

Speech by Graham Mather, Chairman World Free Zone Convention
to the Fudan University Shanghai Forum on Monday 26 May 2014

Dear Colleagues, Ladies and Gentlemen

The discussion we are having take place after another auspicious week for free zones and special economic zones around the world, with the establishment last Monday in Dubai of a World Free Zone Organisation.

This body, on whose Board sits Mr. Dai Haibo of the China (Shanghai) Pilot Free Trade Zone is designed to fill an important gap in that there has been no functioning membership organisation for free zones around the world.

The World Free Zone Convention which I chair is strictly a body which convenes meetings without the attributes of a structured representative body. It is my profound hope that the new World FZO fills this gap effectively.

In Europe we trace free zones to the free cities of Northern Germany – Lubeck, Hamburg and others who as long ago as the 12th Century AD adopted techniques which facilitated trade and open competitive economies.

The autocratic princely rulers of many of the component parts of the then Holy Roman Empire tended to favour military conflict and territorial acquisition.

But the leaders of these City states, particularly merchants, created free ports and developed free trade agreements with a network of peers across Europe and more broadly which eventually developed into the Hanseatic League.

There are many parallels with the contemporary development of free zones and special economic zones: both the historic free ports and free cities and today's zones tend to be in relatively compact defined geographical areas making them easy to administer; secure and well policed; equipped with efficient infrastructure; and adopting distinctive policies designed to facilitate trade and enterprise and to attract investment.

It is nonetheless surprising that the academic literature on free zones is thin and sketchy by contrast with their profound economic importance. But there is excellent work by Dr. Francesca Trampus who wrote *Free Ports of the World* in 1999 and as recently as 2011 by another valuable study, *Special Economic Zones* edited by Thomas Farole and Gokhan Akinci of the World Bank.

The World Bank authors urge on countries "a more flexible approach to using the instruments of economic zones in the most effective way to leverage a country's source of comparative advantage and to ensure flexibility to allow evolution of the zone programme over time."

This message is of profound importance. Zones are changing and evolving and will change and evolve in a process that meets the needs of markets, but requires experimentation and adaptation. Because the zone advantages are conferred by Governments success requires astute policy design and careful monitoring; a preparedness to learn from mistakes, to amend packages and adjust zone regimes. These changes are signs of success rather than as some commentators would have it, of failure or redundancy.

Flagship Zones as exemplars

It is no coincidence that the launch of the World FZO took place in Dubai, for the UAE has exemplified these virtues and is probably the most innovative environment for zone development at the present time.

The distinguished US architectural expert Professor Keller Easterling of Yale, is the scholar who has most effectively captured the transformation of free zones and their dynamism.

She calls this part of a phenomenon of extra-state-craft – a phenomenon that acknowledges that multiple forces, state, non-state, military, market, non-market forces have attained the power and administrative authority necessary to undertake the building of infrastructure.

The zone, whether a free trade zone, a foreign trade zone, a special economic zone, processing zone or any of its variants is a dynamic crossroads of trade, finance, management and communications.

With her we can probably categorise the main eras of change in an analysis by the political scientist Xiang Mingchen who identified three evolutionary eras for zones:

The first era from the mid-16th Century to the 1930s dominated by the free port and early free trade zones;

the second from the late 1950s until the 1970s by export processing zones focusing largely on manufacturing;

the third starting from the 1980s seeing the rise of special economic zones, economic and technological development zones and science industrial parks.

In the contemporary world we see the Zone City. Since the establishment of the Jebel Ali Free Zone in 1985, Dubai has hosted zones for almost every imaginable activity – Dubai Internet City, Dubai Health Care City, Dubai Maritime City, Dubai Silicon Oasis, Dubai Knowledge Village, Dubai Techno Park, Dubai Media City, Dubai Outsourcing Zone, Dubai International Humanitarian City, Dubai Industrial city, Dubai Textile Village, Dubai Auto Part City.

Not only do these zones facilitate activities far removed from the simple transshipment of the early free ports, but they may be equipped with special legal regimes quite different from those of the host country.

So it is that the Dubai International Financial Centre has an entirely different legal regime to that applying in the rest of the UAE and in the same way the Dubai Media City has a different regime allowing greater freedom of expression.

Here in Shanghai too we see even this month the establishment of the China (Shanghai) Pilot Free Trade Zone Court of Arbitration as part of the Shanghai International Arbitration Centre. We are taking up Professor Shiller's message from the opening session and if not employing more lawyers at least using more arbitrators - who may even be cheaper and faster than traditional lawyers.

The point is that they help free zones thread together existing networks of global contractual relations fuelling an unstoppable growth engine.

Where are these flagships leading? What are the sparkling Cities of the UAE portending for the future? Professor Easterling sees the benefits of zones spilling over from their enclaves – "As it continues its transmutation from warehouse compound to World City, it might be a carrier of richer, alternative forms of urbanism" she argues, as the zone principles infuse the rest of our cities and our societies.

It is a powerful and compelling vision and it is one which resonates with, for example, the new interest in the innovation and competition which cities can bring, captured most notably in work like Benjamin Barber's "If Mayors Ruled the World" with its arresting sub-title, dysfunctional nations, rising cities.

China – Shanghai's Pilot

I rejoiced when I saw that the name of the new Shanghai zone.

The very title shows that the zone is not a special privileged enclave arrangement for Shanghai, but the testing of concepts that, if successful, can be applied to the whole of China or emulated in other parts of China.

This profoundly correct approach tackles head on one of the most serious political challenges to zone development in recent times – the challenge of the zone border and differential and advantageous regime which applies within it.

The question has bedevilled European policy in this area where many of the benefits which apply in zones are regarded as "State aid" and are constrained and policed by rules of the European Union, limiting the potential of zones in the EU to a tiny fraction of their international counterparts for fear of conferring unfair advantages to particular areas.

This issue is completely solved by the pilot concept. For if a zone is testing techniques which in due course may be extended to the rest of a country, the benefits conferred in the zone are at once legitimated within the zone and aspired to outside the zone. What might indeed be seen as an unfair advantage if it was established in perpetuity only in defined areas, can no longer be seen in this perspective if it is a test of a measure from which all can expect to benefit.

The second cause for rejoicing is because of the tentative, aspirational and fluid concepts associated with a pilot. For all our hesitations about the omniscience of Governments, it remains the case, especially in our contemporary media, that we measure policy innovation in a crude, black and white, win lose, success failure looking-glass.

The negative list concept used in Shanghai helps fully demonstrate the greater complexity of the real world. Opening up markets, allowing new patterns of ownership, changing regulation are not one-way bets. Yet around the world the traditional legislative approach tends to assume that there is one correct answer which once legislated applies in perpetuity.

In fact, legislative change should be reviewed, with a much stronger emphasis on lesson learning. President Xi Jinping made the point this week when he stressed that the FTZ in Shanghai is a large pilot that needs careful management. The management should combine structural reform and the exploration of new methods, while controlling risks and gradually making improvements.

One measure of deregulation and market opening may work, another may fail, another may have side effects which need correcting.

A trifling and sobering example - since taxis were deregulated in Stockholm, you may inadvertently enter a taxicab which charges ten times more than the one next in line.

The opening up of banking and insurance markets must not be allowed to imperil prudential regulation. There needs to be very careful calibration of approaches to capital and reserve requirements to assist in securing the safety of financial market transactions. Mr Xie Yonghai made this point yesterday in a sub forum - building on what he said, it is important that Shanghai should become renowned as a centre for and a promoter of financial safety in the world.

I therefore reject critics who want instant success, all or nothing solutions and black or white answers. The potential of the Shanghai Pilot will require caution and patience. In conversation with one of the authors of the World Bank study I mentioned earlier, this week he said "They have only been launched for less than a year. There is plenty of time to develop and adjust concepts to see how things go."

Global Messages

So what are the messages to extend from Fudan to our international audiences in this exciting time for the development of the free trade zone concept?

First and foremost it is that zones are not selfish enclaves with special privileges. They are instead a dynamic testing ground for the most imaginative approaches.

Second, activity, in existing zones has a spill-over effect to surrounding areas. But dwarfing this is the potential that the techniques of zones may be adopted more broadly in their national economies.

In my opinion, if a zone exists for a decade with a package of benefits which have not been spread to other parts of the economy, one must question whether policy makers are taking the right approach.

Rather it would be a sign of success if emulation and competitor zones spring up and if the approaches pioneered in zones become the new national norms.

Shanghai is pioneering this approach. It could transform the way in which we see free trade zones.

Zones have moved beyond the first three initial models: free port, export processing zone, science and Technology Park, to the concept of a Zone City.

A very wide range of economic and social activities can benefit from the techniques which have inspired zone development.

In an era of dysfunctional nations and thriving cities, zones have a profoundly important role to play across nations and across society.

The Shanghai Pilot is full of potential to reach the next major development of the free zone concept.

Ladies and gentlemen thank you for your kind attention and with great pleasure I hand over to chair our discussion to Professor Zhang Jun.