How can we become an attractive investment destination?

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Economic growth and business development are highly dependent on the business climate created by socio-economic policies and political decisions of governments. Research suggests that countries that provide better public goods and services – such as roads, electricity, gas, water, and sewerage – and offer business-friendly policies that protect the rights of business enterprises, as well as workers, consumers, and the environment, and ensure a stable political system, attracts more investment and businesses. More investment and businesses create more economic activity, which in turn generates more jobs, reduces poverty, and increases social cohesion, and economic growth. Prior to the Covid-19 pandemic in 2020, Bangladesh's economy was growing rapidly, recording an annual expansion in the range of 8 percent.

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Just as we started to recover from the fallout of the pandemic, the country started to face unprecedented challenges created by the Russia-Ukraine war. The war has led to a massive increase in energy prices, altered global patterns of trade, production, consumption, and disrupted supply chains which have led to rising prices globally. Rising commodity prices, higher import payments, and low remittance flow resulted in Bangladesh having a negative balance of payments (BoP) in the first five months of the current fiscal year.

The present economic scenario indicates that doing business in Bangladesh may not be all that easy in the coming days. History, however, suggests that tough times like these have only made Bangladesh stronger as a nation. Since independence in 1971, Bangladesh has undergone an amazing transformation in spite of facing periodical floods, cyclones, droughts, and other types of disasters.

When the war-ravaged country gained independence in 1971, the size of its GDP was only USD 6.2 billion. In fiscal year 2021-22 (FY21-22), Bangladesh's GDP grew to USD 465 billion – becoming the 35th biggest economy in the world. A large part of this growth has been driven by export earnings, especially from the ready-made garments (RMG) industry, growth of our agricultural sector, and remittances sent in by our migrant workers.

Bangladesh is, without a doubt, one of the most promising economies in the region. Research, however, shows that to transform Bangladesh into a high-income country, it would need to raise its investment-to-GDP ratio to around 40-44 percent of GDP. Currently the investment-to-GDP ratio in Bangladesh is hovering around 30 percent. Despite steady economic growth over the past decade, investment in Bangladesh has remained comparatively lower than its regional peers. The public investment-to-GDP ratio was 8.67 percent in FY2021, up from 8.41 percent in FY2020, and 8.03 percent in FY2019. Unfortunately, while public investment on the infrastructure front – particularly on megaprojects – has increased, it has been unable to attract significantly higher private investment from either local or overseas sources. The private investment-GDP ratio was 25.25 percent in FY2019, which fell to 20.24 percent the following year, and then rose to 23.70 percent in FY2021, according to BBS data.

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We are also lagging behind in attracting foreign direct investment (FDI). While even during the pandemic (2020) FDI flow to developing countries in Asia increased by 4 percent to USD 535 billion, according to figures from the UN Conference on Trade and Development (UNCTAD), Bangladesh could not achieve the expected FDI. According to the latest statistics released by the central bank, in FY2022, Bangladesh received FDI of around USD 3.44 billion and of the amount, USD 2.04 billion accounted for reinvested earnings by the already existing foreign companies in the country. The rest came from equity or fresh investment of USD 1.34 billion. The rate of FDI inflow in Bangladesh is only around 1 percent of GDP, one of the lowest in Asia.

What is worrying is that while Bangladesh is desperately looking for both local and foreign investment, a group of wealthy people are reportedly siphoning huge amounts of money out of the country. According to the Global Financial Integrity (GFI) – a Washington-based think tank – USD 61.6 billion was siphoned out of Bangladesh between 2005 and 2014. In 2015 alone, about USD 5.9 billion was laundered out of the country. GFI also revealed that on an average, USD 7.53 billion has been siphoned out of the country each year and, accordingly, from 2016 to 2020, around USD 37.65 billion has been laundered. The low inflow of FDI, sluggish private investment, and large outflows of capital indicate that we have failed to gain investors' confidence.

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