



TOGETHER
for a sustainable future

OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.



TOGETHER
for a sustainable future

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org

UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

Distr.
LIMITED

IO.63(SPEC.)
26 April 1993

ORIGINAL: ENGLISH

DOCUMENTS COLLECTION

425 06 MAI 93

VIC LIBRARY

**EXPERT GROUP MEETING ON
EXPORT PROCESSING ZONES
DEVELOPMENT, MANAGEMENT AND PROMOTION**

Vienna, Austria, 8-11 December 1992

REPORT

V.93-84836

The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

This document has not been edited.

C O N T E N T S

	<u>Page</u>
INTRODUCTION	2
RECOMMENDATIONS TO UNIDO	3
RECOMMENDATIONS TO GOVERNMENTS AND EPZs	5
CONCLUSIONS	6
I. ORGANIZATION OF THE MEETING	8
II. SUMMARY OF DISCUSSIONS	10
A. Current trends in EPZ development	10
B. EPZ as an export policy instrument	11
C. Favourable business environment; laws, regulations and incentives	13
D. Typical EPZ industries and diversification	15
E. EPZ management and organization	16
F. Private and public EPZs	19
G. Financing of EPZ development	20
H. Customs and banking	22
I. Promotion and marketing	24
J. Physical infrastructure and services	27
K. Environmental issues	29
L. Linkages with the host economies and other benefits	30

Annexes

Annex I: List of participants	33
Annex II: Agenda of the Meeting	36

INTRODUCTION

In a significant number of developing countries Export Processing Zones (EPZs) have become increasingly popular as an export policy instrument. The benefits of EPZs are anticipated in foreign exchange earnings, employment creation and spill-over benefits including know-how and skill transfer. EPZs are also expected to have a demonstration effect for attracting foreign investment to the country as a whole and for initiating economy-wide export development policies. If the broader definition of EPZs is employed to include bonded factories, in addition to industrial estates, there are some 45 countries around the world with EPZ programmes.

Considering the large number of EPZs in operation, only some have been very successful. Many lack a suitable investment climate, experience difficulties in operating under complex laws and regulations or face problems of management, inappropriate location or high costs. An inadequate understanding of the basic preconditions for operating an EPZ and the role of the EPZ as one of the options among export policy instruments have led to more failures than successes.

UNIDO organized the Expert Group Meeting on Export Processing Zones development, management and promotion to provide an international forum for EPZ managers and experts to exchange views and information on recent developments in a selected number of zones, analyze global trends in manufacturing for export and recommend guidelines on the design, promotion and management of EPZs. The Meeting was held from 8 to 11 December 1992 at the Vienna International Centre. Conclusions and recommendations on major issues related to the role of EPZs within the overall policy framework, concerns related to EPZ operation and management, benefits versus costs of EPZ as an industrial estate and policy instrument are expected to facilitate appropriate decisions by policy makers and EPZ managers. The Meeting also adopted a set of recommendations for UNIDO to enhance international cooperation in EPZ development and management.

RECOMMENDATIONS TO UNIDO

1. UNIDO should continue the work begun by the Expert Group Meeting on Export Processing Zones development, management and promotion and facilitate intra-regional and inter-regional networking among EPZs to enhance exchange of information and promote cooperation on matters of common interest. As networking is an important element of international cooperation in the field of EPZ development and management, UNIDO should take initiative to establish such a network, consolidate the contacts established through the Meeting and develop further contacts with EPZ managers and experts world-wide. In this context, UNIDO should keep a roster of specialized experts in related fields as well as an inventory of training institutions.
2. UNIDO should establish an advisory committee on its EPZ programme to be composed of senior experts, EPZ managers and well-established institutions to provide guidance on the further development of the EPZ programme; this could provide an effective mechanism for permanent exchange of information on pertinent issues. One of the tasks of this advisory group could be awareness creation within development finance institutions in order to promote their involvement.
3. UNIDO should search for financing for its activities such as seminars, workshops, expert group meetings in the field of EPZ, from its regular budget or in the form of global projects financed by donor countries. In particular, UNIDO should organize regional seminars in cooperation with well established EPZs.
4. Taking into consideration the large number of EPZs in operation and being planned, the performance of EPZs and trends in investment flows, particularly as regards the least developed countries, UNIDO technical assistance should continue to advocate a phased approach in the planning and development of EPZs.
5. Given the demand for technical assistance in the field of EPZ, UNIDO should publish the manual on EPZ development, management and promotion (under preparation) as soon as possible and widely distribute it to Governments and zone managers in developing countries. Prior to the finalization of the manual, the observations of a selected number of EPZ experts should be obtained.
6. UNIDO should continue organizing study tours for managers and key staff of EPZs which would provide the opportunity for such managers to learn from the experience of others.
7. UNIDO should encourage EPZ managers to call on its network of Investment Promotion Offices to provide support in the investment promotion efforts in targeted countries and (sub-)sectors, including taking advantage of its delegates programme.

8. UNIDO so far has been dealing with technical assistance to EPZs; it should expand its role and also take a broker function in bringing developers together with financial institutions.

9. UNIDO should prepare a study on non-traditional sources of capital for EPZ development and EPZ enterprises, such as the mobilization of venture capital funding through international stock exchange mechanisms focused on EPZ operations.

10. UNIDO should, upon request, seek cooperation with the regional development banks such as the European Bank for Reconstruction and Development (EBRD) on a case-by-case basis for the financing of viability studies and development of EPZs.

11. UNIDO should prepare a study on environmental aspects of EPZs, including practical guidelines for EPZ legislation in this respect.

RECOMMENDATIONS TO GOVERNMENTS AND EPZs

12. In planning an EPZ, Governments should carefully examine the basic preconditions which must exist, in addition to fiscal and other incentives to attract investment.

13. Governments should ensure that EPZ legislation is transparent, clearly outlining the rights and obligations of the zone authority, developers and investors.

14. Governments should ensure a good relationship between customs and the EPZ organization (starting with involvement of customs in the planning of the EPZ regime, adequate training of customs personnel and eventually setting up of special department within customs dealing with EPZs).

15. Governments should encourage the evolution of EPZs from covering simple assembly (low-skill) to higher-tech manufacturing through well-targeted policies encouraging the creation of industrial base in the country as a whole and building on the country's inherent advantages (with focus on business-oriented vocational training and promotion of university-industry links).

16. As a bridge between the public and private sector, Governments and zone management should join hands to make the EPZ into a successful policy instrument.

17. Governments should give incentives to local entrepreneurs to become export-oriented, supplying EPZ companies in order to foster the linkage between the local economy and the EPZ.

18. It is important that the size of EPZs does not become too big (to avoid problems related to congestion of people and enterprises in terms of transport, housing, and other services).

19. Whether a public, mixed or private body, the EPZ authority should have autonomy in its day to day operations, and should ensure that it has dedicated, businesslike and well-paid core staff.

CONCLUSIONS

1. Long term prospects for EPZ development based only on low cost labour are not good. Training for zone managers and workers, and technical education linked to zone development are essential for progress and success in future.
2. The basic preconditions for EPZ development outlined during discussions include political stability; good physical, financial and institutional infrastructure; adequate labour supply; a favourable business environment; and good support services.
3. The EPZ regime is only one of a number of policy options which a country can use to promote export-oriented development. Ideally a zone should be developed as part of a larger economy wide policy package.
4. It is important to have clear and simple legislation which sets out the ground rules for the investor. Similarly, incentives should be simple, transparent and consistent.
5. To date EPZ industries have been concentrated in textiles and electronics. There are growing opportunities for diversification. International service activities (such as data entry, software development, financial services) generally are growth areas. Specialized high-grade telecommunications facilities at reasonable rate are essential to promote such activities. Engineering products and consumer goods geared to supplying regional markets can also be promoted to diversify the narrow product range of EPZs.
6. The discussion on organization and management emphasized the need for a small, flexible organization to promote and develop an EPZ. The one-stop-shop to government department has proven effective as part of management and promotion efforts.
7. The Meeting acknowledged that the private sector has a very good track record in EPZ development in a number of countries. There was widespread support for the view that the private sector can be even more active in future in zone development and management. The Meeting also urged strong private sector representation on the board of public sector EPZ authorities.
8. With regard to finance, the Meeting agreed that a more flexible approach on the part of multilateral lending agencies was required. Private sector developers should be able to secure a major portion of zone development funding through loan financing. In addition, the developer should be able to draw on funds on a phased basis in line with the demand for space in the zone, which is dictated by market conditions.

9. The public sector should provide infrastructure services to the perimeter of the zone. If the zone developer has to incur major external infrastructure costs, the project may not be commercially viable.

10. In discussion on environmental issues, many EPZ operators reported extensive measures and regulations to protect the environment. There was widespread support for the view that EPZs are often blamed by uninformed critics for causing serious pollution. Most EPZ investors are non-polluters and there are regulations in place to cope with polluting industries and treat the effluent.

11. The customs administration is a cause of major concern in a number of EPZs. Most of the difficulties with customs arise from a lack of appreciation on the part of customs of the needs of the zone investors, and inadequate training of customs personnel to understand the EPZ concept. An efficient customs administration is central to the proper functioning of the EPZ. There was widespread support for the view that a separate specially trained group of customs officers should be appointed to work in EPZs. This group should report to a director who is sympathetic to the needs of the EPZ.

12. A number of participants stressed the importance of the ability of the promotion and management personnel to win the confidence and trust of the investors. Key factors in winning such trust include professionalism on the part of EPZ staff and a clear exit mechanism for the investor. Proper planning of the promotion effort is essential. There was widespread support for the view that promotion should be targeted at specific sectors and markets: "The rifle not the shotgun approach". There is a need for EPZs to be well informed of the incentives and facilities being offered by other zones.

13. The general consensus within the group was that linkages with the domestic economy are desirable and should be encouraged. Such linkages cannot however be forced by Government or zone directors. Market forces will ultimately dictate the pace of linkage development.

I. ORGANIZATION OF THE MEETING

Some forty participants and observers from 21 countries attended the Meeting. Participants were EPZ managers, experts specialized in EPZ management and promotion, and EPZ developers from Government and private sector. Participants represented a cross section of zones based on geography, size and type of operation, public and private zones. Observers from African countries and Eastern and Centre European countries who are planning or just starting EPZ also attended. The list of participants is given in annex I.

The Meeting was opened by the Director of the Industrial Institutions and Services Division, who welcomed the participants on behalf of the Director General. He said that in the 1990s, with drastic political, economic and social changes taking place, most of the developing countries and countries of Central and Eastern Europe have been facing major challenges: how to create employment opportunities and how to export, how to become competitive in order to capture niches in international markets, bearing in mind the world economic recession and regional economic integration (European Community single market, North American Free Trade Agreement etc.). Therefore, most Governments, in reformulating their economic development strategies, recognize those challenges and give due attention to a broad range of policy and developmental instruments to foster private sector development. One of the important instruments is that relating to export processing zones.

However, experience shows that EPZs have been facing both success and failure. This is largely dependent on a number of factors, both internal and external, including the location of an EPZ, the adequacy of its institutional infrastructure, the effectiveness of its management, marketing strategies, the cost-effectiveness of its operation and an overall policy environment conducive to the private sector business development.

He further stated that the objective of the Expert Group Meeting is essentially to put the recommendations of the Meeting at the disposal of policy makers, EPZ developers and managers in the world to upgrade their knowledge in the field and help them in appreciating the various parameters and prerequisites for successful development and operation of EPZs.

In his keynote address, the Deputy Director-General of the Department of Industrial Operations indicated that in view of the increasing requests for UNIDO technical assistance from developing countries and countries of Central and Eastern Europe in the field of EPZ development and management, UNIDO recognized the need for a dialogue at the international level to discuss major concerns related to EPZ as a policy instrument and as an industrial estate. He then raised several important issues to be discussed by the Meeting related to the role of EPZs within the overall policy framework and to the management, operation and promotion of EPZs.

He said that the strong international competition faced by EPZs will probably increase, given the efforts to attract new investment in increased number of countries. This will put more pressure on EPZ host countries to ensure favourable macro-economic conditions and offer more generous incentives to investors in financial and fiscal terms along with improving transport, communication, and infrastructure facilities.

He stressed that EPZ incentives are supplementary to the basic conditions, namely political stability, a good legal and regulatory environment favourable to business, and adequate physical infrastructure which must be in place for making a particular location or country attractive to foreign investors. It is UNIDO's role to bring such preconditions to the attention of the developing countries, to avoid hasty decisions leading to unviable investments which have to be heavily subsidized. He stressed that support for EPZs should be considered individually for each country, in the context of its economy, broader export promotion and industrial development policies.

The Meeting adopted the agenda given in annex II. The following Chairpersons were elected to preside the Meetings on 8, 9, 10 and 11 December respectively:

Mr. Chundur Bhadain	Director, Mauritius Export Development and Investment Authority (MEDIA)
Mr. Richard Bolin	Director, World Export Processing Zones Association (WEPZA)
Mr. Viatcheslav Morgatchev	Director, Centre for International Business and Regional Studies, Academy of National Economy at the Government of Russia
Mr. Eoghan Prendergast	Director, Shannon Development, International Development Ireland (IDI)

II. SUMMARY OF DISCUSSIONS

A. Current trends in EPZ development

The Meeting reviewed the evolution of the EPZ concept and noted that in the 1990s a number of new challenges were facing both Governments and EPZs. The growth of EPZs worldwide during the 1980s occurred at the same time as the share of developing countries in global foreign direct investment (FDI) declined. In addition, only few developing countries shared between themselves the FDI flows to the Third World (during the last two decades, 90% of all FDI flowing into the Third World was received by only 20 developing countries).

The 1990s started with over 40 developing countries supporting EPZ programmes, often competing for investors in the same product groups. The diversification away from the limited range of export products did not keep pace with the fast growing number of zones. Only few zones are exceptions.

The newly established EPZs in the developing countries are confronted with different problems from those of earlier ones. The constraints now affecting FDI and the increasing automation and robotization in various industries are intensifying the competition between production sites. Today the establishment of specialized export niches lends a more reliable competitive edge than the conventional EPZ strategy depending solely on cheap labour. More recently a number of specialized EPZs have been developed to cater to particular type of activities, e.g. data processing centres, teleports (Jamaica), financial services centres, aviation parks (Shannon) and information technology centres (Mauritius).

The first EPZs in the 1960s were government initiatives designed to stimulate industrial development, particularly export growth and employment. In Ireland, Korea and Taiwan, the EPZ was an important instrument in initiating the whole export-oriented industrial development process. The EPZ remained as a geographic concept throughout the 1960s until Mauritius extended it to an administrative concept in the early 1970s. Variations of the administrative EPZ concept have evolved over the years, for example duty-free licenses system, bonded manufacturing system, and in-ward processing system. Mexico's Maquiladora industry started in 1965. In 1992 there were 2,063 Maquiladoras operating in Mexico employing over 500,000 workers, and that number of employees represents 17% of the total manufacturing sector. The Maquiladora industry is the second most important generator of foreign exchange, and represents 8% of total income in Mexico's balance of payments.

EPZs established in the mid 1970s have not proven to be as successful as the first generation of EPZs, partly due to poor location and partly as a result of lack of commitment. The earlier EPZs have contributed to the development of the industrial base in the country. They facilitated the development of more and more sophisticated production techniques and ended up as science or technology parks. The automation process did not affect those EPZs as much as the EPZs dedicated solely to low-cost low-skill labour industry.

One of the points highlighted was that earlier government policies had neglected the local industry in favour of export promotion. For example in Shannon, a lot of traditional small-scale industries disappeared in the 1970s. Subsequently, in 1978 to 1980 the Irish Government introduced a new range of programmes to look at the small-scale industry sector and to try to link the two approaches of promoting both export manufacturing and local small-scale industry. Today developing countries are more cautious in their policies. Not only do Singapore and Hong Kong have a uniform regime, but also many developing countries make no difference in concessions between local and foreign investors manufacturing for export.

The Meeting noted that Special Economic Zones (SEZs) have emerged as a policy option in countries like China. China recently had also started five EPZs in the traditional sense. China's SEZs, with US\$ 15 million value added on exports to the USA and another US\$ 15 million to Europe, is just about saturating the world market with low-cost low-grade goods which do not use much technology, take very little training, and permit almost no onwards mobility for the labour force. Low-cost low-skill industries are certainly important in starting fast in early days of export processing zones; on the other hand, when moving up the scale to higher technology areas, the cost to generate one new job will be extremely high.

The Meeting concluded that EPZ development will be further influenced not only by the technological changes, but also by geo-political developments world-wide such as the creation of free trade areas and forming of regional economic blocks.

B. EPZ as an export policy instrument

The Meeting confirmed that the EPZ concept is one of the instruments of investment promotion policies aimed at creating employment and foreign exchange earnings. If Governments opt for an EPZ programme, it should be considered within the framework of the country's overall industrial policies and strategies. To attract domestic and foreign firms that manufacture for exports and compete at international markets, a politically stable environment and a comprehensive policy and infrastructure package which meets the needs of the private investors is required. Without for example a realistic exchange rate, a liberal regulatory regime, streamlined procedures and the availability of basic infrastructure, export-oriented manufacturers will not be able to compete in foreign markets.

In the early stages of economic development, Governments play an important role in promoting export-oriented manufacturing. It is in this context that the EPZ tool is being used by Governments to attract investors by offering, at least as a transitional measure and as part of a broader economy-wide trade and regulatory reform effort, a liberal environment, free trade conditions and infrastructural facilities. In this respect EPZs have proven a valuable catalyst for economic reforms too radical for immediate nation-wide adoption.

The Meeting affirmed that EPZ incentives exist to supplement the basic conditions which must be in place for giving a particular location or country a competitive edge. These basic conditions are political stability, a legal and

regulatory environment favourable to private business and adequate physical infrastructure. Participants felt that access to markets through tariff preferences and other trading advantages are also essential.

Before engaging in an EPZ programme, Governments should carefully study the basic preconditions crucial to the success of the EPZ tool that can be supplemented by specific EPZ incentives. Particularly the following points were stressed:

- * Political and economic stability is an important consideration for most investors; essentially investors look for a constant economic policy favouring private enterprise, foreign investment and export development and a politically stable environment.
- * Good physical infrastructure, in terms of transport facilities, telecommunications and other utilities such as water and electricity, is essential for EPZs. For most EPZ industries, e.g. electronics, light engineering and garments, good air connections and adequate air cargo capacities and services are important. For international services activities, good telecommunications facilities are very important. A well-developed urban environment is also important.
- * Preferential access to major markets is a big advantage, e.g. Lomé Convention for Dominican Republic, Mauritius.
- * Basic support services such as banking and freight forwarding are essential in all zones. If an EPZ is seeking higher skilled engineering or electronics activities, the existence of good quality subcontractors and suppliers is an advantage. It is also important both for the firms setting up in the EPZ and the host country that a certain amount of industrial base development has already taken place in or near the zone.
- * The cost and productivity of labour and the range of available skills will determine the type of industry which will be attracted to the EPZ.
- * An EPZ management that can deal efficiently and quickly with investors' applications and assist investors in the establishment phase is important. Very often the difference between two locations is marginal and the decision will hinge on minor considerations. The overall impression made by the zone management on the investors can be decisive in such circumstances.

The experts pointed out that, in a competitive situation, it is not the extent of the individual incentives but the whole package of incentives which will determine the investors' decision. In designing an incentive package, it is most important to have a vision of the types of industry hoped to be attracted to the zone as well as to know the limit of the financial resources, so that incentives can be geared accordingly. The effectiveness of all incentives should be reviewed and as appropriate altered every few years in the light of changes in industrial development policy or strategy, changes in the market place, or changes in the Government's ability to make finance available for industrial development. Some participants pointed out that the "honesty" of the Government

in actually implementing the incentives is an important factor in attracting investment.

The experts considered incentives as a supplement to basic preconditions that must exist in a country in order for the EPZ concept to succeed. In that context, they distinguished between "cosmetic" incentives - usually a package of tax regime type of incentives - and preconditions. Investors with long-term intentions are not very interested in the cosmetic type of incentives. Serious investors who would invest to stay with a long-term view are looking for hard preconditions.

C. Favourable business environment: laws, regulations and incentives

The main elements that make up the favourable business environment include political stability, the general macro-economic environment, the cost structure, support facilities and the regulatory environment. The Meeting discussed extensively those factors and stressed that basic conditions which determine the business environment must be in place for an EPZ to operate successfully.

Whether private or public EPZ, the Government of any host country has to establish confidence of the international business community in the country, as a profitable place to locate manufacturing industry. Incentives are only supplementary measures to attract investors and often decisions are not based on available incentives but on the overall business environment. The Government needs to provide a package of investment policies, creating an environment which fosters private sector development or at least which does not hinder it.

Export processing zones have an image of freedom and absence of bureaucracy, which is appealing to many foreign investors. Generally investors in an EPZ look for: (a) a clear picture of the Government's policies and rules with regard to foreign investment in the zone; (b) an outline of the rights and obligations of the investor which should almost have the status of a contract; (c) a minimum of contact with government agencies (ideally the investors would prefer to deal with just one organization); and (d) an efficient system for the movement of goods into and out of the zone.

On the other hand, the Government will want to be in a position to control investors if their actual performance is at variance with the original agreement, if they abuse the privileges of the zone, or if their behaviour might be described as anti-social, i.e. polluting. The custom's authorities will want adequate powers to ensure that duty-free goods do not enter the domestic market or that prohibited goods (e.g. arms, drugs) are not stored, manufactured or otherwise handled in the zone. The concerns of the various groups (the investors, the Government, the organization promoting the zone and customs) can be incorporated in a simple and straightforward EPZ act. Such an act is basically enabling legislation. The relevant ministries are given powers under the act to make regulations to cover particular situations.

The experts emphasized that, in line with the image of an EPZ, the legislation should be simple and clear. Nothing would deter a potential investor more than a bulky document filled with a series of laws and regulations governing the management and operation of an EPZ. Legislation should be as broad as possible, not too specific in details, and reasonably permanent since Governments are reluctant to make frequent changes and investors desire continuity. Laws and regulations governing the management and operation of an EPZ should be formulated in a way that is understandable to the investor. It was noted that some countries have one country-wide law on EPZs, while other countries have laws for each specific zone, such as in China and Malaysia.

One participant indicated that availability of good facilities such as ready-built factories, one-stop shop and infrastructure in form of roads, transportation, telecommunications etc. could compensate for fiscal incentives. In Indonesia for instance fiscal incentives, in terms of a tax holiday, were not necessary to attract investment because of other very favourable incentives/advantages to the investor, including good infrastructure.

The Meeting discussed the scope and nature of tax holidays in various countries. In view of the increase in the number of EPZs and relatively meagre foreign direct investment flows to many developing countries, the competition among some EPZs often results in perpetually prolonging what were initially intended as short-term exemptions and temporary privileges. For example some countries were cited where, at the end of a tax-holiday of 8 years, a company could change its name and be granted another 8 years. The zone management often feels that they should not allow a company to leave because the negative image of a company moving out is irreparable, no matter how effective the promotion. It was stressed that the tax-holidays should be transparent and designed according to the objectives of the EPZ programme of the country, i.e. whether aimed at employment creation, foreign exchange earning or tax revenue.

In Sri Lanka there are three fenced-in zones, and on 6 November 1992 the whole country has been declared an EPZ. Investors can enjoy the same concessions as those of a factory inside the fenced-in zone and are monitored by the zone authority. The intention of the Government in this case is to develop regions by giving industry outside the zones the same incentives.

The case of Puerto Rico was cited as an interesting example where the tax exemption is on the product that the company manufactures. This system encourages companies to make new products as the tax exemption goes with the product. In spite of the complexity in accounting, the system has been in operation for 30 years in Puerto Rico.

The Meeting concluded that investment incentives can never be a substitute for the "fundamentals", such as the investment climate, political stability and profit opportunities. The basic purpose of incentives is to give a particular location (or country) an advantage over competing locations which have the "fundamentals" correct and encourage the development of particular kinds of manufacturing activity. When companies are making strategic location decisions, factors such as market access, current stability and the level of industrialization are more important than incentives.

D. Typical EPZ industries and diversification

The tendency for EPZs to become concentrated on a few subsectors - textiles and electronics - is still a dominant feature. However, in the 1990s some EPZs have been successful in their programmes to diversify away from simple labour-intensive industry to more sophisticated technology fields. The newly industrializing countries in particular have focused increasingly over the past ten years on promoting higher technology enterprises, for example by establishing science parks. In the 1990s various forms of specialized EPZs became viable operations, e.g. teleports, service centres, aviation parks.

Increasing the employment opportunities for rapidly expanding populations has been the major concern in many countries when deciding to embark up on an EPZ programme. When facing a high unemployment rate in the country, any EPZ activity is welcome as long as the manufacturer has export outlets and provides employment. The development of EPZ in Mauritius is perhaps indicative in that respect. Mauritius started with textiles in the 1970s as that was the easiest to do. Gradually vertical integration took place, such as in the local manufacture of buttons, cardboard boxes etc. At the same time, European small enterprises came in with new product lines, such as toys, ship models and watchmaking. As labour became scarce and more expensive, emphasis was shifted to more sophisticated products and capital-intensive enterprises. A geographical diversification also took place; earlier emphasis on the European and the United States markets shifted to the Preferential Trade Area for Eastern and Southern African States (PTA) market with focus on the engineering sector. Currently the local value-added component of exports has increased to 40% from 1% initially. Worker training has become an integral part of the Mauritius EPZ policy. The whole investment policy has changed and Mauritius can currently afford to be selective. Generally, countries cannot be selective at the beginning and much depends on the objective pursued by EPZ, such as employment generation.

The evolution of EPZs shows that low-cost low-skill industries are certainly important in the early days of EPZ establishment. However, EPZs should move up the scale towards higher technology areas. In the case of Taiwan, EPZs provided for 90,000 jobs in the peak period, currently they employ 65,000. The reason is that the industries in the zone upgraded to higher skill production and more capital-intensive investment. The cost of labour rose from 16 cent per hour in 1971 to US\$ 4.5 per hour in 1992. The combination of investment, training, skills and ability to compete in international markets enabled a continuous upgrading of the industries, and Taiwan has become an investor in other countries' EPZs, e.g. in Shannon, and both the public and private sector are currently investing in 12 EPZs in ten countries in Asia, Latin America and Europe.

EPZs have to be integrated into the range of economic policies of the country and move from low technology to higher technology production. In the case of Shannon, the establishment of the vocational training centre on the estate and of the technological university in Limerick were two important factors which helped moving up the scale. Some experts felt strong government commitment for economic development is essential. They said like in Ireland, Korea and Taiwan had well-defined industrial policies concentrating on certain industries and on investment and training in those areas or niches. Other experts indicated that the opposite happened in Mexico. One hundred thousand jobs were created by

private sector investors in 10 years without government support, and the EPZ followed a similar pattern of upward development. In the case of Mexico, the technological changes were responsible for the upward move rather than the strong government support.

The Meeting concluded that there are several factors influencing the process of moving up the scale. They include, in addition to technological changes, the evolution of markets geographically and sectorally. International agreements affect the scope of trade and the evolution of EPZs in a given country, as well as the development of the economic structure of the country itself. Therefore, isolation of the zone forgetting about training and technology upgrading will not go too far.

Some participants recommended that zones should try to identify new products, new subsectors and niches instead of going systematically into typical EPZ industries. Data processing, international service activities of various types, such as financial centres, international accounting and software development, are potentially viable businesses for a number of EPZs. For example, in Ireland international service activity is 5% of foreign export-oriented activity in terms of employment and 10% in terms of value-added and is a growing area. There is a full range of businesses that can be internationalized, e.g. air-craft maintenance in Shannon and ship repair in Mauritius have good potential.

Off-shore offices, where relatively simple activities such as data entry and data processing are carried out, create thousands of jobs. In Jamaica, Montegobay off-shore office employs 3,000 people, over 2,000 working in data entry. Employment is also provided by a telemarketing service where telephone orders for purchases will be received and transmitted onward to the companies' home country offices at the end of the day.

Off-shore banking has emerged as a form of free zone activity which is increasing quite fast. Particularly for very small countries, this type of business is profitable as they charge fees for registration, auditing, issuing stamps etc. For example, Panama has a successful banking centre which is an important income source for the local economy. In Mauritius, the off-shore business centre is a separate organization. Off-shore banking is only one type of the whole range of international financial services which have become potential business for EPZs. Such services include insurance, aircraft leasing, international financial centre (e.g. Dublin) engaged in commodity trading etc.

E. EPZ management and organization

The Meeting underlined that a good EPZ organization should deal efficiently and quickly with investors in the pre-investment and operation stages and have a comprehensive, well-targeted promotion package. Judging from the performance of EPZ world-wide, a large number have been unsuccessful due to deficiencies in management and inefficient operation.

While most of the EPZs are under public management, the successful zones have been managed flexibly like a private venture with the objective of maximizing recovery of costs. The attitude of the zone organization is important: the traditional government organization is geared towards responding to requests from the private sector for approval or permission, or checking that the private sector is operating in conformity with government regulations. In the case of an EPZ, the zone organization is approaching the private sector to invest within the zone.

The services offered by EPZ to their clients could range from leasing manufacturing space to a full range of facilities and services to each of the client companies in the EPZ. The Meeting agreed that the size of the zone organization, i.e. human and financial resources needed to manage the zone, depends on the services to be rendered by the EPZ to their clients and to what extent some of those services can be locally subcontracted. The basic principle however is that the zone organization should be as flexible as possible, since a large organization can become bureaucratic. It was therefore recommended that the number of staff should be kept to a minimum and as many functions as possible should be subcontracted. It was pointed out that, if the zone wants to undertake all functions, as many as 300 people could be needed; if not, 30 would be ample. The decision depends also on the availability of the services locally or otherwise in the country.

It was mentioned that some of the EPZs of the private sector, e.g. Grupo Bermudez in Mexico, consider 50-70 ha to be a convenient size as the employees could walk to work and thus avoid transportation problems. The Grupo Bermudez has 25 people running all 10 industrial estates. Generally three people were required to run each industrial estate.

Other examples were mentioned. In Sri Lanka, Katunayake zone organization has 330 people including the customs functions which are being carried out by the EPZ authority. Katunayake zone covers an area of 200 ha. The whole island of Mauritius is a free zone. The authority is responsible for construction of factory buildings. They have only few staff in headquarters. The investor is responsible for the management of the sites. If it is not kept properly, the authority will recruit a contractor to do the job and the cost will be charged to the investor.

The participants felt that it was most useful to have the one-stop-shop service to local and/or national Governments as an integral part of the management and promotion effort, particularly during the introductory phase of the negotiations with the client. An excellent working relationship between the EPZ and the national customs department was deemed important to the smooth and trouble-free operation of the zone. It was essential for the senior official responsible for customs service to work in close proximity to and in collaboration with the zone management.

The EPZ management must recognize that their primary task is to ensure that the client company is satisfied with the zone. The client's operation must be profitable, and the relationship of the company's management with local employees and EPZ management harmonious. This means that the EPZ manager must continuously remind himself that his primary concern is maintaining the economic well-being of his client within the limitations of the financial and human resources

available. Often, this can be accomplished by the provision of support services designed to be of direct benefit to the client, such as customs and clearing house services, an effective security system for the zone, specialized maintenance services, banking services located on the site, and other general services such as communications, computer services, reproduction and printing services and a library.

The participants also referred to users' associations. In Mexico such associations exist in all industrial estates. They meet once a month to discuss wages, services etc. In the Dominican Republic, every industrial estate, private or public (total 27 EPZs employing 145,000 people), has users associations which deal with wages and services and also have agreements against pirating workers.

Traditionally an EPZ authority is both an investment promotion agency and a property development company. In other words, an EPZ generally means the development of a limited geographic area as an industrial estate and the management of the property. In Shannon for example, investment promotion and marketing is the heaviest function. Construction activities have been reduced over the years; licenses are issued by the Government, and the zone authority has little regulatory functions.

The zone organization must also compete with other EPZs and similar locations for international investment. Competition is very strong at present, with 70 developing countries worldwide competing for such investment. The traditional government department is not geared to operating in a highly competitive environment or working with industry on a commercial basis. Therefore the EPZ organization should be established as a separate authority outside the traditional government structure or as an autonomous unit within a ministry. The board of directors should be small enough for effective discussion and large enough to ensure wide experience and ability within the group. It should include the managing director and high-level representatives from key ministries and organizations, such as ministries of industry, commerce, reserve bank, the port authority. It was suggested that at least one place should be for zone developers. In addition, the board should include some private sector representatives appointed for their competence and experience. Transparency was also mentioned as one of the important principles of management and operation.

For the EPZ organization to operate effectively, it must be free of many traditional government restrictions and practices. In particular, it should have financial and administrative autonomy. It must be able to recruit personnel from outside the government service, particularly promotion and public relations people, project evaluation staff, computer analysts and engineers etc. It must be able to make decisions quickly as investors will expect decisions on investment proposals within short time. It must be able to react quickly to changes and have adequate funds to work effectively.

There are no hard and fast rules on EPZ organization structure. However, the chief executive will have a very important representation/promotion role and may be away from the zone for long periods of time. It follows, therefore, that there should be an appropriate decision-making structure. The participants mentioned following basic principles for a good organizational structure:

- A small management and administrative staff. The skills required in developing a zone are different from those needed for operating it. Initially there is a demand for planners and technical staff, including promotion personnel. Later the need is for operators. The change in management requirements as the zone goes through the various stages of development indicates the desirability of having a small staff and acquiring technical expertise from outside the organization as required on a contract basis.
- A flexible and transparent management structure which can be changed as circumstances change.

F. Private and public EPZs

Private zone development and management have emerged as a new trend with considerable success in a number of countries. There was a widespread support for the view that private sector can be even more active in future in zone development and management. The advantages of private zones were based on the perception that private sector is more efficient and motivated than government-paid officials. Government employees are often constrained by traditional procedures and regulations. For a publicly managed zone to be successful, the personnel must operate in a private enterprise fashion and be free from traditional constraints.

There was also general agreement that private zones could better implement a well-developed promotion package whereas public zones are tied to other government promotion agencies. Another issue mentioned was that the public sector may be under political pressure to choose a non-commercial site, while a private sector investor would only choose a location which is economically and commercially viable.

It was reported that the World Export Processing Zones Association (WEPZA) conference held in Sri Lanka in November 1992 identified three important elements as a basis for discussing the question of private versus public sector zone development and management. The first element was referred to as "social control" of the objectives: the factories in a purely public zone deal with regular government agencies regarding issues such as immigration, taxation, customs, environmental control and work permits. In many zones, one-stop shops have been established to deal with some of those issues. In other words, the zone has created a special window to deal with activities of a range of government departments. For example in Indonesia, immigration, work permits are issued by a one-stop-shop and not by government departments. On the other hand, there are public sector corporations set up by the Government but are autonomous, such as in Hong Kong and Singapore.

The second criteria is infrastructure and investment. The infrastructure, i.e. factory buildings, roads, utilities etc., can be provided entirely by the Government or, as in the case of Mexico, by private zones. The third criteria is operations. The Government could operate the zone in all detail, or only cater for some of the services. The other extreme would be privately operated EPZs.

The Government and zone authority have to join hands to make the EPZ into a successful policy instrument. In the case of Mexico, the successful private zones worked closely with the local state Government particularly to simplify the paper work. In the early days, the managers of EPZs were well-organized; this cooperation has also been very effective more recently, when discussing the North American Free Trade Agreement (NAFTA). In Mexico, there is also an association of industrial parks. The members are industrial park owners who are essentially competitors but outside the country, together they promote Mexico. There is also an association of EPZ companies at the local and national level with 2,000 member companies. User associations also exist in other countries such as the Dominican Republic.

An expert pointed out that the Barcelona zone established in 1916 has invested over the years in areas which would normally be government concern. The zone has taken up functions such as those that would be normally undertaken by government education authorities. It has established a technical industrial park and four universities which the zone owns and operates, including a technical school.

Regardless of whether a zone is public or private, a number of government organizations have an important role in the development and operation of the EPZ. Without a very strong government commitment, it would be very difficult for any zone project to succeed. The government organizations involved with zone development include the licensing authority; the customs administration; economic regulators such as the central bank and ministry of labour and trade; and physical regulators such as authorities responsible for issuing building permits and providing infrastructure, electricity, telecommunications, water, sewage and for protecting the environment.

G. Financing of EPZ development

The Meeting exchanged information on modalities of financing the development of EPZ by various public authorities and private sector developers. Shannon was mentioned as an example of public financing of EPZs. In 1960, when the zone was established, the infrastructure was very limited in Ireland. Therefore, the Government funded infrastructure and factory buildings, but in recent years the construction activities have been reduced to a great extent. Currently 80% of the financing is from Shannon's own revenue from property management. It was generally felt that EPZ services should ultimately become self-sufficient.

In Sri Lanka also, the Government invested heavily in infrastructure; private zone development is a new phenomenon. The private zones in Mexico used different modalities of financing. The Grupo Bermudez had access to loans from United States banks and later through Mexican banks to loans from International Finance Corporation (IFC). In addition, some US\$ 10 million value of bonds were issued to raise capital for construction of infrastructure and factory buildings. In the Dominican Republic, both public and private sectors have developed EPZs. The non-profit associations which run the zones have benefitted from high subsidies and can therefore lease at lower rates. In the case of private zones, there is a legal provision which allows the zone operator to benefit from the same tax reduction and incentives as the manufacturers in the zone. The public

zones had support from the World Bank. There is also a privately owned zone, Itabo, which has received IFC loans.

The representative of the European Bank for Reconstruction and Development (EBRD) explained the nature and scope of the activities of that multilateral lending agency. EBRD was set up 1½ years ago to help finance projects in Eastern and Central European countries and the former Soviet Union. Financing of EPZs is within EBRD mandate of financing infrastructure for private sector development. Within the framework of its lending operations, EBRD can provide grant funding through the European Community for technical cooperation programmes, which include training and advice. It can also finance feasibility studies on a grant basis mainly through EC funding.

EBRD operates through two main operational departments, namely the Merchant Banking Department which lends to private investors and the Development Banking Department which lends to both private sector and public sector entities. EBRD provides both equity funding and loans. Normally, the minimum loan size is about five million ECUs. Loan financing is up to 35% of the total investment cost of the project. Financial instruments are relatively flexible; for example, whether the Bank will request Sovereign Guarantee on the loans, will depend on the nature of the project. The Bank is also flexible regarding currency and interest rates. The interest rates are based on market rates depending on the risk assessment, which includes three factors - country, borrower and project risk assessment. Generally, EBRD will critically examine on a case-by-case basis, whether preconditions for EPZ are in place, and emphasize the need to link the EPZ instrument to the rest of the economy.

The representative of EBRD indicated that the approach of multilateral lending agencies towards private sector has changed particularly over the past five years. While traditionally multilateral lending agencies have financed public sector projects, enterprises and banks, this approach has been considerably revised. For instance, the EBRD in its charter is obliged to lend at least 60% of its annual funds to private sector activities.

The representative of EBRD also explained how a multilateral lending agency would investigate an EPZ project presented by a potential investor. It would view an EPZ project mainly as one of the several instruments that can be used to foster private sector development and assess how that particular EPZ project would fit in the overall government policy framework for private sector development. Traditionally, a multilateral lending agency cooperates at three levels: the policy dialogue, technical expertise, and financing. As regards technical expertise, EBRD can mobilize multi- and bilateral funds to finance technical studies through consultants. The representative of EBRD further explained that multilateral lending agency financing is particularly worthwhile if policy dialogue and technical assistance are also involved. Most multilateral lending agencies have minimum funding or loan size; while for larger projects direct funding could be considered, funds for smaller projects could be mobilized indirectly through financial intermediaries in the country that receives lines of credit from the multilateral lending agencies. In Hungary for example, the Bank is setting up a specialized institution to finance smaller projects at the level of the local Government.

The question of development cost for EPZs was also raised. Examples mentioned were the Masan Zone, with US\$ 30 million of government subsidy and the Bataan Zone in the Philippines, with more than US\$ 60 million. It was generally agreed that the zone cost can be low if it can be connected to existing services. If all services had to be put in, the zone would probably not be cost effective.

In many zones the Government provides land and infrastructure and gives the right to use and develop the land for a long-term period, as was the case in Turkey in developing the Aegean Zone. However, the private developer will have to consider the indirect costs involved for the facilities and services to be provided. Such services may vary from transportation to a day-care centre, e.g. the targeted 36,000 workers in the Aegean zone would require a day-care centre for 3,000 children.

In Kenya public and private funding is being combined. For example in Mombasa, while investors apply for establishing free point status, at the same time there is also an industrial estate being built by the public sector. It was generally felt that if the first industries are successful, others will follow and will become potential clients for the industrial estate. In some countries, e.g. Cameroon and Sri Lanka, Governments were encouraging single factory zones. This is however a question of government services and utilities that must be provided at a distance. An alternative would be to assign subzones within an industrial estate.

The Meeting concluded that, ideally, the development of a zone should start on a modest scale and develop in phases.

H. Customs and banking

Experts discussed difficulties common to many EPZ when interfacing with the customs, port and immigration authorities, which tend to be very rigid. In respect of customs, the importance of close cooperation between zone management and customs authority from the very beginning was stressed. The customs administration has a very important task: an EPZ is about the fast and efficient movement of goods between the zone and foreign destinations and vice-versa. An inefficient or corrupt customs service can delay the clearance of goods for up to 10 days or more and render the whole concept irrelevant. Alternatively, the customs administration can clear goods within 24 hours or less and contribute significantly to the efficient operation of the zone. A mutually supportive and beneficiary relationship between customs and the zone organization is essential - starting with the involvement of customs in the planning of the zone regime, adequate training of the customs officers and eventually setting up of a special department within customs dealing with EPZ. Efficiency in customs and the speed with which goods are cleared will determine the success of the zone industries.

The Meeting concluded that it is very helpful to have a senior customs officer working very closely with the director of the zone authority from the early stages onwards. The customs officers will also have to go through a reeducation process through training courses because the traditional role of customs is to prevent, whereas the opposite is needed, i.e. to allow goods to flow freely.

The steps taken by Shannon in the early days were found to be a worthwhile approach. First Shannon recruited one person from the labour union to advise companies coming in on labour practices and Irish tradition. Second, when the zone was being planned, the Ministry and the customs authority were brought into the project from the beginning and they were a part of the planning process. A senior customs officer was placed in the EPZ authority office in Shannon to advise the companies coming in on what the procedures are and how the forms should be filled in. The senior customs officer would also assist with a pro-zone point of view if there were any disputes. The example of Syrian EPZ was mentioned by an expert as exemplary in terms of coordination with customs. The reason for that was that the Head of the Customs was the founder of the first zone in the 1960s and the customs authority administered the zone.

The Grupo Bermudez in Mexico have trucks coming from their zones cleared within 15 seconds at the US customs because the trucks are already pre-cleared in the computer (everybody knows what is happening, so that both US and Mexico customs can operate swiftly). In the zones, some companies have zero inventory, e.g. eight trucks a day come in in the morning and go out in the evening. To operate such business with zero inventory requires speediest customs clearance.

Essential preconditions, however, are: (a) clear customs procedures; (b) simplified procedures; and (c) lack of corruption. The recent experience in Mexico was mentioned as an example: the administration last year fired 3,000 (out of 3,500) customs people in one day and replaced them with 3,000 new carefully trained customs officials.

A different experience in Indonesia was mentioned: Société Générale de Surveillance (SGS) was given a management contract to run the customs in Jakarta in 1985. That was in combination with a general change of government policy towards a more open, trade-friendly export-oriented policy. Thus, from 1985 onwards there was a dramatic pick-up in foreign investment in Indonesia.

The question was raised whether customs functions should be located within the industrial park itself and how that would best function. From the manufacturers' point of view, the ideal is to have a container opened only on the premises of a factory. Ideally the goods should move speedily and not be delayed on the way. For example, in the case of Sri Lanka, containers are opened on the factory premises. The zone authority opens and checks them, not the customs (sample checking). The system therefore has been working smoothly. Moreover, if the industries require to move containers immediately, they can submit a special application form which allows containers to be cleared within one hour to be taken to the customs or port.

In the Dominican Republic, a special department within the customs department has led to the efficient handling of EPZs. However, the situation has created an enclave within the customs authority. Customs, in dealing with the rest of the economy, continued to function in the traditional inefficient manner.

As to the question of waste materials, it was felt that the EPZ law and its customs regulations usually have rules for dealing with waste materials. They are either exported or destroyed. In many countries like Sri Lanka, they can be sold in the local market after paying duties or are burned under customs control. It was indicated that input/output coefficients can be established that allow for

some waste materials. It is at the same time a good way of controlling contraband through waste materials disposal.

The experts felt that the very concept of EPZ is the free entry and free exit of goods. In this respect, the positive experience in Turkey, where the zone developers are getting together with the customs people and trying to write new regulations of customs for free zones, was mentioned. The senior customs people felt that that was a good opportunity also to solve some of the problems the customs are facing in general.

Other government organizations involved with EPZ include the Central Bank, which may regulate the operation of foreign currency accounts and the ministries of labour and trade. As far as immigration regulations are concerned, the zone authority should have a working agreement that if a project is approved, it should be relatively automatic that foreigners be permitted as a part of the project.

One of the issues highlighted in that connection was foreign currency regulations. It was stressed that movement of goods in and out the zone was a principal factor in EPZ operation. If money cannot move at equal speed in the opposite direction, then the goods cannot move. The operation of foreign currency accounts is not permitted in some countries, e.g. in the Philippines. This obstacle has led EPZ investors to locate their foreign currency accounts in Hong Kong.

It was pointed out that investors in Mexico have overcome the obstacle, as the Maquiladoras are considered service industries. The equipment is loaned to the Mexican subsidiary by the mother company and no transfer of capital is therefore reflected in the accounts; the same applies to imported raw materials. The foreign investor only needs to buy pesos from a private bank to pay local expenditures. The EPZs in the Dominican Republic operate like the Maquiladoras, as far as the foreign exchange accounts are concerned.

I. Promotion and marketing

A critical element in zone management which received extensive attention was the issue of promotion and marketing. The task of attracting new clients from a large potential base requires substantial human and financial resources, often much in excess of existing resources. Promotion must start from a good base of arguable advantages in order to convince potential clients to start business in a particular EPZ. The EPZ is a service business, although it also offers land, infrastructure and buildings to the clients. It is essentially providing services to customers to make them successful in a particular EPZ. The task of attracting clients therefore depends on the services to be provided and the promotion of those services.

Preparing the services an EPZ offers to meet the needs of potential clients is a part of a promotion strategy. All of the successful EPZs have worked out systems of management to cope with the constraints their country may present with respect to transport, bureaucracy and labour. The one-stop shop has been developed in a number of zones to facilitate dealing with many government departments to get operating permits or obtain public services. The management

team, and what it is able to do for its customers, is the crucial factor. The various services are created by the EPZ to make a given location more attractive. The marketing of the EPZ then becomes not only marketing the country as a good location for investment, but also marketing the EPZ as a bridge over which the client reaches that country.

In Turkey for example, the Aegean EPZ became an interesting instrument of development policy to attract the expatriate nationals who had left the country and were returning because they had an opportunity to work under international business practices in the zone, which enabled an easy way of starting business in the country. This can be called a process of "reacculturation". The overseas Chinese have done a lot for Taiwan and are doing so for China. Successful Indian entrepreneurs in California are investing in the Bombay zone. Shannon benefitted from the Irish-American community in the same way. A number of companies, e.g. General Electric, came to the free zone first and then proceeded to set up a second plant elsewhere in the country. In other words, the free zone has provided a gateway to the country.

It was stated that the private sector has been more effective in introducing novel promotion methods based on services to attract clients. The Nogales Shelter Plan was given as an example. It is a system of providing factory space, workers, personnel administration and customs assistance to a client for an hourly fee. The client is responsible only for the manufacturing process, production rate and product quality. This is done under a simple contract that allows the client to leave after six months with one-month notice. The charge is US\$ 1.5 per hour of worktime. Services are being provided to reduce risks and help the potential client to find out whether the EPZ and the country in which it is located would be a suitable manufacturing location before he commits himself completely to a new factory.

The private zones also have to work with the government offices around the world. There is a need for a well-organized network abroad where the public and private sector are working together. As in the case of Mexico, the private zones collectively first 'sell' the country and then go into details on what services the individual zones can provide. The participants agreed that first wide promotion of the country is necessary; the general image of the country is very important, particularly when promoting with small- and medium-scale companies in the USA, Europe and Japan that have never looked outside their country before for investment.

In general, the larger companies have sufficient staff to help them get into business and to operate abroad. Most EPZs concentrate on those successful large firms and ignore the task of 'selling' to the smaller manufacturing companies active in major industrialized countries. However, EPZs are a logical place to start operations for most of these smaller companies, since they provide the services that those companies need to be successful. The task of attracting new clients from the large potential of small- and medium-size enterprises requires however substantial financial and human resources. Therefore, there is a need to look for specialization, i.e. the kind of products for which a zone has a comparative advantage in manufacturing, well before promotion starts. Then the zone should organize investment promotion around those priorities. The Meeting affirmed that the future for successful EPZ promotion lay in research and specialization. It was emphasized that instead of spending money to advertise in

a general publication, the budget should be spent on technical and business publications in the fields of those products where the advantage lies.

Attracting and convincing an investor is a matter of person-to-person trust. Therefore, the EPZ manager and a small group of promotion people play a critical role. In that respect, it was felt that the longer a person of trust is a head of a zone, the better; investors want to see the same trustworthy person. Governments sometimes have a rotation policy which may be a disadvantage in public zones. In the private sector, the manager is often the owner and therefore he stays.

New zones often do not employ professional marketing people. Instead they rush into producing a shiny and bulky brochure. That was considered by the participants to be a waste because mailing brochures has not been generally effective. It was also felt that usually there is not much to photograph at the beginning, except a lot of empty buildings. Most of the older zones keep a confidential list of potential investors and intensify their marketing by sending marketing personnel personally to visit those specific companies.

As regards cost of promotion, a typical private zone on the Mexican border spends close to US\$ 1 million a year for promotion, which includes the cost of travel of highly qualified expensive marketing personnel, and the cost of follow-up with their own engineering staff who spend a week with the potential client and recommend the more suitable operation. Generally, 9 out of 10 such attempts would fail, which demonstrates how costly promotion is. The Meeting affirmed, however, that either a reasonable amount of money is spent in marketing or it should not be done at all. Spending money on advertisement and then not being able to back up the responses would be the worst situation. An EPZ must plan a total promotion campaign. A few advertisements in a general newspapers in an isolated way would be waste of resources. The promotion should be a coordinated, planned campaign and enough finance should be foreseen for that purpose.

In the early stages of its development, an EPZ is unknown as a site for foreign investment and investors may therefore have very little confidence in the zone. There is therefore an interdependence between the success of the zone and the success of the companies operating in it. Consequently, a failure by a major company operating in the EPZ will seriously affect future prospects. A key promotional effort is "to keep those who are there". They can prompt investment through word of mouth. In recession times, the only growth is extension of existing companies. The effort to ensure that the investors are successful involves all the units of the zone organization that have contact with the investor. It is therefore necessary that a certain promotion consciousness should run through the whole organization.

J. Physical infrastructure and services

Major concerns about an EPZ as an industrial estate are related to site selection, excess capacity of factory space and facilities, or problems with estate development. Failures of EPZs often originate, from poor site selection, away from well-developed urban areas with unreliable utilities and services and lacking transport and communication facilities.

The expenditures for EPZ-related infrastructure can become a substantial long-term burden, especially if the overall availability of infrastructure in the host country is limited. It is therefore important not only for private but also for public zones to consider the feasibility of establishing and operating a zone on a commercial basis. Cost comparisons between some established zones illustrated this clearly; the cost per acre of providing necessary infrastructure in one isolated zone exceeds the total cost of developing some other zones.

While developers are responsible for providing infrastructure inside the zone, often they may have to deal with infrastructure outside the zone as well. The Grupo Bermudez in Mexico, for example, on several occasions had to build roads to the zones and establish telephone networks and sub-stations for electricity. The expenditures were paid out and compensated for out of the general business on the long run. In the case of Ireland, infrastructure was provided by government agencies but the zone administration had to spend a lot of time generating good relationships with the authorities. While developing the Shannon EPZ, the infrastructure and utilities were brought to the town and the zone at the same time. It was pointed out that in a small country like Mauritius, the zone authority can afford to select outside areas and bring all the infrastructure to the site of the zone industries. Rental charges are to compensate for all the expenses in providing those new facilities. Since uniform rentals apply throughout the country, the remote areas are subsidized indirectly.

A common concern appeared to be the problems resulting from zone neighbours demanding to share the utilities. In Kenya, for example, the neighbours requested to share water and sewage facilities which put the zone planning and cost estimates out of order. In Baguio City in the Philippines, the waterpipe had to be built twice, after the first had been completely tapped by neighbours.

Electricity was also mentioned as one of the utilities which sometimes have to be provided for by the developers. In the Dominican Republic, the companies have to generate their own electricity. Recently, the zones have decided to build their own power station. This may result in overcapacity, particularly at the early stage of the zone. A suggestion was to negotiate selling electricity outside the zone during night hours. The participants agreed that there are certain locations where zones have to simply supply infrastructure replacing public utilities and thereafter try to absorb the cost as much as possible. Extreme examples are zones in Dubai, Curaçao and Aruba, which sell water distilled from sea.

In the absence of adequate infrastructure, the zone administration will have to bring and pay for the infrastructure, which will result in very high square meter prices. Some zones have profited, however, from the proximity of well-developed areas with full infrastructure facilities: the Shenzhen zone in China, which grew from 30,000 people to 1,3 million in 12 years, has benefitted

from nearby Hong Kong's infrastructure. Similarly, Mexican border zones use the US highway systems and airports along the border. It was generally agreed that if external infrastructure was not on site or close by, the cost of bringing infrastructure would be extremely high, and if the costs are so exorbitant, the location is not feasible and the zone can not be developed on a commercial basis.

On the question of rentals of factory buildings, a number of examples were mentioned. A standard factory building costs US\$ 60 per m² per year in Costa Rica and US\$ 20 per m² in Mauritius. In the Dominican Republic, rentals range from US\$ 15 to 80 per m², depending on whether they are public or private zones, since the private zones provide more services. In Shannon, rentals are US\$ 190 per m² for office spaces and US\$ 39 per m² for factory space. Rentals change depending on whether the companies are old tenants or just moved in. Grants are also provided to some companies, which result indirectly in rent reductions. Mexican private zones charge US\$ 40 to 60 per m² per year.

Terms of lease are five years in Shannon, three years (renewable with provision that after the third year, the rent may be increased by 25%) in Mauritius and six years in Nogales, Mexico (because the buildings are expected to be paid for in six years).

The importance of good telecommunications was stressed. In Ireland, the Government invested a lot of money to improve the telecommunications network throughout the country in the 1980s. This allowed Shannon to turn its geographical location into a competitive advantage for US companies. As Shannon is five hours ahead in time, data comes in at 6 o'clock in the morning and will be processed and sent back out to New York. The working days of the US companies are thereby extended from 8 to 13 hours. This type of data processing business is only possible through a good telecommunications system. Data processing is a new form of assembly work also in Jamaica and Barbados. In a small island country like Barbados with 250,000 people, data processing from one US airline company employs 350 women.

Teleconference is another important facility which the zone management can provide. On-line control of factory operations have emerged as an inevitable management tool for a number of companies, such as those in EPZs in Thailand. It was felt that this type of modern telecommunications facility is necessary for global manufacturing today.

The Meeting discussed a number of other services which an EPZ will have to provide in order to attract investors, particularly small- and medium-sized companies. Some zones provide banking services for cashing employee checks, changing foreign currency, a library and travel services. All these services, however, were not felt to be crucial for the zones. Among the services which were considered directly related to helping the manufacturers succeed was the earlier mentioned 'shelter plan'.

Recruitment services were also mentioned. The zone management could preselect staff according to skills and provide a roster with technical people and assembly line workers to the investors. That would facilitate investors' work in that they need not spend hours and hours interviewing with interpreters thousands of people.

Other services which were discussed included transportation and catering services. Transportation may become a major problem in larger zones where, for example, 40,000 people have to be brought in and out daily with 1,000 buses. In early 1970 in Taiwan, it was practically not possible to get out a truck when 5,000 bicycles were on the bridge during shift change time. Similarly, in the larger Mexican private zones it would not be advisable to get a truck out when 500 buses are leaving the zone at the shift time. A lesson from such experience is to keep the zone size manageable. In larger zones such as in Katunayake, Sri Lanka, employing 52,400 people, accommodation has also posed problems; 55% of the workers lived within one mile radius of the zone, which is extremely congested. The Government therefore introduced subsidies and incentives to land owners in the areas to improve housing. In addition, incentives are also given to facilitate transport. For example, the duty free import of buses by private people are allowed to encourage them to operate in the zone. Daily 1,000 trips in government-operated buses and 400 private operating buses, in addition to the transport facilities of the companies themselves, are required in the Katunayake zone.

In some EPZs, the zone operator organizes child care and medical services. There are also zones which recruit workers and obtain all the clearances for recruitment, including police clearances. In the Dominican Republic, one zone employs 40,000 people and a second 35,000, which leads to an urban problem, security and environmental problems and union problems common to low-skill low-wage industries.

K. Environmental issues

The environmental impact of EPZs is an often mentioned concern. The Meeting agreed that such concern was unfounded because the industries that locate in EPZs are generally not heavy polluters. They believed that the control of air and water pollution and disposal of hazardous industrial waste are easier and more cost-effective in a well-managed industrial estate than in industries dispersed around the country.

It was argued that most companies in EPZs are in light engineering, garments and other typical EPZ assembly manufacturing, which are not serious polluters. In many countries, like in Ireland, pharmaceuticals and basic electronic manufacturing which have serious emissions into the air and water tend not to establish in zones. The electronics assembly industry, which is a typical EPZ industry, is not a polluter.

Monitoring of eventual pollution in the EPZ and waste disposal were discussed extensively. A well-managed EPZ has an important control function in that respect. At Grupo Bermudez Zones in Mexico, the specifications are stated in the lease contract. The zone management controls them by checking once a month, and if the specifications are not complied with, the contract is terminated. Shannon in Ireland has the responsibility for the zone and the adjacent town. The zone employs people who monitor the welfare quality. The responsibility for enforcement is with the municipal authority. Shannon Development gives grants to companies which can be recalled if they are not proper neighbours. Tourism and environmental friendliness are traditionally

important factors for Shannon in attracting companies and their management who want to move to a clean country.

It is critical that environmental impact assessment be part of the overall appraisal before granting EPZ licenses. In Sri Lanka for example, the EPZ had a separate Environment Department which was established before the Central Environment Authority. Companies have to report their production process and eventual waste, and the approval of the project is subject to various conditions if it is polluting. If the company does not adhere to the conditions, the services are stopped. In Kenya, the law provides for environmental criteria but the industry is responsible for obtaining a certificate from an independent organization, proving that they meet all the environmental requirements. It can be cross-checked by the ministry. The EPZ in Nairobi, which is located near the national park, is a unique example. The regulations impose conditions to maintain the vegetation and the path corridors of the animals.

Some participants pointed out that there has been a tendency, particularly on the part of the press, to blame the EPZ for pollution, such as in the case of Tijuana in Mexico, where some million people live where a few thousands used to live. Pollution is a problem emanating from congested human settlements and not simply from the existence of the maquila industry. It was recommended therefore that the zones in such cases should start some positive campaigns.

The Meeting concluded that if an environmental problem exists, it relates to a deficiency in the country's overall policies and resources for environmental protection and not to its policies on EPZ.

L. Linkages with the host economies and other benefits

A common issue raised in connection with EPZs is the linkage to the rest of the economy. Except for the newly industrialized countries and a few other developing countries, significant backward linkages have hardly developed from EPZs. In general, linkages were established in cases where there was no large gap between business conditions in the EPZ and in the rest of the economy. Linkages can be encouraged by Governments or zone managers; however market forces will dictate the pace of linkage development.

The linkages with the local economy are usually confined to packaging, simple engineering and servicing inputs. The participants stated that experience in established EPZs shows that foreign industry would be willing to source materials locally if their prices are competitive and supply is regular quantitatively and qualitatively.

Although there has been a significant improvement in recent years in the amount of raw materials and services sourced locally by foreign industry in some countries, overall development of linkages is a slow and difficult process. Similarly, the transfer of technology and know-how is also slow because the nature of the production processes, namely assembly-type operation in many EPZs, will result in the transfer of very limited technology. The higher technology activities are usually performed outside the EPZ in the home country of the investor.

The role of the Government is important in bringing about an enabling business environment through laws and incentives. Many government regulatory bodies are not familiar with the 'new' notion of the EPZ. The participants stressed that the Government has a pro-active role in that the heads of all those departments should be totally involved in the concept. In Mauritius for example, the Government played a facilitating role by removing any distinction that existed between the EPZ and other export-oriented manufacturers. Consequently, Mauritian companies have become competitive in their prices on the international market.

The Meeting noted the Irish experience with the Shannon zone, which had contributed not only to regional but also to national development. Until 1960, the Irish economy was highly protected and the domestic market was not large enough to create the employment required, leading to an exodus of qualified people. The Government therefore agreed on the strategy of opening the Irish economy to foreign investment. The development of Shannon free zone took place in parallel with the national change in economic strategy. Shannon had a "demonstration effect" for the rest of Ireland, as the first experiment in opening up Ireland to international investment took place in Shannon. In the early years, every effort was made to attract as much investment as possible. Shannon had its share of low value-added assembly type of operations, where companies came purely for financial return and in case of recession would simply move out.

The lessons learned in Shannon were then applied elsewhere in Ireland on how to attract investment, on approaches and on incentives to be offered. Different concepts were tried out. For example, the linkage programme between the zone and the indigenous Irish owned industries, called the "Match Maker Programme", aimed at bringing together foreign industry and indigenous small and medium industry. Subsequently, the programme was launched nation-wide. The Irish economy experienced an explosive growth as a result of the programmes introduced. In the early 1960s, exports on Shannon free zone represented 40% of Ireland's exports. It is currently 3-4%. The reason can be explained in the "catching up effect", i.e. the country has started exporting nationally. Ireland has currently higher exports per capita than Japan.

The main responsibility of Industrial Development Ireland (IDI), as a representative of the Government, is employment creation; foreign investment is valuable but first priority is given to the Irish-owned industrial base. The underlying principle is that with a strong indigenous industrial base, it is easier to attract foreign investment. Irish ability to compete is based on its technological capacity and know-how. The Shannon zone is moving into a new phase aimed at becoming a high quality, high-tech centre of excellence linked with the indigenous industrial base, the education system, the university, and R&D.

Efforts to develop opportunities for the indigenous sector included an input-output analysis for international investment to determine what products they need, where they are getting them from, and the potential manufacturers of those products in the country. Another approach to linking the EPZ firms and the Irish enterprises is developing industrial clusters within the zone and matching them with Irish producers. The airspace cluster was given as an example. Ireland Technological Park near the zone has an important role to play. Moreover, linkages with education and the technological university have been crucial in

many industries such as the airspace projects where on-line connections to Seattle, United States, were assisted by people from the university. Efforts are currently focused on bringing indigenous small and medium industries to the level of well-known large Irish companies and making them internationally competitive.

In terms of investment promotion, EPZ industries and indigenous industries have the same access to promotional measures, for example, the one-stop-shop. Major efforts are made in training and encouraging people to go into business; in schools 12-13 years olds have presentations on entrepreneurship and starting their own business.

A number of developing countries provide the same incentives and rewards to suppliers of inputs to EPZ as they extend to direct exporters. These suppliers are considered indirect exporters. In Sri Lanka, for example, zone investors as well as local manufacturers are given the same incentives, e.g. duty rebates and exemption from business turnover tax and other taxes on products for indirect exports, and procedures for subcontracting are simplified. Also the Government encourages the establishment of big textile mills to supply the fabrics and the manufacturers of accessories. The Meeting confirmed that government support and government policy are needed to induce linkages such as demonstrated in the case of Ireland and Sri Lanka.

When considering linkages and the domestic content of the EPZ exports, generalizations do not hold since "sector specific" domestic content may vary in a given country. For example, in Mexico, the domestic content in the automotive industry (almost 30% domestic inputs) is quite different than in the case of textile industry where there is no domestic input. One explanation could be found in the development of the industrial structure and the competitiveness of each sector. The latter appears to be the best indicator for the linkage with the EPZ. In this context, one participant stressed that the transfer of technology is very different from development of technology. One should not expect more than what an EPZ can give to the country. EPZs have the purpose of fostering business and profit. The Government has a role in facilitating business but it is not the owner and manager of the EPZ industries, who essentially decide on the viability of the linkage.

Some participants stressed that, despite the desirability of linkages, the EPZ is essentially meant to be an economical enclave with small real influence on the economy of the host country. EPZ is about transnational manufacturing or production sharing outside the country. The advantages of an EPZ should therefore be assessed on the basis of the overall benefits to the economy and not only in terms of linkages.

LIST OF PARTICIPANTS

Kamel Belkahia
Chief of EPZ project, Free Zone Bizerte
Ministère de l'Economie Nationale
TUNISIA

Sergio Bermudez
Director General, Grupo Bermudez
Secretary General, WEPZA
MEXICO

Arseny Berezin
President, Agency ARCTIS
RUSSIA

Chundur Bhadain
Director, MEDIA
MAURITIUS

Richard Bolin
Director
World Export Processing Zones Association (WEPZA)
USA

Jean-Marie Burgaud
EPZ expert
DOMINICAN REPUBLIC

Nordine Cherouati
Chef de Cabinet,
Ministère de l'Industrie et des Mines
ALGERIA

Emmanuel Forestier
European Bank for Reconstruction and Development
ENGLAND

Gnaninda Tissa Galhenage
Executive Director (Zones) of BOI
SRI LANKA

Hans-Joachim Grabow
Researcher (PhD thesis on EPZ, Philippines)
GERMANY

Aldayr Heberle
Secretary of State
Secretary of Turism, Industry and Commerce
BRAZIL

Silas M. Ita
Chief Executive,
Export Processing Zones Authority
KENYA

Vladimir Jurik
Development Manager
Dunaj-Centrum
CSFR

Thomas Kelleher
EPZ expert, IDI Shannon
IRELAND

Peter Lehky
Manager
Dunaj-Centrum
CSFR

Aniko Magashazi
Researcher
HUNGARY

José Manuel Martínez Ayala
Trade Commissioner
MEXICO

Suraiya Ally Mohamed
Senior Trade Officer
Ministry of Industries and Trade
TANZANIA

Viatcheslav Morgatchev
Director, Centre for International Business
Academy of National Economy
RUSSIA

Ricardo Muñoz Tejeira
President, Panama Teleport Corp.
PANAMA

Amadou Maleine Niang
EPZ Manager
SENEGAL

Nestor Ntungwanayo
Trade Information Manager
Foreign Trade Promotion Agency
BURUNDI

Anatoly Ogorodnikov
Director General, WEST COMPANION
RUSSIA

Eoghan Prendergast
Project Director, IDI Shannon
IRELAND

Wilson Rakotoarivelo
Director of Industry
Ministry of Industry and Craftmanship
MADAGASCAR

Peter Ryan
EPZ expert
International Management Consultants
ENGLAND

Michael Ngako Tomdio
Director General
National Office of Industrial Free Zones
CAMEROON

Kaya Tuncer
President, Aegean Free Zone
TURKEY

Zuzana Wittmannova
Sale Manager, Dunaj-Centrum
CSFR

UNIDO:

Mostafa H.A. Hamdy
Director, Industrial Institutions and Services Division
Head, Institutional Infrastructure Branch

Robert Norris
Chief, Investment Promotion Network Unit

Kenneth Stephens,
Senior Industrial Development Officer
Institutional Infrastructure Branch

Zeynep Taluy
Industrial Development Officer
Institutional Infrastructure Branch

Leny van Oyen
Industrial Development Officer
Institutional Infrastructure Branch

AGENDA

Tuesday, 8 December 1992:

- 09:30 - 12:30
1. Opening of the Meeting
 2. Election of Chairperson
 3. Adoption of agenda
 4. Introduction: purpose and procedures of the Meeting
 5. Current trends: EPZ development worldwide
- 14:30 - 17:30
- 6.(a) EPZ as an export policy instrument: basic preconditions
 - (b) Favourable business environment; laws and regulations; incentives
 - (c) Typical EPZ industries and diversification trends

Wednesday, 9 December 1992:

- 09:30 - 12:30
- 7.(a) EPZ operation and management: key principles
 - (b) Public and private zones
 - (c) Financing of EPZ development
 - (d) Customs and banking
- 14:30 - 17:30
8. EPZ promotion: investment promotion
 - 9.(a) Physical infrastructure and services
 - (b) Environmental issues

Thursday, 10 December 1992:

- 09:30 - 12:30
10. Linkages with the host economies and other benefits
 11. Expectations: East and Central Europe and Africa
- 14:30 - 17:30
- 12.(a) Presentations on experience of development agencies
 - (b) Technical assistance to EPZ programmes and coordination

Friday, 11 December 1992:

- 09:30 - 12:30
13. Conclusions and Recommendations
General Review
 14. Concluding remarks and closure of the Meeting