EPZs: Better Climate for Investment

Helaluddin Ahmed

IN conformity with the economic liberalization policies of late President Ziaur Rahman, the Bangladesh Export Processing Zone Authority (BEPZA) was set up by an Act of Parliament in 1980 to attract foreign capital and technical know-how and thereby boost exports through establishment of export-oriented industries in special zones with special facilities. Earlier in 1980, Foreign Private Investment (Promotion and Protection) Act was enacted for promotion and protection of private foreign investments. As per these acts, BEPZA, an autonomous statutory body came into existence in 1983 entrusted with the responsibilities of setting up and operating Export Processing Zones (EPZs) in the country. The objective for setting up EPZs was to provide investors with a congenial investment climate free from excessive procedural complications. Accordingly, the Chittagong EPZ, the first EPZ in Bangladesh, was established at Patenga in the port city of Chittagong and it became fully operational in 1984. Development of another EPZ at Savar, Dhaka (Dhaka EPZ) is progressing fast and it is likely to become operational by the end of 1992.

Facilities and Incentives

The ECNEC at a meeting held on March 19, 1981 prescribed setting up of three types of industries in the EPZs. Type 'A' — 100% foreign owned, including investment by Bangladeshi nationals ordinarily resident abroad. Type 'B' — Joint Venture Projects between foreign and Bangladeshi entrepreneurs. Type 'C' — 100% Bangladeshi entrepreneurs resident in Bangladesh.

The indicative (not exhaustive) list of industries which can be set up in the EPZs includes readymade garments, textile products, electronic /electrical goods, household fittings, medical/ biological instruments, optical items, leather technology products, aircraft instruments, engineering products, measuring instruments, laboratory items, printing and publishing, stone cutting/polishing, do-it-yourself tools, plastic products, pharmaceuticals, jute based industry, footwear, furniture, sportsgear, leather products, medical instruments, toys and jewellery.

The fiscal incentives provided at EPZ for various categories of investors include: (a) Tax Holiday for 10 years, (b) Duty-free import of machinery, equipment and raw materials, (c) Duty-free export of manufactured goods, (d) Relief from double taxation subject to bilateral agreements, (e) Complete exemption from dividend tax for foreign nationals during tax holiday period.

The non-fiscal incentives offered include: (a) Protection by law to all foreign investments, (b) No ceiling on investments, (c) full repatriation of profit and capital, (d) Exemption from import policy restrictions, (c) Off-shore banking facilities, (f) Relocation of existing industries from abroad, (g) One window service by BEPZA which generally sanctions projects within 2 weeks, (h) All customs formalities within EPZ area, (i) Benefit of OPIC's (USA) insurance and finance programme, (j) Security and safeguards under multinational investment guarantee agency (MIGA) and (k) Arbitration facility of international centre for settlement of investment dispute (ICSID).

The institutional and infrastructural facilities provided by Chittagong EPZ include: (a) Telex, Fax and Telephone services connected through satellite system, (b) adequate rail, road, river, sea and air communication, (c) infrastructural facilities provided by BEPZA, (d) support services available at EPZ include customs office, post office, banking facilities, medical centre, fire station, police station, (e) utility services such as water, power and gas supplied at a nominal rate, (f) land and factory building on lease or rent (minimal charge) and warehouse facilities readily available, (g) BEPZA vested with administration of labour matters for enterprises within EPZ. The labour laws are production oriented and forbid formation of labour unions inside EPZ. The working hours are 48 hours a week (6 days a week) and the wages (US$ 22 per month for Apprentice and US$ 68 per month for skilled workers) are astronomically low compared to international standards, (h) CEPZ has a round-the-clock security watch service which ensures complete security for industries located within its boundary.

Chittagong Export Processing Zone

In pursuance of government decision to develop EPZs in phases, port city Chittagong was chosen as the site for the first EPZ in Bangladesh. Chittagong is a major industrial city of Bangladesh and very conveniently placed on the international shipping route. Support services for foreign trade such as excellent transport and communication network, banking and tele-communication facilities, access to mass media, housing and health care facilities etc, are readily available here. In addition, it possesses abundant labour which can easily be transformed into skilled work force in various trades.

CEPZ is located about 2.41 kms from the principal sea port of the country, 5.63 kms from the main business centre of Chittagong and 7.24 kms from Chittagong Airport. The Master Plan of CEPZ envisaged an area of 255 hectares to be developed in a phase-wise manner. An area covering 167 hectares has already been developed and another 16.2 hectares of land would soon be acquired. Plans exist for a second EPZ at Chittagong not far from the existing EPZ with an area of 405 hectares.

Presently, the number of industrial plots available for lease at CEPZ is 430. Fully developed industrial plots with all infrastructural facilities are leased out to prospective investors at such rates and on such terms as determined by BEPZA. As stated earlier, warehouses, factory building, utilities, transport and telecommunication facilities, etc are readily available within the CEPZ confines at a very cheap rate.

Past Performance of CEPZ

As of May 15, 1991, 72 industries belonging to 12 countries and having a total investment outlay of US$ 470.83 million were sanctioned by BEPZA. Of these, 38 industries with a total investment outlay of US$ 43.268 million were actually in operation. The employment figure for these industries was 9,639. Amongst the participating countries Japan topped the list (22.89% of total investment) followed by South Korea (17.03%), Bangladesh (16.77%), USA (13.77%), Singapore (11.72%) and Hong Kong(8.78%). In terms of employment generation South Korea topped the list (2460 employees) followed by Hong Kong (1913).

The sanctioned industries in CEPZ include garments, textiles, and fabrics, electronics, leather, footwear, watch, artificial flower, plastic products, automobile parts, construction equipments, sports gear, lens, packaging, steel chain, refined sugar, fishing equipment, fertilizer, stuffed toys and reconditioned car. As of March 15, 1991, category-wise share of sanctioned 71 industries were as follows: (a) 100% foreign owned (Type A) — 32, (b) Joint ventures (Type B) — 20, and 100% Bangladeshi owned (Type C) — 19. Of these 37 units were actually in operation in March '91, their category-wise break-up is: Type A — 20, Type B — 10 and Type C — 7. Typewise investment outlay (actual) in March 1991 were as follows: Type A — US$ 26.2 million, Type B — US$ 9.21 million and Type C — US$ 7.25 million.

Productwise garments occupy the top position both in terms of investment size and employment. It numbered 6 in March '91 with an investment outlay of US$ 8.485 million and employment generation for 4197 workers. In terms of investment outlay garments is followed by fishing and golf equipment (US$ 6.263 million), textiles (US$ 5.118 million), leasing and servicing (US$ 5.00 million), shoe (US$ 4.72 million), electronics (US$ 3.086 million), terry towel (US$ 2.891 million), steel chain (US$ 1.50 million) and bag/bag packs (US$ 1.00 million).

Dhaka Export Processing Zone

Dhaka Export Processing Zone (DEPZ) is the second EPZ being set up by BEPZA which is likely to become operational by the end of 1992. It is located at Savar, 35 kms away from both Dhaka city centre and the Zia International Airport, and is connected by metalled roads with the capital city and the international airport. The attraction of DEPZ would include a well-developed tele-communication and transport network, availability of a large pool of inexpensive labour and abundant supply of professional, managerial and technical staff.

Total area to be developed at DEPZ would be 30 hectares within a total land area of 57.3 hectares. There will be provision for 84 industrial plots each measuring 1000 square metres.

Factory building, warehouse facilities, utilities, etc. will be available at nominal charge.

Ninety industries are expected to be set up in the zone which will include high-tech electrical/electronic units, leather and related industries, specialised textiles, high-tech engineering goods, and jewellery units. The emphasis at DEPZ will be mostly on high-tech electronic/electrical products. The zone is expected to generate employment opportunity for a population of 8000 workers. The government is hopeful that the DEPZ will further expand and diversify the scale and scope of foreign investment in Bangladesh.

The Fourth Five Year Plan (1990-95) envisages an expenditure of Tk. 285 crore, including Tk 85 crore for spill over projects, for expanding CEPZ and establishing DEPZ in order to attract increased volume of foreign investment for boosting industrial exports. It is expected that the EPZs will play a significant role in attracting know-how and capital from abroad for setting up increased number of export-oriented industries, thus facilitating transfer of advanced technology, creating more job opportunity for the unemployed and substantially reducing the deficit in our balance of payments.

During the past two decades, multinational companies, with the participation of their local counterparts have successfully developed an all-pervasive chain of sophisticated industries in South Korea, Hong Kong, and South East Asian countries such as Singapore, Thailand and Malaysia.

From recent reports it is observed that annual foreign exchange earning of these countries through export of electronic goods alone exceeded US$ 20 billion. This was possible because these countries offered attractive incentives to foreign investors in the form of cheap labour, free trade facilities including tax holidays and establishment of EPZs adjacent to their major air and sea ports. Many of the incentives offered by these countries to the multinational investors have already been adopted by Bangladesh. In terms of scale and scope of available facilities and incentives, EPZ in Bangladesh has surpassed even its predecessors in fellow Asian countries.

NAFTA — Yes, It Will Hit Asia

by Alan Chalkley

The North American Free Trade Area, now being devised by the US, Canada and Mexico, is bound to affect the economic of many Asian countries — but it will create opportunities as well as problems.

HONG KONG : The forging of a free trade pact between three nations which stretch from the frozen Yukon to the steamy Yucatan peninsula is an epochal development politically. But what other countries want to know is: what will be the economic effects — for us?

Canada and the US have pledged to remove trade barriers by 1998, and negotiations with Mexico are aimed at a similar timetable. When formed, this North American Free Trade Area (NAFTA) will have a population of over 360 million people.

The nations concerned have not always been friends. When the American colonists rebelled against Mother England 200 years ago, the British in Canada refused to join them, and there was great tension between the two pioneer nations.

Over 150 years ago, Mexico and the US came to blows: at the famous battle of the Alamo is San Antonio, the Yankee heroes were defeated, and Mexico nearly took over Texas for good. And 60 years after that, the Spanish-American War gave America its Philippine and Cuban "colonies" and raised a US political "umbrella" over Latin America.

Today, US trade with Canada is enormous, as might well be expected. In 1990 US exports to Canada were worth US$84 billion and imports from Canada worth US$91 billion; the total trade both ways was one-fifth of all US trade. Canada's export surplus arises from the fact that the US buys more raw materials (including oil) from its neighbour than it sells manufactured goods, for which Canada is a relatively small market.

Trade with Mexico is a different matter, although the US runs a small deficit with its southern neighbour, too. Total trade accounts for only 7.5 per cent of the US total, but it is rising much faster than the Canadian connection.

The US buys raw materials from Mexico (including oil), but each year it buys more and more manufactured goods. There is also a mounting outflow of cash remittances to Mexico, sent by large numbers of legal and illegal migrant workers.

The reason for both trends is the same: Mexico's cheap labour. The US draws in workers for both agriculture and light industry, and US manufacturers have flocked to set up factories across the Mexican border.

Given a liberal implementation of the new free trade pact, Mexico may well become a powerful manufacturing country, backed by American funds and technology. Its exports of manufactures, machinery and vehicles have more than doubled in the last five years.

What, then, are likely to be the effects of the giant three-cornered North American trade pact on Asia's foreign trade and payments? Clearly, they could be significant, even seriously adverse.

US trade with Asia has been relatively static in recent years — it totals about US$240 billion both ways now. Japan runs a US$40 billion surplus in this trade, and this is a cause of much danger in American circles. China, Taiwan and Korea record large surpluses, too, and overall Asia sells about US$80 billion more to the US than it imports (the gap was shrinking in 1990, but only slowly).

A surplus in goods can, of course, be counterbalanced by an outflow of investment in the other direction — but the US is not now the big investor in Asia. Indeed, it is not a big investor anywhere abroad any longer, and so trade deficits have to be financed by drains on the US reserves (which are now, in fact, a negative figure!).

In 1988, Asian trade with American was overwhelmingly in manufactured goods. In raw materials, the region sells the US only rubber, tin and some vegetable oils in declining quantities; the big values are in Asian exports which run from ships to zips, from cars to computers to clothing. The newly-industrialising economies of East Asia have been especially successful in the US market.

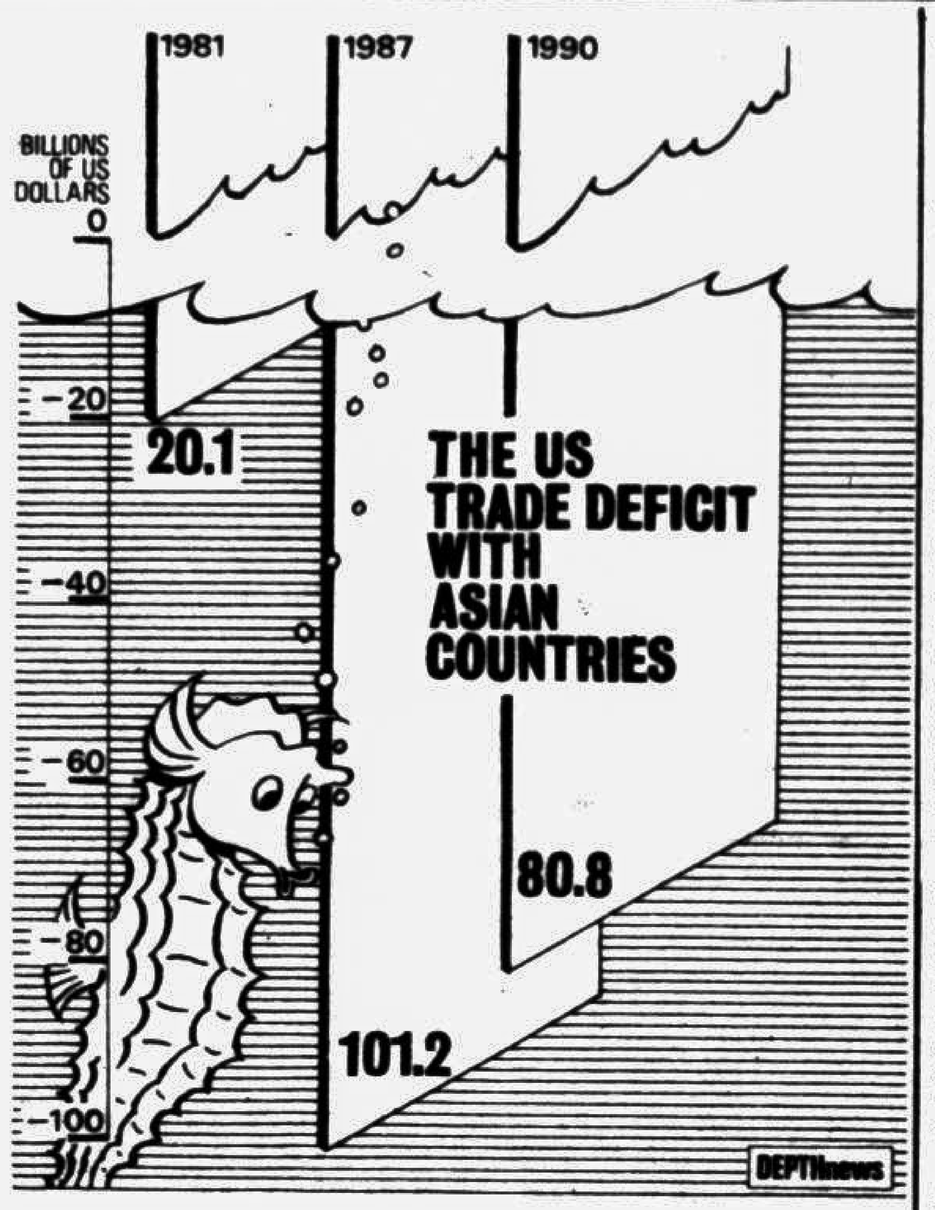
During this last decade, America's trade deficit with Asia has soared and then fallen back again. US exports to South Korea have climbed 180 per cent, but the deficit is still 14 times its 1981 level.

Taiwan has seen both its exports and imports to the US rise 160 per cent, but the trade deficit stays high. In 1981, Japan sold US$18 billion more goods to the US than it bought — by 1990 the gap had grown to US$41 billion.

In 1990, the trade gap with the whole of Asia was running at over US$80 billion a year, and no nation can sustain such a drain on its reserves for long.

It is obvious that North America will cut back severely on Asian imports, in one way or another.

This can be accomplished by higher import duties, physical import barriers, devaluation of the US dollar against Asian currencies, protection of US domestic competitors — and any combination of those measures.



Many benefits will clearly go to Mexico, as well as a number of other Latin American and Caribbean countries which can establish low-cost industries, and with which the US wishes to maintain friendly relations. And Canada's manufacturing power will be strengthened by the new pact, too.

But there is some good news. Canada has been through a bad depression (the economy will barely grow at all this year), but it is now clearly on an upturn. Mexico has also had very bad times, and its foreign debt burden is still high — but recent administrations there have acted firmly and ingeniously. Mexico's trade is diversifying, its credit is much improved, and it has been called a "Latin American dragon."

For Asia, the reassuring aspect to this recovery, and to the economic growth and prosperity which the new Free Trade Area should foster, is that the boom will create demands and opportunities — for those countries adaptable enough to seize the new chances. There may well be restrictions; there will also be openings — highly profitable ones.

Total world trade is still buoyant (it rose 6 per cent last year, even as many economies weakened) and so there is a bigger "pie" to share by every trading nation. New markets beckon in Eastern Europe and China, for example. All is not lost.

— Depthnews Asia

India Begins to Restructure its Industry

by Prakash Chandra

The ending of a restrictive licensing system for industrial enterprises is one of several significant economic changes initiated recently by India's Minister of Finance.

WITHIN three months of assuming power, the government of Prime Minister Narashimha Rao has introduced economic changes which are impressively concrete and positive when compared with the superficial ideas and indecisive actions of previous administrations.

Much of the credit must go to the Finance Minister, Dr Manmohan Singh, a man widely regarded as patriotic, honest and — for a politician — forth-right. Since assuming office he has made a worthwhile start on achieving three objectives: attracting back to India capital from nationals living overseas; attracting foreign industrial investment; and ending an obstructive system of industrial licensing which has retarded economic growth for decades.

Unfortunately, there is little or no sign yet that the government is steeling itself to tackle the most damaging economic anomaly of all: the uncontrolled and massive size of a largely inefficient civil service — an unproductive "Sacred Cow" if ever there was one.

Initially, the Finance Minister showed considerable courage in ordering two successive devaluations of the rupee. The effect of these steps will be to help bring in large sums of "hot money" from non-resident Indians, known as NRIs. They have long been waiting for just such a sensible move by the authorities.

Later, when he introduced his budget proposals, Dr Singh also announced changes in industrial policy. From now on, foreign companies and multinationals could hold up to 51 per cent of the shareholding in a commercial or industrial enterprise in India. The previous limit, 40 per cent, effectively deterred overseas entrepreneurs from contributing to industrial growth.

Simultaneously, he announced the abolition of industrial licensing — except as applied to a few strategic industries. And this move should also be welcomed, and acted on, by many multinationals.

Not only has a door been opened for foreign investment, the system of licensing was the hallmark of discredited collectivist policies. For 40 years New Delhi took its economic cues from Moscow, following a trail that led to catastrophe for the USSR. At long last India's economic planners are being obliged to retrace their steps.

The budget included sharp price increases for luxury goods like cars, refrigerators, TV sets and VCRs. Both petrol and fertilisers have become dearer.

Despite fears of double-digit inflation developing next year as a result of the price rises, the budget was generally welcomed by the business community — especially the decision that personal taxation should not be raised.

A leading stockbroker on the Bombay exchange, Mr Vallabh, said that both the industrial policy and the budget were "better than expected." According to a banker, Mr N Jaya Kumar, overseas Indians would now be encouraged to repatriate their money through proper channels rather than unofficial traders.

As expected, the Communists were strongly critical. They accused the Congress Party government of selling out to the International Monetary Fund and the World Bank; the new industrial policy as "an affront to the patriotic sentiments of the Indian people." Both India's economic sovereignty and the goal of self-reliance had been badly impaired, the Communists alleged.

In the light of these developments, it is interesting to look back to the economic ideas, such as they were, of Rajiv Gandhi — who would now of course, but for the outrage of his murder, almost certainly be heading the government.

Like his mother, Mrs Indira Gandhi, he was not well versed in economics and had few precise aims. He spoke freely, but vaguely, of modernisation and technical change — for example, through computerisation. But he showed a marked reluctance to do anything about the trade structure or the licensing system for industry.

Lastly, he and his advisers appeared to have set their faces against doing anything about India's vast and sprawling bureaucracy. And it is still far from clear whether the new team are going to tackle it in earnest either.

Dr Singh has begun to remove a few roadblocks. But whatever else he does, he is unlikely to achieve any lasting improvement unless he takes his courage in both hands and dismantles the hierarchies that run rife in the Commerce Ministry, the Finance Ministry and the various departments and divisions of the Treasury.

The size and cost of the public serve are awesome. Foreigners who visit New Delhi are astounded at the magnitude of the bureaucracy with which a so-called poor country is saddled.

"The government is rich and the people poor." That's been the traditional comment of visiting observers, and of locals, too. It's a comment that still holds good.

Electric Car Race Gathers Pace

NISSAN Motor, the Japanese car company, has joined the list of vehicle makers to have developed prototype electric cars with possible commercial potential.

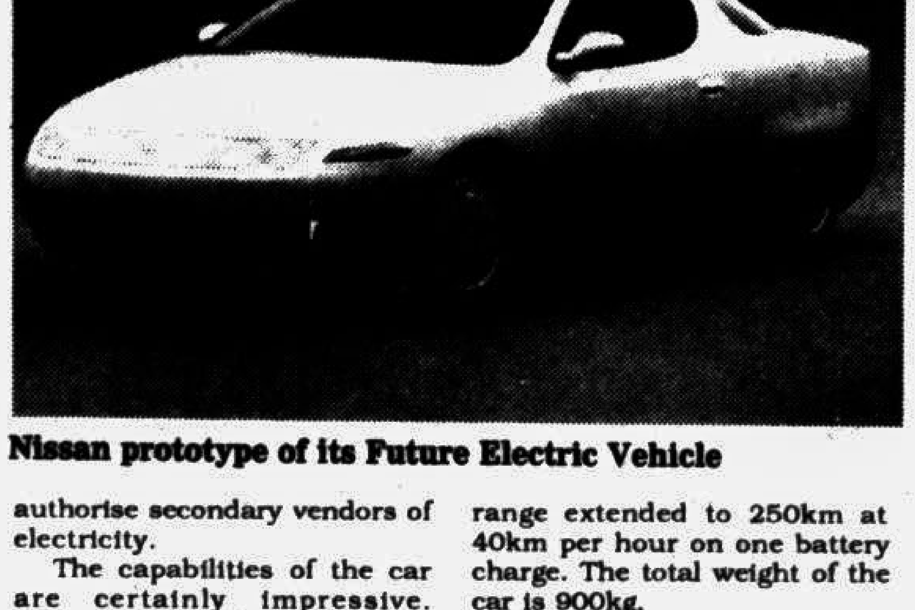
The centrepiece of Nissan's car is a lightweight, nickle-cadmium battery claimed to recharge in 15 minutes.

Nissan says this is about a quarter of the time needed for conventional systems, although few manufacturers would regard a one-hour recharge of conventional systems to be compatible with long battery life.

The potential demand for a practical and economic electric car is huge because the cars cause no local pollution. Nissan is sufficiently confident with its own progress in this area to suggest that the principal obstacle to popularising its car is the lack of a supporting infrastructure of recharging stations.

"If we could set up a net work of recharging stations, then the problem of the cruising range could be solved," says Mr Toyokazu Ishida, manager of Nissan's corporate communications.

In Japan, this would also require legislative change to authorise secondary vendors of electricity.



Nissan prototype of its Future Electric Vehicle

The capabilities of the car are certainly impressive. Battery weight has been cut roughly in half, compared with other similar cars, to 200 kilogrammes, and the cruising range extended to 250km at 40km per hour on one battery charge. The total weight of the car is 900kg.

For the truly impatient, the battery, which was developed jointly with Japan Storage battery, can also be 40 per cent recharged in six minutes. The details of the battery operation are still a commercial secret.

With two passengers, the car can accelerate to 400 meters in 30 seconds, and reach a top a speed of 120km per hour. These specifications are not very different from small petrol-powered cars.

Nissan designed the vehicle, which it calls Future Electric Vehicle or FEV, from scratch with the aim of increasing useable interior space, reducing weight, and lowering driving resistance.

The floor of the vehicle is flat. It can accommodate four passengers and also has a boot.

Nissan has set up a research group with Tokyo Electric Power and Japan Storage Battery to study how to set up the infrastructure needed to popularise the cars.

In the meantime, it is continuing research that would make the battery still lighter and further increase the cruising range. It is also looking into producing limited runs of the cars for special uses — for example, at resorts or for hotels.

— FT

Kiwifruit : China Sees an Opening

by Ni Lu

A native fruit, the marketing of which was pioneered elsewhere, may now become a growth industry in its country of origin

NATIVE to China but long neglected there, the kiwifruit has caught the attention of its homeland.

With an eye on the lucrative international kiwifruit trade, up till now dominated by New Zealand, China hopes to attract local tastes first. And with its vast storehouse of kiwifruit varieties China hopes to develop local varieties into world-class exports.

The Chinese gooseberry — named kiwifruit by New Zealand after the flightless bird found there — originated from China which has 57 of the world's known 60 kiwifruit species.

"We've made considerable progress in cultivating the kiwifruit in recent year," says Jia Tingcan, secretary general of the Ministry of Agriculture's Kiwifruit Development and Production Association. Established in 1988, the Association provides consultancy services to farmers and coordinates national kiwifruit research.

Since 1988, China has invested 48 million yuan (US $9.2 million) on kiwifruit production. Cultivation of kiwifruit increased from 2,000 hectares in 1988 to 4,000 has. today China plans to increase kiwifruit cultivation to 7,400 has. by 1995.

By that time, according to the Kiwifruit Development and Production Association, total kiwifruit yields will be 10,000 tonnes a year. The current yield of cultivated kiwifruit is about 5,000 tonnes a year, all sold locally. Wild kiwifruit also grows on 6 million hectares, with a potential yield of 150,000 tonnes a year.

The biggest kiwifruit producing regions are Cangxi county in Sichuan province, southwest China, and Fengxin county in Jiangxi province in the east, where the fruit is cultivated on 660 hectares. Each region has an annual output of 500 tons.

The kiwifruit has a sweet taste. Some varieties have been compared to a blend of strawberry, banana and melon. A slice of the brown fruit reveals a round green pulp, dotted at the centre with tiny black seeds and streaked with white radiating from a cream-coloured core.

The fruit is nutritious, containing more Vitamin C and amino acid than other fruits. For example, A. chinensis, one of the many kiwifruit species, contains 250-399 milligrams of Vitamin C in 100 g. of the fruit. That is 60 times the Vitamin C found in peaches, 40 times that in apples and six times that in oranges.

The most popular kiwifruit variety is New Zealand's "Hayward," widely planted throughout the world.

Chinese experts are also breeding promising kiwifruit varieties. "The wide range of kiwifruit species in China provides us with unique advantages in breeding a fine variety," says An Hexiang, a research fellow at the Botanical Research Institute, Chinese Academy of Sciences.