

**Australia Bangladesh Trade Conference, Sydney, 2019**

Date: 15 November 2019  
 Session: 09:00am ó 11:30am  
 Theme: Industry Session ó **Investment in Bangladesh**

**A. Background**

The Bangladesh economy has enjoyed 40 consecutive years of real economic growth and grew by 7.6 per cent in 2017 and 7.8 per cent in 2018. Bangladesh aspires to become a middle-income country by 2021 and will need to increase the growth rate to 8 ó 8.5 per cent per annum and triple foreign direct investment to achieve this goal.

Sustained economic growth and inward investment have contributed to a gradual increase in the relative weight of manufacturing in GDP and a decline in agriculture's weighting. However, agriculture remains a vital sector of the economy, contributing around 16 per cent of GDP and employing around 40 per cent of the 54 million-strong labour force. The Bangladesh economy benefits from inflows remittances. Contribution of foreign aid has reducing significantly over time. While the need for grant is generally not felt, soft loan for undertaking social and fractures projects remain as importance. A major challenge for the country is to diversify its sources of national income. The garment industry currently accounts for around 83 per cent of total exports.

Bangladesh promotes private sector-led growth, foreign currency is abundant due to remittances, and the central bank respects transferability of foreign currency. Several Asian countries like China have started outsourcing their factory production, mainly textile, to Bangladesh. FDI reached a record USD 2.81 billion in 2018 (from 2.15 billion in 2017). The total stock of FDI was estimated USD 16.64 billion (5.9% of the country's GDP) at the end of 2018 (Bangladesh Investment Development Authority- BIDA).

The Market-based economy of Bangladesh is the 42nd largest in the world in nominal terms and 30th largest by purchasing power parity. According to the IMF, Bangladesh's economy is the second fastest-growing major economy of 2018. The economic and social growth stories of Bangladesh along with major infrastructure projects taken by the current Government to support the growth.

Stronger economic fundamentals of Bangladesh:

<b>Particulars</b>	<b><u>2013</u></b>	<b><u>2018</u></b>
<b><u>Forex reserve</u></b>	US\$ 21.51 Billion (7 Months of Import Bill)	US\$32.92 Billion (8 Months of Import Bill)
<b><u>Domestic resources mobilisation</u></b>	28.69 % of GDP Tk 3,876 Billion	31.23 % of GDP Tk 7,028 Billion, 1.81 time
<b><u>Foreign aid</u></b> Net Foreign Assistance	US\$ 2.14 Billion	US\$ 1.50 Billion (0.45% of GDP)
<b><u>Debt to GDP</u></b>	30.42	27.9
<b><u>Foreign Debt to GDP</u></b>	14.9	11.3
<b><u>Remittances</u></b>	US\$ 14.23 Billion (8.19% of GNI)	US\$ 14.98 Billion (5.47% of GNI)

Bangladesh has a liberal foreign investment regime, offering opportunities in the energy, power, telecommunication and infrastructure sectors. Foreign direct investment inflows have risen steadily over the past five years; however, infrastructure, skills shortages and the governance environment are constraining growth. Bangladesh's geographic position, including its seaports, poses an opportunity for further economic growth through regional integration and offer enormous opportunity for investment with a sizable market both in Bangladesh and neighbouring growth area of eastern India.

**B. 1) The main strengths of Bangladesh's economy are:**

- Good macroeconomic stability characterised by a high growth rate of 7.1% in 2017 (*Business France*, 2018) and a satisfactory level of public debt; growth for 2019 is projected over 8%;
- An open and diverse economy;
- Trainable, enthusiastic, hardworking and low-cost labour force suitable for any labour-intensive industry; a huge number of educated youth who is unemployed; good spread of English as a second language;
- The geographic location of the country is ideal for global trade, with very convenient access countries in the Asia-Pacific region;
- An economic and legislative environment globally favourable to business; Duty & Quota Free treatment to all major countries;
- As a result of the low per capita GDP, the present domestic consumption is not significant. However, it should always be considered that there exists a middle class with over 15% of the population. As economic growth picks up, the purchasing power will also grow substantially.

**2) Investment Sectors in Bangladesh :**

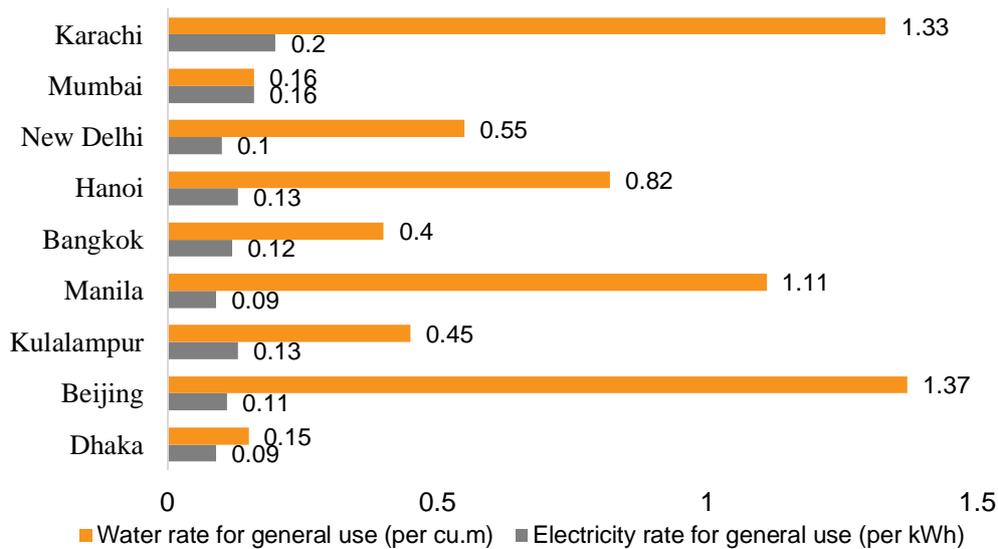
Major industrial sectors of Bangladesh include textiles, readymade garment, telecommunication, ICT, energy and gas, infrastructure development, leather goods, plastic goods, jute goods, light engineering, ceramics, agro-processing, and shipbuilding etc.

**3) Competitive cost – base of the price of components in per unites.**

In January 2010, JETRO conducted a comparative survey of investment-related costs in 29 major cities and regions in Asia. The following comparison is based on that survey with some selected cities. Bangladesh offers a truly low competitive cost base. Wages and salaries are still the lowest in the region, a strong business advantage. Yet this is an increasingly well educated, adaptive and peaceful population with many skilled workers.

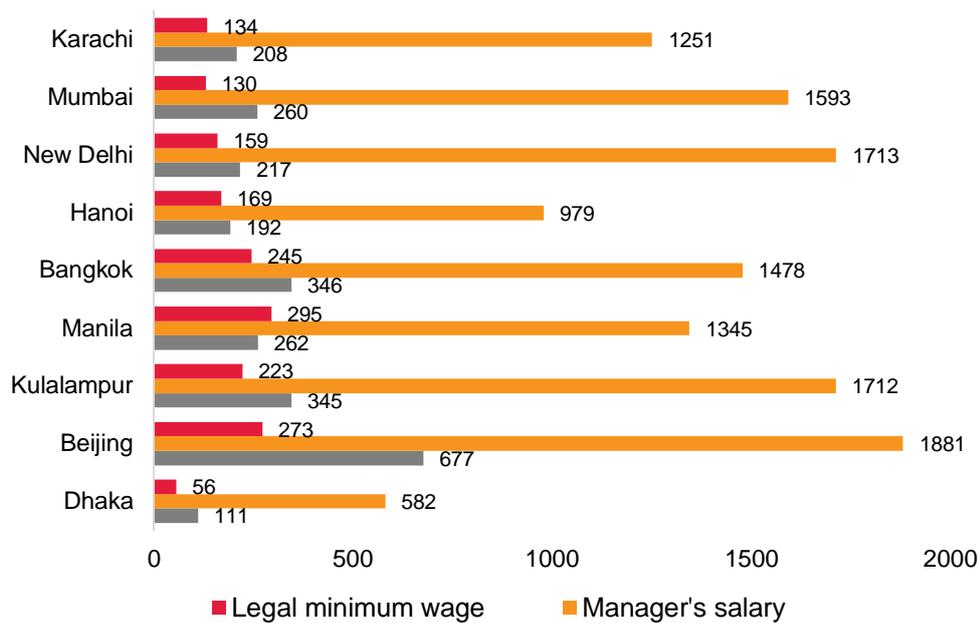
- Dhaka's skilled labor cost base is still less than the other major cities.
- Dhaka's management grades are 2-3 times less than Singapore, Shanghai, Bangkok.
- Industrial estate rent in Dhaka is cost-effective than Shanghai, Jakarta, Bangkok.
- Office rents are also very competitive with other international cities.
- Dhaka's housing rent for foreigners are less expensive than Singapore, Mumbai, Karachi, Hanoi.
- Cost of diesel in Dhaka is found to be more competitively priced than most other large cities.
- Vehicles increasingly use LPG as Dhaka gasoline costs are competitive with most other cities.

### Competitive Factor Cost among the Peer Cities: Utilities:



Source: 27<sup>th</sup> Investment cost survey JETRO 2017

### Competitive Factor Cost among the Peer Cities: Wages:



Source: 27<sup>th</sup> Investment cost survey JETRO 2017

Manager salary in Dhaka put Bangladesh ahead of other cities in competition. Similarly, workers base salary is also lower. The base salary for manufacturing worker and non-management staff are very competitive. Electricity and water rates are the cheapest among the selected cities.

### C. 1) The investment climate in Bangladesh:

Bangladesh is a rapidly growing economy in South Asia. It is a market of 160 million populations and their purchasing power is rising day by day. It is offering 56.7 million workable populations with most competitive salaries and wages. All the factors of production are cheaper in Bangladesh than that of the other South and Southeast Asian countries.

The Government of Bangladesh has taken a number of steps to create a facilitating environment for the private sector so that it plays its due role as an effective economic agent and makes a substantial contribution to the overall economic development of the country. The government offered a long list of fiscal and non-fiscal incentives to attract FDI.

#### Incentives in General

Tax Holiday and Tax Exemption	5 to 10 years of Tax Holiday and reduced tax depending on the area: Dhaka and Chittagong divisions, excluding Dhaka, Mymensingh, Narayanganj, Gazipur, Chittagong, Rangamati, Bandarban and Khagrachari districts, for a period of five years Rajshahi, Khulna, Sylhet, Barisal and Rangpur divisions (excluding City Corporation area) and Rangamati, Bandarban and Khagrachari districts, for a period of ten years 100% tax exemption on income and capital gain for certain projects under the Public-Private Partnership (PPP) for 10 years. 100% tax exemption from software development, Nationwide Telecommunication Transmission Network or Information Technology Enabled Services. 50% of income derived from export is exempted from tax Tax exemption on royalties, technical know-how and technical assistance fees and facilities for their repatriation Tax exemption on interest paid on foreign loan
Accelerated Depreciation	Accelerated depreciation for machinery and plants
Exemption on Import Duties	Exemption of customs duties on capital machineries Exemption of import duties on raw material used for producing export goods
Tariff Refund	Tariff (if paid) refund on import of raw materials for export
Double Taxation Prevention	Benefits for countries with double taxation avoidance treaty.
Bonded warehousing Facilities	For export oriented industries For large import for local selling in certain items
Ownership	100% ownership is allowed
Repatriation of invested capital and dividend	Full repatriation of capital invested from foreign sources will be allowed. Similarly, profits and dividend accruing to foreign investment may be transferred in full. If foreign investors reinvest their dividends and or retained earnings, those will be treated as new investment.
Others	No restrictions on issuance of work permits to project related foreign nationals and employees Facilities for repatriation of invested capital, profits and dividends

	<p>Provision of transfer of shares held by foreign shareholders to local investors</p> <p>Reinvestment of remittable dividends would be treated as new investment</p> <p>Remittance of royalty, technical know-how and technical assistance fees</p> <p>The Foreign Private Investment (Promotion &amp; Protection) Act. 1980 ensures legal protection to foreign investment in Bangladesh against nationalization and expropriation</p> <p>Equal treatment of both local and foreign investment.</p> <p>Bilateral and multilateral investment agreements ensure protection of investment</p> <p>100% FDI, Joint Ventures, Partnerships, PPPs, Non-equity mode (Technology transfer, licensing Franchising, contracting etc.), and Foreign Lending are allowed</p> <p>100% FDI or Joint Venture FDI's are allowed to participate in the primary and secondary stock markets.</p> <p>Foreign Investors are allowed to have access to local banks for working capital requirements.</p> <p>Intellectual Property right is protected by Law.</p>
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## 2) Special Economic Zones luring FDI

Bangladesh has taken initiatives to establish 100 Special Economic Zones (SEZs) by 2030, which gave FDI a significant boost, with investors already having started production in some of the zones. Over the past year, a good number of foreign companies, such as Honda, invested in SEZs and have even started production. Japanese automobile giant Honda started manufacturing at Abdul Monem Economic Zone (AMEZ) in Munshiganj. The company set up a plant on 25 acres of land and invested USD 27.38 million.

## 3) Equity markets:

The capital market of Bangladesh is considered to be one of the emerging markets in the context of the global financial system. The market has immense potentials for the country's industrialization, development of infrastructure in particular and economic growth in general. The extent of volatility in the capital market is more pronounced in Bangladesh than elsewhere in the world. The government and the Securities and Exchange Commission (SEC) have undertaken a good number of initiatives to meet Bangladesh's development financing requirements with a particular focus on developing long term infrastructure financing and strengthening financial stability through promotion of the capital market.

In the year 2018, equity investment in Bangladesh has increased by 108.6% to \$1.12 billion, which was \$539 million, while reinvestment has increased by 2.32% to 1.30 billion. Clearly, investor confidence in Bangladesh has improved.

## 4) Trade and Investment Relationship with Australia:

In 2018-19, two-way trade grew to reach over A\$ 2.5 billion with exports to Bangladesh valued at A\$ 998 million. Principal merchandise exports to Bangladesh were cotton, vegetables. The main imports were clothing and textiles. Since 1 July 2003, products from Bangladesh enter Australia duty-free and quota-free.

Bangladesh offers commercial opportunities to Australian companies operating in the energy, telecommunications, transport, textiles, education and mining sectors. Australian businesses are well placed to provide services and equipment for energy and infrastructure

development in Bangladesh. Some new sectors that may attract attention like energy, SME, light engineering, steel and engineering, shipbuilding, port facilities, furniture.

### **5) Australian Investment in Bangladesh:**

Australia is yet to seriously concentrate on Bangladesh as an investment destination. Investment from Australia stands at A\$ 323 million. Australian energy producer Santos maintained an investment from 2007 to 2018 under a product sharing of gas in Sangu (early held by Cairns). This has now been sold to Ophir Energy under a restructuring of their Asian assets.

D. The session is expected to allow an interactive reflection on all relevant issues regarding Investment in Bangladesh.

- a. Specific advantages of Bangladesh as an investment decision
- b. New facilities to attract and sustain investment
- c. New trends of relocation from China and other countries and why
- d. Possible areas where Australian could find Bangladesh attractive
- e. Possible modus operandi for such investments (as FDI, JV, and others)

#### Organization of the session on Investment in Bangladesh: 09:00 am to 11:30 am

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| 1. Moderator/ speaker to introduce the topic and discussants-<br>(Aided by Rapporteur) | 07 Minutes |
| 2. Presentation by Bangladesh Investment Development Authority                         | 20 Minutes |
| 3. Other interested discussants (from Austrade, NSW etc.)                              | 20 minutes |
| 4. Open discussion   | 60 Minutes |
| 5. Summation by the Moderator/ Chair   | 10 Minutes |
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