



## FIFTH ITEM ON THE AGENDA

**Employment and social policy in respect of export processing zones (EPZs)****Background and scope**

1. When the Office was asked to prepare a document on employment and social policy in respect of export processing zones (EPZs), following the March 2002 session of the Committee on Employment and Social Policy, it took as its points of departure the Decent Work Agenda and the conclusions of the Tripartite Meeting of Export Processing Zones-Operating Countries (Geneva, 28 September-2 October 1998; copy attached as Appendix I). The present document therefore concentrates on developments in relation to employment and social policy in respect of EPZs around the world that have taken place since the November 1998 Governing Body session which adopted those conclusions.<sup>1</sup>
2. As an important feature of globalization, EPZs have been monitored by the ILO for over 20 years.<sup>2</sup> Zones take many forms, including free trade zones, special economic zones, bonded warehouses, free ports and *maquiladoras*. The ILO has defined EPZs as “industrial zones with special incentives set up to attract foreign investors, in which imported materials undergo some degree of processing before being (re-)exported again”.<sup>3</sup> While EPZs, of course, operate within the wider context of foreign direct investment (FDI),

<sup>1</sup> The Governing Body requested that the conclusions be taken into account in the Programme and Budget proposals of the Office. *Record of Decisions*, GB.273/205 (Nov. 1988), para. 39; ILO: *Note on the Proceedings*, Tripartite Meeting of Export Processing Zones-Operating Countries (Geneva, 28 September-2 October 1998), TMEPZ/1998/5; ILO: *Labour and social issues relating to export processing ones* (Geneva, 1998), TMEPZ/1998.

<sup>2</sup> See e.g. ILO: “Free trade zones” in *Employment effects of multinational enterprises in developing countries* (Geneva, ILO, 1981); ILO/UNCTC: “Economic and social effects of multinational enterprises in export processing zones” (Geneva, ILO, 1988); A.S. Oberai, A. Sivananthiran and C.S. Venkata Ratnam (eds.): “Labour issues in export processing zones in South Asia: Role of social dialogue” (Geneva, ILO, 2001).

<sup>3</sup> TMEPZ/1998, op. cit., p. 3. With developments in information technology, “materials” would need to be seen as including “data”.

international and regional trade and domestic economic policy, an analysis of these aspects goes beyond the scope of this document.<sup>4</sup>

3. Zones have evolved from initial assembly and simple processing activities to include high tech and science zones, finance zones, logistics centres and even tourist resorts. Their physical form now includes not only enclave-type zones but also single-industry zones (such as the jewellery zone in Thailand or the leather zone in Turkey); single-commodity zones (like coffee in Zimbabwe); and single-factory (such as the export-oriented units in India) or single-company zones (such as in the Dominican Republic). Mauritius and Hainan (China) allow factories anywhere on the respective island to apply for zone status. Port cities like Hong Kong, China and Singapore have enhanced their strategic trading role by providing special customs regimes for export processing and transshipment. While many public agencies are still establishing zones, there is a distinct trend towards the private development of zones, often by foreign developers. Public zones usually offer better infrastructure than that available in the domestic economy, and private zones generally surpass that in an attempt to attract higher quality investment.
4. Both the number of EPZs and the number of countries hosting them have expanded rapidly (see table 1). At the same time, however, some countries' zones have attracted zero or very limited FDI.

Table 1. Estimates of the development of export processing zones

	1975	1986	1995	1997	2002
No. of countries with EPZs	25	47	73	93	116
No. of EPZs	79	176	500	845	3 000
Employment (millions)	n.a	n.a	n.a	22.5	37
– of which China	n.a	n.a	n.a	18	30
– other countries for which figures available	0.8	1.9	n.a.	4.5	7.0

Source: ILO calculations based on a variety of sources including zone administrations, national statistics, web sites, published articles, estimates and responses to ILO surveys.

5. Countries set up zones in the hope of attracting investment, boosting employment, increasing exports and generating foreign exchange. For many countries, exports from (or through) EPZs account for a sizeable portion of their export earnings, often amounting to over 80 per cent of merchandise exports (China, Czech Republic, Hungary, Kenya, Philippines, Malaysia, Mauritius, Mexico, Senegal, Tunisia, Viet Nam), and EPZs have helped economies to move away from traditional exports. Mauritius (which is now targeting financial services) used the zone strategy to shift from sugar to manufactured exports, Sri Lanka from rubber and tea to garments and Costa Rica from coffee and bananas to garments and microprocessors. Special economic zones in China are designed not only to attract investment and generate jobs, they are the vehicle for opening up the Chinese economy to market forces and for developing new export industries to absorb idle labour. Unlike other zone-operating countries, China does not provide a tax holiday to incoming investors; rather the low unit labour costs and infrastructure in zones have proved extremely attractive to foreign investors. In 2001, China was the sixth largest

<sup>4</sup> On many of these aspects, see GB.285/WP/SDG/2.

recipient of inflows of FDI in the world.<sup>5</sup> Transition economies such as Hungary, Lithuania and Ukraine have also set up types of EPZs.

## Export performance

6. With data from the World Trade Organization (WTO), it is now possible to identify countries that have significant exports from EPZs.<sup>6</sup> Electronics and garments are the major exports from EPZs and can be clearly linked to FDI, thus data for these key products highlight recent trends. Currently, EPZs in Malaysia and Mexico are the two main producers of television receivers. Television assembly in Malaysia reached its peak in 1995 with exports worth US\$2.3 billion, or 10 per cent of world exports (see table 2). Starting from almost zero in 1990, Mexican TV production now accounts for almost one-quarter of world exports.<sup>7</sup> A similar expansion of export production based in EPZs can be demonstrated for telecommunications equipment (China, Malaysia and Mexico). Malaysia and the Philippines have a combined share of 10 per cent of the world exports of transistors and valves. Bangladeshi exports of garments more than doubled in a decade. China's average export value of garments grew to more than US\$5 billion in 1999, and Mexico's increased from US\$13 million in 1990 to US\$1.5 billion in 1999. EPZ exports of auto parts in Mexico (UNCTAD (2001), CD-ROM) provide another example of the diversification and expansion of exports away from garments and pure assembly products.

Table 2. Selected manufacturing export for countries with significant exports from EPZs (in million US\$, and in order of world market share)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Television receivers (SITC 761)										
Malaysia*	523 (3.10)	717 (4.13)	851 (5.05)	1 236 (7.12)	1 732 (8.23)	2 239 (10.02)	2 084 (8.76)	1 640 (7.33)	1 347 (5.91)	1 431 (6.38)
Mexico*	1 (0.01)	1 (0.01)	1 336 (7.94)	1 774 (10.21)	2 678 (12.73)	2 978 (13.33)	3 331 (14.01)	3 853 (17.21)	4 911 (21.56)	5 165 (23.01)
Telecommunications equipment (SITC 764)										
China**	552 (0.90)	697 (1.12)	1 350 (1.98)	1 755 (2.34)	2 937 (3.14)	4 044 (3.58)	4 688 (3.93)	5 630 (4.16)	6 253 (4.44)	7 960 (5.01)
Malaysia**	1 164 (2.00)	1 495 (2.41)	1 735 (2.54)	2 212 (2.95)	3 176 (3.39)	3 784 (3.35)	3 968 (3.33)	4 114 (3.04)	3 753 (2.67)	4 163 (2.62)
Mexico**	44 (0.08)	113 (0.18)	1 442 (2.11)	1 720 (2.29)	2 333 (2.49)	3 004 (2.66)	3 411 (2.86)	4 336 (3.20)	5 370 (3.81)	7 094 (4.47)
Transistors valves etc. (SITC 776)										
Malaysia*	4 321 (7.32)	4 744 (7.19)	5 647 (7.56)	7 289 (8.14)	9 512 (7.79)	13 240 (7.67)	14 115 (7.95)	14 751 (7.51)	13 930 (7.32)	17 232 (8.18)

<sup>5</sup> UNCTAD: *World Investment Report, 2002* (Geneva), Annex B, pp. 303-306.

<sup>6</sup> WTO: *International Trade Statistics, 2001* (Geneva). Nevertheless, WTO cautions that because of the special regime under which EPZs operate, it can never be known if imports and exports to and from EPZs are fully reflected in national accounts.

<sup>7</sup> See also UN: *UNCTAD Handbook of Statistics, 2001* (United Nations, New York and Geneva, 2001), Ch. 3, and accompanying data on CD-ROM.

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Philippines*	370 (0.63)	1 375 (2.08)	593 (0.79)	806 (0.90)	1 073 (0.88)	1 527 (0.88)	6 127 (3.45)	8 755 (4.51)	12 925 (6.79)	4 000 (1.90)
Various types of garments (Average of SITC 842 843 844 845 846)										
Bangladesh	128 (1.05)	167 (1.26)	207 (1.30)	261 (1.55)	295 (1.59)	393 (1.93)	443 (2.13)	537 (2.22)	756 (2.96)	586 (2.39)
China	1 626 (9.24)	2 091 (10.72)	2 939 (13.86)	3 213 (15.12)	4 135 (17.19)	4 094 (15.45)	4 273 (15.39)	5 434 (17.52)	5 146 (16.21)	5 237 (16.72)
Indonesia	320 (1.92)	427 (2.27)	605 (2.77)	664 (3.05)	600 (2.52)	633 (2.49)	674 (2.50)	547 (1.84)	498 (1.70)	732 (2.53)
Mexico	13 (0.09)	17 (0.10)	160 (0.73)	197 (0.90)	296 (1.19)	496 (1.81)	700 (2.40)	1 060 (3.25)	1 259 (3.77)	1 484 (4.47)

\* Countries are marked as exporters of manufactures with "significant exports from processing zones" by WTO (2001: Table IV.31). op. cit.

\*\* Countries are marked as leading exporters in the office machines and telecom equipment sector with "significant shipments through processing zones" by WTO (2001: Table IV.56). op. cit.

Note: Figures are in millions of current US dollars; figures in brackets are exports as a percentage of world exports. SITC refers to Standard International Trade Classification (revision 2).

Source: UNCTAD (2001), CD-ROM and WTO (2001), op. cit.

Export-led industrialization has been strongly female-intensive, with no developing country having increased manufacturing exports without greater recourse to women workers.<sup>8</sup>

## The employment effects of EPZs

- The sources for the figures in table 1 show that EPZs have been highly effective at employment creation in some countries. By 2002, China alone had 30 million employed in over 2,000 Special economic zones, economic and technological development zones, EPZs and border zones. Total employment in other countries' zones was calculated at 4.5 million in 1997, a figure which by conservative estimates had risen to at least 7 million by 2002 (covering only countries for which data are available). Zones have created an important avenue for young women to enter the formal economy at better wages than in agriculture and domestic service. Women make up the majority of workers in the vast majority of zones, reaching up to 90 per cent in some of them. However, there is a suggestion that as the nature of employment in zones evolves, with higher technology inputs, the gender profile of the workforce changes.
- Employment in EPZs has increased substantially since the mid-1990s. In the Philippines, employment in EPZs increased from 229,650 to 716,990 between 1994 and 2001, and Costa Rica saw an increase in EPZ jobs from 7,000 in 1990 to 34,000 a decade later.<sup>9</sup> The Dominican Republic increased employment from 126 to a high of 200,000 in 2000, before it dropped back more recently to 175,000.<sup>10</sup> Sri Lanka was able to generate some 350,000 jobs in the export garment industry, which is now the largest single source of manufacturing employment in that country.

<sup>8</sup> UNCTAD: *Trade, sustainable development and gender* (United Nations, New York and Geneva, 1999), p. 447.

<sup>9</sup> Philippine Economic Zone Authority and *Promotora del Comercio Exterior de Costa Rica*.

<sup>10</sup> CNZFE: *Statistical Report 2001* (República Dominicana).

9. Zones follow a life cycle and tend to grow rapidly in terms of investment and employment creation, then plateau as the local labour market tightens. Malaysia and Mauritius are examples of countries that have been able to use their zone strategies to create significant employment by moving to higher value-added production, and in recent years, they have been obliged to import workers to fill new posts. In the case of Mauritius, a number of investors relocated to Madagascar in search of cheaper labour. By 2002, EPZ employment in Mauritius stood at 87,000 workers, many of whom are migrants. Thus, EPZ strategy is pursued in both labour-surplus economies and in countries where labour shortages require migration of workers.
10. Zone labour markets are not static. Employment gains from EPZs are by no means permanent anywhere, and call for constant adaptation of EPZ strategy. A close look at Mauritius, for instance, reveals that over the past decade on average 35 firms have closed and the same number have opened each year. Mexico saw employment in the *maquiladoras* increase from 446,000 in 1990 to 1,285,000 in 2000. However, the number had fallen to 1,086,000 by May 2002, partly as a result of increased competition from China.<sup>11</sup> Job loss alongside job creation has also been documented in the footwear industry of Ceará, Brazil, which pursues an EPZ-like approach.<sup>12</sup> The recent political turmoil in Madagascar has resulted in some 70 per cent of the EPZ workforce being temporarily laid off, also demonstrating the importance of social and political stability in determining the success of a zone strategy.
11. Foreign demand for zone outputs is also key. For example, Bangladesh has seen over 100,000 jobs eliminated since 2000 in the export garment industry through a combination of increased African competition (flowing from the adoption by the United States of the African Growth and Opportunity Act) and the fallout from the war in Afghanistan.
12. There tends to be a very high turnover of zone workers, with the average career of a worker seldom longer than five years. The intensive nature of production, cultural factors, use of fixed-term contracts, a lack of human resource development (HRD) policies and underdeveloped labour relations practices in some zone enterprises contribute to the turnover. Zones with tight labour markets have noticeably better HRD policies and practices, as enterprises try to attract and retain workers through non-wage benefits. Zones with higher value-added activities (such as Penang in Malaysia) also tend to concentrate more on HRD since they need to cater for the higher skill requirements of their investors.

## The effects of the quota-based trading system

13. The Agreement on Textiles and Clothing (ATC), the successor to the Multifibre Arrangement (MFA), has been one of the major factors influencing investment in EPZs, and its expiry in January 2005 could further impact on the vulnerability of zone employment. The MFA/ATC involves a system of quotas for garment exports allocated by developed countries to developing ones. The quotas available to highly competitive exporters such as the Republic of Korea and Hong Kong, China tend to be limited, whereas those available to less competitive exporters are substantial. This has prompted garment

<sup>11</sup> K. Hall: "Jobs at risk in Mexico: Foreign companies looking elsewhere for cheaper labour" in *Mexico-Business*, Mercury News, Mexico City Bureau, 28 Apr. 2002.

<sup>12</sup> M. Pinhanez: *Training and social networks: Long-lasting industrialization in northeast Brazil's shoe industry* (Doctoral paper, Massachusetts Institute of Technology, Cambridge, MA., 1998)

exporters to move around the world in search of available quotas and has contributed to the creation of millions of jobs in countries that previously had little or no export garment industry. Sri Lanka's garment exports increased from US\$623 million in 1990 to US\$2,722 million in 2000, when they accounted for 50 per cent of the country's total exports. It appears that countries with higher quotas hoping to retain their garment investment and jobs after 2005 will have to improve their lead times, quality, design, unit labour costs and to develop niche markets in order to withstand competition, especially from China.

14. A study shows that countries lacking textile industries and developed infrastructures are expected to suffer from the phasing out of the MFA.<sup>13</sup> Thousands of jobs will be at stake, particularly for women workers. The removal of the quota system is expected to lead to the closure of "weak" enterprises in the garment industry of Sri Lanka, for instance, but the remaining "stronger" enterprises may, in the medium and long term, absorb the labour that the weaker enterprises had shed. Competitiveness could be improved through market and product diversification, fostering of backward linkages, productivity improvements through improved job quality, and responsiveness to consumer demand. Additionally, increasing global pressure from buyers for adherence to international labour standards should help by improving job quality, which in turn should have a positive impact on productivity.<sup>14</sup>
15. Also imminent is the WTO agreement on the prohibition of export subsidies (Agreement on Subsidies and Countervailing Measures, "SCM" Agreement), which may effectively call into question how much is done by countries to date in encouraging EPZs. Nevertheless, exemptions until 2007 are permitted on prior application,<sup>15</sup> and least developed countries are already exempt from this subsidy reduction requirement under the SCM. In addition, the interaction of EPZs regime and regional trade agreements is only now being explored.<sup>16</sup>

## Principles and rights at work

16. Among other points, the conclusions of the 1998 tripartite meeting highlighted the importance of respect for fundamental principles and rights at work, and for national and international labour standards, as major factors in attracting investment that promotes long-

<sup>13</sup> N. Khundker: "Garment industry in Bangladesh" in G. Joshi (ed.) *Garment industry in South Asia: Rags or riches? Competitiveness, productivity and job quality in the post-MFA environment* (New Delhi, ILO, 2002).

<sup>14</sup> S. Kelegama and R. Epaarachchi: "Garment industry in Sri Lanka" in G. Joshi (ed.) *Garment industry in South Asia: Rags or riches? Competitiveness, productivity and job quality in the post-MFA environment* (New Delhi, ILO, 2002).

<sup>15</sup> Requests have been submitted by the following Members: Antigua and Barbuda, Belize, Bolivia, Barbados, Colombia, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Honduras, Jamaica, Jordan, Kenya, Mauritius, Panama, Papua New Guinea, Sri Lanka, Saint Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Suriname, Thailand and Uruguay.

<sup>16</sup> J. Sargent and L. Matthews: "Combining export processing zones and regional free trade agreements: Lessons from the Mexican experience", in *World Development*, Vol. 29, No. 10 (2001), pp. 1739-1752. The authors suggest limited success for regional development schemes in the face of large MNEs operating in a global EPZ environment.

term, high-quality growth.<sup>17</sup> Legal restrictions on trade union rights in a few EPZ-operating countries, the lack of enforcement of labour legislation and the absence of workers' organizations representation were among the factors noted as undermining the ability of zones to upgrade skills, improve working conditions and productivity and thereby to become more dynamic and internationally competitive platforms.<sup>18</sup> A range of official ILO sources points to very similar issues arising today in relation to respect for principles and rights at work in EPZs.

17. Under the follow-up to the ILO Declaration on Fundamental Principles and Rights at Work, the International Confederation of Free Trade Unions (ICFTU) maintained in 2002 that work in EPZs is excluded from some labour or social legislation (e.g. in the Islamic Republic of Iran, Malaysia and Sudan) or involves various obstacles to organizing workers (e.g. in India, Republic of Korea, Mauritius and Mexico). The revised report forms under the Declaration follow-up now pose questions about EPZs in respect of the principles concerning freedom of association/collective bargaining, child labour and discrimination.<sup>19</sup> Meanwhile, the *Seventh Survey on the effect given to the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy* over the reporting period 1996-2000 had examined labour practices in EPZs in relation to that promotional instrument. From a sample of governments, workers' and employers' organizations, most stated that labour laws in EPZs were the same as those that apply elsewhere in the country. However, some respondents noted that the labour laws applicable in these zones differed in some way from those applied elsewhere in the country.
18. The Committee of Experts on the Application of Conventions and Recommendations (CEACR) have noted the employment-generating potential of EPZs and encouraged governments to develop their strategy for promoting EPZs in consultation with workers' and employers' organizations to ensure maximum generation of decent work. (See, for example, 1997 CEACR observation for the Employment Policy Convention, 1964 (No. 122) concerning Honduras). However, the supervisory bodies have since 1998 commented on legislation and practice concerning freedom of association in EPZs. The CEACR has noted discrepancies between ratified Conventions and legislation and practice as regards the right to organize and join organizations (e.g. Bangladesh, Dominican Republic, Namibia, Nigeria, Pakistan, Togo), on the right to strike (e.g. Panama, Turkey), and on collective bargaining rights (e.g. Bangladesh, Dominican Republic, Panama, Turkey).<sup>20</sup> In Bangladesh, a non-fiscal "incentive" publicized by EPZs is "no unions or strikes".<sup>21</sup> In relation to Sri Lanka, the CEACR has addressed direct requests regarding access to zones by trade union representatives and to Guatemala concerning dispute settlement procedures. Since 1998, the Committee on the Application of Standards and Recommendations has adopted conclusions in relation to the right to organize in EPZs in Bangladesh and Pakistan and in regard to free collective bargaining in Turkey. This

<sup>17</sup> For the complete texts, see conclusions contained in paras. 4-6, 11-14.

<sup>18</sup> *ibid.*, para. 4.

<sup>19</sup> GB.283/10/1 (Mar. 2002), Appendices II, III and V; and GB.280/12/1 (Mar. 2001), Appendix.

<sup>20</sup> Turkey is reported to have amended its legislation in August 2002, but the CEACR has not yet had an opportunity to examine it.

<sup>21</sup> UNCTAD and International Chamber of Commerce: *An investment guide to Bangladesh: Opportunities and conditions*, (UNCTAD/ICC), Aug. 2000, p. 30. However, the Government has recently announced that union activity will be allowed in EPZs as from January 2004 and has requested ILO technical assistance in this respect.

Committee has also discussed the denial of the right to organize for EPZ workers in Cameroon and Guatemala and the issue of free collective bargaining in EPZs in Costa Rica and Panama.

19. Since 1998, the ILO Committee on Freedom of Association has examined several cases concerning EPZs, in El Salvador, Honduras and the Philippines. Generally, the CFA made recommendations in relation to, inter alia, the denial of the right to organize (Philippines, Case No. 1826), including the right to establish and join organizations of their own choosing and the non-recognition of workers' organizations (Honduras, Case No. 2100) as well as interference in the trade union election process and acts of harassment (Philippines, Case No. 1826), and finally, denial of the right to collectively bargain (El Salvador, Case No. 1824).
20. Workers' organizations point out that even where there are no legislative barriers, they face great practical difficulties in gaining physical access to zones and to the workers employed in them. The Government of Kenya has noted that it is "very common" for MNEs in EPZs not to allow their workers to join trade union movements although workers have the right to form associations and bargain collectively.<sup>22</sup> Under the review of annual reports under the follow-up to the ILO Declaration, the most frequent observations made by workers' organizations in relation to EPZs have related to the principle of freedom of association and effective recognition of the right to collective bargaining.
21. Gender-related barriers have been alleged in the operation of some EPZs in the form of discrimination in hiring, wages, benefits and career development, as well as relating to a lack of accommodation of women workers' needs in relation to issues such as working hours, pregnancy, maternity leave or childcare. In recent years, the CEACR has asked several governments to provide information on how the principle of equal remuneration is applied in relation to work carried out in EPZs (e.g. Bangladesh, Sri Lanka) as well as the extent to which women have access to training and career advancement (e.g. Honduras, Mexico). Pregnancy tests imposed by some employers in the *maquiladoras* of Mexico have been a highly contested point, involving the ILO supervisory mechanisms as well as procedures under the NAFTA labour side agreement. In relation to the principle of the elimination of discrimination in employment and occupation under the 1998 ILO Declaration, workers' organizations have also made observations about EPZs (e.g. Mauritius and Pakistan in 2002).
22. There are rare instances of exemption of EPZs from generally applicable legislation in the area of occupational safety and health (e.g. Kenya, which granted temporary exemptions but intends to revoke them). The Government of Kenya sees foreign enterprises as taking advantage of the weak enforcement of safety and health regulations to operate at a much lower level of standards, giving rise to safety and health problems.<sup>23</sup> More typically, countries face severe difficulties in enforcing their legislation in EPZs as elsewhere because of weak labour inspectorates. In Togo, workers' views are that special incentives offered in EPZs to foreign investors seriously limit fundamental human rights, basic trade union rights, employment security, equality of treatment and other rights of workers, including those relating to occupational safety and health.<sup>24</sup> These and other aspects of working conditions in EPZs have given rise to examination by the ILO supervisory procedures under a variety of ILO Conventions. For example, practices in Bangladesh

<sup>22</sup> ILO: *Seventh Survey*, MNE Declaration, Part II, p. 352.

<sup>23</sup> *op. cit.*, p. 223

<sup>24</sup> *ibid*, p. 363.



involving forced and extended overtime as well as a failure to pay wages (with dismissals when payment was demanded) by EPZ garment factories have been examined by the Committee on the Application of Standards and Recommendations in relation to questions of forced labour.

## Social protection and conditions of work

23. Extensive data is not available to discern a comprehensive picture of the situation in relation to social protection, including conditions of work, in EPZ enterprises or as to how these compare to other enterprises. Nevertheless, there are some indications that the difficulties regarding hours of work, overtime and wages, occupational health and safety, leave, provision of food and night transport, social security and the special needs of women workers – all highlighted at the 1998 tripartite meeting<sup>25</sup> – remain largely unchanged. Information made available by the ICFTU on its web site and studies recently undertaken by the World Confederation of Labour on working conditions in EPZs in Honduras, Indonesia, Madagascar, Mexico, Senegal and Sri Lanka certainly suggest this. The view of employers, on the other hand, tends to be that many of the problems cited for EPZs occur elsewhere, and that conditions prevailing within EPZ enterprises are often better than those outside zones.
24. A recent academic study using EPZs in Costa Rica, the Dominican Republic, and the Philippines as examples suggests that the movement from initially low-skilled to slightly higher skilled operations is the key to improving the situation of workers. The study argues that this transition can be greatly facilitated by worker training and other inducements to attract higher productivity firms. The better labour practices of these firms then exert a positive demonstration effect on other existing firms. Initiatives by government, employers' organizations, and trade unions to improve labour-management relations and promote more worker-friendly and productive forms of work organization have also played a significant role in improving working conditions.<sup>26</sup>
25. Zones are purpose-built and may offer modern factory premises that provide better physical conditions than some parts of the domestic economy, but occupational safety and health remains a major concern in zones in some countries. There are trade union reports of export garment factories without needle guards on sewing and embroidery machines, and workstations without proper seating. In several factories in Lesotho, for instance, the Lesotho Clothing and Allied Workers Union (LCAWU) has reported that workers are provided once with dust masks, but soon abandon them as useless. Hygiene issues in factories and hostels can cause health problems. Access to toilet facilities has been a flash point, creating tension between owners and managers in EPZ factories in some countries. Concerns over improper handling of hazardous materials in *maquiladoras* in Mexico led to hearings in 2000 under the NAFTA labour side agreement.
26. According to the International Textile, Garment and Leather Workers' Federation (ITGLWF), the demands of extremely tight delivery schedules and low prices "force producers to underpay workers and inflict on them crushingly long working hours".<sup>27</sup>

<sup>25</sup> *Note on the Proceedings*, op. cit., esp. paras. 38-42, 51-55 and 57-61.

<sup>26</sup> T.H. Moran: *Beyond sweatshops, foreign direct investment and globalization in developing countries* (The Brookings Institution, Washington, DC, 2002).

<sup>27</sup> Remarks made by ITGLWF to the OECD Round table on corporate responsibility: Supply chains and the OECD guidelines for multinational enterprises, 19 June 2002.

Workers' organizations also note that dismissals occur if a worker complains about excessive working hours. Exceptions to the national labour laws on hours of work in Mauritius have been highlighted by the CEACR in relation to EPZs.

27. Moreover, where migration is involved, fraudulent and abusive recruitment practices can crop up. Mauritius has recently set up a "foreign labour squad" to monitor working and living conditions of foreign workers. The country has also developed a welfare fund to cater for the needs of zone workers and is exploring the possibility of developing a pension plan specifically adapted to the EPZ workforce. China, Malaysia and Singapore have all insisted that zone enterprises make the appropriate contributions to social security funds. This is also required in other countries with social insurance legislation that is general in its application.

## **EPZs and social dialogue**

28. While still very limited, there are some examples of tripartite social dialogue at the national level regarding appropriate strategies to attract FDI, including the EPZ option (as in Mauritius, Kenya and South Africa). At the international level, framework agreements between a few multinationals and global union federations are playing an important role in upgrading the conditions in EPZs as elsewhere. As an example at the national level, the National Labour Advisory Council (NLAC) in Sri Lanka has been active on EPZ issues.
29. The EPZs themselves have often been characterized by the lack of social dialogue between employers and the representatives of workers, some of whom are migrants or working in industry for the first time. In the absence of adequate mechanisms and processes for information-sharing, consultation, negotiation and dispute settlement, it is difficult for conflicts to be adequately addressed and channelled. This is further complicated by the management of many zone enterprises by foreigners unfamiliar with the country. But where at the zone level, through union pressure, employer or government initiative, social dialogue has taken place, it appears that zones have benefited from lower levels of industrial unrest and labour turnover. Some zone authorities have included trade unions on their boards (such as the Philippines, Singapore and Trinidad and Tobago). Others have promoted labour-management committees at enterprise level to deal with working conditions and occupational safety and health issues, though some of these committees are seen by unions as a phenomenon that undermines workers' representation. Alliances between trade unions, women's organizations and solidarity networks are also being forged to improve the working conditions of workers in EPZs.

## **Contribution to social and economic development**

30. The contribution of EPZs to social and economic development is difficult to assess due to the lack of reliable, gender-disaggregated statistics regarding the costs and benefits of zones. While some data exist relating to the amount of investment, exports and employment in zones, there is very little hard data over time on the quality, cost and duration of those jobs, on the degree of skill and technology transfer and on the opportunity cost of the fiscal incentives and infrastructure costs. While EPZs are a step in export-led industrialization for countries setting them up, are zone enterprises promoting decent work, and are zone authorities providing the right incentives to encourage that? How successful has skill and technology transfer been? What have been the social and especially gender impacts of EPZs on families and communities? Would some countries have developed just as well without EPZs?

- 31.** Nor do we know with any degree of certainty exactly why EPZs have failed to take off in some countries. While political stability and investment in the basic infrastructure in ports, airports, roads, water, sanitation and power supply are necessary conditions for EPZs, they are not sufficient on their own to attract FDI. Macroeconomic conditions such as extreme inflation and high interest rates have been cited recently by the Export Processing Zones Authority of Zimbabwe as among the factors dampening the growth of EPZs in that country. Research suggests that zones are most effective when they form part of an integrated economic strategy that includes fiscal incentives, investments in infrastructure, technology and human capital, and the creation of linkages into the local economy.<sup>28</sup> Tunisia, for instance, offers exclusion from VAT on both locally produced and imported equipment and materials to EPZ investors. EPZs create the possibility of foreign knowledge and capital acting as catalysts to push the activity of domestic exporters.<sup>29</sup> It is important for EPZs to upgrade their activities to higher value-added products and services (requiring a more skilled workforce) and find their niche in the international production network, due account being taken of market requirements and changing comparative advantage. Countries like Ireland, Malaysia, Mauritius and Singapore, which have been successful in using their EPZs to generate economic growth, employment and improvements in the quality of employment, have pursued strategies that combine higher value products and services with labour market policies such as training, and dialogue involving the government and the social partners, has played a key role in the development of EPZs. Zones could potentially increase employment by providing new incentives to encourage local sourcing and fostering enterprises so that they can acquire the technology and expertise to meet the scale and quality requirements of zone enterprises. The dynamic environment of FDI and trade regimes oblige countries to continually adapt EPZ strategies, which necessarily includes taking employment and social policy as it affects employers, men and women workers, and communities into account. The consensus which arose out of the 1998 tripartite meeting provides a good basis for doing so.

## ILO action

- 32.** In the conclusions of the 1998 tripartite meeting, the ILO was called upon to assist EPZ-operating countries through advisory services and technical assistance, in particular to improve labour and social conditions in EPZs and respect for fundamental rights. The ILO was also to expand its research activities on the industrial relations policies and practices of transnational enterprises. A number of ILO initiatives in this regard have taken place since the 1998 meeting (see Appendix II).
- 33.** Various units and field offices have carried out activities, often in collaboration with different sectors and/or field offices. For example, the South Asia Multidisciplinary Advisory Team (SAAT) has supported a series of national and subregional seminars regarding the promotion of social dialogue and freedom of association in EPZs in South Asia, with the assistance of the ILO area offices in Colombo, Dhaka and New Delhi, the Regional Office for Asia and the Pacific (ROAP), NORMES/LIBSYND, IFP/DIALOGUE and DECLARATION. In collaboration with the ILO Turin Centre and ACTRAV,

<sup>28</sup> See, for example R. Sinclair: "Export processing zones: An ingredient for successful liberaization", Mar. 2001 (version 2.1); K. Jayanthakumaran: "An overview of export processing zones: Selected Asian countries", University of Wollongong, Dept. of Economics, Working Papers Series 2002 (WP 02-03); and P. Watson: "Export processing zones: Has Africa missed the boat? Not yet!", 12-08-00.

<sup>29</sup> H. Johannson and L. Nilsson: "Export processing zones as catalysts", in *World Development*, Vol. 25, No. 12 (1997), pp. 2115-2128.

LIBSYND will undertake a seminar in October 2002 for EPZ workers in El Salvador, Guatemala, Honduras, Mexico and Nicaragua, as precursor to a tripartite project on improving respect for freedom of association in EPZs.

34. While it is still early to ascertain the concrete impact of such initiatives, there are some positive developments to report. For example, arising out of a commitment made by the Sri Lankan Government during subregional and national meetings, the Board of Investment has recently released a manual on labour standards and employee relations (October 2002), calling on EPZ enterprises to, inter alia, respect fully freedom of association and the right to bargain collectively, establish machinery for consultation and cooperation, and set up a grievance procedure. One collective agreement has recently been signed in the EPZ, and another is being negotiated. Also, following a July 2001 seminar on freedom of association and EPZs in the Dominican Republic, organized by LIBSYND in collaboration with the San Jose Area Office, the employers' organization (ADOZONA) and the workers' organizations (FUTRAZONAS and FENATRAZONAS), reached an agreement with the aim of ensuring respect for freedom of association and the right to collectively bargain in EPZs. Finally, the conclusions and report of the 1998 ILO tripartite meeting have been widely cited in journal articles, thus showing an ILO impact on the debate on EPZs.
35. *The survey of developments in export processing zones since 1998 provided in this paper highlights the continuing relevance of the priorities and conclusions for improving social and economic conditions in EPZs adopted by the 1998 ILO tripartite meeting. The Committee on Employment and Social Policy may therefore wish to recommend to the Governing Body that, in developing Decent Work country programmes in zone-operating countries, particular attention is given to the formulation and implementation of clear and comprehensive industrial and investment strategies for EPZs (see paragraph 5 of Appendix I). The Committee may also wish to invite the Office, taking into account all aspects of decent work, to collect and analyse information on developments in export processing zones, using the various means at its disposal including reports on the application of standards, and report to the Committee at a future session of the Governing Body.*

Geneva, 11 October 2002.

*Point for decision:* Paragraph 35.

## Appendix I

### Conclusions: Priorities and guidelines for improving social and labour conditions in EPZs

#### *General considerations*

1. EPZs have become one of the major features of the labour market in some developing countries. With globalization, the rate at which zones are being formed is accelerating.
2. This offers challenges and opportunities to EPZ-operating countries. The opportunities include access for more workers to formal sector employment. Both zones and enterprises will need to improve their efficiency and competitiveness by upgrading the quality of their products through better technology, organization of work, skills and labour-management relations.
3. EPZs have realized considerable amounts of investment and have been one of the important factors of industrialization but there is a need to continuously improve the linkages into the local economy to maximize their economic benefits.
4. While EPZs have been an important source of employment creation, in particular for women, working conditions, labour relations and human resource development are areas which require further improvement. The legal restrictions on trade union rights in a few EPZ-operating countries, the lack of enforcement of labour legislation, the absence of workers' organizations representation and of effective structures of labour-management relations and the shortage of human resource development programmes in a number of countries undermine the ability of zones to upgrade the skills, improve working conditions and productivity and thereby to become dynamic and internationally competitive platforms.

#### *Policies and strategies*

5. For EPZs to fully achieve their economic and social potential, governments should have a clear and comprehensive industrial and investment strategy, consistent with the need to promote economic development and respect for fundamental workers' and employers' rights as defined in ILO standards. The potential economic and social benefits of such strategies should be carefully considered and regularly evaluated to allow for timely adjustment.
6. Political and social stability based on good governance, transparency, and effective policy-making, the promotion of tripartism, the practice of social dialogue, and respect for national and international labour standards is a major factor in attracting investment that promotes long-term, high-quality growth.
7. A dynamic strategy of investment promotion should include the growth and development of EPZs that respect the principles contained in these guidelines. It should be targeted at specific sectors of industry and categories of enterprise. Technology transfer and skill development should be emphasized in order to enhance the competitiveness of the zone-operating country.
8. In order to improve the sustainability of investment and the contribution of EPZs to the host economy, backward and forward linkages between zone enterprises and local suppliers of goods and services should be developed. A special agency could be established to identify and facilitate such links. Industrial support services should be made available to local providers of goods and services to assist them in meeting the speed, cost, quality and scale requirements of zone enterprises.
9. It is the responsibility of governments to provide a sound policy and legal environment for investment through basic education, lifelong training and appropriate infrastructure.
10. Sound labour-management relations are essential to the success of EPZs. Free, strong and representative workers' organizations have a major role to play in building workplace relations conducive to improvements in working conditions and increases in productivity and competitiveness.

### ***Labour standards***

11. Governments, employers' and workers' organizations should respect, promote and realize in good faith and in accordance with the Constitution, the principles contained in the ILO Declaration on Fundamental Principles and Rights at Work, 1998, and in particular those concerning the fundamental rights which are the subject of the Conventions pertaining to freedom of association and the effective recognition of the right to collective bargaining in the EPZs. The principles set out in the Tripartite Declaration concerning Multinational Enterprises and Social Policy, 1977, can also provide useful guidance and could be promoted.
12. National labour legislation should be complied with in EPZs.
13. To this effect the labour inspectorate should be strengthened, through increased resources and better training. Cooperation and joint action between the labour inspectorate and the zone authorities, with the involvement of workers' organizations, where appropriate, could provide additional scope for compliance.
14. Better compliance with international and national labour standards can also be promoted through information, education and awareness-raising programmes aimed at investors, managers of enterprises, workers, employers, and their organizations. Issues to be covered could include labour-management relations, freedom of association and collective bargaining, non-discrimination, gender sensitivity and cross-cultural management. Tripartite and bipartite consultation and cooperation should be encouraged to promote a culture of voluntary compliance.

### ***Labour-management relations***

15. Governments should promote tripartite consultations as an effective means of developing sound labour relations policies and practices in EPZs. One means of fostering sound labour-management relations could be the participation of representatives from workers' and employers' organizations on the boards of investment promotion and zone management bodies. Education and training programmes can also play a valuable role in improving labour-management relations.
16. Enterprises should establish ongoing mechanisms for labour-management consultation using structures such as labour-management councils or workers' councils, taking into account levels of development and the characteristics of each country. Such mechanisms should be in accordance with the principles of Convention No. 135, 1971, concerning workers' representatives in the undertaking.
17. Structures and procedures of collective bargaining should be developed to set terms and conditions of work. This could be made easier by clearly defining the bargaining responsibilities at each level of management and the workers' organization.
18. Effective procedures to avoid and resolve disputes at the lowest level possible should be developed.

### ***Human resource development***

19. Human resource development is one of the key elements in improving the social and labour conditions in EPZs. Raising the human capital base through the transfer of technology and development of skills makes a long-term contribution to the host economy and provides workers with the means of improving their lives. Greater investment in education and training will expand the career potential and job satisfaction of workers and lead to improved productivity and stability.
20. Public and private resources should be utilized to ensure good basic education and job-related training and retraining. Skill development could be promoted through a levy fund which compensates government agencies, employers' and workers' organizations which undertake training and retraining initiatives. Lifelong learning, multiskilling and career path systems should be encouraged.

### ***Retraining and re-employment***

21. The retraining and re-employment of workers can be achieved through tripartite cooperation. Government training institutions and private enterprise need to work closely on forecasting and providing for future skill requirements in order to avoid mismatches. Enterprises have a leading role

to play in retraining workers as new technologies and production methods are introduced. Zone level initiatives to assist in the re-employment of workers can utilize the resources of both private enterprise and public bodies.

### **Wages and working conditions**

22. The establishment of tripartite mechanisms for minimum wage fixing should be encouraged, and where national minimum wages already exist they should be applied to the EPZs.
23. Remuneration packages, including non-wage benefits, should be determined through collective bargaining. Remuneration can be improved by increasing the efficiency and profitability of the enterprise. Successful enterprises are more able to invest in training and capital equipment which enable workers to increase productivity and therefore wages, incentive and bonus payments and non-wage benefits.
24. Government agencies can promote improved working conditions through incentives which reward enterprises which install facilities such as cafeterias, clinics and crèches. Education and training programmes aimed at investors, employers, workers and their organizations, which convey the relevant provisions of the labour legislation and best practices, can also lead to improvements. Where the circumstances so warrant, the establishment or strengthening of a specialized government agency to advise and assist enterprises to improve working conditions can be a useful tool. Labour-management consultations could yield improvements in working conditions and work organization.
25. Legislation regarding hours of work should be respected in EPZs. Excessive hours and overtime should be avoided to reduce the health and safety risks, inefficiency and the negative social consequences. Workers working late, women in particular, face increased risks of harassment and violence and special measures should be taken to ensure adequate transport and security.

### **Social infrastructure**

26. Appropriate social infrastructure is essential if workers and managers are to be able to deliver high performance at work. Adequate and sanitary accommodation, safe and reliable transportation, educational and recreation facilities, health services and childcare centres all help workers to lead healthy and well-balanced lives and reduce labour turnover. Pension and other social security measures should help to stabilize the zone labour force.
27. Although government bears primary responsibility for the provision of social infrastructure, incentives may be offered to enterprises who provide social services such as housing, transport and childcare. Public-private initiatives can combine the strengths of government, employers' and workers' organizations to good effect. Tripartite labour welfare funds based on contributions from government, employers and workers could support initiatives to improve the quality of life of workers.

### **Women workers**

28. EPZs are one of the major sources of formal sector employment for women. However, care should be taken that such employment promote women's advancement and that women are not confined to low-skill, low-paid and low-prospect jobs and have access to training opportunities and better jobs.
29. In view of the high proportion of women employed in EPZs, EPZ enterprises should make special efforts to ensure that:
  - (a) women workers are not discriminated against and, in particular, that they receive equal wages for work of equal value;
  - (b) women workers enjoy maternity protection and benefits. Measures that could be considered include paid and unpaid maternity leave, employment security during pregnancy and maternity leave, and nursing breaks and facilities;
  - (c) measures exist to help workers combine work and family responsibilities. Measures that could be considered include the limitation of excessive working hours and night work, the provision of childcare facilities and the allocation of hours or days of leave to take care of the children;

- (d) education, policies and procedures are in place to prevent sexual harassment and to deal with it;
- (e) measures exist to encourage the promotion of women workers to technical and managerial positions.

***ILO action***

- 30. The ILO should develop advisory services and technical assistance projects to assist EPZ-operating countries in improving labour and social conditions in EPZs.
- 31. The ILO should provide all possible assistance to EPZ-operating countries, especially to those that have difficulties in fully respecting the fundamental rights reaffirmed in the Declaration on Fundamental Principles and Rights at Work and its Follow-up. The assistance provided by the ILO would be in response to the countries' established and expressed needs.
- 32. The ILO should expand its research activities on the industrial relations policies and practices of transnational enterprises, in view of the particular relevance of this subject for EPZs.



## Appendix II

### Illustrative examples of some current ILO action with respect to EPZs

Strategic objective	Technical cooperation and advisory services	Information and research
Principles and Rights	<p><b>BANGLADESH.</b> DECLARATION/SAAT/ILO Dhaka Office Project, 2003-04. <i>Implementation of labour laws, introduction of works councils, capacity building.</i></p> <p><b>DOMINICAN REPUBLIC.</b> LIBSYND/San Jose Area Office. July 2001. <i>Tripartite seminar on freedom of association.</i></p> <p><b>MEXICO.</b> LIBSYND/Turin/ACTRAV. October 2002. <i>Seminar on freedom of association for EPZ workers from El Salvador, Honduras, Guatemala, Mexico and Nicaragua.</i></p> <p><b>SOUTH ASIA.</b> SAAT/DECLARATION. November 2001. <i>Subregional workshop on promoting Social Dialogue and Freedom of Association in EPZs in South Asia..</i></p> <p><b>SRI LANKA.</b> SAAT/LIBSYND. January 2001. <i>Tripartite seminar on application of Conventions.</i></p> <p><b>TOGO.</b> DECLARATION/ILO Abidjan Office Project. <i>Assist in overcoming obstacles to the application of fundamental principles and rights at work.</i></p>	<p>SAAT. "Labour issues in export processing zones in South Asia: Role of social dialogue" (New Delhi, ILO, 2001)</p> <p>SAAT. "Garment industry in South Asia, rags or riches" (New Delhi, ILO, 2002).</p>
Employment	<p><b>CHINA.</b> ILO BEIJING Area Office/IFP/SEED/MCC/Turin/Swiss Project. <i>Development and preparation of training programme for enterprise managers in EPZs.</i></p> <p><b>SRI LANKA.</b> IFP-DECLARATION/MCC/U.S.DoL/ Local Management Development Project. <i>Multi-supplier training for local managers.</i></p> <p><b>SOUTH ASIA.</b> IFP DIALOGUE/GENPROM <i>Upcoming Activity, Gender and Social Dialogue in EPZs.</i></p>	<p>GENPROM. <i>Studies on role of women in EPZs.</i></p> <p>GENPROM. "Resource kit for trade unions," section on EPZs in several countries</p>
Social Protection	<p><b>GUATEMALA.</b> ACT/EMP Project on health and safety, 1998-present</p> <p><b>HAITI.</b> CONDIT/U.S. DoL / ACT/EMP/ San Jose Office Project. <i>Activities on working conditions in EPZs, esp. in export garment sector.</i></p> <p><b>SAN JOSE</b> Area Office Project: Improvement of labour and living conditions of women workers in the EPZ's. <i>Training programmes, educational materials, research studies.</i></p>	<p>IFP/SES – research on mechanism for socio-economic security for all</p>

Strategic objective	Technical cooperation and advisory services	Information and research
Social Dialogue	<p><b>AFRICA.</b> ICFTU / Danish Trade Union for International Development Cooperation Council Project. <i>Technical assistance for African trade unions working in EPZs in several countries.</i></p> <p><b>BANGLADESH.</b> IFP DIALOGUE. Seminar. Input on industrial relations in EPZs (textile sector)</p> <p><b>BELIZE.</b> ACTRAV/ILO Trinidad Office/San Jose Area Office. <i>Subregional seminar on EPZs, Oct. 1998 on Trade Unions and EPZs.</i></p> <p><b>CHINA.</b> ACTRAV Seminar, April 2000. <i>Training for workers on collective bargaining in EPZs.</i></p> <p><b>EAST AFRICA.</b> SLAREA (Strengthening Labour Relations in East Africa) DECLARATION Project/IFP DIALOGUE/ACTRAV/ILO Dar es Salam. <i>Action to improve the capacity of social partners and the legal framework for EPZs (Kenya: review of laws to ensure health and safety coverage in EPZs; United Republic of Tanzania: Training trade union leaders on EPZ issues).</i></p> <p><b>HONDURAS and the DOMINICAN REPUBLIC.</b> ACT/EMP-DANIDA Project. 2001. <i>Series of activities in several industries.</i></p> <p><b>JORDAN.</b> IFP DIALOGUE/ACTRAV/ACTEMP/ILO Beirut Office/DECLARATION Project. <i>Action related to women working in EPZs.</i></p>	<p>ACTRAV. Study on "<i>La Maquila 'asiática' en América Latina y el Caribe</i>", May 2001.</p> <p>SECTOR. "Export processing zones: Another form of flexibility", in <i>Impact of flexible labour market arrangements in the machinery, electrical and electronic industries</i> (Geneva, ILO, 1998)</p> <p>SECTOR. "Labour practices in EPZs: Towards improved social dialogue?" in <i>Labour Practices in the Footwear, Leather, Textiles and Clothing Industries</i> (Geneva, ILO, 2000)</p> <p>SECTOR. "The maquiladora industry in Mexico" in <i>The social and labour impact of globalization in the manufacture of transport equipment</i> (Geneva ILO, 2000)</p>

Note: ILO Multidisciplinary Advisory Teams support all of the field-level action mentioned.