



Export-Processing Zones in the Global Economy: An Alternative Perspective

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Abstract:

Moving past mainstream assertions that Export-Processing Zones (EPZs) are capable of reducing poverty, that EPZs are beneficial to all: states, economies, people; this essay attempts to understand EPZs from an alternative perspective: that is, EPZs are incapable of poverty reduction. Using a neo-Marxists theoretical framework, I argue that EPZs benefit no entity except the transnational capital class. A neo-Marxist approach provides the scope to examine the structures and relations of power that create and reproduce EPZs within the contemporary global economy.

Résumé :

Au-delà de la perspective dominante que les zones franches industrielles pour l'exportation sont capables de réduire la pauvreté et qu'elles sont bénéfiques pour tous : états, économies et personnes; cet essai cherche à comprendre ces zones d'une autre perspective, soit que les zones franches industrielles sont incapables de réduire la pauvreté. Utilisant un cadre théorique néo-marxiste, j'affirme que les zones franches ne sont bénéfiques pour aucune autre entité que la classe capitaliste transnationale. Une approche néo-marxiste donne les outils nécessaires pour examiner les structures et les relations du pouvoir qui créent et reproduisent les zones franches au sein de l'économie mondiale contemporaine.

Introduction

Moving past mainstream assertions that Export-Processing Zones (EPZs) are capable of reducing poverty and that EPZs are beneficial to all: states, economies, people; this essay attempts to understand EPZs from an alternative perspective: that is, EPZs are incapable of poverty reduction. Physically, EPZs are demarcated transnational spaces within distinct sovereign territories that are created by states for economic growth and to attract foreign direct investment. Using a neo-Marxist theoretical framework, I argue that EPZs benefit no entity except the transnational capital class. A neo-Marxist approach provides the scope to examine the structures and relations of power, exogenous to the state, that create and reproduce EPZs within the contemporary global economy. If EPZs are not economic vehicles out of poverty, what are EPZs? In order to re-conceptualize what EPZs are, I begin my description and analysis at a higher level of abstraction in order to conceptualize and examine the structures, within which society, politics and the economy operate.

Structures: Vertical and Horizontal

Phillip Cerny suggests that politics and society involve two kinds of bordering and structural differentiation: vertical and horizontal¹. While the vertical relates to geographic place or territory, the horizontal is conceptualized as social stratification or functional differentiation amongst different human tasks, roles and activities². Cerny argues that a tension exists between the two structural differentiations, vertical and horizontal, territory

¹ Philip Cerny, *Rethinking World Politics: A Theory of Transnational Neopluralism* (New York: Oxford University Press, 2010), 40.

² Ibid.

and the social-economic-political organization of humankind³. The vertical structure “is increasingly cut across and challenged *systematically* from both above and below by transnationalization and globalization, which brings pressure from both above and below, together across territorial boundaries”⁴. The systematic pressure to the vertical structure brings about changes to the horizontal structures.

How can we understand Cerny’s concepts of transnationalization or globalization in a neo-Marxist context? We can understand transnationalization in two ways. The first is as an “orientation that acknowledges no territorial boundaries and focuses on the ways in which the internationalization of production and services can be exploited on behalf of narrow, self-serving interests”⁵. Although James Rosenau is not a neo-Marxist scholar himself, his conceptualization of transnationalization includes the element of exploitation, and therefore, it is complimentary to the neo-Marxist theoretical framework. The second way is to understand transnationalization as a synonym for internationalization. Cox suggests that internationalization is a “global process whereby national policies and practices have been adjusted to the exigencies of the world economy of international production. Through this process the nation state becomes part of a larger and more complex political structure that is the counterpart to international production”⁶. The state and the market hold similar amounts of power as counterparts. Cox argues that the reshaping of state structures happens via a combination of external pressures and a realignment of internal power relations⁷. Using Cox’s and Rosenau’s arguments we can

³ Ibid., 41.

⁴ Ibid., 41.

⁵ James N Rosenau, *Along the Domestic-Foreign Frontier* (New York: Cambridge University Press, 1997), 108.

⁶ Robert W Cox, *Production, Power and World Order* (New York: Columbia University Press, 1987), 253.

⁷ Ibid.

understand that vertical structures, that include elements of territoriality and space, undergo change based on the pressures on horizontal structures or differentiations by such processes as transnationalization. Horizontal structures are rooted in self-serving interests of powerful entities, such as the transnational capitalist class. Accordingly, a vertical structure is created by the nation-state, that is an EPZ, a result of a national policy to accommodate the production demands within global economy. The space is transformed from being shaped by domestic forces, laws and regulations, to being shaped by the preferences of transnational actors, such as multi-national corporations. The state maintains the vertical structure while transnational actors and processes shape within the vertical structure.

A secondary horizontal differentiation, globalization, is understood through Jan Nederveen Pieterse⁸, who argues that globalization, in structural terms, is the increase in the available modes of organization such as transnational, international or macro-regional, national, municipal or local. While these varying modes of organization are used by different entities such as states, corporations or organizations, Cox argues that it is the state that determines the organization of production “if not directly then by fixing the framework of laws, institutions, practices and policies”⁹. Therefore even though economic processes may supersede the levels state and societies¹⁰, the state as the organizer of production, enables the varying modes of organization to manifest. For instance, the fixing of laws or institutions has resulted in the emergence of varying civil society organizations, such as non-profits, NGOs, and charitable organizations. From this

⁸ Jan Nederveen Pieterse, "Globalization as Hybridization," (2009): 50, accessed February 12, 2015, <<http://www.uvm.edu/rsenr/rm230/Nederveen%20Pieterse.pdf>>.

⁹ Cox, *Production, Power and World Order*, 106.

¹⁰ Bornschieer, Volker, and Hanspeter Stamm, "Transnational Corporations," *Current Sociology*, vol 199, 222-223.

line of reasoning, EPZs, are a mode of production organized by the state, but may be an articulation of the tension that exists between vertical and horizontal structures, as states organize the exploitation of a particular class of people, low-skilled labourers.

EPZs as Hybrid Spaces

Tension between structures may create spaces. Pieterse suggests that the different modes of organization create spaces in between, in the interstices of those modes of organization¹¹, for instance, in the interstice between transnational and national. He conceptualizes the interstices, these spaces, as hybrid formations that manifest as hybrid sites and spaces¹². A hybrid space is one where transnational enterprise and state sovereignty meet¹³. Moving forward from the assumption that the state is the organizer of production, EPZs can be considered as a hybrid space, one that is created by the state for the activities of transnational enterprise.

We can further understand Pieterse's suggestion regarding hybrid spaces as a meeting place between transnational enterprise and state sovereignty by drawing from arguments presented by Kenichi Ohmae. This scholar labels the space where transnational enterprise and state sovereignty meets as region states or natural economic zones with boundaries that are "drawn by the deft and invisible hand of the global market for goods and services"¹⁴. He argues, "primary linkages of region states tend to be with the global economy and not with their host nations"¹⁵. As a result, the characteristics that

¹¹ Pieterse, "Globalization as Hybridization," 50.

¹² Ibid., 50-51.

¹³ Ibid., 51.

¹⁴ Kenichi Ohmae, "Rise of the Region State," *Foreign Affairs* (1993): 78.

¹⁵ Ibid., 80.

define region states are in fact shaped by the demands of the global economy¹⁶. Characteristics include transportation linkages such as a port, rail link or airport, communication links, provision of infrastructure or services in order to easily participate in the global economy¹⁷. In a way, regionstates are rather impersonal. Rosenau argues that while region-states (called transnational entities by Rosenau), may occupy a specific territory “they are not themselves bound together by the deep bonds normally associated with territoriality”¹⁸. Deep bonds may include aspects of identity, ideas of home, family and community. Put differently, region-states, transnational entities, hybrid spaces – they are not communities; rather that which hybrid spaces bring together share little.

In addition to the available modes of organization the interstices between them, functional networks are another layer that pose challenges to the vertical structure of territory. A functional network can be understood as a system of interconnected people or things for a specific activity of purpose. Pieterse suggests that corporations, international organizations, non-governmental organizations, professionals and computer users create functional networks¹⁹. For instance, the functional networks created by corporations may encompass trade related activities. Pieterse suggests that functional networks are nested within scapes²⁰ – a concept developed by Arjun Appadurai. Scapes can be understood as global flows, of which Appadurai identifies five different scapes: ethnoscares, technoscares, finanscares, mediascares and ideoscares²¹. Appadurai suggests that the

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Rosenau, *Along the Domestic-Foreign Frontier*, 142.

¹⁹ Pieterse, "Globalization as Hybridization," 50.

²⁰ Ibid.

²¹ Arjun Appadurai, "Disjuncture and Difference in the Global Cultural Economy," *Theory, Culture and Society* (1990): 301.

flows occur in and through disjunctures in the global economy²²; disjunctures (or interstices) that exist between the economy, culture and politics²³. The growing force of deterritorialization, which Appadurai argues is a central force of the modern world, supports the disjunctures between economy, culture and politics²⁴. He suggests that the force of deterritorialization brings together different classes of people that may not normally come together when confined to a specific territory or vertical structure²⁵, such as labourers and wealthy elites. We can understand Appadurai's scapes to be an example of a horizontal differentiation that challenges the vertical structure of territory.

Appadurai brings attention to the relationship between production and consumption in the global economy and the disjunctures that exist between economy, culture and politics. Appadurai extends the Marxist concept of commodity fetishism to examine the spatial nature of the disjunctures that appear between global flows. He suggests that production fetishism is an "illusion created by contemporary transnational production loci, which masks translocal capital, transnational earning-flows and global management and often faraway workers [...] in the idiom and spectacle of local control, national productivity and territorial sovereignty"²⁶. Further, Appadurai suggests that models of production, such as Free Trade Zones (a synonym for EPZs), mask the transnational relations of production, therefore production has become a fetish²⁷. Appadurai's argument suggests that the prescriptions of export-oriented industrialization for poverty reduction, touted by multilateral institutions such as the World Bank and

²²Appadurai, "Disjuncture and Difference in the Global Cultural Economy," 301.

²³Ibid., 296.

²⁴Ibid., 301.

²⁵Ibid.

²⁶Ibid., 306.

²⁷Ibid., 306-307.

International Monetary Fund (IMF), are in fact an illusion, a falsity. “Industrialization has been seen as fundamental to development, because growth in the industrial sector can provide jobs as well as improve technical capacity in the agriculture and service sector”²⁸. But as Appadurai argues that “the locality (both in the sense of the local factory or site of production and in the extended sense of the nation-state) becomes a fetish which disguises the globally dispersed forces that actually drive the production process”²⁹. What is presented as a poverty-reduction strategy is in fact a strategy for transnational capital to maximize the profits and minimize the costs for transnational capitalists; EPZs offer different incentives to transnational capital such as duty-free import of production inputs, flexible labour laws, tax-holidays, infrastructure and subsidies³⁰; making production costs virtually non-existent. Labour may be the highest input (in terms of cost) within an EPZ and EPZs are generally located within the Global South where labour is considered to be abundant and almost limitless. Labour is also available for a fraction of the cost compared to that in western economies.

Empirical examples of EPZs

The empirical example of the maquiladora program along the US-Mexico border provides an apt example of the Appadurai’s production fetishism and the impact on workers. Altha Cravey examines the US-Mexico border and the development of the *new factory regime* or *maquiladora* in the border zone. She suggests that in the late 1970s

²⁸ Altha Cravey, "Globalization and its Impact on the Northern Border Region of Mexico: One Place or None?" In *Territoriality in the Globalizing Society*, edited by S Immerfall (Berlin: Springer, 1998), 130.

²⁹ Appadurai, "Disjuncture and Difference in the Global Cultural Economy," 307.

³⁰ Dorsati Madani, "A Review of the Role and Impact of Export Processing Zones," *The World Bank*, 5. November 1999, accessed February 23, 2015.

and 1980s, Mexico opted for market-led development strategy “that encouraged internationalization, liberalization and privatization of the Mexican economy”³¹, which may have been a response to the oil shock. Cravey suggests that initially, the maquiladora was an ad-hoc program, developed by the state in order to employ seasonal labourers³², specifically those who could no longer work in the US under the Bracero Program³³, and migrant workers from Mexico’s interior also tended to concentrate in border municipalities such as Tijuana, Mexicali and Ciudad Juárez³⁴. Cravey argues that as the Mexican state adopted the maquiladora program as a broader national strategy³⁵, it accompanied highly exploitative labour conditions that devised a wide variety of household forms such that the traditional nuclear family became fractured and atomized³⁶. For instance, some maquiladora factories insisted that workers live individually in dormitories, away from their families³⁷. The factories employed guards to supervise the living space in dormitories³⁸, making factory dormitories resemble prisons more than a space to gain economic livelihood.

Further, Cravey suggests that in the US-Mexico border zone, “the regulatory role of the state has been completely revamped to favor transnational capital”³⁹ such that

³¹ Cravey, "Globalization and its Impact on the Northern Border Region of Mexico," 132.

³² Ibid.,130.

³³ The Bracero Program was a guest worker program whereby Mexican workers were admitted to the United States on a temporary basis to fill shortages in domestic labour supply. For more information, please see Bartnik, Anna, "The Bracero Program." *Ad Americam. Journal of American Studies*, no. 12 (2011): 23-31.

³⁴ Bustamante, Jorge A. "Maquiladoras: A New Face of International Capitalism on Mexico's Northern Frontier." In *Women, Men and the International Division of Labour*, edited by June C Nash and María Patrica Fernández-Kelly, 224-256, (Albany: SUNY Press, 1983), 232.

³⁵ Cravey, "Globalization and its Impact on the Northern Border Region of Mexico," 133.

³⁶ Ibid.,135.

³⁷ Ibid.

³⁸ Ibid., 137.

³⁹ Ibid., 139.

social rights have been transformed into social privileges⁴⁰. Cravey uses the example of the provision of health care, which, in the border regions is accessed via employers or the owners of production versus provision via state facilities outside of border zones. A sharp asymmetry is revealed in the relations of power between workers and the owners of production, the state and transnational capital. Dismantling certain social provisions within the border zones was seen as essential to attract transnational capital investment⁴¹.

Why does transnational capital require labour conditions such as those found in maquiladoras in order to invest in and offer employment to specific localities? Anita Chan and Robert Ross argue that in fact, a strange alliance exists between western bankers, multinationals, employers, and Southern governments that favour unrestricted trade without labour conditionality⁴². The concept of labour conditionality refers to the social clause that links labour standards and trade⁴³. Chan and Ross's argument strongly suggests a class-driven bias in transnational and national economic organization between different variants of elites (such as transnational, political, economic, and even NGO) but elites nonetheless. Chan and Ross describe,

But oddly, Western labour NGOs, human rights groups and trade unions that usually stand on the opposite side from their governments have often been on the same side over this issue. Paradoxically, the NGOs who are usually critical of the WTO and often call for its dissolution find themselves on the opposite side of the developing world (and some labour movements) that they normally support. Those from the ideological left who dismiss the WTO altogether (and thus the social clause) have become strange bedfellows of the multinationals who also do not want internationally enforceable labour rights⁴⁴.

⁴⁰ Ibid.

⁴¹ Cravey, "Globalization and its Impact on the Northern Border Region of Mexico," 139.

⁴² Anita Chan and Robert JS Ross, "Racing to the bottom: international trade without a social clause." *Third World Quarterly*, (2003): 1014.

⁴³ Ibid., 1012.

⁴⁴ Chan and Ross, "Racing to the bottom: international trade without a social clause," 1014.

How else can the unified front supporting the exploitation of labour of those most vulnerable be explained other than actors and classes whom have a deep social and economic investment and incentive to keep the existing system of production? We return to Appadurai's production fetishism and the illusion of poverty reduction that it creates, so much so that state and civil society actors, like NGOs, become embedded and proponents of the system of labour exploitation promoted by transnational capital; a belief that the system can solve the problems it creates.

Production fetishism is even pronounced when broadening the scope of analysis to international production networks of different commodities. Anita Chan and Robert Ross examine export-oriented manufacturing in the apparel industry and the competition that exists between apparel producing countries in the Global South, for instance China and Mexico. Chan and Ross argue that almost exclusively migrant workers who earn below the minimum legal wage staff apparel factories⁴⁵. The authors' research on minimum wages in the 1990's reveals a continuous decline in wages (despite an increase in overall employment), which suggests heightened competition to attract transnational investment and a race to the bottom⁴⁶. Who benefits? Chan and Ross argue that in the case of Mexico and China, transnational Asian investors are the major beneficiaries, "gaining the competitive advantage of *both* regions. In the process they have been able to hold down both Mexican and Chinese wages"⁴⁷.

The fact that transnational capital is able to exert control and derive benefit from two separate regions within the same production network supports the arguments of

⁴⁵ Chan and Ross, "Racing to the bottom: international trade without a social clause," 1016-1017.

⁴⁶ *Ibid.*, 1017.

⁴⁷ Chan and Ross, "Racing to the bottom: international trade without a social clause," 1020.

Folker, Heinrichs and Kreye⁴⁸ who suggest that the world economy is actually a single worldwide capitalist system. “Structural changes in individual national economies are interrelated within this single world economy and mutually determine one another”⁴⁹, as evidenced by the research of Chan and Ross. In the single worldwide capitalist system, foreign trade is “a concrete manifestation of the international division of labour, consciously planned and utilized by individual companies”⁵⁰. Commodity production, such as apparel manufacturing in Mexican *maquiladoras* or Chinese EPZs is assigned to “whichever part of the world that can provide the most profitable combination of capital and labour”⁵¹. Transnational capitalists, such as the transnational Asian investors of apparel manufacturing are able to assign production to different parts of the world simultaneously, as they control and coordinate a critical position between production and global retailers and brands.

Conclusion

In this essay we have examined EPZs from an alternative perspective. Rather than accepting mainstream assertions that EPZs can reduce poverty, we have examined EPZs as a hybrid space and as production fetishism in the worldwide capitalist system. By understanding how hybrid spaces appear in the contemporary global economy, the production fetishism created by transnational national capital forces, and some empirical

⁴⁸ Fröbel, Folker, Jürgen Heinrichs, and Otto Kreye. "The New International Division of Labor in the World Economy." In *From Modernization to Globalization: Perspectives on Development and Social Change*, edited by Timmons J Roberts and Amy Hite, 257-273. (Massachusetts: Blackwell Publishers, 2000), 262.

⁴⁹ Ibid.

⁵⁰ Ibid., 263.

⁵¹ Ibid., 264.

studies in Mexico and China, we understand that EPZs have successfully perpetuated poverty and benefitted society's powerful elites, the transnational capitalist class.

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