Free trade zones and free trade agreements [Relecteur : voir note plus bas]

1. THE DEVELOPMENT ISSUE

Until the 1980s governments in developing countries based the development of their national economies on policies of import substitution, protecting the local industrial sector by imposing high customs barriers and strict control of foreign investment. This independent development model held its own, thanks to the consensus achieved around the resultant internal redistribution of wealth, and slow but steady rates of growth. In the early 1980s however, the impossible task faced by these countries of reimbursing their debt placed them under the yoke of international financial institutions.

2. THE RESPONSE OF THE INTERNATIONAL ORGANISATIONS

International organisations such as the IMF, the World Bank, the OECD, and the European Union (EU) urged developing countries to open their doors to private foreign investment. The **liberalisation, privatisation and deregulation measures** proposed (the "Washington consensus") resulted in the establishment of local free trade zones and the integration of these countries in regional free trade agreements. In 1985 the World Bank's Foreign Investment Advisory Service (FIAS) was set up specifically to advise developing countries. Working in partnership with the heads of major corporations the FIAS played the role of advisor to 117 countries, encouraging them to attract foreign investment through the introduction of free trade zones and financial incentives....[1].

2.1 Free trade zones (FTZs)

A free trade zone is a delimited geographical area in which a host country offers investment incentives, including exemption from customs duties and preferential consideration as far as tax and social contributions are concerned[2] The objectives of FTZ programmes are given major priority in national plans. They include:

- Job creation
- Improving the balance of trade by attracting foreign exchange and raising exports
- Facilitating the merger of developing and industrial countries' industrial sectors, and improving the international competitiveness of local industry
- Raising local skill levels and promoting development and technology transfer
- Stabilising the local workforce with a view to reducing out-migration[3].

In addition, the host country also bears the costs of the extra infrastructure required: roads, port facilities, telephone, water, energy, etc. In the early years these facilities may be furnished at low or zero cost. The advantages offered by Central American FTZs represent an unhoped-for opportunity for Asian companies, who, having exhausted their EU textile quotas, are desperately seeking further outlets for their exports[4]. These zones exist under a variety of appellations from one country to the next[5]:

Free zones: Ireland, Trinidad and Tobago, Turkey, United Arab Emirates, Uruguay, Venezuela.
Maquiladoras/maquiladora: Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Panama.
Special economic zones: China
Industrial free zones: Columbia, Ghana, Madagascar, Syria and Jordan
Free trade zones: Bulgaria, Chile
Export free zones: Jamaica
Free trade and industrial zones: Iran
Special export processing zones: Philippines
Export processing free zones: Togo
Tax free factories: Fiji
Bonded zone Indonesia
Free zones and special processing zones: Peru
Free economic zones: Russia
Industrial estates: Thailand
"Points francs": Cameroon

~~2.2 Free Trade Areas (FTAs)~~
2.2 Free trade agreements

[Note du relecteur : Ce sous-titre ne me semble pas cohérent avec le contenu du document. On ne parle plus ci-dessous de ZLE (FTA), et le lecteur (moi) mélange ZLE et zones franches.
Il m'a fallu plusieurs lectures pour comprendre l'argument de l'auteur - la distinction micro-zone/macro-région, et la conséquence de l'extension à une région multinationale (Euromed) des pratiques libérales des zones franches (maquiladora). En fait il faudrait parler d'"accords" et non de "zones de libre-échange". L'ALENA est ici présenté comme une convention et non pas un espace géographique.]

Free trade agreements are part of the world-wide phenomenon liberalising trade in goods and capital. They anticipate the elimination of customs duties and other barriers to the free circulation of goods [Note du relecteur : Ajoutez ici " through the creation of vast international "free trade areas" governed by liberal free trade policies. At national level they promote..."]. They promote the emergence of a market economy under the structural adjustment programmes being ever more strictly imposed on debtor countries by the IMF and the World Bank.

A current example: The North American Free Trade Agreement (USA, Canada, Mexico)

The North American Free Trade Agreement (NAFTA) entered into force on 1 January 1994 and has been presented as a solution to the imbalances prevalent in commercial exchanges at international level. The NAFTA was created in order to "eliminate barriers to trade, promote conditions of fair competition, increase investment opportunities, protect intellectual property rights, establish effective procedures for the implementation of the agreement and the resolution of disputes, establish a framework for tripartite, regional, and multilateral co-operation"[6].

For Mexico it was claimed that the NAFTA would bring: an increase in entrepreneurial activity, higher wages, higher skill levels, an improved standard of living – for the middle classes in particular, with a concomitant rise in local purchasing power – as well as greater political stability and personal and environmental security in border areas (thus reducing the problems of illegal immigration, smuggling and drug trafficking)[7].

Euromed: a Euro-Mediterranean partnership

This partnership between Europe and the countries of the southern and eastern fringes of the Mediterranean consists of a framework agreement on developmental co-operation (the "Barcelona process" 1995) and a number of bilateral agreements between these states and the European Union ("EMAAs" – Euro-Mediterranean Association Agreements). Each agreement includes observance of the obligations resulting from the WTO.

The aim is to create a political, economic and cultural space coherent with the strategic importance of the Mediterranean sea. The project brings together the fifteen EU states and twelve southern and eastern Mediterranean countries: Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestine, Syria, Tunisia and Turkey.

There are three main dimensions to the partnership:

1. **Security through strengthened political dialogue:** the definition of "a common area of peace and stability"
2. **An emphasis on the social, cultural and human dimension:** "*developing human resources, promoting understanding between cultures and exchanges between civil societies*". The signatories of the Barcelona declaration therefore "*agree to strengthen their cooperation to reduce migratory pressures, among other things through vocational training programmes and programmes of assistance for job creation*."
3. **An ecoonomic and financial partnership:** to **a**chieve "*sustainable and balanced economic and social development, measures to combat poverty, (...) an area of shared prosperity*".

3. THE REALITY BEHIND THE FREE TRADE ZONES: THE MEXICAN MAQUILADORAS

Maquiladoras*:* "*foreign-owned assembly plants, employing local cheap labour to produce goods for export using parts prefabricated abroad*""[8].

3.1 History

Free trade zones made a first appearance in Mexico as early as 1965, when President Diaz Ordaz authorised the first of their type. When the *bracero* program authorising Mexican workers to cross the US border was brought to an end, following political and social unrest in the border zone, the Mexican government decided to launch a program to industrialise a 100 km belt along the border. Foreign manufacturers setting up in this zone benefit from low Mexican wages, low custom duties, and fiscal exemptions on exported goods[9].

From the start of the 1970s, the legislation applied to the maquiladora export industry was regularly modified to meet its requirements (extension for example of a worker's probation period during which the minimum wage is not obligatory)[10]. From 1982 on, under pressure from the IMF, World Bank and the USA, the development of the maquiladoras became a priority goal. The electronic, textile, clothing and automotive industries were the main participants. In 1986 Mexico signed the GATT, and in 1994 social, fiscal and customs advantages were further extended when it joined the NAFTA[11]. In 2001 the maquiladora industry is to lose its official status as an export-oriented facility and will be free to release its products onto the Mexican market[12]. It has clearly become an enclave destined gradually to invade the whole of the Mexican economy.

3.2 Main characteristics

The maquiladoras operate independently of local economic conditions, importing semi-finished products for assembly and final export as finished goods In 1983, exports from the maquiladora zone represented 12% of total Mexican exports; by 1994 this figure had risen to 58%. Less than 2% of the value added on these exports comes from locally-made parts or materials – and this figure has been dropping further under the effects of the NAFTA agreement[10].

Wage levels stand at half the level of those in companies outside the free trade zone. They have been constantly depressed, thanks to the collusion between employers, official trade unions and government, who together decide on minimum wage levels. Between 1987 and 1997 wages dropped by 50%[10]. The employment market is therefore very tightly controlled. Wage levels, furthermore, in no way reflect the quality of human resources available: the Ford assembly plant in Hermosillo was ranked fourth for quality amongst 46 North American factories.

3.3 The effects of the NAFTA on the maquiladoras

The maquiladoras employed a workforce of 542 000 in 1993, 949 000 in 1997 (+75%) and 1 128 000 in 1999 (+108% since 1993)[13]. At the same time the number of maquiladoras practically doubled between 1993 and 2000; today there are over 4400. The number of businesses within the sector has soared, from 26.4% of the national total in 1986 to 50% in 1995. They provide ca. 20% of all jobs in Mexico's manufacturing sector and 45% of Mexico's exports to the USA (over $US 53 billion in 1998). Mexico has become the USA's 3rd trading partner after Japan and China.

But Mexico's NAFTA experience is far from a positive one. According to Berta Lujan of the treaty observation network [Note du relecteur : je ne trouve pas d'informations ou de traduction pour ce réseau. Par contre je trouve plusieurs références pour Lujan comme membre du Mexican Action Network on Free Trade (RMALC) et aussi du Frente Auténtico del Trabajo (FAT)]: "6 years of free trade has left Mexico with lower wages, higher unemployment and under-employment, higher emigration to the USA, and no food security."[8]

3.4 Labour law violations

Mexico has still not ratified the basic conventions of the International Labour Organisation on the rights to organise, collective bargaining, and child labour.[14].

It is common practice for employers to conclude "protection agreements" with official unions such as the CTM (*Confederación de los Trabajadores Mexicanos*) with a view to "organising" the workforce and avoiding labour demands and stikes[10]**.** Blacklists of union members are shared amongst companies and used when recruiting. There is widespread pressure to discourage trade unions, including threats of

- dismissal, as happened in Ciudad Juarez where 30 workers were fired by General Electric[15]
- and relocation, as in the case of MAXI-SWITCH, where 400 employees were dismissed in October 1996 for having tried to form a union and break the CTM protection agreement. When an arbitration commission actually authorised the creation of the new union, MAXI-SWITCH chose to close the factory and reopen under a new name, again with the CTM as union.[10]

Working conditions in factories are appalling Women are checked for pregnancy before recruitment, toxic chemicals are used without protective equipment, sexual harassment is common. Unionists who protest are fired and fear for their safety. In August 2000 a Matamoros union member found his rooms ransacked and had to go into hiding. His colleagues at work have received menaces in an attempt to discover his whereabouts[16].

3.5 Threats to the environment

Security measures in factories using toxic chemicals are poorly respected:

- In one of the TV Zenith maquilas, women of child-bearing age work with lead-soldering without protective equipment or training[17].
- New cases of anencephaly (babies born without a brain) have been detected: in Brownsville, Texas, and in Matamoros, Mexico. There are also higher levels of tuberculosis, lupus, and hepatitis.[18].
- Despite the lack of facilities for treating water and toxic waste, despite unsophisticated waste evacuation and inadequate water supplies, 150 new companies have been created (50% more jobs) in the three years since the NAFTA was introduced[19].
- The Californian company Metalclad's appeal to operate a toxic waste dump in San Luis Potosi has just been accepted by the NAFTA arbitration commission. Although the project violates Mexican law (the area has been declared an ecological reserve), Mexico will have to pay approx. $US 17 million in damages with interest to Metalclad[20].

3.6 The combined effects of the NAFTA and maquiladoras on employment in the USA

NAFTA enthusiasts predicted the creation of 200 000 jobs in the US. A study by Maryland University estimates however that in 1994 alone 150 000 jobs were lost. Between 1993 and 1996 130 000 jobs disappeared in the textile industry. Between 1994 and 1996 a programme set up to help the unemployed displaced by the NAFTA (the NAFTA-TAA) accepted 100 000 out of 182 000 applications from workers who had lost their jobs. These figures are only part of the reality, since the NAFTA-TAA does not cover the service sector or jobs lost indirectly to the NAFTA (relocalised sub-contractors for example). Total losses are set at ca. 230 000 between 1994 and 1997. NAFTA-TAA estimates at 2300 the number of production sites closed to date in the US as a result of the NAFTA.[21]

A 1992 survey of 455 large US companies showed that 25% of them would take advantage of the NAFTA to negotiate lower wages, and 40% were prepared to delocalise their production to Mexico. Employers are therefore free to threaten workers with delocalisation abroad if they start to organise unions, citing Mexico as an example[22].

4. FREE TRADE ZONES IN THE SOUTH AND EAST MEDITERRANEAN: THE SITUATION TODAY

All southern and eastern Mediterranean countries already offer to a greater or lesser extent the facilities typical of FTZs. Here are some examples:

Cyprus: Relatively modest corporate tax (20% for local companies, from 4.5% to 0% for foreign ones), exemption from customs duties and social contributions in the Larnaca FTZ, etc.[23]

Morocco: Total company and income tax exemption for the first five years and 50% thereafter. No restrictions on the repatriation of post-tax revenue, and total VAT exemption on equipment, raw materials, tooling, etc. (Investment charter, Kingdom of Morocco).

Algeria: 3 years VAT exemption on goods and services imported or bought locally, 2 to 5 years' property tax and corporate tax exemption; customs duty limited to 3% on 30 products, (instead of the usual 25%-45%); employer's social security contributions limited to 7% of gross salary (instead of 24.5%)[23.]

Tunisia: January 1994 investment incentive law[23]. Companies exporting at least 80% of their production are entitled to exemption from corporate tax for 10 years, with a 50% reduction thereafter. Ploughed back profits attract tax exemption. Further incentives are offered, in order to encourage investment in health care, education, transport, the environment, waste disposal, research, and technological development.

Egypt: Alexandria (El-Amreya), Damietta, Ismailia, Nasser City, Port Said, Suez.
Law 8 of 1997 provides for 5 years' general tax exemption for companies operating in one of 16 domains Special incentives are available over a 10-year period for projects in new industrial zones, urban communities and remote areas.[23]

Jordan: Ad-Dulayl, Al-Tujamuat, Aqaba (39 factories), Irbid, Kerak, Queen Alia Airport, Zarka (84 factories, 662 trading companies!). The capital required for the expansion, development or modernisation of a project is not taxed if it results in a 25% increase in size.[23]

Syria: Adra, Aleppo, Damascus: Airport and FTZ, Dar'aa, Latakié, Tartus.
No import licence required for inputs and goods entering the FTZ. Military equipment and prohibited merchandise are excluded. No rules or restrictions on re-exportation, with the exception of military equipment and internationally prohibited merchandise[23].

Turkey: Adana Yumurtalik, Egean FTZ, Antalya, Europa FTZ, Erzurum Eastern Anatolia, Gaziantep, Ataturk Istanbul Airport, Istanbul International Stock Exchange, Istanbul leather FTZ, Istanbul FTZ, Izmir Menemem-Leather, Mardin, Mersin, Kayseri, Rize, Trabzon, Samsun.
Corporate tax, VAT, and customs duty exemptions; cheap loans for investment in research and development. The government has set up special incentives for investment in the east and south-east of the country[23].

Malta: Tax exemption for all new companies exporting 95% of their production. The 1989 law on the Malta Free Port exempts all authorised companies from customs duties, income tax, and stamp duties. These incentives are available both to national and foreign companies[23].

Lebanon: Beirut Port FTZ, Tripoli Port, Selaata.
Banking secrecy, free trade regime with no controls on capital flows. All the FTZs offer financial and industrial incentives, including the possibility for foreigners to own companies outright, 10 years' exemption from corporate tax and customs duties for goods entering and leaving the FTZ, etc.[23].

Palestine: 6 official FTZs, total exemption from corporate tax over 10 years, no customs duties on raw materials, tax exemptions on property tax and fixed assets[24].

5. CONCLUSION: IMPLICATIONS FOR THE EUROMED REGION

As a result of the NAFTA there has been a rapid increase in the number of maquiladoras in Mexico? with employment levels in the free trade zones almost doubling These jobs, however, have in no way compensated for the loss of jobs in other sectors of the Mexican economy now exposed to international competition. At the same time it is common practice in the maquiladoras to violate human rights, flout labour laws, and despoil the environment.

In the USA 2300 production sites have had to close their doors. Signature of the NAFTA has given employers the chance to bring down wages and prevent the establishment of trade unions in the industrial sector.

Free trade zones already exist around the Mediterranean However, under the new Euromed agreement the fiscal and other advantages already available in the free trade zones are to be extended with the abolition of customs duties for goods entering Europe. European industry will therefore invest in these areas rather than creating jobs in Europe. Developing countries around the Mediterranean will see their industrial and farming sectors undermined by competition from European companies, and by an influx of subsidised food products. Local businesses will be sold and restructured, a phenomenon already observable in Morocco and Tunisia. The social and environmental consequences, and the impact on employment, are likely to be identical to those experienced by Mexico under the NAFTA.
Free trade zones were conceived by the World Bank working hand-in-hand with business leaders. They serve only the interests of the latter, through the reduction of wage costs, social contributions and fiscal obligations. With the establishment of an entire Euromed region under a free trade agreement, goods destined for the European consumer market will no longer be subject to customs duties, the only obstacle remaining in the path of corporate expansion.

SOURCES
[1] Foreign Investment Advisory Service, www.fias.net.
[2] ILO, July 1996.
[3] Moreno Castellanos- *Paradigmas* UABC, July-Sept 1999, Mexico.
[4] Maurice Lemoine, "Les travailleurs centraméricains otages des "maquilas"", *Le Monde Diplomatique*, March 1998
[5] ILO MULTI, Export processing zones – adressing the social and labour issues, 1998
[6] Dávila - *Equis*, July 2000, Mexico
[7] Public Citizen - interview with Lori Wallach,1997
[8] Special report on the NAFTA, *Equis*, Mexico, 1992
[9] Baird & Mc Caughan, Beyond the border, NACLA, NY 1979
[10] ILO, Labour market effects under CUFTA/NAFTA, 1999
[11] SECOFI, Mexican ministry for trade and finance, report 1/6/1998
[12] Annexe I, Mexico list, NAFTA document
[13] SECOFI, 28/02/2000
[14] ILO, 1999.
[15] Anderson & Peter – Covert Action Quarterly (CAQ), 1995
[16] pjobrera@ yahoo.com
[17] Report of the Coalition for justice in the Maquiladoras (CJM), Mexico, 2000
[18] Public Citizen and RMLAC, 1997
[19] CJM, *La Jornada*, Mexico, 2 May 2000
[20] Financial Times, 1 September, 2000.
[21] NAFTA-TAA data, 3 August, 2000.
[22] Wall Street Journal, 24 December, 2000.
[23] US State Dept, Incitation to investment, 1999.
[24] Jerusalem Post, 5 June 2000.