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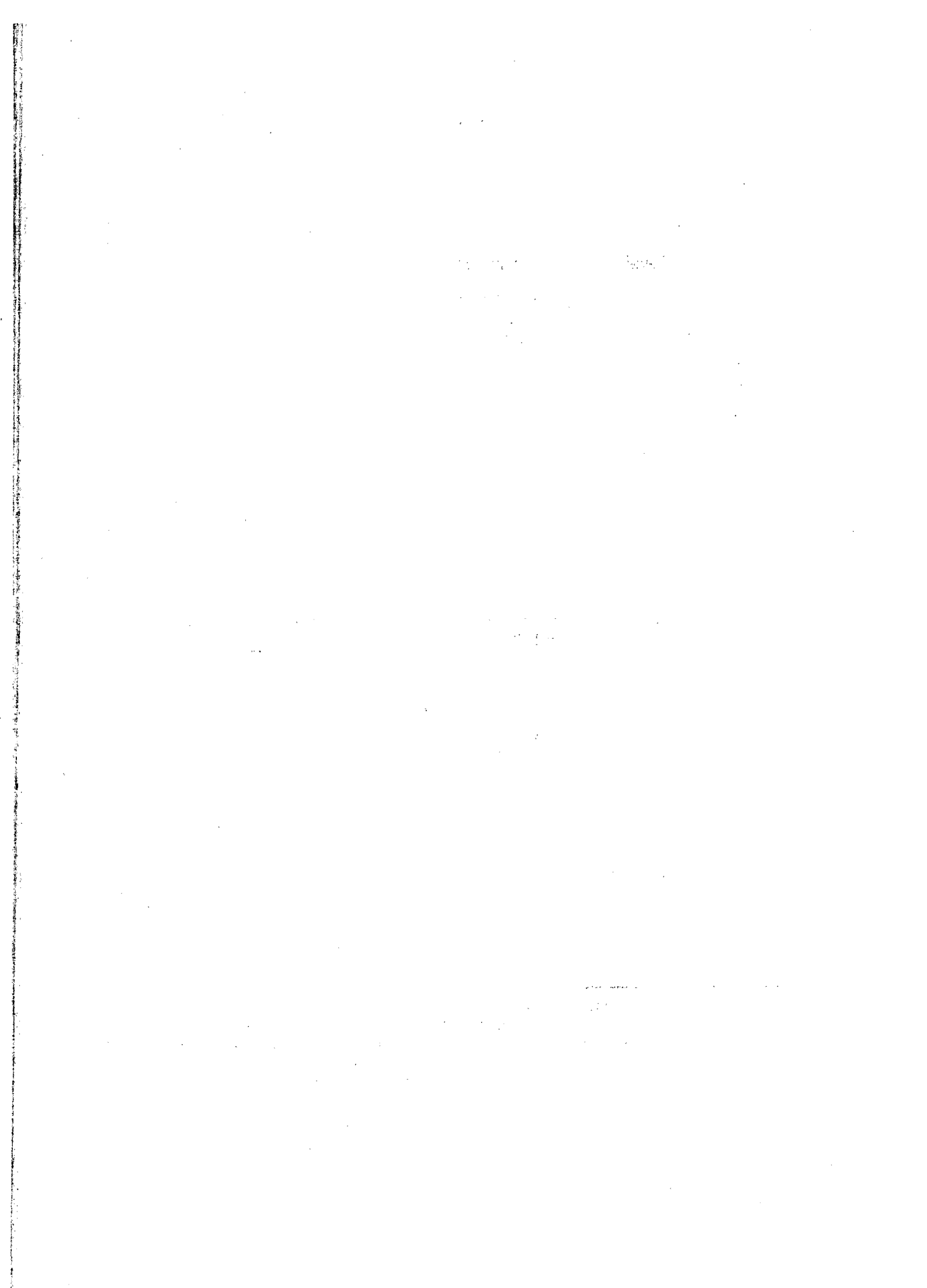
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Industrial Free Zones in the Context of Regional
Development Planning

1. Introduction

An Industrial Free Zone is a clearly defined geographical area, within which industrial activity is carried on under regulations which permit inter alia entry of raw materials and semi-finished goods of foreign origin and their later re-exportation without payment of Customs Duties. The extent to which freedom from Customs Duties applies to components, spare parts and machinery differs from country to country, but the essential elements outlined above hold true for all Industrial Free Zones. The concept of the Industrial Free Zone has sprung from the older-established idea of the Free Trade Zone (also known as Free Port or Free Trade Area). As is well known, the Free Trade Zone device has been used as a means of facilitating international trade since the time of the Roman Empire.^{1/} With the enlargement of World Trade in the Middle Ages, its use was given added impetus and the number of such zones increased. This growth in numbers and in importance was maintained up to the Second World War.^{2/} Thereafter a shift in emphasis occurred, resulting in an extension of the Free Trade Zone concept to include manufacturing activity as well as purely trade facilities within the Zone. Hence the term Industrial Free Trade Zone. While the trading and warehousing aspects of Free Zones have an impact on the local and national economy,^{3/} this paper is limited to an examination of the role which Industrial Free Zones can play in the implementation of a Regional Development Programme.

^{1/} See "Free Trade Zones" by A.W. Weil - International Handbook of Management 1965 - in reprinted form by McGraw Hill Book Company Ltd. 1971.

^{2/} See "Free Trade Zones and related Facilities Abroad" - U.S. Department of Commerce publication - July 1970.

^{3/} e.g. UNIDO Study - "Preliminary Assessment of the establishment of an Industrial Free Zone in Lebanon" - summary in Arab Economist - February 1971.

Unlike Free Trade Zones, the regional approach to national economic planning is a relatively new concept. In most countries it has developed as a policy instrument designed to tackle effectively a number of social and economic problems arising from the process of industrialisation and its consequences. ^{4/}

In Ireland (as in many other developing countries), three inter-related trends - successive shifts in the nature and location of economic activity, changes in the pattern of where people live, and varying increases in population, have combined to put serious pressures on the resources of certain Regions, while others have failed to share fully in growing national prosperity. For historical reasons welfare imbalances have existed in Ireland for centuries. When the Industrial Zone was created at Shannon in 1959, the Western part of our country (in which Shannon is situated) was in a state of underdevelopment relative to the East. That year also marked the beginning of Ireland's modern industrial programme, which so far has resulted in only a minor adjustment in this imbalance, since the location of manufacturing activity is very much influenced by the "pull" exerted by the "centripetal" attraction forces of Dublin, our capital city, (in 1966, Dublin City accounted for 44% of all manufacturing employment in the State).

The industrialisation policy of the early sixties was aimed primarily at increasing national prosperity and total job-opportunities in the country. While genuine attempts were made to influence the location of these jobs in favour of the West, this was considered of secondary importance to the overall task of developing the national industrial base. However, by 1965 the success achieved in the creation of new manufacturing jobs focused attention on the growing imbalance in the location of these jobs within the country, as well as affording us the relative luxury of adopting more concrete regional development policies. It was in this context that the importance of the Industrial Free Zone at Shannon was fully recognized. In fact since the setting up of the Zone, it has played a significant role in the Irish Regional Development process, a role that was fully apparent after the initial reasons for its creation became less

^{4/} See "Methods of Regional Analysis; An Introduction to Regional Science", M.I.T. Press, Cambridge, Mass., U.S.A. 1960 also Friedmann and Alonso (Eds.) "Location Theory, Regional Development and Planning". M.I.T. Press, Cambridge, Mass., U.S.A. 1964.

relevant to its future development. This paper will endeavour to explore the nature of that role, the lessons that can be drawn from the Shannon experience, and the overall applicability of the Industrial Free Zone device for other countries.

2. Shannon's Regional Role.

The creation of the Industrial Free Zone at Shannon resulted directly from the threat to the existence of Shannon, and initially its essential *raison d'être* was based on the need to maintain and develop traffic through the Airport. Its use as a stimulant to Regional Development and its likely impact on the Shannon hinterland was of secondary importance at the time of its establishment. Nevertheless two factors are worth noting in this regard. Firstly, the Airport itself was functioning as a major employment centre in the West of Ireland, (in fact the largest single employer in the West). Any action taken to safeguard this role could be viewed in a regional development context, although this was not given full formal expression at that time. Secondly, the original legislation (the Customs Free Airport Act of 1947) which established Shannon as the world's first Customs Free Airport, also contained provisions relating to the establishment of manufacturing and processing facilities within the Customs Free Zone. While no attempt was made until 1959 to take advantage of the opportunities made available by legislation, it is significant that the Industrial Free Zone concept had been written into the legislation as early as 1947. This is a further indication that regional development thinking was implicit in much of the planning and the establishment of Shannon Free Airport. Therefore, while the immediate aim of the industrial development programme at Shannon was to safeguard the Airport's future, it is obvious that establishment of the Industrial Free Zone fitted neatly into the regional development nature of the Airport itself.

The Shannon Free Airport Development Company was conscious of its regional implications from the outset, but the Zone's full regional significance became really apparent in 1964 when industrial employment exceeded that at the Airport proper. Thereafter the development of the industrial complex assumed an importance in its own right, although still inextricably linked with the overall development of the Airport.

The Company's recognition of the part played by the Zone in the local economy coincided with a general national awakening to the regional development problem. This resulted in the national acceptance of the industrial zone as an important regional development tool in the West of Ireland. This recognition was given concrete form in 1968 when SFADCO was charged with responsibility for industrial development in the area surrounding Shannon, comprising the administrative counties of Clare, Limerick and Tipperary (N.R.); as well as the Limerick County Borough - now known as the Ireland Mid-West Region. By 1968 industrial activity at Shannon had assumed relatively major proportions in terms of Irish industrial development. Almost 4,000 people were employed in 42 firms (28 of foreign origin) within the industrial zone. The output of these firms (all of which was exported) reached £35m. in that year (25% of national exports of manufactured goods). Investment in the Zone was estimated at £13 million - £5 million state investment and £8 million contributed by foreign investors.

3. The Regional Impact Assessed

This industrial growth had substantially benefitted the economy of the surrounding region throughout the Sixties. All of these benefits can be listed, but some only can be quantified.

Prior to the setting up of the Industrial Zone, the immediate region surrounding Shannon was mainly an Agricultural one, with the Airport itself providing the main alternative employment source. For example in 1961, 48% of the Mid-West Region's working population was engaged in Agriculture, while only 11% was in manufacturing activity (as against 17% in the country as a whole, and 47% in Dublin City). The establishment of the Zone resulted in a significant expansion in the Region's industrial base - by 1966 manufacturing employment in the Region (at 15,000) accounted for 16% of the working population, an expansion of almost 40% in that five year period. The Industrial Zone at Shannon was directly responsible for almost 75% of this increase.

The direct income generation of the Zone was in the order of £2 $\frac{1}{2}$ million per annum, 80% of which was spent in the Region. In 1963 roughly 6,000 other jobs in the Region (in agriculture, utilities and services)

were dependent on the Industrial Zone (the Multiplier effect). This was reflected in the population trend in the Region in the period 1961 - 66. Prior to 1961, the Region's population's history was one of decline and large-scale emigration. In the 1961 - 66 period however, the Region's total population actually increased by 1.6% while the population of the nearby settlements of Ennis and Limerick increased by 9% and 12% respectively. It requires only a superficial knowledge of Irish social and economic history to appreciate the magnitude of this achievement. There are other measurable regional benefits of the Shannon Industrial Zone (real increases in per capita incomes, greater use and expansion of existing social and commercial infrastructure etc.) which are implied in these broad effects on employment and population growth.

While these benefits meant an increase in the real welfare of the people of the Region, possibly the most significant impact on the Industrial Zone was in terms of the industrialisation of the immediate region, and its implications for the development of the whole of the West of Ireland. The zone contributed greatly to the diversification of employment opportunities within the Region, but more important, it succeeded in radically altering the Region's industrial base. Prior to the setting up of the Zone, the Region's industrial structure was dominated by home-market oriented, traditional-type industry, with limited expansion prospects at that time. The Zone attracted a wide variety of new manufacturing industry, and in particular the inflow of foreign capital, technology and industrial expertise injected the necessary dynamic into the Region's industrial structure.

It is in this context that the creation of an Industrial Free Zone can contribute to Regional Development Programmes, and by extension to the achievement of national industrial development aims.

4. The Industrial Free Zone in the Regional Development Plan

I have presented a broad picture of the effects of the Shannon Industrial Free Zone on its Region in the years up to 1968. I chose this date because the creation and operation of the Zone up to that time did not take place within a formal Regional Planning framework, although it

did have implied Regional objectives. When SFADCo was given Regional responsibility for industrial development, the function of the Industrial Free Zone was clarified in a Regional context, with the publication of the Company's Regional Industrial Programme in 1969.^{5/}

Broadly the Company's strategy for future industrial development in the Region envisaged the creation of a hierarchy of Growth Centres (or Poles) within the Region, incorporating a strong main Growth Centre. The Shannon Industrial Zone would form the cornerstone of this major industrial development area, which would also include Limerick City and Ennis, thereby connoting a Zone rather than the specific geocentric concept of a centre or pole of growth.

This future role had two aspects: -

- (i) Because of the inherent attractiveness of the Zone for industry it would continue to make a significant contribution to the Region's future industrial job targets. This contribution was looked upon as diminishing over the years, as the industrialisation of other Regional centres accelerated. It would still account for 20% of the total new jobs to be created up to 1986.
- (ii) The existence of a growing industrial complex at Shannon would continue to add to the attractiveness of other locations (Regional) for manufacturing industry.

Since the commencement of the Regional Industrial Programme, the Zone has fully lived up to this concept of its role - 28 new firms have set up in the Region, with an employment potential of 3,500 people when fully operational. Ten of these firms located in the Industrial Free Zone.

^{5/} "Five Year Programme for the Industrial Development of the Mid-West Region". - SFADCo. 1969 also Supplement 1970 to the Programme, SFADCo., Shannon, Ireland.

5. The Applicability of the Shannon Experience.

Although this has been a very brief outline of the main regional implications of a specific industrial Free Zone, it is possible to draw conclusions from this experience which could have widespread applicability and relevance to the Regional problem of other developing countries. These conclusions have one inbuilt assumption - that the Regional (and national) problems of unemployment, underemployment and imbalanced economic structure which we have experienced and continue to experience, are common to most developing countries to-date. This assumption appears to be perfectly valid - the problems may not be exactly the same for all countries, but the difference is in degree rather than in kind.

Although this paper is chiefly concerned with the role of Industrial Free Zones in Regional Development, many of the benefits accruing to the Region also have national implications. These "national" advantages of Industrial Free Zones have been well-documented elsewhere,^{6/} and for my purposes it is sufficient to give a brief list of the main benefits, particularly as evidenced by our experience at Shannon. The Zone here:-

(a) stimulated an inflow of foreign capital and expertise much of which would not have located elsewhere in Ireland.

(b) added significantly to Ireland's export total, thereby aiding the Balance of Payments.

(c) created a demand for graduates and scientific personnel from Irish Universities who would otherwise have to emigrate.

(d) provided evidence, on an international basis, Ireland's industrial development capacity, which helped in national industrial promotion.

On a Regional Development level, the basic lessons from the Shannon experience could be summarised as follows:-

^{6/} e.g. See UNIDO Study - Preliminary Assessment of the establishment of an Industrial Free Zone in Lebanon" - UNIDO - 1971

(i) If the establishment of Industrial Free Zone is feasible on other grounds, the maximum return in terms of regional benefits will be obtained by ensuring that the planning and implementation of the Zone is made part of an overall regional plan. In this way the role of the Zone will be clearly defined from the outset, thereby ensuring the maximum efficiency in decision-making with regard to the Regional location-of-industry strategy, the nature and extent of public investment in the Region (especially in infrastructure), the ultimate size of the Zone - in fact the whole range of decisions underlying a regional development plan.

(ii) In many developing countries this may not prove to be a practical possibility - e.g. in Shannon's case, this did not happen initially, since a Regional Plan did not exist at that time. In this case, the Zone and its associated facilities must be planned in close consultation with the public authorities in the Region which have responsibility for infrastructural provision. At Shannon, from the earliest days we sought to co-ordinate the development of the Zone with the provision of services such as transport, road, education, housing, etc. To this end we had close and frequent contacts with the Local Authorities in the Region, with C.I.E. (the National Transport Group) and with other national agencies involved in the provision of services necessary to the effective operation of industry in the Zone. In 1968 we were closely associated with the setting up of the Regional Development Organisation, which seeks to co-ordinate on a voluntary, non-statutory basis, the activities of all Agencies involved in the provision of infrastructure land in development generally in the Region. We believe that such co-ordination is an essential pre-condition for the success of an Industrial Free Zone, and on a broader level, the achievement of regional industrial development aims. In many countries the structures associated with services provision will be long-established. It is the task of the newer Development Agency to ensure that there is a mutual co-ordination and co-operation between its activities and those of the traditional utilities and other infrastructural agencies.

(iii) The existence of an Industrial Free Zone is a positive industrial promotion asset for a Region, initially attracting exporting industries to the Zone itself, but which can ultimately lead to an increase in the attractiveness of other Regional locations for industry. This latter effect is basically longer-term and occurs in two ways - in the Zone ultimately leads to an improvement in the quality of regional infrastructure on the one hand, while also attracting industry serving firms in the Zone, but located elsewhere in the Region. (This depends very much on the industrial "mix" within the Zone). At Shannon the Zone played another less obvious role in the attraction of industry to other Regional locations. It acted as a "deflector" by attracting firms which were initially interested in locating at Shannon, but for various reasons eventually chose another location within the Region.

(iv) Therefore, other things being equal, the Industrial Free Zone device is admirably suited to the role of spearheading an industrial development programme in an underdeveloped area. However, it is important to note that while the Zone gave the initial impetus to industrial development in our Region, its importance as a major job-generator diminished as the industrial attractiveness of other Regional Centres increased. We are aware that this is due in large part to the peculiar circumstances obtaining at Shannon (its peripheral location, the proximity of major urban settlements, the size of our Region etc.) making it difficult to draw general conclusions in this regard. Nevertheless our experience has shown that the setting up of an Industrial Free Zone will not of itself solve the industrialisation problems of many areas - it needs to be supplemented with an equally positive programme related to the other aspects of industrial growth.

(v) It is not essential that the Zone be located at an international transportation hub as Shannon is. However, we feel that it should be at or near a major transportation facility, preferably of an international character, but if not, then closely linked to the national transportation network. This conclusion is based on two factors - firstly we found that the existence of an International Airport was of positive benefit in the

attraction of industry to the Zone itself (over and above the inherent advantages of the Customs Free Regime) and secondly the development of the Zone led to an improvement in the quality and frequency of Airport and other transportation services, which in turn increased the attractiveness of the whole Region for industry.

(vi) We believe that while the Customs Free aspect of the Zones operation constitutes an attractive industrial promotion asset, for very many developing countries this alone will not lead to an immediate invasion of eager entrepreneurs! While much depends on other factors (e.g. the location of the particular country vis-a-vis major world markets), the competitive nature of the industrial promotion market normally requires the provision of additional incentives for manufacturers. The range of incentives offered at Shannon is an extensive one and is detailed elsewhere.^{7/} It is sufficient to note here that additional incentives to that inherent in customs free access is an accepted ingredient in the successful operation of a Free Industrial Zone.

(vii) My final point is probably the most relevant of all:-
To say that planning is about and for people is fast becoming a cliché, but this does not weaken the validity of the statement, especially at the level of the Regional Plan, which by its nature involves decisions affecting the whole environment and quality of life of the people in the Region. In fact this aspect of planning has been only recently given prominence in the "advanced economy" countries such as the U.K. ^{8/}
Because of this in the publication of our Programme we stressed the tentativeness, flexibility and openness to change which characterised our proposals. We stressed that the views and advice and attitudes of the people in the Region would be taken fully into account during the life of the Programme and that we were aiming to achieve the reality of participation by people in regional planning in the Mid-West. To this end 17 meetings

^{7/} See paper no.

^{8/} "People and Planning". - The Skeffington Report - H.M.S.O. 1969)

were held with local voluntary organisations throughout the Region to exchange views on the Programme in the first year of its publication. In addition 8 delegations from local bodies were received.

However, it was obvious as time went on that the public would have to be fully informed on the Programme if participation was to become a fact in the Region. As a first step in this process we drew up a Programme of open public meetings which was to be spread over two years involving 26 centres throughout the Region. Briefs were prepared on the Five Year Programme itself with reference to the Region, the county and the particular local area, with the emphasis on the role of the local community in the development process. This first attempt at participation is now in its final stages. We have been extremely satisfied with the two-way flow of information achieved at these meetings. The regular contact with the public, implying as it does, an exposure to criticism and a dismantling of the planner's "ivory tower", has proved of inestimable benefit to the Company. We also believe that the people of the Region have been made more aware of impending changes in their environment, and that this awareness has sparked off a desire to influence the direction of such changes.

We are conscious that in many countries, effective participation in planning will only be achieved after a slow process of education. We have made a start in this, but the real lesson of our experience is that the education process must be applied to the "Planners" as well as to the people. While the actual method employed in achieving participation in planning depends on the specific circumstances obtaining in each country, we believe that planning agencies (whether Regional or specific Industrial Free Zone Authorities) can make the implementation of plans more effective by involving the people from the outset.

I have attempted to summarise the major benefits accruing to the Regional and ultimately the national economy by the creation of an Industrial Free Zone, as the Shannon experience has shown. While many of these benefits would be realised without reference to Regional Planning, nevertheless the benefits are maximised and the operation of the Zone is more effective if its planning and growth takes place within the framework of a comprehensive Regional Plan.