Abstract

This chapter describes and analyses economic development planning in special economic zones since the end of World War II. The focus is on changing ideas about zone set-ups and the industrial ventures targeted for relocations to the zones. Using material from several years of global ethnographic and archival research in dozens of zones and national and international archives, the chapter reviews SEZ set-ups from the world's first SEZ in late 1940s Puerto Rico via the Shannon Zone in Ireland in the late 1950s and 1960s, Asian SEZs to the 1970s consolidation of the concept, and the opening of the first zones in the PRC. The changing geopolitical economy from the Cold War to the neoliberal world order, related changes in economic development policies, and the social and economic realities of super-exploitative and sexist labour regimes in SEZs are the main variables considered in the analysis.

Keywords:

special economic zones, export processing zones, industrialization, development, Cold War, PR China, Africa, Asia, global history, economic history, capitalism

Chapter 11

A Global History of the Political Economy of Special Economic Zones

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11.1 WHERE IS THE JUNCTURE? INDUSTRIALIZATION-DRIVEN DEVELOPMENT, SEZS, AND INDUSTRIAL HUBS

In response to the global economic crisis that followed the real-estate bubbles bursting across Western advanced capitalist national economies in 2008, world-leading development economists have called for a revitalization of the nation-state's role in economic development. Their call draws our attention to the realm of industry and manufacturing, in particular, and highlights the potentials of these two long-forgotten, yet vital areas for economic growth (Stiglitz, Lin, and Monga 2013; Lin 2014). This new development agenda for the global economy is, in many ways, reminiscent of the long-standing agenda in many Third World nations where export-oriented industrialization has been a focal point of development policies since the 1960s or earlier (for Africa see Neveling 2019). Yet, despite such continuities on the national scale, the renewed interest in industrialization also reminds us that international organizations, from the World Bank (WB) and the International Monetary Fund (IMF) to the Organisation for Economic Cooperation and Development (OECD), have shifted their attention from industrialization to other economic sectors from the 1970s onwards.

The WB, for example, gradually changed course after Robert McNamara was appointed president in 1968. McNamara was an established, proto-typical Cold Warrior, who began his career as the protégé of world-leading anti-Semite Henry Ford and, after a short spell as CEO at Ford Motor Corporation, inaugurated the war of attrition in Vietnam. He led the Bank on a course that abandoned funding for large-scale infrastructure projects although these were crucial for industrialization. Instead, he championed policies that promoted so-called productive employment and veiled the persistent geographical inequalities in the global distribution of wealth during the final decades of the Cold War. That approach held the Bank in its grip well into the 2000s with the forceful opposition to Joseph Stieglitz's short tenure as chief economist of the World Bank serving as another example that development by sustainable industrialization was opposed to the free-market dogmas propagated under the Washington Consensus and after. Structural adjustment lending (SAL) by the Bank and the IMF since the 1980s has promoted unsustainable, short-lived industrialization at best, whereas its paramount focus has been to interfere with national sovereignty under the label 'good governance', and on the divestiture of national industries for privatization (Sharma 2015; Reinsberg et al. 2019; Neveling 2017c).

This chapter details how an analysis of the historical and present-day role of special economic zones (SEZs), and of similar export-oriented industrialization policies in export processing zones (EPZs), free trade zones (FTZs), and other industrial enclaves with flagship investment incentives, can advance our understanding of the pitfalls and potentials of national industrialization policies, especially in light of the changing global systemic predicaments that individual nations face when their industrial development programmes might appear detrimental to the interests of established Western imperial nations that control international development organizations with considerable leverage over national development policies. SEZs are of highest relevance for such an analysis as they have been central to many national industrial development programmes and, at the same time, have often been imposed as development policy instruments on indebted nations as conditionalities for WB and IMF SAL. On the surface, this makes SEZs look like counter-examples for the above diagnosis of a post-1968 policy shift in the WB and beyond. Yet, today's 4,000 SEZs in more than 130 nations and the employment they provide for 100 million or more (mainly women) workers are the opposite of sustainable industrial development policies. Instead, the vast majority of SEZs, past and present, have either had no effect on employment at all or their positive effects, sometimes captured by glossy 'miracle' phrases, have been short-lived and to the benefit not of local populations and national economies but of multinational corporations and their shareholders, first and foremost.

This is, first, because of the crucial role of SEZs in the emergence of a neoliberal division of labour within the capitalist world-system that shifted manufacturing in textiles and garments, consumer electronics, toys, and later also biopharmaceutical and petrochemical industries from Western capitalist nations to so-called newly industrialized nations (NICs). Because of their apparent potential to stimulate manufacturing relocations and generate large-scale employment, policy advisers and researchers in international organizations have praised SEZs for many decades now. A never-ending stream of academic publications, white papers, feasibility studies, reports, newspaper articles, and investor guidelines claims that SEZs were 'miracle makers' or 'engines of growth' (Zenger 1977; Warr 1995; World Bank Country Study 1990 [1989]; Madani 1999; Zeng 2010; Dicken 2003).

Second, SEZs are emblematic of the pitfalls of export-oriented industrialization policies. While most pamphlets and publications from the World Bank and other international organizations are quiet about the negative effects of the zones, human rights organizations, international trade unions, critical political economists, and other scholars, as well as investigative journalists, are united in concluding that the proliferation of SEZs has played a crucial part in the escalation of global poverty and inequality. The relocation of industries from Western nations to such zones caused large-scale unemployment in the regions of departure, with deindustrialization followed by decades of economic decline until this day. Labour standards in 'new' industries in the receiving SEZ regions, however, are always lower. First and foremost, state-run and parastatal agencies advertise SEZs internationally for their cheap, abundant, and supposedly compliant workforces. This has encouraged severe labour rights violations. Women workers are especially targeted by many SEZ industries, and critical scholars have documented decades of sexist and racist abuse by shop floor managers and companies that nurture orientalist discourses about non-European women workers' 'nimble fingers' that allegedly make them especially suited for garment and consumer electronics production. SEZ factories often proclaim that their workers are less productive than elsewhere in the world. Yet, factories actually promote the deskilling of women workers by a preference for on-the-job-training and by tapping into stereotypes of local patriarchal and religious groups so that young women workers are stigmatized if they speak up against exploitation and labour rights violations (Neveling 2015c; Ong 1987; Fernández-Kelly 1983; Shakya 2018; Campbell 2018).

Third, SEZ promotion literature from the World Bank and other international organizations commonly ignores the fact that national governments have to cover health care, social welfare, and pensions because SEZ workers earn so little that they can hardly ever accumulate savings. Added to this is the short lifespan of SEZ employment and the fact that investment incentives mean low to zero taxation on capital gains, no customs duties on imports, and instead significant state expenditure on infrastructure and other fixed capital amenities. On the one hand, this leaves national budgets with little income from ongoing SEZ operations and exposes the state and its agencies to the volatility of international trade with the need to recover upfront expenses in fixed assets like industrial land and infrastructure. On the other hand, the fact that multinationals are liberated from initial investment means that SEZs encourage 'runaway' shops that relocate whenever there is a rise in the collective bargaining power of workers, when preferential export quota ceilings are met, or when wages increase (Neveling 2015a, 2015b, 2017b, 2017a; Fernández-Kelly 1983; Fröbel, Heinrichs, and Kreye 1981; Mezzadri 2017; Campbell 2018; Ngai 2005; Orenstein 2011; Schrank 2003).

Thus, the contemporary condition of SEZs as much as that condition's historical forging in a capitalist world-system riven with the injustices of Western-led super-exploitation during the Cold War and after has run counter to many postcolonial nations' efforts at economic independence during the era of decolonization and non-alignment as much as it runs counter to contemporary efforts at industrial development that is sustainable in economic, ecological, and social terms.

This is the juncture where industrial hubs enter the picture and where past and present efforts to establish such hubs gain paramount importance in the mundane terms of economic development policies and in the lofty terms of academic development economics analysis. Could such hubs, if successful, capture the commonplace runaway capital that roams the world's SEZs and keeps it tied in a given geographical space? To answer this question, section 11.2 of this chapter offers an extended critical political-economy analysis of the historical predecessors of contemporary SEZs and of the emergence of the contemporary SEZ model in the post-World War II US dependency Puerto Rico. This is developed in conversation with neoliberal development historiographies that misrepresent SEZs as extensions of so-called free ports and thus as devices that should facilitate imperial control over free trade and increased capital mobility at reduced tax and customs rates. Such neoliberal historiography replaces the social, political, and economic ambitions of post-1945 national development programmes to create lasting growth, to secure mass employment, and to offer deprived and unemployed populations longer-term perspectives for a better life—with empirically flawed and analytically absurd praises of ‘freedom’ and ‘growth’. This is followed by a discussion of the proliferation of SEZs from the 1940s to the present with a focus on the political and economist pressure groups behind this spread. The final section suggests a working programme for industrial hubs that could reverse the negative global effects of SEZs to limit capital mobility and implement standards for sustainable investment.

11.2 FREE TRADE OR INDUSTRIAL DISTRICTS? PREDECESSORS OF SPECIAL ECONOMIC ZONES

The global spread of special economic zones in recent decades has created a widespread interest in the historical predecessors and origins of this remarkable, world-making model for economic development. Definitions are fairly far-reaching and depend on a given author’s political orientations and whether they are employed in research departments of international organizations (Farole 2011; Farole and Akinci 2011; Akinci, Crittle, and FIAS/The World Bank Group 2008; Currie and *Economist* Intelligence Unit 1985, United Nations Centre on Transnational Corporations and International Labour Organization 1988; Romero 1995) or whether they have the opportunity to conduct independent research at universities and other publicly funded, comparatively independent and non-biased institutions (Neveling 2017a; Fernández-Kelly 1983; Fröbel, Heinrichs, and Kreye 1981; Mezzadri 2017). Yet, in sum, all definitions identify as SEZs as demarcated in one way or another—by physical or legal boundaries or by a combination of both. Definitions further agree that SEZs attract investors because of a distinct set of incentives that offer reductions and waivers in taxation—first and foremost capital gains and income taxes, customs duties for the import of machinery, raw materials, and part-processed goods, and for the export of semi-finished or finished goods. SEZ regulations have expanded from industrial manufacturing to banking and finance, real estate, agriculture, and tourism in recent decades. Critical scholars and trade unions also include laws that prohibit collective bargaining and related trade union activities as well as very low wages and employment standards in the defining features of SEZs. Neoliberal development economists also fail to recognize another defining feature of the zones, which is the significant state investment in fixed capital, principally in the cultivation of land for industry, which may involve anything from flattening slopes to providing sewerage and roads, telecommunications connections, fences, factory buildings, and capital for all the feasibility studies and reports required to create industrial estates and zones (Neveling 2017a, 2017c).

Further differences in definitions of the SEZ phenomenon derive from misunderstandings of the zones' origins and their impact on global capitalism. Recent publications from the research department of the International Finance Corporation (IFC), which is the public–private partnership subsidiary of the World Bank Group, founded in 1955, have emphasized and expanded on earlier narratives, dating back to the 1950s, that propagate free ports in Mediterranean antiquity as the birthplaces of today's SEZs (Baissac 2011; Thoman 1956). The problem with such comparisons is that they fail to understand the political and economic purpose of such ports, which was the opposite of free trade. As a predatory imperial formation, the Roman Empire used the (often mistakenly praised) 'free' port of Delos to destroy the economy of Rhodes' harbour because that island refused to succumb to Roman imperial rule and economic orders. Similarly, several IFC-authored publications further misrepresent ports of the Hanseatic League and in Italian medieval city-states as genuinely 'free' when all those ports were incorporated into clientelist and cartel-like trading alliances that sought to control regional markets and oust competitors (Neveling 2015d).

Misunderstandings within the realm of neoliberal development economics extend to representations of European colonial free ports such as Singapore and Hong Kong as forerunners of SEZs. Again, such ports and their respective trading regimes served the purpose of enforcing monopolies, such as the Dutch monopoly in the nutmeg trade from the Moluccas for as long as it lasted (Chaudhuri 1985; Frank 1998). Further, the British Empire's ports in Hong Kong and Singapore captured and channelled existing regional trade, attracting trading diasporas of the Eastern Indian Ocean and of the South China Sea, which were subjected to so-called tax farming practices via opium dens and harbour levies throughout the second half of the nineteenth and the first half of the twentieth century. Instead, manufacturing industrialization in both ports emerged via migrant entrepreneurial networks that may have been attracted by Singapore's and Hong Kong's position in global trading networks, but colonial administrations devoted zero attention to supporting such networks. Instead, as in many other European colonies, British administrations were eager to prevent thriving local manufacturing industries so as to protect export markets for European produce (Wong 1988; Ken 1978).

The above highlights the shortcomings of mainstream deliberations on SEZ predecessors. The fact that most recent such publications come from a network of pro-SEZ activists associated with the World Export Processing Zones Association (WEPZA), whose advisory board members also hold crucial positions in various World Bank organizations and in private-sector SEZ development consulting points to the political agenda that informs such historiography.[1] Researchers and consultants for international organizations are here cladding a salient and escalating industrial development practice with a big-history narrative that embeds SEZs in a lineage of Western-centric, mythical imperial and proto-imperial success stories (Farole and Akinci 2011; Farole 2011; Zeng 2010; Madani 1999; Brautigam and Xiaoyang 2011). Yet, such stories have little relation to the economic development policies and ambitions of postcolonial developing nations in the twentieth and twenty-first centuries. What is more, the historical cases offered as predecessors of contemporary SEZs all lack a

[1] See http://www.wepza.org/officers for advisory board member affiliations (last visited 3 June 2019).

crucial feature of those contemporary zones, which is large-scale employment in manufacturing and industrial enterprises that are firmly embedded in global commodity chains and global value chains.

If this is the central feature of SEZs, European free ports of the late nineteenth and early twentieth century in Hamburg, Copenhagen, and elsewhere resemble them much more closely than do eighteenth- and nineteenth-century free ports in other world regions—where Kingston in the Caribbean or Mauritian Port Louis in the Western Indian Ocean served as havens of illicit trade where privateering letters could be obtained for capturing vessels of enemy merchant navies and selling their merchandise. However, in those nineteenth-century European free ports where manufacturing enterprises part-processed or finished part-processed goods, this was for imports from European colonies and not for re-export. Instead, if European—and from the 1930s onwards also US free ports—were sites of tax- and customs-free manufacturing, this involved the final steps in production processes before those goods were sold on national markets (for empirical evidence on this analysis see Anderson 1934; Harreld 2015; Marzagalli 1996; Fenner 2013). Thus, if contemporary SEZs are firmly embedded in export-oriented industrialization policies, earlier free-port manufacturing industries can be regarded as subtypes of import-substitution policies that were established in competition with export-substitution industries such as sugar-cane mills and other processing plants for colonial agricultural and other raw material exports.

Tellingly, such free ports that qualify as predecessors of contemporary SEZs were located in Western late-industrializing nations, where governments had a vested interest in protecting native industries against foreign competition. In many ways, part-processing import-substitution industries for coffee beans, cane sugar, groundnuts, and other colonial produce in free-port territories in Hamburg, Copenhagen, Gothenburg, and a number of smaller northern European port cities therefore worked along the lines of industrial districts, a planning and policy device for accelerated industrialization that gained traction across Europe and the United States in the late nineteenth century and that was based on studies by the neoclassical economist Alfred Marshall, who had assessed in detail the rise of English small firm-driven industrialization in Yorkshire and Lancashire during the eighteenth century (Marshall and Whitaker 1975b, 1975a). Marshall's conclusions about the factors that helped industrialization take off in those regions were summarized during the 1990s globalization wave, when the concept of industrial districts was revived in regional planning:

> Agglomeration is said to offer a series of advantages upon which a system of vertically disintegrated production can draw. Echoing the factors first identified by Alfred Marshall in his work on small-firm districts in Lancashire and Yorkshire during the nineteenth century, these advantages are said to include the build-up of a local pool of expertise and know-how and a culture of labour flexibility and cooperation resulting from dense social interaction and trust; lowered transport and transaction costs; and the growth of a local infrastructure of specialized services, distribution networks and supply structures. Via the consolidation of particular product specialisms in different regions a federation of self-contained regional economies is anticipated, each with its own cumulative causation effects drawing upon strong external economies of agglomeration. (Amin and Thrift 1992: 572)

In fact, efforts to replicate the rise of England to the world's first powerhouse of the Industrial Revolution were widespread across late colonial and postcolonial nations in the economic development drive during the first decades after 1945. India, Singapore, and many other nations set up steel industries, for example, and sought to group related industries around these centres of heavy industry (Strümpell 2014). Not all late-colonial territories and postcolonial regions had the capacity for heavy industries of the size of steel plants, of course, and it is in these regions where the concept of contemporary SEZs was born.

11.3 Legacies of Imperialism? The Global Spread of Special Economic Zones

After World War II, the Caribbean island of Puerto Rico radically changed its positioning in the global economy. Whereas many other regions fought for and gained political independence from Western colonial rulers, the United States never allowed Puerto Ricans to enjoy the right to national self-determination, even though this had been proclaimed as a cornerstone of a new world order by US president Woodrow Wilson in 1919. Instead, the United States held on to the island they had acquired after a war with the crumbling Spanish empire in 1898 and quashed protests from the Puerto Rican National Party and progressive, often socialist, pro-independence movements. Puerto Ricans had certain US citizenship rights, just enough to be conscripted as soldiers for World War I, but during the global recessions of the 1920s and 1930s, the island turned into a 'stricken land', as Rexford Tugwell, the last appointed US governor during the 1940s described it (Tugwell 1947).

Although Tugwell conjured a set of variables composed of rapid population growth, high unemployment, political upheaval, and economic backwardness, later analysts agree that Puerto Rico was stricken because of the political economic structure that US colonial capitalism had established on the island. Certainly, Spanish rule had created huge problems, in part because there was actually very little rule during the nineteenth century, and the rules that the Spanish made helped establish a *hacienda* system that saw few families accumulate great wealth and the lion's share of the population struggle for everyday survival. From 1898 onward, the United States incorporated Puerto Rico into the mainland economy with the dollar as currency and without tariff barriers. This encouraged the expansion of US agricultural trusts, principally in the Puerto Rican sugar industry, and at the same time destroyed the economic prospects of smallholders in sugar, tobacco, and other agricultural industries. After World War I, hundreds of thousands of Puerto Ricans migrated to US cities, where they entered the lowest strata of the population and worked in sweatshops in the garment and textile industries. At the same time, such industries began outsourcing embroidery and other works to Puerto Rico where middlemen allocated piecework to small workshops and to households. During the 1920s and 1930s, the needlework industry outpaced the sugar sector in terms of growth rates and employment numbers. Yet when the Great Depression hit Puerto Rico, neither sector proved sufficiently crisis proof to save the island from further impoverishment and starvation (Ríos 1995; Dietz 1986; García-Colón 2009; Boris 1996).

The Roosevelt administration injected significant sums of money into Puerto Rican infrastructure after 1934, following massive strikes and riots across all economic sectors on the island. In particular, the local administration benefited from rebates on imports to the mainland, with rum exports after the end of prohibition garnering millions of US dollars. In return, the island's infrastructure was pushed to a standard that was, for two or more decades, much higher than anywhere else in the Caribbean and possibly any other developing region in the world. A road network connected all districts with refurbished harbours in San Juan in the north and Ponce in the south, and an airport was built near San Juan to international standards. From the 1940s onward, with further support from the US government to keep Puerto Ricans happy and on the side of the anti-fascist war effort, Puerto Rico set up three crucial institutions: a planning board that, among other tasks, oversaw the implementation of industrial standards, a development bank that had money to guarantee external investments and add further capital for industry, and a parastatal development corporation that managed new import-substitution industries such as a cement plant, a textile mill, and factories for pulp and paper, glass bottles, and shoes. However, the import-substitution phase in Puerto Rico was to be short lived. Five years after those factories had opened in 1942, Puerto Rico changed course and, in the words of the *Wall Street Journal* at the time, 'lured' mainland manufacturers with tax holidays and financial subsidies to relocate their production to Puerto Rico (Diefenderrer 1946; Ross 1966; Neveling 2015b).

The Puerto Rican programme differed significantly from the historical policies that had applied in free ports since Roman times. The focus of the local government was manufacturing and employment rather than trade promotion. This was because Puerto Rico's own produce was already widely traded, but brought little revenue, and because there was never an option to turn the island into a nodal point for global trade similar to Singapore or Hong Kong, for example. Instead, Puerto Rico was able to embark on an export-oriented manufacturing industrialization drive because it was already an integral part of the then largest domestic market in the world, the US economy. No trade barriers to the mainland meant unlimited, customs-free movement of goods. The US dollar as local currency meant that no investor worried about currency fluctuations. US rule meant that from the early days of the Cold War onward, there was little to no chance that a socialist or communist party could ever win local elections and nationalize industries. In fact, violent crackdowns on nationalists and anti-colonial fighters raged throughout the 1950s in Puerto Rico with some freedom fighters managing an attack on then US president Harry S. Truman and a second gun attack in Congress (Neveling 2015b, 2017b).

The 1950s were a boom decade for Puerto Rico, with the industrial development corporation, PRIDCO, celebrating the opening of the 400th manufacturing enterprise in 1955. As the Puerto Rican export-oriented industrialization programme coincided with the beginning of US international development aid for pro-capitalist allies across the Third

World, the Truman administration's Point Four programme made extensive use of the island's success story. Thousands of officials from postcolonial nations were flown in and other European colonial powers in the Caribbean were pushed to embrace similar programmes (Neveling 2015b). The Caribbean Conference, an exchange forum of the various Western colonial powers in the Caribbean islands, was increasingly controlled by the United States. Local governments in Jamaica and Trinidad initiated W. Arthur Lewis' studies of the Puerto Rican development model that chiefly informed his famous tractate 'Economic development with unlimited supply of labour' (Lewis 1954; Whitham 2013). The United States also sent Puerto Rican politicians on missions across its Latin American embassies, where they served as native witnesses of the benefits and benevolence of US rule. A Boston-based marketing corporation, Arthur D. Little Inc. (ADL), was chiefly involved in the Puerto Rico policy shift from import substitution to export orientation and in the promotion of that programme across the mainland. Accordingly, ADL managed to win several US government contracts under Point Four and later programmes and also advised early postcolonial governments in Jamaica, Mexico, Ireland, and many other nations on export-oriented development promotion in the style of Puerto Rico (Neveling 2015b).

At the time, no standard term existed for ADL's increasingly standardized policy promotion package. In Panama, Colon was to become a 'free zone'. Jamaica and the Philippines set up such programmes in the 1950s, but it was not until the 1960s and 1970s that they were called 'export processing zones'. This is perhaps one of the reasons why World Bank and other publications mistakenly claim that the Shannon Free Zone, set up by the Shannon Free Airport Development Corporation (SFADCo), was the first modern zone (Baissac 2011). In fact, Shannon emerged from reconnaissance visits by its then chairman, Brendan O'Reagan, to Puerto Rico and Panama. Despite gaining international fame as the world's first zone and as the model on which China built its SEZ programme from 1979 onwards, Shannon was in fact a small and fairly unsuccessful zone that never achieved disproportionate growth or contributed significantly to employment and foreign exchange earnings in the Republic of Ireland.

If anything, the fame of Shannon is the product of the awkward spread of the EPZ and later SEZ model, for this was increasingly driven from the late 1960s by the United Nations Industrial Development Organization (UNIDO), which emerged in 1966 as one of several new UN agencies catering for the development needs of the non-aligned bloc during the Cold War. UNIDO began with surveys on existing industrial development strategies and the institution's archival record shows that several questionnaires came back with details on Puerto Rican-style export-oriented development programmes in Malta, Cyprus, the Philippines, South Korea, Malaysia, India, and, notably, the Republic of China, i.e. Taiwan. This led to the establishment of one of UNIDO's fourteen working groups (WGs), tasked with promoting export-oriented industrialization. WGs benefited chiefly from UNIDO's funding structure which allowed national governments to donate for particular purposes, so that the United States and other Western nations with a vested interest in the proliferation of SEZs could make sure that this particular WG was flush with cash. William Tanaka, the Japanese head of the WG, oversaw a massive EPZ promotion drive from 1968 onwards that saw UNIDO run the first feasibility study for an EPZ in Mauritius and also embark on a large-scale publication, technical assistance and fellowship programme for SEZs (Neveling 2015a, 2015b, 2017b).

At the time, Taiwan's Kaohsiung Export Processing Zone, set up as part of the city's container harbour in 1965, was the most successful zone in the world and certainly also the best organized. UNIDO intended to run various international workshops and a fellowship programme through Kaohsiung, but plans fell through when the PRC joined the UN and Taiwan walked out in response in the early 1970s. Shannon's O'Reagan was quick to spot the opportunity and turned the ailing Shannon zone into a hotspot for international EPZ establishment training with dozens of workshops held there and hundreds of UNIDO fellows going through Shannon, among them later PRC leader Jiang Zemin in 1981 (Neveling 2015b). UNIDO also helped standardize the term EPZ in the mid-1970s. What were initially called 'export-free zones' (Kelleher 1976) would become a global phenomenon known as 'export processing zones' in the following years—not least through the seminal study 'The New International Division of Labour' by German macrosociologists Folker Fröbel, Jürgen Heinrichs, and Otto Kreye (Fröbel, Heinrichs, and Kreye 1981).

If the 1970s were the decade when the EPZ concept was consolidated, the 1980s and 1990s were the decades when it took off. This was mainly because the WB and the IMF made EPZs an integral part of the many structural adjustment programmes (SAPs) that postcolonial nations had to sign up to during the so-called Third World debt crisis. Far from being limited to the Third World, this was a global crisis that initially got a grip on the United Kingdom (bailed out by the IMF in 1976) and various US cities such as New York and Detroit that defaulted on debts and were subject to their own variant of SAPs. Mauritius was possibly the first Third World nation to enter a period of near-default that lasted from 1979 to the late 1980s; subsequently many other nations across the world would see their national industries privatized and tripartite institutions of the Puerto Rican kind established, with national standard boards that would herald the success of the International Organization for Standardization's ISO norms series, national development banks, and development organizations with private-sector majorities on the executive board (Neveling 2017c). Notably, the PRC also needed IMF support in the mid-1980s and this consolidated import modifications to the SEZ programme established in 1978–9 which suffered from severe capital shortages during its first five years due to numerous investors refusing to commit the capital they had pledged and leaving the PRC high and dry in terms of state funding for vital infrastructure in Shekou, Shenzhen, and the wider Guangdong and Fujian region (see Table 11.1).

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In sum, the global spread of SEZs since the 1940s was driven by the Cold War efforts of the United States and other Western nations to propagate export-oriented capitalist development for the world market and to do so in competition with other development models that championed import substitution or incorporation into an alternative socialist world economic system. Most nations that became successful with EPZs and SEZs did so after initial efforts to substitute imports proved insufficient for national development. However, it is important to note that those nations that managed to develop their zones into a lasting success never entirely abandoned import substitution, as is evidenced by the many steel plants that helped industry thrive in India, Singapore, and South Korea, for example. Importantly, successful SEZs not only created new employment opportunities in Third World regions that sometimes became known as 'newly industrialized nations' (NICs), but also created massive unemployment in the regions where capital left for SEZs.

So, why did Western nations promote SEZs even though heartlands of textile and garment production in the United States, the United Kingdom, Germany, and elsewhere went into rapid decline with mass unemployment and deindustrialization? Such regions had become hotspots of organized labour with strong bargaining power in wage negotiations. Emerging multinational corporations in the textile and garment sector and later also in consumer electronics, automobile production, and so forth could use their increased and low-risk capital mobility to destroy established communities of workers and play off manufacturing locations against one another by forcing trade unions to accept wage cuts in exchange for relocation waivers (Chomsky 2008; Koistinen 2000; Kasmir and Gill 2018; Neveling 2017b).

Yet, the question that emerged in many SEZs across the world was how to avoid similar deindustrialization as ever more zones sprang up and a global race to the bottom in corporate taxation, wages, and labour standards developed that would see corporations and local SEZ agencies resort to the most abject industrial relations politics that included the widespread murder of trade unionists, child labour, sexual harassment, and super-exploitation on a global scale (Marhoz and Szymanski 1996).

11.4 FROM ZONES TO HUBS? LEARNING TO CURB RUNAWAY CAPITAL IN SEZS

Some time in the 2000s, political scientists and mainstream development economists became interested in the concept of learning, which manifested in the SEZ field in publications with titles like ‘Learning from Shenzhen’ or ‘Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience’ (O’Donnell, Wong, and Bach 2017; Farole 2011). The above overview of the birth and global spread of SEZs reveals that ‘learning’ or a variant thereof has been integral to the global spread of SEZs from their inception. Yet, such learning has little to do with postmodern euphemisms about policy diffusion. Instead, learning is part and parcel of the maintenance of global hegemony by capital over labour, with the postcolonial nation-state often reduced to the role of conduit for the interests of multinational capital even when national budgets pay for the lion’s share of investment in fixed capital from infrastructure to industrial estates and factories. Indeed, the transmission of the SEZ policy model from Puerto Rico initially happened through Western government promotion and private-sector marketing agencies like ADL, moving on into the realm of international organizations in the 1960s and after. In the process, gendered exploitation became a mainstay of SEZ manufacturing enterprises. Reports of grave violations of the human right to decent work in SEZs continue to pile up, with large-scale dispossession of subsistence farmers in India and elsewhere to make way for SEZ land development creating additional hardship (Seneviratne 2019; Shakya 2018; Campbell 2018; Mezzadri 2017; Sampat 2015; Reyes 2015; Kleibert 2015; Doucette and Lee 2015).

At the same time, interviews with national development agency officials in several postcolonial nations over the past ten years have revealed that nowadays most investors in manufacturing and in a growing number of other sectors relocate their production only if they are offered incentives, whether genuine SEZ treatment or other subsidies ranging from direct monetary payments to national governments to massive tax waivers that often equal tens of thousands of US dollars per job created. At the same time, research into the possible positive effects of FDI on national economies has never considered the impact of SEZs, focusing on national social welfare programmes instead of the immediate effects of FDI on wages and labour relations (Rudra 2008; Mosley 2010). Therefore, SEZs are, initially, a massive financial risk for any government, which is why the question arises of how SEZ manufacturing enterprises can be made to stay in a given place at least until national governments have recouped their upfront expenses for fixed capital assets. If such a system requires a global agreement on minimum taxation for industrial ventures and a ban on tax incentives in SEZs, decent work standards and minimum wages are needed to enable workers in the zones to recover the reproduction costs for their labour and their households and to escape unhealthy factory regimes.

In this regard, it is important to highlight that the many decades of spreading SEZs, refining and developing the concept, and learning from existing zones hardly ever tackled the problem of escalating competition within the global SEZ sphere and the deindustrialization and crisis that have set in even in those nations and regions with hugely successful SEZs. In Puerto Rico, for example, the 1950s boom came to an abrupt ending when zones with similar benefits for capital opened in the Philippines, Mexico, South Korea, and elsewhere. Likewise, from the late 1980s the hugely successful Mauritian EPZ came under threat from relocations to neighbouring countries with cheaper and larger labour forces, only managing to survive until the early 2000s because the government was able to maintain preferential export quotas to Europe and North America. Meanwhile SEZs in neighbouring countries went from crisis to crisis due to a series of civil wars and waves of strikes (Neveling 2015a).

Industrial hubs, and variants of the concept, such as industrial clusters and vertically integrated industries, have therefore become central to government EPZ and SEZ promotion policies since the 1970s. In fact, a survey of *The Economist*'s archives reveals that some of the regions in Western capitalist nations that suffered from relocations to early SEZs tried to rebrand themselves for their qualities as industrial hubs. The textile and garment heartlands of the North-eastern United States, notably New Hampshire, had all the qualities that Alfred Marshall would have wanted to see from the industrial districts he praised as hotbeds of industrialization in the late nineteenth century. Minneapolis, in the Midwest, tried to promote itself with the backing of the local city council and numerous local businesspeople as an 'industrial hub' in the 1960s (*The Economist* 1961) and South Africa advertised itself as Southern Africa's industrial hub once global protests against the apartheid regime began to bite in the late 1960s (*The Economist* 1968).

Crucially, the early stages of development in all SEZs from the 1940s to the present create locational factors that fundamentally contradict the principles of industrial districts and their late twentieth-century extension to industrial hubs. Initial investment in the so-called sweatshop phase of SEZ labour does not focus on skilled workers and, if that phase involves sophisticated distribution networks, cooperation, and trust, those networks commonly lack backward and forward linkages into local economies. Even though investors may regularly lament low productivity, absenteeism, and low work morale, relocations happen because wages are low and most factories have an interest in on-the-job training, which allows them to maintain a good turnover of young, often predominantly female workers who have little reason to demand higher wages and who lack the social cohesion needed to run successful wildcat strikes or form trade unions. In Puerto Rico, for example, there was a limited interest in establishing industrial districts and clusters with the local government supporting few industrial estates in the 1950s (Lebrón 1955). Similarly, the Shannon Free Zone represented a very small cluster of factory buildings that had 8,000 workers in its peak years with a much larger number of workers spread out over several other factories in the wider Irish Mid-West region. In Mauritius, the government set up two industrial estates in Plaine Lauzun and in Coromandel in the early 1970s. Both projects ran over budget and the government struggled to service World Bank loans incurred to shoulder construction expenses, so that Mauritian sovereign debt at the time of near-default in the late 1970s included 18.5 per cent of debts to the World Bank for those projects. The success years from 1983 instead saw small and medium-sized factories mushrooming across the island, often in neighbourhoods so that factories had no transport costs and local women workers could manage working days of over fourteen hours on the shop floor and in the home (Neveling 2015c, 2017c). Likewise, early PRC efforts to boost SEZs were highly uneven with different agencies in charge of the genuine industrial estate planned in Shekou near Shenzhen and of the rather randomly emerging factories in the wider Shenzhen region.

Ambitions that could qualify SEZs as industrial hubs are certainly in place at planning stage or emerge during their early years of operation. Some SEZs are set up with the promise of technology transfer, but this hardly ever happens. As bilateral and multilateral trading agreements until the late 1990s regulated quotas on the basis that the zones would part-process goods (also under US tariff clauses 806.30 and 807.00 applied in Mexican *maquilas*), there is no option to establish a full production process in SEZs so that the capital-intensive production steps were located in research and design departments in advanced capitalist nations. Vertical integration, for example by way of setting up spinning mills and dyeing factories alongside garment factories, is often hindered by the fact that raw materials such as cotton come from far-away places even when international agreements such as the African Growth and Opportunities Act (AGOA) support the concentration of manufacturing steps in a wider region.

The question thus remains: how do SEZs manage to turn into industrial hubs? The interest in such 'hubbing' is certainly driven by a new awareness of the potentially unsustainable nature of SEZs which, although they may benefit from the much-cited 'flying geese' model, also produce their own flying geese as soon as labour costs rise or competition emerges in other countries with ever-lower taxation and wage levels.

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Table 11.1 The global spread of EPZs/SEZs since 1975

Year	**1975**	**1978**	**1984**	**1986**	**1997**	**2002**	**2006**
Number of countries with EPZs	25	28	35	47	93	116	130
Number of EPZs	79	N/A	N/A	176	845	3,000	3,500
Employment (millions)	0.725	0.694	0.837	1.97	22.5	43	66
—of which PR China	–	–	0.015	0.07	18	30	40
—of which other countries with figures available	0.725	0.694	0.822	1.9	4.5	13	26
Share of PR China in %	0	0	1.79	3.55	80	69.77	60.60

Source: Neveling (2015d).