

# INDUSTRIAL STRATEGY ZONES

Area based incentives to stimulate economic growth



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## Table of Contents

<b>Executive Summary .....</b>	<b>2</b>
<b>1. Introduction.....</b>	<b>3</b>
<b>2. Area Based Incentives.....</b>	<b>4</b>
Industrial Strategy Zones.....	4
What's different in Scotland .....	7
Implementation .....	10
<b>3. Evidence review on effectiveness .....</b>	<b>11</b>
Employment .....	11
Local Economic Impact .....	12
Other Outcomes .....	13
<b>4. A new approach to industrial strategy .....</b>	<b>17</b>
Government strategies.....	17
Alternative approaches .....	18
How could Industrial Strategy Zones work better? .....	20
<b>5. Conclusion .....</b>	<b>22</b>
<b>Author and Acknowledgements .....</b>	<b>23</b>



## Executive Summary

- The UK Government is investing significant public money in Industrial Strategy Zones, encompassing Freeports, Investment and Enterprise Zones, and, more recently, AI Zones. The Scottish Government signed an agreement with the UK Government in February 2022 to ‘tailor the UK’s freeports programme to the Scottish policy context.’
- They benefit from a generous package of incentives, including tax reliefs, simplified planning and public investment. Grant funding and tax offers are intended to encourage international investors to companies establishing in zones. Freeports alone could cost £50m per year.
- There are 22 Industrial Strategy Zones across the UK, four in Scotland, including the Forth, and Inverness and Cromarty Firth Green Freeports. The earlier Special Economic Zones are still in operation. Implementation has been slow, with the five-year window for claiming tax reliefs extended to 10 years.
- The University Enterprise Zones (UEZ) pilot aims to facilitate greater engagement between R&D-focused companies and universities. AI Growth Zones aim to unlock investment in AI-enabled data centres and support infrastructure by improving access to power and providing planning support. Edinburgh is hosting the UK’s first National Supercomputing Centre.
- The Scottish Government is mirroring the UK approach, although with an emphasis on the transition to net zero and inclusive economic growth. There are no London Court of Arbitration (LCIA) mechanisms in Scotland’s Special Economic Zones and Freeports.
- The evidence on the effectiveness of zones is mixed, with a constantly changing model making evaluation difficult. A key criticism is that many businesses and jobs within a zone simply relocate from other parts of the region rather than being new activity, leading to a lack of net job growth overall. Measures have been taken to mitigate this risk, focusing on foreign investment, although deadweight and substitution risks remain.
- Zones are expensive, and comparisons with other investments are impossible due to a lack of relevant data. Some zones may be more effective than others, so it will be important to clearly understand why some were successful and others were not, and what factors made the difference.
- These zones have been highly controversial worldwide and partially banned in the EU under state aid-to-industry rules. There were also problems with money laundering, tax evasion, and severe market distortions.
- Industrial strategy zones should be part of a joined-up industrial strategy for Scotland and the UK. We examine current government strategies and other approaches recommended in recent Scottish reports.
- The Industrial Strategy Zones being implemented in Scotland and the UK are not the industrial wild west areas being implemented in some parts of the world. However, there is considerable scepticism that they will deliver significant improvements in economic growth or represent value for money.
- As these zones are likely to remain, we must at least ensure that as little damage as possible is done. We therefore recommend that all these zones adopt measures, including strengthening transparency and local democracy; implementing Fair Work and local employment conditionalities; strengthening skills development; and minimising displacement and tax dodging.

## 1. Introduction

The UK Government is investing significant public money in Industrial Strategy Zones, encompassing Freeports, Investment and Enterprise Zones, and, more recently, AI Zones. They are expected to generate more than £50 billion of private investment, playing a pivotal role in driving investment in high-growth sectors, as part of the UK Government's Industrial Strategy.

Freeports (known as Green Freeports in Scotland) are special areas that governments have created to boost investment into parts of the country that have historically missed out. They benefit from a generous package of incentives, improved port infrastructure and relief from customs duties and procedures. The Thatcher government first proposed freeports in the UK in their 1983 manifesto, although it made limited progress, and the Cameron government abandoned them. The idea was revived by Rishi Sunak in 2021 and expanded by Keir Starmer's government in 2024, despite earlier criticisms. The Scottish Government signed an agreement with the UK Government in February 2022 to 'tailor the UK's freeports programme to the Scottish policy context.'

Investment Zones offer tax reliefs, planning mechanisms, innovation, skills, and business support in a defined area. They hope to create 4,300 jobs and leverage around £380 million of private investment over the next 10 years. There are eight Investment Zones in England, two in Wales, and two in Scotland (Glasgow City and North East Scotland).

Enterprise Zones offer incentives to businesses to establish or expand their operations within them, including business rate relief, enhanced capital allowances and simplified planning regulations. There are 48 Enterprise Zones in England, although there are no plans to extend the programme. There are four in Scotland, and the designation has been extended to 2026.

These Area Based Incentives have been heavily criticised. These include the possibility for use as tax havens, smuggling, money laundering, lowering regulatory standards and a way to erode workers' rights. A key criticism is that many businesses and jobs simply relocate from other parts of the region rather than being new activity, leading to a lack of net job growth overall.

In this paper, we examine the plans for Area-Based Incentives, with a focus on Scotland. We look at the evidence of their effectiveness in the context of a modern industrial strategy. Finally, we make recommendations on a different approach to business incentives that drives fair work and real economic growth.

## 2. Area Based Incentives

The current Labour UK government inherited a range of area based incentive programmes – Freeports, Investment Zones and Enterprise Zones. Despite previous criticisms, they now claim, ‘These programmes can and should be key tools for driving growth across the UK, and we are committed to bringing them closer together as part of our modern Industrial Strategy, with shared delivery mechanisms and a stronger support offer from the UK and devolved governments.’<sup>1</sup> While Enterprise Zones appear likely to wither on the vine, Freeports and Investment Zones are seen as a key element of the UK government’s industrial strategy. The new Industrial Strategy Zones Action Plan aims to more closely align the programmes and plug gaps in areas ranging from planning and grid connectivity to skills and innovation support.

The Scottish Government was also a past critic of these programmes, but now ‘recognises Green Freeports and Investment Zones as opportunities to cluster activities to drive inclusive economic growth and incentivise the private sector investment.’<sup>2</sup>

### Industrial Strategy Zones

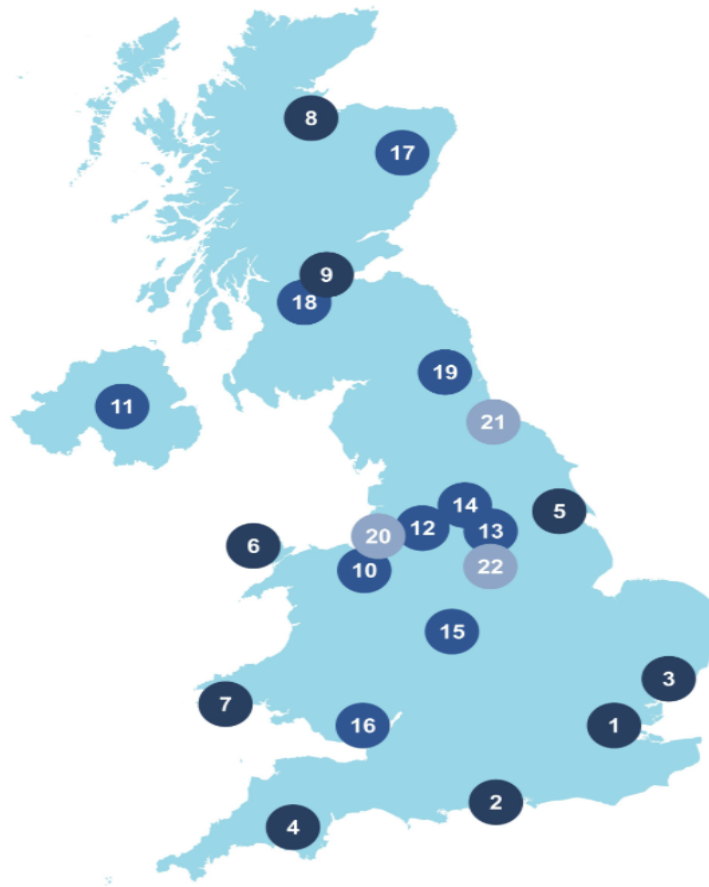
Industrial Strategy Zones exist in 22 places across the UK: 10 with an Investment Zone, 9 with a Freeport, and 3 with both (see overleaf). Working with local leaders (Mayors in England and the devolved governments), they aim to provide a long-term funding settlement, through business/non-domestic rates generated over 25 years to reinvest in the growth of the city region or cluster, and through grant funding. Each Freeport receives an initial £25 million in capital funding and provides generous tax incentives to unlock business investment. Investment Zones receive up to £160 million over 10 years, which can be split between tax reliefs and flexible spend.

To counter criticisms that these zones undermine workers' rights, the Action Plan says, ‘Learning from the example of Scottish and Welsh Freeports, Mayors should encourage businesses to sign up to fair work or good business charters where these exist to ensure jobs created are secure, fairly paid, and that employers engage constructively with trade unions.’ A representative of a relevant trade union should be invited to the Freeport Boards, which will be required to publish minutes of all meetings.

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<sup>1</sup> UK Government, *Industrial Strategy Zones Action Plan*, (June 2025), <https://www.gov.uk/government/publications/industrial-strategy-zones-action-plan/industrial-strategy-zones-action-plan>

<sup>2</sup> Kate Forbes, Deputy First Minister and Cabinet Secretary for Economy and Gaelic, (see above)



1. Thames Freeport (Advanced Manufacturing)
2. Solent Freeport (Advanced Manufacturing, Clean Energy Industries)
3. Freeport East (Advanced Manufacturing, Clean Energy Industries)
4. Plymouth and South Devon Freeport (Defence)
5. Humber Freeport (Advanced Manufacturing, Clean Energy Industries)
6. Anglesey Freeport (Clean Energy Industries)
7. Celtic Freeport (Clean Energy Industries)
8. Inverness and Cromarty Firth Green Freeport (Clean Energy Industries)
9. Forth Green Freeport (Advanced Manufacturing, Clean Energy Industries)
10. Wrexham and Flintshire Investment Zone (Advanced Manufacturing)
11. Northern Ireland Enhanced Investment Zone (in development)
12. Greater Manchester Investment Zone (Advanced Manufacturing)
13. South Yorkshire Investment Zone (Advanced Manufacturing, including green industry)
14. West Yorkshire Investment Zone (HealthTech, combining Life Sciences and Digital)
15. West Midlands Investment Zone (Advanced Manufacturing, including green industry)
16. Cardiff and Newport Investment Zone (Advanced Manufacturing, Digital and Technology)
17. North East (Scotland) Investment Zone (Clean Energy Industries)
18. Glasgow City Region Investment Zone (Advanced Manufacturing)
19. North East Investment Zone (Advanced Manufacturing, Clean Energy Industries)
20. Liverpool City Region Innovation Zone (Freeport and Investment Zone) (Advanced Manufacturing, Clean Energy Industries, Life Sciences)
21. Teesside Freeport and Tees Valley Investment Zone (Clean Energy Industries, digitally-enabled Creative Industries)
22. East Midlands Freeport and Investment Zone (Advanced Manufacturing, Clean Energy Industries)

Freeports provide a number of incentives that boost the attractiveness of the UK to international investors, including:



**Tax reliefs**

A wide range of reliefs, including on business rates and Employer National Insurance Contributions.



**Public investment**

£25 million of seed funding from government to help Freeports get sites ready for investment.



**Long-term Government backing**

A 25-year settlement to retain and reinvest business rates generated by investment in the Freeport.



**Expert support and regulatory engagement**

Freeports - and businesses within them - can work closely with regulators and experts within government to drive innovation.



**Customs incentives**

Streamlined customs procedures, simplified declarations and duty suspension to save businesses time and money on import/export processes.

The incentives for businesses to operate in these zones include financial support, grid connectivity and a simplified planning process. In Scotland, the Green Freeports Planning and Consents National Protocol is in place, which commits all relevant partners to working closely together to support successful and swift delivery for Green Freeports, including identifying lead officers across public bodies for Green Freeport planning. Grant funding and tax offers are intended to encourage international investors to companies establishing in zones.

The University Enterprise Zones programme (UEZ) pilot is a capital funding initiative funded by the former Department for Business, Energy and Industrial Strategy (BEIS). The programme seeks to address local needs for affordable commercial workspace for small businesses and facilitate increased engagement between R&D-focused companies and universities. In addition, UEZ seeks to improve connectivity and partnerships between universities and strategic partners to encourage local economic growth. It operates in five English universities.<sup>3</sup>

The latest form of economic zone is AI Growth Zones. AI Growth Zones aim to 'unlock investment in AI-enabled data centres and support infrastructure by improving access to power and providing planning support. This will help drive innovation, create high-skilled jobs, and strengthen the UK's position as a leader in AI.'<sup>4</sup> Bidders needed to have access to large power connections, deindustrialised land available and an existing technology or industrial base. A key benefit is planning consent, which is seen as a challenge for these large sites. The first pilot AI Growth Zone will be located in Culham, Oxfordshire, at the headquarters of the UK Atomic Energy Authority (UKAEA). Over 200 local authorities across the UK have expressed an interest in their areas becoming AI Growth Zones.<sup>5</sup> Several potential locations for AI Growth Zones have already been pinpointed in Scotland, with

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<sup>3</sup> DSIT, *University Enterprise Zones final impact and process evaluation*, (July 2025), <https://www.gov.uk/government/publications/university-enterprise-zones-final-impact-and-process-evaluation/university-enterprise-zones-final-impact-and-process-evaluation-executive-summary>

<sup>4</sup> DSIT, *AI Growth Zones: open for applications*, (updated June 2025), <https://www.gov.uk/government/publications/ai-growth-zones/ai-growth-zones-open-for-applications>

<sup>5</sup> C. Donnelly, *The UK government's AI Growth Zones strategy: Everything you need to know*, (Computer Weekly, 26 Sept. 2025), <https://www.computerweekly.com/news/366628066/The-UK-governments-AI-Growth-Zones-strategy-Everything-you-need-to-know>

Edinburgh hosting the UK's first National Supercomputing Centre.<sup>6</sup> The UK Government links this to its new AI Growth Plan. The plan outlines how the UK will act as a 'first customer' for promising UK start-ups developing high-quality AI hardware products, such as chips. This will be backed by a £100m investment to support start-ups.<sup>7</sup> The research evidence is mixed on the likely impact of AI on jobs, so it remains to be seen if backing AI delivers more high-quality jobs.

Some argue that the UK Government's Forest Towns are a form of investment zone as they are linked to the Chancellor's "economic growth mission" with over 14,000 jobs being created and supported. The idea is to build new towns in a forest setting. There may be similar incentives with Defra, exploring a woodland carbon purchase fund that offers upfront payments to landowners to plant carbon-rich woodlands.<sup>8</sup>

### What's different in Scotland

The basic approach to area based incentives in Scotland mirrors the UK approach and therefore attracts UK Government funding. In Scotland's Green Industrial Strategy, launched in September 2024, there is arguably greater emphasis on the transition to net zero and inclusive economic growth, hence the different name.<sup>9</sup> Scottish Ministers want to ensure 'that the jobs that are created as a result are high quality, and high value to local communities and to Scotland.' An FoI request publishes the internal correspondence between Scottish Government ministers regarding the establishment of freeports in Scotland. It highlights concerns about funding, the implications for Scottish taxes, and the need to embed Fair Work and sustainability.<sup>10</sup> A more recent FoI request highlights a different approach to arbitration mechanisms in which the Scottish Government says there are no London Court of Arbitration (LCIA) mechanisms in Scotland's zones. This means corporations cannot sue the Scottish Government over breach of contract in a potential arbitration dispute.<sup>11</sup> The UK Government is worryingly willing to enter into trade deals that include the process is known as "investor-state dispute

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<sup>6</sup> ScotlandIS, *SCOTLAND 'SET TO BE AT FOREFRONT OF UK'S TECHNOLOGICAL REVOLUTION' WITH AI INVESTMENT*, (23 July 2025), <https://www.scotlandis.com/blog/scotland-set-to-be-at-forefront-of-uks-technological-revolution-with-ai-investment/>

<sup>7</sup> E. Claridge, *UK Government launches new AI growth plan*, (Holyrood Magazine, 21 Nov. 2025), <https://www.holyrood.com/news/view/uk-government-launches-new-ai-growth-plan>

<sup>8</sup> H. Horton, *New set of forest towns to be built between Oxford and Cambridge*, (Guardian, 5 Nov. 2025), <https://www.theguardian.com/environment/2025/nov/05/new-set-of-forest-towns-to-be-built-between-oxford-and-cambridge>

<sup>9</sup> Scottish Government, *Green industrial strategy*, (Sept. 2024), <https://www.gov.scot/publications/green-industrial-strategy/pages/1/>

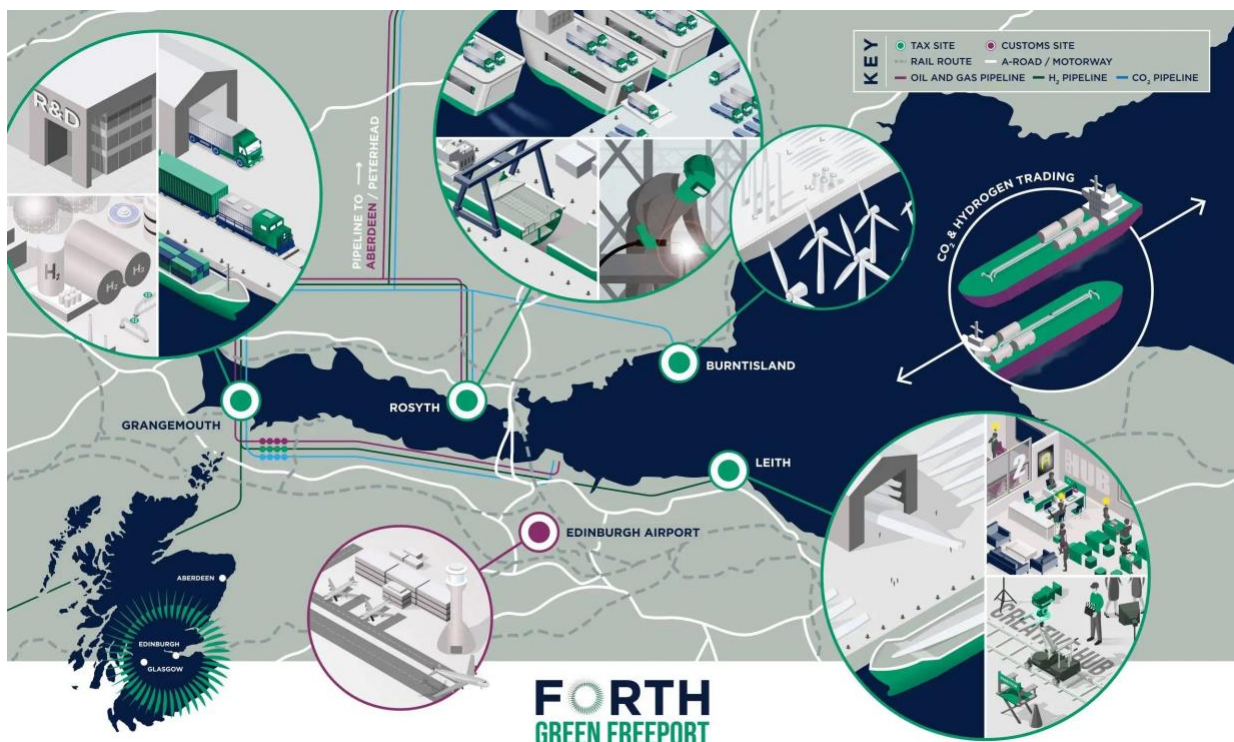
<sup>10</sup> Scottish Government, FoI request 202200335368, <https://www.gov.scot/binaries/content/documents/govscot/publications/foi-eir-release/2023/11-e/proposals-for-the-establishment-of-freeports-in-scotland-foi-release/documents/202200335368>

<sup>11</sup> @EuropeanPowell, <https://x.com/europeanpowell/status/1981473787247054853?s=43>



settlement” (ISDS). This process allows foreign corporations to override domestic law and the decisions made by parliaments. The UK Government is currently being sued over the decision to end the Cumbrian coal mine, and the Russian oligarch, Mikhail Fridman. Appears to be using the ISDS tribunal to challenge the sanctions the UK levied against him after the invasion of Ukraine.<sup>12</sup>

There are two Green Freeports in operation, in the Firth of Forth and Inverness and Cromarty Firth. Investment Zones are being developed in the Glasgow City Region and in North East Scotland. The Forth Green Freeport aims to accelerate expertise in shipbuilding and Scotland’s biggest offshore renewables development platform across Burntisland, Leith and Rosyth. It will also drive a thriving hydrogen economy and alternative fuels cluster in Grangemouth.<sup>13</sup> The recent UK Budget indicated approval of a full business case for Forth Green Freeport, which involves signing a memorandum of understanding with the Scottish Government and releasing £25 million in seed capital.



The Inverness and Cromarty Firth Green Freeport aims to be Europe’s largest heavy engineering cluster, capable of supporting manufacturing and marshalling for offshore wind projects and ancillary industries. The Sumitomo Corporation has chosen this location to invest in a £350 million cable factory to meet demand for high-voltage cables. The US energy investor Quantum Energy Partners has agreed to invest £300 million in equity into Ardersier Port. Other sites include Highland Deephaven, Inverness Port, the Port of Cromarty Firth, the Port of Nigg, and the Inverness campus, totalling 520 hectares.

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<sup>12</sup> G. Monbiot, *Hello, foreign oligarchs and corporations! Please come and sue the UK for billions*, (Guardian, 1 Dec. 2025), <https://www.theguardian.com/commentisfree/2025/dec/01/uk-sue-foreign-oligarchs-corporations-litigation-offshore-courts>

<sup>13</sup> Forth Green Freeport, <https://forthgreenfreeport.com>



The sale of land at the Port of Nigg is not without controversy. Global Energy – a business led by Roy MacGregor (the chair of Ross County football club) sold the Port of Nigg and its fabrication arm to Mitsui in July, after receiving over £30m of taxpayers’ money, including £10m just a few months ahead of the sale.<sup>14</sup>

Investment zones have made limited progress since the initial announcement. The Glasgow City Region and the North East Investment Zones will each be supported by up to £80 million in targeted investment, tax reliefs and other incentives over five years following a joint selection process by the Scottish and UK governments. The Glasgow investment zone is expected to generate around £300 million of initial private investment and support up to 10,000 jobs in the region. It will focus on advanced manufacturing, targeting innovation in the space and maritime sectors, as well as semiconductor production. The North East zone is expected to generate around £1.7 billion of private investment and support up to 18,000 jobs. It will focus on green industries and the digital and tech sectors. The advice to the UK Government is that the programme is broadly compliant with subsidy control.<sup>15</sup>

While new Enterprise Zones are not part of the new strategy, four areas in Scotland, covering 16 sites, have had their designations extended to 2026.<sup>16</sup> Each offers business rates discounts and full expensing capital allowances, enabling businesses to claim a 100% first-year allowance for main rate expenditure. Additional incentives include a streamlined planning process, high-speed broadband, international promotion by Scottish Development International (SDI), and skills and training support provided by Skills Development Scotland. The site's focus is on life sciences, low-carbon renewables and green manufacturing.

<sup>14</sup> B. Briggs, *Company that sold Highland port for secret sum received £30m of taxpayers’ money*, (The Ferret, Oct. 2025), <https://theferret.scot/global-energy-received-30m-of-taxpayers-money>

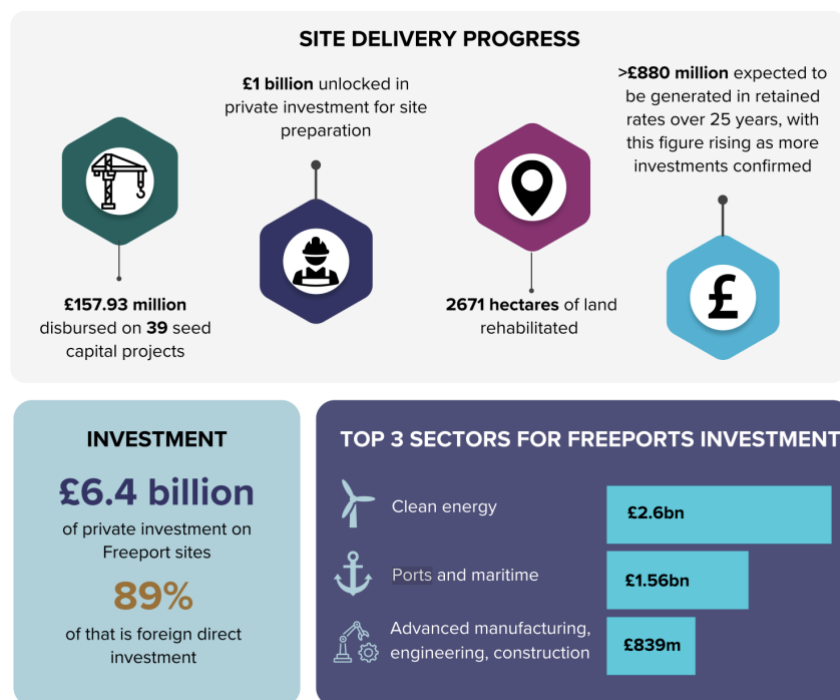
<sup>15</sup> Subsidy Advice Unit, *Report on the proposed Scottish Investment Zones subsidy scheme*, (Aug. 2025), [https://assets.publishing.service.gov.uk/media/68a2ee9d2e8cc8ec5b35733f/\\_\\_\\_Final\\_report\\_on\\_the\\_proposed\\_Scottish\\_investment\\_Zones\\_subsidy\\_scheme\\_\\_\\_pdf](https://assets.publishing.service.gov.uk/media/68a2ee9d2e8cc8ec5b35733f/___Final_report_on_the_proposed_Scottish_investment_Zones_subsidy_scheme___pdf)

<sup>16</sup> Scottish Government, *Enterprise Areas: maps*, <https://www.gov.scot/publications/enterprise-areas-maps/>

## Implementation

The UK Government's *UK Freeports Programme Report* claims 'Freeports have been laying the foundations for long-term, durable prosperity, putting them in an ideal position to pivot to the ambitions of this government's growth agenda.'<sup>17</sup> While conceding that progress has been variable.

The five-year window for claiming tax reliefs has been extended to 10 years to reflect the slower overall pace of progress. The extension in Scotland and Wales will be subject to a mid-point review in 2028. Governance structures are in place, with small staffs appointed (3.2 to 6.50 FTE). Most sites (72%) have some form of planning permission in place, although more land still needs consents. The total tax site area developed is expected to be 25% in 2026, rising to 71% in 2030 across all the Freeports. There are lots of happy PR photos, but fewer actual developments than hoped for.



Over the last 50 years, Special Economic Zones (SEZs) worldwide have grown considerably. In 1975, there were 79 SEZs in 29 countries, while today there are approximately 5,400 across 147 nations. However, over two-thirds of these zones are concentrated in Asia, while the numbers are limited in Europe.<sup>18</sup>

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<sup>17</sup> Ministry of Housing, Communities and Local Government, *UK Freeports Programme Report*, (June 2025), [https://assets.publishing.service.gov.uk/media/686fd80710d550c668de3e27/\\_\\_UK\\_Freeports\\_Programme\\_Report\\_2025\\_.pdf](https://assets.publishing.service.gov.uk/media/686fd80710d550c668de3e27/__UK_Freeports_Programme_Report_2025_.pdf)

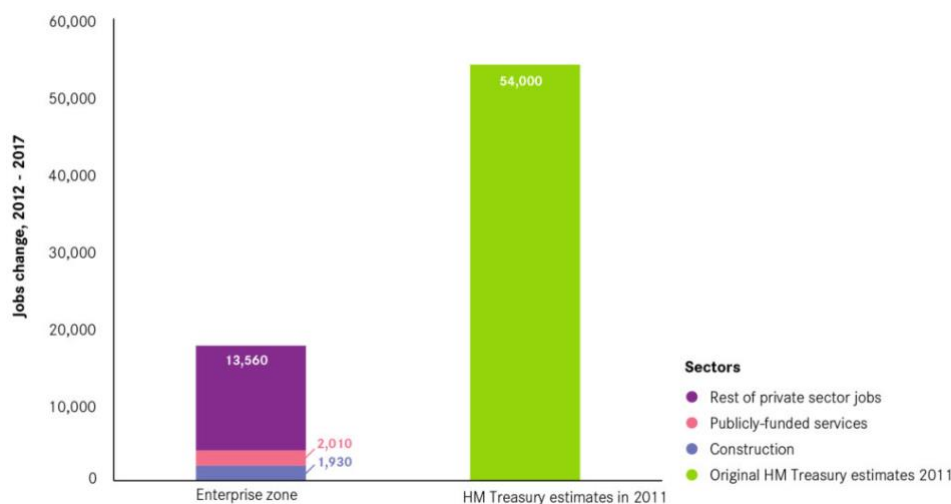
<sup>18</sup> A. Bergantino, *Are Special Economic Zone policies (SEZ) effective?*, (Applied Economics, Jan. 2025), <https://www.tandfonline.com/doi/full/10.1080/00036846.2025.2450389#abstract>

### 3. Evidence review on effectiveness

There have been UK and international studies on the effectiveness of the various forms of industrial strategy zones. The model is constantly changing, making it difficult to evaluate it against previous examples. However, in this chapter, we will examine how these zones have delivered on the initial claims.

#### Employment

A 2019 report by the Centre for Cities on Enterprise Zones in England found that between 2011 and 2017, only around one-quarter of the estimates produced by the Treasury in 2011, and ‘at least one-third of the jobs created have come as a result of the move of businesses from elsewhere, rather than the creation of new posts in new businesses.’ Jobs created in Enterprise Zones were found to be ‘overwhelmingly low-skilled’, and Enterprise Zones have been unsuccessful in attracting high-skilled economic activity ‘that would help to change the economic make-up of the economies into which they have been placed.’<sup>19</sup>



The public sector costs to create each job are considered high, with some studies suggesting the cost per job was around £17,000 to £26,000 (inflation-adjusted) in earlier versions of the policy.

A key criticism is that many businesses and jobs within a zone simply relocate from other parts of the region rather than being new activity, leading to a lack of net job growth overall. A 2011 report by the Work Foundation found that ‘up to 80%’ of jobs created by enterprise zones in the 1980s were in fact ‘taken from other places.’<sup>20</sup> The What Works Centre published its updated evidence review on area-

<sup>19</sup> Paul Swinney, *In the zone? Have enterprise zones delivered the jobs they promised?*, (Centre for Cities, July 2019), <https://www.centreforcities.org/publication/in-the-zone-have-enterprise-zones-delivered-the-jobs-they-promised/>

<sup>20</sup> Andrew Sissons and Chris Brown, *Do Enterprise Zones Work?*, (The Work Foundation, Feb. 2011), [http://www.cooscountywatchdog.com/uploads/8/7/3/0/8730508/do\\_enterprise\\_zones\\_work\\_february\\_2011.pdf](http://www.cooscountywatchdog.com/uploads/8/7/3/0/8730508/do_enterprise_zones_work_february_2011.pdf)

based incentives earlier this year. This looks at 53 UK and international studies evaluating zones of various types. They found that fewer than 20 per cent of studies examining employment in enterprise zones found a positive effect. A practical example of this is the Plymouth and South Devon Freeport, where the remarkably precise job claims have been challenged. In addition, Babcock's Supacat's Jackal 3 military vehicles being built at Honiton are being displaced to the Freeport.<sup>21</sup>

The evidence on wages and incomes is also mixed.<sup>22</sup> US studies show that wages tend to rise when competition for workers increases or when businesses require higher-skilled workers. However, most studies found no significant effect. They suggest that whilst zones might help improve wages and incomes for lower-income groups, they can also be displaced if zones make an area more attractive to higher-income groups. Just under a third of the studies find positive effects on poverty, whilst the rest find mixed, no, or adverse effects. This suggests that care should be taken when policies are pursued as a means of delivering poverty reduction. Another concern is that poverty reduction may reflect displacement if lower-income households are being priced out of an area.

The UK Government argues that it recognises the risks identified by these studies. Its Freeport programme lists a range of measures to address this.

- The Freeport incentives have been designed to support new investment specifically. For example, the Employer National Insurance Contributions relief applies only to new employees.
- Freeports are focused on primarily attracting foreign direct investment and investment from nascent sectors, which are less likely to be already established in the UK and therefore less likely to be displaced. Of the investment attracted by Freeports to date, 89% has been classified as foreign direct investment, a far higher proportion than seen in Enterprise Zones.
- Freeports have been required to complete a robust business case process, through which the government has verified the additionality of Freeport proposals.

However, such mitigations cannot prevent deadweight activity from accessing benefits. The greater the deadweight effects, the greater the chance that public money could have been better spent to level up regions through other means. If activity is displaced to Freeports, the UK government will lose employer NICs (on earnings up to £25,000), business rates, corporation tax, and SDLT revenue from activity that would otherwise be subject to full taxation.

### Local Economic Impact

Increasing employment for residents is often a key goal. However, there is limited and mixed evidence that this aim is achieved. The evidence is slightly more substantial for policies that included a hiring

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<sup>21</sup> Jim Funnell, *Plymouth & South Devon Freeport – That Sinking Feeling*, (The Totnes Pulse, Dec. 2024), <https://www.totnespulse.co.uk/plymouth-south-devon-freeport-real-job-projections/>

<sup>22</sup> What Works Centre, *Evidence topic: Area based initiatives*, (May 2025), <https://whatworksgrowth.org/resource-library/area-based-initiatives/>

requirement, suggesting that policymakers seeking to improve local residents' employment should consider adding a local hiring requirement.

International studies confirm that displacement affects businesses in nearby areas. This means that the positive impacts on companies targeted by the zones may come at the expense of other businesses, resulting in no aggregate effect on employment or the number of firms in the larger geographical area.

The Scottish Government conducted a 2021 survey on the impact of economic development zones.<sup>23</sup> There were 39 responses from businesses, local authorities and other groups. Reflecting on place-based economic development interventions to date, non-domestic rates (NDR) relief was noted as the most beneficial of the historical interventions, with enhanced capital allowances and a streamlined planning process close behind. The survey reflected concerns about displacement and winners and losers arising from the bidding process. Scottish progress should align with the UK timetable as much as possible, whilst allowing for variation to reflect devolved policy.

### Other Outcomes

Some commentators have questioned whether the tax incentives provide a lasting recovery, as economic activity may not extend beyond the duration of the time-limited incentives. The policies may suffer from "deadweight," where the economic activity would have happened anyway, and "substitution," where activity simply moves from one location to another. There are concerns that a portion of the tax savings for businesses may instead result in increased rents and benefits for property owners, rather than creating new economic value.

The Office for Budget Responsibility said in 2021 that tax breaks in England's freeports would cost the government £50m a year and that their impact on GDP was likely to be so small it would be 'difficult to discern even in retrospect.' They were also sceptical that the previous government's measures would avoid displacement, saying, 'We have assumed that the main effect of the freeports will be to alter the location rather than the volume of economic activity.'<sup>24</sup>

Separately, the OBR estimated that freeports would cost £50 million per year from 2022–23. This equates to approximately 0.04% of the Government's overall spending on economic affairs. However, the OBR warned that any estimate of the cost of freeports is highly uncertain due to unknowable factors, such as the extent of uptake of tax relief and the degree of employment additionality. The Government initially estimated the cost of investment zones at £1 billion over five years. However,

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<sup>23</sup> Scottish Government, *Economic development zones: survey analysis*, (January 2021), <https://www.gov.scot/publications/survey-response-analysis-scotlands-economic-performance-contribution-place-based-economic-development-zones/pages/1/>

<sup>24</sup> Rob Merrick, *Freeports of no economic benefit says Treasury watchdog, in damning verdict*, (The Independent, 27 October, 2021), <https://www.independent.co.uk/news/uk/politics/freeports-office-budget-responsibility-sunak-b1946497.html>



extending tax reliefs could increase costs to £2 billion over 10 years, or £200 million per year, a figure that equates to approximately 0.16% of Government spending on economic affairs.

Understanding the precise public investment in freeports and investment zones relative to other public investments is almost impossible due to the lack of relevant data. The Westminster Business and Trade Committee recommended that ‘The publication of detailed sub-national statistics on regional public investment would facilitate meaningful analysis, scrutiny and discussion of regional inequality by Parliament, civil society and the public. The publication of such statistics would allow Parliament to compare the investment in freeports and investment zones with other investments in the economy.’<sup>25</sup>

The Institute for Fiscal Studies (IFS) concluded that conducting the impact and value for money evaluations will be fundamentally difficult<sup>26</sup>. Estimating the effect of freeports involves comparing actual outcomes in ports with what would have occurred in the absence of the policy. They welcome the work programme of monitoring and evaluation of the Freeports policy. However, they warn that this cannot fully overcome the fundamental difficulties in assessing the policy’s local and national impacts and its value for money. Some zones may be more effective than others, so it will be important to clearly understand why some were successful and others were not, and what factors made the difference.

Another concern over zones is the lack of transparency. There is a UK petition currently running that seeks, ‘To ensure full transparency by releasing data on governance, funding, and operations of free zones. Plus a public review to assess impacts, such as job displacement and value for taxpayers’ money.’<sup>27</sup> It has attracted over 10,000 signatures. This builds on concerns about developments such as the Teeside Freeport, the subject of Private Eye’s eight-page exposé ‘Stripped Tees’.<sup>28</sup> Labour MP Andy McDonald raised concerns about what he called “truly shocking industrial-scale corruption” in Parliament. The UK Government has responded to the petition claiming that, ‘All Industrial Strategy Zones (ISZs) are subject to the same laws and regulations as the rest of the UK.’ They have also



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<sup>25</sup> UK Parliament, *Performance of investment zones and freeports in England*, (Business and Trade Committee, April 2024),

<https://publications.parliament.uk/pa/cm5804/cmselect/cmbeis/272/report.html#:~:text=Separately%2C%20the%20OB,R%20estimated%20that,overall%20spending%20on%20economic%20affairs.>

<sup>26</sup> IFS, *Freeports: what are they, what do we know, and what will we know?* (March 2023),

<https://ifs.org.uk/sites/default/files/2023-03/Freeports-what-are-they-what-do-we-know-and-what-will-we-know.pdf>

<sup>27</sup> David Powell, *Transparency and Review of the free zones and ports impacts*,

<https://petition.parliament.uk/petitions/729478>

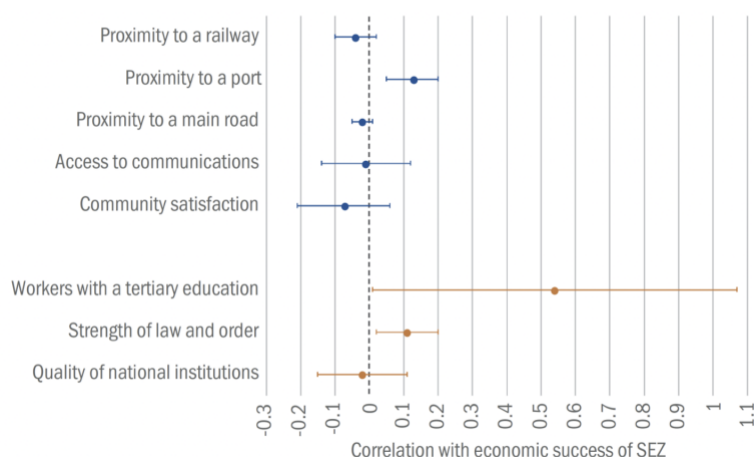
<sup>28</sup> Private Eye video report, <https://x.com/i/status/1987197941728121328>

published regular reports, minutes, and trade union representatives are on all Freeport Boards.<sup>29</sup> They rejected the call for an independent review, which is less than convincing after £560m has disappeared into one Freeport alone. If Freeports are the same as any other development, we have to ask what is the point. As we have shown, the range of incentives and regulatory relaxations means that they are not the same.

Others are concerned that Compulsory Purchase Orders (CPOs) in England are ‘The next stage in expansionist free zones is corporate land and property grabs, which are stepping stones to charter cities.’ The expansionist risks with zones are summarised in this blog, which argues that the result is ‘regional economic policy that exempts vast swathes of the country from normal democratic oversight, environmental regulation, and labour standards.’<sup>30</sup>

The EU has banned most special economic zones (SEZs) in Europe, although there are many loopholes. This is because SEZs are considered state aid to industry, as they offer uneven exceptions to regulations based on a business's location. There were also problems with money laundering, tax evasion, and severe market distortions. European studies show that most SEZs have failed, though the reasons some succeed and others fail remain unclear. Proximity to a port and the presence of large numbers of tertiary-educated workers are positive factors.<sup>31</sup>

**Figure 3** Proximity to a port, larger numbers of workers with a tertiary education, and better law and order are associated with economically successful SEZs



<sup>29</sup> UK Government, *Petition response*, (28 November 2025), <https://petition.parliament.uk/petitions/729478>

<sup>30</sup> D. Powell, *The Magic Money Tree: How Brexit Unlocked Britain's Corporate Welfare Bonanza*, (5 Nov. 2025), [https://europeanpowell.substack.com/p/the-magic-money-tree-how-brex-it-unlocked?r=2w9sq7&utm\\_campaign=post&utm\\_medium=web&triedRedirect=true](https://europeanpowell.substack.com/p/the-magic-money-tree-how-brex-it-unlocked?r=2w9sq7&utm_campaign=post&utm_medium=web&triedRedirect=true)

<sup>31</sup> C. Askoy, *Special Economic Zones and the slow path to regional convergence*, (CEPR, Nov. 2024), <https://cepr.org/voxeu/columns/special-economic-zones-and-slow-path-regional-convergence>



In the USA, ‘inverted tariff structures’ are consistently cited as an important driver of freeport activity. However, a UK study concluded that ‘Introducing Freeports in the UK is unlikely to generate any significant benefits to businesses in terms of duty savings. Tariffs on intermediates are typically lower in the UK than on final goods, ruling out duty savings in most cases. In addition, in those sectors for which we have been able to identify any inversion, the benefits are small and would not have any material impact on the UK economy.’<sup>32</sup>

There are more egregious examples of zones worldwide that should serve as a cautionary note, even if the more extreme measures are not replicated in the UK at this time. One example is Próspera in Honduras, which allowed private investors to establish semi-autonomous cities with their own legal systems, courts, and police. The pitch attracted libertarian tech investors like Peter Thiel (Palantir) to escape ‘paralysing’ government regulation, create business-friendly zones, and let the market deliver prosperity. Companies could choose their own regulations from a menu of dozens of countries, mix-and-match rules from different jurisdictions, or invent entirely new ones.<sup>33</sup> It is also concerning that many of the economic players involved in UK investment zones have similar controversial investments abroad. BlackRock is one, and DP World (owner of P&O Ferries) is another.<sup>34</sup>

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<sup>32</sup> P. Holmes & J. Garret, *Tariff inversion in UK Freeports offers little opportunity for duty savings*, (UKTPO, July 2020), <https://blogs.sussex.ac.uk/uktpo/2020/07/28/tariff-inversion-in-uk-freeports-offer-little-opportunity-for-duty-savings/>

<sup>33</sup> D. Powell, *Suffolk's Forest City and the Ghost of Próspera: Why Britain Should Learn From Honduras*, (23 Nov. 2025), [https://europeanpowell.substack.com/p/suffolks-forest-city-and-the-ghost?utm\\_campaign=post](https://europeanpowell.substack.com/p/suffolks-forest-city-and-the-ghost?utm_campaign=post)

<sup>34</sup> D. Powell, *Starmer's Grovel to an Epstein-Linked Shipping Giant: Labour's £1bn Betrayal of Sacked Workers and Trafficking Survivors*, (15 Nov. 2025), [https://europeanpowell.substack.com/p/starmer-s-grovel-to-an-epstein-linked?utm\\_source=post-email-title&publication\\_id=2107713&post\\_id=178930809&utm\\_campaign=email-post-title&isFreemail=true&r=wnssz&triedRedirect=true&utm\\_medium=email](https://europeanpowell.substack.com/p/starmer-s-grovel-to-an-epstein-linked?utm_source=post-email-title&publication_id=2107713&post_id=178930809&utm_campaign=email-post-title&isFreemail=true&r=wnssz&triedRedirect=true&utm_medium=email)

## 4. A new approach to industrial strategy

Industrial strategy zones should be part of a joined-up industrial strategy for Scotland and the UK. Industrial strategy can have several meanings. It has typically been used to describe government interventions that support the development of particular industries, especially manufacturing. However, the term is increasingly used more generally to refer to state interventions that seek to alter the structure of economic activity in a particular direction. These might be economic, environmental or social.

### Government strategies

Both the UK and Scottish governments have industrial strategies that span reserved and devolved powers, reflecting their respective priorities.

The Scottish Government describes its policy as a *Green Industrial Strategy*.<sup>35</sup> This highlights a focus on maximising the opportunities created by the transition to net zero. Therefore, they prioritise investment in wind power, carbon capture, hydrogen, and other forms of clean energy, along with the necessary financial services. Practical measures include strengthening the supply chain, enhancing skills, conducting research, planning, and improving infrastructure. They see investment zones as part of that infrastructure.

The UK Government's policy is outlined in *The UK's Modern Industrial Strategy*.<sup>36</sup> The government describes the strategy as a 'whole-of-government effort', with the state taking a more active role in supporting businesses. It aims to improve the business environment by reducing electricity costs, planning delays and regulatory burdens and by expanding access to finance and skills. Regional growth will be supported through local growth plans, new investment funds for city regions and closer partnerships with devolved administrations. They will target support for foundational industries (such as steel, chemicals, and ports), invest in critical supply chains, and increase defence spending. In process terms, they will establish a permanent Industrial Strategy Council. Industrial Strategy Zones (Investment Zones and Freeports) and AI Growth Zones are part of the strategy.

While the broad approach of both strategies has been welcomed, particularly the commitment to work constructively together, both policies have been criticised for being too focused on specific industries. In response, both argue that, with limited resources, there must be priorities. The main

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<sup>35</sup> Scottish Government, *Green Industrial Strategy*, (September 2024), <https://www.gov.scot/binaries/content/documents/govscot/publications/strategy-plan/2024/09/green-industrial-strategy/documents/green-industrial-strategy/green-industrial-strategy/govscot%3Adocument/green-industrial-strategy.pdf>

<sup>36</sup> UK Government, *The UK's Modern Industrial Strategy*, (June 2025), [https://assets.publishing.service.gov.uk/media/68595e56db8e139f95652dc6/industrial\\_strategy\\_policy\\_paper.pdf](https://assets.publishing.service.gov.uk/media/68595e56db8e139f95652dc6/industrial_strategy_policy_paper.pdf)

concerns of business organisations are inconsistent policymaking, complexity, the planning system, skill shortages, and unfair overseas competition.<sup>37</sup>

### Alternative approaches

There is a broad consensus on the issues that an industrial strategy must address. The UK and Scotland have experienced a significant slowdown in economic growth since the Great Financial Crisis of 2007-08, and the pandemic has worsened it. This slowdown has been partly caused by lower investment, but mainly by a slump in productivity growth, both in absolute terms and compared to other advanced economies.

Professor Sir Anton Muscatelli, in his recent report on regional economic development in Scotland, argues that economic development funding has been deprioritised.<sup>38</sup> This includes cuts in discretionary funding for Scotland's enterprise agencies and even deeper cuts in local authority economic development departments. He recommends greater devolution of powers to Scottish city regions, similar to that envisaged in England, particularly in terms of funding for innovation, skills, and other key place-based investments. Sadly, his vision is limited to the regional level and underplays the role of local economies, with mainly centralising recommendations. He does say that empowering councils is central to attracting investment, driving innovation, and delivering sustainable growth, although without recommendations to help deliver this. His comments on regulation and employment law reform lack evidence, as IPPR Scotland highlights.<sup>39</sup> He is sceptical about Freeports, saying, 'If freeports are to deliver genuine additionality rather than moving activity, transparency, accountability, and a clear link to long-term innovation and productivity will be essential. This cautionary point applies equally to Investment Zones.'

A Future Economy Scotland paper also highlights Scotland's challenging economic outlook.<sup>40</sup> Scotland's economy grew by a sluggish 1.2% in 2024, and this follows a prolonged period since the global financial crisis, when Scotland's economy – like the rest of the UK – has underperformed relative to other advanced economies. They argue that 'This ambitious vision cannot be achieved through incremental policy changes, or supporting a small number of sectors to transform. Instead, it requires a wholesale transformation of Scotland's economy across multiple different sectors, and a

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<sup>37</sup> Prosper, *UK Industrial Strategy Must Unleash Scotland's Growth Industries to Achieve UK's Potential*, (December 2024), <https://prosper.scot/uk-industrial-strategy/>

<sup>38</sup> A. Muscatelli, *Regional Economic Development in Scotland*, (Nov. 2025), <https://scottishlabour.org.uk/wp-content/uploads/2025/11/Independent-Report-on-Regional-Economic-Development-in-Scotland.pdf>

<sup>39</sup> S. Boyd, *In search of the Scottish economy's 'low-hanging fruit': IPPR Scotland responds to the Muscatelli report*, (IPPR, 13 Nov. 2025), <https://www.ippr.org/articles/in-search-of-the-scottish-economys-low-hanging-fruit-ippr-scotland-responds-to-the-muscatelli-report>

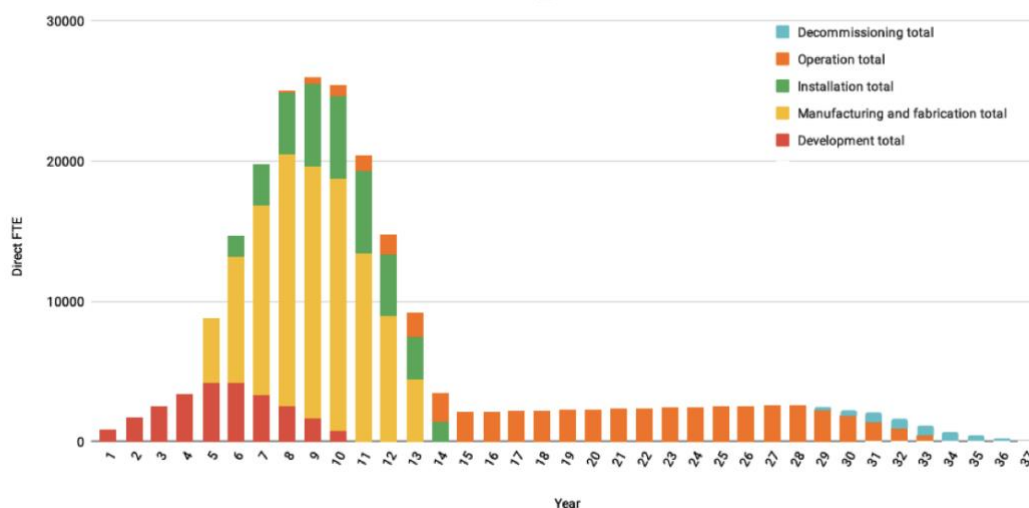
<sup>40</sup> M. Mazzucato and L. Macfarlane, *A Green, Fair and Growing Scotland: A Mission-Oriented Approach*, (Future Economy Scotland and UCL, September 2025), <https://www.futureeconomy.scot/publications/101-a-green-fair-and-growing-scotland-a-mission-oriented-approach>

fundamentally different approach to economic policy.’ These include public value considerations over economic criteria in public procurement, new conditionalities in the award of grants and subsidies and action on taxation, planning skills and training. We recommended similar approaches to procurement in our May briefing on *Social Value and Procurement Reform*.<sup>41</sup>

The focus of industrial strategy and freeport activity in Scotland is on the opportunities inherent in the green economy. However, as Future Economy Scotland’s paper *Rethinking ScotWind* highlights, the revenue gained was well below market rates, had weak supply chain incentives and missed important conditionalities, such as Fair Work.<sup>42</sup> It resulted in a ‘transfer of wealth away from the Scottish public towards private developers and investors.’ As we recommended in our assessment of Fair Work last year, the Scottish Government should use all the levers of government on every aspect of Fair Work.<sup>43</sup>

The STUC has found that the average direct jobs in the operational phase of ScotWind projects could be less than 1,500 per year.<sup>44</sup>

Graph 1: Job creation from ScotWind projects over time, if investment matches Supply Chain Plan commitments



The STUC concludes, ‘The Green Industrial Strategy identifies wind as an opportunity but fails to acknowledge the need to secure domestic manufacturing for long-term job creation, and the lack of existing fabrication site capacity. The wealth of Scotland’s wind is held almost exclusively in private

<sup>41</sup> D. Watson, *Social Value and Procurement Reform*, (Reid Foundation, May 2025), <https://reidfoundation.scot/2025/05/social-value-and-procurement-reform/>

<sup>42</sup> L. Macfarlane, *Rethinking ScotWind: Maximising Scotland’s Offshore Wind Potential*, (Future Economy Scotland, Oct. 2025), <https://www.futureeconomy.scot/publications/135-rethinking-scotwind-maximising-scotland-s-offshore-wind-potential>

<sup>43</sup> D. Watson, *Assessing Fair Work in Scotland*, (Reid Foundation, Sept. 2025), <https://reidfoundation.scot/portfolio-2/assessing-fair-work-in-scotland/>

<sup>44</sup> STUC, *Scotland’s low carbon and renewable energy economy*, (STUC, October 2025), <https://www.stuc.org.uk/resources/ons-analysis-final-2023-data.pdf>

hands, and community benefit funds are simply not retaining enough of the wealth generated by these natural resources in local areas or in Scotland. These issues do not feature in the Green Industrial Strategy, and there is a serious risk that offshore and onshore wind developments leave no lasting legacy in jobs or local wealth without a change in approach.’

On the broader UK strategy, Unite the Union’s response to the *Industrial Strategy Green Paper* consultation welcomes the strategy but says, ‘boldness must mean the government is prepared to directly intervene.’<sup>45</sup> They specifically argue that ‘financial support through enterprise zones – including or similar to freeports – cannot amount to tax giveaways but must be conditional on the creation of high-quality jobs and guaranteed trade union access and recognition.’

The campaign group Invest in Britain warns that the UK has spent significantly less than the average wealthy country over the past 30 years, with the shortfall adding up to £550bn. They suggest the Chancellor should increase public investment by £60bn a year, equivalent to 2 per cent of GDP, to close the gap over the next decade. Their economic modelling shows that higher public investment now would result in lower national debt over the long run, and they urged the Chancellor to change her fiscal rules to invest more.<sup>46</sup>

### How could Industrial Strategy Zones work better?

While critics of zones make a strong case for ending this policy, it seems unlikely that either government will heed this advice. Some zones will be allowed to wither on the vine, but others are receiving significant government support. This means we need to consider what could be done to address the worst aspects of these zones and minimise the damage.

We should start with governance reform, including:

- Strengthen local democracy by giving local authorities and communities a stronger voice. This is a key lesson from international experience where corporations have been allowed to write their own rules and devastate nearby communities.
- Improve transparency and governance. Expand FoI provisions to all aspects of zone operations.

Economic policies should include:

- Strict rules on the displacement of economic activity from communities to zones.
- Local hiring requirements, with requirements to develop skills, working in partnership with colleges.
- No relaxation of essential regulations that apply to other businesses.
- Businesses operating in zones must pay UK taxes and not be based in tax havens.

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<sup>45</sup> Unite, *Response to Industrial Strategy Green Paper consultation*, (Nov. 2024), [https://www.politicshome.com/ugc-1/1/36/0/November\\_2024\\_Unite%20response%20to%20DBT.pdf](https://www.politicshome.com/ugc-1/1/36/0/November_2024_Unite%20response%20to%20DBT.pdf)

<sup>46</sup> H. Gye, *This Budget move could put £1,800 in every worker's pocket, according to economists*, (The I Paper, 23 Nov. 2025), <https://inews.co.uk/news/politics/budget-move-1800-workers-pocket-economists-4054613>

- Productivity-enhancing interventions must benefit workers, for example, by increasing training or improving management practices.<sup>47</sup>
- Given their limited impact, Government economic and industrial strategies should not set unrealistic expectations for what they can deliver, nor be a key delivery element of national policies.
- Decentralise industrial policy to regions and communities. Local governments are best placed to understand their industrial strengths. Making Community Wealth Building a reality.

Workers should be safeguarded by:

- Focusing on high-quality jobs with good working conditions.
- Build all the Fair Work principles and conditionality into any zone investments.
- Conditions must include the types and qualities of jobs that will be created, as well as trade union access and recognition. Unite has a helpful briefing for union representatives on freeports.<sup>48</sup>

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<sup>47</sup> M. Hawking, *How Local Industrial Strategies can deliver inclusive growth*, (JRF, Fe. 2019), <https://www.jrf.org.uk/work/how-local-industrial-strategies-can-deliver-inclusive-growth#:~:text=Some%20ideas%20for%20how%20industrial%20strategies%20can,business%20grants%20to%20incentivise%20good%20employment%20practice>

<sup>48</sup> Unite, *Freeports to Union Ports*, [https://www.unitetheunion.org/media/3649/freeports-briefing\\_080221.pdf](https://www.unitetheunion.org/media/3649/freeports-briefing_080221.pdf)

## 5. Conclusion

The Industrial Strategy Zones being implemented in Scotland and the UK are not the industrial wild west areas envisaged by free-market gurus and attempted in some parts of the world. However, as we explained above, there is considerable scepticism that they will deliver significant improvements in economic growth.

International studies show that Industrial Strategy Zones, in their various formats, are likely to attract investment and jobs to those areas. However, as the IFS concludes, ‘this evidence also suggests that part – and possibly a large part – of this economic activity will be displaced from elsewhere in the country.’ Focusing on advanced manufacturing, as the Scottish zones are doing, may limit this displacement, compared to retail and warehousing.

Even if they are successful locally, at a national level (Scotland or the UK), the impacts will almost certainly be minimal. The policy is therefore no substitute for an effective industrial strategy of the type highlighted in this paper. At best, zones may make a modest contribution; at worst, they may be an expensive distraction.

Political parties have changed their minds on this policy. Keir Starmer once called it ‘giving up’ and ‘blind faith’, and Labour’s then Shadow Chancellor John McDonnell suggested it was ‘a revival of a failed Thatcherite plan from the 1980s, designed to cut away at regulation and our tax base.’ Scottish Government minister Ivan McKee said, ‘The reputation of freeports across the world is mixed, with concerns about deregulation and risks of criminality, tax evasion and reductions in workers’ rights.’ If the facts change, then politicians should reconsider their views. However, as we highlight here, much of the evidence confirms that the main policy flaws remain. The most virulent critics argue that it is the systematic transfer of collective sovereignty from communities to corporations, wrapped in the language of progress and economic growth.

As these zones are likely to remain, we must at least ensure that the benefits are maximised and that as little damage as possible is done. We therefore recommend that all these zones adopt the measures set out above, including strengthening transparency and local democracy, Fair Work and local employment conditionalities, skills development, and measures to minimise displacement and tax dodging. These should also be key elements of the broader industrial strategies adopted by the Scottish and UK governments.

## Author and Acknowledgements

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