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FREE-ZONE INDUSTRIAL ESTATES

Chapter I. The Free Port

1. Nomenclature

A free port, as it is named, offers more freedom than an ordinary port does. There are more than one hundred port areas which can be called as free ports in sense. However, they are different in characteristics because of their different purposes of establishment. It would be therefore, difficult to properly define them. Generally speaking, it is a port area exempt from custom duties for goods imported or exported.

Today a free port in the nature of tax exemption only has actually been out of existence, nor is a free port of utmost freedom - a free port not only for tax exemption but also free of general administration, like a free city in Middle Ages. Therefore, the nature of a free port in the present world is right between these two extremities.

2. Historical Background

Before the nineteenth century, the foreign trade of world powers was based upon the transshipment and the collection and distribution of foreign goods. The commercial success of a nation did not depend upon its domestic industrial prosperity or the export of its native goods, but lay in its trade position. In the fourteenth century, Bruges which is now in Belgium was the biggest market in North Europe. Merchants of Venice brought in their manufacturing products of glasses, textile, ammunition, papers, etc. and what they had traded from the Orient. Then

the merchants of the various big cities in the south western region of the shore of Baltic sea got together and formed a vast business organization, all taking Bruges as the destination of their Western shipping lanes. Other Christian and Arabian countries were also shipping their goods into this market. Till fifteenth century, Antwerp (at that time it was under the jurisdiction of Spain, and is now under the jurisdiction of Belgium) was raised up as the biggest market in the Northern Europe instead of Bruges. At that time the trade in Antwerp was entirely free of any restrictions, which was the main reason of why merchants were choosing Antwerp as the center of trade development. Since sixteenth century, Spain was defeated by Holland and then failed in the war with England. The Dutch merchants became active in trade among their colonies. For the sake of promoting domestic market, Amsterdam has been chosen to take place of Antwerp as a commercial base. Then in the seventeenth and eighteenth century, as a result of keen competition of shipping and trade between England and Holland, London has become the biggest transshipment market of the world.

Owing to the exaction of ways of levying and the inconsistency of local bylaws in Middle Ages, it created certain obstacles to industry and commerce and deeply affected trade. At that time the peninsula of Italy was divided into seven small independent states, with six states having their own protective tariff respectively. In 1840, a firm of Milan shipping silk goods to Florence had to pass through eight customs stations within a short travel of hundred fifty miles. In Spain, goods imported and exported shall be taxed, also with certain restrictions.

England also adopted certain protective tariff in the seventeenth century in order to prevent from export of raw materials and encourage general exports. Before the nineteenth century, the various states of Germany had their own customs regulations until 1829, when they organized the customs union to form a unified tariff along the boundary of the country. According to what has been mentioned above, it is clear that areas in which freedom are badly needed are those which suffer from restrictions or hindrance in trade. The Free Port, which is able to absorb shipping transportation and vast amount of re-export trade, comes to its existence.

3. Classification

Although there are different opinions among scholars about the categories of free ports, yet the following classification according to its extent of freedom may be the most common or practical:

1) The Free Port City is to take the commercial port as a whole, together with its contiguous city, as an area outside the customs territory. Not only it is being allowed to handle freely commodities of its export and import, storage, processing and manufacturing, but also it is admitted for people to live in and enjoy consumption of foreign goods.

2) The Free Port Quarter is to take a part of the commercial port to be outside the customs territory. Although it is also allowed to handle freely commodities of its export and import, storage, processing and manufacturing but people are not admitted to live in. Even personnel who have been permitted to reside in the area for administrative purpose shall not be allowed to consume foreign goods.

3) The Free Zone has still a more narrow sense in freedom than a Free Port Quarter does. It does not only forbid people to live in there, but also prohibit processing and manufacturing. Only simple manipulations such as export and import, storage, repackaging, grading and sorting are allowed in the zone.

4. Objectives

The meaning of the existence of free ports may be summed up as follows:

1) To promote transshipment and reexport.

No matter historically or physically, the development of transshipment and the attraction of reexport are the main functions required for the existence of a free port. In lack of such functions, it cannot be called a free port, or there is no need of its existence. Transshipment is different from reexport. The former needs only to offer port facilities for the trade of the third nation, to facilitate its transfer of ships for transshipment to other countries. Strictly speaking, there is really no relation of trade with the host country. Moreover, most of the commodities are transferred to other ships by maintaining its original packaging, and then transhipped to the third country of destination. Under such conditions, the port would be considered as a port of facilities provision rather than a port of trade facilities. Therefore, besides the free port which offers special privileges to the incoming and out-going ships for transshipment, there will be of not so much difference of facilitating transshipment either by a free port or by other customs port. In other words, it may not be necessary to use the free port for the promotion of transshipment.

This will not be the case of reexport. Most of its undertakers are local merchants. They have their investment on the commodities imported, or by the consignment of foreign merchants to import goods or raw materials for processing or repackaging, or to be manufactured with local materials incorporately, with the manufactured goods for import, or even for reexport. Such kind of trade are mostly handled by domestic merchants. Those who run reexport business may ship foreign goods into the free port without paying customs duties or taxation, nor is the need of going through customs procedures. He may handle his goods freely in the free port. This will naturally offer tremendous benefit to the merchant and promote reexport trade. This is not only the obvious fact but also the main objective for the establishment of a free port.

2) To establish international market.

Although geographic condition is very important to the formation of an area of collection and distribution of international merchandise, the exemption of customs duties is the most important of all. If it is also allowed for exhibition and free trade in the area, it will naturally fully display the function of its market value. This is why a free port shows its importance in the role of international trade market. The prosperity of Hongkong, Hamburg Free Port and New York Foreign Trade Zone reveals the fact that they have formed the necessary conditions as a place for collection and distribution of international merchandise and trade.

3) To establish industrial areas using foreign goods or raw material for processing and manufacturing.

In countries of no free port, foreign goods and raw materials shall have to go through customs procedures of import so as to make it into domestic goods before processing or manufacturing. Even in countries with bonded warehouse system, it has also to go through bonding procedures before it can be processed or manufactured under the custody of customs. However, in a free port where it is allowed for processing and manufacturing, there is no need of performing such complicate procedures of customs clearance or bonding. This is because foreign goods entering a free port will be exempt from the payment of customs duties and also free from customs intervention, so that goods may be handled freely as soon as it is unloaded. Therefore, these will be the best places for locating industries in need of foreign raw materials, such as the shipping industry and the various mechanical assembly industries in Hamburg Free Port, and the arms industry, the gilding industry, the processing of feather and furs, the marble industry, and the various food industries in Copenhagen Free Port. Based upon the request of the various domestic manufacturers and the actual need in industrial development, the United States in recent years has provided in the Foreign-Trade Zones Act, the facilities to be given in the various foreign trade zones to the operation of manufacturing enterprises and their legal admittance and protection. Moreover, machineries of tax exemption may be obtained for the installation of plants inside a free port besides constant improving and maintaining of high manufacturing standards. This is the basic reason of a free port helping development of industries.

4) To attract shipping.

Presently, special privileges given to the entering and leaving of ships by a free port are no more than those in an ordinary

port, no matter how in a free port a certain extent of freedom has been offered to the commodities. However, although there are no direct facilities given to the incoming ships, yet owing to the simplified procedures of ships entering and leaving the port and easy loading and unloading and storage of goods in the free port, which shortens the time of anchorage thereby best utilizing the economic value of the ships. Therefore, the import and reexport of foreign goods in and from a free port will attract vast number of ships entering or leaving. Some ships will anchor outside the free port using barges for loading and unloading to save shipping expenses. This happens to some free ports in Europe, except those with excellent facilities of loading and unloading and highest efficiency of port operation. As to a free port which provides special privileges to and simplified procedures of ships entering and leaving the port more than a customs port does, such as the famous Copenhagen Free Port, it will increase the attraction of entering ships, and is welcome by the international shipping enterprises. Furthermore, it will be noticed in a free port that the exercise of tax exemption of machineries and materials has brought prosperity to ship-building factories, maintained high standard and facilitated ship-repair. It shall not be overlooked that these will in turn attract shipping.

5. Necessary Conditions

After what has been mentioned above of the historical background and objectives of free ports, we are acknowledged of the fact that the creation of a free port is to meet its environmental requirements. Countries toward free trade policy have low tariff and less control. They feel unnecessary to deal with the problem of establishing free ports.

While countries of protective policy exercise control of foreign exchange and trade. They usually have very complicate procedures. Industry and trade in those countries are very much interested in the convenience offered by free ports and are keen on the necessity of establishing them. In order to eliminate the resistance to commerce so as to promote international trade and shipping development, the free port is endeavoring itself to simplify procedures, save cost and facilitate freight movement. Starting from the drafting of bylaws, these are taken as the objectives for their installation and management.

A review of the free port in Europe and the United States reveals that it is the proper location, the convenience of transportation, the adequate facilities and its position of international trade which have made it successful to attain the goal of trade promotion and shipping development. All of these are necessary conditions required for the establishment of a free port, to be repeated as follows:

1) Geographically, it shall be located at the strategic point able to serve as an area of collection and distribution of oversea commodities of either short or long distance.

2) Communicationally, it shall be waterway, highway or railway connecting to inland industrial and agricultural areas as well as big markets; and shall have been certain shipping lanes already established in connection to important world ports, with the belief of more new shipping lanes to be established according to the increase of trade.

3) For port facilities, it shall be provided with adequate berths for oceangoing ships, loading and unloading facilities, vast number of warehouses and the supply of water and fuel.

4) In international trade, it shall have been already in a profitable position of attracting vast amount of freight and facilitating entering and leaving of big ships. In other words, it has to have the foundation of a good harbor and the prosperous future of trade development before a free port can be made successful.

6. Advantages and Disadvantages

An evaluation of the above mentioned three systems of free ports is as follows:

1) The Free Port City.

a) Advantages:

i) Since the free port city has a broader area in which it is permitted not only for processing and manufacturing but also for people to reside, it may attract big amount of investment from outside, thereby industry and trade may be fully developed in the port.

ii) Because of its broader area, it facilitates the free establishment of large scale factories particularly ship-building factories. This will attract vast number of ships to be built or repaired in the port.

iii) Owing to the favorable conditions of a free port city, it does not only promote inside factories and increase their production, but also become the area of collection and distribution of world-wide products and promote local shipping development, thereby reinforcing the efficiency and installations of the port.

b) Disadvantages:

i) Its broader area needs more establishment along longer customs boundaries. It will be harder and will cost more for the government to exercise customs custody.

ii) People living in the free port city does not only enjoy food and clothing of tax exemption, but also may use raw materials of tax exemption to manufacture products for export. This is not fair to all the people of the country.

iii) A free port city may hold a certain number of population due to its broader area. This means considerable amount of consumption of foreign goods which may affect a part of domestic production.

2) The Free Port Quarter.

a) Advantages:

i) The prohibition of people to live in the free port quarter is a fair play to allow no person enjoying the privileges of consuming foreign goods without taxation.

ii) It has smaller area with shorter customs boundaries. Therefore it will be easier and will cost less for the government to exercise customs custody.

iii) Since the prohibition of people to live in the free port quarters, there is no consuming of foreign goods, thereby has no effect to domestic production.

b) Disadvantages:

i) Since the prohibition of people to live in the free port quarter, it seems not so easy to attract outside investment, thereby prevents the industry and trade in the quarter from full development.

ii) Owing to its smaller area, the establishment of large-scale factories may be restricted.

iii) In case if the area is so small which hinders industrial and trade development, the progress of shipping and harbor development will also be limited.

3) The Free Zone

a) Advantages:

i) Since the prohibition of processing and manufacturing in the free zone, there is no way to use raw material of tax exemption for export production, thereby eliminates the complaints from outside the zone.

ii) Since the prohibition of processing and manufacturing inside the zone, the area will be much smaller. It will be easier and will cost less for the government to exercise customs custody.

iii) Since the prohibition of people to live in the zone, there is no consuming of foreign goods and therefore no effect to domestic production.

b) Disadvantages:

i) Since the prohibition of processing and manufacturing and also the prohibition of people to live in the free zone, there is no way for people to invest thereby retards industrial and social development.

ii) Since the prohibition of processing and manufacturing in the free zone, there is no production inside. The operation depends only on the collection and distribution of foreign goods. There will be naturally less development in shipping.

Whether a free port city, a free port quarter, or a free zone, it is designated outside the customs territory. Ship may enter or leave

freely. So is the handling of storage, keeping, repackaging or maintenance of all kinds of commodities. Generally speaking, there will be of not so much difference among those three systems of free ports, except in the aspects of size and whether or not it is allowed for residence or processing and manufacturing. It will be hard to say whichever is the best, and will depend upon the actual economic and industrial situations of the country, the objective of its establishment and its geographical conditions.

Chapter II. Free Trade Forms

A free port may be considered as a free trade facility - essentially a device for servicing commerce. Although as what has been mentioned above of the three systems of free ports, such devices have appeared in many different forms including free cities, free ports, free trade zones (either in or away from ports), bonded warehouses, transit zones, airport zones, industrial free zones and special trade privileges. It therefore seems important to distinguish briefly the several free trade forms.

1. Free Cities

It is believed that almost all modern free trade forms have been originated from free cities. These cities consisted of independent urban areas and, in many cases, sizeable hinterlands. Today such cities do not exist. Their closest modern counterparts are Hongkong and Singapore.

2. Free Ports

The free port becomes the most common name of all free trade forms. Evolved from the free city, however, the modern "free ports", such as Hamburg, Copenhagen, and Stockholm, occupy only a relative small part of their respective port areas. They are essentially free trade zones located in ports rather than free ports, and this is also true of the foreign trade zones of the United States.

3. Free Trade Zones

Historically, the principal function of such zones has been to facilitate transshipment and re-export trade. They have also been used to some extent as centers for importing goods into the host country.

Recently there is considerable interest in free trade zones as a device for stimulating the growth of industry in the less developed countries. Details will be described in the following chapter.

4. Transit Zones

This free trade form serves the special function of providing an oceanside entrance and exit for the trade of landlocked countries or regions. It may be very large with extensive facilities such as the transit zone at Tripoli, or it may be only a warehouse or shed where goods are held temporarily pending shipment under bond to their ultimate destinations. Larger transit zones are characteristic of free trade zones, with various manipulations and even manufacturing permitted. But these operations are secondary or supplemental to the basic function of such zones in providing trading access to landlocked areas.

5. Bonded Warehouses

These are storage facilities in which goods may be stored under bond or deposit, but without payment of duties, for later re-export or import. There are many variations of this form. The simplest is the public bonded warehouse under customs control. Goods are stored under lock-and-key until removed. Others may be public, semi-public, or private, with various extent to which goods may be manipulated, processed or even manufactured in the warehouse. In effect, the more extensive bonded warehouse systems, such as those at Rotterdam and Antwerp, closely resemble the neighboring free trade zones. It is believed that for the more highly developed countries, a system of bonded warehouses is more efficient and flexible for performing the functions of free trade zones.

6. Airport Zones

These are free zones located at airports, consisting of enclosed areas where goods may be stored, handled, or processed under minimum customs procedures prior to re-export. The Shannon Free Airport, Ireland is a best example. In some instances airport zones are closely integrated with free trade zones located in port areas. At Colon, Panama, for example, the value of the goods re-exported by air is equal to about half the value of all goods handled in the Colon Free Zone. All of the usual functions associated with free zones or bonded warehouses may be performed in airport zones. The merchandise handled has a high ratio of value to weight with short delivery time. Furthermore, the world-wide trend in air freight towards greater efficiency and lower rates may bring increasing attention to free airport zones.

7. Free Merchandise Zones

These are places where foreign visitors may purchase domestic or foreign merchandise without payment of customs duties. They are usually established at international airports of various countries. Perhaps the best known free merchandise zone is at the airport at Shannon, Ireland. Here consumer goods are brought from all over the world for sale to tourists and other travelers. Shannon is particularly well located for this type of trade. Some manufacturing has developed in the zone. The Japanese, particularly active in this, are using the facility for this purpose as a means of avoiding import quotas.

8. Industrial Free Zones

A free zone industrial estate is located in a free trade zone, while an industrial free zone may be defined as an ordinary industrial

estate established independently inside customs territory but with enclosed area purposely operated as a free zone. It deals with industries only and does not necessarily require to be located in a harbor area. In Taiwan, ROC, the Kaohsiung Export Processing Zone located in a harbor area and the second zone located inland are best examples.

Chapter III. Free Trade Zones

Although there are so many different free trade forms in the world, today the most common form is the free trade zone. However, it is hard to define them since they vary somewhat in nature and purpose from country to country. In the United States, they are called foreign trade zones whose characteristics are in resemblance of free port quarters in addition to the admission of free exhibition in the zone.

1. Definition

One of the best known definitions of a free trade zone has been published by the U.S. Tariff Commission:

"A free zone is a place, limited in extent, that differs from adjacent territory in being exempt from the customs laws as affecting goods destined for reexport; it means simply, that, as regards customs duties, there is freedom, unless and until imported goods enter the domestic market."

"A free zone may be defined as an isolated, enclosed and policed area, in or adjacent to a port of entry, without resident population, furnished with the necessary facilities for lading and unloading, for supplying fuel and ships stores, for storing goods and reshipping them by land and water; an area within which goods may be landed, stored, mixed, blended, repacked, manufactured, and reshipped without payment of duties and without intervention of customs officials. It is subject equally with adjacent regions to all laws relating to public health, vessel inspection, postal service, labor conditions, immigration, and indeed, everything except the customs."

2. General Attributes

Certain general attributes of a free trade zone may be listed as follows:

- 1) Importers are allowed to lease land and buildings inside the zone for their offices and may employ their own staffs.
- 2) The entering of merchandise into the zone is exempt from customs procedures and needs no guaranty.
- 3) No surrender of foreign exchange is needed before decision is made on merchandise entered into the zone to be imported to the host country.
- 4) Merchandise may be stored in the zone with no time limit.
- 5) Merchandise in the zone may be repacked, processed manufactured or free manipulated.
- 6) In case if there is any shortage of the merchandise stored in the zone due to the effect of oblate or otherwise, and such merchandise is to be imported into the host country, only actual amount of importation is subject to the payment of customs duties.
- 7) Merchandise stored in the zone may be withdrawn by parts for import to the host country or reexport.
- 8) Since guaranty is not required for the importer, he will not be responsible to pay that part of customs duties in case if there is any shortage when stored in the zone.
- 9) Merchandise already imported to the host country to be brought into the zone may be taken as reexport.
- 10) The importer of the merchandise stored in the zone may do quality inspection and take samples before customs clearance.

- 11) Merchandise may be exhibited in the zone.
- 12) No customs inspection is performed for the entering of merchandise except checking of pieces or weighing.

3. Comparison with Bonded Warehouses

The function of a bonded warehouse is to store temporarily imported merchandise, to postpone time of paying duties when imported to the host country, and to exempt from customs duties when reexported. According to the present regulations of bonded warehouses in the Republic of China, the procedures for an importer to store his merchandise into a bonded warehouse will be as follows:

- 1) It shall be handled by registered labors from the unloading of the ship at the wharf till the stacking in the warehouse. It is also subject to customs custody and management from the arrival of merchandise at the port till its reexport or import to the host country.

- 2) The customs, for the purpose of protecting revenue duties and prevent merchandise from smuggling out of the warehouse, require the warehousing enterprise to submit a guaranty in order to be responsible for compensation if there is any theft, pilferage or smuggling of the merchandise.

- 3) It has to apply for customs authorization before every movement of merchandise in or out of the warehouse, and detail registration shall be made therewith.

- 4) During the time of storage in the warehouse, merchandise shall be systematically stacked according to regulations, so as to facilitate customs inspection to be made at any time.

5) Warehouses will be locked by the customs after office hours. It has to apply for customs authorization and pay special fee before entering the warehouse at such time.

6) The period of storage in the bonded warehouse is limited to one year. When one year is over, the merchandise shall be either imported or exported.

Now it will be clear to make a comparison between bonded warehouses and free trade zones. The former is time consuming while the later will save a lot in the cost. Moreover, with respect to no need of guaranty in a free trade zone, its exemption of customs intervention, the free handling of merchandise, and many other facilities, the bonded warehouse is no match of a free trade zone.

It will even be more strict for the regulations governing manufacturing bonded warehouses.

1) Manufacturing products in a manufacturing bonded warehouse shall be for export only. Import is not allowed even willing to pay duties, unless by special permit.

2) At the time of registration, the manufacturer shall report to the customs the name and kind of manufacturing products, the name, kind and quantities of raw materials required and its manufacturing process which has to be followed in later production.

3) The manufacturer has to submit a guaranty to the customs in order to guarantee the payment of duty according to import regulations for the part of raw material which has not been manufactured for export.

4) In the manufacturing bonded warehouse, the supervision of storage and withdraw of raw materials and manufacturing process are

exercised by customs officials whose expenses involved shall be borne by the manufacturer.

In the manufacturing bonded warehouse, raw materials may be imported without paying duties, to be manufactured or together with local raw materials into products for export only. It would be more convenient for the manufacturer to establish the manufacturing bonded warehouse in the port area.

To summarize, the bonded warehouse or the manufacturing bonded warehouse may offer certain kind of facilities to industry and commerce, but the free trade zone may offer more, especially in the field of promoting entrepot trade.

4. Functions

In terms of functions, Arthur D. Little, Inc. classifies that a free trade zone may serve to facilitate (1) imports of high-duty merchandise into the country in which the zone is located, (2) general imports into the host country, (3) re-exports or transshipments to other countries or (4) provide an oceanside outlet for the trade of landlocked countries or regions.

1) Facilitating imports of high-duty merchandise.

This trade zone function is applicable primarily to the more highly developed countries. The types of merchandise handled in zones for which this function is significant are chiefly expensive luxury items, such as perfumes, jewelry, liquors, automobiles and high-style wearing apparel.

2) Facilitating imports of general merchandise.

To succeed in this functional role, a free trade zone should serve a large and prosperous hinterland which can afford to import substantial quantities of diverse high-value merchandise.

3) Reexport and transshipment to other countries.

This is the traditional and by far the most common function presently served by free trade zones. Some believe that the trade position of a proposed zone must be favorable from the standpoint of this function alone, if the zone is to have a chance of succeeding. As a device for stimulating reexport trade, the modern free trade zone seems to have been successful mainly at places where such trade might be expected to develop naturally. It shall be at the crossroads of several shipping lanes, and is strategically located at the focus of diverse ocean trade.

Moreover, in ocean freight movements, terminal costs are of major significance in the total cost of ocean transport. Where direct shipment from origin to destination is available, an intermediate reexport point must offer substantial advantages to offset the added cost of unloading, storage, and reloading. Advantageous freight rates are of particular importance.

4) Providing a trade outlet for landlocked areas.

5. Operations

To quote what has been analyzed by Arthur D. Little, Inc., the feasibility of a free trade zone may also be considered in terms of the outlook for the several operations through which goods brought into a zone may be handled or processed, for later distribution into the customs territory, or for reexport or intransit shipment to other countries.

1) Storage

This is the minimum trade zone operation and is performed to some degree on all goods handled in a zone. Goods may be stored indefinitely in a zone without custom entry or bond. The owner may

hold his goods near his market pending a new import quota period, until demand develops, or until he decides how he wishes to dispose of his merchandise. In well-managed zones good protection against fire and theft is provided, allowing for low insurance rates.

The principal economic advantages of zone storage to importers are (1) capital is not tied up in customs duties, taxes or bond deposits, (2) duties are paid only on the quantity or weight of goods ultimately entered into the customs territory, not the quantity or weight upon entry into the zone, (3) goods may be entered into customs territory in any amount, and (4) in several zones negotiable warehouse receipts may be obtained. To summarize, the principal advantages are freedom from customs regulations while goods are in the zone, savings on bonds premiums for goods which would otherwise be stored in bonded warehouses, and savings arising from shrinkage or spoilage.

2) Manipulation.

A substantial part of the goods handled in a free trade zone is subjected to some form of manipulation. Goods may be inspected, dried, sorted, graded, cleaned, marked, repacked, labeled or combined with domestic goods prior to being imported into the country's customs area, or reexported. Where goods are ultimately imported, duty is not imposed on discarded or waste goods, on shrinkage in weight while the goods are stored in the zone or on domestic goods incorporated into the final product. The potential economic value of these operations arises mainly from the possibility of minimizing transportation costs and customs duties by (1) eliminating damaged or sub-standard merchandise, (2) repacking goods in more convenient form, and (3) preparing goods to meet local import regulations.

The manipulations permitted in zones are said to encourage bulk shipments, thereby reducing shipping costs. Also, the ability to repack and otherwise manipulate goods under relaxed customs procedures may encourage importers to maintain inventories of merchandise in free trade zones for rapid delivery to markets in the zone's trading area.

3) Exhibition.

An importer may open merchandise and display goods in a free trade zone. He may then take orders, or return unsold goods to his overseas source, without payment of customs duties or bond assessment. In the United States, special sub-zones may be established for exhibiting merchandise.

4) Assembly and manufacturing.

Much of the current interest in free trade zones centers around the possibility that a zone might serve as a device for stimulating manufacturing operations, particularly by foreign firms, and thereby contribute to the industrial growth of the country, especially in less developed countries.

The principal advantages of assembling or manufacturing goods in a zone are (1) savings in shipping cost where freight rates are lower on materials, parts and components than on finished articles, (2) savings on import duties and taxes where the loss of weight in processing is substantial, (3) the ability to combine imported items with low-cost domestic goods, (4) savings arising from the use of cheap local labors, (5) increased market opportunities arising from the possibility of manufacturing for reexport without being subject to local import quotas, foreign exchange restrictions, or customs procedures, and (6) savings from deferred customs payments.

5) Combining with an industrial estate.

This scheme is of interest because of the possibility that the advantages of each device might interact, and thereby provide a unique facility capable of stimulating industry to a greater degree than if both devices were operated separately. A factory located in the zone may best utilize substantial quantities of imported merchandise and reexport without any customs intervention. An industrial estate in a trade zone provided with attractive site complete with necessary utility and transportation facilities, plus certain guarantees regarding land usages will attract foreign investment, especially with opportunities for profitable long-term operations already exist.

Chapter IV. Effect of Free Trade Zones to Industrial Development

A free trade zone is located at the strategic point, with convenient water and land transportation inwardly and outwardly. It offers tremendous contribution to the export of industrial products and the supply of raw materials. Owing to the establishment of the free trade zone, merchants are being facilitated to be able to store large amount of merchandise for instant supply to the host country or the markets in the nearby region. Therefore, even for a factory not established in the zone, it will have no worry about the shortage of its raw materials because of being able to get the supply instantly from the zone. Moreover, if a domestic industry likes to buy raw materials from the zone, it may have the convenience of taking samples and free inspection before the deal is made. Together with prompt delivery, the industry may cut down its own storage reserve for less tied up of capital. Industrial products for export may also be readily stored in the free trade zone so as to be able to supply the nearby region or to be transhipped to some other markets according to their actual needs.

For industries who need to import foreign raw materials to be manufactured into products for export purpose, they may enjoy more privileges if established in a free trade zone. Taking a textile industry for instance, when a textile factory is to be established in a free trade zone, it may enjoy those privileges as follows:

- 1) It may lease or buy land in the zone for plant construction, utilizing all the facilities provided in the zone.

2) It may import cotton and dye-stuff without customs procedures, nor is the need of paying customs duties or guarantee.

3) It may be considered as exporting when a part of cotton yarn supplied domestically is being shipped into the zone. No commodity tax or guarantee is needed, and the commodity tax will be reimbursed if already paid.

4) It may be immediately supplied by the raw materials already stored in the zone, or by free import from countries abroad.

5) Its manufactured products may be exported freely without customs intervention. Foreign exchange out of export may also be used freely for purchasing raw materials or other merchandise.

6) Its manufactured products may also be imported if it is deemed profitable in domestic market. Customs procedures shall be exercised and duties paid only when the products are getting into customs territory.

Based upon the convenience of inward and outward transportation of the free trade zone and the simplified procedures of export and import, the problem of time delay will not happen in ordinary conditions, thereby the effect of the free trade zone will be highly favorable to industries.

In the New York Foreign Trade Zone of the United States, presently there is only small amount of repacking of merchandise and assembling of precise commodities, such as the bottling of beverages, the repackaging into smaller containers of drugs, the assembling of clocks, watches and fountain pens, etc. So far there is yet no large scale of industrial production in the zone. In Europe, the Copenhagen Free Port of Denmark has admitted the lease of land for plant construc-

tion in the port since early days. Its manufacturing industries include paints, films, chocolate, machinery, and sorting and cleaning of feathers. There is the most prosperity of manufacturing industries in the Free Port of Hamburg in Germany, which occupies more than 500 acres in area, with industries including ship building, oil refining, flour, chemical, food, lumber, dye-stuff, etc. The employees are over 20,000. Although there is no factory established in the Free Port of Bremen, yet a lot of factories are built around due to the attraction of the free port. The government has designated about 650 hectares of land along the water area for industrial purpose, most of them has already been occupied. Main industries are saw mill, rice mill, oil abstraction, flour, textile, oil refining, rubber, ship-building, etc.

Chapter V. The Economic Criteria Justifying the Establishment of Free Zone Industrial Estates

Currently there is considerable interest in free trade zones as a device for stimulating the growth of industry in the less developed countries. However, it should not be expected that a free trade zone in itself would bring into being the basic economic conditions necessary for profitable manufacturing. Modern experience tells us it would appear that free trade zones offer advantages to trade and to the processing or manufacturing of goods for trade purposes, provided if the basic economic relationships of such activities are otherwise favorable. In other words, free trade zones may overcome marginal obstacles to profitable economic activity, but they cannot bring into being the economic conditions.

In countries of protective policy, they usually exercise control of foreign exchange and trade, and have very complicate procedures. Industry and trade in these countries are very much interested in the convenience offered by a free trade zone. It is believed that a zone may serve as a device for stimulating manufacturing operations, particularly by foreign firms, and thereby contribute to the industrial growth of the country. Assuming that attractive investment opportunities develop, the advantages of industries locating in a free trade zone could conceivably provide the incentive necessary to attract some foreign investment that otherwise might not be available.

The evaluation as to whether the establishment of an industrial estate in a free trade zone would significantly improve the economic feasibility of a zone lies in the following facts:

- 1) The encouragement and offer of attractive investment opportunities by the host country.
- 2) The convenience and economies attributable to freedom from customs and other regulations, such as local import quotas, foreign exchange restrictions, etc.
- 3) Simplified procedures to be taken from the establishment of a plant to its routine productive operations.
- 4) Lower freight costs on imported materials, parts and sub-assemblies than on finished articles.
- 5) The possibility to combine imported items with low cost domestic goods.
- 6) Cheap and industrious local labor supply, with convenient transportation facilities.
- 7) Deferred customs payments.
- 8) Payment of customs duties on only the goods actually incorporated into finished merchandise.
- 9) Adequate public facilities and utilities.
- 10) Fair size of firms with large total out-put for export trade might be expected.
- 11) Savings to industries for which the loss of weight in processing is substantial.
- 12) Suitable area could be designated in the free trade zone.

Chapter VI. The Different Purposes which a Free-zone Industrial Estate could Promote

1. Its Development

1) Freight Traffic - A harbor area occupies the most valuable land and should be best utilized according to its location. We are fully aware that there will be vast volume of export and import trade generated by industries in the free-zone industrial estate. As the estate is being located in port areas, water-borne industries or industries who need bulk shipment of raw materials shall be encouraged in first priority. Besides the generation of ocean freight traffic, inland freight traffic is also created to some extent by the import of certain amount of products.

2) Entrepot Trade - It all depends upon the location of the zone whether it is well located with respect to heavily frequented world trade routes or to a favorable hinterland. It would be the function of the zone itself rather than that of the estate.

3) Processing Industries and Export Industries - Since most of the zones are characterized with the lower freight costs on imported materials, parts and sub-assemblies, the convenience to combine imported items with low cost domestic goods, the cheap and industrious local labor supply, no payment of customs duties on loss of weight of raw materials, and no customs intervention on exportation, these will naturally encourage processing industries and export industries.

4) The Promoting of Foreign Investment - As what has been mentioned above, the principal advantage of an industrial estate to a foreign firm is that it may provide an attractive site complete with the necessary

utility and transportation facilities, plus certain guarantees regarding land usages within the estate. But in itself an industrial estate will not attract foreign investment unless opportunities for profitable long-term operations already exist. Assuming that attractive investment opportunities develop in the host country, together with simplified procedures in the zone and cheap and skillful labor supply, the advantages of locating in a free trade zone could conceivably provide the incentive necessary to attract foreign investment.

2. The Types of Industries Suitable for Different Types of Free Zones.

There are mentioned above four major categories of free trade zones according to basic trade zone functions, namely, (1) facilitating imports of high-duty merchandise, (2) facilitating general imports, (3) reexport and transshipment to other countries and (4) providing a trade outlet for landlocked areas. However, if the manufacturing product in a free trade zone is to be imported into the host country, the import duty will be higher than those for importing raw materials. Therefore, it would be more profitable for the products manufactured in the zone to be for export. Among certain industries whose raw material needs to be entirely or partly imported, the privileges offered by the free trade zone may already be justified to encourage their products to be competitive in the world market, thereby causing no ill effect to the same kind of industries in the host country.

The problem as to what types of industries may be admitted to be established in the free trade zone which will be beneficial to national economy shall be thoroughly investigated and studied before

any authorization is made. However, since land in port areas tends to be expensive, best utilization is required which calls for water-borne industries. A sub-zone established in an enclosed inland area for general industries, or an airport zone for air freight, in connection with the free trade zone, may be practiced, such as the second export processing zone in attachment to the Kaohsiung Export Processing Zone is to be established in Taiwan, Republic of China.

Chapter VII. The Economic, Physical and Financial Pre-requisite

1. Economic Planning

1) Survey of Existing Export Industries.

Although industries in a free-zone industrial estate may have their products to be imported to the host country, but most of their products are for export. It is also noted that some kind of manipulations and assembly may be considered as industrial operations. A survey of existing manufacturing industries in certain free trade zone are described as belows:

- a) New York - beverage bottling, pharmaceutical repackaging, assembling of watches and fountain pens, drying and curing of nuts, etc.
- b) New Orleans - lumber drying, cleaning and processing of spices and seeds, manufacturing of batteries, etc.
- c) San Francisco - manufacturing of pharmaceuticals and related products, etc.
- d) Hamburg - shipbuilding, oil refining, flour mill, chemicals, food, lumbering, paints, etc.
- e) Copenhagen - marble processing, leather, dyeing, flour mill, hardware, oil refining, steel mill, lumbering, fur processing, coffee grinding, chocolate, films, arms, brewing, fish smoking, etc.
- f) Hongkong - All kinds of industries.
- g) Shannon - transistorised radio, piano, floor maintenance equipment, textile, miniature capacitor and precision fastener, fuel filtering equipment, industrial diamonds and associated products, etc.

2) Prospective Export Industries.

Since there is a wide range of export industries established in different free trade zones, it will be different from country to country. The types of industries to be admitted in a free-zone industrial estate has to be thoroughly investigated and studied. However, generally speaking, the prospective export industries in a free-zone industrial estate should be classified into the following categories:

- a) Water borne industries who need bulk transportation,
- b) industries who need imported raw materials,
- c) industries who have big loss in quantity of raw material during processing,
- d) industries encouraged by national economic plans,
- e) industries with no influence to those of the same kind operated in customs territory,
- f) industries which can be operated in economic building space,
- g) industries who need bigger space may be located in inland industrial free zones,
- h) industries of fragile products and lighter weight who need prompt delivery may be located in airport free-zones.

3) Feasibility Study

Most free trade zones provide industrial estates in their free areas, whose operations will be treated as the same as the zones themselves, except the Kaohsiung Export Processing Zone in Taiwan, ROC, which is an independent industrial free zone. To study economic

feasibility would require detailed consideration of comparative costs and revenues for specific operations and industries. Generally speaking, a free-zone industrial estate shall:

a) be located in a free-trade zone which serves at least one of the basic economic functions as mentioned above,

b) be provided with the market large enough for the functional trade,

c) be located in a free trade zone which provides the principal advantages of convenience and savings in time and working capital,

d) be located in a free trade zone where the cost-revenue-profit expectations for processing or manufacturing are favorable,

e) be located in a free trade zone whose economic advantage must accrue mainly to potential users of the zone rather than to its customers,

f) be located in a free trade zone where the long-term demand in manufacturing for reexport is more or less already in evidence, the comparative cost structure is quite favorable and the conditions for doing business are attractive,

g) be located in a free trade zone of substantial cost, advantages for transshipment and reexport, particularly advantageous freight rates,

h) be located where economic growth or cheaper and abundant employment can be obtained,

i) be located where potential from new industries can be seen.

4) Market Survey.

From the standpoint of the economics of trade, a trading area is delineated by the location of markets and the relative cost of production and distribution from alternative sources. In order to compute comparative costs, it is first necessary to assume a trading area as a guide to the shipping routes and freight rates. The principal factor considered in approximating the boundaries of the trading area have been the present trade routes and the availability of alternative reexport points.

Then the local imports, exports and reexports, covering types of industrial goods, tonnages and values, are investigated, together with the customs tariffs, trade regulations, sales tax, foreign exchange control, terminal costs, freight rates, as well as the import policies in the trading area, so that an estimate of the size and nature of the potential market for the types of goods can be made.

2. Physical Planning

1) Location.

Generally speaking, a free-zone industrial estate is located in the free trade zone. Therefore the location of the free trade zone itself will be an important determinant of the amount of trade handled.

A free-zone industrial estate shall be located in a free trade zone situated on major trade routes and at a place so as to reduce handling and overland transportation cost to a minimum

It shall be located in a free trade zone provided with good port facilities, including business services, utilities equipment and transportation; also where rules and regulations governing the use of the zone will be attractive to industry.

An industrial free zone is actually an industrial estate with the advantage of free trade zone operation. It will not be necessarily located in a port area but rather in proximity of a port, with adequate labor supply from nearby communities. It shall be necessarily located in an area already zoned for industrial use, easily enclosed with fencing walls, and, most of all, be of reasonable development cost.

An airport free zone shall be located at a place of direct access from factory to freight aircraft, and where there are ample manpower resources.

2) Size.

The size of industrial estates differ from country to country or even in any one country. On the one hand, an industrial estate must be large enough to achieve practical economies of scale in the provision of services, special buildings and public utilities; on the other hand it must not reach the point where dis-economies of scale - particularly traffic and administrative difficulties become serious.

Since land is rather expensive in a port area, industrial estate in a free trade zone will be very limited unless there is available land attached to it which can be converted into industrial uses. The whole New York Foreign Trade Zone is only 45 acres, while there is more than 500 acres of land in Hamburg Free Port used industrially.

Independent industrial free zones may be operated successfully with a size of from 50 to 250 acres. The Kachsiung Export Processing Zone has an area of 150 acres, and is now going to have a second zone of an area of 290 acres.

3) Layout.

The physical condition of the site itself and the basic economic policy for the estate as a whole have an important bearing on the subdivision of the estate into factory plots and the design of road network. The block layout shall be either the curved street pattern or the grid pattern. In any circumstances the layout should not be so rigid that no deviation is possible for unforeseen conditions. A simple open grid with a standard sized plot as a module based on a single major spine road seems to be the basic solution. The principles of layout can also be expressed in percentages of areas of land use. The recommended percentages of utilization for industrial estates in India are as follows:

- | | |
|--|--------|
| a) Area under factory plot | 40-68% |
| b) Area under roads and open spaces | 25-40% |
| c) Area under administrative and other buildings | 10-20% |

4) Sizes of plots.

An industrial estate usually provides a variety of lot sizes in order to accommodate a sufficiently wide range of industries. No rule can be laid down as the optimum plot size. A United Nations Mission has recommended that the smallest industrial plot should have a frontage of 120 feet and a depth of 200 feet. Sufficient room is provided for expansion to double the size of the original building in the back-yard. Storey buildings will be recommended in industrial estate inside a free trade zone.

5) Standard Factories.

The standard factory found on most industrial estate is usually of extremely simple design and erected in blocks so that the factory space of any single firm can be expanded with little difficulty. This type of factory frequently has been built in advance of a specific demand. Such an advance building programme enables tenants to save time in getting into production.

6) Workshops or Service Industry Bays.

The workshop is for very small firms. They have been provided for artisans and repair services and may be found in the flatted factories. In the new towns of Britain, service industry bays are frequently placed within a shopping center to provide space for repair shops and such trade as job printing. Lavatories and parking are provided in a common block for each group of bays as well as light, gas and power points.

7) Roads.

In most countries, the development of good highways and the advantages of truck transportation have lessened the dependence of the lighter industries on the railway and shipping. Many industrial estates now use truck transportation only. With the majority of industrial estates dependent on trucking as their main source of transportation, the importance of adequate direct highways from the estate to the main centers must be underlined. An excellent road system in the industrial estate shall be planned and provided.

8) Drainage and Sewerage.

Arrangements for drainage must be made at the initial stage of planning. The route to be followed by the main drainage system will

be determined largely by the shape of the site, the configuration of the ground and the most suitable outlet. The storm water must be channeled into a natural drainage outlet or connected to the main storm water drain for the area.

An industrial estate has to be adequately sewered, either by a connection to the sewerage plant of the town, or by a separate treatment station. Where there is a noxious effluent, pre-treatment is imperative before it reaches the sewerage system.

9) Port or Airport Facilities.

Port facilities is important to free trade zone as well as to the industrial estate inside. Besides adequate berths for ocean-going vessels, the port shall be equipped with enough lighters, tug boats, shipyards, floating docks, transit sheds, quayside cranes, heavy lifts, as well as special facilities for handling all goods in world trade. Rail facilities is also required in a port area for bulk transportation.

It is generally recognized that closeness to air freight transportation is a factor which may be an asset to certain types of firms producing small high-value, high-style, low-weight or perishable cargoes and for receiving parts for repair. Proximity to an airport is also important for making possible fast travel for industrialists and management between their factory and major centers. There is some evidence that more industrial estates are being located in proximity to airports. Modern industrial plants, smokeless, with their low-profile, one-storey construction, no longer constitute a hazard to aviation.

10) Administrative Building.

In the case of large and medium-sized industrial estates, provision is often made or at least space reserved for non-industrial buildings such as the administrative building, post office, bank, canteen, free station and the like. It may be desirable to provide a showroom or exhibition center in the administrative building where the products of the various firms can be displayed.

11) Warehouses.

The need for storage facilities is seen that small firms will benefit if warehouses are provided for the storage of both raw materials and finished products. The warehouse might be operated by a private firm or on a cooperative basis.

3. Financial Pre-requisites.

Since land is expensive in port areas, and the free-zone industrial estate is operated under the condition of exempt from customs regulations, perhaps the government only is in a position to run the estate and commit the necessary capital. However, good financial management is a major factor determining the success of an industrial estate at all stages in its development.

Since wide cost differences exist due to differences in costs of labor, equipment and materials from country to country, comparative data on the costs of raw land and the costs of development are likely to be meaningless. Factors affecting development costs will be land costs, land improvement costs, construction of streets, installation of utilities and building costs. The Cost of raw, unimproved land is usually a fraction of the expense of improving the land and developing it into an industrial estate. In the United States the ratio of the

cost of raw land to the cost of improved land is 1 to 7 in recent years, and is naturally lower in less developed areas where land costs are low. There are figures strikingly reveal the high cost of buildings in relation to the costs of raw or developed land.

Since the cost of land improvement and building construction is much higher than the cost of unimproved land, it will frequently find it necessary to sell portions of the developed sections of an estate in order to finance development of additional portions. Moreover, the conditions on which funds are obtained will have a determining effect on the terms at which properties can be sold or leased to occupants.

When the sponsor is certain about obtaining tenants he may proceed development without difficult. But where there is a considerable uncertainty regarding the demand for factory space, it may be unwise to develop a comparatively large tract. Research work is necessary for investigating potential candidate firms and types of enterprises that might become applicants. Experience shows that money spent on research and other preparatory work will represent sound economy compared to the danger of making heavy development investments based on hunches. Phased development will conserve working capital and permit flexibility in planning for future needs.

Besides government investment or loan is to be used for the development of free zone industrial estates, it shall also be considered that the provision of:

- 1) Long-term lease of land and standard factory buildings,
- 2) construction loans for self-built factories, and
- 3) other financial assistance

could be made in the free-zone industrial estate.

International financing and assistance may be available for the establishment of such industrial estates. The International Development Association (IDA), or the International Bank for Reconstruction and Development (IBRD), an affiliate, provides financing through national financial or industrial development corporations under agreement with and guarantee of national governments.

Chapter VIII. Incentives and Promotional Measures Required

1. Tax and Other Incentives

The basic advantage of a free trade zone is that it permits goods to be handled within a country but outside of customs and other trade procedures. Other things being equal, the economic value of this advantage will vary proportionately with the cost and complexity of entering merchandise into the customs territory. Free-zone industrial estates will automatically have this kind of incentives. It provides exemption of import duty and surtaxes for the machinery, equipment, raw material and semifinished products imported for their own use by industries in the estate. Furthermore, business tax and commodity tax are also exempted. In some countries, industries in the estate are only required to pay profit-seeking enterprise income tax, stamp tax, house tax, and vehicle license plate tax. If the industry conforms with the encouraged enterprises promulgated by the government, it may enjoy tax holidays for a period of certain years for the profit-seeking enterprise income tax. Insofar as the United States Federal income tax law is concerned, United States foreign-trade zones do not differ from any other location or facility within the country.

The free-zone industrial estate is usually provided with ample supply of skillful, hard-working and inexpensive labors. It is always located near homes suitable for all classifications of employees, or near convenient bus or other passenger transport lines, or on good highways for cycling. This is especially important in the less developed countries, where perhaps only top management can afford transportation

in private automobiles. Good transportation is essential for shortening the travel time required to go to and from work.

Besides good transportation, it is also fully equipped with other public utilities such as sewage, water and power systems. Rates are usually low. The whole estate is well planned and subdivided to secure clean and healthy working environment. Industry may have the choice of building its own factory or purchasing or leasing standard factory building. The sale is made on low-interest installment payment basis, and the lease is usually of long term. Some offer construction loan to self-built factories.

Industries shall be permitted to remit overseas all of his net profit or interest earnings from its investment and also its total invested capital annually. Excellent banking facilities shall also be provided in the estate.

All the procedures having to do with the application for admission, company and factory regulations, issuance and endorsement of import and export licenses, etc. shall have to be simplified for factories set up in the free-zone industrial estate.

2. Industrial Extension Services

Industrial extension service may be provided through the establishment of small industries service institutes or industrial extension centers for transmitting know-hows especially to small-scale industries. The main purpose is to improve methods of production and business management and to help small industrialists to appraise investment opportunities. It would be better to place a branch of an industrial advisory service on an industrial estate to serve for this purpose. Such kind of service may also be furnished by a private organization to firms on the estate on a fee basis.

Electronics for processing cost accounting data may be a new kind of technical service to industrialist on the estate.

There may be considerable advantages in conducting certain kinds of procurement and marketing services on estates. In countries where foreign exchange is severely rationed, it will be deemed more efficient for the government agency to import some raw materials and equipments, and to export the products of certain industries assisted in the program. In countries not faced with foreign exchange problems, private wholesalers might perform these services more efficiently.

Training of management staff, supervisors, foremen, and key production personnel is also important for improving industrial productivity, especially for small-scale industries who cannot provide for themselves. The government may achieve more effective productivity program, operated at less expense, by conducting it through branch facilities on an estate. In some countries, productivity institutes and training-within-industry programs have been working.

3. Common Facility Services

Common facility services have been defined as "the centralization in a separate specialized unit of certain vital operations of the productive units engaged in any line of industry or in the manufacture of component parts for any specific industry, with a view to achieving economy in production cost, quality control of the product, and the promotion of the processing and manufacturing potentialities of the productive units of that industry." They are provided for estate tenants who cannot manage it separately on economical reasons. The aggregation of a considerable number of enterprises on an industrial estate makes it possible to

set up facilities which are large enough to achieve the economies of scale necessary for profitable operations.

Such services include custom workshops, common manufacturing centers, equipment rental services, procurement and marketing services, warehousing services, demonstration centers, training centers, and advisory and research services.

Common manufacturing facility centers are designed to conduct actual manufacturing operations on a larger, more economic scale, and with higher standards of quality, than would be feasible in a small shop.

In order to care for buildings, including painting, carpentry work, electric installation, repairing, and other problems, the estate retains electricians, painters, and carpenters to maintain industrial buildings and equipment. The industries are billed for the work.

An exhibition hall, or a new type of free trade mart, may be established at the center of the estate, readily accessible to exhibitors and buyers alike, for the full exhibition of the industrial products in the estate.

Chapter IX. Policies and Control

1. Admission Policies

Admission policies in an industrial estate are generally governed by the general industrialization policies, the industrial composition of the estate, and by zoning and other regulations. It is often influenced by policies aimed at maximizing employment.

Industries using modern techniques and manufacture items which have an importance in national economy on account of their value in reducing imports or increasing exports should be given first importance. Composite industrial units or cooperatives where different units produce components and parts for assembly in a central plant may be given some preferences, as such schemes produce interdependence and cooperative spirit among industrialists.

Zoning regulations provide either for separate areas for heavy, light and service industries, and for industries with large effluent, smoke, noise, etc., or place special restrictions on certain types of industries or processes. Certain restrictive covenants may be made to meet physical planning standards. Also, the size of factory plots, the availability of reserve land and utilities may restrict admission of certain industries.

In the developed countries, whether a new firm or an existing one wishing to be shifted into the estate is usually of little concern. However, the rationale of an admission policy discriminating against existing enterprises would seem to be that industrial estates should

serve to maximize production and employment, and that this would obtain if priority of admission were given to newly established firms or extension of existing ones.

2. Sales or Lease Policies

The main advantage of selling land and factory outright to the industry is to permit a rapid turnover of funds invested and to be able to reinvest in wider or expanding programmes. On the other hand, leasing will provide the least financial barrier. Often, the merits of leasing and selling are combined, by providing for a fixed period of lease and subsequent sale on hire-purchase basis. However, since free-zone industrial estates are located in free trade zones in port areas, some suggests that the land will be only for lease and owned publicly in order to facilitate future extension of the harbor.

Most of the developing countries offer the lease of land and factory at subsidized rates. Such a policy provides strong inducement to small-scale industries especially in developing countries, who often lack sufficient financial resources. Even in developed countries, investment financing by banks, financing institutions and investment building companies on an instalment purchase basis, rather than outright sales, is the prevalent practice.

3. Inspection and Control Procedures

Principly the operation of a free-zone industrial estate shall be of simplified procedures and less customs intervention, although the area shall be enclosed and fenced and measures for prevention of smuggling and the patrol and inspection for such purposes shall also be practiced.

Industry may freely store, manipulate, process or manufacture its own raw materials, semi-finished products or finished products inside the estate. However, it is required to keep ledgers in which itemized detailed entries shall be made to record the quantity and value of their incoming and outgoing commodities for inspection and auditing by customs authorities at any time, if it is deemed necessary.

In case of loss or shortage, reports shall be submitted for a joint inspection with the customs authority. If it is found that the loss or shortage is true and the causes given are acceptable, a deletion of the loss or shortage from the books may be permitted.

When commodities are brought into or out of the estate, application for approval shall be filed for inspection, sealing and release of commodities by customs authorities stationing in the estate and also for supervision and inspection of the commodities in the course of transit.

Except necessary managerial personnel, watchman and guards, and personnel of industries who are on duty after office hours, no other persons are allowed to reside in the estate. Entry into and exit from the zone by all personnel and vehicles shall be made at specific localities and shall subject to the necessary inspection to be conducted by customs officers and watchman and guards.

4. Building Codes

Although in less developed countries, the improvement of working conditions in the new factories is also desirable, yet it is believed that the structures shall be kept as simple as possible. Besides the local building code which shall be the basis of building design and

construction, it is suggested that only basic principles are needed to set forth, such as for instance, all buildings and structures shall be built with fire-resistant materials, and shall be of permanent type.

5. Performance Standards

The actual performance of industries are to be based to set up standards for each estate and permit any industry meeting those standards to locate there. Appraisal of the following characteristics has been suggested for evaluating performance:

| | | |
|---------------|-------------------|----------------------------|
| Noise | Noxious Gases | Transportation and traffic |
| Smoke | Glare and heat | Esthetics |
| Odor | Fire hazards | Psychological effects |
| Dust and dirt | Industrial wastes | |

6. Other Obligations of the Occupants

As existing zoning ordinances seldom offer full protection to the estate and the occupants, private restrictive covenants have often been adopted as a supplementary measure of control. It may be embodied in covenants, leases, and purchase contracts, or they may be incorporated into sales agreements.

The principal restrictions contained in covenants cover setback distances from roads, establishment of building lines, offstreet parking and loading requirements, and the types of industries permitted.

Chapter X. A Comparative Analysis of Experience in Countries Which have Established Such Free-Zone Industrial Estates

1. Free Zones in Highly Industrialized Countries

1) The United States.

There were seven zones out of which three have been closed by unprofitable operation. The four zones still in operation are located in the port areas of New York, New Orleans, San Francisco and Seattle. All are small. Recently there is another one established in Hawaii. Each of the zones offer covered and open storage space, unloading and handling facilities and equipment, and enclosed space and land for manufacturing operations. All the zones appear to be well located with respect to the availability of business services, including financing, insurance and overland transportation. However, the operations or activities conducted in these zones consist mainly of storage and simple manipulations. Manufacturing was added to the list of permitted operations in 1960, but to date this has been of little consequence.

By almost any standards the United States trade zone experiment has not succeeded. Some of the reasons are listed below:

- a) Customs and other regulations in the zone have nullified the "free trade" advantages,
- b) contrary to the American practice, the device was tried on too small a scale,
- c) because of high cost of land in the port areas the zones were not well located and the physical facilities are obsolete and run-down,

- d) American tariffs are too high on goods that might otherwise be handled in the zone,
- e) lack of knowledge among exporters about the advantages and facilities of the zone,
- f) conflicting jurisdictions on the part of Federal agencies create uncertainties regarding the status of goods stored in the zone,
- g) free trade zones are obsolete in countries having an effective system of bonded warehouses.

However, the more fundamental reason is that the economic structure and behavior of the United States economy, particularly its external trade, are such as to derive very little benefit from free trade zones. In other words, there does not seem to be of much opportunity for the device to serve an important economic trade function.

Very few United States manufacturers produce especially for export. Foreign materials or semi-finished goods are mainly utilized in factories which are located inland and in relation to sources of domestic materials, labors and markets. Trade zones therefore hold little attraction for United States industry.

2) Germany.

The trade zones of Germany have a long history. The two major free ports are Hamburg and Bremen, which were created in the middle of the nineteenth century, at the time of the German Customs Union. They have large size and excellent facilities. Their location are in dynamic seaports. And they are evolved from form cities with long traditions of commerce. The primary function of these zones today is the warehousing of imports destined for use within Germany, in sharp contrast to their former major role as transit and reexport centers.

All trade zones in Germany that are situated in small seaports away from major commercial routes have been either discontinued or have been retained on a comparatively in-active basis.

High-tariff consumer goods are handled predominately through the German zones, raw materials and semi-finished goods are of minor importance.

Only Hamburg engages in manufacturing activities. These are fairly extensive, involving shipbuilding, machine construction and petroleum refining. More than 16,000 persons are employed in these enterprises.

It is estimated that almost three-fourths of Western Germany's warehouse commerce in foreign merchandise passes through the trade zones at Hamburg and Bremen and only one-fourth is handled by bonded warehouses.

3) Denmark.

Copenhagen is the oldest functioning trade zone in Northern Europe, apart from those of Germany. It has been in continuous operation for over 60 years. Its commerce over the past several decades has shown remarkable stability. In most recent years, particularly since the end of World War II, it shows the decreasing importance of Europe as a source of incoming goods and destination of exports and the emerging importance of Western Hemisphere countries in the port's trade.

In contrast to Hamburg and Bremen, bulk goods, including coal, petroleum, construction materials, fertilizers, animal fodder, oil seeds and lumber, comprises the major part of incoming cargoes. About 25 percent of the total trade through the port of Copenhagen is handled

in the trade zone area. About half of the goods shipped from the zone is imported into Denmark. The remaining half is reexported. Most of the bulk goods are destined for domestic consumption and virtually all general cargo are reexported.

Manufacturing activities, although on a much smaller scale than those of the Hamburg free trade zone, are nevertheless fairly important. They include an arms and machinery plant, two paint factories, and a number of smaller shops, including distilleries, coffee roasting and grinding plants, and various units for manipulation operations, such as preparing and mixing animal fodder and cleaning feathers. However, it does not appear to be given much encouragement to manufacturing.

In summary, it should be noted that the Copenhagen trade zone handles a great deal of merchandise that is attracted not so much by the zone, but rather by the deep-water facilities, the warehouses, the ferry terminal stations, and by other waterfront facilities which happens to be in the trade zone.

4) Sweden.

Stockholm, the major Swedish free port, was established in 1919. It encompasses an area of about 190 acres and is located approximately one and half miles from the central business district and somewhat further from the major industrial center of the City. The facilities of the port are constructed and used primarily for warehousing cargoes. Not more than 10 to 25 percent of all incoming merchandise is reexported or transhipped. Incoming shipments to the zone include fruits and berries, grain, vehicles, machines, vegetable, and animal oils and fats. Outgoing cargoes include wood pulp, paper and paper products and machinery.

Like Copenhagen, it tends to be rather small in physical size. It occupies modern, deep-water facilities and contains a large percentage of the warehouse space. Manufacturing is legally possible but does not exist in Stockholm free port. Sorting, grading and other manipulations that do not change the character of the merchandise is carried on more or less sporadically. Although exhibition is possible, but there is not a major exhibition center. The primary purpose of the free port device in Scandinavia, as in Germany, appears to be increasingly the provision of "convenience" storage outside customs barriers for a few high-value high-tariff commodities that are destined ultimately to be imported into the host nation.

2. Free Zones in Less Developed Countries

1) Panama.

The operations of Colon Free Zone began in 1953. The zone comprises about 97 acres located one-half mile from the Cristobal docks. Its port facilities are considered excellent and the transport, storage and other facilities in the zone itself are both modern and efficient. Public warehouse and open storage space may be rented or firms may construct their own warehouses or plants. The laws governing company organization, investment, taxation, exchange restrictions and customs regulations in the zone appear to be well designed to attract reexport trade. Trained clerical and warehousing labor is available at about one-half the wages paid in the United States.

Both storage and simple manipulation such as inspection, labeling and repackaging constitute the principal operations carried on in the zone at present. Several firms also use the zone as sales headquarters for Central and South America. Very little manufacturing

is done, despite vigorous efforts with special industrial zones to attract this type of operation. Foreign trading companies use the zone for reexport of merchandise from all over the world.

The factors which have been responsible for the relative economic success of the Colon Free Zone may be listed as follows:

a) The South American market for the types of goods that can carry the added handling costs in a trade zone has become large enough to make re-export from Colon a profitable way of doing business.

b) Colon is at the focus of numerous major world shipping routes.

c) The structure of ocean freight rates from the United States, Europe and the Far East to Panama, and the ocean and air rates from Panama to South American countries are favorable for bulk shipments to Colon and reexport.

d) The facilities are for the most part new and incorporate the special requirements of efficient trade zone activities. Furthermore, the customs and other operating formalities have been reduced to a minimum and special assistance, such as the financing of buildings, has been made available.

e) The management of the Colon Free Zone has apparently been quite efficient, and, moreover, it has recognized the need for large-scale continuous promotion.

2) Chile.

The free trade area at Arica is of interest as an example of how the functions and purposes of a trade zone can be misunderstood and distorted. The Arica facility is more of a free trade area than

a zone in that it includes the entire Arica region into which goods may be brought without restrictions and sold freely at both wholesale and retail.

The zone was originally established for the purpose of attracting industry to the arid and isolated region of Arica. The theory was that creation of an area in which goods might be imported freely for manufacturing purposes would cause Arica to become a manufacturing and reexport center for Chile, Bolivia, and the land-locked areas to the East. Because of the size and isolation of Arica it was assumed that manufactured goods and luxury items would not be shipped to the area. Unfortunately, the theory has not worked in practice. The law establishing the zone requires that a certain percentage of processing or manufacturing must be applied to goods brought in before they can be imported into Chile or reexported. Actually most of the goods imported into Arica is in finished state and undergoes only token modification. Industry has shown very little growth, and the zone has become a smugglers' paradise. Customs control has not been effective. This situation is improved after the protest of domestic manufacturers for this illegal trade. Because of slow turnover of increased imports, the customs area often becomes very congested and the speedy handling of goods is severely hampered. However, the value of business property in Arica has increased many fold since the inception of the free area, and there is still some hope that the territory will fulfill its original purposes.

3) Lebanon

The free trade zone at Beirut lies around the new dock facilities of the Beirut harbor. It is only a short distance from the city's commercial and financial center. The zone is operated as a

concession by a French firm, the Beirut Port Company. The facilities of the zone include public warehouses by the Port Company, private warehouses for storage and industrial operations, open storage space, and refrigerated storage. The zone also includes a rug bazaar, a dried vegetable plant and a sheep casing plant.

The zone has direct rail connections with Syria, Iraq, Jordan, and Turkey. Frequent and rapid motor truck services also connect the zone with these and other neighboring countries, including Iran. Thus the zone serves a large hinterland. In a minor way, the zone operates as a transshipment point for ocean freight to ports in the Mediterranean Sea and the Indian Ocean. Beirut is a major port on the principal East-West trade routes and coastal shipping lanes. The zone is therefore extremely well located.

Any merchandise, other than that prohibited by law, may be brought into the zone without being subject to the customs laws of Lebanon. Goods may be stored, sorted, repackaged, or otherwise manipulated, or may be used in manufacturing processes. No bonds are required on merchandise in the zone and goods may be stored indefinitely. The usual customs duties are paid when goods enter the Lebanon customs territory. No duties are levied upon goods transhipped from the zone to other countries. Storage charges in the zone clearly favor transshipment trade. For example, goods intended for reexport and stored in a public covered warehouse, are exempted from charges for the first 18 days. Goods stored in the zone are provided with free storekeeping and safety measures against fire and theft. Insurance is not compulsory but it is available from either the Port Company or Lebanese underwriters.

Although some industrial processing is done in the zone, it is understood that the zone is used primarily as a transshipment point.

4) Hongkong

Hongkong is often cited as the outstanding example of successful free trade operations. This free port has for many years served the British Empire as a collection and distribution point for raw materials and as a center for British produced goods. In recent years local industry has grown rapidly and is now the major source of income for the Colony. The strong stimulus for industrial development arose because of the availability of valuable local assets in the form of minimum trade restrictions, duty free entry of material and equipment, availability of investment capital, a large labor force, low taxes, government stability and access to preferred markets. Hongkong has been forced to turn to further development of its industry because of the instability of its reexport trade and the great influx of people from the mainland. It is important to note that exports of locally produced products provide a larger part of the port's total income than simple reexport operations. Besides planned industrial estates, it is also famous in resettlement factories of flatted buildings for small industries.

Hongkong has a well-developed complex of service facilities for handling imports, exports, and reexports. There are a large number of banking establishments, shipping firms, insurance companies, and merchandising houses whose services may be obtained for reasonable fees.

The only goods on which duties are levied in the Colony are hydrocarbon oils, liquor, tobacco, table waters, and methanol. Duty is payable on these goods at the time of importation or when the goods are

removed from the place of manufacture or from bond, if intended for local consumption. Goods which are transhipped through Hongkong or are exported direct from the factory or bond are exempt from duty. Importers who deal in dutiable commodities must be licensed.

Hongkong's trading area is extremely large and the Colony occupies a favorable cost position for both trade and manufacturing.

5) Singapore

Singapore has been a free area since 1820. In attempting to draw more industry into its free area to stabilize and supplement its income from import and reexport trade, more industrial estates have been established among which the Jurong industrial estate is well known.

6) Finland

Hango Free Port was established in 1921. According to Finland's Free Port Law, there is no restrictions of customs regulations in the free port. People is allowed to handle freely the loading and unloading, storage, repackaging, processing and manufacturing of foreign goods in the port.

7) Mexico

The Free Ports of Puerto Mexico and Salina Cruz, located at each end of the transisthmian railroad have the added importance of being on one of the strategic geographical positions of the world, as well as on a commercial maritime cross road, the closest to the United States, by means of which over ten days navigation is saved between the Atlantic and Pacific oceans. Besides facilities for the traffic and storage offered by the free ports, where only a moderate charge is made for the

site occupied by the industry, any enterprise will be free from taxation. This will encourage the establishment of industries that utilize national or foreign raw materials. In the latter case, duties will be paid only when the finished article leaves for national markets, in proportion to the extent that the foreign materials is contained by the finished products. Finished manufactured articles may leave at any time for foreign markets without export duties or customs intervention.

Another free port is being contemplated for the highest terrain on the isthmus, for such industries as require a milder climate than the torrid conditions of the coast.

8) Ireland

Shannon, with its favorable geographical position on Europe's western boundary, has already played an outstanding part in the history of transatlantic air transport. Legislation was enacted to provide concessions and facilities which would encourage industrialists to establish at Shannon. And the Shannon Free Airport Development Authority was formed to administer the functions for which the legislation provided, so as to encourage foreign enterprise to set up plants under specially favorable conditions.

Ready-built factories, consisting of standard bays of which any number can be taken over, with possibilities of future expansion, or developed sites, with all services laid on, on which industrialists may construct their own buildings. Non-repayable grants towards the cost of the buildings are available. It consists of non-repayable grants to cover the full cost of site, half the cost of plant and machinery,

and the full cost of training staff. Income tax and corporation profits tax are exempted until 1983 on profits from export business. Local taxation is also partially exempted. There is free transferability of profits and free repatriation of capital at any time. Rents are very attractive, with leases for periods up to 99 years. No duties are to be paid on raw materials coming in or goods exported. There is direct access from factory to freight-aircraft.

380 acres of land are being developed as factory and warehouse sites at the airport, and there are ample manpower resources at reasonable cost.

Chapter XI. Legislative and Other Administrative Measures Adopted by These Countries

The United States, Panama and Mexico are taken as examples.

1. The United States

The Foreign Trade Zone Act (Public Law 397 73d Congress, approved June 18, 1937) provided for the establishment of these zones to expedite and encourage foreign commerce. Under this original Act, activities within foreign trade zones were limited to so-called manipulation, with an express prohibition against manufacturing. This distinction between manipulation and manufacturing gave rise to considerable uncertainty and was a handicap to full utilization of the zones. In 1960, legislative amendment (Public Law 566, 81st Congress) expanded the Act to include manufacturing and exhibiting along with the many other business services authorized in the basic legislation.

Production of articles in zones by the combined use of domestic and foreign materials makes unnecessary either sending the domestic materials abroad for manufacture or the duty paid or bonded importation of the foreign materials into this country. Duties on the foreign goods involved in such processing or manufacture are payable only on the actual quantity of such foreign goods incorporated in merchandise transferred from a zone for entry into the commerce of the United States. If there is waste resulting from manufacture or manipulation, allowances are made for it.

Zone facilities may now be utilized for the full exhibition of foreign merchandise without bonds for an unlimited length of time.

and with no requirement of exportation or duty payment. To render the greatest possible service to foreign trade in the use of this right of exhibition, and other privileges granted to the zones, a Board regulation was promulgated authorizing the establishment of zones or sub-zones for one or more of the specialized purposes of storing, manipulating, manufacturing and exhibiting goods, if the Board affirmatively determines that the services of existing zones are not adequate for the needs of commerce.

Zone privileges offered by the Act may be summarized as follows:

- 1) Foreign merchandise may be brought into a zone without customs entry, and without the payment of duties or furnishing of bond therefor.
- 2) Domestic merchandise may be taken into a zone and, provided its identity is maintained in accordance with prescribed regulations, may be returned to customs territory free of quotas, and duty.
- 3) Products shipped to the zone in bulk can be dried, sorted, graded, or cleaned, and bagged or packed, permitting savings of duties and taxes on moisture taken from content or on dirt removed and culls thrown out.
- 4) From incoming shipments of packages or bottled goods, damaged packages or broken bottles can be removed.
- 5) Where evaporation results during shipment or while goods are stored in the zone, the contents of barrels or other containers can be regaged, as no duties are payable on the portions lost or removed.
- 6) Merchandise may be re-marked or relabeled in the zone to conform to requirements for entry into the commerce of the United States.

7) Sub-standard foods and drugs may be reconditioned.

8) There is no time limit as to how long foreign merchandise may be stored in a zone, or when it must be entered into customs territory, reexported, or destroyed.

9) Foreign merchandise in bonded warehouses may be transferred to the zone at any time.

All laws of the United States apply to and within the foreign trade zones except that, to the extent provided in the Foreign-trade Zone Act, the United States customs laws do not apply to merchandise brought into the zone.

2. Panama

Created as an autonomous institution of the Government of the Republic of Panama, by Decree Law No. 18 of June 17, 1948, the Colon Free Zone is rapidly taking its placing among the most important Free Trade Areas in the world.

To aid world's commerce in the solution of the very complex problems faced daily, and to stimulate trade by permitting closer contact between the supplier and the consumer, the Government of the Republic of Panama created the International Free Trade Area known as the Colon Free Zone. Approved Legislation permits all kinds of acceptable commercial transactions, completely free of taxation, duties and any other similar charges. Only income tax based on declared net profits and assessed on a special tariff for Free Zone Firms is to be paid.

The Colon Free Zone, with its own juridic representation and will be autonomous in the conduct of its management, but subject to the vigilance and inspection of the Executive Power and of the Comptroller

General of the Republic. The nation is subsidiarily responsible for all obligations contracted by the Colon Free Zone. As an institution of the State, the Colon Free Zone is exempt from the payment of all duties, contributions or taxes. One-half of the profits obtained each year by the Colon Free Zone shall be set aside and accumulated indefinitely toward a reserve fund. The other half shall be deposited in cash into the national treasury as a dividend pertaining to the Nation.

The supervision, administration and operation of the Colon Free Zone shall be under the direction of a Manager to be appointed by the President of the Republic, under the joint responsibility of the Cabinet Members, with the approval of the National Assembly and a Board of Directors.

Advantages offered by the Decree Law to local and foreign manufacturers are follows:

1) Since all merchandise upon entering the Free Zone will not be required to pay corresponding import duties, it will be possible for local manufacturers to order large quantities of goods, which eventually will be used in their local business transactions. The manufacturer will also be permitted to pay import duties on partial withdrawals instead of on the total shipment.

2) Local manufacturers shall be able to obtain financial facilities from local credit houses, on the merchandise which is deposited in the Colon Free Zone public warehouse.

3) The rates charged by the public warehouse of the Colon Free Zone are low.

4) The Administration of the Free Zone of Colon has the legal authority to act as receiving, depositing, and forwarding agent in the

name of any individual or firm, even when such firms and individuals are not residing in the Republic of Panama.

5) There is no exchange problem as the American dollar is free currency in the Republic, and accounts are permitted to be carried, paid and collected in dollars.

6) It is a strategic point constituting a nearly obligated step for all the sea and air routes of the world, which will be the basic advantage to North-American manufacturers.

3. Mexico

On September 17, 1946, the President of the United States of Mexico signed an Act of Congress, concerning the establishment of the Free Ports of Mexico, and authorizing the Department of the Treasury and Public Credit or their successors thereof to maintain and operate them. The Office of Executive exercises power to acquire compulsorily, for the purpose of public benefit, chattles and property which may be deemed necessary for the establishment and to maintain and operate the Free Ports, subject to laws relative to expropriation.

The Department of the Treasury and Public Credit delegates its authority for organization, administration and management of the Free Ports into a public Autonomous organization named "Administrative Board of the Mexican Free Ports" comprised in a body of five members, one of which is the manager.

The Administrative Board has legal capacity and its own funds consisting of:

1) Funds contributed by the Federal Government, the Governments of the States and of Municipal Authorities.

- 2) Revenue obtained from the exploitation of the Free Ports.
- 3) In general terms, from all revenues derived from its own activities.

Provided, that during the time the Administrative Board does not have its own sufficient funds to maintain present installation or to undertake new ones, the Department of the Treasury and Public Credit will include in its annual budget sufficient funds for this purpose and for the payment of administration expenses for services as rendered.

The Act and Regulations offer the following advantages of Mexican Free Ports:

- 1) There will be almost complete freedom from official customs formalities and minimum shipment handling charges.
- 2) Foreign goods may be unloaded and stored, sorted, graded, transformed, repacked and reshipped without the imposition of the customs formalities and duties applicable to similar goods entering customs territory.
- 3) Within the inclosed area of the Free Ports all kinds of industrial manufacturing may be installed without taxation or intervention of customs.
- 4) Mexican Free Ports are segregated areas in which lading, unloading, storage and transformation of goods and materials may take place with great facility and eventually constitute centers of storage and redistribution of goods for proper and adequate redistribution to all markets.
- 5) Vessels entering Free Ports do not lose time due to customs or docking formalities.
- 6) Vessels may be fueled and serviced while they are being unloaded or loaded.

Chapter XII. The Kaohsiung Export Processing Zone in the Republic of China

1. Outstanding Characteristics

On January 30, 1965, the Government of the Republic of China promulgated a new law - the Statute for establishment and management of Export Processing Zones, to mark the beginning of a new era of the nations' economic development. Under this new law, the Kaohsiung Export Processing zone, the first of its kind, has been established in Taiwan.

An "Export Processing Zone" is an exclusive industrial estate designed for the promotion of export processing industries. It is created by the Chinese Government after a careful study of the systems governing the establishment of "free trade zones", "foreign trade zones" and "free ports" in various foreign countries with due consideration of the prevailing conditions in Taiwan. It is, therefore, quite similar to a "free trade zone" except that an "export processing zone" is designed for industries engaged in the manufacture, processing and assembly of export goods while a "free trade zone" accommodate enterprises engaged in reexport of commodities or exclusively in business and trade activities.

2. Special Features

1) Import duty are exempt for the machinery and equipment, raw materials and semi-finished products imported for their own use by factories located in the zone. Commodity tax is also exempt for all the finished products manufactured by and for all the raw materials and semi-finished products used by export enterprises operating in the zone.

2) All the products manufactured in the Zone must be exported. The domestic sales of such products shall be limited to those which cannot be manufactured in the customs territory of the Republic of China but which are essential import items, and shall be specially approved case by case. Import duties and commodity tax must be duly paid at the time of their entry.

3) An "Export Processing Zone Administration" is established for the management of the Zone, and is vested with adequate authority to administer all matters within the jurisdiction of the Zone in order to simplify procedure and centralize authority and responsibility.

4) In principle, factories to be located in the Zone shall be limited to those whose operation will not adversely affect similar export industries already established in Taiwan. The categories of export enterprises to be admitted into the Zone are announced by the Ministry of Economic Affairs.

5) The machinery and equipment, raw materials and semi-finished products shipped from the customs territory of the Republic of China into the Zone shall be considered as export commodities and shall be supplied according to the export prices.

6) The land covered by the Zone shall be publicly owned and for lease only. In addition to paying rent for the land, export enterprises are required to share a part of the expenses for development and maintenance of the Zone.

7) A number of standard factory buildings are constructed in Zone for lease to small- and medium-size factories.

8) With the exception of necessary managerial personnel, watchmen and guards, and employees of export enterprises who are on duty after office hour, no other persons are allowed to reside in the Zone.

9) More favorable special regulations have been promulgated to govern the conduct of foreign exchange settlement by factories located in the Zone.

10) Bonded trucks are used between the Zone and the wharves or airports. Tax evasion and smuggling inside the Zone shall be severely punished.

3. Geographic Features, Facilities and Installations

The Keelung Harbor is the largest international port in Taiwan. It is situated in the semi-tropical zone at latitude 23 degrees north and longitude 120 degrees east, about 342, 547 and 1,356 miles from Hongkong, Manila and Tokyo respectively. The annual volume of cargo (6,000,000 metric tons) handled by this port is more than two-thirds of the island's total import and export of a year.

Located at the southwestern tip of the island, the average temperature at Keelung is about 27 degrees C. in June and 17.5 degrees C. in December. The average annual rainfall is about 2,000 mm and there are less than 100 rainy days each year. Rainfall is concentrated during the period of May through September.

Having a population of more than half a million people, Keelung is the second largest city and also one of the leading industrial cities in Taiwan. Railways and highways connect Keelung with all the other parts of the island. The nearby Keelung airport will shortly be expanded into the second international airport on the island to serve jet airliners.

The Kaohsiung Export Processing Zone is set up on the newly reclaimed land in the harbor. Covering an area of 63 hectares, the Zone faces water on three sides and is connected on one side with the Southern Taiwan Industrial Estate. Public utilities of international standard, including roads, sewers, water, power, tele-communication, fire-fighting facilities, and warehouses, are constructed.

4. Statistical Data

The following tables reveal a breakdown of the approved investment cases by category and an analysis of the sources of approved investments:

Approved Investment by Category

| Category | Number Approved | Amount of Investment Involved (US\$) | Number of Employees Involved |
|--|-----------------|--------------------------------------|------------------------------|
| 1. Precision machinery and instruments | 3 | 400,000 | 237 |
| 2. Electronics products | 24 | 11,331,229 | 8,950 |
| 3. Optical products | - | - | - |
| 4. Metal products | 13 | 2,476,500 | 2,226 |
| 5. Plastic products | 17 | 2,285,875 | 3,723 |
| 6. Machinery | 4 | 525,000 | 256 |
| 7. Furniture | 2 | 475,000 | 320 |
| 8. Handicraft products | 22 | 1,998,400 | 4,184 |
| 9. Electrical appliances and products | 3 | 710,000 | 760 |
| 10. Rubber products | 2 | 125,000 | 438 |
| 11. Chemical products | 2 | 175,000 | 230 |
| 12. Printed matters | 1 | 150,000 | 48 |
| 13. Confectionery | - | - | - |
| 14. Cosmetics | - | - | - |
| 15. Leather products | 6 | 518,000 | 1,185 |
| 16. Knitted and woven goods | 18 | 2,084,751 | 4,453 |
| 17. Garments | 15 | 4,307,855 | 6,133 |
| 18. Packing and repair services | 2 | 285,000 | 304 |
| 19. Paper products | 1 | 338,150 | 224 |
| 20. Toys | 4 | 734,089 | 1,117 |
| 21. Yachts | 1 | 50,000 | 47 |
| TOTAL | 140 | 28,969,829 | 34,885 |

Approved Investment by Source

| Source of Investment | Number of Cases | Amount of Investment (US\$) |
|---------------------------------|-----------------|-----------------------------|
| 1. Domestic investment | 27 | 2,870,180 |
| 2. Overseas Chinese investments | 25 | 4,670,099 |
| Hongkong | 19 | 3,185,025 |
| Japan | 3 | 922,574 |
| Indonesia | 1 | 150,000 |
| Ryukyus | 1 | 200,000 |
| Malaysia | 1 | 212,500 |
| 3. Foreign investments | 45 | 14,862,459 |
| The United States | 6 | 5,459,429 |
| Holland | 1 | 2,150,000 |
| Turkey | 1 | 170,000 |
| Ryukyus | 1 | 100,000 |
| Japan | 34 | 6,232,100 |
| Great Britain | 2 | 750,940 |
| 4. Joint ventures | 43 | 6,567,111 |
| Sino-America | 6 | 1,249,591 |
| Sino-Japan | 18 | 2,101,801 |
| Local-Overseas Chinese | 12 | 1,573,150 |
| Sino-U.K.-U.S. | 2 | 272,569 |
| Hongkong-Philippine-U.K. | 2 | 400,000 |
| Canada-U.K.-Japan | 1 | 300,000 |
| Canada-America | 2 | 170,000 |
| TOTAL | 140 | 28,969,829 |

5. The Second and Third Export Processing Zones

A budget of US\$17,250,000 has already been approved for the establishment of the Second Export Processing Zone, located about 20 kilometers north of the Kaohsiung Harbor, on 115 hectares of sugar cane field, along the main North-South Highway of the island. It will include:

| | |
|--|-----------|
| 1) Plant sites | 62.73 ha. |
| Standard factory area | 32.62 ha. |
| Self-built factory area | 30.11 ha. |
| 2) Roads and green area | 20.67 ha. |
| 3) Administrative building and supporting agencies | 5.00 ha. |
| 4) Community site | 26.72 ha. |

It has bigger area than the first export processing zone, therefore, it will accommodate more factories to be established inside. Community site is reserved for housing the employees thereby reducing the problem of communication. Moreover, there are adequate labor resources from nearby existing communities. Bonded trucks will be used between the zone and the wharves or airports.

It is expected that the construction will be completed within one and half years and factory applications will be acceptable in July 1970.

A three-year target is set forth as below:

1) There will be 200 export enterprises established inside the zone.

- 2) There will be a total investment of US\$30,000,000.
- 3) There will be a total annual export volume of US\$120,000,000.
- 4) There will be 40,000 employments created.
- 5) There will be 500 senior foreign technicians in the zone which will be helpful to the training of local employees.

A Third Export Processing Zone, located in the central part of Taiwan, with an area of 23.6 hectares, is also being under construction. Public facilities are expected to be completed in August of this year (1969).

Appendix

Statute for Establishment and Management of Export
Processing Zones

Promulgated on January 30, 1965

Article 1:

For the promotion of investment, expansion of export sales and increase of the export of products and labor, the Executive Yuan may select appropriate localities and demarcate specific plots of land in such localities for establishment of export processing zones under the provisions of this Statute.

Article 2:

The establishment and management of export processing zones shall be governed by the provisions of this Statute. In the case of matters not provided for in this Statute, the provisions of other related laws shall apply.

Article 3:

The term "export enterprise" used in this statute means the enterprises enfranchised to engage in the manufacture, processing or assembling of export products within the export processing zones and the enterprises engaging in such activities as storage, transport, loading, unloading, packing, and repair essential to the course of production or sales operations of the enterprises engaged in the manufacture, processing, or assembling of export produces within the zones.

Article 4:

Export enterprises shall be limited to those conforming to the following conditions:

1. That the enterprises are established with new investments;
2. That the establishment and operation of such enterprises will not adversely affect the operation of existing domestic industries also engaged in export;
3. That the raw materials, semi-finished products, or finished products of such enterprises can be easily inspected or regulated; and
4. That the operation of such enterprises during the course of manufacture or production will not endanger public safety or public health inside the export processing zones.

The categories of export enterprises shall be jointly formulated by the Ministry of Economic Affairs, Ministry of Finance, and the authority in charge of foreign exchange and foreign trade in consideration of the status of export sales of the enterprises of any specific category as well as the location and space of the export processing zones, and an order of priority for establishment of export enterprises under different categories shall likewise be formulated basing on the degree of facility for the inspection and regulation of their raw materials and products. In both cases, the proposals shall be submitted to the Executive Yuan for approval and announcement.

Article 5:

No products of export enterprises shall be brought into and sold in the local market; provided, that this shall not apply to the products which cannot be manufactured in the customs territory of the Republic of China and the import of which is needed, if the domestic sale of such products is approved by the authority in charge of foreign exchange and foreign trade.

where products are brought into and sold in the local market upon approval granted under the proviso to the preceding paragraph, all duties and taxes shall be duly imposed at the time of their entry.

Article 6:

Regulations governing the disposal of waste and scraps of export enterprises shall be separately prescribed by the Ministry of Economic Affairs.

Article 7:

An Export Processing Zone Administration shall be established in each export processing zone, to be placed under the jurisdiction of the Ministry of Economic Affairs, and its organization shall be separately prescribed by law.

Article 8:

The Export Processing Zone Administration shall have the powers and functions to handle within the zone under its jurisdiction matters concerning:

1. Administrative regulation of export processing operations;
2. Planning, construction, and management of all necessary installations and facilities in the zone;
3. Management of revenues derived from properties owned by the government;
4. Factory and business registration and construction approval and the issuance of pertinent licenses;
5. Inspection of plant installation and working conditions for laborers;

6. Inspection of products and the issuance of pertinent licenses or certificates;
7. Endorsement in respect to the import and export of commodities;
8. Regulation of foreign exchange and trade;
9. Measures for prevention of smuggling and the patrol and inspection for such purposes; and
10. Coordination with other agencies and organizations.

Regulations governing the management and operations of the Administration shall be prescribed by the Ministry of Economic Affairs in conjunction with other authorities concerned.

Article 9:

The following matters within the export processing zones shall be handled under the direction and supervision of the Administration by the branch or sub-branch offices to be set up in the zones by the authorities in charge of the particular enterprises.

1. Assessment and collection of taxes;
2. Customs inspection of import and export commodities and the supervision and inspection of commodities in the course of transit;
3. Postal and telegraphic services; and
4. Business operations of bonding agencies.

The branch or sub-branch offices referred to in the preceding paragraph shall in principle be maintained within the building or buildings of the Administration.

Article 10:

In registering for formation, an export enterprise shall fill out application forms for such purposes and submit the same, together with the relevant information materials required, to the Export Processing Zone Administration for transmittal to the Ministry of Economic Affairs

for screening and approval.

All matters applied for by an export enterprise shall be handled by the Export Processing Zone Administration or be transmitted thereby to other agencies concerned for action, as the case may require.

Article 11:

Land situated in the export processing zones may be owned only by the public. Any land in the zones which is privately owned shall be requisitioned under Article 209 of the Land Law and compensation shall be made to the original owners at the market prices of the land. Export enterprises may, in the light of their respective requirements, hold and use the land in an export processing zone under lease, and shall, in addition to paying rent in accordance with the Land Law, pay their share of the expenses for development of public utilities, installations, and facilities.

Plant buildings inside the export processing zones may be constructed by the export enterprises themselves with prior approval or by the Administration for lease. The Administration may also permit investment by other persons in the construction of plant buildings for lease.

Article 12:

All buildings located inside the export processing zones which are privately owned may be transferred only for use by export enterprises.

Where any of the following events occurs to any of the buildings referred to in the preceding paragraph, the Administration may purchase same at its market price:

1. Where the building is not used by an export enterprise;
2. Where the building is not properly used; and
3. Where exorbitant prices are demanded for transfer of the building.

Article 13:

Import duties and dues are exempted for the machinery and equipment, raw materials, and semi-finished products imported by export enterprises for their own use; provided, that no such imported articles may enter, in whatever manner, into the customs territory of the Republic of China.

Commodity tax is exempted for all goods produced and for all raw materials and semi-finished products used by export enterprises inside an export processing zone.

Article 14:

The machinery and equipment, raw materials, and semi-finished products brought by export enterprises from the customs territory of the Republic of China into an export processing zone for their own use shall be deemed as export commodities; provided, that no tax refund shall be made for imported machinery and equipment which have been duly taxed.

Article 15:

Regulations governing the control of foreign exchange in respect to commodities imported and exported by export enterprises located in the export processing zones shall be separately prescribed by the authority in charge of foreign exchange and foreign trade.

Article 16:

Export enterprises may, within an export processing zone, effect storage, displaying, repacking, and processing, manufacture or make other manipulation, which shall be related with export sales, of the raw materials, semi-finished products, and finished products for their

own use. However, they should keep ledgers in which itemized detailed entries shall be made to record the quantity and value of their incoming and outgoing commodities for inspection and auditing by the Administration and customs authorities at any time.

The raw materials, semi-finished and finished products referred to in the preceding paragraph may be stored for an indefinite period of time in an export processing zone. In case of loss or shortage, reports shall be submitted to the Administration to explain the causes of the loss or shortage. The Administration shall thereupon conduct a joint inspection of the loss or shortage with the customs authority, and, if it is found that the loss or shortage is true and the causes given are acceptable, may permit a deletion of the loss or shortage from the books.

Article 17:

When commodities of export enterprises are brought into or out of an export processing zone, application for approval shall be filed in advance with the Administration for inspection, sealing and release of the commodities by customs authorities stationing in the zone and also for supervision and inspection of the commodities in the course of transit.

Article 18:

With the exception of the necessary managerial personnel, watchmen and guards, and personnel of export enterprises who are on duty after office hours, no other persons may reside in the export processing zones.

All export enterprises shall submit complete name lists of their employees, with photographs, to the Administration for issuance of entry and exit permits.

Entry into and exit from an export processing zone by all personnel and vehicles shall be made at specific localities designated by the Administration and shall be subject to the necessary inspection to be conducted by customs officers and watchmen and guards.

Article 19:

An act in violation of the Administration's operation and management rules shall be punishable by a fine of not more than five hundred yuan. In case of a serious violation, the Administration may order compulsory removal from an export processing zone.

Article 20:

The following acts shall be punishable by a fine of not more than one thousand yuan:

1. Violation of the provision of Article 18, paragraph 1.
2. Violation of the provision of Article 18, paragraph 3.

Article 21:

An act in violation of the provision of Article 16 of this Statute, in not keeping the necessary ledgers or making false entries in the books or refusing inspection by the Administration or by the customs authority, shall be punishable by a fine of not more than five thousand yuan.

Article 22:

Bringing of commodities into or out of an export processing zone in violation of provision of Article 18 and Article 17 of this Statute shall be deemed as an act of smuggling and the person who does such an act shall be liable to severe penalties under the relevant provisions

of the Customs Preventive Statute.

Article 23:

A person who sells in local market the products manufactured or produced in an export processing zone in violation of the provision of Article 5 of this Statute shall be liable to imprisonment for a period of not more than five years or detention and, in addition thereto, may be liable to a fine of not more than ten thousand yuan.

A person who violates the provision of Article 5 of this Statute and whose act falls under any of the circumstances specified in Article 3 and Article 4 of the Statute for Punishment of Smuggling shall be punished in accordance with said Statute, as the case may be.

Article 24:

Where a customs officer in charge of levying and collecting duties and dues or an officer charged with the responsibility of conducting inspection in accordance with the relevant laws and regulations releases, sells or conceals the commodities with the knowledge that such commodities are brought into or out of an export processing zone for smuggling purposes shall be liable to a punishment of imprisonment for a period of not less than seven years.

Article 25:

Where an export enterprise falls under any of the events specified in Articles 20 through 24 of this Statute, the Administration may order and enforce compulsory removal of the enterprise from an export processing zone within a prescribed period of time in addition to meting out penalties in accordance with the provisions of the respective articles.

Article 26:

The enforcement rules of this Statute shall be prescribed by the Executive Yuan.

Article 27:

This Statute shall become effective as of the date of its promulgation.

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