INVESTING ABROAD: A NEW HORIZON

Companies worldwide go beyond their home markets to achieve economies of scale, source raw materials cheaply, lower costs and capture new markets. Similarly, many Bangladeshi firms are expanding abroad to find larger markets for their products and services and power their next phase of growth. Their success will depend on how efficiently they run the overseas operations and the regulations Bangladesh puts in place to pave the way for the expansion and eliminate any scope for misuse.

Companies going global to expand footprint

SOHEL PARVEZ *and* REJAUL KARIM BYRON

Bangladesh's people have witnessed a huge surge in entrepreneurial spirit over the last couple of decades.

Beginning with investments in garments in the early 1980s and their subsequent success, entrepreneurs steadily pushed their boundaries to explore the international and domestic markets.

Today, local entrepreneurs have a strong presence in the global apparel market thanks to their courage and resilience, putting Bangladesh on the list of the top three garment exporters in the world.

On the domestic front, a number of sectors – steel, cement, pharmaceuticals, food and agro-processing – have staged a strong emergence over the last two to three decades. And the expansion drive by entrepreneurs continues.

Now, a growing number of entrepreneurs have set their sights on international markets to grow by joining the global value chain.

The Bangladesh Bank started allowing local firms to make investments abroad in 2014.

Till last year, it gave the nod to 10 firms to establish subsidiaries or open offices in various countries such as Malaysia, Singapore, Ethiopia and Kenya, according to a central bank document.

It also gave approval for $52.2 million to be invested altogether. The firms subsequently doled out$40 million. And at the end of June this year, the central bank granted permission to six more firms to invest a total of $7.77 million in India, Ireland, the US, Singapore, and Saudi Arabia.

The companies are the NASSA Group of Industries, Pran-RFL Group, Bangladesh Steel Re-Rolling Mills (BSRM), Incepta Pharmaceuticals, Renata, andMBM Garments Ltd.

Of the first 10 firms, Akij Jute Mills poured the whole $20 million it had received permission for into its subsidiary, Akij Resources SDN BHD, in Malaysia.

Square Pharmaceuticals invested $10 million to establish a pharmaceuticals plant in an export processing zone in Kenya from the approved amount of $16 million. It is yet to begin production.

DBL, one of the leading apparel exporters, set up a garment factory in Ethiopia, investing $5.5 million. It started production on a limited scale but could not make a profit, the BB said in a document prepared in the middle of 2021.

Another major firm, MJL Bangladesh Ltd, invested over $5 million in its subsidiary MJL-AKT Petroleum Company Limited in Myanmar.

MJL-AKT repatriated $1.3 million by selling products as of June 2019, while another concern, MJL (S) Pte Ltd in Singapore incurred losses, Bangladesh Bank data showed.

Service Engine BPO, a business process outsourcing company, formed a subsidiary, AIIM International EZE, in the United Arab Emirates, investing $5,700. It was able to bring back nearly $16,000.

Beximco Limited was granted permission to invest in Sri Lanka, but it could not make any progress afterwards as the authorities in the island country changed the rule regarding allowing foreign investment in pharmaceuticals, said an official of the company.

BSRM invested $27,500 until last year to set up a steel mill in Kenya out of the authorised amount of $4.87 million.

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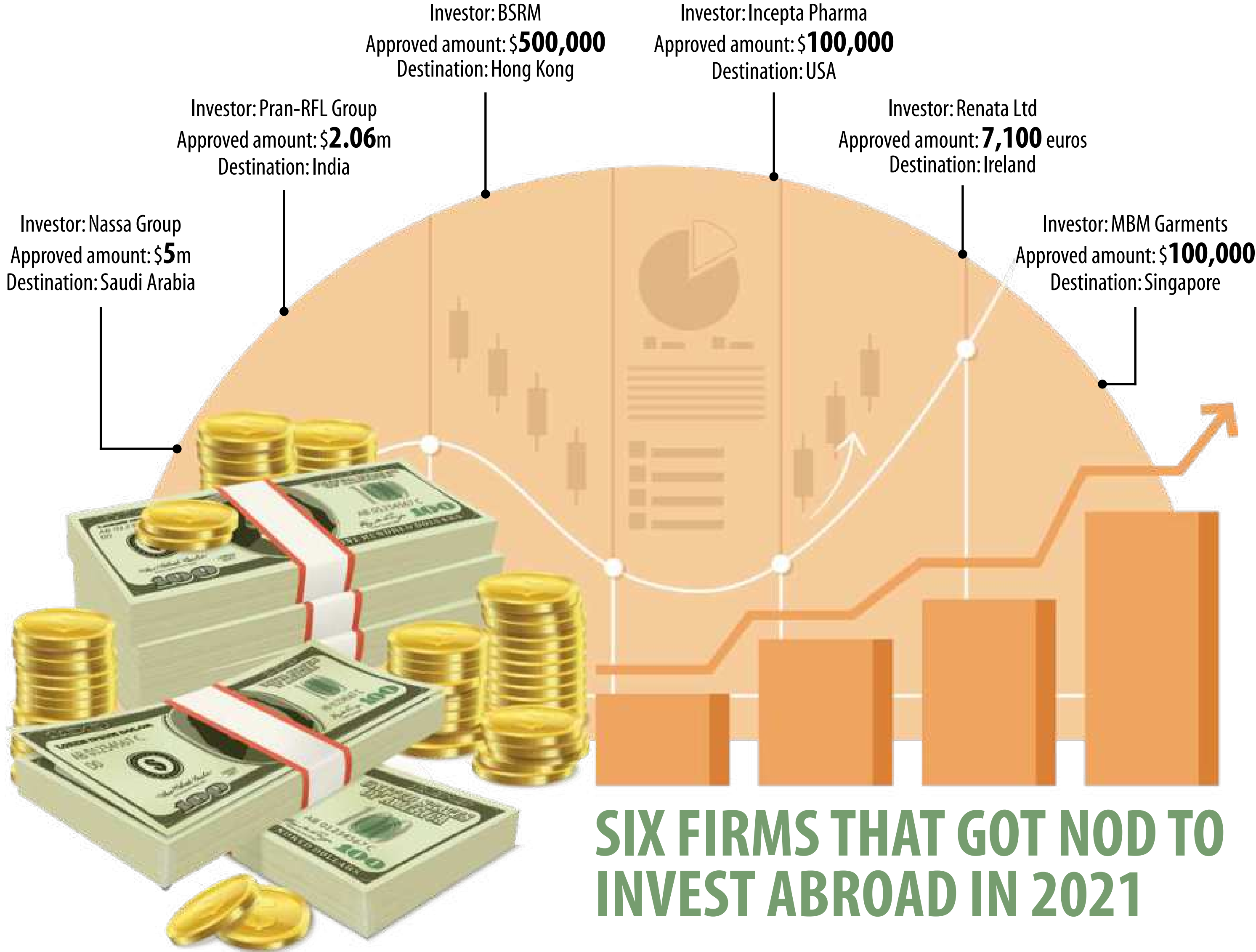

Harnessing potential gains from outward FDI

ZAHID HUSSAIN

Corporate Bangladesh is increasingly demanding the easing of draconian restrictions on outward foreign direct investment (OFDI) as they seek to diversify earnings. Indeed, OFDI can yield financial, intangible capability, and tangible capacity returns, thus complementing the development benefits realised through trade, migration and inward FDI.

Businesses in developing countries are using OFDI as a catch-up strategy by expanding overseas operations. Samsung has been the frontier firm in the production of dynamic random-access memories, and Mittal Steel has become the globe's leading-edge manufacturer of steel.

THE CHANGING FDI LANDSCAPE

Mainstream economic theory predicted capital to flow from capital-rich developed countries to capital-poor developing countries. Indeed, in 1995, OFDI from developing countries constituted just 4 per cent of global FDI flows. However, in 2017, the share of OFDI from capital-poor countries reached 27 per cent, according to the World Bank Global Investment Competitiveness Report 2017-2018.

There were 21,000 multinational enterprises from developing countries --3,500 from China, 1,000 from Russia, 815 from India, and 220 from Brazil. Many developing countries are now engaged in OFDI regardless of their level of development. Between 2008 and 2018, developing countries in the Asia Pacific region (excluding China) provided on average $150 billion in OFDI annually. The region has been the largest source of OFDI globally since 2018. Asia was the only region recording (7 per cent) expansion in OFDIs in 2020, a pandemic year in which FDI flows plunged globally by 35 per cent, says the UNCTAD World Investment Report 2021.

Domestic policy choices in developing countries and global economic conditions shaped these changes. FDI is a natural extension of the globalisation process that often begins with exports. In the late 1990s, firms in high-growth economies embraced OFDI seeking efficiency in resource allocation and diversifying risks from economic shocks in any region. Rapid and sustained growth in much of the developing world and commodity price booms in the subsequent decades propelled firms to internationalise.

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SK Bashir Uddin

'Horizon is bigger than we imagined'

*Since the Bangladesh Bank began allowing outward investment in 2014, Akij Group has availed permission for the biggest amount. In an interview with The Daily Star's **Sohel Parvez**, Akij Group Managing Director SK Bashir Uddin shared his experience.*

Akij Jute Mills Ltd has poured the whole $20 million, which the Bangladesh Bank in November 2017 granted, from its export retention quota into its subsidiary Akij Resources SDN BHD in Malaysia. The quota specifies the amount of export earnings that can be retained by a business in foreign currency in an account.

The subsidiary spent $77 million in 2018 to acquire Robin Resources and its subsidiary Robina Flooring that manufacture reconstituted wood products and export to about 60 countries.

This created a high level of debt, which has over the years been substantially reduced with retained earnings.

"The factory in the Southeast Asian country has been doing well," said SK Bashir Uddin, managing director of Akij Group.

"I must say we are doing good but not as well as we had expected. But it is not bad."

Akij Group is one of Bangladesh's largest business houses with diverse interests ranging from textiles, cement, ceramics, printing and packaging, pharmaceuticals to tobacco, food, beverage and consumer products.

The group could take only 25 per cent equity from Bangladesh to invest in the Malaysian subsidiary as the central bank allowed it to take only $20 million.

"We had to source the remaining 75 per cent. And our debt cost was high as we did not have any credential there. Our debt is now about 25-30 per cent," said Bashir.

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Govt drafts guidelines on investing abroad

REJAUL KARIM BYRON *and* SOHEL PARVEZ

The government has framed draft rules to allow local firms to set up subsidiaries or buy shares in companies in other countries with a view to facilitating investment abroad.

As per the draft, exporters will be able to invest as much as 20 per cent of their five-year average annual export receipts as equity to establish subsidiaries on foreign soil.

In order to qualify, exporters will need to have an adequate balance in their Export Retention Quota (ERQ) accounts, where entrepreneurs keep a portion of their export proceeds in foreign currency.

Alternatively, an exporting firm can invest 25 per cent of its net asset based on its most recent financial statement, according to the draft rules on equity investment abroad framed by the Financial Institutions Division of the finance ministry.

The rules, drawn up under the Foreign Exchange Regulation Act 1947, come at a time when Bangladesh's businesses are increasingly looking to invest abroad to expand their footprint. The Bangladesh Bank has far allowed 15 firms to set up subsidiaries or open offices in other countries.

Of them, the central bank gave the go-ahead to five firms to invest in countries such as India, Ireland, the US, Singapore, and Saudi Arabia to do business in food processing, pharmaceuticals, and dates.

> As per the draft, exporters will be able to invest as much as 20 per cent of their five-year average annual export receipts as equity to establish subsidiaries on foreign soil.

Earlier, the central bank permitted 10 companies to open subsidiaries in countries such as Malaysia, Singapore, Ethiopia, and Kenya.

Central bankers say they framed the new rules in order to have a framework at hand so that local investors get a clear guideline on the issue. The rules will be finalised upon approval from the government.

As per the draft rules, exporters with an adequate balance in their ERQs can apply to make an investment in other countries. The applicant should be financially solvent or viable in the previous five years. In addition, interested firms must submit certificates of export proceeds realisation and import bill settlement.

Firms will need to furnish documents confirming that they do not have any default or rescheduled loans and any unpaid tax, value-added tax and duties. They will have to provide at least two of these supporting documents, according to the draft.

Conditions also apply regarding the selection of investment destinations. The draft rule says investments will be allowed in countries that have no restriction on profit repatriation.

Investment in the countries that have double taxation avoidance agreements with Bangladesh will be given priority. Priority will be given to the investment bids in the nations with which the country has bilateral treaties on investment and development.

Investment proposals aimed at the countries that have been slapped with sanctions or restrictions by the United Nations, the European Union and the Office of Foreign Assets Control of the US will not be entertained.

Investors seeking to do business in the countries identified as the destinations for illegal transactions by the Financial Action Task Force, a Paris-based intergovernmental body combating money laundering, will not get the permission to do as well.

Similarly, any investment proposal in the countries with which Bangladesh does not have any diplomatic relations will also not be entertained.

As per the draft, investors will have to transfer money directly to the associated enterprises. In the case of share purchases, investors must send money to the accounts of sellers. Money should be brought back if the investment does not take place.

Investors can't invest income, dividends, profits, or proceeds from the sales of shares without prior approval of the Bangladesh Bank.

Investors will be asked to follow a zero-tolerance policy towards associated firms, their management team and employees on racism, derogatory remarks about religion, the local culture, money laundering, and terrorist financing.

They will have to have a full or majority stake in the firms abroad where they invest, and they must make efforts to hire as many Bangladeshis as possible in the entities to be established.

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