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A Political Economy of Free Zones in Gulf Arab States

Robert Mogielnicki

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This monograph is dedicated to Joan Barry & Jack Mogielnicki

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About the Author

Dr. Robert Mogielnicki is a Resident Scholar at the Arab Gulf States Institute in Washington. He previously worked as a human resource development consultant and in journalism across the Middle East and North Africa, and he holds a D.Phil from the University of Oxford. His published work has appeared in *Foreign Policy*, *The Banker*, *World Politics Review*, *Cairo Review of Global Affairs*, and *Axios*. Dr. Mogielnicki regularly provides commentary for international media outlets, including: *Bloomberg*, *Forbes*, *The Wall Street Journal*, *Financial Times*, *Reuters*, *HuffPost*, *Nature*, *BBC World News TV*, *VOX*, *Voice of America*, *Washington Post*, *Los Angeles Times*, *AFP*, *Nikkei Asian Review*, and *S&P Global*.

Dr. Mogielnicki received his D.Phil from the University of Oxford's Magdalen College, where he conducted research in conjunction with the Oriental Institute and Middle East Centre. Drawing on extensive fieldwork in the United Arab Emirates, Oman, Qatar, Bahrain, and Kuwait, his doctoral dissertation examined the political economy of free zones in Gulf Cooperation Council countries. He earned his M.A. in modern Middle Eastern studies from St Antony's College, University of Oxford, and completed a master's thesis on labor policy formulation and implementation in the emirates of Abu Dhabi and Dubai. He received his B.A. from Georgetown University as a double major in Arabic and government, graduating magna cum laude and Phi Beta Kappa.

Dr. Mogielnicki specializes in the intersection of politics and economics across Gulf Arab states. He is particularly interested in how these geostrategic states engage in processes of economic transformation through trade and investment policies, labor market interventions, economic diversification, and technological innovation. He created and leads a long-term research initiative, "Next Gen Gulf," that explores how the latest trends in technology are shaping the economies and governments of Gulf Arab states.

He speaks Modern Standard Arabic and the Egyptian dialect and possesses a working knowledge of the Tunisian dialect. He is a former recipient of the Sultan Qaboos Arabic Language Scholarship (2007–2011) and served as a Critical Language Scholar in Tunisia in 2011. Dr. Mogielnicki has lived in the United Arab Emirates, Egypt, Tunisia, Morocco, Turkey, Jerusalem, the United Kingdom, and a number of European countries. He currently resides in Arlington, Virginia, with his partner and an energetic golden retriever.

Abbreviations

ABRFZ	Ahmed Bin Rashid Free Zone
ADAFZ	Abu Dhabi Airport Free Zone
ADGM	Abu Dhabi Global Market
ADNOC	Abu Dhabi National Oil Company
ADPC	Abu Dhabi Ports Company
AFZ	Ajman Free Zone
BIA	Bahrain International Airport
BIIP	Bahrain International Investment Park
BIW	Bahrain Investment Wharf
BLZ	Bahrain Logistics Zone
BRI	Belt and Road Initiative
DAZ	Dubai Auto City
DBRZ	Dammam Bonded and Re-Export Zone
DHCC	Dubai Healthcare City
DIAC	Dubai International Academic City
DIC	Dubai Internet City
DIFC	Dubai International Financial Centre
DLD	Dubai Land Department
DMC	Dubai Media City
DMCC	Dubai Multi Commodities Centre
DTMFZ	Dubai Technology and Media Free Zone
DUBAL	Dubai Aluminum
DWC	Dubai World Central
EC	Economic City
EDB	Bahrain Economic Development Board
EGA	Emirates Global Aluminium

EPZ	Export Processing Zone
EZ	Economic Zone
EZW	Economic Zones World
FDI	Foreign Direct Investment
FEWA	Federal Electricity and Water Authority
FFZ	Fujairah Free Zone
FTA	Free Trade Agreement
FTZ	Free Trade Zone
FZ	Free Zone
GAFTA	Greater Arab Free Trade Area
GCC	Gulf Cooperation Council
HFZ	Hamriyah Free Zone
IHC	International Humanitarian City
IPIC	International Petroleum Investment Company of Abu Dhabi
JAZFA	Jebel Ali Free Zone Authority
JV	Joint Venture
KBSP	Khalifa Bin Salman Port
KFTZ	Kuwait Free Trade Zone
KIZAD	Khalifa Industrial Zone Abu Dhabi
KOM	Knowledge Oasis Muscat
LNG	Liquified Natural Gas
MACNA	Maritime Company for Navigation
NREC	National Real Estate Company
OBU	Offshore Banking Units
OPAZ	Public Authority for Special Economic Zones and Free Zones
PCFC	Ports, Customs, and Free Zone Corporation
PEIE	Public Establishment for Industrial Estates
QFC	Qatar Financial Centre
QFZA	Qatar Free Zone Authority
QIZ	Qualifying Industrial Zone
QSTP	Qatar Science and Technology Park
RAK	Ras Al Khaimah
RAK FTZ	Ras Al Khaimah Free Trade Zone
RAKIA	Ras Al Khaimah Investment Authority
RST	Rentier State Theory
SAGIA	Saudi Arabian General Investment Authority
SAIF Zone	Sharjah International Airport Free Zone
SCAD	Statistics Centre Abu Dhabi
SDRS	Saudi Development and Re-Export Services Company
SEZ	Special Economic Zone
SEZAD	Special Economic Zones Authority in Duqm
SFZ	Salalah Free Zone
SIPC	Sohar Industrial Port Company

SISCO	Saudi Industrial Services Company
SOE	State-Owned Enterprise
Tameer	Al Khaleej Development Company
TANMIA	Oman National Investments Development Company
TECOM	Dubai Technology and Media Free Zone Authority
Texmas	Textile Merchants Group
UAQ FTZ	Umm Al Quwain Free Trade Zone
VAT	Value-Added Tax
World FZO	World Free Zones Organization
WTO	World Trade Organization

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CHAPTER 1

Mapping Free Zones in the Gulf: Trends and Dislocations

As the first book-length empirical study of free zones in Gulf Cooperation Council (GCC) countries, this volume systematically illustrates the development processes behind free zones in Gulf Arab states and assesses the impact of these commercial entities on regional integration, global trade and investment trends, and the foreign relations of Gulf countries. The work maps how economic strategies involving free zones evolve alongside varying levels of resource availability and state capacity on a local level. In the process, the work reveals how development paths are impacted by regional and global accumulation circuits and the ensuing linkages to Gulf Arab states. Free zones reflect the past: These trade and investment hubs are products of long-run historical processes and shaped by both economic and political institutions. At the same time, free zones offer a glimpse into the future, insomuch as these commercial entities facilitate the accumulation of global capital. Yet free zone development is an under-examined topic in the broader literature on the Gulf. The empirical findings and theoretical implications of the work therefore provide an original contribution to prevailing political economy discussions concerning the Gulf region.

The dearth of political economy scholarship on Gulf free zones contrasts with the substantial degree of political and economic capital invested in these initiatives. Governments in resource-scarce GCC polities have long promoted free zones as essential components of economic

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diversification strategies. Since the early 1980s, Dubai's free zone development strategy, which is best symbolized by the emirate's flagship Jebel Ali Free Zone, has been considered a regional model for promoting non-oil growth. Jebel Ali Free Zone accounted for more than one-third of Dubai's gross domestic product (GDP) in 2018, and the free zone was responsible for 10.7% of the GDP of the entire United Arab Emirates (UAE) that year (Nandkeolyar 2020). The northern emirates of the UAE and Oman likewise contain robust free zone systems that play essential roles in stimulating economic activities, generating government revenue, and attracting foreign direct investment.

Resource-abundant polities in the Gulf have also embarked, albeit more recently, on major free zone development initiatives. Government officials in Abu Dhabi claim that the emirate's Khalifa Industrial Zone will include the largest free trade zone in the Middle East and North Africa, owing in large part to significant Chinese investment pledges. Qatari officials tout the technological capabilities of its new free zones connected to the small country's primary port and airport. Neom in Saudi Arabia and Silk City (*Medinat al-Harir*) in Kuwait both incorporate free zone characteristics into long-term projects. Neom is as a central pillar of the ambitious economic transformation programs spearheaded by Saudi Crown Prince Mohammed bin Salman, whereas Silk City has struggled to move beyond the conceptual stage.

Whether part of established or nascent free zone projects, these entities continue to function as salient features of the Gulf Arab region's political economy. Regional governments utilize free zones to encourage the development of specialized industries, such as e-commerce and e-sports in Dubai, or to support strategic visions and high-priority national development projects, like the Red Sea development projects on Saudi Arabia's western coast. The coronavirus pandemic and the oil price rout of early 2020 highlighted ongoing efforts by Gulf Arab states to diversify public sector revenues away from hydrocarbon proceeds and to promote sustainable, non-oil growth. Facing fiscal constraints and an uncertain energy landscape, Gulf governments will increasingly look toward free zones as sources of non-oil revenue and means for enabling greater private sector involvement in their economies. More—not less—will be demanded of these entities during the challenging economic times ahead.

Free zones facilitate local, regional, and international investments into Gulf Arab economies, thereby making them primary commercial vehicles for deepening international partnerships. While boosting inward foreign direct investments and non-oil trade aligns with long-term economic objectives, these elements are also crucial ingredients for recoveries from sharp economic downturns, as witnessed in 2008, 2014–2015, and 2020. Modest recoveries in oil and gas prices followed the earlier of these economic shocks, but a similar scenario after 2020 is not assured. Gulf policymakers need free zones to not only support economic recovery efforts but also help project robust economies alongside high-profile international events taking place in the Gulf: the 2020 G-20 summit in Riyadh, the 2021 Expo in Dubai, and the 2022 FIFA World Cup in Doha. During the virtual G-20 summit hosted by Saudi Arabia in November 2020, the country's Minister of Investment announced plans to launch new special economic zones intended to boost low levels of foreign investment.

Yet not all free zones are created equal. Free zones systems in GCC countries reveal substantial variation in the timing, scale, and scope of development between the early 1980s and 2020. This variance is at odds with the relative homogeneity of GCC economies—notably the over-reliance on hydrocarbon resources for government revenues. Much of the existing academic literature on free zones examines these initiatives purely through an economic lens but ignores regional nuances and structural factors in the Gulf. Such an approach does not lend to answering crucial political economy questions: Who are the winners and losers of free zone development? What is the relationship between free zones and institutional reform?

This monograph argues that GCC governments and other actors utilize free zones as political, and not merely economic, instruments. Actors in both resource-scarce and resource-abundant territories across the region have employed free zones to generate new rent streams, encourage rent-seeking behavior, and accomplish other political objectives. Even economic dimensions of Gulf free zones are highly intertwined with the region's politics. The political instrumentalization—both domestically and internationally—of these economic mechanisms is critical for understanding free zone development outcomes in the Gulf region as well as broader implications for the global economy. A closer study of free zone regulations, ownership structures, state-business relations, and multinational linkages across systems in each of the Gulf Arab states, therefore, can enrich our understanding of the forces underlying economic processes in the Gulf and beyond.

The argument advanced in this monograph possesses practical and theoretical applications. On a practical level, Gulf free zones are a vital component of the global capital accumulation circuit. Yet the specific trajectories of free zone development depend upon domestic, regional, and international factors, which can constrain or encourage free zone proliferation as well as shape free zone policies in a given territory. The monograph develops a broader methodological framework for researchers seeking to unpack both the political economy of similar commercial entities in the Gulf and free zones in other countries and regions. On a theoretical level, free zones function as a form of rent distribution to connected business elites and are thus integral to the political strategies and power of Gulf ruling families. The research employs a qualified version of rentier state theory (RST) and, in doing so, introduces a new conceptual categorization of rents associated with free zones—described in this work as commercialized rents. The concept builds upon existing scholarly applications of RST in the Gulf by revealing previously unexplored rentier structures and the embeddedness of local and international elites in nonhydrocarbon development processes.

The author's prior D.Phil research conducted at the University of Oxford between 2015 and 2018 resulted in the first comprehensive political economy mapping of the Gulf's free zone system. A subsequent D.Phil dissertation framed free zone development cases along three analytical dimensions: hydrocarbon dynamics, elite relationships, and global competition. Field visits to 44 of the approximately 50 free zones observed in the dissertation, 77 interviews with government and business officials associated with free zone development, and an extensive collection of primary source materials generated the data for this doctoral study. The systematic examination of the free zone sub-system in each GCC state provided an important foundational study of free zone development across the region.

This monograph moves beyond a country-by-country case structure and instead delves into timely thematic discussions intended to expand the practical applications and deepen the theoretical reflections. The primary objective of this monograph is to shed light on Gulf free zone development and its consequences in a manner that is accessible to a wide audience. As a result, concise language takes precedence over dense academic jargon. Any omission of tangential research studies does not necessarily mean that these works were not consulted and considered but more likely did not sufficiently advance the narrative to warrant their inclusion.

With estimates of the number of free zones across the globe ranging from 3,000 to 3,500 entities (Akinci and Crittle 2008, 7; Neveling 2015, 1007; Hakimian 2011, 853), careful consideration of terminology and definitions is essential for any work focusing on free zones. There are various terms and tabulations relating to the free zone concept and its various manifestations over time and across geographies. The World Bank prefers to use special economic zones (SEZs) as an umbrella term, while much of the global literature on the topic cites the traditional term free trade zone (FTZ). Free zones (FZs), economic zones (EZs), export processing zones (EPZs), and foreign-trade zones (FTZs) are other common appellations used globally. The precise shape of these entities and the details of their operations depend more on local context and less on nomenclature norms.

This monograph therefore employs the term *free zone* for two reasons. First, the term demonstrates a particularly high usage in GCC countries and therefore is both representative and accurate for a Gulf-specific study. The term's equivalent in Arabic, *al-manṭaqa al-ḥurra*, proved to be the most common appellation in Arabic discussions, Arabic media, and formal Arabic reports.[1] Second, the term free zone helps avoid potential conflation with regional free trade agreements (FTAs), such as the Greater Arab Free Trade Area, or bilateral FTAs akin to the one between Oman and the United States. These agreements establish trading blocs that are commonly—and confusingly—known as free trade zones. Since FTAs and their consequent free trade zones feature in the forthcoming chapters, it is important to minimize potential misunderstandings of terminology relating to the key term of analysis.

In addition to consistent terminology, a study of free zones requires a working definition for the concept. Free zones can be broadly defined as demarcated geographic areas contained within a territory's national boundaries where the rules of business are different from those that prevail in the national territory (Farole 2011, 23). The relative economic autonomy of individual emirates within the UAE, an integral country case when examining Gulf free zones, suggests that these entities are better defined within autonomous territories rather than national boundaries by default. More specifically, free zones in GCC countries differ from their onshore counterparts in three crucial areas: permitting full foreign

[1] The Arabic plural form for free zones is *al-manāṭiq al-ḥurra*. In some cases, textual sources use *al-manāṭiq al-iqtiṣādiyya*, which translates to economic zones.

ownership of commercial entities, offering reduced workforce nationalization requirements, and providing duty and tax exemptions. The free zones observed in this monograph demonstrated at least two of the three aforementioned characteristics. It is important to note that other Gulf economic zones, like industrial zones and industrial estates (IEs), do not differ substantially from the rules regulating onshore commercial activity in their territories. While not considered free zones in this analysis, the development trajectories and roles of these entities occasionally overlap with free zones and are therefore considered in the following pages.

Links in the Global Capital Accumulation Circuit

GCC governments began establishing free zones in the late twentieth century, although the free zone concept emerged much earlier and is not exclusive to the Gulf region. Early free zone concepts existed in ancient Phoenicia, Greek city-states, the Roman Empire, and European ports (Tiefenbrun 2012, 5), but Patrick Neveling (2015, 1010) contends that Puerto Rico opened the first modern free zone in 1947. The Shannon Free Zone in Ireland, created in 1959, was a model for early free zone development in Shenzhen, China, during the 1980s (Kennard and Provost 2016). Within the Middle East, Aden operated as a free port under British colonial rule from 1853 until 1970 (Holt 2004, 94), and British diplomats described Beirut's free zone as a haven for gold smuggling ("Gold Smuggling" 1949; Stewart 1961, 48). In 1970, a socialist government in South Yemen designated Aden as a free zone (Khalili 2020, 112). Jordan, Egypt, Syria, and Israel adopted free zones during the 1970s to utilize strategic ports and waterways (Akinci and Crittle 2008, 28). The ruler of Dubai laid the foundation for the Gulf's most-recognizable free zone by constructing the Jebel Ali Port in 1980, and a free zone officially opened in 1985 to facilitate the warehousing and storage of shipments entering the port.

Governments have long leveraged these free zones to accomplish international strategic and commercial objectives. The early Greek and Roman examples of free zone-like entities functioned as "launching pads for political and economic domination" (Tiefenbrun 2012, 5), while in 1919 an international delegation designated the German ports of Hamburg and Stettin as "free zones" for 99 years to ensure adequate international oversight of key ports following World War I (Commission on the International Regime of Ports 1919, Article 21). The international airport in Shannon, Ireland, which hosts the Shannon Free Zone, was a collaborative initiative by the governments of the United States, Canada, and Britain ("Shan-Zhen" 2016). Shannon's strategic geographic and commercial location provided a convenient entry point for multinationals seeking to enter European markets. Since 2001, the United States has used Shannon Airport for its military planes transporting troops to Iraq and Afghanistan.

Free zone development was not only a western phenomenon. China established four SEZs in 1979 to increase foreign participation in industrialization programs without causing major disruptions to the existing economic, political, and social systems (Wei 2000, 203). Jiang Zemin, the Chinese senior vice minister of the State Imports and Exports Administration, visited Shannon in 1980 to study its relationship to regional economic initiatives before reproducing a similar free zone in Shenzhen. Over twenty years, the Shenzhen SEZ transformed a small area with 20,000 people and a total industrial output of $10,000 into a major city housing 3.5 million people with a per capita GDP of $4,000 (ibid., 202). The perceived success of Chinese SEZs prompted neighboring India to rapidly expand the scale of export zones and SEZs in the country—India had created its first export processing zone by 1964 (Seshadri 2011, 8–11). The Asia and Pacific region hosts the largest number of free zones worldwide, with 991 of the 2,301 zones found globally, according to a 2008 World Bank study (Akinci and Crittle 2008, 18).

Global governments portray free zones as solutions to a broad array of economic challenges. Then British member of parliament Rishi Sunak—and later Chancellor of the Exchequer—suggested free ports as a method of boosting manufacturing output, trade, and employment in a post-Brexit United Kingdom (Sunak 2016, 4). The Iranian secretary for the High Council of Free Zones contrasted high employment rates in free zones with lower rates in other, traditional spheres of the economy ("Unemployment Lowest" 2018). In other instances, these zones can be problematic. An Organisation for Economic Co-operation and Development (OECD) report found that the introduction of one new export processing zone—one type of free zone—into an economy increased counterfeiting by 5.9% on average (OECD 2018, 73). Limited labor regulation within free zones can result in unfavorable working conditions (Bolle and Williams 2013; Liberato and Fennell 2007, 396). Moreover, a multitude of free zones with independent regulatory authorities can make a location an attractive destination for illicit financial flows (Kumar 2020, 24–25).

The nexus between free zone development and international political economy is apparent in the Gulf Arab region. In the late 1930s, the British viewed the idea of an Iraqi free zone in Kuwait as a viable foreign policy option and even contemplated funding the project with the caveat that any expenses would be "recovered from them through dues etc. in the ordinary course of business" ("British Policy in Kuwait" 1938, 74r). Donald Hawley, a British political agent during the 1950s, helped design Dubai's real estate ownership regulations and served on the Port Committee, which established the physical and regulatory foundations for the free zone at Jebel Ali (Al-Gurg 1998, 79). More recently, U.S. government officials fretted over the potential for various forms of illicit activities—counterfeiting, arms smuggling, or the transfer of technology for weapons of mass destruction—to take place under the cover of GCC free zones. China's nebulous Belt and Road Initiative (BRI) involves a complex web of memorandums of understanding, investment pledges, and actual projects within free zones across the Middle East and Africa.

The Internationalization of Gulf Economies

The dynamic interplay of international interests and Gulf free zone development took place alongside several concurrent transformations that deepened the internationalized nature of Gulf economies. Yet change did not happen overnight. "The huge variation we see in the world today in both economic and political outcomes is the result of long-run historical processes," explain Acemoglu and Robinson (2009, 1). The transformative impact of the pearling and hydrocarbon industries on Gulf economies, societies, and politics is well documented. European, American, and Asian powers further pushed the region's integration into the world economy in new directions. Free zones played a key role in facilitating economic engagement with global actors across nonhydrocarbon industries. Prominent local actors in Gulf Arab territories also deserve credit for the gradual, if not always smooth, processes of integration into an increasingly globalized world economy. What follows is a brief elaboration of significant transformations that paved the way for and overlapped with free zone development, while Chapter 2 details how free zone regulatory regimes are connected to political and economic institutions.

Gulf Arab territories exploited shifting trading centers and capital flows, owing to colonial dynamics, civil wars, sanctions, and the recycling of petro-dollars. New man-made waterways, like the Suez Canal in 1969, reduced the maritime distance between European and Asian markets and increased the significance of Middle Eastern ports. Bahrain's reputation as a financial hub grew substantially after the 1975 outbreak of Lebanon's civil war, which sparked an outflow of investments toward more stable financial hubs. The Iran-Iraq War during the 1980s shifted port activity in the northern Gulf to safer hubs in southern Gulf states. Thus, it was unsurprising that Jebel Ali has been one of the U.S. Navy's most frequented ports outside of the United States since the 1990s (Ramos 2010, 128). GCC countries also acted as veritable capitalists on the global stage: Kuwait was the largest single foreign holder of British sterling in 1967 (Fain 2008, 3), affirming Adam Hanieh's (2011, vii) assertion that Gulf countries are more complex entities than "simply monarchies that sit atop an oil spigot."

Decision makers in Gulf territories did not simply wait for favorable trade and investment winds to present new opportunities. Rulers and merchants oversaw the construction of trade, logistics, and transportation infrastructure that helped Gulf Arab territories better exploit changes to the international economic and geopolitical order. Dredging shallow channels and building deep-water ports increased the maritime capacity of Gulf Arab ports, cultivating fertile environments for future free zones. According to Laleh Khalili (2020, 7), the "plans to build harbours are rarely about objective or neutral calculations of cost," and free zones are "crucial in creating the pulsating economic macro-organisms that port systems are today." The rise of commercial aviation as an integral element of international commerce helped newly-created Gulf airports and national airlines thrive. The later development of expansive air transportation sectors and related industries, such as tourism and hospitality, enhanced economic growth and attracted new visitors. Expansive road networks and new highways ensured that people and goods could move efficiently within and across countries or—in the case of the UAE—around the Strait of Hormuz.

The political parameters delineating Gulf territories, and simultaneously shaping their engagement with the rest of the world, also changed throughout the twentieth century. The January 1968 announcement of Britain's departure from the Gulf by 1971—part of the "East of the Suez" departure plan—encouraged many remaining protectorates in the