



The Role of Kish Free Zone in Islamic Republic of Iran Development

Mohammad Ali Najafi

Faculty of Economics , Yerevan State University, Yerevan

KAMRAN YEGANEGI

Department of Industrial Engineering , Zanjan Branch, Islamic Azad University, Zanjan , Iran

ABSTRACT

The role of commercial free zones in development of developing countries is known to everyone. In fact these legal financial structures have become possible by establishing facilities through governmental laws which are more flexible in order to persuade national and international investors to invest on the fields required by the government attempt. By establishing these zones and preparing the right facilities, the government will stand in the favor of the society's interest. Obviously dedication of such facilities would be only possible by ratification of especial laws and regulations. One of the main apprehensions of the investors is the method of regularization of the relation with the employees which is generally one of the obstacles or means of growth of foreign investments in developing societies which is reflected in the employment and labor law. Kish Island, being located in the south of Iran, considering its strategic situation, is one of the most developed zones in Iran.

KEYWORDS

Kish Free Zone, International trading, Foreign Investment, National Development

1. Introduction

Kish Island, known as Persian Gulf Pearl, is an oval island with the area of 89.7 km² (156km x 7km). Kish is located in south west of Bandar Abbass and in the blue water of Persian Gulf. There is no clear record about Kish from the time before Islam. The only reference can be from the writings of Niarchos, the Greek Admiral, 325 BC, who was commanded to do an expedition on the islands in Persian Gulf by Alexander. This Island has been of interest by other governments. During the economical changes of Europe in the 15th and 16th centuries, the European such as Portuguese became aware of eastern markets. In the early 16th century the Portuguese in order to take control over Indian, Arabian and Persian markets moved their navy towards Indian Ocean in order to expand their colony area.

In 1912 A.H. (Anno Hegira), 1506 AD, Afonso de Albuquerque (2nd Duke of Goa), Portuguese Admiral, entered a war through Oman Sea and Persian Gulf with 14 war ships and after setting Masqat and some other harbors on fire came to anchor just offshore of Hormuz and advised Hormuz and Kish governors to surrender themselves and become under the service of the king of Portugal. They refused and as a result the Portuguese conquered Hormuz and Gamberon. Here the destiny of Kish Island changed and a period of silence and seclusion took over. The main purpose of this overpower was to take control of the strategic part of Hormuz which is located at the strait of Persian Gulf and for the Portuguese this location was more important than other islands in Persian Gulf. Kish and Hormuz could take the defending mission against the invasion of other rulers perfectly.

The Portuguese held the control of Kish till Safavieh Dynasty and unfortunately they didn't put one brick on top of another and all they did was stealing and destroying. Finally Shah Abbass 1st (King of Persia 27 January 1571 – 19 January 1629) set Kish and Hormuz at liberty from the alien rulers after freeing Bahrain.

During the rule of Naser-od-din Shah (reigned 1848–96) Kish was given to Ghavam-ol-molk Shirazi (one of the influential Eil Salars in Fars Province as a fief and he sold the island to Mohammad Reza Khan, the governor of Lengeh (a har-

bor town in the south of Iran) at the price of \$12.500. Kish Island had been sold several times to different people until Pahlavi Dynasty (1925 – 1979). In 1961 Dr. Manoochehr Eghbal bought this Island from the descendents of Mohammad Reza Khan heirs for \$450.000. The thought of developing free zones in Iran started to form in 1951. During those years, regarding the problems caused by the lack of facilities and structures for storing imported products for the country, the necessity of having free zones in the southern ports of the country came into consideration. A parliamentary act was imposed in 1971, based on customs duty to be lifted from the goods in relation with consumption and trade in some islands in Persian Gulf. According to this law every kind of commodities which can be sold at any stores or markets in the permitted islands are free of charges such as tax, VAT, monopolization right and custom tariffs.

In 1970 Kish Island was visited by a group of Iranian and American committee and considering the suitable geographical and strategic location was considered as one of the touristic / trading centers. Kish Free Zone Organization was established in 1972 in order to attract tourists to this touristic and trading island.

Kish Free Zone Organization started the project of developing the touristic area in Kish Island by modeling Hawaii and southern part of Mediterranean Sea islands with a large investment and the first phase and a part of second phase were completed until before the revolution. After victory of the revolution the process of the activity of Kish Free Zone Organization was stopped. (Mahmoudian 1999).

In March 1980 the Revolution Council enabled a new legislation for trading and developing the southern area by new custom tariff conditions. However the difficulties in the following years of the revolution did not prepare the condition to set this legal authority in motion. Finally in 1989 the ministers' council announced Kish Island as a free zone area in order to import, export, re-export and produce commodities; and from that time financial activities restarted in Kish Island. (Mahmoudian, 1999). Eventually in 1992 a new life was given to this Island by launching Kish Free Zone Organization and the age of fast development began.

1. Specifications and Advantages

Some of the specifications and advantages of this area are as it follows:

- 1- The area of Kish Island is 90,457 km²
- 2- The distance between Kish and Dubai is 200 km
- 3- Calm clear water in peaceful coral line in a stunning unique nature where you can monitor different groups of sea creatures within just a few meters depth of water.
- 4- Green covering layer of plantation with seven months of freshness in a year has dedicated a spectacular view which has turned the area to one of major touristic sights in the country and every year attracts around 1,200,000 of those who love sea and its nature.
- 5- Fifteen full years of tax exemption from the date of establishing an economical project
- 6- No need of applying for visa for foreign nations
- 7- No limitation for transferring currency in and out of the island
- 8- More flexibility in banking systems
- 9- Foreign Investors' legal right guarantee
- 10- No limitation for foreign investment and/or partnership in projects
- 11- Fast official formalities
- 12- Trouble-free condition transferring currency to other countries or other free zone areas.
- 13- Tax free condition for importing productive machineries to the island or exporting machineries which are produced inside the island.
- 14- Foreign investment without necessity of having Iranian partner
- 15- Right of purchasing, selling and renting lands for Iranian investors and renting lands to foreign and Iranian investors.
- 16- No limitation in foreign currency exchange
- 17- Total right in trading and business relations in the area by actual people
- 18- Legal Registration of industrial and intellectual businesses by Free Zone Organization
- 19- Legal right to import any kind of commodities apart from the ones which are against Islamic laws or special regulations of the Free Zone Areas
- 20- Transit and re-exporting the commodities of foreign goods with least formalities.
- 21- Exporting the produced commodities which were produced inside the area to other free zones or countries with minimum formalities
- 22- Exporting the manufactured products into the country considering V.A.T regulations
- 23- Fitting the right condition between the employers and employees based on their agreements

2. Role of Kish Island in Export Progress

Analyzing the export condition of the country through Kish Island indicates that currently this area has a distinctive role in exporting goods from the country.

Never the less this Island has the capacity to improve the amount and value of its export immensely for its unique geographical and strategic location and take a much greater part in exporting the country commodities to other countries especially the ones in the Persian gulf.

Figures accomplished from analyzing the amount of export of the country goods show that the amount of exported commodities, transited and rejected goods, considering the amount and value, has increased from 2005 to 2013 in a tremulous way.

The amount of value of exported commodities in 2005 sums up to \$274,725,000 which was not a considerable amount in compare with non-oil exported goods of the country.

This procedure has decreased in 2006 to \$180,595,000 and it continued to decrease till the end of 2008 and we can observe the gradual declining of this figure in the area. The total value of exported commodities from Kish Island has dropped

by 18% to the amount of \$147,549,000 which is the sign of unpleasant constant declining of exported goods in this area. This condition continued in the same way in 2008 however it was a soft decline which figured the amount of \$147,549,000 which reflects the unpleasant situation of exporting commodities in the exporting field of Kish Free Zone Area.

We can relate this declining condition to the world economy crises and reduction of the market demand in different countries in the world.

This demand tremendously changed in 2009 and helped to increase the export by 137% reaching the amount of \$349,974,000.

The remarkable increase of exported goods in 2009 from Kish Free Zone Area was moreover because of Kish Free Zone development rather than improvement of the world economy and further more it was also because of the drop in value of dollar in markets around the world. In compare with the amount of exported goods from Kish Free Zone Area in 2005, we can notice a 27% increase within four years in the year 2009.

2-1 Exporting Industrial Goods from Kish Free Zone Area

Figures show that in 2005 the value of industrial exported products made in Kish Island was \$13,541,000 which was around 5% of the total amount of exported goods from Kish Island in that year (exported \$274,725,000 in 2005). There was a drop of \$94,130,000 in the exported goods in 2006 (exported \$180,595,000 in 2006).

In compare with the figure in 2005 this amount raised to 6% in 2006 reaching \$10,615,000. The share of exported products made in Kish Island from 2007 to 2009 has remarkably increased. Although there was an 18% decrease in the value of exported goods from Kish Island in 2007 in compare with the previous year, not only the value of the produced goods hasn't decreased in this area but also it faced an outstanding rise of 83%, equal to \$19,451,000 which means in all these years the share of exported industrial goods for Kish was 13% of the total exported goods in this area.

The same improvement can be seen in the year 2008 about the exported products made in Kish Island in compare with the total exported goods from this Island reaching 32% in compare with 2007 which sums up to \$25,650,000 and it indicates the model of exporting condition in the free zone area of Kish during these years. The amount of produced industrial goods in Kish Island between 2005 and 2013 peaks in 2009 by 243% of about \$88,088,000 and in that year the share of exported goods produced in Kish is 25% of the total exported amount of goods from Kish Island which give you an idea about the constant progress of products made in Kish Island, the progress which not only did not continue in the following years but also declined from the position it had taken before.

In 2010 regarding the increase of the value of dollar which was about 9% we observed the sharp declining in the value of exported goods made in Kish Island. In this year the value of the total amount of exported commodities from Kish declines by 21% at \$69,558,000 which is 18% of the total exported value in that year.

In 2011 we observed 18% increase in the value of dollar of the exported goods made in Kish Island. In compare with 2010 which summed up to \$79,629,000, but the share of exported goods made in Kish from the total exported goods value in 2010 dropped from 18% to 11% and the reason was the sudden increase of the value of the total exported goods in 2011. The 87% increase of the total exported goods value in this year in compare with 14% increase of the exported products made in Kish was the main reason to this matter.

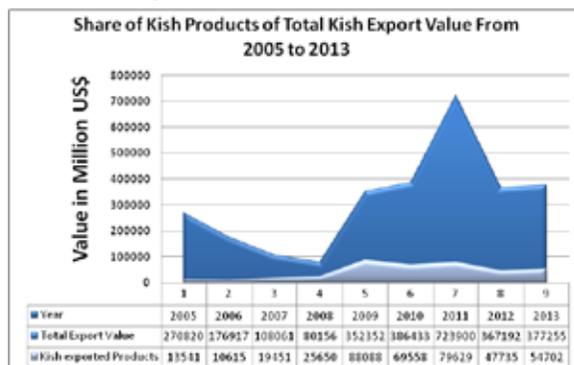
The remarkable decline of the total value of the exported products from Kish Free Zone Area in 2011 was related to the

value of exported goods made in Kish Island. 41% decrease of the total value of exported goods in compare with 2011

caused the 40% decrease in the value of products made in Kish Island which finalized the amount of \$47,735,000. However on the topic of decreasing 40% of that amount in compare with the previous year the share of the products made in Kish from the total exported products in 2011, increased to 13% in the year 2012.

In compare with 2012, in 2013 we observed 172% increases in US dollar Value in total value of exported goods from Kish Island. This percentage of progress does not occur in the value of exported goods in the area. The increase in the amount of the value of export of Industrial Products is approximately 14.5% which decreases to 5% of amount of the value of the total export of industrial products in 2013.

In the Chart below you can see the process of exported value in these years



2-2 The Role of Kish Free Zone in The Country Imports

Importing commodities in free zone areas is one of the most controversial topics in economic and trading cases of this area. Some people believe that free zone areas in countries like Iran are the gates for improving the imports of foreign products than exports of national products. The figures after analyzing the amount of importing products in compare with exporting products in the country free zone area shows the same thing, which concludes that the value of imported products in these areas are much greater than the value of exporting products. Analyzing the amount of imported products in Kish Free Zone Area indicates that one of the most important activities of this area has been importing commodities. The study of the value of imported products to Kish Island from 2006 to 2013 states analogous increase in the amount of imported products in US Dollars in this area. It goes without saying that increase in importing commodities is the sign of country development. Never the less the improvement of quality of the products reflects the effort of analyzing and examining the imported products.

According the statistical figures from the amount of imported products to Kish Island during the recent years, in 2006 the total assessment of imported products in this area sums up to \$141,000,000 where as in 2007 it reaches \$187,000,000 by 33% increase in value which confirms the progress of importing commodities during this period by 16%. That means the progress of importing goods in Kish Island is twice faster than the whole country. You can observe these changes in Chart 2 shown on the next page.



Chart 2, shows the value of imported goods in US\$ during 2005 – 2013

2-3 Nonindustrial Investment in Kish Island

Most investments in free zone areas consist of industrial and nonindustrial (Based on office work) investments. Kish Free Zone Area, for its large capacity, has high potential for non-industrial investments such as trading and services to attract nonindustrial investments and in this section it has measured the scale of attracting home and foreign investments or the permanence of attracting nonindustrial investments. The study of obtained data in regarding the amount of investment in nonindustrial businesses in Kish Free Zone from 2005 to 2013 can well prove that the process of investment in this section in this period of time has considerably improved.

In 2005 the total amount of potential nonindustrial investments in Kish Free Zone reached around \$1,242,003,216 which shrank about 55% in 2006 to around \$552,290,098. Such sudden drop is related to instability in nonindustrial section of Kish Free Zone economy. Such volatility results to lack of interest of home and foreign investors to invest in different sections in the area.

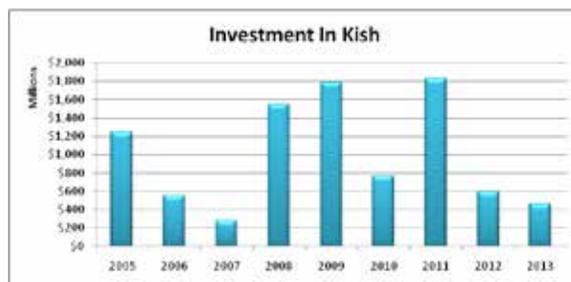
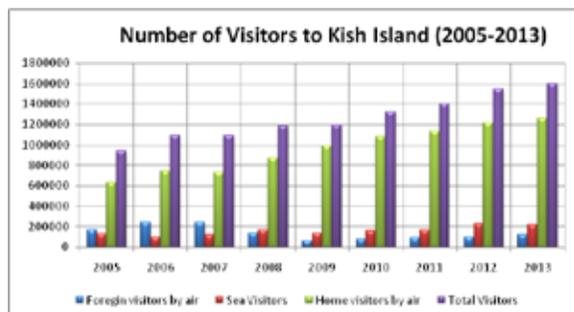


Chart 3) Rate of Investments in Kish Island from 2005 to 2013

1- Tourist Industry in Kish Island

Studying existing statistics achieved from the number of home and foreign visitors to Kish Free Zone Area during 2005 – 2013 indicates that during this period of time although there has been some fluctuation at different moments, the number of Home and foreign visitors has been increasing. In 2005 totally 936,732 visitors entered Kish Island whereas 18% of this number belongs to foreign visitors. To be accurate the total number of foreign visitors who travelled to Kish Island by air was 169,843 people and 766,889 visitors entered Kish Island from mainland of Iran. 632,712 mainland visitors travelled to Kish Island by air while the other 134,177 visitors chose to travel to Kish Island by boat.

Chart 4 illustrates the number of visitors who travelled to Kish Island during these years



2- Development of Kish Island

Study of the development during the time before the revolution designates that during that period of time the progress was exceedingly slow and substantially this area until 1973 was one of the most undeveloped areas in the country where was just a home to a group of local residents who made their living only through fishing and collecting pears. This area was free of any form of industry or trading. The income of these people was extremely low and there was no structure of facilities in this area.

After establishing "Kish Free Zone Organization" under supervision of the prime minister Institution in 1974, development process in Kish Island began to form. In that year the native population of Kish Island were moved from the eastern coast to the western coast of the Island; and the eastern area of Kish Island formed into a suitable area for the foreign visitors (mainly from Arabs from the countries in Persian Gulf) as a tourist attraction area. In 1974 Kish Island was publicized as a special touristic area and the process of tourist industry began. In that time an international hotel called "Shayan Hotel" and a casino building were constructed. They also built a market in the Island by the name of "French Market" where the most famous brands were sold. The next move was building an international airport with international standards to attract foreign tourists.

The idea of attracting tourists at that time was mainly for attraction of foreign tourist and the reason was to attract foreign currency to this area. Also in that period of time three palaces were built for the Shah, the prince and Asadollah Alam (the Prime minister) for holiday trips to Kish Island, however Kish Island was not a tourist center for Iranian tourists. During that year the population of Kish Island was about 2500 people and after the triumph of the Islamic Revolution, this Island lost its popularity by severe criticism of the people. Development of Kish Island ceases after the revolution and the situation of war in the area in 1980s but finally in 1989 the situation changes when President Hashemi Rafsanjani gives the command to restart Kish Free Zone Area project and once more Kish finds its place among the people. Considering the situation of the country during the sanction and prohibition of entering luxury products into the country main land brought up the idea of having free zone areas in Iran and therefore Kish, Gheshm and Chabahar were the first three areas to establish as economy free zone areas and the entrance gates of commodities to Iran.

In accordance with the legislation enacted in 1994, regarding the free zone areas, it was permitted to imports commodities through Kish, Gheshm and Chabahar into the main land by passengers (Called Suitcase trading). Each passenger was permitted to import up to \$300 in a year from these areas. In that year we observed an increase in the number of population and the 2500 population of Kish Island in 1994 increased to 10000 citizens in 1995.

Malls and stores started to shape up from 1989 to 1995 and retailing of imported products which influenced the econo-

my of this area turned into a fruitful business. Nonproductive employment in trading prepared the situation of citizenship in Kish Free Zone Area and a new population in the area started to grow. On one hand the number of employees who worked in the stores grew and on the other hand the sudden increase of the number of visitors for suitcase trading arranged a suitable situation to build more hotels with reasonable prices in Kish Island. In Chart 5 you can observe the process of increase in the number of citizens in Kish Island.

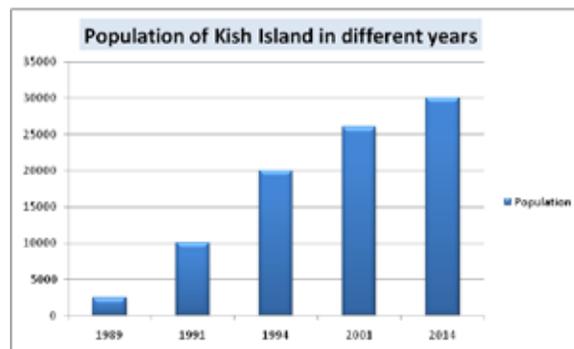


Chart 5- The process of increase in population of Kish Island in different years

3- Conclusion

Kish Free Zone Area in compare with other free zone areas has a unique situation. This distinctive situation is because of atmospheric condition and geographical situation which on one hand prepares a suitable situation for attracting Iranian national and foreign national visitors and on the other hand the merchandise exchanges of number of products and giving services to the visitors who come to this Island. Study of the role of Kish Free Zone Area in national development in Iran demonstrates that Kish is capable of speeding up the country development for its economy and tourist attraction capacity. Having studied different aspects such as foreign trading (import & export), attracting foreign and home investors to Kish free zone and the role of each aspect in development of country economy, we perceive the high capability of Kish Island as a successful free zone area in compare with other free zone area in all parts of the country. Kish free zone has a significant place in the arena of foreign trading of Iran. This position stands higher than other free zone areas in the country. It also has a unique strategic situation in Oman Sea and because of its close distance to The Emirate-Dubai and because of being on the transit line from/to the countries on Persian Gulf coast; it encompasses a strategic position for foreign trading. Re-exporting, importing high quality and well-known brands and promoting them to Iranian and foreign visitors are some of the motivations to renovate Kish Island to the gate of international trading for the country. Kish Free Zone Area has a specific role in the country for its strategic area and having no strict rules in having foreign trades in compare with other free zones in the country however this amount of trading is nothing in compare with the high capacity of Kish Island and the government can support the foreign trading to much upper limit by passing influential legislation and dedicating all sorts of persuasive and creditable packages to support investors in both economical and suitability of investments. The potential position of Kish Island in international trading can prepare new ways for attracting foreign and home investors to this free zone area. Kish can develop a new atmosphere for different forms of profitable investments since it benefits from having an exclusive financial and foundational condition. Outstanding facilities and all kinds of different exemptions in order to support investments in Kish together with softening the limitation of official, cultural and financial barriers has turned this area to a productive and attractive area to the eyes of Iranian investors. Intensification of tourism in Kish Free Zone Area can directly and indirectly improve the development process of economy in the area and improve and help to improve national income. Tourism industry can act as a dynamic engine for

developing the country economy for its correlation with rapid investment turnover and its variety of financial field. Study of the effect of process of tourism in some of neighboring countries like Turkey indicates that how much the capacity of tourism industry in Kish Free Zone can affect the economy development in Iran.

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