Chapter II
II Regional Economic Imbalance: The International Experience.

II. 1. Regional Development Policies: An Introduction

*Regional Economic Imbalance* is a problem common to both developed and developing economies. The various processes of economic change typically result in uneven patterns of industrial development which is mainly characterized by manufacturing activity. In other words, the problem is inherent in the very nature of the process of industrialization & economic growth. In several developed economies like U.S.A, U.K., France, Italy etc.; special measures have been devised and put into effect with a view to bring down the disparities in the levels of income, savings, investment and employment and decongestion of heavily industrialized regions in conformity with the national norms. The difficulties of these lagging or depressed regions may be attributable to several factors such as peripheral location in relation to major markets or the decline of their traditional economic base. As manufacturing occupies a central place in the process of economic growth, the regional development policy in the developed economies is basically designed to guide the direction & magnitude of the spatial distribution of industrial manufacture. For a major part of the period following the Second World War, the developed market economies have evolved and pursued several variants of regional development policy. (Allen, 1978; Yuill et al 1980). The Regional Development policy in the United Kingdom had its origin in 1930 and is close to seven decades old [Law, C.M. (1980), in British Regional Development since World War I]. More or less similar policies were followed by the other countries in Western Europe with varying degrees of
emphasis and national commitment. Regional Development policy is an article of faith with the E.E.C. in an overall supra-national perspective. Even within Canada, the objective of reduction in regional disparities strikes a sympathetic chord in the highest echelons of the Federal Government where real and perceived inequalities of opportunity have the potential of raising the inter-provincial tensions in the context of Quebec’s well-known inclination for secession. (Walker, 1983; Savoie, 1986). The protagonists of Regional Development have also found powerful support from the policy-makers in the U.S.A., which is known as the Mecca of private capital & individual liberty, with its well-known aversion for state intervention in matters pertaining to economic choices of citizens. Yet, capital investment by the state in flood control measures in the Appalachians region of U.S.A. and construction of a new road network in the Region in order to improve industrial infrastructure in the wake of the “New Deal” of the 1930’s deserves special mention (House, 1983). However, the overall state investment and effect of state intervention in the U.S.A. as a whole on the industrial location decisions of entrepreneurs has been more or less negligible (Rees & Weinstein, 1983). In what follows, we propose to study briefly regional policies followed by some of the developed & developing economies in Europe & Asia & their relevance to India.
II. 2 REGIONAL POLICY IN U.K.

(i) The mainstay of Regional Policy in U.K. has been its principal focus on the manufacturing sector and the location decisions of new plants.

As the Regional policy is essentially applicable to a part of the country & not the country as a whole, the criteria for identification of such regions or parts thereof and the basket of incentives and the programmes must be in dynamic alignment with the changes in the ground realities. Most of the criteria in U.K. are founded on the base income levels & unemployment levels which in turn undergo changes over a period of time, and so is the case with the identified /identifiable backward regions. This is expected and this had also been the British experience and the British Regional programme has been based on a policy-mix of incentives and disincentives and infrastructural support & locational controls.

(ii) Regional Policy in U.K., for the most part, was designed to reduce the costs of capital and labour. Such incentives are founded on the belief that corresponding reductions in investment and operating costs will lead to comparative advantage between the identified regions. This is, in turn, expected to modify future patterns of industrial location and development in the desired direction. Such reduction in capital & labour costs were augmented by grants/loans & direct equity investment by public agencies. Nearly 80% of British Government expenditure on Regional Policy in 1977-78 was accounted for by investment grants to cover part of the costs of new
buildings and machinery (Pounce, 1981, p.107). Huge sums of money were allocated for the purpose during the 1960's & 1970's in the United Kingdom. However such policies have a built-in bias for capital intensive industries, such as petro-chemicals, though job creation is a priority need at the time of high unemployment levels (Woodward, 1974). The Scottish Development Agency & the Welsh Development Agency reinforced the efforts in this regard by making a direct equity investment on behalf of the state in private business ventures which enabled the entrepreneurs to raise extra funds. Tax incentives improved the viability of the business entities by bringing down tax obligations or altogether eliminating the same for a given specified period after commencement of commercial operations. The provision of rent free premises by business firms has an identical influence. The Regional Employment Premium Scheme, a form of labour subsidy, was in force in U.K. between 1967 & 1976. Apart from subsidizing labour costs, it helped in keeping the unemployment levels under check. In 1967, the rate was £3 for every additional male employee per week. A large chunk of the total Regional support budget was deployed for the Regional Employment Premium Scheme (see Law, 1980, pp.208-09, Manner et al., 1980, pp.31-43).

(iii) Infrastructure improvement was another area which received special attention in this regard. Keith Chapman & David F. Walker in "Industry Location & Public Policy" (1991, p.227) have forcefully
made out a case for improvements in infrastructure for attracting new investments. They observe as under:-

"Infrastructure is difficult to define, but there is no doubt it is important to industry. Clearly Serviced industrial sites, suitable properties for rent, adequate transport facilities and efficient utilities such as gas, electricity and water are all necessary for industrial development. Less obviously, an education system which produces an adaptable and enterprising work force and an environment which provides a desirable quality of life are also important. All of these are part of the infrastructure, something which is lacking in problem regions either because it has never been developed (in the periphery) or because it has deteriorated (in old industrial areas). Despite the difficulties of actually measuring the external economies associated with a good infrastructure, its importance is widely acknowledged".

In this context, the British new towns proved very effective in attracting certain types of manufacturing activity and those in Scotland were much more popular destinations for migrant firms during the 1960's than the Glasgow conurbation (Henderson, 1980, Fothergill et. al, 1983). To cap it all, Burgess (1982) is credited with the view that the amount of time & money which regions and communities spend on polishing their "image" is itself an indication of the importance attached to infrastructure in its broadest sense.
British Regional Policy was two pronged. Whereas, on the one hand, it took measures to enhance the attractions of lagging regions, on the other hand, it simultaneously made efforts to regulate growth in developed and prosperous regions. In this context, Chapman & Walker (1991, op. cit; p.228) have made significant observations as under:

"Powerful forces of circular and cumulative causation tend to reinforce growth in successful regions. 'Overheating' in such regions, as reflected in traffic congestion or inflated land and property values, has prompted many to argue that expansion continues long after it is socially beneficial".

This view found a resonant echo in the United Kingdom in the report of the Royal commission, 1940 on the Distribution of the Industrial Population. The report of the Royal commission in 1940 was preceded by Special Areas (Development & Improvement) Act, 1934. In terms of this statute, Government designated four special areas viz, North East, England, South Wales, West Cumberland and Clydeside area of Scotland. The designated special areas were declared eligible for factory buildings provided by Government, loans at concessional rate, & tax incentives. The results, from the view point of industrial dispersal and decongestion, were not found to be encouraging by the Government and later by the Royal commission which strongly recommended the decentralization of industries.
from congested part of London and a policy of Industrial
Diversification in favor of depressed regions. This was
followed up by the Government by enacting the Distribution
1947. Thus the Report of the Royal Commission, 1940
gave a big push to industrial dispersal in U.K. and laid the
foundation for British Regional Policy for the next thirty years
(McRone, 1969, pp.30-47). Indisputably, these legislative
instruments and the underlying socio-political concerns
ensured U.K.'s status as a pioneer amongst developed
economies in the area of Regional Development Policy.

(v) The Royal commission was headed by Sir Montague Barlow. It
recommended the establishment of a central authority charged with
the responsibility to ensure,

(a) Continued and further redevelopment of congested urban
areas, where necessary.

(b) Decentralization or dispersal, both of industries and
industrial population, from such areas and,

(c) A reasonable balance of industrial development, so far as
possible, throughout the various divisions of Great Britain,
coupled with appropriate diversification of industry.

vi) Under the Distribution of Industry Act, 1945, which followed the
Royal Commission Report, development areas were periodically
designated afresh thus enhancing the number of statutorily
identified depressed regions. The depressed regions are of four categories;

a) Development Areas (DA s')
b) Special Development Areas (SDA s')
c) Intermediate Areas (IA s')
d) New Towns (NT s')

The incentives are graded according to the degree of under-development & the category assigned to the depressed region. However, the qualifying threshold rate of unemployment was 4.5% and it makes a depressed region eligible for the various incentives some of which have been referred to earlier. The state reimbursed 80% cost for shifting any industrial undertaking to SDA, DA or IA in addition to other incentives & reliefs. Concessional finance, on a selective basis was ensured for those entities which created additional jobs.

(vii) A measure of “Locational control” was introduced by the 1945 Act, which decreed that the extra provision of more than 1000 sq.ft. in an Industrial Building must be intimated to the Board of Trade. The legislative control over geographical direction of new locations was strengthened through the device of Industrial Development Certificate (I.D.C.) under the Town & Country Planning Act, 1947. The I.D.C. was declared mandatory for every new building or creation of extra space above a certain size. An outstanding aspect of the policy was the strict control on building construction in the Midlands and South East regions. Control over office development
was added in 1964. As regards creation of employment opportunities, the policy was significantly effective. In this context Table-II.1 is relevant. McCrone Gavin (1969, op. cit; p.27) observes that "though the development areas contain only 20% of the nation's population, they have received in recent years nearly half of the new employment created by the projects for which Industrial Development Certificates were granted or one-third of the new factory buildings in terms of the floor space".

Again, the Department of Trade & Industry (1970, London : HMSO; p.9) have reported that "new plants opened in the Development Areas between 1945-1965 by firms based elsewhere had provided nearly half a million jobs in 1966, and Govt. built factories provided some 60 million square feet of floor space and jobs for 275000 workers".
### Table - II.1: Estimated Employment from Projects refused* an I.D.C.
as a percentage of expected employment from project
approved and refused – the Midlands and South East
Regions 1960 – 1970**

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated employment associated with refusals (000)</th>
<th>Estimated employment*** associated with refusals as a % of employment associated with refusals and approvals (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>12.8</td>
<td>18.9</td>
</tr>
<tr>
<td>1961</td>
<td>11.4</td>
<td>25.7</td>
</tr>
<tr>
<td>1962</td>
<td>12.4</td>
<td>30.5</td>
</tr>
<tr>
<td>1963</td>
<td>8.2</td>
<td>22.5</td>
</tr>
<tr>
<td>1964</td>
<td>10.3</td>
<td>27.5</td>
</tr>
<tr>
<td>1965</td>
<td>10.4</td>
<td>26.9</td>
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<tr>
<td>1966</td>
<td>12.9</td>
<td>24.5</td>
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<tr>
<td>1967</td>
<td>9.9</td>
<td>17.6</td>
</tr>
<tr>
<td>1968</td>
<td>10.8</td>
<td>18.0</td>
</tr>
<tr>
<td>1969</td>
<td>11.6</td>
<td>20.5</td>
</tr>
<tr>
<td>1970</td>
<td>10.7</td>
<td></td>
</tr>
</tbody>
</table>

Source: Dept. of Trade and Industry (Extracted from Godbole, M.D., op. cit. pp. 46-48)

* Figures relates to sustained formal refusals which are subsequently approved in the year concerned or by January of the following year.

** Complete data on refusals in the 1950s have not been made available but the evidence suggests for the South East alone a significantly lower rate of refusals in the 1950s than in 1960 and subsequent years.

*** A similar picture emerges when calculated on the basis of actual factory floor area rather than expected associated employment.

Through the Industrial Development Act, 1966, the Developed District as a region was abolished and substituted by wider continuous Development Areas where it was found essential to bring about growth and proper distribution of industry with a view to ensure decongestion. All these measures cumulatively gave a powerful push to decongestion in Midlands & South East regions.
The noose on developed and prosperous regions was indeed tight.

[McCrone Gavin, op. cit., p. 27].

(viii) The British Regional Policy can be commended for the following significant effects:

(a) Creation of satisfactory levels of additional employment in depressed regions.

(b) By 1970, higher level of manufacturing investment to the extent of 30% or £90 million per annum in Scotland, Wales & Northern Ireland were attained over what would have been expected in the absence of an Active Regional Policy.

(c) Substantial de-congestion of Midlands, London & South East by refusal of IDC's during the 60's & beyond.

(ix) The British experience of vigorous pursuit of Regional Development Policy is of special relevance to India for the following reasons:

(a) Identicality of socio-political & legal systems and historical linkages.

(b) Britain, though a developed economy, is a pioneer in the area of Regional Development policy.

(c) In contemporaneous terms, whereas in 1947, when we attained political independence and we barely recognized the existence of the problem of Regional Development; U.K. was already busy tackling the problems of economically
depressed regions. Again, when in 1970, we in India, started dealing seriously with the Regional Developmental problems, U.K. had already armed itself with an impressive array of incentives, disincentives, relevant policies, programs & legislative instruments for Development & Locational Control and the tools evolved in Britain were backed by three decades of actual experience.

II.3 REGIONAL POLICY IN FRANCE:

(i) The regional problem in France is mainly characterized by excessive concentration of industries in Paris and the imbalance of industrial growth in the Southern Region. The principal objective of French Regional Policy has been to disperse industries away from Paris metropolitan region. Industrial control measures emerged on the scene in 1955 & an Industrial location policy was also announced. The Industrial location policy, for this purpose, divided the country in 5 different zones, based on a graded differential of underdevelopment & financial incentives.

(ii) In the Paris region, industrial expansion or setting up of new industrial units are positively discouraged. Any incoming unit planning to employ more than 50 persons to occupy a floor area of 500 sq. meters or more, in the Paris region has to be approved by a national committee and it is liable to pay tax on office and industrial premises occupied by it as & when it is set up. The tax rate is @ 200 Francs per sq. meter of office space and @ 50 to 200 francs per sq. meter of industrial premises, the rate is directly proportional to the level of congestion. Similarly in the case of an
industrial unit moving out of the Paris region, the unit is entitled to a grant which is at the same rates as applicable to the office & industrial area occupied by it before leaving the Paris region. Additionally, the Unit is entitled to a decentralization subsidy up to 60% of the total expenditure on shifting.

These measures have enabled France to restrain the rapid economic growth of Paris Region. As a result, proportion of industrial buildings, measured in terms of floor space, newly set up in Paris Region, fell from 37% in 1955 to 13% in 1961. The proportion of jobs created fell from 34% to 6% in the same period. This has been a commendable achievement in a democratic polity.

(iii) Industrial adaptation grant has been instituted to encourage industrial conversion in second zone (old Mining & Textile area). Tax exemption is allowed in the third zone (relatively rich part of outer Paris) for a firm planning to decentralize.

(iv) The outstanding feature of French policy is a hierarchical system of growth & and the corresponding set of incentives is a mixture of positive incentives & negative penalty.

The Penalty Tax in Paris Region is a unique feature of French policy of locational control. To sum up, the French Model is highly relevant for India, which is saddled with problems of industrial concentration in port cities of Mumbai, Kolkatta & Chennai.

II.4 REGIONAL POLICY IN ITALY

(i) There is a typical North-South dualism in the context of Italy’s economic growth. Regional disparities characterize the Northern & Southern Regions
of Italy. High levels of sustained economic growth in Italy is broadly confined to North of Italy, which is comprised of 60% of the land area of Italy. There is a marked regional imbalance between Mezzogiorno in the South of Italy & the Rest of the country. The O.E.C.D, in this regard, has observed as under:

"The Mezzogiorno covers 40% of the total land area and has a population of nearly 20 million i.e.38% of the total population. Its economic development has been retarded by geographical, physical, climatic & historic factors. Although there has been a rapid and sustained improvement with an annual average growth rate of 5% per annum between 1951 & 1967 (as compared with a rate of 5.9% for the country as a whole), the Mezzogiorno is still, on the whole, economically underdeveloped. Net per capita income amounts to 68% of the National Average and the contribution of the region to National income is 25 per cent." [The Regional Factor in Economic Development-Policies in Fifteen Industrialized OECD Countries. OECD Paris 1970, p-17].

(ii) Italian economy, like the Indian economy, is a mixed economy. The state owns a relatively high proportion of Italian manufacturing through its holding companies (Rodgers, 1985). The relevant holding companies, namely, the institute per La Ricostruzione Industrial, Ente Nationate Idrocarburi & Ent Paticipazione Manifatturiare have between them considerable activities in steel, metals, machinery, petroleum refining, petrochemicals, paper, glass and cement. Before 1957, their presence in industry in Southern Italy (Mezzogiorno) was of a peripheral nature. Prior to
1957, they mainly confined themselves to setting up of infrastructure or improvements thereto. However, the law passed in 1957 changed all that. Pursuant thereto, they were required to make 40% of all investments in the south and to place 60 per cent of all new industrial activities there, and in fact the proportion rose from less than 20% in 1959 to around 70% by the early 1970s, though it slipped back somewhat later. Employment rose from approximately 20000 in 1953 to 1,36,800 in 1978 (Rodgers, 1985, pp. 60-1). The massive state investment in industry have brought not only employment but also modern sectors to the Mezogiorno (Rodgers, 1979:Economic Development in Retrospect: the Italian Model and its significance for Regional Planning in Market-oriented Economies)

(iii) The 1957 law was buttressed by a new law in 1965 which paved the way for a variety of incentives in the form of loans, grants, tax exemptions etc. The important incentives were: Investment subsidy up to 20 per cent of the cost of industrial buildings; up to 30 per cent of the cost of plant & equipment; loans at concessional rate (3% to 6%), tax relief in corporate and personal income-tax, reduction in turnover tax, Railway Freight charge, social security charge etc. Priority is given to large investment & investment in Industrial Nuclei. Thus, the incentives offered were quite impressive. [Barzanti Sergio, 1969: The Underdeveloped Areas within the Common Market; p.12]

(iv) Simultaneously, the 1957 law encouraged the establishment of “Industrial Zones” akin to the Growth Center concept. In 1978, there were 78 Developed Industrial Zones & half of them were, identified as Industrial Nuclei.
(v) Between 1960 & 1965, projects executed by Government controlled enterprises were the keystone to Southern industrialization, being responsible for close to half of all industrial investment in the region. Within the last six years, they have completed large plants, which required large outlays [Schachter Gustav, "Regional Development in the Italian Dual Economy" in Economic Development & Cultural Change, Vol.15, No.4, July 1967, p.402]

(vi) Additionally, at the political level, the Minister of State Participation, was fully empowered to impose investment decisions on public and private sector industrial units. Consequently, some large companies in the private sector made huge capital investments in South Italy. But the massive effort did not translate itself into the desired level of growth or a self-sustaining growth both before and after the huge incentivisation of Southern Italy. S. Gustav’s data analysis shows that the policy made some impact only after 1960, yet that was inadequate. The industrial investment increased from 91.8 billion Liras in 1951 to 181.9 billion Liras in 1959 and 434.6 billion Liras in 1963, almost 2.5 times in 4 years. The percentage composition of value added shifted towards industry. Between 1951 and 1963, the percentage contribution in value added changed from 43, 30 & 27 percent respectively in agriculture, industry & other activities to 30, 33 & 37 percent. The rate of growth in real terms also increased to 6.4 percent in 1963 from 4.3 percent in 1951-53. The income gap however widened. In 1963, per capita real income in the South was only 46.2 percent of the income of the North, as compared with 51.8 percent in 1951. Again, between 1953 to 1963, employment increased at an annual rate of 3.35
percent in the North compared with 2.35 percent in the South; while productivity grew in the South at a rate of 5 percent lower than the national average [Singh Bhagwant, "Italian Experience in Regional Economic Development and Lessons for other countries", Economic Development & Cultural Change, Vol:15, No:3, April, 1967, p.316]

(vii) In view of the above, there is near unanimity amongst the Researchers and Development Economists that the policies and the programs adopted in South Italy have not made any noticeable impact on the region. Some of the reasons for the relatively high resistance to developmental efforts are given below:-

(a) Southern Italian development is characterized by high wage levels in spite of high rates of unemployment in the region. This aspect has been highlighted in his analysis by S.Gustav (op.cit). He points out that “National wage policies do not constitute an incentive for southern ventures. Though unemployment & under-employment are more prevalent in the South, industrial wage levels are only fractions lower than in the North. Keeping in mind that southern industrial productivity is lower than in the north, industrial production costs become still higher in the south.”

(b) The “industrial zones” and industrial development areas based on the growth centre approach, introduced in 1957 did not become effective till 1963. Further, because of “southern provincialism, the number of development areas increased to cover a fifth of the southern territory & to include half of the southern population & the end is not in sight. Growth poles will be meaningless when most of
southern Italy becomes an area of development [S. Gustav, Op. cit.]

This is very obvious as the scarce resources are spread out thinly.

A similar conclusion is arrived at by Bhagwant Singh (op. cit.) when he says that too many (about 40) industrial zones were created as a result of political influence.

(c) Retention of Reinvestment profit tax in industrial zones is another negative factor in south Italy as reported by Bhagwant Singh (op. cit.). This tax discouraged the small & medium entrepreneurs in the south as the costs of honest compliance were high considering their size and scale of operation.

(d) The failure of developmental effort is also stated to be attributable to the lack of co-ordination and dove-tailing between development plans for industrial zones and overall plan for the region.

(e) Pascale Saraceno, has in this context, drawn reference to the shadow effect of the industry in the North. He states perceptively with caution “Perhaps, the most important comment suggested by Italy’s experience is that not sufficient attention has been paid to the fact that industry growing up in an underdeveloped area must operate under the shadow of industry already established in other areas of the same country, while benefiting from a degree of protection – provided by so called incentives – which is inevitably far less than that which infant industry has always enjoyed in all countries in all times” Saraceno (op. cit.) has gone on to estimate that industries in the North Central Italy had received the benefits for more than half a century from a degree of protection ranging
between 20 to 40 percent, while, the newly-developed industry of the South enjoys a series of incentives equivalent to custom protection ranging from 5 to 10 percent.

(f) In a similar vein, S. Gustav (op.cit p.401) has concluded that “the south is in a sense “oppressed” by the open economy for less obvious reasons.... The common Market and the subsequent price support policies (for grains) help to perpetuate inefficient agriculture in the south”.

(g) The Italian efforts at induced industrialization in the south also suffer from lack of well-considered and rigorous locational controls adopted by France. In the absence of a sound locational policy, Italian Regional Policy has failed to yield the desired results. (Rodgers Allan: op.cit. 1979; p,46).

To sum up, we observe that the Italian Regional problem is relevant to India as Italy is trying to deal with the problem in the context of a mixed economy where direct state investment has been used in a big way. The direct state investment has the merit of avoiding the uncertainties surrounding the response of the private sector to the sticks & carrots of Regional Policy (Chapman & Walker, op.cit,p.228). In the same context, they have cited the Indian model with approval &have remarked that “India is another country where regional development considerations have influenced the location decisions of public sector enterprises in many basic and capital goods industries. The poorest Indian states have consistently attracted a disproportionate share of investments by these enterprises since Independence”. Concurrent views are expressed by Udhay-
Sekhar, A. [(1983) : Industrial location policy: The Indian experience, Washington; DC: World Bank] and he has commented that the Indian Policy has “undoubtedly contributed to balancing the distribution of industry”. Italian experience is useful to India as it provides tangible pointers to avoidable pitfalls on the pathway to economic growth.

II.5 Other Countries: A Tabular Presentation of Fiscal Incentives

Other Countries of Asia and Europe where fiscal incentives have been adopted for industrial development of backward areas are given below briefly along with the type of incentives offered.

<table>
<thead>
<tr>
<th>Name of the Country</th>
<th>Fiscal Incentives offered</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Belgium</td>
<td>(i) Investment grants</td>
</tr>
<tr>
<td></td>
<td>(ii) Interest subsidy</td>
</tr>
<tr>
<td></td>
<td>(iii) Exemption of capital gains subject to reinvestment</td>
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<tr>
<td></td>
<td>(iv) accelerated depreciation</td>
</tr>
<tr>
<td></td>
<td>(v) tax exemption</td>
</tr>
<tr>
<td>(b) Thailand</td>
<td>(i) Exemption of one half of corporate income tax for 5 years.</td>
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<tr>
<td></td>
<td>(ii) Exemption from business tax on sales (nearly full)</td>
</tr>
<tr>
<td></td>
<td>(iii) Investment allowance to the extent of 25 per cent of the installation cost of the infrastructure.</td>
</tr>
<tr>
<td></td>
<td>(iv) Weighted deduction of transport costs</td>
</tr>
<tr>
<td>Country</td>
<td>Incentives</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>(c) Bangladesh</td>
<td>(i) Exemption from Income tax and super tax for 9 years</td>
</tr>
<tr>
<td></td>
<td>(ii) Initial Allowance @ 100% (1st year)</td>
</tr>
<tr>
<td></td>
<td>(iii) Investment allowance (1st year) @ 25%</td>
</tr>
<tr>
<td>(d) Philippines</td>
<td>Deduction from taxable income @100% of the amount invested in the shares of new companies. There is a lock-in period of 3 years</td>
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<tr>
<td>(e) Pakistan</td>
<td>(i) Exemption from tax on dividends distributed</td>
</tr>
<tr>
<td></td>
<td>(ii) Tax holiday for new units set up in the industrial estates The incentive is in the shape of deduction of income upto 10% of capital employed in the new industrial unit.</td>
</tr>
<tr>
<td></td>
<td>(iii) Investment tax credit @ 15% to 30% of the amount invested in approved industrial Public companies in Pakistan. Lock-in period is 5 years.</td>
</tr>
<tr>
<td></td>
<td>(iv) The existing industrial units are given a tax credit equal to 15% of the amount invested for the purpose of expansion.</td>
</tr>
<tr>
<td>(f) Denmark</td>
<td>Regional Development Investment incentives are not in vogue. Investment subsidies along with the other subsidies are allowed to eligible industrial units</td>
</tr>
<tr>
<td>Country</td>
<td>Exemptions and Incentives</td>
</tr>
<tr>
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</tr>
<tr>
<td>(g) Nepal</td>
<td>Exemption from excise duty for 5 yrs</td>
</tr>
<tr>
<td>(h) Fiji</td>
<td>Exemption from Income tax for a period of 3 to 8 years depending on the nature of the Industrial units &amp; its location.</td>
</tr>
</tbody>
</table>
| (i) Ireland | (i) Higher capital grants  
(ii) Free depreciation  
(iii) Investment allowance |
| (j) Luxembourg | (i) Investment allowance,  
(ii) Investment tax credit  
(iii) Exemption from Income tax  
(iv) Interest subsidies & loan guarantees |
| (k) Malaysia | (i) The tax holiday is quite comprehensive and ensures complete relief from company tax, development tax, excess profit tax & tax on dividend payout during the period of tax holiday which lasts from 1 to 10 yrs and is relatable to the capital invested, employment generated, location of the Industrial unit and product mix.  
(ii) Higher Investment Tax credit  
(iii) Reduction in taxable income at a higher rate based on the location of the hotel. |
| (I) Israel | (i) Graded system of grants for building, site development & machinery & equipment  
(ii) Concessional finance ranging from 45 per cent to 55 per cent of project cost on liberal terms.  
(iii) Entire country is divided into priority & non-priority territories. |

II.6 Conclusion:

In conclusion, we may observe that both developed and developing economies suffer in varying degrees from the problem of development of economically depressed regions. In the Western countries, the concern for regional or spatial diversity of industry was born out of welfare considerations in the 1930’s. In the developing economies, it bore the stamp of social equity & distributive justice. However, the underlying justification in both cases is often political. Disparities in economic opportunity between one part of a country and another are potentially divisive especially when ethnic or cultural sensitivities have to be addressed. Economic inequalities are often exploited by separatist movements to further their political objectives. Federal political systems have been found to be more responsive to regional interests but they face the problem of integrating regional policies within the overall economic plan at the national level. [Chapman & Walker; 1991:op.cit p-239]. Federations like Austria, Germany & Canada have
evolved adequate response mechanisms. Herein, there is a lesson for India with its ethnic, linguistic and cultural diversities. Though regional policy is seemingly concerned with purely economic issues, yet the case for regional or spatial dispersal of industry in the case of India rests on sound economic as well as political considerations & is thus an overriding national imperative. However, the "pursuit of regional dispersal of industry has to be done in a manner which harmonises the efficient use of capital & economies of scale (based on economic efficiency) with considerations of social & regional equality". (See Wright Mark,1968: pp.28-29).

End Notes to Chapter II:


5. A reference to Pascale Sarceno in this context appears in the paper presented by Sandesara, J.C. in the seminar on Regional Imbalances, Problems and Policies at the Indian Institute of Public Administration, New Delhi in March, 1972.