SOUTH-SOUTH IDEAS

REPORT ON THE POTENTIAL FOR MONITORING AND EVALUATION OF SPECIAL ECONOMIC ZONES IN BANGLADESH

PEKING UNIVERSITY
Institute of New Structural Economics

SOUTH-SOUTH IDEAS

REPORT ON THE POTENTIAL FOR MONITORING AND EVALUATION OF SPECIAL ECONOMIC ZONES IN BANGLADESH

March 2019

United Nations Office for South-South Cooperation
United Nations Development Programme
304 East 45th Street
New York, NY 10017 USA

Disclaimer

TABLE OF CONTENTS

ACKNOWLEDGEMENTS

This research study was authored by K.A.S. Murshid (Bangladesh Institute of Development Studies), Marianne Männlein (the Institute of New Structural Economics) and Sarah Hager (formerly the Institute of New Structural Economics). The authors wish to thank the United Nations Office for South-South Cooperation (UNOSSC) and the United Nations Development Programme (UNDP) for their sponsorship of this research project under the "South-South Global Thinkers- the Global Coalition of Think Tank Networks for SSC" initiative. The authors extend a special thanks Ms. Shams Banihani (UNOSSC) for providing substantive comments and suggestions to the study and to Ms. Nawra Mehrin (UNOSSC) and the anonymous peer reviewers who provided feedback on this report.

In addition, the authors wish to thank Montijn Huisman and Algirdas Brochard for their excellent research assistance.

ABBREVIATIONS AND ACRONYMS

BEPZA	Bangladesh Export Processing Zones Authority
BEZA	Bangladesh Economic Zones Authority
BHTPA	Bangladesh Hi-Tech Park Authorityuepz
BIDA	Bangladesh Investment Development Authority
BIDS	Bangladesh Institute of Development Studies
BOA	Board of Approval
BOI	Board of Investment
BSCIC	Bangladesh Small and Cottage Industries Corporation
CIIP	Competitive Industries and Innovation Programme
CPEC	China-Pakistan Economic Corridor
DTA	Domestic tariff area
EIZ	Eastern Industrial Zone
EPZ	Export processing zone
EPZA	Export Processing Zone Authority
ETDZ	Economic and technological development zone
EZ	Economic zone
FIAS	Foreign Investment Advisory Service
FTZ	Free trade zone
GDP	Gross domestic product
G2G	Government to Government
ILO	International Labour Organization
INSE	Institute of New Structural Economics
MDG	Millennium Development Goal
M&E	Monitoring and evaluation
MEZ	Mirsarai Economic Zone
MIEZ	Meghna Industrial Economic Zone
OSS	One stop shop
PPP	Public-private partnership
SDG	Sustainable Development Goal
SETCZ	Suez Economic and Trade Cooperation Zone
SEZ	Special economic zone
SOE	State-owned enterprise
TEDA	Tianjin Economic-Technological Development Area
WTO	World Trade Organization

EXECUTIVE SUMMARY

This research report is the result of a scoping visit to Bangladesh in August 2018 within the context of the early stage of the monitoring and evaluation (M&E) programme for special economic zones (SEZs) of the Institute of New Structural Economics (INSE) at Peking University, China. It is the collaborative work of the Bangladesh Institute of Development Studies (BIDS) and INSE.[1]

Acknowledging the current lack of systematic understanding of the dynamics at work behind successes and failures of SEZ development, the goal of the INSE M&E programme is to overcome data gaps by creating a normalized, multi-country data set that is collected on an ongoing basis and incorporates quantitative and qualitative data. The data to be collected fall into four broad categories: (a) descriptive statistics on the SEZs and their firms; (b) existing infrastructure; (c) legal, regulatory and management frameworks; and (d) panel case studies to capture the stories behind the quantitative data. These data sets are expected to deliver actionable insights to help governments and their international partners to make decisions and investments regarding SEZs that maximize their benefits, including structural transformation and the pursuit of Sustainable Development Goals (SDGs). In line with the principles of South-South cooperation (SSC), the indicators within these categories are being developed from the bottom up using actual country experiences investigated through country pilot programmes.

The purpose of the BIDS-INSE scoping visit described in this report was to assess the potential for the inclusion of the Bangladesh economic zone (EZ)[2] programme as an M&E pilot. This new programme led by the Bangladesh Economic Zones Authority (BEZA) was initiated in 2010 with the ambition to establish 100 EZs throughout the country. Other types of zones exist in Bangladesh, including industrial estates, export processing zones (EPZs) and hi-tech parks, which together point to an evolving and broadening industrial strategy. EPZs established in the 1980s have been playing an important role in attracting foreign direct investment (FDI), employment creation and the emergence of Bangladesh's export-led industry. However, EPZs, reflecting Bangladesh's economy, have failed to diversify beyond the low-end garment sector and create significant spill-overs. The new EZ programme is meant to move beyond EPZs by being broader and more inclusive of the private sector and other partners. EZs are characterized by a partnership mode of development since they allow for a number of ownership styles. Both foreign and domestic investment is encouraged, and firms can export or sell domestically.

1 The views expressed in this report are those of the authors and do not necessarily reflect the views of BIDS or INSE.

2 In this report, the term "special economic zones" (SEZs) is used when discussing generic, geographically limited, altered policy environments. When referring to a specific subtype of SEZ in a particular country, the report follows the convention used in that country. Thus, it uses "economic zones (EZs)" as the term for zones administered by BEZA since this is the convention in Bangladesh.

Despite the finding that the EZs in Bangladesh are not yet suitable for inclusion in the M&E programme, the contents of this report are relevant to governments and development practitioners in the Global South and the Northern and international partners that support them using SEZs as a tool for development. In the spirit of SSC upheld through the BIDS-INSE cooperation, this report provides comparative analysis to support sharing of SEZ-related lessons and highlight current cooperation trends in this field. The discussion of the BEZA-regulated EZs is completed by a regional analysis comparing the evolution of SEZ programmes in Bangladesh, India and Pakistan. Consideration of the success of SEZs as a development tool in China offers further insights.

The key findings presented in this report are as follows:

- **The EZ programme is met with enthusiasm by the Bangladeshi private sector, although concerns regarding administrative, finance and infrastructure bottlenecks are in order.** Discussion with the Bangladeshi private sector revealed a strong willingness to come on board. More than 20 private EZs have received a preliminary or final licence and some are already operating. Developers still face bureaucratic difficulties, however, since the BEZA-led single window for administrative services has yet to be put in place within EZs. System-wide shortcomings affecting industrial development in general remain the main concern, in particular restricted access to finance for long-term investment such as EZs and severely congested connective infrastructure.

- **Since no public EZ had begun operations, the scoping-visit team concluded that it is too early to include the BEZA programme in the M&E programme.** BEZA-led zones are slower to develop than private ones. The EZ programme is still at a very early stage of development: rules are still being drafted and although 59 public projects have been approved, none have become operational. For now, BEZA is focusing on zone development more than monitoring, which would translate into insufficient ownership of the project by the key stakeholder. Nevertheless, the approach being taken in Bangladesh is of interest and should be followed in the international community. It is thus recommended that the M&E programme be initiated with the more established EPZs, for which a second scoping study would be required.

- **The comparative analysis of SEZ development in India, Pakistan and Bangladesh unveils some stylized facts of relevance for lesson-sharing with other countries interested in SEZs**. It found that in those countries, SEZs have been successful when: (a) articulated within a broader economic strategy enjoying political commitment; (b) supported with a dedicated policy and governance framework; and (c) implemented transparently and adaptively. As demonstrated by the Indian case in particular, transparent rules taking into account all stakeholders are important to preserve public interest and ensure the sustainability of the programme. If adjustments are needed, regulators may face the challenge of correcting imbalances without stifling zone development or lessening political commitment for the programme.

- **Chinese SEZs can inspire programmes of other countries by their capacity to find innovative structures and evolve along with economic transformation.** Chinese SEZs were first introduced as a test ground for liberal policies in a planned economy. Today they retain an exceptional level of regulatory autonomy. Over the years, China kept experimenting with the concept of the SEZ itself, introducing various types of zones to prepare the country for evolving economic challenges, from World Trade Organization (WTO) ascension at the turn of the twenty-first century to a move towards higher-end industry and services today. Chinese mature industries and experienced zone developers are now looking overseas. Whether through general inspiration for a programme design, FDI in zones or direct involvement in their development, the influence of SEZs with Chinese characteristics on programmes of other countries is poised to grow.

- **Developing countries can leverage the mutually reinforcing relationship between SSC and SEZ development to spur economic transformation.** As channels for South-South investment, SEZs can make the junction between Southern economies as they undergo structural transformation. As in the case of Bangladesh's garment sector, zones may act as catalysers for industrial transfer and additional investment once a demonstration effect has been achieved. Experienced foreign firms can also become directly involved in zone development and management. This creates an excellent learning opportunity for the host country but does not guarantee success: sustained political commitment to learning and creating an enabling environment for the zone remain necessary. Various additional models of SSC can be envisioned with regard to SEZs, such as the three Government-to-Government economic zones planned in Bangladesh with China, India and Japan. If adopted by enough countries, the M&E programme has the potential to serve as a mechanism for capturing, aggregating and sharing all those experiences at the multilateral level.

INTRODUCTION

Special economic zones (SEZs), championed by many rapid industrializers in the second half of the twentieth century, remain a popular tool among developing countries striving to achieve economic transformation. Their potential to catalyse investment and accelerate industrialization has been demonstrated by successful cases such as Shenzhen in China and some of Bangladesh's first zones offering special regulations. In contrast with these dynamic areas, however, many other SEZs established in the hope of capital inflows, job creation and technology transfer failed to deliver the expected results. While the importance of some factors such as zone location and infrastructure has been established, little is known today about why SEZs succeed or fail, owing to the lack of normalized data across zones facing similar global market conditions. As a result, studies to date have been unable to take a comprehensive approach capturing all aspects of the complex reality that makes up SEZ development.

In an effort to advance the understanding of SEZs as a tool for structural transformation for the benefit of developing countries, the Institute of New Structural Economics (INSE) at Peking University, China, initiated the monitoring and evaluation (M&E) programme for SEZs. By providing a comprehensive framework for systematic data collection on different aspects of SEZ programmes and SEZ performance, the M&E programme is envisioned to provide insight into the dynamics of economic zones (EZs). The indicators to be included in the M&E dataset are being developed in collaboration with local actors through country pilot programmes. This research report presents the results of a scoping visit in Bangladesh to assess the potential of its new EZ programme for inclusion as an M&E pilot. Field research was conducted by a joint team from the Bangladesh Institute of Development Studies (BIDS) and INSE in August 2018.

Bangladesh is an interesting candidate for participation in the development of the M&E framework because of its past achievements and current policies. This young country has been a development leader in terms of meeting the Millennium Development Goals (MDGs)[3] and achieving rapid industrialization through an export-oriented strategy.[4] Since 1984, it has gained experience with EZs through a number of export processing zones (EPZs). In 2010, Bangladesh began to undertake an ambitious programme of setting up 100 EZs by 2021 under the direction of the newly constituted Bangladesh Economic Zones Authority (BEZA). The scoping visit focused on BEZA and the new EZs intended for development. Semi-structured interviews were conducted with BEZA, the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) and the Dhaka Chamber of Commerce and Industry (DCCI). In addition to those key respondent interviews, the research team visited two EZs – the Mirsarai Economic Zone (MEZ) and the

---

3 Bangladesh, General Economics Division, Millennium Development Goals: Bangladesh Progress Report 2015 (Bangladesh, 2015). Available at http://www.bd.undp.org/content/dam/bangladesh/docs/MDG/MDGs%20Bangladeh%20Progress%20Report_%20PDF_Final_September%202015.pdf.

4 Shamshad Begum and Abul F.M. Shamsuddin, "Exports and economic growth in Bangladesh", *The Journal of Development Studies*, vol. 35, No. 1 (1998), pp. 89–114; K.A. Al Mamun and H.K. Nath, "Export-led growth in Bangladesh: a time series analysis", *Applied Economics Letters*, vol. 12, No. 6 (2005), pp. 361–364.

Meghna Industrial Economic Zone (MIEZ) – where representatives of the management of the zones and of two private firms were interviewed.

The primary objective of this report is to present the results of that investigation. After further introduction of the motivation for and proposed approach of the M&E project in section 1, section 2 examines Bangladesh's new EZ programme and current field research findings. In the spirit of SSC upheld through the BIDS-INSE cooperation, the second objective of this report is to provide comparative analyses, based on a literature review, to support SEZ-related lesson-sharing and highlight current cooperation trends in this field. Section 3 then contextualizes the discussion of the EZ programme with a comparative analysis of the evolution of zones in Bangladesh and in two countries of geographical and historical proximity: India and Pakistan. Besides shedding light on the three neighbours' different trajectories, this analysis unveils some stylized facts about SEZ programme development of relevance for other Southern countries. Further insight is provided in section 4 with a presentation of Chinese SEZs, a recurrent point of reference in the literature and a source of inspiration for other developing countries. Given the growing influence of SEZs with Chinese characteristics on programmes of other countries, understanding the Chinese approach is key to understanding SEZ development trends and current dynamics in SSC. Section 5 brings the findings of these different investigations together in order to formulate some recommendations for the M&E programme, for the Bangladesh EZ programme and for Southern countries interested in leveraging SSC for SEZ development and economic transformation.

1. STUDY BACKGROUND: INTRODUCTION TO THE INSTITUTE OF NEW STRUCTURAL ECONOMICS MONITORING AND EVALUATION PROGRAMME FOR SPECIAL ECONOMIC ZONES

The goal of the INSE M&E programme is to advance the understanding of SEZs as tools for development for the benefit of developing countries, policymakers and the international community. The need for this programme stems from the lack of comprehensive information about the drivers of success and failure of SEZ programmes that would enable developing countries to make the most out of their investment in the zones. This section will focus on this data gap and how the M&E framework can bridge it before giving more details on the collaborative development process of the framework and the field research undertaken in Bangladesh under this project.

1.1 Why We Need an M&E Programme in the Global South: Overcoming Data Blind Spots to Make the Most of Scarce Development Resources

An M&E programme is essential for tracing the impact of policy and changes in global trade on the EZs. For countries in the Global South, EZs present an opportunity to achieve rapid and sustained industrialization, with successful cases such as Shenzhen in China and several of the EPZs in Bangladesh demonstrating the potential of these projects. Nevertheless, SEZs are also high-cost investments, requiring both expenditure on infrastructure and provision of incentives that often reduce tax receipts. In many cases, however, these investments have not paid off and countries have not realized the benefits of FDI, job creation or technology transfer that they had sought by embarking on SEZ programmes.[5]

Unfortunately, little is known today about why SEZs succeed or fail owing to the lack of normalized data across zones facing similar global market conditions. There are, however, some well-corroborated stylized facts that emerge from the existing literature. For instance, it is well recognized that zones are less likely to be successful when their locations are determined politically rather than by economic rationale, with zones benefiting from market-connecting infrastructure and proximity to major population centres.[6] After location and infrastructure, zone governance and services provided by government and zone management

5 Thomas Farole, *Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience* (Washington, D.C., International Bank for Reconstruction and Development/The World Bank, 2011).

6 Aradhna Aggarwal, "Performance of export processing zones: a comparative analysis of India, Sri Lanka and Bangladesh", Working Paper, No. 155 (New Delhi, Indian Council for Research on International Economic Relations, 2005); Thomas Farole, ibid.; Douglas Zhihua Zeng, "Global experiences with special economic zones with a focus on China and Africa", Policy Research Working Paper, No. WPS 7240 (Washington, D.C., The World Bank, 2005); Asian Development Bank, *Asian Economic Integration Report 2015: How Can Special Economic Zones Catalyze Economic Development*? (Mandaluyong City, Philippines, Asian Development Bank, 2015); Michael D. Wong and Johanne Buba, "Special economic zones: an operational review of their impacts", Working Paper (Washington, D.C., The World Bank, 2017).

seem to make a difference according to the literature,[7] although this is not universally corroborated.[8] It is worthwhile to recognize, however, that what constitutes "good" SEZ governance, regulation and services is also not well documented. On a macro level, the broader economic strategy of the country and the continuity of political commitment for SEZ projects have been highlighted in some studies.[9] Finally, following the Asian experience, adaptability and experimentation are cited as important approaches to the development of SEZs.[10]

Studies to date are primarily of three types: (a) backward looking, capturing the historical development of national zones or their regulatory environment;[11] (b) studies of individual zones or comparisons between zones;[12] or (c) studies seeking to analyse the economic impact of SEZs.[13] The majority of studies are qualitative owing to the substantial gap in data availability; however, some innovative approaches have been taken to try to overcome this, such as the use of night-light data in the recent Competitive Industries and Innovation Programme (CIIP) study that comprised a data set of 346 SEZs. That study found that the majority of zones performed in line with the host country's average economic growth. Size and industry selection seemed to matter, with larger zones performing better than smaller ones and low-end, labour-intensive zones showing more dynamism than their high-tech counterparts. Night-light data also revealed

---

7 Peter Watson, "Export processing zones: has Africa missed the boat? Not yet!", World Bank Africa Region Working Paper Series, No. 17 (Washington, D.C., The World Bank, 2001); Aggarwal, "Performance of export processing zones"; Gokhan Akinci and James Crittle, "Special economic zones: performance, lessons learned, and implications for zone development", Foreign Investment Advisory Service Occasional Paper (Washington, D.C., The World Bank, 2008).

8 Thomas Farole, Special economic zones in Africa; Wong and Buba, "Special economic zones".

9 See, for instance, Watson (2001), whose comparative qualitative study argues that the key success factors for SEZs are clear vision, consensus, concerted actions and continuity in policies. Aggarwal (2005) also provides an empirical analysis of these factors.

10 Xiaolan Fu and Yuning Gao, "Export processing zones in China: a survey", ILO Report (Geneva, 2007); Akinci and Crittle, "Special economic zones"; Douglas Zhihua Zeng, "How do China's special economic zones and industrial clusters drive China's rapid development", Policy Research Working Paper, No. 5583 (Washington, D.C., The World Bank, 2011); Aggarwal, "Performance of export processing zones".

11 Fu and Gao, "Export processing zones in China".

12 Akinci and Crittle, "Special economic zones"; Farole, Special economic zones in Africa; Wong and Buba, "Special economic zones"; Deborah Bräutigam and Xiaoyang Tang, "African Shenzhen: China's special economic zones in Africa", *The Journal of Modern African Studies,* vol. 49, No. 1 (2011), pp. 27–54; United Nations Conference on Trade and Development (UNCTAD), *Enhancing the Contribution of Export Processing Zones to the Sustainable Development Goals* (New York, United Nations Conference on Trade and Development, 2015); Douglas Zhihua Zeng, "Global experiences with special economic zones: focus on China and Africa", Policy Research Working Paper, No. WPS 7240 (Washington, D.C., World Bank Group, 2015); Philip Giannecchini and Ian Taylor, "The eastern industrial zone in Ethiopia: catalyst for development?", *Geoforum*, vol. 88 (January 2018), pp. 28–36.

13 Wang Jin, "The economic impact of special economic zones: evidence from Chinese municipalities", *Journal of Development Economics*, vol. 101, Issue C (2013), pp. 133–147; Olga Sinenko and Igor Mayburov, "Comparative analysis of the effectiveness of special economic zones and their influence on the development of territories", *International Journal of Economics and Financial Issues*, vol. 7, no. 1 (2017), pp. 115–122; Mohammed Yunus and Abdul Hye Mondal, "Enclave industrialization: evidence from export processing zones in Bangladesh" (2018, unpublished draft).

that areas in the immediate vicinity of SEZs have benefited from spillover effects. However, this proxy does not reveal the extent and nature of linkages or other important economic benefits expected from SEZs such as the adoption of new technology and development of know-how.[14] Furthermore, the authors found no relationships between performance and the features of the SEZ programmes (fiscal and non-fiscal incentives) included in the model but admit that "the reality is something that the dataset cannot capture". In fact, this kind of quantitative approach cannot take into account the quality of implementation. Some incentives, for instance a single-window service for investors, might exist on paper but not function in real life. Other potentially crucial factors, such as the level of government commitment and policy coherence, are not reflected.

The limitations in the existing literature call for a more comprehensive approach that will account for the multiple aspects of SEZ programmes. The goal of the INSE M&E programme is to overcome these data gaps by creating a normalized, multi-country data set comprising data that are collected on an ongoing basis and incorporating both quantitative and qualitative data. The data to be collected fall into four broad categories:

(a) descriptive statistics on the SEZs and their firms;
(b) infrastructure (including in-zone and connective);
(c) legal, regulatory and management frameworks applying to SEZs; and
(d) panel case studies to capture the experience of the firms and the stories behind the data.

These categories enable a range of important inquiries into the contributions of SEZs to meeting the SDGs such as the type and gender of employment generated in the zones and their ecological impacts. As further described below, the actual indicators for these categories are being developed from the bottom up, using actual country experiences investigated through country pilot programmes.

The results of the M&E programme are expected to shed light on what drives success and failure in SEZs and can be incorporated into future zone design and implementation, enabling governments to more rapidly trial policies, and increase the speed of development. This insight can drive policy and investment promotion to support the pursuit of SDGs. It is hoped that this programme will enable the rapid policy trial and iteration that were experienced in China to be extended across multiple countries. If such a data set can be assembled, the common challenges arising in the Global South with the use of the SEZs as a development tool can be better understood, facilitating wiser resource allocation and cooperation across countries.

1.2 A Framework under Collaborative Development

The M&E programme is being pursued guided by the principles of South-South cooperation. In particular, the indicators that will eventually form the M&E framework are being created collaboratively, in a bottom-

14 Wong and Buba, "Special economic zones".

up approach, from country pilots over a period of several years. In each country participating in a pilot, INSE will team up with a local governmental institution concerned with the development of SEZs to jointly conduct research and develop the framework. The indicators and evaluation methodology are thus not being imposed externally from a place of theory but rather are being built pragmatically in partnership with countries in the Global South in light of their actual data needs and data collection challenges.

The partners for the M&E programme that will contribute to the development of these indicators will be established through a series of scoping and pilot projects. The goal of a scoping visit is to establish whether there is strong enthusiasm for participation on the part of the SEZ regulator and if the national SEZ programme is suitable for inclusion in the group of pilots that will determine the indicators. The commitment of the regulator is key for a number of reasons. Most important, the M&E programme should provide benefits for the countries in which it is implemented in terms of providing data that the regulator and policymakers can use to make policy decisions. Since the development of the indicators should be shaped by the country context, it is not possible to achieve the desired results without the robust participation of the regulator. In addition, access to SEZs, which are often altered policy spaces with different laws and regulations than those of the rest of the national territory, is frequently controlled and limited by the regulator. The M&E programme requires consistent data collection in a partner country over a period of several years rather than a single study window; thus it is not possible to carry out this work without the partnership of the regulator.

Regarding suitability for inclusion in the M&E programme, it is important that the SEZ programme of a country has reached a sufficient stage of maturity. While this may vary based on the country needs and starting conditions, it requires at a minimum that at least one zone is fully constructed through its first phase and that at least a handful of firms in that zone are in production. This is because, as described earlier, the categories of data collection require firms and policies to measure. In developing countries, the enthusiasm for SEZs can exceed the implementation capability of the regulator or the demand of investors. It is often the case that zones diverge substantially from their initial feasibility studies and the time from initial construction to production varies substantially. Even when regulators and investment promotion agencies have obtained investment commitments, there are often substantial changes between the anticipated investment level and employment created and what actually comes to fruition once the capacity is installed and the investment has entered a productive phase.

1.3 Monitoring and Evaluation Scoping Visit in Bangladesh

The monitoring and evaluation (M&E) programme is in its initial phase, with two scoping visits having been conducted in Ethiopia, one scoping visit in Bangladesh (presented in this report) and one scoping visit planned for Senegal.[15] A scoping visit is comprised of meetings with key respondents including the

15 INSE wishes to acknowledge the funding and support of the Bill and Melinda Gates Foundation for M&E project work in Ethiopia and Senegal.

Government, the private sector, and SEZ operators and managers. These meetings are designed as semi-structured interviews, with guided questions developed for each of the key stakeholder groups. Further details of the scoping study methodology can be found in appendix A while the guided questions are available in appendix C.[16]

Government participants are principally asked questions concerning the framing of the SEZ programme, its current state of development, desired data collection and existing collection mechanisms. The privatesector respondents are typically firms operating in the SEZs and industry associations. The former are asked about their existing data collection efforts and their experience of operating from the SEZs. Industry associations are asked for informed opinions on the development of the SEZ programme, the regulator, and the opportunities and challenges occasioned by the SEZs. Finally, the SEZ operators and managers at the profiled SEZs are asked for the details of their management challenges, operating procedures and data collection needs.

After the scoping visits, if the conditions for regulator participation and SEZ programme suitability are satisfied, the country may join as a partner in the M&E programme, with the ability to shape the development of indicators through direct input and participation in a series of pilot data collection exercises over an initial period of two years. Such a pilot is currently being launched in Ethiopia, where several industrial parks are already operating and interest in streamlining data collection and monitoring zone outcomes through the M&E programme proved strong during the scoping visits.

This report presents the results of the scoping project in Bangladesh, carried out in August 2018; the project is the collaborative work of the Bangladesh Institute of Development Studies (BIDS) and INSE. The research team chose to focus on the new SEZ regime under BEZA since it has been a highly publicized national priority since the founding of BEZA in 2010. The two zones selected for the first scoping visit, one public and one private, were recommended by the regulator, BEZA. Where private and public ownership structures are legally permissible within a country's SEZ framework, the M&E programme seeks to establish a comparison between zones in these ownership categories. The public zone visited, the Misarai Economic Zone (MEZ), is the flagship project for BEZA under the new SEZ regime. It is the most advanced zone with Government participation described in the latest BEZA annual report (2017).The private zone visited, the Meghna Industrialized Economic Zone (MIEZ), is the second EZ of its parent conglomerate Meghna, the first private developer to obtain a licence to build zones under BEZA's programme. Meghna's first EZ, called the Meghna Economic Zone, is the most advanced zone of the programme. It is fully occupied (by the conglomerate's own industries) and already producing, including for export.[17]

As of August 2018, Misarai Economic Zone was under construction, with a focus on land and connective infrastructure development. It has garnered substantial investment interest, and at least nine firms have

16 It should be noted that the semi-structured interviews are intended as prompts for discussion, not as a survey.

17 Bangladesh, Bangladesh Economic Zones Authority, Private economic zones, brochure, 2018.

already committed to participation in the zone as sub-developers, three of them as a joint venture. Meghna Industrialized Economic Zone is also under construction, although some companies of the Meghna group have started production and a small pre-production team of external investors to the zone is on site. Further details of these zones and their development can be found in section 2.3.

2. NEW ECONOMIC ZONES IN BANGLADESH: AN INSTRUMENT FOR WIDENING INDUSTRIALIZATION?

Although predominant by its stated ambition, BEZA and its goal to establish 100 new EZs across the country is one programme among several in the creation of a broad class of special zones in Bangladesh. In particular, the country's already-existing EPZs and their governing authority, the Bangladesh Export Processing Zones Authority (BEPZA), share similar traits, and although EPZs will continue to develop, EZs appear as the new generation of SEZs meant to move beyond the limitations of the older programme. Both desk investigation and field investigation indicate that the main differences in the respective programmes lie in their scope of inclusion. This means that EZs may be leading towards a more partnership-based approach meant to widen industrial development.

2.1 Old and New Institutions: Introduction to Bangladesh's Zone Programmes

In 2010, BEZA was established under the Bangladesh Economic Zones Act.[18] BEZA is led by the Office of the Prime Minister and is mandated to establish, license, operate, manage and control economic zones in Bangladesh.[19] Its stated aim is to establish EZs in all potential areas of the country, including underdeveloped regions, in order to encourage rapid economic development by proliferation and diversification of industry, employment, production and export.[20] Potential areas include those that have lower agricultural productivity and do not require substantial relocation of existing residents and land users. In concrete terms, it has the stated intention to develop 100 EZs across the country and create employment for 10 million people in the next 15 years.[21]

BEZA is just one regulator among several in the creation of a broad class of special zones in Bangladesh. In the same year as the founding of BEZA, the Government also created the Hi-Tech Park Authority.[22] These

18 Bangladesh, Bangladesh Economic Zones Authority, Annual Report 2016: Development of Economic Zones (2016). Available at http://www.beza.gov.bd/wp-content/uploads/2016/09/BEZA-Annual-Report.pdf.

19 Ibid., p. 7.

20 Ibid.

21 Ibid.

22 Bangladesh, Bangladesh Hi-Tech Park Authority, The Bangladesh Hi-Tech Park Authority Act, 2010. Available at http://bhtpa.portal.gov.bd/sites/default/files/files/bhtpa.portal.gov.bd/page/b73dd6fa_3504_407e_9790_6124ebaf0749/BHTPA%20ACT%20

two authorities were preceded by the Bangladesh Small and Cottage Industries Corporation (BSCIC), operating under the Ministry of Industries in 1957 in order to support the small and cottage industries.[23] Subsequently, during the initial phase of Bangladesh's export promotion policy effort,[24] the Bangladesh Export Processing Zones Authority (BEPZA) was created under the 1980 BEPZA Act to attract foreign investment and technical know-how and thereby boost exports.[25] The main responsibility of BEPZA has been establishing and managing EPZs, of which there are currently eight.

In accordance with the different bodies responsible for their administration, four main types of special zones are legally permitted in Bangladesh: industrial estates under the direction of BSCIC, EPZs under the direction of BEPZA, EZs under the direction of BEZA, and hi-tech parks under the direction of the Bangladesh Hi-Tech Park Authority (BHTPA). Each institution is responsible for providing one-stop-shop (OSS) services[26] to investors in its respective sphere of authority. In addition, a fifth OSS for investors was established in 2016, the Bangladesh Investment Development Authority (BIDA). Unlike the others, which are fully dedicated to a single type of zone, BIDA is not a zone manager; rather, it is meant for general FDI promotion and facilitation. It also provides administrative and business development support to foreign investments in the rest of the country, including in some areas earmarked for industry by city authorities in charge of urban planning.[27] Table 1 summarizes the characteristics of the different authorities in Bangladesh's governance structure and of their respective zones. It is worth mentioning that an approved zone does not imply that any construction has taken place at the site or that the zone will become operational.

English.pdf.

23 Monzur Hossain and others, "An evaluation of BSCIC industrial estates", Report Submitted to Bangladesh Small and Cottage Industries Corporation (2018), p. 13.

24 Aggarwal, "Performance of export processing zones".

25 Bangladesh, Bangladesh Export Processing Zones Authority, Annual Report 2016–2017 (2017), p. 15. Available at http://bepza.gov.bd/files/reports/file_1530607290.pdf.

26 Can also be referred to as "single window clearance", as in India's legislation.

27 Bangladesh, Bangladesh Investment Development Authority, "Land for Entrepreneurs". Available at http://bida.gov.bd/?page_id=602.

Table 1. Governance Structure and the Different Types of Zones in Bangladesh

Name of the Authority	BSCIC	BEPZA	BEZA	BHTPA	BIDA
Establishment Date	1957	1980	2010	2010	2016
Administrative Level	Ministry of Industries	Prime Minister's Office	Prime Minister's Office	Prime Minister's Office	Prime Minister's Office
Main Functions	Management, maintenance, administrative support, training, lending	Investment promotion, OSS services, basic infrastructure, zone development and management	Investment promotion, OSS services, basic infrastructure, public-zone development and management	Investment promotion, OSS services, basic infrastructure, zone development and management	FDI promotion, OSS services, aftercare services and business development support for foreign investors
Zones Falling under the Authority	Industrial Estates	Export Processing Zones (EPZs)	Economic Zones (EZs)	High-tech Parks	Any Other Area
Zone Characteristics	Focused on expanding industrial growth through the development of small and cottage industries	Incentivize investment within State-owned zones, especially FDI to use the EPZs as low-cost production bases for labour-intensive manufacturing exports	Incentivize investment within a broader regime, open to diverse forms of ownership, targeting domestic and foreign investors, selling locally or internationally	Establish international standard infrastructure for the development and proliferation of the information technology and high-tech industry[28]	Includes other "industrial estates/ areas", owned and controlled by city development authorities; most are in the vicinity of Dhaka, Chittagong or Khulna[29]
Indicative Number of Zones	74 [30]	8 government owned	Total approved: 59 public, 29 private[31] (88/100); pre-qualified: 1 public (PPP),[32] 17 private;[33] final permit: 5 private[34]	3 projects listed as "operational" and 15 more listed as "running"[35]	N/A

28 Bangladesh, Bangladesh Hi-Tech Park Authority. Available at http://bhtpa.gov.bd/.

29 These cities are, in order, the three largest in Bangladesh.

30 Hossain and others, "An evaluation of BSCIC industrial estates".

31 Bangladesh, Bangladesh Economic Zones Authority, Economic Zones Site. Available at http://www.beza.gov.bd/economic-zones-site/.

32 Bangladesh, Bangladesh Economic Zones Authority, *Annual Report 2016*.

33 Bangladesh, Bangladesh Economic Zones Authority, Private economic zones, 2018.

34 Ibid. It should be noted that the 5 zones that received final permits are included in the "pre-qualified" category, which is itself included in the "total approved" category.

35 Bangabondu Hi-Tech-City/Kaliakair Hi-Tech Park; Sheikh Hasina Software Technology Park; Janata Tower Software Technology Park.

It is most pertinent to consider the differences between the EPZs and the EZs, which are the most similar of the four special types of zones. The industrial estates and hi-tech parks focus on specific segments, small and cottage industry and technology, respectively, whereas the EPZs and EZs are both intended to meet broad industrialization objectives.

The incentives offered to investors in the EPZs and EZs provide for an income tax holiday, import-duty exemption on intermediary input, tax exemption on dividends and royalties, repatriation of funds, relief from double taxation, full private ownership and facilitated access to foreign exchange, work permits, residency and citizenship. While their provisions are very similar, the incentive package offered to investors in EZs appears more attractive on two points. Regarding tax incentives, the progressively decreasing exemption rate drops to 50 per cent in the third year in EPZs and lasts for a total of five to seven years, whereas in the EZs, the progressively decreasing exemption rate drops to 50 per cent in the sixth year and the scheme stretches over 10 years, providing both a slower reduction in tax incentives and longer tax-incentive periods. However, under BEZA, the exemption on dividend tax will begin only after this income tax holiday period is over. Another difference in the official regulation is that EPZ firms can sell only 10 per cent of their production to the domestic market against 20 per cent for EZs.[36] From an additional regulation guideline published by BEZA, it appears that this 20 per cent sale limit to the domestic tariff area (DTA) applies only to the area of an EZ designated as an "export processing area".[37] In fact, the Economic Zone Act (2010) allows developers to divide the zone into different areas with different labels: "export processing", "domestic processing", "administrative" and "non-processing" areas. There is no mention of a minimum number of export processing areas needed per zone. Therefore, it seems that, in effect, EZ firms can freely produce for either the international or domestic market as long as the master plan for the zone is approved by BEZA.

The authority, composition, and roles of BEPZA and BEZA are similar as are their institutional set-up and investment incentives. The two institutions share the same high-level staffing: their governing councils are chaired by the Prime Minister and both include the key Government ministers, the secretaries of the key ministries/divisions and the Governor of the Bangladesh Bank. The primary differences between the EPZs and EZs lie in the target investors and access to the domestic market.

2.2 Is Bangladesh Heading for More of a Partnership Model of Industrial Development?

EZs may represent an expanding industrial strategy in terms of their scope and their orientation towards private-sector partnerships. BEZA explicitly mentions the potential role of the private sector in zone

36 See Yunus and Mondal, "Enclave industrialization", p. 47, for the comparison. This document, available on the BEZA website, lists incentives for EZs, including the 20 per cent to DTA rule. BEZA, Incentives and Benefits for Developers, 2016. Available at http://www.beza.gov.bd/wp-content/uploads/2016/10/Incentives-and-Benefits-for-Developers-Investors-and-EZ-users-V2.pdf.
37 Ibid.

development whereby both foreign and domestic investors are welcomed as developers and partners of BEZA. While detailed evidence on the ownership structure of the BEPZA zones is thin, available sources indicate that EPZs were predominantly publicly owned and administered. According to Yunus and Mondal, "while EPZs are exclusively developed under BEPZA, the private sector is permitted to develop zones under BEZA",[38] implying that public EPZs were, at a minimum, the dominant mode under BEPZA.

However, according to a 1998 working paper commissioned by the International Labour Organization (ILO) and authored by BIDS, which highlights the important contribution of EPZs to export and growth, the Government passed an additional law in 1996 that allowed private-sector actors to set up EPZs. This ILO paper described the establishment of only one private EPZ, the Korean Youngone Corporation in Chittagong.[39] No indication of further private EPZs has been identified but one 2015 news article reported the Government's plan to bring this single private Korean EPZ under BEZA to avoid responsibility overlap between the two authorities.[40] This lends support to the idea that an intended distinction between EPZs and EZs is the relaxing of ownership possibilities.

These new ownership possibilities under BEZA come in a wide array, since the Bangladesh Economic Zones Act of 2010 allows for the establishment of the following kinds of EZs:[41]

- *Public-private partnership (PPP)*: EZs established through public and private partnership by local or foreign individuals, bodies or organizations;
- *Private economic zones*: established individually or jointly by local, non-resident Bangladeshis or foreign investors, bodies, business organizations or groups;
- *SEZs*: established privately or by PPP or by government initiative, for the establishment of any kind of specialized industry or commercial organization;[42]
- *Government economic zones*: established and operated by BEZA;
- *Government-to-Government (G2G) economic zones*: established and owned jointly by the Government of Bangladesh and any other Government; and
- Economic zones in collaboration with other Government of Bangladesh authorities.

Fully private zones appear to constitute the minority of projects, with 29 private EZs out of the 88 approved

38 Yunus and Mondal, "Enclave industrialization", p. 44.

39 Debapriya Battacharya, "Export processing zones in Bangladesh: economic impact and social issues", Working Paper, No. 80 (Geneva: International Labour Office, 1998), p. 1. Available at http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---multi/documents/publication/wcms_126103.pdf.

40 Md Fazlur Rahman, "Private EPZs may come under new regulator", The Daily Star, 8 October. Available at https://www.thedailystar.net/business/private-epzs-may-come-under-new-regulator-153700.

41 Bangladesh, The Bangladesh Economic Zones Act, 2010, Act No. 42 of 2010 (1 August 2010). Available at http://beza.gov.bd/wp-content/uploads/2015/06/BEZA-Act-English.pdf;Bangladesh, Bangladesh Economic Zones Authority, Annual Report 2016, p. 13.

42 BEZA employs the term "special economic zone" for EZs that focus on a particular industry or sector.

EZs currently listed on the BEZA website.[43] In its 2016 Annual Report, BEZA provides detailed information on only 20 EPZs: 7 private, 10 PPP and 3 G2G zones (with the Governments of China, India and Japan).[44] Both the 2016 and 2017 BEZA reports indicate that construction work is ongoing in two PPP zones, Mongla EZ and Mirasai EZ, but there is no mention of any EZ with public involvement having started production or having received a final permit. In contrast, an investment brochure for private EZs published very recently reveals that at least two, the Meghna EZ and the Bay EZ, are already producing and exporting.[45] In total, 5 have received final permits and 17 have been pre-qualified.[46]

As noted by Yunus and Mondal, the "EZ program has a much wider national perspective than EPZ program – at least in its coverage and promises".[47] The pre-feasibility report by PricewaterhouseCoopers (PwC) for the Mongla EZ, the first PPP EZ to be licensed, notes that EZs are expected to create more backward and forward linkages to the rest of the economy compared to their counterparts. EPZs have tended to develop as exporting enclaves and have failed to attract investment beyond the low-capital-intensive garment sector. According to this report, the Government now aims at creating an "EZ paradigm" for the country, inviting more domestic participants to the process with the expectation that spill-overs from FDI will be harnessed by local firms and investments will diversify into different products and into building value chains. Allowing private management and investment of the EZ will also allow for lesser reliance on government subsidies, including in the provision of infrastructure such as power provision and effluent treatment within the zones.[48]

It should be noted that the hi-tech parks appear to be in line with this expanded industrial strategy. The Bangladesh Hi-Tech Park Authority Act of 2010 allows for the establishment of hi-tech parks by both public and private actors.[49] Among the three parks currently authorized, both private and PPP modes are mentioned. In addition, the Sheikh Hasina Software Technology Park is open explicitly to foreign and domestic investors.[50] The year 2010 also saw the creation of a third institution in addition to BEZA and the Hi-Tech Park Authority: the establishment of the Public Private Partnership Authority "to act as a catalyst

---

43 Last accessed 15 November 2018.

44 Bangladesh, Bangladesh Economic Zones Authority, *Annual Report 2016*.

45 Article in the Bangla daily, *Prothom Alo*, dated 18 November 2018, indicates that Meghna zones (both "economic" and "industrial") are up and running and beginning to gain momentum. Many of the investments identified appear to be for the domestic market although a few are clearly for exports, e.g., garment accessories, oven bags and possibly tin foil.

46 Bangladesh, Bangladesh Economic Zones Authority, Private economic zones, brochure (2018).

47 Yunus and Mondal, "Enclave industrialization", p. 44.

48 PricewaterhouseCoopers (PwC), "Pre-feasibility report: Mongla Economic Zone, Bangladesh", report submitted to the Bangladesh Economic Zones Authority (January 2015), p. 16. Available at https://www.beza.gov.bd/wp-content/uploads/2016/03/Feasibility-Report-of-Mongla-EZ.pdf. Written authorization by PwC was obtained by the authors to refer to this report.

49 Bangladesh, Bangladesh Hi-Tech Park Authority, The Bangladesh Hi-Tech Park Authority Act, 2010.

50 Bangladesh, Bangladesh Hi-Tech Park Authority. Available at http://bhtpa.gov.bd.

to proactively realize PPP projects" in Bangladesh.[51]

2.3 Scoping Visit Findings: Enthusiasm amid Uncertainty for the Private Sector

As described in section 1.3, the BIDS-INSE scoping visit included visits and interviews in one BEZA-led EZ and in one fully private EZ as well as meetings with representatives of BEZA and business associations. Field research confirmed that the main characteristic of Bangladesh's new EZ programme is its inclusiveness – of public and private sectors, domestic and foreign participants, local and international end markets, and the Bangladeshi population at large. Findings from the scoping visit and interviews with EZ actors presented in this section show that this approach is already bearing fruit, since the private sector conveyed a strong willingness to come on board. Foreign-investor interviewees appeared appreciative of the professionalism and the services provided in the private EZ. Despite that encouraging start, private respondents expressed concerns about potentially unequal relationships between public and private zones as well as remaining constraints to the development of EZs and industry in general in Bangladesh.

2.3.1 Economic Zone Inclusiveness in Practice

Field investigation findings confirmed that the main differences between BEPZA and BEZA programmes lie in the targeted stakeholders, from developers to investors and destination markets. Three interview respondents described EPZs as specifically targeted at FDI and export markets, and contrasted EZs as being for both domestic and foreign investors producing to sell locally or internationally. Two interview respondents confirmed that EZ firms can sell freely on the domestic market provided that they pay required import duties on input materials at the moment of sale.[52] In fact, the Meghna Beverage operation visited in Meghna Industrial Economic Zone (MIEZ) currently produces exclusively for the domestic market, having said that it was following a "niche market strategy" by focusing first on local areas and expanding progressively, with the potential for future exports.[53] This pre-production level observed in MIEZ indicates that, by now, at least three private EZs are producing.

No evidence of a start of activity in public EZs was found. Mirsarai Economic Zone (MEZ), BEZA's flagship project, was visited and found to be under construction, with the initial works being contracted by BEZA. Discussions in MEZ shed light on the joint development of ownership structures unfolding under the EZ programme.[54] The "overarching" MEZ is a Government project but of the total site development plan, the land of Mirsarai has been subdivided into zones to be acquired by different developers. These will include BEZA, private contractors and G2G projects. Interestingly, land has also been set aside for an EZ controlled by BEPZA,

51 Bangladesh, Public Private Partnership Authority. Available at http://www.pppo.gov.bd.

52 Interview with Mr. Suman Chandra Bhowmik, ACA, Deputy General Manager, Meghna Group of Industries and an anonymous respondent.

53 Interview with Meghna Beverage Limited.

54 Interview with Mr. Ferdous Wahid, Assistant Engineer (Civil), Bangladesh Economic Zones Development Project (Phase 1), BEZA.

which is expected to be administered under the BEZA regulations in the same manner as all other zones in the areas. Besides zones dedicated to production, the master plan includes living areas and other amenities needed to create the "first ever planned industrial city of Bangladesh": a 30,000-acre project spearheaded by BEZA.[55] Several memorandums of understanding (MoUs) have already been signed with firms expecting to invest in the park either as individual production firms or as zone developers.[56] Among the advantages cited for this zone are the planned dedicated port facilities and road and rail connective infrastructure.

If Bangladesh is heading for more of a partnership approach, the private sector seems to be coming on board with enthusiasm despite the lack of full certainty about how the EZ programme will be administered. Discussion with business association representatives conveyed optimism, with several business leaders having already applied for preliminary permits to set up EZs and many association members interested in renting fully developed and serviced plots. A major industry chamber reported working closely with BEZA, collaborating wherever help is needed. This seems to indicate that BEZA is open to receiving some guidance from the leading forums of the local private sector. Still, according to another respondent, smaller business associations are for now not represented directly on the boards of BEPZA, BEZA or the PPP Authority. If BEZA follows through in its inclusive approach, this situation may change soon, as that respondent also indicated.

Regarding current patterns of foreign interest in Bangladesh EZs, business association interviewees indicated seeing a lot of Japanese interest in labour-intensive industries, such as repackaging and electronics, which they linked to increased labour costs in China. Further prospective investors cited were the Turks, the Malaysians, the Singaporeans and the Thais. Although the investors were not yet on site, the Meghna Industrial Economic Zone (MIEZ) management revealed having signed a lease agreement with a Thai bottling factory.

It is worth noting that this industrial venture bringing public and private sectors and domestic and foreign participants together will also be inclusive of the wider Bangladeshi population. As emphasized by a business association leader, SDGs are a priority for the Government of Bangladesh, which follows inclusive development as a general guiding principle. Accordingly, the Government intends to spread EZs geographically, with the expectation of creating jobs everywhere. Moreover, the Prime Minister is reportedly determined not to relocate people for industry and has already rejected several EZ projects based on this criterion. Agricultural land is protected as well, with EZs targeted at bare land or land unsuited for growing more than two crops.[57]

55 The full name of the broader project is Mirsarai and Feni EZ.

56 Interview with Mr. Ferdous Wahid, Assistant Engineer (Civil), Bangladesh Economic Zones Development Project (Phase 1), BEZA.

57 Interview with a business association.

2.3.2 Public vs. Private Economic-zone Development

The opening of the EZ programme to private developers allows for interesting comparisons between public and private zone development. Although it should eventually benefit from multimodal connective infrastructure as well as all the facilities of a city, Mirsarai Economic Zone (MEZ) is still in the early stages of construction using techniques to reclaim low-lying land.[58] This illustrates the general finding that, compared with private zones, public EZs are slower to develop. This fact was explained by BEZA and echoed by the business associations. Private respondents emphasized the slowness of decision-making in public zones, whereas the BEZA representative pointed to a land constraint faced by the State. He contended that Governmentowned land is very scarce, and since it cannot afford to buy expensive locations, such as the ones along the highway where both Meghna-owned EZs are located, the State must go through the lengthy process of reclaiming land before developing EZs. In the case of Mirsarai, a new connective road also needs to be built from the nearest high-speed road to the seaside location of the zone.

In contrast, the private Meghna Industrial Economic Zone (MIEZ) visited had already completed basic construction work and several manufacturing sheds since its licence had been granted in 2017. Additional facilities such as a security building and an accommodation building, reserved for management staff at first, were under construction. Currently, three Meghna-owned companies are in limited production in the zone, with at least two external producers coming online soon.[59] Electricity within the zone is provided by Meghna, which is allowed to sell the surplus to the public grid while sparing its tenants the trouble of an overloaded public grid. This is a significant advantage, according to the manager. In fact, one business association representative pointed out that electricity had been a major constraint to industrial development in Bangladesh over the last decade. As conveyed by the management of MIEZ as well as by one of its foreign investors, not having to deal with bureaucratic processes directly is another main advantage offered by private zones over public ones. The representative of that Australian-owned company, whose first shed was also being constructed by Meghna, said that it had chosen that precise zone for the professionalism of its management. He was appreciative of "how fast things are being built" and of the comprehensive support and guidance provided by a management assuming the role of complete interface between its tenants and the Government.

Despite that early enthusiasm, private-sector respondents raised issues arising from the potential unequal relationship between the public and private zones. Although having all of the same investment incentives, there are potential advantages to be realized by the private and the public zones. While private zones may be able to offer more flexibility, one respondent from the private sector expressed concerns that public zones might be able to offer enhanced connective infrastructure and perquisites to attract

58 It should be noted that while the completion date announced during the scoping visit was 2018, apparently it has been pushed back to 2019 based on the investment brochure, Invest in Mirsarai and Feni Economic Zones, recently published by BEZA. Available at http://www.beza.gov.bd/wp-content/uploads/2018/10/Brochure-Mirsarai-04-10-2018.pdf.

59 Interview with Mr. Suman Chandra Bhowmik, ACA, Deputy General Manager (Accounts), Meghna Group of Industries.

potential investors in addition to their Government-backed investment promotion activities. Connective infrastructure includes connection to utilities such as gas and must be in place for an EZ to receive a final permit. That respondent indicated that although BEZA is meant to provide connection for free up to all of the EZ boundaries, public agencies are very slow to start the construction work for private zones. According to that respondent, most private developers deal with this issue by making an extra formal payment. It is too early to determine how these relationships will develop.

2.3.3 Main Challenges to Economic Zone and Industrial Development

If differences between public and private zones might introduce some variation in development speed between EZs, system-wide shortcomings affecting all zones as well as industrial development in general remained the main concerns of private actors interviewed. While foreign investors expressed satisfaction, the MIEZ manager assuming the role of administrative facilitator for them mentioned facing bureaucratic difficulties and was looking forward to the establishment of a BEZA-operated OSS within the EZ. At the time, that policy had just been approved by the Parliament but had yet to be implemented.[60] Business association interviewees also expressed hope for the establishment of an OSS not only in EZs but for all investors across the country. According to one respondent, more than 30 licences from different organizations were currently needed to start an industrial business in Bangladesh. In his view, policy implementation in general was deficient in Bangladesh because of the absence of clear standard operating procedures guiding the carrying out of government directives. As a result, good policies were being formulated at the higher levels but not properly implemented by people at lower levels who interpreted them and added red tape for their own interest. Because decisions came from above, often directly from the Prime Minister, accountability was also lacking in that highly centralized decision-making system deplored by the respondent.

Besides the administrative bottleneck, restricted access to finance and insufficient transport infrastructure were cited as the most binding constraints to SEZ development in Bangladesh. Regarding the financial constraint, respondents pointed out long delays in obtaining needed capital and loan maturity times that were too short to suit the middle- to long-term type of investment that developing an EZ represents. As for the infrastructure issue, respondents conveyed a sense of urgency to deal with the matter since the Chittagong port and the roads leading to it such as the Dhaka-Chittagong highway are already fully congested. Therefore, although the construction of a new port by Mirsarai Economic Zone (MEZ) on the outskirts of Chittagong conferred an advantage to that Government-led zone, it was welcomed by the private sector as well.

Finally, one business leader and private-zone developer pointed out what he saw as a "grey area" in BEZA's current programme, namely, the lack of coherent criteria for incentive eligibility. He explained that he did not understand why an enterprise within an EZ would benefit from incentives while a similar enterprise in the same industry but located in the domestic tariff area (DTA) would not. He was also surprised at the

---

60 Interview with Mr. Suman Chandra Bhowmik, ACA, Deputy General Manager (Accounts), Meghna Group of Industries.

ease with which he had obtained a preliminary licence, since he needed only to own a sufficient piece of land[61] and to ask for EZ status. At that stage, no pre-feasibility study had been required, according to him.

Overall, for the early stage of development of the EZ programme in Bangladesh, much of the gritty detail of implementation is still evolving. In the best-case scenario, the multiple ownership structures will provide ample room for investors to find their "Goldilocks" EZ and enable experimentation across the different zone types. If the outcome of these experiments can be captured and shared, there is a great opportunity for the EZ programme in Bangladesh to widen industrialization and support the country in its growth ambitions. In the meantime, Bangladesh's new programme can benefit from looking at other developing countries' experiences with SEZ development. This comparative exercise is important not only to find inspiration but also to identify potential pitfalls and avoid repeating mistakes made elsewhere. The remaining sections will provide insights from India, Pakistan and China before turning to policy recommendations for Bangladesh and other Southern countries interested in SEZ development.

3. BANGLADESH IN CONTEXT: UNDERSTANDING THE REGIONAL EXPERIENCE WITH SPECIAL ECONOMIC ZONES

Like Bangladesh, India and Pakistan recently launched revitalized SEZ programmes following a history of early zone development. For India, the SEZ Act was adopted in 2005[62] despite India's having set up its first EPZ in 1965. In Pakistan, an SEZ Act was passed in 2012,[63] with more than 100 industrial estates set up in the 1970s and the first EPZ in 1981.[64] The comparison of these three countries provides a compelling lens through which to view industrial policy, owing to their geographic proximity and history. In 1946, India, Pakistan and Bangladesh were administered as one territory under British colonial rule. In 1947, the territory was divided into India and Pakistan, with Bangladesh as East Pakistan before its independence in 1971. That relatively recent separation left the two countries on unequal footing and had lasting economic repercussions.

In the 1960s, the industrial growth rate in combined Pakistan reached 11.9 per cent but declined sharply

61 BEZA's regulation does not indicate a strict minimum. According to this respondent, a "good piece of land" for an EZ corresponds to at least 100–200 acres. For reference, Meghna Industrial Economic Zone (MIEZ) covers 110 acres and is considered relatively small by its developers.

62 India, Ministry of Law and Justice, "The Special Economic Zones Act, 2005, No. 28 of 2005", The Gazette of India, 13 June 2005. Available at http://sezindia.nic.in/upload/uploadfiles/files/SEZAct2005.pdf.

63 Pakistan, Board of Investment, Modified & Amended Special Economic Zones Act, 2012 (Amended 2015). Available at http://boi.gov.pk/UploadedDocs/Downloads/Modified%20SEZ%20Act%202012.pdf.

64 Asian Development Bank, *Asian Economic Integration Report 2015: How Can Special Economic Zones Catalyze Economic Development?* (2015).

to 2 per cent in the 1970s for (formerly West) Pakistan.[65] The Bangladesh War of Independence took a toll on Pakistan's economy.[66] The year 1971 was marked by a steep decline in the annual growth rate of Pakistan's gross domestic product (GDP) from 11.6 to 0.47 per cent, followed by three years of economic recession.[67] As for the new State of Bangladesh, it started with a virtually non-existent industrial capacity: in 1971, industry value added made up only 6 per cent of the country's GDP, compared to 21 per cent in Pakistan and 23 per cent in India.[68] Bangladesh was an agrarian economy growing rice and jute, with a surplus that had been feeding industrialization in West Pakistan where the jute was processed.[69] With the departure of Pakistanis, Bangladesh was left without any substantial industrial class. Three years later, a devastating famine in its countryside won the country the infamous reputation of "basket case".[70] In the decades following their separation, however, both countries experienced a reversal of fortune: Bangladesh's manufacturing sector boomed, while Pakistan failed to reignite its early industrial dynamism. In retrospect, the Government of Pakistan acknowledged that the country "has certainly not performed to potential or initial expectations" and attributed the derailing of the promising developments of the 1960s to wars with India (1965) and Bangladesh and to a "chequered political history".[71]

Against this background, it is interesting to contrast the three neighbours' diverging development trajectories. The following section looks at the evolution of their respective zone programmes with an eye for each country's politico-economic context. As will be further elaborated later in the report, zone location, governance framework and land policy are common themes and useful comparison points.

---

65 Karim Khan and Saba Anwar, "Special economic zones (SEZs) and CPEC: background, challenges and strategies", Pakistan Society of Development Economists, 32nd AGM Papers (2016). Available at http://www.pide.org.pk/psde/index.php/list-of-accepted-papers.

66 A study on the war's consequences estimated that the total indirect costs of the conflict were $14.08 billion and had a significant long-term negative impact on the economies of Bangladesh and Pakistan. (Saud Choudry and Syed Basher, "The enduring significance of Bangladesh's War of Independence: an analysis of economic costs and consequences", *The Journal of Developing Areas*, vol. 36, No. 1 (2002), pp. 50–51.) On the international level, the country was politically and economically isolated until it formally recognized Bangladesh in 1974. This notably affected its trade relationships and capacity to obtain a World Bank loan. (Matthew McCartney, *Pakistan: The Political Economy of Growth, Stagnation and the State, 1951–2009* (2013), p. 145.)

67 World Bank Group, World Bank Open Data, GDP and GDP annual growth rates for Pakistan. Available at https://data.worldbank.org/country/pakistan.

68 World Bank Group, World Bank national accounts data, and Organization for Economic Cooperation and Development National Accounts data files, Industry (including construction), value added (% of GDP). Available at https://data.worldbank.org/indicator/NV.IND.TOTL.ZS?locations=BD-IN-PK.

69 Mushtaq Khan, "Vulnerabilities in market-led growth strategies and challenges for governance", DFID Research Paper Series on Governance for Growth (London: School of Oriental and African Studies, University of London, 2008), p. 83. Available at https://eprints.soas.ac.uk/9963/1/Vulnerabilities_internet.pdf.

70 This expression was widely attributed to Kissinger, although according to Hossain, it came from one of his administration's members. See Hossain, *The Aid Lab* (2017).

71 Pakistan, Ministry of Planning, Development and Reform, Pakistan 2025: One Nation– One Vision (2014), p. 21. Available at https://fics.seecs.edu.pk/Vision/Vision-2025/Pakistan-Vision-2025.pdf.

These insights can be fed back into the three countries' current zone programme for improvement. In line with the M&E programme spirit of unveiling stylized facts and facilitating lesson-sharing across the Global South, they are also relevant for any other developing country interested in establishing SEZs.

3.1 Early Development of Industrial Zones in India, Pakistan and Bangladesh

India, Pakistan and Bangladesh all made their first steps with EPZs before the turn of the twenty-first century, with varying degrees of success. While India moved first, its programme was very limited and had no substantial outcomes. Likewise, Pakistan failed to commit to its EPZs and other industrial estates, which lagged for decades. In contrast, inherited industrial estates in Bangladesh began to play a noticeable role in the industrialization process of the new-born country, where the newer EPZs have been significantly better integrated into the country's economic programme.

3.1.1 India as a Reluctant First Mover

India, together with Taiwan Province of China, was the first Asian country to establish an EPZ (in 1965). Its first EPZ was in Kandla, in the highly underdeveloped region of Kutch. According to an anthropological case study of the EPZ, that was a politically strategic location since it borders Pakistan and is home to refugees on the Indian side but is otherwise unpopulated. Kutch received special development assistance and its port was built specifically to compensate for the loss of Karachi.[72] By 1990, however, the zone still suffered from its isolation from urban and production centres and a lack of basic infrastructure.[73] A second zone was established in 1973. In a comparative study of EPZ performance in India, Bangladesh and Sri Lanka, Aggarwal underlined the Government of India's consistent lack of clear objectives for setting up those and the following EPZs, which were not reinforced by any dedicated legislation or administrative set-up.[74] The powers of the zone authorities were limited, customs and FDI policies rigid. Incentives and facilities were not attractive, and each individual clearance had to be acquired from various offices at different government levels.

Although the first zones attracted little interest from investors, five more EPZs were set up in the 1980s. All except one were set up in industrially underdeveloped regions, and the policy framework remained unchanged. Again, they were not very successful.[75] For instance, in 1998, total investment in the seven existing zones was only 0.33 per cent of total Indian manufacturing investment.[76] Aggarwal's analysis

72 Patrick Neveling, "Structural contingencies and untimely coincidences in the making of neoliberal India: the Kandla Free Trade Zone, 1965–91", Contributions to Indian Sociology, vol. 48, no. 1 (2014), p. 27. Available at https://doi.org/10.1177%2F0069966713502420.

73 Ibid., p. 30.

74 Aggarwal, "Performance of export processing zones".

75 Aggarwal, "Performance of export processing zones".

76 Aradhna Aggarwal, "SEZ-led growth in Taiwan, Korea, and India: implementing a successful strategy", Asian Survey, vol. 52, No.

suggests that overall, India's EPZ programme was motivated by the need to compensate for the country's strategy through some export promotion, with the 1980s zones being mostly an attempt to earn more foreign exchange to offset the effect of the second oil shock.[77] Only in the 2000s, by which time the great potential of SEZs for economic development had been forcefully demonstrated by the Asian Tigers and China, did the Government of India finally commit to a fully remastered zone programme.

3.1.2 Arrested Developments in Pakistan

Industrial estates also performed badly in Pakistan, where the Government established more than 100 after the 1970s. One paper reports that poor governance and rent-seeking behaviour[78] of stakeholders from all sides, public and private, were the main causes of failure.[79] Another publication highlights that industrial estates are distributed across virtually all district headquarters of the country, some being unsuccessful because of their location in remote areas lacking access to a labour force or appropriate amenities.[80] According to a source familiar with the development of the contemporary SEZ programme in Pakistan,[81] the three principal causes of the failure of the industrial estates in the past are, in order of importance, poor site selection, the absence of a facilitation framework and poor land management. The location of industrial areas in Pakistan mostly followed political objectives. For instance, the provincial government of Punjab aimed to place one industrial estate in each district with no regard for the area's suitability and ignoring readiness for industrial development. Industrial estates in the suboptimal locations failed to attract the interest of private firms despite significant public spending.

Pakistan started an EPZ programme in the 1980s. The EPZ Authority (EPZA) was established in 1980 and the first EPZ was set up in Karachi in 1981.[82] It remained the only one until the early 2000s.[83] While BEPZA

---

5 (2012), p. 892, DOI:10.1525/as.2012.52.5.872. Available at http://as.ucpress.edu/content/52/5/872.full.pdf+html.

77 Aggarwal, "Performance of export processing zones".

78 Rent-seeking can be defined as the behaviour by an economic actor to increase his/her share of wealth without creating new wealth. This often happens through manipulation of the socioeconomic system. See Anne O. Krueger, "The political economy of the rent-seeking society", *American Economic Review*, vol. 64, No. 3 (June 1974), pp. 291–303.

79 Khan and Anwar, "Special economic zones (SEZs) and CPEC".

80 Zafar Mahmood, "Opportunities and challenges of special economic zones under CPEC for Pakistan", paper presented at The International Academic Seminar on Industrial Cooperation and Construction of Industrial Zones, CPEC, in Beijing China, 5–7 January 2018.

81 Mr. Sameeh Ullah, Industrial Policy and Planning Specialist at the Urban Sector Planning and Management Services Unit in Punjab, Pakistan.

82 Mohammad Hanif Akhtar, "An evaluation of Karachi Export Processing Zone: a preliminary investigation", The Pakistan Development Review, vol. 42, No. 4, Part II (winter 2003), p. 937. Available at http://www.pide.org.pk/pdf/PDR/2003/Volume4/927-940.pdf. Other sources give 1989 as the establishment year (Uzma Mukhtar, "Identification of impediments" and the 2008 Foreign Investment Advisory Service study).

83 Uzma Mukhtar and others, "Identification of impediments in export promotion zones of Pakistan", *Journal of Independent Studies and Research-Management, Social Sciences and Economics*, vol. 11, No. 2 (July 2013), p. 116.

published several annual reports with detailed data on its zones,[84] the information made available by EPZA is very limited and EPZs are somehow conspicuous in their absence from most of the studies about Pakistani SEZs used for this report. Only four EPZs are listed on the EPZA website.[85] However, one 2013 study of Pakistani EPZs[86] lists 10 of them, two without a year of establishment, based on a EPZA year book (2012).[87] The authors, who conducted a survey in Pakistani EPZs, note that their share in the national economy "is not much impressive and (…) lags behind neighboring countries".[88] According to that study, EPZA indicated a total of $485 million in exports, $516 million in FDI and total employment of 3,500 for the year 2011–2012. They contrast these numbers with the ones given by BEPZA, which indicated figures approximately 10 times higher in exports ($4,856 million) and employment (33,987) despite a lower level of investment ($328 million) in 2013.[89] This might reflect lower return on investment in Pakistani EPZs but also a difference in sector focus (capital vs. labour intensive) and market orientation (domestic vs. international) between EPZA and BEPZA zones. According to the study, the major products of six of the EPZs are minerals and petroleum products.[90]

During the research for the present report, available data on any type of zone in Pakistan proved to be very scarce. Official publications of figures could not be found and the specialized secondary literature is limited. Besides a potential lack of capacity for systematic data collection and diffusion, this could reflect a lack of performance to show , as suggested by findings from two cross-country studies. Strikingly, the CIIP study using night-light data as a proxy for performance found that "among the study countries, only zones in Pakistan experienced absolute negative growth rates".[91] The period of analysis being 2007–2012, the two Pakistani zones included in the sample had to be EPZs.[92] Those findings echo a 2008 Foreign Investment Advisory Service (FIAS) qualitative study of SEZ performance across the developing world, where Pakistan is the only Asian country listed under "severely obstructed" development, which characterizes countries with "program-wide" poor performances.[93] Through interviews with investors in the Karachi EPZ, one 2003 case study found that they did not enjoy particular fiscal incentives or OSS services. At the macro level, Pakistan was lacking the necessary export infrastructure and partnerships. The study concluded that the EPZ programme needed more consistent support from the Government and should be integrated into "a

84 Available at http://bepza.gov.bd/reports.

85 For EPZs Karachi, Sialkot, Risalpur and Saindak, see https://epza.gov.pkhttps://epza.gov.pk.

86 Mukhtar and others, "Identification of impediments".

87 The year book could not be found online.

88 Mukhtar and others, "Identification of impediments", p. 101.

89 Ibid., p. 103.

90 Ibid., p. 116.

91 In the rest of this study sample of 22 countries, zones in five countries remained stable on average and the remaining displayed a strong increase in nightlights, including in India (3 zones) and Bangladesh (7 zones). Indian and Bangladeshi zones demonstrated a level of performance similar to that of China in term of absolute growth and grew almost at the exact same pace as the national economy (CIIP study, p. 58).

92 The new SEZ policy was enacted in 2012.

93 Akinci and Crittle, Special economic zones, p. 44.

clear, targeted and well-defined export-oriented strategy" at the national level.[94] As for the 2013 study of all EPZs, it emphasized poor law-andorder conditions as a prime impediment cited by interviewees. The Saindak zone in Balochistan in particular had not been able to operate at full capacity. Aiming at exporting copper and gold, the EPZ was met with hostility by local populations and foreign investors feared going to that politically unstable area.[95] The authors argue that a general poor perception of Pakistan by investors on the security level pushes them towards other Asian destinations. Besides, some zones such as Karachi are reported to be plagued by a culture of corruption among local officials who ask for money on a monthly basis for smooth business operation.[96]

3.1.3 Bangladeshi Success Stories

In contrast to Pakistan, Bangladesh further developed its inherited industrial estates after the separation. BSCIC was first established in 1957 in what was then East Pakistan. Industrial estates, which are aimed at small and cottage industries, took on an important role in the economy. According to a 2018 report prepared by BIDS for BSCIC, production from BSCIC firms represents 11.7 per cent of Bangladesh's total industrial production and 18.7 per cent of its manufactured output. Furthermore, industrial estates account for 9.5 per cent of total exports and 10 per cent of manufacturing exports. They make up 8.8 per cent of total employment and 21.4 per cent of small and medium-sized enterprise employment.[97]

Having adopted the Act establishing BEPZA in 1980, the country then went on to build EPZs. The first two zones were set up in Chittagong and Dhaka in 1984 and 1994, respectively. They are referred to as the Chittagong EPZ (CEPZ) and the Dhaka EPZ (DEPZ). Afterward, six more zones were established: Adamjee EPZ (AEPZ), Comilla EPZ (COEPZ), Ishwardi EPZ (IEPZ), Karnaphuli EPZ (KEPZ), Mongla EPZ (MEPZ) and Uttara EPZ (UEPZ). The Bangladesh EPZ programme, too, was much more successful than its Pakistani counterpart. The zones developed into significant contributors to the country's employment and exports. The latest report published by BEPZA indicates that EPZs contributed on average 18.5 per cent of Bangladesh exports and 20.18 per cent of net FDI flow per year in the period 2011–2017. In the year 2016/2017, 464 industries in 8 EPZs had exports totalling \$6,549 million (over \$34,835 million nationally) and created 26,638 new jobs. EPZs employ 479,181 persons in total, of whom 64 per cent are women. BEPZA also reports the existence

94 Akhtar, "An evaluation", p. 937.

95 There have been several instances of violence against foreign investors in Pakistan, as reported by Small (2015), who also noted opposition to other economic development projects in Balochistan. In the case of the long-stalled development of the Gwadar port area (where an EPZ was also planned), Small explains that "while the potential benefits of the project are undeniable, even political moderates in Balochistan believe that most of them will be diverted elsewhere in Pakistan" (pp. 56–57). This points to one aspect of Pakistan's political economy: that one region (Punjab), home to one of the two major ruling parties, is significantly more developed than the others and traditionally more represented through political elites. This imbalance created a general climate of suspicion against the central state's economic policies among populations of peripheral regions.

96 Mukhtar and others, "Identification of impediments", pp. 111–112.

97 Hossain and others, "An evaluation of BSCIC industrial estates".

of social facilities on site. A total of 175 day-care centres for children are available in EPZ enterprises and BEPZA runs a free medical centre in each EPZ but 233 enterprises are also operating their own.[98]

Not all the Bangladeshi zones developed as well as the first two. According to a research paper on EPZs published by BIDS, in 2015, CEPZ and DEPZ accounted for over 60 per cent of all the units operating in EPZs. AEPZ and KEPZ accounted for another 20 per cent. Moreover, according to a cost-benefit analysis carried out by BIDS, only those four EPZs have significant positive welfare benefits. The benefits of IEPZ and UEPZ are relatively small and those of MEPZ even negative. However, BIDS stresses that the picture might change for MEPZ when the "transit through Mongla port starts in full swing because all the partner countries in the recently signed transit agreement are keen to use the port".[99]

The literature on zones reviewed in the first section of this report suggests that this variation in zone performance could be linked to several factors, including fiscal and non-fiscal benefits, location, infrastructure and governance. In the case of Bangladesh EPZs, location and infrastructure appear to be particularly important factors since incentives and the governance structure are centralized. Chittagong and Dhaka were established in urban areas with relatively good access to water and air ports. Initially, Chittagong lagged behind DEPZ in terms of growth. According to Aggarwal, the reason for that is that physical infrastructure in Chittagong was developed at a very slow pace.[100] The eventual success of COEPZ has been attributed to its location along the Dhaka-Chittagong corridor and its proximity to Chittagong,[101] Bangladesh's second largest urban centre. Likewise, AEPZ is only 15 km from Dhaka.[102] Inversely, the four EPZs established in the 1990s in more underdeveloped areas were less successful. Today, of the eight EPZs established by the State, only the three located farther away from the port and the capital have not performed well. As in cases of the early programmes of India and Pakistan, this points to a well-established point in the literature: that SEZs often struggle when their location is based on a political rather than an economic rationale.

Regarding the origins of investment in the EPZs, Bangladeshis account for 25 per cent of the total amount invested. People from the Republic of Korea are the first foreign contributors (18 per cent), followed by contributors from Japan (10 per cent), Hong Kong Special Administrative Region (8.7 per cent),[103] Taiwan Province of China (6.3 per cent) and China (5.6 per cent). The main western investors come only after these investors and are from the United States of America (4.1 per cent) and the United Kingdom of Great Britain and Northern Ireland (3.5 per cent).The share of investment of the Republic of Korea was even

98 Bangladesh, Bangladesh Export Processing Zones Authority, *Annual Report 2016–2017* (2017), pp. 21, 76, 77 and 80.

99 Yunus and Mondal, "Enclave industrialization", p. 41.

100 Aggarwal, "Performance of export processing zones", pp. 44–45.

101 Yunus and Mondal, "Enclave industrialization"; Aggarwal, "Performance of export processing zones".

102 Bangladesh, Bangladesh Export Processing Zones Authority, "Info of Adamjee EPZ". Available at https://www.bepza.gov.bd/pages/epzdetails/adamjee-export-processing-zone-2/location-3.

103 Bangladesh, Bangladesh Export Processing Authority, *Annual Report 2016–2017*, p. 64.

larger in the earlier years of the EPZ programme.[104] In fact, the Republic of Korea-Bangladeshi cooperation is at the heart of both Bangladesh's manufacturing boom and EPZ development. In 1979, since exports from the Republic of Korea to the United States were restricted under the Multifibre Arrangement, the garment manufacturer Daewoo looked for another production base and chose to set up a joint venture in Bangladesh. The Bangladeshi counterpart, Desh Garments, provided the investment capital in exchange for training and technology transfer. The Government was quick to recognize the potential of the sector and to put in place institutional innovations critical to exports. It has been reported that the meeting between the two was initiated by the President of Bangladesh himself, who assured a high level of political commitment to the Republic of Korea party.[105] In 1980, a Foreign Investment Act was adopted and the EPZ programme was started as an "innovative and quick way" to deal with issues of land accessibility and administrative and logistical obstacles still hindering investment.[106]

Beyond its own sweeping success, Desh Garments is now recognized as the precursor of the Bangladeshi garment industry. By the end of the 1980s, 115 of the 130 employees trained in the Republic of Korea had set up their own garment firms in Bangladesh. The sector grew so fast that Bangladesh was brought under United States quotas in 1985.[107] Today, Bangladesh is one of the 50 main exporters in the world, 90 per cent of its exports being garments and textile products.[108] This trajectory is clearly reflected by the EPZs, where at least 72 per cent of investments are concentrated in this sector and the rest in other types of light manufacturing,[109] which also explains the high proportion of female workers.

3.2 Boom and Bust in India's New Special Economic Zone Programme

India started liberalizing its economy in 1991, which notably translated into fewer controls and regulations and simplification of procedures for investors.[110] That was part of a wider economic reform programme started in the 1980s to progressively move towards export-led growth, under which a new SEZ policy was the culmination.[111] The impetus to move from the EPZ programme to an SEZ programme came from a visit of India's Commerce Minister to China in 2000.[112] Inspired by China's success, the country announced its

104 Mustafizul Hye Shakir and Thomas Farole, "The thin end of the wedge: unlocking comparative advantage through EPZs in Bangladesh", p. 29, in *Special Economic Zones: Progress, Emerging Challenges, and Futures Directions,* Thomas Farole and Gokhan Akinci, eds., (Washington, D.C., The International Bank for Reconstruction and Development/The World Bank, 2011).

105 Khan, "Vulnerabilities", pp. 90–91.

106 Hye Shakir and Farole, "The thin end of the wedge", p. 27.

107 Khan, "Vulnerabilities", p. 91.

108 The Observatory of Economic Complexity, "Bangladesh". Available at https://atlas.media.mit.edu/en/profile/country/bgd/.

109 Bangladesh, Bangladesh Export Processing Zones Authority, *Annual Report 2016–2017*, p. 65.

110 Aggarwal, "Performance of export processing zones".

111 Rob Jenkis, Loraine Kennedy and Partha Mukhopadhyay, eds., "Introduction," in *Power, Policy, and Protest: The Politics of India's Special Economic Zones* (Oxford: Oxford University Press, 2014).

112 Arpita Mukherjee and others, *Special Economic Zones in India: Status, Issues and Potential* (Springer, 2016), p. 54.

first SEZ policy that year, to be administrated at both the central and state government levels.[113] Despite those positive changes, the private sector did not begin to invest significantly in zones until the scheme was complemented by a dedicated legal framework in 2005.[114] A Board of Approval (BOA) headed by the Secretary of the Department of Commerce was established as the national apex body. Below the BOA, another Approval Committee exists at the zone level and is responsible for ensuring OSS services to the zone.[115] The Approval Committee and an SEZ Authority responsible for developing the infrastructure and levying charges are each chaired by a Development Commissioner, who occupies a pivotal role in the SEZ administrative machinery. This government official in charge of the SEZ does not need to consult higher levels for many matters pertaining to its SEZ and can be delegated any regulatory powers deemed appropriate by the state government. The Development Commissioner thus "appears to exercise a combination of legislative, executive, and judicial powers".[116] An overview of India's SEZ governance structure, in comparison with that of Pakistan, is provided in table 2 in appendix B.

In term of incentives, the 2005 Act entitles both SEZ developers and units to duty-free imports of goods; duty-free procurement from the DTA; and exemption from service taxes, export duties, central sales taxes, payment of stamp duties, and dividend distribution taxes. Units are also exempted from income tax for the first five years and pay an income tax rate of 50 per cent for the next two. SEZ developers are similarly granted a 10-year tax holiday. While the 12 new SEZs established in India between 2000 and 2005 were all Government initiatives, the 2005 Act triggered a new dynamic: by December 2017, a total of 204 zones established after 2005 were operational, of which 70 per cent were private. That followed the aim of the SEZ programme: to signal to investors that the Government was committed to providing an attractive environment for private investment.[117] The number of Indian SEZs has been rising at an impressive rate since then. Inclusion of "notified SEZs"[118] and SEZs that have received only "formal approvals" or "in-principle approvals" brings the total number of zones to over 1,000.[119] Consequently, total SEZ employment rose from 134,704 people in February 2006 to 1,977,216 in March 2018 and investment from around $575.32 million to $67.7 billion in the same period.[120, 121] In March 2018, the zone exports totalled more than $80

113 India, Ministry of Commerce and Industry, Introduction. Available at http://sezindia.nic.in/cms/introduction.php.

114 Aggarwal, "SEZ-led growth", p. 883.

115 India, Ministry of Law and Justice, "Special Economic Zones Act, 2005".

116 Rob Jenkis, Loraine Kennedy and Partha Mukhopadhyay, eds., *Power, Policy, and Protest*, p. 11.

117 Mukherjee and others, *Special Economic Zones in India*, p. 55.

118 "Notified" means having received all necessary credentials for operation.

119 India, Ministry of Commerce and Industry, Fact sheet on special economic zones as on 31.07.2018. Available at http://sezindia.nic.in/upload/5b67f4c187566FACT-SHEET.pdf.

120 In Indian rupees, 40.35 billion to 474.97 billion rupees. Rate used: 1 INR = 0.0142566 USD, based on https://www.xe.com/fr/currencyconverter/convert/?Amount=4749173700000&From=INR&To=USD (24.08.2018).

121 India, Ministry of Commerce and Industry, Fact sheet on special economic zones as on 31.07.2018, converted from Indian rupees (5 810 33 crore). Rate used: 1 INR = 0.0142566 USD, based on https://www.xe.com/fr/currencyconverter/convert/?Amount=4749173700000&From=INR&To=USD (24.08.2018).

billion.[122] Overall, exports from SEZs grew but at an unstable rate. For instance, export values experienced a 12-fold increase between 2005 and 2014 but growth rates significantly declined over the period: from 109 per cent in 2009/2010 to 6 per cent in 2011/2012 and -2.6 per cent in 2013/2014. Moreover, economic activity in India's zones is concentrated in a few sectors. In 2010/2011, 75 per cent of total SEZ exports came from chemicals and pharmaceuticals or information technology. In 2015, over half of all operational SEZs had a sectoral focus on information technology.

These aggregate figures are driven mostly by the best-performing zones in India's five most developed states. By 2010, the remaining states still accounted for only around 20 per cent of the SEZ land, most zones did not export and many newly notified SEZs remained in limbo.[123] This disparity appears to be driven mainly by differences in the ease of doing business across states and the different levels of commitment by the state governments to SEZ programmes.[124] While they are allowed and even encouraged to enact their own SEZ policies by the central Indian government, only 8 out of 29 states had done so by 2014.[125] The divergence between and within states in the way that officials handled the establishment of SEZs is a striking characteristic of the Indian programme.

Because of blatant mishandling in some parts of India, the craze for SEZs subsided as quickly as it had begun. Most of the land for SEZs had been acquired by Indian states under the guise of "public purpose" or "urgency".[126] That led to abuses whereby local officials colluded with SEZ developers or used their insider knowledge to acquire land at a discounted price before the establishment of an SEZ was announced.[127] In some instances, developers misused SEZ land and the associated incentives for non-productive purposes such as real estate. In many cases, farmers were ousted from their land without fair compensation. Here again, implementation styles adopted by local politicians varied greatly. In Uttar Pradesh, certain SEZ land-acquisition processes were stained by irregularities from politicians with vested interests, while others were conducted transparently, with compensations being negotiated with the farmers. In the State of Haryana, commended by the central government as a model to follow, the state government issued a complementary policy adding an annuity to be paid to affected landowners for 33 years by SEZ developers and allowing for compensation packages to include plots of residential and commercial land.[128] Still, repeated scandals provoked a national outcry and public opinion turned against SEZs as they proliferated.

122 India, Ministry of Commerce and Industry, Fact sheet on special economic zones as on 31.07.2018.

123 Aggarwal, "SEZ-led growth", p. 896.

124 Mukherjee and others, *Special Economic Zones in India*, p. 68.

125 Rob Jenkis, Loraine Kennedy and Partha Mukhopadhyay, eds., *Power, Policy, and Protest*, p. 12.

126 Baibhaw Gahlaut, "Land Acquisition and Resettlement and Rehabilitation Bill 2011: a bane or boon?", *Statute Law Review*, vol. 34, no. 2 (2012), p. 175.

127 Avinash Kumar and Sudha Pai, "Uttar Pradesh: contrasting cases from the National Capital Region", in *Power, Policy, and Protest: The Politics of India's Special Economic Zones*, Rob Jenkis, Loraine Kennedy and Partha Mukhopadhyay, eds. (Oxford: Oxford University Press, 2014), p. 349.

128 Rob Jenkis, Loraine Kennedy and Partha Mukhopadhyay, eds., *Power, Policy, and Protest*.

As a result, the federal government quickly changed its policies. In August 2009, the Department of Commerce issued an instruction to halt the acquisition of land for SEZs and limit their size.[129] Moreover, the Reserve Bank of India changed the status of SEZs from infrastructure to real estate projects, which increased the cost of loans for developers and prevented them from seeking external commercial borrowing. SEZ incentives were diluted over time and are now less attractive than they were in 2005.[130] In the State of Goa, the SEZ question became so central during the 2007 elections that the governing parties completely shifted their position from advocating to banning SEZs.[131] All these events sent negative signals to both domestic and international investors regarding the commitment of the Government of India to SEZs.[132]

3.3 Progress and Potential Weaknesses in Pakistan's New Framework

Pakistan was the last of the three comparators to introduce a new programme with the establishment of the SEZ status in 2012. The 2012 SEZ Act created a BOA to be the highest body of the SEZ governance structure. It is headed by the Prime Minister, with membership from economic ministries and provincial governments. In addition, the Act establishes: (a) an Approvals Committee chaired by the Board of Investment (BOI), which is comprised of heads of provincial investment boards to which the BOA can delegate powers; (b) an SEZ Authority at the national level to be appointed by the Provincial Cabinet; (c) an SEZ Committee at the zone level chaired by the developer and including representatives from the BOI, the provincial investment promotion agency, the SEZ Authority and concerned district governments. This framework resembles India's in that it introduces a vertical division of responsibility along the lines of the country's federal organization. For a visual representation of these two governance structures, see table 2 in appendix B.

The new law introduced special incentives for SEZs. Developers receive a one-time exemption from customs duties on materials needed for the construction of the zone and receive a 10-year exemption from income taxes on earnings from the SEZ.[133] Firms are exempted from all customs duties and taxes on the import of capital goods to aid their establishment as well as from all taxes on income for 10 years.[134] As for the ownership structure of SEZs, the federal government and provincial governments may establish SEZs by themselves or in collaboration with private parties under various models of collaboration including PPP or exclusively through the private party. Pakistan's special status as "China's all-weather friend",[135] in opposition to the animosity of both countries towards India, comes into play in the new SEZ programme. Under the

129 India, Ministry of Commerce and Industry, Special Economic Zones in India, Instruction No. 29, dated 18.8.2009. Available at http://sezindia.nic.in/writereaddata/Instructions/.

130 Mukherjee and others, *Special Economic Zones in India*, p. 63.

131 Da Silva and Jose, "Goa", in *Power, Policy and Protest,* p. 131.

132 Aggarwal, "SEZ-led growth", p. 893.

133 Pakistan, Special Economic Zones Act, 2012, section 36. Available at https://pakistanlawyer.com/2016/06/16/special-economic-zones-act-2012/.

134 Ibid., section 37.

135 For a detailed account of the relationship, see Small, *The China-Pakistan Axis* (2015).

China-Pakistan Economic Corridor (CPEC) policy, an important link for the Chinese Belt and Road, nine joint projects for SEZs – one in each administrative province of Pakistan – were initiated with China and are currently undergoing feasibility studies with the Chinese side.[136] Among the nine selected locations, five are already-existing industrial estates that will be upgraded to the new SEZ status.[137] While the SEZ Act addressed the problematic absence of a facilitation framework to support development of industrial zones in Pakistan, certain provisions appear to introduce some responsibility overlaps and a potential for having adverse effects on zone development. Pakistan's current system, compared to that of Bangladesh, establishes more layers of administration through which SEZ-related procedures must go. According to the Act, the BOI is to act as an OSS for the zones, while the SEZ Authority monitors their compliance with the development agreement and is an interface between them and the different government departments at the provincial level. OSS-like functions for a single SEZ are thus spread over (at least) two entities: the SEZ Authority at the provincial level, which has limited decision-making power and must report to the BOA, and Pakistan's pre-existing BOI at the federal level, which is susceptible to being less acquainted with each SEZ's particular situation.[138] The BOI, besides being the apex body of the governance structure at the national level, is also the SEZ Authority at the Islamabad Capital Territory provincial level. This potentially introduces a risk of favouritism towards certain SEZs over others.

Given the much greater incentives that the new SEZ status provides, most industrial estates are now on cue to become SEZs. Since the infrastructure must be built before the title of SEZ is officially granted, these already-established estates have a substantial advantage over new developments. In this regard, the current criteria to become an SEZ, essentially to own at least 50 acres of land with regulatory infrastructure, appear inadequate. In particular, SEZs have no requirement related to export orientation, sector selection, linkage potential or level of technology used, so the Government is potentially creating tax havens for industries that do not add particular value to the national economy.[139] At the same time, the obligation to buy the entire area and build the infrastructure before applying for SEZ status pushes private entrepreneurs away from the SEZ development business, dominated by State-owned enterprises (SOEs), and encourages

---

136 China-Pakistan Economic Corridor, CPEC Special Economic Zones (SEZs). Available at http://cpec.gov.pk/special-economic-zones-projects.

137 Interview with Mr. Sameeh Ullah, Industrial Policy and Planning Specialist at the Urban Sector Planning and Management Services Unit in Punjab, Pakistan.

138 The view of the Punjab Urban Unit policy analyst interviewed by the authors on this issue is that SEZ authorities should have the power to approve SEZ applications directly instead of submitting them to the BOA. They should have direct access to every government department, both federal and provincial, allowing them to play a bridging role so that all decision-making is combined and facilitated. In this scenario, each province would thus have its own fully integrated OSS instead of a national one (Interview with Mr. Sameeh Ullah, Industrial Policy and Planning Specialist at the Urban Sector Planning and Management Services Unit in Punjab, Pakistan).

139 One example cited was the application of a single paper mill factory that bought 50 acres in Punjab, was engaged in low-end, polluting and not job-intensive production, but otherwise met all the legal criteria and could thus lay claim to the status of SEZ and its advantages. (Interview with Mr. Sameeh Ullah, Industrial Policy and Planning Specialist at the Urban Sector Planning and Management Services Unit in Punjab, Pakistan.)

investors to target the domestic market since it is safer than international export markets. The dominance of SOEs is problematic in that public enterprises prioritize minimizing costs for the State over maximizing the development prospects of a zone: they will pick an inexpensive rather than the optimal location and charge high prices to firms.[140]

3.4 Conclusions of the Comparative Analysis: Insights for the Development of Special Economic Zone Programmes

The comparative analysis of the historical evolution of SEZ programmes in India, Pakistan and Bangladesh delivers interesting insights on each country's trajectory but also on some stylized facts about SEZ programme development of relevance for lesson-sharing across the Global South. The initial experiences of the three countries with zones highlighted their inability to thrive in a contradictory policy environment, since they flourished only when part of a wider strategy and enjoying clear political commitment. This heightened focus on making SEZs a success translated into the formulation of special policies and a dedicated governance framework, whereby specific design characteristics differed from one system to another. While the existence of such a dedicated structure appeared as a necessary condition for SEZ programmes to become successful, the Pakistani and Indian cases in particular show that it is not a sufficient one. The implementation phase sometimes proved difficult either because of design weaknesses in the initial framework or because of a low level of safeguards against abuses by insiders. A challenge in those cases appeared to be to find the right adjustments for a policy framework effectively supporting productive investment while maintaining popular buy-in and political commitment for the project.

3.4.1 Special Economic Zone Programmes as Political Commitment

At first glance, it appears that all three countries entered a new phase of SEZ development in the period between the mid-2000s and the mid-2010s. But a closer look at the policy objectives pursued, the frameworks put in place and the results achieved over the years reveals that Bangladesh was an early regional leader in starting a modern and effective zone programme stretching back to the 1980s.

In Pakistan and India, a programme of EPZs was launched without a wider export-oriented economic vision. In both cases, that absence of policy coherence translated into a lack of commitment for EPZs that were barely more than a label and did not perform. In sharp contrast, the Government of Bangladesh used EPZs as a strategic tool for its new economic policy when it took the turn to export-orientation based on labour-intensive low-end manufacturing already in the late 1970s. Attracting FDI was considered necessary in order to develop the export sector, and EPZs were identified as the way to do so. Consequently, EPZ investors were given a fully dedicated institution and a wide array of incentives to boost exports from

140 Interview with Mr. Sameeh Ullah, Industrial Policy and Planning Specialist at the Urban Sector Planning and Management Services Unit in Punjab, Pakistan.

the beginning of the Bangladesh EPZ programme.[141] Today, 70 per cent of investment in EPZs comes in the form of fully foreign-owned enterprises, with another 10 per cent in joint ventures.[142] The significant role played by EPZs in Bangladesh's export and economic growth has been acknowledged.[143] Thanks to a combination of coherent policies and a unique window of opportunity on international markets identified by a government committed to supporting export-oriented manufacturing, the "basket case" defied the prognostics and turned into a manufacturing hub. Consequently, Bangladesh's share of industry in its economy grew constantly, from 6 per cent in 1971 to almost 28 per cent in 2017. In contrast, manufacturing and industrial growth rates were very moderate in India and negative in Pakistan over the period, meaning that with regard to industrialization, Bangladesh successfully caught up with neighbours within 40 years.[144]

India, inspired by the success of China, finally initiated an SEZ programme aligned with the country's move to liberalization and export orientation in the 2000s. As soon as the programme was completed with a special policy package and a dedicated governance framework, investors crowded in. After decades of stalemate, SEZs exploded around the country, although with very varying degrees of economic and social benefits. Most of the successful ones were carried by a strong growth in information technology-service exports, just as zone development was linked to a manufacturing-export boom in Bangladesh. While Pakistan also introduced a revitalized SEZ programme in 2012, arousing strong interest among existing industrial production bases, the role that SEZs will play in the overarching economic strategy remains rather unclear. In the national development agenda formulated in 2013, the Government set many goals, whereby industrial zones appear neither as a well-defined nor a central concept. SEZs are absent and EPZs are mentioned once in passing.[145] The document does indicate that the development of "[i]ndustrial parks" has been launched but also that they will be "expanded particularly in less developed/under-served areas".[146]

3.4.2 Governance Framework Design Matters

While Bangladesh has established a single national authority responsible for all matters related to its new EZs, responsibilities in the Indian and Pakistan SEZ programmes have been vertically distributed over different levels of administration. Thereby, India allows a concentration of responsibilities and powers directly at the zone level through the Development Commissioner, whereas the Pakistani system appears to create problematic overlaps of functions. This is especially true for the crucial function of OSS, spread

141 Aggarwal, "Performance of export processing zones".

142 Yunus and Mondal, "Enclave industrialization", p. 14.

143 Yunus and Mondal, "Enclave Industrialization".

144 Over the period 1971-2017, the share of industry value added in GDP went from 23% to 26% in India and from 21% to 18% in Pakistan. Manufacturing value added in GDP exhibits a similar pattern. Based on: Industry value added %GDP and Manufacturing value added %GDP Data Sets

145 Pakistan, Ministry of Planning, Development and Reform, *Pakistan 2025: One Nation–One Vision*, p. 80.

146 Ibid., p. 83. It should be noted that the document puts more emphasize on the development of "clusters", linking firms, government and research institutions together, as well as technology parks and incubation hubs.

across two levels of administration in Pakistan's present institutional setting. The new SEZ Authorities at the provincial level appear weak since they are subjected to review and approval by central institutions that might be more inclined towards zones in certain regions (see table 2).This is not to say that there is no proliferation of actors in Bangladesh's governance system but it is happening horizontally across the different types of zones co-existing in the country (see table 1). Each has been designated a dedicated authority, operating directly from the central ministerial level. Where the potential for confusion lies is in the fact that two of those zones, BEZA and BEPZA, share the same high-level members and run relatively similar programmes. Unless they wish to operate only under a private developer, in which case they should turn to EZs, it is unclear why investors should choose one programme over the other.

It should be noted that while the Bangladeshi governance structure offers a clearly cut out OSS for each type of zone, it is highly centralized in comparison to that of its neighbours.[147] Provincial authorities appear more empowered to influence the roll-out of zones in Pakistan and even more so in India, where they are encouraged to enact their own policies. The extent to which decentralization can influence outcomes was clearly illustrated in India, where different approaches by different state governments led to strikingly different results for their SEZs – some having been fully condemned by the population, followed by the politicians, while others were able to flourish. In Pakistan, the SEZ Authorities are de facto embodied by existing provincial governmental bodies that are thus taking stakes in the development of the zones. Based on the Chinese experience described in the next chapter, this type of decentralized setting may prove very successful. However, and as further detailed later in this report, a crucial difference here is that Chinese provincial governments in charge of SEZs were granted an extraordinary level of discretionary power, while the weaker Pakistani SEZ Authorities are subjected to approval from higher central bodies for any important decision or procedure in a country where SEZ rules are decided upon at the national level. On the contrary, the strong decentralization of governmental authority down to the level of the zone in the Indian system is reminiscent of Chinese particularities.

3.4.3 The Challenge of Implementation

From the development of SEZs in India, we can learn that, if the process of land acquisition is tainted with corruption and irregularities, the backlash from civil society can deal a fatal blow to the programme, as in the case of Goa, where SEZs were banned. Inversely, other states demonstrated that with transparent processes and negotiated settlements with affected communities, the land acquisition process for SEZs can be a peaceful one. Perceived fairness of the compensation system for "losers" appears to be key.

The public awareness and strong reaction in India amounted to a very positive development if it prevented the SEZ programme from slipping into a wide operation of unrestrained land-grabbing. On the other hand, if the Government was serious about designing a successful SEZ programme, it should have taken measures

147 One respondent from Bangladesh's private sector complained about this general tendency in the country and cited "decentralization" as one essential improvement that the programme should undergo.

targeted specifically at solving the land issue rather than a general political rollback and progressive dilution of the programme policies, impacting other vital spheres of SEZ development such as access to finance and competitive incentives for investors.[148] The Indian example thus illustrates the delicate balance that governments must maintain between the different ingredients of a viable SEZ programme emphasized by this comparative analysis: political commitment and continuity, which faded away when faced by the aftermaths of flawed governance design and poor implementation.

In Pakistan, past zone programmes have generally tended to lack enough political support as well as a clear special policy framework. The development of certain zones has been further obstructed by rent-seeking practices from local officials or opposition from indigenous communities. Overall, Pakistani zones failed to demonstrate significant momentum. In this regard, the planned CPEC SEZs are an opportunity since Chinese zone design and management know-how, further described below, could compensate for Pakistan's lack of experience with successful zone programmes. However, China's involvement is unlikely to dispense the Government of Pakistan from offering credible high-level support to SEZ developers and investors. Likewise, improving transparency to prevent political capture and preserve popular buy-in for projects that might be suspected to divert economic benefits away from local populations remains necessary in Pakistan.

Regarding protecting the interests of the local population, the BEZA programme seems to offer safeguards against arbitrary land acquisition, as seen in India. Previous zone programmes have not suffered comparable public opposition and managed to create significant employment for the population, unlike in Pakistan. This is not to say that the Bangladeshi model has always steered clear of criticism, though, with international and domestic pressures to improve working conditions in the garment sector having heightened over the years.[149] Still, demands in Bangladesh are targeted at an entire industry rather than SEZs per se. They do not call for abandoning zone programmes but for a general improvement of worker rights. This in turn calls for a shift in the economic model, whereby the new challenge for existing EPZs and new EZs will be to help to take the next step in Bangladesh's industrialization, towards upgrading and diversification. Here again, there is room to learn from China, where SEZs first spearheaded the country's low-end export-oriented manufacturing boom before evolving into different models as the country developed.

148 A "Land Acquisition, Rehabilitation and Resettlement Bill" was finally adopted in 2011. (Amlanjyoti Goswami, "Land acquisition, rehabilitation and resettlement: law, politics and the elusive search for balance", *Journal of Land and Rural Studies,* vol. 4, No. 1 (2016), p. 4.) Although this was a laudable effort to protect populations, it came after measures diluting the advantages of SEZs, and critics pointed out that developers can exploit loopholes in the legislation to avoid bearing the costs of resettling displaced citizens, for instance by limiting their land acquisitions to below the legal threshold. Furthermore, the one-off market-price-based compensation envisioned by the law may not be appropriate. (Gahlaut, "Land Acquisition," pp. 177–179; Goswami, "Land acquisition", pp. 3–22; Kumar and Pai, "Uttar Pradesh"; Da Silva and Jose, "Goa", pp. 23–24, in Rob Jenkis, Loraine Kennedy and Partha Mukhopadhyay, eds., *Power, Policy and Protest*.)

149 Hossain, *The Aid Lab,* pp. 169 and 174.

4. PERSPECTIVES FROM CHINESE SPECIAL ECONOMIC ZONES: EVOLVING WITH CHANGES IN GLOBAL TRADE AND STRUCTURAL TRANSFORMATION

Since the era of reform and opening, China's SEZs have experienced dramatic changes. A case in point is iconic Shenzhen, a fishing village turned into an international megalopolis within a few decades. This process has made China a recurrent point of reference in the literature on SEZs for developing countries. This section will first focus on how Chinese initial SEZs are unique in the way in which they were born as extraordinary administrative tools to help the country to transit out of a Maoist economy. This will be followed by a discussion of how they can still be a source of inspiration for other Southern countries wishing to move forward in their SEZ programmes since they demonstrate how zone designs can evolve in line with changes in international markets and in the domestic economy.

As mentioned earlier, Chinese SEZs already inspired the remastering of India's zone programme. In Bangladesh, one G2G EZ is planned with China, while Pakistan has nine joint CPEC SEZ projects being designed. This illustrates how China is taking an increasingly important role in other countries' SEZs whether through general inspiration for a new programme, investment in zones, or direct involvement in development and management. Understanding the Chinese approach is thus key to understanding SEZ development trends and current dynamics in SSC.

4.1 The Case of China: Special Economic Zones for a Planned Economy

In 1980, at the beginning of China's reform and opening up, four SEZs were established in Shenzhen, Zhuhai, Shantou and Xiamen. They were test areas for trade and market development within the closed planned economy inherited from the Mao era. Initially, results were disappointing and foreign investment was much lower than expected.[150] The major obstacle was a lack of clear legislation and incentives provided to investors.[151] The authorities were quick to acknowledge the problem, leading to a renewal of SEZ legislation in 1981 to provide a clearer framework. Investment in the SEZs started to increase rapidly: by the end of 1981, the four zones accounted for almost 60 per cent of total FDI in China. While they eventually attracted investment from the United States and the European Union, the vast majority came from Taiwan Province of China and Macao Special Administrative Region in the early years. It should be pointed out that the bulk of FDI was directed at Shenzhen, which accounted for 50.6 per cent of national FDI, while the other zones made up only around 3 per cent each.[152] One study found that FDI into the SEZs targeted new activity

150 Barry Naughton, *The Chinese Economy: Transitions and Growth* (Cambridge, Massachusetts, MIT Press, 2007).

151 Ann Fenwick, "Evaluating China's special economic zones", *Berkley Journal of International Law*, vol. 2, No. 2 (1984).

152 Yue-man Yeung, Joanna Lee and Gordon Kee, "China's special economic zones at 30", *Eurasian Geography and Economics*, vol. 50, No. 2 (2009).

rather than internal relocation of existing capacities.[153] In addition to seeking foreign involvement, domestic firms were also encouraged to locate within SEZs to learn.[154]

Those first SEZs enjoyed an exceptional level of autonomy in order to innovate and experiment with policies new to China, whereby Shenzhen was a leader in introducing breakthroughs.[155] The beginning of experimentation was marked by the adoption by the central government of the Regulations on Special Economic Zones in Guangdong Province in 1980. It conferred to the Shenzhen SEZ advantages such as a 15 per cent corporate profit tax against 33 per cent in the rest of China and 17 per cent in neighbouring Hong Kong Special Administrative Region.[156] Throughout their existence, Chinese SEZs have served as laboratories for experiments with economic reform. For instance, more flexible wage systems were first introduced in the Shenzhen SEZ and later diffused to the rest of the economy.[157] Contracted wage labour was authorized within the SEZ in a country where it was virtually impossible to discharge an employee under the existing model of command economy.[158] In addition, the transfer of land use rights, then forbidden by the Constitution, was legalized by the provincial government for investors in Shenzhen in 1987.[159]

Vital to the SEZ role as testing ground for economic reform is a remarkably high level of decentralization. In 1988, Shenzhen, which was already enjoying the same political status as its provincial capital Guangzhou, was upgraded to the administrative level of a province for economic planning purposes.[160] In 1992, the central government went further by directly delegating the law-making power for SEZs to the People's Congress and to the governments of the four cities developing SEZs.[161] Today, Chinese SEZs still enjoy a special degree of political and fiscal autonomy.[162] They have the power to develop municipal laws and regulations.[163] They are also allowed to retain a large share of tax customs and foreign exchange revenues generated within the zones.[164] The same is true for many of China's other open economic areas.

153 Simon Alder, Lin Shao and Fabrizio Zilibotti, "Economic reforms and industrial policy in a panel of Chinese cities", *Journal of Economic Growth*, vol. 21, No. 4 (2016), pp. 305–349.

154 Naughton, *The Chinese Economy*, chapter 17.

155 Naughton, *The Chinese Economy;* Yeung, Lee and Kee, "China's special economic zones at 30"; Zeng, "China's Special Economic Zones and Industrial Clusters"; Madeleine Martinek, "Special economic zones in China and WTO".

156 Martinek, "Special economic zones in China and WTO".

157 Naughton, *The Chinese Economy*, p. 408.

158 Zeng, "China's special economic zones and industrial clusters"; Martinek, "Special economic zones in China and WTO".

159 Martinek, "Special Economic Zones in China and WTO"; Yeung, Lee and Kee, "China's special economic zones at 30", p. 227.

160 Yeung, Lee and Kee, "China's special economic zones at 30", p. 224.

161 Zeng, "China's special economic zones and industrial clusters"; Martinek, "Special economic zones in China and WTO".

162 Naughton, *The Chinese Economy*, p. 408.

163 Mukherjee and others, *Special Economic Zones in India*, p. 25.

164 Naughton, *The Chinese Economy*, p. 408.

4.2 Evolution of Chinese Special Economic Zones: New Designs for New Challenges

China's successful experiment with SEZs was quickly followed by the introduction of various types of other open economic areas. In 1984, 14 economic and technological development zones (ETDZs) were established in coastal cities and larger open economic areas were declared in the Pearl River Delta, the Yangtze River Delta and the Min Delta. By 2008, there were a total of 54 ETDZs.[165] In the 1990s, China designed bonded zones to advance its role in international processing trade. A bonded zone allows capital equipment and commodities to be legally outside of a country's customs zone.[166] However, experience demonstrated that bonded zones were more suitable for commodity trade, and EPZs were developed to better meet the needs of the developing processing trade. The latter model proved highly attractive, and 58 EPZs were founded in at least 10 provincial capitals. Coastal Shanghai and Jiangsu Province remained dominant, with 20 EPZs located in that export-intensive area.[167]

Throughout that process, China continued to innovate with the SEZ concept. For instance, Fu and Gao remark that, "apart from the earliest four, China's SEZs (particularly the open cities) are more jurisdictions than physical zones – a Chinese innovation".[168] An example of this innovative governance structure is that of the Tianjin Economic-Technological Development Area (TEDA), an SOE responsible for the development of TEDA. The SEZ managers of TEDA have the status of a government body and report directly to the Tianjin provincial government.[169] As a result, the zone's management committee functions as its own OSS, able to react to the needs of investors as a developer and as a regulator. It can thereby establish its own incentive regime for the zone's units. Furthermore, some of the laws enacted by the zone are not limited to the SEZ but apply to the entire provincial area. This illustrates the remarkable degree of autonomy still enjoyed by zones as well as the fine line between zone and government administration in China.

SEZs were once again used to prepare China for economic change, with the free trade zones (FTZs) being used to experiment with the effects of WTO ascension, which would occur in 2005. The first state-level FTZ, Shanghai Waigaoqiao FTZ, was set up in 1990.[170] This FTZ also functions as a bonded zone and has the largest total economic output of all bonded zones in China. After WTO ascension, China developed a further zone type, the National Integrated Support Reform Pilot Area, which was initiated in Shanghai Pudong and Tianjin Binhai New Area. Zeng has noted that success in these experimental ventures was in part attributable to "clear goals and vigorous benchmarking, monitoring, and competition" and that despite their evolving nature, each SEZ type had expected targets for, inter alia, GDP growth, employment, exports, FDI and tax revenue.[171]

165 Zeng, "China's special economic zones and industrial clusters".

166 Fu and Gao, "Export processing zones in China", p. 10; Naughton, *The Chinese Economy*, p. 410.

167 Ibid.

168 Ibid.

169 Interview with Chinese firms (INSE).

170 Zeng, "China's special economic zones and industrial clusters".

171 Ibid.

With the gradual extension of policies pioneered in the SEZs to many parts of the country, Chinese SEZs lost the privileges that set them apart in the first place.[172] For example, wholly foreign-owned enterprises such as foreign services first exclusively allowed in SEZs became the most widely used channel for investment with the WTO requirements to treat foreign goods and enterprises no less favourably than national goods and enterprises in the entire economy.[173] In 2007, a new enterprise income tax law brought the SEZs back under a national common tax regime at 25 per cent,[174] depriving them of what is probably the most usual feature of SEZs. In the meantime, the labour cost advantages that helped them to turn China into the factory of the world had begun to fade away.[175] The new economic strategy "Made in China 2025" centres on moving up the value chain and making innovation and high-end manufacturing the drivers of the economy. This vision involves moving low-end manufacturing to less developed regions within China and abroad,[176] thereby providing a window of opportunity for industrial transfer to developing countries with lower labour costs, such as Bangladesh, Ethiopia and Viet Nam.[177]

Although international and domestic contexts have changed considerably, Chinese SEZs remain important as testing grounds for new policies. For instance, new zones such as the Shanghai Pilot Free Trade Zone established in 2013 focus on issues such as financial liberalization and renminbi (RMB) convertibility.[178] This new FTZ absorbed the Waigaoqiao FTZ and three other zones. A 2016 paper found that since its establishment, the price spread between offshore and onshore RMB has tended to decline.[179] In the most developed cities, many "zones within zones" are being established to specialize in, inter alia, high-technology development.[180] At the same time, two new SEZs have been established in the western region of Xinjiang, gateway to the reborn silk road, where wages stayed lower than in coastal areas. Thus, while the Government nudges mature industries once targeted by its first SEZs to its hinterland or abroad, Chinese zones evolve towards other activities while retaining their experimental and diverse nature.

The evolution of the Chinese economy reflected by its zone policies is already impacting other developing countries through current trends in SSC. In the same way that investment supporting the development of

172 Yeung, Lee and Kee, "China's special economic zones at 30", p. 225.

173 Martinek, "Special economic zones in China and WTO"; Yeung, Lee and Kee, "China's special economic zones at 30".

174 Ibid.

175 Real wages grew on average 12.9 per cent per year from 2000 to 2010, outpacing productivity growth. (Stephen S. Golub and others, "Can Africa compete with China in manufacturing? The role of relative unit labour costs", *World Economy*, vol. 41, No. 6 (2017), pp. 1–21.)

176 Ling Li, "China's manufacturing locus in 2025: with a comparison of 'Made-in-China 2025' and 'Industry 4.0'", *Technological Forecasting and Social Change*, vol. 135 (2018), p. 2.

177 Vandana Chandra, Justin Yifu Lin and Yan Wang, "Leading dragons phenomenon: new opportunities for catch-up in low-income countries", Policy Research Working Paper, No. 6000 (The World Bank, 2013).

178 Martinek, "Special economic zones in China and WTO".

179 Daqing Yao and John Walley, "The China (Shanghai) pilot free trade zone: background, developments and preliminary assessment of initial impacts", *The World Economy*, vol. 39, No. 1 (2016), p. 14.

180 Akinci and Crittle, "Special economic zones".

the first Chinese SEZs came from recent developers, Chinese investment and experience are now flying to other Southern countries. These include Bangladesh and Pakistan through bilateral collaboration projects but also several countries in Africa, where selected Chinese developers received financial support from China's Ministry of Commerce for their overseas SEZ project. This is notably the case of TEDA, which is developing the Suez Economic and Trade Cooperation Zone (SETCZ) in Egypt through a joint venture. It should be noted that this cooperation is demand driven. The Government of Egypt sought expertise from China as early as 1994 to participate in the development of a series of SEZs around the Suez Canal,[181] a project at the core of Egypt's FDI-based development strategy.[182] It thus appears that the influence of SEZs with Chinese characteristics is poised to grow along with the popularity of SEZs as a tool for economic transformation. The last section of this report will provide more details on the different expressions of this relationship between SSC and SEZ development.

5. POLICY RECOMMENDATIONS

Based on field investigation, the Bangladesh EZ programme is not yet mature enough for inclusion in the INSE M&E programme. However, it demonstrates interesting characteristics including the diversity of ownership structures and target sales markets that create significant opportunities for experimentation in policy and in implementation. For these reasons, Bangladeshi EZs may be of substantial value to the M&E programme in the medium term. This is particularly true if the regional neighbours, India and Pakistan, can also be brought on board to create robust comparisons.

While it is too early to provide specific recommendations for BEZA, a few cautionary notes and potential opportunities emerge from the literature review of the four countries and concerns raised by respondents in Bangladesh: mainly the need to be sensitive to potential issues around land-grabbing, the importance of making the most of the competition and experimentation potential created by the diverse EZ ownership structures, and the need to capture learning across the zones. In light of this this, consideration is given to the mutually reinforcing relationship between SEZ development and SSC and highlight possible avenues for Bangladesh, Pakistan, India, China and other Southern countries to further leverage this dynamic, including through FDI, bilateral cooperation in zone development and multilateral experience-sharing.

181 For more about the Egyptian TEDA zone and the Ministry of Commerce overseas SEZs programme, see Bräutigam and Tang, "African Shenzhen: China's special economic zones in Africa".

182 Oxford Business Group, "Egypt looks to special economic zones to attract investment, shore up industry", The Report: Egypt 2017. Available at https://www.oxfordbusinessgroup.com/analysis/one-stop-shop-egypt-looks-special-economic-zones-attract-investment-and-shore-industry.

5.1 Conclusions of the Scoping Visit: Too Early for BEZA

This report finds that the BEZA programme is too immature for inclusion in the M&E programme at this stage owing to the pre-production status of the most advanced zones. Because of this early stage of EZ inception, the regulator is focused primarily on meeting the ambitious targets set by the Government for EZ development rather than on the creation of data collection mechanisms, which will become more relevant at a later stage.[183] As explained in the first chapter of this report, the goal of a scoping visit is to assess whether there is strong enthusiasm for participation on the part of the SEZ administrator, since it has a central role to play in an M&E pilot programme. For instance, the regulator is key to developing the final list of M&E indicators, accessing data from the state-operated OSS and entering SEZs to conduct regular surveys. Negotiating each zone individually for access would be highly time intensive and could introduce an element of self-selection regarding the data of only top-performing zones, creating a biased impression. The continuity of the data set would also be jeopardized since zones could individually withdraw at any time.

Nevertheless, the approach being taken in Bangladesh is of interest and should be followed in the international community. In particular, the EZ programme shows signs of the potential for domestic investor leadership, hybridity between domestic and export markets, and the potential for wide experimentation at the zone level. The mix between domestic and FDI-backed firms and the hybridity between domestic and export-market focus speak to policy questions that are frequently raised in the context of SEZ development. These include the question of whether there is a difference in the ability of domestic and international firms in terms of participation in global value chains, use of domestic inputs and backward linkages, and worker training. Regarding the target market, the question of the impact of investor access to the domestic market with the provision of EZ incentives versus the previous export-oriented strategy in the EPZs in Bangladesh may offer lessons and insights to countries considering the role of exports in their development and industrial strategies. Despite the potential for eventually providing valuable insight and experimentation, the current zones do not have sufficient participation of firms or infrastructure development to provide answers to these questions and the timeline for reaching a productive stage cannot be assumed.

Thus, it is recommended that the M&E programme be initiated with the more established EPZs, for which a second scoping visit and consultations with the BEPZA regulator would be required. The EPZs in Bangladesh have been active for more than 30 years, and their maturity is established.[184] While the main approach to

183 Although BEZA expressed interest in working with research institutes at the onset of the scoping visit, later attempts by the authors to follow up on some research questions were unsuccessful. This could be an indication of either low willingness or low capacity to focus on data monitoring at this point. Admittedly, completing construction and starting production in public zones might be the priority for now. Several months after the visit, BEZA published several new documents, including a promotion brochure to call for investments in Mirsarai.

184 Yunus and Mondal, "Enclave industrialization".

the scoping visit and key stakeholder interviews will not change, it is expected that there will be a greater number of firms available for interviews due to the greater maturity of the EPZs.

5.2 Watch-outs and Opportunities for Bangladesh Economic Zones

Putting the investigation of Bangladesh's EZ programme in perspective with insights from the comparative analysis, it appears that a key watch-out for the EZ programme is the potential for land-grabbing practices to proliferate in Bangladesh as they did in India and Pakistan. With its inclusive approach protecting inhabited and arable land, Bangladesh seems well positioned to avoid the unrestrained capture of residential and agricultural land seen in India. However, as in Pakistan, the risk of creating state subsidies for not particularly deserving economic activities may be a concern for EZs in Bangladesh in the absence of sector selection. If incentives are granted to firms based on their geographical location rather than their type of production, there is a chance that the EZ programme may not promote its most strategic sectors while introducing unfair competition among domestic producers within the same industry. At the same time, if the EZs and incentives are granted to existing domestic enterprises for either relocating or redesignating their production as an EZ, these cases may not support additional productive capacity or structural transformation. However, they may be useful for industrial agglomeration or freeing up productive land for alternate uses by transferring industrial operations to areas of lower productivity.

This potential for land-grabbing may be further aggravated by the fast licence procedure that currently operates for applicant EZ developers. Having such a fast licence system may be good for business, allowing developers to quickly become involved in development, with final approval granted after conditions have been met. In this institutional arrangement, however, BEZA may wish to articulate a policy of acceptable land use and to institute mechanisms for making final approval and maintenance of licences conditional on meeting targets that support the Government's industrial strategy.

Among the great opportunities offered by the BEZA programme is the potential for experimentation that is presented by the diversity of ownership structures, potential sectors and zone types in Bangladesh. The case of China demonstrates that well-directed competition and zone-level innovation can support the development of a dynamic industrial zone programme. Bangladesh may be in a position to realize similar advantages; however, two caveats are in order. The first is that not all sectors that are attractive for investment may be optimal for industrial and economic development in Bangladesh. In such cases, BEZA may wish to retain the ability to prioritize sectors in the future and to exclude those that the experience from the experimentation has shown to be poorly suited to meeting Bangladesh's economic development goals including the creation of quality jobs and growth. The second caveat is that the lessons of the diverse EZs need to be able to be captured, understood and implemented in policy. If the experimentation between zones is to be valuable, there must be mechanisms in place for attempting to replicate successful discoveries of what is working in the contemporary context in Bangladesh and its role in the global trade system. To do this, a systematic M&E framework is highly indicated even if participation in the INSE M&E programme is not immediately envisioned.

If entry into the INSE M&E programme is desirable, a suitable entry point may be found by starting with the eight existing EPZs. These zones, which have long-running production and existing procedures may be difficult to bring on board; however, they would enable a partial understanding of the conditions for M&E in Bangladesh and may enable a faster roll-out to EZs once the later programme is more mature. Besides, the centralized governance modus in Bangladesh and strong data collection capacities already displayed by BEPZA are conducive to the implementation of an M&E framework. In order to assess the potential for including EPZs in the M&E framework, another scoping project would be required.

5.3 Leveraging South-South Cooperation for the Development of Special Economic Zones and Economic Transformation

Many elements uncovered by the investigations of Bangladesh, China, India and Pakistan for this report indicate that patterns of SSC have been having a shaping impact on SEZ development and outcomes over the past four decades. To begin with, SEZs are channels for productive investments, whereby South-South FDI has a substantial role to play. This fact is clearly reflected in the investment composition of Bangladesh EPZs and Chinese SEZs in the early years, both dominated by investment from other Asian, newly industrialized countries. Such South-South investments are a chance for industrial and technology transfers suited to the recipient's development level, as demonstrated by the Daewoo-Desh Garments success story in the 1980s. At the time, the Republic of Korea was still a developing country undergoing a fast-paced industrialization process that had started in the 1960s. Its manufacturing activities focused first on labour-intensive textiles and footwear before shifting to capital-intensive heavy industries in the 1970s.[185] By that time, newly established Bangladesh was looking for large-scale job-creation opportunities. EPZs played a critical role in enabling large-scale investment in its strategic garment sector, first from the Republic of Korea but also and increasingly from domestic and other international investors, including from western countries.[186] This textbook example illustrates how SEZs can serve as areas of cooperation between Southern economies as they undergo structural transformation and shifting comparative advantages.

Another more recent example of this phenomenon is the case of China's Huajian shoe factory, established in 2012 in Ethiopia's first SEZ, the Eastern Industrial Zone (EIZ). Like Daewoo with Bangladeshi employees, Huajian sent newly hired Ethiopian graduates to China for training, a critical move in building local capabilities.[187] Within three years, it exported 3.8 million pairs of shoes, contributing significantly to the Ethiopian leather shoe industry and creating 3,800 local jobs out of the 4,500 in EIZ.[188] That success achieved

185 Seth, Michael, "South Korea's economic development, 1948–1996", *Oxford Research Encyclopedia*, 2017.

186 Hye Shakir and Farole, "The thin end of the wedge", p. 27.

187 Girum Abebe and Florian Schaefer, "Review of industrial policies in Ethiopia: a perspective from the leather and cut flower industries", in *Industrial Policy and Economic Transformation in Africa* (New York, Columbia University Press, 2015).

188 Gakunu, Peter and others, "If Africa builds nests, will the birds come? Comparative study on special economic zones in Africa and China", Working Paper, N0.06.2015 (United Nations Development Programme and International Poverty Reduction Centre in China, 2015).

a strong demonstration effect for Ethiopia. FDI inflows that had been low for years boomed in 2012 and the country became a top destination for FDI in Africa.[189] In 2015, Ethiopia was able to attract the American apparel giant PVH, a global industry leader, to establish its production base and cluster of suppliers in the new Hawassa Industrial Park managed by Ethiopia's Industrial Parks Development Corporation (IPDC). A state-of-the-art SEZ, Hawassa Industrial Park is the IPDC flagship project and bodes well for Ethiopia's ambition to become an African manufacturing hub.[190] As for the Huajian Group, it has been allocated land near Addis Ababa, where it is now developing its own light manufacturing SEZ.[191]

Besides investment within foreign zones, firms having experience with successful SEZs can also become directly involved in zone development and management. This is the case in the Egyptian SETCZ mentioned earlier as well as in the Ethiopian EIZ, whose Chinese developer, the Qiyuan Group, won the Ministry of Commerce tender for overseas SEZ projects in 2006. In Bangladesh, unsurprisingly, the very first private zone was established by a Republic of Korea firm, Youngone, one of the largest and most reputable light manufacturers in already-existing EPZs.[192] Although information is scarce at present, one can reasonably expect that the Chinese side will be substantially involved in the management of Pakistan's CPEC SEZs as well. Besides providing a particularly favourable ground for FDI from the developer's country, this foreign-led zone model offers the significant advantage of compensating for the host country's lack of experience and allowing for a transfer of SEZ-related know-how. This cooperation mode is aligned with the country's needs and the idea of mutual benefit and, in the case of the Ministry of Commerce-supported SEZs, was also found to be respectful of the SSC non-interference rule.[193] It should be noted here that the inclusion of domestic investors is important to realize these benefits. A perception that SEZs serve only foreign interests presents a potential for conflict. Attention should be given to local participation in the SEZ activities, whereby the joint-venture mode of development of SETCZ in Egypt, as opposed to fully foreign-owned SEZs, can be an option.

Nevertheless, Governments must keep in mind that the involvement of the experienced counterpart does not by any means guarantee success: consistent political commitment to learning and creating an enabling environment for the zone remains necessary. In Ethiopia, EIZ took years to take off since it faced many difficulties such as the absence of connective infrastructure and administrative bottlenecks, ultimately

---

189 United Nations Conference on Trade and Development, World Investment Report 2017: Investment and the Digital Economy (United Nations publication, Sales No. E.17.11.D.3), p. 87. Available at https://unctad.org/en/PublicationsLibrary/wir2017_en.pdf.

190 Mamo Mihretu and Gabriela Llobet, "Looking beyond the horizon: a case study of PVH's commitment in Ethiopia's Hawassa Industrial Park" (World Bank Group, 2017). available at http://documents.worldbank.org/curated/en/163511499673766520/pdf/117302-WP-PUBLIC-PVHCaseStudythJuneHRsingles.pdf.

191 Abebe and Schaefer, "Review of industrial policies in Ethiopia: a perspective from the leather and cut flower industries", in *Industrial Policy and Economic Transformation in Africa* (Columbia University Press, 2015).

192 Hye Shakir and Farole, "The thin end of the wedge", p. 27.

193 Bräutigam and Tang, "African Shenzhen: China's special economic zones in Africa".

teaching many lessons to the Government, which was later able to establish the IPDC.[194] Similarly, the Republic of Korea EPZ suffered from severe bureaucratic blockage and the incapacity of BEPZA to service private zones: licensing took almost eight years and electricity and gas were not supplied to the zone.[195] Besides similar hard and soft infrastructure issues, SETCZ faced the additional challenge of making a joint venture work for SEZ development. This took ten years, during which, inter alia, the Egyptian partner was accused of embezzling funds while TEDA felt unable to push its ideas through and left the cooperation to establish its own zone. Finally, both sides agreed on a new joint venture giving TEDA full management rights and the project flourished. That experience illustrates the delicate balance that joint-venture-based SEZs will have to strike between local participation to maximize learning and foreign ownership to maximize the zone's chances of success.[196]

Finally, various additional models of international zones can be envisioned since there is a wide margin for innovative SSC in zone development. SEZs notably offer a unique platform for SSC at the governmental level through the establishment of bilateral zones. Bangladeshi G2G zones are a case in point. Through its G2G EZ with India, Bangladesh can strive to learn from its neighbour in fostering the development of the information technology sector, whereby links with its hi-tech parks and educational institutions could be considered. The Indian counterpart might benefit from exposure to Bangladesh's general enthusiasm for zone development, which has to date been less controversial than in India. Bangladesh's G2G EZs with China and Japan will most likely have different sectoral focuses and intended learning outcomes. In this regard, it is important for policymakers and zone developers to understand their partner country's approach to SEZs so as to make the most out of each collaboration. In any case, these joint SEZs are a formidable tool of SSC: the cooperation patterns to be shaped by the two countries in those "sandboxes" and the results obtained deserve close attention and wide sharing. This is also true for the Sino-Pakistani CPEC SEZs, which are susceptible to attracting more international attention for they are part of the highly mediatized Belt and Road Initiative. In this regard, it is important that the research community does not let the mainstream obsession for China's strategy obscure the lessons that could be derived in terms of collaborative SEZ development. In line with SSC principles, the focus should remain on whether the design and implementation of this zone programme effectively serve Pakistan's economic transformation and whether the cooperation is mutually beneficial.

Looking forward, mechanisms to capture, aggregate and share all these experiences at the multilateral level would enable Governments to make earlier efficient choices of zone features for given purposes, making the most out of SSC and their investment in SEZs. Comparative analyses such as the one provided in this report can inform policymakers and be a first step in experience-sharing. The M&E programme presented in the first section is suggested by the authors as a more comprehensive and systematic approach for both self-assessment and lesson-sharing across the Global South, usable by all stakeholders including private

194 Institute of New Structural Economics, "Ethiopia field survey, industrial parks investigation" (December 2016).

195 Hye Shakir and Farole, "The thin end of the wedge".

196 Bräutigam and Tang, "African Shenzhen: China's special economic zones in Africa".

developers and firms contributing their data. Wide adoption of the M&E programme would enhance the kinds of collaboration presented earlier and offer new ways to leverage experiences. For example, future joint venture or G2G projects could be facilitated by the availability of data on similar endeavours in other countries. While bilateral cooperation provides for deep mutual learning between two partners, a cross-country platform such as the M&E programme broadens the realm of possible experience-sharing by aggregating data from countries that do not directly cooperate. That way, Pakistan and India could learn from each other's undertakings despite their explosive relationship and BEZA's officials would gain insights on zones beyond the Asian continent. By capturing a broad base of indicators to be jointly designed with pilot countries, the M&E programme can also support developing countries in addressing shared challenges such as the pursuit of SDGs, institutional improvement and adaptation to changing economic conditions. The M&E programme thereby will allow for both positive and negative lessons from SEZ development to be shared. Given the climate of competition for FDI among Southern countries, there can be a tendency to share only the positive outcomes. This can, however, lead to repetition of costly mistakes. In order to foster cooperation, it is helpful if a mechanism can be put in place to support the development of mutually beneficial and balanced knowledge-sharing in the Global South.

The main possible limitations to the impact of the M&E programme to look out for could come from a low number of participating countries and/or insufficient ownership of the programme by participants. Individual adoption of the M&E programme is beneficial in itself since it provides a framework for comprehensive data collection and thus consistent monitoring and evaluation of one's own SEZs and policies. However, the value of the programme increases with each new participant and substantial multilateral benefits will be achieved only if enough countries take part. In order to join the programme, interested countries will have to demonstrate strong support from key stakeholders. The first one is the SEZ regulator, who is to act as a coordinator for the collection of data from other government bodies. Without its active participation, the OSS may not be willing to use its unique relationship with the firms and knowledge of the issues in the zones to support data collection. While much data can be gathered through proxies and government organizations, such as customs or utilities, a substantial portion of the most useful information still comes from the firm level. Therefore, securing and maintaining the private-sector buy-in, which implies insuring that their data needs and interests will be considered at the indicator design stage, will also be necessary. As for countries entering the M&E programme at its conception stage as pilots, they gain the chance to directly influence the design of the framework but might experience a strain on their local capacities. Developing the M&E framework and rolling out a pilot are rather time- and human-capital consuming. Nevertheless, if the regulator is determined to adopt the programme, solutions to this kind of technical issue can be worked out jointly with INSE in line with the collaborative spirit upheld by the M&E project.

CONCLUSION

An M&E programme is needed to provide critical insights to countries in the Global South seeking to use SEZs as a tool for sustainable development. Participation in the M&E programme would support the goals of Bangladesh as it seeks to ambitiously roll out 100 EZs by 2021. In order to obtain the most value from these zones, it will be indispensable to have a mechanism to capture the results of more and less successful zones to improve the national performance. It is also highly desirable to include Bangladesh in the country pilot studies for the M&E framework since its early success in meeting MDGs and the distinctive features of its EZ programme offer opportunities for learning to other Global South partners. These distinctive features include the diversity of ownership options (public, private, PPP and G2G) and zone types, including industrial estates, EPZs, EZs and hi-tech parks, which together point to an evolving and broadening industrial strategy. This strategy has the highest-level buy-in from the Prime Minister's Office and enthusiastic, if cautious, support from the private sector.

These lessons may be particularly valuable for regional neighbours India and Pakistan, which have also recently entered a new phase of SEZ development but started their first EPZ programmes decades ago. All three countries demonstrated a tendency to locate zones in underdeveloped regions in the hope of growth and a job boost for local populations, and all saw the performance of some zones suffering from it. A striking difference in earlier experiences is that in Pakistan and India, previous programmes of EPZs were launched without a wider export-oriented economic vision. In both cases, this absence of policy coherence translated into a lack of commitment for EPZs that were barely more than a label and did not perform. In sharp contrast, the Government of Bangladesh used EPZs as a strategic economic tool endowed with a dedicated governing institution and a special incentive regime from their onset in the mid-1980s, making Bangladesh an early regional leader in the setting up of effective zone programmes. Although contexts differ, similar characteristics can be observed in China, where the first SEZs established in 1978 were meant to become an integral part of the Government's opening and reform process and were empowered to do so by an exceptional level of administrative autonomy and special policies. By the mid-1980s, China had started experimenting with the concept of SEZs itself, introducing various types of zones to prepare the country for evolving economic challenges, from WTO ascension at the turn of the twenty-first century to a move towards higher-end industry and services today.

The findings of the regional comparative analysis highlight three essential steps for Governments of developing countries wishing to develop an SEZ programme: articulating the zone programme within a broader economic strategy and political vision; designing a clear, dedicated governance framework and policy package for the zones; and ensuring transparent implementation of those rules and adjusting them when necessary to preserve public and social interest. As demonstrated by the Indian case, one challenge thus might be to tailor adjustments to correct imbalances without stifling zone development. While specific systems are hardly transferable from one country to another, the Chinese example shows that it is then possible to experiment with new SEZ programmes as the country's economic structure evolves and new challenges arise. This is inspiring for Bangladesh's new EZs, expected to push the boundaries of older EPZs and support the economy's upgrading beyond its early industrialization successes in low-value-added, highly concentrated manufacturing exports. Beyond inspiration, SEZs offer unique platforms for South-South investment and direct cooperation with experienced partners. In Bangladesh, the power of such collaboration has already been demonstrated by the success of the Republic of Korea joint venture at the heart of the garment-sector boom in the 1980s, bolstered by EPZs. With three G2G EZs planned with China, India and Japan, BEZA seems inclined to exploit the zones' potential for SSC and learning.

There is also scope for Bangladesh EZs to learn from the cautionary tales presented by India and Pakistan. In particular, issues of governance and land allocation should continue to be approached with nuance and sensitivity. Currently, the Government has been seeking low-productivity land and reclaiming low land for the development of the SEZs that it initiates. From the perspective of the SDGs, this may be a very positive strategy; however, the cases in India and Pakistan point to the need to also consider safeguards against land-grabbing and rent-seeking behaviour by all participants. A second cautionary note is that, as Bangladesh has seen in its own development of EPZs and as has been extensively discussed in the literature, the location of SEZs impacts on their success and this should be balanced against the worthy objectives of spreading the potential gains from EZs as widely as possible and working to curtail regional disparities and moving industrial growth away from the urban areas. While these aims may be highly desirable, there is reason to be concerned about their effectiveness.

This potential for deepening understanding of the impacts of zone location is but one example of the way that the diversity exhibited by Bangladesh's wider industrial strategy may be creating suitable conditions for experimentation in the areas of zone management, implementation and services. This could bode well for the country if these lessons could be retained and used to enhance the positive benefits of the EZs and their positive contribution to structural transformation. However, there are also concerns about how to measure and evaluate the potential for adverse effects including on existing land users in the case of un-reclaimed land, and developing a balanced financing approach between public finance, investment and self-sustainability at the zone level. The M&E framework should support regulators and stakeholders in identifying the benefits and the costs of the zones from a broad base of perspectives so that the zones can be most effective in delivering on SDGs and support quality growth in countries of the Global South.

REFERENCES

Abebe, Girum and Florian Schaefer (2015). Review of industrial policies in Ethiopia: a perspective from the leather and cut flower industries. In Noman, Akbar and Joseph E. Stiglitz (2015). *Industrial Policy and Economic Transformation in Africa*. New York: Columbia University Press.

Aggarwal, Aradhna (2005). Performance of export processing zones: a comparative analysis of India, Sri Lanka and Bangladesh. Working Paper, No. 155. Indian Council for Research on International Economic Relations.

___________ (2012). SEZ-led growth in Taiwan, Korea, and India: implementing a successful strategy. *Asian Survey,* vol. 52, No. 5, pp. 872–899.

Akhtar, Mohammad Hanif (2003). An evaluation of Karachi Export Processing Zone: a preliminary investigation. *The Pakistan Development Review*, vol. 42, No. 4 Part II (winter 2003), p. 937. Available at http://www.pide.org.pk/pdf/PDR/2003/Volume4/927-940.pdf.

Akinci, Gokhan and James Crittle (2008). Special economic zones: performance, lessons

learned, and implications for zone development. Foreign Investment Advisory Service Occasional Paper. Washington, D.C.: The World Bank.

Alder, Simon, Lin Shao and Fabrizio Zilibotti (2016). Economic reforms and industrial policy in a panel of Chinese cities. *Journal of Economic Growth,* vol. 21, No. 4, pp. 305–349.

Al Mamun, K.A. and H.K. Nath (2005). Export-led growth in Bangladesh: a time series analysis. *Applied Economics Letters,* vol. 12, No. 6, pp. 361–364.

Asian Development Bank (2015). *Asian Economic Integration Report 2015: How Can Special Economic Zones Catalyze Economic Development?* Mandaluyong City, Philippines: Asian Development Bank.

Bangladesh, Bangladesh Economic Zones Authority (2016). *Annual Report 2016: Development of Economic Zones*. Available at http://www.beza.gov.bd/wp-content/uploads/2016/09/BEZA-Annual-Report.pdf.

___________ (2016). Incentives and benefits for developers. Available at http://www.beza.gov.bd/wp-content/uploads/2016/10/Incentives-and-Benefits-for-Developers-Investors-and-EZ-users-V2.pdf.

___________ (2018). Private economic zones: promoting industrial development. Available at http://www.beza.gov.bd/wp-content/uploads/2018/10/Brochure-PRIVATE-ECONOMIC-ZONES-04-10-2018.pdf.

Bangladesh, Bangladesh Export Processing Zones Authority (2014). Info [o]f Adamjee EPZ, 13 April. Available at https://www.bepza.gov.bd/pages/epzdetails/adamjee-export-processing-zone-2/location-3.

___________ (2017). *Annual Report 2016-17*. Available at http://bepza.gov.bd/files/reports/file_1530607290.pdf.

Bangladesh, Bangladesh Hi-Tech Park Authority (2010). The Bangladesh Hi-Tech Park Authority Act,

2010. Available at http://bhtpa.portal.gov.bd/sites/default/files/files/bhtpa.portal.gov.bd/page/b73dd6fa_3504_407e_9790_6124ebaf0749/BHTPA%20ACT%20English.pdf.

Bangladesh, Bangladesh Investment Development Authority. Land for entrepreneurs. Available at http://bida.gov.bd/industrial-land.

Bangladesh, Ministry of Legislative and Parliamentary Affairs (2010). The Bangladesh Economic Zones Act, 2010, Act No. 42 of 2010. *Bangladesh Gazette*. Available at http://beza.gov.bd/wp-content/uploads/2015/06/BEZA-Act-English.pdf.

Bangladesh, Planning Commission, General Economics Division (2015). *Millennium Development Goals: Bangladesh Progress Report 2015*. September. Available at http://www.bd.undp.org/content/dam/bangladesh/docs/MDG/MDGs%20Bangladeh%20Progress%20Report_%20PDF_Final_September%202015.pdf.

Battacharya, Debapriya (1998). Export processing zones in Bangladesh: economic impact and social issues. Working Paper, No. 80. Geneva: International Labour Organization. Available at http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---multi/documents/publication/wcms_126103.pdf.

Begum, Shamshad and Abul F.M. Shamsuddin (1998). Exports and economic growth in Bangladesh.*The Journal of Development Studies,* vol. 35, No. 1, pp. 89–114.

Bräutigam, Deborah and Tang Xiaoyang (2011). African Shenzhen: China's special economic zones in Africa. *The Journal of Modern African Studies,* vol. 49, No. 1, pp. 27–54.

Chandra, Vandana, Justin Yifu Lin and Yan Wang (2013). Leading dragon phenomenon: new opportunities for catch-up in low-income countries. *Asian Development Review*, vol. 30, No. 1, pp. 52–84.

Choudry, Saud and Syed Basher (2002). The enduring significance of Bangladesh's War of Independence: an analysis of economic costs and consequences. *The Journal of Developing Areas*, vol. 36, No. 1, pp. 41–55.

Cling, Jean-Pierre and Gaëlle Letilly (2001). Export processing zones: a threatened instrument for global economy insertion? DIAL Working Paper, No. DT/2001/17. Available at https://ideas.repec.org/p/dia/wpaper/dt200117.html.

Farole, Thomas (2011). *Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience*. Washington, D.C: The International Bank for Reconstruction and Development/The World Bank.

Fenwick, Ann (1984). Evaluating China's special economic zones. *Berkley Journal of International Law*, vol. 2, No. 2.

Foreign investment Advisory Service (2008). *Special Economic Zones: Performance, Lessons Learned, and Implications for Zone Development*. Washington, D.C.: The World Bank.

Fu, Xiaolan and Yuning Gao (2007). Export processing zones in China: a survey. Geneva: International

Labour Organization.

Gahlaut, Baibhaw (2012). Land Acquisition and Resettlement and Rehabilitation Bill 2011: a bane or boon? *Statute Law Review*, vol. 34, No. 2, pp. 175–187.

Gakunu, Peter and others (2015). If Africa builds nests, will the birds come? Comparative study on special economic zones in Africa and China. Working Paper, N0.06.2015. United Nations Development Programme and International Poverty Reduction Centre in China.

Giannecchini, Philip and Taylor Ian (2018). The eastern industrial zone in Ethiopia: catalyst for development?" *Geoforum*, vol. 88 (January), pp. 28–35.

Golub, Stephen S. and others (2017). Can Africa compete with China in manufacturing? The role of relative unit labour costs. *The World Economy*, vol. 41, No. 6 (December), pp. 1–21.

Goswami, Amlanjyoti (2016). Land acquisition, rehabilitation and resettlement: law, politics and the elusive search for balance. *Journal of Land and Rural Studies*, vol. 4, No. 1, pp. 3–22.

Hossain, Monzur and others (2018). An evaluation of BSCIC industrial estates. Report submmitted to Bangladesh Institute of Development Studies.

Hossain, Naomi (2017). *The Aid Lab: Understanding Bangladesh's Unexpected Success.* Oxford:

Oxford University Press.

Husain, Ishtiaq (2017). Hi-tech parks to make Bangladesh IT hub. *Dhaka Times*, 16 April. Available at https://www.dhakatribune.com/tribune-supplements/business-tribune/2017/04/16/hi-tech-parks-make-bangladesh-hub.

Hye Shakir, Mustafizul and Thomas Farole (2011). The thin end of the wedge: unlocking comparative advantage through EPZs in Bangladesh. In *Special Economic Zones: Progress, Emerging Challenges, and Futures Directions,* Thomas Farole and Gokhan Akinci, eds. Washington, D.C.: The World Bank.

India, Ministry of Commerce and Industry, Department of Commerce (2018). Fact sheet on special economic zones as on 30.08.2018. Available at http://sezindia.nic.in/upload/5c46f2649f72dFACT%20SHEET.pdf.

____________ (2018). Special economic zones in India. Available at http://sezindia.nic.in/index.php.

India, Ministry of Commerce and Industry, Department of Commerce (SEZ Section) (2009). Instruction no. 29.18 August. Available at http://sezindia.nic.in/upload/uploadfiles/files/17InstructionsNo_29.pdf.

India, Ministry of Law and Justice (2005). The Special Economic Zones Act, 2005, No. 28 of 2005. *The Gazette of India*, 23 June. Available at http://sezindia.nic.in/upload/uploadfiles/files/SEZAct2005.pdf.

Khan, Karim, and Saba Anwar (2016). Special economic zones (SEZs) and CPEC: background, challenges and strategies. Pakistan Institute of Development Economics.

Available at http://www.pide.org.pk/psde/pdf/AGM32/papers/Special-Economic-Zones-SEZs.pdf.

Khan, Mushtaq (2008). Vulnerabilities in market-led growth strategies and challenges for governance. DFID Research Paper Series on Governance for Growth. London: School of Oriental and African Studies, University of London, 2008. Available at https://eprints.soas.ac.uk/9963/1/Vulnerabilities_internet.pdf.

Kumar, Avinash and Sudha Pai (2014). Uttar Pradesh: contrasting cases from the national capital region. In *Power, Policy, and Protest: The Politics of India's Special Economic Zones*, Rob Jenkis, Loraine Kennedy and Partha Mukhopadhyay, eds. Oxford: Oxford University Press.

Li, Ling (2018). China's manufacturing locus in 2025: with a comparison of 'Made-in-China 2025' and 'Industry 4.0'. Technological Forecasting and Social Change, vol. 135 (2018).

Mahmood, Zafar (2018). Opportunities and challenges of special economic zones under CPEC for Pakistan. Paper presented at The International Academic Seminar on Industrial Cooperation and Construction of Industrial Zones, CPEC, Islamabad, 5-7 January. Available at https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=2ahUKEwjm2eKV2cneAhV0HTQIHaK4DW

EQFjAAegQIBRAC&url= http%3A%2F%2Fwww.nust.edupk%2FINSTITUTIONS

%2FSchools%2FS3H%2FResearch%2FDocuments%2FSEZs%2520CPEC%2520Paper.pdf&usg=AOvVaw2vRg3YazKl46pK.

Martinek, Madeleine (2014). Special economic zones in China and WTO: bleak or bright future? *German Journal of Chinese Law*, vol. 21, No. 1, pp. 41–51.

McCartney, Matthew (2013). *Pakistan: The Political Economy of Growth, Stagnation and the State, 1951–2009*. London and New York: Routledge.

Mihretu, Mamo and Gabriela Llobet (2017). Looking beyond the horizon: a case study of PVH's commitment to Ethiopia's Hawassa Industrial Park. World Bank Group. Available at http://documents.worldbank.org/curated/en/163511499673766520/pdf/117302-WP-PUBLIC-PVHCaseStudythJuneHRsingles.pdf.

Mukherjee, Arpita and others (2015). *Special Economic Zones in India: Status, Issues and Potential*. Springer.

Mukhtar, Uzma and others (2013). Identification of impediments in export promotion zones of Pakistan. *Journal of Independent Studies and Research-Management, Social Sciences and Economics,* vol. 11, No. 2. Available at http://jisr.szabist.edu.pk/JISR-MSSE/Publication/2013/11/2/455/Article.

Naughton, Barry (2007). *The Chinese Economy: Transitions and Growth*. Cambridge, Massachusetts: The MIT Press.

Neveling, Patrick (2014). Structural contingencies and untimely coincidences in the making of

neoliberal India: the Kandla Free Trade Zone, 1965–91, *Contributions to Indian Sociology,* vol. 48, No. 1.

Oxford Business Group (2017). Egypt looks to special economic zones to attract investment, shore up industry. *The Report: Egypt 2017*. Available at https://oxfordbusinessgroup.com/analysis/one-stop-shop-egypt-looks-special-economic-zones-attract-investment-and-shore-industry.

Pakistan, Board of Investment (2016). Modified & Amended Special Economic Zones Act, 2012. *The Gazette of Pakistan*. Available at http://boi.gov.pk/UploadedDocs/Downloads/Modified%20SEZ%20Act%202012.pdf.

Pakistan, Export Processing Zones Authority (2018). About EPZA. Available at https://epza.gov.pk/about-epza/.

Pakistan, Ministry of Planning, Development and Reform (2014). *Pakistan 2025: One Nation–One Vision*. Available at https://fics.seecs.edu.pk/Vision/Vision-2025/Pakistan-Vision-2025.pdf.

Rahman, Fazlur (2015). Private EPZs may come under new regulator; Bangladesh Economic Zones Authority to oversee KEPZ [Korean Export Processing Zone]. *The Daily Star,* 8 October. Available at https://www.thedailystar.net/business/private-epzs-may-come-under-new-regulator-153700.

Savio da Silva, Solano Jose (2014). Goa: The dynamics of reversal. In *Power, Policy, and Protest: The Politics of India's Special Economic Zones*, Rob Jenkis, Loraine Kennedy and Partha Mukhopadhyay, eds. Oxford: Oxford University Press.

Seth, Michael (2017). South Korea's economic development, 1948–1996. Oxford Research Encyclopedias (online publication), December. Available at http://oxfordre.com/asianhistory/view/10.1093/acrefore/9780190277727.001.0001/acrefore-9780190277727-e-271.

Sinenko, Olga and Igor Mayburov (2017). Comparative analysis of the effectiveness of special economic zones and their influence on the development of territories. *International Journal of Economics and Financial Issues*, vol. 7, No. 1, pp. 115–122.

Small, Andrew (2015). *The China-Pakistan Axis: Asia's New Geopolitics*. Oxford: Oxford University Press.

United Nations Conference on Trade and Development (2015). Enhancing the Contribution of Export Processing Zones to the Sustainable Development Goals: An Analysis of 100 EPZs and a Framework for Sustainable Economic Zones. New York and Geneva: United Nations. Available at https://unctad.org/en/PublicationsLibrary/webdiaepcb2015d5_en.pdf

____________ (2017). *World Investment Report 2017: Investment and The Digital Economy*. United Nations publication, Sales No. E.17.II.D.3.

Wang, Jin (2013). The economic impact of special economic zones: evidence from Chinese municipalities. *Journal of Development Economics*, vol. 101, issue C, pp. 133–147.

Watson, Peter (2001). Export processing zones: has Africa missed the boat? Not yet! Africa Region Working Paper Series, No. 17. Washington, D.C.: The World Bank. Available at http://siteresources.worldbank.org/INTEXPCOMNET/Resources/Watson_2001.pdf.

Wong, Michael D. and Johanne Buba (2017). Special economic zones: an operational review of their impacts. Working Paper. Washington, D.C.: World Bank Group. Available at http://documents.worldbank.org/curated/en/316931512640011812/Special-economic-zones-an-operational-review-of-their-impacts.

World Bank Group (2018). Pakistan. Available at https://data.worldbank.org/country/pakistan.

Yao, Daqing and John Walley (2016). The China (Shanghai) pilot free trade zone: background, developments and preliminary assessment of initial impacts. *The World Economy*, vol. 39, No. 1 (2016).

Yeung, Yue-man, Joanna Lee and Gordon Kee (2009). China's special economic zones at 30. *Eurasian Geography and Economics,* vol. 50, No. 2, pp. 222–240.

Yunus, Mohammed and Abdul Hye Mondal (2018). Enclave industrialization: evidence from export processing zones in Bangladesh. Unpublished draft.

Zeng, Douglas Zhihua (2012). China's special economic zones and industrial clusters: success and challenges. Lincoln Institute of Land Policy Working Paper. Available at https://www.lincolninst.edu/sites/default/files/pubfiles/2261_1600_Zeng_WP13DZ1.pdf.

____________ (2015). Global experiences with special economic zones with a focus on China and Africa. Policy Research Working Paper, No. WPS 7240. Washington, D.C.: World Bank Group. Available at http://documents.worldbank.org/curated/en/810281468186872492/pdf/WPS7240.pdf.

APPENDIX A. STUDY METHODOLOGY

This study was initiated with secondary desk research supplemented by key respondent interviews. In total, seven interviews were held with government bodies, zone managers, firms and zone developers. Four of these interviews were held on the site of EZs and included tours of the facilities and developments in addition to the discussion. Since a scoping visit is both a process of stakeholder engagement as well as an attempt to establish the basic conditions of the existing SEZ programme, respondents are selected based on the expert judgment of local partners and the regulator. There is no random sampling strategy or claim to representativeness. Where possible, the scoping visit aims to speak to representatives of as many firms active in the zones as possible. However, in the case of the EZs in Bangladesh, the early stage of development meant that no firms were active at Mirsarai Economic Zone (MEZ) and very few firms were available at Meghna Industrial Zone (MIEZ).

The key respondent interviews were initiated with semi-structured questionnaires, which are available in appendix B. All respondents were offered an information disclosure, with a choice of anonymity, limited attribution or full disclosure. Table 2 provides a summary of respondent types and number of interviews.

Table 2. Summary of Respondent Types and Number of Interviews

Respondent Type	Number of Interviews
Industry Association	2
Government Agency (Zone Authority)	1
Zone Management	2
Private Firm	2

The respondents were selected based on the experience of BIDS with local actors. Four representatives were present during the meeting with one of the industry associations, and all expressed their views at least on some of the questions during the interview. Two private-sector respondents (firm representatives) were introduced and accompanied by a previous respondent.

In addition to the interviews held in Bangladesh, an interview was conducted in Beijing with Mr. Sameeh Ullah, Industrial Policy and Planning Specialist at the Urban Sector Planning and Management Services Unit (Urban Unit) located in Punjab, Pakistan.

APPENDIX B. SPECIAL ECONOMIC ZONE GOVERNANCE STRUCTURES IN PAKISTAN AND INDIA

Table 3. SEZ Authorities, Their Composition and Roles in the Pakistan 2012 SEZ Act and the India 2005 SEZ Act

	Pakistan **2012 SEZ Act as amended in 2015 and 2013 SEZ Rules**	**India** **2005 SEZ Act and 2006 SEZ Rules as amended in 2018**
Federal Level	(1) Board of Approval (BOA) • Chaired by the Prime Minister, relevant ministers, the BOI chairman and provincial chief ministers are members • Considers and decides on SEZ applications • Co-signs SEZ development agreements • Can delegate powers to the Approval Committee and co-opt its members, and can still exercise delegated powers at any time (2) Board of Investment (BOI) • Promotes domestic and foreign investments • Acts as the secretariat of the BOA and of the Approval Committee, implements decisions • Acts as an OSS for SEZs • Supports SEZ Authorities if requested • Acts as SEZ Authority for Islamabad Capital Territory (3) Approval Committee • Chaired by Chairman of the BOI • Exercises any delegated power or duty • Must submit every decision to the BOA	(1) Board of Approval (BOA) • Chaired by Additional Secretary of the Ministry of Commerce and Industry, Department of Commerce; members include officials from relevant ministries, a nominee of the State government concerned, the Development Commissioner from the SEZ concerned, and a professor from the Indian Institute of Management • Considers and decides on proposals for development of zones • Decides on various applications from units and developers and governs the general operations of the zones

	Pakistan 2012 SEZ Act as amended in 2015 and 2013 SEZ Rules	India 2005 SEZ Act and 2006 SEZ Rules as amended in 2018
Provincial or State Level	(4) SEZ Authority (Provincial Government)[197] • Chaired by the Chief Minister of the Provincial Cabinet, who appoints members • Prepares and submits SEZ applications to BOA • Selects, negotiates with and assists developers • Acts as an interface between SEZs and the provincial government departments • Monitors the compliance of developers and firms with regulations and SEZ agreement • May suspend an SEZ agreement but must apply to BOA for cancellation	State Government[198] • Needs to approve the establishment of an SEZ in its territory • Decides on granting exemptions from state taxes, duties, etc. • Is responsible for constructing infrastructure outside the zone
Zone Level	(5) SEZ Committee • Chaired by the developer, consists of representatives from the developer, BOI, provincial investment promotion agency, SEZ Authority and concerned district government	(2) Development Commissioner • Government official in charge of overall administrative control and supervision of an SEZ • Responsible for coordinating between central and state departments • Monitors the performance of the zone

197 De facto, the SEZ Authority falls under the provincial government since it is chaired by its head, the Chief Minister. In Punjab, for instance, the Punjab Board of Investment and Trade was charged to act as SEZ Authority and delegated the reviewing of applications to the Urban Unit (Interview with Mr. Sameeh Ullah, Industrial Policy and Planning Specialist at the Urban Sector Planning and Management Services Unit in Punjab, Pakistan).

198 Based on the SEZ Act, State governments are not directly involved in the administration of SEZs. Nevertheless, secondary sources point out that they play an important role in practice. See Mukherjee and others, *Special Economic* Zones in India, pp. 56–57.

	Pakistan 2012 SEZ Act as amended in 2015 and 2013 SEZ Rules	India 2005 SEZ Act and 2006 SEZ Rules as amended in 2018
Zone Level	• Chartered by the BOA • Administers SEZ benefits, enforces rules • Oversees firms' activities • Coordinates between the developer or the firms and government entities	(3) Approval Committee • Chaired by the Development Commissioner; members include central and state government officers, and a representative of the SEZ developer • Decides on the establishment of units within zones • Provides OSS services[199] (4) Special Economic Zone Authority • Chaired by the Development Commissioner; consists of officers of central government and entrepreneurs • Develops infrastructure • Promotes exports • Reviews performance of SEZ • Levies charges

199 According to the SEZ ACT, the Approval Committee functions as a single-window clearance mechanism. However, according to secondary sources, the single-window mechanism in fact consists of coordination between the Approval Committee, the State government and the Board of Approval. See "SEZ Act," *India*, 57.

APPENDIX C. SEMI-STRUCTURED INTERVIEW QUESTIONNAIRES[200]

1. Zone Authority (BEZA) Questionnaire

This questionnaire is being delivered as part of the scoping visit being conducted by the Bangladesh Institute of Development Studies (BIDS) and the Institute of New Structural Economics (INSE). This study, funded by the United Nations Office for South-South Cooperation and United Nations Development Program aims to assess the interest and suitability of EZs in Bangladesh to participate in a cross-country monitoring and evaluation program.

Thank you for taking the time to respond to these questions!

Introduction: BEZA and Economic Zone Overview

1. The government plans to develop 100 zones by 2030. Can you please provide an update on the progress of this project?
    a. Can you tell me a few of the success stories so far?
    b. What are the main challenges for delivering on this vision?

Existing Data Collection and Monitoring

1. What data do you currently collect on the EZs?
    a. Are there additional collections of firm level data?
2. Do you expect there will be any difference in the data collection conducted in between public, private, Public-Private Partnership (PPP), and Government to Government (G2G) zones?
3. What monitoring and evaluation programs or plans do you have for the EZs?

Economic Zone Specification

1. Which zones are currently operational? {'operational' is defined as having at least one firm that has entered production}
2. Are all of the parks expected to be multi-sector, diversified park such as Mirsarai, or are there also sector-specialized zones?
3. What are the main differences between public, private, Public-Private Partnership (PPP), and Government to Government (G2G) zones?
    a. Are there any qualifications required for potential developers?

200 Owing to time pressure during some of the interviews, not all the questions were asked. Particularly in the meeting with BEZA, the questions went largely unasked. The questionnaire attached here was also sent to BEZA by email twice for additional comments but none were received.

4. How is the zone infrastructure financed within the different types of zones?
5. What is BEZA's strategy for attracting investment?
6. In the "Incentives and Benefits for Investors/EZ Users", it says that up to 20% of finished product may be sold by companies to the domestic tariff area (DTA) when these firms are in an export area in the EZ.
    a. What defines an "export area" of an EZ?
    b. What proportion of the EZs are expected to be export areas?
    c. Are there any export requirements for firms in non-export areas of the EZ?
7. How do investors normally learn about BEZA and the EZs?
8. Who is responsible for Investment Promotion in the private, PPP and G2G EZs?
9. Are the incentives the same for all types of EZs?
    a. Who decides on the incentives available for investors?
10. Are the costs the same for firms in all types of EZs? {e.g. utilities, rent, service fees}
    a. Who decides on the costs in a given EZ?
11. How is the connective infrastructure, such as roads or connection to the national electrical grid, financed?
    a. Is it the same for all types of zones? (public, private, PPP and G2G)?
12. Can you please provide an overview of the planned and existing facilities at the zones?
    a. What about facilities for worker welfare {e.g. hospitals; schools; residential facilities} and environmental sustainability? {e.g. effluent treatment; recycling}?
13. How are zone locations chosen?
    a. Are there any issues with land allocation?

BEZA and BEPZA, and the Domestic Tariff Area (DTA)

1. Why was BEZA constituted a separate entity from BEPZA?
2. What are the main differences between the EPZs and the EZs?
3. Do workers in EZs have any different working conditions from those in DTA?
    a. What about in the EPZs?
4. Does the investment in the EZs vary from the EPZs or DTA?
5. Why would a firm choose an EZ over an EPZ or in the DTA?

2. Zone Management Questionnaire

Organization Overview

1. Can you please provide an overview of your zone and its operations?
2. What makes this zone a competitive location for investment?
3. What are some of the biggest successes since the founding of this zone?

4. What challenges are facing the future development of this zone?

[Do you mind if we record this interview]?

Management Structure and Responsibility

1. Can you please tell me about the management team and organization for this zone?
2. What is the ownership structure of the zone? {specific shareholders and percent}
3. What does the role of zone manager entail?
4. Who decides on the prices and incentives?

Infrastructure

•

1. What infrastructure is installed at this zone? {request master plan}
2. Which company or companies were responsible for building the infrastructure in the zone?
3. Who financed the infrastructure development?
4. Who is responsible for maintenance and upkeep of infrastructure within the zone?
5. Who owns and maintains the production sheds?

Services and Costs

•

1. What services are available to investor firms?
2. Can you tell me about the One-Stop-Shop (OSS)?
3. What price do investors pay for their utilities and services?
4. On what terms are investors given land within the zones? {e.g. sale or lease; cost; duration}

Sectoral Composition and Targeting

•

1. Is there any sectoral focus for this zone?
2. Have you installed any specific infrastructure in order to support the development of a particular sector?
3. What sectors are currently represented among investors in this zone?

Firm Incentives and Obligations

1. What incentives do firms receive to encourage investment in this zone?
    a. Are these incentives particular to this zone or do they conform to a national standard?
2. What requirements do firms have to fulfill in order to participate in this zone?
    a. Do these requirements vary by SEZ or do they conform to a national standard?

Cooperation

-

1. Can you tell me a little about your relationship with BEZA?
2. Are there any other national organizations that you frequently interact with?
    a. What about local government?
3. Is there any mechanism for collaboration between the different SEZs?

Data Collection

-

1. What data do you currently collect from firms in the zone?
    a. How do you collect this information? {e.g. monthly reporting, automated customs collection}
2. How do you get feedback from investors?
3. What do you know about the management of other zones?
4. Is there anything you wish you knew about other zones in Bangladesh?
    a. What about international zones?
5. What do you think of the M+E Program?

3. Firm Questionnaire

Introduction: Firm

1. Please give a brief introduction of your firm?
    a. What is the ownership structure of this company? {Answer should include percent of foreign ownership and country of capital origin}
2. What are the biggest opportunities and challenges in your industry?
3. What are the biggest opportunities and challenges to doing business in the Bangladesh?
4. Did you face any requirements, such as minimum export or investment size in order to gain access to this zone? [Do you mind if we record this interview]

General Firm Identifying Details – Enumerator Filled

1. Firm Name:	
2. Address of Headquarters in Bangladesh:	
3. City and Country of Global Headquarters: {if applicable}	
4. Year Established in Bangladesh	
5. Products and Production Processes: {one sentence, for example: 'making shoes from synthetic leather by gluing and stitching on machines'}	
6. % Foreign Ownership:	
7. Country of Foreign Capital Origin:	
8. Approximate Average Number of Employees Last 3 Years (2015-2017):	
9. Approximate % of Production Exported last three years (2015-2017):	
10. Countries Exported to:	

View of SEZ and Management:

1. Why have you chosen to locate your investment in {Name of the EZ}?
2. Did you consider locating in an (EPZ) or in the Domestic Tarif Area (DTA)?
3. What can you tell me about the management of {Name of the EZ}?
4. What is your opinion of the physical infrastructure in {Name of the EZ}?
5. What is your opinion of the services and support provided to you before and after your investment?

Data Collection:

1. What do you wish you knew about other firms or parks?
2. What data do you already collect on your operations?
3. How do you collect data?
4. What do you think of the M+E program?

Government Policy:

1. Are there any specific areas where government policies are affecting your business?
2. Have you received any incentives to do business in the Bangladesh, such as tax holidays or export credits?
    a. Which incentives have been most beneficial for your business?
3. Can you tell me a little about your interactions with the government of Bangladesh?
    a. What about the Bangladesh Economic Zones Authority (BEZA)?
4. Is there anything that the government could do to better support your business?

Firm Performance:

1. Approximately, how much of your product did you produce on average over the last three years? {2015-2017; specify units; if firm has not been open for 3 years or only knows 1-2 years please specify which years are included}
2. Over the last three years, have you been making as much of your product as you can without hiring more workers or buying more machines?
   {2015-2017; specify units; if firm has not been open for 3 years or only knows 1-2 years please specify which years are included}
3. Approximately, what were your average annual gross sales over the last three years? {2015-2017; specify currency units; if firm has not been open for 3 years or only knows 1-2 years please specify which years are included}

Environment:

1. Do you take any special measures to operate your business in an environmentally friendly way?
2. Have you ever conducted an environmental impact assessment related to your business?

Labor:

1. Can you please tell me a little a bit about the workers in your company?
2. Labor Table
   Note to enumerators: You should try to make this section conversational – the second question is formatted as a table which is provided for ease of recording but you should not read it directly to the respondent – rather you should follow a normal conversational style similar to the example prompt below and record the information in the table. Any narrative information should be recorded below the table.

   Example prompt:
   I'd like to talk to a little bit about the different types of production workers that you need for your

company. In particular, we would like to know about the line managers, technicians and engineers, and basic industrial workers.
Thinking about line managers, about how much are they paid monthly? What about technicians and basic workers?
When you want to hire new workers, is it difficult to find qualified candidates? Is this the same for all positions?
Are most of your basic workers from Bangladesh? What about the technicians and line managers?
Do you find it difficult to keep workers? Follow up: Is that the same for all classes of workers?
Are there any other kinds of workers that you think I should know about?

	Average Wage	**Difficulty finding workers**	**Predominantly Domestic?**	**Turnover rate**
	(specify currency and pay period)	(specify challenges)	(specify %)	(specify % and time period)
Line Management				
Technician/ Engineer				
Basic Labor				
Others {please specify}				

Factors and Costs:

1. What kind of title do you have to the land your company buildings are on? {If prompt required: For instance, do you rent or own the land?}
    a. Have there been any issues or conflicts with your use of the land?
2. Thinking about when you first established this company, can you please tell us about your fixed costs and initial investment? {If prompt required: e.g. for the purchase of equipment, building structures, infrastructure development, purchase of land if owned, etc.}
3. How did you finance this initial investment?
4. Cost Table: {Note to enumerators: You should try to make this section conversational – the table is provided for ease of recording but you should not read it directly to the respondent}

    Thinking about your operating costs, roughly what percentage of your costs goes to:

	Share in total cost (%)
Purchase of raw materials, parts or pieces	
Goods transportation costs, both incoming and outgoing	
Rent {if applicable}	
Maintenance of equipment and machines {including vehicles}	
Labor	
Electricity	
Government taxes, fees and levies	
Interest on capital loans	
Other cost {please specify}	

Closing the Interview:

1. Is there anything else that you think I have not covered that you think is important to know about your business?
2. Do you have any questions or concerns that you would like to raise?

4. Industry Association Questionnaire

Organization Overview

-

1. Can you please provide an overview of your organization?
2. What are the challenges facing Bangladeshi industry?

[Do you mind if we record this interview]

Membership

1. Can you please tell me about your membership?

SEZs and Government Interaction

-

1. What can you tell me about the SEZ program in Bangladesh?
2. Are any of your members based in SEZs or EPZs?
    a. Do you have any interaction with BEZA?
3. What is your expectation for the future of SEZ development in Bangladesh?
4. What is your recommendation to improve the SEZ program in Bangladesh?
5. What do you think of the M+E Program?

-

Observations:

{Write enumerator observations here}

5. Recording Release and Data Disclosure Form[201]

Recording Release and Data Disclosure Form:

[Read to Respondent]: In this section we ask you how you would like the information you have shared in this interview to be cited in research reports. We will ask you about the data you have provided, audio recording and any photographs separately.

How may the information in this interview may be used?

1. This interview has been conducted "off the record". Data and information shared during this interview may not be attributed. No firm identifying information, including the name of the firm, location, participant names, or offices may be reported in any form.
2. This interview has been conducted with limited attribution. Data and information shared during this interview may be attributed to respondent's office in the following format:

(Please write the exact way you would like your information to be cited, such as "the Managing Director of a mid-sized manufacturing firm" or "A representative of Company A")

3. This interview is fully quotable and citable – data and information shared during this interview may be cited using the respondent's name, title and offices.

[Read to Respondent]: Photographs may be taken as part of this study including your company logo and facilities. Photographs are optional and you may choose how these photographs may be used:

4. Photographs have been taken in: Yes or No (circle)
5. These photographs may be published with the same citation as used in the information disclosure: Yes or No (circle)

[Read to Respondent]: This study may involve audio recording of your interview with the researcher. Recording is optional and you may withdraw consent at any time during the interview or ask for the recording to be switched off. Only the research team will be able to listen to the recordings.

6. This interview has been recorded: Yes or No (circle)

Participant's Signature: ____ Date: ____________________

201 This form was included in all questionnaires.

United Nations
Office for South-South Cooperation

UNDP

Empowered lives.
Resilient nations.