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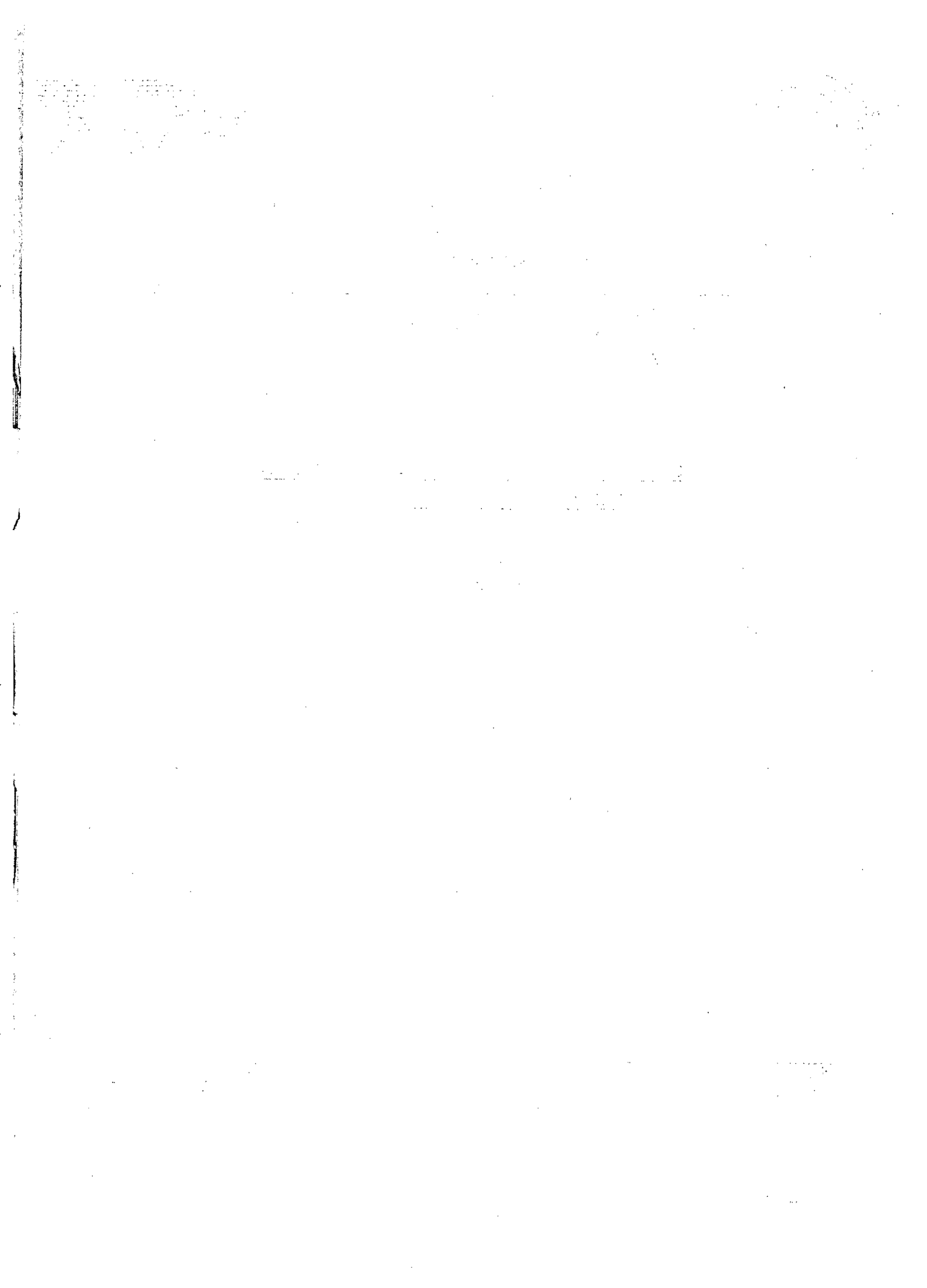
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INCENTIVES FOR THE ATTRACTION AND PROMOTION OF
INVESTMENT IN AN INDUSTRIAL FREE ZONE

Before entering into the subject of incentives, I would like to speak about the possible forms of customs free manufacturing activities known in general. These are:

1. draw-back system;
2. manufacture in bond; and
3. free trade zones or industrial free zones.

I. DRAW BACK SYSTEM

Where any components of export products are imported from a third country and are subject to import duty at the time of importation, a refund or rebate of duties paid on raw materials or components used in products are granted after its exportation. This arrangement is known as draw back system. In other words, the entrepreneurs have to pay the duty and after certifying in forms of export documents, they can get their refundments. However, this procedure is time-consuming on the one hand and involves in many cases a considerable delay on the other. It also has the disadvantage of tying down the capital of the manufacturer for the period between the importation of the components and the exportation of the products, even assuming that the refundment is made immediately after the act of export is completed.

2. MANUFACTURING IN BOND

This is an alternative to the draw back system and is intended to remove the disincentives as I have just mentioned. Namely, it permits the storage manipulation or manufacture of foreign components or raw material prior to the formal entry into the customs territory against a security bond which ensures that duties are paid when and if the goods enter the domestic market. This facility provides the possibility of processing the imported components and raw material into products which will be exported without actually having to pay the import duties leviable. It, however, still involves the "sleeping" nature of the capital in the sense that a bond has to be set up.

3. INDUSTRIAL FREE ZONE

The industrial free zone constitutes a large scale arrangement for importing articles free of duty and manufacturing or processing them in an enclaved area created for the purpose of safe-guarding the customs boundary. With this system the industries established within the industrial free zone have no necessity of paying the customs duty or putting up of the security bonds in so far as the products (or the components and raw materials) do not enter customs territory. It eliminates the disadvantages of the draw back system as well as the manufacturing in bond arrangements.

This system could, therefore, be of great interest to the entrepreneurs since the capital involved in the importing and manufacturing process could be wholly utilized for production purposes only, without the involvement of any "sleeping" capital. The elimination of a large portion of customs control and the complicated and difficult procedures of administrative work involved therein as required in the other forms mentioned before and cuts down a lot of "red tape" which would be one of the most interesting incentives for action-oriented and cost-conscience entrepreneurs and investors.

In most countries usually a very well designed industrial incentive system is already provided to stimulate the industrialization process. However, in many cases these incentives seem not to be working **as effectively** as intended. It has already been witnessed that fiscal incentives alone are not sufficient enough to produce desired results, at least to a certain extent, of promoting new industrial investments. Physical incentives are considered to be a useful means of supplementing this situation.

The industrial free zone equipped with the customs privileges, providing various physical incentives and additionally supported by a range of fiscal incentives could thus be a powerful weapon in providing an attraction to the potential investors and inducing them in establishing themselves in the industrial free zone.

As we have seen during the present Training Workshop, a number of countries have created an industrial free zone for achieving certain

objectives such as development of export-oriented industries, increase of foreign exchange receipts, adaptation of modern technical skill, etc., and a few cases indicate that this measure could indeed work favourable for the benefit of the host country.

However, it should also be noted that a well co-ordinated package of incentives would have to be drawn up so that with the minimum sacrifice on the part of the host country, the maximum attraction would be offered to the investors.

By this "well co-ordinated package of incentives" I wish to stress that there could be seldom, identical packages of incentives in two industrial free zones, because the packages have to be drawn up taking into consideration the geographical location, the availability of labour, skill, raw material, infrastructure and utilities, and, most of all, the industrial atmosphere in the host country and in the region where the industrial free zone is to be established.

Although I do not wish to count the Republic of Ireland as a developing country, I may refer to the status of the Shannon Free Airport Zone, where only a very few incentives are provided. The types and range of such incentives are carefully studied, weighed and decided upon, sufficient enough to attract and induce industrial investments. And, I am sure you will agree that we have here a successful example of an industrial free zone.

Therefore, it would be too daring an attempt to try to design a standard package of incentives, applicable to all countries. I am therefore going to list up the various types of incentives which would come into consideration in connexion with an industrial free zone.

When discussing the forms of incentives of an industrial free zone it must be noted that the incentives meant are for the purpose of attracting and inducing new industrial investments by the domestic and foreign entrepreneurs and not the so-called export incentives or export bonus system which objectives are to promote the export trade activities.

There are a large number of incentives which can attract a foreign investor in an industrial free zone:

A. Fiscal Incentives

1. Import duty/tax exemption on equipment, machines, etc. for the establishment of a factory, and on raw materials and components for the production. As we have already seen, the big advantage here is that the customs procedure is cut down to a minimum.
2. Income tax holidays is given for a certain period to facilitate the establishment of a factory and to reduce the starting costs of the production. This includes also a special period of holiday or reduction of rates of other direct and indirect taxes, surtaxes, surcharges, etc. payable by enterprises which are not located in an industrial free zone.
3. In some countries export taxes are exempted from products manufactured and exported from a free zone, which otherwise are levied on the normal products.
4. Freedom of foreign exchange control with a guarantee of the same status in the future and with the assurance of free repatriation of earned profits up to a certain fixed annual rate or percentage.
5. Preferential financing facilities, such as a provision of short, medium and longterm loans with an advantageous rate of interest, provided they are required for the establishment of the industries in the zone, including the construction of non-standard factory buildings. In some cases, these financial facilities are even provided to the entrepreneurs for the purchase of raw material as well as working capital.
6. Preferential tariff rates on transportation costs between the zone and the sea or airports of arrival or departure in the country as well as on the forwarding services, warehousing services, cost of utilities, rents of ground and buildings (standard factory buildings) common and general service charges, etc.

B. Physical Incentives

1. By physical incentives I am referring to the range of incentives provided as infrastructure in the industrial free zone by the host government as the initial investment.

The most important significance of these physical incentives is the fact that they are relieving from the investor their initial investment capital on long term fixed assets, which would otherwise have been tied down were they to be arranged by the investor himself.

2. A big attraction is the supply of utilities in the form of electricity, water, gas, steam and maybe a central heating supply. However, this depends on the location of the zone and the various types of industries which are coming into the zone.

3. Standard Factories. Possibilities of renting or purchasing pre-constructed standard factories and office buildings or spaces, according to the wishes of the industries. As seen in Shannon, the advanced constructed factory buildings are a not to be overseen incentive to the investor. The factory buildings should be so designed that it would leave the possibility to the investor to enlarge them at a later date. Another advantage is that the investor is able to move into the zone in the shortest time.

Of course the possibility must be left open for the investor to construct self-designed factory buildings should he wish to do so. In this case, also the pre-leveled and prepared lots or bays would enable the investor to commence the construction work immediately.

4. Warehouse services should be available for the investor to store raw materials, components, etc. what he needs for his production.

C. General and Common Services

The availability of general and common services established in the zone are designed for the benefit of the industries and their workers and would amount to a considerable portion of reducing the work as well as the initial investment costs of the investors, had these had to be made available by

themselves. To these I will add:

1. Repair and maintenance workshop for the normal services and repair of the machines and equipment in the factories to avoid undesirable intervals of the production by depending upon repair shops outside the zone, which arrangements could be complicated and time-consuming due to the customs procedures.
2. Transportation or forwarding services which does the transportation within and outside the zone and which does also the customs clearance on behalf of the industries.
3. Medical services (clinic service) the size of such an operation would depend largely on the number of the workers employed in the zone.
4. Canteens and cafeterias. A general canteen service would discharge the necessities of individual industries to provide such services themselves.
5. Petrol stations.
6. Food and supplies in the form of a shopping centre.
7. Fire brigade.
8. Security services.
9. Co-operative insurance services.
10. Training center.
11. Housing.
12. Parking facilities.
13. Recreation facilities.

The scope and scale of all these services, however, ought to be examined and planned carefully in order that it will suit the actual demands and requirements of the zone, or otherwise it may in itself cause inefficient economy in the sense of excess and/or unnecessary facilities. The matter should be considered in relation to the criteria of admissible industries

and the type of industries actually established in the zone. A physical development of the available facilities should be co-ordinated with the expansion of the free zone activities.

I would say that one of the most important matters which could and would act as an interesting incentive is the organization and administration of the industrial free zone.

An industrial free zone administration acting as the highest administrative authority in the zone, should be established with a centralized and autonomous power, responsible to and under the jurisdiction of the Ministry in charge of industries. Its function would be to handle all matters concerning the administration and operation of the zone, including such problems as accepting and approving of application from investors, granting of permits and licences from the industries in the zone, etc.

To ensure an effective operation of the industrial free zone administration, branch offices of various supporting agencies should be located within the administration office. These would include such organizations as: Customs House, Tax Bureau, Post and Telecommunication Office, Banks, Employment Service Office, etc.

Post, Telephone and Teléx. The telephone should be planned in such a way that the capacity be co-ordinated in accordance with the development phase of the industrial free zone.

The Bankservices. The banks should be given the possibility of handling foreign exchange transactions.

It should be stressed that this type of centralized and autonomous administrative organization could provide the best services to the entrepreneurs in the free zone by minimizing the bureaucratic red tape procedures and could function as an effective incentive in attracting new industrial investments into the zone. The administration should give the impression of a private running organization and not of a governmental institution.

There are a few cases where the administrative set-up of the free zone is not centrally organized, thus resulting into serious discouragements of further expansion of the free zone activities. On the other hand, the situation in Shannon can be considered as a model case of such an organization.

A serious concern of an investor, particularly of foreign origin, is the feeling of security of his invested capital. A guarantee against nationalizing would offset to a great deal this problem.

Before closing, I wish to mention that the establishment of an industrial free zone should be considered as a useful means of accelerating the industrial development of the country but not as a final aim. The incentives should be so designed to follow this principle, namely to obtain the maximum acceleration of industrial development on a short to medium term basis.