Funding the Future

Freeports will hardly be a game-changer for the British...

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I have given some attention to freeports over recent weeks, but I admit much I learned on the issues has come from my friend and Copenhagen Business School colleague, OddnÃ½ HelgadÃ³ttir. She is an assistant professor in political economy at the Copenhagen Business School's Department of Organisation who researched luxury freeports under the auspices of the EU Horizon 2020 project 'Combating Fiscal Fraud and Empowering Regulators', on which I also worked. She has an article [on Social Europe on the issue today](), which she has agreed I might share here:

The UK prime minister, Boris Johnson, has been promoting freeports as a way forward for post-Brexit Britain since he first staked his claim to lead the Conservative party. It is therefore not surprising that freeports featured quite prominently in his Brexit 'address to the nation' on January 31st. Not only did he present freeports–right after control of immigration–as a key policy imperative but as a means to drive growth and generate desirable jobs, underlying his promise to reinvigorate economically depressed parts of the country.

This policy has come one step closer to being enacted with Whitehall launching a consultation on its freeport plans. Channelling the prime minister's hyperbole and penchant for alliteration, the paper contends: 'From the UAE to the USA, China to California, global Freeports support jobs, trade and investment. They serve as humming hubs of high-quality manufacturing, titans of trans-shipment and warehouses for wealth-creating goods and services.' But do freeports really contribute to growth?

Freeports come in two types. There are 'traditional' freeports and there are 'luxury' freeports. The former have a long history, going back to antiquity, as Johnson has fondly noted, while the latter have become much more common over the last decade. But neither is a panacea for growth.

Traditional freeports can complement and compound growth but they cannot generate it. They are basically storage sites given special legal dispensation to suspend taxes and duties on commercial goods in transit. By preventing multiple taxation and reducing red tape, they can link local production into global value chains, which is growth-enhancing.

But in the absence of robust production and trade to begin with–as for example, in the north of England–relying on freeports for growth is to put the cart before the horse. Moreover, there are already thousands of this type of freeport worldwide, as well as a plethora of bonded warehouses and export-processing zones offering similar benefits. Without concrete plans for specialisation–so far missing from Johnson's freeport proposals–any new facilities will face an uphill battle.

The luxury freeport model is quite different from the traditional model and it was born from fierce intra-industry competition. Luxury freeports are high-security storage spaces–think Mission Impossible–where art, gold, wine and other luxury goods are traded anonymously and stored for unlimited periods without tax and duty payments. As such, they do less to promote trade than to cater to a demand for discreet wealth management.

The original luxury freeport lies in Geneva, Switzerland. Formerly a traditional freeport, it pivoted to luxury services in the late 1990s, in response to heightened competition from open customs warehouses established as part of World Trade Organization trade harmonisation.

Putting the legal exemptions of traditional freeports to new use, luxury freeports have hollowed out and transformed the older freeport model. This has allowed them to emerge as new niche players in the complex global ecosystem of wealth management and tax evasion. Freeport space dedicated to luxury storage has grown from 46,722 square metres in 2010 to over 178,800 square metres today–roughly the equivalent of 25 football pitches.

Rapidly growing demand for the luxury goods–or 'tangible assets'–housed in luxury freeports follows hot on the heels of an international post-crisis push against banking secrecy and traditional offshore activity. In this way, freeports seem to be acting as alternatives and supplements to the kind of offshore services in which Swiss banks have long specialised.

Spillover effects between different kinds of offshores are, in other words, key to understanding the evolution of the global nebula of tax havens and the rapid spread of freeports. But profits invite competition and recently other luxury freeports have opened alongside known financial centres and tax havens, such as Singapore, Monaco, Luxembourg, Beijing, Delaware and New York City.

While the Geneva freeport has been a financial success, it has been plagued by scandals which have drawn a great deal of international media attention. It is now firmly on the radar of international regulatory bodies, cracking down on money-laundering and tax avoidance. In this climate, the newer luxury freeports have struggled to replicate Geneva's success.

Given this, even the staunchest enthusiasts of ‘Singapore upon Thames’ must recognise that the freeport business model is fragile at best. Robust trade and production cannot be willed into existence–and a few more football pitches of tax-free luxury storage ‘up north’ will hardly be a game-changer for the British economy.