

Export Processing Zones (EPZs) in Bangladesh: An Attractive Investment Destination



Introduction

Since independence Bangladesh has made remarkable progress in diversified areas of social, political, cultural and economic life of its citizen. In order to boost up economic development of the country 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 institute the formation of Bangladesh Export Processing Zones Authority (BEPZA), the government organ responsible for creation, operation and development of Export Processing Zones (EPZ) in the country.

After the independence the stagnant economy of the war ravaged country was desperately seeking private capital, technical know-how to facilitate the industrialization process to achieve economic growth. During the initial years it could not happen. However, a visit by the than World Bank Vice President Mr. Robert McNamara in the early eighties to Bangladesh transmitted the concept of EPZs to us. Since than 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, have made significant progress. Pioneer EPZ of the country 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 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.

Attractive packages of incentives, physical industrial facilities of Zones along with abundance of skilled manpower at a competitive rate have placed Bangladesh's EPZs in a comparative advantageous position over other competing EPZs of neighboring countries. Apart from the manufacturing sectors EPZs are now inviting investment into infrastructure, power & utility, and environment management projects which have made the Zones truly attractive investment destination for the prudent investors who looks to the future.

EPZs growing contribution to Investment, Export and Employment

2. Presently 264 enterprises are carrying out their operational activities in the EPZs making an actual investment of 1.26 billion USD. The export from EPZs has also grown steadily which is now 17% of the country's total national export and the same has exceeded two billion marks during the last financial year. The direct employment opportunities for more than two hundred thousand Bangladeshi nationals have also been created in the EPZ units constituting 64% of the total work force from female category.

Table 1 : BEPZA's contribution towards total National Export

Year	TOTAL EXPORT OF BANGLADESH (M US\$)	TOTAL EXPORT OF EPZs (M US\$)	% OF BEPZA's CONTRIBUTION (M US\$)
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
2004-2005	8654	1548	17.88
2006-2007	12178	2064	17.00

Table-2- Cumulative Investment

Investment (upto December, 2007)			
Year	Investment (\$M)	Year	Investment (\$M)
1994-1995	35.93	2001-2002	55.70
1995-1996	30.58	2002-2003	102.63
1996-1997	53.90	2003-2004	115.05
1997-1998	68.83	2004-2005	118.52
1998-1999	71.61	2005-2006	112.89
1999-2000	34.98	2006-2007	152.37
2000-2001	48.40	2007-2008 (up to Dec.2007)	129.82

TOTAL INVESTMENT= \$ 1262.16 MILLIION

Fig-1- Cumulative Investment

YEAR WISE INVESTMENT (CUMULATIVE) [UPTO DECEMBER 07]

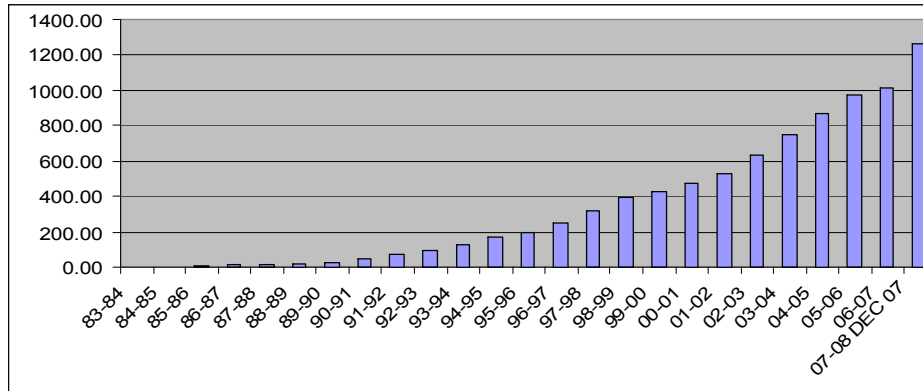


Table-2- Cumulative Export

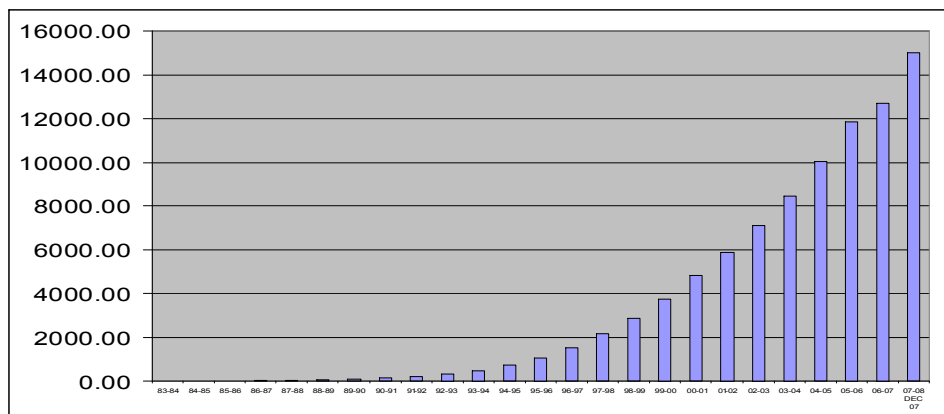
Export (upto December, 2007)

Year	Export (\$M)	Year	Export (\$M)
1994-1995	228.26	2001-2002	1077.02
1995-1996	337.02	2002-2003	1200.00
1996-1997	462.77	2003-2004	1354.00
1997-1998	636.05	2004-2005	1548.68
1998-1999	711.69	2005-2006	1836.18
1999-2000	890.81	2006-2007	2063.67
2000-2001	1067.87	2007-2008 (Dec)	1084.59

TOTAL EXPORT: \$14,988.32 m

Fig-2- Cumulative Export

YEAR WISE EXPORT (CUMULATIVE) [UPTO DECEMBER 07]



**Table-3-
Zone Wise Statistics (Up to December, 2007)**

Name of EPZs	Industry		Investment (US\$ in M)	Export (US\$ in M)	Employment (No.)
	In operation	Under implementation			
Chittagong EPZ	135	31	596.21	8,405.07	119,874
Dhaka EPZ	91	29	550.17	6,406.23	71,679
Comilla EPZ	16	24	68.15	129.74	6,671
Mongla EPZ	12	25	3.91	27.57	217
Uttara EPZ	03	03	2.81	0.11	1,417
Ishwardi EPZ	03	17	2.14	6.22	111
Adamjee EPZ	03	28	26.07	13.04	2,114
Karnaphuli EPZ	01	26	13.29	0.08	1,476
Total	264	183	1262.16	14,988.32	2,03,766

EPZ's contribution to the national economy

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

Fig-3- Ratio of employment

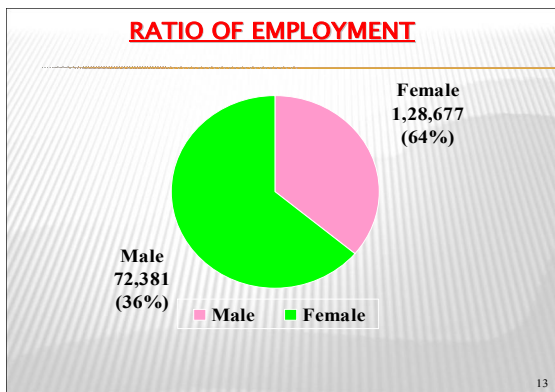
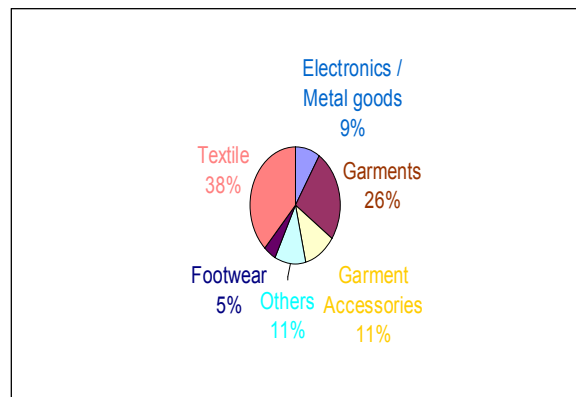


Fig-4- Backward Linkage



Achieving Economic Goals through Technology Transfer, Diversification & Value Addition

4. Absorption of huge unskilled and skilled workforce in the export driven labour 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 FY 2006-2007 EPZs have induced economic benefit equivalent to 6300 Crore Taka in to our domestic 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.

Fig 5-8: Product Diversification in EPZs.

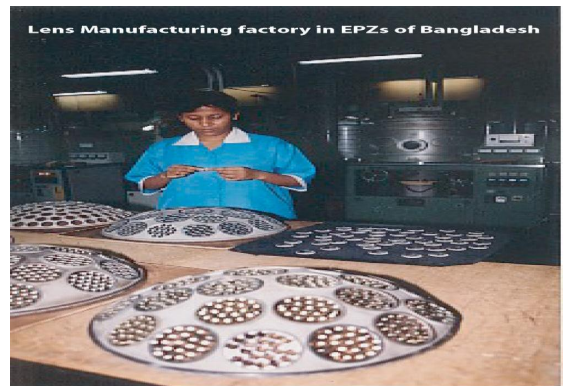


Table -4-

PRODUCTWISE ENTERPRISES (UPTO December, 2007)

SL	PRODUCT	UNIT	INVEST. (M US\$)	EMPLOY. (NOS.)
1	GARMENTS	58	343.461	111919
2	TEXTILE	28	305.245	19764
3	TERRY TOWEL	16	39.886	6542
4	KNIT & OTHER TEXTILE	25	124.268	23,561
5	GARMENTS ACCS.	32	142.008	8,253
6	CAPS	6	42.421	8690
7	TENT	5	23.869	5560
8	ELEC & ELECTRONICS	16	54.395	3242
9	FOOTWARE & LEATHER	12	57.830	7079
10	METAL PRODUCT	11	22.068	849
11	PLASTIC GOODS	14	22.052	1969
12	PAPER PRODUCT	2	0.837	124
13	FISHING REAL & GOLF	1	31.707	686
14	ROPE	2	6.134	400
15	SERVICE ORIENTED INDUSTRIES	3	6.037	478
16	AGRO PRODUCT	10	3.011	217
17	MISCELLANEOUS	23	36.524	4443
	Gr. Total	264	1262.16	2,03,776

Achievement of BEPZA in recent investment & export.

5. During the FY 2005-2006 total actual investment made in EPZs stands US\$ 112.89 Million. During the last FY 2006-2007 the actual investment is USD 152.37 which is 34% higher than the investment made in the previous financial year. In the year 2005-2006 the lease signed investment in BEPZA was US\$ 153 million and in the year 2006-2007 the lease signed invest in BEPZA is US\$ 566 million which is 270% more than the previous year. From July-December 2007 the lease signed investment in BEPZA is US\$ 451.82 million which 35% more than the previous years 06 months. Upto the financial year 2006-2007 total export of 13.903 Billion US Dollar have been made from the EPZs. The Export target for the FY 2006-2007 was 2 Billion US Dollar and actual export is made US\$ 2.064 Billion US Dollar during this year. The Export target for the FY-2007-2008 is set as US\$ 2.3 Billion. During this current financial year from July 2007 to December, 2007 the total export made by the EPZ enterprises is US\$ 1084.59 million.

Facilities

6. 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. The figure below would provide a bird's eye view on the diversity of the facilities and incentives available in EPZs of Bangladesh.

Fig. 9: Facilities & Incentives

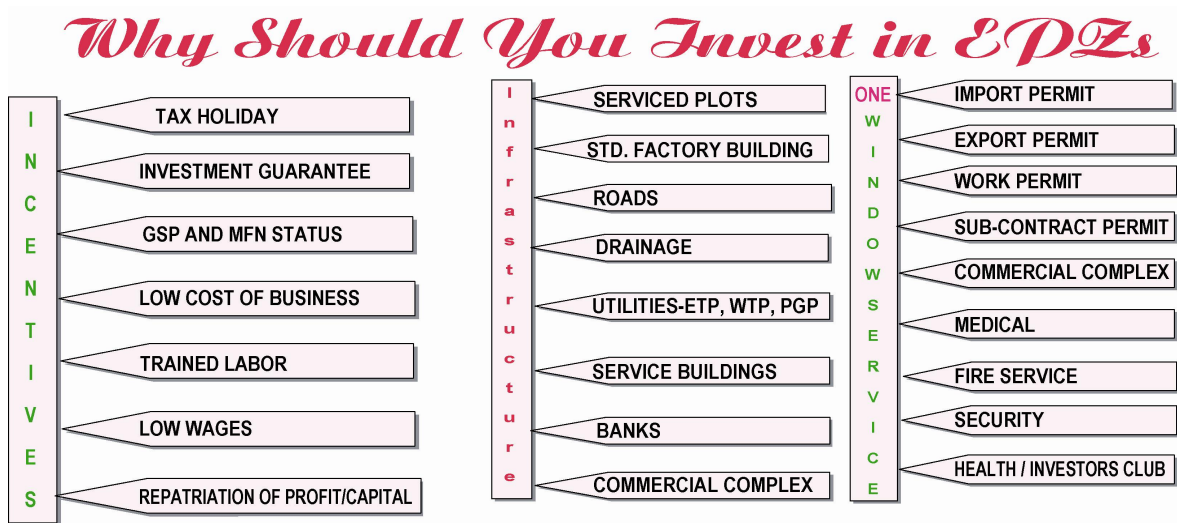


Fig.-10: International Banking & Couriers



Fig. 11: Utility Services



Prospective Sectors for US Investment

7. Apart from the prospective manufacturing sectors like textiles, leather and leather goods, jute & jute products, electrical & electronics, metal parts and molded products, pharmaceuticals Bangladesh's EPZs have also opened up EPZ based service oriented sectors like Power Generation, Utility Service Projects, Effluent Treatment Projects, and Water Treatment Projects for the competent foreign investors. US entrepreneurship skill in these type of technology oriented investment projects are well recognized and therefore, deserve due consideration from the business community. The investors community may find these projects truly rewarding and their return on investment on this kind of projects are encouraging.

Challenges

8. 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 challenges ahead for BEPZA would be:

- 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 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. Ensure full implementation of E-governance in all EPZs.
- 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 CIS.

Creation of two new Zones – the immediate challenge ahead

9. On the backdrop of growing demand by prospective investors Board of Governors of BEPZA, the apex body of the Authority on 11th February 2008 has formally approved two 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.

Competitive advantage of Feni EPZ depends on its easy accessibility to Chittagong Port. The Zone is only 120 km away from the port which will facilitate the export and import activities of the locators of this Zone comparatively faster than others. This zone is expected to be developed on 500 Acres of land which will create employment opportunities for more than 80,000 workers and employees. BEPZA 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.

New Zones under Public Private Partnership

10. The concept of Export Processing Zone world wide has been undergoing rapid transformation in respect to its institutional framework, management pattern, and area of operation including service standards. The Zones are no more a traditional narrow enclave rather it is becoming more integrated with the economic development process of the country.

BEPZA has also been in constant search for adoption of a more market responsive Zone development and management policy. In pursuit of such policy the Authority has planned to adopt Public-Partnerships in the development and operation of new zones and related infrastructures and services. The ventures are likely to run under commercial principles. Four possible options for these kind of new EPZs are as follows:

First Option: BEPZA would acquire and develop the land. Private entrepreneurs may develop infrastructural facilities with their innovative ideas and run these on commercial principles.

Second Option: Conversion of loss making SOEs and vacant land of the government into EPZs. Normally state owned enterprise is denationalized on public bidding system.

- Bidder will enter into agreement with BEPZA to have EPZ facilities and service.
- Bidder may invest in the zone as Single Factory EPZ or can invite others to invest in the zone.
- Zone will be operated by BEPZA.
- Sector Corporations may also directly hand over their loss making enterprises to BEPZA to convert EPZ on profit sharing basis.

Third Option: Development of Zone by the entrepreneurs Model.

BEPZA will acquire the land. Enterprises will be given the allotment of land.

- Enterprises will develop the land and create all necessary infrastructures on co-operative basis.
- Development cost will be adjusted against rental.

Fourth Option: Land acquisition and development of zones by private sector having regulatory control with BEPZA. Developed land will be arranged by the investors.

- BEPZA / Private Entrepreneurs will create all infrastructures.
- Regulatory functions will be made by BEPZA as per existing norms.

Conclusion

11. 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 strategically located places with state of art industrial facilities and pro-investment institutional frame work providing the right kind of environment to grow. BEPZA believes that investors from all around the globe would find the EPZs of Bangladesh as a truly attractive investment destination.

Date: February 14, 2008

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