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SPECIAL ZONES:

AN ASSESSMENT OF POLICIES IN SELECTED COUNTRIES

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Paris 1991

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PREFATORY NOTE

This report on an assessment of Special Zones' policies in selected countries is based on a seminar held by the OECD Industry Committee's Working Party on Regional Development Policies in December 1989. The report has been written by Barry Moore, consultant. In the course of a discussion by the Working Party of a preliminary draft in June 1990, a number of comments were made and these have been incorporated in this version. The report is limited to analysis of special zones' systems. It does not therefore examine the compatibility of these systems with the main lines of regional structural policies, in particular those aimed at resolving the most serious problems of regional economic re-equilibrium. The report, together with the seminar papers listed in Annex I, has been made public on the responsibility of the Secretary-General of the OECD.

TABLE OF CONTENTS

	Page
• EXECUTIVE SUMMARY	4
Chapter I INTRODUCTION	7
Chapter II CONCEPT AND OBJECTIVES OF SPECIAL ZONES	9
Chapter III CRITERIA USED FOR DESIGNATING ZONES, • POLICY INSTRUMENTS AND MEASURES USED	14
Chapter IV THE EFFECTIVENESS OF SPECIAL ZONE INITIATIVES	21
Chapter V CONCLUSIONS	32
Annex 1• PAPERS PRESENTED AT THE SEMINAR	35

EXECUTIVE SUMMARY

This report reviews and summarises the proceedings at a seminar on Special Zones held by the Working Party on Regional Development Policies at the OECD in December 1989. An interim paper was subsequently presented to the Working Party at a meeting held in Kiruna in June 1990. This report is a revised version of that paper and takes into account comments and points raised at the meeting.

The Case Studies

The paper is based on six case studies of Special Zones in Belgium, France, Spain, Turkey, the United Kingdom and the United States and a presentation on the progress of the European Development Pole (PED), a transfrontier development in an area comprising Longwy in France, Aubange-Athus in Belgium and Rodange in Luxembourg.

In the 1980s, Special Zones became a feature of more radical industrial, regional and urban policies in a number of countries. Three main types of Special Zones were discussed at the seminar -- Free Trade Zones (FTZs), Enterprise Zones (EZs) and Reconversion Zones (RZs) -- but it is evident from the case studies that to a significant extent each country's Special Zone programme is unique and by its very nature represents a 'customised approach' to a perceived economic or social problem. The Belgian case study was of Employment or 'T' zones. These are areas in which tax and other advantages are available for selected sectors but with a particular emphasis on high technology sectors. The French, United Kingdom and United States case studies are of their Enterprise Zone programmes and the Spanish case study presented evidence on Restructuring Zones and Declining Industrial Zones. The Turkish authorities provided the only case study on Free Trade Zones but some additional material on FTZs was obtained from other sources. The European Development Pole case study is an interesting example of a transfrontier industrial development programme and demonstrates the potential benefits of co-ordination and co-operation in tackling the problems of economic and industrial restructuring in a border region.

The Concept

Although there is great diversity in the Special Zone programmes of different countries there are common features which underpin each programme. Firstly, these initiatives are very often highly targeted, either geographically or sectorally, to address specific problems of economic restructuring and development. Secondly, they are often introduced for limited periods of time. Thirdly, they provide businesses with the opportunity to

invest and locate in geographical enclaves where there exists minimal government bureaucracy and where the burden of taxation is reduced compared with areas outside the zone.

Objectives

The objectives associated with Special Zone initiatives naturally depend on the problem they are addressing and this is demonstrated in the case studies. However, the case studies on Enterprise Zones showed that in both the United Kingdom and the United States the primary objective was to encourage industrial and commercial activity in areas where physical decay and economic distress were particularly severe. In Spain the main objective of the Restructuring Zones is to re-industrialise selected areas by encouraging inward investment and, in Belgium, the stimulation and concentration of high technology sectors is a key objective. In France the EZs are aimed primarily at securing the re-employment of unemployed workers released from the declining shipbuilding industry.

Free Trade Zones are aimed mainly at promoting export growth and encouraging inward investment from overseas. In some countries they are used to promote regional economic development but national considerations tend to be paramount.

The PED objectives are distinctive in that their achievement requires cross border co-operation and agreement in securing economic and physical regeneration.

Designation Criteria, Policy Instruments and Measures

The report examines the criteria used for designating Special Zones and describes the different policy instruments and measures used. In general, no simple single criterion for designating areas as Special Zones is used and in both the United Kingdom and the United States multiple criteria were used. In the United Kingdom some twelve criteria were identified as of importance in choosing EZs and varied from physical dereliction, economic distress, capacity for regeneration and attitudes of local government. In the United States seven criteria were commonly used covering economic and physical distress as well as physical dereliction. In Spain and France, Special Zone designation was dictated by clear evidence on the need for restructuring and the decline and collapse of traditional industries that were major employers in an area.

In the case of the FTZs in Turkey, designation was based more on local conditions likely to ensure the success of the FTZ than on specific issues relating to local and regional economic distress.

The Special Zone programmes vary greatly in the package of incentives offered to encourage business development in the designated area. Tax-based incentives are the most prevalent policy measure and these are often supported by various measures aimed at reducing government bureaucracy which might constrain or delay business development. An important aspect of Enterprise Zone policies is that they are not only designed to achieve a geographical redistribution of economic activity, but also to improve the supply side of the economy by increasing the flexibility of markets and ensuring a key role for

the private sector in the process of economic and physical renewal. Enhanced public infrastructure provision is also often secured as a result of Special Zone designation through the 'bending' or switching of national government programmes towards the needs of the zone. One important feature of many Special Zone programmes is that they are introduced for a limited period. The expectation is that the measures introduced will, by the end of the period of designation have successfully stimulated private sector involvement in economic and physical regeneration such that public sector support can be suitably withdrawn.

Effectiveness of Special Zones

Chapter IV of the report discusses the effectiveness of Special Zone policies. The first part of this section briefly reviews some of the methodological and conceptual issues of policy evaluation of Special Zone programmes. This is followed by a summary of the evidence presented in the case studies. The analysis of this section reveals a significant gap between what is ideally required of a good evaluation of the effectiveness of Special Zone policies and what has actually been achieved by way of evaluation as indicated in the case studies. One key problem of evaluation is that of multiple objectives. Economic restructuring, economic development, job creation, environmental improvement, enterprise development, health and welfare improvement often form a cluster of objectives for Special Zone policies. A further critical evaluation issue is how to assess what otherwise would have happened in the absence of Special Zone initiatives, i.e. the counterfactual position. The United Kingdom and United States case studies presented some evidence on this difficult issue, but progress on this question was less in evidence in the other case studies. In general, performance measures for judging the effectiveness of Special Zone policies were both poorly developed and lacking in empirical support. The case study evidence nevertheless suggested that Special Zone policies had been effective and visible signs of achievement could be seen. An important achievement was their effectiveness in mobilising and bringing together different actors in the process of economic and physical renewal. However it was recognised that 'deadweight' was likely to be significant, i.e. some progress towards the objectives would have been made even in the absence of the Special Zone measures.

Although doubts remain on the effectiveness of Special Zone policies, they do nonetheless have certain desirable features. Enterprise Zones are generally often highly targeted by geographical area or sector and as such can in certain circumstances be cost-effective in securing economic and physical regeneration in parts of cities and regions suffering acute distress. Because they are introduced for limited, but known periods of time, both public and private decision makers are able to incorporate them with some certainty into their strategies.

Evidence presented showed that the effectiveness of Special Zone policies differed considerably from one region to another and care had to be exercised in selecting areas most likely to benefit from Special Zone policies. It was apparent that as the number of zones increased, their effectiveness diminished, suggesting that they might not be appropriate as general measures to promote regional development. In their nature they work most effectively when highly targeted towards emergency situations and where economic and physical regeneration is the main objective.

Chapitre I

INTRODUCTION

To support and complement their traditional and wide ranging regional and urban policies, a number of countries have designated priority areas or Special Zones for redevelopment and economic regeneration. Perhaps the most well-known are the Free Trade Zones, which are designed to attract mobile international investment to areas in which goods may be imported freely without the payment of customs duties and processed with a minimum of government interference and bureaucracy. Enterprise Zones and Reconversion Zones have emerged as important policy initiatives in the 1980s and are concerned primarily with focused attempts to regenerate local economies through industrial restructuring and the removal of physical dereliction and decay. With the establishment of the European Development Area (Pôle Européen de Développement), the concept has also taken on an international dimension. These Special Zones exhibit great diversity of size, mix of objectives, source of funding and policy instruments used, and are one of the most innovative features of industrial, regional and urban policies in recent years. However, despite their diversity there are certain common themes or characteristics associated with Special Zones. They are often priority areas of concentrated physical and environmental dereliction in need of economic restructuring and regeneration. In these areas businesses often enjoy tax relief as well as freedom from selected administrative or planning regulations and procedures, normally for periods of up to ten years.

This paper reviews the experience of Special Zones in selected OECD countries and is based on evidence drawn largely from papers presented at a seminar held at the OECD in December 1989. At this seminar case studies were presented by six countries and included:

- i) United States Enterprise Zones and Free Trade Zones;
- ii) Urban policy and the use of Enterprise Zones in the United Kingdom;
- iii) Spain's experiences with regard to Re-industrialisation Zones;
- iv) Belgium's experience with Employment Zones;
- v) Turkey's experience with Export Zones;
- vi) France's experience with "Pôles de Conversion".

In addition, a presentation was made of the European Development Pole, which was set up by Belgium, France and Luxembourg in an area bounded by the towns of Longwy in France, Auhange-Athus in Belgium and Rodange in Luxembourg.

Chapter II of this report explores the concept of the Special Zone and reviews their main objectives. Chapter III examines the criteria used in designating Special Zones and the range of policy measures and other institutions associated with them. Chapter IV appraises the evidence on the effectiveness of Special Zones in meeting their objectives and Chapter V presents the overall conclusions that can be drawn from the seven case studies.

Chapter II

THE CONCEPT AND OBJECTIVES OF SPECIAL ZONES

The Concept

Interest in Special Zones has been growing since the early 1980s and to a significant extent it was stimulated by the launch of the Enterprise Zone Experiment in the United Kingdom in 1981 and the subsequent proliferation of Enterprise Zones in the United States. However, the concept draws its inspiration from the much older Free Ports or Free Trade Zones which now exist throughout the world. Although these two broad types of Special Zone differ in many respects, they share a unifying theme in that they provide businesses with the opportunity to invest and locate in geographical enclaves where there exists minimal government control often combined with fiscal incentives of one kind or another.

Free Trade Zones

In the case of the Free Trade Zone or Free Port, the emphasis is on encouraging foreign trade and inward investment by offering businesses exemption from customs formalities or duties normally imposed by the host country, but with zone users generally observing domestic labour, corporate, environmental and other legislation. By the late 1980s, approximately 500 Free Trade Zones, Free Ports, Export Transit Zones, etc. existed worldwide, with about half to be found in the developed world. In the United States, 141 general purpose FTZ sites have been authorised by the Foreign Trade-Zones Board. With one or two notable exceptions, most developed nations provide legislation permitting the existence of FTZs. In general, the United States, Germany, Italy, Spain and Sweden have FTZs which do not restrict the range of operations that can be carried out within their boundaries as well as providing a range of customs related advantages. France, the United Kingdom and Greece emphasise facilities for storage, display and sampling rather than manufacturing, whereas the Netherlands and Switzerland assist enterprise functions. Japan has established a single FTZ, as an economic promotion tool for the island of Okinawa, which permits a full range of trade zone commercial activities.

The Mersin Free Zone and the Antalya Free Zone in the Turkish case study are examples of zones which seek to attract foreign investment and stimulate exports by offering users exemption from a variety of taxes and duties, minimal bureaucracy and less stringent regulations relating to labour, finance and products than is the case outside the zone.

Enterprise Zones

The Enterprise Zone concept is broader than that of Free Zones and indeed has become associated with more general supply side solutions to the problems of older urban areas and depressed regions. However, the focus of the Enterprise Zone concept remains the rehabilitation of derelict areas, particularly in urban areas experiencing economic decline and in need of regenerative restructuring. Enterprise Zones now exist in a number of countries and there has been a particularly rapid proliferation in the United States, where over 500 zones have been designated. In the United Kingdom there are 27 Enterprise Zones, although the majority of these are scheduled to be de-designated within the next four years. The French Government recently created three new Enterprise Zones, mainly to help alleviate unemployment in shipyard areas. In Spain restructuring zones (RZs) have been set up as a re-industrialisation policy instrument to attract investment, and these zones have been followed by the establishment of Declining Industrial Zones (DIZs) focused on areas where traditional industry predominates. In Belgium six employment zones, three in Flanders and three in Wallonia, have been created with the approval of the Commission of the European Communities. These are small in area, ranging from 25 to 70 ha and their advantages can only be enjoyed by industrial or service enterprises concerned with high technology research or with high technology activities in one or more of seven designated sectors.

Objectives

A review and assessment of Special Zones must begin with a clear perception of their objectives. "Does the policy measure secure its objectives?" is a central question which must be addressed by policy makers. Unfortunately, there are rarely simple statements of objectives against which policies achievements can be set and Special Zone policies are no exception to this.

Enterprise Zones

As originally implemented in the United Kingdom in the early 1980s, Enterprise Zones were intended to encourage industrial and commercial activity in the areas selected and to tackle problems of physical decay which appeared to be particularly severe. In the United States similar objectives pertain and Enterprise Zones programmes typically have had two objectives -- namely, the economic and physical revitalisation of depressed urban or rural areas. However, although the focus in the United States is on economic development, other objectives such as community development, the improvement of health safety and welfare and neighbourhood revitalisation also figure in the many State Enterprise Zone programmes.

In Spain the Restructuring Zones were established to re-industrialise those areas afflicted by the severe de-industrialisation brought about by the decline of traditional industries. The main objective was to promote and attract new investment, but the reconstruction of the industrial fabric was also seen as an important part of the industrial regeneration process. In summary, the objectives of the Restructuring Zones are to:

- i) Encourage and give priority to investment in sectors and activities with insufficient capacity at regional or national level;
- ii) Support and develop investment in sectors and activities in which it is possible to make the most of the raw materials and industrial inputs from the region itself, with an attempt to secure both greater integration in regional production and a greater multiplier effect;
- iii) Encourage industrial diversification;
- (iv) Promote projects leading to the establishment of firms able to adapt smoothly to fluctuations on national and international markets.

Declining Industrial Zones (DIZ) followed RZs in Spain. They have been set up to reduce the impact of industrial adjustment, to correct socio-economic imbalance caused by industrial decline and to develop industrialisation infrastructure without detriment to the environment.

In France the primary objective is to alleviate unemployment and more particularly to secure the re-employment of those made unemployed in the shipbuilding industry.

In Belgium the Employment zones are concerned with reviving the economy and are focused very much on attracting and supporting firms in the high-technology sector.

Free Trade Zones

As with Enterprise Zones the objectives of Free Trade Zones differ in emphasis from one country to the next, although in all cases they are designed to play an important role in export development policies and international trade and investment strategies. The United States adopted the concept nearly sixty years ago under the Foreign Trade Zones Act of 1934 to "expedite and encourage foreign commerce by providing foreign goods duty- and quota-free entry ... within the United States". Initially, manufacturing was prohibited in the Zone but subsequent legislation now permits the zone to "... sustain or create employment by encouraging the retention or shift of production activity that might otherwise be conducted abroad". The use of FTZs to encourage exports and promote economic development is now world wide, and many nations model their zone programmes on the successful FTZ founded in 1959 in Shannon, Ireland. This FTZ was set up to maintain and promote employment in an airport which was increasingly being overflowed by long range trans-Atlantic passenger aircraft. In the United Kingdom the history of the Freeport initiative starts in 1981 with a publication by the Adam Smith Institute. Several experimental Freeports have now been established in Southampton, Liverpool, Cardiff, Birmingham, Prestwick and Belfast, primarily to create new employment opportunities. It should be pointed out that a central objective of the Freeport is to attract activities which by their very nature are internationally mobile and should therefore add to economic activity and employment at the national level. Thus Dr. Madsen Pirie, a keen advocate of Freeports in the United Kingdom, writes:

"The Freeport, as distinct from the Enterprise Zone, is designed to bring to Britain jobs which would otherwise be done abroad or not at all. It is not designed to move jobs from prosperous areas into depressed areas. Indeed, applied correctly, it cannot do that ... Otherwise we will have the same problem as Enterprise Zones -- businesses moving across the boundaries to take advantage of what the Freeport offers that is unavailable five miles away, with considerable dislocation to the local economy on a purely temporary basis" F

•A proposal for the Establishment of Freeports in the United Kingdom,
•Adam Smith Institute, 1981.

F.

In summary, Freeports in the United Kingdom have been established to:

- Contribute to net exports, either by increasing exports directly or by import substitution -- where goods and services which would otherwise be imported are produced in whole or in part within the Freeport;
- Attract activities whose choice of location is international, thereby increasing both local employment and income in the enclave and its surrounding region, as well as in the country as a whole.

The objective of Turkey's Free Zones very much reflects the two broad objectives noted above, but with a focus on attracting high-technology industries from overseas. Two operational FTZs have been established in Turkey -- Mersin Free Zone and the Antalya Free Zone. Both zones house activities ranging from storing, packing, trading, banking, insurance, assembling and disassembling with all trade between the zone and the home country classified as foreign trade. The possibility of selling the merchandise manufactured in Free Zones to Turkey is claimed to be a unique feature not found in the FTZs of other competing countries. Turkey is already planning two more free zones to be established in the Izmir and Yumurtalik-Adana regions. For each zone a joint-stock company will undertake all commercial and technical activities. Finally it should be noted that considerations concerning the development of the less developed regions of Turkey using the Free Zone have not been of importance.

PED -- European Development Pole

The main objective behind the establishment of the European Development Pole is to achieve rapid economic, social and environmental redevelopment of an urban area dramatically affected by the restructuring of the iron and steel industry in the past decade. At the same time, the attempt is being made to secure a socio-political "revolution" which will transfer real power to local authorities over a period of ten years or so. The region is characterised by the dereliction of huge steel factories, hundreds of acres of land previously occupied by heavy industry, a labour force whose skills need upgrading and a lack of quality services. An environmental question is posed for a country as small as Luxemburg in that there is very little land available for industry so renovated land has to be used. The Longwy-Aubange-Rodange conurbation epitomises the crises of regions ill-prepared to meet the problem of industries in decline and in need of structural transformation towards newer dynamic industries and the modernisation of traditional industries.

The European Development Pole is particularly interesting because it is a pilot transfrontier co-operation project established within the framework of the EEC. It comprises three neighbouring urban areas: Longwy in France, Aubange in Belgium and Rodange in Luxemburg. The initiative was born of the steel crisis, which led to severe problems of unemployment and of dereliction. It is based on solidarity and close co-operation between the three Member States of the EEC and has a symbolic character. The authorities of the three countries are co-operating closely to promote training by creating a European Technology College. Other actions include the creation of an International Activity Estate and a Transnational Common Services Centre. Similarly, in many other fields joint solutions are being sought to specific problems which could impede restructuring and development. Thus the Belgium, French and Luxemburg authorities have established objectives which go beyond the limits of restructuring policies peculiar to each country. There is thus a common goal (agreed in 1985) of creating 8 000 new industrial jobs by 1995, 5 500 in Longwy, 1 500 in Aubange-Athus, and 1 000 in Rodange.

Chapter III

CRITERIA USED FOR DESIGNATING ZONES, POLICY INSTRUMENTS AND MEASURES USED

Criteria for Designating Zones

An important issue relates to the circumstances and criteria used in the selection of those geographical areas in which the advantages of Special Zones apply. A wide variety of criteria for designating Special Zones has been used. Countries differ with respect to the number of factors taken into account, the types of indicators used, and whether national or local/regional objectives are of prime interest. Setting criteria for zone designation has also been determined by the scope of the programme and the types of areas to be targeted.

In the United Kingdom the first round of Enterprise Zones (1981) were chosen on the following criteria:

- i) Dereliction or need for economic revival;
- ii) Likelihood of success, in terms of achieving redevelopment and/or creating new jobs;
- iii) Likely associated costs;
- iv) Attitudes of local authorities;
- v) Extent of special measures covering or proposed for the sites selected;
- vi) Availability of sufficient vacancies on developable sites;
- vii) Current ownership of land.

Second round zones were designated with additional criteria in mind, namely:

- viii) Balance between regions;
- ix) That new zones should not be in competition with each other within the same labour catchment area;
- x) Demonstrable need to redress problem of physical/economic decline;
- xi) Capacity for early development of site;
- xii) Willingness of local authority/development corporation to enter into the spirit of the experiment.

In 1987 Ministers recognised the need to consider the EZs within the overall range of all policies tackling economic and physical decay and 'exceptional circumstances' only could justify a new zone.

In the United States, many States have embraced the principle of Enterprise Zones by enacting their own legislation. Designation as an EZ requires a combination of distress measures along with indicators relating to concern for health, safety and welfare in addition to economic development. From a review of the various State programmes the following designation criteria were identified:

- i) Unemployment;
- ii) Minimum and maximum population size limits;
- iii) Measures of population decline;
- iv) Poverty level measure;
- v) Median income;
- vi) Number of welfare recipients;
- vii) A measure of abandoned buildings or property tax arrearages.

Table 1 shows the designation criteria by state and the weighted index of criteria.

Progress towards a Federal Enterprise Zone Programme is proceeding both in Congress and under Title VII of the Community Development Act of 1987. The intention is to select EZs on the basis of various distress criteria, including, for example, an above average unemployment rate, an above average indication of poverty rate of 20 per cent and other measures relating to income shortfall or population loss.

In Spain the main criteria used for declaring areas Special Zones were industrial decline heavily concentrated in a very limited geographical area, resulting in high redundancy levels and severe adverse economic consequences for the zones and the surrounding districts. In France Special Zone designation was primarily dictated by the concern for the redeployment of those made unemployed in the shipbuilding industry and this is reflected in their location in Dunkerque, Aubagne-la Ciotat and Toulon-la Seyne. The Belgian zones were designated mainly on the basis of the severity of the employment problems and with the objective of attracting industrial or services enterprises concerned with high technology research or activities. The Longwy-Aubange-Rodange zone was designated because of the severity of the industrial crisis in the area, the strategic importance of the Longwy Basin for the region (Briey Basin and Nord Meusien), and because of the transfrontier location.

Table 1

STATE ENTERPRISE ZONE DESIGNATION CRITERIA IN THE UNITED STATES

	Unemployment	Min.-Max.	Population	Poverty	Median	Welfare	Buildings	TOTAL
	Population	Decline	Level	Income	Assistance			
Alabama	I.. -.	I.	I.I.	I.	--		10	
Arkansas	I.. -.	-.	I.-.	I.	--		6	
California(1)	R.. Mi.	-.	-.	R.R.	R.	C.	14.5	
Colorado	C.. Ma.	-.	-C.	-.	--		3.5	
Connecticut	R.. -.	-.	R.-.	R.	--		9	
Delaware	-.. -.	-.	-.-.	-.	--		-	
Florida	I.. -.	-.	I.I.	I.	I.		10	
Georgia	C.. -.	-.	C.-.	-.	--		2	
Illinois	C.. -.	C.	C.C.	-.	--		4	
Indiana	R.. X.	-.	R.-.	-.	--		9	
Kansas	C.. Ma.	C.	-C.	-.	--		4.5	
Kentucky	R.. -.	C.	-C.	-.	C.		6	
Louisiana	C.. -.	-.	-C.	C.	-.		3	
Maryland	C.. -.	C.	C.C.	-.	C.		5	
Michigan	R.. -.	-.	-R.	-.	--		6	
Minnesota	C.. Mi.	-.	C.C.	-.	C.		5.5	
Mississippi	I.. -.	I.	-I.	I.	C.		9	
Missouri	R.. X.	-.	-R.	-.	C.		10	
Nevada	C.. -.	.	C.-.	-.	--		3	
New Jersey	R.. -.	-.	R.-.	-.	R.		9	
New York	R.. Mi.	-.	R.-.	-.	R.		10.5	
Ohio	C.. X.	C.	-C.	C.	C.		8	
Oklahoma	C.. -.	-.	-C.	-.	--		2	
Oregon	-.. -.	-.	-R.	-.	--		3	
Pennsylvania	-.. -.	I.	I.-.	-.	--		4	
Rhode Island	C.. -.	-.	???	???	--			
Texas	R.. -.	-.	C.C.	-.	C.		6	
Vermont	C.. Mi.	-.	-R.	-.	--		5.5	
Virginia	C.. -.	-.	-C.	-.	--		2	
West Virginia	C.. -.	C.	-C.	-.	--		3	

KEY

Letter	Term	Value
C..	Considered	1
I..	Part of an Index	2
R..	Required	3
X..	Full Population	3
Mi..	Just Minimum	1.5
Ma..	Just Maximum	1.5

(1) California has two enterprise zone programs.

Turning to the FTZs, the designation criteria adopted relate to both local and national circumstances. The case study from Turkey suggested that designation was based on criteria that would ensure that the zone was attractive to foreign and local capital. Success factors included:

- i) The availability of transportation and other infrastructure;
- ii) The social environment;
- iii) The availability of 'side' industries.

In the United Kingdom potential Freezone operators were required to demonstrate "that there was sufficient volume of informed trade demand to justify authorisation ... of a particular location" and that the choice of these locations "should be solely determined by demonstrated user demand and economic viability". In the final choice of locations, only Southampton was not a problem region, which has prompted suggestions that regional employment considerations may also have been important.

In the United States each 'port of entry' for US Customs purposes is entitled to at least one FTZ, but authority for a zone will only be given if the Foreign Trade Zones Board can be convinced that anticipated benefits will justify its existence. Much of the recent increase in FTZs has taken place in inland ports of entry in the continental interior.

xSpecial Zone Policy Instruments and Measures

{Enterprise and Restructuring Zones}

Enterprise and Restructuring Zone programmes vary enormously in the composition and balance of incentives offered to encourage economic and physical regeneration. This is illustrated in Table 2 which presents an overview of the main financial measures for the five countries. It should be noted that the measures listed for the United States are a summary picture of a great variety of incentive packages found in the many State Enterprise Zone programmes.

It is clear from Table 2 that tax-based incentives are the most prevalent form of policy instrument used across the five countries. In France and Belgium corporation tax exemption is available, in the United States a range of tax credits exist and in the United Kingdom and Spain there is exemption from local taxes. Other forms of incentives include the various labour credits of one form or another in the United States and income tax relief for selected overseas nationals in Belgium. But in all the countries incentives are mainly directed to stimulating investment.

Little easily available evidence is available on the strength of the different incentive packages, measured either in terms of the effects on the rate of return on capital 'on zones' relative to the same investment 'off zone', or as measured by tax revenue foregone. In the United Kingdom the estimated public cost directly attributable to Enterprise Zone financial incentives (capital allowances and local property tax relief) between 1981/2 and 1985/86 was £232 million (constant 1985/86 prices).

Table 2

SPECIFIED ZONE MEASURES: AN OVERVIEW FOR SELECTED COUNTRIES

	United States	Spain Kingdom	United Kingdom	France States	Belgium
--	------------------	------------------	-------------------	------------------	---------

INVESTMENT INCENTIVES

1.	Tax Credits (State)				
	--Property	•	•	•	Yes
	--Franchise	•	•	•	Yes
	--Sales	•	•	•	Yes
	--Investment	•	•	•	Yes
2.	Exemption from customs duties on imported capital equipment				
	•	•	•	•	Yes
3.	Capital subsidy				
	•	•	•	•	Yes
4.	Exemption from corporation tax				
	•	•	•	•	Yes
5.	Exemptions from holding taxes				
	•	•	•	•	Yes
6.	Investment allowances				
	•	•	•	•	Yes
7.	Exemption from local property tax				
	•	•	•	•	Yes
8.	Exemption from other local taxes				
	•	•	•	•	Yes
9.	Labour credits (State)				
	--Credit per job created	•	•	•	Yes
	--Selective hiring	•	•	•	Yes
	--Training	•	•	•	Yes
	--Employee	•	•	•	Yes
10.	Waiving of trading licenses or work permit to foreign managerial/research staff				
	•	•	•	•	Yes
11.	Income tax relief for certain foreign nationals				
	•	•	•	•	Yes

FINANCE INCENTIVES

12.	--Investment fund				
	•	•	•	•	Yes
	--Industrial Development Bond Preference				
	•	•	•	•	Yes
	--Tax increment financing				
	•	•	•	•	Yes
	--Refundable credits				
	•	•	•	•	Yes
13.	Project-based subsidy				
	•	•	•	•	Yes

In the United States there is no systematic evidence on public costs associated with the government provided incentives, although such costs are believed to be low. From the limited information on local tax revenue loss, the average annual loss for a sample of 13 zones was approximately \$100,000 (\$40,000 median), and it is argued that for most communities this tax loss is inconsequential even if there were no tax revenue to be derived from EZ created businesses. The public sector cost of the proposed Federal Enterprise Zones programme is \$1 billion, arising mainly through lost tax revenue over a four-year period.

Supporting the financial incentives to companies have been measures to relax planning constraints and to simplify government administration and controls. In the United Kingdom, for example, a separate detailed planning regime is prepared for each Enterprise Zone which sets out the types of development for which a planning application is not required. Other planning applications are dealt with speedily, often within 14 days of application. In the United States many Enterprise Zone proposals have included provision for regulatory relief although little such relief is in operation, and that which is, is limited to one-stop permits, fast tracking and fee reductions.

In addition to offering companies and investors the advantages of a range of financial incentives and a relaxed planning and regulatory regime, Enterprise and Restructuring Zones also benefit firms and the local community by becoming a focus for other public programmes concerned with economic and physical regeneration. In the United States most States claim that effort has been made to co-ordinate the Enterprise Zone programme with other federal programmes such as UDAG (Urban Development Action Grants), CDBG (Community Development Block Grants) and various EDA (Economic Development Administration) initiatives. In the United Kingdom both central and local government economic and physical regeneration programmes (Derelict Land Grant, Urban Programme, Small Business Support Initiatives) have enhanced the specific Enterprise Zone measures and thereby improved the attractiveness of the zone to the business community.

A final important characteristic of many Special Zone programmes is their stated limited duration. In the United Kingdom, Enterprise Zones were introduced with a lifetime of ten years. In Belgium the special Employment Zones were also designated for ten years. In Spain zone concessions were granted in 1986 for three years, with possible extensions for a further three years, ending in 1992.

{Free Trade Zones}

As with Enterprise Zones the advantages offered to companies operating in FTZs are diverse and multifarious and benefit marketing, financial, production and administrative activities within the firm. The Turkish case study demonstrated the wide range of advantages accruing to businesses operating in a FTZ. They include:

- Exemptions from taxes, duties and tolls on any inputs required from overseas;

- Exemptions from export formalities;
- Exemptions from income tax of salaries of persons working within the FTZ;
- FTZ - origin profits of those entities operating within the FTZ are not subject to either income tax or corporation tax and duties.

In addition to the above advantages strikes and lockouts are prohibited by Free Zone Law for ten years, bureaucracy is minimised, 'grants' are available from the Resources Utilisation Support Fund and a variety of other benefits relating to premises and trading operations also exist.

More generally, FTZs may offer marketing advantages by allowing firms to stockpile goods for entry once quotas are lifted; provide firms with showroom space to put on low cost, no risk product demonstrations; permit packaging and labelling to ensure compliance with local regulations; be used as distribution centres to exploit 'just in time' marketing etc. Financially, FTZs improve cash flow by avoiding the tying up of funds in duties and other taxes from which firms operating on FTZs are exempt. FTZs provide a business environment with less red tape and paperwork which minimises customs clearance.

Chapter IV

THE EFFECTIVENESS OF SPECIAL ZONE INITIATIVES

The question of whether Special Zone policies are worthwhile is a difficult one to address, involving conceptual, methodological and measurement problems. Comprehensive evaluation requires the following:

- i) Analysis of the problem, the reasons for its emergence, persistence and scale;
- ii) Identification of Special Zone objectives;
- iii) Development of suitable performance indicators of Special Zone policies;
- iv) Identification and measurement of the direct and indirect effects that can be attributed to the Zone policy.

In addition, it is important to assess the circumstances in which Special Zone policies work most effectively to secure their objectives and the alternative policy delivery mechanisms that are used.

This section briefly considers some of these methodological issues and then reviews the available evidence on the achievements of Special Zones. It should be pointed out that where evaluation has been carried out, it has generally differed in approach, depth and breadth.

Methodological and Conceptual Issues

{The problem}

It is important for any evaluation that it be based on an understanding of the perceptions of the problem (and its causes) by those formulating and introducing policy.

Special Zone policies have been introduced primarily in areas experiencing major structural dislocations caused by the collapse or flight of major industries. In many cases the problems of industrial restructuring have been compounded by inadequate investment in public infrastructure and associated physical dereliction and decay. Market mechanisms have either worked too slowly, failed altogether or exacerbated the problems to be resolved.

For some, market failure is mainly the result of supply side inflexibilities abetted by local and central government regulations and policies. Hence the attempt through Special Zones to create enclosures of minimal government interference where enterprise can flourish and barriers to capital and labour mobility are reduced. For others, the emergence of areas of chronic economic, and physical dereliction is but a manifestation of the consequences of market forces, and the role of Special Zones is primarily to ease the process of structural adjustment and ameliorate the more obvious adverse effects on employees and employers. For policy makers it is important to be clear on whether Special Zone policies are primarily designed to remove the causes of the problems being addressed or to eliminate the symptoms of the problem.

{Objectives and 'client groups'}

Evaluation requires that achievements be set against objectives. Unfortunately, and perhaps inevitably, there are rarely simple statements of objectives against which policy outputs can be set. Indeed, it is appropriate to think of a pyramid of objectives. At the highest level are the Ministerial Guidelines which establish broad priorities for programmes and policies. Below this are different tiers of objectives which become increasingly detailed and more quantitative in character until at the project level they are specific to the project itself. At the same time, ultimate objectives such as the economic and physical regeneration of a specifically defined geographical area require the achievement of certain {cross-cutting} objectives, e.g. engaging private sector investment, improving policy co-ordination, removing local business development constraints, capacity building, targeting on specific firms and individuals.

A quantitative evaluation of the extent to which Special Zone policies achieve these different objectives will rarely be possible and arguably their success may be reflected in simpler measures such as jobs, investment and income creation. Nevertheless, the assessment of the extent to which different objectives are secured is important because it informs policy makers of the processes by which effective initiatives work, the durability of the outputs and the identity of the beneficiaries.

{Policy (Special Zone) performance measures}

An essential part of Special Zone evaluation is the development of performance measures for appraising achievements. A number of measures can be used depending on which of the policy objectives is being addressed.

Difficult problems arise with respect to the measurement of outputs not least because outputs (and inputs) at any one stage of a Zone's evolution will not necessarily be 'steady state' final outputs per period of time. Moreover, on the input side various measures of cost are available, ranging from Gross Public Costs, Net Public Costs to resource costs and opportunity cost.

Table 3

DIFFERENT PERFORMANCE MEASURES FOR SPECIAL ZONE POLICIES

PERFORMANCE MEASURE ...	PURPOSE
1. Efficiency = outputs/inputs..... inputs with outputs	Compares resource
2. Effectiveness = outputs/objectives.... outputs with planned outputs	Compares achieved
3. Economy = actual costs/planned costs... ..	Assesses frugality
4. Leverage - policy inputs/total inputs.. role of policy	Assesses catalytic
5. Targeting = "client group" benefits/total benefits. of targeting	Identifies degree
6. Sufficiency = outputs/needs..... against needs	Assesses provision
7. Acceptability = type of provision/client preferences. provision with client preferences	Compares service

Finally, the geographical level at which policy action operates is important. Special Zone policies both divert economic activity from other areas and create economic activity. Evaluations of the impact limited to the geographical area of the designated Zone will therefore differ considerably from evaluations which embrace both the Zone and its immediate regional hinterland or the country as a whole.

{Direct and indirect effects}

On the output (benefit) side a complex range of effects are possible, given the many different types of Zones and projects within them. These outputs range from jobs created, new enterprise development, community development, physical and environmental dereliction. They accrue to individuals and businesses and to different geographical areas. However, it is important when evaluating benefits to distinguish the observed or measured economic and physical regeneration, etc., on the Zone from those achievements that can be specifically attributed to the establishment of the Zone. Table 4 illustrates the steps required to disentangle and assess the benefits or outputs of Special Zone policies.

Table 4

STEPS IN IDENTIFYING SPECIAL ZONE POLICY BENEFITS

Gross Direct Effects
{less}
Deadweight
{equals}
Gross Additional Direct Effects
{less}
Displacement
{equals}
Net Additional Direct Effects
{plus}
Indirect Effects
{equals}
Ultimate Outputs (Benefits)

Table 4 shows that the starting point for evaluating Special Zone policies is the identification and measurement of {gross direct effects}, e.g. new jobs, enterprises, factory floorspace, net exports. The gross effects, however, include what would otherwise have occurred in the absence of the Special Zone policy, that is, the {deadweight}. Only additional economic activity should be included. {Displacement} must also be excluded because benefits on the Zone may be at the expense of, or offset by, losses arising elsewhere as a result of the Zone designation and policies. Finally, {indirect } {effects} arising from business linkages, multipliers and enhanced economic/ social development must be included.

On the cost side of the balance sheet similar adjustments to measured costs of Special Zone policies must be made. Thus gross direct costs must be adjusted for public costs that would otherwise have been incurred on the Zone. Displacement can occur insofar as the Zone policy costs are financed from a fixed budget. It should also be noted that Zones may be partly or totally self-financing if they facilitate national economic activity (and therefore tax revenue) that would not otherwise have been possible without the Zone. This may be particularly the case with FTZs which divert investment from locations overseas and raise net exports. Enterprise Zones may also be self-financing if they are effective in improving the supply side of the economy.

Evaluations for Selected Countries

This section reviews some of the more important work concerned with evaluating the achievements of Special Zone policies. Given the difficulty and complexity of evaluation, it is perhaps not surprising that all studies fail to meet the comprehensive and rigorous criteria set out above. Nevertheless, considerable progress has been made in selected cases. Available evidence for each country is presented and this is followed by a brief overview.

{United States}

A considerable number of evaluations have been carried out on the effectiveness of Enterprise Zones in the United States. The evidence is based largely on a survey of 357 local enterprise zone co-ordinators conducted by the US Department of Housing and Urban Development. This sample includes all states with designated Enterprise Zones by 1984, except Delaware. An Enterprise Zone was considered effective if:

- Previously derelict land and structures are again brought into production and jobs are created in geographic areas that might not ordinarily experience this economic growth;
- A significant proportion of the jobs that are created are taken up by disadvantaged, zone-area residents;
- The programme promotes co-operative approaches between the public and the private sector and representatives of different levels of government.

{Gross Effects}

Considerable diversity of experience exists and it is apparent that some zones have been far more active and effective than others. However, in summary, the average achievements per zone are:

- 8.6 new establishments, 9.3 new expansions and 1.9 closures prevented. Just over one quarter of establishments were new firms and 55 per cent were expansions of existing establishments.
- 333 employees newly recruited, 572 jobs saved through prevention of closures and contractions, giving an average job increase of 464 employees (median 175). In percentage terms, employment increased by about 7-10 per cent over the base line figure over a period of two to three years.
- New investment amounted to about \$23 million.

A wide variety of different industrial sectors is represented in the zones, with 34 per cent of employment in manufacturing, 27 per cent in retailing, 19 per cent in services, with the remainder spread between financial services, construction, transport/communications and commerce. It is notable that the average number of jobs created or saved per establishment was highest in manufacturing (77), compared with between 16 and 20 for service sectors.

{Net Additional Effects}

Although the changes in economic activity (gross effects) in the zones identified above are not insignificant, the HUD study was unable to conclude whether these changes might not otherwise have occurred in the absence of Enterprise Zone designation. It was pointed out that 30 per cent of the zones achieved growth rates of employment that exceeded those of the nation but no statistical significance was attached to this observation. James Perry concluded in his paper presented to the December 1989 OECD Special Zones Seminar "whether the zones actually caused these gains to occur remains open to argument, although considerable evidence, both quantitative and qualitative, points to a significant marginal and catalytic role played by the programme".

In a study of the Maryland Enterprise Zone Programme by the United States General Accounting Office (1989), the conclusion was perhaps less optimistic than that above and asserted "we could not attribute the observed employment increases of these three sites to the Maryland Enterprise Zone Programme" (four-year implementation period). Other studies by HUD also conclude that significant net additional activity is hard to establish and attribute to the zone programme. Finally, a report on the New Jersey Urban Enterprise Zone Programme (1989) for the New Jersey Department of Commerce, Energy and Economic Development concludes "that the UEZ Programme has had a substantial positive impact on New Jersey's economy relative to its costs". Even in the 'worst case scenario', it is shown that 3 948 jobs were directly generated by those firms in the study that would not have expanded/located their operations in the ten zones "but for" the UEZ benefits. A further 12 322 jobs are estimated to derive from indirect effects. However, it should be pointed out that these findings do not allow for displacement of economic activity from other parts of New Jersey. Arguably, this is acceptable if the objective of the zones was in part to redistribute economic activity to zone sites from other parts of the State.

{Targeting}

While the job creation benefits are important, the question of the types of persons securing these jobs is also an important element in the effectiveness analysis. The HUD study shows that the mean share of new or saved jobs held by zone area residents was over 61 per cent, and that the ratio of jobs taken by low-income persons to total jobs created was 0.52 and by those previously unemployed, 0.48.

{The Enterprise Zone Policy package and conditions for success}

An analysis of what features of the different Enterprise Zone policy programmes were most effective showed that:

- The number of incentives offered was positively correlated with zone performance, suggesting the importance of a comprehensive package that could appeal to a wide range of business types.

- The number of zones designated by a state reduced their effectiveness, suggesting the need for fewer (and perhaps more carefully targeted) zones.
- Zones with a more strictly economic development package rather than social welfare thrust are more successful, although this relationship it was argued may simply reflect the more distressed predicament of zones where a social welfare approach was strongest.
- Local property tax incentives were generally regarded as an important incentive but state Enterprise Zone tax and investment credits were overwhelmingly regarded as the most important for zone achievements (sales tax, property tax and investment tax, in that order of importance).
- For EZs achieving higher than average success, property, inventory and sales tax exemptions were generally regarded as the core incentives. Job credit programmes attracted attention but were frequently regarded as too complex.
- Relatively high performance zones were not those regarded as 'irretrievably derelict' or those which had suffered from decades of severe economic and physical distress.
- Local participation is vital to the success of the zone measures.

In conclusion, the HUD authors suggest that Enterprise Zone Programmes should focus on a relatively small number of zones, utilise a broad package of incentives and explore the potential for more direct targeting of state development activities into the zones.

{Public Costs}

Information on the public sector costs of the state sponsored zones is very limited, but what data does exist suggests that local tax costs of the programme are quite small. The New Jersey study suggests a positive fiscal impact and even in the 'worst case scenario', \$1.9 of tax revenue are generated for every \$1 of state expenditure (although this is subject to the caveat mentioned earlier that displacement xfrom other parts of the state have not been allowed for).

United Kingdom

The Enterprise Zone experiment in the United Kingdom has been both closely monitored and evaluated. The most recent evaluation (PA Cambridge Economic Consultants, 1987) assessed the zones' performance against two yardsticks:

- i) The extent to which zones have maintained and/or generated additional economic activity and employment, both on the zone and in the local area;
- ii) The extent to which the zones have contributed to the physical regeneration of their local areas through the provision of infrastructure and environmental improvements and the stimulation of local property markets.

{Gross Effects}

There was considerable diversity in the growth of economic activity in the individual zones, but in total by 1986 (between four and five years after designation) there were:

- 2 800 firms on the 23 British Enterprise Zones, of which nearly 90 per cent had 50 employees or fewer; 34 per cent were on the zone prior to designation, 14 per cent were new start-ups and the remaining 52 per cent were new branches or transfers; about half the new branches came from outside the region in which the zone was based, compared with only 12 per cent for transfers.
- 63 300 jobs (by 1990 over 100 000 jobs existed in the zones).

{Net effects}

- 35 000 jobs were estimated to be on the zones as a direct result of Enterprise Zone policies, but most of these were transferred from elsewhere and only 13 000 jobs were net additional in the local economy.
- There is evidence that the property market on the Enterprise Zones has been stimulated and the provision of modern property has also been associated with the removal of dereliction and environmental improvements. In this respect there is little evidence of other areas in the local economy suffering as a result of increased activity on the zones.
- Private finance capital has been attracted from the more prosperous parts of the south of England into Enterprise Zones in northern Assisted Areas.

{Public costs}

- In the period 1981 to 1986, public costs attributed to Enterprise Zone policy amounted to approximately £300 million (at 1985/1986 prices), of this just over half was capital allowances, 28 per cent local property tax relief and 21 per cent enhanced infrastructure and land acquisitions expenditure.

- The public cost per additional job on the zone was about £8 500 and £23 000 per additional job in the local economy.

With respect to the different policy instruments used, exemption from rates was judged by companies to be the most beneficial of the Enterprise Zone measures, despite the fact that there was evidence of above average rents for zone premises. Capital allowances were perceived as important for only 8 per cent of companies, but were clearly very important for investors on the supply side of the property market. The relaxed planning regime was seen as important for just under 10 per cent of companies and property developers, on balance, felt it to be an advantage of the zone policy.

Other Countries

Much more limited information is available on the effectiveness of Special Zone policy in the other countries. In Spain gross effects of Restructuring Zones is estimated at about 24 500 direct jobs and 58 500 indirect jobs as a result of some 843 projects approved by the RZ Management Committee. Total investment amounted to Ptas.mil. 344 455, most of which went to manufacturing industry. There is some evidence that local economies in which RZs were established also benefited and four of the seven provinces with an RZ reported net growth in industrial employment from 1985. The more recently established DIZs are still very immature and by 1989 gross effects amounted to only 1 565 jobs. On balance, it is concluded that the effects of Special Zones in Spain have been positive particularly in zones with a sound basis on which to develop. In other zones it is clear that extensive infrastructure programmes will be required to support Special Zone policies.

In France gross effects on the three Enterprise Zones by 1989 were the establishment of 140 enterprises with an additional 55 setting up a base. Employment creation amounted to 1 660 jobs, with 5 700 expected within three years. The enterprises are small, averaging 35 employees in the South and 65 at Dunkerque. The majority of companies are French, but 30 per cent are multinationals.

Although the European Development Pole is still very young, the results after three years are significant with gross effects estimated at 3 200 jobs (2 000 in Longwy [France], 800 in Aubange-Athus [Belgium], and 400 in Rodange [Luxembourg]). Substantial progress has also been made in improving the physical environment.

Free Trade Zones

{United States}

A 1984 report for the Committee on Ways and Means of the House of Representatives concluded that:

- FTZs account for a growing volume of US trade;
- Exports from FTZs have increased dramatically but the domestic content was small and the zones have served as transshipment points to foreign points;

- Employment directly and indirectly related to FTZ facilities had grown substantially and their existed positive indirect economic impacts upon the local and national economy;
- The availability of an FTZ broadens the overall development package an area can offer to attract firms.

The above effects are mainly gross effects and the report summarised that "it is unclear whether the economic activity now taking place in the zones would otherwise occur within the US in their absence" and that "job creation by FTZs cannot be fully attributed to the operation of the zones; in many cases, zone employment would exist without FTZ status".

Nevertheless, despite these caveats, US Foreign Trade Zones do provide a focal point and at times a catalyst for regional/international distribution functions, industrial parks, international trade centres and ultimately manufacturing activity.

It is also clear that FTZs do provide benefits to users of a variety of kinds -- marketing, financial, production and administrative. Thus the modern FTZ provides showroom space, helps firms take advantage of "strategic windows", helps improve packaging and exploit just-in-time marketing. FTZs improve cash flow for firms, reduce insurance rates, use goods in FTZ as collateral, easy capital inflow and profit outflow. Transport costs can be levered, delivery dates can be more easily adjusted and FTZ generally reduce red tape and paperwork.

{United Kingdom}

A recent evaluation for the Treasury (1989) concluded that:

- The effects on UK employment has been relatively small and the majority of jobs created in the Freeports would have existed in the absence of Freeports;
- Their difficulty in attracting users has not greatly contributed to increased efficiency by easing the burden of government intervention, although it must be accepted that a number of factors worked to reduce the success of Freeports;
- They are best seen as a means of enabling UK ports to be more competitive on the basis of their fiscal benefits and through their value as a marketing weapon.

In reviewing FTZs in three other EEC countries, the Report for the Treasury argued that FTZs must primarily be regarded as a device for improving the efficiency of ports rather than as an instrument for local economic development and that they are most likely to be successful where there is already a lot of traffic. FTZs are also likely to be particularly effective where goods are to be re-exported.

{Turkey}

The gross effects of the initiative on tenants, employment and investment in the Free Zones are significant. As at 1989 there were 165 tenants employing nearly 5 000 people and with associated investment of \$44 million. The number of companies that had applied and been selected numbered 558, with an expected employment of over 18 000 and associated investment of \$300 million.

Turkey's experience with FZs is very new so that it cannot as yet be assessed. It has been strongly argued that the FZs have a positive impact on national income and the balance of payments.

Chapter V

CONCLUSIONS

The past ten years has seen the emergence of the Special Zone as a new initiative to support traditional urban and regional policies. Their significant features are their focus on priority areas for economic and physical restructuring, minimisation of fiscal and other governmental intervention and their limited lifespan. In this report, two main types of zones have been distinguished -- Enterprise Zones and Free Trade Zones. The latter emphasises the importance of foreign trade and inward overseas investment as stimuli to economic development, the former supply side flexibility and the complementary of physical, environmental and economic regeneration.

A variety of criteria have been used to designate Special Zones, ranging from obvious measures of the need for economic and physical revival, to the attitude of local authorities and the capacity of the site for early development.

Tax based incentives are the most prevalent form of policy instrument across the countries reviewed, notably relief from local property taxes and corporation tax. Planning and regulatory constraints were also relaxed as an incentive for companies to set up and expand on the zone. Special Zones also benefit by becoming a focus for other public programmes of economic and physical regeneration. In general, zones are designated for a limited period of up to ten years.

Detailed evaluation studies have been carried out for Enterprise Zones in the United States and the United Kingdom. Although evaluation methodology both at a conceptual and empirical level is developing rapidly, the majority of studies completed so far are limited in scope. Most studies evaluate on the basis of a limited number of indicators of benefits and costs and few attempt to identify and measure supply side effects, environmental improvements and indirect effects.

Evidence from the United States and the United Kingdom suggests that Special Zone initiatives have been effective in both economic and physical regeneration but considerable controversy surrounds the question of what would have happened to the pace of economic and physical regeneration in the absence of Special Zone policies.

Summary of the Working Party's Discussion on Special Zones

The general discussion focused on three main aspects:

-- Zone policies and programmes, objectives and designation criteria;

- Evaluation of the effectiveness of zones;
- Regional policy implications.

{Zone policies and programmes}

The zones were designed to secure regional objectives with the exception of Turkey, where they were designed to achieve national objectives particularly attraction of external investments and improvement of the balance of payments. In the other countries, apart from the regional benefits, national benefits accrue primarily from the supply side effects of the zones -- improving the flexibility of the property market, ensuring that the public sector plays its part in removing dereliction and improving the environment. In the United Kingdom, France, Spain and the PED the major factor was to ameliorate the problems arising from massive industrial restructuring ("fire brigading"). In Belgium the emphasis was on encouraging the development of new sectors to replace jobs lost in traditional sectors. In the United States, where there are over 300 zones ranging in size from very small to almost entire States, an important factor seemed to be the desire to maintain a parity across the different states.

In all countries the zones have been set up for a limited duration of generally five to ten years. No country plans to prolong the duration of existing zones mainly because of their experimental nature, although some new zones may be designated.

The objectives are primarily economic in character but often supported by removal of dereliction, reclamation and improvement of the environment.

With regard to the policy packages, the primary thrust from the point of view of financial assistance to companies on the zones was in terms of tax allowances rather than direct financial aid. A number of Delegates pointed out that there were problems with this, not least because small firms often could not take advantage of tax allowances. For many of the zones there was substantial support from expenditures on infrastructure and the environment. In the case of the PED there was a battery of integrated policy instruments drawing both on national governments, regional authorities and European Commission monies. Some of the zones -- particularly in the United Kingdom, Belgium and Turkey -- were characterised by the attempt to reduce administrative and physical planning procedures and a number of zones had not been evaluated in depth because of the reluctance to survey companies on the zones. One difference noted between zone policy and traditional regional policy was that zone policy was less focused on manufacturing with incentives available to a wide range of firms, although in one case these were not available for transfers from the area in order to maximize additionality. A first impression was that zone policy was a much more targeted and directed form of regional policy.

{Effectiveness of zones}

There was a general feeling that there was evidence of the success of zones, although most Delegates were unable to report extensively on evaluation studies. In the case of the United Kingdom, where detailed evaluations have

been made, the difference between jobs on the zones and what was attributed to policy was very substantial. There were wide differences in estimation of costs per job in the different countries. However, visible signs of achievement could be seen.

{Policy implications}

The first point taken up was that of the number of zones. It was generally felt that zones lose their effectiveness if too many are designated. But this question was linked to the size of zones. Secondly, it was recognised that zones have multiple objectives -- which makes evaluation difficult -- restructuring, economic development, job creation, environment, health and safety, community development, reclamation. Thirdly, there were some differences of opinion as to the criteria for choosing sites. Some areas were clearly hostile to hosting zones, while others were very favourable, but it was often the hostile areas where zones were most needed. It was generally felt that it was important for a zone's success that it should not be too remote from other centres of economic activity (in the United Kingdom the most successful zones were in the south). Fourthly, in terms of targeting, there was a variety of experiences. Some of the zones were primarily geared to attracting hi-tech industry while others were open to all comers. It was difficult to judge whether a targeted policy would prove more successful than a blanket policy. One Delegation raised the question as to whether zone funding might be at too high a level. This seemed to be true in the case of incentives to attract retailing. Finally, the question was raised as to the possible risks of trade distortion arising from the use of the kind of packages of instruments used in Special Zones.

The Chairman, Professor de Gaudemar, in concluding the seminar proceedings said that the presentations and the questions discussed had improved the Working Party's knowledge of the efficiency of regional policy measures. He first raised the question as to whether the zones -- irrespective of the balance-sheet drawn -- were mechanisms that had been set up in very special situations or whether they were mechanisms that in one way or another might be generalised. In his view they were mechanisms that had been set up in the first place to respond to emergency situations and were unlikely to be prolonged in time. One could therefore ask if the experience would not be a limited one. By nature, zones could not be generalised in space because when too numerous they lose their specificity.

Secondly, the Chairman raised the question as to what was specific to zones. Did their efficacy come from the financial and fiscal advantages on offer to firms or did it come from the process of mobilisation and linkages developed between the various actors involved? He had no precise answer to this question but had the feeling that the presentations made could be interpreted in one way or the other. He personally had a tendency to think that if the zones had proved efficient and had accelerated development in some places, it was as much due to this process of mobilisation of actors as to the other factors. But the question was still open. If one had to express a view as to whether one was in favour of zones, the answer would largely depend on the response to the preceding question. One could not be in favour of the generalisation of derogatory regimes -- because they would lose their efficacy -- but he felt that the experiences undergone with regard to local mobilisation needed to be prolonged and deepened.

Annex I

PAPERS PRESENTED AT THE SEMINAR

- "Urban Policy and the use of enterprise zones in the United Kingdom," by Dr. C.P. Evans, Department of the Environment, OECD, DSTI, 1989.
- "Enterprise Zones: an evaluation of State Government Policies," by Mr. James Perry, Acting Assistant Secretary of Commerce for Economic Development, United States, OECD, DSTI, 1989.
- "Special Zones in Spain: the zones of priority reindustrialisation and declining industrial zones," by the General Planning Directorate, Ministry of Economics and Finance, OECD, DSTI, 1989.
- "Employment zones in Belgium, by the Belgium Delegation", OECD, DSTI, 1989.
- "Enterprise zones in France, by the DATAR", OECD, DSTI, 1989.
- "The European Development Pole, by Mr. Francis Cuillier, Director of the European Development Pole," OECD, DSTI, 1989.
- "Free zones in Turkey, by Mr. Yalçın Alaybeyoğlu, Director of the Free Zones Directorate, State Planning Organisation," OECD, DSTI, 1989.

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END-OF-TEXT