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CONTENTS

1. Introduction :

1.1. In accepting the kind invitation of UNIDO to prepare and present a paper on Industrial Free Zones, I was influenced by two main considerations : firstly, a conviction, based on the experience of the team which developed the idea at Shannon and assisted in its translation to other locations, that the Industrial Free Zone Concept offers to developing countries a proven method of achieving significant growth through industrialisation without foreign economic domination and secondly, a concern that, through lack of clear knowledge of the purpose and operations of Industrial Free Zones, many developing countries can be dissuaded from considering their establishment or, worse still, be encouraged to embark on them from a basis of misinformation and misunderstanding.

1.2. When Ireland won political independence in 1922, it was faced with many of the problems that now confront developing countries : excessive dependence on agriculture, a high level of unemployment, and a very small industrial base. In the early 1930's a programme of rapid industrialisation was inaugurated, making extreme use of protective tariffs, with the objectives of increasing employment and achieving a large measure of self-sufficiency in the production of industrial goods. The new policy, as might be expected, had its successes and its failures in terms of individual enterprises, but overall it did not succeed in eliminating unemployment. The numbers unable to find work, and indeed forced to emigrate in search of work, had reached such proportions in the late 1950's that a new approach was clearly necessary. An additional factor was a growing balance of payments problem, brought about in large measure by the over-dependence of home market industries on imported raw materials. A vigorous programme to attract foreign enterprise to establish manufacturing units in Ireland was, therefore, launched, with generous inducements being offered by the Irish Government to stimulate exports. Emphasis was redirected from the previous policy of import substitution to the new priority of manufacturing for export.

1.3. In this new economic environment, the Shannon Industrial Free Zone, geared essentially to export manufacturing, played an important part. Starting in 1958 it quickly developed in terms of industrial enterprises, employment and production, and by 1966 it was contributing 30% of the Nation's exports of manufacturing goods. Today, nearly 8,000 people are employed at Shannon, £30 millions have been invested in industrial plants, and exports of Shannon made goods are running at an annual rate of about £50 millions.

1.4. The success of the Shannon Zone has attracted attention from other countries, and we have been very pleased to pass on the benefit of our experience to those interested. That the ideas originating at Shannon are fully capable of succeeding elsewhere, has been proved in the case of the Industrial Free Zones developed at Kaohsiung (Taiwan) and, more recently, Korea and Malaysia.

1.5. This experience accumulated over a period of 15 years, has demonstrated that the Industrial Free Zone concept offers a proven method of achieving growth in a planned and controlled environment. With the proper development of Industrial Free Zones comes :

- an increase in job-opportunities;
- a raising of level of industrial skills of the work-force,
- a build-up of international, export-oriented enterprises which bring new technologies and new techniques of production and marketing,
- an increase in exports and foreign-exchange earnings,
- substantial fixed investment in plant, machinery and building, and
- regional growth through the multiplier effect of developments occuring within the free-zone itself.

Industrial Free Zones, being concerned with external trade, are outward looking and expansionist in character, and are a constant source of fresh thinking and ideas which help to stimulate the domestic economy. They provide a "shop-window" for the abilities and products of the nation's enterprise and work-force, and they constitute a focal point of growth and prosperity which serves as an example and an inspiration to the rest of economy.

1.6. What I am saying, in effect, is that the Industrial Free Zone has been shown to be an effective means by which developing countries can overcome the disadvantages of entering late into the process of industrialization. Its particular value is that it can provide a method of tapping into the technological expertise and marketing skills of the more developed countries and of securing access to the vital process of export manufacturing.

1.7. But the precise nature and purpose of the modern Industrial Free Zone idea is not always understood. In particular, its essential role as a manufacturing base for exporting industries is frequently confused with the older concept of the zone as an entrepot and assembly point for goods imported from abroad and intended for the home market. Another misconception is that the Industrial Free Zone, to be successful, must be established as a specially priveleged enclave in which the normal and necessary social and economic laws of the host country are totally excluded.

1.8. Such misunderstandings are harmful to the concept of the Industrial Free Zone, and are confusing to those in positions of authority who have to make decisions on the implementation of Industrial Free Zone projects in their own countries. I hope the paper which follows will help to clarify these matters. Planning and other related factors are not touched upon, as these aspects are fully covered in the paper entitled "Physical Planning of Industrial Free Zones", which UNIDO have asked my colleague Mr. Paul Quigley, General Manager, SFADCo., to deliver at this Conference.

11. The export-oriented industrial free zone

2.1. The title "export-oriented industrial free zone" is a good one in that it describes the special characteristics of the manufacturing concept that originated in Shannon Free Airport in 1958 and subsequently developed in Taiwan, Malaysia, Korea and elsewhere. It is a "zone", a defined and limited area. It is "free" of customs duties, being separated from national customs territory by a physical boundary, so that goods can be brought into it, processed, and exported without payment of any duties. It is "industrial" in that it caters primarily for manufacturing industry, and thus totally different from most traditional freeports which were assembly points for the export of raw materials and the import of manufacturing goods, with storage break-bulk areas and some minor packaging and processing operations, (these traditional freeports were thus designed to benefit developed countries through facilitating trade, but it was a type of trade which hindered the industrial development of colonial economics). And it is "export oriented" because the firms within it are serving not the home market but the world market.

2.2. While it may not appear at first sight to be a necessary characteristic of an Industrial Free Zone, I see one other quality as essential for success. That is, that the Zone must be planned, managed and promoted by a State Authority or State Company which, while controlled in broad policy matters by the Government (ideally, through a part-time board of directors appointed by the Government), must be free to act commercially, flexibly, and with all the management skills associated with manufacturing industry itself. This calls for full Government commitment, and the giving by the Government of necessary authority to be a carefully-chosen group of competent and responsible officers.

2.3. And I should add one further qualification. While the Industrial Free Zone must be mainly concerned with manufactured exports, and my paper will therefore concentrate on these, it should provide suitable conditions for encouraging development of other exports appropriate to the particular economy. For example, data-processing and clerical operations carried out on a commercial basis for overseas customers can earn export profits and give good employment.

Or the Industrial Free Zone could offer possibilities for processing and packaging commodities now exported in bulk, giving greater added value to the economy and greater profits (particularly if these are tax-free) to the industry concerned. The mix of activities in Zones may vary from country to country, but export manufacturing will predominate in all of them. In the Shannon Industrial Free Zone 98% of all goods manufactured there are intended for export markets. Here are the figures for imports into the Zone as well as exports from the Zone during 1973.

	£m.
Total Exports	47
Total Imports	23
Nett value added at Shannon	24
Made up of -	
Salaries/Wages	10
Services & Local Purchases	6
Profits/Stock Appreciation	8

111. The Industrial Free Zone in national development programmes

3.1. The Industrial Free Zone is a means by which conditions can readily be established which can both attract foreign investment and give a measure of control over it. In recent times, the process of industrialisation in a developing country frequently starts in the same way as it did in Ireland - that is, with the establishment of home industry manufacturing goods previously imported, behind tariff barriers designed to protect it. These barriers may be intended as temporary ones, to give protection during the establishment phase of the new home industry. In practice, they tend to become permanent, or at least only to be removed as a necessary pre-condition to greater growth-opportunities- as is happening in Ireland following our entry into the European Economic Community.

3.2. Protected home industry, unless the home market is an enormous one, can only bring limited industrial development.

Efficient, low unit cost production processes call for big markets and, to an ever-growing extent, for world markets. The very protection of home industry, in that it is protection from external competition, tends to make it unfit for competition on export markets. The Irish experience is that it is the exceptional firm which, from a base of a small protected home market, becomes efficient enough to export successfully. The classical economic viewpoint that fixed home-market prices can enable the home-market to absorb the overhead costs, and hence that anything over variable costs will produce export profits, does not seem to have worked in practice. If it works at all, I believe it can only be where there is a large home market and exceptionally enterprising industrial management.

3.3. The transition from a situation of protected home industry to one of substantial industrial exports, can, therefore, be a difficult one. Ireland's solution since 1958, when we realised we had reached the end of the road in development from import substitution, has been to couple incentives to encourage home industry to increase exports with incentives to attract new totally exporting industry. The latter, because it does not sell at all on the home market, or sells at most a controlled small proportion of its output on it, offers no direct threat to the growth of home industry. This has been quite a successful policy and has, I believe, led not only to a large new volume of exports, generated by new factories, but contributed indirectly to major increases in exports by the traditional industries. In the period 1960-72 industrial exports from Ireland increased from £84 million to £346 million – an increase of over 240% at constant prices.

3.4. In Ireland, the Industrial Free Zone at Shannon was one part of the implementation of the new policy. The project at Shannon had other aims, too. These were the generation of freight and business traffic, to attract aircraft which no longer needed to land for fuel, and the creation of employment in a part of the country where there was little or no previous industrial development. This illustrates the point I want to emphasise : that an Industrial Free Zone must be seen, and planned, as part of a national industrialisation policy, and as part of the policy for development of the region in which it is located. It must be seen in relation to national policies for tourism development, for agriculture development, for export development generally, and for port development. At the same time, it offers the special possibility of providing within it (if this accords with national policy) special legislative and other conditions which need not apply elsewhere in the national territory. It gives a new dimension of choice to the national Government, including a ready means of establishing exporting industry while maintaining elsewhere, for as long as necessary, industrial development through import substitution.

3.5. While it thus provides greater flexibility in policy, there is one vital respect in which flexibility must be limited if the Industrial Free Zone is to succeed in practice. Foreign investment seeks secure, known and favourable conditions. The conditions offered to any particular industry to attract it to the zone must be maintained throughout the period for which they were offered. They must not only be fixed and certain; they must be seen to be so. If, for example, a 15-year remission of tax on export profits is offered, that remission, for the individual firm concerned, must not only last for 15 years but it must be seen from the beginning, in terms of precise and unalterable Government commitments, that it will last. This is not to say that the conditions offered to newcomers may not subsequently change. It may prove, after the initial successful development of the zone, that a 10 - year remission would be sufficient to attract more industry. If so, the offer to new firms can be changed by shortening the remission period. But once that offer is made it must, in its turn, be fixed and unalterable. The Industrial Free Zone gives greater flexibility of choice, both to the national Government and to the foreign investor; but it does not give flexibility to subsequently change an individual arrangement once made. Security of investment conditions within the Zone will be an absolute pre-requisite to its success. Breaking such a bargain would not only damage the attractiveness to investors of the country concerned - it would damage the attractiveness of all Industrial Free Zones.

3.6. We are here concerned primarily with the Industrial Free Zone as a means, within a national policy and programme, of attracting foreign investment in exporting industry. It should not be overlooked that it can also be used to stimulate, by offering favourable conditions, the development of national exporting industry. Some of the new firms may be joint operations with, or owned in part by, either private enterprise or State enterprise in the country concerned. Further, the factories in the Zone will provide a market for sub-contracting and service firms which can be met by local enterprise. At Shannon, for example, 19 of the 59 firms in the Free Zone are wholly Irish-owned, and the proportion of such firms is tending to grow.

3.7. For a country at an early stage of industrial development, and with scarce resources, the Industrial Free Zone offers the valuable additional advantage of enabling adequate infrastructural facilities to be provided within a limited and concentrated area, and therefore at least cost. Within the Zone, a non-industrial society can establish an area completely in keeping with both the needs and the achievements of a fully industrialised society. While this same effect can potentially be achieved in any industrial estate, the necessary concentration and disciplines of the Free Zone force it more strongly towards practical reality.

3.8. Once the Industrial Free Zone is working successfully, it has a strong demonstration effect on the rest of the economy. For example, in 1966 Shannon exported 30% of Ireland's total manufactured exports. In 1972, although manufactured exports from Shannon had grown substantially, they represented only 12.9% of the national total. Shannon's "demonstration effect" undoubtedly contributed to this change in the national economy.

3.9. In many instances, the Industrial Free Zone may be the most inexpensive way of bringing about export industrialisation since the usual location, at an air or seaport, has already got a developed infrastructure of communications and labour availability and, in the case of airports, usually has suitable land availability. This economy of location can be particularly valuable in pilot plant development.

3.10. Most national industrial development policies would presumably favour the export of manufactured goods rather than raw materials. With a strong export policy, it would be undesirable to confuse the purpose of the Industrial Free Zone by permitting the sale of its products to the home market; better to keep the Zone totally exporting. This rule, should, however, not be so rigid as to exclude the possibility of sales to the home market of goods which could help in the development of home industry. Examples are tools which might, at least for a time, demand advanced manufacturing techniques available only in the Zone; or components which would, in any case, have to be imported.

3.11. Many of the developing countries tend towards a centrally planned economy as distinct from the market-type free enterprise economy. The Industrial Free Zone would in no way conflict with development of this kind. In fact, it offers a bridge through which the host country can reap the benefits of both systems.

3.12. In brief, the policies of the Industrial Free Zone must be developed in the light of individual national policies and objectives, and must conform to them, just as the planning of the Zone must be co-ordinated with national and regional economic and physical planning. Within that context, the Industrial Free Zone should be a model of industrial development and should serve as a lead and as an example for modern industrialisation within the developing country. Just as an airport will exhibit high technological development even in an underdeveloped country, so the Industrial Free Zone should exhibit industrial technology on a par with anything that can be found in an industrialised country, and exhibit it both to the foreign investor and the local entrepreneurs.

3.13. I should make it clear that, in emphasising export industrialisation as a key to prosperity, I am not advocating that developing countries should necessarily follow the same pattern as that followed in industrially developed countries. Each nation has its own culture and philosophy of living, and the purpose of industry is to support these, not dominate them.

Culture should guide the pattern of economic growth which, for developing countries, comes at a time when they can profit from the mistakes of industrialised countries. Thus the Industrial Free Zone, as all forms of development, must find its place within an overall national framework.

IV. The Multi-Nationals and National Development

4.1. The growth in size and power of multi-national corporations is a phenomenon of our age. Many are giant firms, with factories throughout the world. Even more of them are relatively small firms, headquartered in an industrially developed country and with one or two subsidiary factories in other countries where they can gain advantages in production costs or in access to markets.

4.2. Multi-national companies, and particularly the giant ones with annual budgets many times larger than some national budgets, can be seen as a potential danger to the independence of developing countries. Their payroll can, in itself, make a large area of a country dependent on their success ; the value of their exports can make a contribution to balance of payments which the host country cannot affort to forego. The danger is seen that they will thus command political power which makes them difficult to control where control is necessary in the national interest - for example, in order to protect the environment around them. And they are seen as having no national loyalties; when it suits them to transfer production to some other country, where trading or cost advantages are greater, they may be expected to do so.

4.3. At the same time, the need of many countries, and particularly of developing countries, for industrial development, for manufacturing employment, and for export trade is such that they not only welcome multi-nationals, but strive to attract them. For they can undoubtedly bring valuable contributions to their host country.

These can be listed as:

a) Establishment, nationally, of export production to break away from the limitations of policies of heavy protection of, or dependence on, home-market industry.

b) Employment creation, both direct in manufacturing and indirect in servicing.

c) The acquisition of industrial and marketing know-how and skills.

d) The availability of foreign capital for industrial development.

e) Increased export and foreign exchange receipts.

f) Improved industrial infrastructure, including improved channels of foreign trade and communication which can be used also by local industry.

g) The demonstration effect of successful manufacturing and export marketing, as an encouragement to local entrepreneurs.

4.4. Few, if any developing countries can afford to forego these advantages. The key question for them, therefore, is - how can the benefits of the multi-nationals be obtained without danger to independent national authority? What formulas of mutual advantage can be devised to suit the country concerned and to suit - indeed to attract - the multi-national? Bearing in mind that the multi-national is seeking profits, not political power, and seeking therefore, secure, known and favourable conditions for its investment, I believe that a well-planned and conceived industrial free zone can be a major part of any national answer to these questions . It can be a means of enabling developing countries to overcome the disadvantage of having lost out in the industrial race; a means of tapping into the manufacturing expertise and marketing know-how of the industrialised nations; and a means of quickly developing the desirable export-oriented manufacturing base.

4.5. Many developing countries fear that the attraction of foreign industry could lead to the submersion of their economic independence by the power of multi-nationals and of international financiers. The Irish experience shows that this fear is not a real one in any country which has a sophisticated and well developed Government and Civil Service organisation. A policy of encouraging many firms and many nations to participate in industrial development means that there will be many eggs in many baskets rather than all eggs in one basket. The question of selection of foreign industry is dealt with under the heading "selectivity in attracting industry" later in this paper.

V. Natural attractions to investment

5.1. Any package of attractions should start with natural advantages, building fully on these, and then be completed - to the extent necessary to attract investment - with artificial incentives. The greater the natural advantages, the lower will be the additional money cost of attracting investment.

5.2. A stable political situation, and a reputation for honouring international and trade agreements, are valuable assets. Any perceived weakness in this respect will have to be compensated for in legislated assurances and in forms of contract which will offer comparable security to the potential investor.

5.3. Location on main trade routes, with their promise of good shipping services, will be attractive to a number of industries. Industries with low value-to-weight products often seek a location somewhere between their source of material supply (steel, for example) and their main market. The aeroplane is a major new factor in opening up new or subsidiary routes, and products with high value-to-weight ratios will be little affected by some additional transport costs. The Industrial Free Zone, in creating commercial freight and in facilitating cost reduction through freight consolidation, may be of special value in building new trade channels away from existing main routes. But it will need to build on other attractions to compensate for any transport deficiencies. (This consideration would be of special importance when considering the conversion of existing, unsuccessful, industrial estates to Industrial Free Zones - a real possibility in some countries).

5.4. One such natural attraction could be relatively low labour rates, particularly for labour - intensive industries. The existence of low labour rates should be seen as a phase of economic development, which can be properly related to a phase of industrial development leading to higher technology industry. Seen in this way, and not as a permanent condition, it can be used with advantage to attract industry. Where total industrial development policy includes a strong emphasis on training, it will support a continuing advance towards higher technology with its associated higher labour costs. Thus, for example, a factory established to take advantage of low labour rates in the assembly of simple electronic components may develop its product range through more complex components to full vertical manufacture of completed products, with increasing emphasis on research and development, and with responsibility for its own marketing. We have seen this pattern repeared many times in Ireland. As a country we can no longer claim to have a low labour rates; but we were right to take promotional advantage of them in the past.

5.5. Industry seeks low labour costs per unit of output, and labour rates are only one element of costs. Labour productivity and labour skills are other elements. Therefore good industrial relations and the availability of skilled labour can be major attractions to industrial investment.

5.6. Labour availability, in total numbers, can also be a key attraction to industry from labour-shortage areas. High labour availability, even where there is inadequate skilled labour, can be attractive because it puts industry in the position of being able to pick those workers who have the best natural ability and who will most quickly acquire the necessary skills. Because good jobs are relatively scarce, labour turn-over will also be low. The best situation for good industrial relations is where there is a strong and disciplined

Trade Union movement, dedicated to increasing total employment as well as to improving conditions of employment. The co-operation of Trade Unions towards achieving high productivity will be particularly important in the early years.

5.7. High on the list of natural attractions should be environmental quality - evidence that the area is a pleasant place in which to work and live. Industry prefers to hire local people for jobs at all levels, if only because it costs less than it does to pay overseas and transfer allowances to expatriates. But, inevitably, headquarters executives and trainers will be required to set up the factory and run it in its early years, and the location will have to be satisfactory to them and to their families. In fact, the same advertisement could well be used to attract tourists and to attract industrial investment; Puerto Rico has done this with considerable success.

5.8. Where the existing environmental quality is inadequate for any reason - for example, the lack of a firstclass hotel this must be put right as part of the programme for attracting investment. The right business environment call for a fairly sophisticated range of services, with banking, insurance, freight and maintenance services high on the list. The Industrial Free Zone gives scope for correcting any deficiencies in this regard at relatively low cost.

VI. Additional incentives to attract investment

6.1. Additional "artificial" incentives will be needed for two main reasons: first, to attract the attention of industry to what will be, certainly initially, an unknown and unproved location; and secondly, to compensate for any deficiencies, for example, in industrial services, in communications, or in skilled labour. A third possible reason, which we will examine further later, would be to compete with incentives offered in alternative locations in other countries.

6.2. Incentives offered to attract industry to an unknown and unproved location will obviously have to be at their highest initially. With the successful establishment of the first few industries, particularly where one of these has a name internationally known and respected, this element in the incentive package will become unnecessary in practice, the total incentive offer can be reduced. Probably it is best to have a phased reduction over a few years, as an investor may not be prepared to complete a deal on a basis very much less favourable to him than that given to his immediate predecessor.

6.3. An effective attraction is to offer remission of tax on export profits over a stated period of years, either from a fixed date of from the date of establishment of the firm concerned. I would prefer a fixed date, as the value of the incentive automatically declines from that date onwards, being greatest when most needed. It will always be possible, later, to extend the period of remission should that be desirable; or to shorten it in respect of future investors to whom no commitment has been made. Remember, however, that too frequent change could adversely affect the promotion of the Zone.

6.4. We started at Shannon with total remission of tax on export profits for 25 years. In retrospect that was probably an unnecessarily long period. Ten to fifteen years remission, with a phased five year period of transition from total remission to full liability, should be an adequate incentive. While tax remission involves no real cost, but rather the forgoing of direct taxation on an operation which otherwise would not exist at all, tax payment is something which every national exchequer will look forward to eagerly. We should not forego this potential income for longer than is necessary.

6.5. An interesting aspect of export tax incentives is that, while they make no demands on the existing resources of a developing country, they give it an advantage (necessary to counteract inherited disadvantages) over developed countries.

Developed countries cannot afford to introduce tax remissions, as they would mean the loss of large exisiting tax revenues. Any fear in developed countries of this advantage would be an irrational one, in view of the huge disparity in relative volumes of manufactured exports. 90% of such goods are produced in the USA, Europe and Japan. All developing countries, together produce in the order of 10% of total export manufacturers. Moreover 15 of the more industrialised countries account for approximately 75% of the world's export trade.

6.6. Direct cash grants may also be necessary. Undoubtedly the most beneficial of these, from the point of view of the national economy, is a grant towards training costs. In Ireland we offer grants up to the full cost of training. Of course, the value of training ranges upwards in value from that peculiar to one firm, to training of wide general application; from, say, the training of piano-tuners to the training of fitters and toolmakers. Training costs are taken as including the amount of the payroll related to unproductive work during the training period ; the cost of sending workers abroad for training ; and the cost of bringing in trainers. Making a fair assessment of training costs which will be encountered (in order to agree, in negotiations, a maximum level of grant) calls for the involvement of personnel knowledgeable and experienced in training. With such men, the process of negotiation will often show that costs can be reduced without any lowering of the quality of training. The adequacy of training, and the related education of high-level technology and administrators, will determine the pace of the process to which I have already referred – the development of simple manufacturing operations to comprehensive industrial operations embracing their own research, product development, and marketing.

6.7. Probably the next most valuable use of cash grants is in subsidising the construction cost or rent of factory buildings. Renting of buildings can often be attractive to the industrialist, in that it reduces his capital requirements in the early stages of a project, when his needs are greatest. It also enables the Industrial Free Zone Agency to offer a flexible range of incentives.

These can start from an arrangement providing for the reduction of rents below economic levels for the first five or so years, with the subsidy being recovered in higher rents in subsequent years. Whether it is better to rent or sell factories could be debated for a long time : on the one hand, ownership of a factory may help tie the industry to the Zone ; on the other hand, ownership will give the industrialist an asset, the sale of which could make it easier for him to tranfer production elsewhere. Money spend on factory buildings, whether rented, sold or built by the industrialist with grant assistance, provides premises which will last a long time and, while they last, provide both an attraction to industry and a spur to the Industrial Free Zone Agency to fill them.

6.8. Grants towards machinery are also frequently available. When these are limited strictly to new machinery (as they are in Ireland) they can help ensure that industrial projects are using the most up-to-date technology. Also, of course, acceptance of used machinery for grants could attract the type of industrialist interested only in a quick profit from a declining sector of industry.

6.9. Where such grants are paid, measures necessary for environmental protection - effluent treatment, for example - should qualify equally for them.

6.10. In the Irish system, cash grants are recoverable only if the project for which they were given does not fully materialise and remain in business for at least ten years. Substantial closure of the project within that period legally entitles us to full recovery of the grant; in practice, we normally relate recovery to the unexpired portion of the ten years.

6.11. Other incentives include interest-free or reduced interest loans. These have not been applied generally to manufacturing industry in Ireland, although we used them with considerable success to promote hotel-building at a time when new hotels were offering an insufficient return on capital to attract investors.

6.12. Incentives can be of many forms, and there is a danger that they may add up to such a complex package that it is extremely difficult for the potential investor to evaluate the comparative advantages of the location which we want to promote. For this reason there is a great deal to be said for having a limited range of simple incentives - probably tax remission, rent or building price subsidies, and cash grants for training and new machinery which will progressively reduce as development advances and the need to compensate for infrastructural deficiencies disappear. In appendix 1, I give a table summarising the incentives offered at Industrial Free Zones.

VII. The market for investment

7.1. To what extent will developing countries have to compete in incentives in order to attract industrial investors to their Industrial Free Zones? This will depend, first, on the size of the market in which they are competing - if it is very large, a very small share may be adequate for the needs of a particular country and provided the economic environment is satisfactory, would be relatively easy to obtain. My belief is that the market is both very large, and growing.

7.2. I have already quoted figures to show that world production of manufactured goods is located almost entirely in developed countries. The potential for transfer is immense and a shift of only 10% could double the industrial exports of developing countries.

7.3. World production of manufactured goods increasing annually by an average 6.4%. How will this rate of increase be maintained? Who will produce the goods? In many of the more developed countries, suitable labour is already in short supply. Added to this is the phenomenon of emerging post-industrial societies, where the bulk of employment and wealth generating activity is in services rather than in manufacturing, so that still fewer people are available for production. In this situation, growth can be maintained in only two ways - either by increasing labour productivity through advances in machinery and technology, or by transferring production to areas where suitable labour is available. For many industries, the first option is not available ; the limits of present techology have been reached.

7.4. Who will buy the increased production ? Industry constantly strives to increase its markets. The underdeveloped world represents a huge potential market, which can be realised in practice only by increasing its purchasing power. Purchasing power depends on exports, either of basic commodities or of manufacturing goods.

Industrial investment in developing countries is therefore good business for the developed world. Only the exporter can afford to import. In 1959, when we started the drive for exports, Ireland imported £212.5 million in manufactured goods ; in 1973 we imported £1189.2 million. Far from taking business from other countries, we are giving them a valuable new market. And, to quote the Study "Reassessing North-South Economic Relations" (The Brookings Institution, Washington D.C.), "if manufactured exports from developing to industrial countries expanded by 15% per year, they would reach, by 1980, only approximately 7% of the total imports of manufacturers in the more affluent countries".

7.5. The world market as a whole is increasing dramatically. The UN projections would forecast a rise in total world population from 3481 millions in 1868 to anywhere between 5500 and 7000 millions (depending on assumptions) by the year 2000. The rate of population increase of less-developed countries is forecast as twice as great as that of the developed countries. We can see, therefore, an almost unlimited long-term market provided the "have nots" can achieve sufficient long-term growth to enable them to participate as trading partners.

7.6. One factor which certainly inhibited, and probably still inhibits in some degree, industry in spreading its production on a world-wide scale is the difficulty of controlling and co-ordinating widely scattered production units.

This difficulty has been overcome by many corporations, and in doing so they have developed techniques of controlling and accounting which are only now becoming widely known. I believe that we have, as yet, only seen the "pilot-project" or "demonstration effect" stage of industrial re-location, the great movement is still to come. Telephone, telex and aircraft have undoubtedly made much of this possible, by shrinking distances between centres. The computer has helped lay the foundation, with its new capability of analysing complex data needed for management control.

And satellites, with instant and reliable radio links, will accelerate the movement. Already, we see nothing extraordinary in computer and data-processing firms in the West of Ireland doing office work for other firms five thousand miles away.

7.7. We have, then, only seen the beginning of the re-distribution of production, against a background in which the concentration of industrialised capital and know-how in developed countries is already creating great problems of city congestion, pollution, labour scarcity, and immigrant workers. It is against this reality that we should consider the establishment of many new Industrial Free Zones, and not against any concept of a small market of potential investor in which there might be excessive competition.

7.8. Fears of competition are easily exaggerated. When we set up the first-ever Airport Duty Free Shop at Shannon, there were those who feared the possibility of other airports following suit. In fact, when the Duty Free Shops became the common and accepted thing, we did better than ever; the traveller - our customer - had become accustomed to reliability and good value in Duty Free Shops. I believe more Industrial Free Zones will help Zones in general to become a common and accepted way for industry to expand production and to reach new export markets.

VIII. Restrictions on investment in developing countries

8.1. I have already spoken of factors which operate for or against the suitability of particular locations for industrial investment. Let us consider some factors which may operate in a more general way to restrict the flow of investment.

8.2. Developed, as well as developing countries, restrict imports, through tariffs and quotas aimed at protecting home industry; so do major trading blocs like the EEC and LAFTA. The General Agreement on Tariffs and Trade (GATT) aims at the gradual reduction of import restrictions, and its success will certainly aid the industrial development of developing countries. Some Export Free Zones may benefit from national membership of a trading bloc, as Shannon does from Ireland's membership of the EEC, but any restriction in international trade seems to me to be contrary to the right concept of growth, and to operate against the necessary economic growth of developing countries. Japan's extraordinary post-war success could hardly have been achieved if Japan had not seen the world, rather than any region of it, as its market. Again to quote "Reassessing North-South Economic Relations". "It is the global competitive market rather than the preferential regional market that appears to have the stronger potentiality and ultimately the stronger attraction".

8.3. Each country has to assess its own position in regard to trade with major potential export markets ; tariff barriers, where they exist, may call for increased incentives if existing advantages (e.g. lower labour costs) are in-sufficient to overcome them. The growth of Industrial Free Zones, with the consequently increased interest in developed-country industry in the lowering of developed country tariffs, could add a strong lobby towards liberalising trade.

8.4. Tax laws in the countries from which investors are to be attracted may be a serious restriction. For example, there is little value in a developing country's giving freedom from tax on export profits, if these profits are in any case going to be taxed in the investor's own country. The tax situation in the main markets from which investors will be sought will have to be studied, and will be best studied in consultation with tax experts in those countries. The avoidance of unnecessary taxes - a very different thing from tax evasion may well prove possible. Consultation with experts carries the additional benefits that these same men may be advising the industrial investors, and it is well that they should be fully aware of any advantages you are offering.

IX. Industrial Free Zones as a first phase of export industrialisation

9.1. In considering the level of incentives which should be offered, it could be argued that there is a danger of making the Industrial Free Zone so attractive that industrial investment would concentrate there, to the exclusion of investment elsewhere in the host country. But remember that we see incentives as helping to get initial development, and then simply serving, for as long as is necessary, to counteract disadvantages. They can be adjusted downwards (or incentives elsewhere in the country increased) after the first few years, if this should prove necessary. I believe, however, that it is unlikely that a substantial advantage given to the Industrial Free Zone will hinder development elsewhere. In fact, the contrary is probably true.

9.2. I have already described the "demonstration - effect". There will also be what might be called a "shop window" effect - the Zone will show prospective investors that the country concerned can staff and service successful industrial projects. And there is the vital training effect - the contribution that can be made by the Zone, within a few years, to non-Zone industry of experienced executives, supervisors, and skilled men. The Zone, therefore, must be seen as a concept generally helpful in the first phase of export industrialisation.

9.3. Even where the Industrial Free Zones offer greater incentives, a higher proportion of industry will prefer non - Industrial Free Zone locations as soon as suitable sites are available. Many firms prefer individual locations, away from the potential competition for labour that exists on any industrial estate; others prefer to be important elements in the local economy and society, rather than one part of a large industrial grouping; and still others prefer to avoid some of the restrictions necessary in an Export Free Zone - severe restrictions on smoke-emission, for example. The Zone can be the means of attracting the attention of such firms to the country, either through its promotion or through contacts with its industrialists.

X. <u>Selectivity in attracting industry</u>

10.1. Incentives cost money, either directly or in foregoing taxes. No country, therefore, will wish to offer more than is necessary. Its promotion will stress natural advantages, advantages arising from trade agreements, labour rates, transportation, location and so on. It should not seek a competitive edge in terms of marginally better taxation or cash incentives than those offered by other Industrial Free Zones. To do so could lead to competitive bidding for investors, from which only the investors would benefit.

10.2. There should be no question of seeking just any type of industry which might offer employment. Each country must decide its own priorities, based on its own needs and strengths. What type of employment is to be sought - male, female, skilled, unskilled? Are there any traditional strengths to be built on in new industry - metal working, textiles, ceramics ? Are conditions particularly suited to products of high value for weight, or low value for weight ?

Then in relation to each industrial proposal, there must be close examination of its soundness - has it competent management, adequate finances, assured markets? An industry which fails within a few years is usually worse than no industry at all, except in so far as it may have trained workers for new incoming industry. Therefore the examination of an industrial proposal to ensure its soundness in relation to the particular Industrial Free Zone is of equal interest to the investor and to the Zone Authority.

It would be folly, for example, to pretend to have sufficient power, or to have sufficient skilled labour, if this was not so. Failure seems to attract more notice than success, and would be damning promotionally.

10.3. I mentioned earlier the importance of the co-operation of the Trade Unions. To earn and maintain this, it will be necessary to make it a condition of establishment the incoming industry will be prepared to recognise, and negotiate with, Trade Unions.

10.4. In selecting industry it would be wise, too, to avoid a situation in which one very large firm might dominate the Zone. (The Irish experience is one of relying for development mainly on factories in the small to medium range - say from 50 to 1000 workers. A factory employing several thousand, where others are much smaller, could be a disruptive influence on a country that is developing and is in the early stage of industrialisation unless that country is itself very large). It may also be desirable to limit the number of factories producing the same or similiar products, as otherwise the Industrial Free Zone could be particularlyvulnerable to recessions in individual industrial sectors.

And it would be well to aim at a position in which no single foreign country would predominate in Zone investment. So there is no question of attracting industry at any price, and selectivity of industry automatically reduces the degree of competition.

XI. Desirable controls

11.1. Controls, generally, are a disincentive. In Ireland, the attraction of exporting industry on a large scale began only after the repeal of a law which had made mandatory a majority Irish ownership of any individual project. Controls should, therefore, be restricted to those which are strictly necessary in the national interest - for example, to protect the environment against pollution and, within the concentrated Industrial Free Zone to protect industry itself from hazards and nuisances; and to prevent sales (with the possible exceptions I have mentioned) to the home market.

11.2. As incentives can be changed in time, so can controls. But capricious change must be avoided, and unilateral change of any agreement made with a particular industrial investor is definitely out. Nothing could do greater damage to one's capacity to attract further investment.

11.3. Controls can be exercised in several ways. At Shannon, we use two principal means, which are simple to operate and understand, and which work well in practice. A firm can only establish in the Industrial Free Zone if it has a licence to do so, issued by the Irish Government. This licence spells out, in precise terms, the type of commercial operation which is approved and any restrictions imposed on it. For example, it is normally a condition of the licence that all products will be exported, and there may be additional conditions such as the purchase of at least a stated percentage of materials in Ireland or the generation of at least a stated amount of air freight.

The second main control is through the lease conditions which, for example, may forbid smoke-emission and the use of other than approved signs of light.? The balance between ensuring necessary conditions are met and avoiding excessive controls which could inhibit investment is a vital and delicate one.

XII. Opportunities for co-operation between Industrial Free Zones

12.1. Because many countries have a common interest in the Industrial Free Zone concept as one which can help solve common problems, there is a real possibility of establishing a common code of behaviour and philosophy of development. Close contact between them is desirable for this reason, and for other immediate and practical reasons :

a) The knowledge of what others are giving, in terms of incentives, will operate against giving more than they do.

b) It should permit the establishment of common policies in regard to incentives. These need not be agreed and adhered to in detail, but they should operate strongly for Zones in the same geographical area, to avoid any danger of spiralling competitive bidding for investment.

c) It should permit joint promotion of Industrial Free Zones as desirable manufacturing locations - promotion from which all would benefit.

d) Information on the operation and management of Zones could be shared at meetings, through bulletins, and by correspondence. And thinking on policy (for example, how to encourage industrial projects to invest an increasing share of profits in host countries) could be advanced in joint discussion.

e) A Zone contacted in connection with a project unsuitable to it could refer the enquirer to other Zones which might welcome such a project.

f) Arrangements could be made for temporary secondment of staff to other Zones, to gain wider experience.

g) Advice and assistance could be given to promoters of proposed new Zones.

h) Such a grouping could provide a new, strong lobby for the needs of developing countries.

XIII. CONCLUSION

13.1. Export oriented industrial free zones, initiated at Shannon in 1958 and used with notable success in Taiwan, Korea and Malasia, are still regarded as a novel concept. Their wider use, far from creating problems of competitions, should ensure wider acceptance by potential industrial investors of the Industrial Free Zone as a normal and convenient way to provide for expansion of export manufacturing. This wider acceptance should, in turn, help ensure that no properly planned and properly managed Zone will lack industrial investment.

13.2. For the host countries, the concept offers the great advantage of permitting necessary export to take place within their economies, while still separated - to the extent decided as necessary from national policy and provisions for overall industrial development. Provided that they give, within the Zone, secure, known and favourable conditions, they will attract the export manufacturing which developing countries so badly need.

13.3. My Company, The Shannon Free Airport Development Company, should fear competition as much as anybody else. We are still far from achieving full employment. We still need to work hard at attracting export industry. But, despite the fact that Shannon started as an experiment, against difficulties greater than those for most potential Industrial Free Zones (for example, the lack of a local labour force made it necessary to build a new town), it can already be seen as substantially successful, and we are ready to pass on our knowledge and experience to countries industrially less developed than we are, not only because we believe deeply in our responsibilities as citizens of the one small world, but because we believe that wider acceptance of Industrial Free Zone manufacturing will be in the interests of all. And we believe that the special characteristics of the Free Zone idea makes it a potential bridge between developing and developed countries, and between centrally planned and free enterprise societies. So firmly do we believe all this, that we have deliberately organised and equipped ourselves to pass on our knowledge in the most effective way possible. We believe the most effective way involves maximum self-reliance and maximum initiative by the country concerned, with a minimum of detailed guidance by us - discussed rather than instruction, experience - sharing rather than doing. This is a process from which we, too, will gain, because the Industrial Free Zone is an evolving concept.

I hope to gain, from this Workshop, ideas on how we can make this more effective still. The dividing line between success and failure is a narrow one, and the rules for crossing it are relatively simple.

13.4. And, when all is said and done, there is no special mystery or difficult technology associated with Industrial Free Zones. Success will come from adherence to a few fundamental principles, the application of common sense, and a degree of enterprise in State activity normal in successful commerical activity. And, these in turn, will come from confidence that success is possible, coupled with determination to achieve it. No country in the world, with a Government prepared to call forth these ingredients, will find them lacking.