

MIXED BLESSINGS OF EXPORT PROCESSING ZONES

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In the above article the writer manages to present an unbiased and balanced overall picture on a somewhat touchy subject on which, generally one reads about the great revenue benefits to the country on one extreme and, about the ill-used FTZ workers and the adverse cultural aspects on the other extreme.

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The concept of Export Processing Zones (EPZs) among politicians, industrial managers and researchers is still a subject of controversy. In the past, the EPZs have been eulogized¹ by some as the ultimate instrument to foster industrialization in Third World Countries. However it has been condemned by others as completely useless and even counterproductive for the industrial development of Third World Countries. As is the case so often, the answer seems to lie somewhere in-between.

Accordingly, a report of the secretariat of the UN Conference on Trade and Development (UNCTAD) for the second session of the Ad Hoc Working Group on Investment and Financial Flows states² that though the EPZs in developing countries have

been successful in promoting manufacturing exports and generating foreign exchange earnings, concerning the establishing of linkages in the domestic economy, transfer of technology and upgrading of skills, their effectiveness has fallen far short of expectations.

A recent study on the "Effects of EPZs on the Economic and Social Development in Sri Lanka"³ which monitored in depth the various effects linked to EPZs in Sri Lanka finally showed similar results. Backed by detailed economic data, by visits to enterprises in the EPZs and by interviews with industrialists and high ranking officials, a comprehensive account of the achievements as well as of the shortcomings of the existing EPZs in Sri Lanka was arrived at.

Since 1978, Sri Lanka has given priority to an export oriented industrialization strategy. The main instrument for this strategy was the EPZ. After a successful start, the EPZs program virtually stagnated till the end of the eighties, mainly due to the prevalent situation in the country. With the beginning of the nineties the policy of export oriented industrialization regained momentum and received a great deal of political support.

Although the far too optimistic expectations of the first days about positive effects of EPZs were curtailed considerably, it can be stated that the EPZs have several positive effects on the Sri Lankan development process. Some negative effects can also be seen, but they are by far more difficult to assess and to measure.

The study divides the impact of EPZs on the Sri Lankan development into economic and social effects.

In the economic sphere (employment, foreign exchange earnings; growth, technology transfer, global linkages) positive effects can be observed.

With the creation of more than 100,000 direct jobs, the EPZs have had positive impacts on the Sri Lankan labour market. On the other hand the number of indirect jobs created is small and insufficient.

Further it must be considered that the employment creating capacity of EPZs has to be seen in relation to the existing employment in the country. EPZs employment accounts for only 1.4% of total employment in the country, therefore the influence of EPZs is still relatively marginal. In addition it has to be taken into account that it cannot be proved that there is a direct causality between the emergence of EPZs and the jobs created in the EPZs. In other words it could be argued that jobs in the EPZs could have been generated by the normal industrial development process, even without the creation of EPZs.

Considering the effects on export earnings and the balance of payments, it is evident that the main export earner of the Sri Lankan EPZs, the "textile and wearing apparel" industries are extremely dependent on imported input which results in a limited net foreign exchange earning effect. Despite the gains in foreign exchange, it can be argued that with a vertically more integrated, better planned and implemented industrialization policy higher net export earnings could have been achieved. A positive sign in this respect is the growing diversification within the EPZs during the last two years; less import dependent industries are being set up, resulting in higher net export earnings.

Despite a relative small value added in the textile and garment industries it can be concluded that the expanded production in this sector has had a positive impact on the economic growth of the country. With a GNP per capita of US\$ 550, Sri Lanka is leading the South Asian countries. According to the study the benefits could be even higher if growth can be promoted equally outside the EPZs, as well through impulses for promotion of the development of infrastructural projects and supply industries.

The results that EPZs have on technology transfer must be charac-

terized as marginal. This can be explained by the nature of the installed industries. Despite some efforts at training by certain individual enterprises, from labour intensive production methods like in the textile and garments sector only a limited technology transfer can be expected. The said inhouse training results may be very useful for an individual enterprise and be quite useful for the trained person, but they have virtually no effects on the industrialization of the country. As the main culprit for this failure the study identifies the specific settlement policy in Sri Lankan EPZs, objective of creating jobs has been given unmitigated priority over the technology transfer. Yet this lapse has been recognized by the BOI-management and hopefully, in future more priority will be given to the objective of technology transfer.

With globally liberalizing tendencies and enhanced opening of countries for enterprises, people and products, especially the Asian countries have entered a period of strong, sometimes even ruinous, competition for Direct Investment (DI). Despite the fact that incentive-schemes for DI are quite similar in most countries, Sri Lanka has achieved fantastic results, eg. DI growth in the years 1991 and 1992 has shown a three digit increase. This competition edge is due in part to a comparatively efficient bureaucracy, a stable Government, low wages, literate labour etc, in part to Sri Lanka's membership in several international Organizations or Agreements (as well as 18 signed bilateral investment treaties). With this Sri Lanka guarantees the investor security and preferential treatment in international trade.

For an assessment of the social effects of EPZs the study monitors the following subjects: Women labour, unions, payments and social security, and the general circumstances in which workers of EPZs work and live.

First it has to be realized that most EPZs workers are women. The women who work in the EPZs are mainly young, unmarried, have no working experience, they come from rural areas perceive their industrial employment as temporary.

Although union activities are not allowed in the EPZs, some rare strikes can be observed. Normally they are quickly and effectually terminated. For intra-enterprise conflict solving processes there exist the so called "Joint Consultative Councils", these councils are helpful in communication between employers and employees, but definitely they cannot be taken as a substitute for the existence of unions.

Compared with many other countries labour in Sri Lanka is still quite cheap. The wages paid are internationally competitive. Due to several governmental incentive schemes and voluntary agreements of employers, many workers in the EPZs receive about double of what is paid by enterprises that do not have the BOI-status. This means that the EPZs provide their workforce with considerable cash that will flow back into the national economy via consumer spending. Since in Sri Lanka all employers have to make their contribution to the EPF and ETF this is also valid for employment in the EPZs.

The working conditions in enterprises with BOI-status are often better than in those that are not under BOI-status. Sri Lankan Labour Laws have a high standard and they are fully valid in the EPZs. In addition, the government has introduced several programs to increase salaries in various branches or to introduce other benefits like the provision of tea, meals etc. Concerning the working conditions, some of the enterprises visited must be categorised as extremely good and even the less spectacular cases have to be qualified at least as good or acceptable.

The most critical effects of EPZs can be observed outside EPZs itself, namely in the environment where the workers (especially the women workers) live. The living conditions in the areas around the EPZs could definitely be better. Cases of insufficient hygienic conditions, malnutrition mainly due to lack of nutritional knowledge, excessive rents in boarding houses, alcoholism, prostitution, violence and rape are supposed to be prevalent where the EPZs workers live. Besides these dangers, it is further presumable that the girls living in boarding houses around the EPZs will have to suffer considerable disadvantages in their future lives. Despite the fact that most of the women work in the EPZs for the alimention of their families, while living outside the control of the family they violate existing norms and accordingly may have to face resistance and problems when reintegrating into the normal family and village life. On the other hand, the study states clearly that some quite negative quotations in other studies on the EPZs in Sri Lanka referring to the appearance of the female workers (e.g. "wrapped in rags and tatters" or "severely undernourished") must have been based on a very obsolete data and under no

circumstances describe the actual reality.

Nevertheless, regarding the living conditions for EPZs workers, there is ample room for improvement. To avoid this most negative outcome of EPZs, it is imperative to include from the beginning into the planning process a sort of an urban area for workers and professionals. Accordingly a training center and a residential area are to be integrated into the two new industrial estates planned to be set up in Avissawella/Colombo and Katana/Gampaha⁴. Such a wider view in planning industrial estates is common practice in many other Asian industrial estates, e.g. in Thailand⁵. In this context the study mentions, that the SriLankan-Government has recognized that lapse and has actually taken several steps to minimize the negative effects of EPZs. Examples are special incentives and the possibility to get BOI-status for export oriented enterprises that start production in rural areas, with the result that the rural people can work in industrial enterprises without leaving the family or being forced to leave their accustomed living environment.

It can be concluded that existence of new ideas and goals within the Sri Lankan concept for an indus-

trialization-policy through EPZs, as well as optimistic expectations concerning the future Sri Lankan economic development, give hope for the future implementation of an optimized EPZs concept that will eliminate most of the recognized negative consequences and will foster and strengthen the positive results of EPZs.

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