

The Role of Export Processing Zones in the Industrialisation of Bangladesh

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Bank were under review. The necessity of setting up EPZs was accepted in principle and a study group was constituted by the Government to advise on the feasibility of establishing

entrepot-trade. Export Processing Zones go one step further in allowing industrial activities to be undertaken within the boundaries of the duty-free zone.

domestic tariffs area. Foreign investors are mostly sensitive to the cumbersome procedures of developing countries, which generally hinder the required speed and efficiency of international trade. As such, simplified procedures, 'one window service' and exemption from the operation of various rules and enactments make the

constitutes free trade zones. The entire territory functions very much like a free port, thereby fulfilling a similar function as the EPZs in other countries.

The increasing importance of the export processing zones in developing Asia should not only be judged from the increase in the absolute number of zones. A more precise indicator of their importance is the relative share of zone exports in the total exports of manufactures of these countries. Thus, in the Republic of Korea, FTZ exports accounted in 1990 for around 10% of the total exports of manufactures. In the Philippines and Sri Lanka, FTZ exports accounted for 20% and 30% respectively of total exports and in Malaysia about 41%. Finally, labour intensive offshore production by multinational enterprises accounted for 10% of manufactured exports in Hongkong and for 40% in Singapore.

Compared to the total labour force and employment of the region, the number of workers employed in Asian EPZs is still relatively small. In 1990, the number of directly employed in these zones was approximately 650,000. Almost 40% of this total employment in Asian EPZs was concentrated in only two countries, viz Singapore and the Republic of Korea. Other countries with comparatively high employment in EPZs were Malaysia and Hongkong.

Though the total direct employment in EPZs is relatively small compared to the total employment, it is generated within the shortest possible time unlike

host country, there is little doubt that EPZs have the potentials of generating substantial net inflows of foreign exchange, although the net contribution is usually much smaller than the gross contribution which is reflected in the increase of gross export values. EPZ firms rely heavily, as has been noted, on the import of intermediate goods and materials, and in the case of multinational enterprises net export earnings are even further reduced as a result of repatriation of earnings and capital. Actually, profits and interest payments may account for a substantial portion of the value-added by EPZ firms, the latter being already at a low level. An important factor which has certainly enhanced employment generation in the host countries is the multiplier effect obtained through the increased income of the EPZ workforce. To the extent that these incomes are spent on domestic consumption goods, the local economy will almost certainly benefit in employment terms from the increased demand generated by the zone workers.

Conclusion :

Export Processing Zones have been playing a vital role for industrialisation and rapid economic development in the developing world for the last few decades. Though the concept was accepted in principle in our country in 1978, the first EPZ commenced a modest operation in 1983. It took almost a decade for the zone to get the right momentum. The Chittagong EPZ has now proved its

Dhaka Export Processing Zone - The 2nd EPZ of BEPZA

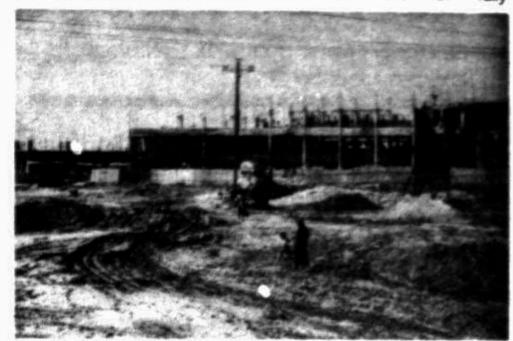
A.A.M. Zia Hussain, Member (Engineering)

At the outset, it might be pertinent to mention that back in 1978 Shaheed President ZIA approved the creation of a few Export Processing Zones in the country. To begin with it was also decided that there would be three Zones - one in Chittagong, the 2nd one in Dhaka and the 3rd one in Khulna. Accordingly the 1st zone came up in Chittagong, the port city of the country. Encouraged by the success story of Chittagong Export Processing Zone, the government decided to set up the 2nd zone in Dhaka.

The site just opposite to the Atomic Energy Commission in Savar along the Nayerhat Kalkair Road was selected. DEPZ project profile was prepared at an estimated cost of 79.50 crore. The total cost of the project includes cost for pre-construction expenditure, construction works, machinery, equipment and manpower etc. Thereafter, 134.5 acres of land under private ownership and 7.21 acres under Roads

Pruning Committee recommended a Tk. 57 crores three years rolling programme beginning from 1991-92 and accordingly suggested ADP allocation for

production by March 1993. The following facilities will be available in Dhaka EPZ for its investors on completion of the on-going project work - 45 numbers of fully



A view of the Administrative Building of DEPZ

Dhaka EPZ Allocation of fund for 1990-91 was very meagre in relation to the work schedule as per project proforma even, bills for earth filling could not be paid. The democratically elected government of Bangladesh is attaching more importance for creation of Export Processing Zones to attract

serviced industrial plots measuring 2000 square meters in each plot. 9 numbers three storied standard factory building having floor area of 1500 square meters in each floor. Warehouse. Uninterrupted water and electric supply.



A view of the construction work of Dhaka EPZ

and Highways Department, i.e. a total of about 142 acres was acquired to set up Dhaka EPZ. The possession of the land was taken over in August 1989.

As per project profile the project was scheduled to start from July 1989 and was expected to be completed by June 1995. But unfortunately due to insufficient allocation of fund in the Annual Development Programme the progress in the initial years of the project was hampered. After the acquisition of land in 1989-90, the earth filling works of about 50% of the acquired land was completed in 1990-91. Thereafter, in 1990-91 the

foreign investment in the country. The government was pleased to increase the allocation of DEPZ in the revised ADP to complete the development works and to make the zone ready for investors as early as possible.

The project implementation work of Dhaka EPZ is going on in full swing. Construction work for all infrastructural facilities, including standard factory buildings and Zone Service Building have been undertaken simultaneously to complete the work by 1994-95. It is expected that at least 45 industrial plots and three of the standard factory building will be ready for the investors to start their

- Gas supply.
- Custom Fence.
- Specious Roads System.
- Telecommunication facilities with NWD and ISD system.
- Police Outpost.

The Authority is getting encouraging response from both foreign and local investors for Dhaka EPZ. Some foreign companies have already expressed their intention for setting up their factories in Dhaka EPZ. In view of the response presently it is expected that Dhaka EPZ will be able to generate a sizeable number of employment opportunities at Savar within a year.

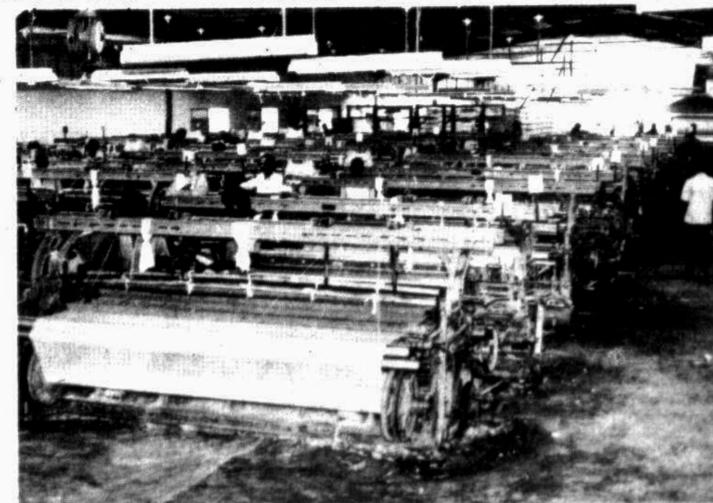
BEPZA-Leads the way

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other foreign journals suggest firms in CEPZ are making profits to the tune of US \$ 110 million by the end of the current fiscal year against the total investment of US \$ 97 million. A Japanese firm located in CEPZ has admitted that the cost of production in CEPZ is only 10% of their cost in Japan. Japanese private investment in Bangladesh however is not likely to come outside the EPZs.

The creation of more Export Processing Zones with an improvement in power supply and simpler custom clearance procedures is likely to accelerate the pace of export-oriented industrialization of the country with foreign investment. Bangladesh must not miss the opportunity of attracting foreign investment at a time when industries are being re-located to cheaper

production areas worldwide. Bangladesh presently enjoys competitive advantage arising from low cost of production and lowest industrial wage structures which makes it an ideal export base. BEPZA's production bases or EPZs have the expertise and experience of optimum profit making centre to lead the way for the export-oriented industrialization programme of the government.



Weaving section of a textile mill



Inside view of a garments factory

these in Bangladesh. The ECNEC, in its meeting held on 22nd August, 1978, approved the setting up of one Export Processing Zone at Patenga, Chittagong, one in the vicinity of the Zia International Airport, Dhaka, one at Khulna/Chalna, one on the left bank of river Karnafuli and a few others elsewhere in the country. Given resource constraints, it was decided to proceed, in the first instance, with the one at Chittagong only. With a view to establishing a statutory Authority for the creation, development, operation, management and control of export Processing Zones in Bangladesh and for matters connected therewith, the BEPZA Act, 1980 (Act No. XXXVI of 1980) was promulgated on 26th December, 1980. The objectives set for the Authority were as follows :-

- to foster and generate economic development in Bangladesh by encouraging and promoting foreign

Industrial processing is now a primary activity in many EPZs. Basically, an EPZ could be described as a relatively small, geographically isolated area within a country, into which certain types of goods, either in the form of raw materials, component parts, semi-finished or finished products, can be brought without the payment of customs duties. After the goods have been assembled, processed or manufactured, they can again be re-exported without the payment of duties.

In addition, however, manufacturers wishing to establish themselves in the zones are usually also provided with various other fiscal and physical incentives. These include, among others, well developed infrastructural facilities, such as land, electricity, telecommunication, water, gas, sewerage and standard factory buildings; fiscal concessions and subsidies,

export processing zones distinctly different from the investment climate prevailing in the domestic tariffs area. This gives the EPZ a very special status within the economy.

EPZ impacts on domestic economy

There is a wide recognition of the fact that several countries of East and South-East Asia have achieved high rates of economic growth during the last two decades, largely due to their ability to expand the exports of manufactured goods. However, for most developing countries, the basic objective of attaining rapid economic growth has often been thwarted by their limited capacity to mobilize domestic capital and lack of access to latest technology. As such, many of them have established export processing zones as a strategy to set up export-oriented industries with foreign capital and technology. As a result of incentives for exporters of manufactured goods and increased direct foreign investment for labour intensive production, the value of developing countries' manufactured exports surged from US\$ 2.5 billion in 1960 to US \$ 32 billion in 1975, US \$ 63 billion in 1978 and US \$ 632 billion in 1990.

While much of the production of manufactured export goods is still undertaken by domestic and multinational firms outside EPZs, there has been a steady rise in both the total number of zones and the number of multinational plants located in them. By 1980, 53 export processing zones had already been established in about 30 developing countries. By the end of 1990, about 26 more zones were operational in 8 different countries of South and East Asia. More than one-third of the zones in South and East Asia were located in Malaysia. Among other countries with more than one zone in operation were China (four), the Philippines (five), the Republic of Korea (three) and India (three). Presently, at least 29 EPZs are at various stages of planning and implementation in Asia and Europe. In a way, the whole of Hongkong and Singapore

other economic sectors of the domestic tariffs area. EPZ investments have an indirect impact on employment in several ways although practically none of these indirect effects can be measured in precise statistical terms and - as in the case of their direct employment effects - a

worth and its potential for accelerating economic development for the country can hardly be minimised. The democratically elected government led by the Hon'ble Prime Minister, Begum Khaleda Zia has raised new hopes and aspirations among the people. Industrial and

complete assessment is difficult because of the problem of evaluating the alternative situation. Indeed, it is almost impossible to discern the direct and indirect alternative employment possibilities in the absence of EPZs. Keeping these important limitations in mind, it can nevertheless be said that the main indirect effects of EPZs are- the potential increase in government revenues resulting from the presence of multinational enterprises in the zones, the increased availability of foreign exchange, the transfer of skills and technology, the emergence of forward and backward linkages with firms located outside the zones, and the impact on firms which are directly competing with EPZ enterprises.

With regard to net contribution of EPZs to the balance of payments of the

economic policies of the Government have been further liberalised to stabilise an open-door and a free market economic system and to attract more foreign investment. New EPZs in Dhaka and Khulna are in the process of implementation, as originally envisaged.

The present democratic government is determined to keep its commitment to its people to adopt all necessary measures towards speedy development of Export Processing Zones and to attract the international industrial community into investing in these zones. As a nation with a high density of population and limited natural resources, the strategy to generate greater employment opportunities with the help of international capital and technology cannot but be sound.



View of a factory building at CEPZ

investments ;

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

EPZ concept and modus operandi :

An Export Processing Zone is primarily an industrial estate having some specific characteristics for the purpose of modern export-led industrialisation programme, particularly in the developing World. It is a custom bonded area suitably fenced and predominantly geared to foreign investment for setting-up of export-oriented industries. By definition, an EPZ is an area legally and geographically delineated from the rest of the economy. Historically speaking, these zones are in many ways a further development of free ports which were established during the colonial era in order to encourage



View of a factory building at CEPZ