

Export Diversification and Role of Export Processing Zones (EPZ) in Bangladesh

A.N.M Asaduzzaman Fakir*

Mohammad Shahin Miah*

Md. Shakawat Hossain**

Abstract

This paper explores the history of EPZ in Bangladesh, its legislative structure for operation and performance. This study has explored the contribution of EPZ in Bangladesh and how much it contributes to country's economy in terms of employment, export and investment. The yearly growth rate of GDP is used as a dependent variable. It argues that developing countries can take advantage of the opportunities provided by EPZs for the acquisition of superior technology, upgrading of labor and managerial skills, and greater access to foreign markets. The paper then examines the development and economic significance of EPZs in Bangladesh. Export diversification and export-oriented activities, the development of stronger backward linkages, and the upgrading of the export-oriented legislation in Bangladesh are addressed. This study also tried to explore the contribution of EPZ in national economy, branding of products, export-incentives, infrastructures, investments & prospects including constraints of EPZ in Bangladesh.

Key Word: EPZ, export diversification, backward linkages, national economy, prospect and constraint.

Introduction

Since independence Bangladesh has made remarkable progress in diversified areas of social, political, cultural and economic life of its citizens. In order to boost up economic development of the country, a number of steps have also been taken to attract Foreign Direct Investment (FDI) and facilitate industrialization process of the country. One of such efforts was the promulgation of BEPZA Act 1980 which eventually instituted the formation of Bangladesh Export Processing Zones Authority (BEPZA), the government organ responsible for creation, operation and development of Export Processing Zones (EPZ) in the country.

After the independence the stagnant economy of the war ravaged country was desperately seeking private capital and technical knowhow to facilitate the industrialization process to achieve economic growth. During the initial years it could not happen. However, a visit by the then World Bank Vice President, Mr. Robert McNamara in the early eighties to Bangladesh transmitted the concept of EPZs to us. Since then EPZs, in tune with the liberal industrial policy of the

*Lecturers, Dept. of Accounting & Information Systems, Jagannath University, Bangladesh

** Assistant Professor, Dept. of Accounting & Information Systems, Jagannath University, Bangladesh

government along with investment friendly legal & institutional framework like Foreign Private Investment (Promotion and Protection) Act'1980, have made significant progress. The pioneer zone in Bangladesh was set up in South Halishahar in Chittagong in 1983. Following the tremendous success of the Chittagong EPZ, the government has decided to establish the country's second EPZ at Savar near Dhaka a decade later in 1993. In view of the growing demand of the investors the government has established 4 new EPZs one at Mongla, a southern port city of Bangladesh, one at Comilla, situated in a unique place between Dhaka and Chittagong, one at Pakshl, Pabna near the Bangabandhu (Jamuna) Bridge and the fourth one at Nilphamari named Uttara EPZ near Syedpur Airport. The Authority has already started allotment of plots for setting up industrial units in those EPZs and 3 EPZs have already started operation. 50% concession is given on rent of plot and factory building at EPZs of Mongla, Ishwardi & Uttara (Nilphamari).

Recently, two new EPZs has been established; one at Adamjee Jute Mills area and the other at Karnaphuli Steel Mills area. Attractive packages of incentives, physical industrial facilities of Zones along with abundance of skilled manpower at a competitive rate have placed Bangladesh's EPZs in a comparative advantageous position over other competing EPZs of neighboring countries. Apart from the manufacturing sectors EPZs are now inviting investment into infrastructure, power & utility, and environmental management projects which have made the Zones truly attractive investment destination for the prudent investors who looks to the future.

Literature Review

Some researchers (Paul-Majumder and Begum 2000; Rock 2002; Sajeda Amin et al. 1998; Paul-Majumder 2002; Khundker 2002; Afsar 2000; Grumiau 2000; Hewett and Amin 2000; Hossain, Jahan and Sobhan 1990; Kabeer 2004) have focused on the effects of EPZ in terms of migration of rural women towards the urban city and how the industry influenced women's life in every aspects: from empowerment in household work to their economic rights. These researchers also showed how the cheap labor particularly of women workers, have been exploited by lower wages, more working hours and unhealthy conditions.

Much of the research has spotlighted the tremendous growth of garment industry, from 0.2 percent export in early 1980's to 76 percent in 2010-11 and the effects of globalization (Bow 2001; Muqtada, Singh and Rashid 2002; Ahmed 1989; Dowlah 1999; Haider 2003; Mahmood 2002). These studies also showed how MFA and GSP schemes of EU nurtured the growth of RMG industry with a fixed market and at the same time developed a 'segmented' backward linkage. Bhattacharya, Rahman and Raihan (2002) investigated the overall contribution of EPZ industry towards Bangladesh economy in accordance with attracting Foreign Direct Investment (FDI), to banking, insurance, education, shipping and logistics etc. Rhee (1990) analyzed entrepreneurial skills; a 'catalyst' along with the MFA. This was further investigated by Quddus (1996; 1993) who showed that brilliant entrepreneurship was one of the main reasons for this enormous growth. Kathuria, Martin and Bhardwaj (2001) commented that the extraordinary growth rates of Bangladesh apparel industry was result of combination of MFA, favorable policy

with adequate infrastructure. Similar patterns found on the rise of the garment industry in EPZ by other researchers (Khundker 2002; Ahmed; Dowlah; Haider; Mahmood).

Role and impact of Export Processing Zones in Bangladesh is discussed by Dorsati Madani in his working paper of World Bank policy Research (1999). Benefit-cost-appraisal of Export Processing Zones was reviewed in Development Policy Review 21(1) by Jayantha Kumaran, in 2002. It is found from the Economic Profile of Bangladesh that EPZ contributes in country's GDP by exporting various products in different countries (Islam. M. J. 2006). For that reason, export policy has been liberalized by the government of the People's Republic of Bangladesh in order to keep pace with the present globalization system under WTO rules by World Bank working paper (no. 125)

So, it is noteworthy that EPZ is an important tool for the economic growth in a developing country such as Bangladesh. Literature review also revealed that there are contradicting perceptions, facts, and findings about the investment environment, export and doing business in Bangladesh.

Objectives

The study focuses on export diversification and the performance of EPZs in Bangladesh. While analyzing the performance of the zones, the study focuses on two indicators of the EPZ performance namely, export performance and the participation of foreign direct investment.

The objectives of the study are three fold. It will:

- examine domestic and foreign investment trends in EPZs across the eight EPZ in the country;
- analyze export performance of these zones using various indicators and
- examine the determinants of export performance and investment in the zones.

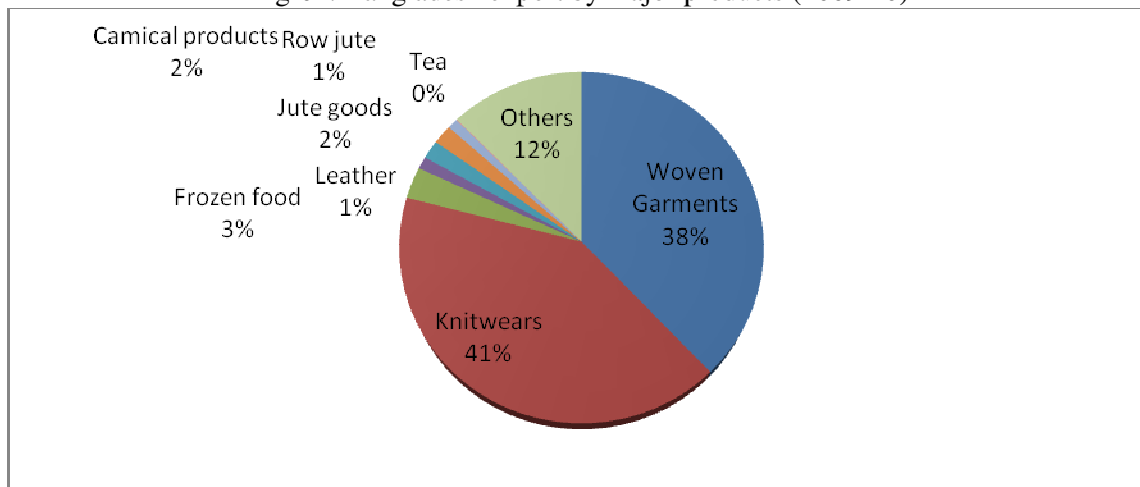
Methodology

The study uses both primary and secondary data. We conducted primary surveys on Export Processing Zone Authority office. The main purpose of these visits was to interview the zone authorities and a cross section of the entrepreneurs to solicit their views on different aspects of investment climate in the zones and to get their perceptions on the determinants of investment climate in them. The primary survey based analysis was supplemented by a secondary data based econometric analysis. The secondary data was collected from the Board of Investment (BOI), Bangladesh Export processing Zones Authority (BEPZA) and The Ministry of Commerce (MOC) of Bangladesh. The compiled data provides information on such key variables as exports, investment, employment etc. Besides, data on the overall/ regional economic environment was collected from various official documents.

Export Performance

During 2010-2011 export performance of Bangladesh raised up to US\$22.93 billion. Major contribution came from exportable items such as RMG (Woven Garments and Knitwear), Frozen food, Home textile, Computer Service, bicycle and ceramic. Sector wise contribution is given below:

Fig-02: Bangladesh export by major products (2009-10)



Source: Export Promotion Bureau, Bangladesh.

Export Diversification

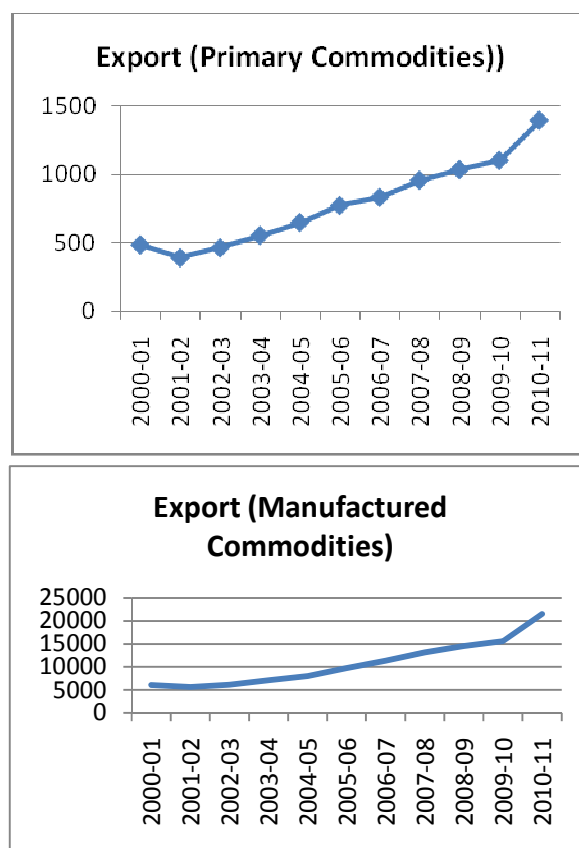
Scope of business is widening day by day and become diversified by some new areas like Garments / Knitting, Agro Products, Paper industry, Electronics & Electrical, Foot wear & Lather, Garments Accessories, Chemical, Plastic, Food, textile, Tents, Furniture, & Metal/Steel/Industry, and etc. It is also true that the economy of Bangladesh is mostly agro-based, so its export base was set on primary commodities like raw jute, tea, frozen food, agro product etc. Out of the total export earnings of US dollar 22934.23 million during the FY 2010-2011 the share of primary commodities stood at US dollar 1395.93 million and that of manufactured products at US dollar 21538.3 million.

However, during last 40 years, average annual growth rate of primary commodity export stands around 14% per annum. Prior to 1981-82, country's major exportable manufactured commodities were jute goods and leather. Since independence, average annual growth rate of traditional jute goods comes at 2.62% and leather goods stands at 5.42%.

In late 70's, Bangladesh economy was opened for private sector investment. But diversification of Bangladeshi export started with RMG product in early 80's. With the influx of FDI in EPZs, RMG sector gives a fresh thrust in boosting national export. Consequently, from 1981-82

Bangladesh started exporting Ready Made Garments (RMG). At present, this item accounts for more than 75% of the total export. During the last 30 years average annual growth rate of RMG product export comes at 268%. RMG and textile cluster alone represents 90% of EPZ export and 26% of national RMG export in 2009-10. Moreover, BEPZA could attract substantial amount of FDI for Tent, Camera parts, Golf Shaft, Bi-cycle, Zipper manufacturing plant. There is no single manufacturing unit of this kind outside EPZ. Moreover, presently the country is exporting innumerable items under 27 major commodity head to almost 200 countries of the world.

Fig-3: Export Growth (Million US\$) in both Primary commodities & Manufactured commodities



Source: Bangladesh export statistics (2010-11)

Major Manufacturing Commodities are: Jute goods, Leather, Leather goods, Petroleum by products, Readymade garments, Knitwear, Chemical products, Paper and allied products, Handicrafts, Engineering products, Specialized textile & Household linen, molasses, Electronics, Stainless steel cutlery, Handloom products, Glass sheet etc.

EPZs of Bangladesh & Economic Rationale for a better export performance

After independence, the stagnant economy of the war-ravaged country was desperately seeking private capital and technical know-how to facilitate the industrialization process to achieve economic growth. Unfortunately, this could not be achieved in the initial years.

In late 70's Bangladesh EPZ has emerged to attract capital investment in EPZ. The manifested target to set up EPZ has been fixed up at rapid industrialization, employment of human resources, transfer of technology and foreign exchange earnings by boosting up export. With this end in view, some targeted efforts have been taken to attract foreign investment and promotion of exports through creation of special infrastructures and support service facilities, giving fiscal and non-fiscal incentives and ensure free trade environment with the EPZ.

EPZs are special enclaves, separated from the Domestic Tariff Area (DTA) by fiscal barriers and are intended to provide an internationally competitive duty free environment for export production at low cost. EPZs are benefitted usually from the following:

- Modern and efficient infrastructure
- General fiscal and non fiscal concessions to firms
- Better governance due to single window facilities to ensure corruption and red tape free business environment.

Mode of Investment

Govt. pursues an open door policy in matters of foreign investment in its EPZs. BEPZA is a statutory body but very different from other autonomous organization. It enjoys complete freedom of action in its decision making process. There are 3 types of investments in EPZ.

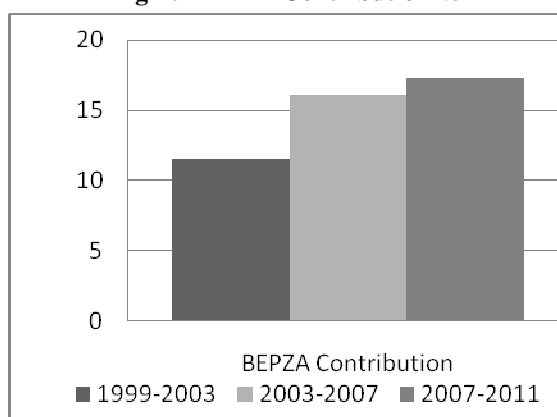
- Investment with 100% foreign ownership (Type - ' A ')
- Joint ventures (Type-'B') with no limit to the extent of equity sharing by the foreign partner
- 100% Bangladeshi ownership (Type-C) are allowed in the EPZs.

According to BEPZA, 60% of investment with type-A, 25% with Type-B and remaining 15% investment is with Type-C in EPZs in Bangladesh.

Investment and Export Trends

During the past 25 years, the total investment in BEPZA has amounted to US\$1611.17m and export US\$18,914.74m. During the last 10 years BEPZA's annual average contribution to national export stands at 17.23%.

The World Bank has ranked Bangladesh 20th out of 187 Countries for protecting the investors in The South Asian Region. Source: (Doing Business 2010)

Fig-4: BEPZA Contribution %

Source: Export Promotion Bureau, Bangladesh.

Investment

Despite worldwide recession FDI has increased in the EPZs during the last few years. The actual investment in the country's eight export processing zones (EPZs) grew by 41.10 per cent to US\$ 314 million during the immediate past fiscal year (FY), according to official statistics. The cumulative investment in the eight EPZs has been \$ 2117.69 million since 1983.

Export

Bangladesh has achieved phenomenal export success through the EPZs. In the total foreign exchange earnings of the country through exports, the share of EPZs increased from a microscopic low of 0.02% in 1983-84 to a spectacular high of 31% in 2010-11. The share of EPZs in the foreign exchange earnings through the exports of manufactured goods also shows the same trend over the corresponding period reflecting fast decline in the relative share of the DTA in both total exports and the exports of manufactured goods and the resulting foreign exchange earnings of the country. Annual trend rate of growth of export earnings of the EPZs has been more than six times higher than that of total national export earnings and more than four times higher than that of total national export earnings from manufactured goods. It means that export performance of the EPZs is much more impressive than that of the country as a whole.

The enterprises of EPZs have exported goods worth of US\$ 25434.89 million up to June, 2011 and it was US\$ 10003.62 million till June 2005. During the last 5 years the export volume increased to about US\$ 15431.27 million. This shows an increase of 154.26%. BEPZA reports that EPZ contributes 17.23% of total national export during the last four years.

Table-1: BEPZA's contribution towards total national Export

Year	Total export of Bangladesh (m US\$)	Total export of EPZ (m US\$)	% of BEPZA contribution (m US\$)
2000-01	6467	1068	16.51
2001-02	5986	1077	18.00
2002-03	6548	1200	18.33
2003-04	7603	1354	17.80
2004-05	8654	1548	17.88
2005-06	10587	1836	17.34
2006-07	12178	2069	17.00
2007-08	14113	2430	17.22
2008-09	15800	2722	17.23
2009-10	16200	2823	17.42
2010-11	21456	3697	17.23

Source: Bangladesh Bureau of Statistics.

Productivity Performance of EPZ Workers

During 2010-2011 the export performance of EPZ workers in textile cluster stands US \$ 10795.74 per worker whereas export performance of one DTA worker in the same sector recorded US \$ 3086.43. Therefore, EPZ worker's productivity performance is 3.5 times than the DTA workers.

Table-2: Productivity Performance of EPZ Workers

Sector	DTA			EPZ		
	EMPL (NOS)	Export US\$m	Exp./EMPL US\$	EMPL (NOS)	Export US\$m	Exp./EMPL US\$
Textile Cluster	3620250	11173.65	3086.43	308205	3327.3	10795.74

Textile Cluster includes Garments, Knit & other textile, Textile, Terry Towel, Garments Accessories, Cap, and Tent.

Total Export	Bangladesh	\$21456 m	100%
	EPZ	\$3697 m	17.23%
RMG & Knit Export	Bangladesh	\$11173.65 m	100%
	EPZ	\$3327.3 m	29.77%

Source: Statistical Pocket Book Bangladesh-2011,

Export Performance on Investment

EPZ enterprises derives highest dividend in terms of their investment. During 2009-2010 fiscal, average export performance of enterprises stands around 1.84 times of their actual investment.

Table-3: Export Performance on Investment

S L	PRODUCT	UNIT	INVESTMENT (US\$ m)	EXPORT US\$	Exp. Per US\$ m Inv.
1	GARMENTS	58	343.461	1016.64	2.96
2	TEXTILE	28	305.245	476.18	1.56
3	TERRY TOWEL	16	39.886	57.83	1.45
4	KNIT & OTHER TEXTILE	25	124.268	213.41	1.50
5	GARMENTS ACCS.	32	142.008	201.65	1.42
6	CAPS	6	42.421	112.42	2.65
7	TENT	5	23.869	59.67	2.50
8	ELEC & ELECTRONICS	16	54.359	52.18	0.96
9	FOOTWARE & LEATHER	12	57.830	54.94	0.95
10	METAL PRODUCTS	11	22.068	17.65	0.80
11	PLASTIC GOODS	14	22.052	15.88	0.72
12	PAPER PRODUCT	2	0.837	0.94	1.12
13	FISHING REAL & GOLF	1	31.707	14.27	0.45
14	ROPE	2	6.134	5.64	0.92
15	SERVICE ORIENTED INDUSTRIES	3	6.037	2.72	0.45
16	AGRO PRODUCT	10	3.011	7.83	2.60
17	MISCELLANEOUS	23	36.524	12.78	0.35
	Gr. Total	264	1262.16	2322.63	1.84

Source: Board of Investment, Bangladesh.

EPZ s contribution to national economy

Apart from export earning objectives employment pattern shows that EPZs have been making significant contribution to the gradual empowerment of women which supports the objective of Millennium Development Goal (MDG). This financial and social empowerment of women has far reaching effect on the country's poverty reduction initiatives as the increasing number of young girls and woman are joining the productive workforce of EPZs migrating from poverty prone remote rural areas of Bangladesh linking the rural economy with industrialization process. BEPZA has also accelerated the privatization effort of the government successfully by converting two loss making State Own Enterprises (SOEs) of the country namely Chittagong Steel Mills and Adamjee Jute Mills Ltd in to EPZs. Once abandoned projects are now vibrating with activities. Mention may also be made that investors from thirty three countries have already invested in the EPZs of Bangladesh. The leading nations among them include South Korea, Japan, China and the host Bangladesh.

Brand Products

The enterprise are exporting world famous brand products like Nike, Reebok, Lafuma, H & M (Sweden), GAP, J.C. Penny, Wal-Mart, Kmart, OSPIG (Germany), Mother Care (UK), Lee, Wrangler, Dockers, NBA, Tommy Hilfiger, Out Door, Adidas, Falcon (USA), Edie Bauyer, Eagle, Raleigh (UK), Emmilee, Free Spiril (UK), Miles (Germany), Brouks, American Eagle, Hi-Tech (UK), Decathlon, Phillip- Maurice (UK), Federated, Styles Co, SAG Harbour (USA), Wins More, H & M (SWEDEN), LL Bean, Target, Autica, Disley, Vans, Vftnfcamera Lens (IO Parts) Konika, Minolta, Golf Shafts, Abu Garcia, Mobile Parts of Sony, Automobile Parts of Nissan, Mitsubishi & Hino.

Cumulative Performance of EPZs

The following shows the cumulative performance of all the EPZs of Bangladesh. It reveals from the record total number of industries in EPZs rose up to 497 with cumulative investment of US\$ 2117.69 million, export US\$ 25434.89 million and employment up to 308205.

Table-4: Zone-wise aggregate performance (up to June 2011)

EPZ	Industry		Investment (US\$ in m.)	Export (US\$ in m.)	Employment (No.)
	In operation (no.)	Under implementation(no.)			
Chittagong EPZ	161	15	858.48	13178.79	166452
Dhaka EPZ	98	6	785.93	10969.99	82895
Comilla EPZ	20	23	136.57	563.95	10841
Mongla EPZ	8	8	5.14	74.52	523
Uttara EPZ	6	1	16.73	9.08	4715
Ishwardi EPZ	7	19	49.89	41.35	5060
Adamjee EPZ	15	36	129.68	353.25	16156
Karnaphuli EPZ	14	60	135.29	243.96	19781
Total	329	168	2117.69	25434.89	308205

Source: Bangladesh Export Processing Zone Authority.

The total number of the industries operating their business in the EPZs is 329 where half of which are established in the Chittagong EPZ (the first EPZ in the country). Then, the amount of investment in Chittagong EPZ (CEPZ) and Dhaka EPZ (DEPZ) are collectively \$1644.41 million while the total amount of investment in all of the eight EPZs (including DEPZ and CEPZ) is \$2117.69 million. Furthermore, in case of amount of export we see the same picture.

However, this analysis is just data based and means that the investors are more interested to invest in the old two EPZs where they get much more facilities. Besides that, the new six (among which Adamjee and Karnaphuli is established very recently) EPZs should be advertised more in front of the investors.

Performance Factor

Public Sector Investment in development of EPZs

The direct income of EPZ is negligible in comparison to overall economic benefit of the country. The scenario of actual cost recovery in terms of investment is far behind the book standard. Because, the capital recovery factor permits calculating what constant annual payment would be necessary to repay capital invested over a given period of time at a presumptive interest rate. But this formula cannot be applied in EPZ due to its investment peculiarity. In every EPZ infrastructural facilities are made in uniform design that serves the exclusive purpose of investors. Because of that more than thirty eight percent of Government investment in EPZ is made in non-income generating head of expenditure which gives nil rate of return on investment. A pertinent question that can be raised here is whether the existing tariff rates of land or factory building could be raised in order to bring about quick cost recovery? This can be seen in the light of tariff rates prevailing in other EPZs of neighboring countries where such rates are reportedly similar or little bit lower than our tariff rates. In these circumstances, if we try to recover our cost by enhancing tariff rates, we may lose investment.

Infrastructure Facilities

The success stories of EPZs in different countries formed to be closely associated with the physical facilities provided by them to the potential investors. Therefore, the provision of creating infrastructure, buildings and ensuring public utilities to the investors were planned in the early stage of Bangladesh EPZ.

Infrastructure Facilities	
1.	Basic infrastructure: Electricity, gas, water, road, telecom, e-mail etc.
2.	Fully serviced plots (Avg. size 2000 sqm)
3.	Factory building available on rental basis.
4.	Enclave for workers dormitory.
5.	Godown available
6.	Business support service: courier (DHL, FedEx), Banks, Police station, fire station, post office, C&F agent, shipping agent, MTO etc.
7.	Administrative support service: shopping center, green area, daycare center, commissariat, health club, investors club, medical center, sports complex, accommodation for expatriates, school and college, public transport etc.

Prospect and Constraint

BEPZA is taking up initiative to develop EPZ, where private sector stimulate industrial investment and that will ultimately gives a momentum to make thousands of economic transaction in the society. Now, what happened in Dhaka and Chittagong EPZ is that BEPZA has invested around US\$ 40 million to establish EPZs where private sector industrial investment accrues US\$ 770 million followed by US\$ 1500 million infrastructure investment around these zones. Moreover, there is a clear spillover effect of linkage support industries. It is mentioned in the foregoing paragraph that during 2010-11 EPZ enterprises made transactions with domestic industries to the tune of 29% of their export earnings.

Due to availability of better infrastructure in Dhaka and Chittagong area, prospective investors are asking for more space in the EPZs of these regions. In this connection we may mention that at present we are developing Adamjee EPZ (near Dhaka City) and Karnaphuli EPZ (near Chittagong EPZ). Lot of investors from home and abroad are coming to invest in these two zones although we are not fully ready to allot space to them. On the other hand there have three EPZ in North and South-West of the country viz. Mongla, Ishwardi, and Uttara EPZ. In spite of reduced tariff BEPZA couldn't attract considerable number of enterprises due to lack of urban facilities, residential accommodation, educational institutions, hospitals, telecommunication facilities, and hotel and resort centers. Moreover, Export oriented industries outside EPZ enjoy more or less same incentives still they could not do up to the mark due to lack of proper infrastructure.

Therefore, public sector BEPZA can only establish EPZs with basic infrastructure. Now, private sector may come up to provide infrastructure related works to enterprises, transportation, hotel and resort centers, shopping mall, universities and vocational institutes and other social infrastructures, operation and management of water, effluent disposal, power, telecommunication, linkage industry and supportive financial infrastructure.

So it is obvious that in case of FDI and Local investment proper infrastructure is considered as the main factor for rapid industrialization in Bangladesh.

Policy Concessions

Incentives: Fiscal

To augment investment in EPZs, the government has declared a fiscal and non-fiscal incentive scheme in the early stage of EPZ development.

Table-5: Fiscal incentives provided by BEPZA

Incentives - Fiscal	
1.	Tax holiday for 10 years followed by 50% rebate on export sales.
2.	Duty free import of const. materials, machinery/spare parts/equipments.
3.	Duty free export and import.
4.	Relief from double taxation.
5.	Exemption from dividend tax.
6.	GSP facility available.
7.	Duty free import of 2 vehicles.
8.	Expatriates exempted from income tax for 3 years.
9.	Accelerated depreciation on machinery or plant allowed.
10.	Remittance of royalty, technical and consultancy fees allowed.
11.	Duty and quota free access to EU (EBA), Canada, Norway, Australia etc and USA under process.

Incentives: Non-Fiscal**Table-6: Non-Fiscal incentives provided by BEPZA**

Incentives: Non-Fiscal	
1.	Investment protected under the Foreign Private Investment (Promotion and protection) Act 1980
2.	100% foreign ownership permissible
3.	Enjoy MFN status.
4.	No ceiling on foreign investment.
5.	Full repatriation of Capital and dividend.

The above incentive scheme may need to be further broadened to compete with the big industrial giant of far-east and western world. Despite limitations, BEPZA has been following an affirmative policy to nurture investment activities in EPZs. It creates infrastructural facilities including buildings, utilities and warehouses. The office of BEPZA processes the application for setting up of industries, allot plot of land or building space and sometime the investors are allowed to mortgage the building and machinery for raising loan from financial institutions. The process of sanctioning takes minimum span of time. Sometimes the EPZ officials haunt the prospective investors up to their home countries. Almost every time they receive the investors in Airport and the whole process from landing to sanction of industries is done by BEPZA officials believing the doctrine of 'one window service'.

Although policy concession seems to be adhoc arrangement for rapid industrialization but concessions have good impact on new investment and re-investment of profit in new venture. Yet policy concession is considered as second agenda for investment attraction.

Regulatory Streamlining

To foster and generate investment in the EPZs of Bangladesh, there have been specified Acts like BEPZA Act, Foreign Private Investment Act, Workers Right Act and Conductive rules on Custom Procedures, credit facilities, Foreign Currency, capital issues and Income tax. These Acts and rules have more or less simplified the procedure for establishment and operation of industrial activities in the zone. For better operation of the zone there should have been more regulatory streamlining of existing law of the land.

Transfer of technology & skill

Technology transfer or spillover constitutes one of the most important dynamic effects expected of foreign investment. The field survey reveals that in a relatively simple industry with no proprietary technology, such as RMG and footwear, technology transfer takes place readily both inside and outside the EPZs, though on a very limited scale. The transfer is from foreign technicians and managers working together on factory floors, from foreign buyers to local firms, and through consultants, movement of employees, visits to plants abroad, and so forth. In the case of skill transfer, we found in our interview with a number of factory managers in the EPZs indicate that the factories in the EPZs contribute significantly to workers' technical production and factory management skills even though the acquisition of broader management capability or marketing skills is very slow. There are quite many instances in both CEPZ and DEPZ that technicians and managers who have acquired the ability to compete in the world market have carried this expertise to the rest of the economy. To foster such mobility and make it more productive, the business environment outside the EPZs must be rationalized as well, through deregulation and import liberalization (for healthy competition) and industrial restructuring (for efficient production).

Special Economic Zone – Proposal from World Bank

Given the scarcity of land in Bangladesh, its efficient use for industrial purposes is of utmost importance. Indiscriminate use of land for industrial purposes coupled with poor environmental practices is causing environmental damage and is emerging as a major problem in Bangladesh. Poor availability of infrastructural facilities is identified as the most important constraint in investment climate assessment in Bangladesh. Investors, in particular foreign investors, are also discouraged by property right problems, such as lack of clean titles, which make access to land difficult. In view of this, our development partners especially World Bank proposed to Bangladesh Government to set up special Economic Zones with the following strategy:

- Introduction of a broader concept of economic zones, i.e., including Special Economic Zones (SEZ) which have not been tried in Bangladesh, and the provision of a broader range of value added services, such as logistical service in the zone.
- A greater role for the private sector in the development and operation of economic zones.
- A clear option to establish both export-oriented industries and manufacturing units for domestic market.
- A separation of the regulatory function of Government from its zone ownership functions.

Recommendation

The study is conducted primarily to provide a critical analysis of the export & role of EPZs in Bangladesh. EPZs have been a common development tool throughout the developing world utilized as part of structural adjustment programs or set up by governments hoping to invigorate their economies' exporting capabilities and capacity. Recommendations on the basis of the study are stated below:

- A major preferential treatment is essential for the development of EPZ units by granting them the Government policy concessions in the form of fiscal and non-fiscal incentives.
- There should have been separate specific rules/regulations for different kind of zones in regard to Customs, Income Tax, Foreign exchange, VISA/Landing permit etc.
- EPZs alone will not encourage entrepreneurial activity in an economy. Fuller reforms are necessary.
- EPZs should be strengthened enough to exercise regulatory functions and to act as an independent regulatory body.
- Encouraging the involvement of multi-industry, multi ethnic business associations in public policy making.
- Proper infrastructural facilities should be ensured and government should take attempt to create new financial market.
- It is found that BEPZA Authority Act was enacted in 1980 and modified on December, 1994. Therefore, for the congenial atmosphere in all corners, the Act should be reviewed every five years for the betterment of investors, employers and as well as for workers.
- Capacity building for the stakeholders through training and counseling, especially for workers, supervisor and some technical level jobs are indeed for undergoing education and training. This kind of facility is inadequate, almost absent, need to be enhanced. A vocational school and training institution need to be established for building the capacity of EPZ workers. In action to implement one stop/window service, concerned officers need to build up their capacity enough to provide and deliver those facilities to the incumbent.

Conclusion

One of the basic elements critical for any export activity is adequate infrastructure especially physical infrastructure within the zone like water, electricity, factory & service buildings, warehousing, transporting, telecommunication, police stations, and fire stations. Outside the zone infrastructure like port, roads leading to the zones, transport facilities to the zone etc. Zones must be supported by financial infrastructures (Bank, Insurance, C&F Agent, Freight forwarder, couriers etc) and social infrastructure within the zone (Residential Complex, School, Hospital, Club, Resort centers etc). Again, infrastructure within EPZs is generally considered superior to that available in the wider economy. In spite of same incentive scheme for EPZ enterprises and export oriented industries of DTA the EPZ enterprises are performing well due to adequate planned infrastructures in EPZ area.

A major preferential treatment is essential for development of EPZ units by granting them the Government policy concessions in the form of fiscal and non-fiscal incentives. There should have been separate specific rules/regulations for different kind of zones in regard to Customs, Income Tax, Foreign exchange, VISA/Landing permit etc. EPZs should be strengthened enough to exercise regulatory functions and to act as an independent regulatory body. At present BEPZA is exercising some regulatory functions independently.

For better export performance international market access of Bangladeshi product is of prime importance. Bangladesh has got huge potential in respect of natural resources, skilled manpower and investment friendly atmosphere. Development partners should come forward to find market for Bangladeshi products in the developed countries.

References

- Amirahmadi H., Wu, W. (1995). Export Processing Zones in Asia. *Asian Survey*, 35(9):828-849.
- Begum, S. and Shamsuddin, S. F. M. (1998) Exports and economic growth in Bangladesh. *Journal of Development Studies*, 35(1): 89-114. Dhaka, Bangladesh.
- Dowla, A. (1997) Export Processing Zones in Bangladesh. *Asian Survey*, 37(6).
- Eusuf, M.A., Faruque, O., ABM, Rahama, A. (2007) Institutions for facilitating FDI: Issues for BEPZA, Bangladesh. *IPPG Programme Office, IDPM, School of Environment & Development, University of Manchester, UK*.
- Evans, P. and Rauch, J.E. (1999) Bureaucracy and Growth: a cross national analysis of the effects of “weberian” state structures on economic growth. *American Sociological Review*, 64: 748-765.
- GOB, The five year plan, (1997-2002). Planning Commission, Ministry of Planning, Bangladesh.
- GOB. (2010) *Bangladesh Economic Review*.
- GOB. (2010) *Bangladesh Economic Review*.
- GOB. Government of Bangladesh, Ministry of Finance, *Economic Survey of Bangladesh 2000*, (Bengali), pp. 184-185. (GDP)
- Gopalakrishnan, S. (2007). In the Name of Growth. The politics and economics of Indian Special Economic Zone. *A study prepared for the Council for Social Development*.

- Harigopal, K. (2001) *Management of organizational change*, Sage Publication India Pvt. Ltd, New Delhi.
- Hossain, S., and Cheng, M. (2005). "Bangladesh: building for a better future?". *International Journal of Social Economics*, 29(10): 813-821.
- http://www.cpd.org.bd/html/events_details.asp?sec=News&ssub=News%20Details&id=011164120
- <http://www.informaworld.com/smpp/title~content=t713395137>
- Islam ,Md. Zohurul & Mukhtar (2011) "EPZ History in Bangladesh and its Administration and Legislation for Economic Enclave" Vol. 1(7) pp. 86 – 102 September, 2011
- Jayanthakumaran, K. (2003). Benefit-Cost Appraisal of Export Processing Zones: A Survey of the Literature. *Development Policy Review*, 21(1).
- Jayanthakumaran, K. (2002). *An Overview of Export Processing Zones: Selected Asian Countries*. University of Wollongong, Working Paper Series, 2002.
- Jayanthakumaran, K. and Weiss, J. (1997). Export processing zones in Sri Lanka: a cost-benefit appraisal. *Journal of International Development*, 9(5): 727-37.
- Narayana, M. R. (2007). Economic size and performance of dispersed and clustered small scale enterprises in India: Recent evidence and implications. *International Journal of Social Economics*, 34(9): 599-611.
- The Daily Star*, (2008), 25 September, Dhaka, Bangladesh, Business, FDI inflow.
- Ullah, M. S. (2007). Committee for Asian Women (CAW), Karmobibi Nari, Dhaka.
- UNCTAD Report, 2008.
- Warr, P. (1987). Malaysia's industrial enclaves: benefits and costs', *Developing Economies*, 25: 30-55.
- Warr, P. (1989). Export processing zones: the economics of enclave manufacturing. *The World Bank Research Observer*, 4(1),: 65-87.
- Warr, P. (1990). Export processing zones in Milner, C. (ed.). *Export Promotion Strategies*, New York.
- Willmore, L. (1995). Export processing zones in the Dominican Republic: A comment on Keplinsky, *World Development*, 23(3).
- www.acumen.fund.org, accessed on 1st October, 2009.
- www.acumenfund.org, last accessed on 16 June, 2009.
- Zohir, S. C., (2001). Gender Balance in the EPZ: A Socio-Economic Study of Dhaka Export Processing Zone in Bangladesh, *Bangladesh Institute of Development Studies*, Dhaka, Bangladesh.