

Highlights



EPZ enterprises are still ahead of non-EPZ enterprises in terms of economic and social upgrading.



Their management performance is better in setting up specialised departments, using online platform for taking orders and developing personalised products.



EPZ enterprises are ahead in use of technology – about 45.5 per cent of them use 'advanced' machineries/technologies against 21.3 per cent of non-EPZ enterprises.



Workers in EPZ enterprises are better endowed in terms of their education, skills and experience. But overall, workers' organisations in RMG sector remain weak.



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Performance of EPZ RMG Enterprises *Are They Still Better Compared to Non-EPZ Enterprises?*

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Introduction

For nearly four decades, export processing zones (EPZs) have made significant contribution in the Bangladesh economy in terms of accelerating production and investment, generating employment opportunities and ensuring the inward flow of foreign exchange. The enclave nature of EPZs separated from the non-EPZ areas or Domestic Tariff Areas, under fiscal barriers, has been promoted with the expectation of more investment from abroad which is better in the domain of technology use, productivity, efficiency, workplace safety, and workers' wages and livelihood issues. Various studies have found that enterprises in EPZs are better compared to that of the non-EPZ areas in economic and social upgrading (World Bank, 2010; Gibbon, 2008; Zeng, 2015). With significant upgrading in the post-Rana Plaza period particularly in non-EPZ enterprises of the readymade garments (RMG) sector, it was expected that the performance gap between EPZ and non-EPZ enterprises would decrease. This policy brief examines the nature and extent of differences in the relative performance of EPZ and non-EPZ enterprises in the post-Rana Plaza period. Based on the data collected from the sample survey of 226 randomly selected non-EPZ area enterprises and 14 EPZ enterprises, the study undertakes a comparative assessment of these two types of enterprises of the RMG sector. It is important to note that sample EPZ enterprises well represent the national population of RMG enterprises located in the EPZ areas. The key issues highlighted in this Brief include the comparative performance of enterprises of EPZs and non-EPZ areas with respect to ownership, management, technology, productivity and worker-related issues.

Ownership, Management and Operation of RMG Enterprises: EPZs vs. Non-EPZ areas

Despite making progress, non-EPZ enterprises are lagging behind EPZ enterprises in forming private limited companies and subsidiaries: There are considerable differences in the ownership structure between EPZ and non-EPZ enterprises. EPZ enterprises are almost all private limited companies (93 per cent), while only two-thirds of non-EPZ enterprises are privately owned (65 per cent). Furthermore, a sizeable share of these enterprises is still owned and operated under the sole proprietorship (19 per cent). The predominance of a group of companies is rather high in the case of EPZ enterprises vis-à-vis those of non-EPZ areas (63.3 per cent vs 53.1 per cent). With the rise in operation under a group of companies in the non-EPZ areas, the differences in ownership structure between these two categories appear to have reduced. While the majority of these enterprises – both in EPZs and non-EPZs – were established after 2005 (in the post-Multi Fibre Arrangement period), a sizeable number of these enterprises has been established in the post-Rana plaza period (18.6 per cent of sample non-EPZ enterprises and 14.3 per cent of sample EPZ enterprises). This indicates that, not only the local entrepreneurs kept their confidence on the RMG sector during the crisis period following the Rana Plaza tragedy, that foreign entrepreneurs followed suit as well, and made new investment for the establishment of new enterprises.

Better qualified management professionals including foreigners in EPZ enterprises made the difference: EPZ enterprises tend to be operated by more educated, skilled and experienced local and foreign professionals, particularly in the positions of general managers, human resource managers and other professional staffs. About 71 per cent of the general managers working in EPZ enterprises have completed their post-graduation education compared to 50.9 per cent in non-EPZ enterprises. Moreover, 57 per cent of their general managers have RMG training compared to 44.7 per cent for non-EPZ areas. Similarly, human resource managers and other management staffs tend to be more educated in EPZs. Such experience and expertise of EPZ management personnel perhaps better equips them to handle more workers compared to non-EPZ enterprises. Each management staff in an EPZ enterprise handles about 65.9 workers against 57.4 workers in case of non-EPZs. Foreign professionals are significantly present in EPZ enterprises (42.9 per cent of EPZ enterprises), which is substantially lower in non-EPZ enterprises (13.3 per cent). A large presence of foreign professionals in EPZ enterprises is likely to make a considerable positive impact in the management practices of EPZ enterprises.

Different management perspectives facilitate the requirement of EPZ enterprises: The priorities in management practices are different in EPZ and non-EPZ enterprises. Given the growing demand for value-added products, EPZ enterprises put more emphasis on setting up specialised departments (78.6 per cent in EPZs vs 53.5 per cent in non-EPZs), using online platform for taking orders (35.7 per cent vs 28.3 per cent), developing personalised products (35.7 per cent vs. 16.8 per cent), and having a longer period of production plan (38.1 per cent vs. 7.1 per cent). The risk management tools are not necessarily the same either – EPZ factories emphasise risk management in case of organisational and situational hazards, while non-EPZ area enterprises emphasise on environmental, health and physical hazards. In case of cost-control management, both EPZ and non-EPZ enterprises prioritise, though at varying levels, the reduction of waste, less stock of inventory and more use of warehouses for product distribution.

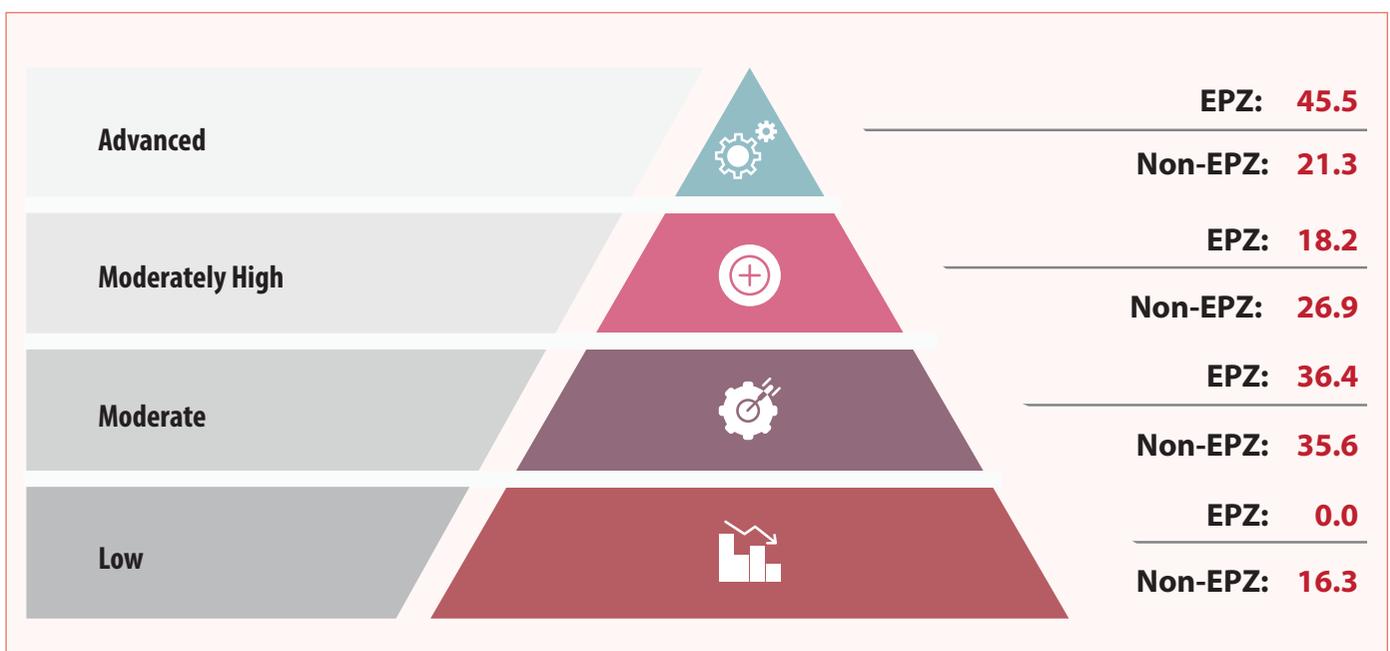
Little difference in worker-related policies but significant difference in their practices: Although worker-related policies are available almost at the same level in both types of enterprises, in case of effective practices, EPZ enterprises rank ahead of non-EPZ enterprises. Workers' turnover is relatively less in EPZ enterprises compared to that of non-EPZs (3.8 per cent vs 5.9 per cent of workers). Among various reasons, worker agitation is a major reason for employee layoff in non-EPZ enterprises (22.6 per cent), which is not such a major concern in EPZ enterprises (7.1 per cent). Similarly, retirement of workers is one of the major reasons for employee turnover in EPZ enterprises (21.7 per cent), which is not a major reason for workers of non-EPZ enterprises for leaving the job (7.1 per cent). Various support facilities such as medical treatment and childcare are better accessed in EPZ enterprises. Female workers enjoyed maternity leave with different entitled benefits more in EPZ enterprises; however, proportionately a larger share of female workers of EPZ enterprises did not return to work after they took temporary leave.

EPZ enterprises performed better in management practices: Management performance is better in EPZ enterprises compared to non-EPZ enterprises (management performance index score: 3.42 out of 5 against 3.39 for non-EPZ area enterprises). However, the gap between the two types of enterprises appears to have narrowed down over time. The gap is rather high in the case of enterprises owned by groups and managers with more education and training.

Technological Upgrading of RMG Enterprises: EPZs vs. Non-EPZ Areas

EPZ enterprises are larger, but have little difference in product composition: The technological advancement in product, process and functional upgrading is not at the same level between the two types of enterprises. EPZ enterprises are relatively larger compared to that of non-EPZ area enterprises, as reflected through their number of lines, average number of machines used per line, and average number of operators work per line. EPZ enterprises produce more bottoms and jeans products, while non-EPZ area enterprises produce more female tops, t-shirts, jackets, children's wear and sportswear. In other

Figure 1: Level of Technology Use in RMG Enterprises: EPZs vs. Non-EPZ Areas



Source: CPD-RMG Study (2018).

words, the differences in products between these two categories of enterprises are rather low, with both producing primarily low- and medium-end products.

EPZ enterprises are ahead of non-EPZ enterprises in use of technology: EPZ enterprises use more specialised machines compared to that of non-EPZ enterprises. In fact, out of 15 different types of selected specialised machinery, 78.6 per cent of enterprises use six or more such machinery (against 60.2 per cent in case of non-EPZs). For example, 71 per cent of EPZ enterprises use traffic light system (against 55.6 per cent in case of non-EPZ enterprises); 92 per cent enterprises use metal detectors (90 per cent in non-EPZ enterprises); 85.7 per cent use CAD (computer-aided design) system (against 60.7 per cent of non-EPZ enterprises); and 71.4 per cent use SMV (standard minute value) method (against 56.2 per cent of non-EPZ enterprises). However, a growing share of non-EPZ enterprises has been using standard machinery and technology in the production process, which is likely to reduce the difference in process upgrading between EPZ and non-EPZ enterprises.

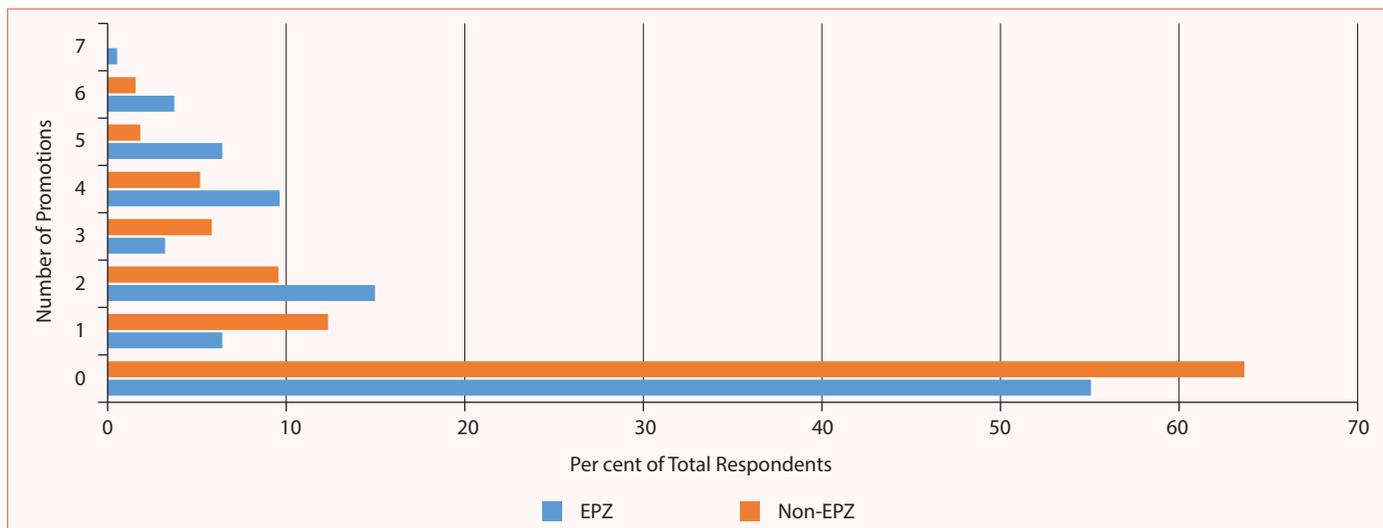
Overall, the technological advancement of EPZ enterprises is well ahead than non-EPZ enterprises (Figure 1) – about 45.5 per cent of

Decent Work in RMG Enterprises: EPZs vs. Non-EPZ Areas

Workers in EPZ enterprises are better endowed in terms of their education, skill and experience: Workers from the EPZ enterprises are better endowed compared to that of non-EPZ area enterprises in their personal profile, employability, work environment, wages and livelihood issues. The personal profile of EPZ workers is relatively stronger, mainly in case of their average age (25.1 years in EPZ enterprises vs 24.9 years in non-EPZ enterprises), marital status (70 per cent vs 67.5 per cent), and academic qualification (less than 15 per cent at non-primary level in EPZs vs. 22.1 per cent in non-EPZ areas; and 9.1 per cent at secondary and higher level in EPZs vs. 7.2 per cent in non-EPZs). Similarly, female workers lag behind male workers in educational attainment in non-EPZs, which is likely to impact their skill, knowledge and adaptability in diversified machinery and helping them to get promoted in upper grades. However, overall, academic qualification of workers in both EPZ and non-EPZ enterprises is still below the expected level.

Workers in EPZ enterprises experienced more upward job mobility: Workers on an average have a longer tenure in EPZ enterprises (almost a year more) compared to non-EPZ enterprises (average expected length

Figure 2: Number of Promotions Obtained by Workers in their Current Workplace: EPZs vs. Non-EPZ Areas



Source: CPD-RMG Study (2018).

EPZ enterprises have technologies that are labelled as ‘advanced’ (against 21.3 per cent of non-EPZ enterprises). Interestingly, capital intensity is stronger in non-EPZs vis-à-vis those of EPZs, which means possible labour displacement is likely to be higher in non-EPZ enterprises compared to that in EPZ enterprises.

A significant number of EPZ enterprises have research and development facility for new product and technology development: There are significant differences in functional upgrading between EPZ and non-EPZ enterprises. About 57.1 per cent of EPZ enterprises have the facility for new design development (against 21.7 per cent in non-EPZs), 57 per cent for new technology development (against 16.4 per cent in non-EPZs), and 57 per cent for new product development (23.1 per cent in non-EPZs). Such differences in EPZ enterprises give them an edge over non-EPZ enterprises, which is more likely to have a positive impact in case of settling prices (of cutting and making) and ensuring higher margins as well as profit.

of service of EPZ workers is 8.3 years, while the comparable period for non-EPZ workers is 7.4 years). The share of unskilled workers in lower grades has been reducing more in EPZ enterprises compared to non-EPZ enterprises. In other words, there is greater upward mobility of workers in EPZ enterprises compared to that of non-EPZ enterprises (Figure 2), perhaps due to workers’ longer work life, better training and lower level of turnover from EPZ enterprises.

EPZ workers enjoyed a wage premium over non-EPZ enterprises: Workers’ wages between the enterprises differ significantly. The wage in EPZ enterprises was revised by the Bangladesh Export Processing Zones Authority (BEPZA) under the EPZ Act, 1980, while the wage in non-EPZ enterprises is regulated by the Minimum Wage Board of the Ministry of Labour and Employment (MoLE) under the Labour Act, 2013 (Amendment). However, the wage in EPZ enterprises has been set at a proportionately higher level taking into cognisance the revision of wages in non-EPZ enterprises. As a result, the average wage of EPZ workers is found to be about 18.5 per cent higher than

that of non-EPZ workers. The wage gap was found to be higher for male workers compared to that of female workers (20.2 per cent for male and 0.37 per cent for female workers).

Overall, institutionalisation of workers' organisations in RMG remains weak:

With regard to workers' organisations, 90 per cent of EPZ enterprises has elected participation committees (PCs) against that of 80 per cent in case of non-EPZ enterprises. Likewise, the PCs in non-EPZs, the functionality of the PCs in EPZ is not out of question. Because of restriction of the EPZ Act, trade union-related activities are absent in EPZs. As per the understanding in the Sustainability Compact signed between the Government of Bangladesh (GoB), the European Union (EU) and the International Labour Organization (ILO), the GoB has taken the initiative to review the EPZ Act to widen the scope of active workers' organisations by creating opportunities for trade union-related activities in EPZs. Despite the legal protection in setting up, trade union-related activity is almost non-existent in non-EPZ enterprises (only 3 per cent of enterprises have trade unions and most of those are non-functional). Overall, the institutionalisation of workers' organisations in the RMG enterprises remain in a weak state both in EPZ and non-EPZ enterprises.

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Conclusion

The analysis of this study shows that the gap between EPZ and non-EPZ enterprises has been narrowed down, albeit at a modest level, with EPZ enterprises still ahead in economic and social upgrading-related indicators. In order to reduce the gap, non-EPZ enterprises need to focus on technological development, particularly in using specialised machinery, improvement of academic and professional excellence of general managers and human resource managers, skill upgrading of workers, particularly in terms of knowledge about diversified machinery, and academic attainment of prospective workers. Improvement in management practices with regard to worker-related costs, production costs as well as risk-control mechanisms is important for non-EPZ enterprises. Moreover, given the poor state of workers' organisations both in EPZ and non-EPZ enterprises, it is important to focus on their institutional development. Taking the precedence of foreign direct investment in EPZs, non-EPZs need to be promoted with special priorities on specialised products, technology use, management practices and functional upgrading, and other activities.

The policy brief is based on the CPD-RMG Study 2018

New Dynamics in Bangladesh's Apparel Enterprises: Perspectives on Restructuring, Upgradation and Compliance Assurance.

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