

Industry

The Government is keen to expand the industrial base of the economy and encourage both domestic and foreign investment in the sector. Based on the philosophy of market economy, the Government has pursuing an industrial strategy, which has been defined in the Industrial Policy. Particular attention is given on the following categories of industries:

Set up Export Processing Zones

- High Technology export-oriented or import substitution products
- Industries based on indigenous resources or raw materials
- Quality enhancement, marketing and capacity building of existing industries
- Labor-intensive, technology-oriented, capital-intensive industries

Power and Energy

The energy sector is the largest recipient of all foreign investments in Bangladesh. The Government is concerned about creating an appropriate enabling environment for improved public sector performance, attracting multilateral investment on a sustainable basis, rationalizing tariff rates and improving tariff collectors' performance.

The private sector power generation policy has been brought into operation. In order to achieve the vision of electricity to all by 2020, the Government adopted the National Energy Policy. The Policy Guideline for Small Power Plant (SPP) has also been formulated to promote small-scale power generation in the private sector. The Government has set the target of 6,716 MW power generation by 2007, 9,840 MW by 2012, and 17,500 MW by 2020. To this end, the projected investment will be US\$3.6 billion in 2004-2007, US\$4.5 billion in 2008-2012 and US\$7 billion in 2013 2020.

The main energy resource of Bangladesh is gas. The Government is encouraging joint-venture power projects between the private sector, both foreign and domestic, and the Bangladesh Power Development Board.

Transport and Communication

Almost all parts of Bangladesh, even the remote areas, are today connected by a road network. Bangladesh has the best water transport system in the region, which accounts for two-thirds of cargo transport within the country. Bangladesh Telecommunication Regulatory Commission has been formed to enhance telecommunication services. The Government has opened up the telecommunication sector to private participation

Banking and Insurance

The banking and insurance sectors have been opened for private investment. As many as 38 private-sector banks, both local and foreign, are now functioning in the country, and the number of private-sector insurance companies is 60. The Government of Bangladesh has introduced the fully floating exchange rate. Currently, there are no restrictions on payment for current account transactions. The banking and financial sector is under intensive monitoring of the Government to improve performance and efficiency. The Bangladesh Bank, Central Bank of the country has been given reasonable functional autonomy to bring dynamism to this sector.

Economy and Business

Bangladesh is in the process of a transition from a predominantly agrarian economy to an industrial and service economy. The private sector is playing an increasingly active role in the economic life of the country, while the public sector concentrates more on the physical and social infrastructure. State-owned enterprises have been undergoing rapid privatization.

The major macro economic fundamentals include:

- A steady average annual GDP growth of above 6% over the past decade
- Inflation has been kept in the low single digits
- Exports have been gradually shifted from traditional goods to more profitable items
- Emphasis has been put on the manufacturing sector

Trade liberalization

Bangladesh started opening up the International Trade in the early 1980s. Over the past two decades, wide-ranging trade policy reforms have been carried out. Many trade barriers, both tariff and non-tariff, have been removed. As regards to non-tariff barriers, our focus has been on deregulation of import control, abolition of import licensing and elimination of Quantitative Restrictions. The import control list of banned and restricted items has been reduced to a minimum.

Items that appear in the present import control list are not freely allowed entry into our country on grounds of environment, health, security and religion (Halal consideration). The policy changes have eliminated rent seekers and provided continuity greater stability and predictability in the import trade, ensuring smooth and abundant supply of consumers goods, raw materials and capital machinery in our domestic market.

In the case of trade barriers, efforts have been made to rationalize tariff structure, reduce the number of tariff slabs and bring down tariff rates and their dispersion among similar commodities. Maximum tariff rates has been reduced from a level of 350% in 1992 to 50% in 1996; 42.5% in 1998 to 37.5% in 2000; and 32.5% in 2002 to 25% in 2004.

The rationalization of tariff structure and reduction of tariff rates should provide good incentives to potential exporters from overseas for making the necessary goods available in plenty for our domestic consumption and production.

Reforms in Investment Policy

Bangladesh's investment regime has been liberalized significantly. We have taken various steps to attract FDIs. In fact, we have now one of the most liberal investment regimes in South Asia – no prior approval requirements, no limits of equity participation and no restriction on repatriation of profit and income.

All sectors are open for private sector investment, both local and foreign, excluding arms and ammunition and other defense equipments and machinery, forest plantation and mechanized extraction within the forms of reserve forest, production of nuclear energy, security printing and minting.

The capital market is open for portfolio investment. Foreign private investment has been protected under a legislation that provides for nondiscriminatory treatment between foreign and local investments, protection from expropriation by the State, no State acquisition and repatriation of proceeds from sales of shares and profit. Exclusive Export Processing Zones (EPZs) have also been set up.

Incentives at a glance

- No ceiling on investment
- 100 percent foreign equity participation allowed
- tax-holiday from five to 12 years
- tax-exemption and duty free importation of capital machinery and spare parts for 100 percent export-oriented industries

- residency permits for foreign nationals
- capital, profit and dividend repatriation facilities
- exemption of income tax up to three years for expatriate employees
- term loans and working capital loans from local banks
- reinvestment of repatriable dividends treated as new investment
- avoidance of double-taxation
- tax exemption on the interest payable to foreign loans and on royalties and technical know-how fees
- open exchange control
- multiple-entry visas for investors
- convertibility of the taka (Bangladesh) for current account transactions
- protection of foreign investment through law and international agreements.
- 61 industrial units are available and ready for disinvestment
- establishment of Export Processing Zones (EPZs)
- setting up of a Law Reforms Commission to ensure greater transparency and accountability in business
- setting up of a permanent Administrative Reforms Commission to rationalise existing rules, regulations and procedures to ensure a conducive atmosphere for investment
- agreement with reputable foreign companies for power generation in the private sector
- permission to operate cellular telephones in the private sector
- formulation of policy for privatising road, rail and infrastructure and services

Comparative advantages for investment in Bangladesh

- Bangladesh has the following comparative advantages for foreign investment over other Asian countries.
 - Low cost easily trainable labour is abundantly available in Bangladesh. Out of the total population of 159 million, the labour force comprises more than 80 million.
 - Bangladesh is one of the three Asian countries (the other two being Sri Lanka and China) which offers unconditional 100 percent foreign equity or ownership in industrial investments.

- Inflation rate is among the lowest among the Asian countries.

- There is no restriction on issuing work permit to a foreign national.
- Bangladesh is most liberal in granting permanent residentship and citizenship to foreigners. A nonrepatriable investment of only US\$ 75,000 in an industrial project is the only condition for granting permanent residentship and a minimum investment of US\$ 500,000 or transferring US\$ 1,000,000 to any recognised financing institution which should be nonrepatriable, is the condition for granting Bangladesh citizenship.
- Tax holiday allowed for new investment in Bangladesh is at the minimum 5 to 9 years in most of the areas on some conditions, and 12 years in special economic zones (in the Chittagong Hill Tracts).
- Bangladesh enjoys Most Favoured Nation (MFN) status from a number of countries including the USA with whom bilateral treaty of trade and investment has been signed. The countries with which Bangladesh has so far signed bilateral investment treaties are the USA, UK, Germany, Romania, Belgium, Republic of Korea, Thailand, Turkey, France and Italy.
- As one of the least developed countries, Bangladesh enjoys Generalised System of Preference (GSP) facilities for favourable export to the U. S.
- Avoidance of double taxation agreements have been signed with Japan, U.K., Italy, Canada, Sweden, Malaysia, Singapore, the Republic of Korea and others.
- Legal protection to all foreign investments in Bangladesh is provided by an Act of Parliament passed in 1980 against nationalisation and expropriation. Non-commercial risks of investment in Bangladesh are also covered by the Multilateral Investment Guarantee Agency (MIGA).
- Foreign Exchange regulations have been relaxed to the maximum limit by the recent introduction of the free convertibility of taka, the Bangladesh currency. This has accelerated the free flow of international business transactions.
- Repatriation of foreign capital investment along with profits/dividends has been made easy and simplified. Now no prior permission of any authority is required for such repatriation.
- Cost of land and energy prices are one of the lowest in the region. There is a huge proven and recoverable deposit (about 11 trillion cubic feet) of natural gas in Bangladesh. A potential reserve of 50-70 trillion cubic feet is known.
- Bangladesh has two seaports with modern facilities. Internal transport and communication system has vastly improved over the years.
- Most importantly, Bangladeshi people are hospitable, friendly and resilient and greatly value the role of foreign investment in their country.