee sentiment. In 2016, at the time of the extension of HCA concessions, undertakings were made to create a 'one-stop-shop' and accelerate business applications. However no substantive progress has been made.*



### Arbitrary government administrative processes / application of policies

*When approvals are dealt with subjectively on a case-by-case basis, without clear guidelines stipulating clear requirements, investors/licensees face unacceptable uncertainty in applying for those approvals. It can also encourage corruption. Government officials adopting extra-judicial measures such as impounding containers to coerce behaviour, and occasional corruption, also make things difficult for businesses to operate easily. All of this is diametrically opposed to what it takes for SEZs to be successful. See slide 14.*



### Lack of focus on environmental, social and governance (ESG) priorities

*Large multinational corporations, institutional investors and multilateral agencies, all of which would be important stakeholders in any major SEZ initiative, place high importance on ESG standards in their operations and the markets in which they choose to do business. The most successful SEZs now use strong ESG credentials as a competitive advantage. Strong ESG credentials also make different funding sources available through 'impact investing' and similar.*

## As a minimum, for SEZ's to succeed, investor / licensees must be convinced that:

- The regulations and policies that apply in the SEZ are competitive with those on offer elsewhere, for their businesses specifically
- They can access talent they require to operate their business competitively, with no unreasonable restrictions being placed on work permits and good supply of local talent for roles not requiring [expensive] expatriates
- The usual suite of SEZ tax advantages will apply (already in place in Freeport)
- VAT will not apply to transactions involving goods or services entering or within the SEZ, only where goods or services leave the SEZ and enter the mainstream economy.
- Bureaucratic processes are simple, transparent, quick and wherever possible digitalised, and definitive enough not to suffer arbitrary official action
- Their facilities within the SEZ and the communities within which their employees live are resilient to extreme weather, storm surges and sea level rise
- Utilities including broadband and telecommunications are high quality, reliable, affordably priced and easily accessible
- Their employees will enjoy a good standard of living (including affordability, low/no crime and range of leisure options) to minimise costs of low productivity and need to repatriate/replace because of poor morale
- Commercial disputes (including between a licensee and the SEZ operator, GBPA or the State) will be handled fairly, transparently and quickly
- ESG standards in the SEZ and in Freeport generally will be acceptable to their shareholders and employees

# Critical mass in SEZs and the community as a whole

## Critical mass applies at multiple levels, including enough:

- similar businesses in the SEZ for a viable professional community
- good quality hotels to accommodate visitors to their businesses
- local service providers to their businesses to allow efficient operation
- people living in the community for:
  - good quality schooling for their children
  - a good variety of restaurants, sport and other leisure facilities
  - enough retail, service and other businesses on GBI for an effective, competitive market
  - eventually, world class quality leisure events such as shows / concerts (this level was reached in Dubai, for instance, at a level of 40,000 - 50,000 expatriates)\*
  - sufficient traffic through the airport to allow affordable air travel
- businesses to create demand for financial services for sophisticated, reliable, affordable business banking and for venture capitalists and others to take note and fund worthy businesses in Freeport
- modern, high quality residential buildings for rental and sale to accommodate the increased population
- investment in utilities such as water and electricity, and sewage and other waste disposal, to allow reliable and affordable services

*\* Source: Verbal communication from a senior partner at a leading UAE law firm that, at that size of expatriate population, Dubai began to regularly attract top-tier international performing artists and other world-class entertainment, to the benefit both expatriates and locals alike. This needs to be viewed in the context of Freeport's civic infrastructure being designed to accommodate ~250,000 people and what can therefore be achieved including a largely middle to upper income community component, of a total < half that size.*

# A focused, well-differentiated, strongly branded portfolio of SEZs

**With >7,000 SEZs expected globally by 2025, Freeport's offering will need to be distinct and highly competitive**

## **Two broad options exist:**

- Reinstitute the whole of Freeport as a 'Free Zone' as anticipated by the HCA and market the various industry clusters to prospective licensees in their respective industry sectors. This would mean:
  - a single regulatory regime across the City (except specific regulations across clusters where specific industries require)
  - it would be more difficult to distinguish between SEZ and normal economic activities, or to prevent leakage into the mainstream economy of goods on which VAT and/or duties should be levied
- Establish a portfolio of SEZs within the Port Area or elsewhere on GBI as appropriate, each carefully designed to meet the particular needs of the industry group being targeted. This means:
  - the approval and other administrative processes could (and indeed should) still be centrally managed, so SEZ licensees and Freeport residents would not perceive any difference
  - loosened immigration restrictions would apply only to businesses in geographically defined SEZs, which would not trade with or in the wider Bahamian economy except through Bahamian-owned intermediary businesses, so there would be no possibility of competing with Bahamian businesses or jobs and in fact only increased demand for goods and services supplied by Bahamian-owned businesses.
  - Each SEZ would have a unique brand, albeit under the overall Freeport umbrella, with the business development messaging tightly focused on what appeals most to businesses in each SEZ.
- In our view, the need for clear differentiation and the opportunity to scale over time makes the second option the most desirable.



Being guided by Dubai's multiple specialised SEZs would allow each Freeport SEZ to be precisely focused on targeted industry needs



**DUBAI  
IRPC  
FREI** Dubai  
Airport  
Freezone



**DUBAI  
INTERNET  
CITY**



**DMCC**  
DUBAI MULTI  
COMMODITIES CENTRE



**DAZ**  
منطقة دبي للسيارات  
Dubai Auto Zone



**Dubai  
International  
Financial  
Centre**  
DIFC



سلطة فاحة دبي للسيليكون  
Dubai Silicon Oasis Authority



**DUBAI  
DESIGN  
DISTRICT**



**DUBAI  
KNOWLEDGE  
VILLAGE**



**INTERNATIONAL  
MEDIA PRODUCTION ZONE**



مدينة دبي الطبية  
Dubai Healthcare City



**DUBAI  
MEDIA CITY**



Dubai  
World Central  
At Media City



**DIAC**  
**DUBAI**  
INTERNATIONAL  
ACADEMIC CITY



مجمع الذهب والألماس  
GOLD & DIAMOND PARK



**Jafza**  
المنطقة الحرة جبل علي  
Jebel Ali Free Zone

# Simple, clear, transparent governance systems and structures

**Crucial to sustaining competitiveness is to make it simple and easy for qualified businesses to establish and operate in the SEZs. This means:**

- Develop clear, unambiguous regulations and guidelines governing all SEZ activities and publish them on the SEZ website.
- Minimise (and preferably completely eliminate) ministerial/administrative discretion, relying instead on officials assisted by digital technologies (or even the technologies themselves) strictly applying the regulations.
- Define and enforce time limits for approvals.
- Digitise administrative processes as much as possible, moving application and due diligence / 'know your client' processes online and entirely automating applications that rely on definite criteria, to allow automatic assessment of applications and instant responses.
- Where online applications are not possible, provide a single point of contact with the relevant regulator (and if possible with a single 'investor liaison office' representing all relevant regulators and helping investor/licensees quickly troubleshoot problems when they occur).
- Publish a register of licensees including the kinds of permits and approvals that they have in place, making that information transparently available to any with an interest in it.
- Publish statistics on the SEZ website including (for instance) approvals considered and approved/denied, time taken to respond, amounts invested, jobs created, ECG data and anything else that makes it easy for potential investors to determine whether a Freeport SEZ is the right fit for their needs.
- Clarify and minimise costs of permit and other approval applications, and all other administrative processes and publish these online.
- Avoid having confidential 'special arrangements' for any individual licensees.

# Relentless focus of what is needed to successfully execute

## Most good ideas fail between minimum viable product (MVP) / prototype, and pitch-winning solution

- Developing good ideas is easy, and transforming those into a MVP that proves the concept is only moderately difficult
- Scaling up ideas that are well proven and fully funded is also only moderately difficult, and requires a different set of skills
- Fully 75% of good ideas fail between the MVP stage, and the development of a pitch-winning solution
- This stage involves the hard work of proving the business case, planning the scale-up, and anticipating and resolving challenges.
- SEZ's in Freeport's modern era are still very much at the 'good idea' stage

*Getting SEZs launched within 24 - 36 months is an ambitious but probably achievable objective.*

*A great deal of work will be required to ensure that they are properly designed, based closely on licensee needs but balanced with the needs of affected communities, investors and other stakeholders, if they are to be successful and deliver transformational results for The Bahamas*



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Based on: Vyakarnam S. and Phadke U., 2018. The scale-up manual: Handbook for innovators, teams and firms. World Scientific



# A welcoming culture

**A mindset shift is needed from expatriates being perceived as a threat to Bahamian jobs and livelihood (so to be resisted) to being a source of very significant benefit to the Bahamas and its people (so to be welcomed)**

## This means:

- Communicate and consult deeply with the Bahamian Freeport community, ensuring that their concerns and aspirations are built into the SEZ project (e.g. training, jobs, entrepreneurial opportunities, funding social benefits)
- Model and compellingly articulate and discuss at grassroots level the long-term vision that the SEZ project will achieve, including:
  - What Freeport will look like with the project fully scaled up
  - ESG measures that will be in place, especially mitigating storm surges and sea level rise, but also emphasising sustainability as a key theme
  - Career opportunities that will be created for the current and next generations of Bahamians
  - Financial contribution to the Bahamian fiscus and transformationally positive impact on the national economy
  - Pride of citizenship and impact on the nation's regional and global standing
- Create a visitors centre with scale models and artist impressions to make the overall long-term 'vision' for Freeport as tangible as possible (not only for grassroots communities but also potential investors)
- Set key performance indicators (KPIs) that make sense to grassroots communities and report regularly on progress towards achieving objectives and benefits of the SEZs to The Bahamas generally.
- Exploit all reasonable opportunities to celebrate Bahamian architecture, culture and national character in all aspects of the SEZ project.

# Build a new Freeport masterplan around a future-focused vision of The Bahamas

**The Master Plan for Freeport needs to be a comprehensive blueprint for what the post-HCA future should be, and how to achieve that over the next 34 years. This means:**

- Create an environment where planning is even possible, by addressing the roadblocks noted in Slide 9, especially storm surge and possible future inundation through sea level rise.
- Create a means to involve the grassroots Freeport community in a meaningful way, in the planning process.
- Recognise that while the existing Master Plan for Freeport exists, has been largely built and cannot be wished away, it was developed in a different era when different priorities existed. To the extent possible, mitigate its shortcomings in the design of the new developments that SEZs and associated growth generally will catalyse.
- In particular, revisit zoning so that land uses that negatively impact each other are properly separated (especially industrial and tourism / residential).
- Place best-practice ECG principles at the centre of the master plan and consider making this a key theme that differentiates Freeport regionally and globally.
- Recognise linkages and dependencies between Freeport and the rest of GBI, and the wider Bahamas, and integrate those into the plan
- Look beyond spatial planning and designing governance structures and systems that drive success of the SEZs and achieving wider development objectives. For example, learning from Estonia's experience in digitising civic systems and processes.
- Incorporate and celebrate the best in Bahamian architectural styles, culture and national character in creating a vibrant, modern city that is undeniably Bahamian.



*To be appealing to investor/licensees over the coming 24-36 months and beyond, Freeport's overall master plan also needs to have strong ESG credentials.*



## 7 crucial steps to successful SEZs in Freeport



Case study:

Jafza Free Zone generates 28% of Dubai's GDP.  
(Currently, that would equate to ~\$97 billion p.a.)

- Established: 1985
- Size: 57 square kilometres (22 square miles)
- Percentage contributor to Dubai FDI: 24%
- >7,500 global companies from >100 countries have operations in Jafza, including nearly 100 of the Fortune Global 500 companies.
- \$93 billion in trade generated in 2019
- >135,000 jobs sustained
- Jafza is the flagship free zone of Dubai Ports World and the leading Free Zone of the Middle East. Located between the container port of Jebel Ali and the Al Maktoum International Airport, the similarity with Freeport's SABC is clear (although the SABC is ~5% the size of Jafza).
- **Key success drivers:** Location between major container port and airport; critical mass; strong government support; everything at Jafza has been designed with the unique needs of manufacturing and trading companies in mind.

## Case study:

The Coega Industrial Development Zone in South Africa was conceived from scratch, including the new sea Port of Ngqura

- Opened: 2009
- Size: 90 square kilometres (35 square miles)
- The Coega Special Economic Zone in South Africa is a role model of combining ambitious goals with an incremental approach to development.
- Customised for heavy, medium and light industries serviced sites fast-track construction of factories, warehouses and office complexes.
- Custom secure areas for export oriented manufacturing companies.
- Development was carefully phased. Once the Port of Ngqura was completed, the zone started an industrial park, followed by agricultural facilities. Focusing on one thing at a time and not over-extending has made Coega, over the course of a single decade, become the largest and most successful SEZ in Africa.
- The SEZ is divided into 15 zones namely commercial, logistics, automotive, general industries, training and academic,, metallurgical, ferrous metals, chemicals, port area, materials handling, mariculture and aquaculture, petrochemical, advanced manufacturing, energy, aeronautical and aerospace and the Nelson Mandela Bay Logistics Park.
- An ISO 14001 compliant environmental management system (EMS) was developed and implemented for the construction phase of the project. (Note 1)
- **Key success driver:** Think big but build out carefully and slowly.

Note: Cambridge Strategy Group's Robert Millard headed the team that developed Coega's ISO 14001 EMS

## Case study:

# Cayman Enterprise City has leveraged the lifestyle created by the offshore banking to create vibrant knowledge industries SEZs

- Established: 2012
- First CEO worked previously with successful technology and media SEZs in Dubai.
- Currently housed in former HSBC building, with a 53 acre master planned campus under development
- As at May 2020, 240 companies were established within CEC's three - Cayman Tech City, Cayman Commodities & Derivatives City, and Cayman Maritime & Aviation City.
- ~175 of the 240 are technology-focused businesses.
- Renewable five-year work visas are approved within five days.
- CEC aims to house 500 companies by 2025.
- According to its 2020 annual report, CEC contributed >\$50 million to the Cayman economy in 2019 and CEC's total local economic impact since inception has been >USD \$260 million.
- Separate from CEC, Health City Cayman, which is owned and operated by Indian healthcare giant Narayana Health and opened in February 2014, derives 40% of its patients from outside the country. Cayman's intent is by 2025 to be the leading medical tourism destination in the western hemisphere.
- **Key success drivers:** Leveraging off large expatriate community already resident and desirable location to live and work; careful focus on capital and knowledge intensive businesses; modest pilot project using exiting infrastructure to prove concept before investing in own campus.

## Case study: Shenzhen SEZ - China's first 'laboratory' for novel economic policies and legislation

- One of four initial SEZs established in China in 1979/80
- The SEZ included the entire city/province of Shenzhen
- Prior to becoming China's first SEZ, the population of Shenzhen was similar to that of Freeport .... < 30,000 residents, mostly fisherman.
- Concessions aimed at encouraging foreign businesses to establish included discounted tax rates and land-use fees, and special treatment in accessing domestic bank finance.
- The SEZ program has been built out to incorporate hundreds of provinces across China.
- **Key success driver:** Demand from foreign businesses to establish in China and reluctance of China to change country-wide economic policies and legislation to allow that.

*"Establishing zones is found to have had a positive effect on capital investment, employment, output, productivity, and wages, and to have increased the number of firms in the designated areas. .... The special zone program's net benefits over three years are estimated to amount to about US\$15.62 billion. Capital-intensive industries benefit more than labor-intensive ones from the zone programs."*



## Case study:

# The Colon Free Zone in Panama was established as an autonomous industrial zone in 1948

- Established: 1948
- Size: 4.5 square kilometres (1.7 square mile)
- Claims rather dubiously to be the 'second largest free zone in the world after Hong Kong'.
- Currently >2,500 companies operating within the SEZ, handling >\$16 billion in imports and exports each year, employs 28,000 people and hosting ~250,000 buyers, business people and tourists each year.
- Located on the Caribbean coast near the Atlantic entrance to the Panama Canal, the SEZ's core focus is re-exporting a wide variety of merchandise to Latin America and the Caribbean.
- Wholesalers and retailers are able to buy consumer products in bulk from importers who bring in container loads, breaking them down for resale.
- Retail trade at 'duty free' prices is also practiced which has made the SEZ into a significant tourist attraction.
- Originally premised upon importing goods duty-free from around the world and selling them to tariff-bound Latin America, the SEZ has had to reinvent itself as Latin American tariff barriers have fallen.
- **Key success drivers:** Proximity to Panama Canal and container port; duty arbitrage across markets (at outset) now easier/cheaper path to market for incoming goods; also retail tourism.

## Case study:

The failed Honduran 'ZEDE' project was to have created three City-scale SEZs ('Charter Cities') initially; ultimately up to twenty

- Announced: 2013, abandoned quietly in about 2017
- Size: Initially ~0.6 square miles but the intent was to extend that to ~8% of the Honduran land area.
- Funded by private capital, the project was to have established three "employment and economic development zones" (ZEDEs) which would operate as independent jurisdictions with their own laws, courts and police - new jurisdictions on empty land that bypass weak institutions to attract investment and jobs.
- South Korea's development agency invested millions of dollars into a feasibility study for a 'mega-port' but concluded the idea was non-viable.
- A McKinsey & Co study reportedly posited that ~600,000 jobs could be created by attracting vehicle-assembly operations, call centres and other industries from Asia.
- "Plan 2020", a master plan for the country that included the ZEZE's and aimed to create 600,000 jobs and boost exports to \$14 billion in the hopes that this would help the impoverished nation halve child migration and reduce poverty, is regarded in 2020 to have been a complete failure.
- **Causes of failure:** Legislation inconsistent with national constitution; poor stakeholder engagement (especially affected grassroots communities); secrecy and corruption on part of Government; concerns about 'neo-colonialism' and racism; greed; megalomania.

## Case study:

Hutchison Ports Sea Air Business Centre (SABC) in Freeport is a classic failure of regulatory environment to meet investor needs

- Announced: ~2000
- Size: 741 acres. (3 square kilometres)
- Strategically located between Freeport Harbour and the Grand Bahama International Airport, strategically located at the intersection of North American, South American, Far East and European trade routes, the SABC shares several important characteristics with Dubai's Jafza.
- Business uses proposed for the SABC include:
  - The proposed components are as follows:
  - Warehouse and distribution
  - Manufacturing
  - Wholesale activities
  - Office and retail
  - Light industry
  - Marina/water related activities
  - Container goods to serve Grand Bahama
  - Import + export via FCP to 270 ports around the world.
- Besides a regulatory offering significantly inferior to regional alternatives, the SABC is also subject to periodic inundation by storm surges, during hurricanes.



*Aerial view of the site of the Sea Air Business Centre, Freeport*

## Case study:

# Plans are well advanced to use SEZs extensively in the UK, post-BREXIT, to enhance economic development and create jobs

- Free Ports could create more 86,000 jobs for the British economy if they were as successful as those in the United States.
- Free Port jobs would mainly be created in areas outside London where economic need is higher. Of the UK's 30 largest ports, 17 are in the bottom quartile of Local Authorities when ranked by the ONS' Index of Multiple Deprivation and three quarters are in 'below average' Local Authorities.
- Leaving the EU will enable Britain to capitalise on the Free Port opportunity. Today, the EU Customs Union and EU State Aid laws make this almost impossible.
- Free Ports have a broad appeal that could command bipartisan support, allowing the policy to act as a rapid response to Brexit.
- A Free Ports policy is fundamentally simple and is supported by a wealth of international precedent – making implementation possible over a short timescale.
- Ports are already a vital strategic asset for the UK economy, accounting for 96% of all trade volume and 75% of trade value.
- A Free Ports programme would build on an existing UK strength and reconnect us with our proud maritime history: Britain's port infrastructure is world class, and the UK ports sector is already the second largest in Europe.



## References:

<https://www.cps.org.uk/research/the-free-ports-opportunity/>

<https://blogs.sussex.ac.uk/uktpo/publications/what-is-the-extra-mileage-in-the-reintroduction-of-free-zones-in-the-uk/>

*"Ports are key to the nation's trade and many offer ideal locations for new manufacturing. They should be front and centre of an industrial strategy to boost exports and re-balance the economy."*

James Cooper  
Chief Executive, Associated British Ports