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Zone-based policies as tools for regional development



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Yugo Kimura

This paper analyses international experience with zone-based policies, such as special economic zones and enterprise zones. These targeted place-based policies can help improve long-term economic and well-being outcomes in regions but require careful strategic planning, well-designed incentives and strong governance mechanisms to minimise displacement and maximise positive impacts beyond the borders of the zone. Drawing on case studies from across the OECD, this paper offers policy insights into designing and implementing zone-based initiatives that effectively contribute to regional development.

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Keywords: Place-based policy, enterprise zones, special economic zones, free trade zones, regional attractiveness, regional development, investment promotion



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Executive summary

Zone-based policies, such as Special Economic Zones and Enterprise Zones, offer regulatory and fiscal incentives within designated geographic areas to stimulate economic activity, including job creation and investment. The term zone-based policies is used in this paper as a neutral, inclusive framework, avoiding the country-specific associations and definitional inconsistencies of Special Economic Zones. Since the establishment of the first modern industrial zone in Shannon, Ireland in 1959, such policies have spread globally, including across OECD countries. This reflects renewed interest in place-based industrial policy in order to boost regional competitiveness, respond to global economic transitions and a growing awareness that large and persistent spatial disparities can weigh down on resilience and competitiveness.

Zone-based policies in developed countries are often intended to simultaneously meet national industrial objectives and drive regional development. To achieve both objectives, zones need to minimise displacement effects that offer no net value to the wider region or country, while promoting positive spillovers beyond the zone boundaries. While some zones, such as those in Poland, have achieved success, the sobering reality is that most zones world-wide have fallen short of their promises. The mixed evidence on whether zones 'work' makes it ever more crucial to identify under which conditions zones succeed.

To answer that question, this paper draws on international experience to examine the conditions and design features that help maximise the contribution of zone-based policies to regional development. In doing so, it focuses on examples from OECD countries, where the political and economic contexts often differ significantly from those in developing countries, which are the focus of much of the existing literature.

Global experience with zone-based policies suggests several important considerations. First, such policies should be firmly embedded within a broader regional transformation strategy. While zones can catalyse change by concentrating efforts to attract investment, underlying challenges such as skills gaps or low productivity often persist and require complementary policy interventions. Before establishing a zone, regions should assess their economic and structural characteristics to guide the design of the target geography, key incentives, complementary interventions and a broader promotion strategy.

Regarding the zone’s value proposition, fiscal incentives may be included but should not be the primary attraction, given the difficulty of differentiating similar packages across zones and the potential distortions they can create. Instead, emphasis should be placed on the development of more durable sources of comparative advantage, such as land, infrastructure and local skills, alongside investor services and regulatory facilitation. Governments can also actively promote positive spillovers within and beyond zones through supplier development programmes, investor networking forums, business matchmaking events and support for innovation and skills upgrading to increase the absorptive capacity of local firms.

However, when deploying tax incentives, they should be designed carefully. Certain design features may help minimise displacement effects, for example, by excluding relocation-driven investments and existing firms to avoid windfall gains, whilst focusing incentives towards sectors most consistent with the zone’s development strategy. It is important to note, however, that overly restrictive requirements may be

counterproductive as they may deter investment in the first place. Moreover, tax incentives should have clearly defined exit strategies to avoid rent-seeking behaviour.

Effective governance is critical. Zones should leverage private finance and expertise where feasible while ensuring alignment with public objectives. Private sector involvement in zones offers efficiency gains but requires careful calibration, as unfettered private control can undermine broader development objectives. Co-ordination is also required within the public sector, both vertically and horizontally, to balance local and national interests. Finally, zones must operate within a robust monitoring and evaluation framework to prevent illicit activity, track performance against objectives and assess value for money, given the significant costs associated with foregone tax revenue and initial public investment.

The main policy considerations are summarised below.

Policy considerations for a successful zone-based policy

- Utilise zones as a part of a broader package of regional transformation to strengthen fundamental sources of competitiveness, such as skills development and infrastructure investment.
- Align zone strategy with economic and structural regional characteristics.
- Fiscal incentives should not be the central value proposition of zones.
- Fiscal incentives should be carefully designed to minimise displacement and maximise spillover effects.
- Enhance non-fiscal attractiveness measures such as infrastructure and land provision, investor servicing, access to skilled labour and regulatory incentives.
- Foster business interactions within and beyond the zone.
- Ensure co-ordinated governance, both among public and private actors and across levels of government, underpinned by robust monitoring and evaluation to track progress and outcomes.

1 Introduction

Defining zone-based policies

Zone-based policies refer to public policies implemented within a geographically demarcated area that offers regulatory or fiscal benefits distinct from national norms – such as corporate tax breaks, customs exemptions or streamlined administrative procedures – to incentivise specific economic activities. Zone-based policies generally differ from area-based initiatives, which primarily target smaller residential neighbourhoods and deploy a broad set of socio-economic development tools, as seen for example in the United States' Empowerment Zones (OECD, Forthcoming[1]).

Zone-based policies encompass the broader family of Special Economic Zones (SEZs). This includes but is not limited to Export Processing Zones, Free Trade Zones and Freeports. SEZs are often associated with national-level objectives, such as boosting trade efficiency, enhancing manufacturing competitiveness or attracting foreign direct investment. For example, some SEZ definitions emphasise physical infrastructure (e.g. warehousing, logistics facilities) or customs separation as essential features, reinforcing a trade and manufacturing-centric interpretation (UNCTAD, 2019[2]; Akinci and Crittle, 2008[3]). Zone-based policies include SEZs but are conceptually broader. They include zones with regional development goals, domestic market orientation or a focus beyond manufacturing, as seen in policies like Enterprise Zones in the United States and United Kingdom. While some definitions of SEZs may align closely with the concept of zone-based policies, the lack of a consistent, universally accepted definition of SEZs leads to ambiguity.

Given the ambiguity surrounding the definition of Special Economic Zones, the term zone-based policies, whilst not standard in the academic literature, is preferred here as a more inclusive and neutral framework, avoiding the country-specific associations and definitional inconsistencies often attached to the term SEZ. For instance, some zones are explicitly named SEZs, such as the Latgale SEZ in Latvia, whereas other countries use different terminology, including Investment Zones (Poland), Economic Development Poles (Mexico) or Industrial Strategy Zones (United Kingdom). Table 1 provides an overview of common types of zones. Examples of specific zone-based policies deployed in OECD member countries is provided in Annex A.

Table 1. Common terms for zone types

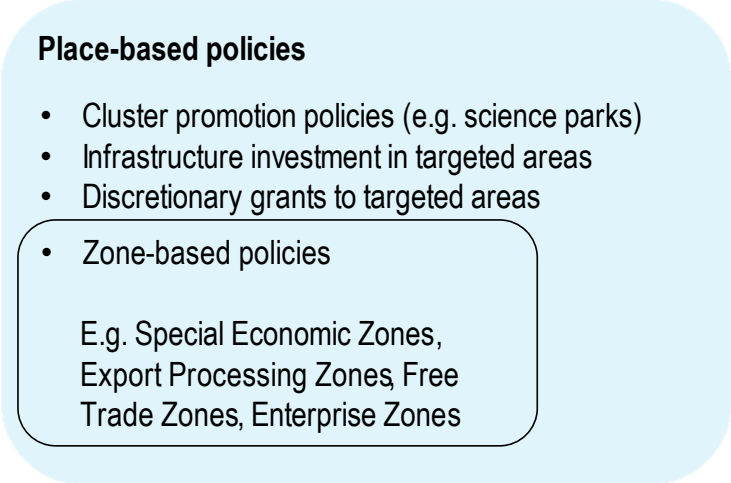
Name	Definition
Special Economic Zones (SEZ)	Zones aimed at promoting industrial development, broadly or within specific sectors, through special regulatory and/or financial incentives. In some contexts, this term is used as a catch-all for various types of zones.
Export Processing Zones (EPZ)	Industrial estates focused primarily on export-oriented production, often targeting foreign markets.
Free Trade Zones (FTZ)	Designated areas where goods that enter this area are not subject or are subject to lower import or export duties than those that would apply if such goods were declared for release for free circulation, at the moment when they enter it. They typically offer warehousing, storage and distribution facilities to support trade and re-export operations.
Enterprise Zones (EZ)	Programmes that offer tax incentives and grants to stimulate economic activity and job creation in economically

	distressed urban or rural areas.
Industrial Parks	Zones designed for industrial development, usually manufacturing-oriented. They are typically smaller than SEZs but may be conceptually equivalent when accompanied by special incentives or regulatory frameworks.

Note: This list is non-exhaustive.
Source: Authors adaptation based on Akinci and Crittle (2008[3]) and Zeng (2016[4]).

Zone-based policies belong to the broader family of place-based policies (PBPs). PBPs are intentionally spatially-targeted policies that provide higher-level support to a place to improve long-term economic and well-being outcomes (OECD, 2025[5]). Examples include cluster promotion policies, infrastructure investments and discretionary grants (Figure 1). While these policies neither form a mutually exclusive nor collectively exhaustive list, they can be broadly grouped by objective and core levers. Zone-based policies typically aim to spur economic development, such as job or firm creation and industrial upgrading, through tax incentives. While cluster promotion policies, such as in science parks, may also utilise the same policy levers as zone-based policies, their primary focus is often on network facilitation, such as through joint innovation grants and funding cluster managers. Infrastructure investments, including in roads, internet broadband and other public utilities, can be embedded within a zone or cluster strategy but also as a standalone measure, especially in lagging regions where the priority is closing basic connectivity or service gaps. Discretionary grants and subsidies can also complement zone or cluster policies but are sometimes deployed independently to attract and retain anchor firms or encourage local entrepreneurship.

Figure 1. Zone-based policies as a family of place-based policies



Note: Based on Neumark and Simpson (2015[6]) and OECD (2025[5]).

Zone-based policies as tools for regional development

While in developing countries zone-based policies are often deployed to serve national industrial objectives, in developed countries they tend to be used as tools for both national and regional development. Adopting a regional development lens means not only designing zones to attract investment, but also ensuring they contribute meaningfully to the development of their host regions.

One important element is fostering forward and backward linkages between firms in the zone and local producers, suppliers, service providers and workers beyond the zone. These connections help ensure that the benefits of increased investment and activity within the zone spill over into the wider regional economy. This is essential for building long-term industrial capabilities, boosting local incomes and employment, and

enhancing regional resilience beyond the lifespan of the zone itself. In this way, a wider, regional approach, as opposed to a zone-centric focus, increases the return on public investment and supports national objectives such as balanced territorial development and the formation of strong industrial clusters.

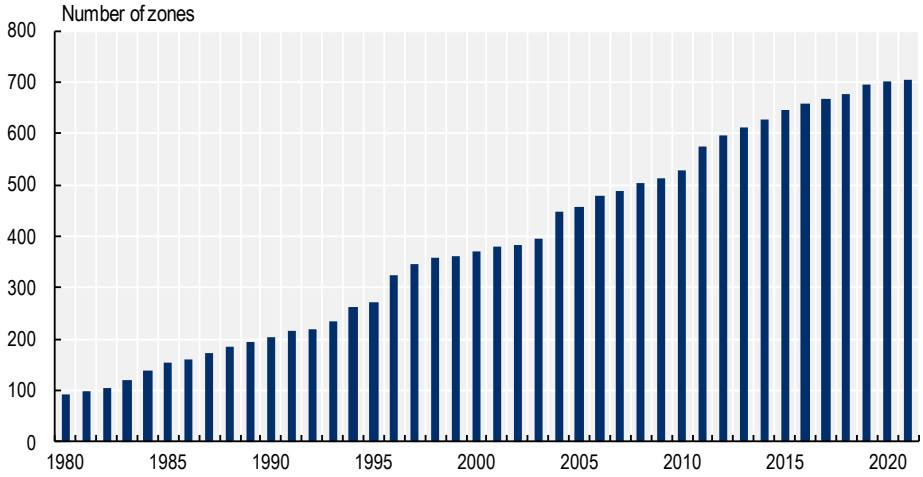
A regional development perspective also involves using zones as catalysts within broader strategies for regional transformation. Rather than treating zones as standalone interventions, policymakers should ensure they are supported by high-quality infrastructure, services, institutions and a skilled local workforce. This creates a coherent territorial offer that enhances the zone's attractiveness to investors while strengthening the regional economy as a whole.

By contrast, zones developed in isolation, without strong regional linkages or complementary policies, risk becoming enclaves. Although they may attract investment in the short term, they often fail to generate lasting development benefits. They can also exacerbate inequality, displace local enterprises and contribute to social fragmentation, particularly if they are seen to privilege external investors in the zone over local communities surrounding it. This has been the experience of many zone-based policies in the past, such as in Africa (Rodríguez-Pose et al., 2022[7]).

The growing use of zone-based policies among OECD countries calls for a renewed look at this policy tool. While the origins of modern zones for industrial development are often traced to the establishment of the Shannon Free Zone in Ireland in 1959, the model gained significant momentum in Asia during the 1980s. Its subsequent adoption by developing countries led to zones being primarily associated with the developing world (UNCTAD, 2019[2]). However, renewed interest in place-based industrial policy in order to boost regional competitiveness, respond to global economic transitions and a growing awareness that large and persistent spatial disparities can weigh down on resilience and competitiveness, has contributed to the increasing uptake of zone-based policies in developed economies, including OECD countries (Figure 2).

Figure 2. Increasing deployment of zone-based policies across the OECD

Indicative number of zones in the 38 OECD member countries by year



Note: The trend is indicative only, as the list of zones is non-exhaustive. In some cases, the year of commencement could not be determined, and the analysis only includes zones identified as active as of June 2025, excluding those that have been terminated.
Source: Based on findings from Adrianople Group (2025[8])

Growing but incomplete evidence

Despite their growing use among OECD countries, there remains limited understanding of how to effectively deploy zone-based policies in a developed country context. While there is a substantial body of literature assessing the effectiveness of various zone initiatives, much of it focuses on developing countries, and cross-country analyses remain relatively scarce (Frick, Rodríguez-Pose and Wong, 2019[9]). Perhaps the most prominent success story comes from China, where SEZs have been linked to higher levels of foreign direct investment, greater productivity growth and wage growth (Wang, 2013[10]), GDP growth (Alder, Shao and Zilibotti, 2016[11]) and higher school enrolment rates (Lu, Sun and Wu, 2023[12]), supporting the industrial upgrading of China more broadly. However, the policy lessons drawn from China and other developing countries may not be easily transferable to OECD contexts, given differences in political and economic structures and level of development. Developed countries typically have stronger regulatory frameworks, greater political stability and more highly skilled workforces – factors that play a critical role in determining the success of zone-based policies (EBRD, 2024[13]).

Another challenge in reviewing existing studies on zone-based policies is the wide variety of policies implemented and the resulting siloed analyses. While zones differ in objectives and policy tools, they share common characteristics: they are geographically defined areas that offer regulatory or fiscal incentives distinct from national norms to promote specific economic activities at the local level. However, unified analysis is often fragmented, with Special Economic Zones, often encompassing Export Processing Zones, Free Trade Zones and Freeports, typically studied separately from Enterprise Zones.1 This divide may reflect a broader distinction between research focused on developing versus developed countries.

Furthermore, synthesising findings is complicated by the varying quality and mixed results of existing analyses. As has been pointed out by researchers (Wang, 2013[10]; Frick, Rodríguez-Pose and Wong, 2019[9]; UNCTAD, 2019[2]), many studies rely on qualitative case-studies rather than rigorous empirical methods, while more robust analyses tend to be country-specific. Additionally, Frick and Rodriguez-Pose (2021[14]) point out that a significant number of studies focus on overall outcomes rather than investigating the underlying channels through which impacts occur. This limits the ability to draw actionable policy lessons, as outcomes often depend on structural and contextual factors.

Adding to the complexity, studies have often drawn conflicting conclusions about the efficacy of zones (Hooton and Tyler, 2019[15]). For example, SEZs in Poland have generally been regarded to have supported regional development. These zones offered special state aid and income tax allowances in regions most affected by industrial restructuring of the 1990s but have since expanded incentives to the whole country. Studies have found Polish zones have been successful in boosting inward investment and capital formation in less developed counties (*poviats*) hosting zones (Ambroziak and Hartwell, 2017[16]), higher employment in zone-hosting municipalities (Jensen, 2017[17]) and significant positive employment effects outside the zone (Ciżkowicz et al., 2016[18]).

By contrast, the United Kingdom's Enterprise Zones – geographically defined areas offering business rate discounts and capital allowances to attract firms, first introduced in the 1980s and revived in the 2010s – are generally considered to have produced less positive outcomes. In the UK, employment gains are often attributed to relocation of existing businesses rather than net job creation, and jobs created tend to be predominantly low-skilled (Ward, 2024[19]). This mirrors findings of zones having limited impact in developing and emerging countries, where with few exceptions (e.g., Shenzhen, Suzhou, Xiamen or Mauritius) the impact of zones has fallen below expectations (Frick and Rodríguez-Pose, 2021[14]). It is also worth noting that many SEZ 'success stories' in emerging economies unfolded under conditions of weaker institutions and acute industrial deficits, conditions less prevalent in OECD regions. Thus, policy lessons from these success stories in Shenzhen or Mauritius must be adapted thoughtfully to fit advanced-economy realities (Rodríguez-Pose and Hardy, 2014[20]).

Perhaps as a result of these mixed messages, many regions have struggled to learn effectively from international experience. In the EU, for example, the adoption of Special Economic Zones has often taken the form of policy imitation of early-movers in Europe rather than being grounded in a more nuanced understanding of how zones function and under what conditions they deliver meaningful benefits (Arbolino et al., 2025[21]). A summary of selected literature is provided in Annex B.

Displacement, additionality and land value capitalisation

One of the key criticisms against the use of zones revolves around the issue of displacement. If zones merely relocate economic activity to the detriment of surrounding areas without generating additional activity, then the zone has no net-value when observed from a wider perspective. Numerous studies have documented displacement effects. For example, Foreign Trade Zones in the United States have been associated with increased manufacturing employment within the zones at the expense of increased unemployment and decline in manufacturing firms in neighbouring counties, potentially offsetting some of the benefits (Lane and Liu, 2022[22]).Similar, though generally less pronounced displacement effects have been observed in Enterprise Zones in the United States, United Kingdom and France, with varying magnitudes of displacement (Papke, 1993[23]; Givord, Rathelot and Sillard, 2013[24]; Hanson and Rohlin, 2013[25]).

That said, displacement is not necessarily problematic in itself. Concentrating dispersed activity in a single location can raise productivity through deeper labour markets, stronger supplier networks and knowledge spillovers (Swinney, 2019[26]).

Nevertheless, the policy question remains as to how zones can be structured to minimise negative displacement while maximising positive spillovers, thereby producing net gains. Some evidence suggests this is possible: studies of U.S. State Enterprise Zones find only limited displacement effects (Kolko and Neumark, 2010[27]; Greenbaum and Engberg, 2004[28]), while research on SEZs in Poland points to increased employment in neighbouring areas of the zone (Ciżkowicz et al., 2016[29]). Similarly, non-manufacturing firms appear to benefit in areas around U.S. Foreign Trade Zones, indicating positive spillovers (Ghosh, Reynolds and Rohlin, 2016[30]). Positive spillovers have also been documented in SEZs in Eastern European countries, including OECD members, where economic activity, as proxied by night-time lights, had increased in the areas surrounding zones (EBRD, 2024[13]). However, it is often the case that the impact in surrounding areas fails to materialise. Despite the mushrooming of SEZ programmes across Africa in the past decade, their ability to link with local firms and generate employment beyond the zone remains limited in many cases (Rodríguez-Pose et al., 2022[7]). Only by embedding zones within broader regional plans can such initiatives avoid the pitfalls of displacement.

A related but distinct criticism concerns additionality – the extent to which a zone creates new economic activity that would not have occurred otherwise. Zone incentives may simply reward firms that would have invested or expanded regardless of policy support. In such cases, public resources generate limited incremental benefit, resulting instead in windfall gains for existing firms. For example, State Enterprise Zones in California allowed retroactive claiming of tax credits, which may have benefited incumbent firms without stimulating new investment (Kolko and Neumark, 2010[27]). Ensuring additionality therefore requires careful incentive design that targets genuinely new activities and limits support for investments that would have happened anyway.

A further concern is that tax incentives and regenerative development may be capitalised into land values. Expected financial gains from incentives and development can drive up property prices, which are then captured by landowners, reducing the intended benefits for firms. Indeed, a review of multiple studies on enterprise zones in the United States generally found that these zones are associated with higher property prices and rents (What Works Centre for Local Economic Growth, 2025[31]). This highlights the importance of carefully designing zone-based policies to mitigate such effects, for example through land assembly, retention of public ownership or mechanisms to recover increases in land value.

Details make the difference

The mixed evidence on the overall impact of zone-based policies suggests that the more important question is not whether zones work, but under what conditions they succeed. Context, design and implementation matter far more than the existence or otherwise of zones. Variability in outcomes likely reflects differences in zone objectives, the indicators and timeframes used to assess success and the governance models of the zones (Hooton and Tyler, 2019[15]).

Research points to several enabling factors for success. These include favourable location characteristics such as proximity to ports, pre-existing levels of industrialisation (Frick, Rodríguez-Pose and Wong, 2019[9]), a skilled workforce, particularly with tertiary education, and strong legal and regulatory frameworks (EBRD, 2024[13]). Building on these insights, this paper synthesises the extensive literature on zone-based policies, mainly in OECD countries – along with broader research on the use of tax incentives to attract investment – to present emerging evidence on zone design features that can minimise displacement and foster positive spillovers for host regions. To this end, Chapter 2 identifies the location and types of zones deployed in OECD countries. Chapters 3 to 5 then synthesises existing international literature on zone-based policies and presents case studies that illustrate how zones are implemented in practice. Chapter 6 concludes by presenting policy guidance on how to successfully design and operate zone-based policies. This paper also serves as a follow-up to the working paper on regional trends in FDI by Kimura and Flood (2025[32]), offering insights into the policy tools that regions can deploy to attract investment, including foreign direct investment.

2 Typology of zone-based policies in OECD countries

The diversity of zone-based programmes reflects the wide range of policy objectives they serve, making it difficult to pin down a single typology. Given the proliferation of zone labels and definitions across countries, understanding the landscape requires a functional classification. Drawing on the taxonomy proposed by United Nations Conference on Trade and Development (UNCTAD) (2019[2]), zones can be broadly grouped by their primary objectives (Table 2). Multi-activity zones promote general industrial development, while specialised zones target a specific sector, industry or segment of a global value chain. Economic revitalisation zones aim to boost economic conditions in underdeveloped or distressed areas and logistics hubs are designed to facilitate trade and export operations. However, the boundaries between these categories are often fluid. For instance, Foreign Trade Zones in the United States are primarily designed to ease trade procedures but also contribute to manufacturing development and job creation.

Table 2. Functional typology of zone-based policies

Type	Objective	Examples
Multi-activity zone	General industrial development	Investment Zones in Poland
Specialised zone	Industrial development in specific sectors, industries and/or global value chains	National Strategic Special Zones in Japan, Industrial Strategy Zones in the United Kingdom
Economic revitalisation zones	Improving economic conditions, typically with a focus on increasing employment, in less-developed areas	Enterprise zones in the United States and United Kingdom, ZFU-TE and ZFRR in France
Logistics hub (Free Trade Zones)	Trade facilitation through commercial, warehousing and logistics services, often close to airports, seaports and borders	Zona Franca in Chile and Colombia

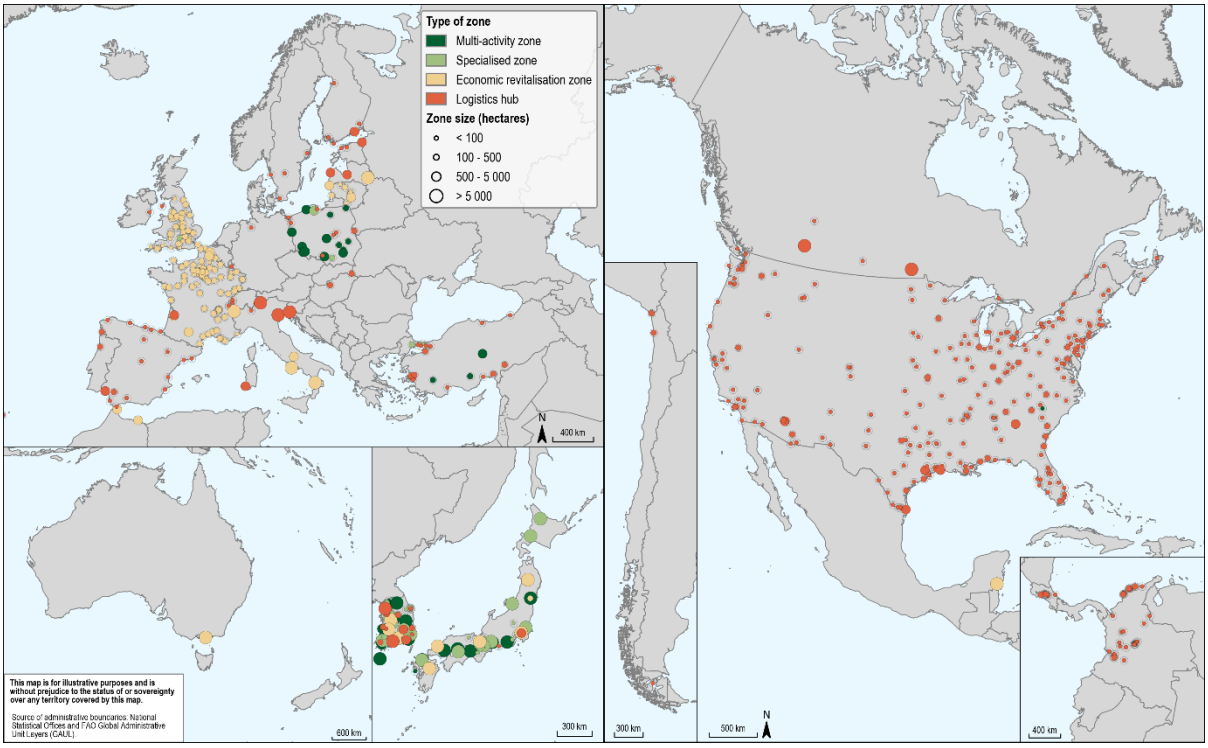
Note: The boundaries between these categories are often fluid. See Annex A for further details.
Source: Adapted from UNCTAD (2019[2]), *World Investment Report 2019: Special Economic Zones*, https://unctad.org/publication/world-investment-report-2019

Assessing the range and scope of zone-based policies across OECD countries remains challenging due to significant data limitations. Although initiatives such as those by UNCTAD have attempted to compile publicly available databases, these often lack granularity. The sheer number of zones deployed globally, combined with limited publicly available information, makes comprehensive mapping difficult. Much of the existing data relies on manual desk research and direct surveys to national authorities. This paper draws on data from the Open Zone Map by the Adrianople Group (2025[8]), one of the most comprehensive efforts to map zone-based policies worldwide. While this database is a valuable resource, it comes with important caveats. Not all zones are captured, as definitions may vary depending on the user's interpretation.

Moreover, the data may contain inaccuracies, as it is not formally validated by national authorities. However, its open-source nature allows for updates and corrections based on feedback from such authorities.

Across the OECD, the majority of zones (57%) are logistics-oriented zones, such as Free Trade Zones, Foreign Trade Zones and Export Processing Zones (Figure 3). The United States is a dominant user of these types of zones, operating more than 200 Foreign Trade Zones across the country. This likely reflects the industrialised nature of most OECD economies, where the focus is less on basic industrial development and more on facilitating trade through tariff relief and streamlined customs procedures, in support of complex cross-border supply chains (UNCTAD, 2019[2]). This sets zones in the OECD apart from those in developing countries where the emphasis is more on jumpstarting manufacturing capacity from a lower base (Rodríguez-Pose et al., 2022[7]). At the same time, a significant share of zones (23%) are economic revitalisation zones targeting distressed urban and rural areas. These programmes aim to stimulate local development and employment, with a strong concentration in Europe, particularly due to France's extensive use of *Zones Franches Urbaines* (ZFU) and *Zones France Ruralités Revitalisation* (ZFRR) located in around 100 locations. Specialised zones are less common but have been implemented in countries such as Korea and Japan, as well as select cases in Central and South America and Europe. These zones typically focus on high-technology sectors such as biotechnology, aerospace and information technology but also include examples centred on services, including tourism and finance.

Figure 3. The geography of zone-based policies in OECD countries



Note: Multi-activity zone refers to "Diversified Zone", specialised zone refers to "Specialized Economic Zone", economic revitalisation zone refers to "Economic Revitalization Project" and "Charter City", logistics hub refers to "Export Processing Zone", "Free Trade Zone" and "Foreign Trade Zone" in the Open Zone Map. The map is indicative only, as the list of zones is non-exhaustive and only includes those identified in 2021 and remain active as of June 2025.
Source: Adrianople Group (2025[8]), *Open Zone Map*, https://www.openzonemap.com/

Wider zones for broader impact?

Wide-area zones are large, integrated areas often aligned with subnational administrative boundaries (UNCTAD, 2019[2]). These zones have often been used to pilot economic reforms and has been notable in East Asia. For instance, Japan's National Strategic Special Zones are used to test deregulation and structural reforms at the subnational level, while Korea's Free Economic Zones aim to stimulate growth in less-developed regions by building fully equipped urban areas. The average size of zones in Japan and Korea is around 140 000 and 85 000 hectares, respectively, compared to the OECD average of around 30 000 hectares, based on available data.

In recent years, several OECD member countries have moved to expand the geographical scope of their zones. Latvia's Latgale Special Economic Zone, established in 2017, allows for zone designation across up to 5% of the entire Latgale planning region in eastern Latvia. Poland's Polish Investment Zone has extended SEZ-style tax incentives across the entire country with differentiated levels of public support depending on the development level of each region. Similarly, in 2024, Italy consolidated its special economic zones into a single unified zone covering the entire southern region. These developments likely reflect a shift toward using zones as broader regional development tools benefiting wider regions rather than targeting isolated pockets. In addition, when the zone size is too small, it could exacerbate displacement effects as firms in the vicinity would be incentivised to move a short distance to take advantage of the incentives, as has been documented in Federal Enterprise Zone programmes in the United States (Hanson and Rohlin, 2013[25]).

While scaling up zone size can broaden impact, it also raises several policy considerations. One key challenge is reduced visibility and branding. A larger coverage area can dilute the ability to market specific locations and highlight their comparative advantages. For example, Canada's FTZ programme, designed to apply across the entire country, struggled with marketability because it was not perceived as a defined "zone" (Ferguson and Steverango, 2013[33]). In response, Canada introduced FTZ Points – one-stop shop services in selected regions – to increase awareness (Box 1). Other challenges include increased complexity in monitoring and evaluation, as well as the risk of diluting incentives. Studies on Enterprise Zones in the United States suggest that more targeted programmes, covering smaller areas, tend to be more effective in attracting businesses and employment opportunities (Bondonio and Greenbaum, 2007[34]).

Box 1. Free Trade Zone Points in Canada

Canada adopts a distinct approach to Free Trade Zones that does not involve designating specific geographic areas for special legal or tax treatment. Instead, it offers a series of federally administered incentive programmes, including the Duty Deferral Program, the Export Distribution Centre Program and the Exporters of Processing Services Program, which are available across the country. While this model departs from the traditional definition of a zone, it nonetheless maintains a territorial element through the creation of Foreign Trade Zone (FTZ) Points.

FTZ Points act as co-ordination hubs, providing a single point of contact for businesses seeking information and guidance on accessing federal, provincial and municipal programmes. Each FTZ Point is hosted by an organisation with a mandate to promote trade and attract foreign direct investment in the region. This is most often a government-affiliated economic development agency, but may also be non-governmental organisations, such as the Vancouver Island Economic Alliance which leads the FTZ Point for Vancouver Island. These organisations are supported by an FTZ Task Force, which is typically co-ordinated by the Regional Development Agency responsible for the area and includes representatives from federal, provincial and municipal governments. The role of the FTZ Task Force is

to improve awareness and uptake of existing trade facilitation programmes and encouraging co-operation across levels of government.

Source: Government of Canada (2020[35]). Foreign Trade Zone https://www.canada.ca/en/department-finance/programs/international-trade-finance-policy/foreign-trade-zone.html#a4

3 Foundations of a successful zone-based policy

This chapter synthesises international literature on zone-based policies to draw insights into the foundational elements of creating an effective zone. In the context of regional development, success is understood as the ability of zones to generate positive spillovers by fostering strong linkages with the broader economy.

Utilise zones as part of a broader package of regional transformation

Before considering a zone-based policy, policymakers should assess whether it is the appropriate tool for the situation. Zone-based policies can be high-risk instruments (Zeng, 2021[36]), as they may involve upfront capital expenditure for zone development, foregone tax revenue and ongoing administrative, regulatory, monitoring and enforcement costs, with outcomes that remain uncertain, sometimes catalysing genuine transformation but frequently also yielding spectacular failures (Frick et al., 2019).

Given this paper's focus on regional development, it is worth asking whether such policies would be effective in regions that underperform economically. Evidence suggests that location is a key determinant of success: zones with good access to port infrastructure and proximity to large cities tend to perform better, since they benefit from deeper local labour markets and established industrial capabilities (Duranton and Venables, 2018[37]; Frick, Rodríguez-Pose and Wong, 2019[9]). This implies that zone-based policies in underperforming regions are unlikely to succeed if utilised in isolation and not part of a broader development strategy. Indeed, the very factors that explain why these regions lag – such as limited access to skilled labour, remoteness or weak industrial ecosystems – may also be the reasons why zone-based policies struggle to succeed. Whilst tax incentives or regulatory relaxations may influence firms at the margin, global evidence confirms that lavish tax holidays alone rarely compensate for existing structural weaknesses. Econometric analysis (Frick, Rodríguez-Pose and Wong, 2018[38]) and case studies (Frick and Rodríguez-Pose, 2023[39]) find no structural correlation between generous incentive packages and zone performance once other factors are accounted for. Firms may enjoy paying less tax, but they rarely set up shop in a zone that lacks good roads, power or access to markets. Ultimately what matters more is whether the region offers an attractive ecosystem and profitable business environment (OECD, 2023[40]). If a region's core challenges relate to low skills and productivity, social or environmental issues or macroeconomic imbalances, then the most effective interventions are likely to lie outside the scope of zone-based policies and instead be found in areas such as public finance, education and training (Farole, 2013[41]).

That said, zone-based policies can still play a role in lagging areas when designed as part of a broader development package. When regions face complex, multidimensional market failures – such as a dysfunctional land market that makes land unavailable, deficient industrial infrastructure that hinders agglomeration or co-ordination failures within government or between government and the private sector – single policy instruments may be insufficient. In such cases, SEZs and other zone-based policies can serve as viable options (UNCTAD, 2019[2]; Zeng, 2021[36]) to kick-start development as part of a broader

package that also includes skills development and infrastructure investment to address structural challenges. The important point is that zones alone are unlikely to transform a region's trajectory: they may at best slow decline or accelerate growth where it has already begun, but they are rarely powerful enough to effect fundamental change without more substantial policy interventions that support more durable sources of competitiveness (Hooton and Tyler, 2019[15]). Thus, zone-based policies should be viewed as one component of a wider regional development strategy rather than a standalone solution.

Some zone-based policies in OECD countries incorporate the requirement for development strategies as part of zone establishment. For example, in the United States, some State Enterprise Zone programmes require the submission of a strategic development plan aimed at co-ordinating and supporting broader community development objectives (Box 2).

Box 2. Development plan requirements in State Enterprise Zones, United States

State Enterprise Zones (EZs) in the United States are state-funded programmes designed to stimulate business development and job creation in economically distressed areas. These programmes vary considerably across states in terms of eligibility criteria, incentive structures and implementation mechanisms. Some states, such as Connecticut, require the submission of a strategic local development plan by municipalities as part of the zone designation process. This requirement aims to ensure that zone designation is aligned with broader community revitalisation goals and that incentives are deployed as part of a co-ordinated, locally driven development strategy. States have also made sure that plans are aligned with evolving economic conditions and development strategies as was the case with amendments to New Jersey's Urban Enterprise Zone, requiring the submission of renewed zone development plans (amendment PL 2021, c.197, approved in 2021).

Requiring the submission of a strategic development plan is often seen as a key feature of effective EZ policy (Wilder and Rubin, 1996[42]). The process of developing a strategy that clearly defines development goals and outlines measures to address local constraints typically brings together local business leaders, administrative officials and community representatives. This collaboration not only facilitates dialogue around business needs but also raises awareness among firms about the opportunities provided through EZ incentive programmes. Indeed, empirical evidence suggests that the strategic planning requirement in some state-level EZs has had positive effects, contributing to increased sales and capital investment (Bondonio and Greenbaum, 2007[34]). Furthermore, EZs that offered broader, quality-of-life enhancements – such as job training, housing rehabilitation, crime and drug prevention and other community support initiatives – tended to outperform their respective counties in terms of firm and job growth. These social and community investments were more strongly associated with positive outcomes than traditional tax incentives (Beck, 2001[43]).

Some zone programmes are also granted specific financial tools to implement their development plans. In the United Kingdom, for instance, zone-based policies such as Enterprise Zones, Freeports and Investment Zones are encouraged to use tax increment financing, borrowing against future revenues from local business rate retention to fund upfront infrastructure investment and support regeneration in and around the designated zones (Box 3). This may also help mitigate the problem of land value capitalisation by capturing some of the increases in property values to finance further local development. In addition, zones are eligible for seed capital from the national government to enhance the local environment and support development. Freeports, for example, may receive up to GBP 25 million in seed funding, which can be allocated to projects such as land assembly, site remediation, transport infrastructure and also towards local innovation and skills initiatives (UK Government, 2022[44]). The UK government's recent Industrial Strategy brought existing economic zones together under a shared umbrella of Industrial Strategy Zones. As part of the strategy's broader regional policy package to foster high-potential clusters

in selected growth-driving sectors, it also introduced devolved funding for Mayors, measures to unlock strategic industrial sites and initiatives to improve access to finance (UK Government, 2025[45]).

Box 3. Tax increment financing for infrastructure development in England, United Kingdom

The UK government established the enabling framework for Tax Increment Financing (TIF) powers in 2010, allowing local authorities in England to borrow against projected growth in local business taxes (known as business rates) to fund infrastructure and capital projects. Local authorities in England have long been able to borrow against their overall revenues, but not specifically against future business-rate growth as these were not retained locally.

Enterprise Zones, established in 2011 to stimulate economic growth in areas needing regeneration, were granted a key enabling measure to enable the use of TIF: the right to retain all business rates growth above an agreed baseline for 25 years, as opposed to the standard rate of 50%. This long-term ring-fenced income provided a reliable income stream to utilise TIF. Subsequent programmes, including Freeports introduced in 2021, and Investment Zones introduced in 2023, also allow full business rate retention. Whilst TIF has only been used in several sites, since business rates retention does not necessarily remove the risk that actual revenue may fall short of projections, it nonetheless provides a useful tool to finance infrastructure development.

The Birmingham Enterprise Zone offers a strong example of how TIF powers can be leveraged to support large-scale urban development. One of its flagship projects is the regeneration of Paradise in Birmingham city centre, where approximately GBP 140 million of public investment has helped unlock over GBP 700 million in private sector investment. This funding has supported the creation of high-quality office and retail space, with further phases planned to include a hotel and a residential tower. In addition to commercial development, TIF-supported projects have financed significant infrastructure improvements, including an 800-metre extension of the West Midlands Metro tram line, new road layouts and the revitalisation of streets, canals and green spaces to enhance connectivity and urban liveability.

Source: UK Government (2010[46]) *More financial freedom for local authorities* https://www.gov.uk/government/news/more-financial-freedom-for-local-authorities; Birmingham City Council (2022[47]). *Enterprise Zone Investment Plan 2022 Stratetic Update* https://www.birmingham.gov.uk/downloads/file/29408/enterprise_zone_investment_plan_2022

A particularly important structural measure for maximising the benefits of zone-based policies is fostering absorptive capacity – the stock of knowledge and capabilities that enables local workers and firms to adopt and apply new technologies. Research has shown that regions with higher absorptive capacity experience stronger positive spillovers from foreign direct investment (Wesley and Levinthal, 1990[48]). Enhancing this capacity requires a comprehensive set of business support services to help firms and workers access key strategic resources, such as skills development, financing and innovation assets, that drive productivity gains. In addition, improving the quality of local knowledge and innovation infrastructure, such as universities, research institutes, technology transfer offices, business incubators and accelerators, can further strengthen the region's ability to generate, diffuse and apply knowledge, fostering synergies across the broader economy (OECD, 2023[49]). Aligning these efforts with the industrial specialisation of a zone can further amplify their impact, helping to form clusters of complementary firms and skills. As will be discussed in the next chapter, such efforts, in turn, help to increase the attractiveness for potential investors as they are able to access skilled labour and an innovative ecosystem.

Align zone strategy with economic and structural characteristics

Assess regional economic and structural characteristics

The economic and structural characteristics of a region play a critical role in determining the type of investment it attracts. Regions with an existing competitive advantage in a particular sector or activity, stemming from factors such as industry specialisation, agglomeration economies, dedicated infrastructure, technological sophistication or specific factor endowments, are more likely to attract firms operating in related industries or segments of the same value chain that seek to leverage these assets (OECD, 2023[49]). Conversely, attracting investment in sectors or activities where the region has little or no competitive advantage is typically unrealistic, although this does not preclude efforts to diversify and upgrade along existing strengths. Indeed, unrealistic development goals, such as aiming to attract high-technology sectors in regions lacking industrial or innovation capacity have been common reasons for failing to attract investments (Duranton and Venables, 2018[37]), pointing to the need for a careful assessment of a regions' capacities. In Mexico, for example, its Economic Development Poles for Welfare apply a detailed, multi-dimensional set of location criteria to identify territories best positioned for industrial growth while safeguarding environmental sustainability and social cohesion (Box 4).

Box 4. Criteria for establishing Economic Development Poles for Wellbeing (*Polos de Desarrollo Económico para el Bienestar*) in Mexico

In May 2025, the Mexican government issued a decree to formalise the designation of Economic Development Poles for Wellbeing, following earlier designations such as the Isthmus of Tehuantepec hub in 2023. These poles effectively replace Mexico's previous territorial industrial strategy promoted through Special Economic Zones (SEZs), aiming to use tax incentives in targeted areas to stimulate local economic activity, promote diversification and support balanced regional growth, reducing reliance on traditional sectors.

Designation of a development pole can be made by the Ministry of Economy (MoE) or proposed by federal governments and approved by the MoE based on recommendations from the Inter-Secretariat Promotion Committee, an inter-ministerial body chaired by the MoE. Once designated, federal governments may establish Special Purpose Vehicles (SPVs) to administer, develop and operate the poles, with oversight from a Technical Committee including federal representatives.

When evaluating proposals, the Inter-Secretariat Promotion Committee considers ten main criteria to identify territories best suited for industrial growth while safeguarding environmental and social outcomes:

- Macro-location: Poles must be in strategic municipalities designated by the MoE.
- Connectivity: Poles should be well connected to national and international markets.
- Population: Poles should be in municipalities with sufficient population and labour supply.
- Social feasibility: Indigenous consultation must be addressed where relevant.
- Education: Poles should have access to technical or technological secondary education institutions.
- Territory: Land must be suitable for industrial activity and low-risk for natural hazards.
- Industrial feasibility: Industrial land use must be allowed and feasible.
- Sustainability: Poles should avoid protected areas and follow circular economy principles.

- Infrastructure: Access to electricity, water, telecommunications and last-mile infrastructure is required.
- Property: Land must be publicly owned, free of encumbrances and compliant with tax obligations.

Another key feature is the design of tax incentives, which aim to guide the type of investment towards encouraging skills development, innovation and industrial upgrading. Eligibility is conditioned on measures such as: entering collaboration agreements with the Ministry of Public Education for dual education programs, developing patentable inventions or innovative projects, or implementing investment projects to obtain initial industrial certification.

Source: Diario Oficial de la Federación (2025[50]) Acuerdo por el que se emiten los Lineamientos para los Polos de Desarrollo Económico para el Bienestar https://www.dof.gob.mx/nota_detalle.php?codigo=5758079&fecha=22/05/2025#gsc.tab=0; Diario oficial de la Federación (2023[51]) Decreto por el que se fomenta la inversión de los contribuyentes que realicen actividades económicas productivas al interior de los Polos de Desarrollo para el Bienestar del istmo de Tehuantepec https://sidof.segob.gob.mx/notas/5691049

Economic and structural characteristics also play a role in the extent to which investments generate spillovers and industrial upgrading. Even where firms with more advanced technologies do invest in less developed regions, the potential for knowledge diffusion or supply chain integration may be limited. If the technological gap between investors and local firms is too large, the incentives for knowledge sharing may diminish, as the costs of knowledge leaking to competitors may outweigh the benefits of local collaboration (Crescenzi, Dyèvre and Neffke, 2022[52]). Similarly, zone-based firms may rely more heavily on imported inputs if the local economy lacks the capabilities to meet their quality or specification requirements, thereby weakening potential backward linkages (opportunities for local firms to supply zone-based firms) (Belderbos, Capannelli and Fukao, 2001[53]). Meanwhile, investments by upstream firms in regions with limited human capital may result in benefits constrained to low-value added downstream activities such as assembly, offering limited potential to move up the value chain (Crescenzi and Harman, 2022[54]).

However, leveraging existing competitive advantages does not preclude regions from nurturing new forms of activity and economic diversification. Structural characteristics are not fixed; they evolve over time, often following patterns of related diversification (Suedekum, 2025[55]). Theories of economic relatedness argue that the tacit nature of knowledge makes geographic proximity critical to the evolution of technologies. As a result, regional economies tend to diversify along technological trajectories that are shaped by existing capabilities, natural endowments, institutional frameworks and production (Balland et al., 2018[56]). While attracting external investors can support diversification, it is most effective when new activities are related to the region's existing capabilities and offer scope for integration with the local economy. In this context, zone development can follow a "development ladder" that reflects the region's underlying technological and industrial capacities. Less developed regions may begin with multi-activity industrial zones that build foundational capabilities, potentially with a modest focus on sectors where the region has some latent strengths. As regions advance, they can develop more specialised zones focused on particular industries or value-chain segments and ultimately transition toward innovation hubs and logistics centres that facilitate integration into global supply chains (UNCTAD, 2019[2]). For example, the United Kingdom's Investment Zones aim to build on existing local strengths by fostering specialisation in nationally defined priority sectors, using a mix of tax reliefs and targeted support for innovation, skills and business growth.

In summary, effective zone-based policies must be rooted in a clear understanding of the region's economic and structural profile. Investors, after all, are ultimately drawn by a zone's value proposition. Time and again, what draws them most is not tax perks but the fundamentals: decent infrastructure, strategic location, efficient services and a skilled labour pool (Frick and Rodríguez-Pose, 2023[39]). In short, the best incentive is often simply a well-functioning business ecosystem. This assessment should guide the identification of high-potential sectors, inform the design of fiscal and non-fiscal incentives, support the

zone's promotion strategy and broader interventions. Such targeted design is one key lever to maximise spillovers – alongside strengthening absorptive capacity (as discussed earlier) and actively facilitating spillover channels, as explored in a later section.

Develop an investment promotion strategy

An effective investment promotion strategy is essential for maximising the benefits of zone-based policies. In particular, promotion efforts can be geared toward attracting economic activities with high potential for knowledge diffusion and local spillovers. Academic research highlights the advantages of targeted investment promotion over general, broad-based approaches (Charlton and Davis, 2007[57]). Targeting enables limited resources to be focused on selected investors and allows support services to be tailored to their specific needs, increasing the likelihood of securing investment (OECD, 2024[58]). In practice, zone authorities and operators can collaborate with investment promotion agencies (IPAs) to identify high-potential target segments and develop targeted investment promotion and facilitation packages. Moreover, vertical co-ordination between levels of government will be essential to ensure effective collaboration. National promotion can focus on country-level image building, while subnational promotion can highlight specific regional and local assets and tailor strategies to local needs (Crescenzi, Di Cataldo and Giua, 2021[59]).

Identifying which sectors, value-chain segments or firms to prioritise in promotion activities should be guided by a clear understanding of the zone's objectives and an assessment of the region's economic and structural characteristics. Importantly, not all types of investment yield equal spillover potential. The literature on FDI spillovers offers valuable insights. For example, firms operating in technologically advanced industries or those with highly integrated global value chains tend to rely on pre-existing global suppliers and may source less from local firms, particularly if domestic capabilities are lacking (Frick and Rodríguez-Pose, 2021[14]). By contrast, foreign firms that invest to serve the domestic market, rather than solely for export purposes, are more likely to source inputs locally and integrate into the regional economy.

Another strategic consideration is to move beyond a narrow focus on manufacturing, which has historically dominated zones, especially in developing countries (UNCTAD, 2019[2]), even if tax incentives have traditionally favoured manufacturing. FDI trends increasingly point to a shift toward services and service-related components of manufacturing, highlighting the growing opportunities in services (UNCTAD, 2024[60]). Furthermore, job creation in certain manufacturing sectors that have seen growth in recent years is significantly low. Between 2019 and 2023, greenfield investments in sectors such as renewable energy and semiconductors generated only around 250 to 350 jobs per million USD invested across the OECD – substantially lower than the 7 000 jobs per million USD created in business services (OECD, n.d.[61]). Additionally, manufacturing may offer limited employment opportunities for women, who remain underrepresented in the sector in many regions (Korinek, Moïsé and Tange, 2021[62]). This is particularly relevant in places like rural Japan, where regions are striving to retain youth and women by fostering a business environment that is more inclusive and responsive to their needs (Ishiba, 2024[63]).

4 Incentive architecture

Building on strong foundations, the next step is to design the incentive architecture of the zone. This section synthesises the literature on fiscal and non-fiscal instruments deployed in zone-based policies and draws on examples from across the OECD. These experiences help to shed light on how different incentive designs may reduce displacement effects and support wider spillovers.

Fiscal incentives should not be the central value proposition

Fiscal incentives are among the most widely used tools for attracting investment in zone-based policies. While the specific incentives vary across programmes, the most common include exemptions or reductions in corporate income tax (CIT), customs duties, value-added tax (VAT), property tax, payroll taxes and social security contributions (UNCTAD, 2019[2]). These measures are typically designed to lower the cost of doing business within the zone, thereby enhancing its attractiveness to investors.

Evidence suggests that fiscal incentives alone are insufficient to explain the performance of zones. Several studies have found only a weak relationship between the provision of tax incentives and the growth of employment, exports, investments and overall business activity within zones (Farole, 2011[64]; Frick, Rodríguez-Pose and Wong, 2019[9]). One reason may be the increasing convergence in incentive packages across zones, which has reduced their ability to differentiate themselves in a competitive global investment landscape. Although some variation in fiscal incentives remains, these differences are often marginal and unlikely to decisively influence investment decisions (UNCTAD, 2019[2]).

In addition, progress in implementing the global minimum tax framework targeting large multinational enterprises may further constrain the effectiveness of tax-based incentives. These reforms mark a significant step away from the "race to the bottom" in corporate tax rates and, if fully implemented, are expected to reduce the appeal of aggressive fiscal competition through tax reductions and tax holidays (UNCTAD, 2023[65]).

It is also worth considering that the firms least likely to generate spillover effects may, in fact, be the most responsive to tax incentives. For example, research on tax incentives and FDI suggests that firms aiming to exploit local assets – such as natural resources, domestic markets, or local know-how and technology – tend to be less sensitive to tax incentives than firms seeking to take advantage of lower production costs for export purposes (IMF, OECD, UN, World Bank, 2015[66]). As noted earlier, export-oriented firms are generally found to source fewer local inputs, which are a key channel for generating spillovers.

At the same time, it is essential to acknowledge the costs associated with tax incentives. These can create distortions by redirecting capital to less productive locations and encouraging rent-seeking behaviour in addition to their fiscal costs. Preferential customs treatment, such as duty-free import of intermediate goods in Foreign Trade Zones, can also reduce the competitiveness of local firms as potential suppliers to zone-based firms, thereby weakening firm linkages and generating negative spillovers (Frick and Rodríguez-Pose, 2021[14]). While some degree of distortion is inherent to zone-based policies, given their aim to improve the relative attractiveness of specific areas, such trade-offs must be carefully weighed. For example, the European Union administers special economic zones under its State Aid framework, requiring transparency and limiting approval to clearly justified cases (Box 5).

Box 5. Free Zones and Special Economic Zones under EU State Aid rules

The general principle underlying economic policy in the European Union is to ensure a level playing field across the single market, rather than to establish privileged zones. Nonetheless, incentives may be granted to support regional development, particularly in disadvantaged or high-unemployment areas. In this context, Free Zones and Special Economic Zones within the EU are governed by the Union Customs Code and EU State aid rules (Karakas, Stamegna and Zachariadis, 2020[67]). These rules require that incentives be limited to what is strictly necessary to achieve regional development objectives, granted in a transparent manner and used to address clearly defined market failures. They also emphasise that discretion in the allocation of incentives should be minimised and that overlapping support from different levels of government for the same purpose should be avoided (European Commission, 2023[68]).

Due to these stringent requirements, zone-based policies remain relatively uncommon in the EU. Most Member States operate either no SEZs or only customs-free zones, which are typically small areas located at ports or airports where goods from outside the EU can be brought in free of import duties and other charges (UNCTAD, 2019[2]). As of 2023, there are around 70 such customs-free zones in operation (European Commission, 2025[69]). SEZs aimed at broader regional development objectives are rare and tend to be found in Central and Eastern European countries such as Lithuania and Poland where such programmes were often introduced prior to EU accession, as well as in Italy, which launched its SEZ framework in 2017. Nevertheless, recent amendments to the 2024 guidelines on regional state aid signal a growing EU willingness to support regional development, particularly in the context of investments in critical and emerging technologies (European Commission, 2024[70]).

To mitigate long-term inefficiencies, it is also good practice to establish sunset clauses or clear exit criteria, helping ensure that fiscal incentives remain targeted and temporary (OECD, 2023[71]; Baquie et al., 2025[72]). While comprehensive data on sunset clauses in zones remains limited, recent studies suggest their use in SEZs is increasing in the broader context of industrial policies, albeit still low at only 45% of regionally targeted industrial policies (EBRD, 2024[13]). In practice, many zone-based programmes have seen extensions beyond their initial expiry dates, underscoring the importance of embedding exit strategies into zone design from the outset.

Taken together, these findings suggest that fiscal incentives should not be the central value proposition of zone-based policies. Instead, zones are more likely to succeed when embedded in a broader package of reforms aimed at improving the overall regional business environment. In addition, zones should strengthen non-tax attractiveness measures such as streamlined administrative procedures, infrastructure provision and skills development. By focusing on these broader enablers of competitiveness, zones can provide a more sustainable and compelling offer to investors beyond tax relief alone.

Fiscal incentives should be carefully designed to maximise spillover effects

When fiscal incentives are used, they should be designed to encourage additional economic activity and align with regional development objectives, while aiming to minimise distortive effects. Although there is limited empirical and comparative analysis on the design features of incentives within zone-based policies (Chaudhary and Potter, 2019[73]), global experience with industrial support measures offers several initial insights. For instance, expenditure-based incentives – such as tax credits and allowances – are generally preferred over income-based incentives such as tax exemptions, as they are more likely to induce additional investment. Incentive schemes should also be structured to minimise windfall gains for existing firms and avoid discriminatory provisions based on local content or the nationality of the investor. Zone-

based policies may benefit from including provisions that discourage the relocation of existing activity, in order to ensure that support is directed towards genuinely additive investments. Sectoral eligibility criteria should be consistent with the zone's development strategy (see previous chapter). Additionally, performance requirements may help ensure that supported investments contribute meaningfully to regional development goals, though such requirements should remain proportionate so as not to deter investment and remain easy to administer, noting that one study found no significant effects from job creation and investment thresholds. These considerations are discussed in greater detail below.

Instrument choice

Whilst a systematic overview of the use of incentives in zone-based programmes is not available, corporate income tax incentives are among the most commonly employed fiscal tools. According to a survey of OECD countries, a significant majority (86%) reported offering CIT incentives to stimulate business activity. Among those that do, expenditure-based CIT incentives – such as tax credits and allowances – are more frequently used than income-based CIT incentives, such as reduced rates or exemption (OECD, 2024[58]).

Expenditure-based incentives, such as investment tax credits, are often considered more effective, as they directly reduce the marginal cost of capital, thereby encouraging new investment. They also allow for more transparent monitoring of how public support is used (IMF, OECD, UN, World Bank, 2015[66]). In contrast, income-based incentives, such as tax holidays, which lower the tax rate on taxable income, are of limited value to firms with low or no profits, a common situation in the early years of operation. Furthermore, tax holidays may deter long-term investment, which typically yields greater spillover benefits, as profits often begin to accrue only after the tax holiday has ended (Akinci and Crittle, 2008[3]). Although not an OECD member, China's experience as a major adopter of zone-based policies is instructive. Its early SEZs relied heavily on broad tax concessions, which attracted primarily low value-added firms while discouraging higher value-added investment. Over time, China adjusted its approach by narrowing the scope of eligible sectors and emphasising tax rebates for research and development (R&D) spending, thereby encouraging more innovative firms (Crescenzi and Harman, 2022[54]).

Applicability to existing firms

Zone-based policies generally aim to achieve additionality, encouraging genuinely new business activity that would not have taken place without policy intervention. In this context, policymakers should seek to avoid granting windfall gains to existing firms that do not generate additional investment, yet still benefit from tax relief. For instance, State Enterprise Zones in California, United States, allowed firms to retroactively claim hiring credits, creating opportunities for windfall gains. Zone managers who focused on marketing these retroactive credits to existing firms were found to create fewer jobs (Kolko and Neumark, 2010[27])[2]. Similarly, an evaluation of the *Zones Franches Urbaines* in France found no employment gains among existing firms that were eligible for incentives simply based on size and not on whether they made new investments (Givord, Rathelot and Sillard, 2013[24]).

Some zone-based policies include provisions to discourage the relocation of existing activity in favour of genuinely additional investment. For example, Costa Rica's Free Trade Zone regime excludes projects involving investments that have already been made outside the zone, or that stem from subsidiaries already benefitting from zone status (Costa Rica, Law No. 7210 on the Free Zone Regime, Art. 1). The Enhanced Enterprise Zone in Missouri, United States, similarly requires projects that relocate employees within the state to obtain the endorsement of the governing body of the community from which the jobs are being moved (Missouri Department of Economic Development, n.d.[74]). While such provisions may help limit relocations, they can also increase the administrative burden associated with monitoring, processing and enforcement.

Another policy dimension concerns eligibility restrictions based on investor origin, with some schemes aiming to attract foreign direct investment by targeting only foreign firms. However, a survey of investment incentives across OECD countries suggests that such discrimination is rare. More than three-quarters of countries do not differentiate between foreign and domestic investors in terms of eligibility (OECD, 2024[58]). Limiting incentives to foreign investors risks displacing domestic investment and may also encourage domestic firms to reroute their capital through foreign entities in order to qualify for tax benefits.

Sector eligibility

Zone-based policies can be designed to target specific sectors by defining the eligibility criteria of their incentive packages. Although a comprehensive global assessment is not yet available, there appears to be a prevailing tendency for such zones to focus on manufacturing activities. This trend is particularly evident in developing countries (UNCTAD, 2019[2]). For example, in a sample of 553 zone-based policies – including Export Processing Zones, Free Trade Zones and Special Economic Zones – across 51 countries, mainly in the developing world, 70% were manufacturing-oriented, less than 1% were services-oriented and 30% were classified as mixed (Wong and Buba, 2017[75]). There are also signs of a manufacturing emphasis in OECD countries. While not limited to zone-based policies, broader investment incentives show that 66% of OECD countries offer at least one incentive for the renewable energy sector. Similarly, 57% provide incentives for the battery and electric vehicle industry, and 51% offer support for the semiconductor sector. These figures reflect a strategic focus on the green and digital transitions (OECD, 2024[58]). Meanwhile, specialised zones, comprising 8% of the dataset, tend to be more services-oriented, with focuses in information technology, finance and tourism.

As noted earlier, sector orientation is a key consideration in shaping a zone development strategy. Targeting specific sectors can help contain the fiscal cost of tax incentives by limiting benefits to projects that are deemed most in need or most likely to generate social and economic spillovers. However, as with industrial policy more broadly, sector targeting also carries risks. It can lead to a misallocation of resources by channelling support to less productive sectors at the expense of more dynamic ones (IMF, OECD, UN, World Bank, 2015[66]). As will be discussed in the following sections, these considerations underscore the importance of effective monitoring and evaluation mechanisms to assess the costs and benefits of zone-based policies. They also highlight the need for clearly defined exit strategies to avoid rent-seeking behaviour and for integrating zone-based initiatives within a broader package of structural reforms that are more likely to generate lasting impact (Baquie et al., 2025[76]).

Performance requirements

Zone-based policies often condition financial incentives on quantitative thresholds, such as the amount of investment or the number of jobs created. In fact, such performance-based criteria are widely used in incentive programmes in general: most OECD countries (83%) have at least one incentive programme that applies quantitative thresholds (OECD, 2024[58]). Examples of zone-based policies with minimum investment requirements include Colombia's Zona Franca, Free Economic Zones in Lithuania and the Polish Investment Zone (see Annex A).

Investment size requirements can help reduce administrative costs for governments. Since processing applications and monitoring compliance with zone-based policies can be resource-intensive, there is some rationale for restricting incentives to larger investments that are more likely to generate significant positive spillover effects. However, setting high investment thresholds may inadvertently exclude smaller businesses and innovative startups (IMF, OECD, UN, World Bank, 2015[66]). To address this, some zones apply differentiated thresholds based on firm size – for example, Colombia's *Zona Franca* adjusts investment requirements to encourage SME participation. Another limitation of investment-based criteria is that they may encourage firms to substitute labour with capital, reducing employment gains. If job

creation is a policy priority, linking incentives to employment indicators may be more appropriate (Bondonio and Engberg, 2000[77]).

Performance requirements can also help ensure that zone-based policies support broader national and regional development objectives. For instance, the Polish Investment Zone assesses eligibility for fiscal incentives using a combination of quantitative and qualitative criteria, including co-operation with local suppliers, investment in social amenities such as crèches and partnerships with vocational schools to enhance workforce skills (Box 6).

Box 6. Qualitative performance requirements in the Polish Investment Zone

In 2018, Poland adopted the New Investment Support Act, which renewed the country's approach to its Special Economic Zone programme that had been in place since the 1990s. The reform introduced the Polish Investment Zone, which effectively extended SEZ-style tax incentives across the entire country. Under this new framework, the level of tax exemption varies by location, with more generous support available in less-developed areas to encourage more balanced regional investment.

Eligibility for tax incentives is determined through a combination of quantitative and qualitative criteria. The quantitative requirements set minimum investment thresholds, which vary depending on the regional unemployment rate (lower thresholds apply in more disadvantaged areas) and the size of the firm (with lower thresholds for small and medium-sized enterprises). The qualitative criteria are designed to align investment with broader social and economic development objectives. These include co-operation with local suppliers, investment in social amenities such as crèches and partnerships with vocational schools to support workforce skills development (Table 3

The extent to which these requirements will lead to meaningful outcomes remains to be seen, particularly as the previous SEZ regime remains in operation until the end of 2026, which complicates evaluation. The effectiveness of the new approach is likely to depend on several factors, including the administrative capacity and costs involved in assessing and monitoring compliance, whether the criteria are sufficiently binding to influence the type of investment attracted and whether they remain flexible enough to avoid deterring potential investors.

Table 3). Firms must meet several of these qualitative conditions in order to qualify for support, with a lower point threshold required in lagging regions that benefit from higher public aid intensity.

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Table 3. Qualitative criteria for receiving tax incentives in the Polish Investment Zone

Industrial Investments	Service investments	Points
Sustainable economic development (max 8 points)		
Investments in national strategic sectors, in line with national development policy		1
Conducting research and development activities		1
Social support measures (e.g. creating an on-site crèche, covering educational expenses of employees' children)		1
Co-operation with local suppliers		1

Robotics and process automation (e.g. purchase of an industrial robot)		1
Investment in renewable energy sources		1
Status as a micro, small or medium-sized enterprise		1
Participation in key national clusters	N/a	1
Sustainable social development (max 5 points)		
Creation of specialised jobs with employment security	Creation of well-paid jobs with employment security	1
Economic activity with low negative environmental impact		1
Investments located in lagging areas		1
Co-operation with vocational schools to support skills development of employees		1
Participation in employee assistance programmes		1

Note: The minimum number of total points required depends on the location of the investment. 4 points is required in regions that have been designated as receiving a public aid intensity of 50% (least developed); a minimum of 5 points for areas with public aid intensity of 40%; and 6 points for areas with public aid intensity of 15-35%. At least 1 point must be obtained under both the sustainable economic development and sustainable social development criteria.
Source: PAIH (n.d.[78]); Colliers International, PAIH and EY (2018[79])

That said, evidence on the impact of performance requirements remains limited. It is unclear whether such conditions deter investment or succeed in attracting higher-quality investments and greater job creation. More broadly, there is limited analysis of how differences in zone design affect outcomes. Nonetheless, a general principle, based on global experience, points to the negative impact of excessively restrictive performance requirements (Akinci and Crittle, 2008[3]). Meanwhile, one of the few empirical studies on the topic – focused on Enterprise Zones in the United States – found that conditioning incentives on job creation and investment thresholds had no significant effect on local employment (Bondonio and Engberg, 2000[77]). This may reflect a combination of gains from new firm attraction and offsetting losses from displacement of existing business activity outside the zone (Greenbaum and Engberg, 2004[28]). These findings underscore the importance of designing policies that foster strong linkages between zone firms and the broader regional economy to maximise spillover benefits.

Local hiring requirements

To help maximise benefits for the local labour market, some zone-based policies require or encourage firms to recruit from nearby communities.[3] For example, certain State Enterprise Zones in the United States provide wage credits for companies that employ workers living in designated areas. The *Zones Franches Urbaines – Territoires Entrepreneurs* (ZFU-TE) in France, meanwhile, offer fiscal incentives on the condition that at least 50% of employees are local residents. While these measures aim to boost employment for nearby workers, restrictive requirements may also make it more difficult for firms to operate in the zone.

Evidence suggests that local hiring conditions do not necessarily lead to greater employment for nearby people. A survey of numerous studies points out that schemes without such conditions are just as likely to generate jobs for the local population (What Works Centre for Local Economic Growth, 2018[80]). This may be because the conditions were not strong enough to affect firms' decisions – companies may have hired local workers regardless or incentives may have been too weak to influence their choices. Although more stringent requirements might produce greater benefits for nearby workers, there is a risk that they could undermine job creation altogether. In some cases, such conditions may simply lead to substitution, with firms replacing workers from outside the eligible area with those inside it, resulting in little net employment gain. Instead, policies that aim to ease underlying barriers to employment, such as skills training and education, may be more effective than rigid conditions (Alexianu et al., 2019[81]).

Enhance non-fiscal attractiveness measures

As fiscal incentives have become increasingly standardised across countries, their effectiveness as a source of competitive advantage has diminished. Surveys of investors and investment promotion agencies have often noted that factors such as the availability of a skilled workforce and robust infrastructure influence investment decisions more than tax incentives (Lise and Toledano, 2022[82]; OECD, 2024[58]). Moreover, the long-term success of zone-based policies depends more on sustained commercial viability than on short-term tax relief. It is therefore essential to strengthen broader economic fundamentals – for example through the provision of quality infrastructure, land assembly, effective investor servicing, access to skilled labour and targeted regulatory easing, each of which plays a critical role in enhancing the overall competitiveness of the region.

Infrastructure and land provision

Infrastructure and land provision is one of the key tools used to promote and support zone-based policies. This is particularly true for customs-free zones located near ports, as well as manufacturing-oriented zones, where infrastructure such as storage facilities, warehouses and utilities (e.g. electricity, fuel, water, and telecommunications) plays a critical role in attracting investment. In contrast, Enterprise Zone programmes, typically found in high-income countries, tend to be less focused on trade facilitation and manufacturing, and often rely more on fiscal or regulatory incentives than on dedicated infrastructure. While the extent to which infrastructure provision is used as a promotional tool varies, data from 115 countries (mostly developing) show that fewer than 20% of Special Economic Zone laws make infrastructure provision a legal requirement (UNCTAD, 2019[2]). However, this may understate actual practice, as infrastructure may be provided outside formal requirements or by private actors, particularly in privately managed or public-private partnership models. Whilst less common, some zone-based policies may also provide social amenities such as educational institutions, hospitals and recreation facilities to entice investors, such as in Costa Rica's Free Trade Zone regime (Box 7). Korea's Free Economic Zones also offer a wide range of amenities, including international schools, medical facilities, theme parks and shopping malls (Free Economic Zone Planning Office, 2020[83]).

Box 7. Infrastructure and skills development in Costa Rica's Free Trade Zones

Costa Rica's Free Trade Zones have been a critical driver of the country's success in attracting foreign direct investment. In 2024, Costa Rica ranked third globally in fDi Intelligence's Greenfield FDI Performance Index, which measures the relative number of greenfield investment projects in relation to the size of the economy (fDi Intelligence, 2024[84]). The FTZ regime plays a major role in this performance, accounting for around 60% of Costa Rica's FDI inflows in 2023 (Procomer, 2024[85]). One notable example is the Coyol Free Zone, which ranked fourth globally in fDi Intelligence's Free Zones of the Year 2024 awards (fDi Intelligence, 2024[86]). The rankings, based on expert evaluations, recognise zones for their capacity to attract FDI, foster innovative companies across sectors, advance toward net-zero emission goals and strengthen governance and transparency to build trust with stakeholders.

In addition to fiscal incentives, the strength of Costa Rica's Free Trade Zones lies particularly in their access to specialised human capital and high-quality infrastructure, which are further reinforced by the country's strategic location and legal and political stability. The Free Trade Zone Law (Law No. 7210) requires zone administrators to provide community-oriented infrastructure, including facilities such as children's centres and recreational areas. Furthermore, companies operating under the regime outside the Greater Metropolitan Area are encouraged to invest in public infrastructure and human capital with

such expenditures eligible for tax deductions under the FTZ framework. These investments can include infrastructure such as roads, bridges, sewage systems, drinking water supply, telecommunications lines and community care centres, as well as training expenditures to upskill workers. To complement these efforts, Procomer, the country's export promotion agency, offers a Human Talent Development Program that co-finances training and upskilling activities for employees in FTZ companies. In parallel, national ministries co-ordinate with FTZ stakeholders to improve public infrastructure near zones, such as airports and major roadways, reinforcing the attractiveness of FTZs as investment destinations.

While many zones may provide infrastructure to support their operations, they can differentiate themselves through the quality and type of infrastructure offered. For example, whilst industrial land, basic public utilities and warehouse facilities may be a defining factor in developing countries where infrastructure gaps are larger, more developed countries may distinguish themselves with the provision of specialised, value-added infrastructure such as those related to services sectors or R&D activities (Farole, 2013[41]). Examples include digital infrastructure solutions such as cloud storage capabilities and onsite data management systems example, which cater to the needs of knowledge-intensive industries (OECD, 2023[87]; UNCTAD, 2019[2]).

Investor servicing

Effective operation of zone-based programmes often depends on resolving practical, everyday issues that may otherwise hinder business activity, such as excessive bureaucracy or unclear procedures. Surveys of IPAs consistently highlight that investors value operational and administrative support (UNCTAD, 2019[2]; World Bank Group, 2020[88]; OECD, 2023[89]). High-quality investor servicing plays a vital role before, during and after a business establishes itself in a zone.

In the investment generation phase, zone authorities and operators may work in close co-ordination with IPAs to provide potential investors with clear information about the zone's benefits, eligibility criteria, site selection support and access to relevant economic data. Responsive communication is also essential for addressing initial investor queries. Evidence suggests that IPAs with well-designed websites offering transparent and credible information are more successful in attracting significant foreign investment (Harding and Javorcik, 2012[90]). For instance, the Polish Investment and Trade Agency provides an interactive online map that locates available land within Special Economic Zones, along with details on infrastructure and transport access.

During the investment process, support may include streamlining administrative procedures and establishing one-stop shops or single points of contact for processing investment incentives and regulatory permits. These measures can significantly reduce the time and cost of doing business. For example, the Klaipėda Free Economic Zone in Lithuania emphasises "rapid launch" as a core value proposition. It offers comprehensive consulting through a one-stop shop, including assistance with business case development, mediation with government entities for permits, support in obtaining work and residence permits for employees and guidance on business support schemes and financing options. In addition, it provides flexible manufacturing facilities that can be adapted to the individual needs of the client in less than 1 to 2 months. This fast-track setup approach has been highlighted as a leading example of non-financial incentives (fDi Intelligence, 2024[91]). In Italy, the Special Economic Zone of Southern Italy highlights "single authorisation" as one of its incentives. offering to conclude administrative procedures, including environmental impact assessments and building permits, within a maximum of 60 days (Presidency of the Council of Ministers, 2025[92]).

Ongoing investor support after business operations have begun is equally important. Retaining investors increases the likelihood of deeper integration into the local economy, for example through higher levels of local sourcing (Frick and Rodríguez-Pose, 2021[14]). Addressing operational issues or grievances quickly is essential to prevent investor disengagement or exit. Furthermore, zone authorities and IPAs can

collaborate to provide tailored, sector-specific advice to investors, including support for partnerships with firms inside and outside the zone and with local universities, to enable business growth and innovation. These aspects will be explored in greater detail in the following sections.

Access to skilled labour

The availability of a skilled labour force is a crucial factor influencing investment decisions. For instance, a survey of subnational investment promotion agencies across OECD countries found that a highly educated workforce combined with active R&D engagement was ranked as the top attractor for foreign direct investment (OECD, 2023[89]). Beyond general regional skills development initiatives, zone-based policies can take a more proactive role in facilitating investor access to qualified workers. This may include assisting with recruitment and training, forming partnerships with local educational and training institutions and offering customised workforce development programmes and incentives. A notable example is the Łódź Special Economic Zone in Poland, which established a vocational school specifically tailored to meet the needs of its investors (Box 8).

Box 8. Vocational training in Łódź Special Economic Zone, Poland

Established in 1997, the Łódź Special Economic Zone is one of 14 such zones in Poland located in central Poland. Recognising the future demand for specialised skills among investors and companies operating within the zone, the Łódź Special Economic Zone, in partnership with the Łódź University of Technology and local investors, founded the Technical School of Automation and Robotics in 2018. The school offers a unique vocational education curriculum focused on automation, robotics and cybersecurity, providing students with practical knowledge in these high-demand fields.

The unique collaboration between investors and educational institutions ensures that the curriculum aligns closely with the needs of businesses in the region. Students benefit from hands-on learning opportunities in well-equipped laboratories at the Łódź University of Technology, which feature specialised equipment including 3D printers and robots. Additionally, practical training takes place directly at investors' factories, where students can gain valuable real-world experience through apprenticeships and internships with companies in the special economic zone.

Source: Intereg Europe (2021[93]). *Technical School of Automation and Robotics in Łódź* https://www.interregeurope.eu/good-practices/technical-school-of-automation-and-robotics-in-lodz; OECD (2025[94]). *Rethinking Regional Attractiveness of Łódzkie, Poland* https://www.oecd.org/content/dam/oecd/en/about/programmes/cfe/rethinking-regional-attractiveness/rethinking-regional-attractiveness-of-lodzkie-poland-en.pdf

Regulatory incentives

Zone-based policies can also offer relaxations in regulatory to accelerate business activity. The relaxation of zoning, planning and construction regulations can expedite the process of setting up in zones. For example, local authorities hosting Freeports and Investment Zones in the United Kingdom are encouraged to make use of targeted planning tools such as Local Development Orders, which accelerate and de-risk the planning process for businesses by effectively pre-approving certain types of development. Recent plans aim to also grant England Mayors with Mayoral Development Orders to further speed up planning processes in large-scale applications (UK Government, 2024[95]). Korean Free Economic Zones offer relaxation of labour laws such as broadening the type of work and terms of temporary workers, and exemptions from planning restrictions such as the ability to develop land and facilities without adhering to certain urban planning rules in the Seoul Metropolitan Area (Invest Korea, 2021[96]).

Looser regulation does not necessarily equate to weaker environmental standards or poorer labour conditions – issues that have often raised concerns about zone-based approaches (UNCTAD, 2019[2]). Instead, zones can serve as policy laboratories, allowing governments to test deregulatory measures that may later be scaled up nationally. This experimental approach can be particularly useful in contexts where political resistance from vested interests makes nationwide reform difficult. In such cases, governments may lack the political capital to implement broad reforms, making zone-based pilots a pragmatic alternative (Zeng, 2016[4]). For example, zones can host regulatory sandboxes, which create temporary exemptions from specific regulations under the supervision of relevant authorities. These sandboxes are especially attractive to firms in heavily regulated sectors, such as financial services, as they enable innovative business models, such as FinTech start-ups, to be tested in a controlled environment (OECD, 2023[87]). In this regard, Japan's zone policies, such as the National Strategic Special Zones, are notable for placing deregulation at the core of their value proposition (Box **9**)

Box 9. Deregulation as a regional policy tool in National Strategic Special Zones, Japan

Since the early 2000s, the Japanese government has launched several zone-based programmes aimed at promoting deregulation and structural reform. These include the Special Zones for Structural Reform (2002), the Comprehensive Special Economic Zones (2011) and most recently the National Strategic Special Zones (NSSZ) introduced in 2013. While each programme has a distinct focus and set of incentives, they share a common objective of using geographically targeted deregulation to overcome resistance from vested interests and to test reforms that may eventually be expanded nationwide (Wurmnest, 2016[97]). Notably, they are applied at the level of entire jurisdictions such as cities or prefectures rather than to narrowly defined geographic enclaves within them, marking a departure from conventional zone-based policies.

The NSSZ initiative is designed to remove long-standing structural barriers and create "the most business-friendly environment in the world." The designation process consists of two main stages. First, anyone can propose ideas for regulatory exemptions, which are reviewed by experts and considered by a national advisory council. If accepted, relevant laws or regulations are amended to establish the special provisions. Second, specific business projects can apply to use these exemptions within designated zones, following co-ordination between national, prefectural and local stakeholders. A management body oversees implementation, and a monitoring process assesses whether the reforms should be scaled up. As of June 2025, over 60 types of deregulation have been introduced through the NSSZ framework and applied in more than 500 cases across the country (Headquarters for the Promotion of Regional Revitalisation, 2025[98]). One notable example is the exemption from the legal requirement to install a front desk in accommodation facilities located in historic buildings, such as traditional townhouses, provided certain safety measures are in place. This enabled the reuse of vacant properties, helped meet growing demand from domestic and international tourists, and contributed to local revitalisation. The measure was later adopted as a nationwide reform. Another example is the introduction of a one-stop approval process in the Tokyo Special Zone for multiple urban development and planning procedures, including land readjustment, zoning changes and redevelopment projects. This has facilitated the implementation of major urban development initiatives in the capital.

While the NSSZ initiative primarily aims to enhance national-level competitiveness, it also supports regional development through its bottom-up approach. Proposals for zone establishment and deregulation are typically initiated by local governments in response to regional business needs. "Special Zone Experts" are stationed within prefectural governments to gather proposals, co-ordinate with local firms and liaise with national ministries. This framework enables local actors to address the specific regulatory constraints that hinder regional economic growth.

5 Fostering spillovers and ensuring effective governance

With strong foundations and a carefully designed incentive architecture in place, the final step is effective implementation. This involves fostering spillovers beyond the zone, ensuring co-ordinated governance among stakeholders and establishing robust monitoring and evaluation mechanisms.

Foster business interactions within and beyond the zone

From a regional development perspective, the objective of zone-based policies is not only to attract investment and generate employment within the zone but also to maximise wider socio-economic benefits by fostering spillovers into the surrounding economy. In addition to direct impacts such as foreign direct investment, zones can contribute to indirect benefits including increased income and employment outside the zone through supplier linkages, the circulation of wages in local markets and the diffusion of technology and managerial know-how that can stimulate industrial upgrading and diversification (UNCTAD, 2019[2]).

However, such spillovers are not automatic. Without deliberate action, zones can easily become enclaves. Surveys of SEZ firms in Africa and Asia reveal that the majority import most of their inputs, citing a lack of competitive local suppliers (Frick and Rodríguez-Pose, 2021[14]). Local firms outside the zones face a structural disadvantage when preferential customs treatment for zone-based firms makes imported inputs cheaper than those supplied domestically, as is often the case in Foreign Trade Zones.

Spillovers and interaction with the local economy depend heavily on the active facilitation of connections between firms operating within the zone and those located outside it. Spillover channels include business linkages, labour mobility, competition and imitation. Active programmes to connect zone firms with domestic suppliers are therefore indispensable if zones are to spread benefits beyond their fences. The impact on the local economy can be enhanced through targeted interventions such as supplier development programmes, investor networking forums and business matchmaking events. For instance, supplier development programmes can provide coaching on quality control, help firms meet international standards and improve their readiness to integrate into global value chains led by multinationals (Box 10).

In addition, zone-based programmes may include incentives for local sourcing, such as local content requirements, to further strengthen backward linkages with domestic firms. Yet these efforts must be supported by broader policies aimed at increasing the absorptive capacity of the local economy. Measures such as technical training, skills upgrading and support for innovation are essential to ensure that local firms are equipped to benefit from knowledge transfers and partnership opportunities. Without such capacity, the potential benefits of new investment may not materialise (Kimura and Flood, 2025[32]).

Promoting spillovers is not only a development imperative but can also enhance the attractiveness of zones for investors. Investors' location decisions depend on factors such as local talent, supplier networks and overall ecosystem quality, with firms often seeking opportunities to integrate into dynamic local ecosystems (OECD, 2023[49]). Programmes that connect investors to local talent, suppliers and innovation networks, such as incubators, can contribute to a more compelling business environment.

Box 10. Creating linkages between multinationals and local firms

Business matching in Costa Rica's Free Trade Zones

Procomer, Costa Rica's investment and export promotion agency, plays a proactive role in fostering linkages between multinational enterprises (MNEs), including but not limited to those operating under the Free Trade Zone regime, and domestic suppliers. Local suppliers can register with Procomer to be included in a supplier catalogue, which is consulted when a buyer expresses specific sourcing needs. From the buyer's perspective, MNEs can submit procurement requests to Procomer, which then proposes potential domestic partners that meet the specified criteria. In addition to its matchmaking services, Procomer organises an annual business conference that brings together export-oriented firms and local suppliers to explore potential commercial partnerships. In its two most recent editions, the conference facilitated participation by over 450 multinational and exporting firms, 1 500 domestic suppliers and generated more than USD 12 million in business deals (Procomer, 2025[99]).

A survey of over 100 domestic firms supplying MNEs identified key challenges in forming linkages, including a lack of trust in local suppliers and difficulties in making initial contact (Alfaro-Ureña, Manelici and Vásquez, 2019[100]). Although only a minority of business relationships were found to be facilitated through Procomer – possibly reflecting selection bias, as firms that successfully established linkages may be inherently more capable or better resourced than the average domestic firm – the agency nonetheless plays an important role in bridging information and credibility gaps. Procomer is often perceived as a reliable intermediary with strong connections to MNEs, which enhances its ability to support domestic firms in accessing global value chains.

Supplier development programmes to develop a semiconductor ecosystem in Kyushu, Japan

The case of Kyushu in western Japan shows how zone-based policies can form part of a broader industrial policy. The region aims to revive its semiconductor industry, recalling its success in the 1980s when it produced nearly 10% of the world's semiconductors and earned the nickname "Silicon Island" (Yamasaki, 2003[101]). This renewal has been driven by substantial private investment, notably from TSMC, the world's largest contract semiconductor manufacturer, which announced new plants in Kyushu in 2021.

Whilst national subsidies have helped attract investment, subnational governments have also played an active role in strengthening the business environment. Some prefectures have used the National Strategic Special Zone to ease regulations. Kumamoto Prefecture, where TSMC's new factory is based, offers simplified and expedited visas for skilled workers and a one-stop shop to support demonstration projects in fields such as autonomous vehicles, drones and IoT (Kumamoto Prefecture, 2025[102]).

To make the most of these opportunities, the region is helping local firms connect to the semiconductor supply chain. Fukuoka Prefecture, for example, established a re-skilling centre in 2023 to help small and medium enterprises develop the skills to become suppliers to multinational producers. The Kyushu Bureau of Economy, Trade and Industry also set up a consortium to bring together businesses, academia and government across the region to match firms and foster education in the sector. Regional banks and prefectural-level supplier development initiatives have further support building linkages between buyers and suppliers (Bank of Japan Fukuoka Branch, 2023[103]).

Ensure co-ordinated governance and oversight

Co-ordination among public and private actors

Establishing, operating and developing zones requires co-ordination among multiple public and private actors. At the national level, governments typically provide the enabling environment by enacting framework laws, adopting individual zone legislation or integrating zone provisions into broader regulatory frameworks. These instruments define the core features of zones, including their objectives, governance structures, incentive regimes and regulatory exemptions. A dedicated public authority is commonly tasked with oversight functions such as strategic planning, regulatory enforcement and performance monitoring. Meanwhile, the day-to-day development and management of zones, including land acquisition, infrastructure provision, investment promotion and administrative services, may be carried out through public, private or public-private partnership (PPP) models (UNCTAD, 2019[2]). Research on this topic generally finds no inherent performance gap between privately-run and publicly-run zones (Frick, Rodríguez-Pose and Wong, 2018[38]). Success appears to depend more on context and competent management than on who leads the zone.

Public management models involve the government establishing and operating the zone through a state-owned developer or authority. Public models enable strong public oversight and are well-suited when zone objectives go beyond commercial profit to include broader socio-economic goals, such as industrial upgrading, employment generation or regional equity. These models often demand substantial upfront public investment and a capable, flexible public administration to respond effectively to investor needs. They have been commonly used in East Asia, for example in South Korea, where strong developmental states could co-ordinate infrastructure, regulation and policy. Public models are also evident in enterprise zone programs in countries such as France, the United States and the United Kingdom which rely more on tax incentives than on large-scale dedicated infrastructure to revitalise lagging regions.

In private models, private developers own or lease land, develop infrastructure and are responsible for managing and attracting investment. Private models mobilise private capital and leverage the management expertise of private developers, often offering greater operational flexibility and responsiveness to market demands. However, they may prioritise short-term returns and high-value tenants over inclusiveness, environmental standards or long-term development objectives. These models gained traction in Latin America from the late 1980s onward, often in response to constrained public finances and underperformance of publicly run zones (Farole, 2011[64]). For example, while Costa Rica's Free Trade Zone regime does not prescribe a governance model, many of its zones, such as the Coyol Free Zone and the Metropolitan Free Trade Zone, are operated by private companies that are responsible for constructing, managing and developing the zone.

PPP models represent a hybrid approach, combining public oversight with private sector efficiency, and can take various forms depending on the allocation of responsibilities, risks and returns. These may include joint ventures between public agencies and private developers, or arrangements such as concessions, leases or performance-based service contracts, where the private sector is granted specific rights to develop or operate the zone while the state retains ownership and regulatory authority (Mangal, 2019[104]). PPP models aim to strike a balance by retaining public oversight while capitalising on private sector efficiency and investment. However, they require stable regulatory and contractual environments to incentivise long-term investment, particularly in the case of capital-intensive concessions. Moreover, joint ventures can face co-ordination challenges if roles and responsibilities are not clearly delineated, especially in weak institutional settings (Mangal, 2019[104]). For example, Chile's Zona Franca operates under a hybrid model where private zone operators are granted the right to manage and develop the zone under a limited-time concession agreement, such that the government retains ownership of the zones and defines the rules and limits of private operations.

The appropriate institutional set-up for zones is context dependent. Institutional arrangements for zone-based policies must juggle both public sector inertia and private sector short-termism, with optimal models remaining context-specific. Empirical studies suggest that there is no systematic relationship between the type of zone operator – public, private or hybrid – and zone performance (Farole, 2011[64]; Frick, Rodríguez-Pose and Wong, 2019[9]). Instead, the effectiveness of a given model depends on a range of factors, including the type of zone, the overarching policy objectives, the risk appetite of private investors and the institutional and regulatory capacity of the public sector. That said, as a general principle, zone-based programmes should aim to leverage private finance and expertise where feasible, particularly the private sector's deep understanding of market demand, operational efficiency and investor servicing (Akinci and Crittle, 2008[3]; Zeng, 2021[36]). In practice, public–private partnerships can marry private efficiency with public purpose, but they require skilful co-ordination since they involve multiple stakeholders.

Co-ordination among and across levels of government

The national government plays a critical role in the co-ordination of zone-based programmes, extending beyond the establishment of enabling legal frameworks. It typically oversees the entire programme by engaging in strategic planning, enforcing regulations and conducting monitoring and evaluation. National-level leadership is particularly important in setting and applying transparent, objective criteria for the designation of zones, helping to prevent territorial disputes. The importance of such co-ordination was evident in Southern Italy, where the existence of eight fragmented SEZs across the territory led to tensions over coverage and perceived inequities (Pigliucci, 2019[105]). In response, the zones were eventually consolidated into a single, unified SEZ covering the entire southern region.

Subnational governments can play a pivotal role in zone-based programmes. Regional and local authorities often possess detailed knowledge of local conditions, such as land availability, utility infrastructure and investment gaps, and are well placed to foster spillovers and linkages with local firms and training institutions (UNCTAD, 2019[2]). Moreover, they can effectively promote local assets through subnational investment promotion, complementing national efforts that may be better placed to focus on broader country-level image building (Crescenzi, Di Cataldo and Giua, 2021[59]). For example, in the United Kingdom, local governments take a leading role in the governance of Freeports. Each Freeport is overseen by a Freeport Board, established through a local partnership involving councils, businesses and other key stakeholders. One of the local authorities is designated as the Accountable Body, responsible for managing public funds and ensuring the effective operation of the Freeport Board. This Board defines the Freeport's development strategy, including its approach to workforce skills, innovation and measures to minimise displacement, using both seed funding from the national government and revenue from retained business rates (Box 3). Meanwhile, in Latgale, Latvia, the Latgale Planning Region has played a central role in guiding the development of its Special Economic Zone. While the national government sets the overall legal framework, the Latgale Planning Region Development Council supervises the SEZ Authority, approving development plans and budgets, and leading investor outreach by preparing promotional materials and marketing the zone internationally. These efforts have successfully attracted investment in high-tech sectors such as electronics and optical products, supporting the region's diversification beyond its traditional strengths in textiles and wood processing (OECD, 2025[106]).

Horizontal co-ordination among neighbouring local and regional governments is also important when establishing zones. While zones can attract investment and improve infrastructure, they may also cause displacement effects, with businesses or workers relocating from adjacent areas. To manage these dynamics, joint planning bodies or co-operative frameworks can help align infrastructure, land use and economic development strategies across local boundaries. Public consultations and hearings should also be extended beyond the host jurisdiction to include neighbouring areas that may be indirectly affected. Engaging a broader set of stakeholders can help surface potential concerns early, foster regional support and reduce resistance linked to fears of displacement or uneven benefits (Lane and Liu, 2022[107]).

Monitoring and Evaluation

The true cost of zone-based policies extends beyond fiscal metrics to include uneven spatial development patterns, political capital expended on failed initiatives and the opportunity cost of alternative development strategies foregone. In addition, the cost encompasses the risk of illicit activity, foregone tax revenues, initial public investments, operational costs, regulatory enforcement and potential environmental impacts. These factors underscore the necessity for transparent and consistent monitoring and evaluation to assess value for money. Monitoring should provide regular data on zone performance and implementation progress, while evaluation should go further, assessing whether observed outcomes are truly additional, controlling for counterfactual effects, and undertaken over an appropriate time horizon, enabling policymakers to utilise zone-based policies as 'policy laboratories' for testing innovative ideas and gaining insights into what works and what does not (Alexianu et al., 2019[81]).

While many zones report short-term output indicators – such as the number of firms established, employment figures within the zone and volumes of foreign direct investment – there is a paucity of systematic evaluation on their medium and long-term impacts, such that capture additionality and spillovers. Few countries have implemented comprehensive processes for monitoring and evaluating zone performance (UNCTAD, 2019[2]). The United Kingdom's Freeport programme stands as a notable exception, with plans to implement a thorough national government monitoring and evaluation strategy. This strategy aims to monitor progress across various metrics, including input indicators like the number of new tax sites established, as well as evaluate short-term outputs, medium-term outcomes and long-term impact measures (Box 11).

Box 11. Monitoring, evaluation and accountability in the Freeports programme, United Kingdom

The implementation and evaluation of the UK Freeports programme is reported regularly to Parliament through a Programme Update Report. The UK Government has outlined an evaluation framework based on HM Treasury's Magenta Book, which provides best-practice guidance for designing and conducting policy evaluations.

A central component of the evaluation strategy is the development of a Theory of Change, a logic model that maps out the causal pathway from inputs and activities to outputs, outcomes and ultimately impacts. This model includes an assessment of underlying assumptions and external risks that could influence results. This model helps identify the key indicators to monitor and the causal mechanisms to test.

Although individual Freeports may conduct their own local evaluations at their discretion, the national government retains primary responsibility for monitoring and impact evaluation. This evaluation draws on data collected by the Freeports themselves, interviews with stakeholders and additional data sources. Impact evaluations may employ both qualitative and quantitative methods, that include quasi-experimental approaches, such as difference-in-differences analysis, to estimate the causal effects of the programme. In addition, the evaluation will assess the value for money of the Freeports initiative by comparing its costs with its anticipated benefits.

To strengthen local monitoring and accountability, recent guidance recommends that Freeport boards include representatives from trade unions. Boards will also be required to publish the minutes of all

meetings and hold at least one public meeting each year, enhancing transparency and fostering greater community engagement in decision-making.

Source: House of Commons (2021[108]). *UK Freeports: Government Response to the Committee's Fourth Report of Session 2019–21* https://committees.parliament.uk/publications/6439/documents/70313/default/; UK Government (2022[109]). *Freeports programme monitoring and evaluation strategy* *https://www.gov.uk/government/publications/freeports-monitoring-and-evaluation-strategy/freeports-programme-monitoring-and-evaluation-strategy*; UK Government (2025[45]), *Industrial Strategy Zones Action Plan* https://www.gov.uk/government/publications/industrial-strategy-zones-action-plan/industrial-strategy-zones-action-plan; UK Government (2025[110]), *UK Freeports Programme Report 2025* https://www.gov.uk/government/publications/uk-freeports-programme-report-2025

Zones must also be monitored for illicit activity. The simplified customs procedures and relaxed regulation of some zones can be exploited by criminal networks to engage in activities like trade in counterfeit and pirated goods, smuggling and money laundering (OECD/EUIPO, 2018[111]). To address these challenges, the OECD has developed a voluntary Code of Conduct for Clean Free Trade Zones, aiming to enhance transparency and deter illicit trade within FTZs. Complementing this, the OECD introduced a Certification Scheme, to assess and monitor FTZs' compliance with the Code of Conduct, promoting best practices in governance and signalling a commitment to lawful trade (Box 12). It also offers a valuable benchmark for promoting good monitoring and oversight on one hand, and transparency and compliance in zone operations on the other.

Box 12. Tackling illicit trade in Free Trade Zones

Free Trade Zones offer substantial economic benefits by facilitating trade through advantageous tariffs and lighter regulations on financing, ownership, labour and immigration and taxes, helping many countries, especially emerging economies, attract foreign investment, generate jobs and stimulate growth. However, these same reduced-customs conditions can create opportunities for illicit trade, as criminal networks exploit supervisory gaps to smuggle or divert illicit products, produce counterfeit or contraband goods, transit illicit goods and conduct illicit services, with OECD analysis showing that insufficient monitoring, oversight and transparency in many FTZs enables the movement, storage and smuggling of illicit goods.

To address this issue, the OECD Recommendation on Countering Illicit Trade: Enhancing Transparency in Free Trade Zones ("the Recommendation") was developed to support transparency in FTZs and is framed as part of the broader effort to counter illicit trade. The Recommendation was adopted by the OECD Council on 21 October 2019.

The Recommendation includes provisions aimed at governments to implement legal frameworks that empower competent authorities to monitor the activities conducted in zones. It further calls on governments to encourage FTZs to adopt and implement a voluntary Code of Conduct for Clean Free Trade Zones set out in the Annex to the Recommendation. The goal of the latter is to ensure the impact of the Recommendation and promote transparency in an effective manner, so that FTZs conduct oversight of their economic operators and co-operate with competent public authorities. The assessment of the Zones compliance with the Code of Conduct for Clean Free Trade Zones is done by a certification scheme, developed under the mandate of the OECD Working Party on Countering Illicit Trade (WP-CIT).

The Certification Scheme is currently in its pilot phase, being tested to assess its effectiveness and ensure its criteria are practical and impactful. The first certification was awarded to Barcelona Free Trade Zone, marking a significant milestone in promoting transparency and compliance in FTZs.

Ongoing work with Costa Rican and Colombian free trade zones highlight the scheme's suitability for well-governed, high-tech industrial zones. Costa Rica's FTZs, which specialise in state-of-the-art high-tech and biotech manufacturing, already uphold strong governance standards, making them prime candidates for certification. The pilot phase has shown that the OECD framework is well-fit for purpose, even for large-scale certifications in complex, high-value industries.

Source: OECD (2019[112]). *Recommendation of the Council on Countering Illicit Trade: Enhancing Transparency in Free Trade Zones* https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0454; OECD (2018[113]) *Governance Frameworks to Counter Illicit Trade*, https://doi.org/10.1787/9789264291652-en; OECD/EUIPO (2018[114]) *Why Do Countries Export Fakes?: The Role of Governance Frameworks, Enforcement and Socio-economic Factors,* https://doi.org/10.1787/9789264302464-en; OECD/EUIPO (2018[111]) *Trade in Counterfeit Goods and Free Trade Zones: Evidence from Recent Trends,* https://doi.org/10.1787/9789264289550-en

6 Policy lessons

Since the establishment of the modern industrial zone in Shannon, Ireland in 1959, zone-based policies for industrial and regional development have proliferated across the globe. While a complete understanding of what makes such zones successful remains elusive – owing to their diverse forms and the relative scarcity of empirical studies examining their specific design features – decades of international experience offer valuable insights. This chapter distils key policy lessons and general principles for the effective design and implementation of zone-based strategies.

- **Utilise zones as a part of a broader package of regional transformation**: Zone-based policies are not a cure-all for regional development challenges, but they can act as a catalyst to deliver long-term benefits when implemented as part of a comprehensive reform strategy. This broader package should aim to enhance the region's underlying competitiveness and strengthen its absorptive capacity through measures such as investments in skills development and infrastructure, facilitating knowledge transfer and improving access to finance. Some initiatives, such as State Enterprise Zones in the United States, explicitly integrate regional development plans into their zone proposals. In the United Kingdom, zone policies have at times leveraged expected increases in business taxes to finance infrastructure development and fund skills development within and around the zone, supporting the development of the region. This approach may also help address land value capitalisation, using some of the resulting property value increases to fund additional local development.
- **Align zone strategy with local economic strengths**: The type of business activity a zone aims to attract may differ from what it can realistically secure. For instance, expecting to draw high-technology sectors to upgrade the local economy is likely unrealistic if the region lacks the necessary foundations such as a skilled workforce, dedicated infrastructure and a robust knowledge ecosystem linking educational institutions and businesses. Moreover, not all investments offer the same potential for local spillovers. When the technological gap between a new firm and the host economy is too large, opportunities for supplier linkages – key channels for knowledge transfer – are limited. Research has shown again and again that attempts to use zones to leapfrog into high-tech sectors often disappoint if the local fundamentals are not in place (Rodríguez-Pose et al., 2022[7]). Zones work best when they amplify a region's existing comparative advantages, rather than chase elusive 'next big things' unsupported by the local skill base. To design zones that successfully foster business development, especially in sectors with strong spillover potential, policymakers must first conduct a thorough assessment of the region's competitive advantages and its capacity to absorb and benefit from knowledge transfers. Depending on the technical capacity and resources available to policymakers, these assessments could range from broad economic and social indicators of a region's attractiveness to targeted measures that assess absorptive capacity and more complex analyses such as economic relatedness (Box 13).

Box 13. Assessing regional investment potential through relevant indicators

A region's first step in assessing its ability to attract business activity can begin with broad economic and social indicators that allow for cross-country and interregional comparisons. For example, the OECD Territorial Attractiveness Compass offers detailed geographic-level (TL3) data across up to 50 indicators that reflect a region's appeal to talent, investors and tourists (Seunga Ryu et al., 2024[115]) Infrastructure-related factors, such as the presence of higher education institutions, fast digital connectivity and efficient rail or air transport networks, are particularly important, as they have been shown to influence inward investment decisions (OECD, 2023[40]). By benchmarking their performance in these areas, regions can identify strengths and weaknesses in their investment environment and target development efforts accordingly.

In addition to assessing the potential to attract new investments, regions should also consider their capacity to absorb knowledge from these investments once in place. This 'absorptive capacity' is shaped by factors such as workforce skills, local firm capabilities, and innovation networks and can be assessed using subnational indicators compiled by the OECD (2023[49]). Monitoring these factors can help regions better position themselves to benefit from knowledge spillovers and innovation diffusion.

For a deeper analysis of a region's technological capabilities and its potential to diversify into new sectors, indicators based on economic relatedness can offer valuable insights. Economic relatedness reflects the diversity and sophistication of a region's productive capabilities, often using patent and export data as proxies. By exploiting statistical patterns, one can further infer which sectors a region is most likely to transition into successfully. The EU Joint Research Centre, for instance, provides guidance on producing regional-level predictions of which specific products a region may be well-positioned to export in the coming five years (Diodato et al., 2024[116]).

- **Fiscal incentives should not be the central value proposition of zones**: Global experience with zone-based policies suggests that fiscal incentives, such as tax reductions, play only a marginal role in attracting new business activity. This may be partly due to increasing convergence in incentive packages across zones, which reduces their ability to differentiate themselves. This trend should be further reinforced by the OECD's global minimum corporate tax framework, which aims to limit excessive tax competition to attract large multinational firms. Moreover, even when tax incentives do influence investment decisions, they may attract firms primarily interested in minimising costs rather than integrating with the local economy, making them less likely to source locally, a key channel for generating knowledge spillovers and broader regional benefits. In addition, preferential customs treatment can further weaken local sourcing incentives by making domestic suppliers less competitive, thereby diluting potential spillovers.
- **Fiscal incentives should be carefully designed to maximise spillover effects**: Fiscal incentives can play a role in supporting zone-based policies, but they should be carefully designed to encourage new investment and support regional development goals. Global experience suggests that expenditure-based incentives, such as tax credits and allowances, are generally preferred over income-based incentives such as tax exemptions, as they induce additional investment. Provisions can also be included to discourage the relocation of existing businesses, limit eligibility to sectors that align with the zone's development strategy and introduce performance requirements to ensure supported investments contribute meaningfully to regional objectives, such as is the case with Poland's Investment Zone. However, evidence on the effectiveness of such requirements remains limited. Moreover, such conditions should not be so restrictive that they deter investment and policymakers must have sufficient capacity to assess and monitor compliance

effectively. Finally, tax incentives should have clearly defined exit strategies to avoid rent-seeking behaviour.

- **Enhance non-fiscal attractiveness measures**: The most successful zones compete on business ecosystems, not on tax rates. The long-term success of zone-based policies relies more on sustained commercial viability than on short-term tax relief. Alongside the provision of basic infrastructure, such as electricity and water, zones can offer more targeted infrastructure to attract specific sectors. For example, on-site data management systems may appeal to knowledge-intensive industries. Investor services also play a key role by providing information, facilitating entry into the zone and addressing grievances to help retain investment. Developing a skilled workforce tailored to the needs of key sectors can further strengthen the zone's value proposition. For instance, the Łódź Special Economic Zone in Poland operates a vocational school designed to meet the specific demands of its investors. In addition, zones could offer regulatory flexibility to support innovation, as seen in Japan's National Strategic Special Zones, where a controlled policy environment allows for testing and advancing new business models.
- **Foster business interactions within and beyond the zone**: Fostering spillovers requires deliberate institutional architecture, as passive hope that proximity will breed integration has been repeatedly disappointed across both developing and developed contexts. Implementing targeted initiatives such as supplier development programmes, investor networking forums and business matchmaking events can deliver on this front. For example, Costa Rica's national investment promotion agency supports linkages between local suppliers and firms operating in Free Trade Zones by maintaining a supplier catalogue and recommending relevant local companies to producers. Such measures can also enhance the attractiveness of zones for investors seeking to integrate into dynamic local ecosystems.
- **Ensure co-ordinated governance and oversight**: Zone-based policies should actively leverage private sector expertise, such as insights into market demand and operational efficiency, either directly through private operating models or indirectly via public-private partnerships and stakeholder consultations. Effective co-ordination across different levels of government is also essential to mitigate potential relocation effects and to ensure that zone design and operation reflect detailed knowledge of local conditions, including land availability and utility infrastructure. In addition, systematic evaluations of the zones' impact on host economies are necessary to support evidence-based decision making. This includes identifying and monitoring indicators that capture the socio-economic and environmental short-term outputs and evaluate long-term impacts on the regions surrounding the zones, including additionality and spillovers, similar to what is intended for the UK Freeports programme. Zones must also be monitored to tackle illicit trade in line with the OECD Recommendation on Countering Illicit Trade. The OECD Certification Scheme for Free Trade Zones further provides a structured approach to evaluate zone governance.

Zone-based policies will not miraculously transform a region on their own. But if grounded in local reality, embedded in wider development efforts, and executed with strategic finesse, they can become catalysts for the kind of investment and innovation that leave a lasting mark beyond the zone's borders.

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Notes

[1] For a review of the literature, see for example UNCTAD (2019[2]) and Zeng (2016[4]) for Special Economic Zones and Hooton and Tyler (2019[15]), Chaudhary and Potter (2019[73]) and Sutherland (2025[144]) for Enterprise zones.

[2] California's Enterprise Zone programme terminated in 2013.

[3] A related measure is the use of local content requirements, which oblige firms to source a certain proportion of their inputs from nearby suppliers. While the extent to which these are used in incentives for zone-based policies is unclear, in general, local content requirements have been found to raise production costs and deter investment (Stone, Messent and Flaig, 2015[146]; OECD, 2015[145]).

Annex A. Examples of zone-based policies in OECD member countries

Country	Name	Objectives	Fiscal incentives	Other incentives	Requirements	Zone operator	Notes and references
Canada	Foreign Trade Zone Point (FTZP)	• Promote local trade and attract foreign direct investment	• FTZPs co-ordinate access to federal programs that provide import duty deferral and relief, export-related duty relief and exemptions from the Goods and Services Tax.	• FTZPs also co-ordinate access to region specific support programmes such as mentoring and financial advice	• N/a	• Public model (FTZ Task Force co-ordinated by the Regional Development Agency and represented by Federal departments)	• While federal incentives are available nationwide and not geographically confined, FTZPs retain a territorial dimension by serving as single points of contact within specific regions. • See Government of Canada (2020[117])
Chile	Zona Franca	• Trade facilitation and stimulating business activity	Common incentives among zones include: • Exemption from corporate tax • Exemption from custom duties	• Infrastructure provision	• N/a	• PPP (Private zone operators granted public concession)	• There are three zones in Chile (Iquique, Punta Arenas and Arica). • See ZonAustral (2013[118]) and ZOFRI (n.d.[119])
Colombia	Zona Franca	• Employment generation, enhancing competitiveness, investment attraction, creating economies of scale and trade facilitation	• Income tax reductions • Exemption from custom duties • VAT exemptions on goods purchased from the national customs territory	• Infrastructure provision	• Investment and employment requirements, which depend on firm size	• Public/private (The user operator is a legal entity authorised to direct, manage, supervise, promote, and develop zones).	• Colombia also operates a Single Company/Special Permanent Free Trade Zone Regime where companies can establish a zone anywhere in the country, pursuant to certain investment and employment requirements • See Republic of Colombia (2005[120]) and Invest in Colombia (2024[121])
Costa Rica	Free Trade Zone	• Encourage direct foreign investment,	• Exemption from custom duties	• Infrastructure provision (e.g. Ministry of Public	• Eligible sectors: Firms must produce goods or	• Private model: Zones operated by	• Investments outside the GAM may count

		exports, and the development and dynamisation of the country's economy	• Temporary exemptions on income tax, with longer exemption periods for firms located outside the Greater Metropolitan Area (GAM). • Exemption from capital and net-assets tax, real-estate transfer tax, and certain land taxes for specified periods • Exemption from sales and consumption taxes on purchases of goods and services • Exemption from all municipal taxes and fees for a limited period. • A wage subsidy/bonus may be granted to firms setting up in less-developed areas	Works and Transport priorities the improvement of airports, roads, streets and communications in the vicinity of zones) • Education facilities for families of the employees • Recreational facilities • One-stop shop for administrative procedures	provide services destined mainly for export or re-export. • Minimum investment requirement of at least USD 150 000 • Additionality: Investment projects must not correspond to investments made outside the zone nor made by subsidiaries of companies that already benefit from the zone regime	private administrators. The Costa Rican Foreign Trade Promoter (PROCOMER) oversees compliance with the law)	expenditures in public infrastructure or human-capital development toward meeting eligibility thresholds. • See PROCOMER (2025[122]) and La Procuraduría General de la República (1990[123])
Latvia	Special Economic Zone (SEZ)	• Trade facilitation, industrial development, export promotion, investment attraction and job creation.	• Exemptions on indirect taxes (customs duty, natural resources tax, excise duty and value-added tax) • Tax relief on direct taxes (corporate income tax and real estate tax) up to specified ceilings linked to eligible investments. Local governments can provide additional real estate tax relief.	Depends on the zone authority. • E.g. administrative support such as for legal, finance, site selection and staffing. • E.g. organisation of events such as seminars and training.	• N/a	• Public model (public zone authority)	• There are five SEZs in Latvia (Latgale, Liepāja and Rēzekne SEZ, Riga and Ventspils Free Port). • See ESPON (2020[124]) and Latvian Government (2001[125])
Lithuania	Free Economic Zones (FEZ)	• Industrial development, regional and national business environment improvement.	• Exemptions on corporate profit tax • Exemptions from dividend tax • Exemptions from real estate tax	• Administrative support (e.g. legal, finance, site selection, staffing) • Infrastructure provision	• Minimum investment requirements	• PPP model (the zone administration company includes members appointed by the council of the municipality and government representatives)	• There are seven FEZs in Lithuania (Akmenė, Kaunas, Kėdainiai, Klaipėda, Marijampolė, Panevėžy and Šiauliai). • See ESPON (2020[124]) and Invest Lithuania (2025[126])
France	Zones Franches	• Promote economic	• Corporate income tax	• Increased subsidies from	• Eligibility based on	• Public model (Local	• The Zones de Revitalisation

	Urbaines-Territoires Entrepreneurs (ZFU-TE) and Zones France Ruralités Revitalisation (ZFRR)	development in disadvantaged areas	exemption for new businesses • Exemptions from business property tax and property tax on built properties for new businesses (ZFRR) • Exemptions from social security contributions (ZFRR)	national government to local government (ZFRR)	firm size (e.g. less than 50 employees for ZFU and less than 11 for ZFRR regarding corporate tax exemptions). • One half of employees must be residents (ZFU) • At least 25% of turnover from customers within zone (ZFU)	government)	Rurale (ZRR) was replaced by the ZFRR in 2024. • Zone programmes have been extended multiple times. The current ZFU is valid until end-2025 whilst the ZFRR is valid until end-2029. • See French Republic (2025[127]; 2025[128])
Italy	ZES Unica	• Promote economic development and competitiveness in the southern regions of Italy	• Investment tax credits for the purchase of new capital goods, land, and buildings used for entrepreneurial activities within the zone, up to the maximum intensities allowed by the EU Regional Aid Map.	• Digital one-stop shop to handle all administrative procedures through an online portal • Single authorisation procedure replacing multiple sectoral permits	• Minimum investment requirement of EUR 200 000	• Public model (The Steering Committee, an inter-ministerial council chaired by Minister for the South and Cohesion Policies, directs, co-ordinates, supervises and monitors the zone. The SEZ Mission Structure, established at the Presidency of the Council of Ministers, provides technical, administrative, and co-ordination support)	• Italian Government (2023[129])
Japan	National Strategic Special Zone	• Boost international competitiveness of industry and promoting the creation of centres of international economic activity	• Tax credits or special depreciation on capital investment • Corporate income tax relief for new businesses • Personal income tax deductions for investors investing in startups within zone • Capital gains tax deferral for land transfers	• Deregulation and structural reform	• N/a	• Public model (National, prefectural and local governments)	• Since the 2000s, Japan has introduced three types of special zones: the Special Zone for Structural Reform, the Comprehensive Special Economic Zone, and the National Strategic Special Zone. While each varies in focus and specific incentives, all are underpinned by a common aim of advancing

							deregulation and structural reform. • See Cabinet Office (n.d.[130])
Mexico	Economic Development Poles for Welfare	• Reduce economic inequalities; boost sustainable economic growth; an engine for social transformation; and a generator of jobs and social welfare in various regions of the country,	• 100% income tax deductions on investments in fixed assets until 2030 • 25% income tax deductions for incremental training or innovation expenses until 2030.	• Depends on the developer of the zone	• A collaboration agreement with the Ministry of Public Education to provide dual education; or conduct innovative activies (e.g. developing patentable inventions); or investment project for obtaining an initial certification	• PPP model The Federal governments creates a Special Purpose Vehicle to administer, develop and operate the development poles, with participation from the Federal Government to monitor and control its functions	• See Diario Oficial de la Federación (2025[131]; 2025[132])
Poland	Polish Investment Zone	• Investment attraction and support for entrepreneurship and innovation, with a focus on less-developed areas and SMEs.	• Differential intensity of corporate tax and personal income tax exemptions based on regional aid map. • Tax relief on capital investments	Business support measures differ by zone. Examples include: • Subsidised training • Acceleration programmes • Innovation hubs • Skills supply through provision of specialist education	• Minimum investment requirements, which differ depending on the unemployment rate of the area and the size of the firm. • Qualitative requirements (e.g. compatibility with regional development strategy, pursual of R&D activity) • Sector eligibility excludes those according to EU State-aid rules	• Public model (publicly owned companies acts as the area administrator)	• Poland adopted a law in 2018 to create the Polish Investment Zone which essentially expanded previous zones to the entire country. Existing zones remain operational until end-2026. • See ESPON (2020[124]) and Polish Investment and Trade Agency (n.d.[133])
Korea	Free Economic Zone	• Improve the business and living environment for foreign-invested firms and to actively attract foreign investment in the country	• Exemptions from import tariffs for limited period • Exemptions from acquisition tax for limited period • Exemptions from property tax for limited period • Cash grants for construction of production, education and	• Relaxation on labour laws • Relaxation on spatial planning acts • Easier access to foreign exchange transactions	• Cash grants subject to assessment of the impact on national/regional development (e.g. technology transfer, scale of job creation)	• Public model	• See Invest Korea (2021[96])

			research facilities and infrastructure • Rent reduction				
United Kingdom	Industrial Strategy Zones (Investment zones and Freeports)	• Create investible sites and places; landing investment and supporting local business to invest; growing clusters and supporting local growth	• Stamp duty land tax relief for limited period • Business rates relief for limited period • Enhanced capital allowances for investment in plant, machinery, and structures and buildings for limited period • Employee national insurance contributions relief for new employees for limited period • Exemptions from custom duties in Freeports	• Simplified customs procedures in Freeports. • Co-ordinated support from central and local government on skills, investment promotion, innovation, planning and infrastructure. • Access to collaborative networks.	• N/a	• Freeports follow a PPP model, led by Freeport boards which is a local partnership involving councils, businesses and other key stakeholders. • Investment Zones follow a public model. led by Mayors, such as Mayoral Strategic Authorities in England, in collaboration with local stakeholders	• As of June 2025, there are 22 Industrial Strategy Zones across the United Kingdom: 10 Investment Zones, 9 Freeports and 3 with both (UK Government, 2025[45]). Fiscal incentives are provided within customs sites and special tax sites. • See UK Government (2025[134]) for Freeports • See UK Government (2025[135]) for Investment Zones
United Kingdom	Enterprise Zone	• Stimulating economic growth in places that had missed out on economic growth	• Business rates relief for limited period and/or enhanced capital allowances for investment in plant and machinery for limited period.	• Co-ordinated support from central and local government on skills, investment promotion, innovation, planning and infrastructure.	• N/a	• In England, Enterprise Zones follow a PPP model led by Local Enterprise Partnerships, a private sector led partnership with participation from local authorities • Wales, Scotland and Northern Ireland follow a public model, led by the respective devolved governments	• Since the last wave of zone establishments in 2016, the government has no plans to extend the Enterprise Zone programme. • There are 48 Enterprise Zones in England (UK Government, 2024[136]) 8 in Wales (Welsh Government, n.d.[137]), 4 Enterprise Areas in Scotland (Scottish Government, 2016[138]) and 1 in Northern Ireland (Causeway Coast & Glens Council, 2025[139])
United States	State Enterprise Zone (EZ)	For example, in the Texas EZ: • encourage private investment and job creation in economically	For example, in the Texas EZ: • Tax refund on the state sales and use tax. Local governments may also choose to offer refunds for local sales and use tax.	For example, in the Texas EZ: • Preference for state or federal job-training and community-development funds to projects in	For example, in the Texas EZ: • Minimum investment requirements • Employ a certain percentage of	For example, in the Texas EZ: • Public (The Texas Economic Development Bank administers and monitors the programme)	• See Texas Government Code (1993[140])

		distressed areas of the state	• Reduced rates for services by public utilities • Exemptions or reductions on local fees or taxes	enterprise zones. • Local governments may grant regulatory relief (e.g., streamlined permitting, waivers of certain development ordinances) as part of their local incentive package.	economically disadvantaged individuals, zone residents or veterans. • Applications must outline job creation and retention targets,		
United States	Foreign Trade Zone (FTZ)	• Stimulate economic growth and development in manufacturing by encouraging companies to maintain and expand their operations in the United States.	• Deferral of customs duties while goods remain in the zone. • Exemption from duties on re-exported goods or on components used in exports. • Ability to elect the lower duty rate on finished products ("inverted tariff") when eligible.	• Streamlined customs procedures. • Flexible inventory management. • Leasable storage/distribution space with access to various modes of transportation.	• N/a	• PPP model. the Foreign-Trade Zones Board (chaired by the US Secretaries of Commerce and Treasury) grants authority to a "grantee" (public or private) to establish and operate a zone as a public utility. The U.S. Customs and Border Protection's Port Director oversees daily zone activity as the Board's local representative.	• There are 261 approved FTZs in the United States. • See US Customs and Border Protection (2024[141]) and United States Government (1934[142])

Note: The list of zone-based programmes is non-exhaustive. Unless otherwise specified, the number of zones reflects information publicly available as of December 2025.
Source: Based on sources cited in "Notes and references" column.

Annex B. Selected literature regarding zone-based policies

Authors	Country/region	Impact	Factors of success/failure	Research method
Ambroziak and Hartwell (2017[16])	14 SEZs in Poland	• SEZs in less developed regions attracted more inward investment per company. • Meanwhile, no significant increase in the number of firms, suggesting that SEZs benefited a few large firms rather than fostering broad-based business growth.	• SEZs may be more effective when targeted at less developed regions. • The limited spillover effects in terms of firm number growth suggests the need for public intervention to encourage linkages with local business.	Difference in difference approach, comparing SEZ regions with non-SEZ regions of similar economic development.
Bondonio and Engberg (2000[77])	5 State Enterprise Zone programmes in the United States	• Enterprise Zones had no statistically significant impact on local employment growth. This may be because any growth within the strict boundaries of the zone area may have been offset by employment loss in the same ZIP codes immediately surrounding the zone areas, or that new start-ups drive away existing businesses.	The monetary value of incentives, hiring requirements and capital investment conditions did not significantly affect local employment outcomes.	Multivariate regressions using ZIP-specific fixed effects and growth rates to control for unobserved selection, complemented by propensity scores to address selection on observables.
Ciżkowicz et al. (2016[18])	SEZs in Poland	• SEZs generated significant positive employment effects outside the zone.	N/a	Panel regression estimating the employment and investment impacts in SEZs using firm-level data.
EBRD (2024[13])	SEZs in EBRD regions, including OECD countries (Czechia, Greece, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia, Türkiye)	• SEZs have a positive impact on economic activity of surrounding areas, which increases over time. This impact diminishes with distance from the SEZ. • SEZs in lower-income regions exhibit an increase in pollution.	• Proximity to a port, the numbers of workers with tertiary education and strength of law and order were found to be associated with economically successful SEZs.	Difference in difference event study, using night-time light data as proxy for economic activity.
Frick and Rodriguez-Pose (2021[14])	7 SEZs in developing countries	• Linkages with firms outside of the SEZ is limited, with only 37% of surveyed firms reporting they source key inputs locally.	• SEZs hosting both foreign and local firms were more likely to source key inputs locally. • Firms targeting the domestic market are more likely to source inputs locally compared to export-oriented firms. • Barriers to local sourcing were a lack of availability of specific inputs, issues with the quality of local suppliers and higher prices compared to importing. • Given the limited size of orders, local firms had no incentive to make adjustments in their	Interviews with managers in SEZ firms.

			production processes to develop a specific input for SEZ firms.	
Frick, Rodriquez-Pose and Wong (2019[9])	346 SEZs in 22 emerging countries	• SEZs have a positive impact on the economic activity of surrounding areas, which decays with time and distance.	• The size of the SEZ is positively correlated with zone performance. • Location is important. SEZs closer to the largest city exhibited more economic activity. • SEZs targeting lower technology has been more successful than those targeting high technology. • The extent of corporate tax exemptions are positively correlated with economic activity for more developed regions only. • Preconditions are important. SEZs that had higher levels of industrialisation exhibited stronger activity.	Multivariate regression of economic activity in surrounding areas (proxied by night-time light data), on SEZ-related factors and regional variables.
Givord, Ratherlot and Sillard (2013[24])	ZFUs in France (second round)	• Positive impact on the growth rate of the number of firms within zone territory – growth was 5-7%-points higher in first 3 years compared to control group. • Positive impact on employment within zone territory – increase of 4-12%-points in first 3 years. • Insignificant impact on existing firms within the territory in terms of employment, income and sales among others, which may be due to increased competition induced by the creation of new businesses. • Negative spillover effects in surrounding territory, leading to a 5-8%-point lower growth rate in the number of firms compared to control group. These negative spillovers are of the same order of magnitude as the positive impacts of the programme, suggesting no net benefits.	• N/a	Difference in difference using propensity score matching to construct control group.
Hanson and Rohlin (2013[25])	Federal Empowerment Zones in the United States	• Negative spillover effects - areas that border or are economically similar to EZ locations experience a decline in the number of establishments and employment compared to areas that border or are similar to rejected EZ applicants. • For many specifications, the negative spillovers more than offset positive program effects.	• Spillovers should be an important consideration for policy makers when deciding how and where to target re-development programs.	• Difference-in-difference approach, comparing census tracts neighbouring areas with EX designation to census tracts neighbouring areas that applied but did not receive EZ designation, complemented with a propensity scoring model.
Hooton and Tyler (2019[15])	Mainly US and UK Enterprise Zones	• Among 61 empirical papers on Enterprise Zones, 46% reached a positive overall conclusion on the effectiveness of zones, 26% suggested ineffectiveness and 28% showed mixed impacts. • The author's own analysis	• The mixed results concerning EZ impact are thought to derive from differences in targeting (industry/area), different outcome indicators, the longevity of the zone and institutional capacity. • UK EZs have served as a	• Literature review • Difference-in-difference analysis of 4 US Enterprise Zones

		suggests a modest positive impact (a few basis points to a few percentage points) of EZs on a range of indicators (poverty, employment and income)	mechanism to facilitate state-enabled investment and more flexible land-use planning. By allowing local authorities to use the anticipated uplift in business rate revenues from within the zone to finance new infrastructure, these zones have provided greater local autonomy and enabled transformative infrastructure development.	
Jensen (2017[17])	SEZs in Poland	• Higher employment in municipalities with SEZs. • No significant positive economic spillovers to neighbouring areas, as observed effects reflect policy imitation rather than employment spillovers.	• N/a	Difference in difference approach (municipal level data).
Kolko and Neumark (2009[143])	California's Enterprise Zone programme in the United States	• Evidence of within-program variation across California's programme, highlighting the relevance of local conditions and local program administration for zone outcomes. • Overall evidence from the literature on enterprise zones may be too pessimistic, and that it may be possible to find ways to make enterprise zones more effective at creating jobs.	• More favourable effect on employment in zones that have a lower share of manufacturing and in zones where managers' report doing more marketing and outreach activities. • A strong focus on helping firms pursue hiring credits made available by the enterprise zone programme appears to run counter to job-creation efforts.	Difference-in-difference approach, comparing areas that are designated later (expansions) to areas that were designated earlier.
Lane and Liu (2022[107])	FTZs in the United States	• Significant long-term increase in manufacturing employment in counties with FTZs. However, significant increase in unemployment rates and decline in manufacturing firms in neighbouring counties.	• N/a	Comparison of household income and employment between counties with an FTZ and neighbouring counties.
Lu, Sun and Wu (2023[12])	SEZs in China	• Counties with technology oriented SEZs experienced higher high school enrolment rates, likely due to increased job opportunities and wage premiums inside SEZs for employees with high school education.	• High school enrolment increases when SEZs offer job opportunities and wage premiums for more skilled labour. • Conversely, if SEZs offer low skilled jobs, high school enrolment may decrease.	• Difference in difference event study, accounting for bias that arises from staggered intervention. • Instrumental variable method based on predetermined cost considerations in the placement of SEZs.
Wang (2013[10])	SEZs in China	• Municipalities with SEZs experienced higher levels of foreign direct investment, greater productivity growth and wage growth.	N/a	Difference in difference event study.

Note: This is not an exhaustive list of the literature.

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