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**The Impact of EPZs on Poverty Reduction and Trade Facilitation in Sri
Lanka**

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Acronyms and Abbreviations

AFTA	ASEAN Free Trade Area
BECZ	Border Economic Cooperation Zone
BEPZA	Bangladesh Export Processing Zones Authority
BL	Bill of Lading
BOI	Board of Investment
CBCU	Customs/BOI Coordination Unit
CGE	Computable General Equilibrium
COC	Certificate of Conformity
CUSDEC	Customs Declaration Forms
D/A	Documents Against Acceptance
EPL	Environmental Protection Licence
EPZ	Export Processing Zone
ETDZ	Economic and Technology Development Zone
FDI	Foreign Direct Investment
GCEC	Greater Colombo Economic Commission
GSP	Generalized System of Preferences
HIDZ	High-tech Industrial Development Zone
L/C	Letter of Credit
MENA	Middle East and North Africa
SAM	Social Accounting Matrix
SC	Superintendent of Customs
SEZ	Special Economic Zones
SLPA	Sri Lanka Ports Authority
SSA	Sub-Saharan Africa
TRC	Telecommunications Regulatory Commission
TT	Telegraphic Transfer

The Impact of EPZs on Poverty Reduction and Trade Facilitation in Sri Lanka

1. Introduction

Export Processing zones (EPZs) have been among the primary factors of export-oriented growth in recent decades. EPZs first came about in 1959 with the establishment of the Shannon Zone in Ireland. Following that, the first few zones were envisaged primarily as industrial zones that were to attract foreign investors who set up facilities that processed imported material and subsequently exported their product. In the 1970s EPZs were seen as playing one of the most important roles with regard to employment strategies that promoted export-oriented foreign investment. By 1997, 27 million workers were employed in over 800 EPZs across the world.

The primary aims of an EPZ are as follows¹:

- Generate employment
 - Expand the exports industry
 - Attract foreign exchange
 - Encourage technology transfer
 - Improve human capital
 - Develop backward and forward linkages
 - Promote economic development in less developed regions within a country
-

¹ Thamarajakshi, R., 2001, "Promotion of Social Dialogue in EPZs in South Asia: Synthesis of Country Experiences," *Labour Issues in Export Processing Zones in South Asia: Role of Social Dialogue*, International Labour Organisation.

An EPZ is defined as a geographical area housing export-oriented manufacturing facilities or service enterprises. These zones may be located anywhere in a country, and in many cases, are situated in close proximity to ports and/or harbours to enable ease of access to shipping lines and freight forwarding services. Firms operating within EPZs usually benefit from special incentives aimed at promoting investment, with customs duty exemptions and tax incentives among the most common. They may be labeled under different names around the world, such as “enterprises” in Honduras, “special economic zones” in China, and “special export processing zones” in the Philippines.

The link between EPZs, trade facilitation and poverty reduction is not a direct one. Rather, it is expected that the primary objectives of EPZs - increasing exports and foreign exchange earnings, attracting Foreign Direct Investment (FDI), diversifying exports and creating jobs - would in turn lead to facilitation of a country's trading process and assist in poverty reduction efforts. For example, with the objective of boosting exports, EPZs could implement policies to simplify the export procedure; the need to attract FDI would necessitate improving the business (and trading) environment in the country; infrastructure development that accompanies many EPZ development schemes would in turn lead to a smoother and faster trading process; establishment of zones in rural areas that promote infrastructure and industrial upgrading in such areas could enhance economic opportunities for the poor; employment generation, especially for those in rural areas with low skill levels, could also play a key role in alleviating poverty.

It is well established that international trade plays a key role in acting as an engine of growth and poverty reduction in developing countries. While Sri Lanka initiated the process of trade liberalization in South Asia, other barriers such as administrative and technical barriers have become an increasingly significant impediment to trade. In order to promote export competitiveness in Sri Lanka, it is essential to remove such barriers. One way of doing so is through EPZs which provide customs-free and tax-exempt, export-oriented manufacturing facilities, investment incentives and streamlined administration, cheap utilities, and better infrastructure.

The existing literature on EPZs in Sri Lanka mainly discusses the impact of trade and investment incentives on export performance and the relationship between EPZs and employment generation.² Available studies also suggest that EPZs in Sri Lanka have had a positive impact on access to education and specialized training.³ However, there is limited analysis on how EPZs facilitate trade by providing better governance through more efficient procedures and minimizing bureaucratic interference in customs-related procedures. Furthermore, there is a need to examine whether the better access to education provided by EPZs have been instrumental in reducing poverty in the country.

In this context, this study aims to conduct a comprehensive evaluation of the effectiveness of EPZs on trade facilitation measures and poverty reduction in Sri Lanka through in-depth analysis of experiences in selected EPZs and their impact on processes such as simplification of customs procedures, streamlined administration, and socio-economic welfare in the immediate surroundings of these zones. In order to evaluate the impact of EPZs on trade facilitation, there will also be a comparative analysis of trade facilitation measures implemented by non-EPZs such as industrial estates. The study will also take into account the effect of EPZs on employment generation, education, and specialized training among the poor in these areas.

2. Literature Review

2.1 Overview

Available literature (Tantri and Kumar, 2011) identifies some specific means through which EPZs can promote trade facilitation levels in a country, primarily by reducing the time required

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