EXPORT PROCESSING ZONES
-Zones of Special Interest - Part 11

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The first part of this article (published in our Dec.'85 issue) showed how EPZ's had boomed since the 1960's, despite some economists doubts about their benefits. But as the number of EPZs has risen, so has the competition for foreign investment. It was also argued that behind the enthusiastic embrace of EPZs by developing countries lies a broad shift away from import-substitution industries - which mean greater self sufficiency in favour of exports and closer integration with the world economy. Transnational and other investors see cheap labour as they key attraction of EPZs, where wages are usually 10 to 30 times lower than in industrialised countries, though this has not stopped the outbreak of a big incentives war among host countries.

Textiles and electrical and electronic goods assembly account for about 80 percent of jobs inEPZs. Other products include footwear, leather goods, optical equipment, toys, plastics, sports equipment, motor parts and minor transport equipment. Capital goods and hi-tech products remain rare. According to some, special zones in the North and South account for US$ 170 billion of trade, about 9 percent of the world total. Their share is predicted to more than double in the next few years.

However, many developing countries have found that EPZs are no magic short-cut to export-led industrialisation. The failures far outnumber the successes.

Some countries already imbued with a free-trade philosophy, notably South Korea and Taiwan, have exploited EPZs to secure foreign capital and technology. India and China, which have adopted a more piecemeal and equivocal approach to opening up their economies, have been far less successful. Panama, Hong Kong and Singapore have harnessed the advantages of entrepot trade to promote EPZs. But such latecomers as the Philippines, Sri Lanka and Indonesia have done less well. Mexico's EPZs, sited near the US border, have continued to attract investment, but further south only Panama's EPZ is prospering, according to a recent study by the London-based Economist Intelligence Unit.

On the subject of jobs in the world's EPZs eighteen of the 35 countries included in the EIU study have seen employment rise in their EPZs since 1978. However, Unctad puts the total employed in Third World EPZs at less than 1-million-2.6 percent of the officially registered industrial workforce in the Third World. Eighty percent of EPZ workers are women between the ages of 16 and 25. This can cause social problems.

Industrial development

Because of the high import content of what they produce, the EPZs are mainly linked to the rest of the host economy through the services and construction industries. The wages paid by companies in EPZs have a multiplier effect when they are spent on local consumer goods. Such so-called backward linkages are limited, although some of the more developed Third World countries have had some success in expanding them and integrating EPZs into the wider economy.

The more advanced of the middle-sized developing countries have got most out of EPZs. It is also clear that the involvement of local entrepreneurs in joint ventures with western investors is an important factor in improving backward linkages.

The more succesful have also diversified into capital goods and inter-

FIRST COME, FIRST SERVED

Taiwan and South Korea were among the first to move into EPZs. Having entered the field as early as the mid-1960s, they attracted much of the foreign investment looking for cheap labour.

They succeeded from the start. By 1969, applications to set up business in Taiwan's zones far exceeded the area designated for such operations. Two more were quickly created. South Korea was also encouraged by early results to increase its facilities. Its industrial growth peaked in the decade after the introduction of the first EPZs.

Both began by imposing stringent conditions on foreign investors. South Korea encouraged companies that intended to export all their output, Taiwan also insisted on a minimum investment and a minimum amount of value added to products processed in its zones.

They also encouraged the free market approach which began life in the zones to permeate their domestic economies, making all sectors more attractive to foreign investors. The advantages of EPZs could be enjoyed anywhere in the two countries, without many of the constraints associated with the zones.

Investing outside the EPZs meant that foreign companies could sell on the local market, which was becoming increasingly prosperous in both countries. The apparent stability of Taiwan and South Korea also fostered long-term investment, with the high degree of US involvement serving as a guarantee.

Foreign investment in South Korea rose from US$ 5.8 million to US$ 1.6 billion in 1984. Its manufactured increased from US$ 62 million in 1968 to US$ 27.3 billion in 1984.

In Taiwan, too, EPZs have contributed to the export drive, export oriented industrialisation and the creation of a skilled labour force. The zones have stimulated its transformation into a hi-tech, high wage economy.

Taiwan's attraction to foreign investors is underlined by the way EPZ companies repatriated only 38 percent of net profits in the late 1970s despite provisions which allowed them to repatriate everything.

The pace of investment in the EPZs has now slowed in real terms, and the zones' share of total Taiwanese exports is falling. But this, too, is an indication of wider success. Wan li-wen, head of the investment services department for the zones, says this trend is "healthy", adding: "It demonstrates that our economy is progressing"

The EPZs have been losing their attraction as Taiwan has become an open economy and the unskilled labour force has diminished. The wages of skilled workers in Taiwan's EPZs averaged US$ 200 to US$ 240 a month in 1984 compared with US$ 55 to US$ 100 in Sri Lanka, for example. Outside the zones average wages are much higher, reflecting the way industry in general is more productive and capital-intensive and uses more skilled labour.

Twenty years after opening its first EPZ, Taiwan is seeing such low-tech, labour intensive industries as textiles and electrical goods assembly shift to new locations in the Philippines and Thailand.

The trend provides government economists with few worries: recently a new kind of EPZ was opened - Hsinch Science and Technology Park- to attract companies involved in materials science, energy sciences and precision instrument making.

The picture is similar in South Korea, where for some time the government had favoured at least 50 percent local participation in joint ventures with foreign investors. The steady increase in its exports of heavy industrial and hi-tech goods shows how far it has moved from being an offshore assembly enclave.

mediate products electrical goods, industrial chemicals and other industries likely to result in technology transfer.

Some argue that countries with big internal markets could negotiate better terms with foreign investors if they allowed them to manufacture goods for local consumption, too.

Above all, developing nations must alter, when necessary, the incentives to foreign investors if they are to secure the kind of investment that will promote their chosen development goals.

However, the more an EPZ forms an isolated enclave, the less the benefits. A two-tier economy, with a free-market, export-oriented sector operating in isolation from a protected domestic market, is unlikely to succeed.

Many fear that undue reliance on assembly operations in EPZs could freeze smaller developing nations at a particular economic level and jeopardise any chance of improvement in their industrial and technological base. Such countries are also vulnerable to policy changes by transnationals, which can pack up their microscopes and sewing machines and move on when wages rise or other conditions change.

The possibility of a headlong rush into EPZs, which would further exacerbate the incentives war, also worries many. Over generous incentives involve poor subsidising rich foreign investors.

Profits taxes waived by developing countries will be collected by foreign investors' home governments; this represents a direct transfer of revenue from the South of the North.

Some blame the World Bank and the UN Industrial Development Organisation for spreading the belief that what worked for the newly industrialising nations of Southeast Asia will succeed elsewhere (in recent years the World Bank has been instrumental in setting up EPZs in Mauritius, Jamaica, Mexico for example).

"There doesn't seem to be enough growth in the world economy to warrant this sort of prescription", says a senior executive of a leading electronics company, adding:"by advocating export-led industrialisation rooted in the formation of EPZs these organisations are creating excess capacity. It is a bonus for corporations who have the pick of the litter, but I'm not so sure that it does anything for development.

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