CONNECTING THE DOTS

FDI in Bangladesh


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FOREIGN Direct Investment (FDI) has been an important part of the economic transition, business liberalisation and macroeconomic growth story in Bangladesh over the last decade. Our strong showing in attracting FDI is an example of how a number of corrective measures could go a long way in promoting economic growth.

Bangladesh received FDI of $1.13 billion last year compared to $910 million in 2010. This increase of about 25% is higher than the average 23% worldwide growth of FDI. According to the 2012 World Investment Report (WIR) of the UNCTAD, the garment sector attracted the highest amount of FDI followed by the banking, energy and telecommunication sectors, respectively.

Over the last few years, foreign investor sentiment towards Bangladesh has improved. The Doing Business Indices recently ranked Bangladesh 9th among the countries that have improved significantly in business start-ups. This factor particularly works as a positive motivator for many foreign investors. The presence of foreign-invested projects is particularly visible in various export-oriented business sectors, where they now account for a considerable proportion of total foreign currency earnings and export volumes.

Despite these recent developments, it is still true that when the competition regarding investment promotion incentives, both tax and non-tax related, is taken into account, Bangladesh's incentive measures have a number of disadvantages to those of rival countries in South Asia in terms of both tax and financial incentives for exports and R&D -- making Bangladesh less attractive as a destination for investment.

Nonetheless, the Board of Investment (BOI) has recently adjusted its investment promotion strategies, from attracting across-the-board investment through broad-based incentives to focusing on investment that develops the workforce with special expertise, placing more emphasis on the development and transfer of skills among different levels of the workforce, supporting R&D and technology transfer, and fostering innovation to attract quality investment.

In addition to those sectors mentioned earlier, the key sectors where FDI could make a difference include, but are not limited to, agri-business, ceramics, electronics, frozen foods, ICT, leather and leather goods, etc.

The problems facing FDI in Bangladesh are well-documented and need not be mentioned here. In short, complicated bureaucracy, political unrest, corruption, high inefficiency cost, absence of autonomous regulatory bodies, erratic power supply, lack of administrative coordination, inefficient customs processing, etc. are at the top of anyone's list.

Possible remedies that have been suggested include, among others, good governance, coordination in policies of different government agencies, accountability and transparency, ensuring uninterrupted power supply, maintaining incentives and benefits in the export promotion zone, etc.

But let's take a broader view of foreign investment in Bangladesh. A relevant question is, what would be the best foreign investment promotion policy for Bangladesh? Should it be reducing investment obstacles? Or handing out incentives to all investors while setting up conditions to selectively promote strategic investment?

If we consider the short-term needs, setting up investment conditions to selectively promote investment is not going to significantly improve the situation as Bangladesh still does not have enough advantages to attract quality investment.

Efforts to attract FDI must dovetail with Bangladesh's specific situations and needs. Attracting quality investment will not be successful if superficial investment promotion incentives are used.

On the other hand, when long-term sustainability is taken into account, the use of investment promotion policies such as tax incentives or other complimentary giveaways is usually effective in the short-run, but not sustainable in the long term. This is because rival countries can always offer similar tax cuts and investment promotion incentives, to the point that in the end no country may genuinely benefits from this zero-sum game competition.

I believe that a viable investment promotion strategy should aim to meet both short-term and long-term targets. Bangladesh may need to use broad-based policies to FDI without imposing too many restrictions. At the same time, more specific measures aimed at attracting quality investment should be applied to meet the nation's long-term strategic needs.

However, attracting quality investment requires that Bangladesh deliver enough satisfactory rewards to make investors agree to transfer technology to local businesses and entrepreneurs. Those rewards cannot be generated by giveaways or simple incentives, but from the readiness of economic infrastructure, the quality of manufacturing factors, and the environments that help quality investment.

Increasing the incentives to attract foreign investment in R&D and technology transfer in Bangladesh must be accompanied by market development and healthy competition. This can be done by adjusting the economic structure towards the target economic sectors and speeding up trade liberalisation with neighbouring countries to expand market size. This would increase the payback for R&D investment. Existing laws should also be improved and better enforced to protect the rights and intellectual properties of investors.

In parallel, the government should aim to reduce investment costs in target economic sectors by addressing investment problems and obstacles, which are the tacit costs shouldered by the private sector, by developing human resource and basic infrastructure to accommodate the expansion of those target sectors, and by creating a conducive environment for quality investment. Efforts should also be made to attract proactive investment by designating target industries and countries, as well as developing and fostering investment networks.

Bangladesh's FDI policies should be oriented more towards these sorts of wider issues relating to the host country business environment, and where gains made would also be of benefit to local companies. One way to achieve this is to take FDI reforms out of the specific sphere of foreign investment activity *per se*, and into the much wider realm of the host country business environment.

Such an agenda may be more effective than continuing to shower foreign investors with fiscal incentives that sometimes give an unfair advantage to foreign multinationals over local companies. Moreover, any improvement made to the host country business environment in general can be expected to benefit local companies as well as foreign investors. Besides, as international business forms evolve and cross-border production networks proliferate, making a clear distinction between the two (local and foreign firms) is becoming increasingly difficult.

Thus efforts to attract FDI must dovetail with Bangladesh's specific situations and needs. Attracting quality investment will not be successful if superficial investment promotion incentives are used. Hence steps should be taken that lead the investors to believe that they will be rewarded with lasting benefits.

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Emergency man

JAWED NAQVI

AN electoral college comprising federal MPs and deputies from state assemblies is set to elect India's new president later this month.

The Congress party has fielded former cabinet minister Pranab Mukherjee as its candidate in what may turn out to be a one-horse race. Former Lok Sabha Speaker P.A. Sangma is another candidate.

The Indian president's post was conceived as largely ceremonial, but it has gained formidable clout in the country's perennially fractious polity. For example, Atal Behari Vajpayee was allowed to form a government for all of 13 days in 1996 after President Shankar Dayal Sharma chose to invite him over others following inconclusive elections.

Vajpayee's rightwing party was woefully short of MPs and had little hope of finding support from anyone else. The unlikely prime minister shrewdly resigned without taking a required trust vote but not before setting himself up for another innings not a very long time away.

His brief government, which had no parliamentary sanction but only presidential goodwill, quit after signing a controversial multi-billion dollar deal with America's beleaguered Enron Corporation. Vajpayee also inserted a politically divisive anti-cow slaughter proposal among other parochial plans into president Sharma's mandatory address to Parliament.

Another occasion when the Indian head of state weighed in for or against a party came when Congress President Sonia Gandhi approached president A.P.J. Abdul Kalam to stake her claim as prime minister at the head of a minority coalition. She was refused.

As precedents go, former prime minister Rajiv Gandhi preferred to sit in the opposition than be called to form a government in 1989 when his 1984 four-fifths majority was reduced to become the single largest minority in parliament.

It is of course a matter of record that without a pliable president in Fakhruddin Ali Ahmed, Indira Gandhi might never have succeeded in imposing her 1975-77 emergency rule.

Presidential assent is usually a matter of routine in India's Westminster-style government, yet in an era of coalition governments India is going through, heads of state can flaunt a mind of their own. This is where Pranab Mukherjee may not be a great choice for Sonia Gandhi in the crucial seat, and she probably knows it.

If anything, Mukherjee may turn out to be more akin to Pakistan's Farooq Leghari, who was Benazir Bhutto's choice as president but became her chief tormentor soon after.

Mukherjee is widely seen as an ambitious and pushy man who endeared himself to Indira Gandhi as a key henchman during her emergency days. Personal ambition cost him dear though when after Gandhi's assassination he promptly put his cap in the ring as the senior minister to succeed his slain boss.

The Congress rallied for Rajiv Gandhi, and Mukherjee was sent into political exile for almost an entire five-year term. He clawed his way back, and this part of the story is not seriously discussed in India's corporate media.

With not much of a political base in his home state of West Bengal from where his party had him elected to the Rajya Sabha several times, Mukherjee struck up a politically useful alliance with Mumbai's business captains. His proximity with Dhirubhai Ambani, whose Reliance Industries he helped expand dramatically, is recorded in a controversially proscribed book *Polyester Prince*.

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Hamish McDonald, who was India correspondent for the *Far Eastern Economic Review* when he researched the book in the 1990s, was interviewed last week by the Outlook magazine about the presidential candidate's links with the Ambanis. Mukherjee had helped Reliance in many ways. Among them, he said: "You'll have to go back to the Isle of Man companies (11 NRI companies were allowed to invest in Reliance) and the mysterious companies called Crocodile Investments and Fiasco Investments, about which Mukherjee kept saying he did not know what they were. He's a very able man in his way, has handled a lot of big portfolios -- finance, commerce, foreign affairs. He masters the brief very well, and he's no fool. He and all his other political colleagues thought Dhirubhai and his famous animal spirits is what needed to be unleashed in India. They saw it in the national interest to be helping him along."

Mukherjee's difficulties with Rajiv Gandhi were compounded (and perhaps defined) by an ambitious speech the young prime minister delivered to herald the Congress Party's 100th year in 1985. The speech, rumoured to be authored by Mani Shankar Aiyar, took an adversarial view of precisely the business lobbies Mukherjee was courting. Rajiv Gandhi said: "Our economy owes much to the enterprise of our industrialists. But there are some reputed business and industrial establishments, which shelter battalions of law-breakers and tax evaders. We have industrialists untouched by the thrusting spirit of the great risk-takers and innovators. The trader's instinct for quick profits prevails. They flourish on sick industries. Many have not cared to learn the fundamental lesson that industrialisation springs from the development of indigenous technology, not from dependence on others ... Let us not forget that the poor and the unemployed have to sacrifice their development programmes to subsidise inefficient industry."

What was the outcome of the stunning speech he gave? Rajiv Gandhi landed himself in the Bofors scandal. And who did he summon to bail him out of the mess? Pranab Mukherjee. The veteran Congressman was to feature in another dramatic "rescue"when he led a bold coup against Congress President Sitaram Kesri in 1998 to replace him with Sonia Gandhi.

"The ailing Kesri ... did not know that before the 11am meeting, most Congress Working Committee (CWC) members had gathered at Pranab's home to endorse two crucial statements. The first was an ultimatum asking Kesri to step down; the second, a resolution replacing him with Sonia Gandhi," records journalist Rasheed Kidwai in his book *24 Akbar Road: A Short History of The People Behind The Fall And Rise of The Congress*.

And yet there is something to be said about the fact that the Gandhi family never allowed Mukherjee to get as far as the home minister's portfolio, considered to be the acid test of loyalty and trust.

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Championing the human rights champions

IRENE KHAN

THE reaction of the government to the Human Right Watch (HRW) report on the BDR trials is unfortunate. When governments are uncomfortable about their human rights record, the easy way out is to challenge the integrity of the research ("this is a conspiracy to damage the country"), and when that fails, to rubbish the information ("it's all imaginary"). As the former Secretary General of Amnesty International (AI) I am no stranger to such responses, whether in Bangladesh or elsewhere, but in taking that path, governments do more harm than good to their own reputation.

International human rights advocates are a powerful constituency and widely regarded as a force for good. This government could gain much by breaking the mould of past governments (one of them went so far as to detain the HRW researcher) and adopting a more enlightened strategy towards them. What would such a strategy entail?

First, understanding human rights as an international enterprise. Human rights are made real by governments and people at the national and local level through laws, policies and practices, but the principles, standards and instruments are set at the international level. Governments are the main players in setting those rules and when they sign on to them, they must accept the international scrutiny and accountability that comes with it.

International NGOs like Amnesty International (AI) and HRW are an integral -- though informal -- part of that scrutiny system. The UN's Charter boldly acknowledges "we the peoples," and global civil society has used that window to create a platform for itself, nowhere more clearly than in the arena of human rights.

Second, recognising the value that international advocacy brings to the human rights enterprise. Human rights seek to curb the state's power in the interests of citizens and inherent in that concept is the possibility of abuse, and consequently, the need to check state behaviour. As we all know, nothing is as powerful an incentive for good behaviour as "naming and shaming." Organisations like AI or HRW have built their reputation on solid research and analysis and that is why they are taken seriously by international public opinion. So it's good to listen to what they have to say -- because even if you don't, others will.

No country in the world has a perfect human rights record. There is always room for improvement -- so why not admit it, and turn the conversation to the complexities of finding solutions?

Clothing human rights problems as an external conspiracy or interference in internal security simply won't wash. Today, human rights problems anywhere are the concern of people everywhere. As a sovereign, democratic country, we have the responsibility to solve our human rights problems, and it is only when we fail that organisations like HRW and AI throw their light on us. These world class organisations bring the weight of global experience. We do a disservice to ourselves if we ignore their findings and recommendations.

Third, taking human rights failures as an opportunity to improve behaviour, not deny facts. I recall a meeting I had at Amnesty some years ago with the then Bangladesh High Commissioner in London who had come to see me with a letter from the then foreign secretary which stated that "torture did not exist in Bangladesh." To save ourselves from further embarrassment in front of my Amnesty colleagues, the high commissioner and I switched to Bangla and agreed that the letter should be quietly set aside.

Torture and custodial deaths cannot be wished away. So, let's not dispute facts. Let's focus instead on what to do. No country in the world has a perfect human rights record. There is always room for improvement -- so why not admit it, and turn the conversation to the complexities of finding solutions? The issues the HRW report raises cannot be easily resolved but even acknowledging that they need to be looked at will do much to placate critics.

Fourth, getting your own issues on the agenda of the human rights organisations. During my tenure at Amnesty I received a call from the then foreign affairs advisor to inform me of the release of some political prisoners on whose cases AI had intervened. He quickly followed that up by asking if Amnesty would launch a public campaign against the arbitrary detention and death of some Bangladeshi workers in an Arab country. He had adroitly turned the tables on AI! Similarly, engaging with HRW on one issue could open up an opportunity for the government to push HRW to do more on another, such as the situation of Rohingya in Myanmar.

The human rights struggle is by its very nature such that governments and activists will often not see things eye to eye, but it need not be a zero-sum game.

The writer is Director-General of the International Development Law Organization (IDLO). The views expressed here do not necessarily reflect those of IDLO.