



# THE ROLE OF EXPORT PROCESSING ZONES ON BANGLADESH NATIONAL ECONOMY

---

Sabiha Binta Hasan<sup>1</sup>, Md. Kawser Ali<sup>2</sup>

<sup>1</sup> Assistant Professor, Department of Economics, Mawlana Bhashani Science and Technology University, Santosh, Tangail-1902, BANGLADESH.

<sup>2</sup> Research Monograph Student, 4<sup>th</sup> year 2<sup>nd</sup> semester (BSS Hon's), session 2013-14, Department of Economics, Mawlana Bhashani Science and Technology University, Santosh, Tangail-1902, BANGLADESH.

## Abstract

The Export processing zone (EPZ) has played one of most important role in the economy of Bangladesh after 1990 though it was established in 1983. In Bangladesh economy, EPZs contribute very effectively in the terms of foreign direct investment (FDI), employment, export and investment for last ten years especially in Bangladesh's Export Processing Zones (BEPZs). This study has explored the performance of EPZs and its benefit in the economy of Bangladesh in the term of investment, export and employment in details. It also focuses eight BEPZs performance in terms of their size, location and infrastructure and identifies the reason of the involvement of foreign investor in BEPZs. This study explores the performance of the BEPZs between 2005 and 2018. In this study secondary data is used and data were being collected from the official website of Bangladesh Export Processing Zone Authority (BEPZA). This study also tried to explore the role of EPZ in national economy, women empowerment, digitalization, poverty alleviation, per capita income, diversification of product and power plant and some policy recommendations for further development of economic zones.

**Keywords:** EPZ performance; Investment, Export, Employment and EPZ performance

## 1. Introduction

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

Export Processing Zones (EPZs) are defined as that particular industrial parks which providing duty relief to export oriented firms operating in the zones. They are enclaves within a country where both foreign and domestic goods may enter duty free so that these goods can be stored, distributed, combined with other foreign and/or domestic products, or used in manufacturing operations. EPZs are special industrial park developed in response to international market demand for cheaper goods. The manifest objectives of EPZs are to attract foreign capital investment and mobilize investment for capital formation for rapid industrialization, to create employment opportunities for the country's manpower, to induce transfer of technology, and to earn foreign exchange by boosting exports, formation of EPZs in Bangladesh also addresses problems like growing trade gap, high unemployment, shortage of foreign currency and lack of technical know-how.

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 (Foreign Direct Investment), generation of employment, transfer of technology, and development of forward and backward linkage industries and so on.

The EPZs under the regulation of Bangladesh Export Processing Zones Authority (BEPZA) as mentioned in the below table:

**Table: 1 Origin of EPZs in Bangladesh**

No.	Name of EPZ	Year of establishment	Where it is
1	Chittagong EPZ	1983	Halishohor, Chittagong
2	Dhaka EPZ	1993	Ashulia, Dhaka
3	Camilla EPZ	2000	Camilla Town
4	Ishwardi EPZ	2001	Pabna
5	Uttara EPZ	2001	Nilphamari
6	Mongla EPZ	1999	Mongla, Bagerhat
7	Adamjee EPZ	2006	Saddirgonj, Narayangong
8	Karnaphuli EPZ	2006	Potenga, Chittagong

**Source:** Bangladesh Export Processing Zone Authority (BEPZA), 2011

Most export processing zones (EPZs) provide for custom free and tax freed export-oriented manufacturing, investment incentives and streamlined administration, cheap utilities, lower wages and better infrastructure. For exports all of them involve processing intermediate imports. Most of them involve in labor-intensive light manufacturing such as garment production, assembly of light electrical goods and electronics. Zones also have goals such as enhancing linkages with domestic economies, encouraging technology transfer and promoting new industrialization strategies. These zones also encourage employment and foreign investment.

## 2. Objective of the Study

This study focuses the performance of EPZs in Bangladesh. While analyzing the performance of the zones, the study focuses on three indicators of the EPZ performance namely, export performance, employment, and investment, socio-economic impact of EPZ and role of EPZs in the development of Bangladesh economy. The objectives of the study are four fold. It will

1. To analyze the performance of EPZs in the term of investment, export and employment.
2. To examine the role of EPZs in the country.
3. To know the Challenges of EPZs in Bangladesh.

### 3. Methodology of the Study

In this paper the necessary information collected from mainly secondary sources. Secondary sources of data are of two kinds. Internal sources of data and External sources of data. Internal sources of data are- Annual Reports of BEPZA from the year last five years including eight EPZs and BEPZA's website. External sources of data are- Bangladesh Economic Review, Bangladesh Bureau of Statistics, Bangladesh Economic Update, several books, articles, journals, newspaper, web browsing, financial tools etc.

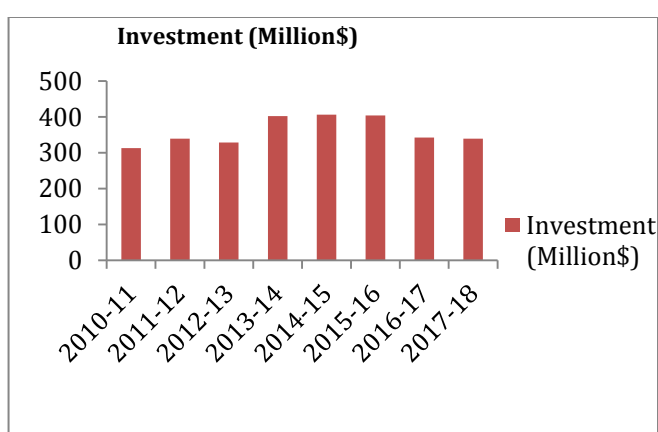
### 4. Result Discussion and Analysis:

#### 4.1. Investment analysis:

For generating output, employment and exports EPZs must take a fancy to investment to the country. So examining investment in the EPZs is one to measure their performance. In 2000-2001 total investment of Bangladesh was \$2691mn and total investment in BEPZAs was \$48.41mn, only 2% of overall national investment. Within the five years in 2005-6 total Bangladesh investment was \$3204mn and total the importance of BEPZ investment seems to be investment BEPZAs was \$112.9mn 4% of the total. According to the BEPZA, the flow of investment increased to US\$ 4,724.92 million in August 2018 while it was US\$ 1509.14 million in December 2008. So we can say that the EPZs investment is increasing gradually.

**Table 2: EPZ investment performance**

Year	Investment (Million\$)
2010-2011	313.23
2011-2012	339.26
2012-2013	328.53
2013-2014	402.58
2014-2015	406.39
2015-2016	404.35
2016-2017	342.48
2017-2018	339.54



**Source:** BEPZA, 2018

In 2012-2013 the amount of investment of EPZ decreased than previous year. But next year it increased which is shown in above graph. The trend of investment which is rising, even in the

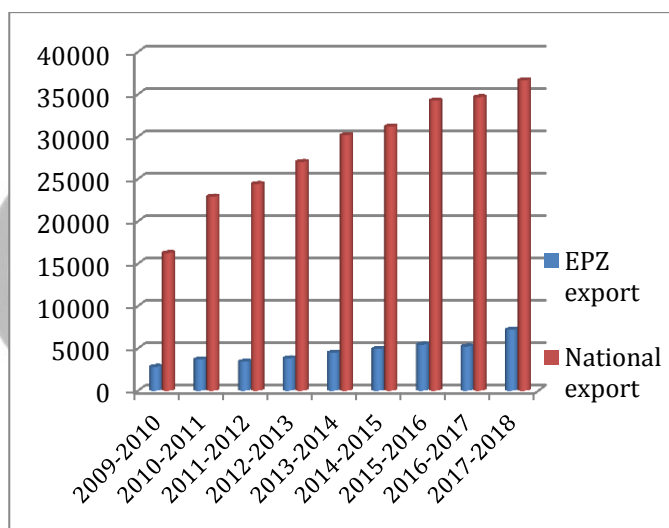
difficult recent economic climate, gives a hint that the attractiveness of BEPZs including government incentives. The investment amount is also decreased in 2016-2018.

## 4.2. Export analysis

One of the important benefits of EPZs is their production will be exported. So the volume of export is a measure of EPZ performance. Adding the value of EPZ export with total export of country increasing the overall country economy and proving valuable foreign exchange. Total exports of Bangladesh in 2010-11 were \$22924mn of which BEPZs contributed \$3697.62mn (Bangladesh Bank, 2011). This represents a significant contribution by EPZs, 16.13% Of total export. In 2017-18 BEPZs have generated \$7200mn which was 19.7% of total export \$36600mn. This is a positive condition for Bangladesh economy.

**Table 3: EPZ export and national export**

Year	EPZ export(mn\$)	National export(mn\$)
2009-2010	2822.54	16250
2010-2011	3697.62	22924
2011-2012	3426.80	24410
2012-2013	3829.68	27018
2013-2014	4480	30176
2014-2015	4939	31206
2015-2016	5439	34257
2016-2017	5214	34655
2017-2018	7200	36660



**Source:** BEPZA, 2018

Form the above export data table it is clear that Bangladesh has benefited horrendously from the export earnings are concerned. This trend is enough to support development of EPZ in Bangladesh.

In 2017-2018 BEPZs product wise export share is given below:

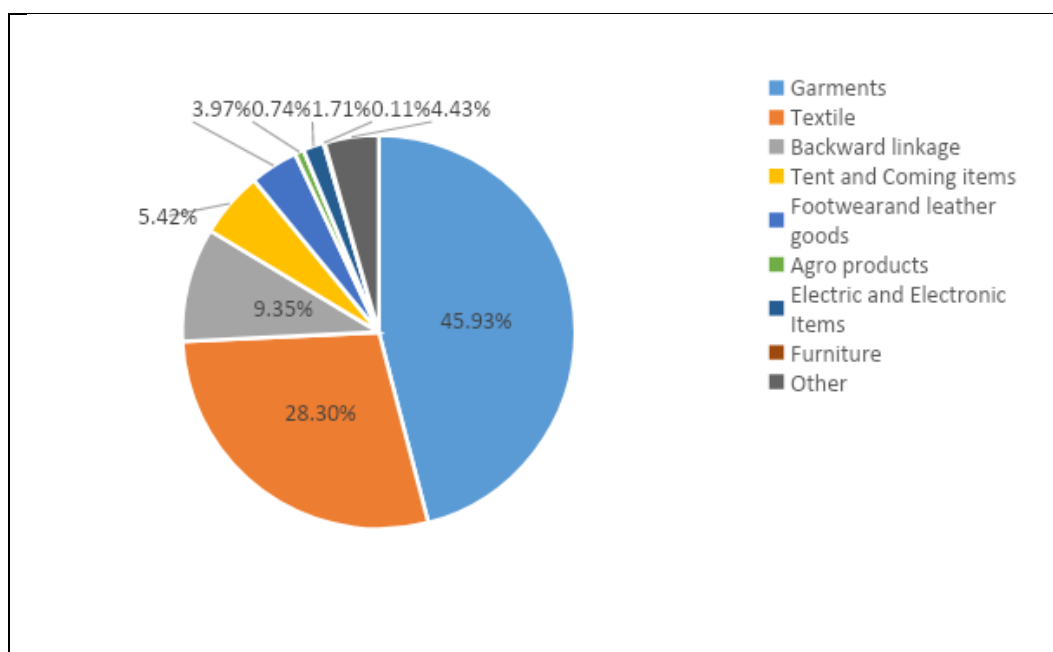


Figure 1: Product wise Export Scenario of EPZs in 2017-2018

Source: BEPZA, 2018

The amount of export in Bangladesh Export Processing Zones is 34655\$US. Major exports items of EPZs are Garments, textile, backward linkage, food and leather goods, electric and electronic items etc. 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 2000-01 to a spectacular high of 31% in 2017-2018.

#### 4.3. FDI Analysis in EPZs

FDI in the EPZs during the second half of 1990s accounted for about 20% of total FDI inflow in the country. However, the high share was due to sudden jump in 1999- 00 (44%). During the first decade of the 2000s the share of FDI in the EPZs remained resilient at around 10-12%. In recent years, the relative share of EPZs in the total FDI inflow steadily increased from 15.50% in 2011-12 to 25.95% in 2013-14. Despite a sharp fall in the total FDI in 2013-14, the increasing trend of FDI inflow in the EPZs remains uninterrupted indicating prevalence of much better business climate in the EPZs for the foreign investors. FDI inflows (net) in EPZ areas during January-June, 2017 amounted to US\$ 207.01 million which is 20.97% of total inflows (net). In the preceding period July-December, 2016 it was US\$ 176.45 million or 12.02% of total inflows (net).

**Table 4: National FDI and BEPZA contribution**

Year	FDI in Flows in Bangladesh (US\$ m)	FDI in Flow (net) in EPZ (US\$ m)	BEPZA contribution %
2011-2012	1194.88	185.26	15.50
2012-2013	1730.63	369.75	21.36
2013-2014	1480.34	406.75	27.44
2014-2015	1833.87	363.54	19.82
2015-2016	2003.53	427.64	21.34

**Source:** BEPZA, 2016

The amount of FDI in flows (net) in Bangladesh is US\$1194.88million and FDI in flows (net) in EPZs are US\$ 185.26 million in 2011 -2012 in which BEPZA's contribution was 15.50 percent. BEPZA's contribution was highest in 2013 -2014 that is 27.44 percent. The last fiscal year BEPZA's contribution in FDI was 21.34 percent, in this year FDI in flows (net) in EPZs were higher than another fiscal year.

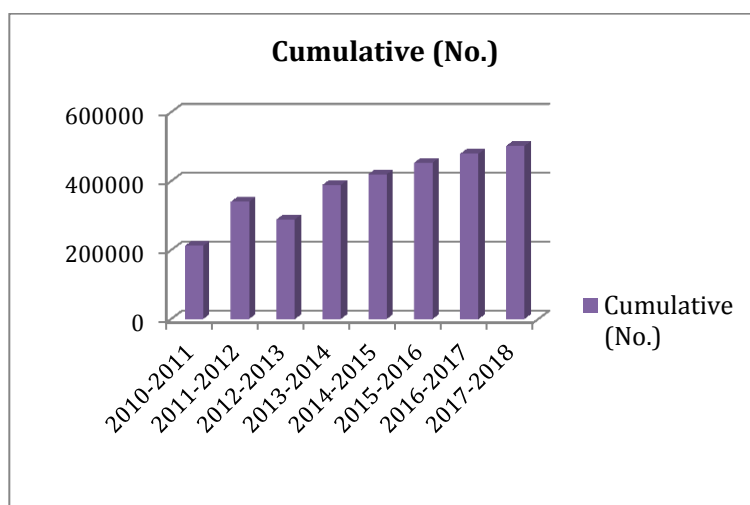
#### **5.4. Employment analysis:**

The purpose of EPZs is to boost economic development of the country. This could be judged by employment. The quality of employment in BEPZs is indicated by the higher wages in these zones. After the establishment EPZ employment has been increased rapidly. In generating employment, expanding enterprises, and enlarging the volume of export and investment the role of EPZs is remarkable for the economic growth of Bangladesh. These zones are successful enough for the reduction of poverty, and empowered women through employment. BEPZA presently 70% of total employments in EPZs are female.

Average Employment generation opportunity of Bangladesh depends upon the nature of enterprises. Many of the old enterprises are becoming saturated by manpower, so more EPZ and enterprises should be established to compromise and create more opportunity for employment. The following table has shown the employment performances of EPZs.

**Table 5: Year wise total eight EPZ employment**

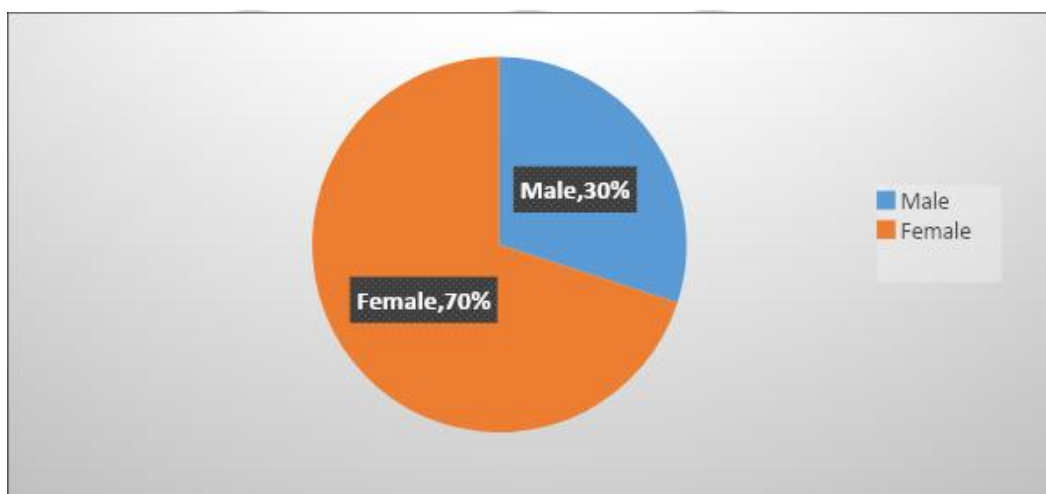
Year	Cumulative (No.)
2010-2011	212164
2011-2012	340021
2012-2013	289314
2013-2014	389017
2014-2015	420101
2015-2016	453652
2016-2017	479181
2017-2018	502013



**Source:** BEPZA, employment report 2018

Thus we can observe that there has a positive trend of employment generation in EPZs.

Share of male and female BEPZ employment is given bellow-



**Figure-2: Share of male and female in BEPZ employment in 2017-2018**

**Source:** BEPZA, 2018

Total employment in BEPZ is 479181. Where female is 64% and male is 36%. But in 2017-2018, male participation rate is 30% and female participation is 70%. It is clear from the information that major portion of workers in BEPZs are Women.



## **5. Role of Export Processing Zones in Bangladesh**

Export processing zones (EPZs) have played important role in attracting foreign investment. In order to analyze the degree of EPZs in socioeconomic impact indicators such as exports, employment, and foreign investment are taken into account. The important roles of EPZs are:

### **Women Empowerment**

A huge number of female workers are working in the EPZs of our country. The percentage of female workers stands at about 64% of the total number of employees. The EPZs have been making a significant contribution to the gradual empowerment of women which is shown by employment patterns in BEPZA. Every year a large number of young girls and women are joining in the productive workforce of EPZs of our country.

### **Digitalization**

The regular Export Permissions and Import Permissions are now operated through automation for digitalization. BEPZA has streamlined its activities by reducing reliance on paper documentation for become the active partner of “Digital Bangladesh”. Now BEPZA is working to automate three priority processes: the acceptance, screening and approval of applications for import permits, export permits & sub-contract permits.

### **Brand product**

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

### **Per capita income**

In EPZ enterprises about 4 lakh people are working directly. Total beneficiary is almost 16 lakhs with their family members (suppose 4 in a family). Around the EPZ area, there are many informal business sectors which generate more employment and more income. The per capita income of poor people increases by creating industrial localization, and indirectly helps to increase per capita income.

### **Poverty alleviation**

EPZs are such a concept which helps in industrialization by creating employment opportunity from the very beginning. Centering an EPZ a business cluster established in nearby area. Depending on EPZs some formal and many informal entrepreneurs have grown up in Bangladesh.

### **Diversification of products**

In our country the EPZ enterprises have contributed significantly in terms of export diversification. Various types of products are exported every year from our country to many countries of the world. The diversified export items from EPZs includes:- Textile, Garments Accessories, Tent Accessories, Electrical equipment and components, Tent, LED lamp and Selection Button, Furniture , Bi-cycle, Automobile Parts, Engineering products, Leather products, Cosmetic and Hollywood mask, Automobile Parts, Optical goods and Footwear, Battery, Camera & camera lens Thermal bag, Sleeping Bag, Camping Furniture, Electronic products, Golf shaft, Wig and fashion hair, Mobile Parts, Gold and diamond jewelry, Bag, Luggage, Energy saving bulbs, Metal products, Toys, Eye-glass, Jute product ,Cosmetics and Hollywood mask, Frame, Carpet, Chopsticks, Bamboo made Coffin, etc.

### **Power Plants**

For producing and supplying of 290 (Two hundred and ninety) Megawatts electricity to the enterprises in 06 EPZs in the country BEPZA has accomplished the Power Supply Agreements with 06(six) private companies. After meeting the demand of the EPZ enterprises the companies are allowed to supply and sale their extra power to the national power grid. By this way the power plants of BEPZs are contributing to the national economy by fulfilling the demand of electricity outside the EPZ areas.

### **Central Effluent Treatment Plant (CETP)**

For monitoring the effluent management of the EPZ enterprises 30 environmental counselors is employed. BEPZA is reward about the environmental issues which related to manufacturing industries. In Chittagong EPZ the CETP projects, Dhaka EPZ and Comilla EPZ is running well where other EPZs are under implementation stage.

## 6. Challenges for EPZs in Bangladesh

BEPZA has been striving hard to operational efficiency to a level which would cater the diversified needs of the investors. To achieve this objective challenges ahead for BEPZA would be

**(i) Lack of key EPZ infrastructure facilities and business services:** EPZ programmes are found to face acute shortage of necessary infrastructure, including: strategic roads and railways linking (EPZ) production sites to key ports; storage facilities; aggressive strategic training programmes. Unreliable energy, water, telecommunications and other utilities also hinder EPZ firms' domestic, regional and global competitiveness. Also lack of important business facilitation on services, including: licensing and registration requirements, the availability of key business information, such as potential suppliers/ buyers, and timely clearance/processing of imports and exports.

**(ii) Costly incentive package/regime:** The study showed that EPZ firms have been enjoying fiscal incentives (tax exemptions) extending up to 10 years. This has been happening at the expense of government revenue collections (i.e. fiscal losses in terms of tax exemptions), hence contributing to the government's failure to put in place necessary infrastructure and other developmental improvements.

**(iii) Lack of awareness on the developmental relevance of the EPZ programmes:** Some respondents ranked the targets of the EPZ programmes as having low or little relevance to national development needs and other global priorities. On the contrary, however, the study finds that EPZ programmes targets are quite relevant to the development orientation, including the country's Development Vision 2025 and efforts towards the MDGs.

**(iv) Absence of logical frameworks for the EPZ programmes:** It was noted that the BEPZA has not formulated a comprehensive logical framework for the EPZ programmes. Because the log-frame is a prerequisite for carrying out an evaluation, this study had to formulate its own log-frame based on available details/information, which forms the basis of the evaluation undertaken in this study.

**(v) Lack of database at the BEPZA for EPZ-related information:** The BEPZA has not established a specific for systematically collecting EPZ industry data and information on export revenues, volumes, jobs, value of exemptions offered versus gains registered per EPZ firms and other variables. This could be important for the monitoring and evaluation of the EPZ programmes and its implementation.

**(vi) Lack of adequate domestic, regional and international marketing:** The limits the demand for products in the EPZs among potential niches in export markets, and as a result, backward and forward linkages have not strengthened due to little or no information regarding the existing local potential suppliers of various materials and/or services required in EPZ operations. As such, one of EPZ textile firms has been importing fabric materials, including cotton, which could be supplied by local producers.

**(vii) Establishment of scientific human capital base:** One of the fastest growing and most successful industries in the global EPZ sector is that of technology firms, they have the potential to revamp the technological development path of developing countries like Bangladesh. However, the lack of a scientific human capital base has limited countries from exploiting this lucrative hi-tech industry.

**(viii) Delays in processing land rights for investment/business purposes:** Investors (both in EPZ and non-EPZ regimes) have to wait far too long to get land rights and other corresponding clearance documents for commencing their envisaged businesses. These delays cost a lot of valuable resources in terms of finances, human capital and time, and this affects both prospective investors (in the form of delayed or lost sales/export revenues and customer goodwill) and the government (in the form of delayed or forgone tax revenues, foreign exchange earnings, jobs created, technology transfer and absorption, etc.)

**(ix) Inadequate financial products to cater for EPZ operators:** EPZ operators face difficulties in accessing long-term financing products from the local banking industry, and this impacts negatively on their business growth plans.

## **7. Recommendation and Conclusion:**

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

- For the development of EPZ units a major preferential treatment is essential by granting them the Government policy approbation in the form of fiscal and non-fiscal incentives.
- For different kind of zones there should have been separate specific rules/regulations in regard to Customs, Income Tax, Foreign exchange, VI SA/Landing permit etc.
- EPZs alone will not encourage entrepreneurial activity, fuller reforms are necessary.

- EPZs should be emphasized enough to exercise regulatory functions and to act as an independent regulatory body.
- The BEPZA should run awareness campaigns in order to ensure investors and other key stakeholders in the EPZ industry understand the national and global development linkage of the EPZ programs.
- Value-added changes should be made, where necessary, and the long-frame adapted to contribute to improving EPZ programmes over time.
- The BEPZA should device a strategic approach for collaborating with other key partners on land-related matters so as to achieve efficiency in the process of allocating land rights. Key stakeholders in this regard include the Ministry of Lands, Ministry of Water and National Environmental Management Commission.
- The commercial banking industry should also encouraged to study the nature of EPZ business and device better products to suit stronger EPZs.
- EPZs should encourage the involvement of multi-industry, multi ethnic business associations in public policy making.
- Government should take attempt to create new financial market and ensuring proper infrastructural facilities.
- BEPZA Authority Act was enacted in 1980 which modified on December, 1994. Therefore, for the companionable atmosphere in all corners, every five years the Act should be reviewed for the betterment of investors, employers and as well as for workers.
- A clear foreign investment policy regime should be created and an implementing open door policy to attract foreign investment.
- Rapid and low cost customs clearance for imports and exports should be implementing.

Bangladesh has eight operating EPZs. Although public involvement, EPZs are still way behind in introducing the adulterate technology such as internet banking but overall the progress of EPZs in the country is satisfactory. In Bangladesh the comparison among eight EPZs has enabled us to evaluate their relative performance. Here the research study considered volume of export, investment and employment of each zone as the performance determining factors. This study also explores the role of EPZs in the country. Here we see that EPZ has played important role in women empowerment, poverty alleviation, digitization, per capita income and power plant.

The EPZ will have some resources that can attract investment such as natural resources, cheap skilled labor, or logistical advantages. Nations can also encourage investment in the EPZ by offering minimal customs regulations, duty-free tax incentives, such as a ten year tax holiday, and developing infrastructure to investor's requirements. Areas where EPZs have been established have become special growth centers in the economy of Bangladesh as a result of organized and fast development of infrastructure including roads, electricity gas, water supply, telecommunication, fire brigade, post office etc. The private sector around the EPZ areas have come up with support investments in shopping centers and market, transport agencies, accommodation and recreation facilities etc. which have accelerated the pace of economic activities. The EPZs in Bangladesh have been instrumental in creating salutary direct benefits in terms of flow of foreign investment, employment generation, export and foreign exchange earnings, and value added

In international market, there is access of Bangladeshi product for better export performance. Bangladesh has got extensive potential in respect of natural resources, skilled human capital and investment friendly environment. Development partners should take steps to find market for Bangladeshi products in the developed countries.

© GSJ

## 8. References

- Aggarwal, A. (2005). Performance of Export Processing Zones: A Comparative Analysis of India, Sri Lanka and Bangladesh. *Indian Council for Research on International Economic Relations*, 10(123).
- Aggarwal, A. (2010). Special Economic zone in south Asia: Industrial Island or Vehicle for Diversification. *International Trade department, the World Bank*, 23(24).
- Asger, K. (2015). Political Economy of the Concept of Export Processing Zones and its Contribution to the National Economy. [Online]
- Bhuiya, M.I.I., Ahmed, E. and Mahmud, S. (2014). Relative Performance of Bangladesh Export Processing Zones (BEPZs) and the Reasons for the Difference in Their Performance. *Global Journal of Management and Business Research: Economics and commerce*, 14(3).
- Eusuf, M.A., Faruque, O., ABM, Rahama, A. (2007). Institutions for facilitating FDI: Issues for BEPZA, Bangladesh. *IPPG Programme Office, IDPM, School of Environment & Development, University of Manchester, UK*.
- Fakir, A.N.A., Mia, M.S. and Hossain, M.S. (2013). Export Diversification and Role of Export Processing Zone in Bangladesh. *ASA University Review*, 7(1).
- Gopalakrishnan, S. (2007). In the Name of Growth. The politics and economics of Indian Special Economic Zone. *A study prepared for the Council for Social Development*.
- Harigopal, K. (2001). Management of organizational change, Sage Publication India Pvt. Ltd, New Delhi.
- Hossain, S., and Cheng, M. (2005). Bangladesh: building for a better future? *International Journal of Social Economics*, 29(10): 813-821.
- Islam, M. Z. and Muktatir, U. (2011). EPZ history in Bangladesh and its administration and legislation for economic enclave. *Business and management review*, 1(7): 86-107.

- ILO (2011). Export processing zones: Comparative data from China, Honduras, Nicaragua and South Africa. [ONLINE]
- Jayanthakumaran, k. (2003). Benefit –Cost Appraisals of Export Processing Zones: A Survey of the Literature. *Development Policy Review*, 21 (1).
- Kankesu, J. (2003). Benefit cost appraisals of export processing zones, development policy review
- Narayana, M. R. (2007). Economic size and performance of dispersed and clustered small scale enterprises in India: Recent evidence and implications. *International Journal of Social Economics*, 34(9): 599-611.
- Omar, K. and Stoven, A, William (2008).The Role of Technology and Human Capital in EPZ Life Cycle. *Transitional Corporation*, 17(1).
- The Daily Stat, (2015), 25 September, Dhaka, Bangladesh, Business, FDI inflow.
- The Daily Star, (2018), 17 March, BEPZA to lease land for EPZ in Chittagong.

© GSJ