DHAKA BANK

Emranul Huq, managing director of Dhaka Bank Ltd, and Mahbubul Alam, a director of Quasem Food Products Ltd, signed an agreement at the bank's head office recently to provide cash management and payroll banking services to the clients of Quasem Food Products. Mohammad Abu Jafar, additional managing director of Dhaka Bank, AKM Shahnawaj, deputy managing director (risk management), and Swapan Gobinda Nandy, general manager (finance) of Quasem Food Products, were present.

Shukla Sarwat Siraz, general secretary of Gulshan Society, and ABM Amin Ullah Noori, chairman of Rajdhani Unnayan Kartripakkha, exchange signed documents of two separate memoranda of understanding on "Gulshan Lake-park and Gulshan-Banani lake management" at a city hotel recently. Sharif Ahmed, state minister for housing, Md Shahid Ullah Khandakar, secretary to the housing ministry, and Shamus Ahmed Chowdhury, member for development of Rajuk, were present.

COLLECTED

KM Aminul Islam

Meridian Finance & Investment gets new chairman

STAR BUSINESS DESK

The Meridian Finance & Investment Ltd has recently witnessed the appointment of a new chairman of the board of directors.

The appointee, KM Aminul Islam, is the founding chairman of the company, says a press release.

He was the first executive chairman of Bangladesh Investment Development Authority and an alternative director on the Board of Executive Directors at The World Bank in Washington DC. He was secretary to Prime Minister's Office in 2009.

US budget deficit falls to $2.8t

AFP, *Washington*

The US budget deficit narrowed slightly in the past year as the economy recovered from the pandemic, falling $360 billion to $2.8 trillion, the government reported Friday.

The result for the fiscal year ended September 30 was far better than expected a few months ago, but just shy of the record set in 2020 during the worst of the health crisis.

The improvement reflected a more than $600 billion increase in tax revenues as the economy was able to restart following the pandemic shutdowns, according to data from the Treasury Department and White House budget office.

Malaysia lifts migrant worker ban

REUTERS, *Kuala Lumpur*

Malaysia will let foreign workers back into the country after an almost 16-month hiatus due to the Covid-19 pandemic, and allow some tourists back to its resort island of Langkawi, its prime minister said on Friday.

The agreement reached by the government's pandemic taskforce on foreign workers has been hotly anticipated by vital sectors like palm oil plantations and rubber glove manufacturing, which rely on migrant labour.

"The Special Committee on Pandemic Management today agreed with the proposed standard operating procedures for the entry of foreign workers into Malaysia, especially to meet the needs of the plantation sector," Prime Minister Ismail Sabri Yaakob said in a statement.

Migrant worker quotas and entry dates for other industries are still being ironed out, he said.

Malaysia is reliant on some two million documented migrant workers to produce everything from gloves to iPhone parts.

Last month, the government said it would prioritise the return of 32,000 workers for the plantation sector to ease a severe labour crunch that hammered production for the world's second largest palm oil producer.

The rubber gloves industry had also appealed to the government to allow foreign workers to return to meet growing demand this year and next.

From mid-November, Malaysia will also allow certain international travellers to visit its tropical holiday island of Langkawi, reopening its borders to foreign tourists for the first time since the start of the pandemic.

The prime minister said Malaysia is targeting vaccinated, "high-yield" and "quality" tourists, indicating those that will spend money and help boost the economy.

It was not immediately clear how such tourists would be targeted.

Govt drafts guidelines on investing abroad

FROM PAGE B4

Interested investors will need to submit an investment climate report to the BB and the foreign ministry on the opportunities and threats in view of political, social, economic, and environmental events. They will require to apply through authorised dealer branches of banks.

Officials of the government, the BB and the National Board of Revenue can visit the entities abroad any time, and investors will have to bear the cost of the visits, the draft rule says.

Khondaker Golam Moazzem, research director of the Centre for Policy Dialogue (CPD), said any inspections funded by investors might create a conflict of interest.

"Such an arrangement may have an impact on proper evaluation." He, however, says as travelling abroad is expensive, the regulatory authority can realise a service charge from the firms investing abroad and keep the money in an account to be used during evaluation.

Investors will have to submit audited financial statements of subsidiaries abroad, the summary of equity capital of the subsidiary, and a list of shareholders approved by the local authority of the host country.

A statement of directors of the subsidiaries, managers and management representatives approved by appropriate authorities will need to be submitted to the BB every year.

Investors must submit audited financial statements of the parent company alongside a consolidated financial statement to the central bank.

In addition, investors will need to provide statements of their business, citing information such as existing and new products, annual turnover, profit margin, production cost, and market share. The draft bars Bangladeshi investors from selling shares to other Bangladeshi firms without the central bank's approval.

The abuse of the scope for investment abroad and violation of related rules will be treated as an offence of money siphoning and money laundering.

For this, owners, directors, chief executives, and concerned officials will be held responsible in line with the Money Laundering Prevention Act 2012 and the Foreign Exchange Regulation Act 1947.

Harnessing potential gains from outward FDI

FROM PAGE B4

Market, strategic asset, and efficiency-seeking are important motivations for OFDI from developing countries. They are a particularly crucial source of FDI for countries in Sub-Saharan Africa, Europe, Central Asia, and South Asia.

BENEFITS, ENTRY MODES AND EVIDENCE

Financial returns result from profits generated by the overseas processing and sales outlets of merchandise produced in the host economy. Chinese firms, for example, invested heavily in sales offices and assembly operations in Europe to strengthen exports of low-cost products made in China.

Some OFDI, such as Taiwanese offshoring to mainland China enhance the sale of intermediate goods to production locations in other countries, thus creating opportunities for locally embedded suppliers in the home economy. Overseas investments in joint ventures and wholly-owned subsidiaries have been essential channels for promoting global business by the developing country entrepreneurs.

Mergers and acquisitions (M&As) and other forms of alliances with companies in host countries are particularly valuable for the generation of intangible capability returns such as additional knowledge, skills, technological upgrading, managerial expertise, and a brand's goodwill. As much as 56 per cent of global cross-border M&As were undertaken by multinationals from developing and transition economies in 2013.

Mergers and acquisitions have helped Indian companies get direct access to newer, more extensive markets and better technologies, thus widening their customer base and global reach.

The extent to which OFDI enhances development outcomes in home countries is a nascent area of study in developing countries. The Southeast Asian experience from 1981 to 2013 shows a 1 per cent increase in OFDI led to a $750 million rise in exports for the Philippines, $72 million for Singapore, $41 million for Thailand, and $31 million for Malaysia.

Analysis of the effects of OFDI on regional innovation performance in China finds that OFDI has a very significant impact on domestic innovation. The management expertise, exports, quality, and costs of Indonesian firms that invested abroad improved dramatically after their investment relative to other firms and their own past performance. Generally, the evidence suggests that the productivity benefits of OFDI occur primarily through efficiency gains from specialisation and scale advantages of firms competing in international markets and the indirect import of knowledge and technology.

THE GAINS ARE BY NO MEANS CERTAIN

Bangladesh's experience so far is mixed.

A Bangladeshi apparel exporter invested in Jordan in 2007 by forming a joint venture with one of the leading Indian garment manufacturers. They established the factory to produce high-value garments for the US market in the Jordan export processing zone. Their pandemic-affected factory in Jordan is now recovering.

Another leading global outsourcing Bangladeshi partner to many of the world's largest advertising, media, and technology companies is doing well after recovering from the adverse pandemic shock. In 2017, a tobacco conglomerate was allowed to invest in Malaysia to part-finance an acquisition that is fetching a good return.

There are cases of failures as well.

The first Bangladeshi OFDI in 2013 in a joint venture in Myanmar turned sour. After making a good profit initially, the company faced massive losses owing to increasing political unrest and frequent policy changes. Eventually, the company closed its business in Myanmar in 2020.

Another OFDI in a garment factory in Ethiopia's Tigray region to cash in on the country's duty-free access to the US market, low prices of land, and cheap labour failed because of conflict in the region in 2020.

Enough firms from Bangladesh have not yet been involved in OFDI to generate any significant impact at a macro-level. When OFDI are limited, the returns and risks will be limited as well. Scaling it up may divert domestic resources to overseas projects and crowd out other domestic economic activity such as investment, production, exports, employment, income, and tax revenue (the offshoring effect). Between 1980 and 2018, OFDI from Indonesia had a significant adverse effect on domestic investment.

The benefits could outweigh the costs and risks. Most Bangladeshi products are sold abroad under international brands who appropriate the largest share of the revenue. Bangladeshi investors must start production in countries into which they are venturing to jump non-tariff barriers and exploit preferential market access in third countries to overcome the challenges of the post-LDC graduation period. The East Asian export dynamism is associated both with inward and outward FDI.

TIME TO REVISIT POLICY

Bangladeshi companies were all but forbidden from making investments overseas. The government has been relatively more circumspect on undertaking liberalisation of outward investment.

The foreign exchange regulations were amended in 2015 to allow limited investment on a case-to-case basis. Apart from crowding out onshore investment, unfettered OFDI could have significant implications for the sustainability of the current account deficit, external debt profile and exchange rate stability.

Bangladesh needs a transparent policy framework to manage investment abroad. In September 2020, the Bangladesh Bank allowed export-oriented businesses to make overseas equity investments up to 25 per cent of their net annual export receipts. The businesses must comply with the 'Capital Account Transactions (Overseas Equity Investment) Guidelines 2020'.

The guideline requires a 30 per cent workforce of a company set up aboard to be Bangladeshi nationals. Reinvestment of funds derived from overseas operations requires prior BB approval. The companies need to send profits, dividends, and other incomes back home in 90 days. The entrepreneur must be financially sound and have a clean track record of export proceeds repatriation, payment of import obligations, loan repayment and tax payment.

Selective policy and incentive frameworks are indeed needed. Different types of OFDI promote home economy development in different ways. The policy should encourage OFDI where significant financial and tangible or intangible capability returns might be expected in short- to medium-term.

Priority should be given to companies with technical knowledge and foreign currency income. The policy must blueprint the priorities for OFDI, acceptable financing arrangements, and the procedures for the decision on specific OFDI proposals.

The government should review existing restrictions on OFDI, weigh their costs and benefits and adopt measures that strengthen economy-wide policy coherence and absorptive capacity. Risk management capabilities are critical for dealing with the use of multi-layered structures that create opacity not justifiable on business grounds and non-value-adding 'round' tripping' of capital to mine preferential treatment.

The finance and commerce ministries, the BB, the corporates, and professional bodies must put together their collective wisdom to constantly review the policies facilitating outward FDI.

Just as with trade, OFDI will create winners and losers. Resistance from the latter may be dealt with by attracting more inward FDI given the current small levels relative to other Asian countries.

Simplifying investment processes to ensure clarity of rules regarding foreign investment and establishing a conducive investment climate will help mobilise investments for sustainable development. Focus on OFDI must not be at the expense of creating a competitive business environment, enhancing firm capabilities at home, sustaining domestic economic stability and accelerating inclusive growth.

The author is an economist.

'Horizon is bigger than we imagined'

FROM PAGE B4

However, the journey had not been all smooth sailing.

The group ventured out at a time when Malaysia's economy was suffering from a slowdown, especially because of currency fluctuations and certain political developments. This affected activities of Akij Resources to some extent.

"We could not run the factory for three months after the Covid-19 outbreak. We had gone through a learning phase, and now I can tell that we are doing good," said Bashir.

The group has been making particle boards, medium-density fibreboards, plywood, and doors for the last 20 years. Now, it sources some raw materials from the Malaysian factory for use here.

"So, the move has built a foundation for us and encouraged us to go beyond borders," he said.

Having plants in two countries has given some advantages to the group.

"There are certain cost advantages in both countries. We can make some products in Bangladesh's factory cheaper than the factory in Malaysia. So, we can export from here by diverting export leads from there. That augments," said Bashir.

Bashir acknowledges that the investment abroad has also given the 75-year-old group a big boost in confidence.

"We as a company learned that the horizon is bigger than we imagined."

"We gained more confidence that we can manage a company not being present there with our system of management and our IT and with the talented people with the group."

As for the technological aspects, the group attained certain manufacturing knowledge that helped reduce costs locally and improve product types, he said.

"Certain innovations were gained through that acquisition. And very interestingly, we were also able to add certain things to our Malaysian company from our Bangladesh base."

"So, by doing this, we also felt that confidence, that it is not that we are incapable. That is probably the most important lesson."

On locals being allowed to invest abroad, the entrepreneur says Bangladesh is not rich in industrial raw materials and needs to import huge amounts of certain raw materials.

And entrepreneurs always try to get as close as possible to sources of raw materials, which enables them to reduce production costs and bring back dividends.

"I think we are the 42nd largest economy in the world, and we are aiming to become the 30th biggest economy by 2030. The only enablers would be foreign direct investment and local firms going global. So, I think it should be addressed in a systematic approach."

Despite massive economic development in recent decades, Bangladesh is still a poor country, so Bashir emphasises on the responsible use of resources.

"I think the free flow of resources (dollars) should not be allowed," he said.

"It should be with a purpose…that it is ultimately adding value to the economy in the form of cost advantage to the domestic economy or bringing in very good amounts of dividends back home so that the economy gets benefits out of it."

An enabling regulatory environment is also needed, points out Bashir.

Companies doing business abroad pay corporate taxes there, and when they bring back their earnings, they face taxation for a second time here. "This should be addressed," he said.

He believes that Bangladesh's image abroad also needs to improve.

"When we went to Malaysia to invest, Bangladesh's image there was that we were labourers.

"The factory that we bought, we had union-related problems because everyone thought that we were going to fire everybody and then bring cheap workers from Bangladesh to run the company," he said.

They also had a hard time comprehending how people who they thought to be basically all labourers and street cleaners are all of a sudden owning a company in Malaysia, and that too a reasonably big company.

"So, image is an issue which we need to improve, and that has to come by a systematic approach," said Bashir.

Companies going global to expand footprint

FROM PAGE B4

Tapan Sengupta, deputy managing director of the largest steel manufacturer in Bangladesh, says they have recently invested $400,000 to purchase land to establish a factory.

"We are in the process of setting up the factory," he said. BSRM has opened an office in Hong Kong to make it easier to source raw materials and explore export opportunities.

The BB, in June this year, allowed BSRM to invest $500,000 from its export earnings retention quota to open a subsidiary in Hong Kong.

The quota specifies the amount of export earnings that can be retained by a business in foreign currency in an account.

"Our first priority is to invest locally. At the same time, we want to tap opportunities abroad," Sengupta added.

Ahsan Khan Chowdhury, chairman and chief executive officer of Pran-RFL Group, said a plant in neighbouring Indiawould enable his company to expand its market.

"We now export our products to a number of states in India. Now, we are in a position such that we need to set up factories in India to expand to South, North and West India."

"We see a very good prospect. If we can replicate what we have learned there, we can be one of the top food companies in India."

Chowdhury thinks Bangladesh's corporate sector should be given the opportunity to make overseas investments so that they can gain greater market access.

"The US has given tariff benefit to African nations. If a company wants to invest there to avail duty advantages and export to the US market, the authority should allow it."

This will benefit Bangladesh as local firms will be able to repatriate profits from investments made abroad.

Khokan Chandra Das, chief financial officer of Renata, says the company wants to set up a subsidiary to export pharmaceuticals and associated products to the European Union. There is a rule that requires firms to establish a fully-owned subsidiary in Europe in order to export products to the bloc, he said last month.

Incepta Pharmaceuticals Ltd wants to open a subsidiary in the US to market drugs.

"The US is the biggest market for pharmaceuticals. Our competitors are doing good in that market since they have offices there. We need to have an office," said Incepta Pharmaceuticals Chairman and Managing Director Abul Muktadir.

"If we are allowed to use our foreign currency earnings in the export retention quota freely, we could do much bigger things."

Khondaker Golam Moazzem, research director of the Centre for Policy Dialogue, said the interest in investing abroad was positive since the competitiveness of local firms had increased.

Over the past decades, particularly from 1980 onwards, liberalisation of policies encouraged private sector-led industrialisation, he said. And beginning with garments, industries expanded to other export and domestic market-oriented sectors.

"Now, we see a sense of confidence among entrepreneurs. They want to go abroad to try to expand the business."

"It can be said that our entrepreneurs have got a certain level of upgradation, and they are ready for global exposure," he added.

Moazzem, however, requests the government to ensure transparency in the whole process.

"As we are a country with a small foreign currency reserve base, the regulator should monitor whether investments are being made transparently and profits are being repatriated properly."

A separate policy is needed for overseas investments, he says, adding that time has come to evaluate the performance of firms that have already invested abroad.

Atiur Rahman, a former governor of the Bangladesh Bank who had overseen granting of a number of investment proposals while in office, said Bangladesh's entrepreneurs should continue learning by conducting experiments.

"We should keep the window open. But the authority should give permissions on a case-to-case basis. We can explore business prospects in countries where Bangladesh has already earned goodwill."