



ENHANCING THE CONTRIBUTION OF EXPORT PROCESSING ZONES TO THE SUSTAINABLE DEVELOPMENT **GOALS**

An analysis of 100 EPZs
and a Framework for
Sustainable Economic Zones



Enhancing the Contribution of Export Processing Zones to the Sustainable Development Goals

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Preface

Over the past decade, the popularity of Export Processing Zones (EPZs) has grown in many countries across the global south. There are now over 4,000 EPZs, which is over 3,000 more than 20 years ago. Some countries have made the promotion of such zones central to their economic development strategies, while others have questioned their contribution to national development. Meanwhile, the increasing implementation of international trade rules mean that some of the traditional incentives for EPZs, such as tax breaks for exports, are no longer in line with WTO rules. In that context EPZs, also called Special Economic Zones (SEZs), need to innovate new means of maintaining and developing their competitiveness.

Factory collapses and fires, worker unrest and pollution-related industrial tragedies in developing countries provide stark reminders of the need for high standards of environmental and worker protections around the world, and for multinational enterprise (MNEs) to exercise corporate social responsibility (CSR) throughout their supply chains. In a rapidly changing global marketplace, how can EPZs located in developing countries best position themselves to remain attractive and relevant over the longer term to MNEs and their suppliers?

Building on UNCTAD's recognition of the role of EPZs in the World Investment Report of 2013, this report explores the proposition that EPZs positioned and structured as centres of excellence and innovation both in terms of conventional commercial performance, and also with respect to performance in support of environmental and social objectives, may respond better to the evolving global marketplace.

This work fits into the broader context of the launch of the Sustainable Development Goals (SDGs) and UNCTAD's Investment Policy Framework for Sustainable Development. Across a wide range of investment promotion practices, a new generation of policies is emerging that pursues a broader and more intricate development policy agenda, while building or maintaining a generally favourable investment climate. "New generation" investment policies place inclusive growth and sustainable development at the heart of efforts to attract and benefit from investment. In this context, the present report is intended to stimulate further discussion and exploration of the proposition that a "new generation" of EPZ policies could viably reposition EPZs as centres of excellence in corporate sustainability, attracting investment and contributing to the SDGs.

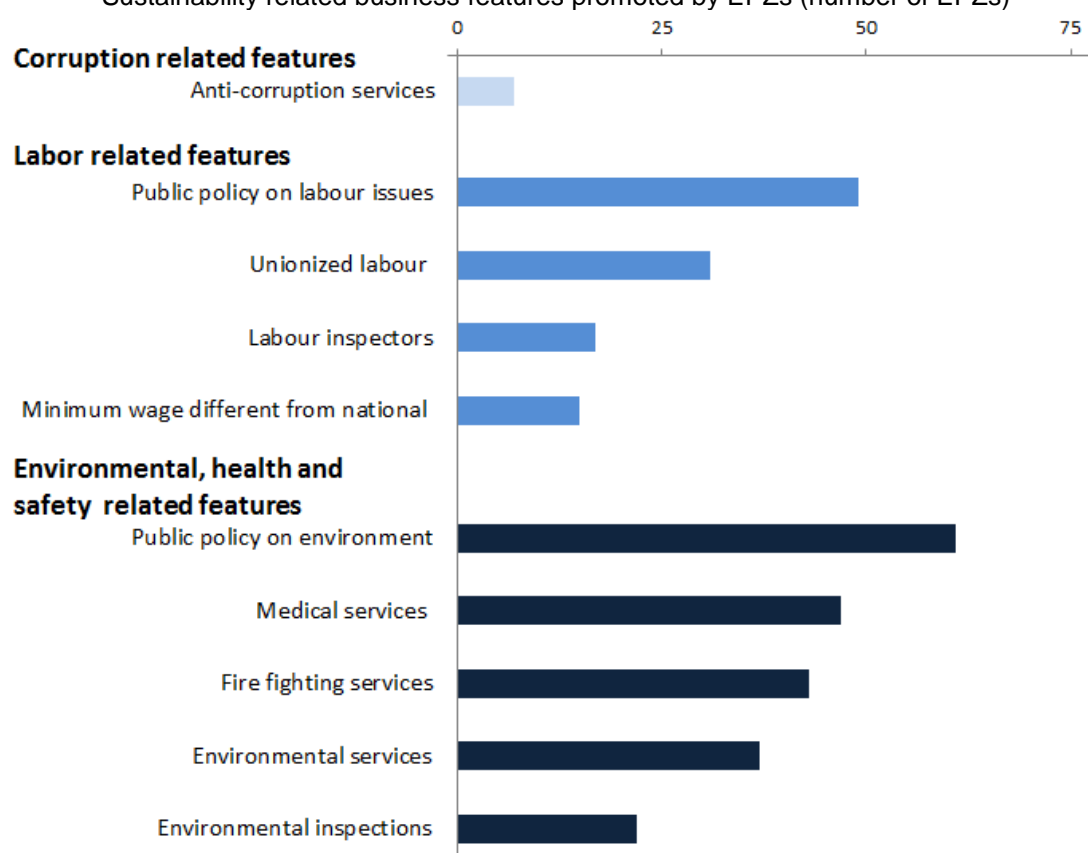
Key messages

This exploratory report suggests that changes taking place in the global market mean that Export Processing Zones (EPZs), and Special Economic Zones (SEZs) more generally, can be restructured as centres of excellence for sustainable development. Such restructuring would increase the appeal of EPZs to multinational enterprises (MNEs) and their suppliers, while simultaneously contributing to the implementation of the Sustainable Development Goals (SDGs), also known as ‘Global Goals’. The report argues:

- **EPZs face a strategic challenge** as traditional tax incentives for attracting companies into zones become incompatible with international trade law and exemptions for developing countries expire.
- **EPZs can enhance competitiveness through a ‘role reversal’: switching from a narrow focus on cost advantages and lower standards to become champions of sustainable business.** EPZs can find new grounds for competitiveness through meeting the growing expectations on MNEs and their suppliers to exercise good social and environmental practices. “Next generation” EPZs can gain a competitive advantage by not only providing conventional commercial benefits (such as modern infrastructure and expedited permitting), but by also providing cost-effective support for good environmental and social practices for firms operating within their boundaries.
- Although some EPZs are making the transition to more of a sustainable development orientation (demonstrating proof of concept), an UNCTAD survey of 100 EPZs’ public information undertaken as part of this report suggests that **most EPZs are not promoting prominent environmental and social features.** Given changes to conventional means of attracting investment into EPZs, this lack of engagement with corporate sustainability could become a missed opportunity for both sustainable development and for EPZ investment promotion.

Most EPZs are not yet promoting environmental and social features

Sustainability related business features promoted by EPZs (number of EPZs)



Source: UNCTAD review of public information on 100 EPZs

- **EPZ management agencies can develop services to help firms' cost-effective compliance with international Corporate Social Responsibility (CSR) standards**, including provision of training and monitoring, as well as health, safety and waste management services to enable a circular economy.
- Governments and investment promotion strategies should **promote competitiveness through enabling efficient performance on all issues that matter to business success, including economic, social and environmental issues**, rather than exempting zones from their own national laws on labour practices or the environment. They could require zones to promote economic linkages with their wider economies of host countries and assess progress towards that aim.
- EPZs operating as centres of excellence for sustainable development could act as pilot projects. **Lessons learned from these "Sustainable Economic Zones" could be applied and scaled up by developing country governments at a regional and national level.** This can be part of the development of backward and forward linkages to the wider economy so that zones are catalysts of wider development. In that way, **EPZs could play a catalytic role in helping nations achieve, *inter alia*, SDG 8, on employment and decent work, 9, on sustainable production, and 12, on sustainable industrialization.**
- **A 'Framework for Sustainable Economic Zones' is offered to guide consideration of EPZ standards, infrastructure and administrative assistance** to enhance sustainability performance.

Framework for Sustainable Economic Zones

Key elements for promoting sustainable EPZs

	Policies/Standards	Infrastructure assistance	Administrative assistance
General Approach	Create multi-stakeholder partnerships to identify opportunities and develop an action plan		
	Maintains and enforces policies and standards, including:	Provides services or specialists to insure compliance/offer assistance, including:	Provides guidance and training to companies, covering how to:
Labour	<ul style="list-style-type: none"> • minimum wage • working hours and benefits • respecting right of unions to be active within the zone • gender equality and related issues • incentives for third-party certifications 	<ul style="list-style-type: none"> • labour inspectors • conflict resolution specialists • reporting hotlines • gender focal points 	<ul style="list-style-type: none"> • improve labour conditions • engage in social dialogue
Environment	<ul style="list-style-type: none"> • emissions • waste disposal • energy use • incentives for third-party certifications • promoting circular economy 	<ul style="list-style-type: none"> • centralized effluent treatment • water reclamation systems • recycling services • hazardous waste management services • alternative energy sources • reporting hotlines • enabling circular economy 	<ul style="list-style-type: none"> • further reduce natural resource use • reduce waste • increase recycling • improve energy efficiency • adopt renewable energy
Health & Safety	<ul style="list-style-type: none"> • employee health and safety protection • incentives for third-party certifications 	<ul style="list-style-type: none"> • medical clinic • fire brigade • reporting hotlines 	<ul style="list-style-type: none"> • prevent health and safety emergencies
Corruption	<ul style="list-style-type: none"> • anti-corruption standards and policies 	<ul style="list-style-type: none"> • hotlines • information on reporting corruption 	<ul style="list-style-type: none"> • build capacity to detect and avoid corrupt business practices
Economic Linkages	<ul style="list-style-type: none"> • employer support for staff training and development 	<ul style="list-style-type: none"> • assistance with local sourcing 	<ul style="list-style-type: none"> • identify and upgrade local suppliers

Source: UNCTAD

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Contents

Note	ii
Preface	i
Key messages	ii
Acknowledgements	iv
1. Introduction	1
2. EPZs and their global context	3
2.1 Background: definition and purpose of EPZs	3
2.2 The evolution of EPZs	4
3. EPZs and services: analysis of 100 EPZs	10
3.1 EPZs and conventional business services	11
3.2 EPZs and sustainable development-oriented services	12
3.2.1. Promoting responsible labour practices in EPZs	13
3.2.2. Promoting environmental sustainability in EPZs	13
3.2.3. Promoting worker health and safety in EPZs	14
3.2.4. Promoting good governance: combating corruption in EPZs	15
4. Framework for Sustainable Economic Zones	16
4.1 Mixed profile of EPZs on sustainable development issues	16
4.2 Implications for policy and strategy	20
5. Conclusions	23
5.1 Next steps	24
References	26
Appendix A: Survey methodology	29
Appendix B: List of EPZs studied	30

预览已结束，完整报告链接和二维码如下：

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