Foreign Investment in Bangladesh: Governance, Opportunities, and Obstacles

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Introduction

Since the advent of globalization, foreign direct investment (FDI) has made a vital contribution to the economic growth of a country and the global economy. FDI highlights trade and investment flows, labor mobility, capital, technology, and expertise.[1]

The seventh most populous nation globally, Bangladesh can attract foreign investment in agribusiness, garments and textiles, leather, light manufacturing, power and energy, electronics, light engineering, information and communications technology, and tourism. International investment is encouraged by Bangladesh's industrial policy and export-oriented economic plan. In Bangladesh, there are minimal formal distinctions between international and domestic investors regarding investment incentives. It has a comprehensive legislative structure, industrial policies, and regulatory bodies to promote foreign investment. However, these measures seem to be largely ineffective due to several obstacles. This article looks at the trends, possibilities, and limits of foreign investment in Bangladesh, focusing on regulatory frameworks and their flaws.

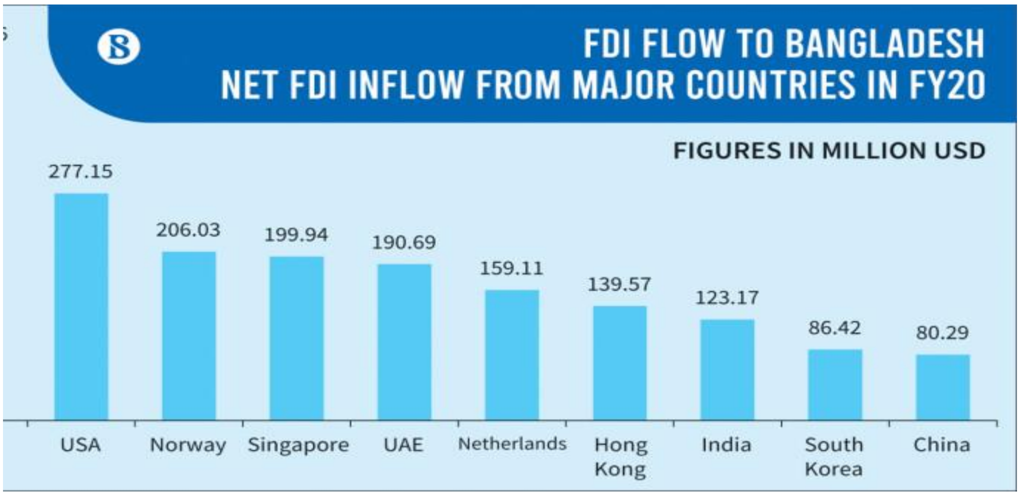
Mapping of the Foreign Investment Climate in Bangladesh

The area of Bangladesh is 1,47,570 square kilometers. The population of Bangladesh is 160 million. The country shares 4,100 kilometers with India and 247 kilometers with Myanmar. The Bangladeshi economy is comprised of agriculture, industry, and natural resources. Despite the global COVID-19 pandemic, Bangladesh's large, youthful, hardworking labor force, strategic location between South and Southeast Asian markets, and expanding private sector

[1] Dr. Md. Shah Alam, "Foreign Direct Investment in Bangladesh: A Critical Analysis," *South East Asian Journal of Contemporary Business, Economics and Law*, Vol. 1 (2012), available at https://seajbel.com/wp-content/uploads/2014/07/Foreign-Direct-Investment-In-Bangladesh-A-Critical-Analysis-Dr.-Md.-Shah-Alam.pdf (accessed 30 June 2022).

continue to draw foreign investment. Bangladesh is becoming an attractive destination for foreign direct investment (FDI) in South Asia because of its vast potential market size, rising purchasing power, and optimistic future economic prospects resulting from its high GDP growth rate. Bangladesh achieved lower-middle-income status in 2015 because of its strong economic growth. In 2018, Bangladesh met all three criteria for promotion from UN Least Developed Countries to Lower Middle-Income Countries.[1] Bangladesh has received more FDI due to trade and exchange liberalization, current account convertibility, a focus on private-sector development, investment liberalization, the opening of infrastructure and services to the private sector, and especially foreign investors' interest in the energy and telecommunications sectors.[2]

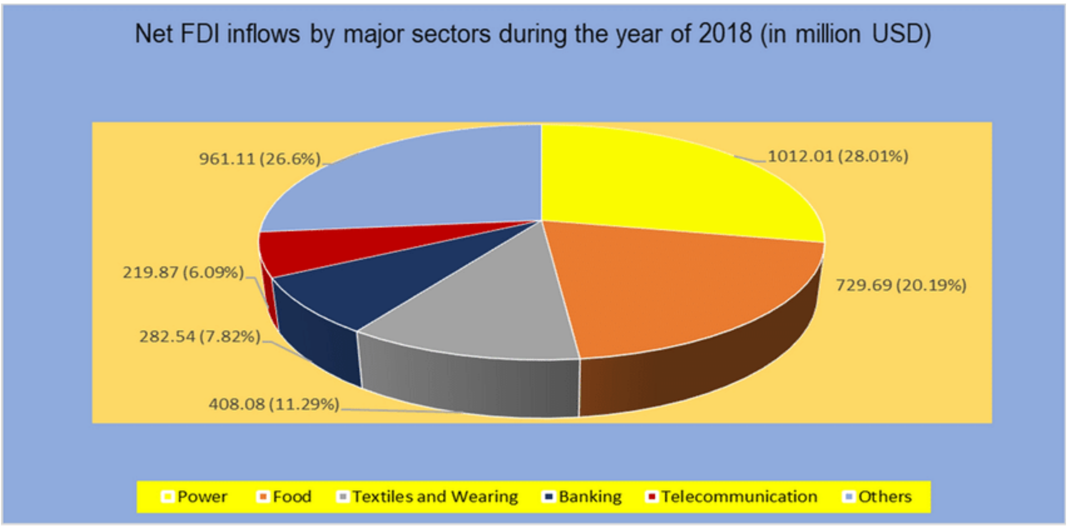
<Figure 1> Top FDI investor countries in Bangladesh



*Source: *The Business Standard* (24 February 2021)

Bangladesh has significant economic potential, a free-market economy, low inflation, and small private sector debt. Recent political stability in Bangladesh has improved its FDI attraction. The Bangladesh Bank estimates that economic growth, progress, and liberalization increased FDI inflows by USD 2.6 billion in FY18, USD 3.9 billion in FY19, and USD 2.37 billion in FY20.[3] In 2020–2021, however, the COVID pandemic decreased Bangladesh's FDI by 40%. Bangladesh's 67.23 million employees are among the least expensive in the world. With a literacy rate of 74.68 percent and more than a quarter of the population living in poverty, labor costs will remain low. The mid-to-high-single-digit real GDP growth of Bangladesh has facilitated socio-economic development. It has a $419 billion GDP, placing it 37th globally. Moreover, it’s RMG sector holds a global market share of 6.3%.[4]

<Figure 2> Sector-wise net FDI inflows in Bangladesh



*Source: Mohammad Razib Hossain, *SN Business & Economics* (2021)

Regulatory Framework for Foreign Investment in Bangladesh

Like many other emerging countries, Bangladesh's industrial strategy is export-oriented and dominated by the private sector. Bangladesh offers considerable fiscal incentives to attract international companies. Bangladesh's economic plan also emphasized creating more special economic zones (SEZs).[5] In addition, it has extensive foreign investment laws, guidelines, and regulatory organizations.

The Foreign Private Investment (Promotion and Protection) Act, 1980

The Foreign Private Investment Act of 1980 guarantees capital and dividend repatriation for foreign investors against nationalization and expropriation.[6] According to the Act, the government shall accord fair and equitable treatment to foreign private investment, which shall enjoy complete protection and security in Bangladesh.[7] The legislation provides indemnification, compensation, restitution, or other settlement to foreign private investments like the investments by the citizens of Bangladesh. Furthermore, the Act includes measures for resolving any difficulties that may emerge in carrying out any aspect of this Act.

The Foreign Direct Investment Policy

In addition to the Foreign Private Investment Act of 1980, the government has formed an FDI Policy, encouraging simple yet efficient investment mechanisms in Bangladesh. The program simplifies leasing and buying private property, creating corporation, granting a corporate tax vacation for seven years (15 years in the power industry), and exempting foreign staff from income tax for up to 3 years.

The Bangladesh Investment Development Authority (BIDA)

BIDA was established in 2016 under the BIDA Act to attract and facilitate local and global private sector investment. BIDA is responsible for investment promotion, registration, and pre-and post-establishment assistance. BIDA provides pre-investment advice, registers and authorizes private industrial projects, approves branch/liaison/representative offices, gives work permits for foreign nationals, allows royalty payments, and approves foreign loans and supplier credits.[8]

The One-Stop-Service (OSS) Act of 2018

The One-Stop Service Act of 2018 makes it easy for investors to establish businesses in Bangladesh. The OSS is a worldwide investment service. It enables domestic and foreign investors to submit regulatory documents to a single location or entity, thus streamlining the approval process. In 2019, Bangladesh introduced the One-Stop Services Rules to the Act. The services include accelerating company formation, TIN and VAT registration, work permit issuance, energy and utility connections, repatriation of money and profits, and environmental clearance. By April 2020, BIDA intends to expand its online OSS to 154 services across 35 agencies. In addition to BIDA, three other Investment Promotion Agencies (IPAs) promote domestic and international investment and provide One-Stop Services. Bangladesh intends to consolidate its four investment promotion agencies into a single online platform.[9]

National Industry Policy (NIP) 2021

The National Industrial Policy 2021 is to protect local industry, preserve product quality, manage intellectual property, define small and medium-sized enterprises (SMEs), build cluster-based industrial parks, promote environmentally friendly industrialization, attract domestic and foreign investment, and identifies priority sectors. Agriculture, food processing, agricultural equipment, ready-made clothes, information and communications technology/software, medicine, leather, light engineering, jute, and jute products are high-priority industries.

Dispute Settlements

The Arbitration Act of 2001 makes alternative dispute resolution options available in the event of a disagreement. Bangladesh has signed the Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Moreover, Bangladesh is a member of the International Centre for the Settlement of Investment Disputes (ICSID). The existing legal framework also permits the easy execution of international arbitral rulings.

Incentives for Inward FDI in Bangladesh

The legislation and industrial policies offer several attractive incentives for inward FDI in Bangladesh, which include:

Tax holidays and exemptions

- Tax holidays and reduced taxation for 5 to 10 years, depending on the area.
- There has been a 100% tax exemption on income and capital gains for specific projects under public-private partnerships (PPP) for ten years.
- Software development, nationwide telecommunication transmission networks, or information technology-enabled services are tax-free.
- 50% of income derived from exports is exempted from tax.
- Tax exemption on royalties, technical know-how, technical assistance fees, and facilities for their repatriation.
- Tax exemption on interest paid on foreign loans.

Exemption on import duties

- Exemption of customs duties on capital machinery.
- Exemption of import duties on raw materials used for producing export goods.

Double Taxation Treaties

Bangladesh has signed Avoidance of Double Taxation Treaties (DTT) with 32 countries: Belarus, Belgium, Burma, Canada, China, Denmark, France, Germany, India, Indonesia, Italy, Japan, Malaysia, Mauritius, Netherlands, Norway, Pakistan, Philippines, Poland, Republic of Korea, Romania, Saudi Arabia, Singapore, Sri Lanka, Sweden, Switzerland, Thailand, Turkey, United Arab Emirates, United Kingdom, United States, and Vietnam. Expatriate employees working in specific industries may also be eligible for income tax exemption for three years.

Capital repatriation

Full repatriation of capital invested from foreign sources are allowed. Profits and dividends accruing to foreign investment may be transferred in full. If foreign investors reinvest their dividends and retained earnings, they will be treated as new investments.

Ownership

100% ownership is allowed.

Investing in the stock market

Foreign investors can participate in initial public offerings (IPOs) without regulatory restrictions. Capital gain from listed shares is tax-exempt for individual investors, and a lower tax rate is applicable for companies and other entities.

Other incentives

Citizenship can be granted by investing a minimum of USD 500,000 or transferring USD 1,000,000 to any recognized financial institution (non-repatriable). Permanent residency can be obtained by investing a minimum of USD 75,000 (non-repatriable).

Restrictions and Limitations for Foreign Investment in Bangladesh.

Bangladesh allows 100% foreign ownership in most industries, following the non-discrimination principle. However, local ownership is necessary for freight/cargo forwarding agents, airline/railroad/general or pre-shipment service cargo agents, shipping agents, courier services agents, house-buying and indenting agents, advertising agents, and for-profit/commercial education institutions. NIP specifies controlled and reserved industries. Before registering with BIDA/BEZA/Hi-Tech Park/BEPZA, investors in controlled industries must get a "No Objection Certificate" (NOC) from the relevant ministry/division. Four areas are designated for government investment: arms and ammunition; defense equipment and machinery; forest plantation and mechanized extraction inside reserved forests; nuclear energy production; and security printing. Reserved or restricted industries are off-limits to private investors.

Obstacles and Challenges to Foreign Investment in Bangladesh

Despite strong economic growth before COVID-19, Bangladesh had difficulty attracting FDI. Due to the pandemic, FDI in Bangladesh has been low during the preceding two years. Several obstacles and concerns impede Bangladesh's FDI expansion. Bangladesh has improved in terms of starting a business, electricity supply, and obtaining financing, according to "Doing Business 2020." [10] Increased electricity capacity, digitizing the registration process, and improved credit data led to a higher index score. In addition, property registration, international trade, contract enforcement, and bankruptcy resolution are areas in which Bangladesh excels. The digitization of land administration, the simplification of compliance, and the strengthening of legal procedures are essential for delivering speedy, cost-effective services that will increase the ease of doing business and attract foreign investment. The regulatory instability of Bangladesh inhibits international investors. Investors select host countries based on policy clarity, government legitimacy, and adherence to the rules. The bureaucratic entanglements and lack of collaboration in Bangladesh discourage investment. In India, Vietnam, and Thailand, businesses that open in an economic zone don't have to pay the 15 percent VAT that Bangladesh requires. To get more FDI and make the country more competitive, the corporate tax rate and VAT laws need to be reformed.[11] Other obstacles and challenges include the insufficient capacity to supply sufficient electricity and gas to industries; inadequate physical infrastructure, lack of investment promoting agencies; inadequate numbers of professionals and sector-specific trained human-resources; poor implementation of intellectual property laws, political instability, lack of technology infrastructure and internet coverage, and different policies and conduct with the change of government.[12]

Conclusion

Foreign and domestic investment fosters economic expansion and prosperity. Despite continuous economic growth over the past decade, Bangladesh's foreign direct investment has lagged behind its regional peers. Bangladesh's FDI is 1 to 1.5 percent of GDP, compared to 10 to 15 percent for India and Vietnam.[13] Annually, 2 million people enter the labor force. The government and business sector have a problem providing work for such a vast population. Creating more investment opportunities for foreign investors in sectors such as power, garments, pharmaceuticals, textiles, agricultural processing, manufacturing, and infrastructure, including roads, highways, flyovers, water treatment plants, hospitals, and power, among others, will generate more jobs and foster sustainable economic growth.[14] Bangladesh must enhance its competitiveness and financial and regulatory reform sustainability to attract extensive FDI inflow. Bangladesh must also improve its natural resource exploration and blue economy infrastructure. A holistic approach is required to attract and accelerate the foreign investment in Bangladesh.

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