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1 INTRODUCTION

Purpose of Paper

1.1 In this paper, I am to deal with various aspects of investment promotion incentives, of which there are many types. Rather than attempt to look at each incentive in turn, in its various aspects, I will approach the subject under five main headings following this

1 Introduction.

2 Industrial free zones, and their part in industrial development;

3 Investment incentives in general;

4 The cost of incentives, financial and social, for free zones;

5 Some policy questions; and, finally, the possibilities for

6 Harmonization and co-ordination of incentives

1.2 Out of all this, I would hope to give the Seminar some data, together with some views from personal experience; but, principally, an overview of the key questions related to incentives which must be asked, even though there may be no final answers.

2 INDUSTRIAL FREE ZONES

Objectives

2.1 The industrial free zones with which we are concerned are zones designed to promote export manufacturing, principally through the attraction of overseas investment. They are not designed to facilitate imports to the home market nor to provide special facilities to manufacture for sale on the home market. They do not interfere, therefore, with the development of non-free zone industry in the country concerned, whether that industry is serving the home market or, like free zone industry, is exporting to world markets. Their generally accepted objectives are :

- to provide employment;
- to increase exports and foreign exchange earnings;
- to bring the technologies, techniques and skills required for modern industrial development.

That they can very successfully achieve these objectives has been widely demonstrated.

Warehousing in Zones

2.2 There is another type of free zone, whose purpose is to facilitate the movement of goods between countries. Its buildings are warehouses, not factories. Such free zones have a legitimate purpose. They can contribute some employment and foreign exchange, earn revenue for the zone authority and, possibly, provide a service for manufacturing. But the returns are much less than those from export manufacturing. And, if misused, they can operate against the development of manufacturing industry by facilitating imports.

2.3 Though warehousing zones are not the concern of this Seminar, we must recognise that the same zone can be, and sometimes is, used for both warehousing and manufacturing. Because the two uses do not march well together, and because warehouses can be relatively wasteful of valuable resources like land serviced for industry, warehousing operations in common zones should be severely limited. Ideally, general warehousing should be provided for separately in non-manufacturing zones, and the warehousing in manufacturing zones limited to that needed to service industry.

Special Characteristics of Free Zones

2.4 The objectives quoted for industrial free zones can, it is true, be achieved by promoting the development of exporting industry, including by attracting overseas investment, irrespective of whether such industry is located in free zones or anywhere else in the country concerned. In thinking about promoting industrial development, therefore, we must look first at the question - why free zones at all ? Then, in discussing the general question of industrial promotion incentives, we can examine what considerations may apply specifically to free zones.

2.5 The first characteristic peculiar to the free zone is, of course, its freedom; freedom from customs control or at least from the degree of control necessary elsewhere. Materials can be imported to the zone, processed, and exported without payment of duties and with minimum documentation. This freedom is obviously attractive to the investor and is the major special promotion incentive associated with free zones. (Freedom to import does not, of course, extend to goods prohibited by law, such as arms and drugs; and machinery for use in zones may or may not be subject to duty).

2.6 It is possible to have a system of import and export licences which will enable a manufacturer anywhere in the country to import materials, process them, and export them free of duty. Or, by a system of bonding and customs supervision, we could make any factory the equivalent of a free zone so far as customs are concerned. But such systems have two immediate disadvantages as compared with free zones. First, they call for considerable paper-work and supervision and necessarily involve bureaucratic administration to a degree which can discourage the potential investor. Second, potential investors will have a good knowledge of how free zones in general operate and of what they can offer and will, therefore, know what to expect. The non-free zone location, particularly in a country where there is little experience of foreign investment in manufacturing, will involve a greater risk of the unknown; and it has been well said that "businessmen hate surprises". So a free zone location, certainly in a country in the early stages of attracting manufacturing investment, will undoubtedly provide a greater incentive.

Other Characteristics Associated with Free Zones

2.7 Further to this, once you have decided on a free zone development certain things follow. First, the zone must be a clearly separated, legally-defined, area within a customs boundary. A legally-defined restricted area can, in itself, attract investment because its very existence demonstrates to the potential investor a national intention to attract him and to provide specially for his requirements. It says, in a very concrete way, "here you are welcome". And it can say this even though the general national stance may be less than fully committed to attracting foreign investment. In addition, once the zone is defined in law, it enables the Government to provide incentives within it which may differ from those generally available in the country. It gives the Government greater flexibility.

2.8 A free zone must have two characteristics which non-free zone locations may or may not have. First, it must be located and planned to facilitate the movement of goods to world markets - hence, it must be at, or near, or have excellent communications with, a port or airport. And it must be an area planned to cater for manufacturing industry - it must, in fact, be a well-planned industrial estate. The potential investor will expect to find these characteristics in a free zone.

2.9 The fact that a free zone must be a well-planned industrial estate may be of special significance to a country in the early stages of industrial development and hence having an inadequate general infrastructure for industry. To attract industry at all, it must be able to offer basic services, such as power, water and telephones. It must have reasonable commercial facilities, like banking, insurance, hardware and office supplies. And it should, wherever possible, have more than this - central training, recruitment services, general advisory services and so on. It is obviously easier and cheaper to make all these provisions in a restricted area; and the fact that the free zone is a very special area enables the provisions to be made without creating a demand for the same facilities on a nationwide basis. All these provisions can be seen as investment promotion incentives, and they can be provided more cheaply and more quickly in the context of free zones. Further, the zone's concentration of industry will facilitate the establishment of the many commercial services, including maintenance, on which industrial development depends.

2.10 So we can see that the existence of a free zone is, in itself, a strong promotional incentive. It can (and this may desirably be the typical situation in industrially developing countries) have further incentives attaching to it greater than those applying generally in the country; but phasing subsequently into conformity with the nationwide system of incentives as industrialization progresses. And it can assist in the wider process of industrialization by acting as a show-case, or shop-window, of successful development.

2.11 Free zones have advantages other than promotional ones. In particular, a free zone which is properly located and is planned in relation to its surroundings can be a "pole of growth", an industrial nucleus for the development of a region. Because it must have good communications and should have nearby hotel and recreational facilities, it can often be effectively related to tourism development in a comprehensive plan. Such considerations make it clear that it would be wrong to consider and plan free zones merely as a means of promoting investment. While promoting investment is our present concern, we should recognise that zones should not be considered in isolation, but rather as one special means of promoting development, which can be particularly valuable in the early years; and as a powerful tool in regional development.

2.12 From our experience in Shannon of developing the free zone idea and in assisting in its application in many countries, we are satisfied that it can, if properly implemented, make a valuable contribution towards the achievement of the objectives of the Lima Declaration and Plan of Action on Industrial Development and Co-operation, adopted at the Second General Conference of UNIDO in March, 1975.

The Promotional Agency

2.13 A final introductory point. In this paper I am concerned with different types of incentives and with their advantages, disadvantages and costs, rather than with the business of persuading the potential investor to take advantage of them. But lest there be any doubt about the importance of the latter, of being able to sell vigorously, negotiate authoritively and deal with all enquiries and proposals expeditiously and with standards matching the best commerical practice, let me say at this stage, that if I had the responsibility for promoting investment in new free zones, I would much prefer to have an organisation competent to do these things well with modest incentives, rather than have much greater incentives at the disposal of a poor organisation. I know that it is possible to ride a one-wheeled bicycle, but I would hate to have to learn to do it in city traffic; and that is what would be involved, in the clamorous competition of investment attraction, if we did not have the promotional machinery to bring our incentives, however generous, to the attention of the market-place.

3 INVESTMENT INCENTIVES - GENERAL

Incentives and Disincentives

3.1 An industrialist choosing between different possible locations for an export manufacturing project will assess, as well as he can, their relative advantages and disadvantages so that he can decide on the one which will give him the greatest return on his investment. He will have to determine for each possible location :

(i) what are its natural advantages or disadvantages;

(ii) whether its laws are favourable or unfavourable;

(iii) what additional incentives are available and what is their value to him.

3.2 He will quantify his assessment, as far as possible, in financial terms. In this sum, the advantages will be "pluses", the disadvantages "minuses". We can influence the sum either by increasing the "pluses" or reducing the "minuses". So, if we are interested in incentives, we must also be interested in disincentives; and we will look at some examples of these later.

3.3 While our main present concern is with the third group - the additional "artificial" incentives - it cannot be considered in isolation from the first two. So I will comment briefly on them.

Natural Advantages and Disadvantages

3.4 "Natural" advantages or disadvantages would include geographical location related to materials and markets, climatic conditions, labour availability and labour rates, language, and political stability. Recent history, or rather the interpretation of recent history in the business press and in the media generally, will be highly relevant not only to the question of stability - a first requirement for the investor - but to rates of inflation, incidence of strikes and other factors bearing on the conditions to be expected in the future.

3.5 While there may be little or nothing we can do to change such "natural" conditions, we can do much through press and promotional work to ensure that they are not misinterpreted to our disadvantage. We cannot change the high rainfall in Ireland but we can point to the adequate water supply for industry that results from it. We cannot alter the rate of inflation over the past five years but we can point out that it has fallen greatly in the current year. We cannot change labour availability but we can get the precise facts about it (numbers - male and female, skills, education, rates, legal and traditional holidays, fringe benefits, and so on) which will be of immense value to promotion - and in planning.

3.6 The industrialist will study very carefully legislation, treaties, and trade agreements relative to his investment. Ireland, a country of three million people in the North Atlantic, is one thing; Ireland, a member of the European Economic Community with access to its markets of over 250 million people, is quite another thing. To the export manufacturer, trade agreements are crucial. To the investor, legislation which will enable him to repatriate profits and capital is crucial. He will, of course, be concerned with the legislation of his own country as well as with that of the host country. Freedom from taxation in the host country, for example, will be of little value if the profits which he makes are fully taxed at home. We cannot change the laws of the investor's country, but we can carefully assess what room for manoeuvre they give us in tailoring our programmes; and we can direct our promotion towards countries whose legislation is favourable.

3.7 A disincentive in many developing countries with severe foreign exchange problems is their need to have a multiplicity of exchange rates: an official rate for commercial transations, a concession rate for tourists, and possibly others. If a potential investor, already worried by these complications, is required to make his initial investment at the official rate but can get no guarantee that he will be able to get the same rate in remitting profits or repatriating capital, that will be a very strong disincentive indeed. It could be a lot cheaper to give the necessary guarantees than to attempt to compensate by offering another type of incentive.

3.8 It will be a positive advantage to have acceptable international arbitration procedures for the settlement of business and investment disputes: for example, if a country is a member of the World Bank International Centre for the Settlement of Investment Disputes. And a country in which OPIC, the US Overseas Private Investment Corporation, operates programmes of investment insurance will have an edge in the US investment market.

Artificial Incentives

3.9 The third type of advantage which a location can offer is that deliberately provided as an "artificial" incentive. I have set out current practice in an Appendix to this paper which summarises the incentives available in free zones around the world. They are broadly of four kinds :

(a) tax concessions;

(b) building and site facilities;

(c) cash grants;

(d) other types of assistance.

3.10 When we consider all of the factors which the potential investor should take into account and the many unknowns involved, it is clear that he has no easy decision to make. It will be impossible for him to fully evaluate and compare alternatives in cost terms. There will be no clear arithmetical solution to his problem. In this situation he is very likely to base his decision largely on how others have fared in the locations concerned. Or, if some other firm of high business standing announces its intention of locating in a particular free zone, he may well accept this as an indicator that he should follow suit. So that the free zone which has still to attract its first investors is at a serious commercial disadvantage and must compensate for this by making a better offer or promoting itself better, or both.

3.11 Secondly, when many factors in a decision are not fully quantifiable, the relatively imponderable assumes greater importance. Investors are human and are influenced by emotion and intuition. We cannot control all factors which might attract or repel him, from the treatment he gets at his hotel to the people he meets in the street; but a major influencing factor is fortunately within our control. That is, the relationship which he establishes with the people in the promoting agency, his feelings towards them and, in particular, his feelings as to whether they would be good people with whom to do business. Hence, the vital importance of the agency and its staff from its reception desk to its boardroom.

3.12 In all this, we must have in mind the type of investor likely to be attracted to free zones. He could either be a large multinational, or a relatively small industrialist entering on his first manufacturing venture. The latter accounts for much, and possibly most, of existing investment in free zones; and it is reasonable to assume this pattern will continue. And we should take account of it in our marketing strategy, but probably making a special effort to attract one or two multinationals in the early stages. The smaller investor will assume, rightly, that their decision is based on thorough and objective study. But for even the biggest firms, the human factor, the intuitions of one or two key executives, can do much to shape the final decision. And, in either case, it is clear that the more <u>simple and straightforward</u> the system of incentives is, the better.

4 THE COST OF INCENTIVES

Some Incentives not Chargeable Against Free Zones

4.1 We need be concerned only with the cost of "artificial" incentives specifically designed to attract export manufacturing to free zones. The cost of other "natural" or legislative advantages are not properly chargeable against free zone development. A few examples may help clarify this.

4.2 A trade agreement, for example, which gives our exports preference in another country will give their exports preference in our country. It should help expand our exports and create new exporting industry but, at the same time, it may damage, through new imports, existing protected home market industry. The assessment of the balance of advantage is a matter for the national Government. Ireland had to carry out this exercise several times, most notably in an Anglo-Irish Trade Agreement and in considering membership of the EEC. The main lesson which we learned was that a country with a limited home market could not continue to develop industrially through the protection of import-substituting industry; exports were essential and could only be gained by opening up trade. There were - and are - costs in terms of jobs lost in traditional industry during the difficult period of transition. We are satisfied that the benefits outweigh the costs and will do so on an increasing scale. What the costs were - even if I were able to give them in detail - would be of little interest, as the right conditions of trade and the costs of achieving them will be as varied as there are different countries. Such trade agreements are partly a matter of economic assessment, partly a matter of bargaining, and largely a matter of national self-confidence.

4.3 Similarly, a low rate of cost-inflation will attract investment. Achieving it will have social costs such as restraints on income increases and national policies of control which may mean doing without otherwise very desirable things. But a country does not take such action simply to attract investment; it does so to achieve sustained growth in the national economy and because the benefits in the long term will outweigh the short-term social costs.

4.4 Or, the development of exporting industry may create new pressures for the improvement of the national telephone system. But any such improvements will be in the general national interest. At most, those parts of the systems specifically related to free zones should be charged against them.

4.5 These examples illustrate the general point that, even though such things can properly be seen as part of the national package of advantages to be promoted, they should not be taken into the costing of free zone incentives. But where incentives are specifically designed for free zones, their costs are properly chargeable. We will go on to look at these costs before looking at some general policy questions related to the incentives.

The Cost of Tax Concessions

4.6 The most important concession, offered by over 80% of existing zones, is complete or partial examption from tax of profits from exporting for periods of up to twenty years. Associated with this may be deferred depreciation of assets, which can effectively extend the period of the tax holiday; investment allowances which inflate the value of an asset to be claimed against tax; and other special arrangements.

4.7 To the extent that tax holidays attract investments which would not otherwise be made, their cost is nil; the profits on which we forego tax would not exist at all if we had not offered the concession. But to the extent that tax holidays extend to existing profits, or profits which would have in any case been made, there is a real cost. In the free zone situation, where the concession is restricted to the free zone and operates from its commencement, there are no existing profits so no new or additional cost can arise.

It could, however, be argued that if a lesser concession would have been sufficient to attract the required investment, the difference between that and the actual concession should be regard as a cost. The difficulty is to know whether, and to what extent, a lesser concession would have been adequate. Presumably, if the concession brought a substantially greater than required response in terms of investment, it could be assumed to be over-generous. But in this event the practical answer would be to reduce the concession for future investors, thus reducing the flow of investment. So, in practice, it seems reasonable to assume that the cost of such tax concessions is nil.

There will, however, be positive benefits - cash benefits to the economy as well as the social and technological benefits. These cash benefits will include :

- taxes paid by employees;
- savings on unemployment benefits;
- indirect taxes on goods and services bought by the industry or its employees;
- and the multiplier effect of both primary employment and higher incomes, which will further increase the above returns.

Such cash benefits are fairly easy to estimate but the estimate can only be made in respect of the specific conditions of a particular country.

Building and Site Facilities

4.8 The general infrastructure which provides the free zone environment, and prepared sites and buildings for lease are all valuable incentives. Their cost, long-term, need only be considered as an incentive cost to the extent that it is not recovered in rents and in charges for services. But they will be very relevant to our initial capital requirements.

4.9 Infrastructural costs for free zones will vary widely depending on their locations (e.g. whether near a city), existing facilities (e.g. roads, water, power) and the nature of their terrain. For example, in the Bataan zone in the Phillipines, which is located in a relatively isolated area with inadequate physical services, expenditure for about 400 hectares was $66m up to June, 1975, with further expenditure since then. At Shannon (81 hectares) and Masan (94 hectares) the cost of services and site development was about $10m in each case.

4.10 As costs depend entirely on local circumstances, any general conclusions could be misleading. Within Britain, for example, site development costs are known to vary by as much as 5,000%. But, for what it is worth, site development costs in Britain and Ireland tend to be around $20,000 per acre or something over $50,000 per hectare. We may be able to draw on the experience of participants for other examples.

4.11 The cost of buildings will also vary greatly. At Shannon, the current cost of building rentable factories of high standard is approximately $165 per sq meter.

Cash Grants

4.12 These are the incentives with the most clearly visible costs. They are normally given to reduce the cost to the investor of specific requirements - buildings, machinery, or training. Or they can be related to jobs provided as payroll subsidies. Or they can combine both these approaches - for example, by making the amount of cash grants given towards fixed assets dependent on the number of jobs to be provided.

4.13 At present, such payments are confined - with the exception of Singapore - to European locations. Grants in Ireland compare favourably with those elsewhere in Europe. The most recent figures there show that in 1976 projects were approved which involved a total of 18,000 jobs. Total fixed asset investment in these will be $323m, towards which the State has committed grants of $117m - about 36% of the total fixed asset investment and $6,500 per job approved.

4.14 All of this, with the probable exception of portion of the cost of grants towards training (which might otherwise, in any case, have had to be paid for by the State) must be seen as a direct cost of attracting industrial investment and generating industrial employment.

Other Types of Assistance

4.15 A particularly valuable incentive in attracting foreign investment - and, indeed, in the development of indigenous industry - is the availability of industrial advisory services. These can range over a very wide spectrum. They may extend through Export Promotion Boards to advice on export markets and to market research; and through technological institutes to advice on materials, processes and products. Such services will be on a nationwide scale and it is common to charge for much of the advice given, certainly where this involves carrying out specific research for the firm concerned.

4.16 The availability of national services will determine the extent to which the free zone authority will have to itself offer advisory services. At a minimum, it would call for the employment of one or two officers whose main task would be to keep industries informed about where advice can be obtained. It will probably include also immediate advice on matters of special concern to an industrialist operating in what is for him a strange environment - such matters as labour legislation, recruitment and training, procurement of materials, and customs and shipping matters. This advice will be free, and its cost will be the salaries and overheads of those employed for the purpose. It should be modest in total and would be seen as part of the general costs of the promotional agency rather than as a separate incentive.

4.17 In this connection, we must remember that the satisfied industrialist is the best advertisement we can have. If he has experienced helpful advice and information, he will often want to reciprocate by giving us advice and help in attracting more industry. In addition, advisory contacts can encourage him to expand, to raise the level of technology in his factory, and to reduce the import content of his products by sourcing more materials locally.

Social Costs

4.18 Are there social costs as distinct from financial costs which should be considered ? Undoubtedly, there are but I know of no way of quantifying them.

4.19 Industry itself is seen, by some, as a necessary evil. It forces us to conform with the clock rather than with the sun. Where it calls for shift-work, it can involve severe strains on family and social life. Industrial employment may not be ideal, but few of us would prefer the probable alternative of being unemployed. Even the most unpleasant factories have many people seeking jobs in them. And with the protection afforded by trade unions, with improved working conditions, and with the greater concern of industry for human welfare (even though the motivation for this may be higher productivity rather than social responsibility) industry can now provide its own desirable social climate.

4.20 Another obvious potential social cost of industry is that of pollution. It could be an economic cost too if it adversely affected other economic activities such as tourism, agriculture, or fishing. The extent to which pollution is a danger depends on the type of industry and on the controls imposed on it. In the typical free zone, with light to medium industry, the danger should be minimum. But the necessary controls should be operated stringently. If we gain one project by neglecting them, we may lose many more.

4.21 Light industry, because it is often female-employing, can have adverse social consequences through providing jobs for women while men remain unemployed. This depends, to an extent, on the relativity between male and female wages. How serious its social effects could be depends, of course, on existing social patterns and of patterns of existing employment. Each free zone must decide on its own policy in this regard and implement it in terms of the projects which it approves for establishment.

4.22 Low wage levels are a major attraction in most developing countries. But any suggestion that free zones are areas where low-cost labour may be exploited would be socially disastrous. So we must have the intention, while making use of existing conditions, to steadily improve them. One way to improve wage levels is to raise skill levels; hence the importance of planned provision for training. And another safeguard against excessive social costs is in responsible trade union activity. In Ireland, it is a condition of acceptance of any industrial project that it must recognise the right of workers to be members of, and represented by, trade unions.

4.23 The social consequences of introducing industry in a non-industrial area are many but there is probably little merit in pursuing them further. They are unquantifiable as are the social consequences of <u>failing</u> to industrialize. These latter could be grave indeed in a world in which prosperity depends to such a large extent on competitive productive enterprise; and where work is natural to the human condition, unemployment can be the greatest social evil of all.

5 SOME POLICY QUESTIONS

5.1 There are some very interesting and fundamental questions in regard to policy on incentives and the operation and merits of different types of incentives. Probably there is no one right answer to these questions, if only because the answers must depend on each country's resources, needs and national policies. And, even in the case of a particular country where all these are known, it would be rash to pretend that there is one "right" answer: what is "right" remains very much a matter of human judgement. But, if investment is to be attracted, we must have clear, unambiguous and positive investment policies. Once we have them established and in operation, experience will show whether they should be changed. This raises the general question of flexibility in regard to incentives and there are at least three aspects of flexibility which we should consider.

Aspects of "Flexibility"

5.2 First is flexibility to change a regime of incentives. If, in 1977, we offer investors ten years of full tax remission on profits from export manufacturing, plus low cost buildings, plus cash grants towards training: for how long must we keep this offer open ? The answer certainly is not "indefinitely". If that offer fails to produce the requisite flow of investment, we may want to improve it; if it produces rather more than we are geared to absorb, we may want to reduce it. At the same time, to change what we offer too frequently would disrupt promotion and could even make our brochures out-of-date by the time they were prepared and printed. The market for investment needs time to get to know and assess the wares we have to offer. So, while we need flexibility, we need a reasonable time-lag between changes. What that should be is a matter for judgement and common sense - there are no rules.

5.3 Another aspect of flexibility is flexibility in negotiations - the flexibility to offer more for a project which we see as particularly desirable or to offer more where we see a need to go one better than the competition. Related to individual projects, the more flexibility we have the better. But related to general promotion, our ability to generate interest amongst investors is much greater where we have a clear and fixed regime of incentives. The international manufacturer considering production locations will usually have a wide range of options before him - too wide to enable him to negotiate with several countries, or agencies, before balancing out the relative advantages of each. He will tend to decide, on the basis of desk research, on a few possibilities which he sees as worth examining in depth. If our bait is in terms of what we might possibly give - subject to negotiations - he is likely to pass it by for bait which tells him positively - "you will get so-and-so".

5.4 Possibly a compromise is best and this is, in fact, what we have opted for in Ireland. Tax concessions are fixed. In regard to cash grants we say "you will get so-and-so and, if you meet additional desirable criteria, you can get up to so-and-so on top of that".

5.5 There is another aspect of flexibility which, in principle, should not exist at all; but which, in practice, may become a real issue. That is, once we have determined and agreed the conditions under which a project establishes, should it be possible to change them subsequently ? Suppose, in 1977, we offer, and the firm concerned accepts, ten year's full tax remission on profits earned from exports. Suppose, in 1982, that firm is making a profit large enough to become a matter of public comment. Should we then see flexibility as extending to saying to that firm "we gave you too much in our initial negotiations - the time has come to re-negotiate"?

5.6 The Irish view on this is very clear. Once a contract is made, it is binding: and even if it proves to be less to our advantage than we anticipated, we will stick to it. Contracts once made are seen to be inflexibly binding on both parties. This is not merely a moral stance. We must anticipate that any unilaterally imposed changes in the conditions of existing contracts would gravely damage our ability to negotiate the new investment contracts which we still so badly need.

5.7 But the Harvard Business Review of January/February, 1977, carries an article entitled "Negotiating with Third World Governments" which seems to see re-negotiation of contracts as likely rather than otherwise. And it could be said: if investors expect re-negotiation, why not enter into it when it suits us to do so ? Contracts negotiated under one Government may be politically unacceptable to its successor and, for this reason alone, some re-negotiation might be seen as inescapable.

5.8 Leaving aside any moral issues that might arise, it would probably be prudent to consider re-negotiation (if at all) only for very large and very special projects - for example, major mining operations or major industries oriented towards the home market. Free zones, and general industrial development such as we have experienced in Ireland, depends not on these very special projects but on a very large number of relatively small investments. And the industries which would make such investments would simply not be interested in a situation in which the terms of a contract might subsequently be unilaterally changed.

Level of Incentives

5.9 So much for certain aspects of flexibility in incentives. Probably the biggest single question facing any country seeking to attract industrial investment is that of the general level of incentives. How much should we give in terms of years of tax remission, exchange guarantees, cash grants, or other inducements ? One theory of incentives is that they should be sufficient to counterbalance any natural disadvantages of a location - high transport costs to markets, for example. But, even if we could calculate this amount in financial terms for one project, it would be unlikely to hold precisely true for others. In practice, we have to admit that it is impossible to determine what incentive levels should be on any absolute basis of first principles. The right answer in our own particular case must be approached from two directions. First, what can we afford to give ? And second, is what we are offering enough to produce the results we need, or is it unnecessarily high ? The first question, as we saw in considering costs of incentives, has no easy or obvious answer; except that, in view of the several indirect benefits from attracting industrial development, the amount we can afford to give is probably higher than we might initially expect. The second question can only be answered by experience. We must get going, make our offers, evaluate the results, and - after an appropriate interval - adjust our offers accordingly. Of course, we will have a rough but very useful guide in terms of what the competition is doing, and this will be particularly useful in the shaping of our first offers. But there are many imponderables which can only be proved out in practical operation - such as the attractiveness of our international trade agreements to potential investors, the suitability of our infrastructure to export manufacturing, the operation of our labour legislation, the adaptability of our workers, and many such factors which will have a direct bearing on the profitability of investment.

5.10 As a general rule, we could say that it is probably better to start our offers high; if we subsequently reduce them, we will still continue to benefit both from the image of a favourable environment for investment and from the demonstrated success of existing investments. A few successful enterprises which can be shown to potential investors are of immense promotional value and, until we have them, we must be prepared to pay more for the same promotional results.

Tax Concessions

5.11 The remission of tax on export proftis is, as we have seen, the most widely-used incentive in developing countries. Because it applies only to new investments, it does not cost anything. But such remission could be impractical and extremely expensive in a country in which manufacturing industry already earned a substantial proportion of its profits from exporting. Thus, the fact that existing major exporting countries cannot use this incentive gives a potential competitive edge to the country commencing the development of manufactured exports.

5.12 In some free zones, firms are licensed only to export. They may not sell any of their production on the home market. In others, including Shannon, they may be licensed to sell a proportion (usually up to 10%) of their production on the home market and will often do so even though their nett profit from such sales, because it is taxed, is less. The advantage of this arrangement is that, while maintaining the export purpose of the zone, it enables the State to be selective. Some free zone products - e.g. machine tools, electronic components - may be of value in the development of non-zone industry; and the establishment of mutually-supportive industrial "linkages" can accelerate total development.

5.13 Once export profits tax remission exists, there will be pressures for extending the definition of what constitutes "export profits". For example, profits earned by hotels catering for foreign tourists are export profits. The extent to which such pressures will, or should, be resisted is a matter for each Government. In Ireland, the definition applied initially only to exports of manufactured goods. It was agreed that this should include data processing operations where the "goods" exported were punched cards. Now, when such operations are tending to "ship" information by telephone rather than by air, the case of inclusion of "telephoned exports" is in debate. Engineering consultancy, which had an extremely limited export value in the past, has been encouraged by inclusion in the description and is now a substantial earner of foreign exchange. But tourism receipts and profits from agricultural exports are not included. To do so would involve foregoing a very large amount of existing revenue.

5.14 The application of this incentive, in other words, can be as widespread or as limited as the national Government, in the light of all its own circumstances, may determine. I suppose the most limited possible application, but potentially a valuable one, would be to limit remission to tax on profits earned from the export of manufactured goods from an industrial free zone.

Rentable Factories

5.15 After tax remission, the next least expensive incentive can be the rentable factory. Even where the rent charged recovers fully the cost of capital, services, maintenance and administration, the existence of a rentable factory can be a valuable attraction. It reduces the investor's initial capital requirement; it enables him to get into production quickly; and, possibly most important, it saves him all the unknowns and headaches of building in a country strange to him. Even in the case of larger projects or projects which, for any reason, need their own special purpose buildings, a rentable factory can provide a basis for pre-production training, for assembling equipment, and for initial operations.

5.16 The rent charged can be varied to be especially attractive in the initial years, increasing thereafter to a level to fully recover costs. In any case, leases should have built-in rent reviews at, say, five or seven year intervals.

5.17 We can go a stage further (as we do in Ireland) and give cash grants which operate to reduce the rent substantially in the initial years or to reduce the purchase price of the building. Typically, our rental arrangements include an option to purchase on stated terms within a stated period. While such cash grants cost the State money, they help to provide good industrial buildings which are a permanent asset (irrespective of who occupies them) in the national industrial structure.

Cash Grants

5.18 Whether these and other cash grants will be necessary at all will depend on the other advantages available. As I have said, they are not general outside Europe. But we might look at some of their implications.

5.19 Cash grants may be made available towards the purchase of equipment. Apart from the incentive value of such grants, they ensure that the equipment installed will be the most up-to-date available. Hence, these grants operate against the real danger of declining industries using a situation of low taxes and labour rates to get a few more profitable years with obsolete equipment.

5.20 The disadvantages of equipment grants is, of course, that they are particularly attractive to capital intensive industry with low labour requirements. But, even where our main aim is to create employment, we will wish a substantial proportion of that employment to be in high level skilled work. And in attracting technological know-how, we will prefer to attract the most advanced technology. So that such grants definitely merit consideration.

5.21 Cash grants related directly to labour employed have some of the opposite advantages and disadvantages. The worldwide industrial trend is to replace labour with machines, and heavily labour-intensive industry may have little future. This is certainly so where low levels of skill are involved and where it is easy for the machine to replace the man. At the same time, where the primary objective is immediate job creation, such grants provide the incentive most directly related to this aim. In practice, in countries where labour rates are low by international standards, grants related to labour costs will not be necessary at all. The full rates will still be attractive.

5.22 A much stronger case can be made for grants towards the training of workers. One of the main benefits of foreign investment is the transfer of technology. Training can both accelerate this process and raise the level of technology transferred. In addition, the more that an operation involves skilled workers, the more firmly is it tied to its location - it cannot readily move because rates elsewhere might become lower or for any other reason.

5.23 Further, the real cost of training grants can be assumed to be reduced by the extent to which the training they generate replaces training which would otherwise have to be given in State training centres. A skilled worker is a national asset, whether or not he continues to work in the firm which trained him. Of course, the value of skills depends to an extent on their transferability : skilled sheet metal workers are required in many industries, skilled piano tuners in only one. In Ireland, training grants are available up to the full cost of training workers.

When Projects Fail

5.24 Where cash grants are given, we must fix the conditions, if any, under which they will be repayable. For example, in Ireland, all grants are repayable if the firm concerned substantially ceases production within ten years of receiving them. Of course, such a condition may be difficult to enforce. The firm may cease production because it goes bankrupt and have no funds with which to repay grants. Or rigorous enforcement of a full entitlement to repayment may lead to unduly publicizing the reasons for the failure, and these could be anti-promotional. Thus, in practice, while the entitlement exists, the actual arrangement for repayment is often tailored to suit the specific case - possibly taking account the value of some years of successful performance before the failure.

5.25 When a project fails (and evitably a percentage will fail) it is very desirable to assess accurately the reasons for failure. Knowing these will be of value both in reviewing the suitability of the regime of incentives and in reviewing the criteria used in assessing projects.

5.26 For example, a firm manufacturing a low cost radio which had very good markets at the time of project establishment failed within a few years. On the surface, the reason for failure was simply the introduction, by a competitor, of a new model which captured the markets. But the real reason was that the firm had no product development side working on a new and better model. From this experience, we would now no longer support a proposal to manufacture radios unless the firm concerned had a clear progression of models; say, one model phasing out of the market, one whose sales were growing, and one not yet in production but in the process of development for the future.

Securing Higher Technology

5.27 This example brings me to another type of incentive, one specifically directed towards encouraging research and development. Such an incentive can operate towards ensuring the success of on-going businesses. In addition, in the attraction of new foreign investment, it can help attract the full technology of the industry concerned. Firms which are simply manufacturing subsidiaries, with research and development, and possibly marketing, carried out in their parent companies are useful towards job creation in the initial phases of industrial development. They give employment and they impart manufacturing skills. But they have little control of their own destinies. The higher technology and greater local management control which comes with involvement also in research and development is obviously most desirable. Thus, in Ireland, cash grants are available specifically for research and development work; and established firms are also eligible for these grants. The assessment of proposals for such grants calls for the involvement of well-qualified technical people and it makes sense to give this responsibility to a board or committee other than that dealing with ordinary business assessments.

5.28 Similar considerations apply to marketing. Assistance in marketing through the State Exports Promotion Board can encourage parent firms to transfer some, or all, of the marketing function to their overseas subsidiaries.

5.29 Another question arises in connection with securing the benefits of technology transfer. Should we have incentives towards the employment of local management or disincentives towards the employment of foreigners ? The higher up our own nationals are in the executive structure, the higher the level of technological transfer as well as the better the return in jobs.

5.30 While it is, thus, highly desirable to have locals in all management positions, any restrictions on the use by an investor of his own nationals as experts or managers are likely to be a strong disincentive. In any case, the investor who employs his own nationals overseas has to pay heavily for this in terms of overseas allowances, transfer costs, housing allowances, and travel costs. The pressure is continually upon him to improve his profitability by employing local people. The business decision as to whether or not to employ locals is, in our experience, entirely based on the availability of suitably qualified locals; if they are available, they will be employed. It can take some time before locals gain the necessary knowledge and experience of particular industries, but the pattern with which we have become familiar in Ireland is that of a progressive replacement of non-nationals by nationals in all projects, including at the level of the Chief Executive. I would guess the norm to be that within ten years the entire management of the operation, possibly with one or two exceptions in very large projects, are local people. I suggest, therefore, that this matter can be left to market forces, without need for specific incentives or disincentives.

5.31 I have been referring to cash grants. Support of similar incentive value can, of course, be given in terms of low interest loans rather than grants. If we are giving money, I do not think it makes a great deal of difference how we give it; the potential investor can do his sums and calculate the present value to him of either alternative.

Though low interest loans could be attractive to an investor who would otherwise find it difficult to raise his initial capital.

5.32 Equity participation, taking up some of the equity needed to float a project, could also be considered as an incentive. It is very desirable to have it available as a possibility in negotiation, certainly for the very large projects. As an incentive it cuts both ways. An investor may welcome an additional source of capital but he will not like to have to forego a share of his profits. Equity participation requires detailed negotiation and very careful consideration. Hence, it would generally be seen as the exception rather than the rule and, thus, applicable only to special situations. In this context, I am assuming that the State agency would be definitely a minority shareholder. Probably the question of equity participation has little relevance to the type of industrial project likely to establish in industrial free zones.

5.33 This is not an exhaustive list of the questions to be considered in determining the type, and amount, of incentives to offer but I think it opens up the major points for discussion. And perhaps discussion will bring us nearer to the answers.

6 HARMONIZATION AND CO-ORDINATION OF INCENTIVES

Problems in Harmonization

6.1 The purpose of incentives is to attract investment to one location rather than others. Their nature is essentially competitive. But when one free zone succeeds in attracting investment by out-bidding others in the same geographical area, the end result can be a higher total cost in incentives, without correspondingly higher investment in that area. So harmonization is highly desirable in the general interest; but the basically competitive nature of incentives makes it difficult to achieve.

6.2 Even if, desirably, the harmonization of national incentive packages on a regional basis were agreed, the precise terms of the necessary international agreements would be difficult to determine. Even within the same region, the fundamental attractiveness to investment of the different countries will differ. One will be perceived as having greater stability, another as having better international communications, another as having a more equitable climate, and so on. Thus, a common regime of incentives would not put them in an equal position to attract investment; rather would it preserve their basic differences in attractiveness. Different national regimes would be required to provide equal opportunity and it is clear that the degree of the differences involved would be difficult to determine on an international basis.

6.3 Of course, the closer the countries concerned are to each other, economically, politically and in their attractiveness to investment, the greater the scope for full harmonization; this is the position in the Central American Common Market.

6.4 A further problem with any detailed system of harmonization is that, as it would be a matter of international agreement, changes in the regime of incentives operated by any member would call for international negotiation with inevitable delays and difficulties. But any country would wish to be in a position to change the incentives which it offers in the light of its experience. As we have seen, experience is the only real indicator of the "rightness" of the incentives offered.

6.5 Does it then follow that, because any detailed harmonization of incentives would be difficult to achieve in practice, we must accept a free-for-all situation, of which the beneficiary would be the investor who could choose the best offer ? Hopefully, it does not. UNIDO has been aiming at a degree of co-ordination between free zones on a world scale - a World Association of Free Zones, the foundation of which was recommended at the Baranquilla Conference of 1974. An inaugural meeting is due to be held later this year. It should be much easier to achieve effective co-ordination at a regional level.

6.6 Even if the problems which I have outlined cannot be resolved at this Seminar, it should at least be possible to examine a working arrangement which would ensure continuing liaison and communication in regard to the development, operation and promotion of industrial free zones, including the system of incentives used in promotion. As a basis for discussion, let us consider a practical example of how this might work.

6.7 We could envisage a "Conference of Arab Export Free Zones" with the following functions :

(a) to develop common policies on incentives, which would take account of the special circumstances of individual members;

(b) to exchange information on the working and effectiveness of incentives;

(c) to exchange information on promotion and, as appropriate, to organise common promotions;

(d) to exchange information on the planning, development and operation of export free zones;

(e) to carry out joint research into subjects of common interest;

(f) to operate joint schemes of staff training and development;

(g) to make recommendations to Governments in regard to any international agreements which could further the interest of the free zones;

(h) to do any other thing agreed as being in the common interest of the members.

6.8 Common policies would, for example, involve agreed answers to the sort of policy questions related to incentives which I have raised. It would be desirable, and would facilitate potential investors, if the general shape of the incentive packages and some of their main elements (for example, conditions applying to repatriation of profits and assets) were common to all, even though individual items within the package might differ. For example, training grants might range from zero to the full payment of training costs. And the conditions applying to the remission of tax on export profits might be common, with different periods of remission applying in different countries.

6.9 While the full exchange of information through such a Conference would not ensure harmonization, it should help to counter competitive pressures which would otherwise operate against harmonization. No one would wish to bid substantially more than others for projects, if only because to do so could be politically unacceptable. So that open communications should minimise total costs.

6.10 Opportunities for common promotion would include, for example, the organisation of tours of a number of free zones in member countries by parties of industrialists, or business writers, or investment consultants.

6.11 Free zones, like any other physical development, should not only be efficient for their purpose but should be planned and built in harmony with the climate and culture of their environment. The structures and their surroundings that suit Ireland are unlikely to be right in India. But the right physical solution for one Arab country should be of special interest to others, and the exchange of information and experience on these matters should be of real value.

6.12 Likewise, the cost of research into matters of common interest could be minimised by a joint approach. Research subjects could range from physical structures to markets. The success of any business, including a free zone, depends greatly on the accuracy and completeness of information on which decisions are based. But the research necessary for sound information can be a costly business and any sharing of this cost would be to the benefit of all participants.

6.13 Staff training and development offer useful possibilities for co-operation. Inputs from outside a particular free zone or country can be particularly valuable in staff development. Without these, there is a very real danger of ingrown policies and practices of limited vision and excessive bureaucracy. The reaction which we have received from participants in the courses which we run in Shannon has been extremely positive and has demonstrated the value of such training at an international level. But courses could be even more valuable in many practical ways if they were held within a group of countries with common broad policies, a common language, and a regular arrangement for information exchange. In such a grouping, also, staff exchange and job rotation could be used valuably towards widening experience and generally increasing the capability of all staff.

6.14 From such a Conference, informed recommendations could be prepared for national Governments in regard to such matters as the duties to be imposed (or foregone) on imports from free zones in other member countries. Free entry of such goods to member countries would, undoubtedly, enhance the attractiveness of the free zones to investors but would raise a difficult question. If goods from a free zone in country A are allowed free entry into country B, can they logically be denied free entry into country A ? And if they have free entry into country A, how will this affect the development of non-free zone industry and import substitution industry in country A ? This is a subject for examination at our Seminar and there may be good answers; but it seems to me that it would be difficult, and probably impractical, to have conditions applying to free zone products which would be different to conditions applying under general trade agreements between countries.

6.15 Finally, co-operation would undoubtedly open up possibilities not yet considered and which we cannot now foresee.

6.16 It is the purpose of this Seminar to explore such questions. They are complex ones and it would be extremely difficult for our group to arrive at complete or final answers. But an on-going collaboration, a Conference with a permanent Secretariat, could deal with some of them quickly and all of them in time. The case for it is strong and it could be a major practical and realistic move towards harmonization - or towards that degree of harmonization which would be in everyone's interest.

"ORGANIZATION AND FINANCING OF INVESTMENT PROMOTION INCENTIVES":

Appendix.

Name of Country and Free Zone	Summary of Principal Investment Incentives Available
Mauritius Export Processing Zones	1. Exemption from import duty on capital goods and raw materials, components, etc. 2. Exemption from Corporate Income Tax for 10 to 20 years, and from Income Tax on dividends for 5 years. 3. Free repatriation of capital, and remittance of profits. 4. Provision of factory buildings and of loans towards building costs. 5. Financial and other aid for exports. 6. Guarantee against nationalisation and adherence to IBRD Convention on settlement of investment disputes.
Senegal - Dakar Free Industrial Zone	1. Industries admitted to the zone are granted special status for 25 years (renewable) giving:- (a) complete tax exemption (b) exemption from import/export duties and taxes (c) freedom to transfer capital, revenue and salaries of expatriates, and (d) freedom with recruitment. 2. Services of IBRD are available to arbitrate in case of disputes. 3. Pre-built factories are available for occupation; serviced sites also available.

Arab Republic of Egypt - Free Zones in Port Said, Suez, Cairo and Alexandria.	1. Projects in Free Zones are exempt from exchange control regulations, and from the provisions of all tax laws for an unlimited period. (In lieu of local taxes projects are subject to an annual levy of 1% on sales). 2. Imports into and exports from free zones are not subject to any import/export restrictions, nor to customs duties or other taxes. 3. Capital and profits may be repatriated freely at any time. 4. Salaries of aliens are exempt from general income tax, and up to 50% may be remitted abroad. 5. Egypt has adhered to the IBRD Convention for settlement of investment disputes. 6. Serviced sites available for factory building; advance buildings being constructed.
Syrian Arab Republic - Free Zones in Latakia, Aleppo, Damascus, Tartous and Adra	1. Free admission of commodities, raw materials, etc., exempt from customs duty, import licences, etc. 2. Developed plots placed at disposal of investors for construction of plants, under long-term lease and at low annual rents. 3. Special arrangements to facilitate entry of free zone products into Syria. 4. Low rates of charge for utilities. 5. Exemption from income taxes now under study. 6. Invested capital may be repatriated, and profits earned may be remitted abroad.

India - Kandla Free Zone and Santa Cruz Electronics Export Processing Zone (Bombay)	1.	Indian tax law offers a range of tax incentives to stimulate investment, resulting in a considerable reduction in the effective tax burden in the formative years.
	2.	Exemption from customs and other duties on capital goods, equipment, raw materials, etc.
	3.	No restriction on repatriation of original capital invested, or of profits/dividends on this investment.
	4.	Standard design factories, and plots for construction of factories, are available for lease.
	5.	Water, power and other services available.
	6.	Finance at concessional rates available.
Philippines - Bataan Export Processing Zone	1.	Machinery, equipment, raw materials, etc., may be imported tax-free and customs-free.
	2.	Exemption granted from payment of export, municipal and provincial taxes.
	3.	No general income tax exemption, but relief available by way of carry-over of net operating losses incurred during first 5 years, and by way of accelerated depreciation of fixed assets.
	4.	Full repatriation of investments, and remittance of profits/dividends.
	5.	Priority allocation of foreign exchange; capital financing available- also assistance in export development.
	6.	Standard factories, and serviced sites, available for lease.
	7.	Utilities available at low rates; and low-cost housing for workers.

Republic of Korea - Masan and Iri Free Export Zones	1. General company taxes, and taxes on dividends, etc., are relieved in full for 5 years, and by 50% for another 3 years, in the case of foreign investments. 2. Business tax on exports, and import duties on capital goods, raw materials, etc., are fully exempt, as are income taxes on salaries/wages of foreigners. 3. Remittance of profits/dividends guaranteed from first year, and repatriation of capital from third year. 4. Standard factories and factory sites available for leasing. 5. Utilities and supporting services available.
Malaysia - Export Manufacturing Zones in Selangor, Johore and Penang States	1. The following fiscal incentives are available:- (a) Pioneer status giving from 2 to 8 years of full tax relief, (b) investment tax credit giving tax deduction rights up to 25% of fixed assets, (c) extra allowances for companies which export. 2. Full exemption from import duties on machinery and raw materials. 3. Free repatriation of capital, profits, dividends. 4. No currency control. 5. Ready built factories, and developed sites, are available. 6. Foreign Investment Guarantee Agreements signed with several countries.

Indonesia - Export Processing Zone	1.	Five years exemption on corporate income tax. Concessions also in sales and commodity taxes.
	2.	No customs duties on machinery, equipment, or raw materials.
	3.	Long-term loans available for factory construction.
	4.	Developed land available as building sites.
	5.	Utilities and warehousing services provided.
	6.	There are provisions defining the extent of allowable repatriation of profit and invested capital.
Western Samoa - Apia Industrial Free Zone	1.	Exemption from taxes on export profits for 5 years, or accelerated depreciation rates, at investor's option.
	2.	Exemption from import/export duties on plant and equipment, and raw materials.
	3.	Free repatriation of invested capital, dividends and profits.
	4.	Pre-built factory units available for renting.
	5.	Electric power at preferential rates.
	6.	Housing provided for expatriate staff.
Colombia - Free Zones at Barranquilla, Cali, and Cartagena	1.	All kinds of goods may be imported and exported without any restriction, and without payment of any taxes, duties, etc.
	2.	Complete freedom from all exchange controls.
	3.	Factory buildings and sites are available for renting.

	4.	All utilities are available, some at concession rates.
	5.	Assistance given in obtaining domestic credits, and in developing exports.
Jamaica - Kingston Free Zone	1.	100% tax holiday on profits from industrial operations for 10 years; 50% tax holiday thereafter.
	2.	Freedom from customs duty, import licensing and quantitative restrictions.
	3.	Finance is available for industrial projects. Currency convertibility can be extended, and repatriation guarantees can be provided to approved overseas investments.
	4.	Factories are available for lease at economic rates; building sites also available.
	5.	All necessary utilities and services are available.
Puerto Rico - Mayaguez Export Processing Zone	1.	Fifteen years of full exemption from all corporate income, property and municipal taxes.
	2.	Raw materials may be imported without payment of duty.
	3.	Factory buildings and serviced sites are available for lease.
	4.	Long-term loans at low interest rates.
	5.	Special incentive grants towards cost of training, rentals, freight-rates, etc.
	6.	No exchange controls. No expropriations.

Dominican Republic - La Romana Industrial Free Zone.	1.	Complete exemption on all taxes for 20 years.
	2.	All equipment and raw materials may be imported free of duty and excise taxes.
	3.	Factory buildings available for renting.
	4.	No currency exchange restrictions.
	5.	Treaty guarantees U.S. investors against expropriation and other risks.
	6.	Electricity, water, repair,and computer services available.
El Salvador - San Bartolo Industrial Free Zone	1.	All machinery, equipment, raw materials, etc., may be imported free of duty.
	2.	There is a 10 year income tax and capital tax holiday.
	3.	Unrestricted remission of profits generated by exports.
	4.	An investment guarantee agreement with the U.S.A. guarantees private investment against loss by expropriation or inconvertibility.
	5.	Standard factories and developed sites are available for lease.
Ireland - Shannon Industrial Free Zone	1.	Full exemption from taxes on export profits until 1990.
	2.	Customs-free status facilitates movement of goods required for industry.
	3.	Outright cash grants aan be negotiated covering up to 35% of fixed assets and 100% of labour training costs.
	4.	Pre-built factories and factory sites available for lease or purchase. Full utilties available.

	5. A wide range of advisory and support services is provided. A modern town has been developed to support the industrial project, and subsidised housing is available for workers. 6. Capital and profits may be repatriated without difficulty.

<u>NOTES:</u>

1. The foregoing information has been compiled, in the main, from documents published by the relevant authorities in the countries concerned.

2. In general, purely commercial free zones have been omitted.

3. New industrial free zones are being planned, or are under construction, in Cyprus, Yugoslavia, Morocco, Ghana, Liberia, and Nicaragua.

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