

# Evolution of Free Zones: From a ‘real estate only’ approach to end-to-end venture support

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Ritobrata Roy

Free zones (FZs) have traditionally been designated areas that offer businesses a host of incentives to set up shop. These incentives comprise financial and non-financial inducements (e.g., tax holidays, R&D credits, flexible labor laws, more foreign ownership, repatriation of capital and profits, and subsidized leases) and vastly superior infrastructure and amenities than those available in the rest of the country/region. The ultimate objective is to create jobs and boost economic growth through business promotion. Often, several zones combine to form an ‘economic cluster’ that focuses on a specific business sector(s) in which the region has a sustainable competitive advantage.

Until recently, FZs have served purely as ‘real estate providers’ - offering space and a host of inducements and amenities - with relationships largely comprising landlords and lessees.

Only now are FZs starting to understand how they can provide greater value and remain relevant amid increasing competition and more demanding customers. In this regard, a key differentiator for FZs is the provision of ‘startup enablement’ through various incubator/accelerator programs.

A ‘business incubator’ refers to a collaborative program providing workspace, seed funding, mentoring and training for startups and early-stage companies. A ‘business accelerator program’ refers to a growth program for relatively mature companies, i.e., those that have grown beyond the phase of facing day-to-day operational challenges and need long-term strategic planning.

Below are the key trends shaping amongst FZs which we have identified with our interactions with senior executives managing FZs.

## **Key components of incubator/accelerator programs**

1. **Enabling access to finance:** FZs promote startup/small and medium-sized enterprise (SME) tenants to investors - both corporates and venture capital firms - and encourage banks to finance them. In some cases, FZs also lobby governments to provide public funds. Some FZs also directly finance startups/SMEs, either by way of loan or equity provision.

E.g. *Dubai Silicon Oasis* has teamed up with corporates and industry bodies to support the Dubai Smart City Consortium, an incubator/accelerator program dealing with areas such as IoT and

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connectivity, urban automation and mobility, AI, Blockchain, sustainable cities, and smart retail. The program links startups and early-stage companies with angel investors and venture capital firms. The program also offers funds to entrepreneurs to cover living expenses.

**2. Offering flexible working spaces:** Startups neither need nor are able to afford sizeable real estate. Keeping in mind their unique requirements, FZs offer flexible office solutions and co-working spaces at low rentals. Some zones also offer industry-specific infrastructure/facilities.

E.g. *Dubai Multi Commodities Centre's* (DMCC's) 'moonlighter packages' offer entrepreneurs usage of space from 7:00pm to 8:00am on weekdays and any time on weekends at a nominal rate of c. USD200/month.

**3. Providing business support:** This comprises providing dedicated coaches/mentors by partnering with corporates and universities, and organizing lectures by visiting delegates

E.g. *DMCC* has partnered with *AstroLabs Dubai*, a Google-partnered tech hub. *AstroLabs Academy* offers startups training courses (in areas such as analytics, digital marketing, and programming) and onsite support from mentors, partners, and industry experts.

**4. Organizing events and competitions:** FZs periodically organize events that are attended by various stakeholders of the ecosystem – corporates, investors, regulators and academia. Such events provide excellent networking opportunities, e.g., for exchange of ideas, business and funding propositions, and discussions with policy makers on business climate. Some FZs also organize 'startup competitions', where financial and non-financial incentives include provision of rent-free facilities for limited periods, business support, and monetary rewards.

E.g. *Ras Al Khaimah FTZ* periodically organizes a *Startup Champ Competition*, where aspiring entrepreneurs present their innovative and unique business plans. The most promising candidate receives a business set-up package that includes a business license, a work facility and business support services customized to the startup's growth needs.

**5. Talent sourcing:** This includes roadshows/partnerships with universities, scholarships for research students interested in commercializing their products, organizing competitions and relaxing visa laws for international entrepreneurs.

E.g. *Cyberport Hong Kong* offers digital tech internship programs for students of *Hong Kong University* and *University of Chicago*. Student participation has risen by over 200% since 2011, with students from *Hong Kong*, *Shanghai* and *Fuzhou* in *China*, and *Silicon Valley*.

*AIRmaker*, a joint venture between two major business park developers and a venture capital firm, is a good example of how FZs and business parks provide multiple support services for startups/SMEs under the incubator/accelerator program. *AIRmaker* supports startups in developing business models and go-to-market strategies, and in end-to-end product design. It also offers mentorship and domain expertise from industry leaders and access to investors, and leverages partnerships to secure clients and pilot projects. Startups are provided initial capital in exchange for equity.

We believe legacy FZs will face increasing pressure from new and nimble zones that are more receptive to tenants' needs, and will devise innovative solutions to address these. Therefore, a 'real estate only' approach will likely not be a recipe for success in the future.

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[contact@acuitykp.com](mailto:contact@acuitykp.com) | [acuitykp.com](https://www.acuitykp.com)