# Contents

## Introduction ..................................................... 1

### 1. Export processing zones in historical perspective .................. 3
  What are EPZs? 3
  Why set up an EPZ? 4
  How do they operate? 4
  Variations on the theme: The examples of Mexico, Bangladesh and China 5
    “Maquiladoras” in Mexico ..................................... 6
    The Bangladesh export garment industry ............................ 6
    Special economic zones in China ................................. 7
  Problems with enclave zones 10
  Why do enterprises invest in zones? 10
    Incentives ................................................ 11
    Incentives or disincentives? ..................................... 14
  The new logic of global production 14
  NAFTA 16
  Quick response 16

## Employment, labour relations and working conditions in EPZs ............. 18

### Women’s employment in EPZs 20
### Labour legislation and labour relations 21
### Conditions of work and life 28
  Wages .................................................. 28
  Hours ................................................... 30
### The particular position of women workers in zones 31
### Labour administration 33
### The interface between zone and society 34

## Assessing the impact and potential of EPZs in a global economy .......... 36

### Are zones effective? 36
### A flawed definition 37
### What’s wrong with EPZ jobs? 39
### How are zone stakeholders responding? 39
  Responses by governments ........................................ 40
  Responses by investors ........................................... 41
  Responses by workers’ organizations ............................... 44
4. **Summary and suggested points for discussion** .......................... 47  
  Summary ............................................................................. 47  
  Suggested points for discussion ........................................ 47  
    Evaluation ......................................................................... 47  
    Priorities and guidelines ................................................ 47  

**Bibliography** ....................................................................... 49
Introduction

Some 27 million people currently work in some 850 export processing zones (EPZs) worldwide, and an increasing number of governments are considering establishing EPZs in their countries. Foreign investment is a crucial component of zone investment, and governments are increasingly competing with each other in offering generous incentives and privileges to attract investors and entrepreneurs. Zone-operating countries hope that EPZs will contribute to overall economic development and employment creation. However, they often encounter social and labour problems in the process, particularly in situations where investors have been allowed to depart from basic labour standards. Given the widespread lack of adequate and appropriate institutions for labour-management relations in EPZs, social and labour issues can become matters of major concern.

The ILO has been concerned with social and labour issues in EPZs since the early 1980s. It started publishing working papers and articles on the subject in 1981, with some 62 appearing over the next 15 years, including two recent publications on EPZs in Central America. The topic was dealt with by numerous ILO bodies and meetings, particularly those concerned with multinational enterprises and with the textile, clothing and footwear industries.

The Programme and Budget for 1996-97 made provision for an Action Programme on Social and Labour Issues in Export Processing Zones. Paragraphs 80.10 and 80.11 stated: “The long-term goal of action in this field is twofold: the creation of an industrial relations climate conducive to attracting and expanding investment in EPZs; and the operation of these zones in such a way that they contribute to the development of an environment in which foreign and domestic investments yield positive results for all those involved directly and indirectly by the activities of EPZs. This requires respect for basic international labour standards in EPZs and the establishment of tripartite national machinery to ensure social dialogue concerning their operation. As a first step towards the achievement of these objectives, a tripartite meeting of EPZ-operating countries will be held to discuss the problems which have been identified and possible ways of addressing them.”

The International Tripartite Meeting of Export Processing Zone-Operating Countries will be held in Geneva from 28 September to 2 October 1998. The agenda of the meeting, as determined by the Governing Body, is:

1. Evaluation of the performance of EPZs from a social, labour and economic perspective.
2. Identification of priorities for improving social and labour relations in EPZs.
3. Guidelines for improved social and labour relations in EPZs.

This report serves as a technical background paper for that meeting.

The approach taken in conducting the Action Programme has been to identify the most effective and innovative practices on the part of government agencies, employers and workers, and to draw conclusions and recommendations from them based on concrete experience.

The material for this report and the other outputs of the Action Programme was collected in the course of missions to Bangladesh, China, Costa Rica, Dominican Republic, Honduras, Ireland, Madagascar, Malaysia, Mauritius, Mexico, Morocco, the Philippines, Singapore, Sri Lanka, Tunisia and the United States. Information was also collected on Southern Africa and the Caribbean. The enterprises studied were mainly in the textile, clothing and footwear, electrical and electronics sectors, and ranged from local family-run enterprises to giant multinationals.

ILO: La industria de la maquila en Centroamerica (San José, Costa Rica, 1997); ILO: La situación sociolaboral en las zonas francas y empresas maquiladoras del Istmo Centroamericano y República Dominicana (Geneva, 1996).
In the course of the Action Programme, support was given to a number of ILO-organized seminars and workshops on EPZs, including a tripartite Consultation on Export Processing Zones and Export Industries in the Caribbean held in Belize in October 1997, and the Subregional Tripartite Seminar for Countries of Central America, Panama and the Dominican Republic on Social and Labour Issues related to Export Processing Zones held in San José, Costa Rica, in November 1997. Outputs of the Action Programme include a manual on how to improve labour relations and human resource management in EPZs, a guide on improving the situation of women workers, a manual on organizing workers, a homepage on the Internet, numerous working papers and information brochures and a book on the impact of globalization on social and labour conditions in EPZs.
1. Export processing zones in historical perspective

What are EPZs?

EPZs are industrial zones with special incentives set up to attract foreign investors, in which imported materials undergo some degree of processing before being exported again. EPZs have been around for a long time. The earliest references are Spanish and date from the thirteenth century when King Alfonso X granted certain commercial privileges to the city of Cadiz. The Free Zone Consortium of Cadiz was founded in 1929. Elsewhere in Spain, a free zone was set up in Barcelona before the First World War, but due to the civil war it did not really take off until after the Second World War when a number of automobile plants were established there. Shannon, in Ireland, set up a zone in 1959. The big boom in zone formation came in the 1970s, however, and has continued to the present. Table 1.1, based on figures provided by the World Export Processing Zones Association (WEPZA), shows the global distribution of zones by region in 1997, along with the main zone-operating countries. These figures are rising all the time, particularly as more countries authorize the development of private zones. The Philippines, for example, is well known for its four government-owned EPZs, but it has in fact approved 83 zones, 35 of which are already active and most of which are private.

Table 1.1. Distribution of EPZs by region, 1997

<table>
<thead>
<tr>
<th>Region</th>
<th>No. of zones</th>
<th>Key countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>320</td>
<td>United States – 213, Mexico – 107</td>
</tr>
<tr>
<td>Central America</td>
<td>41</td>
<td>Honduras – 15, Costa Rica – 9</td>
</tr>
<tr>
<td>Caribbean</td>
<td>51</td>
<td>Dominican Republic – 35</td>
</tr>
<tr>
<td>South America</td>
<td>41</td>
<td>Colombia – 11, Brazil – 8</td>
</tr>
<tr>
<td>Europe</td>
<td>81</td>
<td>Bulgaria – 8, Slovenia – 8</td>
</tr>
<tr>
<td>Middle East</td>
<td>39</td>
<td>Turkey – 11, Jordan – 7</td>
</tr>
<tr>
<td>Asia</td>
<td>225</td>
<td>China – 124, Philippines – 35, Indonesia – 26</td>
</tr>
<tr>
<td>Africa</td>
<td>47</td>
<td>Kenya – 14, Egypt – 6</td>
</tr>
<tr>
<td>Pacific</td>
<td>2</td>
<td>Australia – 1, Fiji – 1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>845</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: WEPZA and ILO.

Export processing zones are one of the main components of the foreign investment-led, export-oriented industrialization strategy. They can be thought of as the vehicle of globalization. When global production networks or chains are constructed, EPZs provide the links. With the trend towards decentralized production, the scope for zone development is increasing. The liberalization of capital and product markets serve to reinforce this trend, as does the increased need for flexibility in production. More and more countries are trying to move beyond enclave-type zones with industrial monocultures engaged in simple processing activities. By targeting incentives at specific categories of investment, countries are encouraging integrated manufacturing using domestic as well as foreign investment in a wide variety of zone formats, including free trade zones, industrial free zones, maquiladoras, special economic zones, bonded warehouses, technology and science parks, financial services zones and free ports. The common element remains, however, the provision of incentives to attract foreign direct investment for export production.
**Why set up an EPZ?**

The objective is always to attract investment that would otherwise not materialize. Countries look to such investment to:

- create jobs and raise standards of living;
- transfer new skills and expertise to local human resources;
- boost the export sector, particularly non-traditional exports;
- earn foreign exchange;
- create backward and forward links to increase the output and raise the standards of local enterprises that supply goods and services to zone investors;
- introduce new technology;
- invigorate less-developed regions;
- stimulate sectors regarded as strategically important to the economy, e.g. electronics, information technology, R&D, tourism, infrastructure and human resource development;
- and even to kick-start the economy as a whole.

**How do they operate?**

Most EPZ-operating countries offer the same package to investors, consisting of:

- financial incentives such as tax holidays, duty free imports and exports;
- dedicated infrastructure;
- abundant and relatively cheap labour;
- strategic location and market access (e.g. quotas under the Multifibre Arrangement).

The incentive package is promoted by a government agency responsible for investment, and the zones are normally administered by a zone authority. The zone authority has offices at national and zone level which typically contain a number of specialized departments, including a department for labour relations. The involvement of other government departments in zone administration varies enormously. In all cases the customs authorities are directly involved because of the duty concessions in force, but beyond that the zone authority in many countries is largely self-sufficient, drawing only occasionally on other departments such as labour. In some cases however, the cooperation extends beyond labour to include agencies responsible for welfare, social and women's affairs. The zone authority normally offers a one-stop shop to investors, allowing them to deal with just one office (instead of 20-30) in obtaining the approvals and completing the procedures required to set up operations.

Investors in the zones are often organized into manufacturers’ associations according to their sector (garments, electronics) and according to their country of origin. The sectoral associations may have subcommittees dealing with issues such as human resources.

Physically an export processing zone is like any other industrial estate or park. Most of the zones visited by ILO officials in preparing this report disposed of better facilities than those available in the domestic economy. The infrastructure was generally more modern and substantial than outside the zone, and factory premises were designed as such and generally appropriate to the activity being conducted. In countries where the development of private parks is encouraged, the disparity between the conditions inside and outside the park is often dramatic. Typically, zones are fenced off for customs and security reasons, but increasingly countries are offering zone privileges to stand-alone plants and many zones have no fences at all. ILO missions visited high-tech zones and science parks which were not enclosed in any way. At the other end of the spectrum were enclave zones where ILO missions had trouble getting past the security at the main gate, despite the fact that the visit had been authorized by the zone management. In China zones are often of city scale and resemble any other modern business complex (see below).
The Dominican Republic provides a classic example of a zone-operating country. Legislation providing for the establishment of free zones was passed in 1968 (Act No. 299) and the first zone was set up in La Romana in 1969 by the multinational enterprise Gulf and Western. Free-zone legislation was subsequently consolidated, together with other laws and regulations, into Act No. 8-90 adopted in January 1990. In terms of this law foreign direct investment (FDI) in free zones does not require any authorization from the Directorate of Foreign Investment or registration with the Central Bank. Incentives include exemption from corporate income taxes, taxes on construction, mortgage, registration and property transfers, municipal taxes, VAT on goods and services, and import and export duties. These exemptions are available for a renewable period of 15 years from the first day of production. Additional incentives are available to free-zone companies which are located in the Dominican-Haitian border region, including a 20 year tax exemption (instead of the normal 15 years) and a rental subsidy.

Act No. 8-90 tries to promote backward linkages between zone and local enterprises, particularly with regard to local materials. A Dominican enterprise supplying a zone investor may import materials for processing without paying import duties, putting them on a more equal footing with products that the zone investors could import directly. Private development of zones is permitted and some 35 zones are now in operation, 15 of them public, 18 private and two under mixed public/private administration. There are significant differences between the zones. The Itabo zone, for example, only targets Fortune 500 companies and has mainly pharmaceutical and electronics firms located there with only 4 per cent of investors from the textile and garment sector, while the Cotui zone is 100 per cent comprised of textile and garment plants.

Free zones in the Dominican Republic have succeeded in their goal of attracting investment and generating employment. The largest investor is the United States, with 48 per cent of the total in 1996. The garment sector is the principal recipient of foreign direct investment, with 65 per cent; in turn accounts for 65 per cent of zone employment, 60 per cent of which is female. Table 1.2 shows that the zones in the Dominican Republic are following a development trajectory which many zone-operating countries exhibit. The number of zones increases, as does investment, but the number of plants and jobs decreases. This is because increasing competition in international markets, and increasing costs, encourage investment which is more capital-intensive.

Table 1.2. Zones, employment and investment in the Dominican Republic

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of zones</th>
<th>Enterprises</th>
<th>Employment</th>
<th>Investment RD$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>5</td>
<td>123</td>
<td>30 737</td>
<td>n.a.</td>
</tr>
<tr>
<td>1994</td>
<td>31</td>
<td>476</td>
<td>176 311</td>
<td>n.a.</td>
</tr>
<tr>
<td>1995</td>
<td>33</td>
<td>469</td>
<td>165 571</td>
<td>n.a.</td>
</tr>
<tr>
<td>1996</td>
<td>35</td>
<td>434</td>
<td>164 639</td>
<td>8 690</td>
</tr>
</tbody>
</table>

n.a. = not available.


Variations on the theme: The examples of Mexico, Bangladesh and China

There are a number of variations on the theme of export processing zones as a foreign direct investment-led development strategy. Some of these can be illustrated through a brief

1Free Zone Development Act No. 8-90, adopted on 10 January 1990.
examination of the “twin-plant” arrangements known as maquiladoras in Mexico, the bonded warehouse system used by the export garment industry in Bangladesh and the special economic zones of China.

“Maquiladoras” in Mexico

There has been much debate about the “maquiladora” assembly plants in Mexico. It is widely acknowledged that they have grown rapidly and generated a significant number of jobs. What is less widely known is that they are upgrading their production capacity and moving into integrated manufacturing activity. However, this growth does not appear to have been accompanied to the same extent by rising skills, incomes or local economic development, and it seems that further policy interventions may be necessary to secure those positive outcomes.

The maquiladora system was started in 1965 as an emergency measure to combat unemployment. The plan was for United States enterprises to set up assembly plants along the northern border of Mexico in order to absorb surplus labour. It was an in-bond system which allowed foreign (mainly United States) firms to have goods processed for re-export by twin plants in Mexico. No Mexican import duty was paid on the imported components and United States import duty on the returning goods was paid only on the value added. Interior areas of Mexico were added to the designated border areas in 1972, and in 1989 the export requirement was lowered from 80 per cent to 50 per cent. The 1994 North American Free Trade Agreement (NAFTA) has since liberalized the arrangement, extending the same advantages to all producers in North America in phases up to the year 2001. The rules-of-origin provisions of NAFTA will mean that inputs from outside North America will be liable for duty after 2001. This should favour the consumption of Mexican inputs and promote the formation of backward linkages, something which has not occurred to date.

Maquiladoras are clustered around cities such as Tijuana, Ciudad Juarez and Matamores, and each one is linked in a production chain to cities on the United States side of the border. The Tijuana area specializes in electronics, and it is now the most important television producing area in the Americas; many Japanese and Korean plants have established themselves there to penetrate the United States market. Production in Ciudad Juarez is mainly in the auto parts and auto assembly sectors; in Matamores the plants specialize in electronics components. The maquila industry produces exports worth US$5 billion net per annum. Exports from the 3,200 plants in the maquila sector represent over 30 per cent of total exports.

The Bangladesh export garment industry

Bangladesh has enclave-style export processing zones which have generated significant numbers of jobs, and more are planned. In addition, the export garment industry, using a system of letters of credit and bonded warehouses, has proved particularly dynamic. The Bangladesh export garment industry has grown from nothing in the 1970s to become the country’s principal export earner in the 1990s. The first exports took place in the mid-1970s and they have grown by 20 per cent per annum to earn US$3.4 billion from sales to 45 countries in the 1996-97 financial year. This accounts for almost 70 per cent of Bangladesh’s total exports. The United States is the main market with 50 per cent of exports by value, followed by the European Union with 40 per cent. This dramatic growth is largely due to the quota-based trading system known as the Multifibre Arrangement which obliged quota-poor East Asian exporters such as the Republic of Korea to find quota-rich production platforms from which to supply the United States and European markets. To cater for this need the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) administers a bonded warehouse system whereby cloth is sent in duty-free by customers for cutting and sewing before being exported direct to the distributor.
Other incentives granted to the industry include duty-free import of capital goods and a tax at source of only 0.25 per cent.

Bangladeshi entrepreneurs found it relatively easy to enter the export garment sector since the technology was cheap, labour-intensive and easy to operate. At the start of 1998 there were more than 2,600 garment factories employing 1.3 million people, 90 per cent of whom were young women. This represents over 70 per cent of female formal sector employment in Bangladesh.

There are signs that the garment industry is upgrading from the simple assembly of shirts and the value-added component is now estimated by the BGMEA at 37-40 per cent. There has also been an increase in local sourcing, and some 80 per cent of the accessories used are now sourced locally.

Special economic zones in China

Export processing zones in China are very different from those in other countries. The special economic zones, as they are known, are not only designed to promote investment but to experiment with market economics on a controlled basis, with a view to extending it to other parts of the country in due course if it is deemed desirable. They have some of the same features of zones in other countries in that they are designated areas with specific incentives to promote investment, but the zones are not only industrial parks. Rather they are entire cities or areas containing all the usual community features such as residential areas, commercial and recreational facilities, transport infrastructure, education, health and other social services. This helps to avoid many of the social problems experienced by less organic zones in other countries. City-scale zones have the advantage of promoting a more comprehensive and integrated investment profile and facilitating backward and forward linkages between zone locators and local enterprises.

There are at present seven different types of zones or areas in China in which investment incentives are available to investors, namely:

— special economic zones such as Shenzen and Hainan, which often contain areas designated as free trade zones, export processing zones and high-tech or science parks;
— economic and technological development areas such as Tianjin;
— high and new technology zones;
— open coastal cities;
— open coastal economic areas;
— inner and border cities;
— Pudong New Area.

Foreign involvement can take a variety of forms, with each one enjoying specific taxation and investment incentives and operating under different conditions, in particular with regard to the industrial sector and access to the domestic market. The forms are:

— **representative offices** — only for preparatory or auxiliary activities, including market research and consultancy services; cannot recruit local staff directly without going through government authorized agents; may not earn income from local clients;
— **wholly foreign-owned enterprises** — must be approved by the Ministry of Foreign Trade and Economic Cooperation; may not be permitted in certain industries; have a limited lifespan (generally less than 50 years); may not reduce their registered capital during their term of operation;
— **equity joint ventures** — must be approved by the Ministry of Foreign Trade and Economic Cooperation; the foreign contribution must be at least 25 per cent (and usually less than 50 per cent); capital contribution cannot be repaid in the lifetime of the joint venture and
may be in cash or capital goods, etc.; profit-sharing is proportionate to investment; specified lifetime; taxable entity on worldwide income;

— **cooperative joint ventures** — must be approved by the relevant authority; based on specific contract and duration; foreign partner contributes equipment, cash, materials; Chinese partner contributes land and buildings; partners are separate taxpayers; foreign partners’ contribution is repayable during joint venture period if assets are transferred to the Chinese partner at end of contract period with no consideration;

— **management/operation contracts** — used in industries such as tourism (e.g. hotel management); relatively short-term; unfavourable tax regime.

More and more enterprises are establishing themselves as wholly foreign-owned rather than as joint ventures, and the former exceeded the latter for the first time in 1997. This is partly due to the progressive opening up of the Chinese economy, and partly a reflection of the greater confidence of investors to “go it alone” without a Chinese partner.

Table 1.3 details the flow of foreign investment into China from 1987 to 1997. It is interesting to note that the number of projects has continued to decline (from a high of 83,437 in 1993 to 21,001 in 1997) while the amount of investment capital actually used has continued to rise (from US$27.5 billion in 1993 to US$45.25 billion in 1997), indicating that the capital-intensity of the projects has increased. The total amount of foreign capital contracted or pledged has continued to fall (from a high of US$91 billion in 1995 to US$51 billion in 1997), but the actual amount of foreign capital used has continued to rise (from US$37.5 billion in 1995 to US$45.2 billion in 1997).

Table 1.4 indicates that the vast bulk of the investment has come from **Hong Kong** (US$119 billion, or 54 per cent), although a lot of that capital may have originated elsewhere and simply been routed through Hong Kong. This is followed by the roughly equal contributions of **Japan** (US$18.5 billion, or 8.3 per cent), **Taiwan, China** (US$18.3 billion, or 8.2 per cent) and the **United States** (US$17.5 billion, or 7.9 per cent).

### Table 1.3. China: Utilization of foreign capital

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of projects</th>
<th>Total amount of foreign capital pledged (US$ billion)</th>
<th>Total amount of foreign capital actually used (US$ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979-82</td>
<td>920</td>
<td>4.958</td>
<td>1.769</td>
</tr>
<tr>
<td>1983</td>
<td>638</td>
<td>1.917</td>
<td>.916</td>
</tr>
<tr>
<td>1984</td>
<td>2 166</td>
<td>2.875</td>
<td>1.419</td>
</tr>
<tr>
<td>1985</td>
<td>3 073</td>
<td>6.333</td>
<td>1.956</td>
</tr>
<tr>
<td>1986</td>
<td>1 498</td>
<td>3.330</td>
<td>2.244</td>
</tr>
<tr>
<td>1987</td>
<td>2 233</td>
<td>3.709</td>
<td>2.314</td>
</tr>
<tr>
<td>1988</td>
<td>5 945</td>
<td>5.297</td>
<td>3.194</td>
</tr>
<tr>
<td>1989</td>
<td>5 779</td>
<td>6.600</td>
<td>3.393</td>
</tr>
<tr>
<td>1990</td>
<td>7 273</td>
<td>6.596</td>
<td>3.487</td>
</tr>
<tr>
<td>1991</td>
<td>12 978</td>
<td>11.977</td>
<td>4.366</td>
</tr>
<tr>
<td>1992</td>
<td>48 764</td>
<td>58.124</td>
<td>11.008</td>
</tr>
<tr>
<td>1993</td>
<td>83 437</td>
<td>111.436</td>
<td>27.515</td>
</tr>
<tr>
<td>1994</td>
<td>47 549</td>
<td>82.680</td>
<td>33.767</td>
</tr>
<tr>
<td>1995</td>
<td>37 011</td>
<td>91.282</td>
<td>37.521</td>
</tr>
<tr>
<td>1996</td>
<td>24 556</td>
<td>73.276</td>
<td>41.726</td>
</tr>
<tr>
<td>1997</td>
<td>21 001</td>
<td>51.003</td>
<td>45.257</td>
</tr>
</tbody>
</table>
Foreign investment is a very significant element of industrial development in China. Enterprises with foreign investment employ some 18 million people (10 million in Guangdong Province alone) and generated exports worth US$74.9 billion in 1997, equal to 41 per cent of the total. The changing composition of those exports is starting to reflect the higher value added nature of production. The electronics sector (foreign and domestic investors) exported goods worth US$25 billion in 1997, up from US$21.5 billion in 1996. Exports of textiles (US$46 billion in 1997) and garments (US$32 billion) grew 23 per cent in 1997 and are being further promoted through the raising of the export tax rebate from 11 per cent to 15 per cent in 1998.

The Chinese Government continues to increase the number of open areas and zones, which now number around 1,500. These are gradually extending inland from the coastal areas which were originally opened to market economics. There are 48 established economic and technical development zones for example, with infrastructure worth US$6 billion and about 10 per cent of all foreign investment. Productive foreign investments are entitled to a reduced rate of corporate income tax of 15 per cent. If the enterprise is scheduled to operate for more than ten years it is 100 per cent exempt from corporate income tax for the first two years after the first profitable year, and 50 per cent exempt for a further three years. If it exports more than 70 per cent of the value of its output it is then taxed at a rate of 10 per cent after the five-year period.

The Government continues to enhance the investment environment. A Guide directive on industries open to foreign investment was published at the beginning of 1998 and provides exemption from tariffs and import-related value added taxes for government-supported projects. Areas covered by this incentive include:

- new agricultural techniques, agricultural development, energy, transport and raw materials;
- new and high-technology, advanced techniques and new equipment and materials which improve productivity, save energy and raw materials, raise economic returns and meet market demand;
projects which meet international market demand, upgrade products, open up new markets and increase exports;

— new techniques and equipment which improve the use of natural resources and environmental protection;

— projects which make full use of resources and labour in the central and western parts of China.

Problems with enclave zones

The first generation of economic zones tended to be enclaves somewhat artificially located in diverse locations. This was often to protect local industry (which was still in an import-substitution phase), from foreign competition, and customs scrutiny of the duty-free imports and exports was easier in the case of a sealed zone. In many cases, however, the choice was made according to political or other non-economic criteria, with inadequate feasibility studies and forward planing. The result was enclave zones in inappropriate locations which experienced some or all of the following problems:

— the zones failed to attract sufficient investment (there are many half-empty zones to testify to poor planning);

— they attracted the wrong brand of investment with the result that investors subsequently moved to find more appropriate conditions (such as skilled labour);

— the infrastructure was inadequate to meet the energy requirements of energy-intensive industries or to treat the industrial waste (in some countries, toxic waste is being pumped into rivers which empty into the sea and kill marine life, depriving the fishing and tourist industries of their livelihood);

— the zone was unable to sustain investment and employment growth because its location was not economically viable;

— there was inadequate social infrastructure such as transport services to get thousands of newly employed people to work, or housing to accommodate the influx of new workers;

— there were insufficient backward and forward linkages.

An answer to these problems has been to integrate zones into the local economy and society, as in China where entire cities, and in one case an entire province, Hainan Island, were declared special economic zones; or as in Mauritius where the entire island is a zone. Another approach is to plan zones with all the necessary industrial and social infrastructure in an integrated concept, such as some of the new private zones in the Philippines which include housing, transport, recreational and commercial infrastructure in the initial design. In all cases it is necessary to define carefully the comparative advantages of the potential zone (strategic location, skilled labour, natural resources, abundant cheap energy) and assess whether they are substantial enough to merit the investment required to realize such a project. The planning of the zone, the design of the incentives and the marketing campaign should all be based on the comparative advantages as defined.

Why do enterprises invest in zones?

There are a number of factors which influence the choice of a production platform by an enterprise, including (not in order of priority):

— the generosity of the incentives on offer;

— relatively low labour costs;

— the availability of appropriate human resources;

— strategic location close to key markets or partner firms;
— the quality of the infrastructure;
— the supply of raw materials;
— quota in terms of the Multifibre Arrangement (MFA);
— the labour relations environment;
— political and social stability;
— trade agreements (such as NAFTA).

This report will not deal with all of these factors, many of which are self-evident. The first two, incentives and labour costs, will be dealt with separately, before a discussion of the new logic of global production which will situate factors such as strategic location close to key markets, quotas in terms of the MFA and trade agreements. Labour relations, working conditions and human resources issues will be dealt with in the next chapter.

Incentives

The role of incentives in attracting investment is a complicated one. It is often assumed that the availability of cheap, compliant labour and a trade union-free environment are the major attractions for foreign investors. Tax and duty concessions also figure prominently in the list of incentives. However, the evolution of international competition and global production chains are changing the priorities of foreign investors. The factory visits conducted by ILO officials in the preparation of this report revealed two major considerations influencing the choice of export platform, namely, human resources and market access.

The availability of appropriately skilled human resources has become important because intensified international competition is forcing zone enterprises to improve their speed and quality of production, and many plants are introducing new technology and organization of work to raise productivity. Such production processes are more skill- and knowledge-intensive and require workers with better basic education who can be trained and retrained to use new technologies and adapt quickly to changes in working arrangements. The more widespread use of computers, for example, requires English language proficiency because the software and operating manuals are invariably in English.

The question of market access has two dimensions: the preferential access granted to certain countries in terms of trade agreements, and the speed with which the market can be reached. Access to markets is affected by the proliferation of regional trade groupings and by the quotas allocated in terms of the Multifibre Arrangement. Foreign investors are selecting export platforms which grant them access to their most important markets, and relocating if a change in trade regime compromises that access. The entry into force of the North American Free Trade Agreement, for example, has attracted substantial amounts of investment into Mexico, much of it at the expense of the Caribbean Basin whose trade agreement with the United States imposes higher tariffs and duties on products entering the United States. The imperative to respond quickly to orders and to fluctuations in market demand also obliges exporters to choose platforms that are strategically located in relation to major markets.

The low nominal wages prevailing in many EPZ-operating countries continue to play a controversial role in determining investment decisions. Labour-intensive assembly and processing operations are attracted to labour surplus economies with low labour costs, but the calculations on which investors base their decisions concern more than just nominal wage rates. Investors would rather examine unit labour costs, a calculation which takes the productivity of labour into account. In addition, many labour-intensive operations are now using expensive technology and materials, with the result that labour costs may make up only a small proportion of total production costs. In such situations the efficient operation of the machinery and optimum use of raw materials generate more important cost savings than low nominal wages.
There remains, however, a substantial number of enterprises which continue to rely on labour-intensive and low-technology production processes in which labour costs constitute a large proportion of total production costs. Such enterprises tend to be competing on price rather than on quality or innovation and consequently see labour as a cost to be contained rather than an asset to be nurtured. Such enterprises respond to increased competition by working harder rather than smarter, and as a result they typically have high rates of labour turnover, absenteeism, wastage and labour unrest. They generally have a negative view of workers’ organization and are not willing to enter into collective bargaining arrangements with trade unions. Enterprises in this category are more likely to seek out EPZs with generous tax and duty concessions, low nominal wages, an absence of worker organization and weak systems of labour administration.

Enterprises which do compete on quality and innovation (such as high-tech electronics firms running “no-fault” production lines) are invariably setting standards which are higher than national norms for wages, working conditions, health and safety and training. ILO missions in 15 different countries found very low rates of worker organization in both enterprises which compete on price and those which compete on quality. The reasons for this absence of worker organization were, however, very difficult to establish. In Bangladesh the zones are exempted from the Industrial Relations Ordinance, which provides for organizing and bargaining rights in the rest of the economy, and investors are publicly informed of that fact. In the other countries visited for the preparation of this report there was no official ban on worker organization in the zones, but few of them had taken steps to ensure that worker organization was facilitated. None of the enterprises interviewed stated that a lack of worker organization was an incentive to invest, but a number added that they would not favour the unionization of their workforce and would not be willing to enter into collective agreements. Interestingly enough, zone investors adapt to local conditions in countries where the national labour relations environment includes trade union freedoms and collective bargaining rights. Countries which have an established trade union presence in the zones do not appear to have suffered any loss of investment and have the same investor profile as countries which lack trade union infrastructure. In the Philippines, for example, 59 per cent of zone investment is in the electronics sector, and many of the leading electronics firms have increased their investments despite the presence of trade unions in the zones. Even garment-producing factories which are competing on price are steadily being organized by trade unions which have launched a recruiting drive in the zones, and the same trend is evident in the Dominican Republic where the Labour Code was amended to ensure freedom of association and collective bargaining in the zones.

The incentive regimes in three zone-operating countries, Costa Rica, Sri Lanka and Singapore, are described below.

The economy of Costa Rica ran a persistent deficit on the current account, despite the fact that it was an important exporter of bananas and coffee, and so in the 1980s the Government decided to shift from a policy of import substitution to one of export orientation based on clothing and non-traditional agricultural exports. This has been very effective and today non-traditional exports account for over 40 per cent of the total, compared to around 30 per cent for traditional exports. There are three regimes providing duty-free entry for inputs required by export processing plants.

The Free Zones Regime provides inter alia for exemption from: all duties and consular taxes on the import of goods, components and parts, containers and other packaging materials, machinery and equipment, parts and supplies; import duty on vehicles required for production, administration and transport; all duties on export or re-export of products and machinery; a ten-year exemption from capital and net assets tax, real estate transfer tax and territorial tax; exemption from sales tax, tax on repatriation of profits and a sliding scale of exemptions from tax on dividends and profits; exemption from municipal tax for ten years; no foreign exchange controls and a wage subsidy of 15 per cent for enterprises located in less developed areas.
— The Export Contracts Regime covers raw materials, goods, packaging and other non-domestic goods related to a company’s operations.
— The Temporary Admission System offers exporters full tax exemption on all goods entering the country for assembly, reconstruction or repair or incorporation into finished export products; exemption from tariffs on imports of equipment and spare parts, samples, moulds and similar items; and exemption from export, municipal and capital gains taxes. Goods may not be sold locally.

The Free Zones Regime is open to service and production-based enterprises, and enterprises outside the zones may also apply for the same incentives. Enterprises established in the free zones benefit from on-site customs inspection and may sell up to 40 per cent of their output on the local market. Zone enterprises are encouraged to use local raw materials provided they meet the quality, price and delivery criteria set by the enterprise. By 1994 some 5 per cent of the imports into the zones were of Costa Rican origin.

Costa Rica has pursued a highly successful zone strategy, firstly by attracting substantial amounts of investment into non-traditional export sectors, creating a significant number of new jobs, and secondly by evolving the strategy over time to remain competitive in a changing investment and trade environment.

The private sector in Sri Lanka has seen a rapid growth in its share of manufacturing value added since the liberalization of the economy began in 1977. The sectoral composition of the manufacturing boom has been somewhat imbalanced, however, with textiles and clothing accounting for the largest share. Of these, clothing is by far the most successful, and the lack of support from a more dynamic textile sector could now prove a drawback as the clothing sector tries to move up the global production chain. Sri Lanka has worked hard to enhance its incentive system and to improve its procedures for assessing and approving investment applications. Investment is encouraged in non-traditional exports (anything other than tea, rubber and coconut), export-related services, infrastructure, non-traditional agriculture and tourism. The Board of Investment (BOI) oversees the administration of the system and acts as a one-stop shop for foreign investors.

In order to diversify investment the BOI decided to stimulate the electronics sector through a Technology Transfer Fund that makes direct grants to enterprises which export advanced electronic components. The grants may be based on export turnover or be in the form of reimbursement of costs associated with training, acquisition of equipment for testing and calibrating, the manufacture of prototypes, dies and moulds and the development of quality control programmes.

Backward linkages are encouraged by offering the same incentives and rewards to suppliers of inputs to EPZ enterprises as those available to the zone exporters themselves. In addition, the procedures for subcontracting have been simplified. Despite these provisions the development of backward linkages has been slow and may not improve so long as imports remain duty free. Providing equal treatment to imported and local inputs may not be enough to overcome the propensity of most zone enterprises to import. Incentives are also available to small-scale manufacturers who supply zone enterprises, and this has shown some success in the supply of buttons, labels, cables and wires, garment hangers, rubber and leather soles and plastic accessories.

Singapore’s incentive structure is interesting not just for the tax incentives it provides but for the non-tax incentives as well. Both deserve further analysis. The range of tax exemptions is highly focused, applying to pioneer and post-pioneer industries (those manufacturing a product which the Government wants to promote) in the manufacturing and service sectors, to research and development organizations, to investments in new technology and to enterprises expanding their activities. Thus, the Government rewards investments which correspond to its longer-term strategic development goals. The non-tax incentives include capital assistance, equity
participation and venture capital to enterprises which invest in projects of technological or economic benefit to Singapore. There are a number of measures designed specifically to assist small and medium-sized Singaporean enterprises:

- low-cost, fixed-interest local financing enables the enterprises to upgrade and expand;
- Small Industries Technical Assistance (SITAS) reimburses up to 70 per cent of the cost of external expertise brought in to improve business operations;
- Market Development Assistance (MDA) helps local companies defray the costs of developing export markets;
- Business Development Assistance provides grants of up to 70 per cent of the cost of market studies, overseas trips to explore new technologies or participation in approved seminars;
- Product Development Assistance provides dollar-for-dollar help to local companies to develop new, or improve existing, products and processes;
- Research and Development Assistance includes grants to Singaporean registered companies doing R&D of technological significance;
- Software Development Assistance encourages local companies to develop innovative software products;
- other incentives exist to encourage automation and investment abroad.

**Incentives or disincentives?**

The incentive structure of most zones has limited the potential of this strategy to promote local economic development. Most zones offer a package of tax, duty and tariff concessions to attract investors. Those incentives may have time-limits and phases and can often be extended at the discretion of the zone authority. There are a number of problems with this approach:

- the cost to the host country in terms of lost revenue is high;
- the incentives are based on the investors’ presence and not on their performance, with the result that mediocre and bad companies benefit along with the good;
- the incentives are in the form of a fiscal concession and not an inherent competitive attribute, which means that the investor may have no other reason for investing other than the fiscal advantage, and will likely leave when that advantage lapses or more attractive concessions appear elsewhere;
- the tariff and duty exemptions encourage import-assembly-export activities which limit the knock-on effects on the local economy;
- the incentives are static and do not provide for any upgrading of production or a move to higher value added activity.

**The new logic of global production**

Until the 1970s the design, manufacture and marketing of industrial goods took place in vertically integrated firms operating within national boundaries. When multinational firms invested abroad they recreated this form of vertically integrated production. Since then, however, the phenomenon of globalization has involved a substantial increase in the amount of trade and foreign direct investment and new ways of organizing production. This has brought about the following intra-firm and inter-firm changes:

- firms have become networks of functional units with decentralized responsibility spread over a wider area;
- this has reconfigured entire industries, and inter-firm relations have been extended as the network form of organization of production incorporates outside suppliers and customers.
Large firms have been responding to the increased competition that accompanies globalization by transforming their hierarchical, vertically integrated structures into networks or chains of production. This enables them to react more quickly to changes in demand with new products at the right price and quality. Each unit or link in the production chain performs a specific function, its core competency, providing the network with a highly specialized and flexible production capability. Each link in the production chain represents a different level of value added activity with distinct types of investment, technology, human resources and organization of work. The key functions, and the most valuable, are those of research and development, design, finance, marketing and coordination. The manufacture and assembly functions, on the other hand, can be performed by decentralized units spread all over the world. Increasingly those units are no longer part of the same company or ownership structure but part of a new governance structure in which lead firms organize production in global chains. De-verticalization is accelerating and enlarging the phenomenon of foreign investment without factories, in which major transnationals produce all over the world but own no factories.

The potential contribution of foreign direct investment (FDI) to national development varies according to the host country’s level in the global production chain. Zone-operating countries, enterprises and workers’ organizations need to understand those production chains in order to:

— accurately define their niche in the chain;
— tailor their operations to meet the needs of that niche;
— design and implement strategies to move up the value chain, with corresponding benefits in terms of the quality of investment and jobs;
— track developments in the way global production chains are organized, because significant shifts could leave a zone-operating country or enterprise isolated if appropriate action is not taken.

Production chains are not static. They evolve and the position of zone-operating countries and enterprises within those chains will change over time. It is important to understand the forces driving those changes in order to respond appropriately with policy reforms and institutional interventions. Zone-operating countries and enterprises may also wish to influence the evolution of production chains through proactive measures to promote more beneficial types of investment and enterprise performance.

Production chains may be reorganized because of:

— shifts in trading patterns, such as that effected by the entry into force of the North American Free Trade Agreement or that likely to follow the phasing out of the Multifibre Arrangement;
— changes in the organization of production, such as the move towards lean production;
— changes in market dynamics, which require quicker response at lower cost and which tend to favour production platforms close to final markets;
— firms’ strategies such as de-verticalization, which result in greater subcontracting and turnkey manufacturing;
— proactive strategies to attract investment initiated by new or existing zone-operating countries.

The evolution of technology and the resulting changes in the organization of work also have important implications for the structure of production chains and the position of zone-operating countries and enterprises within them. Changes in technology and work can dramatically alter the production process in industries which are heavily represented in zones and could:

— shift the capital-to-labour ratio in favour of machinery, thus increasing investment but reducing the rate of employment creation;
— demand new types of workers with greater skill and new specializations to operate and maintain that equipment;
— require new and expensive infrastructure;
— favour a shift to a new location which has more appropriate incentives, infrastructure, human resources and support services;
— make it less important to be in a low-labour-cost zone and more important to be close to the customer.

Such developments obviously have serious implications for zone-operating countries, which could find themselves at a competitive and social disadvantage as a result of changes in production chains or technology. Enterprises may migrate, leaving thousands of workers jobless and zones no longer viable. Changes in production chains are clearly beyond the control of a zone-operating country and its social partners, but if the forces driving such changes can be understood and anticipated the zone-operating country could make the necessary policy interventions in a timely manner to ensure their continued relevance as an investment destination and production platform. The steps which the Government and the social partners should consider taking include:

— the definition of an overall national development strategy and of the role of FDI in that strategy, with clear plans as to how to secure the benefits of FDI for the host country;
— the elaboration of an industrial policy based on the relative strengths and potential of the economy, including natural and human resources, physical infrastructure, location and position in the global production chains;
— the targeting of a particular link or niche in the production chain as part of a longer-term strategy to move up the chain so as to occupy a higher value added niche;
— the attraction of a specific category of investment, and even of specific foreign and domestic enterprises through incentives and support services.

**NAFTA**

The regional division of labour and allocation of export roles has changed dramatically with the entry into force of the North American Free Trade Agreement (NAFTA). Because NAFTA imposes no duties on goods produced within its territory, it places Caribbean States at a disadvantage relative to Mexico, which now enjoys lower tariffs in the highly competitive textile and clothing products sector. There has been a dramatic growth in Mexico’s exports to the United States thanks to the fact that they enter duty free, while those from Caribbean Basin Initiative (CBI) countries are subject to duty on the value added offshore. In addition, the 50 per cent devaluation of the Mexican peso at the end of 1994 effectively reduced the price of Mexican exports in dollar terms.

The Caribbean has been the hardest hit by NAFTA and the increasing competitiveness of other regions. Recent currency devaluations in Asia will reduce the cost of exports from those countries and most likely intensify the competition in major markets even further. The Caribbean Textile and Apparel Institute reports that, since the introduction of NAFTA, over 150 companies and 123,000 jobs have been lost in the apparel industry in the Caribbean, and that many of those firms have relocated to Mexico. While the value of Mexican clothing exports to the United States rose from US$709 million in 1990 to US$3.8 billion in 1996, those of the Dominican Republic rose only from US$723 million to US$1.7 billion in 1996 and those of Jamaica from US$235 million in 1990 to US$505 million in 1996.

Asian apparel exporting countries may be next to suffer from the residual NAFTA effect. The Limited, for example, manufacturer of Victoria’s Secret underwear, recently opened a plant in Mexico. Martin Trust of The Limited was quoted in Forbes Magazine (10 February 1997) as saying that, despite the fact that wages are three times higher in Mexico than in Sri Lanka, it was nonetheless more economical to produce in Mexico because of savings in time, transport costs and duties. In fact, there has been a steady reduction in apparel imports from Asia over the last
quarter century, from 83 per cent of the total in 1980 to 41 per cent in 1996. Not only is it cheaper and quicker to operate within the Western hemisphere, but it allows United States textile manufacturers to supply the bulk of the fabric, something they cannot do with Asian suppliers. With the vertically integrated operations some United States companies are now establishing in Mexico, we can expect to see the same trend towards competition based on the combined factors of speed, cost and quality rather than simply on labour costs.

**Quick response**

The need for quick response in increasingly differentiated, and volatile consumer markets will also encourage production platforms close to final markets. Many retailers now analyse sales data on Sunday night and place orders for delivery on the following Thursday, just in time for the weekend. This is happening even in large department stores which carry standard product lines.
2. Employment, labour relations and working conditions in EPZs

A major indicator of the success of an EPZ strategy is the number of jobs created. Most zone-operating countries are labour-surplus economies with an urgent need for employment creation, and zones have proved highly effective in this regard. There can be a lot of discussion about the cost-effectiveness of zones as a form of employment creation, and about the quality of those jobs, but in sheer numerical terms the fact remains that zones have produced many jobs.

The zone-operating country which has created by far the greatest number of jobs is China, with some 18 million employed in firms with foreign investment, and many millions more in the Chinese firms operating in the zones. The maquiladoras in Mexico rank second in terms of total employment. The initiative was designed to generate employment along the northern frontier and has succeeded in creating some 900,000 jobs (table 2.1). The growth of maquila on the northern border helped the Mexican Government resolve an unemployment crisis in the area. Employment in the maquiladoras has grown impressively, maintaining an average growth of some 10 per cent per annum. Employment grew 17 per cent from January 1997 to January 1998 to total 958,135. Most importantly, it continues to generate employment at a time when other sectors of the economy do not. OECD figures show maquila manufacturing employment growing by 10.4 per cent in 1995 while non-maquila manufacturing employment fell by 9 per cent.

| Table 2.1. Mexico: Employment creation in maquiladoras, 1970–97 |
|------------------|---------|---------|---------|---------|---------|---------|
| Total            | 20 300  | 62 200  | 130 973 | 211 968 | 648 263 | 898 786 |
| Women            | 85 691  | 120 042 | 314 172 | 421 697 |
| Technicians      | 12 545  | 25 042  | 71 098  | 103 168 |
| Administrative staff | 7 744   | 13 052  | 45 436  | 64 147  |

Source: National Statistics, Geography and Informatics Institute, Mexico.

A number of other Central American and Caribbean countries have managed to achieve impressive employment growth through their zone strategies. They often have relatively small populations and zone employment can be a significant component of total manufacturing employment. The jobs created by the zone investors also have the advantage of being in new industries, diversifying the employment profile away from the traditional industries such as bananas and coffee. Costa Rica is a case in point. Since launching its zone policy in 1981, it has created almost 49,000 jobs, mostly in the garment and electronics sectors, and unemployment is now down to around the 5 per cent level.

| Table 2.2. Costa Rica: Employment creation in EPZs |
|-----------------|---------|---------|---------|---------|---------|
| Employment      | 33 198  | 37 549  | 44 926  | 45 212  | 47 972  |
| Percentage of total manufacturing employment | 16.7    | 18.9    | 21.8    | 23.1    | n.a.    |

n.a. = not available.

Source: ILO: La industria de la maquila en Centroamérica (San José, Costa Rica, 1997).

In Guatemala the roots of the maquila industry go back to the mid-1960s, but it was not until 1989 that legislation providing incentives for export industries and free zones was
introduced. By 1996, 482 zone enterprises employed 165,945 people, 80 per cent of them female.

In El Salvador the first initiative to establish a free zone got under way in 1974 with the creation of the Bartolo zone. Further development was delayed by the civil war, however, and did not pick up until after 1986 when a new law on export promotion was adopted that permitted the development of private zones. Even then, the number of firms and jobs did not rise dramatically until after 1992 (see table 2.3).

Table 2.3. El Salvador: Employment creation in EPZs

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Enterprises</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>n.a.</td>
<td>2,079</td>
</tr>
<tr>
<td>1992</td>
<td>13</td>
<td>6,500</td>
</tr>
<tr>
<td>1996</td>
<td>208</td>
<td>50,000</td>
</tr>
</tbody>
</table>

n.a. = not available.

Source: Same as table 2.2.

The maquila industry in Honduras began in 1976 with the creation of the free zone of Puerto Cortes. However, it was not until the 1990s that the sector really developed, particularly in terms of employment which quadrupled between 1992 and 1996 to stand at 61,162 employed (table 2.4).

Table 2.4. Honduras: Employment creation in EPZs

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
<td>2,586</td>
<td>15,520</td>
<td>48,477</td>
<td>61,162</td>
</tr>
</tbody>
</table>

Source: Same as table 2.2.

The zone-operating countries in Asia mostly exhibit the same impressive employment gains as the examples cited above. The latest data from the Board of Investment in Sri Lanka, for example, show that its six zones and other investment promotion strategies had created 268,800 jobs by January 1998, up from 35,000 in 1986.

The State of Penang in Malaysia has proved highly effective in attracting quality investment, much of it in technology-intensive plants manufacturing hard discs and computer chips. Table 2.5 shows how investment in the Penang zones increased from 31 enterprises in 1970, employing 2,784 workers, to 743 plants and 191,190 workers in 1997. The employment is heavily concentrated in the electronics sector, which accounts for almost 120,000 workers. Investment is taking an increasingly capital-intensive form, however, and employment has declined from a high of 100,953 in 1990, despite the considerable increase in the number of enterprises. This trend is quite understandable given the extremely tight labour market conditions prevailing in Penang. Many of the enterprises based there are having to import workers from Bangladesh, Indonesia and the Philippines. This obliges them to incur significant recruitment, transport and housing costs, and yet they continue to invest in Penang because of its proven track record as a highly competitive export platform.

The case of Mauritius demonstrates the typical employment trajectory of many zones. In the first phase, immediately after the launching of the zone strategy, investment and employment grew quickly, and so it was in Mauritius. Between 1971 and 1980 the number of enterprises rose from 9 to 101 and employment from 644 to 21,642. From 1983 to 1988 investment and employment grew steeply to a point where the labour market tightened and production costs rose. The number of enterprises peaked in 1988 at 591; investment peaked in 1989 and employment
a few years later at 90,861 in 1991. Employment then contracted for five straight years before picking up again in 1997 to stand at 83,391. Investors started to leave in search of cheaper production platforms and employment growth flattened out. The Government then reacted to the loss of investment and enhanced its incentives and services, leading to a strong revival in investment after 1992, but employment continued to wane as enterprises introduced more labour-saving technology. The investment is mostly concentrated in the apparel sector where 234 enterprises employed 65,809 people in 1997 (out of a zone total of 79,793), with only 14 enterprises in the electrical and electronic sectors employing 1,041.

### Table 2.5. Malaysia: Employment in Penang Development Corporation zones

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of enterprises</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>31</td>
<td>2,784</td>
</tr>
<tr>
<td>1980</td>
<td>216</td>
<td>56,012</td>
</tr>
<tr>
<td>1990</td>
<td>430</td>
<td>100,953</td>
</tr>
<tr>
<td>1996</td>
<td>736</td>
<td>196,774</td>
</tr>
<tr>
<td>1997 (June)</td>
<td>743</td>
<td>191,190</td>
</tr>
</tbody>
</table>

Source: Penang Development Corporation, Malaysia.

The employment effect of zone investment in the Philippines show an increase in jobs from 23,750 in 1986 to 152,250 a decade later. However, employment more than doubled between 1993 and 1996, with zone investment jumping 255 per cent in 1994 and 449 per cent in 1995. Employment reached 183,709 directly employed in 1997 (table 2.6).

### Table 2.6. Philippines: Employment growth in economic zones

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct employment</th>
<th>Indirect employment</th>
<th>Total</th>
<th>Percentage increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>22,837</td>
<td>n.a.</td>
<td>229,650</td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>91,860</td>
<td>137,790</td>
<td>229,650</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>121,823</td>
<td>182,734</td>
<td>304,557</td>
<td>32.6</td>
</tr>
<tr>
<td>1996</td>
<td>152,250</td>
<td>228,375</td>
<td>380,625</td>
<td>24.9</td>
</tr>
<tr>
<td>1997</td>
<td>183,709</td>
<td>275,564</td>
<td>459,272</td>
<td>20.6</td>
</tr>
</tbody>
</table>

n.a. = not available.
Source: Philippine Economic Zone Authority.

### Women’s employment in EPZs

Zone workers are a very significant component of formal employment in zone-operating countries, and women are usually in the majority, particularly in the garment and electronics sectors. Table 2.7, constructed by an ILO advisor on women’s issues in Central America, illustrates the predominance of women workers in the zone workforce and the high percentage of textile and garment plants which are female labour-intensive.

In Bangladesh gender-based employment data are available for the Chittagong EPZ (CEPZ) only. Bangladesh Export Processing Zones Authority (BEPZA) data for 1996 show that 70 per cent of the 32,095 employees in the CEPZ were women.
Table 2.7. Women’s employment in free zones in selected countries of Central America and the Caribbean, 1995

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of plants</th>
<th>Average number of workers per plant</th>
<th>Percentage of workers employed in the textile and garment industry</th>
<th>Total number of workers</th>
<th>Percentage of women workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guatemala</td>
<td>481</td>
<td>345</td>
<td>80</td>
<td>165 945</td>
<td>80</td>
</tr>
<tr>
<td>Honduras</td>
<td>155</td>
<td>395</td>
<td>95</td>
<td>61 162</td>
<td>78</td>
</tr>
<tr>
<td>El Salvador</td>
<td>208</td>
<td>320</td>
<td>69</td>
<td>50 000</td>
<td>78</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>18</td>
<td>418</td>
<td>89</td>
<td>7 533</td>
<td>80</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>250</td>
<td>200</td>
<td>70</td>
<td>50 000</td>
<td>65</td>
</tr>
<tr>
<td>Panama</td>
<td>6</td>
<td>200</td>
<td>100</td>
<td>1 200</td>
<td>95</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>469</td>
<td>353</td>
<td>65</td>
<td>165 571</td>
<td>60</td>
</tr>
</tbody>
</table>


Labour legislation and labour relations

Labour standards and labour relations are the most critical and controversial elements of EPZs. The classic model of labour regulation — with a “floor” or framework of minimum labour standards, and free trade unions and employers (individually or collectively) coming together to negotiate binding agreements that regulate their interaction — is extremely rare in EPZs. The reasons for that rarity are complex, but the fact remains that many zones are not fully applying adequate labour standards or developing a sound system of labour-management relations. As a result, problematic factors such as high labour turnover, absenteeism, stress and fatigue, low rates of productivity, excessive wastage of materials and labour unrest are still too common in zones. This constitutes a source of volatility they cannot afford in a global economy. It makes zones less effective as export platforms and limits their potential to attract investment, generate jobs, boost exports and promote broader economic growth.

Two key issues need to be considered regarding labour legislation and labour relations in zones:

— Is the national labour legislation applicable to zones, and is it applied in practice in the zones?

— Is the national labour relations legislation applicable in zones, and is it applied in practice?

In most EPZ-operating countries the national labour and industrial relations legislation are applicable in the zones. In Singapore, for example, the national labour laws apply to domestic and foreign firms alike. Singapore has a very strong tradition of tripartism and investment issues are not excluded. This tripartite approach starts at the top with trade union representation on the Board of Governors of the Economic Development Board, which oversees the investment strategy of Singapore. There is no question of the investment policies infringing workers rights, and it is interesting to note that Singapore has pursued this policy since the 1960s when it was desperately in need of investment. The strong consensus that exists between Government and the social partners offers investors a degree of social and economic stability and certainty that outweighs any concerns they may have about trade union activity. The result is an exceptionally stable and well governed investment environment which is reflected in the fact that Singapore has only experienced one strike since 1978 (and that was over ten years ago in 1986). The absence of industrial action is partly explained by the functioning of the arbitration system. The Industrial Arbitration Court in Singapore certifies collective agreements negotiated between unions and management in addition to minimum terms of employment and labour relations provided in the Employment Act and the Industrial Relations Act. In cases where the parties fail to reach
agreement through negotiation the matter may be referred by either party to the Labour Relations Department of the Ministry of Labour for conciliation. If that fails to resolve the dispute it may be referred to the Industrial Arbitration Court for arbitration. Under the Trade Disputes Act, any industrial action is prohibited when the Industrial Arbitration Court has taken note of the trade dispute. Disputes related to wages arising from the implementation of guidelines recommended by the National Wages Council may be referred by either party to the Industrial Arbitration Court.

EPZ enterprises in Mauritius are covered by the labour laws and labour relations system, although the Industrial Expansion Act of 1993 has provided them with a greater degree of flexibility despite persistent criticism from the labour movement. A number of the exceptions concern hours of work. The calculation of hours of work for purposes of overtime allows for considerable flexibility. The IEA provides for 45 hours a week, but the overtime is calculated on a weekly basis, which means that supplementary hours worked on any one day will not be paid at overtime rates unless the weekly total exceeds 45 hours. A worker can be required to work up to ten hours a day, after which her/his consent is needed. Before 1984 no prior notice of supplementary hours was required, but this caused much hardship, particularly to young female workers, and led to considerable conflict. Since 1984, 24 hours' notice of supplementary work has to be given and the precise duration specified. Many enterprises now prefer to work their overtime on Saturdays, rather than at the end of any weekday. According to the 1970 and 1993 Acts a worker can be obliged to work a public holiday at normal rates of pay, receiving a day of paid leave the following week. The trade unions have always maintained that work on a public holiday should be paid at overtime rates as provided for in the national labour law. The zone legislation provides for seven days of consecutive work if required, whereas the labour law permits only six. Zone legislation only recognizes a woman's right to paid maternity leave three times, whereas the labour law imposes no such limit. Women can and do work the night shift in zone enterprises while this is prohibited in the rest of the economy. The severance pay to which a worker is entitled upon retrenchment varies considerably between zone enterprises and those covered by the national labour laws. Under zone legislation applicable up to 1993 a worker was only entitled to such compensation after three years of service, as against 12 months in the rest of the economy, and the zone worker was likely to receive less than her/his counterpart in other industries. This was subsequently amended to provide at least one week's pay for each year of service if she/he has between one and three years of continuous service, and at least two weeks' pay for each year of service if she/he has more than three years of continuous service. Zone legislation makes no provision for pension payments to zone workers whereas the national labour law provides for one-quarter of a month’s pay for each year of service. Under the national labour law an employer intending to reduce the number of employees is obliged to inform the Minister four months in advance, together with the reasons for the reduction. The case is then referred to the Commission on Termination of Contract of Employment. This procedure does not apply to zone workers.

Mauritius has a high degree of trade union activity in some sectors of the economy, but this has not been extended to the EPZ sector, although no legal barriers exist. In the key sugar industry 89 per cent of the 29,066 workers were organized in 1996, up from 71 per cent in 1992. In the public service trade union membership stood at 63 per cent of the 56,828 employees, and in local authorities and parastatal bodies the rate was 51 per cent. In the EPZ sector, however, only 9 per cent of the 79,487 workers belonged to trade unions. Trade union membership in the hotels and restaurant sector was also relatively weak at 15 per cent of 10,820 workers. There are extremely few collective agreements signed in Mauritius (three, in fact), largely because a variety of government bodies regulate labour matters, including wages and disputes. It is

1 Figures supplied by the Registrar of Associations.
interesting to note, however, that the number of illegal work stoppages in EPZ enterprises has been increasing, indicating that the extensive system of regulation is not entirely effective.

**Barbados, Jamaica and Trinidad and Tobago** all ensure that those rights provided to workers nationally apply in the zones as well. In Jamaica and Trinidad and Tobago the labour movement is represented on tripartite bodies overseeing zone operations, and the zones are covered by the normal labour laws. This has certain advantages, as described by the labour representative on the Board of Directors of the Trinidad and Tobago Free Zone Company: “The key to allaying the concerns of the trade unions, NGOs and the business sector, lies in the Ministry of Labour playing a very vigilant role in monitoring the development of EPZs. An effective monitoring role is dependent on the availability of reliable data on a regular and timely basis.”

No trade union organization has established a presence in the zones in Trinidad and Tobago however. This is attributed partly to the weakness of the labour movement and partly to the fact that many of the workers in the zone perform skill-intensive, well remunerated functions and are not predisposed to joining a trade union. In **Saint Kitts and Nevis** a National Tripartite Committee on EPZs involves the Minister of Labour, Minister of Trade, officials from the Department of Labour, the Chamber of Industry and Commerce, the Saint Kitts and Nevis Trades and Labour Union and the Teachers Union. This has led to further tripartite initiatives including a Minimum Wage Committee which recommended a minimum wage that the Government adopted, a committee looking into a qualification and certification programme, and another considering the potential for implementing international labour standards in the zones.

The **Philippines** provides an excellent example of a zone-operating country in which no adequate system of labour regulation and labour-management relations existed in zones, but which, after years of industrial conflict, made the necessary reforms and established a stable system of labour-management relations. In 1986 the Philippines experienced over 580 strikes nationally, the highest ever recorded, and zones started to lose investment and jobs as foreign enterprises pulled out. Employment in the Bataan zone for example fell from its peak of 21,729 in 1984 to 14,101 in 1993. This prompted the Department of Trade and Industry to set up a Centre for Labour Relations Assistance (DTI-CLARA) which promoted the concept of Labor-Management Councils (LMCs) in zone enterprises. The DTI-CLARA existed in a “friendly rivalry” with the Department of Labor and Employment (DOLE) and many commentators feared that the LMCs might be an anti-union strategy. Over the years, however, the cooperation between the DTI-CLARA and the DOLE has grown and they now run joint promotional and training activities. The DTI-CLARA makes it explicit that an LMC is “not a substitute for unionism ... not a substitute for collective bargaining, and they will not cooperate with an enterprise if they have reason to believe that it intends to use the LMC to oppose the unionization of their plant. This initiative led to the establishment of the Philippine Association of Labor-Management Councils (PALMCO), which has more than 300 enterprises as members. Over 800 LMCs have been formed, many of them in unionized plants.

The steady improvement in the labour relations climate in the Philippine economic zones was reflected in the adoption in 1995 of the Special Economic Zone Act of 1995 (RA No. 7196). Section 37 states:

Except as otherwise provided in this Act, labor management relations in the ECOZONE shall be governed by the existing Labor Code of the Philippines. Employees and Personnel in the ECOZONE enterprises shall receive salaries and benefits and shall enjoy working conditions not less than those provided under the Philippine Labor Code and other relevant laws, issuances, rules and regulations of the Philippine Government and the Department of Labor and Employment.

The Bataan zone, previously wracked by labour-management conflict, is now setting an example for labour-management cooperation and has established a Labor Union Presidents Association (LUPA) with representation from all the 24 unions organized in the zone. The LUPA

---

2 Mr. C. Jackson-Smith, speech to ILO Consultation on EPZs, Belize City, 29-31 October 1997.
and the Department of Labor and Employment have the use of office space in the central zone administration building. Enterprises are voting with their feet and returning to Bataan, which now has 60 firms employing 24,381 people. Mitsumi and Paramount Footwear (Reebok), among others have won awards for their labour-management relations in their Bataan plants. Not all zones in the Philippines enjoy such constructive labour relations however, and a number of private zones appear to have adopted a "trade union-free" policy which conflicts with the labour laws. The Cebu Mitsumi plant in Danao City for example, part of the same Mitsumi group which is setting standards in Bataan, was the object of a complaint to the ILO Governing Body Committee on Freedom of Association procedures.

Like the Philippines, the Dominican Republic went through a period of labour unrest before instituting reforms which have gone a long way towards enhancing respect for labour standards and improving labour relations in the zones. Section 41 of Act No. 8-90 states that all zone enterprises must observe the provisions of the Labour Code and other labour laws, including those concerning social security and training. A new Labour Code was adopted in 1992 which provides trade union rights and collective bargaining in free zones. Today there are some 14 trade unions operating in the zones, but they still face considerable difficulties in negotiating collective agreements. The seven collective agreements which have been signed to date are relatively limited in scope and content and do not cover wages for example. An interesting example of labour-management cooperation was the signing in April 1994 of a tripartite accord to harmonize labour relations in the free zones and to resolve conflicts through mediation. The agreement was brokered by the Catholic Church and signed by the association of free zone employers (ADOZONAS), the trade unions and the Government.

EPZs in Costa Rica are covered by the national labour laws. As far as labour-management relations are concerned, however, trade union activity is not well developed in Costa Rica as a whole, and the free zones are no exception. This is in large measure due to the existence, as in other Central American countries, of "solidarity associations" which bring together workers at enterprise level in a mutual savings and assistance scheme based on a percentage of their wage supplemented by an employer contribution. These associations enjoy strong support from the employers, who see them as a means of promoting harmonious relations and obviating the need for workers to form trade unions. Workers appreciate the practical support the associations offer, notably the interest-free credit and housing loans. In order to attenuate the anti-trade union aspect of the solidarity associations the Government adopted Law No. 7360 which prohibits anti-trade union practices and extends protection to persons forming or leading a trade union, or representing workers in the absence of a trade union. It also prevents the solidarity associations from exercising the functions of a trade union, such as collective bargaining. Despite this reform only ten trade unions have been registered in the free zones in Costa Rica and no collective agreements have been signed.

China is still in the process of opening up to the market economy and developing the labour laws and labour relations system to go with it. The Labour Law of the People’s Republic of China was adopted in 1994 and entered into force in January 1995. It provides the framework for the promotion of employment, individual and collective contracts, working hours, wages, special protection for female and juvenile workers, vocational training, social insurance and welfare, labour disputes, inspection and occupational health and safety issues. The provincial and city authorities are free to develop, within the given guidelines, their own labour regulations and practices. Together with the labour administration provisions for foreign-funded enterprises, the labour law leaves foreign investors considerable flexibility in establishing terms and conditions of work. Enterprises may decide on how and where to hire and fire staff and set rates of pay

\[^3\text{Complaint against the Government of the Philippines presented by the Trade Union Congress of the Philippines (TUCP), Report No. 302, Case No. 1826.}\]
themselves. Social security contributions must be paid from medical treatment, unemployment insurance and compensation for injury at work. Housing subsidies must also be paid by enterprises. Hours of work in foreign enterprises must conform to the national maximum of 40 hours per week and overtime work must be compensated at premium rates according to local regulations. However, a number of issues, including collective bargaining and strikes, are not properly covered, and detailed provisions remain to be worked out. Many of the provisions of the new law are yet to be fully implemented and further legislation can be expected.

China has an official trade union movement closely linked to the Communist Party: the All China Federation of Trade Unions (ACFTU). The trade union federation does not play an adversarial role and the situation in the zones is no different. The ACFTU facilitates the formation of enterprise trade unions inside and outside zones. The emphasis is placed on the dual objectives of cooperating with investors and protecting workers. In this way they hope to create a stable industrial relations environment and promote economic development in the zones. Trade union services to the membership are provided at enterprise level. Zone-level trade unions deal with labour relations and human resource issues. Human resource development takes place through joint activities with city colleges and night schools. The unions run campaigns to promote employee loyalty to the enterprise and to encourage employers to treat workers well. Dispute resolution is also handled by zone-level unions, although the workers may form dispute resolution committees at enterprise level as well. In Shekou, for example, there is a 24-hour trade union dispute resolution service. Foreign-funded enterprises are obliged to allow the formation of a union during the start-up phase and the trade union must be registered at the time the business becomes operational. According to the ACFTU, the rate of organization in the older, more established zones such as Dalian, Tianjin and Shekou was between 80 and 98 per cent, but on the whole only about 30 per cent of the foreign-invested enterprises in the zones were unionized. Almost 100 per cent of state-owned enterprises were unionized.

The Board of Investment (BOI) of Sri Lanka informs incoming investors that the labour laws of the country apply to all zones and other enterprises receiving BOI incentives. Amongst the 11 laws mentioned are, notably, the Trade Unions Ordinance, Industrial Disputes Act, Wages Boards Ordinance, the Factories Ordinance, the Maternity Benefits Act and the Termination of Employment of Workmen Act. The provisions include details on hours of work (51.5 hours per week in one-shift operations), wages (the national minima apply), leave (14 days' paid vacation leave after one year of continuous employment), public holidays (9 paid, plus every full moon day is a paid holiday), paid maternity leave, contributions to the Employees Provident Fund (12 per cent of the total wage per month paid by the employer and 8 per cent by the worker) and the Employees Trust Fund (employer-only contribution of 3 per cent of total wage). Workers have the right to associate, to organize and to bargain collectively. The Trade Unions Ordinance provides for the registration and control of trade unions, and includes stipulations regarding the constitution of a trade union, the election of its officers and the handling of its finances. However, trade union representatives interviewed in the course of the preparation of the report noted that, while freedom of association was recognized in Sri Lanka and should apply to the free zones as well, it was difficult for trade union organizers to enter the zones as the security personnel would not grant them access. The BOI has developed a system of Workers' Councils in its free zones. These are meant to consist of five to ten members elected by workers in secret ballots. The guidelines published by the Board of Investment state that the objective of the councils is to “secure the mutual cooperation of the employees and the employer in achieving industrial peace and greater efficiency and productivity in the workplace”. A Joint Committee of Workers Councils coordinates the activities of councils, provides legal assistance where necessary and undertakes awareness-raising programmes aimed at informing workers of their rights and privileges. It has an Organizing Committee and an Advisory Committee. The Joint Committee, in a letter to the ILO in 1995, pointed out that zone enterprises were not keen to form workers' councils and that the BOI did not intervene in such cases. Representations had also
been made by the Joint Council to the Minister of Labour but no response had been forthcoming. Under the circumstances the trade unions were sceptical of the ability of the workers councils to represent and defend workers interests.

Some countries have not excluded their zones from national labour legislation and the labour relations system but have modified them to a certain extent. In Namibia, for example, section 8 of the 1995 Export Processing Zones Act stated that the Labour Act of 1992 would not apply in the zones but that the Minister of Trade and Industry, in consultation with the Minister of Labour and Human Resources Development, could regulate issues such as minimum standards of employment, termination, health, safety and welfare. Freedom of association and collective bargaining were not covered however. After negotiations with the labour movement, section 8 was subsequently amended to state that the Labour Act of 1992 would apply to the zones but that strikes and lockouts would be prohibited for a period of five years. Labour conflicts were to be referred to compulsory arbitration instead. It should be noted that mandatory arbitration of interest disputes, which thus denies workers the right to strike, is contrary to freedom of association principles. The Committee of Experts on the Application of Conventions and Recommendations has requested that the Government take appropriate steps to further amend the Export Processing Zones Act to ensure that workers in export processing zones, like other workers in the country, are not denied the right to strike.

The Employment Act, 1955, is the principal law regulating the terms and conditions of employment in Malaysia, including foreign firms. It sets out minimum conditions of employment such as contracts, payment of wages, leave and maternity benefits. The Employees Provident Fund Act, 1951, provides for employers and workers to contribute to a provident fund (12 per cent and 10 per cent of the total wage, respectively), the contributions being payable to employees in full on reaching the age of 55 years. The Employees Social Security Act, 1969, provides for the Employment Injury Insurance Scheme (employer contribution of about 1.25 per cent of the wage) and the Invalidity Pension Scheme (joint employer-worker contribution of about 1 per cent of the wage). There is no national minimum wage law in the manufacturing sector in Malaysia. The Trade Union Act, 1959, and Trade Union Regulations, 1959, provide for the registration of trade unions, the limitation of their membership to a particular trade, occupation or industry, the organization of strike ballots and inspection of trade unions. The Industrial Relations Act, 1967, provides for the regulation of labour-management relations and the prevention and settlement of disputes. In terms of the Act the scope of representation of trade unions and collective bargaining may be limited and trade unions may not negotiate on matters relating to promotion, transfer, recruitment, retrenchment, dismissal, reinstatement and allocation of duties. Strikes on any of these matters are prohibited. Although the Act encourages direct negotiation between employers and workers or their trade unions, it also provides for conciliation or arbitration in cases of deadlock or when the Minister of Human Resources decides to intervene and to refer a dispute to the Industrial Court for arbitration. There is a prohibition on strikes and lockouts after a dispute has been referred to the Industrial Court and on any matter covered by a collective agreement or by an award of the Industrial Court.

Malaysia pursues a policy of imposing a five-year moratorium on collective bargaining in “pioneer industries”, which are enterprises in the manufacturing, agricultural, hotel, tourist or other industrial or commercial sectors which undertake promoted activities or produce promoted goods. An additional restriction is that, although trade unions may be formed in the electronics industry, they may not affiliate to national unions.

There are very few countries which openly and officially exclude zones from the national labour legislation and system of labour-management relations. In Bangladesh section 11A (Power to exempt zones from operation of certain laws) of the Bangladesh Export Processing Zones Authority Act provides that:

The Government may, by notification in the Official Gazette, exempt a zone from the operation of all or any of the provisions of all or any of the following enactments, or direct that any such enactment or any provision thereof shall,
in its application to a zone, be subject to such modifications or amendments as may be specified therein, namely: the Employment of Labour Act 1965, the Industrial Relations Ordinance 1969, the Boilers Act 1923, the Factories Act 1965.

The EPZs are excluded from the scope of the Industrial Relations Ordinance (1969), which provides for organizing and bargaining rights in other sectors, and the Guide to investment in Bangladesh published by the Board of Investment states that the law forbids the formation of any labour union in EPZs. These measures are sometimes defended as interim provisions that could be lifted at an appropriate time when sufficient investment has been attracted and the trade union movement and foreign investors are ready to begin a sound bargaining relationship. The ILO Committee of Experts on the Application of Standards and Recommendations and the ILO Governing Body Committee on Freedom of Association have both found this provision to be incompatible with the terms of Convention No. 87, which recognizes the right of workers to form and join organizations of their own choosing.

The fact that EPZs in Bangladesh have been excluded from the scope of labour laws does not mean that there are no labour regulations in force in zones. The BEPZA issues Instructions to investors which specify standards relating to the classification of employees, minimum wages, leave and holiday periods, termination of employment, welfare facilities such as clinics and canteens, contributions to the provident fund and zone medical centre and grievance procedures. One such Instruction states that the relevant laws of the country apply in cases of compensation for injury sustained while on duty.

Pakistan has also excluded its zones from the scope of the Industrial Relations Ordinance and prohibited all forms of industrial action.  

Panama is the only country in Central America to have adopted special labour legislation for the EPZs, replacing the Labour Code. Chapter VII of Act No. 25 of November 1992 provides inter alia for flexibility of contracts and functions in zone enterprises and permits retrenchment for economic reasons. An Executive Legislative Decree to facilitate the establishment of enterprises in EPZs was promulgated in 1996. This tried to limit the influence of trade unions in its EPZs by stipulating inter alia that zone enterprises were not obliged to negotiate or sign collective agreements during their first five years of operation and limiting the right to strike by providing for lengthy administrative, conciliation and arbitration processes before workers may declare a strike. The opposition to this Decree was pronounced and the Government has been forced to amend it a number of times to restore the recognition of trade union freedoms. However, the controversy has not been fully resolved and freedom of association is not well established in zones in Panama. There is only one trade union and one collective agreement in existence in the zones. Act No. 3 of January 1997 also established certain minima for zone workers, including a minimum wage, a weekly rest-day and the payment of overtime.

In Zimbabwe section 56 of the Zimbabwe Export Processing Zones Act (1994) states that the Labour Relations Act (1985) shall not apply to the zones. This has the effect of denying zone workers the right to freedom of association and collective bargaining and removes protections against discrimination and unfair labour practices. The EPZs also fall outside the jurisdiction of the Ministry of Labour, Manpower Planning and Social Welfare, the Labour Relations Board and the Labour Relations Tribunal. These provisions drew a lot of criticism from the labour movement and there was an in-principle agreement with the Government that they should be amended.

---

5Act No. 1 of 11 January 1996.
There can be little doubt that the increased competition in investment and product markets as a result of globalization will put more strain on labour-management relations in EPZs. Enterprises are having to constantly improve their performance, which heightens their dependence on the human factor. Most enterprises are responding by intensifying work, and this clearly puts more pressure on workers, many of whom may have been less than satisfied to begin with. In instances where those workers have a channel through which to express themselves and to negotiate a working environment acceptable to all the stakeholders, the pressures building up in the workplace may be released. Too many zone enterprises, however, have no such pressure valve, and they could well see an increase in labour unrest in the years to come. Enterprises which have already switched to a consultative or participatory approach through which they develop a consensus on the measures to be taken in response to increased global competition are more likely to remain stable. Those zones which have put in place a proper system of labour-management relations and provide labour relations services such as dispute resolution may find themselves gaining investment as enterprises come to place a premium on stability and efficacy.

**Conditions of work and life**

**Wages**

It is often assumed that wage rates are the principal factor determining the choice of production platform, and EPZs are often characterized as enclaves of cheap labour. Comparisons are often made between the minimum wages in zones and those applying in the home countries of the multinationals located there. The remuneration of zone workers, however, is a very complex issue which has four distinct components. Firstly, minimum wage rates apply in most zones, either the national rate or a rate determined specifically for the zone. Secondly, the take-home pay of the zone workers is generally greater than the minimum wage might suggest because it is common for zone enterprises to use piece-rate or incentive pay systems. Thirdly, unit labour costs are even higher because zone employers are often providing non-wage benefits and other contributions on top of the basic wage. For example, a major high-technology multinational which has recently invested in China (regarded as a “cheap wage” destination) told an ILO mission that the non-wage benefits and social security contributions increased their unit labour costs by 63 per cent over the basic wage. Wage data can easily be misleading. Finally, the choice of a production platform may depend as much on productivity as on wage rates. The discussion of wage rates alone does not explain the distribution of production on a global scale. There are significant amounts of investment flowing into zones in high-wage economies. Singapore, Malaysia and Mauritius provide example of this. This is explained by the higher productivity in these countries. Therefore, labour cost should be considered together with productivity in order to appreciate the unit labour cost. The latter is a more revealing indication.

Pay varies considerably between zone and non-zone enterprises. It is a rather surprising fact that minimum wage rates (where they exist) and take-home pay are often higher in zones than in comparable factories outside the zone. This is usually because of one of the following reasons:

- in some countries zone employment has negative connotations and zone employers are consequently obliged to pay a premium to get workers to come and work for them;
- in tight labour markets wage rates rise;
- zone enterprises are often large multinationals which can and do pay better than local employers;
- zone enterprises generally use remuneration systems such as piece-rate or incentive schemes which give workers a higher take-home pay, although this often implies longer hours of more intensive work than in non-zone enterprises.

**Bangladesh** is an example of a zone-operating country in which the national minimum wage does not apply, but the zone authority has set its own, zone-specific, minimum wage. The
Bangladesh Export Processing Zones Authority (BEPZA) specifies a minimum wage for zone workers in each skill category. This is higher than the national minimum wage at all skill levels, and higher than in the export garment industry and other comparable industries as well. It was 40 per cent higher than the national minimum for unskilled workers in 1996, 15 per cent for semi-skilled and 50 per cent for skilled workers. Wages for unskilled workers in zone enterprises were 46 per cent higher and for skilled workers 28.5 per cent higher, than in comparable manufacturing units outside the zones. The BEPZA minimum wage for unskilled workers is US$38 per month, US$45 for semi-skilled and US$63 for skilled workers. The national minima are US$27, US$39 and US$42, respectively. Wage rates in the export garment sector for unskilled workers were US$25 per month in 1995, US$38 for semi-skilled and US$49 for skilled workers. The statutory minimum wage rates for industrial workers is not enforced in the private sector by the Government, however.

Wage rates in Bangladesh remain highly attractive compared to some of its neighbours. Average hourly wage rates in the export garment industry in 1995 were US$0.20, lower than in China (US$0.35), and half those in other “cheap wage” destinations such as Indonesia and Vietnam (US$0.40). Despite this “advantage” a prospective investor would certainly want to analyse unit labour costs and productivity rates before deciding which of those countries to invest in.

The Dominican Republic is another country which has a zone-specific minimum wage which differs from the national minimum wage. The national minimum wage is a complex scale divided into 11 different groups of workers; within each group there can be different levels depending on the capital base of the firm, the sector of industry, the qualifications of the worker or the nature of the job. However, there is only one minimum wage rate for the free zone. This is slightly higher than the minimum wage in the sugar industry (22 per cent) and smaller enterprises in the private sector (15 per cent), but lower than the minimum in larger private sector enterprises. It should be noted that many zone enterprises pay above the minimum because of the efficiency related bonuses and seniority scales.

In some cases the zone minimum is lower than the national minimum wage, as in Costa Rica and Panama (table 2.8). Mexico is also an exception to the general finding that EPZ enterprises pay higher wages than comparable non-zone enterprises. Wages in the maquila sector in Mexico are only 65-70 per cent of the industrial average, an average of 107.39 pesos per day in the maquila sector in January 1998 versus 177.95 in manufacturing as a whole. The basic wage is only 66 per cent of the workers’ income, the rest coming from incentives, fringe benefits and bonuses. Wage increases have been very small and lag behind increases in output and productivity. The increase in the average wage of maquila workers was 0.1 per cent in the 12 months to January 1998. However, real incomes in maquila plants declined by 20 per cent from 1975 to 1993, largely as a result of repeated devaluations of the Mexican peso. It is one of the anomalies of the maquila success story in that employment and output have increased and many plants have upgraded, and yet workers’ real incomes and purchasing power have fallen.

**Table 2.9. Central America: Minimum wage in EPZs and national minimum (in US dollars)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Minimum monthly wage in zone</th>
<th>National minimum monthly wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guatemala</td>
<td>88</td>
<td>84</td>
</tr>
<tr>
<td>Honduras</td>
<td>78</td>
<td>67</td>
</tr>
<tr>
<td>El Salvador</td>
<td>132</td>
<td>125</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>85</td>
<td>n.a.</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>195</td>
<td>208</td>
</tr>
<tr>
<td>Panama</td>
<td>135</td>
<td>180</td>
</tr>
</tbody>
</table>
A comparison of average labour costs in Central America and the Caribbean (table 2.8) bears out the point that wages are not the sole determinant of investment flows. If they were, Haiti with an average labour cost of US$0.05 per hour would be the primary destination for foreign investors in the region, and Costa Rica at US$2.38 per hour would not have the vibrant apparel industry it has. As discussed in Chapter 1 (in the section on the new logic of global production) the entry into force of NAFTA has drawn investors from other Caribbean States into Mexico in order to take advantage of the duty-free access to the North American market. Such market access outweighs the wage cost advantage of a country such as Nicaragua (US$0.76). In addition, it is not unrealistic to assume that productivity in Costa Rican firms is higher than in Haiti, for example.

Table 2.9. Hourly labour cost in the apparel industry in selected Central American and Caribbean countries, 1996

<table>
<thead>
<tr>
<th>Country</th>
<th>Hourly labour cost ¹ (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colombia</td>
<td>1.05</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>2.38</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>1.62</td>
</tr>
<tr>
<td>El Salvador</td>
<td>1.38</td>
</tr>
<tr>
<td>Guatemala</td>
<td>1.25</td>
</tr>
<tr>
<td>Haiti</td>
<td>0.05</td>
</tr>
<tr>
<td>Honduras</td>
<td>1.31</td>
</tr>
<tr>
<td>Jamaica</td>
<td>1.80</td>
</tr>
<tr>
<td>Mexico</td>
<td>1.08</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>0.76</td>
</tr>
</tbody>
</table>

¹ Including social and fringe benefits.


Hours

Hours of work in zones vary considerably. In Sri Lanka for example, the Board of Investment specifies a working day for zone enterprises of nine hours, five days a week, with a six-and-a-half hour Saturday, for one-shift operations. There is a one-hour break on all working days. In two-shift operations the working day is eight hours, with five-and-a-half hours on Saturday with a 30-minute break. Many of the plants in other countries visited on missions conducted by ILO officials gathering information for the Action Programme on Social and Labour Issues in Export Processing Zones were working 10- to 12-hour shifts, and up to 16 hours during peak periods. A number of the working practices in EPZs have the effect of prolonging the working shift. Some plants use a quota system which workers have to reach in order to receive their day’s pay. In some cases the workers are obliged to work beyond the normal shift in order to fill the quota. Punctuality is often a problem because of the long distances travelled by workers to reach the zone, or unreliable transport services, and so employers often offer a premium to workers who start work early. This may add 30 minutes or even one hour to the shift. One novel approach found by an ILO mission to Sri Lanka concerned a zone enterprise which wanted to encourage punctuality in the mornings and to overcome a steady decline in
productivity as the shift progressed, which was attributed to the undernourishment of the young female workers who often left for work without being able to eat breakfast. The management addressed both these problems by offering free breakfast to any employee who came early enough to eat it.

The calculation of overtime pay varies enormously between zones. In some countries zones are granted concessions from the normal provisions in the labour law concerning hours of work, and in others the lack of effective monitoring means that enterprises are able to set their own limits. In Mauritius, for example, hours of work in EPZ enterprises are calculated weekly, which means that overtime is paid only if workers work more than 45 hours per week, regardless of how much they work on any particular day. This differs from the provisions applying to non-EPZ enterprises. Frequent extensions of the working day used to be common practice in EPZ enterprises but led to persistent conflict with workers, and so the provisions were amended to require employers to give notice of any anticipated overtime and its duration. In the Philippines an ILO mission visited a plant which had received permission from the Department of Labor to make workers work a 12-hour shift four times a week (calculated at normal rates of pay). This was to reduce the excessive time taken to travel to work due to heavy traffic in the area. In Guatemala most EPZ plants work a 10- to 12-hour day, but this is often extended, generating considerable controversy about how the extra hours should be remunerated.

In interviews conducted with both employers and workers in zone enterprises it emerged that many workers were amenable to working extra hours. This may be in order to attain a reasonable wage, or to enable them to save enough money to be able to leave zone employment altogether. In Nicaragua, for example, women garment workers manage to achieve a take-home pay of US$140 by working 12- to 14-hour days. Migrant workers in particular often have no family near their place of work and prefer to earn the maximum in order to return to their home district as soon as possible. In Honduras, for example, a study conducted by the CGT indicated that 85 per cent of migrant female workers work overtime. In 57 per cent of the cases the extra hours were compulsory.

The particular position of women workers in zones

The importance of women’s economic role is not reflected at the level of policy or practice in the zones, and most government agencies, investors, workers’ organizations and other concerned groups could be doing more to ensure that the distinct concerns of women are addressed. Women workers’ matters deserve more attention not only because the majority of zone workers are women but because they experience the living and working conditions differently from men. Women are generally in a weaker position than their male counterparts and so any problem associated with zones has a more severe impact on the female workforce.

In most zone-operating countries women were traditionally responsible for social reproduction while men handled economic production. However, changing attitudes, structural adjustment of the economy and poverty have forced many women on to the labour market. Despite their new economic responsibilities, often as the only or major income earner in the household, women have generally not been relieved of their domestic responsibilities. As a result many female zone workers are forced to rise earlier than usual in order to prepare the household for the day, and still have to care for other family members after arriving home from a 10- or 12-hour shift. This adds to their levels of fatigue and stress and may act as a distraction at work if the woman is worried about the health, well-being or security of family members. Child care is a big concern for working women and together with other domestic burdens may be the cause of late-coming, absenteeism and high labour turnover.

While the terms and conditions of zone work raise concerns for both men and women workers, those at the lower end of the occupational and skill hierarchy — mainly women — tend to be worse off. The situation of women is often defended with the argument that they would not
be better off anywhere else, and that may well be the case. However, as wage earners in the zone women workers are part of the most dynamic sector of the economy and they aspire to better conditions than those prevailing in other sectors. Furthermore, employers complain of high labour turnover, low productivity, absenteeism and tardiness, which have their root causes in the unsatisfactory social and working conditions which many women face. If a more stable, long-term workforce is to be cultivated to produce world-class products, then the following issues need to be addressed in order to improve working conditions for female zone workers:

— While zones have often increased women’s access to jobs, they tend to be stereotyped into certain jobs at the lower end of the occupational hierarchy because of their perceived dexterity, small fingers or compliance, with the result that the distribution of women in the workforce does not reflect their educational level (which is often higher than the requirements for the job) or their experience. A 1997 study showed that women in Bangladesh were more prevalent at the bottom of the occupational hierarchy, direct labour, and the position was reversed at the top of the hierarchy. The proportion of direct labour which was female was 74.3 per cent, while at the level of officer-technical only 6 per cent were female. Seventy-five per cent of the workers on casual contracts were women.

— The same study showed that zone enterprises tend to hire a higher proportion of women than non-zone enterprises, and that the reasons had less to do with wages than with non-price factors such as punctuality and amenability to skills acquisition.

— In part, women tend to be paid at lower rates than men, because they generally occupy the lower-skill jobs, but this is true even when they are performing similar functions. In Bangladesh for example, 79 per cent of males in the EPZ are categorized as production workers, while the corresponding share for women is 98.4 per cent. The study referred to above concludes from this that women employees are disproportionately confined to relatively low-skilled (and thus low-paid) jobs in the enterprises located in the Bangladesh EPZs. In other words, there exists a sexual bias in the intra-firm division of labour which discriminates against the women employees.

— The occupational and wage segmentation often assumes that the female worker provides only a secondary income to the household and will work for a shorter period of time than a male because of her reproductive role, whereas this is frequently not the case in developing countries with a high proportion of female-headed households. Young women are also expected to care for the elderly or other members of the household. These responsibilities place severe burdens on women’s earnings, time and energy. In Guatemala an ILO study revealed that 45 per cent of female zone workers are single mothers, and in Nicaragua 66 per cent of women interviewed said they had more than three dependents. In Honduras 22 per cent of female zone workers indicated that they were the sole breadwinner in the household, while 73.5 per cent said that they contributed half or more of their wage to the household.

— Because women seldom enjoy the same access to education and training as men, they are at a disadvantage in securing jobs in the high capital and skill-intensive industries, and employers may be reluctant to invest in the training of female workers for fear that they may leave to marry and have children. The missions conducted to prepare this report found that in labour-intensive processes the percentage of women was higher than in capital-intensive processes.

— Hours of work tend to be long in EPZs, and this poses a greater health and safety problem for women workers because of their additional domestic responsibilities and increased vulnerability to harassment or attack when travelling to or from work at odd hours and in the dark.

— Social security and welfare provisions are often sparse for zone workers, and the implications for women may be more serious. Most female zone workers have a target date
for leaving the zone because the arduous nature of the work and inadequate social services make it too difficult to bear indefinitely. Without a pension or provident fund those women find it difficult to be economically independent after leaving zone employment, and without some training and retraining they are often unable to find alternative employment.

— Many female zone workers perform only semi-skilled repetitive functions at work and receive a minimum of training. As a result they often leave the zone without a craft or the life skills that would enable them to be gainfully employed elsewhere or to work independently. In some countries NGOs offer courses to women workers in their free time; in Sri Lanka the ILO Model Hostel has a small training centre which runs extremely popular courses on topics such as sewing and baking.

— Access to affordable and nutritious food is frequently a problem for female zone workers, and if they have to provide for their families the ramifications are more far-reaching. Local merchants are able to profit from the lack of alternatives available to zone workers and charge high prices for poor quality goods, with the result that women workers are often undernourished and prone to illness.

— Health services in the zone and the local community are often limited, and seldom equipped to deal with the specific problems of women’s health. Health education may not deal sufficiently with issues of reproductive health because of a lack of resources or religious and cultural sensitivities. In most zones and the surrounding communities there is a dearth of services dealing with family planning issues and sexually transmitted diseases. Furthermore, in some countries the social environment condemns unmarried mothers, leaving young women workers to deal with unwanted pregnancies in whatever way they can. Given the sensitive nature of this problem, exact statistics on abortions are not readily available, but it has been established that in many zone communities a large number of illegal abortions are performed.

— For many women, the issue of child care is critical in determining whether they continue to work after having children. In many zones, workers are far from their families and lack the support of family networks or an established community. The availability of child care is often inadequate and the costs prohibitive. In Bangladesh an ILO mission to gather information for the Action Programme found NGOs actively involved in establishing crèches and pre-schools in enterprises. All the employer had to provide was the space and the time for breastfeeding women to be with their infants. In Malaysia the Government supports the establishment of child-care facilities in workplaces. Many countries have regulations which prohibit children from entering industrial areas and crèche services are therefore provided at the community level by the State. There is an ongoing debate as to whether it is preferable to have the child-care facility at the place of work or near the home. Many women workers would prefer to have access to affordable child care in the community. This would, in particular, ease the problem of having to transport children to the workplace.

— Sexual harassment is a sensitive topic on which little hard data exists. However, ILO missions received a disturbing number of indications that suggest that harassment is present in zones and may even be widespread. In most cases a sexually harassed woman would have no independent and confidential office or service to turn to, and zone administrations may wish to provide a counselling service for women. In Saint Kitts and Nevis in the Caribbean the Ministry of Women’s Affairs, working with the Ministry of Labour and the zone authority, established a women’s centre across the road from the zone to which women could go for advice and counselling on a wide range of issues.
Labour administration

As indicated above, the vast majority of EPZs are covered by the national labour laws of the country and, given that the factory premises were purpose built and modern, the physical conditions of work inside the zones are frequently better than those available outside. However, labour administration inside the zones is inconsistent. In the zone visits conducted during the course of the Action Programme it was made clear that the Department of Labour is generally not equipped to monitor the zones effectively. There are simply not enough labour relations and health and safety officials, transport and other resources to extend their activities to the zones. In addition, the Department of Labour in many cases has decided that the zones are a low priority compared to other, more problematic sectors of the economy. Many zones have their own systems of labour administration, often staffed by ex-officials of the Department of Labour working in cooperation with the Department. In some cases the Department of Labour provides training and technical standards to the zone administrators in order to ensure that their activity conforms to national standards.

Bangladesh provides a typical example of the situation described above. The study on EPZs conducted for the ILO concluded: “Given the current state of labour administration in Bangladesh, the above-mentioned statutory conditions of employment of labour are hardly enforced in the private manufacturing sector, particularly in the case of small and medium-sized units. On the other hand, due to the very nature of operation of EPZ units and the quality of oversight provided by the BEPZA, these stipulated non-wage entitlements are essentially ensured for the workers in the zones. Rather, a number of large EPZ enterprises offer a number of supplementary benefits to their workers — remaining cognizant of the fact that such additional costs would be recouped through productivity gains.”

Despite the various attempts to ensure that zones are covered by some form of labour administration, the ILO officials on mission were regularly made aware, by zone administrators, investors and workers, of a series of abuses or infringements of the law which were going unchecked. These fell into the following categories:

— failure of the employer to pay statutory deductions for unemployment and accident insurance;
— failure to issue regular contracts to workers after probationary or training periods in order to avoid paying standard wage rates and other benefits;
— compulsory overtime and other abuses of regulations concerning hours of work;
— attempts to avoid the provisions relating to paid maternity leave;
— intimidation or victimization of worker organizations.

Zone administrators were concerned with this situation because of the potential for conflict and controversy, but also because such delinquent enterprises were often abusing the other privileges of the zone regime such as the tax and duty concessions. However, they rarely admonish such enterprises for fear of driving them out and losing investment and jobs. Those enterprises that do observe the regulations object to the unfair competition that such transgressions represent, in that bad enterprises use them to achieve a short-term cost advantage.

In Sri Lanka the Department of Labour is responsible for the administration and enforcement of all labour laws. In addition, the Board of Investment has an Industrial Relations Department in each zone. An ILO mission studied the work of one such department and verified that they do indeed conduct factory visits which cover issues such as wages, holidays, night work, benefits, social security deductions, ventilation and hours of work. Zone investors interviewed in the course of the same mission, however, alleged that the Industrial Relations Department was not sufficiently strict with employers, particularly regarding non-payment of Employees’ Provident Fund and Employees’ Trust Fund contributions.
The interface between zone and society

Most EPZs are planned and built with the particular needs of investors in mind. The infrastructure and other facilities are usually modern and ample and often better than those available in the domestic economy. The surrounding social environment, however, is often not taken into account and is not appropriate to the modern industrial environment inside the zone. That may be because the social infrastructure and services fall under the jurisdiction of other government departments, and the approach of the department of trade or industry which is responsible for developing the zone may be a more narrowly focused economic one. For whatever reason, many zones have found that the interface with the local community is complicated. The zone may attract large numbers of workers, frequently from outlying areas, who quickly overwhelm the available housing and transport services and put pressure on every other social service.

In some countries local landlords have taken advantage of the accommodation shortage to charge exorbitant rents for substandard accommodation, while in others zone workers have been forced to build shacks for shelter. In both cases the result is a workforce which suffers from fatigue and poor health. These symptoms may be aggravated by poor transport services which oblige workers to travel long distances to reach work, often having to leave home very early in the morning and not returning until late at night. This can expose them to physical danger, especially if they are young women. Enterprises suffer because workers are often late or tired or both, and many zone investors now provide transport for workers. Even so, it is not unusual for the company bus to drop off its last passenger three hours after leaving the factory gate.

In situations where the zone attracts workers from outlying districts, or even from other countries, friction between the zone workers and local residents is common. Where the "outsiders" are thousands of single young women the situation is even more delicate, with local men preying on the zone workers and local women accusing them of "stealing" their men. Either way, the inability of zone workers to integrate themselves or to establish a stable community life is a major factor contributing to the high labour turnover characteristic of many zones and needs to be addressed.

World-class export industries need to be able to invest in the training of workers secure in the knowledge that they will not leave to return to their home district because of a lack of suitable accommodation and services close to the zone. In order to provide a more appropriate and stable social environment, some zones are now providing for social infrastructure as part of the overall plan. The Carmelray Industrial Park II in the Philippines will be served by the purpose-built Carmel Town which is basing its comparative advantage on its educational facilities.

Some enterprises have started to address the inadequate social situation of their workers in an effort to build a more stable relationship. This is often an acknowledgement of the fact that the Government simply does not have the resources to provide the necessary social infrastructure. Capital- and skill-intensive industries and zones with tight labour markets are more inclined to accept such social responsibility. By providing housing, transport and child care services for example, or by using their resources to support cooperatives, enterprises benefit from higher productivity and lower labour turnover and absenteeism.
3. Assessing the impact and potential of EPZs in a global economy

Are zones effective?

Most zone-operating countries consider two issues when assessing the efficacy of zones, namely:

— Has the zone attracted a sufficient quantity of investment?
— Has that investment created the desired number of jobs?

To these they often add a third:

— Has the investment expanded exports and increased foreign exchange earnings?

The data presented in Chapter 2 of this report indicate that many zones have indeed succeeded in attracting significant amounts of investment in labour-intensive industries with the result that large numbers of jobs have been created. For those labour-surplus economies concerned solely with the quantity of employment the assessment need not go any further, but many zone-operating countries have started to pose questions about the quality of that investment and the jobs created. The generosity of the investment incentives, the peculiarities of the Multifibre Arrangement and the growth of subcontracting resulted in many zones attracting small- and medium-scale investments of a very expedient nature. Such investment does not bring with it a longer-term commitment to the host country, and the enterprises involved seek their comparative advantage in reduced costs of production rather than through improvements in productivity. Many zones have consequently not managed to attract the quality of investment and jobs that they had hoped for and are now considering ways to upgrade them.

In a number of zone-operating countries, however, the objectives of the zone strategy go a lot further than the quantity of investment and employment. They hope to use foreign investment in the export sector to promote broader economic development and higher standards of living through:

— the establishment of backward and forward linkages between zone investors and local enterprises;
— the transfer of technology and skill;
— the development of a diversified export profile;
— constant increases in the degree of value added in zone enterprises;
— frequent upgrading of the technology, skills and organization of production.

When measured against these broader economic, social and labour objectives the results of the zone strategy are mixed. The host government spends large amounts of money on the infrastructure, maintenance and running costs of the zones, and may well have to upgrade the facilities at a later stage. To that expense must be added the opportunity cost which includes not only the lost earnings from taxes and duties but the diversion of resources from other developmental activities. In return the country attracts investors, collects rents, boosts exports, generates foreign exchange and creates jobs. Zone investors increase demand for local goods and services, particularly in the energy, construction, transport and packaging sectors, and zone workers have some spending power which benefits local suppliers of accommodation, transport and consumer goods. However, the positive impact of these factors has been limited for the following reasons:

— Type of industry. In most zone-operating countries the main attraction to investors has been the abundant supply of relatively cheap labour, and they have accordingly attracted labour-intensive industries, or the labour-intensive stages in the production chain which are less
likely to upgrade technology and human resources than enterprises involved in integrated manufacturing.

— Type of enterprise. The generous incentives and low entry costs of the labour-intensive activities have resulted in the establishment of many small, undercapitalized operations whose value to the zone and the broader economy is uncertain.

— Type of activity. The incentive structure encourages investors to mount assembly operations because they can import all their inputs duty-free, process them using relatively low technology, and then export them duty-free, rather than consuming local raw materials, goods and services.

— Type of employment. Given the abundant supply of labour and the predominance of low-technology labour-intensive industries, most of the jobs created in these are low-wage, low-skill jobs with little scope for upward mobility.

— Foreign exchange earnings. Very little of the foreign exchange generated stays in the country since the zone investor consumes relatively few local goods and services and the incentives normally provide for full repatriation of profits.

— Increased exports. The increase in exports may be misleading in that a significant percentage of zone exports are made up of products from enterprises whose presence is temporary and which could not be replaced by local exporters.

— Investment profile. Rather than a diversified profile capable of withstanding cyclical swings in demand, zone investment has been rather narrowly concentrated in the electronics or clothing and footwear sectors.

— Value added. The amount of value added in the simple processing activities is limited, with the result that the skill and wage levels remain relatively low.

— Technology and skill transfer. Because zone investors engage only in simple processing tasks, the potential for technology and skill transfer is limited.

— Stability of investment. The foreign investment is not secure and could leave relatively easily, particularly if the sole reason for investing in the first place was a temporary one such as a tax holiday or a quota under the Multifibre Arrangement.

This consideration of the costs and benefits of a zone strategy raises a number of important questions. How can zone-operating countries ensure that the quality of zone investment improves, and that it has knock-on effects in terms of broader social and economic development? The answer may lie in changing the definition of EPZs.

A flawed definition

The very concept of export processing zones, with duty-free imports being assembled for export, implies that the impact on the host countries will be limited. In fact, many of the laws providing for the establishment of EPZs specify that the privileges apply only to such import-assembly-export type activities. This has indeed been the case. Because zone enterprises operate autonomously with imported equipment and materials very little transfer of skills or technology to local partners takes place. Neither the human capital base nor domestic industry benefits significantly. This separation of zone investment from the local economy may have been intentional when the host country was still in an import-substitution phase, but most zone-operating countries now hope to use zone investment to stimulate local industry, promote strategic industries and develop the regional economy. To this end it is necessary to ensure that zone investors consume local raw materials, goods and services, develop local partnerships and alliances involving shared technology and expertise and investment in human resources development.
Backward and forward linkages between zone investors and local industry are not easy to create in developing countries, and the difficulties are compounded because most governments do not have a strategy, incentives or the necessary agencies to promote linkages between local and international firms. In Mexico the amount of local content in maquila production has hovered around the 2 per cent level for the last decade. There are often many obvious, almost banal goods and services which are not available locally. For example, hard-disc manufacturers in one zone in the Philippines cannot find a local dry cleaner capable of washing the overalls used in clean rooms, and they are therefore forced to fly the overalls to Singapore to be cleaned to the required specifications. There should be an agency which identifies such potential links and assists local enterprises to procure the technology and skills required to supply zone investors. In Mexico, the maquila sector has proved highly effective in generating jobs, but after 30 years, the amount of domestic raw materials consumed is still only 2 per cent of the total.

Singapore takes the high road

Singapore has been one of the most successful zone-operating countries in terms of both the quantity and the quality of investment it has attracted. Despite its small size, lack of natural resources, tight labour market and relatively high costs, Singapore has succeeded in combining clear industrial policy, targeted incentives, appropriate infrastructure and human resources, in a package that investors continue to find competitive. Inward investment totalled S$8.1 billion in 1996 and S$8.5 billion in 1997. Together with spending of S$1.9 billion by the exportable services sector, fixed asset investment in 1997 is expected to create 26,000 jobs. The value added will amount to S$8.5 billion. Foreign investors accounted for 70 per cent of the total commitments in the manufacturing sector, with the United States providing 28 per cent, Japan 24 per cent and Europe 17 per cent. The electronics sector led in terms of investment commitments (46 per cent), job creation and value added.

Singapore has succeeded in raising the quality of jobs created, and in 1996 and 1997 some 66 per cent of the new jobs were for workers recruited for their knowledge or skill. The major contributors to exportable services were regional headquarters (41 per cent) and communication and media services (38 per cent).

Singapore’s continued appeal to foreign investors flies in the face of many of the conventional views on how zone-operating countries attract investment.

— Singapore is not a labour-surplus economy with large amounts of cheap labour available. On the contrary, it has a very small population with expensive labour and a relatively high minimum wage set by the Government.

— It is not deregulated or unregulated, and government agencies dealing with conditions of work, health and safety and the environment are very active.

— It is not a trade union-free system but rather one with a strong emphasis on tripartism. Singapore authorities interviewed in the course of the Action Programme confirmed that they had turned away blue-chip companies who had asked for trade union-free arrangements.

— Singapore has no particular market access or quota advantages to attract investors, and is surrounded by competitors which have more land, labour and natural resources, and lower cost structures.

This begs the question — why do investors continue to flock to Singapore? The answer lies in the fact that Singapore has a proactive investment strategy. If Singapore had simply built a zone, offered incentives and waited for investors to arrive, it would probably have a weak investment base with a predominance of enterprises drawn from one country serving one market and concentrated in one or two industries. Instead, Singapore clearly identified the type of investment best suited to its rather unusual and limited situation and then developed incentives, infrastructure and, most importantly, government support services tailored to the needs of that investment niche. Electronics has been the dominant sector with over 45 per cent of investment and over 50 per cent of exports, but Singapore has made an effort to strengthen existing industries such as petroleum products and to diversify into new industries such as paints, pharmaceuticals and other chemicals. The Government is encouraging investment in the design and production of higher value added products, in services and trade and in research and development. The provision of quality human resources has been a priority and is a major incentive to high value added investors. In addition, Singapore has continued to improve on the package and to upgrade and elaborate the range of institutional supports available to investors.

A diversified investment and trade profile increases the stability and sustainability of a zone and its potential impact on social and labour conditions. Many zones have an investment
monoculture in the sense that most investment comes from one country of origin or is crowded into one sector such as garments. In addition, output is often destined for one major market or region. This leaves the zone highly exposed to fluctuations in investment or trade patterns. The greater the representation of local capital in the zones the greater the likelihood of backward and forward linkages being established and the better the prospects for broader economic growth. In the Dominican Republic 48 per cent of zone investment is American (1996 figures) and 28 per cent Dominican, but 96 per cent of output is exported to the United States, leaving them very dependent on that market and highly vulnerable to changes in trade regime or trade flow. In Costa Rica the investment proportions are 60 per cent American and 21 per cent Costa Rican, but the country is less dependent on a single market, with only 58 per cent of EPZ exports going to the United States, 14 per cent to Europe and another 14 per cent to Central America and the Caribbean. In Mauritius two-thirds of the investment is local, and the exports are spread over a range of markets, with 29 per cent going to France, 21 per cent to the United States, 19 per cent to the United Kingdom, 8 per cent to Germany and 6 per cent to Italy.

What’s wrong with EPZ jobs?

It is a regrettable feature of many zones that both male and female workers are trapped in low-wage, low-skill jobs. They are viewed as replaceable and their concerns do not receive sufficient attention in labour and social relations. Why?

— Most zone-operating countries have an abundant supply of labour available to work in the zones. This tends to keep wages low. In tight labour markets the wages and working conditions are usually much better as employers have to go further to attract and retain workers. However, even in some countries with an oversupply of labour employers are finding that zone employment has such a bad image that they are having to pay a premium to get labour. Workers with experience and skills are in a stronger position to demand better terms and conditions and can easily move if not satisfied.

— Zones are particularly attractive to labour-intensive industries such as garments and footwear and the assembly of electronic components or goods. These industries use relatively cheap and basic technology and require a low-skill workforce. This means that they can easily recruit new workers and introduce them into the production line after a short training period. There tends to be a high turnover of workers but employers are often not concerned because replacements can always be found. Such employers are generally loath to invest in training and social security benefits because they assume that workers will leave after a few years.

— The generous financial incentives offered to incoming investors and the low costs of entering simple processing industries enable many small and medium-scale enterprises (sometimes with weak capital bases) to invest in zones. Such companies often lack professional management, particularly in human resources and labour relations, and are unable or unwilling to invest in new technology, skills upgrading, productivity improvements, child care, pension and medical benefits, or to assist workers with housing and transport services.

— These labour-intensive processing industries compete largely on price, and since labour costs are a large component of their total costs they often see labour as a cost to be contained rather than as a resource or asset to be developed.

— Very few governments have managed to come up with appropriate policies and practices to ensure that zone investors transfer technology and skills to local industry and workers with the result that the human capital base of the host country is not enhanced to the extent hoped for.
How are zone stakeholders responding?

In the past investors were seeking to lower costs and, since they were engaged mostly in labour-intensive operations, they sought out countries with low labour costs. Today, globalization places the emphasis on speed, efficiency and quality as well as cost, and these factors together influence where a business decides to locate. Policy-makers are increasingly concerned to maximize their country’s comparative advantage for foreign investors and are shifting the focus from cheap labour to productive labour. This realization is changing the way government, employers and even trade union organizations view human resource issues. For countries to remain competitive, they must get this mix of cost and quality factors right by raising the capacity of their human resources, ensuring stable labour relations and improving the working and living conditions of zone workers.

Responses by governments

Government agencies responsible for investment promotion, zone management and labour administration are having to:
— make changes to investment and labour laws,
— develop targeted incentives,
— set up new theme and niche zones with appropriate infrastructure,
— tackle the problematic social situation surrounding many zones,
— improve human resources and ensure stable labour relations.

The labour laws of many developing countries are a legacy of the colonial era. They are often cumbersome and heavy on administration. Many governments simply do not have the resources to implement the provisions of the law, and the international trend towards smaller government means that they are not likely to expand their labour administrations in the future. The most effective legislative reforms provide for systems which are less administration-intensive, simple, easy-to-use and can be quickly adapted to take account of changing circumstances. Many zones have their own system of labour administration, often staffed by ex-officials of the Ministry of Labour, but now paid for by the zone, and with responsibility for monitoring minimum standards, resolving conflicts and providing labour relations advisory services to employers and workers.

Recent examples of reform of labour and investment laws include Panama where two 1996 Decrees set up a special department within the Ministry of Labour to handle individual and collective disputes and to promote improved working conditions in the zones. A tripartite commission within this department endeavours to conciliate in the case of conflict or deadlock in collective bargaining. In the Dominican Republic a Presidential Decree of 27 March 1977 established a tripartite commission to develop a policy and a programme of action on social services in export processing zones. Child care, housing and transport are amongst the priorities to be addressed and the means of action may include the establishment of cooperatives and the provision of credit. In the Philippines new ecozone legislation provides for tripartite councils at national and zone level to advise on policy issues, particularly human resources and labour relations.

A number of zone-operating countries have revised their incentive systems to promote investment in higher value added activities, raise the human capital base or improve the social infrastructure. Mauritius, for example, has introduced a Technology Diffusion Scheme to

7Decree 1 of January 1996 and Decree 2 of February 1996.
8Republic Act No. 7916, the Special Economic Zone Act 1995.
promote the use of new technology; another initiative is aimed at increasing the use of
information technology. Sri Lanka has included training providers in the list of investors eligible
for incentives. In the Dominican Republic Act No. 8-90 provides partial or total exemption from
import duties for companies importing vehicles, equipment and materials with which to provide
housing, transport or other services for their workers.

The competitive potential of zones is being improved through enhanced support services.
In Costa Rica the main zone legislation (Act No. 7210, supplemented by Acts Nos. 7293 of
4 March 1992 and 7638 of 30 October 1996) provides for:

- technical assistance in the training of present and future employees through the National
  Institute of Apprenticeship (INA);
- assistance in the selection of personnel through the INA and other public bodies;
- assistance in procuring local raw materials;
- assistance in product development;
- assistance in securing accommodation.

This network of services formed part of the package that convinced the United States
multinational enterprise Intel to invest in Costa Rica. The Government of Costa Rica put together
a special package for Intel consisting of human resource development provided by leading
technology and training institutes, streamlined administrative procedures and a new source of
electric power at a reduced rate. Intel’s US$500 million investment in Costa Rica is the largest
single private investment ever made in Central America, providing employment for 3,500
workers. The plant manufactures Pentium II processors with 35 per cent local added value. Intel
expects to earn US$700 million in exports from this operation in 1998, which could be worth
more than coffee and bananas, Costa Rica’s two main traditional exports, combined.

Tunisia has launched an upgrading programme run by the Ministry of Industry to help firms
adjust their production systems and organizational practices to meet the demands of international
competition. A special Development Fund for International Competitiveness allows the
programme to finance activities to improve the quality of products, restructure enterprises,
sponsor sectoral studies and subsidize technical centres.

Many governments have authorized the development of privately owned and managed zones
which nonetheless qualify for the same incentives as government zones. In some cases foreign
developers have been allowed to establish zones, on their own or in joint ventures with local
partners. Bangladesh has approved the development of a new zone by a Korean company, while
the Philippines has seen a dramatic growth in local and joint venture zone developments. The
Carmelray Industrial Park for example, is a joint venture with JTC International, an arm of the
Jurong Town Corporation of Singapore. This allows the Philippine partner, Carmelray Industrial
Corporation, to draw on the experience and expertise of a world-class partner. Toyota Motor
Philippines has developed the Santa Rosa Special Export Processing Zone in Laguna, Philippines,
as a purpose-built facility for itself. A zone dedicated to the leather industry, with the necessary
environmental infrastructure, has been set up in Istanbul in Turkey. Other innovations in zone
development in Turkey include a space camp and the Istanbul International Securities Market
Free Zone, which provides for stock purchases, sales and barter within the Istanbul Stock
Exchange. There is a trend towards targeting zones such as high-tech or science parks, chemicals
parks, agro-industrial parks and even “intelligent” parks.

Given that global competition places a premium on speed and quality as well as cost, and
that constant improvement is vital to success, governments need to upgrade their human resource
development and labour relations strategies. Too many countries continue to rely on cheap labour
as an incentive to investors, overlooking the fact that this will only attract the lowest quality of
investor who is least likely to succeed in global competition. The most effective enterprises are
looking for productive labour which can adapt to the frequent changes in technology and the
organization of production. Such companies are also concerned to retain their skilled and
experienced workforce and to reduce absenteeism, tardiness and other manifestations of labour-management conflict. Zones which can offer high-quality human resources, training facilities and labour relations services such as conciliation and mediation are more likely to attract and retain investors of world standard.

Responses by investors

Zone enterprises have had to adapt to greater competition in international product markets which demands:

- quicker response;
- shorter lead times;
- faster turn-around times;
- greater flexibility in production;
- lower costs.

Most enterprises find themselves working harder and harder until persistent problems of quality, cost and labour relations force them to find ways of working smarter. The better companies realize that the above-mentioned competitive demands can only be met through constant innovation and improvement. This in turn requires optimum human resource utilization and constructive labour-management relations. There are examples of innovative human resource and labour relations strategies to be found throughout the spectrum of zone investment, from labour-intensive simple processing plants to highly automated manufacturing operations. ILO missions undertaken as part of the Action Programme found three broad responses to increased global competition and the need to improve through better management of human resources in EPZs. These can be categorized as follows:

Type One — Intensification

- Enterprises try to compete by making workers work harder and longer until they burn out or leave. Shifts get longer and longer, with ten hours being the norm and many workers putting in substantial amounts of overtime, voluntarily or otherwise. This is particularly true of labour-intensive, low value added and low-skill production processes. It is also more common where management has an ample supply of cheap labour.
- The workplace tends to be oppressive, intimidating and not fulfilling. It is not uncommon to find guards patrolling the production floor and all entrances and exits (including the fire escape) locked.
- Production is inefficient and error-prone with high wastage rates.
- Labour turnover, late arrival and absenteeism are high.
- There is generally no consultation with workers or appreciation of their needs.
- The intensification of work reaches a limit at which it becomes counterproductive, with falling productivity, deteriorating quality and labour unrest.

Type Two — Motivation

- Management decide to motivate workers. It introduces cash incentives for higher output and productivity, regular attendance and long service.
- Companies tackle the problem of late arrival by offering free breakfast to workers who come on time. This has the added advantage of ensuring that they are strong enough to work a solid shift.
- Some companies offer free transport to and from work to help ensure that workers arrive and to reduce the fatigue of having to walk long distances.
- Many firms provide medical and dental services to improve the health of their workers.
— Firms employing workers who come from other regions may offer housing support.

— Some enterprises supply crèche facilities in the plant, inside the zone, or in the community. This takes a major worry off the minds of feeding mothers and reduces the time and money they would otherwise be spending on securing child care. The in-plant crèches allow mothers to feed a number of times during the shift.

— Plants instal airconditioning to increase their productivity.

— A number of companies visited by ILO officials had set up consumer cooperatives for their workers in order to buy better quality food more cheaply than that available in local stores, and savings cooperatives have brought about major improvements in workers lives in a number of developing countries, particularly in cultures where women turn most of their earnings over to male members of the family.

— In an effort to retain skilled and experienced workers some companies have introduced provident funds which mature after ten or 15 years. This gives workers a lump sum with which they can start some income-generating activity after leaving the zone.

— A particularly innovative approach to providing many of the above services to workers is to do so in partnership with NGOs specializing in those fields.

— These incentives however, reach a plateau and the requirements of improving speed, cost and quality oblige management to look further for productivity and efficiency gains.

Type Three — Participation

— Management seeks to involve workers in meeting the speed-cost-quality challenge. This may be a planned shift towards participative labour relations or a reaction to a crisis situation to which management either does not have the answers or could not put them into operation without worker agreement and support.

— Typical measures are the introduction of teams, their gradual empowerment, increased sharing of information, joint problem solving and target setting and the encouragement of worker innovation.

— The most successful companies have developed a tangible sense of partnership between labour and management and given workers a real sense of ownership of the outcomes.

— Such plants have set a new pattern of labour-management cooperation. Management has reshaped its training programme to cultivate the leadership and decision-making qualities of team workers and have begun to see the role of management as one of supporting and coordinating worker initiative.

— Teamwork is not a new concept, but its popularity is growing in zone enterprises and teams are increasingly self-directed. The most advanced use of this approach is in the highly capital-intensive electronics plants which need to amortize their investment quickly by operating non-stop at very high rates of productivity. In order for teams to be effective workers and management require considerable amounts of training and attitudinal change. Skills such as problem identification, analysis and solution need to be learned, along with the dynamics of working in groups, the nature of leadership and the importance of evaluation. On a different level, workers need to be taught statistics in order to collect and analyse production data. In the Philippines, companies were found sending workers on the sort of outward-bound survival courses normally reserved for top management in order to enhance their decision-making capacity.

— The state of the art at present involves career pathing, upgrading and multiskilling in such a way as to reduce the number of skill layers, increase the value added by each layer and enhance job satisfaction. Training is the key to achieving this and is actively encouraged by the companies.
This involves a process of phasing out less skilled functions and moving the occupants up
the skill ladder. Operators have been upgraded to manufacturing technicians, combining the
functions of operator and technician by running several machines, doing the repairs,
maintenance and troubleshooting. Supervisors are being eliminated as teams are
"empowered". Technicians are being trained to replace the assistant engineers who are in
turn being sent to university to become full engineers. The professional engineers move into
management or R&D (mostly customization rather than full-blown R&D). The result is a
flatter structure with more value added by each individual. Workers appreciate the
possibilities for personal advancement, greater earning capacity and expanded responsibility.

This leaves many zones with two distinct classes of enterprise, one which is innovating
human resource utilization and labour relations in order to improve performance and remain
competitive, and another which is intent on sweating its labour force to meet production
requirements. Policy measures are required in order to encourage and assist enterprises to make
the shift from working harder to working smarter. There are a number of variables which affect
the way in which this trend plays out. These are:

— the origin of the investment, since most companies bring with them a certain style of labour-
management relations and demonstrate an ability to recreate it all over the world;

— the origin of the management, particularly the Director of Human Resources, which often
results in a certain degree of customization of the companies approach to suit local
conditions. A number of companies were found which had replaced expatriate managers
with locals after experiencing a strike or other labour relations problems;

— the industrial sector, in that sectors with intense competition, high quality requirements and
short product life cycles demand greater cooperation, commitment and motivation from their
workers. The issue of quality is critical here. ILO officials visited many labour-intensive,
low-skill operations which were nonetheless highly innovative, but they were invariably
competing on the quality of their product, in addition to its price;

— the nature of the production process and the degree of capital-intensity, which are important
because the capital- and skill-intensive processes require advanced management of human
resources in order to optimize their use and amortize the expensive investment;

— the national labour relations system and tradition, which inevitably influence, and may even
impose themselves on, the labour relations style of foreign investors. This can even lead to
a company adopting different approaches in different countries.

— the prevailing labour market situation, in that tight labour markets oblige enterprises to offer
better wages and working conditions and better career prospects, in their efforts to attract,
retain and reward workers. Many enterprises visited in Malaysia, for example, had realized
that they could no longer rely on better terms and conditions alone to retain workers and had
devised ways of making work more rewarding in order to gain an edge in the tight labour
market.

Responses by workers’ organizations

Trade unions are at the greatest disadvantage in adapting to the new global environment of
investment and trade, of which EPZs are a key component. They are having to cope with the
simultaneous emergence of a number of problematic trends, including structural adjustment and
sluggish economic and employment growth in developed economies which have undermined their
traditional industrial support bases and replaced them with growing numbers of atypical workers,
often on irregular or insecure contracts in difficult-to-organize sectors such as services. Changes
in technology and the organization of work have had an impact on the labour-management
relationship and trade unions are having to adapt their organizing strategies to meet those changed
conditions. In developing countries the public sector and state enterprises, often a bastion of trade
union organization, are being downsized and privatized, and the informal sector accounts for a large proportion of employment. In many EPZ-operating countries trade unions are in a complicated or difficult situation (for political, economic or cultural reasons). Many lack the information necessary to analyse the impact of globalization and, even if they are aware of the implications, they may not have the resources to develop appropriate responses. Given that trade unions find it difficult to gain access to EPZs in most parts of the world, it is even more of a challenge to develop policies and programmes relevant to the needs of zone workers.

Some international trade union federations and workers’ support networks have taken up the issue through research and education programmes, often working with and through workers in zones. The outputs of these programmes have cast a critical spotlight on the operation of zones and served to raise awareness amongst workers of their rights. NGOs have taken up the cause of workers in EPZs by establishing information networks, many using the Internet, and by exposing what they consider to be sweatshop conditions. Child labour has received a lot of attention, along with minimum wages, health and safety and hours of work.

Exposing bad working conditions and breaches of workers’ rights has proved very effective in the United States, where a number of high profile enterprises and personalities were singled-out for using subcontractors in EPZs which relied on unacceptable labour practices and working conditions. The case of Kathie Lee Gifford, who acknowledged that her line of popular Wal-Mart clothes was being produced under sweatshop conditions in Honduras, served to generate a public debate about what constitutes acceptable labour practices and made many ordinary consumers aware of the production chain that delivers products to their shop shelves. The Gap faced a similar debate regarding the manufacture of its garments in El Salvador, and it has responded to the criticisms by working with NGOs in that country to try to ensure that such abuses are avoided in future. The controversy surrounding the production of Nike products in Bangladesh, Indonesia and Viet Nam has probably been the most acrimonious, and has involved not only trade union and NGO criticisms of their labour practices but even a leaked auditor’s report which revealed unacceptable health and safety practices which had not been rectified. This has:

— given moral and practical support to the labour movements in zone-operating countries;
— prompted the governments concerned to make labour law reforms;
— obliged the enterprises involved to adopt codes of conduct or to improve the monitoring of their codes by cooperating with independent agencies.

The International Confederation of Free Trade Unions (ICFTU), in addition to its research and publications, has developed a model code of conduct for enterprises which, once adopted, would help to ensure that zone workers’ rights and interests are protected. The International Textile, Garment and Leather Workers’ Federation (ITGLWF) has also been very active in the field of codes of conduct, as has been the European Trade Union Committee on Textiles, Clothing and Leather (ETUC-TCL). These organizations have negotiated industry and sectoral codes with employers’ federations to try to eradicate abusive labour practices, inter alia in EPZs. A recent example can be found in the Code of Labour Practice for Production of Goods Licensed by the International Federation of Association Football (FIFA), reached between FIFA and the ICFTU, the International Textile, Garment and Leather Workers’ Federation and the International Federation of Commercial, Clerical, Professional and Technical Employees.

There are a number of constraints which workers’ organizations confront in their endeavour to organize workers, especially women, in EPZs. Mauritius is a case in point. An analysis of the failure by the Mauritian trade unions to organize EPZ enterprises noted that cultural factors mitigated against women workers participating in trade union affairs. They have domestic commitments which restrict their ability to attend trade union meetings after work and on weekends. In addition, many women workers assumed that trade union matters were a male domain. EPZ enterprises in general and Asian investors in particular were reluctant to deal with trade unions and had been known deliberately to discourage trade union activities. As a result,
contact and communication between trade union organizers and workers was limited. Some enterprises promoted the formation of works councils composed of workers' and employers' representatives, which had the effect of pre-empting trade union organization. The limited amount of trade union education also restricts workers' understanding and acceptance of trade unionism. The trade unions, however, do not have the human or physical resources to expand their educational programmes. Enterprises are also reluctant to allow workers time off for trade union activities.

Trade unions in other EPZ-operating countries face similar constraints to those described above in Mauritius, and they will have to develop methods of labour organization which overcome such difficulties. In some zone-operating countries where the labour movement is unable to extend its organizing activities into the zones, trade unions have resorted to organizing workers in the communities where they live. The missions conducted as part of the Action Programme found a number of community-based advice centres which provide legal assistance, personal counselling and training. These initiatives are designed to inform workers of their rights and to instil the confidence and the organizing skills needed to establish workers' organizations in the zones. The Trade Union Congress of the Philippines (TUCP) has established such centres outside the zones in Subic Bay, Cavite and Laguna. The TUCP launched a renewed drive to organize zone workers in 1997. Activities include door-to-door organizing in the community, the provision of information on workers' rights, education on safety and health and gender questions, the formation of credit and consumer cooperatives, the establishment of family planning clinics and training in organizing skills. The Federation of Free Workers in the Philippines used research, education and training as part of its initiative to build up a network of female trade union organizers. These female organizers try to provide services to women workers to help them solve practical problems and assist them in setting up consumer and credit cooperatives. Women's groups and other NGOs have likewise provided centres, shelters and training courses. The Asian-American Free Labour Institute supports a community-based centre in Sri Lanka which offers advice and training to zone workers. Other community-based initiatives include a food cooperative for women workers, a campaign to combat violence against women workers commuting to and from work at night and an EPZ newspaper published by an independent women's NGO.
4. Summary and suggested points for discussion

Summary

The EPZ strategy has demonstrated in countries all over the world that it can be effective in attracting investment and creating employment. For labour-surplus economies that represents a major step forward, even if the investment is largely in simple processing activities and the jobs are mostly on the lower rungs of the skill and wage ladder. In the longer term, however, few zone-operating countries have succeeded in upgrading those jobs in terms of skills and earnings.

Many zone-operating countries anticipated that their zones would spur economic growth and development, but very few have managed to create the backward and forward links necessary to achieve a wider economic impact. Zone activities have remained largely processing and assembly operations based on imported components, with very few local materials, goods and services required.

The typical pattern of zone investment has tended to produce an industrial monoculture with most firms involved in the same sector of activity. The bulk of the investment often comes from one country or subregion, and the output of the zone is frequently destined for one major market. Zone performance would be more stable and sustainable if the investment was drawn from a wider range of countries and was spread across a broader group of industries and if the output was destined for diverse markets.

Globalization is accelerating the construction of international production chains, using EPZs as export platforms. This provides considerable opportunities for zone-operating countries to attract investment and create employment, but the initiative in the construction of such production chains lies with firms in developed market economies, and zone-operating countries may find themselves isolated by sudden shifts in investment and trade patterns if they do not manage to diversify their investment and export profiles.

Labour relations and human resource development remain two of the most problematic aspects of zone functioning. The absence of credible and effective structures of labour-management relations is a source of instability in zones which may undermine their ability to provide an internationally competitive export platform and to achieve improvements in wages and working conditions. The shortage of appropriate human resource development programmes may limit the potential of zones to improve productivity and upgrade jobs.

The position of women zone workers deserves special attention, both because they constitute such a large proportion of zone employment and because the features of zone work and life impact differently on women and men.

Suggested points for discussion

Evaluation

1. Have EPZs achieved their objectives in terms of both the quantity and quality of investment and employment?
2. What contributions have EPZs made to broader social and economic development?

Priorities and guidelines

3. What can government agencies do to attract more and better investment to EPZs?
4. How can governments and the social partners ensure that adequate labour standards are applicable and applied in practice in EPZs?
5. What can governments and the social partners do to promote sound labour management relations in EPZs?

6. What can governments, zone investors and workers’ organizations do to improve:
   (a) the skills;
   (b) the wages;
   (c) and the working conditions of zone workers?

7. How can governments and the social partners promote more effective human resource utilization?

8. How can the retraining and re-employment of ex-zone workers be facilitated?

9. How can governments and the social partners improve the social infrastructure to provide a better quality of life to zone workers?

10. What special measures need to be taken so that the special situation of women workers is addressed?
Bibliography


Kyllo, R. (ed.): Mastering the challenge of globalisation: Towards a trade union agenda (Geneva, ILO, 1997).


Sklair, L.: Assembling for development: The maquila industry in Mexico and the United States (San Diego, University of California, 1993).

