



DECENT WORK AND EXPORT PROCESSING ZONES:
AN ILO PERSPECTIVE



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Definition

EPZs are “industrial zones with special incentives set up to attract foreign direct investment, in which imported materials undergo some degree of processing before being exported again”

Zone formats:

- ▶ *EPZ*
 - ▶ *Special economic zones*
 - ▶ *Free trade zones*
 - ▶ *Industrial free zones*
 - ▶ *Maquiladoras*
 - ▶ *Special economic zones*
 - ▶ *Bonded warehouses*
 - ▶ *Technology and science parks*
 - ▶ *Financial service zones*
 - ▶ *Free ports*
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... special incentives...

Economic

- ▶ *Exemptions from export taxes / duties on imports*
- ▶ *Tax holiday package (taxes on profits; property tax; municipal taxes; VAT; etc.)*
- ▶ *Exemptions from foreign exchange controls*
- ▶ *Free repatriation of profits*
- ▶ *Infrastructure facilities; electricity; water; ...*
- ▶ *Administrative facilities and services provided*

Social*

- ▶ **Limitations on workers' rights especially freedom of association (right to organise; industrial action; ...)**
 - ▶ **Cost/Benefit of EPZ strategy***
(factor in social upgrading/downgrading resulting from EPZ strategy)
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EPZ evolution in time...

- ▶ **Names:** free trade zones; special economic zones; bonded warehouses; free ports; maquiladoras; development zones; special economic zones; etc.
- ▶ **Type:** assembly plant; single processing plant; high tech; finance zones; free port; tourist resort; call centres; ...
- ▶ **Form:** EPZ as a defined zone → enterprise-type EPZ / plant anywhere → foreign investors in country
- ▶ **Sectors:** labour intensive (garments, textiles) → capital intensive (electronics) → services (call centres)



Why Governments set up EPZs

- ▶ Attract foreign direct investment
- ▶ Create jobs – employment
- ▶ Technology transfer
- ▶ Diversify the economy
- ▶ Transfer skills
- ▶ Diversify the economy
- ▶ Earn foreign exchange
- ▶ EPZs as an interim solution for county-wide reform
- ▶ etc



Trends and Criteria for evaluation of EPZ strategy:

- ▶ Trends on what EPZs have helped some countries to achieve:
 - ▶ increase exports (China, Hungary, Philippines, Malaysia, Mauritius...)
 - ▶ Diversify the economy
 - ▶ Attract foreign investment, open economy (China)
 - ▶ Create Employment (including use of migrant labour-Mauritius)
 - ▶ Absorb young women into formal economy jobs from agriculture / informal economy
 - ▶ Move to higher value-added production (Malaysia, Mauritius...)

Criteria for evaluation from a labour & social point of view:

- ▶ Do EPZs meet internationally recognised standards of Decent Work?
 - ▶ Do EPZs meet labour standards of similar enterprise type in the non-EPZ formal economy?
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ILO: Decent Work

- ▶ **Promoting jobs** – an economy that generates opportunities for investment, entrepreneurship, skills development, job creation and sustainable livelihoods.
 - ▶ **Guaranteeing rights at work** – to obtain recognition and respect for the rights of workers. All workers, and in particular disadvantaged or poor workers, need representation, participation, and laws that work for their interests.
 - ▶ **Extending social protection** – to promote both inclusion and productivity by ensuring that women and men enjoy working conditions that are safe, allow adequate free time and rest, take into account family and social values, provide for adequate compensation in case of lost or reduced income and permit access to adequate healthcare.
 - ▶ **Promoting social dialogue** – Involving strong and independent workers' and employers' organizations is central to increasing productivity, avoiding disputes at work, and building cohesive societies.
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Decent work : Employment

Estimates of the development of export processing zones

	1975	1986	1995	1997	2002	2008
No. of countries with EPZs	25	47	73	93	116	130
No. of EPZs	79	176	500	845	3000	3500
Employment (millions)	n.a	n.a	n.a	22.5	43	66
– of which China	n.a	n.a	n.a	18	30	40
– other countries with available data	0.8	1.9	n.a.	4.5	13	26

Source ILO (2003; 2008)



Decent Work: Employment ...

- ▶ Significant employment growth (though some losses in some countries due to competition to attract FDI into EPZs)
 - Net employment creation or simple movement from domestic economy to EPZs? (case of Mexico)

- ▶ Quality of employment (decent employment) issues:
 - High turnover of workers (average career max 5 years)
 - Skills upgrading?
 - Hiring and firing regime suspect
 - Working conditions
 - Labour management relations
 - etc.



... profile of workers ...

- ▶ Majority are Women – up to 90% are women in some countries
 - ▶ Tend to be rather Young
 - ▶ Migrants
 - ▶ Generally Poor (minorities; discriminated groups?)
 - ▶ Therefore face issue like:
 - Discrimination
 - Harassment
 - Accommodation
 - Transportation from work to hostel (especially night shift)
 - Family responsibility issues
 - Pregnancy tests still existing?)
 - Pay equity;
 - etc.
 - Profile is a mixture of Gender / Youth / Poverty / Migration status / Ethnicity
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Decent work: Rights...

- ▶ **Regulatory framework = subsidy / incentive to attract FDI**
 - ▶ Law : majority of countries extend coverage of labour law to EPZ
 - ▶ Practise: majority of countries do not apply the law in practise

- ▶ **Freedom of Association and Collective bargaining (FOA/CB):**
 - legal exemptions on unionisation in zones;
 - refusal of access to zones to trade unions representatives;
 - legal restrictions on the right to strike;
 - interference of governments and employers in the affairs of trade unions;
 - acts of anti-union discrimination (reprisals, harassment, blacklisting)
 - restrictions to collective bargaining



... Rights ...

▶ Discrimination

- Harassment
- Accommodation
- Transportation from work to hostel (especially night shift)
- Benefits and career development;

➤ Forced labour:

- Forced overtime
- Pressure from buyers on outsourced suppliers (tight delivery schedules; produce at low prices; etc.) leads to crushing long working hours and forced overtime
- Stress and high turnover



Decent work: Social protection ...

- ▶ Maternity protection
- ▶ Extent of social security coverage in law and in practice for EPZ workers
- ▶ Wages
- ▶ Working Hours (overtime)
- ▶ Leave and Rest periods
- ▶ Facilities and family responsibilities: existence and reality of facilities like crèches, clinics, sanitation, cafeteria, (night) transportation, housing
- ▶ Health and Safety (rare exemptions)
- ▶ Study in Central America on key problems facing workers:
 - Women: 1) wages 2) maternity rights 3) pay overtime 4) lengthy shifts
 - Men : 1) maternity rights 2) wages 3) pay on rest days 4) overtime pay



Decent work: Social dialogue ...

- ▶ Major area of deficit (though there are some good examples)
- ▶ Linked to the deficits in relation to FOA/CB
- ▶ Employers push for “solidaristas” associations; workers’ councils; worker management committees; etc. as a substitute to unions
- ▶ Labour inspection
 - ▶ generally weak
 - ▶ prohibited from entering zones in some countries
- ▶ Some emerging good practices!
 - ▶ Nicaragua
 - ▶ Sri Lanka (GSP+)
 - ▶ CSR related issues (role of buyers; IFA;...)



EPZ strategy and development policy

- ▶ **EPZs as a key hub of Global Supply Chains**
 - ▶ EPZs represent a sizeable share in country exports
 - ▶ Outsourcing pressures: tight delivery schedules and pressures from buyers to produce at low prices forces outsourced producers to underpay workers / inflict crushing long working hours / violate labour rights
- ▶ **ILO tripartite actors: governments – employers –workers**
 - ▶ **Governments:** generally favourable (investment, job creation, exports, etc.)
 - ▶ **Employers:** support EPZ- Compare EPZ jobs with non-EPZ jobs/ more recently against Enclave strategy for country-wide rollout of reforms / discrimination of non-zone firms
 - ▶ **Workers:** Close down EPZs / Normalise rights and labour relations in EPZs /organising unions / Low road to creation of decent jobs
- ▶ **However some degree of agreement that:**
 - ▶ Preference for an integrated (industrial) development strategy as against an enclave approach of EPZ
 - ▶ Forward and backward linkages that are key are often largely missing from EPZ strategy
 - ▶ More research is needed
 - ▶ Statistics
 - ▶ Impact of WTO rules
 - ▶ Cost/benefit analysis of EPZ strategy



New frontier of EPZ - India

- ▶ EPZs to Special Economic Zones (SEZs) (April 2000)
- ▶ EPZ = an industrial enclave
- ▶ SEZ=integrated township with fully developed infrastructure, streamlined procedures and administration for monetary, trade, fiscal, tariffs and labour policies
- ▶ SEZ strategy going hand in hand with big land acquisitions
- ▶ 583 SEZs have been approved(2011)
- ▶ Currently there are 143 operational SEZs
- ▶ 24% of these SEZs are in the IT sectors
- ▶ Total investment in SEZs: \$42 billion
- ▶ Land grabs leading to social movements
- ▶ Share of SEZ exports in total exports = 29.7%
- ▶ Legal exemptions in labour law in SEZs (restrictions of entry into zones by unions; prohibition on strikes; limits on powers of labour courts; in practice, unregulated working hours; etc).



Concluding remarks ...

- ▶ Sustainability bearing in mind:
 - ▶ Long term cost-benefits of EPZ strategy
 - ▶ High turnover of firms in EPZs (Mauritius: over a 10 year period, 35 firms closed and 35 firms opened every year)
 - ▶ High turnover of EPZ workers (maximum 5 years)
 - ▶ Jobs: Quantity issues - Quality issues
 - ▶ Link Economic and Social upgrading/downgrading of EPZs
 - ▶ Labour relations and workers rights in EPZs is critical
 - ▶ Enclave strategy vrs National industrial strategy
 - ▶ Cost-benefits of EPZs is critical
 - ▶ EPZ: development strategy – some critical factors for success:
 - ▶ Nature of state: developmental states fare better
 - ▶ Backward and forward linkages between EPZ and host economy
 - ▶ Skills upgrade of labour force
 - ▶ Technology transfer
 - ▶ Global supply chains : what new regulatory framework is needed throughout entire supply chain
 - ▶ June 2016: ILO General discussion on Global Supply Chains!
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