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Economic Zones in Bangladesh: Unbound Opportunities for Foreign Investment

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Bangladesh has maintained positive and accelerating economic growth over the last four decades, up from three per cent in the 1970s to a consistent minimum of six per cent in the last 10 years. In 2012 it recorded 6.32 per cent GDP growth and made excellent progress in human development.² Bangladesh is outpacing its South Asian neighbours on many social indicators such as women empowerment and health and sanitation. Goldman Sachs has placed Bangladesh in its 'Next 11' countries to watch. Citigroup, JPMorgan and Merrill Lynch have stated they consider Bangladesh to have the potential to become the next Asian success story. However, as pointed out in a World Bank Report,³ the economic potential of Bangladesh still remains very much under-exploited.

Positive policy reforms and macroeconomic stability have been 'growth enablers'⁴ for Bangladesh and serve as an attraction for foreign direct investment (FDI). Bangladesh has in fact become a favourite destination for foreign investors because of a multitude of reasons. It has registered consistent economic growth, educational improvement, technological progress, and infrastructure development. It boasts a domestic market of 160 million people and is geographically close to India and China, the two most-populous countries in the world. Its access to the Bay of Bengal provides transportation opportunities by sea. Besides air connectivity to most parts of the world, Bangladesh has land linkages with India and Myanmar. There is

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² The World Bank. <http://www.worldbank.org/en/country/bangladesh>. Accessed on 10 September 2013

³ (June 2012). Bangladesh: Towards Accelerated, Inclusive and Sustainable Growth - Opportunities and Challenges. The World Bank. Report No. 67991 (Volume II: Main Report)

⁴ Ibid.

abundance of labour and natural resources such as water and natural gas. Table 1 presents an overview of the macro-economy of Bangladesh, based on the most recent data available. With only a few occasional blips, the economy has maintained stability and registered progress.

Table 1: Economic Overview of Bangladesh

Economic Overview	
GDP total:	US \$112.00 billion (at current prices 2011-12)
GDP per capita:	US \$848 (at current prices 2011-12)
GDP growth rate:	6.32 per cent (at constant prices 2011-12)
Total exports:	US \$24.287 billion (2011-12)
Total imports:	US \$35.44 billion (2011-12)
Total FDI:	US \$1.29 billion (2011-12)
Forex reserves:	US \$15.49 billion (June, 2013)
Currency:	1 USD = BDT 80 (avg 2011-12)

Source: Compiled from Bangladesh Economic Review 2012, Ministry of Finance, Bangladesh Bank and Board of Investment, Government of People’s Republic of Bangladesh

Bangladesh is a young liberal democratic country, undergoing many social and economic reforms that at times threaten status quo and traditional values of society. This may cause intermittent political instability, but despite that Bangladesh has maintained an attractive business and investment climate that is conducive to foreign investment. While providing a liberal foreign direct investment (FDI) regime, it extends non-partisan political support to all foreign investors. Also, the Foreign Private Investment (Promotion and Protection) Act 1980 provides protection to the investors. The World Bank has ranked Bangladesh 20th out of 187 countries for investors’ protection.

Bangladesh has agreements with Multilateral Investment Guarantee Agency (MIGA), Overseas Private Investment Corporation (OPIC), International Center for Settlement of Investment Disputes (ICSID), and World Intellectual Property Organization (WIPO). Most products made in Bangladesh enjoy tariff-free access to the European Union (EU), Australia, Canada, United States of America (USA) and Japan. Special bilateral agreements to avoid double taxation have been signed with 28 countries while negotiations are underway with more.⁵

⁵ Board of Investment Bangladesh, Government of People’s Republic of Bangladesh. Available at <http://www.boi.gov.bd/>. Accessed on 10 September 2013

To further increase the incentives to foreign investors, the Government of Bangladesh has set up economic zones with special features and facilities. The economic zones are industrial enclaves designed to attract investment from domestic and especially foreign investors. This is not a new phenomenon as many emerging economies have established such industrial enclaves and successfully boosted investment and economic growth. Different countries, based on their economic conditions and requirements, have established their own variations of economic zones, with varying facilities and incentives as well names to term them. For example, China has economic zones termed as *Special Economic Zones* and *Coastal Development Areas*, Mexican economic zones are called *Maquiladoras*, the Philippines has created *Special Export Processing Zones* and Ghana, Cameroon, and Jordan have *Industrial Free Zones*.

The Government of Bangladesh established its first economic zone in Chittagong in 1983, and since then many more have been developed, with the aim to accelerate industrialisation and economic growth, while providing the investors the best possible facilities and lowest possible cost base. The economic zones, located at strategic sites all over Bangladesh, provide ready-made infrastructure and support facilities as well as various fiscal and non-fiscal incentives. One of the highlights for foreign investors is that there are no requirements of prior approval or limits on equity participation and repatriation of profits and income in most sectors. The details of such services, facilities and incentives have not been well documented and remain an understudied area. This report attempts to fill the gap by providing a consolidated picture of the different economic zones in Bangladesh. It addresses three major Economic Zones in Bangladesh – Bangladesh Export Processing Zones, Korean Export Processing Zone and Special Economic Zones. Detailed descriptions of the zones are provided, with an explanation of the facilities and incentives available.

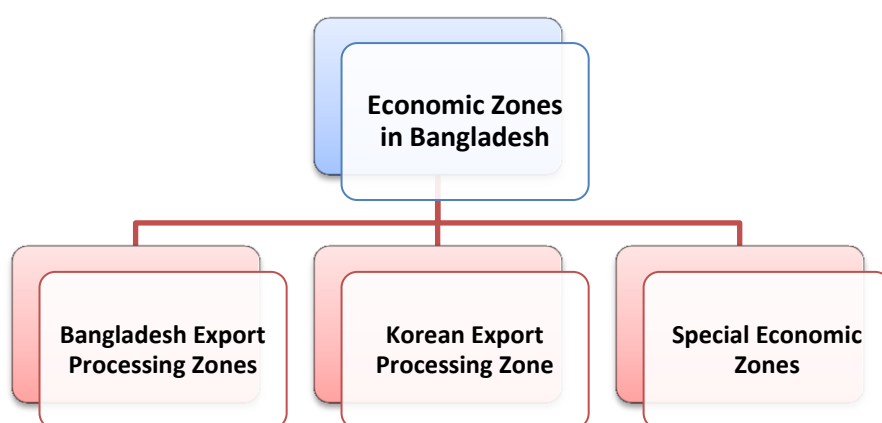
Economic Zones in Bangladesh

An economic zone (EZ) is a geographical region within a country with special economic regulations, designed to stimulate local and foreign investment in that region, through various fiscal and non-fiscal incentives. China has been one of the most successful countries in using Economic Zones to attract foreign capital. In fact, China has declared the entire province of Hainan as a special economic zone. However, due to rising wages, Chinese Economic Zones are losing their ‘low cost base’ advantage. Following the Chinese success, Bangladesh initiated its own economic zones to augment exports and attract foreign investments in the early 80s. Over time, Bangladesh has retained its ‘low cost’ advantage and remained a preferred choice for foreign investors. The Financial Times had ranked the pioneer export processing zone of Bangladesh, the Chittagong Export Processing Zone as the third Best Cost Competitive Zone in the world and the fourth in the Best Economic Potential for 2010-11.⁶

⁶ June 2010. FDI Magazine of The Financial Times, London, <http://www.fdiintelligence.com/Locations/Global-Free-Zones-of-the-Future-2010-11-Winners>. Accessed on 10th September 2013

The Economic Zones in Bangladesh can be broadly classed into three main groups, Bangladesh Export Processing Zones (BEPZs), Korean Export Processing Zone, (KEPZ) and the third and most recent kind is Special Economic Zones, illustrated in Figure 1. The segregation has been done on two grounds, the ownership and the intended market it caters to. There are some basic differences between export processing zones and special economic zones. The export processing zones, under Bangladesh Export Processing Zone Authority and the Youngone Corporation, host export-driven industries that focus on the fiscal and non-fiscal incentives to attract foreign direct investments. On the other hand, the special economic zones, under Bangladesh Economic Zone Authority, are being developed with the intention to accommodate industries for both the local and international markets and to emphasise both local and foreign investment. What separates the Korean Export Processing Zone from the Bangladesh Export Processing Zones is that the former was developed by a private Korean company and the latter by the Government of Bangladesh.

Figure 1: The different Economic Zones in Bangladesh



Bangladesh Export Processing Zone

In the late-1970s, the Bangladesh Government tried to take the economy of the infant state in a new direction through denationalisation of industries and promotion of privatisation and private ownership. In this attempt to boost the economy, promote industrialisation, generate employment and, most importantly, attract capital investment, the government decided to establish industrial enclaves or economic zones with special features and facilities. This came about through the establishment of Bangladesh Export Processing Zone Act, 1980 and the first economic zone – Chittagong Export Processing Zone (CEPZ) was established in 1983. Seven more export processing zones have been established in Bangladesh since, the details of which are listed in Table 2.

These export processing zones focus on export-oriented manufacturing and provide a ‘one window service’ to investors through special incentives as well as extraordinary legal and

institutional support from the government. During the past 25 years, the total investment in the Bangladesh Export Zone Authority amounted to US\$1,611.17 million and export has been US\$18,914.74 million.⁷

The Bangladesh Export Processing Zone Authority (BEPZA) is the official organ of the government entrusted with the responsibility to promote, attract and facilitate foreign investment in the Export Processing Zones. The organisation's responsibilities entail creation of infrastructure (buildings, utilities, warehouses, roads etc), processing applications for setting up industries (one window service), allotment of land or building space, provision of space to local and foreign banks, insurance companies, clearing and forwarding houses, courier services, post offices etc. The Bangladesh Export Processing Zone Authority also provides financial help and support to investors, ensures smooth manufacturing and commercial operation of the firms, and remains vigilant about labour-management relations within the zones.⁸

One of the extraordinary features of the Export Processing Zones in Bangladesh is that the zones are exempted from the country's labour laws. Workers in the Export Processing Zones are prohibited from forming trade unions. Bangladesh has been under pressure from the European Union (EU) and the United States to establish trade union rights inside the Export Processing Zones, as in the rest of the country. However, the Bangladesh Export Processing Zone Authority has expressed, it wants no change in the existing law within the zones. It continues to operate under 'The Export Processing Zones Workers Welfare Association and Industrial Relations Act, 2010'.⁹

At present, the eight Export Processing Zones established by the Bangladesh Export Processing Zone Authority, employ more than 300,000 workers. The Chittagong Export Processing Zone was the first one to be established by the BEPZA, located in the port city of Chittagong. Dhaka Export Processing Zone was established in the capital, followed by six more Export Processing Zones in Mongla, Comilla, Ishwardi, Uttara (Nilphamari), Adamjee and Karnaphuli. Three kinds of investment can be made in these zones. They are Type 'A', where investors can retain 100 per cent ownership, Type 'B', where Bangladeshi and foreign investors can enter into a joint venture and Type 'C' under which local i.e., Bangladeshi ownership may be 100 per cent.¹⁰

Table 2 shows a detailed account of the eight Export Processing Zones under Bangladesh Export Processing Zone Authority. It lists details of the locations, rent, space specifications and services available in the enclaves.

⁷ Bangladesh Export Processing Zone Authority, Government of People's Republic of Bangladesh. Available at <http://www.epzbangladesh.org.bd/index.php> Accessed on 10 September 2013

⁸ Banglapedia, National Encyclopedia of Bangladesh. Available at http://www.banglapedia.org/HT/E_0085.HTM. Accessed on 10 September 2013

⁹ (23 July 2013) The Dhaka Tribune. Available at <http://www.dhakatribune.com/labour/2013/jul/23/bepza-wants-no-change-epz-law>. Accessed on 10 September 2013

¹⁰ Bangladesh Export Processing Zone Authority, Government of People's Republic of Bangladesh. Available at http://www.epzbangladesh.org.bd/bepza.php?id=about_bepza. Accessed on 12 September 2013

Table 2: The Bangladesh Export Processing Zone: Location, Profile and Services

EPZ	Location	Profile	Utility Services & Rent (charged at the current rate of US \$)
Chittagong	Shouth Haliashahar. 3.10km from the sea port, 5.50km from the main business centre, 11.3km from Shah Amanat International Airport, Chittagong	Zone area: 183.37 hectares (453 acres) Number of industrial plots: 502 Total Standard Factory Building: 15 (measuring 65,809 sqm) Size of each plot : 2000 sqm Tariff: US\$2.20/sqm / year. Space of Standard Factory Building: 65,809 sqm Tariff: US\$2.75/sqm / month.	Water Supply: From Chittagong WASA. Storage Capacity 7.26 million litres / day. Tariff: Tk. 22.43 / cu-m. Gas Supply: From Bakhrabad Gas System Ltd. Tariff: Tk. 6.45 / cu-m. Power Supply: 11 kv, 3 phase, 50 cycles / sec. Tariff: Tk. 6.11 / kwh. Rent: Land (US\$/SQM/YEAR) : 2.20 Readymade Factory Building Space (US\$/SQM/MONTH) : 2.75
Dhaka	Savar. 35km from Dhaka city centre, 25km from Hazrat Shahjalal (R) Airport. 304km from Chittagong Sea Port.	Zone area: 361 acres Number of industrial plots: 442 Total Standard Factory Building: 17 (Measuring 108,850 sqm) Size of each plot: 2000 sqm. Tariff: US\$2.20/sqm /year. Space of Standard Factory Building: 108,850 sqm. Tariff: US\$2.75 /sqm /month.	Supply: Own water supply system. Tariff: Tk. 22.43 / cu-m. Gas Supply: From Titas Gas Transmission & Distribution Co. Ltd. Tariff: Tk. 6.45 / cu-m. Power Supply: 11 kv, 3 phase, 50 cycles / sec. Tariff: Tk. 6.11 / kwh. Rent: Land (US\$/SQM/YEAR) : 2.20 Readymade Factory Building Space (US\$/SQM/MONTH) : 2.75
Mongla	Mongla port area, Bagerhat. 105km from Jessore Airport	Zone area: 186.21 hectares (460 acres proposed). Number of industrial plots: 116	Water Supply: Sweet water supplied by Public Health Engineering Department through own supply

	and 397km from Dhaka and 664km from Chittagong port.	Size of each plot: 2000 sqm. Tariff: US\$1.25/sqm / year for land. Space of Standard Factory Building: 18717.68 sqm Tariff: US\$1.60/sqm / month	network. Tariff: Tk. 23.56/ cu-m. Uninterrupted Power Supply: 11 kv, 3 phase, 50 cycles/sec. Tariff: Tk. 7.50/ kwh. (Utilities will be charged at the current rate of US\$) Telephone Connection from dedicated Exchange of BTCL Mongla. Rent: Land (US\$/SQM/YEAR) : 1.25 Readymade Factory Building Space (US\$/SQM/MONTH) : 1.60
Ishwardi	Pakshl, Pabna. 3.7km from Pakshi Bridge through by-pass road, 10.60km from Ishwardi Airport, 130km from Bangabandhu (Jamuna) Bridge, 220km from Dhaka, 280km from Mongla port, 110km from Rajshahi Airport and 484km from Chittagong port.	Zone area: 124.99 hectares (308.77 acres) Number of industrial plots: 158 (100 in first phase) Size of each plot: 2000 sqm Tariff: US\$1.25/sqm/ year. Space of Standard Factory Building: 18000 sqm Tariff: US\$1.60/sqm/ month.	Water Supply: Own supply network. Tariff: Tk. 22.43 / cu-m. Gas Supply: From Paschimanchal Gas Company Ltd. Tariff: Tk. 6.45 / cu-m. Power Supply: 11 kv, 3 phase, 50 cycles / sec. Tariff: Tk. 6.11 / kwh. Rent: Land (US\$/SQM/YEAR) : 1.25 Readymade Factory Building Space (US\$/SQM/MONTH) : 1.60
Comilla	Comilla old Airport area. 167km from Chittagong port, 97km from Dhaka.	Zone area: 108.28 hectares (267.46 acres) Number of industrial plots: 213 Size of each plot: 2000 sqm Tariff: US\$ 2.20/sqm/ year. Space of Standard Factory	Water Supply: Own water supply system. Tariff: Tk. 22.43 / cu-m. Gas Supply: From Bakhrabad Gas system Ltd. Tariff: Tk. 6.45 / cu-m. Power Supply: 11 kv, 3

		<p>Building: 29,450 sqm Tariff: US\$2.75/ sqm /month.</p>	<p>phase, 50 cycles / sec. Tariff: Tk. 6.11 / kwh.</p> <p>Rent: Land (US\$/SQM/YEAR) : 2.20 Readymade Factory Building Space (US\$/SQM/MONTH) : 2.75</p>
Adamjee	<p>Adamjee Nagar, Shiddirgonj, Narayanganj, 15 km from Dhaka City, 40km from Hazrat Shahjalal (R) Airport, 255 km from Chittagong Port.</p>	<p>Zone area: 118.62 hectares (293 acres) Number of industrial plots: 307 (Proposed) Size of each plot: 2000 sqm Tariff: US\$2.20/sqm /year. Space of Standard Factory Building: 42737 sqm Tariff: US\$2.75 /sqm /month.</p>	<p>Water Supply: Own water supply system. Tariff: Tk. 22.43 / cu-m. Gas Supply: From Titas Gas Transmission & Distribution Company Ltd. Tariff: Tk. 6.45 / cu-m. Power Supply: 11 kv, 3 phase, 50 cycles / sec. Tariff: Tk. 6.11 / kwh.</p> <p>Rent: Land (US\$/SQM/YEAR) : 2.20 Readymade Factory Building Space (US\$/SQM/MONTH) : 2.75</p>
Uttara (Nilphamari)	<p>Shongalshi, Nilphamari. 18km from Syedpur Airport, 401km from Dhaka, 650km from Chittagong Port, 586km from Mongla Sea Port.</p>	<p>Zone area: 211.99 acres Number of industrial plots: 202 Size of each plot: 2000 sqm Tariff: US\$1.25/sqm/ year. Space of Standard Factory Building: 12,400 sqm Tariff US\$1.60/sqm /month.</p>	<p>Water Supply: Own water supply system. Tariff: Tk. 22.43 / cu-m. Gas Supply: Not available. Power Supply: 11 kv, 3 phase, 50 cycles / sec. Tariff: Tk. 6.11 / kwh.</p> <p>Rent: Land (US\$/SQM/YEAR) : 1.25 Readymade Factory Building Space (US\$/SQM/MONTH) : 1.60</p>
Karnaphuli	<p>North Potenga and Halishahar, within 6km from</p>	<p>Zone area: 222.42 acres Number of industrial plots: 254</p>	<p>Water Supply: From Chittagong WASA & through own water treatment</p>

	Chittagong Port, 10km from main business centre of Chittagong, 9km from Shah Amanat International Airport, Chittagong.	Size of each plot: 2000 sqm Tariff: US\$2.20/sqm/ year. Space of Standard Factory Building: 19,686 sqm Tariff: US\$2.75/sqm /month.	plant. Tariff: Tk. 22.43 / cu-m. Gas Supply: From Bakhrabad Gas System Ltd. Tariff: Tk. 6.45 / cu-m. Power Supply: 11 kv, 3 phase, 50 cycles / sec. Tariff: Tk. 8.36 /kwh (peak hour). Tk. 5.35/ kwh (off peak hour). Rent: Land (US\$/SQM/YEAR) : 2.20 Readymade Factory Building Space (US\$/SQM/MONTH) : 2.75
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Source: Compiled from Bangladesh Export Processing Zone Authority, Government of People's Republic of Bangladesh

Up to January 2012, 37 countries including South Korea, Japan, China, Malaysia, United States of America, United Kingdom, Italy, Canada, Netherlands, Germany, British, India, Sweden, Singapore, Pakistan, Panama, Switzerland, Belgium, Denmark, France, Thailand, Sri Lanka, Indonesia, Australia, Nepal, Mauritius, Ireland, United Arab Emirates, Turkey, Ukraine, Kuwait, Spain, Malta and Romania have invested in the export processing zones of Bangladesh, accounting for 403 industries in operation and a cumulative investment of about US\$ 2,457 million.¹¹

Despite the continuing global financial crisis and especially the sovereign credit crisis in Euro zone, one of Bangladesh's main export destinations, the country has shown positive recovery in exports, especially from the export processing zones. Exports have grown by 41.47 per cent in FY 2010-11. The previous fiscal year, worst-hit by recession, growth rates were just 4.11 per cent.¹² Table 3 illustrates the export performance of the eight export processing zones individually, in the year 2012-13. It also highlights the investments made during that period and number of people employed in the zones so far.

¹¹ Bangladesh Export Processing Zone Authority, Government of People's Republic of Bangladesh. Available at <http://www.epzbangladesh.org.bd/index.php> Accessed on 11 September 2013

¹² Bangladesh Economic Review. Ministry of Finance, Government of Bangladesh. Available at http://www.mof.gov.bd/en/budget/12_13/ber/en/chapter-1_en.pdf. Accessed on 12 September 2013

Table 3: Performance of the Export Processing Zones 2012-13

EPZ	Investment US\$ million	Export US\$ million	Employment (cumulative)
Chittagong	133.84	2095.12	185006
Dhaka	68.45	1780.73	88033
Mongla	3.52	74.10	1562
Ishwardi	5.12	55.71	6071
Comilla	21.06	176.93	14713
Adamjee	29.99	274.10	30874
Uttara (Nilphamari)	20.62	20.38	8679
Karnaphuli	6.58	379.61	39070

Source: Compiled from Bangladesh Export Processing Zone Authority and Board of Investment, Government of People's Republic of Bangladesh

In the fiscal year 2012-13, Chittagong Export Processing Zone (CEPZ) exported goods worth US\$2,095 million. Readymade garment sector is the leading foreign exchange earner in the Chittagong Export Processing Zone with 48 factories in operation and five more under construction while the second largest sector is garment accessories. Twenty one garment accessories factories are in operation and more are under development.¹³

A relatively new zone, the Uttara Export Processing Zone, has also seen rapid expansion and development. As of 2013, 12 factories in the Export Processing Zone are in production; and from 1379 employees in 2006, it now employs close to 9000 workers. The export values have increased from US \$ 0.08 million to US \$ 20.38 million over the same period.¹⁴

Another upcoming zone is the Comilla Export Processing Zone. The export values from this zone have increased from US \$ 0.01 million in 2001 to US \$ 176.93 million in 2013.¹⁵ Bangladesh Export Processing Zone Authority has plans to expand the zone further and set up more industrial plots; and the World Bank is expected to finance this expansion project. Production in the zone includes sweater, denim fabrics, garments, electric appliances, shoes, zippers, yarns, poly bags, plastic materials and textiles. So far 15 foreign companies, nine joint ventures and 10 Bangladeshi Companies have been operating in the Comilla Export Processing Zone. Investments come from the United Kingdom, Sri Lanka, Hong Kong,

¹³ (12 July 2013) The Financial Express Bangladesh. Available at <http://www.thefinancialexpress-bd.com/index.php?ref=MjBfMDdfMTJfMTNfMV8yXzE3NjE5Mg==>. Accessed on 13 September 2013

¹⁴ Bangladesh Export Processing Zone Authority, Government of People's Republic of Bangladesh. Available at <http://www.epzbangladesh.org.bd/bepza.php?id=Yrexpport> Accessed on 15 September 2013

¹⁵ Bangladesh Export Processing Zone Authority, Government of People's Republic of Bangladesh. Available at <http://www.epzbangladesh.org.bd/bepza.php?id=Yrexpport> Accessed on 15 September 2013

Japan, Malaysia, China, Netherlands, France, USA, Ireland, South Korea, Indonesia and Pakistan.¹⁶

As per the present scenario of 2013 there is scarcity of plots in Dhaka, Chittagong, Adamjee, Comilla and Karnaphuli Export Processing Zones. In comparison, more plots are available in Uttara, Ishwardi and Mongla Export Processing Zones. The government is trying to free up plots in all the zones by encouraging vertical expansion of the factories and also reallocating the under-utilised and un-utilised plots. Plots for small and medium enterprises are readily available; but due to demand for large industrial space from investors – especially from China, Japan, Hong Kong, and Thailand, it has been difficult to provide the desired space.

In early 2013, Samsung sought 500 plots covering an area of 250 acres at Export Processing Zones in Chittagong and Dhaka to set up mobile phone, electric, electronics and home appliance plants.¹⁷ It has been reported that Samsung plans to invest US\$1.25 billion in the Export Processing Zones in Bangladesh and negotiations for the best possible fit are underway. Nonetheless, President of Korea-Bangladesh Chamber of Commerce and Industry said the Samsung proposal proves that Bangladesh is on the right track to woo investments from top global firms.¹⁸

Korean Export Processing Zone

Korean Export Processing Zone, (KEPZ) has been developed by a Korean company, Youngone Corporation,¹⁹ at the south bank of the river Karnaphuli, 20km away from Chittagong. It is located opposite the Chittagong International Airport and very close to the country's largest seaport: Port of Chittagong. Chittagong is the second largest city of Bangladesh, after Dhaka, and owing to its strategic location and rich population, it is home to a large number of diverse industries.

¹⁶ (19 June 2013). The Dhaka Tribune. Available at <http://www.dhakatribune.com/economy/2013/jun/19/nine-new-units-start-production-comilla-epz-soon>. Accessed on 13 September 2013

¹⁷ (17 March 2013). The Financial Express Bangladesh . Available at <http://www.thefinancialexpress-bd.com/index.php?ref=MjBfMDNfMTdfMTNfMV85MF8xNjM0Njg=>. Accessed on 14 September 2013

¹⁸ The Financial Express Bangladesh. Available at http://www.thefinancialexpress-d.com/old/more.php?page=detail_news&date=2011-06-27&news_id=128512. Accessed on 14 September 2013

¹⁹ Youngone Corporation, incorporated in South Korea in 1974, operates in 12 countries, namely USA, Mexico, Italy, Switzerland, El-Salvador, South Korea, China, Thailand, Hong Kong, Vietnam and Bangladesh. This corporation is a leading manufacturer of outerwear, sportswear, backpack, woven fabric, non-woven polyester products, dyeing and finishing synthetic fabrics, sport shoes and shoe accessories, besides being resin and poly bags retailer and exporter. Youngone established its overseas operation in Chittagong, Bangladesh in 1980 and moved its operation into the Chittagong Export Processing Zone (CEPZ) in 1988. Today, the company employs more than 40,000 local workers in its 17 factories in the EPZs of Dhaka (DEPZ) and Chittagong (CEPZ), and supplies world-class brand products globally.

The government of Bangladesh and South Korea agreed on setting up export processing zone in the private sector as one of the means to attract foreign investments. In pursuance of this decision, Youngone Corporation applied formally to the Government of Bangladesh to set up an export processing zone in the name of Korean Export Processing Zone Corporation (BD) Limited. In 1996, the Bangladesh Private Export Processing Zones Act was passed to provide a legal framework for the zone, under which Youngone Corporation was allowed to set up the Korean Export Processing Zone.

The special features of the Korean Export Processing Zone are similar to the eight Bangladesh Export Processing Zones (Table 5) as they both facilitate investment for export-oriented manufacturing. Like the Bangladesh Export Processing Zones, the Korean Export Processing Zone provides ready-made infrastructure and robust incentive packages. It features fast and duty-free access to the European Union (EU) and USA, favourable investment policies for foreign investors, and skilled productive labour force. It is the largest Export Processing Zone in Bangladesh, spanning an area of more than 500 hectares. Physical infrastructures include fully-serviced industrial plots, ready-made standard factory buildings and warehouses, jetty and Research & Development (R&D) facilities. Civic amenities include training centre for workers, dormitories, housing facilities, schools and colleges, day-care and medical centres as well as recreational facilities. Utility services like gas, electricity and water for industrial and housing facilities are also readily available.²⁰

Special Economic Zones

To meet the increasing demand for land in export processing zones, the Bangladesh Export Processing Zone Authority, under the directive of the government had planned, in 2008, to establish two new Export Processing Zones – Meghna Export Processing Zone and Feni Export Processing Zone. However, after further deliberation, that plan was dropped. Instead, the government decided to create a broader category of economic zones, which would cater not only to export markets but also the growing domestic population. These economic zones would be set up in four categories (Figure 2) and were termed Special Economic Zones. Former Executive Chairman of Bangladesh Export Processing Zone Authority, Brig-General Md Zakir Hossain described the Special Economic Zones as enlarged version of the Export Processing Zones, as it will encompass a broader concept of economic zones.²¹

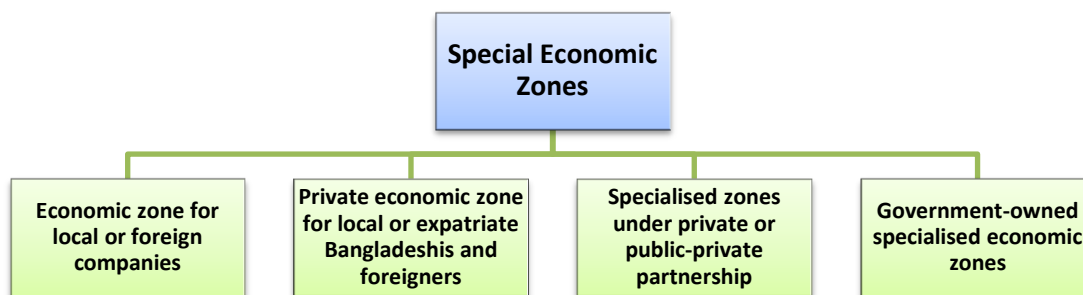
In November 2010, the government of Bangladesh instituted Bangladesh Economic Zones Authority (BEZA)²² under the Bangladesh Economic Zones Act, 2010 to establish, manage

²⁰ The Korean Export Processing Zone Bangladesh. Available at. <http://www.aimicrosys.com/KEPZ/index.php>. Accessed on 12 September 2013

²¹ Md Zakir Hossain. Export Diversification and Role of Export Processing Zones (EPZ) in Bangladesh. Available at http://siteresources.worldbank.org/INTRANETTRADE/Resources/Internal-Training/Zakir_Hossain_Paper.pdf. Accessed on 13 September 2013

and operate these special economic zones. The government decided that seven Special Economic Zones will be set up to attract local as well as foreign investments. According to the Act, these economic zones will operate under four categories: economic zone for local or foreign companies, private economic zone for local or expatriate Bangladeshis and/or foreigners, government economic zones and specialised economic zones for specialised industries with private or public-private partnership or government initiative.²³ The divisions under Special Economic Zones are illustrated in Figure 2.

Figure 2: The Special Economic Zones under Bangladesh Economic Zone Authority



As of September 2013, the locations and land for five Special Economic Zones have been selected by Bangladesh Economic Zone Authority (BEZA), and feasibility studies are underway. The identified sites for the proposed economic zones, to be developed under Bangladesh Economic Zone Authority, include Anowara, Mirersharai, Sirajganj, Mongla and Maulvibazar.²⁴ Table 4 lists the details of the first five potential Special Economic Zones, including the profile and highlights. After accepting Expression of Interest (EOI) and Request for Proposal (RFP) from the private sector, BEZA short-listed two companies to develop the zones in Mongla and Sirajganj. For the remaining three areas – Anowara, Mirersharai and Maulvibazar, EOI and RFP are being processed. According to Bangladesh Economic Zone Authority, the joint-venture private parties will get priority to develop lands. The government will facilitate the process by providing the required lands which private companies will be able to develop and attract investors - foreign and local - to manufacture products for domestic or export purposes. While many potential investors look at it as a good opportunity, some are apprehensive. Some fear that related services may not be readily available and the

²² BEZA aims to establish economic zones in all potential areas in Bangladesh including backward and underdeveloped regions with a view to encouraging rapid economic development through increases in and diversification of industry, employment, production and export. BEZA is attached to the Prime Minister's Office (PMO) and is mandated to establish, license, operate, manage and control economic zones in Bangladesh.

²³ Ferdaus Ara Begum (12 October 2011) . Economic Zones in Bangladesh. The Financial Express, Dhaka

²⁴ Bangladesh Economic Zones Authority (BEZA) , http://www.beza.gov.bd/economic_zns.php, Accessed on 12 September 2013

developed land will not hold much value in the absence of power, gas, good road-connectivity, and security.²⁵

Table 4: The Special Economic Zones: Some selected locations and their features

Selected Locations	Major Highlights	Profile
Mongla, Bagerhat	Fully government-owned land. Suitable for diverse sectors. No resettlement required. Adjacent to Mongla EPZ. Direct access to seaport	Size - 205 acres Ownership - Government Topography - Plain Labour-source – Khulna/Mongla Closest Port- Mongla
Sirajganj, Rajshahi	Government-owned land. Manufacturing Hub Road, Rail and River connectivity. Minimum resettlement. Closer to India, Nepal, Bhutan.	Size- 1041 acres Ownership- Government/Private Topography- Riverside Labour-source- Sirajganj/Ishwardi Closest Port- Baghabari
Anowara, Chittagong	Fully government-owned land. Suitable for Shipbuilding. No resettlement required. Adjacent to shipbuilding hub. Direct access to seaport.	Size- 611 acres Ownership- Government Labour-source- Chittagong Closest Port- Chittagong
Mirersharai, Chittagong	Fully government-owned. Near Chittagong port. Vacant land, easy to initiate. Offsite utility provisions. Great potential for expansion.	Size- 6615 acres Ownership- Government Topography- Sea side Labour-source- mixed Closest Port- Chittagong
Maulvibazar, Sylhet	Fully government-owned land. Suitable for diverse sectors.	Size- 356 acres Ownership- Government Topography- Highland Labour-source- Sylhet/

²⁵ Ahmed, Wasi. Developing economic zones (20 August 2013) The Financial Express Bangladesh. Available at <http://www.thefinancialexpress-bd.com/index.php?ref=MjBfMDhfMjBfMTNfMV82XzE4MDM3NA==> Accessed on 14 September 2013

	Minimum resettlement. Accessible to northeast India, Nepal, Bhutan. Linked to national highway.	Maulvibazar Closest Port- Chittagong
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Source: Compiled from Bangladesh Economic Zone Authority

Foreign Investment Policy Framework, Facilities and Incentives

The positive features of doing business in Bangladesh such as geo-regional location, access to land, air and sea transportation, abundance of cheap and hardworking labour and robust investment protection mechanisms have already been discussed in the previous sections. However, the incentives available at the economic zones in Bangladesh do not end there. The economic rationale for greater operational success in the zones derives from modern and efficient infrastructure, general fiscal and non-fiscal concessions to the investors and better governance due to ‘one window’ service and elimination of red-tape and bureaucratic delays. The export processing zones are kept separate from the Domestic Tariff Area (DTA) by fiscal barriers and provide internationally competitive duty-free environment for export production at low cost.²⁶

The minimum wage for workers in the economic zones in Bangladesh is one of the lowest in Asia. Other labour-intensive countries in Asia such as China, Vietnam, Sri Lanka and Cambodia are experiencing rising labour wages and higher production costs, making Bangladesh the favoured choice for ‘low cost base’ production. The average monthly wages in the Export Processing Zones are US\$39-US\$48 for unskilled workers, US\$55 for semi-skilled and US\$61-US\$109 for skilled.²⁷ Moreover, Bangladesh and, especially, its Export Processing Zones, have one of the lowest office and industrial estate rents of the region (Table 2).

Investments in the economic zones are also flexible in terms of usage of foreign currency and repatriation of profits and capital. There are no restrictions on issuance of work permits to foreign nationals and they can repatriate up to 50 per cent of their salaries, including savings and retirement benefits at the time of return. Support facilities and services such as local and foreign banks, insurance companies, transportation companies, freight forwarder and courier services are readily available.

²⁶ Md Zakir Hossain. Export Diversification and Role of Export Processing Zones (EPZ) in Bangladesh. Available at http://siteresources.worldbank.org/INTRANETTRADE/Resources/Internal-Training/Zakir_Hossain_Paper.pdf. Accessed on 13 September 2013

²⁷ Export Promotion Bureau, Ministry of Commerce. Government of People’s Republic of Bangladesh. Available at <http://www.epb.gov.bd/epz.php?page=63>. Accessed on 13 September 2013

The export processing zones have fully-serviced plots and standard factory buildings that can be leased for various manufacturing and other operations. The infrastructure has been built on par with international standards. Utilities such as electricity, water and gas are available in most areas. Some of the high technology infrastructure facilities set up in the Export Processing Zones includes Central Effluent Treatment Plant, Inland Container Depot and Power Generation Plants.

The various facilities as well as fiscal and non-fiscal incentives that can be enjoyed in the Export Processing Zones in Bangladesh are listed in Table 5. The new Special Economic Zones are still under development but it is expected that the facilities and incentives available will be of similar nature.

Table 5: Facilities and Incentives available in the Economic Zones

Facilities	Fiscal Incentives	Non-Fiscal Incentives
<p>Infrastructure:</p> <p>Electricity, Water and Gas. Fully serviced plots available. Factory building available on rental. Enclave for workers. Dormitory and Day Care Centre. Warehouse / available.</p> <p>Support Services:</p> <p>Business: Bank, Courier, Post office, C&F Agent, Shipping Agent, MTO etc.</p> <p>Administrative: Customs Office, Police Station, In-house Security, Fire</p>	<p>Tax Exemption</p> <p>First two years 100 per cent Exemption. Following two years 50 per cent Exemption. Next one year 25 per cent exemption</p> <p>Duty free import of construction materials, machineries, office equipment and spare parts.</p> <p>Duty free import and export of raw materials and finished goods.</p> <p>Relief from double taxation.</p> <p>Exemption from dividend tax.</p> <p>GSP facility available.</p> <p>Accelerated depreciation on</p>	<p>100 per cent foreign ownership permissible.</p> <p>Enjoy MFN (most favoured nation) status.</p> <p>Signatory on MIGA, ICSID, WIPO, OPIC.</p> <p>No ceiling on foreign and local investments.</p> <p>Full repatriation of capital and dividend.</p> <p>Foreign Currency loan from abroad under direct automatic route.</p> <p>Non-resident Foreign Currency Deposit (NFCD) Account permitted.</p> <p>Operation of FC account by 'joint venture' and '100 per cent local ownership'</p>

<p>Station, Public Transport, Medical Centre etc. Others: Restaurant, Health Club, Investors' Club, Recreation Centre, School and College, Sports Complex, Shopping Centre, Exclusive Telephone Exchange, Electricity Sub-station, Business Centre, Anglers Club.</p> <p>No UD, IRC, ERC and renewal of Bond license.</p> <p>Work permits issued by BEPZA. Secured and protected bonded area.</p> <p>Import on Documentary Acceptance (DA) allowed.</p> <p>Back to Back L/C</p> <p>Customs clearance at factory site.</p> <p>Sub-contracting with export oriented Industries inside and outside EPZ allowed</p>	<p>machinery or plant allowed.</p> <p>Remittance of royalty, technical and consultancy fees allowed.</p> <p>Duty and quota free access to EU, Canada, Norway, Australia.</p>	<p>Industries allowed.</p> <p>Reduction of Lead Time.</p> <p>Low Cost base; One of the lowest wages in Asia</p> <p>One-window service allows faster and more simplified processing of applications, etc.</p> <p>Relocation of foreign industries allowed.</p> <p>Up-to-date Environment Management Plan.</p> <p>Off-shore banking available.</p>
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Source: Compiled from Bangladesh Export Processing Zone Authority, Board of Investment and Ministry of Finance, Government of People's Republic of Bangladesh

Almost every industry is permissible at the Export Processing Zones such as textiles, electrical and electronics items, software development, IT and R&D industries, scientific instruments and precision tools, jewellery, engineering products and equipment, leather products such as shoes, bags, jackets, sports goods manufacturing, toy manufacturing, footwear manufacturing, backward linkage industries for textile, pharmaceutical products,

gas-based industries, petrochemical products, agro-based industries, organic fertiliser production, garden and farm equipment manufacturing, ceramic industries, plastic products, household fittings and equipment, agro construction materials, port related services and business, ship supplies, printing and publishing and musical instruments.

Some of the already successful sectors with further potential to grow include jute products, textiles, ready-made garments (RMG), frozen and processed foods, leather, shoe manufacturing, agro industry, pharmaceuticals, shipbuilding and telecommunications. Bangladesh, being a labour-intensive country, is ideal for production of labour-intensive manufacturing sectors. Improvements in education, skill and technology make Bangladesh a lucrative destination for more sophisticated and advanced sectors as well. Some of the up and coming sectors include light engineering sector, power generation and transmission, plastics and polymers, electronics and home appliances and construction materials.²⁸

The Way Forward

Economics zones in Bangladesh promise to offer sound investment environment for foreign investors. Given the facilities and incentives in the economic zones and the plans for the creation of new zones in the coming years, it is evident that Bangladesh is committed to attract foreign investors and serve their interests. Abundance of natural resources, the geo-regional location and the policy framework set up by the government add up to create unbound opportunities for foreign investors.

Investing in a developing economy has its risks. However returns are higher to make up for the risk factors, such as political instability, red tape, natural disasters etc. In fact, the low and competitive cost base available in Bangladesh through cheap labour and inexpensive industrial sites is unmatched by any other country in the region. In addition, the large labour force, is adept at learning new skills. The country's polytechnics and higher education institutions are expanding its intakes to create a pool of skilled and professional human resources for the rising economy.

It is noteworthy that there is a trend to redirect foreign capital from some major foreign-investment-receiving countries in East Asia to Bangladesh. For instance, McKinsey and Company stated in a report, in 2011, that Bangladesh will be 'the next hot spot' after China as 80 per cent of American and European clothing companies planned to move their business from China to Bangladesh.²⁹ Although 'China Price' was once considered the lowest price possible, rising wages in China and low wages in Bangladesh are making the latter the favoured destination for many foreign investors. However, the way forward for Bangladesh is not only to maintain the current investment climate but also to enhance it further. While

²⁸ Board of Investment Bangladesh, Government of People's Republic of Bangladesh. Available at <http://www.boi.gov.bd/index.php/potential-sector/agribusiness>. Accessed on 12 September 2013

²⁹ McKinsey & Company (March 2012). http://www.mckinsey.com/insights/consumer_and_retail/bangladesh_the_next_hot_spot_in_apparel_sourcing. Accessed on 15 September 2013

government is dedicated to providing best possible services in the economic zones, there is still room for progression and improvement.

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