From Regional Cooperation to Economic Globalism

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THE growth experiences of the East Asian and Southeast Asian countries demonstrate clearly how international trade can work as the engine of growth. Trade not only enables a country to achieve efficiency in production through removing the constraints imposed by limited size of the domestic market, it also facilitates access to international finance and state-of-the-art technology, both of which are vital for achieving rapid rates of economic growth. The recent move towards globalisation of production has added a new dimension to the trade-growth nexus. Countries can reap large benefits if they can successfully integrate their economics into the rapidly growing world economy. Conscious of the benefits to be derived from globalisation, Bangladesh has been assiduously pursuing a private-sector-let export-oriented growth strategy. As a result, her trade and foreign investment regimes are one of the most liberal in the South Asian region.

Bangladesh believes that open regional cooperation is a stepping stone towards achieving the ultimate objective of globalism in the economic arena. It is in this context that closer economic cooperation among Bangladesh, India and Pakistan assumes importance. With a combined population of 1.2 billion, this sub-region offers the potential for achieving substantial increases in trade and investment. Sharing a common history and having similar cultures, factors which are considered to be crucially important for achieving successful regional economic integration, the three countries of the Indian sub-continent can forge a close economic relationship to combat their common problem of poverty through attaining higher levels of income.

Trade among these countries has been constrained by elements of conservatism in trade regime, on the one hand, and structural impediments on the other. While unilateral trade liberalisation is desirable, granting of effective tariff concessions can to a long way in promoting trade in the sub-region. Significant progress was made in the Second Round of SAPTA negotiations, but more needs to be done. Para-tariff and non-tariff barriers have often diluted the salutary effect of tariff concessions, and hence sincere efforts have to be made to remove these obstacles to trade expansion. As a least-developed country, Bangladesh deserves to be accorded duty-free access on a non-reciprocal basis. Trade complementarities may be developed and strengthened through investment flows in the sub-region. Infrastructural facilities should also be developed to facilitate sub-regional trade.

Above all, commitment of the governments is essential for achieving meaningful economic cooperation and it is from this perspective that the 3-Nation Summit assumes critical importance.

Why invest in Bangladesh?

Farooq Sobhan
Executive Chairman
Board of Investment

THE present government has given the highest priority to attracting foreign investment into Bangladesh. The Prime Minister, Sheikh Hasina, has herself given the lead to attracting foreign investment. She has during the past eighteen months visited the United States, UK, Germany, Italy, India, Pakistan, China, Hong Kong, Japan, Turkey, Iran where she has met with leading businessmen and prospective investors. She has also appealed to the overseas Bangladeshis during such visits to come and invest in Bangladesh.

The present government has clear and well defined economic policies, geared to promoting foreign investment. Private investment is welcome in all areas of the economy with the exception of only five sectors on strategic grounds. There is no restriction on the amount of investment. A foreign investor can even own 100 per cent of equity without prior approval of the government. Foreign investors are eligible to take advantage of a wide range of generous tax and other fiscal incentives and facilities. The government has also constituted a high powered committee to speed up approval process of the foreign investment proposals. The Board of Investment has been authorised to operate as the first window for all foreign investment proposals for coordinating and facilitating implementation of the FDI projects.

The government is giving special importance to building up the infrastructure in the country. With this in mind the government has initiated a number of policy initiatives to pursue private participation in infrastructure facilities and services to be developed under Build Operate and Own (BOO) and Build Operate and Transfer (BOT) models in the following areas.

* Power generation
* Exploration and exploitation of oil, gas and other mineral resources
* Highway development including bridges, expressway and tunnels
* Port infrastructure development transportation facilities
* Industrial parks/Private Export Processing Zones

Recent Measures

Some of the major reforms undertaken by the government are:

— Private Export Processing Zone Act passed by the parliament and a private EPZ is being set up at Chittagong by a Korean company with an estimated investment of US$ 200 million;
— A permanent Law Reform Commission set-up to ensure greater transparency and predictability in the way rules and regulations are made;
— The administrative Reforms Commission Set-up;
— The company law 1913 updated and modernised;
— The Securities and Exchange Commission reorganised;
— The Industrial Relations Act amended to enhance Labour market efficiency;
— Power generation in the private sector allowed;
— Operation of Air Cargo in the private sector allowed;
— Tele-communication in the private sector allowed;
— Multiple entry visa to the visiting foreign investors being issued;
— Provision made for allowing import of standby generator free of tax & sale of excess electricity to the nearby industrial units without permission from any agency provided own distribution line is used;
— Licences issues to four cellular telephone operators which is illustrative of Government's Commitment to competitive and market economy.

Energy Policy

As regards power generation, some of the fiscal incentives allowed in Bangladesh are:

The private power companies shall be exempted from corporate income tax for a period of 15 years.

The Companies will be allowed to import plant and equipment without payment of customs duties, VAT and any other surcharges as well as import permit fee except for indigenously produced equipment's manufactured according to international standards.

Repatriation of equity along with dividends will be allowed freely.

Exempted from income tax in Bangladesh for foreign lenders to such companies.

The instruments and deeds required to be registered under local regulations will be exempted from stamp duty payments.

Power generation has been declared as an industry and the companies are eligible for all other concessions which are available to industrial projects.

The private parties may raise local and foreign finance in accordance with regulations applicable to industrial projects as defined by the Board of Investment (BOI).

The exemption on capital gains from transfer of shares by the investing company.

Avoidance of double taxation in case of foreign investors on the basis of bilateral agreements.

Facilities for repatriation of invested capital, profits and dividends.

Provision of transfer of shares held by foreign shareholders to local shareholders/investors.

Taka the national currency, would be convertible for international payments in current account.

Power Sector

Two agreements have been signed and two more are expected to be signed shortly by the Ministry of Energy and Mineral Resources for two barge mounted power projects involving an approximate foreign investment of US$ 400.00 million. These are expected to be operational by end 1998. Bidding for the following power plants has been completed. The proposals are being evaluated and reviewed by the Ministry of Energy and Mineral Resources:

Haripur (300 MW)	: US$ 300 million
Meghna Ghat (300 MW)	: US$ 300 million
Baghaban (100 MW)	: US$ 100 million

These three plants are likely to be operational by year 2001.

Gas Sector

Out of 23 blocks, 8 blocks have already been contracted out. US$ 100 million has already been invested and additional US$ 260 million are expected to be invested by the year 2001.

For another 12 blocks proposals have already been received. These are now being evaluated by the Ministry of Energy and Mineral Resources. These contracts will cover a period of 7 years. The approximate investment in these 12 blocks are expected to the US$ 600 million.

Security Against Investment

Foreign investment in Bangladesh is secured against nationalisation and expropriation. It also guarantees repatriation of dividends, capital and return from it and equitable treatment with local investors with regard to indemnification, compensation etc. in the event of loss due to civil commotion etc. Similarly adequate protection is available for intellectual property rights such as patents, trade marks, design and copy right. Guarantees through Multilateral Agencies are available since Bangladesh is a signatory to Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group, Overseas Private Investment Corporation (OPIC) of America, International Centre for Settlement of Investment Disputes (ICSID).

Economic Diplomacy

Government's emphasis on economic diplomacy has found an effective plank in the efforts to form two new economic blocks. One of them is the D-8, a formidable organisation of eight OIC countries which promises to spur economic activity for a market of nearly 800 million. The second one is BISTEC which groups together Bangladesh, India, Myanmar, Sri Lanka and Thailand.

The present government has joined hands with Bhutan, India and Nepal to promote cooperation on some specific infrastructure projects based on geographical contiguity. It is to be noted that this cooperation among the four countries will be carried out within the framework of SAARC.

Infrastructure Development Company

Infrastructure Investment Facilitation Centre (IIFC) has been set up with the backing of the World Bank to catalyse investment by the private sector in the development of ports, roads, energy, telecom and water supply. Founded at a cost of US$ 15 million the centre will work closely with the Infrastructure Development company, another brainchild of the World Bank which has already been formed. The aim is to channel some $ 225 million to the private sector companies as equity throughout the company which is expected to attract private capital to the tune of 1.5 billion dollars in a few years.

Board of Investment

The Board of Investment, the key government agency for facilitating foreign investment undertaken a number of measures, including setting up of a one-stop-service. With the start of the functioning of the one-stop-service prospective investors will no longer be required to go from door to door for such services like gas, electricity or telephone connection. Representatives from Power Development Board, Dhaka Electricity Supply Authority, Rural Electrification Board, WASA, T&T Board will all be located conveniently on one floor at the BOI to take care of all the needs of the investor. A BOI welcome counter has also been set up at Dhaka airport which will be working round the clock to welcome foreign investors. The Board of Investment is also in the process of undertaking a programme to set up some industrial parks where all the service facilities including land will be available for the investors for setting up industries. The industrial parks will be set up outside EPZ areas but will be modelled on the existing EPZs. It is noteworthy that some local entrepreneurs have also shown an interest in setting up such industrial parks.

The attractive incentive package provided by the Export Processing Zone Authorities has drawn quite a good number of foreign investors in the existing EPZs at Chittagong and Savar, Dhaka. BEPZA authorities have also begun work for setting up four more EPZs at Gazipur, Comilla, Khulna and Ishwardi.

The very priority given by the government to the promotion of foreign investment can be evidenced by the fact that Prime Minister herself is the Chairman of the Board of Investment and several ministers including Commerce and Industry, Finance, Foreign Communication, Energy and Mineral Resources are in the Board.

Bangladesh under the leadership of Prime Minister Sk Hasina is now following a prudent monetary and fiscal policy to keep inflation at a lower rate, reduce fiscal deficit, maintain a healthy foreign exchange reserve, debt level and servicing liabilities within the means and stable exchange rate that ensures competitiveness of the economy. And the country is on the verge of a significant breakthrough in terms of both international investor's confidence and significant inflow of new investment fund, with the strong commitment of the government to move forward confidently into the 21st century.

Role of Privatization in the Economy of Bangladesh

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President of the Federation of Bangladesh Chamber of Commerce and Industry (FBCCI) and a representative of professional groups as members of the Board. This reconstitution would certainly push forward the almost stalled process of privatization.

Since privatization began in Bangladesh in mid-seventies, some 1100 SOEs have been off-loaded to the private hands. The World Bank study concluded recently looked into thirteen enterprises that were privatized by the Privatization Board between 1993-96. It found only one of the thirteen enterprises closed. The remaining twelve enterprises have posted significant improved overall performance. The government of Bangladesh has identified a number of industries for sale in the near future which include textiles, jute, sugar and food, chemicals, steel and engineering and cement industries etc. As the developed world is shifting its preferences for more Hi-tech automated and environment friendly investment, their sunset industries are also searching for relocating their labour and energy intensive projects mostly to the nearby developing regions. Bangladesh is an ideal place for relocating the sunset industries of the developed countries. Many of these industries can be housed in the SOEs that are to be sold and the industries could be functioning in the minimum possible time since the utilities are in place along with the availability of the trained manpower and other infrastructure like communication, electricity, gas, accommodation etc.

The incentive packages and facilities offered to foreign investors in Bangladesh are also equally applicable for investors in SOEs. In order to boost private sector investments, the government has set up Export Processing Zones (EPZs) at some economically attractive locations and has also, for the first time, permitted the establishment of new private EPZs which is a milestone for the investors. Private banks and insurance companies have been allowed to operate, more foreign banks and other financial institutions are now handling the business of the country. Capital market is also being revitalized to meet the needs of the private sector by generous issue of new licenses to merchant banks and leasing companies etc. The local and foreign investors are now operating the private telecommunication net-works concurrently with the government owned organization. The private sector is engaged in fields of oil, gas and mineral exploration. Many foreign companies are now showing keen interest in the area of power generation and distribution. New licenses have been granted for the first time for Barge Mounted Power stations.

It is expected that with the present governments' bold policies and programmes, Bangladesh would experience a significant flow of Foreign Direct Investment (FDI) in the near future, which, in turn, would help achieve the desire goal of private sector led economic growth and development.

The Tripartite Business Summit — a New Lead

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safety-nets, where warranted, for the vulnerable segments of the society to ensure that the worst excesses that have characterized laissez-faire economies in the past do not recur. As President Chandrika Kumaratunga pointed out at the recent Commonwealth Heads of Governments Meeting (CHOGM), governments will need to play a guiding role in areas where the private sector fails to "manage the fall-out from the process of transformation of state-controlled and closed economies or even semi-protected economies towards liberalised ones". Governments will, of course, afford every facility and incentive to private enterprise to grow and expand. At the same time it must continue to perform functions which the private sector is unable or unequipped to discharge. The roles of the Government on the one hand and the private sector on the other are, in effect, complementary.

The broad themes of the Tripartite Summit, namely the role and responsibility of the business sector, close cooperation among the business communities of the three countries of the Sub-continent, and constructive and mutually reinforcing interaction between the governments and the private sector, are all of vital importance. Much that may be discussed and mooted in the one-day Summit may not be absolutely new. What is relevant and significant, however, is that this meeting should provide impetus and fillip for different concepts or ideas to be put into practice. Increased trade, joint ventures, greater investments would all redound to the benefit and advantage of our peoples. For the first time, at the highest echelons of political leadership, the idea of closer interaction and cooperation among the business community in the three countries is expected to be endorsed and assurances given about wholehearted cooperation and support of the governments to establish an enabling environment for this. This should send a clear and unambiguous signal, not only within the Sub-continent but also to entrepreneurs abroad. New insights and ideas may well emerge, as political leaders as well as the business community, talk freely and familiarly on the issues to be addressed, problems to be resolved and the future course to be charted. Indeed progress and understanding in the economic areas should impinge positively on political issues as well. In the ultimate analysis, peace and prosperity, stability and security, cooperation and development are all inextricably interlinked and intertwined.

The benefits of a dynamic private sector and a successful programme of privatisation and liberalization are too well-known to be dwelt upon at great length. In general terms we would expect improvement in efficiency, reduction of fiscal deficits, development of capital markets and also widening ownership of shares. Without substantial inflows of foreign direct investment, however, the results of cooperation among developing countries may be limited. Certainly progress will be slower. It is thus our hope that the political message and signal that will emerge from the Tripartite Summit will be heard by potential foreign investors.

Malaysia's very able and articulate Deputy Prime Minister and Finance Minister Anwar Ibrahim in his recent book, "The Asian Renaissance", while writing of Asia's rise as the centre of global economic activity, mentions that South Asia was already "on the growth bandwagon". For the South Asian bandwagon to maintain its momentum, substantial inflows of FDIs are essential. According to the World Investment Report 1996, the ten largest host countries received two-thirds of total inflows in 1995 and the smallest 100 recipient countries received only 1 per cent. FDI is recognised as a "major force shaping globalization" and in this regard South Asia has lagged behind East and South East Asia. In 1996 out of an estimated FDI of US$ 330 billion, $129 billion was received in emerging markets. South Asia's share was less than $3 billion, as compared to $42 billion for China. These figures underscore the potential that exists for increase in FDIs, if the concerns and needs of investors can be met. Investors, obviously seek speedy break-evens and returns. Other variables of relevance and interest to them would include interest rates, currencies, and domestic policies of recipient countries.

The UNIDO global report, 1997 on industrial development suggests that governments can play a positive and facilitating role in investment promotion, even in the era of rapid liberalization in the world economy. Markets, of course, are the dominant factor in the allocation of resources. Governments, however, can stimulate investment by micro-level investment incentives and by policies that would ensure macro-economic stability, so as to minimise investment uncertainty and promote a distortion-free price structure. The UNIDO report suggests that broader policy reforms which correct distortions at source, reduce infrastructural deficiencies, improve regulatory and legal codes and establish a more stable policy environment, impinge favourably on prospects of foreign investment in a country. Many of these issues may well be mooted at the Tripartite Business Summit which, I hope, welcome results for all three countries in the future. The basic message of the Summit to investors round the world is that at the highest political level, the governments of the three countries are reaffirming a clear commitment to reforms and liberalisation and an active and constructive role for entrepreneurs from abroad and at home. All three countries are prepared to listen and talk with open minds.

The end of all political effort must be, as Dag Hammarskjold once said, the well-being of the individual in a life of safety and freedom. We have great expectations that the Tripartite Summit will be a step towards this goal.