EVOLVING BUSINESS NEEDS AND TRENDS IN BANGLADESHI FREE ZONES

BANGLADESH EXPORT PROCESSING ZONES AUTHORITY (BEPZA)

DEC 2004

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BANGLADESH EXPORT PROCESSING ZONES AUTHORITY (BEPZA)

PRIME MINISTER'S OFFICE

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PRESENTATION

BY

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Executive Chairman BEPZA

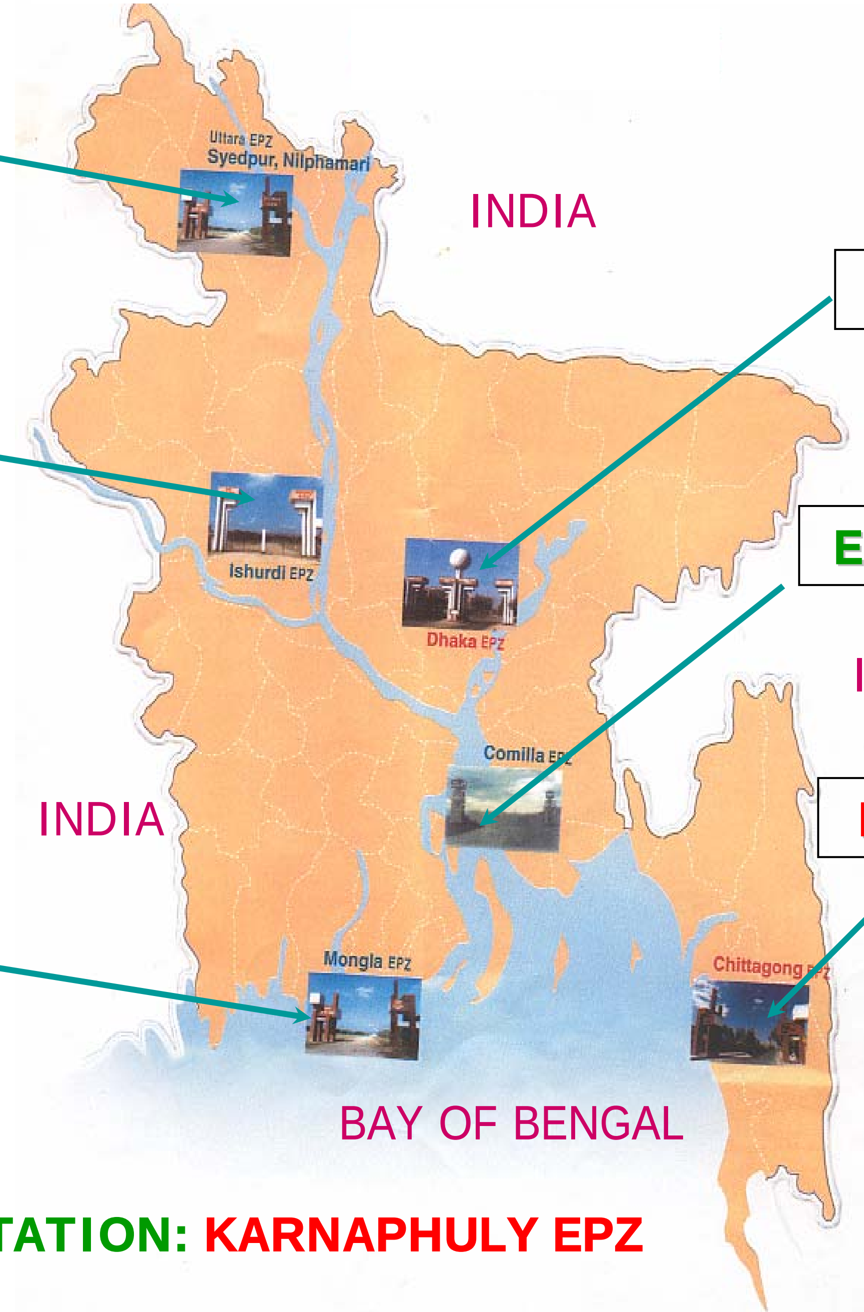
BANGLADESH EPZ AUTHORITY

BEPZA

DEFINITION OF EPZ

- An export processing zone is defined as a territorial or economic enclave in which goods may be imported and manufactured and reshipped with a reduction in duties / and/or minimal intervention by custom officials (World Bank 1999)

EPZs OF BANGLADESH



EPZ - UTR

EPZ - DAK

EPZ - ISD

EPZ - COM

EPZ - CTG

EPZ - MON

MYANMAR

UNDER IMPLEMENTATION: KARNAPHULY EPZ

MISSION OF BEPZA

TO STRENGTHEN THE ECONOMIC BASE OF BANGLADESH BY PROMOTING INVESTMENT & GENERATION OF EMPLOYMENT

OBJECTIVES

1. PROMOTION OF FOREIGN (FDI) & LOCAL INVESTMENT
2. PROMOTION OF EXPORT
3. DIVERSIFICATION OF EXPORT
4. DEV. OF BACKWARD & FORWARD LINKAGES
5. PROMOTION OF EMPLOYMENT
6. TRANSFER OF TECHNOLOGY
7. UPGRADATION OF SKILL / DEXTERITY
8. DEVELOPMENT OF MANAGEMENT
9. PROMOTION OF INT'L MARKETING SKILL / ACCESS

BACKGROUND OF BEPZA

- BRAIN CHILD OF SHAHEED PRESIDENT ZIAUR RAHMAN
- BEPZA ACT 1980
- FOREIGN PRIVATE INVESTMENT (PROMOTION AND PROTECTION) ACT, 1980
- CONSTRUCTION WORK OF 1st EPZ IN CHITTAGONG STARTED IN 1978 & BECAME OPERATIONAL IN 1983
- 2nd EPZ STARTS IN 1993 IN DHAKA & FURTHER EXTENSION IN 1997
- 4 MORE EPZs NEARING COMPLETION :
  MONGLA, COMILLA, ISHWARDI & UTTARA (NILPHAMARI)
- CSM IN THE PROCESS OF BEIGN HANDED OVER

INFRASTRUCTURE FACILITIES

1. BASIC INFRASTRUCTURE : ELECTRICITY, GAS, WATER, ROAD, TELECOM, E-MAIL ETC.

2. FULLY SERVICED PLOTS (AVG SIZE 2000 SQM)

3. FACTORY BUILDING AVAILABLE ON RENTAL BASIS

4. ENCLAVE FOR WORKERS DORMITORY

5. WAREHOUSE/ GODOWN AVAILABLE

6. BUSINESS SUPPORT SERVICE: COURIER (DHL, FedEX) BANKS, POLICE STATION, FIRE STATION, POST OFFICE, C & F AGENT, SHIPPING AGENT, MTO ETC.

7. ADMINISTRATIVE SUPPORT SERVICE : SHOPPING CENTER, GREEN AREA, DAYCARE CENTER, COMMISSARIAT, HEALTH CLUB, INVESTORS CLUB, MEDICAL CENTER, SPORTS COMPLEX, ACCOMODATION FOR EXPATRIATES, SCHOOL AND COLLEGE, PUBLIC TRANSPORT ETC

REDUCTION OF LEAD TIME

1. INTRA & INTER ZONE EXPORT IMPORT ALLOWED
2. DA BASIS IMPORT
3. SIMPLIFIED IMPORT EXPORT PROCEDURE
4. IP & EP ISSUED WITHIN THE SAME DAY
5. IMPORT OF RAW MATERIAL FROM DOMESTIC TARIFF AREA (DTA)
6. WAREHOUSE FACILITIES
7. CENTRAL BONDED HOUSE FACILITIES TO EXPORT ORIENTED INDUSTRIES IN DTA
8. SUB-CONTRACTING ALLOWED BOTH INSIDE & OUTSIDE EPZ

INCENTIVES

FISCAL

1. TAX HOLIDAY FOR 10 YEARS FOLLOWED BY REDUCED RATE FOR NEXT 5 YEARS
2. 30% CASH INCENTIVE FOR AGRO BASED INDUSTRY FOR EPZs OF MONGLA, ISHWARDI AND UTTARA.
3. DUTY FREE IMPORT OF CONS. MATERIALS, MACHINERY/SPARE PARTS/EQUIPMENTS.
4. DUTY FREE EXPORT & IMPORT
5. RELIEF FROM DOUBLE TAXATION
6. EXEMPTION FROM DIVIDEND TAX
7. GSP FACILITY AVAILABLE
8. DUTY FREE IMPORT OF 3 VEHICLES
9. EXPATRIATES EXEMPTED FROM INCOME TAX FOR 3 YRS
10. ACCELERATED DEPRECIATION ON MACHINERY OR PLANT ALLOWED
11. REMITTANCE OF ROYALTY, TECHNICAL AND CONSULTANCY FEES ALLOWED
12. DUTY & QUOTA FREE ACCESS TO EU, CANADA, NORWAY, AUSTRALIA ETC

INCENTIVES

NON-FISCAL

1. INVESTMENT PROTECTED UNDER FOREIGN PRIVATE INVESTMENT (PROMOTION AND PROTECTION) ACT, 1980
2. 100% FOREIGN OWNERSHIP PERMISSIBLE
3. ENJOY MFN STATUS
4. NO CEILING ON FOREIGN INVESTMENT
5. FULL REPATRIATION OF CAPITAL & DIVIDEND
6. FOREIGN CURRENCY LOAN FROM ABROAD UNDER DIRECT AUTOMATIC ROUTE
7. NON-RESIDENT FOREIGN CURRENCY DEPOSIT (NFCD) ALLOWED FOR 'A' TYPE INDUSTRIES
8. OPERATION OF FC ACCOUNT BY 'B' AND 'C' TYPE INDUSTRIES ALLOWED
9. RESIDENSHIP / CITIZENSHIP

BEPZA SUPPORT SERVICE FACILITIES

1. ONE WINDOW SERVICE
2. IP & EP ISSUED WITHIN THE SAME DAY
3. NO UD, IRC, ERC & RENEWAL OF BOND LICENSE
4. WORK PERMITS ISSUED BY BEPZA
5. SECURED & PROTECTED BONDED AREA
6. OFF SHORE BANKING AVAILABLE
7. FREEDOM FROM IMPORT POLICY RESTRICTIONS
8. IMPORT ON DOCUMENTARY ACCEPTANCE (DA) BASIS
9. BACK TO BACK L/C

CONTINUED

BEPZA SUPPORT SERVICE FACILITIES

10. IMPORT FROM DTA (LOCAL MARKET)
11. 10% SALE TO DTA **(LOCAL MARKET)**
12. CUSTOMS CLEARANCE AT FACTORY SITE
13. SIMPLIFIED SANCTION PROCEDURE
14. INTRA / INTER ZONE SUB-CONTRACTING & TRANSFER OF GOODS ALLOWED
15. SUB – CONTRACTING WITH EXPORT ORIENTED DTA INDUSTRIES ALLOWED
16. RELOCATION OF FOREIGN INDUSTRIES ALLOWED
17. RESIDENTSHIP AND CITIZENSHIP
18. EASILY AVAILABLE & TRAINABLE WORKFORCE
19. RECREATIONAL FACILITIES

BEPZA FACILITIES

1. CUSTOM OFFICE
2. POST OFFICE
3. MEDICAL CENTER
4. FIRE STATION
5. POLICE STATION
6. INVESTORS CLUB
7. SCHOOL & COLLEGE
8. SHOPPING CENTER
9. BANKS
10. C & F AGENTS
11. COURIER SERVICE

CONTINUED

BEPZA FACILITIES

12. DAY CARE CENTRE
13. FEMALE WORKER’S DORMITORY
14. RESTAURANT
15. HEALTH CLUB
16. RECREATIONAL CENTRE
17. IN HOUSE SECURITY
18. COMMISSARIAT
19. GREEN AREA
20. SPORTS COMPLEX
21. EXCLUSIVE TELEPHONE EXCHANGE
22. ELECTRIC SUBSTATION

INVESTMENT

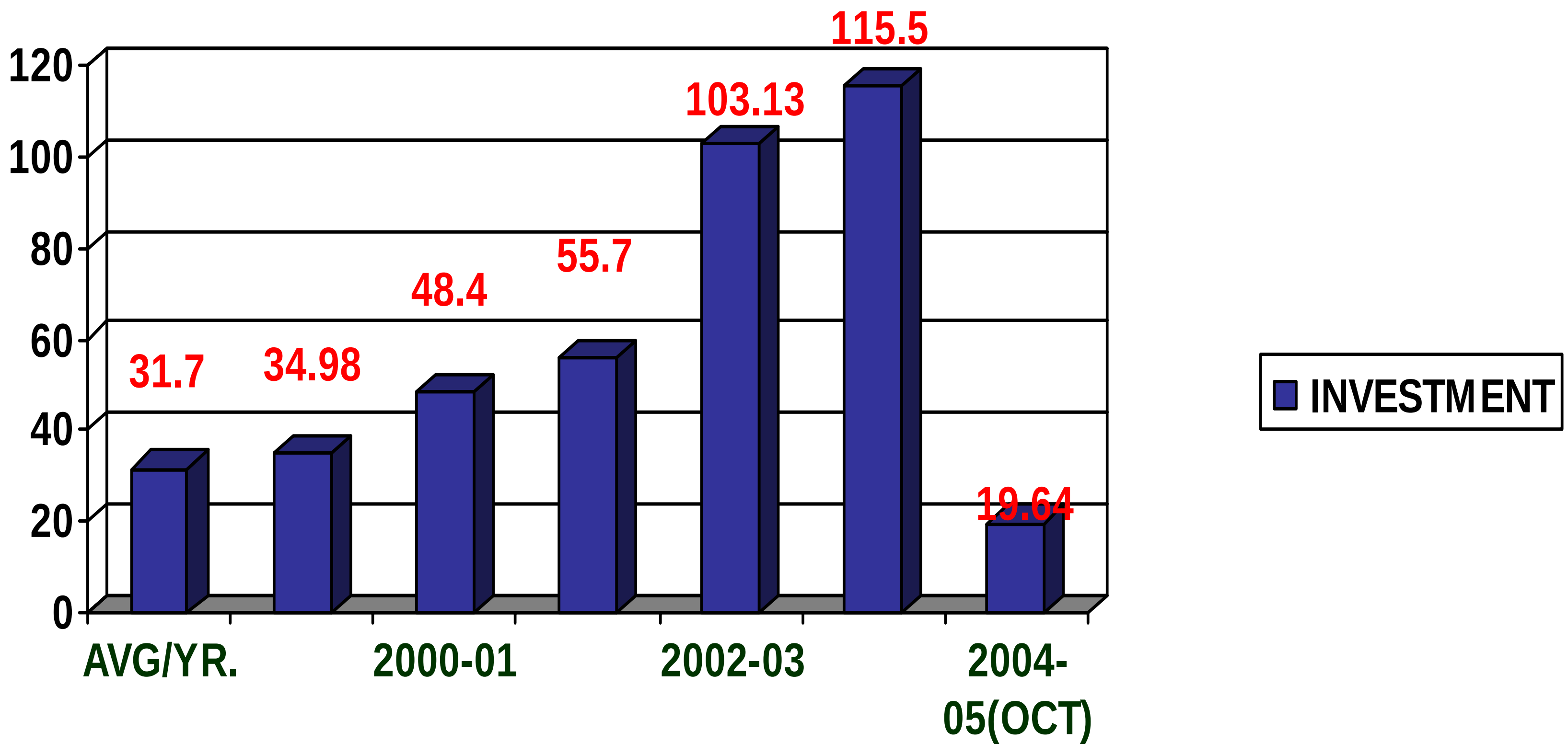
(UPTO OCT 04)

YEAR	INV ($m)
1995-1996	30.58
1996-1997	53.90
1997-1998	68.83
1998-1999	71.61
1999-2000	34.98
2000-2001	48.40
2001-2002	55.70
2002-2003	103.13
2003-2004	**115.05**
2004-2005(OCT)	**19.64**
TOTAL INVESTMENT	= $ 763.62 m

Fig : 4

INVESTMENT

(UPTO OCT 04)



EXPORT

(UPTO OCT 04)

YEAR	EXPORT ($m)	NT'L EXP (%)
1995-1996	337.02	
1996-1997	462.77	
1997-1998	636.05	
1998-1999	711.69	
1999-2000	890.81	15.49
2000-2001	1067.87	16.51%
2001-2002	1077.02	18.0%
2002-2003	1200.00	18.33.0%
2003-2004	1354	17.80 %
2004-2005(OCT)	521.15	
TOTAL EXPORT	8868.52	

EXPORT

(UPTO OCT 04)

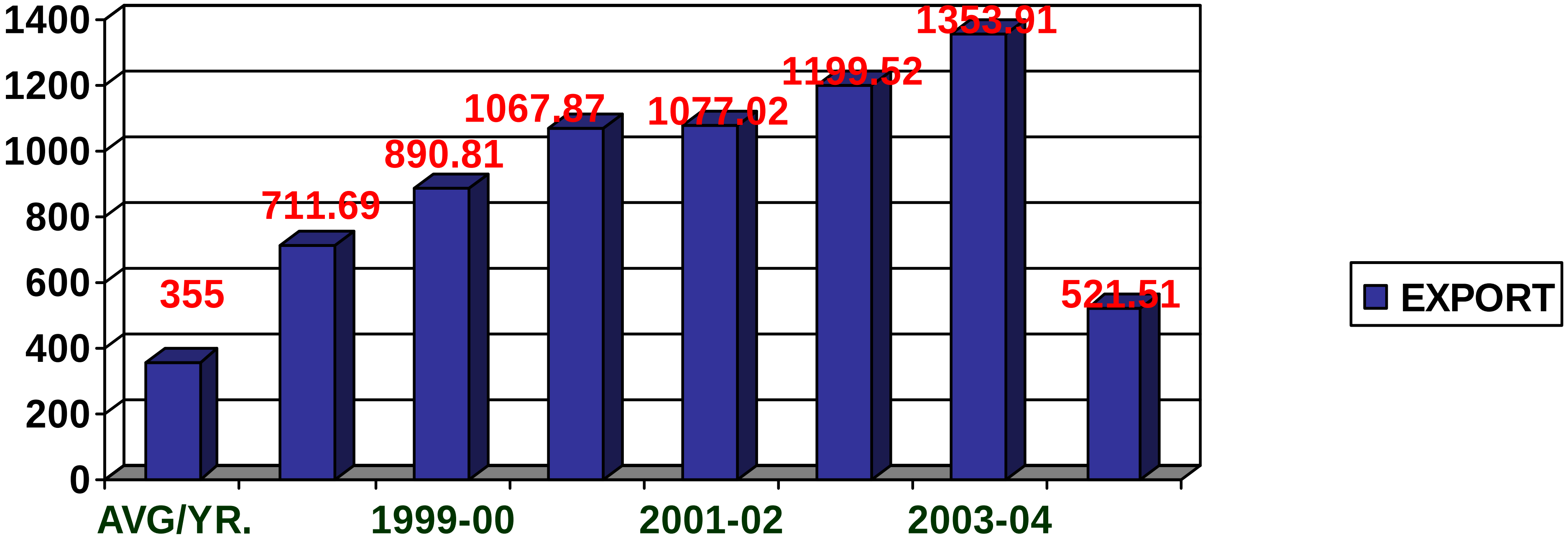


Fig : 6

EMPLOYMENT

(UPTO OCT 04)

YEAR	NO. OF EMPL.
1995-1996	10,706
1996-1997	12,773
1997-1998	14,049
1998-1999	14,059
1999-2000	9,890
2000-2001	16,020
2001-2002	8,764
2002-2003	10,167
2003-2004	10,071
2004-2005(OCT)	9,775
TOTAL EMPLOYMENT	= 1,48,761

Fig : 9

EMPLOYMENT

(UPTO OCT 04)

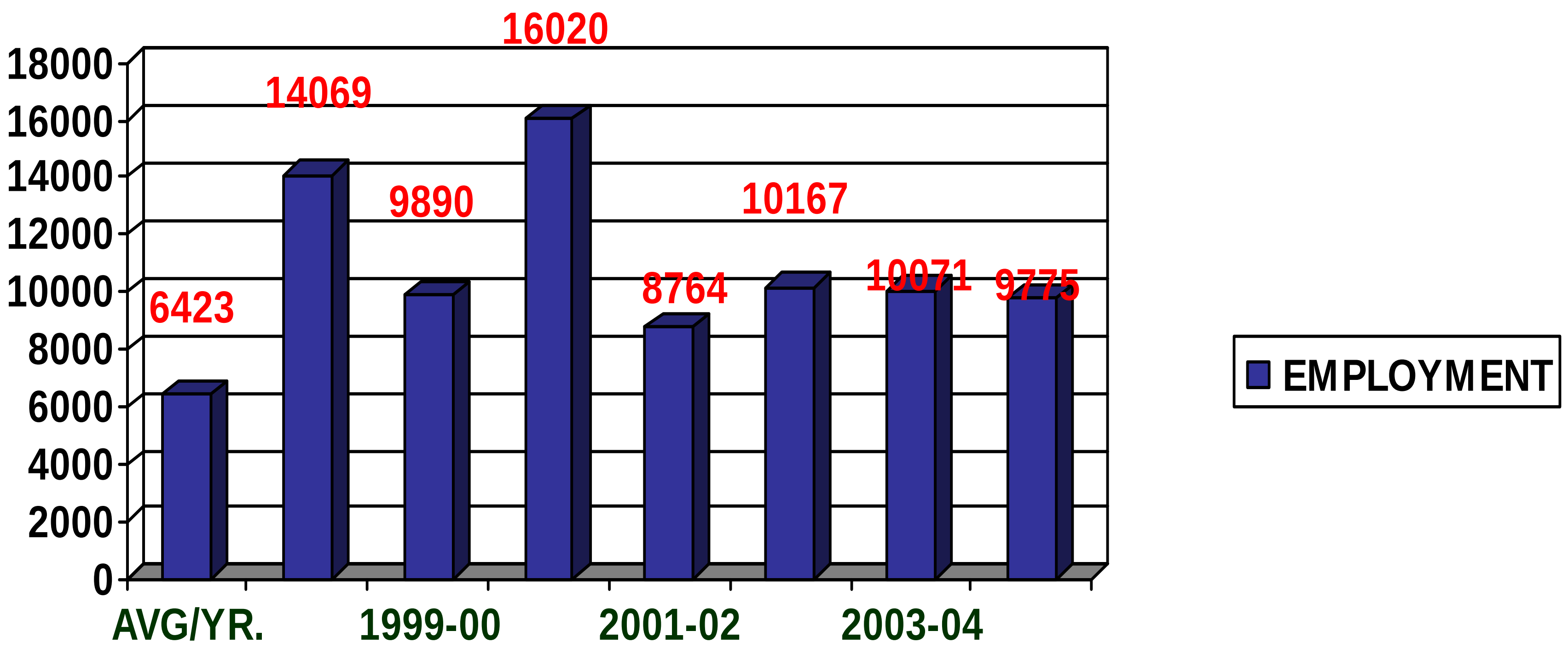


Fig : 9

BEPZA's CONTRIBUTION TOWARDS TOTAL NATIONAL EXPORT

(Value in million US$)

YEAR	TOTAL EXPORT OF BANGLADESH	TOTAL EXPORT OF EPZs	% OF BEPZA's CONTRIBUTION
1998-1999	5313	712	13.40
1999-2000	5752	891	15.49
2000-2001	6467	1068	16.51
2001-2002	5986	1077	18.00
2002-2003	6548	1200	18.33
2003-2004	7603	1354	17.80

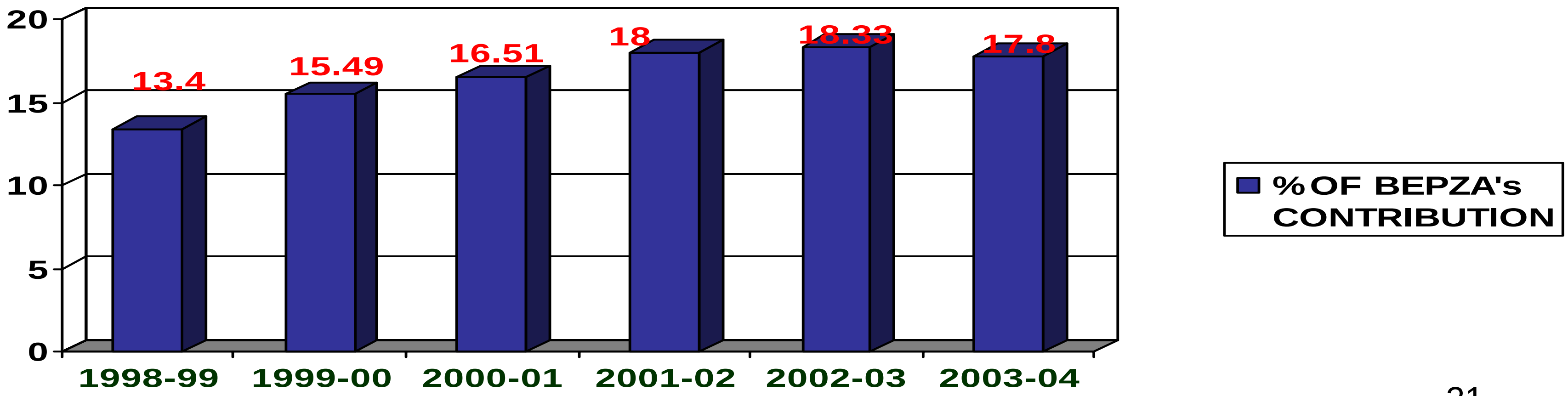


Fig : 7

ZONEWISE ENTERPRISES

(UPTO OCT 04)

EPZ (NAME)	UNIT (NO)	U/IMPL (NO)	INVEST (US$ IN M)	EXPORT (US$ IN M)	EMPLY. (NO)
CTG	119	18	433.42	5522.01	90,994
DAK	74	16	316.29	3436.11	53,302
MON	07	11	1.38	9.05	163
ISD	0	2	0.00	0.00	0
COM	07	11	16.26	9.28	2,772
UTR	01	4	0.78	0.00	1,530
TOTAL	208	61	768.13	8976.45	1,48,761

ASIA'S LOW COST PRODUCTION BASE

COUNTRYWISE ENTERPRISES

(UPTO OCT 04)

SL	COUNTRY	UNIT (NOs.)	INVEST. (M US$)	EMPLOY (NOs.)
1	S. KOREA	55	239.61	65,805
2	BANGLADESH	51	146.41	19,909
3	JAPAN	22	111.44	4,730
4	HONG KONG	17	95.02	21,427
5	CHINA	5	4.42	1,519
6	USA	10	33.26	8,126
7	UK	10	21.38	5,303
8	GERMANY	4	11.38	4,085
9	PAKISTAN	4	2.88	480
10	MALAYSIA	5	45.48	5,456
11	TAIWAN	7	27.05	3,315
12	INDIA	7	2.75	207
13	PANAMA	1	2.6	2,860
14	DENMARK	1	1.02	245
15	THAILAND	1	0.51	-
16	SWEDEN	1	6.00	4,457
17	ITALY	1	7.91	131
18	BELGIUM	1	0.72	115
19	SWITZERLAND	1	0.08	10
20	NETHERLAND	3	3.47	367
21	FRANCE	1	0.50	214
	TOTAL	208	768.13	1,48,761

OTHER COUNTRIES: -

22. SINGAPORE

' NEPAL

24. AUSTRALIA.

25. CANADA

26. SRILANKA

27. MOURITIUS

28. NEW ZEALAND

ASIA'S LOW COST PRODUCTION BASE

PRODUCTWISE ENTERPRISES

(UPTO OCT 04)

SL	PRODUCT	UNIT	INVEST M US$	EMPLOY (LOCAL)	EMPLOY (FOREIGN)
1	GARMENTS	42	200.09	73,742	322
2	TEXTILE	22	187.82	15,406	225
3	TERRY TOWEL	15	25.72	5,003	12
4	KNIT & OTHER TEXTILE	17	58.48	15,962	250
5	GARMENTS ACCS.	23	49.45	3,728	54
6	CAPS	7	34.04	10,257	89
7	TENT	3	14.56	9,785	16
8	ELEC & ELECTRONICS	11	48.83	5,054	14
9	FOOTWARE & LEATHER	12	48.71	5,330	14
10	METAL PRODUCT	13	16.38	1,128	14
11	PLASTIC GOODS	12	18.80	1,049	4
12	PAPER PRODUCT	2	0.76	93	0
13	FISHING REAL & GOLF	1	30.71	605	1
14	ROPE	2	5.90	379	2
15	SERVICE ORIENTED INDUSTRIES	4	4.40	398	2
16	AGRO PRODUCT	5	1.37	163	2
17	MISCELLANEOUS	17	26.61	3,333	17
	Gr. Total	208	768.13	1,48,761	1042

WORLDWIDE ACTIVITIES

OF

SEZs / FZs AND OTHERS

ZONES

DEFINITION OF SEZ/FZ

- Special Economic Zone (SEZ) / Free Zone (FZ) is defined as a large industrial area where locational flexibility and sale to Domestic Tariff Area are allowed.

Types of Zones

	Objective	Typical Size	Location	Eligible Activities	Markets
Industrial Zone	Industrial development	< 100 hectares	Mixed	Industry	Domestic and export
Free Trade Zone	Support trade	< 50 hectares	Ports, airports	Mostly trade-related processing and services	Re-export, domestic
EPZ	Export manufacturing	< 200 hectares	Ports, airports	Mostly manufacturing	Export
Enterprise Zone	Urban area renewal	< 50 hectares	Inner city areas	All	N/A
SEZ/FEZ /Freeport	Integrated development	> 100 km2	Mixed	Multi-use	Domestic, internal, export

Examples of Specialized Zones

Petrochemicals industry	Map Ta Phut Zone, Thailand
Financial services	Labuan Offshore Financial Center
Technology Parks	Singapore Science Park
Trade logistics	D1 Logistics Park, Czech Republic
Airport-based zones	Kuala Lumpur Airport Free Zone
Tourism zones	Baru Island, Colombia
Internet zones/cities	Dubai Internet City

An SEZ is not an FTZ or EPZ Free Zone / EPZ

Free Zone/EPZ	SEZ/Freeport
Small areas, enclave operations	Large area—locational flexibility, internal market
Eligible activities restricted	All activities eligible
Duty free importation restricted	Full duty-free imports
Export requirement, restricted sales to national market	No export requirement; full sales to national market
Restricted labor regime	Liberal labor regime
No residents	Resident population
Limited deregulation	Deregulated utilities
Authority has limited powers	One-stop authority
WTO compliance issues	WTO consistent

Zones within Zones— The Unique Case of China

Special Economic Zones—5

Open Coastal Cities—14

Free Trade Zones—15

EPZs—17

Economic and Technological Development Zones—54

High Technology Development Zones—53

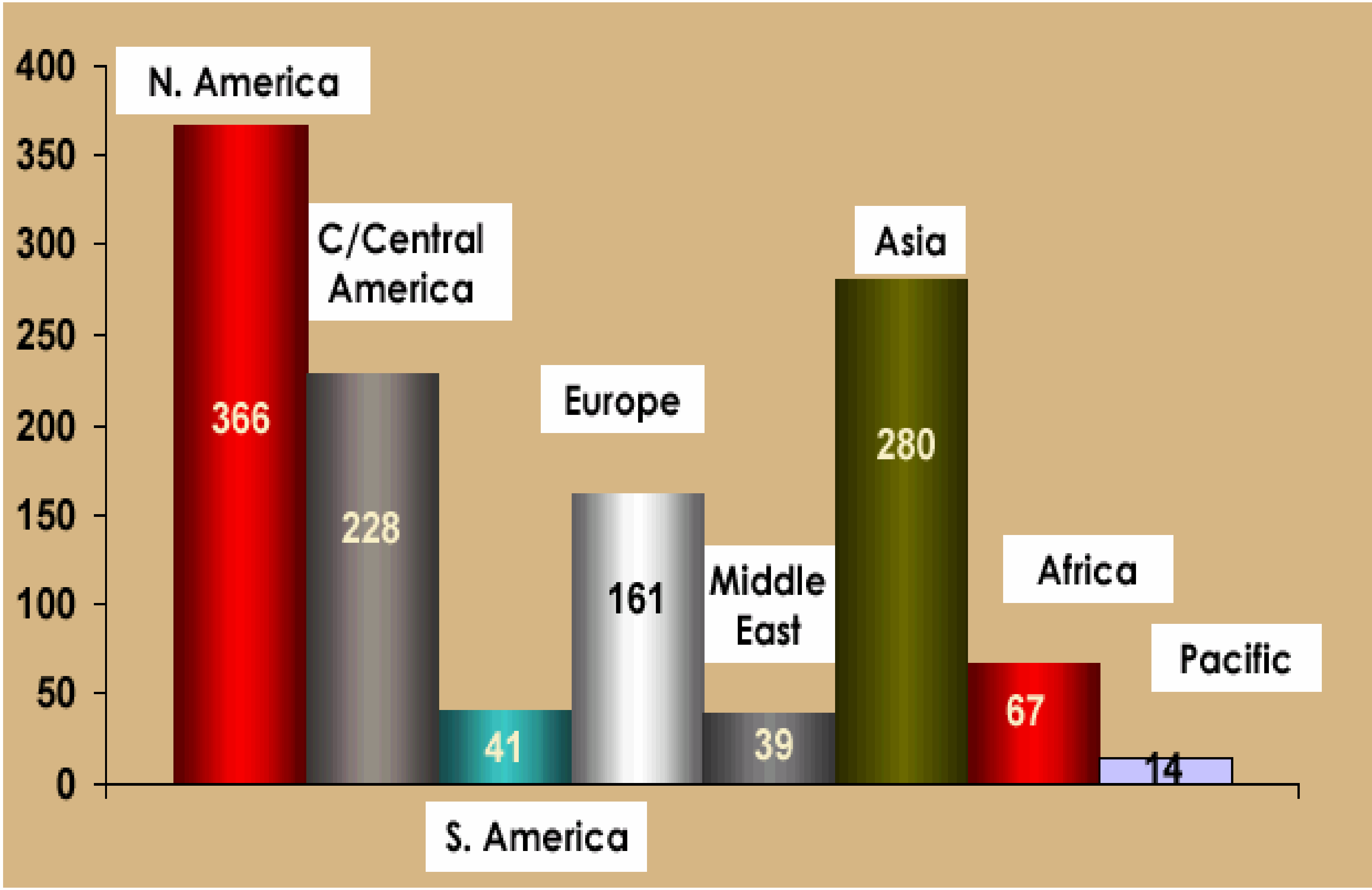
Border Economic Cooperative Areas—15

Growth of Modern Zones

1970s	Today
30 countries	120+ countries
80 free zone projects	2,000+ zone projects
No private zones	1,200+ private zones
Total exports: $6 billion	Total exports: $600+ billion
Direct jobs: 1 million	Direct jobs: 50 million;China alone: 30+ million
	Zones in OECD countries

Source: ILO, 2003; **does not** include single- factory zones or total would exceed 3,000

Distribution of Zones by Region



Leading Zone Locations

Country	No. of EPZs/ FTZs/SEZs/FEZs	Exports ($ billions)	Employment
USA	266	$20.0	400,000
China	190	$12.0	360,000
Indonesia	115 (15 EPZs)	$4.2	200,000
Philippines	100	$27.0	907,000
Thailand	30	$4.7	120,000
India	13	$1.3	87,000
Sri Lanka	9	$1.2	150,000
Bangladesh	6	$1.2	120,000
Taiwan	5	$6.1	90,000
Pakistan	4	$0.1	40,000
S. Korea	3	$5.0	80,000

SEZs and Freeports

	Exports (billions)	% of National Exports	Cumulative Investment (billions)	Direct Employment
Inquique, Chile	$1.0	<1%	--	20,000
Batam, Indonesia	$7.0	11.5%	$4.0	173,000
Shenzen, China	$48.0	14.0%	$28.0	3 million
Zhuhai, China	$8.0	1.7%	$8.0	1.5 million
Shantou, China	$5.8	1.1%	$10.0	2.5 million
Xiamen, China	$9.0	1.9%	$18.4	
Hainan, China	$2.5	<1%	$7.0	2 million
Labuan, Malaysia	$.70		$7.0	50,000
Subic, Philippines	$2.84	7.9%	$11.0	50,000
Aqaba, Jordan			$1.1	9,000

Why Have Some Zones Failed?

Public sector development of zones

- Physical development; not phased
- Subsidized or over-designed facilities
- Poor locations (growth pole, politics)
- Poor maintenance, services, promotion, crowded facilities

Uncompetitive policies

- Reliance on tax holidays
- Rigid eligibility requirements
- Poor labor policies and labor relations, suppression of unions
- Lack of incentives for private zone development

Why Have Some Zones Failed?

Bureaucratic procedures and controls

- Complex investment approval procedure
- Cumbersome customs procedures
- Excessive monitoring/reporting requirements

Inadequate institutional structure

- Too many agencies involved in zone regulation
- Lack of authority, funding, in regulatory body

Lack of an integrated development approach

- No provision of off-site infrastructure
- Lack of public-private partnerships

Some Key Success Factors

Zones must be private sector-led and operated

- Need zone designation and development criteria
- Public-private partnership approaches for zone development
- Need top-level, integrated support of government
- Legal and regulatory framework needs to be streamlined; compete on the basis of facilitation and services rather than incentives
- Zone authority must be autonomous, flexible, focus on regulation

SEZs/Freeports and large-scale free zones can be highly effective

- Minimize public expenditures by locating zones carefully/use existing facilities
- Ensure that they are private sector-led; lead role for one developer
- Develop a robust legal & regulatory framework
- Ensure that regulatory authority capabilities are built-up (high requirements for administrative capabilities)

BEPZA

THANK YOU