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Free Zones in the Arab Region

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THE ADVANTAGES OF A FREE ZONE ^{1/}

by

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^{1/} The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the secretariat of UNIDO. This document has been reproduced without formal editing.

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I

BACKGROUND

HOW TEXAS INSTRUMENTS OPERATES AND ITS INVESTMENT POLICIES

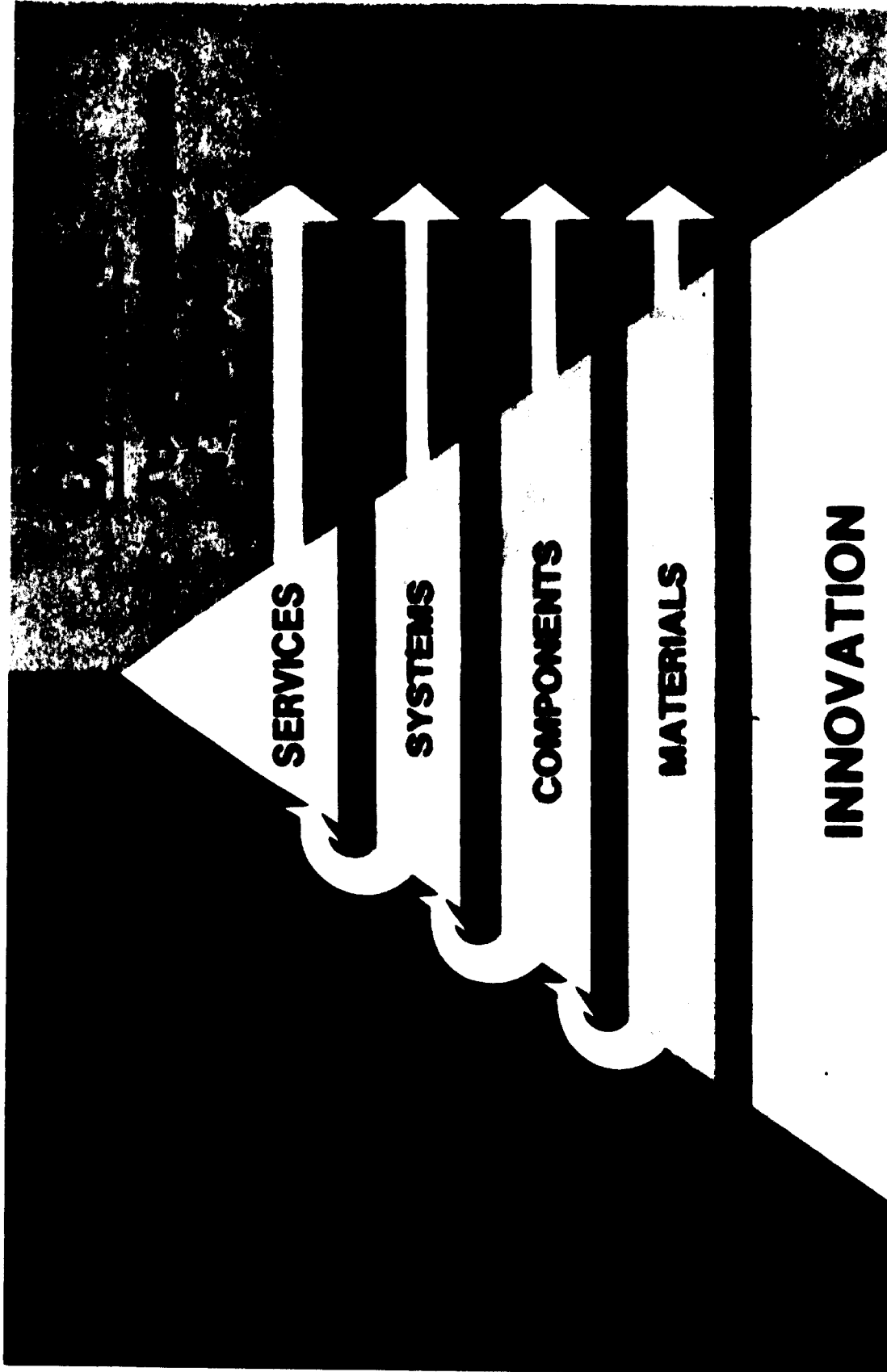
MY PRESENTATION WILL CONSIST OF FIVE PARTS:

1. DISCUSSION OF TEXAS INSTRUMENTS.
2. FACTORS A COMPANY CONSIDERS WHEN MAKING AN INVESTMENT.
3. FACTORS A HOST COUNTRY SHOULD CONSIDER WHEN ESTABLISHING AN INVESTMENT PROGRAM.
4. DISCUSSION AND ANALYSIS OF SEVERAL ACTUAL OVERSEAS INVESTMENTS.
5. CONCLUSIONS AND RECOMMENDATIONS.

I AM STARTING WITH A BRIEF DISCUSSION OF TEXAS INSTRUMENTS, WHICH IS NOW WIDELY KNOWN AS "TI", SINCE I BELIEVE ITS HISTORY, ORGANIZATION, BUSINESS CONCEPTS AND POLICIES WILL GIVE TO YOU AN INSIGHT AS TO HOW A REPRESENTATIVE LARGE MULTINATIONAL COMPANY MANAGES ITS BUSINESS AND PERMIT YOU TO ASSESS BETTER MY SUBSEQUENT REMARKS.

TI ENGAGES IN RESEARCH, DEVELOPMENT, MANUFACTURE AND DISTRIBUTION OF DIVERSE BUT HIGHLY INTEGRATED PRODUCTS AND SERVICES. IT IS AN ELECTRONICS FIRM, A COMPONENTS PRODUCER, A DEFENSE AND SPACE CONTRACTOR, A SYSTEMS AND A SERVICE COMPANY. IT SERVES CONSUMER, INDUSTRIAL AND MILITARY MARKETS. ITS FUTURE IS TIGHTLY INTERWOVEN WITH THE GROWTH AND CONTINUED USE OF ELECTRONIC PRODUCTS.

FORMER CHAIRMAN OF THE BOARD OF DIRECTORS, P. E. HAGGERTY, SAID, "ANTICIPATING AND SOLVING CUSTOMERS' PROBLEMS THROUGH INNOVATION IN CREATING, MAKING AND MARKETING PRODUCTS AND SERVICES IS THE BUSINESS OF TEXAS INSTRUMENTS INCORPORATED."



SLIDE 1

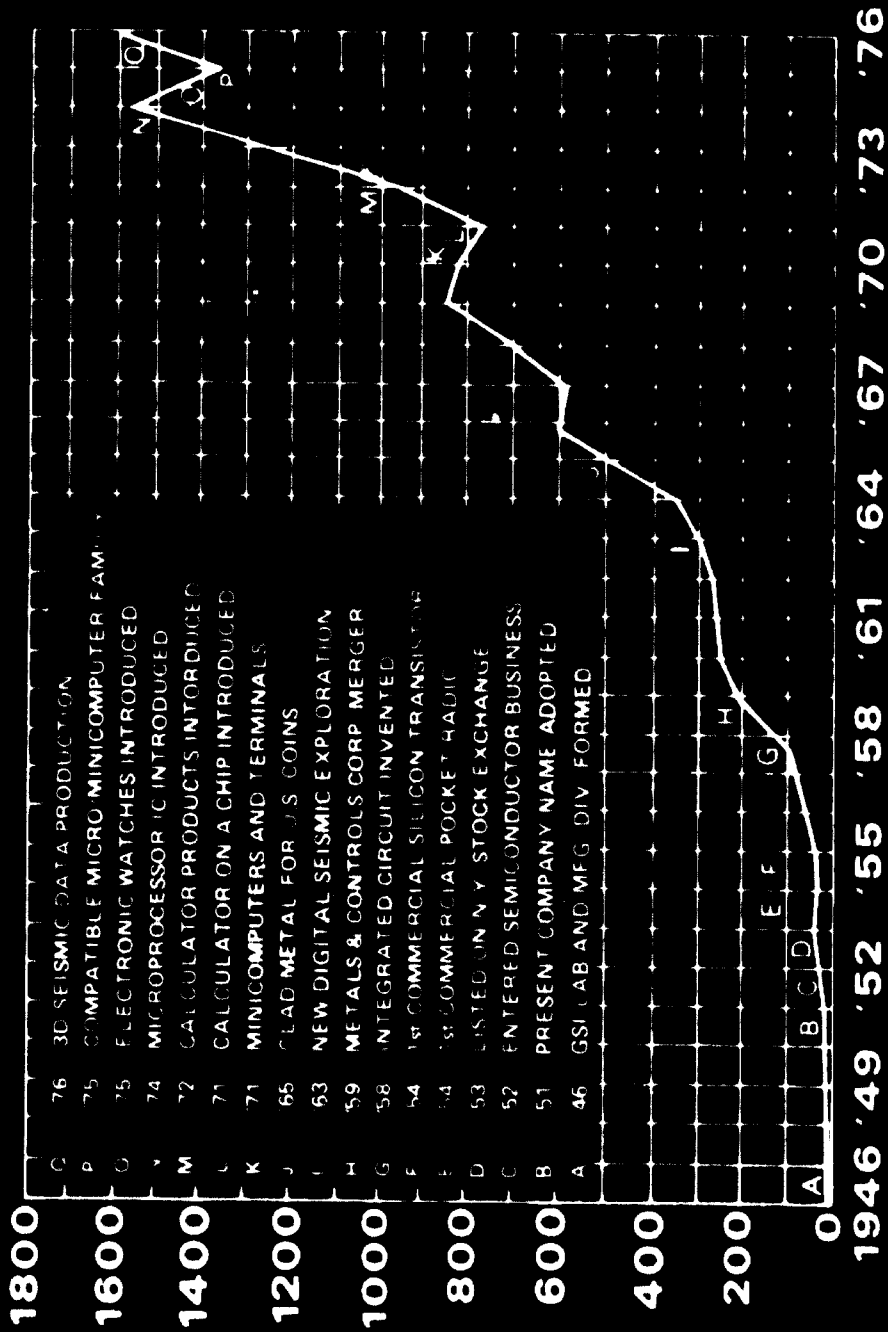
TI HAS ATTEMPTED TO ACHIEVE THIS THROUGH THE VERTICAL INTEGRATION OF SKILLS THROUGHOUT OUR ORGANIZATION. (SLIDE 1) THIS STIMULATES CROSS-FERTILIZATION OF TALENTS AND ALLOWS US TO ADD MORE TO THE TOTAL VALUE OF OUR PRODUCTS. WE USE OUR OWN MATERIALS IN OUR OWN COMPONENTS FOR OUR OWN SERVICES AND SYSTEMS. THIS LETS US SOLVE COMPLEX PROBLEMS MORE QUICKLY AND RECEIVE A GREATER TOTAL RETURN FOR OUR EFFORTS.

TEXAS INSTRUMENTS INCORPORATED HAD ITS BEGINNINGS IN 1930 WHEN GEOPHYSICAL SERVICE INC. WAS FORMED IN DALLAS, TEXAS. GEOPHYSICAL SERVICE INC., OR AS IT IS MORE FAMILIARLY CALLED, GSI, WAS THE FIRST COMPANY TO OFFER CONTRACT REFLECTION SEISMIC SURVEYS TO THE PETROLEUM INDUSTRY. DURING WORLD WAR II GSI MADE SUBMARINE DETECTION EQUIPMENT FOR THE UNITED STATES ARMED FORCES. IT CONTINUED ITS MANUFACTURING OPERATIONS AFTER THE WAR AND BY 1951 THEY HAD REACHED SUCH SIZE THAT THE COMPANY WAS RENAMED TEXAS INSTRUMENTS INCORPORATED AND A NEW GEOPHYSICAL SERVICE INC. SUBSIDIARY WAS FORMED. TEXAS INSTRUMENTS HAS CONTINUED TO OPERATE ON THAT BASIS THOUGH, OF COURSE, MANY MORE SUBSIDIARY COMPANIES HAVE SUBSEQUENTLY BEEN FORMED.

SLIDE 2 SHOWS TI'S GROWTH IN SALES BILLED AND A NUMBER OF KEY MILESTONES THROUGH THE YEARS. TI ENTERED THE SEMICONDUCTOR BUSINESS IN 1952, IT INVENTED THE INTEGRATED CIRCUIT IN 1958, DEVELOPED DIGITAL TECHNIQUES FOR GEOPHYSICAL EXPLORATION IN 1963, INTRODUCED HAND-HELD ELECTRONIC CALCULATORS IN 1972 AND ELECTRONIC WATCHES IN 1975. POINT "H" ON THE CHART SHOWS THE ONLY MAJOR MERGER IN TI'S HISTORY. ITS OTHER GROWTH HAS RESULTED FROM INTERNAL DEVELOPMENT.

HIGHLIGHTS OF TI GROWTH SINCE 1946

NET SALES BILLED - MILLIONS OF \$

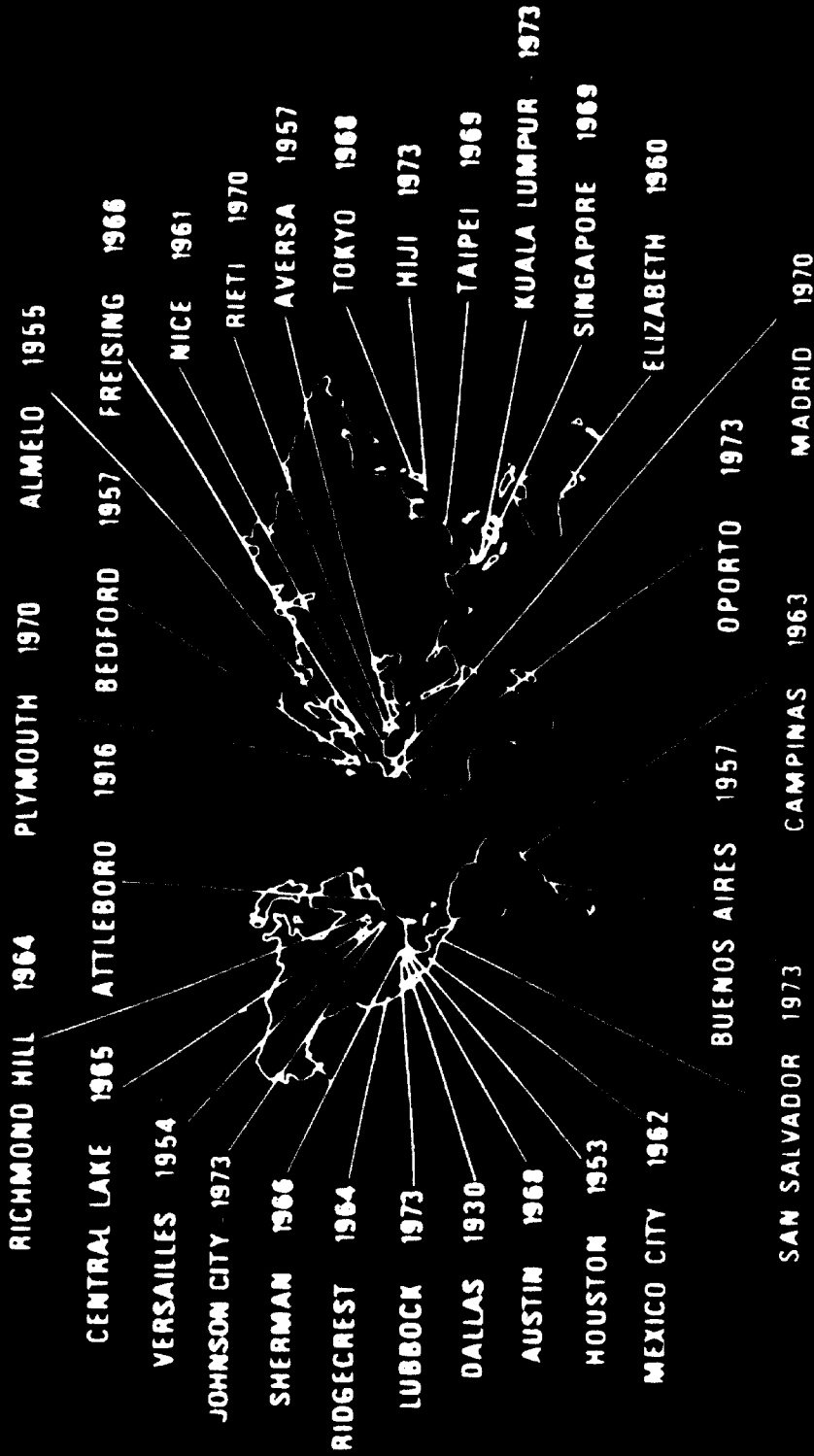


THIS POLICY HAS BEEN EFFECTIVE AS CAN BE SEEN BY LOOKING AT OUR GROWTH RATE. BOTH SALES AND EARNINGS HAVE GROWN AT MORE THAN 23% PER YEAR FOR THE LAST 29 YEARS. JUST AFTER WORLD WAR II SALES WERE ONLY \$2.8M; IN 1976 THEY WERE ABOUT ONE BILLION, SIX HUNDRED AND FIFTY MILLION DOLLARS.

WHILE TI'S PRODUCTS HAVE BEEN SOLD THROUGHOUT NORTH AFRICA AND THE MIDDLE EAST, GSI HAS HAD A PARTICULARLY CLOSE AND SUCCESSFUL RELATIONSHIP WITH THIS REGION. GSI BEGAN SENDING SEISMIC CREWS OVERSEAS SOON AFTER ITS FOUNDING. BY THE LATE 1930'S AND EARLY 1940'S IT DID THE FIRST WORK FOR ARAMCO IN SAUDI ARABIA. THAT WORK WAS HALTED BY WORLD WAR II. I NOTE QUITE PROUDLY THAT GSI HAS WORKED CONTINUOUSLY IN SAUDI ARABIA FOLLOWING RESUMPTION OF ITS WORK THERE IN 1947. WE CURRENTLY HAVE FIVE CREWS OPERATING FOR ARAMCO AND THE MINISTRY OF PETROLEUM. I ALSO FEEL OUR WORK IN LIBYA, WHICH BEGAN IN 1958, HAS BEEN SIGNIFICANT. MORE PETROLEUM HAS BEEN DISCOVERED IN LIBYA ON THE BASIS OF OUR WORK THAN BY ALL OTHER SEISMIC CONTRACTORS COMBINED. INCLUDED IN THOSE DISCOVERIES WERE SUCH MAJOR FIELDS AS NAFOORA, GIALO, BEDA, INTISAR AND WAHA. LASTLY, GSI CURRENTLY HAS DATA PROCESSING CENTERS IN CAIRO, MUSCAT, OMAN, AND AL KHOBAR, SAUDI ARABIA. GSI IS THE WORLD'S LARGEST GEOPHYSICAL CONTRACTOR WITH OFFICES AND FIELD OPERATIONS IN MORE THAN TWENTY COUNTRIES.

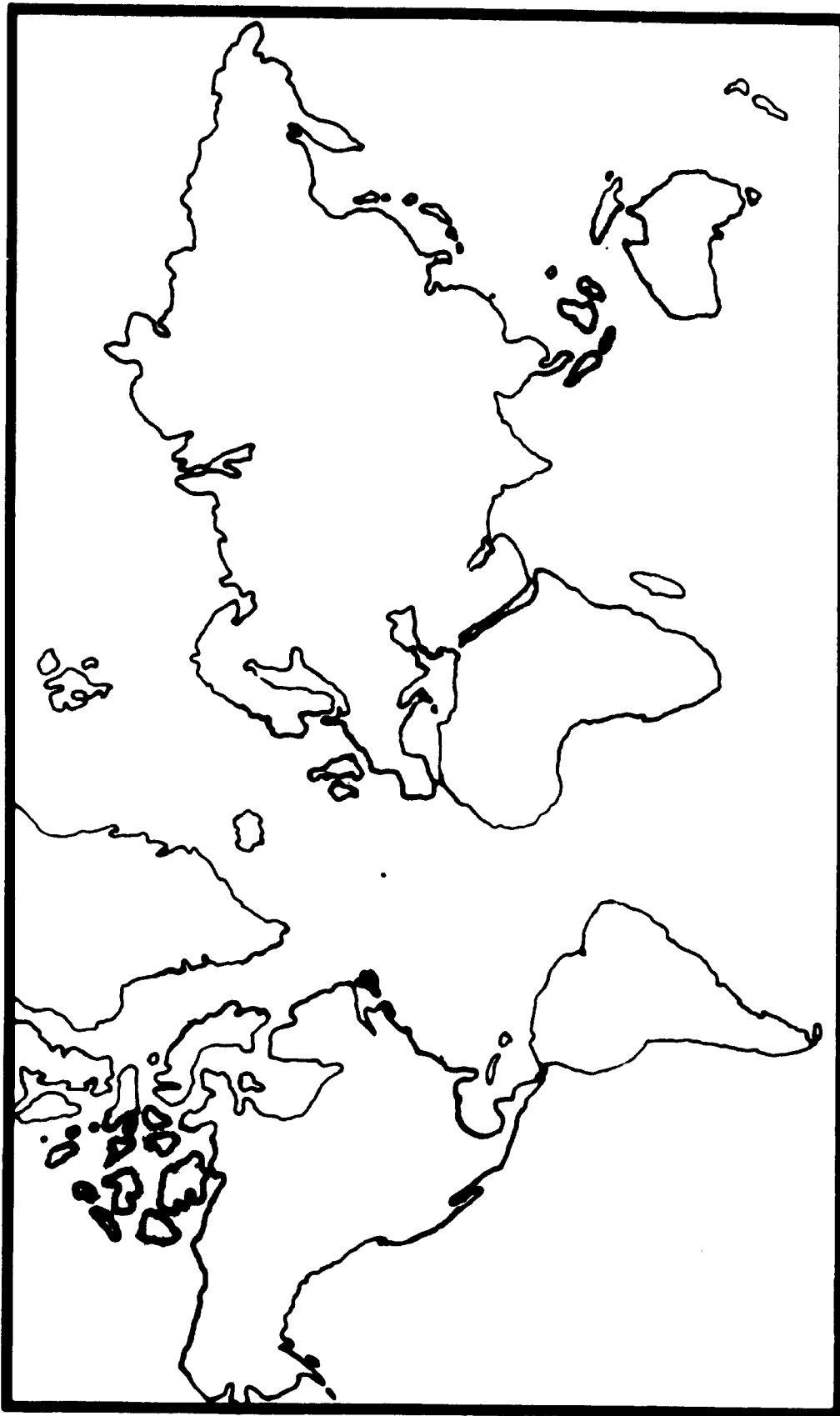
SO MUCH FOR HISTORY. WHAT IS TI TODAY? (SLIDE 3) TI IS A MULTINATIONAL, TECHNOLOGICAL GROWTH COMPANY WHOSE HEADQUARTERS ARE AT DALLAS, TEXAS. IT HAS 44 MANUFACTURING PLANTS IN EIGHTEEN COUNTRIES AND CURRENTLY HAS ABOUT 66,000 EMPLOYEES THROUGHOUT THE WORLD.

TI WORLDWIDE PLANT LOCATIONS



SLIDE 3

DISTRIBUTION OF GSI LAND AND MARINE CREWS - 1976



SLIDE 4

ARE AT DALLAS, TEXAS. IT HAS 44 MANUFACTURING PLANTS IN EIGHTEEN COUNTRIES AND CURRENTLY HAS ABOUT 66,000 EMPLOYEES THROUGHOUT THE WORLD.

WHAT PRECISELY DOES TI DO? OUR MAJOR GROWTH OPPORTUNITIES SHOULD CONTINUE TO BE IN THE WORLD'S ELECTRONICS MARKETS. (SLIDE 4) AS THE WORLD'S LARGEST MANUFACTURER OF SEMICONDUCTORS, TI HAS CONSISTENTLY LED IN THE DEVELOPMENT OF THE ADVANCED SEMI-CONDUCTOR TECHNOLOGY WHICH IS GENERATING A WORLDWIDE REVOLUTION IN ELECTRONIC EQUIPMENT. FOR EXAMPLE, COMPUTERS DEPEND FOR THEIR FUNCTIONING ON ELEMENTS OF LOGIC AND SEMICONDUCTOR MEMORY THAT CAN BE MANIPULATED ELECTRONICALLY. (SLIDE 5) IT IS THESE COMPLEX, POWERFUL AND LOW COST ASSEMBLIES OF LOGIC AND MEMORY DEVICES THAT HAVE MADE SUCH PRODUCTS AS MINI-COMPUTERS, TERMINALS, ELECTRONIC CALCULATORS AND DIGITAL WATCHES POSSIBLE. TI PRODUCES ALL OF THESE SEMICONDUCTOR BASED PRODUCTS SUCH AS THESE CALCULATORS WHICH ARE PART OF OUR CURRENT LINE OF CONSUMER, SCIENTIFIC AND DESK CALCULATORS.

IN OUR ELECTRONICS BUSINESS NEW PRODUCT DEVELOPMENT AND MANUFACTURING KNOW HOW NORMALLY BRING COST REDUCTION. (SLIDE 6) CONTINUING COST DECREASES HAVE MADE MASS OWNERSHIP OF HAND-HELD CALCULATORS POSSIBLE AND PRACTICAL. (SLIDE 7) NOTE THE SIMPLIFICATION WHICH BRINGS COST REDUCTION. FOR EXAMPLE, OUR FIRST CONSUMER CALCULATOR SOLD IN 1972 FOR \$150. CURRENTLY, ONE OF EQUIVALENT CAPABILITY SELLS FOR \$10-\$15.

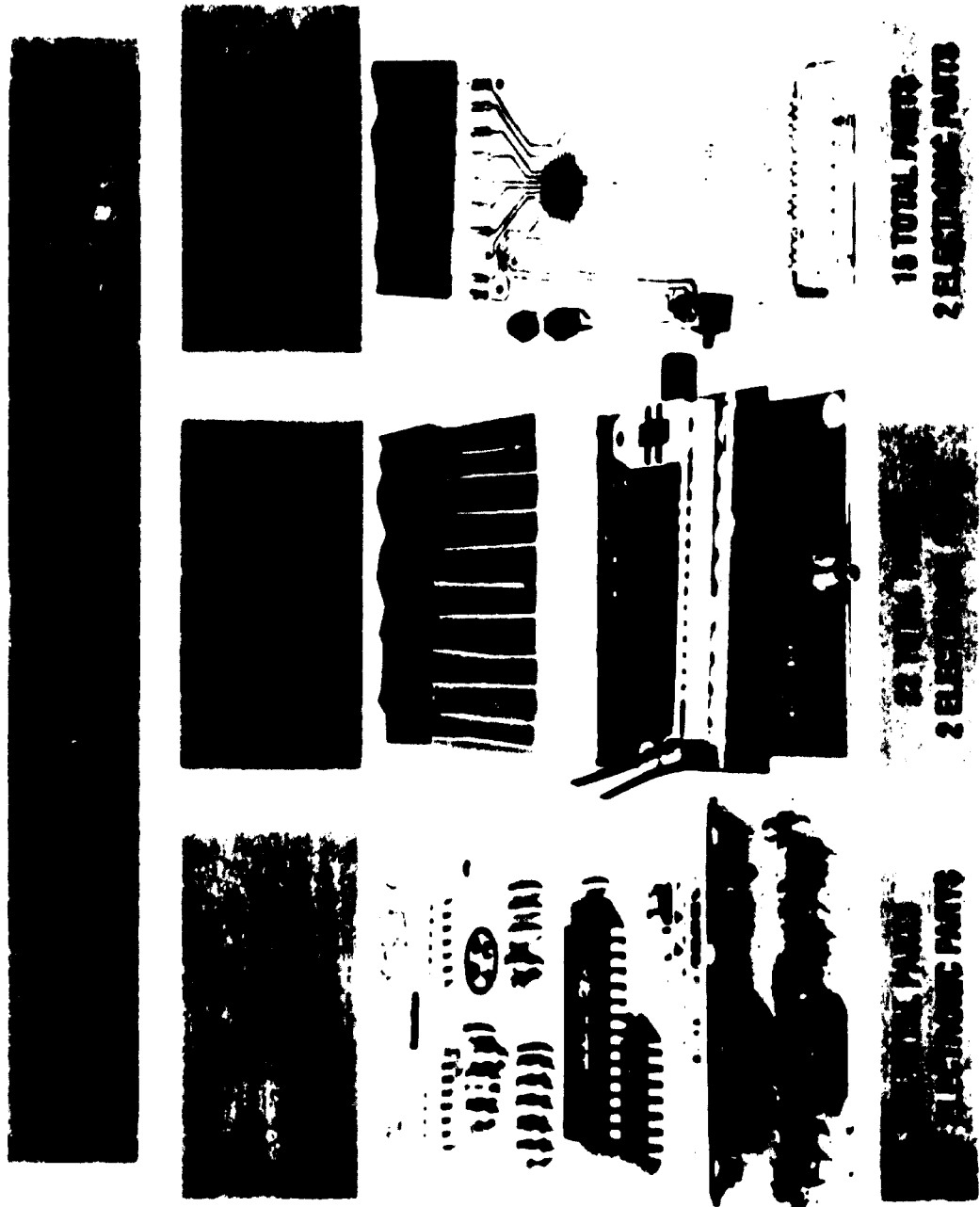
SO, TOO, WITH ELECTRONIC DIGITAL WATCHES. (SLIDE 8) THE WORLDWIDE MARKET HAS GROWN FROM 3-1/2 MILLION UNITS IN 1975 TO ABOUT 18 MILLION UNITS IN 1976. WATCHES STARTED OUT AROUND \$100.

WORLDWIDE SEMICONDUCTOR BUSINESS ACTIVITIES



SEMICONDUCTOR BUSINESS

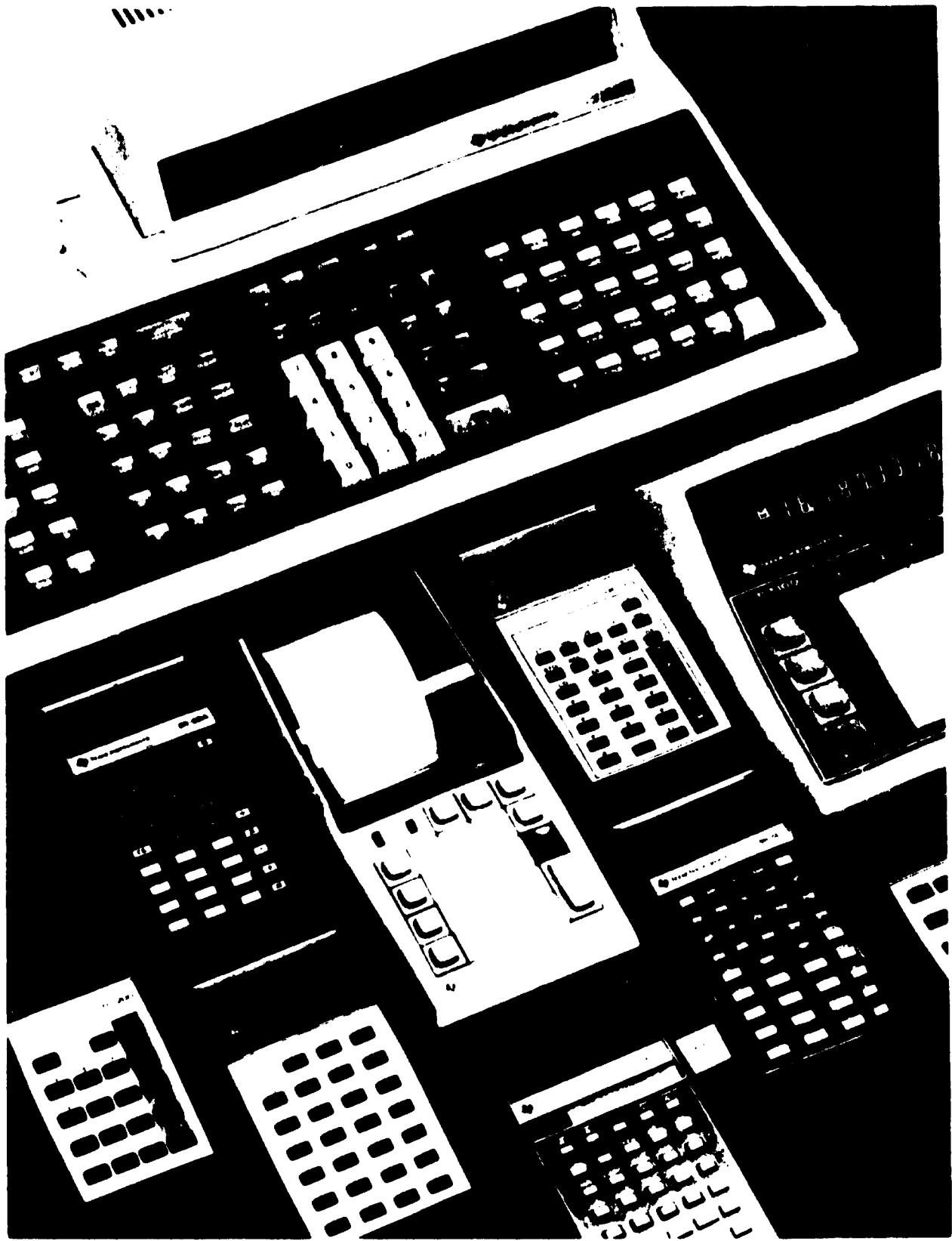
SLIDE 5



18 TOTAL PARTS
2 ELECTRONIC PARTS

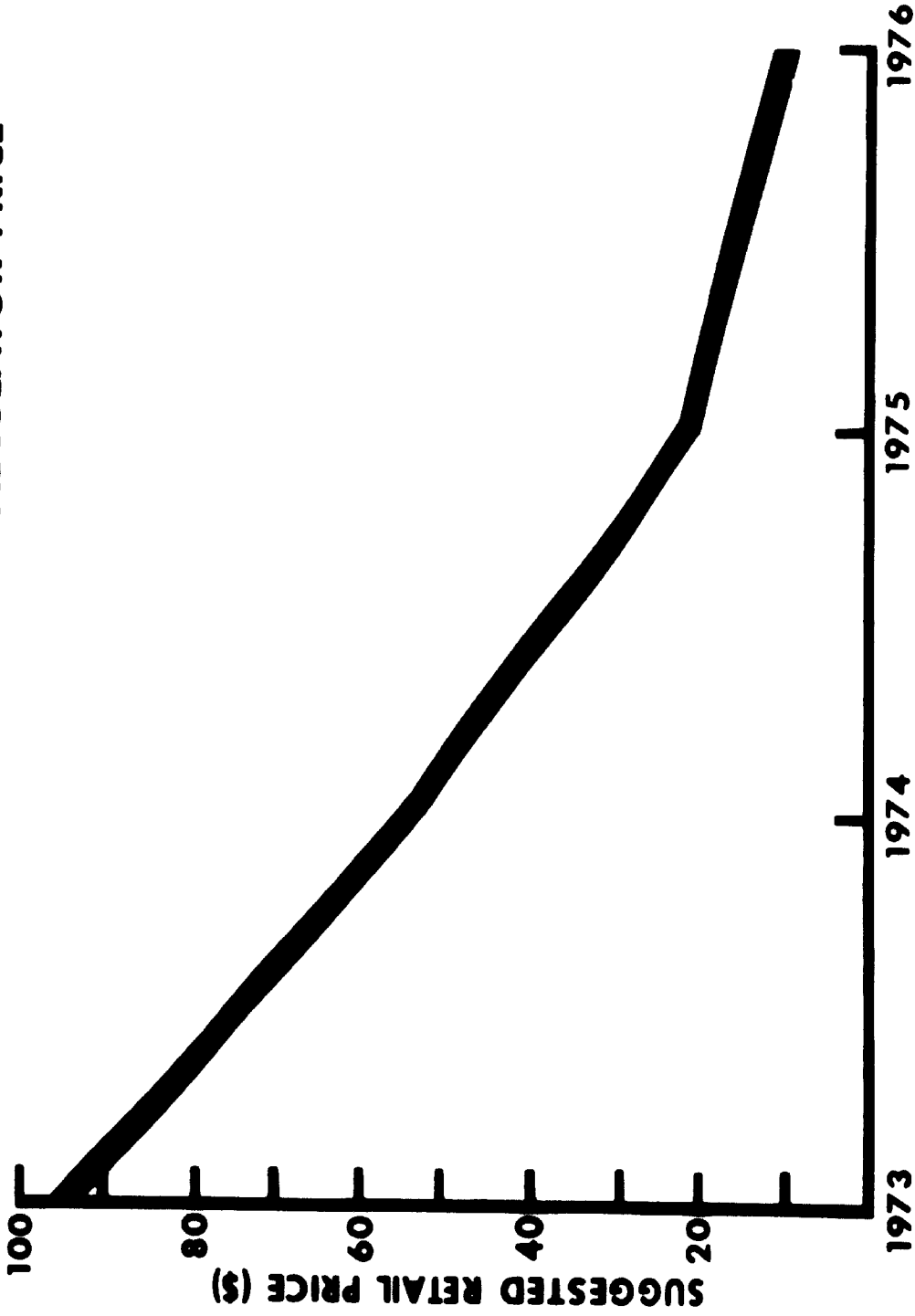
22 TOTAL PARTS
2 ELECTRONIC PARTS

22 TOTAL PARTS
2 ELECTRONIC PARTS



SLIDE 7

FIVE FUNCTION HANDHELD CALCULATOR PRICE



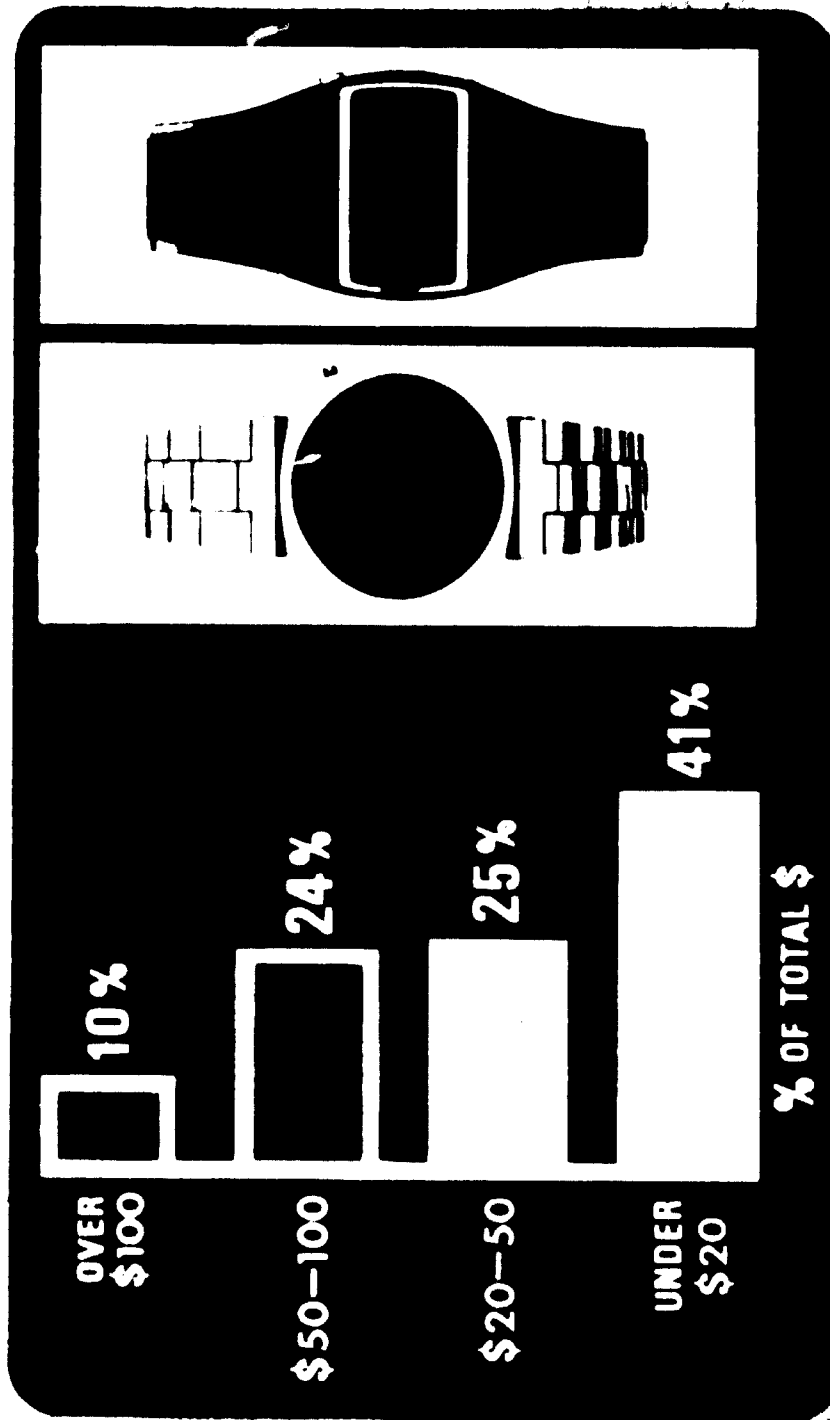
SLIDE 7

BY MARCH 1976, TI WAS PRODUCING THEM TO RETAIL AT LESS THAN \$20. WE HAVE RECENTLY INTRODUCED A LINE OF STYLISH LADIES WATCHES TO SELL AT \$20-\$30.

TI IS ALSO A MAJOR SUPPLIER TO THE AUTOMOTIVE INDUSTRY. (SLIDE 9) THAT INDUSTRY'S PROBLEMS IN POLLUTION AND SAFETY HAVE LED TI TO SUPPLY IT PRODUCTS FOR THE ELECTRICAL, FUEL CONTROL, BRAKING, TRANSMISSION, IGNITION, RADIO AND INSTRUMENT SYSTEMS OF AUTOMOBILES.

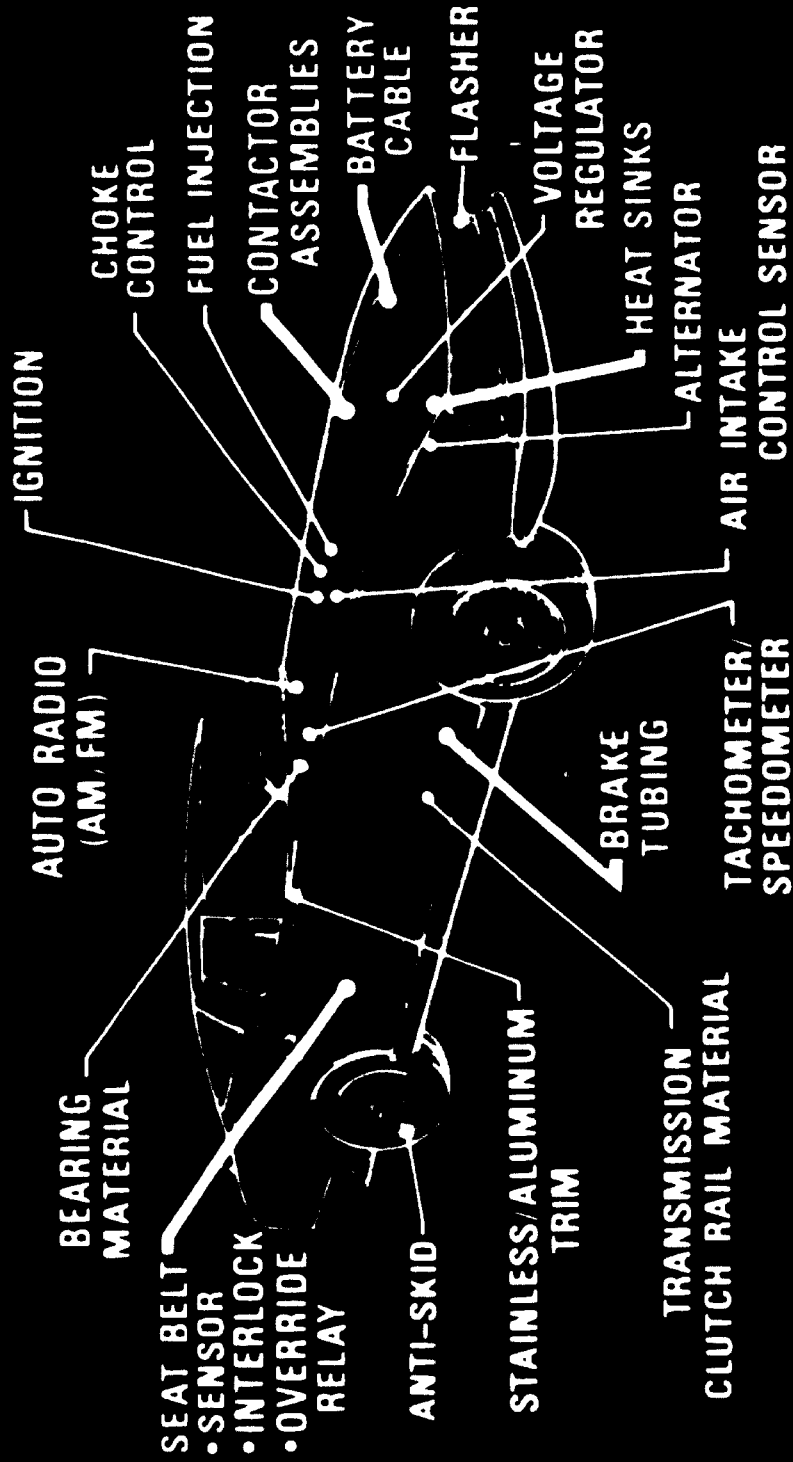
I'LL MENTION, BRIEFLY, RECENT DEVELOPMENTS IN TWO OTHER PARTS OF OUR BUSINESS. (SLIDE 10) IN OUR EQUIPMENT BUSINESS WE HAVE FOR MANY YEARS PRODUCED AIR TRAFFIC CONTROL RADARS FOR THE UNITED STATES FEDERAL AVIATION AUTHORITY AND INTERNATIONAL CUSTOMERS. YOU MAY HAVE SEEN OUR ANTENNA (AT LEFT OF SLIDE) AT AIRPORTS AROUND THE WORLD. OUR LATEST ATC DEVELOPMENT IS OUR DISCRETE ADDRESS BEACON SYSTEM (DABS). DABS USES OUR 990 MINI-COMPUTERS TO PERMIT A DISTRIBUTED COMPUTING APPROACH. IT IS NOW BEING DEVELOPED FOR THE FAA.

LASTLY, IN 1976 TI BROUGHT INTO PRODUCTION AND PLACED IN SERVICE A PETROLEUM EXPLORATION SYSTEM FOR THREE-DIMENSIONAL SEISMIC DATA COLLECTION AND PROCESSING CALLED 3D. (SLIDE 11) THE INCREASED RESOLVING POWER OF 3D SEISMIC ANALYSIS PROVIDES SOLUTIONS TO OIL AND GAS FIELD DEVELOPMENT PROBLEMS THAT HAVE TRADITIONALLY BEEN SOLVED BY DRILLING. THE AVERAGE COST OF A 3D FIELD DEVELOPMENT SURVEY, HOWEVER, IS BUT A SMALL FRACTION OF THE COST OF A SINGLE DRY HOLE.



SLIDE 8

AUTO ELECTRONICS, CONTROLS, AND MATERIALS



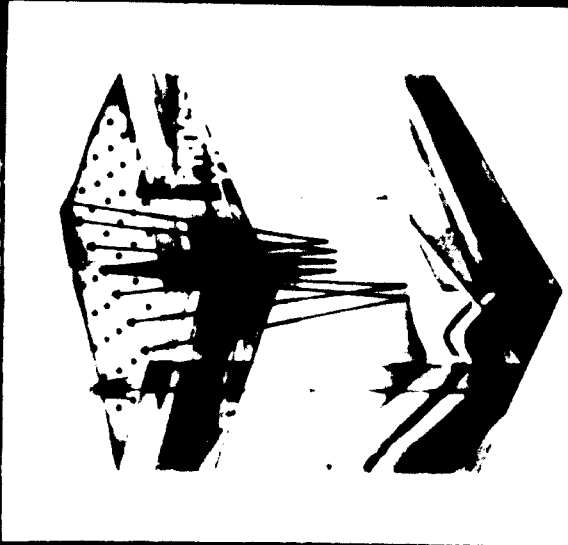
SLIDE 9



SLIDE 10

COLLECTION OF THREE DIMENSIONAL
SEISMIC DATA

ON LAND



AT SEA



TI'S BUSINESS WAS BUILT ON INNOVATION. TI HAS HAD TO MOVE QUICKLY IN RAPIDLY CHANGING BUSINESSES AND TECHNOLOGIES. EVEN SO IT HAS BEEN MANAGED VERY CONSERVATIVELY. ITS GROWTH HAS BEEN DELIBERATE AND PLANNED.

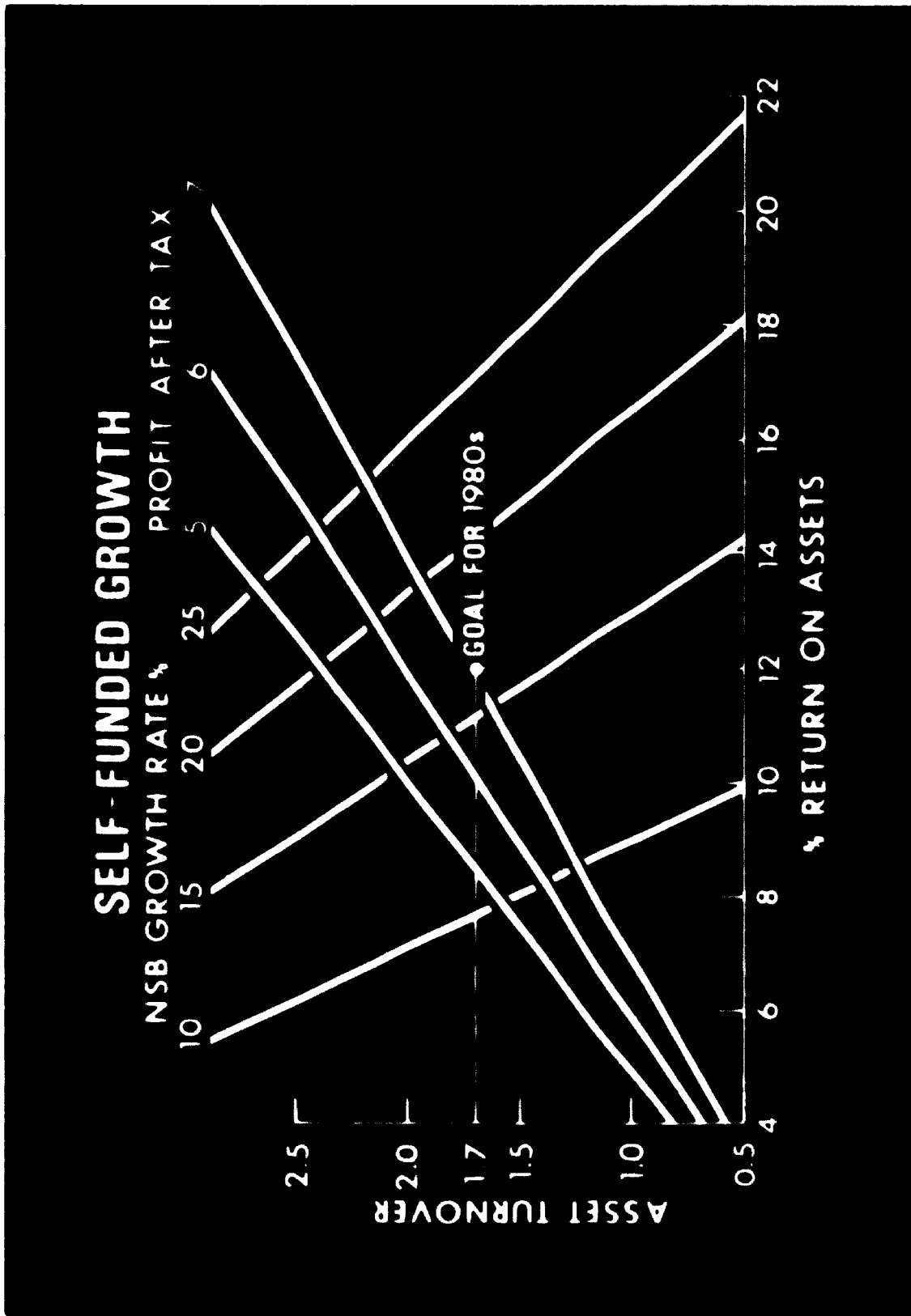
TI'S SYSTEM OF PLANNING AND CONTROLS ESTABLISHES IN QUANTITATIVE TERMS THE PARAMETERS BY WHICH THE ORGANIZATION AND ITS MANAGERS ARE MEASURED.

THE MOST IMPORTANT OF THESE MEASURES IS RETURN ON ASSETS USED IN THE BUSINESS. ALL MANAGEMENT DECISIONS ARE CONSIDERED FROM THE EFFECT AN ACTION WILL HAVE ON TI'S RETURN ON ASSETS. ALSO CLOSELY WATCHED ARE PROFIT GROWTH AND MARKET PENETRATION.

CONTINUING COST REDUCTIONS AND PRODUCTIVITY IMPROVEMENTS ARE THINGS WHICH ARE VITAL FOR TI TO ACHIEVE ITS RETURN ON ASSETS GOALS. THE QUALITY OF OUR EARNINGS IS EXTREMELY IMPORTANT. TI'S CONSERVATIVE FISCAL MANAGEMENT IS ILLUSTRATED BY THE RAPID DEPRECIATION RATES IT APPLIES TO ITS EQUIPMENT AND ITS METHODS FOR VALUING ITS INVENTORIES.

(SLIDE 12) TI'S CLEARLY STATED CORPORATE GOALS ARE PLANNED TO BE ACHIEVED BY INTERNAL SELF FUNDED GROWTH WITHOUT NEED FOR EQUITY FINANCING. WE HOPE TO REACH THREE BILLION DOLLARS IN SALES BY THE END OF THIS DECADE AND TEN BILLION BY THE LATE 1980's. KEY TO THESE GROWTH GOALS ARE SUPPORTING GOALS OF A 7% PROFIT AFTER TAX, AND A 12% RETURN ON ASSETS AT THE PROFIT AFTER TAX LEVEL AND A COMPOUND ANNUAL GROWTH RATE OF 16%.

I'LL CLOSE THIS PART OF MY PRESENTATION, WHICH I HOPE WILL HELP YOU PUT IN PERSPECTIVE THE PARTS WHICH WILL FOLLOW, BY TOUCHING ON TI'S BASIC BUSINESS PHILOSOPHY. I NOW QUOTE FROM OUR CORPORATE OBJECTIVE: (SLIDE 12A)



SLIDE 12

"TI IS PERMITTED TO OPERATE BY THE SOCIETIES IT SERVES, AND THAT PRIVILEGE DOES NOT INCLUDE THE INHERENT RIGHT TO A PROFIT. THERE IS AN OPPORTUNITY TO EARN A PROFIT, AND THAT IS OUR INCENTIVE, AS WELL AS OUR REWARD, FOR DOING OUR JOB WELL. BUT UNLESS ANY COMPANY MEETS GENUINE NEEDS AND SOLVES VITAL PROBLEMS, IT WILL NOT EARN THE PROFIT REWARD. WITHOUT ADEQUATE PROFITS IT WILL CEASE TO EXIST.

(SLIDE 12B) "TI WAS FOUNDED ON THE BASIS OF ITS INNOVATIVE SKILLS AND THEY CONTINUE TO DETERMINE ITS EFFECTIVENESS IN SERVING THE NEEDS OF ITS CUSTOMERS. INNOVATION CAN EXIST NOT ONLY IN PRODUCTS AND SERVICES BUT ALSO IN MANUFACTURING, MARKETING, MANAGEMENT SYSTEMS, AND PERSONNEL DEVELOPMENT -- AND INDEED, IN ANY AREA WHERE WE EXPEND EFFORT.

"BECAUSE ECONOMIC WELL-BEING IS ESSENTIAL TO THE DEVELOPMENT OF OUR SOCIETY, TI MEASURES ITS SUCCESS BY THE EXTENT TO WHICH IT CONTRIBUTES TO THAT ECONOMIC STRENGTH IN TERMS OF SALES GROWTH AND PROFITS -- ITS JUST REWARD FOR SERVING SOCIETY WELL."

5

**The opportunity to earn a profit
is our incentive for serving
society's needs effectively**

**However, without adequate profits
we will cease to exist**

Innovative skills determine TI's effectiveness

.....in serving its customers

.....in contributing to society's economic well-being

.....in earning its profit reward

II

FACTORS CONSIDERED BY A PRIVATE SECTOR COMPANY BEFORE MAKING AN OVERSEAS INVESTMENT:

NOW FOR MY TOPIC, "THE ADVANTAGES OF A FREE ZONE". I SHALL EXAMINE THIS SUBJECT FROM BOTH THE VIEWPOINT OF THE HOST COUNTRY AND THE INVESTOR. WHAT SHOULD THE HOST COUNTRY EXPECT FROM ITS FOREIGN INVESTMENT PROGRAM? WHAT DOES AN INVESTOR CONSIDER WHEN CONTEMPLATING MAKING AN INVESTMENT IN A COUNTRY IN WHICH HE HAS NEVER OPERATED? WHAT MAY AN INVESTOR EXPECT TO BE OFFERED?

I BELIEVE IT WOULD BE USEFUL AT THE OUTSET TO DEFINE CERTAIN WORDS AND PHRASES I SHALL USE. BY AN "INVESTOR", I MEAN A PRIVATE INVESTOR AS CONTRASTED WITH A GOVERNMENT OR A GOVERNMENT CONTROLLED COMPANY. GOVERNMENTS AND GOVERNMENT CONTROLLED COMPANIES ARE OFTEN INFLUENCED IN MAKING INVESTMENTS ABROAD BY FACTORS WHICH WOULD NOT CONCERN A PRIVATE INVESTOR. AN "INVESTOR" MAY BE AN INDIVIDUAL, A PARTNERSHIP, OR A COMPANY (CORPORATION) HAVING LIMITED LIABILITY. IN PRACTICE MOST PRIVATE INVESTMENTS WOULD BE MADE BY COMPANIES. (SLIDE 13) SO, WE'LL USE "INVESTOR" TO MEAN ONLY A PRIVATELY OWNED COMPANY, USUALLY ONE HAVING MANY SHAREHOLDERS.

IT MUST BE BORNE IN MIND THAT A PROGRAM AIMED AT ATTRACTING INVESTORS WILL SUCCEED ONLY IF IT BENEFITS BOTH THE HOST COUNTRY AND THE INVESTOR. EACH MUST GAIN, OR AT LEAST HAVE A REASONABLE EXPECTATION OF BENEFITING FROM THE INVESTMENT PROGRAM.

THE HOST COUNTRY SHOULD REALIZE THAT IF ITS INVESTMENT CONDITIONS ARE ALL, OR EVEN GREATLY, IN ITS OWN FAVOR, POTENTIAL INVESTORS WILL INVEST ELSEWHERE.

INVESTOR - A PRIVATELY OWNED COMPANY
HAVING LIMITED LIABILITY. NOT A COMPANY
OWNED OR CONTROLLED BY A GOVERNMENT.

SLIDE 13

THE HOST COUNTRY SHOULD KEEP IN MIND THAT A COMPANY CAN EXIST ONLY IF IT MAKES A REASONABLE PROFIT. ANY POTENTIAL INVESTOR MUST BE CONVINCED THAT, ALL OTHER THINGS BEING EQUAL, HIS PROSPECTIVE INVESTMENT CAN BE REASONABLY EXPECTED TO RETURN A PROFIT AT LEAST EQUAL TO WHAT THE SAME INVESTMENT WOULD PRODUCE WITH THE SAME DEGREE OF RISK ELSEWHERE. OTHERWISE HE WON'T INVEST.

IT'S IMPORTANT TO REMEMBER THAT A BONA FIDE INVESTOR -- ONE WHO IS INVESTING FOR THE LONG TERM -- DOES NOT SEEK A GUARANTEED PROFIT. HE WANTS ONLY REASONABLE RULES AND CONDITIONS FOR OPERATING SO THAT HE CAN USE THE SKILLS AND TECHNIQUES WHICH HAVE ENABLED HIM TO PRODUCE PROFITS ELSEWHERE.

UNFORTUNATELY, TO SOME THE WORD "PROFITS" SEEMS TO HAVE A BAD CONNOTATION. IT CREATES A FEELING, PERHAPS, THAT SOMEONE IS TAKING ADVANTAGE OF SOMEONE ELSE TO GAIN WEALTH. CAN AN INVESTMENT PROGRAM BOTH BESTOW BENEFITS ON THE HOST COUNTRY AND PERMIT THE INVESTORS TO PROSPER? IT MOST CERTAINLY CAN. ARE AN INVESTOR'S PROFITS IN SOME WAY DETRIMENTAL TO THE HOST COUNTRY? THEY ARE NOT. ON THE CONTRARY, IF AN INVESTOR COULD NOT MAKE A REASONABLE PROFIT IT WOULD BE DETRIMENTAL TO THE HOST COUNTRY. THE INVESTOR WOULD GO OUT OF BUSINESS.

LET ME USE THE SERVICES GROUP OF TEXAS INSTRUMENTS TO ILLUSTRATE THE POINT I'M TRYING TO MAKE.

THE SEISMIC EXPLORATION BUSINESS IS EXTREMELY COMPETITIVE. IT'S A HARD BUSINESS IN THAT THE UNKNOWN IS EVER PRESENT. TO COLLECT SEISMIC DATA A FIELD PARTY MUST CONSTANTLY MOVE FROM

PLACE TO PLACE. EXTREMELY DIFFICULT AND, UNFORTUNATELY, SOMETIMES UNEXPECTED, TERRAINS MAY BE ENCOUNTERED. OUR CLIENTS KNOW THIS. SO, WHILE THEY SEEK--AND GET--COMPETITIVE BIDS FOR THEIR WORK, THEY ALSO KNOW THEIR CONTRACTORS MUST MAKE A SUFFICIENT PROFIT TO STAY IN BUSINESS. THEY JUDGE BIDS ACCORDINGLY. IT'S NOT UNUSUAL FOR BIDS WHICH ARE REGARDED AS MUCH TOO LOW TO BE REJECTED.

HERE THEN IS MY POINT:

WE'VE SELDOM, IF EVER, HAD AN UNHAPPY CLIENT ON A CREW WHICH HAS MADE A PROFIT. CONVERSELY, WHEN WE'VE LOST MONEY ON A JOB, OUR CLIENT MAY BE DISSATISFIED TO SOME EXTENT.

IF AN INVESTOR IS GIVEN REASONABLE CONDITIONS UNDER WHICH TO MAKE A PROFIT, DOES A GOOD JOB, AND IN FACT MAKES A PROFIT, EVERYONE CONCERNED WITH THE VENTURE WILL HAVE BENEFITED AND WILL BE PLEASED WITH THE RESULTS. CONVERSELY, IF AN INVESTOR MUST WORK UNDER CONDITIONS WHICH WILL ALMOST SURELY FORCE A CHANGE IN HIS NORMAL WAY OF OPERATING, THE CHANCES ARE NO ONE WILL BE HAPPY WITH THE RESULTS. AND, OF COURSE, IF AN ADVERSE SITUATION CONTINUES LONG ENOUGH, THE INVESTOR WILL GO OUT OF BUSINESS. THE LOSS TO ALL PARTIES WILL THEN BE COMPLETE.

AN INVESTOR MUST HAVE A REASONABLE OPPORTUNITY TO MAKE A PROFIT. HE NEED NOT BE GUARANTEED A PROFIT. JUST A REASONABLE OPPORTUNITY TO MAKE ONE.

GENERALLY SPEAKING, COUNTRIES HAVE TRIED TO ATTRACT INVESTORS THROUGH THREE KINDS OF SPECIAL INDUCEMENTS: FREE ZONES, INDUSTRIAL ESTATES AND FOREIGN INVESTMENT LAWS PROVIDING

FOR INVESTMENT INCENTIVES OR PREFERENCES. THERE HAS NOT ALWAYS BEEN A SHARP DISTINCTION BETWEEN FREE ZONES AND FOREIGN INVESTMENT LAWS. I BELIEVE I SHOULD DEFINE SEVERAL OTHER PHRASES THAT I SHALL USE.

FREE ZONES NO LONGER ARE FOUND ONLY IN SEAPORTS. THEY CAN NOW BE SITUATED ALMOST ANYWHERE. THIS IS DUE MAINLY TO THE DEVELOPMENT OF AIR TRANSPORTATION. THERE ARE REALLY THREE TYPES OF FREE ZONES. THEY ARE: (SLIDE 14)

1. THE "CLASSIC FREE ZONE"
2. THE "ALL PURPOSE FREE ZONE", AND
3. LASTLY, THE "INDEPENDENT FREE ZONE"

AS WE HAVE ALREADY HEARD, THERE ARE MANY FREE ZONES THROUGHOUT THE WORLD. THERE ARE, I BELIEVE, FEWER INDUSTRIAL ESTATES. (SLIDE 15) AN INDUSTRIAL ESTATE NORMALLY OFFERS BENEFITS IN ADDITION TO THOSE GIVEN BY A FREE ZONE OR FOREIGN INVESTMENT LAW. SUCH AS WAIVING REAL ESTATE TAXES, FREE UTILITIES, ETC. THEY ARE A MEANS TO ATTRACT AN INVESTOR TO A PARTICULAR PART OF A COUNTRY (OR, EVEN TO A PARTICULAR CITY).

LASTLY, LET ME DEFINE "FOREIGN INVESTMENT LAW". (SLIDE 16) SPECIAL FOREIGN INVESTMENT LAW INCENTIVE LOCATIONS ARE, ON OCCASION, LOOSELY CLASSIFIED AS FREE ZONES SINCE GOODS CAN BE MOVED IN AND OUT OF THEM DUTY FREE.

THE CLASSIC FREE ZONE IS ONE OF THE WORLD'S OLDER COMMERCIAL CONCEPTS. IN HIS HANDBOOK ON EXPORT FREE ZONES, THOMAS KELLEHER PUTS ITS AGE AT OVER 2,000 YEARS. ANY COMMERCIAL CONCEPT WHICH HAS LASTED THAT LONG MUST BE SOUND. CLASSIC FREE ZONES SPRANG

CLASSIC FREE ZONE - A SECURED, I.E. FENCED IN AREA IN WHICH GOODS ARE STORED FOR TRANSHIPMENT. SOME SORTING ANY REPACKAGING MAY BE DONE.

ALL PURPOSE FREE ZONE - A SECURED AREA WITHIN WHICH ALMOST ANY IMAGINABLE COMMERCIAL OR INDUSTRIAL ACTIVITY IS CONDUCTED.

INDEPENDENT FREE ZONE - A SINGLE LOCATION AT WHICH ONE INVESTOR OPERATES PURSUANT TO THE HOST COUNTRY'S FREE ZONE LAW, E.G. OUR CAIRO DATA PROCESSING CENTER.

**INDUSTRIAL ESTATE - A LARGE GOVERNMENT OWNED
OR SPONSORED AREA IN WHICH SPACE, UTILITIES
AND OTHER SERVICES ARE PROVIDED TO THE INVESTOR
AT VERY FAVORABLE RATES. THESE ARE USUALLY
OWNED BY A STATE OR PROVINCE, OR, EVEN, A CITY
AND NOT BY THE FEDERAL GOVERNMENT.**

FOREIGN INVESTMENT LAW – ANY FEDERAL LAW, OTHER THAN ONE PROVIDING FOR FREE ZONES, WHICH OFFERS SPECIAL INCENTIVES OR PREFERENCES TO AN INVESTOR. INCENTIVES AND PREFERENCES MAY BE WITH RESPECT TO TAXES, TARIFFS, FINANCING BENEFITS, LABOR LAWS OR ALMOST ANYTHING ELSE WHICH MIGHT ATTRACT AN INVESTOR.

UP IN SEAPORTS SINCE MARITIME TRANSPORTATION WAS THE WAY MOST GOODS WERE THEN MOVED. THEY PROVIDED AN AREA WHERE SHIPPERS COULD STORE GOODS WITHOUT HAVING TO PAY CUSTOMS DUTIES. SINCE NO DUTIES HAD BEEN PAID, THE HOST COUNTRY FENCED ITS FREE ZONE TO PREVENT SMUGGLING. HENCE, THE SECURITY FEATURE. ULTIMATELY, THE STORED GOODS EITHER WERE MOVED INTO THE HOST COUNTRY, IN WHICH CASE DUTY WAS THEN PAID, OR THEY WERE SHIPPED TO ANOTHER COUNTRY AND NO DUTY WAS PAID TO THE HOST COUNTRY.

THE BENEFITS TO THE HOST COUNTRY WERE JOBS FOR ITS NATIONALS IN THE FREE ZONE AND STORAGE FEES.

THE SHIPPER BENEFITED SINCE HE PAID NO CUSTOMS DUTIES UNLESS HIS GOODS ENTERED THE HOST COUNTRY. THIS SAVED HIS WORKING CAPITAL. AN EQUAL BENEFIT WAS THAT HIS GOODS WERE MUCH NEARER TO POTENTIAL BUYERS. HE HAD MORE FLEXIBILITY IN SELLING THEM.

AS TIME PASSED SHIPPERS REALIZED THAT IF THEY COULD DO MORE THAN STORE THEIR GOODS, FREE ZONES WOULD BE EVEN MORE ATTRACTIVE. AS A RESULT, SORTING, REPACKAGING AND EVEN ASSEMBLING OPERATIONS WERE BEGUN. HOST COUNTRIES ALLOWED THESE DEVELOPMENTS SINCE MORE JOBS WERE CREATED FOR THEIR NATIONALS AND THEIR STORAGE REVENUE WAS INCREASED.

FROM THERE IT WAS BUT A SHORT STEP TO PERMITTING FULL-SCALE MANUFACTURING OPERATIONS AND ALMOST ANY OTHER COMMERCIAL ACTIVITY WITHIN A FREE ZONE.

THUS, TODAY, ALL PURPOSE FREE ZONES PERMIT VIRTUALLY ANY FUNCTIONS WITHIN THEIR CONFINES. SOME, SUCH AS PANAMA'S AT COLON--WHICH HANDLES AS MUCH AS A BILLION DOLLARS WORTH OF

GOODS WITHIN A YEAR--HAVE ALMOST BECOME MUNICIPALITIES IN THEMSELVES.

THE ADVANTAGES WHICH THE HOST COUNTRY RECEIVES FROM AN ALL PURPOSE FREE ZONE ARE MUCH BROADER THAN THOSE WHICH THE CLASSIC FREE ZONE BROUGHT. (SLIDE 17)A BESIDES JOBS AND STORAGE FEES, THERE IS A BETTER BALANCE OF PAYMENTS THROUGH EXPORTS; DEVELOPMENT OF THE NATIONAL INFRASTRUCTURE IN SUCH RESPECTS AS COMMUNICATIONS, TRANSPORTATION, UTILITIES, ROADS AND THE LIKE; DEVELOPMENT OF TECHNOLOGY AND MANAGERIAL SKILLS; AND BUSINESS FOR LOCAL CONCERNS WHICH CAN FURNISH SUPPORT SERVICES AND SUPPLIES NEEDED BY THE INVESTORS.

AS IS TRUE ANYWHERE, THE CONCENTRATION OF A TREMENDOUS AMOUNT OF ACTIVITY IN ONE AREA CAN HAVE DISADVANTAGES. HOWEVER, EVEN IF THIS OCCURS THESE PROBLEMS CAN BE SOLVED, AND THE AFORESAID BENEFITS WILL RESULT. (SLIDE 17 B)

IN AN ATTEMPT TO AVOID THESE DISADVANTAGES, SOME COUNTRIES NOW PERMIT INDEPENDENT FREE ZONES ANYWHERE RATHER THAN RESTRICTING THEM TO VARIOUS SECURED AREAS. ONE BUILDING IN A LARGE CITY CAN NOW BE A "FREE ZONE".

FOREIGN INVESTMENT LAWS HAVE HAD VARIED SUCCESS IN ATTRACTING INVESTORS. RATHER THAN TRYING TO ANALYZE WHICH LAWS HAVE BEEN SUCCESSFUL--AND WHICH HAVE NOT--IT WOULD SEEM MORE USEFUL TO EXAMINE WHAT OTHER FACTORS--BESIDES THE OPPORTUNITY TO MAKE A PROFIT--AN INVESTOR WOULD CONSIDER WHEN DECIDING WHERE TO INVEST. THESE FACTORS, WHICH ARE BASIC TO ANY INVESTMENT,

ALL PURPOSE FREE ZONE

ADVANTAGES TO HOST COUNTRY

- **JOBS FOR NATIONALS**
- **RENTAL OF SPACE INCOME**
- **BETTER BALANCE OF PAYMENTS THROUGH INCREASED EXPORTS**
- **ACCELERATION OF NATIONAL INFRASTRUCTURE DEVELOPMENT IN SUCH AREAS AS COMMUNICATIONS, TRANSPORTATION, UTILITIES AND LIKE**
- **DEVELOPMENT OF TECHNOLOGY AND MANAGERIAL SKILLS**
- **LOCAL BUSINESSES DEALING IN SUPPORT SERVICES BENEFIT**
- **CONTROL SMUGGLING**

ALL PURPOSE FREE ZONE

DISADVANTAGES

OVER CONGESTION RELATED PROBLEMS

- **STRAIN ON UTILITIES**
- **TRAFFIC SNARLS**
- **OVERLOADED TRANSPORTATION**
- **POLLUTION**
- **HOUSING SHORTAGES**

NOTE: CERTAIN OF THE DISADVANTAGES, IF CORRECTED WILL RESULT ULTIMATELY IN BENEFITS TO THE HOST COUNTRY

WOULD GENERALLY BE EQUALLY APPLICABLE WERE AN INVESTOR TO CONSIDER ESTABLISHING HIS BUSINESS IN AN ALL PURPOSE FREE ZONE, AN INDUSTRIAL PARK, OR, FOR THAT MATTER IN DOWNTOWN LONDON OR WEST TEXAS. (SLIDE 17 c)

IF A PROFIT CAN BE EXPECTED, AN INVESTOR'S NEXT CONSIDERATION IS, HOW WILL HE BE TAXED? WHAT TAXES WILL BE LEVIED? WHAT ARE THE RATES OF TAX? ARE THE TAX LAWS ADMINISTERED FAIRLY AND UNIFORMLY? OR, ARE THEY ADMINISTERED ARBITRARILY? ARE TAX RETURNS AUDITED SOON AFTER A FISCAL YEAR ENDS OR YEARS LATER? ARE TAX AUDITS PERFORMED WITH REASONABLE SPEED?

THE INVESTOR'S NEXT CONCERN IS WHAT HE CAN DO WITH HIS PROFIT AFTER TAX. MAY HE REINVEST IT FREELY AND EXPAND HIS BUSINESS IN THE HOST COUNTRY? OR, WOULD EXPANSION BE TREATED AS A NEW INVESTMENT FOR WHICH FURTHER APPROVAL WOULD BE NEEDED? CAN HE MOVE QUICKLY? MAY HE REMIT HIS PROFITS ABROAD AT WILL OR ARE THERE EXCHANGE CONTROL LAWS? AND, EVEN IF THERE ARE NO EXCHANGE CONTROL RESTRICTIONS, AS A PRACTICAL MATTER, WILL FOREIGN EXCHANGE BE AVAILABLE?

IF AN INVESTOR CONCLUDES HE SHOULD BE ABLE TO MAKE A PROFIT, HE WILL BE TAXED FAIRLY, AND THAT HE CAN DEAL WITH HIS PROFITS FREELY, HE WILL THEN EXAMINE CLOSELY DETAILS WHICH WOULD DIRECTLY AFFECT HIS DAY-TO-DAY BUSINESS OPERATIONS. WHAT A PARTICULAR INVESTOR WOULD LOOK FOR WOULD, OF COURSE, DEPEND TO SOME EXTENT ON THE NATURE OF HIS BUSINESS AND THE TYPE INVESTMENT HE CONTEMPLATED.

INVESTMENT FACTORS

- OPPORTUNITY FOR A PROFIT
- TAXES
- EXCHANGE CONTROL
- AVAILABILITY OF LABOR
- POTENTIAL PLANT SITES
- UTILITIES
- MAINTENANCE SUPPORT
- TRANSPORTATION
- FINANCING ASSISTANCE
- GOVERNMENT AGENCIES EFFECTIVENESS
- COUNTRY'S ATTITUDE TOWARD PRIVATE INVESTMENT

EVEN SO, IT'S SAFE TO SAY THAT WHILE EMPHASIS ON PARTICULAR ITEMS MIGHT VARY FROM INVESTOR TO INVESTOR, ANY POTENTIAL INVESTOR WOULD BE CONCERNED ABOUT THESE THINGS.

THE MOST IMPORTANT PART OF ANY BUSINESS IS ITS WORK FORCE. PEOPLE ARE WHAT MAKE A BUSINESS GO. EACH EMPLOYEE PLAYS A ROLE. EACH BUSINESS NEEDS A DIVERSE RANGE OF EMPLOYEES, BOTH SKILLED AND UNSKILLED. THEREFORE, AN INVESTOR WOULD INQUIRE AS TO THE AVAILABILITY OF SKILLED EMPLOYEES BOTH PRESENTLY AND PROSPECTIVELY. DOES THE HOST COUNTRY HAVE TECHNICAL SCHOOLS? ARE THEY WELL ATTENDED? WHAT LEVEL OF EDUCATION DO THE STUDENTS RECEIVE? HOW ABOUT UNSKILLED LABOR? AVAILABLE? WHAT ARE THE WAGE RATES FOR ALL LEVELS OF EMPLOYEES? HOW ABOUT UNIONS? ARE THEY LEGAL? ARE THEY REQUIRED BY LAW? IF SO, ARE THEY MILITANT? HAS HIS INDUSTRY--OR THE COUNTRY--BEEN PLAGUED WITH STRIKES?

LET ME STRESS STRONGLY THAT WHEN AN INVESTOR ASKS THESE QUESTIONS, HE IS NOT BEING ANTI-LABOR OR ANTI-UNION. FOR EXAMPLE, WE FEEL THAT A UNION (UNLESS IT'S REQUIRED BY LAW) IS ALMOST ALWAYS EVIDENCE OF MANAGEMENT FAILURE. AT SOME POINT EMPLOYEES GENERALLY HAVE NOT BEEN TREATED AS THEY SHOULD HAVE BEEN OR COMMUNICATIONS HAVE BROKEN DOWN. OUR PHILOSOPHY IS THAT EACH EMPLOYEE IS AN INDIVIDUAL--AS EACH MEMBER OF A FAMILY IS AN INDIVIDUAL--AND, AS SUCH, IS TO RECEIVE RESPECT AND BE TREATED FAIRLY BY ALL OTHER EMPLOYEES, INCLUDING THE COMPANY'S MANAGERS.

ALTHOUGH WE INTERACT WITH UNIONS AS A MATTER OF LAW IN SOME INTERNATIONAL LOCATIONS, WE HAVE NO COLLECTIVE BARGAINING RELATIONSHIPS ESTABLISHED AS A RESULT OF EMPLOYEE MAJORITY CHOICE AT ANY TI FACILITY. WE STRONGLY BELIEVE THAT OUR PERSONNEL POLICIES AND PROGRAMS ARE FAR BETTER ANSWERS TO EMPLOYEE PARTICIPATIONS THAN UNIONS.

TIME FORCES ME MERELY TO MENTION SOME OF THE MANY OTHER POINTS WHICH AN INVESTOR WOULD MOST LIKELY CONSIDER:

1. WHERE MAY HE SITUATE HIS BUSINESS? ARE ACCEPTABLE PLANT SITES AVAILABLE IN:
 - A. FREE ZONES OR INDUSTRIAL ESTATES
 - B. CITIES
 - C. THE COUNTRYSIDE
 - D. MAY AN ALIEN OWN LAND? IF NOT, FOR WHAT PERIOD MAY LAND BE LEASED?
2. ARE UTILITIES AVAILABLE IN NEEDED QUANTITIES? WHAT ARE THE RATES? IS SERVICE CONSISTENT AND GOOD? I WOULD NOTE HERE, FOR EXAMPLE, THAT IN OUR ELECTRONIC BUSINESS WE MUST BE GUARANTEED A RELIABLE AND STEADY FLOW OF ELECTRIC POWER. PERIODIC BREAKDOWNS IN SERVICE COULD BE RUINOUS. ALSO, TELEPHONE SERVICE IS OF GREAT IMPORTANCE, PARTICULARLY THAT OVERSEAS. ARE TELEXES AVAILABLE?
3. INEVITABLY, DAY-TO-DAY MAINTENANCE AND SUPPLIES WILL BE NEEDED SUCH AS TOOL AND DIE AND OTHER SPECIALIZED SHOP SERVICES. ALSO, SUPPLIES SUCH AS INDUSTRIAL GASES SUCH AS OXYGEN, NITROGEN, AND THE LIKE.

4. TRANSPORTATION IS TREMENDOUSLY IMPORTANT. THE BEST EMPLOYEES IN THE WORLD WOULD SERVE NO PURPOSE IF THEY WERE UNABLE TO GET TO WORK. ALSO, WHAT INTERNATIONAL TRANSPORTATION IS AVAILABLE, BOTH PASSENGER AND CARGO? VERY IMPORTANT THAT IT BE REGULAR AND THAT THERE BE ENOUGH OF IT.
5. WHAT KIND OF FINANCING WOULD THERE BE? ARE SPECIAL INCENTIVES OFFERED? ARE THERE INCENTIVES FOR CAPITAL INVESTMENTS IN MACHINERY AND PLANT BUILDINGS? IF SO, ARE THEY AVAILABLE TO FOREIGN INVESTORS?
6. THE EFFICIENCY OF GOVERNMENT DEPARTMENTS, OTHER THAN THE TAX DEPARTMENT IS OF MORE THAN PASSING INTEREST. THE CUSTOMS DEPARTMENT IS OF PARTICULAR IMPORTANCE. WILL THE INVESTOR'S SHIPMENTS CLEAR IN AND OUT OF CUSTOMS QUICKLY? OR, IS THERE AN ARCHAIC PAPER WORK PROCEDURE WHICH, ALMOST INEVITABLY, WILL CAUSE DELAY? EVEN WORSE, IT COULD LEAD TO CORRUPTION.

FINALLY, A POTENTIAL INVESTOR MUST ASSESS WHAT THE HOST COUNTRY'S ATTITUDE IS TOWARD PRIVATE INVESTMENT. THIS MUST BE CONSIDERED NOT ONLY CURRENTLY, BUT HISTORICALLY AND, SO FAR AS CAN BE DETERMINED, PROSPECTIVELY. WILL THE HOST ABIDE BY ITS INVESTMENT RULES AND INTERPRET AND ADMINISTER THEM FAIRLY?

IF THE INVESTOR FINDS THAT ON BALANCE AN ATTRACTIVE OPPORTUNITY TO OPERATE HIS BUSINESS AT A PROFIT IS OFFERED, HE WILL INVEST. IF IT IS NOT, HE WILL LOOK ELSEWHERE.

III

**FACTORS WHICH DEVELOPING COUNTRIES SHOULD CONSIDER WHEN
ESTABLISHING AN INVESTMENT PROMOTION PROGRAMME**

SO MUCH FOR WHAT AN INVESTOR WOULD CONSIDER. NOW LET'S LOOK AT A POTENTIAL INVESTMENT PROGRAM FROM THE HOST COUNTRY'S POINT OF VIEW. PLEASE KEEP IN MIND THIS WILL HAVE A REAL BEARING ON WHAT THE INVESTOR IS SEEKING. EACH NEEDS THE OTHER. NEITHER CAN SUCCEED WITHOUT THE OTHER.

THE HOST COUNTRY MUST DETERMINE WHAT ITS PROGRAM SHOULD BE. WHAT DOES IT WANT TO GAIN FROM IT?

SINCE NO TWO COUNTRIES HAVE PRECISELY THE SAME NEEDS, PROGRAMS WILL VARY FROM COUNTRY TO COUNTRY. THE HOST COUNTRY CAN CERTAINLY LEARN FROM OBSERVING WHAT OTHER COUNTRIES HAVE DONE (JUST AS INVESTORS CAN LEARN FROM WHAT OTHER INVESTORS DO). BUT BECAUSE COUNTRY A OFFERS CERTAIN INDUCEMENTS TO INVESTORS, COUNTRY B NEED NOT NECESSARILY MATCH THOSE INDUCEMENTS. COUNTRY B MAY HAVE CERTAIN ADVANTAGES THAT A LACKS. IT COULD OFFER OTHER INDUCEMENTS AND HAVE A PROGRAM EVERY BIT AS SUCCESSFUL AS A'S; OR, FOR THAT MATTER, EVEN MORE SUCCESSFUL. IN THE FINAL ANALYSIS THE HOST COUNTRY MUST ASSESS ITS NEEDS, SET ITS OBJECTIVES AND THEN DEVISE A REALISTIC PROGRAM WHICH WILL ATTRACT THE TYPE INVESTOR IT WANTS.

THE HOST COUNTRY'S PROGRAM SHOULD SET FORTH CLEARLY: (SLIDE 18)

1. HOW POTENTIAL INVESTORS WILL BE TAXED.
2. WHAT, IF ANY, RESTRICTIONS WILL APPLY TO AN INVESTOR'S REMITTANCES ABROAD.

- ANY RESTRICTIONS ON OWNERSHIP
- HOW POTENTIAL INVESTORS WILL BE TAXED
- WHETHER REMITTANCES ABROAD WILL BE RESTRICTED
- WHETHER SPECIAL FINANCING IS AVAILABLE
- WHAT TARIFFS WILL APPLY
- LABOR LAWS APPLICABLE TO FOREIGN INVESTMENTS
- WHETHER EXPATRIATES MAY BE EMPLOYED FREELY

SLIDE 18

3. WHAT, IF ANY, SPECIAL FINANCING WILL BE AVAILABLE FOR AN INVESTOR.
4. WHAT CUSTOMS DUTIES, IF ANY, WILL BE LEVIED ON AN INVESTOR'S IMPORTS AND EXPORTS.
5. WHAT LABOR LAWS WILL APPLY AND WHETHER EMPLOYMENT OF EXPATRIATES WILL BE RESTRICTED.
6. IF EXPATRIATES MAY BE EMPLOYED, HOW THEY WILL BE TAXED AND WHAT, IF ANY, RESTRICTIONS WILL BE PLACED ON THEIR REMITTANCES ABROAD.

I WOULD NOT SUGGEST THAT SPECIAL LAWS WOULD BE REQUIRED FOR ALL THESE MATTERS. THEY MIGHT BE. I AM, HOWEVER, URGING THAT AN INVESTOR BE TOLD CLEARLY AND PRECISELY WHAT LAWS WILL APPLY TO HIS INVESTMENT. IF, FOR EXAMPLE, THE HOST COUNTRY'S CURRENT EXCHANGE CONTROL LAWS ARE TO APPLY UNCHANGED, FINE. THE INVESTOR CAN STUDY THEM AND DETERMINE WHETHER THOSE LAWS WOULD OR WOULD OR WOULD NOT PERMIT HIM TO OPERATE EFFECTIVELY.

IF IT DEVELOPS - AS IT VERY WELL MAY - THAT TO MAKE ITS INVESTMENT PROGRAM ATTRACTIVE, SPECIAL LAWS WILL BE NEEDED, THE HOST COUNTRY SHOULD MAKE CLEAR THAT THOSE SPECIAL LAWS SUPERCEDE LAWS WHICH, OTHERWISE, WOULD CONFLICT WITH THE INVESTMENT LAW. INSOFAR AS POSSIBLE, LAWS SHOULD BE SPECIFIC RATHER THAN DISCRETIONARY. LAWS WHICH ARE DISCRETIONARY TEND TO BE UNSATISFACTORY BECAUSE (1) INVESTORS HAVE NO ASSURANCE HOW THEY WILL BE APPLIED, AND (2) OFFICIALS WHO ADMINISTER THEM MAY IN EFFECT USE THE LAW'S DISCRETIONARY ASPECTS AS AN EXCUSE NOT TO ACT. IF THEY DON'T ACT,

THEY WON'T BE CRITICIZED. SO, IF SOMETHING IS TO BE PERMITTED, THE LAW SHOULD SO PROVIDE RATHER THAN LEAVING IT TO SOMEONE'S DISCRETION. I REALIZE THERE MUST BE SOME ASPECT OF DISCRETION IN ANY SET OF LAWS. BUT, DISCRETION SHOULD BE KEPT TO A MINIMUM. AN INVESTOR SHOULD KNOW WHAT HE CAN, OR CANNOT, EXPECT.

ONCE THE HOST COUNTRY HAS SET ITS FOREIGN INVESTMENT PROGRAM'S GOALS AND HAS ESTABLISHED THE PROGRAM, IT SHOULD CREATE AN ORGANIZATION AT THE MINISTERIAL LEVEL TO ADMINISTER IT. TOO OFTEN SUCH AN ORGANIZATION IS LACKING. POTENTIAL INVESTORS MAY HAVE GREAT DIFFICULTY DISCOVERING HOW TO MAKE AN INVESTMENT.

TOO FREQUENTLY POTENTIAL INVESTORS MUST DEAL WITH MANY MINISTERIES. UNFORTUNATELY, NOT ALL THE OBJECTIVES OF THOSE MINISTERIES MAY BE CONSISTENT. IT'S NOT UNUSUAL FOR A MINISTER TO LOOK AFTER THE INTERESTS OF HIS MINISTRY RATHER THAN THOSE OF THE ENTIRE COUNTRY. THE RATIONALIZATION IS THAT WHAT'S GOOD FOR THE PARTICULAR MINISTRY IS GOOD FOR THE COUNTRY. IN A NARROW SENSE IT MAY BE. IN A BROAD SENSE, HOWEVER, IT MAY NOT BE, AND QUITE OFTEN ISN'T. AS A RESULT, AN INVESTOR MAY BECOME FRUSTRATED IN TRYING TO RECONCILE DIFFERENCES BETWEEN TWO OR MORE MINISTERIES AS TO WHAT AN INVESTMENT LAW REALLY PROVIDES. TOO OFTEN AN INVESTOR CAN'T DECIDE WHAT ULTIMATELY WILL HAPPEN. AND, INDECISIVE INVESTORS RARELY INVEST.

I CERTAINLY AM NOT AN ADVOCATE FOR ENLARGING GOVERNMENT. IN MOST PLACES IT'S ALREADY TOO BIG. HOWEVER, I AM CONVINCED THAT IF A COUNTRY WANTS THE MOST ATTRACTIVE, EFFECTIVE FOREIGN INVESTMENT PROGRAM POSSIBLE, IT SHOULD CREATE A MINISTRY OF FOREIGN INVESTMENT.

THE MINISTRY SHOULD BE STAFFED WITH EXPERTS, BOTH NATIONAL AND EXPATRIATE, IN LABOR, TAX, BANKING AND OTHER MATTERS WHICH AN INVESTOR WOULD CONSIDER RELATIVE TO A PROSPECTIVE INVESTMENT.

IT ALSO SHOULD BE REALIZED THAT SOME INVESTORS ARE NOT TRULY MULTILINGUAL. PROBABLY NORTH AMERICANS ARE MOST DEFICIENT IN THIS RESPECT. THEREFORE, THE HOST COUNTRY'S INVESTMENT MATERIALS SHOULD BE PRINTED IN THE FIVE OR SIX LANGUAGES MOST POTENTIAL INVESTORS WOULD BE EXPECTED TO SPEAK.

A MOMENT AGO I MENTIONED EXPATRIATE EXPERTS. LET ME MAKE CLEAR THESE WOULD BE ADVISORS. THE MINISTRY WOULD BE ADMINISTERED BY NATIONALS. NATIONALS WOULD MAKE ALL POLICY AND INVESTMENT DECISIONS. BUT, PROPERLY USED, EXPATRIATES WOULD BE INVALUABLE. MATURE, KNOWLEDGEABLE EXPATRIATES WOULD SERVE AS LIAISON PERSONNEL BETWEEN THE MINISTRY AND POTENTIAL INVESTORS. THEY COULD GIVE THE MINISTRY VALUABLE INSIGHTS ABOUT PROSPECTIVE INVESTORS FROM THEIR OWN COUNTRIES. SINCE THEY WOULD "SPEAK THE INVESTOR'S OWN LANGUAGE", THEY WOULD BE EXTREMELY USEFUL IN EXPLAINING MATTERS THAT WERE UNCLEAR. AN EFFECTIVE EXAMPLE OF THE USE OF EXPATRIATES IN THIS RESPECT IS THE EGYPT-UNITED STATES BUSINESS COUNCIL'S PROGRAM. EXPATRIATE EXPERTS HAVE BEEN ASSIGNED TO OFFICES IN CAIRO AND NEW YORK TO ASSIST WOULD BE INVESTORS.

THE HOST COUNTRY SHOULD REMEMBER THE AVERAGE POTENTIAL INVESTOR APPROACHES IT WITH ENTHUSIASM. NO ONE HAS FORCED HIM TO COME TO THE COUNTRY. HE HAS ALMOST SURELY MADE A PRELIMINARY ANALYSIS AND FEELS THE HOST COUNTRY WOULD BE AN ATTRACTIVE PLACE IN WHICH TO INVEST. EVERYTHING POSSIBLE SHOULD BE DONE TO

CAPITALIZE ON THAT ENTHUSIASM. PROCESSING OF INVESTMENT APPLICATIONS SHOULD BE EXPEDITED. IN SHORT THE HOST COUNTRY SHOULD DO ALL IT CAN TO KEEP A WOULD-BE INVESTOR FROM BECOMING FRUSTRATED AND GOING TO SOME OTHER COUNTRY.

DOES THIS MEAN THAT I AM ADVOCATING THAT ALL, OR EVEN MOST, INVESTMENT APPLICATIONS SHOULD BE APPROVED? IT MOST DEFINITELY DOES NOT. EACH INVESTMENT APPLICATION MUST BE ASSESSED CAREFULLY. BUT "CAREFULLY" DOES NOT MEAN SLOWLY. INVESTMENT APPLICATIONS SHOULD BE ACTED ON WITHIN THREE MONTHS. WITH PROPER ORGANIZATION AND PROCEDURES THAT CAN BE DONE.

WITHIN A MONTH AFTER AN INVESTMENT APPLICATION IS RECEIVED, A DECISION SHOULD BE MADE WHETHER THE PROPOSED INVESTMENT IS SUFFICIENTLY ATTRACTIVE TO WARRANT FURTHER CONSIDERATION. ASSUMING AN INVESTOR HAS RECEIVED PRECISE INSTRUCTIONS FOR PREPARING HIS APPLICATION, E.G. FURNISHING INFORMATION ABOUT THE NATURE OF HIS BUSINESS, ITS POTENTIAL FOR EMPLOYMENT, THE NATURE OF ITS TECHNOLOGY, THE FOREIGN EXCHANGE WHICH IT WOULD PRODUCE, ANTICIPATED DURATION OF THE BUSINESS, AND THE LIKE, A MONTH WOULD BE MORE THAN ENOUGH FOR MAKING THAT DECISION.

IF THE BUSINESS SEEMED ATTRACTIVE, IT WOULD THEN BE NECESSARY TO DETERMINE WHETHER THE PROSPECTIVE INVESTOR COULD DO WHAT HE PROPOSED AND THE KIND OF AN EMPLOYER HE WAS. TO DO THESE THINGS THE MINISTRY OF FOREIGN INVESTMENT WOULD NEED ASSISTANCE FROM ITS EMBASSIES IN THE POTENTIAL INVESTOR'S COUNTRY AND ANY OTHER COUNTRIES IN WHICH HE MIGHT OPERATE.

ITS EMBASSY STAFFS WOULD INVESTIGATE THE POTENTIAL INVESTOR TO LEARN: (SLIDE 19)

1. HOW HE IS REGARDED IN HIS OWN COMMUNITY. IS HIS COMPANY A LEADER? IS IT INNOVATIVE? IF HE HAS OPERATED ABROAD, HOW IS HE REGARDED THERE?
2. WHAT THE INVESTOR'S EMPLOYMENT PRACTICES ARE. ARE THEY ENLIGHTENED? HAS HE BEEN BESET WITH STRIKES? HOW DO HIS PAY RATES COMPARE WITH OTHERS IN THE INDUSTRY? IF HE HAS LOCATIONS ABROAD, WHAT ARE HIS PAY PRACTICES THERE? WHAT ARE HIS LABOR PRACTICES ABROAD? IN OTHER WORDS, ARE HIS EMPLOYMENT PRACTICES AS GOOD, AND AS CONSISTENT, ABROAD AS THEY ARE AT HOME?
3. IS THE INVESTOR FINANCIALLY STABLE? CAN HE FINANCE WHAT HE PROPOSES TO DO?
4. WOULD HE BE A GOOD CITIZEN IN THE HOST COUNTRY?

THE MINISTRY OF FOREIGN INVESTMENT SHOULD THEN HAVE ENOUGH INFORMATION TO ACT ON AN APPLICATION. ACTION SHOULD THEN BE TAKEN IF, FOR NO OTHER REASON, THAN TO CONSIDER THE NEXT APPLICATION. TIME IS OF THE ESSENCE FOR BOTH THE WOULD-BE INVESTOR AND THE HOST COUNTRY. IT SHOULDN'T BE WASTED.

I NOW WANT TO MENTION ONE MORE SUBJECT. IT'S CONTROVERSIAL. IT SHOULD BE CONSIDERED. THE VIEWS I GIVE ARE MY OWN.

SHOULD THE HOST COUNTRY REQUIRE AN INVESTOR TO SELL PART OF HIS BUSINESS TO NATIONALS AS A CONDITION FOR INVESTING?

MY ANSWER IS THAT IT MOST EMPHATICALLY SHOULD NOT.

- REPUTE IN INVESTOR'S OWN COMMUNITY
- INNOVATIVENESS OF INVESTOR
- INVESTOR'S EMPLOYMENT PRACTICES
- FINANCIAL STRENGTH AND STABILITY

LOCAL PARTICIPATION SHOULD BE OPTIONAL. SOME INVESTORS WILL WANT IT AND WILL, IN FACT, SEEK IT. SOME WILL NOT. THOSE WHO DO NOT ARE NEITHER GREEDY, CHAUVINISTIC, NOR SELF-CENTERED. THEY SIMPLY KNOW THEIR PARTICULAR BUSINESSES CAN OPERATE MOST EFFECTIVELY ONLY IF THERE IS SOLE CONTROL. WHAT SORTS OF BUSINESS MIGHT THESE BE?

MOST LIKELY ONE BASED ON A RAPIDLY CHANGING TECHNOLOGY. TO BE EFFECTIVE SUCH A BUSINESS MUST BE ABLE TO CHANGE ITS LINE OF PRODUCTS RAPIDLY. CAPITAL EQUIPMENT WHICH BECOMES OBSOLESCENT RAPIDLY MUST BE REPLACED PROMPTLY. EXPATRIATES OF VARIED SKILLS MUST BE MOVED IN AND OUT QUICKLY. IF EXPATRIATE INTERESTS IN SUCH A BUSINESS HAD TO NEGOTIATE WITH LOCAL PARTNERS EACH TIME SUCH CHANGES WERE TO BE MADE WHAT THE COST WOULD BE, WHY SEEMINGLY COMPETENT PERSONNEL WERE BEING MOVED, WHY PRODUCTS WERE TO BE CHANGED AND THE LIKE, THE BUSINESS WOULD BECOME HOPELESSLY BOGGED DOWN. ULTIMATELY IT WOULD FAIL. WHICH, OF COURSE, IS THE LAST THING THE HOST COUNTRY WANTS.

DOES THIS MEAN THAT NATIONALS OF THE HOST COUNTRY ARE NEVER TO ENGAGE ON THEIR OWN SUCH BUSINESSES? IT DOES NOT. AS A PRACTICAL MATTER, HOWEVER, IT MUST BE REMEMBERED THAT THERE'S NO SUCH THING AS INSTANTANEOUS SUCCESS IN A COMPLICATED BUSINESS. A BUSINESS MUST BE LEARNED OVER A PERIOD OF TIME. SKILLS, BOTH TECHNICAL AND MANAGERIAL, MUST BE ACQUIRED. THAT TAKES TIME AND REAL HARD EFFORT. AS A WISE TUTOR ONCE SAID TO AN IMPATIENT PRINCE, "THERE'S NO ROYAL ROAD TO KNOWLEDGE."

I DO NOT CLAIM SUCH AN EXPATRIATE INVESTOR IS SOME SORT OF A SUPERMAN. THE FACT IS, HOWEVER, THAT HE HAS DEVELOPED SOMETHING. IT WILL BE TO NO ONE'S ADVANTAGE TO TRY TO FORCE HIM TO OPERATE IN A WAY THAT CAN ONLY BE DISADVANTAGEOUS. I CAN ASSURE YOU THERE ARE MANY PEOPLE IN THIS ROOM WHO IF THEY, OR THEIR RELATIVES, WERE FORCED TO SELL PART OF THEIR BUSINESS TO ME JUST COULDN'T OPERATE IT THEREAFTER AS EFFECTIVELY. IF THEY WERE FORCED TO SELL CONTROL OF THEIR BUSINESS TO ME, THE RESULT WOULD VERY LIKELY BE A DISASTER.

THERE ARE, OF COURSE, MANY INVESTORS WHO WOULD WELCOME, QUITE LIKELY WOULD SEEK, LOCAL PARTICIPATION, MAJORITY OR OTHERWISE. THESE WOULD BE IN BUSINESSES WHICH CAN BE EXPECTED TO OPERATE IN MUCH THE SAME WAY FOR MANY YEARS, FOR EXAMPLE, A SHOE FACTORY. BASICALLY, METHODS OF PRODUCTION CONTINUE THE SAME. SOME STYLES OF SHOES WILL CONTINUE TO BE SOLD FOR YEARS. WHOEVER HEARD OF A SHOE FACTORY WHICH PRODUCED A SHOE THAT WAS SOLD INITIALLY FOR \$100 AND PERHAPS FOR \$20 A YEAR OR SO LATER? YET THAT WAS THE CASE WITH HAND HELD ELECTRONIC CALCULATORS.

I BELIEVE A COUNTRY IS MAKING A TREMENDOUS MISTAKE WHEN IT TRIES TO FORCE NATIONAL PARTICIPATION ON ALL PROSPECTIVE INVESTORS. IF WE HAD THE TIME, WE COULD EXAMINE MANY INSTANCES WHERE IT HAD BEEN TRIED. WE WOULD FIND THAT FOREIGN INVESTMENT HAD SLACKED OFF TO THE DETRIMENT OF THE HOST COUNTRY.

IN THE FINAL ANALYSIS, FACED WITH FORCED PARTICIPATION MANY POTENTIAL INVESTORS WILL JUST INVEST ELSEWHERE. THIS IS NOT

BECAUSE THEY HAVE ANYTHING INHERENTLY AGAINST THE COUNTRY WHICH WOULD FORCE LOCAL PARTICIPATION. THEY MIGHT, IN FACT, LIKE VERY MUCH TO ESTABLISH THERE. HOWEVER, THEY KNOW THAT FORCED PARTICIPATION WILL LESSEN THEIR PROFITS SINCE THEIR BUSINESS WILL BE UNABLE TO OPERATE AS EFFECTIVELY. AS I SAID EARLIER A COMPANY MUST MAKE PROFITS. THAT'S BASIC. I WOULD URGE FORCED LOCAL PARTICIPATION NOT BE THE LAW.

IV

**ANALYSIS OF SEVEN ACTUAL INVESTMENTS OVERSEAS
CASE STUDIES OF SUCCESS AND FAILURE**

WE'VE BEEN TALKING AT LENGTH ABOUT WHAT SHOULD BE THE CASE. NOW LET'S LOOK AT WHAT IS ACTUALLY HAPPENING. I'LL START WITH A GENERAL ANALYSIS OF FREE ZONE AND FOREIGN INVESTMENT LAWS AND THEN DISCUSS IN SOME DETAIL SEVERAL OF OUR OFFSHORE OPERATIONS.

WE HAVE EXAMINED SUMMARIES OF FREE ZONE LAWS IN 21 COUNTRIES IN VARIOUS PARTS OF THE WORLD. IN SOME PLACES, SUCH AS PANAMA, THE FREE ZONE IS OF MAJOR IMPORTANCE AND HAS HAD GREAT SUCCESS. IN OTHERS, SUCH AS JAPAN, WHICH HAS A SMALL FREE ZONE IN OKINAWA, THE FREE ZONE IS OF MINIMAL IMPORTANCE.

IN ANALYZING THESE VARIOUS FREE ZONES, WE HAVE TRIED TO LOOK AT:

BENEFITS GRANTED TO THE INVESTOR
TYPES OF COMPANIES WHICH OPERATE THERE
TYPES OF ACTIVITIES WITHIN THE FREE ZONE
WHETHER A CLASSIC OR ALL PURPOSE FREE ZONE IS USED
LOCATIONS OF FREE ZONES
OCCUPANCY TERMS

IT'S DIFFICULT TO GET CURRENT, COMPLETE INFORMATION ON A SUBJECT SUCH AS THIS. THEREFORE, I SUGGEST MY COMMENTS BE REGARDED AS GENERALLY CORRECT--WHICH I BELIEVE THEY ARE--RATHER THAN AS ABSOLUTELY ACCURATE DOWN TO THE DAY BEFORE THIS SEMINAR STARTED--WHICH THEY MAY NOT BE.

THE COUNTRIES WHICH WE EXAMINED WERE: EGYPT, LEBANON, INDIA, INDONESIA, JAPAN, MALAYSIA, PHILIPPINES, TAIWAN, THAILAND,

AUSTRIA, GREECE, IRELAND, SPAIN, SWITZERLAND, BRAZIL, CHILE, COLOMBIA, ECUADOR, MEXICO, PANAMA AND URUGUAY. YOU HAVE, OF COURSE, HEARD EXCELLENT PRESENTATIONS ON IRELAND AND THE PHILIPPINES. IN A MOMENT I'LL GET TO OUR EXPERIENCES AT SEVEN LOCATIONS.

AS MIGHT BE SUPPOSED, A WIDE RANGE OF BENEFITS ARE GRANTED. GENERALLY SPEAKING, GOODS CAN MOVE INTO AND OUT OF A FREE ZONE OTHER THAN TO THE HOST COUNTRY, WITHOUT PAYMENT OF IMPORT OR EXPORT DUTIES. A FEW COUNTRIES, E.G. EGYPT, CHARGE A NOMINAL FEE ON IMPORT AND EXPORT ABROAD TO AND FROM THE FREE ZONE. MESSRS. QUIGLEY AND PENA HAVE TOLD YOU OF THE COMPANIES WHICH OPERATE UNDER IRELAND'S AND THE PHILIPPINES' FREE ZONE LAWS. THESE CERTAINLY ARE A VERY REPRESENTATIVE SAMPLING. FOR THE MOST PART, LIGHT INDUSTRY SEEMS TO HAVE FOUND OPERATING WITHIN A FREE ZONE MORE PRACTICAL THAN HAS HEAVY INDUSTRY.

THE TYPES OF OPERATIONS CONDUCTED IN FREE ZONES, AS MESSRS. QUIGLEY AND PENA HAVE MENTIONED, ARE ALMOST ENDLESS--ELECTRONICS, TAPE RECORDERS, RADIOS, ATHLETIC (BASEBALL) EQUIPMENT (OKINAWA), CHEMICALS, RUBBER MANUFACTURING, CLOTHING, TOY MAKING, METAL FABRICATION, FURNITURE, FOOD PROCESSING, AND PHOTOGRAPHY PROCESSING JUST TO MENTION BUT A FEW.

IN 16 OF THE COUNTRIES WE EXAMINED, ONLY FREE ZONES IN RESTRICTED AREAS WERE PERMITTED; IN FIVE AN INDEPENDENT FREE ZONE COULD BE ESTABLISHED ANYWHERE. OCCUPANCY RENTALS IN RESTRICTED AREA FREE ZONES RANGED FROM \$6.60 TO \$9.68 (U.S.) PER SQUARE METER PER YEAR.

I BELIEVE IT'S INTERESTING TO SEE HOW A PARTICULAR COUNTRY WOULD TAX AN INVESTOR WHO OPERATED, (A) UNDER ITS FOREIGN INVESTMENT LAW, (B) UNDER ITS FREE ZONE LAW, AND (C) WHO SOUGHT TO OPERATE WITH THE BENEFITS OF NEITHER. SINCE EGYPT IS THE HOST OR OUR MEETING, LET'S EXAMINE ITS LAWS. (SLIDE 20 A + B)

ARTICLE 16 OF LAW 43 OF 1974 OFFERS QUITE BROAD TAX INCENTIVES: PROFITS ARE EXEMPT FROM THE COMMERCIAL AND INDUSTRIAL PROFITS TAX AND RELATED TAXES; SHARES ARE EXEMPT FROM STAMP DUTY AND THE TAX ON THE REVENUES FROM MOVABLE CAPITAL AND RELATED TAXES. THESE EXEMPTIONS ARE GIVEN FOR FIVE YEARS FROM THE FIRST TAX PERIOD FOLLOWING COMMENCEMENT OF PRODUCTION OR ENGAGEMENT OF ACTIVITIES. THESE EXEMPTIONS ALSO APPLY FOR FIVE YEARS TO PROFITS WHICH ARE REINVESTED IN THE ENTERPRISE. (HOWEVER, TAX EXEMPTIONS ARE GRANTED ONLY IF THE INVESTOR'S PROFITS ARE NOT SUBJECT TO TAX BY ANOTHER COUNTRY.) FURTHER, IF THE COUNCIL OF MINISTERS APPROVES, THESE EXEMPTIONS CAN BE GRANTED FOR EIGHT RATHER THAN FIVE YEARS.

IF INSTEAD AN INVESTOR QUALIFIES FOR EGYPT'S FREE ZONE LAW, ARTICLE 46 OF LAW 43 WOULD APPLY. (SLIDE 21)

FREE ZONE PROJECTS ARE EXEMPT FROM EGYPT'S TAX LAWS. THERE IS, HOWEVER, EITHER AN ANNUAL CHARGE OF ONE PERCENT OF THE VALUE OF GOODS ENTERING OR LEAVING THE FREE ZONE, OR IF A PROJECT DOES NOT REQUIRE AS A MAJOR ACTIVITY INGRESS OR EGRESS OF COMMODITIES, AN ANNUAL DUTY CHARGE OF NOT MORE THAN 3% OF THE ANNUAL VALUE ADDED.

ARTICLE 16 LAW 43 OF 1974

WITHOUT PREJUDICE TO MORE FAVORABLE TAX EXEMPTIONS PROVIDED FOR IN ANY OTHER LAW, THE PROFITS OF PROJECTS SHALL BE EXEMPTED FROM TAX ON COMMERCIAL AND INDUSTRIAL PROFITS AND THE TAXES APPENDENT THERETO AND, LIKEWISE, THE SHARES SHALL BE EXEMPTED FROM THE PROPORTIONAL STAMP DUTY AND FROM THE TAX ON THE REVENUES FROM MOVABLE CAPITAL AS WELL AS THE TAXES APPENDENT THERETO, SUCH EXEMPTIONS TO BE FOR A PERIOD OF FIVE YEARS FROM THE FIRST TAX YEAR FOLLOWING COMMENCEMENT OF PRODUCTION OR ENGAGEMENT IN ACTIVITIES, AS THE CASE MAY BE. SUCH EXEMPTION SHALL APPLY FOR THE SAME PERIOD TO THE PROCEEDS OF THE PROFITS WHICH ARE REINVESTED IN THE ENTERPRISE.

THESE EXEMPTIONS SHALL REMAIN APPLICABLE ONLY AS LONG AS THE PROFITS OF THE PROJECTS ARE NOT, AS A CONSEQUENCE SUBJECT TO TAXATION IN THE FOREIGN INVESTOR'S HOME COUNTRY OR IN ANY OTHER COUNTRY.

ARTICLE 16 LAW 43 OF 1974

ON THE PROPOSAL OF THE AUTHORITY'S BOARD OF DIRECTORS, APPROVED BY THE COUNCIL OF MINISTERS, THE PERIOD OF EXEMPTION MAY LAST FOR EIGHT YEARS PROVIDED SUCH PERIOD IS REQUIRED BY CONSIDERATION OF PUBLIC INTEREST IN VIEW OF THE NATURE OF THE PROJECT, ITS GEOGRAPHICAL LOCATION, ITS IMPORTANCE TO ECONOMIC DEVELOPMENT, THE VOLUME OF ITS CAPITAL, AND THE EXTENT TO WHICH IT PARTICIPATES IN EXPLOITING NATURAL RESOURCES AND INCREASING EXPORTS.

ALSO, BY DECREE OF THE PRESIDENT OF THE REPUBLIC ON THE PROPOSAL OF THE AUTHORITY, THE MACHINERY, EQUIPMENT AND TRANSPORTATION EQUIPMENT NECESSARY FOR THE PROJECTS UNDER THE PROVISIONS OF THIS LAW MAY BE EXEMPTED FROM TAXES, CUSTOMS, DUTIES, AND ANY OTHER TAXES AND DUES.

ARTICLE 46 LAW 43 OF 1974

WITHOUT PREJUDICE TO THE PROVISIONS OF THIS LAW, PROJECTS CREATED IN THE FREE ZONE SHALL BE EXEMPTED FROM THE PROVISIONS OF TAX LAWS IN THE ARAB REPUBLIC OF EGYPT.

NEVERTHELESS SUCH PROJECTS SHALL BE SUBJECT TO AN ANNUAL DUTY OF ONE PERCENT OF THE VALUE OF GOODS ENTERING THE FREE ZONE OR LEAVING THEREFROM FOR THE ACCOUNT OF THE PROJECT. LIKEWISE PROJECTS, THE MAJOR ACTIVITIES OF WHICH DO NOT REQUIRE INGRESS OR EGRESS OF COMMODITIES, SHALL BE SUBJECT TO AN ANNUAL DUTY TO BE FIXED BY THE BOARD OF DIRECTORS OF THE AUTHORITY WITH DUE CONSIDERATION TO THE NATURE AND VOLUME OF ACTIVITIES NOT EXCEEDING THREE PERCENT OF THE ANNUAL VALUE ADDED OF THE PROJECT.

LASTLY, HOW WOULD AN INVESTOR BE TAXED WHO COULD NOT AVAIL HIMSELF OF EITHER PROVISION OF ARTICLE 43? (SLIDE 22) SHOWS THE TAX HE WOULD PAY. I'M NOT SURE HOW DIVIDENDS WOULD BE TAXED FOR A NEW INVESTOR, BUT AS A PRACTICAL MATTER, I DOUBT THE PROBLEM WOULD EVER COME UP.

I MAKE MENTION OF A NON-PREFERENTIAL INVESTMENT ONLY TO SHOW THE TAX SAVINGS WHICH EGYPT WOULD GRANT TO AN INVESTOR WHO CAN QUALIFY UNDER LAW 43. SIMILAR RESULTS WOULD OCCUR WERE WE TO EXAMINE OTHER COUNTRIES HAVING INVESTMENT INCENTIVE LAWS.

I NOW WANT TO DISCUSS SEVERAL OF TEXAS INSTRUMENTS' EXPORT ORIENTATED INVESTMENTS. SO THAT YOU MAY HAVE THE BENEFIT OF OUR EXPERIENCES, I SHALL BE CRITICAL IN SOME RESPECTS--THOUGH I HASTEN TO ADD THAT WE HAVE GENERALLY BEEN QUITE SATISFIED WITH OUR INVESTMENTS ABROAD. I SHALL REFER TO THE VARIOUS SITES AS A, B, C, D, E, AND F. ACTUAL LOCATIONS ARE UNIMPORTANT SINCE THE PURPOSE OF THIS SEMINAR IS NOT TO ADVISE YOU WHERE TO INVEST BUT RATHER TO POINT OUT THINGS YOU MIGHT WANT TO CONSIDER WHEN ESTABLISHING A FOREIGN INVESTMENT PROGRAM.

IN THE LATE 1960's TEXAS INSTRUMENTS BEGAN ESTABLISHING LABOR-INTENSIVE EXPORT MANUFACTURING ACTIVITIES IN A NUMBER OF STRATEGIC LOCATIONS. OUR PURPOSE WAS TO SUPPLY THE WORLD MARKET WITH COMPETITIVELY PRICED INTEGRATED CIRCUITS AND OTHER SEMICONDUCTOR COMPONENTS. INVESTMENT DECISIONS WERE MADE ONLY AFTER CAREFUL STUDY OF THE MANY FACTORS WHICH BEAR ON THE SOUNDNESS, COST EFFECTIVENESS AND SAFETY OF AN INVESTMENT.

FIRST LET'S LOOK AT SEVERAL EXAMPLES.

NON-PREFERENCE TAXATION

- **INCOME TAX - ABOUT 40%**
- **INVESTMENT IN GOVERNMENT BONDS -
5% OF ANNUAL NET PROFITS**
- **DIVIDEND LIMITATION -
1958 DIVIDEND DISTRIBUTION PLUS 10%**

SITE A. HAS GROWN TO 3-4 THOUSAND EMPLOYEES. ITS OPERATIONS HAVE REMAINED COMPETITIVE IN THE WORLD MARKET. THE HOST GOVERNMENT CONTINUES TO PUSH ITS FOREIGN INVESTMENT PROGRAM. OUR EMPLOYEES HAVE INCREASED THEIR PRODUCTIVITY LEVELS. WE HAVE A TAX HOLIDAY FOR TEN YEARS. WE THEN WILL BECOME ENTITLED TO A REDUCED TAX RATE BASED ON THE EXPORT PERCENTAGE OF OUR OUTPUT. SINCE ALL PRODUCTS ARE EXPORTED, WE PAY A MINIMAL TAX. THERE ARE NO DUTIES ON IMPORTS. CAPITAL AND PROFITS CAN BE REPATRIATED FREELY. EXCHANGE CONTROL APPROVAL IS READILY GIVEN. ALIENS MAY ONLY LEASE LAND, BUT THE GOVERNMENT GRANTS MOST ATTRACTIVE TERMS. EXPATRIATES AS NEEDED MAY BE EMPLOYED. THIS SITE HAS WORKED OUT EXTREMELY WELL. AS A RESULT, BENEFITS HAVE FLOWED TO BOTH THE HOST COUNTRY AND OURSELVES.

WHAT CAN ONE CONCLUDE HERE? OPERATIONS AT THIS SITE BEGAN AND CONTINUED AT A RAPID PACE. THE GOVERNMENT HAS BEEN HIGHLY COOPERATIVE AT ALL TIMES. IT HAS A SINGLE ADMINISTRATIVE AGENCY TO DEAL WITH INVESTORS. THE AGENCY IS FAIR YET PROTECTS THE GOVERNMENT AT ALL TIMES. SINCE THE PEOPLE WHO RUN THE AGENCY UNDERSTAND BUSINESS' PROBLEMS, THEY CAN DO THIS WITHOUT HARRASSING THE INVESTOR.

THE GOVERNMENT HERE HAD A POPULATION PROBLEM. THAT IS, MANY PEOPLE IN A SMALL AREA. ITS AIM WAS TO ATTRACT BUSINESS SO THAT JOBS COULD BE CREATED AND THE COMMUNITY COULD BE DEVELOPED. IT HAS SUCCEEDED MAGNIFICENTLY. BY 1974 INVESTORS HAD INVESTED OVER \$1 BILLION. IT IS REGARDED AS A VERITABLE SHOWPLACE. IN OUR OWN ORGANIZATION NATIONALS HAVE MOVED INTO RESPONSIBLE JOBS IN ALL ASPECTS OF OUR OPERATION. WE WANT AND EXPECT FURTHER DEVELOPMENT ALONG THESE LINES.

THE GOVERNMENT WORKED AT ITS PROGRAM FROM THE OUTSET AND IT HAS CONTINUED TO DO SO. IT HAS ATTRACTED TOP-NOTCH COMPANIES. AND, IT HAS KEPT THEM.

SITE B. ALSO HAS 3-4 THOUSAND EMPLOYEES. THE HOST COUNTRY'S LAWS PROVIDE FOR REPATRIATION OF EARNINGS AND CAPITAL UNDER REASONABLE CONDITIONS, THERE'S A LONG-TERM GUARANTEE AGAINST EXPROPRIATION; AN INVESTOR'S BOARD OF DIRECTORS CAN BE OF ANY NATIONALITY. AN INCOME TAX HOLIDAY OF UP TO TEN YEARS IS POSSIBLE. OTHER TAXES ARE ELIMINATED OR REDUCED. IMPORTATION OF EQUIPMENT AND MATERIALS IS DUTY FREE (TECHNICALLY OUR PLANT IS A BONDED WAREHOUSE FOR THIS PURPOSE). AN INVESTOR MAY SITUATE HIS PLANT ANYWHERE.

SITE B WOULD SUFFER IN COMPARISON WITH A, HOWEVER, BECAUSE ITS ADMINISTRATIVE PROCEDURES ARE SOMEWHAT GREATER. REGULATIONS HAVE ALSO BEEN CHANGED FREQUENTLY. INTERPRETATIONS ARE NOT ALWAYS CONSISTENT. MINUTE DETAIL IS OFTEN REQUIRED IN MATTERS THAT SEEMINGLY DON'T WARRANT IT. EXCHANGE CONTROL APPROVAL IS SLOW-- YET EVENTUALLY FORTHCOMING. THE NET RESULT OF ALL THIS IS THAT OUR OVERHEAD COSTS IN COMPLYING WITH ADMINISTRATIVE PROCEDURES ARE GREATER SINCE MANY APPROVALS ARE NEEDED, TECHNOLOGICAL CHANGES HAVE TO BE PLANNED IN ADVANCE. IN THE FINAL ANALYSIS, ALL THIS REDUCES THE SITE'S EFFECTIVENESS IN THE WORLD MARKET.

WHAT MAY ONE CONCLUDE HERE? THAT ATTRACTIVE BENEFITS WILL INDUCE INVESTORS TO LOCATE IN A COUNTRY. ALSO, THAT AN OVER-EMPHASIS ON CONTROLS AND COLLECTING INFORMATION WILL NOT NECESSARILY RESULT IN TRUE BENEFITS TO THE HOST COUNTRY. THE

ADMINISTRATIVE PROCESS MUST FACILITATE THE INVESTMENT PROGRAM, NOT LESSEN ITS EFFECTIVENESS. AS IT IS NOW, IF WE HAVE A CHOICE BETWEEN PUTTING SOMETHING NEW INTO "A" OR "B", ALL OTHER THINGS BEING EQUAL, "A" WILL BE THE CHOICE. WE KNOW WE CAN MOVE QUICKLY THERE AND BE MORE COMPETITIVE.

ANYONE WOULD CONCLUDE THAT COUNTRY B'S PROGRAM HAS ATTRACTED A WIDE VARIETY OF INDUSTRY. BY AND LARGE THEY ARE GOOD COMPANIES. JOBS HAVE BEEN CREATED. COUNTRY B, HOWEVER, REALLY COULD GAIN MORE THAN IT HAS BY SIMPLIFYING ITS ADMINISTRATIVE PROCEDURE.

SITE C. HERE WE WERE A PIONEER. WE HELPED THE HOST COUNTRY WORK OUT HOW IT WOULD APPLY ITS FOREIGN INVESTMENT LAW. A SET OF CONDITIONS WERE AGREED. THEY PROTECTED THE ESSENTIAL INTERESTS OF THE GOVERNMENT WHILE GRANTING THE INVESTOR MAXIMUM OPERATIONAL EFFICIENCY AND COST EFFECTIVENESS. SPECIAL TREATMENT WAS PROVIDED FOR PROCESSING IMPORTS AND EXPORTS WHICH KEPT COSTS AT A MINIMUM BOTH FOR THE GOVERNMENT AND THE INVESTOR. BASICALLY, THE INVESTOR BECAME RESPONSIBLE FOR CONTROLLING THE FLOW OF HIS MATERIALS. THE GOVERNMENT MAKES PERIODIC AUDITS TO VERIFY NO IMPROPER PRACTICES ARE BEING USED. THIS HAS WORKED VERY WELL.

THE INVESTOR HAS THE OPTION OF ESTABLISHING HIS BUSINESS ANY PLACE WITHIN THE COUNTRY. TAX EXEMPTION IS GRANTED FOR TEN YEARS, EXCEPT FOR A MINIMAL STAMP TAX. THE GOVERNMENT ASSISTED IN HIRING AND IN THE PRE-INDUSTRIAL TRAINING OF SEVERAL THOUSAND EMPLOYEES. FINANCING SUPPORT WAS PROVIDED AT FAVORABLE RATES. FOREIGN EXCHANGE TRANSACTIONS ARE FREELY ALLOWED.

THE HOST COUNTRY MAKES EVERY EFFORT TO ASSIST IN MINIMIZING PRODUCTION COSTS. THIS ALLOWS THE INVESTOR'S PRODUCTS TO BE COST COMPETITIVE IN THE WORLD MARKET. OPERATIONS HAVE GROWN. IT HAS, WE FEEL, MET BOTH THE GOVERNMENT'S AND OUR OWN EXPECTATIONS.

SUBSEQUENTLY, THE GOVERNMENT OPENED AN ALL PURPOSE FREE ZONE NEAR ITS MAJOR AIRPORT. IT HAS ATTRACTED MANY INVESTORS. THEY RECEIVE A TEN YEAR TAX HOLIDAY AND MANY INDIRECT BENEFITS. PROFITS FROM THE FREE ZONE CAN ALSO BE REMITTED TAX FREE WITH NO RESTRICTIONS.

HERE I FEEL ONE CAN CONCLUDE THAT A COUNTRY AND AN INVESTOR CAN WORK OUT A PROGRAM WHICH WILL BE BENEFICIAL TO EACH PROVIDED EACH RECOGNIZES WHAT THE OTHER WISHES TO RECEIVE FROM THE PROGRAM. AND, OF COURSE, IF THAT WHICH IS SOUGHT IS REASONABLE. SITE C ALSO POINTS UP HOW NECESSARY CONTINUING COOPERATION IS. PROGRAMS JUST DO NOT RUN THEMSELVES. THE HOST GOVERNMENT AND THE INVESTOR MUST EXERT A SUSTAINED EFFORT TO COPE WITH CHANGES TO ENSURE THAT THE PROGRAM'S EFFECTIVENESS IS ENHANCED, NOT DIMINISHED.

I NOW TURN TO SIDE D, AN INVESTMENT WHICH BECAME A FAILURE. THIS WAS A MOST FRUSTRATING EXPERIENCE, PARTICULARLY SINCE OPERATIONS HERE WENT VERY WELL AT THE OUTSET.

SITE D BEGAN OPERATIONS UNDER THE BEST POSSIBLE TAX ARRANGEMENT--THE HOST COUNTRY GRANTED A TAX HOLIDAY FOR TEN YEARS, AND THERE WAS THEN ESPECIALLY FAVORABLE UNITED STATES TAX TREATMENT. PRODUCTS FROM SITE D WERE ELIGIBLE FOR ENTRY INTO A LARGE COMMON MARKET AT PREFERRED RATES. THIS GAVE

THE SITE EXCEPTIONAL FLEXIBILITY IN DISTRIBUTING ITS PRODUCTS. THE HOST COUNTRY OFFERED TRAINING SUBSIDIES. LABOR COSTS WERE RELATIVELY LOW.

AFTER SEVERAL YEARS OF GOOD OPERATIONS LABOR TROUBLES DEVELOPED DUE TO THE INTRODUCTION OF MILITANT LEADERS INTO THE UNIONS AND GOVERNMENT. SUBSEQUENTLY, THE GOVERNMENT BECAME LESS COOPERATIVE WITH BUSINESS. AS A FINAL BLOW THE TRADE MARKET PREFERENCE WAS LOST. WE WERE FINALLY FORCED TO CLOSE THE SITE. A POTENTIAL FOR 2,000 JOBS WAS LOST.

WHAT MIGHT ONE FAIRLY CONCLUDE?

1. THAT FOREIGN INVESTMENT PROGRAMS DO NOT RUN THEMSELVES AUTOMATICALLY. HERE'S ONE THAT BEGAN UNDER PERHAPS THE MOST AUSPICIOUS OF CIRCUMSTANCES OF ANY OF OUR SITES. IT ULTIMATELY COLLAPSED.
2. THAT ANY OF SEVERAL FACTORS CAN CAUSE THIS:
 - A. GOVERNMENT POLICIES MUST BE CONSISTENT. ACTIONS WHICH MAY MAKE BUSINESS OPERATIONS DIFFICULT MUST BE CAREFULLY WEIGHED.
 - B. THE INVESTOR MUST PAY CLOSE ATTENTION TO COMMUNICATIONS WITH THE LABOR FORCE IN THE LOCAL PLANT.
 - C. LABOR UNIONS SHOULD TRY TO RECONCILE DIFFERENCES RATHER THAN SEEK TO ENHANCE THEIR POWER THROUGH A DISPUTE.
3. THAT WHEN AN INVESTOR SHUTS DOWN, EVERYONE LOSES-- NOBODY WINS.

WE KNOW WE LEARNED SOMETHING FROM OUR EXPERIENCES AT SITE D. WE TRUST THAT FOR ITS OWN SAKE, THE HOST COUNTRY DID, TOO.

SITE E. THIS OPERATION HAS, LIKE SITE B, BEEN HAMPERED BY GOVERNMENT ADMINISTRATIVE PROCEDURES. THE PRINCIPAL INCENTIVE OFFERED BY THE HOST COUNTRY IS TO PERMIT EXPORT INCOME TO OFFSET LOCAL INCOME IN COMPUTING INCOME TAXES. SINCE WE SERVE BOTH LOCAL AND EXPORT MARKETS AT THIS SITE, THIS WAS AN INDUCEMENT. ALSO, CERTAIN EXCISE TAXES ARE ELIMINATED. LIMITED LOW-COST CREDIT IS AVAILABLE. REMITTANCE TAXES ARE PROHIBITIVE. CURRENCY CONTROLS ARE TIGHT. THIS SITE HAS MORE OR LESS LIMPED ALONG. IT HAS EMPLOYED NO WHERE NEAR ITS POTENTIAL. UNTIL THE GOVERNMENT REALIZES ITS PROGRAM IS BASICALLY INEFFECTIVE, CAUSING PRODUCTS FROM "E" NOT TO BE COMPETITIVE IN THE WORLD MARKET AND REVAMPS IT, THIS SITE WILL NEVER REACH THE LEVEL IT WELL COULD.

WHAT MAY ONE CONCLUDE HERE? THAT A COUNTRY SHOULD HAVE A SINGLE DEPARTMENT RESPONSIBLE FOR ATTRACTING INVESTORS AND THEN ADMINISTERING THE COUNTRY'S PROGRAM. SHEER ATTRACTIVENESS OF A LOCALE WILL DRAW INVESTORS. BUT, ATTRACTIVENESS AND A COUNTRY'S POTENTIAL CAN ONLY CARRY MATTERS SO FAR. THE INVESTOR WILL MAKE A MINIMUM INVESTMENT (IF, IN FACT, HE DOES INVEST) AND THEN WAIT AND SEE WHAT DEVELOPS. AS A RESULT THE HOST DOES NOT EVEN BEGIN TO REAP THE BENEFITS IT HAD EXPECTED FROM ITS PROGRAM. AND, OF COURSE, THE INVESTOR MAY BE LUCKY TO BREAK EVEN.

SITE F. THE HOST COUNTRY GRANTS TEN YEAR TAX HOLIDAYS, THE LAST THREE YEARS OF WHICH ARE PROVISIONAL. THE INVESTOR MUST THEN OPERATE IN A DEVELOPMENT AREA AND MAKE A PRIORITY PRODUCT HAVING AT LEAST 50% LOCAL CONTENT. IMPORTATION OF EQUIPMENT AND RAW MATERIALS ARE DUTY FREE. LAND AND INDUSTRIAL BUILDINGS CAN BE LEASED ON FAVORABLE TERMS FROM A QUASI-GOVERNMENT AGENCY. COUNTRY F HAS AS ITS POLICY THAT LATE IN THIS CENTURY MOST BUSINESSES WILL BE AT LEAST 70% NATIONALLY OWNED. TWO RECENT LAWS AIMED AT PROMOTING THIS POLICY HAVE CAUSED INVESTORS CONCERN. THIS CHANGE OF POLICY COULD, PARTICULARLY IF IT IS CONTINUED, BE DOUBLY HARMFUL TO "F". IT CAN EXPECT A DROP IN FOREIGN INVESTMENT AND THERE WILL BE LESS EXPANSION OF PRESENT INVESTMENTS THAN WOULD OTHERWISE HAVE BEEN THE CASE.

THE HOST COUNTRY ALSO MAKES EMPLOYMENT OF EXPATRIATES DIFFICULT. THIS INCREASES AN INVESTOR'S COSTS AND MAKES HIS PRODUCT LESS COST COMPETITIVE. THE GOVERNMENT HAS ALSO USED EXCHANGE CONTROL APPROVALS TO PUT PRESSURE ON INVESTORS TO MEET ITS DEMANDS IN OTHER AREAS.

ONE MAY CONCLUDE HERE THAT IF A HOST GOVERNMENT'S POLICY, WHICH AT THE OUTSET IS FAVORABLE TO INVESTMENT, CHANGES, INEVITABLY INVESTORS WILL START TAKING STEPS TO PROTECT THEIR INVESTMENT, I.E., TO REDUCE ANY ULTIMATE LOSS AS MUCH AS POSSIBLE. ONCE THIS OCCURS THE EFFECTIVENESS OF THE OPERATION IS REDUCED, AND, AS WE'VE SEEN, THE EXPECTATIONS OF THE INVESTMENT PROGRAM ARE NOT MET BOTH FOR THE HOST COUNTRY AND THE INDIVIDUAL INVESTOR.

SO FAR THIS COUNTRY'S PROGRAM HAS BEEN SUCCESSFUL. IT HAS SOUGHT TO ATTRACT INVESTORS. IT HAS GOTTEN THEM. THEY HAVE FURNISHED THE JOBS THE GOVERNMENT WANTED TO HAVE CREATED. BUT, NOW THE FUTURE IS CLOUDED.

WE HAVE ALSO OPERATED IN EGYPT'S FREE ZONE.

WE MADE APPLICATION ON 17 FEBRUARY 1973 THROUGH OUR PANAMA COMPANY--WHICH HAD FIRST OPERATED IN EGYPT IN 1954-- FOR PERMISSION TO ESTABLISH A SEISMIC DATA PROCESSING CENTER AS A FREE ZONE IN CAIRO. ON 20 MAY 1973 THE BOARD OF DIRECTORS OF THE GENERAL AUTHORITY FOR INVESTMENT IN FREE ZONES APPROVED OUR APPLICATION. FRANKLY, WE HAD NOT EXPECTED SUCH PROMPT ACTION. WE WERE EXTREMELY PLEASED.

UNFORTUNATELY, THE GEOPHYSICAL BUSINESS IS SENSITIVE TO WORLD BUSINESS CYCLES. IN MID-1973 WORLD CONDITIONS WERE UNSETTLED. IN OCTOBER 1973 WAR ERUPTED IN THE MIDDLE EAST. BY MAY, 1974, BUSINESS HAD STARTED TO PICK UP AND WE WERE ABLE TO PROCEED. WE THEN BEGAN TO LOOK FOR SUITABLE SPACE FOR OUR PROCESSING CENTER, A CONDITION FOR RECEIVING OUR LICENSE. AFTER WE FOUND IT, ON 15 SEPTEMBER 1974 THE GENERAL AUTHORITY GRANTED OUR LICENSE TO OPERATE AS A FREE ZONE COMPANY. OURS IS A SINGLE BUILDING, INDEPENDENT FREE ZONE. IT IS SUITABLY SECURED INSOFAR AS OUR IMPORTS AND EXPORTS ARE CONCERNED.

WE COMMENCED OUR OPERATIONS EARLY IN 1975. EXPATRIATE PERSONNEL OF MANY NATIONALITIES CAME TO CAIRO BASICALLY FROM

OUR BEIRUT CENTER WHICH, DUE TO THE CONDITIONS WE FORESAW THERE, WE CLOSED. OUR CAIRO CENTER STARTED WITH 46 EMPLOYEES, 25 OF WHOM WERE EGYPTIANS. THIS WAS IN KEEPING WITH OUR LONG-TIME POLICY OF HIRING AS MANY NATIONALS AS WE POSSIBLY CAN. WE WOULD LIKE NOTHING BETTER THAN FOR EACH LOCAL OPERATION TO BE STAFFED 100% BY NATIONALS. OF THE 21 EXPATRIATES WHO OPENED THE CAIRO PROCESSING CENTER, EIGHT WERE LEBANESE NATIONALS WHO ACCEPTED OUR OFFER TO CONTINUE TO WORK WITH US IN CAIRO.

HOW HAVE THINGS GONE SINCE? NOW, IN THE FIRST QUARTER OF 1977 WE HAVE 51 EMPLOYEES, OF WHOM 41 ARE EGYPTIANS. BY MID-YEAR WE EXPECT TO HAVE 56 EMPLOYEES--ABOUT 22% MORE THAN WE STARTED WITH--OF WHOM 47 WILL BE EGYPTIAN NATIONALS, ALMOST TWICE AS MANY AS WE STARTED WITH.

SEVERAL EGYPTIANS HAVE BECOME SUPERVISORS AND NINE HAVE BEEN PROMOTED FROM COMPUTER, A JOB CLASSIFICATION AND NOT A MACHINE AND OUR INITIAL ENTRY LEVEL, TO SEISMOLOGIST, DATA PROCESSING. FOUR EGYPTIANS HAVE BEEN SENT TO DALLAS AND CROYDON FOR ADVANCED TECHNICAL TRAINING; TWO MORE ARE SCHEDULED FOR SUCH TRAINING THIS YEAR. AS PART OF OUR CONTINUING TRAINING EFFORT WE HAVE HAD PERHAPS 50 EXPATRIATE EXPERTS VISIT CAIRO AND WORK WITH OUR EGYPTIAN NATIONALS IN ALL ASPECTS OF A PROCESSING CENTER'S OPERATIONS.

WE THINK THAT SINCE EGYPT'S UNIVERSITIES PRODUCE WELL-TRAINED GRADUATES, OUR GOAL OF REPLACING EXPATRIATES WITH EGYPTIAN NATIONALS SHOULD BE ACHIEVED. ALL THAT WILL BE NEEDED

IS TIME, FOR FINAL MANAGERIAL RESPONSIBILITY TO BE ASSUMED, AN EMPLOYEE MUST HAVE SUFFICIENT EXPERIENCE TO PERMIT HIM TO PERFORM FULLY THE JOB WHICH MUST BE DONE.

LASTLY, I WOULD NOTE THAT JUST AS WHEN WE OPENED OUR CAIRO CENTER WE BROUGHT MANY LEBANESE TO CAIRO TO GET IT STARTED, SO IF WE WERE NOW TO OPEN OTHER PROCESSING CENTERS IN THE MIDDLE EAST, WE WOULD EXPECT OUR CAIRO WORK FORCE TO FORM THE NUCLEUS FOR THOSE OPERATIONS. AND, OF COURSE, WE WOULD EXPECT IN THE NORMAL COURSE OF BUSINESS THAT SOME EGYPTIANS WOULD ELECT TO TRANSFER TO TAKE OPPORTUNITIES FOR ADVANCEMENT IN OUR PROCESSING CENTERS OUTSIDE THE MIDDLE EAST.

TO SUM UP, THEN, WHILE THERE WAS APPROXIMATELY A 23-MONTH LAPSE BETWEEN THE TIME WE MADE OUR ORIGINAL APPLICATION AND THE TIME WE COMMENCED OPERATIONS IN CAIRO, MOST OF THAT DELAY WAS DUE TO VARIOUS WORLD AND MARKET CONDITIONS WHICH PREVENTED OUR PROCEEDING AS RAPIDLY AS WE WOULD HAVE LIKED. SOME OF THE DELAY--A MINOR PART IN OUR OPINION--WAS DUE TO THE FACT THAT WE WERE ONE OF THE FIRST COMPANIES, IF NOT THE FIRST COMPANY, TO APPLY FOR FREE ZONE STATUS. AT THAT POINT, THE GENERAL AUTHORITY HAD NOT WORKED OUT ALL ITS INTERNAL PROCEDURES FOR PASSING ON APPLICATIONS. AT TIMES IT WAS DIFFICULT TO ASCERTAIN EXACTLY HOW WE WERE TO PROCEED, WHAT INFORMATION WAS REQUIRED OF US, AND WHAT DOCUMENTS WERE NEEDED.

HOWEVER, IN RETROSPECT THOSE DELAYS REALLY WERE WELL WITHIN THE TOLERANCES THAT WOULD BE EXPECTED OF AN ESSENTIALLY NEW OFFICE. WE HAVE ONLY THE HIGHEST OF PRAISE FOR THE GENERAL AUTHORITY. ANY DELAYS THAT RESULTED WERE BASICALLY OURS.

AS FAR AS WE'RE CONCERNED WE HOPE TO BE IN CAIRO FOR A LONG TIME. IT'S ALWAYS BEEN A PLEASURE TO WORK IN EGYPT. WE HAVE RECEIVED THE FULLEST COOPERATION FROM MINISTER OF PETROLEUM HELAL. HE ALWAYS FINDS TIME TO MEET WITH US, QUITE OFTEN ON SHORT NOTICE, AND OFFER SOUND ADVICE TO US AS TO HOW WE MIGHT BEST PROCEED. WE LOOK FORWARD TO MANY MORE YEARS OF WHAT HAS BEEN A VERY HAPPY WORKING RELATIONSHIP.

CONCLUSIONS AND RECOMMENDATIONS

BEFORE WE GET TO THE GENERAL DISCUSSION AND I ATTEMPT TO ANSWER YOUR QUESTIONS, I WANT TO OFFER SEVERAL CONCLUSIONS AND RECOMMENDATIONS FOR YOUR CONSIDERATION.

FIRST, AN ATTRACTIVE FREE ZONE/FOREIGN INVESTMENT LAW PROGRAM CAN BE EXTREMELY BENEFICIAL BOTH TO THE HOST COUNTRY AND TO THE INVESTOR. I HAVE NOTED THAT TO SOME EXTENT I THINK WE ARE ENGAGING IN SEMANTICS WHEN WE TRY TO DISTINGUISH A FREE ZONE PROGRAM AND A FOREIGN INVESTMENT PROGRAM. IN MANY COUNTRIES THEY ARE ONE AND THE SAME THING, BUT AS WE'VE SEEN SOME COUNTRIES DO TREAT THEM DIFFERENTLY.

IN ANY EVENT, AN EFFECTIVE PROGRAM, BE IT FREE ZONE, FOREIGN INVESTMENT LAW OR BOTH, CAN RESULT IN:

- A. EMPLOYMENT FOR NATIONALS
- B. DEVELOPMENT OF ADVANCED TECHNOLOGY AND MANAGERIAL SKILLS
- C. INCREASE IN EXPORTS WITH RESULTANT IMPROVEMENT OF BALANCE OF PAYMENTS
- D. BENEFIT TO LOCAL BUSINESSES THROUGH FURNISHING SUPPORT NEEDED BY NEW INVESTMENTS
- E. INCREASED REVENUES FOR GOVERNMENT
- F. ACCELERATION OF NATIONAL INFRASTRUCTURE DEVELOPMENT IN SUCH AREAS AS COMMUNICATIONS, TRANSPORTATION AND THE LIKE

THERE ARE FEW THINGS IN THIS WORLD THAT ARE SO ATTRACTIVE THEY SELL THEMSELVES. FOR A FOREIGN INVESTMENT PROGRAM TO SUCCEED,

IT MUST BE WELL PLANNED. THEN IT MUST BE SOLD. THE STRONGER A COUNTRY'S OVERSEAS INVESTMENT PROMOTION OFFICES ARE, THE BETTER ITS CHANCES FOR ATTRACTING INVESTMENT. PERHAPS THE BEST OF ALL SALES RECOMMENDATIONS COME FROM SATISFIED USERS - IN THIS INSTANCE INVESTORS. WORD OF MOUTH PRAISE FROM INVESTORS WHO HAVE ESTABLISHED OPERATIONS AND ARE PLEASED WITH THE CONDITIONS UNDER WHICH THEY OPERATE CAN BE OF THE GREATEST BENEFIT IN ATTRACTING OTHER INVESTORS. ONE OF THE FIRST THINGS WE DO WHEN WE ARE CONSIDERING INVESTING IN A NEW COUNTRY IS TO TALK WITH INVESTORS WHO ARE ALREADY OPERATING THERE. WE WOULD WANT THEIR VIEWS ON SUCH THINGS AS: (SLIDE 23 A + B)

TO BE ATTRACTIVE A FOREIGN INVESTMENT PROGRAM NEED ONLY BE REASONABLE. ON CLOSE EXAMINATION IT'S SURPRISING HOW MANY ARE NOT. BY "REASONABLE" I DON'T MEAN ONE THAT'S COMPLETELY ONE-SIDED IN FAVOR OF THE INVESTOR. FEW, IF ANY, BONA FIDE INVESTORS WOULD WANT, OR EXPECT, A HOST COUNTRY TO GIVE EVERYTHING AND RECEIVE NOTHING - EVEN WERE A HOST COUNTRY SO INCLINED. A BONA FIDE INVESTOR WOULD KNOW THAT WERE SUCH A PROGRAM TO BE ESTABLISHED, IT WOULD ULTIMATELY BE TO THE INVESTOR'S DISADVANTAGE.

A "REASONABLE" PROGRAM IS ONE THAT IS SIMPLE, SETS FORTH CLEARLY THE RULES PURSUANT TO WHICH THE INVESTOR WILL OPERATE, ESTABLISHES A PROCEDURE FOR ACTING PROMPTLY ON INVESTMENT APPLICATIONS AND WHICH GIVES EVERY INDICATION THAT IT WILL BE ADMINISTERED FAIRLY AND CONSISTENTLY. THAT THERE WILL BE STABILITY. A RULE OR REGULATION WHICH IS IMPOSED TODAY WILL NOT BE REVOKED

- POLITICAL AND ECONOMIC STABILITY
- SAFETY OF THE INVESTMENT
- CONDITIONS OF LAW AND ORDER
- ATTITUDE OF THE HOST GOVERNMENT AND ITS PEOPLE TOWARD FOREIGN INVESTORS
- OWNERSHIP RESTRICTIONS, IF ANY
- NON-INTERFERENCE OF THIRD PARTIES IN LABOR RELATIONS
- FREE AND UNRESTRICTED REPATRIATION OF CAPITAL AND PROFITS
- FREEDOM AND FLEXIBILITY OF FOREIGN EXCHANGE TRANSACTIONS
- EXEMPTION FROM INCOME TAXES, DIVIDEND REMITTANCE TAXES, DUTIES AND OTHER TAXES WHICH INCREASE PRODUCT COSTS IN THE WORLD MARKET WITHOUT ADDING INHERENT PRODUCT VALUE
- FLEXIBILITY AND EFFICIENCY OF IMPORT/EXPORT OPERATIONS

- **AVAILABILITY OF EXPORT FINANCING**
- **AVAILABILITY OF HUMAN RESOURCES CAPABLE OR TRAINABLE IN PRODUCTION OPERATIONS**
- **REASONABLE PAYMENT FOR TECHNOLOGY TRANSFER**
- **ABILITY TO EXPAND AND CONDUCT EXPORT PROJECT WITH MINIMUM BUREAUCRATIC BURDEN**
- **AVAILABILITY OF ADEQUATE INFRASTRUCTURE, UTILITIES, BUILDINGS, LAND AND OTHER PHYSICAL RESOURCES NEEDED TO ESTABLISH AN EFFICIENT EXPORT FACTORY**
- **MUTUAL RECOGNITION OF THE FACT THAT THE CUSTOMERS MAKING UP THE WORLD MARKET, COUPLED WITH COMPETITIVE MARKET FORCES, ARE THE BASIC DETERMINANT OF THE REQUIRED PRODUCT COST, PRODUCT QUALITY AND AVAILABILITY. THE HOST GOVERNMENT, THE EMPLOYEES AND THE INVESTOR MUST JOIN FORCES TO MEET THIS CHALLENGE IN ORDER TO MAXIMIZE THE EXPORT OUTPUT OVER A PERIOD OF TIME SUFFICIENT TO GENERATE A REASONABLE RETURN ON THE INVESTMENT**

AND REPLACED BY A RADICALLY DIFFERENT RULE OR REGULATION WITHIN A SHORT TIME.

DON'T DISTORT THE FREE ZONE/FOREIGN INVESTMENT LAW. ONCE IT HAS BEEN WRITTEN, ABIDE BY IT. DON'T INTERPRET TO CAUSE RESULTS - EVEN THOUGH THEY MIGHT BE DESIRABLE - THE LAW DOES NOT SPECIFICALLY PROVIDE FOR, WHY? BECAUSE ULTIMATELY NO GOOD COMES FROM TWISTING LAWS TO SUIT A PARTICULAR SITUATION. EVENTUALLY THERE'S BOUND TO BE A REACTION THAT WILL BE DISADVANTAGEOUS TO BOTH THE HOST COUNTRY AND THE INVESTOR FOR WHOM THE SPECIAL INTERPRETATION WAS MADE.

THIS IS NOT TO SAY THAT IF A LAW PROVES UNSATISFACTORY IN THAT IT RESTRICTS WHAT THERE WAS NO INTENTION TO RESTRICT OR DOES NOT PERMIT A DESIRED RESULT, NOTHING SHOULD BE DONE. THAT WOULD BE MADNESS. WHAT SHOULD BE DONE, THOUGH, IS NOT TO REACH THE DESIRED RESULT THROUGH A FORCED, STRAINED - AND, IN THE FINAL ANALYSIS - INCORRECT INTERPRETATION OF THE LAW. INSTEAD, THE LAW SHOULD BE AMENDED, OR A NEW LAW SHOULD BE WRITTEN SO THAT THE DESIRED RESULT CAN BE REACHED.

FREE ZONE AND FOREIGN INVESTMENT LAWS INVOLVE COMPLEX PROBLEMS. IT'S NOT EASY TO WRITE A SIMPLE, CONCISE LAW, BUT, IT CAN BE DONE. KNOWLEDGEABLE PEOPLE WITH PRACTICAL EXPERIENCE SHOULD BE CONSULTED WHEN THE LAWS ARE BEING WRITTEN. GIVEN THE AIMS OF THE HOST COUNTRY, SUCH PERSONS CAN MAKE TREMENDOUSLY VALUABLE SUGGESTIONS AS TO WHAT THE LAWS SHOULD PROVIDE.

I FEEL STRONGLY - AND I BELIEVE BASED ON ITS FAILURE AND

DEMONSTRABLE ADVERSE EFFECTS WHEN ITS BEEN TRIED - THAT FOR THE HOST COUNTRY TO REQUIRE LOCAL PARTICIPATION FOR APPROVING A FOREIGN INVESTMENT IS A SERIOUS MISTAKE. LOCAL PARTICIPATION SHOULD BE OPTIONAL WITH THE PROSPECTIVE INVESTOR. ALL FORCED PARTICIPATION WILL DO IS, (A) LESSEN THE NUMBER OF INVESTMENTS, AND (B) VIRTUALLY REMOVE FROM THE SCENE A DYNAMIC GROUP OF BUSINESSES WHICH COULD MAKE A REAL CONTRIBUTION TO THE HOST COUNTRY.

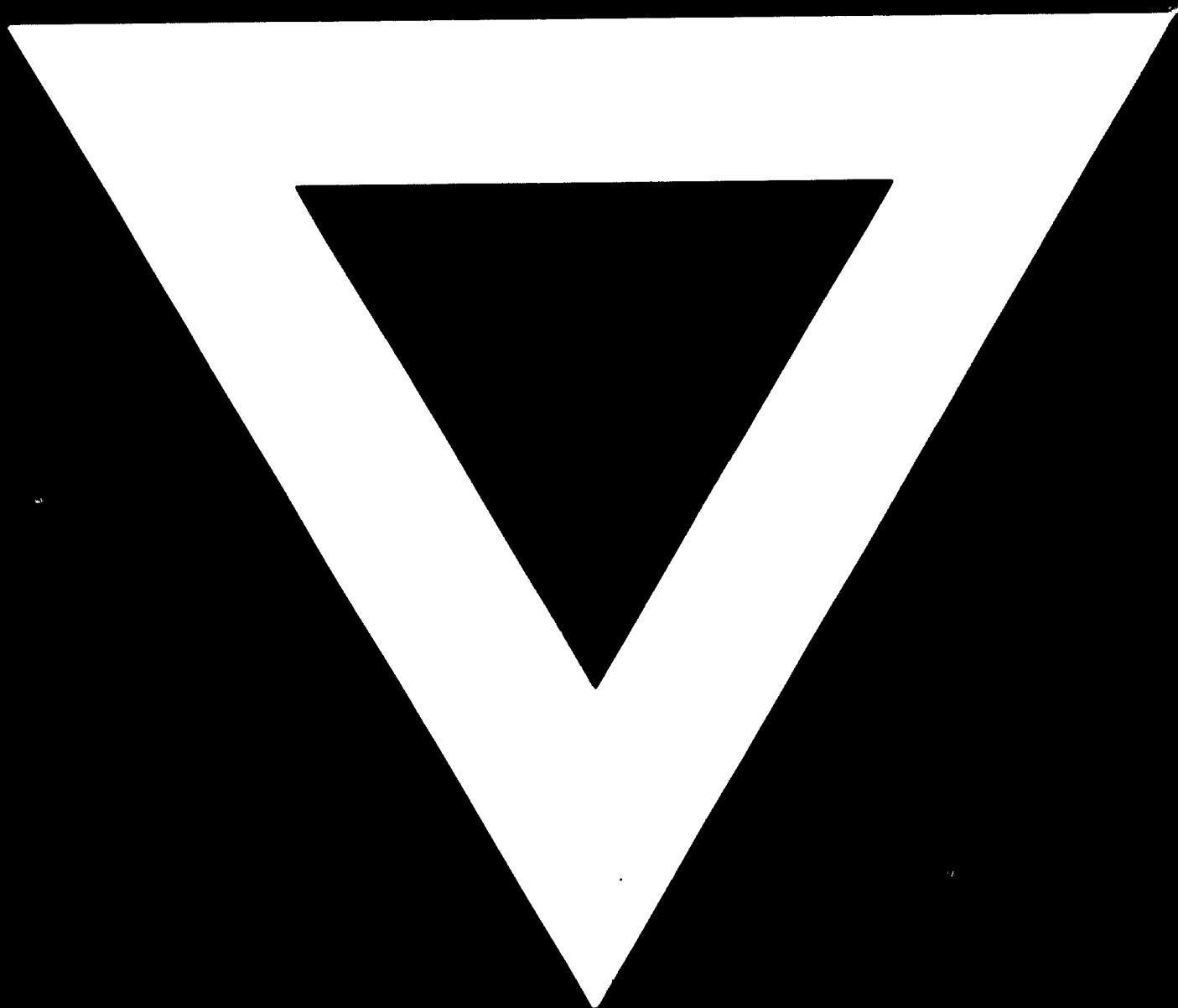
A FREE ZONE/FOREIGN INVESTMENT PROGRAM SHOULD BE TREATED AS A LONG-RANGE MATTER. INSTANT SUCCESS IN THE FORM OF NUMEROUS COMPANIES IN FULL OPERATION SHOULD NOT BE EXPECTED. THE FACT IS THAT A POTENTIAL INVESTOR TODAY HAS MANY PLACES IN WHICH TO PLACE HIS SITE OF OPERATIONS. IN ANY EVENT, EVEN IF THERE COULD BE AN INSTANTANEOUS START UP OF MANY BUSINESSES, IT'S PROBABLE THE RESULTS WOULD NOT BE DESIRABLE. THE INFRASTRUCTURE COULD WELL BE UNABLE TO ABSORB IT.

THE HOST COUNTRY SHOULD TRY TO OPERATE ITS PROGRAM SO THAT THERE IS A STEADY AND INCREASING INFLUX OF INVESTORS. IT SHOULD BE SELECTIVE, AND IF IT HAS THE RIGHT PROGRAM, IT CAN BE SELECTIVE. HOWEVER, A SELECTIVE PROGRAM SHOULD NOT BE PERMITTED TO BE USED AS AN EXCUSE FOR NOT MAKING DECISIONS, NOT ACTING ON APPLICATIONS, NOT IMPLEMENTING THE PROGRAM. THE PROGRAM SHOULD MOVE STEADILY TOWARD THE GOALS WHICH HAVE BEEN SET. SO, WHILE IT SHOULD BE KEPT IN MIND THAT, AS THE OLD SAYING HAS IT, ROME WASN'T BUILT IN A DAY, ROME WAS BUILT.

IT'S BEEN A GREAT PRIVILEGE TO HAVE HAD THIS OPPORTUNITY TO GIVE MY VIEWS ON WHAT I REGARD AS A KEENLY MEANINGFUL, IMPORTANT SUBJECT. I AM LOOKING FORWARD WITH PLEASURE TO YOUR COMMENTS AND QUESTIONS. I'LL DO MY BEST TO ANSWER THEM.



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