

Foreign Direct Investment and EPZs in Bangladesh

Ashrafuzzaman Mohammad¹⁾

Abstract

The paper aims at tracing the trajectory of Foreign Direct Investment (FDI) flowing into Bangladesh. The analysis of the trend and pattern of FDI in the country indicates that, on the whole, the volume of FDI had been increasing over the years. As regards sources of FDI, Asian NICs are the largest investors in the country. Export Processing Zone (EPZs) were found to have a notable role in FDI scenario of Bangladesh, and the average foreign capital in EPZs contributed to around 20% of the total stock of FDI in the country. This study has found that in order to entice foreign investors, Bangladesh had to improve its overall investment climate with an emphasis on political climate, labor productivity and infrastructure development. Further, the EPZs in Bangladesh have been instrumental in creating salutary benefits in terms of flow of foreign investment, employment generation, export and foreign exchange earnings, value added, and linkages have been taken place. EPZs are considered as most appropriate for Bangladesh economy striving to develop manufactured exports. Comparison with EPZs performance in South Asian countries, Bangladesh has focused better performance rather than other South Asian countries. The overall analysis shows that the volume of FDI has been increasing over the years both EPZs and DTA area. FDI is an important source of capital for Bangladesh and Bangladesh may promote economic development by contributing to productivity growth and exports as well as by improving labor skill.

Key words: Foreign Direct Investment (FDI)²⁾, Export Processing Zone (EPZ)³⁾, value added⁴⁾, South Asian countries.

-
- 1) I am indebted to Professor Hirohiko Shimpo for his useful comments and suggestions in every class.
 - 2) According to balance of payments manual (IMF 1993), FDI refers to the investment made to acquire lasting interest in enterprises operating outside of the economy of the investor.
 - 3) Export Processing Zone (EPZ) is an industrial area that constitutes an enclave with regard to customs' tariffs and the commercial code in force in the host country.
 - 4) Value added is the difference of the value of output and intermediate input that the industry uses as input.

Table of content

Abstract	1
1. Introduction	4
Back ground and Aims of the paper	
Structure of the paper	
1.1. Foreign investment policy reform	6
1.1.1 Context of foreign investment regime	
1.1.2. Evolution of FDI policy in Bangladesh	
Policy in the post liberation period: 1972-75	
Policy after 1975	
Policy After 1990	
1.2. Conclusion	
2. Trend and pattern of Foreign Direct Investment in Bangladesh	8
2.1. Flow of Investment	
2.1.1. Sources of FDI into Bangladesh	
2.1.2. Sector wise distribution of FDI into Bangladesh	
2.1.3. Structure of Investment	
2.2. Characteristic of FDI in Bangladesh	
2.2.1. Type of company involved in FDI	
2.3. Why does FDI decrease in Bangladesh?	
2.4. Conclusion	
3. Export Processing Zones in the industrialization processes in Bangladesh	13
3.1 Introduction	
3.2 Performance of the Export Processing Zones	
3.2.1 Flow of Foreign Direct Investment	
3.2.2 Employment Generation	
3.2.3 Export and foreign exchange earnings	
3.2.4 Value Added	
3.2.5 Forward and Backward linkages	
3.3 Aggregate Economic performance of the EPZs	
3.4 Conclusion	
4. Comparison with EPZs performance in South Asian countries	19
4.1 Introduction	
4.2 Evolution of the EPZ Policy: A Comparative Analysis of India, Bangladesh and Sri Lanka	
4.2.1 India	
4.2.2 Sri-Lanka	
4.2.3 Bangladesh	

4.3. Expansion in Zone Investment and Employment: A Comparative Analysis of India, Bangladesh and Sri Lanka	
4.4 Export Performance: A Comparative Analysis of India, Bangladesh and Sri Lanka	
4.5 Sectoral Composition of Exports in EPZ: A Comparative Analysis of India, Bangladesh and Sri Lanka	
4.5.1 India	
4.5.2 Sri-Lanka	
4.5.3 Bangladesh	
4.6. Conclusion	
5. Conclusions	27
References	30
List of tables	33

1. Introduction

Back ground and Aims of the paper

The international flow of financial resources takes two main forms⁵⁾: (1) foreign direct and portfolio investment, consisting of (a) foreign direct investment by large multinational (or transnational) corporations with headquarters in the developed nations and (b) foreign “portfolio” investment (e.g. stocks, bonds and note) in LDC “emerging” credit and equity markets by private institutions (banks, mutual fund, corporation) and individuals, and (2) public and private developmental assistance (foreign aid), from (a) individual national governments and multinational donor agencies and increasingly, (b) private nongovernmental organizations (NGOs), most working directly with third world nations at the local level. In this study has focused only foreign direct investment (FDI). The most heavily indebted poor countries and low income countries like Bangladesh, of the world remain largely dependent on bilateral and multilateral aid for their development strategy⁶⁾. However, since 1990 total Overseas Development Assistance (ODA) has dropped by more than half. Much grater importance is now being placed on alternative sources of capital to finance national development⁷⁾ and foreign direct investment is now the largest source of foreign private

5) Michael P. Todaro “Economic development”, sixth edition, chapter 15 p.533.

6) Brarnble, B. (2000) Financial Resources for the Transition to Sustainable Development, earth summit 2002; a New Deal, Earth Scan Publication.

7) ECOSOC (2000) Financial Resources and mechanisms (ch.33 agenda 21)

capital reaching developing countries. Now-a-days, the issue of Foreign Direct Investment (FDI) has been receiving phenomenal attention of the firms as well as national governments. In the change of landscape of global economy, blessed with improved information and communication technology and liberal trade framework, foreign investment has been a necessary response of the firms to the market competition.

The national governments, particularly developing countries now consider FDI as a conduit of capital, technology and management know how. As a result, there is an obvious race among the nations to host investment from abroad. To this end, the governments around the world are found to offer incentive packages to the foreign investors and at the same time, actively trying to promote their countries as location of investment.

Being placed at the lower end of the least developed countries, the economy of Bangladesh is characterized by dominance of agriculture, absence of raw materials, low investment, over reliance on foreign assistance, low growth rate, low share of manufacturing in national income, few exportable items, and heavy reliance on imports of manufactured goods⁸⁾. With an annual per capita income of just over \$362⁹⁾, it characteristically suffers from problems relating both to shortage of savings and foreign exchange resources. So not being an exception, the governments of Bangladesh, especially since 1980, has turned to FDI as a vehicle to serve its economic goals. In this connection, the government has put in place a generous programmed of incentives to the investors.

However, by international standard, so far Bangladesh could attract only an insignificant amount of foreign capital (See Table 2.1 & 2.2). All these mean that Bangladesh could not prove it to be an attractive location of investment and those investors cannot have confidence in the investment climate of the country. Eventually, from the trickle in the 1980s, inflows of private foreign direct investment in Bangladesh have risen to nearly \$1 billion in fiscal 2002.

While, Bangladesh has been ranked 125th among 145 countries concerning inward

8) Anu Muhammad (2000): Economy of Bangladesh (in Bangla), Dhaka.

9) Ministry of finance report 2002

FDI performance index in 2001¹⁰⁾, FDI has become even more important as a source of capital for development. Therefore, the relevant search in this connection is the anatomy of the trend and pattern of the existing foreign investment in the country. Moreover, no doubt, the injection of foreign funds into Bangladesh has important implications for economic growth in the country.

The main objectives of the study are-

Firstly, to analyze the existing trend and pattern of FDI in Bangladesh

Secondly, to analyze EPZs performance of Bangladesh and to compare with other South Asian countries

Why do I am interested in the above issue?

Firstly, the subject of FDIs in Bangladesh has however become more relevant with the more favorable change of direction in government attitude and policy towards FDI. The necessity of carrying out a detailed study in this field has thus become increasingly apparent.

Secondly, in the economic literature on the Bangladesh economy, Foreign Direct Investment (FDI) has remained of the less researched areas.

Structure of the paper

This paper is organized as follows: - Chapter 1 is the introduction. Chapter 2 of the paper examines recent trends and pattern of FDI in Bangladesh, summarising the main characteristics of inward investment to Bangladesh and the factors driving it. Chapter 3 an examination whether EPZs have been successful in achieving the desired goals chapter 4 presents comparison of EPZs with other South Asian countries. The last Chapter summarizes of major finding.

1.1. Foreign investment policy reform

1.1.1 Context of foreign investment regime

There has been a perceptible shift in the attitude of developing countries towards

10) World Investment Report 2002, country fact sheet: Bangladesh.

foreign direct investment (FDI) in recent years. The debt crisis of the early 1980s caused a specter of declining investment, mounting fiscal deficits and a deteriorating balance of payments in many developing countries. These countries were increasingly required to open up their markets to FDI which was seen as a means to compensate for reduced access to bank credits from international financial institutions. The need for reliance on FDI was also reinforced by the declining trend in official development assistance. At the same time, the changing nature of activities of transnational corporations (TNCs) led to a more benign perception of their role¹¹⁾. In fact, the transnational corporations were being increasingly looked upon as sources not only of capital, but also of production, management and marketing technologies. Thus, many developing countries started liberalizing their FDI policy regimes on the basis of the new perception of commonality of interests.

Liberalization of FDI represents just one of a number of determinants of investment flows. This explains why liberalization is not always followed by an upsurge of FDI. However, the importance of liberalization can never be overemphasized. In fact, highly restrictive conditions can effectively shut the door to foreign investment.

1.1.2. Evolution of FDI policy in Bangladesh

Policy in the post liberation period: 1972-75

Though there is not much specialized literature on the evolution of Bangladesh State policy toward FDI, this issue has been highlighted from time to time within the framework of the analysis of general industrial policy and in the context of the debate regarding the relative roles of the public and private sectors in Bangladesh economy.

The attitude of the post independence government in Bangladesh towards foreign direct investment was determined by the industrial policy statement of 1972¹²⁾. As enunciated in this policy statement FDI was allowed only in collaboration with the

11) For example, many TNCs moved into manufacturing activities in developing countries with greater possibilities for forward and backward linkages. Many of them became engaged in export-oriented manufacturers, complementing the national development objectives of achieving improved balance of payments and greater industrialization simultaneously.

12) For details see R. Sobhan, M. Ahmed, Public Enterprise in an Intermediate regime: A Study in the political Economy in Bangladesh, BIDS, 1980.

public sector and with minority equity participation. However no specific field of activity was excluded from participation by foreign investors. All acts of foreign collaboration were to be approved by the government, full freedom of transfer of annual profits after the payment of taxes was provided of; repatriation of capital spread over a number of years and a minimum dividend of 15% subject to availability of profits were guaranteed.

The industrial policy was revised in July 1974¹³⁾. The new policy allowed FDI to operate in collaboration with both FOB and local entrepreneurs, except in some basic industries; the period of moratorium on nationalization was extended from 10 to 15 years and the tax holiday for less developed areas was extended from 5 to 7 years whilst repatriation facilities were further relaxed¹⁴⁾.

Policy after 1975

A significant shift in the government's economic policy toward FDI was initiated in December 1975 for which the change in state power (August '75) paved the way. The investment ceiling was raised to Tk 100 million and a series of important policy measures were initiated to increase the role of the private (indigenous and expatriate) sector in the field of industrial development¹⁵⁾. Foreign investment was permitted in 10 other sectors previously reserved for the public sector enterprises, where joint ventures were promised preferential treatment¹⁶⁾. The assurance of a moratorium of nationalization would inhibit private investors.

Policy After 1990

The 1991 industrial policy (IP), which allowed up to 100 percent foreign private investment along with joint venture, brought the FDI policies to its most liberal phase, with a 1992 amendment incorporation additional facilities and incentives. This was

13) Nurul Islam, *Development Planning in Bangladesh: A Study in political Economy*, Dhaka, 1979, p. 223-224.

14) R. Sobhan, *IBID*, p. 257-260. See for revised Investment Policy 1974.

15) Subsequently this investment ceiling was abolished and at present there is virtually no ceiling on private (including foreign) investment though permission has to be sought at different levels of the GOB, depending upon the value of the investment involved.

16) *The Second Five Year Plan (DRAFT) 1980-1985*, GOB. 1980.

extended further under the 1999 industrial policy (IP) when FDI was encouraged in all industrial activities in Bangladesh including service industries and tool manufacturing, excluding those in the list of reserved industries and readymade garments, banks, insurance companies and other financial institutions. Pre registration clearance is required for investment in RMG and the other sectors mentioned. Measures will be taken to protect the intellectual property rights of new products and processes.

1.3 Conclusion

Government of Bangladesh (GOB) reformed various policies for improving the FDI climate. Actually all these policies measures manifesting the GOB's positive effects to attract FDI,

2 Trend and pattern of Foreign Direct Investment (FDI) in Bangladesh

Context of FDI inflows

International flows of capital perform a variety of functions in the world economy. Among other things, such inflows permit the level of domestic investment in a country to exceed that country's level of savings. On the other hand, international capital flows provide countries that generate large amounts of savings with a means to invest in countries where returns are higher than in the originating country. Such flows from mature to emerging and to developing economies not only allow for higher rates of investment in the host country, but also increase the quality of human capital in the developing countries through the transfer of technology, marketing and management skills as well as market access through network leakages. The flow of FDI into developing countries is often an inflows vary from region to region and country to country, depending upon the socioeconomic infrastructure, political stability and the presence of other institutional factors.

2.1 Flow of Investment

Since opening up the economy to attract FDI by the foreign private investment act 1980, Bangladesh has been gradually drawing the attention of foreign investors. However, by international standard, the magnitude of FDI flowing into Bangladesh has

been precariously low (see table 2.1). According to UNCTAD sources the inflow of FDI in 2001 accounted for only \$78 million for Bangladesh while it was \$735146 million for world (See table 2.1). However, as far as the FDI scenario of Bangladesh against the backdrop of its history and other factors affecting FDI flows is concerned, it has been showing an improving trend, especially since 1997. (See table 2.1).

Table 2.1:- Foreign direct investment inflows (US\$ Million)

Country	1980-85	1990	1995	1997	1998	1999	2000	2001
World	49813	203341	331189	478082	694457	1088263	1491934	735146
Developing countries	12634	31345	105511	191022	187611	225140	237894	204801
(Bangladesh)	0.1	3	2	139	190	178	280	78

Source: UNCTAD, World Investment Report, Various years

During pre-liberation period when Bangladesh was a part of Pakistan, only 22 projects amounting to Tk. 270 million were registered with the Ministry of Industries. After liberation due to the socialistic policy with overwhelming emphasis on public sector investment, no foreign involved projects were registered during 1972-80 period. Since mid 1980s, after the political change over in the country, the successive governments gradually initiated several reform measures to liberalize investment regime. Since then the flow of the FDI started to increase over time. Creation of two EPZs in the country, one in 1983 and the other in 1993, also brought about a momentum in investment commitments¹⁷⁾. Now Bangladesh offers a wide range of generous incentives and facilities towards foreign investors and actively pursues investment promotion through the state sponsored Board of Investment (BOI).

2.1.1 Sources of FDI into Bangladesh

As regards of distribution of FDI by home country, investment came mainly from Malaysia, South Korea, Hong Kong, UK, Japan, Singapore, USA, Germany, India and China. In terms of number of projects, as of December 2002, 1244 projects were registered with the ministry of industry/BOI and BEPZA. Saudi investment of Tk. 11,165 million in only three projects, particularly in one Methanol Plant with Tk. 10,933

17) Azim.M.T. (2000), "Determinants of Foreign Direct Investment in Bangladesh", The cost and management accounts, no.2, vol. 17, Dhaka.

Table 2.2: Year wise and country wise distribution of FDI in Bangladesh (in million Tk) 1971-2001

year	Malaysia	South Korea	Hong Kong	UK	Japan	Singapore	USA	Germany	India	china	Pakistan	others
Upto 1971				110	1		22					137
1981			1	5								7
1990			17	67	4		18				47	7
1998	884,0	170,6	805	107,9	278,8	141,0	481	841	300	405	172	227
1999	395,3	158,5	695	184,1	418	839	154	189	135	94	404	245
2000	719,5	703,3	178,8	102,3	258	238	238	312	225	138	256	244
2001	212,7	440,7	126,2	115,7	323	142,7	697	141	452	126	128	350

Source: - BOI and BEPZA Statistics, various issues

million makes kingdom of Saudi Arabia as the third largest investor in Bangladesh¹⁸⁾. Pakistan, Netherlands, Canada, Switzerland, Italy, Taiwan, Sweden, France etc. are other sources of investment in the country. One recent trend in relation to the origins of FDI in Bangladesh is joint investment by consortiums of two or more countries, such as an industrial park by South Korea and Malaysia and a 5- star hotel by Taiwan, Singapore and Hong Kong¹⁹⁾. However, in recent years the Asian NICs including those from India and other neighboring countries have been coming up with larger investment proposals. The lower level of investment from developed countries²⁰⁾ indicate that so far Bangladesh could attract very few world leading MNCs having better technology and managerial and marketing skill than their Asian (except Japan) counterparts. Even though Bangladesh could attract some Japanese investment in recent years, it is quite insignificant in comparison to Japanese investment in other Asian countries. US investments are concentrated in service sectors like power generation, oil & gas, LPG bottling, medical service etc.

European countries including European Union have about 32% share in FDI inflow. European investments spread over manufacturing and service sectors like textile, cement, agro chemical, leather goods, drugs and pharmaceuticals, telecommunication, LPG bottling, Lubricants, power generation, industrial gas etc.

Investments from south, east and south East Asian nations like china, Hong Kong,

18) Bangladesh Bureau of Statistics, annual report (2000).

19) CPD 2003: Changes and Challenges: A review of Bangladesh's Development 2002.

20) see table 4 & 5

India, Malaysia, Pakistan, Sri Lanka, Taiwan, and Thailand are concentrated on manufacturing sectors.

2.1.2 Sector wise Distribution of FDI

An analysis of distribution of FDI amongst different sectors indicates that the Textiles, garments and accessories sector topped the race of total investment, followed by service sector, Drugs and chemical sector and agro-based sector (see table 2.3). However, in terms of the number of projects registered until December 2002, the sector wise distribution shows a different picture. Out of total 1244 projects, the highest numbers of projects (361) were found registered in Textiles, Garments and accessories sector (see table 2.4 & 2.5). The huge investment in textiles and garments sector can be attributed to the success of this sector as an export oriented industry and easy availability of cheap labor in the country²¹⁾.

Table 2.3:

Sector wise and country wise distribution of FDI in Bangladesh (million Tk) 1971– 2001

Country	Drugs & chemicals	Paper & allied	Cement & ceramics	Agro based	Textile & garments	Machinery	Leather & footwear	services	others	Total
Malaysia		5	293	101	15534	283		5682	217	22115
South Korea	20		593	294	15745	381	1738	212	524	19507
Hong Kong			164	177	3859	1184	37	2022	89	7532
UK	94	338	31	1192	2535	143	92	483	1572	6480
Japan	11			130	2955	730	140	192	1244	5402
Singapore	43		1006	893	2603	34		174	209	4962
USA	38			121	1185	216	32	2623	210	4425
Germany	22	1459		291	646	1	555	517	119	3610
India	282		1154	41	107	168		479	154	2385
China	33	42		101	310	114		85	139	824
Pakistan	19			433	164	240	5	75	94	1030
Others	14850	76	2349	2340	2462	452	436	29501	2962	55428
Total	15412	1920	5590	6114	48105	3946	3035	42045	7533	

Source: - BOI and BEPZA Statistics, various issues

21) Qazi Kholiquzzaman Ahmed: "The Manufacturing Sector of Bangladesh", BDS journal, autumn 2000.

Table 2.4: Year wise and Sector wise distribution of FDI in Bangladesh (million Tk)

Year	Drugs & Chemicals	Paper & allied	Cement & ceramics	Agro based	Textile & Garments	Machinery	Leather & footwear	Services	Others
Unto 1971	32			94	1	17	123		3
1981	1					10		1	
1990	23			37	87	7			6
1991	180	76		93	422	29		808	166
1998	109,84	487	118,6	861	150,20	104,2	397	645	921
1999	259,4	908	298,7	722	597,0	334	561	234,59	251,7
2000	125,21	379	425	763	138,62	256	149,3	161,3	107,0
2001	140	28	152,0	557	394,8	254	159	155,34	310

Source: - BOI and BEPZA Statistics, varies issues

Table 2.5: Number of projects (1971-2001)

Year	Drugs & Chemicals	Paper & allied	Cement & ceramics	Agro based	Textile & Garments	Machinery	Leather & footwear	Services	Others
Unto 1971	10			02	01	05	01		03
1981	01					02		1	
1990	02			01	05	02			06
1991	01	01		03	09	02		03	02
1998	08	05	05	27	44	30	09	26	29
1999	12	05	06	12	56	17	10	20	20
2000	2	1	04	28	48	15	04	17	19
2001	07	01	03	27	45	11	08	38	24

Source: - BOI and BEPZA Statistics, varies issues

Significant investment in service sector indicates the expanding internal consumer as well as industrial market in the country. Investment in Hotel and Motel, Restaurant, Hospital and clinic, domestic air services, telecommunication services, Recreation Park etc. are to cater to the needs of the increased local demand. Investments in industrial park, leasing services, construction, power and communication, cold storage etc. are mainly to feed the local aspiration for higher industrialization.

The considerable investment in the agro-based is primarily resource seeking in nature and based on the available agricultural raw materials like crops, fruits, and fish in the countries. Opportunity for exporting, particularly of tea, fish and frozen foods, is

another reason for investment in this sector²²⁾.

The machinery sector has so far attracted rather insignificant volume of investment. This can be attributed to low domestic demand due to low level of industrialization and modernization in the country. Lack of sufficient skilled engineers and technical personnel may also partly explain the meager investment in the sector.

2.1.3 Structure of investment

One aspect of FDI in Bangladesh is that in spite of almost continuous rise in the volume and number of projects over the years, one or two large investments have accounted for the bulk of total investment in a particular year.

Obviously, the dominance of a few projects in total FDI registered in Bangladesh every year indicates the vulnerability of the country's FDI flow to the implementation of those pivotal projects. It also suggests that yet Bangladesh could not make any significant headway in attracting a steady flow of FDI.

2.2 Characteristics of FDI in Bangladesh²³⁾

The overall motive of the FDI is profit maximizing. The choice depends on overall condition production cost and trade costs, market size and the importance of economies of scale, and economic policies in both host and home countries. The motive of foreign direct investment (FDI) from the firms' perspective may be grouped into three: market access, cost reduction and access to natural resources (oil, gas forest resources, etc). The former is called horizontal FDI, while the later types are vertical FDI.

In horizontal FDI the purpose of the investment is to serve the foreign markets from local plants rather than by trade, this saving trade costs. In such a case FDI should be regarded as a substitute to trade. FDI can be a substitute to trade if they are in import- substituting industries. One trade, and hence this is often called tariff jumping. FDI in service- oriented industries is attracted by large local market as well as by liberalization of investment policies over the period.

But with vertical FDI foreign investment occurs as a part of a production networking

22) Board of Investment handbook 2002

23) Azim. M. T "Foreign Direct Investment in Bangladesh", BISS journal, volume 21, April, 2000.

scheme, where the production process is fragmented in order to take advantage of local cost and productivity advantages.

FDI is commonly categorized as-

Export- oriented where the aim is to take advantage of low costs of production usually labor related.

Market- seeking where the objective is to produce for a large domestic market

In Bangladesh, Export Processing Zones (EPZs) offered companies controlled labor, subsidized infrastructure, expedited customs administration and freedom from import duties and export taxes. However, most of the FDI inflows came from developing Asia and was concentrated on export processing. On the other hand, FDI inflows came from Europe, North America, and Japan and targeted to the domestic market.

2.2.1 Type of Company Involved in FDI

There is little information on the characteristics of the companies investing in Bangladesh and of their joint venture partners. Large multinationals have holdings in Bangladesh but it is unclear the extent to which small and medium companies invest in Bangladesh. UNCTAD estimates that small “package” inward FDI involving amounts of less than US\$1 million, typically accounts for over 50% of cases of FDI but only 10% by value. Most of this is likely to be associated with Small and Medium Enterprises (SMEs)

2.3 Why FDI decrease in Bangladesh

Despite substantial changes in government policy, FDI in Bangladesh is significantly below its potential, in both economic and statistical sense. However, Bangladesh’s opening to foreign investment started relatively late and that the army based Government temporarily diminished FDI over 1982-1985²⁴⁾. There are a number of institutional and structural bottlenecks that discourages healthy foreign investment in Bangladesh.

Poor infrastructure and lack of utility service:

Poor infrastructure facilities and lack of utility service are one of the most important

24) Choudhury. N.I and Saha. S.R.(2001) Foreign Direct Investment in Bangladesh: Expectations and Realities”, Bank Parikrama, vol.15,pp. 70-91.

bottlenecks of investment in Bangladesh. With the growth of foreign trade, the country's main seaport, Chittagong port, has to operate almost at full capacity. However, Chittagong Port is one of the most cost and inefficient seaport in the world. Inadequate power supply is another major problem. Likewise, the country's transport and telecommunication services are severely underdeveloped.

Negative image of the country:

Overall image of Bangladesh to the foreign investors is not that good. In addition to poor environment for investment, many other factors are responsible for poor image. These include policy inconsistency, lack of proper treatment to foreign investors, instability of policy etc.

Exchange Rate Issue:

Because of the narrow domestic market in Bangladesh, FDI will target the export-oriented industries. However, competitiveness in the export market depends on real exchange rate, among others. An overvalued exchange rate may discourage export oriented FDI.

Law and order situation:

Overall law and order situation in Bangladesh is far from satisfactory. The business people are oppressed by the higher incidence of tool extraction by the political and local miscreants. The businessmen are alleged to pay involuntary tolls at every stage of business operations.

Corruption and lack of good governance:

Corruption has entered into every corner of the society. Overall governance situation is extremely poor in Bangladesh. Corruption and poor governance increase cost of doing business and create unfair competition within the business. Corruption not only discourages investment, it also distorts investment priority so as to end up with sub-optimum allocation of investable fund.

Political instability and hartal (nationwide strike):

There is a higher degree of political instability as the democratic values and institutions are severely undernourished. There are frequently calls for hartal and other destructive programmes due to political fragmentation and conflicts. It is not only hampers profitability of existing production activities but also reduces incentive to invest in this country.

2.4 Conclusion:

The analysis of the trend and pattern of FDI, on the whole, it shows the volume of FDI has been increasing over the year. Most of the investment comes from developing Asian countries. Weak law and order, wide spread corruption, and lack of utility services are major obstacle to attract FDI to Bangladesh. Nevertheless, Export Processing Zones (EPZ) were found to have a notable role in FDI scenario of Bangladesh, and on an average foreign capital in EPZs contributed to around 20% of the total stock of FDI in the country.

3. Export Processing Zones in the industrialization processes in Bangladesh

3.1 Introduction

The need for rapid industrialization of Bangladesh has been well recognized since the early 1980's. It requires development of infrastructure and overall economic reforms. While country wide development of infrastructure is expensive and implementation of structural reforms would require time due to socioeconomic and political realities, establishment of export processing zones (EPZ's) was considered as an important strategic tool for expediting the process of industrialization in Bangladesh. To this end, Bangladesh started EPZ program in 1981 with the creation of Bangladesh export processing zones authority (BEPZA) under the Bangladesh export processing zones authority act, 1980. Meanwhile, Chittagong export processing zone (CEPZ) and Dhaka export processing zone ((DEPZ) were established which started functioning in 1983/84 and in 1993/94 respectively. Currently, Bangladesh has been promoting EPZ program more vigorously with the creation of four more EPZs in Mongla, Comilla, Ishurdi and Uttara with a heavy claim on scarce national resources inviting a serious study and debate. It is important to see whether further replication of the EPZ is worthwhile in terms of his national resources deployed and the role the existing EPZs play in expediting the process of industrialization in Bangladesh.

3.2 Performance of the Export Processing Zones

Performance of the EPZs in the process of industrialization in Bangladesh can be assessed in the light of the broad national goals and objectives as laid down in the

BEPZA act.

3.2.1 Flow of foreign investment in EPZ

During 1983/84-1999/2000 the relative share foreign direct investment (FDI) in total inflow of investment in the organized private industrial sector in the country has increased remarkably (see table 3.1). In the 1990's this share tended to become exponentially higher (more than five times higher in the 1990s) although it has tended to decline in recent years. Average share of FDI inflow to the EPZs in the total FDI inflow of the organized private industrial sector though was spectacularly trend since 1993/94 indicating a low potential for further growth of the FDI in the EPZs. This may be explained by relative small size of FDI in the EPZs, which concentrates on light industries, and preponderance of heavy foreign investment in the DTA in which average size of foreign investment is more than four times higher than in the EPZs. Bulk of the investment in the EPZs has taken place in the RMG and textiles which require neither high technology equipment nor specialized labor.

Table 3.1 Relative share of EPZs in total industrial FDI flow in the country during 1983/84-1999/2000 (Million US \$)

Year	Total inflow of investment in the organized private industrial sector	Total inflow of FDI in the organized private industrial sector	Column 3 as % of column 2	Total inflow of FDI in the EPZ's	Column 5 as % of column 3
1	2	3	4	5	6
1983/84	336.859	17.365	5.15	0.860	4.95
1990/91	196.581	79.127	40.25	21.332	26.96
1995/96	1608.283	784.857	48.80	26.857	3.42
1998/99	1862.706	1010.983	54.27	47.983	4.75
1999/2000	2021.283	1087.019	53.78	27.519	2.53

Source: - Based on the data provided by BEPZA and BOI.

Share of FDI inflow in total investment flow to the EPZs, however, varied in the range of 5.7 per cent to 98.4 percent over the period 1983/84-1999/2000. It tends to decline in most recent years reflecting increasing participation of the local investors in the EPZs(see table 3.2). The ratio of FDI to gross domestic capital formation varied between 0.1 per cent and 2.9 percent compared to an average of 7 percent for all the developing countries over 1991/97. This is because business environment and

Table 3.2 Share of FDI flow in total investment flow in the EPZ's during 1983/84-1999/2000 (Million US \$)

Year	Total investment flow in the EPZ' s	Total FDI flow in the EPZ' s			Total FDI in the EPZ' s as % of total investment in the EPZ' s
		Fully foreign owned	Joint venture	Total	
1	2	3	4	5	6= 5 as % of 2
1983/84	0.874	0.804	0.056	0.860	98.40
1990/91	22.054	19.281	2.051	21.332	96.73
1995/96	30.583	27.263	-0.406	26.857	87.82
1998/99	71.606	44.859	3.124	47.983	67.01
1999/2000	34.983	26.431	1.088	27.519	78.66

Source: - Based on the data provided by BEPZA and BOI.

investment climate in Bangladesh is not fully conducive to foreign investors. The investment climate is suffering due to political and economic unrest, indecision and lack of clear direction of structural change. Another critical problem is labor indiscipline and militancy of trade unions.

In the EPZs, although 100percent foreign owned FDI predominates local share of equity in joint ventures has gone up from 20 percent in the 1980s and early 1990s to about 44 percent in the late 1990s reflecting increasing local participation and grater control over the joint venture firms. For joint ventures, the major advantage provided by the EPZ is the capitalization of foreign investor's trademarks, patents and copyrights or know how in which local partners figure very poorly. Besides, foreign equity participation in joint ventures makes room for real capital transfers, management and technology transfers, etc., and sharing of risks and profits with most detailed legal protection. But a caveat is in order here. Increasing local investment in the EPZs may lead to increasing capital light which needs to be guarded against.

3.2.2 Employment Generation in EPZ

Employment in the EPZs in 2000/2001 was about 118748, rising from a low figure of 624 in 1983/84 (see table 3.3). Despite three fold annual trend rate of growth, the employment effect of the EPZs remains very small representing 4.44 percent in 1999/2000 rising from a low of 0.22 percent in 1983/84 of total organized manufacturing employment. In the EPZ employment, the female male ration has come down from 0.7

Table 3.3 Relative share of the EPZs in total formal manufacturing employment in the country during 1983-84 to 2004/05

Year	Total manufacturing employment in country (000)			Total employment in the EPZ (000)			Total employment in the EPZ (000) as % of Total manufacturing employment in country (000)		
	2	3	4	5	6	7	8	9	10
	Male	Female	Total	Male	Female	Total	Male	Female	Total
1983/84	439	13	452	0.30	0.70	1	0.07	5.38	0.22
1990/91	936	175	1111	2.68	6.32	9	0.29	3.61	0.81
1995/96	1208	339	1547	14	29	43	1.16	8.55	2.78
1998/99	1414	552	1966	31	55	86	2.19	9.96	4.37
1999/2000	1490	650	2140	35	60	95	2.35	9.23	4.44

Sources: - Statistical Bulletin Bangladesh (BBS) various issues, BEPZA

in 1983/84 to 0.63 in 1999/2000 which may be explained primarily by the spectacular growth of RMG in the DTA in which female employment predominates. Growth of employment in the EPZs is much faster with an annual trend rate of growth more than sixteen times higher during 1983/84-1987/88 and more than four times higher during 1988/89-1999/2000 than in the total organized manufacturing sector. In both the periods, the growth rate of male employment in the EPZs is much more prominent than that of female employment.

Arguably new jobs in the EPZs have replaced old jobs outside the EPZs because bulk of the EPZ production in the RMG and textiles represents an unnecessary replacement of capacity already existing outside the EPZs. In the case of electronics, however, this type of replacement has not generally taken place because electronics industry hardly existed in Bangladesh before the EPZ program was put in place. But growth rate of employment in the EPZs is about three fold of that in the country as a whole reflecting very little or no job replacement in the DTA and new job creation in the EPZs. Although little job replacement has occurred especially among the top managers and highly skilled workers, high rates of labor turnover reflect greater allocative efficiency of labor resources with income multiplier effect in the country.

The central issue is that of wage levels and working conditions in the EPZ industries. In terms of earnings per hour the modal earning is only 25-28 cents (see table 3.4).

Minimum wages for the unskilled workers as fixed by BEPZA are not always

Table 3.4 Average hourly earnings of the employees in the EPZs in Bangladesh and in manufacturing in selected industrialized countries.

Country	Average hourly earnings of the employees in manufacturing (US\$)
Bangladesh (EPZs)	0.27
Germany	14.93
UK	14.05
USA	13.17
Japan	12.10

Sources: - BEPZA (2000) and ILO (1998) 415,264

protected such practices are lower than in cotton textile factories in the DTA. Minimum wages of semi skilled and skilled workers in the EPZs, however, are well perfected and are much higher than those in the DTA reflecting their higher opportunity cost. However, working conditions in the EPZ enterprises are much better than in most enterprises in the DTA.

A feature of the employment generated by the EPZs is the fact that productivity of labor in Bangladesh is sometimes as high as that in similar jobs in the industrialized countries. Yet wages in the EPZs in Bangladesh are a negligible fraction (1.5-2.1 percent) of what they are in the industrialized countries reflecting that a bad job is preferable to no job at all.

3.2.3 Exports and foreign exchange earnings in EPZ

Bangladesh has achieved a phenomenal success in export growth through the activities in EPZs. In the total foreign exchange earnings of the country through exports, the share of EPZs increased from 0.02 percent in 1983/84 to 15.49 percent in 1999/2000 (see table 3.5). Also in the foreign exchange earnings through the exports of manufactured goods, this share shows the same trend over the same period reflecting a fast decline in the relative share of the DTA in both total exports and the exports of manufactured goods. Annual trend rate of growth of export earnings of the EPZs has been more than six times higher than that of total national export earnings and more than four times higher than that of total national export earnings from manufactured goods implying that export performance of the EPZs is much more impressive than nationally (see table 3.6). In the existing pattern of EPZ exports, RMG and various

Table 3.5 Share of EPZs in national foreign exchange earnings through exports during 1983/84 to 1999/2000 (Values in Million US\$)

Year	National foreign Exchange earnings through exports		EPZ Foreign Exchange earnings through exports
	Total	Manufactured goods	
1983/84	807.36	529.46	0.164
1990/91	1689.24	1411.42	47.986
1995/96	3538.71	3406.58	337.020
1998/99	5110.69	4890.53	711.690
1999/2000	5752.20	5283.06	890.817

Sources: - Statistical Bulletin Bangladesh (BBS) various issues, BEPZA

Table 3.6 Growth of national and EPZs export earnings during 1983/84 to 1999/2000 (Values in Million US\$)

Year	National export earning		EPZ export earnings
	Total	Manufacturing	
1	2	3	4
1983/84	807.36	529.46	0.164
1990/91	908.19	758.83	25.799
1995/96	1512.27	1455.80	144.026
1998/99	1935.87	1852.47	269.580
1999/2000	2099.34	1928.12	325.116

Sources: - Based on the data provided by BEPZA.

kinds of textiles and textile products predominate (see table 3.7), accounting for 87.37 percent of total exports from the EPZs and RMG alone accounts for 46.62 percent of EPZ exports as against 58.35 percent of exports in manufactured goods and 53.59 percent of national exports in 1999/2000. these roust results of the EPZs, however, need to be held with certain reservations; net exports²⁵⁾ earnings are lower than gross export earnings for almost all the reference years accounting for on average 18.08percent. For most of the years, net export earnings of the EPZs remain much below 25 percent of gross export earnings. Across different products, the situation in industrial export is more disappointing. This is due to very high import content inherent in the EPZ

25) The estimated net export earnings include profits repatriated and payments made by foreign firms outside Bangladesh and hence are inflated.

Table 3.7 Impact of Investment and Exports of EPZs industries in1999/2000 to 2000/01

Sector	Investment (000 US\$)		Export (000 US\$)	
	1999/2000	2000/2001	1999/2000	2000/2001
Garments	107209	136358	415264	501778
Textile	103362	129254	139807	177086
Terry towel	17418	18426	23671	22989
Knitting	33722	41307	64279	115779
Garments Accs	6895	20697	5289	14933
Caps	23654	27364	95787	80832
Tent	7259	8687	34222	51294
F& Leather	43121	45195	38984	33225
Electronics	22097	27972	18706	23419
Metal product	12180	12866	15335	8287
Plastic goods	9354	10960	15121	13011
Fishing Reel &	29778	30212	17370	15018
Paper product		758		1064
Rope		41197		2847
Miscellaneous	10393	16656	6983	15486

Source: - Data provided by BEPZA

industries with several implications²⁶⁾; firstly, expectations in terms of foreign exchange benefits need to allow for high import content if they are to be at all realistic. Secondly high import content means that there is little backward linkage.

3.2.4. Value added²⁷⁾

Although the share of EPZs total value added in the organized manufacturing sector shows an increasing trend over the period 1983/84 to 1999/2000, it did not exceed 3.11 percent in 1999/2000 (see table 3.8). This may be explained primarily two factories: firstly EPZ enterprise use mostly intermediate products as raw materials, which are entirely imported from abroad and countries producing these intermediate products retain a part of the value added. Secondly, a significant part of the value added in the EPZs is taken away by foreign firms and foreign banks the form of profit and interest,

26) Ahmad, Muzaffer (1982), Export processing Zone in Bangladesh, a paper presented at a special seminar on "International Trade and Economic Development" organized by Bangladesh Economic Association in Dhaka during 5-6 November 2000.

27) Value added is the difference of the value of output and intermediate input that the industry uses as input.

Table 3.8 Value added in the total organized manufacturing sector and the EPZs during 1983/84 to 1999/2000 (Values in Million TK)

YEAR	Value added in total manufacturing sector at current price	Value added in the EPZs at current price	Column 3 as % of column 4
1	2	3	4
1983/84	23068	15.247	0.07
1990/91	66412	428.531	0.65
1995/96	182223	3440.974	1.89
1998/99	337769	8550.955	2.53
1999/2000	360365	11204.250	3.11

Sources: - Based on the data provided by Statistical Pocket Book Bangladesh and BEPZA.

respectively. Consequently, average value added is around 25 percent of total export earnings of the EPZs.

Notwithstanding relatively poor share, EPZs show a very high trend rate of growth of value added which is more than three times higher than that of the total organized manufacturing sector during 1983/84 to 1999/2000. the trend rate of growth of the value added in the EPZs works out at 52.35 per cent during 1983/84 to 1987/88 and at 42.27 per cent during 1988/89 to 1999/2000 as against respectively 0.41 per cent and 16.17 per cent in the total organized manufacturing sector in the country reflecting no less important contribution of the EPZs in term of value added.

3.2.5 Forward and backward linkages

Although horizontal and vertical integration of the EPZ firms has occurred, linkages reflected by an increase in local sourcing of inputs are still infancy. Forward linkages of the EPZs increased sharply from 9.7 percent in 1994/95 to 16.49 percent in 1995/96 and 18.74 percent in 1996/97, but started declining sharply since then reaching a low of 5.74 percent in 1999/2000, while backward linkages, though relatively very insignificant, show a secular increase from 0.93 percent in 1994/95 to 3.88 percent in 1999/2000 (table 3.9). Across different products, however plastic goods, garment accessories and knitting products show strong forward linkages. For the rest of the products, both forward and backward linkages are either very weak or totally absent (table 3.10 and 3.11) because virtually the entire output is exported abroad and almost exclusive reliance on imported inputs virtually rules out backward linkages. Low backward linkages of the EPZ firms

Table 3.9 Export to and Imports from the DTA by the EPZs Enterprises during 1994/95 to 1999/2000 (Values in Million US\$)

Year	Total Export of the EPZs	Export of the EPZs to the DTA	Export of the EPZs to the DTA as % of Total Export of the EPZs	Total Import of the EPZs	Total Import of the EPZs to the DTA	Total Import of the EPZs to the DTA as % of Total Import of the EPZs
1	2	3	4	5	6	7
1994/95	228.259	22.134	9.70	200.233	1.864	0.93
1995/96	337.020	55.575	16.49	270.275	3.142	1.16
1996/97	462.765	86.743	18.74	417.120	5.572	1.34
1997/98	636.048	84.616	13.30	520.210	7.799	1.50
1998/99	711.690	89.951	12.64	534.420	16.315	3.05
1999/2000	890.817	51.105	5.74	739.30	28.701	3.88

Source: - Based on the data provided by BEPZA

Table 3.10 Exports to and Imports from the DTA by the EPZs enterprises according to type of products (Values in Million US\$)

Industry	Total Export	Export to the DTA	Export to the DTA as % of Total Export	Total Import	Total Import to the DTA	Total Import to the DTA as % of Total Import
1	2	3	4	5	6	7
Germents	415.264	4.172	1.01	329.278	8.755	2.66
Germents accessories	5.288	3.670	69.40	5.401		
Caps	95.787			58.932	3.706	6.29
Textiles	139.807	13.559	9.70	109.690	5.945	5.42
Knitting	64.279	16.277	25.32	59.975	0.377	0.63
Terry towel	23.671			13.463	0.258	1.92
Footwear	38.984	0.308	0.78	46.206	8.606	18.63
Electronics	18.706	0.118	0.63	26.537		
Metal product	15.335	0.009	0.06	15.316	0.301	1.97
Plastic goods	15.121	12.982	85.85	7.292	0.027	0.37
Tent	34.222	0.007	0.02	26.557	0.282	1.06
Fishing reel	17.370			35.748		

Sources: - Data provided by BEPZA

Table 3.11 Use of Local Raw materials by the CEPZ and DEPZ Firms during 992/93 to 1999/2000 (Values in Million US\$)

Year	CEPZ			DEPZ		
	Local Raw materials	Total Raw materials	Local Raw materials as % of Total Raw materials	Local Raw materials	Total Raw materials	Local Raw materials as % of Total Raw materials
1992/93	1056	89489	1.18	---	---	---
1993/94	1419	103927	1.37	4	12978	0.03
1994/95	1798	158379	1.14	66	41734	0.16
1995/96	3296	209632	1.57	199	60605	0.33
1996/97	3470	285490	1.21	1191	130732	0.91
1997/98	5014	289578	1.73	1585	168527	0.94
1998/99	7232	281047	2.57	4856	224837	2.16
1999/2000	8567	466733	1.84	11540	298372	3.37

Source: - Based on the data provided by BEPZA

may be explained by a host of factors: (1) their mother companies abroad usually supply raw materials for the foreign firms, (2) offshore assembly tariff and rule of foreign provisions in developed countries encourage use of their inputs, and existing international sourcing arrangements by multinational firms, also make the development of backward linkages difficult. (3) Local suppliers often unable to meet the quality standards and quantity requires by EPZ firms. (4) Government has not been so far successful in implementing equal footing export policies outside the EPZs or to develop a strategy to foster backward linkages. (5) Duty free privileges granted to EPZ enterprise encourage them to make maximum use of imported materials which are usually of a higher EPZ quality and available at lower prices. For developing backward linkages, it is necessary to extend equal footing policies to firms outside EPZs and develop the capacity to produce competitive indirect export items. Incentives and rewards to suppliers of inputs to EPZs may be provided as they extend to direct exporters.

3.3 Aggregate economic performance of the EPZs

Aggregate economic performance of the CEPZ and the DEPZ reflects the success stories of the EPZs in terms of growth of firms, investment promotion, employment generation, export earnings and revenues from rents (see table 3.12 & 3.13). Total

Table 3.12 Economic performance of the CEPZ

Year	Number of Firms	Investment Million (US\$)	Number of local employees	Exports (Million US\$)	Rent Collected (Million US\$)
1983/84	4	0.874	64	0.164	0.123
1990/91	38	47.852	9364	139.674	1.169
1995/96	71	166.537	30986	934.843	2.543
1998/99	91	268.122	54741	2180.679	3.243
1999/2000	98	183.304	57707	2706.771	3.935

Source: - Based on the data provided by BEPZA

Table 3.13 Economic Performance of the DEPZ

Year	Number of Firms	Investment (Million US\$)	Number of local employees	Exports (Million US\$)	Rent Collected
1993/94	2	8.224	5522	5.249	0.670
1994/95	12	16.489	7366	46.530	0.909
1995/96	19	30.944	12197	119.752	1.610
1996/97	26	61.956	16382	239.206	2.324
1997/98	30	88.193	23012	424.846	2.390
1998/99	42	123.692	29333	684.419	3.417
1999/2000	42	143.493	36257	1049.144	3.640

Source: - Based on the data provided by BEPZA.

investment has increased remarkably from a low of US\$ 426.8 million in 1999/2000 in the EPZs. All other indicators reveal highly positive trend. These impressive results emerge primarily from the enclave nature of the EPZs, which are usually free from distortions in the DTA, except in the sea port services which accounted for 89 percent of export and 88 percent of import during 1986-2000.

Across different industries in the EPZs, the impact of investment on employment and exports is most prominent in the case of caps, garments and tent production reflecting their highest potential in employment generation and export earnings. Next in order are terry towels, knitting products and footwear with moderate contribution to employment and export. Fishing reel, metal products, electronics and electrical products, textiles, and garment accessories with relatively high capital intensity have limited potential for employment generation albeit with greater impact on export earnings. Since Bangladesh has limited claim on the export earnings of the EPZ industries because of the full repatriation of bulk of the foreign exchange earnings of

the foreign investors in the form of profit and capital, more emphasis needs to be placed on employment generation.

Higher cost per unit of new job place in the EPZs may be explained by the higher investment of the EPZ enterprises in the standard factory buildings with standard working conditions and in the occupational safety and better health facilities of the employees²⁸⁾. Interestingly, incremental capital output ratio and incremental capital value added ratio in the EPZ enterprises in income generation which is attributable partly to their dynamic management efficiency and uninterrupted production regime and partly to the generous fiscal exemptions and concessions enjoyed by them²⁹⁾.

The EPZs have achieved almost all the objectives laid down in the BEPZA act³⁰⁾. Growth of employment in the EPZ firms significantly contributes to poverty alleviation in the country because most of the workers employed by the EPZ firms belong to the poor community who could have remained unemployed, thus making a fortiori case for the EPZs.

But the dynamic impact to the EPZs in speeding up and strengthening the process of industrialization of the country with greater spillover benefits is still very limited.

3.4. Conclusion:

Finally the EPZs in Bangladesh have been instrumental in creating salutary direct benefits in terms of flow of foreign investment, employment generation, export and foreign exchange earnings, and value added. The total inflow of foreign investment in EPZ has increased remarkably. Bulk of the investment in the EPZs has taken place in the RMG and textiles which require neither high technology equipment nor specialized labor. The share of EPZs total value added in the organized manufacturing sector shows an increasing trend. Forward linkages of the EPZs has increased sharply, while backward linkages, though relatively very insignificant.

28) Chen, Jinghan (1993), "Social cost benefit analysis of China's Shenzhen Special Economic Zone", *Development Policy Review*, Vol.11. No 3, PP. 2 61-271.

29) Chen, Jinghan (1993), "Social cost benefit analysis of China's Shenzhen Special Economic Zone", *Development Policy Review*, Vol.11. No 3, PP. 261-271.

30) GOB (1994), *The Bangladesh Export Processing Zones Authority Act, 1980 (Act No. 36 of 1980 as modified up to the 13 th December 1994)*, GOB, Ministry of Law, justice and Parliamentary affairs, B.G. Press, Dhaka, PP. 1-11.

4. Comparison with EPZs performance in South Asian countries

4.1 Introduction

In this current era of globalization, export promotion is seen as an important policy for economic growth in developing countries. Various measures are being adopted to promote export competitiveness by governments in these countries. As a policy means of achieving this goal, the concept of export processing zones (EPZs) has gained noticeable significance in recent years. There were 176 zones across 47 countries in 1986³¹⁾. By 2003, the number of zones increased to over 3000 across 116 countries. A large number of them are operating in developing countries.

EPZs have helped promote foreign direct investment and an export-oriented industrialization strategy in Bangladesh. One may however observe that some countries have been able to capture the dynamic and static gains from EPZ operations while many others have not. Performance of the EPZs varies not only across countries but also across zones.

This chapter focuses on the performance of EPZs in South Asia and covers three South Asian countries, namely India, Sri Lanka and Bangladesh. Four South Asian countries, namely Nepal, Bhutan, Maldives and Pakistan have been excluded from the analysis. While the former three do not have EPZs, Pakistan had been having one operational EPZ at Karachi till recently. It was therefore considered appropriate to focus on India, Bangladesh and Sri Lanka.

4.2 Evolution of the EPZ Policy: A Comparative Analysis of India, Bangladesh and Sri Lanka

4.2.1 India

India initiated the process of industrial growth in 1948 (immediately after the political independence), when it announced its first Industrial Policy Resolution, IPR 1948. The strategy adopted was one of import-substitution industrialisation across all sectors.

31) WEPZA report 1988

Within an ISI policy framework, export promotion had also been a concern of the government. Thus, attempts to promote the EPZ as an export platform on the basis of economic incentives, such as the provision of better infrastructure and tax holidays became a feature of Indian development. The first zone was set up in 1965. The country has had four phases in the evolution of the EPZ policy since then. Following is a brief overview of the evolution of the EPZ policy in India through these four phases.

Initial Phase: 1965-1985

The first zone was set up in Kandla in a highly backward region. There was however no clarity of objectives that the government wanted to achieve. The policies were rigid and the package of incentives and facilities was not attractive. Zone authorities had limited powers.

Expansionary Phase: 1985-1991

To provide fillip to exports, the government decided to establish four more zones in 1984. These were at Noida (Uttar Pradesh), Falta (West Bengal) Cochin (Kerala) and Chennai (Tamil Nadu). All these zones with the exception of Chennai were set up in industrially backward regions. The primary objectives of the zones were still not specified and there were no significant changes in other laws and procedures pertaining to the EPZs.

Consolidating Phase: 1991-2000

In 1991, a massive dose of liberalization was administered in the Indian economy. In this context, wide-ranging measures were initiated by the government for revamping and restructuring EPZs also³²⁾. This phase was thus marked by progressive liberalisation of policy provisions and relaxation in the severity of controls and simplification of procedures. The focus had been on delegating powers to zone authorities, providing additional fiscal incentives, simplifying policy provisions and providing greater facilities.

Emergence Phase: 2000 onwards

This period has witnessed a major shift in direction, thrust and approach. The EXIM Policy (1997-2002) has introduced a new scheme from April 1, 2000 for establishment of the Special Economic Zones (SEZs) in different parts of the country. SEZ is an

32) Kundra A. (2000) : 'The Performance of India's Export Zones : A Comparison with the Chinese Approach,' Sage Publication., New Delhi, p.p.42-67.

almost self contained area with high class infrastructure for commercial as well as residential inhabitation. The number of incentives both fiscal and non fiscal has also been extended to the units operating in SEZs. Introduction of the SEZ policy has marked the period of emergence of the EPZ policy in India. It is expected to go a long way in determining the success of the EPZs (now called SEZs) in India.

4.2.2 Sri Lanka

First Phase: 1978-1990

The process of industrialization was initiated in the late 1950s when the government formulated a new development strategy with emphasis on industrialization. The industrialization policies initiated in the late 1950s were influenced by the contemporary development thinking and hence were based on the ISI strategy. For around two decades till 1977 Sri Lanka remained a paradigm case of an inward oriented trade regime³³⁾. By the late 1960s, however, the balance of payment situation had worsened in Sri Lanka and there was a new policy emphasis on export promotion within the overall framework of ISI strategy.

Promotion of export oriented FDI turned out to be a pivotal element in the new policy. In 1978, the government set up the Greater Colombo Economic Commission (GCEC) with wide ranging powers to facilitate FDI in the fully export oriented ventures. The Commission was authorised to set up EPZs within an area of authority covering 160 square miles north of Colombo and give approval to FDI. Thus the EPZ policy in Sri Lanka was designed primarily to attract foreign investment within the framework of the export oriented policy regime with significant relaxation of rules governing FDI, developed infrastructure and support services, freedom from diverse industrial regulations, a high quality governance and attractive incentive package.

Second Phase: 1990-1998

A new policy package announced in 1990 introduced several important changes to the FDI policy framework. Besides, GCEC was empowered to develop EPZs in all parts of the country. In 1992, all FDI promotion activities were placed under GCEC with a view to creating a one stop investment promotion centre and the reformed GCEC was

33) Abeyratne, S. (1997) Trade Strategy and Industrialisation in W.D. Laxman ed. Dilemmas of Development Fifty years of Economic Change in Sri Lanka 341-385

renamed the Board of Investment (BOI).

Third Phase: 1998 onwards

Since 1998, BOI has been involved in massive expansion in the EPZ scheme. Six new EPZs have come up during a short period of 1998 to 2000. All the zones (except Koggala) are located in industrially developed districts.

4.2.3 Bangladesh

First Phase: 1984-1998

The policy framework that Bangladesh inherited and maintained at independence in 1971 was geared towards import substituting industrialisation. The process of reform was however initiated as early as in 1975. The reform process was further intensified following major policy declarations in 1982. Under the new policy regime, export promotion became a major concern of the government. A wide array of export incentives were offered to boost exports. In 1980, the Foreign Private investment (Promotion and Protection) Act was enacted to provide equal treatment to domestic and foreign investors. The country started the EPZ programme in 1981 with the creation of the Bangladesh Export Processing Zones Authority (BEPZA) under the BEPZA Act. The first EPZ became operational at Chittagong in 1983-84. Chittagong is one of the most developed cities of Bangladesh. The second EPZ was set up in Savar near the capital city Dhaka. Dhaka EPZ commenced its operations in 1993-94.

Second Phase: 1998 Onwards

Encouraged by the success of these zones, the government recently set up four more EPZs. These are in Mongla, Ishwardi, Comilla and Uttara. Uttara, Mongla and Ishwardi are in the industrially backward regions and have other locational disadvantages in terms of distance from the port and industrial towns. The government has recently approved two more EPZs in developed regions near Dhaka (Adamjee Jute mill) and Chittagong (Steel mill).

4.3. Expansion in Zone Investment and Employment: A Comparative Analysis of India, Bangladesh and Sri Lanka

This paper presents accumulated investment figures in selected years at 5-years interval and the average annual growth rates in accumulated investment in each period.

It shows that in South Asia, Bangladesh zones expanded most rapidly both in terms of investment and employment (see table 4.1). In 1983, the first year of operation, the level of zone employment was 624 in the country in comparison with 24000 in Sri Lanka and 13000 in India in that year. By 2003, Bangladesh left the other two countries far behind in terms of employment and investment levels. One must however note that the growth slowed down in the late 1990s despite the fact that four new zones became operational during this period. Apparently, expansion in the new zones had been comparatively slow.

Table 4.1 Total cumulative investment and employment and growth rates in selected years 1983-2003

Year	Investment (Million\$)			Employment (Number)		
	Sri Lanka	India	Bangladesh	Sri Lanka	India	Bangladesh
1978	20.9			5876		3300
1983	50.4 (28.2)	0.9		24093 (62.0)	624	13000 (58.8)
1988	100.0 (19.7)	17.2 (362.2)	69.9	46104 (18.0)	4207 (114.8)	25625 (19.4)
1993	221.6 (24.3)	131.0 (132.3)		84058 (16.5)	26336 (105.2)	45885 (15.8)
1998	261.2 (3.6)	391.8 (39.8)	223.8 (22.0)	91404 (1.7)	84074 (43.8)	77795 (13.9)
2003	292.3 (2.4)	749.1 (18.2)	388.0 (14.7)	104237 (2.8)	144147 (14.3)	88977 (2.9)

Sources: Based on Ministry of Commerce, India, BEPZA, Bangladesh and BOI Sri Lanka

Sri Lanka followed Bangladesh. It also witnessed rapid growth in investment until the early 1990s when the two zones namely Biyagama and Katunayake were in the expansionary phase. Though the growth rates in investment and employment look similar to India, the comparison is misleading. This is because the base year figures of employment and investment in Sri Lanka are unusually high. In 1978, when the country initiated the programme, the number of employment was around 6000, which was much higher than the employment level in India despite the fact that India started the programme in 1965 and had two operational zones by this year. Employment in Sri Lanka grew faster than India till the early 1990s. In the late 1990s however growth slowed down considerably in although six new zones became operational in Sri Lanka in this period.

India had a very slow expansion in the initial phases of EPZ policy. Expansion in the zones started picking up in the 1980s in terms of employment but total investment

remained abysmally small till the late 1980s³⁴⁾. In the 1990s, investment also started increasing. Growth rates in employment slowed down considerably in the late 1990s but in terms of investment growth rate India outperformed Sri Lanka. Thus, while India started the EPZ programme in the mid sixties, expansion in EPZs started taking place in the 1980s.

Employment levels in the EPZ sector expanded much faster than in the manufacturing sector in Bangladesh and Sri Lanka as compared with India (see table 4.2). Interestingly, the share of EPZs in Bangladesh continued to increase throughout the period, in Sri Lanka, on the other hand, it grew rapidly, reached at 11.6% in 1999 but declined slightly thereafter. In India also the share of EPZs in organized employment increased but the growth was very slow and by 2003, it remained just 1% of the total employment.

Table 4.2 Share of zones in total employment: Bangladesh, Sri Lanka and India (%)

Year	Share in organized employed in India	Share in manufacturing employment in Bangladesh	Share in manufacturing employment in Sri Lanka
1973	0.007		
1983	0.187	0.1	3.7
1986	0.313	0.7	5.2
1991	0.537	1.3	8.9
1995	0.686	2.8	10.9
1999	1.042	4.4	11.6
2003	1.04	5.8	9.3

Source: Ministry of Commerce, Government of India; BEPZA

This chapter shows the share of FDI in total EPZ investment across the three South Asian countries. It shows that Bangladesh and Sri Lanka pulled in significant FDI flows and that FDI plays a pivotal role in the EPZ sector in these countries (see table 4.3).

In contrast, EPZs in India continue to be dominated by domestic investment. This was despite its edge in terms of labour costs, availability of trained manpower and a

34) Data on capital employed is not available for India for all the years.

Table 4.3 Share of FDI in total EPZ investment: India, Sri Lanka and India (%)

Year	India	Bangladesh	Sri Lanka
1982			86.3
1983	n.a.	98.9	86.5
1988	n.a.	79.4	85.2
1993	n.a.	82.7	88.6
1998	17.4	76.2	82.9
2003	24.5	81.1	82.1

Sources: Ministry of Commerce, Government of India; Mondel (2002); BOI, Sri Lanka

stable macroeconomic environment. The share of FDI in total investment increased slowly from 12% in 1989 to slightly over 18% in 2000. During 2000–2003, however, FDI inflows increased faster. By 2003, its share in total investment had increased to 25%. Under the SEZ scheme, therefore, FDI is expected to assume a much larger role.

4.4 Export Performance: A Comparative Analysis of India, Bangladesh and Sri Lanka

The share of EPZs in a country's exports is an index of their relative role amongst various other instruments of export promotion (see table 4.4). In India, the share of EPZs in total manufactured exports was 0.14% in 1973. In the next 5 years, by 1979, the share of EPZs in manufactured exports increased to 0.59%. It moved slowly to touch the figure of slightly over 5% by 2002–03 i.e. in 23 years. In contrast, the share of Sri Lanka zones in manufactured exports in the initial years (1979) was as high as 8%. It

Table 4.4 Share of zones in manufactured exports (%)

Year	India	Bangladesh	Sri Lanka
1973	0.14		
1979	0.59		8.0
1985	4.86	1.5	27.8
1990	4.23	3.4	35.2
1995	4.07	9.9	31.1
2000	5.41	17.9	28.8
2001	5.62	19.5	29.5
2002	5.27	19.7	32.3
2003		21.3	33.2

Source: Ministry of Commerce, Government of India; BEPZA, BOI, Sri Lanka

increased rapidly to 35% by 1990. In the early 1990s, it started decreasing but picked up again in the late 1990s when new zones started operating. Though expansion of the zones in this country slowed down in the late 1990s, export performance appears to have improved. In Bangladesh, the EPZ scheme took off in 1983. The share of EPZs in manufactured exports in 1985 was therefore mere 1.5% percent. Thereafter, the share of EPZs in manufactured exports increased continuously and reached 21.3% by 2003. Apparently, exports from EPZs increased much faster than the overall manufactured exports in Sri Lanka and Bangladesh as compared with India. This is despite the fact that Sri Lanka and Bangladesh had only 2 zones each till the early 1990s while India had 6 zones. Four of them came up in the 1980s.

4.5 Sectoral Composition of Exports in EPZ: A Comparative Analysis of India, Bangladesh and Sri Lanka

One of the objectives of EPZs has been to promote non traditional exports, especially in developing countries³⁵⁾. EPZs make up for infrastructural deficiencies and procedural complexities, offer a more conducive investment climate and are therefore expected to offset the disadvantages of higher costs of production in these countries. They are also expected to attract technology transfers which overcome some of the technological limitations of the firms in high tech sectors. Against that background, it is important to analyze the sectoral distribution of exports in zones across the three countries.

4.5.1 India: In the mid 1980s, engineering sector accounted for the largest share of exports followed by drugs, electronics and textiles in that order (see table 4.5). By the late 1980s, the share of engineering goods started declining. Currently it is around 5% of total exports. The share of drugs also started declining in 1989 and fell from over 25% in the mid 1980s to around 5% by 1991. Decline in textile had been slow but steady. It declined from 15% in 1984 steadily to about 7% in 2002. In contrast, exports of gems and jewellery rose rapidly. In 2002, they accounted for 42% of the total EPZ exports. Electronics exports also grew faster than the overall zone exports. As a consequence, their share almost doubled from 20% in 1984 to 40% in 1997. Thereafter, it fluctuated

35) Madani, D. (1999) A Review of the Role and Impact of Export Processing Zones. Washington, DC: World Bank.

Table 4.5 Sectoral performance of the zones in selected years: India (1985 to 2002) (%)

Year	Drug	Electron	Engineer	Gems	Textiles	Others	total
1985	24.1	19.3	39	0	14.2	3.4	100
1990	26.4	24.6	27.4	10.6	8.8	2.1	100
1995	5.2	30.3	27.9	25.1	6.8	4.7	100
2000	5	39.8	5.6	35.2	8.2	6.2	100
2001	6.2	33.6	4.7	35.2	10.2	10.1	100
2002	6.2	33.6	4.8	42.3	7.2	5.9	100

Source: - Based on the data provided by Ministry of Commerce, Government of India

and in 2002 stood at 33%. Exports of other products, including leather products did not show any perceptible rise. Currently, only two sectors, electronics and gems and jewellery account for three fourths of the total zone exports (see table 4.5). In the electronics sector, over 50% of total exports are currently accounted for by software.

Table 4.6 shows zone-wise sectoral distribution of exports. There have been unmistakable trends of increasing specialisation. Cochin tends to specialise in electronics (in particular hardware), Falta in textiles, Kandla in pharmaceuticals and Vizag in gems and jewellery. Santacruz is allowed to have only electronics and gems and jewellery units. The share of the latter has been increasing in the zones. Noida is also specialising in gems and jewellery while Chennai has electronics, engineering and textile units.

Table 4.6 Sectoral distribution of exports by zone for selected years in India 1991 to 2001 (%)

Zones	Year	Drug	Electron	Engineer	Gems	Textiles	Others
Cochin	1991	28.7	2.2	0.0	16.9	0.0	52.2
	2001	7.4	0.0	4.2	45.3	0.0	43.1
Falta	1991	1.3	10.3	0.0	29.1	0.0	59.3
	2001	61.7	0.0	7.3	1.0	8.7	21.3
kandla	1991	22.2	0.0	11.2	0.0	65.1	1.5
	2001	11.5	0.0	7.4	0.0	67.5	13.6
Madras	1991	44.7	2.0	10.5	31.0	4.6	7.2
	2001	22.2	1.6	23.9	30.2	9.2	12.9
Nodia	1991	7.9	24.1	5.2	22.8	17.9	22.1
	2001	11.8	27.8	11.8	32.3	2.6	13.7
Santacruz	1991	0.0	46.1	0.0	53.8	0.0	0.0
	2001	0.0	53.1	0.0	46.9	0.0	0.0
Vizag	2001	2.1	66.3	21.9	6.9	0.0	2.7

Source: - Based on the data provided by Ministry of Commerce, Government of India

4.5.2 Sri Lanka: Unlike India, zones in Sri Lanka were highly concentrated in the initial phases with textiles and food processing units accounting for over 90% of the total exports (see table 4.7). Gradually the share of these units declined while that of chemicals, manufactured products and services increased (see table 4.7) unfortunately I do not have sector-wise export data for the individual zones. Sector wise investment data for the year 2003 however shows that in Katunayake and Biyagama the share of textiles in total investment in 2003 was 48% and 55% respectively. Koggala, another zone set up in 1991 is highly concentrated with apparel units, which are primarily tailoring shops. Among the new zones, Mawathagama and Polgatawela are occupied by only textile and leather products. Other zones namely Malwatte , Mirigama, wathupitiwela and Horana are more diversified. However, each zone is dominated by one or two sectors. Mirigama and Horana focus on fabricated metal, machinery and transport equipments, Horana on wood and wood products, Malwatte on manufactured products and Wathupitiwela on chemicals and plastics. Unlike India, Sri Lanka zones are getting diversified but this could partly be due to the establishment of the new zones, which are dominated by sectors other than the textile sector.

Table 4.7 Sectoral performance of the zones in selected years: Sri Lanka (1980 to 2003) (%)

Sector	1980	1990	2000	2003
Food, Beverage and tobacco	11.9	4.8	6.9	6.0
Textile, Wearing Apperal & Leather	79.7	64.4	46.3	49.8
Chemicals, Petroleum, Coal, Rubber & Plastic	2.3	4.8	16.0	12.9
Non Metallic, Minerals products	0.2	10.3	4.8	3.5
Manufactured products (N.E.S)	2.1	6.8	13.4	8.4
Service (Includes Agricultural Projects)	3.8	4.5	10.5	11.5
Others	0.0	4.4	2.0	7.9
Total	100	100	100	100

Source: - Based on the data provided by BOI.

4.5.3 Bangladesh: Sectoral break up of exports in Bangladesh reveals that the zones in this country are dominated by textile sector units (see table 4.8). These include, garments, caps, knitting and garment accessories. The share of these sectors increased from 75% in 1995-96 to 87.7% in 2003-04 (see table 4.8). The share of all the sub sectors within textiles increased with the only exception of terry towels and (to a lesser extent) garments. On the other hand, the share of all other sectors (except furniture

Table 4.8 Sectoral performance of the zones in selected years: Bangladesh (1990 to 2003)

Sector	1991-92 (%)	2003-04 (%)
Garments	45.7	44.6
Terry towel	9.7	2.9
Knitting & Other Textile	3.0	8.5
Garments Accessories	0.0	4.0
Caps	3.3	6.6
Tent	7.3	2.9
F& Leather	6.3	3.0
Elec. & Electronics	3.4	2.9
Metal product	1.7	0.9
Plastic goods	0.3	0.7
Textile mfg	13.1	21.2
Fishing Reel & Golf	6.2	0.8
Rope	0.0	0.4
Furniture	0.0	0.8
Paper product	0.0	0.1
Total	100	100

Source: - Based on the data provided by BEPZA

and plastic products) declined in total zone exports of the country.

The contribution of textile sector has increased from 93% in 1995-96 to 98% in 2003-04 in Dhaka EPZ. In Chittagong it remained almost stable at 75%. There are units in the electronics, fishing reel and golf equipments, tents and metal products also but their share varies between 2% to 6%. Among the new zones, Comilla is dominated by textile units, which contribute over 85% of the total exports. Mongla has only Agro product units. This could be due to cash incentive offered by the government on Agro based products in the new zones.

Sectoral patterns in zones' exports across the three countries reveal that the Bangladesh zones are the clusters of textile related units. Of late, there has been some diversification in the zones though it is in vertical direction. For instance, accessories-producing units are being set up in the zones. Sri Lanka zones were occupied mainly by textile units in the initial stages. However, there has been diversification of the zone exports in recent years. New zones are being set up that are dominated by units in other sectors. In India, on the contrary, zone exports were relatively diversified in the initial phases. Subsequently, gems and jewellery and electronics emerged as the

dominant sectors.

4.6 Conclusion

The EPZ policy of Sri-Lanka and Bangladesh evolved to promote exports within the frame work of the export oriented regime, while in India this concept evolved during the ISI regime. The share of FDI in total EPZ investment across the three south Asian countries, it shows that Bangladesh and Sri-Lanka pulled in significant FDI flows and the FDI place a pivotal role in the EPZ sectors in these countries. Apparently, export from EPZs increased faster than the overall manufactured exports in Bangladesh and Sri Lanka as compared with India. Sectoral distribution of export across the three countries reveals that Bangladesh and Sri Lanka are the clusters of textile units. In India, on the contrary, there have been unmistakable trends of increasing specialization.

5. Conclusion

In order to solve the severely felt problems of low savings, dearth of foreign exchange, higher rate of unemployment and lack of technological and managerial skills, Bangladesh has kept its door open for FDI since independence. However, the analysis of the trend and pattern of FDI registered in the country indicates that, on the whole, the volume of FDI has been increasing over the years. All said, Bangladesh has to improve its overall investment climate so as to induce foreign investors. Improvement of political climate, labor productivity and infrastructure are very crucial in this respect. The investment promotion drives of the country should focus more on attracting investors from developing Asian countries than from developed countries. In order to sustain the recent flow of FDI, existing incentive measures and export oriented growth strategy are also very significant to be followed.

Chapter two, analysis of the trend and pattern of FDI registered in the country indicates that the volume of FDI has been increasing over the year. FDI is an important source of capital in Bangladesh.

As regards sources of FDI in Bangladesh, Malaysia by far promises to be the largest investor in the country followed by South Korea, Hong Kong, UK, Japan, Singapore, USA, Germany, India and china. A lower level of inflow of advanced technology and

managerial and marketing skills in the country that is usually associated with FDI from developed countries. FDI to the Bangladesh is predominantly from outside of the south Asian region.

The sector wise of FDI demonstrates that Textiles and Garments sector is the largest recipient of FDI in Bangladesh followed by service sector, drug and chemicals and agro-based sector.

One prominent feature of FDI in Bangladesh is that one or two large investments accounted for the bulk of total investment in a particular year, which indicates the vulnerability of the country's FDI flow to the implementation of those pivotal projects.

Export oriented company's that have attracted most foreign investment in Bangladesh.

FDI in Bangladesh is not mainly 100% foreign-owned subsidiaries of multinationals ? there are numerous joint venture arrangements with differing degrees of ownership and different size of foreign company involved.

Equity participation is found to be the dominant mode of investment and investor prefer joint venture with local entrepreneurs to 100% equity holdings.

Weak law and order, widespread corruption and lack of utility services are major obstacles to attracting foreign direct investment (FDI) to Bangladesh.

Chapter three, analyses the EPZ's performance in Bangladesh. The EPZs in Bangladesh have been instrumental in creating salutary direct benefits in terms of flow of foreign investment, employment generation, export and foreign exchange earnings, and value added.

The total inflow of foreign investment has increased remarkably. However, the volume of FDI is relatively small size. Bulk of the investment in the EPZs has taken place in the RMG and textiles which require neither high technology equipment nor specialized labor.

In the EPZs, although 100percent foreign owned FDI predominates, local share of equity in joint ventures has gone up which reflecting increasing local participation and greater control over the joint venture firms.

The share of EPZs total value added in the organized manufacturing sector shows an increasing trend. EPZ enterprise use mostly intermediate products as raw materials, which are entirely imported from abroad and countries producing these intermediate

products retain a part of the value added. EPZs show a very high trend rate of growth of value added which is more than three times higher than that of the total organized manufacturing sector.

Forward linkages of the EPZs has increased sharply, while backward linkages, though relatively very insignificant. Across different products, however plastic goods, garment accessories and knitting products show strong forward linkages. For the rest of the products, both forward and backward linkages are either very weak or totally absent.

The performance of the CEPZ and the DEPZ reflects the success stories of the EPZs in terms of growth of firms, investment promotion, employment generation, export earnings and revenues from rents. All other indicators reveal highly positive trend.

Chapter four has arranged by Comparison with EPZs performance in South Asian countries. The EPZ policy in Sri Lanka and Bangladesh evolved to promote exports within the framework of the export oriented regime while in India this concept evolved during the ISI regime. EPZs in Bangladesh and Sri Lanka were expected to kick-start the process of industrialization while India did not have a focused set of objectives. Besides, both Bangladesh and Sri Lanka created an elaborate institutional framework to govern the EPZs in the initial stages, while in India there has been no such attempt till recently. One may also observe that Sri Lanka and Bangladesh set up 6 and 4 zones respectively during the late 1990s. In India, only 2 zones, However, one must observe here that all the three South Asian countries are promoting the EPZ programme much more vigorously now than in the initial phases of their evolution.

Employment levels in the EPZ sector expanded much faster than in the manufacturing sector in Bangladesh and Sri Lanka as compared with India. Interestingly, the share of EPZs in Bangladesh continued to increase throughout the period, in Sri Lanka, on the other hand, it grew rapidly. In India also the share of EPZs in organized employment increased but the growth was very slow

Exports from EPZs increased much faster than the overall manufactured exports in Sri Lanka and Bangladesh as compared with India. This is despite the fact that Sri Lanka and Bangladesh had only 2 zones each till the early 1990s while India had 6 zones. Four of them came up in the 1980s.

Sectoral patterns in zones' exports across the three countries reveal that the

Bangladesh zones are the clusters of textile related units. Of late, there has been some diversification in the zones though it is in vertical direction. For instance, accessories-producing units are being set up in the zones. Sri Lanka zones were occupied mainly by textile units in the initial stages. However, there has been diversification of the zone exports in recent years. New zones are being set up that are dominated by units in other sectors. In India, on the contrary, zone exports were relatively diversified in the initial phases. Subsequently, gems and jewellery and electronics emerged as the dominant sectors. Zone wise analysis also reveals an increasing tendency towards specialization though the degree of specialization varies across the zones. Thus while other countries are expanding the scope of the zones (vertically or horizontally), India seems to be facing the reverse trends.

The overall analysis shows that the volume of FDI has been increasing over the years both EPZs and DTA area. FDI is an important source of capital for Bangladesh and Bangladesh may promote economic development by contributing to productivity growth and exports as well as by improving labor skill.

Policy implication

Firstly, to improve country's overall investment climate

Secondly, to take more incentives for the raw or intermediate industries in DTA

Thirdly, making more market development and product diversification

Fourthly, by increasing the facility of utility service and infrastructure in other 4 EPZs except DEPZ and CEPZ

References

- (1) Abdual Bayes and Anu Muhammad (1988), "*A deconstruction of development exercise in Bangladesh.*" P.25
- (2) Abeyratne, S. (1997) *Trade Strategy and Industrialization* in W.D. Laxman ed. Dilemmas of Development Fifty years of Economic Change in Sri Lanka 341-385
- (3) Addition T. and A. Heshmati (2003) "*The New determinants of FDI Flows to Developing countries: Importance of ICT and democratization.*" UNU/WIDER Discussion paper no. 2003/45
- (4) Aggarwal, A. (2002) "*Liberalization, Multinational Enterprises and Export Performance:*

- Evidence from Indian Manufacturing*", Journal of Development Studies, Vol 38, No. 2, 119-137.
- (5) Aggarwal (2004) "*Export Processing Zones in India: Analysis of the Export Performance*" , ICRIER working paper No. 148.
 - (6) Agrawal P. (2000), "*Economic impact of foreign direct investment in south Asia*". Washington DC: World Bank.
 - (7) Aitken B. and A. Harrisson (1999), "*Do domestic firms benefit from direct foreign investment*", American Economic Review 89 (605):618.
 - (8) Anu Muhammad (2000): "*Economy of Bangladesh (in Bangla)*", Dhaka.
 - (9) Athukorala, P. (1997) "Foreign Direct Investment and Manufacturing for Exports in W. D. Laxman ed. Dilemmas of Development Fifty years of Economic Change in Sri Lanka 386-422.
 - (10) Azim. M. T. (2000), "*Determinants of Foreign Direct Investment in Bangladesh, The cost and management accounts*", no.2, vol. 17, Dhaka.
 - (11) Azim. M. T (April 2000) "*Foreign Direct Investment in Bangladesh*", BISS journal, volume 21, ..
 - (12) Bangladesh Bureau of Statistics, annual report (2000).
 - (13) Board of Investment, Bangladesh (1996), annual report.
 - (14) Board of Investment, Bangladesh (2000), annual report.
 - (15) Board of Investment handbook 2002, page 16
 - (16) Board of Investment handbook 2002
 - (17) Board of Investment (BOI) report 2002.
 - (18) Borensztein E., J.De Gregorio and J. Lee (1998), "*How does foreign direct investment affect economic growth*", Journal of international economics 45: 115-135.
 - (19) Brarnble, B. (2000), "*Financial Resources for the Transition to Sustainable Development*", earth summit 2002; a New Deal, Earth Scan Publication.
 - (20) Caves (1996), "*contain a brief summary of the debate about the role of FDI in economic development*".
 - (21) Choudhury. N.I. and Saha. S.R. (2001), "*Foreign Direct Investment in Bangladesh: Expectations and Realities*", Bank Parikrama, vol.15,pp. 70-91.
 - (22) CPD (2003), "*Changes and Challenges: A review of Bangladesh' s Development 2002*".
 - (23) Dunning, J.H. (1993), "*Multinational Enterprises and the Global Economy*", Reading: Addison- Wesley
 - (24) Dunning [1998], "*Changing Geography of Foreign Direct Investment: Explanations and Implications in Nagesh Kumar et al. Globalization, Foreign Direct Investment and Technology transfers: Impacts on and Prospects for Developing Countries*", London and New York: Routledge.
 - (25) ECOSOC (2000), "*Financial Resources and mechanisms*" (ch.33 agenda 21)
 - (26) Government of Bangladesh (2000), "*Guide to investment in Bangladesh*", Board of Investment, Dhaka.
 - (27) Government of Bangladesh (2000), Ministry of industry and commerce.

- (28) Madani, D. (1999), "*A Review of the Role and Impact of Export Processing Zones*". Washington, DC: World Bank.
- (29) Michael P. Todaro (sixth edition), "*Economic development*", chapter 15 p. 533
- (30) Ministry of finance report 2002
- (31) Mondal, A.H. (2003), "*Role of the Export Processing Zones in Bangladesh: Lessons for the Future*" in Rushidan Islam Rahman (Ed.), *Performance of the Bangladesh Economy: Selected Issues*, Bangladesh Institute of Development Studies, Dhaka, 2003, pp. 93-122
- (32) OECD (1998) investment incentives and disincentives effect on international direct investment, Paris.
- (33) Papanastassiou, M and Pearce, R.D (1990), "*Host country characteristics and the sourcing behavior of UK industry*" Discussion paper in international investment and business studies, series B, Vol.ii, no.140, Department of Economics, University of Reading.
- (34) Qazi Kholiquzzaman ahmed (July 1999), "*The Manufacturing Sector of Bangladesh- an overview*", BDS journal.
- (35) Qazi Kholiquzzaman Ahmed (autumn 2000), "*The Manufacturing Sector of Bangladesh*", BDS journal.
- (36) Stephen.C.Smith (Fall 1999), "*Multinational corporations in the third world*", Towson state journal of international affairs.
- (37) Svensson.C. (1996), "*Private Foreign Investment in Bangladesh*", Minor Study Series, no.21, Department of Economics, University of Lund, Sweden.
- (38) Vernon, R. (1966), "*International investment and international trade*" Journal of Economics, No.88, pp.190-207.
- (39) World Investment Report 2002, country fact sheet: Bangladesh.