

## ECONOMIC POLICY AND SPATIAL PLANNING. THE CASE STUDY OF THE SPECIAL ECONOMIC ZONE (1112)

Vasiliki

Charalampidou

Urban & Regional Planner, National Technical University of Athens, Athens, Greece;  
vacharala1992@gmail.com

**Abstract.** Regional policy, which basically lies in the balancing of spatial disparities, combined with the optimization of the efficiency of placements, make up the spatial development policy, which is implemented through planning. This proposal is about incorporating, coordinating, and attempting to balance economic policies and spatial planning in the European Union and Greece.

The most widespread tool is the Special Economic Zone (SEZ), which is based on economic policy and spatial agglomeration theories. SEZ involves issues of urban development, such as location, size, the distance from the existence of resources and raw materials, connection to networks and infrastructure, etc.

The effectiveness resulted from a study of three examples; Ireland, China and the most active in Europe, the Polish Zone. In Greece, there is no institutionalised SEZ, even though the issue is not unprecedented and returns to the debate at regular intervals.

In conclusion, three (3) pillars are recognised for the achievement of the SEZ in a country: (i) the correlation of the strategic approach of the SEZ and the development policy; (ii) the strategic dynamism, regarding the risk of such a venture both for business investors and for the state; and (iii) implementation. To the above, a fourth pillar the integrated approach to spatial planning outside the zone could be added.

**Keywords:** Special economic zone, spatial planning, spatial agglomeration, economic policy, free taxes.

### 1. Special Economic Zones As An Investment Location Tool

Regional development strategies in different countries are converging towards cohesion policy and reducing disparities. This is why integrating investment attraction these strategies is a one-way street.

The most widespread tool in the world regarding the location of investments are the Special Economic Zones, which basically come from economic policy. According to the definition provided by the United Nations, a Special Economic Zone is defined as a geographically demarcated area within which certain tax and development incentives

apply to boost industry and investment in general (UNCTAD, 2019).

Special Economic Zones (SEZs) are subject to differentiated economic regulations from other areas in the same host country, with the aim, of course, of attracting investments. In some sectors of economic activity that are lagging behind. Their characteristics essentially lie in two parameters, innovation and the institutional framework. The differentiated economic and tax policy that governs them offers direct benefits to companies or individuals that operate within them, while at the same time, it attracts other companies and individuals to operate there, making it an attractive place.

Special Economic Zones are widely used in most developing and developed economies. Globally, the latest 2018 figures show the existence of 5,400 Special Economic Zones of various types (export processing, industrial centers/parks/free zones, free trade zones, business zones, agricultural zones, and investment zones) in 147 economies, compared to 4 million that existed in 2014 (UNCTAD, 2019).

## **2. Historical And Institutional Framework**

These zones are the evolution of the "Free Zones" or "Free Trade Zones" (free trade zones) of the 1970s and 1980s, the directions and standards of which were defined in the revised version of Kyoto, the World Customs Organisation. A "free zone" is defined as an area of variable size in which established companies are exempted from the common regime applicable in the host country, in particular with regard to customs and/or taxation, in exchange for the creation of jobs, the encouragement of domestic exports, and the mobilization of the economy in new areas of activity (Bost, 2010). Free Zones remain at the heart of Special Economic Zones, but are a subcategory of them, that of areas with different customs policies.

At the community level, the provisions governing the destination of Free Zones are articles 166 – 181 of the Regulation of the Council of the EEC with number 2913/1992 on the establishment of the Community Customs Code (L 302/19.10.1992) and articles 799 - 814 of the Regulation of the Council of the EEC with number 2454/1993 for the determination of certain implementing provisions of Regulation (EC) no. 2913/92 of the Council on the establishment of the Community Customs Code (L 253/11.10.1993). According to the above, there are two types of Zones, as follows:

- Type I Free Control Zone: It is based on the existence of a fence, whose perimeter and entry-exit points, determined by the Customs Authority, are subject to customs surveillance. Within the said Zone, it is permitted to carry out activities of an industrial, commercial nature or the provision of services with prior notification to the customs authorities.

- **Type II Free Control Zone:** For this type, fencing is not mandatory and thus, it is mainly indicated in the cases of Ports with many activities, as well as in the case of the utilization of existing industrial zones, not subject to a future regime of Special Economic Zones.

The various types and definitions given from time to time, Special Economic Zones, Free Trade Zones, Free Zones, etc., are used to describe geographically defined and specially managed areas within a country, created to attract direct local and foreign investment, enhancing trade, employment, industrial development and entrepreneurship. The incentives used may vary significantly from country to country and from zone to zone. In addition, they can be managed by national, regional or local authorities, the public sector or public-private partnerships. More generally, the legal status and administrative procedures for the conditions and means of operation of the Special Economic Zones are determined by the national legislation of each state, with the result that the differences are enormous.

However, at the level of the European Union, the creation of a Special Economic Zone contradicts the Authority with the basic legislation of the EU and in particular, with the Treaty of the European Economic Community (EEC) of 25/03/1957, as amended by the Treaty of Lisbon of 13 December, 2007. The incompatibility is due to the purpose of establishing and ensuring the smooth operation of the internal market (article 60 EEC), as well as the right to free movement of goods within the customs union (article 28 EEC).

Despite this, Article 28 of the Treaty of the EEC allows deviations from the conditions governing the operation of the internal market, provided that these are of a temporary nature and cause the least possible disruption to its operation. It also provides for the legislative integration of the internal market, with regard to the customs union, competition policies and conservation measures, which fall under the exclusive competence of the Union, as well as a common commercial policy as an external dimension of the internal market (Article 3 EEC). The creation of such a new zone must comply with the General Block Exemption Regulation (Karakas et. al., 2020), while also falling within the State Aid definitions.

### **3. The Role Of Spatial Planning**

Special Economic Zones are becoming increasingly popular as a means of promoting economic development. Over the past two decades, most states in developing and transition economies have made the promotion of Special Economic Zones central to their economic policy. They are promoted to stimulate economic development both within the zone by attracting investment and new businesses that will create jobs and facilitate the transfer of technology and know-how, and outside the zone by creating networks and synergies, knowledge diffusion and promotion of the complementarity of

economic sectors (World Bank Group, 2017). Despite this, there are also reactions from other business sectors, which argue that, because of them, unfair competition and lower environmental and social standards are created.

Throughout this process, spatial planning, although it should have been the tool for implementing such investments attraction policies, mostly follows them and works in addition to other approaches. From a spatial point of view, the Special Economic Zone, although an economic concept involves issues of urban development. Location, size, distance from the existence of resources and raw materials, connection to networks and infrastructure are some of them. Devadas and Gupta (2011) describe it as various systems which are in direct connection with the Special Economic Zone, which in turn activates the dynamic functions of the urban system and the investment functions of development.

Their entire logic is based on economic and spatial agglomeration theories. Economists and geographers have argued that economies benefit from the clustering of industries and businesses, either as companies in the same sector (localization economies), or as different businesses in the same location (urbanization economies). These types of businesses have been proven to have many benefits, such as spillover profits, economies of scale and cost efficiencies. The concentration of economic activity allows the transfer of knowledge and technology more easily. This philosophy is followed by most European countries, which, while they have not instituted and implemented Special Economic Zones, the direction of their regional and spatial planning policy is the concentration of businesses and industries in a certain area.

The design and development of Special Economic Zones involves a range of partners and stakeholders whose coordination is essential for the organization and operation of the zone. Firstly, it must be ensured that the Zones are aligned with national and local objectives, planning strategies, maximizing synergies and promoting cooperation. The governance of the Zone must be subject to transparent, efficient, consistent and safe procedures for all (Wyman, 2018).

At the national level, competent bodies can be either ministries for spatial planning, economic development and fiscal matters, or sectoral ministries or specialized organizations, including those responsible for public-private partnerships. In addition, investment promotion organizations at national, regional and local level are strategic partners and can play an important role in attracting and facilitating investment within the zones. Finally, the SEZ also establishes strategic relationships with the local private sector, including business associations (UNCTAD, 2020).

#### **4. Case – studies of SEZ**

In order to contribute to regional development and increase competitiveness, some Eastern European states, such as Poland, Slovenia, Croatia, etc. have created Special Economic Zones, which offer an attractive combination of tax and tariff incentives, improved customs procedures, infrastructure provision and the creation of business clusters. In the countries of Western Europe, such as Great Britain, France, Italy, Denmark, etc. there have been institutionalized and operating Free Zones for several years, in which packaging and storage processing activities are allowed, due to the relevant EU regulations, with the exception of the export-processing zones of Hamburg (Germany), the Azores and Madeira (Portugal) and the Canary Islands (Spain). The rest operate as Free Control Zones type II, located within ports.

Apart from the theoretical background, however, it is necessary to investigate this tool in practice. Thus, three examples are chosen to be presented. The case of Ireland which is considered the beginning of the implementation of the Zone has had very good results. China relied on the positive consequences of Ireland, which, after much criticism, also applied the tool of the Special Economic Zone, as analysed in the second example. The last case study concerns the most recent, active and first in activity in Europe today, as it has been characterized, the Polish Zone. Since then, similar policies have been established in more than 130 countries worldwide, most of which are located in the developing world, because there they seek to promote industrial development, attract foreign investment and create jobs (Cheesman, 2012).

#### **4.1 Shannon – Ireland**

The first successful case study concerns Shannon Airport in Clare, Ireland, an area of 2650 acres. In 1947 the Irish Parliament passed a new Customs Act, which exempted the passage and embarkation of passengers, goods and aircraft from normal customs procedures. The idea was pioneered by businessman Brendan O'Regan, who proposed the creation of a small zone just outside the airport where foreign investors could be exempt from central Irish government regulation and taxation.

The Shannon Free Zone offered companies tax breaks and VAT exemptions on imported goods and goods used in the production of exports. Corporate taxes were reduced and grants were offered to companies to support research and development within the zone. In addition to the first zone, a second one was created, Smithstown, an industrial area developed as a satellite location for domestic businesses that became suppliers to the larger companies.

Since 2005 the Zone has had the same tax rate as the rest of Ireland, while most businesses have been services. The incentives offered are no different from those of the rest of the Irish economy, as EU rules on state aid have made it illegal to provide special laws or exemptions from regulations in certain areas.

Recently, urban regeneration and re-engineering of this area have been proposed, with the core concept being a center of excellence for aerospace, advanced manufacturing, industry and commerce.

#### **4.2 Shenzhen – China**

The second successful case study is in China, where in 1979, three Special Economic Zones were created in the southeastern coastal region of Guangdong Province (Guangdong), Shenzhen, Zhuhai and Shantou, and one in Fujian Province, Xiamen. Shenzhen was founded in 1979. A year later, the Special Economic Zone was established, including the areas of Luohu, Futian, Nanshan and Yantian, 327 sq km. south of Shenzhen. There, however, things were different because the entire development was combined with the implementation of an expanded spatial development plan.

Between 1982 and 1985, 85 km were built after the establishment of the Shenzhen Special Economic Zone in 1980. Then, many spatial development structures emerged inside and outside the Zone. In addition, the Municipality proceeded to formulate the Shenzhen Special Economic Zone Masterplan in 1982, which was revised in 1986 with a target year of 2000, adopting a policy of cluster, node and axis spatial arrangement to control urban development (Deng et al., 2018), an element that is followed and expanded to this day. However, the lack of systematic planning and development outside the Zone had far-reaching consequences, resulting in the conflation of Zone policy with urban planning. The actions until then revealed the negative correlation of the land development policies and the spatial policies of the Zone (Yuan, 2020).

The fact that the practice of Special Economic Zones has worked in China is a novelty in terms of its political landscape, as it is the first time that liberal economic environments promote innovation and progress. Many economists agree that this was also the motivation for its successful national reform. Today, after more than forty years since the operation of the first Zone (1980 – 2020), the Chinese government still offers tax incentives to foreign investors within the Zones, to further develop the infrastructure and the areas in general.

#### **4.3 Łódź – Poland**

The Łódź Special Economic Zone was established in 1997, occupies 17,750 hectares, covers the entire Łódź Region, part of the Mazowieckie Region and the eastern part of the Greater Poland Region and includes companies involved in production, IT services and research and development.

This is an excellent location, as the Zone is located at the junction of the two main highways of the Region, close to the two international airports of Warsaw and Łódź and has access to an extensive railway network. These advantages, combined with tax exemptions, industrial tradition with the utilization of abandoned shells and integrated services for the implementation of investment projects, made the Special Economic

Zone an ideal place for investors interested in developing their activity (Polish Investment & Trade Agency, 2021).

In fact, according to the Foreign Direct Investment Markets Company (2020) of the Financial Times Group, the Special Economic Zone of Łódź has been characterized as the best in Europe and the third in the world in the recent ranking of 2020. In the global ranking, the first place is held by the Special Economic Zone in the United Arab Emirates and the second by Morocco.

To date, it has made progress in its efforts to become a center of the 4th Industrial Revolution in Central and Eastern Europe. Foreign investors committed to a new investment project worth 530 million euros in 2019, which is underway. Advanced manufacturing and research and development activities are included in the new business licenses issued in 2019, as Polish economic zone legislation has been revised to boost investments with higher value-added content. The Łódź Special Economic Zone continues to this day, offering a wide range of services aimed at technology start-ups and small and medium-sized enterprises, with a special emphasis on, among other things, the development of 5G industrial use cases and connectivity, with the expectation of becoming a start-up park -ups.

#### **4.4 The case study of Greece**

Concerning Greece, there is no institutionalized Special Economic Zone, even though the issue is not unprecedented, and returns to the debate at regular intervals.

The beginning was made in 2011, a decade ago, when it was first discussed in the midst of Memoranda and proposed by the then German Deputy Minister of Finance and the European Commissioner for Finance, the creation of a Special Economic Zone in the five Regional Units of the Region of Eastern Macedonia and Thrace, for which tax rates were envisaged at Irish levels, i.e. fast licensing procedures, and a 'premium' for businesses to create jobs, use local raw materials and transfer know-how.

The constitution, operating conditions and the final form of the legislation for the creation of the Special Economic Zone is a decision of the EU (Makryianni, 2015). According to the current institutional framework, as mentioned above, the establishment of a Special Economic Zone primarily requires special legislation, taking into account the Union's fundamental principles and policies on state aid, foreign trade and customs law. As long as it is documented to the Commission, the possibility of granting an exemption for a period of time and the EU and Greek Government the required fiscal and financial tools, the creation and operation of the Zone is possible. The study prepared by Capital Markets Expert S.A. (2012) on behalf of the Economic Forum of Thrace, the business world and local bodies, proposed the creation of thematic SEZ, with the aim of exploiting the comparative advantages of each region with special incentives, while the creation of a central Management Authority of the Zone in the

form of the Public Company, in which 51 percent (%) would be owned by state bodies and 49 percent (%) by private individuals or legal entities. It is essentially a "product - region", as it names it, which in total yields twelve (12) regional SEZ, grouped as follows:

1. Agricultural Products of Orestiada, for companies processing and packaging agricultural products with an export orientation. The operation of a trans-Balkan Agricultural Products Exchange is proposed.
2. Soufli Silk, for companies that will deal exclusively with the processing and export of silk and its products.
3. Services of Alexandroupoli, with the aim of attracting international banks, insurance and investment companies.
4. Industry & Technology of Avanta, Komotini and Xanthi, with state guarantee on loans for RES projects, zero VAT for services, maintenance of duty-free stock of raw materials.
5. Logistics of the Ports of Alexandroupoli and Kavala, for the needs of handling goods produced in the EEZs, with a provision for zero VAT. for the purchase of equipment, configuration of facilities and services.
6. Marble and Winery of Drama, with exclusively export orientation and duties of more than 3 percent (%) in the internal market, for reasons of equality in internal competition.
7. Tourism and Leisure Kavala – Thassos, Porto Lagos and Samothrace

Their duration would be at least fifteen years, while there was provision for the utilization of the organization and its infrastructure after the end of its operation as a Real Estate Project. The proposed incentives were horizontal for all the thematic-regional SEZ, but also vertical depending on the special needs that arise in the context of their operation.

The project in question did not proceed due to government hesitancy and resident resistance. A year later, in 2012, the then Minister of Development expressed his intention to establish a Special Economic Zone, however, the International Monetary Fund as well as the European Central Bank were strongly against the creation of such Zones, due to the public debt and the process of lending. Instead, the recapitalization of banks, privatisations and the institutionalisation of investments through fast-track procedures were proposed and some of them were subsequently adopted.

The counterargument that is being developed for the creation of a Special Economic Zone or management of the Free Zone in Greece concerns the privileges granted in favor of other states or multinational companies, with a corresponding limitation of national sovereignty and indeed, in special categories of areas, such as islands or border



areas Regions.

## 5. Conclusions

Some interesting issues emerge from the study of the application of this economic policy tool:

- Separation between the Free Zone, which is part of the customs approach and the Special Economic Zone, which is an economic and development tool for export policy and investments attraction.
- The exclusive economic planning of these Zones is not enough, if it is not part of a single investment attraction policy, which takes into account both spatial factors and the effects of these Zones on the area.
- Spatial planning and development outside the Zones is equally important, as complementary functions and activities are attracted to those within the Zone. Therefore, the integrated spatial planning of the wider area in which it is located is necessary.
- Thorough examination of the causes of regional disparities, before the zoning and institutionalization of such Zones. Connection of regional policies and economic - fiscal incentives, with the aim of decongesting large urban centers (decentralization of business activity).
- Analysis and correlation of strategies and tools used by regional agencies to maximize investments recruitment and its benefits for the region (job creation, employment, economic development and research and innovation) as well as the interaction between the territorial dimension and the R&D strategies in the areas under analysis.
- European countries that did not follow the practice of these Zones, further strengthened their regional policies (agglomeration) with tax incentives, in order to achieve the integration of investments attraction in the regional development strategies of selected areas.
- The experience of implementing this tool has proven that in the wider area outside the Zone, complementary activities are attracted, with the result that development within the Zone also implies development outside it. Thus, the benefits spread throughout the wider region, with multiple important social consequences (combating unemployment, increasing living standards, etc.).
- Legislative regulation is required in a European context for the establishment of a Special Economic Zone in Greece.

In conclusion, Aggarwal (2019) recognizes three pillars for the success and achievement of the development results of the Special Economic Zones in a country: (i) the

correlation of the strategic approach of the Special Economic Zones and the development policy, (ii) the strategic dynamism, regarding the risk of such a venture both for business investors and for the state and (iii) implementation. To the above, a fourth pillar could be added, that of the integrated approach to spatial planning inside and outside the Zone.

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