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**ITGLWF**

**SEMINAR ON**

**ASIAN FTZ'S**

**PART I - TEXTS OF LECTURES**

TWARO (ITGLWF-ARO) ASIAN SEMINAR ON FREE TRADE ZONES

TOKYO, 6th-13th MARCH 1983

PART I

TEXTS OF LECTURES

CONCLUSION OF TWARO (ITGLWF-ARO) ASIAN SEMINAR ON FTZs  
7th-12 March 1983, Tokyo

1. We reaffirm the resolutions of the 3rd World Congress of the ITGLWF and the June 1981 seminar of TWARO and call for an appropriate action programme. We also take note of the opinions expressed by the various experts in this seminar on the working of the FTZs in general and in Asia in particular. We have considered all the positive and negative points indicated by the experts and unanimously urge TWARO to design a concrete policy on FTZs.

2. The following FTZs are at present in operation in Asia:

China	- 4 zones:	Amoy, Shumchum, Chu Hoi and Swatow
India	- 2 zones:	Kandla and Santa Cruz
Indonesia	- 1 zone :	Bonded Warehouse, Djakarta
Korea	- 2 zones:	Masan and Iri
Philippines	- 3 zones:	Bataan, Baguio and Mactan
Sri Lanka	- 1 zone :	Katunayake
Rep. of China	- 3 zones:	Kaohsiung, Nantze and Taichung
Malaysia	- 11 zones:	Prai, Prai Wharf, Palau Jerejak, Bayan Lepas, Ulu Kelang, Sungai Way, Senai, Pasir Gudang, Tanjung Kling, Batu Berendam and Kulim

Additional FTZs are under planning and construction in Bangladesh, India, Philippines, Sri Lanka, Rep. of China, Malaysia and Pakistan.

3. Major incentives granted by various governments to investors in FTZs include exemption from customs duties on imports of raw materials, capital equipment and components and on exports of finished products; tax holidays of up to 10 years or more; freedom from foreign exchange control and free repatriation of profits; accelerated depreciation; simplified administrative procedures; and provision of the necessary services and infrastructure. In addition to the above, cheap labour is also a major incentive. In certain countries, the discouragement of, or restrictions on, the formation of trade unions and collective bargaining is also an incentive.

4. Frequently unreasonable production targets and excessive work pace are imposed under adverse or dangerous working conditions. In many FTZs working hours are extremely long with compulsory overtime (sometimes at nights) and even during holidays and rest days. Wages of workers in the zones are usually low in relation to wages in firms in the same industry outside the FTZs (which do not benefit from all the financial and other incentives provided for firms in the FTZs).

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5. In several countries, there are legal restrictions on the right to strike, collective bargaining and the holding of trade union office by workers in the free trade zones. In most cases, it was reported that employers are actively discouraging the unionisation of their workers. In Sri Lanka and Korea, it was reported that no trade unions exist in the zones. In certain other countries, like the Philippines, India, Malaysia, etc., even though there are trade unions in the FTZs, they are still in the early stages of formation.
6. In most cases, employers are hostile towards trade unions in FTZs.
7. Generally, governments do not encourage the formation of trade unions in FTZs. However, certain governments do tolerate trade unions, while some others are totally against them.
8. Workers' consciousness about trade unions in FTZs is much below the average for the following reasons:
  - a. workers are young and new to employment;
  - b. fear of loss of employment;
  - c. long hours and distance travelled daily from home to workplace and back;
  - d. lack of knowledge about trade union rights;
  - e. various inducements by employers to divert the attention of workers.
9. Difficulties in union organisation in FTZs varies from country to country depending mainly on the attitude of the governments toward unions. However, in certain countries there are difficulties for trade union leaders to gain access to workers in the FTZs. Workers are also prevented from attending union meetings in various ways. Union leaders and organisers are harassed by the police and at the instigation of employers. In several plants, employers themselves sponsor the formation of house unions.
10. The formation of trade unions in FTZs in Asia has been a mixture of success and failure. For instance, in India, while organising unions in Kandla was a success, it was a failure in Santa Cruz. Similarly in Malaysia, out of 9 textile factories, trade unions have been successfully organised in 8 of them, but in the remaining one and in the whole electronics industry, organising has not been successful so far.

Viewed in the light of the above considerations, the following future programme of activities of TWARO and all its affiliates concerned are hereby strongly recommended for implementation:

1. publicizing the problems of workers in FTZs as enumerated above;
2. procuring all possible information with regard to the actual conditions prevailing in the FTZs as to the working conditions and to ascertain whether the employers comply with applicable labour laws;
3. each union must endeavour to gain free access to FTZs for trade union purposes and work for securing the rights now being denied or restricted for trade union activities in the zone, including the right to strike;
4. conduct intensive educational campaign for the zone workers through printed materials, meetings and seminars;
5. train union organisers especially for FTZs;
6. keep the TWARO and ITGLWF regularly informed of all activities and information obtained in relation to each country's FTZ for the purpose of evaluation and possible assistance by the said organisations;
7. seek co-operation and possible assistance from other ITSs concerned with FTZs;
8. continue to make strong representations, where it may be deemed necessary, to governments and employers concerned, with regard to the workers' welfare and freedom for trade union activity in FTZs;
9. submission of specific instances of violations of employees' rights in FTZs to the ILO, through ITGLWF and TWARO, under the ILO Tripartite Declaration of Principles Concerning Multi-national Enterprises;
10. continue to make representation through ITGLWF and TWARO to UNIDO and ILO concerning the workers' conditions in the zones, and
11. urge TWARO and ITGLWF to extend all assistance to the affiliates in order to effectively implement the above programme of activities.

Mr. T. Usami, President of TWARO

After welcoming participants and thanking the lecturers, Mr. Usami conveyed his especial gratitude to Mr. H.U. Bunger, Director of the Tokyo office of FES and Mr. Y. Kudo, Managing Director of Japan ILO Association for having kindly consented to cosponsor this seminar.

He continued :

"FTZs are not confined to Asia alone. Since the mid-sixties, developing countries in Asia, Africa, Latin America, etc. have been setting up FTZs with the hope of bringing about economic and industrial development. However, in Asia, FTZs have been established on such a scale as cannot be seen in any other continent. With the FTZs have arisen problems which international labour organizations such as ICFTU and ITGLWF consider very serious. Even the ILO has placed this matter on its Agenda.

The main purpose of this seminar on FTZs, is to formulate TWARO's future policy guidelines on FTZs. As the enterprises established in the FTZs are normally labour-intensive and usually engaged in our sector of industries, the need for such policy guidelines has become even more pressing. Another purpose is to promote the concrete implementation of the policy by the affiliates of TWARO concerned.

Unfortunately it must be pointed out that many international seminars and conferences have been sponsored by international trade union organizations but as a general tendency, the resolution and decisions made there have not been fully incorporated in the activities of the affiliated unions. It is my earnest hope that the experiences exchanged among you and the conclusions reached will be put to the best use in your own activities in your own countries.

It was at Kaohsiung, Republic of China, that the first FTZ was established in 1965 in Asia. Subsequently, many FTZs came to be established around 1970, in various countries. Today, FTZs are in operation in the 9 countries represented here today. I understand that there are FTZs in the People's Republic of China also, but we place a different value on labour from that country, and TWARO has practically no information about these FTZs.

In most cases, there is more than one FTZ in each country. The purpose of their establishment is to earn foreign currency, by exporting the goods produced in these FTZs, in order to contribute to the development and progress of the economy and industry of their own countries. There is no doubt that an increase in job opportunities is also intended. However, to achieve this purpose, all the governments concerned consider it of primary importance to maintain their comparative advantage in the international market, centring around export oriented industry, and it can be said that generally they treat very lightly the rights of the workers. It is customary for these governments to give the most preferential treatment to the foreign capital they thus introduce to their countries.

Therefore, in giving preferential treatment and guaranteeing industrial peace, the governments take legal measures, which are often incompatible with the general labour standards internationally accepted. Some governments absolutely refuse to give freedom of association, collective bargaining, and unified action to the workers who work in these FTZs. Many countries, although they grant the right of association, do not give them the right to strike. In other words, it must be pointed out that practically no government guarantees the workers their full basic rights by law. We must face the fact with concern that the workers who work in FTZs have no means of defending themselves, and start our action accordingly as soon as possible. Another aim of this seminar is to gather the wisdom of all the participants and find a definite direction for us, discussing how the workers who are placed in such vulnerable positions can be effectively assisted by trade unions.

In Asia, the workers who work in FTZs are said to exceed 700,000, excluding the People's Republic of China, constituting approximately 70% of all the workers who work in FTZs in the world. With the concerted effort of the Asian labour movement, activities to promote the welfare of these workers must be strengthened. This is an urgent task for trade unions. In the FTZs, many workers are engaged, not only in our sector of industries but also in electronics, electrical appliances, chemical goods, precision machinery, etc. Perhaps we can expect greater results if we are to co-operate with other related trade unions, rather than for TWARO affiliates to push our own activities independently. It goes without saying that there is no hard-and-fast rule about this, and we may achieve more practical results if we acted independently, in accordance with the situation each country is placed in.

When free and democratic trade unions develop and workers' welfare is promoted, it would lead to the maintenance and improvement of the living standards of the whole nation, so that further stability of the society and economic prosperity would be promoted. If the nation cannot get rid of its poverty, it would offer a hotbed for communism to come into. Only when the sound development of a democratic labour movement is guaranteed by the government, does it become possible for trade unions to make bold challenges for achieving freedom, democracy and peace, which are the trade unions' original goals. I am convinced that democracy and prosperity can be increased by the activities of trade unions according to the ideals and principles all of us pursue. Therefore, it is essential for us to strengthen our presence in the FTZs in this area. The enterprises which operate in the FTZs are generally the subsidiaries of and joint ventures with, the companies in industrially advanced countries. Therefore, the trade unions in the country which receives these foreign enterprises or capital would obtain more results in the course of their effective activities, if they were to have closer co-operation with such international organizations as ITGLWF and TWARO, and stronger solidarity with the trade unions concerned in the advanced countries. TWARO has made efforts in pursuing this objective.

I understand that business in some FTZs, which is greatly dependent upon exports, is becoming very difficult, affected by the prolonged depression the whole world is experiencing at the moment. Of course the situation each country is placed in is not necessarily uniform, and your activities in these FTZs would encounter many difficulties. However, I hope that you will

continue your valiant efforts to seek further happiness for the workers, which is our objective."

Mr. C. Ford, General Secretary of ITGLWF

"At the latest Congress of the Textile Workers' International, the EPZs were referred to as 'Profiteers' Paradises or Sweatshops in the Sun'. (1) The former epithet is probably more appropriate than the second. It is true that several cases of intolerable exploitation have been reported, particularly through high work norms and neglect of occupational health standards. Compared to garment and electronics factories in the U.S. or Western Europe, many of them would certainly appear to be sweatshops. But in general, wages and working conditions in the zones are no worse than in comparable industrial employment in the same countries - let alone the traditional and informal sector jobs.

What is a sweatshop? The Shorter Oxford Dictionary defines a sweatshop as 'one in which sweated workers are employed' and later defines 'to sweat' as to employ (labour, workers) for long hours and exploit at starvation wages to the utmost by utilizing competition.

It is sometimes stated that, in general, wages and working conditions in the zones are no worse than in comparable industrial employment in the same country and, therefore, cannot be regarded as sweatshops.

But to sustain this argument it is necessary to prove :-

- 1) that comparable industries exist; and
- 2) that work in such industries is not also sweated labour.

In fact, comparable industries (i.e. modern factory production) often do not exist in less developed countries prior to the establishment of FTZs. There usually are only small-scale shops - usually with appalling working conditions - or none at all.

The FTZs are sweatshops precisely because they meet the Oxford English Dictionary definition by employing workers :-

- a) at starvation wages,
- b) for long hours, and
- c) by utilizing competition (i.e. they tell host governments and workers that, unless they accept (a) and (b), they will go and establish themselves in competing low-cost countries.

The central problem is : is the degree of exploitation in FTZs greater than usual in less developed countries? I suggest that it is because :-

- a) productivity in the FTZs is not dissimilar to that in

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(1) Gus Edgren : "Spearheads of Industrialization or Sweatshops in the Sun" A Critical Appraisal of Labour Conditions in Asian Export Processing Zones ILO-ARTEP, August, 1982

developed countries, since either MNCs, or domestic companies having access to top managerial talent and technology (often because they are working to specifications established by a foreign importer) are involved. This has to be so if the firms are to hold their heads above water in conditions of sharp international competition;

- b) wages are no higher than the usual miserable minima prevailing in less developed countries and are often lower; and
- c) therefore profits are likely to be substantial.

I shall now deal in a little more detail with productivity, wages and profits.

PRODUCTIVITY

In discussion with the authors of the "Neue Internationale Arbeitsteilung" (2) firms producing textiles, garment and electronics in free production zones in Malaysia concurrently reported that, after a starting time of a few months, the productivity per worker was the same as in comparable U.S. and West German firms. The management of an integrated Japanese textile factory in Malaysia, employing 1,900 workers (80% of them women) reported that, after a training period of not more than two weeks, the labour productivity was the same as in Japanese factories. Some authorities argue that productivity in the zones in less developed countries is even higher than in developed countries.

'On the other hand, there is evidence that the labour productivity per working year is often substantially higher in EPZs in developing countries than at the traditional industrial sites in developed countries. The explanation is a higher labour intensity reflected in more work per week and fewer holidays per year' (3).

The above accords perfectly with the information possessed by ITGLWF and the conclusions of its reports on the subject (4).

Sri Lanka

The ARTEP study on Sri Lanka (5) reports that 83% of the workers in the Zone receive more than the 'prescribed minimum rate for

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- (2) F. Fröbel, J. Heinrichs and O. Kreye (1977)
- (3) UNCTAD : Export Processing Free Zones in Developing Countries January 1983
- (4) Multinational Corporations and the Trade Unions Djakarta, 1974  
MNCs in the Textile, Garment and Leather Industries Dublin, 1976  
Free Trade Zones Vienna, 1980
- (5) The KATUNAYAKE Investment Promotion Zone : A Case Study ILO-ARTEP, September 1982

unskilled workers'. Big deal, as the Americans would say. It is only when we see the hourly rates that we realize the incredible, unparalleled and monumental meanness of the employers. No less than 84% of the female workers and over half the male workers earn less than 2 Rupees or 11 US cents per hour.

This confirms the figure we gave for wages in our 1980 report of about US \$ 1 per day and shows that wages have remained the same despite the considerable cost of living increases that have taken place in Sri Lanka since I visited the FTZ in 1980.

But it should not be thought that the US\$ 1 can "all" be used to provide the necessities of life, since over half the workers spend as much as 10-30% of their wages on getting to and from work (6).

It was not mentioned in the ILO-ARTEP report on Sri Lanka that workers often have to pay for meals taken in the firms' canteens, so that in the end, not much more than US 50 cents a day is left to pay for the necessities of life, when meals in the works canteen and transport costs are deducted.

But it is often said by the apologists for such intolerable situations : 'Maybe the wages are low, but what about the fringe benefits ? MNCs usually provide such benefits'.

What does the ILO-ARTEP study on Sri Lanka say on this ?

'Only a few firms appear to pay any significant package of benefits to their workers' (P.56, 1st §, op. cit.)

Philippines

In the Philippines, the average basic daily wage is 14 Pesos (7) for women and just over 17 Pesos for men. But 40% of the female workers had a basic wage less than the minimum of 13 Pesos. Judy S. Castro presents some earning figures but they are swollen by payments for excessive overtime.

Those on overtime were working a 60-hour week. But we shall deal with working hours later. In any case, Judy Castro admits that :-

'It is likely that high work intensity (both in terms of hours and intensity of work per hour) has raised the differential between earnings and standard wage rates' (8).

It is interesting to note that, ten years ago, the minimum daily wage in the Philippines was 8 Pesos. What has happened since then ?

Minimum wages now stand at 13 Pesos per day (9) or US\$ 1.3. Thus daily wages in the zone have risen 1.6 times. But during the same period even the official government figures show that prices went up 3.25 times, or twice as fast as the minimum wage (10).

(6) ILO-ARTEP : "The Katunayake Investment Promotion Zone : A Case Study" September 1982 (P. 58)  
(7) US\$ 1 = 9 Pesos  
(8) ILO-ARTEP : "The Bataan Export Processing Zone" Sept. 1982 (P.39)  
(9) ILO-ARTEP : "The Bataan Export Processing Zone" Sept. 1982 (P.35)  
(10) ILO : Yearbook of Statistics 1982

Thus the real wages (i.e. purchasing power) fell by at least one half. Indeed, without union action we can be sure that real wages would have been cut even more.

These figures throw some doubt on arguments put forward by authorities in FTZs that have been established more recently that the workers have only to be patient and their real wages will go up. This would appear to be 'pie in the sky when you die'.

The Philippines is a top contender for the award for the lowest wages in Asia. Wages are guaranteed to remain among the lowest, if not the lowest in Asia' (11).

Wages are even lower in the Zone than outside. The ILO-ARTEP study concludes that :-

The major female-dominated industries in the BEPZs pay lower wages than are normally paid outside the Zone for the same type of work' (12).

So attractive is the Philippines as a low-wage haven that it plans to construct 13 more EPZs by the end of 1980s - making a total of 17.

India

In the Kandla FTZ in Gujarat, India, over one-third of the total of 6,600 workers are women employed in the textile and garment industries (13). There are no statutory minimum wages for firms located in the zone. Wages are determined by the employer and come to a monthly average of :-

	Rupees	US\$
Unskilled	250	26
Semi-skilled	375	39
Skilled	475	49

Exchange rate : Financial Times 7/1/1983 : US\$1 = 9.69 Rupees

According to an official information brochure published by the Government of India on the Santa Cruz EPZ, semi-skilled workers are paid US\$ 1.2 daily. Since production in the zone started nearly a decade ago and since the American MNCs concerned have made substantial profits during this period, it is surprising, and some would say shocking, that the workers concerned have benefited in such a paltry fashion (14).

(11) "Reasons for Investing in the Philippines EPZs"  
Quoted in AMRSP  
(12) Gus Edgren op. cit. (P.15 §2)  
(13) Report by the Textile Labour Association, India, on the Zone  
(14) UNCTAD  
"Export Processing Free Trade Zones in Developing Countries : Implications for Trade and Industrialization Policies"  
(P.16, §43).

Malaysia

In Malaysia, we see from the ILO-ARTEP report (15), that female factory workers are hired for M\$ 4-6 per day (US\$ 2-3) (P.19, §1) - all industries. But in the Zone, garment and textile workers get even less than this.

Once more we see that wages in the zone are lower than outside (P.22, top line). Nearly 70% of all zone female workers earn less than M\$ 200 monthly (P.22, §2) or US\$ 100.

In the case of a sample garment firm analysed (P.31) the female workers (about one-third of the total labour force) who are classified as unskilled earned M\$ 120 monthly or US\$ 60, and the skilled women (about half of the total) earned M\$ 150 or US\$ 75.

With very low wages and exploitative conditions, i.e. intensive work pace, long hours and stiff discipline, it is not to be wondered at that high turnover and absenteeism are noticeable in the FTZs, despite the lack of alternative employment. This has been a worrying factor, for instance in the Sri Lankan EPZ. The Government has decided to make a survey in order to study the various problems of female workers concerning motivation and job satisfaction (16).

The problem has caused some heart-searching. A report by Mr. Weerasinghe from the Zone Authority states :-

'Each investor will have to find ways and means of keeping in their employment workers who have been trained at considerable expense and whose experience would earn them higher wages in a competitive market' i.e. wages in the zone are lower than outside (17).

He adds, without specifying them, that incentives are already being offered by investors to improve attendance at work and meals are subsidised to motivate workers to improve their efficiency. In one garment factory, free medical services are available with a full-time medical office, we are told. This implies that such facilities do not exist in the other 24 firms in the Zone.

I can suggest an easy way of motivating workers to improve their efficiency - pay them a decent wage - well above the miserable 17.50 Rupees (US\$ 83 cents) daily for unskilled workers and 20 Rupees (95 US cents) daily for semi-skilled workers (18).

The wages of skilled workers are negotiable, Mr. Weerasinghe states. This clearly implies that the wages of the semi-skilled and unskilled workers (the vast majority of the labour force) are not negotiable.

- (15) ILO-ARTEP : "The Role of FTZs in the Creation of Employment and Industrial Growth in Malaysia" May 1982
- (16) "The Employment Function in the Greater Colombo - Economic Commission in the Katunayake Investment Promotion Zone" D.P.A. Weerasinghe (Appeared in the Labour Gazette, Colombo, 32 '2' 1981 pp. 39-41)
- (17) "Labour Relations in the Industrial Promotion Zones" by D.P.A. Weerasinghe, Sri Lanka Labour Gazette N° 1 & 2, 1980
- (18) D.P.A. Weerasinghe : "Employment Function" op. cit. (P.40).

But there is hope, since the report states that :-

'Given time, wages, whether on a time rate or a piece rate basis, would be geared to productivity, so that an efficient worker will earn higher wages'.

This implies the wages currently are not related to productivity. When I visited the EPZs a couple of years ago, I vividly recall asking a manager of a factory producing blouses, how many were sewn by a worker in a day and he replied '250'. 'But supposing they fail to produce the 250' I asked. 'Then they stay in the workshop until they do' he replied.

Official propaganda for the Sri Lankan Zone boasts about Sri Lankan productivity.

Relative Productivity of Asian Workers

Singapore .....	46.98
SRI LANKA .....	41.84
Philippines' .....	41.35
Taiwan .....	34.03
Malaysia .....	30.86
Hong Kong .....	21.74
Thailand .....	21.41
South Korea .....	20.85
Pakistan .....	16.43
India .....	11.72

The above figures were cited in an advertisement for the Sri Lanka FTZ in the U.K. 'Economist'.

If the earnings of the workers in the zones depend upon their working long overtime hours and yet even then they only get about the same total earnings (or less) as similar workers outside the zone, it follows that those in the zones are earning even less than workers outside the zone for an equivalent number of hours.

Therefore, Gus Edgren's remark (19) that comparison should be based on earnings rather than wage rates is misleading, since FTZ earnings embody much overtime.

There cannot be any rational comparisons unless we make certain we are comparing like with like. Unless we know how much overtime is worked in firms outside the zones, we cannot make a proper comparison with earnings inside FTZs.

- (19) Gus Edgren : ILO-ARTEP op. cit. (P.13).



WORKING HOURS

It appears that working hours in the zones are considerably longer than outside.

In fact, hours actually worked in manufacturing industry are as follows :-

Weekly Hours in Manufacturing Industry - 1980 (20).

		1981	FTZs
Korea	Total	53.6	
	Men	53.4	54-60 (FKTWC)
	Women	53.9	
Malaysia	Total	47.5 (1979)	Hours no longer but extensive night-work
Philippines	Total	47.3 (1976)	53.9 ARTEP
Sri Lanka	Women	47.7	54 (Clothing) ARTEP

These ILO figures for manufacturing as a whole, are considerably lower than those obtaining in the FTZs.

This probably under-estimates overtime; compare for example FTZs in the Philippines and Sri Lanka, where we have evidence of much longer hours than showed by ARTEP.

Thus it would seem that not only are wages lower inside the zones than outside, but that working hours are considerably longer. It, therefore, follows that if the overtime element is eliminated from the workers' earnings both outside and inside the zones, then those inside are much worse off and are being exploited more ruthlessly.

But not only are hours in the zones excessively long, they are usually worked at an intensive pace.

'In the assembly operations, there is evidence to suggest that a more stable workforce would not maintain the pace of work. That is, to some degree, the young workers are 'burnt out' by the inherent monotony and adverse conditions. In the absence of the very rapid turnover and the young age of the labour force, companies would be unable to maintain the very high pace'. (21) - (Our italics).

If this is not sweated labour, then what is sweated labour ?

(20) ILO : Yearbook of Labour Statistics (pp. 440-441)  
 (21) UNIDO : "EPZs in Developing Countries" UNIDO Working Paper on Structural Changes - N°19, August 1980 (P.33).

PROFITS

There is not much point in urging advances in wages and improvements in conditions if the companies concerned objectively cannot afford them. Maybe this is a correct policy in a developed country in times of full employment. The Swedish Trade Union Movement took once the view that firms that could not pay the going wage rate, should, if necessary, be made bankrupt. This is certainly not a recipe for success where other jobs for the redundant workers are just not available.

The ITGLWF report showed that the girls in garment factories in the Sri Lanka Zone are earning wages of US\$ 1 per day (I said per day and not per hour) i.e. about 12 US cents per hour.

In one factory I visited in Sri Lanka, I learned that the girls produced an average of 20 pairs of jeans a day, which were sold in USA for US\$ 40 per pair. In other words, these girls were each producing daily exports worth US\$ 800, for which they were paid only US\$ 1. We know that each pair of jeans costs only about US\$ 2-3 to distribute. This daily production is now probably worth at least US\$ 1,000 daily - without the wages of the workers having gone up more than a few cents. Thus, each worker is producing profits of nearly US\$ 1,000 daily.

We know of frequent cases where firms in the clothing industry are able to get back their initial investment in a very short period. But it is very seldom that academics or inter-governmental organisations even mention profits. It was, therefore, all the more refreshing to read in the report by ILO-ARTEP that profits in the FTZ in Malaysia run as high as 150% p.a. and, in electronics, an astronomical 200% p.a. In other words, the investors concerned got back their initial investment plus 150% in the case of the garment industry and 200% in the case of the electronics industry in the first year of operation and in subsequent years they get their investment back again and again. So that after five years the investors in the garment industry get back their capital seven and a half times and the investors in the electronics get back their initial investment ten times.

The added value of the garment firm came to M\$ 6,500 per worker, or US\$ 3,200 (P.32). We are told (P.19 §2) fringe benefits amount to between 15-25% of total wages. At 20% this makes :-

$$\text{US\$ } 60 + 12 = \text{US\$ } 72 \text{ monthly}$$

$$\text{US\$ } 75 + 15 = \text{US\$ } 90 \text{ monthly}$$

or US\$ 864 and US\$ 1,080 p.a. respectively.

This means that the total added value in a garment firm lies between 3 to 3.7 times annual labour costs for skilled and unskilled workers respectively. In other words, operating profits come to 2 or 3 times wages costs (22).

Yet these same employers tell us they cannot afford to improve on the derisory wages they pay.

Frequently in the clothing and footwear industries in the zones, we are not dealing with mammoth multinationals but relatively small firms, many of which are domestically owned or joint ventures, e.g. while most of the factories in the Philippines Bataan Zone are not wholly owned by MNCs, their access to the textile, clothing and footwear export markets in USA, Japan, Europe or Australia is controlled by mammoth buyers practising world-wide sourcing such as J.C. Penney, Sears-Roebuck, Montgomery Ward and Japanese trading companies.

These large retailers and trading houses sell products from the zones at prices similar to those of domestic products. Thus the worker who produces the textiles, clothing and footwear does not benefit because of low wages and the consumer does not benefit because of pricing policies of the big retailers and trading houses, which usually charge as much for imported as similar domestic products.

The only ones to benefit are the distributors and, to a lesser extent, the manufacturers. The distributors combine normal retail with normal wholesale profit margins. The manufacturers are often squeezed by the large retailers to work to the latter's production specifications and costings but nevertheless usually manage to do very well out of the operation.

#### ENTERPRISES SHOULD REVEAL PROFITS

The ILO Tripartite Declaration of Principles Concerning MNEs and Social Policy states (P.10, §33) that wages, benefits and conditions of work should not be less favourable for the workers than those offered by comparable employers in the country concerned. But supposing there are no 'comparable employers' in the country concerned: it was recognized in the drafting committee that frequently in the less developed countries, 'comparable employers' do not, in fact, exist, since local industries are likely to be on a much smaller scale, with probably lower profits.

Therefore, a special clause was inserted in the Declaration to cover LDCs. This reads as follows :-

'When multinational enterprises operate in developing countries where comparable employers may not exist, they should provide the best possible wages, benefits and conditions of work, within the framework of government policies. These should be related to the economic position of the enterprise, but should

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(22) In Europe, for example, a company will feel it is faring rather well if its total operating profits are equal to total labour costs.

be at least adequate to satisfy basic needs of the workers and their families. Where they provide workers with basic amenities such as housing, medical care or food, these amenities should be of good standard.

What is meant by 'the economic position of the enterprise' ?

It means that wages and benefits should reflect the productivity and profits of the companies concerned. Now, obviously, this can only be ascertained through the company providing workers and their unions with analyses of the company's profit and loss accounts and balance sheets. This is a common practice in developed countries where it is seen as a sine qua non for collective bargaining between employers and unions. Thus the ILO Declaration says quite specifically :-

'Multinational enterprises should provide workers' representatives with information required for meaningful negotiations with the entity involved and, where this accords with local laws and practices, should also provide information to enable them to obtain a true and fair view of the performance of the entity or, where appropriate, of the enterprise as a whole'.

But not only MNEs are seen as having such a responsibility, governments also have to play a part.

'Governments should supply to the representatives of workers' organisations on request, where law and practice so permit, information on the industries in which the enterprise operates, which would help in laying down objective criteria in the collective bargaining process. In this context, multinational as well as national enterprises should respond constructively to requests by governments for relevant information on their operations'.

But we know that, in practice, these precepts are honoured more in the breach than in the observance. We know that in LDCs in general and in the FTZs in particular, wages are frequently based upon legal minima, if any, and that where any sort of collective bargaining takes place, employers refuse to come clean about profits. Perhaps participants could give us examples of the rare cases in which employers in FTZs have been willing to disclose their company accounts.

Employers should realize that refusal to disclose profits levels in times of prosperity may back-fire in times of depressed economic conditions when workers may be reluctant to believe that employers making low, or no profits, are actually doing so.

#### REAL WAGES AND INCOME DISTRIBUTION

The growth of productivity in Asian manufacturing industries has been accompanied by widespread inflation and declining real wages. Thus export-led growth has been accompanied by declining standards for workers.

Index of Real Wages in Manufacturing for Malaysia & Philippines (23)

(1970 = 100)

	<u>1970</u>	<u>1972</u>	<u>1974</u>	<u>1976</u>	<u>1977</u>
Malaysia	100	94	81	86	90
Philippines	100	87.6	66	62	64

The tendency for some Asian governments to promote exports by demoting workers has now spread to the developed countries, many of which are cutting workers' purchasing power in an effort to secure lower inflation, balance of payment surpluses and a competitive edge in world markets.

In Asia too, the existing economic strategies are having the impact of redistributing income from the poor to the less poor and the rich (FTZs probably exacerbate this tendency) e.g.

Share of Lowest 40% of Population in GNP of ASEAN (24)

	<u>1975</u>	<u>Projected for 2000</u>
Indonesia	16.1%	12.0%
Malaysia	11.1%	13.2%
Philippines	11.6%	12.8%
Thailand	11.5%	10.9%

Thus it can be clearly seen from these World Bank statistics that the income shares of the poor are expected to fall in two out of the four countries mentioned in the closing years of the 20th Century, and only to rise slightly in the other two.

Judging by current tendencies the World Bank was over-optimistic about Indonesia and Thailand.

It is predicted by the World Bank that by the year 2000, present economic and social policies will lead to a situation where 40% of the population of Indonesia, Malaysia, the Philippines and Thailand will receive only 11-13% of the GNP of their respective countries. What do colleagues from these countries feel about these figures? Can colleagues from other countries provide us with figures about the movement of real wages and income distribution in their countries?

- (23) U.N. ESCAP  
"Regional Development Strategies for the 1980s"  
(24) U.N. ESCAP  
op. cit.

What effect do FTZs have on such statistics?

Is the tendency for the rich to get richer and the poor relatively poorer an inevitable one?

What can unions do to arrest and reverse it?

RESTRICTIVE LABOUR LAWS

In order to attract foreign investors, some governments in Asia have felt it imperative to establish laws which control and hamstring the unions in their struggle to lift living standards and working conditions of the workers. For example, the South Korean government, on the very day it enacted the Free Export Zone Establishment Law, also passed a special law concerning the regulation of labour unions and their disputes with firms backed by foreign capital. This special law (Trade Unions and Mediation of Labour Disputes) deprived workers of the right to organise, the right to collective bargaining, the right to strike - and furnished a legal basis for gross exploitation.

In Malaysia, the Industrial Relations Act provides for collective bargaining and for the settlement of trade disputes through conciliation and arbitration. But awards by the Industrial Court are legally binding: strikes or lock-outs related to recognition of trade unions on matters connected with management functions are prohibited and there is a safeguard for pioneer industries during their first five years of existence or "for any such extended period" against unreasonable demands of trade unions.

In the Philippines, while there is no special labour legislation covering EPZs, this is hardly necessary since strikes are forbidden in companies engaged in "the manufacture, or processing of essential commodities or products for export". This ban was laid down in General Order N°5 under the 1972 Martial Law and extended by Presidential Decree N°849 entitled "Prohibiting Strikes and Lock-outs and Regulating Activities in the Labour Field" of 3rd November 1975. The law was further clarified in the Presidential Letter of Instructions (L.O.I.) N°368 of 26th January 1976. All strikes and lock-outs in the firms currently listed in the L.O.I. as being vital are deemed illegal (25).

Presidential Decree N°442 updates the above legislation. Under this order, strikes are banned in 'vital industries'. This includes export industries. Among the 'vital industries' listed are textiles and clothing.

As regards Indonesia - a World Bank report remarks enthusiastically that the country has :- 'the largest remaining pool of inexpensive and relatively literate labour in East Asia' and that :- 'labour is not unionized and the government has largely refrained from intervening in the labour market' (27) i.e. it has given a free hand to the free-booters

- (25) International Encyclopaedia for Labour and Industrial Relations, 1980 - Article on the Philippines  
(26) Book V of the Labour Code (1981) Chp.8 on Strikes & Lock-outs  
(27) Far Eastern Economic Review - 27th April 1979

In case we forget FTZs in Western Asia, may I just mention that the Syrian Government has exempted employers in seven FTZs in its country from observing the provisions of the Syrian Labour Code.

For further details see chapters on "Special Legislation and Suppression of Trade Union Rights" in "Export Processing Zones" ICFTU, March 1983 (pp.21-26).

What is the picture that emerges from the various official reports I have mentioned so far ?

It is one of a labour force of mainly single young girls and young women 16-25 (and even younger) being exploited for long hours (per day, per week and per annum) with frequently compulsory overtime; at very low wages (28) compared even to minimum standards and minimum human needs, while making such items as clothing and electronic articles at rates of productivity at least as high (and probably higher) as in developed countries. These girls are usually subject to an intensive work pace, stiff discipline and even sometimes humiliating punishment or dismissal in case of recalcitrance.

These young people work without adequate legal protection from exploitation by domestic or international companies and sometimes within a legal framework that prevents their defending themselves by striking.

Among criticism that may be made of FTZs, the following are among those cited by UNCTAD (29) :-

- a) 'that the social costs of the zones are high and that the foreign exchange earnings must, therefore, be corrected for those costs, that given the low labour cost-oriented interest of the operating TNCs, they so design the nature and scope of their industrial activities in the zone as to concentrate only on the most labour-intensive stages of production so that hardly any 'technological spin-off' is likely to occur'.
- b) 'the zone leads to a total dependence of the companies operating there on foreign market conditions - sometimes single markets at that - without the cushioning effects of a local market : that, as a result, at times of recession in the developed countries, this can lead to significant retrenchment of labour, with all its adverse social and economic effects to the persons involved and to the economy'.
- c) 'that the danger of exploitative labour practices being followed by the foreign companies in the zone is a real one, and that even with a strong cordon sanitaire around it, the products made in the zone are likely to be smuggled into the domestic economy, particularly because of the price differentials involved and the ready availability, and that this will result in a climate favouring such economic malpractices'.

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(28) US\$ 1-3 daily

(29) United Nations Conference on Trade and Development  
"Electronics in Developing Countries"  
TD/B/C 6/34 December 1978

## CONCLUSIONS

What must be asked is, could wages in the zones in all fairness be higher without endangering employment ? And could normal working hours be worked without excessive compulsory overtime, and without endangering employment ?

I suggest that the answer to these two questions is 'Yes'. But long hours and low wages apply because in the FTZs profits are given over-riding priority over people.

What can be done ? Firstly, pressures must be brought upon the companies concerned and the governments that connive at, and even encourage the exploitation. Governments should establish and impose minimum wages and working conditions that reflect the ability to pay and insist as a condition for establishment in FTZs that trade unions be allowed.

A Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy was adopted by the Governing Body of the ILO in November 1977, representing a consensus formulated by governments, employers and trade unions who are members of this tripartite U.N. Agency, which emphasized the positive contribution that MNCs can make to economic and social progress and which sought to resolve difficulties to which their operation may give rise.

A follow-up procedure now exists by which the Governing Body of the ILO can examine complaints regarding contravention of the Declaration by individual MNCs.

The trade union recognize that the ILO Declaration Concerning MNEs establishes a framework of principles which MNCs should respect. This represents a progress compared to a situation where no such rules existed but unions have consistently urged the need for binding international rules concerning MNCs. In fact, the only existing institution in which such rules may be established is the EEC. Whether one likes the EEC or not, this is a fact of life. It is almost inconceivable that legally binding international rules concerning MNCs will emerge from OECD, ILO or the UNO.

But precisely, because of the international character of MNCs even the most stringent national laws are often ineffective as the Badger and other cases powerfully demonstrate. To deal with international companies, international laws are necessary. The experience in OECD, ILO and UN shows how difficult it is to secure international rules - let alone laws or binding rules.

Secondly, observance of ILO standards should be insisted upon in international trade negotiations.

The Second ILO Tripartite Technical Meeting for the Clothing Industry, which met in Geneva from 23rd September to 2nd October 1980 adopted the following resolution :-

'Noting the information contained in the general report (Report I) prepared by the ILO, regarding the rapidly changing patterns of international trade in the industry and the wage levels and working conditions which continue to exist in some countries, and the importance of avoiding unfair

international trade,

considering that the following basic principles should be promoted by all countries, and effectively observed in the clothing industry : freedom of association and the right to organise and bargain collectively, equality of opportunity and treatment, and equal remuneration for work and equal value at the national level, secure and freely chosen employment, conditions of work which ensure an adequate standard of living and a just share of the fruits of progress to all, the protection of the workers' health and safety;

adopts this second day of October 1980, the following resolution :-

The Second Tripartite Technical Meeting for the Clothing Industry invites the Governing Body of the International Labour Office :-

- 1) to appeal to all states, with a view to achieving a greater measure of respect for these principles, effectively to observe in particular the standards contained in the following relevant ILO instruments : Convention N°87, 98 and 135 (Freedom of Association and the Right to Organise and Bargain Collectively), Convention N°111 and 100 (Equality of Opportunity and Treatment and Equal Remuneration), Conventions N°131 and 132 and Recommendation N°116 (Minimum Wage Fixing and Working Time), Recommendations N°119 and 122 (Security of Employment), Conventions N°81 and 119 and Recommendation N°97 (Labour Inspection and Safety and Health of the Workers) and Convention N° 102 (Social Security);
- 2) to invite the Director-General to draw the attention of other international and regional organisations, in particular UNIDO, GATT and UNCTAD, to this resolution'.

Thirdly, observation by investors of the ILO Declaration of Principles Concerning MNCs and Social Policy should be laid down as a condition for investment in FTZs. In particular the chapters on employment (pp.8-9) training, conditions of work and life, safety and health and industrial relations (pp.10-13). It should be open to countries that import goods from other countries which do not observe these minimum conditions to limit such imports until such time as a remedial action is taken. This should be provided for in a clause in GATT.

Some people belittle the idea of a social clause, which is now making slow progress. But the alternative is increased protectionism to prevent the continued advance of de-industrialization and unemployment in developed countries. In any case, the idea of international fair labour standards for companies engaged in international trade has already secured widespread acceptance. (ILO Resolution just referred to).

Fourthly, it is of vital, indeed of primary importance, that workers should be enabled to organise in free trade unions.

It is sometimes argued that it is difficult to prove that it is the lack of trade union rights that has enabled FTZs firms to exploit workers so mercilessly. One has to ask :-

'If unions do not lead to higher wages and better conditions, why do many employers adamantly oppose them ?'

Fifthly, Governments should appreciate that usually the only substantial element in added value that remains in the country, after tax and other concessions have been made to the firms concerned, is the wages received by the workers.

'The evidence from EPZs in developing countries indicates that the wages paid to the production workers in the EPZs account for the major proportion of domestic value added in EPZs exports, and, consequently, for the major proportion of the host country's foreign exchange earnings derived from the EPZs activities (30)'

Therefore, governments should facilitate the operation of Free Trade Unions in Free Trade Zones so as to ensure that more of the added value stays in the country.

The ITGLWF's Third World Congress in 1980 adopted the following Resolution :-

'ITGLWF calls upon ILO to use every means to promote the full application of the Tripartite Declaration in the Free Trade Zones and World Market Factories,

Requests the ILO to :-

- a) undertake detailed studies to examine the wages and conditions of workers in Free Trade Zones and World Market Factories with a view to securing working conditions comparable to those applicable in the home countries of the MNE concerned and wages which reflect the profits made in the host country'
- ILO is doing this.
- b) review urgently the application in the Free Trade Zones and World Market Factories of the ILO Declaration of Principles Concerning MNEs and Social Policy,
- c) press UNIDO to insist upon the application of the Declaration in all programmes for which they are responsible, and
- d) urge the World Bank not to make loans to countries that fail to respect the Declaration'.

(30) UNCTAD : Export Processing Free Zones in Developing Countries - Implications for Trade and Industrialization Policies, January 1983 (P.21).



At its Conference in June 1981, TWARO endorsed the International's stand and adopted a Resolution on FTZs in Asia :-

'While recognizing that through FTZs, governments seek to encourage exports and provide jobs for the abundant manpower available, and while agreeing that these are desirable objectives, in fact, FTZs create sweatshops, hamper the achievement of human dignity and promote exploitation by multinationals. The countries in which FTZs are established have benefited very little, after providing considerable concessions to the investing firms, since the only added value that stays in the country is principally in the form of very low wages'

'Conference therefore considers that the situation in FTZs needs immediate measures to safeguard the rights of workers to organise free trade unions, with freedom of collective bargaining, and recommends that no effort should be spared in remedying the alarming situation in which workers are treated by the multinationals and domestic firms as mere instruments of production'

'Therefore, Conference urges the following measures :-

- a) endorsing the Resolution on the FTZs adopted by the last World Congress of our International Federation in Vienna, Austria, in 1980, Conference urges that all affiliates of the ITGLWF in Asia seek the implementation of the Resolution and in particular the application of the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy,
- b) the trade unions should exert pressure on all decision-making bodies in their respective countries to eliminate the restrictions on unions in the FTZs and discourage the establishment of further FTZs without consultation with trade unions (See ILO Declaration).
- c) conference is of the view that, unless trade unions secure close co-operation among themselves to adopt policies to check the adverse effects on the rights of workers in FTZs in Asia, they will not be able to eradicate exploitation by multinationals and domestic firms in the FTZs. Therefore, more details about the activities of the FTZs in our region should be collected with the help of affiliates for future guidance of all concerned,
- d) TWARO should find ways of helping affiliates to organise trade unions in both multinationals and domestic firms in FTZs so as to ensure the improvement of the employment conditions including wages, hours and guaranteed rights,
- e) conference requests affiliates of ITGLWF in home countries of the MNCs to exert pressure on their head offices so as rapidly to improve the wages and conditions of employees in FTZs,
- f) finally, Conference insists that the Multifibre Arrangement (MFA) should include a social clause which would compel countries engaging in international trade to recognize the fundamental human right to associate in free trade

unions, ratify ILO Conventions and promote the regular improvement in working conditions and social standards'.

I hope I have convinced you that it was not a misuse of words to describe FTZs as 'Sweatshops in the Sun' as ITGLWF and TWARO did and that action is urgently needed.

As to whether FTZs are 'Spearheads of Industrialization' I will leave that to the other lecturers to deal with.

A few concluding points :-

- 1) ILO and ARTEP should be requested that discussion of their reports on FTZs should include trade unions.
- 2) ITGLWF has requested ILO to organise a seminar on its FTZ reports.
- 3) ARO-ICFTU should request that FTZs should be placed on the Agenda of the next Meeting with Asian Ministers of Labour.
- 4) We should urge discussion on FTZs at an early annual ILO Conference."

#### Abbreviations

- ILO-ARTEP : Asian Regional Team for Employment Promotion  
ARTEP is responsible for implementing the Asian Employment Program, part of ILO's World Employment Program.
- UNCTAD : United Nations Conference on Trade and Development.
- EPZ : Export Processing Zones
- FTZ : Free Trade Zones

EPZ and FTZ are often used interchangeably, e.g. the World Export Processing Zone Authority defines an Export Processing Zone as :- 'All government authorized areas such as free ports, free trade zones, custom free zones, industrial free zones or foreign trade zones, or any other type of zone as the Council may from time to time decide to include'.

Development of Industrial Relations in South East Asia  
by Mr Hiroaki Washio, Senior Researcher, Economic Co-operation  
Department, The Institute of Developing Economies (Japan)

My paper contains four parts: (a) A brief survey on the background of industrial relations in South East Asian countries; (b) An analysis on the logic of modern factories; (c) An analysis of the causes of labour disputes; and (d) Some discussions on the improvement of industrial relations.

(a) A brief survey on the background of industrial relations in South East Asian countries

Historically, the character of industrial relations in South East Asian countries is different from country to country. Malaysia and Singapore are very much influenced by British industrial relations and labour legislation through many years of history.

The Philippines is very much influenced by the American industrial relations system and labour legislation.

Indonesia and Thailand are a little different from the other three countries. In Thailand, the first labour legislation was introduced in 1958 and it very much restricted the labour movement until the 1970s. In Indonesia, the labour legislation is not comprehensive. Trade unions were recognized only in the 1970s in Indonesia.

So these historical characters influence to a great extent, the present day trade union movement and also workers' and managers' relationship in the workplace. In the South East Asian countries there was an upsurge of trade union activities in the late 1960s because it was around this time too that manufacturing industries were set up in this region. So after the 1960s wage-earners began to increase steadily in these countries. There was also a rapid migration of labour from the rural areas to the urban areas. So in the 1970s we could also see a phenomenal growth in the population of urban areas of most of the South-East Asian countries. Of course, the population growth cannot be attributed to the establishment of industries alone. The conditions prevailing in the rural areas too must be taken into account. However, it can be said that one of the major reasons for the growth was the establishment of many enterprises in the urban areas.

The increase in wage earners, especially in the manufacturing industries, is an important factor for the growth of the trade union movement. So the 1960s and 1970s could be said to be a period of great expansion for trade unions in the Asian countries. For example, in the Philippines, Indonesia and Thailand, there was a rapid increase in the number of textile, metal, and automobile workers. With the influx of capital from developed countries, it also became necessary for trade unions in South East Asian countries to exchange information and experiences with trade unions in Japan and the European countries. So the exchange of information and experiences at the workplace of these manufacturing industries developed very rapidly.

With the growth of trade unions in these countries, frequent amendments to the labour laws seem to be a common phenomenon. In 1974, major amendments were made to the Philippine Labour Code Qualification. In 1972 and 1975, Thailand enacted major labour laws and regulations concerning Industrial Relations. Singapore and Malaysia too have often amended their labour laws and regulations.

The administration of labour has also changed quite rapidly in these five countries. For example, in Singapore the National Wages' Council was set up to control or influence wage determination. In Thailand an overseas employment service was set up with many offices - both in the metropolitan and up-country areas. The minimum wage laws of Thailand and Indonesia are also new developments. These new developments have a great influence on the labour movements in the Asian countries.

The majority of the industries being set up in the South East Asian countries are light industries characterized by modern mechanical automation systems requiring very simple manual labour and not complicated or skilful labour to operate.

Another characteristic of the industries being set up in the South East Asian countries is their joint-venture nature. They are either joint ventures or subsidiaries of MNCs (or both).

The above-mentioned characteristics have influenced to a great extent the trade union movement and industrial relations in these countries. The factory system consists of a combination of a small number of highly qualified technicians with manual labour. This means that there is no need for semi-skilled workers. The technicians or managers can supervise every part of the factory and maintain the flow of production. This characteristic is to be found in textile garment and electronic factories. Historically, we understand that workers who began at the bottom had the opportunity to rise higher through the promotion process. But nowadays this is no longer the case.

Production processes in most factories embrace the raw material stage to the finished product stage. That being the case, if there is some interruption in one section, the entire production process comes to a grinding halt. This is a new character of modern factories.

Factories can be established anywhere under certain conditions which means that companies have the right to select factory sites. If conditions are not favourable in one country, they will move on to another country. As a result, companies are in an advantageous position over workers, when it comes to industrial relations.

In most of the joint venture companies, the work system and management policy are quite foreign. As local workers are not familiar with the ways of foreign management, this too gives rise to industrial disputes.

Communication problems between foreign managers and local workers do exist. E.g. in Japanese joint venture companies, the Japanese staff are not familiar with each host country's language, customs, habits and living conditions of the workers. So many misunderstandings arise in the process of negotiations.

In my survey, I found many cases where conflicts had arisen through the communication gap. Trade unions have to actively search for solutions to problems that arise as a result of this.

Next is the decision-making process. Decisions pertaining to factories are not being made in the factories themselves but in the main offices overseas. E.g. in Japanese joint venture companies, many management policies are made in Japan. The situation is the same with European firms too. These MNCs have one world-wide management policy. For example, how much should be produced in the countries in which they operate is decided upon by the head office.

Now we move on to the analysis of the logic of modern factories. In ASEAN countries, modern factories and their development is very much dependent on the MNCs. So the motives of these MNCs are multifold. I wish to pinpoint only four.

To seek a cost saving production site. For example, in Japan labour and land cost increased tremendously in the 1960s and 1970s. Therefore in order to get cheaper labour and production sites, Japanese companies began to seek opportunities overseas.

Another motive was to increase their market share in the countries in which they invest. For example, the textile and automobile industries in the ASEAN countries.

The third motive for investment is the market share increase policy. By investing in the ASEAN countries the MNCs get a chance to export more to the developed countries by utilising the quotas allotted to the developing countries.

The fourth motive is the increased export of equipment and industrial parts from advanced countries to developing countries.

The conditions under which MNCs seek to improve their profit/loss balance are as follows:

- (a) Consecutive and stable bringing in and taking out of raw materials and products. If there is some interruption in the intermediate process, it is easy for the factories to be damaged. The setting up of EPZs is to meet this need of MNCs.
- (b) A stable supply of energy, i.e. electricity, petroleum etc. is an important condition for setting up factories. If there is no stable voltage of electricity, the quality of manufactured goods suffers. If there are shortcomings in the supply of electricity, each factory has to install its own generator. If there is a drop in the supply of electricity, the machines will also not work properly.
- (c) Good infrastructure for industry like electricity, petroleum, roads, harbours, ships, hospitals, schools for the workers and their children.

- (d) Increase of productivity ratio in any field. The productivity ratio can be calculated in many ways, by time, input cost per capita labour and invested capital. These modern factories are very concerned with each productivity ratio.
- (e) Modern factories are concerned with time saving at every process of production. Workers who are not that time-conscious in their everyday life find it difficult to adjust to strict time-keeping at the factories.
- (f) The next is financial constraints. The modern factories exist in a very competitive situation in each country and also in the world market.
- (g) Tax constraints. MNCs seek countries with favourable taxation and also wage cost saving.
- (h) MNCs are concerned with the speed with which governments of the host countries process their requests. MNCs are afraid whether they would be permitted to install new machinery and increase their production capacity. MNCs also want to know whether foreign advisers would be granted work permits easily. They are also concerned with the political stability of the country. They are very much afraid of coups d'etat and are reluctant to invest in politically unstable countries.

If the above conditions are met, MNCs prefer to invest in:

- (1) Industrial Estates in the metropolitan areas because of the readily available infrastructure, labour and closeness to seat of government.
- (2) Special Industrial Zones like the EPZs in Bataan, Philippines and Bayan Lepas, Malaysia. In these special industrial zones, government prepares the necessary infrastructure and many concessions are given to the factories that invest.

The important question is whether factories can survive with only this protection and concessions? I wish to say "NO", because without workers' support, the everyday performance in the factories cannot be maintained.

One of the main areas of labour disputes in ASEAN countries occur on matters not within the ambit of industrial relations (industrial disputes). It is transformation of society and transformation of everyday activities of workers. When the workers move from the traditional community (rural households) to modern factories they experience a complete change in circumstances. The traditional character of agricultural work which places emphasis on relationships with neighbours changes in the factory system. The factory system is very time-saving, cost-saving and organised and systematic living is needed. So the thinking, habits and activities are quite different from traditional society.



Sixty to seventy percent of labour disputes arise out of this friction of traditional community and company discipline. But in the last ten or twenty years, through experience, this problem is slowly being overcome.

Next is the problem of communication and mutual understanding. The thinking of the foreign manager and the worker is different. As such there is a communications gap. When we talk about the work time or salary or fringe benefits, there are big differences which cause labour disputes.

Then there is a problem of human relations, e.g. whether there is personal liking or hatred between the section chief and workers.

Problems do arise if there is a lack of on-the-job training or industrial safety education. If there is enough of these, many industrial accidents which give rise to industrial disputes could be avoided.

Next are problems that arise from employment contract clauses. In some factories, they have detailed contract clauses which when misread or misunderstood, give rise to industrial disputes. It is always advisable to have as simple a contract as possible.

Sometimes delays on the part of government give rise to industrial disputes.

#### Recommendations for the Development of Sound Industrial Relations

It is important to develop mutual understanding between employees and management. Through meetings, experience is gained, communication, adaptation to factory work, understanding of customs and dos and don'ts are developed.

Workers must know themselves for their own autonomy. In order to strengthen their bargaining position, the trade unions must undertake household surveys on workers and surveys on the basic needs of workers. Unfortunately, in ASEAN countries, labour unions do not undertake these surveys. It is advisable to conduct such surveys at least once a year.

Next, trade unions must maintain a constant check on working conditions and constantly keep track of management's activities. If such a check is not maintained, management will do as they please.

Information exchange with other trade unions and international organisations is vital for effective collective bargaining. In order to bargain effectively, it is important to know the strength of the adversary.

It is also important to study the government's manpower policy.

The economic situation of industries must also be studied. MNCs, especially, influence the world economic situation very much. Workers' well-being depends very much on the world economic situation.

Rules on industrial relations, collective bargaining, workplace activity and employment contracts etc. must also be established. Having such rules would minimise labour disputes.

Rudy Maex - Free University of Brussels:

#### Employment and Multinationals in Asian Export Processing Zones\*

##### The Role of Export Processing Zones

Historically speaking, Export Processing Zones (EPZs) are a further development of the free ports which were established during the colonial era in order to encourage entrepot trade. EPZs(1) differ from the free ports mainly in allowing also industrial activities to be undertaken within the boundaries of the zone.

Basically, an EPZ could thus be described as being a relatively small, geographically separated area within a country, into which certain types of goods, either in the form of raw materials, component parts, semi-finished or finished products, can be brought without the payment of customs duties. After the goods have been assembled, processed or manufactured, they can again be re-exported without payment of duties.

Manufacturers wishing to establish themselves in these zones are usually provided with various fiscal and physical incentives. These include among others, well-developed infrastructural facilities, such as land, electrical power, telecommunication systems, water, sewerage and buildings; fiscal concessions and subsidies, of which tax holidays are most important; and the absence of restrictions of foreign ownership, foreign exchange and repatriation of dividends. Even though every country has its own peculiarities, for example, regarding the permission of sales to the domestic market(2), the admission of local investors in the zones(3) and the facilitation of purchases of locally

\* The present paper is a summary of a study written by the author while he was a staff member of the Asian Regional Team for Employment Promotion (ARTEP) of the International Labour Organisation. The author draws extensively on the findings of the ARTEP field work for the research project on EPZs. Additionally a number of field investigations were undertaken to enlarge the data base for this present study.

- (1) Several other designations are also in use for the same phenomenon - allowing for some variations. These include the terms free export zones, free industrial zones, free trade zones, export industrial zones, investment promotion zones, special economic zones, in bond zones, etc.....
- (2) In some countries, local sales are not allowed, in others (such as Malaysia and the Philippines) they may go up to 10 or 30 per cent of total sales.
- (3) In the Republic of Korea and in Pakistan, domestic ownership is restricted to joint ventures. In the Philippines, Sri Lanka and Malaysia, entirely locally owned firms are also allowed in the zones.

produced raw materials free from export duty(1), the incentive package offered to potential investors differs very little from country to country and follows very much international guiding recommendations.

Also the type of industrial production found in EPZs is almost identical across countries. Indeed, practically every industrial venture located in an EPZ can be described as being labour-intensive, relying predominantly on foreign inputs (capital, materials and managerial skills), and on the export market for the sales of the bulk of its output. The range of products manufactured in the zones is restricted and manufacturing activities are confined to the assembly or simple processing of imported components. The similarity of the zones located in a great variety of countries is striking. But it can be argued that it is precisely the role of the zones to eliminate country specific differences which may constitute an obstacle to the particular type of foreign direct investment for export-manufacturing which is often referred to as "offshore production" or "worldwide sourcing" by MNEs. The attraction of offshore production for MNEs in Third World countries is primarily connected with their vast reserve of comparatively cheap and sufficiently skilled workers for labour-intensive assembly and simple processing(2). Offshore production is therefore widely practised in sectors where technological change allows the production process to be fragmented into a labour and capital-intensive production phase.

Of course, production processes which are labour-intensive from start to finish, also qualify for location in EPZs. In the latter case, the whole manufacturing process may be moved to EPZs. By localising the different phases in developing and industrialized countries respectively, use can be made of the comparative advantage of each type of country, i.e. relatively cheap labour in developing countries for the labour-intensive phases, and advanced methods in the industrialized countries for the skill-, technology- and capital-intensive phases.

The sectors where sourcing by MNEs in the Third World is most common are the electronic and electrical industries and certain segments of the textile-related industry. These account, on average, for more than half of all the exports of manufactured products from the developing market economies in South and East Asia as is shown in table 1.1. There are variations, however, as regards the composition of these sectors. Thus, textile fabrics and clothing account for more than 40 per cent of the export earnings from manufacturers in Hong Kong, India, the Republic of Korea, Macau, Pakistan, Sri Lanka and Thailand.

- (1) In Sri Lanka, utilisation of local raw materials was one of the explicit objectives for opening up the EPZ in Katunayake.
- (2) F. Fröbel, J. Heinrichs and O. Kreye: The New International Division of Labour (Cambridge, Cambridge University Press 1980) p. 303 J.M. Finger: 'Tariff-Provisions for Offshore Assembly and the Exports of Developing Countries', The Economic Journal (Cambridge, Cambridge University Press) June 1975

Electrical machinery is relatively important (more than 10 per cent of the earnings) in Hong Kong, Republic of Korea and Thailand, and very important (more than 35 per cent) in Malaysia and Singapore. Electronics and textile products are also the main output in the export processing zones. Other miscellaneous light manufacturers, such as sports goods and toys are also significant.

Of course not all of this manufactured production is accounted for by MNEs and only part of it occurs in Export Processing Zones. Especially in the textiles and garment industries using technologies which are easily accessible to firms from the Third World, a significant portion of the total output is produced by domestic enterprises. Still, for these firms the marketing is very often controlled by great multinational trading groups, such as Sears Roebuck, J.C. Penney, Montgomery Ward and a considerable number of other - mostly Japanese - trading companies(1);

While much of the production for manufactured export goods is still undertaken by domestic and multinational firms outside EPZs, there has been a steady rise in both the number of zones and the number of multinational plants located in them(2). By 1980, 53 export processing zones had already been established in about 30 developing countries(3).

In developing South and East Asia, by late 1981, about 25 zones were operational in 7 different countries as can be seen together with further details from the table in Annex 1. More than one third of the zones in developing South and East Asia were located in Malaysia. Among the other countries with more than one zone in operation were China 4, the Philippines 3, the Republic of Korea 3, India 2, and Taiwan 3. By the end of 1982, five more EPZs were scheduled to commence operations, two in the Philippines, one in Pakistan one in Indonesia and one in Thailand. At least another 25 were in various stages of planning and implementation(4).

- (1) R.T. Snow: 'Multinational Corporations in Asia, The Labour Intensive Factory', The Bulletin of Concerned Asian Scholars, Vol. II, No. 4, 1979, p. 27
- (2) The relative importance of offshore investment in MNCs in EPZs in comparison to total multinational investment varied widely from country to country. In Malaysia, up to 1978, the paid-up foreign capital in EPZ enterprises accounted for 17.6 per cent of the total paid-up foreign capital in all MIDA-approved industrial ventures. In the Philippines, on the other hand, from 1970 to 1979, only 1.5 per cent of the total inwardly remitted equity capital went to EPZ firms. Finally, in Sri Lanka, in 1979 and 1980, private investment inflows in the EPZ enterprises were 3.5 times higher than the private investment inflows in industrial and trading ventures outside the EPZ.
- (3) J. Currie, Investment: The Growing Role of Export Processing Zones, The Economist Intelligence Unit, London 1979
- (4) Of which 13 in the Philippines and 5 in Malaysia.

Table 1.1

Percentage Share of Textile Fabrics and Clothing and  
Electrical Machinery in Total Exports of  
Manufactured Goods, (a) Selected Years, Selected Countries

Year	Country	Textile Fabrics & Clothing(b)	Electrical Machinery(c)	Textile Fabrics, Clothing and Elec. Machinery
1977	Hong Kong	48.2	15.2	63.4
1976	India	47.8	3.5	51.3
1979	Rep. Korea	44.6	12.6	57.2
1976	Macau	93.8	0.6	94.4
1980	Malaysia	13.3	45.9	59.1
1977	Pakistan	56.5	0.1	56.6
1980	Philippines	35.6	1.6	37.2
1979	Singapore	7.2	36.1	43.3
1977	Sri Lanka	54.0	0.5	54.5
1977	Thailand	44.4	11.2	55.6

Notes: (a) Standard International Trade Classification (SITC)  
5 to 8 minus SITC 68 (Non ferrous-metals)

(b) SITC 65 + 84

(c) SITC 72

- Sources: 1. United Nations: Handbook of International Trade and Development Statistics, 1979
2. Malaysian Industrial Development Authority (MIDA): Annual Report 1980, Kuala Lumpur, 1981
3. Central Bank of the Philippines: Statistical Bulletin 1980, Manila, 1981
4. Central Bank of Ceylon: Review of the Economy 1980 Colombo, 1981
5. Department of Statistics: Yearbook of Statistics 1981/1982, Singapore, 1982

Also in Hong Kong and Singapore, a vast number of industrial areas can qualify as EPZs. Hong Kong and Singapore are indeed free ports by themselves, that is the entire territory functions as a free trade zone. Therefore, the industrial sites located within these countries fulfil basically a similar function as the specific EPZs in other countries.

The increasing importance of the export processing zones in developing Asia should however not only be judged from the increase in the sheer number of zones. A certainly more precise indicator of their importance is the relative share of zone exports in the total exports of manufactures of these countries. Thus, in the Republic of Korea, FTZ exports accounted in 1979 for 4.5 per cent of total exports of manufactures. In Taiwan, in 1979, the percentage was 9.6 per cent. In the Philippines and Sri Lanka, in 1980, EPZ exports accounted for 12.3 and 25.8 per cent of total exports of manufactures and in Malaysia, in 1979, for 40.9 per cent. Finally, labour-intensive offshore production by MNEs accounted for roughly 10 per cent of the manufactured exports in Hong Kong and for 40 per cent in Singapore(1).

It would appear from these figures that except for Singapore, EPZs were relatively more important in countries which have advanced less on the road of export-led industrialisation or may not even have opted for this as their major orientation. Sometimes, the establishment of EPZs may indeed have been the first in a series of steps planned in order to boost exports of manufactures in general. By creating EPZs, national authorities in some countries may have intended to overcome for a small segment of the economy existing institutional and factual export barriers. In particular, protection for industry on the local market seems to act frequently as a disincentive to the growth and diversification of manufactured exports from the country. The elimination of such export disincentives, for the whole of the economy, might have led to resistance from the local entrepreneurs. On the other hand, experience has shown that the creation of an EPZ has hardly ever run up against organised resistance from manufacturing entrepreneurs. Despite the creation of an EPZ, the rest of the economy might indeed remain completely untouched. If desired gradual reforms could then be introduced for an eventual reorientation towards exports from the rest of the economy.

This latter scenario appears to have been followed in Sri Lanka. An EPZ was installed here at the very beginning of the liberalisation of the exchange system(2). In another case, Malaysia, where most of the EPZs have now been in existence for about 8-10 years, the government has still maintained much of the old regime outside of the export processing zones. This has been confirmed by a recent World Bank study which noted that much

(1) Business Week predicted that by 1985 about 20 per cent of world trade will pass through EPZs. This statement was based on a forecast by an American consultancy firm: see Business Week 12 November 1980, quoted from the EPZA-Newsletter, Vol. II, No. 4, Manila 1980.

(2) No full trade liberalisation has taken place, however. Thus all textile imports are still banned.

of the incentive system in Malaysia still works with an anti-export trade bias(1). The only countries where exporting by domestic manufacturers has clearly become as inducive as producing for the local market are the few leading exporters in the region including Taiwan, Hong Kong, the Republic of Korea and Singapore. As mentioned before, it is hard to make a neat functional distinction in Hong Kong and Singapore between EPZs and industrial estates in the rest of the country - if at all possible. In the Republic of Korea, a larger economy than that of the two other mentioned leading exporters, export incentives have been widely spread over the whole economy and as a consequence, export industries there have tended to disperse away from the zones.

In summary, therefore, EPZs have served very much as an instrument of transition to attract MNEs to export manufacturing. Sometimes, the creation of the zones is an isolated export effort by governments. More usually, however, EPZs appear as parts of a major reform programme aimed at boosting the exports of manufactured products for the whole economy. In both cases, governments expect that the EPZs will significantly contribute to the fulfilment of various development objectives including the creation of new jobs, the training of skilled workers, an increase in foreign exchange earnings and the transfer of technology.

(1) World Bank: Malaysia's Manufacturing Sector - Development Issues and Options, Vol. II (Washington, 1981), p. 69

## The Employment Effects of Asian EPZs

### 1. The Structure of Investment in Asian Export Processing Zones

From the earlier analysis, it is not surprising to find that most enterprises located in EPZs are either completely foreign-owned or take the form of joint-ventures between local firms and foreign MNEs. This is also the case in the Asian EPZs. Only in India, the Philippines and Sri Lanka, the percentage of wholly domestically owned, enterprises is rather significant.

As far as the nationality of the investors is concerned, the picture differs clearly from country to country. This is due to differences in geographical or ethnic relationships (the latter being especially important for overseas Chinese capital), etc. In the Philippines, for instance, the bulk of foreign investment came from the United States (30 per cent). In Sri Lanka, on the other hand, Hong Kong was the most important investor as far as the number of firms with foreign equity is concerned. Finally, in the Republic of Korea, Singapore and Malaysia, the largest in number were the Japanese investors.

With regard to the sectoral distribution of EPZ enterprises, the picture is far more homogeneous. This is illustrated in table 2.1. It shows that in 1978 and 1979, only two industrial sectors accounted for precisely 80 per cent of the total number of establishments in the EPZs of Malaysia, Sri Lanka and the Philippines. These sectors were textiles, woven apparel and leather industries (ISIC 32) and fabricated metal products and machinery and equipment (ISIC 38) further referred to as "engineering industries".

The specific products most frequently manufactured in the EPZ enterprises were semi-conductors, radios and various kinds of garments.

### 2. The Direct Employment Effects of Asian EPZs

Compared to the total labour force and employment of the region, the number of workers employed in the Asian EPZs is still very small. In 1980, direct employment in these zones was approximately 500,000. Table 2.2 shows how this was distributed between countries. Almost 50 per cent of this total employment in Asian EPZs was situated in only two countries, viz. Singapore and the Republic of Korea. Other countries with comparatively high employment numbers in EPZs were Malaysia and Hong Kong.

In relation to total employment in the organised manufacturing sector the impact of EPZs varied from country to country. In Singapore, one third of the workers in organised manufacturing were employed in the EPZ type of industries. As a very high percentage of Singapore's total labour force (27 per cent) is found in manufacturing, EPZ employment provided the livelihood for a substantial part of the working population namely some 10 per cent. None of the other countries equalled this percentage. In Peninsular Malaysia, 23 per cent of manufacturing employment was

provided by EPZs and total manufacturing employment accounted for only 10 per cent of the total labour force. EPZs contributed thus to about 2 per cent of overall employment. In Hong Kong and the Republic of Korea - two countries which similar to Singapore - are highly industrialised (manufacturing employment accounting for 46 and 23 per cent of the total). EPZ employment represented less than 1 per cent of total employment in the first case and some 4 per cent in the second. This is due to the fact that these countries rely for their export-manufacturing less on foreign direct investment than various other countries of the region. Finally, in India, the Philippines and Sri Lanka the contribution of EPZ employment to total manufacturing employment ranged from 7.6 per cent to 0.1 per cent. EPZ employment thus constitutes only a minor fraction of the total labour force in these countries. While, therefore, in 1980 in both absolute and relative terms, the role of the EPZ employment was small in most Asian countries, EPZ employment was a dynamic and significant factor for several countries in the region in terms of its contribution to the growth in new job opportunities. Since their establishment EPZs have accounted for at least 60 per cent of the manufacturing employment expansion in Malaysia and Singapore and for about 10 per cent in Hong Kong, the Philippines and the Republic of Korea.

Taking account of the ownership patterns and sectoral distribution of EPZ enterprises discussed before, it is obvious that most of the employment creation in EPZs was induced by investment from foreign MNEs. Owing to the heavy concentration of EPZs on relatively few industries MNE investment in these zones was, therefore, an important factor for new job opportunities in such sectors as electronics, textiles and clothing. According to a UNIDO estimate about half of the Asian EPZ workers were employed in electronics factories(1), a sector of considerable MNE penetration. As could be expected from the sectoral distribution of enterprises (Table 2.1), EPZ-based electronics and garment/textile enterprises taken together accounted in the three countries - Malaysia, Philippines and Sri Lanka - for at least 2/3 of total zone employment, and a similar pattern can be assumed also for other Asian countries (Table 2.3). It is, however, interesting to note that the relative employment importance of both sectors varied widely. Some zones of countries were more specialised in electronics with a corresponding high employment share, others showed a heavy employment concentration in garments and/or textiles. In Malaysia, electronics accounted in 1979 for 75 per cent of zone employment, and garments only for 3 per cent. In Sri Lanka, on the other hand, in 1981, the relative contribution of the two sectors was 2 and 90 per cent respectively. Garments predominated as the sector of greatest EPZ employment also in other Asian low-wage countries such as the Philippines and Bangladesh.

(1) UNIDO: Export Processing Zones in Developing Countries, (Vienna, 1980) p.8

Table 2.1  
Sectoral Distribution of Zone Enterprises in  
Malaysia, the Philippines and Sri Lanka

ISIC Group	Total	Malaysia (1979)	Philippines (1980)	Sri Lanka (1981)
11 Agriculture	1	-	-	1
31 Food, beverages & Tobacco	4	1	1	2
32 Textiles, woven apparel & Leather industries	60	11	27	22
33 Wood & wood products	4	1	2	1
34 Paper, paper products printing & publishing	1	-	1	-
35 Rubber & plastic products	11	2	5	4
36 Non-metallic mineral prod.	1	-	1	-
38 Fabricated metal products, machinery & equipment	80	55	24	1
39 Other manufacturing industries	11	4	6	1
63 Restaurants & hotels	1	-	-	1
	<hr/>	<hr/>	<hr/>	<hr/>
	175	74	67	34

- Source: 1. Sri Lanka: Information provided by Greater Colombo Economic Commission (GCEC).  
2. Philippines: Export Processing Zone's Authority (EPZA), Annual report.  
3. Malaysia: Information provided by Malaysian Industrial Development Authority (MIDA).

Table 2.2  
Employment in Asian Export Processing Zones

Country	Employment	(Year)	Percentage of Manufacturing Employment(a)
Hong Kong	70,000(b)	(1979)	8.0
India	3,100	(1980)	0.1
Malaysia	73,100(c)	(1980)	23.4
Rep. Korea	121,700(d)	-	5.1
Philippines	22,800	(1980)	3.2
Singapore	105,000(e)	(1980)	35.7
Sri Lanka	14,700	(1981)	7.3
Taiwan	80,200	(1979)	3.9

- Notes: (a) In organised sector  
 (b) Employment in wholly-foreign owned firms only.  
 (c) West Malaysia  
 (d) 31,000 in two EPZs (1979) plus 80,000 in seven export industrial estates (1975).  
 (e) Estimate of employment in EPZ type of industries (export-oriented, foreign owned firms in textiles, garments, electronics, etc).

Source: Table 1 in Annex and Table 5 of ILO Year Book of Labour Statistics, 1981

Table 2.3  
Sectoral Distribution of Employment in Selected Asian Export Processing Zones

Sector	ISIC Code	Malaysia (1979)	Philippines(a) (1980)	Sri Lanka (1981)
Food, beverages & tobacco	311-312	271	156	657
Textile products	321	7,953	272	-
Garments	322	1,884	8,411	13,261
Footwear & leather products	323-324	247	1,662	-
Wood & cork products & furniture	331-332	234	349	52
Paper products	341	-	191	-
Rubber products	355	1,824	-	185
Plastic products	356	-	651	-
Metal products & machinery except electrical	381-382	1,231	-	-
Electrical machinery (including electronics)	383	51,582	2,814	291
Transportation equip.	384	221	2,066	-
Prof., scientific, measuring & controlling equip. photographic & optical goods	385	2,549	74	-
Other manuf. products(b)	390	988	3,588	235
Non-industrial activities		-	-	59
<b>Total</b>		<b>69,221</b>	<b>20,203</b>	<b>14,740</b>

- Note: (a) Bataan Export Processing Zone only.  
 (b) Such as toys and sport articles, etc.

Source: Malaysia: Calculated from unpublished data supplied by MIDA.  
 Philippines: H.L. Ngo, Policies to Attract Export-Oriented Industries: The Role of EPZs in the Philippines, Freiburg, Institute for Development Policy, 1982, p.61  
 Sri Lanka: D. Ramanayake, The Katunayake Investment Promotion Zone: A Case Study, ILO-ARTEP, Bangkok, 1982, p.46



### 3. The Indirect Employment Effects of Asian EPZs

EPZ investments indirectly affect employment in several ways although practically none of these effects can be measured in precise statistical terms and - as in the case of their direct employment effects - a complete assessment is made impossible because of the problem of evaluating the "alternative situation". Indeed, it is practically impossible to say what could have been the direct and indirect alternative employment possibilities in the absence of EPZs. Keeping these important limitations in mind it can, nevertheless, be said that the main indirect effects of EPZs are - at least in theory - the potential increase in government revenues resulting from the presence of the MNEs in the zones, the increased availability of foreign exchange, the transfer of skills and technology, the emergence of forward and backward linkages with firms located out of the zones, and the impact on firms which are directly competing with the EPZ enterprises.

On the other hand, in most developing countries, the multiplier effects induced by the industrial production of electronics, electrical machinery, textiles and garments, can be assumed to be fairly limited whether production takes place inside or outside EPZs(1). Of course, in the case of EPZs, the multiplier effects at work will tend to be even less significant because the investments take place in enclaves which are practically sealed off from the rest of the economy.

As far as government revenues are concerned, it is uncertain whether EPZs do have the potential of yielding substantial benefits, especially in the short or medium run. Public investment expenditures required to develop the necessary infrastructural facilities are usually quite massive and current incomes of the zone authorities are frequently not sufficient to cover the current expenses. In the latter case, the government usually has to pay for the deficit(2). It should be mentioned, however, that capital expenditure and operational costs of EPZs are not very different from the costs of developing and operating conventional industrial sites. Also, it is well-known that the concentration of sophisticated infrastructure in a tightly defined geographical area, such as an industrial estate on an EPZ has very substantial cost advantage as compared to the situation under which infrastructure has to be provided to industrial plants dispersed all over the country.

In the case of EPZs, however, competitive outbidding between sites gradually tends to erode the potential for recuperating some of the incurred capital expenses by the government. Indeed, in view of the increasing number of EPZ areas, EPZ authorities tend

(1) This is demonstrated for South Korea and Malaysia in J. Stern: The Employment Impact of Industrial Investment: A Preliminary Report, World Bank, Working Paper No 255, Washington 1977 p. 65-66

(2) Thus in Bataan (the Philippines), the zone has been incurring losses during all but one year since it started its operation in 1974. J. Castro, The Bataan Export Processing Zone, ILO-ARTEP, Bangkok, 1982, p.16. In Singapore, on the other hand, the operating incomes were more than adequate to meet operating expenses. Chia Siow Yue, Export Processing and Industrialisation, The Case of Singapore, ILO-ARTEP, Bangkok, 1982, p.17

to offer more and more fiscal incentives to enterprises in order to secure new investments and prevent the relocation of existing plants(1). For example, lengthy tax holidays which were initially not needed for attracting foreign investment in offshore production, have become an almost indispensable feature of the incentive structure to be offered to potential EPZ investors. For instance, in Singapore, it was found necessary to increase the original tax holiday for pioneer plants of up to five years to 10 years and the minimum amount to be committed by firms, lowered to about one million dollars in order to keep the country competitive in the struggle for foreign investment. Also other countries in the Asian region, e.g. the Philippines, recently introduced some new fiscal incentives to increase the attractiveness of their zones. Clearly some agreement on the harmonisation of tax incentives in EPZs would be in the well understood longer-term common interest of Asian countries.

Also, after the expiration of tax holidays, governments are prone to be deprived of certain incomes in the form of tax revenues. Most of the imports and exports within EPZs are intra-firm sales, and this kind of trade lends itself particularly well to the manipulation of transfer prices. Concern has finally also been voiced about the possibility of some footloose industrial plants being relocated to new offshore sites soon after the expiration of their tax holidays. Sufficient evidence by which the extent of this phenomenon could be substantiated is still lacking. Nonetheless, some of the data which were obtained for the present study (of which this paper is a summary) about the closure of plants in four EPZs in the region, suggest that such a relocation process might indeed be at work.

It would also appear that the extensive incentive package reduces the propensity of EPZ enterprises to build up backward linkages with the host economy (which will be dealt with in more detail below). It would, furthermore, appear that strong fiscal inducement might not be absolutely essential for the creation of EPZs in cases where other strong comparative advantages exist (e.g. unused quotas for textile exports to industrialised countries).

With regard to the net contribution of EPZs to the balance of payments of the host country there is no doubt that EPZs have the potential of generating quite substantial net inflows of foreign exchange although the net contribution is usually much smaller than the gross contribution which is reflected in the increase of gross export values. EPZ firms rely heavily, as has been noted, on the imports of intermediate goods and materials and in the case of MNEs, net export earnings are even further reduced as a result of the repatriation of earnings and capital. Actually, profits and interest payments may account for quite substantial portions of the value added by EPZ firms, the latter being already at a low value. An ARTEP survey of five garment manufacturers in the

(1) F. Fröbel, op.cit. p. 389-390

EPZ of Sri Lanka showed that in 1981, 51 per cent of total value added (net production value) was accounted for by capital service (interest) and profits. Also, in Malaysia, in a case study of two typical EPZ firms in electronics and garments, profit rates on investment capital seemed very high in comparison to benefits accruing to the government and to workers(1).

The high reliance of EPZ enterprises on imports was evidenced in the ARTEP case studies of Malaysia, the Philippines and Sri Lanka. The results of these studies are summarized in Table 2.4. The table shows that the trade balances have remained low ever since the opening of the zones. Data from other zones seem to suggest, however, that foreign currency earnings may rise considerably once the occupancy rates of the zones stabilize. This is particularly true for the zones in the NICs, where the scope for purchasing local raw materials, components and parts is higher than in the industrially less advanced developing countries of Asia. This is confirmed by data on the Masan EPZ (Republic of Korea) and the zones in Kaohsiung, Nantze and Taichung. Here the trade balance of firm operations was in the order of 40 to 45 per cent of the value of total exports. Also, the import contents of initial investments in infrastructure turned out to be much lower in the EPZs of Asian NICs than elsewhere.

Import reliance is also the main explanatory factor for the finding that EPZs have little impact on indirect employment creation through forward and backward linkages with the host economy. Forward linkages, of course, are almost by definition precluded because of the very high export-orientation of EPZs. Backward linkages were also found to be restricted, at least in the 3 countries surveyed by the ARTEP. Yet, some of the available studies on EPZs in the Newly Industrialised Countries (NICs) indicate that in the long run, backward linkages may develop considerably.

Because of the nature of the zones, and the simplicity of the operations which are undertaken by its workers, the transfers of skills and technology accruing from zone production are also normally thought to be limited. Theoretically, the skills that can be learned from foreign employers may be quite important and may cover different fields such as industrial management, technology acquisition, marketing, design and product development, etc. In practice the desirable fall-out of MNEs in EPZs in the form of transferring skills is 'rather' restricted. Thus, the possibility of skill transfers is particularly hampered by the fragmentation of the production process which is usually practised by EPZ firms, and which, in the case of MNEs from the industrialised world implies that only the assembly operations are undertaken in the zone, whereas the more complex stages of production are kept in the industrialised home country. The bulk of the EPZ workers is thus engaged in simple routine operations which they can usually learn in a few weeks time. The only positive impact for the industrialisation of the host country in reform of transfers of skills may come from their socialisation to work in a modern industrial context.

(1) Mrinal Datta-Chaudhuri, The Role of Free Trade Zones in the Creation of Employment and Industrial Growth in Malaysia, ILO-ARTEP, Bangkok 1982 p. 30-32

**Table 2.4**  
Total Value of Exports and Exports Minus Imports from Zone Enterprises in Malaysia, the Philippines and Sri Lanka

Year	Malaysia (Mn M\$)		Philippines (Mn US\$)		Sri Lanka (Mn Rs)	
	(1) Exports	(2) Exports- Imports	(1) Exports	(2) Exports- Imports	(1) Exports	(2) Exports- Imports
		(2)/(1) %		(2)/(1) %		(2)/(1) %
1973			0.1	(3.1)		
1974	468.3	(89.9)	3.8	(33.7)		
1975	658.8	38.5	10.6	(10.1)		
1976	704.7	(45.4)	27.9	8.4		
1977	802.9	32.5	44.8	10.3		
1978	1,385.5	94.7	76.4	31.4		
1979	1,918.3	101.3	118.2	40.8	151.9(b)	(129.5)
1980	/	/	171.0(a)	30.5	525.9	23.5
1981	/	/	236.2(a)	62.5	569.2(c)	32.3
						4.5
						5.7

Notes: (a) Applies to three zones as compared to only one during the earlier years.  
(b) March-December 1979.  
(c) January-July 1981.

Sources: Malaysia: Lim Chui Choo, Free Trade Zones in Malaysia, Kuala Lumpur, 1980, mimeographed.  
Philippines: J. Castro, op.cit. and figures from EPZA.  
Sri Lanka: D. Ramanayake, The Katunayake Investment Promotion Zone: A case study, ILO-ARTEP, Bangkok, 1982  
Ministry of Plan Implementation, Performance Report 1980



Furthermore, transfers of technology by NICs to the domestic economy outside the EPZs seem also to have a small potential because of the weaknesses of backward linkages with domestic supplies in the majority of the cases studied.

A final topic concerns the way in which MNEs in EPZs may influence - positively or negatively - employment in those domestic host country firms which are directly competing with the EPZ firms. In the sector of electronics, there is no reason to believe that the MNEs implemented in the zones might have caused a significant loss of employment among competitors in the host economy. Indeed, the domestic enterprises in the electronics industry, if existing at all, are certainly not in a position to substitute for most of the exports by MNEs. As a rule, they will not possess the massive research and development resources, required to keep pace with technological change in this sector. As a matter of fact, several of the few local electronics enterprises which have emerged in the region, owe their very existence to the presence of MNEs, since they were created as suppliers for the MNEs of certain simple components. Zone MNEs in this case are, therefore, more likely to create than to displace a certain amount of indirect employment in the host economy outside the EPZs.

In textiles and garments the situation is quite different. Vertical integration and access to technology in this sector is not as vitally important as in electronics and, consequently, local enterprises in the developing host country may very well efficiently compete with the MNEs which are located in the EPZs. Especially in view of the fact that the export quotas of major importing industrialised countries become an increasing constraint for enterprise expansion in the Third World, it is not unlikely that certain MNEs may have managed to capture part of the market shares that would otherwise have gone to the domestic manufacturers outside EPZs. This is what has happened most probably in Sri Lanka. At the time of the establishment of the Katunayake Investment Promotion Zone, the Sri Lankan garments industry had just gone through a period of considerable growth in exports, output and employment. While quotas existed already for the EEC countries, the US market was still quota-free. Therefore, the zone authorities allowed enterprises to establish on the condition that they were prepared to confine their exports to the US and other quota-free markets. The immediate outcome was a jump in the production capacity and a dramatic expansion in the exports to the US; The reaction of the US authorities was, however, swift and by May 1980, they had also imposed quotas on the import of garments from Sri Lanka. Both within and outside the Sri Lankan EPZs, the under-utilisation of manufacturing capacity now became unavoidable. Up-to-date the situation is such that the quantities currently exported by EPZ firms under the US quotas could still easily be met with the domestic production capacity located out of the zone.

A qualifying remark might, however, be added with regard to the potential difference in value added between EPZ firms and the domestic firms outside the zones. The country quotas imposed by the importing countries are fixed in quantitative units ('000 of pieces or units of metric tons), and they do not take into account the value of the imported products. Therefore, it might be in the interest of the exporting countries to allocate the quotas to such firms which show the best performance as far as value added per unit of output is concerned. Interviews with plant managers in zones undertaken for the present study suggest that on this score multinational enterprises seem to have performed generally better than the domestic firms in the rest of the host country.

A last factor which has certainly enhanced employment generation in the host countries, is the multiplier effect obtained through the increased income of the work force employed in the EPZs. To the extent that these incomes are spent on domestic consumption goods, the local economy will almost certainly benefit in employment terms from the increased demand induced by the zone workers. Spending on imported goods will involve more complex and, in view of the present conditions in the Asian countries, most probably adverse employment effects. Also, in the case of inelastic domestic supplies, the growing pressures of demand by zone employees for certain necessities, like housing and transportation may very well lead to localised shortages and inflation. Thus, in the neighbourhood of export processing zones, where many of their workers are concentrated in a small geographical area, some of the multiplier effects of the worker's expenditure may under such conditions spur local inflation.

While it was not possible to provide in this section quantitative estimates of the indirect employment effects of multinational enterprises in Asian EPZs, it may be concluded that these are rather limited, on the whole, and are mainly derived from the EPZs' impact on foreign exchange earnings, the income multiplier of wages of zone workers and - especially for the zones treated in Asian NICs - the emergence of backward linkages to domestic suppliers.

### Characteristics of Employment in Asian Export Processing Zones

From the previous chapter, it can be seen that the net employment effects of MNE operations in Asian EPZs have been positive. Even though it was shown that indirect employment effects were rather limited and that some investments were likely to have been diverted away from the rest of the country into the EPZs, it can be said with a fair degree of certainty that these factors were not of a sufficient magnitude to neutralize the total employment effects, especially the direct effects, which resulted from the creation of the zones and MNE operations. In fact, there is no disagreement about the fact that EPZs and the MNEs operating there have created jobs. Opinions are, however, divided about the social desirability of these jobs or some of these jobs. It has indeed been asserted on numerous occasions that workers in EPZs are labouring under extremely harsh working conditions. Concern has been voiced in research and by trade unions more in particular about low levels of wages, long hours of work, high intensity of the work, low level of job security, deficient safety devices, etc. Other negative factors for the quality of work often referred to relate to the nature of the work force employed in EPZs, little training, lack of career possibilities and restrictions on industrial relations and union activity. While the available evidence is insufficient to clarify all these issues, some of them can be critically reviewed for several Asian developing countries in the following section with the information in hand.

#### 1. Characteristics of the Workers Employed in EPZs

The most outstanding characteristics of the workers employed in EPZs relate to the sexual division, the age structure, marital status, educational background and previous work experience of the workers. As far as the sexual division of the workforce is concerned, it appears that women workers account for most of the employment in EPZs. In developing Asia, the share of women workers in total EPZ employment ranged around 1980 from 74 per cent in the Philippines to 88 per cent in Sri Lanka. In the Republic of Korea, women workers accounted for 75 per cent of total zone employment, in Kaohsiung, Nantze and Taichung (Taiwan) for 80 per cent, and Bayan Lepas (Malaysia) for about 85 per cent.

The predominance of female workers is not surprising. It is the logical outcome of the specific sectoral concentration of the zone production. As mentioned earlier, most of the zone production relates to the manufacturing of textiles and garments and the assembling of electronic components. These labour-intensive industries rely extensively on female employment both in developing and industrialised countries(1) and both inside and outside the EPZs(2).

- (1) In 1975 in the United States, for example, women formed over 90 per cent of all production workers and operators in electronics assembly and in the manufacture of wearing apparel.
- (2) In the Republic of Korea, for example, the share of female employment in total employment accounted for 65 per cent in garments and 90 per cent in the assembling of electronics. In Singapore, a 1979 survey by the Association of Electronics Industries in Singapore (AEIS) found that women workers made up to 94 per cent of the workforce.

Male workers are usually found in industries other than garments and electronics. In Sri Lanka, in the manufacture of rubber products, for example, women workers accounted for 6 per cent only of total employment. And in the Republic of Korea, along with the diversification of zone production into sectors other than garments and electronics, the ratio of female workers to total workers declined from 90 per cent in 1971 to 75 per cent in 1979.

Another prominent feature of the employment in EPZs is the very young age of the workers. According to a sample survey which was conducted for ARTEP among production workers in the Philippines Bataan EPZ, more than 88 per cent of them were under the age of 29. A similar survey in Sri Lanka indicated that the share of workers under the age of 26 in the Katunayake Investment Promotion Zone amounted to 83 per cent. Finally, in Malaysia, it was found that the average age of female EPZ workers appeared to be over 25 years of age. A similar age structure is indicated in different sources available for the other Asian EPZs.

With regard to the marital status, it was found from the mentioned ARTEP surveys that most EPZ workers were either unmarried or married without children. In Sri Lanka, unmarried workers accounted for 84 per cent of all employment. In Malaysia, the equivalent percentage for female workers was 83 per cent. Finally, in the Philippines, the share of unmarried women came to approximately 70 per cent of total employment. It would appear therefore that the upper age limit of the zone workers is largely coinciding with the mean age of marriage. This is particularly the case for female workers. Indeed, after marriage and especially after the birth of a first child, women mostly seem to return to the household in order to take up the domestic duties of the family. The lower age limit of workers in the zones, on the other hand, is largely determined by law. Most frequently, it is set at the age of 16. In some countries, including the Philippines and Sri Lanka, the lower-age limit in force seemed to be slightly higher than the one prescribed by the legal requirements. This was essentially due to the different schooling practices of the latter countries. In some countries the legal age requirements were seemingly not observed(1).

As could be expected from the young age of the workers, most of them had had no previous work experience upon recruitment. In Sri Lanka, for example, according to the mentioned ARTEP survey, 76 per cent of the zone workers were freshers to the labour market. In Malaysia, some 52 per cent of the female employees had not previously been employed and in Bataan (the Philippines), the share of new entrants to the labour market amounted to 64 per cent. In Malaysia and Sri Lanka, among those who had previously held employment, most had worked as factory workers. In the Philippines, on the other hand, tailoring and service activities were most

- (1) L. Lim, Women in the Redevelopment of Manufacturing Industry to Developing Countries, UNIDO Working Paper, July 1980

frequently listed as the previous occupations. A final point worth noting about work experience is that almost none of the workers mentioned 'farming' as their previous occupation. All this seems to indicate that the majority of the EPZ workers are entering for the first time the gainfully employed category.

With regard to two other characteristics, viz. educational background and origin of the workers, the situation is quite different from country to country. In Sri Lanka and the Philippines, the educational qualifications are high, especially in comparison to the types of jobs the workers are holding. In the Philippines (Bataan) 16 per cent of the production workers included in the sample ARTEP survey mentioned that they had post secondary education. Another 60 per cent told that they were high school graduates. As a matter of fact, a high school diploma had almost become a necessary qualification for obtaining a job in this EPZ. In Sri Lanka, the educational qualifications were similar. Also in the Republic of Korea, many of those who worked in MNEs located in the zones were high school graduates. In Malaysia, on the other hand, the vast majority of the female workers had only had the minimum years of education by Malaysian standards (nine years for those in the age groups under 25). Also, in Singapore, the minimum requirement was only six years of primary school education. Nonetheless, employers there tended to prefer workers who had received some secondary education.

With regard to the origin of the zone workers, EPZ enterprises in the Philippines seemed to rely predominantly on recent migrants (62 per cent of all employees). This was also reflected in the nature of the residence of these workers: 74 per cent lived in some kind of rented accommodation; 21 per cent lived in their own property; and the remaining 5 per cent shared their housing with relatives. Also in Malaysia, most of the workers were born in distant areas (about 70 per cent), but in contrast to the workers of the Philippines' Bataan EPZ, they were usually not recent migrants(1). In Sri Lanka, finally, the majority of the workers appeared to be drawn from the resident population. This was further confirmed by the observation that around 70 per cent of the zone employees were still living in their parents' household.

In summary, the labour force of the Asian EPZs, whether employed in MNEs or in local firms, can be characterised as being predominantly young, female and unmarried and without previous work experience. However, it should be noted that much the same pattern can also be found in most of the labour-intensive export-oriented firms located outside the EPZ in the developing Asian countries.

It can be argued that one of the main reasons why the bulk of the enterprises rely primarily on the services of a particular type of worker, viz. young female, unmarried workers may be connected with the willingness of these workers to accept wages and working conditions inferior to those found for other categories

(1) The average number of years on the job was 2.7, whereas the average number of years that workers lived in their present residence amounted to 10.9 years.

of workers. However, as has been ascertained by interviews undertaken for the present study, many managers of zone enterprises do not accept such a reasoning. They explain their preference for young, unmarried women in the first place to the physical characteristics of these workers who possess, it is said, better eyesight, more agile hands, more nimble fingers, i.e. in short a higher degree of manual dexterity. On the other hand, in spite of their seemingly higher productivity, women workers appear to be prepared to work in the zones at wage rates which are considerably lower than those of their male counterparts; This may be explained by a lack of alternative job opportunities for women workers and a resulting segmentation of the labour market which cuts off the women workers from most of the available employment opportunities outside the zones. Attractive work seems indeed generally reserved for the male workers. They are considered the main bread winners of society, whereas the women workers are looked upon as secondary workers whose incomes serve mainly to supplement temporarily the earnings of the male workers. Female workers seem also more willing to accept the unattractive features of the assembly work in garments and electronics, because in most developing countries they have become used, since their youth, to a subservient social and economic position. In this light, one should probably also view the above argument on the physical aptitude of women workers to labour processes in garments and electronics. So-called physical aptitude may very well be a rationalisation for passive tolerance of harsh working conditions.

## 2. Working Conditions in EPZs

Working conditions in EPZs can be partially explained by reference to the occupational structure and the characteristics of the majority of workers in these zones. As could be expected from the nature of the zone production, the jobs performed by most of the workers are characterised by simple operative tasks. In Sri Lanka, operative workers accounted for 88 per cent of total employment, in Masan (Republic of Korea), Kaohsiung, Taichung and Nantze (Taiwan) for 89 per cent, in Penang (Malaysia) for about 84 per cent.

From the afore-mentioned ARTEP survey it was found that by far most of the unskilled jobs were accounted for by women workers; whereas men predominated in the higher echelons. In Malaysia, for example, in 1979 over 75 per cent of the administrative and technical jobs went to male workers. From the unskilled and skilled workers only 15.5 and 6.3 per cent respectively were male. Similarly, in Masan, all the engineers and technicians were male as compared to only 13.6 per cent of the unskilled labourers.

The promotion prospects for the unskilled female workers in the EPZs are usually very restricted. Almost all start working as factory floor operators and because of the virtually complete absence of an internal job ladder, they keep this position until they stop working in the EPZs. The skills which they learn from their jobs are usually acquired in a matter of weeks and peak productivity is generally reached after a couple of months already. In view of the low skill contents of the jobs, there are also very few transferable skills which might give the outgoing female workers a competitive advantage in the search for alternative employment. The situation for the predominantly male workers in the higher echelons is somewhat different. However, they constitute only a small fraction of the total labour force.

With regard to the wages of the zone workers, it has often been claimed that they tend to be at a very pitifully low level. This is certainly correct if one compares with the wages paid for similar jobs in the developed countries as table 3/1 illustrates although this type of comparison can be refuted because of the different general economic context in the countries. Nonetheless, one should consider that the productivity of EPZ workers engaged in off-shore manufacturing is likely to be as high as - if not higher - than the productivity of workers in similar jobs in the industrialised countries. Also in comparison to wages paid in other formal sector employment in developing countries; wage rates paid by EPZ firms tend to remain at the low side. This is not because EPZ firms are paying below prevailing national wage rates, but rather because of the fact that the category of workers predominantly employed, viz. the category of young; female and unmarried workers is the lowest paid in the local labour market.

In general, in developing countries, the wage rates for these workers are substantially lower than the ones received by male workers in the same grade or industries. Thus in some Asian countries, women workers receive less than half of the wages paid to men, in others the differential is about a quarter to a third(1). Younger workers in their turn also receive lower wages than workers with a long professional experience. As a result of the high concentration of workers which combine these two characteristics, wages in EPZs tend therefore to be below the national average wages. This was reflected in the data from the ARTEP surveys in Malaysia and the Philippines. Within the same age, sex, and sector category, however, hardly any significant differences could be discerned between the wages within and outside the export processing zones. As a matter of fact, in the electronics sector in Malaysia, and in the garments sector in Sri Lanka, earnings seemed to be slightly higher inside the EPZs for the same category of workers. In Bataan, on the other hand, zone wages were slightly lower than the wages paid nationwide for the same category of workers. This might have been due to the fact that the region around the Bataan EPZ was a typical labour-surplus area.

In spite of the low absolute level of wages, most of the interviewed workers who had previously held employment still reported significant income gains resulting from their recruitment by zone enterprises. In Malaysia, for example, the average monthly wage rates of female workers increased upon recruitment from M\$ 154 to M\$ 201(2). Also in Sri Lanka, reported income gains were considerable and in the Philippines, average incomes per day increased upon recruitment from 22.6 Pesos per day to 30.5 Pesos per day. From this evidence, it would seem rather unlikely that wages in the zones were not sufficient to pay for physical subsistence. As a matter of fact, wage rates obtained in the zones

(1) L. Lim, *op.cit.*, p.13

(2) The comparison is not truly perfect since it compares nominal instead of real incomes. Nonetheless, in view of the short average duration of employment in Malaysia, and the low inflation rates of the last few years, it is unlikely that the above figures incorporate any serious distortion.

Table 3.1

Average Hourly Earnings in Electronics and Garment Manufacturing in Selected Countries, US\$

Country			Electronics	Garments
Hong Kong	(*)	1980	0.97	1.03
Rep. of Korea	(*)	1980	0.91	0.59
Malaysia	(**)	1980	0.42	-
Philippines	(**)	1978	0.30	0.17
Singapore	(*)	1980	0.90	0.80
Sri Lanka	(**)	1981	-	0.12
Japan	(*)	1980	5.97	3.56
United States	(*)	1980	6.96	4.57

Source: G. Edgren: Export Processing Zones - Spearheads of Industrialisation or Sweatshops in the Sun?: A Critical Appraisal of Labour Conditions in Asian Export Processing Zones, ILO-ARTEP, Bangkok, August 1982, p.17

The author uses data from the ILO Yearbook of Labour Statistics(\*) and ARTEP documentation(\*\*).

were generally considerably higher than what could be obtained by similar workers in rural areas or in the informal urban sector, where most of the poverty was concentrated. Nonetheless, it should be added that the average incomes derived from working in the zones were certainly not sufficient to support alone an average sized household. In Malaysia, for example, in 1980 the average monthly income of all workers in the zones was M\$ 195 per month(1), whereas the official poverty line income for urban households was set at M\$ 316 per month(2). Wages so far below the poverty line income were nonetheless acceptable to secondary workers as they reduced the number of persons that had to be fully supported by the primary bread winner.

Another characteristic of the zone workers is that the average length of their employment in the zones rarely exceeds a few years(3). Some observers of the zones have linked this fact to the physical exhaustion of the workers, but evidence is insufficient to verify this assertion. One of the other possible explanatory factors may be found in the nature of the labour force in question. As has been mentioned before, the age at which female zone workers give up their jobs coincided very much with the mean age of marriage. It might thus be that the workers are resigning as a result of the social pattern rather than as a result of work-induced physical and mental stress. The social norm might indeed be that a married women should stay at home instead of working in a factory.

An added possible explanatory factor for the high labour turnover in the zones may have to do with financial considerations of management. Especially in garments and electronics, wage increases linked to seniority or qualification are generally not matched by an equivalent increase in labour productivity. Both training periods and learning curves are very short and therefore, it may be financially advantageous to the firms to lay-off workers having acquired greater skills and rehire cheaper new labourers instead(4). An example of such practice was found in the Bataan EPZ of the Philippines. There, certain firms hired workers on an apprenticeship basis thereby paying only 75 per cent of the normal starting wages. At the end of the maximum statutory period the workers were laid off. Such malpractices, which, strictly speaking do not infringe the law, may also have happened elsewhere.

(1) Found from the ARTEP survey.

(2) This figure was derived at by inflating the revised estimate from the Economic Planning Unit of Malaysia of the Poverty Line Income for Urban Households by the percentage increase in the Consumer Price Index between 1978 and 1980. The average number of persons per household amounted in 1980 to 5.5.

(3) In the ARTEP survey of workers in the EPZs of Malaysia, the average length of employment was 2.7 years. Further evidence for the short length of employment is provided by the low average age of zone workers.

(4) In contrast to industrialised countries, where it is a common practice to lay-off the latest recruits in case of an economic slowdown, in the developing countries firms are usually totally free within their choice of which workers to fire. Moreover, laying-off workers is much more easily done in the developing countries where labour markets are less rigid and where there are few unions and legal regulations to protect the workers.

Table 3.2

Distribution of Hours Worked per Week in the EPZs in Sri Lanka, Malaysia and the Philippines

	Sri Lanka	Malaysia	Philippines
Below 40	0.1	1.0	-
40-44	10.4	31.8	-
45-48	43.5	40.8	54.4
49-54	29.1	17.9	12.2
Over 55	16.9	6.0	33.3

Source: ARTEP surveys



The high number of apprentices found; for instance, in Masan amounting to 55.4 per cent of the total labour force, might be connected with similar practices.

An element of working conditions easier to measure are the hours of work in EPZs.

ARTEP data on the distribution of hours worked per week in the EPZs of Sri Lanka, Malaysia and the Philippines are summarized in table 3.2.

It can be inferred from the table that in Malaysia and Sri Lanka the work burden measured by the length of the working week does not deviate significantly from the national average. Indeed, in Sri Lanka, according to the ILO Yearbook of Labour Statistics, the average number of hours paid for per week in manufacturing industries amounted to 52.6 hours in 1979 and 45.3 hours in 1980. The statutory standard week (without overtime) was 45 hours. In Malaysia, the standard working week without overtime consisted also of about 45 hours. In the Philippines, on the other hand, the latest available figures give a national average number of hours per worker per week of only 43.7. In comparison, in the Bataan EPZ, the average was about 53.9 hours. Almost one quarter of the workers in the Bataan Zone actually worked more than 60 hours per week and 5 per cent even more than 70 hours per week. Very long hours of work were also common practice in the EPZ of Masan (Republic of Korea). According to a survey undertaken in 1977, 50 per cent of the workers there worked more than 8 hours per day, 30.1 per cent even more than 15 hours per day(1).

As regards the intensity of work in the zones, some indicators can be obtained from data on the pattern of shift work and on the pace of work. With regard to shifts, it is fairly established that shift work is proportionally much more common in the EPZs than in the rest of the economy of Asian developing countries. Some countries including Malaysia and Singapore, have actually waived existing legislation against night work for women in order to enable zone enterprises to operate three shifts of women workers per day(2). In Sri Lanka, a similar move is presently underway upon pressure of electronics firms which apparently have made their entry conditional upon revision of the existing legislation(3). One of the managers of a garment factory in the Sri Lankan zone mentioned during the ARTEP survey that his firm was already at present regularly operating

(1) P. Tissier: 'Conditions de Travail et Zones Francaises d'Exportations dans quelques pays d'Asie', Critiques de l'Economie, No. 14, January-March 1981, p. 129

(2) In the MIDA brochures on Labour and Wages Rates in Malaysia, it reads now "Female workers are not permitted to work in any industrial or agricultural undertaking between the hours of 10 in the evening and 5 in the morning. Notwithstanding this provision, the Director General of Labour is empowered, upon application made to him, to waive the restriction subject to conditions he may impose. Such approvals are quite easily obtainable ....." (p.11).

(3) Something equivalent happened in the Philippines where Sunday was abolished as being the obligatory rest day. This enabled zone entrepreneurs to rotate their workers during seven days per week without paying overtime. P. Tissier, op.cit., p. 139

with women workers during the night-time. Occasionally, also other firms seemed to violate the present statutory requirements by keeping women on overtime during the night. According to another source, in a survey of 100 women workers in the Sri Lankan EPZ, 63 per cent of the interviewees stated that overtime was compulsory and very frequently this also applied to overtime during the night(1).

In Malaysia, shift work during the night has become very common. According to the aforementioned ARTEP survey, almost half of the surveyed firms in the EPZs were operating three eight hour shifts daily. Another 25 per cent worked on a two shift basis. The incidence of shift work was equally high in the Bataan EPZ in the Philippines and in the electronics firms in Singapore. The biological and social problems affecting shift workers as a result of the frequent changes in the daily rhythm have been well documented(2). Also in the case no such changes take place, shift workers suffer from working at unsociable hours. In Sri Lanka, for example, according to the survey(3), in a number of firms where there was no rotation of shifts, numerous complaints were made, especially by young female workers, about the fact that they had to work until 10pm or later - almost throughout the year. In other countries surveyed, instances were found of married and unmarried female workers being permanently employed on the late night shift.

As regards the pace of work, it is stressed in the available sources that many zone firms have introduced productivity incentive schemes and that in the majority of firms workers have to reach certain production norms in order to avoid penalisation in the form of "demerit points" which would reduce their take home pay and increase the risk of dismissal.

All this suggests that work intensity of zone employment is probably higher than indicated by the number of hours spent on the job. Whether this implies that zone employment is physically damaging is, however, not firmly established. To verify this point, extensive information on the incidence of physical and mental harm resulting from work in the EPZs would need to be collected.

The scattered evidence which is available so far points to respiratory diseases, headaches, eye and stomach problems as diseases that may be connected with the working conditions in the EPZs. They are said to be the undesirable outcome of the frequent contacts with various kinds of aids and solvents in electronics and dyes, tissues and dust in garments and textiles. In Sri Lanka, for example, laryngitis was mentioned at one time as a particular problem of women working in the EPZ. The illness had apparently been caused by exposure to tiny particles and dust during the cutting of layers of cloth with a fast guillotine machine(4).

Medical practitioners in the area of the Katunayake also said that allergy and ailments fatigue were common problems in the EPZ(5).

(1) Voice of Women: Women Workers in Sri Lanka Free Trade Zone, Colombo, 1981, p. 34-35

(2) ILO, Nightwork, Geneva, 1977

(3) ARTEP survey

(4) Voice of Women, op.cit., p. 42-43

(5) Ibidem, p. 34

Eye problems from prolonged working with microscopes and stress induced nervous disorders are also frequently associated with working in the EPZs. According to one survey in an Asian country most workers in the electronics assembly industry developed eye problems within the first year of employment: 88 per cent were found to suffer from chronic conjunctivitis, 44 per cent became near-sighted and 19 per cent developed astigmatism(1). With regard to the incidence of nervous disorders, there are scattered citations of instances of outbreaks of mass hysteria in Malaysian electronics firms. Unfortunately, I believe the evidence at hand is not sufficient to formulate a sound opinion on the relative incidence of work related illness in EPZs. Neither can they be used to argue that working conditions in the zones are very different from those outside the zones.

Some of the problems may arise from the fact that authorities in developing countries may sometimes tend to be rather lenient regarding the respect of regulations on employment and working conditions in the zones.

It could be hypothesised that this might be inspired by a concern to keep their EPZs competitive and if possible more attractive than the ones from other countries.

The same considerations have apparently led in certain cases to infringements of workers' freedom of association and bargaining rights(2). In addition, the particular segment of EPZ workers may at times not have received the attention they deserved on the part of the existing and traditionally male dominated unions(3). The resulting lack of organisation among the zone workers combined with the traditional subservient attitude of most of the female workers - the two are by the way likely to be related - have made that workers in EPZs are very much prone to accept deficiencies that may occur in their working conditions. This may be even more so in view of the absence of attractive alternative employment/

In conclusion, while the scattered and incomplete evidence available clearly points to certain special problems which have been encountered in EPZs, it is not sufficient to obtain a reliable picture of the generally prevailing labour conditions. This suggests the need for relevant large-scale surveys and research.

(1) L. Lim, *op. cit.*, p. 25

(2) G. Edgren, Spearheads of Industrialisation or Sweatshops in the Sun? : A Critical Appraisal of Labour Conditions in Asian Export Processing Zones, ILO - ARTEP, Bangkok, 1982, P. 36

(3) H.F. Samuelsson, Transnational Corporations in the Export Processing Zones of Developing Countries, UNCTC, New York, p. 48

### Summary and Conclusions

During the last two decades, together with the increase in the exports of manufactures from Asian developing countries, there was a remarkable increase in foreign direct investment in export-oriented manufacturing. A considerable part of this investment was directed towards EPZs, the existence of which burgeoned during the same period. Indeed, in developing Asia, the number of EPZs in the strict sense of the word increased from none in the early sixties to 24 in 1981. A similar increase took place in the number of industrial estates in the city-states of Hong Kong and Singapore, where industrial estates basically fulfilled the same role as export processing zones.

The Asian export processing zones were generally designed for and have also succeeded in attracting mainly one particular type of export-oriented investment, viz. the off-shore investment of multinational enterprises. This investment originated essentially in the developed countries and more recently also in the newly industrialising developing countries from Asia, and was highly concentrated in garments and electronics. Independent of origin of the investments, the foreign investors come to the EPZs essentially in the search of cheap, unskilled labour. In comparison to the trade policies applied to the rest of the economy, the EPZs served two main purposes. Firstly, they enabled the authorities of the host countries to provide, in a cost-effective manner, the necessary administrative and physical infrastructure required by the MNEs for the utilisation of the cheaply available labour. Secondly, they were used by the authorities to provide some additional incentives in the hope of balancing the locational decisions of MNEs in favour of their particular countries.

As far as the main objectives of EPZs are concerned, they have met with varying degrees of success. Firstly, in terms of employment creation, which has often been cited as one of the main objectives, the zones have been moderately successful. In 1978, the employment in the Asian EPZs amounted indeed to approximately half a million. Indirect employment effects were however limited and did not significantly enhance the direct employment effects accruing from the production in the EPZs. Neither did the zones do anything substantial to reduce unemployment in the region. This was among other factors due to the fact that zone enterprises usually drew new workers into the labour market. Also the social desirability of employment in export processing zones has frequently been questioned. In this respect, it was found from our surveys that enterprises in EPZs significantly tapped only one particularly vulnerable and therefore also relatively cheap segment of the labour force, viz. the one of young, female and unmarried workers. Obviously, the employment of those workers as such cannot be criticized. However, it was found that in spite of the fairly high educational qualifications of the women workers, the job opportunities which were open to them were very much restricted. As a matter of fact, only jobs with a very low skill content were found to have been available to women workers in EPZs. Additionally, career prospects of the women workers were also found to be restricted, and the average length of employment was shown to be very low. In this perspective, it is clear that the EPZs have contributed little to the real integration of women in the modern industrial sector.

With regard to working conditions, it was found that in EPZs the intensity of the work to be performed on the job was likely to be high. The resulting high productivity of the workers was not compensated for by higher wages. On the contrary, the bulk of the workers in EPZs belonged to the cheapest segment of the labour market. Finally, scattered evidence also suggested that occupational diseases and work related injuries may not be uncommon in the EPZs. However, firm evidence on the relative incidence of work related injuries is not available. It could be hypothesised, however, that as for wages and working intensity, the situation is not significantly different from the one prevailing in similar industries out of the EPZs.

In summary, it is clear that the quality of the employment in EPZs is fairly low and this should be taken into account when the social benefits derived from the creation of the EPZs are considered.

With regard to the two other main objectives of EPZs, viz. the transfer of skills and technology and the increase in the earnings of foreign exchange, a differentiation should be made between the EPZs located in the NICs and the ones located in other LDCs within the region. Indeed, in most of the latter countries, the potential for a positive contribution by EPZs has been badly hampered by the enclavistic nature of the EPZs. Because of the fact that their domestic economies have remained by and large rather inward-oriented, the spill-over effects from the zones into the domestic economies have indeed remained rather insignificant in these countries. In this respect, EPZs in the NICs have fared much better.

Looking ahead to the future role for EPZs, it will be seen that there are three emerging trends which will predetermine to a large extent the further success of both established and newly to be developed EPZs. One relates to the current attempts of the NICs to upgrade their industrial structure and move into the production of manufactures requiring more skills, capital and technology. It was demonstrated earlier that the efforts from the NICs have already resulted in some relocation of labour-intensive production from the NICs to the EPZs in LDCs. A further successful transition of the economies of the NICs would certainly brighten the prospects for the relocation of more labour-intensive production to the EPZs of countries in an earlier stage of development.

A second important factor influencing the future prospects of EPZs relates to technological developments in the garments and especially electronics sector. It has indeed been claimed that in some sub-sectors of the electronics industry, for example semi-conductors, the innovation of newly developed automated equipment, induced by micro-electric change, is likely to erode the established comparative advantage of developing countries with low wage costs. For other sub-sectors, such as consumer electronics, similar developments have not yet taken place and are less likely to occur(1).

Finally, a third factor relates to the stagnant demand and emerging protectionism in Western markets. It has been well documented in the past that the bulk of the EPZ production is exported to the industrialised nations. Therefore, a further continuation of recession in the West accompanied by rising protectionism will have a sizeable negative impact on the further development of EPZs.

(1) E. Braun, 'Electronics and Industrial Development' in IDS Bulletin, Vol. XIII, No 2, March 1982, p. 58

All this should be viewed against a further drastic increase in the number of EPZs. Indeed, in 1982, in developing Asia alone, another 7 zones were scheduled to be opened and plans for the development of another 25 were still being implemented. Also, in some of the existing zones, for example, the ones in the Philippines and South Korea, the number of workers in the zones already seemed to be on the downturn. In the Bataan EPZ, for example, the number of workers dropped from 20,000 in 1980 to 18,170 in 1982. In this perspective, the danger for an escalation in the advantages offered to EPZ firms is not unreal. Therefore, the need for regional co-operation between the respective host countries in order to improve the terms of their participation in this particular form of international division of labour, seems to be more acute than ever.



## Export Processing Zones in Developing South &amp; East Asia

Country	Location	Commencement of Operations	Total Exports	Employment	Number of Firms in Operation
Bangladesh	Chittagong EPZ (one more zone is planned near Dacca)	Planned for 1982	-	-	-
Pakistan	Karachi Investment Promotion Zone (one more zone is planned in the same area)	Opened in 1982	/	/	4 (1982)
India	Kandla	1965	US\$11.87 million (1979)	1,300 (1979)	45 (1979)
Thailand	Santa Cruz (3 more zones are planned or under construction)	1974	US\$ 7.90 million (1979)	1,800 (1979)	33 (1979)
Thailand	Lat Kraband (Minburi)	Planned for 1982	-	-	-
Thailand	Phuket	Proposed	-	-	-
Indonesia	P.T. Bonded Warehouse (various other sites have been proposed)	Planned for 1982	-	-	-
Malaysia	Telok Panglima Garang Free Trade Zone (Selangor)	/	-	-	-
Malaysia	Tanjong Kling, Free Trade Zone (Malacca)	1972	-	2,037 (1980)	3 (1980)
Malaysia	Prai Wharf (Penang)	1972	-	902 (1980)	2 (1980)
Malaysia	Sungei Way, Free Trade Zone (Selangor)	1972	-	2,593 (1980)	1 (1980)
Malaysia	Batu Berendam, Free Trade Zone (Malacca)	1972	US\$876.3 million (1979)	16,236 (1980)	17 (1980)
Malaysia	Bayan Lepas, Free Trade Zone (Penang)	1972	-	7,480 (1980)	11 (1980)
Malaysia	Prai Free Trade Zone (Penang)	1972	-	29,438 (1980)	29 (1980)
Malaysia		1973	-	4,075 (1980)	9 (1980)

Annex I (cont'd)

Country	Location	Commencement of Operations	Total Exports	Employment	Number of Firms in Operation
Singapore	Kallang Basin Industrial Estate				
Singapore	Toa Payoh "				
Singapore	Ang Mo Kio "				
Singapore	Chai Chee "				
Singapore	Bedok "				
Singapore	Indus Road "				
Singapore	Woodlands "				
Singapore	Tiong Bahru "				
Hong Kong	Kwung Tong Industrial Township				
Hong Kong	Tsuen Wan/Kwai Chung "				
Hong Kong	Sam Ka Tsuen Industrial District			70,000 (1979) (b)	
Hong Kong	San Po Kong "				
Hong Kong	Cheung Sha Wan "				
Hong Kong	Chai Wan "				
Hong Kong	Wong Chuk Hang "				
South Korea	Gumi Export Industrial Estate				
South Korea	Bupyeong, Korean Export Industrial Estate				
South Korea	Juan, 2 "				80,000 (1975)
South Korea	Gurudong, 3 "				

Country	Location	Commencement of Operations	Total Exports	Employment	Number of Firms in Operation
Malaysia	Pulau Jerejak (Penang)	1973		221 (1980)	1 (1980)
	Ampang Ulu Klang (Selangor)	1974	US\$876.3 million (1979)	9,967 (1980)	7 (1980)
	Senai (Johore)	/		161 (1980)	1 (1980)
	Kulim Industrial Estate (Kedah)	designated as future EPZs		-	-
China	Penkalan Cheap II Industrial Estate	"	/	/	/
	Gebeng Industrial Estate (Pahang)	"	/	/	/
	Pasir Gudang (Johore)	"	/	/	/
	Shenzhen (Shantou)	1981	/	/	/
	Zhuhai (Shantou)	1981	/	/	/
Rep. of Korea	Langhu (Shantou)	1981	/	/	/
	Huli (Xiamen)	1981	/	/	/
	Hainan Island	designated as future EPZ			
Rep. of Korea	Masan, Free Export Zone	1972	US\$600.56 million (1979)	31,153 (1979)	86 (1979) ✓
Sri Lanka	Iri, Free Export Zone	1974	US\$42.5 million (1979)	2,819 (1979)	12 (1979)
	Katunayake Investment Promotion Zone	1978	US\$29.34 million (1980)	14,740 (mid-81)	31 (mid-81)
	Bigayame	Proposed	-	-	-

Country	Location	Commencement of Operations	Total Exports	Employment	Number of Firms in Operation
Philippines	Bataan EPZ	1973			56 (1980)
	Baguio City EPZ	1980	US\$170.98 million (1980)	22,771 (1980)	6 (1980)
	Mactan EPZ	1980			5 (1980)
	Cavite EPZ	Ready for Occupation	-	-	-
Taiwan	Davao EPZ	"	-	-	-
	13 more EPZs are planned throughout the country.				
	Kaohsiung EPZ	1966			128 (1979) (a)
	Nantze EPZ	1970	US\$1,204.73 million (1979)	80,166 (1979)	130 (1979)
	Taichung EPZ	1971			45 (1979)

Note: (a) Of the 303 firms in these 3 zones, only 262 were in operation and 41 were either in implementation or had temporarily stopped business.

## Similar Zones in Developing South &amp; East Asia

Country	Location	Commencement of Operations	Total Exports	Employment	Number of Firms in Operation
Singapore	Bukit Timah Industrial Estate	)			
	Jurong Town	)			
	Redhill	)			
	St. Michaels	)			
	Ayer Rajah	)			
	Tangling Halt	)			
				105,000 (1980)	

Lecture on Free Trade Zones in Asia by Mr Yoshikuni Ohnishi,  
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Preamble

In the 1950s to 60s many developing countries adopted the inward-looking industrialisation policy to try to accelerate their economic development, in hopes that domestic production in place of imports could contribute not only to savings in foreign exchange but also to the development of indigenous firms; and that products manufactured by those firms could eventually become highly competitive in the international markets resulting in an increase of exports. In actuality, however, indigenous firms under the government protection reduced their entrepreneurial spirit, and further the balance of payments was weakened due to the increase in imports of raw materials and parts. The import substitution policy hence exposed its inherent weakness.

This bitter experience drove developing countries to resort to export promotion policies as a new path for industrialisation. In the absence of capital and technology in developing countries, this policy meant encouraging foreign investment by large firms, notably MNCs, based in advanced countries. The combination of resources owned by MNCs in terms of capital, production management skills and markets with the rich labour force available in developing countries could make it possible to manufacture and export industrial goods thus contributing to foreign exchange earnings, employment generation, technology transfer and promotion of indigenous industry, etc. With a view to making this policy work, developing countries have to create an investment environment favourable to induce foreign investments. One of the policy instruments is the establishment of Free Trade Zones (FTZs) or Export Processing Zones (EPZs). These have become something of a symbol of export-led industrialisation and gained considerable attention from the policy makers due, perhaps to the successful operation of FTZs in Taiwan and Korea. In short, FTZs are specifically designated industrial estates to which various trade barriers normally applicable to the rest of the economy do not apply and hence often considered as export enclave.

Part I of this paper is on overview of the nature, characteristics and current position of FTZs and several important issues in assessing the performance of FTZs are given in Part II simply to provoke further argument. Due to paucity of data and statistics, however, it is far from easy in carrying out this assignment. Nevertheless, it is hoped that this paper gives an idea what FTZs are all about and what basic issues we have to take into account in assessing the role of FTZs. Unless indicated otherwise, major data and statistics in the paper were derived from the 1980 Symposium on EPZs organised by APO in Colombo, Sri Lanka.

Part I - Overview

1. Definition, Nomenclature and Number

FTZs are the production base to carry out manufacturing activities for export through the provision of necessary infrastructure and attractive incentives to investing firms. Though FTZs are open to both domestic and foreign firms, they are low-cost production bases mainly to serve the MNCs from advanced countries (Karachi EPZ shuns the domestic investment altogether).

In the premises of FTZs, technically simple manufacturing operation with high labour content is organised and products made are exported to either source countries or third countries, thus in principle preventing them from being channelled to the domestic market. Due to import of materials without payment of duty or the policy of the parent firm to use standardised parts and components, FTZs are supposed to have the nature of enclave economies separated from the domestic tariff area, though limited linkages with domestic firms are undeniable.

As to the nomenclature, Export Processing Zones (EPZs) are most frequently used, while Free Trade (Export) Zones (FTZs or FEZs) are also used in many zones such as India (Kandla) or Korea (Masan). No technical distinction is found between EPZs and FTZs (FEZs). Panama, Uruguay or Egypt uses the term Commercial Free Zone, which is akin to something like bonded house and is less manufacturing activity. The word 'free' implies freedom from tariffs, domestic taxes or various controls involved in foreign investment (for instance full ownership, import of capital goods, etc.). In general, FTZs have to meet the following qualifications:

- a. Partial or total exemption from taxes - tariffs, corporation tax, income tax, business tax, etc., and guarantee of freedom for foreign investment.
- b. Operation of export-oriented production.
- c. Generation of considerable volume of employment.

Needs arise from both home and host countries of investment to activate FTZs. The host country aims at inducing foreign investment, increasing foreign exchange earnings, generating employment opportunities, realizing technology transfer, developing linkage effects with domestic firms and developing hitherto under-developed regions. Depending upon the zone, priority is placed on selected objective(s). For instance, Santa Cruz in India puts an emphasis on technology transfer in the electronics industry and Bataan in the Philippines and Kandla in India lay stress on regional development. Whereas the home country looks for low-cost labour, harmonious labour management relationships; supplies of raw materials, parts or components from domestic tariff area. Logically, most of the firms in FTZs are labour intensive, e.g. textiles and apparels, electric and electronics, toys and machinery etc.

As was mentioned before, it seems quite difficult to grasp the exact number of FTZs. Firstly, it is sometimes not clear whether it is a free trade zone as such or it involves other activities. For example, an FTZ in Indonesia appears to accommodate a limited number of firms (mainly from Hong Kong in textiles) to carry out a pilot project, but it looks similar to the commercial free zone. Secondly, many countries are planning to establish FTZs. However, again it is left vague whether they aim for the establishment of an FTZ as an independent entity or an additional institution within the framework of integrated development plan. For instance, Special Economic Zones in China look like FTZs (in fact a number of Hong Kong firms are engaged in textile manufacturing), but these zones are also intended to develop tourism and distribution industries which have nothing to do with FTZs' original activity. Thirdly, it is not clear at what stage FTZs are in progress. Are they still at the stage of desk plan or under construction? Thailand and Fiji belong to the former and Cavite in the Philippines to the latter. Following is the list of FTZs which are currently in operation in Asia:

China	4	Amoy, Shumchum, Chu Hoi and Swatow
India	2	Kandla and Santa Cruz
Indonesia	1	Jakarta
Korea	2	Masan and Iri
Malaysia	15	Malacca, Johore, Penang, Selangor and Kedah
Pakistan	1	Karachi
Philippines	3	Bataan, Baguio and Mactan
Sri Lanka	1	Katunayake
Taiwan	3	Kaohsiung, Nantze and Taichung

## 2. Industrial Classification in FTZs

FTZs are classified into two categories. One is a miscellaneous type which accommodates various types of industries (though priority order is sometimes given) and another is a specific type which accepts the specific industry only. All FTZs come under the first category except Santa Cruz which belongs to the second, dealing exclusively with electronic-related industry. The miscellaneous type of FTZs is less vulnerable to business fluctuations or trade protectionism than the specific type of FTZs, though the zone administration is in a better position to prepare and develop necessary infrastructures (for pollution control joint facilities, for instance) and building for the latter in advance so that investing firms may start actual operation in a short lead time.

The majority of the firms in FTZs are light industries, under the classification of ISIC 310 to 390 (foodstuff, textiles and apparels, leather, shoes and footwear, woodcrafts, furniture, paper, printing, chemicals, rubber, plastics, glass, metal and metal processing, machinery, electric and electronics, transport machinery, precision goods, other miscellaneous including jewels, musical instruments, sports goods, etc.), and they are broadly divided into the following three areas of activity:

- a. Assembling and processing operation represented by electric and electronic industries. In order to manufacture standardized products for international markets, raw materials or parts and components are often mobilized through the network of MNCs.
- b. Highly labour-intensive operation represented by textiles and apparel industries. Mechanization of manufacturing process is introduced to a bare minimum. Designing is directly handled by the parent firm to suit the changing needs of the market.
- c. Production and processing based upon local raw materials. Jewel processing or tea-bag production in Katunayake, salted peanuts production in Kandla, or jewel box production in Masan are cases in point. No doubt, linkage effects with domestic industry are quite high leaving high added value in the host country, but they do not find their *raison d'être* to operate in the zone because they won't benefit from incentives offered (besides they are not allowed to pass back products to the domestic market).

Metamorphosis is observed with regard to the nature of FTZs in accordance with the stage of economic development. Textile and apparel industries are dominant in FTZs in less developed countries, including Indonesia, Sri Lanka and the Philippines. In terms of monetary investment, Katanayake accounts for 62%, Jakarta 88% and Bataan 47% of all the investments made. In the meantime, textile and apparel industries account for only 1.9% and 5.2% respectively in Korea and Taiwan. In contrast, electric and electronic industries in these two countries reach as high as 47.6 and 33% respectively (nil in Sri Lanka and Indonesia and 10% in the Philippines). This phenomenon is mainly due to the increasingly tight export quotas imposed by advanced countries, which drove firms in NICs to make investment to the next level of development.

Further, this is also explained by the capability of domestic firms supplying high standard parts and components.

## 3. Employment

The main advantage of FTZs common to both host and home countries is found in the rich labour force and low wage cost. From the viewpoint of investors, it is a prerequisite to form labour-intensive industry. For the host country, FTZ firms contribute to generate new job opportunities and furthermore wages paid are left in the country as a part of value-added component. According to the survey on the Japanese investors in FTZs in Korea and Taiwan(1), 75% of firms in Korea and 90.9% in Taiwan were motivated to invest by low wage cost.

Total employment in FTZs in operation in Asia is not easy to grasp, but the following may give some idea:

(1) "Kaigai Shinshitsu Kogyo Soran 1981 (List of Japanese Firms Abroad 1981)", Toyo Keizai Publishing Company, 1981

China	-
India	3,200 (1980)
Indonesia	4,200 (1980)
Korea	31,000 (1980)
Malaysia	80,000 (1980)
Pakistan	-
Philippines	23,000 (1982)
Sri Lanka	15,000 (1981)
Taiwan	78,000 (1980)

The contribution of FTZs to employment in the national economy should vary from one country to another and from one period to another. Generally speaking, a considerable contribution has been observed in small countries where FTZs were successfully operated. For instance, the employment in three zones of Taiwan accounted for approximately 8% of the employment in the national economy in 1970s when FTZs were at the prime stage (though this was limited to industrial workers in the secondary industry. Including all sectors, therefore, the percentage went down to 4%). It was about 1.5% in Korea and 2% in Malaysia. However, these figures cover only direct workers in the zone and they become higher if workers engaged in the subcontracting business outside the zone and in service sectors inside the zone are taken into account. Contribution of FTZs in highly-populated countries like India is negligible.

Young female workers dominate the workforce in all FTZs; 70% in Malaysia, 85% in Sri Lanka, 74% in the Philippines, 80% in Taiwan. UNIDO's survey revealed that 85% of the total employment in FTZs are young female workers between 16 and 25 years old. Preference given to young female workers is due to the following reasons(1):

- a. Their wages are in general lower than male wages.
- b. In the simple repetitive work requiring dexterity, their productivity is higher.
- c. Due to high turnover and less education, they are not militant in the labour movement.

At the same time, criticism is voiced against the employment of female workers:

- a. In countries where unemployment rate is high, it deprives male workers, the main bread earners, of jobs.
- b. With high turnover costs of recruitment and training become high.
- c. They do not show interest in the improvement of work process and the increase in their productivity is limited.

(1) "Women in the Redeployment of Manufacturing Industry to Developing Countries", UNIDO/ICIS, 165, 8th July 1980

Somewhat different phenomenon is observed in FTZs where high-technology high-value added industries are on the increase. Female workers have been decreasing from 90% in 1971 to 75% in 1979 in Masan and this downward trend has gained momentum. Female employment is less than 20% in Prai and Prai Warf in Malaysia. The former FTZ deals with material industry and the latter ship repairing.

#### 4. Foreign Investment

One of the critical objectives of FTZs is the inducement of export-oriented industry from foreign countries in general, and advanced countries in particular. Hence the success of FTZs is largely measured in terms of the number of foreign firms or MNCs making investment in the zone. For instance, Kondla's failure is largely attributed to the lack of foreign investment except for overseas Indians, whereas 121 investment projects have been approved in Katunayake as of July 1980, out of which 104 projects are joint ventures with foreign firms. Except Taiwan and Korea, there has not been a single FTZ in Asia which has attracted so many foreign investors in so short a period. Further it is interesting to note that more than half of the investors are so-called Third World multinationals from Hong Kong, Korea, etc. In countries which have longer experiences in FTZs such as Taiwan, Korea, the Philippines or Malaysia, Japanese and US multinationals are the major investors. 37% of investment in Taiwan's three FTZs was made by Japan and 14% by US (15.8% by Europe). In case of Masan, the Japanese investment is as high as 82%, but US investment was negligible 6%.

Then let's see the contribution of FTZ exports to the total exports of the country. Tables 1 to 3 indicate the performance of FTZs in Taiwan, Korea and the Philippines. According to these tables, the average export ratio in Taiwan in the past 10 years (1970-79) was 8.2% but followed a declining trend. During the same period, Korea was 3.3%, showing increasing trend. It was less than 1% in the Philippines (72-79), but it has increased very rapidly. According to the discussion with the Zone Manager in February 1983, it went beyond 10%. In the case of Santa Cruz, its export contribution is as low as 0.2% (1979-80). But if it is limited to the export of electronic-related products, it jumps to 30% (conversely it shows the small volume of export of electronic goods in the national economy).

#### 5. Determining Factors for Investment in FTZs

In order to survive in tough competition in the international market, firms always seek for ways and means of producing high-quality goods at the lowest cost. In this respect, MNCs possess capability to determine where to set up their production bases in most efficient and effective manner. Located at geographically convenient places and motivated by the provision of attractive incentives for export-oriented industry, it is quite natural for MNCs to find advantages in making investment in FTZs. These incentives form a package which include exemption from tax, one-stop operation for administrative efficiency, well-developed infrastructure, ready-made facilities, minimum government intervention, etc., which may be divided into two categories:

a. Basic Incentives

- i. Availability of labour force, well disciplined and corresponding to the technical level required.
- ii. Availability of physical infrastructure such as road, electricity, water, port, communication, etc.
- iii. Easy outlet to the market.
- iv. Social and political stability and no antipathy to foreign investment.
- v. Clearly-stipulated laws and regulations concerning capital investment, import and export, remittance of profits, dividends and interest, wage and labour conditions etc.
- vi. Lack of militant labour unions.

The above incentives are the minimum prerequisites to motivate investment in the zone. Therefore, unless and until these factors are fully met by the host country, fiscal and financial incentives mentioned later are bound to lose effectiveness.

b. Fiscal and Financial Incentives

- i. Total or partial exemption from import tariff applicable to capital goods, raw materials, parts or components.
- ii. Total or partial exemption from corporate tax, income tax, commodity tax, business tax, and other domestic taxes.
- iii. Low wage controlled by the government.
- iv. Application of accelerated depreciation of fixed capital.
- v. Availability of loans from domestic financial institutions.
- vi. Carry-over of trading losses.
- vii. 100% foreign owned investment.

The above incentives are more or less similar among FTZs. It should be noted, however, that investment decisions are made taking not only fiscal and financial incentives but also basic incentives as well. More often, higher priority is given to the latter with reference to low wage, geographical advantage, social and political stability, harmonious labour management relations, availability of sub-contracting industries, etc. Another reason why MNCs pay less attention to fiscal and financial incentives in general and tax holiday in particular, is that they intentionally escape corporate income after the expiration of tax holidays through the mechanism of transfer pricing. For instance, large MNCs located in Taichung registered either zero or negligible profits in 1979 when they had profits as high as 17% per annum during their 5-year

tax holidays. The products are manufactured by an affiliated firm in FTZ and sold to the buyers through its parent firm abroad. Profits on sales can therefore easily be avoided by raising the costs of furnished raw materials and forcing down sale prices by the parent firm(1).

6. Labour Cost and Labour Movement

According to the information collected by the World Export Processing Zone Administration (WEPZA) 1979, the average labour cost for semi-skilled and non-skilled workers in the zone ranged somewhere between US\$0.7 and 1.5 per hour. Needless to say, it should vary from country to country, industry to industry and even firm to firm and further, it also depends upon the skill level and experiences. There is a big wage gap between host countries of FTZs and home countries, and this gap is one of the major factors motivating foreign firms to transfer labour-intensive operations to FTZs.

Workers during apprentice period receive lower wage and there are firms which take advantage of apprentices. For example, apprentices accounted for 40% out of the total workers employed in one firm, which was reduced to only 30% in three years. Wages paid to them was about 60% of the minimum wage for a period of three-month apprentice period. This period is much longer than the usual 2 to 3 weeks because it won't take much time to learn simple operations. With cyclical employment of apprentice workers, the firm was able to save as much as 40% of wage costs(2).

Is wage inside the zone higher or lower than wage outside? It is difficult to generalise, but it may be safe to conclude that wage inside the zone is almost the same as that outside, if not higher. But in those countries where labour shortage has already become a reality (such as Taiwan and Korea), wage outside the zone is much higher. For instance, average monthly wage from 1977 to 79 in Masan was US\$ 127,151 and 182, whereas wage outside during the same period was US\$170.230 and 295.

With regard to the human rights of workers in the zones, the government prima facie applies the domestic laws and regulations to the zone firms on an equal footing. And therefore workers retain their right to form unions and organise strikes. But in practice, laws and regulations are one thing and their interpretation and application are another. In June 1982, workers in a Japanese firm at Bataan voiced against the increased number of looms allocated to them. A number of workers were arrested which led to a large-scale strike(3). Similar troubles frequently occurred in Masan. In any case it seemed that the government always put pressure on the workers and unions to favour foreign investors.

(1) K.J. Wang, "Export Processing Zones in Taiwan, ROC As a Means in Promoting North-South Complementary Intra-Industry Trade", mimeo, July 1980, pp. 18-19.

(2) L. Delatour, "The Evolution of International Sub-Contracting Industries in Haiti", presented to UNCTAD Seminar on North-South Complementary Intra-Industry Trade, Mexico, July 1980.

(3) Asahi Shimbun (The Daily Asahi), 29th January 1983, Tokyo



Labour unions in the home country could oppose investment in FTZs. During the high economic growth or when business was good, unions were not against the management's decision to shift part of the production facilities to FTZs because it hardly affected the employment position at home. After the oil shock, however, they began to show reluctance to accept management policy in this respect due to increasing unemployment. They argued that various incentives which were not applied to firms outside the zone would trigger unfair competition in international trade, and that this unfair competition could be accelerated by exploitation of workers. Hence zone firms should honour the social clause of GATT which would specify minimum requirements concerning working conditions(1). The proposal to improve the working conditions in the Zone is understandable, but at the same time it is highly arguable whether working conditions in the zone are worse than those outside the zone. Their main objective therefore seems to protect their jobs under the pretext of protection of workers in developing countries. UNIDO's study, however, reveals that the transfer of production facilities from developed to developing countries would not adversely affect employment in the source country of investment, and in fact productivity and technological change are the direct causes of unemployment(2).

#### 7. Technology Transfer

96% of R and D expenditures of the world are made in developed countries and almost all patent rights are owned by them. Under these circumstances, developing countries have little choice but to resort to MNCs in obtaining production and management technology. Consequently technology transfer always receives high priority as one of the important objectives in establishing FTZs. But technology transfer is closely related to the production process. In the textile industry, zone firms mainly undertake sewing processes and, therefore, technology transfer in the important processes such as designing of dyeing hardly takes place. Likewise, assembly of intermediate goods is the main process in the electronic industry, but here again production of core parts and components (mask-making and wafer-fabrication in semi-conductor for instance) is left to either the parent firm or its subsidiaries having high technological level. As these cases illustrate, FTZs in general accommodate simple manual jobs which reduces the possibility for technology transfer as was originally conceived by the host country.

High quality standards are always requested for goods shipped from FTZs so as to make them fully competitive in the international market. It is in this aspect of quality control where potential for technology transfer is likely to be observed. In fact transfer of standard technology such as QC or ZD appears more beneficial for developing countries than specific modern technology

(1) WEPZA News, April-June 1979.  
(2) "The Impact of Trade with Developing Countries in Developed Countries", UNIDO Working Paper on Structural Change, No.3 October 1978.

which is of limited use. Technologies which are taught are the standard ones including, for example, welding, shearing, electro-planing, polishing in the field of production technology, quality or production control, sales management, personnel management, export marketing in the field of management technology. These are the basic technologies which are ubiquitously applied irrespective of the stage of economic development. Therefore criticism levelled against the level of technical training which is often too high for developing countries to use won't hold up.

In such FTZs as Korea or Taiwan where technological level is considerably high, technology transfer is not only limited to standard technology but goes beyond to meet the needs of high technology which could contribute to upgrade the capability of indigenous firms outside the zone. In Masan where nearly 50% of the firms are engaged in electronics industry, a total of 3,000 to 4,000 persons were known to have received technical and engineering training in the zone and abroad (mainly in Japan). Among them 700 to 800 persons were considered to be qualified technicians and engineers in electronics. More than half of them left the zone either to join the large Korean electronic firms or to establish their own firms, taking along the technical knowledge with them. In Taiwan's three zones, more than 4,000 persons received training at the MNC's headquarters, and replacement of expatriates by local staff has taken place in a rapid manner.

Effectiveness of technology transfer is measured when it seeps out of the zone. As the case of Masan demonstrates, this is realised through the transfer of staff to firms outside the zone or establishment of new firms by them. The problem is that zone firms are not able to recover the training cost which could dissuade firms from providing training in countries with high labour mobility. In an extreme case, a large Japanese electrical firm in one of the FTZs in Malaysia sued a trainee for training expenses when he decided to leave the firm after training at the parent firm. Under pressure from the Japanese government, the firm eventually withdrew the case(1). Needless to say, this should be treated as an exceptional case and, more often than not, the parent firm considers recruitment and training cost resulting in high turnover as the necessary investment in running the operation in developing countries. Some FTZ firms in Taiwan took a more active attitude toward this unavoidable phenomenon by developing sub-contracting arrangements with those who established their own firms after they left the zone(2).

Effectiveness of technology transfer is also measured by what extent management and engineers have been indigenized. Generally speaking, Western firms appear more flexible to indigenization than Japanese firms. Philipps in Kaohsiung has replaced more than 30 expatriates stationed in Santa Cruz. FTZ firms should, however, be careful

(1) Asahi Shimbun (The Daily Asahi), 11th February 1980, Tokyo  
(2) Y. Ohnishi, "Gijutsu Iten Mondai no Shoten (Focus on Issues relating to Technology Transfer)", Keizai Hyoron Publisher, Oct. 1980, p. 103

with regard to the timing of replacement. Firms could go wrong if replacement is made sooner than technology transfer reaches a satisfactory level(1). In a Japanese giant electric firm in Sung Way in Malaysia, the local management was against the government policy to reduce the number of Japanese staff because they believe it could lose the dynamism of Japanese management.

In any case it is next to impossible to measure in a quantitative manner the achievement of technology transfer, and therefore the host country (partner) should have a clear policy on what they should gain through technology transfer. If they want to develop the manpower, they should work out a planning for training in order to accomplish early but smooth replacement without a hitch. If they want to promote linkage with domestic firms; care should be taken concerning the share of local purchases in the total as well as value-added content.

## Part I: Some Basic Issues

### 1. Role of MNCs

Often MNCs operating in developing countries are branded as a bad guy exploiting cheap labour, evading taxes and corrupting the government officials. Many of the criticisms against them appear not to be completely unfounded. But at the same time it is also true that the positive contribution made by them has not received due credit. Whatever arguments we develop, the power and influence of MNCs are so enormous that they still stay and keep running business in developing countries unless drastic actions are taken as India expelled IBM. But India lost the opportunity to gain computer software and hardware technology.

The resources owned and developed by MNCs in the field of finance, technology, management, marketing, information, etc. should not be underestimated. If we accept them as a hard reality, it is thought to be more beneficial to establish rapport with them and try to take advantage of their resources for employment generation, technology transfer and many other spin-off effects. And in fact many MNCs are prepared to extend their assistance and cooperation in hastening the pace of economic development, which is also beneficial to them as well. Here is one case demonstrated by Matsushita Corporation, a giant Japanese MNC, whose affiliated firm is located in Sungei Way FTZ in Malaysia(2).

Matsushita Industrial Corporation was established in 1972 in the zone to manufacture window-type air conditioner. Being semi-heavy industry, 80% of the total 900 employees are male workers. Their contribution to the host country is observed in, inter alia, manpower development. Indigenization of management and engineers is the policy of the parent firm for which they spared no effort to train local staff. A number of staff - apprentices, rank and file as well as management - received training and education at the government-run training institutes in the host country, as well as at the parent

(1) T. Shishido and Nikko Research Centre (ed), "Kaigai Toshi no Shin Jidai (New Era for Overseas Investment)", Toyo Keizai Publishing Company, 1977, p. 246

(2) Y. Kobe, "Investor's View on Export Processing Zones: Case of Malaysia", paper presented to the APO Symposium on Economic

firm in Japan so as to upgrade specific technical and managerial skills. The parent firm also established an industrial training institute in Singapore which renders training and consultancy on dye and mould manufacturing technology mainly to serve Matsushita's affiliated firms in the ASEAN region. Eventually it is expected that not only parts and components but also the basic design work of air conditioner models is undertaken at the local level.

Matsushita is the only firm in the zone which is unionised, and labour management consultation mechanism fully functions at national, firm and shop levels. Hence the working conditions agreed upon are one of the best deals for both parties, not only in the zone, but also is comparable to the best offered by other firms outside the zone.

### 2. Linkage Effects with Domestic Industry

Linkage with FTZs with firms in domestic tariff areas is always listed as one of the important objectives of FTZs. High linkage effects could bring the long-term advantage to the national economy, but limited linkage will narrow down the role of FTZs in technology transfer, subcontracting promotion and development of indigenous industry. In the light of the nature of FTZs producing finished goods for export market, forward linkage is hardly observed. Whereas, backward linkage, whereby raw materials and parts shipped from the domestic firms are used to produce finished or semi-finished goods in the zone seems more promising. Due to tax concessions which allow FTZ firms to import raw materials without payment of tariff or the policy of the parent firm to rely upon foreign subcontractors on highly selective basis to maintain high standard of parts and components, it is not so easy to increase linkage effects without deliberate policies and efforts, some of which are illustrated in the following:

#### a. Minimum local content

FTZ firms are obliged to purchase materials or parts from domestic firms to a certain extent so that value-added contribution to the host country can be increased. For instance, it is 25% in India and Taiwan, and 35% in Korea. In practice, however, many firms have exceeded the minimum requirement. Korea was planning to increase it to 60% and in Taiwan local procurement has reached as high as 90% in terms of volume of goods and 60% in terms of money value with reference to Japanese TV makers. However, some care should be taken to interpret these high achievements because increasing local content in Japanese MNCs in Taiwan is partly due to twinning arrangements between MNCs affiliate in the zone and its Japanese subcontracting firms outside the zone(1). It seems that FTZ firms still put less confidence on pure indigenous firms for quality and delivery of goods.

(1) Isao Kawahara, "Ajia ni okeru Yushitsu Kakoku no Genkyo to Tembo (Present Position and Future Perspectives of Export Processing Zones in Asia)", Kaigai Toshi Kenkyujo Ho, Japan Ex-Im Bank Overseas Investment Research Centre, March 1981, pp. 18-19



b. Lease of machinery/equipment/raw materials

In Malaysia, duty-free raw materials are allowed to be taken out for further processing in the domestic tariff area, which are re-exported back to the zone with minimum procedures. Moulds and dyes of FTZ firms are on lease to domestic firms to produce parts and components which are also shipped back to the zone.

c. Local purchase competition

In Taiwan, firms which have achieved high performance in local purchase are awarded trophies by the Prime Minister, Economic Minister, etc.(1). The incentive for this competition lies in the possible allocation of expanded export quotas to firms making higher local purchases.

d. Tax incentive

Increased linkage effects demonstrated in Santa Cruz may be due to the recent policy change in which the refund of sales tax paid by FTZ firms on the purchase from domestic firms is now allowed(2). This is nothing new in many countries, but innovative in India where MNCs are constantly under government pressure.

In any case, linkage effects have increased steadily year by year not only in advanced FTZs (see Tables 1 and 2) but also other FTZs, and this also suggests that FTZs cannot and should not be treated as an enclave segregated from the national economy but as an important partner in the integrated policy instruments for industrialisation.

3. Foot-Loose Industry

Increasing wage costs, expiration of tax holidays and more attractive incentives offered by newly-created zones could motivate FTZ firms to shift their production base from one zone to another. It may be true that time horizons of FTZ firms may be shorter than that of the host country which considers FTZs as one of the policy instruments to achieve economic development in the long run. But it does not mean that FTZ firms organise hit-and-run business strategy by simply exploiting various incentives. Firstly, FTZ firms have to meet considerable costs either for making investment or withdrawing it. Secondly, in addition to wage and incentives, investment decision is made taking into account access to market, labour management relationship, linkage with domestic firms, etc. New zones may be able to provide better terms in fiscal and financial incentives, but it takes time to develop overall business environment which is more important to investors. Thirdly, they could conceal profit through transfer pricing to neutralize duration of tax holiday(3). Lastly, so far not a single case has been found which fits this type of firm in Asia. For instance, not a single Japanese firm in Masan or Kaohsiung was shifted to other zones (though many firms in Masan pulled out because of their mismanagement). Conclusion hence drawn is that FTZ firms' foot-loose nature is nothing but an academic concept.

(1) K.J. Wang, op.cit. p.9  
(2) Business Environment, Tata Economic Consultancy Service, April 19 1980, p. 123  
(3) K.J. Wang op.cit. p.11

However, one caution may be on order in future with particular reference to the Third World multinationals. As we saw, a number of small MNCs based in developing countries have made investment in FTZs in Sri Lanka, Indonesia or Malaysia. They have some potential to act as foot-loose industry because their business strategy is to make profits in the short run. They usually rent standard building and bring second-hand machinery and equipment from the source country so as to make investment minimal. They take advantage of export quota of host country as well as, of course, incentives offered. Once these advantages are gone, they have enough reason to find a better place for investment. Then, is there any effective way to block their investment projects only on the basis of joint venture arrangements with either firms from advanced countries or with domestic firms as majority partnership?

4. Labour Conditions

There is a view that FTZs are nothing but a new form of sweatshop in the sun established in developing countries by MNCs from advanced countries. They made investments in FTZs because they cannot set up highly exploitative production systems in the home countries for fear of public opinion, legislation or labour union movement. However, the host country of FTZs often lures foreign investors by providing them with different labour standards including wages, working conditions and union activity etc. The collusion of foreign investors and host government would thus make the things worse which is nothing but exploitation of workers. To what extent this view holds true may be different depending where we stand, and it is not surprising to see the views of management and workers which are poles apart. Let's see a few major issues in a cursory manner:

a. Wages

Wages in Bataan are lower than those paid to comparable workers outside the zone. So are Korea and Taiwan. Malaysia is at par, but Katunayake slightly better. All in all, it is difficult to generalize(1). Wages are, after all, decided by the market forces between supply and demand of labour. Wages are lower in Bataan simply because there is still a pool of young girls who want to find jobs even at wages lower than outside the zone. Wages are at par in Malaysia because surplus labour is becoming dried up. It is a puzzle why wages in Korea and Taiwan are lower in zones than domestic tariff areas under increasing labour shortage. In these two countries it is thought that a strong government intervention to control wages still functions.

b. Working conditions

Long working hours, setting of severe working norms, occupational hazards and environmental pollution, etc., are frequently illustrated to highlight the poor working conditions of young female workers who constitute the majority of workforce in FTZs.

(1) Gus Edgren, "Spearhead of Industrialisation or Sweatshops in the Sun: A Critical Appraisal of Labour Conditions in Asian Export Processing Zones", ILO-ARTEP, August 1982, pp. 12-16

However, it seems unfair to solely blame MNCs in operation in the zone because poor working practices are often transferred to the zone from firms outside the zones. For instance, it was reported that female workers with higher productivity in Bataan are not rewarded with financial incentives but with seniority at the time of lay-off. This practice was brought from firms outside the zone(1). However, effective it may be, the zone administration is also responsible to supervise and control the working conditions in the zone so that labour disputes in a cordoned-off area would not affect other firms. Needless to say, we should not close our eyes to the mal-practices or wrong doings of MNCs, and some zone administrations have made efforts to improve the working conditions. In Taiwan, the zone administration requested all electronic firms to carry out regular medical check-ups, to provide vitamin pills to protect the eyesight of workers and to give more frequent rest periods, or to rotate them from one position to another.

c. Trade union and rights of workers

With a view to inducing foreign investment to FTZs, host country sometimes provides no-union and no-strike clauses in FTZ regulations as a special case. In Korea, "provisional special law concerning regulation of labour unions and labour disputes at foreign capital firms" not only bans practically all labour disputes in the zone but also emasculates trade union activity(2). In the Philippines, labour disputes in the zone are immediately brought to the attention of the statutory committee for compulsory arbitration(3).

With very limited exceptions such as Korea or Taiwan, however, the domestic laws and regulations governing industrial relations are equally applied to FTZ firms, at least in letter, though not always in spirit. In reality, the host government through the zone administration exerts direct and indirect pressures to discourage the formation of unions or the organisation of strikes. The substantial employment of young female workers seems in line with the aim of preventing labour disputes. They hardly become militant in the labour movement due to their poor educational background and high turnover.

5. FTZs and Export-Oriented Industrialisation

Often it is argued whether FTZs can be a spearhead of industrialisation or whether their role is after all peripheral and hence insignificant in the national economy. It is true that FTZs can be instrumental to generate employment, increase foreign exchange earnings, upgrade skill levels or develop concessions to attract the foreign investors which reduces the option of resource allocation in the national economy. Then the question is, are FTZs the only one policy instrument the government is able to adopt for export-oriented industrialisation so as to generate employment or foreign exchange earnings?

(1) Discussion at ILO Workshop on Free Trade Zones and Industrialisation in Asia, University of the Philippines, 2-4 February 1983  
 (2) Gus Edgren, op.cit., p.21  
 (3) "Filipin no Shakai to Roshu Kankei (Philippino Society and Industrial Relations)", Japan Labour Institute, June 1978; p.228

The experiences of Korea and Taiwan at the expansion stage of FTZs in 1970s suggest that they have acted as an engine for economic growth. Six to 8% in terms of employment absorption and export performance in the national economy in Taiwan was not insignificant at all. The considerable contribution achieved by FTZs in these countries was, however, made possible only by the basis of the improvement of overall economic environment. In other words, there was a symbiotic relationship between the success of FTZs and that of industrialisation in other sectors of economy. Hence it seems quite natural that the role of FTZs is bound to be diminished once overall economic development has achieved a certain level, because it is no longer beneficial for the country to provide various concessions and incentives which could otherwise be utilized in a more efficient manner outside the zones.

Therefore, the tentative conclusion we may reach is that, even if FTZs constitute a single entity, they should hardly be treated separately from the overall national economy. We should not discuss either FTZs or other mechanisms of export industrialisation, but FTZs should be viewed and functioned within the framework of integrated national economic development.

6. Life Cycle of FTZs and Their Future Perspectives

Observation of advanced FTZs leads us to ask if they have a life of their own. The cycle goes through four stages, i.e. formation, expansion, maturity and decline. At least up to the third stage there seems less argument in the light of experiences of Korea and Taiwan. FTZs were formed with necessary infrastructures, inflow of foreign investment increased and export expanded rapidly till FTZs reached the maturity stage. Then declining tendency started to appear in several aspects. First of all, the number of firms which pulled out has increased. For instance, in Taiwan, such labour-intensive industries as plastic, leather, garments and knitwear have phased out more rapidly than electronics or machinery products. Even the electronics and electrical firms engaged in the assembly of less expensive and standardized consumer goods such as transistor radios, cassette recorders, small calculators, etc. were more vulnerable to close-down. Secondly, the total employment position remains status quo.

Employment in Masan has remained unchanged at around 30,000 since 1977. Thirdly, the growth rates in foreign investment and export, though greater in volume, have been declining. These phenomena are due to the worldwide economic recession, increasing wage costs, limited physical capacity of FTZs for further expansion, and, most importantly, the gradual improvement of the overall investment environment of the country which deprived FTZs of the competitive edge so far enjoyed vis-a-vis non-FTZ industries.

However, this can be a blessing in disguise because the host country may grab the opportunity to drive out labour-intensive industries. In Taiwan, export value per employee has been increased considerably in the field of high value-added and high

technology industry such as electronics and electric (6 times between 1969 and 79), precision instruments and optics (8 times) or leisure goods - yachts, musical instruments, sport goods, etc. (6.5 times). From this viewpoint it may be misleading to use the word 'declining' which could be replaced by 'transforming' to convey what the former really connotes. Whatever the terminology we may use, it is true that pure simple processing operation in FTZs is not likely to survive for long after the national economy has developed to a certain stage.

Then where will FTZs go? Experiences in Korea and Taiwan seem to suggest future of FTZs. In Korea, when FTZ firms (mainly small firms from Japan) pulled out, the government encouraged large domestic firms with high technology to fill in the vacant lot(1). Masan seems to imply that the zone may eventually be converted to the ordinary type of industrial estates. Apparently Korea has reached an economic stage where she did not have to rely upon FTZs. In Taiwan, the existing FTZ systems were modified to suit the present economic requirements which brought the government to establish a Science-Based Industrial Park (SBIP), patterned upon the models of Stanford Industrial Park of Research Triangle Park in the US(2). The SBIP is an industrial-academic complex aiming at introducing foreign technology and brain-power which are expected to play a catalytic role in transforming the overall industrial structures in the country. Industries which are to be accommodated in this part are therefore sophisticated-technology-oriented such as digital and linear electronics, high precision instruments and machinery, energy and aeronautical industries, computer systems, etc. Nowadays a number of firms mainly drawn from US are engaged in actual operation.

(1) B.G. Van, "Economic and Social Impacts of Masan Free Export Zone in Korea", paper presented to the APO Symposium 1980, p.16  
 (2) K.J. Wang, "Economic and Social Impacts of EPZs in ROC", paper presented to APO Symposium 1980, pp.34-38

Table 1: Development of Export Processing Zones (Taiwan, ROC)

(Unit: % Million US\$)

Year	Export Processing Zones										Export Processing Zone Index				Ratio of Local Procurement
	Taiwan					Foreign Local					Added-Value Structure		Exchange Pro-Value		
	Invest-ment	Export	Import	Invest-ment	Export	Import	Export	Import	Invest-ment	Export	Import	Export	Import	Earnings	
A**	B	C	D	E	F	G	H	D/A	E/B	F/C	E/B	F/C	Earnings	Added	H/F
1966	29.3	536.3	622.4	* 11.0	9.2	13.7 <sup>Δ</sup>	5.5	0.3	37.5	1.3	1.7	-	3.5	-	2.1
67	57.0	540.7	955.3	4.5	26.4	29.6 <sup>Δ</sup>	3.2	1.5	8.0	3.3	3.3	-	5.5	-	4.8
68	89.9	789.2	903.3	10.3	62.2	54.4	7.8	4.1	11.5	5.9	4.5	12.5	6.7	5.8	7.0
69	109.4	1,049.4	1,212.7	10.6	109.4	90.1	19.2	7.2	9.7	7.4	5.9	17.6	6.6	11.0	7.4
70	138.9	1,481.4	1,524.0	18.8	163.5	110.3	53.1	14.3	13.5	6.0	6.0	32.5	8.7	23.8	11.5
71	153.0	2,060.4	1,843.9	7.9	241.1	165.4	75.8	24.3	4.9	6.6	6.6	31.4	10.1	21.3	12.8
72	126.7	2,938.1	2,513.5	14.7	404.7	299.8	104.9	46.6	11.6	8.1	8.1	25.9	11.5	14.4	13.5
73	248.9	4,483.4	3,792.5	62.9	511.3	309.9	201.4	45.9	25.3	7.9	7.9	39.4	9.0	30.4	12.9
74	189.4	5,639.0	6,965.7	15.9	459.0	270.6	188.4	46.5	8.4	4.4	4.4	41.0	10.1	30.9	14.7
75	118.2	5,398.8	5,951.7	19.8	676.0	373.3	302.6	80.0	16.7	4.5	4.5	44.8	11.8	33.0	17.6
76	141.5	8,156.3	7,598.9	32.3	761.2	395.3	365.9	95.2	22.9	4.6	4.6	48.1	12.5	35.6	19.4
77	163.9	9,360.7	8,510.9	20.8	937.6	564.7	372.9	148.5	12.7	5.1	5.1	39.8	15.8	24.0	20.8
78	212.9	12,687.1	11,026.9	25.8	1,204.7	610.1	594.7	241.2	12.1	7.4	7.4	49.4	20.0	29.4	26.3
79	328.8	16,106.5	14,767.5	26.3	1,204.7	610.1	594.7	241.2	8.0	7.5	7.5	49.4	20.0	29.4	26.3
total	2,252.4			281.7					11.0						

Remarks: \*Total as of the end of 1966  
 \*\*Overseas Chinese only

Source: Export Processing Zone Administration, Ministry of Economic Affairs.

Table 2: Development of Export Processing Zone (Masan, ROK)

(Unit: %, Million US\$)

Year	Export Processing Zones										Export Processing Zone Index			Ratio of Local Procurement	
	Investment	Export	Import	Investment	Export	Import	Foreign Exchange Earnings	Local Procurement	Investment	Export	Import	Foreign Exchange Earnings	Local Procurement		Other Value Added
Ass	B	C	D	E	F	G	H	D/A	E/B	F/C	Added-Value Structure (Export = 100)			H/F	
1970	822	1,304	1.2	0.9	0.6	0.3	0	0.1	0	0	27.9	1.5	26.1	0	
71	1,133	2,177	4.1	9.7	5.7	3.0	0.4	52.5	0.6	0.3	30.9	4.3	26.6	5.0	
72	1,674	2,251	31.6	70.4	51.6	18.8	11.2	29.1	2.1	1.3	26.6	15.9	10.7	17.8	
73	3,284	3,849	45.6	181.5	153.6	27.9	29.6	3.7	4.0	2.4	15.4	16.3	0.9	16.2	
74	4,516	6,454	5.6	174.8	99.5	75.3	30.3	0.1	3.5	1.5	43.1	17.3	25.8	23.3	
75	5,003	6,674	9.0	303.0	185.8	117.2	63.7	9.0	3.9	2.2	38.7	21.0	17.7	25.5	
76	7,814	8,404	5.9	367.9	203.5	164.4	88.9	5.9	3.7	1.9	44.7	24.2	20.5	30.4	
77	10,046	10,526	8.0	484.8	254.4	230.5	108.8	8.0	3.8	1.8	47.5	22.4	25.1	30.0	
78	12,712	14,494	2.6	600.6	289.2	311.4	147.7	2.4	4.1	1.5	51.8	24.6	27.2	33.8	
79	14,706	19,103	115.2												
Total	1,000		115.2					11.5							

(end of March 1980)

Remarks: \*Total as of the end of 1971  
\*\*Foreign Investment Only

Source: Masan Export Processing Zone Administration.

Table 3: Development of Export Processing Zone (Bataan, the Philippines)

(Unit: %, Million US\$)

Year	Export Processing Zones										Export Processing Zone Index			Ratio of Local Procurement	
	Investment	Export	Import	Investment	Export	Import	Foreign Exchange Earnings	Local Procurement	Investment	Export	Import	Foreign Exchange Earnings	Local Procurement		Other Value Added
Ass	B	C	D	E	F	G	H	D/A	E/B	F/C	Added-Value Structure (Export = 100)			H/F	
1972	20.4	1,136	1,261	0.4	0.2	0.2	0.1	0.1	0	0	57.5	13.0		33.3	
73	113.5	1,472	1,596	0.9	3.3	2.3	0.2	0.2	0.1	0.2	-	24.6	-	5.7	
74	155.5	2,694	3,144	0.5	2.1	37.5	0.3	0.3	0.3	0.2	-	12.0	-	0.8	
75	154.7	2,263	3,459	1.5	7.3	20.7	0.8	0.8	1.0	0.6	-	11.0	-	3.7	
76	137.6	2,517	3,633	1.2	22.4	19.9	4.1	0.8	0.9	0.6	10.9	13.4	7.5	17.1	
77	165.5	3,074	3,914	3.4	39.7	34.6	5.1	2.0	1.3	0.9	12.9	23.9	11.0	21.5	
78	169.4	3,429	4,732	0.8	67.6	45.0	3.7	0.5	2.0	1.0	33.4	5.4	28.0	7.6	
79	252.5	4,604	6,142	*12.1	113.3	n.a.	41	4.8	2.5	-	36.2	-	-	8	
Total	1,335.3			*19.4				1.5							

(end of March 1980)

Remark: \*Including other EPZs

Source: Export Processing Zone Administration.

### Are Free Trade Zones Spearheads of Industrialization?

Lois Stewart, Economist, ICFTU

In response to the concern of our affiliates in the countries where Export Processing Zones - or Free Trade Zones - are located, the ICFTU has commenced a worldwide campaign on these Zones with the publication of a special issue of our Information Bulletin on Trade Unions and Transnationals. The Information Bulletin surveys the characteristics and location of Zones worldwide, analyses their economic and social impacts and sets out recommendations for international trade union action. In addressing the question of whether the Zones are "spearheads of industrialisation", I will be basing my remarks on the information contained in this document.

### National Development Strategy

In assessing the role of Free Trade Zones as part of an industrialisation strategy, it is necessary to bear in mind that industrialisation in the Third World is well behind target. In 1975, the United Nations Development Organisation adopted the Lima Declaration and Plan of Action whose aim was, by the year 2000, to locate 25 per cent of world industrial production in developing countries. Recent estimates show that developing countries' share will be only 16 per cent by the year 2000 and most of this will be located in the more developed countries of Asia. The achievement of the Zones must also be viewed against the backdrop of the international economic environment of recession, protectionism and cut-backs in development aid. During the 1950s and 1960s some countries pursued deliberate policies to substitute domestically produced goods for manufactured imports. Import substitution was successful in a few specific industries such as cotton textiles, sugar refining, paper and cement. For some smaller economies import substitution was never an option. And growing balance of payments deficits, high levels of unemployment and under-employment and the widening technological gap led to the increasing adoption of a more outward-oriented strategy.

During the 1970s, international development agencies began to promote export-led industrialisation. The objectives of this strategy were to start up a process of industrialisation, bring in much needed foreign exchange and promote the transfer of technology. One after the other, developing countries have adopted new laws and systems giving incentives to foreign investment, particularly to those ventures which would produce for export.

It is within this context that the Free Trade Zone was developed as a mechanism to give an initial boost to export-oriented industrialisation and generate investment confidence. The theory is that development in the rest of the economy will come through a "trickle down" effect from the direct foreign investment in the zone.

### Role of the TNCs

The development of the export-oriented approach and the spread of Zones is closely associated with the increasing transnational organisation of production and the consequent growth of sub-contracting and outward processing. Transnational Corporations, in particular, have been able to use the Zones for their own international restructuring activities, especially to take advantage of low-paid labour. The structure of such industrial production is increasingly characterized by the sub-division of the manufacturing process or product groups at different sites worldwide.

With the establishment of Free Trade Zones, many countries, which might otherwise be regarded as "unattractive" from the point of view of TNCs, have created enclaves with all the preconditions for efficient and competitive production designed purely to benefit the production needs of TNCs: a fully equipped and serviced infrastructure; abundant low-cost labour supply; tariff, tax and currency privileges; efficient administration; and trouble-free industrial relations.

### Zones Worldwide

As we have already heard from previous speakers, Free Trade Zones are a very rapidly growing phenomenon worldwide. They are to be found not only in Asia, but also in Africa, the Caribbean and Latin America. Zones with similar characteristics to those in developing countries are also being promoted in the industrialised countries - both market-oriented and centrally-planned economies.

### Spearheads of Industrialisation?

Are the Zones spearheads of industrialisation? According to their proponents, the Zones:

- encourage industrial development;
- attract foreign capital;
- provide employment opportunities;
- bring in more sophisticated production techniques and facilitate the transfer of modern technology;
- increase export earnings and foreign exchange;
- increase utilisation of domestic raw materials and semi-manufactures.

Let us compare the theory to the practice. In addition, a trade union critique of any industrial strategy must also assess whether it raises living standards, increases purchasing power and contributes to the satisfaction of the basic needs of the population.

### "Dead End" Method of Industrialisation

The reality of Free Trade Zones is that it is a "dead end" method of industrialisation - it leads nowhere. Contrary to the claims of their proponents, the Zones have not attracted significant amounts of foreign investment; improved balance of

payments positions; nor have they promoted a significant transfer of technology. They have also tended to hold down wages, have had negative impacts on working and living conditions and have not created a firm base for self-sustained and balanced industrialisation.

#### Foreign Investment and Export Earnings

The experience is that the Zones do not automatically attract significant amounts of foreign investment. The United Nations Industrial Development Organisation (UNIDO) estimates net foreign investment worldwide in the Zones at US\$ 10-15b. The success in attracting foreign investment varies from country to country. The less attractive the country, the greater the incentives which have to be offered. Host governments usually have to provide land and infrastructure and prepare the factory site. The investing companies often finance their investments, mainly equipment and machinery which can be re-exported, from local sources of capital.

The extent to which the Zones result in foreign exchange earnings is also not apparent. These earnings are limited because governments often have to draw on scarce foreign currency reserves to provide the infrastructure; in addition, companies are allowed to repatriate as much as 100 per cent of profits tax-free over a ten or twenty period, which represents a debit on the balance of payments account. The high import-content of many products manufactured in the Zones also reduces export earnings. Revenues from zones to governments are extremely limited because wages and rents are kept at low levels and taxes are waived.

#### Unbalanced Industrialisation

Production in the Zones is concentrated in relatively few industries, the most prominent being textiles, garments and electronics. The greater part of manufacturing in the Zones is non-complex and consists mainly of part processes and assembly operations, which have often been sub-contracted by TNCs. The value added on components or part operations is very much less than on the production of an entire product. The goods produced normally cannot be sold locally and certainly do not satisfy basic needs. They are usually parts or components for final assembly in the TNC's home country, or products not suitable for local sale. Production processes and products typical of the zones are:

- the welding of microchips;
- sub-assembly or assembly of radio and television components;
- assembly of toys;
- assembly of sophisticated scientific instruments.

EPZs in general remain enclaves and industries in them generate few linkages with the domestic economy. In general, forward linkages (the processing of products from the zone in the host country) cannot be realised because the zones are usually

restricted to export production only. Backward linkages with domestic production activities are also limited. Companies in the zones have a high propensity to import their supplies of intermediate goods and raw materials, often from other parts of the same TNC (vertical integration). Wages from direct and indirect service employment are the biggest linkage with the host economy. But these are limited due to the continual pressure by TNCs to cut costs. Therefore, how can the Zones act as spearheads of industrialisation when they generate very low purchasing power and few linkages?

#### Transfer of Technology

The transfer of technology is also limited as it is linked directly to the character of the production process. A production strategy which locates only parts of the total production process in a developing country is thus likely to result in a limited transfer of technology. Potential spin-offs are confined to relatively low-level technologies of assembly operations. Again, much of the technology applied in the Zones has been developed for processes and products which may not be relevant for the development needs of the domestic economy. The pre-assembly stages, advanced technology and research and development usually remain located in the industrial countries. Similarly, there is little transfer of skills. Most workers in Zone industries are unskilled or semi-skilled due to the elementary functions which they carry out and which correspond to specific phases of the production process.

#### Employment

Free Trade Zones worldwide have created about 1 million jobs directly, according to UNIDO, or 500,000 in Asia. However, this is a drop in the ocean compared to the 160 million unemployed or underemployed in developing countries. It is not clear to what extent these represent "new" jobs or are in effect a transfer of employment from outside the zones. These jobs have also been created for a low cost segment of the workforce; young women workers, who are mostly new entrants to the labour force and make up more than 80 per cent of the workforce in the Asian zones. These workers are mainly aged between 17 and 25, although some start work as young as 14. They are also mainly single. The Zones therefore do not contribute much towards alleviating the unemployment problems of men workers or older married women, as the employers do not want to pay any social benefits. Where linkages between the Zone and the domestic economy are weak, indirect employment effects are small and are confined to maintenance and service jobs.

#### Wages

It is obvious that the major attraction of the Zones for TNCs is the existence of a docile low-wage labour force. Although the picture on wages varies from country to country, two factors which seem to determine wage levels are the supply of labour and the existence of alternative employment outside the zones. In addition, total earnings are significantly higher



than minimum wage rates, which implies a high intensity of work based on incentives and overtime. There is also a substantial wage differential between male and female workers in most Zones, related to job content and skill levels. Wages are also kept down by a variety of methods including excessive use of trainee systems and trial unemployment. The wages earned by women workers are below the minimum budget requirements for a family in most places. Indeed, in many of the countries surveyed by the recent ILO/ARTEP study whose workers were considered as "secondary earners" only supplementing the family budget.

In contrast, the profits made by TNCs in these zones is much higher than in normal business conditions. In some industries, like electronics, there is a high degree of foreign ownership. One hundred per cent tax-free repatriation of profits is not uncommon. In addition, the minimal tax regulations offer TNCs considerable opportunities to practice transfer pricing which enables them to keep down their overall tax liability in both the host and home countries.

The existence of the Zones with their investment incentives also undermines the policies of countries which are trying to promote a more equitable process of industrialisation, including the participation of trade unions in the development process. The TNCs put pressure on governments for "no union" guarantees as a prerequisite for investment and the prevailing law and practice within some Zones is contrary to basic ILO standards and the Tripartite Declaration of Principles on Multinational Enterprises and Social Policy. The Zones represent havens to "runaway" TNCs trying to avoid social responsibilities such as the observance of health and safety regulations and recognition of trade unions. The large profits made by TNCs are not matched by equivalent gains for the long-term development of the economies of the host countries.

#### Role of the International Organisations

Several international development agencies have been associated with the promotion of export-oriented industrialisation, mainly the World Bank and UNIDO. They have been trying to sell export-led growth as a panacea for development problems of all types of developing economies. Recently, the World Bank has granted major loans for the development of Zones in Indonesia, Thailand and the Philippines. However, some international organisations are changing their minds about the Zones. UNIDO has up to now played a major role by providing technical assistance and carrying out feasibility studies. Recently, this organisation has taken a more circumspect attitude to Free Trade Zones. They have now declared that they are not a viable economic strategy for every type of economy and especially not for the least developed countries. UNIDO have also informed me that they recommend paying workers in the Zones above the minimum wage, as profits in the zones are higher than in the rest of the economy. UNCTAD has also criticised export-oriented production as a total industrialisation strategy with the contribution of the Zones to the economic development of the host economies being characterized as disappointing.

Export-led industrialisation is clearly and explicitly oriented towards selling on the world market. A few Newly Industrialising Countries have achieved some success in accelerating the pace of economic growth through exports of manufactured goods. However, for many countries - and certainly the least-developed - the strategy is totally inappropriate or has severe drawbacks. In addition, the promotion of export-led industrialisation strategies has not been matched by increased international co-operation over trade and industry policies. For example, this has resulted in considerable over-capacity in the garments' industry in some zones, as import restrictions intensify, with the consequent lay-offs of workers.

#### Few Policy Options

In spite of the limited impact, a Free Trade Zone is often one of the few policy options open to developing countries seeking to attract manufacturing investment. This is especially true in the present economic recession, with the cut-backs in official development assistance and commercially-available loans. Developing countries have to compete for scarce financial resources, which reduces the scope for alternative strategies. An economy with an undeveloped infrastructure, small domestic markets, and a labour force lacking in skills is unlikely to attract substantial foreign investment without some incentives. The pressures to reduce balance of payments deficits and create almost any kind of employment are intense. Free Trade Zones are seen as bringing some progress in industrialisation.

#### Alternative Strategies

What alternatives are there to Free Trade Zones? First of all, a major increase in official development assistance and in long-term soft loans would widen the economic policy choices available to developing countries and leave them less dependent on private sources of investment. Long-term balance of payments support from the IMF would also lessen the need to produce for export at any cost and give more scope for investments which could be oriented towards the development priorities of the country concerned.

#### Phasing out of Zones

Countries which already have Zones should look to phasing them out or upgrading them. They should be seen as only one part of a total industrialisation strategy. Especially where net foreign exchange is not being earned, tax incentives and subsidies should be gradually phased out. Domestic resources allocated to export industries may be more profitably used elsewhere in the economy. There should also be a gradual transformation of the assembly operations into more complex manufacturing operations with greater linkages to the domestic economy. As well as producing goods for the local market, efforts must be concentrated on the building up of the local supply of raw materials and intermediate goods.

Industrialisation totally cut off from the world economy is unlikely to be successful. However, over-concentration on export production will produce more problems than it solves. Industrialisation must be based on raising the living standards of workers, increasing purchasing power and expanding the domestic market to produce for local needs. Some countries should place more emphasis on increasing productivity in agriculture and food supply. Small and medium-scale rural industrialisation can be based on the transformation of agricultural products. For countries with relatively strong resource bases, industrialisation can be based on the local processing of raw materials for both domestic consumption and export. Industrial production should be capable of meeting domestic needs in food products, building materials and clothing. Other smaller economies will have to continue to carry out the kind of processing for export done in Free Trade Zones. But there should be less sub-contracting and more manufacture of entire products which could also be sold on the domestic market and to other Third World economies.

The future of Free Trade Zones as a strategy must also be seen within the context of the long-term restructuring of the world economy. The international trade union movement has been calling for changed economic policies which are aimed at improving the living and working conditions of the mass of the world's population. Industrialised country governments must recognise their obligations and act in a co-ordinated manner to stimulate the world economy. Increased development assistance must be an integral part of the recovery measures. They must also adopt industrial and trade practices which are coherent with the development objectives of the developing countries. The intense pressure to cut costs which is one of the main attractions of the Zones would be reduced by a resumption of growth in world markets and a lowering of tariff barriers.

Thoughts Concerning the International Division of Labour and the Trade Unions' Policies by Hans-Ulrich Büniger, FES Tokyo Office

Since ICFTU presented its Development Charter "Towards a New Economic and Social Order" in 1978 and the Brandt Report in 1980, the world economic situation has worsened quite a lot. Even in some industrial countries it is disposing of some important recent union acquisitions. Restructuration processes in enterprises, structural crisis in an increasing number of industries and an increasingly high global unemployment make it all the more difficult for trade unions effectively to represent the workers' interests.

Even greater than in industrial nations has become the pressure on the trade unions of many developing countries. Its cause is to be found not only in the overall bad economic situation, but also in the transition by many developing countries towards an export-oriented industrialisation. For the suppression of union rights aimed at maintaining a low wage level has very often been seen as the prerequisite for such a policy of integration into the world economy.

German trade union authors like Werner Olle in "World Economic Structural Changes and International Trade Union Policy"\* rightly point out that the negative development of the world economy during the last 10 years has occasioned a weakening of the position of trade unions. Influenced by joblessness, the degree of organisation of trade unions has already fallen even in countries like the Federal Republic of Germany. Also in Japan, for example, it amounted at the end of 1982 to only 30.5% even though Japan has surmounted fairly well the present economic difficulties. The present high jobless rate in the main industrial countries will probably continue for a long time. The trade unions in industrial countries now face the question whether they will increasingly concentrate on representing the interests of those still holding a job or also represent the interests of the jobless.

Even if the degree of trade union organisation in mother-companies of multinational groups sometimes remains the same as before, the overall degree of organisation has greatly diminished if one also takes into account its subsidiaries in developing countries. This alone proves that co-operation of unions of industrial countries with those in developing countries becomes one of the most important issues at international level. So long as trades unions in developing countries do not assert themselves, not only their members but also the workers of the industrial nations will be subject to ever greater pressure to forsake their rights. Especially in this difficult situation for the world economy where the better harmonization of the interests of the trade unions in industrial and developing countries becomes an urgent need, it is more likely that shortsighted national interests will oppose it.

\*"Gewerkschaftliche Monatshefte" (Trade Unions' Monthly Magazine) 9, 82, Cologne

The international organisations of trade unions can only operate "internationally" in so far as the interests of the national member organisations allow. An example of this is offered by the American United Automobile, Aerospace and Agricultural Implement Workers of America (UAW); towards the end of the 60s they began to advocate the formation of committees at multinational level with whose help it was expected to reach a wage parity between plants in the industrial and the developing countries. Behind this there was the hope to curb the trend of big American car makers to increasingly transfer their production to developing countries. Under the pressure of the worsening employment conditions in the U.S.A. the UAW calls, 10 years later, for import restrictions, for instance, against Japanese car makers, in order that they make direct investment in the U.S.A.

Another example is offered by the protest actions in December 1980 by the European textile and garment unions seeking restrictions on the growth of imports from developing countries. The position of the trade unions stands under the pressure of a growing number of conflicts in the global economic context. This is a great challenge for trade unions, and it cannot be met with 'patent recipes'. Whoever takes seriously both the unions' duty to protect the interests of their members and their tradition of solidarity with the workers of developing countries which has always taken them outside the immediate interests of their members now faces conflicting duties which are hard to reconcile. We cannot deny that the people working in the North or in the South have not only equal but very often also opposite interests.

Especially salient in this context is the conflict of interests between textile workers from industrial countries and those from developing countries.

Among us in the Federal Republic of Germany and among our trade unions has prevailed the position that the process of adaptation to the new international division of labour should not be arrested. The state should not delay this adaptation process through subsidies to the hardest stricken industries. They think that the past has already shown that the Federal Republic has maintained and expanded its competitiveness by quickly adapting itself to changing world economic conditions. If they had received subsidies tending towards the maintenance of their structures, the problems of the textile and the steelmaking industries, for instance, would not have been solved.

For the affected workers, the social net should be as strong as possible in order to make the adaptation pressure tolerable for them. At the same time the state should aid the change by promoting investments aimed at new employment opportunities, training programmes and helping people to move.

The German Textile and Garment Union has, moreover, demanded the introduction of a Social Clause, which should compel the governments of developing countries to comply with the minimum labour standards set by the International Labour Organisation (ILO). These are, for example, the prohibition of child labour, the payment of certain social benefits, the possibility of union activity. In this way they expect to make the costs of labour and, as a consequence, the price level of imported goods similar to those produced in the country. The basic premise of this so-called "harmonization start" is the supposition that by equating wages and working conditions at the enterprise level between industrial and developing countries there will be no material grounds for production transfers from industrial to developing countries. From the end of the 70s the International Metal Workers' Federation and the International Federation of Chemical, Energy and General Workers' Unions have created so-called 'multinational committees' aiming at a similar harmonization. A certain wage parity could only be reached between the American and the Canadian plants of the big car makers. It has never been possible, however, to come to international agreements concerning the multinationals valid for the plants both in the industrial and in the developing countries. As a consequence, by the end of the 70s and the beginning of the 80s a 'strategy of limited protection' has prevailed to ward off a higher loss of the labour force before increasing imports from developing countries. The most striking example of this is the limitation of import increases from developing countries within the framework of the Multifibre Arrangement (MFA).

Through such agreements it should be guaranteed that export-oriented countries reach a better production and investment planning and importing countries stabilize their employment levels so they gain time for making the necessary structural adaptations. It is argued against such agreements that they do not solve the problems of the individuals concerned but only delay them. The case of the textile and garment industry proves that these arrangements work as maintenance subsidies and are always extended, so that the solutions are only put off. In the long run, jobs cannot be maintained even with self-limiting conventions.

In the present times of increasing unemployment, which has taken dangerous proportions in many countries and which endangers increasingly the social and political peace in those countries, a tendency to make increasing use of these conventions becomes understandable but also regrettably obvious. The German trade unions have, for the reasons already discussed, resisted this growing call for protectionism because they know that an economy so dependent on exports as the Federal Republic of Germany, would suffer greatly from a closing circle of protectionist measures all around the world. It becomes ever harder, however, to explain these connections to the workers involved and affected by unemployment.

They only see that their workplaces are lost because cheap imports from developing countries or countries like Japan have diminished the sale of the products they produce and thus led to the loss of work. It is essential to make them understand that this point of view is only short-sighted and in the long run is of no avail. They have got to understand that the answer does not lie in closing their markets against the developing countries or others like Japan, but in an activation of the structural policies, in employing as well as training policy measures. In the present situation, there is a great danger of industrial countries making their structural unemployment even worse by specializing in technologically highly developed sectors; these are as a matter of fact the capital-intensive ones, being able to produce with little labour while at the same time the labour-intensive sectors would be set aside. Moreover, even the number of labour-intensive industries is growing smaller because of the increasing introduction of micro-processors; this has already led to a tendency of the German enterprises to avoid the risks involved in the transfer to developing countries, for these new technological developments are even cheaper than the cheap workforce of developing countries.

This makes it very difficult for industrial countries to envisage a solution to their growing structural employment. The services sector also hardly offers enough working places now, insofar as it is threatened by joblessness because of the introduction of micro-processors in the administrative field. The possible basis for a solution could be offered, in the opinion of the German trade unions by shorter working hours, better and perhaps longer school education and training, information on the effect of investments on the labour market and more co-determination for workers in all economic levels. In this context it is especially important to develop the technological field, because a blooming economy can only be kept alive if it produces new products attracting consumers.

There exists a real danger for trade unions concerning the crucial question of whether the necessary adaptation process will be brought about with their participation or without them. Thus, the hitherto main question in the work of trade unions, the continuous increases in wages, has to go more and more into the background, leaving room for another question, becoming more important every day, that of co-determination in the application of the necessary structural changes. Only strong and unified trade unions can overcome this challenge.

It seems that the model of a self-regulating economy, such as that prevailing in the 50s and 60s, is unavoidably lost. It becomes ever more urgent for trade unions to find answers to the question of whether a model for economic development set on industrial growth, extra-economic expansion and the commercialization of every field in life is compatible with the unions' ideal of an improvement in the quality of life for the majority of the population. In this way, the call for

'quality growth', for example, becomes ever louder in the Federal Republic of Germany. This would mean giving preference to the development of environment-oriented industries and also to the development of energy-saving technologies, of products consuming less raw materials, etc. Quality growth should mean, besides, paying more attention to those fields where there still exists an undersupply of social useful products like home building, medicine, social facilities). There can still really be growth in these fields.

For the majority of the developing countries the social and economic problems are nowadays even more acute. It is true that the developing countries have increasingly become integrated in the global economic division of labour during the last decades but this has at the same time led to growing social and regional disparities in most of them. Thus it is expected that only 5 or 6 developing countries will be able to rank as industrial nations, while for most of the remaining the perspectives for an economic development will get dramatically worse.

In this situation the stress for developing countries will lie in their efforts to improve their perspectives by changing the internal conditions upon which they can act by themselves. So, for instance, drastic land reforms, aiming at an expansion of the production for subsistence in the agricultural economy will become necessary. Or another model could be that of a decentralised industrialisation based on local conditions (raw materials and work force etc.).

Regarding the co-operation between industrial and developing countries, this cannot be based only on the premises of a market-oriented economy. On the one hand because the negotiating positions of the poorest developing countries viz-à-viz industrial countries, are in this context all too weak. On the other hand, it has been seen in the past that such a purely market-oriented co-operation benefits the industrial more than the developing countries. In fact the market-principles should be further used as far as possible, but they should also be added to other leading facts which are not market-oriented. The above-mentioned Werner Olle suggests, for instance, along with other national economists, that some compensation businesses be conducted so as to allow the developing countries to obtain investment goods and technology from the industrial countries without further burdening their payment balances and without further pressure towards an export-oriented industrialisation.

What will be the role of trade unions in developing countries regarding these issues? First of all, they should ask for expert advice on which national economic strategies are the most promising from the point of view of the country's workers. Only with a rational, which means 'scientifically based' strategy, will the trade unions be able to have their say in the formation of the economic policy of their countries. They will have to lay down the premises around which the scientists have to work, these premises being the creation of paid employment as well as better safeguards against the risks of illness and old age. Only those trade unions participating in the discussion with objective data will be able to make a real contribution to their countries from the point of view of the workers.