

**FOR DEBATE AND GUIDANCE**

FIFTH ITEM ON THE AGENDA

Report of the InFocus Initiative on export processing zones (EPZs): Latest trends and policy developments in EPZs**1. Background**

1. In March 2003, the Governing Body discussed a report entitled “Employment and social policy in respect of export processing zones (EPZs)”.¹ It requested the Office to continue to examine the theme “from the integrated perspective of all aspects of decent work, initially on a national, subregional or regional basis within a tripartite framework, and to report to the Committee at a future date on the results of research and other activities pursued”.² The Programme and Budget for 2006–07 contained a provision for an InFocus Initiative (IFI) on EPZs. In March 2007, the Governing Body underlined the need for continuing work on the subject and decided to allocate US\$200,000 to the Social Dialogue Sector to that effect.³
2. The present report is based on updated overview papers and country studies commissioned by the Office with a view to providing a comprehensive picture of the situation in EPZs, especially with respect to macroeconomic trends, employment, and working conditions. Where possible, it examines the situation both within and outside EPZs in the countries studied. It places particular emphasis on the impact of EPZs on developing countries and emerging markets with a view to identifying needs for assistance and advice from the Office during the 2008–09 biennium.
3. Although EPZs take many forms and have different names in different countries, the ILO has defined them as “industrial zones with special incentives set up to attract foreign

¹ GB.286/ESP/3.

² GB.286/15 and GB.286/205.

³ GB.298/8/3(Rev.).

investors, in which imported materials undergo some degree of processing before being exported again”.⁴ Unless otherwise stipulated, this is the definition used in this report.

4. EPZs developed significantly after the Second World War, reflecting growing international specialization, the expansion of the manufacturing activities of transnational corporations and an increasing orientation by host countries towards export. Although they may now be found all over the world, EPZs were mainly introduced in developing countries with a view to attracting foreign investment and boosting and diversifying their exports. Although EPZ production in many countries continues to be focused primarily on textiles, an increasing number of countries have diversified their production over time. For example, exports from Costa Rica have shifted from apparel to other manufactured products including electronics and pharmaceuticals. In India, although textiles remain a core sector, EPZs account for most of the country's production of and exports in leather goods, food and electronics. This evolution may be attributable to various factors, one of them being the termination of the MultiFibre Arrangement (MFA) at the end of 2004. The development of EPZs over recent years has also been characterized by a diversification of investors. More and more Asian firms are investing in Latin America and Africa.
5. Furthermore, over time, EPZs have evolved from initial assembly and simple processing activities to include high-tech and science parks, finance zones, logistics centres and even tourist resorts. Their physical form now includes not only enclave-type zones but also single-industry, single-commodity, single-factory or single-company zones. EPZs provide special economic incentives such as customs-free, tax-exempt and export-oriented manufacturing facilities and investment incentives, streamlined administration, cheap utilities and better infrastructure than outside the zones. Moreover, in a few countries, EPZs are given some exemptions to national labour law regulations.
6. It is estimated that there are currently around 3,500 EPZs throughout the world, operating in around 130 countries and territories and employing around 66 million people. In 2002, EPZs existed in around 116 countries and in 1975, in only 25. In Costa Rica, the number of companies established in EPZs rose from 168 in 1997 to 227 in 2005. In Madagascar, the number rose from 132 in 2002 to 202 in 2006.⁵
7. Between 2002 and 2006, however, while EPZ exports increased significantly in some countries, such as, Bangladesh (26 per cent), Madagascar (111 per cent), the Maldives (261 per cent) and Sri Lanka (15 per cent), they declined in others, such as the Philippines (-31 per cent), Mexico (-43 per cent) and Tunisia (-35 per cent). EPZ exports represented 52 per cent of national exports in Costa Rica in 2006 (as compared to 21 per cent in 1997) and 56 per cent of national exports in Madagascar in 2005. In China, the percentage of GDP generated by development zones⁶ and the total trade of such zones reached 68 per cent and 87 per cent of total trade respectively in 2005.

⁴ ILO: *Labour and social issues relating to export processing zones* (Geneva, 1998), TMEPZ/1998, p. 3.

⁵ There is a lack of reliable and comprehensive data on employment trends in EPZs around the world. This paper therefore makes estimates based on information available as well as projections based on the literature review on China. These estimates need to be taken with caution and should be considered as a basis for discussion rather than an absolute certainty.

⁶ The development zones in China are EPZs built inside the main cities. They include specialized zones, such as economic and technology development zones (ETDZs) and high-tech industrial development zones (HIDZs).

8. Although WTO agreements make no explicit mention of EPZs, they have certain implications for the zones. For example, under the Agreement on Subsidies and Countervailing Measures (SCM), most developing countries benefited either from total exemption or exemption from transition periods with a view to eliminating export subsidies, including preferential tax and duty-free treatments of imported inputs, and subsidies to utilities and transports. In June 2007, the SCM Committee decided to allow annual extensions of the transition period until 2015 for 19 countries.
9. Furthermore, the concessions offered in EPZs may violate the principle of equal treatment enshrined in the most favoured nation clause of the General Agreement on Trade in Services. A potential conflict also arises with the national treatment clause. Some EPZ activities may also potentially conflict with the Agreement on Trade-Related Investment Measures.
10. The termination of the MFA, in other words the phasing out of textile and clothing quotas under the General Agreement on Tariffs and Trade, has had a significant impact. Some countries have largely benefited from the suppression of quotas; for instance, China's apparel exports tripled between 2000 and 2006 (from US\$36.1 billion to US\$95.4 billion). Other countries, such as Bangladesh, Sri Lanka and Viet Nam, have also captured significant market shares. Others, however, such as Costa Rica, the Dominican Republic and Mexico, have been strongly affected by international competition.⁷
11. Regional trade agreements (RTAs) are meant to reduce trade and investment barriers between their members. EPZs are not, however, considered to belong to national customs areas and their inclusion in RTAs may lead to trade circumvention whereby a non-RTA member producing in the EPZ of an RTA member would gain access to the favourable conditions offered by the RTA. Moreover, such practices may disadvantage local firms in an RTA member. As a result, some RTAs have adopted restrictive policies to prevent circumvention of tariffs. Duty drawback schemes have generally been limited and accompanied by transitional periods, for example under the North American Free Trade Agreement and the free trade agreements between the European Union and Chile and the European Union and Mexico. A recent study by the Organisation for Economic Co-operation and Development (OECD)⁸ indicated that the lack of provisions on the treatment of EPZs in RTAs may lead to an unintended increase in trade circumvention.

2. ILO strategic objectives and EPZs

Fundamental principles and rights

12. In law and in practice, respect for freedom of association and the right to collective bargaining remains one of the main concerns in EPZs. Most complaints received by the ILO in relation to EPZs relate to this issue. The ILO supervisory bodies play an important role in ensuring compliance with freedom of association principles in EPZs, both under the

⁷ W. Milberg: *Export processing zones, industrial upgrading and economic development: A survey*, document prepared for the ILO InFocus Initiative on EPZs, Department of Economics, New School for Social Research, pp 17–23, forthcoming.

⁸ M. Engman, O. Onodera and E. Pinali: *Export processing zones: Past and future role in trade and development*, OECD Trade Policy Working Paper No. 53, Working Party of the Trade Committee, TD/TC/WP(2006)39/FINAL, forthcoming.

law and in practice. In this connection, a recent survey⁹ has compiled information on a number of issues pertaining to zones, such as legal restrictions on unionization and union membership, blacklisting of union officials, interference in the affairs of workers' organizations, refusal to negotiate, harassment, violence and reprisals, legal restrictions on industrial action including its prohibition by classifying EPZs as essential services, as well as exemptions and ambiguity regarding the application of labour law and access to zones.

13. There is virtually no worker organization in EPZs in Costa Rica and, according to the ITUC, the few unionized workers face harassment and unfair dismissal. In Indonesia, there are numerous restrictions on workers' rights and significant anti-union sentiment and repression. In China, official unions have had only weak negotiation capacity.
14. In Madagascar, only one of every 62 enterprises is party to a collective agreement. Furthermore, 28 per cent of enterprises do not have any staff representative and 54 per cent of workers do not know what a collective agreement means. There is a clear need for training and mobilization. In Sri Lanka, the creation in 1994 of employees' councils, encouraged by employers and the Board of Investment (BOI), hampered the creation of free and independent unions and the exercise of the right to collective bargaining. According to the trade unions, the councils are set up without consultation with unions, are under the control of the BOI and their members are not freely elected. To represent workers in collective bargaining, a union has to represent 40 per cent of the workforce – otherwise the employees' councils negotiate on their behalf. Trade unions have therefore started to organize within a collective called the Apparel-Industry Labour Rights Movement, which seems to have improved cooperation between trade unions and the employees' councils under certain conditions. Furthermore, Sri Lanka has indicated that a Social Dialogue and Collective Bargaining Unit has been set up within the BOI and that measures have been taken to promote collective bargaining at the EPZ level.
15. Several countries have indicated that they are in the process of taking legislative measures to give effect to the recommendations of the supervisory bodies. For example, Nigeria and Pakistan have indicated that they are in the process of taking legislative measures to grant freedom of association to EPZ workers. Costa Rica has indicated that it is amending its Labour Code, so as to provide for a speedy investigation procedure into complaints of anti-union discrimination. Mauritius has indicated that legal measures to strengthen collective bargaining processes at the enterprise level will be taken.
16. Specific employers' organizations have been established in several countries in EPZs, often in connection with the national employers' federation, as is the case in Costa Rica, Madagascar, Mauritius and Sri Lanka. Many EPZ companies are also members of other employers' organizations such as the national chamber of industry and the chamber of exporters.
17. There is discrimination in terms of pay equity and equal treatment between male and female EPZ workers. In Madagascar, the average wage of female EPZ employees is lower than that of men (8 per cent less for low-skilled jobs and 20 per cent less for managerial positions) while, at the national level, the average wage of female workers represents less than two-thirds that of male workers. Although the rights of pregnant women and young mothers are generally respected, discriminatory practices still persist (such as refusal to hire pregnant women, job losses and failure to grant maternity leave).

⁹ R. Gopalakrishnan: *Freedom of association and collective bargaining in export processing zones: Role of the ILO supervisory mechanisms*, Working Paper No. 1, ILO (2007). See also *2007 Annual survey of violations of trade unions rights*, ITUC.

18. In most EPZs, migrant workers are more likely than local workers to be victims of discrimination. In Mauritius, the EPZ employs 15,000 foreign workers, mainly from China, India and Sri Lanka. Because of language barriers and restrictions imposed by employers, immigrant workers are even more difficult for unions to organize than local workers. In China, foreign nationals require approval from the local labour bureau and employers must demonstrate why local employees cannot occupy the position. There are also many internal migrant workers coming from the poor inland regions to the coastal regions. Very often, migrant workers in EPZs are offered no formal contract at all. In Jordan, in spite of high unemployment, employment of nationals in EPZs is low. The ILO is working to improve the social protection and working conditions of migrant workers in these zones and to reduce discrimination. Measures include the establishment of tripartite working committees to resolve conflict and to propose improvements; strengthening national labour inspection; and procedures to monitor private agency recruitment processes to ensure that recruitment is carried out in accordance with a uniform licensing system, requiring inter-governmental collaboration. There are also examples of reverse discrimination. For example, one EPZ in Namibia employs a large number of Asian workers whose salaries are higher than those of their Namibian counterparts.

Employment issues

19. Between 2002 and 2006, the following countries experienced significant EPZ employment growth: Morocco (103 per cent), the Philippines (37 per cent), Senegal (263 per cent), Sri Lanka (56 per cent) and Viet Nam (788 per cent). In China, employment in development zones rose from 2.24 per cent of the national workforce in 1995 (3.3 million workers) to 13.38 per cent in 2005 (18.8 million workers) and contributed to 49 per cent of total employment growth. Estimates of total employment in Chinese EPZs range from 30–70 million; however, for the purposes of this report it is estimated at 30 million in 2005.¹⁰
20. In most cases, however, EPZs do not represent a large percentage of total employment in a given country. It is estimated that they account for less than 0.5 per cent of global employment. In India, while more than 1 million people were employed in an EPZ in 2005, this represented only 1 per cent of manufacturing employment – the same level as in the mid-1990s. In Costa Rica, employment in EPZs represented in 2005 only 2.09 per cent of the active population, more than in most Latin American countries, except for the Dominican Republic (4.83 per cent), Honduras (2.16 per cent) and Mexico (3.41 per cent). In Sri Lanka, the figure was 1.67 per cent in 2006.
21. In Madagascar, more than 50 per cent of EPZ workers are young adults aged between 19 and 24 and, in Costa Rica, 40 per cent of EPZ workers are aged between 20 and 39. Women workers represent 71 per cent of EPZ workers in Madagascar, 40 per cent in Costa Rica and almost 70 per cent in Sri Lanka. It is estimated that, in 2005, the Sri Lankan garment sector provided direct employment to around 340,000 people, 87 per cent of whom were women. In China, women workers make up about 40 per cent of the workforce across the whole economy; this figure has always been 10 per cent higher in EPZs. In Batam, one of the main Indonesian EPZs, 80 per cent of workers were women in July 2007. Contrary to the situation in many countries, the share of female employment in India has always been less than 50 per cent and has tended to decrease over recent years.

¹⁰ X. Fu and Y. Gao: *Export processing zones in China: A survey*, literature review prepared for the ILO InFocus Initiative on EPZs, University of Oxford, University of Cambridge (October 2007), p. 17, forthcoming.

22. Some researchers expect feminization of EPZ labour to decline in the coming years. As EPZs progressively shift from traditional manufacturing activities to information technology and services that require highly skilled workers, the number of jobs for women workers, who generally occupy low-skilled jobs, may decline.
23. In many cases, for example in China, EPZs have served to absorb part of the surplus labour force. Nevertheless, zones have been facing increasing difficulties in recruiting highly skilled workers due to stronger demand than supply especially in Beijing, Shanghai and Guangdong. In Sri Lanka, there is currently a shortage of 15,000 workers in all EPZs.
24. In Sri Lanka and Mexico, institutes have been established to improve the technical and vocational skills of EPZ workers. In Madagascar, 63 per cent of enterprises in EPZs conduct internal training programmes (as compared to 30 per cent in the rest of the country). In China, although the nine-year compulsory school system implies that most workers have had a secondary education, the situation varies depending on the region and the zone. In zones such as economic and technology development zones (ETDZs) and high-tech industrial development zones (HIDZs), where the share of scientists and technicians is higher than the national average, employers are more inclined to provide training.

Social protection and working conditions

25. Based on country studies, wages in EPZs appear to be at the same level as or above wages in the rest of the economy for equivalent work. This may be explained by the high productivity of labour in EPZs and also by the necessity to retain or attract better skilled workers. Although legal minimum wages are respected in EPZs, higher wage levels do not necessarily equate to “liveable wages”.¹¹ Furthermore, the situation varies considerably across zones in the same country and across sectors in the same zone.
26. The rights of workers regarding both recruitment and dismissal are often not respected. Recruitment is not always formally organized. In Madagascar, networking among relatives and acquaintances plays a more important role than employment agencies or advertising. In China, it is not uncommon for workers to make false claims regarding their occupational history and to submit false certificates. Employers have a right to revoke labour contracts in such cases. In Sri Lanka, firms have been known to close without warning within the zones, leaving workers without compensation or back-pay and national insurance payments. There is an increasing number of complaints regarding non-payment towards provident funds.
27. In countries across the world, including China, Indonesia and Madagascar, EPZ workers tend to work longer hours than workers in other sectors of the economy, often in violation of national law. Excessive overtime is linked to the nature of many industries in EPZs or to a global chain’s requirements. Firms have seasonal demand peaks and may need their staff to work longer hours to compensate for defect rates or to comply with shipping deadlines. Overtime is often mandatory and refusing to extend working hours may result in dismissal or other forms of retaliation. Long and unpredictable hours have an impact on the ability of workers to combine paid work and domestic obligations.
28. While the situation varies across zones, the EPZs are more likely to provide more benefits, such as health care and social security, than other sectors of the economy. This is

¹¹ M. Amengual: *A survey of labor standards and working conditions in export processing zones*, paper prepared for the ILO InFocus Initiative on EPZs, Department of Political Science, Massachusetts Institute of Technology (Oct. 2007), p. 7, forthcoming.

especially the case when EPZ employment is compared with the informal sector, as shown in the country study of Madagascar,¹² where most enterprises are affiliated to the National Social Security Fund, but significant delays in payments by employers have been observed; moreover, temporary workers are generally not covered. Efforts have been made to improve health and safety conditions, although workers are not always given adequate information and training and are not always aware of the potential risks of the job they perform. Although most EPZs are members of the health-care system, there are many shortages in practice and prevention is weak. In Indonesia, it has been noted that, in a number of cases, the poor conditions of work in EPZs are very similar to those in the rest of the country. Workers who work late, women in particular, argue that they face increased risks in terms of safety and health and ask for measures to be taken to ensure adequate transport and security and childcare facilities.

Social dialogue and labour administration

29. Whereas labour laws in EPZs generally appear to be the same as in the rest of the country, difficulties arise in application, especially if labour inspection is weak. For example, Chinese labour and trade union laws apply to all enterprises and economic organizations. They cover most employment issues, including contracts, wages, working conditions, occupational safety and health, the female workforce and dispute resolution. However, enforcement and labour practices vary between regions, as provincial and local labour departments have fairly wide discretion in handling local labour matters; and local governments are also concerned to attract investment. In some countries, however, such as Djibouti, Panama and Zimbabwe, specific laws apply to EPZs. In other countries, such as Algeria, Cameroon and Mauritius, EPZs are subject to national labour legislation with some exceptions in the areas of duration of work, levels of wages and overtime.
30. EPZs are often regulated by a special authority, as in Sri Lanka and Madagascar, devoted to attracting investments and acting as a facilitator in the provision of various services to investors.
31. There is clearly a need for employers' organizations in EPZs to facilitate social dialogue with workers' representatives and national authorities. In Sri Lanka, where EPZs have been characterized by the lack of social dialogue and where tripartite social dialogue within the National Labour Advisory Council regarding the zones has also been limited, the Employers' Federation of Ceylon is participating in a programme for the garment sector to increase productivity and improve quality while strengthening bipartite social dialogue and promoting better working conditions. In Indonesia, the Government is formulating a mechanism for the establishment of local tripartite labour committees within EPZs to serve as local social dialogue forums. Bipartite bodies established to promote collective bargaining and the settlement of disputes have reduced industrial unrest and labour turnover. There is, however, still a need to improve information and laws.
32. In Madagascar, there is an emerging will from both employers and unions to move towards the negotiated settlement of labour issues. For example, bipartite discussions are under way on issues such as job classification and training. A bipartite follow-up committee meets once a month to address social and economic issues pertaining to EPZs. An ILO round table held in June 2007 in Antananarivo constituted a good exercise in social dialogue.

¹² C. Ntsay: *La situation du secteur des entreprises franches à Madagascar, Etat des lieux du secteur des entreprises franches*, paper prepared for the ILO InFocus Initiative on EPZs (Antananarivo, June 2007), forthcoming.

33. As shown in the country studies in Indonesia, Madagascar and Sri Lanka, labour administrations often do not have enough resources, in terms of either staff or transport, to address non-compliance with labour laws, minimize labour disputes and carry out regular inspections in the zones. They may even be discouraged from entering the zones.
34. In Sri Lanka, the Ministry of Labour was reorganized and the inspection system revised with ILO support in the period 2003–06. However, the number of labour inspections still remains low. As a result of the weakness of state regulation, and because both the BOI and the Ministry of Labour lack the necessary staff to conduct regular inspections in EPZs, many buyers and multinational enterprises, such as Nike, have started implementing their own codes of conduct and social audits. It is essential that Ministry of Labour inspectors, occupational safety and health inspectors and BOI officials coordinate their activities and work closely with the private auditors, ensuring that the auditors have the freedom to undertake regular or surprise inspections, which are subject to BOI authorization.¹³
35. In Indonesia, although there is a lack of data on strikes and disputes within the zones, it seems that disputes on termination of employment are rising. No system really exists to conduct effective inspections in EPZs and there is a shortage of labour inspectors. Things may change, however, if Indonesia wants to obtain the “GSP Plus” status under the European Union’s new Generalised System of Tariff Preferences (GSP).¹⁴
36. Madagascar also has a limited number of labour inspectors (one for every 1,500 EPZ workers) and there is a crucial need to train them. Contrary to the law, many enterprises have neither internal regulations nor a staff delegate. With regard to compliance with the standards set by the Ministry of Industry, only one third of enterprises have sent regular compliance reports.
37. In terms of corporate social responsibility (CSR), the ILO conducted a study on the implementation of codes of conduct in developing countries¹⁵ covering the apparel, footwear and retail sectors. The study showed that, although CSR codes were very unevenly implemented, some progress had been made.
38. In 2005, the Fair Labor Association (FLA) found nearly 1,600 non-compliance items in 99 factory audits in several countries.¹⁶ Violations of safety and health codes were the most common, followed by wages and benefits and working hours. Another study conducted in five countries (Costa Rica, India, South Africa, United Kingdom and Viet Nam) under the Ethical Trade Initiative’s code of conduct revealed that, while some progress had been made in the areas of health and safety, child labour, working hours and minimum wage, less progress had been made in relation to freedom of association, discrimination, regular employment and harsh treatment.
39. As a result of pressure from buyers, China has started to introduce its own CSR standards in some development zones, especially in terms of labour conditions and health and safety issues.

¹³ A. Sivananthiram: *Promoting decent work in export processing zones (EPZs) in Sri Lanka*, paper prepared for the ILO IFI on EPZs, forthcoming.

¹⁴ A. Sivananthiram: *Promoting decent work in export processing zones (EPZs) in Indonesia*, paper prepared for the ILO IFI on EPZs, forthcoming.

¹⁵ I. Mamic: *Business and code of conduct implementation*, ILO (Geneva, 2003).

¹⁶ Fair Labor Association, *2006 Annual Public Report* (Sep. 2006) and M. Amengual, op. cit.

40. As expressed in a recent study,¹⁷ “even if codes of conduct continue to spread, relying on companies to self-regulate compliance is not sufficient and ... government enforcement and funding for viable enforcement structures remain a top policy priority”.

3. Linkages to the domestic economy

41. It may be argued that, while EPZs have generated employment in many countries, they do not automatically lead to sustainable social development and poverty alleviation. It may also be argued that they increase the dependency of developing countries on foreign capital and can create unfair competition with domestic industries, which, unlike the foreign firms, cannot import inputs duty free. While many developing countries have expanded their share of manufacturing exports, they have been less successful in capturing the global value added (exceptions include China, Malaysia, Singapore and Thailand). As foreign firms are seeking export markets, the possible forward linkages are minimal. There may also be legal limitations, such as in Costa Rica, where EPZs are only allowed to sell a maximum of 25 per cent of production on the local market.¹⁸
42. Backward linkages also seem to be minimal, with domestic orders remaining at a low level and technology spillovers rare. There are some exceptions, such as in Mauritius or South Korea, but it is more common for only 3–9 per cent of inputs to be purchased on the domestic market, since local producers have not been able to meet world market standards for price, quality and delivery terms or where there is a lack of interest because of low perceived returns. As a result, many countries face increasing competition from China and India, which have better backward linkages. In the Dominican Republic, in spite of 30 years of presence in the country, EPZs only purchased 0.0001 per cent of inputs on the domestic market in 2004. In Madagascar, one of the aims of the Association of Duty Free Enterprises and Partners is to improve the integration of EPZs in the national economy.
43. Some countries try to attract EPZs to regions other than capitals or ports. In April 2002, Costa Rica adopted the Act on Strengthening Small and Medium-Sized Enterprises that paved the way for the setting up of the Costa Rica Provee programme, which is designed to promote linkages between national enterprises and EPZs. The volume of business involving domestically produced goods and services tripled from US\$1 million in 2001 to US\$3 million in 2005.
44. In Sri Lanka, the Government initiated several measures to promote regional industrialization, for example the 300 Enterprises Programme, under which incentives are given to enterprises to relocate in certain regions. Moreover, many concessions given by the BOI were extended to local investors. This may, in the medium term, blur the distinction between EPZs and non-EPZs. The national budget for 2007 contains provisions relating to the development of domestic industry and backward linkages.
45. It seems, however, that linkages are more likely to occur under certain conditions. This explains, for example, why South Korea and the Dominican Republic, with a similar experience and intensity of EPZs, have reached different levels of development. Linkages are more likely to occur when EPZ activity focuses on more high-tech sectors, when the

¹⁷ G. Berik and Y. van der Meulen Rodgers: *The debate on Labor Standards and International Trade: Lessons from Cambodia and Bangladesh*, Working Paper Series 07-5, The International Working Group on Gender, Macroeconomics, and International Economics GEW-IWG (June 2007).

¹⁸ D. Osterlof-Obregón: *Costa Rica: Estudio sobre las Zonas Francas*, paper prepared for the ILO IFI on EPZs (San José de Costa Rica), p. 32, forthcoming.

domestic market is larger and has a potential for diversity, when the baseline level of industrial development is higher and when the State is more active and focused on economic development.

46. EPZs may still benefit the domestic economy through industrial upgrading that should lead to higher value added and ultimately to higher wages. In Sri Lanka, industrial upgrading has occurred in the textiles sector with firms moving from assembly to full package production in which higher value added aspects of production are included in the process. In China, the creation of high-tech industrial development zones is one of the important measures taken to strengthen technology advancement and innovation.

4. The way forward

47. Over the past five years, EPZs have expanded in size and quantity and employ a growing number of people across the world. Their growth has been accompanied by a diversification of aspects such as the economic sectors covered, the incentives provided to investors and the form taken by the zones. It has also been accompanied by the increasing volatility of financial flows, particularly in certain sectors, as a result of deregulation and globalization. Trade-related measures such as the dismantling of preferential agreements and the establishment of transition clauses and regional agreements have had significant implications for EPZ production in different sectors and countries.
48. One justification for the existence of many EPZs is their low production costs largely based on low wage costs and import duty exemption while another is that they are tools to promote exports. According to one view, EPZs are unlikely to lead to sustained human and social development and poverty alleviation, but instead may increase the dependency of developing countries on foreign capital and have a detrimental effect on national industries. Moreover, in most cases, they constitute neither a large-scale nor sustainable solution to underemployment and unemployment. An alternative view is that, in many instances, EPZs compare favourably on issues such as wages and conditions of work to workplaces outside the zones. In addition, they provide benefits such as formal sector employment and ways of optimizing access to global markets. To a large extent, the success of EPZs appears to be related to the degree of state capacity, domestic skill levels, infrastructural capacities, rule of law, respect for workers' rights and economic linkages outside the EPZs.
49. The present report has demonstrated that there is no one-size-fits-all solution to ensure decent work in EPZs, as there is great international variation in the nature of zones, their linkages to the domestic economy and the status of employment conditions in them. It has provided updated information and examples of approaches and measures which may be used, separately or in combination, to address the situation in EPZs. These might include:
- reinforcing regulatory and legislative frameworks in countries and ensuring their proper enforcement;
 - developing the labour inspection system through legislation, assistance and training;
 - ensuring the effective right to organize in law and practice;
 - improving information flows to workers, employers and governments through social dialogue and collaboration among stakeholders, including workers, employers, ministries of labour, economy or trade and industry, EPZ authorities and labour inspectors;

- strengthening the capacities of firms and improving both production systems and working conditions, which not only requires enforced regulation and increased social dialogue, but also action at the level of firms and global chains to guarantee decent work;
 - enhancing political will through a local mixed approach, which requires national and international support, in the first instance from the ILO. Many factories in EPZs are presently regulated by both governmental and non-governmental bodies (such as codes of conduct and framework agreements) as a result of recent CSR developments and the lack of resources of many governments;
 - strengthening the capacity of governments to regulate in a way that attracts investment without undermining labour standards, reflecting the emphasis placed by the Governing Body at its 286th Session, in March 2003, on the need for governments to “have a clear and comprehensive industrial and investment strategy, consistent with the need to promote economic development and respect for fundamental workers’ and employers’ rights as defined in ILO standards”;
 - harmonizing the regulatory frameworks for EPZs with those applicable in the rest of the country, in recognition of the fact that the situation in EPZs will not improve significantly until the overall employment conditions – in particular with regard to the right to freedom of association and collective bargaining – in the domestic economy are improved;
 - creating incentives, for example under global framework agreements or trade agreements, for firms to comply with fundamental labour rights.
- 50.** A combination of public and private initiatives, local and international efforts and action at the national level may pave the way for better working conditions in and outside EPZs. The Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy is a unique instrument which could help generate greater synergies between public and private initiatives, and should be promoted among MNEs, governments and the social partners addressing economic and social issues in EPZs. The Office will continue to work according to the multidisciplinary approach of the 2006–07 InFocus Initiative on EPZs, promoting all the ILO’s strategic objectives. Action will be focused in particular, within the context of Decent Work Country Programmes (DWCPs), on:
- fundamental principles and rights at work, especially freedom of association and the right to collective bargaining;
 - strengthening social dialogue, labour regulation and implementation, with an emphasis on labour administration and inspection;
 - employment trends and conditions, with a special emphasis on women’s work and a sectoral approach;
 - social protection, in particular working time and occupational safety and health;
 - studies on supply chain buyers and their influence on improving implementation of labour rights;

- strengthening the Office’s knowledge base, including its web site, particularly in the area of statistics, and analysis of the trends and evolutions of decent work in EPZs;
- providing advisory services to constituents.

Geneva, 22 January 2008.

Submitted for debate and guidance.