

The Impact of Taiwanese free port plan on local economic

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Abstract

Keelung port and Kahoshiung port were granted by government to be designated two free ports in 2004, majority of Taiwanese people has no idea about this brand new term. In deed, Free port system has prevailed in a number of countries and districts such as Hong Kong, Singapore, Dubai port for attracting transit and exporting driven logistics activities and trading business. For clarifying the function, incentive, economic impact and problem of Taiwan free ports we take advantage of personal interview and relevant regulation review method to approach. The finding of this paper can be concluded five main problems waiting for good solution by government.

Keywords: *free port, free trade zone, global logistic, three link.*

I. Introduction

Taiwan Executive Yuan has enacted “Act for the establishment and management of free ports” last year, A Mar. 8 in 2004 meeting of the Executive Yuan’s free port coordinating Committee approved applications for the establishment of free ports at Keelung and Kaohsiung harbors. The applications will be submitted to the Executive Yuan for final approval, it seems no any problem for two free port establishments. The purpose of Taiwanese Free Port is to develop the mode of operation for a global logistics and management system, effecting aggressive promotion of trade liberalization and internationalization, facilitating the smooth flow of personnel, goods, finance, and technology, upgrading the national competitive power, and the furthering the national economic development.

In the recent years, Many Taiwanese businessmen transfer their capital to Mainland China for the purpose of investing manufacturing plant or companies and penetrating into giant Market, on the contrary, the growth rate of foreign or oversea Chinese

investment in Taiwan are increasing slowly. Free port is deemed as an effective way on the standpoint of government to attract Taiwanese and foreign enterprises entering into this area, however its performance is hard to anticipate at the present. Above all, international companies more concerned with three link (So called mailing, trading, shipping link) issues has no any further progressed, because inter-government negotiation across Taiwan Strait has interrupted many years since Taiwan president election hold in 2000.

Hence, the main purpose of this paper attempts to:

- Confirm the definition of free port
- Introduce Taiwan free port project
- Review the advantage of Taiwan free port
- Analysis economic impact of Taiwan free port
- Explore the problems of Taiwan free port

II. Definition of Free Port

Different types of free zones are usually developed in response to particular government objectives and policies. In term of free zone means a port of the territory of a contracting party where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the customs territory (World Customs Organization, 1994). There are five key methods of achieving free trade or free trade status for export activities: free trade, free trade zones, bonded manufacturing warehouse, automatic import licenses and duty exemption, automatic import licenses and duty drawbacks (World bank, 1999).

Free ports often combine the characteristics of free trade zones, industrial free zones, and enterprise zones (Frankel, 1987).

1. *Free Trade Zones(FTZ)*. Defined area, in or near a port, where unrestricted trade is permitted, free of custom duty. Activities include storage, packaging, inspection, and so on.
2. *Industrial Free Zones(IFZ)*. Area or industrial estates outside customs barrier adjacent or near a port, which offer duty free movement of goods, in and out of zones, as well as fiscal, regulator, and tax incentives. Usually used to encourage establishment of export industries by domestic and foreign investors.
3. *Free port(FP)*. Port facilities and infrastructure, including warehousing, industrial plants, and various support facilities that are included in a custom free port. Free ports allow import/export of goods free of duty and sometimes taxes, provide users/investors/operators fiscal, investment, and regulatory incentives.

similarly, banking trade barriers and employment rules are also relaxed within the free port.

4. *Enterprise Zones (EZ)*. In these zones various incentives such as reduced taxes, regulations and low-cost financing of investments, land and the like are offered to expand employment, export, and import substitution.

The term of free port refers actually to the fenced and patrolled free zone area where ships and goods may enter without the application of usual custom duties and formalities (Horn, 1957). Free ports are generally defined as areas in which goods can be stored, handled, and processed without the imposition of customs requirements. Freedom from customs control is often interpreted to imply also exemption from local taxes and other non operational charges (Frankel, 1987).

With respect to similar functions of free zone, there are three different types existing in Taiwan, such as Economic Processing Zone, Science Park and Free Port. The following is to make a brief introduction on their establishment purpose and investment incentives.

1. *Economic Processing Zone*

In response to the needs of economic development, the government set up Taiwan's first export processing zone in Kaohsiung in 1966. For the past 36 years, the EPAs (now renamed Economic Processing Zones) have played a pivotal role in Taiwan's economic development miracle, boosting the island into the ranks of the developed nation. At the advent of the 21st century and the knowledge-based era, EPZs have been transformed into value added industrial parks with vigorous efforts to build up comprehensive hardware and software logistics facilities, organize professional international marketing firms, and promoted international industrial cooperation. Taiwan is a commercial-strategic location in the Asia-Pacific region, and EPZ offers global distribution advantages like product R&D, design, manufacture, international trade, marketing, warehousing and transshipment, which are favorable to global logistics. These include the Economic processing Zone Administration of the Ministry of Economic Affairs (MOEA, which operates seven zones: Nanzih, kaohsiung, Linguang, Taichung, Taichung Harbor, Pingtung, and Douliou).

The advantage of tax incentives for Economic Processing zone are:

- Customs tariffs: All machinery and equipment, new materials, goods, fuel, semi-products, samples, and finished products for transshipment by trading and warehousing businesses may be imported into the zones duty-free;

however, they are dutiable when forwarded to a dutiable area outside the zones.

- Commodity tax: All products manufactured inside the EPZs for export are exempt from the commodity tax.
- VAT: Export products, as well as services and purchased goods related to exports, are exempt from VAT.
- Deed tax: Newly built standard factory buildings inside EPZs, and buildings legally obtained from the EPZ Administration, are exempt from the deed tax.
- Business income tax: For transshipment businesses that conform to the conditions set forth in Article 14 of Statute for the Establishment and Management of Economic Processing Zones, the business income tax is set at 10% of operating income. These businesses may also apply for business income tax credits in accordance with the Statute for Industrial Upgrading.
- House tax: Inside an EPZ, the house tax for factory buildings used by resident businesses themselves is reduced by half, from 3% to 1.5% .
- Other tax incentives are available under the Statute for Upgrading Industries and other relevant laws.

Table 1 Land areas of EPZs

Name of Zone	Land Area (hectares)
Taichung EPZ	26.2
Chungkang EPZ	177
Toukir EPZ	268
Nantze EPZ	97.8
Kaohsiung EPZ	72.0
Chenkung Logistic Park	8.4
Kaohsiung Aircargo Park	54.5
Linkuang EPZ	9.0
Kaohsiung Software-based Technology Park	7.9
Pingtung EPZ	124.1

Source: <http://portal.epza.gov.tw/> www/Eng/a01/a01.-12-02.htm.

Table 2 Number & Capital Amount of Registered Enterprises
Feb. 2004

Unit: NTD Thousand

	Number of Enterprises	Authorized Capital
NEPZ	94	118,648,022
KEPZ	77	26,649,558
TEPZ	49	26,553,448
CEPZ	14	1,961,000
CKPZ	33	10,612,300
Grand Total	267	184,424,328

2. Science Park

The objective of the Hsinchu Science Park is to encourage production, research and development of advanced technologies. Thus, the enterprises located in the Park (the "Park Enterprises") enjoy more incentives than those out of the Park.

The Science Park was established pursuant to the "Statute for the Establishment and the Administration of a Science Park" and is situated in Hsinchu, Taiwan. The area of the Park is approximately 632 hectares, including the first, second, and third phase of the Park. At present, the fourth phase of the Park in Chunan and Tunghuo is being carried out and the areas are 118 and 350 hectares respectively. The Park in Taichung is also under planning and companies are allowed to move in by 2004.

To balance the economic development of northern, central, and southern Taiwan, and promote emerging new technology development, the National Science Council (NSC) of the Executive Yuan established the Tainan Science Park in Tainan County in 1995. The Park area encompasses 638 hectares, and includes three major industry zones, namely, semiconductor, MEMS, and agricultural bioengineering areas. In addition to the Tainan Park, the central Science Park was established in 2001, locating at Daya Shiang of Taichung County and the High Speed Rail (HSR) area of Huwei Town in Yunlin Country. The Taichung and Huwei Parks are totally about 400 hectares and companies are expected to move in by 2004.

The investment incentives of the Science Park are:

- No import duties are imposed on machinery, raw materials, fuels, supplies or semi-finished products imported by a Park enterprise for its own use, and the

importer is not required to file for exemption from import duties.

- The goods and services exported by a Park enterprise enjoy 0% of business tax and commodity tax.
- For a Park enterprise, according to the "Statute for Upgrading Industries: the newly emerging, important and strategic industries stipulated in the Statute for the newly established science industries," a five-year period exemption from the profit-seeking enterprise income tax or the offsetting between stock price and individual investment may apply.

Table 3 Statistic on Investment Growth

Unit: NTD Million

Year	Source			Total	Technical Shares%
	Domestic	Foreign	Overseas Chinese		
1986	3,538	1,866	303	5,707	N/A
1987	7,392	2,788	380	10,560	N/A
1988	10,908	3,831	1,093	15,832	N/A
1989	19,925	6,689	1,609	28,223	N/A
1990	31,891	8,837	1,964	42,692	1.79
1991	41,109	11,401	2,602	55,112	1.7
1992	47,578	12,493	2,756	62,827	1.5
1993	52,542	11,359	2,989	66,890	1.5
1994	81,405	9,609	2,484	93,498	3.2
1995	129,851	15,352	2,495	147,698	2.6
1996	225,773	30,077	2,626	258,478	2.3
1997	329,447	43,555	2,644	375,647	3.0
1998	460,217	47,892	2,519	510,628	N/A
1999	522,066	41,499	2,457	566,022	1.4
2000	660,330	23,489	10,665	694,484	1.20
2001	796,515	59,879	2,429	858,823	N/A
2002	840,140	67,823	2,032	909,995	N/A
2003	909,400	81,024	2,026	992,450	0.17

3. Free port

Free port is usually developed in secured areas adjacent to ports and waterways and road and rail arteries, often near border crossing (Frankel, 1987). Free port referred to an area of the of ting aspect which is situated within a controlled district of an international airport or an international seaport under the approval of the Executive Yuan, or of an adjacent area demarcated as a controlled area, and an industrial park, Export Processing Zone, Science-Based Industrial Park, and other area approved by the Executive Yuan for the establishment of a controlled district for the purpose of conducting domestic and foreign business activities where the comprehensive goods tracking system can be connected with the controlled district of an international airport or seaport by means of technological facilities(Article 3).

The executive Yuan shall form a free port coordination committee which shall have the responsibilities to review and examine the development policy of the free port, demarcation and designation of the free port, the inter-free-port coordination, and to handle other important affairs as may be designated by the Executive Yuan (Article 4).

The qualified enterprises entering into Free Port is composed of two categories:

- Free port enterprises: referred to the enterprises which has been approved to engage in trading, warehousing, logistics, collecting and distributing cargo of container, transiting, transshipment, forwarding, customs clearance, assembling, sorting, packaging, repairing and fabricating, processing, manufacturing, displaying, or technological service within a free ports.
- Non-free-port-enterprise: referred to any financial, stevedoring, catering, hotel, business conference, transshipment, and other enterprise, which are not a free port enterprise but has been approved to operate within a free port.

To sum up, a wide variety of business operations can qualify to operate in free ports, these include import-export, warehousing, logistics, assembly, consolidation, packing, repair, processing, manufacturing, exhibitions and technical service, as well as support service, including loading and unloading, build-up and breakdown of cargo, surface transportation, customs brokerage, financial services, food, hotels and conference organization.

III. Designated scope of Free Port

A number of other agencies have expressed an interest in setting up free ports in response to corporate needs. These include the Economic processing Zone Administration of the Ministry of Economic Affairs (MOEA, which operates seven zones: Nanzih, kaohsiung, Linguang, Taichung, Taichung Harbor, Pingtung, and

Douliou), the Civil Aeronautics Administration of the Ministry of Transportation and Communications (for its Taoyuan Air Cargo park), the Taichung Harbor Bureau, Hualien Harbor Bureau, Tainan County Government (for the Southern Free Ports), Tainan City Government (the Anping Free Ports), Kaohsiung City Government (Southern Star Free Ports), and Industrial Development Bureau of the MOEA (Changhua Coastal Industrial Park, Mailiao Industrial Harbor, Guantage Industrial Harbor, and Heping Cement Harbor at Hualien). The Economic Processing Zone Administration submitted its application on Oct. 15, 2003, and the MOEA is currently collecting opinions on it from the Ministry of Finance and local government. The following is to make a brief introduction of designated scope of Keelung free port and Kaohsiung free port.

1. Keelung free port

Keelung Harbor is a primary destination for regional shipping and a transshipment point for deep-sea shipping routes. It handled 2,007,000 TEUs in 2003, accounting for 16% of Taiwan's total container handling capacity.

Keelung Harbor offers convenient transportation access, with direct links to Taipei and beyond via the SunYat-sen Freeway, Second Northern Freeway, Taipei-Keelung Highway, and the railway, as well as access to the Lanyang Plain and Suao Harbor to the east via the Coastal Highway. Keelung Harbor is adjacent to three large industrial zones, the Northern Taiwan Technology Park. Container yards, and other related facilities that can provide supporting services.

Keelung Free Port is to cover an area of 67 hectares, including 53 hectares around West Wharfs 11 to 33 and more than 14 hectares around East Wharfs 6 to 22. It is projected to start operating in September the year, and to go into full operating in January 2006. It will initially engage in existing operations such as distribution, transshipment, and freight forwarding, with international logistics, freight consolidation, repackaging, packaging, repair, assembly, and other value-added services being added later on.

Table 4 Development Area of Keelung Free Port

Area	Development Scope	Land Area (ha)
Area 1	West Wharfs 11-33	53
Area 2	East Wharfs 6-22	14
Total		67

Source: Keelung Harbor Bureau. 03/08/2004

2. Kaoshiung Free Port

Its container handling totaled 8,843,000 TEUs in 2003, accounting for 73% of Taiwan's total. Following its opening to private operators on Jan. 1, 1998 the port's cargo loading and unloading costs have dropped and its efficiency has continuously improved. The harbor's Offshore Shipping Center, currently the only one in Taiwan, began providing transshipment services for ships sailing between Taiwan and mainland China in April 1997; from 127,509 TEUs that year, the number of containers handled there soared to 630,337 TEUs last year.

Kaoshiung Free Port will have a planned area of 397.69 hectares (see Table 3) and is projected to start to operating next January. As the free port continues to provide container-related operations, development will proceed of the wharf 34-35 area. The back area of the third container center, the land around the elevated interchanger at the fourth container center, and the area at the rear of wharf 122 for the expansion of international logistics and other services.

Table5 Development Area of Kaoshiung Free Port

Harbor Control Area	No. of Plots	Land Area(sq. m.)
Jhongdao Commercial Harbor Area (first container center)	8	190,146.00
Cianjhen Commercial Harbor Area (second container center)	23	512,321.00
Siaogang and Daren Commercial Harbor Area (third and firth container centers)	76	2,219,277.98
Jhongsing Commercial Harbor Area (fourth container center)	359	1,145,180.11
Total	476	3,976,925.09

Source: Kaoshiung Harbor Bureau. 03/08/2004

. Economic Impact of Free Port

Miyagiewa(1993) analyzes an interesting aspect of the free trade zone literature claimed that a higher national income and a lower level of unemployment is dependent upon the FTZ's location within the economy. The main objective of free trade zone is to facilitate export-oriented industrial development. Most highly developed free trade zones around the world offer a variety of benefits to the companies that operate in them. These benefits include tax exemptions, duty-free

imports, and personnel recruitment services (Esteban R. Brenes, Vince Ruddy, Rene Castro, 1997). The main advantage of a free port or free trade zone is that it permits the free unhindered import of various materials and components for assembly and manufacture for subsequent export without duties and taxes.

Benefits to the host country are usually obtained from (Frankel, 1987):

1. Large infrastructure and other investment
2. Technology transfer
3. Employment and jobs
4. Added port and transport revenues or transport cost saving
5. Foreign exchange earnings as investment, salaries, and port or transport are paid in foreign exchange.
6. Revenues from export and transshipment trade are otherwise attracted.

Ghanem (1997) insisted that the economic incentives of Free Trade Zones are:

1. No restrictions on investment activities
2. Reduced tariffs for importation to home market
3. Freedom of importation from domestic or foreign markets
4. Exemption from taxes and duties
5. Capital assets exempted from customs duties.

The Free Trade Zone provides equal footing export policies to those foreign and domestic firms within designated geographical area. In addition, income tax incentives and extremely liberal foreign exchange regulations are offered in most FTZs as additional incentives to firms to engage in export activities (World Bank, 1999).

After establishment of Free Ports in Taiwan, it will result in several economic effect based on the past experience of foreign countries cases (Tseng, 2004):

- To absorb Foreign capital investment
- To increase foreign currency earnings
- To enlarge Job employment
- To promote technology transfer
- To spur Local industrial economics
- To increase port operating revenue
- To attract cargo consolidation and transit trading business

The benefit of an enterprise in Taiwan free port can enjoy the following incentives:

- Goods to be transported overseas into a free port by a free port enterprise for its operations shall be exempted from customs duty, commodity tax, business tax, tobacco and wine tax, public health and welfare dues on tobacco products, trade promotion service fees, and harbor service dues.

- Machineries and equipment to be transported overseas into a free port by a free port enterprise for its own use shall be exempted from customs duty, commodity tax, business tax, trade promotion service fees, and harbor service dues provided.
- For the goods to be sold by a business entity in a tax zone or a bonded area to a free port enterprise for its business operation, the business tax rate applicable thereto shall be zero.

Table 6 Estimated overall economic effects of Taiwan free ports

Unit: Million NTD

	2003	2004	2005	2006	2007	Total
Investment Capital Amount	2,000	3,500	4,000	5,000	5,500	20,000
Relevant industrial investment						281,441
Job employment						169,359
Export trading	120,742	124,950	129,304	133,811	138,474	647,281
Import Trading	82,207	85,072	88,037	91,105	94,280	440,701
Production Value	115,291	119,309	123,467	127,770	132,223	618,060

Sources: Kaohsiung Harbor Bureau, Keelung Harbor Bureau; compiled by Center for Economic Deregulation and Innovation, Council for Economic Planning and Development, 03/08/2004

The Free Ports Coordinating Committee notes that development of the free ports will now be pursued actively, and that the free ports will begin operating after the Ministry of Transportation and Communications issues their licenses. Operations are projected to begin in Keelung in September this year, and in Kaohsiung in January 2005. The two harbor bureaus estimate that the free ports will attract an initial investment of about NT\$4.56 billion and generate at least 900 jobs. Companies operating in the zones will add around NT\$1.9 billion in annual production value. According to the Keelung Harbor Bureau's plan, in its initial period of full operation the Keelung Free Port will attract about NT\$1.15 billion in investment and generate direct and indirect jobs for 2,100 persons (350 of them direct). Production value inside the free port will increase by approximately NT\$700 million.

The Kaohsiung Harbor Bureau predicts that the free port will integrate with neighboring areas including the multifunction trade park, the economic processing zone, Taiwan Sugar's Kaohsiung logistics park, Kaohsiung International Airport, and inland container yards to produce a multiplier effect. After its inauguration,

Kaohsiung Free port will attract approximately NT\$3.45 billion in new investment, provide 500 new jobs, and boost the production value of free port enterprises by about NT\$1.2 billion.

Table 7 Anticipated Operating Results of Kaohsiung and Keelung Free Ports

Free Port Details		Kaohsiung	Keelung
Area(hectares)		398	67
Corporate Investment (NT\$ million)	Additional investment	3,450	1,115
Production Value of Free Port Enterprises (NT\$ million)	Additional value	1,200	694
No. of Employees (1,000)	Additional personnel	0.5	0.4
No. of Free Port Enterprises		10	28
Date of Application		Oct. 2003	Dec. 2003
Projected Beginning of Operations		Jan. 2005	Sept. 2004
Projected Date of Full Operation		Jan. 2005	Jan. 2006

(f): Forecast value

Sources: Kaohsiung Harbor Bureau, Keelung Harbor Bureau; compiled by Center for Economic Deregulation and Innovation, Council for Economic Planning and Development, 03/08/2004

V. Conclusion

Owing to Taiwan free port project being not available, it's hard to make an examination on its performance at the present. We attempt to make use of two approaches to explore the problems, firstly, to review exiting relevant regulation based on "Act for the establishment and management of free ports", secondly, to interview a number of high ranking manager of shipping companies and forwarders including Yang Ming Line, Wan-Hai line, APL, OOCL, Shipping Agencies, and Freight Forwarders.

Main finding of this paper can be concluded a number of problems illustrated as following:

1. Due to unstable political atmosphere between Taiwan government and Mainland China, “Three Links” talk has no any further progressed over decade. Especially for sea cargo across Taiwan Strait should be delivered via a third place like Hong Kong or Japanese island, it arises numerous operating expenses and sailing time for Taiwanese and Mainland China carriers. If both side of governments with mutual trust attitude are willing to held high-level dialogue on “ Three link” issues, the preliminary goal of free port for attracting transit cargos and value added logistic service providing across Taiwan Strait can easily reach.
2. Customs office may team up a combined audit taskforce to conduct inspection of the autonomous management being performed by a free port enterprise in respect of its good control and management, on-line computerized customs clearance and other account-related operation and may also conduct physical inventory of the goods involved (Article 19). In other words, Custom office should inspect free port enterprise at any time for avoiding smuggling or other illegal cases happen, but free port is deemed as outside of custom territory, Utilizing public power to interfere in private business activities maybe decrease the investment intention of domestic or foreign enterprises, the deregulation of custom inspection system is necessary based on risk management principle and high tech computerized facilities.
3. Free port referred to an area which is situated within a controlled district of an international airport or an international seaport under the approval of the Executive Yuan, of an adjacent area demarcated as a controlled area, and an industrial park, Export processing zones, Science-Based industrial park, and other areas(Article 3). Under this regulation any government administration which located in or adjacent to international port has qualification to become a free port management institution, this problems happened to Taichung port and Kaohsiung port case, because harbor bureau and administration of Economic Export zone applying for free port at the same time, and their marketing targets are concentrated on international logistic service provider and warehouse operator. It goes without saying that both of them become a rival using the same cutting throat way by lower land rental fee and management expenses to attract domestic or foreign enterprises. Our government should set up inter-committee to ask two admonitions to form a partner relationship to make cooperation on free port business and affairs.
4. Business personnel form Mainland China, Hong Kong, or Macao may apply

for entry into the free port in accordance with relevant acts and regulation concerning the cross strait relationship(Act 32).Besides, according to “Act for permitting international companies inviting Mainland personal to Taiwan for doing business and related activity” stipulated any Mainland China personnel who has been permitted after the application by a free port enterprise on his behalf filed to and forwarded by the management authority of the free port may apply for the entry visa in advance, a business visit area is restricted to free port district, except for transport to/from airport and seaport, lodging on free port, holiday travel activities. It seems not convenience for Mainland China businessmen to make a business or travel trip, it will diminish the possibility of doing business with each other. Such regulation should be revised and ease the restriction on entrance permission for Mainland China people if no any security problem consideration.

5. 5% of the total employees hired by a free port enterprise shall be aborigines (Article 12), the protection of Taiwanese aborigines is government policy performed over ten decade, however using government public power to interfere in labor recruiting matter of private companies seems not appropriate, It may hinder the investment intentions of foreign companies entering into free port. To lessen labor expenses of enterprises, our government should consider the possibility of increasing the number of foreigner workers hired in free port companies.

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