

PART TWO

EXPORT PROCESSING ZONE : THE SUCCESSFUL EXAMPLE AT KAOHSIUNG, TAIWAN.

Beginning in the mid 1960's, there was a trend in some developing countries in Asia to establish the so-called Export Processing Zones (EPZs). India's first EPZ was inaugurated in March 1965 at Kandla, the Kaohsiung Export Processing Zone (KEPZ) of Taiwan was completed in June 1966, Philippines' EPZ at Mariveles in 1970, the second EPZ of Taiwan at Taichung in 1970, Korea's Masan Free Export Zone (MAFEZ in 1971, and Taiwan's third EPZ at Nantze in 1971 and the list of other countries which are planning to build new zones was growing. In this chapter, we will try to trace the origin of EPZ before turning our attention to the successful example of the Kaohsiung Export Processing Zone in Taiwan.

I THE DEVELOPMENT OF EXPORT PROCESSING ZONE

The Export Processing Zone, or Free Export Zone, or Duty-Free Zone has all the characteristics suggested by these various names. The zone is an enclosed area, usually within or near a harbor, into which materials are imported free of duty; and inside the zone, factories are set up to process materials solely for the purpose of export. The EPZ is usually described as having the features of both an ordinary free trade zone and an industrial park, and the Taiwanese have boasted that EPZ is "the brainchild of free Chinese economic planners".¹

A SOME DEFINITIONS

Before commencing our discussion on EPZ, let us first define a few related terms such as industrial parks, custom unions, free trade areas, free trade zones, bonded areas, etc...

Industrial park, or industrial district, or industrial estate, is a tract of land which is subdivided and developed systematically according to a comprehensive plan, to provide serviced sites for a community of compatible industries. An industrial park offers a controlled environment for users where necessary facilities such as streets and utilities are provided, and frequently, supporting commercial and service activities are included. Most parks are located on the outskirts of urban areas, and since 1946, there has been a real growth of industrial parks in many countries of the world. In the 1970's and 1980's, they are augmented by science and technology parks.

A custom union is a group of independent countries which agree to abolish all tariffs and customs barriers between the members of the union, having a common outer tariff wall, and to apportion the import duties collected by the member countries. When member countries still permit the free movement of goods and services between them but each maintains its own outside tariff rates, the group is called a free trade area.

The free trade zone, or free zone, or free port is something different. A free trade zone is an area within a country, to which goods may be admitted without the intervention of the customs authority. Exports and transshipment are greatly facilitated because goods can enter a free zone without paying custom duties. Goods can be unloaded in such zone, stored, inspected, repacked and assembled without being subject to import duty or custom inspection. It is only when the goods are moved to local consumers or shipped to other ports that they are subject to regulations. In other words, the primary purpose of the free zone is to remove from the port area those obstacles to trade caused by high tariffs and complex customs regulations so that there will be a quicker turnaround of ships. An increase in trade is therefore expected, which should lead to greater receipts for the port authority and to the provision of additional employment. U. S. Representative Emmanuel Celler, the proponent of the Celler Foreign Trade Zones Act in 1934, once defined a free port as "a neutral, stockaded area where a shipper can put down his load, catch his breath and decide what to do next".²

The bonded warehouse, or bonded zone is another device similar in purpose to the free zone. It is a place where goods intended

for re-export may be entered free of duty unless withdrawn for domestic consumption. Another variation is a system of "drawback" or "temporary importation" in which duties paid (or covered by bond) are refunded, wholly or in part, on the exportation of goods.

Finally, a bonded manufacturing warehouse is an enclosed area where imported goods may be handled, altered or manufactured with or without the admixture of domestic materials and parts.

B FREE PORTS AND EXPORT PROCESSING ZONES

The origin of free ports can be traced back to the middle ages when the concept of international trading began to take shape. During this early period, certain cities granted various trading privileges to foreign merchants with respect to certain kinds of commodities, during some specified periods of time or at selected geographical areas. The idea of free trade zones, therefore, began to form; however it was not until the period of mercantilism that the zones were formally established. With the rise of the mercantile system and a general movement for national economic consolidation behind high tariff walls during this period which threatened the entire collapse of foreign commerce, many countries found it necessary to create some preventive devices. Thus, several maritime cities were exempted from the general regulations and were placed outside of the customs boundary of a country. Leghorn, Italy was made a free port in 1547, followed by Genoa in 1595, Naples, Venice, Marseille, Bayonne, Dunkirk, Ancona, Messina, Trieste, Fiume, Gibraltar, etc.

During the first half of the 19th century, the free-ports movement began to decline. With the growing of industrialization in Europe, the carrying trade began to lose its importance in the economic life of a country, and with a movement towards national unity in every principle country, the existence of these privileged zones became increasingly inconvenient to governments. Other maritime towns in the country objected to the unfair privileges granted to the zone, and at the same time the government resented the loss of revenue, not only by the duty exemptions, but by smuggling from the free port into the customs area. The privileges were thus gradually withdrawn and, one after another, free ports were reincorporated into the general customs territory.

The 20th century, however, witnessed a revival of the free zones. The growth of international trade, the development of large scale shipping, the multiplication of boundaries, the upward movements of customs tariff as well as the desire of countries to capture a slice of the transshipment trade, have all led to a rapid extension of free zones in many countries in the world. In the United States, with the passing of the Celler Foreign Trade Zones Act in 1934, the first such free zone came into being in 1937 at Stapleton, Staten Island, New York, known as the New York Foreign Trade Zone No 1. A second zone was established in New Orleans in 1946.

With all the privileges granted to a free trade zone, shipping activities are naturally attracted to such zones, even at a normally higher freight service rate, because the chances of securing cargoes are better. The free zone thus becomes the focal point of international trade of a country, and the result is that at present, there is hardly a protectionist country of economic significance which does not provide or contemplate the provision of free zone facilities. As we can expect, the free trade zones have not been created without encountering strong opposition and criticism. There have been arguments to the effect that an increase in trade would not necessarily result from the establishment of the zone; and that the present free zone facilities have outrun the trading capacity of the world, thus greatly reducing one of their essential advantages.

With respect to the issue of "processing" inside the zone, we find that this practice has existed since the early days of the free trade zone. The objectives of a country in creating a free port zone are not always the same; therefore, we find some zones where manufacturing is allowed, others in which it is not. In the free port of Copenhagen which opened in 1894, for example, merchants can rent sites for offices, warehouses and even factories. The free port of Hamburg, which was formed in 1871, is the only one among all German free ports in which manufacturing is permitted. However, even in such zones, very few plants are found. The reasons are that the rentals inside the zone are very high and add much to the cost of production; moreover, the benefit of producing inside the zone for export would not be great since in the leading industrial countries, most important raw materials may be imported duty free. The industrial activities inside the zone, therefore, are confined mostly to ship-repairing or small-scale ship-building.

One of the first zones where much emphasis was placed on the added-values to be obtained through the processing of products is probably the free port of Colon, Panama. The zone was established in 1950, with an area deliberately set aside as a free-zone industrial area in which a number of industries were established. Another important example is the case of Hong Kong. Near the end of the 19th century, Hong Kong was set up as a minor entrepot center, or to be specific, a free port of the British Empire in the Far East. The island of Hong Kong does not have any important natural resources, and its domestic market is very limited. However in recent year, it has become a major manufacturing center, and its products are exported on a large scale throughout the world. Last but not least, another near parallel model is Singapore which was founded by the British in 1819.

The modern export processing zone, thus can be defined in two ways: it is either a large scale Colon type, or a small scale Hong Kong. However, it also contains many features of its own as we are going to see in the next chapter.

One thing which becomes quite clear is that nobody should be given the entire credit for "inventing" the export processing zone.

C ECONOMIC THEORY OF THE EPZ :

A vast amount of literature has been devoted to other topics such as the customs unions or free trade areas but there is not much written about the EPZ. Among the few studies made on EPZ was one by Professor Hamada Koichi of the University of Tokyo, Japan. In his unpublished paper, "An Economic Analysis of the Duty Free Zone in a Developing Country", written while he was a visiting scholar at the Department of Economics, MIT 1971-1973, he arrived at several conclusions. Starting with a standard two-factor, two-commodity model of trade, he showed that the economic consequences of establishing a zone would be different depending upon the nature of foreign investment in the zone, i.e., depending on whether the foreign investment takes place in the form of transfer of factors of production, or in the form of transfer of technology, or a combination of both. His conclusions were presented in my original 1973 thesis but within the context of this book have been omitted for the sake of brevity and simplicity. We have endeavoured so far to provide the macro underpinnings and prerequi-

sites for the creation and successful takeoffs of EPZs, let us now focus on a successful "model".

II A STUDY OF THE KAOHSIUNG EXPORT PROCESSING ZONE (TAIWAN)

Taiwan, or the National Republic of China, is an island off the southeastern mainland China; at its closest point, it is about 90 miles from the Chinese Mainland from which it is separated by the Taiwan Strait. On the total area of 13, 900 square miles, nearly two thirds is occupied by steep mountains running from north to south. The 14 million inhabitants are almost entirely Chinese, about 84% are native-born and the remainder are mainlanders who came to Taiwan after 1945.

Taiwan's economy has grown rapidly over the past decade. Between 1958 and 1967, the gross national production expanded by more than 9 percent a year, and the economic growth has transformed the industrial sector to the point where in 1967 it made a significantly greater contribution than agriculture to the national production. In this year, the share of manufacturing in GNP rose to 20 percent from the previous level of 15 percent in 1958.³ Industries which have grown rapidly in recent years include electronics, textiles, plywood, fertilizers, chemicals, cement, glass, plastics and food processing. Major emphasis has been placed on the expansion of electric power which has been hard to keep pace with the growing demand particularly within industry where more than 75 percent of the power is consumed. Growth in agricultural output at a yearly rate of 4.5 percent since the early 1950's has not only been large enough to supply the demands for food resulting from rapid population growth and rising income, but it has provided a surplus for exports.

Taiwan is relatively poor in mineral resources and with the limited local market, the economic development of the island must depend to a considerable extent on the set up of export industries and the expansion of foreign trade. Export in the two years, 1965-1966 were 300% above those in 1952-53. With export diversification, the ratio of sugar and rice export to total exports fell from over 75% to less than 20% during this period. Import tripled, but industrial goods rose more rapidly than other categories because a major portion of the import expansion was in response to industrial growth.⁴

In order to attract foreign investors, the government has revised the investment law several times to make it one of the most favorable in the world. Along with this effort of expanding the export industry, on January 30, 1965, the Taiwanese government declared the "Statute for Establishment and Management of the Export Processing Zones" which serves as the legal basis for establishment of the EPZs. The Council for International Economic Cooperation and Development and the Ministry of Economic Affairs were given the authority to undertake preparatory work for the establishment of the first zone.

A A GENERAL DESCRIPTION OF KEPZ

Kaohsiung, one of the two most important seaports of Taiwan, was selected as the home of first EPZ. Situated near the southern tip of the island, Kaohsiung is probably among the best choices available. The port handles more than two thirds of the island's annual total import and export; the Hsiaokang airport is only five miles away; there is a good system of railway and highway connections with inland cities and with a city population of about 600,000, the labor supply is abundant. The site selected for the Kaohsiung Export Processing Zone (KEPZ) was a 170-acre tract of reclaimed land in the port area, and by mid-1965, construction had already been started in the zone.

Entry to the zone is restricted to firms engaged in the production of 20 specified categories of light industrial and labor-intensive goods. Included in the list are metal products, machinery, furniture, handicraft goods, electrical appliances, rubber goods, chemicals, cosmetics, knitted and woven goods, jewelry, wigs, toys, kitchen ware, shoes and gloves. A detailed description of these goods is given in appendix A.

The principal objectives of the zone are 1) to promote development of export industries, 2) to attract domestic and overseas investments, 3) to create new job opportunities, and 4) to bring in new production techniques through the inflow of overseas investments. The zone planners expected to house 120 plants with a total capital investment of US\$18 millions, reaching an annual export value of over US\$72 millions and employing about 30,000 people when the zone was in full operation after its completion in June 1966.⁵

One of the features of the export processing zone is its centralized management and supervision of all matters, from the establishment of new enterprises to the export of their products. The Kaohsiung Export Processing Zone Administration (KEPZA) is granted full authority to solve all such problems of the industrial investors as land, labor, registration, payment of taxes, construction of plants, water and power supply, settlement of foreign exchange, customs inspection and clearance procedures, important export licences, etc. In other words, KEPZA represents the government in all relationships with the investors.

KEPZ offers the investors the following attractive incentives :

- **Tax exemption :** All enterprises are exempted from import duty on machinery, equipment, raw materials, and semi-finished products imported for their own use. Local purchases are classified as imports and therefore are eligible for tax rebates or exemptions. Commodity taxes are waived. A five-year corporate income tax holiday is granted for most investors. A detailed study of the tax structure will be presented later in this chapter.
- **Repatriation of profit and capital :** All profits, in the form of distributed dividends, may be 100% repatriated after tax. After the second year, capital may be repatriated at a rate of 15% annually.
- **Guarantee against expropriation :** Those who put up more than 50% of the capital required for any project are given a guarantee that their enterprises will not be expropriated for a period of at least 20 years.
- **Foreign exchange and trade control:** For imports, the deposit requirement may be lowered to 15% of the foreign exchange requested. The use of self-provided foreign exchange is liberalized. Again, we will come back to this issue later in the chapter.
- **Simplified procedures:** Applications are usually approved or rejected within a month. Inside the zone, export and import

licenses are issued within 24 hours.

- Labor and wages : Labor supply is not a problem since it is estimated that there are about 300,000 unemployed workers in Taiwan. Kaohsiung has a population of more than 600,000 in the city and another 700,000 in the surrounding region. Average monthly wages are very low : US\$15 for an unskilled woman, US\$20 for an unskilled man, US\$30 to US\$37.50 for a skilled woman, and US\$37.50 to US\$50 for a skilled man.
- Land and buildings : The investors can lease land at a very low rate of US\$0.02835 per square foot per month to build their own plants or they can purchase the standard factory buildings on terms of 30% down and the remainder in equal quarterly installments for a period of ten years. For those who wish to build their own factory buildings, the Bank of Taiwan may lend up to 70% of the total contracted construction cost.
- Public utilities: Roads, power, postal and telegraphic services, transportation and warehousing are provided. Low tension and high tension industrial power costs are cheap and it is estimated that Hong Kong power rates are 250% higher and water 240% more expensive than those at KEPZ.

After having a general idea of the zone, let us move to some more detailed aspects, first of all, the organization of KEPZ.

B MANAGEMENT AND SUPERVISION OF KEPZ⁶

The supreme administrative organization of the KEPZ is the KEPZ Administration (KEPZA). The Administration is authorized to handle all matters related to the zone, namely :

1. Administrative regulation of export processing operations;
2. Planning, construction, and management of all necessary installations and facilities in the zone;
3. Management of revenue derived from properties owned by the government;
4. Factory and business registration and construction approval and the issuance of pertinent licenses;

5. Inspection of plant installation and working conditions;
6. Inspection of products and the issuance of pertinent licenses or certificates;
7. Endorsement in respect to the import and export of commodities;
8. Regulation of foreign exchange and trade;
9. Measures for prevention of smuggling; and
10. Rendering of services to industries located in the zone.

The KEPZA is headed by a director and a deputy director and is staffed with five divisions and six offices. Other supporting services include : a warehousing and transportation service center, a police station, a health center and a food supply center. The organization chart of KEPZA is shown in Figure 1.

The functions of the six offices are :

- . Public Relations Office is responsible for reception and publicity;
- . Personnel Office for personnel administration;
- . Accounting Office for finance and accounting;
- . Security Office for security preservation;
- . Research Office for R&D functions;
- . Engineering Office for the inspection of plant facilities, screening of engineering projects and construction.

The functions of the five Divisions are as follows :

The First Division : Matters concerning :

- screening of setup applications for export enterprises and revised investment projects;
- answering and coordinating the procedures for export enterprises to be set up inside the zone;
- determination of repatriable capital;
- issuance of certificates of product inspection and country of origin;
- disposal of obsolete items and scraps;
- certifying the exemption from profit-seeking business income tax;

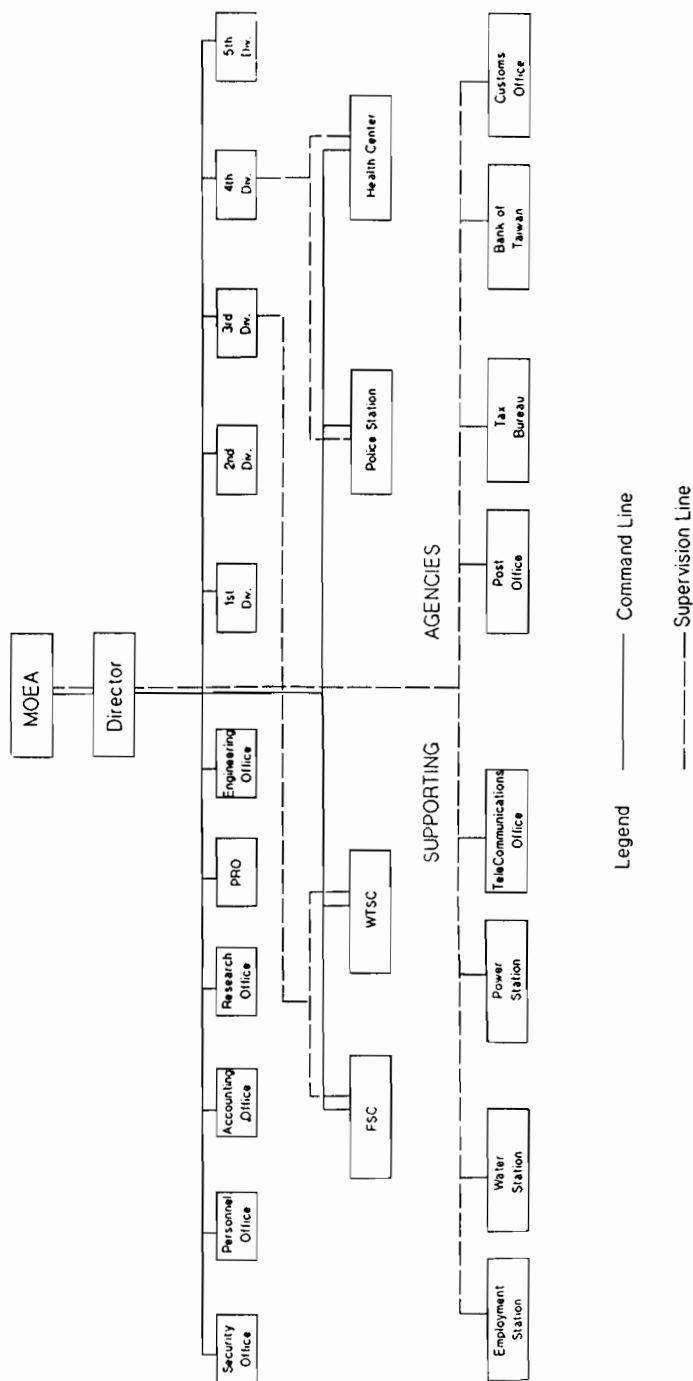


Figure 1 : The Organisation Chart of KEPZA

- assistance, screening, and approving the request for manufacturers' overseas trip and employment of foreigners;
- issuance of import passport and export permit for electronics and telecommunications goods.

The Second Division : Matters concerning :

- screening and licensing of importation and exportation as well as related exchange settlement;
- screening the receiving and disbursing of foreign exchange;
- promotion and development of foreign trade;
- statistics of imports and exports;
- miscellaneous control of foreign trade.

The Third Division : Matters concerning :

- control and profit of public properties;
- construction project and handling of standard factory building;
- construction project and maintenance of infrastructure;
- setup and inspection of plants;
- registration of export-oriented business and issuance of certificate;
- construction control in the zone and issuance of construction certificate.

The Fourth Division : Matters concerning :

- gate control for personnel, vehicles and daily supplies;
- project and control of environmental sanitation;
- security and safety measures against disaster;
- internal administration and clerical work.

The Fifth Division : Matters concerning :

- labor organization and labor administration;
- inspection of labor conditions;
- implementation of labor education;
- assisting enterprises in organization for employees' welfare;
- coordination and settlement of disputes between labor and management.

All of these related units are working under the guidelines set forth both by general and specific regulations which apply in the zone. The general regulations are those that generally apply to the local enterprises, such as "The Statute for Encouragement of Investment", "The Statute for Investment by Overseas Chinese and Foreigners", "The Company Law", "The Factory Law", etc. The specific regulations are those that apply specially to the zone, namely :

1. Categories and Order of Priority of Export Enterprises Admissible for Establishment in Export Processing Zones (See Appendix A)
2. Criteria for Land Allocation of the Kaohsiung Export Processing Zone (See Appendix B)
3. Regulations Governing Land for Lease & Sale of Standard Factory Buildings of the KEPZ (See Appendix C)
4. Regulations Governing the Collection of Infrastructure Cost of the KEPZ (See Appendix D)
5. Regulations Governing Disposal of the Obsolete Items & Scraps of Export Enterprises in EPZs (See Appendix E)
6. Measures concerning Export Enterprises in EPZs to Lease Land to Purchase Standard Factory Building & to Deposit Performance Bond (See Appendix F)
7. Measures Concerning Requisition & Sale of Private-Owned Buildings inside EPZs (See Appendix G)

C ADMISSION TO THE ZONE

One of the important tasks which greatly affects the success of KEPZ is the selection of export enterprises for the zone. For this screening purpose, a Committee is formed with members appointed by the Ministry of Economic Affairs. The committee chairman is the Director of KEPZA, and its members are selected one from each of the following organization : the Commission for Overseas Chinese Affairs, the Council for International Economic Cooperation and Develop-

ment, the Industrial Development and Investment Center, the Taiwan Provincial Reconstruction Department, the Industrial Development Bureau, the Office of Industrial and Mining Technology of the Ministry of Economic Affairs, the Bureau of Foreign Trade, and the Central Bank. Specialists or authorities concerned may be invited to take part in the screening if necessary. Export enterprises admissible to the zone are limited to those conforming to the conditions prescribed by Article 4 of the Statute for Establishment and Management of Export Processing Zones and to the twenty categories of export enterprises stated above. In addition, due consideration must be given to the following criteria :

- a. New industries not yet established or without good foundation in the country.
- b. No indication of saturation for the pre-planned products to be sold in the international markets.
- c. In-country specialists or technicians can be fostered.
- d. The processing charge must be at least 20% of the FOB price of the finished products.
- e. At least 300 employees per hectare of floor space of factory building.
- f. A capital investment of at least NT\$2,000,000 (approximately US\$50,000) must be provided, and the investor must have a sound financial statement. (1NT\$ = US\$0.025)

Based on the these criteria, the applications for establishment of export enterprises shall be screened and resolutions made by the Committee. The Director of the KEPZA, who is also the Committee Chairman, has the authority to approve the resolutions for execution.

An investor who wishes to establish an export enterprise in the zone must go through the following steps.⁷

1. Submit the Investment Application and Project Form to the First Division of the Zone Administration for processing.

2. At the same time pay a deposit equal to 5% of the price of the standard factory building if the purchase of such building is desired; or equal to one year's rental if the lease of land is required for construction of a self-designed factory building.
3. The Investment Application and Project Form will be screened by the Investment Screening Committee, and a decision will be made within one month. If the application is rejected, the deposit will be returned without interest; if approved, the deposit becomes a performance bond, and the investor may proceed to carry out the following :
 - a. Remit the investment capital through appointed banks.
 - b. Apply to the Third Division of the KEPZA for company registration.
 - c. If the construction of self-designed factory building is intended, a plan of the building shall be submitted to the Third Division of the KEPZA for the allocation of land.
 - d. If the purchase of standard factory building is intended, 10% of the purchasing price shall be paid within one month after approval of investment application, and 20% of the purchasing price upon signing of the purchasing contract when the building is ready for occupancy. A factory layout plan should be submitted to the Third Division for allocation of standard factory building space.
 - e. Apply for "Certificate for permitting commencement of production". When the factory building is ready, machinery may be brought in and installed and staff and workers recruited. Then two copies of the factory layout plan should be submitted to the Third Division requesting for the pre-production inspection, and if found satisfactory, a "Certificate for Permitting Commencement of Production" will be issued to the export enterprise by the Administration.
 - f. After being permitted to commence production, the export enterprise shall apply to the Third Division for the "Produc-

tive or Profit-Seeking Export Enterprise Registration.”

D TAXES AND FEES

Before discussing the system inside the zone, we should first take a brief look at the tax structure applied for enterprises outside the zone. The government of the Republic of China classified all business enterprises in Taiwan into two groups, productive enterprises and profit-seeking enterprises, and provided them with two different packages of incentives.

“Productive enterprise” refers to any enterprise falling into the following fourteen categories which produces goods and/or renders services and which is organized as a company limited by shares in accordance with the law.

- | | |
|---------------------|----------------------------------|
| 1. Manufacturing | 8. Transportation |
| 2. Handicraft | 9. Warehousing |
| 3. Mining | 10. Public Utility |
| 4. Agriculture | 11. Public Housing Construction |
| 5. Forestry | 12. Technical Services |
| 6. Fishery | 13. International Tourist Hotel |
| 7. Animal Husbandry | 14. Heavy Machinery Construction |

“Profit-seeking enterprise” is defined as “any public-operated, private, or joint organization with business name or place engaged in industry, commerce, agriculture, forestry, fishery, pasturage, mining, metallurgical operation or others for profit-seeking purposes, and organized in the form of sole proprietorship, partnership, company, or in any other form of association⁸ In other words, profit-seeking enterprises are those which do not fall into the fourteen categories of productive enterprises cited above. Details of the incentives provided for these two groups of enterprises are given in Appendix H.

For enterprises in the KEPZ, besides having an exemption from import duties on machinery and equipment, semi-finished products and raw materials, these export enterprises can also enjoy all the encouraging incentives given above depending upon which group they belong to. In general, the taxes and surtaxes applied to export enterprises are as follows :⁹

1. Business income tax :

Those export enterprises conforming to the Criteria of Encouragement and falling under one of the fourteen categories of enterprises eligible for encouragement cited above may apply for the privileges received for productive enterprises. Some of these privileges are, for example, an exemption from business income tax for five years, and a ten percent reduction of the payable income tax as of the sixth year, etc. Since the first category in the list is Manufacturing, and is defined as "any operation which makes or processes products with machinery and manual labor,"¹⁰ most of the export enterprises in the zone fall into this category.

For those enterprises not conforming to the Criteria of Encouragement and not falling under the above categories, the maximum income tax on profit-seeking enterprise, including all forms of surtaxes, will not exceed 18% of their total income.

2. Stamp taxes are levied on the following :

- a. Books recording capital investment.
- b. Agreement of loans, mortgages, or pledges, and written acknowledgment of debts and debentures.
- c. Discount contracts, acceptance contracts, promissory notes, bank drafts, or bills of exchange.
- d. Contract for future delivery of goods or services.
- e. Invoices issued for transactions.

3. Building tax : Factory buildings, if owned and directly used by the owner for manufacturing purposes, are taxable at the rate of 1.5% of their assessed value. A Defense Surtax is to be added thereto.

4. Deed tax :

- a. For purchase of new factory building, deed tax is exempted.

- b. For transfer of used factory building : 3.75% of the value of the building, to be borne by the new owner.

5. Vehicle license plate tax, educational tax, etc.

Besides the above taxes, export enterprises are required to pay some fees as stated by Article 11 of the Statute for Establishment and Management of the Export Processing Zones and Article 16 of the Enforcement Rules thereof. These fees are required to absorb various expenses, for example :

- a. Development of public utilities and installations : NT\$30.51 per ping per year payable quarterly, for the first ten years (1 ping = 36 square feet).
- b. Maintenance of public utilities and installations; maintenance of environment sanitation and public safety facilities : NT\$0.10 per US\$1.00 of exported products.

E FOREIGN EXCHANGE REGULATIONS AND BANKING OPERATIONS

Foreign exchanges and banking services in KEPZ are governed by the following set of regulations :

1. Statute for Establishment and Management of Export Processing Zones, promulgated by January 30, 1965.
2. Regulations Governing the Control of Foreign Exchange and Trade in Export Processing Zones, Executive Yuan Decree, July 20, 1965.
- 3a. Regulations Governing Applications for Export License and Surrender of Foreign Exchange in EPZs.
- b. Regulations Governing Applications for Import License and Import Exchange Settlement in EPZs.
- c. Regulations Governing Application for Exchange Settlement against Outward Remittance in EPZs.

In the KEPZ, foreign exchange and external trade are still under control by the government to a limited extent. Transactions in foreign currencies must be settled at authorized foreign exchange bank branches in the zone. In other words, foreign exchange proceeds derived from export must be sold to the appointed banks. The appointed bank will provide foreign exchange against New Taiwan dollar equivalent for importing equipment, semi-finished products and raw materials. Such regulations are similar to those applicable outside the zone, but the difference is that there is less control and procedural requirements are easier inside the zone. For example, there is a relaxed control on self-provided foreign exchange. Any one who wishes to import raw materials with self-provided exchange for processing and re-export may do so in any of the following three manners :

1. Finished products may be exported without exchange settlement, provided the foreign exchange earnings for processing have been sold to appointed banks.
2. If the foreign exchange proceeds derived from export of finished products are sold to appointed banks, the foreign exchange provided by the manufacturers themselves may be repatriated abroad.
3. The self-provided foreign exchange used for import of raw materials for processing and re-export may be deposited at appointed banks and used on a continuous basis.

The banking operations in KEPZ were conducted under Article 3 of the Regulations Governing Foreign Exchange and Trade in Export Processing Zones, which states that banking business in the zones shall be carried out by the banks appointed by the Central Banks of China for foreign exchange business. The activities of the Bank of Taiwan in KEPZ can be described as follows :

The Bank of Taiwan Branch at KEPZ was established for the purpose of helping the development of KEPZ and meeting the financial requirements of export enterprises. Its scope of business and management procedures does not exactly follow the usual pattern of banking operations. Besides such operations as deposits, loans, remittance, trust and national treasury agency, it assumes the duty of

handling factory building loans, providing short-term financing to the KEPZ enterprises, etc. The procedures involved are much easier and less time-consuming. The building loans are paid to the borrowers according to the progress of construction and the term of the loan repayment is usually longer. Short-term financing in the form of bank credit is offered through a very simple procedure, thus eliminating the necessity of time-consuming negotiations otherwise required. This is possible due to the fact that the bank on the scene is familiar with the financial situation and earning power of the individual enterprises in the zone through credit investigation. The bank can more easily determine the amount of credit warranted. This form of credit operation would hardly be possible elsewhere outside the zone. The following table shows the business of the Bank of Taiwan, KEPZ Branch in 1970 :

Deposit and Loans

Deposits	NT\$	4,442,187,226.54
Loans	NT\$	702,985,234.49

Domestic Remittance

Inward	NT\$	186,863,124.92
Outward	NT\$	146,973,213.19

Foreign Remittance

Inward	US\$	18,012,910.00
Outward	US\$	8,848,758.00
Export Exchange	US\$	171,737,484.00
Import Exchange Settlements	US\$	43,728,278.00 ¹¹

F LABOR ADMINISTRATION

The development of KEPZ can be described in three stages. First, during the construction period, attention was focused on improving the investment climate so as to attract investors. In the second stage, or during the three year period following the completion of the zone, the main task was to provide guidance to various factories for increasing

production and expanding the export of their products. During the third stage, which began after the fourth year, emphasis has been placed on promoting welfare and protecting the rights and interests of workers.¹²

In July 1970, the Fifth Division was added to the KEPZA, to handle all labor-related matters, i.e., labor welfare, labor education, labor union and labor-management relationship. The achievement of this Division can be cited as follows :

1. Labor welfare : According to the labor laws, every factory has to allocate employee welfare funds and set up an Employee Welfare committee to provide welfare facilities for its workers. By the beginning of 1972, among the 153 factories in the zone, 88 have had employee welfare committees benefiting more than 34,000 workers and staff members. A plan is being carried out to organize a Joint Employee Welfare Committee by all factories in the zone to provide, in united efforts, welfare facilities such as mess hall, library, swimming pool, etc... for their workers. Besides these, all workers in the zone are fully insured. The zone also has one clinic and two dormitories for female workers.
2. Labor education : Efforts of the KEPZA in this matter are as follows :
 - a. Organization of Employee Education Promotion Committee at each plant to set aside funds for the education of their workers.
 - b. Compilation and dissemination of teaching materials for use by all the factories in educating their workers.
 - c. Carrying out the factory-school cooperative educational program to provide a three year program of vocational classes or regular classes for the workers.
 - d. Conducting language and technical training classes at noon time.
 - e. Planning for the setting up of an Employee Education

Demonstration Center.

3. **Labor union** : The Labor Union Law of Taiwan states that an industrial or craft union should be organized when, in one and the same area, or in one and the same factory, the number of workers above 20 years of age in one and the same industry is over 50; or when in one and the same area, the number of workers in one and the same craft is over 30. By the beginning of 1972, there were 58 factories in the zone having organized their labor unions with total membership of about 27,000.
4. **Labor-management relationship** : The relations between labor and management has been going smoothly. During its first year of operations, the Fifth Division successfully settled all 69 disputes that occurred in the zone. By the end of 1971, there were 10 factories which had concluded collective agreements with their labor unions and another 10 which had organized factory councils. Efforts are still being made to achieve much more in this respect.

G THE ACHIEVEMENTS OF KEPZ

The Kaohsiung Export Processing Zone was initiated by the Ministry of Economic Affairs in March, 1965. By July 1965, it began to accept applications to the zone and in June 1966, the zone was completed. By the end of 1968, its occupancy reached saturation and the achievements of the zone can be described as having exceeded the most optimistic predictions of the economists who planned it. For example, the authorities hoped for investments totaling US\$18 million to be made in Kaohsiung; instead they got over US\$45 million (1971). Every lot in the zone has been sold out and instead of an expected 120 plants, the zone has had to be expanded to accommodate over 160 plants.

The zone exports its products to 28 countries in the world. At the top of the list are the United States with 60 percent of the total exports, Hong Kong with 9.24 percent, Japan with 7.98 percent and Canada with 2.77 percent. Besides the domestic imports, the zone received 49.04 percent of its total imports from Japan, 15.75 percent from Hong Kong, 6.59 percent from the United States, and the rest from a few other countries.

In order to have an idea of the achievements of KEPZ, let us look at the following figures and tables which have been compiled from various materials published by KEPZ and The Ministry of Economic

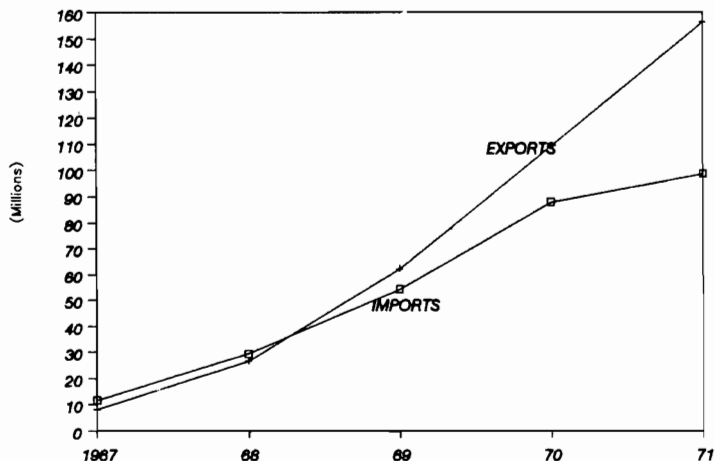


Figure 2 : Total Imports and Exports of KEPZ (1967-71)

Year	Imports US\$	Exports US\$
1967	11,596,128.84	7,970,128.09
1968	29,597,536.55	26,684,581.26
1969	54,380,438.40	62,181,020.64
1970	87,915,997.73	109,388,377.43
1971	98,668,759.35	156,418,793.31

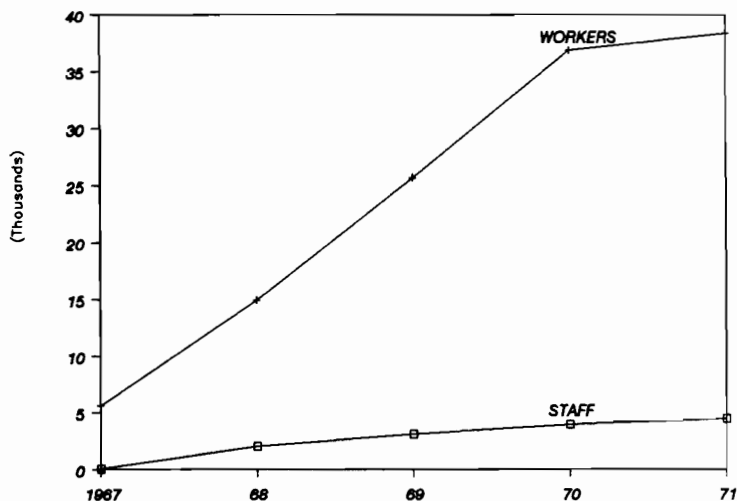


Figure 3 : Over-all Employment of KEPZ (1967-71)

Year	Staff	Workers	Total
1967	61	5,625	5,686
1968	2,058	14,947	17,005
1969	3,131	25,672	28,803
1970	3,976	36,846	40,822
1971	4,481	8,362	42,843

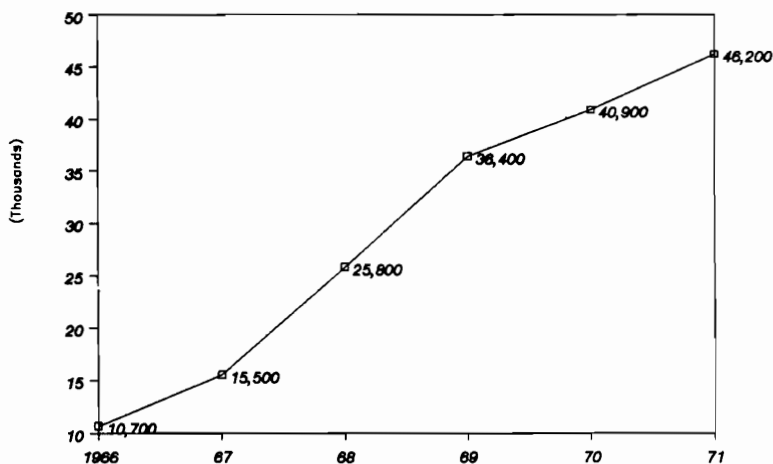


Figure 4 : Total Investments at KEPZ (1966-71)

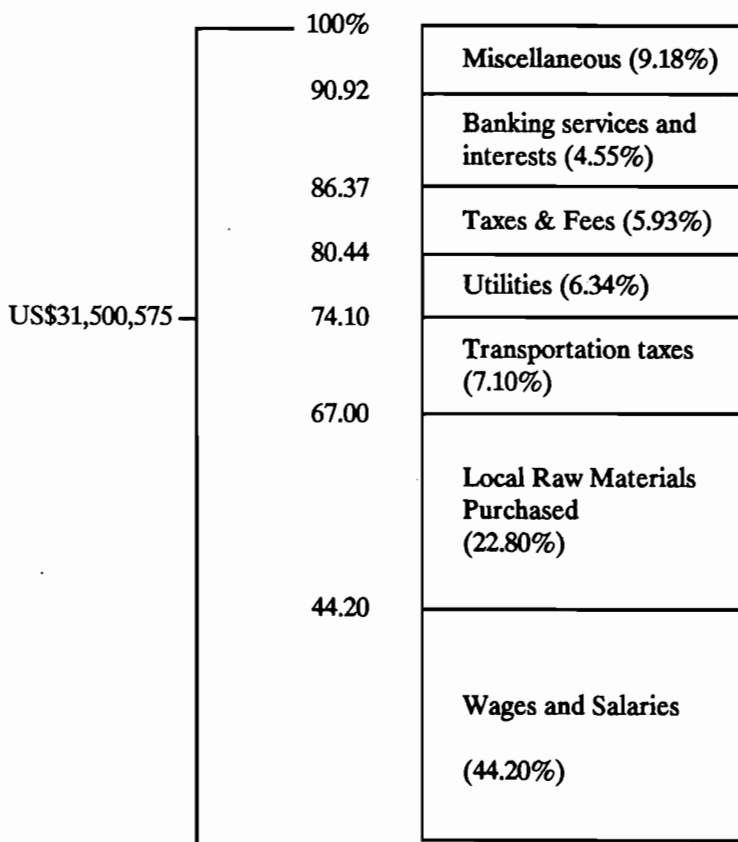


Figure 5 : Distribution of foreign exchange earned at KEPZ in 1970

Table 4

Investment sources at KEPZ in 1971

	US\$
Domestic Investment	6,420,650
Overseas Chinese Investment	6,322,275
Foreign Investment	25,293,239
Joint Ventures	8,149,175
Total :	46,185,339

Table 5

A partial list of important export enterprises at KEPZ in 1971

A. Foreign Investments :

- Transworld Electronics.
- Sumetics Ltd.
- Cts Industries, Taiwan.
- Electronic Building Elements Industries Co, Ltd.
- Bracor International Ltd.
- Taiwan Mitsumi Co. Ltd.
- Shirasuna Electric Mfg. Co. Taiwan.
- Great Ocean Industry Co. Ltd.
- Taiwan Yasukawa Chemical.
- Funai Electric Co. Taiwan.
- Matsumoto Export Industry.
- Taiwan Miya Electric Co. Ltd.
- Sankyo Knitting Co. Taiwan.
- National Garment Mfg. Co. Ltd.

B. Joint Ventures :

- Popular Industries Ltd.
- Allied Textile Corporation.

- Hing Lee Knitwear Ltd.
- Lucky Plastic Factory Taiwan Ltd.
- Taiwan Toyo Radio Co. Ltd.
- Taiwan Sansho Co. Ltd.
- Chummy Electronics Corp.
- Minatoya Glove Co. Ltd.
- Japan Electric Heater Co. Ltd.

C. Domestic and Overseas Chinese Investments :

- Hongkong Teakwood Works Taiwan.
- General Garment Mfg. Taiwan.
- James S. Lee and Co. Taiwan.
- Tachco Taiwan Ltd.
- Yung Zeng Industrial Co. Taiwan.
- The Simplex Industrial Co. Taiwan.
- Yung Chin Industrial Corp.
- Kong-Luan Plastic Manufacturer Co. Ltd.
- Tree Hawks Enterprise Co. Ltd.

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