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The Role of Export Processing Zones in Development and International Marketing Strategy

Nicolas Papadopoulos and Shavin Malhotra

Best Paper Award
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Abstract
Export Processing Zones (EPZs) are areas within developing countries where business is offered special incentives and a barrier-free environment in order to promote economic growth by attracting foreign investment for export-oriented production. Most developing countries now have EPZs, and the number of zones, number of firms operating within them, and volume of business are growing rapidly. Yet studies of the EPZ phenomenon by business researchers are virtually non-existent, leading to poor understanding of its role in international marketing. This paper draws from the economics literature to provide an integrative review of the EPZ concept, discusses its importance for host nations and international business, and provides suggestions for future research.

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The Role of Export Processing Zones in Development and International Marketing Strategy: Review of Key Issues and Suggestions for Research

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Introduction

As global barriers to trade and foreign direct investment (FDI) fall, so should the need of international firms to seek, and/or of governments wishing to attract them to offer, special ways for getting around such barriers. The goal of this paper is to examine, from the international marketing perspective, one barrier-reduction instrument which in fact has exhibited the opposite trend: Export Processing Zones (EPZs). These geographically-defined areas, found within developing countries (DCs) and aiming at attracting export-oriented FDI through barrier-free environments and special incentives, have continued growing on various measures of activity since their inception some 40 years ago in spite of the concomitant broader reduction in obstacles to international business.

Since the main purpose of host nations in establishing such zones is to encourage domestic economic growth, their ability to help achieve this objective is a popular research theme in economics and among the major international organizations. On the other hand, the subject has received surprisingly little attention by scholars in marketing, with fewer than 10 published studies to date. As a result, the marketing perspective is virtually absent from the research discourse on EPZs. In turn, this means that most extant knowledge draws from economics, which, given its orientation, focuses primarily on the zones' implications for the economic development of host nations. While this is useful and needed, it does not account for the needs of international firms that may wish to consider, or might have considered, in-zone operations.

In light of the above, the specific objectives of this paper are to provide an integrative analysis of EPZs drawing on insights from studies in development economics, examine their potential role in international marketing, and suggest directions for future research. The paper is based on a thorough review of the literature and secondary statistics from international organizations, and hopes to serve as a "call to action" for more international marketing studies on the subject theme. Given the dearth of such research to date, this presents a wide range of opportunity for new studies that can enhance understanding of the EPZ phenomenon and provide useful insights to practitioners in business and government.

Background and Review of the Literature

Background on EPZs

EPZs are a type of "Free Trade Zone" (FTZ), an institution which over time has evolved significantly and now takes many variants, ranging from import-oriented "bonded warehouses" and "freeports" to export- and/or investment-oriented EPZs, free "development" zones, Mexican "maquiladoras", and others (Papadopoulos 1987, Madani 1997, Makabenta 2002). The principal concept behind all FTZs is that firms operating within them are offered certain privileges, usually in the form of a complete exemption from duties and related excise taxes, fewer operational barriers, and/or more investment incentives, that are not normally available to firms operating in the same country's "domestic" or regular "customs" territory beyond the zone.

Differences among the various types of zones have blurred over time, but two key distinctions are between those that encourage imports versus exports, and those that permit trade only or also manufacturing. This paper focuses on EPZs, and by extension on their larger cousins in the form of Special Economic Zones (SEZ), both of which clearly focus on manufacturing for export (Wei 2000). A key difference between the two is that an EPZ is *a geographically restricted, and often fenced-in, enclave,* whereas an SEZ covers *a large area extending to the territory of an entire city, province, or region.* At the other end of the scale, an important recent development is legislation in some countries permitting free zones at the level of an individual facility, such as the warehouse or factory of a particular firm, and/or at the industry level, as in India's "Jewellery Zones" (Ettore 1998, Makabenta 2002, WEPZA 2004). This concept allows considerably greater flexibility to the firm since it can enjoy zone benefits without having to actually locate within one. As a result, it has been embraced by large numbers of companies in countries ranging from Mexico to the Philippines (as well as in the U.S., where, however, most such zones are import oriented; US/FTZB 2002).

Drawing from the widely used ILO/UNCTC (1988) and World Bank (1992) definitions, but adjusting it to account for the broad range of zone sizes in modern markets, EPZs and SEZs can be defined as *geographically-defined places within a country offering a free trade environment, a liberal regulatory regime, and/or tax and other incentives oriented to attracting foreign investment and with an expectation that firms operating within it focus on export-oriented manufacturing*. Since the emphasis is on development, virtually all EPZs and SEZs are located in the developing world. EPZs are most often found in market economies and SEZs in centrally-planned and transitional nations (Wong and Chu 1985).

Growth is found in virtually all measures of EPZ-related activity, as outlined below (currency figures in USD unless noted otherwise):

- The number of countries with at least one EPZ grew from 25 in 1975 to 93 in 1997 and 105 in 2003 (Kusago and Tzannatos 1998, WEPZA 2004).
- The total number of EPZs is approximately 1,100, including about 600 main EPZs, 50 wide-area SEZs, and 450 firm-specific locations). These figures represent significant growth since the first EPZ in 1965 (India) and from the estimate of 500 export zones as of 1997 (Kusago and Tzannatos 1998, WEPZA 2004).
- Exports from EPZs have increased steadily and now account for the lion's share of total exports in countries with strong zone programs, such as China (nearly 90%) or Vietnam, Malaysia, Kenya, and Senegal (over 50%), and for high proportions where such programs are more recent, as in the case of Sri Lanka (33%) (ILO 2004, Madani 1997).
- Reliable global statistics for *EPZs* are not available, but the amount of trade channelled through free zones of *all types* has increased to the point where it stands at as much as 20% of total world trade (Martin 1998, Ettore 1998, ILO 2004). Since most countries operate export-oriented zones, since many of these countries are major contributors to trade (e.g.,

China and others in Asia Pacific), and since most have had much higher export growth rates recently than developed nations, it can be safely assumed that at least three-quarters of the total for all zones, or as much as 15% of the world total, is accounted for by EPZs.

- The number of firms in EPZs ranges from low levels of up to 50 or so in smaller countries (e.g., Togo) to several thousand in larger ones (e.g., 3,000 in Turkey; ILO 2004).
- While Mexico's economy suffered from a currency devaluation in 1995, its maquiladora EPZs were the only component that showed growth over 1994 in jobs (13%) and exports (from $26 to $33 billion), with the latter reaching 39% of Mexico's total (Romero 1998).
- FDI in DCs increases dramatically when successful EPZ programs are put in place. For example, Makabenta (2002) reports that annual FDI inflows in Philippine EPZs, which stood at near-zero from the 1980s until just prior to the introduction of the new "SEZ" legislation in 1994, increased to between 50 and 70 billion pesos in each of 1995 and 1996, and then doubled or tripled to about 100-150 billion annually for 1997-2000.
- African countries have been relatively late EPZ adopters, but Romero (1998:391-392) notes that 24 nations had or were planning zone programs as of 1996.

A Literature-based Assessment of EPZs

The Economics Perspective

The economics literature clearly supports a positive relationship between exports and economic growth, and shows that DCs with an export-led strategy grow faster than those which still focus on the earlier paradigm of import substitution (UNCTAD 1983, Johansson and Nilsson 1997). The four original "Asian Tigers" were the first adopters of strong free zone programs and are commonly cited as prime examples of successful EPZ-led, export-focused policies. But has the EPZ concept succeeded overall as an instrument for development? At first sight, the literature offers a somewhat mixed verdict.

On the one hand, EPZs have been hailed as precursors of economic development wherever successful programs have been implemented. The objectives and results of EPZ programs of course vary depending on the country, but most researchers agree on the likely main payoffs from a successful program and focus on direct benefits such as FDI attraction and increased national exports (e.g., Romero 1998, Wei 2000, Kinunda-Rutashobya 2003). By focusing on manufacturing, EPZs also help to shift the composition of exports away from the traditional emphasis on commodities, which are prone to price instability and elastic demand, to higher value-added exports (Madani 1997). More broadly, EPZs may help to close "idea gaps" (Johansson and Nilsson 1997) by exposing domestic manufacturers to the modern business practices of zone-based foreign investors. Lastly, EPZs can serve as testing grounds for reorienting a nation's policies toward economic liberalization (Grubel 1983). Thus while some researchers have tended to emphasize one EPZ benefit over others (e.g., Romero, 1998:391, calls them "investment promotion strategies"), the consensus among the concept's supporters is that, as an instrument for development, EPZs can offer multiple potential benefits. In attempting to summarize these benefits, Chen (1994) classifies them into six main categories: FDI attraction, employment generation, export promotion, technology transfer, domestic integration, and regional development. Perhaps more effectively, McIntyre, Nerula, and Trevino (1996) distinguished between two major groups: (a) direct and quantifiable benefits, such as FDI, employment, exports, and foreign exchange earnings; and (b) longer-term externalities that benefit the host nation through linkages with the domestic economy, which are harder to quantify but perhaps even more important.

Considering the potential benefits, it is not surprising that many DCs have developed EPZ or other variant programs (Rondinelli 1987). Arguably the most successful (and certainly most discussed) zone is the Chinese SEZ in Shenzhen. Since its inception in 1979, this zone area developed from a small town of 20,000 into a modern city of 3.5 million with a GDP per capita of $4,000, an annual GDP growth rate of 32%, and investors representing a "who's who" of multinational firms; as an illustration of its global importance, in 1998 Shenzhen accounted for 14%, 6%, and 8% of *world* output in, respectively, floppy disks, PC motherboards, and hard drives (Wei 2000). At the other end of the scale, Mauritius, which set up its first EPZ in 1971, has risen to "middle-income nation" status in the World Bank classification (Kinunda-Rutashobya 2003) and has become one of Africa's leading exporters of merchandise (which replaced sugar as its main export). Its export earnings grew at an average annual rate of 70% in the 1980s, and its EPZs are credited with reducing unemployment from 20% in 1971 to less than 2% in 1994 (resulting in an enviable position where *labour to service the zones now has to be imported*; Romero 1998, Kinunda-Rutashobya 2003).

On the other hand, and notwithstanding the above, several researchers have noted potential EPZ limitations and problems. Of these, two stand out most prominently. The first concerns labour issues, including inadequate wages, job benefits, health and safety standards, job security, and training, the latter also suggesting limited opportunities for migrating from unskilled to supervisory jobs (Rondinelli 1987, Romero 1998). For example, analyses by ILO/UNCTC (1988) and others conclude that the societal impact of EPZs is negative due to the "shadow price of labour". (This is the differential opportunity cost from bringing unskilled young females into the workforce for the first time, resulting in below-market wage rates within zones since young females comprise the bulk of EPZ labour [ILO 2004], versus offering the jobs to skilled but currently unemployed men.) The second major area of concern focuses on fewer-than-expected externalities, such as low levels of technology transfer, labour migration to city-based zones which burdens already weak urban infrastructures, and over-dependence on zone investors who may move to other countries when labour costs rise (Rondinelli 1987). Ironically, the latter risk may result in large part from the success of an EPZ program, which may force "foot-loose" manufacturers in sectors like textiles or electronics to relocate in search of cost differentials (Shapiro 1981, Papadopoulos 1987).

These two major areas of concern, coupled with confused or poorly thought out policies by host nations which lead to poor zone management and discourage foreign firms, are commonly used to explain the failure or difficulties of various EPZ programs (e.g., in Africa [Romero 1998], Russia [Manezhev 1993], North Korea [Noland and Flake 1997], and India [Kundra and Sharan 2000]). However, a number of researchers suggest that many of the problems mentioned are misstated or exaggerated. For example, Summerfield (1995) argues that using the shadow price of labour to assess EPZs ignores the broader benefits from employing women in zones (e.g., higher status in society and within the household). Kusago and Tzannatos (1998) have shown that the proportions of managerial and clerical staff within Malaysia's EPZs rival the national average (respectively 5% and 8% within zones, versus 4% and 7% in domestic manufacturing). The same authors compared zone and off-zone wages in five Latin American countries and found that those in EPZs were in fact somewhat higher than the national rates in three cases, somewhat lower in one, and significantly lower only in one instance (Panama).

Based on the above, it may be concluded that while disagreements among researchers naturally exist, these have to do more with specific implementation problems than with the EPZ concept as such. Kinunda-Rutashobya (2003) rightly argues that current theories are inadequate and that a more appropriate explanation of the EPZ phenomenon is yet to emerge, but this does not negate the apparent consensus that, if the right factors are in place, EPZs can and do lead to successful development.

<u>The Business Literature Perspective</u>

Given the strong interest in EPZs by business, as signalled by the thousands of firms that invest in them, and the large number of studies by researchers in development economics, we had expected to find a similarly large number of business studies on EPZs. However, an exhaustive search using standard databases, the tables of contents of 20 major business journals, and the lists of references of articles thus identified, laid that expectation to rest. The total number of business studies (defined as those that have been carried out by business researchers, published in a business journal, and/or reflect a business orientation) *on the broader concept of FTZs* is 15. Of these, eight looked at import-oriented foreign zones in the U.S. and are of no interest in this paper, and two Papadopoulos (1985, 1987) mentioned EPZs but did not go much beyond simply describing them alongside other zone types. This leaves only five (5) studies that have dealt specifically with EPZs. None of these is empirical, and, on examination, three were found to in fact be economics rather than business studies, even though two appeared in business journals (Brines and Vince 1997, Noland and Flake 1997) and one alluded to a "zone users" component in its title (McIntyre, Neural, and Trevino 1996). The remaining two studies deal with China's SEZs and are rather simplistic and non-theoretical (Firoz and Murray 2003, Firoz et al. 2003). Therefore, the business literature on EPZs not only is virtually nonexistent but also does not offer any theoretical, strategic, or other insights of potential interest to business.

Discussion, Implications, and Future Research

The EPZ Paradoxes

The preceding discussion points to two distinct paradoxes, which are discussed first before turning to EPZ implications for host countries, international firms, and research.

The first paradox was noted in the opening paragraph of this paper: EPZs are growing rapidly worldwide – yet this growth occurs in a context of a "global" reduction in the barriers which they are designed to counter. This suggests that the phenomenon of falling barriers may not be nearly as "global", or occurring at the national level in all countries, as is commonly thought. Lower barriers are very real among the *developed* Triad nations, whose key features include broader and highly successful free trade agreements (European Union and NAFTA). However, in the context of *developing* nations, *EPZs may in fact be "the", or at least "one of the", major instrument(s) through which barriers are being reduced* – rather than being an add-on that offers perhaps minor and temporary free-er trade advantages while the host countries' national economies themselves are being broadly liberalized.

Our in-depth search of the literature did not, unfortunately, reveal any studies that might offer hard evidence for this assertion, but the circumstantial evidence supports it. Since EPZs are located in developing nations, most of which have highly regulated national economies, the relevant facts are that, (a) DCs account for only 37% of total world exports (IMF 2003), and (b) as noted above, as much as 15% of global trade is funnelled through EPZs in DCs. Combining these points, *nearly one-half of DC trade appears to be EPZ trade* (i.e., 15% over 37%) – with the other half accounted for mostly by resource exports from the DCs' domestic territory. In other words: EPZs are growing in the context of global barrier reductions simply because *they are at least "a", and perhaps "the", principal instrument for reducing barriers in developing countries.* This suggests that *national* obstacles to trade within DCs are *not* falling as rapidly as is commonly reported, which in turn makes EPZs *even more important* than has been posited so far.

The second paradox concerns the virtually total silence of business researchers on the EPZ issue, when contrasted with the growing perceived importance of EPZs on the part of business firms, host countries, and researchers in economics – which leads to ever-increasing zone-based trade and investments by the first, EPZ programs by the second, and research by the third of these constituencies of interest. To repeat a point made early on in this paper – while research in economics is clearly useful and offers relevant background, its clear interest in the role of EPZs in development for DCs prevents from addressing the strategic issues relevant to the firm, which would normally be investigated by studies from a business perspective.

In addition to our fruitless search for business studies dealing specifically with free zones, we downloaded and word-searched nearly 100 articles from three major publications, the Journal of International Business Studies, Journal of International Marketing, and International Marketing Review, to consider the possibility that business researchers were including references to EPZs in other, broader works (e.g., those dealing with FDI or modes of entry). This search was also fruitless, except for a small handful of *passim* references to Chinese SEZs. This lack of interest may be due to a number of factors, including the relatively recent emergence of interest in global marketing issues, which are integral to a business perspective on EPZs; awareness that economists are dealing with EPZs, reducing the perceived need for business research on the issue; perceptions of EPZs as a development or tactical tool rather than a strategic issue; the inherent difficulties in conducting cross-national research; pure happenstance; or any number of other possible explanations. We will not speculate as to which of these may apply – but, whatever the reasons, the dearth of business studies to date, coupled with the importance of EPZs, represents a broad field of opportunity for redressing the situation through new research.

A Host Country View of EPZs

Drawing from the economics literature, Chen (1994) notes that there are three major development theories of EPZs: neoclassical economics, which views them positively and suggests that their deregulated environment gradually diffuses benefits to the domestic sector; the state-centered perspective, which focuses on the role of host governments in minimizing any undesirable consequences from zone programs; and the dependency / world-systems perspective, which takes a dimmer view of EPZs and suggests that transnational firms profit disproportionately from their cheap local labour and low taxes. As can be seen from the preceding literature review, the weight of the evidence and the majority of writers do not favour the latter theory. In fact, UNCTAD (2002) clearly sides with the view that EPZs are instruments for "providing efficient infrastructure and removing red tape... in the context of promoting export-oriented FDI" (p. 20). Although most agree that zones must be seen as "an", rather than "the", engine for growth (see Madani 1997:7), even critics such as Rondinelli (1987) and Romero (1998) focus on the need for better implementation rather than on dismissing the value of the institution as such.

Simply put, the potential benefits to host countries with a successful EPZ program are too many to ignore. Although these were outlined in the literature review above, we posit that past research has often "lumped" together some zone advantages that in fact are rather distinct, and that, while most potential benefits have been identified by one researcher or another, no one has developed a comprehensive listing. In line with McIntyre, Nerula, and Trevino (1996), but taking into account Chen's (1994) six-category approach, and additional characteristics not mentioned by either of these researchers, we suggest that a complete view of zone benefits would include:

- *Direct benefits:* (a) increased exports and foreign exchange reserves, which improve the balance of payments and enable imports of needed technology from developed nations; (b) local supply chains, enabling domestic producers to sell inputs needed by zone-based firms; (c) more FDI, which enhances the host country's capital formation process; (d) reduced unemployment and higher incomes (the ILO [2004] estimates the number of EPZ workers worldwide at nearly 42 million, with China accounting for 71%, Asia for 86%, and the top-14 countries on three continents for 95%, of the total).

- *Long term externalities*: (a) technology and knowledge transfer (we treat this as distinct from "more FDI", since the latter does not necessarily imply the former); (b) improved labour skills, which enhance the employability of workers outside the zones and transfer throughout the economy; (c) regional development, by establishing EPZs selectively in areas that need new business activity the most; (d) development of an efficient industrial infrastructure which enables EPZ hosts to compete internationally for FDI though state-of-the-art facilities that may not be possible nation-wide; (e) expansion of support services that end up benefiting the nation as a whole (e.g., banking, legal, consulting, telecomm); (f) partial and "controlled" deregulation, enabling participation in the international economy without compromising national policies (or political ideologies, as in the case of China, which "keeps its pie and eats it too" by operating free-market SEZs under a communist regime umbrella; Grubel 1983); (g) testing of deregulation models prior to applying them nationally, as in the case of India (Kundra and Sharan 2000); and (h) broader catalyst and/or demonstration effects enabling economic modernization, especially since EPZs help to attract foreign firms which might not otherwise have invested in the country (Rhee 1990). This last point is particularly important, since foreign firms investing in the *domestic* territory of EPZ host nations often are *market seekers*, whereas those in free zones are oriented to *exporting* – thereby helping to engender an outward orientation among, but also representing less domestic competition against, local producers.

The above summarizes 12 distinct categories of zone benefits (vs. Chen's [1994] six). These, coupled with the lifecycle theory of EPZ evolution (infancy, growth, maturity, decline) proposed by Fujimori (1978) and supported by Chen (1994), and with the newness of the institution itself (most zones are less than 20 years old), suggest that EPZ problems identified by past studies may be little more than "growing pains" which can and will likely be addressed over time. In this vein, researchers have made specific suggestions for improvement including, for example, measures for: (a) a better balance between workers' interests and the national desire for more FDI (Romero 1998, UNCTAD 2002); (b) enhanced backward linkages with domestic firms (Yabuuchi 2000); (c) better infrastructures to match international standards (Manezhev 1993); (d) adapting zone incentives to changing global conditions (Wei 2000); and (e) targeting specific sectors for EPZs, to optimize their beneficial effects on the domestic economy (Manezhev 1993).

However, useful as they may be, such recommendations from economics research miss four important strategic points that the marketing perspective can add. First, studies in economics stress the importance of infrastructure but pay scant attention to its cost, which can be prohibitive since it includes (a) the zone itself (e.g., a single EPZ in the Philippines, converted from a former U.S. military base, was assessed at $8.0 billion; Makabenta 2002); and (b) broader facilities such as road, sea, air, and telecomm access, quality-of-life provisions for expatriate personnel, and so on (Noland and Flake 1997). Such costs place countries in the conundrum of opting for state-of-the-art infrastructure at the expense of more foreign debt, versus settling for sub-standard and therefore uncompetitive facilities (Romero 1998). Second, many EPZs are located at remote rural areas, as a result of misguided attempts to achieve regional development objectives which disregard investors' needs and lead to zone failure (Papadopoulos 1987, Makabenta 2002). For example, Miyagiwa (1993) dismisses this factor by stating that "Once the [any] location is designated, foreign firms will bring the necessary capital..." – which, of course, foreign firms will *not* do if the location or other characteristics do not suit them. Third, the reverse – little or no thought has been given to the attractiveness for investors of the host nation itself versus its zones (except perhaps for Noland and Flake's [1997] review of North Korea's EPZ). Whether due to national pride, lack of marketing know-how, or other factors, most nations appear to be driven by the better mousetrap fallacy: a perception that the only missing ingredient for national success is an EPZ, upon the establishment of which "investors will beat a path to the nation's door".

Combined, these three points lead to, and can be sub-summed under, the fourth: poor marketing of EPZs. This stems from the common misconception that marketing means promotion which is, occasionally, practiced by some zone managers. This ignores both the other elements of the marketing mix (including, under "pricing" for example, the psychological and hidden operating costs that may be engendered by the host country's environment) as well as such other components as marketing research (to assess investors' needs) or careful market segmentation (to enable effective targeting). More broadly, combining these four points suggests that some key zone problems may be largely the result of badly misguided thinking that stresses the interests of the seller over those of the buyer (not to mention, with reference to the first and third of these points, that it often ignores the seller's situation as well).

EPZs from the Perspective of the International Firm

The "duty-free" aspect of EPZs is still seen as their key, if not only, advantage (e.g., McGilvray 2004), with "logistics" being the only other benefit that is occasionally mentioned. This seems to be a remnant from when duty exemption was the only advantage of traditional FTZs (e.g., see Diamond and Diamond 1984), and a regrettable consequence of the lack of business-minded research that might challenge this narrow and by now archaic perspective. As is clear from the small handful of researchers who have considered the broader benefits of EPZs for business (Papadopoulos 1987, McIntyre, Nerula, and Trevino 1996), these are indeed many and multi-faceted. We propose the following four-point typology of EPZ advantages for business:

- *DC advantages*. Disregarding, for a moment, the unique barrier-free status of EPZs, the fact that they are based in developing nations enables them to share in the broader advantages of the latter. Those that apply to EPZs fall in one or more of five main categories, depending on the country: (a) inexpensive labour; (b) plentiful labour; (c) access to raw and intermediate materials; (d) access to large internal markets, given that the "exports-only" rule for EPZs has tended to be relaxed in many countries over the last two decades, enabling sales to the host's domestic market as well (Kusago and Tzannatos 1998, UNCTAD 2002); and (e) strategic country locations near major target markets for export.

- *FTZ advantages*. Regardless of where they are located, EPZs are a variant of the broader "FTZ" concept – which means that they also share in the general advantages of the latter. Those that apply to EPZs fall in one or more of seven main categories: (a) duty-free imports; (b) no duties or taxes on discarded materials due to spoilage or defects; (c) less red-tape; (d) lower insurance costs (premiums apply to the duty-free value of goods); (e) lower inventory costs through centralized warehousing; (f) flexibility in bulk-breaking, packaging, and labelling for various foreign markets; and (g) use as distribution hubs.

- *Advantages unique to EPZs*. Benefits that are not available beyond the zone environment or at other types of FTZs, and that can be found at various EPZs depending on the host country, can be classified into ten main categories: (a) product assembly or manufacture (not available at freeports etc.); (b) "generous" (Madani 1997) tax holidays, grants, and other concessions for investors; (c) duty-free imports not only of goods but also of manufacturing equipment (of particular importance in capital-intensive industries); (d) near-complete absence of red-tape (already mentioned under "FTZs" above, but repeated here given the much greater differential between zone and domestic environments in DCs than, for example, at import-oriented zones in countries like the U.S.); (e) relaxed environmental protection or labour laws (e.g., right to hire or fire workers based on merit within China's SEZs); (f) right to establish fully-owned or majority-controlled ventures; (g) full repatriation of profits and/or capital (unlike the case in DCs' domestic territory, where this is heavily regulated); (h) superior and often subsidized infrastructure (e.g., lower leasing costs for in-zone facilities); (i) greater protection against crime or unstable political environments (host authorities normally assume responsibility for security of the zone's perimeter; e.g., Makabenta 2002); and (j) dynamic competitiveness differential (hosts invest more on zones, to keep them internationally competitive, and so their advantages are less static than those that the same country's domestic territory might offer).

- *Advantages of EPZs as networks*. The 22 advantages in the preceding three categories of the typology *pertain to each zone viewed individually*. However, EPZs literally dot the planet, and, coupled with import-oriented FTZs in major developed markets, they can be viewed as a "virtual network" that may enable the production, movement, and marketing of goods in a barrier-free environment from their conception to just before the final sale.

Directions for Marketing Research on EPZs

The background note and review on EPZs in earlier parts of this paper, and their benefits as outlined above, suggest that their growth will continue since both nations and firms have good reason(s) to invest in them. Thus a call for research by international marketing academics appears to be well placed. At this point – that is, given the complete absence of a base on which new studies might build – such research make take one or both of two main directions.

First, the secondary statistics available from major organizations leave much to be desired. For example, the principal "EPZ" database (ILO 2004) cites only 34 zones for the Philippines, which *misses* that country's 133 ecozones (Makabenta 2002); *excludes* Mexico's maquiladoras altogether (there were 353 as of seven years ago, formally classified as EPZs by the World Bank; Madani 1997); and, yet, against these omissions, the database *includes* "336 industrial parks" in the U.S., which is patently wrong in several ways – including that there are no EPZs in that country! (Its zones are import-oriented. As well, it has 248 main and 521 sub-zones, neither of which comes close to the number cited; the main zones are not "industrial" but "trade" parks; and the subzones are not "parks" since they are firm-specific facilities; US/FTZB 2002.) The same database cites the number of firms in Albania's EPZs at 2,422 – a rather fantastical figure given the country's size (by comparison, Egypt, with a successful and long-standing zone program, has 829 firms). Lastly, another major database (UNCTAD 2004) claims to show zone imports and exports for 83 countries over a 23-year range to May, 2003 – but the vast majority of its cells in the table are blank due to lack of data, making it impossible to use it in calculating world totals (e.g., imports and exports for 2000 are shown for only 29 and 21 countries, respectively, and exports by rather major contributors such as China are not included).

In light of the above, for this paper we took three steps to ensure that the statistics reported earlier are free of major error: (a) cross-referenced a large variety of sources to identify and correct errors; (b) used each source as the base depending on its known strengths (e.g., ILO on labour, World Bank on FDI); and (c) supplemented or cross-checked information in the global databases with data from country- or region-specific studies, which tend to be more accurate since the researchers have more immediate access to local sources. However, this can be a painstaking approach which does not allow (or encourage) in-depth analyses of the EPZ phenomenon, and which makes it clear that there is a great need for considerable work aimed at generating reliable and useful secondary data that would make such analyses possible.

A second, even more important set of research opportunities lies in empirical studies. Unlike research in economics, which rarely involves field studies, the tradition (and perhaps great strength) in marketing research is that "we talk to people" through surveys and other approaches. Yet, as noted earlier, even among the small handful of business studies on EPZs none is empirical. This points to a large number of questions that need to be asked of zone investors, zone authorities and other relevant parties. These are too numerous to list here, but a summary outline can help to make the point. For example, what factors drive a firm's decision to invest in an EPZ rather than a country's domestic territory? For what exact purposes do firms use EPZs? Do investors decide on "country" first and then "which EPZ", or vice-versa, and what factors lie behind each approach? Why do some firms elect to locate in rural zones and others in urban EPZs? (E.g., FedEx set up an Asian hub in the Philippines' Subic zone, while its competitors did so at zones close to Manila; Makabenta 2002.) Which zone benefits weigh most heavily in firms' decisions to invest in them? How do companies weigh country versus zone characteristics in making investment decisions? To what extent do EPZ-based firms take global positioning and other broader considerations into account when deciding whether, and if so in which zone(s), to invest? How, if at all, does the eclectic paradigm, as an explanation for FDI behaviour, apply in the EPZ context? Lastly, what, if any, are the similarities and differences between the views of various zone constituents, including corporate executives vs. local managers of zone operations, firms vs. workers, or government zone managers vs. corporate zone tenants?

Considering that each of these and many more questions can be asked from a variety of perspectives (e.g., small vs. large firms, firms in different sectors, comparative cross-country analyses, and so on), this field presents numerous research opportunities indeed. And considering the importance of EPZs in international marketing, and the near-complete absence of research to date, the time certainly seems right for new studies to help us understand it better.

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