April 17, 2024

Mr A. H. M. Jahangir
Additional Secretary and Project Director
Support to Sustainable Graduation Project (SSGP)
Block 8, Room 11, Economic Relations Division
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Subject: Submission of the Final Report of the Study on "Expanding Private Investment in the Context of LDC Graduation".

Dear Mr A. H. M. Jahangir,

We are delighted to share the Final Report of the Study on "**Expanding Private Investment in the Context of LDC Graduation"** undertaken by the South Asian Network on Economic Modeling (SANEM).

We would be happy to provide you with any additional information/documents if required.

With kind regards,

Selim Raihan

Dr. Selim Raihan
Executive Director
South Asian Network on Economic Modeling (SANEM)

Enclosed: Ten (10) copies of the report.

Report

Expanding Private Investment in Bangladesh in the Context of **LDC Graduation**

Economic Relations Division

Ministry of Finance

Report

Expanding Private Investment in Bangladesh in the Context of LDC Graduation

Submitted to

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Private investment fuels economic growth and sustainability. In this connection, Bangladesh's graduation from the Least Developed Country (LDC) status by November 2026 could impose a unique set of challenges for robust private sector expansion. However, unlike the challenges, both existing and anticipated ones, the opportunities are mostly not automatic. This study delves into both of these trails and shares the way forward including a specific action plan.

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Selim Raihan

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List of acronyms

AANZFTA	ASEAN–Australia-New Zealand Free Trade Area
ADB	Asia Development Bank
AfT	Aid for Trade
AI	Artificial Intelligence
APTA	Asia-Pacific Trade Agreement
API	Active Pharmaceutical Ingredients
ASEAN	Association of Southeast Asian Nations
BAB	Bankers Association of Bangladesh
BAPA	Bangladesh Agro-Processors' Association
BAPI	Bangladesh Association of Pharmaceutical Industries
BASIS	Bangladesh Association of Software and Information Services
BB	Bangladesh Bank
BBIN	Bangladesh Bhutan India Nepal
BBS	Bangladesh Bureau of Statistics
BC	Bank Credit
BCA	Banking Companies Act
BD	Bangladesh
BDT	Bangladeshi Taka
BE	Bioequivalence
BEIOA	Bangladesh Engineering Industry Owners Association
BEMA	Botswana's Exporters and Manufacturers Association
BERC	Bangladesh Energy Regulatory Commission
BEPZA	Bangladesh Export Processing Zones Authority
BEZA	Bangladesh Economic Zones Authority
BFTI	Bangladesh Foreign Trade Institute
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BIDA	Bangladesh Investment Development Authority
BITAC	Bangladesh Industrial Technical Assistance Centre
BITC	Botswana Investment and Trade Centre
BKMEA	Bangladesh Knitwear Manufacturers and Exporters' Association
BM	Broad Money
BSCIC	Bangladesh Small and Cottage Industries Corporation
BSEC	Bangladesh Securities and Exchange Commission
BSTI	Bangladesh Standards and Testing Institution
BPGMEA	Bangladesh Plastic Good Manufacturers & Exporters Association
BRC	Bank Reform Committee
BRICS	Brazil, Russia, India, China, and South Africa
BTRC	Bangladesh Telecommunication Regulatory Commission
CCIE	Chief Controller of export and import
CDP	Committee for Development Policy
CEO	Chief Executive Officer
CETP	Common Effluent Treatment Plant
CF	Cost and Freight
CMSME	Cottage, Micro, Small and Medium Enterprise
CPS	Credit to Private Sector

CSE	Chittagong Stock Exchange
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CTH	Change of Tariff Heading
DCCI	Dhaka Chamber of Commerce & Industry
DFQF	Duty-Free and Quota-Free
DFQFMA	Duty-Free and Quota-Free Market Access
DPoA	Doha Programme of Action
DSE	Dhaka Stock Exchange
DWASA	Dhaka Water and Sewage Authority
EBA	Everything but Arms
EDP	External Debt Payments
EEF	Equity and Entrepreneurship Fund
EIF	Enhanced Integrated Framework
EPB	Export Promotion Bureau
EPZ	Export Processing Zone
ERD	Economic Relations Division
EU	European Union
EVI	Economic and environmental Vulnerability Index
EZ	Economic Zone
FBCCI	Federation of Bangladesh Chambers of Commerce and Industry
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act
FGD	Focused Group Discussion
FICCI	Foreign Investors' Chambers of Commerce and Industry
FPIPPA	Foreign Private Investment (Promotion and Protection)
FSRP	Financial Sector Reform Project
FTA	Free Trade Agreement
GCF	Green Climate Fund
GDP	Gross Domestic Product
GLS	Generalised Least Squares
GNI	Gross National Income
GoB	Government of Botswana
GPT	Generalised Preferential Tariff
GSP	Generalised System of Preferences
GSP+	Generalised Scheme of Preferences Plus
G2G	Government to Government
HAI	Human Asset Index
HLCC	High Level Consultative Council
ICOR	Incremental Capital-Output Ratio
ICT	Information Communication Technology
IDA	International Development Association
ILOSTAT	International Labour Organisation Statistics
IMF	International Monetary Fund
IPC	Investment Promotion Centre
IP	Intellectual Property
IPO	Initial Public Offering
IPRs	Intellectual Property Rights

ISIC	International Standard Industrial Classification (of all Economics activities)
ISM	International Support Measures
IT	Information Technology
ITES	Information Technology Enables Services
ITC	International Trade Centre
KII	Key Informant Interviews
LDBDCs	Least-developed Beneficiary Developing Countries
LDC	Least Developed Country
LDCT	Least Developed Country Tariff
LDC5	Fifth United Nations Conference on Least Developed Countries
LED	Light Emitting Diode
LFMEAB	Leather goods and Footwear Manufacturers & Exporters Association of Bangladesh
LL	Liquid Liabilities
LMIC	Lower Middle Income Country
LoC	Letter of Credit
LPI	Logistic Performance Index
LWG	Leather Working Group
MCCI	Metropolitan Chamber of Commerce & Industry
MCIL	Minister of Commerce, Industry and Labour
MFA	Multi-fibre Agreement
MFN	Most-Favored Nations
MICs	Middle Income Countries
MINT	Mexico, Indonesia, Nigeria, and Turkey
MoC	Ministry of Commerce
MoF	Ministry of Finance
MoI	Ministry of Industries
MoLE	Ministry of Labour and Employment
MoYS	Ministry of Youth and Sports
MNC	Multinational Corporation
MPEMR	Ministry of Power, Energy, and Mineral Resources
NBFI	Non-Bank Financial Institutions
NBR	National Board of Revenue
NCB	National Commercial Bank
NEET	Not in Education, Employment, or Training
NFG	Non-resident Foreign Currency Deposits
NGO	Non-governmental Organization
NIC	National Investment Commission
NPL	Non-performing Loan
NRB	Non-Resident Bangladeshi
NSDA	National Skill Development Authority
ODA	Official Development Assistance
OEC	Observatory Economic Complexity
OECD	Organisation for Economic Co-operation and Development
OHRLLS	Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
OLS	Ordinary Least Square

PCB	Private Commercial Bank
PDR	People's Democratic Republic
PCI	Productive Capacities Index
PMO	Prime Minister's Office
PSRs	Product-specific Rules
RCEP	Regional Comprehensive Economic Partnership
RGR	Real GDP growth
RMG	Ready-made Garments
ROA	Return on Assets
ROI	Return on Investment
ROO	Rules of Origin
R&D	Research and Development
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
SAM	Social Accounting Matrix
SCBs	State-owned Commercial Banks
SDG	Sustainable Development Goal
SDT	Special and Differential Treatment
SEZ	Special Economic Zone
SEZA	Special Economic Zones Authority
SGSF	Sustainable Graduation Support Facility
SIFA	Samoa International Finance Authority
SMEs	Small and Medium Enterprises
SNA	System of National Accounts
SOLs	Service Offering Lines
SPS	Sanitary and Phytosanitary
SSGP	Support to Sustainable Graduation Project
STEM	Science Technology Engineering Mathematics
SWOT	Strengths, Weaknesses, Opportunities, and Threats
TFA	Trade Facilitation Agreement
TOT	Terms of Trade
TRIPS	Trade-Related Intellectual Property Rights
TVET	Technical and Vocational Education and Training
UN	United Nations
UNCDP	United Nations Committee for Development Policy
UNCOMTRADE	United Nations Common Format for Transient Data Exchange for Power Systems
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
UNIDO	United Nations Industrial Development Organization
USA	United States of America
USD	United States Dollar
VAT	Value Added Tax
VC	Venture Capital
VIPA	Vanuatu Investment Promotion Authority
WB	World Bank
WBES	World Bank Enterprise Survey

WDI	World Development Indicator
WITS	World Integrated Trade Solution
WTO	World Trade Organization
4IR	Fourth Industrial Revolution

Executive Summary

Private sector investment expansion is one of the fundamental catalysts for achieving high economic growth and obtaining sustainable development. However, Bangladesh's private sector investment growth has remained almost stagnant over the decades, beset with numerous obstacles. In this context, Bangladesh's graduation from the Least Developed Country (LDC) status by November 2026 could impose additional challenges for robust private sector expansion. This report explores the challenges related to expanding private investment in Bangladesh in the context of the LDC graduation and identifies key policies as a way forward.

Analyzing the trend and pattern of private investment in Bangladesh shows several important insights. Bangladesh's private investment (as a share of GDP) remained in the bracket of 22%-25% over the last decade. The country is yet to achieve decade-long episodes of higher private investment growth, as observed in the East Asian comparators in the early 1970s and 1980s during their economic take-off. This emphasizes the need for a "big push" in private investment growth to break the middle-income trap and take the country to a higher income trajectory. In this context, Domestic investment in Bangladesh has shown remarkable growth and resilience, particularly in the startup sector. On the other hand, over the past decade, Bangladesh has witnessed a remarkable transformation in its SME sector. Regardless, the domestic investment in Bangladesh is falling short its potential due to the underlying challenges.

In the last five years, Bangladesh's net FDI inflow exhibited an ambiguous trend. However, the overall FDI stock showed a rising pattern, except in 2022. A detailed analysis reveals a decrease in equity capital and intra-company loans in 2022, contrasting with a significant increase in reinvestment earnings. The upswing in reinvested earnings is attributed to a shortage of foreign exchange and macroeconomic instability, hampering profit repatriation. Conversely, challenges in repatriating profits, bureaucratic obstacles, and infrastructure deficiencies led to a yearly decline in equity capital and intra-company loans.

More so, Bangladesh's FDI remained significantly lower than the LDC or LMIC averages and had been primarily concentrated in only a few sectors, such as power generation and apparel. It necessitates tapping the untapped potential to fully exploit its benefits, particularly in more diversified, complex and high-value-adding manufacturing and services sectors (such as IT and ITES).

Furthermore, the choice among various types of FDI and the situation of synergic investment depend on several factors including the nature of the industry, the absorption capacity of the labor force, the regulatory environment and the development priority of the country. The current composition of FDI types along with a detailed examination of joint ventures shows fluctuations across sectors, emphasizing the need to address industry-specific challenges for synergic investment.

In addition, the Incremental Capital Output Ratio (ICOR), one of the measures of efficiency of capital productivity, did not improve over time for Bangladesh. A lower ICOR is warranted during an economy's initial emerging phase or take-off period, as observed in many East Asian countries. Therefore, attaining higher private investment with more efficiency should be the goal for the coming years.

From policy perspective, the economy of Bangladesh is open to foreign investment. The country offers specific high incentives and protection for foreign investors. This approach to foreign investment promotion and protection has been stated in different policies of Bangladesh. Although the Foreign Private Investment Promotion and Protection Act (FPIPPA) 1980 is the key regulatory framework of foreign investment in Bangladesh, the entry, protection, and promotion of foreign investment in Bangladesh is controlled by a number of other laws as well. The study team reviewed the critical investment policies to precisely narrow down the private investment related challenges.

The study further delves into International Support Measures (ISMs) received by Bangladesh, detailing schemes from various nations. It highlights the impact of losing ISMs post-graduation, affecting exports, GDP, and various sectors. The analysis also includes an interplay among ISMs, export, and private investment in Bangladesh, emphasizing the need for proactive measures to maintain a conducive investment climate post-graduation.

There are several crucial challenges in promoting private investment in Bangladesh, which can be broadly categorized into four groups: (i) policy and procedural challenges, (ii) infrastructure challenges, (iii) organizational challenges, and (iv) other sector-specific challenges.

(i) Policy and procedural challenges

The examination of policy and procedural challenges for promoting private investment in Bangladesh starts with detailing the market penetration challenges. The stagnant level of fresh investments in Bangladesh can be attributed to factors such as Forex reserves macro stability, inflation etc. The overarching problem of market penetration stretches from land scarcity to taxation. In navigating these multifaceted challenges, Bangladesh stands at a crossroads, requiring strategic reforms and focused efforts to unlock its economic potential.

One of the major policy and procedural challenges in Bangladesh is the need for significant reform aimed at liberalizing import tariffs. Despite the country's considerable reductions in import tariffs, Bangladesh still remains highly protected compared to the rest of the world. The current tariff regime is not investment-friendly, and the formulation of tariff policies in Bangladesh is not based on a scientific approach. Instead, tariff policies are often shaped through lobbying, leading to inefficient investments in domestic industries.

Another major challenge in this regard is the need for proper policy reform in the tax system. According to the PwC's Paying Taxes 2020 report, Bangladesh significantly lagged behind its comparators in terms of the ease of paying taxes, time to comply (hours), and number of payments. Moreover, inconsistent tax rates lower investors' forecasting predictability and trust in the policy regimes. In addition, the inconsistency in fiscal incentives often reduces the business confidence in forecasting profits, risks and losses, which reduces the business expansion motives for the local producers, as well as discourages FDI from multinational companies.

There are also challenges related to bureaucratic and regulatory issues. For instance, on the six dimensions of the World Governance Indicators (which include control of corruption, government effectiveness, political stability and absence of violence/terrorism, regulatory quality, rule of law, and voice and accountability), Bangladesh fell behind the comparators on all the parameters. Complicated bureaucratic and regulatory issues and weak institutions weaken investment prospects for Bangladesh. There is also a need for coordination among the line ministries to avoid avoidable delays, and set up specific dispute settlement body for investors.

Another key challenge is the access to finances. The growing and potential sectors in Bangladesh face limited access to formal financial systems due to high collateral requirements, and complex procedures. Small and micro entrepreneurs lack the necessary documents, hindering their eligibility for loans and preventing new investments. There are now urgent needs for improved access to finance and a strong financial sector for robust investment growth. Moreso, Bangladesh needs to improve the non-performing loans in the banking sector. In addition, it is essential to reinvigorate the capital market to expand private sector investment in the country.

Additionally, there are many obstacles to repatriation of profits from Bangladesh with fear over the bureaucratic nature of outbound transfers. There is a possibility of delays, particularly in case of tax dispute cases, and authorities may just hold applications for additional information. The situation has further been fuelled by continuing dollar crisis amidst reports that some of the foreign investors are reinvesting locally due to scarcity of dollars. Therefore, strategic initiatives required to mitigate the repatriation related issues.

(ii) Infrastructural challenges

Trade facilitation challenges in Bangladesh discourage private investment, due to inconsistencies in policy and ineffective implementation of Trade Facilitation Agreement (TFA). Customs-related issues in land and airport problems, inefficiency in customs processes, and poor logistics performance result in hardship for investors and importers. These challenges are taking a toll on private investments increasing costs of operations, low competitiveness repelling investors against their decision to invest, and bring uncertainty in business.

Despite progress in connectivity, infrastructural bottlenecks remain a significant concern in Bangladesh due to poor trade logistics. Bangladesh's performance on trade logistics, as measured by the World Bank's Logistics Performance Index, has shown very little progress over the last decade. In other words, despite significant improvements in physical infrastructure concerning connectivity, Bangladesh still falls short compared to the global standards regarding trade logistics. This indicates that perhaps it's high time Bangladesh focused more on trade logistics alongside physical connectivity.

Moreover, there is no denying that, private investment growth would largely depend on a sustainable and long-term solution for utility services such as gas and electricity. Despite Bangladesh’s remarkable progress in ensuring a greater supply of electricity, still a large proportion of the firms consider electricity as one of the major constraints, which has been recently worsened due to global economic turmoil arising from the Russia-Ukraine war. Such utility services would require uninterrupted supplies to the producers in the post-LDC era to boost private investment.

(iii) Organizational challenges

One of the key organizations involved in investment promotion in Bangladesh is the Bangladesh Investment Development Authority (BIDA). Since its establishment in 2016, BIDA has taken various important steps to promote and facilitate private investment in the country. One of BIDA's notable initiatives is the One Stop Service center (OSS), which offers investors the convenience of availing some key services, such as license applications or renewals. However, despite the OSS, BIDA has not been able to bring all services on-board. The challenge lies in convincing other agencies to participate in this online service provision system which is also entangled with bureaucratic complexity. Though BIDA aims to facilitate swift application approvals, the practical process has sometimes proven to be time-consuming and not entirely under BIDA's direct control.

Bangladesh Economic Zone Authority (BEZA) is another significant organization responsible for setting up economic zones in potential areas in Bangladesh. BEZA offers One-Stop service and competitive incentive packages such as tax exemptions and customs/excise duty exemptions or non-fiscal benefits such as no FDI ceiling, work permit issuance, and recommendations for residency/citizenship. Currently, 97 economic zones have received approval, with 29 of them being privately owned. It is anticipated that around five SEZs will be fully operational by 2026. However, BEZA faces several challenges, such as lengthy land acquisition procedures, budgetary constraints for land acquisition, high land prices for potential investors, and uncertainty surrounding the timely delivery of the SEZs. To overcome these challenges, BEZA needs to adopt strategies that offer land to local/foreign investors at a competitive price, prioritize the swift delivery of One-Stop services, streamline bureaucratic procedures and attract more private-public partnerships.

Like BEZA, the Bangladesh Export Processing Zone Authority's (BEPZA) primary goals involve bolstering industrialisation, investment promotion, export expansion, and job creation inside Export Processing Zones (EPZs). With the help of a streamlined One Window Service and various fiscal and non-fiscal incentives, BEPZA has successfully attracted both domestic and foreign investment which are fully export-oriented. Nevertheless, challenges persist as international investors express concerns on several issues, including the government's recent financial restrictions and austerity policies in the awake of depleting liquidity. Moreover, some policies offered by comparators, such as the tariff-free special zones in Vietnam, are attracting investors to Vietnam. In contrast, Bangladesh's tariff regulations are seen as obstacles that prevent foreign investment. Potential investors may be put off by the high upfront fees associated with licenses and permits and the need for better inter-agency collaboration. As BEPZA moves forward, emphasising the shortening of industry lead times, introducing a new bankruptcy statute, and utilising cutting-edge logistics technology may help to boost export growth and trade standards.

Bangladesh Hi-Tech Park Authority's (BHTPA) objectives include the construction of infrastructures that meet international standards, developing a friendly and sustainable business environment, growing an industrial ecosystem based on IT/ITES, and delivering all-inclusive services via a single One Stop Platform. The government has established several Hi-Tech Parks, Software Technology Parks, and IT Training and Incubation Centers nationwide. These parks provide specialized areas, amenities, internet connection, and financial incentives to support domestic and international businesses. However, stakeholders mention some of the areas of improvement for the BHTPA including (i) speeding up the land acquisition time, (ii) ensuring project timeliness, (iii) providing tax benefits for the firms in the Hi-Tech farms, (v) attracting more FDI in the sector, etc.

One of the major bodies with crucial importance for private investment in Bangladesh is the National Board of Revenue (NBR). As mentioned during the stakeholder consultations, the NBR would require several key reforms in order to meet the post-LDC graduation challenges. At present, the NBR is still stuck with the old system of tax collection by monitoring taxpayers physically whereas comparator countries have already opted for modernization. Nonetheless, the stakeholders expressed their concern regarding the tax policy and administrative practices of NBR as a challenge to expanding private investment in Bangladesh. For instance, one of the major concerns is the opacity of the tariff clauses. Moreover, the frequent alteration of Statutory Regulatory Orders (SROs) that govern exceptional situations contrasts with their intended limited use also causes problems for investors. The unpredictability stemming from these changes affects businesses' ability to plan effectively. Moreover, inconsistencies persist in the application of duties to specific raw materials and machinery categorized under designated HS codes. In pursuit of fostering a conducive environment for investments and economic growth, a series of pivotal measures have been suggested to be undertaken including (i) conducting a comprehensive review of the existing tax structures, (ii) ensuring the establishment of business-friendly laws, regulations, and administrative policies that prioritize cost-effective ease of doing business, (iii) ensuring stability and transparency in tax policies, and (iv) harmonizing applicable direct and indirect taxes across all sectors.

Bangladesh Bank (BB), the country's central bank's role primarily revolves around the monetary policy and interest rate regulation rather than directly attracting investment. BB implements policies such as allowing foreign investors to keep foreign currency in their local accounts for an extended length of time, permitting easier capital import and machinery acquisition to encourage private investment. Such initiatives provide incentives for investors domestically as well as abroad. However, some concerns with investors have frequently resulted from inaccurate reporting and a need for more knowledge about rules and regulations. There is a considerable knowledge gap among banking sector workers regarding FDI and investment-related issues and policies. The repatriation process is beset with various problems as well. Moreover, Bangladesh Bank needs to play a more prudent role in combating the present challenges in the financial sector of Bangladesh, such as non-performing loans, existing barriers to accessing financial services, etc.

Other challenges

There are several other major challenges to promoting private investment in Bangladesh. For instance, the labour productivity in Bangladesh is comparatively low. The shortage of a skilled workforce and skill mismatch hinder the prospect of a robust investment expansion. Nevertheless, many of the challenges are very much sector-specific. For instance, in the case of RMG, issues such as shortage of skilled workforce (including managers, designers, operators, etc.), poor port infrastructures, absence of innovative design, lower bargaining power with international buyers, etc., are critical barriers to further expansion. The pharmaceutical industry insiders mention the limited availability of drug testing laboratories and bioequivalent test facilities, insufficient R&D, and time-consuming import procedures as the three key barriers to growth. The largest stumble block in the leather and leather goods industry is the non-compliance for environmental safety issues and certification from international accredited bodies, primarily due to the inefficient CETP in Saver Tannery Estate. In the agro-processing sector, one of the critical challenges is the need for adequate testing facilities, cold storage and transport logistics, amongst others. For the light-engineering industry, access to capital, timely shipment of raw materials due to inefficient customs practices, and cooperation challenges from the legislative authorities are vital barriers. The electrical and electronics sector mentions the need for more R&D, inadequate design capacity, absence of effective intellectual property rights, and customs barriers as significant problems. In the ICT sector, the need for more supportive governmental fiscal policies for the growth of the software sector and investment in R&D and AI are some key concerns.

One of the aims of this study was to examine the experiences of the graduated LDCs (i.e. Botswana, Cabo Verde, Maldives, Samoa, Equatorial Guinea, and Vanuatu) and draw valuable lessons applicable to Bangladesh regarding private investment expansion in the post-LDC era. While comparing and drawing insights, the study found no definite pattern concerning private sector investment expansion, FDI, domestic credit to the private sector, or exports following their graduation. Among the countries, Botswana stands out as a case where private investment witnessed expansion in the post-LDC era. Equatorial Guinea and Vanuatu experienced increased FDI levels following their transition from LDC status. However, all the graduated LDCs instilled a positive investment climate characterized by favourable policies before or during their graduation. These countries have formulated comprehensive national investment policies and established relevant governing authorities to facilitate private investment expansions.

Opportunities

One of the major avenues for boosting private investment could be the SEZs. However, for SEZs to be successful, they must be properly managed and directed to prevent inefficiencies and underproduction. Additionally, political stability is crucial for attracting FDI and promoting SEZ development. If investors perceive the political environment of a country to be unstable, they are less likely to invest in that economy. Amongst others, the country should focus on, diversifying trade and market access. The government should also provide support to the export sectors in terms of capacity building, such as understanding 'post-LDC' new terminologies, rules, etc.

Over the last fifteen years, Bangladesh has made significant investments in large-scale infrastructure projects. Some of these projects, like the Padma Bridge, are already operational, while others are still in progress. If all the megaprojects are completed on time and efficiently, they could be a game-changer for driving new and diverse investment opportunities. However, the growth of private investment will largely depend on the timely and cost-effective implementation of these infrastructural projects.

A revolutionized transport communication system can offer numerous benefits, one of which is the opportunity to avail the Bangladesh Economic Corridor (BEC). An economic corridor comprises three interdependent elements: (i) a trade and transportation pathway; (ii) clusters of production facilities that manufacture goods for both domestic consumption and international trade; and (iii) urban centres serving as primary markets for products originating from the production centres, as well as for goods imported through international gateways. In order to promote even and decentralized development, the Bangladesh Economic Corridor (BEC) aims to strengthen its industrial, transportation, and social infrastructure. The BEC is designed to generate competitive industries that align with global value chains, create employment opportunities, and modernize infrastructure in line with the future requirements of urban and social clusters. It is estimated that, as a result of these efforts, the total output within the entire economic corridor region will increase from $32 billion in 2020 to $286 billion by 2050, and the total employment opportunities are expected to reach 71.8 million by 2050. Collaborations among different bodies such as BEZA, BEPZA, BHTPA, etc. will be required for the efficient delivery of the BEC.

Bangladesh is actively pursuing free trade agreements (FTAs) to expand market access, diversify exports and integrate into the global economy, especially exploring sectors beyond textiles and apparel. Feasibility studies for free trade agreements or preferential trade agreements (PTAs) with 23 countries have been completed, highlighting the country's commitment to diversifying trading partnerships. Initiatives include the signing of a bilateral preferential trade agreement with Bhutan, ongoing free trade agreement discussions with 11 Southeast Asian countries, the completion of a feasibility study on the Comprehensive Economic Partnership Agreement (CEPA) with India, and the signing of a memorandum of understanding with China. While optimistic research suggests potential benefits, addressing the challenges is critical to effectively implementing free trade agreements and realizing economic benefits.

Based on the challenges and lessons identified, this study strongly urges for targeted policies to ensure a "big push" in private investment growth in Bangladesh to break the low-equilibrium private investment trap and lead the country to a higher economic growth trajectory. If adequately addressed and sector-specific focused policies are undertaken, the LDC graduation can open new frontiers of opportunities for Bangladesh. It will ensure speedy foreign direct investment growth and a better performance in the external sector, led by more robust export growth. To capitalize on these opportunities, timely policy measures should be undertaken, including strengthening the investment climate, improving infrastructure, promoting technology adoption, and streamlining regulatory processes.

In essence, Bangladesh should aim to be China + 1 as an alternative to the Chinese market for foreign investors. To achieve this, Bangladesh needs to simplify customs clearance processes, design tariff policies based on scientific principles, streamline the business setup process, and provide clarity on tax regimes, while maintaining policy coherence for investors. To support domestic investors, Bangladesh should reform the banking sector to make financing more accessible, and provide more assistance to the SME sector. To improve skills, Bangladesh should strengthen industry-academia collaborations and focus on cutting-edge training, while enhancing institutional capacity. Additionally, capacity building of government officials is necessary. Bangladesh must also ensure the timely delivery of major infrastructural projects and focus on improving trade logistics.

By addressing challenges and leveraging potential opportunities, Bangladesh will be able to successfully navigate the post-LDC era with expanded private sector investment promoting sustainable economic development, job creation, and improved living standards.

1. Introduction

1.1. Background and context

To achieve high economic growth and larger development goals, expanding private sector investment is critical. However, private sector investment in Bangladesh is not expanding as per the expectation. Bangladesh is graduating from the Least developed Country (LDC) status by 2026, which is expected to generate some opportunities as well as pose some additional challenges for the expansion of the private sector investment. This report explores the opportunities and challenges related to expanding private investment in Bangladesh the context of the LDC graduation, and the way forward.

A country's capacity for investment and the effective and efficient use of its resources determines how quickly it may grow and develop effectively. In this sense, the private sector's contribution to the overall investment as well as its capacity to distribute and utilize resources effectively play crucial roles. In addition to serving as a source of new jobs and earnings, private investment has been used as a proxy for a thriving private sector. It also has a part to play in the delivery of social services and infrastructure. In a nutshell, growth is impossible without investments of a suitable quantity and calibre. Creating the internal conditions necessary to mobilize sufficient domestic savings to support sustainable levels of investment in productive and human capacity is a crucial task. This responsibility entails setting up the macroeconomic and microeconomic policies, public finances, the oversight of the financial system, and other essential elements of the economic system that enable the acquisition of the necessary financial resources for investment.

One important context for the expansion of private sector investment is that Bangladesh is going to graduate from the LDC status by November 2026. Graduation from the LDC status can create opportunities for Bangladesh in terms of attracting both foreign and domestic investment.

However, there are also concerns that due to the loss in ISMs[1] emanating from the graduation from the LDC status, private investment in Bangladesh may face new challenges.[2] Particularly export-oriented industries will experience decreased exports and diminished incentives. Moreover, Bangladesh will be subject to WTO compliance and regulations, which will act as

[1] LDCs have unique access to several ISMs, particularly in trade and development. The main categories of trade-related support measures for LDCs are (i) preferential market access for goods; (ii) preferential treatment for services and service suppliers; (iii) special treatment regarding obligations and flexibilities under WTO rules; (iv) special treatment regarding obligations and flexibilities under regional agreements; (v) trade-related technical assistance and capacity-building (Handbook on Least Developed Country Category, 2021).

[2] This graduation comes with the drawback of losing preferential treatment and international support measures (ISMs) from which the country has benefited over the decades. Bangladesh will also have to change and adapt to new policies in dimensions such as more liberalized tariff regimes, erosion of export benefits, etc. On the external front, Bangladesh's exports will face more fierce competition in the international market. At the same time, Bangladesh will have to revise tax policies and evade export incentives. Moreover, Bangladesh will also have to comply with international agreements (such as TRIPS), which may dampen the growth potential of several domestic sectors. All these implicate that LDC graduation would entail significant changes in the business environment in Bangladesh. In other words, this would have a strong backward impact on private-sector investment expansion.

catalysts to increase competition from foreign companies. Furthermore, the absence of effective FTAs and competent negotiators hinders investment prospects even further. Therefore, the absence of favourable conditions and incentives may affect the growth of private investment in Bangladesh following its graduation from LDC status.

Keeping the issue of the graduation from the LDC status aside, there are already various longstanding concerns about expanding private sector investment in Bangladesh which are related to the policy and regulatory issues and ensuring an enabling business environment for private sector investment.

While the effect of LDC graduation on Bangladesh's export growth has been well-studied (Rahman and Bari, 2019; Razzaque et al., 2020; Raihan, Khorana, and Uddin, 2022; Rahman and Strutt, 2022), the impact on private sector investment expansion remains largely unexplored. This study bridges this gap by focusing on avenues for expanding private investment in Bangladesh in the context of LDC graduation.

1.2. Objectives of the study

The specific objectives of this study are as follows:

1. Analyze the challenges of private investment in Bangladesh in the context of the LDC graduation considering the loss of the LDC-specific ISMs, like duty-free & quota-free market access, TRIPS waivers, etc. Furthermore, analyze the opportunities that will be created for private investment through both foreign and domestic sources and how the investors can be supported to tap the opportunities of future investments.
2. Identify the constraints of FDI and suggest the policy approach and actions to overcome those. In this context, also identify the policy support offered by the graduated, developing or developed countries for attracting more FDI and how Bangladesh may tap the opportunities of graduation to attract higher and quality FDI that will create more quality jobs, enhance productivity, technology & skill transfer and increase market size. Finally, analyze the current status as well as challenges for integrating domestic and foreign investors effectively for synergic investment and development.
3. Analyze the Service Offering Lines (SOLs) under the Sustainable Graduation Support Facility (SGSF) of the UNCDP to identify the appropriate SOL(s) for expanding private investment and suggest measures as to how the support can be materialized.
4. Analyze the gaps in skills and technology for tapping the opportunities of private investment from both foreign and domestic sources. Also, analyze the current situation as well as the challenges of ensuring adequate logistics support and financial support for enhancing private investment and export diversification.
5. Recommend policies, strategies, and supports for enhancing private investments from both foreign and domestic sources, based on all the analyses mentioned above, for expanding the domestic market as well as export diversification. Also, recommend a time-bound action plan with measurable indicators for implementing the recommended policies, strategies and supports.

1.3. Methodology

This study uses a mixed-method approach where quantitative and qualitative data analysis follows an extensive desk review. The methodology follows a step-by-step framework to accomplish the study's objectives. The existing secondary sources of works related to the study are reviewed in the form of a "desk review". Quantitative data analysis is based on secondary data from national and international data sources, including grey literature. Qualitative data analysis includes Key Informant Interviews (KII) and Focused Group Discussion (FGD) with the relevant government officials, exporters, importers, associations related to exports and imports, etc. Annexe 1 provides the detailed methodology of the study.

1.4. Organisation of the report

The rest of the report is organized as follows. Section two provides an analysis of the trend and pattern of private investment in Bangladesh in the context of LDC graduation; Section three discusses the challenges of private investment in Bangladesh in the context of the LDC Graduation considering the loss of the LDC-specific ISMs; Section four discusses the policy and procedural challenges for promoting private investment in Bangladesh; Section five analyses the key infrastructural challenges to private sector investment in Bangladesh; Section six presents a detailed analysis of organisational challenges for private investment in Bangladesh; Section seven explores the other challenges including the skill and labour productivity, and sectoral challenges; Section eight presents the key avenues of opportunities; Section nine presents a comparative analysis of the experience of the graduated LDCs and then draws the lessons for Bangladesh; Section ten presents policy recommendations and a time-bound action matrix; and finally Section eleven concludes.

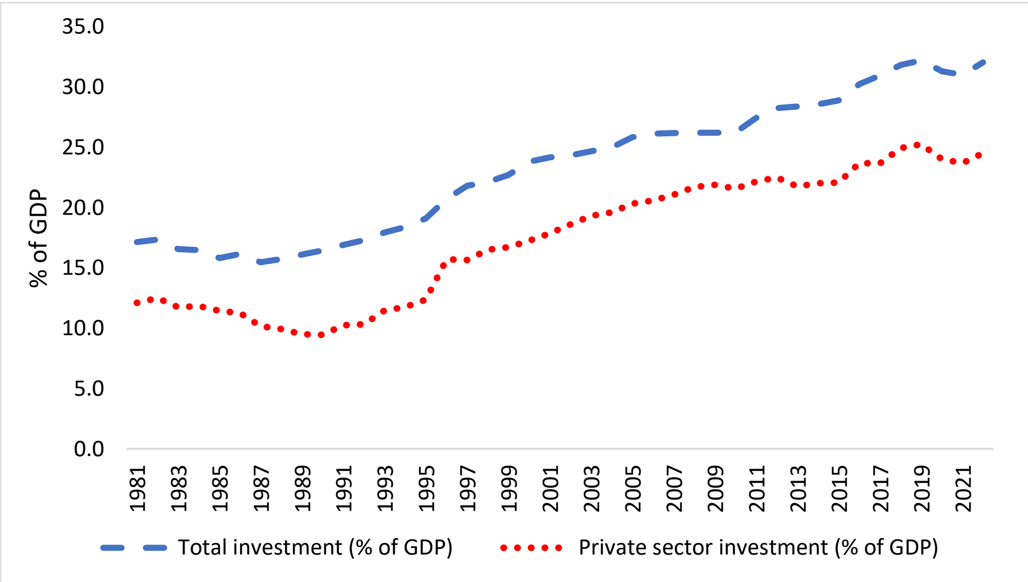
2. An Analysis of the Trend and Pattern of Private Investment in Bangladesh in the Context of LDC Graduation

This section provides a detailed analysis of the state of private investment in Bangladesh, its trend, pattern, and major challenges in the context of the LDC graduation. The analysis covers both domestic private investment and FDI.

2.1. The share of private investment to GDP remains low and stagnant in Bangladesh

A detailed analysis of the broad contexts of expanding private investment in the Bangladesh economy is provided in Annexe 2. Bangladesh's investment to GDP ratio increased from 17.2% in 1991 to 32% in 2022 (Figure 1). Almost a quarter of the total investment always remained as public investment. In 2022, public investment as a share of GDP stood at 7.5%. Such an important share of public investment can be attributed to higher expenditures on development projects under the annual development program. In contrast, the share of private investment in GDP remained stagnant between 22-24% between 2011 and 2022.

Figure 1: Trend of investment in Bangladesh (% of GDP)

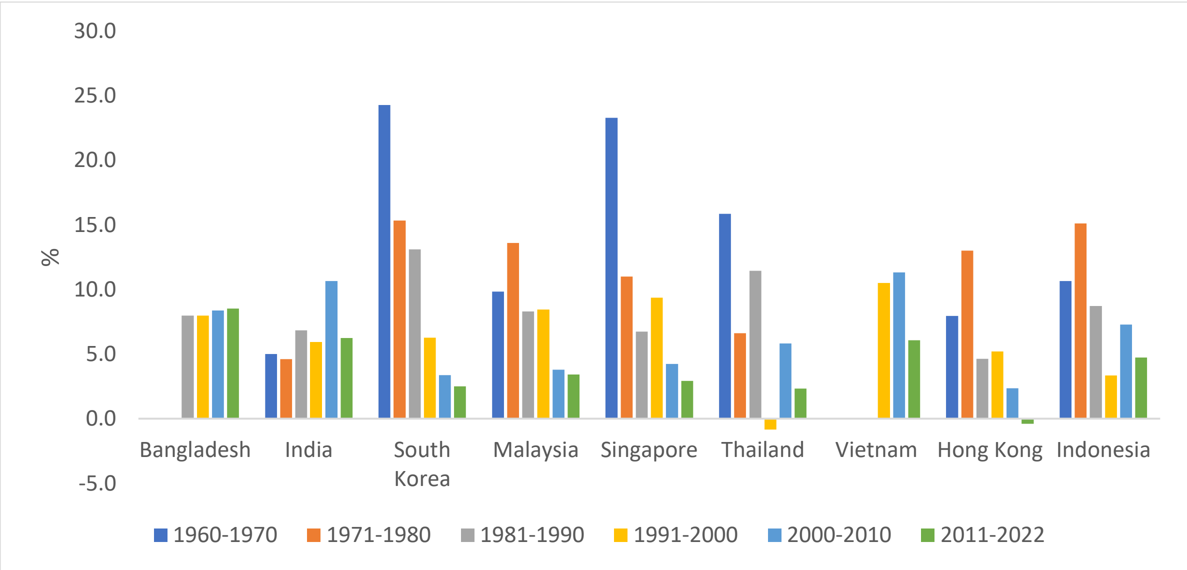


Data source: WDI

In most cases, public investment serves as a catalyst for private investment (Ouedrago, Sawadogo, and Sawadogo, 2019; Erenburg, 2006; Erden and Holcombe, 2005). In other words, it crowds in private investment by increasing trade facilitation with better transport and logistics capacities. However, whether public investment causes a crowding-out or crowding-in effect on private investment depends on the quality of public investment (Cavallo and Daude, 2011). In the presence of better institutional capacities, public investment ensures higher-quality infrastructures and trade logistics facilitating a robust growth of the private sector. However, in the presence of weaker institutions, the quality of public investment falls as public investment is used as a vehicle for rent-seeking (Grigoli and Mills, 2014). Lower infrastructure, and at the same time, government borrowing from the private sector, reduces the return on investment (RoI) of public investment. In such circumstances, a higher share of public investment comes at the expense of slower private sector growth (Cavallo and Daude, 2011).

Despite the rise in the total investment to GDP ratio in Bangladesh over the years, it is noteworthy to mention that Bangladesh's decadal total investment growth remained almost stagnant at around 8% since the 1980s (Figure 2). However, many other Asian countries, such as South Korea, Malaysia, Singapore, Thailand, Vietnam, Hong Kong and Indonesia, had episodes of very high investment growth rates. For instance, in South Korea, the decadal average investment growth rate was around 25% in the decades of 1960s and it remained higher than 13% in the 1970s and 1980s. For many East Asian countries, these are the episodes when the government and private sectors heavily invested in diversified industries.

Figure 2: Decadal average growth rate of total investment for Bangladesh and comparators



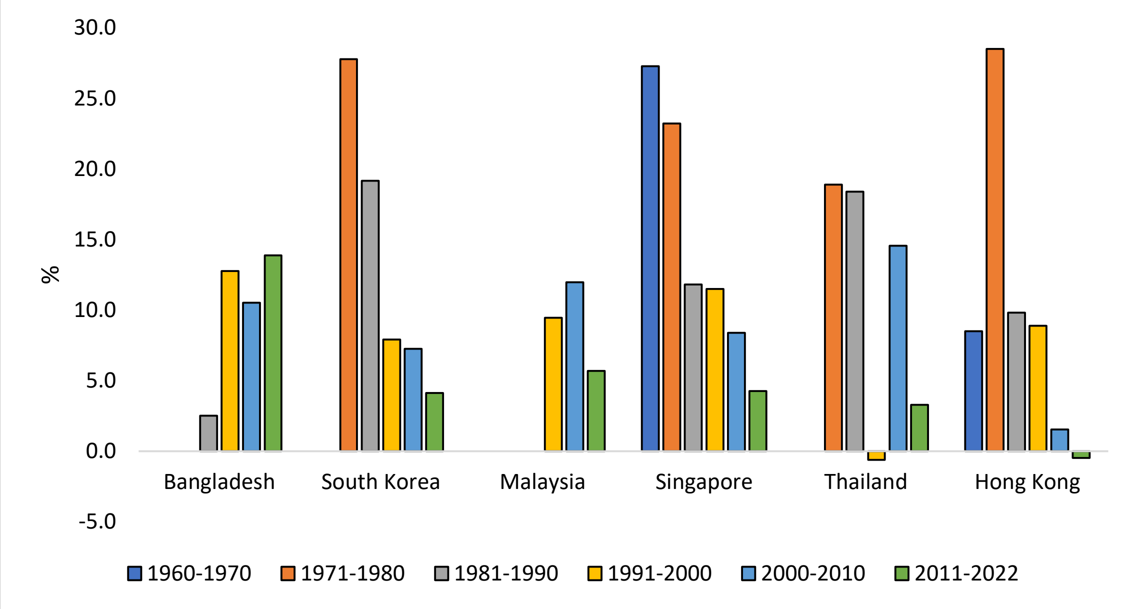
Source: Authors' estimation based on the World Bank's WDI database

It is noteworthy that in all these countries, the total investment growth was accompanied by the robust private sector growth. For example, in South Korea, private sector investment grew at a rate of 28% in the 1970s and over 20% in the 1980s. A similar trend is observed for Singapore, Thailand, and Hong Kong.[3] Such decade-long rapid and robust growth in private investment resulted in higher private investment share in GDP for these countries in the later periods (Figure 3). In contrast, Bangladesh's private sector grew moderately at the rate of 13.9% between 2011-2022 (Figure 3).

Compared to the East Asian countries, such episodes of "big push" of investments are not observed in the case of Bangladesh (Figure 4). In Bangladesh, private investment has steadily increased from 12.5% of GDP in 1981 to 17.3% in 2000, reaching a high of 25.3% in 2019 (Figure 4). However, due to the COVID-19 pandemic, private sector investment share in GDP declined in 2020 and 2021.

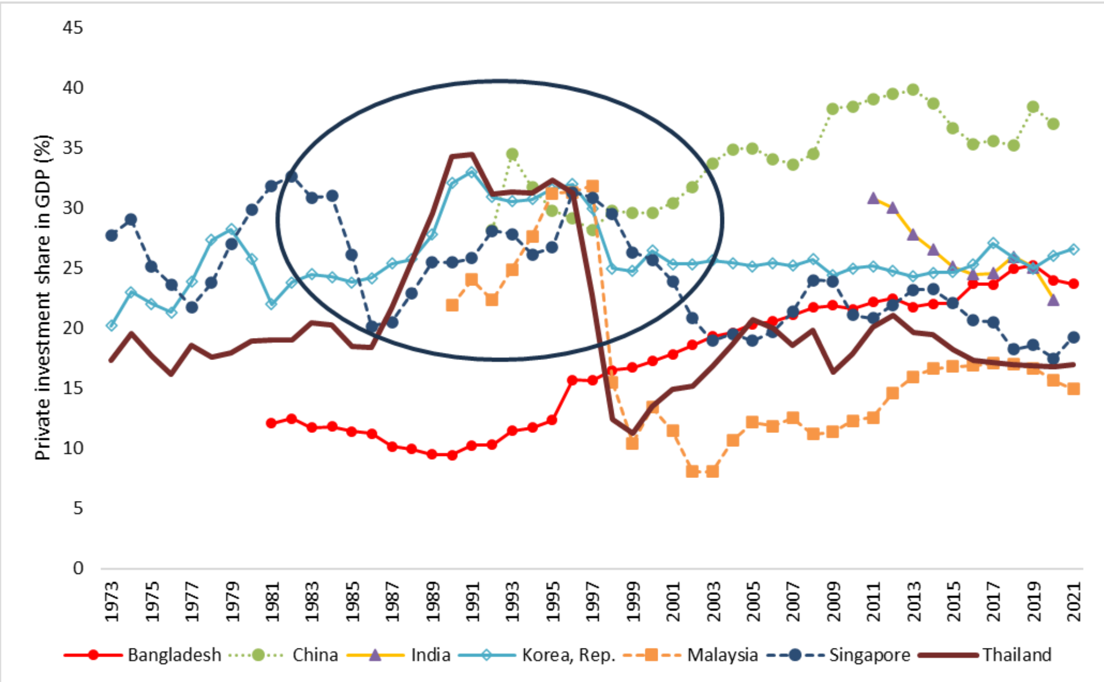
[3] Data for Malaysia and Vietnam are not available and therefore could not be computed for certain periods. However, it can be asserted that Malaysia also had a similar phase of high private investment growth in the decades of 1960s and 1970s.

Figure 3: Decadal average growth rate of private investment - Bangladesh and comparators



Source: Authors' estimation based on the World Bank's WDI database

Figure 4: Trend in private investment share in GDP (%) in selected countries



Source: Raihan (2023)

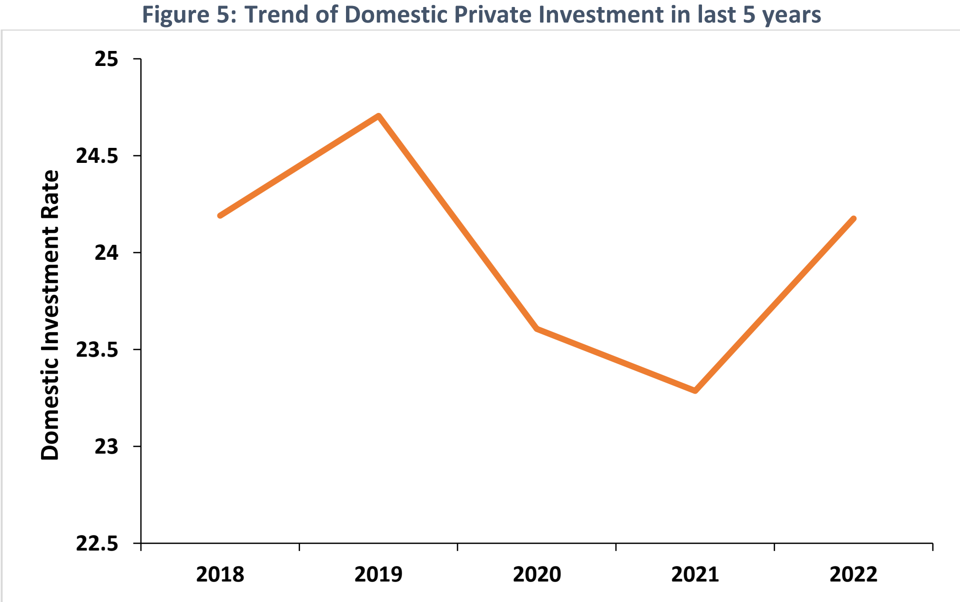
The comparison clearly shows the necessity for Bangladesh to have a decade-long high spell of private investment, as registered by the East Asian comparators, to break the barrier of the middle-income country trap and move ahead to high-income country status. At present, Bangladesh can be said to have stumbled at a low equilibrium level of private investment growth rate. Several factors limited the robust growth of the private sector. Investors in Bangladesh face challenges such as limited land availability, unreliable energy supply, inadequate transport connectivity, burdensome regulatory processes, regulatory unpredictability, high corporate taxes, restricted access to long-term financing, and a shortage of skilled labour supply (Zafar, Reaz & Tasnin, 2020; Ahmed, 2019). For rapid industrialisation in the context of LDC graduation, Bangladesh would need further targeted policies, and certain "Big pushes" to break this low-equilibrium status quo.

2.2. Domestic investment scenario in Bangladesh

Private investment is key to economic growth of a country. Private investment encompasses domestic private investment (DPI), typically owned by local or indigenous private investors, as well as FDI and/or international portfolio investment, which are owned by private investors from foreign or international origins (Ofosu-Mensah Ababio et al., 2022).

Domestic private investment in Bangladesh does not have any specific statistics. However, the current trend of domestic private investment can be examined in two approaches. The first one is using Gross Fixed Capital Formation as a proxy for private investment as suggested by the International Monetary Fund (IMF). According to IMF definition, Gross Fixed Capital Formation (GFCF) is calculated by taking the total value of "producer's acquisitions, less disposals of fixed assets during the accounting period, plus certain additions to value of non-produced assets (such as subsoil assets or major improvements in quantity, quality, or productivity of land)".[4] So, the private sector gross capital formation specifically focuses on the investment activities of private enterprises, excluding government and public sector investments. By separating or subtracting the Foreign Direct Investment from the GFCF, a trend of domestic private investment can be found. As FDI is a subset of gross capital formation which refers to the investment made by foreign entities (individuals, businesses, or governments) in the domestic economy of a country, subtracting it from GFCF will show a trend of domestic private investment.

Figure 5: Trend of Domestic Private Investment in last 5 years



Source: Author's Own Calculation using WDI data

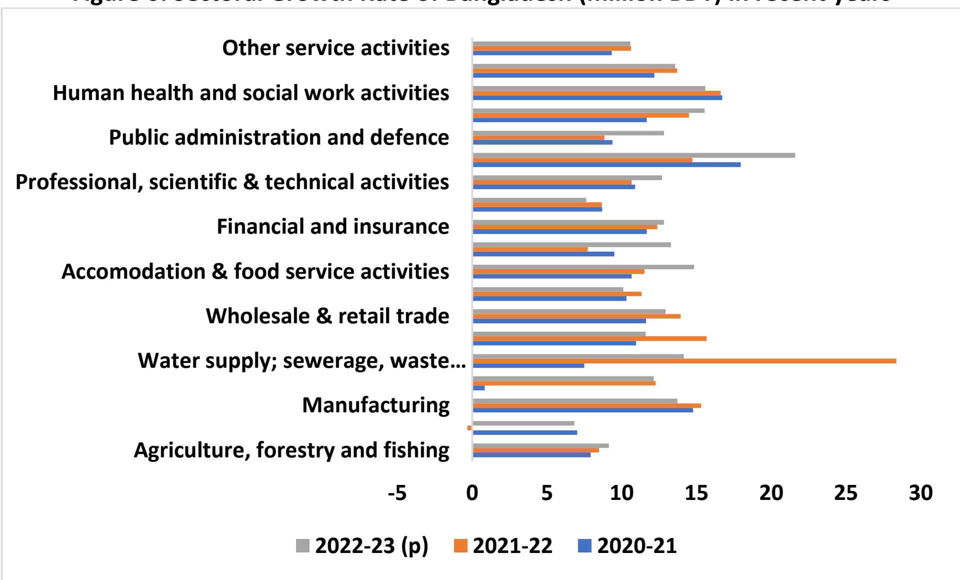
The domestic investment rate shows an upward trend from 2018 to 2019 speaking of the somewhat comfortable macroeconomic situation in Bangladesh (Figure 5). However, in the

[4] https://datahelp.imf.org/knowledgebase/articles/536206-where-do-i-find-data-on-private-investment

pandemic hit 2020 and 2021, it dipped further. From 2022, the domestic investment trend in Bangladesh has started to increase. While calculating the domestic investment rate from the WDI data, it is found that foreign direct investment has only gone down from 2018. However, Bangladesh Bank has reported an increasing trend in the last three fiscal years, from 2507.31 million USD net inflows in 2020-21 to 3249.68 million USD in 2022-23 (Bangladesh Bank, 2023).

The second approach is to look at the sectoral growth of the economy in recent years (Figure 6). National Accounts Statistics, June 2023 has reported the provisional estimates of GDP, 2022-23 and the final estimates of GDP, 2021-22. The data of fiscal year 2020-21, 2021-22 and provisional estimate of 2022-23 shows that there is a growth in multiple sectors including Agriculture, forestry and fishing; Mining and quarrying; Accommodation and food service; Information and Communication; Financial and Insurance activities; Scientific and technical activities; Administrative and Support Service Activities; Public administration and defense; Education etc. Growth in the sectors indicate new private sector investment. Empirical research over the years have reiterated that there is a strong and undeniable linkage between economic growth and private investment (Adams, 2009; Ghura, 1997).

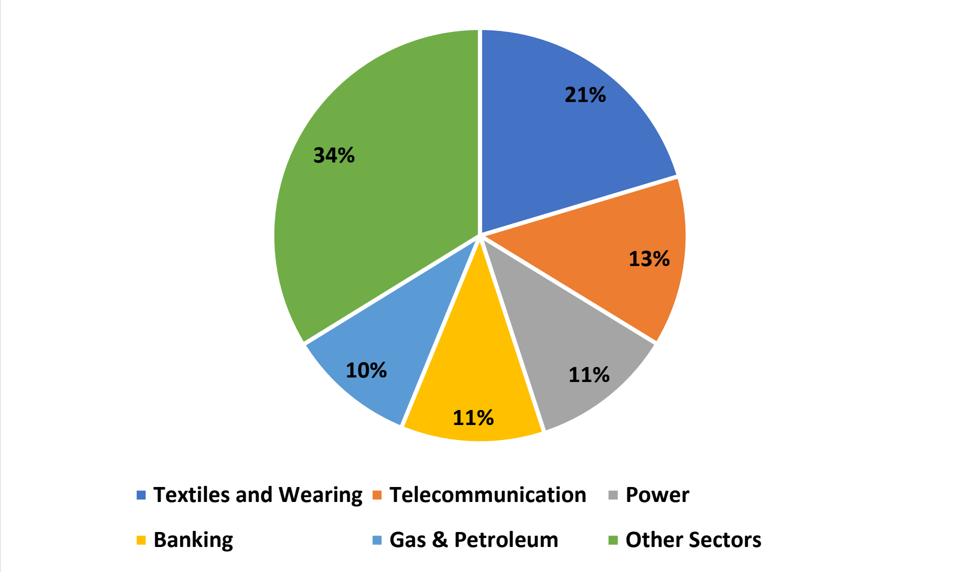
Figure 6: Sectoral Growth Rate of Bangladesh (million BDT) in recent years



Source: National Accounts Statistics, Bangladesh Bureau of Statistics

Recent data from fiscal year 2022-23 shows that, the inflows of FDI is concentrated in few sectors (Figure 7). Textiles and wearing, telecommunications, power, gas and petroleum – constitute the major parts of FDI inflows. But from the provisional estimates of 2022-23, growth of agriculture and fishing, mining and quarrying, accommodation and food service, public administration, defense, education, scientific and technical activities etc. have also seen growth. This indicates that other than foreign direct investment, Bangladesh has experienced an upward increase in domestic investment as well which has caused a growth in various sectors.

Figure 7: FDI Inflow in 2022-23 (in million USD)



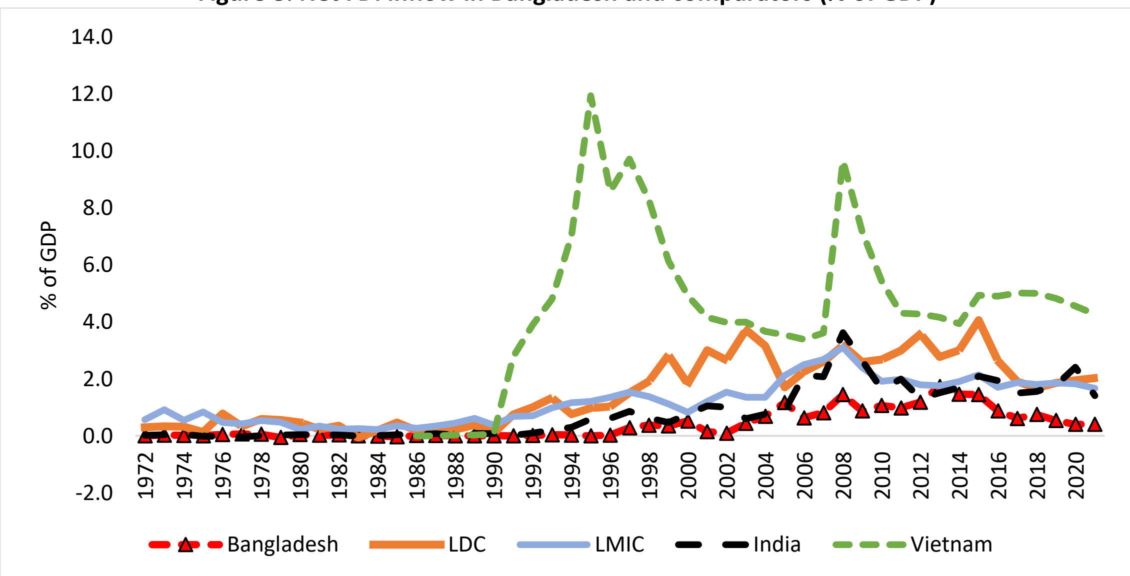
Source: Foreign Direct Investment and External Debt, January-June 2023 (Bangladesh Bank)

With the growth trend in the recent years, it can be hoped that Bangladesh will have higher economic growth owing to increasing domestic private investment in the coming years, especially after the LDC graduation, given that it mitigates the underlying challenges.

2.3. FDI: An avenue yet to be utilised to its full potential

In Bangladesh, FDI remains an untapped potential. Despite consistent high economic growth in the past decades, FDI remained relatively low in Bangladesh (Figure 8). Between 1972 and 2005, net FDI inflow in Bangladesh always remained less than 1% of GDP. Between 2005 and 2015, Bangladesh saw a gradual but slight rise in the net FDI inflows with a peak of 1.74% of GDP in 2013. Nevertheless, ever since 2013, net FDI inflow as a share of GDP in Bangladesh has been on the decline. In 2021, FDI was only 0.41% of the GDP of Bangladesh.

Figure 8: Net FDI inflow in Bangladesh and comparators (% of GDP)



Source: World Bank's WDI database

Bangladesh’s net FDI inflow in proportion to GDP is remarkably lower than the comparators such as India or Vietnam. As can be observed in Figure 8, FDI in India or Vietnam, started to accelerate since the early 1990s. Nevertheless, Vietnam stood out as an exception in this context. In the mid-1990s, net FDI inflow in Vietnam stood at as high as 12% of GDP. FDI in India, however, followed the global trend and remained closer to the Lower-Middle Income country (LMIC) average, the country group India belonged. Since 2018, India has always been at par with the LMIC average FDI inflow. In contrast to India and Vietnam, Bangladesh’s FDI had always remained much lower than the LDC or LMIC averages. In 2021, the LDC average net FDI inflow stood at 2% whereas the LMIC average was 1.41% of GDP.

During the consultations with the business insiders, industry experts attributed several factors behind such low rates of FDI in Bangladesh including bureaucratic challenges, infrastructure inadequacy, unreliable energy supply, challenges in good governance, low labour productivity, underdeveloped money and capital markets, high cost of doing business, complex tax system, frequent changes in policies, etc.

Furthermore, Bangladesh currently does not have a positive investment-grade rating. A country credit rating/investment-grade rating represents an impartial evaluation of a nation's or sovereign entity's ability to meet its financial obligations. These ratings can provide investors with valuable information regarding the risk involved in investing in the government debt of a specific country, encompassing potential political risks as well. Standard & Poor's and Fitch assign ratings of BBB- or higher to countries falling under the investment grade category, while ratings of BB+ or lower are categorized as speculative or "junk" grade. Moody's, on the other hand, designates Baa3 or higher ratings as investment grade and considers ratings of Ba1 and below as speculative. Additionally, these rating agencies also provide a single-word evaluation of each country's present economic outlook, which can be either positive, negative, or stable. Emerging market countries seek investment-grade status to reduce sovereign financing costs, expand potential investors to include institutional investors, and provide corporations with the opportunity to reduce borrowing costs. The current sovereign credit ratings for Bangladesh are equivalent to speculative or junk bond ratings. The most recent rating from the S&P lowered Bangladesh’s long-term credit rating outlook to negative from stable (Table 1). This fall in credit rating is an outcome of the deteriorating external liquidity position of Bangladesh since 2022. Such falling credit rating adversely affects foreign direct investment prospects in the manufacturing or services sectors.

Table 1: Bangladesh's recent credit ratings

Agency	Rating	Outlook	Date
S&P	BB-	Negative	24 July 2023
Moody’s	Ba1	Stable	30 May 2023
Fitch	BB-	Stable	29 September 2022

Source: Corresponding agency website

LDC graduation will not automatically result in higher level of creditworthiness since credit ratings agencies do not take the LDC category into account when deciding sovereign bond ratings[5]. Rather, an improvement in the credit rating hinges on factors such as real GDP

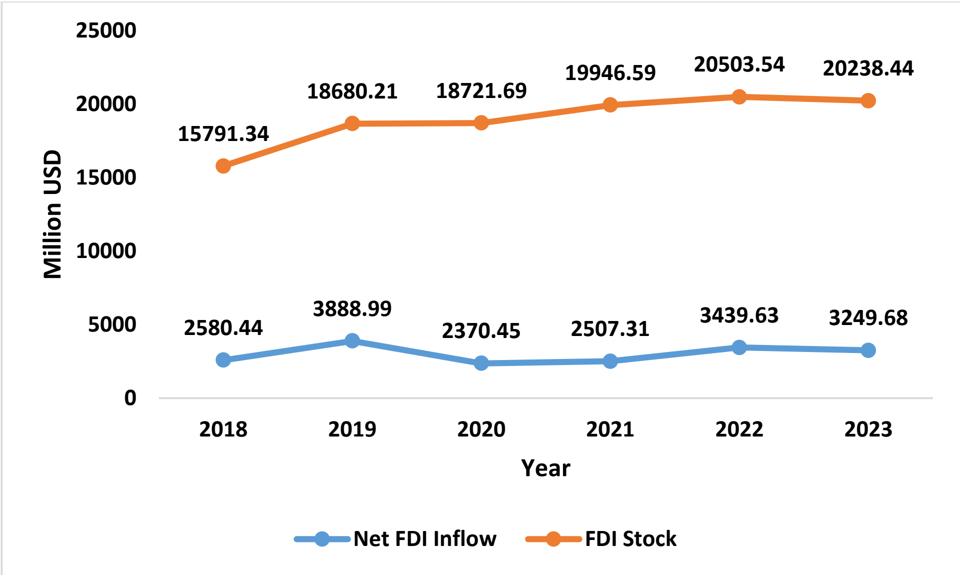
[5] https://www.un.org/ldcportal/content/frequently-asked-questions-graduation

growth, public debt level, effective governance, and the overall capacity to meet debt obligations[6]. Therefore, the country has to mitigate its underlying challenges to upgrade the creditworthiness.

2.4. Component-wise Analysis of Recent FDI Trend in Bangladesh

Over the last five years the trend in net FDI inflow had an ambiguous trend having a rising trend since 2020 to 2022. FDI stock trend exhibit a similar trend (Figure 9). This inconclusive trend can be explained through the component-wise analysis of FDI.

Figure 9: Trend in the net FDI inflow and FDI stock



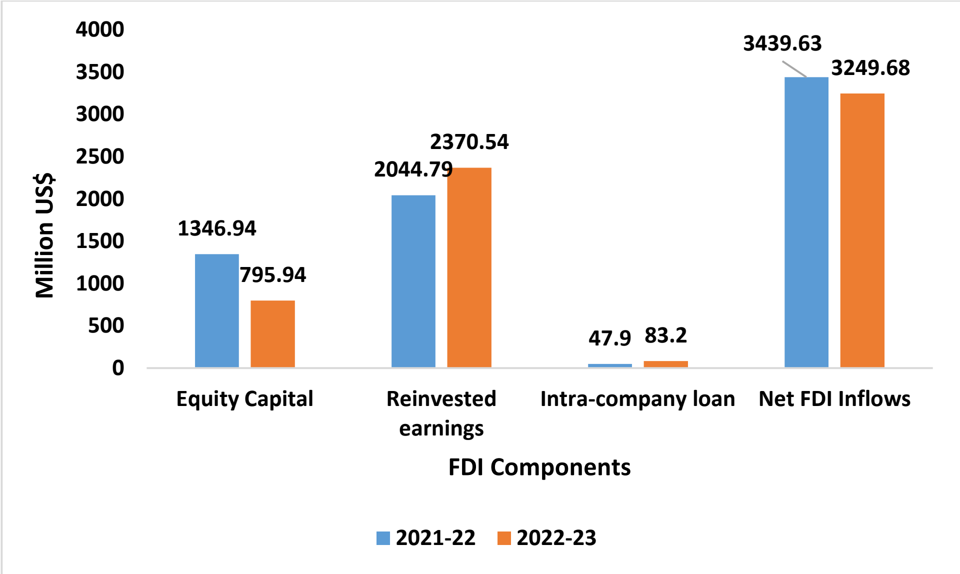
Source: Bangladesh Bank, 2022

FDI is composed of three distinct components, namely equity capital, reinvested earnings, and intra-company loans. Net FDI inflows represent the total value of equity capital provided by non-resident investors as well as their reinvested earnings and intra-company loans. These figures do not account for the capital repatriation and loan repayments that flow out of the country. Equity capital is the financial resource brought in from foreign sources to establish new industries or expand existing ones. Intra-company loans, on the other hand, refer to the funds borrowed by foreign firms from their parent entities. In the context of reinvestment, foreign investors typically utilize these funds sourced from the profits generated by their companies operating within Bangladesh. FDI stock refers to the total accumulated value of foreign-owned assets at a given time. It includes investments made over time by foreign entities in a host country.

When we contrast the year FY2022-23with the preceding one FY2021-22it becomes evident that there has been a decline in equity capital (-40.9%) within the country's overall FDI landscape. Conversely, there has been an expansion in reinvestment earnings (14.46%) and intra-company loan (73.695%) during the same period (Figure 10).

[6]https://www.lightcastlebd.com/insights/2022/10/graduating-ldc-status-braving-challenges-and-the-way-forward-for-bangladesh/

Figure 10: Net FDI Inflow by Components



Source: Bangladesh Bank, 2022

Reason of the rise in the reinvestment of capital

Since 2022, the country's banking sector has grappled with a shortage of foreign exchange, creating challenges for foreign entities seeking to repatriate their profits. The ongoing macroeconomic instability has further deterred foreign investors from channeling their funds into Bangladesh. The stress within the foreign exchange market has compounded difficulties in repatriating the earnings of foreign companies, contributing to the upsurge in reinvested earnings according to key-stakeholders. However, the increase in reinvested earnings can be seen as a positive development for the country's economy.

Foreign investors express concerns about the predictability of the investment environment and repatriation in Bangladesh. Frequent changes in rules and regulations within the country create an unpredictable landscape for foreign companies, fostering an atmosphere of uncertainty in their investment decisions.

Reason for the downfall of equity capital

According to key-stakeholders, investment decisions are often swayed by the stability of the rule of law, political conditions, and the ease of profit repatriation for shareholders. For foreign companies operating in Bangladesh, challenges in repatriating their profits can be a deterrent to investment. The more obstacles a country presents, the less appealing it becomes for potential investors. Bureaucratic hurdles and inadequate logistical infrastructure pose major impediments to foreign investment. Companies often encounter difficulties in delivering equipment shipments in their entirety due to inadequate storage capacity and security at Dhaka airport, forcing them to send items in parts. Delays can also occur as customs procedures take a significant amount of time to clear documents. Additionally, complexities related to HS codes can lead to problems while seeking tax exemptions for purchased equipment.

2.5. Sector-wise FDI: Power generation, textile, and financial sector remains the key sectors for inward FDI

In FY2022, the key sectors for inward FDI included power, gas and petroleum (22.3%), RMG (20%), and the financial sector (17%) (Table 2). While the volume of FDI in the country increased in all these sectors, FDI in new "thrust sectors" – such as electronics, light engineering, agro-processing, plastic and furniture, leather and leather goods, etc., did not pick up. Foreign investment in new and emerging manufacturing sectors exhibits 'transfer of technology', and 'spill over effects', and also produces 'supply-chain effects' creating self-sustaining sectoral growth momentum.[7] Bangladesh, therefore, would need a more reinvigorated approach to attracting FDI in the thrust sectors in the coming years.

Table 2: Sector-wise inward FDI distribution (2021-22)

SL No.	Sectors	2021-22 (million US$)	% of Total
1	Agriculture & Fishing	41.31	1.2
2	Mining & Quarrying	0	0
3	Power, Gas & Petroleum	768.31	22.3
	i) Power	445.85	13
	ii) Gas & Petroleum	322.46	9.4
4	Manufacturing	1238.27	36
	i) Food Products	137.12	4
	ii) Textiles & Wearing	691.6	20.1
	iii) Pharmaceuticals & Chemicals	87.4	2.5
	iv) Metal & Machinery Products	10.12	0.3
	v) Vehicle & Transport Equipment	4.3	0.1
	vi) Fertilizer	137.55	4
	vii) Cement	23.32	0.7
	viii) Leather & Leather Products	39.26	1.1
	ix) Other Mfg	107.6	3.1
5	Construction	112	3.3
6	Trade & Commerce	682.11	19.8
	i) Trading	111.53	3.2
	ii) Banking	311.33	9.1
	iii) Insurance	-7.62	-0.2
	iv) Non-Bank Financial Institutions (NBFI)	266.87	7.8
7	Transport, Storage & Communication	273.33	7.9
	i) Telecommunication	213.52	6.2
	ii) Transport, Storage & Others	59.81	1.7
8	Services	315.65	9.2
	i) Hotel & Restaurant	0.3	0
	ii) Clinical	8.05	0.2
	iii) Computer Software & Information Technology (IT)	30.2	0.9
	iv) Other Service	277.1	8.1
9	Other Sectors	8.65	0.3
	Total FDI Inflows	3439.63	100

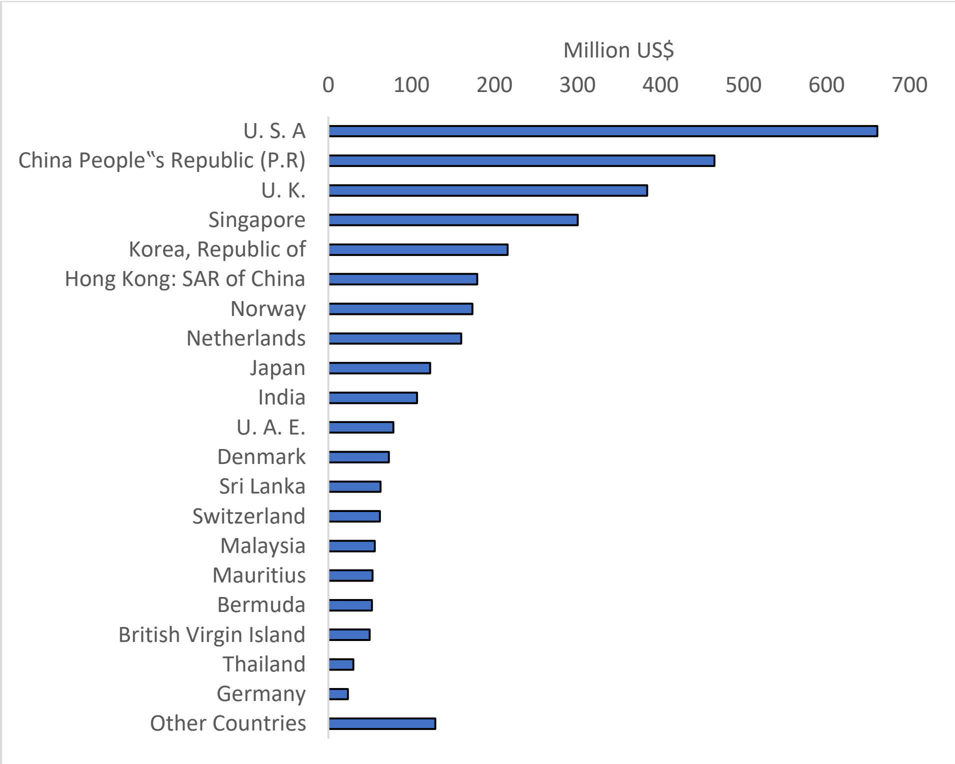
Source: Bangladesh Bank

The USA, China, UK, Singapore and Korea remain the top FDI source countries for Bangladesh (Figure 11). Nevertheless, the sectoral FDI significantly varies by the source country. The primary focus of US investment in Bangladesh is in the energy sector, with a notable 62.22%

7 One prime example of it is the RMG industry in Bangladesh.

of the total net FDI inflow in fiscal year 2022 being directed towards gas and petroleum, as per central bank records, underlining its substantial contribution to the country's economic landscape. Of the $354.19 million gross FDI inflow by the US in that fiscal year, a substantial $220.39 million went into the gas and petroleum sector. The statistics for FDI stock shows the similar trend, as observed in Annexe 3, 70% of the USA's total FDI stock is in the gas and petroleum industry[8]. The financial sector also witnessed a considerable influx of US investments, with $243.60 million FDI stock being directed to the non-bank financial institutions. In the case of the UK, the investments are higher in Banking (51.3%), apparel industry (20%), and food processing (10.5%). Singapore's major investments are in power (24%), telecommunications (17.3%), and apparel industries (8.5%). South Korea are mostly engaged in the apparel industry (68%), leather (13.6%) and banking (9.3%). Out of China's total FDI stock in Bangladesh, 51.3% are in the power sector, followed by apparel (21%), and trading (9%). Amongst others, the Netherlands and Malaysia are mostly engaged in the telecommunications industry, while the rest are mostly integrated into the apparel industry.

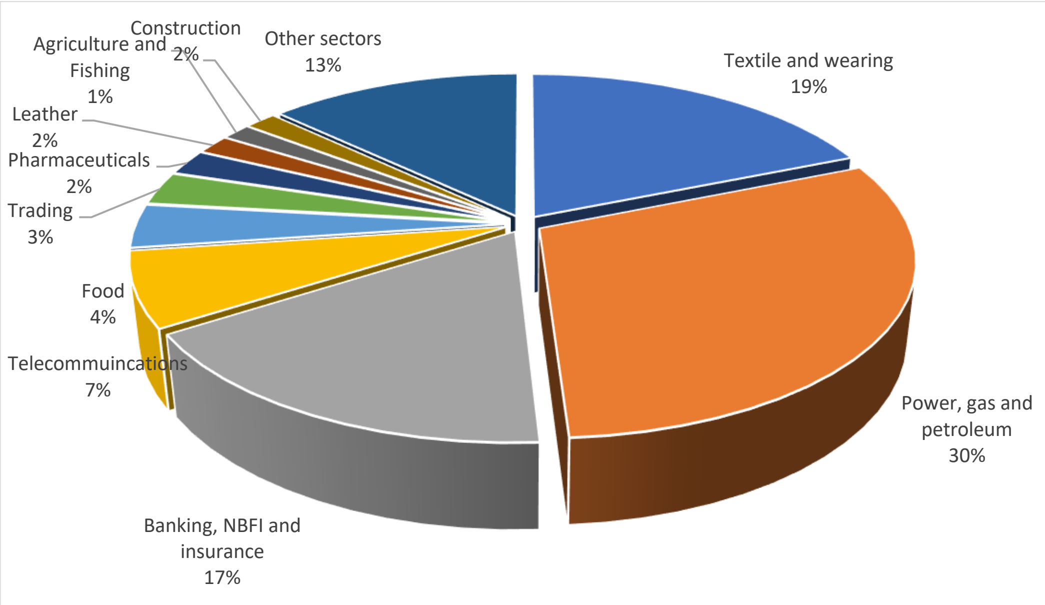
Figure 11: FDI by source country in 2021-22



Source: Bangladesh Bank

[8] As of March 2023. Data source: Bangladesh Bank

Figure 12: Total FDI stock in Bangladesh by sectors (as of March 2023, $ million)



Source: Bangladesh Bank

The distribution of the FDI stock by source country reveals that historically Bangladesh has not been successful in attracting FDI in diversified sectors. Most of the FDI stock in Bangladesh are in apparel, gas and petroleum, power or telecommunications sector (Figure 12). The scenario necessitates a further and closer observation at the sectoral level of why FDI is not diversifying in the “thrust sectors”.

2.6. The current status as well as challenges for integrating domestic and foreign investors effectively for synergic investment and development

Economic theory and recent research indicate that FDI has a positive effect on domestic investment (Noorzoy, 1978; Farla et al., 2016; Al-Sadig, 2013; Borensztein, Bosworth and Collins, 1999; de Mello, 1999; Ndikumana and Verick, 2008; Ramirez, 2011; Tang et al., 2008; Ghazali ,2010). For instance, FDI that introduces new goods and services to the domestic economy is typically associated with an increase in capital formation. However, domestic investment is influenced by FDI depending on various factors, such as domestic economic policies, the type of FDI received, and the financial situation of domestic businesses.

There is a positive link between foreign equity participation and plant productivity, particularly evident in small businesses (known as the 'own-plant' effect). However, this relationship is not as strong for larger enterprises. Some studies have shown that the presence of foreign investment had a negative influence on the productivity of domestically owned plants. Essentially, the benefits of foreign investment seemed to be primarily reaped by joint ventures, while domestically owned plants faced challenges in harnessing these gains (Aitken et al., 1999).

To address these issues, the country should concentrate on enhancing the overall investment environment for both domestic and foreign capital (Agosin et al., 2005). The industrial distribution of FDI should be consistent with the industrial policy orientation and economic development goal of the country (Sun, 2018). On that note, diversifying distribution of capital stock has a greater positive impact on capital formation than replicating the current distribution of capital stock (Jan et al., 2002). Table 3 depicts the current scenario of FDI composition in Bangladesh by type during 2020-2022.

Table 3: FDI by types in various years

Foreign Direct Investment	2020 (in million $)	2021 (in million $)	2022 (in million $)
Greenfield Investments*	805	1036	456
Joint Venture**	3518	918	1812
Mergers and Acquisitions***	5314	76.04	100
FDI Inward Flow*	**2564**	**2896**	**3480**
FDI Stock*	**19395**	**21582**	**21158**

Source: *UNCTAD, World Investment Report 2022; ** BIDA; ***Statista

Delving more into joint ventures, variation can be observed during 2016-2022 with a peak of 10377.63 million US$ in 2017 (Table 4). Service, chemical and engineering sector comprised of larger share of joint ventures among the sectors.

Table 4: Joint Venture Investment Registration projects (Valuation in Million USD)

Sector Name	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23*
Agro based	38.19	33.56	27.36	1160.33	27.33	5.71	155.42	241.74
Food and Allied	6.8	14.49	175.09	34.55	30.91	6.58	56.37	17.53
Textile	16.1	0.45	127.53	183.71	5.36	4.17	206.58	93.77
Printing and Publishing	1.85	-	5.14	1.54	7.17	0.68	9.1	15.61
Tannery and Leather	11.36	3.34	55.25	16.64	89.5	30.71	3.23	8.62
Chemical	51.52	16.75	6065.22	72.91	26.44	37.93	211.19	37.12
Glass and Ceramics	7.01	12.76	0	0	0	28.32	7.49	0.44
Engineering	222.24	2535.28	268.95	216.16	2971.64	131.22	135.32	24.5
Service	107.98	7515.02	1349.79	213.44	122.32	669.29	941.42	1918.76
Others	51.98	245.99	1667.99	3126.15	237.98	3.57	86.02	200.02
Total	515.02	10377.63	9742.32	5025.43	3518.65	918.18	1812.14	2558.11

Source: BIDA, *up to February 2023

The choice among various types of FDI and the situation of synergic investment depend on several factors including the nature of the industry, the absorption capacity of the labor force, the regulatory environment and the development priority of the country. For facilitating synergic investment, therefore, the country should mitigate the investment climate related challenges.

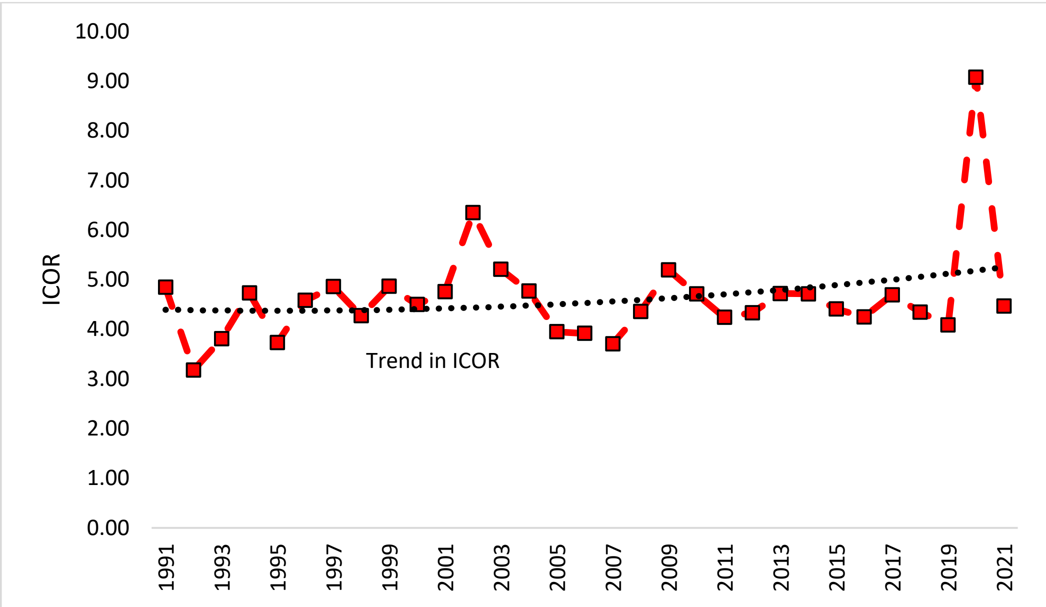
2.7. Incremental capital-output ratio (ICOR), a key indicator of the productivity of capital, did not improve over the years

One of the key indicators of the productivity of capital or the marginal efficiency of capital is the incremental capital-output ratio (ICOR).[9] Bangladesh's ICOR remained close to five for most of the period in the last two decades (Figure 13). A higher value of ICOR indicates a lower marginal efficiency of capital in a country. Therefore, a lower ICOR is intended during the initial emerging phase of a country. For instance, in most of the emerging economies, such as

[9] The ICOR is calculated as the ratio of investment share in GDP divided by the rate of growth of GDP. It follows from the Harrod-Domar growth model. For an excellent detail on this, see Vanek and Studenmund (1968).

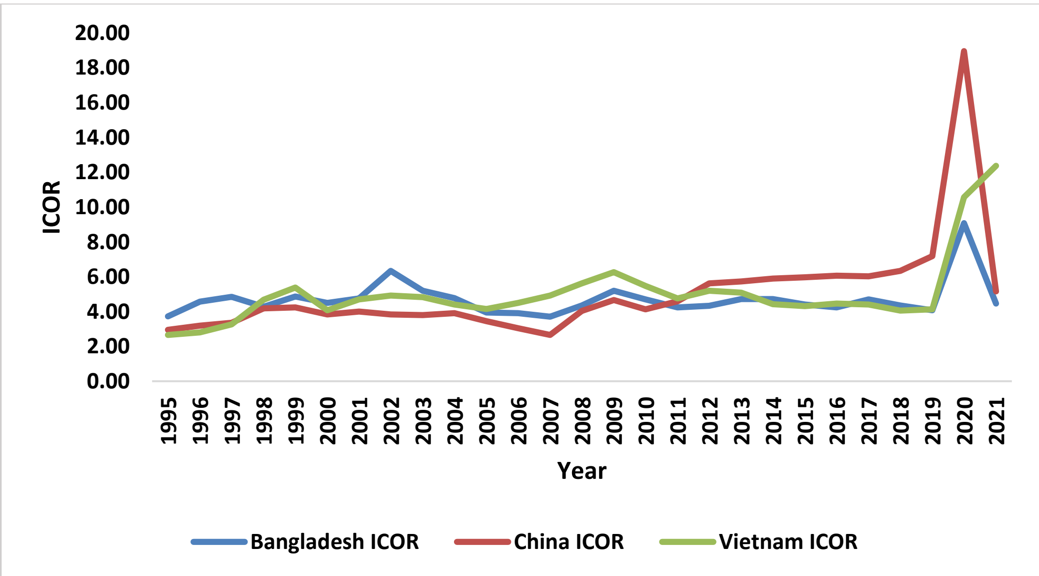
South Korea and China, amongst others, the ICOR remained significantly low during their initial years of growth trajectory. Therefore, attaining higher private investment with more efficiency should be the set goal for the coming years.

Figure 13: ICOR for Bangladesh for the last three decades



Source: Authors' estimation based on WDI data;
Note: the jump in 2020 could be largely attributed to the Covid-19 pandemic.

Figure 14: ICOR country-wise comparison



Source: WDI, various years

Though China has higher level of ICOR than Bangladesh currently, in the earlier period it was lower than that of Bangladesh (Figure 14). In developed nations, the accumulation of capital stock surpasses that of less developed nations. As a result, the return on each additional unit of investment in developed countries is lower compared to that in less developed countries. Consequently, to achieve an equivalent increase in output, developed countries require significantly larger investments than their less developed counterparts. This leads to a higher Incremental Capital-Output Ratio (ICOR) in developed countries than in less developed ones. Consequently, Vietnam as a developing nation have lower values of ICOR than China since 2011 due to the difference of capital stock between them (developed versus developing). However, it can be noticed that Vietnam's ICOR values are almost alike since 2011 except the 2019-2021 period. This is due to the fact that, despite Bangladesh not having transitioned out of its LDC status, it possesses a distinctive economy that shares many similarities with that of a developing country such as Vietnam.

In 2019, the sector-specific ICOR values for agriculture, industry, and services were 3.17, 5.85, and 3.45 respectively (Table 5). In other words, among the sectors, the industrial sector had the highest ICOR (5.85), indicating the largest degree of capital intensity among the broad sectors and to some extent inefficiencies in utilizing investment capital. This suggests that the industry sector is yet to make optimal use of the investment capital. Conversely, agriculture demonstrates the lowest level of capital intensity and some degree of efficiency in utilizing investment capital, with an ICOR value of 3.17. Lower ICOR value is desirable as it indicates efficiency in utilizing investment capital. The agriculture sector, not being capital intensive, shows a lower ICOR value while industry sector shows a different picture.

Table 5: ICOR of the broad sectors

Broad Sectors	ICOR[10]
Agriculture	3.17
Industry	5.85
Service	3.45
National	4.22

Source: Adapted from the Study on Employment, Productivity and Sectoral Investment in Bangladesh, GED 2019

Within the agricultural sector, which is divided into forestry and fishing sub-sectors, both show similar ICOR values of 3.4 and 3.1, respectively (Table 6). In the industry sector, consisting of manufacturing, mining and quarrying, electricity, gas, and water supply, as well as construction sub-sectors, mining and quarrying proves to be the most efficient with an ICOR value of 1.77, while electricity, gas, and water supply, along with construction, emerge as the least efficient in terms of investment, with ICOR values of 11.2 and 8 respectively.

Table 6: ICOR by sub-sectors

<table>
<tr><th>Broad Sectors</th><th>Sub-sectors</th><th>ICOR</th></tr>
<tr><td rowspan="2">Agriculture</td><td>Agriculture and Forestry</td><td>3.4</td></tr>
<tr><td>Fishing</td><td>3.1</td></tr>
<tr><td rowspan="4">Industry</td><td>Mining and Quarrying</td><td>1.77</td></tr>
<tr><td>Manufacturing</td><td>5.1</td></tr>
<tr><td>Electricity, Gas and Water Supply</td><td>11.2</td></tr>
<tr><td>Construction</td><td>8</td></tr>
<tr><td rowspan="3">Service</td><td>Wholesale and Retail Trade</td><td>0.16</td></tr>
<tr><td>Hotel and Restaurants</td><td>2.57</td></tr>
<tr><td>Transport and Communication</td><td>6</td></tr>
</table>

[10] The overall ICOR estimation for three major sectors (agriculture, industry, and services) is determined by calculating a weighted average ICOR, taking into account the respective shares of GDP based on constant prices from 2017-2018.

Broad Sectors	Sub-sectors	ICOR
	Financial Intermediations	3.35
	Real Estate, Renting and Business	5.7
	Public Administration and Defense	0.58
	Education	6.7
	Health and Social Work	7.1
	Community, Social and Personal Services	3.5
Overall		**4.2**

Source: Adapted from the Study on Employment, Productivity and Sectoral Investment in Bangladesh, 2019

Among the sub-sectors within the service sector, wholesale and retail trade stands out as the most efficient, indicating high investment productivity. Conversely, health and social work represent the most inefficient sub-sector within the service industry, with an ICOR value of 7.1. Additionally, transport and communication, real estate, renting businesses, hotel and restaurant operations, financial intermediations, and community, social, and personal services within the service sector, exhibit high ICOR values, signifying inefficiencies in capital utilization.

2.8. A Review of the Investment Policies in Bangladesh: Challenges in the existing regulatory framework

The economy of Bangladesh is open to foreign investment. Moreover, the country offers specific high incentives and protection for foreign investors (Annexe 4). This approach to foreign investment promotion and protection has been stated in different policies of Bangladesh. Although the Foreign Private Investment Promotion and Protection Act (FPIPPA) 1980 is the key regulatory framework of foreign investment in Bangladesh, the entry, protection, and promotion of foreign investment in Bangladesh is controlled by a number of other laws as well. The study team reviewed the vital investment policies to precisely narrow down the recommendations to mitigate the private investment related challenges.

Foreign Private Investment Protection and Promotion Act of 1980

The framework of foreign direct investment in Bangladesh is based on the Foreign Private Investment Protection and Promotion Act of 1980. Enacted in 1980, this act guarantees legal safeguards for foreign investments in Bangladesh. This act primarily regulates the entry of foreign private investment in Bangladesh and ensures fair and equitable treatment to foreign investors. Some particular steps should be taken to mitigate challenges stemmed from the FPIPPA 1980. They are as following:

- Revise the Act to incorporate modern requirements, including alignment with SDGs, WTO rules, and LDC graduation.
- Specify foreign investment forms, like joint ventures with Bangladeshi enterprises and industrial undertakings with 100% foreign capital, in the Act.
- Clarify if the Act encompasses portfolio investment within the scope of foreign direct investment.
- Ensure clarity in the provision regarding the inclusion of service industries within the definition of "industrial undertaking".
- Include a section in the Act outlining responsibilities for foreign investors.

- Include provisions in the Act for the protection of industrial property rights and guarantee the safeguarding of foreign investors or parties in joint ventures during technology transfer.
- Provide concise explanations to address linguistic ambiguities regarding fair and equitable treatment for the foreign investors.
- Translate the Act into English for the convenience of foreign investors.

The Bangladesh Investment Development Authority Act 2016

Some particular steps should be taken to mitigate challenges stemmed from the BIDA act 2016. They are as following:

- Incorporate representation from vital stakeholders, including the MoLJPA; MoRTB; MoL; and NBR, into the governing body of BIDA.
- Incorporate provisions granting BIDA the authority to make concession-related decisions for foreign investors.
- Define underutilization and prescribe specific remedies for a more effective and appropriate economic use of underutilized government, industry, or commercial organization land and infrastructure, as outlined in passage (13) of section 8.
- Establishment of a coordination mechanism among BIDA and commercial attachés in foreign missions.
- Establish a coordination mechanism between BIDA and commercial attaché in foreign missions to enhance collaboration and promote economic interests abroad.
- Include the Ministry of Land as a key stakeholder in the representative governing body mentioned in Section 6.
- Establish a coordination committee comprising executive members from BEZA, NBR, and Customs to oversee and manage special tariff benefits provided to investors in the economic zones.

The Bangladesh Economic Zone Act 2010

Some particular steps should be taken to mitigate challenges stemmed from the BEZA act 2010. They are as following:

- Establish a coordination committee comprising executive members from BEZA, NBR, and Customs to oversee and manage special tariff benefits provided to investors in the economic zones.
- Introduce a distinct provision, independent of the Bangladesh Export Processing Zone Authority Act 1980 and the Bangladesh Private Export Processing Zones Act, 1996, within the framework of BEZA, to determine financial benefits in the economic zones and clearly outline the specialized categories, scales of financial benefits, and fall under the jurisdiction of BEZA.
- Specify whether BEZA will determine rent, fees, and service charges in compliance with existing laws/acts or act independently

The Bangladesh Hi-Tech Park Authority Act 2010

Some particular steps should be taken to mitigate challenges stemmed from the BHTPA act 2010. They are as following:

- Include the National Board of Revenue (NBR) in both the Board of Governors and the Executive Committee.
- Add a provision for annual publication of notices detailing tax and other incentives provided to investors.
- Form coordination committees at each park to address site-specific issues from investors.
- Organize quarterly meetings with investors for effective communication and problem resolution.

Industrial Policy 2022

Some particular steps should be taken to mitigate challenges stemmed from the IP act 2022. They are as following:

- Incorporate provisions in the new industrial policy for the streamlined development of EPZs, SEZs, high-tech parks, and clustered industrial areas, specifying timelines for completion and establishing mechanisms for effective monitoring.
- Specify and quantify tax breaks, cash incentives, and reduced duties on raw materials for investments in priority sectors, backward areas, and renewable energy.
- Incorporate provisions in the new policy to offer additional incentives to foreign investors, beyond general incentives, for establishing effective backward and forward linkages.
- Integrate a dedicated chapter in the new industrial policy focusing on the development of the service industry.
- Expand the list of priority sectors in the new industrial policy to include more service sectors.
- Redefine SME categories in the new policy and establish separate provisions for micro, cottage, and small industries.
- Incorporate a dedicated chapter in the new industrial policy addressing LDC graduation, including provisions for preparing industries to comply with intellectual property rights and TRIPS.
- Detail the components of the "special incentive package" designed for foreign investors to attract foreign investment.

Bangladesh Small and Cottage Industries Corporation Act 2024

Some particular steps should be taken to mitigate challenges stemmed from the BSCIC act 2024. They are as following:

- Incorporate provisions empowering BSCIC to facilitate power and gas connections to enterprises within the industrial parks.
- Include members from Bangladesh Bank and NBR in the Technical Advisory Committee to enhance coordination on tax and tariff policies within the industrial parks

- Incorporate a provision empowering BSCIC to address issues related to advance tax that investors in the industrial park may encounter.
- Include provisions empowering BSCIC to offer special incentives for expatriate workers who choose to invest in the industrial parks.

Small and Medium-sized Enterprise Policy 2019

Some particular steps should be taken to mitigate challenges stemmed from the SME Policy 2019. They are as following:

- Augment the 2019 SME policy by including comprehensive funding strategies and models to ensure its effective implementation alongside the specified ministries and government entities.
- Enhance follow-up and monitoring processes to improve the execution of action plans, addressing significant limitations in the SME policy.
- Incorporate online registration and digitalized services into the plan to enhance its effectiveness.
- Address the inadequacy of clear plans to maintain the quality of SME products, a major obstacle to SME growth in Bangladesh, within the policy framework.

Arbitration Act 2001

Some particular steps should be taken to mitigate challenges stemmed from the Arbitration Act 2001. They are as following:

- In section 3 (1), the Act may provide the clear provision on how arbitrator will be paid or the criteria for determining their fees.
- According to section 12, the Act allows the district judge court to appoint arbitrators if parties fail to appoint. There may be a provision for appealing or revision against the order of appointment in case of concerns.
- According to sections 42(1) and 44, the Act allows for judicial review of arbitral awards by the district judge court, creating a potential conflict when a decision made by an arbitral tribunal.

Income Tax Act 2023

The new income tax act 2023 has been passed in June 2023. While the challenges stemmed from the implementation phase is yet to unfold, a review of the Act has been carried out by the study team. Following are the key points to consider:

- There is a positive shift as the cumbersome requirement of submitting an extensive 29-document package is being streamlined to a more manageable 12 documents.

- The range of deductible business expenses has undergone meticulous scrutiny, ensuring comprehensive coverage.

- Efforts have been dedicated to resolving conflicts with International Financial Reporting Standards (IFRS), addressing nuanced aspects like the treatment of foreign currency gain/loss, impairment loss, right to use asset, gain on revaluation of assets, and investment property.

- The transition to universal self-assessment for the majority of returns aims to streamline the process, minimizing the instances where assesses face audits unless specifically selected.

- The Income Tax Act of 2023 mandates that taxpayers in Bangladesh must provide a Proof of Submission of Tax Return (PSR) to claim certain deductions. Failure to do so can lead to higher tax liabilities and disallowed expenses, particularly in the largely informal economy where obtaining PSR is challenging. This requirement also complicates dealings with autonomous bodies lacking electronic tax identification, potentially increasing business costs.

- Under the new Income Tax Act, companies that are operating at a loss will still be obligated to pay taxes on any income they derive from sources such as interest and dividends which may affect the cost of doing business. In the past, companies enjoyed the flexibility of offsetting business losses against income from diverse sources, resulting in decreased tax obligations.

- The Act brings about a transformation by reclassifying incentive bonuses as perquisites which has been included in taxable salary, intensifying the tax obligations placed on companies. This shift not only raises the total perquisite costs for companies but also initiates increased tax commitment.

- The removal of TDS adjustment at the distribution stage in the tax act may impact the importers and distributors by regulating their ability to offset this deduction against tax liabilities. Previously, adjustments allowed for the offsetting of TDS paid during the distribution process, providing a mechanism to account for and potentially mitigate the financial impact of this deduction.

- The imposition of a 10% tax on interest paid for loans, excluding banks and financial institutions, creates a situation where non-banking entities face heightened tax liabilities, restricting banking activities for non-bankers. This policy may raise the cost of borrowing for other businesses engaged in lending or borrowing.

3. The Challenges of Private Investment in Bangladesh in the Context of the LDC Graduation Considering the loss of the LDC-specific ISMs

Since its founding, only six countries have graduated from the LDC category (Botswana, Cabo Verde, Equatorial Guinea, the Maldives, Samoa, and Vanuatu). Sixteen more countries, including Bangladesh, are slated for graduation. Bangladesh is an exception or a unique case among the graduating or already graduated countries. No other graduating (or graduated) LDCs are (were) as large as Bangladesh's GDP or population size. Also, no other former LDCs had a comparably well-developed private sector with a substantial manufacturing share in total exports. Unlike other graduating/graduated LDCs, Bangladesh has made economically important use of the existing trade benefits. The country alone accounts for 19% of LDCs' merchandise exports. Given the size of the economy, Bangladesh's susceptibility to preference erosion is expected to be considerably higher than any other LDCs who graduated earlier.

3.1. ISMs received by Bangladesh

International Support Measures (ISM) encompass a broad range of assistance provided by developed countries and international organizations to support the development and well-being of less developed countries. These measures include development assistance in the form of financial aid, technical expertise, and resources, as well as humanitarian aid for responding to crises.

Different Schemes received by Bangladesh as LDC

Various countries offer preference schemes to support LDCs including Bangladesh in their international trade endeavours. In Australia, LDCs including Bangladesh receive duty-free preference under the Australian System of Tariff Preferences (ASTP) specifically designed for LDCs, which encompasses duty-free access for Asia-Pacific LDCs across the entire Australian tariff schedule. This initiative bolsters trade opportunities for LDCs within the Australian market.

Canada is another proponent of trade facilitation for LDCs, providing duty-free access under the least developed country tariff (LDCT) scheme. This scheme extends duty-free, quota-free (DFQF) market access for an impressive 98.9 percent of tariff lines, benefiting a wide range of products and industries. It significantly reduces trade barriers for LDCs in the Canadian market, fostering trade partnerships and economic development.

China plays a pivotal role in supporting LDCs by offering duty-free, quota-free (DFQF) market access to 40 LDCs. This approach is complemented by China's Generalized System of Preferences (GSP) for LDCs, which covers 95 percent to 98 percent of tariff lines, further enhancing trade opportunities and easing market access for these countries.

The European Union (EU) contributes to LDC trade development through its Everything but Arms (EBA) scheme, which provides duty-free, quota-free (DFQF) preference for all products from LDCs, excluding arms and ammunition. This preferential treatment is designed to empower LDCs by granting them access to the EU market for a wide range of goods. Additionally, the EU offers the GSP+ preference for countries complying with specified international conventions, further enhancing trade facilitation for LDCs.

The United Kingdom continues its commitment to trade support for LDCs through its GSP scheme, known as the Least Developed Countries Framework. It mirrors the EU's approach by providing duty-free, quota-free (DFQF) access for all products except arms and ammunition. This framework ensures a seamless transition of preferential trade arrangements post-Brexit, maintaining a supportive trading environment for LDCs.

Japan has a robust duty-free access program for LDC exports under its Generalized System of Preferences (GSP) scheme. With 98.2 percent of tariff lines enjoying duty-free status, Japan plays a significant role in facilitating trade for LDCs.

India's Duty-Free Tariff Preference (DFTP) scheme is a cornerstone of trade support for LDCs. It offers duty-free or concessional tariffs for a remarkable 98 percent of tariff lines. Furthermore, the South Asian Free Trade Area for LDCs (SAFTA-LDC) provides duty-free, quota-free (DFQF) access to nearly all products, except for 25 specific items.

The Republic of Korea extends duty-free, quota-free (DFQF) access to LDCs for 95 percent of tariff lines. This is particularly significant for countries like Bangladesh and Lao PDR, as they benefit from the Asia-Pacific Trade Agreement (APTA)-specific LDC DFQF, which enhances trade partnerships and fosters economic growth.

In the United States, LDCs are beneficiaries of the least-developed beneficiary developing countries (LDBDCs) scheme. However, it's important to note that Bangladesh is not included in the Generalized System of Preferences (GSP) in the U.S. market, and most textiles and clothing products are excluded from U.S. GSP schemes. This reflects the country's specific trade policies and preferences for LDCs, and understanding these dynamics is vital for effective international trade strategies.

Bangladesh as an LDC is a recipient of these schemes from different countries and these schemes have played a pivotal role in shaping the export trend and overall economic trend of Bangladesh. Annexe 5 of this report detailed out the consequences of losing the LDC preference schemes after graduation in 2026.

GSP Utilization by Bangladesh

The Annexe 6 presents a comprehensive overview of Bangladesh's utilization of the Generalized System of Preferences (GSP) preferences in different countries, highlighting the top three product categories and their corresponding GSP utilization rates for the latest available year.

In Canada, the three leading product categories that receive GSP preferences are Textile and textile articles, boasting a substantial utilization rate of 84.00% in 2020. Following closely are Footwear and Headgear at 76.13%, and hides and skins, leather at 78.90%. These preferences play a significant role in facilitating trade relations between Bangladesh and Canada.

Within the EU, Bangladesh's exports primarily benefit from GSP preferences in the Textile and textile articles category, with an impressive utilization rate of 95.97% in 2021. Equally significant are Footwear and Headgear at 95.01% utilization, and Live animal and products, which achieve an exceptionally high utilization rate of 99.34%. These figures reflect the substantial reliance of Bangladeshi products on the EU's GSP scheme, contributing to the country's trade growth.

Japan also plays a crucial role in Bangladesh's trade, extending GSP preferences with a strong focus on Textile and textile articles, showcasing a robust utilization rate of 94.73% in 2021. This is followed by Hides and skins, leather, with a utilization rate of 96.74%, and Footwear and Headgear at an 85.01% utilization rate. These preferences underline the significance of Bangladesh's textile industry and related products in the Japanese market.

Bangladesh was one of the countries eligible to benefit from the GSP program offered by the United States. In June 2013, the United States suspended Bangladesh's GSP status following the tragic Rana Plaza collapse, which raised serious concerns about workers' rights and safety standards in the country. Last year (2023), Officials from the Office of the United States Trade Representative (USTR) have conveyed to the Bangladesh government during the Seventh US-Bangladesh Trade and Investment Cooperation Forum Agreement (Ticfa) that a significant number of RMG products could be eligible for inclusion in the United States' revamped GSP program. They indicated that Bangladesh could benefit from duty-free export opportunities for its RMG sector if it qualifies for the program and adheres to the outlined conditions. However, details regarding the implementation timeline of the new GSP program were not disclosed during the Ticfa meeting.

Overall, these statistics provide valuable insights into the specific product categories that significantly benefit from GSP preferences in various countries, emphasizing the diverse trade dynamics that Bangladesh enjoys on the global stage.

3.2 Impact of ISMs and loss of ISMs on the trade of Bangladesh

Much of Bangladesh’s success in global trade can be attributed to numerous ISMs (Rahman, 2021; UNDESA, 2020). The government of Bangladesh also actively provided direct cash benefits, duty drawbacks and other incentives to the exporters to boost private investment in the key sectors. However, after LDC graduation, Bangladesh will lose the ISMs in most destination countries (Table 7) apart from the EU and the United Kingdom, where access to the GSP scheme will continue for a preparatory transition period (Razzaque, 2023). In addition, the incentives tied to export success will likely be considered prohibitive subsidies, forcing other WTO members to undertake countervailing action. It will limit the policy space available to support different export and domestic sectors. Certain special trade concessions, subsidies for agriculture and infant industries, and access to LDC-specific funding will be affected as well. The country will also lose the preferential rules of origin. Annexe 7 presents a summary table on the ROO rules before and after the LDC graduation.

Moreover, unlike any other graduating LDCs, Bangladesh exports labour-intensive manufactured items, including garments, leather and leather goods, footwear, and bicycles, which are subject to higher-than-average tariffs even under the regular GSP scheme in most of the key destination markets, such as EU, the United Kingdom, etc. This makes the prospective trade costs of graduation possibly more than what most graduating nations have experienced to date. Annexe 8 presents a summary table on the pre and post LDC schemes.

Table 7: Impact of Losing ISMs

Macroeconomic Variables	Impact
Export	Decline by 8%-15%
GDP	Decline by 1.53%
Investment[11]	Decline by 18%
Sectors	**Impact**
Apparel export	Decline by 14.7 %
Agro-processing export	Decline by 11.3 %
Leather and leather goods export	Decline by 3.1 %

Source: Rahman and Bari, 2019; Razzaque et al., 2020; Raihan, Khorana, and Uddin, 2022

The consequence of the aforementioned changes will negatively impact Bangladesh's exports and GDP growth rates, at least in the short run. According to recent studies, Bangladesh's exports are predicted to decline by 8% to 12% (Rahman and Bari, 2019; Razzaque et al., 2020; Raihan, Khorana, and Uddin, 2022). If the impact of the covid-19 pandemic is taken into consideration, the fall may deepen to 14.3% (Razzaque, 2020). Such a drastic fall in exports would lead to a fall in real GDP which could be as large as 1.53% (Raihan, Khorana, and Uddin, 2022). Among the sectors, the largest impact would be in the apparel industry, with a fall estimated at 14.7%, followed by agro-processing (-11.3%), leather and leather goods (-3.1%), amongst others (ibid). Such falls in export growth would directly impact the private investment growth in these sectors (Table 8).

Table 8: Summary table on the impact of LDC graduation in Bangladesh

Loss of DFQF and LDC-specific rules of origin	Bangladesh will no longer have access to duty-free quota-free schemes and preferential rules of origin specific to Least Developed Countries (LDCs). This change is expected to have notable consequences, particularly in the European Union (EU), Canada, Japan, and other markets, with significant implications for industries such as garments. However, given the existing trade preferences, minimal effects are anticipated in the United States. Bangladesh will have three years transition period in the EU and the UK.
Loss of preferences under the services waiver	Anticipated to have a negligible impact given the existing circumstances.
Withdrawal of LDC-specific special and differential treatment under WTO agreements	Bangladesh has undertaken significant legislative changes by repealing the Patents and Designs Act of 1911 and enacting the Bangladesh Patents Act of 2022. Strict enforcement of this new act and adherence to the TRIPS agreement will become imperative as it graduates. The repercussions of this transition will be particularly pronounced for the pharmaceutical industry in Bangladesh, bearing adverse effects that extend to both domestic consumers and international markets. With the general transition period for LDCs under TRIPS initially set to conclude in 2021, an extension of 13 years was granted, pushing the expiration date to 1 July 2034. Nevertheless, Bangladesh's

[11] Calculated by SANEM team.

	graduation status will preclude any further benefits from this extended transition period. Bangladesh might be required to revaluate its subsidy policies to align with the provisions stipulated in the Agreement on Agriculture and the Agreement on Subsidies and Countervailing Measures. Upon graduation, Bangladesh will forego specific benefits concerning dispute settlement. Furthermore, several LDC-specific provisions in various WTO agreements will cease to apply before Bangladesh's projected graduation date. The country will no longer enjoy LDC-related advantages in regional agreements unless alternative arrangements are negotiated. Moreover, Bangladesh will lose its current access to or precedence in participating in training and capacity-building initiatives offered by the WTO and other institutions.
Development cooperation	The process of graduation is not anticipated to yield substantial consequences. Many development partners structure their aid programs and assistance terms based on factors related to the LDC criteria rather than a country's LDC status. Consequently, Bangladesh will no longer have access to a limited set of mechanisms designated exclusively for LDCs, albeit in certain instances, following gradual transition periods.
Contributions to the UN system and travel support	As a consequence of its changing status, Bangladesh will incur elevated contributions to the United Nations system and cease to avail certain forms of travel support for attendance at meetings.

Source: Adapted from UNDESA (2020) and updated to include recent developments

Another key sector that would be significantly impacted is the pharmaceutical industry. Among all the LDCs, only Bangladesh have a robust pharmaceutical sector catering to almost total domestic demand and exporting to over 150 countries.[12] The sector grew to its potential utilising the services waiver provisions for LDCs in Article 66.2 of the WTO Agreement[13] on TRIPS, which stipulates industrialized nations stimulate technology transfer to LDCs to establish a solid and robust technical basis (WTO, 2022). It allowed the pharmaceutical industries in Bangladesh to reverse-engineer patented generic pharmaceuticals and supply generic medications at a reduced price. Still, it inhibited the inventive potential of local firms for fundamental research (Sajal, 2018). Following a further WTO ruling in the public health domain, LDCs are excluded from patent protection and licensing requirements for pharmaceutical items till 1 July 2034.[14]

In preparation for the LDC graduation, Bangladesh has implemented significant legislative changes by replacing the Patents and Designs Act 1911 with the Bangladesh Patents Act 2022. The stringent enforcement of this new act and strict adherence to the TRIPS agreement will become imperative as the country graduates from LDC status. This transition will have

[12] Source: Bangladesh Association of Pharmaceutical Industries (BAPI) - http://www.bapi-bd.com/bangladesh-pharma-industry/overview.html; accessed on 8 July 2023

[13] The WTO agreements create an international trade legal framework for 164 economies worldwide. These agreements cover goods, services, intellectual property, standards, investment, and other issues that impact trade flow.

[14] The extension was approved on 29 June 2021; source: https://www.un.org/ldcportal/content/decisions-taken-favour-ldcs-wto; accessed on 8 July 2023

particularly notable implications for the pharmaceutical industry in Bangladesh, resulting in adverse effects that extend to both domestic consumers and international markets. Despite the extension of the general transition period for LDCs under TRIPS, Bangladesh's graduation status will preclude any further benefits from this prolonged transition period. It will imply significant implications for the entire supply chain of the pharmaceutical industry: including – importers of raw materials, producers of pharmaceuticals and complementary products (such as bottles and packaging), logistics companies, exporters and retailers and thereby impacting the growth prospects of these sectors across the value chain.

Graduation from LDC status will also impact a country's ability to continue providing subsidies to the agriculture industry as it does today. Bangladesh will need to comply with the WTO Agriculture Agreement's criteria. The agricultural sector, therefore, will face new challenges without prior support along with the old ones. Thus, intensifying pressure on the production and prices of agricultural raw products could be transmitted through the value chain. As such, the agro-processing sector might see shrinking profit margins lowering investment motivations.

Graduation is not projected to have considerable effects on development cooperation or Official Development Assistance (ODA). Most of the development partners structure their aid programs and assistance terms based on factors related to the LDC criteria rather than a country's LDC status. Consequently, Bangladesh will no longer have access to a limited set of mechanisms designated exclusively for LDCs, albeit in certain instances, following gradual transition periods. As part of the ODA, the Aid for Trade (AfT) played significant pivotal roles in developing financial markets, supporting productive activities, and integrating private sectors from developing countries by encouraging responsible business conduct (OECD, 2015). However, no studies show a fall in the AfT upon LDC graduation; therefore, any impacts through this channel are not anticipated.

3.3 Interplay among ISMs, export and private investment in Bangladesh

The impending changes due to Bangladesh's graduation from LDC status have the potential to influence private investment in several keyways. The loss of trade preferences in major markets for industries like garments may deter private investors who depend on these preferential arrangements to remain competitive. Additionally, the challenges posed to the pharmaceutical industry, driven by the need for stricter enforcement of patent laws and adherence to international agreements, could lead to increased operational costs, potentially impacting private investment in this sector. The re-evaluation of subsidy policies to align with international agreements may also raise concerns among investors, who may assess the implications of these policy changes on their investments. Furthermore, the loss of specific benefits related to dispute settlement mechanisms may be perceived as an increased level of risk by private investors. Limited access to training and capacity-building initiatives offered by international institutions could impact the development of skills and capabilities necessary for private investment, potentially deterring businesses that value these resources. The increased contributions to the United Nations system and the cessation of certain travel support may also factor into investment decisions, as higher operational costs could affect business profitability.

The impact of these changes on private investment in Bangladesh will vary by industry and the adaptability of businesses to the new regulatory environment. Potential investors will likely consider the extent to which their operations rely on the affected preferences and benefits, as well as the government's ability to mitigate negative effects through supportive policies and incentives. To maintain a favourable investment climate, Bangladesh may need to proactively address the concerns and challenges arising from its transition away from LDC status, ensuring that private investment continues to play a vital role in the country's economic development.

Bangladesh has consistently received various forms of ISMs, primarily geared towards facilitating the export of RMG. Given the substantial dependence on RMG in the country's export portfolio, a significant proportion of the export revenue is derived from this sector. To explore the interconnections between ISMs, private investment, and export, we have examined export figures and assessed the correlation between private investment and export, as well as between FDI and export. This analysis aims to shed light on the relationship between ISMs, private investment, and the export sector in Bangladesh.

4. Policy and Procedural Challenges for Promoting Private Investment in Bangladesh

4.1. A perspective on market penetration challenges

The stagnant level of fresh investments in Bangladesh can be traced back to deteriorating economic indicators, including factors such as forex reserves, macro stability, and inflation. This challenging environment is compounded by obstacles like land scarcity, depleting natural gas reserves, and inadequate power distribution, posing significant barriers to potential investors. Entrepreneurs, in their pursuit of investment, struggle with a multitude of challenges in taxation, customs, land acquisition, and the process of securing gas and electricity connections, following the registration of their investment proposals. Despite a notable increase in electricity generation capacity over the past decade, there remains a pressing need for additional efforts in the enhancement of transmission and distribution systems. This is crucial to ensure a more reliable and inclusive access to electricity, a factor integral to fostering a conducive environment for sustained economic growth and investment.

Concerns have been raised by key stakeholders regarding the inconsistency of the Bangladesh National Board of Revenue (NBR) in subjecting businesses' prior-year tax returns to renewed scrutiny. This ongoing process has the potential to slow or even halt normal business activities such as banking, immigration procedures for foreign staff, and branch office licensing permissions. The narrations of hardship linked to this lengthy and intricate procedure spread, leading to a decrease in enthusiasm among potential new investors.

Issues with inefficient port handling and complex customs procedures contribute to delayed clearance of raw materials, resulting in losses for investors. The sluggish customs clearance can force importers to incur additional costs in demurrages, and imported goods may even suffer damage. Consequently, entrepreneurs face cost implications domestically and encounter challenges in the international market, affecting competitiveness. The Time Release Study 2022 by the National Board of Revenue indicates that businesses have to endure an 11-day and six-hour wait for cargo release after arriving at seaports.

Foreign investors have expressed dissatisfaction with the intricate and time-consuming procedures associated with obtaining a one-year visa and work permit in Bangladesh. The complexities embedded in the visa policies, coupled with the challenging approval and renewal processes, present substantial obstacles for investors contemplating engagements in Bangladesh.

Additionally, the shortage of foreign reserve is also affecting businesses in the country. A considerable number of recently initiated letters of credit (LCs) for import transactions are experiencing delays, primarily attributed to a shortage or crisis in the availability of US dollars. This situation suggests a constraint in accessing the required foreign currency, particularly the US dollar, which is impeding the smooth and timely processing of import-related financial instruments such as letters of credit. Moreover, challenges such as taxation complexity, a higher tax burden and import duty, intricate repatriation processes, shortage of skilled professionals, complicated foreign exchange regulations, and the absence of modern trade financing demotivate newcomers in the business landscape.

A survey by the Japan External Trade Organization (Jetro) in August 2023 highlighted the exchange rate's volatility, difficulties in local procurement of raw materials, and power shortages as major challenges for investors in Bangladesh. Despite these challenges, the country performed well in terms of ease in recruiting human resources, including general workers, staff, engineers, and specialists. Bangladesh's labor cost was identified as the most competitive among countries in Asia and Oceania according to the survey.

In navigating these multifaceted challenges, Bangladesh stands at a crossroads, requiring strategic reforms and focused efforts to unlock its economic potential. Addressing these impediments could pave the way for a more resilient and investor-friendly business environment, fostering sustainable growth and positioning Bangladesh as a competitive player in the global market.

4.2. Challenges regarding the tariff system in Bangladesh

Import duties, including regulatory and supplementary duties, as well as value-added tax, advance tax, and advance income tax, are currently imposed on imports in Bangladesh. These levies are governed by the Customs Act, 1969, the Value Added Tax and Supplementary Duties Act, 2012, and the Income Tax Act, 2023.

Imported products play a crucial role in supporting exports and the growth of domestic industries due to limited domestic resources. Nearly all exporting businesses, including those in export processing zones, rely heavily on imported raw materials. Additionally, domestic industries import substantial amounts of capital equipment and raw materials to fuel industrialization and agricultural development. Notably, 85% of total imports for domestic consumption consist of raw materials for the capital machinery industry and agriculture.

According to key stakeholders[15], Bangladesh's existing tariff structure has led to challenges in assigning HS codes to imported goods due to varying duty rates on similar products and division at the 8-digit level. It has been claimed that this results in delays in clearing imported goods and financial losses for industrial establishments.

Bangladesh offers numerous user-based tariff concessions, with their number increasing over time, currently exceeding 150, according to a key stakeholder. As a consequence, the volume of imports outside the scope of concessions is smaller than the volume subject to duty and tax concessions. This leads to market distortions as different importers of the same product face varying duty and tax levels through user-based tariffs. Small and medium enterprises, which contribute more than 50% to the manufacturing sector, are particularly discriminated against in this context.

Additionally, prolonged protection of domestic industries through tariffs and tax structures often discourages industries from enhancing their competitiveness through increased productivity. Despite Bangladesh's capacity to produce diverse goods, this isn't adequately reflected in its exports. As a result, despite government efforts, diversification in export products has been limited.

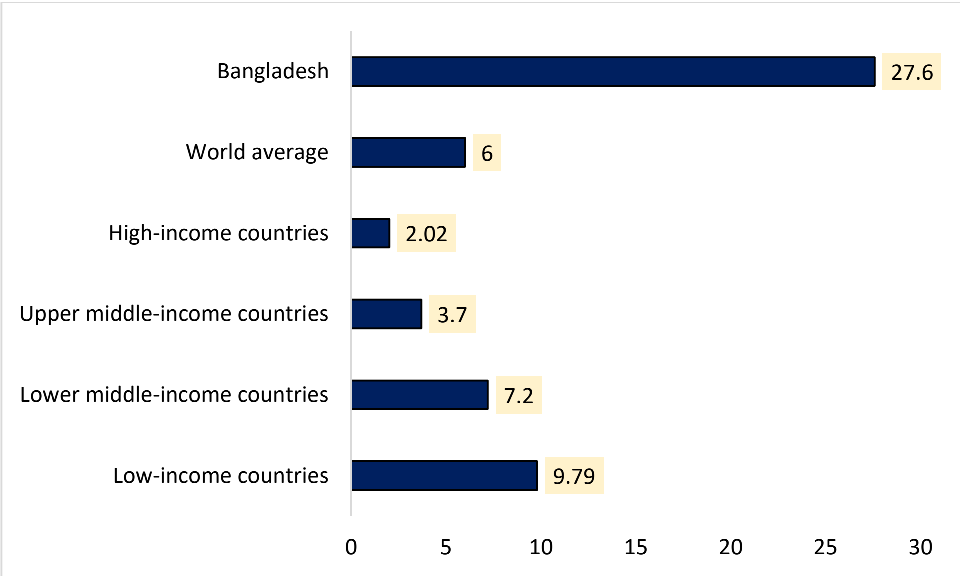
Effect of Supplementary Duty and Regulatory Duty on Private Investment: Supplementary duty and regulatory duty can have detrimental effects on private investment. It can reduce the profitability of businesses, particularly those subject to higher taxes. The resulting increase in prices can dampen consumer demand, potentially leading to decreased sales and making businesses less attractive for private investment. Moreover, the competitive landscape can become distorted, favoring some businesses while burdening others, discouraging investment in adversely affected industries. The complexity and uncertainty associated with supplementary duties and regulatory duties along with an anti-export bias in some cases, can create an unfavorable investment environment.

Comparison of Tariff rates between Bangladesh and other competitor countries

Although the government's revenue collection has shown significant growth in recent years, Bangladesh's tax-GDP ratio lags behind countries at a similar economic development level. For instance, in 2020, Vietnam had a tax-GDP ratio of 13.31%, while Bangladesh's ratio was only 8.42% in 2021. Conversely, the average import duty and tax rates and the share of revenue from import duties and taxes are much lower in these countries compared to Bangladesh. Consequently, the reliance on import duties for revenue collection is not a common practice among countries at a similar economic level.

[15] Key Informant Interview.

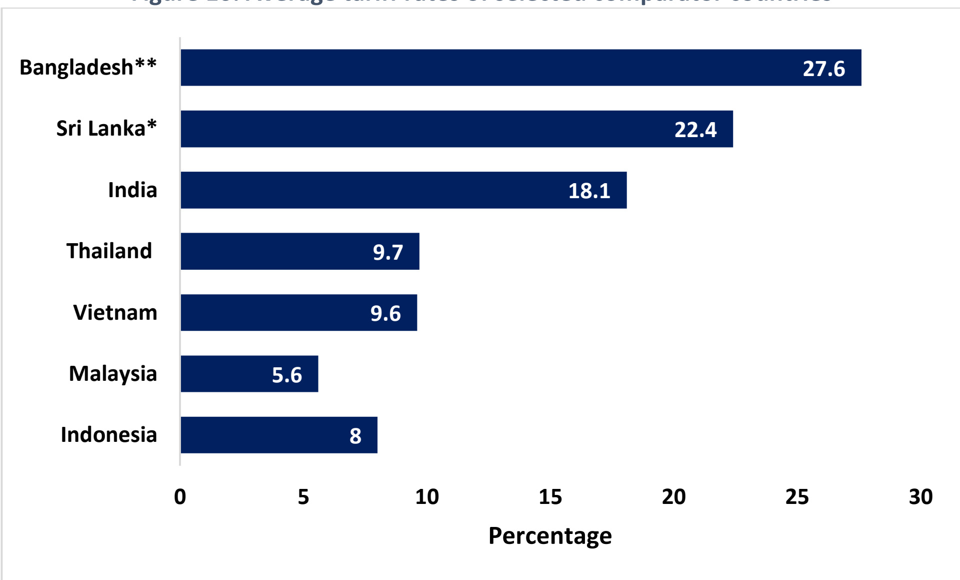
Figure 15: Average Tariff rates by WB Country Classifications



Source: World Bank tariff tables 2020

Bangladesh maintains higher average nominal tariffs compared to low-income, middle-income, and high-income nations (Figure 15), along with most of its peer countries (Figure 16).

Figure 16: Average tariff rates of selected comparator countries



Source: World Bank tariff tables 2020; (*)2017; (**)2024

Table 9 portrays the effect of high tariff and its impact on private investment.

Table 9: Effect of high tariff and its impact on private investment

Effect of High Tariff	Impact on Private Investment
Tariffs increase the relative profitability of domestic sales over exports	Private investors may redirect their investments toward industries that serve the domestic market due to the higher profitability associated with these businesses. This can lead to increased capital flow into domestic-focused sectors, potentially

	at the expense of export-oriented industries, reducing private investment in those areas. This can act as a major barrier for export diversification.
Deter the production of goods for foreign markets and exports	Private investors may be reluctant to invest in industries focused on foreign markets due to the barriers created by tariffs. This can result in decreased private investment in export-oriented businesses, limiting opportunities for expansion into international markets and reducing foreign exchange earnings.
Protective tariffs can be seen as indirect subsidies to domestic alternatives to imported products	Industries shielded by protective tariffs may attract increased private investment due to their improved profitability. However, this can lead to reduced competition, potentially limiting innovation and overall economic efficiency. Private investors may channel their resources into industries benefiting from these subsidies.
Bangladesh experiences a strong anti-export bias in its tariff protection policies	The anti-export bias in tariff policies can dissuade private investors from entering export-oriented sectors. This bias may result in reduced private investment in industries targeting foreign markets, limiting diversification and export growth. It can also restrict opportunities for private businesses to access global markets.

Lengthy customs and trade regulations impede business prospects

As has been noted during the stakeholder consultation, the customs rules, laws, and procedures in Bangladesh are outdated and focused on only one goal: revenue extraction. In addition, if exporters use formal channels, completing the necessary paperwork takes a substantial amount of time and involves harassment. Streamlined customs procedures facilitate direct import and export operations for businesses. However, delays in the customs clearance process for both exports and imports impose extra expenses on firms, disrupt production, impede sales, and can lead to damage to goods. In Bangladesh, it takes on average 7 and 11 days, respectively, to clear exports and imports through customs. Large and exporting firms face substantial difficulties with customs and trade regulations (13.4% and 17.7%, respectively) (WBES, 2022).

The absence of Free Trade Agreements (FTAs) presents a notable challenge for private investment expansion in Bangladesh.

The absence of Free Trade Agreements (FTAs) presents a notable challenge for private investment expansion in Bangladesh. Bangladesh currently lags in terms of having comprehensive FTAs. The country is actively pursuing FTAs with various nations. The country recognizes that such agreements can serve as catalysts for investment promotion. However, the negotiation and signing of FTAs with developed countries introduce specific obligations regarding intellectual property (IP) and investment. Addressing these obligations and focusing on necessary policy reforms are critical steps to attract investment.

The number of FTAs a target country is involved in becomes a decisive factor for foreign investors, who seek a favourable investment environment. They assess policy predictability, well-defined tariff policies, and the proper implementation of IP regulations. Potential trade partners, such as the European Union, evaluate not only compliance status but also the implementation of IP protection measures.

Furthermore, Bangladesh's limited experience with FTAs, with SAFTA being the only current agreement, poses obstacles when negotiating agreements with developed countries. These negotiations introduce various issues, including government procurement and investor-state dispute settlement mechanisms. The new generation of FTAs encompasses a broader range of topics, including competition, the environment, and climate change.

4.3. The tax system in Bangladesh is in need of a policy reform to be private investment-friendly

According to the PwC's Paying Taxes 2020 report, out of the 189 countries, Bangladesh's ranking was 151 in terms of ease of paying taxes. Bangladesh was lagging in terms of the score of the ease of paying taxes, time to comply (hours), and number of payments (Table 10). During our consultations, private sector firms and business associations complained that the tax policies and executions were cumbersome, and the Bangladesh National Board of Revenue (NBR) failed to develop a private investment-friendly tax system in Bangladesh.

Table 10: Ease of paying taxes in 2020

	Bangladesh	India	China	Malaysia	Thailand	Vietnam
Overall ranking out of 189 countries	151	115	105	80	68	109
Ease of paying taxes score	56	67.6	70.1	76	77.7	69
Time to comply (hours)	435	252	138	174	229	384
Number of payments	33	11	7	9	21	6

Source: PwC, Paying Taxes 2020. https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2020.html

Inconsistent tax rates lower investors' forecasting predictability and trust in the policy regimes

A significant challenge in expanding private investment in Bangladesh stems from the inconsistent tax provisions. Stakeholders reported during the consultation that, the government often change the policy and shifts the tax brackets without any consultation with the relevant industry insiders. The inconsistency in fiscal incentives often reduces the business confidence in forecasting profits, risks and losses, which reduces the business expansion motives for the local producers, as well as discourages FDI from multinational companies.

4.4. Bureaucratic and regulatory issues and institutional weakness

Challenges regarding the quality of formal institutions, and, in particular, regulatory quality

Many international frameworks exist for comparing institutional performance and governance across countries, but the "World Governance Indicators" stand out because they compare institutional performances along six important dimensions. These include control of corruption, government effectiveness, political stability and absence of violence/terrorism, regulatory quality, rule of law, and voice and accountability. Furthermore, these indicators are commonly used to evaluate the temporal and spatial shifts in institutional performance in the standard governance literature. Table 11 presents the percentile rank of Bangladesh and comparators in terms of these six institutional indicators in 2021. In all these indicators, Bangladesh's performance needs significant improvement. In particular, there is need for a major improvement in regulatory quality for expanding both domestic private investment and FDI. Regulatory quality is a proxy for a country's ability to formulate and implement sound policies that promote private-sector development. Studies have shown that regulatory quality has the greatest impact on foreign investment inflows of all the metrics (Alemu 2013; Bouchoucha and Benammou, 2020; Kurul and Yalta, 2017; and Masron and Nor, 2013).

Table 11: Percentile rank of Bangladesh and comparators in terms of institutional indicators in 2021

	Bangladesh	India	China	Malaysia	Thailand	Vietnam
Voice and Accountability	28.02	51.69	5.31	39.13	27.05	13.04
Political Stability and Absence of Violence/Terrorism	16.04	24.53	29.25	50.94	27.36	44.81
Government Effectiveness	28.85	62.50	76.44	81.25	60.58	62.02
Regulatory Quality	20.67	49.52	41.35	72.60	56.73	37.98
Rule of Law	28.85	51.92	53.85	70.19	55.77	48.56
Control of Corruption	18.27	46.63	58.17	61.06	35.10	47.12

Note: Percentile rank among 214 countries (ranges from 0 (lowest) to 100 (highest) rank). Higher values mean better quality of institutions.
Source: World Bank, World Governance Indicators

Challenges regarding coordination among the line ministries and to avoid unwanted procedural delays

In addition to the inconsistency in investment policies, there is often inadequate coordination among the line ministries or relevant government departments. As such, according to the stakeholders, sometimes changes in incentives, or relaxation in any business policies are not well communicated across all the relevant government bodies. As a result, when an investor applies for a particular certification/benefit based on the policy change, the government authorities wait until all the official orders are processed – which often takes a long time delaying the business houses to claim their benefits or execute their investment expansion plans.

Challenges regarding implementation of intellectual property rights

Bangladesh faces a significant challenge in terms of the level of implementation of intellectual property (IP) regulations. Currently, Bangladesh is enjoying certain flexibilities as a LDC under the TRIPS agreement. However, Bangladesh will no longer benefit from these flexibilities upon graduation. Consequently, the implementation of IP regulations will become crucial. Presently, copyright and trademark regulations in Bangladesh remain loosely regulated, adhering only to the minimum standards required as an LDC. Despite the need for progress in these areas, Bangladesh still lags behind. Basic tasks related to patent, design, and trademark registration performed by the Department of Patents, Designs, and Trademarks (DPDT) are no longer sufficient. The relevant organizations are not fully aware of the requirements imposed by FTAs, and dispute settlement mechanisms, including investor-state dispute settlement.

Absence of a specific dispute settlement body for investors

According to the stakeholder consultations and key informant interviews, the absence of proper arbitration and international dispute settlement mechanisms leaves investors concerned. Foreign investors perceive that the legal system in Bangladesh can be influenced by political decisions. Consequently, they doubt the fairness of receiving judgments in the court. Moreover, commercial disputes are settled in regular court, which takes a huge amount of time. Also, the resolution of investment disputes involving both state and private sector entities needs a clear definition in the country. Even in various African nations, such mechanisms for dispute settlement are well-established.

4.5. Challenges regarding access to finance and a strong financial sector for robust investment growth

Access to finances is a common problem faced by almost all sectors. The growing and potential sectors in Bangladesh face limited access to formal financial systems due to high-interest rates, collateral requirements, and complex procedures. Small and micro entrepreneurs lack the necessary documents, hindering their eligibility for loans and preventing new investments. Thus, cumbersome rules and coordination challenges discourage entrepreneurs from investing.

SMEs, particularly, faced difficulty recovering and accessing stimulus packages during the pandemic as banks prioritised larger companies. Only a small portion of export-oriented companies received support, leaving SMEs disproportionately affected (Raihan et al., 2021). According to the WBES 2022, for small businesses, access to finance is the most common problem (21.3% of small and 17.1% of medium enterprises have identified this issue as one of the major barriers to conducting business). In Bangladesh, 78% is financed internally, indicating potentially inefficient financial intermediation compared to South Asia (76%) and lower-middle-income countries (73%).

Table 12: Domestic credit to the private sector by banks (% of GDP) in 2022 and position in the global ranking

	Ratio	Rank
Afghanistan	3.0	175
Bangladesh	38.8	98
Bhutan	70.7	45
India	50.4	74
Maldives	30.9	109
Nepal	95.1	27
Pakistan	14.7	147
Sri Lanka	46.9	83

	Ratio	Rank
China	185.4	4
Malaysia	127.5	14
Philippines	48.8	76
Singapore	129.5	13
Thailand	121.0	17
Vietnam	126.4	15

	Ratio
LDCs	34.3
LMICs	45.3
South Asia	46.6
World	98.6

Note: The ranking is done out of 175 countries
Source: Authors' calculation using the data from World Bank, World Development Indicators

In Table 12, a global ranking of countries with respect to domestic credit to the private sector by banks as % of GDP is shown. Bangladesh's ratio of domestic credit to the private sector by banks to GDP in 2022 was much lower than India, China, and the Southeast Asian comparator countries. Though Bangladesh performed better than the average of the LDCs, the country's performance was much lower than the average of the LMICs. Also, at the global level, Bangladesh's ranking was 98 out of 175 countries.

The non-performing loans in the banking sector

It must be noted that challenges in access to finances and the tendency for high rates of collateral are not independent events, rather it is a result of a complex political economy of the private banking sector of Bangladesh.[16] A high rate of non-performing loans resulting from the prevalence of political patronage, an economic system in which individuals and businesses with political connections and influence are favoured, favouritism and nepotism, has significantly weakened the banking system in Bangladesh (Hassan et al., 2020). In 2021, Bangladesh's NPL share in total loans stood at 8% compared to 6.5% in India, 1.6% in Malaysia, 2.8% in Indonesia, and 1.6% in Vietnam. Levels of NPL in developing countries can be inversely affected by ROA (Return on Assets), profitability, operating efficiency, banking capital, and income diversification (Khan, Siddique, and Sarwar, 2020).

[16] For further details, see: (Hassan et al., 2020)

Box 1: Impact of NPL on private investment

Impact of high non-performing loan (NPL) on Private Investment
• NPLs constrain the lending capacity of banks, limiting the availability of capital for businesses and thus stifling private investment. This issue is particularly acute in a developing economy like Bangladesh, where bank financing is a major source of business capital. • High NPLs often lead banks to increase interest rates to offset their losses, making borrowing more expensive and potentially deterring investment. Beyond direct financial implications, a high level of NPLs can also signal broader economic issues, such as weak growth or poor corporate governance, creating a climate of uncertainty that deters both domestic and foreign private investors. • Furthermore, high NPLs can lead to financial sector instability, perceived as increased market risk by investors, thereby reducing investment flows.

Challenges in the capital market to expand private-sector investment

The capital market in the country is also in the woes and faces similar criticisms as the banking sector. Over the years, it has not transformed as a means of financing new and expanding businesses as in other developed or developing countries. Such weak private bank sector and capital market are not at all conducive to robust private sector investment growth in the post-LDC era. Moreover, the recent downgrade of Bangladesh's credit rating by Moody's points to an alarm for the sector. LDC graduation will not automatically result in an improved country credit rating. A weak baking sector, an even weaker capital market along a non-existent bond market seriously discourage potential investors.

Despite notable progress in strengthening Bangladesh's capital markets, significant constraints persist, including inadequate staffing within the Bangladesh Securities and Exchange Commission (BSEC) and the absence of an effective information and communication technology (ICT) system. Moreover, the demutualization process of the Chittagong and Dhaka Stock exchanges remains incomplete, institutional investors' participation in the capital market is limited, and there is a shortage of equities along with an illiquid bond market that has insufficient corporate bonds. Furthermore, the absence of alternative financial instruments like derivatives and sukuks (Sharia-compliant bonds) further adds to the challenges faced (ADB, 2022).

The stock market serves as a dynamic platform for companies to raise capital by issuing shares to the public. Private investment in the stock market involves individuals or institutional investors purchasing shares of publicly traded companies. The performance of companies in the stock market can influence investor confidence and encourage additional private investment. Successful Initial Public Offerings (IPOs) can also furnish companies with funds for expansion and investment in new projects, further stimulating private investment.

The main stock market of Bangladesh, the Dhaka Stock Exchange(DSE) have faced multifaceted challenges including the market volatility, reduced confidence of investors and the Foreign Portfolio Investors (FPIs) reducing their involvement, selling shares worth Tk 30 billion. FPIs have been net sellers since 2018, and foreign ownership in the capital market of Bangladesh fell below 4% during this period. In 2022, participation in trading by foreign investors hit a 10-year low, and the broad market valuation remained stagnant due to an imposed floor price by the regulator. As of September 2023, the DSEX stands at 6,284.6

points, reflecting both the challenges and opportunities faced by Bangladesh's equity market as it navigates a changing landscape.

For more than six decades since its establishment, the vision of a vibrant Dhaka Stock Exchange, where investors gather in large numbers to raise capital, has yet to be realized. The collective memory of two devastating market crashes, one in 1996 and another in 2010, underscores a common theme. In both instances, stock prices were artificially inflated to extreme levels, enticing unsuspecting investors to seek quick profits. Consequently, the concept of long-term investment based on a comprehensive evaluation of a company's financial well-being took a backseat. Stock market participation transformed into mere "share trading."

Over time, the emergence of large local and multinational corporations (MNCs) in the manufacturing sector has resulted in a disconnection between the stock market and the real economy, as many of these companies choose not to become publicly listed. The reason behind their reluctance lies in the cumbersome and lengthy regulatory procedures involved in the listing process. Furthermore, the high costs associated with going public, including fees paid to merchant banks, exacerbate the challenges. If a foreign private equity firm perceives significant difficulties in selling a company through an initial public offering (IPO) to the public, its interest in investing may diminish (Haque, 2021).

The extent to which regulatory barriers alone hinder the increase in favourable listings remains uncertain. Informal evidence gathered from discussions with executives of multinational corporations (MNCs) operating in Bangladesh suggests that their reluctance to enter the market stems from the fact that they do not perceive a need to do so. These firms typically rely on their internal financial resources, possibly sourced from their overseas offices, to fund their operations. Profit-oriented CEOs may argue that they already contribute to higher employment growth, investment, and consumption, thus believing that going public is unnecessary. However, it is important to recognize that MNCs are present in Bangladesh due to the presence of both demand for their products and a supply of affordable labour. If one were to depart, another would likely take its place. With this in mind, it can be argued that MNCs are not fulfilling their full potential in terms of contributions to our country. Moreover, the argument that mandatory listing enforcement after a specific duration of sustained MNC presence may deter other foreign companies from coming to Bangladesh is not particularly persuasive. Any economy with low-cost labour availability, stable macroeconomic conditions, and a high GDP growth rate will invariably attract attention from global actors. (Haque,2021).

An essential aspect tied to the necessity of a mindset shift is the reduction of price manipulation and other practices that erode trust in the market and negatively impact inexperienced investors. The 2010 crash, for instance, highlighted the issue of excessive leverage extended by banks, non-banking financial institutions, brokerage firms, and merchant banks to uninformed and inexperienced investors, disregarding fundamental factors. Such financial intermediation requires vigilant supervision, and regulators should intervene when transactions exceed reasonable thresholds.

To revive the stock market, any strategy should focus on two primary objectives: attracting high-quality companies to the market and transforming the perception of ordinary citizens regarding stock market investments. Transforming the stock market necessitates a parallel transformation of the regulatory framework.

Another active component of the capital market in Bangladesh is the bond market. The bond market operates as a debt market where companies and governments raise funds by issuing bonds. Private investors, including individuals and institutions, purchase these bonds, providing companies with the necessary capital for various purposes. Bonds offer private investors fixed-income returns while supporting the capital needs of issuers. A thriving bond market, therefore, contributes to a diverse range of financing options for businesses, including SMEs.

With the aim of fostering a private-sector driven economy, the Industrial Corporation of Bangladesh took the initial strides towards establishing a corporate debt market in 1985. Subsequently, in 1987, investors witnessed the first public issuance of a listed corporate debenture. Over the next few years, approximately a dozen more debentures were listed. However, like many initiatives, challenges emerged along the way, causing these endeavors to lose momentum and the prospects of developing a vibrant bond market gradually diminished. Unfortunately, several publicly traded debentures issued by renowned corporations through initial public offerings (IPOs) defaulted on their interest payments and principal obligations. The regulator's inability to promptly address these episodes further undermined public confidence in these financial instruments.

The bond market in Bangladesh faces several challenges including shortage of investors and issuers from diverse backgrounds, credibility concerns regarding financial reports, and an unsupportive tax policy. The absence of a thriving bond market contributes to the instability observed in both the money and stock markets. The nature of bonds, which combines both interest rates and market-driven prices, leads to market volatility as investors shift their focus between banks and stocks based on prevailing interest rates. This cyclic process creates fluctuations in interest rates within the country.

The yield rate of government bonds in Bangladesh is not market-based and often falls below normal deposit rates. This discrepancy creates instability in the money market. It is crucial for the bond yield rate to be determined by market dynamics to ensure that investors find government bonds profitable for their business activities. Additionally, the participation of non-primary dealers in government bond auctions at lower rates has led to rising yield rates. This situation poses risks for bond buyers who purchased bonds at low prices. To ensure smart bidding and mitigate swift changes in bond yields, non-primary dealers should not be allowed to participate in auctions, and the central bank should work towards maintaining stability.

Furthermore, the absence of an active secondary market for trading bonds in Bangladesh hampers the full benefits of this fundraising tool. Analysts recommend addressing this issue by ensuring secondary trading and implementing strong regulations to protect against premature termination of bond products. Currently, most bonds are issued by financial institutions to raise capital, with limited participation from corporations. The market's vibrancy relies on the active listing and secondary trading of bonds, involving participation from various parties (Habib, 2021).

Also, the effective pricing of corporate bonds using government bonds as a benchmark has been hindered by the underdeveloped government debt market, which lacks bonds with varying maturities. This limitation is further compounded by the absence of a standardized rating system to indicate the quality of bonds. The challenges of regulatory support and insufficient infrastructure for trading corporate bonds exacerbate the challenges. Additionally, the high tax rates and issuance costs associated with debt instruments have always been a concern. Furthermore, the absence of a strong base of institutional investors, such as pension funds, mutual funds, and merchant banks, has exacerbated the situation. The tendency of ordinary citizens to engage in rumor-based stock investments for quick profits, coupled with the high transaction costs associated with trading bonds, has acted as an additional deterrent. Moreover, the absence of inflation-protected bonds and GDP-linked bonds, considering the inflation levels and high GDP growth in Bangladesh, has further compounded the issues at hand (Haque, 2021).

The interconnectedness of these elements is notable, as a flourishing stock market and bond market can create a positive environment for private investment. Confidence and liquidity generated in these financial markets often spill over into increased private investment activities. Moreover, the economic health of SMEs, the stock market, and the bond market is closely linked to the broader economic conditions. Challenges in one sector, such as a downturn in the stock market or limited access to financing in the bond market, can impact private investment and economic growth.

4.6. Underlying problems with repatriation of profit

While the current legal framework permits the repatriation of profits and external payments, international investors have raised concerns about the cumbersome nature of outbound transfers from Bangladesh. Applications to repatriate profits or dividends can face delays, especially if tax disputes arise, as authorities may hold them for additional information gathering. Government officials argue that permitting even limited outward transfers might trigger a significant capital outflow from Bangladesh, citing this as a reason to delay or restrict repatriation. However, U.S. and other international companies have expressed concerns about the National Board of Revenue's arbitrary reopening of tax cases, particularly those involving multinational companies and sometimes dating back decades.

Stakeholder consultations reveal various issues plaguing the repatriation process. An information gap between investors and Bangladesh Bank results in failures to report FDI within the mandated 14-day period after bringing it into the country, leading to complications during repatriation. It has been claimed that investors, seeking to maximize repatriation within the allowable percentage, inflate values of their net assets before the process. The stakeholders involved in the valuation process, including Chartered Accountant (CA) firms, often fall short of their roles. Instances of misinformation or discrepancies in balance sheets, especially between the FDI and loan sections for the same year and company, have been reported. Additionally, during a stakeholder consultation, a participant shared an experience highlighting a disparity between Bangladesh Bank's provided guidance on repatriation and the lengthy and cumbersome reality of the process, where investors often face extended waiting periods.

In the current fiscal year, challenges associated with repatriation have escalated amid the persisting dollar crisis. Key stakeholders indicate a notable surge in reinvestment by multinational companies, primarily attributed to the complexities surrounding the remittance of profits. Bangladesh has grappled with a prolonged shortage of dollars for the past eighteen months, intensifying the hurdles faced by foreign investors seeking to repatriate earnings. The prevailing scenario is characterized by a scarcity of dollars, leading some foreign investors to opt for reinvesting their profits in existing projects within the country rather than allowing these funds to remain inactive.

According to Bangladesh Bank regulations, a foreign company's branch can repatriate profits up to US$10 million without requiring prior approval from the central bank. However, if the amount exceeds this threshold, the branch must obtain a no-objection certificate (NoC) from Bangladesh Bank. Despite issuing NoCs to foreign commercial banks (FCBs) regarding profit repatriation, these banks have encountered difficulties in executing the process due to the unavailability of dollars in the market as per relevant stakeholders.

Balancing investor-friendly policies with concerns about capital outflow, Bangladesh faces intricate challenges in profit repatriation. The persisting dollar crisis accentuates the urgency for strategic initiatives to create a more streamlined and predictable landscape for multinational companies aiming to repatriate profits from the nation.

5. Infrastructural Challenges for Promoting Private Investment in Bangladesh

5.1. Trade Facilitation related challenges

Challenges stemming from policy-related inconsistencies and insufficient trade facilitation agreement (TFA) implementations pose obstacles to private investment expansion in Bangladesh. Although numerous rules and regulations exist, their proper implementation needs improvement. Despite compliance with various TFA clauses, effective implementation remains elusive. This is resulting in difficulties for investors and importers at customs. Especially, the customs related challenges at the land and airports pose severe difficulties when exporting or importing any product.

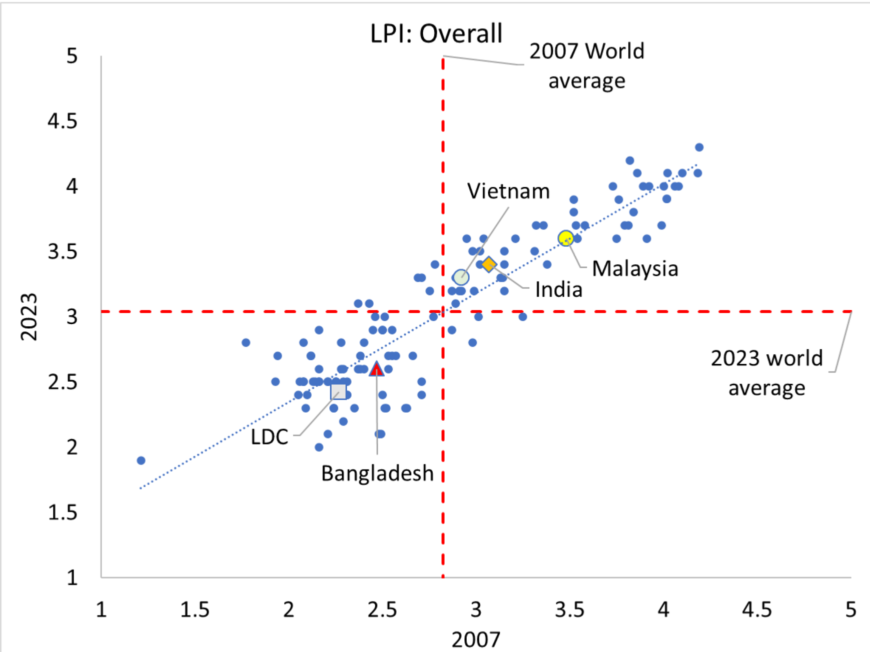
Challenges in Customs

Efficient and streamlined port operations are essential for reducing clearance times, minimizing costs, and ensuring the smooth flow of goods in and out of a country. Ports serve as critical gateways for imports and exports, making them a focal point for trade facilitation efforts. When trade processes at ports are optimized through automation, simplified customs procedures, and enhanced coordination among relevant agencies, it not only reduces delays but also enhances the overall competitiveness of a country.

One of the key challenges faced at the Border Customs Points (BCPs) in Bangladesh is the separation of office facilities for Other Government Agencies (OGAs) responsible for testing and certifying and the Customs department. Despite their physical proximity, the separate offices hinder effective coordination. Legislative shortcomings, particularly in the BLPA Act 2001, compound this issue by inadequate provisions for inter-departmental coordination within the BCPs.

Comparison of the Logistics Performance Index (LPI) and its sub-indices with other competitor countries is essential to understand the gravity of the problem. During the stakeholder consultations, the business insiders informed that poor trade logistics is one of the key concerns for the robust growth of the private sector. As evident from Figure 17, Bangladesh lags well behind the comparators in all the logistics performance indices (LPI). The LPI is an indicator consisting of six sub-indices: efficiency of the clearance process, quality of trade and transport-related infrastructure, ease of arranging competitively priced shipments, competence and quality of logistics services, ability to track and trace consignments, and timeliness of shipments in reaching destination within the scheduled or expected delivery time. It identifies the challenges and opportunities the countries face in their performance on trade logistics and the areas for improvement (World Bank, 2023).

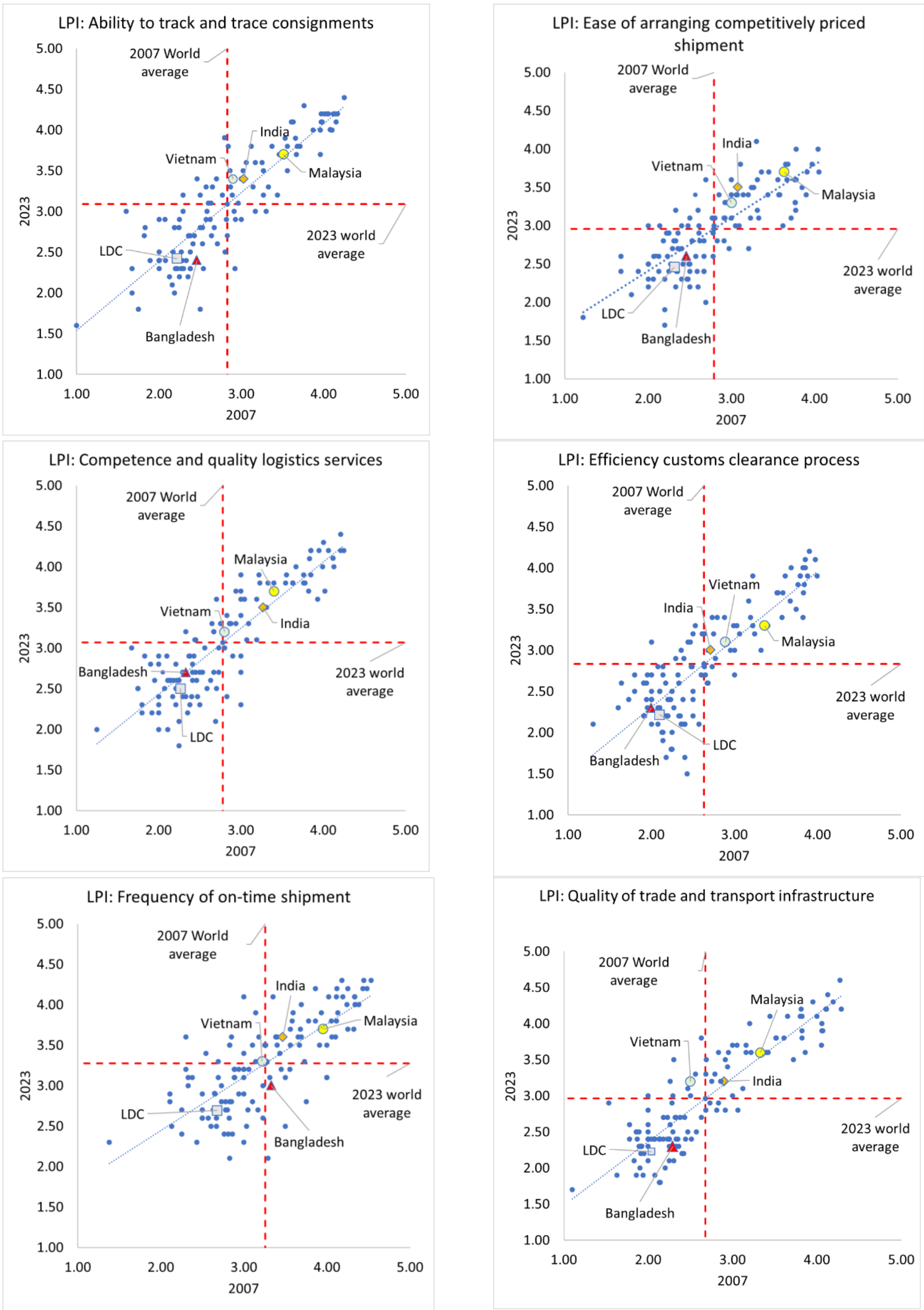
Figure 17: Bangladesh's progress on LPI (overall) in the global context



Source: World Bank, Logistic Performance Index

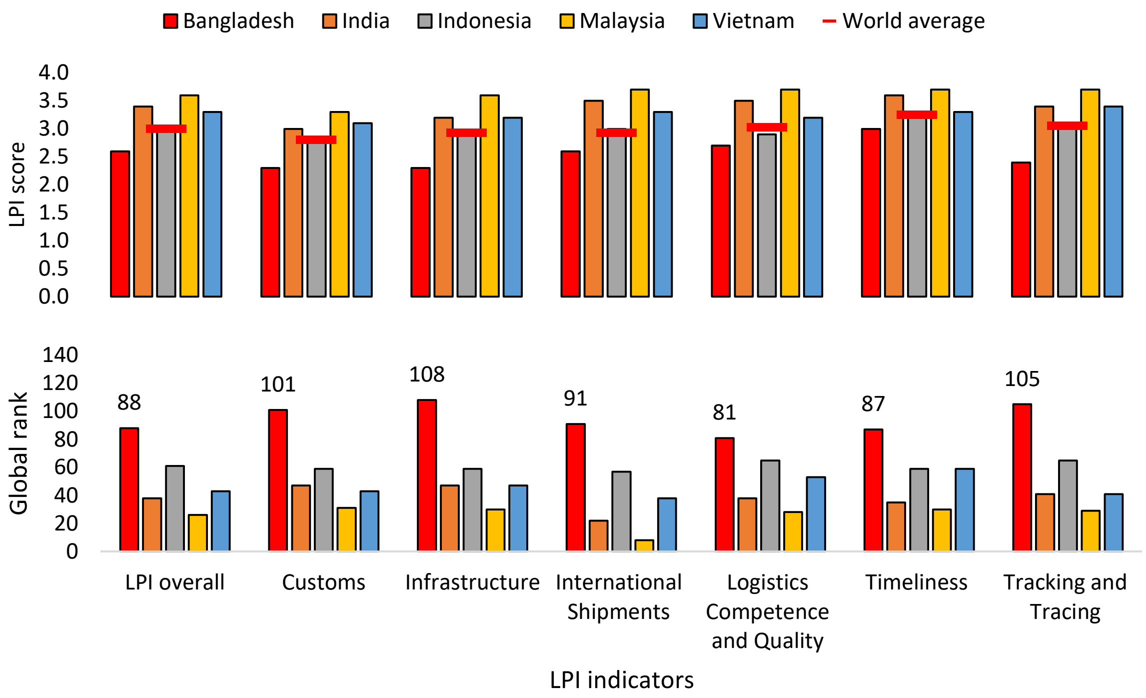
Since the inception of the LPI in 2007, Bangladesh's score has always been lower than the global average – in terms of overall as well as all the LPI sub-indicators (Figure 18 and Figure 19). To put it in context, comparators, such as Vietnam, India, and Indonesia, had been ahead of the world average in 2007 and 2023. Moreover, in most sub-indices, they score higher than the global trend line of LPI score between 2007 and 2023, meaning they outperform most other countries in improving their trade and logistics indicators. In contrast, in most of the LPI sub-indices, Bangladesh fell below the global trend line between 2007 and 2023, meaning Bangladesh's progress on the LPI indicators was slower than most other countries.

Figure 18: LPI sub-indices - Bangladesh and comparators



Source: Author's estimation based on WDI

Figure 19: LPI scores of Bangladesh and global by ranking

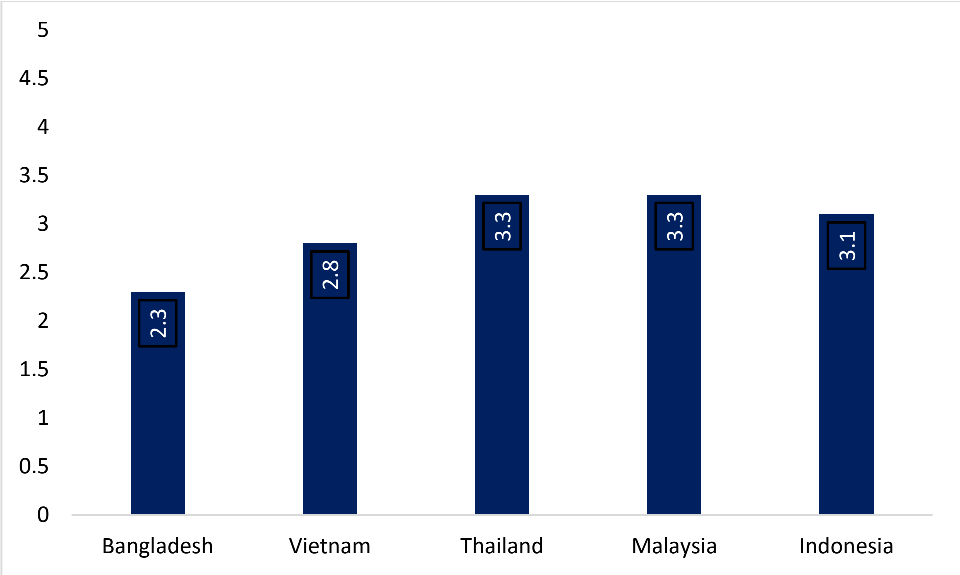


Source: World Bank (2023)

Indeed, in one of the sub-indicators, the frequency of on-time shipment, Bangladesh had a higher than the global average score in 2007. However, Bangladesh fell short of the global average value in 2023, showing a sharp deterioration in global comparison. According to the latest available LPI indicator (LPI 2023), Bangladesh's LPI score (2.6) is much lower than the other comparator countries such as India (3.4), Indonesia (3), Malaysia (3.6), and Vietnam (3.3). Bangladesh ranks 88th on the LPI ladder (out of 139), whereas India or Vietnam ranks 38 and 43, respectively.

In the 'Efficiency of Customs Clearance Process', a sub-indicator of the latest LPI, which evaluates the speed and simplicity of customs procedures, reducing delays and transaction costs for businesses, Bangladesh has a score of 2.3, indicating a relatively lower efficiency in customs clearance compared to the other competitor countries. Vietnam has a slightly higher score of 2.8, suggesting a somewhat more efficient customs clearance process than Bangladesh. Thailand and Malaysia share a score of 3.3, signifying a higher level of efficiency compared to Bangladesh and Vietnam (Figure 20). Indonesia falls in between with a score of 3.1, reflecting a moderate level of efficiency in customs clearance. The scores indicate a varying degree of effectiveness in handling customs procedures among these countries. Bangladesh's lower score may suggest challenges or bottlenecks in its customs clearance processes that might impact trade efficiency.

Figure 20: Logistics performance index: Efficiency of customs clearance process (1=low to 5=high)



Source: World Bank

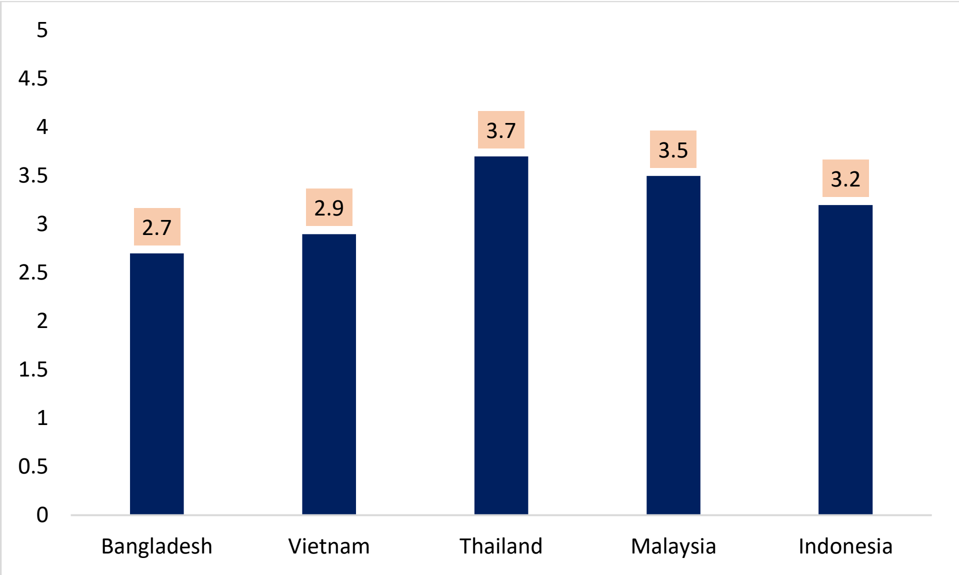
It's important to note that the efficiency of customs clearance processes is crucial for international trade, affecting the overall logistics performance of a country. Lower efficiency may lead to delays, increased transaction costs, and potential barriers for businesses engaged in cross-border trade.

Inadequate Logistics Services at the Port

Efficiency in cargo handling at the BCPs is further compromised by the shortage of essential machinery such as cranes and weighbridges. This inadequacy leads to delays in loading and unloading goods, particularly during periods of heightened cargo traffic. The resultant inefficiencies limit the throughput capacity of the ports. Labor-intensive methods are prevalent, indicating insufficient operational efficiency. In many ports, official loading and unloading equipment under the Bangladesh Land Port Authority (BLPA) is non-existent, though privately owned cranes are available.

In this context, another important sub-indicator in LPI, the ‘Competence and Quality of Logistics Services’ sub-indicator assesses the competency and quality of logistics service providers, such as freight forwarders and customs brokers. High scores indicate reliable and well-trained service providers, which are vital for the smooth flow of goods and minimizing disruptions. Regarding the competence and quality of logistics services, Thailand leads with an impressive LPI of 3.7, followed by Malaysia with 3.5. Vietnam, with an LPI of 2.9, and Indonesia, with a score of 3.2, fall in the moderate range. Bangladesh, with an LPI of 2.7, also performs at a moderate level in this regard (Figure 21).

Figure 21: Logistics performance index: Competence and quality of logistics services (1=low to 5=high)



Source: World Bank

The assessment of the competence and quality of logistics service providers in the Logistics Performance Index (LPI) is crucial as it directly impacts the smooth flow of goods and minimizes disruptions in international trade. A high score in this sub-indicator signifies the presence of reliable and well-trained service providers, including freight forwarders and customs brokers. Competent logistics services are essential for efficient supply chain operations, ensuring timely deliveries, adherence to regulatory requirements, and overall customer satisfaction. This aspect holds significant importance in maintaining the reliability and effectiveness of logistics networks, contributing to the competitiveness of a country in the global trade landscape.

Inadequate Infrastructures at the port

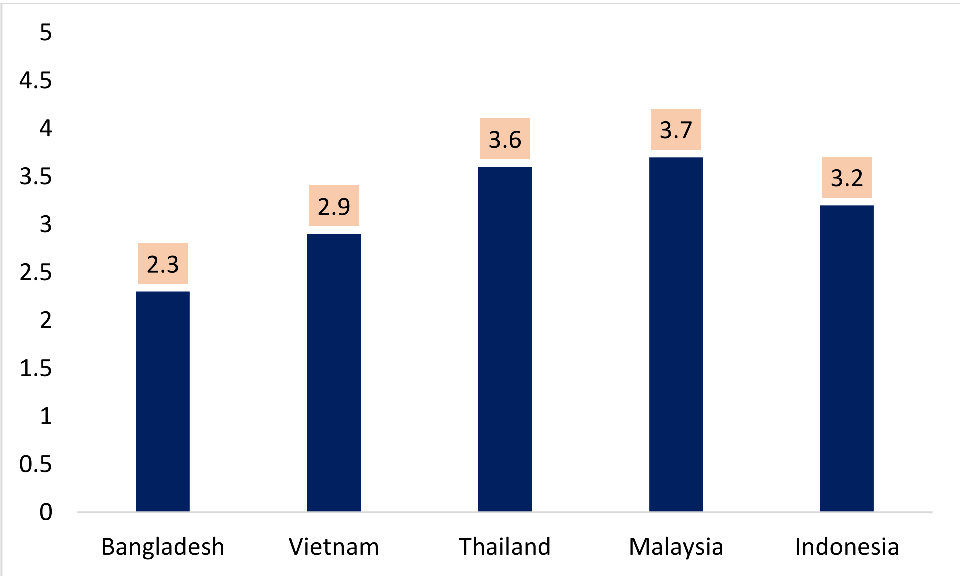
Inadequate road facilities for cargo movement are another significant concern at BCPs. Narrow approach roads and subpar road conditions contribute to traffic congestion at the ports, complicating the smooth flow of goods. The effectiveness of the traffic management systems at BCPs is also an area of concern. Efficient traffic management is essential to prevent congestion and ensure the smooth execution of operational processes.

The absence of testing facilities at the ports presents a significant challenge for importers, as it compels them to transport their samples to city centers for evaluation. The decision on whether samples need to be sent to city centers is made by customs authorities. This additional step, involving sample transportation, testing, and certification, contributes to delays in the overall clearance process. The processes associated with certification and other procedures remain predominantly manual, despite some OGAs issuing e-certificates. BCP authorities continue to demand hard copies of certificates, perpetuating manual practices. Furthermore, digital services for e-certification are often criticized for being user-unfriendly and inadequate mechanisms to inform users of the reasons for the rejection of their applications, leading to frustrations and delays experienced by trade participants.

The Information and Communication Technology (ICT) infrastructure at the BCPs is plagued by serious issues, including frequent disruptions in mobile networks and internet connectivity. Such interruptions often lead to operational standstills. Additionally, the BCPs are susceptible to electricity outages, with the potential for severity during natural disasters like storms.

In this context, the LPI assesses the quality and adequacy of a country's transport networks, ports, and other facilities with the 'Quality of Trade and Transport-Related Infrastructure' sub-indicator**.** High scores indicate that the infrastructure can support efficient logistics operations. In 2022, Bangladesh achieved an LPI of 2.3 in 'Quality of Trade and Transport-Related Infrastructure' sub-indicator, indicating challenges in this specific aspect of logistics infrastructure (Figure 22). Vietnam, with a score of 2.9, demonstrates a slightly better performance. Thailand and Malaysia, with LPIs of 3.6 and 3.7, respectively, continue to excel in their logistics infrastructure quality, contributing to their overall logistics performance. Indonesia, scoring 3.2, falls in the moderate range, highlighting room for improvement.

Figure 22: Logistics performance index: Quality of trade and transport-related infrastructure (1=low to 5=high)



Source: World Bank

The quality of trade and transport-related infrastructure is critically important as it forms the backbone of efficient and seamless international trade. A well-developed infrastructure network, including ports, roads, railways, and airports, ensures the smooth movement of goods, reducing transit times and costs. This directly impacts the competitiveness of a country in the global market by attracting investments, facilitating trade, and enhancing overall economic growth.

Other factor affecting the trade facilitation in Bangladesh

The Logistics Performance Index calculates a few other sub-indicators to assess the quality of trade facilitation in a country. Here are few sub-indicators and their comparison with competitor countries-

Ability to Track and Trace Consignments: This sub-indicator measures a country's capability to monitor and trace the movement of goods within its logistics network. It is essential for supply chain visibility, ensuring that businesses can keep tabs on their shipments, which is critical for timely deliveries and risk management.

When we compare the latest LPI scores for the sub-indicators with the competitor countries- in terms of tracking and tracing consignments, Bangladesh has an LPI of 2.4, indicating significant challenges in its logistics infrastructure. Thailand and Malaysia excel in this aspect, with LPI scores of 3.7 and 3.6, showcasing highly efficient logistics systems. Vietnam and Indonesia perform moderately better than Bangladesh.

The latest Logistics Performance Index (LPI) scores for tracking and tracing consignments are crucial as they serve as a benchmark for assessing the efficiency of logistics systems across countries. These scores provide valuable insights into a nation's competitiveness in global trade, the reliability of its supply chains, and its ability to meet customer expectations. Efficient tracking and tracing processes not only facilitate smoother trade operations and data-driven decision-making but also play a key role in attracting foreign investments. Overall, higher LPI scores in this sub-indicator indicate a country's capacity to maintain transparent and dependable logistics, contributing to a positive trade environment and economic growth

Ease of Arranging Competitively Priced Shipments: This sub-indicator reflects the ease with which businesses can secure cost-effective transportation and logistics solutions. It influences the affordability of logistics services and impacts a country's attractiveness for trade and investment. When it comes to the ease of arranging competitively priced shipments, Bangladesh scores 2.6, indicating some challenges. Vietnam, with a score of 3.0, shows improvement in this aspect. Thailand and Malaysia maintain their strong performance, with LPIs of 3.7 and 3.5, respectively. Indonesia, scoring 3.3, falls between Vietnam and Thailand, signifying moderate performance in this specific area.

Frequency of On-Time Deliveries: This sub-indicator measures how often shipments reach their consignees within the scheduled or expected time. Timely deliveries are critical for customer satisfaction, reducing inventory costs, and ensuring the smooth operation of supply chains.

In this context, Bangladesh receives a moderate score of 3, reflecting an average performance in ensuring timely deliveries. While demonstrating reasonable efficiency, there exists room for improvement to enhance the reliability of delivery timelines and contribute to a more robust supply chain. Vietnam, with a slightly higher score of 3.3, exhibits a relatively better performance compared to Bangladesh. This suggests a moderate to good level of efficiency in logistics and delivery processes, indicating a more consistent record of on-time deliveries. However, both Bangladesh and Vietnam fall within the moderate range, highlighting areas where enhancements in logistics infrastructure could further improve delivery reliability. Thailand emerges as a standout performer with a score of 3.7, signifying a commendable frequency of shipments reaching the consignee within the scheduled or expected time. This higher score reflects a robust and reliable logistics system in Thailand, contributing to high on-time delivery rates and fostering a more efficient supply chain.

These sub-indicators collectively provide a comprehensive view of a country's logistics environment. They help businesses and policymakers identify areas in need of improvement and make informed decisions to enhance logistics efficiency, reduce costs, and foster economic growth. When we consider all these LPIs together, Thailand and Malaysia continue to be high performers in various aspects, showcasing efficient logistics infrastructure, competent services, ease of arranging competitively priced shipments, and reliable trade and transport-related infrastructure. Vietnam and Indonesia maintain moderate performance, with Vietnam showing improvements in certain areas. Bangladesh faces significant challenges but has opportunities for improvement across all dimensions, emphasizing the need to enhance its logistics infrastructure for more reliable and efficient supply chains.

Implementation of WTO-TFA

Trade facilitation in Bangladesh faces numerous challenges that hinder its effective implementation of the World Trade Organization's Trade Facilitation Agreement (WTO-TFA). The challenges encompass intricate customs processes, challenges in cooperation among customs agencies, a shortage of automation, resource constraints, and trade facilitation capacity below global standards. Notably, the border clearance time for imports in Bangladesh is significantly longer than that of neighboring countries, posing a significant hurdle to efficient trade. Furthermore, the aviation component of logistics is facing challenges, with higher airport-related charges compared to neighboring countries, affecting competitiveness and investments. Delays in customs clearance are causing increased costs for businesses, making them less competitive.

According to a study carried out by a NBR official, Bangladesh's current rate of commitment to the WTO-TFA implementation stands at 44.50 percent, notably lower than the global average of 74 percent set for the period from February 22, 2017, to December 31, 2022. Importantly, Bangladesh's border clearance time is significantly longer than its neighbors, standing at 216 hours, compared to India's 65 hours and Pakistan's 120 hours, as per the World Bank's data from 2020. Trade facilitation, supported by full implementation of the WTO Trade Facilitation Agreement, could lower trade costs and significantly boost the global economy. While Bangladesh has made progress, it still has work to do to fulfill its WTO commitments, which is essential for establishing regional and global networks.

In response to these challenges, Bangladesh has initiated efforts to revamp its logistics sector. This involves crafting a logistics policy, establishing an institutional framework under the Prime Minister's Office, and exploring best practices from countries like Germany, the USA, and Singapore. These advanced logistics systems prioritize digitalization, advanced technologies, and green logistics, in line with global environmental standards.

Bangladesh's logistics landscape is slowly improving, as reflected in its rise in the Logistics Performance Index (LPI) rankings. However, there remains room for growth, particularly in logistics competence and infrastructure.

Impact of Trade Facilitation challenges on Private Investment

Trade facilitation issues in Bangladesh have a substantial impact on private investment in the country. These challenges directly affect the ease of doing business, cost-efficiency, and overall attractiveness of Bangladesh as an investment destination. Here's how trade facilitation issues impact private investment:

Increased Operational Costs: Lengthy border clearance times, which significantly exceed those of neighboring countries, result in increased operational costs for businesses. Private investors are highly cost-sensitive, and the prolonged customs clearance process leads to higher expenses, making investments in Bangladesh less financially appealing.

Reduced Competitiveness: The inefficiencies stemming from complex customs procedures and insufficient cooperation among customs agencies make businesses operating in Bangladesh less competitive. In a globalized market, investors seek countries with streamlined and efficient logistics to remain competitive and meet market demands.

Deterrent to Investment: Cumbersome trade procedures, delayed customs clearance, and higher logistics costs deter potential investors. These challenges create an unfavorable environment for private investment, as investors may opt for countries with more business-friendly trade facilitation systems.

Uncertainty and Risk: Delays in trade processes increase uncertainty and risk for investors. Businesses may face unpredictability in supply chains and operations due to the prolonged clearance times, impacting their overall business strategies and potential returns on investment.

Lower Attractiveness for FDI: FDI is also affected by trade facilitation issues. As private investors experience challenges in conducting their operations, they may be less likely to establish or expand their businesses in Bangladesh. This, in turn, hampers the inflow of FDI into the country.

Opportunity Cost: Businesses and investors have alternative options when deciding where to allocate their resources. When trade facilitation issues hinder the efficiency of operations in Bangladesh, investors may perceive an opportunity cost of not investing in more favorable environments.

Impact on Economic Growth: insufficient private investment can limit economic growth potential. Private investments drive job creation, technological advancement, and increased economic activity. When trade facilitation issues discourage private investments, it hampers the overall economic development of the country.

It must be emphasised that the Government of Bangladesh needs to focus on improving global indicators such as LPI. Undeniably, Bangladesh is and will be, competing with other countries, such as India, Indonesia, Vietnam, etc., in attracting FDI. Global trade and logistics performance indicators, such as LPI, often catalyse the investors' decision-making process. Once Bangladesh graduates out of the LDC group and loses the ISMs, Bangladesh's competitive edge on tariff margin will lessen. It is commonly argued that Bangladesh has a comparatively lower labour wage cost than others. However, in the face of a higher logistics cost and increased price competition arising from mega trading blocs such as RCEP and CPTPP, the margin from competitive labour wage will be under severe test. In this context, probing a targeted logistics improvement policy could not be timelier.

5.2. Private investment growth would largely depend on a sustainable and long-term solution for utility services.

Investors in Bangladesh, particularly those from the Chinese business community, are encountering significant challenges that hinder their ability to further invest and expand operations in the country. Among these challenges, the industrial gas crisis stands out as a critical issue, affecting both local and foreign investors by delaying the start of operations and impacting industrial productivity. The difficulty in obtaining gas connections, despite investors fulfilling regulatory requirements and making repeated efforts to engage with relevant authorities, exemplifies the bureaucratic and infrastructural inefficiencies facing businesses. This situation not only causes financial losses for the investors but also detracts from the country's attractiveness as a destination for foreign investment.

Investors in Bangladesh's private economic zones are also facing significant challenges due to delays in obtaining gas connections, impacting the initiation and operation of their factories. Despite securing final approvals to start operations the lack of reliable gas supply has stalled progress. Utility providers often cite insufficient gas supply and a policy of prioritizing connections based on available resources as reasons for these delays. The Bangladesh Economic Zones Authority (BEZA) acknowledges these challenges but points out its limited authority to compel service providers, suggesting investors seek intervention from higher authorities.

Though Bangladesh has 100% electricity coverage, due to the shortage of electricity resulting from energy crisis in 2022 frequent power outages happened and production got delayed and hampered. In 2022-23, the electricity crisis in the country deepened further owing to the turbulent global energy market due to the Russia-Ukraine war. However, despite Bangladesh making remarkable progress in ensuring a greater supply of electricity, still a large proportion of the firms consider electricity as one of the major constraints, as reported in the WBES and during the stakeholder consultations. As per the WBES, 19.9% of small, 22.7% of medium, and 20.81% of large businesses identified the shortage of electricity as one of the major obstacles for their businesses. Furthermore, it takes on average 89 days to get an electrical connection in Bangladesh, compared to 58 and 42 days, on average, in South Asian countries and other lower middle-income countries, respectively (WBES, 2022). Currently, the situation has improved, yet concerns persist regarding Bangladesh's energy security amidst potential global or local crises.

6. Organizational Challenges for Promoting Private Investment in Bangladesh

6.1. Bangladesh Investment Development Authority (BIDA)

The Bangladesh Investment Development Authority (BIDA) Act of 2016, established on September 1, 2016, assigned BIDA with the responsibility to deliver a range of diversified promotional and facilitation services, all aimed at expediting the nation's industrial growth. The functions of BIDA can be broadly classified into three categories: investment promotion, investment facilitation, and policy advocacy. These functions collectively contribute to creating a conducive environment for investment and fostering the development of industries in the country.

In line with these objectives, BIDA is working on diversifying investments beyond traditional sectors. While continuing to promote existing sectors, there is a focus on attracting investors to promising domains such as ICT, Electronics, Technology etc. One-on-one interactions with investors during seminars and symposiums have proven effective in sensitizing them to the country's potential across various sectors. These direct meetings have yielded positive responses and are particularly effective for communicating the country's investment prospects.

According to the respondent of the Key Informant Interview from BIDA, Southeast Asia emerges as a significant target for attracting FDI. Given Bangladesh's comparative scarcity of natural resources, the strategy is to attract investments that focus on skill-building and efficiency enhancement. These investments would not only improve the skill set of the local workforce but also create an environment that encourages further investment. A few countries are being targeted collectively for investment purposes. Key sectors for this investment drive include Pharmaceuticals, Agro-processing, Leather, and Light Engineering, among others. This multi-faceted approach ensures a strategic focus on sectors that offer growth potential and align with Bangladesh's broader development goals.

One important component of BIDA, the One Stop Service (OSS), was enacted through the One Stop Service Act in 2008, to streamline and simplify various services required by clients for their business activities. Initially, to invest in Bangladesh, the investors are required around 150 services in total, out of which BIDA aimed to provide approximately 18 services through the OSS. Over the last three years, BIDA has successfully facilitated about 105,000 services in total. Customer care of BIDA has been rated at 4.5 out of 5 in terms of service level agreement (SLA) satisfaction, and services are available online 24/7.

There are four agencies within the One Stop Service framework. Investments outside the zones governed by BEZA, BEPZA, and High-tech Parks fall under BIDA's jurisdiction, depending on the investment's geographical location. These agencies offer similar services based on investment location. However, BIDA's services, outside the zones, are overseen by NBR, which also operates dedicated offices within the zones for preliminary services. BEZA has been successful in delivering around 30-40 online services with an efficiency rate exceeding 90%.

The challenge lies in convincing other agencies to participate in this online service provision system.

It appears that BIDA, as a purely investment promotion agency is yet to achieve its intended success. While BIDA aims to facilitate swift application approvals, the practical process has sometimes proven to be time-consuming and not entirely within BIDA's direct control. The establishment of a one-stop service was initiated with the intention of streamlining procedures, yet it seems that the full realization of this initiative has not been achieved. Despite the concept of online services, foreign investors often find themselves needing to visit regulatory offices in person, indicating that the transition to fully digital processes has not been seamlessly executed. The concept of OSS was to centralize service requests through this integrated One Stop Service rather than sending clients to different departments. However, out of the 150 required services, about 63 are available online and only 18 services are provided by BIDA. Hence, to access other services, investors are required to visit designated agencies or departments physically.

Table 13 presents the service provided by the BIDA OSS and other agencies and departments involved in the process of investing in Bangladesh.

Table 13: Services provided by the BIDA OSS and other agencies and departments

Sl.	Department/Agency	Services
1	Bangladesh Investment Development Authority (BIDA)	Industrial Project Registration Office Permission (New) Office Permission (Extension)
		Office Permission (Cancellation) Visa Recommendation (New)
		Visa Recommendation (Amendment) Work Permit (New)
		Work Permit (Extension) Work Permit (Amendment) Work Permit (Cancellation) Visa on Arrival
		Visa on arrival (Amendment) Remittance Approval
		IRC Recommendation (1st Adhoc) IRC Recommendation (2nd Adhoc) Amendment of Registration
2	Register of Joint Stock Companies and Firms (RJSC)	IRC Recommendation (3rd Adhoc)
		Name Clearance
		Company Registration (Local)
		Brach/Liaison/Representative Office permission
3	National Board of Revenue (NBR)	e-TIN e-BIN
		e-TIN for Foreign Nationals
4	Sonali Bank Ltd.	Online Payment
		Online Bank Account Opening
5	Election Commission Bangladesh	Applicant’s NID Verification
6	Security Services Division	Issuance of Security Clearance
7	Chattogram Development Authority (CDA)	Land Use Clearance Construction Permit
		NOC for Large or Specialized Project
8	Department of Environment (DoE)	Site Clearance (Green)
		Site Clearance (Orange A) Site Clearance (Orange B) Site Clearance (RED)
		Environment Clearance (Orange A) Environment Clearance (Orange B) Environment Clearance (RED)
		Environment Clearance Renewal (Green)

Sl.	Department/Agency	Services
		Environment Clearance Renewal (Orange A) Environment Clearance Renewal (Orange B) Environment Clearance Renewal (RED)
		EIA Approval TOR Approval
		Zero Discharge Approval
9	Office of the Chief Controller of Import and Export (CCI&E)	Import Registration Certificate (IRC) Export Registration Certificate (IRC)
10	Bangladesh Power Development Board	New Electricity Connection
11	Dhaka Power Distribution Company (DPDC)	New Electricity Connection
12	Dhaka South City Corporation (DSCC)	Trade License Issuance
13	Northern Electric Supply Company (NESCO)	New Electricity Connection
14	Dhaka Electric Supply Co. Ltd (DESCO)	New Electricity Connection
15	West Zone Power Distribution Company (WZPDCO)	New Electricity Connection
16	Bangladesh Rural Electrification Board	New Electricity Connection
17	Chattogram City Corporation	Trade License Issuance
18	Dhaka Chamber of Commerce and Industry (DCCI)	Country of Origin Issuance
19	Dhaka North City Corporation (DNCC)	Trade License Issuance

Source: BIDA website

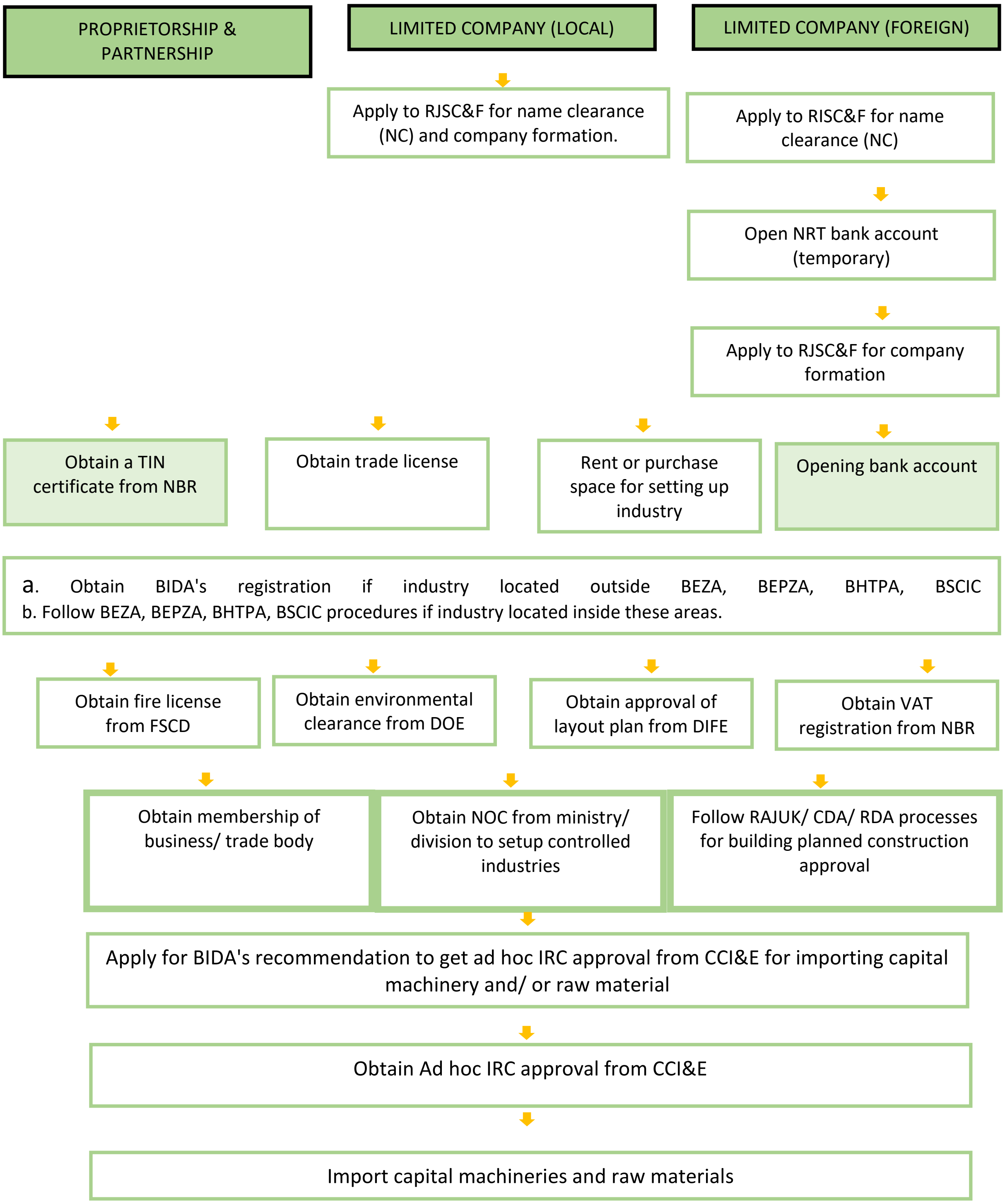
In practice, services from agencies other than BIDA have faced challenges in delivery due to the need for integration with the main One Stop Service. Therefore, achieving full efficiency remains a work in progress. Certain associated agencies are struggling with governance issues, presenting a significant challenge. Some agencies, like NBR and City Corporation, have adapted to the new system by transitioning from their old practices. However, synchronizing all agencies remains complex due to administrative and technical difficulties.

Moreover, some clients still prefer traditional methods involving lawyers and intermediaries rather than using online services according to different stakeholders. This presents a challenge, as there is a need to align with these preferences. Manual service options still have relevance for those who choose them.

Understanding and addressing the perception of foreign investors is crucial for fostering investor confidence and satisfaction. If there is a mismatch between the expectations set by BIDA's pledges and the actual experiences faced by investors, it could potentially impact the attractiveness of Bangladesh as an investment destination. To truly function as an effective investment promotion agency, BIDA might need to ensure that the promises made align closely with the practical processes and experiences that investors undergo. This could involve refining the one-stop service to meet its intended goal of simplifying interactions for investors and providing clearer communication about the complexities of the approval process.

Furthermore, the registration process for foreign investors in Bangladesh can be unpleasant and time-consuming (Figure 23). A smooth and efficient registration process is crucial for attracting and retaining foreign investment. If the process is overly complex or time-consuming, it could deter potential investors and impact the overall perception of the business environment in the country.

Figure 23: Investment roadmap



Source: BIDA, 2021

It is evident that efforts are actively underway to address these challenges. BIDA's involvement in two out of five committees underscores its commitment to tackling the complex issues associated with investment diversification during post-LDC graduation. This entails cross-agency, policy-level collaboration to create an environment which is conducive to attracting investments.

To enhance the efficiency and attractiveness of their investment environment, it is imperative for BIDA to adopt several key strategies. First and foremost, they should prioritize the timely delivery of one-stop services, streamlining bureaucratic processes to facilitate swift and hassle-free investments. Additionally, addressing the current insufficient integration with other relevant agencies is essential, as a harmonized and collaborative approach can significantly expedite investment procedures. A crucial step in this direction involves establishing a single window for all services related to investment, reducing redundancy and ensuring a seamless experience for investors. The establishment of a single-window system, integrated with well-defined Standard Operating Procedures (SoP) involving the relevant line agencies and sectoral promotional bodies, serves as a pivotal initiative. BIDA should take initiatives to condense the numerous requisites into a concise set of five essential categories: i) land, ii) buildings, iii) fire safety, iv) environmental compliance, and v) taxation. This consolidation should be enforced through a binding legal instrument, thereby enhancing efficiency, reducing bureaucratic complexity, and ultimately fostering a more conducive business environment.

Finally, governments should actively engage as investment promotion agencies, proactively seeking opportunities to attract domestic and foreign investments, ultimately contributing to economic growth and development. These strategies collectively serve as a foundation for fostering a conducive investment climate, bolstering economic prospects, and achieving sustainable development goals.

6.2. Bangladesh Economic Zone Authority (BEZA)

BEZA aims to establish economic zones in all potential areas in Bangladesh including backward and underdeveloped regions with a view to encouraging rapid economic development through the increase and diversification of industry, employment, production and export'. BEZA's mission is to persistently create value for investors by establishing attractive investment facilities in the economic zones through One-Stop service and competitive incentive packages.

BEZA would provide multiple incentives, to the developers of the Economic Zones as well as to the manufacturing unit investors. Benefits to the zone developer range from income tax expatriation to reduction of capital expenditure. The incentive structure for investment such as exemption of Taxes, and custom/excise duties to non-fiscal incentives such as no FDI ceiling, issuance of work permits and recommendation for resident ship /Citizenship. Annexe 9 provides the list of incentives provided by the Bangladesh Economic Zone Authority (BEZA).

Currently, a total of 97 economic zones have received approval, with 29 of these being privately owned. Among the private economic zones, nine have successfully commenced operations. Similarly, two of the government-owned economic zones are now operational. Looking ahead to 2026, an estimated 2 to 3 additional economic zones are expected to begin operations. Notably, there are also plans for Government-to-Government (G2G) economic zones in collaboration with countries such as India, China, and Japan. Japan has already secured land allotments for their proposed zone, while negotiations with China are in the final stages, with a proposed ownership distribution of 70% for China and the remaining for Bangladesh. Negotiations are still ongoing with India regarding their participation in economic zones.

Acquiring land presents a considerable challenge due to the scarcity of available government-owned land. Agricultural lands are typically prioritized, which restricts the establishment of economic zones on such lands. The current allotment of land for economic zones falls short of requirements, and expanding these zones is hindered by their agricultural nature and public reluctance to relinquish land. Additionally, the budgetary constraints for land acquisition pose further difficulties, despite having managed to secure around 63,000 acres of land, mainly government-owned.

Investors in economic zones are assured of essential infrastructure like road connectivity, electricity, gas, and water supply, funded by the government. However, ensuring these provisions remains a significant challenge, especially in remote areas like Mirshorai. A few years ago, the cost per acre for economic zones was approximately 3.5 crore Bangladeshi Taka, while returns from renting to investors were initially only 1 crore. This rate was subsequently revised. Investors make a one-time payment for the zone, obtaining land rights for 50 years, with only 30% of the land cost paid annually.[17]

Despite these arrangements, certain gaps exist in the case of one-time paid lands. Foreign investment remains relatively low, and some investors express interest initially but later opt to surrender their land. Repayments are required in these instances. The competitiveness of neighbouring and nearby countries, such as Myanmar, Thailand, Vietnam, and Cambodia, which offer lower land costs or even free land, prompts investors to compare land expenses and facilities. Consequently, Bangladesh loses potential investors to these countries.

Investing outside economic zones is often more cost-effective for investors. While they might initially propose investments in economic zones, many withdraw and prefer locations beyond these zones. Investors prioritize factors like the speed of service delivery, infrastructure quality, ease of doing business, and other compatibility indicators. When these aspects are unsatisfactory, investors are more inclined to withdraw their interest.

Foreign investors typically seek locations in proximity to Dhaka as per the key stakeholders. However, the availability of government-owned land near Dhaka is limited. Private economic zones situated near Dhaka are consequently attracting investors and achieving operational status at a more rapid pace.

In the context of promoting FDI and economic development, the Bangladesh Economic Zones Authority (BEZA) is presented with several critical imperatives. Firstly, BEZA should adopt a pricing strategy that offers land to foreign investors at a competitive rate. This pricing approach can be a pivotal factor in attracting foreign capital and facilitating their entry into the economic zones. Secondly, BEZA must prioritize the timely delivery of One-Stop services,

[17] Information obtained from Focused Group Discussion.

ensuring that bureaucratic procedures are streamlined and expedited. This not only reduces investor apprehension but also promotes efficiency within the investment process.

Furthermore, BEZA should actively engage in the creation of more private-public partnership (PPP) economic zones, as these collaborations have the potential to leverage both public resources and private sector expertise. Such partnerships can expand the scope and capabilities of economic zones, further enhancing their appeal to potential investors. To attract investors effectively, BEZA should undertake proactive promotional efforts, showcasing the myriad opportunities and incentives available within the economic zones. This involves creating a compelling narrative around the benefits of investing in Bangladesh's economic zones, thereby garnering investor interest.

Additionally, BEZA should withdraw indirect taxes from utility bills pertaining to essential services like electricity, gas, water, and digital services for productive sectors in the economic zones. By alleviating the burden of these indirect taxes on utility bills, the productive sectors will be more competitive and cost-effective. This not only supports the growth of these sectors but also contributes to a more conducive business environment, fostering economic development.

Lastly, ensuring that the commitments made are effectively delivered is paramount. BEZA should establish robust mechanisms for monitoring and accountability, guaranteeing that the promised incentives, services, and facilities within the economic zones are consistently provided. These imperatives collectively form a strategic framework for BEZA to optimize its role in fostering an attractive investment environment, ultimately contributing to the economic growth and development of Bangladesh.

6.3. Bangladesh Export Processing Zone Authority (BEPZA)

The Bangladesh Export Processing Zone Authority (BEPZA) was founded with the intention of making a significant contribution to the economic growth of Bangladesh. Its primary goals involve bolstering the nation's economic base through industrialization, investment promotion, export expansion, and job creation inside Export Processing Zones (EPZs). With the help of a streamlined One Window Service and various fiscal and non-fiscal incentives, BEPZA has successfully lured both domestic and foreign investment. In its 40-year history, BEPZA has reached several significant turning points. From 2008 to 2022, investment more than doubled, reaching $6040.43 million. Similarly, exports have soared, increasing by over five and a half times between 2009 and 2022 to reach $77,282.35 million under the present administration. Nearly 300,000 people now have opportunities for work because OF this expansion.

Exports, investments, and employment saw considerable growth during the fiscal year 2021–2022 at BEPZA. Exports from EPZs hit a record high of $8655.90 million, a 30.41% increase over the previous year, demonstrating the successful emergence of export-oriented industries. In the same fiscal year, the agency attracted a $409.80 million investment, reflecting investors' growing confidence in the EPZs. Furthermore, the EPZs broke previous records by hiring 64,160 Bangladeshis in a year, producing many jobs. Despite only having

2,307.27 acres of land spread across eight EPZs, BEPZA plays a significant role in the national economy, contributing 16.61% to exports and 12.77% to FDI.

Difficulties persist as international investors express concerns about a number of issues in Bangladesh. Investors are worried because of the government's financial restrictions and austerity policies. According to a FGD participant, due to tariff-free special zones in Vietnam, many investors are now turning their attention there. In contrast, Bangladesh's tariff regulations are seen as obstacles that prevent foreign investment. Potential investors may be put off by the high upfront fees associated with licenses and permits and the need for better inter-agency collaboration.

By reducing administrative procedures and enhancing coordination amongst government agencies, these problems may be resolved, and investment opportunities can further develop. A more liberal strategy prioritizing openness and regulatory support is being called for more frequently, hoping to improve profits. Although attempts have been made to transfer processes online, the one-stop service system still has to be more effective, especially compared to other countries in the region. Making a logistics policy is also advised in order to increase the competitiveness of Bangladeshi goods on the international market. Diversifying sectors and attracting foreign investment can be accomplished through looking into unconventional investment opportunities and growing public-private partnerships (PPP). Industrial efficiency can be further increased by embracing cutting-edge technology like AI and big data while ensuring policy certainty.

Investor worries surrounding regulatory matters are perceived as being addressed by better collaboration between several ministries and the proper dissemination of rules and regulations. As BEPZA moves forward, emphasizing the shortening of industry lead times, introducing a new bankruptcy statute, and utilizing cutting-edge logistics technology may help to boost export growth and trade standards.

6.4. Bangladesh Hi-Tech Park Authority (BHTPA)

The Bangladesh Hi-Tech Park Authority (BHTPA), established in 2010, is committed to creating sustainable development and fostering the expansion of the IT/Hi-Tech industry in the nation. The core objectives of BHTPA centre on constructing an infrastructure that meets international standards, developing a friendly and sustainable business environment, growing an industrial ecosystem based on IT/ITES, and delivering all-inclusive services via a single One Stop Platform. This aim is vigorously pursued by establishing Hi-Tech Parks, Software Technology Parks, and IT Training and Incubation Centers nationwide. These initiatives are intended to draw domestic and foreign investors to help the Hi-Tech/IT/ITES industries grow, leading to more employment opportunities and developing trained human resources.

These high-tech parks provide various investment opportunities in biotechnology, renewable energy, green technology, information technology hardware, IT-enabled services, and research and development.

By encouraging businesses inside the Hi-Tech Parks, BHTPA actively promotes entrepreneurship and the creation of new jobs. These parks provide specialized areas, amenities, internet connection, and financial incentives to support domestic and international businesses. Over 27,853 people have been trained due to this effort, with a target of 55,000 by 2025 and an ambitious aim of 150,000 by 2031. These initiatives support the BHTPA's ultimate goal of creating a highly qualified workforce for the sector.

The organization's initiatives have successfully lured sizable private investments, with 570 crore taka collected to date, with a target of 7970 crore taka by 2025. Eighty investment firms are interested in investing in Bangabandhu Hi-Tech City, the largest hi-tech park in Bangladesh, which is being built in Gazipur. China's Oryx Bio-Tech Ltd., which intends to invest 2,700 crore taka, and Bangladesh Data Center and Disaster Recovery Site Ltd., which plans to invest 500 crore taka in the Sheikh Hasina Software Tech Park, Jashore, are two notable investors. Pathao, receiving USD 500 million, serves as an example of the goal of supporting local startups to draw global investment. BHTPA is advancing sustainable economic growth, technical development, and the development of a vibrant business ecosystem through its strategic initiatives, investment promotion, startup support, and skill development activities.

A need for specialized resources for effective park management, a delay in land acquisition, ensuring project timeliness, and attracting FDI are some of the difficulties faced when establishing hi-tech parks in Bangladesh. These challenges obstruct the parks' expansion and operation. Also, Policymakers' insufficient sector-specific technical knowledge presents a hurdle. Moreover, the need for more space in the high-tech sector is potentially limiting its ability to expand, and only four of the 67 intended incubation centres have been constructed and operational, informed by an FGD participant. Even though there is a program for academic and student proposal papers, many initiatives need more early financing.

However, a current endeavour intends to create an online platform for developing technical content, promising skill enhancement, and generating revenue. Effective FDI attraction needs to be improved by needing more thorough feasibility studies, which typically leave out essential details and suggestions. To enhance skills, streamline processes, solidify resource management, improve project execution, and create an inviting FDI environment, these issues require collaboration between the government, industry, education, and international partners.

6.5. National Board of Revenue (NBR)

The supreme body for overseeing tax administration in Bangladesh is the NBR (National Board of Revenue). It holds the mandate for crafting and consistently reviewing tax policies and laws, engaging in discussions with international governments to establish tax treaties, and contributing to cross-governmental talks concerning economic matters that impact fiscal policies and tax management. The primary duty entrusted to the NBR is the accumulation of tax revenues.

The tax system in Bangladesh is administered by the National Board of Revenue (NBR) consisting of three divisions: Direct tax, VAT, and Customs. Among these three the bigger portion of revenue comes from the Customs division. The tax GDP ratio in Bangladesh was 7.9% in 2022 and this number is around 7% in recent years. The overall policy framework of the present tax regime can be defined as weak since there is significant scope for tax officials and political elites to avail of discretionary benefits. The NBR continues to rely on traditional methods for tax collection, involving direct oversight of taxpayers, in contrast to the trend of modernization observed in comparable nations globally. The combination of a fragmented administrative system with significant human resource constraints is enhancing inefficiency. For the weak enforcement mechanism, it has been claimed by the key stakeholders that large taxpayers are able to use their political influence. Cases against non-taxpayers delay for a long span of time while no tax is collected in this time frame from the accused. It induces delays in tax payments further. There are prevailing practices of negotiations between large taxpayers and tax officials in the country evidencing the existing informality. Large taxpayers submit tax returns but it is the starting point of the negotiation with the tax officials. Accepting the reality, the large taxpayers make informal payments, and sometimes to reduce the demand of the tax officials, they use the threat of court and political influence. These negotiations get destabilized further when new officials are appointed (Ahmed & Heady, 2020).

The experiences of VAT Law 1991, Tax Modernization Plan 2011, and VAT Law 2012 evidence the extent of the international influence on the tax reform scenario. The VAT Law 1991 was successful in terms of implementation but Tax Modernization Plan 2011 and VAT Law 2012 confronted resistance due to not having political backing and support from NBR. The VAT Law 1991 fulfilled all the requirements to be successful. It was led by the experts from NBR with additional support from the IMF. The reform received policy leadership from the finance minister. Most importantly, it had support from all government leaders. The tax modernization plan 2011, the plan was rooted domestically and developed by the chairman of NBR with support from the finance minister. But this support was mostly personal but not institutional. The plan needed support from the top of the government and the Cabinet. But no discussion took place regarding this plan with the Cabinet. There was not enough technical preparation at the NBR staff level. Moreover, the NBR chairman was also changed. Combining all these dynamics, the tax modernization plan 2011 was not successfully implemented. Instead of being donor-driven or led by foreign experts, tax reforms need to be led by the government specifically The Ministry of Finance, and should have political backing as well as support from the NBR(Ahmed & Heady, 2020).

The stakeholders expressed their concern regarding the tax policy and administrative practices of NBR as a challenge to expanding private investment in Bangladesh. For instance, NBR consults different stakeholders for tariff clauses. However, during the implementation of tariff clauses, NBR face transparency claims as publicly disclosing the outcomes of these consultations do not take place. This opacity raises concerns about the fairness of the process. Moreover, the frequent alteration of Statutory Regulatory Orders (SROs) that govern exceptional situations contrasts with their intended limited use. The unpredictability stemming from these changes affects businesses' ability to plan effectively.

Inconsistencies persist in the application of duties to specific raw materials and machinery categorized under designated HS codes. The NBR's practice of assigning certain products to the 'other' category without specific HS codes results in levying duties on high-revenue earning items to boost revenue collection, according to key stakeholders. Additionally, the requirement for annual raw material certification, combined with existing audit procedures, poses growing inconveniences for investors situated in export processing zones[18]. Even when complaints arise against NBR officers, the institution continues to support them during tax and tariff-related disputes, potentially undermining accountability and eroding trust.

The concerns of stakeholders have resonated strongly with the prevailing differences in tax rates among businesses. In response, these stakeholders are advocating for a comprehensive review of these disparaging tax structures. The goal is to establish a fair and balanced tax regime, especially geared towards private Limited Liability Companies (LLCs), which would then be motivated to accurately report their actual profits in their annual returns. This strategic shift is projected to contribute to an augmented revenue stream from business income tax. A crucial outcome of such tax harmonization efforts is the potential to encourage businesses, including proprietorship firms, to formalize their status by registering with the Registrar of Joint Stock Companies and Firms (RJSC&F)[19]. This dual benefit of revenue enhancement and business formalization underscores the importance of establishing transparent and predictable tax regulations.

Moreover, businesses' aspirations for clarity in their legal obligations, procedural expectations, and straightforward answers to their tax and accounting inquiries are well-founded. To address these concerns and bolster the investment climate, stakeholders are urging the National Board of Revenue (NBR) to adopt a more progressive approach to policy-making. In particular, they are recommending that the NBR explore policy measures, including taxation, that mirror the competitive tax rates of rival countries. This strategic move holds the potential to attract FDI by creating a more enticing and investor-friendly environment.

In pursuit of fostering a conducive environment for investments and economic growth, a series of pivotal measures should be undertaken by NBR. Firstly, it is imperative to conduct a comprehensive review of the existing tax structures, which currently exhibit disparities. This review will enable the NBR to rectify any imbalances and promote fairness within the tax system.

Secondly, NBR must ensure the establishment of business-friendly laws, regulations, and administrative policies that prioritize cost-effective ease of doing business. Such an environment not only attracts investments but also encourages sustainable business operations. Moreover, the introduction of appropriate mechanisms for enforcing legal and intellectual property rights, as well as the resolution of disputes, is crucial. This ensures the protection of investments and encourages confidence among investors.

Furthermore, investment measures should be transparent and adhere to principles of non-discrimination. FDI and local investments, whether from the private or public sector, should be treated equitably under domestic laws, regulations, and pre-notified procedures. This includes addressing issues such as qualifications, standards, licensing matters, and limitations on legal entities and foreign equity participation. The implementation of Transfer Pricing Rules can help monitor transactions involving FDI undertakings.

[18] Key Informant Interview
[19] https://diary.hassan.com.bd/recommendations-for-national-board-of-revenue/

Lastly, harmonizing applicable direct and indirect taxes across all sectors, both local and foreign investments, without discrimination, is essential. This harmonization should extend to areas such as capital gains, royalties, technical know-how, and technical assistance fees, with provisions for their repatriation. This approach will facilitate integration with the global value chain and contribute to a rational, transparent, and efficient trade facilitation system. Collectively, these measures lay the groundwork for a more attractive and investment-friendly economic landscape.

6.6. Bangladesh Bank (BB)

Bangladesh Bank (BB), the country's central bank's role primarily revolves around the monetary policy and interest rate regulation rather than directly attracting investment. However, Bangladesh Bank significantly impacts several financial issues, including private investment, which helps to shape the economic environment. BB's monetary policies and regulations significantly impact the climate in Bangladesh for both domestic and foreign investors. To keep the economy stable, BB develops policies that strike a compromise between issues like inflation control and economic growth, offering the stability required for private investment. For sustainable growth, creating jobs, and innovation, private investment, a cornerstone of economic development, is necessary.

BB promotes business involvement and improves the private investment ratio to GDP by creating a comfortable environment for investors to allocate resources across sectors. BB implements policies such as allowing foreign investors to keep foreign currency in their local accounts for an extended length of time, permitting easier capital import and machinery acquisition to encourage private investment. Such initiatives provide incentives for investors domestically as well as abroad. Additionally, BB's Strategic Plan for 2020–24 focuses on private investment as a significant engine of economic growth. BB aims to increase financial inclusion, streamline the investment process, and maintain a supportive monetary policy to encourage private investment and strengthen Bangladesh's economic growth. Also, Bangladesh Bank has been implementing the government’s Investment Promotion and Financing Facility II (IPFF II) Project, funded by the World Bank. By building a solid foundation for long-term financing of infrastructure projects, this initiative also seeks to strengthen the private sector's competencies and knowledge. Bangladesh Bank has worked to promote FDI by simplifying the loan application procedure for foreign investors, permitting dividend repatriation, and loosening corporate dividend regulations. A database has been created to assist larger firms in attracting FDI.

However, some concerns with investors have frequently resulted from inaccurate reporting and a need for more knowledge about rules and regulations. There is a considerable knowledge gap among banking sector workers regarding FDI and investment-related issues and policies. The repatriation process is beset with various problems. According to an FGD informant, there is an information gap between the investors and Bangladesh Bank. Investors must report FDI within 14 days of bringing the FDI into the country and later face trouble while repatriating. Also, repatriations are evaluated using discounted cash flow, market value, and net asset value. Companies often display inflated net asset values before repatriation, attempting to manipulate the actual number to repatriate more than allowed. Nevertheless, sometimes investors also need more accurate reporting and information shortages to continue. Although on paper, Bangladesh Bank has provided all the necessary guidance to all the relevant stakeholders regarding repatriation; investors have to wait long as the process is lengthy and cumbersome. The relevant stakeholders in the valuation process, such as the CA firms, often underperform and sometimes provide inaccurate annual reports.

7. Other Challenges for Promoting Private Investment in Bangladesh

7.1. Shortage of required skills of the labour force

The labour market in Bangladeshis riddled with a number of key issues related to the labour force's competencies and training, institutions' capacity, etc. Skill is formed through education and training and various combinations of these two elements. In Bangladesh, both education and training are inadequate in quantity and quality, resulting in lack of required skills of the labour force. For starter, education, whether formal or informal, is one of the key drivers in raising the size and quality of their workforce contribution. However, the major part of the workforce lacks formal education, which is considered as the major barrier to enhancing their skill levels. According to the LFS (2016-17), a large population is not acquainted with any educational institution, which is evident by 29.3% of the working-age population responding negatively about ever attending school.

Not only in terms of formal education, the share of the working-age population who has received any form of training is also quite low at 1.7% (LFS 2016-17). The training quality and the meagre duration of most training programs, often limited to just one month, raise concerns about their effectiveness in genuinely enhancing the participants' skills. Despite a significant portion of the working-age population among those who has received training opted for computer training (LFS 2016-17), there is a need for more diversified programs that cater to contemporary industry demands.

Private institutes predominantly deliver training, highlighting the crucial role of public-private partnerships in expanding the training programs' reach and effectiveness (Swisscontact, 2022). However, the predominance of private institutes also points towards a potential gap in public provision and support for vocational training. This underlines the necessity of collaboration among government entities, private sector, NGOs, and industry-based organizations to address the skill gap comprehensively.

Labour productivity is low in Bangladesh

Low labour productivity in Bangladesh hinders the expansion of both domestic and foreign investment. Table 14 shows that in the case of average years of schooling, which can be a proxy of skill, Bangladesh lags behind most of its comparator countries. Also, Bangladesh's labour productivity is much lower than its comparator countries.

Table 14: Average years of schooling and Labour productivity in 2021

	Bangladesh	India	China	Malaysia	Thailand	Vietnam
Average years of schooling	7.4	6.7	7.6	10.6	8.7	8.4
Labour productivity (GDP per person employed at constant 2017 PPP $)	15,109	20,717	34,539	57,667	31,466	20,392

Data source: Average years of schooling data from the UNDP Human Development Report, and Labour productivity (GDP per person employed at constant 2017 PPP $) data from the World Bank, World Development Indicators

Lack of skilled workforce and skill mismatch hinder the prospect of a robust investment expansion

The inadequately educated workforce is another major issue faced by the private sector. Enterprises face challenges operating modern machinery due to a shortage of experts, which leads to higher costs for hiring foreign technicians. Various sectors suffer from a shortage of skilled labour due to the high turnover of workers and the lack of formal education institutes to supply workers. Table 15 provides a snapshot of skill level in selected sectors of Bangladesh.

Table 15: Skill level of selected sectors of Bangladesh

Sectors	Skilled workers (%)	Semi- skilled workers(%)	Unskilled workers (%)
Readymade Garments	56.5	30.2	13.3
Construction	10	20	70
Light Engineering	66.89	32.11	1
ICT	39.35	24.26	34.39
Shipbuilding	55.3	16.4	29.3
Leather Goods	5.4	13.7	80.9
Hospitality and Tourism	12	21	61
Healthcare	21.5	28	50.5
Agro-food sector	38	40	22

Source: BIDS[20]

The shortage of skilled workers is more acute for managerial, executive, and higher positions. Large industries often hire foreign workers to train their workers for these positions. More so, inadequate skills, high mobility, and absenteeism hinder sector growth. Outdated curricula, insufficient training facilities, and a lack of coordination between universities and professionals contribute to the skills gap.

For instance, in the IT sector, while around 10,000 IT graduates are produced annually, their quality is generally unsatisfactory. The migration of the top 5% of graduates, primarily to the US, exacerbates the problem, driven by low wages in Bangladesh and greater demand abroad (Raihan et al., 2017). Another issue faced by the industries is the floating workers, for instance, non-leather industries hire workers from the garment sector or provide short training, leading to workers floating between the two sectors.

7.2. Sector-specific challenges

In addition to the across-the-board challenges, there are some sector-specific challenges which need to be resolved for the promotion of private investment in Bangladesh. The subsequent discussion highlights such challenges in the leading economic sectors in Bangladesh.

[20] https://seip-fd.gov.bd/labor/

Readymade garments (RMG)

The RMG sector is the most prominent exporting sector of Bangladesh. Despite being one of the key and well-footed industries in the country, the sector is not free from some crucial impending challenges for a robust expansion.

One of the constantly upheld challenges for the sector is poor utility supplies (BFTI, 2023). Industry insiders often remarked on the shortage of gas supplies at adequate pressure as one of the key concerns. During the unprecedented global energy crisis in 2022-23, the interruptions in electricity caused a severe strain in the sector. The lesson calls for a sustainable energy solution for key business sectors such as RMGs, in the future.

Moreover, the excess dependence on imported raw materials is another obstacle the sector is facing. Even though RMG is the most mature industry in the country, it still does not have a strong backward linkage. As such, the local value addition of RMG to total exports remains low. Upon graduation, Bangladesh's RMG export will lose out preferential market access. Moreover, Bangladesh will no longer be able to provide cash incentives to the sector that it has been receiving for long.

During the consultation with the sector insiders, several other problems, such as shortage of skilled manpower (including managers, designers, operators, etc.), poor port infrastructures, absence of innovative design, lower bargaining power with international buyers, etc. were also identified. Amongst others, the health safety of RMG workers remains a serious concern in Bangladesh. The issue of health vulnerabilities is founded in the working environment, which frequently fails to satisfy basic working conditions.[21]

Pharmaceuticals

According to industry insiders, one of the major weaknesses of the pharmaceutical industry in Bangladesh is the deficiency of adequate investments in research and development (R&D). Global pharmaceutical companies spend 15-20% of their net sales on R&D (Jain, 2023). In India, pharmaceutical companies spend around 7% of their net sales on R&D. Although no comparable figure for Bangladesh is available, according to industry insiders, the rate of investment in R&D in Bangladesh is significantly lower than in India. As a result, Bangladesh has insufficient patentable molecules and API – which could be a point of weakness for the sector after graduation (BFTI, 2023).

The industry insiders also pointed out several challenges related to heavy reliance on imported raw materials and cumbersome procedures to import Active Pharmaceutical Ingredients (API). At present, to import API chemical reagents, a pharmaceutical company needs to obtain permission from multiple government agencies including the Department of Narcotics Control, Department of Explosives, Bangladesh National Authority for Chemical Weapons Convention, Ministry of Industry, Ministry of Commerce, and Director General of Drug Administration of Bangladesh (BFTI, 2023). BFTI (2023) reports that it requires between

[21] https://workerdiaries.org/well-being-of-the-rmg-workers-in-bangladesh-some-key-issues/

nine to eleven months to obtain permission for basic importing materials. Such procedural complications add indirect costs for the investors, and therefore, deter the growth potential of the sector. The problem mounts up as Bangladesh imports more than 90% of the API required by the sector. Moreso, according to various reports, Bangladesh imports 97% of the raw materials through open patent facilities – which will no longer be available once Bangladesh graduates out of the LDC status.[22] Upon graduation, the pharmaceutical industry will have to pay intellectual property fees on imports of raw materials for drugs and APIs.

Another key challenge for the sector is the high cost of bioequivalence (BE) testing. Bangladesh does not have any accredited bioequivalent study centre or contract research organization (BFTI, 2023)[23]. The BE testing is mandatory for product registrations in any well-regulated country. Currently, pharmaceutical companies carry on the BE testing in foreign accredited labs where it costs in the range of $50,000-$200,000 per product (Razzaque et al, 2020c). The test fees are considered an outward remittance and are subject to 20% tax and 15% VAT. No denying that the high costs are a potential barrier to the growth of the sector.

Unlike most other sectors, the impact of LDC graduation on the pharmaceutical sector would be both in the domestic and international markets (Gay, 2018). Upon graduation, Bangladesh will no longer be eligible to produce patented drugs under TRIPS. Moreso, the country will no longer be able to provide benefits to the pharmaceutical sector due to the WTO Agreement on Subsidies and Countervailing Measures. Full compliance with the WTO agreement would mean that pharmaceutical companies compete in the global market with minimal government support. There are concerns that upon LDC graduation the industry would undergo consolidation with reputed international players acquiring smaller local companies in Bangladesh (Gay, 2018).

Amongst the other challenges, the industry insiders mentioned the unavailability of a skilled workforce, limited availability of drug testing facilities, the prevalence of counterfeit and substandard products, etc. At present, Bangladesh has only one WHO-prequalified drug testing laboratory in Dhaka. Regarding the shortage of skilled workforce, the TVET institutions' curricula are not updated to the modern industry needs.

Despite the challenges, several steps have already been taken by the Bangladesh government. An API Industrial Park has already been completed at Munshiganj. The industrial park is exempt from all taxes, including income tax and value-added tax (VAT) till 2032.[24] In addition, BIDA also offers several other fiscal incentives.[25]

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[22] https://www.tbsnews.net/economy/industry/api-park-be-ready-june-pharma-industry-211144; accessed on 15 July 2023

[23] According to the IMED, Ministry of Planning, an Institute of Bioequivalence Studies and Pharmaceutical Sciences is being established at the BCSIC, Dhaka

[24] https://www.tbsnews.net/economy/industry/api-park-be-ready-june-pharma-industry-211144; accessed on 17 July 2023

[25]https://bida.gov.bd/pharma-api#:~:text=The%20government%20of%20Bangladesh%20is,dependence%20to%2080%25%20by%202032. Accessed on 17 July 2023

Leather

Leather and leather goods are one of the most potential sectors for growth in domestic and international markets. However, despite a strong backward linkage, and good product quality, Bangladesh has not been able to encapsulate the potential of the sector (Razzaque, 2020). The challenges faced by the sector have long been noted in several studies (Raihan et al. (2017), (Razzaque, 2020), BFTI (2016), Harris (2016), Khondkar and Eusuf (2015)) and yet the policy responses are slow. Based on the earlier studies and stakeholder consultations several key challenges for investment expansion for the leather sector in the context of LDC graduation can be identified.

According to the stakeholders, the first and foremost challenge for the sector is the inadequate compliance with international standards regarding the processing of raw leather to finished/crust leather. Even after the relocation of the tanneries from Hazaribagh to Savar Tannery Estate, environmental concern remains a key issue. The Central Effluent Treatment Plant (CETP) is not fully functional yet. Consequently, most of the companies in Bangladesh are unable to obtain internationally accredited certifications such as the gold certification from the Leather Working Group (LWG), a multi-stakeholder group consisting of more than 600 member brands and retailers. [26] The inadequate certification results in 30-40% lower prices in the international market (Razzaque, 2020). Such certification barrier hinders prospective large-scale domestic, joint-venture or multinational investments in the sector despite having a strong backward linkage market.

Another major obstacle in this sector is the shortage of skilled labour. There are few scopes for the workers to get any formal training with state-of-the-art modern facilities (BFTI, 2023); Razzaque, 2020). According to industry insiders, there is also limited availability of R&D and technology for product design. Moreover, there are concerns regarding health safety and potential long-term impacts on tannery workers (Razzaque et al., 2019). Given Bangladesh's commitment to the SDGs, workers' safety concerns need to be integrated into policy directives.

According to key informant interviews, 'lower than potential' foreign investment, policy gaps, and inadequate infrastructure act as other major barriers in this sector. Moreover, the tannery sector faces challenges related to low productivity, costly and less profitable import-based business models, shortages of utilities and land, and an inconsistent tax structure. Moreover, there is inadequate finances for technological upgradation and expansion of business in the sector – which is more prone for SMEs. These multifaceted challenges collectively impede the growth potential and hinder private investment in the leather sector of Bangladesh.

Agro-processing

During consultations with the stakeholders, several key challenges were identified. One of the key challenges for the sector is access to finances due to high collateral requirements and

[26] According to the LWG website (www.leatherworkinggroup.com), as of July 2023, Bangladesh has only one Gold certified company, whereas India has 164, Pakistan has 24, and Vietnam has 16 (accessed on 12 July 2023).

higher interest rates for small producers. Such barriers discourage small producers from undertaking strategic risks for further expansion. However, irrespective of firm size, there is also inadequate financial support for investment in food processing technologies – which is a key to expansion in this industry (BFTI, 2023).

In terms of logistics, inadequate cold storage, as well as inadequate transport facilities with cold storage, etc. were noted with importance. Such poorer logistics capacities result in a significant proportion of wastage of the raw agro-produces during transportation from field to farm. It also increases per-unit costs for the agro-processing industry. As reported by the stakeholders, and also noted in several sectoral studies, another key challenge for the sector is the shortage of skilled labourers and trained agro-producers (BFTI, 2023). As such, a large proportion of the agro-producers in the country are not familiar with modern agro-farming techniques and technologies. It reduces the quality of the raw agro-produces and thereby affects the price of the final products. There is also inadequate accredited testing facilities, adequate packaging houses qualified enough to meet export requirements at the destination countries, etc. Moreover, there is an absence of mutual recognition agreements and certifications with destination countries (BFTI, 2023). Such inadequate agreement and certification results in underutilised and unexplored export destinations and growth of product diversification.

During the stakeholder consultation, it was also revealed that the SMEs in this sector were badly damaged during the COVID-19 pandemic as the stimulus packages were less accessible to them. This was due to the packages being disbursed through banks and requiring extensive documentation, a lengthy process, and being offered as loans rather than grants, further demotivating SME producers. Although the world has moved ahead of the pandemic crisis, this can be an important learning from the perspective of framing the future policy directive for this sector. It shows strategic support to SMEs in the face of colossal adverse shocks is not adequately inclusive enough.

Light engineering

The light engineering sector of Bangladesh is identified as one of the key thrust sectors with huge growth potential both in the domestic and international markets. A large domestic market with a growing middle-income class, an expanding manufacturing sector, a competitive workforce, duty-free market access in many major destination countries, etc., make it one of the most lucrative sectors for investment opportunities with promises for higher return of investment.

Despite the promises, there are many obstacles that the light engineering industry in Bangladesh is facing thwarting its growth potential. One of the primary problems in the sector is the absence of proper assistance from legislative bodies. For instance, the light engineering sector is evolving rapidly with the progress in technologies. As such, to cater for the local and international demands, and to meet certain requirements/demands at the destination countries, the producers sometimes need modifications in industrial production legislations.[27] According to industry insiders, it is often challenging and time-consuming for business owners to convince and get permission from the legislative bodies. Moreover, producing machinery locally often faces challenges due to lengthy procedures and hefty levies on imported raw materials.

Another significant barrier is inadequate access to capital, as small enterprises find it difficult to get loans from financial systems due to high interest rates and collateral requirements. The industry also has deficiency in incentives, such as bonded warehouse facilities, tax breaks, and direct financial rewards. In terms of logistics, inadequate joint ventures and technology transfer poses a significant challenge in the technological development of the light engineering sector. Moreover, the inadequate infrastructural facilities, such as an uninterrupted supply of utilities and common facility services, also poses a problem. Amongst others, challenges such as – shortage of skilled labourers, absence of international standard testing and certification facilities, absence of R&D facilities, and inadequate design capacities, etc. were also mentioned during the consultation.

Non-leather (footwear/bags)

The key challenges for the non-leather (footwear/bags) industry of Bangladesh include access to finances along with high borrowing costs and lengthy, cumbersome procedures; absence of a strong backward linkage industry; challenges in attracting FDI due to coordination challenges between responsible government departments; and inadequate logistics supports. Regarding logistics, the non-leather industry is facing a shortage of skilled labour due to high turnover, leading to floating workers between the non-leather and ready-made garment sectors.

The industry also heavily relies on imported raw materials from China. However, due to poor port handling and the time it takes to release the raw materials and transport them to the factories, the lead time to import is lengthier which weakens the sector's competitiveness in the international market. The inadequate infrastructural facilities, including insufficient utility supply, is another constraint to expanding investment in the non-leather sector. Finally, non-SEZ industries struggle to compete in grabbing the export market as they cannot access the benefits of corporate tax exemption offered in SEZs.

Plastic

The plastic and plastic goods industry is one of the priority sectors designated in the National Industrial Policy 2016. However, the sector faces significant challenges to expansion. One of the major challenges to the sector is access to finances. More than 98% of the firms are SMEs – they face challenges in terms of higher interest rates and high collateral requirements (Razzaque et al. 2020b). The sector also faces challenges with regard to logistics, and government regulations. Grabbing the international market would require proper testing and

[27] A very good example of it could be seen in the case of Motocycle CC limits. Prior to 2022, the producers in Bangladesh did not have permits to produce Motorcycles with more than 165 CC. However, in some destination countries, such as Nepal, a higher CC motorcycle is demanded. Due to the production limits in legislations, the producers could not compete in such markets.

certifications. However, at present, there are insufficient numbers of accredited testing labs (BFTI, 2023).

The sector is also hindered by deficient branding in the manufacturing sector and coordination challenges among relevant policymaking bodies. The industry is challenged by a scarcity of skilled labour and technical know-how, and it heavily depends on imported raw materials to produce its goods. Small and medium-sized businesses face challenges with supply-side constraints due to the use of outdated equipment, resulting in lower product quality, and higher production and maintenance costs. The plastic export market in Bangladesh is concentrated in specific products and markets. The government's trade policy for the plastics industry faces difficulties regarding compliance, coordination, and a shortage of incentives for research and development (R&D).

Electrical and electronics

The electrical and electronic sector deserves special mention due to its huge potential in both domestic and foreign markets. The sector produces a wide range of consumer and industrial electronic products. At the end of 2019, the combined market size of the electronics sector, encompassing both industrial and consumer electronics, was approximated at USD 5.29 billion. Forecasts indicate that this industry is projected to experience a steady annual growth rate of 15%, ultimately reaching approximately USD 12 billion by the year 2025[28]. Despite the current market growth and future potential, there is no denying that the sector faces numerous challenges.

Among the challenges, battery manufacturers, one of the prominent products among electronic goods, face an inability to ensure a timely supply of products due to issues with timely letters of credit caused by a lack of US dollars to import raw materials. Furthermore, the sector suffers from both locally produced counterfeit products and cheap imported low-quality products (BFTI, 2023). Inadequate testing facilities and the absence of effective IP protection multiplies the challenges faced by manufacturers. Being a backward linkage industry, the sector deserves further tax cuts. In addition, inadequate design capacity and absence of investment in R&D[29] contributes towards insufficient product diversification and the absence of high-end products. Last but not least, the inadequate infrastructure facilities threaten the export potential of the sector.

IT and IT-enabled services (ITES)

Bangladesh eyes IT and ITES as a major export commodity in the coming years. Lower cost of operation, a growing youth labour force, a large and booming domestic market, as well as a strong commitment from the government itself make the sector one of the most lucrative and poised sectors for future private investments. However, the sector faces several challenges, as noted during the consultations with the sector experts.

[28] https://bida.gov.bd/electronics#
[29] https://businesspostbd.com/trade/bangladesh-finds-traction-in-global-export-market-39108

One of the key limitations in the ICT sector is access to finances. Because of the substantial risks involved with the sector, banks are unable to grant loan facilities. As there are no suitable rules or policies in place to evaluate the value of ICT work, obtaining a loan from private banks is extremely difficult. The problem is more prone for start-up firms as they require a high rate of collateral. Industry insiders also mention the shortage of a skilled labour force as a key problem. As such, skills required by the industry often do not match the training received in education and TVET institutions. Moreover, retention of skilled employees once they are trained and become experts, continues to be a major issue, as the demand for specialized skills exceeds the supply. The rate of skilled migrations for IT professionals is also higher than others. Retaining highly skilled IT professionals in the country is a key challenge, as mentioned during the stakeholder consultations. Moreover, there are also limitations in terms of proficiency in the English language (Razzaque et al., 2020) which limits the scope of the prospective IT workers. In terms of logistics, Bangladesh has one of the world's lowest power generation rates, and the supply is insufficient. Frequent load-shedding and power fluctuations limit software businesses' productivity which in turn hampers the development of the IT and related sector.

To promote further investment in the sector, the government has been providing several fiscal and export incentives.[30] The fiscal incentives provided are mostly for the producers of computer hardware, robotics, and non-technology-based products. However, it does not specify fiscal incentives for software firms. Since software is the core of IT and ITES, the government might have to incentivize larger investments in software firms. Moreover, some participants also mention that Bangladesh needs to incentivize more investment in artificial intelligence (AI) and 4IR-enabling technologies. This is one of the most rapidly growing global investment attractions, and Bangladesh should not miss the opportunity. At present, there are no incentives (like tax and VAT exemptions) for R&D or investments in these sectors.

[30] https://bida.gov.bd/information-technology; accessed on 17 July 2023

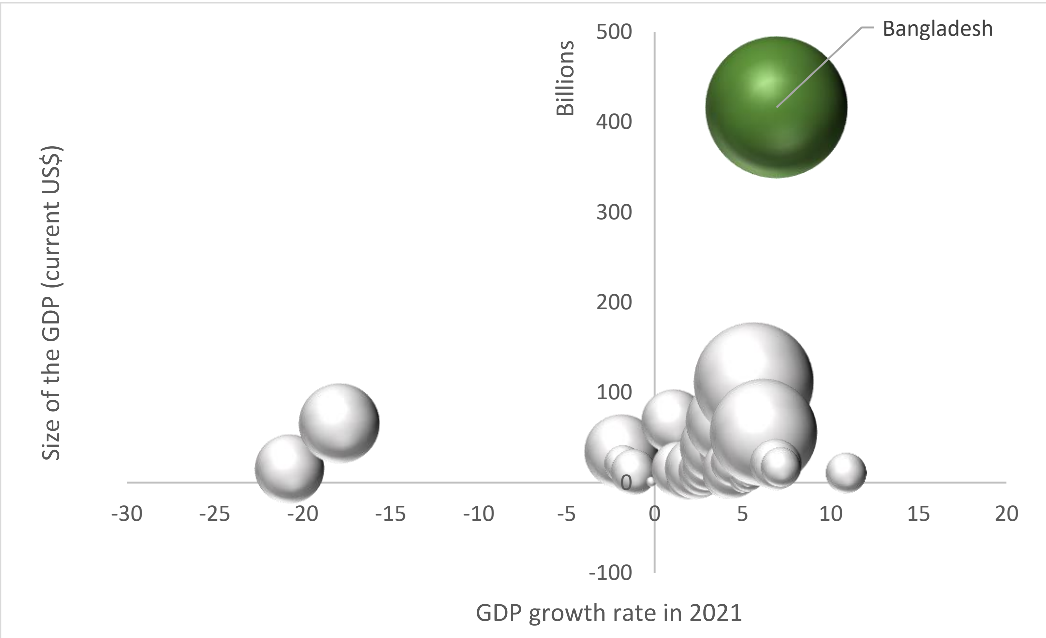
8. Experience of the Graduated LDCs and Lessons for Bangladesh

One of the primary aims of this study is to examine the experiences of the graduated LDCs and draw valuable lessons applicable to Bangladesh with regard to private investment expansion in the post-LDC era. The preceding chapters have extensively addressed the current and foreseeable challenges associated with investment expansion in Bangladesh amid its transition from LDC criteria. Building upon this analysis, the present chapter seeks to identify key trends observed in the LDCs that have successfully graduated, particularly focusing on aspects such as private investment, foreign direct investment, and other essential dimensions.

8.1. Contrast between Bangladesh and other LDCs

Bangladesh is clearly an outlier among the LDCs (including the graduated or expected graduating LDCs) (Figure 24). With a population of 169 million, it is the largest LDC in terms of population volume. It is also the biggest in terms of the size of the GDP. Bangladesh currently ranks 35th among major economies with a GDP of $416 billion in 2021 whereas the average GDP of LDC countries was only $19.65 billion. Moreover, given the robust high economic growth, this gap continues to widen annually between Bangladesh and other LDCs.

Figure 24: GDP of Bangladesh and Other LDCs



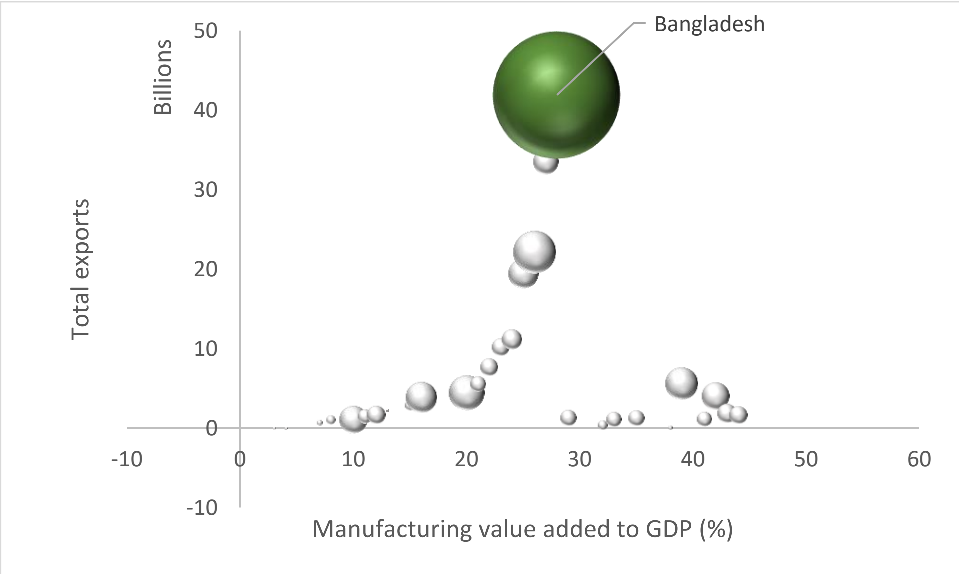
Source: Authors' illustration based on WDI

Note: The bubble size represents the size of the population

The export figures of Bangladesh significantly exceed those of LDCs (Figure 25). In 2021, the average export of LDCs was only $5.43 billion. However, Bangladesh managed to export products and services worth $49.39 billion in the same year. The COVID-19 pandemic did have an effect on exports in 2020, but the exports soon recovered in 2021. Another crucial difference between Bangladesh and the other LDCs is the size and share of manufacturing exports in total exports (Figure 25). No other LDCs have such a strong foothold in the manufacturing industry.

The merchandise exports of Bangladesh are dominated by manufacturing exports. This is well reflected in the manufacturing value added to the GDP of Bangladesh. The manufacturing share in GDP is highest in Bangladesh among the LDCs. Lao PDR and Nepal, two LDC candidates for graduation, have a lower manufacturing export share than Bangladesh. Even Botswana, which graduated in 1994, has a lower share of manufacturing exports than Bangladesh. In 2000, 2010, and 2015, the manufacturing share of Bangladesh was 90.51%, 91.69%, and 95.81%, respectively.

Figure 25: Goods and services export of Bangladesh and other LDCs, and the share of manufacturing value added to GDP



Source: Authors' illustration based on WDI
Note: The bubble size represents the size of the manufacturing value added to GDP (current US$)

The export performance of Bangladesh is also noteworthy in terms of its destinations. Bangladesh exports in higher proportion to high-income economies. Meanwhile, Botswana's percentage of exports to high-income economies has decreased over time in the last two decades.

The development of the private sector is another factor that distinguishes Bangladesh from other LDCs. The private investment-to-GDP ratio of Bangladesh has been higher than that of other LDCs over the past two decades. In 2021, Bangladesh had a private investment-GDP ratio of 25.3% whereas the LDCs had an average of 17.34%. The scenario indicates that the private sector of Bangladesh is more robust and dynamic than that of other LDCs.

The above discussion suggests that Bangladesh stands out among the LDCs that have graduated or scheduled to be graduate within the next few years. Bangladesh has been able to accelerate its growth and surpass other LDCs in various economic and development indicators due to its large market size, substantial GDP, higher GDP growth, improved human development indicators, robust export performance, and well-developed private sector.

8.2. Experience of the graduated LDCs: Lessons for Bangladesh

Since the initiation of the LDC classification in 1972, only six countries have graduated from the LDC category (Table 16). However, it must be kept in mind that, none of these economies are truly comparable to Bangladesh due to several factors. As such, the sizes of the GDP of all these countries were less than $13 billion at the time of their graduation and had a population size no greater than 1.5 million. Apart from Equatorial Guinea, none other had a strong manufacturing base. Compared to the graduated countries, Bangladesh will have a GDP of $589 billion at the time of its graduation in 2026. The population of the country is projected to be more than 178 million. Even with the assumption that the manufacturing value added to GDP remains unchanged in Bangladesh, still, Bangladesh remains an outlier.

Table 16: Comparison of graduated LDCs at the year of their graduation and Bangladesh

Country	Graduation year	Size of GDP at the year of graduation (US$, billion)	Population size (million)	Manufacturing value added (% of GDP)
Botswana	1994	4.26	1.46	4.89%
Cabo Verde	2007	1.51	0.50	4.5%
Maldives	2011	2.77	0.37	2.6%
Samoa	2014	0.796	0.20	6.9%
Equatorial Guinea	2017	12.2	1.45	25.76%
Vanuatu	2020	0.896	0.31	2.8%[a]
Bangladesh	(projected for 2026)	589[b]	178.1[c]	21.23%[d]

Source: data taken from WDI, IMF and world population review.
Note: a. value for 2018; b. IMF projection[31]; c. projected by world population review[32]; d. value for 2021 (assuming it would remain unchanged)

Notwithstanding these differences, this section aims to draw the experience of the graduated LDCs on different dimensions such as private investment, foreign direct investments, etc.

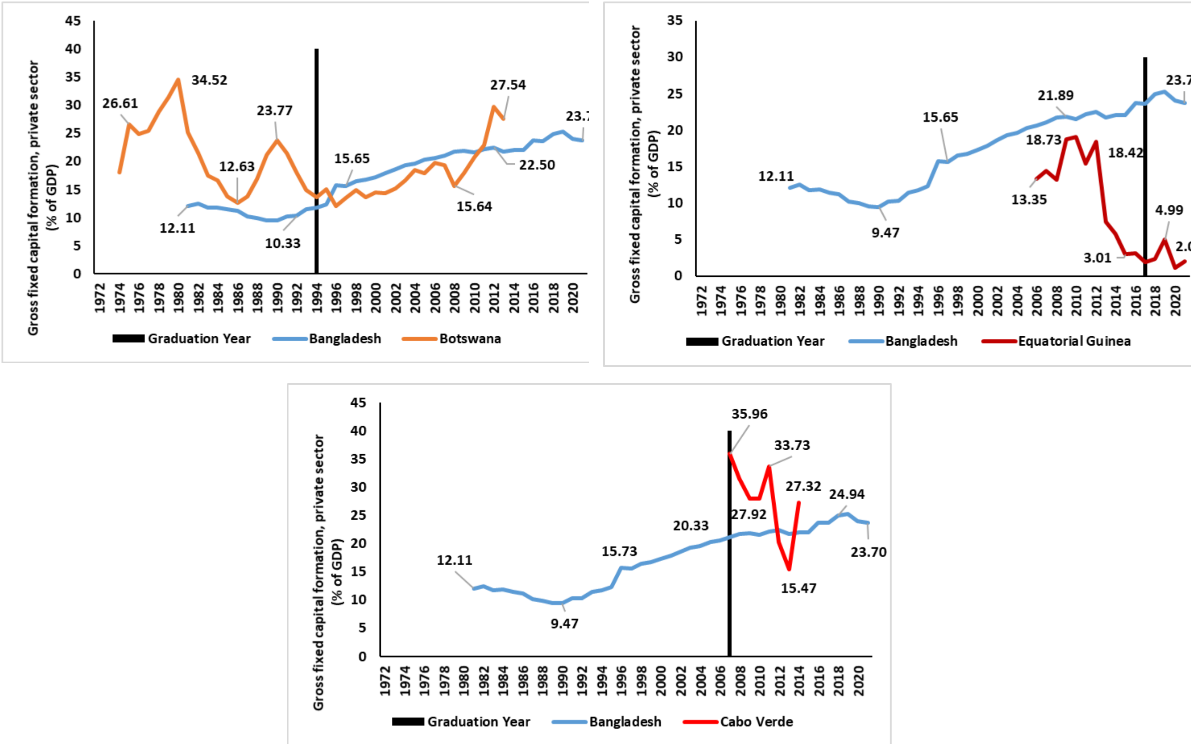
8.2.1. Private investment

Botswana, which graduated from the LDC in 1994, had fluctuations in its private investment over the years. It fell to 12.14% of GDP two years after its graduation (Figure 26). But gradually, the country restored its private investment trend by mid-2000 with a private investment GDP ratio of 27%.

Equatorial Guinea, which has graduated more recently (2017), had an increase in private investment from 13.35% in 2006 to 18.73% in 2009. After 2012, it started falling drastically and reached as low as 3.01% in 2015, a couple of years before its graduation. After its graduation, it increased a little bit but eventually fell again to its current level of 2.02% in 2021. In another LDC-graduated country, Cabo Verde's private investment experience after graduation was not smooth. As a percentage of GDP, it was 36% in 2007, one of the highest among the graduated countries. However, it started to fall drastically and reached its lowest mark of 15.47% in 2013. After that, it started increasing once again and reached 27.32% in 2014.

[31] https://www.imf.org/external/datamapper/NGDPD@WEO/BGD?zoom=BGD&highlight=BGD; accessed on 13 June 2023
[32] https://worldpopulationreview.com/countries/bangladesh-population; accessed on 12 June 2023

Figure 26: Comparison of private investment in Bangladesh and LDC-graduated countries (1972-2021)



Source: Authors’ illustration from World Development Indicators (WDI)

8.2.2. Domestic credit to the private sector

Bangladesh has seen a gradual increase in its domestic credit to the private sector by banks over the years, without a few exceptions. After independence, the domestic credit to the private sector of Bangladesh was only 2.61% in 1974 (Figure 27). However, it maintained an upward trend and reached 44.20% in 2015. Unfortunately, in recent years, the percentage has dropped slightly. In 2020, it was 39.03%.

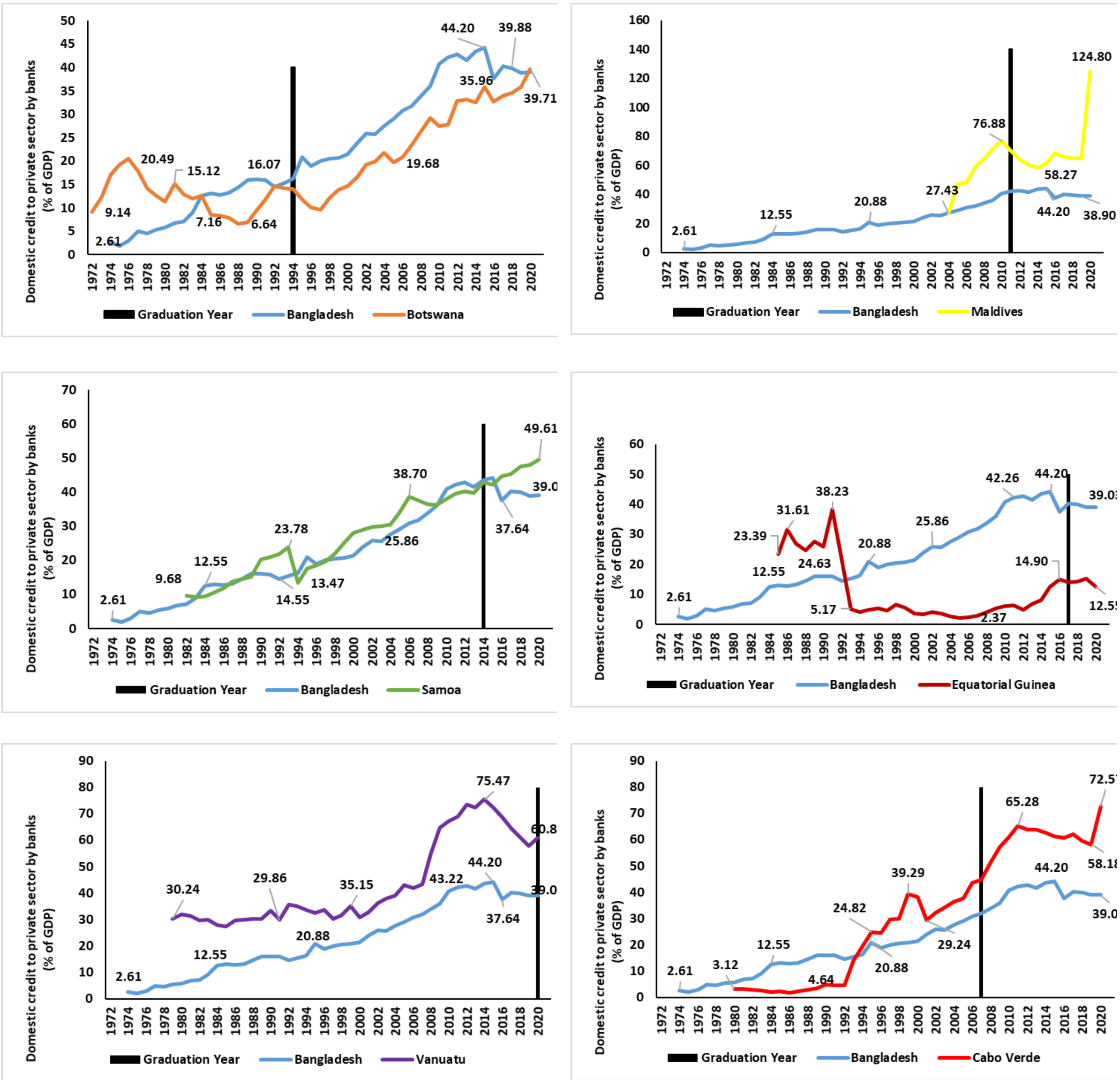
Botswana experienced a similar trend as Bangladesh. This indicator was 9.14% in 1972 for Botswana. After the country’s graduation in 1994, domestic credit to the private sector decreased a little but then started to increase again and reached 39.71% in 2020.

Among the LDC-graduated countries, Maldives' domestic credit to the private sector by banks started to rise at a great pace from 2004 (27.43%). Right before the country’s graduation in 2011, domestic credit to the private sector reached 76.88% of its GDP. After graduation, it started falling and reached its lowest in recent years, 58.27% in 2014. However, after that, it started increasing rapidly, and in 2020, it rose to 124.80%.

Samoa had a steady increase in its domestic credit to the private sector from banks. In 1982, it was only 9.68% and has been increasing since then. However, after the LDC graduation, the country faced a downward trend. It was 49.61% in 2020.

Another country that graduated in 2017, Equatorial Guinea, had a drastic fall in its domestic credit to about 5.17% in 1993 from 39.23% in 1991. It has been low ever since and reached 2.15% in 2005. Then it started increasing gradually. There was not any substantial increase even after the LDC graduation. In 2020, domestic credit to the private sector of Equatorial Guinea was 12.55% of its GDP.

Figure 27: Comparison of domestic credit to the private sector by banks (% of GDP) in Bangladesh and other graduated countries (1972-2021)



Source: Authors' illustration from World Development Indicators

Vanuatu had 30.24% domestic credit to the private sector of its GDP in 1979, which was way higher than that of Bangladesh. After alternative gradual increases and decreases, it rose to 75.47% in 2014 and then fell until 2019. The country graduated in 2020, when it had 60.85% domestic credit to the private sector of its GDP, almost 1.5 times that of Bangladesh.

Domestic credit to the private sector as a percentage of GDP was 3.12% for Cabo Verde in 1980. After 1980, it started increasing by a huge margin and reached 39.29% in 1999. After the LDC graduation, domestic credit to the private sector by banks started to rise sharply and doubled in 2011 (65.28%). In 2020, it was 72.57%.

No pattern for domestic credit to the private sector by banks was observed for the LDC-graduated countries. The Maldives and Cabo Verde saw a sharp jump in domestic credit, while Equatorial Guinea experienced a slight decline. On the other hand, Botswana and Samoa maintained steady growth even after the LDC graduation.

8.2.3. Foreign Direct Investment

Bangladesh had a stagnant FDI inflow from 1972 to 2020, with 1.74% of GDP being the highest in 2013 (Figure 28). In 2020, FDI inflow was 0.41% of the GDP. Bangladesh has failed to create an investment-friendly environment for foreign investors which has contributed to the low level of FDI as % of GDP. However, the volume of the GDP in the country has increased over the years.

Botswana, on the other hand, has experienced fluctuations in its FDI inflow. In 1975, the country had a net outflow of FDI with -10.77% as FDI GDP ratio. A few years later in 1979, it rose to 15.59%. After the country's graduation in 1994, FDI inflow increased slightly and reached 7.50% in 2002. But after that, it started falling (0.31% in 2020).

Maldives have had a higher amount of FDI over the years, though initially, it started from a negative amount of FDI inflow. It was 3.61% in 1987 which rose to 15.27% in the year of the country's graduation (2011). But after that, it started falling and became 7.25% in 2015. After another increase in 2019, it fell to 8.20% in 2021.

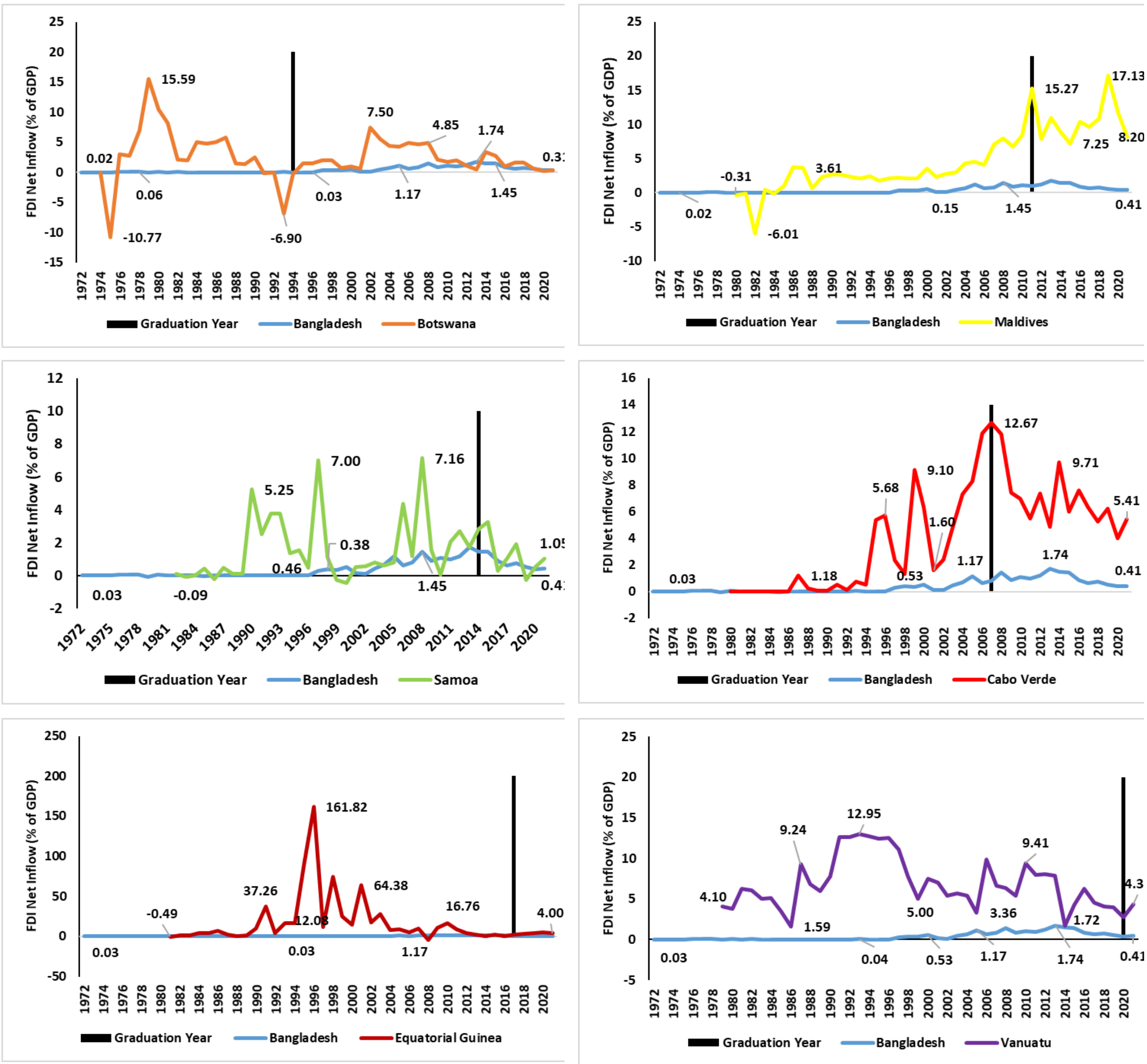
FDI inflow in American Samoa went through some drastic fluctuations over the years. It was 0.13% in 1982. It became 5.25% in 1990. After that, it started to fall and became 0.46% in 1996. After its graduation in 2014, the fluctuations in FDI inflow decreased and became more stable. In 2021, its FDI inflow was 1.05%. Therefore, in contrast with Bangladesh, Samoa has had a higher percentage of their GDP as FDI with some large fluctuation.

Cabo Verde experienced large fluctuations in its FDI inflow over the years. It was 1.18% in 1987. After a few years in 1996, it became 5.68%. Then after facing alternative rise and fall, the FDI inflow rose to 12.67 in 2007, in which year, the country also graduated. But shortly after graduation, it started falling again with slight fluctuation. The FDI inflow was 5.41% in 2021.

Equatorial Guinea has experienced sudden increments in their FDI inflow followed by sudden drops in comparison with Bangladesh. In 1981, it was -0.49%. Within a decade, it rose to 37.26%. FDI inflow in Equatorial Guinea was very high in 1996, it went up to a staggering 161.82%. From there it fell to as low as -4.02% in 2008 and then started increasing again, this time a bit steadily. In 2021, it was 4%.

FDI inflow in Vanuatu has always been higher than that of Bangladesh, with a fluctuating rhythm. It was 4.10% in 1979. It became 1.59%, the lowest in recent years in 1986. Since then, it started rising again followed by a slight drop. FDI inflow was 12.95% of its GDP in 1993. The country graduated in 2020 and after that, FDI inflow started increasing (4.32% in 2021).

Figure 28: Comparison of FDI in Bangladesh and LDC-graduated countries (1972-2021)



Source: Authors' illustration from World Development Indicators

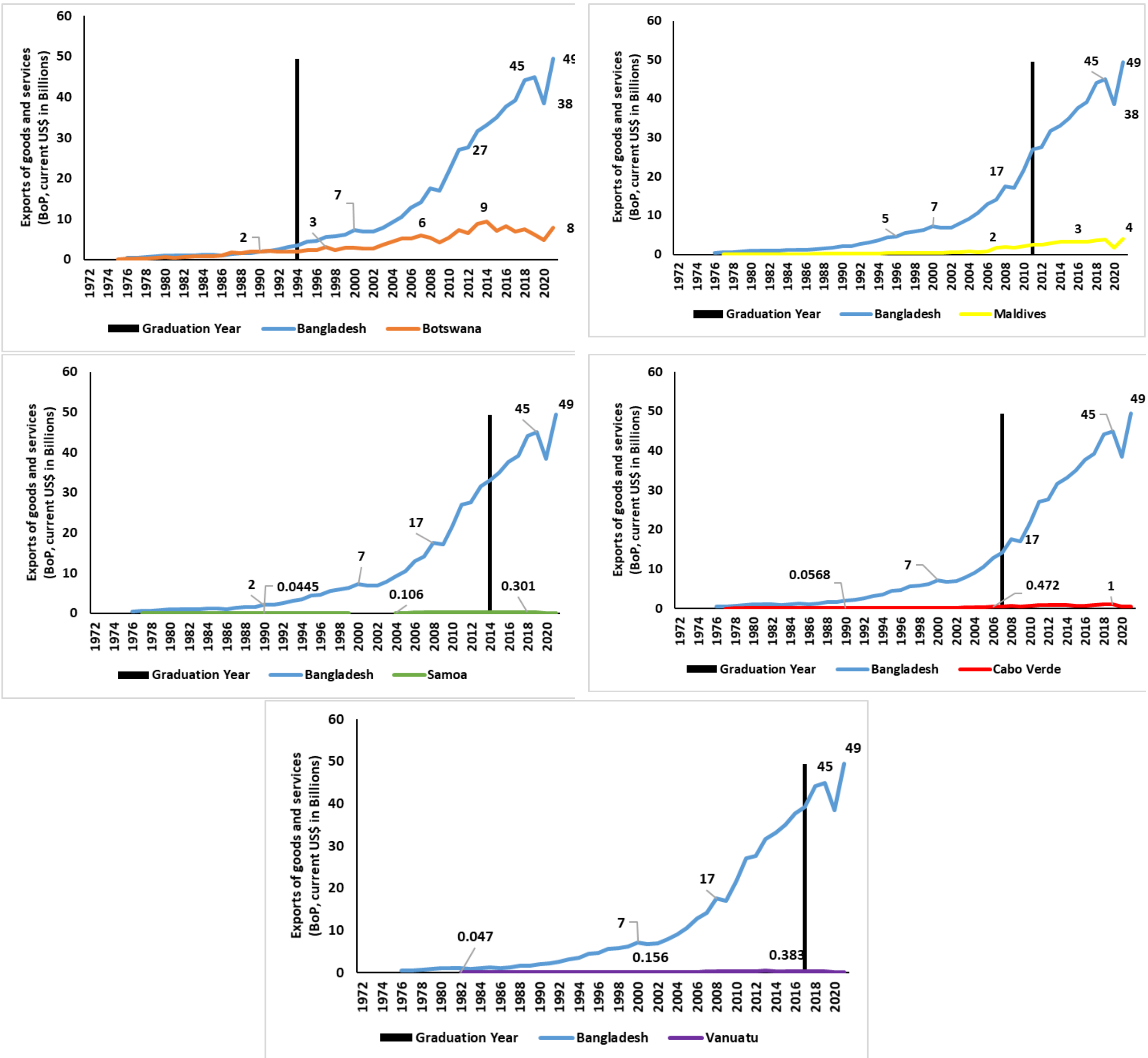
No certain pattern of FDI inflow can be found from the comparison among the LDC-graduated countries. Only Equatorial Guinea and Vanuatu have experienced a slight increase in their FDI inflow after LDC graduation, and these two countries have graduated in recent years. Other graduated countries have seen periodical fluctuations in their FDI inflow after their graduation.

8.2.4. Exports of goods and services

Export of the goods and services of Bangladesh is much higher compared to that of other graduated LDCs (Figure 29). Bangladesh's export has been rising over the years. In 2021, exports of goods and services from Bangladesh grossed $49 billion. The RMG sector has been the most export-driven sector in the country, contributing over 80% of the exports. Though the export volume has been rising, Bangladesh failed to diversify its exports.

Botswana, on the other hand, has experienced stagnant export growth over the years. It was 2 billion USD in 1990 and did not go over 9 billion USD in that timeframe. Even after its graduation from LDC countries, the exports experienced a minimal uprise. It was $8 billion in 2021.

Figure 29: Comparison of export of goods and services in Bangladesh and other graduated countries (1972-2021)



Source: Authors' illustration from World Development Indicators

Maldives had a gross export of less than 1 billion USD up until 2007. In 2007, it became almost $2 billion. After the country's graduation in 2011, exports have increased, but not by a great deal. It became 4 billion USD in 2021.

The number of exports of American Samoa is very low and stagnant compared to that of Bangladesh. In 1990, it was 0.045 billion USD. It became more than twice ($0.106 billion) in 2004. In 2021, the exports of goods and services of American Samoa grossed at 0.097 billion USD.

Exports of Cabo Verde have followed the same pattern as the other LDC-graduated countries. It has a very low amount of export compared to Bangladesh and export growth over the year was very slow and stagnant. In 1990, it was 0.0568 billion USD. Right before the country's graduation, it was nearly half a billion USD. It surpassed $1 billion in 2019 but then fell again.

Vanuatu has had a lower number of exports over the years with little export growth. In 1982, it was 0.047 billion USD. It became more than twice in 2002 (0.156 billion USD). Interestingly, after the country's graduation in 2017, its exports have decreased.

Almost all LDC-graduated countries have similar experiences in terms of exports of goods and services after graduation. The export volumes were stagnant and the same as before graduation. The exports of Botswana and Maldives increased at a higher pace than the other graduated countries. However, Samoa, Cabo Verde, and Vanuatu have experienced a slow and stagnant increase in their exports after graduating from the LDC category. Moreover, in later years the number of exports declined slightly for the latter countries.

8.3. The policy support offered by the graduated, and developing countries for attracting more FDI[33]

8.3.1. An overview of key policies in selected developing countries for promoting private investment

India

Bangladesh's neighboring country, India is a front-runner in terms of attracting FDI both regionally and globally. Governed by the Foreign Exchange Management Act 1999 (FEMA), the FDI policy landscape in India has been updated and supplemented by consolidated FDI policy circulars, with the recent one published in 2020. Comparatively smoothly functioning Special Economic Zones, National Investment and Manufacturing Zones, and Export Oriented Units, along with an educated and skilled labor force, in a country already boasting a large consumer-base along with stable political scenario, provides India the backdrop necessary for attracting a large amount of FDI.

[33] Due to the difference in country context, the developed countries have not been added. Furthermore, developed countries are usually not FDI recipients.

Vietnam

Vietnam has become one of Asia's most successful nations at luring significant investments in recent years. Although Bangladesh and Vietnam had the same trend of net FDI inflow (percentage of GDP) in the late 1980s, the situation in both countries drastically changed in the following years. Vietnam has successfully implemented its FDI policy by gradually and methodically opening up its economy. Vietnamese FDI policy is quite progressive, where the country offers an exemption of both export and import duty for export processing zones. Also, exemption from corporate income taxes, access to conversion of the form of investment, and split, merge, or demerge as necessary, while guaranteeing fair and equitable treatment by the state have been proven effective in attracting FDI. The state also allows the continuation of preferential treatment in case of a change of law, focusing on establishing a liberal neutral environment for investment (Vo & Nguyen, 2021).

In Vietnam, reforms and the implementation of investment laws contributed to the development of a unified legal framework and a common playing field for domestic private businesses, state-owned businesses, and foreign-invested businesses. Decentralization, reduced bureaucratic red tape, and preferential treatment of foreign investment were among the reforms. The main benefit that Vietnam has over other countries is the reasonably priced and skilled labor force. Vietnam has been able to spend close to 4% of GDP in these areas, whereas Bangladesh has consistently invested no more than 2% of GDP in either health or education. Insightful changes in health and education, according to the Vietnamese experience, helped to realize the potential of FDI inflow.[34]

Malaysia

Malaysia's investment policy has consistently embraced FDI as a pivotal driver of economic development, marked by a considerable openness and a lack of centralized regulation. The 2021 introduction of the National Investment Aspirations (NIA) framework underscores Malaysia's dedication to FDI that boosts local research and development, creates high-income employment, integrates with global supply chains, and aligns with environmental, social, and governance (ESG) standards. Diverse investment promotion agencies, including the Malaysian Investment Development Authority (MIDA), provide support for investors. However, despite liberalization, specific sectors maintain foreign equity limits, with varied regulations in sectors like banking, insurance, information and communications technologies, manufacturing, and oil and gas.

Indonesia

The Indonesian Investment Law, Law Number 25 of 2007, outlines comprehensive regulations for both domestic and foreign investments in Indonesia. It defines investment types and sets clear principles aimed at ensuring legal certainty, accountability, and non-discrimination while promoting sustainability and environmental responsibility. The law mandates equal treatment of all investors, providing legal and business security, especially emphasizing the protection of smaller enterprises. Foreign investments are primarily in limited liability company form. The law restricts foreign investment in certain sectors for national interest. It

[34] https://thefinancialexpress.com.bd/views/fdi-policy-of-bangladesha-review-1577805006

also emphasizes workforce development by prioritizing Indonesian workers and skill transfer. Additionally, the law offers incentives for investments aligning with employment generation and environmental preservation and includes provisions for real estate and immigration services. This framework reflects Indonesia's effort to foster a favorable investment climate, balancing economic growth with national and sustainable development goals.

Thailand

Thailand's investment policy is strategically crafted to attract domestic and foreign investors, particularly emphasizing high-tech and sustainable industries through incentives provided by the Board of Investment (BOI). The Eastern Economic Corridor (EEC) serves as a flagship investment zone, offering additional benefits for key industries. Real property regulations encourage leasing due to restrictions on foreign land ownership. Trade facilitation measures, including e-Customs compliance, contribute to improved efficiency. Robust intellectual property rights laws and enforcement mechanisms exist, yet challenges persist, as seen in Thailand's presence on the Special 301 Watch List. The National Committee on Intellectual Property Policy oversees the country's intellectual property framework, with the Department of Intellectual Property playing a crucial role in administration and enforcement. Overall, Thailand's investment approach balances incentives, industrial zones, and intellectual property protection to create an inviting investment landscape.

8.3.2. An overview of key policies in graduated LDCs for promoting private investment

Botswana

The Government of Botswana prepared a draft of an investment facilitation law with technical assistance from UNCTAD, which was recommended by the 2014 OECD Investment Review, the law is yet to be finalized. Botswana’s 2003 Trade Act reserves licenses for citizens in 35 sectors, although the nation offers support for foreign investors in various sectors including but not limited to, establishing a diamond hub, mining, mineral processing, etc.[35]

The Government of Botswana established the Botswana Investment and Trade Centre (BITC) to support foreign investors by offering low tax rates and not controlling foreign exchange. The BITC evaluates investment projects based on their potential to reduce the economy's reliance on diamond mining, foster export-led growth, and promote job creation and skills development for the citizens of Botswana. To achieve these objectives, the Government of Botswana (GoB) has established two essential mechanisms: The High-Level Consultative Council (HLCC), which is chaired by the President, and an Exporter Roundtable organized by BITC in collaboration with Botswana's Exporters and Manufacturers Association (BEMA). These mechanisms aim to create a conducive and vibrant business environment that attracts FDI and supports the country's economic diversification goals.

Furthermore, the Botswana government has committed to streamline business-related procedures and remove bureaucratic impediments based on World Bank recommendations

[35] https://www.state.gov/reports/2021-investment-climate-statements/botswana/

in a business reform roadmap. The Botswana government also established the Special Economic Zones Authority (SEZA) to streamline sector-targeted investment in Botswana's different geographic areas.

Equatorial Guinea

Equatorial Guinea's investment climate is governed by the country's Fundamental Law and the Law on the Investment Regime in Equatorial Guinea (Law No. 7/1992), which was last updated in 1994. According to Article 27 of the fundamental law, the State protects, guarantees, and controls the investment of foreign capital. In Article 12 of Law No. 7/1992 concerning the Investment Regime, the government again reaffirms its dedication to ensuring fair and impartial treatment for all investors. Law No. 7/1992 also create an Investment Promotion Center (IPC) and a National Investment Commission (NIC), which are yet to be materialized. In 2015, the government initiated a process toward an FDI attraction strategy which also has not materialized as of 2023.[36] However, the National Economic Diversification Strategy 2019, developed to comply with IMF-required reforms, strives for export diversification. The Ministry of Commerce introduced the Single Business Window in January 2019, providing foreign investors with the opportunity to establish and own business enterprises and participate in all types of profitable activities within Equatorial Guinea.

While the country has been able to graduate from the LDC category in 2017, the overall investment climate and the FDI laws and institutional facilitation has room for improvement.

Maldives

Maldives' Foreign investment is governed by the Foreign Investment Act (25/79). Currently, there are two specific laws for FDI in the Maldives: (I) the Foreign Investment Act; and, (ii) the Special Economic Zones Act (Law 24/2014). According to various literature, Maldives' FDI experience has been short and mixed.[37] Focused efforts by the government since the late 1980s have been able to attract FDI exponentially, particularly in the tourism industry, while the employment generation through that FDI has not been as expected (Nazeeb, 2020). Maldives' plan of action regarding trade and investment was part of the transition strategy during LDC graduation, reiterating the importance of building national capacity and acquiring technical support from abroad.[38]

Samoa

Samoa graduated from LDC status in January 2014. Samoa offers an FDI-favourable economic and policy environment. Samoa's FDI policy is governed by the Foreign Investment Act 2000 (as amended by the Foreign Investment Amendment Acts, 2011 and 2015; and its implementing regulations, the Foreign Investment Regulations, 2011) and implementing

[36] https://www.state.gov/reports/2022-investment-climate-statements/equatorial-guinea/
[37]https://www.unescap.org/sites/default/files/Session%204%20-%20Maldives%20LDC%20graduation%2015Nov2016.pdf
[38] https://www.unescap.org/sites/default/files/Session%206.1_Lessons%20from%20countries%20that%20have%20graduated.pdf

regulations[39]. The legal framework, however, does not extend to the offshore financial services sector, which is overseen by the Samoa International Finance Authority (SIFA). With regard to investment promotion, the Minister of Commerce, Industry and Labour (MCIL) has developed a National Investment Policy Statement and an Investment Guide. Samoa is one of the few nations allowing citizenship by investment. The Government uses transparent policies and effective laws which are consistent with international norms. Foreign investors are subject to the same rules and regulations as domestic investors, except for land-related matters, due to the constraint on land, as in most Pacific Island countries (WTO, 2019). Samoa grants at least MFN treatment to all its trading partners.[40]

Vanuatu

Vanuatu's investment climate is favourable to FDI, as shown by the high FDI inflow in Vanuatu compared to its peers, although declined in 2019[41]. FDI is an important catalyst for employment in the country, employing one-third of formal employment in 2018. The Vanuatu Investment Promotion Authority (VIPA) is a body corporate established under Vanuatu Foreign Investment Promotion Act, and under the Ministry of Trade, Industry and Commerce in 1998 to coordinate and facilitate foreign investment. The Foreign Investment Act 2019 replaced the Foreign Investment Promotion Act. The Act imposes market access restrictions on FDI, outlining a list of 15 business activities exclusively reserved for Vanuatu citizens to operate. The development of economic and industrial zones is a policy initiative by the Government to address difficulties in accessing land by foreign investors.

8.3.3. Major takeaways from the overview of key policies in the developing countries and the graduated LDCs for promoting private investment

All the graduated LDCs show a favourable investment climate in terms of policies. They also have established national investment policies and relevant governing authorities. The governments committed to be fair and equitable to foreign investors. Although a couple of sectors are usually reserved for nationals, most of the sectors are open to foreign investors. However, FDI inflow in these countries has varied widely owing to respective nations' other capacities, including the ability to implement the policies. The following key takeaways could be drawn from the policy overview of the graduated countries:

- From Botswana's experience, assessing investment projects on their ability to diversify the economy away from its continued dependence on one particular sector could be a useful strategy for Bangladesh.
- Issuance of a Single Business Window will be helpful for the overall investment scenario.
- The importance of building national capacity and acquiring technical support from abroad cannot be overstated.
- Transparent policies and effective laws which are consistent with international norms are key to a favourable investment climate.

[39] http://www.paclii.org/ws/legis/consol_act/fia2000219/
[40] https://www.wto.org/english/tratop_e/tpr_e/s386_sum_e.pdf
[41] https://www.imf.org/en/Publications/CR/Issues/2021/09/14/Vanuatu-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-465820

9. Key Avenues of Opportunities

There is no denying that, Bangladesh will need to address the across-the-board and specific challenges as well as resolve institutional deficiencies mentioned in the previous sections. Notwithstanding that, there are some key avenues which can play pivotal roles in private investment expansion strategies in the post-LDC era. This section highlights some key avenues that Bangladesh should emphasise more as a strategy to strengthen and mobilize robust private sector investment growth.

9.1. SEZs can be the game changer

Special Economic Zones (SEZs) are geographically delineated 'enclaves' in which regulations and practices related to business and trade differ from the rest of the country. SEZs, with their exclusive legal framework and specialized provisions, can further facilitate investment by providing bypasses to unwanted procedural delays. The government of Bangladesh has aimed to establish 100 SEZ (Special Economic Zone) countrywide by 2030 to promote growth-accelerating industrialization, and decentralization and to generate 10 million employment and an additional $40 billion in export (BEZA, 2021). Besides, these SEZs are also supposed to bridge the regional disparities among different regions of the country. Currently, BEZA (Bangladesh Economic Zone Authority) has approval for 97 SEZs. Among these, 68 are government EZs and 29 are private EZs. According to BEZA Brochure 2021, there are 26 industries currently operating under the Bangladesh Economic Zone Act of 2010 and 31 are under construction. These SEZs provide various incentives and opportunities to local and foreign investors including tax exemption, duty-free imports, and repatriation of earned dividends etc. From 2011 to 2021, the SEZs received a total of $3.9 billion in private investment. SEZs acquired 1500 acres of land and $407 million of on-site and off-site infrastructure development. These also helped create 41,000 jobs, among which 24% are female workers. Major potential investment sectors in the special economic zones are- garments and garment backward linkage industries, agro-products and agro-processing industries, integrated textile, leather and leather products, food and beverage, light engineering etc.

SEZs can be categorized into six types. (i) EZ established through a public-private partnership, (ii) Private economic zones established individually or jointly, (iii) Government economic zones, (iv) EZ under government-to-government (G2G) agreements, (v) Special economic zones for specialized industries or commercial organizations, and (vi) EZ established in collaboration between different government organizations or authorities. BEZA is currently developing two flagship projects. One is ‘Bangabandhu Sheikh Mujib Shilpa Nagar’ in Chittagong and Feni, and the other one is ‘Moheshkhali Economic Zone’ beside the Bay of Bengal. Besides some G2G SEZs are also being established with bilateral agreements. These are- the Japanese Economic Zone, with potential sectors of light engineering, automobile, chemical, textile etc., the Chinese Economic Zone with potential sectors of pharmaceuticals, automobile assembly, textile and garments etc., and the Indian Economic Zone with potential sectors of agro-processing, automobile assembly, chemical, etc. BEZA has one-stop service facilities to provide 125 services among which 48 are online. These services include project clearance, land allotment, visa assistance and many other things.

The government of Bangladesh is providing a wide range of incentive packages to unit developers and investors in the SEZs. Investors in the SEZs will get income tax exemption for 10 years except for some specific sectors. There are also income tax exemption facilities on earned dividends, royalties, and capital gains for investors. Investors in the SEZs can import capital machinery and construction materials (without some exceptions) duty-free. They will also receive exemptions on custom duty, regulatory duty, VAT, supplementary duty etc. Foreign investors can receive residency and even citizenship with an adequate amount of investments in the SEZs.

SEZs may produce benefits that are both static and dynamic. Static benefits include the creation of job opportunities, a boost in exports, and a rise in tax revenues. The improvement of skills, innovation, technology transfer through FDI, and economic diversification are all examples of dynamic advantages[42]. According to various kinds of literature, the results of the SAM simulation indicate a promising outlook in terms of both output and employment for SEZs. The SEZs will boost the export-oriented growth and the GDP is expected to rise by 5%, with a 3% growth of output from the north-west and south-west regions of Bangladesh[43]. There will be a change in poverty rates in these regions as well. Besides, additional jobs will be created in these regions with a significant boost in the number of female employees. If SEZ leads to a doubling of investments, national GDP will rise by 2.35%, while generating 1.75 million jobs and reducing poverty by 1.71%.

According to SANEM (2022), through actual investment, activity output for SEZs and STPs may rise by 3.09% and 0.05% respectively. Out of overall increased activity output, 35% will be direct and 65% will be indirect. The actual investments have the potential to generate a total of 1.85 million jobs. Among the total 1.85 million to be employed, there will be 1.36 million males and 0.49 million females. The highest number of jobs will be generated in the service sector, estimated to be 0.80 million jobs, followed by the agriculture sector (0.78 million). With respect to skill categories, the number of low-skilled jobs will be highest at 1.10 million, followed by medium and high-skilled jobs, respectively at 0.66 million and 0.09 million. Most of the jobs will be concentrated in rural areas (72.7%).

The major challenges of reaping the benefits of the SEZs ranges from weak infrastructure to poor business environment. According to reviewed literature and stakeholder consultation, land acquisition and land development for the SEZs were reported as one of the most time consuming part of the projects. Moreover, coordination among the different departments and bodies of the government, such as, utility (electricity, gas, and water), roads and highway, department of environment, ministry of industries, etc., is often highlighted an area for further development. Addressing these challenges, BEZA, in collaboration with BIDA and other major government bodies, need to ensure that all the SEZs become fully functional within the aimed timeline.

Furthermore, the existing quality of the ports would not be conducive to the robust utilisation of the SEZs. The government of Bangladesh has already undertaken several projects in

[42] ibid
[43] https://www.pri-bd.org/economy/can-special-economic-zones-promote-inclusive-growth/

improving the existing seaports and developing a deep seaport in Matarbari. Effective and timely operationalisation of these ports would be crucial to the success of the SEZs. Not only that, connectivity to the port from the SEZs need to be frictionless as well.

In addition to these, the sector specific and across-board challenges mentioned earlier needs a careful address with targeted policies, as they are very much relevant to the effective operationalisation of the SEZs and turning them into growth centres of private investment in Bangladesh. In this respect, the government of Bangladesh must ensure that the SEZs are effectively and efficiently managed once they start to operate.

9.2. Ongoing infrastructural megaprojects

Bangladesh has recognised access to infrastructure services as a significant factor in boosting the economy[44]. In line with that, Megaprojects are large-scale initiatives taken by the government. Bangladesh has started several essential projects involving numerous public and private investors. These large-scale infrastructure projects work as a driving force behind the acceleration of economic growth for a developing country like Bangladesh. These initiatives are crucial in improving the nation's infrastructure, including communications, transportation, and the overall system, which results in broad advances in the economic, social, and ecological spheres.

They act as the cornerstone for promoting sustainable growth throughout the economy. The construction and operation of these projects result in multiplier effects and direct contributions to economic and social advancements. First, megaprojects provide vital infrastructures addressing production, societal material and cultural demands, and ecological needs. In addition, their creation and operation result in collective effects that drive economic expansion. The development and operation of megaprojects, in particular, significantly increase employment opportunities and promote social stability.

Impact of Megaprojects on Private Investment

The mega projects in Bangladesh are not only reshaping the nation's infrastructure but are also significantly influencing private investment in the country. The mega projects are not only catalysts for economic growth and development but also magnets for private investment. The opportunities span a wide range of sectors, from transportation and energy to trade facilitation and urban development. These projects are positioning Bangladesh as an attractive destination for both domestic and international private investors, contributing to the nation's continued progress and prosperity.

Here, we highlight the key impacts of these projects on private investment.

Enhanced Economic Connectivity: Mega projects like the Padma Multipurpose Bridge and the Chittagong-Cox's Bazar Railway Link are creating seamless transportation networks, facilitating trade, and connecting previously isolated regions. Private investors see these developments as promising opportunities to invest in industries related to logistics, tourism,

[44] BIDA,2021

and infrastructure. The improved connectivity is not only attracting local investment but also garnering interest from international investors seeking to tap into Bangladesh's expanding market.

Improved economic connectivity, as facilitated by mega projects, is crucial for private investment because it opens up new markets and business opportunities. When regions that were previously difficult to access become readily available, private investors can tap into previously untapped consumer bases and markets. The expansion of transportation networks, such as the Padma Multipurpose Bridge and the Chittagong-Cox's Bazar Railway Link, not only reduces logistics costs but also enables more efficient distribution of goods and services. This ease of access fosters an environment where private businesses can expand their operations and reach a wider customer base, making investments in sectors like logistics, tourism, and retail more attractive.

Energy Sector Growth: The growth of the energy sector, as exemplified by projects like the Rooppur Nuclear Power Plant and Matarbari Power Plant, is instrumental for private investment due to its direct impact on the cost of doing business. Private investors are keen to participate in energy projects as they offer the prospect of reliable and cost-effective power generation. A stable energy supply reduces operational costs for businesses, making investments in manufacturing, industrial processes, and technology more appealing. Additionally, the development of cleaner energy sources aligns with global sustainability trends, attracting environmentally-conscious investors.

Trade Facilitation and Ports Development: Trade facilitation projects, such as the Matarbari Deep Sea Port and Payra Sea Port, play a pivotal role in attracting private investment. These projects reduce trade bottlenecks and enhance import and export activities, making Bangladesh more competitive in the global market. Private investors, particularly those involved in shipping, warehousing, and logistics, see these developments as opportunities to expand their operations and create efficiencies in the supply chain. Additionally, the expansion of ports, as demonstrated by the ongoing development of Payra Sea Port, creates new investment prospects for businesses looking to participate in the burgeoning trade ecosystem.

Urban Development and Infrastructure: Urban development and infrastructure projects like the Hazrat Shahjalal International Airport Terminal 3, Karnaphuli Tunnel, and Dhaka Metro are enticing for private investors, especially those engaged in real estate and construction sectors. These projects not only enhance the quality of life for urban populations but also stimulate economic activity. Improved urban infrastructure fosters real estate development, creating investment opportunities in residential and commercial properties. Furthermore, the development of modern transportation systems, like metro lines, reduces congestion, making cities more attractive for businesses and residents alike.

Regional Connectivity and Economic Growth: Regional connectivity projects, such as the Padma Rail Link, are important for private investment because they promote economic growth and regional integration. By reducing the distance and time required to transport goods and people between regions, these projects open up new markets for businesses. They make investments in various sectors, such as agriculture, manufacturing, and trade, more appealing due to increased accessibility and reduced operational costs. Additionally, regional connectivity projects contribute to GDP growth, creating a favorable business environment for private investors.

Enhanced economic connectivity, energy sector growth, trade facilitation, urban development, and regional connectivity are all important for private investment because they expand business opportunities, reduce operational costs, improve access to markets, and foster economic growth. These aspects collectively make Bangladesh an attractive destination for private investors seeking to capitalize on the nation's development and progress.

9.3. Development of economic corridor

As the country embarks on the subsequent stage of its economic advancement, the benefits derived from inexpensive labour and preferential market privileges could diminish, potentially impacting the competitiveness of conventional labour-centric manufacturing sectors. To ensure the continuity of economic expansion and secure the successful culmination of this graduation process, Bangladesh must undertake an extensive initiative for structural transformation. This initiative should prioritize the promotion of comprehensive, fair, and sustainable economic growth, thereby fostering inclusivity and equity.

Hence, in response to these challenges, Bangladesh requires a comprehensive developmental approach that will effectively promote structural transformation and enhance well-being across diverse regions. The Bangladesh Economic Corridor (BEC) emerges as a prime example of an all-encompassing developmental instrument that not only amplifies infrastructure but also fosters the expansion of industries, generates employment opportunities, establishes links between production hubs and urban and social clusters, and decentralizes the process of development. An economic corridor is composed of three interdependent elements: (i) a trade and transportation pathway; (ii) clusters of production facilities that manufacture goods for both domestic consumption and international trade; and (iii) urban centres serving as primary markets for products originating from the production centres, as well as for goods imported through international gateways. These urban centres also serve as sources of labour, technology, support services, knowledge, and innovation.

Presently, the northeast and southwest regions of Bangladesh stand out as significant areas of underdevelopment. Therefore, to establish comprehensive, balanced, and enduring progress throughout the entirety of Bangladesh, the concept of the Bangladesh Economic Corridor (BEC) has been conceived. This corridor is envisioned to span from the southwest region (Khulna division) to the northeast region (Sylhet and Mymensingh divisions) via Dhaka, to ensure uniformity. The scope of this economic corridor encompasses 14 districts, encompassing around 34% of the entire population. Alongside its substantial population coverage and geographic reach, the corridor region boasts strategically advantageous geographical locations.

Within the BEC region, eight principal trade gateways emerge: Mongla seaport, Payra seaport, Benapole land port, and Bhomra land port in the southwest, Akhaura land port, Tamabil land port, Bibirbazar land port, and Nakugaon land port in the northeast. Presently, Mongla and Payra seaports facilitate maritime trade connections with the global market, collectively accounting for approximately 11% of international seaborne trade. Simultaneously, the land ports within the region serve as pivotal trade conduits with India, contributing significantly to the Indo–Bangladesh trade, which currently constitutes 36% of the total trade volume.

Despite their advantageous strategic positioning and resource abundance, the southwest and northeast regions have, thus far, been unable to fully harness their natural benefits due to insufficient transportation infrastructure within their interiors and inadequate connectivity with the vital trade gateways. The absence of bridges at significant river junctions necessitates ferry crossings, resulting in prolonged travel times and escalated freight logistics expenses. The trade gateways within the corridor region, encompassing road, rail, and inland water transport, encounter limitations in terms of capacity, including shallow drafts and inadequate cargo facilities, as well as deficiencies in physical and educational infrastructure.

To foster even and decentralized development, the formulation of the Bangladesh Economic Corridor (BEC) revolves around bolstering industrial, transportation, and social infrastructure. The BEC seeks to cultivate competitive industries that align with global value chains, engender employment opportunities, and modernize infrastructure following the future necessities of urban and social clusters. As a consequence of these efforts, the collective output within the entire economic corridor region is projected to surge from $32 billion in 2020 to $286 billion by 2050. Projections indicate that the corridor will generate an additional 2.3 million jobs by 2025, which will progressively expand to 40.7 million jobs by 2050. Consequently, the total employment opportunities generated within the corridor region are anticipated to reach 15.7 million by 2025 and a substantial 71.8 million by 2050.

Beyond the enhancement of infrastructure, the implementation of an effective corridor management framework is essential. Under this proposed structure, institutions like BEZA, BEPZA, and BHTPA would assume responsibility for the planning, development, and management of node infrastructure. Meanwhile, various line departments would be tasked with the planning, development, and management of trunk infrastructure. To ensure seamless coordination among the diverse involved agencies, the Bangladesh Investment Development Authority (BIDA) would incorporate additional representation from crucial line ministries such as the Ministry of Road Transport and Bridges, the Ministry of Railways, the Ministry of Shipping, and the Ministry of Civil Aviation and Tourism into its Governing Board. To stimulate investment within the BEC region, collaborative efforts by BIDA, BEZA, BEPZA, and BHTPA could involve the identification of specific target groups of potential investors, both domestic and foreign, based on distinct sectors, business functions, and geographical locations. Ongoing engagements with industry associations, trade bodies, bilateral chambers of commerce, and diplomatic missions could help identify promising leads for potential investors across various sectors. BIDA could also arrange annual roadshows and business summits, creating platforms for government-to-government interactions, government-to-business meetings, and business-to-business collaborations. These summits would facilitate presenting trade and investment propositions to BIDA, BEZA, BEPZA, and/or BHTPA.

To effectively embrace technology for participation and expansion within global value chains, as well as to enhance industrial processes and support services within the BEC region, a substantial emphasis on human resource development is vital. Furthermore, there's a pressing need to equip the workforce with the skills to adapt to and harness the opportunities stemming from the Fourth Industrial Revolution.

9.4 FTAs will be a step towards the right direction in the post-LDC era

Bangladesh's engagement with Free Trade Agreements (FTAs) is a significant aspect of its trade policy, aiming to enhance market access, diversify its export base, and integrate more deeply into the global economy. Bangladesh has been exploring and negotiating various FTAs, reflecting its evolving trade strategy. FTAs are seen as a tool to open new markets for other sectors, such as pharmaceuticals, IT, and agriculture. Enhanced market access through FTAs can increase the competitiveness of Bangladeshi products in international markets. FTAs could facilitate structural transformation by promoting sectors beyond textiles and garments.

In this context, the studies on Bangladesh's participation and its effects on FTAs give optimistic results. For instance, Moazzem (2014) urges Bangladesh's active involvement in market access negotiations and bilateral free trade agreements, particularly with countries in Southern Africa highlighting the gains of such engagements. Raihan (2011) also looks at employment issues associated with various FTA scenarios. Overall, he suggests that while some sectors may find themselves faced with reduced numbers of employees as increases in imports take place overall, there is more likely to be a net benefit from such agreements.

Bangladesh has completed feasibility studies for signing FTAs or PTAs with 23 countries[45], indicating a broad scope of potential trade partnerships. Bangladesh signed a bilateral PTA with Bhutan in 2020, marking its first such agreement[46].

Discussions are ongoing for FTAs with 11 South-East Asian countries, including Brunei, Myanmar, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. A feasibility study was completed for signing the Comprehensive Economic Partnership Agreement (CEPA) with India, and negotiations are planned to commence. A Memorandum of Understanding (MoU) was signed with China to conduct a joint feasibility study, and China has already granted duty-free market access for 98% of Bangladeshi products. Decisions have been made to start a joint feasibility study with Japan. These agreements have the potential to create jobs and raise income levels, particularly if they stimulate diversified economic activities. However, effectively reaping out the benefits of FTAs require mitigating the underlying challenges mentioned in the previous sections.

[45] https://www.dhakatribune.com/business/commerce/285225/munshi-bangladesh-eyes-ftas-ptas-with-23
[46] https://www.dhakatribune.com/business/economy/275413/pta-with-bhutan-comes-into-effect

10. Policy Recommendations and Time-bound Action Matrix

Based on the discussion and analysis conducted, the following policy recommendations are put forth to address the challenges and harness the opportunities arising from Bangladesh's LDC graduation:

Trade diversification and market access: The government should focus on diversifying export markets and products to mitigate the potential loss of preferential market access. This can be achieved by exploring new markets, negotiating bilateral trade agreements, and enhancing competitiveness through product innovation and quality improvement.

Market penetration related recommendations**:** Providing investors with readily accessible power and gas connections is essential to enhance market penetration. The Bangladesh National Board of Revenue (NBR) needs to avoid inconsistencies when reassessing businesses' prior-year tax returns, which will improve investors' impression on the investment situation. Expedited clearance of raw materials, facilitated by efficient port handling and custom procedures as recommended in logistics development plans, is also critical. Simplifying visa policies will alleviate the challenges associated with approval and renewal processes. Finally, ensuring access to modern trade financing options like letters of credit, bank guarantees, trade credit insurance, factoring, and supply chain financing is imperative for smooth business operations.

Support for export-oriented industries: Providing targeted support to export-oriented industries, will help them adapt to the changing trade dynamics. This can include facilitating access to finance, promoting technology adoption, and offering training and capacity-building programs to enhance productivity and competitiveness. Support should also be extended to the pharmaceutical industry, as it would be one of the most affected sectors. The support should include the dissemination of information. For instance, what challenges the sectors could be facing, what policies will be changed after the LDC graduation, what new rules and regulations the exporters will have to follow, etc. should be well disseminated. A smooth transition will only be possible when businesses have perfect information on the changing circumstances. The government should also provide support to the sectors in terms of capacity building, such as understanding new terminologies, rules, etc.

Enhancing regional economic integration: Bangladesh should actively engage in regional economic initiatives and strengthen cooperation with neighbouring countries, such as India, China, and ASEAN. This can open up new trade and investment opportunities, facilitate technology transfer, and promote regional value chains, ultimately boosting private sector growth.

Bridging the gap in regional connectivity: Bangladesh is not fully equipped yet for regional connectivity, especially in terms of transport connectivity. Bangladesh is stuck in SASEC and BBIN for political reasons. Bangladesh is not being able to fully harness and utilize the regional connectivity potential. Moreover, in-country road transport communication infrastructure has to be ready and needs to be in sync with regional and maritime connectivity in order to make Bangladesh really competitive.

Grabbing the opportunity of being an alternative to the Chinese market: Bangladesh should try to be China + 1 as an alternative to the Chinese market for foreign investors. Skills, productivity, efficiency, functioning institutions, and dispute settlement resolution will be important for attracting such FDIs.

Easier customs clearance: At present customs clearance is very time-consuming and it reduces the competitiveness of the exporters and importers of raw materials. Bangladesh must ensure faster and easier customs clearance.

Trade facilitation related recommendations:
To address these trade facilitation challenges, Bangladesh must take strategic steps. First and foremost, the country should invest in the development of a National Single Window to streamline trade procedures and simplify customs processes. Automation is also crucial, and Bangladesh must establish an automated risk management system to expedite customs clearance and reduce bureaucratic complexities. Moreover, fostering customs cooperation agreements, trade agreements, and enhanced border agency collaboration can significantly contribute to more efficient cross-border trade.

To seize the potential of the logistics sector, Bangladesh should focus on policy formulation, integrated approaches, and efficient terminal operations, ensuring competitiveness and job creation.

In order to address the challenges and improve the efficiency of land ports in Bangladesh, several key recommendations have been put forward by the stakeholders. Firstly, the establishment of a high-level technical advisory committee is proposed. This committee would play a pivotal role in developing a national policy aimed at streamlining the operations of land ports. It would work to define the roles, responsibilities, and collaboration mechanisms of the Other Government Agencies (OGAs) involved in port operations. Additionally, a coordination cell in each of the Border Customs Points (BCPs) would be established to facilitate effective communication and coordination, particularly for the clearance of perishable goods.

Revisions to the Customs Act of 1969 are deemed essential to align with international best practices, such as those outlined in the Revised Kyoto Convention (RKC). These practices include the implementation of procedures like direct release, prior release, and simplified declarations. Furthermore, measures recommended by the RKC, including computerized or Electronic Data Interchange (EDI) Customs systems, Customs risk management systems, and the provision of pre-arrival information, are emphasized for introduction to enhance cargo release processes.

A fundamental transition from manual to digital processes is also advised. This involves the implementation of a single-window mechanism for document submission, streamlining administrative procedures and reducing delays. The extension of the existing e-port management system at the land ports is suggested, providing a more standardized and efficient approach to port management.

To optimize traffic management, the adoption of terminal appointment systems is recommended, enabling importers to schedule the dropping off and picking up of goods. The installation of GPS-based traffic monitoring systems can further enhance traffic management, promoting smoother operations. Similarly, appointment systems for inspection should be introduced to improve efficiency.

The development of cross-border testing and laboratory facilities is highlighted as a critical factor in reducing clearance times. Collaboration through Mutual Recognition Agreements (MRAs) is encouraged in this regard. Harmonizing documentation and facilitating information exchange between customs agencies of neighboring countries are proposed to further enhance operational efficiency. The introduction of a computer-based joint-truck entry system is recommended to expedite the submission of manifests and entries.

Ensuring the maximum utilization of Mutual Recognition Agreements (MRAs) for testing certificates between the Bangladesh Standards and Testing Institution (BSTI) and the Bureau of Indian Standards (BIS) requires raising awareness among relevant stakeholders. Sensitization efforts are seen as essential to ensuring a broader understanding and application of the MRA provisions.

Addressing power outage issues at the BCPs is a priority. A comprehensive assessment of the power situation should be conducted, leading to necessary updates and improvements in power generation systems at these locations. Lastly, the implementation of a demurrage policy is recommended to discourage importers from leaving their consignments unattended at the port, thereby promoting efficient use of port facilities and resources.

Improving customs and logistics issues: An annual logistics system assessment could be conducted to identify bottlenecks and areas for improvement in the supply chain each year and utilizing the findings to implement targeted changes for efficiency. For key logistics processes, lead time should be reduced by 50% by 2025, such as import/export clearance and transportation. Measures like simplified customs procedures under a single window to avail all kind of services and advanced cargo tracking systems such as real time checking and modernized GPS to meet these targets could be implemented. The custom clearance system should be smoothened by reducing the testing services delivery time of BSTI, BCSIR, PQW and DEA in accordance to the international practices. Customs should be fully automated by introducing automated waste management system, real time tracking system, advanced loading and un-loading technology and automated clearance and payment service in the ports. Finally, the integration of various transportation modes (road, rail, water, air) should be promoted to create a seamless multimodal transportation network. Investment should be increased by 30% in infrastructure and technology to facilitate intermodal connectivity.

Designing tariff policies scientifically: It is crucial to identify the efficient import-substituting infant industry correctly, along with accurately determining the rate of protection that it needs during its infancy. For instance, when an industry is operating on a small scale, it might initially face a heavy burden of fixed costs and thus require protection. As it grows out of infancy over time and achieves economies of scale, it will no longer need that protection to stay competitive and hence should not be protected. However, this does not typically happen when tariff policies are not designed scientifically but determined via lobbying. This practice needs to be strongly discouraged.

Furthermore, an online notification system could be established for tariff changes to increase transparency and facilitates timely business decisions. Thus, public awareness and understanding of tariff adjustments will enhance trust and engagement of the private sector.

Tariff Structure Adjustment: To align with the Vision Plan 2041 goals, adjustments could be considered to the tariff structure under the Specific Tariff Policy while addressing the challenges posed by high supplementary and regulatory duties.

Informing and Supporting Domestic Industries: Readily available data and information to domestic industries for informed decision-making is crucial. Abolishing duties and taxes on raw materials and intermediate goods used in export production, making these measures accessible and transparent to facilitate export trade competitiveness is also necessary.

World Trade Organization Standards: Realigning the tariff and tax structure in accordance with World Trade Organization standards to enhance the competitiveness of domestic products in the global market is mandatory. With Bangladesh set to transition to a developing country in 2026, the minimum import price system will need to be phased out.

Phasing Out Tax Exemptions: Including a clear plan and timeline in the policy for phasing out tax exemptions and support measures to balance initial protection of local industries is vital. Estimating the revenue loss due to exemptions and incentives is also important.

Rationalization of Customs and Tax Structures: Enhancing domestic product competitiveness through the rationalization of customs and tax structures is necessary. Encouraging the establishment of new industries by imposing import-level tariffs and providing timely protection to infant industries is crucial.

Protective Duties and Countermeasures: Utilizing the Protective Duties Act of 1950 and the Bangladesh Tariff Commission (Amendment) Act of 2020 to implement time-bound safeguards and countermeasures to support domestic industries is necessary.

Preparations for Free Trade Agreements: Given the slow progress in multilateral trade agreements, signing free trade agreements with trading partners to ensure preferential market access during post-graduation period from the LDC category will be mandatory. Preparing comprehensively, addressing infrastructure, product quality, and human resource capacity, with the new tariff policy as one component of the larger strategy will be important. The country should conduct FTAs with at least 5 countries before graduation. Countries like India, China, Japan, South Korea and Malaysia should be in the priority list for FTAs.

Mixed Tariffs to Combat Evasion: Combat tariff evasion by imposing mixed tariffs compliant with various WTO agreements, allowing for simultaneous levying of specific and ad valorem duties. Consider implementing seasonal tariffs on locally produced agricultural products to address fluctuations in imports and domestic supply.

Providing support according to WTO rules: Many sectors will require new types of support, which should be provided according to the WTO rules. The private sector will have to find efficient alternatives to the support that cannot be given due to WTO rules. Detailed planning is required to address these issues

Strengthening the capital market: Despite notable progress in strengthening Bangladesh's capital markets, significant constraints persist, including inadequate staffing within the Bangladesh Securities and Exchange Commission (BSEC) and the absence of an effective information and communication technology (ICT) system. Moreover, the demutualization process of the Chittagong and Dhaka Stock exchanges remains incomplete, institutional investors' participation in the capital market is limited, and there is a shortage of equities along with an illiquid bond market that has inadequate corporate bonds. Furthermore, the absence of alternative financial instruments like derivatives and sukuks (Sharia-compliant bonds) further adds to the challenges faced (ADB, 2022). Improving the functioning of the capital market, including the stock exchange, is essential to mobilize domestic savings and attract investment. Measures such as enhancing transparency, improving regulatory frameworks, and promoting corporate governance practices will instil confidence among investors and facilitate the flow of capital into the market.

Reformation of the banking sector: The banking system needs to be reformed to reduce the cost of funds. It needs to be more accessible for the SMEs. The collateral requirements for SMEs should be lowered. Moreover, the Banking sector needs an overhaul transformation to stop financial malpractices and the spreading of NPLs.

Enhancing access to finance: The government should prioritize initiatives to enhance access to finance, particularly for small and medium-sized enterprises (SMEs). This can be achieved through the development of specialized financing programs, simplified loan application processes, and the establishment of credit guarantee schemes to mitigate risk for lenders. Furthermore, a pilot program providing a grace period before repayment for SMEs can be initiated.

Supporting SME sector growth: Recognizing the importance of SMEs in driving economic growth and employment generation, specific policies should be implemented to address the challenges faced by this sector. This includes providing targeted financial support, facilitating access to technology and markets, and offering business development services to enhance their competitiveness.

Capacity enhancement should be a priority, with a focus on training, education, and awareness programs to empower SMEs on the demand side. Streamlining the access to finance, simplifying loan application processes, and reducing requirements will facilitate easier access to financing for SMEs. On that note, a specific program to address the book-keeping issue of SMEs can be launched. Additionally, initiating “rules of thumb” training focused on simple guidelines for financial decision-making, such as separating business and personal expenditures, paying oneself a fixed salary, and estimating profits from changes in cash on hand can be helpful.

Support for market access, trade licenses, and documentation is essential for formalization and growth. Export incentive policies should be reformed to make them accessible to SMEs without stringent membership requirements. The collection and analysis of accurate data regarding the contribution of SMEs to the economy and potential export losses due to LDC graduation must be improved.

Policy alignment with the needs and capacities of SMEs, demand-driven policies, and a supportive ecosystem that includes mentoring, skill development, and guidance on accessing credit are necessary. Clear, target-oriented policies with concrete action plans and sufficient budget allocation should be developed. Additionally, reevaluating the SME definition will ensure that policies better suit the needs of small and medium-sized enterprises.

Finally, diversifying exports beyond the RMG sector to include areas like agro-processing, leather, jute, handicrafts, and fisheries will reduce reliance on a single sector and create opportunities for SMEs to thrive in diverse markets.

Promoting research and development: Encouraging research and development activities across sectors will foster innovation, technological advancements, and product diversification. The government should establish research grants, provide tax incentives for R&D investments, and foster collaboration between academia, industry, and research institutions. This is particularly important for sectors such as electronics and electrical products, IT and ITES, pharmaceuticals, light engineering, etc.

In order to do so, the country needs to increase investment as percentage of GDP for R&D to 0.50% from 0.03% (in 2022-23). To put that into perspective, this figure is 0.54% in Vietnam and 0.70% in India. Furthermore, I R&D relief for enterprises could be introduced which will reduce the tax burden to 20%. In absence of profit, such relief can be translated into priority in case of grant availing. Various countries such as Malaysia, Singapore etc. has such tax incentives for R&D efforts of entrepreneurs. Additionally, the country should become a member of the international trademark protection regime, including the Madrid Union, and the Singapore Treaty on the Law of Trademarks.

Mitigating inadequacy of data: FDI data is readily available, but local private investment data poses a challenge; although a survey was attempted in 2010, it proved unsuccessful. This situation results in the misallocation of capital, as investments continue to pour into a saturated sector while neglecting other potentially promising sectors.

To address this issue, we are in the process of introducing a complementary system known as the Investor's Relationship Management System (IRMS). This system aims to gather daily data on incoming investors and details about their investments. A specific module within IRMS is being developed to compile information on the types of investments and their intended destinations.

The difficulty in obtaining cross-country data arises from two main factors: accessibility and the inadequacy of structured data within firms. These challenges underscore the need for innovative approaches, such as the implementation of IRMS, to enhance the collection and analysis of investment-related information.

Strengthening industry-academia collaborations for skill development: Bangladesh needs to strengthen industry-academic collaborations. The syllabus followed in the TVETs needs to be modernized and updated every few years. The practical machinery used in the TVET and technical training centres needs overhauling modifications to cater for the needs of the fourth industrial revolution. The curricula should include a one-year mandatory industry placement. Mitigating the information gap is quintessential to addressing the skill gap issue. GoB prepared TVET development action plan on 2020. Quarterly update of the action plan should be circulated in TMED website.

Ensuring access to skill development initiatives: Currently there is no e-learning TVET in Bangladesh. Establishing e-learning TVET institutions will ensure access for hard to reach areas. Furthermore, a Mobile Learning and Assessment Services Programme should be established to address the inadequacy of TVET access for those in vulnerable communities. The MLAS services will visit communities and provide weekly classes. Also, number of BITAC branches from 5 to all the industrial hubs/clusters identified by Bangladesh Bank SME policy should be increased. Currently there is no e-learning TVET in Bangladesh. Establishing e-learning TVET institutions will ensure access for hard to reach areas. Modifying the entry requirement in informal trainings of DYD in sub district level from class 8 to class 5 and Reducing NACTAR course fee to 50% for female and PWD will ensure greater access for disadvantaged population. In order to implement these actions, the country should Increase its budgetary allocation in education from 1.76% (in 2023) of GDP to 4% of GDP.

Emphasizing cutting-edge skills training: With the change in global trends and needs, new skills are becoming absolutely essential, whereas old skills are becoming obsolete. Building trending skills (both soft and hard) should be prioritized. Bangladesh's vocational training must think beyond the local market. The training should be of a global standard. In addition to that, it is important to understand the market demand for skills both at the local market and at the global market.

Strengthening institutional capacity: Enhancing the capacity of relevant institutions and regulatory bodies is essential to effectively implement policies and ensure a conducive business environment. This includes improving the efficiency and transparency of administrative processes, strengthening intellectual property rights protection, and enhancing the skills and knowledge of government officials involved in investment promotion and facilitation.

Coordination among government agencies: The government must have a well-defined coordination mechanism. Since multiple agencies will be involved, someone or a specific agency has to take the authoritative lead in order to coordinate among all the stakeholders.

Establishment of commercial courts: The number of commercial courts required should be determined based on the volume of commercial disputes and business activities in different regions. A fast-track legal process with shorter timelines could be implemented by determining a fixed timespan for the resolution of commercial cases, reducing delays and promoting timely decisions. Judges with expertise in commercial law should be appointed to preside over these courts, ensuring they have a deep understanding of commercial issues.

***Repatriation related issues*:** To address the repatriation problem, a coherent policy suggestion encompasses several key actions. Regular workshops and seminars are essential to bridge the information gap between investors and Bangladesh Bank. Hiring efficient Chartered Accounting firms can significantly reduce misinformation or discrepancies in balance sheets, notably in comparing FDI and loan details for the same year and company. Stabilizing the foreign exchange market requires controlling the hundi business and unifying the multiple exchange rates in the country. Moreover, aligning the reality of the repatriation process with Bangladesh Bank's guidance necessitates the timely implementation of these guidelines, reducing disparities and streamlining the process.

Policies must be predictable for the business associations: One of the biggest problems for domestic and foreign investors is unpredictability in policies. If the government is undertaking a policy, the policy has to be for a specified period of time during which it will not be altered anymore. Otherwise, the investors cannot undertake strategic risks which demotivate private investment.

Fast and proper implementation of policies: Fast and proper implementation of policies is essential. Single-window, trade facilitation, etc., need to be implemented quickly. From the perspective of FTAs, all stakeholders must be united on a platform to address cross-cutting issues. Sensitization and determining positions on various scenarios in advance are important.

Coordination and better management of the fiscal, monetary and exchange rate policies: At present, Bangladesh actively uses fiscal policies. Monetary policies and exchange rate policies are hardly instrumented to mechanise and promote private investment growth and macroeconomic management. Further coordination between fiscal, monetary, and exchange rate policies is required.

Capacity building of the government: The government must identify the critical sectors where it would require self-capacity development. Some of the key government agencies are the Ministry of Commerce, Ministry of Industry, Ministry of Finance, Bangladesh Bank, National Board of Revenue, the Tariff Commission, the Competition Commission, etc. Each of these regulatory bodies should have adequate preparation to understand where Bangladesh would need to change policies, how to effectively implement the changed policies with minimal disruptions in private sector investment, etc.

Infrastructure development: Investing in infrastructure development, including transportation, logistics, energy, and digital connectivity, is crucial to creating an enabling environment for private investment. On that note, 24/7 electricity supply in industrial areas may be ensured by incorporating at least 20% solar and 20% renewable energy with existing electricity sources. The government should prioritize infrastructure projects, ensure their timely implementation, and encourage public-private partnerships to leverage resources and expertise. Private investment growth would largely depend on the timely and cost-effective implementation of the mega infrastructural projects. The recent and spectacular expansion in infrastructure projects has the potential to deliver significant economic development impacts, alleviating some key binding constraints, in terms of power, transport and connectivity. Yet, there is a need for significant improvement in the management and avoidance of rent-seeking behaviour which makes those projects notably costlier and delayed than they should have been.

Proper utilization of SEZs and trade facilitation: Special Economic Zones (SEZs) will be helpful to attract FDI and reach out to global and regional opportunities. Therefore, the government must ensure proper implementation of the envisaged 100 SEZs. To achieve this target, the country should operationalize at least 20 SEZs by 2025 and another 40 SEZs by 2030 with proper facilities including uninterrupted electricity, gas and water supply. Establishing at least 5 joint ventured such as public-private SEZs may ensure efficiency and productivity throughout the process by 2025. Besides, the land acquisition process could be smoothened out by creating a dedicated conflict resolution mechanism to address land disputes and conflicts promptly. Land prices should be competitive with other countries. Furthermore, record-keeping process of land management should be digitalized. Planned SEZs in southern-parts of Bangladesh should be implemented immediately on a priority basis.

Continuous monitoring and evaluation: Regular monitoring and evaluation of policy measures and their impact on private investment are crucial for informed decision-making. The government should establish a dedicated monitoring framework to assess the effectiveness of policies, identify bottlenecks, and make necessary adjustments to ensure their successful implementation.

Need for dynamic policy reforms: The transitions and changes upon LDC graduation for a vast economy like Bangladesh are unprecedented. Therefore, Bangladesh might face many new challenges that have never been faced by other graduated LDCs. In this circumstance, Bangladesh needs to be ready to show flexibility in changing trade-related rules, and regulations. Therefore, the policy reforms should be dynamic enough to cater to circumferential and exceptional incidences. This should be integrated into the continuous monitoring and evaluation framework.

Sectoral recommendations:

Agro-processing sector: BECR1997 needs to be updated with standards for pesticide contamination or adopt MRLs in conjunction with EU Water Framework Directive. Sharing yearly update of actions mentioned in Bangladesh Strategic Plan on Agricultural and Rural Statistics (SPARS) on BBS website is mandatory. Exemption of tariffs on the import of packaging materials might be beneficial. Using PPP method to finance for project which will set up cold storages and increase the capacity is required. Increasing the budgetary allocation of BSTI, BCSIR, Plant quarantine wing, BAEC, Animal quarantine wing, etc. and other standard agencies is necessary.

Leather sector: Quarterly status of the implementation of the action plan of LLG Development Policy 2019 should be shared on the MoI website. Introducing concessional loans to the firms having in-house ETP will be helpful. 50% of upgradation/installation of Common Effluent Treatment Plants (CETPs) project cost should be provided by GoB (In India 70% is provided., also Goods and Service Tax concessions for CETPS is 18 to 12%). Special incentives can be provided to exporters exporting to new markets similar to that of RMG (3% cash assistance).

Light engineering sector: Setting up Common Facility Center (CFC) in 34 LE clusters is required. Currently 2 have been proposed by SME foundation. The CFCs should have facilities of metal testing, CNC training and heat treatment. Introducing an international-standard certification system is also required. Mandatory ESQ compliance training tailored to workers, mid-level, and management in every LE cluster. Training certificate will be used to get loans on a priority basis. Updating the website of BPC including sectoral BPCs will be helpful. Establishing a database with detailed information on compliance requirements on ESQ issues will reduce the information gap.

Pharmaceutical sector: Establishing internationally accredited drug testing laboratories and bioequivalent testing facilities will be helpful. Providing concessional loans to set up biosimilar manufacturing facilities will also help. Developing a national action plan to prevent, detect and respond to substandard and falsified medical products is required. According to the Drugs and Cosmetics Act, 2023 now the API producers will need clearance from department of Narcotics which requires 15 additional documents from several government bodies and it may take as long as six months. Digitalization of this process will shorten waiting period for production of API. Providing adequate gas connection at the API industrial park is mandatory. Building a team with legal experts, pharmaceuticals industry and public health advocates to participate in TRIPS negotiations and formulate the negotiation strategies will be crucial.

RMG sector: Targeted policies to encourage expansion of the backward linkage industries is needed. Making a separate lane for the export-import procedure at Chittagong port will be beneficial.

ICT sector Making the EEF effective will ensure better access to financial services and subsidized loans. Making the NEIR system functional is mandatory.

Non-leather sector: Reducing dop (dioctyl phthalate) import duty will help the industry. Establishing vocational training programs focused on designing is required. Increasing cash incentive for the export of non-leather footwear from 4% to 10% will be helpful.

In conjunction with the aforementioned broad policy recommendations, this study also prepares an action plan to be undertaken by each key stakeholder for private investment expansion in the context of the LDC graduation (Annex 10). A well-planned and timely executed post-LDC graduation private investment expansion strategy would minimize the negative impacts and enhance the chances of harnessing positive outcomes.

11. Conclusion

The graduation of Bangladesh from the LDC status will have both positive and negative impacts on private investment in the country. The loss of preferential market access, including Duty-Free and Quota-Free (DFQF) access and LDC-specific special treatment, may lead to a decline in export revenues and pose challenges for exporters, particularly in the clothing industry. The loss of official development assistance (ODA) and access to specialized funds like the Green Climate Fund (GCF) could hinder investment in sectors requiring financial support.

However, there are also potential opportunities that arise from LDC graduation. Increased FDI may be attracted to Bangladesh as it gains credibility and becomes a more favourable investment destination. A better credit rating and easier access to foreign loans could facilitate investment and improve the overall business environment. Additionally, Bangladesh's potential for regional market opportunities, especially through closer cooperation with neighbouring countries, can create new avenues for private investment.

To fully capitalize on these opportunities and mitigate the challenges, several policy measures need to be considered. These include strengthening the investment climate, improving infrastructure, enhancing access to finance, promoting technology adoption, and streamlining regulatory processes. Supporting small and medium-sized enterprises (SMEs) through targeted programs and capacity-building initiatives is crucial for driving private investment and inclusive economic growth.

Furthermore, addressing the weaknesses in the capital market, enhancing corporate governance practices, and fostering an entrepreneurship culture will contribute to a more conducive environment for private investment. Efforts should also be made to expand market access, diversify export markets, and invest in research and market intelligence to enable informed decision-making by domestic investors and exporters.

Overall, navigating the challenges and capitalizing on the opportunities presented by LDC graduation requires a comprehensive and coordinated approach involving collaboration between the government, private sector, and development partners. By implementing appropriate policies and creating an enabling environment, Bangladesh can attract greater private investment, foster economic growth, and enhance its position in the global market.

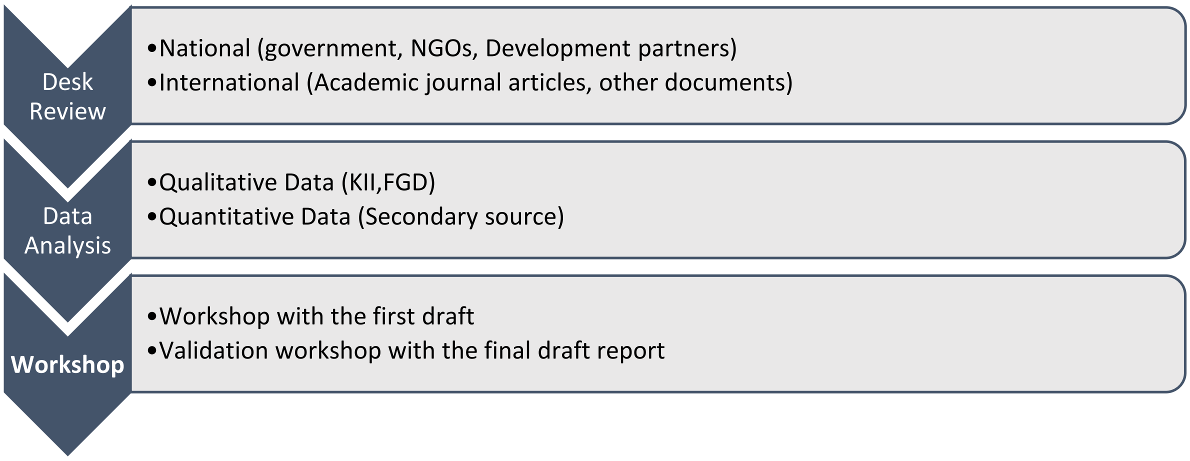
By addressing the identified challenges and leveraging the potential opportunities, Bangladesh can foster private investment, enhance export growth, and strengthen its capital market. This will contribute to sustainable economic development, job creation, and improved living standards for its people.

Annexe 1: Methodology of the Study

This study uses a mixed-method approach where quantitative and qualitative data analysis follows an extensive desk review. The methodology follows a step-by-step framework to accomplish the study's objectives (Figure 30).

The existing secondary sources of works related to the study are reviewed in the form of a "desk review". Quantitative data analysis is based on secondary data from national and international data sources, including grey literature. Qualitative data analysis includes Key Informant Interviews (KII) and Focused Group Discussion (FGD) with the relevant government officials, exporters, importers, associations related to exports and imports, etc. Table 17 shows the mapping of the tools following the objectives of this study.

Figure 30: Methodological approach



Source: Authors

Table 17: Mapping of the tools in accordance with the ToR

Sl	Key study points	Tools
1)	The impacts of the LDC graduation on private investment	Desk review FGD KII with trade experts (academicians) Secondary data analysis(quantitative)
2)	The opportunities that will be created	Desk review FGD KII with the private sector KII with the academic expert
3)	The constraints of FDI and the policy approach and actions;	Desk review FGD KII with the private sector KII with the academic expert
4)	The policy support offered by the graduated, developing or developed countries and how Bangladesh may tap the opportunities	Desk review FGD KII with the government officials KII with trade experts (academicians) secondary data analysis(quantitative)
5)	Analyze the gaps in skills and technology for tapping the opportunities of private investment from both foreign and domestic sources;	Desk review FGD, KII with government officials (NSDA)
6)	Analyze the current situation as well as the challenges of ensuring adequate logistics support and financial support for enhancing private investment and export diversification;	Desk review FGD KII with the private sector (associations) secondary data analysis (quantitative)
7)	Analyze the current status as well as challenges for integrating domestic and foreign investors effectively for synergic investment and development;	Desk review FGD KII with the private sector (associations) Secondary data analysis(quantitative)
8)	Recommend policies, strategies, and supports for enhancing private investments from both foreign and domestic sources, on the basis of all the analyses mentioned above, for expanding the domestic market as well as export diversification;	Desk review FGD KII with the private sector (associations) KII with government officials
9)	Recommend a time-bound action plan with measurable indicators for the implementation of the recommended policies, strategies and supports.	KII with trade experts (academicians), KII with government officials, secondary data analysis(quantitative)

Source: Authors

Desk review

During the desk review, the study team scanned the available literature based on relevant national documents, policy documents, reports, research papers, articles, UN documents, and relevant countries' documents for taking examples or following their industries' success model. Current domestic and international market dynamics, priorities of the actors of the market, and stakeholders are shaped by this review. Some of the important documents included in the desk review are as follows:

1. Government Plan documents (7th Five-Year Plan, 8th Five-Year Plan, Perspective Plan (2021-2041)
2. GED. (2020). Impact Assessment and Coping Up Strategies of Graduation from LDC Status for Bangladesh.

3. UNDESA (2020). Ex ante assessment of the possible impacts of the graduation of Bangladesh from the category of Least Developed Countries (LDCs) Revised draft.
4. Handbook on the Least Developed Country Category. (2021).
5. LDC Portal - International Support Measures for Least Developed Countries, Bangladesh graduation status, UN. (n.d.). United Nations.
6. WTO database on preferential trade arrangements. (n.d.). United Nations. Retrieved January 1, 2023, from http://ptadb.wto.org/
7. WTO. (2022). TRIPS Agreement – Article 66 (Jurisprudence) (Issue June).
8. BFTI. (2023). Identification of trade-related graduation challenges and preparation of sector specific trade roadmaps for overcoming the challenges.
9. World Economic Forum. (2019). Global Competitiveness Report.

Key Informant Interview (KII)

KII is one of the significant qualitative research tools. As a part of the primary data collection (qualitative nature), the study team conducted KIIs with all the relevant stakeholders. The KIIs are helpful for an in-depth understanding of the private investment scenario in various sectors along with identifying gaps in the private investment expansion process, both FDI and domestic private investment expansion process and relevant stakeholders' opinions in mitigating the gaps. These KIIs complement the information gap from the desk research and secondary data analysis. The study team carried out 25 KIIs, 10 KIIs with the related government officials and 15 KIIs with relevant stakeholders in the private investment processes. The KII questionnaires are presented in in Annexe 11 and the list of KII participants is presented in in Annexe 12.

Focused Group Discussion (FGD)

The study team conducted two FGDs. One FGD was with government officials. Another comprised the private sector organization from trade and industry, such as top executives from the leading sectors and associations, development partners, academicians and other relevant stakeholders. The FGD questionnaire is presented in Annexe 13 and the list of FGD participants is presented in Annexe 14.

Descriptive analysis

Descriptive data analysis based on secondary data sources is employed to understand the trends and dynamics between LDC graduation and private sector investment. Private investment behaviour for the LDC and LDC-graduated countries over several years are analyzed to identify the similarity or dissimilarities between these countries. The study also explores the role of critical variables, such as infrastructures (such as logistic performance index, port quality, etc.), in expanding private investment and attracting FDIs for the graduated LDCs.

Annexe 2: The Broad Contexts of Expanding Private Investment in Bangladesh Economy as the Country is Graduating Out of the LDC Status

Bangladesh is substantially different from all other LDCs. Therefore, understanding Bangladesh's growth and macroeconomic trajectory is vital to assessing the private investment expansion strategies in the context of LDC graduation. In this context, this section provides a background to the trend in economic growth and other key macroeconomic variables. This section lays down the background based on which Bangladesh is set forth to graduate from the LDC category.

1. High and stable GDP growth rates put Bangladesh forth on the development trajectory

Once dubbed as a basket case of development, the economy of Bangladesh grew remarkably from $6.3 billion in 1972 to $416 billion in 2021 (Figure 31). The phenomenon is a direct outcome of robust and stable economic growth stretching over a few decades. Bangladesh's economy went through a turbulent phase for the first two decades after its independence (Figure 32). Nevertheless, since 1991, the economic growth of Bangladesh started to pace up. Between 2009 and 2019 (that is, before the Covid-19 pandemic), Bangladesh's economy grew at a rate of 6.5% per annum. The decades-long spells of high economic growth resulted in a rapid increase in per capita GDP, and tremendous improvement in multiple dimensions of social development indicators (such as reduction in poverty, infant mortality, increased years of education, etc.). Despite a fall in GDP growth in 2020 due to the Covid-19 pandemic, the economy is expected to grow by 5.3% in 2023 and 6.5% in 2024.[47]

Figure 31: GDP of Bangladesh (current US$)

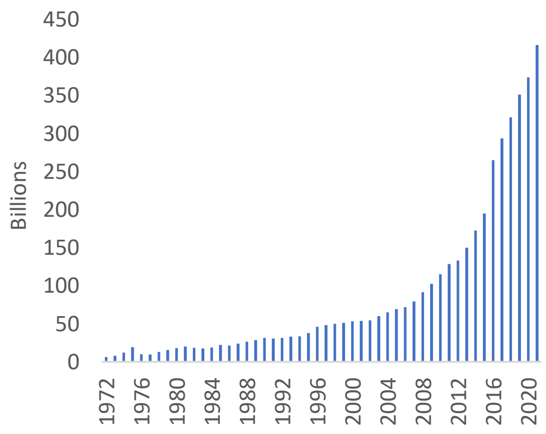
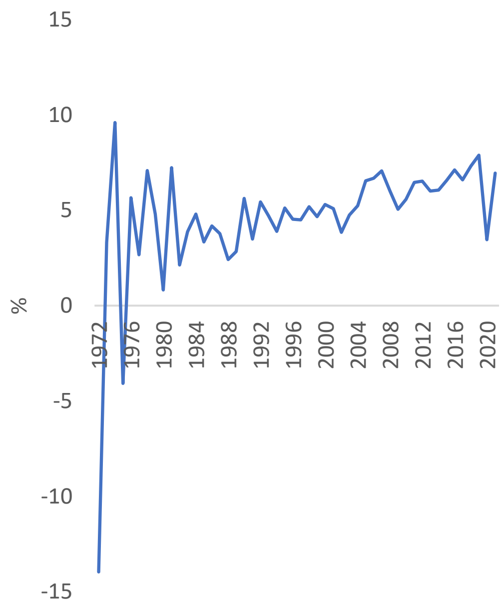


Figure 32: GDP growth of Bangladesh (annual %)

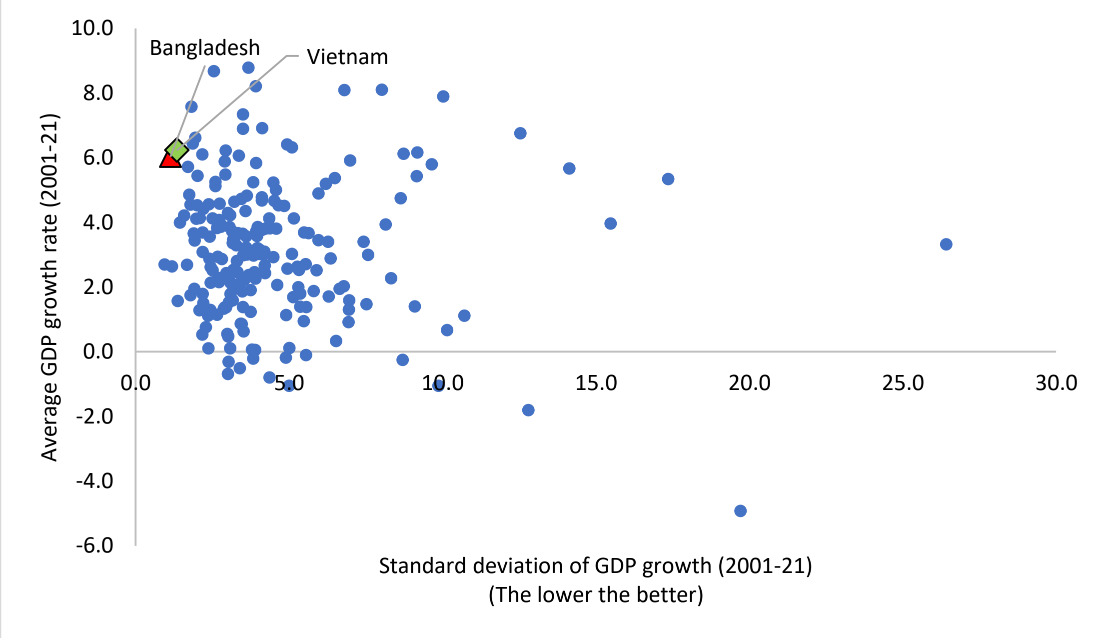


Source: World Bank's WDI database

[47] IMF projections

One of the salient features of Bangladesh's economic growth is its robustness (Figure 33). Very few countries, and no other LDCs, had such a high economic growth stretching over two decades. Such a high and stable GDP growth rate undoubtedly put Bangladesh on a development trajectory ahead of other LDCs.

Figure 33: Bangladesh had one of the most stable high economic growth in the world (2001-21)



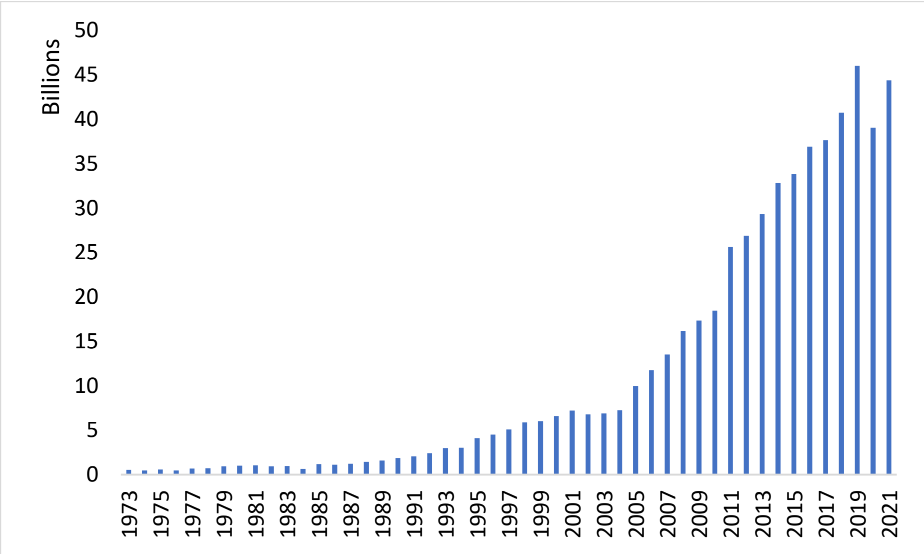
Source: Authors' calculation based on WDI data. Note: The stability in GDP growth is measured with a standard deviation. Between 2001 and 2021, Bangladesh's economy grew at a rate of 6% per annum with a standard deviation as low as 1.1.

2. Export is a key driver of the economic growth of Bangladesh

One of the key sources of Bangladesh's exemplary economic growth is the robust growth in exports (Mamun and Nath, 2005; Shafiullah and Navaratnam, 2016, Kibria and Hossain, 2020; Raihan and Bourguignon, 2020).

After gaining its independence and sovereignty in 1971, Bangladesh took its first steps into the world of international trade in 1972-73. In that year, the export earning was $348.42 million. During the early period after independence, Bangladesh adopted a trade regime with strict controls, characterized by high tariffs, non-tariff barriers, and an overvalued exchange rate (Raihan, 2016). The key objectives of these policies were to safeguard the country's infant industries, reduce the balance of payments deficit, use the scarce foreign exchanges efficiently, ward off the international capital market and exchange rate shocks, lessen fiscal imbalance, and achieve higher economic growth and self-sufficiency of the nation (Raihan, 2016). These policies resulted in low export earnings and a low export-GDP ratio of around 5% until the late 1980s (Figure 34).

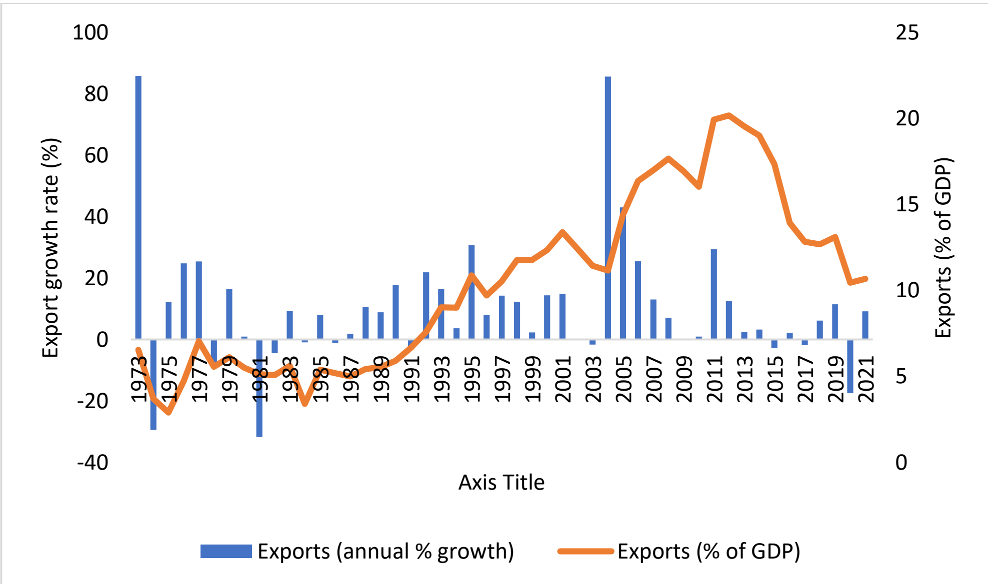
Figure 34: Exports of goods and services (current US$) of Bangladesh



Data source: World Bank, WDI

During the 1980s, the government of Bangladesh introduced New Industrial Policy with a primary focus on privatisation. The changes in the policies promoting private investment, government incentives provided to the RMG industry, as well as Bangladesh's eligibility for benefitting from the multi-fibre agreement (MFA) as an LDC – led to robust growth in the export volume since the early 1990s (Raihan, 2016). The export-led strategy was supported by the liberalization of foreign trade and financial sectors, rationalization of exchange rates, etc. As a result, Bangladesh's exports began to shift towards labour-intensive manufactured goods, and export earnings started to grow at a faster rate. By 1995, exports accounted for 10.86% of GDP which remained around that level for a decade. Bangladesh saw a rapid increase in export growth between 2004 and 2012: the export growth increased from 11% in 2004 to 20% in 2012. Notwithstanding the prudent performance, the export growth has been falling ever since (Figure 35).

Figure 35: Trend of Export growth and export as % of GDP in Bangladesh

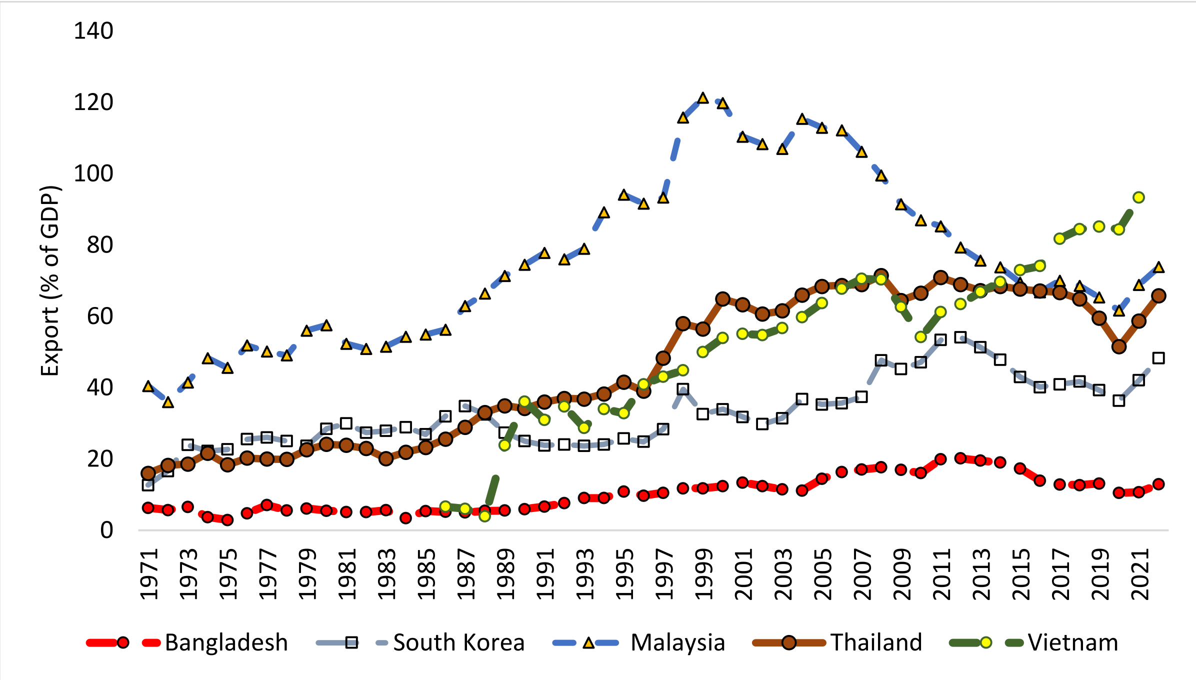


Data source: World Bank, WDI

Note: Export as (% of GDP) is depicted on the right-hand side axis while the export growth rate is depicted on the left-hand side axis on this graph

The falling export GDP ratio is one of the primary concerns on the macroeconomic front of Bangladesh. Such slower growth in the external sector is expected to have adverse consequences on the balance of payments, foreign exchange reserves, and exchange rate policies. Conventionally, economic growth is accompanied by an increase in imports. Particularly, consumer goods imports increase as an economy transits from lower income country to higher income. In this circumstance, robust export growth ensures stability in the balance of payments and foreign exchange reserves. Moreover, prudent export growth is usually accompanied by increased investment and industrialisation, global competitiveness, higher government revenues, and expanded employment and labour market opportunities. To put it in context, comparator East Asian countries such as South Korea, Thailand, and Vietnam had export as a of share GDP less than 15% in the decades of early 70s (Figure 36). However, thanks to robust growth in the private sector investment expansion, all these countries experienced rapid growth in exports as a share of GDP peaking in the late 1980s. Compared to them, Bangladesh's exports (as a percentage of GDP) remained almost stagnant over the years and rather declined in recent years.

Figure 36: Bangladesh's exports as % of GDP in comparison



Source: WDI

3. Concentrated export basket remains a key concern

If compared to the pre-independence period, Bangladesh's export basket has significantly changed over the years. In the early years of independence, jute and jute goods were composed of the majority of the export basket. The export basket started to expand significantly, mainly due to the boom of apparel export since the mid-1980s. The share of RMG in total export increased from around 50% in 1991 to more than 80% by 2010 (Khondker and Uddin, 2021; Raihan, 2020). The single dominance of RMG in the overall export remained relatively unchanged over the years. Knitted and non-knitted clothing accessories have consistently accounted for a significant portion of Bangladesh's exports, ranging from 36% to 47.7% for knitted clothing accessories and from 35.8% to 41.9% for non-knitted clothing accessories (Table 18). Other products in the export basket, such as textiles and footwear made from vegetable textile fibres, paper yarn and fabrics, fish, crustaceans, molluscs, etc. contributed less than 10% to the total export of Bangladesh. Despite having growth potential, sectors like agro-processing, leather and leather goods, plastics, furniture, pharmaceuticals, etc. have faced obstacles and failed to flourish (Hassan & Raihan, 2017; Razzaque, 2020).

Table 18: Export composition of Bangladesh (2002-03 and 2021-22, % of total export)

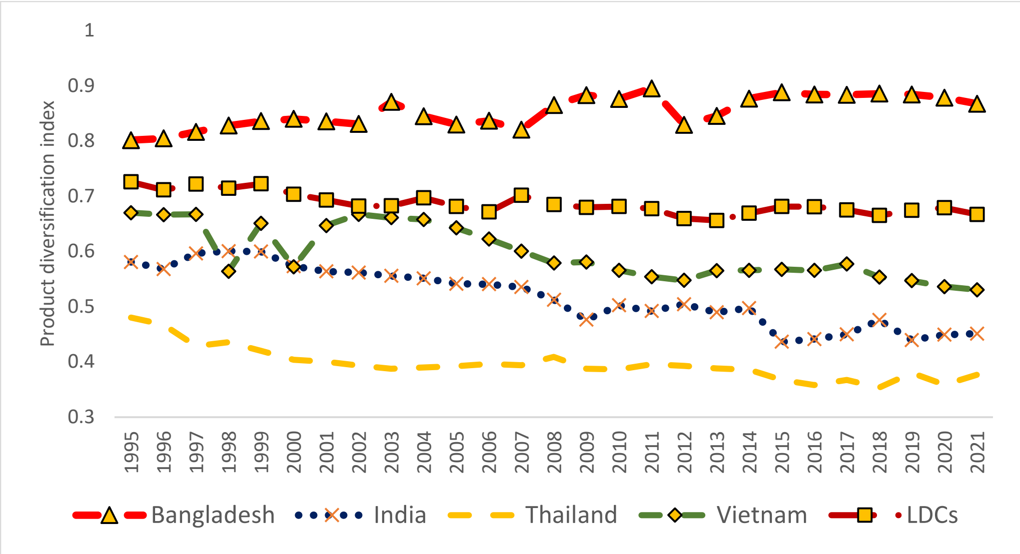
Year	Top Product	% of Total Export
2002-03	Woven garments	49.76
	Knitwear	25.26
	Frozen food	4.91
	Jute goods	3.39
	Leather	2.92
	Fertilizer and chemical product	1.53
	Raw jute	1.26
	Footwear	0.71
	Petroleum by product	0.48
	Agricultural product	0.39
2021-2022	Knitwear	44.57
	Woven garments	37.25
	Other manufacturing commodities	9.24
	Jute goods	1.75
	Engineering products	1.53
	Other primary commodities	1.26
	Frozen food	1.02
	Agricultural products	0.96
	Shoe	0.86
	Leather	0.29

Source: Bangladesh Economic Review 2005, 2023

Products from the RMG sector, such as T-shirts, sweaters, and other knitted items, have been the main contributor to total export earnings, accounting for around 85% of the exports. The top 10 items occupy more than 70% of RMG exports (Raihan, 2020). However, the insufficient diversification in the product base, coupled with relatively low rates of private research and development (R&D) and reinvestment, has hindered the industry from realizing its full potential (Uddin, 2022).

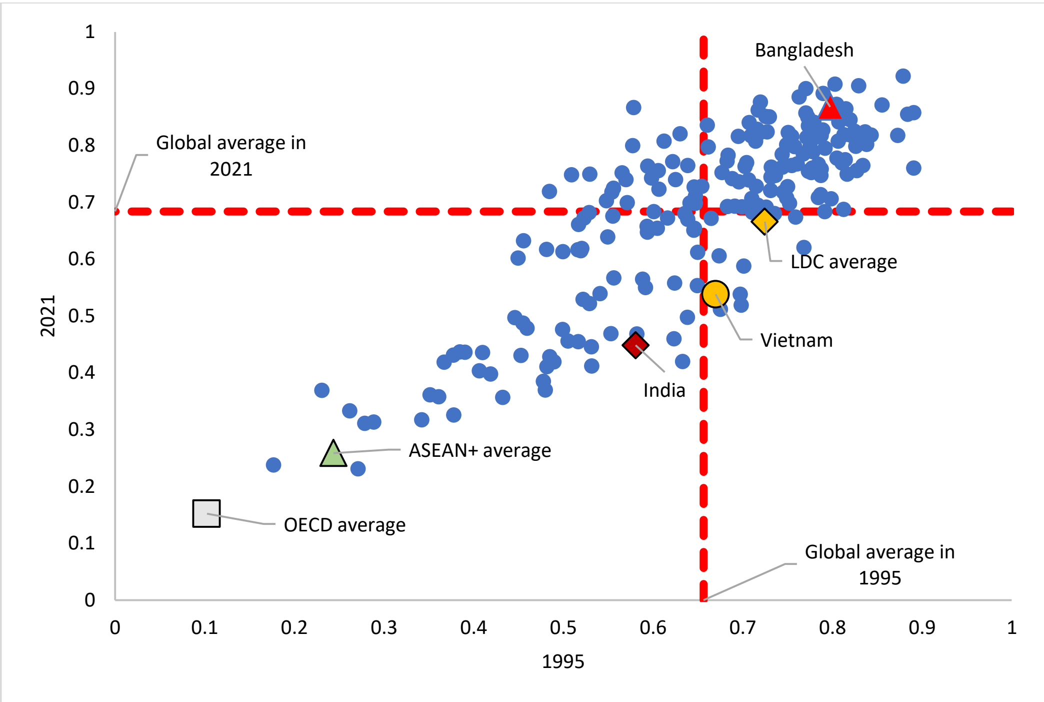
Under these circumstances, Bangladesh’s export concentration has increased over the years - both in terms of market and in terms of products. Based on UNCTAD’s product diversification index, Bangladesh’s export concentration has increased by six percentage points in 2021 compared to 1995 (Figure 37). In comparison, countries such as Vietnam and India had lowered their export concentration by more than 13 percentage points respectively within the same span of time. If Bangladesh is compared with the rest of the world, it remained one of the most concentrated countries in the world between 1995 and 2021 (Figure 38).

Figure 37: Trend of product diversification index of Bangladesh and comparators



Source: UNCTAD; Note: The product diversification index shows to which degree exports of individual economies or groups of economies are concentrated on a few products. The higher the values, the more of the exports are concentrated to a few products, and hence less diversified.

Figure 38: A global comparison of Bangladesh's export concentration between 1995 and 2021

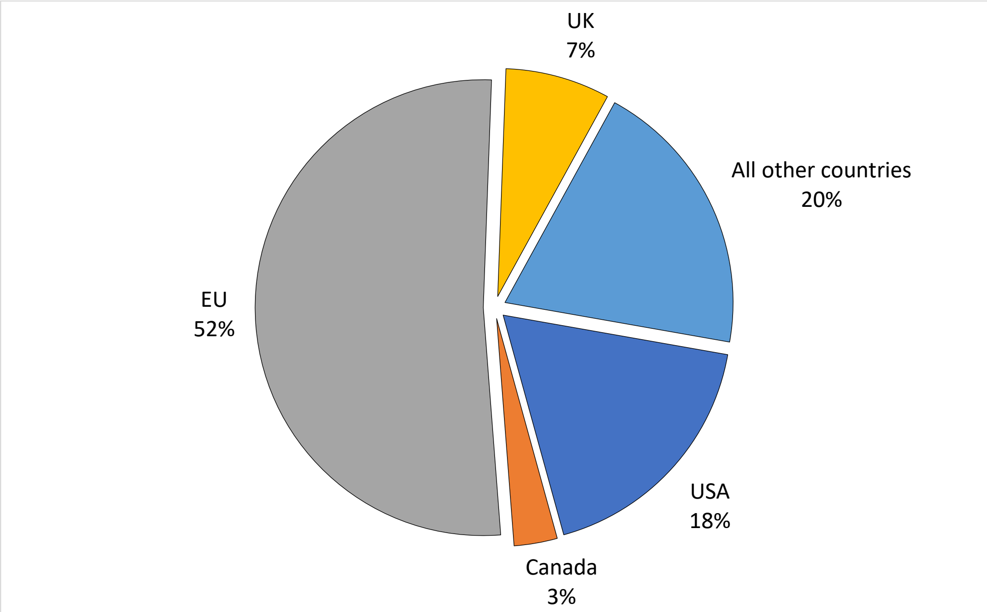


Source: Authors' estimation based on UNCTAD's export product diversification index; the higher the value, the higher the level of export concentration (or less product diversification). ASEAN+ includes ASEAN and China. OECD stands for The Organization for Economic Cooperation and Development and is comprised of developed countries.

This trend suggests three important lessons for Bangladesh. First, despite Bangladesh's success in the RMG, it failed to put forward other major exporting sectors. There is a need to assess why other sectors in the country could not flourish as much as the RMG. What challenges did these sectors face or are still facing? Second, it is important to understand, from the viewpoint of the policy arena, if there were any policy divergences that discouraged domestic investment in the non-RMG sectors. And lastly, it shows, although from the point of view of the external sector, that Bangladesh might have had lower private investment growth compared to the other countries.

It is also important to note that Bangladesh's export markets are highly concentrated, with the EU and North America being the major destinations (Figure 39). In 2022, almost 60% of Bangladesh's total exports were destined for the EU and UK, while North America (USA, Canada and Mexico) accounted for another 21%. Bangladesh's major destinations in the EU include Germany (15.8%), France (7.4%), Spain (6.7%), Poland (5.4%), Italy (3.6%), and the Netherlands (3.1%), amongst others.

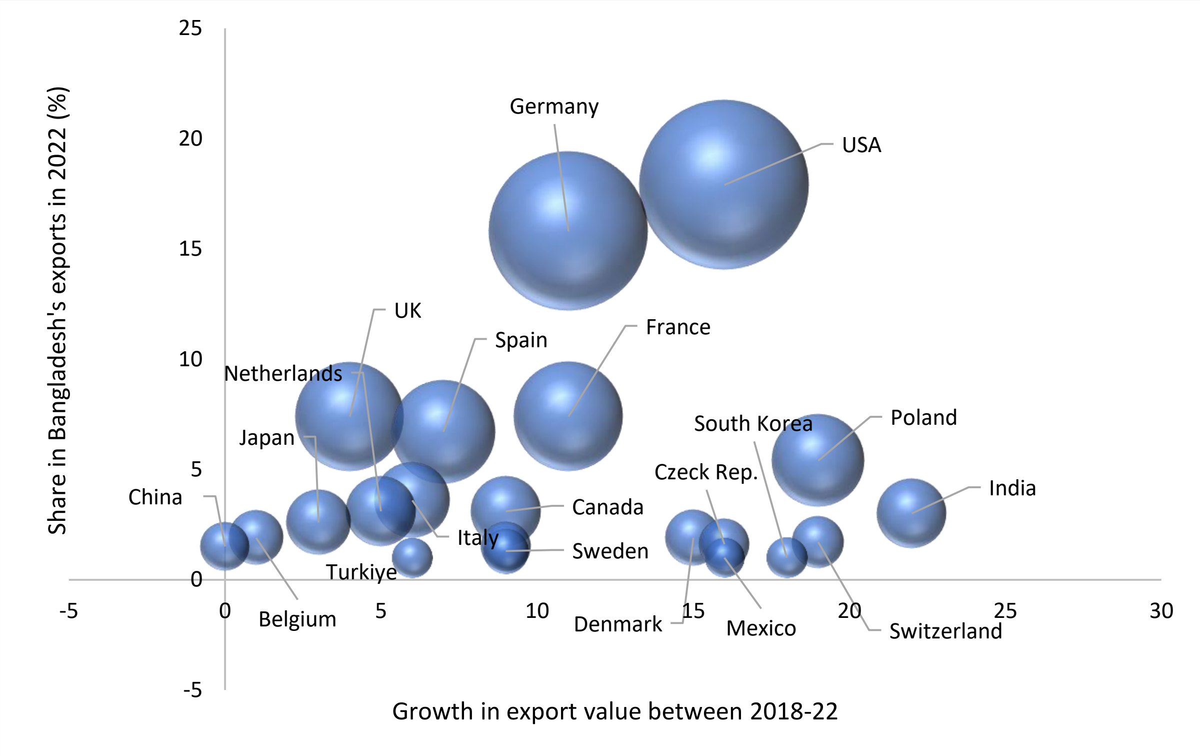
Figure 39: Bangladesh's major export destinations by export share in 2022



Source: ITC-Trade-map

In addition, most of these countries in the EU and North America are also the regions where Bangladesh's exports grew much faster (Figure 40). The only exception to this is India, where Bangladesh's exports grew by 22% between 2018 and 2022. India now accounts for 3% of Bangladesh's total exports. On the other hand, Bangladesh's export growth to China stagnated between 2018 and 2022, which could be partly attributed to the Covid-19 pandemic. Nevertheless, industry insiders suggest that the insufficient product diversification, limited export capacities, and inadequate product standards are the primary reasons behind poor expansion. Since September 2022, China has extended duty-free market access to 99% of Bangladeshi goods, including leather and leather products. Therefore, Bangladesh's all major export items, such as apparel, jute and leather products, light engineering, and frozen fish, are now eligible for duty-free market access in China. However, if Bangladesh fails to diversify, improve the trade logistics, and enhance product quality, it may not be able to fully realize this benefit.

Figure 40: Bangladesh's major export destinations and export growths



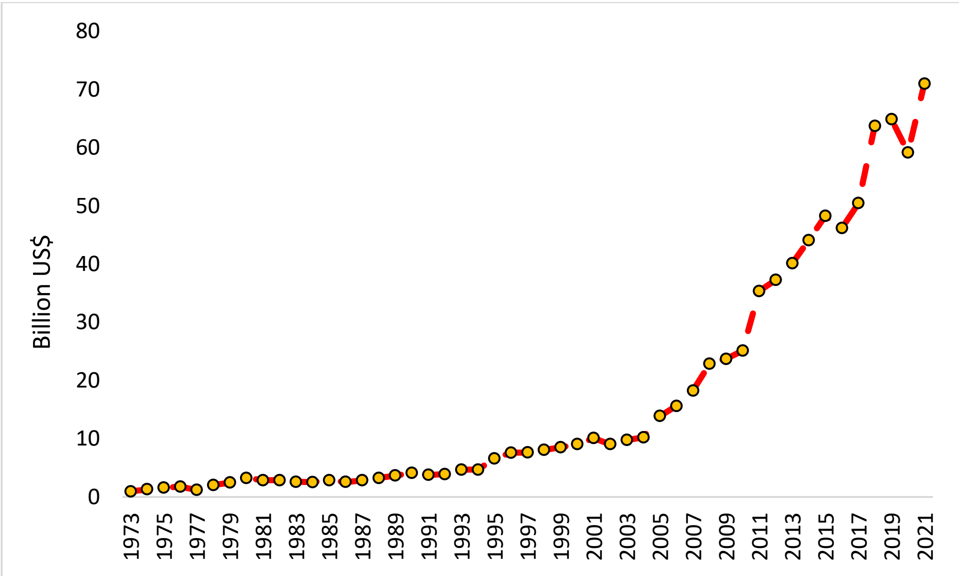
Source: Authors' estimation based on ITC-Trade-map; Note: the graph only includes countries with at least 1% (or more) share in Bangladesh's total exports. The countries in the graph account for 91% of Bangladesh's total exports.

4. Rapid increase in imports, primarily of machinery and capital goods, fuelled the economic growth further

Along with the rise in exports, Bangladesh's total import volume has also risen. In 2021, the total volume of Bangladesh's imports was $71 billion (Figure 41). However, one salient feature of Bangladesh's import trend is that most of Bangladesh's total import has always been industrial supplies or capital machinery (Table 19). For instance, industrial supplies constituted more than 50% of Bangladesh's total imports since 2005, whereas, the share of capital machinery was in the range of 15-20% of total import volume. Government policies such as providing bonded warehouse facilities to the RMG, high effective rate protection incentivising the industries to invest in the domestic market, government's continuous support to the agricultural sector and thereby a robust growth in agro-industrial, etc. all played roles behind this observed phenomenon.

As with the exports, a similar trend in the growth of imports and its share in GDP is observed (Figure 42). The high degree of collinearity between the growth in exports and the growth in imports in Bangladesh can be attributed to the share of capital goods and industrial supplies in the total export volume of Bangladesh.

Figure 41: Trend in import in Bangladesh (current US$)



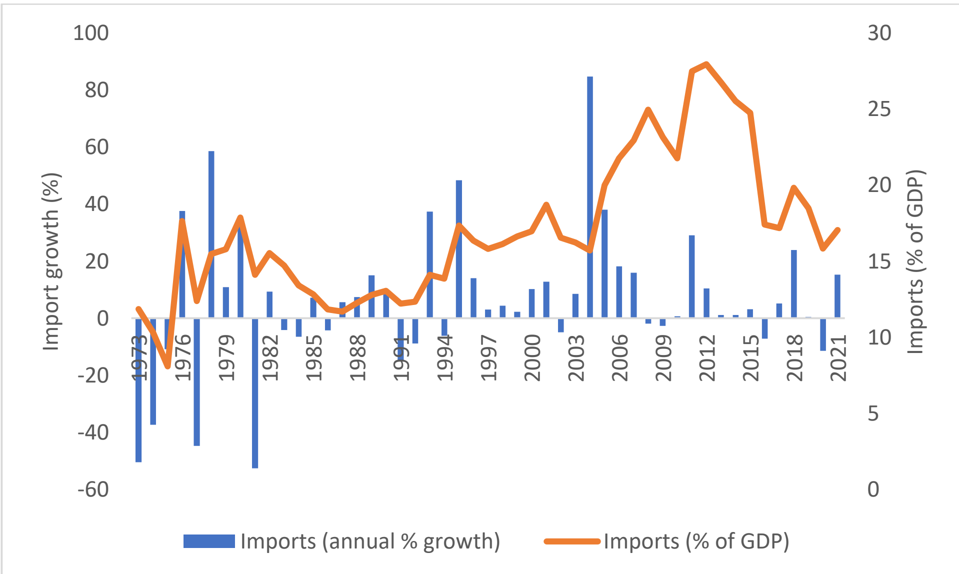
Data source: World Bank, WDI

Table 19: Import trend in Bangladesh by broad economic categories (BEC)

Product	1989	1995	2005	2015	2020
Food and beverages	23.7	16.3	9.3	15.1	15.1
Industrial supplies, n.e.s	43.7	57.8	50.3	51.1	50.6
Fuels and lubricants	11.9	7.6	10.0	10.6	8.2
Capital goods (except transport equipment)	10.3	9.0	21.3	14.9	16.4
Transport equipment and parts and accessories	7.8	4.1	3.9	3.7	4.3
Consumer goods, n.e.s	2.4	5.2	4.9	4.3	5.4
Goods not elsewhere specified	0.2	0.0	0.2	0.3	0.0

Source: Authors' estimate based on WITS database; *Note: n.e.s. stands for not elsewhere specified.*

Figure 42: Import growth and import share in GDP

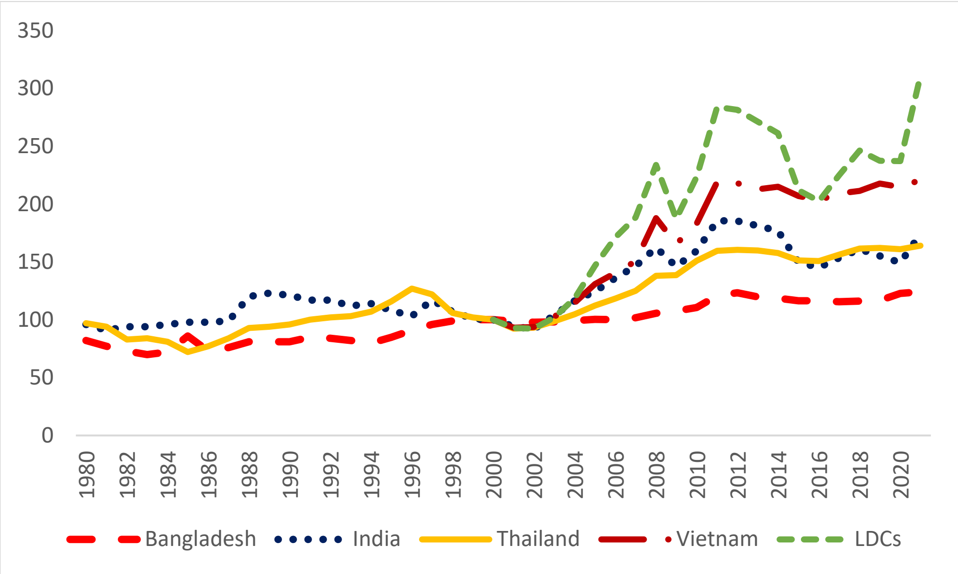


Data source: World Bank, WDI

5. Unit price of Bangladesh's exports remains low in the international market

One of the consequences of high export concentration and insufficient product diversification is that Bangladesh did not have enough breadth to move up the global value chain. As a result, compared to India, Thailand, Vietnam or even the LDC average, Bangladesh's exports did not see a jump in unit prices of exports (Figure 43) and only changed slightly over the years. The average unit price of Vietnam's exports tripled between 2000 and 2021. In contrast, in the case of Bangladesh, the average unit price of exports only increased by 24%.

Figure 43: Trend of unit value index of exports of Bangladesh (base = 2000)



Source: UNCTAD; At the country level, unit value indices are calculated using current year trade values at the SITC Rev. 3, 3-digit level, available at UNCTADstat

Annexe 3: FDI stock classified by major countries and major sectors as of March 2023 (% of total)

Country	Textile and wearing	Gas and Petroleum	Banking	Power	Telecommunications	Food	Trading	Chemicals and pharmaceuticals	NBFI	Leather	Construction	Agriculture and Fishing	Insurance	Cement	Fertilizer	Other sectors	Total FDI stock	Total FDI stock (in million US$)
USA	3.1	70.9	5.0	4.0	0.1	0.1	1.9	0.2	5.9	0.0	0.0	0.1	6.7	0.0	0.0	2.0	100.0	4051.28
UK	19.9	1.3	51.3	6.5	0.0	10.5	0.6	5.7	0.6	0.0	0.0	1.0	0.0	0.0	0.0	2.7	100.0	2790.23
Singapore	8.5	2.2	0.5	24.0	17.3	2.1	4.8	0.9	4.5	0.0	1.5	5.6	0.0	0.0	0.0	28.1	100.0	1603.73
South Korea	68.0	0.0	9.3	0.0	0.0	0.0	4.0	0.8	0.0	13.6	0.3	0.0	0.0	0.8	0.0	3.0	100.0	1461.84
Hong Kong	45.5	1.8	7.6	13.1	0.0	0.1	5.2	0.0	0.1	2.7	0.1	0.1	0.0	5.4	0.0	18.3	100.0	1373.9
China	20.9	0.0	0.0	51.3	0.0	0.1	8.8	0.8	0.0	1.1	4.8	0.1	0.0	0.0	0.0	12.1	100.0	1286.36
Netherlands	4.3	4.2	0.0	14.7	1.5	33.3	6.6	6.7	0.0	2.4	0.8	0.6	0.0	8.7	0.6	15.7	100.0	1229.73
Malaysia	1.9	0.0	0.0	18.0	73.4	0.0	0.2	2.0	0.1	0.1	3.5	0.0	0.0	0.0	0.0	0.7	100.0	904.04
Australia	0.0	98.6	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.2	0.0	0.1	0.0	0.0	0.0	1.0	100.0	708.39
India	23.0	0.0	30.3	16.4	0.0	3.5	3.7	4.2	0.0	0.9	0.6	1.2	1.0	0.0	0.0	15.1	100.0	698.14
UAE	3.5	1.1	10.3	41.1	0.0	0.2	1.7	3.1	2.1	0.0	9.0	0.0	0.2	5.1	0.0	22.5	100.0	505.81
Japan	9.2	4.0	0.4	5.1	0.0	1.5	3.9	2.6	0.0	2.2	15.1	-0.1	0.0	0.0	15.7	40.5	100.0	468.36
Sri Lanka	26.0	0.0	46.1	15.8	0.0	0.3	1.6	0.3	2.2	0.0	0.6	0.0	0.0	0.0	1.5	5.6	100.0	378.79
British Virginia Islands	59.9	0.0	0.0	0.9	0.0	0.0	0.8	0.3	0.8	0.0	0.0	0.0	0.0	0.0	0.0	37.3	100.0	358.2
Norway	0.0	0.0	7.8	0.0	86.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.9	100.0	342.32
Thailand	0.3	0.0	0.0	0.0	0.0	4.4	0.0	0.2	0.1	0.0	23.1	49.1	0.0	9.2	0.0	13.4	100.0	284.18
Mauritius	59.7	0.0	0.0	15.1	3.3	1.4	3.8	0.0	0.0	0.0	0.9	7.8	0.0	0.0	0.0	7.9	100.0	263.46
Taiwan	42.4	0.0	0.0	0.0	0.0	1.1	3.6	0.0	0.0	16.9	1.3	0.0	0.0	0.0	0.0	34.8	100.0	243.34
Saudi Arabia	0.0	0.0	84.2	0.0	0.0	0.0	0.0	0.0	15.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	240.33
Pakistan	0.4	0.0	84.4	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	14.7	100.0	206.83
Other countries	25.9	8.3	7.0	1.8	12.0	2.4	3.5	9.7	0.3	1.6	0.6	0.4	0.0	0.6	4.6	21.3	100.0	1214.12
Total	18.9	18.7	13.6	11.6	6.9	4.0	3.0	2.3	1.9	1.7	1.6	1.5	1.3	1.2	0.7	11.1	100.0	20613.38

Annexe 4: Current incentives for investment promotions

Bangladesh's liberalized Industrial Policy and export-focused, private sector-led economic plan provide a wealth of investment options.

Tax holiday

Depending on the location of the industrial firm, tax holiday facilities are offered for 5 or 7 years. The tax holiday facility is granted for five years to industrial firms located in Dhaka and Chittagong Divisions (except the Hill Tract districts of Chittagong Division), and seven years to those located in Khulna, Sylhet, Barisal, and Rajshahi Divisions and the three Chittagong hill districts. Facilities for tax holidays are offered in compliance with current legal requirements. The month in which commercial production began will serve as the starting point for calculating the tax holiday period. Within 90 days of receiving an application, the NBR (National Board of Revenue) will issue a tax holiday certificate for the whole term.

Tax exemption

The following situations are eligible for tax exemptions:

- Tax exemption on royalties and technological know-how payments obtained by any foreign collaborator, firm, company, or expert.
- Exemption from income tax for up to three years for foreign technicians working in the industries listed in the appropriate schedule of the income tax ordinance.
- Private sector power generation companies' income is exempt from taxes for 15 years following the start of commercial production.
- Capital gains from the transfer of shares of public limited firms listed on a stock exchange are exempt from taxation.

Accelerated depreciation

Accelerated depreciation allowance will be granted to industrial enterprises that are not receiving a tax holiday. If the industrial endeavour is located in places that are within the boundaries of the cities of Dhaka, Narayanganj, Chittagong, and Khulna, as well as in locations that are within a 10-mile radius of those cities' municipal borders, such an allowance is available at a rate of 100% of the cost of the machinery or plant. If the industrial activity is located somewhere else in the nation, accelerated depreciation is permitted at a rate of 80% in the first year and 20% in the second.

Concessionary duty on imported capital machinery

On capital equipment and replacement parts imported for original installation or BMR/BMRE of the existing industry, an import duty of 5% ad valorem is payable. However, the value of the spare components should not be greater than 10% of the overall C & F value of the machinery. There is no import tariff for capital equipment and parts for industries that are entirely export-oriented. However, the 5% import duty will be reimbursed following the installation of the machinery if it is covered by a bank guarantee or indemnity bond. For imported capital machinery and replacement parts, Value Added Tax (Vat) is not due.

Current incentives given to foreign investors

All sectors of the economy, except the previously listed four designated industries, are open to private investment from outside. On mutually advantageous terms and conditions, such investments can be made alone or through partnerships. However, the following significant industries are those where foreign investment is most desired:

- Export Oriented Industries
- Industries in the Export Processing Zones (EPZs)
- High-technology products that will be either import-substitute or export-oriented

No restriction on foreign equity involvement
Since there are no limits on foreign equity participation for foreign direct investment, 100% foreign equity is allowed. Institutional or individual non-resident investors may make portfolio investments in Bangladeshi stock markets. Local banks may grant working loans in full to foreign investors or businesses. These loans' conditions will be established based on the client-bank relationship.

Personal income tax redemption for foreign technician
Up to three (three) years after beginning employment with a foreign company, a foreign technician's income tax payment will not be subject to taxes; beyond that time, it will depend on whether or not the nation of the technician's citizenship has agreed to prevent double taxation.

Full repatriation of capital invested
All invested funds from foreign sources are eligible for full repatriation. Similarly to this, overseas investment income and dividends may be fully transferred. Reinvesting repatriable dividends and/or retained profits by foreign investors are regarded as a fresh investment. Foreigners working in Bangladesh have the right to remit up to 50% of their pay, and they also have access to services that allow them to fully repatriate their retirement and savings funds.

Same facilities as domestic entrepreneurs
Foreign entrepreneurs are entitled to the same facilities as domestic entrepreneurs with respect to tax holidays, payment of royalties, technical know-how fees, etc.

No restriction for issuing work permits to foreign experts
The procedure for granting work visas to foreign specialists on the advice of foreign investment firms or joint ventures is proceeded without any obstacles or limitations. Prospective foreign investors receive a 3-year "multiple entry visa." For specialists, a "multiple entry visa" is provided for the duration of their tasks.

Citizenship
Citizenship by an investment of at least US$ 500,000 or a non-repatriable US$ 1,000,000 transfer to any authorized financial institution.

Permanent residentship
Permanent residentship by investing a minimum of us$ 75,000 (non-repatriable).

Special facilities and venture capital support

Export-oriented industries will receive special facilities and venture capital support under the category of "thrust sectors". The following are some of the thrust industries: agriculture, artificial flower production, electronics, computer software, and information technology, frozen food, floriculture, gifts, infrastructure, jute products, jewellery and diamond cutting and polishing, oil and gas, sericulture and silk industry, stuffed toys, textiles, and tourism.

Legal Protection

The Foreign Private Investment (Promotion & Protection) Act. 1980, which guarantees legal protection for foreign investment in Bangladesh against nationalization and expropriation, serves as the foundation for Bangladesh's foreign investment strategy. Additionally, it ensures that local and foreign investments are treated equally and that profit and share sale earnings be returned home.

Incentives to Non-Resident Bangladeshis (NRBs)

NRB investments are regarded equally to foreign investors. To encourage NRBs to make investments in the nation, certain incentives are offered. NRBs have access to identical amenities as foreign investors. They can also purchase newly issued shares or debt obligations of Bangladeshi enterprises. For NRBs, a 10% quota in primary public shares has been set. Additionally, they are permitted to hold non-resident foreign currency deposits (NFCDs) in the account.

Annexe 5: Summary table on the Pre and Post LDC schemes

Country	Preference scheme for LDCs	Post-graduation scheme
Australia	LDCs get duty-free preference under the Australian System of Tariff Preferences (ASTP) for LDCs (Part 2 of Schedule 1). Asia-Pacific LDCs enjoy duty-free access for the entire Australian tariff schedule.	AP LDCs can use the GSP for developing countries after graduation. ASEAN-member AP LDCs receive preference under RCEP and the ASEAN–Australia-New Zealand Free Trade Area (AANZFTA). Pacific Island AP LDCs will use the GSP for Forum Island Countries, which provides similar preferences as the GSP for LDCs.
Canada	LDCs enjoy duty free access under least developed country tariff (LDCT) scheme in the Canadian market; the scheme provides DFQF market access for 98.9 percent of tariff lines.	AP LDCs will be entitled to Canada's generalized preferential tariff (GPT), for developing countries and selected agricultural and industrial products. Most textiles and clothing, footwear, and chemical products are not included.
China	China provides DFQF market access to 40 LDCs. China's GSP for LDCs is available for 95 percent-98 percent of tariff lines.	China has no preferential scheme for developing countries. ASEAN-member AP LDCs will receive preference under the ASEAN-China FTA and RCEP. Bangladesh may access the APTA concessional duty rates for greatly limited product coverage. Bhutan, Kiribati, the Solomon Islands and Tuvalu are not beneficiaries of China's GSP. Nepal will be subject to MFN tariffs.
European Union	LDCs receive duty free preference under the European Union's Everything but Arms (EBA) scheme, which provides DFQF preference for all products from LDCs except arms and ammunition.	Upon complying with 32 pre-specified international conventions, AP LDCs can access the GSP+ preference, which provides tariff suspensions for 66 percent of European Union tariff lines. Otherwise, countries will be automatically included in the Standard GSP scheme, which provides duty reductions for 66 percent of tariff lines. Whether Bangladesh is qualified for GSP+ or Standard GSP, its textile and clothing exports may face MFN tariffs under European Union safeguard measures.
United Kingdom	The United Kingdom GSP scheme provides the same degree of market access for LDCs as the European Union; it is known as the Least Developed Countries Framework. Like in the European Union, DFQF access is provided for all products except arms and ammunition.	Post-graduation, AP LDCs can be entitled to preferential scheme under the Enhanced Framework (similar to GSP+) or the General Framework (equivalent to Standard GSP). New United Kingdom GSP will be launched soon.
Japan	Japan grants duty-free access for LDC exports under its GSP scheme. Currently, 98.2 percent of tariff lines are duty-free for the LDCs.	ASEAN-member AP LDCs will continue to obtain duty-free benefit under the ASEAN-Japan CEPA and RCEP. Other graduating AP-LDCs will be entitled to the GSP for developing countries. Most clothing and footwear items are not included in it.

Country	Preference scheme for LDCs	Post-graduation scheme
India	India's Duty-Free Tariff Preference (DFTP) scheme for LDCs provides duty-free or concessional tariffs in 98 percent tariff lines. In addition, SAFTA-LDC market access applies to South Asian LDCs and provides DFQF access for all but 25 products.	No preference is available for developing countries. ASEAN-member AP LDCs will receive preference under the ASEAN-India FTA. Bangladesh will receive non-LDC SAFTA preferences that will, however, significantly reduce Bangladesh's current market access. Nepal and Bhutan will continue the same favourable terms under their respective bilateral trade agreements with India. Pacific Island AP LDCs will be subject to MFN tariffs.
Republic of Korea	DFQF is available to LDCs for 95 percent of tariff lines. The APTA-specific LDC DFQF is applicable for Bangladesh and Lao PDR.	No scheme is available for developing countries. ASEAN- member AP LDCs will benefit from ASEAN-Korea FTA and RCEP. Non-LDC APTA preferences will be applicable for Bangladesh with significantly reduced preferential market access.
United States	LDCs benefit from the least-developed beneficiary developing countries (LDBDCs) scheme. Bangladesh is not a GSP beneficiary in the United States market. Most textiles and clothing products are excluded from United States GSP schemes.	AP LDCs, excluding Bangladesh, will be entitled to preferential treatment under the GSP for beneficiary developing countries (BDCs). Most textiles and clothing products are excluded from beneficial treatment.

Source: Adapted from Graduation from LDC Status (2022)

Annexe 6: GSP utilization by Product

Reporter Country	Top three product by all preferences (GSP+ Other)	GSP Utilization Rate[48]	Latest Year
Canada	Textile and textile articles	84.00 %	2020
	Footwear and Headgear	76.13 %	
	Hides and skins, leather	78.90%	
EU	Textile and textile articles	95.97%	2021
	Footwear and Headgear	95.01%	
	Live animal and products	99.34%	
Japan	Textile and textile articles	94.73%	2021
	Hides and skins, leather	96.74%	
	Footwear and Headgear	85.01%	
United States[49]	-	-	-

Source: Authors' compilation from UNCTAD
https://gsp.unctad.org/utilizationbycountry;reporter=124;partner=050;indicator=3

[48] The preference utilization rate is defined as the percentage of GSP-eligible exports that actually realize trade preferences.
[49] Bangladesh is not current beneficiary of the U.S. GSP. Bangladesh was denied access in 2013.

Annexe 7: Summary table on the ROO rules before and after the LDC graduation

Country	LDC rules of origin	Post-graduation rules of origin
Australia	General rule: Minimum value added of 25 percent Product-specific rules: None Cumulation: bilateral; LDCs; Papua New Guinea; Forum Island Countries; and developing countries (with limits), as per list	Minimum value added will increase to 50 percent under GSP for developing countries and GSP for developing country status. Product-specific rules: None Cumulation: bilateral; LDCs; GSP beneficiaries
Canada	General rule: General value added is 40 percent. Product-specific rules: 'Specified process' (SP) for made-up textile articles and SP or SP+ minimum-value content of 25 percent for apparel. Cumulation: bilateral; LDCs; and some developing countries (with exceptions and limitations)	General rule: Minimum value added of 60 percent for all products to benefit from GPT. Product-specific rules: None Cumulation: bilateral; beneficiary countries
China	General rule: General value added is change of tariff heading (CTH) or 40 percent. For Bangladesh, value added is 35 percent (APTA) and regional cumulation value added is 50 percent (APTA) Product-specific rules: None Cumulation: bilateral; regional cumulation with two ASEAN countries (Cambodia and Myanmar) and seven Economic Community of West African States (ECOWAS) countries (Benin, Guinea-Bissau, Liberia, Mali, Senegal, Sierra Leone and Togo).	General rule: Value added of 45 percent (APTA) Regional cumulation value added of 60 percent (APTA)
European Union	General rule: None Product-specific rules: Based on a maximum percentage of non-originating materials and several product-specific rules (PSRs) Single transformation of textiles and clothing. For other items minimum value added is 30 percent. Cumulation: bilateral; regional with another beneficiary of the same region*; Norway, Switzerland or Turkey (except products in Chapters 1–24); extended	General rule: None Product-specific rules: LDC and GSP beneficiary countries are (usually) identical, including for food and agricultural sector. Double transformation for textile and clothing. Minimum local value added is 50 percent for other goods. Cumulation: bilateral; Norway, Switzerland or Turkey (except products in Chapters 1–24); extended

Country	LDC rules of origin	Post-graduation rules of origin
	cumulation with a country which has an FTA with the European Union, subject to certain conditions.	cumulation with a country that has an FTA with the European Union, subject to certain conditions.
United Kingdom	Mostly like the European Union.	Mostly like the European Union.
India	General rule: Change of tariff sub-heading (CTHS) at the 6-digit level of the HS and 30 percent value added for LDCs. Product-specific rules: None Cumulation: bilateral Under SAFTA RoO requirement is a change of tariff subheading and 30 percent value addition for LDCs. For regional cumulation, RoO criteria is a CTH and 40 value addition (SAFTA).	General rule: Change of tariff sub-heading (CTHS) at the 6-digit level of the HS and 30 percent value added for LDCs. Product-specific rules: None Cumulation: bilateral Under SAFTA RoO requirement is a change of tariff subheading and 30 percent value addition for LDCs. For regional cumulation, RoO criteria is a CTH and 40 value addition (SAFTA).
Japan	General rule: CTH Product-specific rules: Mostly CTC (CC or CTH with frequent exceptions). For textile products, a one-stage process or single transformation is required. Cumulation: bilateral; regional cumulation with five ASEAN countries (Indonesia, Malaysia, the Philippines, Thailand and Vietnam)	Same
Republic of Korea	General rule: Minimum local value added is 40 percent to benefit from DFQF for LDCs. Product-specific rules: None Cumulation: None Under APTA, minimum local content should be 35 percent for LDCs. In case of regional cumulation, value added requirement is 50 percent.	APTA rules of origin requirement is minimum value added of 45 percent for non-LDCs. Minimum 60 percent value added is accepted for regional cumulation.
United States	General rule: Local content of the products produced in the beneficiary country must equal at least 35 percent of the appraised value of the article. Product-specific rules: None Cumulation: beneficiary LDCs and GSP countries	Same

Source: Adapted from Graduation from LDC Status (2022)

Annexe 8: Bangladesh's Average tariff lines by ISIC classification in 2021

Product	Product Name	Simple Average	Weighted Average	Standard Deviation	Minimum Rate	Maximum Rate	Nbr of Total Lines	Nbr of International Peaks	Imports Value in 1000 USD	Free Imports in 1000 USD
1	Agriculture, hunting and related service activities	14.89	4.88	10.73	0	25	1396	802	4002150	2971072
2	Forestry, logging and related service activities	7.5	6.1	5.89	0	25	112	10	35584.54	10146.68
5	Fishing, operation of fish hatcheries and fish far	15.63	19.93	9.74	0	25	19	13	1156.79	0
10	Mining of coal and lignite; extraction of peat	1.11	0	3.14	0	10	9	0	392235.2	392233.4
11	Extraction of crude petroleum and natural gas; ser	3	0	4	0	10	5	0	99297.8	99277.04
13	Mining of metal ores	3.37	4.63	2.3	0	5	19	0	8438.934	165.315
14	Other mining and quarrying	7.3	5.78	8.1	0	25	366	69	496818.3	38088.75
15	Manufacture of food products and beverages	20.3	9.94	8.53	0	25	2834	2040	2650302	726119.7
16	Manufacture of tobacco products	23.95	24.78	4.47	5	25	19	18	4523.647	0
17	Manufacture of textiles	20.05	20.91	8.4	0	25	3690	2696	7991041	4.451
18	Manufacture of wearing apparel; dressing and dyein	22.34	23.94	6.65	3	25	873	755	213997.4	0
19	Tanning and dressing of leather; manufacture of lu	17.15	17.18	10.17	0	25	482	279	353479.3	20728.43
20	Manufacture of wood and of products of wood and co	12.05	12.79	7.92	0	25	205	47	21180.9	0.02
21	Manufacture of paper and paper products	17.17	13.29	8.37	0	25	1157	617	735055.2	147112.4
22	Publishing, printing and reproduction of recorded	18.04	14.83	9.87	0	25	686	393	107698.3	41.564
23	Manufacture of coke, refined petroleum products an	8.88	3.3	6	0	15	116	0	2756990	50971.65
24	Manufacture of chemicals and chemical products	9.31	7.43	8.51	0	25	7737	1728	5506135	1032500
25	Manufacture of rubber and plastics products	17.1	18.36	9.2	0	25	3126	1810	865997.4	13353.87
26	Manufacture of other non-metallic mineral products	15.02	16.69	9.68	0	25	1137	478	843982.8	5976.25
27	Manufacture of basic metals	12.28	10.61	8.28	0	25	2405	700	2793190	117714.4
28	Manufacture of fabricated metal products, except m	16	17.17	10.02	0	25	2817	1527	1328275	77987.55
29	Manufacture of machinery and equipment n.e.c.	4.99	5.09	9.28	0	25	7529	1422	4867949	286369.8

Product	Product Name	Simple Average	Weighted Average	Standard Deviation	Minimum Rate	Maximum Rate	Nbr of Total Lines	Nbr of International Peaks	Imports Value in 1000 USD	Free Imports in 1000 USD
30	Manufacture of office, accounting and computing ma	5.72	6.96	4.93	0	25	835	39	554376.4	11146.76
31	Manufacture of electrical machinery and apparatus	13.04	9.78	9.46	0	25	3434	1184	1518337	14728.58
32	Manufacture of radio, television and communication	15.73	18.18	9.26	0	25	1257	627	866296.9	533.263
33	Manufacture of medical, precision and optical inst	4.14	4.28	5.92	0	25	2866	132	595294.4	36405.33
34	Manufacture of motor vehicles, trailers and semi-t	10.96	14.8	9.29	0	25	2068	1190	770647.3	1900.547
35	Manufacture of other transport equipment	11.05	12.32	10.71	0	25	429	192	626368.1	140434
36	Manufacture of furniture; manufacturing n.e.c.	19.05	17.08	8.9	0	25	1306	835	680907.9	85.498
40	Electricity, gas, steam and hot water supply	2.5	0	2.5	0	5	2	0	424687.8	424505.7

Source: NBR

Annexe 9: A comparison of tariff lines of Bangladesh, Vietnam and the LDC average

Product name	Reporter Name	Simple Average	Weighted Average	Minimum Rate	Maximum Rate	Nbr of Total Lines	Nbr of International Peaks	Imports Value in million USD	Free Imports in million USD
Agriculture, hunting and related service activities	Bangladesh	14.89	4.88	0	25	1396	802	4002.2	2971.1
	Vietnam	6.17	7.05	0	90	3021	302	8814.9	4706.2
	Least Developed Countries --- LDC	12.87	6.63	0	60	19020	6449	7168.8	4048.7
Forestry, logging and related service activities	Bangladesh	7.5	6.1	0	25	112	10	35.6	10.1
	Vietnam	1.28	0.42	0	5	664	0	441.7	396.2
	Least Developed Countries --- LDC	5.36	6.83	0	50	1187	61	92.3	27.9
Fishing, operation of fish hatcheries and fish far	Bangladesh	15.63	19.93	0	25	19	13	1.2	0.0
	Vietnam	1.25	0.92	0	20	182	8	49.4	45.3
	Least Developed Countries --- LDC	9.14	6.3	0	40	369	85	23.2	4.0
Mining of coal and lignite; extraction of peat	Bangladesh	1.11	0	0	10	9	0	392.2	392.2
	Vietnam	0.68	0.3	0	2	54	0	3594.5	3055.0
	Least Developed Countries --- LDC	3.35	1.96	0	20	249	4	1159.8	701.1
Extraction of crude petroleum and natural gas; ser	Bangladesh	3	0	0	10	5	0	99.3	99.3
	Vietnam	0.6	0.99	0	3	25	0	3840.3	29.2
	Least Developed Countries --- LDC	3.14	0.06	0	25	153	9	1125.4	1106.4
Mining of metal ores	Bangladesh	3.37	4.63	0	5	19	0	8.4	0.2
	Vietnam	0	0	0	0	151	0	1611.8	1611.8
	Least Developed Countries --- LDC	2.07	1.42	0	20	229	1	125.3	87.9
Other mining and quarrying	Bangladesh	7.3	5.78	0	25	366	69	496.8	38.1
	Vietnam	2.09	2.64	0	60	769	77	337.4	289.6
	Least Developed Countries --- LDC	5.96	4.77	0	50	4331	438	1284.0	403.6
Manufacture of food products and beverages	Bangladesh	20.3	9.94	0	25	2834	2040	2650.3	726.1
	Vietnam	10.2	3.24	0	100	10900	2940	9766.0	4771.9
	Least Developed Countries --- LDC	17.63	11.19	0	100	77647	35766	22583.3	6462.6
Manufacture of tobacco products	Bangladesh	23.95	24.78	5	25	19	18	4.5	0.0
	Vietnam	67.3	44.33	30	135	22	22	2.0	0.0
	Least Developed Countries --- LDC	24.03	8.61	0	100	664	423	743.3	438.6
Manufacture of textiles	Bangladesh	20.05	20.91	0	25	3690	2696	7991.0	0.0
	Vietnam	3.35	2.66	0	25	9584	215	14526.3	9214.1

Product name	Reporter Name	Simple Average	Weighted Average	Minimum Rate	Maximum Rate	Nbr of Total Lines	Nbr of International Peaks	Imports Value in million USD	Free Imports in million USD
	Least Developed Countries --- LDC	14.96	14.47	0	50	47300	22088	17333.3	3027.1
Manufacture of wearing apparel; dressing and dyeing	Bangladesh	22.34	23.94	3	25	873	755	214.0	0.0
	Vietnam	8.64	3.54	0	25	5218	1519	526.0	383.1
	Least Developed Countries --- LDC	17.17	19.8	0	50	31563	19392	1506.2	146.1
Tanning and dressing of leather; manufacture of lu	Bangladesh	17.15	17.18	0	25	482	279	353.5	20.7
	Vietnam	8.54	2.7	0	30	1867	622	2122.3	1320.9
	Least Developed Countries --- LDC	15.94	13.73	0	35	17430	9329	1812.8	385.7
Manufacture of wood and of products of wood and co	Bangladesh	12.05	12.79	0	25	205	47	21.2	0.0
	Vietnam	2.8	0.14	0	25	1677	56	1105.7	1075.6
	Least Developed Countries --- LDC	14.65	7.73	0	50	6475	2780	632.7	217.0
Manufacture of paper and paper products	Bangladesh	17.17	13.29	0	25	1157	617	735.1	147.1
	Vietnam	5.93	1.51	0	25	4054	602	2618.9	2241.2
	Least Developed Countries --- LDC	11.8	8.61	0	60	21139	5828	2831.1	1022.7
Publishing, printing and reproduction of recorded	Bangladesh	18.04	14.83	0	25	686	393	107.7	0.0
	Vietnam	5.83	2.77	0	25	1388	134	243.3	177.1
	Least Developed Countries --- LDC	12.88	8.22	0	60	12754	5181	1280.6	431.4
Manufacture of coke, refined petroleum products an	Bangladesh	8.88	3.3	0	15	116	0	2757.0	51.0
	Vietnam	0.78	1.03	0	5	193	0	5211.3	1007.1
	Least Developed Countries --- LDC	4.15	3.57	0	35	1377	48	26890.5	823.9
Manufacture of chemicals and chemical products	Bangladesh	9.31	7.43	0	25	7737	1728	5506.1	1032.5
	Vietnam	1.52	0.79	0	27	20232	370	26129.9	20334.0
	Least Developed Countries --- LDC	7.29	4.26	0	50	102693	18718	24824.4	13307.2
Manufacture of rubber and plastics products	Bangladesh	17.1	18.36	0	25	3126	1810	866.0	13.4
	Vietnam	5.33	1.14	0	35	10989	1101	8893.5	6282.1
	Least Developed Countries --- LDC	13.59	12.95	0	50	62887	23032	5507.9	1243.3
Manufacture of other non-metallic mineral products	Bangladesh	15.02	16.69	0	25	1137	478	844.0	6.0
	Vietnam	7.63	2.02	0	45	3353	612	2638.6	2129.9
	Least Developed Countries --- LDC	13.72	9.44	0	50	27774	10877	4206.6	1299.2
Manufacture of basic metals	Bangladesh	12.28	10.61	0	25	2405	700	2793.2	117.7
	Vietnam	1.53	0.3	0	25	7684	27	15463.5	14560.5

Product name	Reporter Name	Simple Average	Weighted Average	Minimum Rate	Maximum Rate	Nbr of Total Lines	Nbr of International Peaks	Imports Value in million USD	Free Imports in million USD
	Least Developed Countries --- LDC	9.28	6.89	0	50	31599	7111	14488.4	5640.8
Manufacture of fabricated metal products, except m	Bangladesh	16	17.17	0	25	2817	1527	1328.3	78.0
	Vietnam	6.59	1.58	0	35	9195	1150	6856.4	5402.4
	Least Developed Countries --- LDC	12.59	12.21	0	50	69261	26540	6875.4	1608.1
Manufacture of machinery and equipment n.e.c.	Bangladesh	4.99	5.09	0	25	7529	1422	4867.9	286.4
	Vietnam	1.98	0.34	0	35	25492	904	32439.5	30019.9
	Least Developed Countries --- LDC	6.54	5.48	0	80	142901	16294	20169.9	6136.7
Manufacture of office, accounting and computing ma	Bangladesh	5.72	6.96	0	25	835	39	554.4	11.1
	Vietnam	0.11	0.02	0	10	3073	0	5590.6	5379.8
	Least Developed Countries --- LDC	4.86	4.65	0	30	18474	1129	2409.0	796.5
Manufacture of electrical machinery and apparatus	Bangladesh	13.04	9.78	0	25	3434	1184	1518.3	14.7
	Vietnam	4.34	0.45	0	30	17356	1606	35969.1	32681.3
	Least Developed Countries --- LDC	9.93	9.02	0	50	67592	13180	7479.5	1828.0
Manufacture of radio, television and communication	Bangladesh	15.73	18.18	0	25	1257	627	866.3	0.5
	Vietnam	2.32	0.14	0	35	4482	251	39381.3	37657.6
	Least Developed Countries --- LDC	10.97	9.2	0	35	23669	7716	3701.8	1332.2
Manufacture of medical, precision and optical inst	Bangladesh	4.14	4.28	0	25	2866	132	595.3	36.4
	Vietnam	1.01	0.17	0	25	6908	114	8624.5	8512.8
	Least Developed Countries --- LDC	5.83	4.19	0	35	42722	4123	2879.3	1083.1
Manufacture of motor vehicles, trailers and semi-t	Bangladesh	10.96	14.8	0	25	2068	1190	770.6	1.9
	Vietnam	11.7	5.61	0	70	14113	1741	5304.8	1460.9
	Least Developed Countries --- LDC	9.96	12.25	0	100	63903	12533	9784.1	1724.6
Manufacture of other transport equipment	Bangladesh	11.05	12.32	0	25	429	192	626.4	140.4
	Vietnam	8.41	4.61	0	75	1168	418	1297.2	1069.4
	Least Developed Countries --- LDC	7.22	5.53	0	50	10667	2209	12338.8	3253.3
Manufacture of furniture; manufacturing n.e.c.	Bangladesh	19.05	17.08	0	25	1306	835	680.9	0.1
	Vietnam	7.57	2.73	0	30	4505	933	2171.4	1636.8
	Least Developed Countries --- LDC	16.47	15.23	0	60	38884	21540	2369.0	403.2
Electricity, gas, steam and hot water supply	Bangladesh	2.5	0	0	5	2	0	424.7	424.5
	Vietnam	0	0	0	0	2	0	173.2	173.2

Product name	Reporter Name	Simple Average	Weighted Average	Minimum Rate	Maximum Rate	Nbr of Total Lines	Nbr of International Peaks	Imports Value in million USD	Free Imports in million USD
	Least Developed Countries --- LDC	1.62	0.03	0	20	55	1	1326.3	1319.5

Source: TradeMap

Annexe 10: Incentives provided by the Bangladesh Economic Zone Authority (BEZA)

Serial	Incentives	Explanation	Gazettes
1.	Income Tax exemption of for 10 years (except edible oil, sugar, flour, cement, iron and iron related products)	Extent -100% (for 1st, 2nd , 3rd year) 4th year – 80% 5th year – 70% 6th year – 60% 7th year – 50% 8th year – 40% 9th year – 30% 10th year – 20%	SRO No 104-Law/Income Tax/2020 Date: 25 March, 2020 of Internal Resources Division
2.	Income tax exemption on dividend for 10 years	100% Exemption	SRO No 299/Law/Income Tax/2105 Date: 8 Oct, 2015 of Internal Resources Division
3.	Income tax exemption on capital gains from transfer of shares for 10 years	100% Exemption	
4.	Income tax exemption on royalties, technical know-how and technical assistance fees etc. for 10 years	100% Exemption	
5.	Exemption from Income Tax on the income of expatriate for 3 years	50% Exemption	SRO No. 298- Law/Income Tax/2015 Date: 8 Oct, 2015 of Internal Resources Division
6.	Exemption from double taxation subject to the existence of double taxation agreement	subject to the double taxation agreement	National Board of Revenue
7.	Duty free import of capital machinery and construction material (except for MS Rod/Bar, Cement, Pre-fabricated Building, Iron/Steel Sheet)	100% Exemption	SRO No 209- Law/2015/46/Customs Date:1 July, 2015 of Internal Resources Division List of capital machineries SRO No. 121- Law/2020/72/Customs Date:11 June, 2020 of Internal Resources Division
8.	Warehousing Station	Entire EZ has been declared as warehousing station.	SRO No 211/Law/2015/48/Customs Date:1 July, 2015 of Internal Resources Division **Amendment:** SRO No 304/Law/2017/77/Customs Date: 22 Oct, 2017 of Internal Resources Division
9.	Home Consumption & Other Bond Facilities, Warehouse Operator	All the unit investors in EZs are entitled to this facility	**1.** SRO No 211/Law/2015/48/Customs Date: 1 July, 2015 of Internal Resources Division **Amendment:** SRO No 304/Law/2017/77/Customs Date: 22

Serial	Incentives	Explanation	Gazettes
			Oct, 2017 of Internal Resources Division **2.** SRO No 181/Law/2008/2209/Customs Date: 26 June, 2008 of National Board of Revenue **Amendment:** SRO No. 203-Law/2017/48/Customs Date: 20 June,2017 of National Board of Revenue **Amendment:** SRO No. 136-Law/2020/87/Customs Date: 03 June,2020 of National Board of Revenue **Amendment:** SRO No. 194-Law/2020/104/Customs Date: 30 June,2020 of National Board of Revenue **3.** Notification No. 42/2017/Customs/199 Date: 2 May, 2017 of National Board of Revenue **Amendment:** 288/2017/Customs/529 Date: 21 Dec, 2017 of National Board of Revenue **Amendment:** 195/2018/Customs/197 Date: 6 May, 2018 of National Board of Revenue
10	Dedicated Customs Procedure(Economic Zone)	All the industries in EZs are eligible	Notification No. 42/2017/Customs/199 Date: 2 May, 2017 of National Board of Revenue **Amendment:** 288/2017/Customs/529 Date: 21 Dec, 2017 of National Board of Revenue **Amendment:** 195/2018/Customs/197 Date: 6 May, 2018 of National Board of Revenue
11	20% sale of finished product to Domestic Tariff Area (DTA)	20% of the export volume of last fiscal year	Notification No. 42/2017/Customs/199 Date: 2 May, 2017 of National Board of Revenue **Amendment:** 288/2017/Customs/529 21 Date: Dec, 2017 of National Board of Revenue
12	Sub-contracting with DTA allowed	100% Allowed	**Amendment:** 195/2018/Customs/197 Date:6 May, 2018 of National Board of Revenue
13	Exemption of Customs Duty, Regulatory Duty, VAT, Supplementary Duty for import of vehicles (up to 2000 cc, one sedan car and one	100% Exemption	SRO No. 210- Law/2015/47/Customs Date: 1 July, 2015 of Internal Resources Division

Serial	Incentives	Explanation	Gazettes
	microbus/pick up van/ double cabin pick up)		**Amendment:** SRO No. 312-Law/2015/57/Customs Date: 28 Oct, 2015 of Internal Resources Division
14	Duty exemption on export	100% Exemption	1st Schedule of The Customs Act,1969
15	Exemption from VAT on Utility services related to production of goods	100% Exemption	SRO No. 190-Law/2019/47-VAT Date: 13 June, 2019 of Internal Resources division
16	Land development tax exemption	100% Exemption	SRO No. 05-Law/2016 Date: 11 Jan, 2016 of Ministry of Land
17	Exemption of stamp duty on lease registration	50% Exemption	SRO No. 06-Law/2016 Date: 12 Jan, 2016 of Internal Resources division
18	Exemption from tax sub tax, rate, toll, fees etc imposed under section 65 of Local Government (Union Parishad) Act, 2009	100% Exemption	SRO No. 333-Law/2015 Date: 12 Nov, 2015 of Local Government Division
19	Exemption from tax on transferring immovable property imposed under section 44 of Upazilla Parishad Act, 1998	100% Exemption	SRO No. 328-Law/2018 Date: 11 Nov, 2018 of Local Government Division
20	EZ investors are waived from Board of Investment Act, 1989	Completely	SRO No. 108-Law/2016 Date: 21 April, 2016 of Prime Minister's Office
21	Regulatory framework of foreign exchange transactions of enterprises operating in EZs.	Completely	FE Circular No. 21 of 11 May 2017 incorporated at chapter 20 of the Guidelines for Foreign Exchange Transactions-2018 (GFET), Vol-1 of Bangladesh Bank
22	Foreign investment in Bangladesh including EZs	No restrictions except few sectors	As per appendix-4 of Industrial Policy-2016
23	Ceiling of FDI	No ceiling of foreign contents	· Industrial Policy- 2016 of Ministry of Industries · FE Circular No. 21/2017 of Bangladesh Bank
24	Repatriation of dividend earned against the investment	100%	o No permission from Bangladesh Bank (paragraph 31, chapter 10 of GFET, paragraph 9 of FE Circular No. 21/2017 and paragraph 9, chapter 20 of GFET by Bangladesh Bank) o Dividend can be credited in foreign currency accounts maintained by foreign investors in Bangladesh (FE Circular No. 26 of 7 July 2020 of Bangladesh Bank)
25	Repatriation of sales proceeds of investment	100%	o Detailed instructions outlined at FEID Circular No. 01 of 6 May 2018 of Bangladesh Bank o Relaxation vide FEID Circular Letter 01 of 18 June 2020 of Bangladesh Bank in the following counts:

Serial	Incentives	Explanation	Gazettes
			(a) No permission from Bangladesh Bank is required for remittance of sales proceeds of shares regardless of amount provided that fair value is determined through net asset value approach on the basis of latest audited financial statements, and the financial statements contain no revalued assets. (b) No permission from Bangladesh Bank is required to repatriate sales proceeds of shares up to Tk 10.00 million without valuation reports. (c) Sales proceeds exceeding Tk 10 million upto Tk 100 million may be remitted abroad based on the fair value determined on the basis of appropriate valuation methods.
26	Loan from external sources	100%	Paragraph 8 of FE Circular No. 21/2017 and paragraph 8, chapter 20 of GFET of Bangladesh Bank
27	Repatriation of Royalty, Technical Know-how& Technical Assistance Fees	· For new project, not exceeding 6% of the cost of the imported machinery · For ongoing concerns, not exceeding 6% of the previous year's sales as declared in the income tax return	Paragraph 11 of FE Circular No. 21/2017 and paragraph 11, chapter 20 of GFET of Bangladesh Bank
28	Telephonic Transfer (TT)	No limit	Paragraph 7 of FE Circular No. 21/2017 of Bangladesh Bank
29	FC Accounts for EZ enterprises	Extent – Full	Paragraph 4 of FE Circular No. 21/2017 and paragraph 4, chapter 20 of GFET of Bangladesh Bank
30	FC Accounts for foreign nationals working in EZ enterprises	Extent – Full	Paragraph 1, chapter 13 of GFET of Bangladesh Bank
31	Remitting income of foreign nationals working in EZs	75 % of current income	o Paragraph 12 of FE Circular No. 21/2017 and paragraph 12, chapter 20 of GFET of Bangladesh Bank o FE Circular No. 24 of 23 June 2020 of Bangladesh Bank
32	Industries operating in Domestic Processing Area (DPA) of EZs can meet their foreign payment obligation on account of Royalty, Technical Know-how& Technical Assistance Fees from their Taka Account		FE Circular No. 41 of 04 October, 2020

Serial	Incentives	Explanation	Gazettes
33	Market exploration assistance for Type C industries operating in EZs against export of – Sandals and bags made of synthetic & fabrics – Agro processing goods	4% Cash Incentive on the condition of a minimum value addition of 30%	Paragraph 9 of FE Circular No. 35, dated 22 September 2019 of Bangladesh Bank
34	Backward Linkages of raw materials to sell for export-oriented industries	100%	Paragraph 06 of FE Circular No. 21/2017 of Bangladesh Bank
35	Formation of Joint Venture Industries		FE Circular No. 21/2017 of Bangladesh Bank
36	Special cash incentives against export of textile goods including readymade garments		FE Circular No. 01, dated 07 January 2020 of Bangladesh Bank
37	Issuance of work permit to foreigners is allowed	Up to 5% of total officers/employees of an industrial unit	Notification No. 03.068.004.09.00.00.016.2018-664 (7 Nov,2018)
38	Resident visa	For investment of US$75000 or above	Industrial Policy- 2016 of Ministry of Industries
39	Citizenship	For investment of US$ 1,000,000 or above	Industrial Policy- 2016 of Ministry of Industries

Source: BEZA (2023)

Annexe 11: KII Questionnaire

KII Questionnaire (General)

1. How would you evaluate your sector's prospects in driving future economic growth, as well as diversifying the product basket in the LDC graduation context? Do you think globally your industry has a future-proof market?

2. What kind of challenges will your industry face due to LDC graduation? How can you mitigate these challenges? What kind of support from the government is needed in this regard?

3. In the context of LDC graduation, Bangladesh will lose the LDC-specific ISMs, like duty-free & quota-free market access, TRIPS waivers, etc. What kind of measures is being taken by your sector/institution regarding LDC graduation?

4. What kind of opportunities do you think will be available to Bangladesh in this context? What kind of policy measures will be required to tap these opportunities? In your opinion, how much priority does your sector have in the government's policy?

5. What kind of policies do you/your sector need to attract FDI? What kind of policies may help increase the FDI in your sector in the LDC graduation context?

6. In your perception, what policies should BIDA take to attract more FDI/investment/robust expansion of your sector?

7. What challenges do you face while undertaking a joint venture with foreign partners? Please elaborate on which policies may help to smoothen/facilitate this process.

8. From your sector's perspective, what is the current scenario of skills in the labor market? If there is a skill gap, how do you think we can mitigate this? What is your institution doing to work on this gap?

9. What is your perception of skill mismatch/gap effect on the productivity of your sector? Considering your sector's requirements, do you think existing training and education are good enough for addressing the problem of the skill gap?

10. According to the current context of job demand and future market scenario in the LDC context, do you think TVET employees will get an advantage in recruitment? Does TVET have a linkage with your company? If yes, give your opinion about the TVET in supplying the skilled workers for your sector.

11. What is the scenario of technology in your sector? How do you think it will fare in the LDC graduation context?

12. If there is a gap in technology in your sector in terms of how comparator countries are conducting their production process, how do you think we can mitigate this? What is your institution/sector doing to work on this gap?

13. What is the current scenario of logistics support and financial support in your sector? What kind of changes do you/your sector need in terms of logistics support and financial support from the government (institutions such as the Ministry of Commerce, National Board of Revenue, Customs, Bangladesh Tariff Commission, etc.) in the LDC graduation context?

14. What kind of challenges does your sector face in terms of tariffs and duties? How does your sector differ from other sectors/countries in this regard? What kind of changes do you need to become more competitive in the domestic/international market?

15. Are there any other important factors for investment/investment promotion in your sector that you think should be prioritized?

16. What was the overall business and investment scenario in your sector during the pre-Covid period? How did the covid-19 pandemic affect the business and investment in your industry?

17. What are the problems/challenges you faced during the Covid-19 period in operating your business? How effective were the stimulus packages to revive your sector? How much has your sector recovered from the covid-19 fallout? Please provide details of the current scenario of business and investment in the industry. *(This question will relate to the resilience of the said industry)*

18. How does your sector plan to address the gap between industry and academia?

19. How does your sector plan to address the lack of research and development in the industry?

20. Is your industry prepared in the context of 4IR and the resulting automation? Why or why not? What kind of support is required from government from this perspective?

Sector-specific question

Leather sector

1. How does the sector plan to address its dependence on expensive imported chemicals? How will this challenge change in the LDC graduation context?

2. How does the sector plan to mitigate its inefficiency in the raw material collection process?

Nonleather sector

1. Being highly dependent on imports for raw materials, how do you think the LDC graduation might affect your sector? How do you plan to mitigate this? What kind of support is required for this mitigation process?

2. Do you think that the present challenges regarding infrastructural facilities will worsen due to LDC graduation? Why or why not?

3. How do you think your sector will fare after LDC graduation given the highly concentrated products and market scenario observed in the present?

Light Engineering sector

1. How important is developing the domestic market of machinery for your sector? Given the lack of such a market at present, how do you think LDC graduation will affect the overall scenario?

2. Given the lack of an internationally standard laboratory for testing the quality of light engineering products, what will happen in the LDC graduation context? How does the sector plan to work on this issue?

3. How does the sector plan on marketing and communicating and branding in the domestic and foreign markets, and mitigating the accreditation issue in the LDC graduation context?

Plastic sector

1. How does the sector plan to address the absence of a global standard recycling mechanism?

2. Do you think that the tariff or other duties and taxes on the import of most plastic products should be reduced? In case of such a reduction, how will the sector fare in the domestic market?

Agro-processing sector

1. Given the present issues with market access, how do you think LDC graduation will affect your sector?

2. How does the sector plan to mitigate the issues related to infrastructure and processing stages? What kind of support is needed in this regard?

ICT sector

1. What kind of infrastructural issues are faced by your sector? How will they change in the LDC graduation context? What should be done to address these issues?

2. What kind of discriminatory scenarios do the SMEs in this sector face?

Renewable energy sector

1. Given the high dependency on imported raw materials in your sector, how do you think LDC graduation might affect you? How does your industry plan to address it?

Financial sector

1. How can the low total market capitalization rate be solved? Also, how can the low insurance density ratio be solved?

2. How can the rising NPL be solved?

Pharmaceutical sector:

1. How can we increase the share of export of pharmaceutical products in destinations?

2. How can we proceed regarding being more open in the domestic market to MNCs? How will it impact local manufacturers?

Government Agency-Wise Question

BEZA

1. What is the current status of BEZA? How many economic zones are in operation?

2. What is the condition of the infrastructure in SEZs? Are the investors satisfied?

3. What are the services BEZA providing through the one stop services?

4. What is the current scenario of land acquisition for SEZs? Is there enough land for 100 SEZs?

5. How many public-private SEZs are operating? What are the opportunities for more public-private SEZs?

BIDA

1. What is the current range of BIDA's One Stop Service (OSS)?
2. How much time is needed for the investors to get the client services?
3. Which countries are prioritized to attract investment?
4. Which are the potential sectors for investment promotion in Bangladesh?
5. Which policy reforms are necessary to attract FDI?
6. Why local investment data are not available?

Annexe 12: List of KIIs

KII Participants List

1. Md. Lutfullah, Private sector specialist, International Finance Corporation (IFC)
2. Barrister Md. Sameer Sattar, President, Dhaka Chamber of Commerce and Industries (DCCI)
3. Jafar Uddin, CEO, Bangladesh Foreign Trade Institute (BFTI)
4. Md. Abdur Rahim Khan, Additional Secretary, Ministry of Commerce (MoC)
5. Mamun -Ur-Rashid Askari, Joint Chief, Bangladesh Trade and Tariff Commission (BFTI)
6. Ariful Hoque, Director, Bangladesh Investment Development Authority (BIDA)
7. M.A. Razzaque, Director, Policy Research Institute (PRI)
8. Kumkum Sultana, Director, Export Promotion Bureau (EPB)
9. Rehana Akter Runa, Head of Projects and Programs, Bangladesh Tanners Association (BTA)
10. Professor Mustafizur Rahman, Distinguished Fellow, Center for Policy Dialogue (CPD)
11. Dr Zahid Hussain, Former World Bank Economist
12. M Masrur Reaz, Chairman, Policy Exchange Bangladesh
13. Mamun Rashid, Managing Director, PwC Bangladesh
14. Mominur Rahman Mithu, Vice-president, Bangladesh Electrical Merchandise Manufactures Association
15. Md. Shamim Akter Siddique, Member, Benaroshi Polli (SME)
16. Mustafizur Rahman, Deputy Director, Bangladesh Economic Zone Authority
17. Nihad Kabir, Former President, Metropolitan Chamber of Commerce and Industries (MCCI)
18. Aslam Beg Sayem, Businessman, Service Sector
19. Md. Habibur Rahman, Chief Economist, Bangladesh Bank
20. Syed Nasim Manzur, President, Leather goods And Footwear Manufacturers & Exporters Association of Bangladesh (LFMEAB)
21. Nazeem Hasan Satter, General Manager, SME Foundation
22. Kasuga Takeshi, Senior Economist, Director, Japan Bank for International Cooperation
23. Shinichi Nagata, Country General Manager, Sumitomo Corporation Asia and Oceania Pte. Ltd.
24. Youmi Park, Senior Loan Officer, Korea Exim Bank
25. Farah Shammi, Joint Secretary, General Economic Division
26. AKM Asaduzzaman Patwary, Executive Secretary, Dhaka Chamber of Commerce and Industries (DCCI)
27. Faruk Hasaan, President, Bangladesh Garment Manufacturers and Exporters Association (BGMEA)

Annexe 13: FGD Checklist

FGD Checklist (Business Stakeholders)

1. What are the investment prospects of Bangladesh after LDC graduation? Will Bangladesh be able to attract more investment (domestic and local) after LDC graduation?

2. In your opinion, what is the general perspective of the foreign investors regarding the graduation of Bangladesh?

3. What kind of role BIDA should play in this context? How effective the one stop service has been?

4. How are other client service agencies (e.g., DoE, City Cooperation, RAJUK etc.) doing in terms of providing services to the investors?

5. Are the investors getting the services on time? What is causing the delay?

6. How to make the investment procedure simple and investment friendly? Do you have any recommendations?

7. What kind of policies Bangladesh should take to attract FDI? What role would EPZs and SEZs play in this regard?

8. How can Bangladesh reduce the cost of doing business? What will be the role of technology and skilled manpower in this regard?

9. Can the preferential trade agreements (PTA, FTA, Bilateral trade agreements etc.) play a role in fostering the investment scenario in Bangladesh?

10. Are businessmen getting enough support from the policy makers? Are the policy makers taking the right measures?

11. In your opinion, which reforms you think are necessary in terms of taxation, financing, business environment after LDC graduation?

FGD Checklist (Government Stakeholders)

1. What kind of challenges will Bangladesh face due to LDC graduation in terms of private investment?

2. In the context of LDC graduation, Bangladesh will lose the LDC-specific ISMs, like duty-free & quota-free market access etc. What kind of measures is being taken by your sector/institution regarding LDC graduation?

3. What kind of opportunities do you think will be available to Bangladesh in this context after LDC graduation? What kind of policy measures will be required to tap these opportunities?

4. What are the investment prospects of Bangladesh after LDC graduation?

5. What kind of policies do you/your sector need to attract FDI? What kind of policies may help increase the FDI in your sector in the LDC graduation context?

6. What kind of role should BIDA, BEZA, BEPZA, BHTPA play to attract more investment? What kind of policy reforms are necessary to increase the private investment through these organizations?

7. Are businessmen getting enough support from the policy makers? Are the policy makers taking the right measures?

8. In your opinion, which reforms you think are necessary in terms of taxation, financing, business environment after LDC graduation?

9. Is there any inter-agency conflict which causes delay to the investment prospect?

10. How can the ministries can work together to expand the private investment?

Annexe 14: FGD Participant List

Government

1. Farah Shammi, NDC, Joint Chief- Planning Commission (General Economics Division)
2. Sk. Mukitul Islam, Joint Director, Foreign Exchange Investment Department, Bangladesh Bank,
3. Md Ahsan Ullah, Deputy Secretary, Manager(Investment Promotion),Bangladesh Economic Zone Authority (BEZA)
4. Md. Rakibul Hasan, Senior Assistant Secretary, Office Monitoring, Finance Division
5. Sultan Mahmud, Research Associate, Bangladesh Foreign Trade Institute (BFTI)
6. Md. Tanvir Hossain, Executive Director (Investment Promotion),Bangladesh Export Processing Zone Authority(BEPZA)
7. Md. Mamun-Ur-Rashid Askari, Joint Head, Bangladesh Trade and Tariff Commission, Bangladesh Trade & Tariff Commission
8. Md Kefayet Hossain, Assistant Director, Bangladesh Bank
9. Md. Mostafa Zaman, Senior Assistant Secretary (PRGIM & Innovation), Ministry of Industries, Ministry of Industry
10. Md. Ariful Hoque, Director (Deputy Secretary), Registration & Incentives-Foreign Commercial, Bangladesh Investment Development Authority (BIDA)
11. Anwar Hossain, Deputy Secretary, ACOPA, Support to Sustainable Graduation Project (SSGP)
12. Mohammad Masud Rana Chowdhury, Joint Secretary, Support to Sustainable Graduation Project (SSGP)
13. Md. Ahoshan Habib, Research Officer (Policy and Planning), Export Promotion Bureau (EPB)
14. Md. Shafique Uddin Bhuyan, Research Officer, Bangladesh Hi-Tech Park Authority (BHTPA)

Private sector

1. Iffat Ara Begum, PS to JS, Federation of Bangladesh Chamber of Commerce & Industry (FBCCI)
2. Sohel Parvez, Bangladesh Frozen Foods Exporters Association (BFFEA)
3. Md. Shahadat Hossen, American Chamber of Commerce in Bangladesh (ACCB)
4. Syed Muhammad Shoaib Hasan, Former Vice President, Bangladesh Agro Processing Association (BAPA)
5. Mahmuda Akter, Bangladesh Knitwear Manufacturers & Exporters Association (BKMEA)
6. Lutfullah, International Finance Corporation (IFC)
7. Md. Abdur Razzaque, President, Bangladesh Engineering Industry Owners' Association (BEIOA)
8. Fahmida Zebin, Consultant, Business Initiative Leading Development (BUILD)

Annexe 15: Action plan for enhancing private sector investment in the post-LDC era

Category	Problem Statement	Probable Solution	Action	Relevant Policy/Act	Lead Organization	Supporting Organization
Lead Organizations on Investment	Delayed operationalization of SEZs limits investment and industrial growth.	Accelerate the development and operationalization of SEZs with essential infrastructure to attract investment.	Accelerate the development and operationalization of SEZs	BEZA Act 2010	PMO	BEZA
	High land prices in strategic locations such as Dhaka, Chottogram, Gazipur deter investment in SEZs, affecting competitiveness.	Prioritize the development of proposed SEZs in southern Bangladesh such as in Bhola, Bagerhat and Barisal where the land prices are reasonable.	Implement the SEZs at the Southern part of Bangladesh	BEZA Act 2010	PMO	MoL, BEZA
	Limited number of PPP economic zones restricts opportunities for leveraging private sector investment and expertise.	Expand the establishment of PPP economic zones to leverage private investment and operational expertise.	Establish more PPP economic zones.	BEZA Act 2010	PMO	BEZA
	Investors face complexities and delays due to the many divisions of services required for investment processes.	Streamline all the required processes/services into five categories: land, buildings, fire safety, environmental compliance, and taxation.	Expand the OSS coverage and streamline the services	One-stop Service Act 2018	BIDA	BEZA, BEPZA, BHTPA
	Manual land management processes are inefficient, prone to errors, and lack transparency. Therefore, the foreign investors lose their confidence to invest due to this lack of transparency.	Accelerate the transition to a digital land management system to improve efficiency, accuracy, and accessibility of records.	Accelerate the record-keeping process of land management.	Land Reform Act 2023	MOL	
FIPPA Act 1980	Existing legislation is outdated and not aligned with contemporary global issues, affecting Bangladesh's competitiveness.	Update the legislation to reflect current global standards, enhancing investment appeal and compliance with international commitments.	Revise the FIPPA Act 1980	FIPPA Act 1980	MoI	BIDA

Category	Problem Statement	Probable Solution	Action	Relevant Policy/Act	Lead Organization	Supporting Organization
NBR	Frequent issuing of SROs by NBR result in unpredictability and lack of transparency.	Restrict NBR's SRO issuance authority and introduce parliamentary oversight for greater transparency.	Limit NBR's authority to issue SROs ensuring parliamentary oversight		NBR	
	Current customs processes are complex and time-consuming, hindering trade efficiency.	Develop and implement a National Single Window for streamlined customs processes to facilitate trade.	Implement the National Single Window by 2026		NBR	
	NBR being both the tax policymaking and implementing agency creates the possibility of discretionary actions.	The tax policymaking and implementing agency should be two separate entities.	Make two different agencies responsible for tax policymaking and implementation.		MOF	
FTA and Tariff	Absence of FTAs with major trading partners limits market access and trade opportunities for Bangladesh. Engage in FTAs can improve the compliance and regulatory issues which in turn can improve the investment climate for both domestic foreign investors.	Engage in diplomatic and trade negotiations to establish FTAs with critical economic partners.	Prioritize signing FTAs with key trading partners like India, China, Japan, South Korea, and Malaysia.	RTA Policy 2022	MOC	BTTC
	Tariffs on imports and protections for nascent industries, when not limited by time, can prolong the period these industries remain in their infancy, impacting their development and performance.	Encourage the establishment of new industries by imposing import-level tariffs and providing timely protection to infant industries.	Rationalize imposing import-level tariff and provide fixed time protection to infant industries.	National Tariff Policy 2023	NBR	
Customs related	Outdated equipment at all sea and land ports causes operational delays and increases logistics costs.	Address delays and cost fluctuations caused by outdated equipment in Mongla port by supplying and implementing updated equipment for efficient container handling.	Upgrade the ports with modern equipment.		BLPA	

Category	Problem Statement	Probable Solution	Action	Relevant Policy/Act	Lead Organization	Supporting Organization
	Delayed and unattended consignments lead to congestion and inefficiencies in port operations.	Introduce a demurrage policy to minimize port congestion and encourage timely consignment collection.	Implement a demurrage policy to discourage unattended consignments		BLPA	
	Inadequate advanced cargo tracking systems within the port and beyond the port affects the efficiency and security of cargo movement.	Adopt advanced cargo tracking to enhance security and efficiency of cargo movement.	Utilize advanced cargo tracking systems, such as real-time checking and modernized GPS within the port and beyond the port.		BLPA	
	Inefficient inspection procedures at PWQ, BSTI, BCSIR, DoF, DAE cause delays and increase the cost of doing business.	Implement risk-based inspection procedures such as post clearance audit (PCA) to streamline customs operations and reduce unnecessary delays.	Standardize and possibly automate inspection procedures, utilizing risk management techniques such as PCA to target inspections more effectively.		Bangladesh Customs	
	Delays in testing services of BSTI, BCSIR, PQW, and DEA prolong customs clearance times.	Reduce the delivery time of testing services of BSTI, BCSIR, PQW, and DEA to streamline customs clearance.	Establish pre-defined delivery times of each testing services and introduce a system of providing explanation of any delay from the fixed time of service.		Bangladesh Customs	BSTI, BCSIR, PQW, and DEA

Category	Problem Statement	Probable Solution	Action	Relevant Policy/Act	Lead Organization	Supporting Organization
	Slow adaptation of electronic invoicing by the related stakeholders hampers efficiency and transparency in financial transactions.	Facilitate the transition to electronic invoicing for improved efficiency and fraud reduction.	Mandatory the electronic invoicing.		Bangladesh Customs	
SME	Merging small and medium enterprises into a single category i.e., SMEs causes a lack of attention to small enterprises in loan disbursement.	Create a nuanced policy framework that recognizes the unique needs of micro, cottage, and small industries to provide targeted support.	Include a separate provision to detail out the loan disbursement percentage for micro, cottage and small enterprises out of total SME loan.	SME Policy 2019	MOIND	
	Gender-based barriers in loan access deter female entrepreneurship, limiting economic diversity.	Remove gender-based loan access barriers to empower female entrepreneurs and enhance economic diversity.	Eliminate the requirement for male guarantors for female entrepreneurs to access loans.	SME Policy 2019	MOIND	
Capital Market	The rise of large local and multinational corporations in the manufacturing sector has created a disconnection between the stock market and the real economy, as many of these companies are reluctant to go public.	Formulate and implement necessary regulations for the multinational companies for joining in the stock market.	Enforce mandatory listing after a specified period of time for multinational corporations.	Bangladesh Securities and Exchange Act, 2022	BSEC	
	A common occurrence in the domestic stock market is the upward movement of low-performing stocks, regardless of how the market indices respond.	Control the upward movement of low-performing stocks.	Re-examine the high-cost surveillance software utilized by the Bangladesh Securities and	Bangladesh Securities and Exchange Act, 2022	BSEC	

Category	Problem Statement	Probable Solution	Action	Relevant Policy/Act	Lead Organization	Supporting Organization
			Exchange Commission (BSEC).			
Capital Market	The yield rate of government bonds in Bangladesh is not market-based and often falls below normal deposit rates. This discrepancy creates instability in the money market	It is crucial for the bond yield rate to be determined by market dynamics to ensure that investors find government bonds profitable for their business activities.	Allow the market determined bond yield rate.	Bangladesh Securities and Exchange Act, 2022	BSEC	
	Smart bidding in the bond market is not ensured and there are swift changes in bond yields.	The central bank should work towards maintaining stability.	Discontinue the participation of non-primary dealers in government bond auctions.	Bangladesh Securities and Exchange Act, 2022	BSEC	Bangladesh Bank
	The absence of an active secondary market for trading bonds in Bangladesh hampers the full benefits of this fundraising tool	Ensure secondary trading of bonds.	Implement strong regulations to protect against premature termination of bond products.	Bangladesh Securities and Exchange Act, 2022	BSEC	
Skill	Limited presence of BITAC branches restricts industrial skill development to a few regions, hindering nationwide industrial growth.	Establish additional BITAC branches in all major industrial hubs to support localized skill development.	Expand the number of BITAC branches from 5 in all industrial hubs/clusters identified by Bangladesh Bank SME policy.	BITAC Bill 2019	BITAC	
	Limited access to TVET in remote areas restricts educational and vocational opportunities for residents.	Establish e-learning TVET institutions in Bangladesh to provide access to hard-to-reach areas.	Create e-learning TVET platforms to extend educational reach to isolated and underserved areas.	Bangladesh Technical Education Board Act, 2018	BTEB	

Category	Problem Statement	Probable Solution	Action	Relevant Policy/Act	Lead Organization	Supporting Organization
Coordination	Lack of clear roles and coordination among other government agencies and NBR complicates and lengthens the customs processes.	Clarify the roles of OGAs and establish formal mechanisms for collaboration to streamline customs processes.	Create a formal coordination mechanism	National Tariff Policy 2023	NBR	OGAs (BSTI, BB, BAEC, DAE, CCI&E etc.)
	Inadequate collaboration among BEZA, NBR, and Customs complicates the management of special tariff benefits, affecting investor incentives.	Form a committee with BEZA, NBR, and Customs to harmonize tariff and customs processes, simplifying the investment climate.	Create a formal coordination mechanism	National Tariff Policy 2023	Bangladesh Customs	NBR, BEZA
	Absence of a structured system for managing complaints and feedback limits responsiveness to investor and repatriation issues.	Create a mandatory system for logging complaints and comments related to investment and repatriation, with regular analysis for improvement.	Create a structured complaints and feedback mechanism system		BB	
Service sector	Current definitions of 'industrial undertakings' do not clarify about the inclusion of service industries in the Foreign Investment Promotion and Protection Act 1980. Excluding service industries from 'industrial undertakings' limits the scope for investment in the burgeoning service sector.	Amend the definition to include service industries, expanding investment potential in the service sector.	Ensure clarity in the provision	FPIPPA 1980	MOIND	
	The industrial policy's narrow focus on priority sectors overlooks the expanding importance of service sectors in economic growth. The list of priority sector overlooks the potential service sectors such as Transport and Communication, E-commerce, software development etc.	Broaden the scope of priority sectors in industrial policy to incorporate emerging service industries, reflecting their economic potential.	Expand the list of priority sectors in the new industrial policy to include more service sectors such as Transport and Communication, E-commerce, software development etc.	IP 2022	MOIND	

Category	Problem Statement	Probable Solution	Action	Relevant Policy/Act	Lead Organization	Supporting Organization
Data	Lack of accessible data for domestic industries in Bangladesh hampers strategic decision-making and competitiveness.	Provide readily available data and information to domestic industries for informed decision-making.	Develop a centralized digital platform to collect, update, and disseminate industry-relevant data.	Statistics Act, 2013	BBS	BIDA
	Lack of a comprehensive IRMS hinders effective investment data collection and stakeholder coordination.	Implement and enhance the Investor's Relationship Management System (IRMS) by finalizing the development of the IRMS system, including its specific module for collecting investment data, in coordination with relevant government agencies and stakeholders.	Complete the development of the IRMS with investment data modules and ensure coordination among stakeholders .		BIDA	
	Limited data on complaint types and frequencies hampers the ability to address systemic issues.	Regularly collect and analyze complaint data to identify trends and develop targeted improvements.	Collect data on the frequencies of each type of complaints and prepare an annual report on that.		BIDA	
Others	Short validity periods of trade and environmental licenses increase administrative burden on businesses.	Extend the validity of trade and environmental licenses to reduce the frequency of renewals and ease operational constraints.	Lengthen the validity period of the trade and environmental related licenses than the present validity period, for example: three years to five years.		Local Government such as City Corporation, DoE etc.	
	Absence from international trademark protection regimes weakens IP rights enforcement and global trade opportunities.	Join the international trademark protection regime, including the Madrid Union on the Law of Trademarks, to enhance intellectual	Join key international IP protection treaties to strengthen IP	FPIPPA 1980	MOIND	

Category	Problem Statement	Probable Solution	Action	Relevant Policy/Act	Lead Organization	Supporting Organization
		property rights and global trade positioning.	rights and expand global market access.			
	Inadequate logistics policies reduce the global competitiveness of Bangladeshi goods.	National Logistic Development policy has been drafted	Finalize and implement the logistics policy.		PMO	
	Low R&D investment limits innovation, technological advancement, and competitiveness of the Bangladeshi economy.	Increase R&D investment as a percentage of GDP from 0.03% (in 2022-23) to 0.50%, aligning with benchmarks of 0.54% in Vietnam and 0.70% in India.	Raise R&D spending to at least 0.50% of GDP.		All ministries	
	The absence of a specialized court for commercial disputes results in prolonged legal battles and uncertainty for businesses.	Establish a commercial court dedicated to the settlement of commercial disputes.	Set up a commercial court focused on the quick resolution of commercial disputes	The Commercial Documents Evidence Act, 1939	Law and Justice Division	
	Non-availability of legal texts in English poses barriers for non-Bengali speaking investors, impacting investment flows.	Provide official translations of all legal documents to facilitate understanding and compliance by international investors.	Translate all the acts and policies into English		All Industries	Law and Justice Division

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