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Export Processing Zones in the Dominican Republic: A Comment on Kaplinsky

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Summary. — Kaplinsky maintains that export processing zones in the Dominican Republic are immiserizing and fail to transfer technology. This paper disputes this claim and recommends that incentives now limited to production in the zones be extended to all nontraditional exports in order to induce backward linkages and increase domestic value added.

1. INTRODUCTION

Companies operating in any of the Dominican Republic's 23 export processing zones (EPZs) are allowed to maintain foreign currency accounts and are exempt from taxes on profits, imports and exports. Most importantly, they are also freed from most of the administrative delays and bureaucratic costs associated with foreign trade in the Dominican Republic. In return, EPZ companies agree to purchase local currency from the Central Bank for payment of wages, payroll taxes, transportation, utilities and other local expenses, and to export all of their production.

Dominican EPZs date from 1969 and were given generous tax exemptions from the very beginning, yet they grow slowly at first. By the end of 1983 the zones had attracted only 110 companies employing 22,272 persons. This poor performance can be attributed to an increasingly overvalued Dominican peso. (See Dauhajre *et al.*, 1989, pp. 27–30 and pp. 57–58.) Officially, the peso remained at par with the US dollar, and the official rate is the relevant rate for EPZ companies who have to purchase local currency from the Central Bank. Despite the fixed exchange rate, during 1969–83 minimum wages more than doubled, from RD$60 to RD$125, consumer prices more than tripled, and the price of the US dollar in the parallel (unofficial) market increased steadily from RD$1.14 to RD$1.62. By 1983 an EPZ company had to exchange US$125 to obtain enough local currency to pay a minimum wage that was worth only US$77 on the parallel market.

In 1984 the Central Bank recognized that the official exchange rate of one peso per dollar was unrealistic, so permitted exporters of nontraditional goods to sell 85% of their receipts of hard currency at the parallel exchange rate. At the same time, foreign exchange for imports at the official exchange rate was restricted to a very few items (petroleum, newsprint, wheat, oats and the imports of the National Price Stabilization Institute). In any case, the list of goods that could be imported at the official rate of exchange had been steadily reduced beginning in 1979, so most imports were at the parallel rate by 1983.

The Central Bank was less generous to exporters in the EPZs, and forced them to exchange their US dollars at the rate of RD$1.48 in 1984. The price of the dollar in the parallel market rose to RD$2.21 in January and RD$3.10 in February so export processing continued to pay an implicit tax due to a very unfavorable exchange rate. The parallel rate remained fairly stable from March through December, however, and the minimum wage did not increase until May (to RD$175), so the EPZs registered a modest expansion to 120 companies with 27,126 employees by the end of the year.

As part of an IMF adjustment program, the Central Bank in early 1985 unified the two exchange rates, and, except during the foreign exchange crisis of 1990, has since kept the official rate close to the parallel rate. This competitive exchange rate regime has allowed export processing to flourish. The number of EPZ companies grew to 386 by 1992, and employment increased to 105,000 in 1989, 120,000 in 1990 and 141,000 in 1992. (All figures refer to end-of-year.)

EPZ production also benefited in 1986 from intro-

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duction by the United States of two schemes designed to facilitate imports from countries favored by the Caribbean Basin Initiative (CBI). The most important is legislation known as 'super 807' that grants CBI garments guaranteed access to the US market, although not on a duty-free basis, provided they are made from cloth woven and cut in the United States.[1] Of less importance is Section 936 of the Internal Revenue Code of 1986, which allows US companies operating in Puerto Rico to carry out part of the production process in an approved CBI country and still retain their exemption from US federal income tax. The Dominican Republic has utilized both of these measures to a greater extent than other CBI countries in part because the country has an exchange rate regime that makes it an attractive location for export processing.

Employment in the Dominican Republic's export processing zones now exceeds employment in protected manufacturing establishments of its customs territory. Moreover, even though production remains concentrated in garments, an increasing proportion of EPZ workers (40% in 1992) are men. This is no mean achievement for a country in which as of 1985 25% of the labor force was unemployed and 23% of the adult population was illiterate.[2] Raphael Kaplinsky (1993) argues nonetheless that the Dominican Republic's EPZ strategy is misguided, that the costs have been too great.

Kaplinsky discusses three main failures of the EPZs: (a) immiserizing growth due to declining terms of trade, (b) the absence of any transfer of technology to the Dominican Republic, and (c) their enclave status, without linkages to the rest of the economy. I refer to each of these in turn.

2. IMMISERIZING GROWTH

Kapkinsky (1993) accepts that devaluation of the Dominican peso (exchange rate unification) has encouraged exports from the EPZs, but he alleges that because of inelastic demand the end result has been declining terms of trade, "a reduction in import prices for rich country consumers" (p. 1862), hence "immiserizing growth, that is employment growth which is contingent upon wages falling in international purchasing power" (p. 1861). In support of this interpretation, he asserts that

> employment continued to grow in the EPZ through the late 1980s at the same time as real per capita incomes — measured in US$ — fell. This follows directly from the commodity nature of the industrial production involved in that its core element is simple, unskilled labor which is easily replaceable (pp. 1861–1862).

I have several comments on this thesis.

First, wages are of course much lower in the Dominican Republic than in the United States; if this were not the case, none of the labor-intensive processes would be carried out there for the US market. But wages, benefits and working conditions are no worse in EPZs than in factories producing behind the protective barriers of the customs territory. If anything, they are better. (See Hoffman, 1991, p. 55; Beriestain and Fleury, 1992, p. 24; Willmore, 1993a, pp. 15–19.)

Second, as Kaplinsky himself notes, "during 1980–88 the Dominican Republic was one of the few Latin American and Caribbean economies which did not experience a decline in real per capita incomes" (1993, p. 1852). Per capita income grew an additional 2.3% in 1989 before dropping in 1990, so the late 1980s can hardly be described as a period of falling real per capita income. Moreover, real wages measured in US$ fluctuated but did not fall after 1985.[3] Kaplinsky's Figure 5 (p. 1860) actually shows a sharp drop in the US$ wage index in 1984, but this must be an error, for only exporters located outside the EPZs were allowed to exchange US$ at the parallel rate in that year. For exporters in the EPZs, the sharp fall in labor costs in US$ did not occur until the following year.

Third, the fact that real wages fell in terms of US$ in 1985, when EPZ companies were finally allowed to sell dollars at a realistic rate of exchange, does not mean that real wages fell in terms of local purchasing power. The real wage relevant to a worker is his wage in local currency and the cost of living. Through the mechanism of a dual exchange rate — an overvalued official rate — the Central Bank was able to impose a substantial tax on export processing activity. This tax did not benefit EPZ workers.

Fourth, garments may usefully be regarded as commodities, but they are commodities given preferential access to a protected market. The treatment is analogous to that accorded sugar in the United States and the United Kingdom or bananas in France, Spain and the United Kingdom, commodities for which consumers in rich countries pay high import prices. Cline (1990, pp. 162–168 and 190–193) estimates domestic apparel prices in the United States to be 53% higher than world prices, with quotas accounting for more than half of the price differential. Without country-specific quotas, a large part of the Dominican Republic's garment production could relocate to the People's Republic of China, for example, where wages are only a fifth those of the Dominican Republic.

Finally, let us accept for the moment Kaplinsky's view of international trade and assume that US demand is inelastic for garments and other goods processed with abundant labor and low skills, and that access to this market — or at least a fixed portion of it

— is restricted to suppliers located in Central America and the Caribbean. What are the policy implications for the Dominican Republic?

Even with these assumptions, there is no question that, acting alone, the Dominican Republic is best advised to maintain competitive wages in US$ with a single, realistic exchange rate; otherwise it would lose market share to other countries. Kaplinsky himself concedes that "it may make sense for a single country to devalue its currency in order to attract users of unskilled labor" (1993, p. 1861), so recommends that all countries in Central America and the Caribbean collectively maintain overvalued currencies (avoid real devaluations) in order to improve their terms of trade. Presumably the intent is not to discourage all export activity, so the overvalued exchange rate ought to apply only to exports facing inelastic demand.

In practical terms, this requires central banks to force EPZ companies to exchange dollars at an unfavorable rate, as the Dominican Republic did until 1985. Panama, which has no central bank, would have to impose a tax on the local expenditures of its EPZs. Yet many unanswered questions remain. Should countries apply this tax, or, equivalently, a differential exchange rate, to all EPZ activity? To specified products only? To offshore assembly only? Is the rate of taxation to be the same in all countries, or should it be lower in countries such as Barbados and Panama, which have high minimum wages? Will Mexico, which participates in the North American Free Trade Agreement and has a large export-processing sector, join countries of Central America and the Caribbean? To ask these questions is to realize that such an "EPZ cartel" has no chance of success. Moreover, the Caribbean basin is not the only source of unskilled labor. If a cartel were able to increase the price charged for export processing by its members, the United States could easily turn to lower cost suppliers outside the cartel.

3. TRANSFER OF TECHNOLOGY

Kaplinsky implies that the EPZs make no contribution to the development of human resources in the Dominican Republic: unskilled labor recruited by the EPZ companies remains unskilled, and the "increasing drift" of local companies to the EPZs "is potentially damaging, since there is likely to be a loss of...higher value added capabilities, making future reorientation almost impossible to achieve" (p. 1857).

Regarding movement of domestic firms to the EPZs, Kaplinsky is mistaken. In February of 1991 25 locally owned apparel manufacturers, employing 8,100 workers, opted to become "Special Free Zones" rather than continue to export under the in-bond system (Law 69). They did not physically move to the EPZs, although the government may eventually force them to do so. It is true that "this EPZ production is almost entirely under the aegis of US 807 production" (p. 1857), but the same was true of Law 69 production. It is not true that "Law 69 production included design, layout, cutting and marketing" (p. 1857). The change from Law 69 to EPZ status was a change in legal regime and nothing more; in February of 1991 all 25 firms continued to assemble imported components for export to the United States exactly as they had done in January. (See Hoffman, 1991, p. 27.)

Regarding unskilled labor, there is an element of truth to Kaplinsky's charge. Much export processing carried out in the Dominican Republic is mere assembly and is characterized by repetitious tasks that require little skill. There are exceptions. Cigar makers are highly skilled, as are those who cut and polish diamonds or craft jeweler of gold, silver and precious stones. The data-processing company in the San Isidro Free Zone hires only secondary school graduates with typing skills, and is very selective in choosing those who are allowed to graduate from the four-week basic skills course to a further four weeks of on-the-job training. But the overwhelming majority of workers in the EPZs have little education and receive no more than two or three months of on-the-job training.

Should one conclude, then, there has been no transfer of technology to the Dominican Republic? I think not, for two reasons. First, most line operators are recruited from the ranks of those who are entering the formal labor market for the first time. The introduction of more than 140,000 workers to an industrial environment, to notions of punctuality, quality control and deadlines, is potentially of enormous benefit to the industrialization of the Dominican Republic. Second, nearly all EPZ production is 100% Dominican, including supervisors, technicians and plant managers. These technical and managerial personnel are also acquiring skills that are extremely important for the industrial development of their country.

In 1990, the United Nations Development Programme (UNDP) commissioned research on the Dominican Republic's manufacturing sector from Kaplinsky, who coordinated the work of his colleagues from the Institute of Development Studies (IDS) at the University of Sussex (Beriestain and Fleury, 1992; Hoffman, 1991; Kaplinsky 1991). For the footwear and garment industries, the IDS findings indicate that companies in the EPZs have contributed significantly to the development of human resources in the Dominican Republic. As these two industries account for nearly 70% of the EPZ firms and 80% of EPZ employment, this is *prima facie* evidence of positive benefits from EPZs.

The footwear industry in the EPZs is an activity where one would expect to find minimal transfer of technology. Eighteen large factories employ nearly 12,000 workers, but they do not produce a single, complete shoe! Dominican factories sew only the uppers,

which are then "bottomed" in Puerto Rico and shipped to the mainland United States for distribution. This truncated production process exists so that the producing companies can qualify for Section 936 income tax exemptions and obtain quota and duty-free access to the US market.

Nonetheless, the IDS/UNDP report praises the technical and managerial skills displayed in EPZ footwear plants:

> Most of the [EPZ] companies employ more than a thousand operators, utilize advanced computing systems to program and control the production process, and have attained high productivity, avoiding the bottlenecks so common in sewing. Several of the companies are introducing and increasing their use of the new organizational techniques of just-in-time, total quality control and continuous improvement. *Employee training is permanent.* Inventories are low thanks to careful planning and expeditious customs procedures (Beriestain and Fleury, 1992, p. 36) [emphasis added].

The authors of the report regard this as a significant transfer of technology, even though the EPZ production has not had any effect on the small, technically backward plants that produce for the local market:

> In general, this modern structure [in the EPZ] is dictated by the parent company of which the Dominican plant is a branch or works as a subcontractor. Nonetheless, the fact that Dominican businessmen, technicians and operators have reached this degree of modernization, even though it has been induced or imposed from outside, implies considerable transfer of technology. It illustrates the potential of the national footwear sector if domestic producers were to forge linkages with the free zones (Beriestain and Fleury, 1992, p. 36).

The IDS/UNDP report on the garment industry (Hoffman, 1991) reaches similar conclusions. Firms producing for the domestic market operate at low levels of efficiency, for "there are high wastage rates, deficient practices are everywhere in evidence and the level of training is very low" (p. 52). In addition, factory visits revealed "a large amount of work in progress, slow rotation and frequent scenes of chaos" (p. 55). In contrast

> all [the EPZ] companies visited were competently administered and managed in such a way as to produce a large volume of output using the "best practice" methods of conventional production. In general, they are able to satisfy the strictest requirements of quality and delivery;... [and] the quality and skill of their employees is high (Hoffman, 1991, pp. 70–71).

The report concludes that

> these [EPZ] companies are well placed to lead the transformation and restructuring of the domestic segment, both by example and by exploring innovative forms of subcontracts and backward linkages. Although it is true that the competence of the free zone companies contrasts sharply with many of the local firms, this is a problem of circumstance, and not of inherent abilities, for Dominican workers and managers work in both types of firms (Hoffman, 1991, p. 71).[4]

4. FORWARD AND BACKWARD LINKAGES

Kaplinsky highlights the almost complete absence of forward or backward linkages of the EPZs with the rest of the economy (p. 1857). Although he doesn't dwell on forward linkages, it should be noted that they do not exist because the customs authorities rarely authorize exports to the customs territory — even on payment of full import duties — and never when they might compete with the output of protected industries. EPZ workers are not *allowed* to consume the goods that they produce.

As to backward linkages, Kaplinsky mentions the effect of "US 807 tariff provisions which...limit the extent of backward linkages to other sectors of the Dominican Republic economy and confine the domestic input to unskilled assembly operations" (p. 1857). There is no doubt that requirements imposed by the U.S. on offshore assembly limit the scope for backward linkages. But not all export processing is done under US 807, and, even in those cases, local firms could supply buttons, thread, hangers, plastic bags, cardboard boxes and the like.

Kaplinsky assumes that EPZ companies will inevitably source their raw materials from abroad, for they "are generally only expected to acquire labor and utilities domestically" (1993, p. 1851). For the most part, this expectation has been realized in the Dominican Republic. On the other hand, export processing plants in countries as diverse as South Korea, Mauritius and Saint Lucia are known to purchase a significant amount of material inputs from local producers. When South Korea opened the Mason EPZ in 1971, local factories supplied only 3.3% of the raw materials and intermediate goods processed in the zone. Their share increased to 25% in just four years, and eventually reached 44% (Healey and Lutkenhorst, 1989, pp. 24–32; UNCTC, 1991, pp. 331–343). Mauritius, a small island in the Indian Ocean, also inaugurated in 1971 an EPZ that attracted considerable Chinese investment in garment factories. By 1982, domestic producers were supplying 41% of all the intermediate inputs into the zone's garment industry, including nearly all the cardboard boxes, and a large proportion of the cloth, thread, buttons and trimmings (Hein, 1989, p. 48). In Saint Lucia, a tiny island in the Caribbean Sea, 15 export-processing plants manufacture and assemble garments, electrical equipment and plastic novelty items. Fourteen of the 15 companies

purchase all their cardboard boxes from a local factory, and they rely on local suppliers for additional intermediate inputs as well (Willmore, 1993b).

By implementing appropriate policies, South Korea, Mauritius and Saint Lucia have facilitated linkages between their export-processing plants and the domestic economy. The three countries differ in many respects, but they have one thing in common: in each case customs authorities encourage domestic producers to supply the export processing zones by giving them access to material inputs at duty-free prices. This is not the case in the Dominican Republic where, as a consequence, companies in the EPZs import virtually all their raw materials and intermediate goods.

Three main factors account for the failure of EPZ companies to source inputs from domestic producers in the Dominican Republic; all are facets of government policy that can be changed by the government of the day.

First, until 1993 each sale from the customs territory to an EPZ company required an export license. To obtain this license the entrepreneur had to invest considerable time and effort and fill out vast quantities of forms.

Second, although there is legislation dating from 1979 that provides for the temporary import of goods that are incorporated into exports (Law 69), in practice this has never functioned very well.[5] Nor is an exporter able to recover duty paid on imported raw materials and intermediate inputs, quite apart from lack of access to foreign exchange and the costs referred to by Kaplinsky (p. 1863, note 6) that stem from delays in customs clearance. This makes products of the customs territory uncompetitive in open markets, including the EPZ markets.

Third, tariff and nontariff barriers to imports are high, so manufacturers producing for the small domestic market would not be expected to be competitive in any case. Thus, in the garment industry "there is little or no subcontracting on the part of [EPZ] companies" because of a perceived "lack of confidence in subcontractors and because of the poor quality of goods that they produce" (Hoffman, 1991, p. 48). In addition, producers for the local market have great difficulty in meeting delivery deadlines (Kaplinsky, 1991, pp. 40–41).

A demand exists for numerous goods that could be supplied to EPZ companies, if only local products were competitive in price and quality with imported goods. As an example, consider the case of cardboard boxes. The EPZs consume an enormous amount of this product. Seven box factories operate in the customs territory of the Dominican Republic, yet not one of them has been able to sell to an EPZ company on a regular basis. Their only sales are sporadic, emergency sales when a shipment from abroad is delayed, for local producers cannot compete with imported boxes.

EPZ box factories in the Dominican Republic are beginning to substitute some of these imports of cardboard boxes. The import-substitution process began a few years ago when a South Korean arrived as expatriate manager of a garment factory in the Bonao Free Zone. He saw large quantities of cardboard boxes that were imported into the EPZs, at great expense in transportation costs, so decided to leave salaried employment and open his own box factory in the EPZ. After establishing the company, which now employs 40 persons and is known as United Packaging, he sold it to another South Korean and began construction of a second box factory in Hainamosa Free Zone. In the meantime another South Korean has opened a factory in Nigua Free Zone that also employs 40 persons in the production of boxes and cartons.

5. CONCLUSIONS

Judged as "second best" policy, the strategy of export-processing zones in the Dominican Republic is an unqualified success. By allowing selected firms to operate outside the jurisdiction of the customs authorities, governments have been able, at a very low cost, to promote exports without threatening producers in the protected manufacturing sector. This EPZ growth has created a large number of jobs, has increased incomes and has resulted in transfer of technology to plants in the EPZs, though not to those in the customs territory. It is disappointing that almost no linkages have formed between EPZs and firms in the domestic economy, but successive governments, working under the political constraint of unchanged trade policies, have done their best to insure that the zones remain economic enclaves.

Judged in terms of optimal policy, EPZs are not the ideal instrument for industrial development. It is preferable to promote exports throughout the economy, for this induces linkages and greater local value added, hence more employment, income and technology transfer. In the Dominican Republic, extension of incentives to all nontraditional exports requires a revolution in trade policy comprising, at a minimum, the following reforms:

(a) *Simplified customs procedures.* Deadlines and inventory costs are important to firms competing in international markets. The time that imports and exports spend clearing customs ought to be measured in hours or days, not in weeks and months as is presently the case outside the EPZs.

(b) *Access to material inputs at international prices.* This can be accomplished by allowing duty free imports "in bond" for incorporation into exports (an intelligently administered Law 69) and by providing a prompt refund (drawback) of taxes already paid on material inputs into production that is exported. To encourage backward linkages, this incentive must be given to indirect exporters (those

who sell to companies in the EPZs, trading companies and other exporters) as well as to direct exporters.

(c) *Access to foreign exchange.* Material inputs can only be imported if foreign exchange is available. For most of the period since 1985 this has been guaranteed with a unified exchange rate. Since currency controls can be reintroduced at any time, as indeed was the case in 1990, all exporters should be allowed to retain a substantial portion of their foreign exchange earnings.

With these three reforms, exporters in the customs territory would receive virtually the same incentives as exporters in the EPZ.

The government could also encourage exports were it to introduce measures to

— allow competition in the trucking industry in order to reduce the high cost of transportation between factories and the ports,

— provide a dependable supply of electricity, so factories do not have to generate their own at high cost, and

— open the protected manufacturing sector to import competition.

Companies have been able to export from EPZs despite these continued impediments, but producers in the domestic economy may well require these policy changes if they are to transform themselves into export-oriented companies.

The question remains whether exports will respond to policy reforms. There are strong indications that they will. Nearly a quarter of the companies in the EPZs are owned by local residents, and many of the remainder are managed solely by Dominicans. The success of the EPZs is graphic illustration of the ability of Dominican entrepreneurs, managers, technicians and workers to perform once government removes many of the disincentives under which domestic industry must operate.

Industrial development comes from learning-by-example as well as from learning-by-doing. For this reason foreign investment is often crucial in the early stages of an export drive. It is no accident that South Koreans rather than Dominicans were the first to seize the opportunity to supply garment factories with cardboard boxes produced in EPZs, and the demonstration effect of this type of investment is very important for local entrepreneurs. Similarly, the first garment factories in Mauritius were established by Chinese investors from Hong Kong, but a majority are now owned by local businessmen who have learned much from the Chinese example.

EPZs inevitably become less important once adequate incentives are provided for companies located outside special export enclaves. This happened early in the industrial development of South Korea and Taiwan, where all exporters, direct and indirect, are given the same privileges as firms in the EPZs. Mauritius from the very beginning allowed EPZ factories to open anywhere in the country; in effect, the entire island is an export processing zone. The situation is much the same in Saint Lucia, where there are no physical EPZs, only factories with EPZ status.

The challenge for the Dominican Republic is to make the transition from export processing zones to an export-processing country and to provide incentives for indirect as well as direct exporters. At the same time, the Dominican Republic can reduce its dependence on a single market — the United States — by making better use of preferential access to the European and Canadian markets under Lomé and Caribbcan.

In the immediate future, exports of manufactures from the Dominican Republic are likely to remain concentrated in goods produced with standard technologies requiring large amounts of labor, low wages and low skills. This is not undesirable for a country in which a considerable proportion of the labor force is unemployed and has limited industrial skills. As unemployment falls, wages rise and skills increase, exporters will want to consider a shift away from simple manufactures to the production of goods that require skilled labor and sophisticated technology.

NOTES

1. The generous "super 807" quotas are in addition to the Multi-Fiber Arrangement (MFA) quotas, which apply to garments made from cloth of any origin. If non-US cloth is cut in the United States, the MFA garment qualifies for standard "807" treatment and duty is paid on the value added abroad; otherwise duty must be paid on the entire value of the garment.

2. The unemployment rate has since increased to 30%, but illiteracy has fallen to 17%.

3. More precisely, real minimum wages in US$ did not fall after 1985. Historical data refer to minimum rather than average wages, so indices for actual wages that might have been paid by companies in the EPZs do not exist. Average wages in the EPZs are known to exceed minimum wages by a large margin. A January 1992 survey conducted by Itabo Industrial Park found that the monthly wages of sewing machine operators, for example, ranged from the legal minimum of RD$1040 to a maximum of RD$3805, with an average wage of RD$1465. These are wages for ordinary time, without overtime pay, and vary because of productivity bonuses. In addition, employers are required to provide fringe benefits that cost a minimum of 24% of the wage bill, but most EPZ companies provide benefits well in excess of this. (See Itabo Industrial Park, *Labor Fact Sheets*, reported in AECI, 1992,

pp. 52–53.) The minimum wage increased by 9% in March of 1992 and by an additional 10.5% in July, while the price of the US$ remained fairly constant, fluctuating between RD$12.50 and RD$13.00. One cannot presume that labor costs increased to the same extent as the minimum wage, for the spread between minimum and average wages may have narrowed if the least productive workers were priced out of their jobs.

4. This conclusion seems at odds with the same author's statement that the EPZ companies' "style of development and operation — extremely dependent on subcontracting and on access to markets controlled by North American companies — has had negative effects on the entire economy. Their presence has produced a distortion in the evolution of national industry and has limited the scope for sectoral integration" (Hoffman, 1991, p. 1). In my opinion, the problem is not that the EPZ companies have had negative effects on firms in the customs territory, but that they have had no effects. Only with a drastic change in trade policies of the Dominican Republic can EPZ companies be expected to have positive effects on domestic firms.

5. To quote from Kaplinsky's report to the UNDP (1991, p. 57): "In contrast to the relatively fluid functioning of incentives for free zone companies... Law 69 never worked as it was intended. Customs authorities...have distrusted importers, and in-bond manufacturing procedures have not functioned in an agile manner."

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