

Political economy of the concept of Export Processing Zones and its contribution to the national economy

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Abstract: *Bangladesh, with its rising wave of imports and exports, has experienced a series of industrial policies. The country is on its track to bring structural change by pursuing export led growth strategy for attracting investment specially from abroad.*

Bangladesh has eight export processing zones. This paper is an attempt to explore the background of introducing EPZs in a newly independent, war ruined country. It also has attempted to shed light on the political economy of trade liberalization and its impacts on foreign investment and technology transfer to enhance employment and productivity.

The success story of EPZ might be a milestone for the newer concepts such as specialized economic zones (SEZs) or other similar concepts. The establishment of more newspecialized zones may enhance the ability to eradicate poverty and inequality in society through enhancing productivity and efficiency in the overall economy.

1. Introduction

‘Export Processing Zones (EPZ)’ or ‘Special Economic Zones (SEZ)’ are contained geographic regions within a country i.e. a demarcated area of land used to encourage industrial enterprises, service and manufacturing with a view to export mainly, characterized by liberal customs and taxation policies along with different incentives (Shah, 2008).

There are many terminologies conveying somewhat similar concept to define EPZs, but challenging at the same time. In different academic papers it is found many different terms for roughly similar establishments and arrangements as used in different countries. Out of them, the names commonly used are Export

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Processing Zone, Special Economic Zone, Free Trade Zones, Foreign Trade Zone, Free zones, etc. The term 'Export Processing Zone' is by far the most common one and has been projected to become a standard term which today seems to be the case, given its dominant use in literature and reports of the International Labour Organization (ILO).

For better understanding the ILO has defined EPZs as "industrial zones with special incentives to attract foreign investors, in which imported materials undergo some degree of processing before being (re) exported again". In a study the ILO and the United Nations Centre on Transnational Corporations (UNCTC) refers EPZ as "a clearly delineated industrial estate which constitutes a free trade enclave in the customs and trade regime of a country and where foreign manufacturing firms producing mainly for export benefit from a certain number of fiscal and financial incentives." The World Bank, in a different tone, identified EPZs as "an industrial estate, usually a fenced-in area of 10 to 300 hectares that specializes in manufacturing for export." It then goes on to list some common incentives, the zones usually offer to the investors therein.

In 1934, the United States issued 'Foreign Trade Zones Act' to allow the establishment of specialized area designated 'Foreign Trade Zone' (US Foreign Trade Zone Board, 2012). The objectives of the zones were to support and promote international trade, both exports and imports. The first specialized zone has been founded in 1937 in New York

With the improvement of the EPZ concept different countries have tried to add more and more incentives to attract footloose investors to their enclave. To this end, various incentives such as well developed industrial plots or standard factory buildings, the supply of gas or energy, telecommunications and building infrastructure along with cheap labor are being offered.

By following this trend the Specialized Zone in Ireland was created in 1959, although the concept of "areas with special privileges" has existed at least since the 16th century (Guangwen, 2003). In 1975, there were only 79 specialized zones (EPZs) worldwide (ILO, 2007). In Asia, countries like Taiwan, Singapore, Malaysia and the British colony of Hong Kong grasped the concept that economic growth must be upheld through export promotion rather than import substitution. Therefore the establishment of exclusive privileged areas with liberal tax and labor management could attract investors from home and abroad. After China's economic reforms in the 1980s, the concept has gained international popularity and there were about 500 EPZs in the world in 1995 (Moberg, 2013). In 2003, the number of these areas has increased to over 3,000 in 116 countries.

India, the first country in Asia, realized the importance of Export Processing Zones (EPZs) for development of the economy. The first EPZ was established in Kandla (Gujarat) in 1965, followed by the EPZ Santacruz (Maharashtra) in 1973. Then,

another eighty-five areas came into light designated as Noida SEZ in Uttar Pradesh, Falta SEZ in West Bengal, Cochin special economic zone in Kerala, Chennai SEZ in Tamil Nadu and Visakhapatnam SEZ in Andhra Pradesh. They have experiences of success and failure, India has developed the idea of special economic zones (SEZs) officially by the formal adoption of the "Special Economic Zones Policy 2000" and "Special Economic Zones Act 2005" (Aggarwal, 2010). The SEZ is a specifically delineated duty free enclave and shall be considered as foreign territory for the purpose of trade operations, duties and tariffs. Following this policy, all existing EPZs have all converted into SEZs³.

Keeping the global foreign direct investment (FDI) inflow in mind, the Chinese government has created the concept of SEZs in the eighties. It has begun in the 1980s, when market-oriented reforms in selected areas of SEZs have been introduced. Shenzhen, the fishing village in China, became the first special economic zone there. Then more and more investment by foreigners in Shenzhen shows capitalist reforms in China. From 1979, China has gradually created SEZs in its municipalities with property rights protection, tax breaks and a preferential land policy specifically for foreign investors. This SEZ experiment has transformed China into one of the largest FDI recipients, exporters and foreign exchange reserve holders in the world (Prasad & Wei, 2006).

The success of special economic zones (SEZs) in China has encouraged other developing countries to integrate SEZs in their growth plans. From Indonesia to the Middle East, countries at different stages of development have led to special economic zones to attract foreign investment, boost exports, create jobs, boost the industry, improve existing infrastructure, and many other benefits (Shah, 2008).

Developing countries, with a view to capitalist rise up have decided to transform their economy from import substitution to export promotion strategy. Keeping the strategy in mind, different countries have made their policy of attracting local and foreign investment. To enhance their employment, transfer of modern technology and to uphold the export by promoting investments in industrialization, several specialized incentives fiscal and non-fiscal, are being offered in the EPZs and special economic zones. Apart from these, some backward and forward linkage industries and some informal organizations also developing around this specialized areas. EPZs can stimulate economic growth through different mechanisms. Both of them have attracted foreign direct investment (FDI) and have helped domestic enterprises to develop, as they move to areas with more liberal policies across the country (Moberg, 2013). Many developing countries have taken this concept since 1960 to promote industrialization (Amirahmadi, & Wu, 1995). But because of its positive impacts on economic and employment generation supported by empirical findings has made the concept of EPZs an attractive economic policy for developing countries (Eusuf et al, 2007).

³ <http://sezindia.gov.in/about-introduction.aspx> accessed on 26 April, 2016.

2. METHODOLOGY

The study has employed a mix of both quantitative and qualitative information to make the convincing case based on secondary information published in different academic papers, journals, annual reports or related websites. The time series data have been used to carry out trend analysis which has been presented in the forms of tables and graphs. Data and information has been collected from reports and websites of Bangladesh Export Processing Zones Authority (BEPZA), Board of Investment (BOI) and by observing the websites of Export Promotion Bureau (EPB), Bangladesh Small and Cottage Industries Corporations (BSCIC), Hi Tech Park Authority, Private EPZ Authority.

It has been tried to represent political economic judgment in Bangladesh period i.e. the role of EPZs as a specialized industrial enclave in the national economy through trade liberalization, attract investment, technology transfer and enhance employment compared with other investment promotion initiatives.

3. Indepth study of the Export Processing Zone of Bangladesh to see its contribution to the economic and employment situation.

Generally, specialized zones designed to improve the prosperity of the country. There are several forms of specialized zones depending on the establishing objectives, the country's infrastructure, politics, and geography. The specialized zones can be divided into 06 (six) categories (Pakdeenuritet. al, 2014) such as:

a. Free Trade Zone (FTZ)

Free trade zone in other name foreign trade zone is one of the most prominent forms of specialized zones. It is a duty free zone that provides essential services for trade, transport, and import and export business. For business operated in this area, rules and regulations on tariffs, labor and the environment might be exempted or reduced or less controlled.

b. Export Processing Zone (EPZ)

EPZ is like FTZ in terms of estate encompassment. However, the tax benefit and other regulations are different. EPZ is established as a general commercial area, integrated with a special export process. The physical installation or area of the FTZ or EPZ could be completely separated or integrated.

c. Enterprise Zone

In general, the enterprise zone or manufacturing zone is established by the government in several communities. The implementation of such specialized zone intends to provide a better quality of life for people in the community and to enhance competitiveness of the community or even the country. A privilege for such type of zone is financial assistance for local development.

d. Single Factory

Individual plants can be called in various names such as Industrial estate, Industrial Park and IT Park, etc. The purpose of developing such specialized zone is to increase specialization in a selected industry to raise the ability to compete with rest of the world in same sector. This type of specialized zone can be set anywhere, regardless of location.

e. Free ports

Free port or harbor or port economic zone is one of the most expansive types of specialized zone. Free port economic zone is typical in promoting the activities related to trade. The activities are travel, tourism and retail sales. The businesses within such zone get exemption from tariff but excise tax or duty may apply.

f. Special Economic Zone

Special Economic Zone has been established for a specific purpose. The well known examples are of Specialized Technology Park, petrochemical zone, logistics and warehousing park, airport based economy, tourism based zone, multiple product special economic zone, etc.

3.1 Evolution of Industrial Policies in Bangladesh.

Bangladesh has declared several industrial policies having different objectives with the mandate of the different regime of political parties in power, since independence in 1971. These are:

1. Industrial Investment Policy 1973
2. New Industrial Investment Policy 1974
3. Revised Investment Policy December 1975
4. New Industrial Policy 1982
5. Revised Industrial policy 1986
6. Industrial policy 1991
7. Industrial policy 1999
8. Industrial Policy 2005.
9. Industrial Policy 2009.
10. National Industrial Policy 2010.

Industrial investment policy 1973 Through this policy, it was announced in the newly born Bangladesh restricting role of the private sector by limited permissible investment to Tk.2.5 million. Foreign private investment was allowed only in partnership with the public sector with minority equity participation. In a war

ruined country the then all abandoned medium and large enterprises were brought under strict state control. Small and cottage industries, as well as foreign companies were allowed to remain outside the framework of governance. A total of 725 industrial units with 92% of the total industrial fixed assets in the modern manufacturing sector were placed under 10 public sector corporations (Bhattacharya 1992; Zohir, 1995).

New industrial investment policy 1974 This policy has been aimed to mend the problem of the first policy towards stimulating private sector activity. A series of measures have been taken by the government and most of the time, to attract private investors. the investment ceiling was strengthened and made arrangements for monetary incentives from Tk 2.5 million to Tk 30 million (later Tk 100 million) to allow more corridor for the development of a suspension for the nationalization upto 15 years.

In the **revised investment policy, December 1975** remarkable changes have been taken place such as amendment of the constitution to allow denationalization, elimination of ceiling on private investment on oil, relaxation of investment sanctioning procedures, shifting from 1970s fixed rate system to the floating exchange rate system, reviving the stock market, introduction of a number of export promotion measures, etc. In the name of denationalization and privatization, companies have been sold out at knockdown prices to those who have very little entrepreneurial experience. The effective level of support as enjoyed by import substitution and export promotion of industries in the period tend to bear out the fact that Bangladesh has proceeded a very little to expose their industries to the outside world.

In 1982, through the new industrial policy, many nationalized jute and cotton textile factories were transferred to the local owners. The revised Industrial Policy of 1986 simply followed the earlier moves towards the deregulation of ongoing structural adjustment program providing more incentive instruments available to the exporters. In terms of depth some obvious differences could be noticed in the policy 1991. The whole Industrial Policy was premised on the philosophy of a competitive market-based economy. Some of the most brilliant political initiatives are committed to attract the investors, i.e. the elimination of concessionary interest rates and special credit facilities, removal of all conditions of the authorization for the creation of new industries, the abolition of restrictions to foreign participation.

Industrial policy in 1999 was perhaps the most comprehensive policy to strengthen the role of the private sector. It was the first policy that had a real vision of industrial development and the targets set in the policy statement was a clear sense of direction. The main objectives and strategies of **industrial policy 2005** was more or less similar to those of the 1999 policy by keeping the dominant role of the private sector in industrial development.

Investing in EPZs has significant effect on FDI as well economic development

regards to employment generation (Industrial policy 2005). The major objective of **industrial policy in 2009** was to provide the policy and institutional framework that created a momentum of accelerated economic growth. The policy aimed at creating a positive, proactive and supportive environment in which private investors can operate without unnecessary bottlenecks, delays and interferences. **National industrial policy 2010** aimed at achieving the Millennium Development Goals (MDGs) through adoption of short, medium and long term programs.

4. THE INDUSTRIAL EXPERIENCES IN BANGLADESH

Bangladesh Small and Cottage Industries Corporation (BSCIC)

To care about industrialization through the creation of small entrepreneurial society, Bangladesh Small and Cottage Industries Corporation (BSCIC) was established in 1957 with the vision of accelerating industrial growth through the promotion of small industries and handicrafts in Bangladesh. In fiscal year 2012-2013 the contribution of Small and Cottage Industry (SCI) was about 5.27 percent of GDP. SCI is to fight poverty through its capacity under the guidance of the Ministry of Industry in order to increase industrial production and productivity and job creation (Table-2).

Table-2

Sl. No.	Category	Number (upto June 2014)
1	Number of industrial estates implemented	74
2	Number of industrial plots	10,338
3	Number of plots allotted	9,779
4	Total investment in the industrial units (BDT in crore)	18,897.14
5	Employment in the units (person)	5,26,141
6	Contribution to the national export from the estates (%)	9.69

Source: <http://www.bscic.gov.bd/> accessed on 05 March, 2016.

Export Processing Zone (EPZ)

After independence, several natural disasters and unstable political environment branded the country an unattractive destination for foreign investors. The World Bank then declared Bangladesh as the least developed countries in Asia. It took three decades to transform from an agriculture based economy to an industry based one. The newly independent Bangladesh aspired to boost its economy through industrialization. In view of the growing need of attracting foreign and local investment, the concept of Export Processing Zones (EPZs) established to enhance investment, employment, export, to transfer technology and to earn foreign exchanges. The first EPZ was established in 1983 in the port city of Chittagong and due to its great success the second one came into light in 1993 near the capital city Dhaka, playing a pioneering role in attracting foreign direct investment. The economic development of Bangladesh can be divided into three phases; these are 1972-1978, 1979-1990 and 1991 to date (Hossain and Cheng, 2005). Bangladesh

has opened up its economy with related trade liberalization (the fifth five-year plan, 1997-2002 GOB) which has geared up the economic parameters like exports, employment, investment, etc., and boomed the private sector for economic development.

After all, the Government of Bangladesh (GOB) has decided to allow capital investment in the export processing zones (EPZs) in the name of industrial development. It was the challenge for Bangladesh to invite investors by offering good management practices, political stability compared with other countries which attract FDI (Harigopal 2001). After that many questions arise for looking after the matter related to foreign investors, administration, land acquisition, operation and so on. After several discussions and open consultations GOB created the Export Processing Zone Authority of Bangladesh (BEPZA) as an autonomous body (BEPZA Act 1980) under the direct supervision of the Prime Minister's Office (PMO). Government of Bangladesh has adopted an "open door policy" to attract investment from home and abroad through industrialization. By this way Bangladesh has established 08 (eight) EPZs (Table-3) under the regulation of BEPZA as mentioned in the table below.

Table-3

No.	Name of EPZ	Year of establishment	Location	Size/ Area (acres)
1	Chittagong EPZ	1983	Halishohor, Chittagong	453.00
2	Dhaka EPZ	1993	Ashulia, Dhaka	356.22
3	Comilla EPZ	2000	Comilla Town	267.46
4	Ishwardi EPZ	2001	Pabna	309.00
5	Uttara EPZ	2001	Nilphamari	212.00
6	Mongla EPZ	1999	Mongla, Bagerhat	255.41
7	Adamjee EPZ	2006	Siddirgonj, Narayanganj	245.12
8	Karnaphuli EPZ	2006	Potenga, Chittagong	209.06

Source: BEPZA Annual report 2013-2014.

Industries under Board of Investment (BOI)

With enactment of 'the Investment Board Act 1989' Board of Investment (BOI) was established under the control of Prime Minister's Office, Bangladesh with its headquarter in Dhaka and other five divisional offices. BOI encourages private investment and provide necessary assistance to industries to be set up in all over the land except BSCIC, Textile industries, EPZ and Economic Zones having approval of the Board (BOI) and registered in the prescribed manner (The Investment Board Act 1989).

Investment The projects registered under BOI are dominated by the local ('C' type) investors, about 72% during FY 2006-07 to FY 2014-2015. On the other hand remaining 28% are foreign plus joint venture ('A' & 'B' type) investment. Below is a table which shows the investment and employment opportunity created

from FY 2006-2007 to FY 2014-2015 (Table-4). Total investment and employment registered have increased over the period.

Table-4

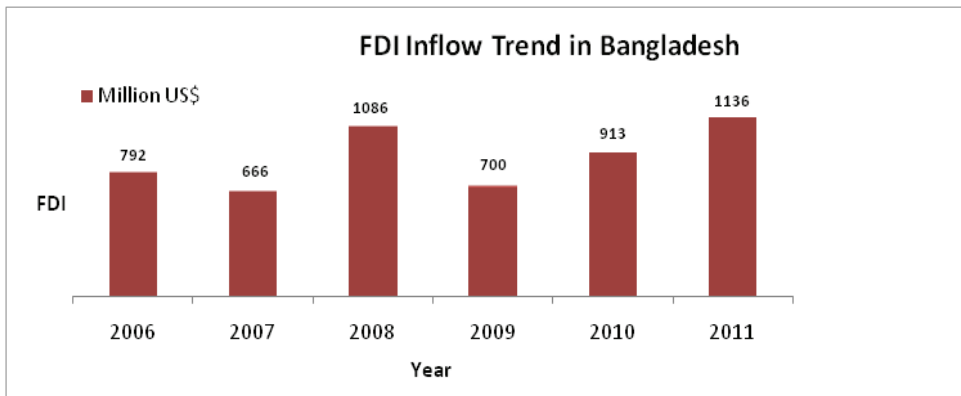
Private Investment Proposals Registered with BOI from FY 2006-07 to FY 2014-15(up to December)

Fiscal Year	'C' type Investment Proposals Registered		'A' & 'B' type Investment Proposals Registered		Total Investment Proposals Registered		Total Employment opportunity created (Person)
	Number of Projects	Project Value (Million Taka)	Number of Projects	Project Value (Million Taka)	Number of Projects	Project Value (Million Taka)	
2006-07	1,930	196,580.902	191	119,251.081	2,121	315,831.983	458,478
2007-08	1,615	193,530.073	143	54,328.849	1,758	247,858.922	410,744
2008-09	1,336	171,174.916	132	147,496.092	1,468	318,671.008	308,037
2009-10	1,470	274,136.882	160	62,607.587	1,630	336,744.469	330,663
2010-11	1,746	553,690.466	196	365,242.771	1,942	918,933.237	503,662
2011-12	1,735	534,769.057	221	344,168.157	1,956	878,937.214	451,150
2012-13	1457	446148.388	219	220721.295	1676	666,869.683	309,709
2013-14	1308	497593.245	124	185318.034	1432	682,911.279	224,943
2014-15	609	349431.535	57	56666.29	666	406,097.800	99,125
Total:	13,206	3,217,055.464	1443	1,555,800.156	14,649	4,772,855.595	3,096,511

Source: Policy and Planning wing, Board of Investment

Actual FDI inflow trends in Bangladesh The Foreign Direct Investment (FDI) comes to Bangladesh in the form of equity, borrowings and reinvested earnings of the existing projects. Through the half yearly enterprise survey, Bangladesh Bank collects and compiles the time series data of FDI inflow into the economy. Since 2006 FDI inflow has gradually increased from US\$ 792 million in 2006 to US\$ 1527 million in 2014. The following diagram shows the trends in actual FDI inflow in Bangladesh.

Figure-1



Source: BOI Annual Report 2014, Page-26.

5. NEW CONCEPT FOR INVESTMENT

Private Export Processing Zone

With enactment of 'the Bangladesh Private EPZ Act-1996' two companies got license for establishing industrial parks or private EPZ. But the Rangunia Export Processing Zone, owned by Chittagong Industrial Park Ltd., did not see the light of the day. Only Korean EPZ by 2,500 acres of land in Chittagong, operated by Youngone Corporation, the largest investor in CEPZ and DEPZ, came into light in limited capacity within two decades. Youngone Corporation operating in 12 countries today, incorporated in 1974 in Korea is a manufacturer of clothing, sports-wear, backpacks, fabrics, dyeing and finishing of synthetic fabrics, sports shoes. But their inability to run the Korean EPZ in Bangladesh disappointed the GoB⁴.

Bangladesh Hi-Tech Park Authority (BHTPA)

In 2010, the government of Bangladesh has enacted 'the Bangladesh Hi-tech Park authority act' with a view to implementing its political agenda 'Vision 2021' using information and communication technology (ICT) and Development of favorable business environment for innovative companies. BHTPA is the official body of the Government of Bangladesh for creation, management, operation and development of Hi-Tech Parks in the country. Kaliakoir Hi-Tech Park, Jessore Software Technology (IT) Park, Sylhet Hi-Tech Park, Mohakhali IT Village, Janata Tower Software Technology Park are important and priority projects of the authority which would be the milestone for development of IT sector as well as industrialization of Bangladesh. Kailakoir Hi-Tech Park, near to city of Dhaka, is the first state level Hi-Tech park in Bangladesh. The project is now under feasibility study⁵.

Economic Zone (EZ)

Getting inspired from the success story of the concept of EPZ, the GoB has established 'Bangladesh Economic Zones Authority (BEZA)' officially instituted with the power provided by the Bangladesh Economic Zones Act, 2010. As the more liberal concept for investment economic zone will be composed of several divisions, such as:

- Export Process Area: Specified for export oriented industries;
- Domestic Processing area: Specified for industries to meet the demand of the domestic market;
- Commercial Area: Specified for business organizations, banks, warehouses, offices or others;
- Non-Processing Area: Specified for residence, health, education, amusements, etc;

⁴ <http://www.aimicrosys.com/KEPZ/index.php> accessed on 05 March, 2016.

⁵ <http://www.bhtpa.gov.bd> accessed on 05 March, 2016.

BEZA aims to establish 100 Economic Zones on 30,000 hectares of land in the next 15 years with an employment generation for 10 million people. BEZA Governing Board decided in 2012 to establish five state run economic zones in the following proposed locations:

- Maulovibazar EZ, Sylhet.
- Mirsarai EZ, Chittagong.
- Mongla EZ, Bagerhat.
- Sirajgonj EZ, Sirajgong.
- Anowara EZ, Chittagong.

So far the authority or board permitted to establish the below mentioned 10 (ten) private Economic Zones (Table-5) as follows:

Table-5

S/N	Name	Upazila	District	Land Area (acres)
1	A K Khan Private Economic Zone	Polash	Narshindi	200
2	Megna Industrial Private EZ	Sonargaon	Narayangonj	80
3	Megna Private EZ	Sonargaon	Narayangonj	68
4	Aman Private EZ	Sonargaon	Narayangonj	150
5	Abdul Monem Private EZ,	Gojaria	Munsigonj	197
6	Bay Private EZ	Gazipur	Gazipur	65
7	United City IT Park Ltd. Private EZ	Badda and Vatara	Dhaka	2.43
8	Arisha Private EZ	Keranigonj, Savar	Dhaka	84.95
9	East-West Special Private EZ	Keranigonj	Dahaka	54
10	Bosundhora Special Private EZ	Keranigonj	Dahaka	56

(Source: <http://www.beza.gov.bd/all-zones/> accessed on 05 August, 2016)

6. EXPORT PERFORMANCE OF BANGLADESH

In 1980s and 1990s, Bangladesh has commenced significant changes in trade as well as economic policies. It has faced structural adjustment reforms and trade liberalization through considerable reduction of tariff and non-tariff barriers, and incentives to export. During 1970s the export figure from the country has increased at 7.8% per annum. The subsequent changes in economic policies have led to reasonably improvement in export performance making the figure to increase at an annual 9.1% in 1980s. In this sequence it has grown up in the following years. The export-GDP ratio has also increased over time from 5.6% in 1990 to 19.4% in 2008.⁶

Challenges of Export Potential of Bangladesh

There are many impediments in Bangladesh which have detrimental impact on

⁶ World Development Indicators; www.worldbank.org.

export performance. Domestic 'behind the border' constraints like infrastructure, communications, ports, implementing capacity, functioning of related institutions, etc coupled with 'beyond the border' constraints, such as inadequate market access, environmental conditions, compliance, etc have contributed to the highly concentrated export basket (Hossain and Kabir, 2011). There will be growing competition in the coming years and Bangladesh will gradually lose its current comfort in the international market due to cost of doing business, tariff rationalization in energy and other utilities and medium income country status (N. Khundker, 2002). Bangladesh needs to address the above-mentioned constraints to realize the significant potential which already exists, and gradually secure a good standing amongst its competitors in the long run (Kabir, 2012).

PROSPECTS AND PROBLEMS OF INDUSTRIAL INVESTMENT IN BANGLADESH OTHER THAN EPZ AREA

BSCIC is prospective to employ the root level people with a very small investment but it is still weak and contribution is low. Though BOI is dealing with the largest area of the country, it has some systematic shortfalls, inadequate manpower to deal with. It has low control over the different branches of the government to serve their investors. Private EPZ started with the vision of investing in a large scale without bureaucratic procedure but it is crawling over the decades and couldn't come into the light. Hi-Tech Park and Economic Zones are very new concepts with vast prospects in the current and future world but they are under the purview of basic feasibility study stage.

7. RATIONALE OF SETTING UP EPZ: BANGLADESH PERSPECTIVE- BACKGROUND

Since independence in 1971, Bangladesh has offered a series of industrial policies having specific objectives and priorities. In a war bust country, the then all abandoned medium and large enterprises were placed under the strict control of the State in the Industrial Policy of 1973. In the second policy, measures were taken up mostly to attract private investors. Industrial investment policy was revised in 1975 and the significant political changes that simplified the approval of the disbursement procedures of investment and lending were introduced. The enterprises were sold at affordable prices to the very little entrepreneurs experienced parties, in the name of denationalization and privatization. In the Industrial Policy 1991, the overall industrial policy was premised on the philosophy of a competitive market-based economy. "The Bangladesh Export processing zones Authority Act-1980" came into light with a view to import substitution and export promotion strategy. To expedite the notion some special features were defined in the Act:

1. The objects of the Authority shall be to foster and generate economic development of Bangladesh by promoting foreign investments, by diversifying the sources of foreign exchange earnings, by increasing

export, by strengthening the economic base of Bangladesh, to generate productive employment opportunity and to upgrade labour and management skills through acquisition of advanced technology.

2. There shall be a Board of Governors of the Authority which shall consist of the Hon'ble Prime Minister as Chairman; concerned Minister-in-charge of the Ministries or Divisions dealing with industries, commerce, finance, planning, foreign affairs, energy and ports and shipping as member alongwith Governor, Bangladesh Bank, Chairman, National Board of Revenue and the Secretaries of the said ministries
3. The policies formulated, orders given and instruction issued by the Board of Governors shall be deemed to be issued by the Government; and they shall not require any formal approval of any Ministry or Division dealing with the matters for their implementation.
4. It shall have an Executive Board appointed by the government which works alongwith a dedicated managerial body with autonomous power to serve the investors promptly within one roof.
5. The Act has empowered the zones to exempt from operation of certain laws only for simplification.

7.1 ECONOMIC RATIONALE OF EPZS: STATIC BENEFITS

The major functions (Eusufet al, 2007)of BEPZA are related to infrastructure, basic utility services and customer related support, assistance in investors performing, promotional activities and working with investors to readjust the services as necessary. However, establishment of EPZ in Bangladesh contributes the economy in terms of employment, export, investment, etc. (Islam & Mukhter, 2011).

Investment

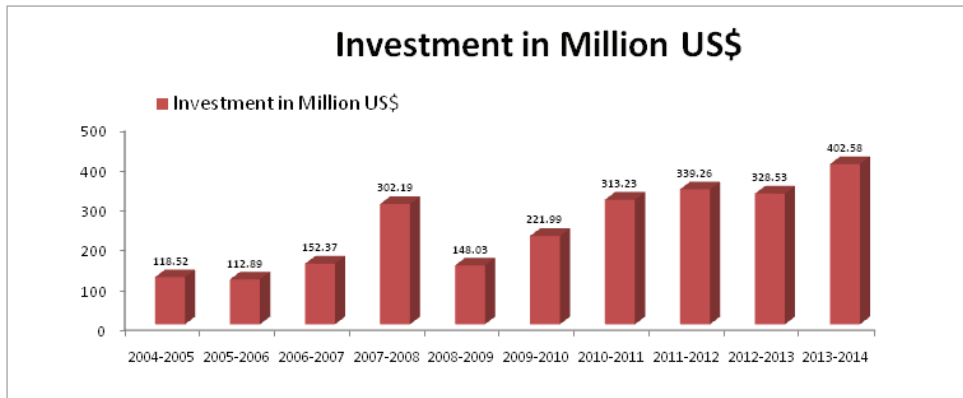
Since inception, it has been able to attract cumulative investment of US\$ 3,188.07 Million in the industrial enterprises of EPZs under BEPZA within FY 2013-2014 (Table-6). Almost 37 countries including Bangladesh, India, China, Japan, South Korea, Malaysia, U.A.E., Turkey, Ukraine, Rumania, United Kingdom, Italy, Netherlands, Spain, Germany, Sweden, Switzerland, Belgium, Canada, U.S.A and Australia have invested in the EPZ's of Bangladesh. Out of them about 28% is from Bangladeshi investors while joint venture investment is 15% and rest is full foreign investment (Source: Investment Promotion department of BEPZA).

Table-6 Year wise actual investment for a decade from EPZs under BEPZA.

Financial Year	Actual investment (Million US\$)	Financial Year	Actual investment (Million US\$)
2004-2005	118.52	2009-2010	221.99
2005-2006	112.89	2010-2011	313.23
2006-2007	152.37	2011-2012	339.26
2007-2008	302.19	2012-2013	328.53
2008-2009	148.03	2013-2014	402.58

Source: BEPZA Annual Report 2013-2014;

The annual actual investment trend is uprising for the decade of FY 2004-2005 to FY 2013-2014 (Table-5 & Figure-2) with exception of FY 2008-2009 and FY2009-2010 only due to impact for absence of elected government and democracy during 2007 to 2008 period in the country.

Figure-2 Year wise actual investment for a decade from EPZs under BEPZA.

Source: BEPZA Annual Report 2013-2014;

The political stability, investment friendly economic policy and the good services provided by the EPZ authority attracted remarkable investment in the years after 2010. The annual growth rate of the investment was positive in this period but jumped in FY 2007-2008, FY2010-2011 and in FY 2013-2014.

Export

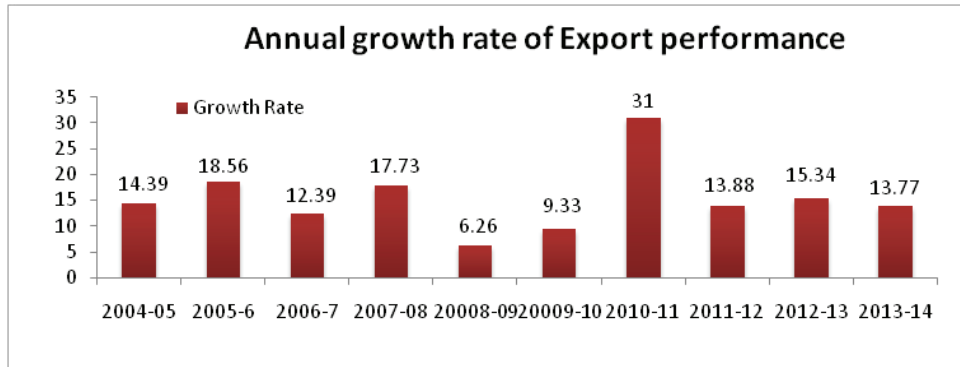
The trend of exports in the decade of 2004-2005 to fiscal year 2013-2014 has increased in recent years (Table 7). The export of 2004-2005 was \$ 1,548,000 which was gradually increased almost four times the US \$ 5,525 for 2013-2014.

Table-7 Year wise export in a decade from EPZs under BEPZA.

Financial Year	Export (Million US\$)	Financial Year	Export(Million US\$)
2004-2005	1548.68	2009-2010	2,822.54
2005-2006	1836.18	2010-2011	3,697.62
2006-2007	2063.67	2011-2012	4,210.80
2007-2008	2429.58	2012-2013	4856.68
2008-2009	2581.71	2013-2014	5525.00

Source: BEPZA Annual Report 2013-2014;

The export volume is increasing over the years but the annual growth rate of export performance possess quite ups and down nature.

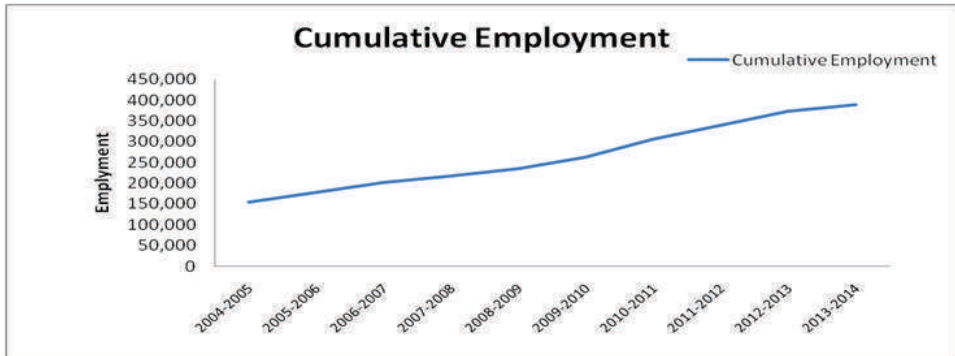
Figure-3 Annual growth rate of Export performance

Source: BEPZA Annual Report 2013-2014;

The annual growth rate of export performance during the decade is positive and quiet upward except FY 2008-2009 and FY 2009-2010(Figure-3). After two years of non-elected government regime the economic impact in every aspect fell slow then. But after that regime with the prudence of elected democratic government the economic parameters got overcome as in FY 2010-2011.

Employment

Upto FY 2013-2014 a total of 3,89,017 Bangladeshi people have been directly employed in the EPZ enterprises. Moreover a large number of foreign people also work there having Bangladeshi work permit with limited time. In FY 2004-2005 the employment in EPZs was 15,802 Bangladeshis which had been increased over the years but increasing rate had fallen in FY2007-2008 and FY 2008-2009 and after few years again in FY 2013-2014. It is the matter of optimism that the very important motto of the government for establishing EPZ is to promote employment creating industrialization. BEPZA is playing a crucial role to make true that motto of the country.

Figure-4 Cumulative employment in the EPZs of Bangladesh:

Source: BEPZA Annual Report 2013-2014;

The employment trend was quite stagnant during first half of the decade and it was sharply increased after FY 2009-2010 because the minimum wage rate for the EPZ workers is revised once in 2010 and again in 2013.

Indirect Investment and Employment

The ultimate impact of the establishment of EPZs is creating indirect investment and employment in rest of the economy by generating economic activities those are linked with both backward and forward steps of the production processes. By estimating the indirect impacts of industrialization it can be found out that some backward linkage industries established around the EPZ areas like accessories industries for the garments, while dyeing, label, packaging, etc as forward linkages. It is not so easy to calculate the indirect investment. Transportation business for conveying the employees to their workplaces, food supplier industries, wastage and garbage management parties, even some low-priced household materials alongwith ornaments, cosmetics businesses have grown up around the EPZ areas in response to huge demand by the workers. All these parties invest in different sectors considering the EPZ as center point of the whole arrangement. In such manner indirect employment has also been generated in such areas as transport staffs, hotel staffs, hawkers, garbage cleaners, etc. It also helps to improve infrastructural base, residential facilities nearby areas, urbanization development, and migration for searching job, etc.

7.2 ECONOMIC RATIONALE OF EPZS AS INDUSTRIALIZATION: DYNAMIC BENEFITS

Structural shift in the economy

Investors from home and abroad established their projects safely with different incentives in an area covered with some supportive policies within an umbrella. It creates economies of scale in production capacity in this area or zone because of the incentives and infrastructure facilities.

According to the industrial policies implemented so far in Bangladesh alongwith-different government's industrial friendly decisions, it is shifted from an agriculture-based economy to an industry based one. The structural transformation of GDP i.e. share of industry has moved from 17.31% in 1980-81 to 29.61% in 2013-14 (Table-9). This proportion was increased by reducing the share of agriculture and the paradigm shift has begun with the steps in the EPZs of Bangladesh.

Table-9

Sector/ Time→	1980-81	1990-91	2000-01	2010-11	2013-14
Agriculture	33.07	29.23	25.03	18.01	16.33
Industry	17.31	21.04	26.20	27.38	29.61
Service	49.62	49.73	48.77	54.61	54.05
Total	100.00	100.00	100.00	100.00	100.00

Source: Bangladesh Economic Review 2014, Page-22.

Shifting of production activity

Investors are indifferent to invest in any EPZ of Bangladesh due to availing the facilities in all EPZs scattered in different location of the country. Socio-economic development stood place even in the northern backward area like that in the city area. In EPZ the investors get an environment to be structured. Thus their production activities shifted from an unorganized sector to organized one. Raw materials and equipments should be imported through a structured banking channel either from same country or abroad.

Export diversification

Various types of products are exported from the EPZ enterprises. Alongwith the RMG products, Garments Accessories, Textile, Tent, Tent Accessories and Leather products and Footwear, are being exported from the EPZs. Apart from these other diversified items like Electrical equipment, LED lamp, Furniture, Bi-cycle, Cosmetic and Hollywood mask, Optical goods, Automobile Parts, Engineering products, Battery, Camera & lens, Cell phone parts, Gold and diamond jewelry, Bag, Luggage, Sleeping Bag, Camping Furniture, Electronic products, Golf shaft, Wig and fashion hair, Jute products, Metal products, Toys, Eye-glass and Frame, Carpet, Chopsticks, Bamboo made Coffin, etc are also produced in EPZs of Bangladesh for export to rest of the world.

Environmental dynamism

Industries usually emit effluent through its procedure, but the measures to treat this effluent are required in a good industrial area which will save the environment from degrading due to industrialization. Industrial enterprises of EPZs maintain Effluent Treatment Plant to discharge their effluents of chemical or dye even in the individual plant or Central ETP operated by BEPZA. To monitor the effluent management BEPZA has deployed some young and dedicated officials as environmen-

tal counselors. At the same time this institution also works by establishing few Water Treatment Plants in EPZs to supply fresh water to the enterprises.

Role of EPZs in digitalization

To become the active partner of “Digital Bangladesh”, the ICT campaign of the GoB, BEPZA has streamlined its activities by reducing reliance on paper documentation. BEPZA is now performing almost all the day to day services to investors through automation. In October 2009, Chittagong EPZ became the first EPZ to become automated. With this facility a BEPZA official can provide his service to the client sitting any part of the world.

Infrastructural Dynamism

BEPZA has executed the Power Supply Agreements with 06(six) private companies for producing and supplying of 290 (Two hundred and ninety) Megawatts electricity to the enterprises in 06 EPZs. As per the agreements, the companies are allowed to supply and sale their extra power to the national power grid after meeting their own demand. Thus, the power plants in the EPZs are contributing to the national economy by meeting up the demand of electricity outside the EPZ areas. A Bangladeshi power producing company is operating to provide electricity to the enterprises of Chittagong EPZ and Dhaka EPZ.

Poverty alleviation through increasing per capita income

From the very beginning EPZs are such a concept which helps in industrialization, creating employment opportunity. Centering an EPZ a business cluster established in nearby area. Some formal and many informal entrepreneurs have grown up depending on EPZs in Bangladesh. The people in Nilphamari, a backward northern area in Bangladesh is now working at enterprises in Uttara EPZ. A transport business alongwith petrol pump stations has emerged there to carry the workers and goods. Many grocery shops, hotel and restaurant business rises in nearby area of EPZ. Some luxurious hotel and restaurants established for foreign investors there.

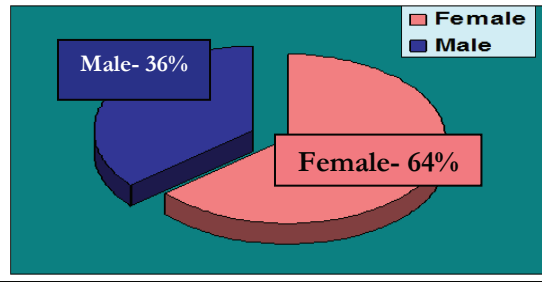
Almost 0.4 million people are working directly in EPZ enterprises. With their family members (suppose 4 in a family) the beneficiary is almost 1.6 million. Creating informal business sector around the EPZ area it generates more employment and more income. In this way by creating industrial localization, the per capita income of people increases. In this way many poor people, especially women are getting now solvent. They send their children to school. They eat better, put on better and dream better.

Role of EPZs in Women Empowerment

Employment in the EPZ has definitely provided men and women with employment in good working condition. It has also empowered women, increased their mobil-

ity and expanded their individual choice. Women's access to income-earning opportunities had many implications for their position in intrahousehold relationships. Empowerment has been measured in terms of access to the labour market, decision-making role, mobility, domestic conflicts, and consciousness about health. A study conducted at the workers in Dhaka and Chittagong EPZ (Zohir, S. C., 2001).

Figure-5 Male-Female ratio in the EPZs workers in Pi-Chart:



A large number of female workers about 64% are working in the EPZs, especially in the garments sector (Source: BEPZA Annual Report, 2013-2014). Every year an increasing number of young girls and women are joining in the productive workforce of EPZs. BEPZA operates a project named Northern Area Poverty Reduction Initiatives (NARI) funded by the World Bank. This project is being implemented to train up the fresher women from backward areas of the country in order to improve their lifestyle and to make them as worker of EPZ enterprises.

7.3 RATIONALE BEHIND THE SUCCESS OF EPZS

The specialized facilities in Export Processing Zones like systematic and scientific labour management, compliances in building and fire safety, fiscal and non-fiscal incentives offered by the government and above all the hardworking & integrity of the whole team working in the Bangladesh EPZ Authority have made the concept successful.

7.3.1 Labour management system

Based on the ILO conventions ratified by Bangladesh government and interest of the EPZ investors a separate act is functioning for the Freedom of Association and Collective Bargaining facilities of EPZ workers named as "The EPZ Workers Welfare Association and Industrial Relations Act, 2010". EPZ workers are eligible to provide their mandate in favour of attaining Workers Welfare Association through a rule guided referendum process and then elect their Collective Bargaining Agent through secret ballots and spontaneous participation. A separate and complete labour law named the "Bangladesh EPZ Labour Act" is going to be enacted very soon.

Minimum wage structure for the EPZ workers has been increased in different level from 34% to 93% in 2010; then again it has been increased upto 46% in 2013. In terms of social compliance parameters, the EPZ enterprises become almost 93% compliant.

A good number of young ‘Social Counselor Cum Inspectors’ are monitoring the inspection system, labour disputes and compliance issues regularly. To avail legal support in labour right issues there has a separate ‘Conciliator’ in each zone and a panel of ‘Arbitrators’ are functioning to resolve the disputes alternatively. Apart from that the GoB has designated 08 Labour Courts as EPZ Labour Tribunals for eight EPZs and 01 (One) Labour Appellate Tribunal as EPZ Labour Appellate Tribunal for settling labour-related disputes in EPZs. After the establishment of EPZ labour tribunals in 2011 a total of 160 cases were filed of which 70 were settled (Source: AR on C-87 of ILO, Bangladesh 2015). For providing educational, social, environment awareness training program, skill development along with other welfare measures for the EPZ workers a Workers’ Welfare Fund is working in EPZ enterprises.

7.3.2 Building and Fire Safety

The enterprises operating within EPZs have to attain ‘Building Safety Certificate’ issued by different engineering and technological universities of Bangladesh. Besides, the enterprises have to obtain Fire License from the fire service and civil defense authority. Moreover, BEPZA has strong Fire Fighting Team led by an experienced official who arranges regular fire-fighting drill as well as training to the workers and staffs in the EPZ enterprises to build awareness.

7.3.3 Incentives offered in EPZs of Bangladesh

To attract the investors in the EPZs, GoB is to offer some fiscal and non-fiscal incentives. The EPZ authority has a marketing policy based on the following incentives: –

- Tax holiday facility for corporate tax is now for 05 (five) to 07 (seven) years (for the industries set up after January 01, 2012) which were for 10 years to each zone since inception (Source: SRO No. 219-Law/Income Tax/2012).
- Duty free importation of three vehicles for A & B type (foreign and joint venture) industries subject to certain conditions, duty free commissariat facility for the foreign nationals and exemption from the income tax for the foreign expatriates for first three years.
- Duty free imports and exports are allowed in EPZs. No ceiling of foreign investment in EPZ.
- BEPZA is committed to its investors to serve them within one window

in every aspect. These are like expatriate issues i.e. recommendation for visa, issuance of work permit, security clearance, etc, custom procedures, security matters, utility services, alongwith day to day services.

- Import from anywhere and sub-contracting with export oriented industries are allowed.
- Full repatriation of profit, capital and establishment is open since BEPZA is the signatory of Overseas Private Investment Corporation (OPIC) and member of Multilateral Investment Guarantee Agency (MIGA).
- EPZ enterprises require no utilization declaration (UD), import registration certificate (IRC), export registration certificate (ERC) and renewal of bond registration.
- All required business support services like bank, courier, shipping agent, etc. and facilities like restaurant, investors club are available within the zone area.

8.0 CONTRIBUTION OF EPZ WITHIN THE INDUSTRIAL SYSTEM IN BANGLADESH

Focusing an EPZ, the economy sets up backward and forward linkages and supportive service industries which create overall industrial localization by making indirect investment and employment opportunity especially for women. So far under BEPZA there are total 560 industrial enterprises of which only 437 are in operation. The cumulative investment in these is US\$ 3.401 billion and almost 4,05,166 Bangladeshi people are employed in these enterprises. The cumulative export from the EPZs is US\$ 42.93 Billion since its inception .

Contribution of EPZs to the net FDI Inflow in Bangladesh

Using a comprehensive dataset on Chinese municipalities it is found three impacts of SEZs on FDI and other economic issues. First finding is the policy package, tax break increases per capita municipal FDI by 58% in the form of foreign invested and export oriented industrial enterprises, second is the SEZ experiment increased municipal foreign owned capital stock and did not crowd out domestic capital and investment and third finding is SEZ experiment increased municipality total factor productivity growth by 0.6% (Jin Wang, 2009). Although Bangladesh has experienced ups and downs in its industrial atmosphere over the decades due to political turmoil, eventually it has managed to collect FDI successfully. During 2011 to 2015 net FDI inflow in Bangladesh has increased from US\$1,136.3 million to US\$ 2,235.3 million. Out of the pie, EPZ's share has also increased from around 18% to 26% within this period.

Table-10

Calendar Year	Net FDI inflow in Bangladesh(million US\$)	FDI to EPZ	BEPZA's Contribution (%)
2011	1136.3	228.03	20.06%
2012	1292.5	251.47	19.45%
2013	1599.1	352.07	22.01%
2014	1551.2	406.41	26.19%
2015	2235.3	406.66	18.19%

Source: Foreign Investment & External Debt (FIED) Division, Statistics Department, Bangladesh Bank.

Contribution of EPZ in National Export

Inline with the improved performance of the overall economy the export has also been booming over the years for Bangladesh. However, the contribution of the EPZs into the national export is also increasing every year. The national export has been increased from US\$ 8,656 million to US\$ 30,176 million over the last decade where the contribution from eight EPZs with their 2,307 acres of land only is around 17% to 19%. EPZs are contributing significantly the national export in the subsequent years as well.

Table-11

Year	Total Export of Bangladesh (US\$m)	Total Export of EPZS (US\$m)	BEPZA's Contribution (%)
2004-2005	8655	1549	17.90
2005-2006	10526	1836	17.44
2006-2007	12178	2064	17.00
2007-2008	14111	2429	17.22
2008-2009	15560	2582	16.60
2009-2010	16250	2822	17.36
2010-2011	22924	3698	16.13
2011-2012	24410	4210	17.24
2012-2013	27018	4856	17.97
2013-2014	30176	5525	18.30

Source: BEPZA Annual Report 2013-2014;

Contribution to compliances

BEPZA having its autonomous facility can operate the services related to overall activities of total operation very promptly. The implementation capacity in terms of labour rights issues, workplace safety, building and fire safety, inspection, compensation and other social security's in the EPZs is very high due to its management system. The minimum wage to the EPZ worker is BDT 5,600/- plus transport and food allowance where that for the non-EPZ worker is only BDT 5,300/- including all benefits⁷.

⁷ Minimum wage circular of BEPZA-2013 and SRO no. 369-Law/2013.

Relative contribution of EPZs.

In developing industrialization, promotion of investment, employment and export different approaches are working in Bangladesh. Among them BOI, BSCIC and BEPZA are in the leading position. By analyzing the data used in this paper through different tables and words, it can be prepared a relative scenario of their performances.

Table-12

Player	Cumulative Investment (upto 2014)	Total Employment	Contribution to National export	Land area
BOI	US\$ 59.6 Billion (proposal registered)	30,96,511		Remaining industrial plots of the land
BSCIC	US\$ 2.4 Billion	5,26,141	9.69%	10,338 plots
BEPZA	US\$ 3.1 Billion	3,89,017	18.3%	2,336 Plots

Source: Data analyzed and modified from the tables used in this paper;

BSCIC with its 10,338 industrial plots achieved US\$ 2.4 Billion Cumulative Investment, while BEPZA achieved US\$ 3.1 Billion with its only 2,336 industrial plots. But BOI with the whole country except BEPZA and BSCIC area contributed US\$ 59.6 Billion which is very low in terms of land proportion. This is proposal registered; actual figure may be lower than that. Similarly in terms of employment, export share and other parameters real contribution of BEPZA is highest. That's why the Chittagong Export Processing Zone achieved the fourth position in the 'Best Economic Potential' category in global ranking according to the survey by The Financial Times, a London based fDiMagazine⁸.

10. CONNOTATION

Zones are more important for indirect benefits which relate to transfer of advanced technology, managerial know-how, skill up-gradation, and export diversification. Differentiating the policy and facility offered, more than one concept or variety of zone can simultaneously be operated in a country. China, Korea, Indonesia, Vietnam, Brazil and some other countries are doing well parallel (Table-09), having Export Processing Zone, Free Trade Zone, Special Economic Zone, etc at a time offering different policies for different concept over the decades (Aggarwal, 2010). Investors now-a-day's make demand for moving to the South East Asian countries like Bangladesh for low cost production base.

For the potential investors EPZs in Bangladesh are very lucrative area to invest due to proper policy support provided by the Government of Bangladesh. Because of limited land area in EPZs the potential investors then revert and set up their industry in Cambodia, Myanmar and other neighboring countries. As a result, Bangladesh is losing FDI in different sectors. Promoting Economic Zone all over the

⁸ FDI Magazine, 2010.

country has been prioritized agenda of GoBas a new variety of zone. But it should carry the successful variety of EPZ with it. Even experience of EPZ can be a milestone for the Economic Zone since it has a strong success history.

The framework EPZs can be applied to other development policies to understand the underlying causes of establishing different varieties of zones. Further research on specialized zones (EPZ or SEZ or Others) should be carried out to reveal deficiencies of this paper including case studies applying the vigorous political economy framework.

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