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INSTITUTIONS FOR FACILITATING FDI: ISSUES FOR BEPZA, BANGLADESH

ABSTRACT

The Bangladesh Export Processing Zones Authority (BEPZA), which is responsible for the Export Processing Zones (EPZs) in Bangladesh, is a key institution in attracting and managing Foreign Direct Investment (FDI) in Bangladesh. Though termed as efficient, BEPZA activities became the center of criticism after a shattering labour outburst of 2006. This briefing paper aims to provide an explanation for this massive failure, and also to discuss some of BEPZA's successful cases, through in-depth investigation of its institutional practices, trends and arrangements. BEPZA was developed as a distinct authority directly under the Prime Minister's Office (PMO). It was granted considerable power over related ministries, divisions and corporations, and also immunity from sixteen laws relating to industry, labour and customs questions. BEPZA also included, at a later stage, the PMO's Principal Secretary in its governing body in order to further streamline the co-operation of the central bureaucratic structure, but with the practice of providing speedy solutions rather than following the conventional argument and counter-argument decision-making process having become the norm.

Why failure? With overwhelming emphasis on the interest of foreign investors and, on the contrary, apathy to labourers, considering them just a factor of production, BEPZA seemingly assumed that direct investors would appropriately maintain labour-related guidelines; though low labour productivity, in comparison to neighboring countries, may have also contributed to BEPZA's failure to enforce labourer-related regulations. Another reason for this apparent negligence may also lie in the paradoxical nature of BEPZA's mandate, the tension between investment performance and adhering to labour regulations; and though BEPZA is in the process of addressing its failures to enforce the labour-related regulations, there is a concern that it may now fail in its goals concerning business and FDI, especially if institution-based changes are not enforced in order to aid this rebalancing of its mandate – a fact which is further supported by the prospect of the emergence of a competitive private EPZ operation.

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INTRODUCTION

Comprehensive economic globalization is now a harsh reality. Economists, scholars, politicians and activists, both in developed and developing countries, have long-argued against such an all embracing globalization due to its worsening impact on the economy, poverty, culture, society and sovereignty of nation states. However, the coin has two sides and despite some failures, there are numerous successful examples which prove that if necessary and wide-ranging qualitative

In Bangladesh, FDI has to be registered either with the Bangladesh Export Processing Zone Authority (BEPZA) for investing in an EPZ, or with the Board of Investment (BOI) in the case of investing within the country – outside of EPZ. This registration process is to enable the investors to avail themselves of the necessary government policy support and receive certification to relieve the difficulties often experienced in dealing with the various public enterprises. Fig 1.1 illustrates that FDI in EPZs, on average, increased over the

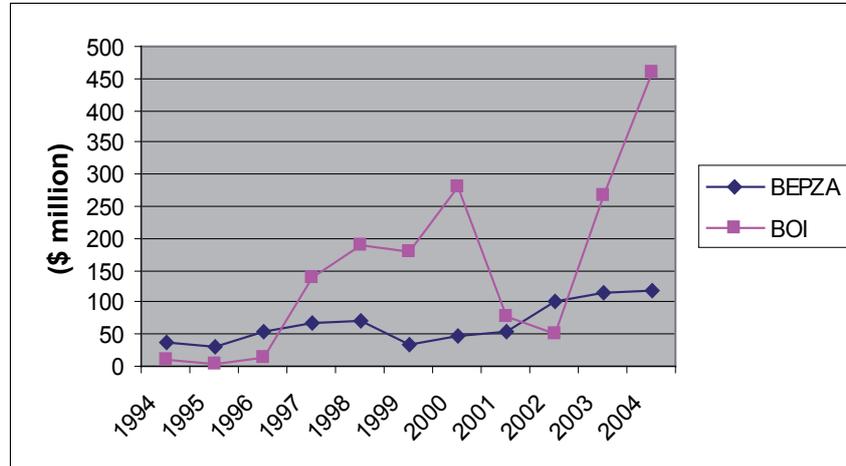


FIG 1.1: FDI IN BANGLADESH IN LAST 10 YEARS ACCORDING TO THEIR DESTINATIONS

Source: UNCTAD and BEPZA

changes in policies, practices and institutions – in both the economic and social arenas – can be introduced and sustained, then countries can gain notable and rapid economic development. The examples of success have contributed to the promotion and embracing of: free market economy; private-sector-led development with the state only playing the role of facilitator and agent for development; attracting increasing amounts of foreign investment; and enhancing export driven growth; and in practice, the Export Processing Zone (EPZ) has been a proven consummation of the acceptance of this ethos.

An EPZ can be defined as an industrial zones with special incentives to attract foreign investment in which imported materials undergo some degree of processing before being exported again (ILO, 1998). Currently economists and policy makers do not see EPZ simply as the means of attracting more foreign investment to generate employment, but most importantly as the means to acquire the industrial skills and necessary resources to help increase the competitiveness of the local economy (see ILO, 1998; Madani, 1999). Bangladesh, a south Asian country, is not an exception to this trend. However, though Bangladesh initiated EPZ as early as 1983, it failed to attract the significant foreign direct investment (FDI) that its eastern neighbours – such as Malaysia, Thailand and Indonesia – did. Why? This question requires careful examination of the EPZ executive authority, its policies and supportive institutions, local polity, various national 'bottlenecks' and a few, but considerably important, external factors.

years, while FDI through BOI increased abruptly in two periods, 1997 to 2000 and 2003 to present. It is important to note that FDIs possess distinct characteristics according to their registration destination. In the case of BEPZA, these investments are of comparatively small-sized, consumer-goods-production orientation, highly labour intensive and thus directly employing large numbers of people. The effect of the technology and skill 'spill-over' on local industrialization is also much higher for this case. On the contrary, FDIs with BOI are mostly in the energy, telecommunication and cement-manufacturing sectors. Accordingly these FDIs are comparatively large-sized, extremely technology intensive and employ only a few local people. This paper will emphasize and address only the institutional management and practices related to FDI for BEPZA.

THE EPZ AND BEPZA IN BANGLADESH

In 1976, a working paper prepared by an inter-ministerial committee first recommended setting up EPZs in Bangladesh (see Reza, 1990). As a consequence, in 1978, after several consultations and visits to probable locations, the Government of Bangladesh (GOB) decided to establish the first EPZ in Chittagong, adjacent to the seaport. This decision provoked various issues – who will develop the necessary infrastructures? Who will deal with the foreign investors? Who will administer the daily operations? Who will outline the rules and regulations for investors and labourers and ensure they are followed? In response, the GOB established the Bangladesh Export Processing Zone Authority (BEPZA), an autonomous authority

directly under the Prime Minister's Office (PMO), responsible for the creation, development, operation, management and control of EPZs and all connected matters. This was further supported by the 1981 act, which delineated the organizational structure of BEPZA; its linkage with the national government superstructure; its governance process; and also provided the power necessary to create and enforce the rules and regulations regarding EPZ governance.

This act, and further ordinances,² provided BEPZA with the outright authority in all activities related to land acquisition and the infrastructural development of the zone; to processing applications for setting up industries; the provision of customs-bonded facilities; to issue permits for the importing of machinery and raw materials; the provision of necessary banking facilities within the zone; to establish liaisons with the port, and other, authorities; and to sanction permits for foreign nationals to be employed within the zone. The GOB also enabled BEPZA to undertake activities related to the promotion of FDI within the zone and so BEPZA was not only developed as the over-arching institution for the development, promotion and administration of EPZs, but also as a 'one window' service-provider for foreign investors.

In summary, the major aims of the GOB in establishing BEPZA were to develop an extremely efficient institution for the fostering and generation of economic development in Bangladesh, through the promotion of FDI in EPZs; to increase and diversify the sources of foreign exchange income by increasing export; to widen and strengthen the industrialization process and economic base of the country; and to generate productive employment.

Simultaneously, the GOB undertook concrete steps to attract foreign investment, by specifying the incentives, protective measures and governance system of EPZ in BEPZA and to this end, the Foreign Private Investment (promotion and protection) Act was enacted in 1980. To further encourage the confidence of foreign investors in EPZ, the GOB incorporated the interest of these EPZ investors, while also signing various international investment protective regulations and declarations – such as MIGA (Multilateral Investment Guarantee Agency), WIPO (World Intellectual Property Organization), OPIC (Overseas Private Investment Co-operation), and ICSID (International Centre for Settlement of Investment Dispute).³

WHY A DIFFERENT AUTHORITY FOR EPZ

Bangladesh possesses a highly complex and in some cases dysfunctional bureaucratic system. The quagmire of bureaucratic arguments and counter arguments is common in the decision making process. In a nutshell, the bureaucracy

could be portrayed as inefficient in performing its functions; ineffective in delivering public service; inadequately represented; and non-responsive to societal demands (Zafarullah et al 1998). They are also widely condemned as utterly corrupt. For Bangladesh, where almost all the basic services – electricity, water, gas, telephone (except the mobile phones) – are provided by public enterprises, the experience of local investors, let alone the foreign ones, is mostly discouraging. The process is not only cumbersome and lengthy but also expensive and this, according to multilateral organizations like the World Bank, IMF and ADB, is the second most constraining factor, besides political instability, against the flow of investment.

Given this reality, the GOB decided to establish a separate organization that would be highly investor-friendly and would facilitate the required service to foreign investors, at the right time and right cost, by undertaking the responsibility of communicating and dealing with related government departments. BEPZA also minimized the bureaucratic process in the customs department and provided immunity to its investors from various industry related laws and acts, with foreign investors in EPZs highly praising BEPZA for its performance in this regard. So, BEPZA has been able to reduce the transaction costs and has thus facilitated co-operation for the investors in EPZs which, according to Toye (1995), are the prime factors for the existence and sustainability of institutions.

THE INSTITUTIONAL STRUCTURE OF THE BEPZA

The 'Board of Governors' is the supreme body of BEPZA that formulates the policies for operation and management of BEPZA and the EPZs. It also reviews the activities and performance of BEPZA. This Board is comprised of a range of ministers and secretaries dealing with industry, commerce, foreign affairs, energy, ports and shipping, and the Governor of the Bangladesh Bank. The Prime Minister of Bangladesh chairs the Board, while the Executive Chairman of BEPZA plays the role of secretary. The GOB has provided superior authority to this Board and its decisions related to any ministry, division or public corporation,⁴ and this supremacy helps BEPZA in curtailing bureaucratic difficulties when dealing with other ministries and thus facilitating the timely completion of projects. However, since the Board comprises a wide range of high officials, including the Prime Minister, meetings are held irregularly. In order to combat this and the problems it caused BEPZA in achieving the appropriate co-operation, the GOB included the Principal Secretary of the Prime Minister's Secretariat and the Executive Chairman of the

2. To streamline the operation of BEPZA further and enhance efficiency, so far 3 major ordinances, related to the organizational structure and objectives of the authority, have been published – (i) Ordinance No. XLIX, 1984, (ii) Ordinance No. LII, 1986 and (iii) Act No. XXII, 1994.

3. From BEPZA website: <http://www.epz-bangladesh.org.bd>

4. 'The policies formulated, orders given and instructions issued by the Board shall be deemed to be the policies formulated, orders given, and instructions issued by the government and shall be followed accordingly; and they shall not require any formal approval of any Ministry or Division dealing with the matters for their implementation' – The Bangladesh Export Processing Zones Authority Act, 1980.

Board of Investment in BEPZA's governing board.⁵ This enabled the Executive Chairman of BEPZA to directly communicate with the Principal Secretary of PMO and to gain his assistance, both formally and informally, in achieving the co-operation of related ministries or corporations.

The Executive Board is the highest decision making body within BEPZA. This Board is comprised of four members including the Executive Chairman of BEPZA, with the other three members appointed by the GOB. The Executive Chairman of BEPZA presides over the Board and plays a key role in making the various decisions and formulating policies related to the efficient and proper functioning of BEPZA and EPZs. The Board also puts forward recommendations and policies to the 'Board of Governors' where they do not fall under the purview of their authority. However, recent amendments have extended the authority of the Executive Board over finance and some other related issues, and BEPZA officials have

companies, capital issues and foreign exchange transactions related to zones. However, up to now, no consultative committee has been formed and BEPZA believes that this is just an additional tier in the bureaucratic process. Since the majority of these nominated members are bureaucrats with no relation to trade and investment, as per the ordinance, this suggests that BEPZA's may be correct. However, an alternative approach to enhance the performance of BEPZA could be to hire civil/society-based research organizations to scrutinize the activities, policies and future agendas of BEPZA, and assist in outlining effective strategies.

The Executive Chairman of BEPZA also fills the role of Chief Executive Officer in the institution, overseeing the regular functions and activities of BEPZA and acting as a key decision-maker. The General Managers of the EPZs, who are also the Chief Operating Officers of respective EPZs, directly report to the Executive Chairman of BEPZA.

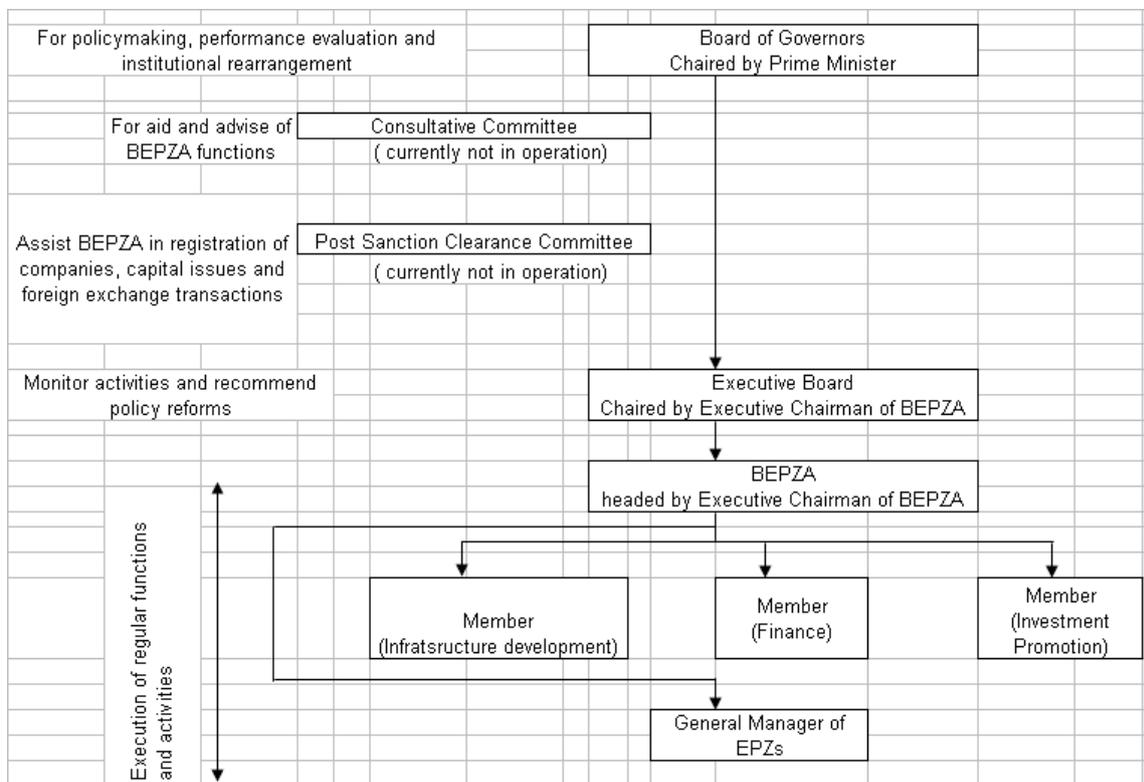


FIG 1.2: GOVERNANCE STRUCTURE OF BEPZA

asserted that the Executive Board, in practice, independently makes decisions and formulates policies – though for delicate matters, the board usually consults with the Principal Secretary of PMO while making decisions.

According to the 1984 amendment to the BEPZA Act, the GOB directed the formation of a Consultative Committee, which would assist the Executive Chairman in decision making and in providing advice on necessary improvements, and a Post Sanction Clearance Committee, which would help BEPZA in the registration of

Fig 1.2 illustrates how BEPZA is organized, with three sections (investment promotion, finance and infrastructure development) which are also under direct control of Executive Chairman. The internal organizational structure resembles a compact and less hierarchal management structure. However, the internal structure did not contain any officers for liaison with labourers until 2004 – though in 2004 several posts were created due to the Workers Trade Union Act, and BEPZA had been reluctant to fill the posts until the labour unrest forced their hand.

Interestingly, the guarantee of efficiency by BEPZA, both in-house and externally, is seemingly dependent on a 'military' person in post as its Chief

5. Board of Governors' SRO No. 78-Law/95, dated 25 May, 1995

Executive. Consultations with BEPZA officials and foreign investors have revealed that both groups agree that the performance of military personnel is far better than that of regular bureaucrats, who, according to them, would emphasize and follow the formal protracted process in decision making, while military personnel focus on speedy solutions rather than the process. Accordingly it seems that the performance of BEPZA depends on the personal dynamism of the Executive Chairman, which signifies a lack of the necessary, inbuilt institutional development and practices that promote efficiency and best practice for all the employees, irrespective of their orientation. Bureaucrats, may never be the best choices for running BEPZA, a commercial facilitation body, as private-sector personnel may have done the job more efficiently. However, this point clearly illustrates the need for evolving business-friendly rules and procedures, rather than leaving too much to personnel dynamism.

Quality and capacity of bureaucracy is also a key factor for determining institutional performance. Based on the work of Evans and Rauch (1999), concerning the three key ingredients of effective bureaucracy, BEPZA qualifies on at least two of them: meritocratic recruitment and career stability. However, BEPZA

has ample benefits for local economies and also effects considerable increases in BEPZA's earnings – the introduction of a competitive package, linked with effective performance appraisal, could increase the productivity of BEPZA employees and therefore enhance the institutional performance noticeably.

MAJOR FUNCTIONS OF BEPZA

Fig 1.3 graphically demonstrates the functions that are being performed by BEPZA. These can be divided into four broad categories: (a) functions related to infrastructure, basic services (electricity, gas, water, telephone, banking etc.) and customs-related support; (b) assistance in performing the procedures for setting up industries and also the setting up of principles for preferential industries; (c) undertaking promotional steps to attract foreign, as well as local, investment; and (d) to work with companies to reform and readjust the services as necessary. However, after the labour unrest in mid-2006, BEPZA has increased vigilance on whether foreign investors are following the labour standards, including the desirable wage rate, and for this purpose has appointed labour-conciliators in each of the EPZs, to whom labourers can lodge complaints and express grievances regarding wage rate and

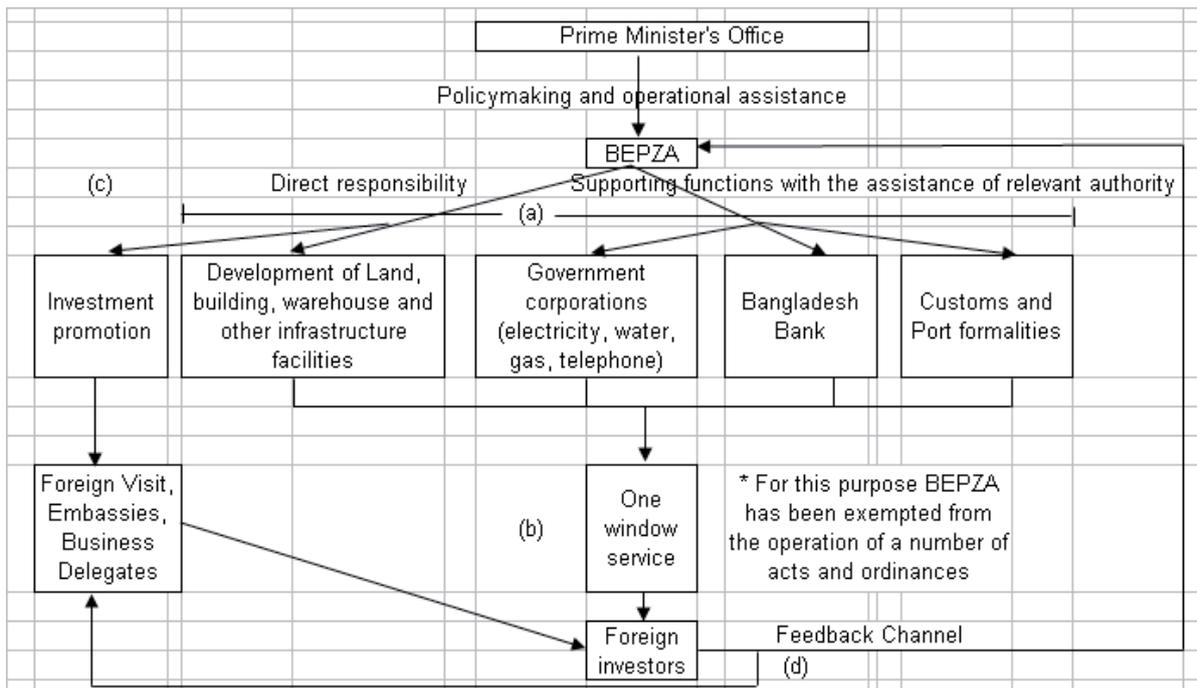


FIG 1.3: FUNCTIONS AND RESPONSIBILITIES OF BEPZA IN A GLIMPSE

follows the regular promotional system, like the central bureaucratic system, which is not based on strict performance appraisal and in some cases is utterly anomalous. Also, BEPZA employees receive regular government pay scale package (Evans and Rauch were not able to establish a clear relation between competitive salary and effective bureaucracy), which is less competitive than the private sector. Since improvement in service quality has a considerable impact on future increases in foreign investment – which

other compliance issues.

For functions related to (a) and (b) above, BEPZA exercises its superior authority to facilitate the timely completion of projects and to make sure that investors receive the necessary services, without any bureaucratic obstructions. BEPZA never advertises its functions to the foreign investors, rather acknowledging the presence of obstacles and overcoming them through formal and informal exertions of power.

To convince the foreign investors, and

to promote Bangladesh EPZs as a safe and profitable destination for labour intensive industries, functions related to category (c) are undertaken by the Executive Chairman of BEPZA who accompanies the Prime Minister on foreign visits. He conducts information sessions about the benefits and incentives for foreign investors in Bangladesh; and actively encourages foreign businesses to invest. Since Bangladesh's image regarding investment climate is not particularly good, due to political turmoil and poor governance of infrastructures like the Chittagong port, the promotional task of BEPZA has been daunting. In this BEPZA has pursued a 'seeing is believing' strategy. For example, each year a large number of foreign delegates visit EPZs, at the invitation of BEPZA, to witness the infrastructural facilities and working environment of the industries operating within different EPZs.

Regarding the functions related to category (d), BEPZA's success is noteworthy. Foreign investors have been able to strengthen their position through successful lobbying to which BEPZA was responsive in amending various regulations and modernizing the services. For example, at the very beginning, 100% of foreign-owned companies had to maintain 5% of their total export income in local currency until the end of the respective financial year.⁶ Investors had argued against this and BEPZA was able to act and removing this restriction in 1989.⁷ In another instance, BEPZA enabled the EPZ companies to sell up to 10% of their total product in Bangladesh markets.⁸ This resolution enabled companies to test marketing strategies in the local climate before initiating global exports, as well as allowing less successful

industries to achieve economies of scale.

THE ACHIEVEMENTS OF BEPZA

On the instruction of Executive Committee of the National Economic Council (ECNEC) (the highest decision making body regarding economic matters in Bangladesh), Mondal (2001) prepared a comprehensive report quantifying the impact of EPZs on Bangladesh's economy. He observed that 'aggregate economic performance... reflects the success stories of the EPZs in terms of growth of firms, investment promotion, employment generation, export earnings and revenues from rents' (Fig 1.4 shows the cumulative statistics of investment, employment generation and export earnings of BEPZA up to now). He continued by saying that 'the EPZs have achieved almost all the objectives laid down in the BEPZA Act. Growth of employment in the EPZ firms significantly contributes to poverty alleviation in the country because most of the workers employed by the EPZ firms belong to poor community who could have remained unemployed... but the dynamic impact of the EPZs in speeding up and strengthening the process of industrialization of the country with greater spillover benefits is still very limited'.

However, Mondal argues that these achievements have to be analyzed carefully. The GOB has spent about Taka 13446 in infrastructure investment for generating one unit of employment, but this cost is not needed if a local industry is placed in a Domestic Tariff Area (DTA).⁹ Also the majority of EPZ industries are in the ready-made garments sector, which directly competes with local export-oriented industries;¹⁰ thus some of the new jobs in the EPZs may have replaced

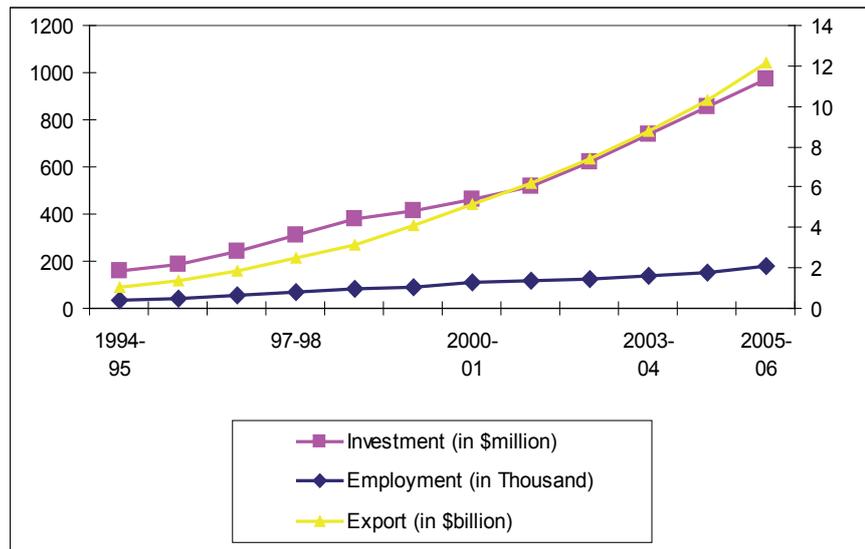


FIG 1.4: CUMULATIVE INVESTMENT, EMPLOYMENT GENERATION AND EXPORT PERFORMANCE OF BEPZA (1994–2006)

Source: BEPZA

6. Bangladesh Bank FE Circular No. 37, dated 10 May, 1983

7. Bangladesh Bank FE Circular No. 25, dated 16 July, 1989

8. For limited product category. NBR Standing order No. 1655/96/ Customs, dated 6 March, 1996)

9. Domestic tariff area means non-EPZ area within the country where regular customs and tariff law apply.

10. RMG (Ready made garments) contributes more than 75% of total export earning of Bangladesh. On the other hand, for EPZ also, about 80% export earning is attributed to RMG.

old jobs in DTA. Finally, the recent investment statistics reflect the increasing participation of the local investors, including new ventures as well as some relocation from DTA to EPZs. The underlying factors behind this increased participation are: (a) more or less better compliance than DTA, which is increasingly important to buyers; (b) less business costs (both transactional and political); and (c) vast opportunities for capacity enlargement. Minimal regulatory control of actions and transactions within the EPZs is also a facilitating factor.¹¹

FAILURES OF BEPZA

Labour – the missing link of BEPZA

As discussed above, the labour laws of Bangladesh do not apply to EPZ firms and after 5 years of operation, in 1989, BEPZA published an instruction for the EPZ firms pertaining to labour matters,¹² which precisely articulated the minimum wage rate, various elements of labour compliance (appointment letter, working environment and termination procedure) for investors and a code of conduct for labourers. According to these guidelines, the minimum wage for an apprentice (trainee) is US \$20 per month for garment and textile related industry and US \$22 per month for electronics industry, with each worker receiving a minimum of 10% annual increase over his gross wages. It should also be noted that workers are prohibited from forming trades unions or bargaining with the firms concerning wage hikes.¹³

In the meantime, the American Federation of Labour–Congress of Industrial organizations (AFL-CIO), a nationwide labour organization of United States, asked the US Congress to withdraw the Generalized System of Preference (GSP) and quota facility for Bangladesh if the trade union prohibition in EPZs was not withdrawn. On the other hand, foreign investors in EPZs, especially from Japan, Korea and Taiwan, threatened to close down industry and withdraw investment if trade unions were permitted. This led to several high-level meetings of the key groups (the World Bank, EPZ investors, AFL-CIO, US labour department officials, BEPZA, Dhaka-based embassy representatives from the US, Japan, and Korea, and the ILO) and participants were able to resolve the matter by phasing in trade

union rights over time. Based on that resolution, the GOB enacted the 'EPZ Workers Association and Industrial Relations Act, 2004', stating that every firm should form a workers representative and welfare committee (WRWC), including both labour and management representatives – labour representatives being elected by a vote among the labourers, while the employer selects the management representatives – to promote good industrial relations, and facilitate conflict prevention and resolution. BEPZA provides the training for the labour representatives (on duties and responsibilities) and also employs liaison officers to mediate between labour representatives and employers, if serious differences arise. This arrangement is set to prevail for two years, after which labourers can form regular trade unions where more than 50% of labourers, of any firm, agree to do so. Establishment of arbitration is also part of this phase, in order to solve any conflicts or differences between workers' associations and employers.

WRWC was formed in most of the EPZ firms within a year of this agreement, with worker representatives of WRWC then raising some outstanding issues – resolution of overdue payments, casual leave provision, unacceptable behavior of management towards workers – and these discussions provoked anger among management and employers, with the former resorting to various practices to remove those representatives from their jobs.¹⁴ Once workers realized that their representatives were fired due to their trying to pursue labourers' interests, they became fractious and, in June 2006, this resentment burst out in one firm and quickly flared among most of the firms of Dhaka EPZ, with workers vandalizing many factories and destroying vehicles parked there. Though a quick response from the GOB mitigated the violence, the association of foreign investors in EPZ blamed BEPZA for this massive failure. However, the then Executive Chairman of BEPZA stated that 'eighty to ninety percent of workers' demands met, are according to the 1989 BEPZA rules'.¹⁵

Why this massive governance failure? Both the poorly constructed institutional arrangements of BEPZA relating to workers' matters and weak implementation and enforcement of the prevailing worker-related rules can be attributed to this failure.

Poorly constructed institutional arrangements

Regarding the former argument, though BEPZA had enacted labour related guidelines in 1989, they had not initiated any step to evidently characterize an institutional practice for establishing effective communication with the workers about whether these rules were being

11. Immunity is provided to firms residing in EPZ from about 16 enactments (industry related) including three labour laws.

12. Guidelines for the enterprises of CEPZ pertaining to labour matters; 14 November 1988.

13. The logic behind this prohibition was, in Bangladesh, traditional trade unions being highly politicized and often non-representative of the actual labourers were perceived to be more disrupting than facilitating smooth labour management. In most cases, rather than safe guarding and promoting the interest of labourers, trade union leaders, through political affiliation, control purchases of raw materials and thus appropriate huge resources, which in turn increases production costs and thus decreases the competitiveness of that industry. In case of terminating their jobs, they threaten labour unrest and sometimes resort destructive activities.

14. At least two instances are elaborately described on <http://www.cleanclothes.org>.

15. *The Daily Star*, 7 June 2006.

followed by investors. This missing link instigated two major failures for BEPZA concerning labourers – (a) there was no grievance mitigation system for workers; and (b) no alternative wage bargaining system was in place. This is similar in practice to the abovementioned trade union rights related act, where BEPZA and other stakeholders emphasized how the right to form trades unions could be managed and administered, but provided no guidance on how credible and considerate institutional arrangements could be established, in order to strengthen the relationship between workers and BEPZA. The typical mindset of BEPZA regarding the labourers was just to regard them as factors of production, and since Bangladesh is a labour-abundant country, there was an assumption that labourers would be satisfied for simply being employed. This attitude emerged in BEPZA due to over-emphasis on foreign investment promotion both as an objective and a performance measure criteria.

However, the mindset of BEPZA altered considerably after the recent violence. Recently accomplished measures such as consultations with WRWC members regarding how BEPZA can provide better services to them – modernization of medical facilities, school facilities for the children of workers etc. – represent the change in ethos that has seen BEPZA start to regard labourers as an essential service recipient stakeholder. BEPZA has also recently allocated approximately 10 acres land in EPZs to build a hostel for women workers and sought financial assistance from investors in this regard. Consultations with BEPZA officials have revealed that some significant change also has been proposed in the organizational structure of BEPZA and relevant EPZ authorities in order to provide better services and monitoring of the interest of labours.

Another example of the institutional imbalance between labourer-regulations and FDI is illustrated by the fact that since 1989 BEPZA had not increased the minimum wage rate for workers, but the price of essential goods has been more than doubled over the years – though the wage rate in EPZs was fixed in dollars which provided some incentive to the workers as the local currency constantly depreciated against dollar¹⁶ – why this stagnation of wage rate in dollars? Both BEPZA and foreign investors pointed out that workers in Bangladesh are less productive than Vietnam and China, with literature also supporting this point of view. However, almost all those highly productive countries possess systematic arrangement for enhancing labour productivity, i.e. labour productivity research institutes which regularly monitor the labour productivity trend and advise government or relevant organizations how to improve it further. This further represents a failure by BEPZA for not having an institutional practice for increasing

the productivity of workers and thus wage rate. BEPZA lacked the view that it is not low wage rate, but increasing labour productivity is the only motto for sustainability, which automatically attracts more foreign investment in EPZs. Very recently BEPZA asked the foreign investors to organize the necessary training to increase the productivity of workers and align the wage rate according to the productivity level, with the caveat that BEPZA itself would unilaterally increase the minimum wage rate if the investors did not respond. However, BEPZA needs to focus on a long-term approach; to undertake new and various initiatives; and to embrace necessary institutional reforms, with the active patronage of foreign investors; in order to achieve desired increase in productivity.

Weak enforcement and implementation

The attitude of BEPZA seems to have been that firms were voluntarily complying with the instructions and if there was any complaint from workers about violation of instructions, it was merely an exception rather than the rule. However, there are numerous examples of the rules being violated by investors. A few examples will illustrate this. First, the SGS survey (2003), commissioned by BEPZA, revealed that 'management and documentation of salary payment is generally very good, but there is too much slackness by some factories' (pp. 33). Second, none of the EPZ firms complied with the direction of a 10% increase of gross wage per annum. Third, some firms had created obstacles to the forming of WRWCs by threatening workers and, in some cases, sacking the initiators. Fourth, BEPZA did not hire enough liaison officers before the violence (as per the guidelines provided by the trade union related act). Finally, BEPZA overlooked the queries and complaints from international labour rights associations about the illegal termination of labourers' jobs. In-depth investigation revealed that BEPZA had not even warned those factories about violating regulations; indeed BEPZA was so reluctant in establishing the labour instructions that a year long training programme in 2003, in association with ILO, for WRWC labour representatives, provided emphasis only on their duties and responsibilities, but very little on the facilities for the workers according to BEPZA rules. Thus one of the major reasons behind this failure was weak enforcement of existing labour instructions within the EPZ.

Shortly after the crisis, BEPZA initiated a systematic vigilance system and employed enough liaison officers to address the problems of both workers and employers. Currently BEPZA is trying hard to make the system more transparent and trustworthy to both workers and investors. However, reforms need to be deliberate and long-term in their orientation, without compromising the interests of investors. For example, BEPZA has unilaterally decided to increase the minimum

16. At 1989 US \$1=33 Taka, while at 2006 US\$1=65 Taka, which is almost double than that of 1989 value.

wage rate and is currently in the process of establishing that rate in EPZs. However, investors are pressurizing BEPZA to rationalize the new wage rate with labour productivity.¹⁷

Nationality of investors

There is another external but important factor that may have contributed to this massive labour violence. Careful investigation on a case-by-case basis has revealed that labour unrest in the Korean and Taiwanese owned industries was quite overwhelming. These findings could be explained in the comments of Asian Transnational Corporations Monitoring Workshop Report 2002 that, 'Asia's cross-border investment in labour intensive industries, particularly from the first tier of Newly Industrialized Countries, such as Taiwan, Hong Kong, and South Korea, impose particularly exploitative labour control on workers in the host countries by implanting their own labour norms and regimes at the workplace' (AMRC, 2002). This suggests that BEPZA had to develop, with the assistance of consulting agencies and academic institutions related to business culture, and maintain a customized strategy based on the nationality of investors/management.

Upcoming reforms and hurdles in the labour related reform process

In 2004, the Foreign Investment Advisory Service (FIAS) of the World Bank and the International Finance Corporation (IFC) arranged a roundtable titled 'An enabling environment and economic zones for private sector development in Bangladesh', in order to share international best practices and learn from failures of other countries. At the end, an action plan was prepared to facilitate improvement of the business environment through regulatory reform and by upgrading industrial and economic zone strategies.¹⁸ The major recommendations were: provision of opportunities to private sector in EPZ development and administration or follow up of the public private partnership model in modernizing EPZ facilities and services; increased opportunities for linkage with local industries in DTA; and building of customized EPZs, focusing on specific sector or investors or trading blocs, and with, if possible, a move towards SEZs (special economic zones)¹⁹ from EPZ. BEPZA also

recently received financial assistance from World Bank to strengthen the infrastructural facilities and undertake some regulatory reforms that were mentioned in the FIAS and IFC guidelines.

Until now, BEPZA was the only authority which could build and operate EPZs in Bangladesh and therefore foreign investors had no choice but to work with BEPZA. However, a private EPZ operator, known as KEPZ, has recently (in 2006) got a license to establish an EPZ. They started to develop infrastructures as early as 2002 and hopefully they will soon start the operation, perhaps from 2007. According to the press release, KEPZ estimates are for more than US \$500 Million investment in just 4 years, which is around half of the total FDI made in BEPZA during last 20 years. Therefore, though many investors who are operating in public EPZs have expressed their satisfaction about the performance of BEPZA, the acid test of their satisfaction will come only after the private EPZ starts operation. BEPZA officials have since asserted that BEPZA has belatedly decided to acquire more human resources and streamline and reform the organizational structure so that it is a more customer-orientated institution. However, this proposal is now under the consideration of the GOB.

CONCLUSION

Two factors can be regarded as the underlying reasons why BEPZA was hindered in enforcing the necessary labour-related compliances and minimum wage rate. First, low labour productivity compared to China, Vietnam, and Malaysia has made Bangladesh less competitive; and second, the political turmoil and mal governance in sea ports has increased the business cost and generated uncertainty among investors. While BEPZA can be condemned for the first reason – for not pursuing necessary policies and programs to increase labour productivity – the second reason does not lie within the purview of BEPZA. Therefore to attract and promote more FDI, BEPZA had no other option but to emphasise the lowest wage rate in Asia: 'Asia's low cost production base'.

If the labour productivity is not increased significantly, more vigilance and pressure from BEPZA on investors regarding labour issues will result in less FDI in the future and, in some cases, withdrawal of investment. The scenario for BEPZA might worsen further due to fierce competition from inside, with the private EPZ, and outside, especially India and Vietnam. Therefore, besides the recent steps to provide more facilities to labourers (medical, schooling and housing) and the drive to establish a transparent monitoring and vigilance system for both workers and investors regarding compliance and minimum wage rate related issues, BEPZA had to undertake various steps to increase the labour productivity to ensure long term sustainability and healthy FDI growth.

17. According to the wage commission, in 1994 the minimum wage rate for an unskilled labour was Taka 930 and at the latest revise in 2006, this rises to Taka 1200 for DTA. However, in case of EPZs, the wage rate had not been revised since 1989. Therefore recently BEPZA proposed that current wage rate should be increased to US \$30 from US \$20, but investors have expressed their dissatisfaction and were able to get a temporary injunction from high court on that proposal. Thus the process was blocked. However, BEPZA is promoting US \$30 wage rate in its latest promotional campaign while attracting more FDI.

18. Detail of the summary and proposed action plan can be obtained from: <http://www.ifc.org>

19. SEZ are much larger than EPZ and usually contain port facility, the town, Utilities Company, commercial facilities, tourism around the industrial park.

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