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Seminar on Promotion and Development
of Export Processing Zones

Xiamen, People's Republic of China
18-23 January 1989

REPORT*

* This document has not been edited.

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C O N T E N T S

	<u>Page</u>
I. Introduction	3
II. Opening of the Seminar	3
III. Participation	4
IV. Recommendations	5
V. Summary of discussions and conclusions ..	6
VI. Closure of the Seminar	14
Annex I Seminar programme	15
Annex II List of participants	17
Annex III Papers presented at the Seminar	24
Annex IV Issue papers	26

I. INTRODUCTION

Export Processing Zones (EPZs) have grown rapidly in number in the past 10 years and find themselves in strong competition. At present some 176 EPZs are in operation and 54 more in the planning stage. While some have demonstrated impressive recent success, the majority are either just starting out, lacking suitable investment climate, having difficulties in operating under complex laws and regulations, or facing problems of management, infrastructure or high costs. Recognizing that there is large scope for co-operation among EPZs, UNIDO organized a "Seminar on Promotion and Development of Export Processing Zones", financed through a Special Purpose Contribution to the UNIDO Industrial Development Fund by the Government of the People's Republic of China. The Seminar was organized in Xiamen, the People's Republic of China, from 18 to 23 January 1989, in co-operation with the Government of the Fujian Province and the Municipality of Xiamen, and provided an international forum for EPZ managers and other experts to exchange experience and information on latest techniques for the promotion and operation of EPZs.

II. OPENING OF THE SEMINAR

The Seminar was inaugurated on 18 January 1989 at the Conference Center of the Xiamen Mandarin Hotel. Mr. Chen Zu Wu, Vice-Director of the Fujian Commission of Foreign Economic Relations and Trade, opened the meeting by reading the congratulatory message of the Governor of the Fujian Province, Mr. Wang Zhao-Guo.

Mr. You Dexin, Vice-Governor of the Fujian Province, on behalf of the Government of the Fujian Province, welcomed all participants from China and abroad. He said, "this Seminar is a sign of expanding co-operation and exchange that the Fujian Province enjoys with UNIDO and friends from other countries and regions. This will promote the co-ordinated development and progress of (EPZs) in the world and will help to learn from the success of others, and to find a path with Chinese characteristics for the development of Special Economic Zones (SEZs) and Technological Development Zones (TDZs). In the last 10 years of economic reform, Fujian Province has set up the Xiamen SEZ and the Fuzhou TDZ; these have already become important windows for attracting foreign investment, importing advanced technology, introducing management experiences and expanding exports to earn foreign currency. They are playing a growing role in the economic development of the whole Province". He further stated that the convening of this Seminar co-sponsored by UNIDO and Fujian Province was an important event for the Xiamen SEZ as it provided an excellent opportunity to exchange experiences, and learn from the experience of other countries.

Speaking on behalf of the United Nations Industrial Development Organization, the Head of the Industrial Co-operation Branch expressed his gratitude to the Government of the People's Republic of China, to the Government of Fujian Province and the Municipality of Xiamen for enabling the organization of this Seminar. He stressed the excellent co-operation between UNIDO and the People's Republic of China over the years, of which this Seminar served as another example. After having explained the role UNIDO has assumed in providing technical assistance to the industrial sector of the developing countries and in promoting international industrial co-operation, he continued to define the prime objective of this Seminar as being "to provide an international forum for EPZ managers to exchange experience and information on latest techniques for promotion strategies, management and operation of EPZs, and to recommend appropriate measures to improve the management and full utilization of existing and new EPZs under the changing economic environment". He stated that "taking into consideration the growing number of EPZs in developing countries, there is a need for a more regular and co-ordinated dialogue at the international level on all aspects of EPZ development and operation".

III. PARTICIPATION

Over 80 participants from 15 countries attended the Seminar. The participants were EPZ managers, Investment Promotion Specialists, Experts from China's Special Economic Zones and Technological Development Zones, Government organizations and Research Institutes and representatives from Redma Consultants Ltd, Shannon Free Airport Development Co. Ltd, the World Export Processing Zones Association (WEPZA) and UNIDO. The list of participants is attached as Annex II.

IV. RECOMMENDATIONS

1. Co-operation among Export Processing Zones

Recognizing the benefits of close co-operation among EPZs, the Seminar recommended that mechanisms be established for closer co-operation on a continual basis. This could include activities ranging from study tours, or exchange visits to the exchange of data and relevant information and perhaps even to the encouragement of sub-contracting among zone licensees. UNIDO and WEPZA have a major role to play in the initiation and implementation of such co-operation.

The Seminar emphasized the need for a system of pooling and sharing EPZ information of common interest including data on incentives offered, trade flows, EPZ customers, potential investors or joint-venture partners. Accordingly, it recommended that:

- a) UNIDO, in co-operation with WEPZA and other relevant organizations, should explore possibilities for the establishment of mechanisms for permanent exchange of information; such information among others may include trade and investment trends, operation and management of EPZs as well as promotional activities;
- b) EPZs should explore through UNIDO and WEPZA ways and means to improve communication, co-ordination and co-operation among zones to achieve lower promotion costs.

2. Management of Export Processing Zones

The Seminar affirmed that efficient management of an EPZ is the most important element in ensuring a zone's success. It emphasized that rapid and efficient service to prospective new clients, as well as dedication to the task of satisfying the licensees were key elements of successful zones.

Noting the fact that the quality of zone management in many cases is capable of improvement, the Seminar recommended that:

- a) UNIDO should develop specialized training programmes for EPZ management staff in such fields as
 - investment promotion,
 - market research,
 - strategic planning,
 - zone operation,
 - application of management information systems;
- b) UNIDO should organize study tours for EPZ managers which would provide the opportunity for such managers to learn from the experience of others;
- c) EPZs, where improvement is needed to establish backward linkages to national supplier firms, should study the more successful cases and measures applied, particularly the experience of EPZs having become a successful instrument of broader regional development.

3. Promotion of Export Processing Zones

The Seminar noted that increasing competition among EPZs and other industrial promoters to attract large international manufacturing firms had reduced the effectiveness of traditional promotion methods. Therefore, a change of promotion strategies was urgent to keep promotion costs on bounds; the market had to be broadened to include small and medium manufacturers, and more efforts had to be placed on product research to assess an EPZ's comparative advantage more accurately so that promotion expenditures could be directed more effectively. In this context, the Seminar recommended that:

- a) EPZs should target their promotional efforts more towards the estimated 30,000 manufacturing small- and medium-scale firms, rather than spend all funds on the 2,000-3,000 large multinational companies;
- b) EPZs should use product research to narrow the scope of industries targeted for promotion to those where they have a significant comparative advantage; EPZs should find their niche in the global manufacturing system through research and then spend remaining funds in well-directed promotion towards industries making those products where the zone has an advantage;
- c) UNIDO should assist in carrying out specialized studies and research aimed at
 - monitoring and assessing trends in key international and regional markets; and
 - analysing industrial sub-sectors and product groups as relevant for individual EPZs;In this context, a stronger focus on the increasingly important small and medium-sized investors was recommended.
- d) UNIDO should provide technical assistance in co-operation with pertinent national agencies in investigating the potential for and the measures of upgrading labour-intensive EPZs towards production involving higher technologies and subsequently should assist in the establishment of preconditions for such technological upgrading.

V. SUMMARY OF DISCUSSIONS AND CONCLUSIONS

EPZ managers from 12 countries presented papers on their zones, covering zone history, types of industries represented in the zone, incentives and services provided by the zone to investors, linkages to the local industry, management organization and promotion strategy of the zone. Of particular interest to the audience was the success, constraints, shortcomings and failures which had been experienced during the setting up and development of the various zones. Each presentation was followed by questions, comments and discussions.

A number of papers on various topics related to SEZs in China were presented by Chinese participants including two key papers on "Investment Environment, Policy Characteristics and their Trend of Development in the Xiamen SEZ" by Mr. Li Qing and on "Objective Model of China's SEZ in the New Development Stage" by Mr. Su Yanhan. A list of papers is included as Annex III.

Four issue papers on laws and regulations, management, marketing of EPZs and their future role in a changing international environment were prepared and presented by three EPZ experts and the UNIDO secretariat, and gave rise to active discussions. These issue papers are reproduced in this report as Annex IV; a summary of their presentation and the following discussions and conclusions is given in this chapter.

1. Current and prospective trends in international investment flows

At present the level, patterns and determinants of international investment are undergoing drastic and rapid changes. The share of total foreign direct investment (FDI) going to developing countries has in recent years decreased considerably: in 1986 they accounted for only 17 per cent of total FDI outflows from developed market economy countries. At the same time, the main areas of investment have been subject to change. Due to a number of factors, inter alia, the introduction of microelectronic technologies in the North and consequent reduction of labour costs in total production cost, cheap labour has partly lost its significance as a factor inducing foreign investment. Cheap labour continues to be an important factor, yet with foreign investment shifting gradually towards higher technology sectors, additional locational assets come into play. These include above all an attractive domestic market (making investors less dependent on exports alone) the availability of a comprehensive industrial support network and of crucial industrial services. In overall terms, foreign investors have become more demanding.

EPZs have grown rapidly in number and find themselves in strong competition with each other. There is a need for existing EPZs to be flexible and adapt to the emerging trends in the international investment system by widening and deepening the range of services provided. The viability of EPZs can be increased further by adopting more flexible approaches such as allowing also domestic investors into the zone and permitting at least limited sales to the domestic market.

In this overall development context of the late 1980s innovative concepts are called for with a view to making EPZs meet the challenges they are now facing. At the same time, it is of key importance to recognize the role of EPZs as a tool of industrial development. Unless they are brought in line with a country's overall industrial development strategy and policies they will remain unable to generate broad economic spread effects and linkages. The country experiences presented at the Seminar provided ample evidence that a successful EPZ is crucially dependent upon a favourable economic and business environment in its host country. EPZs have flourished where the national economy has envisaged the zone as a "window" through which investment is drawn into the country rather than as an island of economic activity opposed to the general conditions prevailing in the host country.

EPZs - if properly integrated into a country's overall industrial strategy and if efficiently managed - can indeed assume a major impact on a national economy. They can contribute substantially to overall industrial employment (e.g. Malaysia, Sri Lanka), create additional backward linkages with the domestic economy (e.g. Republic of Korea, Ireland) and introduce new and advanced technology into an economy (e.g. China).

In the discussion following the UNIDO presentation it was emphasized that more specific information on changing trends and determinants of investment flows was indeed very important for EPZ managers. In particular, the need was stressed to identify target areas for investment promotion efforts which was impossible without better knowledge of the behaviour of different groups of investors in different branches of industry.

Chinese participants stressed the fact that the main objectives of China's SEZs and TDZs are to expand export and increase foreign exchange earnings, and at the same time to serve as "windows" in attracting foreign investment, introducing technology and management experiences in order to accelerate China's economic development. A small proportion of products manufactured by enterprises with foreign participation in Chinese SEZs and TDZs are allowed to enter the domestic market.

In the discussions on the issue paper presented by UNIDO as well as on the two key papers presented by Mr. Li Qing and Mr. Su Yanhan, the participants agreed that due consideration should be given to the capability, character and actual operation of the individual enterprises in EPZs. Consequently, EPZs not only have to seek actively to attract foreign investors, they must also select individual projects carefully and strictly. Up to a certain point, the number and performance of projects in an EPZ will affect its dynamism and the attainment of its anticipated objectives.

Several participants supported in general the view that FDI flows to developing countries have been declining in relative terms and that they have recently tended to move away from very simple labour-intensive production towards more sophisticated technologies. However, this should not be interpreted too pessimistically. First, there were exceptions to the general curtailment of investment flows to developing countries, particularly in South-East Asia, where there has been a gradual increase of investment flows from Hong Kong, the Province of Taiwan, Japan, the Republic of Korea and Singapore, into China, Indonesia, Malaysia, the Philippines and Thailand, in addition to investment flowing into the region from the United States and other developed countries. Second, though losing in relative significance, low labour costs continued to be an important investment incentive and labour-intensive projects continued to be suitable for many EPZs, at least in the initial phases of their operation.

2. Export Processing Zone laws and regulations

The Meeting exchanged views on laws and regulations, applied in various countries and EPZs. The participants underlined that generally the investors were looking for the following factors in an EPZ:

- a clear picture of the government's policies and rules with regard to foreign investment in the zone;
- an outline of the rights and obligations of the investor which should almost have the status of a contract;
- a minimum of contacts with government agencies, ideally reducing the investors' contacts to just one organization of the zone.

The participants agreed with the issue paper on laws and regulations which emphasized that the legislation should be simple and clear. A bulky document filled with a series of EPZ laws and regulations will definitely deter a potential investor.

It was noted that normally the EPZ act will designate one minister with overall responsibility for EPZs, usually the Minister for Trade and Industry. Although the task of developing and managing the zone may be delegated to a private company, the ultimate responsibility for control will rest with the minister directly or with a statutory EPZ authority.

The provisions in the act should give flexibility to the minister to experiment within different forms of management and control systems. It would be unwise for the act to specify in any detail the types of activity which may take place in the zone. However, the act may set out some criteria for evaluating projects and still leave considerable discretion to the minister.

Regarding customs procedures and practices, it was noted that the Customs Authorities were usually given fairly substantial powers to inspect goods and documentation, hold up shipments and search premises in and around the EPZ. However, close co-operation and understanding between the Customs Authorities, the Zone Authority and incoming firms was essential to enable a quick and effective clearance process. Ideally the Customs Authorities should be involved in the planning and development of the zone from the beginning. There should be a senior customs official with powers of decision stationed in the Zone. One of the tasks would be to assist firms to make, within the law, full use of the advantages of the EPZ by helping them to understand and operate the procedures and advising them on problems as they arise.

In some cases the Zone Authority may accept applications from individual firms for permission to sell on the home market. Each application should, however, be examined on its merits. Firms selling on the home market should have to pay duty on the imported raw material content of the product. Goods manufactured in EPZs can usually benefit from tariff preferences and other trading advantages arising from trade agreements in the same way as goods manufactured in the rest of the country, provided origin rules and other conditions of the trade agreement are fulfilled.

In relation to the experience of their EPZs, the participants noted that the regulations and procedures regarding conditions, licences, customs procedures, etc., varied considerably from one country to another. However, participants agreed that legislation should be as broad as possible, not too specific on details, and reasonably permanent since governments are reluctant to make frequent changes. It was also stressed that irrespective of different regulations and procedures in various EPZs, prompt decision taking was a crucial determinant for all successful EPZs in order to attract investors who are generally looking into a variety of locations at the same time.

The meeting affirmed that laws and regulations governing the management and operation of an EPZ should be formulated in a way that they are clear and understandable to the investor; excessive documentation covering procedures must be avoided, but at the same time the interests of the state and the customs authorities is to be safeguarded. The meeting recommended that, where investment is perceived to be impeded by a bureaucratic system, EPZs concerned could look at some successfully operating models in use.

3. Export Processing Zone management

The Seminar underlined the importance of efficient management and pointed out that rapid and efficient service to prospective new clients, as well as ensuring satisfaction of existing licences are hallmarks of successful zones. In the discussions two features of zone management received the most attention. One is the need to develop effective and useful strategic plans for the operation of the zone, which fit into the national economic and industrial development policies of the country. Since these policies do not remain static, such plans require continual reassessment and readjustment. This was especially evident in the discussion on the evolution of SEZs in China, but it appears of equal significance in many other countries and areas. The other critical element in zone management which received extensive attention is the issue of promotion and marketing. No zone can be successful unless it can attract clients. The task of attracting new clients from a large potential base (if considering only small and medium-sized enterprises, the figure of 80,000 companies was quoted) requires substantial human and financial resources often much in excess of existing resources now dedicated to this task.

The Seminar identified three key words to describe ways in which these major needs could be addressed: training, co-operation and research; a number of recommendations were accordingly adopted in these areas. With regard to research most of the participants expressed concern about the inadequate flow of information, particularly:

- there was a great need for specialized studies of developed countries, which were either product or client-oriented, but which would provide EPZs with specific data permitting them to promote their zone directly to specific industries;
- an evident need existed for research studies into the potential for and the means of moving labour-intensive EPZs toward production involving increasingly higher technologies;

Before listening to the experiences of the respective EPZ managers, an issue paper on the subject of EPZ management was presented which highlighted the following. The services offered by EPZs to their clients could theoretically range from a leasing facility for manufacturing space outside of a customs area to a full range of shared facilities and services to each of the client companies involved in the EPZ. By first identifying these services and the constraints involved, it is possible to define the organization and subsequently the human and financial resources needed to manage the zone.

Management must be provided first for the operation and maintenance of the common facilities shared by all the clients within the EPZ (such as roads, exterior lighting, fire services, marketing and promotion of the zone and security of the zone itself), and secondly for the provision of specialized services for the clients, either on a fee-for-service basis, or as one component of the facilities offered to client organizations who are in the Zone (e.g. banking services, cafeteria facilities, printing and reproduction

facilities, a one-window access service for the clients in the Zone to the services of local and national governments, workers' medical facilities and employee transportation services). Some of these services are provided directly by the staff of the zone itself, for others specialists are contracted from other agencies.

The participants felt that it was most useful to have the one-window access service to local and/or national governments as an integral part of the marketing and promotion branch, particularly during the introductory phase of the negotiations with the client, so that most use will be made of this service. An excellent working relationship between the security unit of the EPZ and the national customs department was deemed important to the smooth and trouble-free operation of the zone. Here again it was essential for the senior official responsible for customs service to the zone, to work in close proximity to and in harmony with the zone management. Therefore, great importance had to be placed on an organizational design which includes several contracted services linked as closely as possible to the primary organization of the zone itself.

It was pointed out that the EPZ manager should develop a full range of operational procedures and forms, which are clear and easy to follow and which are required for identification of prospective clients; reporting on the status of negotiations with clients; leasing the industrial space; billing and collecting rent or lease payments; paying expenditures (taxes, insurance, payroll, maintenance, repairs, equipment, service contracts, etc.); reporting to management; inventory control reports (if undertaken by the zone); preparing and updating of zone regulations.

Regarding administrative routines, it was noted that an effective and yet rapid system of approvals and requests for information was an essential requirement for the zone, as it demonstrates to the new investor the efficiency of the administration with which he will be expected to work. This can only be achieved if the zone management has the required authority level to give approvals on its own without reference to other agencies, and if all information is readily available with the management itself. Since neither case is always possible, the EPZ manager should strive to limit the number of agencies involved in either providing information or giving approval.

The zone manager must recognize that his primary task is to ensure that the client company is satisfied with his involvement in the zone. The client's operation must be profitable, and the relationship of the client management with local employees and zone management harmonious and rewarding. For the zone manager, this means that he must continually remind himself that perhaps his primary concern is maintaining the economic well-being of his client within the limitations of the financial and human resources available to him. Often, this can best be accomplished by the provision of support services designed to be of direct benefit to the client. Generally determinants for a client company to locate are:

- customs and clearing house services,
- an effective security system for the zone,
- specialized maintenance and upkeep services,

- the banking services to the client companies be located on the site of the zone itself,
- trade and export promotion services,
- other general services often provided, e.g. communications, computer services, reproduction and printing services, library, etc.

The Seminar noted that the zone management should adopt a policy of development and management which ensures viability over the long term. This would require the development of procedures and terms of administration which ensure not only that the zone itself operates successfully under the necessary financial restrictions imposed on it by the national authority, but that the services which it offers to its clients and the rates charged for those services are such that the clients themselves find the utilization of the zone to be a profitable venture. The financial viability of the client is as important to the zone manager as the financial integrity of the zone itself.

Underlining the significance of choosing and supporting the correct applicants for the zone, some participants pointed out that it was preferable not to encourage the marginal producer in the first place. If such firms become unprofitable quickly, they will cease their activities and leave. The zone management then has the difficult task of replacing them, while explaining to future clients why such an establishment proved to be unprofitable.

The zone management, not only in its approach to the prospective new client, but also in its day-to-day dealing with client organizations in the zone will find that an understanding of the decision making process of the client organization is most helpful in its relationships with the clients and in reacting in time to crises or opportunities. If, for example, the zone manager is dealing with an entrepreneurial firm in his zone, the local manager of the company will generally have the authority to make significant decisions without reference to the chief executive in some distant location. In formalized corporation with separate department heads concerned with production, marketing and finance on a global basis, the zone manager will find that decisions will require the approval and support of a group of senior executives, usually taking much more time.

4. Promotion and marketing of an Export Processing Zone

The Seminar agreed that marketing must start from a good base of arguable advantages in order to find and convince potential clients to create new businesses in a particular EPZ. The task of attracting clients depends on the type and scope of services provided and the effective promotion and marketing of such services.

All of the successful EPZs have worked out systems of management to cope with the problems their country may present with respect to location, transport, bureaucracy, labour, and training. An example was the early creation of "One-Stop Shopping" in a number of Asian EPZs whose clients faced unusual problems of dealing with many government departments to get operating permits or initiate public services.

The Nogales (Mexico) shelter plan was pointed out as a more recent example of comprehensive services being provided to reduce risk and to help the potential client find out whether the EPZ and the country in which it resides will be suitable as a manufacturing location before he commits himself completely to a new factory. It is a system of providing factory space, workers, personnel administration, and customs assistance to a client for an hourly fee based on the number of workers provided, but leaving to the client all responsibility for the manufacturing process, production rate, and product quality.

The Seminar stressed that most EPZs kept on marketing to the 2,000-3,000 successful large firms and ignore the more difficult task of selling to the 80,000 smaller manufacturing companies now active in the major advanced nations. Many of these companies are suppliers to larger concerns which would benefit by being able to "cluster" around an offshore location of the larger companies in order to serve them quickly and respond to changes in markets more efficiently. Such clustering companies are found in the automobile, aircraft, and electronics sectors; often joint ventures with local companies are possible in order to attain access to local markets. The EPZ is a logical centre around which to cluster industries since it provides the services the smaller ones need to be successful. The task of attracting new clients from the large potential of small and medium-sized industries requires, however, substantial financial and human resources often much in excess of the existing resources of most EPZs.

It was felt that a well-executed marketing programme could combine advertising in trade publications with direct contact programmes to reach potential clients. However, with the current competition even well-conceived programmes can give only marginal results. The reasons are that the larger companies are already over-saturated with promotional information, the smaller companies are still suspicious of the idea of offshore plants, and the overwhelming number of cities, states, and countries, including EPZs, are promoting themselves with heavy budgets. Therefore, new and innovative promotion methods have to be introduced.

Preparing the services an EPZ offers to meet the needs of potential clients is part of the strategy of promotion. Deciding on probable clients can be done by researching the products flowing to external markets and measuring the competitiveness of an EPZ to produce those products against the competition, present and potential. Once such competitive products are identified, it is relatively easy to find the companies producing them. The Seminar therefore concluded that EPZs should carry out this type of research using international data on trade, wages and freight costs from competing EPZs to target markets. The research results point the direction of future promotion advantage in labour and freight by convincing the companies of the truth about costs.

It was generally recognized that the future for successful EPZ promotion lay in research and specialization. It was emphasized that instead of spending money to advertise in a general publication, the budget should be spent on technical and business publications in the fields of those products where the advantage lies.

During the past decade EPZs have benefited from communication with each other through workshops, seminars and conferences co-sponsored by WEPZA and UNIDO. Topics have ranged from basic information exchange to management training.

The Seminar felt that this level of co-operation was insufficient to cope with the increasing problems and opportunities facing the rapidly growing number of EPZs. The rising costs of promotion, the need to achieve success in attracting small and medium industry, and the opportunities offered by rapidly-expanding global manufacturing networks provided new incentives for EPZs to communicate and co-operate more closely.

The participants recognized the value of co-operation, for example, in

- improving communications between EPZ clients and their home offices, suppliers, and customers,
- exchanging information about purchasing and subcontracting opportunities among EPZ clients,
- taking advantage of the creation of a network of EPZs to achieve commercial gains for EPZs and their clients in transport and trading efficiencies,
- improving information available to EPZs and their clients and potential clients through data transmission and research on markets and companies.

The Seminar therefore agreed that EPZs should explore through UNIDO and WEPZA ways and means to establish mechanisms to improve co-operation and communication among zones to achieve lower promotion costs per unit of value exported and per job created.

VI. CLOSURE OF THE SEMINAR

After the adoption of the conclusions and recommendations, the Seminar Chairman of the session, Mr. Chen Zuwu, thanked the participants for their active and enthusiastic contributions to the discussions. In his concluding remarks, the Head of the Industrial Co-operation Branch of UNIDO expressed his appreciation to the Government of the Fujian Province and the Municipality of Xiamen for having provided excellent support in the organization of the Meeting, as well as to the participants for their valuable contributions.

SEMINAR PROGRAMME

TUESDAY, 17 JANUARY

- Arrival and registration of participants

WEDNESDAY, 18 JANUARY

09.00 - 09.30 Opening ceremony

- Address by Mr. You Dexin, Vice Governor, Provincial Government of Fujian
- Address by Mr. M. Janjic, Head, Industrial Co-operation Branch, UNIDO
- Address by Mr. Jiang Ping, Deputy Mayor, Municipal Government of Xiamen

09.40 - 10.30 Session 1

- "Export Processing Zones - Challenges and Opportunities in a Changing International Environment" by Mr. W. Luetkenhorst, Industrial Development Officer, UNIDO
- Comments by participants, and discussions

11.00 - 12.30 Session 2

- "The Investment Environment, Policy Characteristics and their Trend of Development in the Xiamen SEZ" by Mr. Li Qing
- "The Objective Model of China's SEZ in the new Development Stage" by Mr. Su Yanhan

14.00 - 15.30 Session 3

- "Export Processing Zone Laws and Regulations" by Mr. A. O'Keeffe, Shannon Free Airport Development Co. Ltd, Ireland
- Discussions on EPZ laws and regulations

16.00 - 17.30 Session 4

- Discussions continued on subjects covered by sessions 1, 2 and 3

THURSDAY, 19 JANUARY

09.00 - 10.30 Session 5

- "Export Processing Zone Management" by Mr. K. O. Hillyer, President, Redma Consultants Ltd
- Discussions on EPZ management

11.00 - 12.30 Session 6

- "Marketing and Promotion Strategies for EPZs" by Mr. R. Bolin, Director, World Export Processing Zones Association, USA

14.00 - 15.30 Session 7 - Presentation by EPZ managers:
"The Shannon Experience" by Mr. O'Keeffe.
Bangladesh - India - Republic of Korea -
Mexico
- Discussion on the main issues raised in the
presentations

16.00 - 17.30 Session 8 - Presentation by EPZ managers:
Malaysia - Pakistan - Panama - Philippines
- Discussions

FRIDAY, 20 JANUARY

09.00 - 10.30 Session 9 - Presentation by EPZ managers:
Sri Lanka - Thailand - Yugoslavia
- Discussions

11.00 - 12.30 Session 10 - Presentation on Special Economic Zones by
Chinese participants
Mr. Wu, Xiamen Economic Information Centre
and Mr. Li, Fujian Economic Research Centre

14.00 - 15.30 Session 11 - Presentations by an investor in Special
Economic Zones in China

16.00 - 17.30 Session 12 - Discussion on issues presented in sessions
10 and 11

SATURDAY, 21 JANUARY - Visit to the Special Economic Zone of Xiamen

SUNDAY, 22 JANUARY

09.00 - 12.00 Session 13 - Presentation on Chinese Economic and
Technological Development Zones in China

MONDAY, 23 JANUARY

09.00 - 10.30 - Review of the Seminar topics - conclusions
and recommendations

10.30 - 11.00 - Closing session

Rest of the day - Individual consultations between participants

TUESDAY, 24 JANUARY - Departure of participants

LIST OF PARTICIPANTS

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PAPERS PRESENTED AT THE SEMINAR

A. Issue papers (reproduced as Annex IV)

"Export Processing Zones - Challenges and Opportunities in a Changing International Environment"

"Export Processing Zones - Laws and Regulations"

"Export Processing Zone Management"

"Marketing an Export Processing Zone"

B. Papers presented by participants

BANGLADESH "Export Processing Zone Operations in Bangladesh" - Mr. Abu Saud Abdun Nur, Member (Investment Promotion), Bangladesh Export Processing Zones Authority (BEPZA)

CHINA, PEOPLE'S REPUBLIC OF "The Investment Environment, Policy Characteristics and their Trend of Development in the Xiamen SEZ" - Mr. Li Qing, Deputy Director/Economist, Policy-Research Office of Xiamen Municipal Committee of the C.C.P.

"The Objective Model of China's SEZ in the new Development Stage" - Mr. Su Yanhan, Associate Professor, Academy of Social Science, Fujian Province

INDIA "Falta Export Processing Zone" - Mr. C. R. Das, FEPZ

IRELAND "The Export Processing Zone - an Economic Stimulant to Peripheral Regional Development: The Shannon Experience" - Mr. A. O'Keeffe, International Services Manager, Shannon Free Airport Development Co. Ltd.

KOREA, REPUBLIC OF "The Korean Export Processing Zones - Policy and Reflections" - Mr. T. H. Woo, Ministry of Trade and Industry

MALAYSIA "The Free Trade Zones in Seberang Perai" - Mr. Tajudin Bin Baharom, Ministry of Trade and Industry

MEXICO "The Maquiladora Export Industry: Its Benefits for Mexico in Historical Perspective" - Mr. S. Bermudez, Grupo Bermudez

PAKISTAN "Karachi Export Processing Zone" - Mr. A. Taqvi, EPZ Authority

PANAMA "Colon Free Zone" - Mr. D. M. Harrington, Instituto Panameno de Comercio Exterior (IPCE)

PHILIPPINES "The Baguio City Export Processing Zone" - Mr. R. R. Agustin, BCEPZ

- SRI LANKA "Export Processing Zones - Sri Lanka" -
Mr. K. M. A. G. Silva, Greater Colombo Economic
Commission
- THAILAND "Export Processing Zones in Thailand" -
Mr. A. Chavanich, Industrial Estate Authority of
Thailand
- YUGOSLAVIA "Industrial Free Trade Zone Kardeljevo" -
Mr. Z. Medredovic, Ekonomski Zavod

C. Papers presented by Chinese participants*

"Building the Xiamen Special Economic Zone with the Characteristics of a Free Port - Analysis of the Plan and Mode for the Development of Xiamen Special Economic Zone" - Mr. Wu Yongchun, Economic Information Centre of Xiamen City

"China's Special Economic Zone - Facing a New Era" - Mr. Li Xiaoming, Fujian Economic Research Centre

"The Development and Experience on Xiamen Overseas Electronic Enterprise Ltd" - Mr. Liu Yiping, Xiamen Overseas Electronic Enterprise Ltd

"The Promoting Role of Special Economic Zones and Economic and Technological Zones for the Development of the Domestic Economy" - Mr. Lin Pei Qiang, Office of the State Council of Special Economic Zones

"The Development Goal of Shenzhen Special Economic Zone" - Mr. Zhou Baohong, Guangzhou Foreign Economic Relations and Trade Commission

"The Role, Characteristics and Limit of Shantou Special Economic Zone" - Mr. Zheng Mao Sheng, Administration of Shantou Special Economic Zones, Guangdong Province

"The Development Goal and Major Measures of the Special Economic and Technological Development Zone" - Mr. Zhang Jun, Tianjing Special Economic and Technological Development Zone

"The Development, Present Situation and Typical Characteristics of Dalian Special Economic and Technological Development Zone" - Mr. Liu Taiming, Dalian People's Municipal Government

"The Trend of Hainan Economic Development" - Mr. Yuan Pu, Hainan Economic Co-operation Bureau

"Policy and Measures for the Management of Entries and Exits of Goods from Special Economic Zones" - Mr. Qin Huizhong, Xiamen General Customs Office

"The Position and Role of Foreign Invested Companies in Fujian Economic Development" - Mr. Chen Zuwu, Foreign Economic Relations and Trade Commission

* Not available at UNIDO secretariat.

EXPORT PROCESSING ZONES - CHALLENGES AND OPPORTUNITIES
IN A CHANGING INTERNATIONAL ENVIRONMENT

presented by

Regional and Country Studies Branch
of UNIDO

Introduction

The present paper addresses a wide and fairly general subject. It attempts to provide a bird's eye view on the subject of the seminar, viz. the role of export processing zones (EPZs) and special economic zones (SEZs) in industrial development. Accordingly, the paper - apart from some illustrative references - does not deal with any specific EPZ but looks upon their performance in a comparative manner by asking: What kind of lessons does past experience with EPZs teach us and which are the key issues for the future? In doing so, some emphasis is being put on the international dimension, i.e. on current trends in the global economy and on how they may affect existing and/or planned EPZs. While the micro-perspective of efficiently managing and promoting individual EPZs will prevail during the seminar, it might be appropriate to draw the attention also to some general lines of development which will greatly influence the role that EPZs will be able to play now and in the near future.

An obvious question to start with is to ask what really is an export processing zone. There are indeed almost as many definitions as there are different EPZs in the world and this paper does not intend to contribute to definitional hair-splitting. The following is a working definition which has the advantage of being simple and straight-forward: An EPZ is a limited geographical area within a country primarily designated to host companies manufacturing for export. Though there are differences in the specific approaches taken and facilities provided, most EPZs share a number of common characteristics. These include: exemptions from customs and excise duties for imported raw materials, parts and components; a tailor-made physical and communication infrastructure including essential industrial services; special financial and fiscal incentives ranging from tax holidays to guarantees for profit repatriation and, in most cases, exemptions from labour laws prevailing in the host country.

As regards the total number of EPZs worldwide any figure between 80 and 180 can be found quoted in various publications depending on whether a wide or narrow definition is employed. Be that as it may, there can be no doubt that during the last 15-20 years there has been a mushrooming growth of EPZs with the number of developing countries operating EPZs now being around 40.

In these EPZs close to 1.5 million people - predominantly young women - have found employment worldwide. While this is a negligible amount when seen in relation to overall industrial employment in the Third World, it is true that in some countries EPZs play a major role as industrial employer: in Mauritius they account for approximately three quarters of the total and even in some bigger countries such as Malaysia and Tunisia they generate about one quarter of all manufacturing employment.

From an analytical as well as from an economic policy point of view it is possible to distinguish two types of EPZs [Sit 1988]. The first type is that of countries adopting a comprehensive export promotion strategy in which EPZs are an integral element aimed at strengthening the overall export drive. Taiwan Province of China and the Republic of Korea are cases in point. The second type is that of EPZs being export promotion islands within industrialization strategies that put more emphasis on the domestic market and the substitution of imports. India in the late sixties and, more recently, Bangladesh can be seen as examples. And, of course, the Special Economic Zones of China belong to this second category. (Just a few remarks on SEZs: on the one hand, these are very similar to EPZs in their organization and their objectives. Yet, on the other hand, some important differences have to be noted, including their greater size, their relatively low export ratio and their multi-sectoral character encompassing construction and services in particular.)

The actual role played by EPZs in promoting industrialization in developing countries has always been a highly controversial topic. They have been seen as a panacea for export-oriented growth by some and as an instrument of capitalist exploitation by others. As always, the truth is much more complicated than such extreme assessments and tends to lie in between. Experience in many countries, in particular in East and Southeast Asia, has shown that these zones can contribute substantially to the generation and/or promotion of manufactured exports and to the provision of productive employment opportunities. However, they have also been characterized by a concentration on only a few industrial branches, by the use of simple and fragmented production technologies, and by a lack of backward linkages with the domestic economy.

Determinants of EPZ performance

Hence, as EPZs differ in terms of their approach, organization, management, economic environment, etc., so does their performance. Just as any other economic policy instrument EPZs are not 'good' or 'bad', successful or unsuccessful per se. It all depends on how, when and in which context they are established and operated. Some have been remarkably successful, others have completely failed in reaching their objectives.

Generally there are three sets of factors at various levels which determine the performance of EPZ. These are:

- the micro level, i.e., the conditions prevailing in individual EPZs;
- the macro level, i.e., the function and role of EPZs within the context of the national economy; and
- the global level, i.e. relevant trends in the world economy and international markets.

In what follows these overall determinants of the performance of EPZs are being dealt with one by one, starting from the global level on which most emphasis will be put [Lütkenhorst 1988].

In the past, assessments of EPZs have largely focussed on their contributions to the achievement of key internal development objectives, such as employment, export earnings, technology transfer and so on. An issue which, however, has received less attention is whether EPZs in their traditional form are well equipped to meet the external challenges emerging from changing magnitudes and patterns of foreign direct investment (FDI). What are the main trends to be observed in FDI flows at present? In which way and to what extent do they affect developing countries? What are the consequences for EPZs and the specific types of FDI which these have attracted in the past?

Shifts in foreign investment flows

To start with, in recent years there has been a clear tendency of FDI flows to concentrate stronger than before on industrialized host countries. This has been caused by a number of factors including increasing FDI in European Community countries in anticipation of a 'Europe without trade barriers' in 1992. Another important feature has been the emergence of Japan as major FDI home country which is now entering the stage of establishing a global production network. Due to both the strength of the yen and to frequent and serious trade disputes a growing share of Japanese investment is now targeted at the USA, car manufacturing joint ventures being an illustrative example of this trend.

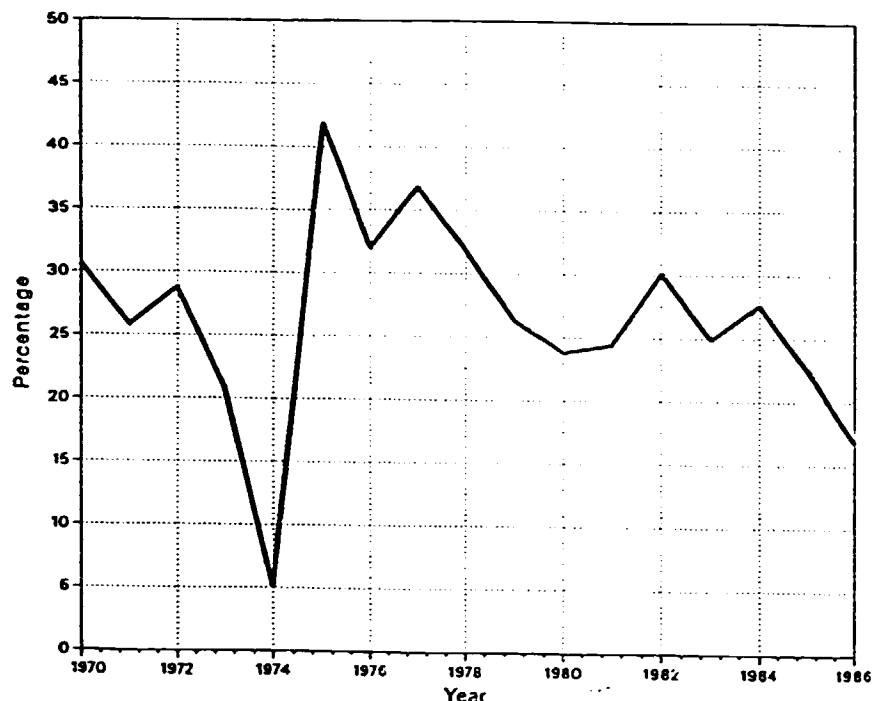
Developing countries as a whole now appear to be running the risk of being marginalized in an intensified process of globalizing industrial production. Real FDI flows to developing countries have decreased substantially as has their share in total FDI outflows from developed market economy countries (see figure 1): since 1975 this share has gone down from a peak level of 42 per cent to only 17 per cent in 1986. At the same time, a strong shift has taken place in the geographical distribution of FDI flows which appear to be concentrating more on Southeast and East Asia as major recipient area. It is in this region where we find notable exceptions to the general curtailment of FDI flows to developing countries [UNIDO 1988a].

Increasing role of FDI in services

In general - and FDI flows to developing countries are no exception to this trend - there has been a drastic expansion of FDI in services, in absolute and in relative terms. Given the increasing share of services in OECD countries' GDP and given the growing service content of manufacturing this trend can hardly be surprising. Within a broad range of different service-related investment activities the key fields have been wholesale and retail trading; banking, insurance and other financial services; and recreational facilities. As UNCTC data show, the share of FDI in services in total FDI outflows hovered around 50 per cent for major OECD countries in the mid-eighties: 44 per cent for the USA in 1985 (up from 32 per cent in 1950); 52 per cent for Japan in 1985 (up from 29 per cent in 1965) and 47 per cent for the FRG in 1984 (up from 10 per cent in 1966).

Figure 1

SHARE OF DEVELOPING COUNTRIES IN TOTAL FDI FLOWS FROM DEVELOPED MARKET ECONOMIES, 1970-1986 (percentage share in current prices)



Sources: 1970-83: OECD and IMF; 1984-85: UNCTAD.

Note: The different time series used are not strictly compatible. They may be taken, however, as indicative of basic trends.

Hence the crucial role of services (many of which cannot be exported but can only be marketed via foreign affiliates, i.e. are necessarily linked with FDI) in the current Uruguay round of multilateral trade negotiations.

Labour costs less decisive

Turning now more specifically to manufacturing FDI in developing countries far-reaching changes in the determinants of investment and investment strategies can be observed at present. One of these changes is that the inter-country differences in labour costs have become less important as investment incentive. This has two quite different aspects which need to be clearly distinguished from an analytical point of view:

Firstly, differences in production costs in general and labour costs in particular - though continuing to be a relevant factor - in many cases have ceased to be a sufficient precondition to induce FDI flows. Other qualitative investment determinants beyond direct production costs have come into play which will be discussed in more detail below.

Secondly, even if production costs should continue to be the decisive factor in shaping investment decisions, the labour cost share simply does not

weigh as heavily as it used to in the past. The advanced degree of industrial automation stemming from microelectronics-led innovations has drastically reduced the share of labour costs in total production costs. Consequently, we are witness to what Peter Drucker has called a gradual "uncoupling of manufacturing production from manufacturing employment" [Drucker 1986, p. 775]. In the UK, to quote but one telling example, labour costs now represent not more than 10 per cent of the average ex-factory costs for all consumer electronic goods.

Quite obviously the severe changes in the parameters of international competition taking place at present are shaking the foundation on which much of the current international division of labour has been based. The redeployment of labour-intensive industries to the South is being slowed down while the 'coming home' of outposted factories to their original bases in the North is no longer a threat only but has become reality in many cases.

Relocation back North

This can be illustrated by the case of a UK firm producing non-electrical machinery items (industrial and agricultural pumps). In the early eighties, the company established a production unit in Sri Lanka's first EPZ primarily aimed at exports to other Asian countries. Though the share of labour costs was lower than e.g. that of material costs, the former were the only cost component that could be pared down through relocation. Hence, it was essentially Sri Lanka's wage cost advantage which triggered off the investment decision. Meanwhile, despite satisfactory and profitable operation in Sri Lanka, the company has closed down in the country. The crucial reason given has been the introduction of a high degree of automation into the production process which has made the relocation of production back to Manchester economically beneficial. The new machines - functioning around the clock 6 days a week and requiring just 8 semi-skilled operators - have eclipsed Sri Lanka's main asset, viz. cheap labour. Yet this is only part of the story. In addition to the eroded labour cost advantage the company managers stressed a qualitative aspect in their decision. They pointed out that the absence of a sufficiently elaborate local engineering network rendered local subcontracting and the provision of key industrial services extremely difficult in Sri Lanka. At the same time, Manchester was at the centre of a region with a rich engineering and machine-building tradition which guaranteed that, should any problems arise with the new equipment, then someone would be quickly able to solve them. Were it not for the sophisticated new technology, the company would still be producing in Sri Lanka and indeed, if competitive intermediate level technologies for export production were to present themselves it would be willing to return.

Key investment determinants

The above case has been reviewed in some detail as it is indicative not only of labour costs losing in significance but also of other investment determinants which are becoming more and more important instead. Whereas the 'first round' in establishing a global industrial production network involved labour-intensive goods requiring only simple technologies (e.g. clothing, shoes, toys, simple consumer electronics), worldwide industrial restructuring is now proceeding into branches such as automobiles, electrical machinery, machine tools and others. These tend to use more sophisticated and hence more vulnerable technologies which accordingly place higher demands on potential investment locations. Some of the key aspects are roughly sketched below.

With FDI in developing countries moving gradually away from export production of simple consumer goods based on routine assembly operations and venturing into technologically more sophisticated production lines, economies of scale will assume a crucial role in attempting to recover high investment outlays. In these circumstances, a premium is put on risk diversification: Investors in more advanced areas of manufacturing will primarily look for strategic locations which allow them to serve export markets while, at the same time, tapping a large domestic market of the host country.

Another essential investment requirement would be the availability of highly skilled labour able to operate top-of-the-range machinery, often of a CNC type. Low wages cannot by themselves substitute for non-existing engineering skills and hence it is cheap skilled labour that foreign investors are after. This means that the performance of developing countries in attracting FDI will in the future be crucially dependent upon the successful upgrading of existing skills.

Finally, the overall industrial 'milieu' of a host country is of great importance. In a recent survey of Japanese small- and medium-sized enterprises having invested abroad, the "technology support" of a host country (encompassing the skill level of the labour force, infrastructure provision and the availability of necessary support industries) was found to be the first ranking determinant of investment decisions, placed even above such important factors as exchange rate stability and political stability [Phongpaichit 1988]. The foreign investor in areas such as transport equipment, machinery or electronics is vitally interested in an existing network of industrial products and related services. This concerns areas such as essential spares; subcontracting opportunities for parts and components; maintenance services; and increasingly the assistance of computer software specialists needed to adjust complex machinery or to accommodate specific buyers requirements.

A recent UNIDO study on the FDI behaviour of machine tool producers confirmed the need to go beyond labour cost considerations and found the concept of 'proximity' to be crucial: "proximity to suppliers of high quality materials and components, proximity to a labour force to some extent trained by the machine tool industry itself, and proximity to buyers, many of whose orders are of a 'custom-made' type. These are system requirements, external benefits which can be reaped by the firm" [UNIDO 1987, p.26]. Accordingly, the absence of such system advantages in many developing countries will effectively act as a barrier against attracting FDI in a wide range of industries.

Moreover, in a wider perspective the support network for industrial investment should be seen not only in terms of the operational functions of manufacturing but also in terms of essential overall supporting functions for industry such as research & development, marketing, technological extension and productivity services, engineering and financial consultancy, government planning and administration.

Implications for EPZs

Now what do all these trends sketched above imply for the subject of this seminar, i.e. the role of EPZs? To summarize: key factors in steering what has become a thinner flow of FDI to developing countries are skill levels,

market size, the existence of an efficient industrial support network as well as the availability and quality of a variety of support services including advanced telecommunication and information-processing facilities. Whereas previously a certain physical infrastructure (transport facilities, energy and water supply) was often sufficient to attract FDI, now a highly developed human and technological infrastructure is required. No doubt, low wages continue to be an asset, but no longer a guarantee for success. The rules of the game have changed in the late eighties. It may well be that investment flows will concentrate even more than in the past on just a handful of advanced developing countries which meet the requirements outlined above while the vast majority of Third World countries will be left high and dry [Mohs 1985].

With all this in mind this paper is not arguing that there will be no future for EPZs but certainly it is going to be much more difficult for them than it used to be in the past to attract foreign investment. The whole rationale of their existence so far has been:

- the utilization of cheap low-skilled labour in
- simple (often only partial) production processes with
- output exclusively intended for export markets.

All these characteristic features - as has been shown - are being gradually eroded now. Hence, unless EPZs are to become an increasingly anachronistic concept, they will have to adjust to a changing environment. It is no longer sufficient to provide a fenced-in area for duty free export production. EPZs will have to perform a wider range of functions and will need to upgrade their services.

International competition between EPZs

There is another very important aspect to be mentioned while still dealing with global determinants of EPZ performance. This is the competition between different EPZs. EPZs in a sense can be seen as international 'products' in a highly competitive market for investment locations. Like in any other market it is the interplay of supply and demand forces which determines the volume of sales and the profits to be gained. These days the market for EPZs appears to be a buyer's market, i.e. any potential investor can choose his 'ideal' EPZ from a rich menu. This implies that the success of any new EPZ in attracting investors is crucially dependent on its international competitiveness relative to already existing ones - and not only on its individual advantages and the facilities offered. "No planner and no development bank would ever dream of setting up a new automobile plant or a new steel mill in an entirely open economy without first checking very carefully the production costs, wage levels and transportation expenses of the main firms or countries likely to compete against this project. But when it comes to establishing an EPZ, the planners' main point of reference is the local economy, and not the highly competitive world market." [ILO/UNCTC 1988, pp. 141-142.]

National economic environment

So much on the global environment in which EPZs are operating and on some more recent trends to be observed. The following section deals with the second level which has a strong influence on EPZ performance: the domestic

macro environment or, in other words, the national economy surrounding them. This refers both to the level and structure of industrial development in a country and to the specific industrial strategy and policy approach adopted by its Government. It goes without saying that any potential foreign investor will not only be looking at the facilities, incentives and management of an EPZ but also at the economic context in which it is operating. This is not to say that EPZs in order to be successful would require a particular economic system such as a liberal market-oriented one. Were this the case then the SEZs of China could never have attracted foreign investment which as a matter of fact they have done quite successfully. What EPZs do require, however, at the country level is a general atmosphere of reliability and stability. The investor needs to have confidence in the Government's readiness and capability to guarantee the prevailing investment conditions (contractual obligations, incentives) also in the foreseeable future.

The macro-environment of an EPZ is the appropriate context to briefly touch upon the issue of linkage creation. In many cases, the creation of backward linkages between zone enterprises and the domestic economy has been among the key objectives of EPZ authorities. And yet, in the vast majority of cases hardly any linkages have been established and the EPZs have remained export enclaves linked exclusively with the world market. Some figures: in Sri Lanka's Katunayake EPZ the share of domestic in total raw material purchases has been less than 5 per cent; in the Philippine Mactan EPZ it is 4 per cent; in all of Malaysia's EPZ taken together it is less than 3 per cent [UNIDO 1988b, p. 42]. There are only few exceptions such as Korea's Masan EPZ where this share stood at 34 per cent in 1985 (including, however, a large share of transactions between EPZ enterprises). A clear lesson emerges from these and numerous other cases. This is that it has been close to impossible to induce linkages by specific policy measures (such as local content regulations). Where they have occurred, it was because of the companies' commercial interest to take advantage of reliable low-priced local inputs. Again the importance of the macro-environment is obvious: where competitive domestic suppliers exist, such as in the Republic of Korea, backward linkages - including in the form of subcontracting arrangements - can easily develop. Obviously, this can be achieved best where EPZs are an integral element of an overall export-oriented development strategy. In concluding this section a certain dilemma thus needs to be acknowledged: "The poorer the industrial infrastructure of a country ... the more necessary a zone may be to achieve any significant growth of manufactured export at all. On the other hand, the more a zone is an enclave, atypical of the infrastructure and incentives available outside, the less successful the zone is likely to be in achieving wider economic benefits." [UNIDO 1980, p.39].

Micro-level performance elements of EPZs

After having dealt with the global level and the macro level the final sections of the paper discuss the micro level determinants of the performance of EPZs. Quite obviously, both the global trends in the structure of production and investment as well as a country's overall industrial strategy are factors beyond the reach of any EPZ authority. Though they can be crucial in determining the fate of a zone they have to be taken as parameters, as something one can only react to. Fortunately, there is also quite a lot that an EPZ authority can do within its own area of control in order to make its particular zone more attractive.

Firstly, it is important to understand that the fiscal or financial incentives offered to investors are not crucial for their investment decision. Indeed, much more important is the way a zone is being managed. The following is a quotation from a zone representative from the Republic of Korea. He said in 1983, and meanwhile this has been confirmed by many studies: "It seems that the competitive edge of an EPZ over others in the same region appears to be largely dependent upon the efficiency of EPZ administration rather than incentives offered." [Kim 1983, p.25]. Recently, the author discussed this question with a company manager in the Jakarta EPZ. His views perfectly confirm the above statement. He explained that under pure cost considerations it would be advantageous to invest outside the EPZ. Firstly, the Indonesian Government now allowed duty-free imports for export production also outside the zone. Secondly, the zone was charging an administration and management fee and an electricity and water surcharge which made production inside the zone indeed more costly than outside. Why then stay in the zone at all? His interesting answer had two aspects: Firstly, he felt he could rely on the continued existence of the zone whereas the investment conditions in the country may be subject to change. Secondly, the zone was offering a one-stop service guaranteeing a quick start-up of business and smooth relations with the Government authorities concerned. This appears to be a telling example indeed of what it is that can make an EPZ an attractive location.

A second aspect that should also be considered more important than financial incentives are the additional services an EPZ is providing beyond just offering a production site. These services include banking, insurance, packing, shipping, recruitment of labour (particularly skilled labour), etc.

Overall conclusions

It has become clear that the numerous EPZs existing around the world are facing great challenges. Not only has the competitive pressure among them increased but they are also confronted with changing patterns of international investment. Again a parallel can be drawn to the situation in a market. All producers, from time to time, have to improve the quality of their products and have to adjust to changing consumer preferences unless they want to take the risk of losing their market position. The same in principle applies to EPZs. They will have to respond to changing demands emanating from their international economic environment. For example, attempts to attract technologically more advanced lines of production may necessitate a prior upgradation of a zone's infrastructural facilities as well as the availability of highly specialized industrial services. In the past, a number of EPZs have already moved away from the rigid initial concept of hosting exclusively foreign investment producing goods exclusively for export markets. More flexible regulations have been adopted in many cases and this process may be expected to continue in the future. Specific elements of this process have been:

- first, the permission for EPZ companies to sell part of their output to the domestic market. While this meanwhile applies to many EPZs the Mexican in-bond industries (maquiladora industries) are a particularly interesting case in point. Up to 20 per cent of output may be sold locally if certain local content requirements are met, and technical assistance is provided to local suppliers;

- second, the possibility for specific companies to locate outside an EPZ while taking advantage of EPZ regulations and administration. This has been the case e.g. in Sri Lanka with regard to some companies processing domestically available raw materials (rubber) where proximity to the supply sources has been considered essential for either economic or technical reasons;
- third, the admission of domestic investors into an EPZ, either on a joint venture basis or even in the form of 100 per cent domestically owned enterprises;
- fourth, the establishment of sub-contracting arrangements between EPZ companies and domestic companies.

These tendencies towards a higher flexibility in managing EPZs may contribute to enhancing their resilience and, by increasing the degree of their interactions with the whole economy, may also facilitate their gradual transformation in response to changing economic conditions, if and when required.

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EXPORT PROCESSING ZONES
LAWS AND REGULATIONS

presented by

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Introduction

The export processing zone projects an image of freedom and absence of bureaucracy which is appealing to many foreign investors. Surveys among investors have shown that what they look for in an Export Processing Zone (EPZ) 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 Export Processing Zone Act.

The legislation

In line with the image of an EPZ 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 EPZ laws and regulations. The main elements of an export processing zone act are as follows:

- Purpose: The purpose of the act is to "provide for the establishment control and management of export processing zones and related matter. The EPZ law should be read as one with other relevant acts such as the customs act, the income tax act and the excise tax act.

It is possible that some amendments to existing legislation may be necessary to cater for EPZ incentives and controls.

- Establishment of EPZ The act will normally designate one minister with overall responsibility for EPZs - usually he will be the Minister for Trade and 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 an EPZ 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 EPZ authority.

If a private developer is involved in managing/developing the zone, various conditions can be set out in the contract between the state and developers. This contract can take the form of an actual contract or a licence or permit with conditions attached to it. The provisions 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. However, the act may set out some criteria for evaluating projects, e.g. 100% export. All operators within the zone should be licensed by the minister or free zone authority. Conditions can be attached to the licence, e.g.
 - (i) type of activity to be carried out;
 - (ii) minimum employment levels;
 - (iii) minimum value added.
- Duty, tax exemption: This section would set out what licensees are entitled to by way of exemption from duties and taxes. Almost without exception companies operating in a free zone are entitled to import materials and machinery free of duty.
- Conditions attached to operating licence: The act would empower the minister or other issuing authority to attach conditions to the operating licence. Such conditions would include:
 - (i) the date on which the licensee shall commence business in the zone;
 - (ii) the appointment by the licensee of an authorized officer;
 - (iii) any other condition which the minister may consider necessary, e.g. a company producing tobacco or alcohol may be required to build a secure store or comply with specific requirements of the customs and excise authorities. Penalties for breach of conditions attached to the licence can be specified in this section also.

- Revocation of licences: This section gives the minister or other issuing authority power to revoke a licence under certain conditions.
- Other licence provisions: These would enable the minister to:
 - (i) vary the conditions in the licence with the consent of the licensee;
 - (ii) approve the transfer of a licence subject to the minister being satisfied. There would be an appeal procedure against the revocation of a licence and register of operating licences established and maintained by a responsible authority.
- Application for an operating licence: This section would set out the procedure for applying for a licence.
- 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.

Control of activity

Controls should only be instituted when absolutely necessary. Such controls include:

- (i) the protection of the environment against pollution and the protection for industry against hazards and nuisances;
- (ii) the need to ensure that companies in the zone adhere to production and expansion plans approved by a zone authority;
- (iii) the need to protect the home market;
- (iv) the need to prevent illegal materials being stored, handled or made in the zone.

Licences

It is normal practice for companies setting up in EPZs to be issued with operating licences by the EPZ authority or the government. The licence cannot be revoked unless there is a breach of a condition attached to it or the licensee has been found guilty of an offence against the customs act in relation to goods moving through the zone. Licences are granted at the discretion of the authority or the relevant government minister and subject to any conditions which they think fit. A company is allowed only to engage in operations or forms of manufacturing set out in the licence. Conditions attached to the licence can include:

- (i) provision that the company will engage only in the type of production specified;

- (ii) provision for lodging goods or materials in a secure store under control;
- (iii) provision for advising customs and excise staff of receipt of consignments and for examining such consignments;
- (iv) provision that the goods or materials received are used solely for the purpose specified in the licence;
- (v) provision for stock taking and preserving stock accounts and other documents;
- (vi) storage of dangerous materials;
- (vii) protection of airport facilities/navigation aids (if it is an airport location);
- (viii) rent review clauses;
- (ix) surrender and restoration of premises;
- (x) use of premises;
- (xi) termination of lease.

Customs procedures and practices

The customs authorities are usually given fairly substantial powers to inspect goods and documentation, hold up shipments and search premises in and around the EPZ. Companies operating in the zone are usually obliged to inform the customs authorities of all goods received, keep documents and records for 12 months or more, to allow customs officials to inspect buildings, stocks, and accounts at all times, and to submit any information required by the customs, such as processing data and wastage.

All this is necessary so that the customs can cope with the people who might try to abuse the zone facilities or privileges. The way in which these powers are exercised in relation to normal bona fide trade of the EPZ is important.

A trader is entitled to expect that in the normal course of events his goods will be cleared by customs in the zone within a matter of 24 hours at most. For this to happen close co-operation and understanding between the customs authorities, the zone authority and incoming companies is essential.

Ideally, the customs authorities should be involved in the planning and development of the zone from the beginning. There should be a senior customs official with powers of decision stationed in the zone. One of the tasks would be to assist companies to make full use within the law, of the advantages of the EPZ, by helping them to understand and operate the procedures and advising them on problems as they arise.

The level of customs surveillance and control will depend on the type of goods passing through the zone and the revenue risks involved. Most goods should be able to travel without much difficulty between the port of entry/exit under a customs seal or be covered by a bond or some other form of financial guarantee. On arrival at the destination the seals can be inspected. A sample of the goods moving in and out of the zone can be checked to see that the goods actually imported/exported are in agreement with what is shown in the customs documents and company accounts. Unless there is reason to believe that some illegal trade is being carried out, these checks should be kept to a minimum to permit a free flow of trade.

The main form of inspection should take place on the factory premises. Here goods can be inspected without interrupting shipments. Stock accounts, sales invoices and production cards can be checked against transshipment bonds, export specifications and other records of goods moving into and out of the zone.

Many zones have special procedures to cover the temporary importation of goods from the zone into the customs territory of the state for repairs, processing, exhibitions and like operations. Such transactions are normally covered by a bond arrangement.

These procedures should also operate for goods exported to the EPZ and re-imported into the state. If any dutiable materials are incorporated in, or used in connection with, the goods while in the zone a duty should be changed on the product when it is re-imported into the state.

The advantage of having this type of procedure is that it encourages linkages to develop between companies in the zone and local industry. It also helps the transfer of skills, technology and know-how. Trading between companies in the zone should also be encouraged for the same reasons.

Quota and other restricted goods are usually allowed into an EPZ except where they are prohibited by law in the national interest, e.g. drugs, guns. Goods for personal use and consumption within a zone are normally duty paid.

General

In an EPZ the emphasis should be on exporting. It follows therefore that no company in such a zone should be allowed to sell a significant portion of its output on the home market. If it is a choice however between using zone manufactured products or other imports on the home market it makes sense to use zone products. Probably the best solution would be for the zone authority to accept applications from individual companies for permission to sell on the home market. Each application can be examined on its merits. Companies selling on the home market should have to pay duty on the imported raw material content of the product.

Goods manufactured in EPZs can usually benefit from tariff preferences and other trading advantages arising from trade agreements in the same way as goods manufactured in the rest of the country, provided origin rules and other condition of the trade agreement are fulfilled.

EXPORT PROCESSING ZONE MANAGEMENT

presented by

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1. Introduction

1. There are certain essential elements required in the management of an Export Processing Zone (EPZ) relating specifically to the services which the zone offers, and to the flexibility with which the national government allows the zone to operate. By first identifying these services and constraints, it is possible to define the organization and subsequently the human and financial resources needed to manage the zone. These are highlighted in section 2 of this paper, and will provide the initiator of the new zone with a preliminary guide to his needs in management terms.

However, there are several other criteria which can be applied to zone management which were found to be useful in both establishing the management of new zones and in assessing the effectiveness of existing management practices. One is the criteria of efficient service to the client company (section 3); another is the concept of efficient operation of the zone over the long term (section 4). An essential tool for applying both criteria is the use of a formal strategic plan where development is spearheaded by the zone manager who retains responsibility for its implementation (section 5).

Finally, reference is made to the importance for the zone manager, of his understanding of the decision-making process in the client organization, and have identified a simple method of classifying organizations according to level of development which could provide the manager with an understanding of the decision making process which each client may have to apply (section 6).

2. The essential elements of EPZ management

2.1 Definition of the services offered

Given the broad range of different services offered in any EPZ around the world, the first task of any organizing body for an EPZ is to establish clearly the services which the EPZ will offer to its client. Will it be just a leasing facility for warehouse and manufacturing space, outside of a custom area, or will it offer a full range of shared facilities and services to each of the client companies involved in the EPZ?

The normal pattern these days lies somewhere in between. This means that usually, the EPZ management is responsible for the management of the zone facilities for setting out and supervising clear procedures and regulations concerning shipments and transportation within and in or out of the zone, and for the provision of shared services such as waste removal, building and ground maintenance. However, each client company is directly concerned with its own operation in its own or leased facility. Customs services are provided by the nation's customs and excise department, sometimes on a fee-for-service basis.

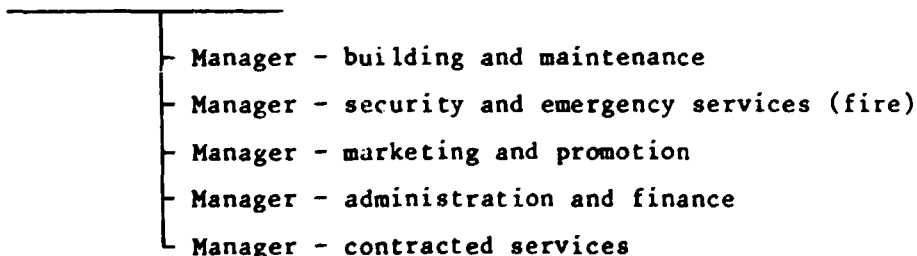
Thus, given the nature of the EPZ, the manager must first establish a simplified and realistic list of services and facilities which his management will be expected to provide. Such a list becomes the basis of organization to provide efficient management, as it will define the primary human and financial resources which the organization will require to offer these services.

2.2 Planning of the organizational model to be followed

In practice, there are usually two different elements which must be considered in the establishment of the appropriate organization for any particular EPZ. The first element is concerned with the operation and maintenance of the common facilities shared by all the clients within the EPZ. These would be such items as roads, exterior lighting, fire services, marketing and promotion of the zone, and security of the zone itself. The other is charged with the provision of specialized services for the clients, either on a fee-for-service basis, or as one component of the facilities offered to client organizations who are in the zone. These would include such things as banking services, cafeteria facilities, printing and reproduction facilities, a one-window access service for the clients in the zone to the services of local and national governments, workers' medical facilities and employee transportation services.

Given these two elements for which management must be provided, the practice is recommended of employing an organizational model which provides functional departments or branches for each of the basic services offered by the zone for the benefit of all, and another grouping for those services provided not directly by the staff of the zone itself, but rather by specialists contracted from other agencies. This usually leads to the following organizational design:

EPZ senior manager



It is often most useful to have the one-window access service to local and/or national governments as an integral part of the marketing and promotion branch, as it is during the introductory phase of the negotiations with any client that most use will be made by that client and by the EPZ management of this access service. It is also true that an excellent working relationship between the security unit of the EPZ and the national customs department is important to the smooth and trouble-free operation of the zone. Here again it is important for the senior official responsible for customs service to the zone to work in close proximity to and in harmony with the zone management. What results is an organizational design which includes several contracted services as closely linked as possible to the primary organization of the zone itself.

On the following page is an example of such an organizational design.

2.3 Hiring and training of the staff

Having selected the organizational design which it is proposed provides the most effective method of linking human resources, the EPZ manager must now recruit and train suitable staff. This would begin with the development of a set of job descriptions of the tasks which each of the functional managers would be expected to undertake, if they were hired. Such job descriptions would suggest the required level of experience that each new employee should have for each particular job. It is often an excellent exercise to prepare as well an operational and/or procedures manual for the new staff members to follow, well in advance of such persons being hired. This provides each new employee with a substantial guide for their initial training and also provides each with a clear understanding of what is expected of them during the first several months of employment.

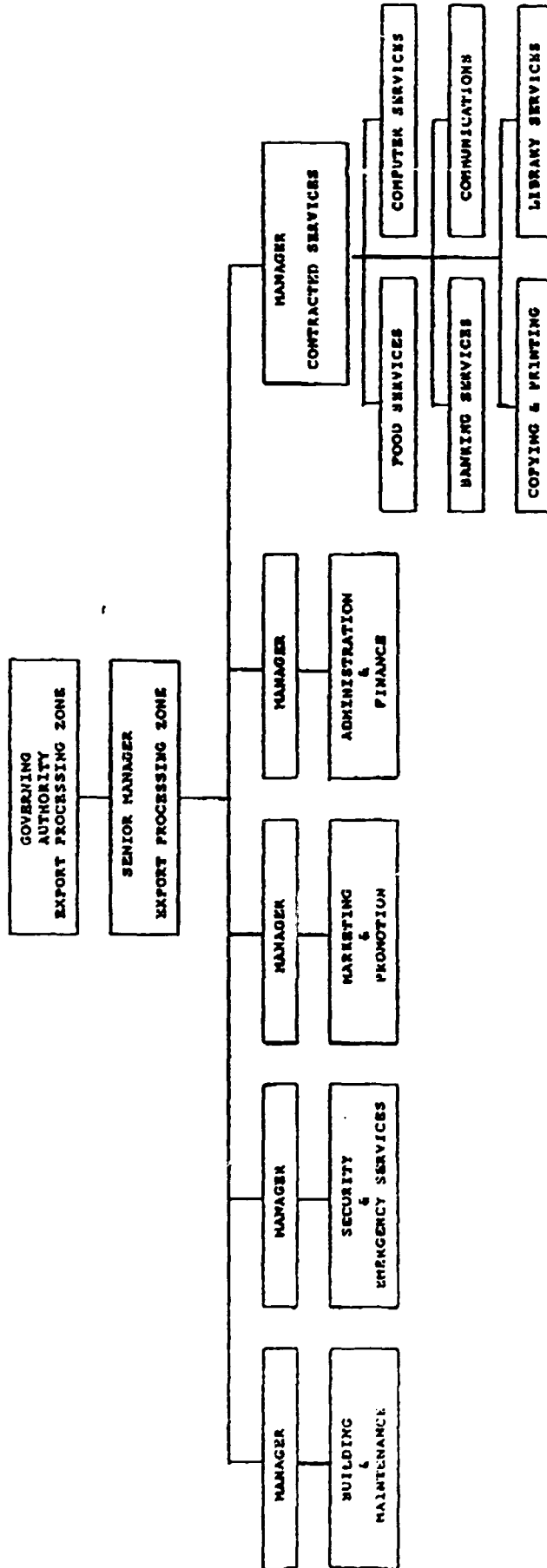
The training of the new staff at the senior levels should be the primary responsibility of the EPZ manager. Each functional manager could then be expected to train his own staff as these were hired, with the procedures manual as a guide.

2.4 Establishment of operating procedures and forms

If it has not already been done prior to hiring of senior staff, the EPZ manager should develop a full range of operational procedures and forms which are clear and easy to follow. Such procedures and forms would be required for the following activities:

- identification of prospective clients,
- reporting on the status of negotiations with clients,
- leasing the industrial space to the client,
- billing and collecting rent or lease payments
- paying expenditures - taxes, insurance, payroll, maintenance, repairs, equipment, service contracts,
- reporting to management,
- inventory control reports (if undertaken by the zone),
- preparing and updating of zone regulations.

SECTION 2 - SCHEMATIC ORGANIZATIONAL DIAGRAM FOR AN EXPORT PROCESSING ZONE



These can be incorporated into a manual, but they should be subject to continuing review and revision, with the primary objective of reducing and simplifying the systems wherever possible.

2.5 Some significant administrative routines

Of special significance in the area of administrative routines is the method by which the expressions of interest from new and prospective clients are handled by zone management. An effective and yet rapid system of approvals and/or requests for information from such prospective new participants in the zone is an essential requirement for the zone, as it demonstrates to the new investor the efficiency of the administration with which he will be expected to work. Obviously, the most speed and the most efficiency is obtained if the zone management has the required authority level to give approvals on its own without reference to other agencies, and in the case of requests for information, if such information has already been gathered by the management itself. Since neither case is always possible, the EPZ manager should strive to limit the number of agencies involved in either providing information or giving approval.

A second significant routine for an EPZ is the one concerned with the tracking of incoming and outgoing products to each of the clients in the zone. Although in some countries, this may be a direct concern of the national customs authority, in other cases customs has transferred the responsibility directly to the zone management. The simplest way for such records to be kept is by maintaining a record of the inventory by part number or product item for each of the clients. Usually, the client provides the zone management with a listing of the products brought into the zone in each shipment, as well as a listing of products shipped from the zone, which identifies the utilization of component parts originally brought into the zone. The zone management has the right to inspect the premises of the client at any time to verify the records which are being kept. In larger zones, such records are computerized, by both the client and the zone management. With such a system, there can always be an immediate recording of the product within the zone.

Other administrative routines, such as personnel records, requests for expenditure, and travel reports, for example, can usually be copied from other similar agencies of government involved in the operation of buildings, or in the provision of common services.

2.6 Preparation of the financial and accounting function

It is, of course, essential that the management of the zone be provided with up-to-date and accurate reports of the financial circumstances under which the zone is operating. This means that an early and important task of the EPZ manager, and of his manager of financial and administrative services, will be to develop such an accounting and reporting system. It should provide accurate, real-time records of expenditures and receipts. Using current software and micro-computers, systems are easily obtained and readily adapted to the needs of the zone.

2.7 Establishment and implementation of a Management Information System

If the EPZ is undergoing recent establishment, or if it is expanding with new facilities and new services, the EPZ manager will find that an integrated Management Information System (MIS) which provides both accounting/financial data and information concerning the status of activities or new projects, will be especially useful. Such a system would display consecutive milestones representing levels of achievement and compare these to the levels of expenditure both those budgeted and those achieved. Here again, microcomputers can be used with substantial benefit, although a manually operated system can also be set up to provide similar tracking of new projects and activities.

3. Zone management for the sake of the client

3.1 The client is most important

The most effective EPZ is the one recognizing that the client companies active in the zone are the most important ingredient in the make-up of that zone. Each zone operates within a free market in which it competes with every other zone in the world. The rationale for an EPZ is such that its primary function is to provide employment for local personnel in direct competition with pools of labour elsewhere in the world. Given that the client likely has little if any investment in the facilities which he is leasing from the zone, the zone manager must recognize that his primary task is to ensure that the client company is satisfied with his involvement in the zone. The client's operation must be profitable, and the relationship of the client management with local employees and zone management be harmonious and rewarding. For the zone manager, this means that he must continually remind himself that perhaps his primary concern is maintaining the economic wellbeing of his client within the limitations of the financial and human resources available to him. Often, this can best be accomplished by the provision of support services designed to be of direct benefit to the client.

3.2 Custom and clearing house services

The client company is located in the zone to take advantage of the lower wage rates available from the local labour pool, while not being encumbered by difficult and time-consuming customs, banking, immigration, labour and other regulations. Recognizing this fact, the zone manager must ensure that the zone provides its most efficient service in these areas. The clearance of goods both into and out of the zone by custom officials must be done as expeditiously as possible. For the new client company, the zone manager must ensure that work and residence permits are easily and quickly obtained, that banking transactions are quick and easy, that the communications between the client's resident manager and his head office are rapid and free of interference. Experience shows that the zone manager who dedicates himself to ensure that this area of service to the client is the best that can be provided, also has the most successful zone operation.

3.3 Security

In many zones, the secondary reason for the client to be involved in the zone is for the protection which the zone offers his goods, usually of intrinsically high value, when they are held for testing or in storage for transshipment. The security of the zone is important as well to the local government which wants to ensure the integrity of its customs area. For both groups, the zone manager must give deliberate attention to the establishment and the maintenance of an effective security system for the zone. The system must have integrity, without overburdening legitimate users with cumbersome procedures to obtain access. This often can be accomplished best by pre-qualifying organizations and their staff members for access. Transportation companies, maintenance contractors, and providers of specific services can be interviewed in advance and thus be qualified as providers of specialized services. Client companies are then required to use only those companies so qualified.

3.4 General facilities and maintenance

In the design, operation and maintenance of the facilities of the EPZ, be it the factory shells, the roadways, the administration building of the zone, or the access gate, the primary interest of the client companies should be the framework against which the facility itself is measured. For example, the factory shells must provide for easy access of trucks and vans. The roadways must be kept clear of blockages for easy access to the factories, when repair work is underway, and when the primary routes to the factories are not easily accessible, there must be secondary routes available. The administration building should be well maintained, and easily accessed by the representatives of the client companies. Indeed, where the zone management takes pride in the exterior and interior appearance of the facility, there are happy and satisfied client companies content to remain in the zone.

The interests of the client also suggest that the providers of specialized maintenance and upkeep services for the buildings and equipment of the zone should be authorized and agreed to in advance. For example, the opportunity to be identified as the sole provider to the zone of specialized electrical maintenance services will encourage the supplier to provide the best services possible at the optimum cost and in the shortest possible time.

3.5 Access to banking services

Another powerful reason for a client company to be located within the zone is his ability to operate outside of the currency exchange regulations of the country. For this reason the zone management must prepare a clear and easily comprehended procedure which meets the rules established by the national ministry of finance, and yet which will permit the bank operating on the premises of the zone to offer to the client company ease of access to foreign currency. In this regard it is important that the agency of the national government providing the banking services to the client companies be located on the site of the zone itself, even if this means only one officer of that agency. The officer is an important player in the provision of a primary specialized service to the client which represents an important reason for his location in the zone, and he should have easy access to this service.

3.6 Trade and export promotion services

Several zones have been so concerned with the interest of the client companies, that they have, with support of the national government, undertaken specific promotion in export markets of the products of the clients companies, organizing tours and exhibits. If a zone intends to undertake such efforts, whether on the basis of subsidized export promotion by the national government, or on a shared cost basis with the clients, this will require the services of staff who are trained to organize such events so as to achieve success. There are several international agencies which can assist the zone management with this task. It also can be a most effective way to promote the zone itself as a place for new investors drawn from the market being investigated.

3.7 Other general services often provided

3.7.1 Communications

Another primary need for client companies in any zone is quick and easy access to the communication services which permit the client company's resident manager to reach his home office frequently and easily. In today's world of facsimile machines and telexes, this is usually accomplished with the provision of services directly to the client company itself by the national telecommunications company. But in many cases, it has been necessary for the zone management to operate a centralised service for the use of client companies on a fee-for-service basis.

3.7.2 Computer services

In zones where there are several small enterprises of a size which does not warrant their own computer services, zone management sometimes has provided a computer services bureau, which undertakes to supply computer services for a fee to the client companies. Usually, this refers to general tasks such as the maintenance of parts inventories, or the preparation of shipping documents, although in some cases it has included the provision of computerized accounting facilities.

3.7.3 Reproduction and printing services

One of the most useful general services which the zone management can provide is that of printing and reproduction. Most client companies will have their own copy equipment for small production runs, but welcome the provision of on-site reproduction facilities for major printing and copying needs. This would be provided on a fee-for-service basis.

3.7.4 International library

In several zones, the operation of an international library, in which journals and newspapers in various languages are kept, is a useful service and one which the client companies find of benefit and value.

4. Managing efficiently for the long term

4.1 Ensuring viability over the long term

It is important that the zone management adopts a policy of development and management of the facility which ensures its viability over the long term. This will require the development of procedures and terms of administration which ensure not only that the zone itself operates successfully under the necessary financial restrictions imposed on it by the national authority, but that the services which it offers to its clients and the rates charged for those services are such that the clients themselves find the utilization of the zone to be a profitable venture. The financial viability of the client is as important to the zone manager as the financial integrity of the zone itself.

The significance of choosing and supporting the correct applicants for the zone should not be lost either. It is preferable not to encourage clients, whose interests are obviously not well served by producing within the zone, to enter the zone. If such firms become unprofitable quickly, they will cease their activities and leave. Zone management then has the difficult task of replacing them, while explaining to future clients why such an establishment proved to be unprofitable. It is better not to encourage the marginal producer in the first place.

4.2 Identifying growth potential

The commitment by zone management to long-term viability, means that an important function of management will be to study the growth potential for the zone on a continuing basis. This will mean that managers must plan for the zone to be full within a fixed time period, and to identify and create new facilities as required to accommodate new clients. Zones should not accept the status quo as a limit to their development. Growth within a budgetary restriction can result in efficiency, and efficient zones are the ones which meet the national objectives most easily.

To achieve growth, the zone manager must devote resources, both human and financial, to the marketing and promotional plan of the zone. Often, such plans are developed only for the first few years of the zone's operation, and are then allowed to wither. The best zones devote at least a fixed amount of their annual revenue to marketing and promotion, ensuring that it is sufficient to reach the intended target group each year. A new marketing plan is developed each year with new objectives and new targets. As an example, in one of the existing major zones the marketing and promotional budget in total over the past 10 years has equalled 20% of the capital investment in the zone itself, and has been kept to at least 15% of the annual revenue of the zone every year.

4.3 Co-ordination with local and national economic development

It is, of course, essential that the promotional activity of the zone be closely co-ordinated with the national and regional development planning and promotion being undertaken by local governments. Such governments provide not only the framework under which the zone operates, and not only the customs

services which ensure the integrity of the zone, but also are the source of the labour pool used by the client of the zone. There must be close and continuing harmony between operating procedures of the zone and the regulations and laws developed by these levels of government; the maintenance of such harmony becomes a primary responsibility of the zone management.

4.4 Ensuring the competitive nature of charges and rates

Efficiency of the zone is maintained by closely monitoring the rates charged by the zone for space and for other services provided. Such monitoring should ensure that the zone is not charging well above or well below rates charged by other competing zones, and that they accurately reflect the circumstances at work in the surrounding region. As an example, zone management should ensure that rates for maintenance services and repair are equivalent to those available outside the zone; otherwise the clients will endeavour to obtain such services directly, and efficient service within the zone will be compromised.

Similarly, as the zone approaches capacity, it is usual that the leasing rates for space rise from those established early in the zone's development when new clients were being cultivated for a new facility. It is obviously a primary concern of the zone management to obtain the most revenue from the facilities consistent with their full utilization.

4.5 Reducing operating costs

One of the ways in which zone costs can be kept in line with revenue even during the initial start-up phase, is to arrange with the local governmental authority that space be provided on a stand-by basis of the zone. This means that the zone does not have to carry the cost of the extra space nor to maintain it until it can be productively put to use. For example, if the zone is located with an industrial estate, the vacant land adjacent to the zone can be used for other temporary industrial purposes outside the zone until such time as it is needed in the zone. Then it can be incorporated into the zone, by extending customs security measures around it. During the interval, the financial viability of the zone itself is not encumbered by the cost of this vacant land.

4.6 Periodic re-evaluation

Managing for long-term viability does not mean the development of criteria and procedures once early in the developmental period of the zone. Rather, it requires periodic review of such criteria and procedures, and an established plan of studies and research which will provide the manager with an accurate and up-to-date picture of the current circumstances facing the zone and its clients. It is often useful for the zone manager to have a small unit as part of his own office, or as part of the marketing and promotional department to undertake such analyses on a continuing basis.

5. Planning is the essence of management

5.1 The elements of a strategic plan

To be an effective manager means being a consistent planner. Planning is a systematic process which examines alternative courses of actions and which then chooses from among these alternatives those actions most likely to benefit the organization. It is a continuous process, which should be adopted by most managers as an attitude, a way of life, and which requires a dedication to acting on the basis of contemplation of the future.

The elements of a strategic plan are as follows:

1. Planning the plan,
2. Identifying the objectives of the zone
 - by forecasting future prospects
 - by measuring the gap between aspirations and projections,
3. Developing strategies to fill those gaps,
4. Developing detailed plans in each functional area to implement those strategies,
5. Carrying out the detailed plans,
6. Reviewing the implementation and the results,
7. Recycling the strategies and/or plans to improve results.

5.2 The importance of planning

No senior manager can properly discharge his responsibilities without undertaking effective planning. Planning for the future can simulate that future on paper, and permits the zone manager to make better decisions about what to do now, about future opportunities and threats, in a relatively inexpensive way rather than await events as they happen. It also encourages the zone manager to examine the operation of the zone as an integral system, and not to react solely to apparently independent issues in each department. The plan provides an excellent way to identify the basic aims of the zone, and to communicate those aims to lower management and operational levels. The plan provides a framework against which such levels can make decisions which meet the objectives of the senior management. Planning provides a basis on which the achievement of management can be judged, and on the performance of the organization as a whole. But best of all, it disciplines zone management to examine and review on a consistent basis the environment within which the zone operates, and ensures that opportunities and threats to the zone's objectives are identified before they impact directly on the zone.

5.3 The role of senior staff in planning

Some hold to the view that planning is a function which can be allocated within an organization to a specialized bureau or department. Experience with all types of corporations however, demonstrates that it is only when the senior manager or the chief executive of the corporation is involved that the plan meets the objectives which have been outlined for it above. It is admitted that this is usually difficult to do, as the senior executive of any organization is usually the busiest.

In the effective management of the zone, it is important that

- the zone manager be committed to planning by establishing the procedures for preparing and implementing an annual plan;
- the zone manager prepare the first draft of the aims and objectives of this plan for review by his staff;
- the zone manager also draft the first identification of gaps and achievements which the plan would highlight;
- the zone manager bear the direct responsibility for the review of the detailed functional plans prepared by the staff;
- the zone manager bear the responsibility for the final plan, for its implementation and for its revision.

6. The impact of decision-making processes on management

6.1 Stages of development

Another area of great impact on the role of management within an EPZ but often forgotten is the issue of the style of decision-making processes used by the client organizations with which the zone manager must deal. An understanding of the process by which decisions are made in the client organization helps the manager not only to react in time to crises or opportunities that develop, but also to affect those decisions for the benefit of the zone.

Zones around the world are dealing largely with corporate organizations which have evolved from enterprises to major multinational enterprises. Along this route of evolution, the process by which decisions are made in that organization has changed. In the entrepreneurial organization, the senior manager makes the decision by himself. When the zone manager is dealing with such an enterprise in his zone, the local manager's level of authority is unlikely to permit him to make any significant decisions without reference to the chief executive of the enterprise, probably in some distant location. However, it is also likely that when that chief executive is contacted, he can make the decision quickly and easily.

The next stage in development of a multinational is the creation of a functional and formalized corporation with separate department heads concerned with production, marketing and finance on a global basis. In these circumstances, the zone manager will find that decisions regarding, for example, a change in production processes within the client's facilities, will require the approval and support of a group of senior executives, usually taking much more time than that required in the first stage of growth. If the change requires alterations to the zone's buildings, and the zone manager must contract for these changes with a local builder, it is likely that need for a group decision will require considerable time.

Finally, many multinational enterprises have developed to the point where they have become multi-structured organizations, with functional or entrepreneurial departments in geographical regions. This may speed up the decision-making process by locating the decision maker closer to the zone and the issue of concern.

Zone management, not only in its approach to the prospective new client, but also in its day-to-day dealing with client organizations in the zone will find that an understanding of the decision-making process as defined by the level of development of the client organization is most helpful in its relationships with the clients.

6.2 Cultural differences

It is also important for the zone manager to recognize that cultural differences among client organizations and within the zone itself will have a profound effect on the operation of the zone and on the decision-making processes followed by the clients and by zone management. The classic case is the example of the difference between American style decision making, where it is the usual practice for the decision to be made by one individual, and then transmitted to all levels of the organizations, as compared to the Japanese style, which requires all levels of management to consider the decision and to agree to its effectiveness before the decision is promulgated.

Sensitivity to such cultural differences and approaches to leadership and management can help the zone manager maintain an efficient and productive organization.

MARKETING AN EXPORT PROCESSING ZONE

presented by

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Introduction

At the United Nations CNTC/ILO Workshop on Export Processing Zones (EPZs) in Barbados last October, it was indicated that there are now 77 countries operating 176 EPZs with about 1.5 million workers employed*. Growth from 1986 in employment was estimated at about 10% per year. Importantly, the number of EPZs being planned grew from 24 to 52 which means that many more EPZs are in prospect. The figures are only approximate because the reporting of many countries is involved, and few report in detail about EPZs. Nevertheless, it is clear that EPZs continue to be popular in Third World industrialization programmes.

With all the competition for new industry straining the budgets of present promoters, and with the prospect that this competition will become even more intense in the future, what should the individual EPZ do about marketing its services?

To answer the question, one must first look at the EPZs currently operating, at the services they offer, and at the markets they serve.

Export Processing Zones

Not all of the 176 EPZs are good examples to follow. Most of the impressive recent success has been in relatively few EPZs in Asia and Mexico - perhaps 25-30 in all. The other 150 are either just starting out or have problems of management, high costs, poor location, poor funding, poor incentives, lack of infrastructure, lack of suitable investment climate, or are plagued by complex laws and regulations and difficulties in operating freely in the global manufacturing network now in full development. Unless they solve these problems first, the 150 will be wasting marketing effort and money in trying to promote EPZs that are unpromotable.

This is not a paper about how to create the successful EPZ. The difficulties in coping continually with the problems listed above are already known. EPZ managers must believe that they have to overcome or they would not be trying. But marketing must start from a good base of arguable advantages in order to find and convince potential clients to create new businesses in EPZs.

Services

All of the successful EPZs have worked out systems of management to cope with the problems their country may present with respect to location, transport, bureaucracy, labour and training.

* Jürgen Heinrichs, Starnberg Institute - closing remarks.

An example was the early creation of "one-stop shopping" in a number of Asian EPZs whose clients faced unusual problems of dealing with many government departments to get operating permits or initiate public services.

More recently, services have been provided to reduce risk and help the potential client find out whether the EPZ and the country in which it resides will be suitable as a manufacturing location before he commits himself completely to a new factory. The Nogales (Mexico) Shelter Plan invented in 1969 is such a service. It is a system of providing factory space, workers, personnel administration, and customs assistance to a client for an hourly fee based on the number of workers provided, but leaving to the client all responsibility for the manufacturing process, production rate, and product quality. This is done under a simple contract, and can be easily terminated at the client's request so that he can take his machinery and go home if it does not work out. The Shelter Plan has now spread to several other countries in Central America and the Caribbean. One Mexican Shelter Plan operator now has over 5,000 workers serving 50 companies. Some clients have been with him for 15 years. Haiti has similar examples but on a smaller scale.

Even more recently, the case of EPZs in Mauritius, overcoming a great problem of distance from the European market by leasing or purchasing three large Boeing 747 aircraft to fly apparel 10,000 kilometers to Paris economically, shows the extent to which imaginative confrontation of a major problem through the provision of service can be taken. Mauritius now has over 80,000 workers in its EPZs. Its client companies, many of which are owned by Mauritians, can all avail themselves of this outstanding transport service which would not have been created without the EPZs.

These services have been created by EPZs to help the customer survive and prosper. They are the produce of intelligent management searching for ways to make a given country more attractive than it otherwise might be. The "customer service" idea is as old as recorded history, but it took the creation of EPZs to put together a management team which would recognize and develop services in its own interest.

The most important attraction of future EPZs will be this management team and what it is able to do for its customers. Then, the marketing of the EPZ becomes not only marketing its country as a location for a new factory, but also marketing the EPZ as the bridge over which the client reaches that country.

Markets

There are probably only 2,000-3,000 companies in the advanced nations which have ever successfully operated outside their home countries. In general, these are the larger ones with full staffs of lawyers to help them get into business and keep out of trouble, and enough money to gain the knowledge required to operate abroad. They do not need EPZs to survive. Some smaller companies have been able to succeed in this way, but at much higher risk.

EPZs are the logical organizations to protect and help these smaller companies. They have the management and factory infrastructure the smaller companies need. They know their countries well and can help the newcomer survive and improve.

But most EPZs keep on marketing to the 2,000-3,000 successful large companies and ignore the more difficult task of selling to the 80,000 smaller manufacturing companies now active in the major advanced nations. These smaller concerns are not so "small" - they have sales of over US\$ 10 million per year, and many sell more than US\$ 100 million per year. Also, many are suppliers to the larger companies which would benefit by being able to "cluster" around an offshore location of the larger companies in order to service them more quickly and respond to changes in markets more efficiently. Automobile, aircraft, and electronic companies cluster like this, and joint ventures with local companies become possible in order to access local markets. The EPZ is a logical centre around which to build "cluster industries" since it is the best place to provide the services the smaller companies need to be successful.

Smaller companies need not necessarily cluster to be successful. Instead they can select the EPZ which gives them the greatest comparative advantage to serve their market niche in the global manufacturing network, and the EPZ must be prepared to help.

Budgets

Even a small EPZ should be spending US\$ 1 million per year on promotion. The competition in the market is becoming so intense that it is difficult to be heard above the noise of all the other potential plant locations as they advertise in leading publications about their advantages.

Besides advertising there are brochures to be printed, seminars and luncheons to be held at distant cities where the clients are, and very high costs in trained personnel to follow up leads.

A well-executed programme combines advertising in trade publications with direct contact programmes to reach potential clients. But with current competition even a good programme gives marginal results. The reasons are that the larger companies have heard it all before, the smaller companies are suspicious of the idea of offshore plants, and the pandemonium of hundreds of cities, states, and countries, including EPZs, promoting themselves with heavy budgets, is now overwhelming. People simply do not respond to the old promotion methods.

Puerto Rico is probably the most successful industrial promoter in terms of length of effort (40 years), size of budget (US\$ 60 million per year), and depth of staff devoted to promotion (10 offices around the world). To be sure, it has a special tax exemption programme attractive to investors who pay taxes in the USA, but it also must promote new jobs which cost US\$ 6 per hour (cf. US\$ 0.30 in the 1930s). It has been successful in attracting and keeping a level of some 2,000 companies on its island of 3,000 square miles over the years. It is a formidable competitor, well known and accepted in the market.

Most of the EPZs coming into the market are unknown or unproven, and it takes time to learn to compete. But trying to do so now is even more difficult if the old promotional patterns listed above are followed. What is

needed is a new approach which meets the needs of future global manufacturing networks, and especially helps the smaller companies to succeed. Fortunately, there is such an approach which will be described later. It does not change the pattern itself - one must still advertise, hold seminars, and send people to follow up - but it applies these tools to narrow markets which take advantage of the promoter's strengths and do not require that he compete head on with major promoters offering a full line of services and opportunities to produce everything.

Product Research

Research to support promotion is as old as promotion itself. But EPZs do little research of any kind, apparently in the belief that their infrastructure and fine buildings are sufficient attraction for clients. We are learning that an EPZ, though it offers land, infrastructure and buildings, is not primarily a real estate business. Instead it is a service business to attract clients who, incidentally, require land and buildings to operate.

Preparing the services an EPZ offers to meet the needs of probable clients is part of the strategy of promotion. Deciding which clients are probable can be done by researching the products flowing to advanced nation markets and measuring the competitiveness of the EPZ to produce those products against the competition, present and potential. Once the competitive products are known, it is relatively easy to find the companies producing them.

This type of research is only now gaining creditability, although it has been done by companies in their own product lines for many years. But EPZs can also do it using international trade data and data on wages and freight to market from competing countries. In a 1986 study Mexico was found to enjoy an advantage in labour and freight costs to the U.S. market over the average of competing suppliers from 30 other countries in 133 product groups of the 7-digit U.S. tariff classification out of 4,000 product groups studied. In fact, Mexico does not yet produce 34 of these products at all. And in 62 of the products, Mexico's margin for labour and freight was at least 50% more than the value added in the competing countries. These research results cannot be implemented without further study, but they point to direction of future promotion - it will be to exploit the advantage in labour and freight by convincing the companies making these products of the truth about costs.

Instead of spending money to advertise in a general publication, the budgets will be spent on technical and business publications in the fields of those products where the advantages lie. These narrow objectives mean running the risk of missing someone who is out of the product range promoted. But one should ask oneself if concentration on products in which one is not competitive in labour and freight can be justified, or should one allow the promotion programmes to drift along in a general way, as the pandemonium of general promotion increases with the many new EPZs entering the market. It should become clear that in research and specialization lies the future for successful EPZ promotion.