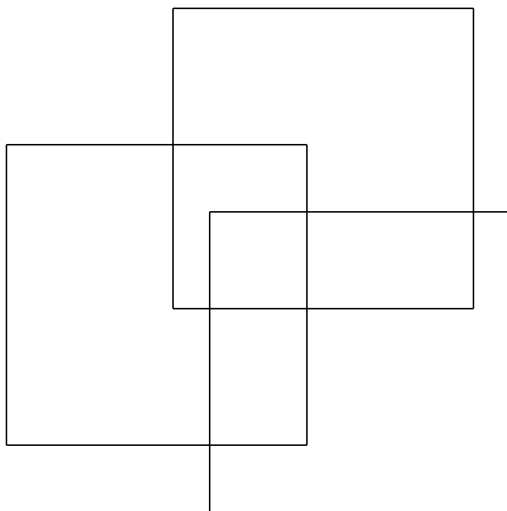




Promoting decent work and protecting fundamental principles and rights at work in export processing zones

**Report for discussion at the Meeting of Experts to Promote
Decent Work and Protection of Fundamental Principles and
Rights at Work for Workers in Export Processing Zones**
(Geneva, 21–23 November 2017)



MEWEPZ/2017

INTERNATIONAL LABOUR ORGANIZATION

Enterprises Department

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INTERNATIONAL LABOUR OFFICE, GENEVA

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First edition 2017

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Promoting decent work and protecting fundamental principles and rights at work in export processing zones, Report for discussion at the Meeting of Experts to Promote Decent Work and Protection of Fundamental Principles and Rights at Work for Workers in Export Processing Zones (Geneva, 21–23 November 2017), International Labour Office, Enterprises Department, Geneva, ILO, 2017.

ISBN 978-92-2-130063-2 (print)
ISBN 978-92-2-130064-9 (Web pdf)

Also available in French: *La promotion du travail décent et la protection des principes et droits fondamentaux au travail dans les zones franches d'exportation*, Rapport soumis pour discussion à la Réunion d'experts visant à promouvoir le travail décent et la protection des principes et droits fondamentaux au travail pour les travailleurs des zones franches d'exportation (Genève, 21-23 novembre 2017), ISBN 978-92-2-230904-7 (print), ISBN 978-92-2-230906-1 (Web pdf), Geneva, 2017; and in Spanish: *Promoción del trabajo decente y protección de los principios y derechos fundamentales en el trabajo en las zonas francas industriales*, Informe para la discusión la Reunión de expertos para promover el trabajo decente y la protección de los principios y derechos fundamentales en el trabajo para los trabajadores de las zonas francas industriales (Ginebra, 21-23 de noviembre de 2017), ISBN 978-92-2-331005-9 (print), ISBN 978-92-2-331006-6 (Web pdf), Geneva, 2017.

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Abbreviations

ACT/EMP	Bureau for Employers' Activities
ACTRAV	Bureau for Workers' Activities
CEACR	Committee of Experts on the Application of Conventions and Recommendations
EPZ	export processing zone
FDI	foreign direct investment
GDP	gross domestic product
GSP+	Special Incentive Arrangement for Sustainable Development and Good Governance
MNE Declaration	Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy
OECD	Organisation for Economic Co-operation and Development
SME	small and medium-sized enterprise
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WCO	World Customs Organization
WTO	World Trade Organization

Background

1. The ILO has a long history of examining and discussing employment, labour rights and social issues in relation to export processing zones (EPZs). Various meetings on the subject of EPZs have been held at the regional and subregional levels over the years. The first tripartite meeting of experts on the subject was held in 1998, and adopted conclusions on priorities and guidelines for improving social and labour conditions in EPZs.¹
2. In March 2003, the Governing Body discussed employment and social policy in respect of EPZs and asked the Office to “continue to examine the issues ... from the integrated perspective of all aspects of decent work, initially on a national, subregional or regional basis within a tripartite framework”.² The Programme and Budget for 2006–07 contained a provision for an InFocus Initiative on EPZs, and additional funding was allocated to continue the work for the following biennium. This funding supported data collection, research, meetings and the development of a database on EPZs,³ and culminated in a discussion of the resultant report at the 301st Session of the Governing Body (March 2008).⁴
3. In 2009, at the 98th Session of the International Labour Conference, the resolution and conclusions on gender equality at the heart of decent work noted that EPZs had proven successful for some countries, may offer new job opportunities for women that do not always exist in the domestic economy and may provide better wages and working conditions, but that, in some cases, lack of enforcement of labour standards resulted in unacceptable working conditions. The conclusions stated that “[f]reedom of association and the right to collective bargaining and core labour standards should apply to all EPZs, and should be used to ensure respect for workers’ rights, including gender equality”.⁵
4. In 2016, the International Labour Conference discussed decent work in global supply chains and adopted conclusions which included the following:

Export processing zones (EPZs) are not uniform and have very different characteristics. Decent work deficits are pronounced in a significant number of EPZs linked to global supply

¹ ILO: *Note on the Proceedings: Tripartite Meeting of Export Processing Zones-Operating Countries*, Geneva, 28 September to 2 October 1998.

² ILO: *Record of Decisions*, Governing Body, 286th Session, March 2003 (GB.286/205), para. 58.

³ Although somewhat dated now, some of this work, in particular the data collection, remains widely cited in the academic literature, despite significant gaps in key areas such as unionization rates and collective bargaining in EPZs. However, there do not seem to be many concrete outcomes in terms of significant policy changes at the national level concerning EPZs and decent work.

⁴ ILO: *Report of the InFocus Initiative on export processing zones (EPZs): Latest trends and policy developments in EPZs*, Governing Body, 301st Session, March 2008 (GB.301/ESP/5).

⁵ ILO: *Resolution and conclusions concerning gender equality at the heart of decent work, in Resolutions adopted by the International Labour Conference at its 98th Session*, International Labour Conference, 98th Session, Geneva, 2009, p. 13, para. 24.

chains. Fundamental principles and rights at work and decent work should apply to all territories, including EPZs. With the aim to attract investment and to create jobs, EPZs are often characterized by exemptions from labour laws and taxes, and restrictions on trade union activities and collective bargaining. Long working hours, forced overtime and pay discrimination are common practices in EPZs.

...

Governments should: ... [a]ctively promote social dialogue and fundamental principles and rights at work, including freedom of association and the right to collective bargaining for all workers, regardless of their employment status, including in EPZs.

...

The ILO should: ... [c]onsider adopting an action plan to promote decent work and protection of fundamental principles and rights at work for workers in EPZs, that follows up on the current discussion as well as previous discussions held in the ILO on this subject, such as the Tripartite Meeting of Export Processing Zone-Operating Countries (Geneva, 1998) and the Governing Body's discussion at its 286th Session (March 2003) on Employment and social policy in respect of export processing zones.⁶

5. As a follow-up to the resolution on decent work in global supply chains, in October 2016 the Governing Body requested the Office to “organize in 2017 a tripartite Meeting of Experts to identify possible action to promote decent work and protection of fundamental principles and rights at work for workers in export processing zones (EPZs)”.⁷
6. This background paper is intended to facilitate discussion on identifying possible action to promote decent work and protection of the fundamental principles and rights at work in EPZs. It draws on a range of studies, but concentrates on meta-studies which give a broader picture. Existing studies tend to focus on EPZs as a development strategy and hence their impact in developing countries; however, efforts have been made also to include developed countries with significant EPZ production, where data is available. It is striking that even recent publications are forced to draw on empirical studies dating back to the mid-1990s to mid-2000s, sometimes reaching back to studies from the mid-1980s. In other words, there is a gap of approximately ten years in knowledge on how EPZs affect decent work.
7. This document consists of four chapters: (1) the purpose of EPZs, how they work and estimated numbers; (2) the impact of EPZs on fundamental principles and rights at work; (3) other elements of decent work in EPZs; and (4) conclusions and suggested points for discussion.

⁶ ILO: [Resolution and conclusions concerning decent work in global supply chains](#), International Labour Conference, 105th Session, Geneva, 2016, paras 5, 16(b) and 23(g).

⁷ ILO: *Record of decisions*, Governing Body, 328th Session (October 2016): Decision on the fifth item on the agenda: [Follow-up to the resolution concerning decent work in global supply chains – ILO programme of action 2017–21](#).

1. EPZs: Purpose, how they work and estimated numbers

8. Export processing zones are enclaves created by government policy to promote foreign direct investment (FDI) and exports. In these zones, inputs and exports are exempt from tariffs so as to allow producers to access inputs at global prices to enhance their competitiveness in global markets. They may be covered by modified regulations, including labour regulations and administration; some countries exempt EPZs from certain regulations altogether. EPZs have become increasingly common among countries seeking export-led economic growth, even though some have produced mixed results for economic and social development.
9. Estimates of the number of EPZs are few and far between. In 1997, the ILO counted 845 EPZs in the world. The most recent ILO global count, in 2006, was 3,500 EPZs (or similar zones falling under some 20 different types and names); however, this figure excluded 5,341 single-factory EPZs in Bangladesh. No comprehensive survey is available after 2007.
10. In 2008, the World Bank, partially updating the ILO survey of 2006, counted 2,301 zones in developing and transition countries.¹ Another database, compiled by the Paris-Dauphine University, showed 1,083 free trade zones as of 2015, with 47 per cent in Asia, 24 per cent in Latin America and the Caribbean, 12 per cent in Africa, and the remainder in Europe and North America.² The United Nations Conference on Trade and Development (UNCTAD), in turn referring to an article in *The Economist*, suggested that as of 2015, there were over 4,500 EPZs, over 3,000 more than 20 years previously.³

Variety and evolution of EPZs

11. EPZs come under different names, which may be applied to widely different entities; consequently, regulatory and geographical definitions do not always overlap. Table 1.1 shows the definitions commonly cited in the research literature.⁴

¹ World Bank: *Special economic zones: Performance, lessons learned, and implications for zone development* (Washington, DC, 2008), pp. 2, 18.

² J.-M. Siroën et al.: *World FTZ Database* (2014); see also A. Yücer and J.-M. Siroën: “Trade Performance of Export Processing Zones”, in *The World Economy*, Vol. 40, Issue 5, pp. 1012–38 (May 2017).

³ UNCTAD: *Enhancing the Contribution of Export Processing Zones to the Sustainable Development Goals: An analysis of 100 EPZs and a Framework for Sustainable Economic Zones* (New York and Geneva, United Nations (UN), 2015), pp. i and 4.

⁴ Special economic zones are similar to EPZs, but offer flexibility in location and are also open to domestic producers. For the purposes of this document, the term EPZs will be used more broadly to incorporate special economic zones.

Table 1.1. Key definitions used by international institutions

ILO	“EPZs are industrial zones with special incentives set up to attract foreign investors, in which imported materials undergo some degree of processing before being exported again”. ¹
Organisation for Economic Co-operation and Development (OECD)	EPZs are “a policy tool for development and export-oriented growth”. EPZs can help to attract export-oriented FDI. Most EPZs are located in developing countries and focus on light industry and manufacturing activities. ²
UNCTAD	“Export Processing Zones’, ‘Special Economic Zones’, ‘Free Trade Zones’ (FTZs), ‘Free Zones’, ‘Enterprise Zones’, and similar terms and phrases are used to describe geographically limited and specially administered areas within a country that are established to attract local and foreign direct investment (FDI), trade, employment and industrial development.” ³
World Bank	“The principles incorporated in the basic concept of a special economic zone include: Geographically delimited area, usually physically secured (fenced-in); [s]ingle management/administration; [e]ligibility for benefits based upon physical location within the zone; [s]eparate customs area (duty-free benefits) and streamlined procedures.” ⁴
World Customs Organization (WCO)	The International Convention on the Simplification and Harmonization of Customs Procedures (last amended in 2006), Annex D, defines free zones as: “a part of the territory of a Contracting Party where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the Customs territory”. ⁵
World Trade Organization (WTO)	An EPZ refers to one or more areas of a country where barriers to trade are reduced and other incentives are created in order to attract foreign investors. The incentives provided differ in nature and can change over time, but many or most take the form of fiscal measures: tax reductions or exemptions rather than cash. ⁶

Sources: ¹ ILO: *Labour and social issues relating to export processing zones*, Report for discussion at the Tripartite Meeting of Export Processing Zones-Operating Countries, Geneva, 28 Sep.–2 Oct. 1998; ² M. Engman et al.: *Export Processing Zones: Past and Future Role in Trade and Development*, Trade Policy Papers No. 53 (Paris, OECD, 2007); ³ UNCTAD, 2015, op. cit.; ⁴ World Bank, 2008, op. cit.; ⁵ WCO: Text of the Revised Kyoto Convention: Specific Annex D; ⁶ WTO: *World Trade Report 2006: Exploring the links between subsidies, trade and the WTO* (Geneva, 2006).

- 12.** The proliferation of definitions is due in part to the changing forms of EPZs over time. Historically, free ports were the first to be established to facilitate commerce. Then came free commercial zones, followed by export processing zones characterized by a geographically bounded enclave. In some countries, EPZs have moved away from the concept of a geographical enclave into much larger “special economic zones”. These may be entire provinces, in the case of China, or entire countries, in the case of Mauritius. Other countries, such as Bangladesh and Namibia, now permit a foreign investor to establish an EPZ enterprise anywhere in the country. They are often linked to free trade agreements with much broader coverage, such as in Mexico, where several thousand enterprises operate as free-zone enterprises or maquiladoras processing and assembling parts and goods for re-export to the United States. One study lists 32 different titles used for such zones around the world, each indicating slight differences in terms of concessions, subsidies and regulations.⁵

⁵ J.-P. Singa Boyenge: *ILO database on export processing zones (Revised)*, Working Paper WP.251 (Geneva, ILO, 2007), p. 24.

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13. Discussion over EPZs has been impeded by the fact that they have been defined in various ways. However, a common characteristic (at least historically) has been that a zone is an enclave, both in terms of its geography and in its exceptional regulatory and institutional features, even if it has interactions with the economy outside the special zone.

Objectives of EPZ policies

14. In some countries, the most immediate benefit of export growth is the foreign exchange earnings it brings, which can be used to import crucial capital and materials for production to spur industrialization and to import consumer goods to support and improve living standards. Foreign exchange may also contribute to the promotion of sustainable economic development and decent work by impacting a government's fiscal space towards enabling favourable conditions for pro-development policies.⁶ EPZs are an important source of foreign exchange in developing countries; however, the higher the imports of raw and partially finished materials to EPZs, the lower their net contribution. An ILO study of the Costa Rican EPZ regime shows that firms in EPZs have played an important role in reducing dependence on traditional exports and in providing export revenues.⁷
15. Export-led growth strategies by developing countries most commonly underpin the development or expansion of EPZs.⁸ Exports add value to a country because they require the production of outputs that can compete on a world scale, which, it is hoped, will stimulate domestic producers to achieve the same level of competitiveness.
16. Many low-income countries with scarce resources for productive investment look to EPZs to attract badly needed FDI. Although EPZs account for a relatively small share of investment in large economies, in developing countries they are often a very substantial contributor. For example, the share of FDI in EPZs in the Philippines grew from 25 per cent in the early 1990s to 81 per cent by 2000; in China, the share of EPZs in FDI grew dramatically during the 1990s, reaching 80 per cent.⁹
17. In other cases, countries may have domestic capital to invest but potential investors may be deterred due to trade barriers, regulatory restrictions and inefficient administration. Governments lacking institutional capacity consider EPZs to be a more manageable first step to introduce the market reforms needed to progressively open their economies to globalization. Starting with a discrete region or sector also allows them to continue protecting domestic markets for a period of time to ease the transition.

⁶ ILO Bureau for Workers' Activities (ACTRAV): *Trade Union Manual on Export Processing Zones*, (Geneva, 2014), p. 67.

⁷ M. Jenkins: *Economic and social effects of export processing zones in Costa Rica*, Working Paper No. 97 (Geneva, ILO, 2005), p. iii.

⁸ J.-P. Cling and G. Letilly: *Export Processing Zones: A threatened instrument for global economy insertion?* Working document, DT/2001/17 (Paris, DIAL, 2001), p. 2.

⁹ UNCTAD: *World Investment Report 2003: FDI Policies for Development – National and International Perspectives* (New York and Geneva, UN, 2003).

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18. Some developing countries have successfully used EPZs to kick-start broader industrialization. Technology transfers and demonstration effects can stimulate domestic enterprises to move up value chains. As countries further enhance their industrial capacity, they sometimes diversify the sectors operating in their EPZs through development of non-traditional exports, in particular capital-intensive manufacturing such as electronics and automobiles. Others have expanded into services.
 19. Governments may also use EPZs to address other development issues. For instance, some EPZs are located in disadvantaged regions or cities to tackle unemployment or to shift industrial zones away from polluted and congested urban areas.
 20. Whatever the combination of motivations, new investment brought in by EPZs creates employment for workers, whose earnings can further stimulate economic development.

Ownership and management of EPZs

21. EPZs were traditionally owned and managed by government, but both roles are increasingly shifting to private entities. The World Bank found that 62 per cent of the 2,301 zones identified in developing and transition countries were developed and operated by the private sector. This constitutes a significant shift from predominantly public-operated free trade zones to mainly privately developed, owned and operated zones. Joint public and private partnerships have also emerged as a key feature. Available data suggests that private zones are less expensive to develop and operate than their public counterparts (from the perspective of the host country), and yield better economic results.¹⁰
22. EPZs are overseen by special administrative bodies (authorities or administrators). Public boards predominated in the 1980s and 1990s, while today public–private boards or solely private arrangements tend to dominate.¹¹ Free trade measures applying to EPZ enterprises not clustered in a geographical area are administered under special arrangements.
23. EPZ administrative bodies are commonly responsible for defining and supervising the application of zone laws and regulations, in so far as they differ from national ones. This also applies to labour laws and regulatory regimes. Zone administrative bodies provide assistance to EPZ enterprises in applying the relevant labour laws and regulations, as well as tax and duty regimes, land, infrastructure and other matters. Such administrative bodies tend to report to the ministry of commerce or industry, typically with only marginal participation of the ministry of labour.

Attracting investment to EPZs

24. Countries seek to attract FDI in many different ways, but mostly through offering incentives. These may be full or partial, time-bound or not. The most common incentives are fiscal exemptions: business tax reductions or exemptions; duty-free imports of raw material, capital

¹⁰ World Bank, 2008, op. cit., p. 4.

¹¹ *ibid.*, p. 18.

goods and intermediate inputs; ease of repatriation of capital and profits; exemption from foreign exchange controls and export charges; and exemption from most local and indirect taxes.¹² Some countries (such as Brazil) temporarily reduce employers' social security contributions; others (such as Turkey) subsidize employers' contributions to social protection.¹³ Some incentives apply to all investors, while others may depend on how strategic the particular investment is for the government's overall development objectives for the EPZ in question.

25. Governments may also seek to attract investment in EPZs by weakening protection of workers' rights, to lower labour costs or because existing labour laws are perceived by investors to be too rigid or inefficient. Incentives may include exemptions or derogations from the labour laws. The rights that are most commonly removed concern freedom of association and collective bargaining, and protection from discrimination in hiring and unjustified dismissal. Compulsory arbitration of labour disputes and restrictions on industrial action – for example, imposing longer mandatory conciliation periods before a strike may be deemed legal or reclassifying companies as “essential services” to prohibit industrial action altogether – are also common. Alternatively, the same legislation protecting workers' rights may apply inside EPZs as in the rest of the country but instead the government suspends public labour inspection in the zones.¹⁴ Table 1.2 reviews the incentives commonly offered by governments to attract investment in EPZs.

Table 1.2. Main incentives offered to attract investors to EPZs

Tax exemptions and reductions in employers' contributions	<ul style="list-style-type: none"> ■ elimination of, or reductions in, export taxes ■ elimination of, or reductions in, import taxes on inputs ■ reductions in income and property taxes ■ elimination of, or reductions in, customs fees and charges ■ exemptions from the payment of sales tax on exported products or services as well as on all goods and services purchased domestically and used in production ■ tax holidays, rebates or reduced tax rates on corporate income or profits, often linked to the export performance of companies or to the share of exports in total production ■ temporary reduction of employers' contributions to social protection schemes or temporary subsidies of employers' contributions made by the government
Subsidies	<ul style="list-style-type: none"> ■ free or subsidized lease of land or industrial parks ■ subsidized construction of production sites or office space ■ subsidized residential housing and institutions such as schools ■ subsidized prices in public utilities such as electricity and water ■ special grants for education and training ■ enhanced site security to prevent theft

¹² *ibid.*, pp. 48–49.

¹³ P. Tynel et al.: *Poland: A true special economic zone* (Ernst and Young, 2013), p. 34.

¹⁴ ILO: *Good Practices in Labour Inspection in Export Processing Zones* (Geneva, 2012).

Exemptions from regulations	<ul style="list-style-type: none"> ■ exemptions from foreign exchange controls ■ relaxed restrictions on foreign ownership ■ no controls on profit repatriation ■ waiver of rules on the lease or purchase of land ■ waivers of or derogations from specific sections of labour and environmental laws, including restrictions on trade union rights ■ suspension of public labour inspection
Streamlined administrative services	<ul style="list-style-type: none"> ■ single window or one-stop shop for government services ■ fast-track business registration, customs services ■ simplified or abolished licensing procedures ■ dedicated legal framework and court
Infrastructure incentives	<ul style="list-style-type: none"> ■ streamlining of government services, such as customs services ■ provision of enhanced specific infrastructure for production, logistics and transport, such as roads
Export promotion services	<ul style="list-style-type: none"> ■ business advisory services ■ sales and marketing support ■ finance ■ export credit services

Sources: X. Cirera and R. Lakshman: *The impact of export processing zones on employment, wages and labour conditions in developing countries*, Systematic Review 10 (International Initiative for Impact Evaluation, Mar. 2014); Engman et al., 2007, op. cit.; and World Bank, 2008, op. cit.

26. A 2005 survey asked investors in EPZs located in India, Sri Lanka and Bangladesh to rate various factors that influenced their site selection as either “not important”, “important”, “very important” or “most important”.¹⁵ The results indicate that physical infrastructure, tax benefits and location near cities and ports were important factors. Investors considered access to an educated and disciplined labour force to be more important than low wages; however, they also sought zones that were excluded from labour laws and their enforcement, with nearly 100 per cent of respondents rating labour law exclusions as “very important” or the “most important” factor. The report describes how labour-related non-fiscal incentives were implemented in Bangladesh:

In 1989, the government exempted the zones from three major labour laws. These included the Factories act, the Industrial Dispute act and the Employment of Labour (standing orders) act. These were replaced by two instructions: Instruction 1 and Instruction 2. These instructions carried detailed guidelines on the classification of employees, minimum wages, additional benefits to be paid by the employers in general and for [the] electronic industry, terry towel industry and textiles in particular. This was a major incentive to the EPZ units. All the respondents in our survey reported that the exemption from the labour laws highly benefitted their business in the EPZs. However, labour reforms have been introduced recently in the zones. The new laws require the units to have labour councils. Representatives in the councils are to be elected by labour under the

¹⁵ A. Aggarwal: *Performance of Export Processing Zones: A Comparative Analysis of India, Sri Lanka and Bangladesh*, Working Paper No. 155 (Indian Council for Research on International Economic Relations, 2005), pp. 65–66.

supervision of the zone authorities. Almost all the units opined that this would affect their business highly adversely.¹⁶

27. Some incentives are conducive to promoting decent work, such as improved infrastructure and reduced burden of business registration, and support sustainable enterprise development.¹⁷ Increased FDI can contribute to decent work through increased employment, higher wages, skills development, improved occupational safety and health standards, formalization and broader economic growth. However, derogations from labour laws or the suspension of labour inspections prevent the realization of fundamental rights at work and impede the development of decent work more generally. Fundamental principles and rights at work and national laws and regulations should apply equally to workers in EPZs; incentives based on exemptions from labour laws or the suspension of labour inspections are not acceptable. Poorly designed fiscal subsidies may reduce the revenues available for other expenditures such as training, labour inspection and social protection. Furthermore, waivers from contribution to social protection schemes can have negative impacts on the protection of workers and the financial sustainability of the social protection system. The net effects of some incentives are unclear; for example, business tax exemptions decrease government revenues but also help to attract new investment, which creates new jobs and generates revenue from income taxes.
28. The WTO Agreement on Subsidies and Countervailing Measures phased out the use of certain fiscal subsidies for EPZs from the start of 2016 for some developing countries.¹⁸ In particular, tax exemptions which are restricted to exports are regarded as a form of subsidy on exports and thus a distortion of international trade.¹⁹ It has also been argued that tax exemptions are not needed, since the attractiveness of EPZs for foreign investors also lies in the synergies that can be created by having a group of enterprises, including small and medium-sized enterprises (SMEs), in close proximity and with access to improved infrastructure, research and development institutions, an educated workforce and trade facilitation programmes.²⁰

¹⁶ *ibid.*, pp. 33–34.

¹⁷ ILO: *Conclusions concerning the promotion of sustainable enterprises*, International Labour Conference, 96th Session, 2007; see also ILO: *Enabling Environment for Sustainable Enterprises*.

¹⁸ Article 27.4 of the Agreement. The countries in question do not qualify for exemption as a least-developed country as defined by the UN or a country with an annual GDP per capita of less than US\$1,000. They include the Dominican Republic, Egypt, Guatemala, Morocco and the Philippines. Other countries which, as of 2015, were near the cut-off include Cameroon, the Congo, Guyana, Honduras, India, Indonesia, Senegal and Sri Lanka. See UNCTAD, 2015, *op. cit.*, citing J.J. Waters: “Achieving World Trade Organization Compliance for Export Processing Zones While Maintaining Economic Competitiveness for Developing Countries” in *Duke Law Journal* (Vol. 63, No. 2013), pp. 481–524.

¹⁹ UNCTAD, 2015, *op. cit.*, p. 6.

²⁰ *ibid.*, pp. 7–8, citing R.A. Torres: “Free Zones and the World Trade Organization Agreement on Subsidies and Countervailing Measures”, in *Global Trade and Customs Journal* (2007, Vol. 2(5)), p. 223.

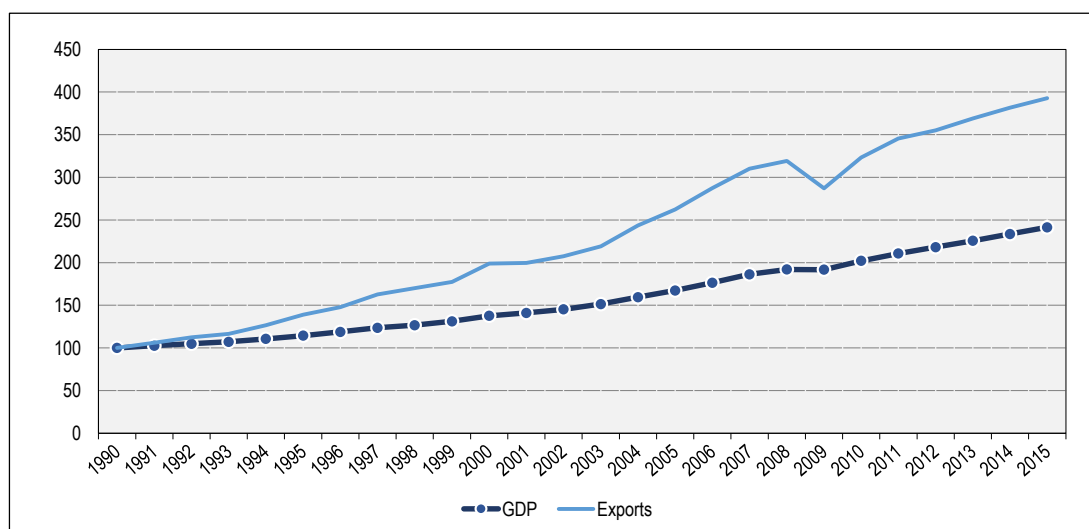
29. Similarly, the World Bank found in its 2008 review of three decades of zone development experience that the use of generous incentives packages to offset other disadvantages (such as poor location or insufficient facilities) was ineffective in terms of overall zone performance, due in large part to the increasing commonality of zone investment incentives.²¹ The key elements of a policy framework of good practices for EPZs recommended in the report include full consistency with international labour standards.²²

30. In response to these critiques, some governments have linked fiscal incentives to performance requirements such as export targets and local content or, more recently, technology content and employment commitments.²³ Other governments are shifting away from fiscal incentives to providing an internationally competitive business environment which could benefit enterprises more broadly, including improved transport, logistics and communications, efficient customs operations, reliable utility services and efficient administration.²⁴

Links to trade and investment

31. Over the last three decades, the world economy has been characterized by sustained growth in exports. Since 1990, world exports have grown faster than gross domestic product (GDP) (figure 1.1). This growth is increasingly being fuelled by emerging and developing countries, with EPZs playing a significant role.

Figure 1.1. World GDP and exports, volume indices, 1990–2015 (1990=100)



Source: International Monetary Fund: World Economic Outlook database

²¹ World Bank, 2008, op. cit., pp. 5, 49.

²² *ibid.*, pp. 5–6, 53.

²³ OECD, 2007, op. cit., p. 10.

²⁴ See, for example, H. Christiansen et al.: *Incentives-based Competition for Foreign Direct Investment: The Case of Brazil*, OECD Working Papers on International Investment, 2003/01 (Paris, OECD, 2003).

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- 32.** The share of developing economies in total merchandise exports reached 43.4 per cent in 2015, up from 30 per cent in 2000. Asia’s share reached 28.9 per cent, more than the sum of all other developing regions at 14.6 per cent. Over the last decade, merchandise trade between developing economies has increased from 41 to 52 per cent.²⁵
- 33.** The bulk of trade is in intermediate goods as part of global supply chains. EPZs promote imports of the intermediate goods needed for the manufacturing and export of final or further processed intermediate goods. The World Bank estimated that EPZs accounted for 40.8 per cent of global merchandise trade in 2005, with broadly similar shares in all regions.²⁶ In some countries, the share of EPZ exports in total exports can be much higher, reaching between 60 and 80 per cent. A 2014 statistical analysis by Siroën and Yücer confirms the contribution of EPZs to imports as well as to exports, with the former stronger than the latter.²⁷
- 34.** Competition in exports has grown with the entrance of low- and middle-income countries which see economic and development benefits from increased participation in trade. This competition is based on mostly relative competitive advantages, but absolute advantages, such as geography (proximity to major markets), natural resources, or capacity to produce to scale also play a role. The presence of developing countries in global trade has increased over the last 15 years across all sectors; in the communications equipment, apparel and textiles, tanning and office machinery sectors, the share is between 60 and 85 per cent of the total.²⁸ For example, the share of clothing exports from developing countries has risen from 58 per cent in 1995–99 to 72 per cent over the last five years (figure 1.2).

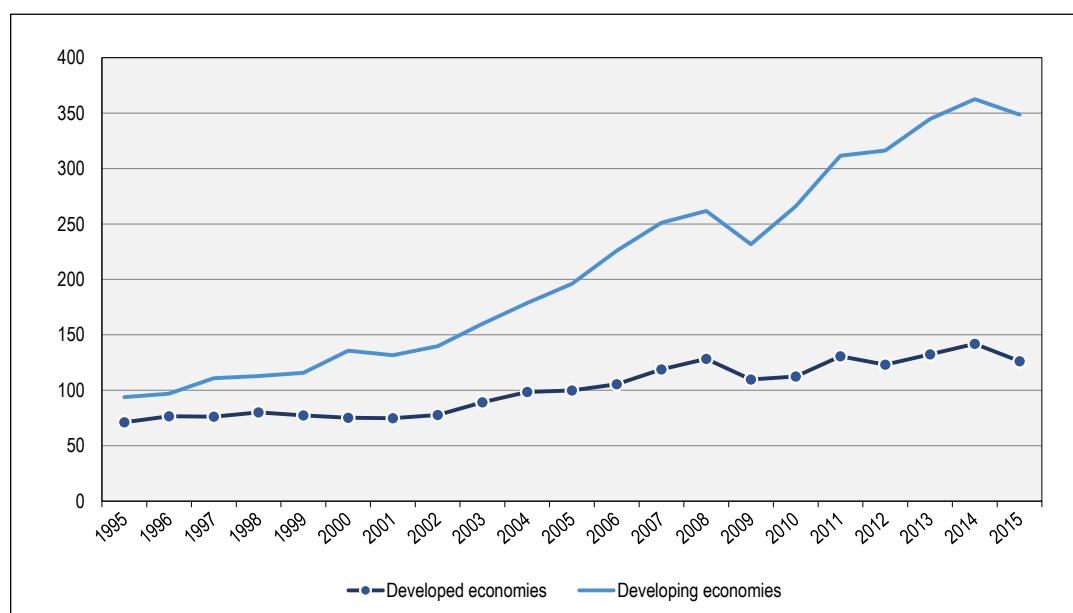
²⁵ WTO: *World Trade Statistical Review 2016*.

²⁶ World Bank, 2008, op. cit.

²⁷ J.-M. Siroën and A. Yücer: *Trade Performance of Free Trade Zones*, Working document DT/2014-09 (Université Paris-Dauphine, DIAL, 2014).

²⁸ UNCTAD: *Key Statistics and Trends in International Trade 2016: A bad year for world trade?* (Geneva, UN, 2017).

Figure 1.2. World clothing exports, 1995–2015, current US dollars (billions)



Source: UNCTAD Statistics.

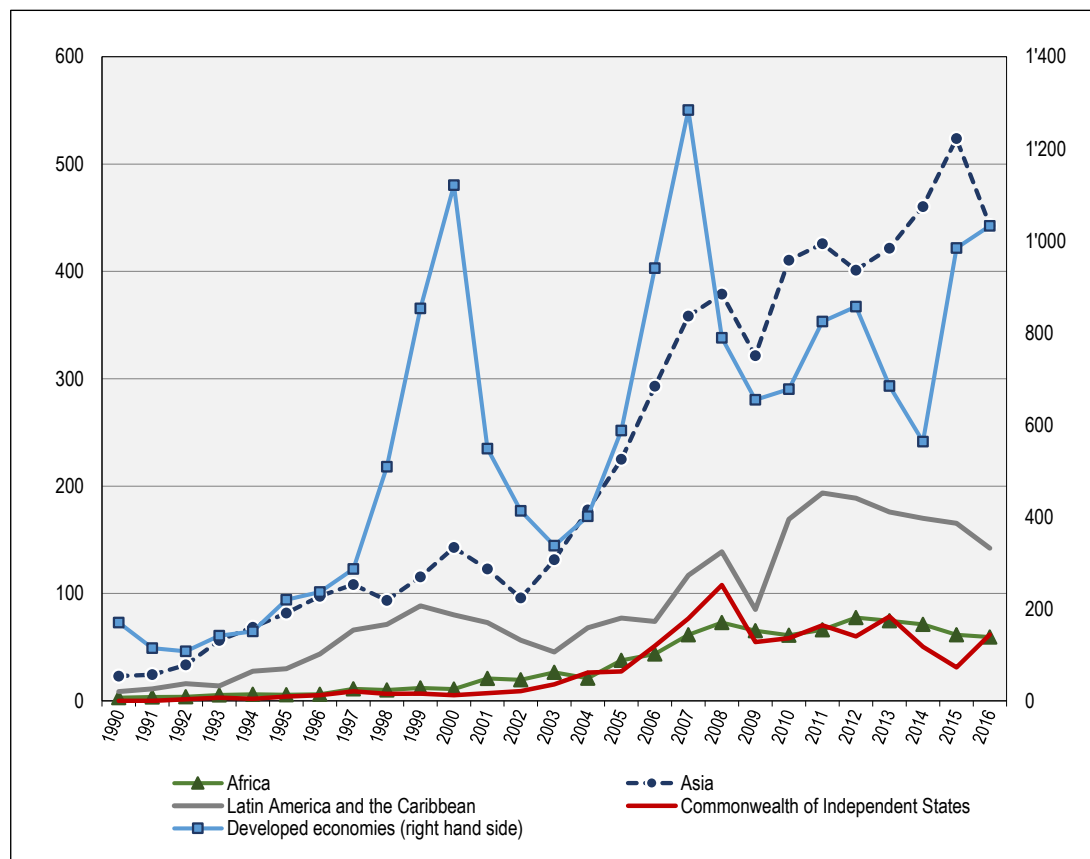
- 35.** However, donor support for EPZ promotion linked to trade facilitation has declined. A 2008 assessment found that since around 2000, as trade liberalization had become widely accepted as a norm, multilateral donors had become more cautious in their approach to EPZs, recognizing that they may be promoted by some developing countries as an alternative to wider trade and business environment reforms; furthermore, it appeared that a majority of World Bank-supported EPZs had been unsuccessful in their own terms.²⁹ In addition, the WTO has also raised questions as to whether EPZs represent a cost-efficient policy instrument to pursue industrial development, and notes that while many observers agree that some examples of successful EPZs exist, there are also examples of EPZs creating distortions that are harmful to an economy.³⁰
- 36.** By design, EPZ growth is also linked to the growth of inward FDI. Favourable import and export duties, taxes and infrastructure make EPZs particularly attractive for investors, and many countries closely link investment promotion and promotion of exports.
- 37.** Annual FDI inflows averaged US\$1,600 billion over the last five years. The share of inflows to developing countries increased from 31 per cent in 1990–94 to 47 per cent in 2012–16. Inward FDI growth has been especially strong in Asia, the region which also leads growth in EPZs. Over the last five years, the percentage of global FDI inflows to Asia totalled 29 per cent (of which 30 per cent went to China alone), followed by Latin America and the Caribbean at 11 per cent, and Africa and the Commonwealth of Independent States at 4 per cent each.

²⁹ P. Gibbon et al.: *An Assessment of the Impact of Export Processing Zones and an Identification of Appropriate Measures to Support their Development* (Danish Institute for International Studies, Apr. 2008), p. 7.

³⁰ WTO, 2006, op. cit.

Figure 1.3 indicates trends in regional inflows from 1990–2016. FDI outflows from developing countries are also rising. Baldwin and Lopez-Gonzalez document a remarkable increase in South–South investment, with Brazil, the Russian Federation, India, China and South Africa accounting for a full third of world FDI.³¹

Figure 1.3. FDI inflows by region, in current US dollars (billions)



Source: UNCTAD World Investment Report database.

38. Growing awareness of the link between investment, trade and respect for workers’ rights in jobs created in exports production has led to the increasing inclusion of labour provisions in trade and investment agreements, although questions remain about their effect in practice.³² These agreements – typically bilateral and multilateral agreements with either the United States or the European Union (EU) – also increasingly include provisions on the promotion of corporate social responsibility.³³ Some agreements seek to improve market access and labour

³¹ R. Baldwin and J. Lopez-Gonzalez: *Supply-Chain Trade: A Portrait of Global Patterns and Several Testable Hypotheses*, Working Paper No. 18957 (Cambridge, MA, National Bureau of Economic Research, Apr. 2013).

³² See, for example, H. Bakker: *Labour and social policy components in current trade agreements in Asia and the Pacific*, ACT/EMP Research Note (Geneva, ILO, Mar. 2015).

³³ R. Peels et al.: *Corporate social responsibility in international trade and investment agreements: Implications for states, business and workers*, ILO Research Paper No. 13 (Geneva, ILO, Apr. 2016).

conditions, especially in EPZs, others to maintain and strengthen existing institutions to protect workers' rights. Box 1.1 provides some examples.

Box 1.1.
Examples of trade agreements addressing labour conditions

In the United States, the African Growth and Opportunity Act (AGOA) of 2000 provides African countries with duty-free and quota-free access to the US market for a variety of apparel, manufacture and agricultural products on condition, inter alia, that participating governments protect political freedom and workers' rights. The Act includes among its conditions of eligibility the "protection of internationally recognized worker rights, including the right of association, the right to organize and bargain collectively, a prohibition on the use of any form of forced or compulsory labour, a minimum age for the employment of children, and acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health".¹ Swaziland, which has an estimated 17,000 workers in the export-oriented textiles and apparel industry, lost its AGOA eligibility in 2015 over concerns related to workers' rights, in particular freedom of association and protection of the right to organize.²

The EU's Everything But Arms initiative, which provides duty-free and quota-free access to all least developed countries, and the EU Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+) scheme for developing countries both make access conditional on ratification and implementation of a number of international Conventions on core human and labour rights. The EU has used this provision to enforce the application of ILO fundamental labour standards and at times has withdrawn or threatened to withdraw preferences from specific countries. For instance, it withdrew Myanmar's preferences in 1997 due to serious and systematic violations of principles of core international labour Conventions observed by the ILO, and reinstated them following the ILO's assessment of progress in 2012.³ An assessment of the EU GSP+ scheme found that it has had "a small but meaningful impact on the institutional and legislative frameworks governing labour rights".⁴

The 2004 Dominican Republic–Central America Free Trade Agreement has played a key role in encouraging countries in the region to ratify core international labour standards, in particular as a means to retain access to the US market following the end of the Multi-Fibre Arrangement in 2005. For instance, El Salvador ratified ILO Conventions on freedom of association and on the right to organize in 2006 in this context.

The 2007 free trade agreement between the United States and the Republic of Korea commits both countries to uphold in law and in practice the fundamental principles and rights at work. They also undertake to ensure appropriate access to tribunals for the enforcement of each party's labour laws.

Sources: ¹ United States, Trade and Development Act of 18 May 2000, Title I, s. 104(a)(1)(F). ² *The Economist*: "Swaziland loses its AGOA status", Country Profile, 3 July 2014. ³ European Commission: "Everything But Arms (EBA) – Who benefits?", 30 Apr. 2013. ⁴ European Parliament: *Labour rights in Export Processing Zones with a focus on GSP+ beneficiary countries* (Brussels, 2017), p. 7.

EPZs and industrialization

39. EPZs can also be shaped by broader industrial policy. The United States has used special economic zones since the time of the first colonies to drive growth and development, and many of the lessons are true for the EU zones as well.³⁴ More recently, China, the Republic of Korea, Malaysia, Mauritius, Singapore and Taiwan (China) have used EPZs within a carefully planned economic development policy to drive industrialization and move up the value chain to sustain economic growth and lift living standards in historically unprecedented ways.

³⁴ T.W. Bell: "Special Economic Zones in the United States: From Colonial Charters, to Foreign-Trade Zones, Toward USSEZs", in *Buffalo Law Review* (2016, Vol. 64, No. 5).

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40. However, the World Bank observed in 2011 that the EPZ model for industrialization is reaching its limits. With the cost-advantage and scale-production capacity limited to a few countries in Asia, EPZs in other countries will increasingly have to compete on the basis of higher productivity as well as higher-value-added products.³⁵ UNCTAD recommends that EPZ policies opt for a competitive strategy eschewing a low-cost advantage through lowered labour and environmental standards to focus instead on the reputation of EPZs for sustainable business with cost-effective support for sound environmental and social practices.³⁶
41. This is indeed what is happening to varying degrees in several EPZs. Diversification has been observed in countries such as Costa Rica and the Dominican Republic, with a rising share of agro-processing, pharmaceuticals, electronics and medical instruments.³⁷ Milberg and Amengual note that this export diversification is an important feature of EPZs, such as those in India, where exports shifted significantly from drugs and engineering goods to electronics (especially software) and gems and jewellery.³⁸ Cling et al. found that diversification was also important in the stand-out success of EPZs in Madagascar among the least developed countries in Africa.³⁹

Linkages with domestic producers

42. Development theory has long held that “the strength of linkages between EPZs and the rest of the domestic economy seems to play an essential role in determining whether, and to what extent, the host nation benefits from opening EPZs”.⁴⁰ Greater integration, in particular of SMEs, expands the possibilities for spillovers in innovation, higher-value-added manufacturing, skills upgrading and investment in skills acquisition and development.
43. However, EPZs in developing countries are generally created to attract foreign firms precisely because domestic firms lack the capacity to provide low-cost, high-quality inputs to production in EPZs.⁴¹ The duty-free imports of materials for EPZs do not apply to non-EPZ firms, putting them at a cost disadvantage, which also creates a barrier to the integration of EPZs in the domestic economy. The Republic of Korea’s “equal footing policy” of extending duty-free imports of material inputs to non-EPZ supplier firms boosted inputs purchased from the

³⁵ T. Farole and G. Akinci (eds): *Special Economic Zones: Progress, Emerging Challenges, and Future Directions* (Washington, DC, World Bank, 2011), p. 6.

³⁶ UNCTAD, 2015, op. cit.

³⁷ Asociación de Zonas Francas de las Américas: *Revista de Zonas Francas* [Free Trade Zone Review] (2015, Vol. 1 (11)).

³⁸ W. Milberg and M. Amengual: *Economic development and working conditions in export processing zones: A survey of trends*, Working Paper 3 (Geneva, ILO, 2008), p. 9.

³⁹ J.-P. Cling et al.: “[Export Processing Zones in Madagascar: A Success Story under Threat?](#)”, in *World Development* (2005, Vol. 33, No. 5), p. 799.

⁴⁰ Jenkins, 2005, op. cit., p. 24.

⁴¹ Milberg and Amengual, 2008, op. cit.

domestic economy from 13 per cent in 1972 to 32 per cent in 1978,⁴² and is now a fairly common feature of EPZ policy.

44. Technology spillovers historically have been rare due to the early focus of EPZs on low-skilled assembly with relatively little technology to transfer. Even higher-skill-intensive EPZs (such as software or business services) employing more sophisticated technology transfer little to no imported capital or management know-how. As governments move away from the enclave model, technology transfers tend to increase.
45. The share of domestic investment in EPZs is rising, creating another channel for positive spillovers. For instance, Baissac credits the shift in policy which allowed domestic firms in Mauritius to invest in EPZs with stabilizing the EPZ sector and creating the foundation for technology and knowledge internalization.⁴³ Jenkins finds that locally owned firms in zones are more likely to source their intermediate inputs locally, suggesting that policies to increase participation of local firms in EPZs could significantly boost spillovers to the broader economy.⁴⁴
46. Linkages are easier when the baseline level of industrial development of the economy is higher, when the state actively promotes economic development outside the EPZs and when it carefully manages EPZs' gradual development of domestic absorptive capacity.⁴⁵ Linkages are also more likely when the domestic market is larger and can better support large-scale production, has a large infrastructure, and has greater potential to diversify.
47. A growing number of governments are developing more integrated policies which pull together these various trends to boost enterprise growth and development more broadly throughout their economies, facilitating broader industrialization. Box 1.2 shows examples from the Latin America and the Caribbean region.

⁴² T. Kusago and Z. Tzannatos: *Export Processing Zones: A Review in Need of Update*, Social Protection Discussion Paper No. 9802 (World Bank, Jan. 1998), cited in: Milberg and Amengual, 2008, op. cit., pp. 20–21.

⁴³ C. Baissac: “Maximizing the developmental impact of EPZs: A comparative perspective in the African context of needed accelerated growth”, unpublished, presented at EPZ symposium, Johannesburg, South Africa (2003), p. 72, cited in: Milberg and Amengual, 2008, op. cit., p. 21.

⁴⁴ Jenkins, 2005, op. cit., p. iii.

⁴⁵ Milberg and Amengual, 2008, op. cit.

Box 1.2
EPZs in Latin America and the Caribbean: Regrowth and repositioning

EPZs in the Latin America and the Caribbean region began with a focus on the garment industry, which is characterized by low-skilled repetitive tasks. Employee turnover was high and unionization rates very low. Managers and investors were mostly concerned about low labour costs rather than productivity.

With the expiration of the Multi-Fibre Arrangement, a significant share of the region's export garment industry moved to Asia. Consequently, EPZ growth in Latin America and the Caribbean declined, with a levelling-off in the number of EPZs and EPZ-linked employment in Brazil, Colombia, the Dominican Republic, El Salvador and Guatemala. However, some EPZs took advantage of their geographical proximity to the US market to reposition themselves in niche markets within textiles and garments. In the Dominican Republic, for example, garment and textile producers have started adopting just-in-time production, short series and full-package solutions.

Other countries moved to diversify their EPZs. Uruguay turned to pulp and paper production. Costa Rica started exporting computer equipment in 1997, and later shifted to precision and medical equipment manufacturing. The Dominican Republic developed a niche in exports of surgical equipment, chemicals and plastics, and footwear. Brazil established an EPZ with a steel mill as an anchor company which attracted a range of enterprises in related sectors.

Many EPZs in Latin America and the Caribbean also became more embedded in the wider national economy. For instance, in the Dominican Republic, 40 per cent of EPZ firms are now domestically owned, 36 per cent are foreign-owned and the rest are state-owned or joint ventures; the domestic economy share of inputs to EPZ production averaged 25 per cent over 2006–16, increasing in-country value-addition, particularly in pharmaceuticals, footwear and electrical equipment.

Furthermore, local production is now being shifted to EPZs to increase exports. For instance, in Nicaragua, tobacco products (including cigars) are the third largest EPZ export. In the Dominican Republic, tobacco production is the second largest employer within the EPZs. In Brazil, EPZs are planned in a range of domestic agricultural and forest products, such as soya beans, carnauba wax, natural rubber and meat.

Sources: World Bank: *Special Economic Zones in the Dominican Republic: Policy considerations for a more competitive and inclusive sector* (2016); and statistics from the Dominican Republic National Council of EPZs (2015).

2. Impact of EPZs on fundamental principles and rights at work

48. The 1998 Declaration on Fundamental Principles and Rights at Work commits all Members to respect and promote principles and rights in four categories: freedom of association and the effective recognition of the right to collective bargaining, the elimination of forced or compulsory labour, the abolition of child labour and the elimination of discrimination in respect of employment and occupation. The International Labour Conference has also stated explicitly that “[f]undamental principles and rights at work and decent work should apply to all territories, including EPZs”.¹
49. In assessments of the impact of EPZs on workers’ rights, the violations of fundamental rights most commonly cited concerned freedom of association and collective bargaining and gender discrimination. Child labour is more likely to occur upstream in the production chain and is not a significant issue in EPZs. Some elements of forced labour may appear in EPZs, linked to migrant workers, but is more likely to exist upstream.
50. In their systematic review of studies assessing the impact of EPZs on workers’ rights, Cirera and Lakshman argue that “most of the evidence fails to compare labour outcomes inside and outside the zone adequately. Labour outcomes should be compared when possible within the same sector and even within the same firm size. Without this, the effect of domestic institutions cannot be differentiated from the effect of EPZs.”² In another comparative review, Distelhorst and Fu make a similar argument in assessing export producers more generally: “[O]ne of the key debates in globalization is how global supply chains distribute economic opportunities around the world. It is therefore important to understand whether employment opportunities in these supply chains are superior or inferior to those that workers would have access to otherwise.”³
51. Other researchers strongly disagree that the benchmark for assessment of EPZs is non-EPZ operators.⁴ EPZ operators benefit from substantial fiscal and other incentives, justified by the promise of both economic and social development. Therefore, it is reasonable to expect

¹ ILO: [Resolution and conclusions concerning decent work in global supply chains](#), International Labour Conference, 105th Session, Geneva, 2016, para. 5.

² X. Cirera and R. Lakshman: *The impact of export processing zones on employment, wages and labour conditions in developing countries*, Systematic Review 10 (International Initiative for Impact Evaluation (3ie), Mar. 2014), p. 27.

³ G. Distelhorst and D. Fu: *Working Conditions “In” and “Out” of Global Supply Chains: A Comparative Empirical Review*, Impact Brief (n.d., unpublished).

⁴ For example: W. Milberg and M. Amengual: *Economic development and working conditions in export processing zones: A survey of trends*, Working Paper 3 (Geneva, ILO, 2008); A. Lang: *Trade Agreements, Business and Human Rights: The case of export processing zones*, Corporate Social Responsibility Initiative Working Paper No. 57 (Cambridge, MA, Harvard University, 2010); and S. Tejani: “The Gender Dimension of Special Economic Zones”, in: T. Farole and G. Akinci (eds): *Special Economic Zones: Progress, Emerging Challenges, and Future Directions* (Washington, DC, World Bank, 2011), pp. 247–274.

EPZ enterprises to have a positive impact on decent work, in particular the fundamental rights, notwithstanding failures of labour regulation and administration in the economy as a whole. Furthermore, in countries where violations of workers' rights are common to both EPZs and the domestic economy, the discrete nature of EPZs which makes them attractive incubators for greater market reform also makes them a logical first step for the eventual reform of broader labour law and practice.

52. The ILO Committee of Experts on the Application of Conventions and Recommendations has been addressing protection of workers' rights in EPZs for many years, and has frequently emphasized that employers and workers in EPZs should benefit from the full application of the fundamental principles and rights at work and of the ratified Conventions. Based on the reports of both the Committee of Experts and of the Committee on Freedom of Association, the Conference Committee on the Application of Standards has examined individual cases concerning Bangladesh, Guatemala and Pakistan in relation to issues in EPZs.

Freedom of association and collective bargaining

53. The right of workers and employers to form and join organizations of their own choosing is a fundamental right and is essential to a free and open society. Trade unions serve to protect workers' rights and to facilitate communication between management and workers, and they play a vital role in the effective functioning of enterprises. Collective bargaining provides a framework for constructive labour relations and stability, which benefits both workers and managers.
54. Reports of violations of freedom of association in EPZs are common. There is said to be a significant amount of factual evidence documenting restrictions on unionization inside the EPZs, either via limits on rights or by de facto constraining of these rights.⁵
55. Data from Farole for ten countries indicates that there is no clear correlation between unionization rates within EPZs and national rates: in some countries the rate is much higher in the EPZs, and in other countries significantly lower.⁶ Cirera and Lakshman distinguish studies where trade unions are banned (either de jure or de facto) in EPZs from those where they are allowed, and note that rates of unionization are higher only where there is no policy of banning or discouraging organization.⁷
56. The Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy states: "Where governments of host countries offer special incentives to attract foreign investment, these incentives should not include any limitation of the workers' freedom of

⁵ Cirera and Lakshman, 2014, op. cit., p. 19.

⁶ T. Farole: *Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience* (World Bank, 2011).

⁷ Cirera and Lakshman, 2014, op. cit., p. 19.

association or the right to organize and bargain collectively.”⁸ Upholding freedom of association need not deter FDI. For example, after several workers’ strikes, in the 1990s, the Philippines extended the legal right to organize to its EPZs;⁹ there is now an established trade union presence in EPZs and collective bargaining takes place. UNCTAD indicates that EPZs in the Philippines remain a strong competitor for FDI, and that protecting union rights can go hand in hand with increasing FDI.¹⁰

- 57.** Nonetheless, the practice is common in national law. One of the most comprehensive investigations into government policies restricting freedom of association and collective bargaining found that legal restrictions on union rights in EPZs are widespread in developing countries. It cited examples from Bangladesh, Colombia, Namibia, Nigeria, Pakistan and Togo. It also found examples of restrictions on industrial action in Bangladesh, India, Namibia, Nigeria, Pakistan, the Philippines, Sri Lanka and Turkey. Interference in the affairs of workers’ organizations was identified in Bangladesh, Nicaragua and Sri Lanka; anti-union discrimination in Costa Rica, the Dominican Republic, Guatemala, India, Nicaragua, the Philippines and Sri Lanka; and action against collective bargaining in the Dominican Republic, India, Malaysia, Nicaragua, the Philippines and Sri Lanka.¹¹ Some of these countries have subsequently amended their legislation to remove some or all of these restrictions.
- 58.** A European Parliament study notes that “[e]ven when union activities are legally permitted, they can be seriously undermined in practice”, and cites an alleged unofficial policy of “no unions, no strike” by the Export Processing Zone Authority in the Philippines.¹²
- 59.** In some cases, “obstacles to union organizing in EPZs, similar to the situation outside EPZs, emanate from a variety of corporate/private practices, including ‘the unjust dismissal, suspension, transfer and blacklisting of trade union officials and members [and] [employers in EPZ enterprises] sometimes even resort to physical violence to prevent workers from forming and joining trade unions of their choosing’”.¹³ Examining the determinants of unionization

⁸ ILO: *Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy* (5th edition, 2017), para. 52.

⁹ D. Madani: *A Review of the Role and Impact of Export Processing Zones*, Policy Research Working Paper 2238 (Washington, DC, World Bank, 1999), p. 47.

¹⁰ UNCTAD: *World Investment Report 2003: FDI Policies for Development – National and International Perspectives* (New York and Geneva, UN, 2003).

¹¹ R. Gopalakrishnan: *Freedom of association and collective bargaining in export processing zones: Role of the ILO supervisory mechanisms* Working Paper No. 1 (Geneva, ILO, 2007).

¹² European Parliament: *Labour rights in Export Processing Zones with a focus on GSP+ beneficiary countries* (Brussels, 2017), pp. 6, 33.

¹³ A. Lang: *Trade Agreements, Business and Human Rights: The case of export processing zones*, Corporate Social Responsibility Initiative Working Paper No. 57 (Cambridge, MA, Harvard University, 2010), p. 18, citing Gopalakrishnan, 2007, op. cit.

rates and wages in the garment manufacturing sectors in Honduras and El Salvador, Anner found that:

[B]ecause the desire to keep wages low is so intense, and because unionization tends to increase wages, employers in the EPZ sector will do everything in their power to prevent unionization. This may include paying off union organizers to desist from a union campaign, lobbying government officials to deny union recognition of new unions in their factories, and, as a last resort, closing a unionized plant and re-opening union-free elsewhere, perhaps under a different name.¹⁴

60. EPZs also commonly sponsor worker welfare associations that often serve to compete with or undermine trade unions.¹⁵ In Sri Lanka, the Board of Investment encouraged the establishment of employees' councils, which were set up without consultation with unions, are under the control of the Board and their members are not freely elected. These councils "hampered the creation of free and independent unions and the exercise of the right to collective bargaining".¹⁶
61. The enclave nature of many EPZs makes organizing more difficult, even without active repression. Discussing the experience for trade unions attempting to organize workers in EPZs in southern Africa, Jauch explains: "Monitoring and enforcing national legislation regarding working conditions in EPZs is difficult. In the case of fenced-in EPZs, their physical demarcation, coupled with security guards and entry permit requirements, are major obstacles for trade unions in their efforts to reach and organize EPZ workers."¹⁷
62. Most studies find equally low levels of unionization outside of EPZs. The European Parliament cautions that "these problems are not confined to EPZs", and cites the case of Sri Lanka, where in law it is easier to unionize outside EPZs, but a hostile environment for organizing still exists.¹⁸ Cirera and Lakshman argue that there may be a selection bias in many studies: "[I]t is likely that the motivation to focus on specific EPZs arose from previous controversies about labour issues. As a result, EPZs without labour disputes may be under-represented and the findings may be biased towards more negative outcomes."¹⁹
63. There are differing government approaches to promotion of collective bargaining in EPZs. Nigeria, for example, takes a relatively hands-off approach, leaving collective bargaining in

¹⁴ M. Anner: "The Impact of International Outsourcing on Unionization and Wages: Evidence from the Apparel Export Sector in Central America", in *Industrial and Labour Relations Review*, Cornell University (Jan. 2011, Vol. 64, No. 2), p. 310.

¹⁵ ILO Bureau for Workers' Activities (ACTRAV): *Trade Union Manual on Export Processing Zones* (Geneva, 2014).

¹⁶ *ibid.*, p. 39.

¹⁷ H. Jauch: "Export processing zones and the quest for sustainable development: a Southern African perspective", in *Environment & Urbanization* (Apr. 2002, Vol. 14(1)), p. 103.

¹⁸ European Parliament, 2017, *op. cit.*, pp. 6, 33.

¹⁹ Cirera and Lakshman, 2014, *op. cit.*, p. 27.

EPZs to be shaped by the “character of collective relations in each trade union’s sector”.²⁰ Sectors where there is a functioning National Joint Industrial Council have been able to secure agreements which are also binding on EPZs within its sector. In other sectors where there is no such council, such as the oil sector, the unions have not been able to reach an EPZ-specific agreement.

64. The approach of the Government of Nicaragua is more active. In response to complaints concerning freedom of association and collective bargaining in EPZs, in 2010 it established a Tripartite Labour Committee for Export Processing Zones which facilitates collective bargaining. The representative workers’ and employers’ organizations subsequently negotiated in 2012 a tripartite agreement on labour and production stability which set out a schedule of wage increases over four years, emphasized the importance of social dialogue and training, and created a Committee on Occupational Safety and Health that is attached to the Tripartite Labour Committee for EPZs. A total of 20 collective agreements, covering 48,180 workers, have been signed at the national level in the EPZs.²¹ Although progress is still ongoing, this transformation demonstrates the importance of government policies which reflect a commitment to the realization of the right of workers to organize and to bargain collectively in their EPZs.
65. International framework agreements can contribute to addressing challenges concerning freedom of association in global supply chains, including in EPZs. As these framework agreements are negotiated on a global level between multinational enterprises and global union federations, they can support social dialogue in EPZs, where many of the workers covered by the agreements are located.²² For instance, in 2007, IndustriALL signed a global framework agreement with a major garment buyer which covered over 1 million garment workers, most of whom are located in EPZs.
66. The ILO has produced two manuals to assist trade unions and workers, which provide detailed guidance on the obstacles workers in EPZs face in trying to organize and strategies for overcoming them, and include information on the assistance available, in particular from global trade unions that have extensive experience working in EPZs.²³

²⁰ *ibid.*, p. 39.

²¹ ILO, CEACR: [Observation on the Right to Organise and Collective Bargaining Convention, 1949 \(No. 98\), for Nicaragua](#), published International Labour Conference, 104th Session (2015).

²² ILO ACTRAV, 2014, *op. cit.* See also, D. Miller: “Global Social Relations and Corporate Social Responsibility in Outsourced Apparel Supply Chains: The Inditex Global Framework Agreement”, in: K. Papadakis: *Shaping global industrial relations: The impact of International Framework Agreements* (2011), pp. 179–198.

²³ ILO ACTRAV, 2014, *op. cit.*; A. Sukthankar and R. Gopalakrishnan: [Freedom of Association for Women Workers in EPZs: A Manual](#) (Geneva, ILO, 2012).

Discrimination

67. In respect of the elimination of employment discrimination in EPZs, the most prevalent challenges relate to gender discrimination.
68. In their review of the literature,²⁴ Milberg and Amengual found that female employment exceeded male employment in Madagascar, Jamaica, Barbados, Belize, the Dominican Republic and El Salvador, but not in India, China or Mexico. While women dominate in EPZ employment in most countries overall, there is nevertheless significant heterogeneity, with figures as low as 10 per cent women workers in Bahrain and up to 90 per cent in Jamaica and Nicaragua (see table 2.1).

Table 2.1. Share of women workers in economic zones, 2005–06 (per cent)

Country	Share of women (%)
Jamaica	90
Nicaragua	90
El Salvador	85
Sri Lanka	78
Honduras	75
Philippines	74
Madagascar	71
Republic of Korea	70
Guatemala	70
Mauritius	62
Mexico	60
Malaysia	54
Dominican Republic	53
Malawi	51
Jordan	33
Morocco	20
Bahrain	10

Source: J.-P. Singa Boyenge: *ILO database on export processing zones (Revised)*, Working Paper WP.251 (Geneva, ILO, 2007).

69. The share of women workers is highest in light industries, such as garments, electronics and textiles, and much lower in chemicals, wood products and metals. Cirera and Lakshman conclude from their review that “there is weak support for the idea of feminisation of the labour force in EPZs, although this is difficult to disentangle from the sector composition of EPZs, or

²⁴ W. Milberg and M. Amengual: *Economic development and working conditions in export processing zones: A survey of trends*, Working Paper 3 (Geneva, ILO, 2008).

for a positive impact of EPZs in female labour participation”.²⁵ They also note that studies of EPZs in China, Bangladesh and Mauritius all found that EPZs facilitated women’s entry to the labour market. Likewise, EPZs in Costa Rica have provided jobs, particularly to low-skilled women.²⁶

70. Tejani draws a stronger conclusion: zones “remain highly female intensive in general with countries such as Bangladesh, Jamaica and Nicaragua displaying a female share of employment close to 90 percent”²⁷ and EPZs have almost doubled the female share of non-agriculture sectors. She notes that the feminization of EPZ production has been attributed to three factors: “women’s relative ‘cheapness’ owing to the gender wage gap, rising international competition, and gendered norms and stereotypes that segment work by sex and assign women to low-skill and low-paying work”.²⁸ Farole also found that EPZs “do not attract female workers per se, but they do attract firms in sectors whose basis of competition is highly dependent on the available supply of low-wage, flexible, and unskilled/semiskilled workers, a set of requirements that often results in female workers”.²⁹
71. As EPZs advance into higher-value-added industries, male workers tend to increase in number. Women’s share of employment in EPZs in developing countries is highest in garments/textiles and electronics. As EPZs diversify into higher-value-added manufacturing exports, the relative share of women workers tends to decrease, even though total employment of women may rise. According to Cling and Letilly, the educational level of the women in host countries is a key determinant of whether men tend to replace women as EPZs shift focus to higher-skilled production: “whereas in Malaysia and in Taiwan, many of the technicians are women, the situation is very different in poorer countries; rather than retrain the largely female labour force already employed when the technological content of the production is increased, EPZs in these countries prefer to hire better-qualified men”.³⁰ Numerous studies cited by Cirera and Lakshman and by Tejani also note the lack of women in supervisory positions, even in EPZs, where the line workers are predominately women.
72. The gender wage gap in EPZs in developing countries has been widely researched. Tejani lists numerous studies which find a gender wage gap in EPZs, and attributes it to a high degree of

²⁵ Cirera and Lakshman, 2014, op. cit., p. iii.

²⁶ Jenkins, 2005, op. cit., p. iii.

²⁷ S. Tejani: “The Gender Dimension of Special Economic Zones”, in: T. Farole and G. Akinci (eds): *Special Economic Zones: Progress, Emerging Challenges, and Future Directions* (Washington, DC, World Bank, 2011), p. 257.

²⁸ *ibid.*, p. 251.

²⁹ Farole, 2011, op. cit., p. 101.

³⁰ J.-P. Cling and G. Letilly: *Export Processing Zones: A threatened instrument for global economy insertion?* Working document, DT/2001/17 (Paris, DIAL, 2001), p. 19.

occupational sex segmentation. Studies of EPZs in the Dominican Republic, Uttar Pradesh (India), and Mauritius also show a gap, albeit a smaller gap than outside the zones.³¹

73. The basic problems faced by women workers in EPZs, including sexual harassment, are “common across regions, and have remained unchanged over the years”.³² For instance, the Committee on the Elimination of Discrimination against Women has noted the prevalence of sexual harassment of women in EPZs in Guatemala, Nicaragua, Honduras and Fiji.³³ In describing the lack of legal protections against gender-based violence at work in EPZs in Sri Lanka, Hancock argues that the violence against women, sexual harassment and even rape of women workers in EPZs goes unaddressed due to cultural norms which look down on young women travelling far from home.³⁴
74. Other forms of gender discrimination are also prevalent in EPZs, including discrimination against pregnant women in hiring decisions and forced redundancy, a lack of childcare and maternity leave, and greater discrimination in access to social protection.³⁵

Forced labour

75. Although it has not been observed in the literature as a widespread problem, there are risks of forced labour in EPZs with large numbers of migrant workers who are required to pay recruitment fees and transportation before they are allowed to leave their jobs. There are also frequent reports of restrictions on workers’ movements, including confinement to factory or dormitory premises. These problems are difficult to address, as regulation of recruitment practices requires bilateral action and coordination between the host country and the country of origin.³⁶

³¹ Cirera and Lakshman, 2014, op. cit.

³² Sukthankar and Gopalakrishnan, 2012, op. cit., p. 2.

³³ See UN Committee on the Elimination of Discrimination against Women: *Concluding comments of the Committee on the Elimination of Discrimination against Women: Guatemala* (CEDAW/C/GUA/CO/6), thirty-fifth session, 15 May to 2 June 2006, para. 29; idem: *Concluding observations of the Committee on the Elimination of Discrimination against Women: Guatemala* (CEDAW/C/GUA/CO/7), forty-third session, 19 January to 6 February 2009, para. 29; idem: *Concluding comments of the Committee on the Elimination of Discrimination against Women: Honduras* (CEDAW/C/HON/CO/6), thirty-ninth session, 23 July to 10 August 2007, para. 28; idem: *Concluding comments of the Committee on the Elimination of Discrimination against Women: Nicaragua* (CEDAW/C/NIC/CO/6), thirty-seventh session, 15 January to 2 February 2007, para. 23; idem: *Report of the Committee on the Elimination of Discrimination against Women (A/57/38 (Supp.))*, General Assembly, Official Records, fifty-seventh session, para. 56. Cited in Lang, 2010, op. cit.

³⁴ P. Hancock: “Women, work and empowerment: A portrait of women workers in two of Sri Lanka’s Export Processing Zones”, in *Norwegian Journal of Geography* (2006, Vol. 60, Issue 3), pp. 227–239.

³⁵ Lang, 2010, op. cit.

³⁶ ILO: *Good Practices in Labour Inspection in Export Processing Zones* (Geneva, 2012).

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76. Some studies have documented compulsory overtime work in EPZs, for instance in the apparel EPZ in Mauritius and the Shenzhen EPZ in China.³⁷ The annual human rights reports of the US Department of State also frequently report problems with forced overtime in EPZs.³⁸

³⁷ Cirera and Lakshman, 2014, op. cit., p. 22.

³⁸ US Department of State: *Country Reports on Human Rights Practices*.

3. Other elements of decent work in EPZs

77. In addition to the fundamental rights at work, other elements of decent work include employment creation and job stability, skills development, hours of work, wages, occupational safety and health, social protection, labour inspection and social dialogue.

Employment creation

78. It is clear that export processing zones generate employment. In the period up to 2006, employment in EPZs rose rapidly, from an estimated 23 million in 1997 to 43 million in 2002 and reaching 67 million in 2006. EPZ employment in China alone was estimated at 40 million in 2005–06 by the ILO and at 50 million by the World Bank in 2008. Table 3.1 provides an approximate breakdown of employment in EPZs by region for the period 2006–07, the last time a global estimate was undertaken. Table 3.2 lists the top ten countries for employment in EPZs in 2007.

Table 3.1. Estimated employment in EPZs by region, 2005–06,
(in thousands and as a share of global EPZ employment)

Region	EPZ employment ('000s)	Share of total (%)
Asia and the Pacific	55 887	83.4
Latin America and the Caribbean	6 259	9.3
Middle East and North Africa	1 687	2.5
Central and Eastern Europe	1 400	2.1
Sub-Saharan Africa	1 043	1.6
Other Europe and United States	705	1.1
Total	66 981	100.0

Source: Compiled based on data from J.-P. Singa Boyenge: *ILO database on export processing zones (Revised)*, Working Paper WP.251 (Geneva, ILO, 2007).

Table 3.2. Top ten countries for EPZ employment, 2007

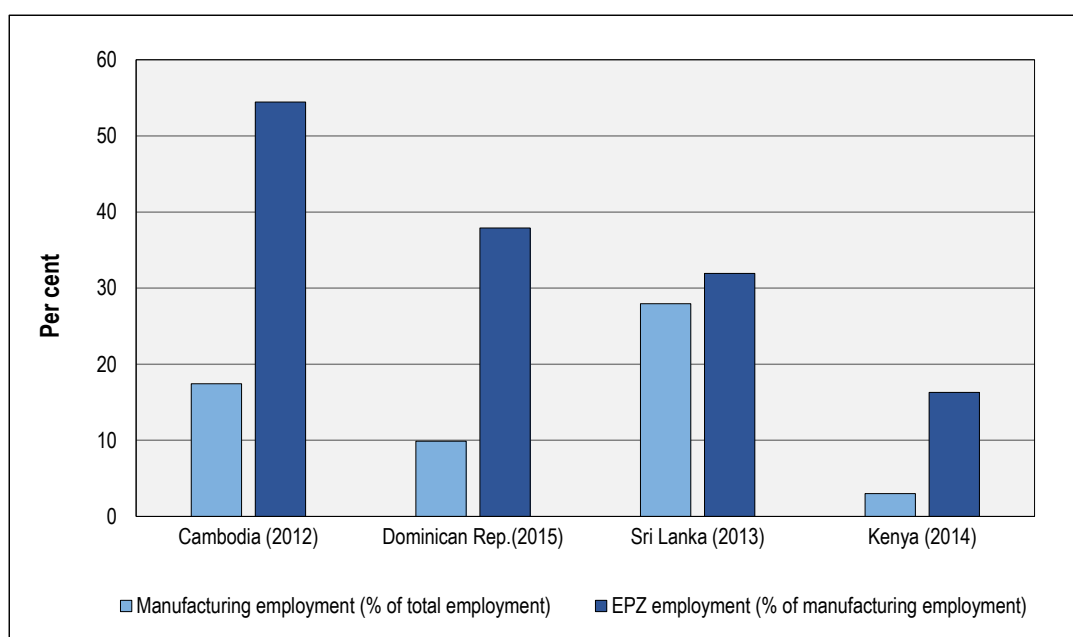
Country	Workers employed in EPZs ('000s)
China	50 000 000
Indonesia	6 000 000
Mexico	1 300 000
Viet Nam	950 000
Pakistan	888 000
United Arab Emirates	552 000
Philippines	545 000
South Africa	535 000
Thailand	452 000
Ukraine	387 000

Note: Figures exclude OECD countries.

Source: World Bank: *Special economic zones: Performance, lessons learned, and implications for zone development* (Washington, DC, 2008), p. 27.

79. Unsurprisingly, EPZ employment comprises a larger share of total manufacturing employment in developing countries where overall manufacturing remains low. Figure 3.1 shows some country examples.

Figure 3.1. Employment in EPZs and in manufacturing in selected countries (per cent)



Sources: ILO Statistics and the annual reports of EPZ administrators (textiles and garment employment for Cambodia).

80. In developing countries, particularly in Asia and the Pacific and Latin America and the Caribbean, the share of total wage employment generated by EPZs is typically substantial (see table 3.1). However, direct employment created by EPZs varies significantly between countries, and has often been disappointing, albeit with some notable exceptions. The World Bank concluded in 2008 that, particular exceptions notwithstanding, the “direct employment impact of zones is marginal”.¹ In the same year, the ILO estimated that EPZs accounted for less than 0.5 per cent of total global employment, and for less than 3 per cent of employment in most individual countries with EPZs.²
81. Indirect employment effects are equally important, but data is even more difficult to obtain. World Bank estimates from 2008 suggest that indirect employment amounted to up to 77 million jobs worldwide in 2007.
82. The disappointment expressed by some observers as to the capacity of EPZs to generate employment may be due to the unrealistic expectations development specialists initially placed on EPZs. More recent commentators reflect a more measured optimism, stating that “while EPZs do not present a solution to unemployment”, they are “nonetheless a viable source of employment creation”.³

¹ World Bank, 2008, op. cit., p. 34.

² ILO: *Report of the InFocus Initiative on export processing zones (EPZs): Latest trends and policy developments in EPZs* (GB.301/ESP/5), Governing Body, 301st Session, Geneva, Mar. 2008, para. 20.

³ M. Engman et al.: *Export Processing Zones: Past and Future Role in Trade and Development*, OECD Trade Policy Papers No. 53 (Paris, OECD, 2007), p. 29.

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83. Cirera and Lakshman caution that although EPZs clearly have created many jobs, it is more complicated to assess the net effect of EPZ policies on job creation: ⁴

While the employment effects of EPZs in relation to the estimated number of people employed there are more or less clear ..., it is not obvious whether this employment is additional. Additionality of employment, however, is very difficult to measure empirically, given the lack of counterfactual data: it is hard to tell whether a company would have invested anyway, outside of the zone. There are also different levels of additionality. The first dimension is the issue of the additionality of investment – whether investment in the unit of production would not have occurred in the absence of the EPZ. A second dimension is related to additionality of employment: even if investment is additional, employment may be reallocated from outside to inside the zone, or between regions, with potentially zero net effect on overall employment if people were already employed elsewhere.

84. Workers in EPZs are predominantly nationals. There are some notable exceptions, such as Jordan, where the workers are mostly from South and South-East Asia (75 per cent in 2016). ⁵

Stability of employment

85. EPZs tend to have a high rate of turnover of workers, who seldom remain longer than five years; the use of fixed-term contracts and the intensive nature of the work are among the contributing factors. ⁶ In some countries, high turnover is due to the more intense working conditions. For instance, Cling et al. report that about one in five EPZ workers in Madagascar leave their job, compared with a little over one in ten in the formal private sector. ⁷

Skills development

86. Although skills development is often a key policy objective, cross-national data indicates that it is not a high priority in government strategy regarding EPZs. A group of researchers associated with the World Free Zone Organization analysed incentives awarded from 2010 to 2016 by free zones in 24 countries and found that only 1 per cent of all incentives were aimed at supporting labour force development. ⁸ The assumption appears to be that the EPZ operators themselves are better placed to develop the skills they require.

⁴ X. Cirera and R. Lakshman: *The impact of export processing zones on employment, wages and labour conditions in developing countries*, Systematic Review 10 (3ie, March 2014), p. 11.

⁵ Better Work Jordan: *Annual Report 2017: An Industry and Compliance Review – reporting period November 2015 to December 2016* (Geneva, ILO and International Finance Corporation, 2017), p. 10. In July 2016, Jordan and the EU signed an agreement to extend tariff-free exports on the condition that factories employ initially 15 per cent and subsequently 25 per cent Syrian refugees.

⁶ ILO: *Employment and social policy in respect of export processing zones (EPZs)*, Governing Body, 286th Session, Geneva, Mar. 2003, para. 15.

⁷ J.-P. Cling et al.: “Export Processing Zones in Madagascar: A Success Story under Threat?”, in *World Development* (2005, Vol. 33, No. 5), p. 798.

⁸ L. Van der Schoor et al.: *Incentives Awarded across Free Zones: Confirming the Transition to “Free Zones of the Future”?* (World Free Zone Organization, n.d.).

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87. Some EPZ-based employers provide internal training programmes to upgrade the technical and vocational skills of their workers. However, investment levels can vary widely within a given EPZ and across EPZs within the same country,⁹ and the skills developed are often limited to the tasks required and not transferrable to other sectors. Other EPZs have decided that it is in their collective interest to have a more systematic approach. This is evidenced in Costa Rica, where the zone-specific skills-development programmes are run by the government, and in Honduras, where vocational training for workers in EPZs is provided by a private non-profit organization. Public–private partnerships for skills development are also common.
88. Skills development is essential not only for providing workers with greater employment opportunities, but also for facilitating the transfer of technology to domestic producers. Ruane and Uğur compared convergence rates in manufacturing technology between EPZ producers and local enterprises for Singapore, which had a proactive policy of skills development, and Ireland, which had no comparable programme, and found a significantly higher rate of convergence in Singapore than Ireland.¹⁰ Skills-development programmes established in Penang, Malaysia, and in Taiwan, China, have produced similar results.
89. Despite progress in many EPZs, skills development still lags behind in many countries. Discussing the experience of workers in EPZs in southern Africa, Jauch finds that most EPZ jobs are low-skilled.¹¹ Milberg and Amengual observe that skills acquisition for garments and textiles is indeed low, but increases as EPZs diversify.

Wages

90. In a 1999 review of EPZ studies, Madani found that “[t]ypically, wages are lower in EPZs than the host economy, however, this appears simply to reflect broader gender discrimination within the host economy”.¹² Milberg and Amengual concluded from their review that wage rates have not been found to be below those outside EPZs, and in countries such as Bangladesh, Costa Rica, Honduras, Madagascar and Sri Lanka, wages have tended to be higher.¹³ A 2014 review by Cirera and Lakshman reports a heterogeneity of results, with more studies indicating that EPZs pay higher wages.¹⁴ In a literature review comparing conditions of work inside and outside global supply chains, Distelhorst and Fu also note a wage premium for workers in global supply chains, including EPZ operators, albeit with important exceptions; the studies were selected to contextualize EPZs among the other

⁹ J. Sargent and L. Matthews: “Capital Intensity, Technology Intensity, and Skill Development in Post China/WTO Maquiladoras”, in *World Development* (Apr. 2008, Vol. 36(4)), pp. 541–559.

¹⁰ F. Ruane and A. Uğur: “Foreign direct investment and productivity spillovers in Irish manufacturing industry: evidence from plant level panel data”, in *International Journal of the Economics of Business* (2005, Vol. 12, Issue 1), pp. 53–66.

¹¹ H. Jauch: “Export processing zones and the quest for sustainable development: a Southern African perspective”, in *Environment & Urbanization* (Apr. 2002, Vol. 14(1)), p. 103.

¹² D. Madani: *A Review of the Role and Impact of Export Processing Zones*, Policy Research Working Paper 2238 (Washington, DC, World Bank, Nov. 1999), cited in: D.K. Brown: *Globalization and Employment Conditions Study* (Washington, DC, World Bank, Apr. 2007), p. 13.

¹³ W. Milberg and M. Amengual: *Economic development and working conditions in export processing zones: A survey of trends*, Working Paper 3 (Geneva, ILO, 2008).

¹⁴ Cirera and Lakshman, 2014, op. cit.

choices workers face and therefore the comparison also included wages paid in agriculture and the informal economy.¹⁵ Jenkins found that workers in EPZs in Costa Rica “are on average paid more than workers outside of zones”.¹⁶ Sometimes the impact is gender-specific: it was found that in Dhaka, Bangladesh, women workers in EPZs earned more compared to women outside the EPZ, but the reverse was true for men.¹⁷

91. The relative wage may also change over time. Studies of specific EPZs in India, Kenya, Mauritius and Mexico indicate that they actually had significant periods in their early development when wages were lower than comparable producers outside the EPZ in question.
92. Cirera and Lakshman point out the difficulty of assessing wage differentials between firms inside and outside the zones, given that production activities and skills levels usually differ, even for the same worker. Cling et al. found that in Madagascar, wages paid in EPZs were lower than elsewhere in the private sector, but that “controlling for experience, socioeconomic group, managerial status, skill, apprenticeship and self-employment status”, workers in EPZs earned 6 to 17 per cent more.¹⁸
93. Milberg and Amengual note that the fact that wages in EPZs are higher does not necessarily imply that they are decent or liveable wages. Farole compares EPZ wages to minimum wages in the country as a whole, and finds a significant wage premium in numerous African EPZs, but cautions that the national minimum wage is often inadequate.¹⁹
94. The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) provides the following guidance on wages:

41. Wages, benefits and conditions of work offered by multinational enterprises across their operations should be not less favourable to the workers than those offered by comparable employers in the host country. Where comparable employers do not exist, they should provide the best possible wages, benefits and conditions of work. The elements to be taken into consideration should include: (a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups; and (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment. Where the employer provides workers with basic amenities such as housing, medical care or food, these amenities should be of a good standard.

95. The relatively high wages are linked to higher productivity of labour in EPZs, which in turn is linked to greater intensity of production and longer hours of work.²⁰ Cling and Letilly in turn link this greater intensity to the need for premium wages to attract and retain workers: “The exploitation and greater productivity of the labour force in these zones has a natural

¹⁵ G. Distelhorst and D. Fu: *Working Conditions “In” and “Out” of Global Supply Chains: A Comparative Empirical Review*, Impact Brief (n.d., unpublished).

¹⁶ M. Jenkins: *Economic and social effects of export processing zones in Costa Rica*, Working Paper No. 97 (Geneva, ILO, 2005), p. iii.

¹⁷ Cited in: Cirera and Lakshman, 2014, op. cit.

¹⁸ Brown, 2007, op. cit., p. 14, citing Cling et al., op. cit.

¹⁹ T. Farole: *Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience* (Washington, DC, World Bank, 2011), p. 98.

²⁰ See, for example, Milberg and Amengual, 2008, op. cit., and Lang, 2010, op. cit.

counterpart in higher salaries. EPZs frequently suffer from a negative image (arising from the rapid turnover of personnel and the high degree of absenteeism) and incentives may be necessary to attract and to retain workers.”²¹ They also point out that foreign operators in EPZs generally seek to attract better-qualified workers through higher wages, and their customers are becoming increasingly sensitive to wage and employment conditions.²²

96. Housing may also pose challenges for workers in EPZs. Many companies must provide accommodation for workers, either because there are no housing alternatives in the area or because the alternatives are too expensive for workers to afford with their salaries. However, these facilities can be inadequate and overcrowded.²³

Hours of work

97. Milberg and Amengual found that workers in EPZs in countries such as Bangladesh, Madagascar and Sri Lanka tend to work more hours when compared with other sectors in the overall economy. However, Cirera and Lakshman cite three studies documenting shorter working hours in the zones, and two where hours inside and outside the EPZs were very similar.²⁴ The long hours in EPZs commonly exceeded legal limits with, for instance, 43 per cent of workers in Chinese EPZs working 71–80 hours and 60.6 per cent of workers in EPZs in the Philippines working for more than eight hours a day.²⁵
98. Reasons suggested in the literature for longer hours in EPZs relate, on the demand side, to poor supply chain management: periods of peak seasonal demand, and last-minute adjustments caused by poor quality control in the production process. On the supply side, the low wages paid to workers, despite the premium compared with producers outside the zones, mean that overtime is typically considered an important part of the workers’ overall pay. The Fair Labour Association, interviewing 35,000 workers in China, found that: workers worked an average of 56 hours per week, despite a legal limit of 49 hours per week including overtime; half of the workers reported that they had worked 11 or more days in a row; nonetheless, 33 per cent of the workers said that they wanted to work more hours, and feared that further restrictions would lead to lower pay. The researchers postulated that worker demand for more hours, despite already long days, may be linked to wages, since, although the factory workers earn more than the minimum wage in China, 64 per cent said that their pay was not enough to “cover basic needs”.²⁶

²¹ J.-P. Cling and G. Letilly: *Export Processing Zones: A threatened instrument for global economy insertion?* Working document DT/2001/17 (Paris, DIAL, 2001), p. 19.

²² loc. cit.

²³ ILO: *Good Practices in Labour Inspection in Export Processing Zones* (Geneva, 2012).

²⁴ Cirera and Lakshman, 2014, op. cit., p. 22.

²⁵ Cited in: *ibid.*, p. 21.

²⁶ L. June: “Fair Labor Association releases Apple labor investigation report, details serious worker issues at Foxconn factories”, in *The Verge*, 29 Mar. 2012.

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99. In 2001, the ILO documented examples of workers having problems getting paid for overtime they had worked.²⁷

Occupational safety and health

100. On issues concerning occupational safety and health in EPZs, the *Bulletin of the World Health Organization* reports:

EPZs have been associated with high levels of machine-related accidents, dusts, noise, poor ventilation, and exposure to toxic chemicals. Job stress levels are also high, adding further risk. It has been reported that accidents, stress, and intense exposure to common hazards arise from unrealistic production quotas, productivity incentives and inadequate controls on overtime. These factors create additional pressure to highly stressful work, resulting in cardiovascular and psychological disorders. In the young women who often work in EPZs, the stress can affect reproductive health, leading to miscarriage, problems with pregnancies, and poor fetal health.²⁸

101. Violations of health and safety legal requirements in EPZs have been documented in many countries.²⁹ Furthermore, the repetitive manual labour involved in EPZ work exposes workers to significantly higher risks of serious injury.³⁰
102. Cirera and Lakshman note that most of the literature reviewed focuses on health rather than safety issues, although “many safety problems are translated into a higher prevalence of illness in the zones”. Some studies show a significant difference in incidences of health problems compared with workers not employed in the zone; for instance, one study found that 44.6 per cent of women and 51.6 per cent of men in Honduran EPZs had had health problems in the previous months, compared with 7.1 per cent of women applicants and 11.3 per cent of total applicants not hired.³¹
103. Cypher reports that in many EPZs, particularly in lower-skilled sectors, the pace of work is demanding; workers sometimes repeat the same operations every five seconds, 7,200 times per day.³² The particularly intense pace of work in EPZs is likely a significant contributing factor to these much higher rates of health problems. Workers in some zones are even made to take amphetamines to get them to work harder and faster.³³

²⁷ ILO: *Follow-up on and promotion of the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy: Seventh survey on the effect given to the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (Part II)* (GB.280/MNE/1/2), Governing Body, 280th Session, Geneva, March 2001, cited in: Cirera and Lakshman, 2014, op. cit.

²⁸ R. Loewenson: “Globalization and occupational health: a perspective from southern Africa”, in *Bulletin of the World Health Organization* (Jan. 2001, Vol. 79, No. 9).

²⁹ Cirera and Lakshman, 2014, op. cit., p. 19.

³⁰ ILO ACTRAV: *Trade Union Manual on Export Processing Zones* (Geneva, 2014).

³¹ Cited in: Cirera and Lakshman, 2014, op. cit., pp. 19–21.

³² J.M. Cypher: *The Process of Economic Development* (London and New York, Routledge, 2014), p. 557.

³³ G. Ritzer and P. Dean: *Globalization: A Basic Text*, 2nd edition (Wiley-Blackwell, 2015), p. 408.

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- 104.** Health impacts vary by sector, but various studies identify problems such as loss of hearing and diminished vision; headaches from exposure to chemicals, dust and poor ventilation; and urinary tract infections.
- 105.** Lang also draws attention to other health and safety risks arising from mistreatment of workers, including factory managers locking workers in, in order to combat a perceived risk of theft, in violation of fire safety codes; denying workers the provision of medical treatment and sick leave; and restricting the use of sanitary facilities by workers.³⁴ He notes that “[t]hese issues are exacerbated by the high proportion of [internal] migrant and transient workers in EPZs, who, due to the temporary nature of their job, may be more inclined to take on dangerous jobs or work in unsuitable conditions”.³⁵
- 106.** Cirera and Lakshman also describe the greater adverse impacts for women workers in EPZs: general illness; increased likelihood of being hospitalized; and higher prevalence of mental health disorders. They caution, however, that in some cases the sectoral composition of women inside the zone is very different from women outside the zone, which may impact comparisons between sexes.³⁶

Social protection

- 107.** Although EPZs tend to increase risk of ill health for workers, health outcomes for workers’ household members often improve due to better health benefits that provide greater access to preventive care and treatment.³⁷
- 108.** Workers in EPZs in developing countries are more likely to have social protection such as health care and social security than non-EPZ workers.³⁸ However, even when they are covered in law, they may not be covered in practice; for instance, the Ministry of Labour of El Salvador reported that in 2008 approximately 10,000 workers in EPZs did not receive social security and other payment benefits to which they were legally entitled.³⁹

Labour inspection

- 109.** Some countries establish separate labour legislation for EPZs; others have only one labour code but allow derogations for EPZs.⁴⁰ Still others take a hybrid approach. Kenya, for example, has labour legislation specific to EPZs but modified its legislation to ensure that the regulations on occupational safety and health apply to all workplaces, including those in

³⁴ Lang, 2010, op. cit.

³⁵ *ibid.*, pp. 19–20.

³⁶ Cirera and Lakshman, 2014, op. cit., p. 21.

³⁷ *ibid.*, p. 21.

³⁸ Milberg and Amengual, 2008, op. cit., p. 35.

³⁹ US Department of State: *2008 Country Report on Human Rights Practices: El Salvador*.

⁴⁰ Lang, 2010, op. cit.

EPZs.⁴¹ In the majority of countries, though, the national labour law includes EPZs within its scope. For instance, Madagascar amended its labour law to ensure coverage in EPZs.⁴²

- 110.** The problem lies not in the legislation itself, but in application and enforcement. In some countries, the government chooses not to enforce labour laws in EPZs, “even where labour laws are uniform nationally, there is evidence of more lax enforcement of labour law in EPZs”.⁴³ The ILO Committee of Experts has made repeated observations in relation to the role of labour inspection in EPZs, including exclusion of EPZs from the scope of the national labour inspectorate,⁴⁴ the establishment of special EPZ labour inspection services, and the practical difficulties labour inspection faces in accessing enterprises in EPZs. The UN Committee on the Elimination of Discrimination against Women has raised concerns about the weak enforcement of laws to protect women workers in EPZs in Sri Lanka, and the UN Committee on Economic, Social and Cultural Rights has drawn attention to inadequate labour inspection in El Salvador.⁴⁵
- 111.** In some countries, such as Costa Rica, Honduras, Indonesia, Kenya, Mauritius and Sri Lanka, the Labour Ministry’s jurisdiction extends to EPZs.⁴⁶ However, EPZs often operate with little or no oversight or involvement of the Ministry of Labour. For example, in India, the Special Economic Zones Act has facilitated a process of privatization of monitoring of labour rights. For inspections that are mandatory in units outside special economic zones, as per the Factories Act (1948) for the health and safety of workers, the Workmen’s Compensation Act and the Employees’ State Insurance Act, the units in the zones are permitted to obtain reports from accredited agencies notified by the state government.⁴⁷ In some cases, EPZs are regulated by a special authority devoted to attracting investments and acting as a facilitator in the provision of various services to investors.⁴⁸
- 112.** Often, the problem lies in the labour inspectorates as a whole. In many countries, they are under-resourced in terms of staff levels, transportation and materials. Inspectors are often undertrained. EPZs in remote locations are more difficult for inspectors to reach. And inspectors often do not have access to information on the number and distribution of undertakings in the EPZs that are subject to inspection and the workers who should be covered. This is due both to the higher rates at which companies start up and shut down and

⁴¹ ILO, 2012, op. cit.

⁴² *ibid.*

⁴³ Cited in Milberg and Amengual, 2008, op. cit.

⁴⁴ See, for example, ILO, CEACR: [Observation on the Labour Inspection Convention, 1947 \(No. 81\), for Bangladesh](#), published International Labour Conference, 104th Session (2015); and ILO, CEACR: [Observation for Djibouti](#), published International Labour Conference, 105th Session (2016).

⁴⁵ Cited in: Lang, 2010, op. cit.

⁴⁶ ILO, 2012, op. cit.

⁴⁷ ILO ACTRAV: *India: Trade Unions and Special Economic Zones in India*, Working document (Geneva, 2012), p. 21.

⁴⁸ ILO, 2012, op. cit.

to time-bound fiscal incentives that encourage more frequent re-registering or renaming of factories, or changing of ownership.⁴⁹

- 113.** UNCTAD surveyed 100 EPZs (located in government-operated industrial parks in 21 countries) on labour and environmental issues, including labour inspection. The study found that “[v]ery few EPZs expressly indicated that inspection services would be available to assist firms in meeting labour standards and policies, but some EPZs [20 per cent] did indicate that labour inspectors were present within the EPZ”.⁵⁰ For example, in Sri Lanka, the Department of Labour enforces labour laws inside EPZs, but has allocated only 25 inspectors; the other 375 are needed for the rest of the economy.⁵¹
- 114.** Practices are changing in some countries. Lang, writing in 2010, described how the Dominican Republic did not have the transportation resources for inspectors to conduct on-site inspections of EPZs. Schrank, writing in 2013 about labour inspection, documents the significant changes the Government of the Dominican Republic undertook in the light of labour standards imposed by the United States in a new trade agreement, in particular the provision of greater resources to improve labour inspection in EPZs and in broader production linked to global supply chains.⁵²
- 115.** In other countries, however, progress is unstable. In its review of labour rights in EPZs in GSP+ beneficiary countries, the European Parliament observes that the Philippines recently abandoned the principle of government labour inspection in workplaces with more than 200 workers (which is typical of EPZ operators), raising doubts about “the government’s capacity to monitor labour standards”.⁵³ According to the Pakistan Workers’ Confederation, reforms undertaken in Sindh province in the aftermath of a factory fire in 2012, which killed 257 people and seriously injured more than 600, have been “practically discontinued”.⁵⁴
- 116.** In many cases, erratic progress is due to scarce resources for inspection. Governments are often forced to prioritize issues such as child labour in the informal economy: Milberg and Amengual state that “without massive improvements in both economy wide labour conditions and government capability ..., governments will continue to be unable to adequately regulate labour standards in EPZs”.⁵⁵
- 117.** The ILO conclusions on labour administration and labour inspection note the importance of legal protections for all workers, including workers in EPZs: “General compliance and preventive strategies are essential for ensuring fairness in the workplace and consequently

⁴⁹ ILO, 2012, op. cit., p. 14.

⁵⁰ UNCTAD: *Enhancing the Contribution of Export Processing Zones to the Sustainable Development Goals: An analysis of 100 EPZs and a Framework for Sustainable Economic Zones* (New York and Geneva, UN, 2015), p. 13.

⁵¹ European Parliament: *Labour rights in Export Processing Zones with a focus on GSP+ beneficiary countries*, Directorate-General for External Policies (Brussels, June 2017), p. 32.

⁵² A. Schrank: “From disguised protectionism to rewarding regulation: The impact of trade-related labor standards in the Dominican Republic”, in *Regulation & Governance* (2013, Vol. 7), pp. 299–320.

⁵³ European Parliament, 2017, op. cit., p. 30.

⁵⁴ *ibid.*, p. 27.

⁵⁵ Milberg and Amengual, 2008, op. cit., p. 59.

sustainable enterprises and economic growth. These strategies should cover all workers, including those in the public sector, the informal economy, rural economy and agriculture and export processing zones (EPZs). It is unacceptable that some EPZs are exempted from basic national labour laws.”⁵⁶ The conclusions call on governments to “design strategies for reaching out in order to promote the application and enforcement of labour legislation for workers in the public sector and for vulnerable workers, especially in the informal and rural economies, domestic workers and workers in EPZs”.⁵⁷

- 118.** Ensuring regular information flows between all parties concerned in regulating EPZs is critical. It was with this objective in mind that the ILO issued a set of guidelines for labour inspectors in EPZs.⁵⁸

Social dialogue

- 119.** Social dialogue has an important role in developing mechanisms for communication, consultation and negotiation to improve productivity and reduce industrial unrest and labour turnover. It is also essential for the promotion of respect for workers’ rights.⁵⁹ In competitive and volatile global markets, social dialogue can help countries to find creative solutions to challenges. For instance, when jobs in EPZs in Mauritius were under threat from the phasing out of textile quotas, unions called for the country’s tradition of social dialogue to be renewed.
- 120.** One example of how tripartite social dialogue can help to improve decent work outcomes in EPZs is provided by Togo. There, all negotiations related to the working conditions in the EPZs used to be undertaken bilaterally by the Staff Delegates Committee and the Employers’ Association of the EPZ under the general supervision of the EPZ’s Management Authority. These bilateral negotiations had a certain degree of success, but the traditional stakeholders of collective bargaining – that is, freely chosen workers’ and employers’ organizations – had been replaced by the EPZ’s particular groupings, which is not compatible with the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), and the Right to Organise and Collective Bargaining Convention, 1949 (No. 98). Through tripartite social dialogue, the Management Authority was persuaded in 2006 to shift to genuine collective bargaining between trade unions and employers’ organizations. Furthermore, the Togolese Ministry of Labour and Social Security revised the labour laws specific to the EPZ to eliminate obstacles to freedom of association. Negotiations are also taking place with the active involvement of trade union organizations in EPZs for the approval of a new sectoral collective agreement.⁶⁰

⁵⁶ ILO: *Resolution and conclusions on labour administration and labour inspection*, International Labour Conference, 100th Session, 2011, para. 17.

⁵⁷ *ibid.*, para. 22(9).

⁵⁸ ILO, 2012, *op. cit.*, pp. 22–27.

⁵⁹ ILO: *Social dialogue: Recurrent discussion under the ILO Declaration on Social Justice for a Fair Globalization*, Report IV, International Labour Conference, 102nd Session, 2013, para. 69.

⁶⁰ ILO ACTRAV, 2014, *op. cit.*, p. 40.

The future of work

121. The performance of EPZs is highly dependent on effective government policies which: set out clear development objectives for EPZs; clarify what incentives are offered and under what conditions; reflect those development objectives in complementary trade and investment agreements; and put in place effective labour laws and adequately funded administration and labour inspection.
122. A comparative advantage in terms of low wages typically shifts among countries. Traditionally, rising labour costs in some countries have pushed them to move away from a predominately low-wage EPZ strategy to higher-value-added production. Innovative technology is transforming some sectors from low to high value-added, such as specialized production of textiles, garments, footwear and electronics, where high-skilled workers use digital technology that raises productivity and lowers unit labour costs. Across all sectors, the increasing use of robots in developed countries will significantly reduce the cost advantage of EPZs in developing countries ⁶¹ as proximity to markets becomes more important. However, markets in developing countries will expand as they develop, increasing the likelihood that globalized production will continue. EPZ strategies may need to be reconsidered in the light of these trends.

⁶¹ UNCTAD: *Robots and industrialization in developing countries*, Policy Brief No. 50 (Geneva, UN, Oct. 2016).

4. Conclusions and suggested points for discussion

Conclusions

- 123.** The foregoing review of the available literature shows that EPZs present a mixed picture. This was summarized by *The Economist* in the following terms:

Performance data are elusive because the effects of zones are hard to disentangle from other economic forces. But anecdotal evidence suggests that they fall into three broad categories: a few runaway successes, a larger number that come out marginally positive in cost-benefit assessments, and a long tail of failed zones that either never got going, were poorly run, or where investors gladly took tax breaks without producing substantial employment or export earnings.¹

- 124.** EPZs have been successful in generating exports and foreign exchange. It is clear that they have created jobs, but further research is needed on their net effect on employment. They have also opened up employment opportunities for certain groups, young women in particular. Workers moving from agricultural work or urban informal work into EPZs have increased their productivity levels and earnings from work, often significantly.
- 125.** However, EPZs also provide select enterprises with a quasi-rent inimical to broader reform that could benefit all producers, regardless of the regulatory regime under which they operate. Engman et al. note that “EPZs are a sub-optimal policy from an economic point of view since it benefits the few and distorts resource allocation, but may be useful as a stepping stone to trade liberalisation on a national basis. Governments should consider all available policy options, and conduct a thorough cost/benefit analysis before implementation.”²
- 126.** Problems persist in the protection of fundamental principles and rights at work, in particular freedom of association and collective bargaining, and gender equality. Other violations of workers’ rights are also common, especially concerning hours of work and safety and health. In some countries, this is a consequence of a low-wage strategy for EPZ development, where labour law either does not apply or is not enforced. In other countries, violations of workers’ rights in EPZs (and often in the economy as a whole) stem from insufficient numbers of inspectors and insufficient resources for effective labour inspection and administration.
- 127.** The inclusion of labour provisions in trade and investment agreements can motivate governments to strengthen labour inspection. UNCTAD notes the creation of organizations of EPZ agencies to facilitate best practices, including the World Export Processing Zones Association and the World Free Zones Organization, and argues that they could enable the rapid evolution of EPZ strategies in line with international trade and investment trends, and bring significant changes in the global regulatory environment.³

¹ *The Economist*: “Political priority, economic gamble”, 4 Apr. 2015.

² M. Engman et al.: *Export Processing Zones: Past and Future Role in Trade and Development*, OECD Trade Policy Papers No. 53 (Paris, OECD, 2007), p. 2.

³ UNCTAD: *Enhancing the Contribution of Export Processing Zones to the Sustainable Development Goals: An analysis of 100 EPZs and a Framework for Sustainable Economic Zones* (New York and Geneva, UN, 2015), p. 5.

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- 128.** EPZs are not new: the world's first documented free trade zone was established on the Greek Island of Delos in 166 BCE, and the first modern EPZ was established in Ireland in 1959. However, for many countries, they are a relatively new development strategy, which too often focuses mainly or exclusively on economic development. Social development – in particular, respect for fundamental principles and rights at work and for decent work more broadly – and environmental sustainability need to become central to EPZ policies. EPZs have the potential to contribute effectively to sustainable development only if their competitiveness for attracting FDI is based on the provision of efficient business services and infrastructure, effective law enforcement and a guarantee of decent work.
- 129.** The ILO could play a role in providing assistance to tripartite constituents in countries operating EPZs to better promote decent work and protect fundamental principles and rights at work, for example by means of its Decent Work Country Programmes (DWCPs). The ILO could also develop comprehensive guidelines to promote productive employment and decent work and to protect fundamental principles and rights at work in EPZs.
- 130.** More concerted efforts could be made to promote policy coherence at the international level in areas impacting EPZ development, such as trade and investment agreements, industrialization and SME development strategies, and protection of human rights. The Sustainable Development Goals combined with the Addis Ababa Action Agenda on financing for development and the UN Guiding Principles on Business and Human Rights are important instruments to complement international labour standards, the ILO Declaration on Fundamental Principles and Rights at Work and the MNE Declaration.

Suggested points for discussion

- (1) What are the main challenges and opportunities in promoting decent work and the protection of fundamental principles and rights at work for workers in EPZs?
- (2) What guidance, governance systems, policies, strategies, programmes or tools are needed in countries to ensure that EPZs contribute to decent work, inclusive growth and sustainable development?
- (3) What additional action should be taken by governments and employers' and workers' organizations to further promote decent work and the protection of fundamental principles and rights at work for workers in EPZs? What should the ILO do to support them in these efforts?
- (4) In what way can the multilateral system contribute to better coordination among the various actors at the national and international levels?