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MANUAL  
ON  
FREE ZONES

BY

*Consultant:*

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COMMISSIONED BY

U.N.I.D.O.

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## TABLE OF CONTENTS

Page No.

### CHAPTER 1 - INTRODUCTION

1.1	Objectives of the Manual	1
1.2	Terminology and Definitions	2
1.3	The Growth and Spread of Free Zones	11
1.4	Evolution of the Concept	16
1.5	Future Trends in EPZ Development	20

### CHAPTER 2 - STATISTICAL ANALYSIS

2.1	Introduction	25
2.2	Employment	27
2.3	Production and Trade	39
2.4	Origin of Investors	41

### CHAPTER 3 - EXPORT PROCESSING ZONES AS A POLICY INSTRUMENT

3.1	Introduction	43
3.2	Requirements for Export Oriented Development	47
3.3	Duty Free Options for Export Oriented Manufacturers	49
3.4	The Role of the EPZ	53
3.5	Requirements for Successful EPZ Development	56

### CHAPTER 4 - LEGISLATION

4.1	Introduction	62
4.2	The Approach to Legislation	64
4.3	The Content of Legislation	68

### CHAPTER 5 - FREE ZONE MANAGEMENT AND OPERATION

5.1	Introduction	75
5.2	Organization Approaches	77
5.3	The Role of the Private Sector	91
5.4	Control of Zone Activity	94
5.5	Zone Customs Administration	96
5.6	The Organization and Management of an EPZ Programme	99

TABLE OF CONTENTS - Contd./2

Page No.

CHAPTER 6 - INVESTMENT PROMOTION AND INCENTIVES

6.1	Introduction	102
6.2	The Necessity of Promotion	104
6.3	Methods of Promotion	108
6.4	Organization and Responsibility	111
6.5	Cost and Financing	114
6.6	Promotion Methods	117

CHAPTER 7 - PHYSICAL PLANNING

7.1	Introduction	119
7.2	Size of Site	121
7.3	Site Specifications	121
7.4	Industry Sectors	123
7.5	Site Design and Layout	124
7.6	Roadways	125
7.7	Utilities	127
7.8	Advance Factories and Multi-national Factories	130
7.9	Estate Services	131
7.10	Phasing of Development	133
7.11	Control of Investor Development	134

CHAPTER 8 - COSTS AND BENEFITS OF FREE  
ZONES

8.1	Introduction	135
8.2	Exports	137
8.3	Value Added	138
8.4	Working Conditions/Employment Effects	139
8.5	The Status of Women	140
8.6	Backward Linkages	141
8.7	Technology Transfer	142
8.8	Environmental Effects	143

LIST OF TABLES

1.	Terms	3
2.	Number of Countries with Free Zones	13
3.	Number of Countries with Export Processing Zones	14
4.	Employment in EPZs	29 to 32 inclusive
5.	Employment Growth Rates in EPZs and Manufacturing	36

TABLE OF CONTENTS - LIST OF TABLES Contd/3

	<u>Page No.</u>
6. Employment in Export Processing Zone Countries	37 and 38
7. Free Zone Output - % Breakdown	40
8. Origin of Investors	42
9. Average Annual Growth 1980-87	45
10. Free Zone Exports as % of National Total	54
11. Free Zone Size - Sample List	122
APPENDIX 1 Draft Free Zones Law	146
APPENDIX 11 Free Zone Organization	171
APPENDIX 111 Control of Investor Development	179

INTRODUCTION

1.1 Objectives of the Manual

This Manual on Export Processing Zones (EPZ's) is meant to serve as a technical assistance tool in responding to issues and queries raised by countries considering establishing EPZ's or similar facilities to attract domestic and foreign investment into export oriented activities. The manual will also assist existing EPZ's in the evaluation of their performance by providing them with information on other zones and an analysis of the main issues involved in operating and promoting EPZ's.

Based on technical co-operation requests received by UNIDO in the course of the past few years, it is expected that those who will benefit from the manual will include:

- (i) Government officials in countries considering the establishment of EPZ's.
- (ii) Public officials operating zones.
- (iii) Private EPZ operators (they have been

increasing considerably in numbers in recent years).

- (iv) Chambers of Commerce and Industry, World Trade Centres and representatives of other organisations interested in promoting export industry.
- (v) International organizations involved in development work, including NGO's.
- (vi) Academics, researchers and journalists.
- (vii) Investors

## 1.2 Terminology and Definitions

A recent study on the subject "The Challenge of Free Economic Zones in Central and Eastern Europe" by UNCTC listed twenty three different terms to describe free zones and related concepts. All the terms except Maquiladora include the word zone. Those twenty three terms plus the terms "free port" and "export processing regime" are grouped together under five headings in Table 1 over. The first grouping emphasizes trade, the second group emphasizes exports, the third group of terms focus on industry and processing, the fourth group emphasizes economic activity and freedom. The fifth group include three short general terms.

TABLE 1

TERMS

Group 1

Customs Zone  
Customs Free Zone  
Free Trade Zone  
Tax Free Trade Zone

Group 2

Duty Free Export Processing Zone  
Export Free Zone  
Export Processing Free Zone  
Export Processing Zone  
Free Export Processing Zone  
Export Processing Regime

Group 3

Export Processing Free Zone  
Export Processing Zone  
Free Export Processing Zone  
Free Production Zone  
Industrial Export Processing Zone  
Industrial Free Zone  
Export Processing Zone

Group 4

Investment Promotion Zone  
Joint Enterprise Zone  
Privileged Export Zone  
Special Economic Zone  
Zone of Joint  
Entrepreneurship  
Technology Zones  
International Service  
Zones

Group 5

Free Zone  
Free Port  
Maquiladora  
Tax Free Zone



Of the twenty five terms listed, the most popular are (i) free port, (ii) free trade zone (FTZ), (iii) foreign trade zone, (iv) export processing zone (EPZ), (v) export processing regime, (iv) special economic zone (SEZ) and (vii) free zone (FZ).

### Free Port

This was probably the first term used. It refers to zones established by the colonial powers on the major trading routes in the 18th and 19th centuries. The first such port was Gibraltar established around 1705. The British captured Gibraltar in 1704 and it has operated as a free port since then. Goods of any description could be imported free of duty. For 250 years there were no customs duties in Gibraltar. Customs duties were introduced in the last 30 years for revenue purposes only. Goods intended for re-export are still exempt from Customs duties. Other free ports were established by the British in the 19th Century in Aden, Singapore and Hong Kong. In Africa, Djibouti was developed by the French as an important free port and trading centre. After the opening of the Suez Canal in 1864 Port Said developed as one of the world's busiest free ports. At the other side of North Africa Tangier prospered for centuries as a major centre of commerce and a free port.

In Europe the best known free ports are Rotterdam and Hamburg, both of which developed in the second half of the last century. Hamburg had formal legal free port status which it still retains today. Rotterdam does not have a formal legal free port status. However, there are bonded warehouses spread throughout the port where transit goods can be stored duty free and with the minimum of Customs formalities. Rotterdam is in fact Europe's major transshipment port. All of the other major ports in the European mainland have a formal or informal free port status. Some, such as Genoa and Trieste have a history going back to the Middle Ages. Others, such as La Havre and Marseilles are more recent developments.

#### Free Trade Zone (FTZ)

This term refers to free ports as well as zones set aside within port areas and at other major transport intersections (mainly road and rail). The area set aside could range from a small transit shed to hundreds of acres. Such zones are usually licenced and controlled by the Customs Authority. Within the zone duty free goods can be stored, packed, warehoused and transhipped. The emphasis in these zones is on trade and transshipment. Some of the zones are used exclusively for transshipment to a

neighbouring inland country. The port of Karachi has a small transit zone to store goods destined for Afghanistan. Calcutta has a similar facility to accommodate Nepalese imports. Other zones, particularly the free ports of Singapore and Rotterdam are major inter-continental trade and distribution centres.

#### Foreign Trade Zone (FTZ)

This term is normally associated with trade zones in the United States. There are currently about 200 such zones and the emphasis is on importing. Under U.S. regulations goods can be stored or processed in foreign trade zones there, prior to importation into the United States. Most (75% to 90%) of the goods passing through U.S. zones are destined for the U.S. market duties paid.

#### Export Processing Zone (EPZ)

This term describes a phenomenon which began around 1960 in Shannon. The EPZ is usually an area of (i) usually 40 to 100 hectares developed as an industrial estate, (ii) surrounded by a fence, (iii) controlled by the Custom Authority, (iv) where investors can import equipment and materials free of duty, process the materials and export the finished

product. Sometimes a small percentage (usually up to 20%) can be sold on the domestic market. This idea has spread rapidly in the last two decades throughout much of East Asia, Africa, the Caribbean and Central America. A number of West European countries have also embraced the idea. At present most former socialist countries in Europe and Asia as well as many countries in Africa are planning EPZ's.

#### Economic Processing Regime (EPR)

This term refers to an administrative rather than a physical concept. An EPR exists in Mauritius and Fiji. In both countries investors are not confined to a particular zone. An investor with EPR status can establish a facility anywhere in either country and have the same privileges and status as an EPZ investor in other countries. This means he can import materials and equipment free of duty, process the materials and export the finished product. The EPR is very similar to "automatic import licencing and duty/indirect tax exemption schemes". The EPR may have a little less bureaucracy attached to it, including easier access to foreign exchange. Some people may also feel that the use of the term "export processing" has a promotional edge or appeal to it. The Maquiladora sector in Mexico and the

enclave (1) sector in Barbados could be classified also as EPR regimes.

### Special Economic Zones

The term "special or free" economic zone is often associated with developments in China since 1979/80. More recently the "special or free" economic zone has also been used in relation to proposals for free economic zone development in Eastern Europe. In the late 1970's the Chinese government recognized the need for special measures to attract foreign capital, technology and management. In 1979 the government announced that two provinces could experiment with the concept of "special economic zones". Zones were established in Shenzhen, Zhuhai and Shantou in Guangdong province and Xiamen in Fujian province. Local authorities in each zone were allowed to promulgate local legislation and regulations for promoting investment and improving investor applications. Favourable tax and operating procedures were also allowed in the zones, including

- (1) a term used in ILO working paper No 42 on Employment Effects of Multinational Enterprises in Export Processing Zones in the Caribbean.

duty free imports of materials and equipment. Most of the output was exported although some (up to 30%) local sales were permitted. The main benefits expected from these initiatives included foreign investment and controlled experiments in economic reforms.

In 1984 the SEZ concept was extended to fourteen coastal cities. Over the last 8 years the concept has been extended further to other coastal and inland areas - reflecting a general satisfaction with the concept.

The best known zone is Shenzhen, which is on China's border with Hong Kong. It covers an area of 327 sq. kilometres and is managed by the Shenzhen Municipal Authority. It has a population of approximately 1 million people.

The response of foreign investors to China's open door policy has been positive. In the decade of the 1980's about 20,000 SEZ foreign projects (mostly joint ventures) have been approved with an investment of in excess of 30BS. Much of this investment came towards the end of the decade. Up to the end of 1987 only about 2000 projects involving 2BS investment were approved. It takes time for a country to gain the confidence of

investors. In China over half the investors are overseas Chinese, followed by the U.S. (20%) and Japan (15%).

The Chinese government has granted increased autonomy to the zones over the last decade. Projects of up to 30M\$ can be approved without reference to the Central government.

The North Korean government announced (December 1990) that it had plans to establish a special economic zone in the northern part of the country at Rajin/Sonbong. The total area of the proposed zone is 621 sq. kilometres. In Russia a free economic zone is being developed at Nakhodka on the Sea of Japan where warehousing and transshipment facilities are provided. Manufacturing is also permitted in the zone. At this stage it is like a European free trade zone.

In East Europe feasibility studies are under way for the development of special economic zones. The idea with these zones is to develop a limited geographic area (about 200 hectares) as centres for foreign and domestic export oriented investment. The zones are expected to have good infrastructure, a regulatory framework and a range of support services which are "business oriented". Like the Chinese zones they

could be considered as "controlled experiments in economic reform".

### Free Zone

The term free zone is a convenient one which is often used to cover free trade zones, export processing zones and special economic zones grouped together.

In this Manual the term free zone will be used to include all of the definitions already outlined. The term export processing zone when used, will include export processing regimes like Mauritius, Fiji and the special economic zones.

### 1.3 The Growth and Spread of Free Zones

The export processing zone (EPZ) and its predecessor the free trade zone are policy instruments designed to facilitate the growth and development of international trade and export industry. It is logical to expect, therefore, that such zones would develop and prosper (i) at times when world trade is expanding (18th/19th centuries and post second world war); (ii) in places (ports, airports, rail junctions) which are well placed on or close to



international trade routes; and (iii) when promoted and managed by people who are interested in and committed to international trade.

The free zone idea has over many years been modified and adjusted in many ways - free ports, free trade zones, industrial free zones, export free zones and more recently international service zones, technology zones and special economic development zones.

It is not necessary here to review in any detail the history and development of the free zone concept except to point out that most societies over the years who were major international traders used the FTZ concept or a variation thereof to promote and develop trade.

TABLE 2

Number of Countries with  
Free Zones (including Trade and Processing Zones)

	Total	Established pre 1930	1930/ 1945	1946/ 1970	1971/ 1992
Europe	20	9	0	4	7
Asia/Pacific	17	3	0	4	10
Middle East	8	1	0	5	2
Africa	19	2	0	6	11
S. America	8	0	1	4	3
C. America	8	0	0	2	6
Caribbean	9	0	0	5	4
N. America	2	0	1	0	1
Total	91	15	2	30	44

Note: The figures in Table 2 should be regarded as "reliable estimates as there is no universally accepted definition of what constitutes a free trade zone or export processing zone. Neither is there one single reliable data source on the subject.

TABLE 3

Number of Countries with  
Export Processing Zones

	Total	Established pre 1970	1970/ 1980	1981/ 1992	Planned
Europe	11	3	2	6	10
Asia/Pacific	17	5	6	6	2
Middle East	3	0	2	1	0
Africa	14	0	7	7	10
S. America	5	1	1	3	4
C. America	8	2	3	3	0
Caribbean	9	4	3	2	0
N. America	1	0	0	1	0
Total	68	15	24	29	26

Information sources for Tables 2 and 3 include:-

- (i) 1970 U.S. Dept. of Commerce Publication on Free Zones around the World.
- (ii) Tax Free Exporting Zones - A Users Manual by Economist Intelligence Unit.
- (iii) Tax Free Trade Zones of the World - Walter and Dorothy Diamond - Vol. 1-4 1992
- (iv) U.N.I.D.O. files.

The first zone in the United States was established in 1937 at Statten Island.

Tables 2 and 3 outline the growth in a number of countries with free trade zones and export processing zones over the past 100 years in different parts of the world. The dominance of the Asia/Pacific region in the EPZ table is to be expected.

The spread of the EPZ concept in Africa is also significant. What is perhaps surprising is the number of European countries (6 - all in West Europe) which have established EPZ's in the last decade. EPZ's are usually considered as a policy instrument for use in developing countries. The European states involved include a number of countries which might be classed as developing - Greece, Turkey, Cyprus, Malta and Portugal, as well as developed countries - United Kingdom, France and the Isle of Man.

Tables 2 and 3 are not directly comparable although there is a large overlap between the tables. The first table includes trade zones and EPZ's. The combined figures for columns 3 and 4 in Table 3 are greater than the column 5 figure in Table 2 (49 versus 44). The reason is that some countries with

trade zones in the pre 1971 era are included in columns 2 to 4 in Table 2. If the country subsequently establishes an EPZ in the post 1971 period, it is classified in columns 3 or 4 in Table 2 e.g. Malaysia established a trade zone at Penang in 1948 and it is classified in column 3 in Table 2. It subsequently established an EPZ programme in 1971 and it is classified in column 3 in Table 2. Column 5 in Table 3 includes countries which do not have an EPZ but have requested or carried out a pre-feasibility study or feasibility study at least and have expressed a serious intent.

#### 1.4. Evolution of the Concept

From the time of the Phoenicians, Greeks and Romans to the Middle Ages and the Hansiatic League, the emphasis on promoting trade was on creating a secure physical setting and a widely accepted legal framework or set of rules for transacting business. These are basic pre-conditions for developing trade. Without these pre-conditions the cost of and the risks associated with business transactions would be so high as to make it unprofitable. Even today the free zone can be an important factor in creating a physically safe environment with a widely accepted set of rules for foreign investors.

In the late 17th and 18th centuries with the growth of the nation state, central control and regulation of the economy for political ends became more widespread. The nation state needed money to finance its army and bureaucracy. The state on the one hand created a physical and legal environment in which production and the creation of wealth could grow and expand. On the other hand, it created a system of taxation to appropriate a proportion of that wealth for its own needs. The regulations and taxation applied to trade as well as other aspects of economic development. As the nation state grew and communications improved the regulation of the economy became more widespread and the taxation burden increased.

From a trade viewpoint this increased regulation had positive and negative aspects. Improved communications, many regulations and new forms of business organisation facilitated the growth of trade by reducing uncertainty in transaction costs.

Trade regulation and taxes on imports, on the other hand, had a negative impact on trade. To overcome some of these negative aspects, free trade zones or free ports were developed in port areas or transport intersections. The free port/free trade zone obviously prospered and developed in areas and at

time of trade expansion e.g. on the colonial routes in the 19th century. Around the end of the century the free zone concept spread throughout much of Northern Europe. This coincided with the growth of industry and trade within that region.

With the economic depression of the 1930's and the second world war, it is not surprising that the free zone idea did not expand much. The only country to introduce free zones in this period was the United States. The Foreign Trade Zone Act was passed in 1934 and the first zone at Staten Island, New York, was established in 1937. A second zone was established in 1947 in New Orleans and in the following 45 years another 200 zones were established. Unlike most free zones around the world which are export oriented, the U.S. zones are primarily import zones.

The period after the second world war was first of all a time of recovery. The following decades up to 1973 was a period of continuous economic expansion based very often on export growth. New institutions were established to promote international trade (GATT was established in 1947). The protectionist philosophy of the 1930's was rejected. New free trade zones were established in many parts of the world in the 1950's/'60's (30 countries established

zones in the period 1946 to 1970, spread over all the continents (see Table 2).

In the post war period also as a result of major developments in technology, communications and international travel, it was possible to split the production process between different locations and countries. Various parts of the production process in electronics, engineering, textiles, leather and other light industry sectors especially could be relocated to take advantage of low labour costs, electricity costs, market access, or some other advantage associated with a particular location. This meant shipping materials from one country to another for processing or assembly. The finished product was then exported either back to the country of origin of the raw material, or to a third country destination.

The original free trade zone idea was modified and adapted to accommodate this type of development. Most trade zones were at ports or transport intersections - not always suitable places for manufacturing activity. New sites for manufacturing or processing were selected and developed to accommodate this type of manufacturing activity. The first countries to promote this type of



development in purpose built industrial estates were Ireland, Singapore and Puerto Rico. These countries had in place the necessary policy environment, infrastructure and cost structure to accommodate foreign export oriented direct investment. These countries were followed in the 1960's and early 1970's by Taiwan, Korea, Malaysia, the Philippines, Mauritius and the Dominican Republic. Table 3 shows that 15 countries embraced the EPZ concept in the period up to 1970, 24 countries in the decade of the 1970's and 29 more countries in the last 12 years. A further 26 countries plan to introduce EPZ's in the coming years.

#### 1.5 Future Trends in EPZ Development

There are probably nine factors which will shape the character of future export processing zones. These are:

- (i) Increasing competition for foreign export oriented investment.
- (ii) The shortening of the response time between order and delivery from months to weeks in many industrial sectors.
- (iii) The reduced raw material stock levels being carried by many firms. (In some Mexican border zones firms carry zero inventory and

- receive deliveries on a daily basis).
- (iv) The desire to transfer technology and skills.
  - (v) The desire to broaden the industrial base in many EPZ's.
  - (vi) The development of regional economic blocks and the promotion of intra regional trade e.g. the North American free trade area or the preferential trade area in East and Southern Africa.
  - (vii) The growing importance of international service activity.
  - (viii) The need/pressure to make available EPZ facilities and benefits on a countrywide basis.
  - (ix) The trend towards/emphasis on private sector development.

The increased competition means, as in most fields of endeavour where competition exists, that only the best will survive and prosper. The best will be those that have a good location (i.e. good international transport and communications facilities) combined with good organisation and planning (i.e. well managed zones with efficient Customs, banking procedures etc.). The shortening of the response time between order and delivery in the manufacturing sector and the lower inventory levels, highlight the importance of regular,

reliable shipping services combined with efficient Customs, banking and support services.

The transfer of technology and skills cannot be forced. It can be planned on a medium/long term basis where EPZ development is combined and co-ordinated with a series of policy initiatives on technology, education, training, investment financing incentives and entrepreneurial development.

Any plans or hopes to broaden the industrial base in EPZ's must be linked with initiatives on skill development, investment financing etc. The availability of raw materials within the vicinity of the EPZ may result in the establishment of EPZ industries to process those materials. In the first group of EPZ's the emphasis was very much on garments and electronics, due in part to the poor raw material base in those countries e.g. Singapore, Hong Kong, Taiwan and Korea. Recent EPZ's being developed in Africa have a range of activities processing local raw materials.

The development of regional trade groupings should open up the possibility of attracting investors producing a wide range of consumer and capital goods, provided the EPZ industries have reasonable

or preferential access to a regional market.

The growing importance of international service industries such as ship/aircraft repair, data processing, software production, back office support activity, has resulted in firms from developed countries moving service activities offshore to take advantage of lower costs, particularly labour costs. To attract this type of business, it is necessary to provide specialized telecommunications and office facilities.

The pressure to spread the EPZ facilities and benefits on a countrywide basis will lead to the development of satellite EPZ's, single factory EPZ's and the efficient operation of duty free licence system and bonded warehouse facilities.

The successful EPZs of the future will be (i) well placed in relation to transport and communications facilities; (ii) well planned and managed - probably by a private sector developer; (iii) supported by efficient regulatory agencies: the range of activities in many new zones will be wider than in most traditional zones where there is a very heavy emphasis (up to 90%) on garment production or electronic assembly, or both, for European and American markets. Activities could include:

processing local raw materials for regional and international markets and/or a range of consumer and capital goods for regional markets and/or some garments/leather products for developed country markets.

Alternatively, a particular EPZ may be a very efficient producer/supplier of garments and consumer/electronic products and components. A third possibility is a zone planned as part of an overall initiative including education, training, etc. to develop a high-tech centre in an area with a well educated workforce and very efficient transport/communications facilities and an efficient bureaucracy including regulatory agencies.

A fourth possibility is an efficient international service centre with very high class telecommunications facilities close to an international airport in a modern city environment.

STATISTICAL ANALYSIS

2.1 Introduction

As part of the process of gathering information on export processing zones around the world for this Manual, a questionnaire was sent through the United Nations Development Programme offices to all developing countries. A total of X questionnaires were sent out. A total of Y countries responded.

The questionnaire dealt with both export processing zones and bonded manufacturing systems. Information sought in the questionnaire included:

- (i) Whether or not a country had (or was considering) an export processing zone or bonded manufacturing programme.
- (ii) Basic statistical details showing growth over the years since 1980 (a) on a sectoral basis (garments, other textiles, electronics, data processing and other activities), (b) on the number of firms involved and (c) output, exports, employment and raw materials sourced locally.

Information was also requested on the country of origin of investors as well as details on the male/female employment ratio.

(iii) Information on sites, factories, infrastructure, environment, investment promotion, working conditions and labour relations, status of women, skill development, linkages and customs procedures was also sought.

Because of the gaps in the responses received to the questionnaire, it was necessary to use other sources of information for statistical details on EPZs. These sources are listed in Table 4.

A problem with information on export processing zones is that there is no definition of export processing zones which is widely accepted. Neither is there a consensus on where the boundary between export processing zones and other duty free manufacturing systems lies. For example, the Mexican Maquiladora programme is classified in most statistical tables as an EPZ (see ILO/World Bank Publications). The Mauritian EPZ employment data is included under export processing zones, although it could be argued that the Mauritian system is closer to "other offshore manufacturing facilities". The Barbados enclave sector is classified as an export

processing zone in the World Bank documents and as "another off-shore manufacturing facility" in the 1987 ILO survey on export processing zones. Thailand and Korea, for example, have small EPZ sectors but fairly large "other offshore manufacturing" sectors operating throughout the country, similar to the Mauritian EPZ or Mexican Maquiladora sectors. The "other offshore manufacturing" sectors in Thailand and Korea are not included in the EPZ statistics. A similar situation obtains in a number of other Asian and Latin American countries i.e. other off-shore manufacturing facility statistics are not included under EPZ statistics. Because of time, resource and information constraints, it is not possible to resolve these anomalies in this Manual. Table 4 follows closely on similar tables in ILO and World Bank publications. The Table does give a general indication of the scale and growth of EPZ activity across the world.

## 2.2 Employment

It is clear that Asia is the most important centre of free zone activity both in terms of the number of countries involved and the numbers employed in EPZ type facilities. A number of features are worth noting in the Asian statistics. The outstanding



point is the very large growth in China over the decade of the 1980s. Another notable feature is the fall off in employment in many of the older EPZ locations e.g. Taiwan, Korea, Macau, Singapore. In recent years there has been a significant recovery in the growth of activity in the Philippine EPZ programme. This is due to a very strong growth in the Mactan and Cavite zones, both located close to major cities - Cebu and Manila respectively. The growth in both these zones has more than compensated for the steady and substantial decline in activity at Bataan (an isolated located 150 miles from Manila) since 1980.

Based on employment statistics, Central America (including Mexico) is the second most important EPZ after Asia, due almost exclusively to the very substantial activity in the Mexican Maquiladora and the significant growth there in recent years. There are signs of a recovery of activity in El Salvador after a decline in the first half of the 1980's due to the civil strife there. The Costa Rican programme is starting to make a significant impact after a slow start in the early part of the 1980's. Free zones in Africa employ almost 230,000 people, concentrated mainly in Mauritius and Tunisia. The Moroccan figure is under stated because many offshore processing facilities outside

TABLE 4

EMPLOYMENT IN EPZs

Year	1980	1986/7	1990/1	1992	Change 86/7-90/1	% Change
<u>AFRICA</u>						
Botswana (i)	-	200	1200	1700	+1000	
Burundi (ii)	-					
Cameroon (i)	-	-	-	600		
Egypt	3000	18000	25000	n/a	+7000	
Ghana	2300	2600	2600	n/a	-	
Kenya	-			1000	-	
Liberia	100	700	-	-	-700	
Madagascar (i)	-	-	n/a	4200		
Mauritius (i)	21000	74000	91000	90000	+17000	
Morocco (i)	900	2700	3100		+400	
Nigeria (ii)	-	-	-	-		
Senegal (i)	200	800	500		-300	
Togo (i)	-	-	1000		+1000	
Tunisia (i)	33000	80000	105000	109000	+25000	
Sub-total:	60400	179000	229400		+50400	28%

(i) Questionnaire Survey figures.

(ii) Zone under construction / just starting.

TABLE 4 - EMPLOYMENT IN EPZs - Contd./2

ASIA/PACIFIC

Year	1980	1986/7	1990/1	1992	Change 86/7-90/1	% Change
Australia	-	n/a	-			
Bangladesh		4500	10000		+5500	
China	-	1873000	2200000		+327000	
Fiji		n/a				
Hong Kong	60000	89000	120000		+31000	
India	6000	17000	30000		+13000	
Indonesia	8000	13000	50000		+37000	
S. Korea (i)	31000	39000	22000		-17000	
Macan	46000	62000	60000		-2000	
Malaysia	70000	82000	99000		+17000	
Pakistan (i)	-	2000	3000	4500	+1000	
Philippines (i)	23000	23000	35000	43000	+12000	
Singapore	124000	217000	210000		-7000	
Sri Lanka (i)	15000	48000	80000	104000	+32000	
Taiwan	79000	89000	72000		-17000	
Thailand	-	3000	28000		+25000	
W. Samoa	-		n/a.			
Sub-total (ex China)	462000	688500	819000		130500	24%
Sub-total (incl China)	462000	2561500	3019000			

TABLE 4 - EMPLOYMENT IN EPZs Contd./3

MIDDLE EAST

Year	1990	1986/7	1990/1	1990	Change 86/7-90/1	% Change
Jordan (i)	n/a	200	300		+100	
U.A.E.	n/a	1300	5000		+3700	
Syria	n/a	n/a	n/a			
Sub-total:		1500	5300		+3800	253%

CARIBBEAN

Bahamas	n/a	8000 (ii)	8000			
Barbados (i)	n/a	6000	6000	6200	-	
Bermuda	n/a	n/a				
Dominican Republic (i)	18300	69500	120000	150000	+50500	
Grenada (i)	n/a	-	500		+500	
Jamaica (i)	200	7800	5300		-2300	
Netherland Antilles	n/a	400	800		+400	
St. Lucia	-	1500 (ii)	1500			
Trinidad & Tobago	-	-	400			
Sub-total:		93200	142500		49300	53%

Note: Haiti is excluded because it responded to the questionnaire saying it has no free zone - although it is included in ILO/World Bank lists.

Table 4 - EMPLOYMENT IN EPZs Contd./4

CENTRAL AMERICA

Year	1990	1986/7	1990/1	1992	Change 86/7-90/1	% Change
Belize	-	200	600		+400	
Costa Rica	-	900	11200		+10300	
El Salvador	6100	2900	5900		+3000	
Guatemala (i)	n/a	400	400		-	
Honduras	n/a	2600	3000		+400	
Mexico	120000	268000	487000		+219000	
Nicaragua	n/a	n/a				
Panama	n/a	2100	6500		+4400	
Sub-total:		277100	514600		237500	86%

SOUTH AMERICA

Chile		2000	8500		+6500	
Colombia (i)		4000	8500		+4500	
Ecuador		-	-			
Peru		-	600		+600	
Venezuela (i)		1000	300		-700	
Sub-total:		7000	17900		10900	156%

Note: Brazil is excluded because it responded to the questionnaire saying it has no EPZ - although Brazil is included in ILO/World Bank lists.

Information sources for Table 4

- (i) Export Processing Zones in Developing Countries:  
Results of a new survey (1986).  
International Labour Office Working Paper No. 43.
  
- (ii) Employment and Multinationals in the 1990s -  
unpublished ILO Study - Table 2.11 - Employment in  
EPZs.
  
- (iii) EPZs in Developing Countries: A Global View by Paula  
Holmes and Paul Meo - World Bank 1989
  
- (iv) Free Trade Zones in Export Strategies: World Bank  
Industry Series - Paper No. 36 - Dec. 1990.
  
- (v) Export Processing Zones: World Bank Policy and  
Research Series No. 20 - March 1992.

of the free zone at Tangiers are excluded from the statistics. The new zones being developed in a number of sub-Sahara countries have yet to make an impact. Activity in the Caribbean is concentrated mainly in the Dominican Republic which accounts for about 85% of the total employment in the region.

The male/female employment ratio varies considerably from country to country. In the questionnaire responses which were received, the percentage of men employed ranges from 7% in Jamaica to about 40% in Mexico. The male/female ratio depends to some extent on the industry mix. The garment sector employs the highest number of females, followed by the data processing and electronic assembly sectors. The "other" manufacturing sector employs the most number of men. Male employment in the garment sector ranges from 5% in Jamaica to 27% in Mauritius. The average, based on data from eight countries, is 17%. In the "other" textile sector male employment ranges from 13% in Botswana to 72% in Barbados. The average over 5 countries is 48% male employment. In the electronics sector male employment ranges from 11% in Barbados to 40% in Tunisia with an average of 24% over 5 countries. Male employment in the "other" manufacturing sector ranges from 14% in Barbados to 100% in Jordan and averages 50% over 9 countries.

The importance of EPZ employment in the context of overall employment was examined by Paula Holmes and Paul Meo in a 1989 World Bank study "EPZs in Developing Countries : A Global View". They lament the lack of global data on EPZs - "very little data is publicly available on global employment and less on wages". However, they found acceptable data for 23 countries and concluded that in all but 2 (El Salvador and Haiti) EPZ employment grew at a faster rate than the overall level of employment in manufacturing industry. (See Table 5).

There were very good political and military reasons why employment in El Salvador and Haiti should have declined. They conclude that "for most countries the difference (between EPZ and non-EPZ employment growth) are startling". They also looked in their review at the importance of EPZ employment in the context of overall manufacturing employment. In smaller countries (under 5 million population) with significant EPZ programmes, over 40% of manufacturing employment was in export processing zones. In larger countries (5 to 25 million population) EPZ employment was still significant - about 18% of total employment (See Table 6).

In countries with larger populations, EPZ employment as might be expected, is relatively insignificant -



TABLE 5

EMPLOYMENT GROWTH RATES IN EPZS  
AND MANUFACTURING

	Years	<u>Employment Groth Rates</u>	
		EPZ	Manufacturing
<u>Countries with population under 5 million</u>			
Barbados	79-83	5.5	-1.3
El Salvador	78-86	-4.1	-2.1
Jamaica	78-86	29.7	3.2
Honduras	78-86	7.0	1.4
Mauritius	77-86	15.0	10.8
Panama	75-86	4.3	2.4
Singapore	80-86	9.7	-1.2
<u>Countries with population of 5-25 million</u>			
Dominican Republic	75-87	21.9	1.7
Haiti	78-87	0.0	0.7
Hong Kong	75-86	3.7	1.6
Malaysia	75-86	6.6	2.9
Senegal	75-86	20.8	0.6
Sri Lanka	78-87	28.0	0.2
<u>Countries with population over 25 million</u>			
Bangladesh	82-86	15.9	4.6
Brazil	78-86	11.0	1.5
Colombia	78-86	11.5	-0.2
Egypt	78-86	12.1	2.9
India	77-84	13.9	2.0
Indonesia	82-86	13.9	0.0
Korea	71-86	24.9	7.3
Mexico	75-87	12.5	3.5
Philippines	78-86	5.9	2.5
Thailand	82-86	45.2	1.2

Sources:

Population data:	International Fainacial Statistics Yearbook, IMF, 1987.
EPZ employment:	Various sources, aincluding Starnberg Institute.
Mfg. employment:	Various sources, including Yearbook of Labour Statistics, ILO 1987.

TABLE 6

EMPLOYMENT IN EXPORT PROCESSING  
ZONE COUNTRIES

	Year	EPZ Employment	Mfg. Employment	EPZ/Mfg
<u>Countries with population under 5 million</u>				
Barbados	1979	3,060	13,000	23.54
	1985	4,217	12,000	35.14
El Salvador	1978	2,900	57,696	5.03
	1986	2,079	48,500	4.29
Jamaica	1978	1,000	89,900	1.11
	1986	8,000	115,300	6.94
Honduras	1978	1,500	116,700	1.29
	1986	2,586	130,000	1.99
Mauritius	1977	17,500	33,241	52.65
	1986	61,690	83,941	73.49
Panama	1975	1,300	33,500	3.88
	1986	2,058	43,600	4.72
Singapore	1980	124,280	312,600	39.76
	1986	217,000	290,100	74.80
Weighted averages	Year 1			23.08
	Year 2			41.14
<u>Countries with population of 5-25 million</u>				
Dominican Republic	1975	6,500	118,300	5.49
	1987	70,000	144,420	48.47
Haiti	1978	40,000	117,180	34.14
	1987	40,000	125,000	32.00
Hong Kong	1975	59,607	730,000	8.17
	1986	89,000	865,600	10.28
Malaysia	1975	40,465	349,440	11.58
	1986	81,688	480,660	16.99
Senegal	1975	150	30,500	0.49
	1986	1,200	32,000	3.75
Sri Lanka	1978	5,200	194,700	2.67
	1987	47,961	199,000	24.10
Weighted averages	Year 1			9.86
	Year 2			17.86

TABLE 6 Contd./.

EMPLOYMENT IN EXPORT PROCESSING  
ZONE COUNTRIES (Contd./.)

	Year	EPZ Employment	Mfg. Employment	EPZ/Mfg. (%)
<u>Countries with Population over 25 million:</u>				
Bangladesh	1982	2,500	368,400	0.68
	1986	4,515	441,060	1.02
Brazil	1978	27,300	7100,000	0.38
	1986	63,000	8000,000	0.79
Colombia	1978	2,800	713,600	0.39
	1986	6,700	701,800	0.95
Egypt	1978	10,000	1353,400	0.74
	1986	25,000	1697,000	1.47
India	1977	2,900	5391,000	0.05
	1984	7,200	6191,000	0.12
Indonesia	1982	7,736	6000,000	0.13
	1986	13,000	6000,000	0.22
Korea	1971	1,248	1336,000	0.09
	1986	35,000	3826,000	0.91
Mexico	1975	74,676	1576,000	4.74
	1987	307,866	2371,000	12.98
Philippines	1978	24,600	1638,000	1.50
	1986	39,000	2000,000	1.95
Thailand	1982	1,067	2000,000	0.05
	1986	4,746	2100,000	0.23
Weighted averages	Year 1			0.56
	Year 2			1.52

except in Mexico where the Maquiladora factories employ 12% of the total manufacturing workforce.

### 2.3 Production and Trade

Table 7 provides a breakdown of production activity within the various zones. Garment activity is very important (i.e. over 50% of total output) in 5 zones and of medium importance (30% to 50% of total output) in 3 zones. In 7 zones garment activity is relatively unimportant. Electronics is a relatively unimportant activity except in Korea and to a lesser extent in Mexico. The importance of the "other" category is possibly overstated. Included in this category would be engineering, leather products, plastics and raw material processing.

Information on the destination of exports in the questionnaire is very limited. However, the information that is provided confirms what might be termed pre-conceived ideas i.e. that Caribbean and Central American zones depend primarily on the North American market, while the principal destination for the output of African zones is Europe.

TABLE 7

FREE ZONE OUTPUT - % BREAKDOWN

	Garments	Other Textiles	Electronics	Data Processing	Othe
Botswana	3%	17%	-	-	80%
Cameroon	-	-	-	-	100%
Madagascar	33%	58%	-	-	9%
Senegal	-	44%	-	-	56%
Mauritius	79%	4%	2%	-	15%
Morocco	68%	-	4%	-	28%
Tunisia	44%	14%	21%	-	21%
Mexico	5%	-	45%	-	50%
Costa Rico	39%	3%	7%	-	51%
Barbados	16%	1%	+5%	27%	41%
Jamaica	77%	-	-	-	23%
Venezuela	9%	56%	-	-	35%
Jordan	76%	-	-	-	24%
Korea	1%	4%	70%	-	25%
Sri Lanka	57%	-	-	-	43%

Source : Survey Questionnaire

## 2.4 Origin of Investors

Table 8 provides details on the origin of investors. Over 43% of investors are of domestic origin and another 24% are foreign/domestic joint venture projects. Only 33% of projects are classified as foreign. This result belies the traditional view that EPZs are foreign enclaves.

The major source of foreign investment in most zones around the world is very much in line with expectations. In Africa, Europe is the major source of investment. The United States presence in African zones is extremely limited. Most of the American investment as might be expected is concentrated in the Caribbean and Central America. The Koreans are also relatively important investors in the Caribbean and Central America. The newly industrialized countries are the major investors in Asian zones.

TABLE 8

ORIGIN OF INVESTORS

	Total	Domestic	Foreign	Joint Ventures	Source of Foreign Investment
Botswana	17	2	11	4	Africa, Europe, U.S., Asia
Cameroon	8	1	2	5	Europe
Madagascar	19	-	2	17	France, Mauritius, Hong Kong
Senegal	9	1	4	4	Europe, U.S., South Korea
Morocco	36	-	34	2	Europe India
Mauritius	586	352	67	167	Hong Kong, France, U.K.
Tunisia	1458	725	367	366	France, Germany, Belgium, Arab States
Sub-total:	2133	1081	487	565	
Mexico	634	1139	853	642	U.S., Japan, Korea, Canada
Costa Rica	88	16	65	7	U.S., Italy, Korea, Canada
Sub-total	2722	1155	918	649	
Colombia	70	41	19	10	U.S., Europe, Canada
Venezuela	13	5	-	8	U.S., Europe
Sub-total	83	46	19	18	
Barbados	124	59	36	29	U.S., Canada, Europe
Dominican Rep.	357	70	287	-	U.S., S. Korea, Panama
Jamaica	14	1	13	-	U.S., Canada, Hong Kong
Sub-total	495	130	336	29	
Korea	91	30	34	27	Japan, U.S., Germany
Sri Lanka	139	5	59	75	Korea, Hong Kong, Japan, Singapore
Sub-total	230	35	93	102	Europe
Total:	5663	2447	1853	1363	

Source : Survey Questionnaire

EXPORT PROCESSING ZONES AS A  
POLICY INSTRUMENT

3.1 Introduction

There is widespread belief that export development is the way forward for developing countries and the ex-Socialist countries of Europe. The reasons for this belief are:-

- (i) The failure of the import substitution policies of many developing countries in Africa and Latin America over the last 20 years; and
- (ii) The success of the export oriented policies of the East Asian countries over the same period.

The newly industrialised countries (Hong Kong, Singapore, Korea and Taiwan) had an average annual growth rate of 8% to 9% over the 20 years 1970 to 1990. Manufactured exports have been growing at a much higher rate.

Many academic studies have also identified a strong correlation between export growth and GNP growth



(e.g. Belassa in numerous articles).

The World Bank and the IMF are also strong advocates of export growth as a key to industrial development and economic success. The 1987 World Bank Development Report contained an analysis of the performance of 41 developing countries. The report concluded that export oriented economies performed better. In many of its recent policy papers, the Bank highlights the need for an outward looking development strategy to bring about efficient industrial development and restructuring. Many advocates of export oriented industrial development also claim that this type of development is labour intensive. As such, export manufacturing growth will not only result in a rapid increase in jobs but also in an improved distribution of income.

Others however point to examples of situations where a rapid expansion in exports has not resulted in high levels of GNP growth (see Table 9).

TABLE 9

AVERAGE ANNUAL GROWTH 1980-87

Country	Exports of Manufacturers	Gross Domestic Investment	Value Added in Manufacturing
Indonesia	43.9	11.3	7.5
Turkey	43.0	5.2	8.3
Mexico	23.8	-4.9	0.5
Venezuela	19.2	1.3	2.7
Malaysia	17.2	1.4	6.7
South Korea	15.0	10.0	10.9
Sri Lanka	15.5	-4.3	6.2
Morocco	14.5	-2.6	1.6
Mauritius	13.9	14.7	11.2
Thailand	13.7	4.1	6.1
Pakistan	12.8	7.2	9.1
Singapore	6.8	4.5	4.9
Brazil	5.9	-1.2	1.5
Senegal	5.3	2.0	5.2
Bangladesh	5.0	4.1	2.9
Philippines	4.7	-7.5	0.1

Source: UNCTAD Secretariat Estimates and South - April 1990.

Mexico is one of a number of examples of countries with high growth rates of export manufacturers and low GNP growth in the 1980's. Venezuela and Brazil are others. In Mexico there was a major contraction in the domestic sector of the economy, due in part to a heavy debt burden. This resulted in a fall in overall investment by 4.9% per annum over the 1980/87 period. In Mexico the manufactured export sector accounts only for a small percentage of total GNP and cannot by itself pull the whole economy into a high growth path.

There have been suggestions also that a liberal import regime will lead to high export growth. The empirical evidence from an UNCTAD study (see South April 1990 Page 35 "no export panacea") is that this is not always the case. Countries like Turkey, Indonesia and Venezuela with restrictive import regimes have been successful exporters while many African, Latin American and Caribbean economies (Bolivia, Cote d'Ivoire, Ghana, Jamaica and Uruguay) all have liberalised import regimes but have achieved low levels of export growth.

The answer to this apparent paradox is that the development of a successful export sector is a much more complex task than simply liberalizing the import sector. There are many other conditions

which must be fulfilled (e.g. infrastructure, investment climate, exchange rate policy). The same logic applies to EPZ development. The fact of declaring an area to be an EPZ, or even the development of a well planned industrial estate with good quality infrastructure, will not by itself result in a major inflow of domestic or foreign export oriented investors. There are many other conditions which must be fulfilled.

### 3.2 Requirements for Export Oriented Development

The first requirement is that the area or country must be capable of sustaining or supporting a reasonable manufacturing sector. This may seem like overstressing the obvious. There are regions or countries (e.g. very small Pacific Island nations) which because of their size (population 10,000 to 20,000) and remoteness cannot support a manufacturing sector without large-scale transport and power subsidies. Some of these regions or countries have considered the possibility of an EPZ as a development option.

The second requirement is a core of people or companies who have or can acquire the necessary technical, managerial and marketing expertise to

produce a product and sell it successfully on export markets. The simple or straight conventional way is to attract foreign export oriented investors who would bring the capital and the necessary expertise in a package. In some countries local entrepreneurs or companies have succeeded in importing the necessary expertise and using local capital. Many of the successful EPZ companies in Mauritius, including some of the very biggest are locally owned and were financed by profits from sugar cane.

The next important step is to ensure that the exporters (whether they are foreign investors or local companies with foreign expertise) can compete on international markets on equal terms with exporters from elsewhere. This means that the cost structure and financial arrangements are comparable with competitor locations. The key issues in this respect are: (i) a competitive exchange rate; (ii) availability of trade and investment finance at reasonable rates; (iii) access to machinery and raw materials at world market prices; and (iv) easy or automatic access to foreign currency. Other important issues include labour and employment, taxation and transportation policies. Finally, the physical infrastructure and government institutions must be efficient and cost effective.

The EPZ is one of a number of duty free options which allows the manufacturer access to raw materials and machinery at world market prices.

### 3.3 Duty Free Options for Export Oriented Manufacturers

Access to materials, equipment and other inputs at world market prices is a key factor in making the export oriented sector competitive. Any duty free scheme designed to provide such access is accepted by all countries and will not therefore bring about retaliatory trade responses from importing countries.

The various duty free options include: (i) a prior exemption system for dutiable imports, or a duty free licence system; (b) bonded manufacturing or bonded warehouse system; (c) a duty drawback system; and (d) an EPZ.

The prior exemption or duty free licence system means that importers can import free of duty fixed quantities of specified products for processing and re-export without duty payments. A bond or bank guarantee may be required by the Customs Authorities in lieu of the payment of duty. For this system to function effectively, a good customs administration system is necessary which can relate imports to

exports at the level of the firm. This means that the Customs Authority must be able to establish a reliable "rate of yield" or import/export co-efficient. Only in this way can the Customs Authority satisfy themselves that all the imported materials have been incorporated in exported products. Countries new to export oriented manufacturing may not have the technical or administrative capacity to calculate the rates of yield or import/export co-efficient. If import duties are high and an important source of government revenue, the Customs Authority may be reluctant initially to introduce this type of system.

The duty drawback system like the duty free licence system requires the establishment of a rate of yield or import/export ratio for each product. Compared to the prior exemption/duty free licence system, the risk of evasion of duty payment is much less because of an administrative malfunction. The duty is already paid and the onus is on the exporter to claim (and get) a refund. Most countries operate duty drawback systems. Properly administered it is an ideal way of providing "free trade status" to new or occasional exporters. It is a very useful way of encouraging domestic market suppliers to export. Very often, however, the system does not work well.

There are many complaints about long delays and difficulties in getting "drawback". The reasons for these difficulties are many - (i) administrative inefficiency due to lack of training of Customs personnel, a shortage of personnel or poorly paid personnel; (ii) bad record-keeping by producers due to lack of trained personnel (book-keepers and accountants), which makes entitlement to drawback difficult to prove; and (iii) a shortage of funds to pay the duty rebates or drawback.

The bonded manufacturing unit is like a single factory EPZ. The factory is entitled to import materials and equipment duty free. The importer may be obliged to lodge the goods in a secure store under Customs seal within the factory. Materials are released from the store by the Customs Authority on a gradual basis as required. Many countries offer this facility. It usually requires the presence of one or more full-time customs officials, depending on the size of the factory. Bonded factory facilities are usually granted only to large companies who export all or most (over 80%) of their output.

The EPZ is a special industrial estate (usually 40 to 100 hectares) fenced in and controlled by the Customs or EPZ Authority where goods can be imported



free of duty, processed and exported. Goods moving between ports of entry/exit in the zone are sometimes escorted by customs or zone authority officials. If the zone is located close to the main port of entry/exit, this is not a major problem or expense. There is a belief that in a fenced in zone the possibility of smuggling or illegal diversion of duty free goods is easy to control. This in turn can lead to a relatively relaxed customs regime compared with a bonded manufacturing or duty free licence system. The Customs Authority is often more disposed towards an EPZ type regime. Many investors may also prefer an EPZ (especially when there is no successful record of manufacturing under duty free licence or bonded manufacturing regimes) in the belief that it will provide a good operating environment.

The World Bank in a paper on "Managing Entry into International Markets - Lessons from the East Asian Experience" concludes that "free trade zones can be very effective in the early stages of an export drive as a means of attracting foreign investors and demonstrating the country's export potential, especially in less developed countries that lack the capacity to package the critical elements needed to initiate an outward oriented development strategy. However, development of infrastructure, formulation

of appropriate incentives and other elements of the work environment must be well managed. It should be noted that where outward development strategies have been sustained and reinforced as in the East Asian NIC's, the relative importance of zone exports has tended to decline as exports of other domestic industries expand under free trade status". Table 10 below, showing the trend of exports from the Shannon and Korean EPZs in relation to countrywide exports, illustrates the above point.

Antoine Basile, at a seminar on EPZs in Bridgetown, Barbados, in October 1988 organised by the ILO, commented that a fall in demand for EPZs and indeed their eventual disappearance were key indicators of the success with which EPZs had attained their objectives. In the Shannon zone the Customs boundary posts and the surrounding fence were removed a couple of years ago.

#### 3.4 The Role of the EPZ

The EPZ properly planned, organised and developed is most useful when a country is beginning the process of export oriented industrial development. Many countries which have developed successful export oriented manufacturing sectors in recent years have

TABLE 10

Free Zone Exports as % of National Total

Year	<u>Ireland</u>			<u>Korea</u>		
	Zone	Country	in M IR£ Zone as % of country	Zone	Country	in M\$ Zone as % of country
1959-63	24	149	16			
1964	14	69	20			
1965	23	81	28			
1966	32	100	32			
1967	33	112	29			
1968	35	143	25			
1969	38	162	23			
1970	40	193	21			
1971	34	220	16	1	1067	0.1%
1972	36	282	13	10	1624	0.6%
1973	47	400	12	70	3225	2.2%
1974	53	544	10	182	4460	4.1%
1975	54	617	9	175	5081	3.4%
1980	131	2250	6	674	17504	3.6%
1986	238	6105	4	1149	34714	3.3%
1991	385	10526	4	1586	71870	2.2%

made use of the EPZ concept at an early stage in the development process. Many in these countries will agree that the EPZ programme helped to "kick start" the whole process. Developed countries, notably France and the United Kingdom, have also used the concept in recent years to promote industrial development in certain port area . A United Kingdom working party in 1983 concluded that "a free zone of the classic type with a ringed fence under customs control could have special appeal and marketability" and "that there would on balance be merit in opening the way to the establishment of such free ports in the United Kingdom". Legislation, the report concluded, should "permit all forms of activity, trade, warehousing, processing and related services".

The primary purpose of an EPZ in a developing country is to help to "kick start" the process of export oriented manufacturing development by providing a physical and an administrative environment in which investors can operate efficiently and compete effectively in world markets.

### 3.5 Requirements for Successful EPZ Development

The mere fact of declaring an area as an EPZ, establishing an authority to develop and manage the zone and providing a budget of 5M\$ to 10M\$ will not lead to successful EPZ development.

The successful development of an EPZ depends on the policy environment, location, organisation and management.

Government policy can influence the cost and availability of many items. A government policy, therefore, which can influence (reduce) the cost and availability of those items required by exporters is important. The first step in influencing costs is a competitive exchange rate. Major expansion of the free zones in Mauritius and the Dominican Republic in the 1985/90 period (two countries which have very successful EPZ programmes) coincided with a major devaluation in both countries. The second step in reducing foreign exchange costs for EPZ exporters and making foreign exchange easily available is the facility to operate foreign currency accounts. Other policies which can influence costs include: policies for taxation, employment, labour and transport. Excessive taxation on workers with low incomes, or what might be termed social labour

legislation, increases labour costs - a key factor in many EPZs. From the point of view of workers in employment, social legislation is obviously desirable e.g. job protection, redundancy payments etc. From an employer viewpoint such legislation increases costs and reduces the incentive to employ additional workers. The benefits and costs of taxation in social labour legislation needs to be carefully assessed. Transport policies which give a monopoly or quasi monopoly position to national carriers may have the effect of increasing costs or reducing the quality of the service or both. As with social labour legislation, the costs and benefits of transport policies need to be balanced. A third important policy issue relates to trade and investment finance.

The choice of location for an EPZ is critical. Poor location choice is the key factor in most cases where (i) EPZs have failed or (ii) where development costs were excessive. As a general rule EPZ development should begin in the capital city (i.e. the commercial capital) close to a port or airport and spread gradually to other cities. The EPZ should be used as an instrument of regional development only in very restricted circumstances. Most attempts to use the EPZ as an instrument of regional development policy have been expensive

failures. In Thailand two EPZs were established initially in the mid 1980's - one at Lat Krabang (36 hectares) on the outskirts of Bangkok, the other at Lamphun (24 hectares) near the northern city of Chiangmai.

Lat Krabang was fully occupied two years later while Lamphun had only one factory in its two year old EPZ. In Guatemala the zone at Santa Tomas de Castilla "has been a disappointment" due in part to its location 200 miles from the capital, Guatemala city. Bataan zone in the Philippines, about 150 miles from Manila in a rural mountainous area, has been an expensive failure, while Cavite (close to Manila) and Mactan EPZ in the city of Cebu) have been by contrast very successful.

The organisation and management of an EPZ includes all government and private agencies involved with the zone. The key organisations are:

- (i) the government agency responsible for promotion, project evaluation and licencing of investors;
- (ii) the public or private agency responsible for the physical development and management of the zone; and
- (iii) the Customs Administration.

An inefficient or bureaucratic Zone Authority or Customs Administration which takes days (3 or more) to clear goods will defeat one of the main purposes of the zone - a streamlined bureaucracy free environment.

Overall the key considerations in free zone development are:-

- (i) Political and economic stability: For most investors this is the most important consideration. Essentially what most investors look for is a consistent economic policy favouring private enterprise, foreign investment and export development and a politically stable environment.
- (ii) Good transportation and communication facilities: For most free zone industries (e.g electronics, light engineering and clothing) good air connections are important. This means adequate air cargo capacity and services to all major destinations. For international service activities, good telecommunications facilities are very important.
- (iii) Good Physical Environment: Most free zone investors are international companies with a good reputation. As such they will look for a pollution free environment with high standards of physical planning.
- (iv) Reliable Infrastructure: A reliable water and electricity supply are very important.



- (v) Market Access: Preferential access to major markets is a very big advantage e.g. South Pacific countries vis a vis Australia and New Zealand; Caribbean countries vis a vis U.S. and Canada; ACP countries vis a vis EC.
- (vi) Support Services: Basic support services such as banking system and freight forwarding are essential in all zones. If a zone is seeking higher skilled engineering or electronics activities, the existence of good quality sub-contractors and spare parts suppliers is an advantage.
- (vii) Labour: The cost and productivity of labour and the range of skills will, more than anything else, determine the type of industry which will be attracted to the zone.
- (viii) Good Organisation: An organisation which can (a) deal effectively and quickly with investors applications and (b) assist investors once approved in the establishment phase is important. Very often the difference between two locations is marginal and the location decision will hinge on minor considerations. The overall impression made by the Zone Organisation on the investor, can be decisive in such circumstances.
- (ix) Urban Environment: If a free zone hopes to attract good quality light industry and expatriate personnel, a well developed urban environment is important.

x) Existing Industry: It is an advantage both to the firms setting up in the zone and the host country that a certain amount of industrial development should have already taken place in or near the proposed zone.

LEGISLATION

4.1 Introduction

The legislation sets out the basis for the development of an export processing zone. In particular, it sets out the basis for the relationship between the different organizations or groups who have an interest in, or an involvement in the zone. Different groups will emphasize different issues. Sometimes groups will come into direct conflict.

The two main groups involved in zone development are the government and the private investors. The government can be divided into 5 sub-groups whose interests may not always be compatible. These are:-

- (i) The agency or group responsible for economic /industrial development and export promotion. This group may be represented by the Ministry of Economy or Industry or Trade. Their outlook is promotional or developmental. There may of course be a competition between trade and industry if

they are separate ministries, for the right to control the EPZ development.

- (ii) The Customs Administration is often represented by the Ministry of Finance. Their concerns are preventive - making sure that duty free goods do not enter into the domestic market. The Finance Ministry may also be reluctant to grant tax holidays - a feature of most EPZs.
- (iii) The Central Bank is concerned with the movement of foreign currency. It may adopt a positive or negative attitude. The negative attitude, which is more a feature of the 1970's than the 1990's, would focus on whether or not there would be a drain on foreign reserves. The contrary attitude is that the free zone will add to the volume of the country's external reserves.
- (iv) The concerns of the physical planning /environmental group are obvious. To date this has not been a major issue in free zone development.
- (v) The economic planning group may take a positive or negative attitude. The negative attitude, prevalent in the more socialist economies in the Indian sub-continent and the Caribbean in the 1970's, was that free zones were for foreign investors. They

believed that the concessions granted should be minimal. No domestic investment capacity should be used in the zones. Domestic investors should be excluded and the emphasis should be on high-tech investment. The economic planning group may, of course, take the view that the free zone is a key part of the country's economic development strategy and may be fully supportive of the project.

The private investors fall into two groups whose interests largely coincide. These are (i) the property developers or zone operators whose major concern is to attract enough investors to use the zone facilities; and (ii) manufacturers, traders and international service companies, who invest in the zone and use the facilities therein. The major concerns of both these groups are a bureaucracy free environment with good standards of infrastructure.

#### 4.2 The Approach to Legislation

The approach to legislation and the content of the free zone law depend on the objectives of the zone and the group responsible for initiating and developing the proposals. In the older free trade

zones, the objectives were often limited to providing warehousing and storage space for duty free goods in transit to other destinations. The initiative for the development came from the Port Authority or similar agency (e.g. public or private sector warehousing groups), or the Municipal Authority in whose jurisdiction the zone would operate. The Ministry of Industry or Trade or Development had little interest in the project. Physical planning and environment issues were also a minor consideration. The only government group with a major interest in such a project was the customs administration. Their concern was obviously to ensure that no duty free goods were diverted illegally to the domestic market. The strength of their concern depended on the level of duties and the tradition and incentive to smuggle. In a traditional free trade zone, many of the goods were consumer items with high duties and immediate resale value. The incentive to smuggle was high. There was, therefore, a need for strict controls to prevent smuggling. Thus, much of the older free trade zone legislation provided for strict Customs controls.

The law often provided that:

- (i) the free trade zone or bonded warehouse should be licenced by the Customs Authority;
- (ii) the licence was granted to a port authority

- or warehouse operator or municipal authority;
- (iii) the operator was subject to strict operating conditions by the Customs Authority;
  - (iv) very little could happen without a customs officer being present;
  - (v) manufacturing activity was usually prohibited; and
  - (vi) sometimes goods had to be bonded.

Warehouse operators and traders can often tolerate these restrictions because time pressures and delivery dates were not critical and competition was limited.

The modern export processing zone operates in a very different environment from the old free trade zone. The number of interest groups involved is far greater. Apart from the Customs Administration, four or five other government ministries may have an interest in or involvement in the zone. A more important consideration is that the export processing zone operates in a very competitive environment and to be successful must be "user friendly".

In the export processing zone, most of the goods are raw materials and machinery which have limited

appeal in the domestic market. This is particularly true of items like electronic components. Most bona fide investors have little interest in smuggling. They make their money from efficient production. Therefore, too many restrictions are unnecessary and could defeat the whole raison d'etre of the zone. Similarly, restrictions on domestic investors can have an adverse affect on the zone performance. In many zones domestic investors make up one third to a half of the total. In the Karachi zone, for example, domestic investors were excluded and overseas Pakastanis were not given any guarantees on the repatriation of profits or dividends during the first 6 or 7 years of the zone's operation. This discrimination against Pakastani investors (domestic and overseas) contributed to the poor performance of the zone in the period 1980/87. Bureaucratic restrictions also slowed progress in the Chitagong zone in Bangladesh in the first years of its operation. However, many of these bureaucratic restrictions were lifted subsequently and from 1985 onwards progress has been significant.

The balance between freedom and restriction/controls depends very often on the strength of the different lobbies. The main area of conflict is usually between the development/promotion authority and the customs administration. In the ideal situation,



both groups would agree on the contents of the legislation and subsequently work together in harmony to promote and develop a free zone programme. For this harmonious relationship to develop, both groups must be involved in the planning and development of the zone concept from the outset. For reasons of mistrust, ambition or simple bureaucracy, this is not always the case. The Ministry of Industry/Trade or Development may proceed with the free zone planning with little or no reference to the Customs Administration or other agencies. The free zone legislation is presented as a completed document to these groupings. In such circumstances the promoting agency will receive at best "reluctant co-operation" from the other agencies.

#### 4.3 The Content of Legislation

The content and balance in free zone legislation varies considerably from country to country. There is no standard formula. Some countries devote up to half the contents to restrictions, offences and penalties. Some acts or decrees give elaborate or substantial powers to the Customs Administration. Others barely mention them. In some legislation key issues like the power to declare an area an export

processing zone is set out by implication. The preamble may define various terms used in the document may state that a free zone is an area which is declared as such by the government or the free zone administration. An article outlining the powers of the Zone Authority may state that the Authority, among other things, has the task of evaluating sites and making recommendations to the government on areas to be declared "free zones". On the other hand, some legislation is very specific on the procedure for establishing zones. Some acts deal with employment or labour disputes, others ignore such issues.

Most of the former British colonies follow a similar pattern. The first article is the "short title" for the act - "this act may be cited as the export processing zones act of 19..". The second article deals with interpretation or the meaning of particular words. The third article often deals with the establishment of export processing zones. "The Minister (or Coucil of Ministers) may declare an area ..... to be a free zone". Other issues which may be covered in the legislation include:-

- (i) The issuing of licences or permits to investors who want to establish a business within the zone, conditions attached to such licences, and provision for the revocation of such licences.

- (ii) The control and management of export processing zones.
- (iii) The establishment of a free zone authority. Not every country or act includes such a provision e.g. Mauritius or Cyprus.
- (iv) The non-application of import/export laws and the role of the Customs Authority. Related articles will deal with the liability for duty on missing duty free goods and the retail trade and the consumption of goods within the zone.
- (v) Banking and currency legislation. Most zones permit the operation of foreign currency accounts and provide in the legislation that the traditional foreign currency and exchange control regulations will not apply within the zone.
- (vi) Expropriation of land. Some legislation gives the Zone Authority or the relevant minister power to expropriate land for free zone development.
- (vii) Progress reports by investors.
- (viii) Incentives.
- (ix) Offences and penalties.
- (x) Power to make regulations in relation to the implementation of the act.

A draft Export Processing Zones Act is included in Appendix 1.

#### 6.4 Key Legislative Issues

The export processing zone projects an image of freedom and absence of bureaucracy which is appealing to many investors. Surveys among investors have shown that what they look for in a free zone are (i) a clear picture of the government's policies and rules with regard to foreign investment in the zone; (ii) an outline of the rights and obligations of the investor which should almost have the status of a contract; (iii) a minimum of contact with government agencies - (ideally the investors would prefer to deal with just one organization); and (iv) an efficient system for the movement of goods into and out of the zone.

The government will want to be in a position to control investors whose actual performance is very much at variance with the original plans set out by the investor.

The Customs 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 above considerations can be embodied in a simple piece of legislation - the Free Zone Act. In line with the image of a free trade zone the legislation should be simple and clear. There is nothing which will deter a potential investor more than a bulky document filled with a series of free zone laws and regulations. Important issues should be stated clearly in the Act rather than by implication. The main elements of an Export Processing Zone Act are:

Purpose: The purpose of the Act is to "provide for the establishment, control and management of export processing zones and related matters". It is possible that some amendments to existing legislation may be necessary to cater for EPZ incentives and controls.

Establishment of EPZs: The Act will normally designate one minister with overall responsibility for EPZs - usually he will be the Minister for Trade or Industry. The Act will give him the power to declare specified areas or buildings as EPZs. He may be obliged to consult with other ministers or the cabinet. The minister, when declaring an area an EPZ, can attach certain conditions to the declaration e.g. that the area be fenced and/or patrolled; that suitable facilities be provided for Customs etc.

Management, Development and Control of EPZs: The Act should specify who is responsible - the Minister or a Free Zone Authority - it depends on the particular situation. The task of developing and managing the zone may be delegated to a private company. However, ultimate responsibility for control will rest with the minister directly, or through a statutory free zone authority. If a private developer is involved in managing /developing the zone, various conditions can be set out in the contract between the Ministry/Authority and developer. This contract can take the form of an actual contract or a licence or permit with conditions attached to it. The provision in the Act should give flexibility to the minister to experiment with different forms of management and control systems.

Free Zone Activities: It would be unwise for the Act to specify in any detail the types of activity which may take place in the zone. Considerable discretion should be left to the Minister or Authority. However, the Act may set out some criteria for evaluating projects e.g. 100% export. All operators within the zone should be licenced by the Minister or Free Zone Authority. Conditions can be attached to the licence e.g.

- (i) type of activity to be carried on by the firm;

(ii) minimum employment levels;

(iii) minimum value added.

Duty, Tax Exemption: This section would set out what investors are entitled to by way of exemption from duties and taxes. Without exception companies operating in a free zone are entitled to import materials and machinery free of duty.

Licences or Permits: The Act would empower the Minister or Free Zone Authority to issue a licence or permit to a free zone investor who wants to establish a business in the zone and to attach conditions to the operating licence. The Minister or Free Zone Authority would also have the power to revoke a licence under certain conditions, or vary the conditions in a licence with the consent of the licensee.

Customs Controls: This section should be kept as simple as possible. It would deal with the control and movement of goods, the powers of the Customs and set out penalties for mishandling goods.

Miscellaneous Provisions: This would cover any item not already dealt with e.g. power to make regulations for carrying out the purpose of the Act.

FREE ZONE MANAGEMENT AND OPERATION

3.1 Introduction

There are a number of factors to consider in setting out a management and organisational structure to develop an EPZ.

- (i) An EPZ means granting privileges to investors (the right to import machinery/raw materials free of duty). Only the government or a government sponsored authority can grant such concessions.
- (ii) An EPZ normally means the development of a limited geographic area (usually 40 to 100 hectares) as an industrial estate and the management of the property. This activity can be performed by the State or private sector.
- (iii) The successful development of an EPZ requires a very significant promotion effort. In most countries embarking on EPZ development, the promotion effort must (at least initially) be undertaken by the government organization involved in investment promotion.



- (iv) Most of the functions involved in the development of a zone require regular continuous contact between the management and the investor community in a business or developmental context. An organization dealing with business in this way must be able to operate in a businesslike manner. Very often it is not possible for government departments to operate in this way because of restrictive operating conditions.
- (v) The phrase "one-stop shop" is often used in relation to free zone development. This means that all the decisions in relation to an investment project should be made in one place and ideally by one agency i.e. the Zone Authority. A very good example is Sri Lanka.
- (vi) There is a need to control the movement of duty free machinery and materials to ensure that such goods are not illegally diverted on to the domestic market. Yet the controls must be such that goods can move quickly between the zone and foreign destinations.
- (vii) A number of different government departments, some with apparently conflicting attitudes and functions must work in harmony if the zone is to operate successfully. This requires willing co-operation between equal partners, e.g. Korea/Sri Lanka or an agency

with overall responsibility, or the handing over of responsibility for various activities from one agency to a Free Zone Authority (i.e. responsibility for building permits, factory inspections etc).

(viii) The private sector is taking over many traditional commercial or quasi commercial government functions including free zone development in many parts of the world.

## 5.2 Organisational Approaches

The approach to EPZ organisation differs a lot between countries. At one extreme there is what might be termed the "non-organisation or almost *laissez faire* approach" of the Mexican government. At the other extreme there is the East Asian examples (Korea, Taiwan and Sri Lanka especially) which established all powerful government controlled free zone authorities to develop and manage the zones. There are many variations in between.

Most countries in fact have formed some sort of specialized EPZ Authority to oversee (at least) and sometimes plan, manage and develop the whole EPZ programme. The designation of the Authority ranges from the traditional and most commonly used "EPZ

Authority" to "corporation" e.g. the Free Export Zone Corporation of Costa Rica; "council" e.g. the National Free Zone Council in the Dominican Republic; Directorate or Administration e.g. the Free Trade Zones Directorate or Administration in Turkey; limited company e.g. the Shannon Free Airport Development Co. Ltd.

### 5.2.1 Mexico

The Mexican "in-bond" or maquiladora development began in 1965. Under this programme the Mexican government permitted the establishment of in bond factories within 20 kilometres of the U.S./Mexican border. In the 1970's the programme was amended to allow the establishment of export manufacturing facilities anywhere in the country using duty free imported equipment and raw materials. In August 1983 the Mexican government for the first time introduced legislation dealing with the promotion and operation of maquiladora plants. Under this decree the procedure for approving applications and establishing "in-bond" facilities was simplified. The decree also provided for improvements in the co-ordination between the various agencies involved in the programme. A further decree was issued in December 1989 which superceded the 1983 decree. The

Mexican maquiladora programme succeeded in many ways despite rather than because of any Federal government initiative. The key factors in the success of the Mexican programme were (i) proximity to the United States; (ii) the very large disparity in wage rates (and labour costs) between the United States and Mexico; and (iii) the initiative of the Mexican Municipal Authorities and private sector industrial park developers. These developers saw an opportunity, took a risk, developed industrial parks with the necessary infrastructure and support services to attract U.S. (and later Far East) investors and assist them in the establishment of businesses in Mexico. The Mexican private sector went as far as to develop a shelter programme to facilitate investors reluctant to commit investment or management resources. Under the shelter programme, foreign companies provide raw materials and production technology. The management and operation of the facility is carried out by a Mexican group.

### 5.2.2 Mauritius

The Mauritian government passed an EPZ law in 1970. The law did not provide for the establishment of an EPZ Authority. Section 3 provided that "the

Minister responsible for Commerce and Industry (now the Minister for Industry and Industrial Technology) may ... declare (a) any area of land ... (b) any factory ... to be an EPZ". Section 4 provided that every EPZ should be bonded. Applications from investors for export enterprise certificates (an EPZ licence) are made to the Ministry. The application is reviewed by a committee (the Industrial Development Committee) within the Ministry who make recommendations to the Minister. Land and buildings for investors are provided by a number of organisations in Mauritius. The Development Bank of Mauritius (DBM) has provided factories since 1969. Since 1984 the Mauritius Export Development and Industrial Authority (MEDIA) has been assigned the role of erecting and managing industrial estates, as well as promoting investment. A number of investors have erected their own buildings. Sugar factories and disused cinemas have also been converted to factories for EPZ industries.

The Mauritian EPZ programme has in many ways been an outstanding success. Unemployment which reached 30% in the 1970's is almost zero and per capita income at over 2000\$ is seven times that of most African countries. The EPZ development over the last 20 years ranks alongside the tourism and sugar sectors as one of the three pillars of the Mauritian

economy. Key factors in the successful development of the sector were:-

- (i) The traditional links between Hong Kong and Mauritius, especially in the 1970's (Hong Kong was an important investor in Mauritius at that period).
- (ii) The existence of a core of business people in Mauritius with initiative and capital. (Much of the capital came from profits of the sugar industry). Today domestic owned enterprises account for 352 out of a total of 586 EPZ companies. Another 167 are joint ventures and 67 companies are foreign owned. Some of the largest groups in the island are domestically owned and controlled.
- (iii) A reasonably good infrastructure.
- (iv) A well educated bilingual (French and English) multi-cultural workforce.
- (v) Traditional links with and duty free access to the EC market, especially the U.K. and France.

The Mauritian EPZ was not a single fixed and circumscribed area because (i) there was no single area large enough; (ii) fully serviced industrial buildings were only starting in Mauritius at the time (1970); and (iii) sugar factories were permitted and encouraged to clear sites and erect

buildings and infrastructure. In addition, industrialists were allowed to establish factories anywhere in the island provided satisfactory infrastructure was available.

To cope with the EPZ development programme, the Ministry of Industry and Commerce (as it was known in 1970) was re-organised with (i) a project evaluation and formulation group to process applications quickly; (ii) a data collection group; (iii) an industrial promotion group; and (iv) a foreign trade division.

The Mauritian EPZ programme achieved success quickly. There were 66 investors employing 10,000 people in 1975, increasing to 146 enterprises and 26,000 workers in December 1983. Since then, however, growth has accelerated. At the end of December 1991 there were 586 companies employing 91,000 workers and exports exceeding 800MS annually - almost 9000\$ per worker.

Despite the very successful performance of the EPZ sector, a recent (1991) government report (Mauritius at the Crossroads - The Industrial Challenges Ahead, by the Ministry of Industry and Industrial Technology) commented that "it is common knowledge that the starting of a firm is a lengthy

process and that administrative bottlenecks and red tape continue impeding the smooth progress of industrialization. This dilution of authority, cumbersome administrative networks and fragmented legislation with ill defined responsibilities have been identified as leading to environmental degradation". Another government sponsored report (The State of the Environment in Mauritius, July 1991) points out that "after several years of intense industrialization and other economic activity, Mauritius is increasingly aware of the costs to the environment". This "degradation of the environment stems largely from haphazard development, poor planning, weak legislation and diluted authority".

An effective "one-stop shop" procedure is one solution to the administrative difficulties. The report cites as examples (i) the Greater Colombo Economic Commission, (now the Board of Investment (BOI) in Sri Lanka) where an investor can commence operations once he has received authorization or approval from the BOI. This usually take 2 to 6 weeks; (ii) the Singapore Economic Development Board which seeks to help investors; and (iii) the freedom and simplicity of the Hong Kong concept of the "one-stop shop" which has direct liaison procedures with 23 government departments and organisations and



offers an effective "after sales service".

### 5.2.3 Korea

In East Asia the free zone administration has very considerable powers within the free zone and has the task of ensuring that all other agencies of government perform effectively. In Korea the Minister for Industry and Commerce has overall responsibility for free zone development. He is advised by an Inter-Ministerial "Deliberation Committee". A number of other ministers have delegated various responsibilities to the Minister for Industry for reasons of efficiency. In charge of each free zone is a Free Export Zone Administration Office established by the Ministry and headed by a Director General. Various other administrative agencies of government have established offices in each free zone. These include: customs, port office, emigration office, labour department, police. The Director General of the Administration Office has the authority and responsibility to supervise the other administrative agencies in the Export Processing Zone. In this way the exporter is assured of an effective "one-stop shop" service. If any of the administrative agencies are slow or inefficient the EPZ

Administrative Office can, and more importantly, has the authority to act.

#### 5.2.4 Sri Lanka

In Sri Lanka the EPZ Authority, once called the Greater Colombo Economic Commission and now the Board of Investment, has very considerable powers within the Export Processing Zones. The Government there has probably gone further than any other in providing a "one-stop shop" service for free zone investors. At the project feasibility stage the Board of Investment meets the potential investor, introduces him to the various ministries/agencies and other investors. It also recommends legal accounting and engineering consultants and raw material sources. Once the project is approved by the Board of Investment, no other approvals or permits are necessary e.g. building permit from the Municipal/Local Authority, fire services, power permit, approval of the Health Ministry etc. Responsibility for monitoring discharges from factories and protecting the environment is also the function of the Board of Investment. During the establishment and operating phases, the Board of Investment provides an extensive range of support services. Visas for expatriate personnel are

recommended by the Board of Investment and issued the following day by the Department of Emigration. The Board can also provide a serviced site within the zone for the investor and advise/assist him (the investor) in sourcing whatever he needs e.g. labour, accommodation, schools for expatriate children etc.

With regard to the import and export of equipment and materials, the Board of Investment has an important role working side by side with the Customs Authority. The necessary import permits are issued by the Board of Investment (Investor's Services Department). There is a fast track procedure (24 hours) for removing goods from the port of entry to the investor's premises. Inspection and verification of cargoes take place in the factory with Board of Investment and officials responsible for checks. Approval and monitoring of local sales and subcontract activity is a Board of Investment responsibility.

The Sri Lankan programme has been very successful. Over 100,000 people are employed in EPZ factories.

### 5.2.5 The Dominican Republic

Here the EPZ Authority functions as a promotion and regulating agency with limited involvement in the operational aspects of the zones. There are 26 free zones in the Dominican Republic - 10 private sector, 14 public zones, of which 12 are operated by the State Industrial Development Corporation (CFI), 2 by the Sugar Corporation and 2 public/ private sector joint ventures. The agency responsible for the overall promotion, development and regulation of the free zone programme is the National Free Zones Council, a parastatal organisation with a Board of Directors chaired by the Ministry for Industry & Commerce. The Board includes other public sector representatives from the Ministry of Finance, Customs, Central Bank and various State investment and promotion councils. There are also two representatives each from the free zone operators group and two representatives from the free zone investors. The National Free Zones Council has a number of functions including (i) making recommendations to the government on the establishment of free zones; (ii) reviewing and approving (or rejecting) applications from investors to establish within free zones; (iii) formulating policies for the promotion and expansion of the free zone sector; and (iv) regulating and defining the

relationship between the various elements involved in the development and operation of free zones, including free zone operators, investors and the Council.

Most of the promotion and servicing of investor requirements is undertaken by the free zone operators, especially the private sector operators. A few quotations from Jose Ceron, (1) Vice-President of the privately run San Isidro illustrate the point.

"Promotion is one of our most important activities". He also stresses the importance of customer service and the zone developer provides a number of services including personnel recruitment, payroll, maintenance and customs brokerage.

The free zone programme in the Dominican Republic began in 1969 and has developed gradually since then. In 1981 there were 89 enterprises employing 21,000 people. By the end of 1992 there were 425 enterprises and 150,000 people employed.

(1) Jose M. Ceron "Free Zones: Business Opportunity and Engine of Development paper at FIAS Conference - Washington D.C. Sept 1989.

### 5.2.6 Costa Rica

The Costa Rica free zone programme began with the establishment of a Free Zone Act in 1981. However, progress in the 5 years to 1986 was slow. By December 1986 there were 11 investors employing 879 people. At present there are 10 zones in operation, most of them privately owned, with 88 investors employing over 11,000 people.

The Free Export Zone Corporation established and controlled by the government is responsible for the promotion, development and establishment of free zones. The Corporation is headed by a Board of Directors with the Minister for Trade as chairman. Other directors include representatives of the Chamber of Industries, export groups and local government representatives. The corporation can (i) review applications from investors to establish projects and free zones; (ii) establish and develop free zones itself; (iii) grant permission to private developers to build and manage free zones on sites approved by the government; (iv) supervise the operation of private free zones; and (v) co-operate with other state agencies (Customs, Health) in the development and supervision of free zone operations.

In sub-Saharan Africa a number of countries have embarked on EPZ development programmes in recent years. The Kenyan programme is one of the most advanced of the "new wave" of African zones. An Act providing for the establishment of EPZs and the Zone Authority came into operation in November 1990. The Authority is a para-statal organisation with a Board of Directors drawn from the public and private sectors. Its main functions include: (i) making recommendations to the Minister (for Finance) on EPZ sites; (ii) examining and processing licence applications from zone developers and investors and issuing relevant licences; (iii) the development and administration of zones; (iv) issuing certificates of origin; (v) acting as a "one-stop shop" for processing applications and permits not handled by the Authority; and (vi) processing building plans in consultation with the Ministry for Physical Planning. At present there is one privately owned free zone in operation in Nairobi (Sameer Industrial Park Ltd., a subsidiary of the Firestone East Africa Corporation), and two zones under construction by the Zone Authority with ADB and World Bank funding - one at Athi River near Nairobi and one in Mombasa. Three other privately owned zones are being developed. Phase of the Sameer zone is complete

with 16 enterprises and 1500 employed at present (December 1992).

### 5.3 The Role of the Private Sector

The private sector can have an involvement at three different levels in the EPZ development process. At the level of the EPZ Authority, the private sector can be represented at Board level. Board members can include (if the law so prescribes) official representatives e.g. representatives of Chambers of Commerce, Industry or Exporters Association. In addition, the relevant Minister can also (if the law so provides) appoint individuals from the private sector whose contribution would be based on their experience or background. A Minister, for example, might appoint a university professor to promote increased interaction between the Zone Authority and zone industries and the university, in order to facilitate technology transfer.

At the level of the zone development and operation, the private sector is becoming increasingly involved. In the 1970s private sector involvement in zone development was a very rare exception. In the 1990s more than half of the zones being developed at present are private sector zones. The



zone investors, of course, are exclusively private sector.

The arguments for increased private sector involvement, especially at zone operator level, are both positive and negative. The negative arguments are based on the unsatisfactory experience of some public sector free zones which cost excessive sums of money to build (e.g. Bataan) or were badly located (e.g. Zolic in Guatemala). Some public sector zones provided factory space and utilities at subsidized prices and were poorly managed because of low pay and lack of motivation by the administration. This led to much criticism that the cost of zone development often outweighs the benefits. A frequent response to such criticisms was to suggest that the private sector undertake the development. In this way the government and the taxpayer would not carry the costs and financial risks associated with development. If successful, however, the country as a whole would benefit from the increased employment and foreign exchange associated with the zone.

A more positive argument in favour of the private sector is that the private sector can perform better than the public sector in the matter of promoting, developing and operating zones. The private

developer is more highly motivated (and better rewarded financially if successful) and more in tune with the needs of investors than his government counterpart. The evidence is that many private zones in Central America and the Caribbean have outperformed public zones, even though some of the public zones have offered facilities at subsidized rates. The Itabo and San Isidro zones in the Dominican Republic, the Cartago zone in Costa Rica and the Free Port zone in the Bahamas have "consistently outperformed publicly subsidized zones in their respective countries". (1)

The World Bank is a strong advocate of private free zone development. "Private development and management of EPZs is to be encouraged and where public development is required, special arrangements ought to be put in place to ensure full cost recovery and efficient management". (11)

(1) Philip Karp, SKI International - paper on the Role of Export Processing Zones at a FIAS Conference in Washington DC - September 1989.

(11) World Bank Policy and Research Series : No. 20 - Export Processing Zones - World Bank.

The EPZ is about freedom and the absence of bureaucracy. It follows therefore that controls within a zone should be instituted only where they are absolutely necessary. Such controls include:-

- (i) Ensuring the firms engage only in activity for which they are licenced and approved.
- (ii) Approval and supervision of building plans.
- (iii) The protection of the environment against pollution.
- (iv) Ensuring that investors behave as good neighbours and adhere to regulations on noise, parking and storage of dangerous substances etc.
- (v) Preventing duty free equipment and materials entering the domestic market illegally.
- (vi) Ensuring that workers have a good working environment with good conditions of employment.
- (vii) Currency controls.

Items (i), (ii) and (iii) are physical controls covered in more detail in Chapter 7 on physical planning of EPZs. The control of investor activity is a matter for the Zone Authority and the minister in charge of the zone. Control of activity is

normally achieved through conditions attached to the investor's licence or permit. Normally the Free Zone Act would include a provision for revocation or cancellation of a licence or permit for serious breaches of the conditions attached to it.

The prevention of duty free equipment and materials entering the domestic market illegally is usually the responsibility of the Customs Authority although the Zone Authority may also be involved. The normal method is through control of stock accounts. Each investor is usually obliged to keep a record of all goods received, production schedules showing the quantity of raw materials incorporated in each product and goods sold. (The requirement to keep such accounts can be included in the law or as a condition attached to the operating licence).

Permission for domestic sales is the responsibility of the Zone Authority or the relevant government ministry. Responsibility for inspecting stock accounts may rest with the Zone Authority or the Customs.

Foreign currency controls are relaxed in most zones and under the Free Zone Act investors are usually exempted from all of the provisions of the Exchange Control Acts. Investors are normally allowed to operate foreign currency accounts with the minimum

of control or supervision. The main concern of the host government is that the domestic expenditure (wages, salaries and local purchases) are paid for with foreign currency brought in through proper channels and exchanged at the official exchange rate.

### 3.5 Zone Customs Administration

The Customs Department in many countries has a reputation (deserved or otherwise) for being corrupt and bureaucratic. In some of the less successful zones, inefficient or corrupt customs practices have been cited as important factors in the lack of success. Yet an efficient, uncorrupt Customs Administration is central to the efficient functioning of any zone. The Customs Administration is normally a very powerful and relatively independent administration within the Ministry of Finance. Policy-makers are often faced with a difficult dilemma in deciding how the responsibility for customs administration should be handled.

If the Customs Department is responsible and efficient, it (the Customs Department) can handle the customs administration of the free zone as an independent authority working in co-operation with

the Zone Authority. If for some reason the government believes that the Customs Department may not be reliable (in the sense of providing an efficient zone customs administration) the government is faced with a difficult decision. The options open to the government are: (i) give the Zone Authority a supervisory role over the Customs Administration; (ii) give the Zone Authority joint responsibility with the Department of Customs for customs administration in the zone; or (iii) establish a new division in the Dept. of Customs with specially trained personnel.

In the ideal situation where the Customs Department is responsible and efficient, it (the Customs Department) should be involved from an early stage in the planning of the zone, including the drafting of legislation and regulations. Senior personnel should visit other successful zones with other zone administrators. There has been a tendency in some cases to involve the Customs Department at a very late stage, presenting it with a fait accompli in terms of legislation. Such an approach is not designed to evoke a co-operative response from the Customs Department.

Apart from the timing of the customs involvement, proper training of personnel is essential. The

traditional attitude in a Customs Department is preventive. Some customs staff are known as preventive officers - to prevent goods on which duty is not paid or which are prohibited from entering the country. There is much emphasis on classification of goods and correct documentation in the normal work of customs.

In a free zone a different attitude is required. A customs officer must facilitate the flow of goods rather than prevent goods moving. If documentation is incorrect, goods should still move and documents be corrected later. With modern "just in time" production methods and short delivery times, such an attitude is more important now than 10 years ago. Ideally, goods should be delivered to a factory premises within 24 hours of landing. This, of course, necessitates streamlined procedures for moving goods between the port of entry/exit and factory premises within the zone. One to three days is the average time taken in most zones for movement of containers from the port of entry to the factory. There can be ten to twenty steps involved in clearing goods through the port of entry in some situations. Very often the consignment must be accompanied by a customs or zone guard. Within the zone an investor can wait 24 hours or more for a

customs inspector to arrive and supervise the unloading of the consignment.

### 5.6 The Organisation and Management of an EPZ Programme

Each organisation structure must take account of the circumstances of the country in which it operates. If the free zone is an administrative concept, the existing institutional framework may be able to manage the programme. Some minor modifications may be necessary e.g. the allocation of a co-ordination/supervisory role to the Ministry of Industry or a national industrial development authority reporting to the Ministry. Fiji, Mexico, Barbados (with its enclave sector) and Mauritius, all operate administrative type EPZ systems without a formal EPZ Authority.

Most countries using the physical EPZ concept have a formal EPZ administration, usually an EPZ Authority with a Board of Directors appointed by the Minister. The power and responsibility of the Authority depends on the perceived weaknesses in the administrative system and the importance which the government attaches to the EPZ programme.



There is widespread agreement that the private sector should be involved as much as possible in the development and management of the free zone programme. This involvement begins with representation on the Board of the Authority. Whether or not the private sector would have a majority on the Board is a matter for debate. If private sector developers are willing to build and manage EPZs, they should be encouraged and supported by the Authority - subject of course to the caveat that the developer has the experience, finance and business reputation necessary to successfully complete the project.

The government is usually the catalyst in initiating the free zone idea, undertaking feasibility studies, passing legislation and establishing the free zone authority to promote and supervise the development. In the absence of private sector interest in developing zones, the government through the Authority will have to develop and manage the zones. In addition, the government may have to persuade various agencies or departments under its control e.g. the customs, emigration, physical planning and other departments to co-operate effectively in ensuring the efficient development and operation of the zone.

In some circumstances, it may be necessary to give power or responsibility to the EPZ Authority in relation to (i) physical planning; (ii) recommending visas for appropriate foreign personnel; (iii) supervision or partial control of customs administration; and (iv) other issues e.g. labour, health, environment, which if they remained with the existing organisations could result in delays, inefficiency and unnecessary bureaucracy.

A sample organization structure is set out in Appendix 11.

EPZ PROMOTION AND INCENTIVES6.1 Introduction

Today almost every country in the world and many regions within countries are promoting and marketing themselves as suitable locations for foreign investment. This is a fairly recent phenomenon. It started out as a significant activity after the Second World War when countries and regions realised that some investments are mobile and that investors could be persuaded through promotion and marketing techniques to choose particular locations. Some countries established specialized promotion agencies staffed by public relations, marketing and other specialists to plan and recommend promotion campaigns.

In East Asia in the 1960s and 1970s the Singapore Economic Development Board and the Taiwanese Foreign Investment Board were particularly successful. In Europe the Irish and Scottish Development Agencies also developed good, high profile reputations as successful efficient organisations. Such promotion

agencies were not confined to national governments. Many States within the United States and regions within European countries also established promotion agencies.

Promotion and marketing of a country or region as an investment location involves a wide range of activities - advertising, press and public relations, brochures, catalogues, direct mail campaigns, seminars, personal selling, participation in trade fairs and lobbying, influencing and trying to persuade an investor who is about to make an investment decision by every possible legal means to choose a particular country or location. For very prestigious projects, government ministers and even the Prime Minister may become involved in the promotion effort.

This intense promotion effort by many countries and regions over the years has resulted in firms who might not otherwise have done so, to consider new investment locations. The Apple Computer company is one of many firms who reacted to such promotion efforts. In the summer of 1978 at least 12 promotion agencies visited the company seeking to persuade the management to consider new plant

locations. (1) At the time the management was not actively considering expansion plans. Yet three years later the company had new plants in Ireland and Singapore.

## 6.2 The Necessity of Promotion

Promotion of an EPZ (or any other location) is essential to attract investors for a number of reasons: (i) imperfect or no information. Many investors will not know (or at best will only have a very vague idea) about investment conditions in a particular zone. This applies in particular to countries which are a considerable distance from the main sources of outward investment. (ii) competition for investment is intense and becoming increasingly so; and (iii) investment promotion efforts can influence investment decisions.

- (i) Competitive Strategies in Global Industries  
: A View from Host Governments by Dennis J. Encarnation and Louis T. Wells Jr.

Two recent World Bank studies highlighted the importance of information. A study on (1) foreign direct investment from newly industrialized economies surveyed 54 investors and found that "geographical proximity and familiarity were the over-riding factors behind most firms decisions to invest in East Asia". The firms had good information on the work force, infrastructure and incentives in neighbouring countries but had very little information about other developing countries outside of Asia.

A study (2) "Building A Competitive Edge in Sub-Sahara African Countries" analysing foreign involvement in export manufacturing in Africa concluded that the main factors holding back further involvement were (i) ineffective implementation of export policies; (ii) poor trade infrastructure; (iii) extremely negative image of Africa as an investment location; (iv) imperfect information on the countries and potential investment partners; and (v) political instability.

(1) Foreign Direct Investment from the Newly Industrialized Economies - World Bank Industry and Energy Series Paper No. 22 Dec. 1989.

(2) Industry and Energy Series No. 57 April 1992 - World Bank.

The study went on to suggest that solving the problem of imperfect information was even more important than export policies or trade infrastructure. Improvement in infrastructure or policy implementation would not change investors perceptions of Africa. Without improved information they would not invest. Initiatives therefore which bridge the information gap and allay fears and uncertainties which investors may have are essential. The EPZ properly planned and managed can help significantly to allay fears and uncertainty as it is a well-known concept and most investors are familiar with it.

The evidence that competition for investment is increasing is widespread. The example in 1978 of 12 countries trying to persuade the Apple Corporation (then a relatively unknown entity) to invest overseas illustrates the point. In Tokyo last year, the Swedish Prime Minister led an investment delegation on a visit to the Japanese Ministry for International Trade and Industry, promoting Japanese investment in Sweden. He was followed the same day by Irish and Austrian delegations on similar missions. Most states in the United States maintain promotion offices in Tokyo. The re-orientation of economic policy in recent years towards the development of a market led export manufacturing

sector in Eastern Europe and sub-Saharan Africa is increasing further competition for investment. When it comes to export oriented investment, investors do have a choice of location.

In choosing a particular location a number of economic and non-economic factors are considered. For investors of Chinese origin, ethnic/cultural ties are rated as important. For labour intensive manufacturers, labour costs (as distinct from wage rates) and the availability of labour are critical factors. Financial incentives are also important. Very often, however, the choice between a few different locations is marginal.. In such circumstances the impact of the promotion efforts of a particular agency can be decisive. A 1989 paper on "Marketing a Country to Foreign Investors" (1) surveyed a number of different investors and found that (in 19 out of 22 export oriented investment projects) investment promotion agencies exerted an influence on the investment decision. In 11 cases the influence was "significant". In the case of domestically oriented investment, investment agencies influenced only 1 project out of 11. Financial incentives have little influence on

(1) Marketing a Country to Foreign Investors :  
Paper by Louis T. Wells Jr. and Alwin G. Wint  
- June 1989.



domestically oriented investment. The key issues were market issues like the size of the domestic market, level of protection and the degree of competition.

### 6.3 Methods of Promotion

Investment promotion is the task or art of persuading an investor to invest in a particular location. There are a number of steps in the process.

These include (i) the identification of target sectors, countries or groups at whom the promotion effort will be directed; (ii) the creation of a positive image of the zone or country; (iii) the generation of interest by or enquiries from the targetted groups or sectors; (iv) the response to enquiries and attempts to convert enquiries into project proposals for establishing investment projects in the zone; (v) evaluation and approval (or rejection) of proposals; (vi) the conversion of proposals which are approved into operating projects. (In some zones less than one third of approved projects proceed to the operating phase); and (vii) providing support where possible to projects during the establishment and operating

phases to ensure that they are successful.

The emphasis on the different promotion activities depends on the stage of development of the country or zone. Image building is something which is normally undertaken by a national agency, especially in the early stages of a country's attempts to promote investment. This is an expensive activity and probably beyond the resources of a Zone Authority. The benefits of image building promotion accrue not only to the Zone Authority but also to other economic interests in a country dealing with foreigners e.g. tourism interests.

Of course there is no point in trying to build a positive image of a country as an attractive investment location if the reality is very different. In such circumstances image building investment is simply a waste of resources. Such resources would be better employed trying to improve the country as an investment location including the streamlining of investment procedures and solving the operational difficulties of existing investors. It is extremely difficult to attract new investors if established investors are unhappy. "Customer services are of the utmost importance because of our need to satisfy our clients in order to keep them as

clients and also because our current tenants serve as our most valuable promoters". Jose M. Ceron, Vice-President of the San Isidro Zone in the Dominican Republic.

All promotion activity should fit within an overall plan which is based on the resources available to the EPZ Authority or zone operator. There is little point in devoting most of the promotion resources to an expensive advertising campaign and leaving few resources to follow up the enquiries generated by the campaign (1). The advertising, direct mail, press and public relations campaign and other methods of generating enquiries should be targetted at those groups who will show most interest in the zone and who are easiest to contact. In many free zones, domestic investors make up a large percentage of the total. Fellow countrymen overseas or other groups whose cultural or ethnic affinity with the zone are also important. Advertising in prestigious papers or journals e.g. Wall Street Journal or the Economist magazine may impress some people.

- (1) A good example of a co-ordinated promotion campaign is set out in Annex 111 of a world study on Free Trade Zones in Export Strategies : Industry series Paper No. 36.

However, advertisements/articles in the national media may be more effective and less expensive. Similarly, a realistic appraisal of the type of industry which might be attracted to the zone must also precede any promotion campaign. If most of the labour force are unskilled and working for low wages, there is little point in targetting high-tech sectors.

One zone (Karachi) in a good location with good infrastructure and an efficient administration was under-utilized. There were many domestic and ethnic investors who would have been interested if they had "full information". Unfortunately, the Zone Authority targetted its promotion efforts at Europe and the United States. There were no "good news" stories or advertising campaigns in national papers. Many local investors were unaware of the advantages of the zone.

#### 6.4 Organisation and Responsibility

The promotion and marketing of a free zone is an integral part of the overall development and management of a zone. Whoever is responsible for the success or failure of the zone must be able to control and direct the marketing and promotion

effort - even if this effort is sub-contracted out to another organisation or delegation.

In the case of a private free zone developer, the main responsibility for filling the zone and thus responsibility for marketing and promotion rests with the zone operator or investor. He suffers the consequences of failure. Similarly in a government sponsored free zone, the authority responsible for the development of the zone - the Zone Authority must have the power, responsibility, freedom and resources to market the zone properly. If there is a national investment promotion agency the Zone Authority may (and should) co-ordinate its efforts with those of the national agency.

Two of the most important issues for consideration in organising a government sponsored investment promotion programme are (i) the nature of the organisation which should undertake the promotion effort; and (ii) overseas representation.

Investment promotion requires a number of skills not normally found in the government - marketing, advertising, press and public relations and specialised industry skills. In addition, investment promotion requires interaction between government and investor in a business context. The

government is asking or trying to persuade an investor. It is different from the traditional government business relationship where the government is regulating, issuing licences and responding to various requests from the business or private sector.

The organisational options are: (i) an organisation within the traditional government structure and subject to the normal rules and procedures associated with the government service; (ii) a quasi government or para-statal organisation with a Board of Directors appointed by the government; or (iii) a private organisation undertaking the promotion effort on behalf of the government.

For investment promotion, especially in foreign markets, it is necessary to gain access to high level personnel in major private sector corporations and government departments. The personnel involved in promotion must be able to speak with authority on behalf of the promoting government - especially in relation to incentives or concessions which the investor is seeking from the government of the promoting country. Often personnel with some formal government status will have greater credibility in this respect than private sector people on contract.

On the basis of the above considerations, most countries opt for a para-statal rather than a private sector or government organisation. These considerations are supported by research by Louis T. Wells and Alvin G. Wint (1). "Our interviews with managers gave us some strong clues as to the effectiveness of government and quasi government structures. In eleven cases where investors indicated that promotional agencies had a significant influence on their investment decisions, in only one was the agency a conventional government agency : the remaining ten cases were decisions in which quasi government agencies or the one private agency were involved".

(1) Wells and Wint opus cit.

### 6.3 Cost and Financing

Investment promotion is an activity which needs to be well planned. It involves a series of related or dependant activities which follow in a logical sequence starting with

- (i) Initiatives (advertising, direct mail etc.) to generate enquiries. This is followed by
- (ii) A programme of responding to enquiries (brochures, letters, answers to questions

etc.). This in turn is followed by a more direct attempt to convert enquiries into investment proposals. (Personal visits, letters, phone calls, site visits by potential investors) and finally into successful operating projects (assisting during the establishment and operating phases).

There is little point in funding an advertising campaign if the resources are not available to follow through in responding to the enquiries generated.

Overseas representation in particular is expensive. It can cost up to 100,000\$ annually to maintain a free zone authority representative in a major centre of outward investment (United States, Europe or Hong Kong) for a year. This would represent a significant (20% to 50%) of the total EPZ promotion budget. It can take 6 to 12 months or more for a representative of a new zone authority to establish himself and start generating results. It requires a particular type of individual to succeed as an investment promotion representative. If the wrong person is appointed, it can be an expensive failure. Yet anybody who is appointed must be given time (6 to 12 months) to prove himself. Appointing



an overseas representative is therefore a high risk venture, especially if the person is inexperienced in investment promotion work.

An alternative is to appoint a person based in the centre of outward investment e.g. an economic consultant or an accountant as the EPZ representative. Again this course of action has risks associated with it, especially if the person is paid a significant retainer or representation fee. Another possible option is payment by results. The representative could be paid a fee which is in some way related to the rental income which each investment project pays over a period of time. Finding a capable representative willing to work on such a basis i.e. make a serious effort, may not always be easy - especially for a new zone.

A third option is a series of promotion missions overseas by people based at the EPZ Authority's home office. To be worthwhile, such missions need to be very well planned. A co-operative or helpful Embassy or National Investment Promotion Office is a major advantage in planning such a mission. UNIDO maintains investment promotion offices in key locations in Europe, North America and the Far East. Such offices will help new EPZs planning investment missions. Individual countries, e.g.

USAID also have assisted in the promotion of EPZs.

In summary, there is no simple answer to the question of overseas representation for any new EPZ authority. It is an area where expensive mistakes can be made and where advice and assistance from multi-lateral and bi-lateral agencies involved in industrial development and investment promotion is essential.

#### 6.6 Examples of Promotion Efforts

The Jamaican Free Zone Authority promotion efforts include promotion visits overseas by Zone Authority staff, direct mail and telemarketing. The zone also uses the services of the government's national promotion agency/trade commissioner service. Recently a one year contract was concluded with an independent marketing firm in the United States (financed by a grant). Overseas representatives have proved useful in the opinion of the Zone Authority. However, more is achieved by direct contact between the investor and the Zone Authority.

The Sri Lanka Board of Investment (BOI) - formerly the Greater Colombo Economic Commission, conducts 2-8 outbound missions a year. About 25 countries

have been covered. No full-time offices are established in target countries but BOI personnel have been stationed for 1-2 months in South Korea, Hong Kong, Australia, Japan and Singapore. The missions to South Korea brought "a large attraction of Korean investors". The BOI appointed a Chinese national to promote Sri Lanka in Hong Kong. It was not successful as Chinese investors believed their own nationals might leak out business information. The budget for advertising and promotion is about 0.6MS annually.

PHYSICAL PLANNING7.1 Introduction

In the questionnaire used in relation to this project information was sought on a number of physical planning issues including size of zones, land use, factory construction, infrastructure and cost information. However, the response to these questions was very poor and no proper analysis of the responses is possible.

From a physical development viewpoint, the planning of an export processing zone is very much like the planning of a standard industrial estate except that:

- (i) the area is normally surrounded by an 2-3 metre fence (the appearance of the fence should be esthetically pleasing with no barbed wire);
- (ii) entry and exit into the zone is limited to one or two points controlled by Customs or the EPZ Authority;
- (iii) above average provision may need to be made for administration facilities including

offices for customs administration officials and possibly other government departments;

(iv) because the focus is export the range of activities will be limited to products which have good export potential e.g. garments, leather, electronic assembly, light engineering, international office activity etc. Unlikely industry sectors include bakeries, brick manufacture, small scale and very small scale manufacture and other sectors geared primarily towards the domestic market.

The key considerations in the development of an export processing zone are the size of the site; the shape of the site; its load bearing capacity; and the location of the site in relation to physical services. Such factors have a considerable influence on the cost of development. A most important consideration of course is the potential demand for space over time, together with details of the type of demand including the type of industry who may be seeking space, the plot sizes likely to be demanded, the standard of design and layout and factory density. An estimation of the support facilities required by investors is also important. Some indication of whether investors will seek advance factories or plots on which they can build

their own factories is necessary. The question of whether or not the zone needs to cater for different types of industry and whether or not these industry sectors need to be separated from each other needs to be considered. The demand for services such as water, sewerage, electricity and telecommunications varies considerably from sector to sector. Some estimation of the requirements for these services is necessary in order to guide the physical planning process.

## 7.2 Size of Site

Table 10 over provides an analysis of site size covering 27 EPZs in 8 countries. The average site size is 66 hectares and most sites are in the range 40 to 80 hectares.

## 7.3 Site Specification

The ideal site for a free zone designed to accommodate light and medium industry should have a gentle slope for drainage. Ground bearing conditions for foundations should be reasonably strong. Good access by main road to the city port and airport is important. A reasonable water supply

TABLE 11

FREE ZONE SIZE - SAMPLE LIST

<u>Korea</u>	Masan	68 ha
	Iri	26 ha
<u>Taiwan</u>	Keoshiung	68 ha
	Nantze	98 ha
	Taichiung	26 ha
<u>Thailand</u>	Banghoo	48 ha
	Lat Krabang	36 ha
	Lamphun	32 ha
<u>India</u>	Kendla	280 ha
	Santa Cruz	40 ha
	Cochin	40 ha
	Madras	132 ha
	Falta	80 ha
	Noida	32 ha
<u>Dominican Republic</u>	Beni	99 ha
	La Romana 1	108 ha
	La Romana 11	74 ha
	La Vega	22 ha
	Puerto Plata	25 ha
	San Cristobel	68 ha
	San Isidro	84 ha
	San Pedro de Macoris	50 ha
	Santiago	42 ha
<u>Jamaica</u>	Kingston	61 ha
<u>Costa Rica</u>	Zeta	55 ha
	Alajuela	8 ha
<u>El Salvador</u>	San Bartolo	85 ha
		<u>Number</u>
	Size 0-20	1
	21-40	9
	41-80	10
	81+	7

Average size 66ha.

is necessary. About 40 thousand litres per hectare per day would be regarded as close to the minimum. If larger supplies are available e.g. 60 to 80 thousand litres per acre per day, a wider range of industry including firms with a large water demand can be accommodated on the site. The availability of a reliable electricity supply is important, as also are telecommunications facilities. A satisfactory method of disposing of storm water should be available at or close by the site. Facilities for treating industrial effluent are also necessary and a means of satisfactorily disposing of the effluent after treatment. A satisfactory method of disposing of dry waste is another consideration. A clean and attractive environment in and around the site as well as proximity to a well developed urban centre will enhance the appearance of the site and make it more attractive to a wide range of investors.

#### 7.4 Industry Sectors

Almost every industry sector is represented in some EPZ across the globe. However the garment and electronics sectors predominate in most countries. As with many aspects of EPZ development a full-scale analysis of the importance of various sectors is



impossible because of the inadequacy of the statistics available. The World Bank in Dec 1990 in a study on free zones and export strategies analysed the importance of different sectors in 25 countries across the world - including all the major EPZ centres. The results of that analysis confirmed the general impression that garment and electronics predominate. In all of the more important zones, garments and electronics combined accounted for at least 50% of total zone activity. The garment sector was well represented in 80% of the zones which were analysed. The electronic sector was represented in 72%. The next most important sector was the food beverages and tobacco group which was represented in 36% of zones. Leather including footwear were in 32% of the zones as well as jewellery.

#### 7.5 Site Design and Layout

As a general rule about one third of the site is devoted to public areas including roads, administration buildings and green areas. The remaining two thirds are then available for industrial sites. Normally about half the site is built over, thus one third of the zone when fully developed is covered with commercial/industrial

buildings. If the estate or zone is designed for terraced buildings rather than industrial plots, a higher percentage of the zone (up to 45%) may be covered over with buildings. In badly shaped sites e.g. long and narrow, roads and green areas may occupy more than one third of the site.

If the potential investors are what might be termed "prestige investors" e.g. multi-national electronics companies, a low density building layout with very high standards of landscaping and appearance is necessary. This would leave at most 25% of the site area built over. If the emphasis is on smaller garment manufacturers who are very cost conscious, a higher density building design using terraced factories may well be necessary.

#### 7.6 Roadways

Roadways must be designed in outline at the preliminary stages, as their widths will determine the site layout and (together with their carrying quality) the costs involved. Obviously the roads should be adequate for the estimated traffic flow and provide against congestion between the main highway and any point in the estate where goods or personnel will be loaded and unloaded. At the same

time they must give economy in development and not occupy an undue portion of the estate area. (About 15% would be a reasonable figure). Road design should provide for the installation and easy maintenance of the various utilities such as water, power and sewerage mains on the verges of the road. Roads should not be congested by vehicle loading or unloading or by car parking. Such activities should be either completely separated from the roadway or in clearly defined docks with limited access to the traffic carrying roads.

During the first phase of development some roadways may be paved only on part of their ultimate widths. It is necessary, however, to allow sufficient right of way from the beginning with utilities so cited that they will not be covered by road widening.

These considerations generally indicate a rectangular road pattern in so far as the shape of the site (including the desirability of using natural drainage runs) allows. Cul de sacs restrict movement and are undesirable where communications between factories and access to central services are important. They may be necessary however to open up isolated sites and have advantages in eliminating through traffic and reducing road and utility costs.

## 7.7 Utilities

In the ideal situation, where the estate is planned in relation to the total community development of a wider area, utilities such as water mains and sewerage will most economically be provided as part of or as an extension of the community system.

Water and sewerage mains, as well as electric power cables, gas pipes and steam supply pipes where these are provided should run alongside roads, preferably under grass or hard unmade ground for easy maintenance access.

### 7.7.1 Water

The water requirements for dry industry are in the order of 30,000 litres per hectare daily. Most EPZ industry is dry. Where dye houses are proposed however, a water requirement in the order of 800,000 to 1 million litres per hectare per day for dyeing may be required.

Where economically feasible, a ring system of mains should be used to (i) reduce the danger of supply interruptions; (ii) to enable sections of mains to be shut off for maintenance; and (iii) to prevent

pressure drops when users at different positions on the line are drawing their water at the same time. The need for a storage tank with up to 2 days water supply needs to be assessed to cater for interruptions and breakdowns in water supply. The water storage system does not necessarily have to be located on the estate.

### 7.7.3 Sewerage

Pumphouses and treatment plants should be planned to minimize pipe runs while avoiding nuisance and smells. The capacity required for any area is the equivalent to the water supply for that area. Usually the system will be designed to accept normal domestic sewerage. Trade effluents which do not conform to acceptable standards will have to be treated by the factory concerned before entering the system. Most EPZ factories are dry industry and consequently very few trade effluents will materialize. A BOD reduction plant involving aeration and sedimentation, followed by sludge drying in filter beds is adequate for most EPZs. In designing the sewerage plant it is necessary to provide enough space for sludge drying filter beds and some additional space for sludge storage.

It is difficult to recommend any set of discharge standards without detailed knowledge of where the treated effluent will be discharged. If the effluent is being discharged into a river it is desirable that a system of sampling and testing the river be undertaken for 12 months prior to the construction of the sewerage plant to establish (a) the existing level of contaminants in the river; (b) any corrective action that might be necessary; and (c) a reasonable standard of discharge from the proposed plant.

#### 7.7.4 Dry Waste

Most of the waste arising from EPZ activity consists of packing materials and can be easily disposed of in any municipal land fill.

#### 7.7.5 Power

It can prove expensive to bury electric cables rather than run them on overhead polls but the extra cost may well be justified by the improved appearance of the zone and the greater safety. This is particularly so in densely built estates where terraced factories are used. As a general guideline, about 1 megawatt per 10 hectares of site

area should be available. In many free zones the power supply company guarantees an uninterrupted supply, or at least high priority for zone users. This is an important attraction for investors.

#### 7.8 Advance Factories and Multi-storey Factories

Whether or not an EPZ should contain pre-built standard factories, either single storey factories or multi-storey, should be decided before planning begins. The construction of such factories may be precluded or limited in number by cost considerations. The arguments in favour of pre-built standard factories are that

- (i) It has been demonstrated that a great variety of industrial operations, particularly free zone type operations, can be carried out efficiently in non-specialized buildings.
- (ii) Advance factories can be leased, saving the industrialist capital expenditure at the development stage which makes great demands on his capital.
- (iii) Advance factories enable production to start quickly which is often a requirement for a new industrial project.
- (iv) Advance factories also avoid problems and effort for the industrialist in an area where

he has limited experience - construction activity.

- (v) Advanced factories can be planned to facilitate expansion even when this is not foreseen by the industrialist.
- (vi) Advance factories can be used to improve standards of working conditions and enhance the productivity of industry.
- (vii) They give the developer better control over the appearance, facilities and amenities in the zone.
- (viii) Rentals can be adjusted according to the purpose of the zone to encourage particular types of industrial development.

Multi-storey factories are less efficient from a production viewpoint than single storey buildings. However, in areas where land is expensive and in short supply, cost considerations may dictate the use of multi-storey buildings. However if sufficient land is available at a reasonable cost, free zone development should be based on single storey factory buildings.

#### 7.9 Estate Services

The extent to which services should be supplied by the zone developer will depend on the purpose of



the zone and the availability and quality of services from commercial firms, municipal authorities and the state. The following is a check list of the more important services which may be necessary in a zone: (i) removal and disposal of industrial waste combined with salvage; (ii) fire and police protection; (iii) canteens - most firms provide their own canteen facilities although a central canteen may be necessary to cater for smaller companies; (iv) bus terminals for commuter traffic; (v) warehouse space; (vi) health services can range from first aid stations as a minimum to fully equipped medical and dental facilities. In some zones health services are provided by individual firms. In other cases such services are provided by the Zone Authority; (vii) post office; (viii) banks; shipping and insurance agencies; (ix) repair and maintenance shop; (x) training centre; (xi) customs and administration office; (xii) recreational facility or area; (xiii) childrens' creche; (xiv) central office services, ranging from translating, typing, duplicating, printing to data processing and computer services; (xv) meeting rooms and club rooms; (xvi) advisory services and assistance in recruitment and selection, wage determination, industrial relations and welfare services.

The costs of developing land (providing drainage, roads and utilities) is high and therefore development is normally carried out in stages related to the rate of growth. The best attraction for industry is to have a successful industry already operating in a zone in a pleasant environment and supplied with all the necessary utilities and services. Therefore the first phase must be finished quickly and be reasonably complete in itself.

Grassing, tree planting and other landscaping must be commenced as soon as possible, if necessary fencing the areas involved against disturbance by building operations. It should be possible to route constructional traffic for further areas around rather than through the first area. To achieve better promotion of the estate the first phase will probably be located near the main highway. These considerations serve as a guide to the size of the first phase. This phase should not involve an area greater than will be completely developed and occupied within 2 or 3 years. This means a

realistic (or conservative) appraisal of the likely initial demand for space.. There are many examples around the world where zone developers, particularly public sector developers overestimated the demand for space during the first phase development. As a result many developers were left with expensive unused capacity for many years. Some infrastructure such as transformers and sewerage plants had such excess capacity that they were unusable. If the demand exceeds expectations the second phase of the development can always be accelerated.

#### 7.11 Control of Investor Development

To ensure an orderly development of a free zone, some controls on investor development are necessary. The intention of such controls is to ensure the investors behave as good neighbours and construct buildings which are in conformity with an overall plan for the zone.

These controls can be implemented by conditions attached to a licence or lease agreement. A suggested set of guidelines is contained in Appendix III.

COSTS AND BENEFITS OF FREE ZONES8.1 Introduction

The costs and benefits associated with EPZ development are relatively straightforward. The direct benefits are the foreign exchange earnings, employment and income generated. For a country where foreign exchange and employment opportunities are in short supply these benefits, however small, are highly valued. The secondary or indirect benefits include training and on-the-job experience, learning through imitation or association by local firms and business people.

The cost include public expenditure on zone development and subsidies or artificially low charges for services (e.g. electricity). In the studies that have been undertaken (Penang in Malaysia, Tanjung Priok in Indonesia, Masan in Korea and Bataan in the Philippines), high rates of return were found in the first three studies. The Bataan study resulted in a negative rate of return.

The reasons for the positive returns in Malaysia, Indonesia and Korea were a combination of modest development costs and a rapid build up of employment and exports to yield significant benefits within a few years. The Penang zone at Bayan Lepas is on a site of about 80 acres which cost around 5MS\$ to develop in 1971. Within 6 years in excess of 20,000 people were employed. Similarly, in Masan the site is about 80 acres. The development costs were of a similar order of magnitude. Development began in 1971 and employment exceeded 20,000 by 1975. The zone at Tanjung Priok in Jakarta is smaller (less than 20 acres). A number of multi-storey garment factories there employed 7000-8000 people in 1980 - 7 years after it was established. Bataan on the other hand was a very expensive project to develop - about 20MS\$. Employment peaked at around 20,000 in 1980.

Without detailed information it is not possible to make a good estimate of whether or not a zone is a success in cost benefit terms. As a general rule a zone which has achieved a low occupancy rate after 10 or 15 years can be classed as a failure. If development costs are exceptionally high, the zone may be considered a failure even if employment is high. Development costs can be kept within reasonable limits if the site chosen is close to existing infrastructure, housing and commercial

services.

A recent World Bank study (i) on EPZs examined 60 zones in 27 countries which were in operation for 5 years or more. The study concluded that 25 zones are "predominantly successful"; 10 are "close to this category"; 7 are "no more than partly successful"; and 18 are "clearly unsuccessful". Almost all of the successful zones are in Asia, the Dominican Republic or Jamaica. Zones in Central and South America, the East Caribbean, Africa and the Middle East were classed as "partly or unsuccessful". Mauritius, Mexico or Tunisia were not included in the analysis

## 8.2 Exports

Manufactured exports from developing countries were around 300BS in 1990. The vast majority of the firms involved in exports benefit in some way from duty free facilities - either in the form of duty drawback, duty exemption or duty free licence system, in-bond manufacturing or formal fenced in duty free zones. There is no reliable data for the breakdown of exports between the different forms of duty free

(i) Export Processing Zones - World Bank Policy and Research Series No. 20.

facilities. The World Bank estimates that about 5% of the total come from fenced in zones.

The exports per worker vary considerably from zone to zone, depending on the mix of industries in the zone. Gross output/exports per worker in the garment industry ranges from 5000\$ to 8000\$ per worker per annum. In most cases the figure is closer to 5000\$. In the electronics sector the gross output per worker can range from 25000\$ upwards. In electronic zones like those in Malaysia the gross out-exports per worker can exceed 40,000\$.

### 8.3 Value Added

The percentage value added in a zone will vary depending on the product and skills involved. In garment zones the value added percentage will be around 25%-30%. In the case of electronics, value added will be 10%-15%.

The value added within the country is a different matter. If no raw materials or services are sourced domestically, then the value added in the zone and country are the same. Sometimes however, a significant portion of raw materials can be sourced locally. This applies to cotton fabric used in the

Pakistan zone. In Sri Lanka and Mauritius 30% of the fabric and most of the packaging in the garment sector is sourced locally. In Taiwan and South Korea - both of which have a well developed industrial base, up to half of the engineering and electronic raw materials are sourced locally. In Malaysia also a small but growing percentage of materials are locally sourced.

#### 8.4 Working Conditions/Employment Effects

The overall impact of EPZ development in world terms on employment is relatively small, regardless of how a free zone is defined. The impact ranges from 0.5 million to 2.5 million. However, the impact is significant in particular locations - notably in Mauritius, the Dominican Republic, Sri Lanka and Malaysia.

A frequent criticism of free zone industry is that it exploits workers. It is true that many zones outlaw unions and ban strikes. In relative terms, the employment conditions within most zones are good - in the sense that the wages and working conditions in the zones are better than those in the surrounding area. Within zones factories are new, lighting conditions are good and canteen and medical



facilities are available. Wage levels are comparable with outside employment or better. Most of the workers in the zones (70%-80%) are women, mostly in the 16 to 25 age bracket. They often live in dormitories which can sometimes be classed as overcrowded.

A question in the survey requested information on wage levels and working conditions in zones. The response was poor. However, most of those who responded indicated that wage levels in the zone were "high" i.e. 5%-20% higher than comparable wage levels in the domestic economy.

In making such comparisons it is important to compare "like with like" i.e. wage levels in the zone garment sector should be compared with wage levels in the same sector in the domestic economy - not the average industrial wage.

### 8.5 The Status of Women

The questionnaire on EPZs contained a section on the status of women. Information was sought on zone policies for promoting the status of women, facilities for supporting women in the workplace, equal pay policies, and whether or not women occupied

senior positions with investor firms or the Zone Authority.

Only 2 zones acknowledged the existence of equal pay policies - 4 zones stated that maternity leave was provided, 2 zones provided creche facilities and 2 provided special training courses for women. These responses probably understate the number of zones providing support facilities for women. Other zones did not answer the question. No zone answered in the negative.

Four zones admitted that women occupy senior positions in zone firms and/or the Zone Authority.

#### 8.6 Backward Linkages

Except in the more advanced economies of East Asia (Taiwan, Korea and to a lesser extent Malaysia), significant backward linkages have not developed outside the garment sector. This is due mainly to the inability of the domestic industry sector to meet delivery and quality standards required by zone firms. There is evidence to suggest that in a number of cases zone firms are willing to work with local industry in developing and supplying products or services of the required standard. Part of the

reason in some cases for the inability of domestic firms to meet delivery and quality standards is the restrictions and difficult operating conditions experienced by domestic firms e.g. a domestic packaging firm may not be able to supply zone companies because it cannot source imported raw material supplies on a regular basis, due to the non-availability of foreign exchange. If backward linkages are to develop, domestic firms must operate under the same conditions as zone firms.

#### 8.7 Technology Transfer

In most free zones with the emphasis on garment manufacture, knowledge and information on production planning, organisation, use of machinery etc.. is readily transferred from zone firms to satellite companies involved in sub-contract manufacturing. Domestic partners in joint ventures also pick up information and knowledge without difficulty.

In the electronics business the transfer of product or process technology is often resisted. Electronics firms rarely opt for joint venture arrangements. Firms in EPZs may give technical assistance to local suppliers developing backward linkages. There is evidence of this happening on a significant scale in

Ireland, Korea and Malaysia and on a smaller scale in the Philippines.

The most important part of technology (or more correctly knowledge) transfer within EPZs comes through on the job training of people in zone firms. There are many examples at Shannon and elsewhere of people learning technical, export marketing and management skills on the job and later using those skills to establish new projects. Surveys in the Dominican Republic and Malaysia confirm this i.e. people employed in zone firms learning new skills and later using those skills in the domestic sector or to establish new export firms.

#### 8.8 Environmental Effects

EPZ firms rarely cause serious air or water pollution. The garment industry which dominates in most zones, produces only domestic effluent. Electronics companies and some other industries use chemicals which are harmful if not properly treated. However, most zones have suitable preventative measures. The textile sector can be a serious polluter - particularly dyeing. Leather processing is another problem sector.

Zones planning to develop background linkages in the clothing and footwear sectors i.e. developing textiles and leather industries, do need to make special arrangements to accommodate these industries. Mauritius is experiencing difficulties with its dye house sector, which is spread throughout the island.

The response to the questionnaire on environment in the questionnaire was like many other responses poor. Most respondents however, stated that few environmental problems exist. Few chemicals or hazardous materials are stored and very little industrial effluent, smoke or smells are produced. Responsibility for monitoring and controlling pollution rests in about 50% of the zones who responded with the Zone Authority. The Sri Lankan's provided the most comprehensive answer on the environmental question.

A separate department has been established to monitor the environment and pollution. Investors are given standard or tolerable limits. If they exceed the limit they have to provide an in-house treatment plant. Solid waste is brought to a common place and allowed to be taken out or incinerated. The prospective investors have to provide information about the procedure of manufacturing which will be

studied by the Environment Department and advise BOI (GCEC) investors. There are instances where projects have been rejected on environmental grounds as being unsuitable for Sri Lanka. Each zone maintains an environment laboratory. Standards are laid down by the BOI and emission, effluent and noise levels are periodically checked.

DRAFT FREE ZONES LAW

THE FREE ZONE LAW 199...

A law which provides for the establishment, development, management and control of free zones and related matters.

PART 1

Preliminary and General Provisions

Short Title

1. This law may be cited as the Free Zones Act of 199..

Interpretation

2. In this Act "Free Zone" means an area of land which is declared under Section 3 of this law to be a free zone.

"licence" means a licence granted under Section 26 of this Act.

"customs Officer" includes a member of the security forces or any person in the public service who is for the time being employed in the prevention of

smuggling or investigating an offence against the customs acts.

"Customs territory" means the customs territory of country X.

"Minister" means the Minister responsible for the development of free zones.

"Organisation" means the Free Zone Development Organisation.

- Establishment of a Free Zone
- 3.1 The Minister may by order declare that on or after a specified date, any building or area of land shall be a Free Zone for the purposes of this Act.
- 3.2 The Minister may amend the order under sub-section (1) of this section by varying the limits of the zone.
- Non-Application of import/export laws
- 4.1 The laws in force relating to the importation and exportation of goods shall not apply to goods brought directly into and out of the free zones from and to other countries or



other zones within the country.

4.2 Imported goods of any description brought into the free zone shall be exempted from import duties taxes and restrictions for as long as the goods remain in the zone provided

(i) such goods are part of the trade or business of a licenced operator and

(ii) such goods are not prohibited for reasons of public order, security, public morality, public health, animal health or plant health.

4.3 Goods exported from a free zone shall be free of all taxes and duties and restrictions except goods whose export is restricted or prohibited by law.

Trade between  
the free zones  
and the customs  
territory

5.1 Where goods which are not in transit between the zone and an entry/exit point are brought into a free zone from another part of the customs territory which is not a free zone the goods shall be deemed to have been exported.

5.2 Goods brought into the customs

territory, which are not in transit to another country shall be deemed to have been imported into the customs territory.

5.3 The Minister shall make regulations governing trade between the free zones and the customs territory.

Regulations by  
the Minister in  
relation to  
customs controls

6. The Minister (with the approval or concurrence of the Minister responsible for customs may make regulations -

(i) Adapting or modifying for the purposes of this act any of the provisions of the customs acts or any statutory instrument relating to customs made under statute.

(ii) Governing the movement of persons, vehicles and goods into and out of the free zone from and to parts of the state.

(iii) Covering the keeping storage or handling of goods in a free zone.

(iv) Covering the keeping and preserving of accounts and records in specified form in respect of goods

which are in the free zone.

- (v) Relating to the provision of security by bond or otherwise as the Department of Customs may require in respect of goods in transit to or from the free zone and entry/exit points to/from the customs territory or in transit between free zones.

PART 2

Management and Organisation

Development and  
Management of  
the free zones

7. The responsibility for the supervision, development and management of the free zones will rest with the Minister who will delegate this responsibility to a free zone organisation set up under Section 8 of this act.

Free Zones  
Organization

- 8.1 An organization known as the Free Zones Organization shall be established to develop, promote and manage the free zones. The organisation shall enjoy an independent financial and administrative status and be entitled to conduct all legal transactions and procedures.

8.2 The organization shall be a body corporate having perpetual succession and a common seal and may sue and be sued in its corporate name and may perform such other acts as bodies corporate may perform.

8.3 The organization shall have the following functions

- (i) To establish free zones
- (ii) To manage, utilize, develop and maintain free zones to serve the national economy
- (iii) Encourage and promote investment within the zones
- (iv) Receive applications from persons who want to develop and manage free zones
- (v) Make recommendations to the Minister on the designation of buildings or land at free zone
- (vi) Issue licences to persons to develop and manage free zones
- (vii) Receive applications from persons to establish business within a free zone
- (viii) Issue licences to persons to operate businesses within a

free zone

- (ix) To do all other such acts as it deems necessary for the promotion, development and management of free zones.

Board of  
Directors

9.1 The organisation shall be governed by a Board of Directors appointed by the Minister.

9.2 The Board in Section 1 above shall include representatives of relevant government agencies as well as private sector representatives.

Duties of the  
Board

10 The Board shall administer and supervise the affairs and activities of the organization including the following:-

- (i) Lay down a general policy for the organization within the framework of overall national policy
- (ii) Approve plans and programmes for the promotion, development and management of the zone
- (iii) Approve the annual budget of

- the organization
- (iv) Receive and adopt the annual accounts and annual report of the organization
  - (v) Fix the remuneration level and conditions of employment for all employees excluding the Director General
  - (vi) Appoint the Director General with the approval of the Minister
  - (vii) Approve applications from investors to establish enterprises in the free zone
  - (viii) Approve the issuing of licences
  - (ix) Approve plans of the organization to borrow money.

Period of Office 11.1 Board members shall be appointed for a period of (usually 2-3) years.

11.2 A retiring member shall be eligible for re-appointment.

Conditions of Office 12.1 The Minister may remove a member from office at any time.

12.2 A member may resign his office

by notice in writing to the Minister and the resignation shall take place on the date on which the Minister receives the notice.

12.3 Where a member has any financial interest directly or indirectly in any undertaking dealing with the organization he shall before exercising any functions as a member, declare the nature of such interest to the organization and shall comply with such directions as it may give him in regard to it.

12.4 A member shall be disqualified from holding and shall cease to hold office if he is adjudged bankrupt or makes a composition or arrangement with his creditors or is convicted of any indictable offence in relation to a company or is convicted of an offence involving fraud or dishonesty whether in connection with a company or not.

12.5 The conditions of office applicable to organization members set out in sub-paragraph 3 and 4 shall apply to

members of committees constituted under this act.

Common Seal

13.1 The common seal of the organization shall when applied to a document be tested by the signature of a board member and a member of the staff of the organization authorized by it to act in that capacity or by the signature of two members of the staff of the organization so authorized.

Contracts and  
Instruments

14 Any contract or instrument which if entered into or executed by an individual would not require to be under seal may be entered into or executed on behalf of the organization by any person generally or specially authorized by the organization for that purpose.

Delegation of  
Functions

15.1 The Board of the Organization may without prejudice to its general responsibilities under this Act perform any of its functions through or by any of the members of its staff duly authorized by the Organization in that behalf.



15.2 The Board of the Organization may delegate its functions to a committee constituted by it or to any of its members or to any member of the staff duty authorized by the Board in that behalf,

15.3 The Board may as it thinks proper from time to time constitute committees for the purpose of Section 15.2 and dissolve any such body.

15.4 Membership of a committee may include persons who are not members of the organization or its staff.

Directives to the Organization

16.1 The Minister may give the organization such general policy directives as he considers appropriate having regard to the provisions of this Act.

16.2 A directive under submission (1) shall not apply to any individual undertaking.

Grants to the Organization

17.1 In each financial year there may be paid by the Minister to the Organization such amounts as the

Minister with the consent of the  
Minister for Finance may sanction to  
enable the organization:-

- (a) to meet its administration,  
capital and general expenses  
and
- (b) to discharge the obligations or  
liabilities incurred by the  
organization under this Act.

Other Revenue            18    The organization shall have the  
revenue from:-

- (i)    rents and levies collected in  
the free zones
- (ii)   the sale of goods, services or  
property by the organization
- (iii)   trading income.

Provision of            19.1 For the purpose of providing or  
Sites and                facilitating the provision of sites or  
Services by the        premises for the establishment,  
Organization            development or maintenance of a free  
zone the Organization may

- (i)    acquire any land either  
permanently or temporarily and  
either by agreement or  
compulsorily
- (ii)   acquire (either permanently or

temporarily and either by agreement or compulsorily) any easement wayleave water-right or other right whatsoever over or in respect of any land or water.

19.2 Payment of compensation for any land acquired (whether permanently or temporarily) to the persons entitled to such compensation shall be fixed in accordance with the general practice for the payment of such compensation in the country.

Borrowing

20.1 The organization may with the consent of the Minister and with the concurrence of the Minister of Finance borrow by arrangement with bankers or otherwise such sums as it may require for the purpose of providing for current or capital expenditure.

Organizations  
power to engage  
consultants/  
advisors

21 The organization may out of money at its disposal from time to time engage such consultants or advisers as it may consider necessary for the discharge of its functions.

- Remuneration etc. of members of Board 22 The Chairman, Deputy Chairman and other Board members of the organization including the Director General shall hold office on such terms and conditions (including remuneration) as the Minister may determine.
- Staff of Organization 23.1 The organization may appoint such and so many persons to be members of the staff of the organization as it thinks proper from time to time.
- 23.2 A member of the staff of the organization shall be employed on such terms and conditions as the Board of the organization may from time to time determine.
- Disclosure of Information 24 Subject to subsection 3 a person shall not disclose any information obtained by him
- (a) while performing duties as a member of the Board organization or of any committee of the organization or as a member of the staff or as advisor or consultant to the

organization or

- (b) as a director or staff member of any body consulted in pursuance of any provision of this Act while performing duties relating to any such consultation.

24.2 A person who contravenes subsection (1) shall be guilty of an offence and shall be liable on summary conviction to a fine not exceeding

24.3 Nothing in subsection (1) shall prevent

- (a) disclosure of information in a report made by the organization or on behalf of the organization to the Minister.
- (b) disclosure of information by the organization or by a member of the organization for the purpose of a scheme of research or development or a scheme of acquisition of product or process technology.

Annual Report  
and Accounts

25.1 The organization shall submit in such form as the Minister may direct an annual report of its activities as soon as practicable after the end of the financial year to which it refers.

25.2 The accounts of the organization shall be submitted annually by the organization for audit to an auditor designated by the Minister.

PART 3

Licences and Miscellaneous Provisions

Restriction on  
carrying on  
business within  
the free zones

26.1 No person shall carry on business within a free zone unless he is the holder of a licence authorizing the carrying on of that business within the free zone.

26.2 A person who contravenes this section shall be guilty of an offence and liable to a fine not exceeding

Granting of  
Licences

27.1 The organization may in its discretion and after consultation with the Customs Authorities and Reserve Bank grant or refuse any person a

licence authorizing the carrying on of any business within a free zone.

27.2 In exercising this discretion the organization shall have regard to the extent to which the business for which the licence is sought contributes to

- (i) the growth of exports
- (ii) the growth of employment
- (iii) the development of less developed areas of the country

Applicants for  
a Licence

28.1 Any person may apply for a licence.

28.2 Every application shall be in writing addressed to the Secretary, Free Zone Organization.

28.3 The application shall be accompanied by such information as the organization may require.

Conditions  
attached to  
a Licence

29.1 The organization may attach to a licence such conditions as it thinks proper in the light of consultations with the Department of Customs and the Reserve Bank.

29.2 If a licence does not comply with a condition attached to its licence, he shall be guilty of an offence and shall be liable to a fine not exceeding

Revocation or  
variation of  
Licence

30.1 The organization may in its discretion revoke a licence if

- (i) it is satisfied that there has been a breach of a condition attached to the licence or
- (ii) the licensee is convicted of an offence against the customs laws.

30.2 Before revoking a licence, the organization shall give not less than thirty days notice of its intention to the licensee and shall consider any representations made to it by the licensee within that time.

Register of  
licences

31.1 The organization shall establish and maintain a register of licences (in this section referred to as the register) granted under section 4 of this law.



- 31.2 There shall be entered in the register in respect of each licence
- (a) the name of the person to whom the licence was granted and
  - (b) the trade, business or manufacturer to which the licence relates

Restriction on bringing consumer goods into the free zone

32.1 Goods shall not be brought into the free zones for personal use or consumption or for sale or rental therein except from another part of the country except under conditions set out in Section 38.(2) of this Act.

32.2 If goods referred to in Section 38.(1) are liable to customs or excise duty this duty shall be paid before they are brought into the free zones and shall not be entitled to a drawback allowance.

Entry to the free zone by certain public officers

33.1 Customs officers, tax officials, policemen and other officers and servants in the discharge of their official duties can at all reasonable times enter the free zones and buildings and vehicles therein.

33.2 Any person who prevents and obstructs any entry authorized by Section 39.(1) shall be guilty of an offence under this section and liable upon conviction to (penalty to be determined)

Maintenance of  
Records

- 34 Any person authorized to transact business in a free zone under a licence granted under Section shall
- (i) maintain records
    - a. in respect of any goods brought into the free zone, the date of receipt, from whom and whence received, the value and quantity and in the case of articles, materials or ingredients used for manufacture, processing or packaging, the quantity used per unit of the finished goods; and
    - b. in respect of goods sent out in the free zone particulars of disposal, including selling price and quantity sold.
  - (ii) keep available for a period of not less than three years for inspection by officers of the

Department of Customs such records and all invoices and other documents relating to such goods; and

(iii) allow officers of the Department of Customs at all reasonable times to inspect such records, invoices and other documents and to take extracts from or copies of such documents and to examine and take samples of any such goods.

Missing dutiable goods 35 If goods stored in a free zone are found to be missing without an acceptable explanation the Director of Customs may request the licensee to repay the duty on such goods at the rate in force at the time in addition to any fine or penalty which may be imposed.

Settlement of investment disputes 36.1 Investment disputes which arise in the context of this law can be settled in a manner agreed between the parties in the dispute or if there is an agreement between the country and the home country of the other party or by

such an agreement by using the Convention for the Settlement of Investment Disputes or by arbitration.

36.2 An arbitration board shall consist of two members appointed by the parties to the disputes (one appointed by each party) and a third independent person agreed jointly by the parties. In the event of the parties failing to agree on the nomination of a third member within 15 days of the nomination of the second member the matter will be referred to the Free Zone Organization who will appoint the third member.

36.3 The findings of the Arbitration Board will be binding on both parties. The Arbitration Board will decide on the costs of the arbitration and who should pay them.

Guarantee  
against

Nationalization

37.1 Projects established in the free zones shall not be nationalized.

37.2 Assets belonging to free zone investors cannot be confiscated except

by court order.

Investors

38.1 Foreign investors can hold up to 100% of the shares in any free zone enterprise.

38.2 Domestic investors can hold up to 100% of the shares in any free zone enterprise.

38.3 Foreign and domestic investors will have equal status within the free zones.

Repatriation of Profits

39 Foreign investors can repatriate profits from an enterprise without restriction provided an auditors certificate is produced certifying that the profits to be repatriated are the true profits accruing to a foreign investor as a result of a dividend being declared.

Repatriation of Capital

40.1 Foreign investors may repatriate capital without restriction provided that

(i) the capital has been brought into the country from overseas;

- (ii) the capital to be repatriated is realized from the sale of physical assets or shares; and
- (iii) the proceeds from the sale in (ii) represents the true value of the assets in question.

Size of free zone undertaking	41	Enterprises of any size may be established within a free zone.
Domestic sales	42	A free zone enterprise must export all of the output of the enterprise unless sales on the home market are specifically authorized by the Minister. The Minister will set out the terms and conditions for domestic sales.
Operation of Foreign Currency Accounts in the country.	43.1	Each free zone enterprise shall be permitted to operate a foreign currency account with a bank in the country.
	43.2	The terms and conditions under which the account shall be operated will be set out in the operating licences issued by the organization.

43.3 The Reserve Bank shall be consulted by the organization on the terms and conditions referred to in (2) above.

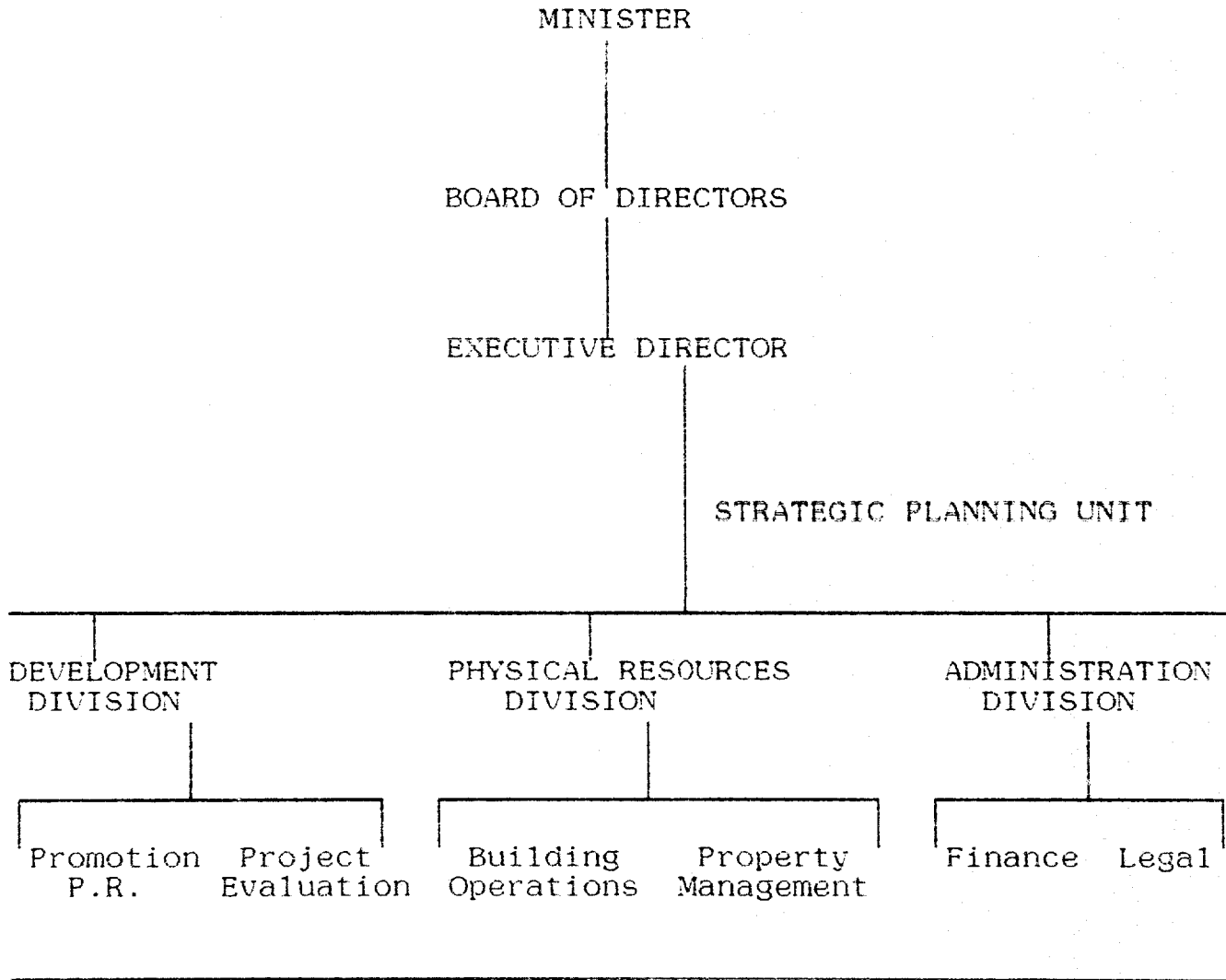
43.4 The Reserve Bank shall have the task of supervising the operation of foreign currency accounts. It shall be empowered to request any information it considers necessary from the account holder or bank.

Tax Concessions 44.1 Enterprises established within a free zone shall be granted full exemption from tax on profits for a period of X years from the date of commencement of operations in the free zone. The date of commencement of operations in the free zone shall be specified in the operating licence.

44.2 When a dividend is paid out of profits of a free zone enterprise whose profits are exempted from income and corporation profits tax to a person or corporate body within the country, such a dividend shall be free of income and other taxes in the hands of the dividend holder.

FREE ZONE ORGANIZATION

A simple organization structure headed by a Board of Directors is set out below.





FREE ZONE ORGANIZATION

DEVELOPMENT DIVISION

Activities

- (i) Promotion and publicity programme to generate investor enquiries.
- (ii) Meeting investors and "selling" the free zone location(s) to them.
- (iii) Receiving and evaluating proposals.  
Discussing/agreeing various issues with the investor - financing of project, licence/lease conditions, site/factory rental, factory construction (or modification), foreign personnel to set up/run the operation, labour requirements/training, quotas (in case of garment industry), incentives (length of tax holiday) foreign exchange account.

- (iv) Preparation of document for Board decision on project. The document is endorsed by the Chief Executive.

The Board would have power to approve projects, grant lease/licence with conditions attached, approve tax concessions and recommend the granting of visas and work permits to key personnel.

- (v) Establishment, after care, monitoring, reporting. This section would help the investor in the establishment phase - arrange visas for key personnel, advise on housing etc., help with initial labour recruitment, introduce suppliers (e.g. office equipment). It would monitor the progress of the firm in terms of employment/export growth/net foreign exchange earnings.

- (vi) Estates section takes over responsibility for property from the building section as an estate agent.

- (vii) It meets potential investor, explains conditions of the lease.

- (viii) It arranges the letting procedure (in association with the legal section) with the investor after the investor's application is approved by the Board.
- (ix) It inspects the property on a regular basis - taking action where necessary - e.g. requesting repairs from client.
- (x) Maintenance - this is an often neglected but important function. The main responsibilities involve maintenance of common areas and zone facilities - roads, lighting, landscaping, perimeter fence, water and sewerage. This work can be carried out on a contract basis by a private company or directly by the Zone Organization.

It is not an issue which involves the Board to any great extent. The important point is that the budget provision is adequate.

The Board would delegate to the Chief Executive and through him to the Deputy Director of Development the power to implement that action programme and spend money on the programme within the budget limits. The Board would receive regular reports on progress and suggestions for amendments where necessary during the year.

PHYSICAL RESOURCES DIVISION

Activities.

- (i) Physical planning and layout on an ongoing basis.
- (ii) Translation of physical/economic plans into an action programme involving land acquisition, supply of services to the site (roads, water, electricity, telecommunications) and co-ordination with various authorities.
- (iii) Action programme in the zone involving site development and factory construction (advanced and bespoke factories).
- (iv) Action programme is converted into an annual building programme.
- (v) Building programme is broken down into individual projects which involve detailed design drawings, bill of quantities, tendering procedures, award of contracts, supervision of construction, control of budget, finalization of construction and payment of final account.

## CONTROL/FINANCING OF BUILDING ACTIVITY

Each year this division would prepare:

- (i) a budget in consultation with the finance section and
- (ii) an action programme, which would be discussed/modified/approved by the Board.

After that most of the decisions would be made at Chief Executive level (or lower) - award of contracts, payments etc. It is possible that the Board may reserve some major decisions (e.g. contracts over certain size) for itself or a sub-committee of the Board.

The Board would receive regular reports on progress and approve modifications.

### FINANCE/ADMINISTRATION/LEGAL AND COMPANY SECRETARY

#### Finance

The financial section is the recorder of all financial transactions involving the zone organisation. It makes payments on invoices

approved by the other sections and sends out invoices to debtors (e.g. investors for rent from land/buildings).

It prepares the annual budget in consultation with the other divisions and sections and monitors progress through the year.

It makes routine financial payments - salaries, wages, loans and repayments etc. It manages the funds of the organization.

It ensures that proper procedures are adhered to in making payments.

#### Administration

This section provides a range of administrative services to the organization including personnel, purchasing, supplies, managing a transport fleet and other similar functions. It is not an issue which the Board or senior management will be concerned with on a daily basis.

#### Company Secretary/Legal

This section would handle:

- (i) minutes of board meetings and board documentation;

- (ii) formal communications with other organizations and departments of HMG;
- (iii) execute all legal formalities.

### STRATEGIC PLANNING

This section may not be part of the organization from the outset. It could be established after the zone is in operation for one/two years. It would be a small group reporting directly to the Chief Executive and would concentrate on strategic issues - the type of industry that should be promoted; the markets (countries) where the organization should concentrate its resources; the gaps in the industrial structure which inhibit the development of industry generally or particular sectors; the extension of free zone facilities on a wider basis through the country.

CONTROL OF INVESTOR DEVELOPMENT

Suggested guidelines:

BOUNDARY FENCE: if required shall conform to the design approved by the Zone Authority or developer (ZA).

BUILDING LINE: shall be at least m from the main road kerb. The alignment of the proposed buildings shall be set by the ZA for each plot.

BUILDING FINISHES: external finishes shall be approved by the ZA. The ZA should liaise with the airport authority in respect of finishes to ensure they do not conflict with air navigation and control equipment (in the case of zones near airports).

VEHICLE PARKING: sufficient on-site parking shall be provided within the factory plot to ensure that goods, vehicles and private cars are not parked on the main road.



VEHICLES ENTRANCES: where factories are located on opposite sides of a road, entrances shall not be placed opposite each other for ease of traffic movement.

WATER: will be available at the roadside. The investor may connect to it at his expense, but only with the specific approval and under the supervision of the Free Zone Organization. The investor should provide an approved type water-meter arrangement. (The rate for water should be set at a level which will also recover effluent treatment costs). Every investor should be advised to provide sufficient water storage to accommodate a minimum one day's supply for domestic and trade purposes. (The purpose of this is to ensure continuity of operation in the event of a water supply break). Water sensitive industries should make greater provision - subject to their own anticipated needs.

ELECTRICITY: the investor should apply to the Electricity Authority for supply. He should carefully list the types and sizes of all furnaces, welding arrangement or any process which will require an electrical supply.

STORM WATER: the investor should seek specific approval to his proposals. No delerious matter of

any kind should be allowed to enter the storm water drains.

DOMESTIC SEWAGE: should be discharged as approved by the Free Zone Organization.

INDUSTRIAL LIQUID EFFLUENT: should be treated within the confines of the leased plot. The volume and standard of effluent should need the specific approval of the ZA (or Environmental Protection Agency) to any discharge to the foul sewerage system.

Monitoring of effluent may be sought from the investor at his expense, in which case full reports should be made available to the ZA.

Any costs in relation to unapproved discharges should be at the investors' expense. All effluent treatment installations shall be subject to the approval of the ZA (or Environmental Control Agency).

The specification shall be strictly applied.

CONSTRUCTION LIMITATION: a reservation of at least 6 m wide inside the boundary fence should be kept clear of all development except landscaping, to

facilitate the laying and maintenance of future watermains, electricity and telephone cables.

CHEMICAL STORAGE: to ensure the safety of persons, all chemical storage arrangements should need the approval of the ZA and fire authorities.

BULK STORAGE OF GOODS: should be to the approval of the ZA and the fire authorities.

SOLID WASTES: should be stored and disposed of in a manner approved by the ZA.

FIRE EXITS: are necessary and agreement should be obtained from the fire authorities to the development. In certain instances emergency lighting may be necessary.

LANDSCAPING: the investor should propose to the ZA and get approval for a landscaping scheme within his site for that area outside his site fronting the road. He should carry out landscaping at his own expense.

TIME FOR APPROVAL BY THE ZA: to facilitate investors the ZA should endeavour to give a decision on building design within as short a time as possible. While the time needed for examination

will depend on the complexity of the project, in normal circumstances a decision should be given not later than one month following receipt of full information.

WELLS: industrialists should not without the approval of the Zone Authority abstract water from a well.

### ENVIRONMENT PROTECTION

Because the aim of the zone is to promote investment in export industry, the amenity value of its' surrounding area is important.

Pleasant surroundings can be created by:

- (a) Landscaping and provision of amenity areas.
- (b) Design of buildings.
- (c) Control of the storage of oil.
- (d) Control of storage and usage of chemicals.
- (e) Control of the disposal of agent chemicals.
- (f) Control of air emissions.

#### (A) Landscaping

The layout of the zone should take into account the natural contour of the ground, the retention of

existing trees and the planting of trees and shrubs suitable for the soil conditions of the area. Areas suitable for amenity landscaping development should be identified and constructed at an early stage so as to gain early maturity within the total development of the industrial free zone.

(b) Design of Buildings

The Zone Authority should retain for itself, subject to Municipal Planning and Development Regulations, the approval of design plans for developments, so as to co-ordinate the plans of the various enterprises which will occupy the zone.

(c) Storage of Oil

Storage of oil needs proper tanking with bonded structures to ensure that oil spills are kept to a minimum. This is important not alone from environmental considerations and to ensure oil does not find its way into drains and water courses, but also as a fire precaution.

(d) Control of the Storage and Usage of Chemicals

It should be noted that industry uses a vast quantity of different chemicals - a figure of up to

50,000 has been mentioned. Some are quite safe, others are toxic and dangerous and still others are fire risks.

As there is likely to be a concentration in time of such chemicals in a free zone, proper control of the storage and use of these chemicals needs to be imposed on industry. Proper precautions on the disposal of spent chemicals is also necessary.

(e) Control of Air Emissions

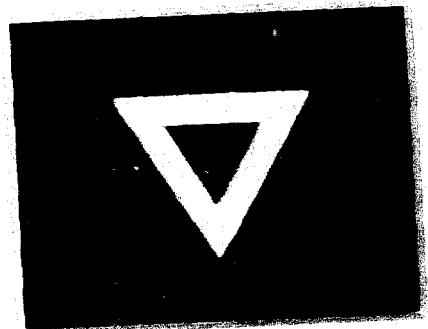
Air emissions can arise from heating boilers or from process equipment. In each case the precautions to be adopted will depend on the nature of the gases, the volume expected to be discharged and the process causing the emission. It is likely that the final emissions will be discharged following a treatment process through high chimney stacks, which will give increased dilution factors, or directly through chimney stacks depending on the chemical contents. Each investor's construction approval package should contain appropriate clauses in respect to acceptable levels and content of air emission

(f)

Expertise

As the Zone Authority will need to set environmental conditions for each individual enterprise, access to the necessary expertise is essential.

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