THE ROLE OF EXPORT PROCESSING ZONES IN KENYA:

An Assessment

NJUE CHABARI

A thesis submitted in partial fulfillment of the requirements for the degree of Master of Arts of the University of Nairobi.

DEPARTMENT OF GOVERNMENT, 2000

DECLARATION

This thesis is my original work and has not been submitted for a degree in any other university.

NJUE CHABARI

(Candidate)

This thesis has been submitted for examination with my approval as a university supervisor.

G.K. IKIARA

(Supervisor)

DEDICATION

This thesis is dedicated to my brother, **Wilfred Mugo Chabari**, who selflessly sacrificed his ambitions to enable me realise mine.

ACKNOWLEDGEMENTS

I wish to express my sincere gratitude to the Sasakawa Foundation through the University of Nairobi for granting me a full scholarship that enabled me go through the M.A. degree programme. My appreciation also goes to the lecturers in the Department of Government for their commitment in shaping the training programme.

My very special regards go to my supervisor, G.K. Ikiara, who professionally guided me through the period of writing this thesis. His wit and intelligence as well as his unreserved criticisms enabled me to accomplish this much.

A number of people went out of their way to enable me carry out this research and it is not possible to thank each one of them by name. To all of them it is 'many thanks and may God bless'. However, my invaluable acknowledgements go to Mr Mugambi Gitari, Employment Officer at Athi River, for guiding me through Athi River EPZ, Mr J.O.B. Akara - Manager, Development and Planning and Ms Christine Njoroge - Librarian, EPZA for availing essential data and allowing me to use EPZA's Resource Centre respectively and to Mr James Gatigi, Manager of Sameer Industrial Park for assisting me in the tedious task of data collection within the zone.

I also wish to thank the many people whom I interviewed for their willingness to divulge information even under the risk of losing their jobs. Among these were Government officers and officials of the Kenya Association of Manufacturers (KAM) and the National Chamber of Commerce and Industry (NCCI). My colleagues Solomon Owuoche, Jack Frederick Omondi and Frederick Karenga assisted me in various ways during the collection of the data and the compilation of this thesis.

Finally, I recognise my wife Wairimu's patience and moral support and the inspiration given by my daughters, Kawira and Wambui.

ABSTRACT

Governments around the world have been looked upon to spearhead development efforts. Reliance on the government to show the way forward in development matters has been more pronounced in developing countries than in the developed ones. Since industrialization is viewed as essential on the route to development, governments have endeavoured to put in place programmes that could hasten the pace of industrialization. Among the strategies effected in many developing countries is the establishment of Export Processing Zones (EPZs).

The establishment of EPZs in Kenya was aimed at facilitating export-oriented industrialization as well as enhancing industrial growth and development in the country. This study assesses the role of EPZs in development, based on their role in re-orienting industrialization to an outward-looking strategy, their contribution to employment creation, diversification of industries, foreign exchange earnings, technology transfer and other spinoffs.

The study is divided into six chapters comprising the introduction; literature review and theoretical framework; the role of the state in export manufacture; EPZs in Kenya; empirical findings and summary and conclusion. Data for the study was obtained through primary and secondary sources. The study largely depended on available literature for secondary data. The primary source of data was a survey carried out in the EPZs and among non-EPZ manufacturers.

Among the findings of this study are that EPZs in Kenya have had limited success in terms of achieving the envisaged goals that led to their establishment. First, employment creation has been low compared to the anticipated levels, transfer of technology has been deterred by the quest for quick profit by foreign investors and that no significant spinoffs have accrued to Kenyans from the operations of the EPZs. Backward linkages have not developed significantly since investors tend to source for

raw materials in foreign markets. Thus, while the EPZs are desirable, they have had little impact on the country's economy.

The study recommends that further academic researches be carried out in the EPZs in Kenya. On policy issues, it is recommended that the operations of EPZs in this country be revisited to re-evaluate them in order to redirect the programme to the national needs. Various weaknesses in project implementation, tax administration, employment creation, transfer of technology and capital investment as well as the involvement of the Government need to be addressed if the programme is to be more viable.

LIST OF ABBREVIATIONS

ADB	African Development Bank
COMESA	Common Markets for Eastern and Southern Africa
EDP	Export Development Programme
EEC	European Economic Community
EOI	Export Oriented Industrialization
EPC	Export Promotion Council
EPPO	Export Promotion Programmes Office
EPZ	Export Processing Zone
EU	European Union
Forex	Foreign Exchange
GDP	Gross Domestic Product
GNP	Gross National Product
GoK	Government of Kenya
IPC	Investment Promotion Centre
ISI	Import Substitution Industrialization
JKIA	Jomo Kenyatta International Airport
KAM	Kenya Association of Manufacturers
KSh	Kenya Shillings
LDCs	Less Developed Countries
MNCs	Multinational Corporations
MUB	Manufacture Under Bond
NCCI	National Chamber of Commerce and Industry
NEPZA	Nigeria Export Processing Zones Authority
NGOs	Non-Governmental Organisations
NICs	Newly Industrialised countries
NSSF	National Social Security Fund
PTA	Preferential Trade Area

SAPs	Structural Adjustment Programmes
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Centre for Transnational Corporations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
US/USA	United States of America
VAT	Value Added Tax

TABLE OF CONTENTS

LIST OF TABLES AND FIGURES

A. Tables

B. Figures

CHAPTER 1
INTRODUCTION

Preamble

In all countries of the world, governments are looked upon to spearhead development efforts. Consequently, governments strive to enhance the development status of their countries by improving the living standards of their people. Since industrialization is generally viewed as essential in achieving high per capita income and higher living standards, (Bhagavan, 1979:7), many governments have attempted to facilitate economic growth and development in general and industrialization in particular.

The industrialization process in Africa has been hampered by, among other factors, dependence on expensive imported inputs, (Coughlin & Ikiara, 1988:2). At independence, most Third World countries adopted the Import Substitution Industrialization (ISI) strategy which entailed replacement of imports of certain goods with locally manufactured ones, shifting consumption from imported goods to domestically manufactured ones and reducing the import content of the domestic manufactures, (Bhagavan 1979:14). With time, however, most Third World states adopted industrial policies which were more geared towards out-ward looking, export-led industrialization because the inward-looking development strategies had failed to meet development expectations, (Fransman, 1982).

Direct government involvement in a country's industrial process includes its participation in industrial planning, formulating market strategies, providing subsidies when necessary, bilateral and multilateral agreements, credit facilities, providing fiscal and monetary incentives to investors and improvement of infrastructure.

Industrial policies in the Third World countries in the last forty years or so have been rooted either on ISI or export-oriented strategies. Both strategies, however, have tended to be heavily influenced by production structures of the markets of industrial states, or the newly industrialized states of Asia. In many developing countries, the impact of industrialization has been limited and has not led to sustained growth, (Centre for Development Research, 1992:32).

The shift of emphasis from ISI strategy to an export-oriented one was an effort to make developing countries' industrial sectors more dynamic and competitive. Both private and public sectors undertook to boost export-oriented manufacturing, a trend that was viewed as the pathway to industrialization, and ultimately development. Experience from developed countries and the newly industrialising countries (NICs) indicate that the state has been generally a key player in the export-led industrialization especially through provision of incentives to investors. Governments support export-led industrialization through strategies such as imposition of import quotas, export subsidization, reduction of tariffs on export products and on imported inputs for use in the export-oriented manufacture, direct financial support and credit facilities, provision of infrastructural facilities and maintenance.

Many governments, notably in the NICs, have used export processing as a way of enhancing development through export manufacture. This has often been accomplished through incentives to export-oriented investors. Export Processing Zones (EPZs) have been effectively used in South East Asian countries such as Japan, India, China, South Korea and some Latin American countries such as Brazil, Argentina, Puerto Rico, Mexico and the Dominican Republic. Many other Third World countries have borrowed a leaf from the NICs and have put in place programmes similar to the EPZs with the hope of realising similar results. Countries like Mauritius, Taiwan, South Korea and the Dominican Republic have so far registered success with their programmes while in others like Senegal, Zaire and Liberia, the processing zones have not yielded much, (IPC, 1991:3).

The concern of the Kenya Government on the country's rate of industrial growth was evident as early as the mid-1980s. In Sessional Paper No. 1 of 1986 entitled *Economic Management for Renewed Growth*, the Government emphasized the need to promote private investment and committed itself to creating an enabling environment for investment in the country's industrial sector. It promised to do this by maintaining a flexible exchange rate to support exports and efficient import substitution in the domestic markets, liberalise the import policies, eliminate price controls and create a free market economy. The paper also proposed more consultations between the public and private sectors in matters of mutual interest, (GoK, 1986). The Kenya Government's commitment to boost export-oriented industrialization (EOI) is manifested in the formation of a number of specialised institutions such as the Export Promotion Council, Investment Promotion Center, the Kenya Technical Working Group on Cross-Border Initiatives and Export Processing Zones Authority.

This study focusses on the Export Processing Zones in Kenya and assesses their role in the country's industrialization process in particular and in development in general.

Statement of the Problem

The inward-looking industrial strategy pursued in Kenya since independence led to the development of an inefficient and uncompetitive manufacturing sector dominated by the low level technologies and light industries that are prevalent in pre-industrial states. Such an industrial strategy did not lead to the creation of strong domestic linkages due to dependence on imported inputs and machinery, (GoK, 1997:13-14). Taking a cue from the experience of the East and South-East Asian countries which adopted an export-led industrial strategy and made their industrial breakthrough, the Government of Kenya has, especially since mid 1980s, established programmes geared towards the facilitation of export-oriented industries.

One such programme is the Export Processing Zones, established by an Act of

Parliament in 1990. The enactment of the EPZs Act was meant to significantly contribute to the transformation of Kenya's manufacturing sector from inward-looking to export-oriented through facilitation of investment in export-oriented activities. The programme was designed to shift industrial incentives away from ISI-based activities to encouragement of non-traditional exports.

According to Sessional Paper No. 2 of 1996 entitled *Industrial Transformation to the Year 2020*, (GoK, 1996) and the 8th National Development Plan entitled *Rapid Industrialization for Sustained Growth*, (GoK, 1997), the Government has declared its target of transforming Kenya into a newly industrializing country by the year 2020. Among the strategies formulated to enable this transformation is the creation of the Export Processing Zones (EPZs).

Once established, the EPZs were expected to generate employment opportunities and stimulate the development of both forward and backward linkages with the domestic economy through local sourcing for raw materials and other local inputs as well as sub-contracting to non-EPZ firms. This was expected to benefit domestic producers of primary and intermediate goods required in the production processes of the EPZ firms. Thirdly, foreign investors were expected to bring with them new technologies and, by introducing them in the EPZs, facilitate their transfer to the rest of the industrial sector. Fourthly, the EPZs were expected to promote export of goods with greater value-added leading to increased foreign exchange earnings.

Since the enactment of the EPZs Act, a number of changes have taken place in the process of economic reforms and have had a bearing in the operations of the EPZs. Among the changes effected by the government include discontinuation of both import and export licensing except for a few items; rationalisation and reduction of export tariffs; revoking of export duties; freeing of exchange rates of the Kenya Shilling to allow market-determined rates, allowing both residents and non-residents to operate foreign currency accounts with domestic banks; removal of restrictions on domestic borrowing by foreign owned companies; allowing residents to borrow abroad without limitation; partial liberalisation of the capital markets (foreign companies and individuals can buy stocks to a maximum of 40% and 5% of companies' total quoted stocks respectively); and the removal of price controls.

The liberalisation process that has characterised Kenya's economy in the 1990s has affected the operations of the EPZs. The repeal of the Foreign Exchange Control Act in 1994 reduced the competitive edge enjoyed by EPZ investors. The changes so far effected towards the establishment of a free market economy have also reduced the effects of government intervention on the industrial and commercial activities outside the EPZs. This has, in turn, rendered irrelevant some of the incentives initially given to the EPZs.

Apart from Mauritius, Tunisia and Egypt, the performance of the EPZs programme in Africa has been wanting. Senegal, Nigeria, Togo and Cameroon were among the first countries in Africa to establish the EPZs but their performance was so poor that they were abandoned for sometime. Problems ranging from infrastructural inadequacy to opposition by trade unions in African countries such as Malawi, Mozambique, Namibia and South Africa deterred the operationalisation of the concept. Poor planning, unstable development strategies and inconsistent policies have had their toll on the EPZ programmes in Liberia and the Republic of Congo.

Given the dim performance of EPZs in other African countries, to what extent can the EPZ programme in Kenya be relied upon to spearhead industrial growth and development in the country?

There has been a high turnover of firms in Kenya's EPZs. Although the number of firms investing under the programme has grown over the years, the rate of divesture is also very high. The high mobility of capital invested in the EPZs as well as the footloose nature of employment generated makes the future of the EPZs unpredictable.

After six years since the establishment of the EPZ programme in Kenya, there is need to evaluate the performance and future of EPZs in Kenya's industrialization process.

0 Objectives of the study

The broad objective of this study is to examine the political and economic dimensions of EPZs in Kenya, focusing on benefits and problems that have arisen from EPZ programmes.

The study examines the political and economic issues related to the ownership of firms in the EPZs, the magnitude of the repatriation of profits as well as the extent of the linkages of EPZs with the rest of the economy and the extent to which they have generated employment opportunities. The study also explores the impact of EPZs in the country's industrialization process in general and the contribution of EPZs to industrialization and development in terms of their role in generating productive employment, enabling transfer of technology, establishing backward and forward linkages with the domestic economy and earning foreign exchange for the country.

0 The Scope of the Study

The study covers the whole period of the existence of EPZ programmes in Kenya. It reviews the programmes put in place by the Export Processing Zones Authority (EPZA), focusing on selected zones, especially the Athi River Export Processing Zone and Sameer Industrial Park, and assesses the effectiveness of the zones in implementing EPZ policies. The choice of Athi River and Sameer Industrial Park export processing zones is based on the fact that they are the largest and the oldest respectively of all the EPZs in the country. Athi River EPZ was the first public EPZ to be established, with expectations that it would act as a catalyst for other export processing zones.

The establishment and performance of EPZs in other countries is highlighted with a view to providing a comparison between them and the Kenyan programme.

Justification of the study

Since the establishment of EPZs in Kenya, there has been no comprehensive assessment of their performance. This study is an attempt to fill this gap by providing a more comprehensive assessment of the economic impact of Kenya's EPZ programme to-date and the politics involved in the implementation of the programme.

There exists substantial literature on the world export processing zones, mainly as case studies. Although much has been written on the subject, ranging from the Mexican maquiladolas to the rest of the Third World's zone industries, little has been done in Kenya's EPZs. Much of the existing literature on the export-oriented manufacture in Kenya concerns the investment opportunities in the country's EPZs and the industrial products of the zones. There is limited literature on the nature of the zones, their effects on the national economy and on the socio-political aspects of the country.

Since the study entails an analysis of the socio-economic and political effects of the EPZs, it is hoped that it will provide policy-makers with vital information on the operations, politics and impact of the programme. The Government has expressed concern at the slow rate of industrial growth in this country, and has declared its intention to achieve a newly industrialised country status by the year 2020. Since EPZs are expected to play an important role in the realisation of this objective, there is need to examine the role of various export promotion and industrial development initiatives towards this goal.

.0 Hypotheses

The study revolves around the following hypotheses:

1). That the establishment of EPZs in Kenya has introduced conflict between the EPZ and non-EPZ firms.

2). That the economic liberalisation that has characterised the 1990s has rendered the concept of EPZ irrelevant.

3). That the introduction of the EPZ programme in Kenya has had little impact on the economy.

Operationalisation of Concepts

Conflict in this study will refer to a lack of commonality of goals or interests - that is, people or institutions pursuing different goals - which have tendency to cause disharmony between the same people or institutions and others with whom they relate.

Liberalisation refers to the whole process of freeing the economy from state controls as evidenced in the abolition of foreign exchange control, elimination of price controls, adoption of import and export policies that favour cross-border commerce and the creation of a free market economy that is accommodating to domestic and foreign entrepreneurs.

0 Methodology

Secondary data in form of available literature was extensively used in the compilation of some of the chapters of the study. Books, periodicals, journals, reports, newspapers, magazines, seminar and workshop papers, public records or documents such as budget speeches, economic surveys, development plans, annual reports and other publications were of great use.

The study also used survey data, observation and informal interviewing as primary sources. Survey data was obtained through both questionnaires and interactive interviews in the export processing zones, the EPZA headquarters and among non-EPZ manufacturers in Nairobi. The interviewees included a sample of the employees and management staff of EPZ firms, and other stake holders, among them non-EPZ manufacturers, relevant government departments and non-governmental organisations (NGOs).

The Study Sample

There are 7 operational EPZs in Kenya located in different parts of the country as follows: Nairobi - 3, Mombasa - 2, Nakuru - 1 and Machakos - 1. The study sample consists of 4 out of the 7 EPZs as follows: Sameer and Rafiki EPZs in Nairobi, East Africa Molasses EPZ in Mombasa and Athi River EPZ in Machakos.

For purposes of this study, both the random and purposive sampling methods were used. Under the random sampling method, the study used multi-stage sampling technique to draw a sample of 40% of the EPZ enterprises in Kenya. This gave a total of nine (9) firms. On the 9 EPZ firms, the quota sampling technique was applied, based on a list provided by the EPZA, in order to ensure that the firms drawn in the sample are representative of the various zones (industrial parks) in the country. This was based on the establishment of the parks, considering the number of firms and the diversity of the industrial activities in each. The sample is shown in Table 1.1.

Table 1.1. Distribution of the firm sample by zones.

PZ Zone	Athi River	Sameer	Rafiki	Mombasa
. Of Firms	4	3	1	1

2 Athi River EPZ

The Athi River EPZ is a public zone built on a 339 hectares piece of land. The park was jointly developed by the World Bank and the Government of Kenya. It is strategically located, close to the Nairobi-Mombasa highway, near the Jomo Kenyatta International Airport (J.K.I.A.)and the Mombasa-Nairobi railway line. Besides having ready-made factory premises/godowns for investors, there are relatively good infrastructural facilities like roads, sewerage, storm water drainage, street lighting, water, security, health clinic, fire station, power sub-station and distribution network.

There are two kinds of investors in the Athi River EPZ: those who rent the already built godowns from the EPZA, and those who have rented the land and constructed their own factories. Currently, there are five operational firms in the park. The following four firms from Athi River are included in the sample: Tristar EPZ Ltd, Mohabab EPZ Ltd, Ivee Aqua EPZ Ltd and Norbrook EPZ Ltd.

3 Sameer Industrial Park

Sameer Industrial Park is the pioneer EPZ in Kenya, established in 1992. The park was constructed at a cost of KSh 120 million. It is a subsidiary of Firestone East Africa Ltd which manufactures tyres and related products. Sameer develops and lets out premises in an EPZ. Traditionally a textile-based manufacturer, it faced a difficult time in 1997 due to import quotas imposed on textile-based products by USA and European countries. This led to retrenchment of workers in the park, with some companies opting out. There are five operational firms at Sameer EPZ. The study sample includes Jar Kenya EPZ Ltd, Legend Technologies EPZ Ltd and Wesexport EPZ Ltd based at the Sameer zone.

4 Other Zones

Other EPZ firms included in this sample are Sanofi Africa EPZ Ltd based at Rafiki EPZ in Nairobi and the Oil Tanking EPZ Ltd based at the East African Molasses EPZ in Mombasa. The former deals in veterinary drugs and the latter in petroleum products. Although Rafiki EPZ has 12 fully developed godowns, only 1 was occupied by Sanofi at the time of this study.

Interviewees

It would not have been possible to interview all the workers in the companies sampled. Some firms like Tristar EPZ had more than 300 workers alone. The random stratified sampling technique was used in every firm depending on the number of workers and their various duties in each firm. Workers are organized into various strata on the basis of their occupations. Individual company lists of workers were very helpful in this regard. The systematic sampling method was then used on every strata, depending on the number in each and the number needed in each strata.

From the nine EPZ firms, a total of 101 workers were interviewed and 1 person in the management of each firm. Other interviewees included 4 members of the EPZA staff both at the headquarters and at Athi River public EPZ, the manager of Sameer Industrial Park, 2 police officers at Athi River and a Customs officer in Nairobi. The sample also includes 7 non-EPZ manufacturers as a control group. Among the opinion leaders, 1 official each from the Kenya Association of Manufacturers and the National Chamber of commerce and Industry were interviewed. Other public officers interviewed included 1 from the Ministries of Labour and Industrial Development each. The sample therefore consists of 118 interviewees directly involved in the EPZ operations and 11 opinion leaders drawn from a cross-section of people including Government officials and non-EPZ manufacturers.

The study's use of observation technique was important in assessing the quality and quantity of the services and goods available under the EPZ programme. This method was also important in assessing the effects of the programme in the immediate environment of its operations.

Data Analysis

Qualitative data analysis techniques were used to analyse data obtained from primary sources. This enabled a presentation of the research findings through descriptive statistics such as percentages and frequencies. The Lotus 123 statistical package was used to do this along with producing charts and graphs linking some of the variables.

Problems Encountered During Research

A major problem encountered during this research was the reluctance by EPZ developers and investors to provide information. This made collection of data for the study quite tedious. Most of them claimed that EPZ firms are private companies and that most of their information is classified. The researcher was tossed to and from between the EPZA and the EPZ firms as the firms referred him back to the EPZA, with the EPZA arguing that it had no mandate to release information on behalf of the firms At the time of data collection, there were substantial changes in the management of the EPZA which made the Acting Chief Executive reluctant to release some of the data needed.

In most of the Government offices that the researcher sought information from, there was a lot of bureaucratic red tape before the information was availed and even then, access to certain information was denied. The researcher had to spend a lot of time trying to acquire the information.

Chapter Organization

The study is divided into six chapters. **Chapter 1** introduces the study, presenting the statement of the problem, objectives, scope, justification of the study, hypotheses and the methodology used.

Chapter 2 presents a review of the literature on EPZs and the theoretical framework. **Chapter 3** reviews the background to the establishment of EPZs in Kenya, highlighting the role of the state in export manufacture. **Chapter 4** discusses the establishment, set-up and organization of EPZs in Kenya as well as their performance.

Chapter 5 presents the empirical findings of the study. **Chapter 6** gives the summary, conclusions and recommendations of the study.

CHAPTER 2

ITERATURE REVIEW AND THEORETICAL FRAMEWORK

Introduction

Within a duration of about four decades, the Export Processing Zones concept has been globalized. About 150 EPZs have been established in 48 countries that have embraced the concept. The establishment of EPZs in various countries has been done voluntarily or sometimes through recommendations by the world development agencies, notably the World Bank and UNIDO.

This chapter reviews some of the literature on EPZs and presents a theoretical framework within which the study is carried out. In the literature review, the origin of the EPZ concept is traced and attempts made to review its phenomenal growth and operationalisation in the economies of the host countries in particular and that of the world in general. This will, hopefully, give an insight into what goes with the establishment, operations and, ultimately, the success of the Export Processing Zones.

0 Literature Review

1 Origins of EPZs

According to UNIDO experts on EPZs, the free zone concept is a historical phenomenon. The concept was practiced in the form of free cities to promote trade in China, Carthage, Tangier in Morocco and in the ancient Phoenician empire among others. By the end of the 19th century, the free zone concept had spread throughout northern Europe, coinciding with the growth of trade and industry. Up to the 1930s, there were 15 trade zones in Europe, Asia/Pacific, Middle East and Africa, (UNIDO, 1993a: 12).

However, the concept in its modern form has more recent origins. In the postwar period, the protectionist philosophy of the 1930s was getting increasingly rejected. Free trade zones were adapted to accommodate offshore processing, leading to the development of new sites for manufacturing. This enabled producers to relocate parts of the production process to areas with cheap labour and access to markets or other advantages associated with particular locations. The new type of export processing zone was first promoted in Ireland in 1959 and in Hong Kong and Singapore in the 1960s, (UNIDO, 1993a).

In its modern form, the first industrial free zone was established near Shannon International Airport in 1959. Shannon Airport in Western Ireland was initially a transit point for aircraft travelling across the Atlantic Ocean. Following the introduction of long-distance jet aircraft which could do without refueling at Shannon, the airport's survival was threatened. In 1959, Shannon Development, the zone implementing state agency of the government of Ireland was set-up to provide physical facilities and a liberalised environment for export-oriented manufacturing as a way of revitalising the airport. A wide range of service and commercial activities were later introduced in the Shannon region, leading to significant employment creation, increased exports and stronger linkages with the rest of the Irish economy, (Government of Ireland, 1991).

Since the inception of the Shannon Free Zone in Ireland, over 110 leading international manufacturing and service companies have located at Shannon. Investment in Shannon region is encouraged through tax concessions and generous grant incentives. The success of Shannon Free Zone is also tied to its strategic location. Located in Ireland, it has access to the 12 member European Community with over 340 million consumers. The location also gives the zone strategic access to air, rail, sea and road networks in Europe, the USA and the Far East. Shannon Development has been so successful that it has even located offices in the USA in order to advise investors directly, (Government of Ireland, 1991).

Following the success of Shannon Free Zone, many others were established in the 1960s, aimed at stimulating industrial development. Through the 1960s, the concept of EPZs remained largely geographical. Its application had desired results in a number of countries especially Ireland, Taiwan and Korea. In the early 1970s, Mauritius converted the EPZ concept from geographical to administrative with its EPZs virtually covering the whole island, (UNIDO, 1993 a). Since then, the concept has been applied by many countries in various forms.

The free zone concept has been modified and adjusted in many ways over the years. The modern EPZ is an industrial park controlled by customs administration and/or an EPZ authority. In the modern EPZs, imports are duty free and tax free with the processed products exported, (UNCTAD, 1985).

Many countries of the developing world have tried the EPZ concept in various forms. Currently, there are 23 different terms that are used to describe EPZs and related concepts. All of them except the maquiladora of Mexico include the word 'zone'. Of the various terms used, the most popular are: free port, free trade zone (FTZ), foreign trade zone, export processing zone (EPZ), export processing regions, special economic zone (SEZ) and free zone (FZ), (UNIDO, 1993 b).

Development and Globalisation

The desire for enhanced industrial growth and development in developing countries has led to the globalisation of the EPZ concept. Besides the popularisation of the EPZ concept by international development agencies such as the World Bank, UNDP and UNIDO among others, its success in the Asian countries has given impetus to its spread and growth in other areas. UNIDO argues that free trade zones do not necessarily evolve in a similar fashion across countries, (UNIDO, 1988). It is now evident that the pattern of development and the success of the zones depend on the management of the zones coupled with the policies pursued by the governments concerned.

The needs of EPZs worldwide are basically access to imported inputs at competitive prices and quality, fast customs clearance of both imports and exports, suitable low-cost labour; well located industrial sites; suitable infrastructure; availability of exporter-needs services such as banks, fire departments, garbage clearance and maintenance services; a zone management ready to facilitate government clearance, licences, permission or approvals; the right political and economic climate; and broad government support, (UNIDO, 1993a).

EPZs are currently a common feature in the Caribbean, Latin America, Asia and Africa. Among the countries that have tried various forms of EPZs are the Dominican Republic, Turkey, India, Bangladesh, Sri Lanka, Pakistan and Saudi Arabia. In Africa, Zanzibar, Cameroon, Senegal, Togo, Mauritius and Kenya are among those that have established zones. Mauritius has been the most successful case in Africa.

EPZs in Developed Economies

While the free zone concept is not confined to the developing economies, free zones in developed economies are basically trade zones rather than manufacturing/industrial zones. In the developed economies, most zones are sub-zones of a foreign zone and are basically import-driven as opposed to those of the developing economies which are essentially export-driven. The functions of such zones include adding value to products of a foreign zone and re-exporting the new product. For instance, the Minnesota EPZ in the U.S.A. imports dry milk from developing countries, adds dairy protein and creates a food supplement which is then re-exported to Japan among other countries, (UNCTC, 1991).

The initial purpose in the establishment of free trade zones was to facilitate entrepot trade, providing stop-over points for storage, packaging, labelling and other simple operations pending re-exportation. Such activities were undertaken at Aden, Hong Kong, Singapore and Gibraltar where the free trade zones were established near international trade routes. In developed countries, EPZs later became facilitating instruments for customs clearance of merchandise for import, re-orienting the concept to the local markets, (UNIDO, 1993a).

Thus the mode of operation of EPZs in developed countries is different from that of the developing ones. In developed economies, notably U.S.A.,free trade zones have traditionally played a commercial role. However, they are increasingly being used for the manufacture and assembly of goods which are ultimately exported into the domestic market. These products include petroleum, synthetic natural gas, textiles and steel pipe, automobiles assembly, typewriters, aircraft engines and motor cycles. The number of free zones in USA increased from 8 in 1975 to 65 in 1981, (UNIDO, 1993b).

EPZs in Developing Economies

Broadbridge (1966), Bhangwati & Desai (1970) and Barker (1986) all advocate the establishment of an incentive system in the Third World countries to facilitate industrial development. While the World Bank and the United Nations Industrial Development Organisation (UNIDO) argue that export processing zones are desirable in the generation of employment and in contributing to industrialization, Barker disagrees arguing that the benefits reaped are minimal compared to the costs on the country's economy. Barker, among other writers, expresses fears that EPZs benefit developed economies from where most investors come. The repatriation of most of EPZs profits leads to economic stagnation and low human development which further marginalises developing countries in global economic growth.

According to UNIDO experts on EPZs, most Third World countries have good development policies existing on paper but their inconsistent implementation has taken its toll on the economies of such states. The success of export-oriented industrialization via the EPZs, for example, is hampered in many countries by the tendency to simultaneously pursue both ISI and EOI strategies without a clear-cut policy as to what direction they wish to drive the economy. Protectionism is practiced to mainly safeguard the interests of a few individuals wishing to enjoy monopoly in their countries, (UNIDO, 1993b). Often, the selection of such individuals is more based on political, ethnic or racial considerations and less on merits and national goals.

It took about 10 years since the first EPZ was established for the concept to be introduced in Sub-Saharan Africa, Eastern Europe and South America. Although the concept had been discussed in many Eastern European and South American countries, there was no EPZ legislation in those countries as was the case in successful Asian countries. But in the 1970s and 1980s, many countries started shifting emphasis towards export-oriented industrialization and the EPZ concept became handy, (UNCTC, 1991).

Bela Balassa asserts that less developed countries (LDCs) pursue export-oriented development strategies such as the EPZ as a way of earning scarce foreign exchange, generating G.N.P. and employment growth, attracting foreign capital and advanced technology, acquiring and upgrading labour and management skills, creating linkages between EPZ industries and the domestic economy as well as speeding up the industrialization process, (Balassa, 1987). LDCs' desire for export growth is partly related to their import needs for raw materials, intermediate inputs, capital goods, basic necessities as well as the actual debts service payments, which all require increased capacity to earn foreign exchange.

Proponents of the free zone concept such as Holmes and Mao, (1989) and UNIDO (1993 (b)) have argued that established firms of developed countries can help the firms of the LDCs utilise their available local resources and capital to break into the export market. Foreign enterprises and local entrepreneurs in EPZs can raise the pace of development through foreign investments, joint ventures, technical and marketing agreements and sub-contracting arrangements in the country.

EPZs in Asia

The introduction and success of EPZs in Asia has been attributed to regular capital formation, planned implementation and government support. According to Baissac, the four economic tigers of East Asia - Taiwan, Singapore, Korea and Hong Kong advanced into the NICs status through exploitation of their comparative advantage. Having limited natural resources, they capitalised on what they had in abundance, cheap labour, to enhance their industrial growth and exports. Taiwan had pursued the import substitution industrialization (ISI) strategy for years but by 1960, it had become apparent that the strategy had outlived its usefulness, (Baissac, 1996). There was a policy shift towards encouraging savings, investment and manufactured exports. Parliamentary legislation of EPZs was enacted to create an enabling environment for investors. This move saw the conversion of Taiwan from a basically agricultural economy to an industrial one.

In Korea, the establishment of export processing zones was aimed at the promotion of economic policies that would ensure maximum utilization of cheap idle labour force, land, electricity and water. In turn, they were expected to contribute to the country's economic development, promote exports, increase employment opportunities, acquire advanced technology and attract foreign capital, (UNIDO, 1988).

Between 1973 and 1989, the rate of savings in Japan, Taiwan and Korea was about 35 - 40% of the GNP. A large proportion of these resources saving accrued from exports and were re-invested or plowed back into the export industry, (Holmes & Mao, 1989). This, coupled with a favourable investment climate, formed the basis of capital formation for many industries. Reinvested savings made it possible for small domestic firms to grow into large industries, enabling them to compete effectively with the multinational corporations (MNCs).

The industrial development of Thailand and Malaysia was also facilitated by a deliberate drive to attract foreign capital and entrepreneurial know-how, through effective utilisation of their industrial parks, (Holmes & Mao, 1989).

Pakistan is among the seven fastest growing economies of Asia with her GDP growing at an average of about 6% p.a. The manufacturing sector has been growing at an average of 8% p.a.,a relatively high sectoral growth in the developing world, (World Bank, 1993). This rapid growth of the manufacturing sector has reduced agriculture's dominance in the economy.

The concept of EPZs in Pakistan was considered as early as the 1950s but did not take root until 1980 when the necessary legislation was undertaken. The first EPZ was established in 1981. Although the programme in Pakistan has been described as successful by the Flagstaff Institute (1995), the performance of Karachi EPZ has been rather poor due to its slow development over the years, (Government of Pakistan, 1991).

The Karachi Export Processing Zone in Pakistan hosts numerous industries engaged in the production of electronic items, audio and video equipment; computer hardware; measuring, regulating and control equipments; durable consumer goods such as refrigerators, air-conditioners, deep freezers, vacuum cleaners and x-ray equipments. Others include photographic, tube-glass, plastic and rubber products, ceramic and special glass products, petrochemicals and pharmaceuticals, leather goods, food processors, hospital equipments and autoparts, (Government of Pakistan, 1993).

EPZs in Pakistan have propelled the country into its industrial status by enabling the country to overcome most of the barriers to industrial growth such as lack of capital and inadequate technology. As a result, Pakistan has continued to rise steadily in her industrial status despite the political problems that beset the country.

In China, a number of incentives are offered to investors in the special economic zones (SEZs) including provision of infrastructural facilities, availability of land at cheap rent rates, exemption of means of production and products from consolidated tax and custom duties as well as on imports such as machinery, spare parts, raw materials and vehicles, a flat enterprise income tax of 15% instead of 20% taxed in the rest of China and exemption from other local taxes. This arrangement enabled China's industrial sector to grow fast, providing employment to hundreds of thousands, (World Bank, 1993).

The development of export free zones in Sri Lanka was fast and commendable. Within 6 months of their establishment, they created 30,000 jobs, (Flagstaff, 1995: 88). The growth, however, was partly due to the panic that gripped Hong Kong's garment industry following the decision to return Hong Kong to China. Investors fleeing from Hong Kong due to uncertainty over its future brought their capital to invest in Sri Lanka.

.6 EPZs in Africa

The development of the EPZ programmes in Africa has been hampered by multiple factors among them poor macro-economic policies, lack of political will and other political factors such as civil disturbance, (UNIDO, 1993b). Senegal and Nigeria toyed with the idea as early as the 1970s. The first attempt to establish the EPZ programme in Nigeria was a failure with the total employment capacity never exceeding 1,000 workers, (IPC, 1991). In the 1980s, however, Nigeria, Togo, Cameroon and Ghana experimented with the concept and made some progress following legislation by the respective governments.

While the EPZs have not had as good results in African countries as in Asia, some have experienced a substantial amount of success. In Mauritius, there has been no turning back since the programme was introduced in 1971 following the enactment of the Export Processing Zones Act. Mauritius and Tunisia were among the first countries in Africa to establish EPZs in the 1970s. They are also the most successful in the continent, employing in excess of 100,000 and 90, 000 workers respectively, (UNIDO, 1993a).

Richard Bolin (1990) and the Flagstaff Institute (1995) portray the EPZs in Mauritius as exemplary. Mauritius became independent in 1969. Sugar production dominated the economy of the country up to the time EPZs became functional in the island. Since then, EPZ products have dominated the economy and have become the main foreign exchange earner. According to Bolin, most of the EPZ investment is in the tourism and textile industries. By 1990, Mauritius had a population of about 1 million people which provided a very small internal market. The export-led industrial drive was emphasized to overcome the limitations of a small internal market. In spite of the high rate of importation of raw material inputs, EPZs in Mauritius contribute to 70% of the country's total export volume, (Bolin, 1990a).

The international economic climate helped to boost the growth of EPZs in Mauritius. The decision to return Hong Kong to China led to divestiture by firms that did not want to fall under the Chinese government. Most of the divesting firms headed for Sri Lanka until the latter decided to limit the number of foreign firms that could be allowed to invest in the country. This limitation by Sri Lanka had a positive spillover effect on Mauritius, (Gereffi, 1994).

By 1987, the gross export earnings in Mauritius amounted to US $ 540 million, up from US$ 460 million in 1986. About 50% of the total investment in the EPZs in Mauritius was made up of local investments by 1990, twenty years since EPZs were started. By then, the country's EPZs accounted for about 60% of all exports and formed 13% of Mauritius' GDP, (Bolin, 1990a: 109)). This is a very high portion going by the world's EPZ standards.

There was a slump in EPZ production in the period 1977 - 82 following the oil price hike and a recess in the demand for products manufactured in the EPZs. But the integrated reform process began by the government in 1975 saw the recovery of the EPZ programme. By 1989, enterprises operating within EPZs in Mauritius had grown to 543, from 118 in 1982, (Bolin, 1990a). In the 1990s, the government of Mauritius embarked on incentives to the local industries outside the zones to enhance their export-oriented production. This enabled the EPZ concept in Mauritius to permeate the whole economy. The Mauritian economy, initially characterised by high unemployment, inflation and substantial balance of payments deficit was significantly transformed in less than a decade.

Bolin further argues that Mauritius was able to maintain an upward trend of employment growth of about 21% per year in the 1980s due to the success of her EPZ programme. About 30% of the total labour force and up to 78% of the total industrial labour force was employed in the EPZs, (Bolin,1990a). The success of EPZs in Mauritius is evident in their growth between 1982 and 1990 when the number of EPZ firms in the Island increased nearly five fold - from 120 to 570, and employment more than quadrupled from 20,000 to almost 90,000 in the same period. The EPZs total exports were worth U.S. $ 370 million in 1990, (Gereffi, 1994: 36).

The local equity capital in the Mauritian EPZs accounts for 50%. Many enterprises that started as joint ventures with foreigners subsequently came under domestic ownership. The establishment of EPZs in this island country has boosted the position of the local investor to higher heights of production and export, (Bolin, 1990a). Well formulated macro-economic policies, political backing and a stable political and economic climate has enabled Mauritian EPZs to grow to their present strength.

At the start of EPZs, most are aimed at generating employment for growing populations. This is why textiles which demand minor technology and less capital are dominant in new EPZs. But as they develop, labour becomes scarce and expensive, giving rise to the need for the diversification of products. This necessitates the emergence of high-technology products as well as capital intensive ones. Venture is then made into such sectors as engineering. Consequently, the value-added to the local products rises considerably. Such has been the trend in Mauritius. She started dealing with textiles, then ventured into simple technology products such as toys and watches and eventually shifted to sophisticated products and capital intensive ones, (UNIDO, 1993b). Most production in the EPZs revolves around electronics and textiles. The most successful EPZs in Africa - Madagascar, Mauritius and Tunisia are engaged in clothing, textiles and leather productions which account for about 70% of total EPZ production in those countries, (Bolin, 1990a).

EPZs in Nigeria were established following the country's decision to emphasize an EOI development strategy, necessitated by a decline in the country's industrial growth and foreign exchange earnings. The ISI strategy, pursued since independence had proved ineffective due to problems attributed to inadequate infrastructure, lack of executive capacity, poor utilization of available manpower (mainly unskilled), the absence of a sound technological base and an unstable political system. There was need to control costs, increase production efficiency and remain competitive. The Structural Adjustment Programmes (SAPs) effected in the country in July 1986 enabled the government of Nigeria to reappraise the regulatory environment, restructure the protection of local industries and the packages of incentives available, (NEPZA, 1992).

This process of reappraising and restructuring led to the establishment of EPZs. EPZs were established in Nigeria in 1989, first at Calabar, South Eastern Nigeria. This was where natural resource-based industries blossomed: palm oil, wood, limestone, rubber, cocoa and coffee. Oil and gas activities nearby have had an impact in stimulating industrial development, (NEPZA, 1992).

The establishment of EPZs in many other African countries has encountered problems. In Namibia, a free zone has been declared in Walvis Bay and Arantis but their existence is threatened by lack of effective legislation. Although Namibia is well placed for the development of EPZs, given her developed infrastructure and her proximity to the vast South African market, effective EPZ legislation has been hampered by opposition by trade unionists and lack of political will. Zimbabwe has a free zone law but there has been no economic or political commitment to develop EPZs in the country. Mozambique's process of developing EPZs is faced with lack of confidence by investors due to the country's political climate. In South Africa, the EPZ concept has been mooted but trade unions have openly opposed it for fear that indigenous firms would lose foothold in the industrial sector to foreigners. Malawi's main problem in the development of EPZs is anchored in her poor infrastructure and an unpredictable investment climate, (IPC, 1991).

Attempts to establish EPZs in countries like Senegal, Zaire (now Democratic Republic of Congo) and Liberia was disastrous due to poor planning, unstable development strategies and lack of commitment, (IPC, 1991). In the East African region, only Kenya and Zanzibar had a free zone in operation by the end of 1995. But their development potential in Zanzibar was limited by infrastructural deficiencies. Tanzania, Uganda and Ethiopia were still considering the establishment of the zones, (Flagstaff, 1995).

1.7 EPZs in Latin America and Europe

In Mexico, the maquila industry (Mexico's equivalent of EPZs in other countries) accounts for almost all the growth in the overall manufacturing sector and for nearly all the growth in the country's exports. In 1992, maquila exports accounted for almost half of all exports and was the second in significance in the earning of foreign exchange, coming only after petroleum products. There are over 2000 factories in the maquila zones of Mexico, (Flagstaff, 1995). The diversity of the maquila industries is evident in their products. About 80% of the products are electrical/electronic, transport or apparel-oriented. The automobile industry in the maquila has grown tremendously since the 1970s. This began with the production of parts for automobiles and expanded into full-fledged automobile production by multinational firms. Initially, the maquila industries were situated along the long Mexico - U.S.A. border. After the 1980s however, due to the success of the maquiladoras, more were established in the interior cities, (Bolin, 1987).

Kaplinsky, writing on the EPZs of the Dominican Republic, indicates that the establishment of the EPZs does not necessarily mean the transition of a country to high value-added production exports (1993:1851), arguing that labour intensive export processing as is the case in most EPZs is akin to export of primary commodities. However, the EPZs of the Dominican Republic have performed well, especially in generating employment opportunities. Kaplinsky points out that certain EPZs fail due to unavailability of markets for their commodities. The success of EPZs in the Dominican Republic is partly attributable to the availability of regional and international markets, especially the USA. Dominican Republic's production therefore targets a specific market. However, this dependence on a specific market is dangerous to the operations of EPZ programmes because unfavourable changes in the markets could easily destabilise the whole sector.

The success realised in the EPZs of some developing countries has largely influenced their establishment in others. Between the 1970s and 1990s, export manufactures from countries with EPZs grew rapidly. Table 2.1 shows the growth in export manufactures in the EPZs in Mauritius, Mexico and Tunisia between the 1970s and the 1990s.

Table 2.1 Growth in Export Manufactures in three Countries, 1970 - 1990

Country	1970	1990
Mauritius	13 %	71 %
Mexico	32 %	81 %
Tunisia	25 %	78 %

Source: UNESCO, 1998

.0 The State and EPZs

There has been considerable debate over the years about the role of the state in the development of EPZs. This debate has persisted partly because neither state-ran EPZs nor privately ran ones can claim superiority over the other. A public EPZ is developed and managed by a state agency. Willing investors rent premises from the agency in order to carry out their activities. A private EPZ, on the other hand, is developed by individual firms and they too can rent out the premises to others.

EPZs cannot lead to export industrialization alone. There must be an articulate macro-economic policy that is export-development oriented. Such a policy can only be formulated and implemented by the government of the host country. UNIDO calls for a clear vision of the ruling political and economic authorities in the host country - to plan for the development of their country, putting EPZs among other development strategies with a clear perspective, (UNIDO, 1993b).

The monitoring of the performance of EPZs, is essential in ensuring that they fit well within the national economy. But the regulatory body would have to be cautious lest it becomes a stumbling block to the performance of EPZs instead of facilitating their operations. Export-oriented industrial strategy exerts pressure on the government system in that it requires to be prioritised among other strategies for it to succeed.

Half-hearted political and economic support for export-oriented industries and import substitution industries leads to little or no success in the performance of EPZs. For instance, the support given to the programme by the governments of Taiwan and Korea led to their indisputable success, (UNIDO, 1993b).

The government of a host country must ensure that the political and economic climate is stable for the EPZs to be successful. The economic policy of the country involved must be in favour of foreign investments, private enterprise and export development. Investors with long-term visions require a well-defined environment before they venture into an EPZ, whether it is privately or publicly owned. "Cosmetic" incentives that do not lay down a firm foundation for stability and maintenance of the investors' concerns will not appeal to those with long-term visions, (UNIDO, 1995).

A stable political climate is characterised by the existence of a constitutionally established government that upholds the rule of law. The level of democratic practices in a country plays a role in attracting or warding off potential investors. Consistency in policies pursued by a government, respect for private property whether domestically or foreign owned are some of the issues investors take into consideration before committing their investment in a country.

Both Baissac and Kaplinsky argue that well developed physical and institutional infrastructure is a requirement for the success of the EPZs. This is in terms of ports and transport facilities, communication and factory buildings. Factory buildings and site development can be managed effectively by private investors but some infrastructural facilities such as ports and transport are public utilities that are usually better provided by the public sector. Singapore, Hong Kong, Mauritius and the Dominican Republic have effectively used private developers to manage their EPZs, (Baissac, 1996; Kaplinsky, 1993).

Some government departments such as customs are indispensable for the success of

EPZs. UNIDO recommends that a specially trained Customs personnel be recruited to run the EPZs to ensure that government officials serving in the EPZs have an understanding of the EPZ concept, (UNIDO, 1993a).

Thus whether an EPZ is public or private, the government of a hosting country needs to put in place favourable conditions to attract investors; conditions that are acceptable to the international business community. This is particularly necessary when the EPZ is intended to attract manufacturing industries. This, however, does not mean that the government should control every activity of the investor. Investors in an EPZ prefer a situation where there is minimum contact with government agencies: if possible, even dealing with a single governmental organisation. They also want assurance with regard to security of their investment. The government, on the other hand, will want to oversee the activities of an EPZ - to ensure that the existing conditions are not violated as per the original agreement and that the privileges given to EPZs are not abused. The government will also want to ensure that anti-social activities do not thrive in the EPZs; for example, manufacture and storage of arms, illegal drugs deals and pollution among others, (Flagstaff, 1996).

Bolin (1987), UNIDO (1993a) and Flagstaff (1995) argue that the success of EPZs require joint efforts by both the public and the private sector. According to UNIDO, the success of the EPZ programme in Ireland, Taiwan, and Korea was partly due to the input of the respective governments. On the other hand, Mexico's industrial parks (the maquila industries) were successfully developed and managed privately since the 1960s, (UNIDO: 1993a: 17).

The Mauritian government has carefully prepared and integrated strategies that ensure stability of export policies and adequate infrastructure in export activities. Such strategies include the formation of the Mauritius Export Development and Investment Authority (MEDIA), Development Bank of Mauritius (MDB) and the Export Credit Guarantee Scheme. Private sector involvement in the development of zones is encouraged through measures such as the Industrial Building Investment Scheme, (Flagstaff, 1995).

In Tunisia, consultations between the government and industrial players led to the liberalisation of the manufacturing sector. These consultations set the right atmosphere, politically and economically, for investors. Due to the success of the sector since most of its activities were placed in private hands, the government has embarked on a systematic withdrawal from active participation in production and trade. This arrangement has seen Tunisian EPZs perform fairly well in the midst of turbulent economies of the African countries, (UNIDO, 1993a).

Bolin (1987) and NEPZA (1992) have emphasized the role of governments in marketing EPZ products. Bilateral and multilateral agreements are made at state level rather than at individual company level. For example, EPZ products from Nigeria, Mauritius and the Dominican Republic have preferential access to the markets of the European Union (EU) member states because these countries are signatories to the Lome convention.

According to Kelleher (1992), stringent state controls on the economy hindered the effective establishment of EPZs in Pakistan in the 1970s. During that period, there was no proper legislation to safeguard foreign investment in Pakistan. The state also limited the number of investors in certain industrial sectors, preferring domestic investments. At the same time, there was uncertainty as to the future of the country due to political upheavals caused by groups with conflicting political and religious ideologies. The reversal of these trends in the 1980s led to the establishment of EPZs throughout the county leading to the country's export-led industrial success.

The need for government support for EPZ programmes is exemplified in the involvement of the Government of Ireland in the development of EPZs in Shannon Island. One of the greatest contributions of the government was the setting up of a vocational training center and an engineering university (Limerick) at the zone, thereby enhancing the upgrading of skills and technology, (Government of Ireland, 1991).

The consistency and stability of the government policy in Ireland was a major contributing factor to economic growth and development. The Irish Government provides grants to subsidize the cost of rent, training and capital on fixed assets, and 50% grants on costs of research programmes as well as on new jobs created. Because of Ireland's trade policy, over 1000 international companies have located industries there over a period of 20 years between the early 1970s and 1990s, about 400 of which are from the USA. The success of Shannon Free Zone can partly be attributed to Ireland's stable political democracy and open economy. Major trading partners of Ireland include the United states, Japan and fellow European Community member states. Exports from Ireland account for almost 70% of Ireland's GNP, (Government of Ireland, 1991).

One of the problems facing government-ran EPZs is that often the managers used to bureaucratic procedures, do not create an enabling environment for the operations of EPZs. Poor management is aggravated by factors such as political considerations where the powers to hire and fire lie in the hands of politically influential people. Other factors include inconsistent policies, especially in societies where accountability, transparency, checks and balances are lacking. However, various government departments play an essential role in the success of the zones, both in their establishment and operations - for example, economic planning, structural/building planning, infrastructure, finance, customs, immigration and security.

Almost all the incentives enjoyed by EPZ investors are given by the governments of the host country. These are often administered by a management on behalf of the government and the authorities in charge of the day to day operations of the EPZs in various countries are state-supported, (UNIDO, 1993a). Different countries have different names for the authorities planning, developing and managing their EPZ programmes. The most common ones are EPZ authority (Kenya), corporation (Costa Rica), council (Dominican Republic), directorate or administration (Turkey) or limited company.

3.0 Backward and Forward Linkages

EPZs are essentially economic programmes and are expected to yield economic benefits to the host country. Certain demands are therefore placed on EPZs countrywide by the host economies. Such demands include local sourcing or the acquisition of inputs from the domestic economy; the transfer of technology as well as managerial know-how; earning of foreign exchange; and facilitation of capital formation.

EPZs are also capable of stimulating industrial growth outside the zones. According to Richard L. Bolin, a director of the Flagstaff Institute which collects data on the world's EPZs, EPZ firms that source for inputs from the domestic economy enhance domestic exports, improve technology transfer and create a positive image of the EPZ in the community, (Bolin, 1990(a):1). However, he cautions that the domestic industry must be prepared to compete in the world markets and that the domestic policies must be supportive and sustainable.

3.1. Local Sourcing

One of the controversies surrounding the functioning of EPZ programmes worldwide is the requirement that EPZ firms source for inputs locally. Brannon and James (1989) and Bolin (1990a) have expressed concern over the insignificance of local purchases of raw materials and other inputs by EPZ firms from the economies of most host countries. This is partly because the local purchasing requirements are not regularly adhered to. Consequently, the value-added to the EPZ products is usually low. For example, only about 2% of the value-added is incorporated into the maquiladora products of Mexico; 25 years after their inception. Since they are not well integrated into the national economy, the maquila industries have therefore not facilitated full exploitation of Mexico's economic growth or potential development, (Brannon and James, 1989).

Bolin argues that the enormity of the incentives enjoyed by EPZs does not facilitate the acquisition of raw materials and other intermediate inputs locally. A large gap exists in the business conditions of EPZs and non-EPZ firms and only where the gap has been significantly narrowed has meaningful linkages developed. Foreign-owned industries are reluctant to source materials locally due to uncompetitive prices and irregular supply, either quantitatively or qualitatively, (Bolin, 1990a).

Whereas the acquisition of inputs from the domestic economy is optional in most countries, in others it is mandatory to acquire a certain proportion of inputs and/or raw material locally. In Taiwan, EPZ firms are required to acquire at least 25% of all their inputs from the local industry. In Korea, EPZ firms are expected to purchase available domestic raw materials rather than import them. Korean EPZs have been exceptionally successful in establishing links with the domestic economy especially in the purchase of domestic raw materials and relying on domestic services such as transportation, finance, insurance, packaging and sub-contracting, (Bolin, 1990a).

For a commodity to be classified as "made in Tunisia", 40% of the value-added must be Tunisian. Use of this caption has significance in the marketability of the products going by the export quotas of the European Economic Community (E.E.C.). This requirement ensures that the Tunisian economy benefits from the foreign EPZ firms that have invested in Tunisia, (UNCTAD, 1985).

The special economic zones (SEZs) of China are supposed to avail themselves of locally made machinery and inputs, (Bolin, 1990a). Most of the manufacturing activities in Pakistan, especially in the textiles and food processing depends mainly on indigenous raw materials. The industrial output has diversified sectors through emphasis on development of engineering, electrical and non-electrical machines, automobiles and chemical industries. Although some EPZs have been blamed as performing below expectations in Pakistan, local sourcing by EPZ firms has been impressive. Local sourcing by EPZ firms in Pakistan is one of the highest among developing countries, (Kelleher, 1992). Table 2.2 shows the proportion (in percentages) of local inputs by Pakistan's EPZs between 1984 and 1991. During this period, acquisition of local inputs in Pakistan's EPZs steadily rose from 2.3% in 1984/5 to 23.5 in 1986/7. Although this fell to as low as 14.9% in 1989/90, it rose to 24.6% in 1990/1.

ble 2.2 Proportion of local inputs in Pakistan's EPZs, 1984-91.

Year	Percentage
1984/5	2.3
1985/6	13.8
1986/7	23.5
1987/8	21.2
1988/9	23.9
1989/90	14.9
1990/1	24.6

urce: Tom Kelleher, International Development, Ireland.

.2 Sub-contracting

A significant factor in considering the successes of the EPZs is the extent to which they create backward linkages with the domestic manufacturing firms outside EPZs. Such linkages stimulate export-oriented and other forms of manufacture in the firms outside the zones. The recent increase of exports from Taiwan and South Korea has partly been attributed to the contribution of non-EPZ firms through sub-contracting arrangements by the EPZs. Out of the total value of exports, only about 6.5% is manufactured directly in the EPZs. The rest comes from firms outside the zones, (World Bank, 1994).

One aspect of the EPZs that has played a major role in facilitating backward linkages in respect to local sourcing and transfer of technology is the out-processing. Out-processing stimulates export-oriented manufacture in those firms outside the zones. Out-processing is important in relocating processes that cause pollution, facilitating production for fast orders and reducing production costs. In Korea, out-processing gave rise to "trusted" firms (EPZ firms), subcontracting manufacture to the "entrusted" firms outside the EPZs. Since EPZs are non-customs' territories and goods entering the zones are considered to have been imported, the entrusted firms could export their products into the zones without paying custom duties, (Basille & Germidis, 1984). This form of arrangement is beneficial in that it allows transfer of technology from the zones' resident firms to those outside and enables production to be taken closer to the labour sources.

In the Korean EPZs, sub-contracting to an out-of-zone firm went along with technical assistance as a way of ensuring that international standards were maintained. Because of this arrangement, the EPZ firms were allowed to carry out up to 40% of their production outside the zones, (Basille & Germidis, 1984: 55). Although such a high percentage of the production work was carried outside the zones, other factors other than the drive to transfer technology to "entrusted" firms may be the explanation. For example, in Korea, zone wages are higher than outside and there is a tendency to utilize available cheaper labour outside the zones.

Positive trends have also evolved in the Mauritian EPZs as far as sub-contacting is concerned. Inputs such as thread, knitted fabrics and cardboard boxes are supplied to the export processing sector by the local firms as well as some ancillary industries such as those producing buttons, ribbons, zip fasteners and labels that have sprung up in the neighbourhood, (Bolin, 1990a). Thus besides the EPZs advancing the industrial process in Mauritius, small concerns outside zone operations have been encouraged to venture into the export manufacture. This in turn has stimulated industrial growth and development in the entire island.

.0 Transfer of Technology

Industrialization is a dynamic process, taking place in the factory floor and the salesroom. The East Asian experience reveals that this process may be achieved through acquisition of effective technical and marketing tools, learning by doing and eventual world market competitiveness, (World Bank, 1994:2). Three factors are basically associated with lack of effective competitiveness by the LDCs in international markets. These are lack of know-how and the necessary information, failure of internal policy to ensure equal footing with foreign competitors and inadequate institutions and infrastructure for export and related trade and production activities.

In a free market economy, which is the trend in the world's current economic system, producers of goods and those who offer services have to fight for their share of market and also reduce costs in the production process. They therefore, have to effectively meet the pressures of competition and constantly upgrade the technological level of their products. This is against the background of traditional attitudes and managerial practices exhibited by producers in formerly protected markets in the period of transition, (World Bank, 1994). This has often been the case with EPZs.

The role of EPZs in the transfer of technology is diverse. The UNCTC (1991), Government of Ireland (1991), UNIDO (1992) and the World Bank (1994) consider

EPZs as effective means of enabling transfer of technology. While agreeing that technological transfer is necessary, Peter G. Warr (1987), Richard Bolin (1990b) and even UNIDO (1992) caution against unplanned transfer of technology.

Free zones in the Soviet Union were expected to serve as managerial expertise centers - models for the rest of the economy as well as a testing ground for new forms of market mechanisms and boost Soviet presence in the international trade. The free economic zones were supposed to train their managers and workers. In the case of a foreign firm or joint ventures between foreign and Soviet firms, it was expected that the foreign firm or foreign partner would bear the costs of such training. The training was intended to enhance the level of productivity and efficiency in order to cope with the international market where competitive standards abide, (UNCTC, 1991).

The Government of Ireland considers quality education as vital for its people. Her education system is geared towards business and institutions of higher learning are located in prime areas to facilitate training in relevant fields. Courses such as engineering and technology are offered in institutions located in industrial locations. For example a technological park, the National Technological Park Plassey was established in Shannon to enable comprehensive research and industrial growth. The Park incorporates the University of Limerick (established in 1972), Ireland's premier and largest college of engineering and business studies. The purpose of the park is to ensure technological advancement in the zone. It enables industrialists, academics and others to interact freely, (Government of Ireland, 1991). In Mauritius, the high literacy rates in both educational and technical fields, coupled with the governmental credits have enhanced Mauritius' entrepreneurial middle class.

According to Peter G. Warr (1987), EPZs benefit foreign enterprises from industrial exports and have no potential gains to the human resource development of the domestic industries. He argues that free trade zones (FTZs) are "foreign enclaves", "exploiting female workers" and have no "technical transfer value".[1] On the other hand, the World Bank (1994) asserts that proper training and technological transfer can take place at the factory floor, under supervision of workers by foreign technical personnel. Since the workers are highly mobile, they acquire skills in this manner and provide an impetus for private sector development in an LDC, (Warr, 1987).

While considering the form of technology transfer to be effected in an EPZ, the suitability of the infrastructure in relation to the products of such-based technology has to be evaluated as well. If the available mode of transport, for example, is by road or rail only, the products of firms located in such a zone are only those that can be transported by such means. This therefore, excludes products that suit air-freighting thereby limiting the transfer of technology in regard to air-freighted products, (Bolin, 1990b).

The nature of production processes in most EPZs is the assembly-type operation. Higher technological activities are usually performed outside the EPZ in the investors' home country and what is done in the zones requires simple technology. Thus the transfer of technology and know-how via EPZs has also been a very slow process, (UNIDO, 1992: 30). However, although high technology has not necessarily been transferred via EPZs, it has developed through some.

Outward processing is a common practice in modern EPZs. Outward processing entails sending abroad raw materials to be processed and bringing back a finished product. There is no duty charged on the part that was sent out when the finished product is returned. Only the value-added is taxed. Outward processing helps in the technology transfer between countries and enhances individual skills, (Bolin, 1990a)

---

[1] *Warr, "Malaysia's Industrial Enclaves: Benefits and Costs," in* *The Developing Economies XXV-I, March 1987, Pp 30 - 55*

Outward processing is necessitated sometimes by the law of a particular country. In Tunisia, for example, a lot of outward processing for Italy goes on because of the restrictions over the environment in the latter country. One problem with outward processing is that some of the countries that relocate their processing in other countries provide unskilled jobs only and do not therefore encourage significant transfer of technology as is the case with Italy's processing factories in Tunisia, (Flagstaff, 1996).

In Korea, one of the conditions a firm had to fulfil to be allowed to operate in the free zones was to bring into the zone a higher technology than what was available locally and to embark on its transfer to local industries for at least one year, (UNIDO, 1988). In China, better incentives such as tax holidays were given to enterprises that enabled transfer of higher technology than to those that did not, (World Bank, 1994).

According to Bolin, transfer of technology is limited by the tendency by some states, notably Japan, to file patents even on narrow technologies and then failing to commercialize them. This tendency has pre-emptied other countries from benefitting from such technologies and has had highly negative effects on the transfer of technologies, especially in the Third World countries, (Bolin, 1990a).

5.0 Employment

The greatest contribution of EPZs to the economies of developing countries has been the creation of employment opportunities. Thus employment has been a central factor for consideration by governments intending to establish EPZs. Most governments assess the significance of the zones against their ability to alleviate unemployment in their countries. The basic objective of an EPZ is to assist, promote and accelerate the economic development of a country, (Bolin, 1990 (a):44).

The world's EPZs employ about 2 million people, excluding China's special economic zones (SEZs) which alone employ about 3 million people. Most of these are mainly concentrated in Asia - Singapore, Hong Kong, Malaysia and Sri Lanka. In Southern America, the Mexican maquiladora (plural for maquila industries) and Costa Rica are leaders in EPZ employment, accounting for over $^1/_2$ million people, (Flagstaff, 1995:62-90). In the Caribbean area, the Dominican Republic, Bahamas, Barbados and Jamaica are prominent. Besides Mauritius and Tunisia which contain the largest number of EPZ employees in Africa, Egypt's EPZs employ about 250,000 people, (Baissac, 1996). By 1993, Mauritian EPZs employed more than 90,000 people. This accounted for about 32% of all the employees in the private sector. EPZ firms and associated activities account for about half of the total job opportunities in the Island, (UNIDO, 1993a).

In order to ensure employment creation in the Irish EPZs, the government requires EPZ enterprises to create a minimum of 15 jobs in every three years; that is, an average of 5 new jobs every year, (UNIDO, 1993a). In Mexico, only about 10% of the employees in the country's manufacturing sector are outside the maquiladolas. Through the initiative of private developers in the maquila industries, job creation grew by an average of 43% per year between 1964-74. Although this fell drastically between 1974-82 mainly due to the 1973/4 oil crisis, the maquiladolas have enhanced development as evidenced by increased wages and higher technology in production, (Warr, 1987).

Employment in the maquila industries has also risen steadily in the last decade. Table 2.3 shows the employment figures in Mexico's maquiladoras between 1991 and 1997.

Although EPZs have been hailed as a strategic development programme, especially because of their ability to generate employment, the type of employment generated has raised many questions. Some scholars of the EPZ concept, notably Peter G. Warr (1987), have argued that EPZs tend to generate low paying jobs as the firms operating therein mainly hire unskilled labour. The result is that EPZs become highly exploitative in that they sow sparingly and reap abundantly. Nonetheless, EPZs have created many jobs for the jobless people, especially of the developing countries.

Table 2.3 Employment Figures in Mexico's Maquila Industries, 1991 - 1997

Year	Number of Employees	Increase (%)
1991	480,000	-
1992	500,000	4
1993	550,000	9
1994	580,000	5
1995	650,000	11
1996	750,000	13
1997	900,000	17

Source: The Economist, 7th - 13th August, 1999

6.0 Foreign Exchange Earnings

Besides employment, earning of foreign exchange is a great contribution of the EPZs to the economies of the host countries. Foreign exchange earnings are essential for Third World countries, especially due to the need for hard currency with which to purchase certain commodities from the developed nations. Between 1980 - 86, 150 developing countries of the world were hard hit by lack of hard currency, including petroleum exporters. Most of the foreign exchange was earned from the manufacturing sectors of these states, especially in the NICs of Asia. Of the manufactured exports from these Third World countries during this period, 1 dollar out of every 5 of the value of exports was accounted for by outward processing, (Bolin, 1990(b): 35). Countries that had well established EPZs therefore had an advantage in forex earnings.

In Korea, a foreign firm aspiring to be admitted into an EPZ programme had to guarantee a high capacity to earn foreign exchange. The following formula was used to evaluate a firm before its admission:

$$\frac{E-M-R}{E} \times 100 = FX$$

where,

E	=	Gross export value of products
M	=	Value of imports to produce export items
R	=	Remittance overseas of profits and Dividends
FX	=	Foreign Exchange Earnings

For a firm to qualify for admission, it had to show a Foreign Exchange proportion of >30% of the firm's turnover, (UNIDO, 1988).

7.0 Domestic Markets

Traditionally, EPZs are not supposed to sell into the domestic market. But in certain countries, they are allowed to sell a certain percentage locally. These restrictions sometimes led to situations where firms would export goods to neighbouring countries and then import them back. Regional economic cooperation arrangements such as those of the European community have reduced this problem because goods from member states can access any market of the member states without attracting taxes, (World Development, 1993).

Different countries have different arrangements for EPZ firms wishing to sell in the domestic market. In Korea, for example, the Minister for Industry and Commerce allows such sale in countering national disasters or when it is considered necessary for the national economy. Korean EPZ firms are also allowed to sell into the local market if they have contributed immensely to the export drive. For example, if a firm exports goods worth U.S.$ 1 million, it may be allowed an equivalent sale in the local market, (World Bank, 1993).

In Nigeria, there is no limit on domestic sale although it is subject to the approval of the Free Zone Authority, (NEPZA, 1992). Although production in China's special economic zones (SEZs) targets the foreign market, sale of part of the products in the domestic market can be negotiated. In Mauritius, EPZ firms cannot sell locally without paying custom duties but firms operating outside the zones can "export" into the zones freely, (Bolin, 1990a).

3.8.0 Emerging Challenges for EPZs in Developing Countries

There are three problems associated with the development of EPZs in the world today. First, the continuing pressure of international trade protectionism poses a challenge to the programmes. Secondly, the devaluation of the U.S. dollar, aimed at promoting U.S. exports and correcting trade deficit does not augur well for the programmes in many developing countries. The low prices of U.S. exports due to the depreciation of the dollar in the 1980s and early 1990s strengthened the competitiveness of U.S. exports in international markets. Thirdly, the difficulty encountered in the transfer of technology and the expanding gap between the levels of technology between states is a problem to EPZs' advancement, (UNIDO, 1993a). Most EPZ firms import parts and semi-processed products from overseas parent companies. To protect their patents, such companies are reluctant to transfer some types of technology to the EPZ-hosting countries. Besides, developed countries have guarded their technology closely due to the competitiveness prevalent in the international markets.

The establishment and development of EPZs has brought economic prosperity and a higher living standard to some host countries. The challenge ahead for EPZs is to expand their scope of operations and to enhance their technology base. Given the aforementioned challenges, this is not going to be an easy task. Most EPZs around the world have concentrated on textiles and electronics. UNIDO has recommended diversification of industrial development and suggests ventures into international service activities such as data entry, software development and financial services. Engineering and consumer products for the regional markets should also be promoted to diversify the narrow product range of EPZs, (UNIDO, 1993a). The productivity of the labour and the availability of the range of skills will determine the kind of industrial investments to be put up in the zones.

EPZs are expected to provide a stimulus to the development of the national economy. Indeed, the yardstick for the success of an EPZ is the diminishing gap between the output of the zones and the rest of the economy. This eventually leads to the disappearance of the zones by which time the zones will have created the right conditions in the domestic economy for export manufacture. Once an advanced stage of industrial development has been achieved, it is not possible to keep wages low. New challenges start to emerge for EPZs and only those EPZs that will be able to adapt to cope with the new challenges can survive for a long period.

Most of the products of EPZ labour-intensive manufactures are exposed to the developed economies of the world. This calls for high quality products and readiness to learn new technological advancements to ensure both quality and low cost production. On the other hand, this becomes a difficult task on the part of the developing economies due to their inability to compete effectively with developed ones.

The so called stateless corporations (that is, those with greater sales and investments in countries other than their home country) like Nestle of Switzerland are international in scope and outlook, just like the EPZs. Such corporations would perform better if they operated within the zones. EPZs should therefore strive to lure such firms into their parks to promote transfer of technology and foreign exchange earnings.

1.8.0 Theoretical Gap

At the international level, organisations and individuals have written about EPZs. Most of them write to justify the need for the establishment of the zones. The World Bank (1989) emphasizes the need to establish EPZs in the developing countries as an alternative development strategy to the ISI. This comes in the light of success achieved by similar programmes in the NICs where tremendous industrial achievements have been made in the last two decades.

Claude Baissac asserts that since the establishment of the first EPZs in the 1960s, much of the literature on the subject has focussed on describing the phenomenon, mostly through case and comparative studies, (Baissac, 1996: 28-30). Authors like Holmes and Mao (1989) set out to prove the point that EPZs are valuable and should be established in all developing countries. The result is that they end up being one-sided. While justifying the establishment of EPZs, they ignore the fact that EPZs have been tried in certain countries and have failed. Besides being economic undertakings, EPZs have an impact on, and are also affected by the socio-political setup of their environment. For example, military and political problems have not enabled the establishment of EPZs in Haiti and El Salvador to generate employment or even facilitate manufacture, (Baissac, 1996).

Authors like Gary Gereffi (1994) have blamed the poor performance of EPZs in sub-saharan Africa on inadequate transportation and communication structures, shortage of concentrated pools of low wage labour, cultural barriers and foreign investment. He, however, does not explain the unsatisfactory performance of EPZs in areas where these hurdles have largely been eliminated.

The available literature on Kenya's EPZs, basically brochures and magazines promoting the programme, highlights the potentiality of the EPZs and justifies their establishment by referring to the successes of other countries. The existing literature on Kenya's EPZs, mainly published by the EPZA and IPC, has tactically avoided issues central to the operations of EPZs. For example, although EPZs are supposed to establish backward and forward linkages, no efforts have been made to determine whether such linkages exist in Kenya's EPZs. It is worth noting that the absence of such linkages affects both intra-EPZ processing and links with the domestic economy.

The existing literature on Kenya's EPZs does not even attempt to address this issue.

The available literature on Kenya's EPZs does not explore issues such as local sourcing - the factors that deter entrepreneurs from local sourcing, whether they make any initiative, either on their own or at the behest of the government, to seek, train, finance or nurture indigenous suppliers and whether there are institutional efforts to ensure greater value-added in the EPZ manufactures.

9.0 Theoretical Framework

A theoretical framework helps us to organise what we know about a stated question or issue at any particular time. The desire for development in the Third World countries is so great that various theoretical models have been advanced in an attempt to explain the available development options.

The study of EPZs is multidimensional, encompassing a cross section of several social science disciplines including economics, political science, sociology and geography. The complexity of such a study implies that it cannot be limited to a single analytical tool. Yet, as Baissac (1996) points out, the application of several analytical methods may on the other hand be contradicting. This study applies two theoretical models, the Industrial Development Theory and the World Systems Approach to give this study as wide a scope as possible.

9.1. Industrial Development Theory

Industrialization is the process through which an economy undergoes a structural transition so that the greater part of its energies are devoted to building new means of production, (Sweezy, 1949: 218). According to Marx, industrialization entails the reduction of costs and increased efficiency in the production process through concentration of the means of production and the labour force, thereby cutting down on expenses and waste of time. It also entails higher technology whereby much of the human labour force is replaced by mechanical power, (Marx, 1962). The features of industrialization include extensive division of labour, formal industrial organisation, use of complex machinery, greater yields and interdependence between the industrial organisation and the wider society.

Weber (1930), Sweezy (1949), Akerman (1960), Marx (1962) and Smith (1964) assert that there are certain conditions that precede industrial development. According to Smith, specialisation is necessary to enable labourers perform tasks for which they are best suited. He further saw trade barriers as a yoke to industrial development. This makes economic liberalisation necessary. Growth in population also gives impetus to industrial development partly because large populations lead to increased demands thereby necessitating higher production. Large populations also lead to an increased labour supply. Labour mobility due to the emigration of labourers in search of greener pastures facilitate industrialization as happened between England and the U.S. between 1880 - 1883, (Akerman, 1960: 11).

Weber asserts that the spirit of entrepreneurship is essential in the industrial process especially in generating capital. Since lack of capital is one of the greatest obstacles to industrial development, increased savings, whether public or private, play an important role in raising capital for investment in the industries. Discipline is required on the public and private sectors to promote savings. The Puritanist aversion to pleasure in the 16th and 17th centuries promoted thrift and enabled the Puritans to engage in business and industrial activities, (Weber, 1930). Interest rates also play an important part in attracting foreign investment. In 17th century England, capital for industrial investment grew rapidly due to her attractive interest rates of 8% that attracted investors from Holland, (Lipson, 1956).

The industrial growth of England was preceded by the agricultural boom of 1750 -

1834, which helped in the accumulation of wealth which was re-invested in the industrial sector. According to Lipson, the country's industrialization was preceded by the expansion of trade. Her wealth originated from the export of wool, tin and lead in the Middle Ages and the gains were invested in manufactures. The experience of South East Asia also shows that industrialization was preceded by agricultural advancement (popularly known as the green revolution) and increased commercial activities. Industrial development therefore follows this pattern: agriculture -commerce - industry, (Lipson, 1956).

As progress is made in industrial development, economic liberalisation becomes essential. It becomes necessary for the government to give up controls over certain aspects of the economy in order for the industries to prosper. The industrialization of England in the 18th and 19th centuries took place amidst protests by employers resisting government control over wages. This enabled industrialists to make maximum use of available labour force.

Proponents of the industrial development theory such as Sweezy (1949), Akerman (1960) and Galbraithe (1978) assert that the industrial development process undergoes three stages before maturation. Stage one is dominated by the production of consumer goods and production is aimed at the domestic market. The government plays a central role in the industrial development process at this stage. Such roles include providing the force to repress opposition to the industrial process. For example, there is need to keep wages low even amid protests by workers and trade unionists. At this stage also, the state imposes tariffs to protect the young industries.

In the second stage of industrialization, the intermediate stage, there is a realisation that to sustain industrial growth, domestic markets are inadequate. There is therefore a deliberate tendency to move towards export promotion and export-oriented manufacture begin to emerge. Greater capital is needed for investment and higher technologies are imperative. There are also tendencies towards liberalisation. Heavier consumer goods are manufactured at this stage and capital goods begin to emerge. The society concerned is characterised by greater socio-political activity with greater social mobility - people moving from one sector to another with ease. Although the state still plays a role in the protection of industries, demands are made on it to reduce intervention. Industrial products at this stage include intermediate goods from which consumer goods can be produced locally.

Stage three of industrial development is characterised by production of capital goods. Industrial production at this stage is not determined by foreign markets since the demand for such goods far exceeds the supply. Heavy goods such as chemicals, non-metallic and mineral products, metal products, heavy machinery, electrical and non-electrical equipments are the main products. There is abundant skilled labour and a liberalised economy with the removal of trade restrictions. At this stage, the living standards of people are higher and there is greater participation in the political affairs of the society. State intervention in the economic affairs at this stage is minimal.

In the second and third stages of industrialization, export-oriented industrialization becomes essential for industrial development. According to Hisao Kanamori, export-led industrialization arises as a result of the following: first, an industrial process whose primary stimulus to economic development comes from outside the country; hence exports rise in response to the stimulus, and secondly, a situation where increased exports result from increased domestic investment and an enlarged market, (Klein & Ohkawa, 1968: 319).

2 Industrial Development Theory and EPZs

The desire for countries to ascend to a developed status forces them to seek ways and means of industrialising since industrialization is generally viewed as the pathway to development. Countries seeking to industrialise therefore put in place programmes that can facilitate the industrialization process. Most governments that have tried the inward-looking industrial strategy opt for the export-led industrialization in order to overcome the limitations of the former. Among the export-led industrial strategies tried is the establishment of Export Processing Zones.

The establishment of EPZs is designed to advance industrial growth in host countries. Since the limitations to industrial development in most developing countries is anchored in the inadequacy of capital and inappropriate technology, EPZs are established in the hope that they will attract foreign investment and facilitate transfer of superior technologies in the developing economies.

Ideally, EPZs perform better when established in the second stage of industrial development. Practically, however, EPZs have been established at different stages of industrial development in different countries. In the developed countries, EPZs largely target the domestic markets by producing non-capital goods although non-EPZ industries deal with capital goods. In the developing economies, an aspect of every stage of industrial development is evident in the EPZs. Protection of nascent industries, for example is a practice of governments in emerging states. In the EPZs of most of the developing countries, this is done even for firms producing capital goods which is largely a practice of the more developed economies.

9.3 The World System Approach

A system, according to Chilcote (1981), is an abstraction of the society. The various societal phenomena are interrelated and boundaries relating to elements such as politics, economics, sociology, psychology and culture are only applied to delineate one from the other. A political, economic, social or cultural-psychological system refers to the measurable variables associated with the respective elements. The variables of any system include the structures, functions, actors, values, norms, goals, inputs, outputs, response and feedback, (Chilcote, 1981: 140). In the social sciences, the systems theory has been influenced by various disciplines, especially economics.

In the last two decades, the world economy has fundamentally shifted toward an integrated and coordinated global division of labour in production and trade, (Gereffi, 1994:1). In the old order of international division of labour, capital moved around the globe in search of raw materials and growing markets. The new international division of labour sees capital chasing cheap labour all over the globe. Capital, goods, technology and information move across national borders with new patterns of specialization between countries involving fragmentation and geographical relocation of manufacturing processes on global scales.

The World System Approach focusses on accumulation on a world scale. The production process in the world system approach is no longer organized only within the national boundaries but at the international level. Corporations, capital, products and technology are disconnected with their countries of origin as investors, manufacturers, traders and buyers simultaneously search the globe for profitable opportunities.

According to Immanuel Wallerstein, the world system is characterised by a self-contained life that extends to most of the world. The world system has incorporated the periphery into its operations. Certain roles have shifted from the core states to the peripheral and semi-peripheral ones which are characterised by dependent development. Samir Amin identifies the economic crisis of the world as rooted in the world capitalist system. The motor force of capitalism is endless accumulation. Under this system, the world bourgeoisie appropriates surplus value created by the world's direct producers. It involves appropriation, not only at the market place but also unequal exchange, transferring surplus from the periphery to core zones (Amin et al 1982: 9).

Amin's thrust of argument is that all the nations of the world, whether capitalist or socialist, are integrated in varying degrees into an international commercial and financial network, (Amin, 1974). The bourgeoisie and the proletariat are no longer confined to the national borders but operate at an international level.

Wallerstein asserts that under the world system, the quest for investment has become an obsession, creating a division of labour that transcends even the borders of political entities. The system uses the state - which has monopoly over the control of weapons and, by definition, can appropriate and redistribute wealth - to appropriate from others. But Wallerstein argues that the state is unable to appropriate from the accumulator. Multiple states have been brought under a single economy in order to aid the accumulator, by repressing the work force and by creating monopolistic advantages over the accumulators (Ibid, 1982: 14).

The growth of the capitalist system has ensured the removal of the various obstacles to a capitalist's accumulation. These include the removal of single state's internal constitutional constraints which has enabled the transfer of capital from one region to another and the substitution of the mechanical with the human energy. The advancement of this system in the world enables the hierarchization of space. This entails polarised division of labour in the cores and the peripheries; the polarised two class-structure of accumulators (bourgeoisie) and the direct producers (proletariat) and in turn leads to the reproduction of the class structure in the household structures of its operations; and the creation of inequality between states within the interstate system.

According to Amin, the integration of the periphery into the world system reflects the increasing power of capitalism to unify the world, organizing the center and the periphery into a single hierarchical world structure:

> By creating in the periphery in the sectors that are of interest to it, organizations for mining and industrial processing on the scale required by modern technique, the center everywhere blocks the path for the development of a national industrial capitalism capable of competing with it. Hence the general tendency of local capitalism to assume statist forms, (Amin, 1974: 378).

The underdeveloped country and its economy are not isolated from the international market. The manner in which it is internationally integrated conditions its pace and direction of development. The economy of the underdeveloped state is thus continually shaped by the world system.

The states of the world, being elements of the globalised system put in place political structures that are in line with the global system. Thus the decisions made are influenced by the accumulators who tend to have the sympathy of the global system. The political decisions on the parameters of the distribution of the wealth produced tend to be unbalanced, always favouring the accumulators at the expense of the direct producers.

At independence, the sub-Saharan states' economies were basically agrarian, dominated by rural small-scale production. The multinational industrial corporations' contribution to the total production was small. After independence however, the multinationals began to gain footing in the economy, mainly by using the comprador bourgeoisie. This comprador bourgeoisie was created through the integration of national economies into the world market.

While proponents of the world system approach acknowledge that it is facing a crisis due to internal changes that threaten its basic structure, it is apparent that the real impact of the system is only being felt in certain Third World countries. The Third World states lack the ability to compete with the more industrialised states. Development strategies have therefore been reoriented to enable a conducive institutional environment that makes technological upgrading possible. Among these strategies is the establishment of the EPZs.

.4 The World System Approach and the EPZs

Global capitalism generates unequal division of wealth between and within societies. A clear hierarchy exists between and within world regions in terms of their wealth and labour costs. The establishment of certain industries in the poor regions of the world like sub-Saharan Africa is partly necessitated by the low-wage situation of the region which enables the capitalist to access relatively cheap labour force. Those with capital are able to move into EPZs of other countries to invest.

Under the world system, industries and firms play a more prominent role than nation-states as units of analysis. Firms form the economic framework within which production systems are expected to fit. National development may therefore be the outcome and not the starting point. In the EPZs, success of the firms is paramount and the yields to the national economy are of secondary consideration.

The establishment of EPZs in many countries of the world has formed a network of production sites and markets thereby opening up previously closed economies to international entrepreneurs with capital to invest freely and to benefit substantially from massive pools of idle labour. This in turn has involved the EPZ host countries in the world system of international manufacture and trade. The concept has also contributed to the industrial take-off of developing economies where it has been effectively applied.

The EPZs are therefore a manifestation of the functions of the world system in which, to use the words of Marx and Engels, backward nations are being compelled into civilisation by facilitating the rapid improvement of the instruments of production, the bourgeoisie creating a world after its own image, (Marx and Engels, 1964: 64-5).

Besides slave trade which largely affected Africa, Third World states first participated in the international division of labour primarily through export of primary products and import of industrial products. In the new international division of labour, the previously peripheral states and regions are also exporting industrial products through arrangements of the export promotion zone. Operations in these zones may include the importation of raw materials, semi-processed goods and equipments to be used in production.

The liberalisation of the economies in most countries of the world and the subsequent setting up of free market economies has enabled investment to cross national borders which in the past had been a barrier to investment, especially in the protectionist practice of the developing countries. Frank's assertion that the need to promote export manufacturing in the Third World is in line with the existing international division of labour through which capital in the West seeks to reduce labour costs of production by shifting some industrial processes to the underdeveloped regions, (Frank, 1981) precisely describes the operations of the EPZs. Labour-intensive industries are relocated to the Third World states but their products are destined for the world market.

Under the globalised division of labour, labour movements are viewed as obstructions that are to be conquered and controlled and not as essential participants in economic policy or important bearers of democratic politics as has been the norm in the democratizing states. In the EPZs, labour movements are outlawed. This enables the capitalist investor to have full control over the repressed labourers. In the developing economies where EPZs are expected to play a major role in development, labour supply is abundant. Investors therefore have access to cheap labour and can easily replace labourers.

10.0 Conclusion

In less than 40 years, the EPZ concept has grown from its humble origins to become a global phenomenon, having been embraced by about 150 countries of the world. The popularity of the concept has been increased by its performance in the NICs and some other developing countries like Mauritius and Mexico. While EPZs have been established successfully in these countries, they have performed poorly in others. EPZs are a complex concept and cannot be operationalised in the same manner in all countries. Where the concept has been operationalised effectively, it has benefitted the national economy through generation of employment opportunities, transfer of technology, earning of foreign exchange and creation of backward and forward linkages with the rest of the economy.

Where the performance of EPZs has been poor, the ambitious objectives used to justify their establishment have not been realised. Instead of attracting complex industries in the zones of the developing economies, they have introduced simple ones that are usually integrated into transnational enterprises. Foreign firms have benefitted more by moving labour intensive stages of their production processes to the EPZs of developing countries due to labour-cost differentials between developed and developing countries.

CHAPTER 3

THE STATE AND EXPORT MANUFACTURE IN KENYA

3.0 Introduction

The establishment of EPZs was not the first attempt by the Kenya Government to facilitate export industrialization. Among past incentives given by the Government to encourage both export manufacturing and trade were duty-free system of importing inputs and the duty drawback programme. Other incentives included the Manufacture Under Bond (MUB) programme, establishment of the Investment Promotion Centre (IPC) and a number of other institutions to facilitate investment that would give impetus to export-oriented manufacture.

This chapter deals with the role of the state in facilitating export manufacture in Kenya. The factors leading to the change of heart from ISI based production to export-oriented manufacture are discussed with the objective of establishing a background to the study of the EPZs in Kenya. The institutional setting for export manufacture is described in order to understand the background against which EPZs are established.

3.1.0 Policy Framework For Export Manufacture

Like many states emerging from a colonial regime, Kenya adopted the import substitution industrialization (ISI) strategy at independence, continuing a legacy that the colonial government had started. Profit-seeking multinational firms established firms in the country, supported by a policy that was in favour of any form of industrial investment. Immediately after independence, Kenya's manufacturing sector expanded rapidly, especially in terms of production of a wide range of consumer goods for the domestic market.

Two factors favoured this scenario with no real urgency to venture into other forms of production for the two subsequent decades. First, the population was small and there wasn't much pressure on the government for supply of goods and services. Secondly, there was a fairly good donor support from many developed countries. At this time also, the world was polarised into two blocs. At the height of the Cold War, Kenya could easily get donor support from the world superpowers who wanted to obtain her alliance.

Colin Leys has argued that the various state economic policies put in place at independence placed the African entrepreneurs within the general system of protection and monopoly in a way that enabled them to serve and complement foreign capital, (Leys, 1975: 149). Legislative means were used in the immediate post-independent period to deter foreigners from getting rooted in certain sectors of the economy. This was achieved through control processes such as licensing. Through such efforts, the local merchant class was able to thrive and spread tentacles from the agricultural sector to the industrial one by limiting the entry of foreigners into their enclaves.

But by the 1980s, industrial production targeting the domestic market had reached its limits and there was a pressing need to break into export manufacture. In the third decade of independence, change was inevitable, mainly due to two factors: first, the ever-growing population put pressure on the government in its demand for goods and services; and secondly, the crumbling process that gradually weakened the Eastern bloc led to diminished aid by donor agencies and countries.

By the 1980s also, the World Bank and other multilateral development agencies were pressing for the implementation of SAPs in developing countries. Most developing countries succumbed to this pressure, largely in an attempt to secure donor funding in various sectors. In Kenya, the first step of SAPs implementation was to institute trade liberalisation and deregulation. Towards this goal, the Export Development Programme (EDP) was launched to encourage export of non-traditional goods. Pressure was mounted on the government to address the export promotion policy whose physical infrastructure and institutional structure were considered inadequate. An industrial structural adjustment programme (ISAP) was put in place with the objective of restructuring Kenya's industrial sector in order to attract investment and encourage a more export-friendly environment.

By 1990, Kenya had a fairly successful manufacturing sector compared with many African countries. While she had reasonable support services for the export industry, the administrative and operational conditions were not supportive of such ventures. Import substitution that was initially emphasized was not meeting the expectations of the country's industrial growth and development. Realising the limitations of the ISI strategy as shown in declining industrial investment, poor export performance and a low job-creating capability, the Government changed its strategy on industrial development. It had to restructure the economy and reinforce economic liberalisation to allow as many participants as possible.

Consequently, the country embarked on a gradual customs tariff rationalisation programme, with a steady reduction of the tariff rates being effected from 1986. Measures such as the elimination of the quantitative restrictions, import controls, floating of the currency and the removal of restrictions on current account transactions were effected in line with a trade liberalisation policy. With the liberalisation, some of the manufacturing firms that had initially thrived on the protectionist policy collapsed due to their inability to compete. New foreign investors who had the technology and market expertise ventured into the Kenyan industrial sector. This scenario was not peculiar to Kenya; it was taking place in many other developing countries.

The desire to support export manufacture was given further impetus by the opening up of the regional market at about the same time, enabling the expansion of Kenya's export trade in the region. In 1994, for example, Kenya's exports into the Preferential Trade Area (PTA) member states exceeded those to the European Union. The export-import ratio to the East African region rose to 11 to 1 in 1994 up from 3 to 1 in 1990, (GoK, 1997). This growth in Kenya's export trade in the regional market was attributed to the political stabilisation of most East African states, liberalisation of trade as well as the growing strength of the manufacturing and trade sectors of Kenya.

In addition to the level of development, official policies and the resource endowment of a country, investors take into consideration risks and prospects of investing in a foreign country. Even as Kenya embarked on a promotional campaign for export-oriented industrialization, there was increasing need to ensure that security prevailed in the country. The Government had thus to adopt and publicise policies that guaranteed security to investors. Protection for foreign investment in Kenya is partly guaranteed by the Foreign Investment Protection Act of 1964 and the fact that she is a signatory to the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID).

2.0 History of Export Manufacture in Kenya

The early export incentive programmes put in place by the government, namely the duty free system and the duty drawback, were largely abused by individuals and implementing agencies. Under the duty free system, manufacturers could import raw materials duty-free as long as the products were exported. The Customs Department was expected to establish whether imported raw materials were utilized for production of exports. However, often corrupt Customs officials colluded with unscrupulous manufacturers who imported raw materials duty-free without any intention to produce for the export market.

Under the duty drawback programme, manufacturers paid duty for all imports and exports and then claimed for a refund later upon production of proof of export. Those investors with a high degree of sincerity experienced problems in delayed refunds. Corruption soon permeated the system to an extent that refunds were made even where no exports had been made. The most scandalous deals that have ripped Kenya of multibillion shillings hinged on this programme, notably the Goldenberg scandal.

2.1 Manufacturing Under Bond

The Manufacturing Under Bond (MUB) programme was began in 1986 to encourage investors to produce for export. The incentives given to investors under this programme include duty and value added tax (VAT) exemption on imported plant, machinery, equipment, raw materials and intermediate inputs. It also gives an investment allowance of 100% on immovable fixed assets. When import licences and other approvals were applicable, investors under the MUB programme enjoyed priority allocation. The Investment Promotion Center processes investment projects under this programme.

Under MUB, investors are allowed to import equipment duty-free, with customs officials ensuring their storage and use, releasing them as needed. Bonded factory facilities are granted to large companies, those exporting 80% or more of their products.

Investors under this programme may dispose some of their products in the domestic market subject to the approval of the commissioner of Customs and Excise, payment of normal duties and taxes and a 2.5% surcharge. Investments under this programme exist in Nairobi, Mombasa, Kisumu, Thika, Eldoret, Nakuru and Nyeri. Most investors under the programme are in the garment business, producing for export into the U.S. and European Union markets. Up to 1995, about 40 investors had had their projects approved under the programme. The performance of the programme was affected after 1995 by problems in the US market where most of the products were destined, (IPC, 1995).

3.0 State Organisations Involved in Export Promotion

There are three public sector agencies whose main responsibilities are to promote exports and investment in Kenya: Investment Promotion Centre (IPC), Export Promotion Council (EPC) and the Export Processing Zones Authority (EPZA).

3.1 Investment Promotion Centre (IPC)

The Investment Promotion Centre (IPC) is a statutory body established in 1986 to promote private investments in all sectors of the economy and especially in agriculture, tourism and horticulture. The IPC is managed by a board of directors drawn from both the public and private sectors and is headed by an executive chairman. The Centre approves investment projects and assists investors in the acquisition of necessary permits and licences by liaising with the authorities concerned. It also provides information services on investment policy, regulations and opportunities in Kenya. It is entrusted with the task of promoting investment activities both locally and internationally. Once it gives an approval to an investor, it issues a General Authority Certificate which enables the applicant to implement one's project for up to six months.

The performance of the IPC has been limited by inadequate funds and incompetent personnel to carry out promotional activities. A proposal to strategically establish offices abroad in order to facilitate dissemination of information on the investment opportunities available in Kenya has been an early casualty of this lack of funds. The recruitment of personnel is highly influenced by political considerations as has been the case with many government bodies in the country leading to the hiring of incompetent people to perform jobs within IPC to the detriment of the organization.

3.2 Export Promotion Council (EPC)

The Export Promotion Council (EPC) was established in 1992 with the primary objective of assisting exporters and producers of export goods and services to overcome difficulties and to help increase the level of performance for the export sector. It was expected that the EPC would harmonise the efforts between the public and the private sectors in promoting traditional exports such as tourism, coffee and tea as well as non-traditional but competitive products such as manufactures and horticultural products. Members of the council are drawn from both the public and private sectors.

3.3 Export Promotion Programmes Office (EPPO)

The Export Promotion Programmes Office (EPPO) was also set up in 1992. It was largely an initiative of the World Bank whose objective was to enable the government generate foreign exchange. The programme was initially under the Ministry of Finance but was later transferred to the Kenya Revenue Authority in August 1998. It provides for duty and VAT waivers on imported materials used by manufacturers producing for export or those serving such manufacturers. The facility is also open to Kenyan companies producing goods that can be imported duty-free, or goods supplied to the Kenyan armed forces or on approved aid-funded projects, to import raw material duty and VAT-free for such production.

While a substantial number of large manufacturers have benefitted from this facility, small and medium domestic firms have not benefitted significantly mainly due to ignorance. For the time that the facility was under the Ministry of Finance, not much was done to publicise it among manufacturers. The programme was also prone to abuse by its administrators, allowing import of taxable raw materials duty-free. Investors under other programmes like the EPZs have opposed the establishment of EPPO, arguing that it renders irrelevant the incentives given under the EPZs programme.

4.0 The Role of the Kenya Government in Export Promotion

The Government of Kenya expresses recogntion of the fact that the overall national economic development and industrial growth in particular will depend largely on the country's ability to expand its capacity to export goods and services. The trading environment has changed considerably in the recent past with liberalisation in the neighbouring countries. The government recognizes that there is an urgent need to ensure that the country's competitiveness for outward investors measures up to the international standards, and that it requires aggressive promotion of the available investment opportunities and an enabling investment in terms of efficient service provision, good infrastructure, less red tape in the bureaucracy and a conducive macro-economic and political environment, (GoK, 1986).

The incentives given to both domestic and foreign investors under various programmes shows the commitment of the Kenya government in stimulating export manufacture in the country. Although both financial and administrative support has been given to the export-oriented programmes, their performance has been below expectations. Financial constraints and social vices such as corruption amongst officials entrusted with the operations of the programme has contributed to this poor performance.

5.0 Conclusion

Having realised the limitations of the ISI-based industrial strategy adopted at independence, the government of Kenya emphasized the establishment of export-oriented industries in the 1980s. Programmes geared towards the realisation of this goal were put in place but their effective operationalisation has been limited by inadequate funding as well as the inefficiency of the officials entrusted with the programmes. Corrupt officials have abused the incentives given under the various programmes to benefit themselves at the expense of the entire country.

While the government has formulated various strategies to enable manufacturers advance into export-oriented manufacture, the efforts have been undermined by those overseeing the programmes for their own selfish gains. The recruitment of officials to oversee the implementation of such programmes based on partial criteria such as political inclinations has taken its toll on the effectiveness of these organizations.

CHAPTER 4

THE EXPORT PROCESSING ZONES IN KENYA

.0 Introduction

The success of the EPZ programmes in East Asia and Mauritius was one of the sources of inspiration for their establishment in Kenya. The World Bank, UNIDO and the IMF strongly recommend the establishment of EPZs in the early stages of a country's export drive seeking to break into the export market, (UNIDO, 1993b). These international donors recommended the programme as a way for Kenya to make use of her comparative advantage in infrastructural and human resources, (IPC, 1991). This, it was hoped, would in turn attract investment in export-oriented activities. It was against such background that the Export Processing Zones Act was enacted. This chapter looks at the development of EPZs in Kenya and assesses their performance since inception.

1.0 The Operations of the EPZ Programme

The Export Processing Zones Act defines an EPZ as a designated location where goods are generally regarded as being outside the customs territory as far as import duties and taxes are concerned, (GoK, 1991: 5). The EPZ programme was established for the following reasons: to attract new investment in productive export activities, increase non-traditional exports, generate both direct and indirect employment, transfer technology skills to Kenya and produce linkages between the domestic territory and the EPZs on the one hand, and between the domestic and the international economies on the other, (IPC, 1991).

Investors in Kenya's EPZs are expected to be engaged in manufacturing or processing of goods, or in activities related to or preceding manufacturing activities, or offer services like brokerage, consultancy, repair, or information services excluding financial services and activities. Investments in the zones are classified in three broad categories:

manufacturing, commercial and service industries. Commercial activities include trading in, breaking bulk, grading, repacking or relabelling of goods. Manufacturing activities include conversion by manual or mechanical means of organic or inorganic material into a new product by changing the size, shape, composition, nature or quality of such materials including the assembly of parts into a piece of machinery or other products, excluding installation of machinery or equipment for the purpose of construction, (GoK, 1991: 4 - 6).

The EPZA encourages investments in all types of industries, including garments, leather-made goods, footwear, textile yarns and fabric, garment accessories, solar technology products such as cookers, panels and batteries, electronic goods, telecommunication equipment, data processing and information technology, jewellery and watch manufacture, cosmetics, pharmaceuticals, building materials, furniture, food processing, agricultural machinery such as ploughs, tractors, pumps and paper products, (EPZA, 1996).

For an enterprise to be approved under the programme, it has to be registered in Kenya and has to undertake only EPZ related activities. By the end of 1998, twenty two (22) enterprises were involved in EPZ activities in the six leading zones, namely Sameer Industrial Park, Athi River, Birch Investments, Oil Tanking, Rafiki EPZ and Thomas De La Rue. Table 4.1 shows the various activities the firms in these zones were engaged in. The EPZ firms in Kenya are engaged in plastic manufacture, computer assembly, fresh produce packaging, sisal buffs, textiles apparel, cotton yarn, printing, paper conversion, pharmaceutical and bitumen products.

Table 4.1 Enterprises involved in various activities in Kenya's EPZs, 1998

Product	No. of EPZs Involved	Total No. of Enterprises
Apparel & Fabrics	3	9
Plasticware	2	3
Agro-products	3	3
Pharmaceuticals	2	3
Electronics/Computers	1	1
Petroleum Products	1	1
Security Documents	1	1
Paper Products	1	1
Total	(6 EPZs)*	22

**not cumulative.*

Source: EPZA

4.1.1 Incentives in Kenya's EPZs

Investors in Kenya's EPZs enjoy a number of incentives: a 10 year tax holiday and thereafter corporate tax at 25% (instead of the usual 35% of corporation tax for local companies and 42.5% for subsidiaries or branches of foreign companies); exemption from duty and VAT on imported inputs and withholding tax; exchange control liberalisation with regard to investment by foreigners and repatriation of profits; provision of work permits for essential expatriate workers - technical, managerial and training staff; rapid approval of investment projects; facilitated processing of import and export documents by customs and port officials; unrestricted off-shore borrowing; infrastructural facilities and efficient operating procedures in the zones; and exemption from various laws such as the Factories Act, Industrial Registration Act, Export and Essential Supplies Act, Trade Licensing Act and the Statistics Act among others, (EPZA, 1996). There are no minimum levels of investment as long as the investment is new and is export-oriented.

There is abundant labour force in Kenya, especially the unskilled type. Investors in the EPZs therefore have adequate labour force at their disposal. The existence of an ever-growing reserve army of unemployed people enables firms to engage labour at low costs, enhancing their competitiveness.

4.2.0 Export Processing Zones Authority

The formation of the Export Processing Zones Authority (EPZA) is provided for in the Export Processing Zones Act. The EPZA is a parastatal organization consisting of a board of directors drawn from the public and private sectors, a chief executive and a professional and administrative staff. The staff is organized under five departments: corporate services, marketing, customs, investors' services and research and planning. The board comprises of a chairman appointed by the president, one representative each from the Kenya Association of Manufacturers (KAM) and the National Chamber of Commerce and Industry (NCCI), four members from the private sector appointed by the Minister of Finance, permanent secretaries in the ministries of Finance and Industrial Development, Governor of the Central Bank, Commissioner of Customs and Excise, Commissioner of Lands, Managing Director of IPC and the Chief Executive of the EPZA.

The EPZA has three basic objectives: to expand non-traditional manufacturing exports from Kenya; to generate employment and improve labour force quality through upgrading of skills; and to stimulate domestic and foreign investment in export-oriented industries. The projected goals for the EPZA included generation of employment, private investment, foreign exchange earnings, economic diversification, backward and forward linkages and technology transfer.

The government allows the EPZA to manage the EPZ programmes independently. The EPZA is mandated to encourage private developers, evaluate plans and make recommendations, advise developers and supervise their development. The Authority is responsible for ensuring that environmental degradation is not accelerated by the establishment of the parks by controlling the work of both developers and users of the industrial zones. For instance, the requirement that there should be no sewerage connections in the Changamwe EPZ limits the kind of investment that can be located there. It is the work of the EPZA to ensure that investors interested in various industrial parks do not tamper with marine life through pollution of the ocean, (EPZA, 1995).

The EPZA also licences private developers and operators. In assessing project proposals, the EPZA requires the licensee to submit a short proposal detailing the intended activity, product and production process, desired location, target markets, proposed employment generation, technology transfer and training, proposed level of investment and how the investment will be financed, (GoK, 1991). The criteria upon which investors' applications are assessed and licences issued by the EPZA include the ability to create jobs, technology transfer and skill training, development of new export products and export markets, availability of working capital and the establishment of backward and forward linkages with the Kenyan economy, (EPZA, 1996).

4.3.0 Financing Development of EPZs

The Government of Kenya has mandated the EPZA to oversee the development of EPZs. The Authority is expected to spearhead development of EPZs in the country by providing a model for other developers. Kenya's EPZA has done this by developing Athi River EPZ. Another public EPZ is being developed at Mombasa. The Authority is also responsible for the development of infrastructural facilities necessary for the operations of the EPZs. It regulates the development of EPZs through licensing of developers and operators, ensuring that all EPZ development is done according to the laid down legal framework.

However, like other administering agencies of EPZs in most developing countries, Kenya's EPZA faces financial constraints in its operations. The resources used to develop the infrastructure and suprastructure within which the EPZs are located are acquired through bilateral or multilateral arrangements including loans. The private sector is expected to come in and share costs with the Authority to ensure that development of EPZs and their promotion is carried out effectively, to boost industrial production for exports.

Besides the revenue earned from rents and licences and the money allocated to it by the Government, the EPZA also enjoys funding in the form of donations from international organisations, especially those affiliated to the United Nations. For example, in 1993, UNCTAD extended a two-year technical assistance to the EPZA to develop its expertise. The EPZA has also got other financial assistance in the past from the UNDP.

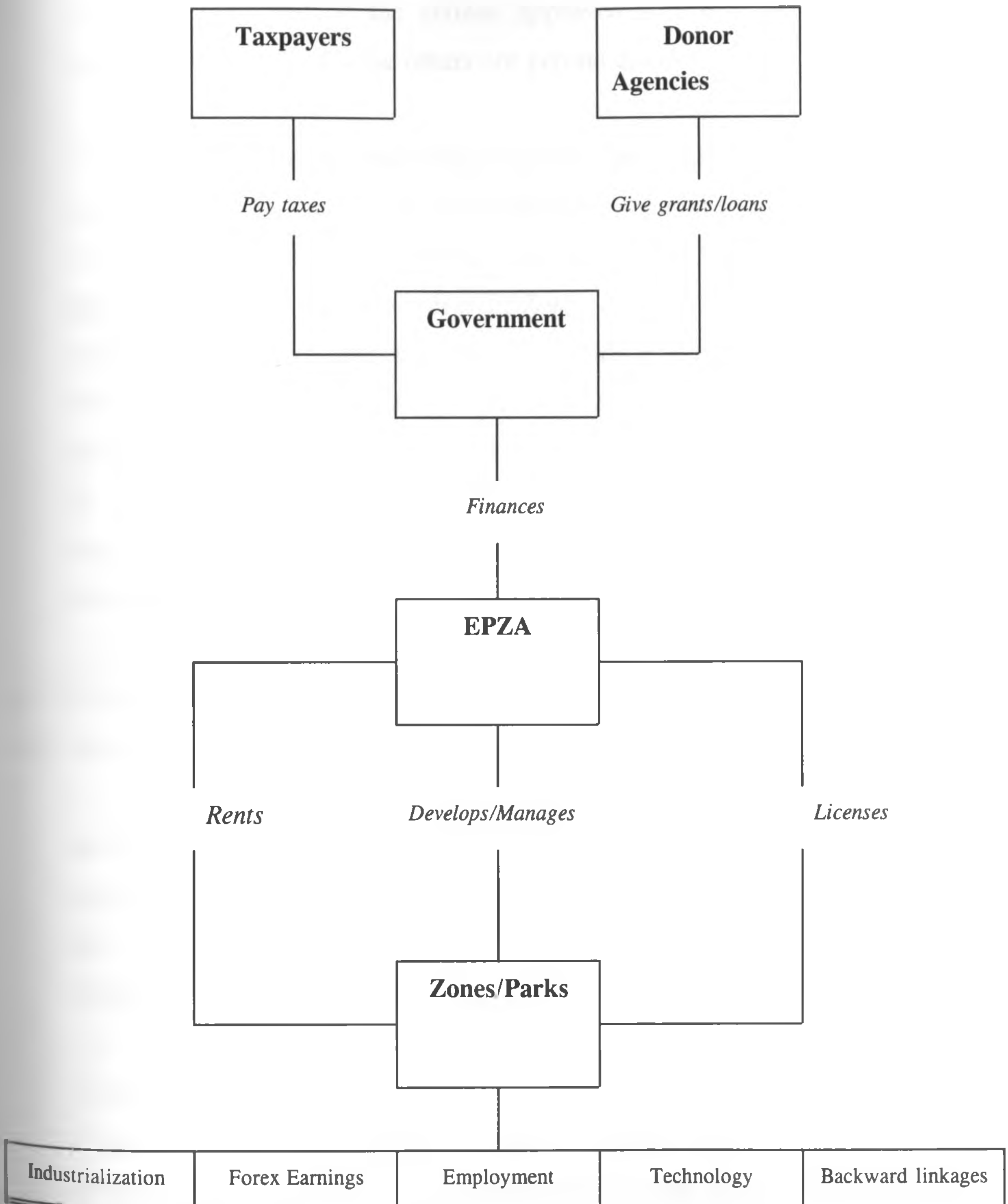
By the end of 1996, the government had spent KSh. 9 billion on the infrastructure and on investments in Kenya's EPZ programme. In 1997, out of the KSh. 100 million required in the EPZA's annual budget, 75% was raised by the Government while the remaining 25% was raised by the Authority from rents and licences. The value of EPZ sales at the same time stood at KSh. 1

billion per year.[2] According to the EPZA, EPZ firms locally purchase goods worth KSh 70 million annually. Goods purchased locally include agricultural raw materials such as sisal, cotton lint, fresh fruits and vegetables, packaging, furniture, fuel, lubricants, stationery and motor vehicles.

The cost of processing application forms is US$ 250 and an annual EPZ licence costs US$ 1,000. The EPZA provides common services such as landscaping, garbage disposal, security, infrastructure including roads, storm water drainage, street lighting, water, health facilities, fire station and a power sub-station and the distribution network. The EPZA therefore spends part of its budget in the maintenance of the zones, (EPZA, 1996).

[2] *These statistics are availed by the Export Processing Zones Authority.*

Figure 4.1 The flow of resources in Kenya's EPZs



Source: Survey Data

In the development of Kenya's EPZs, both public and private funding is involved. In Mombasa, for example, investors applied to establish free port status while at the same time an industrial park was put up by the public sector. Currently, only two of the sixteen approved industrial parks have been constructed publicly. All the others are private developments.

The Athi River Export Processing Zone is a public EPZ. It is supposed to catalyse EPZ programmes and fulfill a demonstration function to EPZ investors in this country. In the zone, serviced plots and industrial buildings are leased to approved investors. The Athi River EPZ was constructed at a cost of US$ 30 million, 80% of which was credit from the World Bank and the remaining 20% from the Kenya government (EPZA,1995). The feasibility study of the publicly developed EPZ at Mombasa was done by the African Development Bank group at the invitation of the Kenya Government. The cost of constructing the Mombasa EPZ was estimated at US$ 18 million, with the Government obtaining credit from the ADB group.

4.4.0 Factors Limiting Performance of EPZs in Kenya

4.4.1 Markets

An important consideration in the establishment of EPZs in any country is the availability of markets for the products. Kenya's major trading partners include the European Union, U.S.A., Canada, the Common Market for Eastern and Southern Africa (COMESA), Japan and Australia, (GoK, 1997).

In Kenya, EPZ firms are prohibited from producing for the domestic market. If they do, they would be liable for payment of duty for the goods sold. This is because in Kenya's EPZs, goods brought into an EPZ from a Customs territory are considered to have been exported and must be paid for in convertible currency. On the other hand, goods brought into the Customs territory from an EPZ are considered to have been imported and must be subjected to normal Customs and import procedures including payment of import duties.[3]

A major problem that the manufacturing sector in Kenya has encountered in the recent past has been its declining share of the world market due to stiff competition. This has also affected the EPZ investors. Dependence on traditional markets is proving to be unreliable as it is frequently affected by trade quotas imposed on imports, especially from developing countries. Lack of political will in laying strategies for new markets has rendered the efforts of many manufacturers useless. Secondly, the more industrialised countries of the world are gaining a larger share of the world markets due to their advanced technologies and quality products.

4.4.2 Capital

About 70% of the investment in Kenya's EPZs is foreign-owned, with most of the investors from South Africa, United Kingdom, Germany, Philippines, Sri Lanka, Hong Kong, Pakistan, Korea and Mauritius. By 1997, only four enterprises were wholly owned by Kenyans, accounting for 18% of the total EPZ firms in the country. According to EPZA's Head of Research and Development[4], the total equity held by Kenyan investors in the EPZ enterprises accounts for less than 30%.

Foreign firms, whether in the zones or outside, usually obtain cheaper credit facilities to finance their trade needs through overseas affiliated banks or company connections. Domestic enterprises, on the other hand, largely depend on access to bank loans, whether publicly or privately supported. In Kenya, such

[3] *Section 24 and 25 of the EPZ Act, Cap 517 Laws of Kenya*
[4] *Interview with Head of Research and Development at EPZA headquarters in Nairobi*

facilities are available to only a select few and not all prospective investors are able to obtain credit facilities. The result is that many local firms are not able to compete effectively with their foreign counterparts. Promises by the government to support local entrepreneurs in obtaining capital have so far not yielded tangible results so.

4.4.3 Planning

The concept of an industrial park in Kenya is relatively new. This requires the EPZA and private developers to coordinate and effectively plan, manage, develop, design and control the development and functioning of the parks. The development of EPZs in Kenya has not been well coordinated by the EPZA. International donor agencies do not seem to have given adequate attention to this issue.

An EPZ has to be adequately planned in relation to the overall national development plans and policies. Its growth should be assessed against historical experience, market demand and future prospects and must be suited to the available space and infrastructure. The Athi River EPZ, for example, is exceptionally big, occupying an area of about 339 hectares. An ideal EPZ is recommended to be about 40 - 70 hectares, (UNIDO, 1993b). The full range of the Athi River EPZ therefore might be inconvenienced by the quantity and quality of available infrastructure.

One of the objectives of concentrating industries in one area as in the zones is to limit the extent of water and air pollution to one area as opposed to dispersed factories. Secondly, most EPZ firms are engaged in light engineering, garments and typical assembly manufacturing which do not cause serious pollution. Major environmental pollutants tend to locate outside the zones in countries such as Ireland. Such industries include pharmaceutical and electronic enterprises. In

Kenya, a single zone plays host to several firms engaged in different manufactures.

4.5.0 A Comparative Perspective

The success of the East Asian NICs in development can, to a considerable extent, be attributed to the foresight of the governments involved which put emphasis on social welfare policies aimed at realising lasting development. Singapore's industrialization, for example, was unique. With limited resources, not even sufficient land, she managed to feed, clothe, house, employ and provide security to her people due to her social welfare policies and her institutionalisation of a democratic political system, (Ndii, 1996). Strong laws against corruption and proper remuneration of public servants enabled Singapore to prosper. Besides, Malaysia and Singapore enjoy abundance of qualified personnel which had a positive impact on the industrialization process, (Holmes & Mao, 1989)

Mauritius achieved a high degree of industrial success within a period of about 10 years because of her concrete planning and sound policies, her political stability, focussed efforts to uplift the living standards of the citizenry, heavy investment in agricultural productivity and support for rural infrastructure, research and extension and subsidies on essentials such as fertilizers. These efforts helped to lower costs on food and exports which in turn ignited export-led development.

In Japan, Taiwan and Korea, most of the investments in the EPZs were savings re-invested into the industrial sector. In China, repatriation of after-tax profits in hard currencies is subject to 10% withholding tax. Only 50% of the after-tax salaries paid to foreigners in China can be repatriated, (Bolin, 1990a). This, in essence, is one of the obstacles to foreign personnel in China's special economic zones (SEZs) thereby contributing to creation of employment for the Chinese nationals. Due to the on-going liberalisation, repatriation of profits in Kenya by investors is no longer restricted.

Industrial upgrading and diversification of exports as has happened in the East Asian NICs has prominently been a role of locally owned firms in their export-oriented drives. This is evident in the large industrial conglomerates as in South Korea or the small and medium-sized firms of Hong Kong and Taiwan where domestic enterprises have been central in their international competitiveness. Unlike the NICs, the Kenya Government has not given adequate support to domestic investors to invest in the EPZs. Besides limitations in finances which is often advanced as the reason for lack of government support, the government is also under pressure, through the crusade for establishment of free market economies, not to accord domestic industries too much support. In Pakistan there are special industrial zones (SIZs) open only to indigenous companies with better incentives than foreign investors. This is aimed at accelerating domestic industrial investments, increasing exports, ensuring transfer of technology and creating additional employment opportunities.

Bhangwati & Desai (1970), and Bhagavan (1979) have argued that the exploitation of a country's comparative advantage is the road to its industrialization. The establishment of EPZs in Kenya was aimed at exploiting the country's comparative advantage in terms of human resources, for instance. But whether to adopt comparative or absolute advantage in industrialization process is not the issue. Japan, for instance, acquired her leading technological status under a tough protective barrier; Korea's ship-building industry thrived against the logic of comparative advantage just like Malaysia and Thailand in their production of cars, computers and computer electronics or Indonesia in her esteemed aircraft manufacturing.[5]

Besides, the high tariff barriers and direct government support for high-tech industry among the Asian tigers, their industrial take-off began with a technological revolution in agriculture in a period of rapid and sustained increase in agricultural productivity often referred to as "the green revolution". The experience of Britain's industrialization in the 19th century took a similar path. In comparison, Kenya is faced with a perennial problem of lack of sufficient food. Thus instead of Kenya spending her scarce foreign exchange earnings in supporting export-led industrialization, part of it is spent on feeding her starving population.

In Pakistan, labourers contribute 10% of their earnings to the provident fund after confirmation. There is also medical care, group insurance and a bonus from company profits as well as gratuity after five years of continuous service. In the Kenyan situation, many EPZ employees are on casual employment terms and being highly mobile, their stay in one firm is very short. Secondly, employers in Kenya's EPZs are exempted from most laws that affect other manufacturers outside the zones. As a result, the EPZ employers do not feel duty-bound to contribute to their workers' provident fund.

Kenya's EPZA may have banked too much on the incentives it gives to attract investment into the zones. The problem with such incentives as tax holidays is that some companies in certain countries just change their names and get a similar period of tax 'holiday' in order to evade payment of tax once the 'holiday' is over. Elsewhere, the fear of negative attitude by investors due to withdrawing firms after the tax 'holiday' is over forces zone managers to retain

[5] *See article by David Ndii entitled "The Sure Route to Industrial Take-off" in the Daily Nation, Nairobi, 22nd December 1996*

firms with all the privileges long after the 'holiday' is over. The future of EPZs in Kenya seems uncertain after the first parks exhaust their 10 year tax 'holiday' in 2002. The EPZA seems to have adopted a wait-and-see attitude.

The transferability of the East Asian development model to other parts of the developing world is as problematic as the attempt by development strategists to impose the Western development models on newly emerging states at independence. It may not be easy to transfer the East Asian development model to other developing parts of the world due to the diversities of the economic policies pursued, the institutions of the host economies as well as differences in culture. The industrialization process of any country is unique to that particular country and while other countries' efforts may be admirable, their replicability to others may not be possible.

4.6.0 Challenges Facing EPZs in Kenya

Kenya's EPZ programme is considered to be one of the most advanced of the "new wave" of development currently sweeping through Africa, especially in the Sub-Saharan Africa, (IPC, 1996). Yet there are a number of challenges ahead for the country's EPZ programme. Many problems confronting the export producers in 1990 still persist in Kenya's EPZs, including bureaucratic delays in shipments, inadequate or disintegrating infrastructure and buildings, and lack of a secure physical and administrative environment. Thus despite the launching of the EPZ programme, export manufacture in Kenya is still faced with problems.

One major problem that seems to have beset Kenya's EPZs right from the offset is the fact that they were started at a time when the political and economic climate of Eastern Europe was undergoing a radical change. Besides much of the development aid diverted to Eastern Europe, the free trade zones of the world were faced with other competitors in their endeavours to enhance their domestic economy. At the same time, the investment climate in Kenya was not very conducive as far as foreign investors were concerned.

At around the time when the Export Processing Zones Act was enacted and the first parks were established, Kenya's political scene was undergoing major changes especially in terms of pressures for the re-introduction of the multiparty system of government. Consequently, most investors were afraid of committing their capital to the programme fearing that the stand-off between the government and the various pressure groups could lead to political instability and eventually the collapse of the economy. The future of the programme was therefore unclear. Unfortunately, this insecure feeling among investors has not changed much even after the political changes that have been implemented in the last decade.

Rising labour costs in the East Asian NICs have made their products expensive in the foreign markets, (World Bank, 1993). Manufacturers in these countries have therefore sought for low-wage export platforms in other parts of Asia, Africa and Latin America. Secondly, the shift of the simple labour-intensive and unskilled assembly operations of the Mexican maquiladora to low wage countries of Central America, the Caribbean and Africa to pave way for the 'new' maquiladora programme which attracts investors in high technology, component supply industries benefitted Kenya's EPZs in the initial years of the EPZs programme, (Brannon, 1994). Kenya, in her quest for rapid industrial growth and development has been all too eager for such investors and they have easily found a place to relocate their production to.

Some of the characteristics of industrialization via EPZs in Kenya tend to retard the industrial process, limiting production to the first stage and pre-emptying development into other stages. The incentives extended to EPZ investors deter healthy competition and the support given to investors are all characteristics of nascent industries. Workers who are not unionisable receive generally low wages in the EPZ firms. This is likely to constrain industrial progress in the country, due to poor industrial relations, low morale and associated low labour productivity.

Other constraints facing the EPZ operations include the absence of service-based and banking firms within the processing zones, unreliable power and water supply, inefficient clearing and forwarding, lack of advanced technology, poor or deteriorating infrastructure and communication facilities.

David Ndii has argued that the Government should put in place an incentive system that lowers the production costs of tea, coffee, horticultural products and tourism to increase their domestic value-added and international marketability.[6] The incentive structure and public investment programme as in the case of EPZs should be biased towards industries and sectors whose products are internationally competitive as a way of expanding the existing export base. The effort to increase traditional exports should not exclude efforts to venture into other aspects of export-led industrialization. Extra efforts need to be made to promote and maintain high technology and high value export products.

The Kenyan economy is more advanced than the rest of the East African states. Her manufacturing sector is well developed, accounting for about 10% of the GNP. Compared with other African states, Kenya has good facilities required by export investors - international transport services, hotel facilities and commercial support services. This situation is considerably aggravated by changes in Tanzanian and Ugandan environments whose vigorous export manufacture promoting has gained international recognition and backing from

[6] *Ndii. Op. cit.*

both multilateral and bilateral donors. Kenya will thus need to take deliberate measures aimed at boosting investor confidence in the country as an investment destination.

The success of the export industrial drive in Kenya hinges on three factors. First, the ability to generate both public and private savings for investment in both production and human resource development and secondly, the ability to raise agricultural productivity to a higher level. From the experience of the industrial revolution and that of the Asian NICs, export-led industrialization is usually preceded by enhanced agricultural productivity that enables the industrialising countries to be self-reliant in feeding its population and in increasing its traditional exports. Thirdly, there should be a deliberate effort to allow market forces to determine the most intensive use of available resources. Half-hearted economic liberalisation will not help the industrial advancement of Kenya.

4.7.0 Conclusion

The quest for capital for investment in the industries of the Third World countries has led to the establishment of EPZs. The establishment of EPZs in these countries, coupled with a liberalised environment from which to operate, has in turn enhanced the process of globalisation by enabling international investors invest with ease across national borders. This globalisation process has, however, tended to benefit the industrialised countries more than it benefits the EPZ-host countries because of the magnitude of profit repatriation from the yields of their industrial investments. Consequently, EPZs have not benefitted host countries in any significant way.

The EPZs programme in Kenya was established to facilitate export-oriented industrialization. Various incentives were given under the programme to attract foreign and domestic investment. Due to the local economic situation, investment in the country's EPZs has been dominated by foreign capital. The programme has encountered a number of problems in its operations too. Thus despite the ambitious expectations in the establishment of the zones, little has been achieved in practice via the EPZs. The international economic order has contributed to the shaping of the EPZ programme in Kenya. For the programme to succeed, there is need to address zonal and national issues that limit the performance of the programme.

CHAPTER 5

THE EPZs IN KENYA: EMPIRICAL FINDINGS

5.0.0 Introduction

This chapter presents the empirical findings of the field research carried out to determine whether the EPZs are fulfilling the objectives for which they were established. The chapter examines the impact of EPZs on the Kenyan economy as evidenced in their ability to stimulate industrial growth and promote general economic development by alleviating unemployment, upgrading technology, establishing backward and forward linkages with the rest of the economy and increasing foreign exchange earnings.

5.1.0 EPZs and Industrialization

One of the hypothesis upon which this study is premised is that the introduction of the EPZ programme in Kenya has had little impact on the country's economy. To test this hypothesis, an assessment is carried out on the extent to which EPZs have stimulated industrialization, especially export-oriented, generated productive employment, enabled transfer of technology and spinoffs to the rest of the economy, and enhanced foreign exchange earnings.

5.1.1 Productive Employment

One of the objectives of EPZs was to facilitate development of industries that would enhance productive employment. Although employment numbers in the EPZs rose, albeit slowly, from 1,633 in 1993 to 2,950 in 1996, it fell to 2,878 in 1997 in spite of the rise in EPZ enterprises from 18 in 1996 to 22 in 1997. While EPZ enterprises increased by 18% between 1996 and 1997, job opportunities declined by 3% in the same period. Table 5.1 shows the growth of employment vis-a-vis the number of EPZs over the years.

Table 5.1. Employment Trends in EPZs.

Year	Employees		EPZ Enterprises	
	Number	**Annual Change (%)**	**Number**	**Annual Change (%)**
1993	1,633	-	12	-
1994	2,632	38	15	20
1995	2,797	6	19	21
1996	2,950	5	18	-6
1997	2,878	-3	22	18

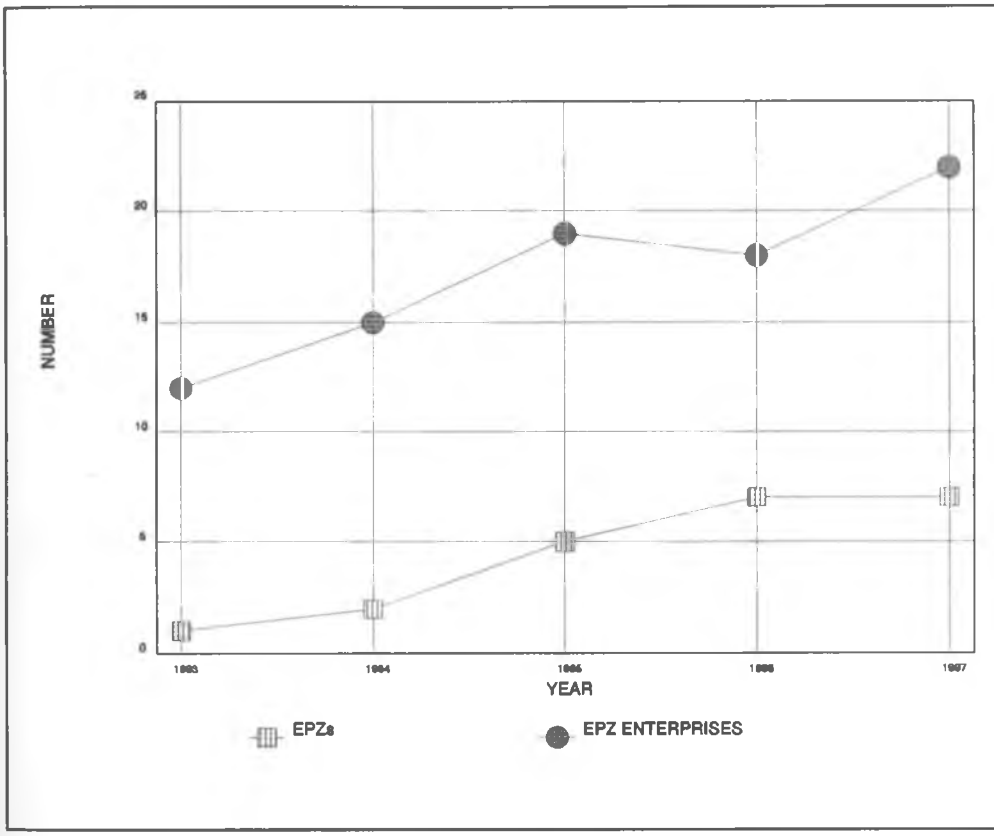
Source: Survey Data

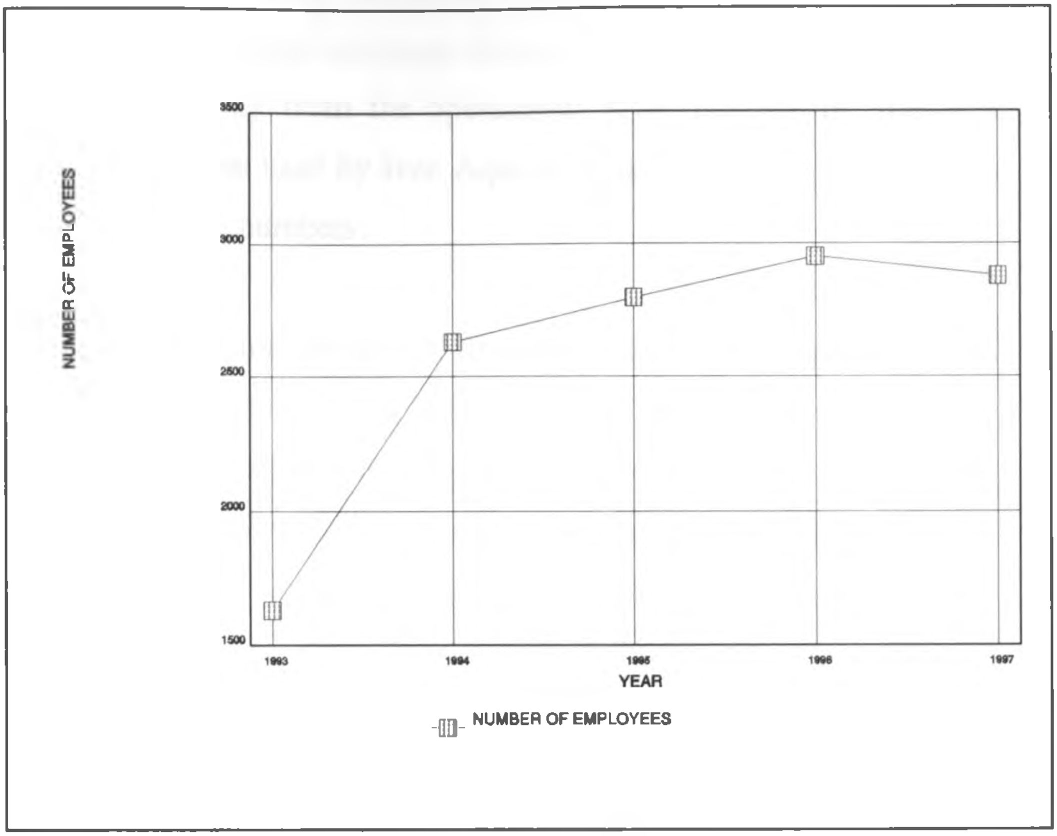
Between 1995 and 1996, the number of operational EPZs in Kenya rose by a commendable 29%. In the same period, the number of functional EPZ enterprises declined by 6%. However, employment increased by 5% during the period. The number of operational EPZs continued to be 7 in 1996/97 as in the previous year, but EPZ enterprises in the zones increased by 18%. In spite of the growth in the EPZ enterprises during that period, job opportunities declined by 3%.

According to Athi River Employment Officer, the decline in the number of employees at a time when the enterprises were increasing was attributable to the introduction of capital-intensive investments in the EPZs which led to laying off of workers. This laying off, in turn, caused increased industrial disputes in the zone in 1997. Of the 9 EPZ firms included in this sample, only 2 - Sanofi and Norbrook - did not have labour related industrial problems in 1997. A high rate of redundancy is currently prevailing in Kenya's EPZs due to the shift from labour-intensive to high technology based operations by many investors. Figure

5.1 is a graphic representation of the trend of employment vis-a-vis the growth of the number of operational zones and EPZ enterprises over the period 1993-97.

Figure 5.1 The trend of employment and EPZs growth, 1993-1997.





Source: Survey Data

The Ivee Aqua EPZ at Athi River provides a good example of the effects of high-tech machines in the EPZs. This firm manufactures water for medical injection. According to its general manager-cum-chief pharmacist[7], Ivee Aqua is the only one of its kind in the East African region and the fourth in the continent after Nigeria, Egypt and South Africa. The company uses a high-tech machine which when fed with raw materials, prepares transparent plastic bottle containers as well as water for medical injection, fills, corks, seals and packs them. This machine can produce up to 75,000 units per day. The company has

[7]*Interview with Mr Patel, the general manager-cum-chief pharmacist of Ivee Aqua*

only 14 employees, including its general manager. Seven people serve as technical staff while the other seven are labourers who clean the premises and move the packages away from the operational area. The use of high-tech machines such as the one used by Ivee Aqua is unlikely to encourage creation of employment in large numbers.

At Eltex EPZ, a textile manufacturing firm, a single labourer operates up to between six and ten machines. Being high-tech machines, only a few people are required to monitor the sorting out of the flax and the progress of the weaving and spinning processes. An individual can therefore attend to several of the machines since workers' input is only required when there is a problem, especially jams.

Most of the workers in the EPZ firms are Kenyans. From the study sample, Kenyan and foreign workers account for 93% and 7% respectively. However, Kenyan workers complain of discrimination in awarding benefits, against the citizens even where they perform similar tasks with non-citizens. The EPZ Act allows foreign workers in the managerial and technical positions of the EPZ firms. Foreign pharmacists were found to earn more than twice the salary of citizen pharmacists in some of the firms studied.

Since the first EPZ enterprises became operational in 1992, the zones have had limited success. The main aim of establishing EPZs, namely to generate employment, has not been realised to any significant level. By the end of 1997, the EPZ firms had a total workforce of only 2,878 employees. The EPZA had earlier projected that by the end of 1998, EPZs would have generated a total of 20,000 jobs which is both a generous and appealing projection. But given the performance of EPZs in the first six years of their operation, the projection of what the Authority hopes to achieve is greatly exaggerated, (Table 5.2).

Table 5.2 Revised projections for the development of EPZs to the year 2010.

Year	Investments KSh. Billions	EPZs	EPZ Employees	Exports KSh. Billions
1997 (Actual)	4.7	22	2,878	1.9
(Projected)				
2000	10	60	6,000	4.5
2010	25	200	20,000	15

Source: Survey Data

5.1.2 Transfer of Technology

Several factors come into play in enabling the adoption of technology in any society. These factors include the socio-economic and political structure of the society, its interests, the orientation of its industrial structure and the availability of capital for investment. State policies on industrialization affect the manner in which adoption of technology is carried out in the sector.

Little has been done under the EPZ programme to create conditions for rapid transfer of technology for the country's industrialization process. EPZ investors are generally not keen on the transfer of technology, especially through deliberate manpower development programmes. Of the workers in the EPZs, 70% have worked in other capacities before. The remaining 30% are either school leavers or were previously unemployed, (Table 5.3). The prevalent hiring of trained and experienced personnel by EPZ investors is an indication of how reluctant these investors are to invest in manpower development.

In other countries of the world where out-processing is practiced, transfer of technology has been eased. EPZs extend superior technologies to non-EPZ firms in order to facilitate production of inputs that they acquire from outside the zones. Lack of such an arrangement in Kenya's EPZs has limited attempts to transfer technology to non-EPZ firms. Thus while EPZ firms in Kenya may possess superior technology, it does not significantly benefit Kenyans in that it is not being transferred to the rest of the industrial sector outside EPZs.

Table 5.3 Previous Occupation of EPZ Workers

Previous Occupation	Number	Percentage %
Employed	71	70.3
Unemployed	16	15.8
School Leaver	14	13.9
Total	**101**	**100**

Source: Survey Data

The method of recruiting workers for the EPZ firms is such that employers do not incur costs on training their workers. In their recruitment to their current jobs, 42% were required to have had experience in jobs similar to the ones they were expected to perform. About 14% of the workers were required to have undergone specific training related to the work they were to perform before they were hired. There were other requirements for the remaining 44% ranging from the level of education, ability to communicate in English or Kiswahili, to physical fitness.

Socially, an outward-looking labour force is essential for the adoption of new technologies. In Japan, for example, workers enjoyed the security of company unions and the traditional practice of a lifetime employment and were therefore not afraid of losing jobs. This enabled them to confidently learn new skills.

Access to education on technology is also important in enabling a lasting effect. In contrast, Kenyan workers are keen on learning new technologies only if it offers them better employment opportunities.

Kenya, like other Third World countries, lacks the ability to compete effectively with the industrialised states. What is therefore required is a re-orientation of her development strategies in order to put in place an environment conducive to technological upgrading. The current EPZ programme has not enabled an effective upgrading of technology and workers engaged in EPZ firms have not acquired higher knowledge that enhances the industrial process.

In 1996, the EPZA announced that it would establish an incubation centre in Nairobi to facilitate the transfer of technology from the EPZ firms to the *jua kali* sector. This would harmonise labour force from all levels of education in order to enhance technical know-how. Three years down the road, there has not been any move to establish such a facility. According to the Head of Research and Development at the EPZA headquarters in Nairobi, the logistics for such an undertaking have not yet been laid down.

5.1.3 Education Levels and Technology Transfer in the EPZs

Educational levels play a central role in enabling rapid acquisition of technology. In Mauritius, for example, the success of the EPZs has partly been attributed to educational achievements which have facilitated transfer of technology. By 1965, Mauritius had attained universal primary enrollment, (Bolin, 1993a). Although the Kenya Government has consistently expressed support for education in the country, the costs of education has hampered the educational pursuits for many Kenyans. According to the *1997 World Development Report*, primary school enrolment in Kenya declined by 2%, from 57% in 1995 to 55% in 1996. Besides, only 47% of those who enrol in standard

1 complete standard 8. Only about 29% of the potential secondary school students were actually in school in 1997, (World Bank, 1997).

About 51% of the workforce in Kenya's EPZs consist of workers whose level of education does not go beyond primary school. About 48% had attained secondary education while only 1% had post-secondary school education. Majority of the workers are essentially casual workers and have no professional training. Table 5.4 shows the professional training undergone by the workers in the EPZs. The data shows that Kenya largely supplies unskilled cheap labour. Those with professional training, especially at technician level, are employed in specialised fields such as electrification and maintenance.

Table 5.4 Levels of professional training among EPZ workers.

Level of Professional Training	Number	Percentage (%)
No Professional Training	58	57
Craft	36	36
Technical	6	6
Diploma	1	1
Degree	0	0
Total	101	100

Source: Survey Data

About 86% of the workers have not undergone any training since joining the EPZs. This shows how reluctant EPZ investors are to spend on training their personnel. About 9% sponsored themselves for training outside the work place while the remaining 5% underwent on-the-job-training at their workplace, mainly through apprenticeship. At this rate, the effectiveness of EPZs in facilitating technology transfer has severe limitations. Of those who have undergone some form of training, only 38% believe that the training they have undergone was relevant to the nature of their jobs. It was also difficult for workers to learn new skills at the work place because they are frequently transferred from one line of production to another so that specialisation was not achieved. The interruptions caused by such transfers did not create a conducive environment for workers to effectively acquire new skills.

5.1.4 EPZs and Industrial Planning

The establishment of the EPZ programme in the country has not enabled the transformation of the country's industrial sector, especially in the enhancement of the export of non-traditional products. Besides contributing little to the alleviation of unemployment, the EPZs have not contributed much in the diversification of industries in the country. Production is still in the consumer and intermediate goods stages and little has been achieved in the establishment of industries oriented towards capital goods production.

Lack of effective government planning for industrial investments in the EPZs has caused over-investment in certain manufactures like apparel and fabrics and little investments in others, (Table 5.5). Investors continue investing in sectors that are already overcrowded. This creates a problem in terms of industrial diversification and in marketing the products.

Table 5.5 Activities Kenyan EPZ firms were engaged in, 1998

Product	Total No. of Enterprises
Apparel & Fabrics	9
Plasticware	3
Agro-products	3
Pharmaceuticals	3
Electronics/Computers	1
Petroleum Products	1
Security Documents	1
Paper Products	1
Total	**22**

Source: EPZA

Although it is a government policy to encourage location of more industries in the rural areas by providing a favourable environment, EPZ programmes have continued to concentrate in and around major urban areas. This is contrary to the promise that investors would seek to locate their production where there is back-up support for their operations, especially in terms of labour and raw materials. It had been hoped that EPZs would disperse industries to previously unreached places, especially North Eastern Province (for meat products) and the North Rift region (with fish from Lake Turkana).[8] Secondly, the pledge by the Government to support indigenous innovations and entrepreneurship in the hope of strengthening scientific capacity and enterprise has not been kept.

, Vol LXXX, 31st October, 1990. Pp F2 - Z1

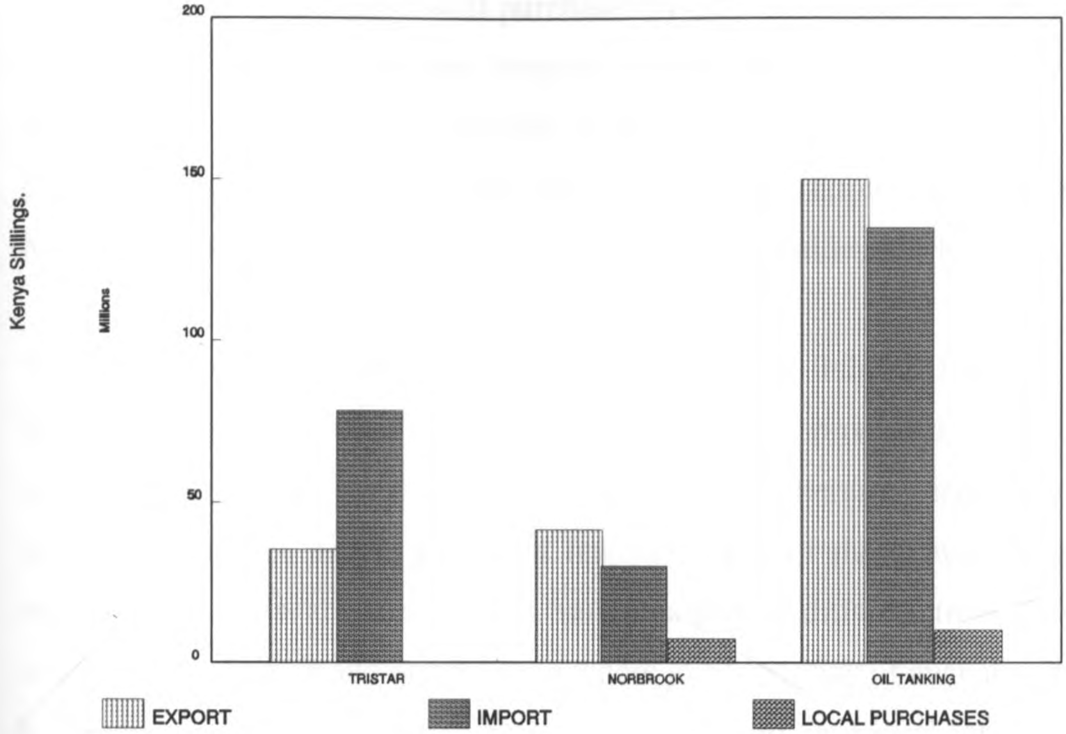
Thirdly, the hope that increased backward linkages would be achieved through sub-contracting of production and local sourcing of raw material and components has not happened in practice.

5.1.5 EPZ Spinoffs

The establishment of backward linkages between EPZ firms and other firms outside the zones was one of the envisaged benefits of the EPZs in Kenya. In practice, the procurement of inputs from the domestic economy by EPZ firms has not taken place significantly as these firms largely opt to acquire raw materials from other countries even where such materials are available locally. Investors say that while such materials may be cheaper locally, their regular availability is not guaranteed.

Figure 5.2 shows the local purchases made by three leading EPZ firms, compared with their exports and imports. Tristar, a textile-based EPZ firm does not make any local purchases although its exports and imports amount to over KSh. 35 million and KSh. 78 million respectively. The other two firms, Norbrook, a pharmaceutical firm and Oil Tanking, a petroleum products dealer, make minor purchases worth KSh. 7.5 million and 10 million respectively. Norbrook's exports amount to over Ksh. 41 million and KSh. 150 million for Oil Tanking. Their imports are worth KSh.30 million and 135 million respectively. Most of the purchases made locally are mainly in packaging material. The purchases made locally are clearly a minor fraction of the imports.

Figure 5.2 Local purchases vis-a-vis exports and imports in three EPZ firms.



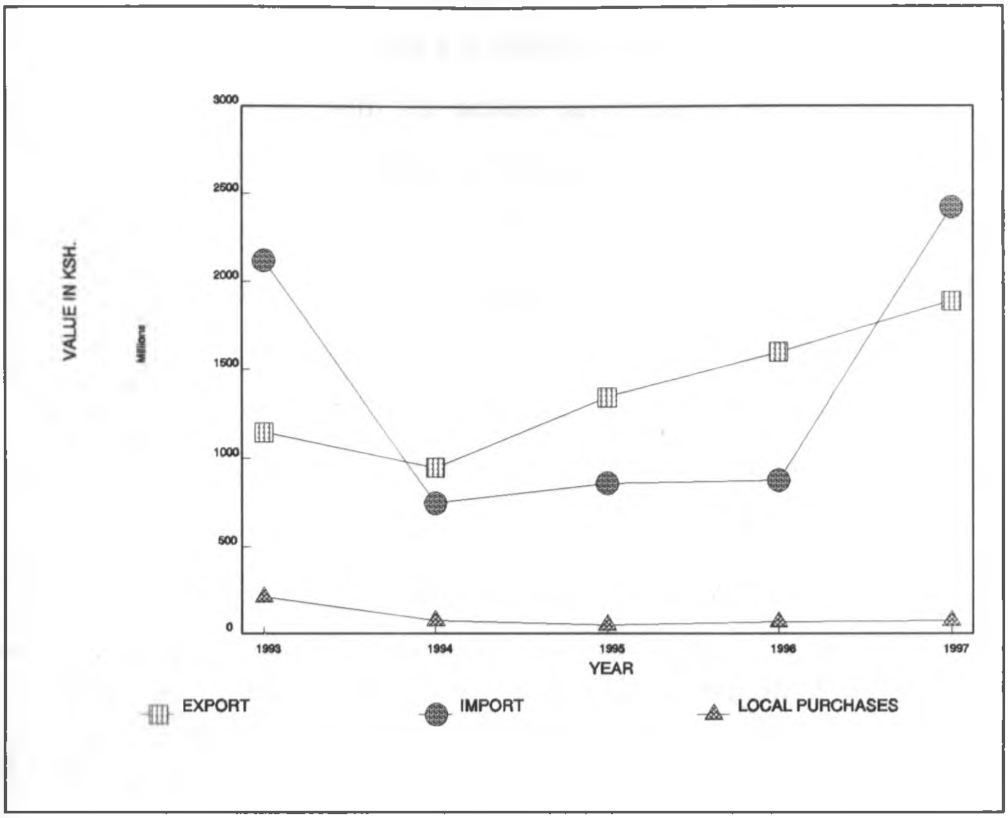
Source: Survey Data

Tristar EPZ gets its raw materials, mainly cotton flax, from Asian countries. Norbrook's raw materials are obtained from the United Kingdom to supplement its local purchases. Oil Tanking's local purchases are only diesel fuel used in the manufacture of roading bitumen. Its raw materials mainly come from South Africa and Iran. Sanofi, a veterinary drug firm sources locally for only packaging and labelling material. Actually, the drugs are manufactured in France and only repackaging and relabelling is carried out at the EPZ. Its sources of raw material are France and Hungary. Mohabab EPZ, a foam mattresses manufacturing firm sources locally for polyol, merlylene chloride and silicon. Raw material for the main components of its manufactures are, however, purchased in the USA, South Africa and Germany.

Figure 5.3 shows how little local purchases by EPZ firms are. Between 1993-94, the value of local purchases, imports and exports fell. Although the value of imports and exports rose from 1994, and especially exports in 1996-97, local purchases remained low. Thus while imports and exports improved considerably between 1994 and 1997, local purchases remained considerably low.

Thus, the raw materials obtained locally contribute little in terms of the envisaged spinoffs from EPZ firms to Kenyan producers and other manufacturers outside the EPZs. The EPZs in Kenya therefore cannot be said to have established proper backward linkages. Most of the inputs, including most raw materials, are imported tax free. This is quite different from EPZs of countries like Taiwan and South Korea where local sourcing of available inputs is mandatory. Most of the EPZ firms in Kenya tend to shun local sourcing and sub-contracting mainly due to differences in prices and the attitude of foreign investors who think that domestic products are of a lower quality.

Figure 5.3 Value of exports, imports and local purchases in the EPZs.



Source: Survey Data

In 1993, the value of imports surpassed that of exports by almost two times. This was due to the importation of plant and other equipments by investors. By 1994, the value of exports surpassed that of imports and the gap between the two widened between that year and 1996. By 1997, the value of imports overtook that of exports again. This is attributable to the importation of capital intensive equipment by investors. The use of capital intensive equipment results in the reduction of the workforce thereby rendering the concept of EPZs as a job creating programme irrelevant.

5.2.0 Employee Welfare

The EPZA recommends wages to the EPZ investors. Table 5.6 shows the recommended monthly wages for various labour skills. The figures shown in this table differ a lot with the actual payments to the workers, (Table 5.7). Investors have therefore taken advantage of the EPZ setting to exploit this labour to their advantage. Although the recommended monthly salary for a supervisor is KSh. 24,000, the data obtained during the study shows that supervisors earn between KSh 9,000 and 10,000. Although the lowest paid unskilled labourer is supposed to earn KSh 3,000, going by the EPZA's recommendation, more than 30% of the workers earn amounts below this figure.

Table 5.6 EPZA's recommended monthly wages to investors.

Level	Payment, US $	Equivalent in KSh. *
Managerial	1,000	60,000
Supervisory	400	24,000
Skilled Labour	200	12,000
Semi-skilled Labour	100	6,000
Unskilled Labour	50	3,000

** At June, 1998 Exchange Rates*

Source: EPZA

Table 5.7 Incomes of EPZ workers

Amount in KSh.	Frequency	Percentage (%)
1,500 - 3,000	32	31.7
3,001 - 4,000	41	40.6
4,001 - 5,000	19	18.8
5,001 - 6,000	5	5.0
6,001 - 10,000	4	4.0
10,000 +	0	0
Total	**101**	**100.1**

Source: Survey data

The data shows that 72.3% of the workers earn below KSh 4,000. Being exempt from various requirements that apply to other manufacturers outside the EPZs, EPZ firms do not increase wage rates when minimum wages are increased by the Government. Besides the wages, there are no other benefits for the workers in the EPZs. About 99% of the workers enjoy no benefits and even the remaining 1% received minor benefits in form of first aid facilities in case of an industrial accident.

Although the EPZA argues that it urges EPZ employers to pay slightly better than the minimum wage guidelines and even provide incentives such as housing, transport or meals during working hours, this study established that if such advise has been given, it is being largely ignored. The standard payment for casual workers who are the majority is KSh. 120 per day. This translates into KSh. 2,640 per month. Much of the workers' earnings above this figure are acquired through overtime payments. Some non-EPZ firms, although not enjoying the many incentives given to EPZ firms, have better wages and incentives for their workers than the EPZ firms, (Table 5.8).

Table 5.8 Comparison of payments between EPZ and non-EPZ casual workers

Enterprise	Daily Wages		Av. Monthly Wages	Incentives
	Experienced	Inexperienced		
(a) EPZs	120	120	2,640	None
(b) Others				
(i) EAI	200	200	5,200	Lunch, Transport
(ii) E. Ponds	200	200	5,200	Lunch, Transport
(iii) Pearl	180	180	4,800	Lunch
(iv) Statpack	250	150	7,200	10 O'clock Tea

Source; Survey Data

In addition to the poor remuneration of the workers, they work in extremely difficult conditions. Workers in the EPZs, like in many other industrial areas in the country trek long distances to and from work since there are no transport arrangements and their income is not adequate to cater for their transport needs. Similarly, there are no arrangements made for lunch despite the fact that they break for lunch for only one hour. At Athi River, for example, labourers spill into the neighbouring Kitengela where they buy cheap meals in the kiosks. During lunch time, they can be seen running out of the park in order to make it to and from before the lunch hour is over. At Sameer EPZ, kiosks have mushroomed around the park to serve the EPZ workers. Hawkers also sell food to the workers along the road during lunchtime.

In the factories, workers are highly demotivated at the work place due to poor working conditions and harassment from their supervisors. Work ethics is at the lowest ebb. Those who work in dusty environments of the textile factories are not provided with dust masks. Those operating motors wear no protective gloves. In most factories, workers are exposed to hazardous working conditions like excess heat, dust and noise pollution. The officers of the Directorate of Occupational Health and Safety Services (D.O.H.S.S.)claim that they would want better working conditions in some EPZ firms, but inspections are viewed as interference by the EPZA personnel. Labour officers have complained of the high-handedness of the investors in the EPZ firms and their managers as well as the defensive attitude of the EPZA staff. Even the statistical data required of all firms including the EPZs are rarely availed, if ever, by those operating in the EPZs.

Housing and transport are a major problem in new industrial sites. The Athi River EPZ is particularly affected in that many workers have to commute daily all the way to and from Nairobi. This is one of the problems that the EPZA has not addressed adequately. Some of the world's EPZs have users' associations that meet occasionally to discuss common issues such as wages, working conditions, housing and other services, (UNIDO, 1993b). Such associations exist in the Dominican Republic and in Mexico. These associations also have agreements against the pirating of workers. Investors in Kenya's EPZs do not belong to any manufacturers' association, unlike most of their counterparts outside EPZs who belong to the Kenya Association of Manufacturers (KAM).

Labour movements have played an essential role in the industrial development, economic reconstruction and political democratisation of states as is evident in South Africa's struggle for majority rule. But under the EPZ arrangements in Kenya, labourers lack associative means and therefore remain passive. EPZ workers in Kenya cannot act in solidarity since they are not allowed to join trade unions. This means that workers are not able to play an active role in the issues of national importance such as active political activities. This way, capitalism is able to thrive and the world system is maintained because investors can reproduce their capital at little cost. On this is premised the world system - the eternal desire to increase profit and hence, accumulation at minimum costs.

According to the NSSF Act, all employers with five employees and above have to contribute to the social security fund. This requirement is not entirely adhered to by the EPZ firms. Our study showed that 77% of the workers are members of a provident fund, the National Social Security Fund (NSSF). The remaining 23% are not, mainly because it is not mandatory for EPZ workers to contribute to a provident fund. Although majority of the workers contribute to the NSSF, most do so by virtue of having worked in other firms. However, NSSF officials are also vigorous in the performance of their job - recruiting new members into the scheme. Table 5.9 shows the vigour with which Government officers perform their jobs in the EPZs.

Table 5.9 Frequency of visits by Government officials, 1997

Government Official	Reason for Visit	Number of Visits	Percentage (%)
Labour Officers	Industrial disputes	18	45
NSSF Officers	Member Recruitment	16	40
Customs Officers	Inspection	0	0
Other	Visits	6	15
Total		**40**	100

Source: Survey Data

Although labour officers are the most frequent Government officers in the EPZs and contribute to the largest percentage of the interaction between EPZ workers and Government officials, workers argue that the officials only come into the zones when there is an industrial crisis, promise to act on the grievances of the workers and the matter ends there. Labour officers argue that they cannot take action against the EPZ investors even when they are clearly in the wrong because they are not supposed to sue the investors but the EPZA which regulates the operations of the EPZs. Under the circumstances, the officers prefer dialogue to prosecution since they view the EPZA as another government organ.

About 92% of the employees work for more than the normal 8 hours. Although payment for overtime dues is provided for, there are discrepancies in the manner in which this is done. About 89% of the workers working overtime were paid $1^1/_2$ times of their regular wages while 3% were paid the same amount as normal working hours. The remaining 8% are organised into shifts so that even when they work at night, no compensation is made for working during odd hours. Payment is the same as the normal working hours.

Since EPZ employers hire and fire workers at will, workers are reluctant to articulate their interests for fear of losing their jobs. For example, when the staff of Tristar EPZ at Athi River went on a go-slow in March 1998, they were all dismissed. The management was easily able to replace them by ferrying job seekers from Nairobi's industrial area to their factory at Athi River. Ministry of Labour officials did not intervene in the crisis. The EPZA, unwilling to offend the investors gives such action its "silent" approval.

The larger part of the workforce in Kenya's EPZs consist of workers in the very active stage, that is between 19 and 35 years with about 86% of all the workers falling within this bracket, (Table 5.10). Only about 7% of the workers' population is aged 36 and above. Since the larger part of the labour force falls within the most productive age brackets, the EPZs enjoy the best in terms of available unskilled labour, despite the above poor terms of employment. This is largely explained by the prevailing high levels of unemployment in the country, currently estimated to be about 25% of the labour force.

Table 5.10 Workers' Age in Kenya's EPZs

Age Group	Number	Percentage %
Under 18	8	7.9
19 - 25	40	39.6
26 - 35	46	45.6
Above 35	7	6.9
Total	**101**	**100**

Source: Survey Data

The point of concern, however is the fact that at a time when child labour is increasingly becoming a matter of concern worldwide, and especially due to UNICEF work and efforts, about 8% of the labour force in Kenya's EPZs falls below 18 years of age. The high school drop-out rates have contributed to this state. Under-age school leavers seek employment, wherever it is available.

5.3.0 Terms of Service and Gender Issues in the EPZs

The turnover of workers in the EPZs is very high, with 50% of the workers having worked in the EPZs for a period below 1 year, 43% for between 1 - 3 years and only 7% for over 4 years. Permanent employment is not common in the terms of service of EPZ firms. Of the total employee population, only 29% enjoy permanent terms in their service, (Table 5.11).

Table 5.11 Workers' terms of service by gender.

Terms of Service	Males		Females		Total	
	No.	%	No.	%	No.	%
Permanent	23	35.9	3	8.1	26	25.7
Casual	23	35.9	20	54.1	43	42.6
Contract	18	28.2	9	24.3	27	26.7
Probation	0	0	5	13.5	5	5
Total	**64**	**100**	**37**	**100**	**101**	**100**

Source: Survey Data

This footloose nature of employees in the EPZs is attributable to the poor working conditions of the EPZ firms and the attitude of employers, which adversely affect relations between employers and employees. The survey results show that 71% of the workers in Kenya's EPZs think that their employers are hostile, 26% think that they are indifferent and only 3% think that they are friendly, (Table 5.12).

Table 5.12 Relations between EPZ workers and employers

Attitude	Number	Percentage %
Hostile	72	71.3
Indifferent	26	25.8
Friendly	3	2.9
Total	**101**	**100**

Source: Survey Data

5.3.1 Gender Discrimination

Peter G. Warr (1987) argues that EPZs are instruments of exploitation, especially against the female worker. From this study, 63% of the workers in the EPZs are male while the remaining 37% are female. There have been discrepancies in the operations of the EPZs that have made female workers feel discriminated against. The bone of contention is that male workers have a higher security of tenure at the work place than their female counterparts. Table 5.11 shows a comparison of the terms of service of the workers in the EPZs. While 36% of the males are on permanent terms, only 10% of the females are. About 36% of the male population is employed as casual workers as compared to 54% of the female population.

On wages, the male workers are better remunerated than their female counterparts although they perform the same jobs. The highest paid male worker earns KSh. 9,050 while the highest female worker earns KSh. 8,500. Incidentally, the two are electrical technicians, with same qualifications, same length of service but working for different companies. The lowest paid of the male and female worker earns KSh. 2,800 and KSh. 2,500 respectively. The average income of the male worker is KSh. 4,037.60and KSh. 3,342.80for the female worker, a difference of KSh. 1,294.80.

The most coveted of the jobs among the workers in the EPZ firms are the positions of supervisor, line leader and quality controller. Of the 18 workers occupying these positions, only 1 is female. Lowly positions like those of cleaner and cooks are all occupied by female workers. Other jobs that are dominated by female workers include packing and labelling for which they account for 83% and 76% respectively of the total workforce in the respective sections.

The gender imbalance among EPZ workers is a potential source of conflict between the genders. Compared to the better working terms accorded the male workers, the terms for the female workers are poor. Such an arrangement causes tension between the workers and does not augur well for production.

5.4.0 Economic and Political Conflicts Associated with EPZs

To test the hypothesis that EPZs have introduced conflict between EPZ and non-EPZ firms, the relations between the two are assessed. The conflicts arising from the introduction and the operations of EPZs are highlighted, including EPZ versus non-EPZ firms, their physical environment as well as their intra-organisational operations.

5.4.1 EPZ Vs Non-EPZ Firms

Manufacturers operating outside the EPZs often complain that they are getting a raw deal within the domestic market. One of the areas of complaints is difficulties experienced in their operations due to poor infrastructural facilities and administrative delays whenever they require various public services. The general perception is that while EPZ firms enjoy support from both the central government and local government authorities, non-EPZ firms do not have such support.

Other complaints include what non-EPZ manufacturers term as the dumping of low quality and cheaper products into the domestic market as well as the diversion of export-bound products by EPZ firms into the domestic markets, heavy taxes, insecurity and inadequate or no support from the government. Among the fears expressed at the establishment of EPZs was that they would force local manufacturers under since the latter since the latter had thrived on official protection. This fear was dispelled by the argument that EPZs would not be competing with local manufacturing firms since the EPZs would strictly produce for export. Along with this was the move to limit the protection accorded to local industries to enable them grow and compete at international level. This arrangement would have been ideal but the operations of EPZs have impacted negatively on local firms through illegal dumping of products and equipments into the domestic market.

Kenya Association of Manufacturers (KAM) also argues that EPZ firms have had limited linkages because they import inputs even when they are locally available. Other complaints include the accessibility of the local markets by EPZ firms which is against the EPZs Act. KAM expresses concern over unfair competition from EPZ products in the domestic market, arguing that the latter do not pay duty on their imported inputs and equipments.

Non-EPZ firms have thus been agitating for the incentives enjoyed by EPZ investors to be extended to all export-oriented manufacturers. KAM has called for readdressing of issues such as taxation, infrastructural facilities and quality control within and without the EPZs. The Association has raised a complaint with the Minister of Finance concerning the diversion of cheap EPZ products and imports into the domestic market. As a result of growing pressure, in the 1998 budget speech, the Minister for Finance removed certain EPZ imports from duty exemption, including motor vehicle tyres and parts.

EPZs have also been accused of "poaching" experienced workers from non-EPZ firms. From this study, 60% of the workers joined the EPZs through friends who were sent to look for experienced workers, 32% applied for the position while 8% applied following advertisements in the press, (Table 5.13).

Table 5.13 Recruitment of EPZ workers

Recruitment Method	Number	Percentage %
Through Friends	61	60.4
Applications	32	31.7
Advertisements	8	7.9
Total	**101**	**100**

Source: Survey Data

5.4.2 The Physical Environment

The EPZs programme in Kenya does not seem to support a pollution-free industrial environment. In the course of our data collection for this study, we observed that the leading EPZs, Athi River and Sameer, pose a danger to their neighbours due to industrial waste flowing from these zones. This is especially pronounced at Athi River where industrial pollutants spill into streams from which those residing nearby draw water for domestic consumption.

The EPZs Act has not established proper institutions to guard against pollution. Among the problems associated with the establishment of EPZs worldwide is that of waste disposal, especially toxic waste. Many EPZ firms ignore the management of toxic waste and illegal dumping is prevalent. Countries like Mexico where EPZ equivalents have performed well have put in place an elaborate system for disposal of industrial waste. The US firms manufacturing in the maquiladoras are forced to export toxic waste across the border to USA for proper management. Thus although the cities linking the Mexican border play host to numerous maquiladoras, industrial pollution is not a problem to the country.

UNIDO experts on EPZs have asserted that the establishment of EPZs should not be in confrontation with the neighbouring communities, (UNIDO, 1993). In Kenya, refusal by EPZs to share common facilities such as water and sewerage with neighbouring communities has tended to generate conflict between the developers of EPZs and the neighbouring communities. At Athi River, for instance, residents have negative feelings towards the EPZs because the Nol Turesh Water Project which was initially intended to benefit the residents currently serves the EPZs alone.

The manner in which the EPZ concept was introduced has not eased the conflict between the EPZs and the neighbouring residents. This has made the programme unpopular with those affected and are opposed to the establishment of such parks near them. According to the EPZA, the establishment of EPZs in Coast Province was delayed by opposition from the residents of Kipevu and Kokotoni who felt that the zones were an encroachment on their ancestral land. The conflict between the Government and the residents of Kokotoni in Kilifi District arose over the acquisition of 1,000 acres of private farm-land for an EPZ project. This was partly due to the fact that the programme was established without explaining to the residents what it was all about. Secondly, no suitable compensation was being offered for the loss of the residents' land. The take-over bid meant displacing 10,000 people, demolition of schools, religious institutions and a trading centre. It was therefore met with a lot of resistance and hostility and in spite of a Government intervention, the issue has not been resolved to-date.

5.4.3 White Collar Crime

Social vices such as corruption have also caused conflict within EPZs in Kenya. According to the German ambassador to Kenya, Mr Michael Gerdts, potential investors have been discouraged by demands for bribes by officials of the

Customs and Ports departments. This has forced some of them to settle elsewhere, especially in South East Asia where the vice is not so rampant. For instance, a German electrical manufacturing firm that wanted to locate a production line in Kenya had to settle in China due to demands for bribes by state officials.[9]

EPZs have also contributed in a number of ways to the rise in white collar crime in Kenya. Investors have cheated on the Government in order to avoid payment of duties and taxes. Some of the firms operating in the EPZs have sister companies outside the zones. Two EPZ firms at Athi River have sister companies involved in similar manufacture outside EPZs in Nairobi and Eldoret. During interviews with Customs and Police officers, it was established that such companies import machinery, spare parts and raw materials for the non-EPZ firms tax-free under the guise that they were destined for the EPZ firm. Police officers and Customs personnel claim that they have no control over the non-payment of duty for goods sold by EPZ firms in a custom territory since they are not expected to follow them all over. The manufacturers pack and seal their own products in the absence of Customs personnel and there is no way the latter would know what is contained in the containers. EPZ investors have therefore sold their machinery to other investors outside EPZs without paying duty as is supposed to be. There is no system put in place to monitor the transfer of import goods from the port of Mombasa up to their destination in the EPZs or exports from the zones up to the port. This enables manufacturers to divert their products into a Customs territory without paying duty. The inefficiency of the Customs personnel is evident in the fact that at Athi River, there have been no customs officers on the site for a long time.

---

[9] *Complaint by German Ambassador Michael Gerdts in Daily Nation, 3rd September, 1996.*

Both the commissioner of Customs and Excise and the Minister of Finance have expressed concern over the evasion of tax by EPZ investors. In an attempt to overcome the cheating by EPZ investors, the Minister of Finance in the 1998-99 financial year budget proposed to withdraw the privilege of not paying import duties on spare parts and tyres. The problem with such reviews is that they affect investors who have already committed their investment to the programme.

Secondly, workers have turned to stealing at the work place in order to supplement their meager incomes. For example, in April 1998, a racket in which employees of the Thomas De La Rue Kenya Ltd, a security document printing firm, printed and stole bankers' cheques and unserialised currency notes was exposed. At least three of the employees were charged in a court of law with the offence. A similar incident took place at the same factory hardly two months later in which KSh. 3 million was stolen.

5.5.0 The Performance of EPZs in Kenya

The EPZA still lacks expertise in selecting and targeting suitable industrial sectors and companies in order to maximise gains from the EPZ developments and also in the technical aspects of planning, developing and managing EPZ industrial parks, including the protection of the environment. Much of the funds given by UNCTAD was spent in hiring the services of two international experts and in sponsoring EPZA staff to courses overseas.

Kenya's EPZ programme has encountered several handicaps in the six years that it has been in operation. Four factors are particularly outstanding. These are bureaucratic delays in shipments, inadequate infrastructure and suprastructure, insecurity, especially of transit goods and the slow pace in the location of sites and the construction of buildings which delays the approval of projects and their implementation.

One of the advantages manufacturers operating in the EPZs in Kenya are supposed to enjoy is the exemption from Custom duties on imports of inputs and on their completed export products. This, it is assumed, has enabled such manufacturers to have a competitive edge among other manufacturers of similar products in the world market. The Government has been blamed by among other organizations, the World Bank and the IMF for certain misdemeanors that affect the operations of the Customs Department tending to enhance corruption in the zones. The bureaucratic tendencies inherent in the zones administration has not helped to improve the performance of the investors. Rigidity in the administration of the domestic regulations and procedures is something most investors have not learnt to cope with. In Singapore, the EPZ programme has been successful partly because there are strong laws against corruption. Public servants are adequately remunerated to discourage such a vice.

On financing the development of EPZs, Kenyan banks do not give adequate incentives to creditors willing to invest in costly ventures. The demand for tangible collateral whose value is often in excess of the required credit does not allow local investors have access to finances. This is so unlike Mauritius where development banks finance investment at attractively low interest rates, equity participation, grace periods and long repayment periods. In Kenya, potential investors are scared off by the tendency of the politically right people to "finish" their rivals using commercial banks for credits taken.

Conflicting policies, some of which are mere offshoots from politicians' public utterances have occasionally deterred investors from Kenya's economic environment due to uncertainty over political commitment to promoting private sector investments. This is because politicians have issued threatening statements to potential investors through their unbridled comments. About 60% of the investors in Kenya's EPZs cite the unpredictable political climate as one of the impediments to investment in the country's zones.

Marketing of the EPZ concept is beset with problems. First, the conservative, inward-looking attitude and lack of adventure among Kenyans has led to a conspicuous absence of many of them investing in the EPZs. Secondly, the negative publicity that Kenya has got from the international media portrays the country as a time bomb set to explode any moment. Investors are therefore reluctant to commit their valuable capital to such a risk.

It was evident during the research that most companies in the EPZs are facing problems with marketing their products. Ivee Aqua Company, for example, complained of decreasing influence in its market areas. China and India have taken over a large share of the Asian market and are already penetrating the United Kingdom and the African continent, areas that formed Ivee Aqua's market.

Dependence on traditional markets such as the European Union and USA for EPZ products has also limited the success of the programme. The Eastern Africa regional market, for example, has not been exploited wholly. Individual investors should make their own arrangements to find new markets. In March 1998, the US government announced the removal of import quotas earlier imposed on Kenyan and Mauritian textiles. This should herald good news to Kenyan exporters - especially the mainly textile based EPZ firms.

The EPZs Act has in itself certain shortcomings. For instance, it leaves out activities such as aquaculture, mining and finance and whenever an investor shows interest in these fields, an amendment to the Act is quickly prepared causing a waste of valuable time and sometimes opportunity. The reviewing of the EPZs Act in bits could cause a feeling of insecurity among established investors.

Budgetary constraints have also limited the capacity of the EPZA to develop organisational capacity. This has slowed down progress in the pursuit of the export-led industrial strategy. Currently, the EPZA is unable to support itself. It collects only 25% of its required budget from rents and licences. The remaining 75% is provided by the Government through budgetary allocations.

5.5.1 EPZs in Kenya: What Way Forward?

Given the footloose nature of the firms operating in the EPZs because of their international mobility, the scarce financial resources channelled for the development and maintenance of the programme leaves a lot to be desired. There is need to review the operations of the zones and to assess their viability as a national economic programme. This will necessarily call for addressing of certain pertinent issues as contained in the EPZs Act.

Investor confidence in the EPZs in Kenya is clearly wavering. Some investors have blamed the EPZA for not living up to its promises to improve the investor environment especially in as far as the infrastructure is concerned. Tiomin Resource Incorporated, a Canadian based mining firm had by 1997 finished the groundwork for investment at an EPZ in Coast province. The firm intended to invest a total of US$ 100 million (equivalent to KSh 6 billion) in a titanium mineral project in Kwale and Kilifi districts. In the course of this research, it was established that the firm was already engaged in negotiations with the residents of the two districts, with the intention of investing in a non-EPZ area. The firm blamed the narrowness of Lunga Lunga road, which they were to use if they invested in an EPZ, for the change of their intention. In other words, the sites earmarked for development of EPZs by the EPZA are sometimes incompatible with such undertakings.

The success of the export industrial drive hinges on the maintenance of quality infrastructure. Given the current decay of the infrastructural system, especially road transport and power supply, a greater deal of effort will be required to enable the industrial take-off. The defence by the EPZA officials over the declining performance of EPZ firms is an indication that the organisation operates in a system similar to the secretive operations of the civil service where emerging problems are defended rather than addressed. For example, when the pioneer EPZ in Kenya, the Sameer Industrial Park made lower profits of KSh. 20 million in 1996, down from KSh. 43 million the previous year, the chief executive[10] of the EPZA was quick to defend the management of the firm against public criticism.

In 1996, the performance of the manufacturing sector recorded a decline in growth, from 3.9% in 1995 to 3.7%. In the same year, the projected growth of G.D.P. in real terms was 5.5% but it grew by a mere 4.6%. Total employment in the manufacturing sector grew by 2.8% as compared to the 3.8% rate of 1995. Despite the dismal performance of the manufacturing sector in 1996, the number of gazetted EPZs rose from 13 in 1995 to 14 in 1996. However, operating companies dropped from 19 to 18 in the same period. The number of firms actively involved in the export activities rose from 14 to 17. The total turnover of EPZ firms increased by 23% to K£79.5 million in 1996, up from K£67 million in 1995. Total investments in the EPZs was K£220 million compared to K£195 million in 1995. Employment rose by 5.5%, from 2,797 in 1995 to 2,950 in 1996, (GoK, 1997).

The slow increase in employment was blamed on the closure of some firms operating in the zones and the emergence of firms that are not labour intensive. If this is the actual reason, greater adverse effects will be evident in the EPZs considering that many of them are turning to high technology. Secondly, the expiry of the tax holiday, beginning in 2002 could force many EPZ firms to opt

[10] *Mr Silas Ita, the then EPZA chief Executive later became a Member of Parliament.*

out of the zones.

The establishment of EPZs in Kenya was a noble idea but the manner in which it was implemented has created loopholes which unscrupulous investors have taken advantage of at the expense of the national economy. Such investors have taken advantage of the loopholes in the programme to make quick profit by diverting merchandise and raw materials destined for EPZs to Customs territory without paying duty. This has robbed the Government of unknown amount of revenue in Custom dues. Secondly, the inefficiency of the officers entrusted with the overseeing of the EPZ operations have failed to seal the loopholes, either for their selfish gains or for purposes identifiable with those political personalities who influence the recruitment of staff to the concerned bodies. Customs and Police officers blame the EPZA officials for aiding foreign investors in the looting of the economy. EPZA officials, on the other hand, blame it on the laxity and corruption of Customs and Police officers as well as the reluctance of other Government officials especially in the Ministry of Industrial Development to facilitate changes that would enable effective supervision of the operations of the EPZs.

This study suggests that domestic ventures, or at least joint ventures between foreign and local investors could perform better to enable the EPZ programme realise its objectives. Domestic and joint investments should be encouraged more than the foreign investments in order to sustain the programme. In addition, it is feared that most of the foreign owned firms will pull out of the zones once the tax holiday is over as has happened in other countries of the world where similar programmes have been tried, notably in Latin America.

Domestic investment is deterred by lack of capital. The EPZA should come up with a programme to support the domestic investors by, for example, negotiating with the lending institutions on behalf of the investors. Local international banks prefer to finance foreign firms investing in the EPZs but are reluctant to support domestic ventures. For instance, the Barclays Bank of Kenya signed a contract in April 1998 to finance Repson, a Spanish oil company which intends to invest 10 million dollars in a high-tech lubricant manufacturing plant at Mbaraki EPZ in Mombasa.

Table 5.2 shows the EPZA's projections up to the year 2010. Given the performance in the past, these projections are out of proportion with the reality. For example, it is projected that by the end of 1998, the number of enterprises in the EPZs will have risen to 228. This is very unlikely considering that after five years of operation, there were only 22 enterprises in the EPZs by the end of 1997. The projected job creation capacity by the end of 1998 was 20,000. By the end of 1997 however, only 2,878 employees were in employment in the EPZ firms, a decline from 1996's figure of 2,950. The EPZA had also projected that by 1996, the cumulative investment in the EPZs would be KSh.7 billion and further to KSh. 13.5 billion in 1998. By the end of 1997 however, only KSh. 4.7 billion had been invested. Of the 60 enterprises projected for 1996, only 18 were operational in that year and this rose by 18% to 22 in 1997.

Given the dismal performance of the EPZs as per the EPZA's initial projections, these projections are highly exaggerated. This means that the EPZA will have to come to terms with reality and depict the growth of the EPZs in a more realistic manner.

5.5.2 EPZs in a Liberalised Economy

A number of political and economic changes have taken place in the country since the introduction of EPZs. The liberalisation of the economy is of immediate concern in as far as EPZs are concerned. One of the hypothesis of this study is that the liberalisation that characterised the 1990s has rendered the concept of EPZs irrelevant. To test this hypothesis, this study assesses the effects of liberalisation on the operations of the EPZs.

With the liberalization of the economy and the setting up of the right environment by removing the various barriers to foreign investment as set up by the EPZ programmes, foreign capital has dominated the EPZ programme, with 70% of all firms in the EPZs being foreign-owned. In the NICs, provision of financial support and credit facilities has largely been a role of the state. Lack of such backing for the potential indigenous enterprises, as KAM acknowledges, has deterred their participation in the industrial process through the EPZ arrangement. Since such local firms lack enough capital for an effective undertaking, the incentives of Kenya's EPZs have benefitted foreigners who have access to huge capital.

The liberalisation that has taken place in Kenya in the 1990s has eased the import of goods. This liberalisation process has put the manufacturing sector under pressure that makes it difficult for it to compete effectively in the wider global context. The result is that the country is importing more and exporting less, particularly goods with higher value-added. These are the goods EPZs are supposed to increase. The level of neo-mercantilism (characterised by selling more abroad and importing less) has been lowered by imported cheap products that have continued to affect our manufacturing sector.

The EPZA was to be responsible for the protection of foreign exchange earnings accruing from the operations of the EPZs. The liberalisation process of the 1990s saw the repealing of the Foreign Exchange Control Act therefore rendering the EPZA control mechanisms on foreign exchange earnings irrelevant.

As a way of supporting local investors, the Government initially eliminated all taxes on capital gains and removed price controls on most products. Although this was intended to encourage local investors to venture into the industrial sector, the move was countered by the on-going liberalisation which has led to the influx of foreign manufactured products in the local market. Secondly, the exemptions given as an incentive are unpredictable and are often withdrawn whenever there is a crisis in the economy. Such factors have not enabled investments put in place by local investors to break into the export manufacture.

EPZ investors complain that the incentives being given to non-EPZ investors under the EPPO programme are rendering the EPZs irrelevant. This is because under the programme, non-EPZ investors have access to some of the incentives being enjoyed by the EPZ firms. Non-EPZ investors have complained of price war and competition as the effects of liberalisation. Curiously, EPZ investors who acknowledge that there is liberalisation going on complain of the same which confirms the complaint by non-EPZ investors that EPZs are selling in the domestic market in a dubious way. About 66% of the EPZ investors argue that there is no actual liberalisation going on in the Kenyan economy. This is because they are not allowed to operate freely by selling whatever they wish in the domestic market.

5.6.0 Politics of EPZs in Kenya

During the deliberations in parliament that led to the enactment of the EPZS Act, fear was expressed over government's control of the EPZs implementing agency, EPZA.[11] The Export Processing Zones Act gives the Minister of Finance wide powers. He appoints all the four members from the private sector and has powers, "on recommendation from members of the board", to replace them. The four, along with the representative of KAM and NCCI hold office

---

...rd', *Vol. LXXX of 31st October, 1990* for three years but are eligible for re-appointment. While the public sector provides eight of the board members, the private sector provides only six. This is a very unwelcome arrangement to investors who think the EPZA is an extension of the bureaucratised departments of the Government. Investors have frequently called for the total overhaul of the EPZA to make it a private sector affair.

The Minister of Finance also has powers to degazette a zone and only the president can reverse the minister's decision. The minister also has powers to set aside a decision made by the Authority such as refusing to grant a licence, canceling or suspending a licence. These enormous powers enjoyed by the Minister over the EPZA renders the Authority ineffective where the Government wants to have its way. Investors who face disapproval can use the Minister's influence and other public servants in the Authority in order to have their way. The Minister may also decide what is to be kept, stored or manufactured in an EPZ on the grounds of environment protection, health and national security reasons.

There is fear among non-EPZ manufacturers that the establishment and operations of EPZs in Kenya are highly influenced by certain quarters, especially foreign investors. For example, the construction of Sameer Industrial Park, the pioneer EPZ in the country commenced long before the enactment of the EPZs Act. This fear is further compounded by the fact the enactment was done during the 6th Parliament (1988 - 92) which has a dubious reputation of being a mere rubber stamp for decisions already made by the executive and the National Governing Council of the ruling Party, KANU.

The EPZA is supposed to maintain data on the operations of the EPZ firms. However, given the reluctance of the investors in filing their returns to the EPZA, the maintenance of a data bank at the EPZA has not been easy. Section

2 (1)(f) of the Act also empowers other relevant authorities to get required information from the EPZ firms failure to which a fine of KSh 300,000 can be imposed by a court of law. But public officers from various departments have complained of the unavailability of such information from the EPZ firms and the reluctance of the EPZA to act.[12]

The senior staff at EPZA are political appointees and usually enjoy immense political protection. This disregards the promise made at the establishment of EPZs that political influence over EPZ operations would be curtailed to ensure professional management of the zones. The fear of EPZA staff about the actual situation in the EPZs going public makes them act as watchdogs, preventing members of the public from having direct access to the investors, and especially to the labourers.

Efficiency of the EPZA is a key to facilitating investment in the zones. However, there are delays occasioned by EPZA staff which are probably related to poor recruitment and/or training. While work at EPZA headquarters is ran professionally, at least by the middle-level workers, performance at the zones is below expectations. At Athi River, for instance, most of the staff members have to refer even minor issues such as issuing a temporary pass to the Authority's headquarters. This is time consuming and unnecessary. Some of the employees have no idea how crucial public relations are to the success of the zones.

In the absence of a strong indigenous capital base, the incentives given under the EPZs programme in Kenya work to the advantages of foreigners. Although the incentives are aimed at both local and foreign investors, there is no financial

[12] *Interview with Employment Officer at Athi River, Police and Customs Officers in charge of EPZ operations at Athi River and Nairobi*

support for indigenous entrepreneurship and private sector growth which is central to the economic growth model. Public sector support for the private sector is possible only if the public sector is ran cost-effectively, efficiently, transparently and accountably. In Kenya, bodies that are capable of facilitating indigenous capital accumulation, domestic savings and social welfare programmes such as the NSSF are so often ripped. What is the purpose of giving incentives to foreign investors without motivating the indigenous population and working for its welfare? The economic benefits accruing to Kenyans from EPZs in terms of employment, local sourcing and foreign exchange earnings are insignificant.

5.7.0 Contribution of EPZs to Development

EPZs have been portrayed as generating employment, lifting living standards and per capita income. However, given their nature in which they are based on unskilled labour which is highly replaceable, they could as well lead to declining living standards and reduced per capita income. The tendency to keep workers' incomes very low does not uplift the workers' living standards in any significant way.

Despite all the emphasis placed on Kenya's EPZs, the industrial sector in the country still continues to lag behind. Agriculture still dominates the Kenyan economy, accounting for about one third of the GDP. Manufacturing, commerce and tourism account for one quarter of GDP. In the 1980s, industry grew steadily, faster than any other sector, at a rate of 12% per annum. Thus in spite of the EPZs that are supposed to advance the industrial sector, agriculture and livestock still contribute to 30% of Kenya's GDP and takes credit for 65% of the country's export earnings.

According to public officers working at Athi River EPZ, EPZs are instruments for enriching a few - the investors.[13] Besides, these officers believe that most foreign investors have sinister motives. Most investors have kept their operations discreet which makes their operations more suspicious. Customs and Police officers in the zone confess ignorance of the operations of the firms in the zone.

Currently, two heads of neighbouring states, namely Uganda and Tanzania, have expressed interest and are in the process of constructing godowns at the park. A few indigenous firms have expressed interest to invest in the public EPZ at Athi River. These include Kenya Breweries and Mugoya Construction Company. It is expected that better performance of the EPZ programme will be realised when more domestic investors invest in the zones.

The establishment of the EPZs coupled with the ongoing liberalisation has eased the repatriation of profits. Declarations of what is repatriated is no longer necessary and there are no requirements now for the re-investment of a higher proportion of the profits in Kenya. The measure for profit outflow, declared or undeclared, is no longer possible in Kenya. Even the EPZA does not keep track of the profits or even part of the initial capital repatriated by the EPZ firms. This way, no one can tell when there is a 'drain' on the economy.

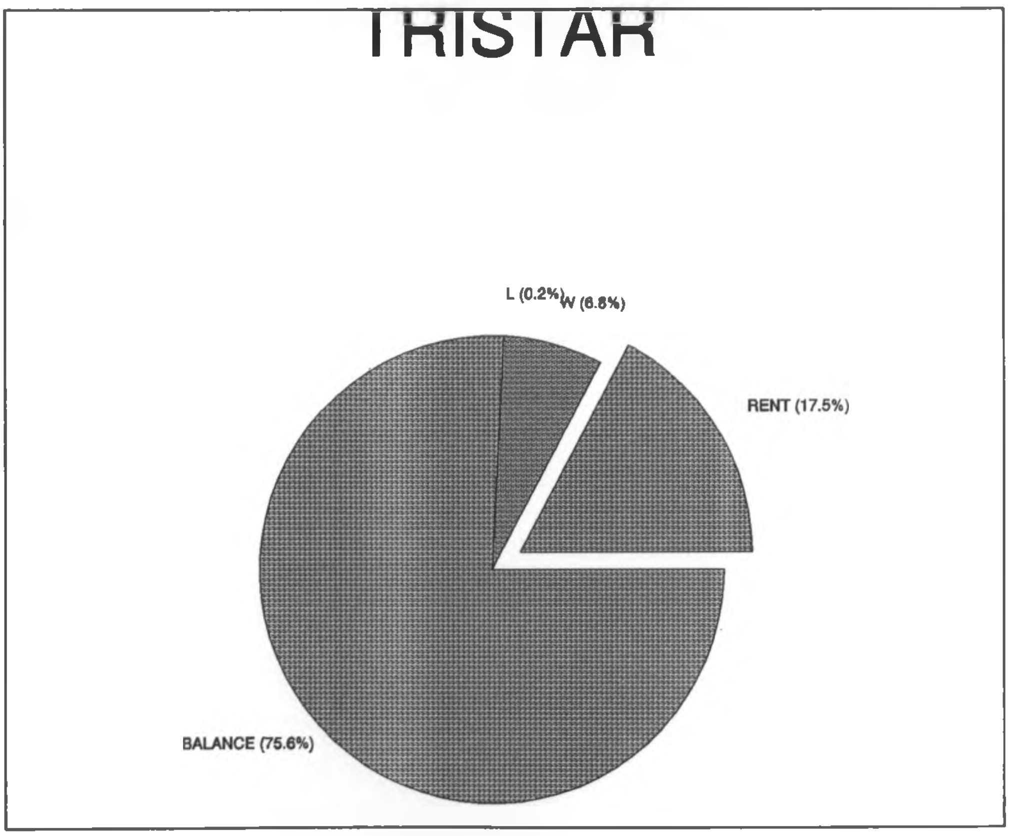
Development is supposed to be evident in all dimensions of the society - be they cultural, socio-political or economic. Despite the development of EPZs in Kenya, development has not been evident in the lives of Kenyans. Even as the programme is being implemented, crime has soared, unemployment has increased, school drop-out rate has risen and the general living standard for the majority of Kenyans has deteriorated. The products and effects of the EPZs on

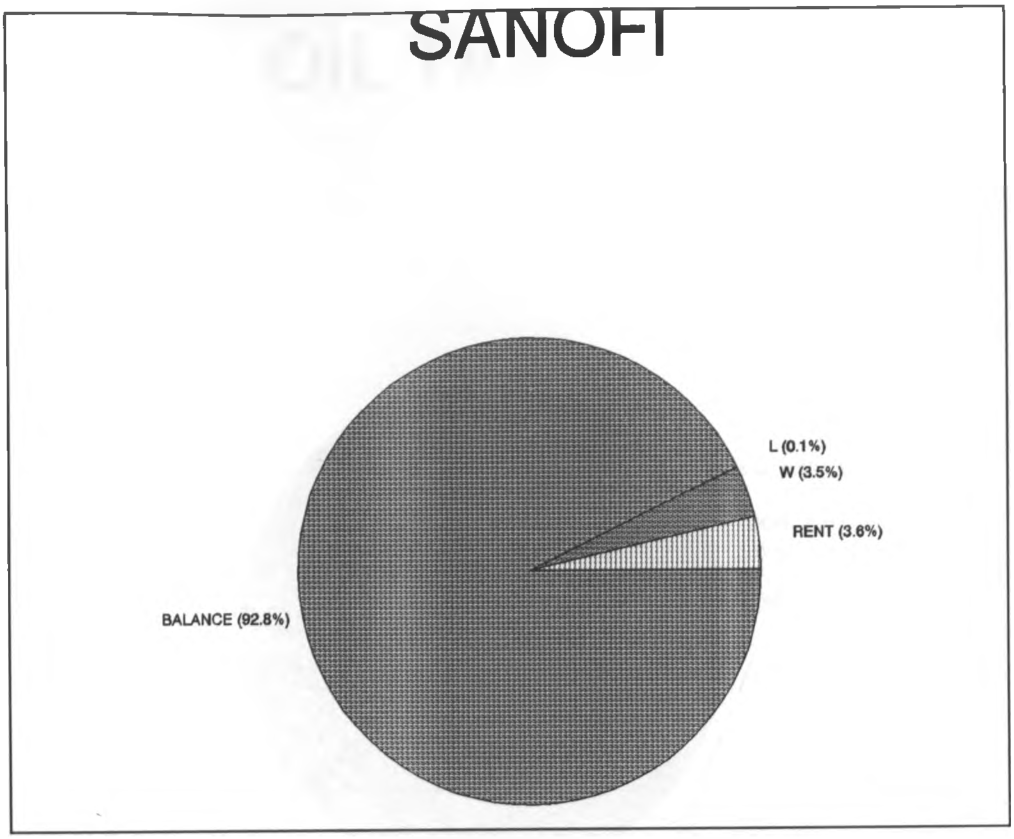
---

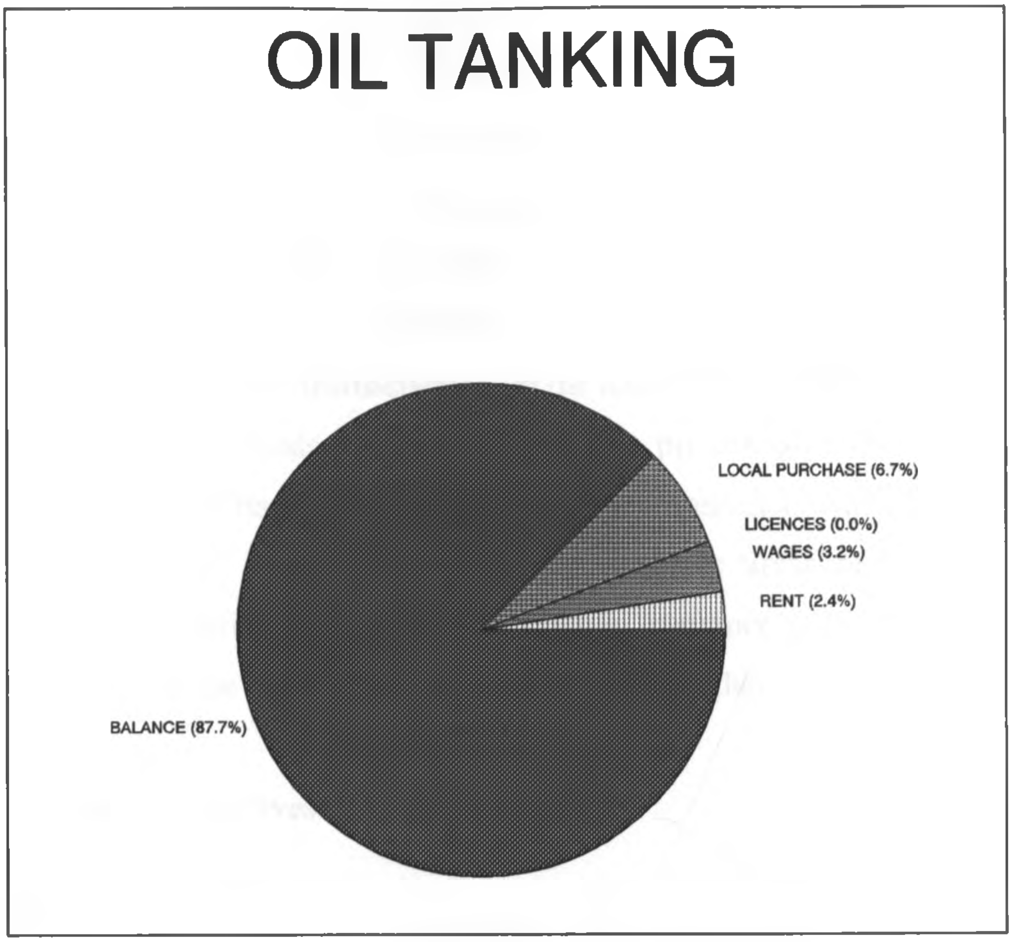
[13] *Interview with Police officers at Athi River EPZ Police Post and Customs personnel in Nairobi*

the population has been in terms of abstract economic statistics and very little is evident of the translation of such data into the real life situation of the Kenyan people. The "per capita income" as used by economists is not an adequate indicator of the welfare of a nation. When per capita income (wealth generated by a country divided by its population) improves, it is assumed that the people's living standard has advanced. In reality, this is not the case. Such wealth could be, and is usually, shared between very few people while the rest live in abject poverty.

Figure 5.4 The contribution of three EPZ firms to development.




SANOFI
L (0.1%)
W (3.5%)
RENT (3.6%)
BALANCE (92.8%)



Source: Survey Data

From these charts, it is evident that very few benefits accrue to Kenyans from the operations of EPZs. The Kenyan economy is supposed to benefit from the operations of EPZ firms from the wealth acquired through wages to workers, payment for licences, local purchases and rent in the case of public-EPZ based firms. These charts show the balance of what remains after the costs are offset from these three EPZ firms' turnover. The charts show that EPZ firms in Kenya spend very little of their earnings to benefit the domestic economy. Clearly, the EPZ firms are largely benefiting the investors and other countries from which they acquire their inputs. This means that foreign exchange earnings coming into the country via EPZs is insignificant. Should the tax holidays and subsidies granted to EPZ firms therefore be continued even when the EPZs are not yielding any significant amount of foreign exchange earnings to the host economies?

A government should be able to offer good services in an attempt to alleviate poverty among its citizens. Common and basic goods and services such as food, shelter, clothing, clean water, health care, transport, education, security and socio-political stability should take precedence over all other activities that governments engage themselves in, in the name of development. In Kenya, for example, public funds have been engaged in projects such as construction of additional airports while existing ones are threatened with decadence and construction of highways in politically strategic areas regardless of their economic viability. Sectors such as banking, insurance and stock markets have flourished at the expense of the development of other sectors in the country.

5.8.0 Possible Alternatives to the EPZs

The informal sector has contributed a lot to employment creation in this country. The sector, popularly known as *jua kali*, has been focal in the creation of jobs and has catapulted small towns, especially in Nyanza Province, into significant economic growth through its activities. Such towns include Keroka, Migori and Oyugis. In 1996, for example, employment in the informal sector accounted for 61.3% of the total employment in the country. One of the successes of the informal sector has been the indigenisation of local businesses involved in commerce and industry. The sector has also improved the quality of products offered to the public, besides reducing their prices.

The Government, on its part, has not been as supportive of the *jua kali* sector as it has been of the EPZs, despite the sector's apparent usefulness. For example, there is no clear state policy that ensures the encouragement of the enterprises in the sector to make an early break into the export trade although it has the capability to do so. There has been direct interference with the sector through grabbing of land set aside for their use. The Kisumu *jua kali* sheds are under the threat of none other than EPZ developers. The lending policy of major institutions favours the well established firms and not the *jua kali*. Institutional lending to *jua kali* entrepreneurs is given by non-governmental organisations, church organisations or foreign development agencies. Perhaps what the Government should do is to be more supportive of the sector, at least by organising a funding scheme for the sector or by guaranteeing their loans to lending institutions.

In the 1998/99 fiscal year, the Government intended to spend KSh. 33 million to improve and develop the *jua kali* sector. While this is laudable, the amount was still small compared to what the Government spends on EPZ programmes. This is not withstanding the fact that the *jua kali* sector currently accounts for over 90% of job opportunities in the country. The sector also grows at a rate of 18% annually while the formal sector (EPZs included) grows at about 3.2% per annum.[14]

The other alternative would be for the Government to extend the incentives similar to those of the EPZs to all export-oriented manufacturing whether they are inside or outside the designated zones. This is to say that instead of restricting the incentives to the geographical zones which do not yield the expected results anyway, the Government can adopt the Mauritian concept of EPZs where it is purely an administrative rather than a geographical concept. This will demand better monitoring by the EPZA and especially by Customs personnel but such an arrangement could give an opportunity to indigenous firms to break into the export market.

---

[14] *Figures availed by Mr A. Sharawe, P.S.- Ministry of Research and Technical Training.*

Thirdly, concentration on promotion of high value-added exports should not exclude efforts to increase traditional exports. Kenya's export of tea and coffee should not be sidelined at the expense of promoting export of high value-added manufactures. Although Kenya has large tracts of unoccupied land in the arid and semi-arid areas, she still faces problems in feeding her population. Investment in agriculture should be encouraged in large scale farming in those areas. Modern farming techniques should be encouraged through production of high quality seeds, pest control methods, irrigation and storage facilities. Fruit and vegetable processing, edible oils, beer, alcohol and confectionery are some of the areas where EPZ investments could come handy. Other areas include fish farming, leather and leather goods, forestry and wood products.

Once the country has achieved high agricultural production, enough to meet domestic needs, then the break into export trade will easily follow. This was the trend preceding industrialization in Britain and the NICs. The agricultural revolution - commerce - industrialization trend is one of the tenets of the industrial development theory.

5.9.0 Conclusion

EPZs are not established for economic purposes only but also, being public policy instruments, have political and social obligations. There is need therefore to understand what socio-political factors underlie the operations of the EPZs in Kenya. EPZs in Kenya have created conditions that limit and even reduce the distribution of political and socio-economic benefits from the production and export of the manufactured commodities.

The manner in which the EPZs operate in Kenya leaves a lot to be desired. While largely benefitting investors, EPZs have not had a significantly positive impact on the lives of Kenyans. The EPZs have therefore functioned like 'sweat shops' - deriving maximum profits by depriving the workers of a decent living standard. Their effects on the economy and importance in transforming the industrial sector have been minimal. It would be wrong to rely entirely, or even to a large extent, on the EPZs to enable the establishment of export-oriented industries and to raise the living standards of Kenyans.

CHAPTER 6

SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.0.0 Summary and Conclusion

The EPZs programme in Kenya has not lived up to the expectations of many. Employment generation is low as evidenced in the small number of people employed in the EPZs and has even shown indications of going down further mainly due to the introduction of capital intensive technology in the zones. Transfer of technology has been hampered by several factors, among them the reluctance of investors to get involved, low education standards of the workers and the footloose nature of the EPZ employees. The EPZ firms have failed to create backward and forward linkages with the domestic economy, even through acquisition of inputs available locally.

While EPZs have been lauded as playing a significant role in industrialization, their operations have not had a significant impact on the economy and the life standards of Kenyans. Many Kenyans do not appreciate the establishment of EPZs. Some non-EPZ investors view them as a threat to small and medium size manufacturing firms which are largely indigenous. To the workers, EPZs have not offered better employment opportunities as anticipated.

Foreign exchange earnings via EPZs have been low. This is mainly due to the poor wages paid to the workers, failure by investors to source locally or sub-contract to non-EPZ firms and, especially, by the repatriation of profits by investors. EPZs have therefore not played a significant role in stimulating industrial growth and development in the country.

Kenya's EPZs have not played a significant role in the alleviation of poverty and unemployment. The meager wages paid to the workers have not uplifted their living standards and the backward linkages that have emerged have had little effect on the economy. The EPZs have failed to effectively enhance meaningful industrial growth and development, having made very little impact on the economy of the country. Their contribution to industrialization and development is negligible. The proceeds of the EPZs have tended to largely benefit the investors who are significantly foreigners. The incentives given by the Government under the EPZ programme have therefore not contributed in a significant way to the alleviation of poverty and the uplifting of the living standards of Kenyans.

The establishment of an EPZ does not seem to automatically guarantee industrialization and development. EPZs have to be modern, efficient and must be streamlined, backed by a strong government commitment for them to have significantly positive effects. Although EPZs in Kenya have enjoyed the necessary government support, their performance has been wanting. There is need to monitor their performance to ensure that they serve the purpose for which they were established.

The assumption that implementation of EPZ programmes in a country along similar lines to those of other countries would lead to success is a fallacy. The introduction of a particular policy instrument may work in one country and not in another. EPZs have failed to yield the expected results in certain countries while the authorities have continued to depict them as a success story.

The operations of EPZs in Kenya, like in many developing countries, has largely benefitted foreigners. The programme has therefore largely served the interests of other people other than the citizens which is in line with the prevailing world system. Secondly, whereas firms in the EPZs are in various stages of industrial development, the industrialization process in the country has been hampered by the reluctance by EPZ investors to deliberately spur industrial development outside the EPZs.

The establishment of EPZs in the country is not a bad idea. EPZs have added the number of export-oriented industries in the country and have created some job opportunities, albeit a few. What needs to be done is to enforce the EPZs Act effectively and also remove the various obstacles as outlined in this study to enable them realise their full potential.

6.1.0 Recommendations

6.1.1 Further Research

This study has been based on specific objectives and has had a limited scope. It would therefore be presumptuous to portray it as exhaustive. An exhaustive study of the EPZs would require a lot more in terms of money and time than what was available. There is need for further studies on the activities of EPZs because they are a relatively new programme under implementation. It will be interesting to study other emerging issues that relate to the EPZ operations. For example, one would expect changes in the operations of the first Kenyan EPZ firms upon the expiry of the tax 'holiday' of some firms in 2002 and it would be worth studying the impact. Secondly, economic policy issues like the EPZs have far reaching effects on the socio-political setting and these will need to be revisited from time to time.

This study has highlighted some of the issues that affect the operations of the EPZs in Kenya. It is hoped that this study will provide some insight to future researchers on what goes on in the EPZs and give an impetus for further research for the benefit of both researchers and policy-makers.

6.1.2 Policy Recommendations

The industrial policies adopted by the Government in its support for EPZs need to be reassessed carefully since failure to balance costs and benefits could be disastrous to the effort. There is need to continually assess and evaluate the pros and cons of the EPZ programme in order to ascertain whether it is in line with the objectives of its establishment. Being an economic policy issue, it is necessary to monitor the progress or lack of it in the programme so that the initial vision is not lost.

The Government will need to create an enabling environment to encourage domestic savings, both public and private. This entails addressing the levels of taxation, reducing domestic and foreign debt and reorganising the institutional framework of the capital markets, which will in turn stimulate indigenous capital for investment in the industrial sector including the EPZs. Joint ventures between Kenyan and foreign entrepreneurs should be encouraged. Kenyans with adequate capital should be encouraged to invest in export-oriented industries.

The Minister of Finance has too much powers and can easily control the operations of the EPZA. These powers need to be trimmed. Private sector representation in the EPZA should be enhanced in order to provide proper representation and to cut down on the bureaucratic red tape of the public service.

In order to overcome the challenges imposed by the liberalisation of the 1990s, the firms investing in the country's EPZs will have to seek avenues of diversifying their products and making them more competitive in the world market. Reliance on one kind of product such as textiles as is currently the case should be discouraged. Similarly, concerted efforts should be made by all organisations involved in export trade in the country to penetrate and open up new export markets. Dependence on traditional markets like Europe and USA is also unhealthy for the survival of export manufacture in the country. However, the Government should assist in expanding the existing markets for the export products. Trade and investment offices should be opened in strategic places abroad, manned by competent personnel in order to facilitate marketing and investment promotion.

The EPZA has been exerting pressure on the Government to review the EPZ Act to enable manufacturers in the EPZs to sell freely in the domestic market. Should such an arrangement be effected, however, it will give undue advantage to EPZ manufacturers over those outside the zones unless the incentives accorded them are also extended to those operating outside the zones. What the Government should consider doing in the event that EPZ firms are allowed to sell in the domestic market is to make the EPZs an administrative rather than a geographical concept.

In order to ensure that the objective of job creation is realised, it is necessary for the Government to intervene to ensure that quality employment prevails at the EPZ firms. This can be done by ensuring that only those jobs that cannot be performed by Kenyans are given to foreigners. Secondly, it is necessary to put a check to the growing practice of commercial based EPZ firms that engage in activities such as repackaging foreign-manufactured products in the EPZs. Such a practice does not augur well for the generation of employment via EPZs.

For Kenya's economy to benefit from the establishment and operations of EPZs, the manufacture of inputs by firms outside the EPZs for use by EPZ firms should be encouraged. What is required is a policy, well-integrated into the export strategy, to assist firms outside the zones to undertake this exercise. For example, the Government could impose taxes on imported inputs which can be acquired locally.

Import incentives should be availed to foreign investors only in machinery and transport equipment rather than on traditional products such as textiles and clothing which can be taken care of by domestic ventures. This will ensure that industrialization heads in the right direction by ensuring that EPZ manufacturers engage in the production of goods with greater value-added. This way, the impact of the EPZs will be felt both internally and in the external trade scene.

While some EPZ firms have an advantage as multinational by having access to advanced technology, small EPZ firms are disadvantaged due to limited technological know-how. Consideration should be made to create special industrial zones (SIZs), similar to those of Pakistan, in order to enable the smaller firms, especially those which are owned by the indigenous people to survive.

Provision and maintenance of infrastructure remains the role of the Government even in industrialised states. The Government of Kenya should therefore give due attention to the improvement of roads, railways and other modes of transport in order to assist the industrial process.

Education, especially at secondary and tertiary levels, plays a significant role in industrial drive efforts. Since it is clear that education levels in Kenya are falling as evidenced by falling enrolment rates and greater numbers of schools dropouts, the Government should make education more affordable. Higher levels especially of technical education will provide the required labour skills for EPZ activities.

The Customs personnel working in the EPZs should be given greater authority to ascertain that the operations of each EPZ firm are within the limits of individual licences. Secondly, they need to be well trained in order to understand how EPZs operate. This study recommends the establishment of a specially trained unit within the Customs Department to deal with EPZ issues. Effective Customs personnel will ensure that EPZs are not misused, as they quite often are, as conduits for tax evaders and other crimes. The Police Officers operating within the EPZs should also be given specific training to orient them to the functioning of EPZs.

There should be thorough policing of EPZ operations in the country. The penalties proscribed in the EPZs Act on those contravening the law are adequate but they need to be applied effectively. The EPZA should lead in the campaign against contravention of the Act, regardless of political repercussions.

REFERENCES

Akerman, Johan. *Theory of Industrialization: Causal Analysis and Economic Plans*, Gleerup Lund, Sweden, 1960.

Amin, Samir. *Accumulation on a World Scale: A Critique of the Theory of Underdevelopment, Vol. 2.* New York: Monthly Review Press, 1974.

Amin, Samir, et al. *Dynamics of Global Crisis*. New York: Monthly Review Press, 1982.

Apter, David. *The Politics of Modernization.* Chicago: University of Chicago Press, 1965.

Bailey, K. D. *Methods of Social Research*, 3rd Edition. New York: The Free Press, 1987.

Baissac, Claude. 'A Critique of Cost-Benefit Analysis in the Evaluation of Export Processing Zones' in *Journal of the Flagstaff Institute*. Vienna, 1996. Pp 28-32.

Balassa, Bela, " Importance of Trade for Developing Countries", DRD Discussion Paper, The World Bank, Washington D.C. 1987.

Barker, C. E. et al. *African Industrialization: Technology and Change in Tanzania*. Aldershot, England: Gower Publishing Company, 1986. Pp 13-16.

Basille, Antoinne and Dimitri Germidis (1984). *Investing in Free Export Processing Zones*. Paris: OECD Dev. Center.

Bhagavan, M. R. *Inter-relations Between Technological Choices and Industrial Strategies in the Third world.* Research Report no. 49, Scandinavian Institute of African Studies, Upsalla, 1979.

Bhangwati, J.N. & Padma Desai. *India - Planning for Industrialization: Industrialization and Trade Policies Since 1952.* London: Oxford university Press, 1970.

Blomstrom, Magnus and Bjorn Hettne. *Development Theory in Transition: The Dependency Debate and Beyond: Third World Responses.* London: Zed Books Ltd. 1984.

Bolin, Richard L. "A Graphic History of Mexican Maquila Employment, 1965-1983" in *The Developing Economies XXV-I*, March 1987, Pp 30 - 55

Bolin, Richard L. (Ed.) *Linking the Export Processing Zone to Local Industry.* Flagstaff, Arizona: The Flagstaff Institute, 1990 (a).

Bolin, Richard L. (Ed.) *Technology Transfer and Management in Export Processing Zones.* Flagstaff, Arizona: Flagstaff Institute, 1990 (b).

Brannon, J. et al. 'Generating and sustaining Backward Linkages Between Maquiladoras and Local Supplies in Northern Mexico' in *World Development, Vol. 22, no.12.* London: Elsevier Science, 1994. Pp 1933 - 45.

Broadbridge, Seymour. *Industrial Dualism in Japan.* Chicago: Aldine Publishing Company, 1966.

Chilcote, R.H. *Theories of Comparative Politics: The Search for a paradigm.*

Boulder, Colorado: Westview Press, 1981.

Coughlin, P. & G.K. Ikiara (eds.) *Industrialization in Kenya: In Search of a Strategy*. Nairobi: Heineman Kenya, 1988.

Dahrendorf, Ralf. *Class and Class Conflict in Industrial Society*. London: Routledge & Kegan Paul, 1959.

Dos Santos, Theotonio. 'The Structure of Dependency' in *The American Economic Review LX* , May 1970. Pp 231 - 6.

Eisenstadt, S.N. 'Modernisation and Conditions of Sustained Growth' in *World Politics XVI*. July 1964. Pp 576 - 94.

Frank, Andre Gunder. *Crisis in the Third World.* New York: Holmes & Meier Publishers, 1981.

Frank, Andre Gunder. 'The Development of Underdevelopment' in *Imperialism and Underdevelopment* (ed.) R. Rhodes. New York: Monthly Review Press, 1970. pp 4 - 17.

Fransman, M. (ed.) *Industry and Accumulation in Africa.* London: Heinemann Educational Books, 1982. Pp 24 - 57.

Galbraithe, J.K. *The New Industrial State*. Boston: Houghton Hifflin, 1978.

Giddens, Antony. *Capitalism and Modern Social theory: An Analysis of the Writings of Marx, Durkheim and Max Weber.* Cambridge: Cambridge University Press, 1971.

Holmes, Paula & Paul Mao. *EPZs in Developing Countries: A global view,* World Bank, 10th March, 1989.

Kanamori, Hisao. 'Economic Growth and Efforts' in Lawrence Klein & Kazushi Ohkawa (Eds) *Economic Growth: The Japanese Experience Since the Meiji Era.* Homewood, Illinois: Richard d. Irwin, Inc., 1968. Pp 303 - 325.

Kaplan, Abraham. *The Conduct of Inquiry: Methodology for Behavioural Science.* San Francisco: Chandler Publishing Company, 1964.

Kaplinsky, Raphael. 'Export Processing Zones in the Dominican Republic: Transforming Manufactures into Commodities' in *World Development Vol. 21, no 11.* London: Pergamon Press, 1993. Pp 1851 - 65.

Leys, Colin. *Underdevelopment in Kenya.* London: Heinemann, 1975.

Lipson, E. *The Economic History of England: Vol.III The Age of Mercantilism.* London: Adam and Charles Black, 1956. Pp 207 - 409.

Marx, Karl. *Capital: A Critical Analysis of Capitalist production, Vol. 1.* Moscow: Foreign Languages Publishing House, 1962. Pp 322 - 507.

Marx, Karl and Fredriech Engels. *The Communist Manifesto.* New York: Washington Square Press, 1964.

Mathias, Peter. *The First Industrial Nation: An Economic History of Britain 1700 - 1914.* London: Methuen & Co. Ltd., 1969.

Myrdall, Gunnar. *Asian Drama: An Inquiry into the Poverty of Nations, Vol. 1.*

New York: Pantheon, 1968.

Ndii, David. 'The Sure Route to Industrial Take-off' in *Sunday Nation*, 22nd December, Nairobi 1996.

Nixson, Fred. 'Import Substitution Industrialization' in *Industry and Accumulation in Africa* ed. by Martin Fransman *op cit*. Pp38 - 57.

Nyong'o, Peter Anyang. 'The Making of a People-Based Economic Tigers' in *Daily Nation*, 3rd November 1996, Nairobi. Pg. 7.

Pressnell, L.S. (Ed). *Studies in the Industrial Revolution: An Economic History of Britain 1700 - 1914*. London: Methuen & Co. Ltd., 1969. Pp 121 - 185.

Schumpeter, Joseph A. *The Theory of Economic Development: An Inquiry into Profit, Capital, Credit, interest and the Business Cycle*. Cambridge, Massachusetts: Harvard University Press, 1961. Pp 128 - 156

Shinohara, Miyohei. *Industrial Growth, Trade and Dynamic Patterns in the Japanese Economy*. Tokyo: University of Tokyo Press, 1982. Pp 1 - 53.

Singh, Ajit. 'Industrialization in Africa: A Structuralists View' in Martin Fransman (ed.) op. cit. Pp 24 - 37.

Smith, Adam. *The Wealth Of Nations*. London: Dent's Everyman Library. 1964.

Stewart, Frances. *Technology and Underdevelopment*. London: The Macmillan Press Ltd., 1977. Pp 95 - 113

Swainson, Nicola. *The Development of Corporate Capitalism in Kenya, 1918 - 77*. Los Angeles: University of California press, 1980. Pp 186 - 235.

Sweezy, Paul M. *Theory of Capitalist Development*. London: Dennis Dobson Ltd, 1949.

Thomson, Allan. *The Dynamics of Industrial Revolution*. London: Edward Arnold Publishers, 1973.

Weber, Max. *The Protestant Ethic and the Spirit of Capitalism*. London: George Allen & Unwin, 1930.

Weiss, John. *Industry in Developing Countries: Theory, Policy and Evidence*. London: Routledge, 1988.

World Bank, The. *The East Asia Miracle*. Oxford: Oxford Universty Press, 1993.

OFFICIAL DOCUMENTS/ JOURNALS/ NEWSPAPERS

Centre for Development Research (C.D.R.). Working Programme 1992 and Annual Report 1991. Center for Development Research. Copenhagen, 1992.

The Economist. London: 7th - 19th August, 1999.

EPZA. Export Processing Zones in Kenya: Information for Potential Investors.

_______ EPZA Newsletter Vol. 2, no. 2, April - June 1996.

Export Processing Zones Authority Act, Cap 517, Laws of Kenya. Nairobi: Government Printer of Kenya.

Government of Ireland. Shannon Development, 1991

Government of Kenya. *Budget Speech for the Fiscal Year 1996/7*. Nairobi: Government Printer of Kenya.

_________.*Economic Survey, May 1995*. Nairobi: Government Printer of Kenya.

__________. *Economic Survey 1996*. Nairobi: Government Printer, 1996.

__________. The National Assembly Hansard: Transcripts of Parliamentary Proceedings, Vol. LXXX. Wednesday, 31st October, 1990 (Afternoon Sitting). Pp F2 - Z1.

__________. *6th National Development Plan 1989 - 1993*. Nairobi: Government Printer.

__________. *7th National Development Plan 1994-1996.* Nairobi Government Printer.

__________. *Economic Survey 1997.* Nairobi: Government Printer, 1997.

__________. *Sessional Paper No. 1, 1986: Economic Management for Renewed Growth.* Government Printer, 1986.

__________. *8th National Development Plan 1997 - 2001: Rapid Industrialization for Sustained Growth.* Government Printer, 1997.

__________. *Sessional Paper No. 2 of 1996: Industrial Transformation to the Year 2020.* Government Printer, 1996.

Government of Pakistan, *Investment Opportunities in Pakistan*, 1993

______________.*Karachi Export Processing Zone* 1991

International Monetary Fund. *World Economic Outlook Report, 1997.*

Investment Promotion Centre, *Investor's Guide to Kenya*; October 1991

__________.*Investors Newsletter, Vol.1, No.1.* January, 1991.

Journal of the Flagstaff Institute, Vol.XIX Number 1 Flagstaff, Vienna; April 1995.

Journal of Flagstaff Institute, Vienna 1996.

Nation Newspapers Ltd. *The Daily Nation and The Sunday Nation* (Various, please see footnotes)

Nigeria Export Processing Zones Authority, *Facts about Nigeria EPZs*, 1992.

United Nations Center for Transnational Corporations (UNCTC) *The Challenge of Free Economic Zones in Central and Eastern Europe*. 1991.

United Nations Conference on Trade and Development, *Export Processing Zones in Developing Countries: Implications for Trade and Industrialization Policies*, Geneva/ New York: UNCTAD Secretariat, United Nations. 1985.

The United Nations Industrial Development Organisation (UNIDO) *Expert Group Meeting on Export Processing Zones Development, Management and Promotion: Report,* 1993(a)

__________ *Export Processing Zones: Principles and Practice,* 1993 (b).

__________ Regional and Country Studies Branch, Industrial Policies and Perspectives Division, *Export Processing Zones in Transition: The Case of the Republic of Korea* 1988

World Bank, The, *1997 World Development Report*. Washington D.C.

World Bank, The, *Free Trade Zones in Export Strategies*, World Bank Industry and Energy Department, Industry Work Paper Series No. 36, 1994.

World Development Vol 21, No.11. London: Pergamon Press 1993, PP 1851 - 65.

World Development Vol.22 No.12. London: Elsevier Science 1994 PP 1933 - 45.

World Politics XVI, July, 1964. PP 576-594

UNPUBLISHED MATERIAL

Adler, Glenn. "Global Restructuring of Production and Labour: The South African Labour Movement, the Global Division of Labour, and Reconstruction". Workshop paper - Globalisation: Opportunities and Challenges. Washington, D.C.: Center for the Study of the Global South.

EPZA Review of the Kenyan Export Processing Zones Programme, October 1995, Nairobi.

Gereffi, Gary, "Global Production Systems and Third World Development" Paper presented at a workshop - Globalisation: Opportunities and challenges, March 26 - 27, 1994. Washington DC: The American University, Massachusetts.

Kelleher, Tom. 'EPZ Case Studies: The Pakistan EPZ Programme,' International Development, Ireland, 1992.

Kithimo, Betha. 'Export Processing Zones and Special Economic Zones as Development Models of the Future.' Nairobi: EPZA, 1993.

Prewitt, Kenneth, *Introductory Research Methodology* IDS University of Nairobi, Occasional Paper No.10 1971.

APPENDIX I

QUESTIONNAIRE FOR WORKERS IN THE EPZ FIRMS

Questionnaire No. ________

1. Gender

   Male ___ Female ___

2. Age in years.

   ____

3. What is your level of education?

   (a) Academic ______________

   (b) Professional _______________

4. (a) What is your job title? ________________________

   (b) Functions: ____

5. Terms of service (please tick one).

   ___ Permanent ___ Contract ___ Probational ___ Casual

6. What are your consolidated wages in Kenya Shillings per month? _______

7. What benefits do you enjoy in your service?

   Medical ___ Housing ___ Other (Please specify) _______________

   None___

8. (a) For how long do you work per day? _______ hours.

   (b) Are there times when you work overtime? Yes ___ No ___

   (c) If yes, what is the payment for overtime vis-a-vis normal working hours?

9. (a) For how long, in years, have you worked with your current employer?

   ____

   (b) What was your occupation before joining this firm?

   School leaver ___ Unemployed ___ Employed ___

(c) If employed, does your current job entail similar functions?

Yes ___ No ___

10. How did you learn of the existing job opportunity in this firm?

Through Friends____ Advertisements_____ Enquiries_____

11. (a) Were there specific requirements in your recruitment to your current job?

Yes ____ No ___

(b) If yes, which ones? ________________________________

12. (a) What form of training have you undergone since you joined this firm?

Inhouse / on the job ____ External _____

(b) If external, who was your sponsor? Employer ___ Self ___ Other (Specify) _ (c) Has the training enabled you to perform your job better?

Yes ___ No ___

13. Are you a member of the National Social Security Fund? Yes___ No ___

14. What government officials do you ever come into contact with and for what reasons? ____

APPENDIX II

QUESTIONNAIRE FOR INVESTORS IN THE EPZs

Questionnaire No. ___

1. What is the ownership of this firm? (Indicate as a percentage)

   Kenyan ______ % Non-Kenyan _______ % (Specify) ________________

2. For how long have you ran this enterprise? _______years.

3. How did you learn of the existing investment opportunities in Kenya's EPZs?

   ____

4. What is the cumulative total investment of your firm worth? KSh. _______

5. Approximately, what is your gross annual turnover in Kenya Shillings? __

   _____

6. How many employees do you have in your firm?

   Kenyans ____________ Non-Kenyans ____________

7. How much, in Kenya Shillings, do you spend on wages/salaries per month?

   KSh.____________

8. Where do you acquire your raw materials from? _____________________

9. (a) What are your export products? ________________________________

   ____

   (b) To which countries are the products of your firm exported? _________

   ____

10. (a) Are you familiar with EPZ operations in other countries?

    Yes ___ No ____

    (b) How would you rate the EPZA as a facilitator for investment in Kenya's EPZs?

    Excellent _______ Good ______ Satisfactory ______ Poor ________

    Please elaborate your answer.____________________________________

11. What would you say are the impediments to investment in Kenya's EPZs?

____

____

12. What, in your opinion, would be more profitable between the local and the foreign market were EPZ firms allowed to sell locally? ________________

Please elaborate your answer. ___________________________________

13. Do you belong to any Manufacturers' association? Yes___ No __ If yes, what are its objectives?

14. (a) What types of licences are you required to acquire annually and from what authority? ____

(b) How much, in Kenya shillings, do you spend on licences annually? __

15. How much do you pay as rent and over what period? _______________

____

16. Does your firm acquire any intermediate inputs from local manufacturers operating outside EPZs. Yes ___ No ___

If yes, please identify them _____________________________________

17. Are there parts of your production process that are carried outside the EPZs? Yes___ No ____ If yes, what and where? _____________

18. How efficient are our ports in facilitating imports and exports to and from the zones?

____ Very efficient ____ Fairly efficient ___ Not efficient at all

19. Have you had any problem with the Customs Personnel in the EPZs?

Yes ____No____

If yes, what was the nature of the problem and how did you resolve it?__

____

20. Do you ever have a forum to meet with government officials or other leaders besides those of the EPZA? Yes___ No____ If yes, in what fora?

(a) Official _________ (b) Unofficial ____________________

21. Are the current EPZ incentives adequate? Yes_____ No _____

If not, what is being done about it? ________________________________

22. How has the economic liberalisation taking place in the country affected your activities in the EPZ? ______________________________

23. How do you view the coexistence of EPZ and non-EPZ firms in this country?

____

24. (a) What benefits have you enjoyed as an investor in the EPZs?____

____

(b) Would it be in order to extend the EPZ incentives to firms involved in export manufacture outside the EPZs? Yes___ No__

If not, why?______________________________

25. Please provide the information requested for in the spaces provided.

Year	Local Purchases (Ksh.)	Exports (Ksh.)	Imports (Ksh.)	No. of Workers
1990				
1991				
1992				
1993				
1994				
1995				
1996				
1997				

APPENDIX III

QUESTIONNAIRE FOR NON-EPZ MANUFACTURERS

---

1. What form of manufacture are you engaged in? ____________________
2. What are your finished products?______________________________

____

3. To what market is your production oriented?
   Domestic ________ Foreign ________ Both__________
4. Have you considered investing in the country's EPZs?______ Reasons __

____

5. Do EPZ firms purchase anything from your firm? __________________

____

6. How do you view the co-existence of EPZ and non-EPZ firms in this country? ____

____

7. Should similar incentives to those enjoyed by EPZ firms be extended to all export manufacturing firms? __________________________________
8. What problems, if any, has your firm encountered in securing:
   (a) Raw materials? ____
   (b) Other inputs? ____
9. What are the issues that you feel are not adequately addressed concerning this country's industrial sector? ________________________________
10. How has the shift towards a free market economy affected your products and market?____

____