

Survey on Duty-Free Export Processing Zones in Asian Region

By Byung Gil Van*

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* Dean of College of Commerce, Sogang University. This survey and its first draft was completed while he was serving as Consultant to the Asian Productivity Organization (Tokyo) for a year beginning October 1973. This final report, completed since returning to his current position, was presented by him as a major working document at the APO sponsored international Symposium on Free Export Processing Zones held in Seoul, Korea from October 14th through 18th, 1975. He has also served as APO Expert throughout the Symposium.

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I. Introduction

This Survey on Duty-Free Export Processing Zones was conducted with the approval of the Asian Productivity Organization (APO) Governing Body in its 15th Session in 1973.

As of September 1974, five APO member countries including the Republic of China, India, Republic of Korea, the Philippines, and the late Republic of Vietnam have established duty-free export processing zones (hereafter referred to as EPZs) but only the first four were operating. Some other APO member countries were in the process of either contemplating or planning EPZs. In all cases, objectives of establishing and operating EPZs are multitude but similar in nature, including securing of much needed direct foreign investment for economic development particularly in the modern industrial sector, creation of new indigenous employment opportunities, better utilization of indigenous natural resources and the products of "component industries," expansion and diversification of exports in terms of products and target markets for increased foreign exchange earnings, and the like.

The APO Secretariat instituted this Survey primarily as one of its series of programs intended to serve the member countries in their effort to expand and diversify exports.⁽¹⁾

1. Objectives of the Survey

A primary objective of this Survey was to conduct an empirical study of the operating EPZs among APO member countries for comparative analysis, the results of which may serve useful purposes for those member countries contemplating, planning, establishing or operating such Zones.

This report resulting from the Survey formed the major working document for the Symposium on Duty-Free Export Processing Zones, October 14th through 18th, 1975 in Seoul, Korea. The above Symposium was intended to provide a forum for member countries for discussion, exchange of views and experiences, and mutual learning on matters pertaining to policy-decision, planning, establishment procedures, and operational aspects of EPZs.

2. Scope, Methodology and Delimitation

The already mentioned four EPZs operating APO member countries were initially included in this Survey. Subsequently, the late Republic of Vietnam was included in the list at her request.

(1) APO member countries include Republic of China, Hong Kong, India, Indonesia, Iran, Japan, Republic of Korea, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Thailand and Republic of Vietnam.

The scope of this Survey was confined to the empirical study of the subjects including the following:

- a. EPZs within the framework of economic development and export promotion programs.
- b. Procedural steps leading to the establishment and operation of EPZs, including feasibility studies, development planning, legal and administrative framework, etc.
- c. Physical set-up of EPZs.
- d. Management and operation of EPZs.
- e. Survey on "occupant enterprises."

The necessary data for the Survey were obtained through three sources:

- a. Published materials of the concerned governments and other institutions.
- b. Answers to the two sets of questionnaires, one directed toward the EPZs operating government agencies and the other directed toward selected "occupant firms" operating in EPZs, obtained by interviews, mail returns, and country visitations.
- c. Views and opinions obtained through interviews with concerned government officials and executives of "occupant enterprises."

Relevant information made available by the three sources were very limited. Governmental publications where available were mostly in the nature of promotional brochures with limited usefulness for this Survey purpose. Survey reports published regarding individual EPZs are almost totally unavailable, at least in English.

As far as the questionnaire directed toward government agencies concerned with EPZs are concerned, only four countries filled out the questionnaire and they are in varying degree of incompleteness. On the other hand, "occupant firms" surveyed have quite willingly supplied necessary information based on the questionnaire through interview process.

Views and opinions obtained through interview process with concerned government officers were mostly limited to the types of information already made available in their promotional brochures. In certain cases, government bureaucratic procedures either delayed provision of information or prevented them entirely. Again the executives of occupant enterprises were willing and freely provided information asked.

As far as the methodology for this Survey was concerned, three steps

were followed:

- a. Preliminary background study based on limited amount of published information and the formulation of two sets of questionnaire.
- b. Country visitations to obtain data through the questionnaires and interviews, as well as to verify data on hand. On-site inspection of all the operating EPZs with the exception of India's Kandla Free Trade Zone was made.
- c. Classification, analysis of relevant data followed by report writing.

This Survey report was largely based on the data obtained through the methodology and sources described above, though other published information with limited extent available were also utilized. Needless to say, those information not made available by government agencies and other sources to which requests were made obviously could not be incorporated in this report. The entire content of this report is based on data made available up to September 1974.

3. Definition of Terms

At this juncture, it is necessary to define the term "duty-free export processing zones (EPZs)" as used in this report, and also to differentiate with other terms belonging to the category of customs privileged areas or facilities. This is because there are cases where the same terminology is defined and interpreted in different ways, while different terminologies with different meanings have often been synonymously and interchangeably used.

Even among the APO member countries, the Republic of China, the Philippines, and the late Republic of Vietnam used the term "Export Processing Zones" designating their special industrial estates. India refers to its special industrial estate at Kandla as "Free Trade Zones." The Republic of Korea uses the term "Free Export Zone" in connection with its customs privileged industrial estates in Masan and Iri. The term "Industrial Free Zone" is used by certain international organizations including UNIDO.

However, an analysis of development objectives, customs and other privileged accorded, the regulation of the estate and occupant firms, management and operation, etc. of these special industrial estates revealed that they are largely the same. Accordingly, the term "Export Processing Zones" is used throughout this report designating the special industrial estate

which is the center of our attention here.

Export Processing Zones (EPZs) is one of the customs-privileged area or facilities of more recent development with increasing popularity among developing nations, particularly in Asia, Latin America and to a lesser extent in the Middle East and West Africa. EPZs is a derivative of such traditional customs-privileged areas or facilities as "Free Trade Zones," "Free Port," "Transit Zone," "Free Premiter," and such special customs privileged facilities as "bonded warehouse or area." While the traditional customs-privileged areas or facilities vary greatly in detail as the result of differing historical backgrounds and particular economic conditions, they cater principally to mercantilistic (commercial) trade such as warehousing, breaking, bulk, repackaging, transshipment, etc.⁽²⁾

Export processing zones, relatively new concept emerged only since 1958 with the establishment of the Shannon (Ireland) International Free Port, caters very largely to export-oriented, processing and manufacturing activities. So far, a limited number of EPZs have been successfully established and operated mostly in Asia and some in Latin America. According to a UNIDO publication, the concept of EPZs in brief

"...involves the establishment of modern manufacturing plants inside an industrial estate, by offering a suitable package of investment incentives to both foreign and domestic entrepreneurs. To encourage this, legislation must be passed, giving investors such incentive as fixed term corporate tax exemption, duty exemption on production machinery imports, freedom to repatriate profits at a certain rate, and other facilities. Also readily available, pre-built factory building with all services are usually made available at reasonable rates."⁽³⁾

We might add to the above that EPZs is usually an enclave within a national customs territory, most likely situated near an international airport and/or port, into which not only foreign machineries but also raw materials and other related goods may be brought in and usually the entire assembled and manufactured products are exported without subjected to cumbersome

(2) For information concerning free trade zone, free port, etc. other than the export processing zones, please refer to the following source: *Free Trade Zones and Related Facilities Abroad*, U.S. Department of Commerce, Bureau of International Commerce, Washington, D.C., July 1970.

(3) *Industrial Free Zones as Incentives to Promote Export-Oriented Industries*. Prepared by the Secretariat of UNIDO, February 25, 1974, p.3.

formal customs requirements to be found in the customs territory, and all the administrative, customs, immigration, communication, banking and other services in support of occupant firms are offered within a single building or within the administrative compound within the zone.

A working definition of EPZs as adopted by the Industrial Estate Administration, the Government of the Republic of Korea, is shown below as an example:

- a. The export processing zone (or free export zone) is a specially designated industrial area where foreign-invested (as well as joint-venture firms with Korean nationals as partners) can freely import raw materials or semi-finished goods, free of duty, and manufacture, process or assemble export products.
- b. The Zone is characteristics of a bonded area where the application of pertinent laws and regulations is waived or relaxed, in whole or in part.
- c. It is a specially designated industrial estate where the Government constructs various facilities for sale or lease, including plant sites or factory (standard type) buildings, for occupant firms.
- d. It is an industrial area where various privileges in legal aspects and tax incentives are provided to foreign (including joint-venture) firms.
- e. It is also an over-all administrative district in which all administrative services, including the licensing of foreign investments are provided on the spot.⁽⁴⁾

A brief note on the advent of EPZs is in order here. While the advent of EPZs is relatively recent in comparison with the other customs-privileged areas or facilities, their origins can be traced to the fact that not only in the past but presently most countries of the world maintain tariff systems and tax most categories of imported products for consumption or use within their national boundaries at the time of entry according to rates specified in a customs tariff. Such customs tariffs are instrument of national economic policy. Their common objectives are the protection of domestic industry and the increase in national revenue. In combination with tariffs, many countries frequently maintain import limitation policy in the form of so-

(4) *A Case Study of the Masan Free Export Zone*, The Industrial Estate Administration, the Government of Korea, Seoul, March 1974, p. 8.

called "non-tariff barriers" such as supplementary import taxes, quota systems, import licensing requirements, foreign exchange controls, etc.

On the other hand, most tariff-enclosed countries currently do not impose customs duties or other import restrictions on shipments of foreign goods clearly documented for onward shipment or processed and manufactured for export to a third country. Such transit shipments and bonded processing and manufacturing for exports are usually subject only to "minimal controls" necessary to ensure that goods actually leave the national customs territory. However, the "minimal controls" could be very cumbersome in terms of costs, time and effort to foreign owners and investors as well as to domestic export-oriented firms, depending on the degree of prevalence of bureaucratic inefficiency in the administration of import-export procedures. Therefore, most customs-privileged areas or facilities are intended to alleviate or do away with such problems and shed economic benefits to the countries concerned. The EPZs go one step further than those described above with distinct features, characteristics, and objectives which are linked to national economic development and export expansion and diversification strategies, etc.

II. EPZs within the Framework of Economic Development and Export Expansion Strategies

1. National Objectives Pursued and/or Resulted from EPZs

EPZs are not isolated industrial estate projects but purposely planned, established and operated by the concerned APO member governments to carry out many faceted functions and roles. Table 1 shows a summary of answers by the governments of the Republic of China, India, Republic of Korea, the Philippines and the Republic of Vietnam to the question, "What national objectives (benefits) are pursued and/or resulted from EPZs?"

All five countries indicated that economic development and increased foreign exchange earnings are "very important" national objectives pursued in relation to EPZs operations. Four countries mentioned export expansion and diversification and increased employment and income as "very important"; while three countries mentioned technological transfer as "very important" objectives pursued. Regional development, increased government revenues, managerial technique transfer, and efficient utilization of domestic

Table 1. National objectives pursued and/or resulted from EPZs

	Very Important	Important	Not Important
1. Economic development	5	—	—
2. Regional development	1	3	—
3. Export expansion and diversification	4	—	—
4. Increased employment and income	4	1	—
5. Increased foreign exchange earnings	5	—	—
6. Increased government revenues	1	1	2
7. Technological transfer (spillover)	3	2	—
8. Managerial technique transfer	1	3	—
9. Efficient utilization of domestic material resources including processed	1	3	—
10. Others (specify)	—	—	—

material resources are considered “very important” objectives by one country each. Therefore, “very important” national objectives pursued in relation to EPZs operation, in order of importance, are economic development, increased foreign exchange earnings, export expansion and diversification, increased employment and its earnings.

Regional development, transfer of managerial techniques, and efficient utilization of domestic material resources are considered by three countries as “important” national objectives pursued in relation to EPZs operations. Transfer of technology, increase in employment and its earnings, and increased government revenues lower priorities among the “important” items. Two countries mentioned that increased government revenues are “not important” objectives for EPZs operations.

The foregoing analysis indicate that selected APO member countries are pursuing multitude of national objectives in relation to EPZs operations, and among which economic development is, of course, of paramount importance. Like most developing countries of the world, these APO countries have diverse development contexts in terms of geographic, demographic, political, economic, and socio-cultural environments. Yet, they all have one thing in common, that is, economic development as a primary national goal.

The economic objectives of national development may be broadly defined as the following: 1) Growth in aggregate national income, accompanied by an equitable distribution of income between and within population, business and regional groups; 2) Increase in the kinds and amounts of finished goods

and services available to consumers, industries and governments; 3) Development of a national economic or industrial structure capable of earning foreign exchanges to pay imports for industrialization and to improve international balance of payments through expansion and diversification of exports at the same time supplying domestic markets; and 4) Creation and maintenance of a high level employment. If one accepts the above definition of economic development objectives, it may be reasonable to say that the development and operation of EPZs is, though with varying degree of importance depending on individual APO member country, an integral part of national strategy for economic development.

Evidences seem to indicate that national objectives pursued through EPZs operations are already beginning to be realized in terms of concrete economic benefits in some APO member countries. Republic of China and Korea are presently known to be receiving substantial economic returns. For the rest of EPZs operating member countries, Philippines seems to be showing relatively good prospect, India has hardly attained expected benefits, Republic of Vietnam's EPZ became inoperational due to communist take-over. A detailed analysis of national objectives pursued versus actual results in relation to EPZs operations will be dealt with later.

2. EPZs and Export Expansion and Diversification Strategies

A note was made in the foregoing section that for selected APO member countries the EPZs remains an important national instrument for their export expansion and diversification strategies. Our attention here is directed to ascertaining interrelationship between the development and operation of EPZs and other strategies for export expansion and diversification.

In the case of the Republic of China, its Sixth Four-Year Economic Development Plan emphatically state that

"export expansion remains to be the main driving force for Taiwan's accelerated economic growth (and) efforts will be directed toward continued improvement of export structure and diversification of export markets."⁽⁵⁾

Under such policy, the country's export expansion and diversification strategy may be divided into two major facets:⁽⁶⁾

a. An accelerated development of capital intensive and high-technology

(5), (6) "Targets and Basic Politicis Under the Republic of China's Sixth Four-Year Plan(1973-76) for Economic Development of Taiwan," *Industry of Free China*, April 1973, pp. 15-19.

industries including iron and steel, machinery, equipment, chemicals, industrial raw materials and intermediates with the view to producing “new products” as far as the country is concerned to seek and serve heretofore neglected export markets. This phase of strategy will not only help to expand but more importantly diversify export products and markets.

- b.* To continue to promote the existing industries which have so far been the mainstay of exports and enhance their competitiveness in the world market. Such industries, including textile, plastics, plywood, electronics and processed foods, are to contribute to further expansion of exports.

The Government's official view as to how its EPZs would fit into the above export expansion and diversification strategy is not available. However, it may be reasonable to assume that at least the existing EPZs will continuously contribute to the second facet of the strategy.

The detailed objectives of export promotion schemes of the Republic of Korea within its economic development plan are as follows:

- a)* Expansion of visible exports in value to 4.4 billion dollars in 1976 and 10 billion dollars by 1981.
- b)* To improve the structure of export industries.
- c)* To improve the competitiveness of export industries and their products in the world market.
- d)* To expand and diversify export products and markets.
- e)* To improve net export earnings and upgrade the quality of export products.

The strategies being implemented to achieve the above export promotion objectives are as follows:

- a)* Develop heavy and petro-chemical industries as the export-oriented industries.
- b)* Expansion and modernization of export industrial facilities.
- c)* Concentrated support and promotion of export-oriented and regionally specialized industries.
- d)* Give priority on importation and maintenance of necessary raw materials with adequate safety margin.
- e)* Strengthen international economic cooperation (viz., inducement of

foreign investments, expansion of export processing zones, etc.) and economic diplomacy.⁽⁷⁾

In the case of the Republic of Korea, it can be seen that the expansion of EPZs constitute a facet of strengthening international economic cooperation which is but one of five export promotion strategies.

For the Philippines the export promotion objectives within its economic development plan include the following:

- a) To contribute to the achievement of the national goals of maximum economic growth.
- b) Promotion of employment.
- c) Internal and external stability.
- d) Regional industrialization.
- e) To strengthen foreign exchange position of the country.

The major strategies being implemented to achieve the above objectives include the following:

- a) Creation of Export Processing Zones.
- b) Encouragement of entry of foreign investments.
- c) Vigorous expansion of export earnings.
- d) Utilization of excess capacities in manufacturing for Export Processing Zone export production.
- e) Development of new markets for the country's exports.
- f) Creation of employment opportunities through export production.
- g) Achievement of linkage benefit through integration of export industries.
- h) Shift from traditional, primary and raw materials exports toward processed and manufactured ones.
- i) Conservation of limited foreign exchange earnings through the efficient allocation of dollars among important competing imports.⁽⁸⁾

Creation and operation of EPZs is of paramount importance among major export promotion strategies of the Philippines. Moving excess manufacturing capacities inside the EPZs for their better utilization is also an important strategy to note.

Although the Republic of Vietnam is now defunct, the following is provided for reference. The country's export promotion objectives within its

(7) Based on the questionnaire returns.

(8) Based on the questionnaire returns.

economic development plan included the following:

- a) To improve balance of trade.
- b) To earn foreign exchanges.
- c) To utilize the vast labor force.
- d) To increase the consumption (utilization) of local raw materials.

The country did not provide information on detailed strategies for achieving the above objectives, but the establishment of the Saigon Export Processing Zone in 1974 can be taken as one of major strategies.

For India, one of major objectives of long-term economic development plan is export promotion. Concerning objectives and strategies of export promotion, the following account is given by the government:

“The expansion of export earnings is very crucial for financing the (economic development) plan, more particularly in the context of the goal of achieving national self-reliance and reducing dependence on external assistance. A steady increase in export earnings is dependent on the continuous development and export oriented production. Apart from expansion of the export oriented production base and its reorientation toward items with rapidly expanding world markets, it is also necessary that exportable products are pushed into the world markets rather than consumed at home. A variety of export promotion schemes/measures like cash subsidies, import replenishment, preference in industrial licensing, liberal imports of inputs in production and expansion of capacity, tax concessions etc. have been adopted.”

Relying on the above account, it is difficult to ascertain what specific strategic roles the India's EPZs are assigned to play for export expansion and diversification. However, the Government of India added that the Kandla Free Trade Zone, the only presently operating EPZ, has the following objectives:

- a) To promote Indian exports and earn more foreign exchange.
- b) To bring about fuller utilization of the facilities already developed at Kandla Port; and
- c) To increase the employment potential of Kandla-Gandhdham area.

3. EPZs Compared with Other Government Instituted Industrial Estates

The EPZs being but one type of government instituted industrial estates in the APO member countries under study, it is well to study the nature

of government instituted non-EPZs industrial estates for to know what these estates could possibly offer to foreign investors. For this reason, an attempt is made here to ascertain the existence and characteristics of such industrial estates with a view to delineate their distinctive features, advantages or disadvantages to foreign investors *vis-a-vis* EPZs, or vice versa.

India, Republic of Korea, the Philippines and the Republic of Vietnam provided through the questionnaire the necessary data for this study. The Republic of China's portion of data were elicited from a secondary source.

India

As of March 1972, there are 465 non-EPZs industrial estates established by various state governments in India. "The broad objectives of (these) industrial estates are to improve production techniques of small industries so as to enable them to produce quality goods and to bring them to a viable level; to promote decentralization and dispersal of industries; and to promote agro-based industries."⁽⁹⁾ Based on the above account, state government provided industrial estates seem to be for small domestic industries intended to induce foreign investments. Their products could be termed domestic market-oriented.

The Government of India is of the opinion that foreign investors investing in EPZs such as in Kandla may be in the position to receive the following comparative advantages relative to investing in non-EPZs:

- a) Non-resident of Indian origin or otherwise will be permitted to make investment in any form or organizations they like. They will be permitted to make investment in Indian Joint Stock Companies, partnerships or proprietorship.
- b) Investment in purely trading or commercial activities will be permitted in Kandla Free Trade Zone (KAFTZ). The provisions under which foreign investment is not allowed in certain types of industries where foreign technical know-how and capital are not considered essential will not be applied. Thus, there will be no bar in setting up of an industry on the ground that foreign technical know-how and capital are not essential for the purpose.
- c) Repatriation of capital will be allowed according to the existing rules

(9) Based on questionnaire return from the Government of India.

in India.

- d) Repatriation of profits after payment of taxes will be freely allowed provided that repatriable amount in any one year does not exceed half of the net export earnings.
- e) Foreign exchange holding will be permitted to be brought into the KAFTZ. Each application will have to maintain a separate nonresident account in respect of his operation in KAFTZ.
- f) Plant and machinery needed for setting up, converting or manufacturing facilities for export will be permitted freely and customs clearance permits issued for import of the same against applicant's own foreign exchange without requiring any clearance from the D.G.T. Clearance from indigencous availability angle will, however, be necessary as hitherto while considering the applications for import license(or distinct from CCP) for capital goods where the party is unable to provide foreign exchange from his own resources.⁽¹⁰⁾

The comparative advantages of government instituted non-EPZs in India is given as below:

- a) Infrastrutural facilities like water, power, ready made industrial sheds in some cases are made available as in KAFTZ on payment of appropriate charges.
- b) Whereas in KAFTZ there is 100% export obligation subject to the condition mentioned (in relation to comparative advantages of EPZs), for investors in the industrial area of the Gujara Government such 100% export obligation is not there. The actual extent of profit will depend upon the particular industry and the price prevailing, etc.⁽¹¹⁾

Republic of Korea

As of 1974, the Republic of Korea had a total of 33 government instituted developed/developing industrial estates, in addition to two EPZs in Masan and Iri. Out of the 33 non-EPZs industrial estates, 20 are located in inland areas while 13 on costal areas. All 33 industrial estates are intended to serve both domestic and foreign investors(in principle in joint venture with Korean nationals) are welcomed. As to industry-orientation, 10 industrial estates cater to heavy-petrochemical industries, 24 for light industries, and one is for the mixture of the above two categories. Included among the 24

(10), (11) Based on questionnaire return from the Government of India.

light industry oriented industrial estates are Masan and Iri Free Export Zones. Concerning the state of industrial estate development, 11 were in the stage of constructing sites, building infrastructure and other necessary facilities and structures. 16 estates were partly in operating while construction is being completed. Seven estates were in full operation. (See Table 2)

Table 2. Government instituted industrial estates, other than EPZs in the Republic of Korea

1. How many	2. Location	3. Market-orientation	3. Industry-orientation	5. Primary investors	6. Stage of development
(35) ^{a)}	Inland	Domestic/ Foreign	Heavy- petrochemical	Domestic/ foreign	Initial construction of site
	(20)	(33)	(10)	(33)	(11) ^{c)}
	Coastal	Domestic	Light industries	Domestic	Constructing plants
	(15) ^{a)}	()	(24) ^{a)}	()	()
		Foreign	Mixture	Foreign	Partial operation
		(2) ^{b)}	(1)	(2) ^{b)}	(16)
			Others		Full operation
			()		(8) ^{d)}
					Construction/operation halted ()

Note: a) Include two export processing zones.

b) They are export processing zones.

c) Include one export processing zone.

d) Include one export processing zone.

The above figures show that the Masan and Iri Free Export Zones are but two of the 35 government instituted network of industrial estates, and all of them are either primarily export market oriented or export/domestic market oriented special industrial estates. Wholly-owned Korean firms as well as joint-venture firms with foreign partners are permitted to invest in most of these industrial estates. Wholly-owned Korean firms are not permitted in the two EPZs.

According to the Government of the Republic of Korea, the objectives of establishing such Industrial estates including the two EPZs are as follows:

- a) Expansion of production and exports.
- b) Increased employment.
- c) Inducement of direct foreign investment.
- d) Regional development.
- e) Economic development.

Concerning the comparative advantages of EPZs over other industrial estates, the Korean Government gave the following account:

- a) On the spot unified administrative procedures including the application and granting permission for foreign investment, permission on import of technological know-hows, import and export permits for machineries and raw materials and finished products, plant construction permits, etc.
- b) Various customs privileges, exemption or deferrment in various taxes, etc.
- c) On the spot availability of customs and other governmental administrative services as well as banking, transport, warehousing, freight forwarding and other services in support of occupant firms.
- d) Total or partial exemption from commercial laws (such as Foreign Capital Inducement Law, Trade Transaction Law, Labor Dispute Arbitration Law, etc.).

The comparative advantages of non-EPZs industrial estates for foreign investors can be summarized as follows, according to the Korean Government account:

- a) As far as the export industrial estates are concerned, Korean residents in Japan are permitted to import capital.
- b) As far as government designated Export promotion industrial estates are concerned, investing foreign firms are provided with tax incentives (income and corporate taxes exempted for the first three years and thereafter pay only 50%; total exemption for 5 years of acquisition, registration and real estate taxes).

The Philippines

As of 1974, there two government instituted industrial estates, other than the Bataan Export Processing Zone, which were under construction. They are located on coastal areas and firms to be attracted are those of light industries with local ownership and domestic market orientation. The objectives of establishing such industrial estates are given by the Philippines government as follows:

- a) To promote industrial growth compatible with the government's economic development plans in order to prevent congestion of people and industries in metropolitan areas.
- b) To promote the establishment and healthy growth of small and medium-size industries.
- c) To achieve positive industrial zoning in relation to town planning and

urban development.

- d) To diversify the industrial structure in such a manner as to help stabilize the economy of the country.
- e) To alleviate the acute unemployment problems.

The Philippines government stated that there are no special incentives offered by non-EPZs industrial estates. Therefore, to be entitled to incentives, the foreign applicant firm must register with the Board of Investment to avail of the incentives. Which means that foreign invested firms are eligible for certain incentives under such applicable legislations as the Investment Incentives Act (R.A. 5186) and the Export Incentives Act (R.A. 6135) as amended by Presidential Decree No. 92 and R.A. 5490 as amended by Presidential Decree No. 66, even if the foreign firms are located outside export processing zones.

On the other hand, firms investing in the Bataan Export Processing Zones are offered the following incentives and benefits:

a) Tax benefits

1. Tax-free and customs duty-free importation of machineries, equipment, raw materials and supplies.
2. Exemption from the payment of export tax.
3. Exemption from the payment of municipal and provincial taxes.
4. Net operating loss incurred in the first five years of operation may be carried over as a deduction from taxable income during the succeeding five years.
5. Accelerated depreciation of fixed assets deductible from taxable income.

b) Foreign exchange and financing

1. Priority in allocating foreign exchange for importing needed merchandise, equipment and raw materials.
2. Zone enterprise may qualify for loans from financial institutions whose foreign loans are guaranteed by the Philippine government.

c) Guarantees on foreign investments

1. Repatriation of foreign investment and remittance of profits and dividends is allowed at any time in full at prevailing exchange rates.
2. No expropriation and requisition of property represented by foreign investment except in the interest of national welfare and defense; in which case, payment of just compensation shall apply.

- d) Adequate supply of low cost labor whose training are provided at the government expense.
- e) Simplified import-export documentation and procedures under an EPZA system that assures release of all imports and exports within 48 hours. Simplified billing procedures for all services and charges, integrating all charges in a centralized billing system for power, water and rental fees.
- f) Availability of EPZA built standard factories, etc.

Republic of Vietnam

The Republic of Vietnam as of 1974 has only one government instituted industrial estate, other than the Saigon Export Processing Zone, which was located in inland for firms of light industries with domestic or domestic/foreign ownership and whose products were intended for both domestic and export markets. It was then in partial operation. The objectives of establishing non-EPZs industrial estate are as follows:

- a) To strengthen the industrialization process.
- b) To increase regional industrial production and employment.
- c) To diversify production centers.
- d) To develop regional business centers and local infrastructure.
- e) To spread technological development throughout the country.

The government stated that comparative advantages of non-EPZs industrial estate over EPZs are as follows:

- a) Easy access to internal markets.
- b) Greater access to land and buildings for production activities.
- c) Eligibility of New Investment Law No. 4/72.

The comparative advantages of EPZs over other industrial estates are shown below:

- a) Customs privilege incentives.
- b) Fast export-import process.
- c) Relaxed foreign exchange control.
- d) One door administrative procedures.
- e) Little restriction of export or import commodities or products.

Republic of China

The Republic of China did not provide information on its non-EPZs industrial estates in accordance with the questionnaire but the following

information is obtained from a secondary source.⁽¹²⁾ As of 1974, the country had 14 completed industrial estates, in addition to the three export processing zones. As far as the nature of industrial districts are concerned, seven are for comprehensive purposes, three for heavy industries, two for petrochemical, one for furniture industry, and one for tea industry.

In addition, there are nine industrial districts under implementation. Five are for comprehensive purposes, two for light industries, one for petrochemical, and one for heavy industries. The country also has plans to develop eight industrial districts. However, information is not available as to their distinctive features, advantages and disadvantages relative to EPZs.

On the other hand, the Republic of China's three export processing zones, in the position to offer following advantages to foreign investors relative to other industrial estates:⁽¹³⁾

- a) Low cost well trained labor.
- b) No customs duties on importation of raw material, parts and machinery, and exportation of finished products from the zone.
- c) No sales tax, no commodity tax, and a 5 years tax holiday on corporate income tax or an accelerated depreciation rate on fixed assets to be granted to enterprises at their choice.
- d) Simplified procedures—In order to do away with red-tapes and bureaucratic procedures, the KEPZ Administration and its supporting agencies are authorized to act for various governmental agencies in handling of all phases of operations within the zone; such as investment application processing and approval, import and export licensing, foreign exchange settlement, company registration, construction licensing, customs clearance, etc., thus resulting considerable saving of time.
- e) Financing
 1. Factory building loans—For purchasing of standard factory building or construction of self-designed factory buildings, bank loans up to 75% of purchasing price or construction cost are available on 10-year installment payment.

(12) M.T. Wu, "Industrial Estates and Export Processing Zones," *TAIWAN: A Booming Economy, New Trade and Investment Opportunities, An International Briefing*, March 27-29, 1974, Taipei, Taiwan, Republic of China, pp. 59-67.

(13) *Investor's Guide, Export Processing Zones in the Republic of China*, The Export Processing Zone Administration, Ministry of Economic Affairs, Republic of China, January 1, 1973, pp. 5-6.

2. Export loans—Loans of suitable amount will be granted to export enterprises against L/C.

f) Availability of warehousing, transportation and other services in support of occupant enterprises.

The foregoing analysis was concerned with ascertaining what particular advantages EPZs hold over other industrial estates as far as foreign investors are concerned. Such an ascertainment was made under the premise that unless EPZs provide substantial advantages *vis-a-vis* other types of industrial estates to foreign investors, the EPZs as a means of attracting foreign investment for export manufacturing activities would be without much significance. This analysis indicate that such a premise is largely correct and acceptable for the majority of EPZs operating APO member countries are concerned.

Essentially EPZs are in the position to offer the following comparative advantages to foreign investors relative to non-EPZs industrial estates:

- a) The most important is “one-stop-shopping” type of unified and simplified administrative procedures.
- b) Provision of customs-privileges and exemptions.
- c) Provision of various forms of financial incentives including tax exemptions, holidays, reduction and deferment.
- d) Availability of local financing and priority on foreign exchange allocation for importing needed facilities and raw materials.
- e) Free or guaranteed remittance of the principal capital, interests, dividends, and profits.
- f) Availability of infrastructure, standard factory buildings, and other support facilities for occupant enterprises.

However, two outstanding features or advantages of EPZs for foreign investors are the simplified administrative procedures and the availability of infrastructure and other support facilities, since foreign enterprises investing in non-EPZs also generally receive other incentives or benefits.

III. Establishment and Operation of Export Processing Zones

This chapter deals with the administrative, technical and legal procedures, etc., which India, Republic of Korea, the Philippines and the Republic of

Vietnam have followed for establishing and operating their respective export processing zones. Only these countries provided necessary information through the questionnaire for this chapter. Any reference made to other countries is based on secondary sources.

Here we are interested in learning what set of patterns of procedures these countries have followed relative to establishing and operating EPZs. Moreover, the information made available in this chapter may serve useful purposes for those APO member countries planning to establish EPZs.

1. How the Idea of EPZs Was Conceived

As already noted earlier, the first export processing zone with the objective of attracting and promoting export-oriented manufacturing activities was the Shannon (Ireland) International Free Port which was established in 1958. Its success provided impetus for other countries of the world to establish export processing zones.

In the Asian region, two APO member countries of the Republic of China and India were first ones arriving at decisions to establish EPZs in 1964. The Republic of China's first export processing zone established was the one at the port city of Kaohsiung in Southwestern Taiwan. A documented answer as to how the idea of EPZs was originally conceived was not received. However, reasons or circumstances that led to decision to establish EPZs in the Republic of China could presumably be summed as its motive for economic development with a strong emphasis on the expansion and diversification of exports.

For India, how the idea of EPZs was originally conceived is given below:

"Kandla Free Trade Zone was mainly conceived as a measure to develop Kandla Port as a Major Port, compensating for the loss of the Port of Karachi, which was one of the major ports of India before independence. Another objective of KAFTZ was to facilitate production at competitive rates for foreign markets and to ensure that the entire production is exported. The Zone has, therefore, been developed as a full-fledged industrial estate with all the attendant facilities needed to setting up of industrial units."⁽¹⁴⁾

At the time of partition with Pakistan in 1947, Kandla, located at the

(14) Based on questionnaire returns.

eastern tip of the Gulf of Kutch about 528 *km* north of Bombay, was a small town but later it was developed as a major port on the Western Coast of India to compensate the loss of the Port of Karachi.

The Republic of Korea, which reached its decision to establish its first EPZs in Masan in 1969, reported that the idea of EPZs was conceived from the successful operations of EPZs in the Republic of China.

The Philippine's Bataan Export Processing Zone, which used to be called Foreign Trade Zone, was also created in 1969. The Act (Republic Act No. 5490) creating the zone stipulated that the municipal port of Mariveles in Bataan Province be converted into a regular port of entry with the objective of attracting export-oriented industries with given incentives and benefits to investing enterprises. However, documented account of how the idea of the former Bataan Foreign Trade Zone was conceived is not known. Since 1972, the Philippines government strated putting renewed emphasis on the development of exporting processing zones encouraged by the success of EPZs in the Republic of China and Republic of Korea. In November 1972, the former Free Trade Zone Authority, an agency under the direction of various government ministries, was converted into Export Processing Zone Authority, a government corporation. The Bataan Free Trade Zone was also renamed Bataan Export Processing Zone. With such institutional change, the actual construction of the Bataan Zone had commenced. The fact that responsible planning and implementing officers of the Export Processing Zone Authority made a number of study trips to the Republics of China and Korea may lead us to believe that the Bataan EPZ is largely patterned after the EPZs of the Republics of China and Korea.

The Republic of Vietnam reported in 1974 that "the spectacular success of EPZs in Taiwan (Republic of China) and Korea was the inspiration for the Vietnamese Government in setting up the EPZ(at Saigon) in Vietnam." Moreover, it is true that the Vietnamese government dispatched personnel to the Government of Korea for on-the-job training related to EPZs. On the other hand, Republic of China's Export Processing Zone Administration has sent a team of experts to help out with the Saigon Export Processing Zone until the Republic of Vietnam was toppled.

As of 1974, it was known that some APO member countries such as Indonesia, Thailand, Pakistan, Iran were in various stages of contemplating

or planning their own export processing zones. In absence of documented information, the extent of their progress toward realizing operational EPZs is not known. Nevertheless, it would be reasonable to assume that the successful experiences of some of EPZs in the APO member countries have no doubt provided inspiration for other member countries to contemplate and plan and establish EPZs.

2. Procedural Steps from Feasibility Study to Final Decision on EPZs

The governments of the EPZs operating APO member countries were asked the question, "To assess feasibility of and to make final decision on EPZs in your country, what steps in sequential order were taken?" in order to review procedural approach to decision-making. India, Republic of Korea, and the Republic of Vietnam provided requested information in accordance with the questionnaire, as shown below:

Table 3. Sequential procedural steps: three cases

Procedures	Sequential Order		
	India	Korea	Vietnam
a) Designated an existing govt. agency to look into EPZs matters	1	8	1
b) Formed a new govt. agency to look into EPZs matter	2	9	3
c) Collected necessary data exclusively based on published materials	3	1	2
d) Collection of published materials followed by observation mission to EPZs operating countries		2	4
e) Selection of alternative sites for EPZs		6	6
f) Understood feasibility studies		3	5
g) Formulation of EPZs development plan		5	7
h) Newly formed advisory committee or designated existing one to make recommendation top level decision-maker		4	8
i) Final decision--selection of site and adoption of EPZs development plan		7	9

The Philippine government simply stated that "Congress formed a new government agency to develop site selected (the site was designated in the Republic Act No. 5490) and observation missions to other EPZs operating

countries were made by EPZA officials.”⁽¹⁵⁾ The new government agency formed to develop the site (Bataan Zone) was the Free Trade Zone Authority which was later renamed the Export Processing Zone Authority.

It is obvious from the above information that there is no uniformity to be found in sequential order in procedural steps from conception to operation of EPZs, especially when data supplied are so limited. Thus above information is provided only for reference purposes.

Concerning feasibility studies conducted to come to the final decision for EPZs, there is no doubt that all of the EPZs operating countries have conducted some types of such studies. Only the Republic of Vietnam provided relatively comprehensive information. The country conducted three separate feasibility studies by the Ministry of Planning and Development, Ministry of Trade and Industry, and a private consulting firm. The cost and duration of each study were approximately 80,000 dollars and three months respectively. The government agency making the final decision to establish EPZs was the Ministry of Trade and Industry.

The Republic of Korea is known to have conducted at least one feasibility study by a foreign expert group. Other information is not known in the Korea's case, except the fact that the final decision for establishing EPZs was made by the Economic Planning Board.

In the case of India, one feasibility study was conducted by “officers on special duty” appointed by the Government of India. The duration of the study was six months but its costs is not known. The Government of India added that a sub-committee of the Cabinet analyzed the feasibility study submitted and made recommendation to the Government at Cabinet level for final decision on the selection of site and adoption of EPZs development plan.

Concerning the most important factors considered for the final selection of EPZs sites, the following information are given by countries named:

India

- a) Availability of facilities in non-congested ports.
- b) Availability of land.
- c) Industrial development of the region.
- d) Employment potential due to completion of major harbour works and

(15) Based on the questionnaire return.

the railway and other ancillary works at Kandla Port.

Republic of Korea

- a) Transport facilities and conditions.
- b) Topography.
- c) Availability of labor force in surrounding areas.
- d) Availability of industrial water and electric power facilities in surrounding areas.

Republic of Vietnam

- a) Location is secured (military security-wise) and close to Saigon.
- b) Modest investment capital is needed. (Saigon EPZ was formerly U.S. military logistics base with basic infrastructure facilities)
- c) Neighbourhood is highly populated area (for abundant supply of low cost labor force).
- d) Port of Saigon is nearby.
- e) Communication network is very reliable.

3. Legal and Administrative Framework of EPZs

Legal (legislative and government decrees) and administrative framework for planning, establishing and operating EPZs, apart from a series of general investment incentive laws, in selected APO member countries are discussed in this section.

We will first concern ourselves with ascertaining legal framework:

India

The Government of India reported that there is no legislations but only government decrees related to EPZs, as quoted below:

“The decision of the Cabinet Operating under the Customs and Central Excise Notifications and executive orders issued by the Administrative Ministry of Commerce, Government of India.”

Republic of China

Given below are summary highlights of the laws and decrees exclusively related to EPZs in the Republic of China as provided by its Export Processing Zone Administration.

- 1) Basic Laws—Statute for Establishment and Management of Export Processing Zones—Approved by the Legislative Yuan.

The purposes of the Statute are:

- a) To set criteria for accepting industries in EPZs both in category and

nature.

- b) To limit the sales of products to export only.
 - c) To provide legal basis to the establishment of Export Processing Zone Administration and other supporting agencies.
 - d) To delegate authority to EPZ Administration and its supporting agencies by higher government organizations.
 - e) To set up procedures for application and criteria of screening of investment projects.
 - f) To specify the scope of tax and duty exemptions.
 - g) To set the extent of control for bringing out duty-free materials from EPZs.
 - h) To set penalty clause for violation of the statute and other relevant laws and regulations.
- 2) Enforcement Rules of the Statute for Establishment and Management of Export Processing Zones—Approved by the Executive Yuan. These rules were promulgated to give the detail explanation of the status mentioned in 1).
 - 3) Statute for the Organization of Export Processing Zone Administration (EPZA)—Approved by the Legislative Yuan.

This statute was promulgated to specify the organization and complement of the Administration.

- 4) Operating Rules of the Export Processing Zone Administration—Approved by the Ministry of Economic Affairs.

These rules are promulgated for handling, within delegated authority, all procedures concerning the operation and management of the EPZs.

Republic of Korea

The following are laws and decrees exclusively applicable to EPZs in the Republic of Korea:

- 1) Law for Establishment of Free Export Zone (Law No. 2180) which was enacted and promulgated by the National Assembly on January 1, 1970 includes the following highlights:
 - a) The purpose of establishing export processing zones.
 - b) Designation and construction of EPZs.
 - c) Establishment of Administration Office, branch offices, etc. and functions and responsibilities thereof.

- d) Provisions governing sales, transfer, expropriation of land, standard factory buildings, and construction of plants by occupant enterprises.
 - e) Provisions governing qualifications of occupant enterprises, application procedures, criteria for selection of applicants, permission and cancellation of permission to take up occupancy, etc.
 - f) Delegation of authority by higher government agencies in regard to foreign capital inducement.
 - g) Application of Trade Transaction Law, etc.
 - h) Use and management of imported commodities, restriction on disposal of products, etc. in customs tariff territory, etc.
 - i) Permission of entry and exit, etc. by persons and vehicles.
 - j) Provisions on labor disputes, exemption from Law for Preferential Employment of Veterans and Bereaved, reporting requirements of occupant firms, and punitive regulations for violation of the Act.
- 2) Enforcement Decree of Law for Establishment of Free Trade Zone (Presidential Decree No. 4682, promulgated on February 27, 1970).

This Decree contained detailed implementation directives of the major provisions contained in the Act.

The Philippines

The following acts, rules and regulations are related to EPZs in the Philippines:

- 1) Republic Act 5490 (The Law Creating the Foreign Trade Zone) passed on June 21, 1969 contains the following important provisions:
 - a) Declaration of policy concerning the objectives of establishing the Free Trade Zone, privileges accorded to occupant firms, provisions governing foreign imports and transfer of goods from customs territory into the Zone, etc.
 - b) Creation of a Foreign Trade Zone Authority and powers and duties thereof.
 - c) Penalties and appropriations, etc.
- 2) Presidential Decree No. 66:
 - a) This Decree converted the Free Trade Zone Authority into Export Processing Zone Authority, a new government corporation with 200 million dollars capitalization and a capacity to incur loans up to 300 million dollars and 100 million dollars from local and foreign sources,

respectively.

- b) The Decree also renamed the Free Trade Zone in Mariveles, Bataan Province, as the Bataan Export Processing Zone.
- 3) “Rules and Regulations to Implement the Intent and Provisions of the Republic Act 5490 Establishing a Foreign Trade Zone at Mariveles, Bataan(Bataan EPZ)” can be highlighted as follows:
 - a) Registration of zone enterprises.
 - b) Privisions common to registration agreement.
 - c) Plant inspection.
 - d) Security and safety.
 - e) Entry and exit of goods.
 - f) Inventory of finished goods and raw materials.
 - g) Final provisions.

Republic of Vietnam

Legal framework for the establishment and operation of export processing zones in the country were consisted of the following:

- 1) Legislations: 043/TT/SLY Presidential Decree Law.
- 2) Government Decrees: 118/SL/KHPTQG and 685/ND/KHPTQG, all of which were Prime Minister Decrees.

Summary highlights of the above law and decrees could not be provided here as the government did not make available to this writer their contents.

The legal frameworks discussed above are, of course, the bases for the administrative frameworks or governmental organizational arrangements related to establishment and operation of export processing zones of the countries concerned. To be more specific, the following questions were asked the government concerned to obtain clear insight into working relationships among governmental agencies as far as establishing and operating or managing EPZs are concerned.

- 1) Agencies responsible for EPZs site selection:

India—“Officer on special duty.”

Republic of Korea—Ministry of Commerce and Industry, Ministry of Construction, and Industrial Estate Administration are jointly responsible.

The Philippines—Export Processing Zone Authority.

Republic of Vietnam—Ministry of Trade and Industry.

2) Agencies responsible for construction of EPZs' basic facilities including infrastructure:

India—Ministry of Commerce through Kandla Free Trade Zone Administration, Port Trust and Central Public Works Department.

Republic of Korea—Ministry of Construction and Industrial Estate Administration.

The Philippines—EPZA is in charge of over-all coordination for implementation. EPZA solicits assistance from:

—Bureau of Public Highways is responsible for road network in the Zone.

—National Power Corporation for dam construction and electric power facilities.

—Armed Forces of the Philippines is assisting EPZA in some construction activities.

Republic of Vietnam—Saigon Export Processing Zone Authority.

3) Governmental chain of command down to EPZ Authority:

India—Cabinet—committee of the Cabinet—Kandla Free Trade Zone Administration.

Republic of China—Ministry of Economic Affairs—Export Processing Zone Administration—Export Processing Zone Branch Offices.

Republic of Korea—Ministry of Commerce and Industrial Estate Administration—Export Processing Zone Offices.

The Philippines—Office of the President—Export Processing Zone Authority.

Republic of Vietnam—Ministry of Trade and Industry—Chief of Cabinet Board of Administration—Saigon Export Processing Zone Authority.

4) Concerning EPZs development plans, agency primarily responsible and extent of coordination with other agencies required:

India—Kandla Free Trade Zone Administration is primarily responsible. But coordination is required with the various Ministries of Government of India viz. Ministry of Commerce, Industrial Development, Finance, Shipping, etc.

Republic of Korea—Ministry of Commerce and Industry makes the final decision with the advice of Export Processing Zone Advisory Committee and the Ministry of Construction.

The Philippines

- a) EPZA—This agency is primarily responsible for the operation of Bataan Export Processing Zone.
- b) National Economic Development Authority—integrates EPZ plan with the national objectives.
- c) Central Bank—allocates foreign exchange requirements of EPZ.
- d) Department of Finance—responsible for funding.
- e) National Power Corporation—is responsible for power requirements.
- f) National Pollution Control Commission—responsible for pollution control in BEPZ.

Republic of Vietnam—The Export Processing Zone Authority is primarily responsible in coordination with the Ministry of Planning and Development, National Bank of Vietnam, Ministry of Finance, Port of Saigon Authority, General Directorate of Customs, General Directorate of Foreign Exchange, etc.

5) Salient features of development plan and staging of implementation:

India—“The EPZ scheme overcomes the inadequacies of the system of the bonded warehouse. They are set up near international ports and airports in a fenced area where the import of raw materials and machinery are allowed without payment of customs and central excise duties. The EPZ scheme merchandises competitive(ly) eliminate overhead costs and to stimulate reprocessing industries for exports.”⁽¹⁶⁾

Republic of China—After the successful operation of the Kaohsiung EPZ, Nantzu and Taichung Zones were added as expansionary measures.

Republic of Korea—The Masan Free Trade Zone was divided into three areas with construction work and occupation by enterprises done with staging method.

Upon the successful operation of Masan Zone, Iri Zone was established. Its construction work was completed using staging method and the Zone is partially filled up by occupant enterprises.

The Philippines—

“To ensure effective implementation of our development plans,

(16) Based on the questionnaire returns.

the industrial area of the Zone has been divided into stages, and stages are further divided into phases.

Stage I consisting of the original area of 556 hectares is under development while State II is reserved as an expansion area. Stage I is divided into Phases I, II, and III. Each Phase of development is also subdivided into scopes.

Phase I of the industrial area is intended for labor-intensive, light industries such as garments, electronics, and shoe manufacturing. A part of Phase I is reserved for location of Zone facilities such as the EPZA Administration building, fire stations, security headquarters, banks, clinic and warehouses.

Phases II and III are intended for medium to heavy industries such as integrated textile mills, major automotive component manufacturing, and ship building and repair.

The housing area of 300 hectares is also being developed on a phase-by-phase basis. It is divided into three phases, and each phase is further divided into scopes.”⁽¹⁷⁾

Republic of Vietnam—

Land filling project (in addition to the land already ready for occupation by firms) will start in 1976 to accommodate additional firms.

A canal will start to be excavated in 1978.

All infrastructure necessary will be developed in two stages in 1974 and 1975.

A bridge will be constructed in 1976 across the canal.

6) Methods of Financing EPZs site construction, construction of facilities and administration of the Zones:

India—Funds are released from the Ministry of Commerce.

Republic of Korea—Government fiscal fund.

The Philippines—Government contributions, EPZA capitalization, commercial loan, foreign government loan etc.

Republic of Vietnam—Funds from government and foreign aid sources.

In this section we have compared legal and administrative framework, EPZs developing planning and implementation, sources of fund, etc. for selected APO member countries. For detailed specifics related to subjects

(17) Based on the questionnaire return.

dealt with in this section, interested countries, especially those contemplating and planning EPZs, are advised to collect first-hand information through correspondence or preferably by dispatching personnel to those EPZs operating countries.

4. Functions, Authority and Organization Structure of EPZs Administration

Export processing zones being government instituted special industrial estates designed to attract foreign investment for export manufacturing, processing, and the like, provision of favorable investmet climate or conditions is of paramount importance for achieving desired results. It is generally believed that among the factors contributing to the degree of desirableness of investment climate of particular EPZs the efficiency of zone administration is largely termed the most important.

In this section we will concern ourselves with ascertaining fuctions,

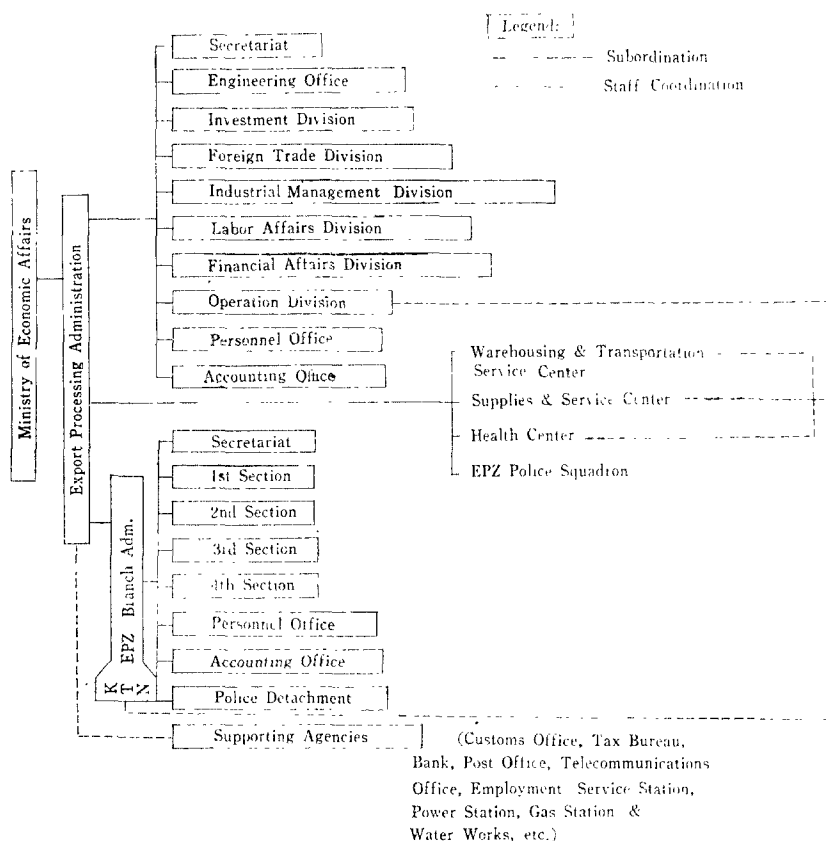


Figure 1. Organization Chart of EPZ Administration, Republic of China

authority including delegated authority, and organization structure of the EPZ Administrations of the countries concerned.

Republic of China

This country did not provide requested information in accordance with the questionnaire provided by this writer. But based on secondary sources, it may be reasonable to say that the Republic of China considers that, apart from what it claims to be the attractive investment climate and many incentives offered by EPZs, one of the most important factors for the success of its EPZs is the simplification of procedures and unification of management by which a great deal of time and effort can be saved for the firms completing all formalities. The government state that for the above reason it has established an autonomous Export Processing Zone Administration. This Administration has functions and authority to take care of all matters relative to the investment application processing, construction permit and company registration, import and export licensing, labor affairs, etc. For detailed account, directly contact the Export Processing Zone Administration. The Administration's organization structure is provided as Figure 1.

India

Functions and authorities related to administration of India's Kandla Free Trade Zone are divided into the following three organizations.

a) KAFTZ Administration:

Coordination with the various Ministries of Government of India viz. Ministry of Commerce, Industrial Development, Finance, Shipping, etc. Implementation of the decisions taken by the Kandla Free Trade Zone Committee and Steering Board.

b) KAFTZ Committee:

Consideration of the applications and approving proposals for setting up industries in the Free Trade Zone at Kandla. In case where an industrial license is necessary under the rules in force, the Committee will only make recommendations for final approval of the case by the Licensing Committee set up under the Industries (D & R) Act, 1961 in the Department of Industrial Development;

Taking decisions on rate of raw materials, import content or replenishment in lieu of a normal AU entitlement plus import entitlement against exports

under REP in case where it is felt that normal AU entitled may not be quite adequate for purposes of 100 per cent export. For units in the Zone where import of raw materials is to be freely permitted there would be one replenishment rate and not separate entitlements under AU/REP the degree of replenishment being decided by the Committee;

Taking decisions on the imported raw materials requirements of the units in the Zone for their first 12 months export production;

Taking decisions on the rate of export assistance to be granted independently of the normal assistance admissible to other exporters in India, in cases where it is felt that the rate of export assistance should be fixed on a basis other than the normal rate of assistance;

Taking decisions on fixation of limits and disposals of sub-standard goods and wastages of various units in the Zone;

Taking decisions on capital goods requirements of the entrepreneurs in the KAFTZ within the power delegated to this committee by the main C.G. Committee from time to time. At present the C.G. Committee has delegated powers to the Committee to clear cases involving import of capital goods upto the value of Rs. 10 lakhs only;

Taking decisions on the terms and conditions of foreign collaboration involving non-resident investments in the Zone within such powers as may be delegated to the Committee by the FIB from time to time.

c) Steering Board:

To review, from time to time, the working of KAFTZ and give such directions as it may deem fit for the proper functioning of industries already established in the Zone and for the growth of the Zone on right lines;

To take decisions on additional fiscal and other concessions that may be needed to attract the right type of entrepreneurs and quicken the pace of industrialization of the Zone keeping in view the local conditions and concessions available to entrepreneurs in Free Trade Zone in other parts of the world where success has been achieved;

To deal with policy issues related to Kandla Free Trade Zone needing high level attention and which may be referred to it by the Kandla Free Trade Zone Committee;

As to organization of Kandla Free Trade Zone Administration, it is headed

by the Principal Officer (Development Commissioner) and Customs & Secretary Section and Accounts & Licensing Section are under his command.

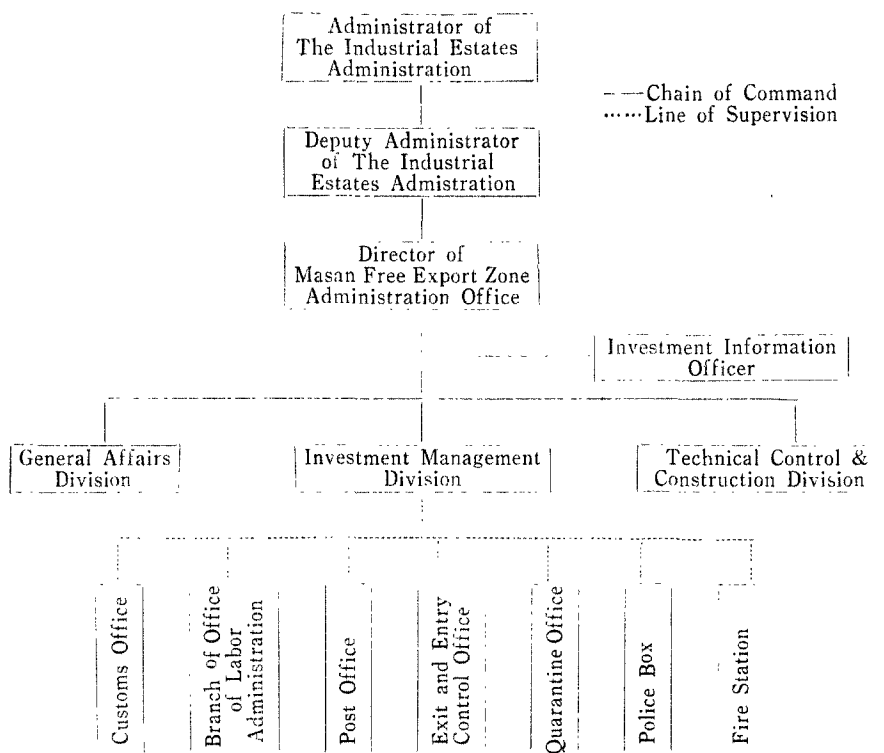
Republic of Korea

The Industrial Estate Administration has the general control over the various government instituted industrial estate management and operation. Under the direction and supervision of the Administration, the Masan Free Export Zone Administration Office and the Iri Free Export Zone Administration Office are in charge of managing their respective Zones.

The Director of each of the two FEZA Offices not only has the responsibility to direct and coordinate functions performed by each division under his supervision but also has the authority and responsibility to supervise other governmental agencies stationed in his Zone, such as the Customs Office, Post Office, entry and exit office, etc. Such arrangements enable the Zone Office Director to provide unified and simplified administrative services and procedures to occupant firms.

The organization structure (Figure 2) of the Masan Free Export Zone

Figure 2. Organization chart of Masan FEZ, Republic of Korea



Administration Office and the functions of its Divisions are provided below (the Iri FEZA Office's organization and Divisional functions are the same):

a) Investment Information Officer

- 1) Reception of foreign guests.
- 2) Protocol affairs and guide to MAFEZ.

b) General Affairs Division

- 1) Security.
- 2) Custody of official seals.
- 3) Appointments, services, education and training of public officials, pension and other personnel administration.
- 4) Receipt and dispatch, control, safekeeping of documents, and other matters related to documents.
- 5) Budget implementation and accounting.
- 6) Procurement of office supplies.
- 7) Custody of goods and state-owned properties.
- 8) Receipt of revenues within MAFEZ, and contracting for lease and sale of land and standard factories.
- 9) Licensing and supervision of supporting firms.
- 10) Cooperation with other administrative agencies within MAFEZ.
- 11) Management of utilities and welfare facilities.
- 12) Security and protection of MAFEZ.

c) Investment Management Division

- 1) Licensing and after-service of occupant firms.
- 2) Receipt and processing of applications for authorization of foreign investments.
- 3) Receipt and processing of applications for technology inducement.
- 4) Permission for transfer of mortgaging of land and factories.
- 5) Export and import licenses, and matters pertaining to export promotion.

d) Technical Control & Construction Division

- 1) Technical review for export and import licensing.
- 2) Export and import inspection.
- 3) Technical review for authorization of foreign investment.
- 4) Public nuisance control.
- 5) Matters pertaining to temporary carrying of goods out of the Zone.
- 6) Training of skilled workers for occupant firms.

- 7) Vocational training for prospective Zone enterprise employees.
- 8) Building permit, and permission for establishment of facilities.
- 9) Supervision of construction work.
- 10) Repair and maintenance of harbour.

The Philippines

The Export Processing Zone Authority is a public corporation vested with functions and authorities related to establishment and management of the existing as well as planned export processing zones. Since there is only one EPZ in the country, the responsibility and authority of the EPZ Authority are at present applicable only to the Bataan Export Processing Zone:

- 1) To operate, administer and manage the export processing zone established in the Port of Mariveles, Bataan, and such other export processing zones as may be established;

- 2) To construct, acquire, own, lease, operate and maintain infrastructure facilities, factory buildings, warehouses, dams, reservoir, water distribution, telecommunication and transportation, or such other facilities and services necessary or useful in the conduct of commerce or in the attainment of the purposes and objectives (of establishing the Zones);

- 3) To take water from any public stream, river, creek, lake, spring or waterfall in the Philippines as may be necessary for the attainment of the purposes (of establishing the Zones); to alter, straighten, obstruct or increase the flow of water in streams or in water channels intersecting or connecting therewith or contiguous to its work or any part thereof; and to undertake land reclamation;

- 4) To acquire and hold agricultural lands in excess of the areas permitted to private corporations or associations by the Constitution;

- 5) To determine and regulate the enterprises to be established within the export processing zone in order not to adversely affect the operation of existing domestic industries outside the said Zone;

- 6) To operate such Zone as a public utility wherein all the rates and charges for all services and privileges therein shall be fair and reasonable as determined solely by the Authority, and Authority shall afford all who may apply for the use of the Zone and its facilities and appurtenances uniform treatment under like conditions subject to such treaties or commercial conventions as are now enforced or may hereafter be made by the Philippines

with any foreign government from time to time;

7) To grant the use or to rent, lease or let, for a consideration and under such terms, arrangements and conditions it may deem reasonable and proper, any and all port facilities, including stevedoring and port terminal services, or any concession properly incident thereto or in connection with the receipt, delivery, shipment and transfer in transit, weighing, marking, tagging, fumigating, refrigerating, icing, storing, and handling goods, wares and merchandise: provided, however, that where the port terminal facilities are owned and operated by private persons the fees and charges to be levied shall not exceed that being collected by the Government for similar services;

8) Upon application, to grant such franchise to operate and maintain exclusively within the Zone electric light, heat, or power steam, transportation, communication, warehousing, ice plant or cold storage; and, under uniform and reasonable rates and regulations made thereunder, permit to persons, firms, corporations or associations the use of the Zone and its facilities, or the privilege to erect such buildings and other structures within the Zone as will meet their particular requirements: provided that such franchise or permission shall not constitute a vested right as against the Government, nor interfere with or complicate the revocation of the grant; provided, further, that such franchise or permit shall not be granted on terms that conflict with the public use of the Zone;

9) To fix, assess, and collect storage charges and fees, including rentals of the lease, use or occupancy of lands, buildings, structure, ware houses, facilities and other properties owned and administered by the Authority; and to fix and collect fees and charges for the issuance of permits, licenses and the rendering of service not enumerated therein, the provisions of law to the contrary notwithstanding;

10) For the use and effective exercise of the powers conferred by law and to the extent requisite therefore, to exercise exclusive jurisdiction and sole police authority over the areas owned and administered by the Authority. For this purpose, the Authority shall have supervision and control over the bringing in or taking out of the Zone, including the movement therein, of all cargoes, wares, articles, machineries, equipment, supplies or merchandise of every type and description;

11) When essential to the proper administration of its corporate affairs or

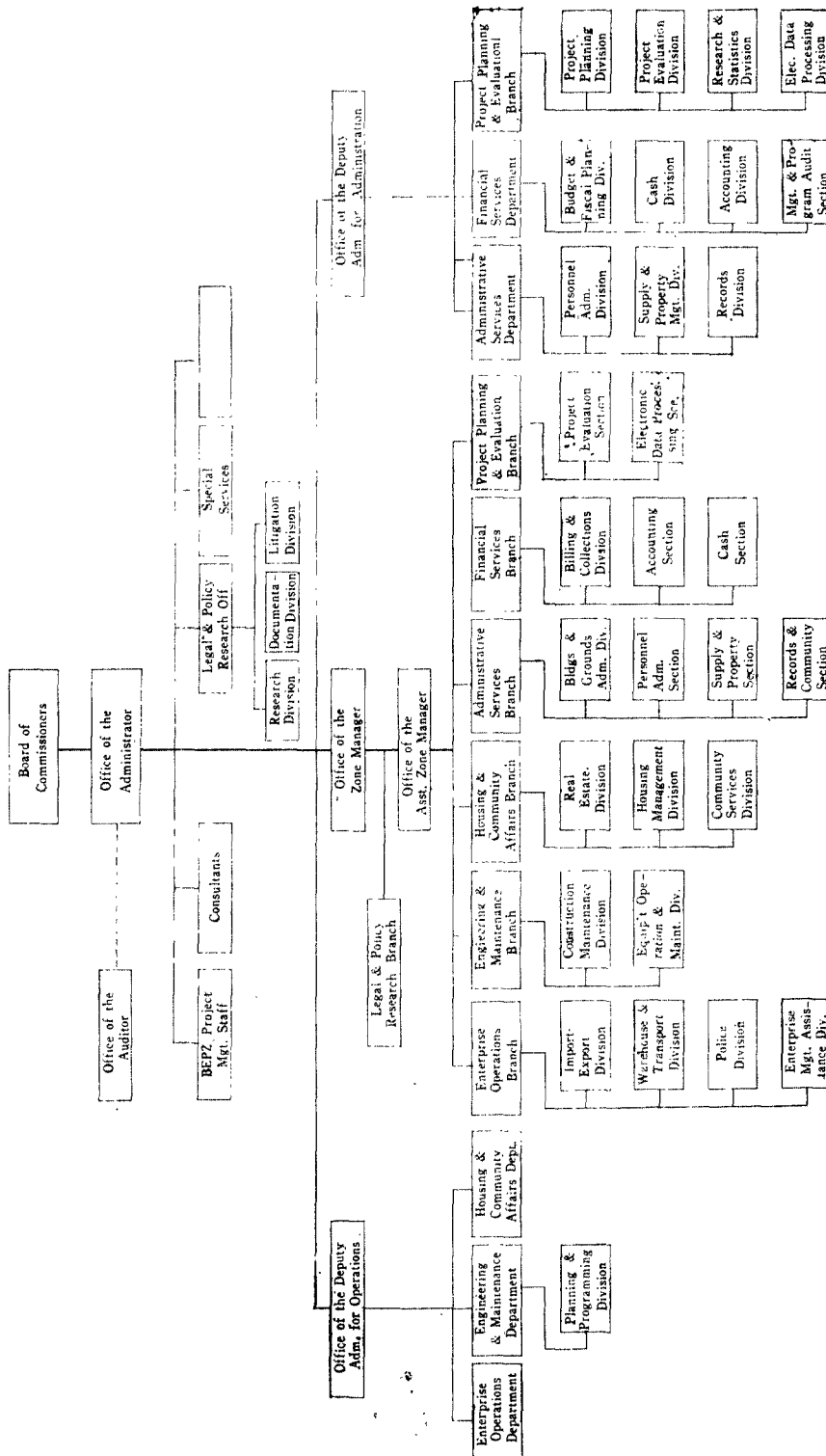


Figure 3. Organization chart—Export Processing Zone Authority of Bataan Export Processing Zone

when necessary for the proper transaction of its business, it is authorized to contract indebtedness and issue bonds;

12) To create and operate and/or contract to operate such agencies, functional units, offices and departments of the Authority as it may deem necessary or useful for the furtherance of any of the purposes (of establishing the Zone);

13) To adopt, alter and use a corporate seal which shall be judicially noticed; make contracts, lease, own or otherwise dispose of personal and real property; sue and be sued; and otherwise do any perform any and all things that may be necessary or proper to carry out the purposes of the Authority.

The structure of the Export Processing Zone Authority, whose responsibilities and authority were enumerated above, is shown on Figure 3. However, description of division of responsibilities and authority among the Authority's various Divisions was not made available.

As far as the Republic of Vietnam's Saigon Export Processing Zone Authority is concerned, no information concerning its responsibility, authority and organizational arrangement was made available to this writer.

5. Methods Used for Prospecting Foreign Investors or Promoting Foreign Investments in EPZs

All the countries with operating EPZs issue various promotional brochures, investment guides, etc. which provide salient points of their EPZs in promotional tones. However, it is obvious that such promotional materials or any other forms of publicity alone would not be adequate for actually attracting foreign investments as such investments are made in very calculative ways. There are numerous factors which a prospective foreign investor considers before reaching the decision to invest in a particular EPZ of a particular country. Such factors from the viewpoint of foreign investors are discussed in Chapter VI, "Survey on Occupant Enterprises." In this section we will concern ourselves only with ascertaining the methods used by EPZs operating countries for publicizing and promoting investments in their EPZs. Concerning the degree of effectiveness of such methods, please refer to Chapter VI.

India

"It is proposed to contact commercial representative of the Government of India in various countries abroad and approach foreign investors through them. It is also proposed to contact institutions like Export Promotion

Councils, Export Corporations, etc. with a view to assess the possibility of foreign investment inside the Kandla Free Trade Zone.”⁽¹⁸⁾ Whether such propositions are actually implemented is not known.

Republic of China

Information concerning the subject of this section is not made available by the government of Republic of China. However, the country seems to emphasize through promotional brochures, annual reports of the EPZs operation, self-financed international meetings, etc. the attractiveness of investment climate, numerous investment incentives offered, simplified procedures and unification of EPZ administration and the like for attracting foreign investors.

Republic of Korea

Various forms of promotional activities including publications are undertaken by this country to promote foreign investments in its EPZs. The most emphasized factors in such promotional activities include the simplified on-the-spot processing of all relevant formalities required by foreign investors, numerous incentives offered, attractiveness of investment climate, availability of low cost labor, etc. However, documented account of the investment promotional methods used by this country was not received through the questionnaire.

The Philippines

The methods of prospecting foreign investors for the Bataan Zone can be divided into following three categories according to information provided by this country:

a) Publicity

- 1) Press releases, TV programs, printed information, write-ups, advertisements, charts and other information materials.
- 2) Contacts with trade associations in the Philippines, international and regional organizations of the world.

b) Public Information

- 1) Mass media people, newspaper editors and publishers, public relations men, students and fourth, publications editors, trade association, officers and members of consular offices and local and foreign businessmen are

(18) Based on the questionnaire return.

brought to the Zone to be appraised of the actual development in the Zone.

- 2) Different commercial officers of the Department of Trade, Diplomatic Corps of the Department of Foreign Affairs are utilized as a field representatives in the foreign countries to attract foreign investors. They are regularly sent information materials in the development in the Zone.

c) Public Relations

- 1) Conferences and seminars with government and private agencies to seek their assistance in the promotion of EPZ.
- 2) Seminars and speaking engagements in trade associations meetings with the end view of "educating" them on the tremendous benefits and advantages to offer to export enterprises.
- 3) Arranging trips to the Zone for foreign businessmen and Commercial Attaches to the Philippines.

d) Investment Promotion Missions to Selected Developed Nations Such As U.S., Japan, West European Countries.

As far as the Republic of Vietnam was concerned, information on methods utilized for prospecting and attracting foreign investments was not made available to this writer. However, the government had attempted to persuade those foreign firms already operating in the country in relation to military supply to set up manufacturing plants to supply the then military market (considered export) and also for export overseas, according to this writer's observation while visiting the country.

6. Qualifications, Eligibility and Criteria for Selecting Applicant Firms and Accompanying Procedures

In this section, we are concerned with analyzing prerequisite qualifications, eligibility, and criteria used for selecting firms applying for occupancy in EPZs. This will be followed by the description of application and registration procedures, etc. of the EPZs operating APO member countries.

a) Prerequisite Qualifications for Investment in EPZs

India

- 1) The added value of the items should be significant so that the contribution to the foreign exchange resources is significant. This will be the main criterion.
- 2) The export should be generally to the General Currency area so that

the foreign exchange accrued may be maximized.

- 3) The party should be sound and there should not be any scope for diversion, misuse, etc. of raw materials etc. to the Domestic Tariff Area, under the guise of substandard goods, waste/scrap etc.

Republic of China

- 1) No adverse effect on existing industries outside the zone.
- 2) No environmental pollution problems.
- 3) Products to be 100% exported.
- 4) Minimum investment of 150,000 dollars.
- 5) Minimum area of land to be leased for construction of self-designed factory building:
 - in KEPZ—1,000 m^2 ;
 - in NEPZ—2,000 m^2 ;
 - in TEPZ—1,000 m^2 .
- 6) The added value should be 20% or more of the FOB price of the commodity exported.
- 7) Must belong to the category of industries admissible to the EPZs.

Republic of Korea

- 1) Enterprises manufacturing, processing or assembling goods for export.
- 2) Foreign invested firms or joint-ventures with the nationals of the Republic of Korea

Enterprises whose business purpose is to sell their products in Korea are not eligible for occupancy in the zones. Korean nationals may take up the occupancy only in a joint-venture with foreign investors, but not independently. However, even in the case of a Korean national, he may possibly take up the occupancy if he has been resident in a foreign country for a 10 years or more, because such a Korean businessman is regarded as a foreigner.

The Philippines

- 1) Export-oriented firms.
- 2) Labor-intensive production technology must be used.

Republic of Vietnam

- 1) Entire production must be exported.
- 2) Foreign investors as well as joint-ventures with the national of the Republic of Vietnam are permitted.

b) Category of Export Production Firms Eligible for Admission to EPZs

India

No detailed document data was supplied. But this writer presume that labor-intensive light manufacturing firms would be generally eligible provided that they satisfy the two prerequisite conditions for investment previously mentioned.

Republic of China

- 1) precision machinery and instruments;
- 2) electronic products;
- 3) optical products;
- 4) metal products;
- 5) plastic products;
- 6) machinery;
- 7) furniture and wood decoration products;
- 8) handicraft products;
- 9) electric appliances and products;
- 10) rubber products;
- 11) chemical products;
- 12) printed matter and office appliances;
- 13) biscuits and confectionaries;
- 14) cosmetics;
- 15) leather products (excluding tannery);
- 16) paper containers;
- 17) toys;
- 18) yachts and mobile homes;
- 19) knitted and woven goods (non-cotton);
- 20) garments (non-cotton);
- 21) medical instruments and appliances;
- 22) sports gears and appliances;
- 23) musical instruments and appliances;
- 24) educational materials and appliances;
- 25) communication equipment and appliances.

Republic of Korea

Even if an applicant firm does not belong to any of the category of industries specified below, it may be allowed for occupancy with the approval

of the Minister of Commerce and Industry if the firm is deemed especially needed for the export expansion and for attaining objectives of the export processing zone.

Table 4. Categories of industries admissible to EPZ of the Republic of Korea

Type of Industry	Restrictive Measures
1) Food processing	Excluding laver for export to Japan
2) Cosmetics	
3) Plastic products	
4) Rubber products	
5) Leather products	
6) Packing materials	
7) Art printing	
8) Potteries	Excluding traditional potteries
9) Metal products	Except spoons, forks, and table wares.
10) Machinery and apparatus	
11) Electric appliances and equipment	
12) Electronic industry products	
13) Yachts and small boats	
14) Optical instruments and appliances	
15) Medical and scientific instruments and appliances	
16) Precision machines	
17) Musical instruments	Excluding guitars for export to the U.S.A.
18) FURNITURES and decorative items	
19) Handicrafts	
20) Toys	
21) Travel equipment and sporting goods	
22) Permissible items among textile products	Export countries may be restricted
1. Metal thread	
2. Sewing thread	
3. Silk fabrics	
4. Fabrics woven of flax, hemp, ramie or jute	
5. Knitted clothing	Excluding nylon products.
6. Men's outer garments knitted	
7. Sweaters	Excluding acrylic products
8. Clothing, textile fabric	
9. Women's and children's outer garments, textile fabric	
10. Clothing accessories	
11. Stockings	
12. Gloves	
13. Gaiters	
14. Headgear and accessories	

The Philippines and the Republic of Vietnam did not specify eligible industries to their respective EPZs, though they stated that prospective firms must utilize labor-intensive technology or they be light medium industries to be qualified for investments. This means that the types of industries which the Republic of China and Korea mentioned should be eligible for investments in the EPZs of the Philippines and the Republic of Vietnam.

c) Criteria for Selecting Applicant Firms

Concerning criteria used for selecting applicant firms for investments in the EPZs, only the Republic of Korea and the Philippines gave specific information. The Indian government stated that the main criterion for qualifying investments in its Kandla zone is that "the added value of the (firms' production) items should be significant so that the contribution to the foreign exchange resources is significant." In the case of the Republic of China, the prerequisite qualification for investments in its EPZs already discussed in a) of this section may be taken as the criteria for selecting applicant firms.

A permission for occupancy by applicant firms in the EPZs of the Republic of Korea is determined primarily based on the following criteria:

- 1) Firms with good export prospects.
- 2) A high degree of labor-intensiveness in production technology.
- 3) Utilization of a high level technology.
- 4) Net foreign exchange earnings of export must be high.
- 5) To the extent possible, firms using domestically produced materials.

Table 5. Criteria for permission of occupancy in the Korea's EPZs

Items	Own Factory	Standard Factory
1) Export	500 dollars or more per <i>pyong</i>	600 dollars or more per <i>pyong</i>
2) Net foreign exchange earning rate	20% or more	20% or more
3) Employment	20 workers or more for each <i>pyong</i>	25 workers or more for each <i>pyong</i>
4) Manufacturing technology	Excellent	Excellent
5) Investment scale	200,000 dollars or more	100,000 dollars or more
6) Use of domestic raw materials or secondary materials	As much as possible	As much as possible

Note: Net foreign exchange earning rate is calculated according to the following formula:

$$\frac{\text{Amount of domestic raw and secondary materials used} + \text{Wages} + \text{Rent} + \text{Utility Rates}}{\text{Export Amount}} \times 100$$

The previous Table 5 shows details of the criteria for occupancy permission. However, even when an applicant firm fails to meet part of the criteria specified, a permission for its occupancy may be granted by the Korean government in consideration of the objectives of establishing the EPZs.

For the Philippines, criteria for selecting applicant firms for investment in the EPZ are follows:

- 1) Technical feasibility.
- 2) Financial feasibility.
- 3) Market feasibility.
- 4) Economic contribution (contribution to economic development).

d) Application Procedures for Investment or Occupancy in EPZs

India and the Republic of Vietnam did not provide needed information on the subject of investment application procedures.

Republic of China

1) Submit Investment Application and Project Form to the First Division of relevant Zone Administration for processing.

2) At the same time pay a deposit equal to 5% of the price of standard factory building if the purchase of such building is desired; or equal to one year's rental if the lease of land is required for construction of self-designed factory building.

3) The Investment Application and Project will be deliberated by the Investment Screening Committee, and a decision will be made within one month. If the application is rejected, the deposit will be returned to the investor without interest; if approved, the deposit becomes a performance bond, and the investor may proceed to carry out the following:

- a.* Inward remittance of investment capital through appointed banks.
- b.* Apply to the third Division of the EPZA for company registration.
- c.* If the construction of self-designed factory building is intended, a plan of the building shall be submitted to the third Division of the EPZA for the allocation of land. The lease contract should be signed within thirty days after the allocation of land.

Requirements:

- (1) Self-designed factory buildings should be of two-storey or more in NEPZ, and three-storey or more in TEPZ.
- (2) No construction is allowed in the reserved area around the perimeter

of a leased lot.

(3) Area of building should be between 50%-80% of the set-back land leased.

(4) Basement of approved size will be required for air raid shelter in pursuant to pertinent laws.

(5) Apply construction license from the third Division and start construction within three months after signing lease contract.

4) If purchase of standard factory building is intended, 10% of the purchasing price shall be paid within one month after approval on investment application, and 20% of the purchasing price upon signing of the purchasing contract when the building is ready for occupancy. These two steps may be integrated into one, if the factory building is ready for occupancy at the time of approval of investment project. A factory layout plan should be submitted to the third Division for allocation of standard factory building space.

5) Apply for "Certificate for Permitting Commencement of Production". When the factory building is ready, machinery may be brought in and installed. Staff and workers recruited, then two copies of factory layout plan should be submitted to the third Division requesting for the preproduction inspection, and if found satisfactory, a "Certificate for Permitting Commencement of Production" will be issued to the export enterprises by the Administration.

6) After being permitted to commence production, the export enterprise shall apply to the third Division for the "Profit-seeking Export Enterprise Registration."

Republic of Korea

1) Any applicant for occupancy in the export processing zones must submit the following documents either to the Industrial Estate Administration or Masan or Iri Free Export Zone Administration Offices:

a) Project plan.

b) Contract on joint-ventures or papers certifying the acceptance of stocks and shares.

c) Documents evidencing the right of representation(in the case of applying for authorization of agency).

d) National certificate of foreign investors wishing to accept stocks and

shares, and a letter of recommendation issued by the head of a Korean diplomatic mission overseas.

- e) Transcript of the Articles of Incorporation or the corporation register of an enterprise, whose stocks or shares the applicant wishes to underwrite.

2) Conclusion of land or factory lease contract:

- a) An enterprise granted of the permission for occupancy should conclude a land or factory lease contract with the Zone Administration Office within fifty days from the date of approval. When it is impossible to conclude the contract within the period, it should submit an application for extension of the period.
- b) The lease period is ten years, and the lease contract is renewable upon expiry. Upon concluding the contract, the occupant firm is required to deposit an amount equivalent to the rent of three months as a key money.

3) Permission for factory construction:

An occupant enterprise is required to submit an application for construction of its own factory to the Zone Administration within seventy days from the date of approval. It should apply for the extension of the period, in case it fails to file the application within the specified period.

The Philippines

1) Application and Registration Procedures

- a) An application for registration including a Project Feasibility Study and other necessary documents shall be filed in ten copies with the Project Planning and Evaluation Department (PPED) of the Export Processing Zone Authority (EPZA). The Office of Promotions and Communications of the EPZA shall assist applicants in completing the application form.
- b) A fee of 100 pesos is charged upon filing.
- c) As soon as a complete application and feasibility study is filed, PPED will evaluate and process the same in two weeks.
- d) Evaluation of applicants are based on two criteria:
 - (1) Feasibility criteria based on management and marketing, technical and financial aspects.
 - (2) Economic desirability criteria based on export or dollar earning capacity, employment potential, tax generation and utilization of indigenous raw materials.

- e) After evaluation of the project, PPED shall submit its recommendation to the EPZA Board pledges to take action within two weeks thereafter.
- f) If the application is approved, the applicant is notified and is given twenty days from the date of approval to sign the Registration Agreement with EPZA.
- g) A fee of 100 pesos is charged upon registration.
- h) The approved application may then proceed to carry out his project.
- 2) Guidelines for Construction of Factory Buildings and Occupancy of Standard Factory Buildings.
 - a) Land and standard factory building space allocation shall be determined by the Authority and will depend upon the requirements of the project.
 - b) For factory buildings to be built and financed by the registered enterprise, plans and specifications thereof shall be submitted within forty-five days from the date of registration. Construction shall commence within one month after the approval of plans and specifications.
 - c) If the applicant desires to occupy space in EPZA-built standard factory buildings, this should be stated in the application for registration and a factory layout plan should be submitted indicating space required.
 - d) Rental charges on land or Standard Factory Building space will commence ninety days after registration.

7. Other Provisions Governing Operations of EPZs

Described in this section are selected pertinent legal provisions related to the operation of EPZs heretofore not dealt with. All of these provisions described could be found in the laws and decrees of establishing respective EPZs and their operational implementation. This section is meant to provide an over-view of such provisions to the reader for reference.

- a) Provisions Governing Sales, Lease, Transfer, Cancellation or Expropriation of Land, Zone Authority Provided(or Built) Standard Factories, Occupant Enterprise Built Factories, etc. Within EPZs

India

The plots of developed land inside the Kandla Zone are allotted on thirty

years' lease on payment of ground rent of fifty paise per square meter per year.

No development charges are levied. The yearly rent of industrial sheds constructed by the Government is Rs. 3,000.—These sheds are meant for small scale industries only.

Republic of Korea

1) The administrator of a Free Export Zone may sell land or plants, etc. to occupant enterprises or lease same to occupant enterprises or supporting enterprises in such manner as may be prescribed by Presidential Decree.

2) The Minister of Commerce and Industry shall, following consultation with the Minister of Finance and regardless of the regulations of the National Property Law, determine the prices of land or plants, etc. to be sold or leased pursuant to the preceeding paragraph, and where necessary, may state such prices in terms of foreign currency. Those who desire to purchase land in accordance with the first paragraph shall be permitted to do so in accordance with the Alien Land Law. This, however, shall not apply in the case of lease of land.

3) An occupant enterprise or a supporting enterprise may have its land or plants, etc. transferred, leased(including sub-lease), or utilized by others, or provide such as collateral, when approved by the zone Administration Office. Such transfer, lease or lending shall be limited to occupant enterprises.

4) Any occupant enterprise cancelled of permission for occupancy should transfer its owned land or factory to an occupant enterprise or supporting enterprise within three months. The land or factory not transferred within the same period shall be purchased back by the Government at an announced price.

The Philippines

1) No land, building or portion thereof within the Zone, and no registration agreement, contract or right thereon shall be assigned, mortgaged, transferred, leased, or otherwise disposed of without prior written permission of the Authority.

2) The fully developed areas of the zone shall be leased for a period of at least fifteen years, renewable for such periods and under such terms and

conditions as may be mutually agreed upon between the Authority and the Zone enterprises.

3) After the termination of the initial lease period or should lease be terminated before such period, the buildings and improvements therein shall become the property of the Authority upon payment of compensation therefore in an amount equivalent to the book value of such buildings and improvements, after deducting depreciation cost at the rate of five per centum (5%) per year. However, in case the Zone enterprise should renew or extend the lease, the ownership and use of such building and improvements shall remain with the Zone enterprises until the expiration of such renewal or extension. Provided, that after the expiration of renewal or extension thereof, the buildings and improvements shall automatically become the property of the Authority without cost.

Republic of Vietnam

- 1) Zone export enterprises have no right to sell or release the land supplied by Saigon Export Processing Zone Authority.
- 2) Zone export enterprises have no right to sell standard factories without prior approval of SEPZA.
- 3) Zone export enterprises have to return to SEPZA all the land unused.
- b) Provisions on Importation, Use and Management of Machineries, Equipment, Raw Materials, etc.

Republic of China

Commodities imported by export enterprises shall be deposited into warehouses designated by the EPZA. Such commodities shall be released after completion of the customs inspection procedures.

India

The Free Trade Zone scheme provides for the import of latest type of plant and machinery not indigenously available. The scheme also provides for grant of advance import licenses on merits from the most preferred sources for raw materials, intermediaries, components, and spare parts required for the first twelve months of export production without the party being required to produce firm export orders. To ensure uninterrupted supply of raw materials, replenishment licenses are issued against actual exports according to the policy for the Registered Exporters in the rest of India.

Request for higher inputs than permissible under the policy for the Registered Exporters are also considered on merits. Except for certain items like diamonds, precious stones, gold, etc., all items that are actually required for the manufacture of export products are permissible under the Import Policy.

Republic of Korea

1) Commodities induced or imported into a Free Export Zone shall be kept or used in bond only within the Zone. However, such commodities may be taken outside the Zone temporarily for the purpose of repair or processing with the permission of the Administrator and the approval of the Customs Officer in accordance with the provisions of the Article 100 of the Customs Law.

2) Matters pertaining to the custody and use of commodities induced or imported into a Free Export Zone shall be prescribed by the Minister of Commerce and Industry in consultation with the Minister of Finance, notwithstanding the provisions of other laws and regulations.

The Philippines

Imported raw materials, merchandise, machineries, equipment, spare parts, etc. brought into the Zone are not subject to taxes and duties if these materials are processed and manufactured into finished products which are subsequently exported.

c) Restrictions on Disposal of Finished Products, By-products, Wastes, etc. on Customs Territory.

Republic of China

Products of Zone enterprises can be sold to domestic market with prior approval in accordance with the law and after payment of duty and dues. But in principle, Zone manufactured goods are for export.

India

Kandla Free Trade Zone scheme has been conceived, primarily as an export promotion measure, the main object being to facilitate production of goods at competitive rates for foreign markets and to ensure the entire production is exported. As a cost control measure, the Zone manufacturers are allowed to divert under certain conditions on payment of appropriate duty substandard goods, wastes and scrap arising in the course of manufacture for consumption within certain limits to be fixed by the Government of

India in consultation with technical authorities.

Republic of Korea

1) Commodities induced or imported into a Free Export Zone and commodities manufactured, processed and assembled within a Zone as well as the waste and by-products thereof shall not be allowed entry into the tariff area. However, when it is deemed the disposal of commodities would not impair domestic industries and the commodities are considered indispensable, such commodities may be allowed entry with the permission of the Minister of Commerce and Industry, in such manner as may be prescribed by the Presidential Decree.

2) The Customs Law shall apply to the commodities so disposed in the tariff area pursuant to the preceding paragraph.

The Philippines

1) A Zone enterprise shall see to it that its operations during the course of manufacturing or production will not endanger public safety or public health.

2) A Zone enterprise shall make provisions for the treatment and disposal of industrial waste and scraps in a manner acceptable to the Authority.

This writer is of the opinion that the above answer supplied by the Export Processing Zone Administration deals with treatment and disposal of wastes rather than provisions related to selling finished products, by-products, and waste into the tariff area. Moreover, it is the understanding of this writer that finished products are in principle prohibited from selling in the domestic market except those low quality test-production products in the initial stage of production of a Zone enterprise which do not meet quality standards of export markets. By-products and wastes are usually donated to charity organizations in the country, provided such donations does not impair domestic industries or used as evading customs tariffs.

Republic of Vietnam

1) Export processing zone's finished products shall not be allowed to enter domestic market.

2) Enterprises causing pollution shall not be admitted to the Saigon Export Processing Zones.

d) Provisions of Entry, Exit, etc. for Persons, Goods, Vehicles.

Republic of China

1) Except products for export and domestic sales which are governed by separate provisions, export enterprises must request the Export Processing Zone Administration to issue a permit for taking any supplies, commodities or other articles out of the Zone.

2) Export enterprises or agencies set up in an export processing zone are exempt from going through the registration procedure for bringing into the Zone supplies and materials for their own use, except machinery, equipment, raw materials, and semi-finished products which are governed by separate provisions. However, articles prohibited by Law shall not be brought into the Zone.

Registration with the Administration shall be made at the time of taking out any article into the Zone in accordance with the above provision if such articles will subsequently be taken out of the Zone again.

3) When entering an export processing zone, all the staff members and workers of export enterprises and other agencies set up in the Zone are required to show their entry and exit permit to the guards for examination.

4) When leaving an export processing zone, all personnel and vehicles are required to show their entry and exit permits to the guards. If necessary, the guards and customs officers may search both personnel and vehicles. All visitors and transportation vehicles operating outside the Zone to enter the Zone, the persons and operators must receive temporary entry and exit permits.

India

The permission for the entry for persons, goods and vehicles is strictly controlled and allowed only after issue of a gate pass at the checkpoint, which is the only point for entry and exit. When exit is permitted, thorough check is conducted to see no smuggling is done.

Republic of Korea

Persons and vehicles to be admitted to a Free Export Zone shall be required to obtain the approval of the Administrator in accordance with such procedures as may be prescribed by the Minister of Commerce and Industry; and commodities and effects to be carried or transported out of or into a Zone shall be inspected by the Chief of Customs.

The Philippines

1) Merchandise or articles may be taken into or brought out of the Zone only in accordance with the documentation and security procedures promulgated by the Authority.

2) The application for the entry or exit permit of goods shall be filed by the Zone enterprises or entity concerned in the form prescribed by the Authority. The Authority may require submission of shipping, commercial and other pertinent documents relative to the importation, exportation, or entry into the customs territory of the said goods.

3) Handling of imported cargo from the pier area to the Zone factory or warehouses shall be done only by haulers duly authorized by the Export Processing Zone Authority.

4) Workers and staffs of occupant firms are required to have identification cards.

e) Provisions on Cancellation of Permission to Take Up Occupancy in EPZ by Occupant Enterprises and Supporting Enterprises:

Republic of China

Approved export enterprises shall start and complete the construction of their plants in accordance with the approved project plans. In case the plant construction work is not started or completed in accordance with the approved plan, the Export Processing Zone Administration shall rescind the original approval. However, in case the failure to start or complete plant construction work according to plan is caused by actual difficulties, the enterprises may apply to the Administration for approval to extend the schedule prescribed in the original project plan.

As a guarantee for implementation of investment projects according to approved investment project plans, export enterprises are required to pay a deposit to the Administration. The amount of the deposit and the deadline for its payment shall be prescribed by the Administration. The deposit shall be refunded to the export enterprise concerned without interest after the enterprise has started its production.

In case the deposit is not paid within the prescribed deadline, the Administration shall rescind the approval for establishment of the export enterprise concerned in an export processing zone.

India

The Zone Authority is empowered under the lease deed executed by the KAFTZ with the Zone units to cancel permission to take up occupancy in the Zone after establishing that the party is violating the conditions of the lease deed.

Republic of Korea

1) When an occupant enterprise(as well as supporting enterprises) comes under one of the following categories, its occupancy permission may be cancelled:

1. When it fails to conclude a contract on sale or lease of land or a standard factory within fifty days from the date of permission for occupancy.
2. When it fails to apply for a permission for construction of factory building within seventy days from the date of permission for occupancy.
3. When it continues to suspend business for more than three months without justifiable reasons.
4. When it violates the terms and conditions of permission.
5. When it is subjected to punishment for violation of the provisions of the Customs Law.

2) When Permission is cancelled in accordance with the preceding paragraph, an occupant firm or a supporting enterprise shall immediately discontinue its business except for export or import activities already approved at that time or the settlement of remaining activities as may be prescribed by Presidential Decree.

3) Those whose permit to operate a business has been cancelled pursuant to the first paragraph shall transfer their land or plants, etc. to another occupant enterprise or supporting enterprise within the period as may be prescribed by Presidential Decree. The same applies to those whose business has been closed.

4) The land or plants, etc. not transferred during the period prescribed in accordance with the preceeding paragraph may be purchased by the Government at prices announced for the year in which transfer is made.

The Philippines

Whenever a Zone enterprise decides to withdraw or suspend its registered operations, a written notice thereof shall be sent to the Board (of Commis-

oners of EPZA) before the decision is implemented.

Subject to the provisions of pertinent laws and the rights of mortgage creditors, the withdrawal from business operations shall have the effect of automatically cancelling the certificate of registration. Upon such withdrawal, the enterprise shall cease to be entitled to the incentives provided for in the Decree.

Republic of Vietnam

Permission to take up occupancy in the Saigon Export Processing Zone by occupant enterprises shall be cancelled when 1) not conform with commitment stipulated in application; 2) not operate in sufficient capacity as specified in the project.

f) Regulations on Labor Relations and Disputes:

India

“As applicable in the mainland.” In absence of detailed explanation, it is difficult to understand whether the given same regulations on labor relations, disputes, etc. apply to all the firms of Indian and non-Indian origins located within and without the Kandla Zone.

Republic of Korea

Concerning labor disputes and mediation within a Free Export Zone, the same provisions for public utilities on the Labor Dispute Mediation Law are applied to the occupant enterprises, so as to protect their production activities.

Major details of such protective measures provided to public utilities under the Law are as follows:

1) Any labor dispute in public utilities will be speedily handled in preference to any other labor dispute.

2) It is provided that labor disputes should not be raised within twenty days in ordinary business or within thirty days in public utilities from the date of filling a report on such labor disputes.

3) If a labor dispute is concerning public utilities, the Minister of Health and Social Affairs may decide on an emergency mediation. When his decision on an emergency mediation is announced, the workers are required to discontinue disputed activities immediately, and may not resume dispute activities unless thirty days have elapsed since the date of such announcement.

The Philippines

In case of industrial disputes, the Authority may either mediate toward the settlement of such disputes or recommend to the President the application of the process of compulsory arbitration as provided in Section 11(f) of the Decree.

Republic of Vietnam

Labor disputes and strikes etc. will be settled through negotiations by labor unions and management staff of the concerned enterprise. Labor Ministry will take an active role in giving consultations and will serve as third party mediator.

g) Reporting Requirements of Occupant Enterprises and Supporting Enterprises

Republic of Korea

Occupant enterprises are required to submit their reports to the Director of Free Export Zone Administration Office on the following matters:

- 1) Status of manufacture, processing or assembly of goods.
- 2) Import status of goods.
- 3) Export status of goods.
- 4) Arrival status of goods under a foreign investment.
- 5) Suspension of business for more than a month.
- 6) Others.

The Philippines

The following reports and/or documents shall be submitted to the Authority within the time specified hereunder:

1) Amendment to the articles of incorporation or by-laws, within thirty calendar days from the date of registration of said amendment with the Securities and Exchange Commission.

2) Replacement of any director or other principal officer, with an indication of the nationality of each officer and accompanied by a copy of his certificate of citizenship, if a naturalized Filipino, within thirty calendar days after said replacement.

3) List of alien officers and employees, their nationalities and positions, together with a copy of the plantilla, within the month of January every year.

4) Notice of the date of the enterprise began operation within ten calendar

days from said date.

In addition to the provisions described above with respect to operational management of export processing, there are other provisions relevant to EPZs. For a detailed and comprehensive descriptions of such other provision, the readers are advised to obtain and examine laws and decrees of the countries with export processing zones.

8. Inducements and Benefits Given to Foreign Firms Investing in the Country Versus Those Investing in EPZs

Our concern here is to ascertain what inducements and benefits foreign enterprises (including joint-ventures with indigeneous nationals) investing in EPZs receive relative to those investing outside the EPZs. Its purpose is to learn to what extent similarities and differences in inducements and benefits exist among EPZs of different countries in attracting certain types of foreign firms.

India

At present India provide the same inducements and benefits to all foreign investors regardless of whether they invest in its EPZ or anywhere in the country.

- a) Non-residents of Indian origin or otherwise will be permitted to make investments in any form or organization that they like. They will be free to make investments in Indian joint stock companies, partnerships or proprietorships.
- b) Investments in purely trading or commercial activities will be permitted on the Free Trade Zone. The provision under which foreign investment is not allowed in certain types of industries where foreign technical know-how and capital are not considered essential will not be applied. Thus, there will be no bar setting up of any industry on the ground that foreign technical know-how and capital are not essential for the purpose.
- c) Repatriation of capital will be allowed according to the existing rules of India.
- d) Repatriation of profits after payment of taxes will be freely allowed provided that the repatriable amount in any one year does not exceed half of the net export earnings.
- e) Foreign exchange holding will be permitted to be brought into Kandla

Free Trade Zone. Each applicant will have to maintain a separate non-resident account in respect of his operations in the Kandla Zone.

- f) Plant and machinery needed for setting up converting or manufacturing facilities for exports will be permitted freely and Customs clearance permit issued for import of the same against applicant's own foreign exchange without requiring any clearance from the Directorate General of Technical Development Clearance from indigenous availability and will, however, be necessary as hitherto while considering applications for import licenses (as distinct from Customs-Clearance Permits) for capital goods, where the party is unable to provide foreign exchange from his own resources.

Republic of China

Incentives and benefits given to all foreign investors investing in the country could not be scribed here as such information was not made available to this writer. According to promotional brochures issued by the country's Export Processing Zone Administration, the following investment incentives are available for Zone enterprises:

- a) Low cost quality labor.
- b) Exemption of customs duties on importation of raw materials, parts, machinery, and on exportation of finished goods from the zone.
- c) Tax concessions such as no sales tax, no commodity tax, and a five-year tax holiday on corporate income tax or an accelerated depreciation rate on fixed assets to be granted to enterprises at their choice.
- d) Simplified procedures with respect to all phases of enterprise operations within the Zone.
- e) Financing:
 - 1) Factory building loans—for purchasing of standard factory buildings or construction of self-designed factory buildings, bank loans up to 70% of purchasing price or construction cost are available on ten-year installment payment.
 - 2) Export loans of suitable amount will be granted to export enterprises against the Letter of Credit.
- f) Warehousing, transportation, and other supporting services.

Republic of Korea

Foreign enterprises investing in the country's EPZs are in the position to

receive better incentives and benefits than those investing outside the Zones as indicated by Tables 6, 7, and 8.

Table 6. Inducements and benefits given to all foreign investors in the Republic of Korea

Types of inducements/benefits	Nature of inducements/benefits	Applicable laws/decrees
a. The Tariffs	Exemption of customs duty on imports of capital goods	Foreign Capital Inducement Law
b. Non-tariffs (quota, etc.)		
c. Taxation	Income tax, corporation tax, property tax and acquisition tax are exempted for the first five years and reducible by 50% for the following three years. Customs duty, commodity tax and textile tax and foreigner's income tax are exempted in full permanently.	Foreign Capital Inducement Law Income Tax Law
d. Other financial	Guarantee of remittance overseas of principal and interest by foreign invested firms.	
e. Administrative	Foreign invested firms can conduct import-export transactions without obtaining such permits prescribed in the Trade Transaction Law.	Trade Transaction Law
f. Others		

Table 7. Inducements and benefits given to foreign investors establishing in Korea's EPZs

Types of inducements/benefits	Nature of inducements/benefits	Applicable laws/decrees
a. Tariffs	Total permanent exemption for importation of capital goods raw materials, parts and semifinished goods and export of products by occupant firms.	Foreign Capital Inducement Law
b. Non-tariffs (quota etc.)	Not applicable to zone occupant firms	
c. Taxation	Income tax, corporation tax, property tax and acquisition tax are exempted for the initial five years and reducible by 50% for the following three years. Tax on profit dividend and earned surplus accruing from principal owned by foreign investor is exempt for the initial five years and reducible by 50% for the following three years. Business tax is permanently exempted for occupant firms. Foreigners engaged in occupant firms are exempted from salary and wage income tax permanently.(see the table following)	Foreign Capital Inducement Law Business Tax Law Income Tax Law

- d. Other financial Guarantee of remittance overseas of principal and interest. The remittance overseas of profit dividend is guaranteed from the initial year of business operation and that of principal of investments from two years after the beginning date of business operation. However, remittance of proceeds from sales may be limited, in consideration of the foreign exchange situation, to 20% of the amount of investments or proceeds from sales for each year.
- Financing export transactions.
- e. Administrative Foreign invested firms and foreign investors are treated as the nationals of the Republic of Korea on their business activities, unless otherwise provided by other laws. The guarantee of the same treatment as the Korean nationals include guarantee of non-nationalization of properties of foreign firms and investors. Finalization of all administrative procedures related to investment and operation on the spot at the Zone Administration Office.
- Waiver of application of pertinent legal provisions related to Foreign Capital Inducement Law, Inquiry related to Government Ministries, Foreign Trade Transaction Law, Law on Employment of Persons Subject to Veteran Relief, etc.
- d. Others Stationing of supporting administrative agencies in the Zones in order to expedite administrative services for occupant enterprises, such as customs office, post office, Branch of the Office of Labor Affairs, Immigration Office, quarantine office, fire station, police box, public utilities, etc.
- Availability of supporting enterprises for the service to occupant enterprises, such as warehousing, express service, loading and unloading and packing firms, banking, insurance, restaurants and commissaries, etc.
-

The Philippines

Information provided by the Export Processing Zone Authority indicate that (see Tables 9 and 10) foreign enterprises, including joint-ventures, investing in the Bataan Zone are in the position to receive greater incentives and benefits than those locating outside the Zone.

Table 8. Tax exemption and reduction for occupant firms in Korea's EPZs

Tax	Tax Basis	Tax Rate	Details
1. Income tax	Amount of income of receipts	16.5%—60.5%	Exempt for five years, and reducible for the following three years
2. Corporation tax	1) Income of each business year 2) Liquidation income	1) Open corporation: 16.5%—27.5% 2) Closed Corporation: 27.5%—49.5%	Exempt for five years, and reducible for the following three years Exempt for five years, and reducible for the following three years
3. Property tax	Value of land, building and ship	1) Land: 0.2% 2) Building and ship: 0.3%	Exempt for five years, and reducible for the following three years
4. Acquisition tax	Acquisition value of real estate, motor vehicles, buildings and ship	1) 1% 2) 2% in Seoul and Pusan	Exempt for five years, and reducible for the following three years
5. Commodity tax	1) Deliberly price and quantity at manufacturing plant 2) Import declared value and quantity 3) Other sales price and quantity	5 to 100% of 66 items	Goods imported as capital goods are free from the tax.
6. Textiles tax	10 items	10 to 100%	When imported as capital goods, tax is exempt
7. Business tax	Amount of receipts	0.5 to 3%	Permanently exempt on foreign exchange earning business
8. Salary and wage income tax	Salaries and wages paid to foreigners engaged in a foreign-invested firm	7.7 to 55%	Permanently exempt

Table 9. Inducements and benefits given to all foreign investors in the Philippines

Types of inducements/benefits	Nature of inducements/benefits	Applicable laws/decrees.
a. Tariffs	Tax-free and customs duty-free importation of machinery, equipment, raw materials and supplies. Exemption from the payment of export tax.	
b. Taxation	Net operating loss carry-over. Exemption from the payment of municipal and provincial licenses, free or taxes except real estate tax.	
c. Non-tariffs		
d. Other financial	Priority in allocating foreign exchanges for importing needed merchandise equipment and raw materials.	
e. Administrative		
f. Others		

Table 10. Inducements and benefits given to foreign investors establishing in the Philippines EPZ

Types of inducements/benefits	Nature of inducements/benefits	Applicable laws/decrees
a. Tariffs	Exemption from payment of duties for import of capital goods, equipment, and raw materials. Exemption from export duties and taxes	R.A. 5490 and P.D. 66
b. Non-tariffs		
c. Taxation	Same tax incentives given to Filipino owned enterprises: Accelerated depreciation. Exemption from the payment of municipal and provincial licenses or taxes except real estate.	R.A. 5490 and P.D. 66
d. Other financial	Priority in allocating foreign exchange for importing needed merchandise, equipment and raw materials. Repatriation of foreign investment and remittance of profits and dividends is allowed at any time in full at prevailing exchange rates. No expropriation or requisition of property represented by foreign investment except in the interest of national welfare and defense; in which case, payment of just compensation shall apply. Zone enterprises may qualify for loans from financial institutions whose foreign loans are guaranteed by the Philippine Government.	
e. Administrative	Simplified and unified administrative procedures regarding investment and operation in the Zone by foreign investors.	

Fully foreign-owned or controlled enterprises are admissible into the Zone.

Foreign technicians may be employed in supervisory, technical or advisory posts within five years from registration of a Zone enterprise.

Such persons may bring with them their spouses and unmarried children under 21 years of age.

Foreigners investing at least 100,000 dollars in the Zone may stay in the Philippines as long as the investments are in the Philippines.

f. Others

Manpower training at government expense.

The EPZA in coordination with the National Manpower and Youth Council can undertake the recruiting and training of Zone enterprise workers at government expense.

There is an existing manpower training center which undertakes the training program of workers in the Zone.

Republic of Vietnam

The Saigon Export Processing Zone Authority had stated that foreign investors investing in the Zone were slated to receive greater inducements and benefits than those investing outside the Zone, as indicated by Tables 11 and 12.

Among the five APO member countries with EPZs discussed above, India does not make any distinction between EPZ and non-EPZ foreign enterprises as far as providing inducements and benefits are concerned. For the Republic of China, such a comparison is not possible as it provided information only regarding inducements and benefits given to enterprises investing in its EPZs.

Table 11. Inducements and benefits given to all foreign investors in the Republic of Vietnam

Types of inducements/benefits	Nature of inducements/benefits	Applicable laws/decrees
a. Tariffs		
b. Non-tariffs		
c. Taxation	Tax holidays for five years	Investment Law 4/72 and EPZ Law
d. Other financial		
e. Administrative		
f. Others		

Table 12. Inducements and benefits given to foreign investors establishing in the Republic of Vietnam's EPZ:

Types of inducements/benefits	Nature of inducements/benefits	Applicable laws/decrees
a. Tariffs		
b. Non-tariffs		
c. Taxation	Free of all taxes for five years.	Decree Law 043/TT/SLU
d. Other financial	Transfer of all net profits free use of land for ten years.	Decree Law 043/TT/SLU
e. Administrative		
f. Others		

In the case of the Republic of Korea, the Philippines and the Republic of Vietnam, indications are that somewhat greater inducements and benefits are being offered to EPZ enterprises relative to those investing outside the Zones. However, certain types of incentives related to customs duties, taxes, local financing, and the like are being offered equally to Zone enterprises as well as to non-Zone enterprises so long as the latter group of enterprises are export-oriented. It seems, therefore, that the inducements and benefits the Zone enterprises enjoy over those foreign invested firms outside the EPZs could be termed primarily non-monetary and financial nature, such as simplified, unified administrative procedures, adequate supply of infrastructural services, services of supporting enterprises, etc. all of which are available within the EPZs themselves. Availability of standard factory buildings with comparatively low rentals, low-rent or -priced land for self-designed factory buildings by occupant enterprises, training facilities for labor force needed by occupant enterprises, and other related services could also be termed added benefits given to Zone enterprises. But the simplified and unified administrative procedures along with readily available infrastructural facilities seem to be the most important inducements and benefits EPZs offer to occupant firms.

There has been a tendency in the APO region that each newly establishing EPZ was largely patterned after those already successfully operating, and this includes inducements and benefits given to occupant enterprises. Matching of inducements and benefits on paper is relatively simple matter as it could be done by passing appropriate laws and decrees.

But to what extent occupant firms can actually derive benefits is entirely

different matter as it largely depends on the degree of efficiency of Zone administration.

Accordingly, other things being equal, the extent of ability of various export processing zones, both existing and those to be established, to attract foreign investments may largely depend on the degree of efficiency of particular zone administrations. This is because unless zone administrations are efficiently managed, there is a definite possibility that the inducements and benefits offered to foreign investors would remain as "offers" and never in part or in whole become effective benefits to foreign investors. Interviews conducted by this writer with zone enterprises in various countries revealed that they consider the efficiency of a particular Zone Administration more important than a package of other inducements and benefits offered when it comes to making decisions not only for initial investment but to remain in a particular zone. They further revealed that operational results of occupant enterprises are influenced to a large extent by the efficiency of Zone Administrations concerned.

IV. Physical Set-Up and Investment of Export Processing Zones

This chapter is mainly concerned with ascertaining physical facilities of various types and purposes planned and implemented and investments thereof in connection with export processing zones established and operating in the APO member countries. An original intention was to directly compare such facilities and investments among export processing zones of the countries concerned using some types of parameters. But due to disuniformity, incompleteness of data supplied makes it impossible to attain the original intention. Thus, the collected data are presented here for reference only. Regarding the manner of presenting collected data, the same sequential order as the questions were put in the Questionnaire is followed.

1. Planned and/or Realized Capacity of EPZ in Terms of Number of Firms, Production Floor Space, and Employment

The data provided here should be taken as those planned as of the date of expected full operation of each export processing zones, with the exception of the Masan Free Export Zone and the three export processing zones in the Republic of China (see Table 13). This is because at the time of this

writing the Iri Free Export Zone in the Republic of Korea is still in the process of constructing facilities, the Saigon Export Processing Zone is not yet in operation, and the Bataan Export Processing is in the state of construction or partial operation. Moreover, the dates of achieving planned targets differ for each country as planning periods are different. Among the above export processing zones listed, the Masan Free Export Zone was occupied by 115 firms employing about 21,200 employees as of the end of 1973 and still has a space for further expansion. Among the three export processing zones in the Republic of China, only the Nantze Zone is known to have a limited amount of factory space remaining while two other zones are fully occupied as of this writing.

Table 13. Planned and realized capacity of EPZs in terms of firms, production floor space, and employment

Names of EPZs	No. of firms	Prod. floor space(m ²)	Employment
Masan	120	99,000m ²	40,000
Iri	70		30,000
Bataan	100—120	150HAS	45,000—55,000
Saigon	100	540,000m ²	40,000
Kaohsiung*	151		53,306
Nantze*	47		14,116
Taichung*	24		8,135

*) As of December 31, 1973.

2. Total Investments for Basic Physical Facilities According to Expenditure Items, Years, Capacities

During the preliminary survey by this writer preceding the formulation of the Questionnaire to be used for collecting information from the concerned governments revealed that diversity exist in accounting system used for recording expenditures for basic physical facilities for export processing zones. Therefore, the items to be included in the total expenditures were left to the discretion of government agencies of each countries concerned. The result obviously is diversity in expenditure classification as can be seen in the following. This phenomanon is beyond the control of this writer and therefore data supplied herein could be used only for references, though some measure of comparison is possible.

Republic of China

Among the three export processing zones in this country, only the initial investment in infrastructure by items for Taichung Export Processing Zone completed in April, 1971 was made available as shown below. "Remarks/Quantity" indicated in the Table 14 shows the capacity of pertinent physical facilities which were constructed with the total initial expenditure of 5,433,617 dollars.

Table 14. Cost of infrastructure and facilities in TEPZ Republic of China

Items	Cost (US dollars)	Remarks/Quantity
Land	1,025,686	60 Acres
Communication facilities	143,000	
Administration Bldg.	192,315	three-storey, RC Construction, total floor space 3,327 m ²
Food & Supplies Center (Bldg.)	34,524	
Police Station & fire truck garage	35,464	
Vehicles maintenance yard	21,942	
Health Center (Bldg.)	28,457	two-storey, RC Construction, total floor space 395 m ²
Waste disposal yard	9,240	
Standard clock	10,320	
Standard factory buildings	1,870,000	Four 4-storey, RC Construction floor space 50,816 m ² each (four more to be constructed)
Briefing room decoration & equipment	5,667	
Automatic gate door, side walks	13,147	
Lawn grass planting	5,770	
Roads, sewerage system	347,554	Roads 4860m sewer ditch 2000m
Street lights	417,369	400W, double arms×26 400W, single arm×66
Fence wall, watch tower	105,285	1,760m, height 3m
Power supply line	156,276	
Water supply piping	114,858	
Warehousing & Transportation Bldg.	757,302	three-storey, RC Construction, total floor space 1,050 m ²
Cargo handling equipment	139,441	
Total initial investment	US \$ 5,433,617	

Republic of Korea

For the construction of Sites No. 1 and No. 3 of Masan Free Export Zone, 16,262,000 dollars has already been invested by the end of 1973. Site 3 has an area of about 26.6 hectares, comprising the Masan City-owned land and privately owned lands. This area has not yet been designated as part of the

free export zone. After an economic feasibility study on it, the Government plans to purchase the privately-owned lands for expansion of Masan Free Export Zone. The following Table 15 shows a breakdown by construction work and their expenditures.

Korea's second export processing, the Iri Free Export Zone, was planned for occupancy by enterprises by the latter part of 1974. The following Table 16 shows a breakdown of expenditures according to types of construction work.

The above expenditures already invested and planned to be invested in the future are related to planned and completed infrastructural facilities as shown in the following Table 17 for both the Masan and Iri Free Export Zones. It should be noted that the information contained in the Table 17

Table 15. Investments in construction of MAFEZ, Korea Unit: \$ 1,000

Items	Invested By 1973	Scheduled Investment in 1974	Total Investments
1. Site preparation	7,064	325	7,389
2. Industrial water	488	100	588
3. Harbor construction	2,103	—	2,103
4. Dredging	1,161	—	1,161
5. Public utilities	1,007	—	1,007
6. Standard factories (6 units)	3,095	—	3,095
7. Welfare facilities (Dormitories)	787	—	787
8. Ancillary facilities	557	—	557
Total	16,262	425	16,687

Note: Conversion rate-400 Won to US\$ 1

Table 16. Investment in construction of Iri FEZ, Korea Unit: \$ 1,000

Items	Invested by 1974	Scheduled investment 1975-1976	Total Investments
1. Site preparation	2,195	—	2,195
2. Industrial water	250	—	250
3. Harbor construction	—	—	—
4. Dredging	2,500	5,500	8,000
5. Public utilities	248	—	248
6. Standard factories	1,428	—	1,428
7. Welfare facilities (Dormitories)	710	—	710
8. Ancillary facilities	273	—	273
9. Connecting highway	1,375	—	1,375
Total	8,979	5,500	14,479

Note: Conversion rate-400 Won to US\$ 1

Table 17. Plan and completion of infrastructure in EPZs, Masan and Iri, Korea
(as of June 1974)

	MAFEZ		IFEZ	
	Capacity		Capacity	
	Planned	Completed	Planned	Completed
1) Total land area designated	523,000pyong	285,000pyong	802,000	564,000
2) Areas designated by purposes:				
Production plants		169,000pyong		422,000
Supporting enterprises				
Supporting services				
Streets		53,000pyong		86,000
Administration building		13,000pyong		33,000
All others				
3) Water	21,500 T/D	14,000T/D	20,000T/D	
4) Sewage system				
5) Electric power	10,000— 60,000KW	10,000— 60,000KW	20,000KW	
6) Port facilities	Berth two 20,000 ton ships	Berth one 20,000 ton ship	5,000— 10,000	8,000
7) Railroad				
8) Warehouses		One bonded warehouse		
9) Postal and communication		Have Post, T&T		
10) Health care				
11) Police and fire protection		Police station 1 Fire station 1		
12) Lodging and housing				
13) Foods and commissaries		Restaurant 1 Commissary 1		
14) Recreation, cultural facilities				
15) Others—Specify.				

Table 18. "Supporting enterprises" for occupant enterprises in Masan Free Export Zone

Types	Number	Capacity(use appropriate designation)	Manpower
Packing & packaging	1		
Warehousing	1		
Freight forwarding/transport	3		
Trading firms	—		
Banking	2		
Training facilities	1		
Research & Development facilities			

was as of June 1974, thereby not including some of essential facilities which should be completed by the time the Iri Free Export Zone is ready for occupancy by enterprises.

In addition to infrastructural and other facilities planned and constructed by the government expenditures, there are also what could be termed "supporting industries" which are established either by public funds or private enterprises for profit motives. Such supportive service firms and facilities are established for the very purpose of facilitating and expediting business activities of export firms occupying export processing zones. The Table 18 above indicates the types and number of such supporting industries and facilities being operated in the Masan Free Export Zone.

The Philippines

The following Table 19 shows the total investment for basic physical facilities in terms of expenditure items, years for spent/committed and planned for the Bataan Export Processing Zone.

Table 19. Total investment for basic physical facilities according to expenditure items, years, etc., for Bataan Zone, Philippines (in Million pesos)

Total investment allocation by items	Total	Spent/committed up to FY 73-74	FY 74-75	FY 75-76
A. Industrial area				
Roadways	19,818	10,568	6,750	2,500
Storm drain/sewer system	10,144	5,644	4,500	—
Water supply system	11,492	9,992	1,500	—
Electrical system	47,669	25,069	22,600	—
Building	163,873	73,873	84,000	6,000
Bridges	2,309	2,309	—	—
Other costs	6,000	5,500	200	300
Common utilities	190,262	40,162	127,000	23,100
8% engineering costs	36,125	13,850	19,724	2,551
Total	487,692	186,967	266,274	34,456
B. Housing Area	169,885	53,000	78,292	38,593
C. Dams				
Dam #1	100,000	100,000	—	—
Dam #3	70,000	—	70,000	—
8% engineering costs	13,600	8,000	5,600	—
Total	183,600	108,000	75,000	—
Total BEPZ development costs	841,177	347,967	420,166	73,044

Planned and completed infrastructural and other facilities as of June 1974 for the Bataan Export Processing Zone with the expenditure and supervision

Table 20. Planned and completion of infrastructure in Bataan EPZ (as of June 1974)

	Capacity	
	Planned	Completed
1) Total land area designated	289.4 Has*	114.9 Has
2) Areas designated by purposes		
Production plants	174 Has	108 Has
Supporting enterprises	1 Has	1 Has
Supporting services	1.1 Has	
Streets	30 Has	5.9 Has
Administration area	13 Has	
All others	0.3 Has	
3) Water	2.25 B. gals.	
4) Sewage system	4 sewage treatments plants	
5) Electric power	140 MVA	20 MVA
6) Port facilities	8 berths for 400 G.T. vessels or 2 berths for 1,500 G.T. vessels	
7) Railroad		
8) Warehouses	(4 buildings) 20,000 cu. ms.	20,000 cu. ms.
9) Postal & communication	Tel. telex & cable services	Tel. services
10) Health care	15-Bed capacity clinic	
11) Police & fire protection	zone police (150men) & fire dept. bldg. & equipt.	Zone Police (150men)
12) Lodging and housing	32,339 direct workers	
13) Foods and commissaries	4 eateries (844 seating capacity per eatery)	
14) Recreation, cultural facilities	Bowling alleys, movie houses, church, school, commercial centers	
15) Others—Specify	Transport system Fuel depot	

* Industrial Area only; represents net developable area of Stage I of BEPZ.

Table 21. "Supporting enterprises" for occupant enterprises (approved as of April, 1974) in Bataan EPZ

Types	Number	Capacity(use appropriate designation)	Manpower
Packing and packaging	1		
Warehousing	1		
Freight forwarding/transport			
Trading firms			
Banking	3		
Training facilities	1		
Research and development facilities			

of the Export Processing Zone Authority are shown in the Table 20 above. The types and numbers of supporting enterprises for occupant enterprises on approval basis as of April 1974 are shown in the succeeding Table 21.

Republic of Vietnam

Since the Saigon Export Processing Zone Authority was established as recently as mid-1974, very little construction and other works have been done as of the time of this writing.

Therefore, the majority of informatin concerning total investment for basic facilities according to expenditure items, years, plan and completion

Table 22. Total investment for basic physical facilities according to expenditure items, years, etc., in Saigon EPZ, Republic of Vietnam (as of 1974)

	VN \$ Million(*)					
Total Investment Allocation by items	1974	1975	1976	1977	1978	1979
Connect warehouses into factories warehouses	52	40	48	—	—	—
Convert warehouses into SEPZA's office	20	5	2.5	—	—	—
Fence and guards towers	50	—	—	40	30	—
Road constructions	24	36	—	150	115	—
Utilities	27	23	—	140	20	—
Telephone	15	—	—	—	15	—
Building standard factory	—	400	400	400	400	400
River sides construction	—	—	—	—	47	—
Gardens, public building	3	3	—	25	—	—
Loading and unloading equipments	—	30	—	—	—	—
Dredging	—	100	422.5	45	—	—
Miscellaneous	14	63	67.0	80	63	40
Total	200	700	940.0	880	690	400

(*) Current exchange rate 1US\$ = 640 \$VN

Table 23. Plan and completion of infrastructure in Saigon EPZ (as of 1974)

Items	Capacity	
	Planned	Completed
1) Total land area designated	830,000m ²	145,000m ²
2) Areas designated by purposes:		
Production plants		
Supporting enterprises	610,000m ²	
Supporting services		
Streets	80,000m ²	
Administration building	32,000m ²	500
All others	108,000m ²	
3) Water	Cubic Meter per day	
4) Sewage system		
5) Electric power	Kw	
6) Port facilities		
7) Railroad		
8) Warehouses	4,500m ²	
9) Postal and communication	160 Tel. lines	40 Tel. lines
10) Health care	1 centre	
11) Police and fire protection	1 branch	
12) Lodging and housing	1 branch	
13) Foods and commissaries	1 branch	
14) Recreation, cultural facilities	1 branch	
15) Others-Specify-parking area	125,000m ²	10,000m ²
security fence	6,000m	2,500m

Table 24. "Supporting enterprises" for occupant enterprises in Saigon EPZ (as of 1974)

Types	Number	Capacity(use appropriate designation)	Manpower
Packing & packaging			
Warehousing	5	70,000m ²	
Transport			
Trading firms			
Banking			
Trading facilities			
Research & development facilities			

of infrastructures, and support industries as given in the above three Tables 22, 23, and 24 should be taken as planning data.

3. Infrastructure and Cities Immediately Adjacent to EPZ

Even though an export processing zone is an enclave in terms of

customs territorial aspect and possibly some others such as total or partial exemption from laws and decrees of the country concerned, it cannot be expected to operate economically and efficiently in isolation as it must depend not only on its own independent facilities but also outside support of various nature. Therefore, it is of basic importance that, to the extent possible, an export processing zone should be located where adequate infrastructure and urban areas already exist with given facilities, services, and a pool of labor supply. So doing will greatly minimize the sunk investments which would otherwise have to be incurred if located literally-speaking "out of nowhere." At times, regional development or industrial dispersal policy, military consideration, and the like would make it unfeasible to locate an export processing zone right within or immediately adjacent to a large metropolitan city. Nevertheless, if a country is to get most benefits out of investment for an export processing zone through its efficient and economical operation, the near-by existence and availability of infrastructure and urban areas must be taken into consideration in deciding the location of a proposed export processing zone.

Republic of China

The three export processing zones are established either within or immediately adjacent to large cities with already existing sufficient infrastructural and other facilities, large pools of labor force, and other facilities, large pools of labor force, and other facilities necessary for supporting not only business firms but also workers and their families within and without respective export processing zones. To meet the rising demand for various facilities and services stemming from successful operation of the zones, necessary facilities are continuously expanded especially in the City of Kaohsiung. However, the "boom town" atmosphere of this city is creating certain problems ranging from rising prices to shortage of labor, housing, etc. Nevertheless, the choice of location of the three export processing zones could be termed excellent from the viewpoint of regionally dispersed economic development absorbing surplus labor force, and most importantly for the massive contribution to export expansion and diversification of export products and markets.

Republic of Korea

Infrastructure adjacent to export processing zones:

1) Airport:

Masan—Pusan International Airport; 68 kms; 60 minutes by car.

Chinhae Airport; 25 kms; 30 minutes.

Iri—

2) Highways:

Masan—Directly connected with limited access express way and national highways from Pusan, Taegu, Seoul, etc.

3) Port facilities:

Masan—In addition to its own port in EPZ capable of handling up to 20,000-ton ships, City of Masan Port is also available with larger handling capacity.

Iri—Gunsan Port 23 kms away which is capable of handling three 8,000-ton class ships simultaneously.

4) Railroad:

Masan—Connected with Seoul-Masan, Pusan-Masan, Masan-Mokpo lines.

Iri—Connected with Seoul-Iri, Iri-Mokpo lines.

5) Others:

Immediately adjacent cities—existing(or planned):

	Masan	Iri
Distance	0km	4km
Population	300,000	90,000
Education facility	Sufficient up to universities	Sufficient up to a college
Lodging/housing		
Recreation/cultural fac.	Somewhat short of demand	Sufficient

The Masan Export Processing Zone is established right within the City of Masan with fairly adequate infrastructural and other facilities needed to support occupant enterprises and employees. However, more than anticipated fast expansion of enterprises and employment in the Zone created certain problems and bottlenecks. Prices of commodities and services including housing and rental have been increasing at a faster rate than the national level. There developed acute shortage of some infrastructural services such as water for commercial and household uses. Such problems are not unique to Masan as much of the similar problems could also be found in the cities where export processing zones are located and expanding in other countries. In order to alleviate such problems, the necessity of coordinating the

development of export processing zones with that of comprehensive regional development plan is of basic importance. The interdependency of export processing zones and the surrounding community should not be ignored not only for the site selection of such zones but also with respect to coordinating the development of both.

The City of Iri was selected as Korea's second export processing zone site as the area is, among other things, one of industrially least developed though it has traditionally served as one of the important "bread-baskets" for Korea. Coordinated efforts are being made by the government to develop port and highway facilities and the like in support of the Iri Free Export Zone as well as to support development of agro-based industries in the surrounding areas. It is certain that the Zone would undoubtedly contribute to industrial development and employment enlargement of the area, but problems associated with such development effort are also certain to be created if appropriate development measures for surrounding community are not timely taken.

The Philippines

Infrastructure adjacent the Bataan Export Processing Zone:

1) Airport:

Nearest airport is the Manila International Airport which is 175 kms away by existing highways. When the new express way under construction now is completed, the distance and travel time will be considerably reduced.

Presently, helicopter service on charter is available for passengers following the southern perimeter coastline of Manila Bay, as per Civil Aeronautics Agency requirements. The flight distance is 110 kms and flight time about 45 minutes. Straight distance from Manila International Airport to Bataan Zone is 55 kms.

2) Highways:

National Highway from Manila going around the northern shoreline of Manila Bay and down the East shoreline of the Bataan Province—175 kms. The new express way being built will considerably shorten the distance and travel time upon completion.

3) Port Facilities:

Manila South Harbor, Manila, 55 kms away from the Bataan Zone, has berthing capacity of 22 ships, while berthing capacity of Manila North

Harbor is 52 ships.

4) Railroad:

Not exist.

Immediately adjacent cities existing:

Manila	
Distance	175kms
Pouplation	1,330,788
Lodging/housing	Sufficient as there are a total of 28,910 dwelling units in the Manila area.
Education/recreation/cultural facilities	In nearby Manila, one can find all the amenities of modern living. First class hotels, plush night clubs, the finest restaurants, high standard educational institutions, modern hospitals, cinemas and other recreational and cultural facilities. There are also first class banking, insurance, transportation and communication facilities.

The Bataan Export Processing Zone, when compared with other export processing zones in the APO member countries, is hampered by inadequacy or lack of existing infrastructural facilities and non-existence urban areas immediately adjacent to it. As the location for such ambitious export processing zone, Bataan Zone is isolated geographically and in terms of such factors as infrastructure, amenities of modern living or labor supply sources. Therefore, substantial amount of new investment is committed and planned to be made to support the export processing yone. When the Bataan Zone is viewed alone, pre-operational investment might seem to be too great, though such huge infrastructural investment may be justified on the basis of the government plan to develop the region surrounding the Bataan Zone. If the location of the Philippines' first export processing zone was selected more on economic basis rather than based on political consideration, a large portion of total investment for supportive facilities could have been saved.

Republic of Vietnam

Infrastructure adjacent to the Saigon Export Processing Zone:

1) Airport:

Tan Son Nhut Airport is located only 10 kms and 20 minutes away from the Saigon Export Processing Zone.

2) Highways:

There exist a highway connecting Saigon Zone with the City of Saigon.

3) Port facilities:

The Port of Saigon, located next to the Saigon Zone, can handle ships up to 20,000 tons. Container handling facilities are also located next door to the Saigon Zone.

4) Railroad:

Not available.

Immediately adjacent cities existing:

	Saigon
Distance	3kms
Population	
Education fac.	Sufficient
Lodging/housing	Sufficient
Recreation/cultural fac.	Sufficient

The locational choice of the Saigon Export Processing Zone is excellent for the same reasons that the Government of Republic of Vietnam stated. It is meant to take advantage of infrastructure, building structure, etc. already available at the once the United States military logistics base. For the stage one operation of the Zone, only minimal amount of new investment would seem necessary for remodeling the existing structures, repair and maintenance, and addition of some necessary facilities. The Saigon Zone is surrounded by the most densely populated part of the Saigon metropolitan area thereby assuring abundant cheap cost labor supply, and such infrastructures as airport, port and highway facilities are already existing for utilization. In terms of military security aspect, the Saigon Zone was a very safe site.

V. Status and Results of Export Processing Zone Operations

Chapter V is intended to ascertain to what extent the original development operational plans of export processing zones in the APO region are being implemented, what are current status and results of such implementation or operations, and what are benefits or revenues derived relative to government investments and expenditures as well as foreign investments. None of the member countries with established or operating export processing zones has supplied all the requested information for such ascertainments. India did

not provide any information at all, while the Republic of China provided some of the information requested only for the year 1973. The Republic of Korea, the Philippines, and the Republic of Vietnam have apparently exerted much efforts to comply with the requested information based on the Questionnaires supplied by this writer. The bulk of information supplied by latter three countries are largely in the nature of plans, with the exception of those applying to the Korea's Masan Free Export Processing Zone. Under such circumstances, Chapter V is more akin to compilation of supplied data, far from being able to achieve intended objectives.

1. Republic of China

The Republic of China provided statistics on approved export (occupant) enterprises by industry categories compared with actual results for its three export processing zones as of December 31, 1973. As Table 25 shows, the Kaohsiung Export Processing Zone, the first zone established in the country, has largely achieved approved or projected plans in terms of number of occupant firms, investment amounts, annual (export) sales volume, and the number of employment. As far as the approved firms for each category of industries is concerned, all the firms already started production. When projected investment amounts for each category of industries are compared with actual investment amounts, all the categories except precision machinery and instrument, machinery manufacturing, electrical appliances and products, rubber products, printed matters, and chemical products are slightly lagging behind. Actual export sales of these firms also slightly lag behind the projected amount. The same applies to the number of employment. However, it may be justified to state that as of this date the Kaohsiung Zone could be termed one of the most successful of all export processing zones in the APO region.

Compared with approved or projected bases, the actual achievement figures as of December 31, 1973 for the Nantze and Taichung Export Processing Zones are greatly lagging (see Tables 26 and 27). This may be attributed in part due to the fact that the two zones were relatively recently established compared with the Kaohsiung Zone. In absence of data on time-series plans for the two export processing zones, it is not feasible to assess the extent of success in actual implementation on yearly basis. Therefore, the following is merely a description of statistics provided.

Table 25. Statistics on approved export enterprises in KEPZ by categories

	Approved	Projected		Projected number of employees	In production	Arrived investment amount (in US\$)	December 31, 1973	
		investment amount (in US\$)	annual sales volume (in US\$)				Actual sales volume in current year (in US\$)	Hired employees
Precision machinery & instrument	1	150,000.00	198,000.00	63	1	150,000.00	477,282.07	44
Electronic products	36	27,478,146.22	200,150,863.43	25,343	36	23,360,791.80	166,182,070.01	24,833
Metal products	15	4,439,994.94	15,449,360.00	2,867	15	3,481,208.00	13,688,231.19	2,756
Plastic products	16	3,561,073.94	19,791,760.00	4,903	16	2,872,536.70	15,191,832.17	2,266
Machinery manufacturing	3	550,000.00	12,143,350.00	462	3	550,000.00	1,579,342.26	241
Furniture manufacturing	2	1,004,986.80	4,956,050.00	938	2	900,000.00	3,288,360.86	1,047
Handicrafts (including wig products)	16	2,485,913.89	29,800,345.00	7,530	16	2,286,848.73	6,151,124.58	2,787
Electrical appliances & products	3	988,316.59	8,843,924.00	993	3	988,316.59	5,314,963.84	610
Rubber products	2	220,000.00	2,424,660.00	543	2	220,000.00	795,633.64	282
Printed matters	1	278,000.00	701,100.00	371	1	278,000.00	18,196.53	171
Packing material and repairing	2	310,090.00	937,170.00	340	2	190,000.00	409,917.92	303
Leather products	9	1,489,986.50	14,031,200.00	3,518	9	1,335,094.76	11,030,340.05	2,125
Paper products	2	498,150.00	1,362,132.00	428	2	435,000.00	13,314.00	632
Toy manufacturing	5	1,061,000.00	3,608,510.00	1,539	5	1,029,083.71	2,560,268.84	901
Yachts	1	203,740.15	1,785,000.00	71	1	125,000.00	1,199,607.06	93
Knitted and woven goods	21	3,641,576.55	16,848,280.00	7,116	21	3,336,325.00	14,746,762.62	4,868
Garments	14	6,466,734.66	63,133,320.00	9,275	14	5,088,162.52	38,704,809.59	8,312
Chemical products	2	250,000.00	1,131,000.00	148	2	250,000.00	339,504.16	35
Total	151	55,077,620.24	397,296,024.43	66,468	151	46,876,367.81	281,99,5611.39	53,306

Table 26. Statistics on approved export enterprises in NEPZ by categories

Category of enterprises	Approved	Projected			Projected number of employees	In Production	Arrived investment amount (in US\$)	December, 31, 1973	
		investment amount (in US\$)	annual sales volume (in US\$)	sales volume (in US\$)				Actual sales volume in current year (in US\$)	Hired employees
Electronic products	28	14,256,561.54	136,064,477.50		12,911	9	5,208,168.10	20,061,623.85	5,036
Metal products	11	3,943,589.08	14,033,805.02		1,863	3	1,060,494.14	95,344.24	141
Machinery manufacturing	4	1,858,337.00	13,070,000.00		1,108	3	827,750.00	4,938,292.43	569
Plastic products	18	4,378,965.71	21,999,090.00		4,040	14	1,634,987.75	8,540,103.47	1,735
Furniture manufacturing	2	1,377,612.00	11,296,200.00		561	2	175,000.00	69,465.15	404
Handicrafts	7	1,637,025.72	19,690,000.00		2,368	2	815,789.48	2,684,378.23	480
Printed matters	2	300,000.00	679,200.00		136	—	—	—	—
Leather products	2	1,269,394.00	9,069,000.00		4,458	2	766,025.21	8,278,883.06	2,762
Knitted and woven goods	4	736,842.00	4,214,700.00		681	4	355,137.11	1,043,123.22	405
Garments	5	1,819,102.00	12,801,160.00		1,491	4	1,062,839.00	3,691,353.65	1,298
Chemical products	6	2,450,829.48	10,420,728.07		1,237	2	479,235.00	6,936.00	148
Musical instruments	1	5,000,000.00	8,460,580.00		2,415	1	3,300,000.00	4,469,576.43	1,138
Electrical appliances & products	1	270,000.00	2,797,602.00		207	—	182,500.00	27,853.98	—
Packing materials	1	157,500.00	500,000.00		80	—	—	—	—
Precision machinery	1	203,000.00	487,900.00		30	—	—	—	—
Paper products	2	628,881.37	3,977,894.00		315	1	—	—	—
Photographic products	1	17,300,000.00	21,685,000.00		1,032	—	—	—	—
Total	96	57,607,643.90	291,237,336.59		34,938	47	15,867,925.79	53,929,915.71	14,116

Table 27. Statistics on approved export enterprises in TEPZ by categories

Category of enterprises	Approved	Projected investment amount (in US\$)	Projected annual sales volume (in US\$)	Projected number of employees	In Production	Arrived investment amount (in US\$)	December 31, 1973	
							Actual sales volume in current year (in US\$)	Hired employees
Precision machinery & instrument	3	3,789,434	27,053,000	1,633	1	2,626,500	719,604.50	883
Electronic products	17	8,583,373	111,811,913	1,319	10	5,439,473	29,907,871.72	5,233
Photographic & optical goods	3	7,570,000	27,860,080	1,459	1	2,187,871	7,753,279.55	485
Metal products	3	1,428,409	3,666,584	619	1	237,915	65,567.40	45
Plastic products	4	858,311	4,475,000	889	4	373,793	1,601,808.96	651
Machinery manufacturing	2	830,840	3,399,200	302	1	505,571	544.50	81
Furniture manufacturing	2	510,000	6,313,200	247	2	420,000	—	361
Garments	2	348,194	1,646,000	350	1	304,093	391,102.49	142
Leather products	3	1,366,622	6,421,200	438	2	502,160	—	254
Handicrafts	1	157,894	528,000	120	1	26,952	58,453.98	—
Confectionery	1	212,770	1,200,000	150	—	160,000	—	—
Printed matters	1	2,115,596	653,795	65	—	1,140	—	—
Musical instruments	1	350,000	2,507,872	181	—	282,124	42,235.60	—
Total	43	28,121,443	197,535,844	17,772	24	13,067,592	39,540,468.70	8,135

In the case of the Nantze Export Processing Zone, about a half of 96 firms approved were in production operation, the actual investments were less than one-third of projected, the actual export sales slightly more than one-fifth of projected, and employment less than one-half of projected as of the end of December 1973. In terms of industry categories, investment and operation of electronic products, metal products, and handicraft enterprises are especially lagging behind the approved and projected.

In the case of the Taichung Export Processing Zone, a slightly more than one-half of approved export firms were in operation and the actual investment also showed similar rate of lag behind the projected. Actual export sales realized was about a quarter of the projected. The number of employment was also less than one-half of projected as of the end of December 1973. Industry category-wise, electronic products firms are lagging most relative to the approved and projected.

When the three export processing zones are considered as a whole, the number of both approved and operational firms, projected and actual investment, export sales and employment are predominantly dominated by electronic products, followed by the textile related products, metal products, plastic products, etc. These products and others being manufactured in the Zones are obviously those of light and labor-intensive types of industries in accordance with the original objectives of establishing export processing zones. It is significant to note that the total export sales by the export enterprises of the three Zones reached 375,470,000 dollars while the total employment reached more than 75,000 by the end of 1973.

Though specific information was not made available, the nationalities of foreign investors invested in the three Zones in the Republic of China are diverse including from the United States, Japan, Hong Kong, Singapore and some West European nations. Overseas Chinese related investments are known to be significant and there are also local Chinese invested firms.

2. India

The Government of India stated that its Kandla Free Trade Zone has so far not achieved the kinds of results desired. Table 28 indicate that actual results achieved are substantially below the planned targets for the number of firms to be induced, total investment including those by foreign firms, total employment generated, etc. The amount of total export also fall far

Table 28. Status and results of zone operations: Kandla Free Trade Zone, India

Original/Revised Plan											
Versus Actual Results		1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75 (14.6.74)
a) Plans											
No. of firms		50	200								
Total investment foreign/domestic		50LK.	2crores.								
Total export				50	60	150	100	130	160	200	
Value Added											
Total employment, No. of		10,000 persons	50,000 persons								
Total employment income											
Other-specify											
b) Actual results (Rs. in lakhs)											
No. of firms		—	1	2	6	7	12	17	13	10	10
Total investment foreign/domestic	707	—	44.64	13.05	16.32	16.26	3.29	6.25	—	—	—
Total export	—	7.49	8.95	51.81	60.18	34.44	79.48	151.17	176.95	44.64	44.64
Value added	—	—	—	27.70	26.21	00.23	46.63	105.71	117.08	30.89	30.89
Total employment, No. of	—	157	189	265	277	319	529	465	415	439	439
Total employment income	—	—	—	—	—	—	—	—	—	—	—
Other-specify	—	—	—	—	—	—	—	—	—	—	—

(up to)
(14.6.74)

Table 29. Exports of zone occupant enterprises, Kandla Free Trade Zone, India

Item	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1977-75 (up to 14/6/74)
	(in lakhe)								
Total national export	113658	119869	135787	141328	153516	160822	196088	241126	—
Total Zone Export	7.49	9.95	51.81	60.18	34.44	79.78	151.17	176.95	44.64
Electronic goods	—	—	—	—	—	—	—	—	—
Electric goods	—	—	—	—	—	—	—	—	—
Apparel goods, including leather footwares	—	—	—	—	—	—	—	—	—
Machine tool equipment etc	—	—	—	—	—	—	—	—	—
Optical precision	—	—	—	0.44	0.07	1.04	0.53	1.13	0.28
Transport equipment/parts	—	—	—	—	—	—	—	—	—
Sports, leisure goods	—	—	—	—	—	—	—	—	—
Textile & art silk fabrics	—	0.09	2.24	6.57	5.16	9.88	8.16	8.84	3.12
Chemicals	—	—	2.26	2.75	2.72	2.52	3.64	3.16	0.60
Toys	—	—	—	—	—	—	—	—	—
Others(specify)	—	—	—	—	—	—	—	—	—
Stainless Steel goods	7.49	8.86	11.77	17.40	26.05	24.79	32.05	54.54	14.07
Engineering goods	—	—	35.54	33.42	0.44	15.06	68.97	53.45	18.91
Tea	—	—	—	—	—	18.85	—	—	—
Plastic goods	—	—	—	—	—	0.14	11.91	15.55	0.07
Food products	—	—	—	—	—	7.50	25.91	40.32	7.56

*Provisional

behind the planned target. In fact, there are indications that the Kandla Zone's operational results have been declining since around 1972-3.

The Table 29 shows the Zone's total export compared with total national export, zone export by product lines and their destinations.

3. Republic of Korea

The Table 30 shows original plans and actual results achieved for the Masan and Iri Free Export Zones, though in the Iri Zone figures given are planning nature. As of March 31, 1974, the Masan Zone has surpassed the original plan in certain aspects while some others are behind the plan. With a slow start in 1970, the tempo of the Masan Zone development has started to accelerate in the year 1971 and more than original plans were achieved especially in 1972 and 1973 in certain aspects. As far as the number of occupant firms is concerned, actual invested firms reached 70 and 115 respectively in 1972 and 1973 as compared with 40 and 70 planned. This can be attributed to the fact that the Japanese firms started accelerating the overseas direct investment all over the world from the latter part of 1971 and the Republic of Korea became an increasing recipient of such foreign direct investment.

In terms of total investment by occupant firms, the actual achievement was lagging in 1970 and 1971 but have greatly surpassed original plan in 1972, 1973 and 1974. These investments are most of Japanese origin. Total export sales from the Masan Zone in 1971 and 1972 were the same as planned but substantially increased in 1973 in the tune of 70 million dollars compared with 50 million dollars planned. Total value added likewise increased substantially beyond the plan. The number of employment achieved in 1971 and 1972 were somewhat lagging behind the plan but more than planned number of employment was achieved in 1973.

Based on the above figures, the Masan Free Export Zone plan could be termed successfully implemented as of March 31, 1974. However, there are numerous indications that the future of the Masan Zone may be adversely affected by factors outside the control of the Zone itself and the country. The now prevailing adverse world economic conditions which have varying degree of impact on both developed and developing nations as well as domestic economic and other conditions of investing countries including Japan are most likely to contribute to lessen foreign direct investments including

Table 30. Original/revised plan versus actual results—Masan & Iri Free Export Zones, Korea(as of March 31, 1974)

	Years		1970		1971		1972		1973		1974		1975		1976		1977		1978		
	Ma	Ir	Ma	Ir	Ma	Ir	Ma	Ir	Ma	Ir	Ma	Ir	Ma	Ir	Ma	Ir	Ma	Ir	Ma	Ir	
1. Plans																					
No. of firms (cumulative)	5	—	20	—	40	—	70	—	120	5	120	20	120	45	120	70	120	70			
Total investment foreign/domestic	(\$1M)	1.7	—	8	—	15	—	30	—	50	5	50	20	50	45	50	70	50	70		
Total export	(\$1M)	—	—	1	—	10	—	50	—	200	—	250	7	350	18	400	30	400	30		
Value added	(\$1M)	—	—	0.2	—	3	—	15	—	60	—	75	2	105	5.4	120	9	120	9		
Total employment, No. of	(1,000)	—	—	1	—	5	—	20	—	31	—	41	2	45	7	45	18	45	30		
Total employment income	(\$1M)	—	—	0.09	—	0.9	—	4.5	—	18	—	22.5	0.6	31.5	1.6	36	3	36	3		
Others-specify																					
2. Actual results																					
No. of firms (cumulative)	3	—	22	—	70	—	115	—	115	—	115	—									
Total investment foreign/domestic	(\$1M)	1.1	—	4.9	—	34.7	—	79	—	80.6	—										
Total export	(\$1M)	—	—	1	—	10	—	70	—												
Value added	(B1M)	—	—	0.3	—	3.6	—	21.4	—												
Total employment, No. of	(1,000)	—	—	0.4	—	1.6	—	8.1	—												
Total employment income	(\$1M)																				
Others-specify																					

Note: Ma-Masan Free Export Zone; Ir-Iri Free Export Zone

Table 31. Overall data on zone occupant firms as of March 31, 1974 (Masan Free Export Zone)

No. of firms	Types of investment		Amount of investment US\$ 1,000	Home country of foreign firms			Annual export estimated, 1974 US\$
	Foreign/ direct	Joint- Venture		US	Japan	Italy	US/Japan
Total in FEPZ	84	31	80,652	7(5)*	106(77)	1(1)	1(1)
Electrical products	21	6	32,593				
Electronic							
Apparel, leather goods	—	—					
Machine tools							
Metal products	38	3	35,567				
Industrial supplies							
Industrial chemical							
Transport equipment							
Optical/precision	2	6	3,237				
Sports/leisure goods	2	5	1,580				
Textile	7	8	7,614				
Chemical goods							
Toys and handicraft	9	1	7,245				
Processed foods	1	1	1,852				
Others	4	1	1,428				
Total foreign invested firms in the country							

Note: *() indicate wholly foreign owned,

in Korca.

As the Table 31 indicates, in terms of industry categories machinery, metal products and industrial chemical firms predominate occupant enterprises, closely followed by electronic industry products and electric appliances. Chemical goods, handicraft and toys, optical/precision products, textile goods and others are relatively less important in terms of the number of occupant enterprises. Most of these firms are of light and labor-intensive types of industries which have invested in the Zone to take advantage of low-cost labor. The production technology or techniques employed by the majority of occupant firms are so simple that it is doubtful whether any appreciable degree of transfer of technology is achieved. The most of the firms are small in scale and managerially directly controlled by the representatives of the foreign investors. Therefore, it is also doubtful that any appreciable degree of managerial know-how could be learned from the occupant enterprises.

As far as the home countries of the foreign invested firms are concerned, Japan predominate the picture. Out of 115 occupant enterprises, Japanese firms have capital participation in whole or in part in 106 firms. 77 firms are wholly-owned Japanese firms. The United States related firms are seven and five are joint-ventures with Korean nationals. Such predominance of Japanese business interests in the Zone could be termed less than desirable. Aside political reasons, it could mean too much reliance on one country for investments and export markets. Any adverse economic conditions in Japan could directly affect the operational status of the Zone. In fact, there are indications that such worries are becoming realities to certain extent. Consequently, the Republic of Korea should exert efforts to attract foreign investments from diverse sources especially for the newly established Iri Free Export Zone.

In order to make a semblance of cost-benefit analysis, information on total domestic(governmental) input costs for export processing zones by items and years as well as benefits or “revenues” from the operation of such Zones were requested. No information at all by the Republic of Korea was made available concerning the total domestic input costs for the zones in according with the Questionnaire V-2 item as shown in appendix. None of other countries with exporting processing zones has supplied such

information.

However, Korea has supplied information concerning benefits or revenues derived from operating the Masan Free Export Zone as shown in Table 32. It should be noted that information requested by this writer are gross benefits or revenues and not net benefits or net profits as it was thought that such information could not be available. Among the items listed, the net export (value added) could be termed most important since the other major benefit, employment income, should be included in the value added. It is impossible to determine the profit from the sales of domestic supplies to the occupant enterprises since there is no cost figure. Cross revenues from rental of land, standard factory buildings, utility services provided are insignificant. Dividend income to Korean nationals on equity investment in zone enterprises is not available. Therefore, the Industrial Estate Administration consider that the total tangible benefits from the operating the Masan Free Export Zone amount to 3,623,000 dollars and 21,363,000 dollars (the amounts equal to value added) for the years 1972 and 1973 respectively.

No answer was provided concerning such intangible benefits such as technological transfer, managerial technique transfer and others. But it appears to this writer that, as already mentioned earlier, such intangible

Table 32. Benefits or "revenues" from foreign investment in the Masan Free Export Zone, Korea

Items	1 9 7 2	1 9 7 3	1 9 7 4
Total export (\$ 1,000)	9,697	70,373	
Net export (value added) (\$ 1,000)	3,923	21,363	
Employment (1,000 men)	7.1	21.2	
Employment incomes (\$ 1,000)	1,565	8,044	
Rentals on land, plant, etc. (\$ 1,000)	116	469	
Income from utility services (\$ 1,000)	72	382	
Income from administrative services			
Taxes, duties			
Dividend income to nationals on equity investment			
Others domestic resources sold (\$ 1,000)	1,622	11,203	
Other tangible benefits (specify) (\$ 1,000)	248	1,265	
Total tangible benefits (\$ 1,000)	3,623	21,363	
Intangible benefits (describe)			
Technological transfer (spill-over)			
Managerial technique transfer			
Others (specify)			

benefits are minimal even if stated in qualitative terms. It is also recognized that such intangible benefits are extremely difficult to determine even in qualitative terms. Pollution could be a very serious problem accompanying foreign investments yet both foreign investors and recipient country usually avoid talking about the subject.

The following Table 33 shows exports by product items by the Masan Free Export Zone enterprises for the year 1973. Among the total of 70, 373,000 dollars exported, electronic products exports amounted to more than one-half of the total at 42,669,000 dollars. Machine tools, metal products, etc. to which greater portion of total enterprise investment was made did export only insignificant amounts. Export sales of textile, chemical and processed products are also relatively insignificant. It is certain that the bulk of export sales were achieved by the enterprises with Japanese capital participation in whole or in part. Moreover, there are indications that much of the export sales are either to the parent companies in Japan of the Japanese firms operating in the Zone or through the parent companies' export marketing outlets. Consequently, it would be reasonable to state most of the enterprises operating in the Zone are in effect international subcontracting

Table 33. Exports of zone occupant enterprises—Masan Free Export Zone Korea

Items	1973
Total national export (in US\$1,000)	
Total zone export	70,373
Electric goods	2,740
Electronic goods	42,669
Apparel goods including leather footwear	—
Machine tools, equipment, etc.	3,409
Optical/precision	742
Transport equipment/parts	1,127
Sports, leisure goods	1,812
Textiles	5,265
Chemical	3,823
Toys	66
Others(specify)	
Processed foods	3,479
Paper products	855
Wigs	296
Ships (pleasure)	916
Others	3,477

firms either in support of their own parent companies' production requirements or acting as the low-cost production base for the export firms in Japan. In either case, the export sales amounts are influenced by transfer-pricing policies of the foreign firms in the Zone and their parent firms.

4. The Philippines

The Philippines's Bataan Export Processing Zone is still under construction with partial operation thereby making it unfeasible to compare actual results with original plans. The following Table 34 showing plans for the Bataan Zone indicate that by 1977-78 there will be a total of 123 occupant enterprises with estimated export amount of 367.5 million dollars, 189.3 million dollars in value added, 41,798 persons employed, and total employment income reaching 41.8 million dollars. The ratio of value added relative to total export is significantly high for Bataan Zone occupant enterprises compared with, say, that of the Masan Zone enterprises. This seems to indicate lesser degree of foreign raw materials dependence on the part of Bataan Zone enterprises relative to the Masan Zone enterprises.

As of April 1974, five apparel (garment) goods, two leather shoes and one shipbuilding/repair firm were in operation. The shipbuilding/repair firm was already in operation at the location even before the establishment

Table 34. Original/revised plan versus actual results of Bataan Export Processing Zone, Philippines.

Years	1973-74	1974-75	1975-76	1976-77	1977-78
1. Plans					
No. of firms	15	25	40	41	2
Total investments foreign/domestic					
Total export (in US\$ M)	17.0	130.5	246.0	344.0	367.5
Value added (in US\$ M)	6.5	58.7	120.3	186.3	189.3
Total employment, No. of (cumulative)	9,138	20,203	37,468	39,718	41,798
Total employment income (in US\$ M)	9.2	20.2	37.5	39.7	41.8
Others-specify					
2. Actual results.					
No. of firms	8				
Total investment foreign/domestic(M.\$)	7.2				
Total export					
Value added					
Total employment, No. of					
Total employment income					
Others-specify					

of the Bataan Zone. The five garments and two leather shoes firms invested a total of 7.14 million dollars by April 1974. The five garment firms were joint-ventures involving Japanese and Hong Kong business interests, as indicated by Table 35.

Concerning benefits or “revenues” expected to derive from foreign investments in the Bataan Zone, the Export Processing Zone Administration provided the following information as shown in Table 36. All of the

Table 35. Over-all data on Bataan zone occupant firms (as of April, 1974)

No. of firms	Types of investment		Amount of investment US \$	Home of foreign country firms			Annual export estimated 1974 US \$
	Foreign/ Direct	Joint- venture		US	Japan	Hong Kong	
Total in FEPZ							
Electric products							
Electronic							
5 Apparel		×	1.85M		×	×	—
Machine tools							
Industrial supplies							
Optical/precision							
Transport equipment							
Sports/leisure goods							
Textile							
Chemical goods							
2 leather shoes	×		2.29M				600,000 (one firm only)
1 shipbuilding repair	×						
Total foreign invested firms in the country							

Table 36. Benefits or “revenues” from foreign investments in the Bataan zone

Items	Years/	1974	1975	1976	1977	1978
Total export (in US \$M)		17.0	130.5	246.0	344.0	367.5
Net export (value added) (in US \$M)		6.5	58.7	120.3	186.3	189.3
Employment (cumulative)		9,138	20,203	37,468	39,718	41,798
Employment incomes (in US \$M)		9.2	20.2	37.5	39.7	41.8
Rentals on land, plants, etc.						
Income from utility services		12.6M	35.3M	78.4M	133.3M	168.3M
Income from adm. services						
Taxes, duties						
Dividend income to nationals on equity investment						
Other domestic resources sold						
Other tangible benefits (specify)						
Total tangible benefit						

information are anticipated or planned results. The total export from the Bataan Zone is planned to be increased from 17.0 million dollars to 367.0 million dollars by 1978. The net export is expected to increase from 6.5 million dollars to 189.3 million dollars, and employment from 9,200 to 41,800 in the same period.

Concerning planned exports by the Bataan Zone enterprises, the exports in the initial year of 1973-74 are confined to textile products. Exports in terms of industry categories planned as of 1977-78, apparel goods including leather footwears would be most important, followed by textiles(integrated), handicrafts, light metal fabrication, electronic goods, automotive parts, etc., as shown in Table 37.

Table 37. Exports of Bataan zone occupant enterprises

(in million US dollars)

Items	Years/1973-74	1974-75	1975-76	1976-77	1977-78
Total national export					
Total zone export	17.0	130.5	246.0	344.0	367.5
Electric goods					
Electronic goods	—	6.0	14.0	24.0	24.0
Apparel goods including leather footwears	17.0	49.5	72.0	97.5	97.5
Machine tools, equipment, etc.,	—	—	3.0	6.0	9.0
Optical/precision	—	1.0	3.0	5.0	5.0
Transport equipment/parts					
Sports, leisure goods					
Textiles(integrated)	—	20.0	40.0	60.0	60.0
Chemicals	—	2.0	6.0	12.0	12.0
Toys	—	—	—	—	—
Others (specify)					
Handicrafts	—	4.0	20.0	34.0	34.0
Light metal fabrication	—	12.0	18.0	30.0	30.0
Plastics	—	2.0	6.0	10.0	10.0
Food products	—	1.0	3.0	5.0	5.0
Automotive	—	10.0	30.0	30.0	30.0
Metal works	—	3.0	9.0	9.0	9.0
Wood crafts	—	—	2.0	2.0	2.0
Shipyards	—	20.0	20.0	20.0	40.0

5. Republic of Vietnam

The Saigon Export Processing Zone Authority made available only the following Table 38, showing plans for the years 1974-1975. The number of occupant enterprises are planned to be increased from three to eleven, total investment from 1.8 million dollars to 6.6 million dollars, total export

from 3 million dollars to 11 million dollars, total employment from 1,200 to 4,400, and employment income from 0.6 million dollars to 2.4 million dollars between the two years.

Table 38. Original plan versus actual results of Saigon EPZ (as of 1974)

Items	1974	1975
1. Plans		
No. of firms	3	11
Total investment foreign/domestic (US\$Mil)	1.8	6.6
Total export (US\$Mil)	3	11
Value added (US\$Mil)	1.2	4.4
Total employment, No. of	1,200	4,400
Total employment income (US\$Mil)	0.6	2.4
Others-specify		
2. Actual results	Not applicable	
No. of firms		
Total investment foreign/domestic		
Total export		
Value added		
Total employment, No. of		
Total employment income		
Others-specify		

VI. Survey on Occupant Enterprises of Export Processing Zones

This survey on export processing zone enterprises was conducted to elicit certain information from the viewpoint of the "customers" so as to possibly assist Zone Administrations in their efforts to improve planning, development, and management of the Zones concerned. A total of 32 occupant enterprises were interviewed by this writer in the Republic of China (11 firms), Republic of Korea (8 firms), the Philippines (4 firms) and Singapore (9 firms), using the Questionnaire designed by the writer. Firms in the Jurong Township of the Singapore were included in the interview because the industrial estate combined with the free port status of the Singapore in effect makes the township an industrial export processing zone. The same questionnaire were sent to firms in Kandla Free Trade Zone through the Indian Ministry of Industry and the Development Commissioner of the Kandla Free Trade Zone. No filled out Questionnaires was received from India.

Among the 32 occupant enterprises interviewed in the four countries,

manufacturers of wearing apparels, electric and electronics products were most numerous, more or less reflecting the composition of occupant enterprises in the export processing zones. Other types of industrial categories were also included such as wood products, drugs and medicine, rubber products, machineries, shipbuilding and repairing (including pleasure boats), precision equipment, umbrella, carpet, etc. These firms represented both wholly foreign-owned and joint-ventures between local nationals and foreigners or among foreigners of different nationalities. It should be noted that the final selection of the occupant firms interviewed were left to the Zone Authorities concerned.

Each of the questions asked is analyzed in the order they are listed in the Questionnaire.

1. Through What Sources Did Your Company Learn About Existence of This Zone?

This question is directly related to information activities Zone Administrations undertake for prospecting foreign investors. The prospective foreign investors must first of all be informed and made aware of the existence particular of export processing zones. To get such attention and interests of "customers" to their export processing zones, governmental agencies are using various means and media of communication. The executives (preferably the ones who made final decisions to invest in the zones) of occupant enterprises were asked to check as many appropriate answers as applicable to their firms among the listed. The answers received are classified according to the order of importance attached by occupant enterprises.

- 1) Through business friends, firms...17
- 2) Newspapers...6
- 3) Promotional brochures of host government export processing zone authority...5
- 4) Host government diplomatic posts...4
- 5) Through dealer organizations...3
- 6) Trade magazines...2
- 7) Your own government (foreign investor's) publication...2
- 8) Host government trade promotion and other agencies...2
- 9) Your nation (foreign investor's) trade promotion agencies...2
- 10) Host government mission specifically sent to promote Zone...2

11) Through local subsidiary...2

12) Personal contact with high government officials of the host country...2

The above classification seems to indicate that the prospective foreign investors have their own network of business friends and firms which share relevant information among themselves. The prospective investors may also seem to trust more the information obtained from business sources than from promotional agencies. Perhaps, the best satisfied customers (those satisfied Zone investors) may in the long-run prove to be not only the best means of communication but also best salesmen for particular export processing zones. The types of promotional methods rather commonly used by Zone Administrations for information dissemination for prospecting foreign investors do not appear to work effectively.

2. Through What Channels Did Your Company Obtain Information on the Conditions of the Zone, Inducements Provided to Foreign Investors, and General Investment Climate of the Host Country?

Once a prospective foreign investor has a definite interest on a certain export processing zone, he will naturally seek to find out more about the zone. Such information as the availability of infrastructural and other facilities in the zone, surrounding community, inducements provided to foreign investors, the efficiency of Zone administration, and general investment climate of the host country, etc. are needed not only to ascertain investment feasibility but to make the final investment decision. Such information are important in themselves but more so depending on who provided such information. The answers received are classified in the order of importance expressed by occupant enterprises.

- 1) By sending investigation team to host government agencies including the Zone Authority and Zone site...23
- 2) Host government missions sent overseas to specifically promote the Zones...4
- 3) Through prospective joint-venture partners...3
- 4) Through mail inquiries to host government including Zone Authority...2
- 5) Through your (foreign investor's own) diplomatic posts, trade promotion agencies...2
- 6) Through diplomatic posts of host governments...2
- 7) Through local international consultants...2

- 8) Through investment bankers...2
- 9) Through local subsidiary of foreign investor...2
- 10) Lower specializing in overseas investments...1

The above classification definitely show that prospective foreign investors to export processing zones rarely delegate to others or rely on host government sources for the responsibility of obtaining pertinent information directly related to investment decisions. In most of the cases, prospective foreign investors send investigation teams to the prospective host country for on-the-spot examination of various factors affecting their investment decisions. The "investigation team" as used above could mean just one person in a high ranking position of a company or several persons from a company representing various fields. The cost of sending such a investigation team to a neighboring country with export processing zone is insignificant if compared with total investment capital or investment risk which might accompany in absence of such investigation. All other approaches are considered not important by the Zone occupant enterprises interviewed.

From the viewpoint of host governments or Zone Administrations trying to attract foreign investments, the best approach would be somehow persuading prospective investors to personally visit the host country and zone sites. Merely sending promotional brochures may not accomplish anything. Some form of personal contact with prospective investors would appear to be more effective for persuading them to make visits. Only when such visits are actually made, necessary investment information could be gathered and final decision could be reached by foreign investors.

3. Motives for Investing in Export Processing Zones

If developing countries with export processing zones are to be able to better attract foreign investments into their zones, it is important to know their investment motives. This is because investments by foreign investors would actually be made in a zone only if the zone is in the position to satisfy the needs of investors. The investment motives of the interviewed occupant enterprises are shown in the Table below.

The overwhelming majority of zone occupant enterprises interviewed stated that their motives for investing in the zones are to use the zones as low-cost production bases for export back to their home markets and to export to other major markets. "Competitive forces in the home and inter-

Items	Primary motive	Secondary motive	Not applicable
1) Securing, maintaining and/or developing host country market	3	3	25
2) Securing, maintaining and/or developing a regional production base, mainly to serve nearby markets	7	4	20
3) Necessity to complement other activities of your firm, on a local, regional or world basis	3	8	21
4) Securing, maintaining and/or developing of raw materials, parts, components for production at home country	3	6	22
5) Competitive forces in the home and international markets necessitated the development of overseas low-cost production base for export back to the home country and other export markets	24	1	7
6) Utilization of old machinery	1	1	28
7) Capitalizing on know-hows	1	2	26
8) Others	—	—	—

national markets” mean that certain industries at the investor’s home country are already declining due to rising labor costs, high land and rental costs, etc. and their products can no longer effectively compete in the overseas markets. Industrial pollution is another factor forcing closing down or relocation of certain industrial firms in investing countries. Light and labor-intensive types of consumer goods industries and certain chemical, metal goods industries belong to the above category and they happen to form the majority of firms investing in export processing zones of the APO region.

In short, the use of the zone as “low-cost production base” by investing firms means that they are interested in taking advantage of relatively low-cost labor, low land and rental costs, ineffectual or indifferent anti-pollution measures, etc. The host countries of the EPZs are in return receiving the benefit of an enlarged employment, export expansion and the like. At the same time, the host countries are receiving pollution or its effects from the home countries of investing firms. Considering the nature of industrial firms which have invested in the export processing zones, “spill-overs” in managerial and technological fields can hardly be expected. Perhaps, in consideration of such motives of investing firms as described above, host countries of export processing zones center their selling pitch on low-cost abundant labor, etc., while keeping mum on pollution problems and other

negative aspects of operations by foreign invested firms.

“Securing, maintaining and/or developing a regional production base, mainly to serve nearby markets” is the second most important motive in ranking. Most of the firms with such motives happen to be located in Singapore. Other investment motives can be considered as insignificant.

4. Importance of All the Factors Your Firm (Foreign Investor) Considered for Assessing Investment Climate of the Host Country as a Whole

“Investment climate” as viewed by foreign investors is affected by so many diverse factors, yet it is an important determinant in investment decisions including in the export processing zones. Since an export processing zone is an integral part of the nation concerned, any business operation within the zones would directly or indirectly be affected by factors determining investment climates. Developing nations either with or without export processing zones are trying to improve investment climate in order to attract foreign investments, while prospective foreign investors are telling prospective host countries to improve investment climates if they like to attract more foreign investments.

Therefore, if developing nations with export processing zones are interested in attracting greater foreign investments, it is important for them to know what factors foreign investors consider most important in determining investment climate of certain countries. The fact that an export processing zone is already made available in a country means a step was taken by the countries to improve its investment climate. But there are other factors which prospective foreign investors may consider more or equally important as the existence of an export processing zone. The following table is a classification of factors determining investment climate and the degree of their importance as far as foreign investors are concerned.

The zone occupant enterprises consider political and economic stability the most important factor determining investment climate of a country. It is commonly held by foreign investors that the stable and continuous government is a prerequisite for economic development and stability. Other very important factors determining a nation's investment climate include government incentives offered to foreign investors including tax holidays, reduction, duty-free imports of raw materials, capital goods, over-all economic development plans and policies, existence of adequate infrastructural facilities

Items	Very Important	Important	Not Important
1) Over-all economic planning policy	20	10	1
2) Government incentives-taxation	22	4	2
-grants	6	3	20
-duty-free imports	23	5	2
-tariff protection	1	2	27
3) Political and economic stability	27	3	1
4) Existence of planned and operating industrial sites (estates)	12	15	3
5) Assistance by host country in feasibility studies	3	7	21
6) Assistance in arranging joint-venture partners.	2	6	22
7) Assistance in providing data and local information	5	14	11
8) Existence of data-bank in the country	2	9	19
9) Assistance by host country during and after establishment (of foreign firm)	16	9	6
10) Over-all interest of host country toward foreign investors	16	15	0
11) Availability of skilled labor	15	13	3
12) Existence of training facilities for workers	7	6	17
13) Existence of support facilities	10	18	2
14) Access to local finance	11	13	6
15) Developed manufacturing base	2	20	8
16) Ready availability of foreign exchange	11	15	4
17) Stable currency value	17	9	5
18) Existing marketing outlets in host country	5	4	22
19) Existing export markets in nearby countries	4	9	14
20) Experience of country with high technology industries	1	9	17
21) Infrastructure—ports, highways, railroads, air transport, communication, water supply	21	7	2
22) General living conditions	3	16	11

and services, stable currency value, over-all interest of host country toward foreign investors, availability of skilled labor, assistance by host country during and after establishment by foreign firms, existence of planned and operating industrial estates, etc.

“Developed manufacturing base” in the host country was considered “very important” by only two occupant firms but “important” by 20 firms. This is an indication that zone enterprises do not depend on host country’s manufacturing industries for raw materials, parts and components or as markets. Nevertheless, developed manufacturing base is considered “important” in case the base could serve as cheaper sources of raw materials, parts and components, etc. to zone enterprises. Other factors considered important for

determining investment climate include existence of support facilities such as banking, transport freight forwarding, etc., ready availability of foreign exchange, over-all interest of host country toward foreign investors, availability of skilled labor, existence of industrial estates, general living conditions, etc.

Those factors considered "not important" as far as determining investment climate of a country include tariff protection, assistance by host country in arranging joint-venture partners or conducting in feasibility studies, government grants (simply because no government provide grants in aid to attract foreign investment), existence of marketing outlets in the host country or nearby countries, existence of data-bank, existence of training facilities for workers, etc. The fact that 14 of 32 occupant enterprises considered "existing marketing outlets in nearby countries" as "not important" deserves an explanation. Most of the products of light labor-intensive industrial firms operating in export processing zones are aimed at the markets of developed countries such as the United States, Japan, Western Europe where high labor-costs prevail. Developing countries in the APO region, regardless whether they have export processing zones or not, are in most cases in the process of developing very much the same types of industries for the same advanced markets as those enterprises operating in export processing zones. Therefore, neighboring developing countries are not considered as important markets for the products of zone enterprises.

5. Did Your Firm First Made Decision to Invest in This (Host) Country and then Selected This Zone?

This question was asked in order to find out to what extent prospective foreign investors could be attracted to invest in particular export processing zone regardless of prevailing investment climate of the host country as a whole. It is most likely that no prospective foreign investor would completely disregard a country's investment climate and decide its investment solely based on the inducements and conditions of an export processing zone. But when a country's investment climate is considered as to meeting a minimum standard expected by a prospective foreign investor, an export processing zone with its inducements and benefits could become powerful forces attracting foreign investments.

Among the 30 occupant enterprises that answered the above question, 21

firms stated that they first made decision to invest in a certain country and then selected a particular export processing zone. On the other hand, nine firms followed reverse procedure in investments decision-making. That is, the nine firms invested in certain countries because, other things including investment climate of the country being equal, the countries have export processing zones. Consequently, for at least one-thirds of the occupant firms interviewed by this writer, the inducements and other conditions offered by export processing zones were powerful forces attracting foreign investors. But again, that the country's investment climate must be of a minimum acceptable standard is a prerequisite.

6. Before Deciding to Invest in This Zone, Did Your Firm Consider Alternatives of Investing in Other Zones in the (APO) Region?

Of the 27 firms answered this question, 11 stated "yes" and 16 said "no," which means that given the state of investment climate of various countries with export processing zones, 11 of 27 firms actually made comparisons of various available export processing zones before deciding on a particular zone. This leads to an inference that export processing zones within a specific region are to a certain extent in competitive positions as far as attracting foreign investment is concerned. On the other hand, 16 of 27 firms have made no such comparative study of various existing export processing zones before deciding on a particular zone. To such firms, the consideration of a host country's over-all climate seems to be more important. If that is the case, export processing zones and other industrial estates within the same country are in competitive positions for attracting foreign investment.

The firms which stated "yes" to the above question were asked "what kinds of comparative advantage this Zone (the Zone selected) offer relative to other Zones in the APO region." The answers received were classified in accordance with the countries the export processing zones selected belong and in the order of importance of such comparative advantages.

Republic of China

The occupant enterprises operating in the country's three export processing zones interviewed by this writer stated that the zones offered the following comparative advantages over other zones in the APO region:

- 1) Availability of locally manufactured parts and industrial supplies.

- 2) Do not have to go joint-venture with local nationals. 100% foreign owned investment is permitted.
- 3) Occupant enterprises have option to use banks outside the Zone for loan, etc.
- 4) Political and economic stability.
- 5) Abundant labor supply.
- 6) Tax incentives.
- 7) Central location to Asian and American markets.

Moreover, the occupant enterprises stated that the following factors most importantly and favorably influenced their decisions to invest in the export processing zones of the Republic of China.

- 1) Abundant low-cost labor supply.
- 2) Tax and other government incentives.
- 3) Simplified administrative procedures and efficient administration.
- 4) Adequate general support facilities including transport, communication and other utilities.
- 5) Standard factories and support facilities were available for immediate use.
- 6) Political stability.
- 7) Local financing
- 8) Local supply of parts, components, etc.
- 9) Joint venture not required, wholly foreign-owned allowed.
- 10) Strategic location for imports and exports.
- 11) Capitalizing on local technological know-how possible.

The first five factors are listed in the order of importance. Others are less important factors.

Republic of Korea

The occupant enterprises operating in the Masan Free Export Zone interviewed by this writer stated that the zone offered the following comparative advantages over other zones in the APO region.

- 1) Various incentives offered to foreign investors.
- 2) Simplified administrative procedure.
- 3) Attractive labor conditions such as abundant supply of low cost skilled and trainable workers.
- 4) Attractive nearby communities and hinterlands.

- 5) Geographic proximity to Japan.
- 6) Though in principle, 50 : 50 equity investment (joint venture) is required, this policy is flexible and not enforced on zone enterprises.
- 7) Concentration of various foreign firms in the Zone makes it easy to obtain information on suppliers and buyers.
- 8) Easiness of communication (limited to Japanese firms)
- 9) Good climate.

All of above factors received more or less equal importance from the zone enterprises.

Moreover, the Masan zone occupant enterprises interviewed stated that the following factors most importantly and favorably influenced their decisions to invest in the zone.

- 1) Easy to secure abundant low cost labor.
- 2) Tax exemption, reduction, duty-free imports and exports, etc.
- 3) Simplified and efficient Zone Administration which takes care of all matters related to zone occupant enterprises.
- 4) Easy to import raw materials and export finished goods due to the existence of Masan Zone Port, Masan City Port. and proximity to international port of Pusan.
- 5) Good infrastructure.
- 6) Geographic proximity to investors' own country(Japan).
- 7) Availability of locally supplied raw materials, parts, components, etc.

The above factors are listed in the order of importance as expressed by occupant enterprises.

The Philippines

Keeping in mind that only four occupant enterprises of the Bataan Zone were interviewed, the following are the comparative advantages they felt the Bataan Zone offered relative to other zones in the APO region.

- 1) Favorable labor conditions including abundant supply of low-cost easily trainable labor and labor stability.
- 2) Availability of standard factory buildings.

For specific factors which most importantly and favorably influenced their decisions to invest in the Bataan Zone, the following were given.

- 1) Low cost abundant labor.
- 2) Tax incentives and duty-free imports and exports.

- 3) Availability of standard factory space.
- 4) No language barrier for investors of English-speaking countries.
- 5) Proximity to Southeast Asian markets.
- 6) Low costs of living.

The first two factors were considered most important and favorable conditions the zone could offer, according to the zone occupant enterprises.

Singapore

The occupant enterprises of Singapore's Jurong Township Corporation interviewed by this writer stated that the following are comparative advantages the Township offered relative to export processing zones in the APO region.

- 1) Economic and political stability.
- 2) Existence of adequate infrastructure and support facilities.
- 3) Large pool of trained and skilled labor force.
- 4) Geographic regional center of trade and located on the major international shipping and trade routes.
- 5) Proximity to nearby raw materials sources.
- 6) Consistency in government regulation concerning foreign investments.
- 7) Good government incentives toward foreign investors.
- 8) Favorable attitude of government and people toward foreign firms.
- 9) Availability of international financial institutions.
- 10) Good advisory services from the Economic Development Board, the Government of Singapore.

The first four factors are considered most important and they are listed in the order of importance.

Moreover, the occupant enterprises of Jurong Township Corporation added that the following specific factors most importantly and favorably influenced their decisions to invest in the Township.

- 1) Economic and political stability.
- 2) Existence of adequate infrastructural and support facilities.
- 3) Large pool of skilled and trained labor force.
- 4) Good government incentives to foreign investors.
- 5) Proximity to neighboring country markets.
- 6) Proximity to nearby raw material sources.
- 7) Consistency in government regulation toward foreign investment.

- 8) Favorable attitude to foreign investments.
 - 9) Free of foreign exchange control.
 - 10) Free port status of Singapore.
 - 11) Center of regional and world trade and shipping routes.
 - 12) International financing.
 - 13) Possibility of promoting local sub-contracting firms.
- The first two factors are termed equally most important followed by two others. Rest of the factors seem to be relatively unimportant compared with the first four factors.

7. Does Your Firm Still Think the Above-Mentioned Favorable Factors (Which Influenced Investment Decisions) Are Still Available for Your Benefit?

This question was asked to ascertain whether what the zone occupant enterprises considered as favorable conditions at the time they made investment decisions are still continuously available to the enterprises. Depending on the zone in which the occupant enterprises are located, the time span between the time of making investment decisions and the time of interview made by this writer may range from about a year to several years.

The alternative answers the interviewed firms were asked to check concerning the above question were the following five: completely yes; largely yes; partly yes; largely no; and not at all. Of the 29 firms answering this question, 13 firms said "partly yes" while 10 firms said "largely yes," and 6 firms said "completely yes." On the other, not a single firm answered "largely no" nor "not at all." The above answers indicate that a greater number of firms considered formerly favorable factors are still largely available or partly not available. But when the number of firms which answered "completely yes" and "largely yes" are combined, it would be reasonable to say that the favorable conditions formerly available are still largely available to the zone occupant enterprises.

It seems that among the once favorable factors which are to a certain extent not available now are mostly related to matters of labor. Some of the export processing zones are already faced with pinch in labor supply, both skilled and unskilled. This may have been caused by expansion of zone enterprises in terms of number and scales as well as industrial

development programs outside the zones. Increasing shortage of labor means increased costs for labor. Increased labor costs are also attributable to general inflationary pressure under which all of the countries are operating. In the export processing zones where a large number of high-technology types of industrial firms are located, shortage of skilled workers, technicians, engineers is acutely felt. Pirating of such skilled personnel are also causing problems such as hike in salaries, a high rate of labor turnover, etc.

Some of the zone occupant enterprises also feel that in certain countries the regulations and incentives being applied to foreign invested firms in EPZs are not consistent. That is to say that regulations are increasingly tightened and inducements are slowly reduced, while "fees" are increasingly being levied under disguised names as certain export processing zones become more or less completely filled up. But in all, the majority of occupant enterprises interviewed consider that they are still in the position to take advantages of many favorable factors made available in the export processing zones.

8. If More Space is Available, Does Your Firm Recommend Other Firms to Invest in This Zone?

This particular question was asked to ascertain to what extent the interviewed firms themselves are satisfied with the export processing zone in which they operate. In a round-about way, this writer was asking the zone occupant enterprises to lodge complaints, if they have, to the Zone Administration or the host country government. Two alternative answers were provided for the above question: "unconditionally recommend" "conditionally recommend." If a firm says it will unconditionally recommend to other firms to invest in a particular zone in which it is already occupying, the firm must be termed very satisfied. If the answer is to "conditionally recommend" such an investment, it would be certain that the occupant firm is not completely satisfied and would like to see some improvements in the zone.

Of the 30 firms answering this question, only five said they will unconditionally recommend other firms to invest in the zone, while 25 firms stated that unless certain improvements are made they will not recommend such

investment to other firms. If the Zone Authorities are interested in keeping the occupant enterprises contented and would also like to attract more foreign investments, they might have to heed to such requests for improvements which are given below by countries.

Republic of China

Suggestions for improvement by the interviewed occupant firms of the three export processing zones of the country are provided below in the order of importance.

- 1) To improve import-export customs and administrative procedures in order to shorten lead time between order receiving and dispatching of goods.
- 2) Regulations and incentives related to foreign investments and invested firms should be consistent, as there is tendency of changing them discretely reducing incentives or charging certain fees which earlier did not exist.
- 3) Labor supply is getting short, particularly certain types of skilled labor.
- 4) More fuller information concerning the export processing zones including their operations should be made available in the language other than Chinese.
- 5) Measures should be taken to increase supply of locally manufactured parts, raw materials, etc, to zone enterprises.
- 6) Wage rates are increasing very fast, though it is realized that this is world-wide phenomena.
- 7) Relax foreign exchange control.

Republic of Korea

Among the improvements suggested by the Masan Zone occupant enterprises, the first one is definitely the most important of all requests.

- 1) Government should allow wholly-owned new foreign firms in the zone rather than requiring mandatory joint-venture for newly establishing firms and the capital increment portion of existing wholly-owned firms.
- 2) Allow non-Korea flag ships to transport export and import goods into and out of Masan port.
- 3) Export processing zone Administration office should be given more delegated authority by other government agencies regarding matters

related to the zone occupant enterprises.

- 4) Concerned about inflation rates and the rate of wage increases.
- 5) Allow inter-occupant firm selling of products within the zone.

The Philippines

The Bataan Export Processing Zone is still under construction in accordance with the development plan, and there are only limited number of "pioneer firms" operating the zone as of this writing. These pioneer firms are enjoying particular added privileges which other later joining firms will not receive. Such special privileges are accorded to the pioneer firms because these firms have to bear certain hardships rather naturally expected while the zone is still under construction. Nevertheless, the pioneer firms are urging the following.

- 1) Complete infrastructural facilities, such as port facilities in the Zone, highways leading to and out of the zone, and install communication facilities such as telephone, telex, postal facilities in adequate quantity.
- 2) Establish "one-stop shopping" type of administrative structure dealing with the zone enterprises.
- 3) Establish supporting firms such as banking, transportation, etc. in support of occupant enterprises.
- 4) Solve housing shortage for managers alike.
- 5) Build training facilities for workers.

Singapore

The suggestions listed below apply both to the government and other foreign enterprises which might be considering locating in Singapore or the Jurong Township in particular. Some of the suggestions made by the present occupant enterprises may reflect the nature of problems they are being faced. The first three are the most important.

- 1) Only capital and technology-intensive industrial firms should consider locating in the Township, due mainly to shortage of skilled labor, rising labor cost, etc.
- 2) Labor shortage, particularly those skilled and professional, and high frequency of personnel-pirating are making personnel costs very high.
- 3) The government should build mass transit facilities connecting the Jurong Town Corporation with residential and business areas to alleviate bad traffic conditions for commuting workers.

- 4) Jurong Town Corporation's land rental charges should be reduced.
- 5) Anti-pollution regulation and building codes are too strict.
- 6) Communication facilities (telephone and telex) must be expanded to accomodate increasing needs.
- 7) Government should set up more training facilities aimed to produce more skilled workers.

9. Has Your Firm Already Achieved or Well on the Way to Achieving the Primary Motive or Objective of Investing in This Zone?

The motives for investing in export processing zones were already discussed in section 3 of this chapter. The occupant firms interviewed indicated that as a whole they have already largely achieved their original objectives or believe that they will achieve their objectives based on their operating experiences. Of the 24 firms answering the above question, 7 firms answered "completely yes," 13 firms said "largely yes," and only 4 firms answered "partly yes." Not a single firm answered "largely no" or "not at all" with respect to extent of achieving their original objectives.

The fact that majority of the occupant firms interviewed stated that they have either already achieved or well on the way of achieving the primary objectives or motives of their investments mean that their investments in the export processing zones are being "well paid-off" or have "good prospects of paying-off." If the majority of enterprises now operating in the export processing zones of APO region happen to be as satisfied as those interviewed by this writer with respect to achieving their original investment objectives or motives, such a high degree of investment achievement may act as a stimuli for attracting further foreign investment in the zones.

10. Is Your Firm Planning to Invest in Export Processing Zones in Other Countries Based on Your Experience in This Zone?

This question was asked on the premise that if a foreign enterprise is satisfied with its operational experience in an export processing zone, the firm would show higher likelihood of investing in a similar zone in the same country or in other countries, provided investment needs exist in the firm. Of the 27 occupant enterprises interviewed, 10 firms stated that, as of the time of interview, they plan to invest in export processing zones in other countries. Some of the firms which expressed desire to invest in other

export processing zones within the same country are not included in the 10 firms. On the other hand, 17 firms stated that as of the time of interview they did not have plans to investing in export processing zones in other countries.

It is significant to note that many of the zone enterprises with plans for investment in other countries' export processing zones happen to be relatively large firms compared with the others operating in the same zones. Moreover, they are more often affiliated with relatively well-known multinational firms. Furthermore, some of these firms already have factories in more than one export processing zones of the come country or in different countries. These information may serve useful purposes for newly establishing export processing zones for their foreign investment inducement programs.

11. Which Parties Does Your Firm Think Are Main Beneficiaries of Your Investment in This Zone?

Sometimes criticisms are voiced in the countries where export processing zones exist that such zones are mainly to serve the interests of foreign businesses without effective benefits for the host countries. At times such criticisms may have political or nationalistic tones. In certain countries, such criticisms may have valid bases. Under such circumstances, this writer was rather curious to know what would be the answers of the zone occupant enterprises themselves to the above question. The answers received from 32 firms are shown below.

- 1) Mutually beneficial to both host country and investing firm...27
- 2) Unilaterally benefited host country—
- 3) Unilaterally benefited investing firm 5

Obviously, the question and alternative answers provided are politically loaded. As expected, the majority of the firms interviewed stated that their investments in export processing zones are for mutal benefits both for themselves and host countries. No firm stated that its investment in the zone unilaterally benefit the host country. On the other hand, 5 of 32 firms interviewed stated that their investments in the zones unilaterally benefit investors themselves and not the host countries. Incidentally, the five firms that voiced such opinions happen to be located in the two countries known for success in attracting foreign investments. An objective cost-benefit analysis by impartial parties of the existing export processing zones may be

necessary in order to find out which parties get how much of what types of benefits as against their costs. Criticisms that foreign investors are given unreasonably high inducements and benefits could be stilled if only such analyses are conducted and evidences show that such criticisms are unfounded.

12. Give Your Opinion Concerning the Future Prospects of Export Processing Zones in the APO Region.

The firms interviewed were asked to express their opinions concerning the question posted based on their experiences of operating in particular export processing zones as well as whatever knowledge they might have on other zones in the APO region. Such opinions received are classified into countries in which the foreign invested firms are situated. It is hoped that such opinions would be of value to both the existing and newly to be established export processing zones in our region ranging from such matters as the formulation of zone development planning to administrative and other improvements of the existing zones.

Republic of China

- 1) Prospects are very good and host countries should try to benefit from the transfer of technological, managerial know-hows accompanying foreign investments in the export processing zones.
- 2) Prospects for export processing zones are very good, provided host countries are able to provide the kinds of investment climate foreign investors want.
- 3) Since incentives provided by export processing zones in the APO region are more or less the same, the degree of efficiency of the Zone Administration will certainly become a major factor for attracting foreign investments to its zone.
- 4) Prospects of export processing zones are good, provided finished products of the zones should be allowed to sell, in part, to the customs territory (domestic market).
- 5) Export processing zones are not suited for all types, all sizes of enterprises, which means that such zones are attractive to certain limited lines of business enterprises.

Republic of Korea

- 1) The prospects for export processing zones in the APO region are

bright. More countries should establish such zones so as to help to contribute the economic development, export expansion, etc, could be achieved.

- 2) High technology of investor countries and low labor costs of developing nations should be combined for mutual benefit, especially in export processing zones.
- 3) If wholly foreign owed firms are allowed, greater number of foreign investors would invest in export processing zones.
- 4) Attitude of the host country people toward foreign investments and investors will greatly influence future investment by advanced nations in the export processing zones.

The Philippines

- 1) Prospects are very good if the countries concerned are able to construct and operate export processing zones in accordance with their original plans. What makes it difficult for occupant enterprises is that zone plans never seem to be matched by implementation time-wise and contentwise.
- 2) The concept and enthusiasm for export processing zones are very good. Their success will depend on to what extent each country with export processing zones will create and provide the kind of investment climate desired by foreign investors.

Singapore

- 1) Prospects are very good if well planned and implemented.
- 2) Providing incentives is a major way of attracting foreign investments, on the condition that investment climate is favorable for export-oriented industries.
- 3) Southeast Asian countries should concentrate on attracting labor-intensive industries for their export processing zones.

VII. Conclusion

An attempt has been made to prepare a report on export processing zones in the APO member countries based on the survey on the same subject conducted in 1973-4. This survey report constituted a working document for the Symposium on Duty-Free Export Processing Zones held on October 14-18, 1975 in Seoul, Republic of Korea. The Survey and the Symposium

on export processing zones are but two of the APO projects designed to help promote expansion and diversification of exports by APO member countries.

While the content of this report is the full responsibility of this writer, many thanks should be extended to various governments and their agencies related to export processing zones as this report, whatever its merit, could not be written without their kind and sincere full support in providing requested information.

This writer wishes to express his respect and appreciation particularly to Mr. Morisaburo Seki who has recently retired from the position of Secretary General of APO. In his desire and effort to help enhance the export capability of developing member countries of APO, Mr. Seki has personally chosen the topic of this report and entrusted survey and report writing to this writer. It was also a great privilege for me to work under him for a year as a Consultant to APO.