

# Global economy export processing zones and peripheral nations



After taking an inventory in my home, I have found that I own eighteen 'high-tech' electronic devices. On all of these items, as one might suspect, there are labels that say where they were made; places like China, Taiwan, Mexico, etc. While most, if not all, of these items were purchased from Canadian stores/companies, none of them carried a label that declared 'Made in Canada.' With large transnational corporations (TNCs) like Wal-Mart, Sony, and General Electric all outsourcing at least a portion of their production to export processing zones (EPZs) in peripheral nations, like Mexico for example (Fry 2003), it is likely that these items were produced in such places.

In this paper I will begin to explore how, in the midst of globalization, EPZs are able to operate under lax environmental laws and labour laws and how they perpetuate the host nation's dependence on core countries, thereby restricting their opportunities to become self-sustaining in the global economy.

Throughout the text, references to EPZs are made in accordance with a description quoted by author Madani (1999: 5) from a 1992 World Bank publication as "fenced-in industrial estates specializing in manufacturing for exports that offer firms free trade conditions and a liberal regulatory environment." The term 'peripheral' refers to the less developed nations of the world, as explained by Thomas Klak in a book from Desai and Potter (2002: 103). Peripheral countries are described as lacking technology, industry/economy, wealth, and prosperity and are thought to be subordinate to wealthier 'developed' countries, or 'core' countries. 'Core' is used to describe nations that have industrial and political power and wealth and they

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largely “[...] enforce the rules of the global order” (Desai and Potter 2002: 103).

Globalization continues to be a driving force behind the operation of EPZs. In a 2009 text from authors Williams, Meth and Willis, they discuss some of the causes and effects of globalization on both core and peripheral countries, and how in the neoliberal quest for free trade in a global economy, many peripheral countries find themselves in a ‘race to the bottom.’ Continually reducing regulations surrounding the operations of EPZs (environmental, labour, taxation, etc.), governments, in many cases, are undercutting the competition in order to attract foreign direct investment (FDI), often resulting in abysmal working conditions for employees and major environmental and social repercussions. Globalization has been set into motion and reinforced by the International Financial Institutions (IFIs) – The World Bank and the International Monetary Fund (IMF) – by giving peripheral countries conditional loans as part of their tailored ‘structural adjustment program’ (SAP), providing “financial rescue packages [...]” (Williams et al. 2009: 128) and funding for certain development projects (EPZs, etc.). Conditions include implementation of neoliberal reforms to open up the economy to foreign investment and TNCs, often leaving little to no choice for the struggling nation other than to enter into production deals with, what are now, very powerful corporations (Williams et al. 2009).

The World Bank, and the IMF promote corporations setting up EPZs and similar operations in peripheral areas in order to bring economic development – attracting FDI, creating employment and industry, transferring skills and knowledge to the host nation, acting as a catalyst for

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creation of prosperous domestic industry (Madani 1999: 5) and other such gains, which apparently lead the host nation to self-sustainability in the global economy.

Corporations and governments alike see EPZs operating free from strict environmental laws and regulations as beneficial. For the corporation, it means that they can continue to create their product as-is without having to alter the materials used, the production process, or their methods /costs of waste management. For a peripheral nation, fewer environmental regulations can be used as an incentive for TNCs to enter into production contracts, or sometimes strike waste management deals, through which core countries transfer waste to them for disposal at a fraction of the cost - financially and environmentally. R. Scott Fry (2003) explains the transfer of waste from core countries and corporations to peripheral nations, and the role that EPZs play. According to Fry (2003: 328) core countries have taken to moving production that involves the handling and disposal of hazardous materials to EPZs in peripheral nations where environmental regulations are not as stringent, due in part to "[...] inadequate risk assessment and management capabilities." When this type of production/disposal takes place, employees are exposed to hazardous materials - directly risking their health - which in many cases are released into water ways, soil, and the atmosphere. The results then are contaminated soil and water, leaving communities without two basic resources needed for agro and other types of industry, not to mention increased risk of illness and lack of clean drinking water. Another result of lax environmental regulations apart from contamination is resource exploitation. Core countries and corporations are

able to extract resources, such as water, lumber, soil, minerals, etc. at exploitative rates. Hess and Prasad (2007: 184) quote Grossman and Krueger (1995) in an article exploring labour laws in Mexico and China, stating “[...] developing nations are willing to tolerate such side effects given the financial and technological benefits accrued by the country and the populace.” At the same time, these ‘side effects’ create barriers for host nations to access and utilize their own natural resources for industrial and economic purposes, and so it is necessary to continue to carry out deals with core countries and corporations in order to sustain the export industry that they largely depend on.

Labour laws are relaxed in such nations for similar reasons, and in some cases where the laws are present, they are consistently unenforced. In a piece written for the International Confederation of Free Trade Unions (ICFTU), the authors offer a comprehensive look at EPZs in general, and provide case studies for nine countries detailing working conditions and regulations in specific EPZs (Perman et al. 2004). They found that the consequences absorbed by employees come in many forms including, but not limited to, child/slave labour, unhealthy/unsafe working conditions, unpaid, limitless overtime and lack of sick time/benefits, sexual harassment/assault, and extremely low wages (Perman et al. 2004: 08).

While all workers in such conditions are surely affected, there is a considerable gender gap present in the operation of EPZs, leaving women to experience even more dire working conditions. Women are particularly sought out for work in EPZs and similar operations, accounting for large portions of production and assembly staff. Based on “pre-existing gender  
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ideologies” women are assumed to be more compliant than men, and are pursued for tedious assembly jobs requiring “nimble fingers” and dexterity, such as assembly of electronics and clothing production (Williams et al. 2009: 126). In the Philippines, in an EPZ in Laguna, women account for 80% of the factory’s labour force of 3000 workers and are generally paid less than men. Compared to other countries, the women working in this particular factory are paid as low as one fifth of the cost of a skilled worker in Japan (Perman et al. 2004). The ICFTU also states that women workers are likely to experience sexual harassment and other types of discrimination in the workplace including mandatory pregnancy testing for new recruits (Perman et al. 2004). Moreover, for women who are the primary caregivers in their families, they must return from a place where they are devalued and discriminated against only to start their work at home, looking after their children, a scenario that can potentially impose “[...] an additional burden of work on them” (Martinez 2008).

The minimum wage that an employee can be paid for their work is determined by each country’s government and is enforced under the labour laws of that country. Wages in most peripheral countries are considerably lower than those set in core countries like Canada and the US. To compare, the minimum wage paid in Canada currently ranges from \$8.00 to \$10.25/hour, or \$1280 to \$1640/month (gross) (Munroe 2010), while EPZs in Bangladesh, for example, are currently paying \$0.34/hour, equal to \$45/month (\$CAD) (Dearing 2010: 4). This is not an uncommon monthly income for EPZ employees in a number of peripheral countries and in some cases the number is high. The fact that EPZs provide work for members of

communities where there otherwise may not be has certain advantages. Having paid work offers employees a livelihood and a paycheque, however small it may be, to use as best they can. For some this can mean paying for children to attend school, paying for health care services, clean water services, clothing, food, etc. For others, it might be just enough to keep from going hungry. Whatever the case may be, it is likely that the amount of money they are earning as labourers in factories within the EPZ is not enough to buy the materials or equipment needed for start-up of any sort of small business that eventually might lead to a person's/family's opportunity to subsidise their income or become self-sustaining. The result is underpaid people with little control over their lives, left with insufficient time and finances to create a different living situation for themselves, if they were so inclined. Additionally, as previously mentioned, one of the supposed benefits of having a local EPZ operation is job creation for the community. However, TNCs have been known to open EPZs in one country/community and 'import' labourers from another country/community to work in the factory. As discussed in an article from the Business & Human Rights Resource Centre (2007), such a situation exists between China and Zambia. Along with the billions of dollars in aid that China has reportedly invested in Zambia in order to increase development (building roads, infrastructure, etc.) - also came "low-cost" Chinese migrant workers, of the same skill level as those in Zambia, hired to work in Chinese-operated EPZs at even lower wages. This has allowed the corporation to operate under the beneficial regulations (or lack thereof) of the zone, while utilizing local resources and capitalizing on the opportunity to pay Chinese migrant workers even lower rates they would

pay local labourers. Without the promise of job creation, the EPZ effectually places the community in a worsened state.

For a peripheral country to be rid of EPZ industry could mean severance of their ties with core countries and corporations, causing mixed results, varying from nation to nation. Based on some of the benefits that EPZs can bring into a peripheral nation - FDI, employment, possible transfer of skills and knowledge, and industry - common results can be represented by the possibility of high unemployment rates (where domestic industries are not in place), and sequential increases in poverty, hunger, morbidity, and mortality rates. However, as long as EPZs are operating in these nations their dependence on core countries and corporations will be perpetuated. Nations will look to EPZs as their main industry, keeping their focus on exporting high-value added products produced for markets other than their own, with the majority of any profits earned being cancelled out by the cost of importing the production materials.

In the case of EPZs and the varied pros and cons associated with them, and with the world of free trade and the global economy designed the way they are, it is clear that finding an alternative solution for peripheral countries is not an easy task. Since globalization and associated neoliberal agendas have created New International Divisions of Labour (NIDL), the globe has seen a shift in the flow of products and services. The Global South is now a primary location for manufacturing - materials for assembly flow to the Global South and value-added products and profits flow to the Global North, representing a very uneven trade system (Williams et al. 2009).



One possible solution that citizens of the Global North can participate in is known as 'fairtrade'. As explained by Fairtrade International (2011), fairtrade, as opposed to free trade, refers to a system in which producers are appropriately compensated for their products. For producers, fairtrade means that their product is sold at a price that covers sustainable production, appropriate compensation and better working conditions for employees/labourers (Fairtrade International 2011). For consumers, buying fairtrade means paying a somewhat higher price for a product, but it also sends a message. Perhaps by purchasing fairtrade and/or locally produced items rather than products from corporations who employ the use of EPZs, corporations could one day be compelled to alter their production and assembly methods in a way that would eventually dissolve the current operating standards found in the zones.

To conclude, the information in this paper demonstrates that EPZs restrict the opportunities of peripheral nations to become self-sustaining in the global economy by operating under lax environmental laws, lax labour laws, and perpetuating the nation's dependence on core countries and corporations. Contaminated and exploited natural resources, unsafe and exploitative working conditions for employees, and having the costs outweighing the benefits of their export industry are key factors that restrict the opportunities for a peripheral nation to eventually sustain itself in today's global economy.