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and Economic Research

The Political Economy
of Place-Based Policies
with a Focus
on Special Economic Zones

SPECIAL ECONONMIC ZONES AND NEW STATE AID RULES

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** The author is an official of the European Commission. The views expressed are purely those of the author and may not in any circumstances be regarded as stating an official position of the European Commission

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New Commission Regional Aid Guidelines 2014-20 redefine the framework for the operation of Special Economic Zones

- General reduction of allowable maximum intensities for investment aid except in the worst off regions (Eastern provinces):
 - ➔ increases relative attractiveness of Eastern SEZ and offers them new development chances.
- Normally no aid for follow-up investments of large firms in Warsaw region; aid for setting up new establishments allowed:
 - ➔ reduces attractiveness for large firms; suggests re-focus on SME.
- Individual Commission scrutiny of aid to investors that closed down activity elsewhere in the EU, or intend to do so; prohibition of the aid if it is causal for closure/relocation; in-depth assessment of the (necessity of) the aid:
 - ➔ calls into question the focus of SEZ on Foreign direct investments; suggests stronger orientation on support of endogenous development.

Effectiveness of tax exemptions on future profits as policy instrument and considerations for improvements

- Tax exemptions do not directly contribute to ex ante financing of investment project – problem for firms with difficulties to finance project from own or external resources
 - ➔ Combine tax exemptions with guarantee or loan components, to facilitate also the financing of projects itself.
- Tax exemptions do not allow to compensate for project related risks; no or little money if the project fails.
 - ➔ Guarantee a minimum aid level even if project fails, e.g. systematically combine with outright financial grants
- Due to good infrastructure and business friendly administration, many FDIs would take place also without, or with substantially less aid.
 - ➔ Refrain from always granting maximum allowable aid; decide on a case by case basis which aid amount would really be needed to attract an investment to the target region.