



# **Economics of EPZs in Bangladesh**

**Mohammad Yunus**  
**Abdul Hye Mondal**

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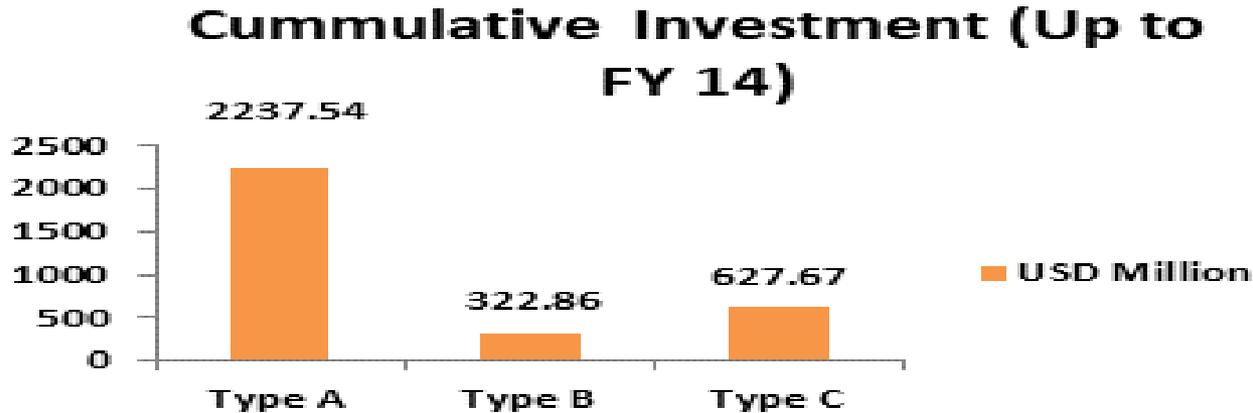
# Plan of Presentation

- **Impacts of EPZs in Bangladesh**
- **Assessment of Rationale for Separate Governing Councils for EPZs and SEZs.**

# Introduction

- **At present there are 8 EPZs with a mix of Type A (100% Foreign), Type B (Joint Ventures) and Type C (100% Local) firms.**
- **Channels through which EPZs may affect the economy:**
  - **(i) investment effects,**
  - **(ii) foreign exchange earnings and revenue effects.**
  - **(iii) employment effects,**
  - **(iv) human capital formation effects,**
  - **(v) technology upgrading effects, and**
  - **(vi) Spillover effects.**

# Investment in the EPZs



- **Lion's share (70%) of cumulative investment by companies in the EPZs are fully foreign owned followed by 100% locally owned enterprises (20%) and joint ventures (10%).**
- **Cumulative investment of Type A companies is growing at 13% p.a. as against 15% for Type B and Type C companies. The local-foreign investment ratios in Type B companies rose from 46:54 in 1998 to about 50:50 at present.**

# FDI in EPZs

- **FDI in the EPZs during the second half of 1990s accounted for about 20% of total FDI inflow in the country.**
  - **However, the high share was due to sudden jump in 1999-00 (44%).**
  - **During the first decade of the 2000s the share of FDI in the EPZs remained resilient at around 10-12%.**
- **In recent years, the relative share of EPZs in the total FDI inflow steadily increased from 15.50% in 2011-12 to 25.95% in 2013-14.**
  - **Despite a sharp fall in the total FDI in 2013-14, the increasing trend of FDI inflow in the EPZs remains uninterrupted indicating prevalence of much better business climate in the EPZs for the foreign investors.**

# Foreign Exchange Earnings

- **Share of EPZs in foreign exchange earnings shows almost a steadily increasing trend over the last two decades reflecting increasing role of EPZs in foreign exchange earnings – annual growth rate at around 15%.**
- **Additionally, foreign investors convert a large amount of foreign currency into local currency in order to pay for wages and salaries of the local employees and workers.**
- **Total indirect foreign exchange earnings contribution through wages and salaries amounted to US\$ 642.89 million in 2013-14.**

# Tax and Non-tax Contributions

- **During 1999-00/2014-15 EPZs contributed Tk. 4.5 billion in the form of income taxes.**
- **BEPZA contributed Tk. 1.8 billion in the form of DSL during 1992-93/2014-15. While income tax payment grew at 19.42% p.a., DSL grew at 18%.**
- **Besides, the foreign expatriates paid Tk. 707.26 million in the form of income tax during 2010-2015.**
- **Even though information on the magnitude of corporate tax paid by the investors in the EPZs after the expiry of tax holiday period is not readily available, anecdotal evidence suggests that the contribution of the EPZ investors on this account is substantial.**

# Employment Generation

- **Compared to the country's total population and manufacturing employment EPZs' contribution is minimal in terms of the direct employment effects.**
- **Between 1983-84 and 2014-15, local employment in the EPZs increased at 19% p.a.**
  - **Growth rate of employment in the EPZs is about double of that for the country as a whole.**
- **Contribution of EPZs to new job creation has increased from 17,540 in 2013-14 to 32,967 in 2014-15 with an annual increase of 87.95 percent.**
- **For every job generated in the EPZs, 2.25 other jobs are created in the DTA.**

# Imparting Skills to Workers

- **Most of the EPZ enterprises (97.41%) provide training to the workers. Most of these trainings are on-the-job (79.65%) provided mostly to the production workers (73.04%).**
- **EPZ enterprises also provide off-the-job training to workers abroad on their own (20.35%). These training provisions greatly contribute to the formation and development of workers' skills.**
- **Most of the workers (80%) are trained locally, while 12% of them are trained both locally and abroad and only 8% of them are exclusively trained in foreign countries.**

# Technology Transfers

- **Skills transfer to the rest of the economy occurs mainly through movement of people who have received training in 100% foreign and joint-venture firms in the EPZs and through learning by locally owned firms.**
- **Factories in the EPZs contribute significantly to workers' technical production & factory management skills. Technicians and managers who have acquired the ability to compete in the world market have carried this expertise to the rest of the economy.**
- **Technology transfer is very insignificant. This may be explained primarily by the low-cost labor severely limiting technology transfer.**

# Establishments in the Neighborhood

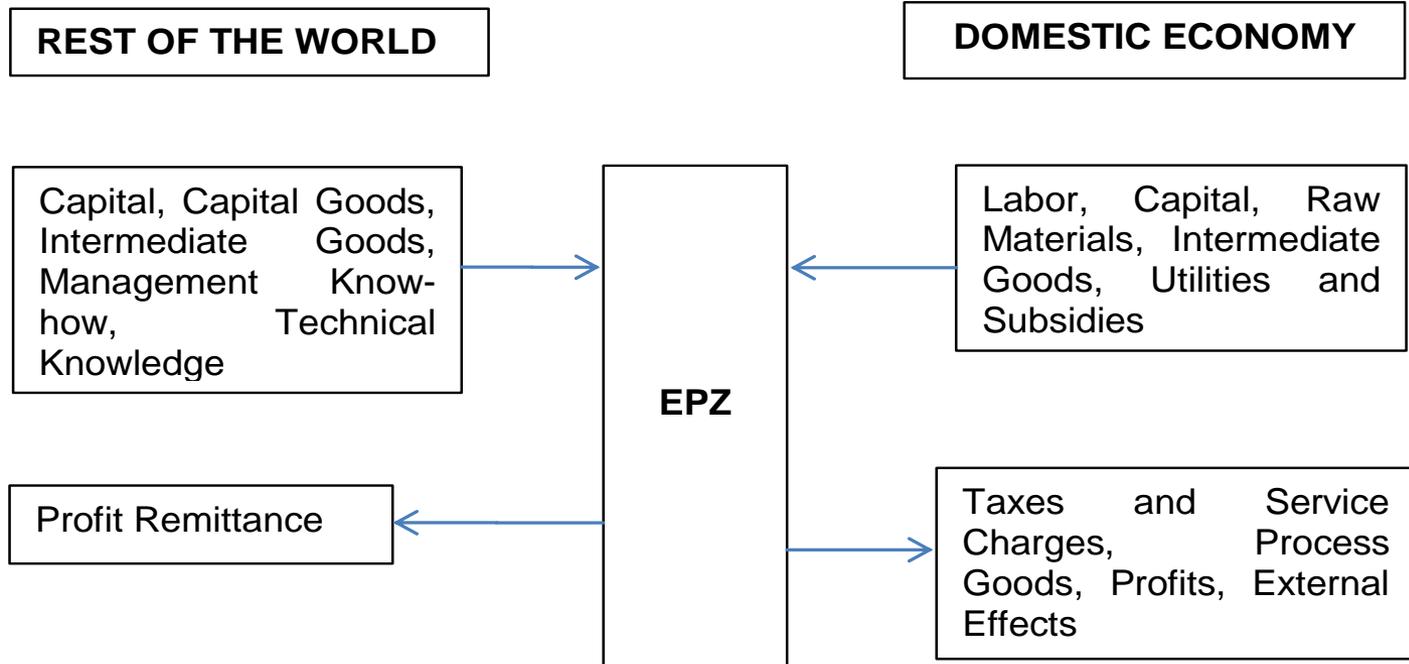
- **Emergence of about 78.42% of linked agencies is attributable to the EPZs.**
- **Growth of ancillary industries around EPZs is remarkable. Number of ancillary establishments grew to 889 in 2014 from 87 before establishment of EPZs.**
- **In MEPZ, there was no ancillary industry before establishment of EPZs.**
- **Average turnover of these industries increased from Tk.1.89 million before establishment of EPZ to Tk. 2.1 million in 2014.**

# Integration with DTA

- **EPZ enterprises procure their inputs and sell maximum 10% of their outputs through (a) foreign imports/ exports, (b) intra-zone trade, (c) inter-zone trade, and (d) DTA imports/exports.**
- **The share to total imports from the DTA grew to 11% during 2008-09/2010-11 to again reduce to 9% in 2014-15 compared to 1993-94. Trend growth rate of value stood at an impressive 25.41% while growth of the share is estimated at 11.58%.**
- **Similarly, 3.61 percent of total exports by the EPZs was sold to the DTA. This share grew to around 22 percent during 2005-06-2008-09 to again reduce to 14 percent in 2014-15.**

# Overall Welfare Effects

## Enclave Model of EPZ



# Overall Welfare Effects

<b>EPZ</b>	<b>NPV (Million \$)</b>	<b>BCR</b>	<b>EIRR (%)</b>
<b>AEPZ</b>	<b>361.19</b>	<b>4.07</b>	<b>26.73</b>
<b>CEPZ</b>	<b>412.4</b>	<b>4.48</b>	<b>39.95</b>
<b>COEPZ</b>	<b>36.19</b>	<b>2.76</b>	<b>18.41</b>
<b>DEPZ</b>	<b>400.27</b>	<b>4.45</b>	<b>30.53</b>
<b>IEPZ</b>	<b>6.36</b>	<b>1.2</b>	<b>13.33</b>
<b>KEPZ</b>	<b>137.65</b>	<b>7.38</b>	<b>51.73</b>
<b>MEPZ</b>	<b>-2.68</b>	<b>0.81</b>	<b>7.19</b>
<b>UEPZ</b>	<b>86.24</b>	<b>10.59</b>	<b>34.57</b>

## **Similarities and Differences between EPZs or SEZs**

- **Similar set of fiscal and non-fiscal incentive packages and benefits, facilities to investors, exempted from the same set of existing national laws and ordinances, governance structure, etc.**
- **Differences in industrial orientation, backward and forward linkages, subcontracting, double taxation, and workers insurance, etc.**

## EPZs or SEZs?

- **For all practical purposes, EPZs and SEZs look complimentary and mutually reinforcing rather than competing.**
- **However, the two agencies are in apparent competition in wooing investors.**
- **But the investors will be utterly confused as the same set of policy makers would advise them to go to different agencies!**
- **The fact is that most of the issues relating to EPZs and SEZs can receive fair treatment under ONE AGENCY with renewed mandate of linking the rest of the economy.**

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- **Thank You for your patience.**