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**Export processing zones:  
Comparative data from  
China, Honduras,  
Nicaragua and  
South Africa**

**Jamie K. McCallum**

March 2011

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## Foreword

Several countries around the world have established export processing zones (EPZs) in order to stimulate economic growth by attracting foreign direct investment (FDI). EPZs take a variety of names and forms in different countries (including free trade zones, special economic zones (SEZs), industrial development zones (IDZs), bonded warehouses, free ports and maquiladoras). As the number of EPZs around the world continues to grow, questions and concerns have arisen in regard to respect for workers' rights, the application of labour laws, employment creation, working conditions, as well as how EPZs benefit the domestic economy and social cohesion in the countries concerned.

The ILO has been monitoring developments in EPZs for over 20 years. In several successive sessions, the Governing Body requested the Office to continue to examine the theme of EPZs. In March 2008 it discussed a paper on the latest trends and policy developments in EPZs and invited the Office to provide more information based on research and other activities in this area. Following this request, activities to fill in the knowledge gaps concerning EPZs were conducted throughout 2009-2010, notably to collect qualitative information on industrial relations practices in EPZs vis-à-vis freedom of association and collective bargaining, labour inspection, and social dialogue.

The present paper is part of this effort. It is a synthesis report of studies on the EPZ experience in China, Honduras, Nicaragua, and South Africa. The paper draws on detailed textual and archival analysis as well as in-country interviews with workers, employers, and other relevant participants mentioned in the four reports. It assesses the historical features in each country that have given rise to a variety of EPZ models, and discusses the possibilities for social development in the different contexts, the creation of linkages, the working conditions within EPZs (as compared to similar industries in the non-EPZ sector) and the effect of the global economic crisis. Finally, it draws tentative conclusions regarding the overall performance of EPZs across sub-national and national contexts and raises questions to be addressed in future research projects.

I am grateful to Jamie McCallum<sup>1</sup> for undertaking this study and commend the report to all interested readers.

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## Contents

Foreword.....	iii
Acronyms.....	vi
Abstract.....	1
Methodology.....	1
Introduction.....	1
Working conditions.....	3
EPZs and social development.....	5
China .....	6
Honduras.....	8
Nicaragua.....	10
South Africa.....	12
Conclusion and discussion.....	15
Social development and linkages .....	15
Wages, working conditions and social dialogue .....	17
Effects of global economic crisis.....	17
Comparisons with non-EPZ sector enterprises.....	18
References.....	20

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## Acronyms

CACM	Central American Common Market
CSR	corporate social responsibility
DR-CAFTA	Dominican Republic – Central American Free Trade Agreement
EPZ	export processing zone
ETDZ	economic and technical development zone
EZ	enterprise zone
FDI	foreign direct investment
FFE	foreign-funded enterprise
FIE	foreign-invested enterprise
FTZ	free trade zone
HIDZ	hi-tech industrial development zone
IDZ	industrial development zone
IFZ	industrial free zone
IUF	International Union of Foodworkers
SOE	state-owned enterprise

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## Abstract

This paper compares the experiences of export processing zones (EPZ) in four countries: China, South Africa, Honduras, and Nicaragua. Broadly speaking, the report covers issues regarding the impact of EPZs on national economies, the legal regulation of labour and the social protection of workers, the state of social dialogue, the impact of the global economic crisis, and an assessment of similar enterprises within and outside EPZs. Through comparison, the report is able to assess the particular outcomes about EPZs in different national contexts.

## Methodology

This paper is a comparative analysis of EPZs, based largely on three reports commissioned by the ILO in 2009 (Chinguno 2009, Lanza 2009, Espinoza 2009). Analysis on China largely draws on an earlier report submitted to the ILO (Fu and Gao, 2007), as well as other relevant sources. As a kind of synthesis, it summarizes the findings therein, and draws conclusions about the performance of EPZs across sub-national and national contexts. The commissioned reports were concluded through detailed textual and archival analysis as well as in-country interviews with workers, employers, and other relevant participants. A case study methodology is an appropriate qualitative method for developing a general theory out of particular circumstances (George and Bennet 2005; Yin 1993).

## Introduction

Export processing zones are special regulatory areas within countries established to promote export-led growth. The ILO has defined EPZs as “industrial zones with special incentives set up to attract foreign investors, in which imported materials undergo some degree of processing before being exported again.” Unless otherwise stated, this is the definition referenced in this report.

EPZs have been called the “vehicles of globalization” (Van Heerden 1998). While nation-states have developed “exceptional” spaces of economic activity for over a century, the recent phenomenon and proliferation of EPZs refers to a period beginning in the late 1960s, when developing countries sought to attract investment by exploiting a comparative advantage through concessionary incentives. These include:

- a) exemption from some or all export taxes;
- b) exemption from some or all duties on imports of raw materials or intermediate goods;
- c) exemption from direct taxes such as profits taxes, municipal and property taxes;
- d) exemption from indirect taxes such as VAT on domestic purchases;
- e) exemption from national foreign exchange controls;
- f) free profit repatriation for foreign companies;
- g) provision of streamlined administrative services especially to facilitate import and export;
- h) free provision of enhanced physical infrastructure for production, transport and logistics (ILO 2008).

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This list of “economic” incentives does not preclude EPZs from offering other “social” incentives as well. When governments exempt or limit the application of labour legislation in zones, or when unions are banned from zones, this is in fact also a form of concessionary incentive of a social nature which is critical to attract foreign direct investment (FDI) and some multinationals. Governments have been known to advertise their zones by promoting the docility of their workforce and their aversion to unions. So the incentive package is not only fiscal or economic – it is also social.

Most EPZs share some or all of the business-friendly incentives listed above, as well as other common features that allow for practical comparisons. There are, however, notable differences across contexts. First, Singa Boyenge (2007) lists thirty-two different names to describe such zones, which indicate variation in subsidies, benefits, and regulatory restrictions. In this study, three of the four cases do not always use EPZ as the preferred title, opting instead for “special economic zones” (China), “industrial development zone” (South Africa), and “maquiladora” (Honduras). Secondly, while some EPZs operate almost entirely outside the legal purview of the host country, others are subject to a panoply of national laws. Though in most cases EPZs may be oases of deregulation, the extent to which state and civil society organizations play a meaningful role varies from country to country. Finally, while EPZs began principally as goods-producing spaces, they have gradually evolved to include service-oriented enterprises (information services, banking, etc), which implies important distinctions of employment between skilled and non-skilled workers, and different conditions of work. All of these factors, which will be explored further, condition the relative successes or failures of the ventures.

While EPZs were originally introduced as enclaves into developing countries’ economies, and are now found all over the globe, most are concentrated in less than a dozen countries (World Bank 2008). Moreover, they take a variety of forms, including “single-industry, single-commodity, single-factory, and single-company zones” (ILO 2008b). Their industrial purpose has also changed, as scholars now describe a slight shift towards semi- and higher-skilled production and services, in contrast to earlier models of low-skill apparel assembly, footwear, and electronics industries. Though EPZs are increasingly sponsoring technical skills training for their employees and/or applicants, the increasing demand for higher-skilled labour has not been met with a concomitant supply. In Sri Lanka, for example, EPZs are still short 15,000 workers (ILO 2008b).

As a result of an expanding global labour force and the spread of mass production technology, productive capacity has increased in both textile industries and electronics (two major EPZ-based outputs), driving down prices of these goods and the profit margins of EPZ-intensive businesses. This has dovetailed with an employer strategy to exploit inter-state rivalries and exert downward pressure on wages and labour standards, the so-called race to the bottom (Costello, Smith, and Brecher 2006).

Because of new opportunities for capital and new conditions for developing economies, the growth of EPZs has been substantial in the last two decades, as they have expanded in terms of the absolute number of countries using them, the scope of industrial diversity they cover, and their size. The World Bank (2008) estimates that today there are 3,000 zones in 135 countries, accounting for over 68 million direct jobs and over \$500 billion of direct trade-related value added within zones.

China alone accounts for 40 million employees, but outside China, EPZ employment doubled between 2002 and 2006 from 13 to 26 million (ILO 2008). While Chinese expansion has been particularly rapid, EPZs have become commonplace in almost all regions of the world. In sub-Saharan Africa, the percentage change in EPZ employment has been even greater than in China, and EPZ employment has risen significantly in South Asia and Eastern Europe. EPZs account for significant – though recently declining – percentages of exports across many poor countries. Still, EPZ and EPZ-like employment remains a fraction of the global working population, with an average of less than three percent of the global workforce in EPZs (ILO 2008).

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Political sentiment has turned against EPZs in recent years at NGOs and trade unions. The ILO and the International Trade Union Confederation (ITUC) have expressed serious concern about working conditions inside EPZs, and questioned their macroeconomic sense. Also, the regulatory conditions that characterize EPZs are often in violation of, and fundamentally incompatible with, the recommendations of the WTO Agreement on Subsidies and Countervailing Measures (SCM).<sup>2</sup>

This has not deterred the governments of developing nations from pursuing EPZs. This is largely because an export-oriented growth strategy is often seen as the only palliative to lagging economic growth, a position that for decades has been promoted by the IMF, The World Bank, and powerful economists. Import substitution models, which had broad currency for the half-century after the Depression, have been replaced by the outward-looking call to attract foreign direct investment (FDI). Today, as the world economic crisis stands to bankrupt weaker states, EPZs offer a direct link to foreign markets and global production networks. Moreover, countries argue that they offer an immediate way to soak up surplus labour. Obviously, corporations see the benefits of EPZs as well, and actively promote their expansion. They gain from limited tax and tariff restrictions, and reduced labour regulations that help to extend management control in the workplace.

However, if business interests and the state often see the advantages of EPZs, there are critical appraisals as well from labour and civil society organizations. They claim that preferential standards often go too far, making corporate accountability impossible and promoting widespread labour abuse and discrimination. First, EPZs have only rarely achieved their stated goals of social and economic development. Secondly, where they are heralded as successes, as in China, unions and workers' organizations are quick to point to the deplorable state of labour relations and working conditions inside the heavily-patrolled factories.

## Working conditions

Evidence suggests that EPZs present employers the opportunity to circumvent workers' rights with impunity, and there is a growing consensus that employers lack the resources and desire to police the zones. Even when laws exist, governments often do not have the resources to hold offenders accountable. However, scant empirical research has been done to actually assess the ability of the government to monitor EPZs effectively.

There are frequent reports by unions, NGOs, and inspectors that EPZ workers are continually denied the right to freedom of association, one of four core ILO labour Conventions. Recent research documents these violations in the Dominican Republic (Gopalakrishnan 2007), Jamaica (Russell-Brown 2002), Sri Lanka (Best 2005), and Guatemala (Rodriguez-Garavito 2005). Gopalakrishnan (2007) notes that because "union-free zones would attract greater investment, some EPZ-operating countries have, under their laws, either deprived EPZ workers of their right to organize themselves or placed severe limitations on the free exercise of this right."

The state of social dialogue varies considerably as well. In many countries, like South Africa, the same labour laws govern EPZ and non-EPZ work, though implementation is conducted with different degrees of accountability. In China, Nicaragua, and Honduras lax labour legislation applies to EPZs, thus weakening the voice of employees at work. There also seems to be a dearth of qualified labour inspectors to enforce whatever laws may be applicable, a happenstance that only increases the need for unions to have better access to plants. An ILO InFocus report (2008b) finds a poor relationship often exists between managers and workers, illuminating a clear need to

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<sup>2</sup> Though article 24.7 of the SCM agreement stipulated the end of most developing countries' subsidy programs by 2003 (including tax breaks, duty-free imports, etc), the deadline has now been extended to 2015 for 19 countries.

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establish and nurture social dialogue between the state, employers' and workers' organizations.

While some countries explicitly suspend the freedom to unionize and other social legislation inside EPZ territory (China, Nigeria, Pakistan Zimbabwe, Kenya, Namibia), Bangladesh has recently approved the right to unionize at EPZs (ILO 2008; LARRI 2000). Iran and Sudan restrict national labour legislation to areas outside the zones (World Bank 2008). However, whatever the actual legislation, enforcement and accountability remain weak and laws are often unenforceable. In Sri Lanka, for example, EPZ companies have established "employees' councils" to act as a deterrent against independent unions (ICFTU 2004). The present study includes reports of abuse of EPZ workers in China and Honduras as well. It is in the interest of the local state elites to keep the business ventures as attractive as possible to sustain clients and lure more. In this situation, governments are unlikely to exercise much pro-labour regulatory power, especially as capital flight remains a constant threat when workers try to organize.

Moreover, according to a 2007 ILO report,<sup>3</sup> employers frequently act outside the law anyway, to deter unionization with "unjust dismissal, suspension, transfer and blacklisting of trade union officials and members. Employers in EPZ enterprises sometimes even resort to physical violence to prevent workers from forming and joining trade unions of their choosing." Overall, most evidence points against the expansion of the freedom of association.

Additionally, research shows that excessive and compulsory overtime, often in violation of national law, is widespread at EPZ worksites (ICFTU 2004). In some places, EPZ hours are longer than in non-EPZ industries; for instance, overtime is a major problem in Honduras (Lanza 2009). Though excessive and often compulsory overtime is a widespread problem in China, it is not clear whether it is more prominent in EPZs than in the rest of the economy. Whether forced or not, many EPZ workers labour extra-long hours simply to make a survival living in the countries covered by our research. Often, excessive overtime results when workers are obligated to obey the industrial demands of the firm, i.e. shipping deadlines and seasonal peaks in demand, or to conform to human resource management schemes.

In many places wages are higher inside EPZs than in comparable businesses outside, and benefits packages tend, on average, to be more favourable to workers inside EPZs. However, the situation with wages and benefits does not imply a "living" or "decent" wage, and tends to underscore the poor remuneration of many workers, who are far more numerous, outside the EPZ enclaves. Furthermore, discrimination exists between male and female workers on issues of pay equity and equal treatment. EPZs saw the initial feminization of labour as a result of low-skill, low-paying jobs. In Honduras, for example, over 70 per cent of the workforce was female (Lanza 2009). In Asian countries it was even more striking, where the increasing participation of women in the workforce was driven specifically by the new export sector (Ghosh 2007). Some analysts expect this situation to change with the shift toward the necessity of higher-skilled labour and higher wages that would attract more men.

Although health and safety violations are less documented by research than wage and hour issues, numerous cases of gross negligence tend to underscore the 2004 ICFTU report that finds EPZ workplaces generally unsafe. Eight of ten Guatemalan factories surveyed did not meet minimum health and safety standards. Workers were locked inside a Bangladeshi factory when it caught fire multiple times. Some factories in Mexico completely lacked health and safety equipment (ICFTU 2004). Also, Honduran "maquilas"<sup>4</sup> report incidences of respiratory conditions and lower back complications related to long hours standing without rest periods (Lanza 2009).

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<sup>3</sup> Gopalakrisnan 2007.

<sup>4</sup> Maquila refers to a Latin American export-processing zone.

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The rights of workers are even more vulnerable when EPZs employ native-born migrants and immigrant workers. Although one of the obvious linkages to the domestic economy would be to hire local workers, many EPZs import labour and/or hire internal migrants, who are not offered formal contracts, not covered by any existing labour law, face harsher penalties for unionization drives, and earn less money<sup>5</sup> than native workers. Overall, EPZ workers labour under some of the poorest conditions in the world. The ICFTU (2004) finds, “unpaid overtime, sexual harassment, discrimination in employment, an absence of health and safety precautions and unfair dismissals are the daily lot of many workers in the zones.”

## EPZs and social development

To a great extent, the likelihood that EPZs will contribute to economic and social development hinges on their embeddedness in the host-country’s economy, through forward and backward linkages (Jenkins 2005). Forward linkages, where EPZs sell outputs to the domestic consumer base, are unlikely because the specific function of EPZs is to generate growth through exports. Moreover, some governments guard against forward linkages to protect domestic producers. Backward linkages, where EPZs buy inputs from the domestic market of the host country and subcontract services to local enterprises, are much more possible. However, the operators of EPZs tend to avoid such links because import subsidies discourage sourcing inputs from domestic providers (Madani 1999). An ILO report (2008) lists other reasons for the failure of backward linkages to materialize: (1) domestic firms often cannot supply the low-cost, high-quality inputs necessary for global production at EPZs; (2) the domestic economy may lack the necessary raw materials, and; (3) technological spillover is low because the nature of EPZs require mostly unskilled labour (though this is slowly changing).

The success of backward linkages and technology spillovers to promote development goals are contingent upon a number of factors outside the EPZ itself. Some scholars have argued that EPZ growth acts a preliminary step toward economy-wide liberalization. In this view, for example, EPZs have acted as a “greenhouse” in East Asia, including China, for the last three decades, helping to build a liberalized regional economy (Graham 2004). Others have argued against this conception of development, stressing instead the role of strong activist states. Amsden (1989) describes the way the Korean government, for example, was able to offer subsidies to enterprises within and outside EPZs to successfully promote a more stable growth pattern that did not rely solely on labour repression. Still others emphasize the role of non-governmental actors in alliance with business interests. For example, Schrank (2005), citing evidence from the Dominican Republic, stresses the role of domestic entrepreneurs in creating links with foreign companies and investors in order to attract investment, often outside the typical industrial zones.

EPZs take different forms conditioned by local exigencies. We now turn to examine the variation and commonality in EPZ structure, practice and outcomes in four countries: China, Honduras, South Africa, and Nicaragua.

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<sup>5</sup> In Namibia, however, the reverse is true, where one EPZ employs Asian immigrants at higher wages than Namibian workers (ILO 2008b).

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## China

Any attempt to analyse working conditions and industrial relations in China's EPZs faces a serious obstacle – there is no data and information at all on working conditions and industrial relations of enterprises, as relates to EPZs and non-EPZs. Therefore it appears almost impossible to compare working conditions and industrial relations between EPZ enterprises and non-EPZ enterprises. However, we can use the limited data available (e.g., Fu and Gao 2007) to make tentative comparisons and provide valuable contributions to the literature.

EPZs have played a central role in the growth and liberalization of China's economy. In the 1980s, Deng Xiaoping's introduction of the EPZ allowed China not only to attract foreign investment but also to experiment with modern techniques of enterprise management, including human resource management, in a selected number of enclaves. The expansion of EPZs and the replication of modern management techniques, including HRM, began to erode the employment relations regime of the socialist system, often described as the "iron rice bowl employment system" (Gallagher, 2005). The EPZ experiment met considerable success from a business standpoint, and soon employers and state companies were clamouring for more flexibility in employment, wages, and production schemes. This facilitated regulatory reform of the entire economy, culminating in the adoption of new labour laws in the mid-nineties that gradually but steadily dismantled the old employment relations regime under the planned socialist economy, while offering a set of rudimentary legal norms governing employment relations in a new market economy. After the introduction of a series of national laws and regulations, differences in the legal and regulatory apparatus of EPZ and non-EPZ enterprises virtually disappeared by the early 2000s.

A few typological distinctions separate different forms of EPZs in China into special economic zones (SEZ), industrial free zones (IFZ), and enterprise zones (EZ). A narrower conception of a Chinese EPZ refers to only 60 such zones with preferential tax and tariff treatments (Fu and Gao, 2007, p. 4). For this purpose, however, we will use the broader definition and treat them essentially the same, unless otherwise stated. For a detailed description of the different zones, see table 1.

The development of China's EPZ sector occurred in three successive waves. The first, from 1980 to 1990, refers to the origins of EPZs, the liberalization experiments, and constitutes the introduction of capitalist relations into China. China's EPZs began as four special economic zones (SEZs) in Shenzhen, Zhuhai, Shantou, and Xiamen in 1980. Apart from the first four, China's SEZs are more jurisdictions than physical zones – a Chinese innovation. In 1984, China designated fourteen coastal cities as economic and technical development zones (ETDZs). These cities became giant *de facto* SEZs, as almost all of the incentives available to exporters operating in the area-specific SEZs became available to exporters operating there as well. In this period, roughly 43 per cent of all FDI in China went to Guangdong and Fujian provinces, where the SEZs were located (Graham 2004). Another 27 per cent went to the coastal ETDZs. Therefore, about 70 per cent of FDI in China during this period ended up in the provinces in which the SEZs or SEZ-like zones were located (Graham 2004).

The second stage of boom and slowdown lasted from 1990 to 1999. Since the 1980s, China has sustained high growth rates with only minor fluctuations (Tisdell and Chai 1997). At the peak in 1992, 58 development zones, 52 hi-tech industrial development zones (HIDZs) and 60 SEZs were established. During this time the success of the SEZs led provincial elites to deregulate areas within their jurisdiction as well, without necessarily gaining approval of the central government (Lardy 2002). The third stage refers to the time just before and after China's entry into the World Trade Organization (WTO) in 2001, when a series of EPZs were established to enhance exports and execute the Western China Development Strategy. After WTO approval, FDI flowed into China at a time when

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inflows were generally declining around the world and, according to the Organization for Economic Co-operation and Development (OECD), it surpassed the US (BBC 2003).<sup>6</sup>

Though economists have occasionally warned that the island-like nature of EPZs promotes a bifurcated development model whereby EPZs act as a “safety valve,” staving off a wider liberalization process (Madani 1999), China provides evidence to the contrary.

China’s SEZs provided a number of preferential policy measures to attract FDI, and had the highest levels of openness in the country (Huang and Lin, 2002). The ETDZs offered reduced nominal business tax,<sup>7</sup> from 33 per cent down to 15 per cent, as their incentive (Fu and Gao, 2007, p. 8). In addition, foreign-funded enterprises (FFE) were exempt from the national business tax during the first two years and are subject to half taxation for the next three years. They were also exempt from local taxes for five years. But it has to be noted that this preferential tax treatment was abolished in 2007, as non-ETDZ and non-foreign-funded enterprises complained about the discrimination. The abolition of the preferential treatment for FFEs symbolizes that the period of economic development which depended largely upon EPZs and FFEs has ended.

Aside from import/export volume, no statistical data on EPZs in China exists. However, it is possible to infer certain developments out of particular phenomena. For example, FDI and the total volume of imports and exports have risen steadily since the mid-1980s. While not all FDI goes to SEZs, a significant positive relationship does exist between FDI and the expansion of SEZs in China. SEZs are thus regarded as key factors behind regional FDI inflows. The national development zones are obviously an efficient way of enhancing FDI inflow to the regions (Fu 2007).

In addition to attracting FDI and thereby facilitating economic growth, SEZs also have been credited with playing a positive role in upgrading technology and absorbing surplus labour. Considering that investment in domestic manufacturing enterprises changed very little from 1995 to 2005, it can be concluded that the source of the structural upgrading in China’s manufacturing sector is foreign-funded enterprise (Fu 2007). Furthermore, the effect of FDI on employment is substantial. The share of employment by FFEs in all industrial enterprises tripled between 1995 and 2005. When China’s total employment in industrial enterprises rose from 89.24 million in 2000 to 105.20 million in 2005, the FFEs contributed 56 per cent to this growth (Fu and Gao, 2007, p. 16). For a detailed explanation of the various incentives, see table 2.

The phasing out of the Multi-Fibre Agreement (MFA) in 2004 partly accounts for the increase in EPZ production in China, as many buyers were prompted to redirect their orders away from other Asian manufacturers, as well as from those in Madagascar and Mauritius (Cling, Razafindrakoto, Roubaud 2005). As expected, China was the primary beneficiary of the end of the garment quota system. The study by Fu and Gao (2007) reports that “between January 2004 and January 2005 Chinese exports of textiles and clothing to the United States soared by 65.26 per cent.”

Until recently China’s boom was riding on remarkably low wages across the board (Fu and Gao, 2007). However, there are two important points to be made on recent wage trends in relation to workers in FFEs. First, FFEs used to offer higher wages than their non-FFE counterparts, attracting professional and skilled labour. In 1997, for example, the average wage at a Chinese enterprise was only 62 per cent of that of FFEs, and manufacturing wages were just 58 per cent of FFE wages. However, the comparative advantage of FFEs for wages has decreased. The average wage in China’s enterprises reached 90 per cent of that of FFEs in 2005, so that wages in EPZs are no longer much higher in comparison (Fu and Gao, 2007, p. 28). This is further evidence of successful reform beyond the EPZs. Second, the wages of Chinese workers have been increasing

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<sup>6</sup> See: <http://news.bbc.co.uk/2/hi/business/3846439.stm>

<sup>7</sup> The real average tax rate is 11 per cent inside the zone as opposed to 26.7 per cent outside the zones (Chang-Hee 2009).

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significantly since 2003/2004 as a result of rapid economic growth and decreasing labour supply.

Thanks to a large scale economic stimulus package, the negative impact of the global economic crisis has been short-lived and somehow contained. China has begun to register strong economic recovery and growth since early 2010. In early 2011, the pressing issue for employers – whether foreign or domestic – is the extreme difficulty of recruiting and retaining workers as labour shortage reached a historic level. In response, the governments in various localities increased local minimum wages – on average more than 20 per cent. In the early days of industrialization in the 1990s, there was an observation that local governments intentionally kept local minimum wages low in order to attract foreign investment. However, since 2004, an upward adjustment of local minimum wages was used by local governments to attract migrant workers, in the absence of a well-functioning mechanism of wage negotiation at the enterprise level.

A parallel change has taken place in the field of industrial relations during the transition period. Since the Cultural Revolution of the 1960s until the early 1990s, China's employment and labour relations were administered without national laws. The 1990s was a crucial period of laying the basic legal foundations for market-based employment relations and industrial relations, as the country took the important first step of introducing various legal regulations that included the first Trade Union Law (1992) and the Labor Law (1994). Though these laws set out the basic rules governing employment relations in a market economy and brought some changes to the functions of the socialist trade unions, they served mainly to dismantle the old employment relations regime under the centrally planned economy, rather than putting in place adequate legal measures to protect workers and an institutional framework for modern industrial relations (Lee, 2009).

However, a series of legal and institutional changes adopted since the early 2000s have begun to bring meaningful changes to the legal framework for both the protection of individual workers' rights and the workings of modern industrial relations system in China. In this respect, the adoption (in 2007) and implementation (in 2008) of the Labour Contract Law is noteworthy for a number of reasons. First of all, while all previous laws and regulations were largely applied to the urban workforce, the Labour Contract Law extends its scope of application to all workers, including rural migrant workers. Second, it offers improved legal protection and job security to workers. Third, it requires employers to consult with trade unions or workers' representatives in major decisions on such matters as dismissal and redundancy, and also in drafting or revising work rules (Lee, 2009). Also, in spite of the well known problems of the representational foundations of the industrial relations system, China has made concerted efforts to expand trade unions and collective bargaining coverage in every corner of the economy.

Enterprise unions' dependence on employers continues to seriously undermine unions' capacity to represent workers through collective bargaining. However, it is to be noted that there is a vigorous discussion within and outside the unions on how to improve the foundation of industrial relations in China so that the country can achieve industrial harmony with more equitable distribution of wealth. In particular, a series of high profile strikes by workers in 2010 clearly showed that the reform of industrial relations and trade unions have become urgent policy challenges for tripartite partners in order for China to further upgrade its industrial base, stimulate domestic consumption and have more equitable distribution of wealth which will ensure sustainable economic development.

## **Honduras**

The first EPZ experiments in Honduras began in 1976 with the Puerto Cortes free zone, the country's primary seaport. Initially, these early zones came under the jurisdiction of the National Port Authority. In the late 1980s, Honduras benefited from special production-

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sharing arrangements with US apparel companies, which included duty-free entry into US markets for certain textile goods assembled there, thus stimulating the maquiladora sector.<sup>8</sup>

In 1987, Congress privatized the zones and elaborated a strategy that declared the zones were to be explicitly utilized for growth by export, and would employ a local labour force. Also included in the new legislation were tax holidays to attract investors, thereby giving rise to the textbook form of EPZ and a new strategy for growth. The expansion of EPZs has been largely geographically concentrated, and today 70 per cent of the maquilas reside in the northern beltway cities of San Pedro Sula, Villanueva, and Choloma.

In 2007, 342 companies operated in 67 EPZs, up from 139 companies in 33 EPZs nine years earlier. Whereas in 1997, 83,000 people worked in EPZs, by 2007 the figure was 134,000 (Lanza 2009). An amazing 50 per cent of the total manufacturing sector labour force work in EPZs (Morley and Piñeiro 2006). Today, investors in Honduras enjoy twenty years of tax-free operation, with no obligation to pay municipal taxes for a decade – the blessings of an accommodationist state.<sup>9</sup>

Liberalization policies were dramatic in Honduras, which went from having the highest tax and tariff rates in Central America in 1990 to having the lowest in 1995 (Morley and Piñeiro 2006). The ensuing proliferation of EPZs earned it the moniker “Maquila Republic.” The Honduran EPZ sector flourished in the 1990s, especially in the apparel, garment, and textile industries, which still constitute the bulk of its exports (half of all companies are in textiles). Honduran EPZs also sell automobile harnesses to the US and manufacture tobacco products. Between 1990 and 1996 employment in EPZs climbed 40 per cent per annum (Cordero 2009). The US is Honduras’s primary trading partner. It sent \$3.8 billion worth of apparel goods to the US, and paid \$3.2 billion for US-based imports in 2005. The close relationship with the US has meant a certain degree of trade stability over the years but also ties the fate of exports to the health of the US economy.

Following the devastation by Hurricane Mitch in 1998, the entire country was declared a free trade zone (FTZ), which involved expanding some of the tax breaks and other incentives – formerly the exclusive purview of EPZ employers – to all investors.

The worldwide economic crisis that began in earnest in late 2007 reduced orders from the US, and Honduran EPZs shed 15,000 jobs in 2008, and an additional 4,000 between January and March of 2009 (Lanza 2009). However, Honduras still managed to increase its market share of textiles by 0.7 per cent.

Until 2007, workers in EPZs earned wages above the legal minimum, the wage earned by many assembly workers outside the EPZ enclaves. An ILO report (2008) compares the lives of workers at EPZs with outside workers *applying* to work at an EPZ. The study finds that workers inside benefit and struggle in various ways, but do not find a demonstrative difference in their work lives. Workers inside the EPZs enjoy earnings up to 50 per cent higher than the applicants, and the pay scales indicated room for advancement and promotion by seniority. However, EPZ workers report both poorer health and less leisure time than the applicants.

Because salaries are related to working hours, an important future study would undertake a comparison of hours worked within and outside EPZs. EPZs in Honduras operate 24 hours a day, seven days per week. Honduran managers often adhere to an HR strategy called “goal achievement” by which workers are forced to remain in the factory until the daily quota is met, regardless of the time it takes. Given that overtime is sometimes not paid or is underpaid, this raises obvious questions about workers’ rights. Production targets range from 1,800 to as high as 4,800 parts per day, and the daily goal is

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<sup>8</sup> The impetus for maquiladoras expanded further in 2000 with the passage of the Caribbean Basin Trade Partnership Act (CBTPA), which gives member nations preferential tariffs

<sup>9</sup> Since 2004, it is estimated that the Honduran government gave away \$45 million per annum in tax breaks, excluding customs exemptions (Lanza 2009).

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relative to the output per worker – the more the worker produces in a day, the higher the quota.

With a fragile system of social dialogue, labour unrest and social disruption are common features of the Honduran political landscape, and the EPZs are not exempt. The General Confederation of Workers (CGT) in Choloma reports as many as 500 actions in response to mass dismissals of unionists between 1993 and 2000. However, anecdotal evidence and written reports show that intimidation tactics and illegal dismissals constitute the bulk of anti-union activity by management. Apparently it is an effective strategy since union density hovers at a mere 13 per cent, most of whom are members of the United Confederation of Workers (CUTH), a business-friendly outfit. The Center for Womens' Rights (CDM) reports frequent blacklisting of unionists and denial of the freedom of association inside EPZs, corroborated by a 2006 State Department report.

Labour issues were popularly debated during the passage of the DR-CAFTA<sup>10</sup> amid isthmus-wide protests, strikes and walkouts. In March 2006, the US Department of Labor provided \$5 million to support an ILO programme to promote labour rights under the DR-CAFTA.

Armbruster-Sandoval (2003) reports that numerous transnational union campaigns have have been waged in the growing number of maquila industries, making use of a “boomerang strategy” (Keck and Sikkink 1998), whereby poor workers recruit the assistance and solidarity of rich-country allies. In particular, he notes the victory of Honduran workers in the EPZ known as Kimi in gaining one of the few collective bargaining agreements in the sector. The ICFTU (2004) also reports a victory by workers at the Corazon apparel factory – in a campaign funded by the Dutch union federation, FNV – in San Pedro Sula after a video was shown at the 2003 WTO summit in Cancun showing verbal and physical abuses taking place at the factory, that again highlighted the role of international actors in securing labour rights in Honduras. However, this serves to underscore the lack of traction of local Honduran unions, which face incredible anti-union pressure and have little or no access to worksites.

In general, union activity has been largely ineffective, and the size of the union force has shrunk in recent years. Alternatively, many EPZ companies have turned to CSR<sup>11</sup> initiatives to deflect criticism of their anti-union activity.<sup>12</sup> Despite legislation that protects the right to unionize, under-resourced unions, aggressive anti-union management, and a poor legal enforcement mechanism ensure that the process is extremely difficult if not impossible.

## Nicaragua

Nicaragua is the second poorest nation in Latin America, ahead of Guyana and right behind its neighbour, Honduras (Cordero 2009). After decades of political turmoil,<sup>13</sup> EPZ development in Nicaragua began in earnest only in 1991, during the presidency of Violeta

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<sup>10</sup> The Dominican Republic – Central America Free Trade Agreement (DR-CAFTA). Although the original agreement included only the United States and the Central American countries of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua (CAFTA), the DR joined in 2004.

<sup>11</sup> The idea of corporate social responsibility (CSR) is to embed international norms, ethical standards, and a panoply of “rights” into the business model of large corporations, thereby promoting “a market for virtue” where unions are non-existent or unable to practice the vigilant monitoring that it would otherwise require (Vogel 2006).

<sup>12</sup> An ILO study on Sri Lanka takes the position that “no CSR (corporate social responsibility) initiative is sustainable unless it is connected to and supported by a strong national industrial relations system and its actors.” It then cites evidence from an Ethical Trading Initiative (ETI) study that claims CSR-type work “does not result in positive changes in terms of social compliance” (Sivananthiran, see: [www.ilo.org/public/french/dialogue/download/epzsrilanka.pdf](http://www.ilo.org/public/french/dialogue/download/epzsrilanka.pdf))

<sup>13</sup> The Sandinista Revolution that overthrew the Somoza dictatorship lasted until 1990, but most of their tenure was marked by violent clashes with the CIA-backed contras.

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Barrios de Chamorro who overturned the remnants of Sandinista socialism and re-privatized state assets (telecommunications, electricity, banks, etc.). The advent of peace in the region marked the most critical precondition for growth and liberalization (Espinoza 2009). The peace dividend also reduced military spending, but dramatically increased public unemployment, as the military shed 75 per cent of its soldiers (Agudelo 2000).

Protectionism was eroded in the 1990s with the enlarged role of the Central American Common Market (CACM), which includes Costa Rica, El Salvador, Honduras, Nicaragua, and Guatemala. While the experiment with regionalism has been a cautious success, sticking points exist over a common strategy for attracting FDI and EPZ-based production, largely the result of the lack of political will in the face of incentive wars. The Nicaraguan EPZ system emerged later but with similar vigour as it did across Central America. An ILO report states that in 2006, 922,000 workers were employed in Central American EPZs (Singa-Boyenge 2007).

Though Nicaragua has been more successful in attracting FDI overall, Honduras has had better luck attracting investors to its EPZ sector, possibly owing to a better incentives package. In Nicaragua, incentives for EPZ investors last only 15 years, but are permanent in Honduras (Gitli 1997). This suggests that FDI is also attracted to areas other than EPZs in the region. Moreover, until 1998 Nicaragua granted exporters income tax exemptions and Tax Benefit Certificates, quasi-bonds that can be used to pay taxes or sold to third parties (modelled after the successful system used to diversify exports toward manufacturing in Costa Rica). However, the system was ended and replaced with an export subsidy.

Though it is often claimed there were no EPZs at all in 1990 in Nicaragua, there were fledgling free trade zones in the late 1970s that came under Sandinista control after 1979. After the transition to capitalist democracy, the political impetus to grow by exports culminated in a series of laws to promote a more typical EPZ sector; a dedicated body to oversee the zones was created, the National Free Zone Commission (NFZC). Nicaragua therefore has a bifurcated system of EPZs, some public, some private. A 2008 World Bank report finds that outside East Asia privately-owned zones are preferable as they are generally more profitable, retain more technologically advanced equipment, and attract higher-end activities.

In 1990, adjustment programmes brought inflation under control, cascading from 13,000 per cent to between 10-20 per cent. Though the EPZ sector had only just begun in 1991, by 1998 the value added share of maquilas was a negligible 10.7 per cent (Agosin 2001). Nevertheless, EPZ development has lagged and, especially in comparison to Honduras, not delivered a significant consolidated growth mechanism. By 2002, however, \$146 million dollars in FDI inflows gave the strategy more confidence. By 2005, almost 80 per cent of its exports came from EPZs, besting both the Dominican Republic (77 per cent) and Panama (67 per cent). In 2008 the country operated 34 zones (World Bank 2008). Today, according to the NFZC, 262,000 people are directly and indirectly employed in Nicaraguan EPZs.

Anecdotal evidence suggests that EPZ workers in Nicaragua are denied the legally-mandated minimum wage under Daniel Ortega's new Sandinista regime (interviews, May 2009). In fact, low pay and violations of labour law have characterized Nicaraguan EPZs from the start (Espinoza 2009). Unlike in the other countries in this study, wages in comparable industries outside the zones are higher on average (Raphaelidis 1997). Moreover, many Nicaraguan workers live and work amid the most deplorable conditions in Central America, without access to potable water or adequate sanitation (UNCTAD/UNDP 2000; Espinoza 2009). This has created hostile social dialogue at times within the EPZs. Scholars have noted particularly the important role that women have played in Nicaraguan labour struggles (Bandy and Mendez 2003).

Just as the free zones were maturing in Nicaragua, employers clamped down by busting unions (Wimberley 2009). While Nicaraguan workers enjoyed higher rates of

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union density than anywhere else in the isthmus in the 1970s and 1980s, the liberalization regime has brought renewed attacks on workers' organizations. The Washington-based Campaign for Labor Rights (CLR) reports that a large scale assault on unions began in 2000, with "mass firings" at the US-owned Mil Colores jeans factory. Up to that point, as a result of militant organizing drives by the Sandinista-led union (CST) and international solidarity campaigns in the US, nearly half of EPZ workers were union members (CLR 2000).

However, workers were able to respond to some degree. From 1996 to 2000, Nicaraguan EPZ workers and North American allies – active in the area since the solidarity campaigns of the 1980s – conducted a transnational campaign for labour rights. Wimberly (2009) claims that the campaign was only "partly successful" but that the model for mobilization helped stabilize union decline, even if it did not increase it.

Widespread outsourcing and subcontracting throughout the zones, however, provide difficult terrain for trade unions and for a coherent social dialogue system to take hold (Espinoza 2009). However, several researchers mention that local non-traditional unions have seen marginal staying power. The Working and Unemployed Womens' Movement "Maria Elena Cuadra" (MEC), for example, formed independently of the CST, has engaged thousands of workers on legal issues, job training, and human rights awareness programmes (Espinoza 2009; Bickham-Mendez 2005).

## South Africa

Many African nations followed the rest of the developing world into EPZ-based production in the late 1980s and early 1990s. South Africa adopted the strategy late in 1997, after all the countries in this report, and therefore had the benefit of drawing on the experiences of its neighbours (Chinguno 2009). However, the lessons may not have helped. According to Baissac (2003), with the exception of Mauritius, Tunisia and Egypt, African EPZs are marked by "marginal employment impact, low FDI, absent linkages with the domestic economy, and limited foreign exchange contribution." Given the costs of building and maintaining EPZs, "the total balance for the region as a whole may well have been negative."

The South African experience is similar. Because of major economic failures and widespread violations of labour and social rights, EPZs became very unpopular in Africa. Massive austerity protests, some of them violent, can be seen as an expression of moral outrage against the market-driven assault on the developmentalist state, which underpinned the class compromises after the Second World War in the Global South (Webster and Adler 1999).

South African EPZs are called industrial development zones (IDZ) to reflect a stance against the labour-repressive regimes of typical EPZs (Chinguno 2009). The interplay of global trends, political and economic forces, and domestic socio-economic policy all combined to form a different kind of EPZ than in other places on the continent. Still, progress has been slow and a coherent EPZ-led strategy has yet to bloom in full (Chinguno 2009).

After the war, South Africa developed an economy, based on import-substitution, which was relatively isolated from international networks as a result of trade sanctions against the apartheid regime. Described as a "captured state" (Schneider 2000), restrictions on growth meant high levels of unemployment, oligopolistic ownership structures, sustained falling per-capita incomes, and stagnation of the centrepiece of the economy, the minerals-energy complex (Fine and Rustomjee 1992), which pushed many mining and financial companies into manufacturing. The growth of that sector in the 1960s led to the expansion of a black working class and the rise of militant trade unionism that challenged whites-only welfare capitalism. After massive strike waves rocked Durban, the state began in earnest to contain the uprisings with legislation and compromises that would provide

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jobs to blacks, who were increasingly disenfranchised from finding work in the urban centres (Wood and Harcourt 1999).

As an antidote, the apartheid state established “industrial parks” in the black enclaves known as Bantustans, to exploit cheap surplus labour, satisfy demands for jobs, and to act as buffer zones against increasing waves of black urbanization (Bezuidenhout and Moussouris 2007). Firms that invested in these “border industries” were granted government subsidy packages and other concessions. Jauch (2002) describes them as EPZs in disguise and claims they formed the precedent for modern-day IDZs.

The “double-transition” (Webster and Adler 1999) at the end of apartheid constituted both a political transformation to democracy and a shift toward economic deregulation and export-led growth. Fuelled by a reckoning with the failures of the past, the new government sought to curb unemployment and widening inequality with an outward-looking, supply-side strategy (Chang 1998) that hoped to pull the economy out of the morass that Mandela inherited from the Afrikaner government. Shortly after the ANC adopted the macroeconomic policy framework Growth, Employment, and Redistribution (GEAR),<sup>14</sup> IDZs were officially approved in September 1997.

However, despite the ANC’s support for IDZs, the other two partners in the Alliance government, the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP), raised objections to the traditional EPZ model because of labour and social deregulation. Though the ANC’s original intention was to create a sector more classically EPZ (more investor incentives, special customs area, extra-territorial regulation, etc.), the other social partners successfully lobbied at NEDLAC against what they saw as encroaching neoliberalism. A lack of consensus therefore characterized the IDZ project from the start (Chinguno 2009). Consequently, the particular form of South African IDZs and their relative ineffectiveness is to a large extent the product of a failure to implement a coherent strategy or develop a committed policy platform through which to encourage IDZ-led growth.

South African EPZs are therefore not exempt from any social regulation, including labour law (Chinguno 2009). However, despite higher regulatory structures than other models, IDZs do offer special incentives for investors, including duty-free imports, six-year tax holidays, VAT-exempt tax structures, and streamlined administration requirements that minimize red tape. Still, some proponents of the IDZ concept argue that the South African incentives package in the zone is not attractive enough to compete with other countries in the region and therefore will result in lacklustre performance of the zones (Tang 2008). Moreover, many investors on the ground bemoan the poor implementation of the IDZ plan and claim that the promised subsidy packages do not always materialize.

The South African zones are directly integrated into the global market, though linkages to the domestic economy are rare. While forward links were not expected, the much-anticipated backward linkages have hardly transpired either. Consistently, labour is the most popular locally-sourced commodity. Because of the deep global links, the South African IDZ sector has been exposed to the turbulence of the international economic crisis, represented by higher import prices and declining demand. There are a few exceptions to this rule, where EPZ-based producers have developed local backward linkages, such as food producers and the Biomass wood brick manufacturer. Moreover, firms with local links create more jobs relative to the amount invested. Dynamic Commodities, for example, created 700 new jobs with an investment of \$7 million US dollars, while Acoustex, an enterprise without links, created 75 from the same amount of investment (Chinguno 2009).

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<sup>14</sup> GEAR represented the first decisive step towards market-driven orthodoxy: relaxed monetary controls, the privatization of state assets, and “regulated flexibility” in the labour market.

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Chinguno (2009) explains that four IDZs constitute the South African experiments with a liberalized export model. At \$1.8 billion, the Coega-Port IDZ is the single largest development project since 1994 and the largest EPZ in Africa. The zone is run by the government and so far has had trouble finding an “anchor investor,” a large investor who will help to attract other businesses to the area. The East London IDZ, nearly a monoculture zone of the auto industry, opened in 2001 with 14 investors, and is also state-owned. The Richard’s Bay IDZ, run by the Kwa-Zulu Natal provincial government, suffered setbacks due to land allocation issues and has thus far been largely inoperable. The same is true of the OR Tambo IDZ which met delays because of zoning issues, poor land allocation, and airport redevelopment. All four IDZs are publicly owned, reflecting a stance against the recent trend towards privately operated EPZs. In the 1980s only 25 per cent of EPZs in developing nations were in private hands, but as a result of an increasing confidence that private zones are more effective and cheaper for the host country, that figure increased to 62 per cent in 2008 (World Bank 2008).

The post-1994 economic crisis, especially joblessness in the majority black population, was a major impetus for IDZ development. However, thus far the zones have not made much of a dent in unemployment, which today lingers around 32.5 per cent (Labour Force Survey, second quarter). Though lofty intentions predicted the creation of over 20,000 jobs in some of the zones, only about 2,000 have materialized.<sup>15</sup> This number includes the large percentage of supposedly IDZ-generated employment that is actually constituted by businesses which have relocated into the zones in search of tax breaks.

Relocated businesses are also the primary sources of union labour, as efforts to recruit new members have been difficult in the IDZs. Most of the IDZ union members are organized by NUMSA in the automobile sector. The prevalence of subcontracted labour and labour brokers present the same obstacles to new recruitment inside the zones as they do outside. Technically, unions enjoy the same rights as they do outside the zones, but the tightly-monitored security situation also makes approaching workers difficult (Chinguno 2009).

Although there is no overt discrimination against female workers in terms of wages and benefits, women make up the majority of the workforce in the non-union shops, and specifically in the places where labour brokering and subcontracting have created conditions most like those in generic EPZs. Furthermore, though South Africa receives many immigrants<sup>16</sup> from neighbouring Zimbabwe, Lesotho, and Namibia, they are under-represented in the IDZs, as most employers engage local nationals. Wages and hours tend to mimic the rest of the economy, or may even be more worker-friendly than in the non-IDZ sector (Chinguno 2009).

There are myriad reasons for the evident shortcomings of the IDZ system. Overall, the zones have failed to attract investors. Because South Africa attracts more FDI than any other country on the continent (UNCTAD 2009), it is not immediately clear why the funds are not helping an export-led strategy. Some view the switch from import-substitution to wide liberalization as a mistake, or that it happened too quickly. Other perspectives claim that it has not gone far enough, and see the labour movement’s intervention as inherently limiting. The unions hold that the basic tenets of EPZ production fundamentally undermine the “decent work for all”<sup>17</sup> promises of Jacob Zuma’s campaign platform. Another view holds that other conditions restrict the development of a strong manufacturing sector, for example the shortage of skilled workers and engineers. A lack of clarity over the

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<sup>15</sup> The expectation of massive job growth was a major impetus for EPZ expansion elsewhere in Sub-Saharan Africa too. In Namibia, after three years of EPZ activity, only 400 jobs were created, in contrast to the expected 25,000. (Jauch 2002)

<sup>16</sup> Internal migration within South Africa has also risen in recent years, driven largely by increasing female migrants looking for work (Posel 2003).

<sup>17</sup> See the BBC (2009): Zuma Sworn in as S. Africa Leader: <http://news.bbc.co.uk/2/hi/8041409.stm>

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administration of the zones – local versus provincial governments – creates confusion for some of the elected officials and businesses involved.

## Conclusion and discussion

This report has explored EPZ development in four countries, assessing the historical features of each country that has given rise to a variety of EPZ models. In particular it assesses the possibilities for social development, the creation of linkages, the working conditions within EPZs (as compared to similar industries in the non-EPZ sector), and the effect of the global economic crisis.

The long-term success of EPZ-led development rests on the ability of nation states to seize foreign demand in order to direct resources to higher-productivity areas. Theoretically, an increase in profits and productivity can then translate into higher living standards, assuming workers manage to capture a portion of the surplus (ILO 2008). But can an EPZ sector flourish alongside social gains for workers?<sup>18</sup> How can we reconcile the “success” of the EPZ model as an engine of FDI versus their “success” as instruments of social development?

### Social development and linkages

The case of Honduras is ambivalent. On the one hand, it is clear that the country benefited from important special arrangements with US capital during the nineties. Regional trade agreements like the DR-CAFTA have attempted to continue these relationships. However, increased competition from Asia has shocked the Honduran sector and raised questions about the long-term viability of the EPZs.

However, the paper also finds that the repression of labour standards and the suspension of trade union rights may be directly correlated with successful implementation of EPZs. China is the obvious case in point. EPZs have grown in popularity across the economy, attracted many investors, and turned the government further toward capitalist development, but only under conditions that greatly restrict workers’ rights. Graham (2004) notes, citing Chen and Wong, “The main attraction of these areas, from the point of view of the foreign investor, was the ready availability of cheap but disciplined labor...”. Undoubtedly, Chinese SEZs helped to attract massive FDI. However, when businesses outside the SEZs were essentially accorded the same investment incentives as those inside SEZs in 1991, thereby nullifying the comparative advantage of the zones, FDI poured in to the country at even greater levels. This has caused some analysts to wonder whether SEZ development paved the way or actually slowed down the liberalization process (Graham 2004).

In South Africa, by contrast, where unions have retained power in government and have succeeded in holding EPZ employers accountable to workers, the strategy has failed to produce noticeable gains or attract sufficient investors. Whereas SEZs in China and maquilas in Honduras were set up primarily in ports with the highest levels of existing industrialization, South Africa tried to use IDZs to catalyze social development in places with low levels of industrialization, where FDI would otherwise not necessarily go – East London’s automobile plants being a prime example. EPZs there have suffered an identity crisis of sorts, caught between market-driven and Keynesian-redistributive logics

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<sup>18</sup> It is not impossible that decent working conditions can be a competitive advantage just like low wages. A 2005 ICFTU report details the preferential trade arrangements with the US and Cambodia, which is different than the situation described above with Honduras. In this case, US importers tied increasing quotas to improvements in labour rights standards, which included regular inspections by the ILO, even after the conclusion of the MFA. The Cambodia economy is rife with garment EPZs.

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(Chinguno 2009). The South African outcome is quite different from the experience of many so-called developmentalist states which take up EPZs as a mechanism to expand, where workers submit their interests to the growth potential of the domestic economy, which in practice means enhancing private profits (Chibber 2007). Nevertheless, the protections workers have retained against labour repression and a comparatively fairer regime of social dialogue have not helped to attract jobs or capture the potential benefits from the export-led growth model. Moreover, industries with the highest-performing exports also lay off the most workers (Roberts 2000).

However, the question of the relationship between labour rights repression and EPZ “success” is more complicated than the China-South Africa comparison shows. Honduras is a highly authoritarian state, yet its EPZ sector is not nearly as successful as China’s. This points to a need for further research to more fully analyze the relationship between the repression of labour standards and the successful implementation of market-based policies, especially as these relate to the peculiarities of the Chinese development model.

A basic prerequisite for the social-developmental capacity of EPZs is that the zones are linked to the host-country economy in ways that promote some degree of reciprocity. In every context studied here, however, EPZ operators have failed or neglected to create the linkages necessary to promote wider social development within the host country.<sup>19</sup> In the 1990s, the Honduran maquila sector surpassed the growth trends of other sectors of the economy. However, despite significant overtures to the export-oriented model, in keeping with the orthodoxy of the 1990s, and despite *accelerating* exports throughout the decade, Honduras actually experienced *decelerating* growth the second half of the decade overall (Morley and Piñeiro 2006). While EPZs helped to enrich the sweatshop corridor around San Pedro Sula where multiple factories are congregated, it failed to spur growth in the rest of the country. This is precisely because “besides labour, electricity, rents, and a few other services, firms operating in the sector purchase practically nothing in Honduras” (Agosin 2001). The same is true of Nicaragua, where maquilas have almost no linkages (Raphaelidis 1997). Though EPZs led the development push, and despite significant strides toward macroeconomic equilibrium, the country has not achieved sustained growth patterns or seen rising living standards (Agosin 2001).

Others have suggested that Central American countries – Honduras and Nicaragua in particular – lack the fundamental investments in human capital necessary to jumpstart economy-wide economic growth (Barro 1991; Bengoa and Sanchez-Robles 2003; Agosin 2001). Human development indices surely matter, and poor education and health problems are certainly fetters on the likelihood of technologic spillover, but these factors are hardly unique to Central America.

While EPZs have flourished as a vehicle for globalized production, as an employer strategy for low-cost exports, and (on occasion) as a governmental strategy to absorb surplus labour and attract FDI, they have failed to create *decent* jobs. In other words, we can usefully view the EPZ strategy as a low-road job creation model by promoting a race to the bottom. It does not appear to matter whether or not the strategy is successful in its own right or not. In China as in South Africa, backward linkages do not develop.<sup>20</sup> Madani (1999) suggests that linkages are dependent upon the host-country having an existing industrial base. EPZs are seen in this way as furthering industrial development, not jumpstarting it. The so-called catalyst effect, which has shown success in Malaysia, refers to the demonstrated attractiveness of EPZ firms in the ability to lead by example, inspiring

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<sup>19</sup> There are some notable exceptions in South Africa. See above.

<sup>20</sup> Some have suggested that linkages have developed in part through technology transfer. But others find China to be consistent with larger trends. As Jayanthakumaran (2003) notes, “In practice, the technology transfer of EPZ firms to local firms was not substantial. EPZ firms wither use a universally available technology, as in the garment industry, or if they use advanced technology, as in the electronics industry, it is heavily guarded and its dissemination is highly restricted.”

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local businesses to produce and distribute for export as well (Johansson and Nilsson). For now, however, optimism is tempered by scant evidence to this effect.

Theoretically, linkages can be made and an economy could be “catalyzed,” but it is crucial to remember that this would contradict the intended purpose of EPZs as seen by those social partners most actively encouraging the strategy: multinational corporations and national governments with large labour surpluses. To put it another way, because links do not materialize spontaneously (Jenkins, Esquivel, and Larraín 1998), and governments may lack the political will to enact policies to establish them, it is not surprising that they rarely exist. The establishment of linkages also implies a strategy of investment in a *place*, rather than a *product*, possibly for an extended period of time. Buyers and sellers need time to develop product markets and entrepreneurial relationships. But as the ICFTU (2004) notes, “By its very nature, EPZ investment is precarious, and likely to leave the country at a moment’s notice if more favourable conditions for production, including lower wage, are on offer elsewhere.”

## **Wages, working conditions and social dialogue**

This report also finds that EPZ workers are paid slightly higher wages than those in comparable industries outside the EPZ sector, except in Nicaragua (Raphaelidis 1997). This may be explained by a number of factors. First, widespread criticism of the EPZ model has led many operators to deflect negative publicity with an offering of better economic standards. Secondly, the profile of multinational companies is sometimes higher and subject to more political scrutiny than local smaller outfits. Lastly, many multinational companies have CSR initiatives that may oblige the company to pay the local legal minimum, whereas local employers are much more likely to try and skirt the law.

However, it is essential to remember that EPZs across the board – including even South Africa, where unions have retained a modicum of control in the zones – rely on labour repression and antiunion policies to enhance control of the workplace, thereby limiting the possibility for upward mobility or safer jobs to the benevolence of employers. Through fear, intimidation, physical attack, the use of yellow unions, security fences, or national legislation, EPZs have largely succeeded in deterring union organizing efforts (Chinguno 2009). A labour-repressive environment and low union density in all four countries studied here, even in South Africa, generally tends to foster the kind of limited social dialogue characteristic of industrial relations in the zones.

## **Effects of global economic crisis**

The economic crisis has negatively impacted all three countries’ EPZs in the study. Slumping demand has led to fewer markets for exports and possibly higher input costs, which has already translated into retrenchments and hiring freezes in the developing world. However, the rise of China will also have a negative impact on most other EPZ-led economies, Latin America in particular. While some South American economies have benefited from China’s need for natural resources, the Central American isthmus has been negatively impacted by the commodities boom because it produces similar exports as China at a higher cost, and is therefore losing its share of the market. Today the Honduran and Nicaraguan maquiladoras survive primarily as a result of preferential US trade relations which impose relatively high import taxes on Chinese goods. Lagging infrastructure and comparatively higher wages than the domestic non-EPZ sector and Asian workers makes the sector US-dependent, though analysts know this is not a sustainable solution (Davy 2003). For example, an UNCTAD/UNDP report insists that “Nicaragua must be gradually weaned of its dependence on unhealthy levels of foreign assistance.”

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## Comparisons with non-EPZ sector enterprises

Analysis of comparable businesses outside EPZs are difficult because of data and information limitations. However, some insights are possible. It is likely that EPZs are more efficient outfits, with higher rates of productivity than comparable non-EPZ businesses. First, labour inspectors and workers consistently report the use of upgraded technology and more sophisticated human resource management techniques that would make business run faster and essentially more efficiently. We know from experience in myriad instances that upgraded technology allows for higher rates of productivity (output per worker) and profits.

Secondly, it is also clear that as a strategy for attracting FDI, they are far superior to similar enterprises outside EPZs that offer no or less incentives for investors. However, when the incentives are more widely socialized, as in many parts of China, SEZs tend to lose their obvious advantage. However, FDI still seems to congregate around SEZ-dense areas. According to Zhang and Felmingham (2001), there are causal links between FDI inflow and China's exports by regions with a high number of FFEs concentrated along the eastern coast, recipients of less FDI in Central China, and the group receiving the least amount of FDI in Western China.

Finally, the multinational character of EPZ investors and their sheer size and economic importance affords them obvious benefits that small local operators do not have. These include access to government policy-makers, and important information flows. These points of access are likely to create more streamlined business models with better knowledge of world market fluctuations that will ultimately enhance their profit margins. These facts present a case for expecting a higher degree of efficiency from EPZs.

**Table 1.**  
**Typology of EPZs in China**

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<b>China's national typology</b>	<b>ILO's typology</b>
Special economic zone (SEZ) Open coastal/riverside/inland/border city	Special economic zone
Economic and technology development zone (ETDZ) High-tech industrial development zone (HIDZ) Border economic cooperation zone (BECZ)	Enterprise zone
Bounded zone/logistics park (BZ/BLZ) Export processing zone (EPZ) Industrial park, investment zone (IP/IZ)	Industrial/commercial free zone

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Source: "ILO, types of zone: An evolutionary typology", available at: [www.ilo.org/public/english/dialogue/sector/themes/epz/typology.htm](http://www.ilo.org/public/english/dialogue/sector/themes/epz/typology.htm)

**Table 2.**  
**The differences between ETDZ/HTIDZ/EPZ/BZ**

<b>Category</b>	<b>ETDZ</b>	<b>HTIDZ</b>	<b>EPZ</b>	<b>BZ</b>
<b>Level</b>	<b>National</b>	<b>National</b>	<b>National</b>	<b>National</b>
Rate of corporate income tax	15%			
Preferential arrangements of FIE	2 years of exemption and three years of reduction by half (7.5%);			
Preferential arrangements of enterprises adopting advanced technology	Reductions up to 3 years under certain conditions			
Preferential arrangements for export oriented enterprises	Preferential tax rate at 10% for the year in which export value exceeding 70%			
Duties and importation VAT for imported self-used production equipments and parts	Exemption granted for enterprises within the encourage category		Exemption	
Duties and importation VAT for imported office appliance and management equipments	No exemption		Exemption	
Duties and importation VAT for imported materials	No exemption except for bonded materials for processing trade		Exemption	
License for imported materials, equipments and office appliance under processing trade	No exemption except for encouraged projects under processing trade		Exemption for all projects under processing trade	
Domestic sale of products comprising bonded raw materials	Taxed as finished product		Taxed as finished product	Taxed upon imported raw materials
VAT refund for finished products made from domestics	Refund granted only if finished products leave territory of China		Refund granted after domestics enter EPZ	Refund granted only if finished products leave territory of China
Bank guarantee bond under processing trade	Required		Not required	
Rate of VAT	17%; 13% for agriculture			
Tax refund for re-investment	40% of paid income tax for the re-investment; totality of paid income tax for re-investment in the case of export oriented enterprises and enterprises adopting advanced technology			

Source: "Special economic areas of China and WTO – will the privileges survive?" (Wenger Vieli and Belser, 2003).

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