

Trade Ventures and Free Zones: Dubi's Jebel Ali Free Zone Authority

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Introduction

World commerce has become globalized and barriers to trade are crumbling all over the world. Opinions vary as to whether economic globalization is a positive trend. Anti-globalization activists have spoken of the false promise of economic globalization, arguing that contrary to free-marketers' assertions, markets are inherently unstable and chaotic and that government intervention is required to regulate markets and adjust price trends, as well as to guarantee producers' incomes.¹

Others, however, have contended that regional trade agreements (RTAs) are stepping stones to greater liberalization, regardless of whether they are backed by "multilateralists" or "regionalists."² In this context, a broad consensus holds that with the expansion of free-trade areas and the burgeoning growth of cross-regional trade agreements, pressure to preserve the liberal trade regime is inevitable.³ Still others

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have noted that RTAs must not be used as a cover for protectionist policies. It is not enough to lower tariff barriers among the member of an RTA. Full participation in a global economy is essential if countries are to experience rapid growth needed to alleviate poverty on a large scale.⁴ Trade liberalization, experts point out, must be a central component in any economic plan if high growth rates are to be sustained over the long run.⁵

Reducing restrictive business practices and ownership regulations has increasingly become synonymous with “success” in a globalizing economy. The Jebel Ali Free Zone Authority (Jafza) serves as an illustrative example of the entrepreneurial spirit of the free trading city of Dubai.⁶ Taxation is non-existent and restrictions are minimal. Companies have no obligation to take on a local partner. Staff may be recruited from anywhere in the world. Excellent port facilities, warehouses, office space, and even factories are already available and ready for lease. What is more, the strategic location of Dubai allows easy access to the 1.5 billion consumers in the countries surrounding the Persian Gulf and Red Sea.⁷

The fully equipped export-processing zones (EPZs) that now exist in most of the United Arab Emirates (UAE) have come to exemplify a modern development in global trade. Dubai’s strategic location has made it a leading global trade and transshipment centre, with the massive Jebel Ali Port (southwest of Dubai) since the mid-1980s

becoming another important source of new rentier wealth. With 67 berths, Jebel Ali is the world's largest man-made harbor and the biggest port in the Middle East.⁸ Jafza is perhaps the best example of the EPZs in the region. Although the original 1975 decision to create Jafza envisaged the zone as being simply Dubai's second port, by 1985 Jafza's authorities had attempted to supply all the necessary administration, engineering, and utility services required by its clients.⁹ The zone expanded to over 2,000 companies by 2001, and it is now home to nearly 37,000 workers, and has attracted about \$4 billion in investments.¹⁰

This paper is an attempt to demonstrate how this commercial venture enables further global investment, and how such zones could potentially provide their clients opportunities to grow and be creative, while supporting efforts to manage customer needs through technologically advanced support system. Free trade zones have also become essential to improving the quality and competitiveness of industrial projects in increasingly globalized markets. In the following discussions, we first explain Jafza's success in providing business incentives and accommodating its clients' requests. We shall then explore the Iran's Anzaliport free-trade industrial zone with a view toward providing a comparison. The benefits flowing from Jafza could be arguably replicated by Iran's Anzaliport.



Jebel Ali Free Zone Authority (JAFZA)

Jafza's authority acts with greater freedom and exemptions from existing UAE business regulations. Jafza has been empowered legally to release all its foreign companies from all export fees and turnover taxes and has allowed these companies to be exempt from local partner conditions and to claim full repatriation of the invested capital.¹¹ It provides companies with all the assistance they require to set up and operate within an environment free from red tape and annoying restrictions. With regard to seaports, the total tonnage handled by Port Rashid and Jebel Ali has risen by over 75 percent in just five years, and with more than 100 shipping lines calling at ports in the UAE.¹²

Nothing speaks better of the Dubai than its premier customer service, which has made this area the first free zone in the world to hold an ISO 9001:2000 certification. Today more than 5,500 businesses from over 110 countries, including over 100 Fortune Global 500 companies are thriving here at Jafza. Jebel Ali port is determined to remain the powerful symbol that drives the development of Dubai through providing exciting and unlimited possibilities for industrial development.¹³ As one of the largest and fastest growing free zones, Jafza aspires to be the international business hub of the Middle East. It focuses on long-term customer relationships, providing creative and innovative solutions for global industrial investors, and fostering alliances with them. Jafza offers its customers world-class infrastructure, as well as

value-added services and incentives. It further provides community amenities, enhancing a dynamic and thriving business environment. On September 14, 2006, Jafza entered into a new series of talks with Incheon Free Economic Zone Authority (IFEZA) of Korea on creating a platform for cooperation in the development of a portion of the US\$ 15-Billion Korean project. The Incheon team was the second high-level Korean delegation to visit Jebel Ali Free Zone since 2003. In August of 2006, a delegation representing Busan-Jinhae Economic Zone had held talks regarding future cooperation with Jafza officials.¹⁴ Dubai World, Jafza's parent company, already has a major presence in Korea, where its marine terminal operator, DP World operates the north terminal of Pusan Northern Port.¹⁵

An Historical Overview

Initially encompassing 70,000 square meters of warehousing and 850,000 square meters of covered areas, Jafza took nearly three years to create, transforming 25 acres of desert into a secure, dynamic working environment. In May 1980, HH Sheikh Rashid bin Saeed Al Maktoum signed a decree establishing Jafza, adding to the Port a major trade and industrial area, eventually extending to 750 acres. Through the years, Jafza has benefited from major investments in its infrastructure. The very latest information technology has allowed foreign investors to consolidate their unsurpassed logistics capabilities whether by sea,

land or air.¹⁶

Today, argues Taran Larijani, co-director of the Gulf Resources Development Corporation (GRDC), located in Jebel Ali Free Zone, we prepare ourselves for a most promising future by focusing on the refinement and upgrading of every aspect of our services, and to continue our commitment to make Jafza a dynamic as well as thriving place to do business. The merger of Dubai Ports Authority, Customs Department and Jafza into the Ports, Customs & Free Zone Corporation (PCFC) plays a strategic role in our ability to surpass expectations. Utilizing our combined resources creates efficiencies and fosters an ideal opportunity for the exchange of information. Our customers, Larijani notes, benefit from the shared expertise in technology and management, creating new and innovative services.

Dubai Port World provides Jafza clients with container handling, cool and cold stores, and storage areas. Companies can benefit from innovative services such as the Container Terminal Management System (CTMS), covering a wide range of business requirements and facilitating an integrated inter-port transfer of containers between Port Rashid and Jebel Ali; or the Container Freight Station System (CFSS), which computerizes the entire operations of the station.¹⁷ Jafza customers can benefit from having on-site one of the various centers of the Dubai Department of Ports & Customs (DP&C). While DPA is the only cargo handler in Jafza, Customs takes care of its clearance. Computer

generated clearance bills are prepared while the consignments are brought into and taken out of Jafza, all this in a few simple steps that allow cargo to be cleared from sea to air in record times, thanks to Jafza's proximity to the Dubai International Airport. Regional distribution of Jebel Ali Free Zone Companies is also instructive. By 2000, the Jebel Ali Free Zone comprised over 1,000 registered companies, of which about 32 percent were Asian, 30 percent were European, 14 percent were North American, and less than a quarter were Arab or Middle Eastern.¹⁸

Incentives for the Businesses

As noted above, a free-trade area involves zero tariffs. Members retain different external tariffs. Imports come into the free-trade zone through the country with the lowest external tariffs and then are transshipped within the free-trade zone duty free.¹⁹ In its continuous efforts to create a business-friendly environment and in attempt to contribute to the UAE diversification initiative, Jafza has put forward a competitive set of incentives including:

- A hundred percent foreign ownership
- Exemption from corporate and income taxes for a period of 50 years
- Duty free import of goods
- No foreign currency restrictions
- No labor restrictions: streamlined labor and immigration

procedures through a one-stop-shop

- Full repatriation of profits and capital
- Companies can be created in Jafza in the following different

ways:

- Free Zone Establishment (FZE)
- Free Zone Company (FZCO)
- FZE and FZCO applicants can avail of Jafza's unique offer of

forming an established company with separate legal entity

- Branch company applications for any country having valid registration and license outside Jebel Ali, as well as a branch of a local company.

Jafza Offshore, which enjoys tax haven status and several double taxation treaties signed between the UAE and the world, allowing the ownership of free hold properties in the UAE.²⁰

Facilities

Jafza offers a variety of facilities to help meet the needs of our customers. High quality spacious pre-built offices are available on an annual rental basis. The offices are unfurnished and equipped with light fixtures. They also have been specifically designed to allow for flexibility, accommodating a variety of customer needs. High quality, thermally insulated purpose-built units are available on an annual rental basis. The units are fitted with additional features which allow for

the construction of offices. For further convenience two exits, one ramp for fork-lifts and the other, a loading dock for containers and trucks, are located at the rear of the Light Industrial Units (LIU). These units can be used in two ways: (a) as a warehouse for storage and distribution of products and (b) as a factory for assembly and light production (more on that later). The offices are unfurnished and equipped with light fixtures and provide sufficient working space for a maximum of three persons. Flexible construction facilities make it possible to convert two or more offices into a single office: area 26.88 m² – 6 x 4.2m 289.33 ft² - 20.9ft x 13.8 ft. Quality pre built offices with atrium style. The offices are spacious, unfurnished with flexibility to accommodate specific needs, including future expansion. (area by sq. meter).²¹ Regarding the common features, one can mention that lease term constitutes one year renewable annually. Payment Terms are annually in advance, and installments depend on the total amount. Additionally, common covered parking facilities are provided. Common facilities are available for clients leasing space in these buildings. Toilet facilities are available for common use. Access is readily available around the clock.

Accommodating the Requests

Upon request, modifications to the original units can be carried out to fit your specified needs and budgets. Unit Dimensions are 17 m wide, 30 m long for warehouse and factory units. Area of Unit is 510

m2 by 5.489 m2. Area of office/reception is 33/45 m2 (355/484ft2). With respect to air-conditioning, electrical circuits for the offices allow for the installation of air-conditioning at tenants own responsibility and expense. The warehouse unit has a maximum pre-installed electrical capacity of 50 KVA and the factory unit ranges from 75 KVA to 140 KVA. Access to these areas is possible around the clock. Insofar as land sites are concerned, Jafza provides plots of various sizes for long-term lease. These sites are ideal if companies are wishing to construct their own facility, whether it is a warehouse or factory. Jafza, however, has one stipulation: not more than 60% of the allotted land should be utilized for the construction facility. The remaining area should be utilized for landscaping, parking, loading & unloading etc. Land sites have proved to be the most popular facility at Jafza. Once the building is complete, Jafza would inspect the premises. On acquiring Building Completion Certificate, it should be presented to Dubai Electricity & Water Authority (DEWA) who will then supply power to the premises. Jafza will also issue an Operation Fitness Certificate following the installation of machinery.²²

Common Features

Electricity and water consumption charges are billed directly to the tenant. The client is required apply directly to the Dubai Electricity & Water Authority (DEWA). The location is based on zoning according to

type of industry. Staff housing and accommodation have been designed to create a peaceful and attractive environment for multinational staff. Residential areas are made up of a series of coordinated apartment-blocks built with international standards to ensure the ventilation, hygiene and space mandates. The accommodation is ideal for companies working inside or outside Jafza that require temporary housing, offering the clients the convenience of being able to select accommodation suitable to their requirements, be they renting a single room or an entire block.

Amongst the highly valuable amenities and services available at Jafza's staff housing area, one can mention:

- Dubai Municipality bus transportation to and from the city
- Landscaping, fire and security services
- Recreation Facilities
- Jebel Ali Medical Centre, Government Clinic, and Pharmacy
- Canteens and restaurants with multi-cuisine food at very

economical rates

- Mosques
- Supermarkets
- Public Telephones and Internet Facilities²³

Types of Licenses

There are numerous types of licenses. A General Trading License allows the holder to import, distribute and store all items as per Jafza rules

and regulations. A Trading License allows the holder to import, export, distribute and store items specified on the license. An Industrial License allows the holder to import raw materials, carry out the manufacture of specified products and export the finished product to any country. A Service License allows the holder to carry out the services specified in the license within the Free Zone. The type of service must conform to the parent company's license, issued by the Economic Department or Municipality of the relevant Emirate in the UAE. On balance, a National Industrial License is designed for manufacturing companies with an ownership or shareholding of at least 51% AGCC (Arabian Gulf Cooperation Council). The value added to the product in the Free Zone must amount to a minimum of 40%. This license allows the holder the same status as a local or AGCC inside the UAE. It is important to note that for all licenses, sales in the United Arab Emirates must be carried out through a distributor or any company based in the UAE that holds a valid trade license within the same business activity.²⁴

How to Establish a Branch Company

The list of legal documents required for establishing a branch company entails, among other things, the followings:

- Certificate of Registration of the company or Original Certification of good standing of the Company Attested and Notarized by UAE Embassy.

- Memorandum and Articles of Association of the Company Attested and Notarized by UAE Embassy.

A Company's Board Resolution calling for the establishment of a branch in Jafza and the following:

- Negotiator or Legal Representative + Power of Attorney (Notarized) + specimen of his signature (attested by Jafza) + Passport Copy

- Appointed of Manager or Representative + specimen on his signature + Passport Copy Notarized

How to Establish a Free Zone/Company

The List of legal documents required for establishing a Free Zone

- Free Zone Establishment (FZE). This type of company can be formed only by one shareholder, either individual (a person) or non-individual (a company).

- Free Zone Company (FZCO). This type of company can be formed by a minimum of two and a maximum of five founders. Founders can be individual (people), non-individual (companies), or a combination of individual and company.²⁵

Individual and Non-individual Applicants

The list of individual applicants includes:

- Applicant Personal Profile (e.g. business background)
- Specimen of applicant signature (attested by Jafza) + passport copy

- Original Banker's reference
- Owner Declaration and appointment of the following:
- Negotiator or Legal representative + Power Attorney
- Manager and specimen of signature + passport copy
- Directors and specimen of signature + passport copy
- Secretary and specimen of signature + passport copy.²⁶
- Non-individual applicants,²⁷ in contrast, entail the followings:
- Certificate of Registration of the Company or Original Certificate

of Good Standing of the Company

- Memorandum and Article of Association
- Board resolution calling for the Establishment of a FZE/FZCO

and appointment of the following, attested and notarized:

- Appointment of the Negotiator or Legal Representative + Power of Attorney
- Manager and specimen of signature + passport copy
- Directors and specimen of signature + passport copy
- Secretary and specimen of signature + passport copy

Direct Talks with a Customer Service Representative of Dubai Trade Portal.²⁸

It is important to note that documents have to be notarized and attested by UAE Embassy or Consulate or any Arab Embassies necessary. Some documents can, however, be notarized in Jafza. Each legal document has to be sealed, if more than one page is submitted.

Value Added Programs

Although Jafza provides incentives and enjoys a strategic location, Jebel Ali port officials note: “our customers agree our distinction lies in our sense of partnership.”²⁹ This commitment can be evidenced through a series of value-added programs through which customers can enhance their business opportunities. These programs include:

- **Advice on Future Expansion & Investment:** We assist our customers in selecting the desirable site or location for their investment venture, as well as in determining operational requirements
- **Business Matching:** Companies avail the opportunities of joint ventures and other mutual business opportunities in the local and international market
- **Business Delegations:** Jafza organizes events and accompanies its customers on business trips to other countries, enabling them to gain market entries
- **Updating companies on the latest projects related to their field of activity**
- **Advising customers through Jafza’s consulting offices on relevant issues like setting up a business.**³⁰

Constructing a Sense of Community

Recent Jafza’s remarkable growth and success has made it possible to continuously strive to add value to the customers and their future

prospects. Here are some of the innovative, world-class amenities that can be offered to the Jafza community:

- Partnership with Nakheel – Dubai’s premier development company-allows us to offer Jafza customers access to The Palm, Jumeirah Lake Towers, The Gardens and other extraordinary communities from a portfolio which redefines home, holiday and investment, and delivers on an exceptional promise

- Staff accommodation with 5,000 residential units, supermarkets, pharmacies, restaurants, public telephones, library, public transport, cinema, and recreation facilities

- Food Court with a variety of international cuisines and convenient retail outlets
Jebel Ali Medical Centre with qualified onsite staff

- 24 hour Security and Fire Department

- Service companies: From banks and insurance services to business and engineering consultancies

- A branch of the Dubai Chamber of Commerce and Industry

- Jams: the ultimate caretaker for manpower needs, supplying labour, skilled and professional staff.³¹

Anzaliport Free-Trade Industrial Zone

Announced as free-trade industrial zone in 2002, Iran’s Anzaliport (locally known as Bander Anzali) comes closer to Jafza’s potential business opportunities. Situated in Caspian Sea, the port has fisheries

and exports food products, cotton, fish, and caviar. The Anzaliport has arguably all the necessary substructures for creating free zone. It has necessary and sufficient fields for attendance of private section in economical activities.³² Anzaliport free trade industrial zone was constituted in 2 separate sections in the east and west of Anzali. Western part potential consists of suitable natural lands, sparsely populated compressions and residential regions, greater part of lands are under cultivation for summer crops and lesser parts are under rice cultivation. Anzaliport zone has a magnificent shore, well-equipped with recreational and tourism installations.³³ Anzaliport, according to one study, offers great and unique opportunities:

- Port installations and facilities and maritime transportation.
- Proximity to Russia, Turkamanestan, Kazakhstan, and Baku in Azerbaijan.
- Access to regional markets and a consumption market with over 300 million customers in new independent countries of the former Soviet Union.
- Situating on the route of NOSTRAC and this route is 3 times as much shorter and cheaper than present route.
- Proximity to the largest source of gas and oil in Caspian Sea.
- Production of the best caviar in the world
- Proximity to international airport, Tehran, and European

ports.³⁴

Iran's non-oil exports via Bandar Anzali exceeded 51% in 2005. Some 61,000 tons of goods, according to the provincial Department of Ports and Shipping, was exported from the northern port of Bandar Anzali in the first six months of 2006.³⁵ This source also mentioned that in the first 11 days of autumn (September 23-October 3, 2006) Bandar Anzali exported 7,925 tons of goods. Glass export to Russia constituted the key exported commodity. During 2005, over 3.5 million tons of goods were loaded and unloaded at Bandar Anzali.³⁶ It should be noted, however, that port facilities in Bandar Anzali lack the scope and magnitude of their counterparts in Dubai, as their worldwide outreach and re-exporting capacities are limited in comparison. Dubai's location as an international business hub is indisputable. That said, the existence of transit roads and access to internal regions and different cities and neighboring countries-such as Russia, Ghafghaz and the Commonwealth of Independent States (CIS, that is, the former Soviet Union)-makes Bander Anzali a hugely attractive port.³⁷

Conclusion

The concern of this paper has been with the association of a free-trade area, foreign investment, and the promotion of industrial projects. Increasingly, the international norms of globalization have demanded the reduction and/or elimination of "restrictive practices." Critics of

free trade export processing zones argue that host countries have created these areas as separate industrial zones in which they have given foreign companies profitable concessions, such as low or no taxes, lenient labor laws, and duty-free imports, so long as these companies produced for export only.³⁸ In some cases, critics assert, export zones have produced limited local benefits. The valued-added to the production—that is, the difference between the value of the exports and imports moving in and out of these zones—has been relatively negligible. While foreign firms have employed local workers, they have generated enclave communities rather than connecting with internal markets and developing local resources. In some respects, manufacturing export zones have resembled the natural resource enclaves of earlier resource-based multinational investments.³⁹

That said, it is important to bear in mind that all over the world, there have been clear attempts at relaxing and avoiding the existing foreign business restrictions. Jafza typifies the attempt by the UAE's officials to respond to the needs of the international business community by allowing for numerous reforms and the relaxation of business restrictions. Exemptions of all free zone companies from local laws and tax laws allow these companies to successfully operate within the area. Iranian economists have long supported the creation of similar free zone. The Anzaliport activities have raised the total value of Iran's exports from major non-oil trading partners. The advantages and opportunities

offered by Anzaliport are numerous and worth contemplating by free traders. As noted above, Anzali is Iran's third largest port and is a key point for the transit of goods between Iran and Russia, as it is proximate to the Volga River and the Central Asian region. Goods transited to or from Anzali by way of Hamburg, Germany, can be covered in half the distance than by Iran's southern ports. Presently, over thirty percent of goods transiting Iran to the Caucasus and Central Asian Republics pass through Noshar and Anzali ports. The port's special economic zones (SEZs) provide unique opportunities for trade.⁴⁰ □

Notes:

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6. I am heavily indebted to both Mrs. Taran Larijani and Mr. Raouf Mashayekh, co-directors of the Gulf Resources Corporation, Jebel Ali, Dubai, the United Arab Emirates, who have provided me with immensely valuable empirical evidence regarding this project. Without their cooperation, this project would not have been completed.
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19. Henry R. Nau, *Perspectives on International Relations: Power, Institutions, and Ideas*, *Congressional Quarterly*, Washington, D.C., 2007, p. 271.

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21. *Ibid.*
22. *Ibid.*
23. *Ibid.*
24. *Ibid.*
25. Information in this section was provided by a Public Relation Officer of Jebel Ali Free Zone Authority via Gulf Resources Corporation, Jebel Ali, Dubai, the UAE.
26. Documents can be attested by Jafza.
27. Documents can be attested by Jafza.
28. Information provided by a Customer Service Representative of Dubai Trade Portal via Gulf Resources Corporation, Jebel Ali, Dubai, the UAE.
29. Taran Larijani, co-director of the Gulf Resources Development Corporation, Jebel Ali, Dubai, the UAE, points out that this sense of community and partnership is the key to the Jafaz's success story.
30. Taran Larijani, co-director of the Gulf Resources Development Corporation, Jebel Ali, Dubai, the UAE, provided data for this part of the paper.
31. *Ibid.*
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38. Henry R. Nau, *op. cit.*, p. 276.
39. Henry R. Nau, *op. cit.*, p. 276.
40. For more information on this topic, see <<<http://irtp.com/howto/partner/partner/chap3ii.htm>>>. Last visited on November 19, 2006.