SOUTH ASIAN PERSPECTIVE OF SPECIAL ECONOMIC ZONES: A CASE STUDY OF BANGLADESH

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CERTIFICATE

I hereby, declare that the dissertation entitled, **'South Asian Perspective of Special Economic Zones: A Case study of Bangladesh'** submitted by Kaushal Lal Gupta, Centre for South, Central. South East Asian and South West Pacific Studies, School of International Studies, Jawaharlal Nehru University, New Delhi, is in partial fulfillment of the requirements for the award of the degree of Master of Philosophy of this University. This Dissertation is original and has not been submitted in part or in full for any other degree or diploma in any other University.

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To My Grandmother.........

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List of Abbreviations:

ADB:	Asian Development Bank
BEPZA:	Bangladesh Export Processing Zones
BOI:	Board of Investment
BSCIC:	Bangladesh Small Cottage Industries Corporation
CEO:	Chief Executive Officer
CIS:	Commonwealth of Independent States
DA:	Documentary Acceptance
DTA:	Domestic Tariff Agreement
EPF:	Export Processing Factories
EOUs:	Export Oriented Units
EPZs:	Export Processing Zones
ETDZ:	Economic and Technological Development Zones
ETP:	Effluent Treatment Projects
EXIM:	Export Import
FDI:	Foreign Direct Investment
FIAC:	Foreign Investment Advisory Committee
FIZ:	Free Industrial Zone
FP:	Free Port
FTZ:	Free Trade Zones
FZ:	Free Zone
GCEC:	Greater Colombo Economic Commission
GSP:	Generalised System of Preferences
HTDZ:	High Technological Development Zone
ICRIER:	Indian Council for Research on International Economic Relations
ICSID:	International Centre for the Settlement of Investment Dispute
IDB:	Industrial Development Board
ID:	Industrial District
IE:	Industrial Estate
IFC:	International Finance Corporation
ILO:	International Labour Organisation
IP:	Industrial Park
IZ:	Industrial Zone
KEPZCL:	Korea Export Processing Zones Corporation Limited
LDCs:	Least Developed Countries
M&A:	Mergers/Acquisitions
MDG:	Millennium Development Goal
MFN:	Most Favoured Nation
MIGA:	Multi-national Investment Guarantee Agency
NDRC:	National Development and Reform Commission
OPIC's:	Overseas Investment Corporations
PGP:	Power Generation Projects
PPP:	Public Private Partnership
QRs:	Quantitative Restrictions
RMG:	Readymade Garments
SEZCRC:	Special Economic Zone Citizens Research Collective
SEZs:	Special Economic Zones
SITE:	Sindh Industrial Trading Estates Ltd

SIZ:	Special Industrial Zones
SOEs:	State Own Enterprises
TDZ:	Trade Development Zone
TEDA:	Tianjin Economic and Technological Development Area
TNCs:	Transnational Corporations
UNIDO:	United Nations Industrial Development Organization
VAT:	Value Added Tax
WEPZA:	World Export Processing Zones Authority
WTO:	World Trade Organisation
WTP:	Water Treatment Projects

Chapter One

INTRODUCTION

In the era of globalization most developing countries are witnessing a shift away from an import substitution based development strategy to one based on export promotion policy. As part of their policy instruments to promote exports, many of these countries have vigorously promoted specialized economic zones (SEZs). SEZs/EPZs have been used as a key instrument for promoting exports and earning foreign exchange as also for stimulating economic growth through additional investment, technology transfers, and employment generation. A majority of new zones have taken root in developing countries (Aggarwal 2007). For example, there were 176 such zones across 47 countries in 1986 and increased to over 3000 across 116 countries in 2003 (Aggarwal 2006). These zones can be defined as a clearly delineated industrial estate which constitutes a free trade enclave in the customs and trade regime of a country and where foreign manufacturing firms producing mainly for export benefit from a certain number of fiscal and financial incentives (JSPL 1998). Terms such as EPZs, Free Trade Zones (FTZs), Special Economic Zones (SEZs) and Export Processing Factories (EPFs) refer to similar concepts, with variations in policy prescriptions and objectives. As EPZ is the most commonly used, in this study the term would be interchangeably used with SEZ (Sivananthiran 2007). These zones are, however, known as the Export Processing Zones in the Asian context (Ananthanarayanan 2008).

UNIDO (1980) defines an EPZ as "a relatively small, geographically separated area within a country, the purpose of which is to attract export-oriented industries, by offering them especially favourable investment and trade conditions as compared with the remainder of the host country (Fu and Gao 2007).

SEZs are referred to by a variety of terms such as industrial free zones, free trade zones etc. Traditionally, SEZs are created as open markets within an economy that is dominated by liberal trade policies, which often are partially or loosely controlled by the government. SEZs are believed to create conducive environment to promote investment and exports. And, hence, many developing countries are setting up SEZs with the expectation that these zones will provide the engines of growth for their economies to achieve industrialization and to achieve the three-fold objective of attracting FDI, increasing exports and accelerating the country's economic growth (Palit and Bhattacharjee 2008).

These zones can be divided into several categories viz., Export Processing Zones (EPZs)[1]/ Free Trade Zones (FTZs)[2] and Special Economic Zones (SEZs). Table 1 below shows the types of zones which presently exist with their size, eligible activities and their respective markets. However, the distinguishing line between the EPZs and FTZs is so thin that it has been clubbed together whereas SEZs despite having many similarities[3] with the EPZs and FTZs are distinct in some respect. Conceptually, EPZs and SEZs are different — while the former is an industrial estate, the latter is an industrial township. The scope of SEZs is much wider and their linkages with the domestic economy stronger. SEZs provide supportive infrastructure such as housing, ports, roads and telecommunication and, as a result, have a wider industrial base. Compared to EPZs, SEZs give more returns in terms of exports, industrial growth, investments, both domestic and foreign, and employment generation. However, it needs to be emphasized that merely by boosting incentives to SEZs does not necessarily mean greater investment flows and switching from EPZs to SEZs, without undertaking the required structural changes, does not guarantee success (Palit and Bhattacharjee 2008).

Table 1: Type of Economic Zones

Zone	**Objective**	**Typical Size**	**Eligible Activities**	**Markets**
Industrial Zone	Industrial Development	< 100 hectares	Mixed Industry	Domestic and export
Free Trade	Support trade	< 50 hectares	Ports, airports Mostly trade-	Re-export,

[1]**Export Processing Zones:** Similar to a Free Trade Zone, it is an area set off as a non-tariff area where manufacturers can import goods to process, assemble, or fabricate with the intention of export.
[2]**Free Trade Zones:** An area where goods can be imported and warehoused, processed, fabricated, exhibited, and otherwise utilized and transhipped without customs processing and duties.
[3]Both, SEZs and EPZs, have a delineated area and claim to provide procedural and operational ease. Not only this but they allow tax holiday and tax reduction for specified periods and a duty free import of capital goods. Apart from this the primary objective of SEZs/EPZs are apparently similar i.e. attracting foreign Investment, generating employment, earning foreign exchange, establishing linkages with the hinterland and facilitating the transfer of technology and modern management practices (Kundra 2000).

Zone			related processing and services	domestic
EPZ	Export Manufacturing	< 200 hectares	Ports, airports Mostly manufacturing	Export
Enterprise Zone	Urban area Renewal	< 50 hectares	Inner city areas All	N/A
SEZ/FEZ /Freeport	Integrated Development	> 100 km2	Mixed Multi-use	Domestic, internal, export

Source: Ujjaini Halim 2007: 6

I. Background of SEZs

Countries all over the world create their fenced-in, geographically delimited 'enclaves' within their sovereign territories known as zones in the economic and business parlances. These zones however are distinguished from the rest of the land in terms of their specific administrative authority, benefits enjoyed by industries located in them and availability of better business facilities. Some of the zones are deliberately conceived as foreign territories functioning with a different set of economic laws compared with those applicable to the rest of the country. These modern zones can be dubbed as post-Second World War creation, with the first such zone coming up at the Shannon International Airport at Ireland in the year 1956.[4]

These zones are generally considered as an adaptation of the free trade zone system (Currie 1979:1) which is not a new phenomenon at all in the world trading scene. Some scholars have even argued that the existence of such a system could be dated back even to the Roman times (Kreida 1975: 43-44). From the 18th century onwards,

[4]However there is a contradictory data regarding the establishment of the very first EPZs, where Amitendu Palit and Sukhmoy Bhattacharjee give the date as 1956, ILO cites it as 1960. According to ILO, (2003) the first EPZ (the Shannon Free Trade Zone) was established in Ireland in the year 1960, and presently the number of countries which had set up their SEZs/EPZs in order to attract foreign investors has grown at an impressive rate. However in 1970, there were only ten host countries and their number rose to more than 70 in the mid-nineties and reached upto 116 in 2002-03. At the end of 2002, China alone employed about 30 million people in >over 2,000 special economic zones (SEZs), economic and technological development zones (ETDZ), EPZs and border zones. (EED 2005)

these commercial free trade zones have been established on the world's major trade routes with the functions of trans-shipment, storage and the re-export of goods without customs formalities, normally located in a defined geographical area such as a port. The concept of free trade zone has been adapted and modified as a means of initiating export-oriented industrial development in the Third World countries and these zones so designated has been given a new name known as the export processing zone (EPZ) (Wong and Chu 1984).

Over time, however, the visions of different countries on these zones, particularly in the developing world, have changed significantly. With almost all developing countries emphasizing on greater trade and investment links, with the rest of the world as their main medium for economic growth and expansion, the design, purpose and structures of zones have undergone several changes. Encouragement of exports is one of the main objectives of most of the zones. Now a change in the policy is being witnessed as the governments are focusing more on SEZs[5] rather EPZs and converting existing EPZs into SEZs. The main reason for this change being that as compared to EPZs, SEZs give more returns in terms of exports, industrial growth, investments, both domestic and foreign, and employment generation. In the current era of globalisation, export promotion is seen as an important policy for economic growth in developing countries. In this regard various measures are being adopted to promote export competitiveness by governments in their respective countries. As a policy means of

[5]Special Economic Zones (SEZ), sometimes referred to as "export processing zones" or "EPZs" are contained geographic regions within countries—a demarcated area of land used to encourage industry, manufacturing, and services for export—typically characterized by liberal tax laws and economic policies—hence it is a "special" economic zone. Many nations have relied heavily on their SEZs, and are considered to be a vital ingredient in a developing country's economic strategy (Shah 2008).

Special Economic Zone (SEZ) is an especially demarcated area of land, owned and operated by a private company, which is deemed to be foreign territory for the purpose of trade, duties and tariffs. SEZs enjoy exemptions from customs duties, income tax, sales tax, service tax (SEZ CRC: SEZs and Land Acquisition: Factsheets for an unconstitutional Economic Policy).

SEZ (or an economic zone) is an isolated foreign enclave in a host country for the industrial activities, which is entitled to enjoy a very special status in the country and has liberty to run the activities within the enclave as per its own rules and regulations. It is essentially a duty free zone which receives very generous production incentives from the state. These incentives include complete exemption from excise duties, custom duties, sales and income taxes, etc. Moreover it has pro- visions for 100% Foreign Direct Investment (FDI); exemption on income tax on infrastructure, capital fund and individual investment; and an assurance of steady electricity and water supply. These zones are even commonly exempted from important environmental regulations and labour laws even as states often have very limited power to intervene in their activities (Halim 2007).

achieving this goal, the concept of export processing zones was introduced (EPZs) and this gained noticeable significance. These modern zones can be dubbed as post-Second World War creation, with the first such zone coming up at the Shannon International Airport at Ireland in the year 1956 (Palit and Bhattacharjee 2008). A large number of them are now operating in developing countries. The first Asian zone was opened at the Kandla, Gujarat by the Indian Government in the year 1965. The very next year Taiwan established its first EPZ in Kaohsiung and South Korea followed in 1970 by establishing as Masan EPZ. Both Taiwan and South Korea embarked on export-led industrialization in the late 1950s and intensified it in the 1960s when the other Asian developing countries were still promoting an import-substitution strategy. These two countries established a few EPZs as part of their new industrialization drive to sustain the momentum of exports and foreign investment. During 1970s and 1980s a drastic shift from the inward to an outward looking development orientation in many Asian countries was noticed, with the result those EPZs flourished in Malaysia, Sri Lanka, Thailand and the Philippines etc. Even the countries which protected domestic sectors, such as India, Pakistan, Bangladesh and Indonesia established EPZs to promote the export industries. The most interesting one among them was the opening up of socialist China in 1979 and the subsequent establishment of five SEZs. By the 1990s around 55 zones were established in 14 Asian developing countries respectively. According to the WEPZA by the end of year 2003 more than 3000 zones have been established all over the world, which is a remarkable development for the EPZs (Aggarwal 2004). Table: 2 below shows the total number of zones that were established all around the world till the year 2003.

Repition p. 3.

Table 2: Number of zones and Estimates of Export Processing Zones

	1975	**1986**	**1995**	**1997**	**2003**
Countries	25	47	73	93	116
Zones	79	176	500	845	>3000
Employment(in Millions)	---	---	---	22.5	42.0

Source: Aggarwal, 2004

Since the 1960s, many developing countries have implemented export-oriented growth strategy, that is, custom-free manufacturing, to promote industrialization. The Export

Processing Zone (EPZ) is perhaps the most common form in which this strategy has been implemented (Amirahmadi and Wu 1995). The EPZ strategy became attractive to many developing countries in Asia and South Asia because it offered certain key advantages.

In a purely economic sense, even though EPZ is the second best method (after a free trade regime) to attract FDI into export industries, they provide a gateway to FDI from the international community for the any host developing country. However, as the FDI flow is limited and the competition among the developing countries is increasing therefore the countries were pushed to create even more favourable investment environments to secure their share of FDI. This competition has been partially responsible for the establishment of new SEZs/EPZs with attractive incentives in particular (host) countries. The political aspect to the SEZs/EPZs in the host countries used the FDI to facilitate their relations with the west. Further the SEZs/EPZs operate at a much lower costs than some other ways of attracting foreign investment. In this context however most of the developing countries lacked adequate infrastructures and the resources for the large scale development. The initial development costs were therefore substantial, and the ability to control them significantly affected the future benefits of the zone. Finally, because of its enclave nature the EPZs present lower domestic political risk than opening up the entire country to foreign participation. Many developing countries of Asia, including India, have been invaded or colonized in the past, and allowing foreign investment into the entire country could stir up widespread resentment and political resistance in their respective countries.

For many developing countries the advantages of EPZ far outweigh its possible drawbacks because today the zones are planned and implemented with care. The EPZs/SEZs appeared to be a feasible and an attractive strategy and as it was expected provided the host country with the major economic benefits. The earlier success of the EPZs/SEZs as an effective export led industrialization strategy, in several pioneering countries such as South Korea and Taiwan, promoted its attractiveness to the other developing countries (Amirahmadi and Wu 1995).

II. The Chinese Experience and SEZs

The present day interest in SEZs across developing countries is largely attributable to China's success. China created, managed, and expanded a network of zones, beginning on its south-eastern coast, most notably in Shenzen, as a means to jumpstart its economic development despite the lack of natural resources. The success of the Shenzen SEZ provided the Chinese government, industrialists, and surrounding inhabitants with an economic mechanism. Since 1980s, many countries tried to replicate the Chinese experience, mixing desirable land with attractive tax holidays to jumpstart industrialization in key sectors, export led growth, and job creation. China was able to create infrastructure required to support its zones, which served as an example of industrial cluster-led growth.

In 1980, the Chinese government designated five areas along the country's southeast coast as SEZs: Shenzhen, Zhuhai, Xaimen, Shantou and Hainan (Stoltenberg 1984). By 1984, 14 more were added to it. They were designed as capitalist enclaves within a socialist country. The Chinese actually got the idea from the Export Processing Zones of Taiwan, South Korea and some other Southeast Asian countries. These new Chinese SEZs were designed to encourage foreign investment in export projects, with the government taking upon itself the responsibility of building modern infrastructure and providing a well-trained labour force, Investor-preferential tax rates, and exemptions and holidays too were also offered.

SEZs in China were areas where market economies could exist when the rest of the country was still under a planned economy. Incentives were created to attract foreign investment. Building on the successful model, 14 more Economic and Technological Development Zones (ETDZs) were created in 1984. As these zones thrived and as the government increased its focus on economic growth, the SEZ model became popular with local authorities and began to proliferate across the country. The success story of China's "opening policies" in last few years may imply that the favorable impact of "opening up" is not just for small economies, but also for large continental economies (Park 2002).

The distinguishing features of these SEZs were their large size, investment friendly customs regime, flexible labour laws, liberal policy for DTA (Domestic Tariff Area) access, attractive package of incentives and delegation of powers in favour of provinces and local authorities for managing the zones. One main reason for the success of Chinese SEZs is that the lands belong to the state. Major fiscal concessions were not a part of the policy and labour laws were amended to give enough authority to the employer to terminate the services of incompetent workers (USAID 2007).

By year 2003, thousands of zones were developed by provincial and municipal governments. None of these enjoyed the same incentives or level of infrastructure development as national zones that were under the administration of the Central government. Municipal officials concentrated mainly on the volume of investment in their jurisdictions and built zones on a "build it and they will come" model. They did not consider the need for strategic planning and resource commitment. These officials were also offering tax incentives to companies without authorization, thus depriving the Central government of tax revenue and subjecting investors to scrutiny and penalties by the tax authorities. In 2004, the Central government saw the inefficiencies and waste created by the over-building of SEZs/EPZs and stepped in to halt development by closing or merging poorly performing facilities. Currently, there are 204 national level zones and 1,346 provincial level zones (municipal level zones thousands of which fall outside of the official SEZ designations and are not eligible for incentives or special treatment). They are primarily concentrated along the more affluent coastal parts of the country. Western provinces have also been developing zones in order to jump start growth in the interior of the country.

China which majorly has seven zones, established its first Special Economic Zone almost three decades back in the year 1980. The reasons which are responsible towards its success is that a democratic decision making process took place where lot of discussion and debate preceded the setting up of SEZs. The ownership of land has remained with the state.[6] The lands which are being used are mostly the coastal

[6] In China urban land belongs to the state and the rural land to the village commune, though families had been given individual contracts to their lands as part of the village commune reforms in the 1980s (Gopalkrishnan 2007).

wetland. The National Development and Reform Commission (NDRC), the designated authority, allocates the land for the SEZ development in the country. (Seminar, 2008) The export performance of Chinese SEZs is remarkably good where Shenzhen's net export of the year 2006 stands at $35billion. Apart from the export performance, the employment opportunities provided to the people are several million low paid jobs which have reached the mark of 40,000,000. Only selective tax incentives are provided to the investors in the region. China has a unitary income tax system and therefore the Central government sets the tax incentives. Favoured industries such as high technology, venture capital, and renewable energy are now offered special tax rates as are firms that locate in the less developed Western and Central regions of the country. Some other Features of the Chinese SEZs are that by being large, centrally planned areas, SEZs in China are master planned to include residential, office, retail, and recreational facilities. The ultimate example is Shenzhen SEZ which went from being farmland to a major urban centre within a decade. Tianjin Economic and Technological Development Area (TEDA) which has become a massive development area is now striving to become a financial centre through providing liberalized policies for banks within the zone. The Chinese SEZs which has led to the overall economic success and in this direction Shenzhen had proved itself to a notable success (USAID 2007). In this regard *Business China* in *2006* reported that "only one of the original four zones i.e. Shenzhen can truly be called a runaway success. Xiamen remains at most a successful second-tier investment location. The same is true of Zhuhai, Shantou. (Gopalakrishnan 2007a: 30)

III. SEZs in South Asia

Following China,[7] the first initiative in South Asia in this direction was taken by India after Union Minister of Commerce Murasoli Maran's visit to China. After his visit Maran brought some major changes in the Indian policies and finally in the year 2000 SEZ Act was passed by the Indian parliament. Following this the entire EPZs were converted to SEZs in India. India has tried to follow the Chinese model but is still not fully successful in establishing pro-people policies in which China stands way ahead.

[7] Just because of China's record economic growth rate fuelled by the Special Economic Zones (SEZ) has been advocated as the reason for India to adopt this approach of SEZs (Goswami 2007).

In last few decades a number of such special zones for promoting export and manufactures were established in Bangladesh. The SEZs which came up in Bangladesh have, to a certain extent, followed the Chinese model as we will see later in this study.

The genesis of SEZs can be traced back to the Export Processing Zone (EPZ) scheme which was introduced way back in 1965 when the first zone was set up in Kandla, Gujarat, India. By late 1990s, seven more zones had come into existence. The SEZ policy was introduced by the Government of India (Ministry of Commerce and Industries) in April 2000. The Act provided for the establishment, development and management of the Special Economic Zones for the promotion of exports and for matters connected therewith. Under the new scheme all the existing EPZs were converted into SEZs. In the case of Pakistan and Sri Lanka, the very first effort towards the establishment of EPZs was made in 1950s-60s and 1978-79 respectively. Special Industrial Estates developed by the provincial governments in Pakistan were the first on the scene starting in the 1950s and 1960s. Sindh Industrial Trading Estates Ltd. (SITE) was established before the partition by the Sindh Assembly and presently nine Industrial Estates are being managed by the SITE in Pakistan and the largest one was established in Karachi (USAID 2007). The EPZs of South Asian countries did not attract very significant investment till the 1980s. But with establishment and the success of Chinese SEZs, efforts in South Asia were made towards attracting foreign investment in the region.

As regards Bangladesh, after its independence Bangladesh has made a 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 were also taken to attract Foreign Direct Investment (FDI) and facilitate industrialization process of the country. One such effort was the promulgation of BEPZA Act 1980 which eventually instituted the formation of Bangladesh Export Processing Zones Authority (BEPZA). BEPZA was the government organ responsible for creation, operation and development of SEZs/Export Processing Zones (EPZ) in the country. (Yussuf 2008) Its primary objective was to create and develop EPZs in the country. The first EPZ became operational at Chittagong in 1983-84. The size of the zone was mere 140 acres. Bangladesh till date has established eight export processing zones in the country; these are Chittagong (1983), Dhaka (1994), Comilla (2000), Mongla (2001), Iswardi (2005), Uttara (2006), and Karnafully (2007) and Adamjee whereas two other zones are proposed which include Megna and Feni.

IV. Methodology

This study has been undertaken using descriptive, historical as well as analytical methodology based on qualitative and quantitative data. Descriptive methodology is to understand different aspect like SEZ concept and the need of establishing these zones. This is also adopted to describe different types of zones which exist in the world and especially in South Asia. This method is adopted along with the historical method that helps in tracing out historical roots of Special Economic Zones to the Export Processing Zones established way back in the year 1983 in Bangladesh. The analytical methodology is adopted to examine the economic and social impacts of SEZs.

The data has been collected mainly from primary sources and is supplemented by the secondary sources. Primary sources regarding available government documents and reports have been extensively consulted. The secondary data is collected from different books, articles, journals and newspapers. Internet sources will be used as an additional major source because the issue of Special Economic Zones is a very recent topic and much documentary and statistical materials are not yet available.

V. Review of Literature

This review literature is an attempt to give a brief outline of the work that had been done so far on SEZ/EPZs in South Asia in general and Bangladesh in particular. The review is done thematically covering different secondary sources to have a concrete idea about various aspects and issues related with these zones.

Special Economic Zones and its Historical Background

The concept of Special Economic Zones is not very new to us because its genesis can be traced back to the year 1956, with the setting up of the very first Export Processing Zone at the Shannon International Airport in Ireland. In this context, Amitendu Palit and Sukhmoy Bhattacharjee in their book, *Special Economic Zones in India: Myths* *and Realities* (2008) assess the concept of SEZs. Palit and Bhattacharjee outline the concept of SEZ. Stating that concept of SEZ is not very new they mention that this acted as a benchmark for other countries and was followed up by the emergence of similar zones in Puerto Rico and India within a few years.

Aradhna Aggarwal in her paper, 'Export Processing Zones in India: Analysis of Export Performance', outlines the 'outward orientation' of countries, with particular emphasis on exports. She gives the exact number of zones which have been established in the various countries of the world. According to Aggarwal, in 2003 the number of zones was over 3000 across 116 countries. While dealing with the Indian context she says that the first EPZ in India was set up in Kandla in 1965. However, altogether seven EPZs were established by the late 1980s.

In relation to the aspect of establishment of SEZs in South Asia region, Palit mentions that out of 8 SAARC countries, SEZs have been established in only four i.e. the BIPS (Bangladesh, India, Pakistan, and Sri Lanka). Aggarwal, Mombert Hoppe and Peter Walkenhorst, in their paper 'Special Economic Zones in South Asia: Industrial Islands or Vehicles for Diversification?', discuss the establishment of Special Economic Zones/ EPZs in South Asia by giving the respective years of their establishment in different countries, i.e. India (1966), Sri Lanka (1979) and Bangladesh (1983). China which has been considered as the pioneer of SEZs established its first and the world's largest SEZ in Shenzhen in the year 1980. The South Asian countries like India and Bangladesh have adopted the Chinese model (Seminar 2008).

Aggarwal, Hoppe and Walkenhorst discuss various incentives, infrastructure and the regulatory regimes of these countries. The authors have discussed the government policies regarding the establishment/and effective working of these EPZs/SEZs in India and Bangladesh respectively in their work.

Regarding the incentives, infrastructure and performance of Bangladesh EPZs/SEZs, Asif Dowla in his article, "Export Processing Zones in Bangladesh: The Economic Impact" (1997) discusses the Bangladesh EPZs/SEZs in detail and has given the case study of Chittagong EPZs which was the very first EPZ to be established in the 1980s.

Dowla in has done a detailed study regarding the incentive packages, Performance, Evaluation and the Problems with respect to the Chittagong Export Processing Zones. Further, in *The Performance of India's Export Zones: A Comparison with Chinese Approach* (2000), author Ashok Kundra has given a detailed analysis of India's Export Processing Zones and the Chinese model. The author in the first part of his book talks about the policy regime for EPZs/SEZs in the Indian context. Further in *"Socio-economic Impacts of Proliferation of Special Economic Zones (SEZs) in India"* the writer M. Suchitra talks about the costs and benefits, labour laws and about the infrastructure regime in India.

The article titled "Export Processing Zones in Asia" by Hooshang Amirahmadi and Weiping Wu, published in *Asian Survey,* Vol. 35, No.9, outlines the Export Processing Zones in Asian countries like Bangladesh, Brunei, Fiji, India, Indonesia, Malaysia, Pakistan, Sri Lanka etc. The writer in his paper discusses how most of the developing countries in 1960s implemented the export oriented growth strategies i.e. the custom free manufacturing to promote industrialization. He has discussed about the attraction of EPZ in Asia and particularly in India in 1965 after the establishment of the very first Shannon Industrial Estate, established in Ireland in 1956. He discusses how EPZs of Asian countries attract FDI and the competition among Asian countries to provide the comfortable platform for FDI flow.

In the paper "Export Processing Zones in India: Analysis of Export Performance" (2004) Aradhna Aggarwal has discussed different phases in which the Indian EPZ evolved in the country. She has also given the detailed analysis of employment growth in the Indian export processing zones. Aggarwal has also discussed the labour law which exists in India. Author is of the view that regarding the SEZs, hype has been created which needs to be justified. The aspect however has not been dealt with in her paper.

Similarly, Mombert Hoppe and Peter Walkenhorst (World Bank) discusses different phases of EPZs/SEZs policy as they evolved in India, Bangladesh and Sri Lanka. The authors have given a detailed analysis of the different phases. In India, the EPZ policy has evolved in four different phases starting in 1964 i.e. the initial phase and the fourth and the consolidating phase starting in the year 2000. As far as the Bangladesh EPZ evolution is concerned its first phase was from 1984-1998 and the second phase i.e. the Expansionary phase from 1998 onwards respectively. The paper talks about the administrative setup, its approval process, rules and procedures and taxation system of India and Bangladesh respectively.

In Erlend Reigstad's thesis, "Special Economic Zones: Policy Review and Implications for India" (2007), the policies related to tax, legislation, infrastructure, duties and custom laws of SEZ has been dealt with in detail. He says that in order to promote FDI, SEZ has played the role of a medium. The author talks about the major advantages of the SEZs/EPZs. In this regard he points out FDI and Employment as the major benefits of EPZs. He is of the opinion that FDI leads to investment and merger/acquisition or both. However, the author has given only a one sided view of SEZs by sighting the advantages. He has ignored the issue of displacement which is a vital problem in the present scenario. Be it Singur (West Bengal) or Raigarh (Maharashtra) in India the issue of displacement has led to protests and agitations in the respective countries.

Aradhna Aggarwal, in 'Performance of Export Processing Zones: A Comparative Analysis of India, Sri Lanka and Bangladesh', (2005) analyses the various policies which evolved in different phases in all the three South Asian countries viz. India, Bangladesh and Sri Lanka respectively. She has done a country level analysis about the Zone investment and employment aspects. Dorsati Madani in the article 'A Review of the Role and Impact of Export Processing Zones', (1999) maintains that EPZs in developing countries have a wide range of objectives including, attracting FDI, promoting foreign exchange earnings, expanding employment, creating linkages with the domestic economy, transmitting new technologies and improving acquisition of skills by the national work force etc. Further Madani holds that apart from the employment generation, the successful EPZs of Bangladesh due to the FDI accompanied the technological transfer, knowledge spill over and the demonstration effects that acted as the catalysts for the domestic entrepreneurs to the production work.

Rajiv Kumar in his book *'Indian Export Processing Zones: An Evaluation'* (1989) argues that promoting exports and attracting FDI are two major objectives of the EPZs. The author argues that in a number of countries the zone has not wholly fulfilled the objectives with which they were established. Further he points that in some countries; EPZs have generated adverse, non economic consequences which has justifiably attracted worldwide criticism. On the other hand few countries have proved to be detrimental to the economy, being based on faulty investment appraisal. Whereas Rajiv Kumar further cites that wherever the zones are successful, they have helped the countries to supplement net earnings from the manufactured exports, attract foreign investment, generated employment and has raised the technological levels in the country. Due to this kind of mixed response an effort has been made to examine the actual position of the EPZs. The book tries to do a comparative analysis of Indian EPZs with the Chinese Zones.

Regarding the functioning and evaluation of SEZs Jean-Pierre Singa Boyenge, in 'ILO database on export processing zones (Revised)' provides the data of the entire Asian countries including South Asia. Author finds that the top three countries which have done extremely well in generating employment are China, Indonesia and Bangladesh. The writer examines EPZs across the globe and analyses how the countries have performed till date. He maintains that in most of Asian countries EPZs have helped in generating employment and attracting FDI.

Muttakin, Badrui Mohammad and Salma Ahmed, in 'The Investment Scenario in Bangladesh-Problems and Prospects', talk about the foreign investment in Bangladesh. In this regard they focus on the problem and the prospects of the FDI. The writer has given the factors due to which today any developing country had no other option but to rely on the policy of foreign direct investment.

In the article "Revisiting Labour and Gender Issues in Export Processing Zones: Cases of South Korea, Bangladesh and India" Mayumi Murayama, Nobuko Yokota, outlines the gender and the labour issues of South Korea, India and Bangladesh. The article has tried to study the women employment and their present status in the export processing zones of the respective countries. The author argues that South Korea which is the first generation economies whereas the Bangladesh which established EPZs/SEZs almost after a decade but still performing much better than other countries. In this regard they further point out that India which was the very first country of the South Asia to establish the EPZs, the efficacy of EPZs did not receive much attention until the late 1980s and still the workers are in a disadvantageous position not only against capital but also in comparison with workers in South Korean and Bangladeshi EPZs/SEZs.

In the book *The Two Giants of Asia: Trade and Development in China and India*, Jong H. Park, discusses India's economic reforms undertaken in 1991 in light of China's experience with the export-oriented, foreign direct investment strategy for economic growth and development. The case of China provided an important lesson and policy implications for economic development for many Third World countries. This is particularly so for those countries which are large in size such as India, and those which have chosen to look inward and disfavoured foreign direct investment in the past. Park further highlights that till early 1950s, both China and India, the two largest continental economies, chose an approach of "self-reliance" for their economic development, and turned away from foreign trade and investment. For such huge countries, there appeared to be little room for international interactions; everything was to be done at home. For them, the more important question was how to mobilize resources for economic development—through planning or market. The self-imposed economic isolation from the world economy continued till 1978 for China and until 1991 for India when both countries decided to reintegrate their economies into the world in order to increase the foreign investment and to generate employment in their country.

On the issue of employment and human development, Aradhna Aggarwal in her paper "Impact of Special Economic Zones on Employment, Poverty and Human Development" (2007) talks about the direct and the indirect employment generation through Special Economic Zones. The author has done a detailed analysis by examining the impact of Special Economic Zones (SEZs) on human development and poverty reduction in India. She identified three channels through which SEZs address these issues: employment generation, skill formation (human capital development), and technology and knowledge upgradation. Further she has mentioned about the percentage of employment which has been provided to the female workers. Although the labour standards, labour relations and employment effects have been the most critical and controversial elements of SEZs, a comprehensive analysis on these aspects is scarce in the Indian as well as in the Bangladesh's context.

The issue of FDI and Incentives has been stressed upon by Sandwip Kumar Das and Manoj Pant in their article 'Incentives for Attracting FDI in South Asia: A Survey' (2006). The authors have done a detailed study of FDI in South Asian countries viz. India, Bangladesh, Pakistan and Nepal. Regarding this Das and Pant further say that incentives that are offered along with the performance requirements are the notable feature of the Foreign Direct Investment (FDI) policies of South Asian countries after they opened up to trade and investment in the 1990s. Along with the FDI policy the authors have also studied the incentives that are generally offered in the market. They have quoted that generally two types of incentives are given in the market. These are fiscal and financial incentives. The fiscal incentives include reduction in the tax burden of the firms like tax holidays and import duty exemptions. Financial incentives include the direct contributions to the firm from the government like direct capital subsidies and subsidised loans. The article helps in understanding the economic impacts of SEZs with respect to FDI in India and Bangladesh. However, the article gives only a one-sided view on SEZs focussing only on its benefits. The issue of rural displacement and land purchase has not been taken up in the analysis.

Zakir Hossain in the article 'Export Diversification and Role of Export Processing Zones (EPZ) in Bangladesh', (2008) talks about the EPZs of Bangladesh where he has done detailed study of employment, FDI and the export performance of the Bangladesh EPZs.

Further Mohammad Amir Hossain, in 'Impact of Foreign Direct Investment on Bangladesh's Balance of Payments: Some Policy Implications' argues that foreign direct investment (FDI) is a potent weapon of economic development, especially in the current global context. It enables a capital-poor country like Bangladesh to build up physical capital, create employment opportunities, develop productive capacity, enhance skills of local labour through transfer of technology and managerial know-how, and help integrate the domestic economy with the global economy. Hossain who has discussed all the positive aspects of EPZs has failed to discuss one major issue which is related to these economic zones and that is the problem of land displacement.

The issue of displacement which is the most prominently debated issue related with SEZs/EPZs. It has been studied by Kannan Kasturi and M. Suchitra. They have discussed about the issue of displacement in the article "Of public purpose and private profit" (2008). They argue that the SEZ policy calls for parcel of land for public purpose to the private owners. Kannan and Suchitra further argues that the forceful land acquisition by the state has led to strong opposition by non-political and social classes. This study analyses the factors which led to the protests in the society. It also identifies the major loopholes that exist in the Indian system regarding the land purchase process. The large scale opposition to the SEZ policy of the Government in India has to be seen against the background of the successful Chinese SEZs. The author has ignored this and other positive aspects like employment generation and FDI inflows.

M. Suchitra in the report on "Socio-economic Impacts of Proliferation of Special Economic Zones (SEZs) in India" discusses the central governments' fiscal incentives and concessions offered by the government to woo the investors in the Zones. The zones are deemed as foreign territories as far as trade operations, duties and tariffs are concerned. These units had full flexibility in the operation. The author also talked about the exemption of all direct and indirect taxes like export and import duties, excise duty, central or state sales tax and service tax. The units do not require license for importing capital goods and raw material. 100 per cent FDI is allowed in the zones. Repatriation of export profits is also allowed. Further the author analyses that with the new SEZ Act 2005, a new sop is available to firms operating in the zones. The act talks about the legal framework and laws regarding the setting up of these zones in the country.

Ashraf Abdullah Yussuf, in the paper 'Export Processing Zones (EPZs) in Bangladesh: An Attractive Investment Destination' (2008), discusses the Foreign Investment, Export and Employment. He has given a detailed comparative study of

Bangladesh's performance in the field of export processing zones by citing that Bangladesh has became one of the most attractive destinations for investment in the world. He argues that not only the developing countries but the developed countries of the world have also invested in Bangladesh. The author has also given a year wise data of the export performance and the male and female employment which has been provided by the EPZs of Bangladesh. Further, Yussuf views that the country has achieved the Economic Goals through Technology Transfer, Diversification & Value Addition.

Naila Kabeer and Simeen Mahmud, in one of their articles 'Rags, Riches and Women Workers: Export Oriented Garment Manufacturing in Bangladesh' highlights the employment opportunities provided by the garment industries and majority of them being the women workers. Further the author argues that the EPZs of Bangladesh which employ and pays the highest wages to the women's with the best working conditions which has directly benefitted them through providing the employment opportunities in the zones respectively.

Further A. Sivananthiran, in "Strengthening social dialogue institutions in export processing zones in Bangladesh" highlights the policy options in dealing with the emerging labour standards in export processing zones in Bangladesh, in the wake of globalization. The author further cites that today export processing zones have become one of the major features of the labour markets in the respective governments of Bangladesh, India, Pakistan and Sri Lanka, where they are increasing the number of SEZs/EPZs in their countries. According to one data, till 2001 as many as 85, 0000 workers were employed in the SEZs/EPZs of South Asia. Further the author talks about the various labour laws which exist in the different South Asian countries, which were established by the different Acts. Thereafter in the later part he discusses about the evolutionary policies of the South and South-east Asian countries which includes countries like Singapore, Malaysia, Philippines, Bangladesh, India, Pakistan and Sri Lanka. The article has failed to do a detailed study of the labour laws, employment generation of the respective countries and the wages and the working conditions of the workers of the SEZs/EPZs, which will be discussed in this dissertation in the coming following chapters.

Given this thematic background this dissertation evaluates the various aspects and issues related with the establishment SEZs in Bangladesh. It examines the economic implications of this policy of SEZ promotion in Bangladesh in terms of increase in trade, industrial growth, job creation and inflow of foreign direct investment in Bangladesh. The social issues related with SEZs and the policies implemented to deal with the social issues like land purchase and displacement of rural population are also examined.

SEZs in Bangladesh have been performing remarkably well. This study has made an attempt to evaluate the SEZs in Bangladesh in terms of FDI and employment generation. The study also examines the reasons that made SEZs a success in Bangladesh. What are the reasons that have led almost 33 countries of the world to invest in Bangladesh SEZs/EPZs? As far as the employment generation in Bangladesh is concerned, in this regard both the direct and the indirect employment which has been generated in last three decades are discussed. The focus of the study is on the social aspects related with SEZs and the issues of land acquisition and the displacement of the population and its rehabilitation. This dissertation also discusses in detail the different government policies and incentives with regard to promoting SEZs in Bangladesh. The labour laws, wages and the working conditions, incentive and infrastructure facilities have at last been analyzed.

With this background, the dissertation titled "South Asian Perspective of Special Economic Zones: A Case study of Bangladesh" has made an attempt to examine the trajectory of the growth and establishment of the SEZs in Bangladesh. It comprises five chapters.

The next chapter titled "Institutional Characteristics of SEZs in South Asia" deals with the establishment of SEZs in South Asia, with particular reference to Bangladesh. The chapter undertakes an analysis of the establishment of SEZ/EPZs in the South Asian region. This is basically restricted to the four countries in South Asia where the Economic Zones have been established viz., India, Sri Lanka, Pakistan and Bangladesh. Further the chapter also presents different policy regimes though which these zones came into existence and the different types of zones which exist in the respective countries of the region.

Chapter three titled "Evolution of policy framework of SEZs in Bangladesh" deals with the evolution of SEZ/EPZ policies in the Bangladesh. This chapter discusses in detail the labour laws, legal framework, approval process, rules and procedures. Under the labour laws, the wages and the working hours of the workers have also been discussed. The chapter also analyses the incentive and infrastructure facilities of the Bangladesh SEZs/EPZs. Further the chapter examines the policy framework in Bangladesh that has facilitated the establishment of SEZs/EPZs. These policies are analyzed basically in two distinct phases i.e.1984-98 and 1998 onwards. Finally the Administrative organisation and the Approval process are dealt with to in order to identify the authority (members) which are responsible for the establishment of EPZs in the Bangladesh.

Chapter four titled "Evaluation of SEZs/EPZs in Bangladesh" evaluates the social and the economic implications (aspects) of the Export Processing Zones/ Special Economic Zones of Bangladesh. The economic factors that have been examined include profitability of trade, employment and Foreign Direct Investment whereas the social aspects mainly concentrate on the issues of land acquisition and the displacement of the population and its rehabilitation. Further under this chapter a comparative study of the South Asian countries is undertaken as the reference to some aspects. Countries like China and India are compared with the EPZs of Bangladesh with regard to the employment generation, export performance and foreign direct investment issues.

Finally chapter five presents the main findings of the study and outlines some suggestions towards better contribution by the Special Economic Zones in Bangladesh to the process of economic growth.

Chapter Two

INSTITUTIONAL CHARACTERISTICS OF SEZS IN SOUTH ASIA

Globalization has raised challenges for the global economy. The developing and underdeveloped countries face stiff competition to survive. Boosting the exports of one's own country has become vital to attract investments and to raise foreign exchange earnings. In the case of developing and underdeveloped countries, bringing structural changes in the economy to suit globalization is difficult and time consuming. To counter the weakness of the protective economy and create liberalized and globalized economic zones for a country was essential. Thus, there arose a strategy to set up Special Economic Zones. These zones were setup basically to improve the exports of a nation, attract foreign direct investments, raise foreign earnings, improve industrial infrastructure to raise the manufacturing capacity of the country, technologically upgrade to provide free economic environment to the manufacturers and service providers, to develop and sustain strategically important industries like Information Technology, electronics, Research and Development etc. These special zones are free from government intervention; they have separate rules and regulations, labour laws are flexible, are exempted from industrial and personal taxes, suitable environment for industrial development and technological up gradation exists and separate regulator for the zone. The SEZs are modern/new/altered EPZs now popularly referred to as SEZs or Special Economic Zones.

The concept of Export Processing Zones (EPZs) is not entirely new. It is a kind of 'Free Trade Zone' that combines manufacturing and trading activities. According to the United Nations Industrial Development Organization (UNIDO), an Export Processing Zone 'involves the establishment of modern manufacturing plants-inside a customs-bonded industrial estate by offering suitable package of investment incentives to both foreign and domestic entrepreneurs'. The concept is to provide incentives for investment, especially to motivate multinational corporations or conglomerate companies to use the Zone as a low-cost production base for labor-intensive component manufacturing, assembling and middle-stage processing for exporting to home or external markets. Export Processing Zones have different names in different countries. Of these, the well-known examples are Free Port (FP) in some Latin American countries; Free Trade Zone (FTZ) in the USA; Free Zone (FZ) in Switzerland, Spain, Yugoslavia, Argentina, Chile, Syria, Paraguay and Singapore; Trade Development Zone (TDZ) in the United Kingdom; Industrial Zone (IZ) in the United States, Italy and Britain; Industrial Estate (IE) in Britain, USA, France, Singapore, Malaysia and India; Industrial District (ID) or Industrial Park (IP) in the UK, USA, Puerto Rico and Canada; Free Industrial Zone (FIZ) in Colombia. Other names include Transit Zone, Free Zone and Free Transit Zone (for details see Appendix: 1 and 2). However, the name Export Processing Zone (EPZ) is most popular and widely used particularly in Asia (Ahmed 2007).

SEZs are special geographical zones carved out with the stated idea of attracting investment, especially foreign investment, in order to increase industrialisation, primarily for exports. There are many kinds of zones that might be carved out if a country wishes to pursue a specific economic activity, such as industrial enclaves in the erstwhile Soviet Union. But what characterises SEZs (particularly in the context of a developing country like India) are a focused attention on investment, especially foreign and private investment, and the promotion of exports. All this is done with the stated purpose of increasing economic growth, which in turn would increase employment. These zones are also known as Export Processing Zones, especially in the Asian context. However in India EPZs were the predecessors of the present-day SEZs. The key point is that the EPZ was just an industrial enclave while the SEZ is an integrated industrial township with a fully developed infrastructure and separate institutions of governance (Aggarwal 2006). While EPZs were meant to attract investment in tune with other policies, SEZs were created in order to bypass those policies. In addition, in terms of the actual schemes, SEZs offer many more benefits and incentives to investment capital than EPZs do, and are far more deregulated in terms of legislation on labour, taxation, environment, etc. Finally, there is a qualitative difference too, which came about in the liberalisation era, and that is that the EPZs, while being business and investment friendly, were largely driven by the state, whereas the SEZ scheme was and continues to be largely driven by big businesses and monopoly capital, with the state merely becoming an implementing agent.

According to Competitive Support Fund[1], SEZ is an enclave of enterprises operating in a well-defined geographic area where certain economic activities are promoted by a set of policy measures that are not generally applicable to the rest of the country (USAID 2007).In the global parlance "SEZ is defined as an area that promotes exports and furnishes the necessary facilities for goods to be stored, mixed, blended, repackaged, manufactured, and reshipped without payment of duties and without the intervention of custom officials. It provides investment incentives to foreign investors and allows economic activities that embrace not only manufacturing but also agriculture, tourism, commerce, real estate development and other services"(GDC)[2].

EPZs/SEZs are not new, but have experienced a rise over the last three decades and a particularly sharp increase from late 1990s onwards. According to the International Labour Organisation (ILO), there was a steady rise from 1975, with 79 EPZs in 25

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[1]The Competitiveness Support Fund is based on international best practices (India, Thailand, Turkey, Ireland and Finland etc.) to strengthen and make the private sector more competitive and to improve the policy framework needed for innovation-based competitiveness. The Competitiveness Support Fund is supporting Pakistan's goal of a more competitive economy by providing input into policy decisions, working to improve regulatory and administrative frameworks and enhancing public-private partnerships within the country. The CSF is also providing technical assistance and co-financing for initiatives related to entrepreneurship, business incubators and private-sector led initiatives with research institutes and universities that contribute to creating a knowledge-driven economy. CSF activities are helping all producers along the value chain that contribute to ultimate product quality. By obtaining better value and better prices for quality products, and improving cooperation throughout the Pakistani economy, the CSF is contributing to poverty alleviation by providing more income for producers and better employment prospects for employees.

[2] La Gonave Development Corporation: La Gonave Development Corporation, (GDC) is an international development corporation dedicated to the economic, social and environmental development of the island of La Gonave. With offices in the state of Florida as well as in Port-au-Prince and the Island of La Gonave, GDC is equipped to provide all of its clients, investors and partners with convenient access to their expertise and resources. As the master developers of the island of La Gonave recognized by the Central and Local Government of Haiti, GDC is ready to take the lead in this economic development project. GDC invites people to experience La Gonave, and discover what it has to offer the corporate and the individual investor ...

- Special Economic Zone incentives
- Reduced tariffs and duty fees
- Reduced warehousing and storage facility fees
- Offshore financial centers
- Pristine beaches and oceanfront properties
- Natural and native flamingo reserve
- Natural Coral Diving Reefs

countries, till 1997, with 845 EPZs in 93 countries, and a sharp increase when in 2002 there were reportedly 3000 EPZs in 116 countries (Gopalakrishnan 2007a).

SEZs/EPZs have met with varying degrees of success around the world in attracting investment. They have attracted investment – much of it from the USA – in countries like Taiwan, Malaysia, South Korea, and Mexico, but other countries like Kenya have set up EPZs at great cost, which are now mostly lying idle (Gopalakrishnan 2007a, Vaswani 2006, Venugopal 2005: 36). The investments have however been short-term and have typically moved after a few years to the next low-cost destination. This is what happened with the zones in Mexico (maquiladoras), which succeeded in attracting huge investment and providing some employment, albeit highly deregulated, to some people, but soon experienced capital flight with investment shifting to even cheaper and more deregulated places like China (Ananthanarayanan 2008).

I. Special Economic Zones/EPZs in South Asia

As far as the Special Economic Zones/Export Processing Zones of South Asia are concerned these are effectively working since 1960's (only in four countries i.e. in Pakistan, India, Sri Lanka and Bangladesh). India has seven EPZs/SEZs, all of which were converted into SEZs after the announcement of the SEZ policy in April 2000. Pakistan, Sri Lanka and Bangladesh have 22, 12 and 8 EPZs/s respectively. Pakistan and Sri Lanka have both Industrial Parks and the Zones as well whereas Bangladesh has been heavily influenced by the large number of bonded warehouses that reproduce EPZ like conditions without actually being zones. Bangladesh's thrust on the zones has paid off well with more than 75% of the country's export coming from such zones[3] (Palit and Bhattacharya 2008).

The focus of the study is to analyze the Special Processing Zones of Bangladesh which has been dealt in detail in the next section where both the institutional characteristics as well as the incentive facilities respectively are discussed. First however a brief account of SEZs/EPZs as they have developed in other South Asian countries has been

[3] These are essentially factories of the Bangladesh Garment Manufacturers and Exporters Association and Bangladesh Knitwear Manufacturers and Exporters Association. There are reportedly 5341 such factories (Palit and Bhattacharjee 2008).

presented. This provides the broad perspective for our analysis in the following chapters.

i. PAKISTAN

The Industrial Estates and Parks in Pakistan had been in existence since independence, SEZs as defined as the areas with differentiated economic policies have only been used in an isolated and sporadic manner. In terms of attempts at SEZ initiatives, only the EPZs, the now defunct Special Industrial Zones (SIZ), and recently launched Pakistan-China efforts have stood out. Other than those, industrial areas in Pakistan have seen many stages of development of Industrial Estates, Small Industrial Estates, and Industrial Parks. By a study commissioned by the Asian Development Bank (ADB) in 2001, there were approximately 82 Industrial Zones in Pakistan, with the majority of them performing well under capacity. Industrial Estates developed by provincial governments were the first on the scene starting in the 1950s and 1960s. Sindh Industrial Trading Estates Ltd. (SITE) was established before the partition by the Sindh Assembly. Today, SITE manages nine Industrial Estates, the largest being SITE Karachi which was built in 1947. The Quaid-e-Azam Industrial Estate in Lahore was built on 575 acres (2.3 square km) in 1970 but did not begin attracting significant investment until the 1980s. Today, there are 390 occupied plots out of 477. The Small Industries Corporations in Sindh and Punjab have developed a series of Industrial Parks and Estates catering to small industries that have had mixed success. In Sindh, there are 21 such facilities built since 1963 with 2,920 total plots but only 915 is currently being utilized (USAID 2007).

ii. INDIA

India is one of the first countries in South Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports. Asia's first EPZ was set up in Kandla in 1965. With a view to create an environment for achieving rapid growth in exports, a Special Economic Zone policy was announced in the Export and Import (EXIM) Policy 2000[4].

[4] The Export-Import (EXIM) Policy (1997-2002) introduced a new scheme from April 1, 2000 for establishment of the Special Economic Zone (SEZ) in different parts of the country. As per the policy-
1. SEZs are permitted to be set up in the public, private, joint sector or by the State governments with a minimum size of 1000 hectares.

Under this policy, one of the main features is that the designated duty free enclave has to be treated as foreign territory only for trade operations and duties and tariffs. No license required for import. The manufacturing, trading or service activities are allowed. While EPZs are industrial estates, SEZs are virtually industrial townships that provide supportive infrastructure such as housing, roads, ports and telecommunication. The scope of activities that can be undertaken in the SEZs is much wider and their linkages with the domestic economy are stronger. Resultantly they have a diversified industrial base. Their role is not transient like the EPZs, as they are intended to be instruments of regional development as well as export promotion. As such, SEZs can have tremendous impact on exports, inflow of foreign investment and employment generation.

In India, the first zone was set up in Kandla as early as 1965. It was followed by the Santacruz export processing zone which came into operation in 1973. The government set up five more zones during the late 1980s. These were at Noida (Uttar Pradesh), Falta (West Bengal) Cochin (Kerala), Chennai (Tamil Nadu) and Visakhapatnam (Andhra Pradesh). Surat EPZ became operational in 1998. The EXIM Policy, 2000 launched a new scheme of Special Economic Zones (SEZs). Under this scheme, EPZs at Kandla, Santa Cruz, Cochin and Surat were converted into SEZs. In 2003, other existing EPZs namely, Noida, Falta, Chennai, Vizag were also converted into SEZs. In addition, 3 new Special Economic Zones approved for establishment at Indore (Madhya Pradesh), Manikanchan – Salt Lake (Kolkata) and Jaipur have since

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2. A number of incentives both fiscal and non-fiscal have also been extended to the units operating in SEZs.
3. Several measures have been adopted to improve the quality of local governance of the zones. As for example, relaxation in the conditions for approval process and simplifying custom rules.
4. Development Commissioners have been given the Labour Commissioner's powers. SEZ policy is thus the most significant thrust towards ensuring the success of export processing zones.
5. From November 1, 2000 the Export Processing Zones (EPZ) at Kandla, Santa Cruz (Mumbai), Cochin and Surat have been converted into SEZs.
6. In 2003, other existing EPZs namely, Noida, Falta, Chennai, Vizag were also converted into SEZs.

As on June 2005, 53 SEZs have been approved by the Government of India (GoI) out of which 11 SEZs are functional and the rest 42 SEZs are under establishment. According to the SEZ Act 2005, the GoI has proposed that multi-product SEZs must have an area of at least 1,000 hectares, while sector specific zones including ports and airports must have a minimum area of 100 hectares. However, the area norms for multi-product SEZs in the north-eastern states like Assam, Meghalaya, Nagaland and the states of Jammu and Kashmir, Himachal Pradesh and Uttaranchal have been limited to 200 hectares and 50 hectares in the case of sector-specific SEZs (Thakur 2007: 16).

commended operations (Burman, 2006). In addition, approval has been given for the setting up of 26 SEZs in various parts of the country. Apparently, India is now promoting the EPZ programme much more vigorously than in the initial phases of their evolution. Huge amounts of public resources are being invested in the zones. This warrants an in-depth analysis of the performance of EPZs and their contribution to the country's export performance.

iii. SRI LANKA

In Sri Lanka the Export Processing Zones started its development process since 1978-79 onwards. Sri Lanka attained political independence in 1948. However, the process of industrialisation was initiated in the late 1950s when the government formulated a new development strategy with emphasis on industrialisation (Abeyratne 1997). The industrialisation policies initiated in the late 1950s were influenced by the contemporary development thinking and hence were based on the Import Substitution Industrial strategy. For around two decades till 1977 Sri Lanka remained a paradigm case of an inward oriented trade regime (Abeyratne 1997: 365). By late 1960s, however, the balance of payment situation had worsened in Sri Lanka and there was a new policy emphasis on export promotion within the overall framework of import substitution industrial (ISI) strategy. The government recognised the role of FDI in the export development drive and offered a package of production and tax incentives for export oriented FDI. However, the scheme could not remove the anti-export bias of the restrictive trade regime and failed to attract substantial export oriented FDI (Athukorala 1997). As a result, in 1977, the process of trade and investment liberalisation was initiated in the country. The then government introduced radical policy reforms, which aimed at establishing a substantially liberalised and export oriented trade regime in the country. The package of liberalisation involved a drastic change in the system of exchange rate management, tariff rate structure and Quantitative Restrictions (QRs).

Promotion of export oriented FDI turned out to be a pivotal element in the new policy. In 1978, the government set up the Greater Colombo Economic Commission (GCEC) with wide ranging powers to facilitate FDI in the fully export oriented ventures (Sivananthiran 2001). The Commission was authorized to set up EPZs within an area of authority covering 160 square miles north of Colombo and give approval to FDI. Thus the EPZ policy in Sri Lanka was designed primarily to attract foreign investment within the framework of the export oriented policy regime with significant relaxation of rules governing FDI, developed infrastructure and support services , freedom from diverse industrial regulations, a high quality governance and attractive incentive package. This was in contrast with India where the policy came into force to offset the anti-export bias of the import substitution industrial (ISI) regime with no special emphasis on FDI and a highly restrictive package.

The first EPZ became operational in 1978 in Katunayake, which is in close proximity of Colombo. It is located in Gampaha district, which is one of the most developed districts in Sri Lanka. The zone was developed in four phases: 1978 to the early 1980s, early 1980s to the late 1980s, and late 1980s to the early 1990 and thereafter. In the fourth phase 52 acres were added to the zone area, which is yet to develop. As we will see later, a highly attractive incentive package was offered to EPZ units. While the EPZ policy package was designed mainly to attract export oriented FDI, substantial reforms were introduced to improve the general investment climate in the rest of the economy also (Abeyratne 1997). Furthermore, labour unions also got weakened due to political developments by 1980. Thus the investment climate was highly favourable for foreign investors after 1977 and Katunayake proved to be highly successful in attracting FDI. The success of Katunayake EPZ paved the way for setting up a second EPZ in Biyagama in 1983, again near Colombo in Gampaha district.

A new policy package announced in 1990 introduced several important changes to the FDI policy framework. Besides, GCEC was empowered to develop EPZs in all parts of the country including those outside the area of jurisdiction of GCEC as demarcated by the original Act. As a result, the next EPZ was set up at Koggala in an industrially backward district of Galle of the Southern province. Since Koggala was located in a backward region, certain complimentary incentives were offered to the investors there. These included additional tax holiday, concessionary turnover tax and lower ground rent.

In 1992, all FDI promotion activities were placed under GCEC with a view to creating a one stop investment promotion centre and the reformed GCEC was renamed the Board of Investment (BOI). The BOI took over the functions of Foreign Investment Advisory Committee (FIAC), the Industrial Development Board (IDB) and the Local Investment Advisory Committee. Thus the scope of BOI operations was extended to include all FDI (export oriented and domestic market seeking) and domestic large scale operations. BOI offered a single window service to its clients so that the entrepreneurs were required to deal with only one agency.

Since 1998, BOI has been involved in massive expansion in the EPZ scheme. Six new EPZs have come up during a short period of 1998 to 2000. These are: Malwatta (1998), Mirigama (1998), Wathupitiwela (1999), Mawathagama (2000), Polgatawela (2000) and Horana (2000). Four of the zones namely, Malwatta, Wathupitiwela, Mirigama and Horana are in Gampaha while Mawathagama and Polgatawela are in the Kurunegala district of the North Western province of the country, which is also industrially developed like Gampaha. In all, nine EPZs are currently operational in the country. Their total employment is over 110 thousands and exports over $1000 million.

All the zones (except Koggala) are located in industrially developed districts. One must however note that the location of Wathupitiwela and Mirigama is in difficult areas and therefore these are classified as difficult zones. Special efforts are made to promote them along with Koggala, which is categorised as the most difficult zone. Thus less than ideal locations were selected with the expansion in the EPZ scheme. Besides, some of the zones set up have a very small size. These include, Wathupitiwela, Mawathagama and Malwatta. Their size varies between 10 hectares (29 acres) and 27 hectares (77 acres) and these are the smallest zones in South Asia (Aggarwal 2005).

II. Export Processing Zones in Bangladesh

Export Processing Zone (EPZ)/SEZs of Bangladesh is a response to international market demand for cheaper good which addresses the national problems like growing trade gap, high unemployment, dearth of capital investment, shortage of foreign currency and lack of technical know-how gas. As special industrial parks EPZs were located in areas with advantages in terms of communication and access to raw materials and industrial labour. The manifest objectives of EPZs (Bangladesh) was to attract foreign capital investment and mobilise investment for capital formation for rapid industrialisation, to create employment opportunities for the country's manpower, to induce transfer of technology, and to earn foreign exchange by boosting exports (Encyclopaedia of Bangladesh). As per the Act of 1980, BEPZA[5], an autonomous statutory body, came into being in 1983. It was entrusted with the responsibilities of setting up and operating EPZs in the country. The objective of setting up EPZs was to provide investors with a congenial investment climate free from excessive procedural complications. Following an Act of Parliament in 1980, the first EPZ of the country was established in Chittagong in 1983, which became fully operational from 1984. It was followed by the launching of the Dhaka EPZ in 1993. Since then, four more EPZs have been set up at Mongla, Comilla, Ishwardi and Nilphamari (Uttara) and Karnafully. EPZs can be majorly classified into three categories. The three categories are: (a) Manufacturing; (b) Warehousing; and (c) Combination of both.

The EPZs of Bangladesh are of manufacturing type, currently around 900 Export Processing Zones throughout the world enable manufacturers, assemblers, importers or exporters to benefit from a variety of privileged facilities.

i. Institutional Characteristics of Bangladesh EPZs

Since independence Bangladesh made a remarkable progress in diversified areas of social, political, cultural and economic life of its citizen. In order to boost up economic

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[5] BEPZA is an autonomous body that ensures all the pre entry and post entry services to the investors. The general administration of the affairs of the Authority is vested in the Executive Board, which is headed by the executive chairman. The Executive Board, in discharging its functions, acts in accordance with the guidance, orders and instructions given by the Board of Governors of the Authority from time to time. The executive Board of the Authority consists of a Chairman and three other members. There are three broadly defined departments under the Executive Chairman: Engineering, Finance and Investment. These are in turn headed by three officials: Member (Engineering), Member (finance) and Member (Investment) respectively which are also members of the Executive Board. The Executive Board, in the discharge of its functions, is aided and advised by a Consultative Committee which consists of the representatives from the Ministry of Commerce, Ministry of Industries, Export Promotion Bureau, banks and industries.

development of the country number of steps were also 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 institute the formation of Bangladesh Export Processing Zones Authority (BEPZA), the government organ which was responsible for creation, operation and development of Export Processing Zones (EPZ) in the country (Yussuf 2008). As far as the Bangladesh Export Processing Zones are concerned an inter-ministerial committee recommended setting up of EPZs in Chittagong, Dhaka and Khulna in 1976. Following this recommendation, delegations were sent to visit EPZs in other countries. Finally, in 1980, the idea was formally put to implementation with the creation of the Bangladesh Export Processing Zone Authority (BEPZA) under the BEPZA Act 1980. Its primary objective was to create and develop EPZs in the country. The first EPZ became operational at Chittagong in 1983-84. The size of the zone was mere 140 acres. Bangladesh till date has established export processing zones in Chittagong (1983), Dhaka (1994), Comilla (2000), Mongla (2001), Iswardi (2005), Uttara (2006), and Karnafully (2007). EPZs of Bangladesh are fully equipped with infrastructure facilities like water, electricity, gas, roads, telecommunication etc. The incentive packages offered for these EPZs are very competitive and the rate for utilities services are very attractive. Private EPZs are also allowed and the first private EPZ, operated by the Youngone Corporation of the Republic of Korea began its operation in end-2001 (Embassy of Bangladesh: Online).

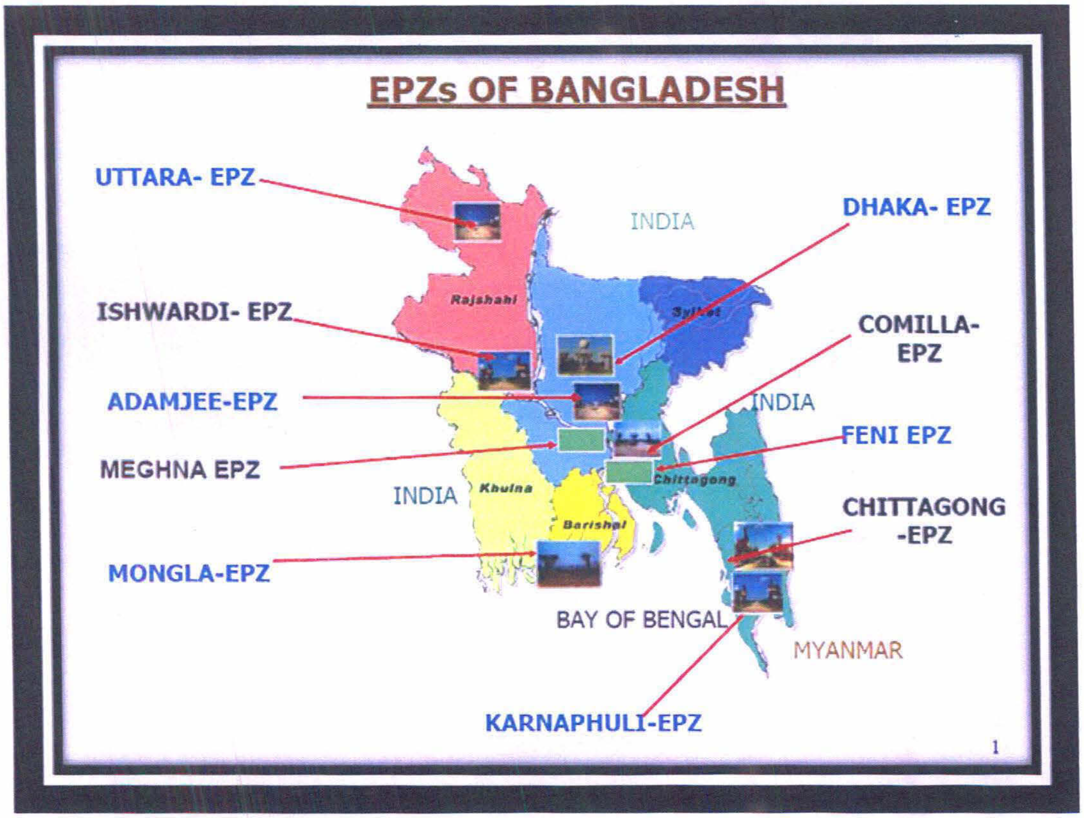
Against the backdrop of growing demand by prospective investors Board of Governors of BEPZA, the apex body of the Authority on 11th February 2008 formally approved two more new EPZs namely Meghna EPZ and Feni *EPZ* in the District of Munshiganj and Feni respectively. Meghna EPZ, having its excellent locational advantage near to Dhaka Chittagong National Highway, proximity to Capital City Dhaka (34km) and adjacency to an already growing industrial cluster, has bright prospect to flourish. The project is expected to accommodate 130 Units with a projected investment of 1625 Million USD and employment of more than one hundred thousand persons (1, 00,000 persons). Competitive advantage of Feni EPZ depends on its easy accessibility to Chittagong Port. The Zone is only 120 km away from the port which facilitates the export and import activities of the locators of this Zone comparatively faster than others. The zone is expected to be developed on an area of 500 Acres of land which will create employment opportunities for more than 80,000 workers and employees. BEPZA which has a vision of creating new Zones keeping pace with the present day need of the investors and customizing the concept in Bangladesh's context (Yussuf 2008).

ii. SEZ – Enlarged Version of EPZs of Bangladesh

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 this regard, the development partners especially the World Bank has proposed that Bangladesh Government set up Special Economic Zones with the following strategy: introduction of a broader concept of economic zones, i.e. including the Special Economic Zones (SEZ) which have not been tried full-fledged till date in the country, and the provision of a broader range of value added services, such as logistical service in the zone; provision for a greater role for the private sector in the development and operation of these economic zones; a clear option to establish both export-oriented industries and manufacturing units for domestic markets and finally, separation of the regulatory function of Government from its zone ownership functions (Hossain 2008). Pioneer EPZ of the country i.e. the Chittagong EPZ started functioning in the year 1983 in the Port city of Chittagong, seeing its unprecedented success the second one came into being in 1991in Dhaka. Presently there are as many as eight operational EPZs and two (Mehna and Feni) proposed EPZs in different locations of the country contributing to the overall economic development process of Bangladesh through promotion of export and FDI (Foreign Direct Investment), generation of employment, transfer of technology, and development of forward and backward linkage industries and so on (Yussuf 2008). In order to stimulate rapid economic growth of the country, particularly through industrialization, the government has adopted an 'Open Door Policy' to attract foreign investment to Bangladesh. The Bangladesh Export

Processing Zones Authority (BEPZA) which is the official organ of the government to promote, attract and facilitate foreign investment in the Export Processing Zones. The primary objective of Bangladesh EPZs is to provide special areas where potential investors can find a congenial investment climate, free from cumbersome procedures. Eight EPZs, Chittagong (1983), Dhaka (1994), Comilla (2000), Mongla (2001), Iswardi (2005), Uttara (2006), and Karnafully (2007), Adamjee are now operational whereas Megna and Feni are the proposed SEZS/EPZs of Bangladesh respectively. The Figure 1, below shows the ten EPZs (operational as well as) in Bangladesh.

Figure 1: Operational and the Proposed Zones of Bangladesh



Source :(Hossain, BEPZA)

iii. Facilities Provided by SEZs/EPZs

Basic facilities and the corresponding rules and the procedures as presently applicable in the economic zones of Bangladesh are as under:

a. ***Eligible investors:*** The investors are categorised majorly into three categories i.e. Type A, B and C. These three categories are as follows: Under the Type-A category 100% foreign owned including as well as those Bangladeshi nationals which are ordinarily resident abroad. The Type-B category includes the Joint venture between foreign and as well as the Bangladeshi entrepreneurs those who are resident in Bangladesh. The Type-C category includes 100% Bangladeshi entrepreneurs who are resident in Bangladesh.

b. ***Mode of Investment*:** The Investments are convertible into foreign currencies by the foreign investors. Options are also there under the mode of investment to establish Public/Private Ltd companies or sole proprietorship/partnership concerns.

c. ***Investment Guarantee*:** The Foreign Private Investment (Promotion and Projection) Act 1980 secures all foreign investments in Bangladesh. OPIC's (Overseas Private Investment Corporation, USA) insurance and finance programs is also operable. Security and safeguards are available under Multi-national Investment Guarantee Agency (MIGA) of which Bangladesh is a member. The Arbitration facility of the International Centre for the Settlement of Investment Dispute (ICSID) is there to settle the disputes. Tele-communications like Telex, Fax and International Dialling Services are connected through satellite system are available. Communications are Adequate via sea, rail, road and air.

d. ***One Window same day and simplified service***: BEPZA The authority Sanctions the projects generally within a week. The Issues require Import/Export Permits, Work Permits for foreign nationals working in the EPZ enterprises. It also provides the required infrastructure facilities in the EPZ/SEZs. The authority offers **'One Window Same Day Service'** to the investors in the zones.

e. ***Production Oriented Labour Laws*:** Bangladesh forbids the formation of any labour union in the Export Processing Zones (permitted after 2006). The authority is vested with the responsibility to administer all the labour matters which is related to the enterprises in the EPZs, which includes all the matters related to the monthly wages of the different categories of workers. The Table: 3 below show the minimum monthly wages and Table: 4 the working hours of different categories of workers.

Table 3: Minimum wages of the different workers

Minimum Wages	Monthly
Apprentices/Trainee	US$22.00
Unskilled	US$38.00
Semi-Skilled	US$45.00
Skilled	US$63.00

Source: Aggarwal, Hoppe & Walkehorst, World Bank: Online

Table 4: Working Hours of Bangladesh workers

Place	Working Hours
Factory	48 hours
Office	40 hours

Source: Aggarwal, Hoppe & Walkehorst, World Bank: Online

As far as the minimum wages of the export zone workers are concerned it varies at each level where the trainee gets the US$ 22 whereas the unskilled, semi-skilled and skilled workers get US$ 38, 45 and 63 respectively. The working hours of a factory and office workers are 48 and 40 hrs respectively.

f. ***Employees leave:*** Employees of these economic zones are granted with 10 days casual and 17 days annual leave respectively with five normal working days a week.

g. ***General and sector-specific incentives***: Since 1998, imports into EPZ did not pay any VAT, import duties, or supplementary taxes (which can range from 20-350% for some products). No stamp duty was levied on the transfer of land within an EPZ. In 1998, additional incentives for backward regions were granted. These included a subsidy of 50% on land and factory rents and a 30% cash incentive for agro-industries. Similar incentives also existed outside the EPZ, however.

h. ***Treatment of profits and dividends***: Since 1986, a tax holiday of 10 years is in effect after which tax liability is reduced to 50% of the tax attributable and interest on borrowed capital can be deducted from the income tax base. For the same time, non-resident shareholders are exempt from dividend tax and there is a depreciation allowance of 100% within the period of tax exemption.

i. ***Location and transport infrastructure***: Three of the EPZs for which information is available are located in backward regions and three in a developed region or commercial area. Distances to the nearest (domestic) airport differ widely from less than 10 km to more than 100 km. Commercial centres can be even further away. Two of the three EPZs in backward regions have performed very poorly in attracting employment (even if taking into consideration that they are very new). There is no employment in Eshwardi, which is already in existence since 2001. In the Mongla-EPZ, also located in a backward region, only agro products are produced and exported. Exports per worker have increased slightly since 2001 from 9120 USD to 11,500 USD in 2003-04. At the same time, however, imports into the zone from the rest of the world have increased strongly, making the calculation of value added impossible. The Table 5 below shows the Physical and social infrastructure which is provided by Bangladesh to the investors in the SEZs/EPZs of the region.

Table: 5 Physical and social infrastructure provided by the Bangladesh administrative authority

Infrastructure	
Standard factories	Yes
Water	Yes
Electricity	Partial
Telecommunication	Line reservation
Warehousing	Yes
Transport facilities in the zone	None
Recreation facilities	Sport complexes
Hotels/guest house	Investor's clubs
Residence for the administrative staffs	Yes
Hospital	None
Fire station	Yes

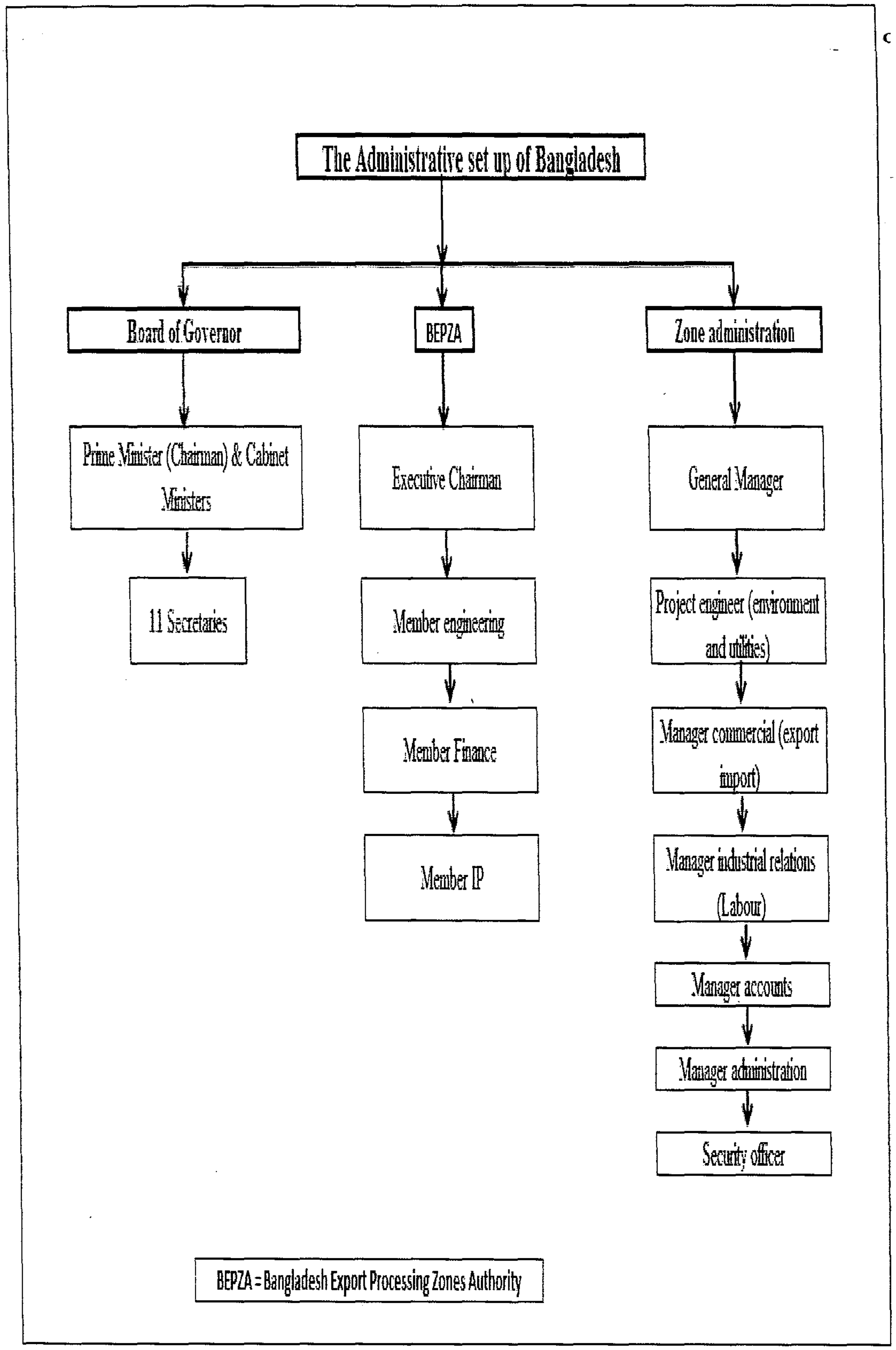
Source: Aggarwal, Hoppe &Walkenhorst, World Bank

j. ***Administrative Organization and Approval Process***: There are both public and private sector EPZs in Bangladesh but private sector EPZs have faced severe difficulties since the private sector was allowed to set up EPZs in 1996. It seems that no private-sector EPZ is fully functional until now. Structure of the administration consists of three tiers: the board of governors, the executive board (BEPZA), and a separate zone administration for each zone. The administration of Bangladesh is divided into three categories i.e. Board of Governors, BEPZA and Zonal administration. The Board of governors consists of prime minister, who is the chairman, cabinet ministers and 11 secretaries. BEPZA has four officers which are Executive Chairman, Member engineering, Member Finance and Member IP respectively. The third category is of zone administration which is taken care by a 7 member body consisting of General Manager, Project engineer (environment and utilities), Manager commercial (export import), Manager industrial relations (Labour), Manager accounts, Manager administration and the Security officer the setting up of EPZs has to be passed from all the levels of administrative body . The structure differs slightly for private EPZs. Approval for projects is generally granted within one week and takes place through a single window while it takes 35 days to start a business outside the zone. The flowchart 1 in the next page provides a clear picture of the Administrative status of Bangladesh Export Processing Zones.

k. ***Local Sales and Backward linkages*:** 10 percent of last year's (according to year 2005) exports can be sold locally upon approval. Export Oriented Units (EOUs) outside the EPZs can sell 20% of their products locally after paying applicable taxes and duties.

l. ***Labour regulations*:** Since 1989, zones were exempted from three major labour laws. Instead, there are two 'instructions' that regulate classification of employees, leave, payment, minimum wages, and other issues. The report does not specify how these regulations related to the labour laws that are valid in the rest of the country. Formation of labour unions is not allowed in EPZs and strikes are prohibited. Since 2004, there have been some transformations and since the end of 2006, workers have the right to form labour unions (Aggarwal 2005).

Figure: 2 Administrative Setup of Bangladesh EPZ Authority



Source: Aggarwal, Hoppe &Walkenhorst (World Bank): SEZs in South Asia

iv. Incentive Regime

The incentive regime of Bangladesh EPZs/SEZs can be classified under three headings, fiscal, non-Fiscal and others. As far as the facilities under the export processing zones are concerned the zones are provided with land and factory buildings on rental basis. Electricity, water, gas and telecommunications are also provided by the zones. The Import and Export permits are issued by EPZs itself within 24 hours. BEPZA which is the sole authority for the EPZs in Bangladesh is responsible to issue the work permits. The zone is completely secured and protected area. Potential investors are required to deal only with BEPZA for investment and all other operational purposes.

a. ***Fiscal Incentives*:**

i. *Tax Exemption:* As far as the fiscal benefits under these processing zones are concerned are exempted from various kinds of taxes which provide them relief. These exemptions are like tax holiday for 10 years; are exempted from the income-tax on interest on the borrowed capital. Investors are relieved from double taxation which is subject to bilateral agreement. The zone provides from complete exemption from the dividend tax for tax holiday period for the foreign nationals. The income tax is exempted on the salaries of the foreign technicians for 3 years which is subject to certain conditions. (Ahmed, 2007)

ii. *Duty Free Import and Export:* The Export zones are also provided with duty free import and export facilities like, free import of machinery, equipments and raw materials; duty free import of three motor vehicles for use of the enterprises in EPZs under certain conditions; duty free import of materials for the construction of factory buildings in the zone and duty free export of goods produced in the export zones.

b. Non-Fiscal Incentives:

The Non-Fiscal incentives can be broadly classified under two heading as follows:

i. *Investment:* As far as the Investment in the zone are concerned all the foreign investment are secured by the law; No ceiling is charged on the extent of foreign investment; Full repatriation of profit and capital is permissible; Repatriation of investment if any, is permissible along with the capital gains.

ii. *Remittances:* Remittances are allowed under the following cases like, on profit and dividend on foreign capital; Savings from earnings, retirement benefits, personal assets of individual on retirement/termination of services; Approved royalty and technical fees; No permission is required for the expansion of the project or product diversification.

c. ***Others:***

i. *Project financing and banking:* Off-shore banking facilities are available in the zone and local and international banking facilities are wide open.

ii. *Imports:* The various types of import facilities which are available in the zone are freedom from national import policy restrictions; import of raw materials is allowed on the Documentary Acceptance (DA) basis; advantage of opening back to back LC for certain types of industries for import of raw materials; and import of goods from the domestic tariff area (DTA) are permissible in zone.

iii. *Project Implementation and Operation:* Project Implementation and Operation in the Export Processing Zones includes the Re-location of the existing industries from one zone to another within the country is permissible; Sub-contracting within the EPZs is allowed; Inter-zone and intra-zone export are also permitted; All customs formalities are done at the gate site of the respective factory building within the zone; Permission for import/export is given on the same day itself; and Repairing and maintenance's of machinery's and capital equipment from domestic tariff area are also allowed.

iv. *Employment and Support Services:* Employment and Support Services in the zone include Liberal employments of the foreign technicians/experts are allowed in these Zones; Foreigners who employed in the zones enjoy the equal rights which are similar to those of Bangladesh nationals; the Law forbids formation of any labour union in the zones and strikes within the zones are strictly prohibited. The various support services provided in the export zones are custom office; post office; medical care; fire station and the police stations (BEPZA, Government of Bangladesh).

III. Conclusion

In South Asia, India, Pakistan, Bangladesh and Sri Lanka have a long tradition of operating export processing zones. The favourable fiscal, infrastructure, and administrative conditions under which the firms in these zones operate have made it possible to attract substantial foreign direct investment and thereby bring new economic activities and employment opportunities to the countries. SEZs/Export Processing Zones (EPZs) in Bangladesh are better equipped and they offer more liberal incentives to investors as compared to the services available in such exclusive zones in South Asia. As regards fiscal and non-fiscal incentives and facilities currently offered by the zones in India, Bangladesh and Sri Lanka, Bangladesh is offering the most generous incentives and facilities to the zone units. Comparative studies on the SEZs/EPZs of Bangladesh, India and Sri Lanka, give evidence that the Bangladeshi SEZs/EPZs offer advanced infrastructure and utility facilities. For instance, the Bangladeshi authority approves the project in a week which is half of the time taken by the Indian authority. Not only this, but also in the terms of incentives including tax holiday, FDI (Foreign Direct Investment) limits, repatriation of profit, labour laws, duty-free import of raw materials, exemptions on dividends, local duty and taxes, Bangladesh offers most liberal facilities. The EPZs/SEZs industrial units in Bangladesh enjoy huge relative benefits as compared to the domestic units in terms of incentive package, infrastructure facilities and the quality of governance" Performances in SEZs/EPZs in terms of rapid investment and employment are also the best in Bangladesh. Bangladesh SEZs/EPZs attracted investment worth 750 million US dollars up to the end of 2003 up from just 17 million dollars in 1983. In comparison Sri Lanka attracted 292 million dollars from 100 million dollars, and India 388 million dollars from 69 million dollars over the same time period. Till 2003, SEZs/EPZs in Bangladesh, Sri Lanka and India employed 144,000, 104,000 and 89,000 people, respectively. The recent performance of EPZs in Bangladesh shows that in the fiscal year 2004-05 (i.e. July 2004-June 2005), exports increased by 14 percent, employment 57 percent and investment 3 percent. The enterprises of the EPZs in Bangladesh exported goods worth 1.5 billion dollars during fiscal 2004-05, crossing the billion dollar mark for the 5th consecutive year (PDO 2005). Our analysis of Bangladesh EPZs/SEZs thus clearly depicts that out of all the four countries in South Asia, Bangladesh Special Economic Zones/Export Processing Zones are performing much better than the other zones of the other countries.

Chapter Three
EVOLUTION OF SEZs/EPZs POLICY IN BANGLADESH

Export Processing Zones have been set up in the country under the Bangladesh Export Processing Zones Act 1980 in order to help establish export-oriented industries. All infrastructure facilities including telecommunication and utilities have been provided in the zones. (Industrial Policy 2005) The idea to establish EPZs in Bangladesh gained momentum when in September, 1976, the President of the World Bank Mr. Robert McNamara held a meeting with the then President of Bangladesh Ziaur Rahman, explained him the benefit of Export Processing Zones in view of the prevailing investment scenario and economic situation of the country (Dowla 1997). In order to stimulate economic development, it was quite natural for the government to lay emphasis on industrial development of Bangladesh in the late 70s. In pursuance of this policy, one of the important measures initiated by the government was to promote and attract Foreign Direct Investment (FDI) in the country, particularly by setting up several Export Processing Zones (EPZs) in phases. In the process, an Act of Parliament created the Bangladesh Export Processing Zones Authority (BEPZA) in 1980 and entrusted it with the responsibility of establishment, management and operation of Export Processing Zones in Bangladesh (Hossain 2005). The policy framework that Bangladesh inherited and maintained during independence in 1971 was geared towards import substituting industrialisation. The process of reform was however initiated as early as in 1975. The reform process was further intensified following major policy declarations in 1982.[1] Under the new policy regime, export promotion became a major concern of the government. A wide array of export incentives were offered to boost exports. These included: export subsidy, duty free access to imports, tax holidays and rebates and credit guarantees. While the incentive

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[1]Bangladesh joined the EPZ bandwagon in the 1980s. The first export processing zone was set up in Chittagong and became fully functional in 1984. The idea of an export processing zone was suggested to the late president Ziaur Rahman in 1976 by Robert McNamara, the then president of World Bank. The government accepted the idea in principle and formed a study group to examine the feasibility of such zones in Bangladesh. The National Economic Council (NEC) approved the setting up one zone in South Halishahar, Chittagong in August 1978, and the following year the Chittagong Development Authority took over land acquisition, acquiring 100 hectares in the first phase. The whole process of setting up the zone was facilitated by passage of Bangladesh Export Processing Zone Authority Act and the Foreign Private Investment Act in 1980 by Parliament.

package mostly centred on price factor, there were several non price constraints as well, crucial amongst which were paucity of investment capital, lack of access to improved technology, inadequate linkages with the global markets. It was therefore felt that adequate inflow of FDI in the export sector was necessary to promote exports. In 1980, the Foreign Private Investment (Promotion and Protection) Act was enacted to provide equal treatment to domestic and foreign investors. But attracting FDI requires development of infrastructure and other structural reforms also. Since the country wide development of infrastructure would be expensive and implementation of economic and structural reforms would require time, establishment of EPZs was viewed as an important strategic tool for expediting the process of industrialisation in the country (Mondal 2003). The country therefore started the EPZ programme in 1981 with the creation of the Bangladesh Export processing Zones Authority (BEPZA) under the BEPZA Act. Under the BEPZA Act, the two primary objectives of EPZs in Bangladesh was to promote foreign direct investment (FDI) and exports beside other objectives such as generation of employment, transfer of technology and up gradation of skill. The government has adopted an 'Open Door Policy' to attract foreign investment to Bangladesh and promoting; attracting and facilitating foreign investment in the Export Processing Zones is one of the important responsibilities of the BEPZA. The functions of BEPZA can be classified into four broad categories. The four categories are as follows:

- **(a)** Functions related to infrastructure, basic services (electricity, gas, water, telephone, banking etc.) and customs related support;
- **(b)** Assistance in performing the procedures for setting up industries and also the setting up of principles for preferential industries;
- **(c)** Undertaking promotional steps to attract foreign, as well as local, investment; and
- **(d)** To work with companies to reform and readjust the services as necessary (Eusuf, Faruque and Rahman 2007).

The first Special Economic Zones/Export Processing Zones in Bangladesh became operational at Chittagong in 1983-84. Chittagong is one of the most developed cities of Bangladesh. The project was implemented in three phases. The first phase spread over the period 1978-85. The size of the zone was 140 acres. It was expanded by 60 acres in the second phase implemented during 1985-86 to 1989-90. In the third phase 253 acres of land was developed increasing the size of the zone to 453 acres. The second EPZ was set up in Savar near the capital city Dhaka. Dhaka EPZ commenced its operations in 1993-94. Its size was 141 acres. In 1997, it was further expanded by 205 acres. Both these zones are currently fully occupied.

Encouraged by the success of these zones, the government recently set up four more EPZs. These are in Mongla, Ishwardi, Comilla and Uttara. Uttara, Mongla and Ishwardi are in the industrially backward regions and have other locational disadvantages in terms of distance from the port and industrial towns. The government recently approved two more EPZs in developed regions near Dhaka (Adamjee Jute mill) and Chittagong (Steel mill). Table: 6 below show the overall features of EPZs which exists in Bangladesh.

Table 6: Features of Bangladesh Export Processing Zones:

Features	**Bangladesh EPZs**
Evolution of the Policy	EPZ policy was implemented to promote export oriented FDI in the export oriented regime
EPZ Authority	BEPZA was created under the chairmanship of the Prime Minister
EPZ Act	BEPZA Act 1980
Objectives	➢ foster and generate economic development by encouraging foreign investments; ➢ diversify the sources of foreign exchange earnings ➢ encourage establishment and development of industries and commercial enterprises ➢ generate productive employment opportunity and to

	upgrade labour and management skills through acquisition of advanced technology
Operational zones	6
Location of the first zone	Advanced region
Zone that became operational in the late 1990s	4
Development strategy of zones	In phased manner
Size of the zones	230-460 res (average 389 acres)

Source: Aggarwal 2005

I. Factors responsible for SEZs/EPZs Success

While identifying the factors responsible for the success of EPZs, it may be borne in mind that there are two different sets of factors, one is internal and the other external. Internal factors are mainly the incentives and facilities offered by the zone authority and the support provided by the government. These are: attractive tax incentive, irrespective of type and size of the industry, ideal location of EPZs and good infrastructure facilities, congenial production atmosphere and good labour-management relations in the zones, land and factory building are offered on lease and rental basis: resulting in comparatively minimum involvement of initial cost of investment of the enterprises, the investors are provided with 'one window one stop same day' service by the EPZ authority, good administration and quick management decision by the EPZ authority. External factors which influence the operation and development of certain type of industries in EPZs these are: Abundant supply of skilled, unskilled and easily trainable labour force to cater to the need of the enterprises in the Zones, liberal quota policy on garments export from Bangladesh, decision in offering GSP facilities and reduced duty access of some Bangladeshi products to American, Japanese, Canadian and some of the European markets (Hossain 2005).

II. Labour Laws

Labour laws which are often applied only to a certain sectors of the economy and in some cases only to an "industry". This is achieved by having laws dealing with the safety and health of workers limited to factories, mines, plantations or certain specific sectors [2](Sankaran 2007). Labour unions of Bangladesh are most associated with political parties and are often militant. Violence methods and the threat of violence by some trade unions, forced entrepreneurs to offer wage increases in excess of productivity increases, raising unit labour costs. Worker layoffs, or the mere threat of reductions-in-force, can be expected to cause some of the most serious and confrontational labour disputes. In 1989, therefore, the government exempted the zones from three major labour laws. These included the Factories Act, the Industrial Dispute Act and the Employment of Labour (standing orders) Act. These were replaced by two instructions: Instruction 1 and Instruction 2. These instructions carried detailed guidelines on the classification of employees, minimum wages, additional benefits to be paid by the employers in general and for electronic industry, terry towel industry and textiles in particular. This was a major incentive to the EPZ units (Aggarwal, Hoppe, Walkenhorst, World Bank).

Instruction 1: Regulates classification of employees, service records, leave, and maternity leave, termination of employment, and payment of wages of employees in export processing zones. Promulgated by the Bangladesh Export Processing Zones Authority

Instruction 2: Determines wages and benefits for workers in the garment, electronics, terry towel, and textiles industry operating in export processing zones. Law forbids formation of any labour union in EPZS. Strike within the zones prohibited. BEPZA is vested with responsibility to administer labour matters for all enterprises in EPZs. In addition to the set minimum wages (see table 7), employees benefit from other schemes, such as Conveyance Allowance, House Rent, Medical Allowance and Festival Bonus.

Table 7: Minimum Monthly Wages (US $)

	Garments Industry	Electronics	Textile Industry
Apprentice/Trainee	25	28	25

[2]The Factories Acts of South Asia are like. Factories Act, 1934 of Pakistan, the Factories Act, 1965 of Bangladesh, Factories Act, 1948 of India, Factories Ordinance, 1950 of Sri Lanka, the Labour Act, 1992 of Nepal apply to factories and other specified establishments, however it does not apply to all establishments were workers are engaged or employed (Shankaran 2007).

Helper	40	–	40
Junior operator	48	48	48
Operator	70	70	70

Source: Aggarwal, Hoppe and Walkenhorst 2008: 30

Under US pressure, the Parliament of Bangladesh enacted a law giving legal coverage to Trade Unionism in EPZs on July 13, 2004. Under this Act, EPZ workers are allowed to form welfare councils. Each industrial unit will have one welfare council by Oct. 31, 2006. After this date, workers will have the right to form trade unions. Workers of an industrial unit can move for Trade Union right if supported by 30% of the work force of that unit. The industrial unit will then hold referendum on whether or not trade unionism should be activated. At least 50% of workers of the unit will take part in the referendum and at least 60% of them will have to vote in favour of trade unionism.[3]

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[3]**History of Labour Union and Legislation in Bangladesh:**

Working conditions are poor in Bangladesh's export processing zones (EPZs) but are better than outside the zones. Prohibition of trade union activity in these zones is only due to end on November 1, 2006 and considerable restrictions on freedom of association will continue after that date. There are currently six EPZs in Bangladesh: Dhaka, Chittagong, Khulna (Mongla), Comilla, Uttara and Ishwardi. At least 135,000 workers (mostly female) are employed in more than 190 companies in the zones out of a total national workforce of 58 million workers. The textile, garment and leather industry is dominant in the EPZs, accounting for one fifth of Bangladesh's total export value. One of the greatest attractions for investors is a ten-year tax exemption. Investment mainly comes from South Korea but also from Japan, the United States, the United Kingdom, China and elsewhere. Professional management of the zones is another particularly attractive aspect.

By "external disturbances" managers of companies based in the zones mean "trade union activity." Employers take a very dim view of Bangladeshi trade unions. Employers claim that all trade unions are manipulated by political parties and that they promote their own interests rather than workers'. As a result, trade unions are particularly unwelcome in the factories. Admittedly, a number of Bangladeshi trade unions are much closer to senior politicians than they are to the workers and are willing to manipulate their members to serve the interests of one party or another. However, trade unions in Bangladesh cannot all be tarred with the same brush. There are some outstanding Bangladeshi trade unionists, who dedicate their lives to the workers 'cause, but they are victims of the picture of the trade union movement painted by others, images that employers like to spread and exaggerate.

Trade unions allowed only after 2006

A law allowing trade unions in the EPZs was eventually adopted in July 2004. It barely satisfies the trade union movement because it contains many restrictions. The first restriction is that prohibition of trade unions in the EPZs will not end until November 1 2006. Over the next two years, only labour welfare committees are permitted, as is currently the case. When the prohibition ends there will be considerable restriction on freedom of association: trade unions in factories in the EPZs will only be permitted to set up a single federation and this federation will not be allowed to associate with federations in other EPZs to form a confederation representing all affiliated members in the zones. Trade unions formed within the EPZs will not be able to join a national trade union federation. These restrictions violate ILO Convention 87 on Freedom of Association and Protection of the Right to

III. Legal Framework of Bangladesh SEZs/EPZs

The legal framework of Bangladesh EPZs can be classified into three broad categories i.e. Public sector EPZs, private sector EPZs and the investment outside the economic zones. These categories have been explained in detail below.

i. **Public Sector EPZs:** The legal framework governing Public sector EPZs in Bangladesh and the operation of firms established in EPZs is provided by the following acts and rules:

  a. ***The Bangladesh Export Processing Zones Authority Act, 1980:*** The Act lays down rules for the administration of the affairs of the Authority and specifies its functions, responsibilities and powers. Under the Act, the BEPZA takes possession of all land acquired by the government for the purpose of creation and development of a zone and creates infrastructure facilities which include buildings, utilities and warehouses. In addition, BEPZA processes and sanctions applications for setting up EPZ units, provides custom

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Organize and Article 5 in particular which states that, "Workers' and employers' organisations shall have the right to establish and join federations and confederations."

There is no guarantee that after November 1 2006 workers will be able to set up trade unions freely, even within a single company. Bangladeshi authorities generally turn a blind eye to anti-trade union practices, which are widespread across the country despite the fact that freedom of association outside the EPZs is enshrined in Bangladeshi labour legislation. The ICFTU's most recent annual report (1) is clear on this matter: "Workers who try to create a trade union are not protected before registration and are therefore often persecuted by their employers, sometimes by violent means or with the help of the police. The names of workers who apply for union registration are frequently passed on to employers who promptly transfer or dismiss them, particularly in the textile sector. Even after registration, workers suspected of carrying out trade union activities are regularly harassed. One popular ploy is to dismiss a worker for misconduct, as they are then no longer entitled to become a trade union officer. A complaint to the Labour Court is of little use given the underlying corruption and serious backlog of cases, which, in some instances, can stretch back more than ten years." Given the stinging criticisms of trade unions made by employers in the EPZs, there is every reason to fear that the freedom of association, due to be permitted in the zones from November 1 2006, will be as heavily restricted as elsewhere in the country.

However, whilst the EPZs are exempt from some elements of labour legislation – specifically regarding freedom of association, wage levels and health and safety standards – the rules applied within the zones often contain provisions which are more beneficial to workers than the provisions of Bangladeshi national legislation. Generally speaking, working conditions and wages are better than outside the zones. One reason is that companies in the newest zones have space to expand whilst factories in town centers are often confined to a few floors in old buildings that were not designed for industrial use. Therefore, it is much easier to ensure suitable ventilation, better sanitation and more space for workers in the EPZs. The focus on exports in these zones also forces managers to provide a working environment that is more "presentable" to big brand names which are concerned about maintaining their image. The better working conditions and higher wages mean that workers in the EPZs are generally healthier than workers employed outside the zone, as shown in a study carried out by the Bangladesh Institute of Development Studies last year (Perman, Duvillier and et. al. 2004).

bonded facilities in accordance with custom regulations, and provides single window services to EPZ units.

b. ***Foreign Private Investment (Promotion and Protection) Act, 1980:*** Under the Act, the Government accords fair and equitable treatment to foreign private investment. Foreign investors enjoy full protection and security in Bangladesh. The transfer of capital and the returns from it and, in the event of liquidation of industrial undertaking having such investment, of the proceeds from such liquidation is guaranteed. Currently, Bangladesh maintains one of the most liberal regimes in South Asia with few limitations on foreign equity participation.

c. ***Principles and Procedures governing setting up of Industries in EPZs (1981):*** The broad features relating to the operation of the industrial enterprises in the zones are contained in these Principles and Procedures which lay down conditions for setting up units in the zones for different types of enterprises. As per these Principles and procedures, industries which may be set up in EPZs of Bangladesh may be classified as Type-A which are 100% foreign owned including investment by Bangladeshi nationals ordinarily resident abroad, Type-B, being joint venture projects between foreign and Bangladesh entrepreneurs resident in Bangladesh, and Type-C, which are 100% Bangladeshi entrepreneurs resident in Bangladesh.

d. ***Customs Rules (EPZ) 1984:*** These rules are framed by the National Board of Revenue, Bangladesh. These rules relate to imports, exports, and removal of goods from the zones, subcontracting, procurement from the domestic mainland and disposal of solid waste.

e. ***Circulars of different government bodies:*** These circulars regulate various aspects of EPZ functioning and include foreign exchange control regulations for EPZ units and setting up of overseas banking units by the Bangladesh Bank, capital issue related matters by the Ministry of Finance, or income tax exemptions, issued by the Internal Resource division of the Ministry of Finance.

ii. **Private Sector EPZs:** The Bangladesh Private Export Processing Zones Act (1996) allows setting up of EPZs in the private sector, with a view to attracting more investment especially foreign investment in the country and sets the direction for the governance of these zones. There are also other rules and custom procedures are as applicable to the public sector zones.

iii. **Legal Framework for Investment outside the zones:** To promote and facilitate investment in the private sector both from domestic and overseas sources, the government has established the Board of Investment (BOI) by the Investment Board Act 1989. It is headed by the Prime Minister and is a part of the Prime Minister's Office. Its membership includes representatives (at the highest level) of the relevant ministries –industry, finance, planning, textiles, - as well as others, such as the Governor of Bangladesh Bank and heads of some business associations.

The BOI provides necessary facilities and assistance in the establishment of industries, implements investment related policies of the government, sanctions private sector industrial projects; and identifies competitive investment sectors and facilitating investment by providing information and services. The Operation Head and CEO of BOI is the Executive Chairman who is assisted by an executive council.

IV. The Approval Process

BEPZA which has the motto of 'one window same day service', sanctions the projects generally within one week. The process takes maximum of seven days and minimum one day. The Authority is also authorized to provide at the time of entry:

a) The registration under the factory act,

b) The approval of building plans,

c) The issue of Import/Export Permits,

d) The issue of required work permits for foreign nationals working in EPZ enterprises, and

e) The water connection.

Thus the authorities of inspector of factories, director of labour and Municipal Corporation have been delegated to BEPZA. BEPZA plays a role of facilitator in the provision of other services such as electricity connection and telephone connection. However the units have to deal with some other government authorities as well. These include National Board of Revenue, Department of Environment, Custom and Fire Safety. Though BEPZA facilitates their interaction with these government departments, the units may approach them directly to expedite the process. In day- to-day operations, the units have to deal mainly with BEPZA, custom authorities and Export Promotion Board. However, though all custom related services are provided within the zone, custom authorities are not directly under the jurisdiction of the EPZ administration.

i. **Approval Process outside the Zone sector:** Outside the zone BOI (Board of Investment)[4] is responsible for processing investment proposals. Once registration process is complete with the BOI, units have to seek clearances from various other government departments. These include, department of company affairs, Inspectorate of factories, environment, VAT department, local bodies, customs, electricity, water and so on. Bangladesh demands eight procedures to start a business. According to a global business survey by the World Bank and International Finance Corporation (IFC) "Doing Business in 2006: Creating Jobs" the number of days needed to start a business in Bangladesh was 35 and the cost to start a business, as a percentage of the per capita income, is 81.4 percent which is the highest in the region. Furthermore, it takes 13 procedures to obtain a license and businesses need 185 days to obtain a license. In comparison, starting business in EPZs is relatively much easier, less time consuming and cheaper. Investment proposals for the EPZs are

[4] In accordance with the Board of Investment Act 1989, the Board of Investment provides necessary assistance and facilities to boost private investment in Bangladesh. The Board, formed under the leadership of the Prime Minister, with Ministers and Secretaries representing relevant ministries, takes necessary decisions in order to help establish new industries and provide assistance to already established industries.

The Board of Investment provides one-stop service in the following fields so that investors get infrastructure facilities quickly when setting up industries:

a) Electric and gas connections;
b) Water and sewerage connections;
c) Telecommunications facilities;
d) Custom clearance of imported machineries, spare parts and raw materials;
e) Clearance from environmental agencies; and
f) Other necessary facilities and services for speedy setting up running of industries.

With this end in view, all relevant public agencies are involved with the one stop service of the Board of Investment (Industrial Policy 2005).

processed quickly, and the EPZ administrators take care of the investor's needs, from tax treatment to utility hook-ups.

V. Rules and Procedures

The rules and procedures pertaining to the financial aspects of the SEZs/EPZs of the country are as follows:

i. Finance

Type A (100% foreign owned companies): Total investment cost and working capital requirement to be self financed. No local borrowing is permitted. Recently, local borrowing for working capital requirement has been permitted by the government.

Type B (Joint ventures): Cost of machinery, spare parts and raw materials to be financed by foreign partners. Local partners finance working capital not covered by foreign partners. Local borrowing is allowed on conditional basis.

Type C (Local Companies): The first consignment of raw materials to be financed through Secondary Foreign exchange market. Later consignments are to be financed through own export earnings (I.P. 2005). The entire export proceeds must be surrendered to Bangladesh Bank[5] (Dowla 1997).

ii. Custom Rules

Any goods for which exemption has been granted by the Government under the Act shall be used exclusively within the limits of a zone. All goods cleared for exports/imports are forwarded to the custom stations/ zone under customs supervision.

[5] The main objectives in establishing the SEZs/EPZs were employment generation through foreign investment, increased foreign exchange earnings, and technology transfer, and there categories of possible investment were provided i.e. Type A, B and C which has been discussed above. The entire output of EPZ enterprises under all type of investment are to be exported, except when the government, under special circumstances, may allow sales into Bangladesh of products produced in the zone. Such sales must be paid for in foreign exchange and are subject to the other formalities including the payment of duties and taxes, if any, applicable to imports. Bangladeshi goods or raw materials sold against foreign exchange for use or processing in the EPZ are treated as exports from Bangladesh and are subject to the usual export formalities including payment of export duty, if any, according to the current government policies. Such goods will also be eligible for export incentives (Dowla 1997).

For exports, a pass is sent with the goods, specifying the name of the importer and the clearing agent, if any, number of conveyance, description and quantity of goods with the marks and number and contents thereof, and on receipt of the goods at the customs station, the officer of customs allowing the export of goods shall retain the pass. For imports, a pass is issued by the custom authorities specifying all the details and the custom officer at the zone retains it.

iii. DTA Sales

The quantity of goods to be imported annually shall not exceed 10% of the goods exported by the concerned enterprise during the previous financial year with prior approval/permission.

iv. Sub-contracting

Sub-contracting within the EPZ is allowed.

v. Procurement

Goods from the tariff area required for further processing in a zone shall be admitted after completion of export formalities, which are normally observed for export out of the country. Because of the various customs formalities, the local manufacturers were losing interest to sale their products in the Export Processing Zones. In 1991, therefore, such procedures for constructions materials (like rod, cement, GI pipe, PVC pipe, sanitary ware, transformer, switch gear etc.) were simplified. For such supply to the Export Processing Zones, the local manufacturers will produce the challan of the Value Added Tax at nil rates and will be able to receive exemption of the tax automatically on the inputs used for the production of such products.

vi. Temporary Removal of Goods

No goods can be taken out of zone for transfer to another zone, or for being used in the production, manufacture, processing, repair, or refitting in the tariff area without the prior permission of the Collector of Customs.

The EPZ authority issues necessary "In-Pass" and "Out-Pass" for the machinery and equipment which are required to be brought out of the EPZ areas for the purpose of repair. On the basis of such passes, the Customs Authority, after making necessary entries in appropriate register, shall allow movement of machinery and equipment out of the EPZ areas for the purpose of repair and into the EPZ areas after repair.

vii. Solid Wastes

Wastes of commercial value originating as by-products of the industries situated in the EPZ areas may, if necessary, be allowed to be imported into Bangladesh with the prior permission of the Ministry of Commerce, Chief Controller of Imports and Exports and on payment of customs duties and other dues (Aggarwal, Hoppe and Walkenhorst, *World Bank*).

VI. EPZ Policy Regimes

Bangladesh started the process of establishment of SEZs/EPZs (from 1980s onwards) that is almost after two decades of the establishment of Indian Export Processing Zones. The establishment of EPZs/SEZs in Bangladesh in terms of evolution of policy process can basically be divided into two broad phases. These are as discussed below:

i. First Phase: 1984-1998

The policy framework that Bangladesh inherited and maintained at independence in 1971 was geared towards import substituting industrialization. The policy bias reflected in strict import controls, high tariff and non tariff barriers, overvalued exchange rate and export taxes on certain categories of exports. The public sector was assigned a lead role in industrialization and as part of this policy the government nationalized all large industrial enterprises.

After the change in government in 1975, the strategy of public sector led industrialization was abandoned and the process of trade and investment reforms was initiated. In 1976, a working paper prepared by an inter-ministerial committee recommended setting up of EPZs in Chittagong, Dhaka and Khulna. Following this recommendation, delegations were sent to visit EPZs in other countries. Finally, in 1980, the idea was formally put to implementation with the creation of the Bangladesh Export Processing Zone Authority (BEPZA) under the BEPZA Act 1980. Its primary objective was to create and develop EPZs in the country. The first EPZ became operational at Chittagong in 1983-84. The size of the zone was mere 140 acres.

The reform process was intensified following major policy declarations in 1982. Under the new policy regime, export promotion became a major concern of the government. A wide array of export incentives were offered to boost exports. These included: export subsidy, duty free access to imports, tax holidays and rebates and credit guarantees. While the incentive package mostly centred on price factor, there were several non price constraints as well, crucial amongst which were paucity of investment capital, lack of access to improved technology, inadequate linkages with the global markets. It was felt that these non price constraints to export could be addressed by ensuring adequate inflows of FDI. But attracting FDI requires development of infrastructure and other structural reforms also. Since the country-wide development of infrastructure would be expensive and implementation of economic and structural reforms would require time, establishment of EPZs was viewed as an important strategic tool for attracting FDI in the country. The objectives of BEPZA, which were inserted through an ordinance in 1984, clearly reflected this economic philosophy. They are to-

- **a.** Foster and generate economic development of Bangladesh by encouraging-and promoting foreign investments in a zone,
- **b.** Diversify the sources of foreign exchange earnings by increasing export of Bangladesh through a zone,
- **c.** 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; and
- **d.** Generate productive employment opportunity and to upgrade labour and management skills through acquisition of advanced technology.

In 1986, the government announced a revised Industrial Policy. This marked the second phase of trade and investment liberalization. A newer range of export incentives were introduced and efforts were made to liberalize imports by simplifying and rationalizing the tariff structure of the country. Though reforms in regulatory and trade policies improved the general economic environment in the economy, structural bottlenecks were far too widespread to be easily removed in the short run. The trade policy therefore underscored the continued need of EPZs and the existing Chittagong EPZ was expanded by 60 acres. In addition, rules and procedures that regulated the EPZ were also simplified and incentives offered to EPZ units were further extended.

The most pro-active phase of trade and investment liberalization was taken up in 1992. Nominal applied most-favoured-nation (MFN) tariffs fell by more than half, from an average of 58% in 1992/93 to 22% in 1999/2000 and the number of trade-related quantitative restrictions came down sharply. By 1994, the share of free import items rose to 94% of all HS-8 line items and only 0.4% was banned. While the process of import liberalization was accelerated, efforts were also made to invigorate the export sector through a newer range of incentives. In order to accelerate the export growth, it was considered desirable to expand the EPZ sector and relax the rules and procedures that governed the zones. The Chittagong EPZ was expanded by 253 acres of land increasing the size of the zone to 453 acres. Furthermore, the second EPZ was set up in Savar near the capital city Dhaka. Dhaka EPZ commenced its operations in 1993-94. Initially, its size was 141 acres but in 1997, it was expanded by 205 acres.

ii. Expansionary Phase of EPZ Policy: 1998 Onwards

Though the government made considerable progress in liberalizing trade and promoting exports, textile sector continued to dominate Bangladesh's exports, with their combined share growing from 70.4% in 1992 to 83.5% in 1998. These exports remained a principal source of Bangladesh's export growth. Such heavy dependence on a limited number of products made the Bangladesh economy vulnerable to increased competition from other Asian countries. In order to both accelerate and diversify Bangladesh exports, it was decided to give major thrust to the EPZ sector. Four more EPZs were set up in the late 1990s. These are in Mongla, Ishwardi, Comilla and Uttara. Recently, two more EPZs have become operational. These are Adamjee EPZ (near Dhaka) and Karnaphuli EPZ (near Chittagong).

In a major initiative, the government, in 1996, passed the "Private EPZ Bill" to encourage private sector EPZs. The government issued a permission letter to Youngone Corporation of Korea to set up an EPZ. Following this, a new company called Korea EPZ Corporation (Bangladesh) Ltd. (KEPZCL) was established in May,

1996. After completion of necessary administrative formalities, a total land area of 2,526.19 acres or 1,022 hectares was acquired. The formal gazette notification in this regard was issued in 1999. This was expected to be the largest EPZ of Bangladesh. However, till date its fate is uncertain. In contrast, a local private company was issued license to set up a sector specific EPZ at Rangunia without much delay. The name of the company was Chittagong Industrial Park Ltd. This company worked for over two years to develop the country's first private sector IT-related Export Processing Zone (REPZ). It had already established an equity-based tie-up with the US-based BACTEL Inc. with the US partner having the responsibility to maintain the fibre optic connectivity to facilitate operation of hi-tech IT companies in the zone. However, this company was refused also permission by the Telecommunications Ministry. Thus, the scheme of private EPZs could not really take off.

In sum, the government has moved expeditiously to liberalize the trade and investment regime. However, inadequate infrastructure and other essential services together with weak governance, bureaucratic bottlenecks, labour unrest and a deteriorating law and order situation continue to discourage domestic and foreign investors. In this scenario, EPZs, which seek to resolve such bottlenecks, are considered as engines of export growth and diversification in the country. As a result, liberalization of trade and investment regimes through successive phases has been matched by consolidation of the EPZ policy as well. So far BEPZA's performance is encouraging. It is obtaining a good response from foreign investors. The export, investment and employment of the enterprises in EPZs have been increasing every year. The average growth rate of last five years for investment, employment and export stands at 20%, 21% and 30 % respectively, which indicates that the future growth potential of the EPZs in Bangladesh. A large number of female workers are working in the EPZs -- the percentage of female workers stands at about 61 per cent of the total number of employees. With the increase of export, the contribution of EPZs to the total national export quantum is also increasing every year. In the financial year 2003-2004, the export from EPZs contributed about 18 per cent of the total national export. The government also earns a sizeable amount of foreign exchange through the operation of EPZs in the country (Aggarwal, Hoppe and Walkenhost, World Bank).

With this regard BEPZA has sanctioned so far 137 industrial units for EPZs of the country over the last three and half years till 2004. Of these 52 are 100 per cent foreign, 30 under joint venture and 55 fully Bangladeshi owned. The enterprises of EPZs have exported goods worth US$ 9196 million. It was US$ 4823.79 million till June 2001. During the last three and half years the export volume increased by about US$ 4372.21 million. This shows an increase of 90.64 per cent. Despite the worldwide recession FDI in Bangladesh EPZs increased over the period. Up to June, 2001 the investment in EPZs was US$ 475.20 million but up to June, 2004 the investment stands at US$ 793.40 million. The volume of investment has increased by US$ 318.20 million with a growth ratio of 66.92 per cent. BEPZA has embarked upon a new arena in the socio-economic development of the country through employment with 39,165 new job creation over that three and half years. In the year 2003-04 BEPZA has created new employment opportunity for about 10,071 Bangladesh nationals. BEPZA has played a significant role in poverty alleviation with job creation in the eight EPZs of the country (Hossain 2005).

VII. Conclusion

Formation of Special Economic Zones/ Export Processing Zones paved the way for more productive use of land, labour, capital and infrastructure intended toward achieving greater investment, economic growth as well as the social development of Bangladesh. The infrastructure within EPZs is generally considered superior to that available in the rest of the economy. In spite of same incentive scheme for EPZ enterprises and export oriented industries of DTA, the EPZ enterprises are performing better due to adequately planned infrastructures in SEZs/EPZs. A major preferential treatment is essential for development of EPZs units by granting them the government policy concessions in the form of fiscal and non-fiscal incentives. There should be separate specific rules/regulations for different kind of zones in regard to customs, income tax, foreign exchange, visa/landing permits etc. Bangladesh Export Processing Zones Authority (BEPZA) should be strengthened enough so as to exercise the regulatory functions and to act as an independent regulatory body. At present the BEPZA is exercising some regulatory functions independently. The rules and regulations of Bangladesh SEZs/EPZs has provided the investors with three types of categories under which foreign owned companies, joint ventures (local and foreign companies), and local companies have been provided with respective facilities. Apart from this the 'one window same day' service has attracted many foreign companies to Bangladesh.[6] The authorities take special care of the labour laws where the wages and the working conditions of labours of SEZs/EPZs are concerned. All these factors and the huge potential with respect to the natural resources, skilled manpower and a very investment friendly atmosphere has led the foreign investors to invest in Bangladesh.

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[6] List of countries which has till date invested in Bangladesh SEZs/EPZs, the 33 countries which has invested in Bangladesh (See Appendix: 7)

Chapter Four

EVALUATION OF SEZS/EPZs IN BANGLADESH

The evaluation of SEZ/EPZs of a country is undertaken on the basis of the economic and social contributions. The economic aspects include the gains and losses of trade, employment and Foreign Direct Investment whereas the social aspect majorly includes issue of land purchase and the displacement of the population. This chapter makes an attempt to analyse whether the SEZs/EPZs of Bangladesh which came into existence with the BEPZA Act of 1980 have really been successful in achieving the goals with which these Zones were created in the country. The economic aspect which basically includes the gains and losses of trade .i.e. whether the trade through the SEZs/EPZs has given profit in last three decades or not, employment generation which actually is the basic feature of any economic zones has stood up to the mark or not and the third is the FDI gains for the country. Many countries across the world, including China, Jordan and the Philippines, attained excellent economic growth through such economic zones (FE Report 2008).

In the mid-1970s, due to the worsening economic situation and thereafter change in political leadership led to the establishment of the first EPZ in Chittagong which became operational from 1983 onwards. Next to the Chittagong was the Dhaka EPZ which became effectively operational from the year 1993. Subsequently six more EPZs were established and currently two are at the implementation stage. The government in 1996 enacted a law allowing the establishment of EPZs by the private sector as well. As far as the trade and investment of Bangladesh is concerned as on March 2008 some 276 units were located in EPZs and the cumulative investment reached the mark of $ 1374.73 million. Among the units in operation, 60% are wholly foreign owned while joint ventures and local ventures account for 17% and 23%, respectively. The largest source of investment is South Korea, followed by Bangladesh, Japan and China, including Hong Kong (Murayama and Yokota 2009).

South Korea which has became the largest foreign investor country in Bangladesh due to their number of investments in the host country where it alone operates 100 per cent ownerships in the 57 industries in the 10 different Export Processing Zones (EPZs) across the country, along with this they have established three companies under the joint venture agreements with local companies. According to the statistics, the total of 156 foreign companies with the 100 per cent ownership have established their industries in the different EPZs and among them South Korea alone stands as the largest investor in the terms of number. As pointed out by (ILO 2003), South Korean investors are not only active as the investors but also as the developers of the private EPZs in Bangladesh. Investment of Japan comes second with 22 complete Japanese ownership and two others in joint venture. Next to South Korea and Japan the major investors in Bangladesh are Hong Kong, Taiwan and China. Individually China has established three complete ownership and six joint venture companies in the EPZ areas but the joint venture companies by China, Taiwan and Hong Kong have established 23 absolute ownership industries respectively.

Among the South Asian countries, India alone is the largest investor country which holds 11 complete ownership industries and five joint venture industries in BEPZA areas. Pakistan which stands second in South Asia has established two industries with 100% ownership and also has four other in joint venture with the local companies. The UK and USA operates eight industries each with the complete ownership whereas Germany, Canada and Malaysia operate four, three and seven industries respectively (FIB 2008). So far, as types of manufacturing are concerned, 179 (64.9%) of the EPZ units make garments, textiles and related products, and in terms of investment the sector accounts for 74.8% respectively (Murayama and Yokota 2009).

I. Economic Aspects

i. Export Performance

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 17.88% in 2004-05. 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[1] 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. Table: 8 below clearly shows the export of Bangladesh and the export of EPZs in which the export of EPZs have achieved a constant growth. The total export of Bangladesh failed to achieve the same in the year 2001-2002. In the year 2007 the total export of Bangladesh and EPZs reached the mark of US$ 12174 and 2064 million respectively. A Comparative analysis of export performance between India and Bangladesh also helps us to recognize that in South Asia Bangladesh is performing extremely well which is not the case with India. In India in the last 30 years (1973-2003) its manufactured export reached the figure of 5%, in contrast the share of Bangladesh EPZs in the manufactured exports increased continuously and reached the mark of 21.3% in 2003. This clearly shows the success of Bangladesh export performance which is not the case with the other South Asian country.

Table: 9 below show the comparative data of India and Bangladesh respectively.

Table 8: Annual Contribution of BEPZA towards National Export (Million US$)

Year	Total Exports of Bangladesh	Total Export of EPZs	% of BEPZA's contribution
1994-1995	3473	228	6.56
1995-1996	3882	337	8.68
1996-1997	4418	463	10.48
1997-1998	5161	636	12.32
1998-1999	5313	712	13.40
1999-2000	5752	891	15.49
2000-2001	6467	1068	16.51
2001-2002	5986	1077	18.00
2002-2003	6548	1200	18.33
2003-2004	7603	1354	17.80

[1]**Domestic Tariff Area**: The Units operating under certain specific schemes such as EPZ/SEZ/EOU are expected to carry out their activities within customs bonded area. The area which is not coming under the jurisdiction of custom bonded are called Domestic Tariff Area.

2004-2005	8654	1548	17.88
2006-2007	12178	2064	17.00

Source: Hossain, BEPZA, 2008.

Table 9: Share of Zones in the manufactured exports (%)

Year	**India**	**Bangladesh**
1973	0.14	---
1979	0.59	---
1985	4.86	1.5
1990	4.23	3.4
1995	4.07	9.9
2000	5.41	17.9
2001	5.62	19.5
2002	5.27	19.7
2003	---	21.3

Source: Asrafuzzaman Mohammad, 2007.

ii. Employment Generation

Among the various objectives of the EPZs, employment generation is a major one as it plays a very crucial role in development and in deciding the core performance of an EPZ. During the first five years of the 1990s, the rate of job creation in EPZs in Bangladesh was faster than that in organised manufacturing units in the domestic tariff area (DTA), (Bhattacharya, ILO, 1998) and the average growth rate of employment during the last five years is 21%. This is indicative of the future growth potential of the EPZs in Bangladesh (Hossain 2005). As on March 2008, employment figures reached the mark of 2, 11,829 persons. Female workers currently account for 64% of total EPZ employment, considerably higher than the 39.3% female share in total manufacturing employment (Bangladesh Bureau of Statistics, 2004). This high female share in EPZ employment is attributable to the primacy of garment manufacturing units in EPZs. According to Bhattacharya (1998) "10 years ago, female workers were mostly production workers, and were largely under-represented among technical and salaried employees. According to Kumar (1989: 103) of the workers all over the world 70-80% and more are women. Presently the presence of female workers is much higher in fully foreign-owned enterprises (75%) than in joint ventures (51.7%) and local companies (48.6%) respectively (Murayama and Yokota 2009). The data below presented (Table:

10) shows the number of local people directly (current and cumulative numbers) employed year wise in the Bangladesh EPZs

Table 10: Annual Review of Employment (Current and Cumulative) in Bangladesh

Year	Local Employments (No's)	
	Total	
	Current	**Cumulative**
1983-84	624	624
1984-85	1156	1780
1985-86	732	2512
1986-87	728	3,240
1987-88	198	3,438
1988-89	769	4,207
1989-90	2794	7,001
1990-91	2,363	9,364
1991-92	5250	14,614
1992-93	3114	17,728
1993-94	8608	26,336
1994-95	6141	32,477
1995-96	10,706	43,183
1996-97	12,773	55,956
1997-98	14,049	70,005
1998-1999	14,069	84,074
1999-2000	9,890	93,964
2000-01	16,020	109,984
2001-02	8,764	118,748
2002-03	10,167	128,915
2003-04	10,071	138,986
2004-05	15,802	154,788
2005-06	23,021	177,809
2006-07	23,360	201,169
2007-08	17,130	218,299
2008-09 April ,09	12,485	230,784

BEPZA, *Year Wise Employment*, http://www.epzbangladesh.org.bd/bepza.php?id=YREMPL [Online: Web] Accessed 02 June 2009.

The above data clearly shows the employment generation trends from 1983 till April 2009. The table depicts a clear picture of the generation of employment from 1983 till 2009 which reached the peak in the year 2006-07. Total SEZ employment grew from mere 624 in 1983 when the first zone was set up in Chittagong, to 118,748 in 2001-2002 (Asrafuzzaman 2007:248) and around 144,000 in 2003–2004. Currently, the SEZs constitute 6 per cent of the manufacturing employment in the country. (Aggarwal 2007:7) However since 2007-08 till April 2009 there is a decline in providing employment to the local and the foreign nationals in the EPZs of Bangladesh.

As far as the comparison between the wages and working conditions in EPZ and non-EPZ garment units is concerned, employment conditions in EPZs tend to be far superior to the garment units of Bangladesh (Bhattacharya 1998, Kabeer and Mahmud 2004). Two reasons that are mainly responsible for this are:

- **i.** EPZ factories tend to be larger and equipped with a better physical infrastructure than non-EPZ factories.
- **ii.** Because of the enclave nature of EPZs, the duties of the BEPZA, which is vested with the responsibility of monitoring labour conditions in all its member firms, can be carried out more easily.

The wages and the working conditions in the EPZs highlights the status of the employment conditions of the women in the Readymade Garment industries in the Export Processing Zones of Bangladesh. The following section helps us to understand the exact employment condition of the women workers in the EPZs of Bangladesh.

a. Employment and Women: The Garment Industry

Bangladesh which is one of the main beneficiaries of the quota system of the Multi Fibre Agreement (MFA) and the rise of the export-oriented Ready-Made Garment (RMG) industry has been a major result of trade liberalization in Bangladesh. The industry currently employs 1.5 million workers; the majority of them are women. It has been a major source of employment for rural migrant women in a country that has increasingly limited rural livelihood options, and where women migrants have been largely excluded from formal work in the cities (Kabeer and Mahmud 2004). The reason for the women getting preference in the garments industry of Bangladesh is that the women workers offered a very low-cost labour and willingly complied with the rules for labour force which allows the garment industry to compete in the global market. In spite of Bangladesh's ban on trade unions in the Export Processing Zones, the working conditions of the EPZs seem to be superior to that of other factories, but only 12% of the garment workers are employed there. EPZ and the 'bangla' firms in Dhaka which deals more directly with the international buyers are more susceptible to pressures to abide by labour codes and standards. The EPZs of Bangladesh which employ and pay the highest wages to the women with the best working conditions has directly benefitted them through providing the employment opportunities in the zones respectively.

As far as the case of entire Asia and South Asia is concerned with respect to the employment opportunities provided by the respective countries it can be clearly viewed that Bangladesh in Asia stands at the third and in South Asia at the first position respectively. The Table 11 below show the exact position of different countries of their number of EPZs/SEZs and their total number of employment in the region.

Table 11: No. of Zones and Employment generation in EPZs/SEZs of Asia and South Asia

Countries	No. of Zones	Total Employment
China	164	40,000,000
Indonesia	115	6000,000
Bangladesh	**8**	**3438394**
Philippines	78	1128197
Vietnam	18	950000
Pakistan	26	888312
Malaysia	213	481488
Thailand	32	451599
Sri Lanka	16	410851
India	8	100650
Taiwan	5	67646
South Korea	3	39000

Source: ILO database on export processing zones 2007, Boyenge, ILO, 2007

The above table shows how Bangladesh has progressed in the field of generation of employment to the workers (Men and Women) in the Bangladesh EPZs in just three decades. In a comparative analysis between China and Bangladesh we can find that however China which has the largest number of zones which goes up to 164 whereas Bangladesh which has only 8 operational zones but still it provides a very good number of employment opportunity to their people. As far as the case of India, which is the very first country of the South Asian region to establish the first EPZ in Kandla, is concerned although India has the same number of EPZs it still lags far behind Bangladesh in terms of providing employment to its people. Out of the 13 countries of Asia and South Asia Bangladesh is one country which is working very effective in the region of the development of the people.

iii. Foreign Direct Investment as a Source of Finance

Countries that are unable to generate sufficient domestic saving to promote their economic growth have historically sought finance from other countries. The international flow of foreign capital takes two main forms. These two forms are: Public capital (foreign aid) and Private capital. Foreign private capital consists of foreign direct investment which is made by non-residents, in the enterprise located in the host countries. FDIs[2] are generally considered as a greenfield investments,[3] mergers acquisitions (M&A)[4] or a combination of the two. As regards SEZs the more interesting case is when new business is established, always in case of establishment of any business investment occurs however sometimes the case of mergers and acquisitions happen (Erlend 2007).

After the independence the stagnant economy of the war ravaged Bangladesh was desperately seeking private capital, and technical knowhow to facilitate the

[2] The detailed FDI has been mentioned in Appendix: 2

[3] Greenfield investment corresponds to real investments, while mergers and acquisitions are financial investments, in practice the difference is blurred or even non-existent as the latter can lead to real investments, say, by the acquired company to keep producing in a site that would otherwise be de-invested.

[4] M&A is the dominant form of transaction, taking any form from a buyout where the investor holds the firm passively to a takeover followed by full integration

industrialization process to achieve economic growth. During the initial years it could not happen. However, the visit by the then World Bank Vice President Mr. Robert McNamara in the early eighties to Bangladesh transmitted the concept of EPZs to the country. Since then EPZs, in tune with the liberal industrial policy of the government along with investment friendly legal & institutional framework like Foreign Private Investment (Promotion and Protection) Act'1980,[5] have made a significant contribution towards this objective.

Bangladesh which undertook massive liberalisation of its trade and investment policies, in order to keep pace with global trend, decided to embrace the free market economy and put emphasis on private sector- led growth to strengthen the functioning of market economy. In this regard several institutions were established to provide all support to private investment. Among them establishment of Board of Investment, Privatisation Commission and the development of Capital market are the most important ones (Badrui and Ahmed 2005). In order to boost up economic development of the country number of steps were taken to attract Foreign Direct Investment (FDI) and facilitate industrialization process of the country. In this direction one such effort was the promulgation of BEPZA Act 1980 which eventually institute the formation of Bangladesh Export Processing Zones Authority (BEPZA), the government organ responsible for creation. operation and development of SEZs/Export Processing Zones (EPZs) in the country.

a. SEZs/EPZs Performance with respect to Foreign Direct Investment:

As discussed above foreign direct investment (FDI) is a potent weapon of economic development, especially in the current context of globalization. It enables a capital-poor country like Bangladesh to build up physical capital, create employment opportunities, develop productive capacity, enhance skills of local labour through transfer of technology and managerial know-how, and help integrate the domestic

[5] "Foreign Capital" means capital invested in Bangladesh in any industrial undertaking by a citizen of any foreign country or by a company incorporated outside Bangladesh, in the form of foreign exchange, imported machinery and equipment, or in such other form as the Government may approve for the purpose of such investment: (b) "Foreign Private Investment" means investment of foreign capital by a person who is not a citizen of Bangladesh or by a company incorporated outside Bangladesh, but does not include investment by a foreign Government or an agency of foreign Government. [Foreign Private Investment (Promotion and Protection) Act, 1980, (Act No. XI of 1980) http://bdlaws.gov.bd/print_sections_all.php?id=597 , [Online: Web] Accessed on 06 June 2009

economy with the global economy. Bangladesh's investment incentives and regulations for FDI are found to be competitive with those offered by similar other countries. Effective implementation of these measures and success in attracting higher FDI inflows, however, needs significant institutional reforms, radically reduced levels of control, better provision of essential infrastructures, perceived improvement in investment climate, and sustained socio-political stability (Hossain PN0805).

Currently 264 enterprises are carrying out the operational activities in the EPZs which make the actual foreign investment of 1.26 billion USD. The export from EPZs has also grown very steadily which has now reached the mark of 17% of the country's total national export and at the same time it has exceeded the two billion mark during the last financial year in 2007-08. The direct employment opportunities for more than two hundred thousand (2 lakh plus) Bangladeshi nationals which have been created in the EPZ units with 64% of the total female work force. The foreign investment in the eight operational EPZs of Bangladesh has led to the growth of employment in the country; this clearly shows that with the increase in the foreign investment in the country the employment opportunities are also being increased in the country. The investment in the zone has crossed US$ 1262 million mark respectively. The Table 12 below show the total number of industries and enterprises in the 8 EPZs which are presently operational in Bangladesh:

Table 12: Foreign Investment and Employment scenario in Bangladesh (Up to December, 2007)

Names of EPZs	Industry In operation	Investment (Million US$)	Employment
Chittagong EPZ	135	596.21	119,874
Dhaka EPZ	91	550.17	71,679
Comilla EPZ	16	68.15	6,671
Mongla EPZ	12	3.91	217
Uttara EPZ	03	2.81	1,417
Ishwardi EPZ	03	2.14	111
Adamjee EPZ	03	26.07	2,114
Karnaphuli EPZ	01	13.29	1,476
Total	264	1262.16	2,03,766

Source: Yussuf, 2008:5

The EPZs of Bangladesh is definitely pro people in the country and this makes Bangladesh EPZs one of the best EPZs of the world. Since independence Bangladesh has made remarkable progress in diversified areas of social and economic life of its citizens.

b. *Impact of Foreign Direct Investment:*

Despite worldwide slowdown FDI has increased in the EPZs during the last 3-4 years. In June, 2001 the cumulative investment in SEZs/EPZs was US$ 475.20 million, June-2005 the investment reached to the level of US$ 867.01 million. The volume of investment has increased to US$ 391.81 million with a growth ratio of 82.45%. According to the Ministry of Commerce, Government of India, in South Asia (Bangladesh, India, Pakistan and Sri Lanka) Bangladesh SEZs/EPZs stands not only at the top in the employment generation but also in attracting Foreign Investment in the region. The direct impact of FDI in Bangladesh SEZs/EPZs on employment is that the graph of employment opportunities had been constantly moving upwards (Hossain 2008). The comparative analysis of investment and employment in South Asia gives us a clear picture that Bangladesh since 1998 is performing extremely well in the SEZs/EPZs. Government has facilitated entry of foreign investors and the companies to invest in the country where majorly 30 plus countries from all over the world have invested so far. Till now almost 6, 30,000 (direct and indirect) employment has been created in the zone; and this is remarkably good. Apart from the employment generation, the successful SEZs/EPZs of Bangladesh due to FDI were also benefitted through the accompanied technological transfer, knowledge spill over and the demonstration effects that acted as the catalysts for the domestic entrepreneurs in the production sphere (Madani 1999:15). The Table: 13 below show the exact position of Bangladesh SEZs/EPZs in this regard.

Table 13: Investment & Employment in South Asia: A Comparison Report (1978-2003)

Year	Investment (Million $)			Employment (Number)		
	India	Sri Lanka	**Bangladesh**	India	Sri Lanka	**Bangladesh**
1978	---	20.9	---	3300	5876	---
1983	---	50.4	0.9	13000	24093	624
1988	69.9	100.2	17.2	25625	46104	4207

1993		221.6	131.0	45885	84058	26336
1998	223.8	261.2	391.8	77795	91404	84074
2003	388.0	292.3	**749.1**	88977	104237	**144147**

Source: Hossain, BEPZA, 2008

II. Social Aspects:

i. Impact of SEZs/EPZs: Displacement of people

Unlike in India where estimates show that close to 114,000 farming households (Each household on an average comprising five members) and an additional 82,000 farm worker families who are dependent upon these farms for their livelihoods, will be displaced. In other words, at least 10 lakh (1,000,000) people who primarily depend upon agriculture for their survival will have to face eviction. According to some experts, the total loss of income to the farming and the farm worker families is at least Rs. 212 crores a year; (Seminar 2008: 16). Land acquisition for SEZs in India has become a serious problem because the state governments could legally acquire land without seeking consent of the local people. This had led to protests in a number of SEZ locations in India, where people had refused to give up their residence and traditional sources of livelihood easily. Violence at a place called Nandigram in the state of West Bengal was a major setback for the development of SEZs in the rest of the country (Mukherjee 2008). SEZs are also interpreted as "public facility or infrastructure" where in fact they are enclaves for transnational capital to flourish in the "free market" competition inherently skewed to capitalist advantage. While in the decades following independence, land was acquired mostly by the state for development projects and deemed the property of the state, hence public, the shift that the SEZ Act in 2005 mark the acquisition of land by the state for "public purpose" and the transfer of the ownership of this land to private developers. The trajectory of neoliberal corporate growth through accumulation by dispossession thus becomes clearer in this land-acquisition process (Sampat 2008). Due to these kinds of setbacks faced by the people of India one correspondent of BBC, K. Vaswani, has even quoted, that "special economic zones are an official way for Indian businesses to grab their land".

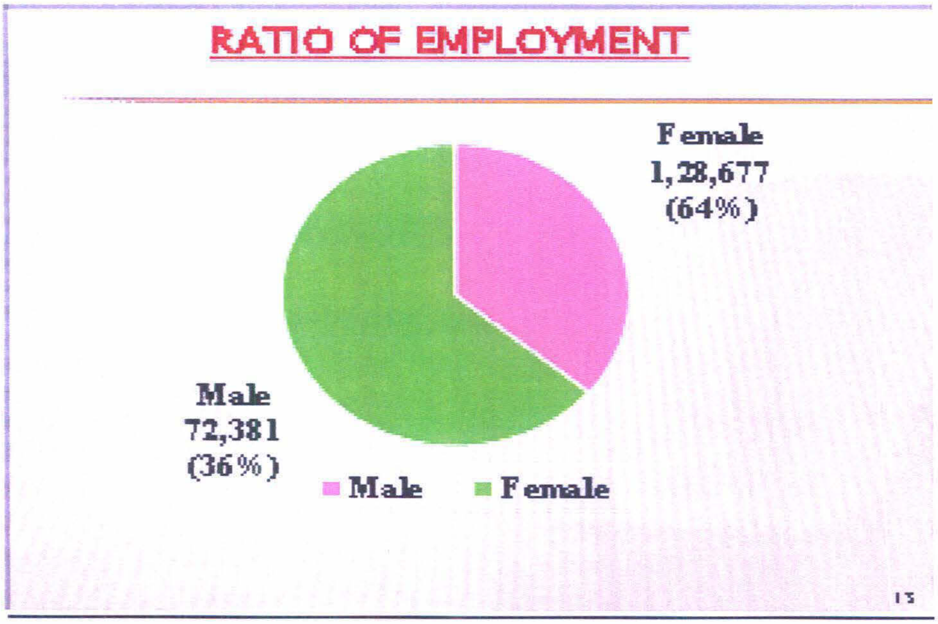
However in Bangladesh no such cases of displacement and neither any major incident of protest has been seen which we are experiencing in the country like India which established its very first EPZ in Kandla, Gujarat (SEZCRC). As far as the case of Bangladesh EPZs is concerned BEPZA is an authority which is very much pro people, and for the expansion of the EPZs, components like land acquisition, land development, service building and security arrangement, road, drain and footpath, water supply system, etc, has been examined in a great detail. The lands which have been acquired by the BEPZA for the purpose of EPZs, for this the investors were given a lease of the plots by BEPZA for the period of 30 years, on the payment of $ 2.20 per square metres every year. The industrial units operating from the EPZs own building have to pay US$ 2.75 monthly per square metres and also they have to pay separately for other facilities like water, power and gas. The land for the purpose of SEZs/EPZs in Bangladesh is not sold to the investors but are given to them on the basis of lease for the period of 30 years, after the completion of the specific period of 30 years has to be renewed. Presently the Bangladesh Export Processing Zones Authority (BEPZA) has completed its plan for the expansion of the Comilla Export Processing Zone (EPZ) at a cost of Taka 480 crore. The BEPZA which is in the process to acquire the 450 acres of land in the southwestern part of the present EPZ and set up 531 new industrial plots with the same policy by giving the investors the plot on the basis of lease where the people does not lose their land permanently which we see in India due to which large protests were taken out by the owners of the land (BEN 2008).

III. Success of Bangladesh EPZs

Bangladesh has made a remarkable progress in multiple sector of social, political, cultural and economic emancipation of the masses. Numbers of steps have been taken to attract Foreign Direct Investment and facilitate further industrialization in order to boost up economic development in the country. Bangladesh Export Processing Zones Authority (BEPZA) is the only government organisation responsible for creation, operation and development of SEZs/Export Processing Zones (EPZ) in the country. The investors from 33 countries like Japan, South Korea, USA, UK, China, Hong Kong, Singapore, Malaysia, Indonesia, Taiwan, Sri Lanka, Mauritius, Thailand, Spain, Panama, and Germany, France, Denmark, Belgium, Sweden, Australia, Ireland, Netherlands Canada, Italy, Switzerland, Ukraine, UAE, India, Pakistan, Nepal and host Bangladesh have already invested in the EPZs of Bangladesh. During last 25 years BEPZA has crossed US $1509.14 million investment.

Absorption of huge unskilled and skilled workforce in the export driven labour intensive manufacturing sector of EPZs have facilitate rapid industrialization process and accelerated the real economic growth. Increasing FDI in the manufacturing activity has important bearing on the development of market access skill and transfer of technology. Vibrant economic activities of EPZs are including domestic economy through expansion of tertiary business, increased domestic consumption, outsourcing of goods and services from tariff area. Simultaneously with the primary objective of employment generation, EPZs have also facilitated diversification of the product base by adding new sectors like electronic, shoes, engineering products other than RMG (readymade garments). Backward integration to the textile is growing in the EPZs to backup RMG sector in the competing global market. SEZs/EPZs of Bangladesh which has till date generated about 2,30,000 direct employments and about 4,00,000 indirect employment opportunities respectively (Hossain 2008). Among the above labour force 60%-64% are female and 36%-40% male. According to some other data the female employment goes up to 70%. (Aggarwal 2007:9) The figure: 3 below clearly shows the exact picture of male female percentage.

Figure 3: Ratio of Employment in Bangladesh EPZs



Source: (Yussuf, 2008:5)

The two EPZs (i.e. CEPZs and DEPZs) alone provide employment to about 88,000 Bangladeshi workers. As the average family size in the country is 6 members, with only one earning member in a family, these 88,000 workers earn livelihood for more than half a million people. In most cases, foreign investment in EPZs is accompanied by utilisation of advanced technology and provides an opportunity for the local workforce to acquire new skills. The trained workers also help to process fast and efficient (expedite) transfer of technology. Thus BEPZA is playing pivotal role in poverty alleviation through employment generation particularly women empowerment and gender parity. With the changing global business and investment scenario the EPZs of Bangladesh have revised its expansion strategy and in tune with the varied needs of the present day business. Bangladesh EPZ Authority (BEPZA) is customizing its investment incentives and facilities. Opening up of new sectors of investment has provided an excellent opportunity to prospective investors. New zones which are in strategically located places with state of art industrial facilities and pro-investment intuitional frame work providing the right kind of environment to grow. According to BEPZA, the investor from all around the globe finds EPZs of Bangladesh as a truly attractive investment destination (Hossain 2005).

IV. Conclusion

The cumulative export of EPZs stands at US $ 9196 million and the enterprises of the Bangladesh Export Processing Zones have exported goods worth US$ 1.3 billion during the fiscal year of 2003-2004 against the targeted export of US$ 1.225 billion. This shows an increase of about 12.83 per cent over the year before. This is for the 4th consecutive year that BEPZA's export earnings have crossed the billion dollar mark. Meanwhile, the cumulative investment in 210 operating industrial units of the EPZs now stands at US$ 793.40 million. It may be mentioned that investment in the EPZs in the last fiscal year i.e. 2003-04 stands at US$ 115.05 million (Yussuf 2008). This shows an increase of 12.10 per cent over the last year. The countries which have invested in the EPZs of Bangladesh are South Korea, Japan, Hong Kong, China, USA, UK, Germany, Pakistan, Malaysia, Taiwan, India, Panama, Denmark, Thailand, Sweden, Italy, Belgium, Switzerland, the Netherlands, France, Singapore, Nepal, Australia, Canada, Sir Lanka, Mauritius, New Zealand and host Bangladesh. The operating industries in EPZs have created employment opportunity for about 1, 50,000 Bangladesh nationals. With the commissioning of all the industries, the employment may raise up to four lakh. The direct impacts of SEZs/EPZs are increasing foreign currency reserve, industrialization in new bases, value-addition in export, and transfer of technology and employment generation. The indirect impact of EPZs are the creation of satellite township near the zones, establishment of backward linkage industries, the development of various trade, increase of activities in the ports, development of communication and enhancing the efficiency of workers. It is expected that foreign investors will be attracted by the package of incentives and facilities offered by the government and will be encouraged to set up their industries in the EPZs of the country. It is also expected that the contribution of EPZs to the national economy will be higher in the coming years. Their contribution to the total national export quantum was 8.68 per cent in 1995-96, which has increased to about 18 per cent in 2002. With the increase of exports and industrial activities, the value addition of the exported goods will also be substantially enhanced in the years to come. To maintain the increasing trend of development of the country and to fulfill growing demand of the investors government has decided to establish two more EPZs, one at Dhaka Adamjee Jute Mills area and the other at Chittagong Steel Mills area which will rehabilitate the industrial process and valuable workforce of the country. EPZs of Bangladesh are called "Asia's low cost production bases and beacon for the investors (Hossain 2005).

As far as the evaluation of Bangladesh EPZs is concerned the economic gains are appreciable. The foreign direct investment in Bangladesh in last three decades was almost US$ 1200 plus million. Along with this huge investment the SEZs/EPZs of Bangladesh have been successful in generating employment (opportunities) for the people of the country.

The Zone is completely pro people and this has been proved with regard to the issue of land purchase and displacement. The government of Bangladesh unlike India retains the land under their control and only allows the investors to get the land for the EPZs on the basis of lease agreement which is issued for a specific period. The ownership of the land does not go in the hands of foreign investors. This system does not exist in the case of India. Bangladesh to an extent follows the policy of China, where the land remains under the control of government. In the entire Asia and the South Asian region Bangladesh is one of the countries which is successfully running the SEZs/EPZs.

As far as the South Asian region is concerned in this region majorly there are four countries where EPZ/SEZs are established. India which is the very first country of the region to establish the EPZs in Kandla, Gujarat in the year 1965 whereas Bangladesh which established its very first (operational) zone in the Chittagong region almost after 18 years in 1983, is doing far better than India. Bangladesh on both the economic and the social lines is performing extra ordinarily well. Due to the incentive and the infrastructure facilities almost 33 countries of the world including the developed countries like UK, USA have invested in the region and South Korea is one of the largest investor in the country. The success of Bangladesh EPZs has been motivating all the developing countries of the world to follow policy and principles of this country in this context.

Chapter Five
CONCLUSION

Special Economic Zones (SEZs), which are referred to as "export processing zones" or "EPZs" are contained geographic regions within countries—a demarcated area of land used to encourage industry, manufacturing, and services for export—typically characterized by liberal tax laws and economic policies—hence it is a "special" economic zone. Many nations have relied heavily on their SEZs, and are considered to be a vital ingredient in a developing country's economic strategy, and in this direction Bangladesh was no different to the rule. With the changing global business and investment scenario the SEZs/EPZs of Bangladesh have revised this expansion strategy and are in tune with the varied needs of the present day businesses and investors requirements. Bangladesh EPZ Authority (BEPZA) is customizing its investment incentives and facilities. By opening up of new sectors of investment it has provided an excellent opportunity to prospective investors. New zones in strategically located places with state of art industrial facilities and pro investment institutional framework provide the right kind of environment for growth of Export Processing Zones/Special Economic Zones. BEPZA believes that investors from all around the globe would find the EPZs of Bangladesh as a truly attractive investment destination.

The core competency areas of Bangladesh EPZs are its diversified and attractive package of incentives and physical facilities. BEPZA provides fully serviced, secured industrial plots and Standard Factory Buildings with simplified licensing and permitting procedure. Onsite customs clearance, logistics, international couriers, offshore banking facilities have made EPZs of Bangladesh an attractive investment destination. Other incentives include tax holiday, investment guarantee, generalized system of preferences (GSP) and MFN status, low cost of business, trained labour, low wages and repatriation of profit/capital. The Infrastructure facilities include the serviced plots, standard factory building, roads, drainage, Utilities like Effluent Treatment Plant (ETP), Water Treatment Projects (WTP) and Power Generation Projects (PGP), service buildings, banks and commercial complex whereas the one window service includes all the import permit, export permit, work permit, subcontract permit, commercial complex, medical, fire service, security and health and investment club.

A visit by the then World Bank Vice President Robert McNamara in the early eighties to Bangladesh transmitted the concept of SEZs/EPZs to Bangladesh. Since then EPZs, in tune with the liberal industrial policy of the government along with investment friendly legal and institutional framework like Foreign Private Investment (Promotion and Protection) Act 1980, have made significant progress. The pioneer EPZ of the country — Chittagong EPZ — started functioning in the year 1983 in the port city of Chittagong. Following its unprecedented success the second one came into being in 1991 in Dhaka. Presently there are as many as eight operational EPZs and two proposed EPZs in different locations of the country contributing to the overall economic development process of Bangladesh through promotion of export and FDI, generation of employment, transfer of technology, and development of forward and backward linkage industries and so on. 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 neighbouring countries. Apart from the manufacturing sectors EPZs are now inviting investment into infrastructure, power & utility, and environment management projects which have made the zones truly attractive investment destination for the prudent investors who looks to the future Presently 264 enterprises are carrying out their operational activities in the EPZs making an actual investment of $1.26 billion. The export from EPZs has also grown steadily which is now 17 percent of the country's total national export and the same has exceeded two billion mark during the last financial year. The direct employment opportunities for more than 200,000 Bangladeshi nationals have also been created in the EPZ with 64 percent of the total work force being females.

In Bangladesh, EPZs have been developed in accordance with the basic idea of Export Processing Zones and now referred to as SEZs. These SEZs serve to reduce the burden of taxes and duties for firms and companies established in these zones. They have scaled down the burden of quantitative restrictions, different kinds of duties, high incidence of exchange rates and tariffs. The EPZs provide fiscal concessions and assist the companies in forming industrial clusters to upgrade their standards with the movement of skilled labour and exchange of technical know-how and transfer of information. The EPZs are facilitated with the inflow of cheap labour and serve to create a platform for the betterment of internationally mobile manufacturing groups. The labour force in these zones have benefited immensely by the various training institutes set up by the state as well as central government and by private institutes too. The EPZs have helped in the promotion of export activities within the indigenous private sector and attracted the attention of the government to organize the private sector through more effective regulatory activities and increase in administrative efficiency. The EPZs have made the collaboration of different companies smoother and thus broadened the scope for the formulation of more joint ventures now and in the near future as well. The firms are now able to successfully accomplish economies of scale to enjoy competitive advantage. The zones have helped in effecting more distribution as well as manufacturing agreements. The zones liberate the existing companies from the hazards of bureaucratic red-tapism and thus guarantee freedom from corruption. The individual EPZ policies of Bangladesh have been formulated to fight against significant biases such as anti-export bias developed through Import Substitution Industrial (ISI) policy and to increase the inflow of FDI for exports. Bangladesh has its own BEPZA Act to provide guidelines for the establishment of EPZs in the country. The government of Bangladesh formulated BEPZA Act to boost the economy through the establishment of EPZs in the country (businessmapsofindia, India and Bangladesh EPZs, Online accessed).

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 women are joining the productive work force of EPZs migrating from poverty prone remote rural areas of Bangladesh and thus 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 activity. Mention may also be made that investors from 33 countries have already invested in the EPZs of Bangladesh. The leading nations among them include South Korea, Japan, China and the host Bangladesh. Absorption of huge unskilled and skilled work force in the export-driven labor-intensive manufacturing sector of EPZs have facilitated rapid industrialization process and accelerated the real economic growth. Increasing FDI in the manufacturing activity has important bearing on the development of market access skill and transfer of technology. Vibrant economic activities of EPZs are inducing domestic economy through expansion of tertiary businesses, increased domestic consumption, outsourcing of goods and services from tariff area. A recent study suggests that in Five Year 2006-2007 EPZs have induced economic benefit equivalent to 6,300 crore taka to our economy. Simultaneously with the primary objective of employment generation, EPZs have also facilitated diversification of the product base by adding new sectors like electronic, shoes, engineering products other than RMG. Backward integration to textile is taking place in EPZs to backup RMG sector in the competing global market.

The EPZs in Bangladesh have been instrumental in creating salutary direct benefits in terms of foreign investment, employment generation, and export and foreign exchange earnings. Limited indirect benefits in terms of technology and skill transfer, and linkages have been taken place. However, important factors which affects the success of the SEZs/EPZs in Bangladesh are the existing macroeconomic policies affecting the SEZS/EPZs, a more or less realistic exchange rate and stable macroeconomic environment, and lastly the low cost labour for the almost world standard productivity with a very minimum wages.

Apart from this, the policies that could attract more investment in the SEZs/EPZs of Bangladesh are, a clear foreign investment regime, open door policy to attract foreign investment, restriction free and duty free access to the imported inputs and capital goods, rapid and low cost custom clearance for imports and exports, a completely liberalized and stable foreign exchange regime, speedy response of Bangladesh export processing zone authority to investment applications to process and a minimal regulatory control of actions and transactions within the SEZs/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 especially for the Readymade garment (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. A point of consideration is that despite an attractive incentive package flow of foreign investment in the EPZs has not been as robust as expected. Bangladesh which 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 the 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 was 27 dollars which was highest in the Asia and nil in Denmark. Necessary steps should be taken immediately to break these (negative images) of the country. For smooth handling of import and export, uninterrupted seaport services, especially at Chittagong, should be ensured. Another critical limitation of the EPZs is that they accommodate only the light industries with no room for the 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.

During the year 2005-2006 total actual investment made in EPZs stands at \$112.89 million. During the year 2006-2007 the actual investment is \$152.37 which is 34 percent higher than the investment made in the previous financial year of 2005-06. In the year 2005-2006 the lease signed investment in BEPZA was $153 million and in the year 2006-2007 the signed investment in BEPZA is $566 million which was 270 percent more than the year2005-06. From July-December 2007 the lease signed investment in BEPZA was $451.82 million which was 35 percent more than the previous year's six months. Till the financial year 2006-2007 total export of $13.903 billion have been made from the EPZs/SEZs. The Export target for the year 2006-2007 was $2 billion and actual export made was $2.064 billion during this year. The Export target for the year 2007-2008 is set as $2.3 billion. The latest figure pertaining to the period July 2007 to December 2007 shows that the total export made by the EPZ enterprises is $ 1084.59 million.

BEPZA has been striving hard to upgrade its operational efficiency to a level which would cater the diversified needs of the investors. To achieve this objective, the challenges ahead for BEPZA are identified as:

- **a.** Development of improved physical infrastructures, integrated environment and water management, power generation, commercial complex on Public Private Partnership (PPP) basis;
- **b.** Development of a productive and sound industrial relation environment. Compliant industrialization and the full right of workers union as per international best practice benchmarking;
- **c.** Achieve organizational excellence by developing online capabilities and automation to ensure quality and expeditious delivery of services to the investors. To Ensure full implementation of E-governance in all EPZs; and
- **d.** Create more zones in the strategically located sites to accommodate the increasing demand of the existing investors. Attract relocating industries from Far East and Commonwealth of Independent States.

With the changing global business and investment scenario the EPZs of Bangladesh have revised its expansion strategy and in tune with the varied needs of the present day businesses Bangladesh EPZ Authority (BEPZA) is customizing its investment incentives and facilities. Opening up of new sectors of investment have provided an excellent opportunity to prospective investors. New zones in strategic locations with the state of art, industrial facilities and the pro-investment institutional framework would provide the right kind of environment to grow. South Korea which is reported to be the single largest foreign investor country in Bangladesh in terms of number of investments. The country alone operates 57 industries with 100 per cent ownerships in 10 different Export Processing Zones (EPZs) across the country. The company has also established three companies under joint venture agreements with local companies, and the information is revealed by the BEPZA. According to available statistics, total of 156 foreign companies with 100 per cent ownership have set-up their industries in different EPZs. Investment of Japan comes second in the row with 22 complete Japanese ownership and two others in the joint venture.

Among the SAARC members, India alone is the largest investor country which holds 11 complete ownership industries and five joint venture industries in BEPZA areas. Second position which is occupied by Pakistan as the country has established two industries with 100 per cent ownership and also has four others in joint ventures with local companies.

As far as UK and USA is concerned it operates total of eight industries each with complete ownership where as Germany operates four, Canada three, Malaysia seven, in the statistics mentioned (FIB, 2008). According to Mondal (2003), in Bangladesh, growth of employment in the SEZs/EPZs is much faster than in the total organized manufacturing sector that was over sixteen times that of the organized manufacturing sector during 1983–84/1987–88 and over four times higher 1988–89/1999–2000.

The SEZs/EPZs comprise largely of labour-intensive activities, so that enterprises in SEZs constitute, a priori, a significant source of new employment. Due to the availability of labour at low wages, developing countries generally attract investment into simple processing labour intensive industries. This increases the demand for unskilled labour within the zone. Shift towards higher value added activities as SEZs grow, might increase demand for skilled labour also. SEZs also generate employment for unskilled labour by creating demand for physical infrastructure within the zone.

The indirect effect is manifested as ancillary employment opportunities generated in sectors of the economy affected by the operations of the SEZ/EPZs. These include, transport, communication, automobile, civil aviation, shipping, tourism, hospitality, packaging, banking, and insurance. Employment opportunities are, thus generated for both unskilled and skilled labour. In addition to the above, there are three other channels through which SEZs generate a favourable impact on employment generation.

i. SEZs/EPZs provide foreign exchange earnings that slacken the foreign exchange constraints of the rest of the economy regarding the import needs of the rest of the economy and accelerate investment activities. SEZs thus generate development funds, which facilitate generation of economic activities and employment.

ii. They also generate economic activity outside the zone due to the transformation of investment funds into fixed assets and purchase of inputs and services from the rest of the economy.

iii. Once additional incomes are generated, there is an increase in demand for various goods and services such as housing, education, health and transport. This in turn has multiplier effects on income and employment. Bangladesh which has a long tradition of operating export processing zones has the favourable fiscal, infrastructure, and regulatory conditions under which firms in these zones operate has made it possible to attract substantial foreign direct investment and thereby bring new economic activities and employment opportunities to its country.

In Bangladesh EPZs prohibited the trade union activity for about almost 20 years and an alternative form of organization has been worked out only recently. The outcome of this was a compromise made under pressure from two opposing forces: on the one hand buyers backed by trade unions in the importing countries, and on the other foreign investors within the EPZs. It remains to be seen that to what extent this new arrangement would work for the benefit of workers within the EPZs and how will it affect the non-EPZs workers, especially in the garment industry, where the majority of the workers are not unionized.

In particular, diversity in operating conditions and export performance is more pronounced across different zones within a single country than across country-averages. The importance of good access to transport infrastructure (air and seaports). Zones which are established to help the backward regions are still performing less well than expected as compared to those which are located in the prime industrial locations. Moreover, the effect of SEZs/EPZs on diversification varies by sector or type of activity. In some sectors, SEZs/EPZ activity adds to already existing exports in the countries, in others it absorbs production and exports previously performed in the mainland economy, and in a third set it tries to brings entirely new production processes to the country. Bangladesh, starting from its grass root level with regard to the establishment of very first EPZs in 1980s after seeing the success of China and partial success of India till 1980s, is working very efficiently and effectively. It is however far away from achieving complete success. The Bangladesh authority (BEPZA) which is there since its inception, is working in the interest of the local people of the country and the SEZs/EPZs are contributing to not only the industrial growth but for the overall economic growth of the country also.

Appendix: 1

Foreign Private Investment (Promotion and Protection) Act, 1980

(1) In this Act, unless there is anything repugnant in the subject or context,-

(a) "Foreign Capital" means capital invested in Bangladesh in any industrial undertaking by a citizen of any foreign country or by a company incorporated outside Bangladesh, in the form of foreign exchange, imported machinery and equipment, or in such other form as the Government may approve for the purpose of such investment; (b) "Foreign Private Investment" means investment of foreign capital by a person who is not a citizen of Bangladesh or by a company incorporated outside Bangladesh, but does not include investment by a foreign Government or an agency of foreign Government; (c) "Industrial Undertaking" means an industry, establishment or other undertaking engaged in the production or processing of any goods, or in the development and extraction of such mineral resources or products, or in the providing of such services, as may be specified in this behalf by the Government.

(2) Words and expressions used but not defined in this Act shall have the same meaning as in the Companies Act, 1913 (VII of 1913).

3. (1) The Government may, for the promotion of foreign private investment, sanction establishment with foreign capital of any industrial undertaking-

(a) which does not exist in Bangladesh and the establishment whereof, in the opinion of the Government, is desirable; or (b) which is not being carried on in Bangladesh on a scale adequate to the economic and social needs of the country; or

(c) Which is likely to contribute to (i) The development of capital, technical and managerial resources of Bangladesh; or (ii) The discovery, mobilisation or better utilisation of the natural resources; or (iii) The strengthening of the balance of payment of Bangladesh; or (iv) Increasing employment opportunities in Bangladesh; or (v) The economic development of the country in any other manner,

(2) Sanction of the establishment with foreign capital of an industrial undertaking under sub-section (1) may be subject to such conditions as the Government may deem fit to impose.

4. The Government shall accord fair and equitable treatment to foreign private investment which shall enjoy full protection and security in Bangladesh.

5. The terms of sanction, permission or licence granted by Government to an industrial undertaking having foreign private investment shall not be unilaterally changed so as to adversely alter the conditions under which the establishment of such undertaking was sanctioned; nor shall foreign private investment be accorded a less favourable treatment than what is accorded to similar private investment by the citizens of Bangladesh in the application of relevant rules and regulations.

6. In the event of losses of foreign investment owing to civil commotion, insurrection, or riot, foreign private investment shall be accorded the same treatment with regard to indemnification, compensation, restitution, or other settlement as is accorded to investments by the citizens of Bangladesh.

7. (1) Foreign private investment shall not be expropriated or nationalised or be subject to any measures having effect of expropriation or nationalisation except for a public purpose against adequate compensation which shall be paid expeditiously and be freely transferable. (2) Adequate compensation for the purpose of sub-section (1) shall be an amount equivalent to the market value of investment expropriated or nationalised immediately before the expropriation or nationalisation.

8. (1) In respect of foreign private investment, the transfer of capital and the returns from it and, in the event of liquidation of industrial undertaking having such investment, of the proceeds from such liquidation is guaranteed. (2) The guarantee under sub-section (1) shall be subject to the right which, in circumstances of exceptional financial and economic difficulties, the Government may exercise in accordance with the applicable laws and regulations in such circumstances.

9. If any difficulty arises in giving effect to any provision of this Act, the Government may make such order, not inconsistent with the provisions of this Act, as may appear to it to be necessary for the purpose of removing the difficulty. [Foreign Private Investment (Promotion and Protection) Act, 1980, (Act No. XI of 1980) http://bdlaws.gov.bd/print_sections_all.php?id=597 , [Online: Web Accessed on 06 July 2009]

Appendix: 2

Foreign Direct Investment in Bangladesh

The policy framework for foreign investment in Bangladesh is based on Foreign Investment (Promotion and Protection) Act, 1980, which provides for:

- Non-discriminatory treatment between foreign and local investment;
- Protection of foreign investment from expropriation by the State; and
- Ensured repatriation of proceeds from sale of shares and profit.

Foreign investment, with particular preference to foreign direct investment is encouraged in all industrial activities in Bangladesh including service industries and toll manufacturing, excluding those in the list of "Reserved Industries" and RMG, banks, insurance companies and other financial institutions. Such investments may be undertaken either independently or through joint ventures, either with the local private or public sector. The capital market will also remain open for portfolio investment.

For foreign investment in Bangladesh, there is no limitation pertaining to equity participation, i.e. 100 per cent foreign equity is obliged to sell their shares through public issues, irrespective of the amount of their paid-up capital. However, foreign investors or companies with foreign investments are will be eligible to buy shares through the stock exchange and their participation will be guided by framing appropriate rules. Foreign investors or a company obtains full working capital loans from local banks. The terms of such loans will be determined on the basis of bank-client relationship.

Foreign entrepreneurs enjoy the same facilities as the domestic entrepreneurs in respect of tax holiday, payment of royalty, technical know-how fees etc. A foreign technician employed in foreign companies are not subjected to personal income tax up to three years, and beyond that period his/her personal income tax payment will be governed by the existence or non-existence of agreement on avoidance of double taxation with country of citizenship.

Full repatriation of capital invested from foreign sources will be allowed. Similarly, profits and dividend accruing to foreign investments may be transferred in full. If foreign investors reinvest their reportable dividends and/or retained earnings, those will be treated as new investment. Foreigners employed in Bangladesh are entitled to remit up to 50 per cent of their salary and will enjoy facilities for full repatriation of their savings and retirement benefits.

The process of issuing work permits to foreign experts on the recommendation of investing foreign companies or joint ventures operates without any hindrance or restriction. **"Multiple Entry Visas"** will be issued to prospective foreign investors for three years. In case of experts, "Multiple Entry Visa" will be issued for the whole tenure of their assignments.

Foreign investment in "Thrust Sectors", particularly in small industrial units, is given priority in allocation of plots in BSCIC Industrial Estates.
Investment of non-resident Bangladesh's will be treated at par with foreign direct investment.
Measures are taken to protect the intellectual property rights of new products and processes.
Investment guarantee and dispute settlement will be guided by international arrangements and provisions. (Introduction, Bangladesh, Industrial Policy 1999: Bangladesh,
URL:http://priobangla.ru/law/laws_in_bangladesh/Bangladesh%20Industrial%20Policy%201999.pdf [Online: Web] Accessed 28 May 2009

Government Incentives to attract FDI
The Board of Investment and the Bangladesh Export Processing Zone are the two authorities that deal with foreign investment proposals, welcoming FDI with 100 per cent ownership or joint ventures with private or public sector industries in Bangladesh. There is no exchange control on current account transactions and repatriation of capital and returns from investment. Adequate intellectual property protection is available and no prior permission is necessary for agreements involving payment of royalties, fees, etc., provided that the total fees and expenses connected with technology transfer do not exceed 6 per cent of the previous year's sales of the enterprise as declared in the tax returns or 6 per cent of the cost of imported machinery in the case of new projects. As far as the incentives in the FDI of Bangladesh are concerned, special incentives are provided for investment by non-resident Bangladeshis for whom a quota of 10 per cent has been fixed in primary public shares. Apart from this facility extended to non-resident Bangladeshis (NRBs) there is no discrimination between foreign and Bangladeshi investors. The incentives for foreign investment are in the form of tax holidays of five to ten years from the commencement of commercial production. Industries not under the scheme of tax holidays are eligible for accelerated depreciation allowance at 100 per cent of the cost of machinery or plant located within a radius of 10 miles from the municipal limits of some major cities like Dhaka and Chittagong. A wide variety of incentives are offered to industries in the Export Processing Zones such as full duty drawback on imported raw materials used for manufactured exports with at least 25 per cent domestic content, a ten-year tax holiday, offshore banking facility and exemption from local taxes and national policy restrictions.
The attractiveness of Bangladesh as an FDI destination is aided by the fact that there are no trade union activities. In addition, approval of any project in the EPZs includes all infrastructural and service facilities readily available at the door of the project site. (Das and Pant 2006: 9)

Appendix: 3

Profile of Zone Programs in the different regions of the world:
Asian countries

Country	Year established	Number of Zones		Types of Zones	FDI Source	Key Sectors	Key Markets
		Publi-c	Priva t-e				
India	1965	87	254	Freeport, Software Technology Park, EOU	EU	Textiles, electronics, jewellery, leather, textiles, food processing, software	USA, EU
Taiwan	1965	14	0	EPZ, Science Park, Software Park	Japan	Electronics, Semiconductors, electrical, high technology	Japan, USA
Korea, Rep of	1970	9	1	EPZs, Science Park, Freeport, Foreign Investment Zone	Japan	Electronics, High Technology	Japan, USA
Philippines	1972	7	76	Hybrid EPZ, Freeport, Software Technology Park	Japan, Philippines, USA, EU, Korea, Rep. of, Malaysia	Electronics, Semiconductors, Electrical, Automotive Parts	Japan, USA, ASEAN
Sri Lanka	1978	15	1	EPZ, Science Park	Hong Kong, EU, Korea, Rep. of, Japan, Sri Lanka	Apparel, gems and jewellery, luggage, gloves, food processing	EU, USA

China	1979	164	23	EPZ, FTZ, ETDZ, OCC, HTDZ, BECA*	Taiwan (China), Hong Kong, Japan, USA	Apparel, Electronics, Electrical	USA, Japan, EU
Bangladesh	**1980**	**8**	**1**	**EPZ**	**Korea, Rep. of, Bangladesh, China, Japan**	**Apparel, textiles, leather**	**USA**
Indonesia	1986	22	5	Hybrid EPZ, Freeport	Japan	Apparel, footwear, electronics, food processing	ASEAN, Japan, USA
Hong Kong (China)	1974	7	0	Industrial Estates, Science Park	Global	Printing, Food Processing, Jet engine repair, biotechnology, IT	Global
Singapore	1960	42	0	EPZ, Industrial Park	Global	Software, Financial service	Global
Pakistan	1989	26	0	EPZ	UAE	Apparel, Chemical pharmaceuticals, electrical machinery	USA, EU, Gulf countries
Vietnam	1991	20	165	EPZ, Industrial Zone, HDTZ, Software Park	Japan, Korea, Rep. of, Taiwan, Hong Kong	Apparel, Footwear, Luggage, Electrical, Metal Working	Japan, ASEAN, Taiwan
Japan	1995	2	0	Foreign Access Zone	N/A	N/A	N/A

Source: FIAS, 2008

Appendix: 4

America

Country	**Year established**	**Number of Zones**		**Types of Zones**	**FDI Source**	**Key Sectors**	**Key Markets**
		Public	**Private**				
United States	1934	20	246	FTZ	Japan, UK	Automobiles, Petroleum, Electronics	USA, Domestic
Panama	1948	2	1	FTZ, EPZ, Freeport	USA, Japan	Transhipment/Logistics, warehousing	South America
Brazil	1957	1	8	FTZ, EPZ, Freeport	Japan, Korea, Rep of USA	Warehousing and assembly of electrical, electronics	Brazil, MERCOSUR
Colombia	1958	1	14	FTZ, Hybrid EPZ, Freeport		Petrochemicals, apparel, electronics, services	USA, MERCOSUR
Mexico	1965	2	107	Industrial Parks	USA, Japan	Automotive components, electrical	USA
El Salvador	1976	1	15	EPZ, Hybrid EPZ	USA, Taiwan (China), Korea,	Apparel	USA
Puerto Rico	1942	142	0	FTZ	USA	Pharmaceuticals	USA
Argentina	1995	5	0	FTZ, Free port	France, Spain, Italy, Germany, Chile, other EU, USA,	Forestry, food processing, metals, chemicals, petro chemicals, fisheries	EU, Brazil, USA, Canada, Mexico

					Canada , Mexic o		
Costa Rica	1978	0	139	Hybrid EPZ	USA	Semiconductors, electronics, medical supplies	USA
Hondu ras	1977	2	22	EPZ, Hybrid EPZ	USA, Taiwan , Korea, Rep.of	Apparel	USA

Source: FIAS, 2008

Appendix: 5

Middle East and North Africa

Countr y	**Year establish ed**	**Number of Zones**		**Types of Zones**	**FDI Source**	**Key Sectors**	**Key Marke ts**
		Publi c	**Privat e**				
Jordon	1984	10	17	FTZ, EPZ, Freeport, QIZ*	Hong Kong, Pakista n, India, Israel, Taiwan , USA, Korea	Apparel, Trading	USA, Middle East
UAE	1985	26	0	FTZ, Specialize d Zone	Middle East, EU, Japan, Korea,	Trading, Pharmaceutica ls, food apparel	Middle East, Africa, EU
Kuwait	1995	1	0	FTZ	N/A	Trading, Logistics, Food	Middle East
Saudi Arabia	1975	24	0	Specialize d Zone, Freeport, Technolo gy Zone	Middle East, EU, USA	Petroleum, Logistics, Finance, Tourism	Middle East, EU, USA
Bahrai n	1999	1	0	FTZ	N/A	Textiles, Footwear, Leather Packing	N/A
Iran	1999	22	0	Freeport, FTZ	N/A	Textiles, shoes, leather, commercial	N/A

Note: QIZ*: Qualified Industrial Zone, *Source:* FIAS, 2008

Appendix: 6

Western Europe

Country name	Year established	Name of Zones		Types of Zones
		Public	Private	
Cyprus	1973	1	0	FTZ
Denmark	1891	10	0	FTZ
Finland	1970	2	0	FTZ
France	1992	87	0	EZ*, FTZ
Germany	1888	8	0	FTZ
Greece	1914	3	0	FTZ
Iceland	N/A	2	0	FTZ
Ireland	1958	2	0	FTZ
Italy	1719	24	0	EPZ, FTZ
Malta	1988	11	0	FTZ
Portugal	1980	2	0	FTZ
Spain	1998	5	0	FTZ, SEZ
Sweden	1785	4	0	FTZ
Switzerland	1854	4	0	FTZ
United Kingdom	1988	62	0	EZ*, FTZ

Note: EZ*: Enterprise Zone, *Source:* FIAS, 2008

Appendix: 7

List of Countries so far invested in the Bangladesh EPZs/SEZs

01. S. Korea
02. Bangladesh
03. Japan
04. China
05. Malaysia
06. Taiwan
07. U.S.A
08. U.K
09. Italy
10. Canada
11. Netherland
12. Germany
13. BR. Virgin Is.
14. India
15. Sweden
16. Singapore
17. Pakistan
18. Panama
19. Switzerland
20. Belgium
21. Denmark
22. France
23. Thailand
24. Sri Lanka
25. Indonesia
26. Australia
27. Nepal
28. Mauritius
29. Ireland
30. U.A.E.
31. Turkey
32. Ukraine
33. Marshal Island

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