

Export Processing Zones in Latin America and the Caribbean: Their Challenges in a Globalized World

Jaime Granados

Trade Specialist, Integration and Regional Programs Department, Inter-American Development Bank

Summary

In Latin American and Caribbean countries, export-processing zones (EPZs) were conceived as instruments to promote their insertion into the international economy in light of an evident and traditional anti-export bias. Despite some criticisms, some of them warranted, EPZs have played an important role in promoting and diversifying exports, attracting foreign investment and creating jobs in many Latin America and Caribbean countries. The positive impact is particularly apparent in those countries that are geographically closer to mass consumer markets. Multilateral and regional trade obligations recently acquired by many countries in Latin America and the Caribbean remove the main incentives conferred by EPZs and accentuate their temporary nature. In this context it is likely that EPZs, as we know them today, will decline in importance over the long term. They retain some of their effectiveness, however, but countries urgently need to reform them by implementing soft and infrastructure-related incentives that allow them to continue to attract investment. Even taking the foregoing into account, however, governments should not come to believe that by doing that they could disregard the rest of the economy as an export platform. On the contrary, this analysis suggests that it is essential to attend to the whole country's infrastructure and business environment needs.

I. INTRODUCTION

When the import-substitution model came to be seen as exhausted in Latin America and the Caribbean (LAC) at the beginning of the 1980s, the countries of the region adopted new policies in order to meet the need for foreign exchange that would

allow them to pay for their imports. The new strategy, based on insertion into international markets, had several prime features: unilateral economic opening; integration into the multilateral trading system; revitalizing regional integration; the negotiation of South-South and South-North integration agreements; and the implementation of policies to attract foreign investment and diversify exports to third markets. Chronologically, this latter element was often the first. Incipient forms of export-processing zones (EPZs) were observed even before the 80s in some countries.

EPZs were adopted by many countries as the cornerstone of the new strategy. EPZs were conceived as an exception regime, essentially temporary, that allowed countries to isolate a limited geographic area from the severe anti-export bias evident in the rest of the economy during the period in which that bias prevailed. Typically, the regime has offered significant incentives to investment and exports. The proliferation of such systems has been taken as evidence of their success.

Insertion into the international economy continues apace in LAC. The countries of the region have proactively participated in trade negotiations geared to deepening their commitment to such insertion. Hence it is important to analyze the current and future role of an instrument that was conceived as temporary. To that end, this document examines some basic conceptual elements of free zones, explores the scale of EPZs as an economic phenomenon, reviews the economic thinking behind multilateral and regional agreements, and offers some ideas about EPZs' short- and medium-term future.¹

II. THE WORLD OF FREE ZONES: SOME CONCEPTUAL CONSIDERATIONS

One of the first problems encountered in analyzing EPZs is the terminological diversity used to address them and, more broadly, the world of free zones - which is a wider concept than EPZs.² This circumstance is aggravated by the fact that the countries often use, besides free zones, other instruments that are much more limited but that are in some ways similar, such as drawback, bonded warehouses, temporary admission and/or importation, inward processing and so forth.³ All these mechanisms fall within what is known in the language of customs as temporary importation and, in the language of trade, as promotion mechanisms for non-traditional exports.

Free zones, with their various forms and names, have a common origin: they are all geographically circumscribed and are deemed to be outside the national customs territory; hence goods can be imported into them and exported from them free of tariffs and other duties. Then the differences begin.⁴ They each have different policy objectives and instruments, and the countries tend to regulate them in great detail in terms of customs procedures, timeframes, types of beneficiaries, coverage (the goods or services that can be produced; the incentives offered to beneficiaries; and the degree of change of transformation that goods can undergo within them).

A functional classification of the zones can be structured as follows:

- *By type of economic activity: marketing or processing.* A first classification of free zones distinguishes between the kinds of economic activity that can be undertaken within them. The main division can be made between marketing or (industrial) processing. Some free zones specialize in the marketing of goods or services, and sometimes there can be a sub-specialization in the kind of goods or services that can be marketed. Marketing can include activities such as warehousing, packaging, testing, labeling, cleaning, mixing, reconditioning for transport or processing. In general, these minimal processes exclude the

possibility of significant productive transformation. Industrial or processing zones, by contrast, allow goods to be subjected to industrial transformation using imported and/or national inputs.⁵ This division is important because it determines the conditions and the kind of controls used if the goods or services produced in the zone later enter the customs territory of the country in which the zone is located. When a good or service has been processed, there are usually more stringent conditions and controls to guarantee that, when the good or service enters the country's customs territory, those parts of national industry engaged in the production of the same goods or services (and the jobs in the industry) are not negatively affected by the advantages and benefits granted to the companies established in the zone.⁶ The entry to the national market of goods or services produced in any of these kinds of zones is subject to such conditions as the payment of tariffs and other import taxes, and often to quantitative restrictions and to the assurance that local production is not affected.

- *By economic sector: goods or services.* This division sharply conditions the kind of zone that is designed. A free zone devoted to the services sector is normally designed quite differently, since the very intangibility of services does not lend itself to the kind of customs controls used for goods trade; different controls are required. In some countries, such as Colombia, there are free zones for tourist services. Other countries have free zones for financial services that attract banks, accounting firms, insurance and reinsurance companies, and so on.

- *By product destination: internal or external market.* This distinction is crucial to understanding a free zone's geographic location and the conditions and control instruments used within it. When the free zone is geared solely towards the export market it has customs, tax, fiscal and infrastructural facilities that are appropriate for the export of the goods marketed or processed. If the goods' entry into the domestic market is completely restricted, the approval of free zone operations normally follows simpler procedures because of the isolated nature of the zone, since it will not have a negative effect on those sectors of national industry producing identical, similar or directly competing goods. The LAC countries use these kinds of export processing zones (the subject of this study) to a great extent. In many countries, such as Honduras, the Dominican Republic and Costa Rica, much processing is for export. In other countries, such as Panama, the Colon Free Zone was originally conceived as an international marketing zone that sought to exploit its advantageous location adjacent to the main maritime routes in the area of the Panama Canal. By contrast, in many countries that have a very large internal market, free zones are designed to work as platforms for the marketing and processing of goods going to the domestic market. The US' foreign trade zones are an example of this. They are basically (albeit not exclusively) designed to meet the needs of the huge domestic market and thus their customs, tariff and tax advantages seek temporarily to isolate the process of marketing and/or production from the range of requirements that would be imposed if production were to be undertaken in the internal market; the aim is to put them on a supposed equal footing with the foreign production that enters the same market.⁷ A similar situation prevails in the Manaus Free Zone in Brazil, which is sometimes classified as an import-processing zone since there is no limit on the sale of its production in the domestic market.⁸

- *By the scope of the activities: general or sub-zone.* Increasingly, legislation allows the establishment of *general* free zones in industrial parks that are home to many companies, and leaves open the possibility of authorizing individual companies (which are geographically separate from the park) to enjoy the benefits of free zone firms as sub-zones under the auspices of a mother free zone. There are physical reasons for this: for

obvious reasons some kinds of companies, such as shipyards or large vehicle assemblers, cannot be located in the geographically circumscribed enclaves of a free zone. Legislation tends to grant this additional flexibility because of new information technologies that facilitate control and the exchange of data between two distant points. In other countries, such as Mexico, because of perceived difficulties with remote customs control, there is currently a discussion as to whether such flexibility is appropriate.

Often, moreover, national legislation allows operations that properly belong to more than one kind of zone to be undertaken simultaneously in a particular zone. A foreign trade zone in the US, for example, can be devoted to marketing and processing, both for the domestic market and the export. Many export-processing zones in LAC allow activities related to goods or to services simultaneously.

This study does not cover the whole generic concept of "temporary import regime". Neither does the deal with all the various kinds of "free zones", nor with all the mechanisms used to promote or diversify exports. The study focuses on export processing zones in a particular geographic area: the countries of LAC.

*III. EPZs IN LAC: THE SCALE OF THE PHENOMENON*⁹

Many LAC countries have established different kinds of free zones in general, and of EPZs in particular. There is a significant statistical problem, however, in reaching a precise estimate of the scale of the EPZ phenomenon. The most serious efforts to gather data on the zones do not distinguish between the different types, and thus the available data refer to all the kinds of zones that there might be in a particular country at a particular time. Hence the statistical approximation offered here can discern the scale of EPZs as an economic phenomenon only in those countries in which all the zones are EPZs. Fortunately, that circumstance prevails in those countries in which EPZs play a relatively greater role in the export apparatus.

Table 1 shows the total number of free zones in some LAC countries.

The countries of LAC use EPZs extensively. Of a total of 35 countries in the Western Hemisphere, at least 24 now actively use EPZs, of which 22 are LAC countries (see Table 2).

As regards to the other countries of the Hemisphere, it is worth mentioning briefly the special situation that prevails in the three North American Free Trade Area (NAFTA) countries: Canada, the United States (US) and Mexico. First, Canada has no free zones, although it does actively use other temporary import instruments, especially drawback, temporary admittance, bonded warehouses and tariff exemptions. The US, on the other hand, has foreign trade zones; these comprise a dynamic sector of the economy. Although they also undertake export activities, they are essentially geared to the internal market. Currently, the US has 249 general foreign trade zones and 220 sub-zones.¹⁰ The US zones will be discussed below. In Mexico, the phenomenon is evident in *maquila* operations; as Table 5 shows, these employ millions of people. The *maquila* phenomenon has been the most dynamic element of the US-Mexico trade axis, and has played an important role in the impressive increase in Mexican exports to the US since NAFTA's entry into force.¹¹ The *maquila* regime, however, does not fall within the typical EPZ scheme. It is part of the system of temporary import/export promotion mechanisms, but does not involve a geographic enclave in which a set of warehousing and/or processing plants is concentrated. The *maquiladoras* are more akin to in-bond factories, although they have features that make them peculiar in themselves.

Free zones are also used in the rest of the world. According to data gathered by the Free Zone Committee of the Americas,¹² in 2002 there were a total of 1,072 free zones in the world. Their geographic distribution was as follows, with emphasis here on their use and importance in the Western Hemisphere (Table 3).

The economic activity of EPZs (in the strict sense of the term) has had a very significant impact in LAC on trade, employment and foreign investment. In some countries, such as the Dominican Republic, Costa Rica, Honduras, El Salvador and Bolivia, EPZs have been essential in promoting and diversifying exports, creating jobs and attracting foreign investment. In those countries, for example, exports from EPZs accounted for between 43% and 81% of total exports in 2000 (see Table 4). Table 5 shows the international trade of EPZs and gives an indication of the zones' internal or external orientation.

EPZs also play an important role in these countries in terms of employment. Table 6 illustrates trends in the number of jobs created in EPZs in a significant sample of LAC countries.

As regards to attracting foreign investment, EPZs and *maquiladoras*, especially in Mexico and throughout the Caribbean Basin (including Central America), are very important. EPZs and *maquiladoras* have been an essential element, together with access conditions to the US market, in promoting the establishment of assembly plants in those countries. US companies have decided to invest in the zones as part of a strategy to face competition from Asian products in the market (ECLAC [1998]). In the Dominican Republic, for example, 70% of the firms established in EPZs are foreign, and in 2001 they provided 70% of the accumulated capital invested in the zones (57% of which came from US) (National Counsel of Export Processing Zones [2001]). In Honduras in 2001, some 74.8% of the firms in free or industrial zones had foreign capital, and only 58 companies had national capital.¹³

To draw a partial conclusion from the foregoing figures, there is a clear tendency towards the proliferation of free zones and EPZs in many LAC countries. Although there are significant variations as to the sector's relative importance compared to the rest of the economy in terms of employment and production for export, it is plain that EPZs are markedly more important in countries with a small internal economy that are close to the large markets of the US and Canada - in other words, the Central American countries and some Caribbean countries, most particularly the Dominican Republic. EPZs are also important in the Southern Cone countries, but they do not have the same importance for the national economy as a whole as they do in Central America and the Caribbean. It is also plain from the figures on exports and imports from and to the free zone that some of them, such as the Manaus zone in Brazil, do not intensively use export-promotion instruments. In other countries, by contrast, EPZs have been crucial in promoting exports and attracting foreign direct investment. The following section discusses the policy objectives in greater detail.

IV. POLICY OBJECTIVES OF EPZS IN LAC

In establishing an EPZ system the LAC countries have pursued a variety of policy objectives. All of those goals should be understood in the broader context of the promotion of economic development, especially in the last 20 to 30 years. It should be kept in mind that not all the objectives carry the same weight for all the countries, nor for all the zones in a particular country. Similarly, it should be acknowledged that not all the EPZs are successful in all countries. There are examples of clear failures. On the other hand, even the EPZs that

have been successful from one point of view have been criticized from another. There follows a summary of the main arguments advanced on one side or the other.

There is consensus that the LAC countries pursued the following policy objectives in establishing EPZs:

a) *The acquisition of foreign exchange by expanding and diversifying the export base.* When it became clear that the import-substitution strategy was reaching its limits, the countries of the region began to make an effort to promote non-traditional exports to third markets as a means of securing foreign exchange, especially after the crises of the 1980s. In view of the severe anti-export bias prevailing in the domestic economy, the LAC countries used a series of policy instruments that would enable private initiative to discover new export products and exploit new markets. Those instruments include the EPZ regime, an exception regime that establishes geographic enclaves whose customs, trade, tax and regulatory regime is much more liberal than that in force in the rest of the national territory.

b) *Attracting foreign direct investment.* As another means of attracting fresh financial resources, and promoting local industrialization and the transfer of technology and know-how, many of the EPZs in LAC were designed to facilitate and simplify procedures for the establishment of foreign firms. Because of the simplified procedures for establishment and operation, as well as the infrastructural facilities (access routes, proximity to ports and airports, availability of labor, telecommunications, energy and water), some EPZs have been successful in attracting foreign manufacturing firms. The facilities offered often isolate the firms established in the zone from the frequent fluctuations in the business environment in developing countries. Finally, it is hoped that the presence of foreign investors acts as a catalyst for the national private sector's involvement in the production of non-traditional goods for export.

c) *Job creation.* The decision to establish EPZs is also an effort to create jobs and to tackle the problem of underemployment. EPZs are a means of providing indirect jobs. They offer a mass employment to unskilled or semi-skilled workers. Moreover, they also seek to generate demand for professionals and certain managers. As discussed below, this is an area in which EPZs have been very effective.

d) *Development of relatively less developed areas.* Quite often, EPZs and other free zones have been designed with the deliberate aim of promoting the development of certain marginal areas in the country. Some national legislations make provision for specific incentives to promote the establishment of EPZs in these areas.

As mentioned in the previous section, a first impression is that EPZs play an important role in LAC in terms of promoting exports, attracting foreign investment and creating jobs. In other words, many of the policy objectives have been met. It should be acknowledged, however, that several variables impinge on the success of a specific EPZ, many of them macroeconomic and geographic. Among these variables are the zone's geographic location (both national and international), the availability of an appropriate labor force (both skilled and unskilled), adequate infrastructure, the quality and quantity of the incentives available to the investor, a friendly regulatory framework, good administration services in the EPZ, the availability of other value added services, the country's stability and security, the capacity of the companies established in EPZs to respond properly to market needs and so forth. Many of these elements will be touched on later, in a discussion of the need to design the new model for the future success of the EPZs.

EPZs, as mentioned earlier, have their critics. Some observers note certain limitations in the countries' capacity to meet the goals they sought when they created the EPZs. The main limitations mentioned have included the following:

- *Weak linkages with the rest of the national economy.* One pattern perceived in EPZs is a lack of commercial interaction between the firms established in the zone and the suppliers outside of it. In the case of EPZs in the Central American countries there is empirical evidence that national companies buy very low volumes of local raw material (Jenkins *et al.* [2001]). Some more extensive studies seem to indicate that there is a correlation between the country's industrial base and the prospect that an EPZ spawns more robust linkages with the rest of the economy (Madani [1999]). Nonetheless, even in Latin American countries with a much greater industrial base, such as Mexico, the evidence points to very weak linkages between the *maquiladoras* and the rest of the domestic economy (Warden [2000]).

- *Inability to diversify and generate higher value-added activities.* There are those who argue that some countries have not properly coordinated the necessary sequencing between a country's economic development level and its public policies, a circumstance that has substantially reduced the impact of EPZs as a catalyst of industrial development (Chen [1995]). A 1993 study on the performance of EPZs in the Dominican Republic, for example, concludes that the country was trapped in the production of labor-intensive manufactures without having made the transition to production with greater value added (Kaplinsky [1993]). More recent studies indicate that Dominican EPZs have made incursions into higher value-added sectors such as electronics, but that there is still a need to increase the locally produced per unit value added (Warden [2000]).¹⁴

- *Labour and environmental problems.* There have been allegations that in some EPZs in some countries there are firms that do not respect the prevailing environmental regulations. Not for nothing is the image of sweatshops largely linked to EPZs, particularly in clothes manufacturing. Those problems, however, are not intrinsic to the EPZs' regulatory scheme. Essentially they are a function of weak compliance with domestic legislation in the national territory, and in some cases to the deficiencies of the legislation (Polaski [2003]).¹⁵ The International Labour Organization has noted that significant progress has been made in some areas in some LAC countries (ILO [1998]).

- *Constraining effect of reforms at the national level.* EPZs can delay and inhibit national-scope economic reforms. To those who see EPZs as a safety valve generating employment and foreign exchange, EPZs have been perceived in some cases as promoting enclaves that constrain the introduction of national-scope economic reforms such as trade liberalization, significant regulatory changes, improvements in physical infrastructure and so forth (Madani *et al.* [1999]).¹⁶

- *Net fiscal cost/benefit of EPZs.* It is often suggested that the cost of designing, building, managing and controlling an EPZ, plus the loss of fiscal revenue attendant on its operation, can be greater than the net benefits that the national economy receives. Byrne intuitively observes that: "A free zone offers the illusion of a benefit without fiscal spending. But the reality is very different. Even in countries where free zones are considered a success, the loss of public revenue can be immense. Controlling the abuses of the zones requires the disproportionate attention of the tax authorities" (Byrne [2003]).

There is a consensus that the net gains that EPZs offered to most countries are in the areas of job creation and the generation of foreign exchange (UNCTAD [1993]). In light of the foregoing, however, it is crucial to undertake further research on these issues in

order to determine the true extent to which the policy objectives pursued through the establishment of EPZs in LAC have been met.¹⁷

It should not be forgotten that EPZs seek to offer a temporary solution to a structural problem of the economy that cannot easily be resolved. From a theoretical viewpoint, the optimal solution consists of the liberalization of the economy, an overall improvement in the business environment and regulatory frameworks, and the provision of adequate infrastructure. To the extent that progress is made in these fields, the EPZs model is gradually becoming less relevant. In countries such as Taiwan, for example, which have taken great strides in this direction, EPZs are significantly less important than they were in the past (Chen [1995]).

Even in the world's most competitive economies, however, such as the US, certain kinds of free zones are gradually gaining popularity. As mentioned earlier, this dichotomy perplexes observers. It is important to address it if we are to understand the broader context in which a new EPZ regime will have to be designed in Latin America. Observation of the nature of the free zone in each country, as well as the characteristics of the country, is the first step in clarifying the matter. Taiwan is a country with an export vocation *per excellence*. Its domestic market, by contrast, is limited and its business regime is quite open. The US also has a relatively open market. Nonetheless, the US retains a complex customs and tariff system and thus (since it has such an attractive domestic market) its free zones play a role in trade facilitation, especially for imports. The US' foreign trade zones seek to resolve specific problems of the customs and tariff regime, and offer practical solutions that provide gains to the users of such zones. Hence the following situation arises: in the presence of large consumer markets and complexities in the external trade regimes, the zones seem to have a role to play. They clearly fulfill a *trade-facilitating* role, especially when they are established at the margin of a massive internal market to which they resort in order to supply their production. The question is whether this kind of free zone is a model towards which the EPZs in LAC should move, given the limitations in the size of those countries' internal markets. The first impression is that to the extent that the EPZs are gradually transformed into import processing zones that serve a very extensive consumer market their future is assured if the countries negotiate free-trade agreements with each other, because that would expand the size of the market. As discussed below, however, this is not an answer. The current dilemma of EPZs is that the consumer market seems to have to be a national market, not a market consisting of a set of integrated national markets linked together by a free trade area or a customs union. As mentioned below, this is because regional integration schemes resist the idea of certain incentives that are intrinsic to EPZs: it is possible to import an input from third countries in order to incorporate it into an export that will go to the market of the other trade agreement partner, but in that case the product generally has to pay the most favored nation import tariff. Hence the prevailing regional thinking annuls the most important benefits of an EPZ. The following section discusses this thinking.

V. THE TREATMENT OF EPZS IN INTEGRATION AGREEMENTS IN THE AMERICAS¹⁸

The specialized literature is not replete with discussions of how EPZs are treated in integration agreements, despite the topicality of the matter. A conclusion to be drawn from an analysis of the substance of many such agreements in the Hemisphere is that they are informed by a certain logic. This section deals with that issue.

Integration agreements in LAC follow a certain economic logic in the way they treat goods produced under EPZ regimes and other special regimes.

A free trade agreement, like a customs union, seeks to eliminate tariff and non-tariff barriers to trade between the member countries. In a customs union the members also establish a harmonized trade regime towards third countries. In both cases, and with very few exceptions, only goods originating in member countries can benefit from the preferential concessions negotiated in the agreement¹⁹. In other words, an agreement must not be designed in such a way as to confer its benefits on third-party goods. In principle, this is achieved using two strategies.

The first is the *rules of origin regime*, which establishes criteria for determining the origin of goods and ensures that only those produced with domestic or mostly domestic inputs may benefit from the tariff preferences negotiated. This is necessary to avert trade "deflection" or "triangulation", which in very general terms means that third-party goods illicitly benefit from free trade by entering a country (paying tariffs or not) and then move to a partner country in the agreement without paying the tariff.

The second strategy is the restriction or elimination of any mechanism whereby a member of the free trade area exempts, suspends or reimburses the payment of tariffs or other taxes on imports of extra-regional inputs. This includes free zones, EPZs and other special regimes. This is a logical consequence of the first strategy and similarly seeks to obviate trade deflection. In this case the aim is to ensure that third-party inputs, imported for use in other products that are then exported to another member in a free trade area, do not "breach" the wall of tariff protection in one member and enter the destination country incorporated into other products without having paid import tariffs. This would be a threat to the integrity of the other country's tariff policy, since goods would be slipping through the back door without paying tariffs in at least one of the partner countries in a trade agreement.²⁰

The two strategies are perfectly complementary. The origin regime determines the precise amount of extra-regional inputs that a product may have for it to qualify as being from a member country, and thus benefit from free trade. Restrictions on mechanisms to exempt extra-regional inputs, for their part, control the tariff levels that those extra-regional inputs pay to avoid trade deflection.

There is no uniform treatment of goods produced under free zone regimes in most of the Hemisphere's free trade or customs union agreements. Some agreements refer to "free zones" *per se* while others, eschewing the term, refer more broadly to "special regimes", "duty drawback or deferral programs", or certain special regimes. In general, reference is made to other, more specific instruments, such as duty drawback, tariff exemptions, inward processing, *maquila*, temporary importation and so forth. Free zones or export processing zones use some of these more specific instruments. The agreements have different terminology in part because the member countries have different policy instruments in their laws and in part because the trade impact of a particular trade agreement on the productive apparatus of the trade partners varies from accord to accord. In other words, a free trade area (FTA) can limit trade from EPZs but drawback schemes can be retained, as is in the case in the Costa Rica-Canada FTA. This might be for several reasons: Canada might want to give special and differentiated treatment to Costa Rica, or trade from Costa Rica to Canada under the drawback regime might not be commercially sensitive for Canada, or (since Canada uses the drawback system extensively), the country might prefer to avoid setting a precedent for the elimination of such a mechanism in its trade agreements. There could be a combination of these and many other factors.

To cope with this terminological difficulty we can say that, in essence, the negotiators are interested in controlling all those regimes that allow certain goods, be their inputs or equipment, to enter a country either exempt from tariffs and other import duties, or else under a regime that suspends the latter; in general the goods must be re-exported in a fixed period, must be used in processed goods that are then exported, or must be used in production for export. As mentioned in the preceding paragraph, it should be made clear that in some agreements the restriction could affect solely certain tariff-freeing (exempting) customs regimes, while it remains in schemes to suspend or reimburse payments (deferral programs).²¹ In some of these regimes, especially the more inclusive systems like those in "free zones", goods receive other non-tariff benefits such as exemption from direct taxes, particularly income tax. In many cases the negotiators are interested in eliminating these other benefits, either in free trade negotiations or, essentially, in multilateral talks, as discussed below. Together, all of the foregoing seek to eliminate distortions in international trade, promote exports and, in many cases, attract foreign investment.

In general, the Hemisphere's integration agreements vary in their treatment of exports from free zones: in some accords the treatment is very restrictive; in others it is relatively more liberal.

Table 7 shows in general terms how some trade agreements in the Americas treat these special regimes. The variety is evident not only in the way in which the different regimes are referred to, but also in the scope and treatment.

In many cases, such as Southern Common Market (MERCOSUR), Caribbean Community (CARICOM), and the Central American Common Market (CACM), there was simply an agreement not to grant the preferential treatment stipulated in the accord to goods produced under such regimes. In other words, it is presumed that goods produced under special regimes should pay the normal import tariff if they are to enter the internal market, the free trade area or the customs union. In the Andean Community, in the agreement between CARICOM and the Dominican Republic, and in the accord between the latter and Panama, there are no specific rules in this regard, but it is plain from the texts that these countries have some concerns about importing products produced in other countries under these regimes.

In NAFTA it was also agreed to refuse entry to goods produced under those regimes enjoying the benefits of free trade. However, in this case a period of seven years was set for implementing the restriction, in principle to facilitate the adjustment of industries that would be affected by the measure. Article 303 of NAFTA, which regulates this matter, implicitly relates the progressivity of the tariff elimination program to progressivity in the elimination of duty drawback and deferral programs.²²

Canada adopts a formally different approach in its agreements. In 1989, in its free trade accord with the US, Canada agreed on a restrictive approach similar to that of the later NAFTA. In its agreements with Chile and Costa Rica, however, Canada made the categories of tariff elimination conditional on its being satisfactorily notified that the benefits of the export processing zone (in Costa Rica's case) and the simplified duty drawback regime (in Chile's) were not granted to goods exported to Canada. There is something similar in the agreement between Chile and Costa Rica.

Other agreements to which Mexico is party seem similar to NAFTA. A close reading, however, reveals very significant differences. In the case of the FTAs with Costa Rica and Nicaragua, there are restrictions on the duty drawback or exemption programs that come into effect seven years after the agreement's entry into force. This is similar to

NAFTA. The timeframe is eight years in the case of the FTA with Bolivia. In these three FTAs, however, the disciplines do not remove the possibility that the duty drawback or exemption programs might be maintained. The accords simply regulate the programs so that they are not excessive and do not themselves amount to an export subsidy. The Mexican approach is more flexible than Canada's. It is even more so in the FTA with the Northern Triangle (Guatemala, Honduras and El Salvador). In that agreement the four countries took a different approach: they reserved their rights in the World Trade Organization (WTO) in this respect, as we will see below. Finally, some of Mexico's FTAs establish temporary safeguard disciplines to obviate any damage that might be caused by the import of goods produced under special regimes during the transition period.

Central America and the Dominican Republic take an original approach by granting a form of national treatment to the entry of goods from free zones. That is, goods produced in free zones can be imported to the territory of one of the parties but only on the same terms as the national legislation of that party allows for the entry of goods from its own free zones. The entry of goods from free zones, however, is generally prohibited entirely or subject to quantitative and qualitative restrictions, and is conditional on the payment of import duties.

The June 2003 free trade agreement between Chile and the US adopts a regime that constrains programs of drawback, deferral or exemption from tariffs for products that will later be exported. After 12 years, as shown in Table 1, the countries will not longer be able to use those programs.

The free trade agreement between Central America, the Dominican Republic and the US (CAFTA-DR), which is the most recent (although it has not been congressionally ratified in any of the seven countries at the time of writing) also establishes disciplines that could affect EPZs. This agreement refers to tariff exemptions and does not regulate drawback or the suspension of duties. The provisions of the agreement, however, are not entirely clear. In discussions that the present author has had with some of the negotiators, the latter explained that the spirit of the negotiations corresponds to the tendency that this document seeks to reveal: after a transition to 2009 the countries will no longer be able to continue granting tariff exemptions in the context of the EPZs. The agreement also makes an express reference to the multilateral commitments undertaken in Doha, as explained later in this study.

Six arguments are used to explain these approaches:

1) *To avoid trade deflection or triangulation.* From the perspective of tariff collection, allowing deflection would mean that non-originating goods would enter (through the agreement) without paying import tariffs. These provisions are meant to avoid that.

2) *To avert injury to local extra-zone production.* In the context of free trade areas, in which each country retains its external trade policy and its most-favored-nation (MFN) tariff levels, the goal of obviating the possibility of importing goods produced in EPZs stems from the fact that such a possibility would place a local producers (located outside of the EPZ) at a disadvantage relative to their counterparts in the exporting country, whose production is covered by the EPZ regime or other free zones. In other words, a producer in a free zone could import inputs from outside the region without paying taxes, incorporate them into a specific product, and export them to the other country. The producer in this other country, who produces for the local market, does not necessarily have access to the tariff-free import of the inputs needed to produce. Rather, he has to pay the most favored nation tariff in order to import those inputs. Consequently, he might be placed at a competitive disadvantage, which is normally unacceptable. Both points (1) and (2) are two sides of the same coin, as mentioned, and they seek to avert the possibility that a free trade

agreement might lead to the establishment of "export platforms" - that is, insulated mechanisms used to exploit preferential conditions to place in the other market goods that do not enter the first, nor pay tariffs nor taxes.

3) *To promote inter-industrial integration.* It is through disciplines such as this that the integration scheme induces its producers to acquire inputs and equipment within the free trade area, with a view to fostering the inter-industrial integration that the agreement, in the final analysis, is pursuing.

4) *To compensate for other export incentives.* Because normally EPZs offer a series of advantages (in addition to tariff advantages) to producers established within them. Thus, for example, often they benefit from total or partial, temporary or permanent exemptions from direct or indirect taxes. Similarly, these producers often benefit from other incentives sometimes linked to incentives to export or to attract foreign investment, such as training, special exchange regimes, bonuses and other financial transfers. As with tariff exemptions, these benefits are not granted to national producers who produce for the national market. Consequently, they can again find themselves at a disadvantage.

5) *To attract foreign investment.* Those extra-regional suppliers who sell inputs to a company established in the EPZ will be compelled to move to the country in which the buyer is located because otherwise they could lose the buyer completely. This is because, if they do not move, they will now have to pay import tariffs and taxes in order to sell to the traditional buyer. Hence extra-regional suppliers have significant reasons to locate themselves in the other country and thus benefit from the tariff preferences.

6) *To catalyze national-level economic opening.* In the final analysis, this kind of treatment generates pressure to eliminate temporary and exceptional regimes, and hence they induce horizontal policies of opening and commercial rationalization in the economy. Thus the temporary, exceptional regimes are eliminated because they are unnecessary: the exception becomes the rule.

VI. EPZS AND THE WTO

TREATMENT OF EPZS IN MULTILATERAL DISCIPLINES

The terms "free zone" and "export processing zone" do not feature in the terminology of the WTO. Nonetheless, it is clear that some WTO disciplines regulate some essential aspects of free zones, especially as regards the fiscal incentives used to promote goods exports, an issue duly regulated by the Agreement on Subsidies and Countervailing Measures.

The Agreement on Subsidies groups subsidies into three classes: prohibited subsidies, permitted subsidies and actionable subsidies. Prohibited subsidies are basically those conditional on the export of the product (export promotion) or the use of national inputs rather than imports (import substitution). There is an illustrative list of prohibited export subsidies in Annex 1 of the Agreement on Subsidies. This will be discussed below. Permitted subsidies are basically certain policies on environmental protection, on aid to a country's disadvantaged regions, and on the promotion of research and development. These subsidies could be granted in very limited terms and for only five years after 1994. Actionable subsidies are any other kind of official policy that entails a specific financial contribution or price support mechanisms that offer a benefit to the producer. They are actionable insofar as they cause injury to a domestic industry, end or erode the advantages that the trade partner expects of the WTO agreements, or cause serious injury to another member's interests. Their actionability resides in the fact that

the affected countries have legal recourse to detain or countervail for the import of subsidized products. Such a recourse might be to embark on a specific and swift procedure to resolve the conflict with the other trade partner, or the imposition of a countervailing duty.

As mentioned, Annex 1 of the Agreement on Subsidies includes an illustrative list of the export subsidies that, being such, are prohibited. These subsidies include:

- The granting of direct subsidies to a company or domestic industry, such subsidies being dependent on export performance;
- Total or partial exemption, remission or deferral of export-related direct taxes or social security contributions that the companies should pay. Direct taxes include taxes on income, wages, interest, rents, royalties and any other form of income and property taxes.
 - Any special deduction granted to exporters for the purpose of calculating the basis on which direct taxes are assessed, and that is more advantageous than that granted for production for the domestic market.
- The exemption or remission of indirect taxes on the production and distribution of exported goods, in an amount that exceeds the taxes levied on the production and distribution of similar goods when they are sold in the domestic market. Indirect taxes includes sales tax, consumption tax, valued added tax, business volume tax, franchise tax, stamp tax, transfer, inventory and equipment taxes, fiscal adjustments at the border, any other tax different from direct tax and import duties (customs tariff and any other duty or tax on imports).
 - The remission or refund of import duties in an amount that exceeds that levied on imports used in the production of the exported product.
 - Internal transportation and freight tariffs for exports provided or imposed by the authorities that are more favorable than those applied to internal consignments.
 - Government supply of goods and services for use in the production of goods for export on more favorable terms than the supply for domestic production.
 - Guarantees or export credit insurance systems at subsidized rates, and subsidized export credits.

It can be seen that some of these instruments are precisely those used in the EPZs. The most popular and most clearly affected by these regulations - although not the only one - is the exemption of income and another direct taxes. Exemption from income tax is one of most important reasons why many companies set up in a free zone or export-processing zone. The refund of or exemption from import tariffs is only prohibited multilaterally when such a concession exceeds the amount that would be levied on the production and distribution of similar goods for the domestic market.

In the Uruguay Round it was agreed in general terms that developing countries would comply with the obligation to refrain from granting export subsidies as of January 1, 2003 (Article 27 of the Agreement on Subsidies). In other words, they were given a transition period of eight years after 1995. As part of the negotiations for the launch of the Doha Round in November 2001, however, the countries renegotiated this commitment and extended it for five more years, plus an additional extension of two years (seven years in all).

THE RESULTS OF THE MULTILATERAL NEGOTIATIONS IN DOHA

Article 27 of the Agreement on Subsidies establishes a mechanism whereby developing countries can seek an extension of the original eight-year period for the elimination of export subsidies. If for economic, financial, or development reasons a developing country believes that it needs such subsidies, it could request the extension of

the deadline to abolish them if it did so before January 1, 2002. The WTO Committee on Subsidies and Countervailing Duties would consider the request and accept or reject it. If granted, the beneficiary country must allow annual examinations to discuss extension or removal of the concession, untied to a fixed schedule. In principle, if after these annual examinations the Committee decides that the export subsidies are wholly justified by the country's economic, financial or development needs, such subsidies can be preserved on terms specified by the Committee. If the Committee fails to reach agreement on the matter, or if the decision is negative, the country must remove the subsidies within two years.

In Doha, however, the ministers agreed on a set of procedures for considering requests to extend the deadline (WTO [2001]). There it was agreed that the only countries that could make such a request are those whose share of total world exports was not above 0.10% in the period 1998-2000, and whose gross national income was not above US\$ 20 billion in 2000. The WTO prepared a list with the relevant data on all countries, of which more than 30 developing countries were eligible for the extension.

The programs eligible for the extension are as follows: (1) export subsidy programs; and (2) total or partial exemptions from import duties and internal taxes conceded before September 1, 2001. Table 8 reflects the situation of countries in the region:

In line with the mechanism, countries should have submitted their extension requests to the Committee by December 31, 2001. During 2002 the Committee reached a decision on a deadline extension for each country for calendar year 2003. The decision is based on the programs' compliance with transparency criteria (scope, coverage and degree of intensity or favorability) and eligibility criteria. Then come the annual examinations to decide on the extension of the deadline or the timeframe for the subsidies to be granted in the following calendar year.²³ The decision to extend the deadline for another year is based on the program's eligibility criteria, on transparency, and on standstill - that is, the benefits of the program cannot be expanded in any way. Thus yearly extensions will be possible up to 2007.

When the period has expired, the ordinary disciplines of Article 27 are re-applied. In other words, any developing country can request an extension of the deadline on the basis of its economic, financial or development needs. The Committee can decline or approve the request. If it declines or fails to reach agreement, the beneficiary country will have two more years to abolish the programs.

A total of 18 Latin American and Caribbean countries have sought an extension from the WTO Committee (Table 8).²⁴ Another Latin America country (Colombia), which is not eligible for the extension procedures agreed by the ministers in Doha, has made its request according to the ordinary process of Article 27, paragraph 4. The mere fact that Colombia made the request "bought" the country at least two more years, from 2003 onwards, to remove the programs. El Salvador, Panama and Uruguay also made requests under these provisions (see WTO [2002]), but they had qualified under the terms of the procedures agreed on in Doha.

The concessions won by developing countries in the Doha negotiations basically consist of the fact that they can make annual requests for extensions that will be given quasi-automatically. In other words, they must only meet the requirements of transparency, eligibility and standstill for the Committee to give them the annual extension for the five yearly periods, plus the final extension of two more years. Thus these countries have a clear expectation that the period will be extended. This expectation did not prevail before Doha because, according to Article 27.4, they had to make a case in the Committee for economic,

financial or development need, and the Committee had to approve the extension by consensus, which is more complicated and less certain.

This decision, again, has a very significant impact on the way in which EPZ regimes currently operate, as well as on other regimes geared to promoting exports, creating jobs, or attracting foreign investment and which, to those ends, grant export subsidies. Hence the term "export processing zone" does not appear anywhere, but the regime's main components - exemptions from internal taxes and import duties that amount to an export subsidy - are directly affected by the discussions and the decisions taken in Doha.

This final outcome of Doha can only be understood in the much wider context of the trade-offs that were necessary there and during the preparatory phase so as to reach agreement on the launch of a new round of multilateral trade negotiations.

A first partial conclusion is that EPZ schemes in Latin America and in the Caribbean are soon to undergo some significant changes. On the one hand, since the countries are involved in negotiations for free trade areas and customs unions, there is a dawning awareness of a certain systemic incompatibility between export processing zones and free trade areas, inasmuch as they limit tariff exemptions on extra-regional inputs. On the other hand, the WTO is also seeking to eliminate export subsidies, since such subsidies are deemed to distort international trade. Thus all countries have agreed that those exemptions from internal taxes and import duties that amount to an export subsidy must be removed in the near future. The challenge of the EPZs, then, is enormous.

VII. ADJUSTING TO THE NEW ENVIRONMENT: CHALLENGES

Given their heavy dependence on EPZs and other special regimes, thus far few countries have been obliged to make substantial changes in the way that those regimes operate. Experience so far is limited, and much remains to be seen and done in other countries, especially the main users of EPZs.

MEXICO

The case of Mexico in the context of NAFTA is interesting. Exports of goods produced under the *maquila* system have increased substantially and constantly, both in absolute terms and relative to non-*maquila* exports. In 1980, for example, *maquila* exports accounted for 14% of the total; in 1998 they accounted for 41% and were growing at an annual rate of 18.5% (Karp and Sánchez [1999]). Employment in *maquila* industries doubled to 1.3 million in the period 1993-1998.²⁵ Since 2000 the *maquila* sector has suffered something of a downturn because of several factors, mainly the decline in economic growth in the US, greater international competitiveness, the lack of labor and energy reform in Mexico and, to some extent, the temporary impact of NAFTA's disciplines (General Accounting Office [2003] note 10).

In fact, the ways in which *maquilas* operate have changed. As mentioned earlier, Article 303 of NAFTA establishes restrictive disciplines with respect to imports of extra-regional goods produced under duty drawback and deferral schemes. Remember that when NAFTA entered into force in January 1994 it was agreed to offer a seven-year period to Mexican goods that were benefiting from drawback or duty deferral, a period that expired on January 1, 2001. As part of the preparations for the implementation of that commitment, Mexico established the "Sectoral Promotion Program" (PROSEC).

This basically consists of the granting of an MFN tariff preference, not above 5% in most cases, for a list of over 5,000 inputs used in 22 domestic industries.²⁶ To benefit from this reduction, however, the companies that use the inputs must register with the program.²⁷ Both exporting companies and those producing for the domestic market can profit from this program. Mexico is continuing to change the regulatory framework so as to establish an environment that facilitates recovery of exports to the NAFTA market. Some observers believe that the reforms that the authorities seek to introduce are equivalent to the virtual creation of EPZs.

URUGUAY

In the context of MERCOSUR, the operation of Uruguayan free zones was restricted by the approval in December 1994 of Decision N° 8 under the Protocol of Ouro Preto. Through tax exemptions at the national level, the state had fostered such zones as a way of attracting foreign investment and creating jobs, and a large number of them were set up throughout the country. With the approval of that Common Market Group decision,²⁸ however, the zones were obliged to adapt their activities so as to safeguard the investments made. As of 1994, all goods produced in or entering the free zones could not secure the certificate of MERCOSUR origin and, from a tax viewpoint, they had to pay the CET if they entered the territory of any of the other member countries. Hence the manufacturing establishments installed in the zones had to become free service and logistics zones and zones for the distribution of, especially, extra-regional goods.

CANADA

Canada, having signed the 1996 free trade agreement with the US that later became NAFTA, has agreed on disciplines similar to Article 303 of NAFTA that limit the possibility of granting exemptions to that of returning, suspending or exempting payment of extra-regional customs tariffs. In Canada, as mentioned, there are no EPZs but intensive use is made of drawback mechanisms as a means of export-promotion. As a strategy to adjust to the new environment, the Canadian government opted for specific and competitive tariff liberalization: that is, the elimination of the MFN tariff on imports of extra-regional inputs needed to produce export goods. This strategy exemplifies the complementarity between regional and unilateral trade liberalization.

What can be said about the future of free zones and special regimes in general?

There is no precise answer to such a broad question. On the one hand, the instruments that fall under the heading "export processing zones and special regimes" are very diverse. For each instrument there can be different obligations - multilateral as well as current or potential regional or subregional commitments. In that light, offering general prescriptions can amount to an unwise over-simplification of reality. A case-by-case analysis is essential, so as to determine the impact of each current or potential trade agreement on every special regime in every country. As mentioned earlier, there are no clear signals in the trade negotiations on, for example, services. Negotiations on subsidies in services and investment incentives are still at a very early stage. It is impossible at the moment to discern clear signals on the treatment that would be accorded to a free zone exclusively for services, or how a firm supplying services would be treated in a manufacturing free zone. However, it is not the purpose of this study to undertake a casuistic analysis, but rather to call attention to very general trends.

The tendency towards change in EPZs or special regimes does not necessarily mean that there will be a drastic shift in the overall production patterns to which firms in EPZs or special regimes are subject. It is too early to assess the results of the implementation of NAFTA's Article 303. As mentioned earlier, the *maquila* sector has lost some of the dynamism it had when NAFTA entered into force, but it is very difficult to ascribe that to NAFTA. Preliminary studies of the issue have concluded that the logic of NAFTA has not prevailed over the logic and strength of the *maquiladoras* or export processing zones in Mexico (Sargent and Matthews [2001]). The changes made in 2001, however, are very recent. NAFTA's logic and regionalist pressure could prevail in the medium term.

Current global production dynamics conform to strategic adjustments made by companies that compete at the international level and that, in many cases, exploit more competitive productive factors in the countries of LAC. Most companies operating under these regimes have internationalized their production or are multinationals that perform certain stages of the production chain in these countries. This pattern, which has helped drive the economies (especially those bordering the Caribbean basin), could accelerate further the more integrated that those economies are. Inasmuch as the essential core elements prevail (low macro-costs of doing business and proximity to the large consumer markets), the companies will continue to operate, albeit in a transformed regulatory scheme.

With all these considerations, what form might EPZs assume in the future, once they lose significant tax exemptions? Again, there are no precise answers. In part the answer depends on a set of diverging factors such as how the free zones have developed to date, their geographic location, the profile of the companies based therein, the kind of incentives that they can offer, the type of investment promotion policy that a government follows, the kind of industrial policy that the countries might adopt in the future, the country cost, the country risk, the pressure of lobbying by companies that benefit from the regimes and so on. Similarly, there is a need to define the impact of other external factors, such as China's accession to the WTO, the incorporation of textiles to the GATT in 2005, the FTAA's tariff reduction and rules of origin schemes and so forth. Some free zones might become logistical centers for external trade. Perhaps others will specialize in the international provision of services. Others could specialize in extra-regional exports or simply disappear because the cost-benefit ratio is unfavorable. It should not be forgotten, however, that many companies now benefiting from these special regimes might simply continue to benefit from the free market conditions that will arrive with the trade integration promoted by the multiple free trade negotiations in which the Western Hemisphere countries are engaged. Everything, again, depends on many variables. One of the most crucial is the treatment of EPZs in future free trade accords, including the FTAA, its rules of origin, the provisions on accumulation that can be negotiated, provisions on the treatment of certain small economies and so on. The important thing is that the potential to maintain and boost production will remain, and will not necessarily disappear just because the regulatory and tax schemes change. Other factors determine the competitive international position of most of those firms. The EPZ regime is just one of them, and perhaps not the most important.

It is likely that as a result of these forces, much of the production in free zones and special regimes will be incorporated into the national productive apparatus, and that there will be a harmonization of the tax regimes applicable to intra- and extra-zone companies. In the meantime, EPZs will move from an environment marked by hard incentives to one in

which only softy incentives can be used. Regional and multilateral integration will probably serve as the engine of that transition. In future, EPZs could lose much of their importance simply because they are unnecessary. If economic liberalization is not deepened, however, if regulatory frameworks are not rationalized and infrastructure is not upgraded - in short, if the process of reducing the anti-export bias does not continue and the business climate does not improve further - the LAC countries will be in a difficult position because international commitments do not allow them to make such use of the oasis provided by EPZs.

VIII. FINAL REMARKS

Perhaps EPZs have not worked perfectly in LAC to date, but it is undeniable that they have played an important role in many countries. Their effect has been most important in those Caribbean Basin countries in which the diversification of the export base, the creation of new jobs and the attraction of foreign direct investment has centered on EPZs. Relatively liberal conditions of access to the markets of the more developed countries for many of the products manufactured in EPZs have been the other side of the coin in this success. An expansion and improvement in these conditions would plainly help increase the levels of success attained thus far. The role of EPZs in other LAC countries, especially South America, has not been so great, but they have been important as another tool of industrial policy.

Multilateral and regional disciplines exert strong pressures on the legal regime now governing EPZs, constraining the prospect of granting several of the regime's essential incentives. In the final analysis, it is expected that these disciplines will act as a catalyst of economic opening, regulatory reform and an upgrading of infrastructure in LAC. In the immediate future, EPZs should begin a transition towards a regime with softer incentives. If the countries want to maintain and improve levels of exports and investment-attraction, they probably cannot rely on EPZs in the future as they have in the past. This will put pressure on countries to adopt national-level structural reforms, as a result of which EPZs could come to be less important in the long term.

Other kinds of free zones, such as those geared to imports or simple marketing, are not subject to the same pressures because their goals, functions and instruments are different: they do not have the export incentives that the WTO and the integration agreements seek to dismantle. The prospect of converting an EPZ into an import zone might be useless, not only because the aims are very different, but also because imports seemed to demand a very extensive local market to justify such a move.

The short-term agenda for EPZs should focus on their survival without hard incentives. This will entail improving the way in which they operate, so that they remain the best option for investors. The main tasks facing governments include continuing to provide an appropriate infrastructure for exports, establishing a stable and predictable business climate, and fostering technical and technological education among youth. In the EPZs, governments should undertake substantial reforms to improve infrastructure, improve and rationalize the customs controls, and offer other value added services to the business sector. In the more progressive and successful zones, administrators have gone beyond basic security services, garbage collection and residual water treatment, and have been offering support services to the private sector in areas such as hiring staff, medical and financial services, logistical support for international trade, integrated

customs, inventory management, document management and filing, support for environmental control, specialized technical and technological training, and even accommodation for executives and short-term specialists. Much remains to be done if the EPZs are to continue to be exploited.

Despite all this, however, the countries should not focus all of their attention on making EPZs more successful, at the cost of disregarding the needs of the rest of the country's business environment. EPZs are exceptional and fundamentally temporary instruments. Multilateral and regional international obligations demand a change in their current legal regime. This message is clear. Much more attention should be paid to it, so that countries can soon begin the transition to a new environment. To defer this discussion and the consequent reforms will simply mean storing up trouble for the future.

Notes

¹ The author is very grateful to the Committee of Free Zones in the Americas for providing some of the quantitative data used in this study. The Committee has spearheaded efforts to gather information that is currently dispersed throughout the Western Hemisphere. Its endeavors will be crucial in securing a better understanding of the zones phenomenon in the Americas.

² The many terms used to describe the "zones" and similar phenomena around the world include the following: free zones, *maquiladoras*, special economic areas, foreign trade zones, industrial free zones, free trade zones, export processing zones, special export processing zones, tariff-free factories, economic free zones and industrial zones. See the respective countries in International Labour Organization, *Export Processing Zones: Addressing the Social and Labour Issues*, 1988, at <http://www.transnationale.org/pays/epz.htm>. Last consulted on February 1, 2005.

³ The main difference between free zones and these instruments is that the zones comprise a geographic enclave that isolates the firm from the rest of much of the country's business environment, which is normally more distorted, and provides a distinct environment in terms of regulations, customs, exchange rate, tariffs, taxes, infrastructure and security, one that is more friendly to economic activity.

⁴ The common feature has become blurred because, as mentioned below, some countries now authorize the establishment of geographically separate sub-zones of just one firm.

⁵ Some countries demand special authorization for processing in a free zone. In the United States, for example, the foreign trade zones require special authorization from the Foreign Trade Zones Board in order to undertake processing. To grant the authorization, the Board must assess the impact of the processing on local industry and employment.

⁶ The benefits vary by type of zone and country. Generally they are related to tariffs, taxes, customs facilitation, infrastructure, physical security of goods, geographic location and so on. On US foreign trade zones see Dennis Puccinelli, *Foreign Trade Zones: US Customs Procedures and Requirements*. Last consulted on February 1, 2005.

⁷ The benefits include: tariff deferral, inverted tariff relief, warehousing, additional security, simplified and faster customs procedures and so on. In a market as sophisticated and competitive as the United States, in which survival depends on minimum margins in price differences and efficiency in delivery, the availability of zones with these benefits allows companies to be more competitive by improving cash flow, increasing savings, enhancing delivery times and so forth. See National Association of Foreign Trade Zones, *Benefits of FTZs*, at http://www.naftz.org/body_benefits.htm, last visited on February 1, 2005. See also Puccinelli, *op.cit.*

⁸ For views of free zones in MERCOSUR, see Bolin [1996].

⁹ Because of the limited availability of data disaggregated by regime, except as otherwise indicated, the data here refer to the general free zone phenomenon, not to export processing zones in particular. In many cases the number of free zones in general includes export-processing zones.

¹⁰ See United States Foreign Trade Zones Board. Report 64 to Congress. 2002. According to the report, in 2002 some \$ 204.1 billion in goods were imported into the zones. Just \$ 15.6 billion of these were exported to other countries, a circumstance that clearly reveals these zones' orientation to the internal market. The report indicates that the zones were home to 2,285 firms with 319,000 employees in that year. Their main activities are largely concentrated in refining, vehicles, information technology and office equipment, and electronics. See the complete report at <http://ia.ita.doc.gov/ftzpage/ar-2002.pdf>. Last consulted on February 1, 2005.

¹¹ For an exhaustive analysis of the current situation of *maquiladoras* in Mexico, see General Accounting Office [2003].

¹² Using data from the Committee itself, the International Labour Organization, the European Commission and the World Federation of Free Zones.

¹³ Central Bank of Honduras, 2001.

¹⁴ Among the various reasons for the low level of value added the author identifies the disincentive to acquire goods locally that affects many US textiles firms located in the Dominican Republic that use "production-sharing" schemes, since Program 9802, specifically 9802.00.8010 (807a) has an incentives structure that encourages the highest possible value added in the United States.

¹⁵ Sandra Polaski is critical of the level of compliance with labor legislation in the Central American countries, without making an explicit reference to EPZs.

¹⁶ Madani [1999] p. 17, gives the example of Tunisia. As yet there is no evidence for LAC. Stacy, *op. cit* (note 19), p. 31, suggest that this phenomenon is not evident in the Dominican Republic.

¹⁷ One of the few cost/benefit analyses was made in Costa Rica. See Monge González *et al.* [2005]). This study seems to indicate that Byrnes hypothesis does not hold in Costa Rica.

¹⁸ This section and the next amount to a revised and updated version of a study by the same author. See Granados [2003].

¹⁹ The exceptions normally refer to certain limited quotas for certain goods on which rules of origin are not imposed during a transition period, or "*de minimis*" provisions in the rules of origin system, or provisions on the temporary entry of some goods such as travelers' luggage, temporary admittance, international transit and other special customs regimes.

²⁰ In a perfect customs unions, however, this logic does not apply. In theory, there should be no rules of origin in a customs union, in principle because all imports of extra-regional inputs are subject to the same tariff level (and this removes the possibility of trade deflection), because there is a common mechanism for tariff collection and free movement of any good once it enters and pays the common external tariff (CET).

²¹ The free trade agreement between the United States and the five Central American countries, as shown below, is an example of an accord in which the drawback and suspension regimes are unaffected since the obligations refer basically to regimes that entail tariff exemption.

²² Article 303 establishes that there can be no reduction, drawback or exemption for an amount above the lesser between (1) the tariff that extra-regional inputs would pay when imported into the national territory, and (2) the tariff that would have to be paid on the goods to be exported to the other member country. In principle, this means that when the transition period is over and the goods move freely, the amount of the duty reduction, drawback or exemption can never exceed 0%; in other words, they are eliminated.

²³ However, if at some point a product exported from a beneficiary country becomes "competitive at the global level" (that is, it accounts for more than 3.25% of total world trade in that product for two consecutive years), then the export subsidies must be removed within two years.

²⁴ Antigua and Barbuda, Barbados, Belize, Bolivia, Costa Rica, Dominica, El Salvador, Guatemala, Grenada, Honduras, Jamaica, Panama, the Dominican Republic, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Uruguay. See WTO document G/SCM/40/Rev.2.

²⁵ Mexico, Presidency of the Republic, Sixth Report of the Government, Statistical Indicators Section.

²⁶ The following industries: electrical, electronic, furniture, toys and sporting goods, footwear, mining and metallurgy, capital goods, photographic, agricultural machinery, various industries, chemicals, rubber and plastics, iron and steel, medicines and medical equipment, transport, automotive and vehicle parts, paper and cardboard, leather and hides, textiles and clothing, chocolates and confectionary, and coffee. See NAFTA WORKS, January 2001 at <http://www.naftaworks.org>.

²⁷ PROSEC is designed so that only producer companies, not the importer or marketer, benefits from a preference. This explains why Mexico did not simply choose to reduce the MFN tariff for the more than 5,000 products. According to some sources, to have done so on an MFN basis would have caused more serious harm to Mexican producers of those products, and PROSEC balanced out the interests of the latter and of the *maquiladoras*.

²⁸ This decision affects all the free zones in MERCOSUR except for the special zones in Manaus (Brazil) and Tierra del Fuego (Argentina). These, by virtue of a political decision, are free from this limitation until 2013.

Table 1

NUMBER OF FREE ZONES IN SOME LAC COUNTRIES

Country	1994	1995	1996	1997	1998	1999	2000	2001	2002
Argentina								24	24
Bahamas									3
Belize								1	1
Bolivia	5	5	9	13	15	15	15	15	15
Brazil (*)	1	1	1	1	1	1	1	1	1
Chile	2	2	2	2	2	2	2	2	2
Colombia	9	9	9	9	9	10	10	12	12
Costa Rica	8	8	8	8	8	9	11	12	12
Cuba							3	3	3
Ecuador							6	6	8
El Salvador	5	5	6	6	6	8	9	14	14
Haiti									4
Jamaica									3
Panama	1	1	1	1	1	1	2	2	2
Guatemala						13	18	18	18
Honduras							24	24	26
Nicaragua	1	1	2	2	2	5	5	5	10
Peru	2	2	2	2	2	4	4	4	4
Dominican Republic	32	33	36	40	43	44	46	51	53
St. Kitts and Nevis									4
Trinidad and Tobago									17
Uruguay							5	7	7
Venezuela							3	3	3
Total in 18 LAC countries in 2002:									248

Note: (*) As mentioned, the Manaus Free Zone in Brazil is not fundamentally geared to exports. This is clear because: (a) its products can be admitted to Brazil's domestic market and (b) more is exported to Brazilian territory than to the international market. Additionally, there are three free trade zones (for marketing, not processing) geared to regional development in the north of the country: Tabatinga, Guajar -Mir n and Macap -Santana. Currently, Brazil does not have free zones in the strict sense of the term, although the law makes provision for them.

Source: Free Zones Committee of the Americas.

Table 2

LAC COUNTRIES WITH EPZs^(*)

1. Argentina	9. Ecuador	17. Paraguay
2. Bahamas	10. El Salvador	18. Peru
3. Belize	11. Guatemala	19. Dominican Republic
4. Bolivia	12. Haiti	20. St. Lucia
5. Colombia	13. Honduras	21. Uruguay
6. Chile	14. Jamaica	22. Venezuela
7. Costa Rica	15. Nicaragua	
8. Cuba	16. Panama	

Note: (*) Note the differences between Tables 1 and 2. This is because, as explained, some countries have free zones that are not necessarily EPZs.

Table 3

GEOGRAPHIC DISTRIBUTION OF FREE ZONES, 2002

Country/region	N° of free zones	Jobs	Firms
North and Central America	479	2,539,535	8,462
North Africa	16	440,465	3,395
Sub-Saharan Africa	225	431,348	477
Indian Ocean	2	127,509	693
Middle East	38	691,397	7,429
Asia	153	40,738,884	475,176
South America	68	205,225	7,465
Caribbean	93	220,803	1,000
Central and Eastern Europe	93	245,619	5,622
Pacific	14	13,590	96
Europe	67	50,830	5,363
<i>World total</i>	<i>1,072</i>	<i>45,705,205</i>	<i>515,178</i>

Table 4

EPZ EXPORT VALUES AND % OF TOTAL EXPORTS OF SOME LAC COUNTRIES
(US\$ millions, 2000)

Country	EPZ exports	% of total exports
Dominican Republic	4,770	81.1
Costa Rica	2,986	51.1
Honduras	2,362	50.0
El Salvador	1,452	48.8
Bolivia	537	43.7
Peru	2,757	40.0
Nicaragua	272	21.8
Chile	1,449	08.0
Guatemala	195	06.5
Colombia	601	04.3
Brazil	772	01.4

Source: Free Zones Committee of the Americas.

Table 5

IMPORTS AND EXPORTS OF EPZs IN SOME LAC COUNTRIES
(US\$ millions)

Country	2000		2001		2002		Period balance
	Imports	Exports	Imports	Exports	Imports	Exports	
Bolivia	431	537	461	575	483	594	+ 110
Brazil	3,228	773	3,277	770	3,315	1072	- 2,401
Costa Rica	1,776	2,986	1,992	2,377	2,197	2,657	+ 685
El Salvador			1,161	1,652	1,162	2,065	+ 697
Panama	4,432	5,145	4,604	5,323	4,173	4,880	+ 713
Nicaragua	198	273	227	296	267	343	+ 73
Peru	120	2,595	128	2,757	170	3,863	+ 2,932
Dominican Rep.	3,062	4,770	2,847	4,538	2,645	4,336	+ 1,696

Source: Free Zones Committee of the Americas.

Table 6

EMPLOYMENT IN EPZs IN SOME LAC COUNTRIES

Country	Direct employment								
	1994	1995	1996	1997	1998	1999	2000	2001	2002
Mexico (maquila)							1,243,115	1,350,000	1,350,000
Dominican Rep.	176,311	165,571	164,639	182,174	195,193	189,458	195,262	175,078	170,833
Honduras	n.a	55,000	66,000	83,500	98,900	103,300	106,500	109,200	126,619
El Salvador	14,308	19,378	24,018	30,852	38,304	44,088	49,472	60,000	76,134
Nicaragua	5,000	7,000	10,000	13,000	18,000	21,000	37,000	37,000	50,340
Brazil	41,477	48,760	48,494	50,674	49,575	43,095	48,879	48,500	47,893
Costa Rica	23,000	25,000	26,000	26,000	30,000	31,000	34,000	35,000	39,583
Peru	10,000	11,000	13,500	12,500	10,500	11,500	13,500	15,230	16,317
Panama	12,674	13,421	12,152	16,639	14,178	14,413	14,600	15,300	16,300
Guatemala	n.a	n.a	n.a	n.a	n.a	12,307	12,220	13,000	13,000
Colombia	10,090	11,267	13,399	12,637	10,629	11,383	13,419	12,355	12,843
Chile	n.a	n.a	n.a	n.a	n.a	9,975	10,503	10,300	10,300

Source: Free Zones Committee of the Americas.

Table 7

SPECIAL IMPORT REGIMES IN SOME TRADE AGREEMENTS IN THE AMERICAS

Agreement	Source	Treatment
NAFTA, 1994	Article 303 and its annexes	Refers to programs of duty drawback and deferral. A transitional period of 7 years to January 1, 2001 was agreed. After that period, paid duties cannot be refunded, and customs duties on goods for export, or that are to be included in other goods for export, or substituted for other goods for export to the territory of another member of the agreement, cannot be reduced or exempted, in an amount that exceeds the lesser between the total amount of customs tariffs paid or levied on imports of the good to its territory, and the total amount of customs tariffs paid to the other member with respect to the good that is later exported to the territory of that other member.
MERCOSUR, 1994	Resolution CMC/DEC No. 8/94	Refers to free trade zones, industrial zones, export processing zones and special customs areas. Goods under these regimes are subject to the payment of the common external tariff or the national customs tariff, as the case may be. Because of their geographic location, the special customs areas of Manaus and Tierra del Fuego are not included in these provisions until 2013.
Andean Community, 1991	Dec. 282 CAC and the Declaration of Santa Cruz de la Sierra of January 2002	Refers to tariff exemptions, understood to be regimes that allow free consumption with the corresponding exemption, reduction or drawback of tariffs. It was agreed not to grant new tariff exemptions as of March 31, 1991 because they would contravene subregional tariff commitments. There are some exceptions but they require a favorable judgment of the Junta on their compatibility with the purposes of the Decision. With respect to special customs regimes, and in line with the definitions of the 1973 Kyoto Convention, it was agreed to embark on harmonization. In the Declaration of Santa Cruz de la Sierra on January 30, 2002, the five presidents reaffirmed their commitment to harmonize the temporary import and other special regimes for intra-subregional trade. It is acknowledged that there should be a rules of origin regime to "avoid distortions in intra-Community trade".
CARICOM, 1973	Art. 16. CARICOM's founding treaty	Refers to the partial or total drawback or remission of import taxes. Each member country can refuse to treat goods that benefit from such drawback or remission as common market goods.
Mexico-Bolivia FTA, 1995	Article 304	Refers to tariff deferral or suspension regimes defined as free zones, temporary imports under bond, temporary imports for export, bonded warehouses, maquiladoras and other export processing industries. A transitional period of 8 years to January 1, 2003 was agreed. Thereafter, paid duties cannot be refunded and customs duties cannot be reduced or exempted for goods to be exported or incorporated into other goods to be exported, or substituted for other goods to be exported to the territory of another member country of the agreement, in an amount that exceeds the total customs tariffs paid or levied on the quantity of that imported good that is materially incorporated into the good exported to the territory of the other member, or substituted for identical or similar goods materially incorporated in the good exported to the other's territory, making due allowance for waste. Countervailing disciplines were agreed in the event that the import of goods produced under these regimes cause damage to the national industry.
Mexico-Costa Rica FTA, 1995	Article 305	Refers to programs of duty drawback and deferral. A transitional period of 7 years to January 1, 2002 was agreed on. Thereafter, paid duties cannot be refunded and customs duties cannot be reduced or exempted for goods to be exported or incorporated into other goods to be exported, or substituted for other goods to be exported to the territory of another member country of the agreement, in an amount that exceeds the total customs tariffs paid or levied on the quantity of that imported good that is materially incorporated into the good exported to the territory of the other member, or substituted for identical or similar goods materially incorporated in the good exported to the other's territory, making due allowance for waste. Countervailing disciplines were agreed in the event that the import of goods produced under these regimes cause damage to the national industry.

Table 7 (continued)

SPECIAL IMPORT REGIMES IN SOME TRADE AGREEMENTS IN THE AMERICAS

Agreement	Source	Treatment
Mexico-Nicaragua FTA, 1998	Article 305	Refers to programs of duty drawback and deferral. A transitional period of 7 years to January 1, 2002 was agreed on. Thereafter, paid duties cannot be refunded and customs duties cannot be reduced or exempted for goods to be exported or incorporated into other goods to be exported, or substituted for other goods to be exported to the territory of another member country of the agreement, in an amount that exceeds the total customs tariffs paid or levied on the quantity of that imported good that is materially incorporated in the good exported to the territory of the other member, or substituted for identical or similar goods materially incorporated into the good exported to the other's territory, making the allowance for waste. Countervailing disciplines were agreed in the event that the import of goods produced under these regimes cause damage to the national industry.
Mexico-Guatemala, Honduras and El Salvador FTA, 2000	Article 305	Refers to programs of duty drawback and deferral. The signatories reserved their rights and obligations in accordance with their legislation and the WTO agreement. There can be consultations if a member is affected by the application of these programs.
CACM		There are no specific legal provisions in this regard. However, the practice adopted in the five CACM countries has been that free intra-regional trade is not granted to goods produced in export processing zones. (see, for example, government of Costa Rica article in that country's <i>La Nación</i> newspaper, February 28, 2002, p. 25A).
Chile-CACM FTA, 2001	Annex 3.04(2)	Goods exported from Chile to Costa Rica cannot benefit from the Drawback Program for Chilean Exporters. Exporters to Costa Rica must forego the benefit.
Canada-Chile FTA, 1997	Article C 03 and Canada's tariff reduction lists	Refers, first, to exemption from customs duties conditional on performance requirements. In principle, neither country can grant such exemptions. Second, some of Canada's tariff reduction lists are conditional on the Chilean government's notifying the Canadian government that the good to be exported does not benefit from the duty drawback program.
Canada-Costa Rica FTA, 2001	Canada's tariff reduction lists	Refers to tax exemptions and other export subsidies granted under the protection of the free zone regime. Implementation of the agreement's different categories of tariff reduction will enter into force 120 days after the government of Costa Rica satisfactorily notifies the government of Canada that it has eliminated all such exemptions and subsidies.
Dominican Republic-CARICOM FTA, 1998	Action Plan, iii)	Refers to free zones. Although no legal disciplines have been agreed, there is an action plan to negotiate such disciplines and an agreement on a series of principles. The latter include: (1) products from free zones must not enjoy additional advantages to those they now enjoy in the different customs territories, and (2) no less favorable treatment than the one they now enjoy in reciprocal trade.

Table 7 (continued)

SPECIAL IMPORT REGIMES IN SOME TRADE AGREEMENTS IN THE AMERICAS

Agreement	Source	Treatment
Trade agreement between the Dominican Republic and Panama, 1985	Article V	Refers to free trade zones or export processing zones. Establishes that goods produced in such zones in the contracting parties may, exceptionally, benefit from the present treaty when the Permanent Joint Committee so agrees.
CACM-Dominican Republic FTA, 1998	Article 3.05 and Protocol to the treaty	Refers, on the one hand, to duty drawback and deferral programs. In this regard the signatories reserve their rights and obligations in accordance with the WTO agreement. Additionally, however, the agreement makes express reference to export processing zones and special fiscal and customs regimes. In that regard, Article 4.1 of the protocol to the agreement states that goods produced under such regimes may be admitted to the territory of the other signatory under conditions that are no less favorable than those applying to the goods of one signatory produced in its own export processing zones or under other special regimes.
United States-Chile FTA	Art. 3.8	Refers to drawback and duty deferral programs. Except in some very specific circumstances, no party may reimburse the amount of customs tariffs paid, nor exempt or reduce the amount of customs tariffs related to a good imported into its territory on condition that the good is later exported to the other party's territory, used as material in the production of another good that is later exported to the other party's territory, or replaced for an identical or similar good used as material in the production of another good that is later exported to the other party's territory. These disciplines take effect eight years after the agreement enters into force and are subject to periodic dismantling in a period of 12 years, such that the reimbursement or exemption cannot exceed certain limits: no more than 75% in the ninth year; no more than 50% in the tenth year; no more than 25% in the eleventh year; and 0% in the twelfth and subsequent years.
CAFTA-DR-United States FTA	Arts. 3.4 and 3.31	Refers to tariff exemptions. No party can adopt new exemptions or expand those prevailing when conditioned to compliance of a performance requirement. Neither shall it condition the continuation of a tariff exemption on compliance with a performance requirement. Performance requirements include the requirement to export a certain volume or percentage of goods or services. Expressly excluded from performance requirements, however, are the requirement that an imported good is later exported or that an imported good is used as material in the production of another good that is later exported. Costa Rica, El Salvador and Guatemala will be allowed to retain existing measures that are inconsistent with the foregoing if those measures are in line with Article 27.4 of the SCM Agreement. Costa Rica, El Salvador and Guatemala will not be allowed to retain any of these measures after December 31, 2009. Nicaragua and Honduras will be allowed to retain measures that are inconsistent with the foregoing in the period in which they are included in Annex VII for the purposes of the SCM Agreement. Nicaragua and Honduras must maintain any of these measures in line with Article 27.4 of the SCM Agreement.
CACM		There are no specific legal provisions in this regard. However, the practice adopted in the five CACM countries has been that free intra-regional trade is not granted to goods produced in export processing zones. (See, for example, government of Costa Rica article in that country's <i>La Nación</i> newspaper, 28 February, 2002, p. 25a).

Table 8

LATIN AMERICA, THE CARIBBEAN AND WTO EXTENSION PROCEDURES

Country	% of world exports 1998-2000	Gross national income (US\$ billions, 1999, World Bank)	Beneficiary of agreed extension procedures?
Antigua and Barbuda	0.00	0.6	Yes
St. Kitts and Nevis	0.00	0.3	Yes
Grenada	0.00	0.4	Yes
St. Vincent and the Grenadines	0.00	0.3	Yes
Dominica	0.00	0.2	Yes
St. Lucia	0.00	0.6	Yes
Belize	0.00	0.7	Yes
Haiti	0.00	4.0	Not on the WTO list ^(*)
Barbados	0.00	2.6	Yes
Suriname	0.01	0.8	Yes
Guyana	0.01	0.7	Not on the WTO list ^(*)
Nicaragua	0.01	2.1	Not on the WTO list ^(*)
Panama	0.01	8.7	Yes
Paraguay	0.02	7.7	Not on the WTO list ^(*)
Bahamas	0.02	4.8	Not on the WTO list ^(*)
Bolivia	0.02	8.4	Yes
Jamaica	0.02	7.7	Yes
Honduras	0.02	4.8	Yes
Uruguay	0.04	19.0	Yes
Guatemala	0.04	18.6	Yes
El Salvador	0.05	11.8	Yes
Trinidad and Tobago	0.05	8.1	Not on the WTO list ^(*)
Ecuador	0.08	15.0	Not on the WTO list ^(*)
Dominican Republic	0.09	16.1	Yes
Costa Rica	0.10	12.0	Yes
Peru	0.11	53.7	No
Colombia	0.20	90.0	No
Chile	0.28	69.6	No
Venezuela	0.39	87.3	No
Argentina	0.44	276.1	No
Brazil	0.88	730.4	No
Mexico	2.39	428.9	No

Note: ^(*) WTO [2002] sets out the list of countries that seek extension in line with the timeframes and procedures established at Doha. Perhaps some countries did not present their request, despite having qualified under the terms agreed. Keep in mind that the countries whose annual per capita income is below \$1,000 do not have to eliminate export subsidies according to the Agreement on Subsidies and Countervailing Measures.

Source: Data from WTO document G/SCM/38 of 10/26/2001 and the World Bank.

Bibliography

- BYRNE, PETER. "Regímenes Tributarios Especiales en la Región Andina: Implicancias de Políticas de Comercio y Tributarias para la Integración Regional". Prepared for the IDB's Integration and Regional Programs Department, Washington D.C. March, 2003.
- BOLIN, RICHARD. *Impact of 57 New Export Processing Zones in MERCOSUR*, Flagstaff Institute, BOLIN (Ed.). 1996.
- CHEN, XIANGMING. *The Evolution of Free Economic Zones and the Recent Development of Cross-National Growth Zones*. International Journal of Urban and Regional Research, Vol. 19, N° 4, p. 593. 1995.
- ECLAC. *Foreign Direct Investment in Latin America and the Caribbean*, pp. 225-226. Santiago, Chile. 1998.
- GRANADOS, JAIME. "Export Processing Zones and Other Special Regimes in the Context of Multilateral and Regional Trade Negotiations", INTAL-ITD-STA, Occasional Paper N° 20. Buenos Aires: IDB-INTAL. Available at: http://www.iadb.org/INT/Trade/1_english/2_WhatWeDo/1_PublicationsFrame.htm. 2003.
- INTERNATIONAL LABOUR ORGANIZATION – ILO. *Export Processing Zones: Addressing the Social and Labour Issues*. Bureau for Multinational Enterprise Activities (MULTI). Available at <http://it.www.transnationale.org/pays/epz.htm>. 1998.
- JENKINS, MAURICIO, G. ESQUIVEL AND F. LARRAÍN. "Export Processing Zones in Central America". In Larraín, Felipe (Ed.), *Economic Development in Central America*, Vol. 1, p. 197, Growth and Internationalization. Cambridge: Harvard Studies in International Development, Mass. 2001.
- KAPLINSKY, RAPHAEL. *Export Processing Zones in the Dominican Republic: Transforming Manufactures into Commodities*. World Development, Vol. 21, N° 11, p. 1851. 1993.
- KARP, NATHANIEL AND MANUEL SÁNCHEZ. "NAFTA: Economic Effects on Mexico, National Bureau of Economic Research", Working Paper. Available at <http://www.nber.org/~confer/99/iasef99/sanchez.pdf>. 30 November, 1999.
- MADANI, DORSATI. "A Review of the Role and Impact of Export Processing Zones". Working Paper 2238. Washington D.C.: World Bank. Available at <http://www.econ.worldbank.org/view.php?type=5&id=965>. November, 1999.
- MONGE GONZÁLEZ, RICARDO; JULIO ROSALES TIJERINO AND GILBERTO ARCE ALPÍZAR. *Análisis Costo-Beneficio del Régimen de Zonas Francas. Impactos de la Inversión Extranjera en Costa Rica. Estudios de Comercio, Crecimiento y Competitividad de la OEA*.

Washington D.C.: Trade, Growth and Competitiveness Office, Organization of the American States. January, 2005.

POLASKI, SANDRA. *Central America and the US Face Challenge – and Chance for Historic Breakthrough – on Workers' Rights*, Issue Brief, Carnegie Endowment for International Peace. Available at http://www.ceip.org/files/publications/2003-Feb_CAFTA-labor-page.asp. February, 2003.

PUCCINELLI, DENNIS. "Foreign Trade Zones: US Customs Procedures and Requirements", Available at http://www.export.gov/exportamerica/TechnicalAdvice/ta_foreign_trade_zones_0203.html.

SARGENT, JOHN AND LINDA MATTHEWS. *Combining Export Processing Zones and Regional Trade Agreements: Lessons from the Mexican Experience*, World Development, Vol. 29, N° 10. 2001.

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT - UNCTAD. "Export Processing Zones: Role of Foreign Direct Investment and Developmental Impact", document TD/B/WG.1/6, Geneva. 28 April, 1993.

WARDEN, STACY. *Assessing Export Platforms: The Case of the Maquiladora Sector in México*. CAER II Discussion Paper N° 77, Harvard Institute for International Development. Available at http://www.cid.harvard.edu/caer2/html/framsets/fr_auth.htm. September, 2000.

WORLD TRADE ORGANIZATION – WTO. Ministerial Decision, Implementation-Related Issues and Concerns (WT/MIN(01)/W/10), and WTO document G/SCM/W/471/Rev. 1, Ministerial Conference of the WTO, 4th Session, Doha. 14 November, 2001.

_____. WTO document G/SCM/40/Rev.2. 13 March, 2002.

GENERAL ACCOUNTING OFFICE. *International Trade: Mexico's Maquiladora Decline Affects US-Mexico Border Communities and Trade; Recovery Depends in Part on Mexico's Actions*. Report GAO-03-891. Available at <http://www.gao.gov/atext/d03891.txt>. 25 July, 2003.

NATIONAL COUNSEL OF EXPORT PROCESSING ZONES. *Statistical Report on Free Zones*. Dominican Republic. 2001.