

Export Processing Zones in Bangladesh: Sustainable Progress or Incentive Packages

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Abstract: Bangladesh is a young developing country having agriculture as the pre dominant sector in employment generation. The trade scenario of the country also reveals its huge dependence on the exports of primary products while on the contrary the bulk of finished goods imports. This inevitably leads to the adverse balance of payment pressure and the terms of trade thereby. The need for rapid industrialization in Bangladesh is well recognized from this background of the country's unemployment pressure and technological backwardness. Establishing Export Processing Zones is thought to speed up the industrialization process and technological transfer attracting both local and foreign investment. It also aims to ease the balance of payment pressure of the country producing a net foreign exchange inflow from the value added of the EPZs. Bangladesh has passed almost twenty years of its EPZs experience and it is high time to study the overall impact of the EPZs thereby for efficient use of the country's limited resources. This study in this context presents the nature of investment and employment in the EPZs, the incentive packages it offers, its prospects by studying different indicators relating to EPZs performances in creating employment, reducing technology gap, improving balance of payment and improving backward and forward linkage industries of the country. Finally policy suggestions are made in light of the findings of the study.

Key words: Export processing zone, trade, investment, balance of payment, backward and forward linkage industries

INTRODUCTION

Bangladesh is a young developing country having agriculture as the predominant sector in employment generation. Although agriculture contributes around a quarter of the total GDP, still half of the total population depends on it for their employment and income, though there is a significant rate of disguised unemployment with low wages within it. Nearly half of the total population of the country lives with below poverty line. The need for rapid industrialization of Bangladesh is recognized thereby since its independence. Industrialization requires development of infrastructure and overall economic reforms. While country wide development of infrastructure is expensive and implementation is very difficult considering the fact of limited financial and natural resources. The establishment of Export Processing Zones (EPZs) is argued since the early 1980s aiming that with a limited area coverage nature and consequently lower arrangement for infrastructural expenditures, it could serve the rapid industrialization process of the country within a very short period of time attracting both foreign as well as domestic investment^[1]. Export Processing Zone (EPZ), according to Bangladesh Export Processing Zone Authority (BEPZA) Act 1980, is an

export oriented custom bonded industrial enclave that provides: i) Plots/factory BLDG in custom bonded area; ii) Infrastructural facilities; iii) Business support services; iv) Administrative facilities; v) fiscal and non-Fiscal incentives, and vi) attracts foreign and local investment. The functions and objectives, according to this act, of establishing EPZs are specifically^[2]:

- To foster and generate economic development of Bangladesh by encouraging and promoting foreign investments in a zone;
- to diversify the sources of foreign exchange earnings by increasing export of Bangladesh through a zone;
- To encourage and foster the establishment and development of industries and commercial enterprises in a zone in order to widen and strengthen the economic base of Bangladesh;
- To generate productive employment opportunity and to upgrade labour and management skills through acquisition of advanced technology.

To facilitate the Investments and to facilitate EPZ activities government set up the Bangladesh Export Processing Zones Authority. The functions of the authority are^[1]:

Table 1: Facilities offered by the EPZs in Bangladesh

Basic Facilities	Infrastructure Facilities	Support Service Facilities
<ul style="list-style-type: none"> • Customs Office • Police Station • Banks • Restaurant • Health Club • Recreational Center • In-house Security • Sports Complex • Exclusive Telephone Exchange • Electricity Sub-station 	<ul style="list-style-type: none"> • Basic infrastructure: electricity, water & gas • Fully serviced plots available • Factory building available on rental basis • Enclave for workers • Dormitory and Day Care Center • Warehouse / godown available • Business support service : Courier (DHL, FedEx), Fire Station, Post Office, C&F Agent, Shipping Agent, MTO etc. • Administrative support service : Commissariat, Investors Club, College, Public Transport etc 	<ul style="list-style-type: none"> • No UD, IRC, ERC and renewal of bond license • Work permits issued by BEPZA • Secured and protected bonded area • Off - shore banking available • Freedom from import policy restrictions • Import on Documentary Acceptance (DA) basis • Back to Back L/C • Import from DTA • 10% sale to DTA • Customs clearance at factory site • Simplified and hassle - free sanction procedure • Intra / inter zone sub-contracting and transfer of goods allowed • Sub - contracting with export oriented Medical Center, School and DTA industries allowed • Relocation of foreign industries allowed • Residency and citizenship

Source: BEPZA^[1]

- to take possession of land to be acquired or requisitioned by the Government for the purpose of creation and development of a zone;
- to allot land and building spaces in a zone to investors on sale, lease or on rent and to allow them to mortgage the allotted lands for raising loan from financial institutions or commercial banks;
- to provide infrastructure facilities, including building, utilities and ware houses;
- to process application for setting up industries within a zone and accord sanction in accordance with the guidelines given by the Government from time to time; ties in accordance with customs
- to provide customs bonded facilities in materials for regulations for importation into a zone of building construction purposes and packaging materials, raw materials and intermediate goods for the purpose of processing for exports;
- to allow import of raw-materials or semi-processed or other goods required for use in the zone processed or other goods to be specified by the '[Board]' in such manner as may be prescribed;
- to assist in transportation of imported raw-materials and intermediate goods in bonded conditions and export of finished products;
- to provide necessary banking facilities within the zone in consultation with the Bangladesh Bank;
- to establish liaison with the port, municipal and other authorities to make arrangement for transportation of imported raw-materials and intermediate goods on bonded condition and for export of finished products;
- to sanction employment of foreign nationals in accordance with the guidelines given by the Government from time to time, to posts for which local expertise is not available for efficient running of the industries in a zone;

Besides the Authority may, if the Government so directs, set up, maintain and manage public warehouses at any place in Bangladesh to provide customs bonded facilities in accordance with customs regulations for importation into Bangladesh of raw materials, packaging materials, semi-processed goods and accessories required for export oriented industries.

Facilities provided by EPZs: EPZs offer a bundle of facility packages for the foreign and local investors to attract more investment fostering economic development of the country. The facilities are unique in feature such that many of these facilities are offered for the first time in Bangladesh and even South Asia. We can summarize these in the following way (Table 1). Besides this several fiscal and non-fiscal incentives are offered to encourage efficient and profitable investment in these EPZs. These include from cent percent foreign investment to full repatriation of capital and dividend. These sorts of incentives are not offered even in the South Asian countries like

India and Sri Lanka^[3]. However, the bundle of incentives those are given in the EPZ investments can be given as (Table 2):

Investment guarantee: Bangladesh government has attempted to foster its economic development by encouraging foreign investment at its best. The country has only savings rate of 18% of its GDP and 22% national investment^[4]. To eradicate poverty up to half of the present level (45%) World Bank argued to raise the savings rate up to 25% of GDP and investment 30 % at the minimum for the next 10 years. Government therefore emphasizes to attract more foreign investment to fill the savings-investment gap. To encourage foreign investment in a smooth way several safety measures are offered. Foreign investments in the EPZs are protected

Table 2: Incentives given in Investments in the EPZs in Bangladesh

Fiscal Incentives	Non-Fiscal Incentives
<ul style="list-style-type: none"> • Tax holiday for 10 years followed by reduced rate for next 5 years. • Duty free import & export • Relief from double taxation • Exemption from dividend tax • GSP facility available • Duty free import of 3 vehicles • Expatriates exempted from income tax for 3 years • Accelerated Depreciation on Machinery or Plant allowed • Remittance of Royalty, Technical and Consultancy Fees allowed 	<ul style="list-style-type: none"> • Investment protected under foreign private investment (promotion and protection) act, 1980. • 100% foreign ownership permissible • Enjoy MFN status • No ceiling on foreign investment • Full repatriation of capital & dividend • Foreign currency loan from abroad under direct automatic route • Non - resident Foreign Currency Deposit (NFC) Account permitted • Operation of FC account by 'B' and 'C' type industries allowed • Residency / citizenship
<ul style="list-style-type: none"> • Duty & Quota Free Access to EU (EBA), C Canada, Norway, Australia etc. 	

from any sort state interventions to encourage investments with no risks and uncertainty. To ensure security of foreign investment government has recognized different international provisions well known for protecting investment world- wide. These includes:

- Foreign Private Investment (Promotion and Protection) Act, 1980 secures all foreign investment in Bangladesh.
- OPIC's (Overseas Investment Corporation, USA) insurance and finance programmes operable.
- Security and safeguards available under Multilateral Investment Guarantee Agency (MIGA) of which Bangladesh is a member.
- Arbitration facility of the International Center for the Settlement of Investment Dispute (ICSID) available

Performances of the EPZs: Performances of the EPZs in the process of industrialization in Bangladesh can be assessed in the light of broad national goals and objectives as laid down in the BEPZA Act. For our present purpose, total impact of the EPZs in the national economy is presented here in light of various indicators such as investment, employment, net exports, backward and forward linkages etc.

Flow of Foreign Investment: During the 1980s and 1990s the relative share of foreign direct investment (FDI) in total inflow of investment in the organized private industrial sector in the country has increased remarkably. In the 1990s, this share tended to become exponentially higher although it has tended to decline in recent years. Average share of FDI to the EPZs in the total FDI inflow to the organized private industrial sector shows a drastically declining trend since 1993/94 indicating a low potential of further growth of the FDI in EPZs (Table 3), although was spectacularly high in the 1980s and early 1990s. This may be described by the relatively small size of the FDI in the EPZs (table 2), which concentrates on light industries, and, a relatively much higher and heavier investment in DTA, especially in the energy and telecom sector in which average size of the foreign investment is more than four times higher than in the EPZs. Bulk of the

Table 3: Relative share of EPZs in total industrial FDI flow (million US dollar)

Year	Total FDI inflow	Total FDI inflow in EPZs	FDI in EPZs as percentage of total FDI	Annual growth of FDI in EPZs
1983/84	17.365	0.86	4.95	-
1984/85	6.465	0.965	14.93	12.21
1985/86	6.653	2.918	43.86	202.38
1986/87	49.506	4.871	9.84	66.93
1987/88	49.958	1.693	3.39	-65.24
1988/89	49.968	2.358	4.72	39.28
1989/90	18.906	6.376	33.72	170.4
1990/91	79.127	21.332	26.96	234.57
1991/92	34.006	21.505	63.24	0.81
1992/93	47.435	20.935	44.13	-2.65
1993/94	426.515	24.515	5.75	17.1
1994/95	385.373	20.373	5.29	-16.9
1995/96	784.857	26.857	3.42	31.83
1996/97	578.31	51.31	8.87	91.05
1997/98	1772.727	52.727	2.97	2.76
1998/99	1010.983	47.983	4.75	-9
1999/2000	1087.019	27.519	2.53	-42.65
2000/01	1560.23	46.615	2.98	69.39
2001/02	1240.56	32.593	2.65	-30.03

Source: BEPZA^[1] and BoI^[2]

investment in the Epzs has taken place in the RMG and textiles that require neither high technology equipment nor specialized labour.

In the EPZs, although fully foreign owned (100 % foreign) FDI predominates, local share of equity in joint ventures has gone up from 20 % in the 1980s and early 1990s to about 45% in the late 1990s reflecting increasing local participation and greater control over the joint venture firms (Table 5). For joint ventures, the major advantage provided by the EPZ is the capitalization of foreign investor's trademark, patents and copyrights in which local partners figure very poorly. Besides foreign equity participation in joint ventures makes room for real capital transfers, management and technology transfers, etc. and sharing of risks and profits with most detailed legal protection. But a caveat is in order here. Increasing local investment in the EPZs may lead to increasing capital flight which needs to be guarded against.

Table 4: Average size of foreign investment per industrial unit in the EPZs and in the DTA (Million US \$)

Year	Average size of foreign investment in the DTA	Average size of foreign investment in the EPZs
1983/84	2.751	0.268
1984/85	2.2	0.438
1985/86	1.067	0.785
1986/87	6.376	1.311
1987/88	6.033	1.311
1988/89	6.348	1.152
1989/90	1.671	1.348
1990/91	3.303	1.688
1991/92	1.042	1.917
1992/93	1.893	2.552
1993/94	8.04	2.472
1994/95	5.034	2.46
1995/96	11.937	2.271
1996/97	7.638	2.672
1997/98	24.571	2.894
1998/99	11.963	3.127
1999/2000	15.696	3.237
2000/01	18.25	3.114
2001/02	16.2	3.432
All years	11.865	2.673

Source: BEPZA^[1] and BoI^[2].

Table 5: Share of FDI inflow in total investment in EPZs

Year	Total investment in EPZs (million US \$)	Total FDI inflow in the EPZs (million US \$)			Total FDI in EPZs as % of total investment in EPZs
		Fully foreign	Joint venture	Total	
1983/84	0.874	0.804	0.056	0.86	98.4
1986/87	6.631	3.414	1.457	4.871	73.46
1989/90	8.58	5.813	0.563	6.376	74.31
1992/93	22.048	23.525	-2.59	20.935	94.95
1996/97	53.899	49.663	1.647	51.31	95.2
1999/2000	34.983	26.431	1.088	27.519	78.66
2003/04	76.81	59.63	5.581	65.21	84.89

Source: BEPZA^[1] and BoI^[2].

Employment generation: Employment in the EPZs in 2003/04 was 148000, rising from a low figure of 1000 in 1983/84. Despite three-fold annual trend rate of growth, the employment effect of the EPZs remain very small, contributing less than 5% of the total manufacturing employment (table 4). The contribution of male employment is again very small (1.8%) of the total manufacturing employment. It is reflected, however, that the female employment contributes largely of the total employment in the EPZs all over the period.

An important issue relating to EPZ employment is that industries in the EPZs tap one particularly vulnerable segment of the labour force encompassing young female entrants who constitute the vast majority of the labour force of the EPZs. Their wages are generally lower than equivalent categories of male workers reflecting both the limited number of job opportunities for them and the lower price allowing for low wages even though the jobs

are intensive and have a high disutility arising from strict labour processes characteristic of EPZ firms (Table 5). Another characteristic of these jobs is high intensity of work with long working hours per day, shift work at unsocial hours and a very high incidence of various kinds of illness among the workers and accidents (the recent Savar tragedy that took away innumerable lives). The very high rates of labour turnover in these jobs are a reflection of the constant need to replenish the workforce with fresh recruits because of the exhaustion phenomenon implying that prevailing wages are below minimum of physical subsistence and physical and mental recovery and reproduction of labour power expended in the labour process is not guaranteed or accomplished. It could be also seen that the earnings of workers in the EPZs tend to be lower than those prevailing in the multinational companies and some forward looking local industries in the DTA. Minimum wages for the unskilled workers are not always protected as fixed by the BEPZA. Minimum wages for the unskilled and semi- skilled workers in the EPZs are, however, well protected. The workers, although engaged in export oriented industries and according to comparative advantage theory of international trade, their earnings should be that much as those in the importing country's manufacturing sectors. The figures in (Table 8) shows that the workers in the EPZs of Bangladesh earn only 1.98, 1.187 and 2.18% of the wages of the workers of Germany, UK and USA respectively. However, BIDS enterprise survey 2003 reveals that, working conditions in the EPZ enterprises are much better than in the most enterprises in the DTA^[3].

The crux of the labour issue is that of unequal exchange. A feature of the employment generated by the EPZ enterprises is the fact that productivity of labour in Bangladesh is sometimes as high as that in similar jobs in the industrialized countries. Yet wages in the EPZs in Bangladesh are a negligible fraction of what they are in the industrialized countries (Table 8) reflecting that a bad job is preferred than no jobs^[3,5].

Export performances of the EPZs: Bangladesh has earned a phenomenal success in export growth through the EPZ activities. In the total export earnings, the share of EPZs increased from 0.02% in 1983/84 to 13.51% in 2003/04 (Table 9). The export earnings of the EPZs touches double digit figures in all the years of the past decade. During the last ten years the growth of EPZ exports is three-fold while that of the national export is almost double. Net export earnings are, however, much lower than the gross export earnings for almost all the reference years accounting for an average of 18%.

Table 6: Relative share of employment of the EPZs in total manufacturing industries

Year	Total Formal Manufacturing employment (000)			Total in employment EPZs (000)			Employment in EPZs as% of total manufacturing employment		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
1983/84	439	13	452	0.3	0.7	1	0.07	5.38	0.22
1987/88	468	22	490	0.89	2.11	3	0.19	9.59	0.61
1990/91	936	175	1111	2.68	6.32	9	0.29	3.61	0.81
1993/94	1088	245	1333	10.00	18.00	28	0.92	7.35	2.1
1996/97	1273	399	1672	21.00	39.00	60	1.65	9.77	3.59
1999/2000	1490	650	2140	35.00	60.00	95	2.35	9.23	4.43
2003/04	2020	930	3010	38.00	70.00	148	1.88	7.52	4.91

Source: BEPZA^[1] and BoI^[2].

Table 7: Monthly wages in the EPZs and DTA

Skill category of workers	BEPZA minimum (US \$)	DTA (US \$)
Trainee	22	-
Unskilled	38	29.06
Semi-Skilled	45	44.87
Skilled	63	82.69

Source: BIDS^[3]

Table 8: Wages of the workers in Bangladesh EPZs and manufacturing sectors of some selected industrialized countries.

Country	Average hourly earnings of the employees in manufacturing (in US \$)
Bangladesh EPZs	0.42
Germany	21.54
UK	22.45
USA	19.24
Japan	26.43

Source: BEPZA^[1]; ILO^[5].

For most of the years, net export earnings of the EPZs remain much below 25% of the gross export earnings (Table 10). Across different products, the situation in industrial export is more disappointing. This is due to very high import content inherent in the EPZs industries. This also means that there are little backward linkages industries contributing the national export earnings. Moreover, both import and export are largely handled as intra-firm trade within the zones, which allows for transfer pricing reducing the net export earnings below levels that prevail in arms-length trading.

Technology Transfer: In a relatively simple industry with no patented technology, technology transfer occurs readily both inside and outside of the EPZs. The transfer in the EPZs results from foreign technicians and managers working together on factory floors, from foreign buyers to local firms, movement of employees, and so forth. But the industries with internationally established firms tend to guard their secrets and resist transfer of fast changing and largely proprietary technology. In such industries, direct transfer of product and prices technologies through the EPZs has been very small. In simple industries where managerial and marketing technologies and quality control techniques are rather easy to transfer to local

staff, such transfer has occurred. The most important technology transfer effects from EPZs occur through movement of people trained in foreign and joint venture firms and learning by locally owned firms in the EPZs. Across the board, the contribution of foreign EPZ firms in technology transfer is very small. This may be explained primarily by the low-cost labour, which is one of the major incentives that attract foreign investors and severely limits the scope of technology transfer. Technologies embodied in a production process can be transferred to the domestic firms through various channels, e.g. by setting up subcontracting or joint venture arrangement with domestic firms.

There is no evidence of investment of The EPZ firms in research and development (R and D) activities which constitute a critical determinant of technology transfer to the host country. Local firms do not usually invest in R&D activities. The foreign firms carry out R and D activities overseas at their respective parent companies. In case of most of the firms there is no process adaptations or improvements. Process innovative capabilities of these firms are not only inadequate but also not dynamic. As regards product innovations, it is seen that most of the firms copy designs from abroad. They supply on the basis of orders and their buyers specify the characteristics of the product. Most of the firms, therefore, cannot be termed innovative in product technology. Evidently, R and D efforts relevant to the EPZ enterprises are insufficient to make significant contribution to the absorption, adaptation or creation of technology.

In sum, the average innovative capability of the EPZ firms is not very substantial and is far below a satisfactory level. This is to be expected, because innovative capability is unlikely to be strong without first attaining a strong foundation in adaptive capability. It requires greater efforts to initiate and undertake R and D activities, sometimes in collaboration with public research institutes. The existing R and D institutional system has virtually no linkages with the EPZ firms. This reflects deficiencies on both sides. On the one hand, the firms lack

Table 9: Share of EPZs in the national exports earnings (in million US \$)

Year	Total national exports	Exports of EPZs	EPZ exports as % in total Exports
1983/84	807.36	0.164	0.02
1984/85	1010.21	4.45	0.44
1985/86	916.57	7.593	0.83
1986/87	1099.65	15.266	1.39
1987/88	1317.58	13.927	1.06
1988/89	1328.13	16.076	1.21
1989/90	1561.82	34.212	2.19
1990/91	1689.24	47.986	2.84
1991/92	1944.9	76.991	3.96
1992/93	2253.83	127.049	5.64
1993/94	2468.48	145.602	5.9
1994/95	3407.21	228.259	6.7
1995/96	3538.71	337.02	9.52
1996/97	4017.66	462.765	11.52
1997/98	5046.37	636.048	12.6
1998/99	5110.9	711.69	13.93
1999/2000	5752.2	890.817	15.49
2000/01	6467	883.1	13.65
2001/02	5986.09	866.6	14.47
2002/03	6548.44	929	14.18
2003/04	7602.99	1027.4	13.51

Source: Bangladesh Bank

Table 10: Net Export Earnings by the EPZs enterprises (in million US \$)

Year	Total exports of EPZs	Total imports of EPZs	Net export earnings of the EPZs
1983/84	0.164	0.6	-0.436
1984/85	4.45	4.64	-0.19
1985/86	7.593	7.87	-0.277
1986/87	15.266	11.53	3.736
1987/88	13.927	9.63	4.297
1988/89	16.076	14.78	1.296
1989/90	34.212	31.907	2.305
1990/91	47.986	40.235	7.751
1991/92	76.991	63.377	13.614
1992/93	127.049	88.674	38.375
1993/94	145.602	124.05	21.552
1994/95	228.259	200.233	28.026
1995/96	337.02	270.275	66.745
1996/97	462.765	417.12	45.645
1997/98	636.048	520.21	115.838
1998/99	711.69	534.42	177.27
1999/2000	890.817	739.39	151.427
2000/01	883.1	685	198.1
2001/02	866.6	627	239.6
2002/03	929	727	202
2003/04	1027	887	140

Source: Bangladesh Bank

the ability to identify their technical problems and formulate them into projects that can be dealt with by institutions. On the other hand, the institutions lack the skills and equipment to offer practical assistance. Besides both seem to hesitate in approaching each other. It is prudent for the firms to start improving the weak innovative capability now and to further strengthen all other technological capabilities as well.

Forward and Backward Linkages: Although horizontal and vertical integration of the EPZ firms has occurred, linkages reflected by an increase in local sourcing of

inputs are still at infancy. Forward linkages of the EPZS increased sharply from 9.7% in 1994/95 to 16.49% in 1995/96 and 18.74% in 1996/97, but started declining sharply since then reaching a low of 5.74 percent in 1999/2000. While backward linkages, though relatively very insignificant, show a secular increase from 0.93% in 1994/95 to 3.88% in 1999/2000 (Table 11). Across different products, however, plastic goods, garments accessories and knitting products show strong forward linkages. For the rest of the products, both forward and backward linkages are either very small or totally absent (Tables 11 and 12) because virtually the entire output is exported abroad and almost exclusive reliance on imported inputs virtually rules out backward linkages.

Economic cost benefit analysis of the CEPZ and DEPZ: A very recent BIDS study reveals that the estimate of total economic benefit and economic cost of the CEPZ reveals a benefit-cost ratio of 3.51 and net present worth of Tk.678.51 million over the period 1978-79-1999/2000^[3]. Internal economic return is estimated at 32.87% which is much higher than the social opportunity cost of capital (Table 13). Benefit-cost ratio of the DEPZ works out at 4.63 and the net present value at Tk. 1943.713 million over the period 1990/91-1999/2000. Internal economic return is 90.1% reflecting unusually high rate of discount to make the present worth of economic benefits equal to present worth of economic cost of the DEPZ. Much higher rate of economic return in the DEPZ may be explained primarily by three factors: firstly, occupancy rate in the DEPZ is much higher. Secondly, the space of the factory buildings and warehouses in the DEPZ is about double of that in the CEPZ fetching much higher revenue. Finally for the DEPZ a much shorter time spread in calculating the rate of economic return has made the rate exceedingly high.

Total benefits of both the CEPZ and the DEPZ overwhelmingly outweigh their costs, making them among the best users of scarce national resources. EPZs confer these gains because there is distortion in DTA suggesting that there is room for further replication of the EPZs in the country.

Major concerns of the EPZ programme: A major concern about EPZ programme is that they delay the necessary economy-wide trade reforms. The direct effects of EPZs on trade policy appear to have been positive on balance. A basic premise of export and import policy reforms is that export and import liberalization should reinforce each other. EPZs should be supported only as an initial or complementary part of a package for broader

Table 11 : Exports and imports from the DTA by the EPZs enterprises(million US \$)

Year	Total exports of the EPZs	Exports of the EPZs to DTA	Column 3 as % of column 2	Total imports of the EPZs	Imports of the EPZs from DTA	Column 6 as % of column 5
1	2	3	4	5	6	7
1994/95	228.259	22.134	9.7	200.233	1.864	0.93
1995/96	337.02	55.575	16.49	270.275	3.142	1.16
1996/97	462.765	86.743	18.74	417.121	5.572	0.34
1997/98	636.048	84.616	13.3	520.21	7.799	1.5
1998/99	711.69	89.951	12.64	534.421	16.315	3.05
1999/2000	890.817	51.105	5.74	739.39	28.701	3.88

Source: BEPZA^[1]

Table 13: Use of Local Raw Materials by the CEPZ and DEPZ Industries (in 000 US \$)

Year	CEPZ			DEPZ		
	Total raw materials	Local raw materials	% of local raw materials	Total raw materials	Local raw materials	% of local raw materials
1992/93	89489	1056	1.18	-	-	-
1993/94	103927	1419	1.37	12978	4	0.03
1994/95	158379	1798	1.14	41734	66	0.16
1995/96	209632	3296	1.57	60605	199	0.33
1996/97	285490	3470	1.21	130732	1191	0.91
1997/98	289578	5014	1.73	168527	1585	0.94
1998/99	281047	7232	2.57	224837	4866	2.16
1999/2000	466733	8567	1.84	298372	11540	3.87

Source: BEPZA^[1]

Table 14: Cost-Benefit analysis of the CEPZ and DEPZ

Indicators	CEPZ	DEPZ
Benefit-Cost ratio	03.51	04.63
IRR	32.87	90.1

Source: BIDS^[2]

trade and regulatory reform. A second concern about EPZs is that export firms outside the EPZs are discriminated against not by the presence of the EPZs but by the distortions and excessive regulations in the local economy suggesting that local exporters outside the EPZs need free trade treatment and a liberal regulatory environment too. A third concern relates to the lack of freedom of association of the workers in the EPZs. Wages in the EPZs tend to be equal to higher than the wages for comparable jobs outside the zones. Working conditions also should be made better. The fourth concern about the EPZs arises from their limited coverage and location specific enclave nature. An *in-bond system* could be the other alternative for firms that can manufacture for export giving them free trade status and providing for rapid delivery of imported inputs and outputs without restricting firms to a specific location. But this will be much more costly and difficult to manage.

CONCLUSIONS

The EPZs in Bangladesh have been instrumental in creating salutary direct benefits in terms of flow of foreign investment, employment generation, exports and foreign exchange earnings. Limited indirect benefits in terms of technology and skill transfer, and linkages have

been taken place. However, we can mention the important factors affecting the success of the EPZs in Bangladesh as: a) the existing macroeconomic policies affecting the EPZs; b) a more or less realistic exchange rate and stable macroeconomic environment and c) the most important low-cost labour for the almost world standard productivity with a minimum wages.

For policies that could attract more investment in the EPZs we can mention: i) a clear foreign investment policy regime; ii) an open door policy to attract foreign investment; iii) restriction free and duty free access to imported inputs and capital goods; iv) rapid and low cost customs clearance for imports and exports; v) a completely liberalized and stable foreign exchange regime; vi) speedy responses of BEPZA to investment applications to process and vii) minimal regulatory control of actions and transactions within the EPZs.

There is a need for equal policy emphasis on the direct benefits of the EPZs which have greater spillover effect on national benefits in expediting the process of industrialization. This is particularly important to effectively meet the post-MFA challenges which call for speedy development of the backward-linkage industries specially for the RMG sector. In order to maximize the dynamic role of the EPZs, it is imperative to establish a strong linkage between the EPZ and the DTA. Efforts should be made for an eventual integration of the EPZs into the domestic economy. An important policy decision would be to give priority to the establishment of agro-based industries in the new four EPZs which can strengthen backward-linkages by greater use of local

agricultural raw materials. This will contribute to greater utilization of agricultural resources and higher value added. Ideally, the linkage provides a key channel through which various technologies may be diffused from the EPZs to the rest of the economy.

Despite an attractive incentive package, flow of foreign investment in the EPZs has not been as robust as expected. Bangladesh continues to evoke a negative image abroad because of its socio-economic backwardness and political unrest, corruption and excessive delays in investment process. The country, according to Transparency International, secured the place of top most corrupted country for last four years consecutively. Besides World Investment Report 2004 mentions that the initial costs of investment in Bangladesh is 27 dollars which is highest in the Asia and nil in Denmark. Also it takes to move almost 32 desks for one investment to come into decision. To come out of these sorts of such negative images necessary steps should be taken immediately. For smooth handling of import and export, uninterrupted seaport services, especially at Chittagong, should be ensured by declaring them as essential services.

Replication of the EPZs is worthwhile and there is ample room for further replication of the EPZs in the country. However, a critical limitation of the EPZs is that

they accommodate only the light industries with no room for heavy industries which are the main vehicles of technology and skill transfer. BSCIC industrial estates which remain mostly unutilized or underutilized may well be converted into a chain of small EPZs with decentralized production processes and diversified manufactured products for exports based on local raw materials.

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