Enhancing Trade and Investment between the United States and Bangladesh

A Trade and Investment Report by Members of the Asia Society Advisory Committee in Washington D.C.

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Foreword

Vision 2021, a road map intended to help transform Bangladesh into a middle-income country by 2021, was announced in January 2009 by Prime Minister Sheikh Hasina of Bangladesh to commemorate the country's fiftieth anniversary of independence. Vision 2021 entails becoming a participatory democracy, achieving transparency and accountability in Bangladesh's system of governance, reducing poverty, and expanding growth and the equitable distribution of income. Bangladesh deserves the strong support of friends around the world to bring this bold vision into reality.

In order to play a small role in facilitating this process, this Asia Society Bangladesh Trade and Investment Report seeks to highlight the achievements of Bangladesh over the last four decades, detail some of the country's trade and investment impediments, describe growth opportunities in a number of economic sectors, and suggest steps that can be taken to help Bangladesh achieve its Vision 2021 goals.

Although Bangladesh has made significant progress in the fields of population growth, health, education, and telecommunications, the country still needs sizable investment for the expansion of trade and industry in order to increase growth rates and absorb the projected large increase of its labor force.

This Asia Society Investment Report is intended to assist Bangladeshi government officials in their efforts to increase trade, investment, and employment—steps that urgently are needed to meet the Vision 2021 targets. The report also hopes to encourage U.S. government agencies to accelerate bilateral trade and investment relations and the to urge the U.S. corporate sector to further explore the growing investment and trade opportunities in Bangladesh.

We are enormously grateful to many people who made this initiative possible, particularly Jack Garrity, the project director, Javed Hamid, the project chairman, as well as all our Advisory Committee members for their insightful contributions, comments, and suggestions on the report and the research staff in Washington D.C. for all their efforts in compiling the report.

We would also like to thank our supporters—Chevron Corporation, The Coca-Cola Company, and ConocoPhillips Company—for their generous financial support, without which this report would not have taken shape.

The Asia Society endeavors to examine crucial economic and social issues in Asian countries through such policy reports, and this is a yet another addition to our ongoing series. We hope that this report will initiate a new dialogue between the government of Bangladesh and both the Bangladesh private sector and U.S. corporations. We also hope that this report will add momentum to the steps being undertaken by the governments of Bangladesh and the United States to increase the flow of goods, services, and investment between the two countries.

Vishakha N. Desai
President, Asia Society

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Chairman's Statement

"Bangladesh will fall behind if it stands still, stay even if it jogs, and must sprint if it wants to get ahead."

This Asia Society Trade and Investment Report, "Enhancing Investment Relations between the United States and Bangladesh," is intended to assist the Bangladesh government in its efforts to meet Prime Minister Sheikh Hasina's Vision 2021 targets, which seek to make Bangladesh a middle-income country. This is an ambitious goal, and in order to achieve it, Bangladesh will require significant increases in economic growth, trade, and foreign investment.

In this effort, the U.S. government can play an important role by helping to improve bilateral trade and investment relations with Bangladesh and by raising awareness among U.S. corporations about the growing investment and trade opportunities in Bangladesh.

The direction of this report has been guided by a 13-member Advisory Committee composed of representatives from Bangladesh's government, private sector, and nongovernmental organizations, along with U.S. and other private-sector, nonprofit, and academic professionals, all of whom have extensive experience working with Bangladesh and other emerging-market countries. The Advisory Committee members are acutely aware of the country's substantial achievements in recent years, as well as the significant economic and social challenges that currently face the Bangladesh government. Nevertheless, the Advisory Committee representatives unanimously believe that there is now a critical window of opportunity for Bangladesh to make major economic progress through the rapid growth of trade, investment, and employment.

Although this report draws substantially on previous documents submitted to the Bangladesh government in recent years, it focuses on key issues and draws attention to Bangladesh's investment and trade opportunities and challenges. It is also intended to give policy makers a range of regional comparisons, not only to show where Bangladesh currently ranks, but also, and more importantly, to emphasize what other countries have been able to achieve by implementing policy and institutional improvements in their trade and investment regime.

This Trade and Investment Report was directed by Jack Garrity, executive director of the Asia Society in Washington, D.C., and the center's economic research staff, who have worked for one year reviewing detailed reports published by the International Finance Corporation (especially the Bangladesh Investment Climate Fund), the World Bank, the International Monetary Fund, the

Asian Development Bank, and a number of international organizations, in addition to Bangladesh government and private-sector data. The director also spent two weeks in Bangladesh meeting with government officials, international aid organizations, policy institutes, chamber of commerce officials, Bangladesh companies, and U.S. multinational corporations. These meetings and discussions were supplemented by numerous seminars and briefings with U.S. government officials, Bangladesh embassy representatives, and corporate leaders in Washington and New York.

Bangladesh has come a long way after being ravaged by natural calamities and by political instability and social turmoil. While the country attained freedom and political autonomy in 1971, political power has changed hands from a parliamentary democracy, to a temporary military regime, to a socialist party, and then a caretaker government in 2007 and 2008, until the country returned to democracy when the Awami League won the parliamentary elections in December 2008 and Her Excellency Sheikh Hasina became prime minister.

Not only have the latest round of democratic elections brought much-needed political stability to the country, but also Bangladesh has matured as a nation, with steady social progress in the areas of education, health, poverty reduction, and improved means of communications. This has been accomplished with the support of growth in gross domestic product (GDP) that has averaged 6% in recent years, a result of a major expansion in the manufacturing sector, especially in garment exports. Worker remittances from abroad also have increased, reaching approximately US$11 billion for fiscal year 2010.

The strong economic growth achieved by Bangladesh has been extremely important, as the country's growing labor force has increased to almost 80 million workers. Employment generation remains one of the most important and pressing challenges that Bangladesh faces, and the situation will become even more critical in the future, as the country's labor force is expected to increase to 125 million by 2050.

Vision 2021 calls for a significant increase in GDP growth, from 6% to 8% by 2013 and to 10% in 2017. Obviously, increasing growth will not be easy and will require large amounts of investment capital. Currently, only India and China are achieving sustainable growth rates greater than 8%. It is clear that in order to achieve these ambitious targets, Bangladesh must significantly increase the amount of revenue received from exports, overseas remittances, and domestic and foreign investment. In particular, raising foreign investment from its current level of less than US$1 billion per year to the required level of around US$4 billion per year will be a major challenge.

Remittances play an increasingly important role in Bangladesh's economy, representing about 12% of GDP in 2010. Insufficient job opportunities in the domestic economy and the promise of higher wages abroad have led to an exodus of Bangladeshi workers overseas. In 2010, Bangladesh ranked seventh in the world with US$11 billion in global remittances, behind India (US$55 billion), China (US$51 billion), and the Philippines (US$20 billion). However, on a per capita basis, Bangladeshi workers remitted US$2,000 annually, far lower than the levels achieved by the country's Asian competitors. Experience in Bangladesh shows that remittances would be much higher if workers received basic training courses before they were sent overseas.

In terms of exports, Bangladesh's revenues increased from US$6.5 billion in 2001 to US$ 16.2 billion in fiscal year 2010, with readymade garments composing the vast majority of exports. Despite this progress, Bangladesh's export volumes are far lower than other countries in the region, such as Malaysia, India and Thailand. Exports from Bangladesh have been boosted by duty-free access to the European Union, Canada, Australia, Japan, Norway, and China. The United States does not provide duty-free access to Bangladesh exports, and only a few goods qualify under the U.S. Generalized System of Preferences.

There is an urgent need and a great opportunity to significantly increase Bangladesh's export revenue and, by extension, employment in the coming years. There are a number of ways that Bangladesh can achieve this goal. Although Bangladesh ranks fourth in the world in garment exports, behind China, the European Union, and Turkey, it can expand its garment exports significantly by moving up the value chain in the textile sector and by pushing for duty-free access to the U.S. market.

At present, 96% of Bangladesh's exports to the United States consist of readymade garments and textile products, which are bought by retail giants such as Walmart, Gap, and Target. The country's exports to the United States are a major source of livelihood for many Bangladeshis, especially women, who make up 80% of the 3 million workers in the garment and textile sector. Although Bangladesh can apply for preferential tariffs for some products under the U.S. Generalized System of Preferences, currently, only 0.62% of the country's goods exported to the United States qualify under this system. As a result, import duties on Bangladesh exports to the United States amount to more than US$500 million per year. This is a huge sum, and dwarfs the foreign aid that Bangladesh receives from the United States.

Related to this, the United States has expressed an interest in establishing a platform for mutual cooperation and regular high-level dialogue in which both sides can raise issues related to bilateral trade and investments. Although the Bangladesh government has expressed reservations over the inclusion of labor rights, environmental protection regulations, and intellectual property rights clauses in the agreement, an institutional framework that is satisfactory to both sides should be established.

Another avenue for Bangladesh to increase export revenue is through the diversification of its manufactured exports. There is an immediate opportunity to achieve this, as many labor-intensive industries in China will be looking to relocate their low-end products to countries in Southeast Asia. An opportunity close to home is the rapid expansion of trade with the country's large and fast-growing neighbor, India. The potential for a major export expansion between the two countries is massive, and eventually could be similar to the very large border trade between the United States and Mexico.

Bangladesh is favorably situated in the middle of the world's three highest-growth areas—India, China, and Southeast Asia. Therefore, Bangladesh should no longer consider itself in South Asia, but instead in the center of Asia. It is imperative that Bangladesh develop the necessary economic environment and connecting transport infrastructure to enhance its trade relations with its neighboring countries, and this, in turn, will provide numerous economic advantages and opportunities for Bangladesh.

Although Bangladesh is becoming an attractive investment destination, the country still lags far behind its Asian neighbors in both foreign direct investment, which has stagnated over the last five years, and foreign portfolio investment, which has been negligible. In contrast, these foreign investment flows have helped drive economic growth in surrounding countries, such as China, India, Vietnam, Thailand, and Malaysia. There is no doubt that Bangladesh needs to take advantage of these foreign investment flows if it wants to achieve its Vision 2021 goals. At present, the country's investment climate is not very attractive. Underlying this problem is the fact that there is an internal lack of appreciation of the economic benefits of foreign direct investment, which may explain the inertia on the part of many people in the government to take significant, tangible steps to facilitate and promote foreign investment. In addition, a sprawling bureaucracy and corruption result in unnecessary delays and frustrations for investors trying to obtain the required approvals and permits. Among other major concerns identified by investors are the shortage of power and energy and inadequate transport facilities and other infrastructure.

The government is aware of the severity of these problems and has taken steps to improve the situation, but much more has to be done and at a much faster pace. A key element in this process is the rapid launch of a new public–private partnership program, which has been implemented successfully in a number of Asian countries. With such a program in place, needed infrastructure investments in energy, coal, power plants, transportation, and telecommunications can be initiated. There are also opportunities to attract low-end manufacturing investments, especially those currently located in China, including textiles, footwear, electronics assembly, and other labor-intensive activities.

In recent years, the Bangladesh government has instituted a number of policy and institutional changes to help promote both exports and foreign investment, but these have been carried out by a wide number of ministries and agencies, and often in an uncoordinated and fragmented manner. This has resulted in much lower achievements in trade as well as in foreign investment, than should be expected from a rapidly growing country.

In contrast, the government successfully has established clearly defined agendas for the country's health and education sectors and has set up comprehensive policy guidelines, along with focused and coordinated administrative institutional structures and delivery mechanisms to implement its policies. This has led to significant progress in these two sectors. To date, however, no such comprehensive government agenda has been established in the area of trade and investment. As a result, there is neither a clearly articulated comprehensive and integrated government trade and investment agenda, nor any institutional focal point for implementing government policy.

Government policies related to trade and investment are implemented by a number of agencies, including the Board of Investment, Bangladesh Export Processing Zones Authority, Ministry of Commerce, Export Promotion Board, Ministry of Finance, Ministry of Industry, Privatization Commission, Public–Private Partnership, and the new Special Economic Zones. The Board of Investment is the premier agency that processes, facilitates, and promotes foreign direct investment in Bangladesh. The Bangladesh Export Processing Zones Authority is responsible for Export Processing Zone investments. It is not clear which agency will have authority for the new Special Economic Zones. Likewise, the home of the important Public–Private Partnership program has bounced between the Board of Investment and the Ministry of Finance. On the export side, the Export Promotion Board and the Ministry of Commerce have overseen this area. Finally, the Ministry of Industry and the Privatization Commission have been responsible for the state-owned enterprise sector.

As a result of this policy and institutional fragmentation, Bangladesh's trade and investment policies, including the Public–Private Partnership program, are not, and will not be, as successful as the government expects. The lack of a focused agenda in this sector has resulted in suboptimal results compared to Bangladesh's Asian neighbors, and has unnecessarily complicated the investment process for many exporters and foreign investors, and hindered the government's efforts to install greater administrative transparency.

A key first step in establishing the agenda should be to appoint a senior advisor for trade and investment who would report directly to the prime minister. The senior advisor should oversee and coordinate the trade and investment activities undertaken by government ministries and agencies. In this way, the senior advisor could take a comprehensive view of the sector and assess the progress of the individual agencies in implementing the government's goals.

An important part of the agenda is the formation of a coordinating board made up of the heads of the government ministries and agencies involved in trade and investment. The coordinating board should be chaired by the senior advisor for trade and investment and should meet monthly to discuss a range of issues, particularly Bangladesh's up-to-date export and investment achievements and measures that could be taken to improve these results.

A key element for implementing the government's trade and investment agenda is the establishment of the Bangladesh Trade and Investment Center (BTIC), which should be located in the modern business section of Dhaka. The BTIC would be a "one-stop shop" storefront that could be managed by donor-funded experts in trade and investment with staff seconded from relevant government agencies. The BTIC would become the primary interface and conduit for domestic and foreign exporters and foreign investors seeking to work with any of the trade and investment agencies. Along with the BICF management and seconded government staff, the BTIC facility should also house coordinating representatives from the Board of Investment, Bangladesh Export Processing Zones Authority, Special Economic Zones, Public–Private Partnership, and Export Promotion Board, which would be able to assist with inquires and coordinate necessary follow-up actions.

Under the government's trade and investment agenda, it should establish a new public–private dialogue as another step to improve government relations with businessmen in Bangladesh. Such public–private dialogue councils and partnerships have been established in more than 30 emerging-market countries, and in most cases have proved very effective. This will be particularly useful because of the government's recently announced Public–Private Partnership for joint infrastructure development, as well as the newly passed legislation establishing Special Economic Zones.

A new Public–Private Business Council could include senior members of government, heads of trade and investment agencies, representatives from the chambers of commerce, business associations, foreign companies, and multilateral financial institutions. Other members could be added as warranted. To enhance cooperation, all committees should be co-chaired by one member from government and one representative from the private sector. It also will be critical that the Public–Private Business Council meet in plenary session twice a year, and at one of these sessions, the prime minister should address the council.

Bangladesh suffers from a generally poor image overseas. This is not always deserved, but Bangladesh has done little or nothing to overcome this problem. As part of the government's trade and investment agenda, this perception must by changed, particularly in the country's logical constituencies in Asia, Europe, and North America, where most of its trading partners, foreign investors, financial institution partners, potential foreign institutional investors, as well as influential media outlets are located.

It is critical to reach all of these constituencies on a regular basis with economic policy, business, trade and investment, and stock market news from Bangladesh. If the government does not let the world know about the good things that are happening in Bangladesh, who will? For example, in recent months, the Supreme Court reinstated Bangladesh to its founding status as a secular state; Parliament passed legislation to establish Special Economic Zones; and U.S. president Barack Obama congratulated Prime Minister Sheikh Hasina on Bangladesh winning a United Nations Millennium Development Goal award. Yet not one word was seen in the U.S. press, never mind a photo, about these important and positive events about Bangladesh.

Other countries in Asia do a much better job with international communications, and most engage professional public relations and communication firms to assist them. Bangladesh needs to do the same, but should start in a moderate way and then gradually expand the activity over the next few years. Whichever firm is engaged, it should have a presence in Hong Kong, Singapore, London, and New York or Washington. Over time, this will prove to be money well spent, and it certainly will help improve the image of Bangladesh in the medium term.

In the 1990s, there was a formal U.S.–Bangladesh Business Council under the aegis of the U.S. Chamber of Commerce, with 35 active members. Its membership consisted primarily of U.S. oil, gas, and power companies, but it disbanded in 2000 when the Bangladesh government did not proceed with planned investment programs. A reconstituted U.S.–Bangladesh Business Council could be an important and effective body for both Bangladesh and the United States. It should be revived to become a more active forum for U.S. corporations trading with, and investing in, Bangladesh. This forum would offer a number of opportunities for both countries and would provide a platform in the United States to discuss issues and opportunities in Bangladesh and to host visiting Bangladeshi officials when they come to Washington.

In conclusion, the Advisory Committee members recognize that Bangladesh has come a long way since independence, but the reality is that it still has a long way to go for the country to move from least developed country status to become a middle-income country. Bangladesh's most pressing economic challenge is to generate jobs for the country's approximately 80 million labor force, which will swell to 125 million by 2050. Based on the experience of other Asian countries, such massive job creation can only come from a major effort to significantly increase its manufacturing base. As shown by the country's rapid development in the garment industry, this can be done. However, it needs concerted and coordinated government and private-sector action and a major increase in foreign investment. Bangladesh has a window of opportunity, but it must move fast to take advantage of its opportunities.

Javed Hamid
Chairman, Advisory Committee on Enhancing Investment
Relations between the United States and Bangladesh

"Vision 2021" – A Middle-Income Country

"Dismissed a generation ago as a 'basket case' doomed to perpetual instability, poverty, and radicalism, Bangladesh now has a realistic hope to escape least-developed status in this decade."

– Edward Gresser, Director of the Project on Trade and Global Markets, Democratic Leadership Council, testimony before the Senate Committee on Finance, March 9, 2010.

THE ROAD TO MIDDLE INCOME STATUS

In 2009, Bangladesh prime minister Sheikh Hasina announced a national policy called Vision 2021, which outlined a number of long-term social and economic development goals to be achieved by that year, which marks the fiftieth anniversary of Bangladesh's independence. The chief objective of this policy is for Bangladesh to become a middle-income country, with an annual gross national income (GNI) per capita of at least US$996, according to World Bank criteria.

This is an exciting and challenging goal for a country that struggled to achieve independence in 1971 and, since then, has had to overcome many natural disasters and other challenges. Nevertheless, the country has achieved much more than the world realizes. Its steady progress in terms of political stability, social development, and economic growth is laudable, and these milestones are only just beginning to be appreciated by global observers.

Despite these successes, there are significant challenges to be overcome before Bangladesh can reach middle-income status. The most pressing concern in the coming years is the constant population pressure and how the government can turn this into an asset rather than a liability. Bangladesh has the seventh-largest population in the world, with approximately 160 million people; based on current growth rates, the population is expected to increase to 250 million people by 2050.

Certainly a large population can be beneficial, but in a small county such as Bangladesh, it threatens to strain land use and necessitates the constant creation of new jobs. The country's current labor force of about 79 million already faces significant unemployment, and as the labor force swells to 125 million by 2050, the key question is where 45 million new jobs are going to come from. This is an extremely critical matter, and one that will be a major determinant in the country's planned rise to middle-income status.

Based on the experiences of other countries in the Asian region, it is clear that Bangladesh will have to become a major exporter of manufactured goods in order to absorb the millions of new workers who will enter the labor force every year and to generate the export revenue to boost economic growth. This can be done, as the development of Bangladesh's garment industry has shown, but it will require strong government policies on trade and investment. It also will entail a coordinated institutional focus to develop the country's dynamic private sector and to generate the increased domestic and foreign investment needed for economic growth.creased foreign investment, required for economic growth and middle income status.

CHANGING GLOBAL PERCEPTIONS

In 1971, Bangladesh emerged as an independent nation after a bloody struggle for freedom with Pakistan. Two years of war and neglect left the country ravaged and its people in poverty. Shortly after independence, a massive crop failure in 1974 caused the deaths of more than 300,000 people as a result of starvation, a crisis that was reported widely across the globe.

Since its successful struggle for independence, the prevailing global view of Bangladesh has been that it is one of the poorest countries in the world. This view of Bangladesh's lackluster development is attributable, in part, to a statement made by Secretary of State Henry Kissinger in 1974 in which he labeled Bangladesh a "basket case."

Bangladesh has received more than US$30 billion in grants and loans from foreign donors since 1971. Nevertheless, over the years, frequent floods and cyclones that have killed thousands of farmers and displaced refugees, as well as periodic political instability, have only reinforced the world's negative opinion of Bangladesh.

The world gradually is realizing that the social and economic reality in Bangladesh is actually very different, as the country has made significant strides in terms of political, social, and economic development in recent years. Despite steady progress on many fronts, however, Bangladesh still is perceived negatively by Western countries, where media reports tend to focus on natural disasters.

PROGRESS AND DEVELOPMENT

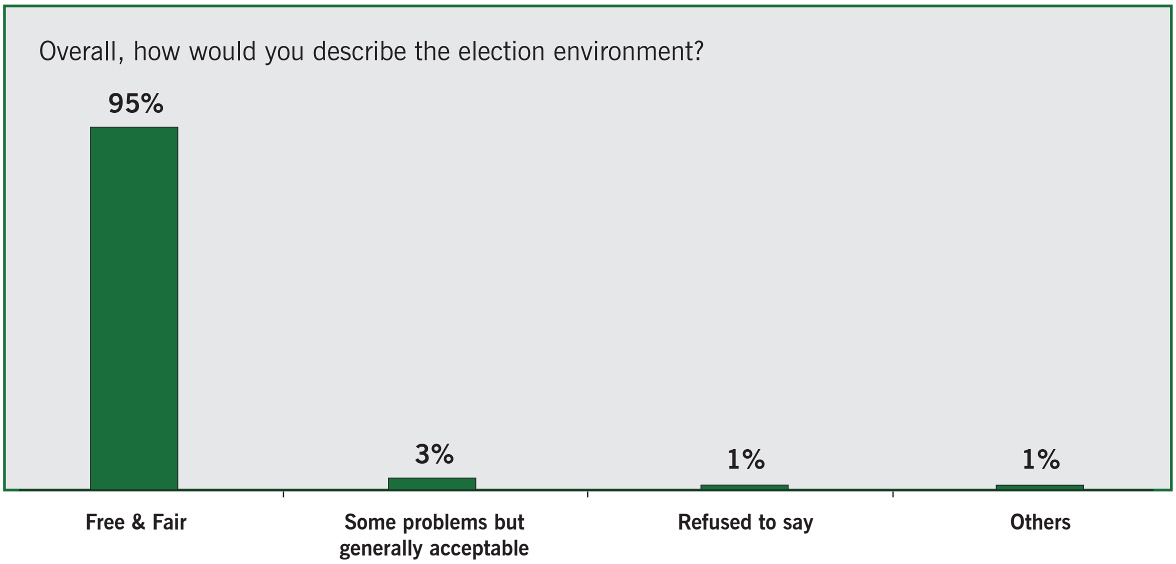
Maturing Political Legitimacy

Ravaged by years of political instability and regular military interventions, Bangladesh's democratization process has been restored, and it is gradually maturing. However, this is an uneven process, with the development of democracy and human rights on one hand, and political strife and interest groups on the other. Unfortunately, long-standing hostility remains between the two major parties, the Bangladesh Awami League and the Bangladesh Nationalist Party, and this growing political polarization has undermined the government's efforts to build a national consensus on any major issue. This situation is unlikely to change; nevertheless, it is essential for the government to leverage its leadership position and to expand economic growth by implementing proposed projects, combating corruption, and maintaining a sense of stability in order to strengthen the country's democratic legitimacy.

Democratic Elections

- In December 2008, Bangladesh returned to democracy by holding a free and fair election, in which Prime Minister Sheikh Hasina and her Awami League achieved an overwhelming electoral victory.
- Since that time, a number of municipal elections have been held, most of which were considered free, fair, and peaceful by international and domestic observers. According to the Legatum Institute, 8 out of 10 Bangladeshis believe that the elections were conducted honestly.
- Moreover, according to Transparency International, the Election Commission for the first time included a disclosure on its website of the electoral financing of all candidates and parties.

Free and Fair Elections



Source: The Nielsen Company - Bangladesh, June 22, 2010

Cultural Cohesiveness

- Bangladesh is the world's third most populous Muslim-majority country after Indonesia and Pakistan.
- Nevertheless, in July 2010, the Supreme Court struck down a 31-year-old constitutional amendment and restored Bangladesh to its founding status as a secular republic. Bangladesh now is one of the few democracies in the Muslim world.
- Although the vast majority of Bangladeshis are Muslims, Hindus constitute 16% of the population, and the nation is considered a democratic Muslim majority country, with tolerance toward all religions.
- Bangladesh is politically secular, religiously Muslim, and culturally Bengali; 97% of the population speak the same language and identify themselves as Bengalis.

Crackdown on Terrorism

- Close cooperation between the United States and Bangladesh on countering violent extremism is an important aspect of the bilateral relationship between the two countries.
- Prime Minister Sheikh Hasina has declared that Bangladesh's soil will not be allowed to be used for any type of terrorism or military activities; in February 2009, the Bangladeshi government passed the Money Laundering Prevention Act and the Antiterrorism Act.2
- As part of the government's initiative to combat terrorism, several high-profile terrorism figures have been arrested, including some from the local arm of the Pakistani terrorist group Lashkar-e-Tayyiba, the al-Qaeda affiliate Harkat-ul-Jihad-al-Islami-Bangladesh, and Jamaat-ul-Mujahideen, a small domestic group that was responsible for a wave of bombings in 2005.[1]
- The government has suppressed not only radical Islamic extremists, but also regional terrorist groups fighting against India. This has led to the arrests of several senior members of the United Liberation Front of Assam.[2]
- Bangladesh also has been at the forefront of the creation of the South Asian Task Force on Counter-Terrorism.

International UN Peacekeeping Role

- Since 1998, 92,000 Bangladeshi soldiers have served in 30 countries.
- Countries include Sierra Leone, East Timor, Liberia, and Haiti.

Women's Involvement in Politics

- As a democratic Muslim-majority country, women play a large[2] role in Bangladeshi society. Women have a major role in the Bangladesh government, and women's rights are protected by law.
- The prime minister and a number of ministers in the cabinet are women, and there is an appreciation of the need to increase the participation of women in development, in addition to their involvement in economic and political processes.
- Currently, 45 seats in the Parliament are reserved for women, and the government is seeking to increase this number.

Human Rights

- Bangladesh has made steady strides in the area of human rights since the new democratically elected government came into power, although some areas of concern remain.
- The National Human Rights Commission was formed in 2008, with more than 60% of its members either women or minority representatives. The commission's objective is to engage the masses as well as public- and private-sector organizations in heightening awareness of human rights.

[1] "Country Reports on Terrorism 2009," U.S. Department of State, August 5, 2010, http://www.state.gov/r/pa/prs/ps/2010/08/145737.htm.
[2] Sadanand Dhume, "Bangladesh, 'Basket Case' No More," Wall Street Journal, September 29, 2010.

- The key functions of the commission include investigating complaints of human rights violations, promoting awareness, assisting in the formation of legislation on human rights, and implementing international human rights treaties.

Anticorruption Measures

- Despite the efforts of the prime minister and the establishment of an Anti-Corruption Commission, rampant corruption remains an ongoing and pressing issue for the country.
- In 2001, Bangladesh ranked lowest among all countries, according to Transparency International's Corruption Perceptions Index, but since then, its ranking gradually has improved. The country now ranks 134 out of 178 in the world and 25 out of 34 in the Asian region, just ahead of the Philippines and Pakistan, but below other neighbors such as India, Indonesia, Vietnam, and Malaysia in the 2010 report.

Steady Social Progress

Bangladesh has approximately 160 million people, making it the seventh-largest population in the world. The large population can be beneficial, but also exerts extreme pressures on land availability and use, in addition to the need to continuously generate employment. Over the past 10 years, Bangladesh has made considerable progress to curb population growth: the average Bangladeshi woman now bears fewer than three children in her lifetime, down from more than six in the 1970s. Nonetheless, projections forecast explosive growth in Bangladesh's population, to approximately 250 million over the next four decades. This poses massive challenges for the government in terms of employment and the delivery of social services. Given adequate policy measures, however, authorities can transform these challenges into opportunities to develop human capital and, in turn, facilitate the diversification of the country's trade and manufacturing industries.

Population Pressure and Growing Labor Force

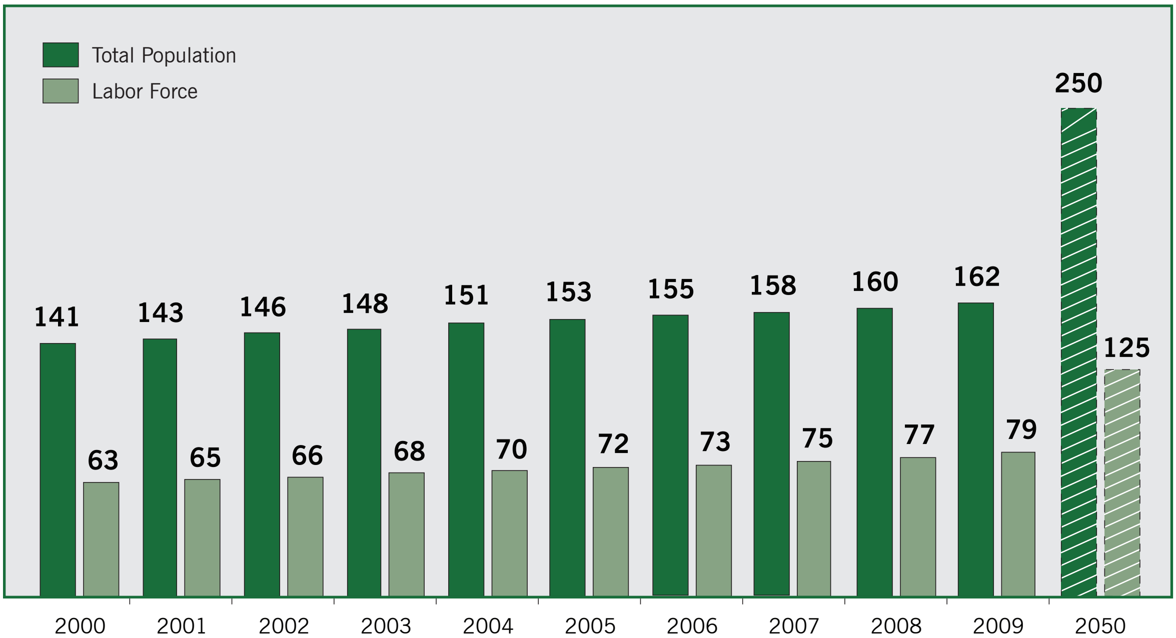
- Continuing government and donor efforts have helped decrease population growth from 1.7% in 1993 to 1.4% in 2008, and to 1.3% in 2010. The fertility rate declined from 6.7 in the 1970s to 2.7 in 2009. However, even with lower growth rates, the population still is projected to increase to approximately 250 million by 2050.[3]
- While the government's official policy is to promote one child per family, it has yet to mount any major campaign to pursue this goal because of religious sensitivities.
- Bangladesh has a young and dynamic population, with an average age of 26; 57 million people (approximately 35%) are currently under the age of 15, and 120 million (75 %) are under the age of 40. This is both an advantage and a serious challenge, as it will expand the country's labor force rapidly and heighten employment pressures in the coming years.
- Presently, approximately 2 million people join the labor force every year. Despite significant expansion in the manufacturing sector, job creation in Bangladesh has not been able to keep pace.

[3] James F. Moriarty, U.S. Ambassador to Bangladesh, remarks at a roundtable discussion, U.S. Chamber of Commerce, June 30, 2010.

As a result, although the country's official unemployment rate is 5.1%, the underemployment level is about 40%.

- Moving forward, it is estimated that when the country's population reaches 250 million in 2050, Bangladesh's labor force will be approximately 125 million—an increase of about 50 million job seekers compared to today. Obviously, a massive expansion of the manufacturing sector is the only way for the country to create sufficient jobs to accommodate such a huge labor force.

Growing Population and Labor Force (million people)



Source: World Bank, World Development Indicators, August 2010 (2050 estimated)

Progress Toward Millennium Development Goals

- At a reception for world leaders attending the United Nations General Assembly in New York in September 2010, President Barack Obama congratulated Prime Minister Sheikh Hasina for receiving a prestigious UN award earlier in the week. Bangladesh was one of six countries in Asia and Africa feted for its progress toward achieving its Millennium Development Goals, a set of targets that seek to eradicate extreme poverty and boost health, education, and the status of women worldwide by 2015.
- The country is progressing in its commitment to the United Nations Development Programme's Millennium Development Goals, which consist of eight goals touching on basic social issues. Among the Millennium Development Goals, Bangladesh is on track to reach five of the eight goals, and it is moving toward achieving its targets for the remaining three goals.

Bangladesh's Status on MDG Goals

1. **Goal:** Eradicate Extreme Poverty & Hunger
Status: *On track to achieve.*

2. **Goal:** Achieve Universal Primary Education
Status: *On tracked likely to be achieved, but the tertiary level education still needs attention.*

3. **Goal:** Promote Gender Equality & Empower Women.
Status: *Progress, but needs attention.*

4. **Goal:** Reduce Child Mortality
Status: *Bangladesh won UN Award in 2010 to achieve the goal.*

5. **Goal:** Improve Maternal Health
Status: *Not on track but possible to achieve if some changes are made.*

6. **Goal:** Combat HIV/AIDS, Malaria & Other Diseases
Status: *Partially on track and possible to achieve if some changes are made.*

7. **Goal:** Ensure Environmental Sustainability
Status: *On track but not fully possible to achieve if some changes are made*

8. **Goal:** Develop a Global Partnership for Development
Status: *Lagging behind.*

Source: Asia Foundation and MDG Monitor, 2010

Better Access to Health, Education, and Communications

- Bangladesh is ranked among the bottom 30 countries in the world in nearly all measures of public health and among the bottom 20 in education enrollment, according to the Legatum Prosperity Index.
- Despite these rankings, over the last decade, Bangladesh has witnessed significant improvements in a variety of social indicators, including child mortality, health and nutrition, expansion of education (particularly primary education), and increased access to electronic communications such as television, telephones, and computers.
- The government's policy is to push for continued social progress in the delivery of health, education, and communications services throughout the country.

Poverty Reduction

- Bangladesh managed to reduce the percentage of the population living below the poverty line from 60% to 45%. Although 90 million people have been raised above the poverty line, approximately 72 million still are earning less than US$1.25 per day.[4]
- There are no longer massive cases of acute starvation, as occurred in the years after independence. To ensure that this does not happen again, a food social safety net has been set up to protect the poorest in society. Nevertheless, food security remains a significant concern of the government.

[4] International Poverty Line as defined by the World Bank using improved price data from 2005.

Health Improvements

- Public health remains an important development issue for the government, and malnutrition and childhood disease remain serious issues. The health infrastructure is limited, with not enough hospital beds.
- However, there have been noticeable improvements. In 1970, life expectancy was only around 47 years, but by 2010, it had risen to 65 years, an increase of almost a generation.
- Children now are being protected more effectively from deadly diseases: about 75% of all Bangladeshi children had been immunized in 2009, compared to only 52% in 1991.

Education Gains

- The quality of Bangladesh's education system is well below global standards. Some improvements have been made in basic literacy rates, but more effort is required to increase enrollment and attendance in both primary and secondary schools.
- The basic literacy rate has improved from 20% in 1974 to 25% in 1997, and to roughly 70% in 2010.
- The net primary school enrollment rate was 87% in 2006; however, the rate of secondary school enrollment was only 41%, which is a considerable concern for the country's growing labor force.
- Educational limitations have led to a poorly educated workforce: the average Bangladeshi worker has just 1.2 years of secondary education and 0.2 years of tertiary education.[5]
- In order to improve the quality of the labor force, more skilled, educated workers are needed, as Bangladesh ranks behind the majority of surrounding countries in literacy and education rankings.

Communications Expansion

- Like everywhere around the globe, communications technology rapidly has become widespread among all sectors of the population in Bangladesh.
- Cell phones are transforming the conduct of daily life, and more than 60% of the population currently are using cell phones.[6]
- 0.7 million people have computers and direct access to the Internet.[6]
- 70% of the population (112 million people) has access to television.[7]
- The government recognizes that access to technology is a necessity, and that improved communications, productivity, and efficiency all are enhanced by information technology. It recently

[5] Legatum Prosperity Index, http://www.prosperity.com/country.aspx?id=BG.
[6] Nathan Associates, "USAID Bangladesh Economic Performance Assessment," 2010, http://www.countrycompass.com/_docs/library/Bangladesh%20Economic%20Growth%20Assessment.pdf.
[7] Khalid Hasan, "Why to Use TV and Mobile as Powerful Tools for Business Promotion?" *AmCham Bangladesh* 3, no.2 (April 2010).

announced a program called "Digital Bangladesh," which focuses on ways that Bangladesh can stay abreast of information technology and recognize that global business is becoming increasingly electronic.

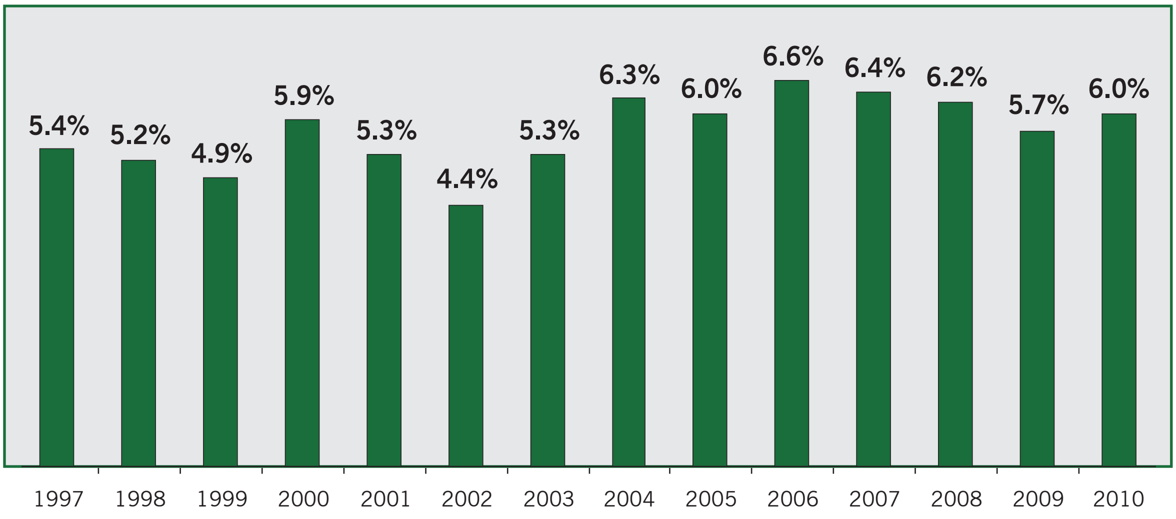
Economic Stabilization and Development

Bangladesh has experienced remarkable economic gains over the last 20 years, and the economy is growing at a steady 6% rate today. Over the past few decades, Bangladesh's economic development had been fueled by a rapid rise in manufacturing exports and remittances from Bangladeshi overseas workers, as well as by improvements in agriculture. Going forward, the country faces immense pressures to improve on, and expand, its core economic competencies in the face of rapidly increasing globalization and growing competition from its Asian neighbors.

High GDP Growth

- Bangladesh's gross domestic product (GDP) has been growing steadily by an average of 6% over the last 10 years. As a result, GDP almost tripled from US$34 billion in 1994 to approximately US$90 billion in 2010. As a result, the Bangladesh economy now ranks forty-ninth globally in terms of GDP.[8]

GDP Growth Rate, FY1997–FY2010 (%)



Source: Bangladesh Bank, Economic Data, September 2010

- The combination of strong GDP growth and slower population increase has helped Bangladesh raise per capita GDP from US$325 in 1998 to US$497 in 2008, to US$590 in 2009, and to US$621 in 2010.[9] Even at this level, however, the nation still is considered among the world's least developed countries.

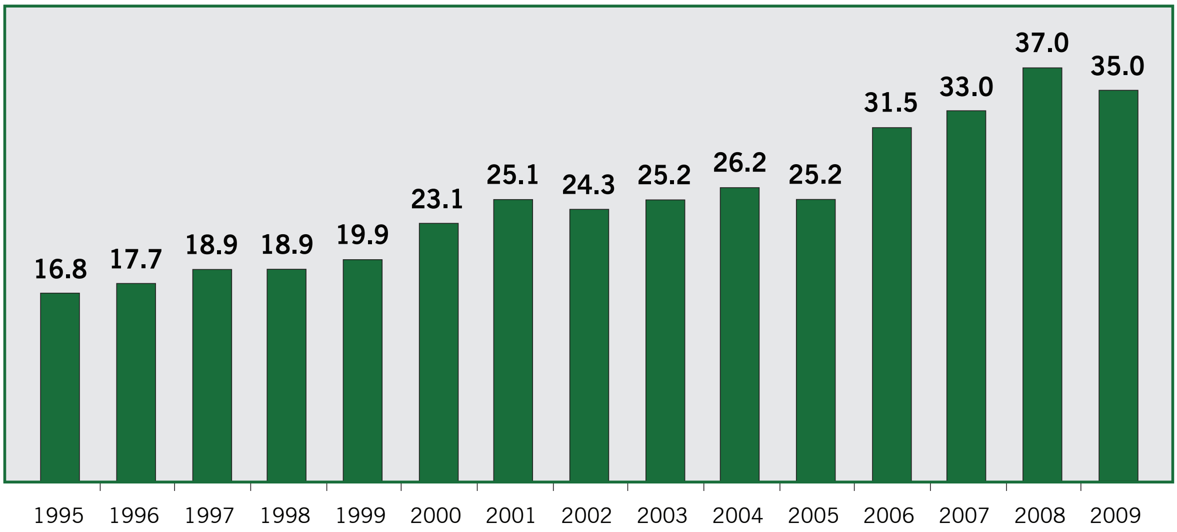
[8] World Development Indicators, World Bank, July 1, 2010. The complete report is available at http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf.
[9] Sanchita Saxena, "Bangladesh's Case for Tariff Break in U.S.," Daily Star (Dhaka), November 2, 2010.

Bangladesh's strong growth has been driven by major increases in garment exports, remittances from overseas workers, and improvements in agriculture.

Significant Agricultural Improvements

- Although Bangladesh is one of the world's poorest and most densely populated countries, it has made progress in addressing the food needs of its steadily increasing population, with a doubling of domestic food production, supplemented by significant food imports.
- In particular, the country's production of rice has increased dramatically over the last 15 years, from 16.8 million tons in 1995 to 35 million tons in 2009 as a result of expanded irrigation, improved distribution of high-yield seed, and under-spread use of subsidized fertilizers.

Growth in Rice Production (millions of tons)



Source: Bangladesh Bureau of Statistics and Bangladesh Bank, June 2010; Food and Agriculture Organization of the United Nations, September 2010.

- In the past, Bangladesh had to import large amounts of food, but in recent years, this dependency has been reduced, although the country continues to rely on food aid and imports to meet domestic demand.
- While Bangladesh's population is projected to reach 250 million by 2050, the land available for cultivation will remain static or even shrink as a result of increasing urbanization and manufacturing activities. Given this scenario, it will be difficult for Bangladesh to become self-sufficient in food production, and it is expected that the country will have to continue to import food in future years.
- Constant threats to the country's food production are weather and the frequent deadly cyclones that hit the country every few years. In 2007, for example, the rice crop was devastated by repeated flooding and then by Cyclone Sidr, which killed 3,500 people, displaced 2 million, and ruined more than 800,000 hectares of cropland.

- Climate change is another factor that could considerably affect the food security of millions of people in Bangladesh, as the country is extremely vulnerable to any rise in sea level. According to the Climate Change Vulnerability Index created by Maplecroft in the United Kingdom, Bangladesh ranks as the most vulnerable country in the world. According to the most dire projections, up to 20% of the country's land could be inundated by sea water as a result of global warning.

Manufacturing Expansion and Export Growth

- Manufacturing grew by double-digit figures in the 1990s, and industrial activities have increased by around 10% annually over the last five years. The surge in manufacturing and external trade has also benefited Bangladesh tremendously through domestic and foreign capital, managerial expertise, improved technology, employment, and higher standards of living. Most importantly, it has helped integrate the nation into the global economy.
- Bangladesh's strong manufacturing performance is almost entirely attributable to the rapid growth of garment sector, which generated a major increase in exports. The country exported US$12.3 billion worth of garments last year, ranking fourth in the world behind China, the European Union, and Turkey.

Bangladesh Export Growth (US$ billion)

Source: Export Promotion Bureau (EPB); Bangladesh Bank; Bangladesh Bureau of Statistics, September 2010

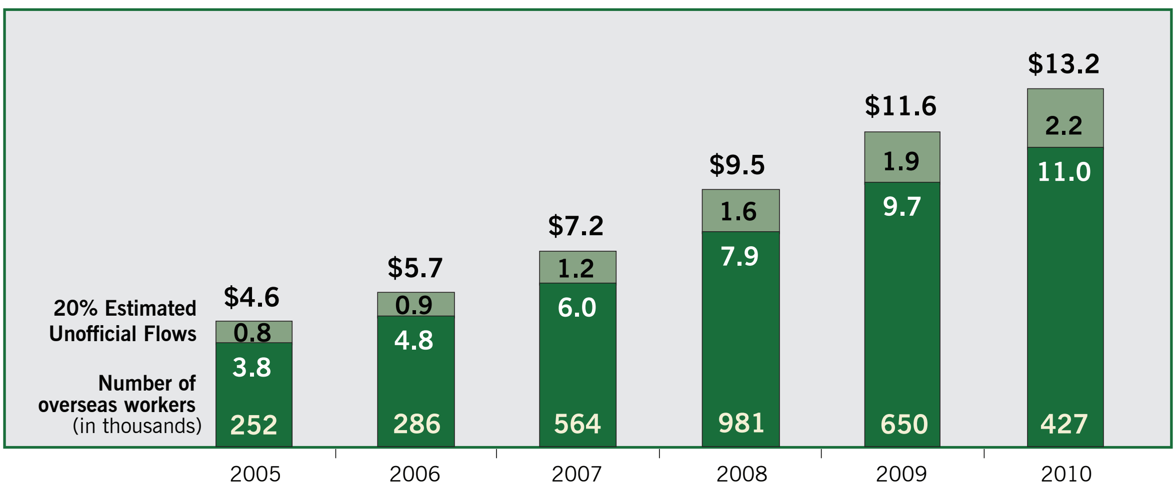
- The readymade garment industry has become, by far, the country's top foreign exchange earner, accounting for about 80% of total export earnings in 2009. This industry also provides direct employment to 3 million workers and supports the indirect employment of another 10 million to 15 million workers, or roughly 10% of the nation's population.

- The rapid rise of manufacturing and the garment industry also has had a major impact on the employment of women in Bangladesh. The participation of women in manufacturing has increased, particularly in the readymade garment sector, where 2.4 million women make up more than 80% of the workforce.
- Despite this increase, only 25% of the country's working-age women participate in the formal or informal sectors of the country's labor force, compared with 38% in China and 53% in Korea. A major increase in manufacturing activities would increase women's employment significantly.

Increasing Worker Remittances

- Bangladesh's increase in worker remittances has been as dramatic as that in manufactured exports, though it is much more vulnerable to external economic shocks. Nevertheless, insufficient domestic job opportunities and promises of higher wages abroad have led to an exodus of Bangladeshi workers overseas.
- However, as a result of the global financial crisis in 2008, the number of overseas workers dropped from a high of 981,000 in 2008 to 650,000 in 2009 and to 427,000 in 2010.
- Despite the drop in the number of overseas workers, official remittances actually increased from US$7.9 million in fiscal year 2008 to US$11.0 million in fiscal year 2010 as a result of a change in regulations by the Bangladesh Bank that encouraged expatriate Bangladeshis to send money from foreign banks directly to their own bank accounts in Bangladesh, or to their families or relatives.
- Of the US$9.7 billion that overseas Bangladeshis remitted home in 2009, US$6.5 billion came from Gulf countries and US$1.6 billion came from the United States.
- It also should be noted that most officials believe that if nonofficial flows were included with the official flows, remittances would be at least 20% higher than official figures.

Bangladesh Workers' Remittances, FY2005–FY2010 (US$ billion)



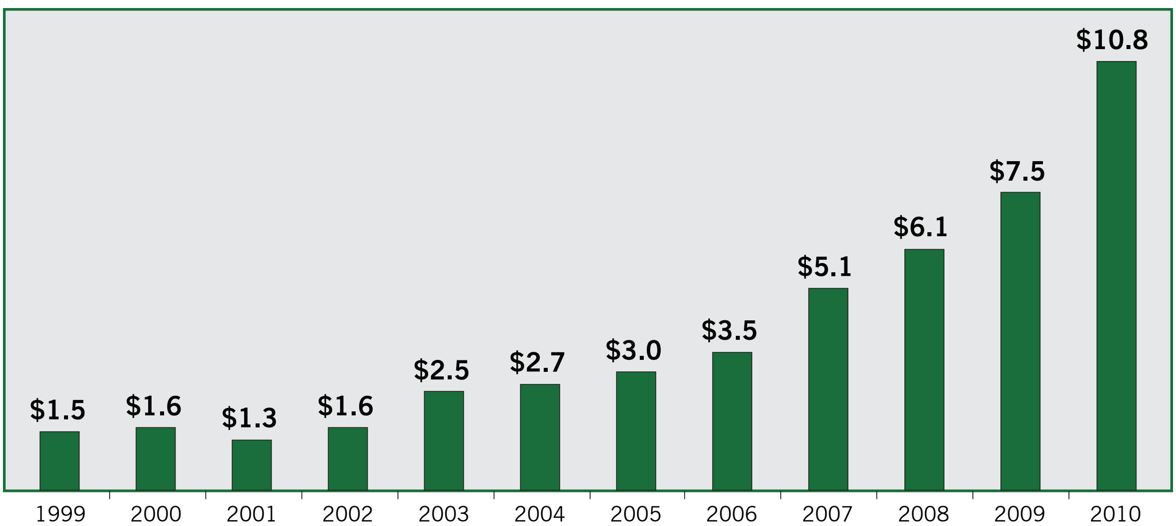
Source: Bank of Bangladesh, Economic Data, September 2010 (unofficial flows estimated)

- According to a report authored by the Eurasia Group in July 2010, the Bangladeshi government's ability to meet its high GDP growth targets will depend on continuing increases in worker remittances. To achieve this, Bangladesh will have to increase the skill levels of its overseas workers.
- Although the aggregate amount of remittances continues to increase, Bangladeshi overseas workers actually are being paid less than workers from other developing countries because of their lack of training.
- The average remittance per capita according to the recently released World Bank Migration and Remittances Factbook 2011 showed that, Asian country figures were: China ($6,145); Philippines ($4,953); India ($4,825); Vietnam ($3,273); Indonesia ($2,840); Bangladesh ($2,056) and Pakistan ($2,000).
- Experience in Bangladesh has shown that remittances could be much higher if workers were provided with basic training courses, such as six weeks of English-language instruction, as well as technical training for semiskilled jobs, before they go overseas. That would allow Bangladesh workers to receive higher wages and the country to receive higher amounts of remittances.

Rising Foreign Reserves

- In recent years, the country's level of foreign reserves has been a concern, but over the last two years, foreign reserves have strengthened, mainly because of increased workers' remittances, which have more than offset the coutry's chronic trade deficit.
- Foreign reserves still need to be watched closely, as they only covered approximately six months of import payments for 2010.
- Foreign reserves have also helped stabilize the currency exchange rate, which fluctuated between 67 and 71 taka per U.S. dollar over the last five years.

Foreign Reserves, FY1999–FY2010 (US$ billion)



Source: Bangladesh Bank, Monthly Report, August 2010

STRATEGIC GEOGRAPHIC LOCATION

Advantageous Geographic Location

Bangladesh has the benefit of being situated in the middle of the world's three highest growth areas—China, India, and Southeast Asia. This location could provide the country with numerous advantages and opportunities over the next 10 to 20 years, if Bangladesh develops the necessary economic environment and connecting infrastructure to enhance its trade relations with other countries in the region.

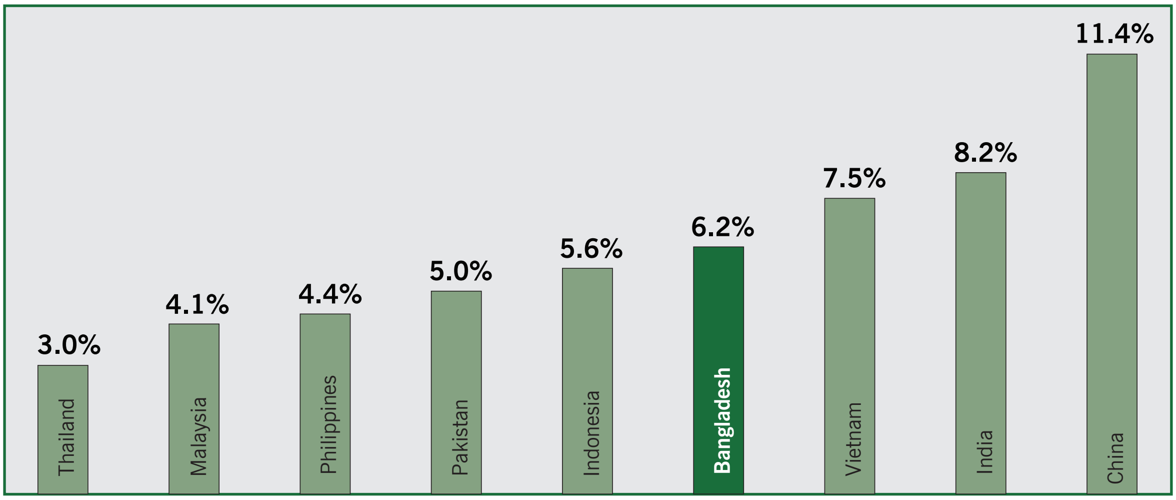
Bangladesh at the Center of Asian Growth

- Bangladesh's economy could benefit significantly from increased economic activities and strengthened political ties with its neighboring countries, particularly with countries from the South Asian Association for Regional Cooperation bloc. The South Asian region, which is currently the least integrated region in the world, offers major opportunities for improved trade relations and transport links.
- In particular, economic opportunities could be enhanced significantly through expanded trade, investment, and transport links with India, which surrounds Bangladesh on three sides. In the west, north, and east, Bangladesh shares a 3,862-mile land frontier with India, and it is situated only 16 miles from the Nepali border.
- An agreement on regional connectivity recently has been reached among Bangladesh, India, Nepal, and Bhutan.
- A US$1 billion credit deal has been signed with India for improving the communications and highway and rail sectors, as well as facilities at the ports of Chittagong and Mongla.
- A window of opportunity exists for Bangladesh to attract a large amount of low-end manufacturing from China, given the country's labor-intensive work environment. This opportunity would be greatly enhanced if proposed transport links to China through Myanmar are developed and a deepwater sea port is constructed.

Strong Neighborhood Competition

Bangladesh's location among the major economic growth zones in Asia also means that it faces strong competition for foreign investment from almost all of the countries in the Asian region. As shown in the following figure, almost all of Bangladesh's Asian neighbors exhibit strong growth trends, and each has an urgent need for more foreign investment. This is particularly true for the relocation of low-end manufacturing from China, as Vietnam, the Philippines, Cambodia, Indonesia, and Sri Lanka are all actively seeking the same types of investment that Bangladesh is hoping to attract.

Asian Countries Average GDP Growth Rates, 2005-2009 (%)



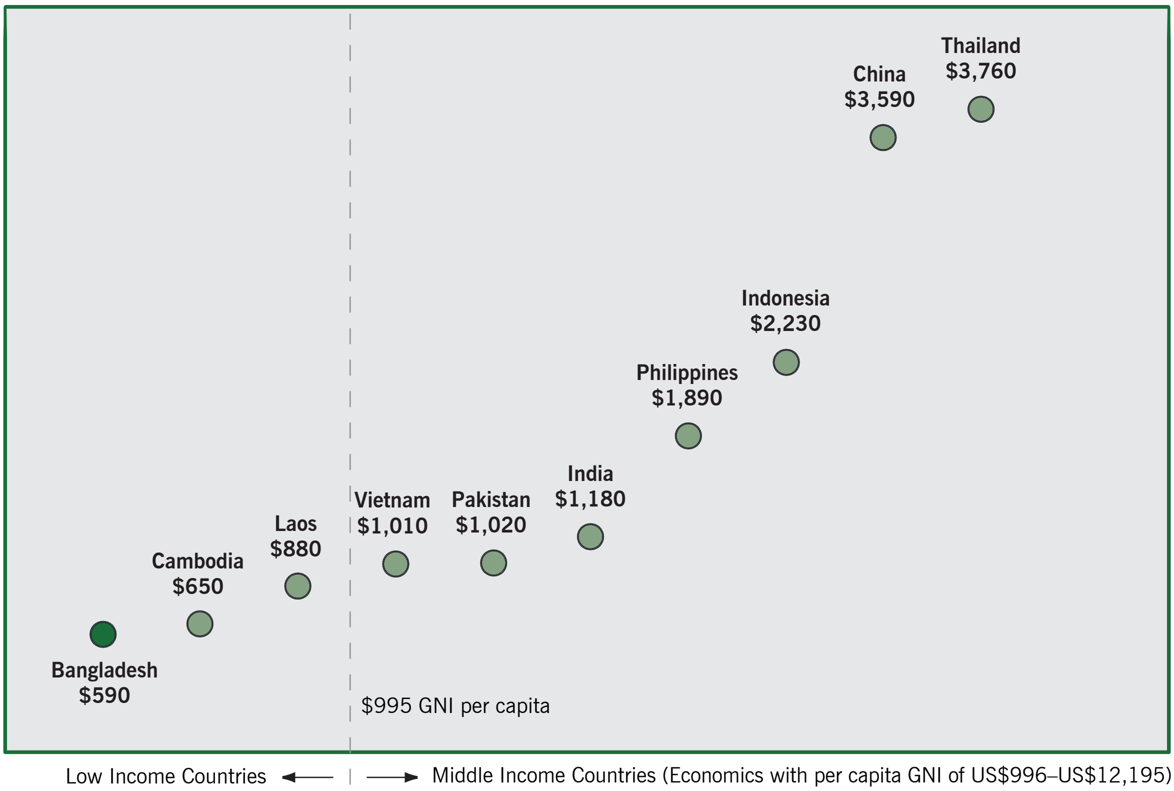
Source: World Bank, World Development Indicators, September 2010

VISION 2021: BECOME A MIDDLE-INCOME COUNTRY

Prime Minister's Goal and Government Policy

In January 2009, Prime Minister Sheikh Hasina announced Vision 2021, a blueprint that aims to propel the country to middle-income status within the next decade. The national policy outlined the long-term social and economic development goals to be achieved by Bangladesh's fiftieth anniversary in 2021. Reaching these goals certainly will be no easy task, as Bangladesh currently ranks at the bottom of the low-income country group in Asia, with a GNI per capita of US$590 in 2009.

Per Capita Income Levels of Selected Asian Countries, 2009 (US$)



Note: Graph is not drawn to scale.
Source: World Bank Atlas, 2009.

Vision 2021 Targets and Milestones

Given Bangladesh's recent social and economic development performance, the lofty targets and milestones outlined in Vision 2021 and summarized here are possible to achieve, but Bangladesh must overcome a host of serious challenges.

2010: Net student enrollment of 100% at the primary school level

2012: Become self sufficient in food production

2013: Reach and maintain 8% annual GDP growth rate

2013: Generate 20,000 megawatts of power by 2021

2013: Provide free tuition up to degree level

2014: Attain full literacy

2017: Reach and maintain 10% annual GDP growth rate

2021: Reduce the unemployment level from the January 2009 rate of 40% to 15%

2021: Achieve sector contributions of 15% for agriculture, 40% for industry, and 45% for services

2021: Reduce the poverty level from 45% to 15%

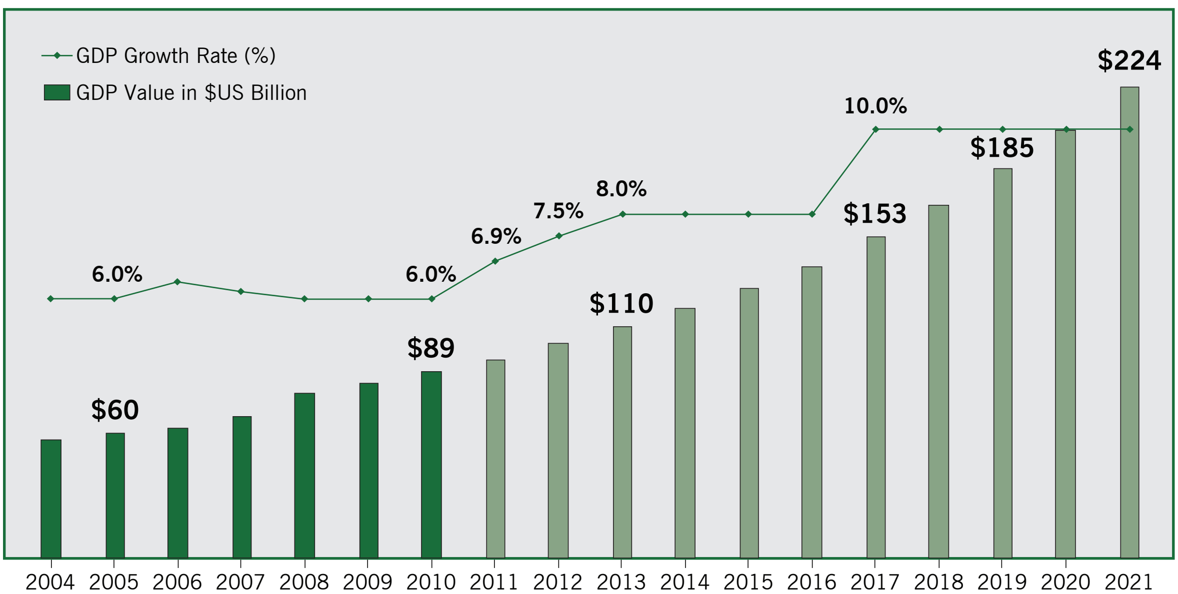
2021: Enhance population control by educating women

2021: Increase the use of birth control methods to 80%

Challenging Growth Targets

The government has set challenging growth targets to achieve its ambitious goals under Vision 2021. Achieving these goals will require a major increase in Bangladesh's GDP growth rate, from 6% in 2010 to 8% by 2013 and to 10% by 2017.

Vision 2021: Required GDP Growth



Source: Asia Society Estimate, 2010

- Although Bangladesh has achieved impressive growth rates of 6% in recent years, increasing growth to 8% and 10% will not be easy, and will require large amounts of investment capital. Currently, only India and China are achieving sustainable growth rates greater than 8%.
- It is clear that in order to achieve these ambitious growth targets, Bangladesh will need to significantly increase the amount of both domestic investment and external funds received from overseas workers, manufactured exports, and foreign investment.
- It is estimated that the target GDP growth rates will require total investment in Bangladesh—as a percentage of GDP—to increase from 27% in 2010 to 30% in 2013 and to 32% in 2017. The government will be able to provide some funds, but the majority of the investment funds will have to come from domestic and foreign private-sector investors.
- To achieve these targets, it is estimated that the country needs to increase domestic investment from approximately 24% to 28%, and foreign direct investment from less than 1% to around 4%. This is equivalent to raising investment from less than US$1 billion a year to roughly US$8 billion annually over the 11-year period from 2010 to 2021.
- Increasing foreign direct investment by US$7 billion will take a massive effort that will require the Bangladesh government to focus on increasing foreign investment.

Trade and Investment

"In today's world trade holds the key to successful development, and the focus of our government has shifted from aid dependence to the expansion of trade as the engine of growth and development."

– Dr. Dipu Moni, Foreign Minister of Bangladesh, at the U.S. Trade Show in Dhaka, February 18, 2010

NEED FOR MAJOR INCREASE IN EXPORTS AND FOREIGN INVESTMENT

Bangladesh has significantly increased its level of international trade over the past 10 years by expanding manufacturing activities in the textile and garment sectors. Despite a huge increase in exports, foreign direct investment (FDI) in Bangladesh has been among the lowest of all Asian countries, and foreign portfolio investment (FPI) in the country's stock market barely exists.

Bangladesh has become a much more attractive trading partner over the past five years, a development that is attributable almost entirely to its export manufacturing activities in the readymade garment sector. But the large increase in exports, although impressive, masks a number of serious concerns:

- The current export structure relies almost exclusively on the readymade garment sector; despite efforts to diversify exports, this structure remains one dimensional.
- The country's export revenue lags all of its Asian neighbors.
- Bangladesh's share of total world exports is still insignificant (0.10%).

Although exports have risen significantly, the country's imports have been rising even faster, resulting in a chronic and widening trade deficit that, fortunately, has been offset by a strong flow of remittances from Bangladeshi overseas workers. Bangladesh's imports are primarily textiles, inputs for the readymade garment sector, petroleum products, and food items, all of which are critical to the economy and difficult to reduce. Going forward, in order to reduce the trade deficit, the country must dramatically increase export revenues, especially manufactured exports.

In contrast to the significant increase in trade activities, foreign direct investment in Bangladesh has stagnated over the past five years, accounting for only US$716 million in 2010. Even more telling, more than 40% of annual FDI flows in recent years have come from reinvested earnings and intracompany loans from foreign companies already operating in Bangladesh. Given these facts, it is hardly surprising that between 2000 and 2009, the country's stock of FDI rose by only US$2.9 billion, the smallest increase among all Asian countries. By comparison, over the same period, FDI increased in Pakistan by US$10.9 billion, in Malaysia by US$21.9 billion, in Vietnam by US$32.2 billion, and in India by US$147.7 billion.

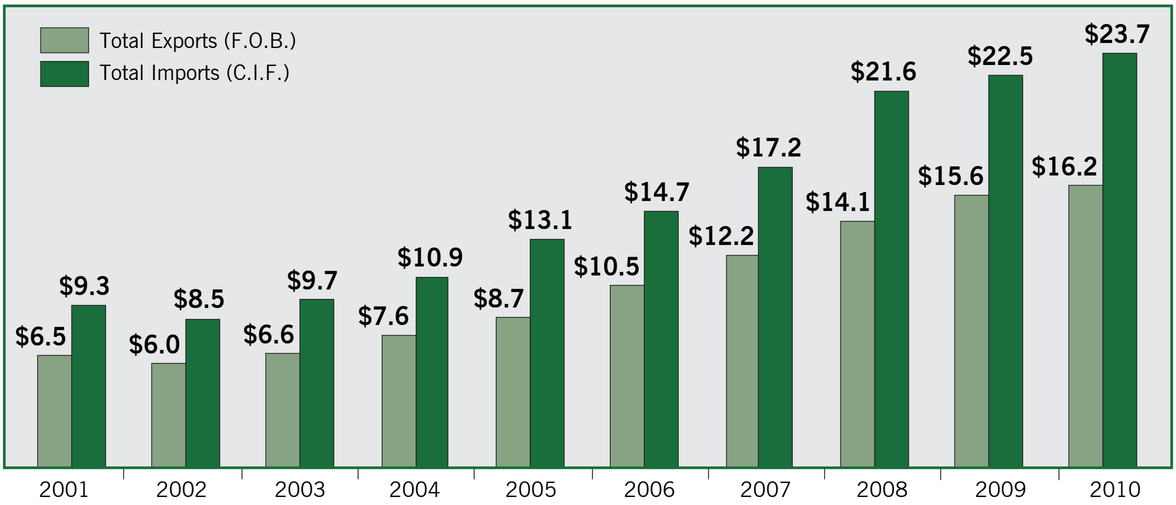
The amount of foreign portfolio investment flowing to the Dhaka Stock Exchange (DSE) is even lower. FDI is basically negligible, with only about 1% of the market's capitalization currently held by foreign institutional investors. This is unfortunate, as the country's stock market has been very active, and in October 2010, the DSE hit an all-time high with a strong trading turnover of US$427 million. All of Bangladesh's regional competitors are receiving much more portfolio investment as institutional investors reallocate their portfolios to take advantage of higher yields from Asian stocks. FPI in other Asian stock markets is now at an all-time high. In India, for example, foreign investors made net purchases of stock worth US$21.4 billion in the first nine months of 2010. Although the DSE has received little interest from foreign institutional investors, it has been one of the best-performing equity markets in the world since 2007.

TRADE

Expanding Exports

Over the past decade, Bangladesh has experienced more than a twofold jump in exports, which rose from US$6.5 billion in 2001 to US$16.2 billion in 2010. Although this progress is substantial, Bangladesh still lags far behind all other Asian countries. It is critical that the country devise strategies to diversify and boost its export base and revenues in order to be able to become a major exporting country.

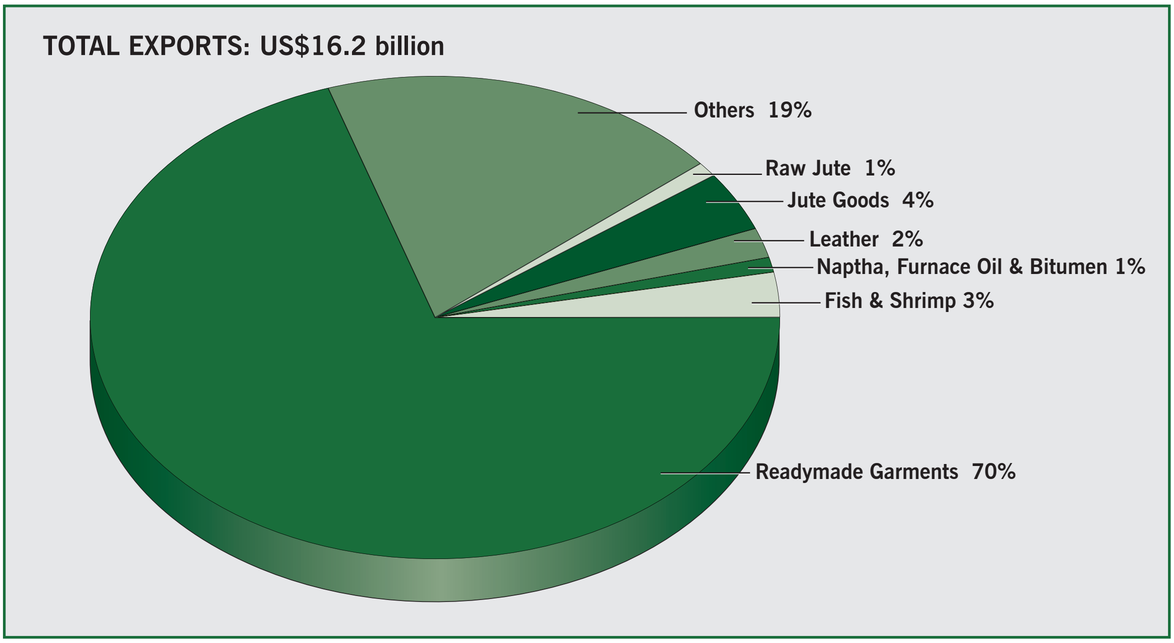
Bangladesh's Imports and Exports, FY2001–FY2010 (US$ billion)



Source: Bangladesh Bank, Monthly Economic Trends, September 2010

- The government established an Export Promotion Bureau under the auspices of the Ministry of Commerce to promote exports and to improve policies to help private-sector exporters. The bureau has received positive reviews from the private sector for providing assistance, but it has done little to diversify exports.
- The government also established a number of new Export Processing Zones (EPZs) under the Bangladesh Export Processing Zones Authority, which manages eight EPZs in Dhaka, Uttara, Adamjee, Chittagong, Comilla, Ishwardi, Karnaphuli, and Mongla. These EPZs have been successful, accounting for 12.2% of the country's total exports in fiscal year 2009.
- Garments and apparel represent the overwhelming majority of exports, and the industry creates the largest proportion of job opportunities. Readymade garments generated the highest revenue—US$12.3 billion in 2009. However, Bangladeshi-branded apparel has earned a reputation for being "cut and paste" garments, and the international textile community perceives Bangladeshi garment manufacturers as lacking the ambition to move up the value chain.

Bangladesh Merchandise Exports, FY2010



Source: Bangladesh Bank, Monthly Economic Trends, September 2010

- The country's current export structure remains extremely one dimensional, and almost no progress has been made toward developing other export-oriented, labor-intensive industries in Bangladesh.
- Bangladesh's top export destinations in 2009 were the European Union (48%), United States (20%), Canada (4%), Turkey (2%), and India (2%). Bangladesh trade activities also include informal trade along the border with India. As a result, in recent years, exports to India have been significantly understated because of the large amount of unofficial trade.

• In spite of major growth in exports, Bangladesh still lags far behind its Southeast Asian neighbors, such as Malaysia, Thailand, Indonesia, and Vietnam in terms of export revenues. It ranks next to last in exports as a percentage of gross domestic product (GDP).

Comparison with Neighboring Countries' Exports (US$ billion)

Country	2000	2004	2009	Export as % of GDP in 2009
Malaysia	98.2	126.5	**164.7**	81.5%
India	42.6	75.4	**162.0**	14.2%
Thailand	69.0	96.2	**152.0**	57.2%
Indonesia	62.1	71.6	**112.6**	22.1%
Vietnam	14.5	26.5	**55.4**	58.8%
Philippines	38.2	39.7	**41.2**	23.3%
Pakistan	8.9	13.3	**19.6**	12.3%
Bangladesh	**5.6**	**7.6**	**14.4**	**17.5%**

Source: Asian Development Bank, July 2010

• Bangladesh's share of total world merchandise exports remains insignificant. In 2008, the country's share of global merchandise trade was only 0.10%, while its share of commercial services was just 0.02%. Overall, the country ranks 76th in merchandise exports and 120th in commercial services exports among 180 countries.[1]

• Going forward, there is an urgent need to increase exports from the expanding textile industry and to rapidly diversify manufacturing activities to other labor-intensive industries, especially to those low-end products that will be moving from China.

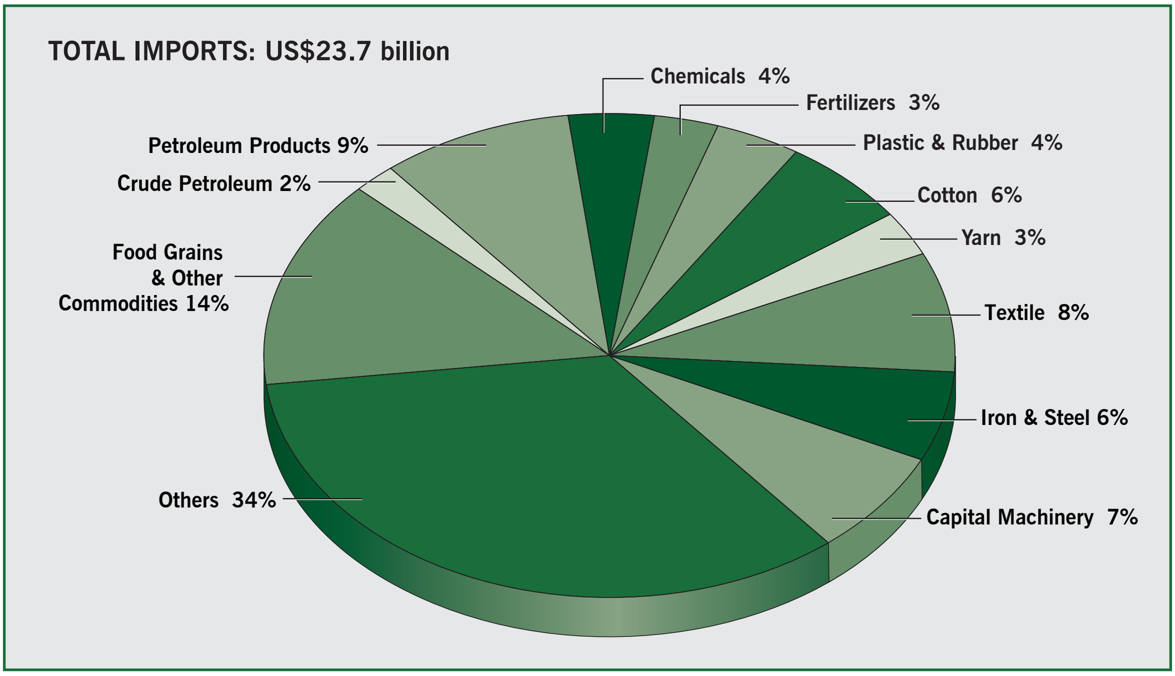
Rising Imports

Despite a major increase in exports, Bangladesh's imports have grown at a faster rate, and the value of imports has consistently exceeded the value of exports.

• Imports to Bangladesh have increased significantly, from US$9.3 billion in 2001 to US$23.7 billion in 2010. In the past five years, the country's import costs have doubled.

[1] World Bank, http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=BD.

Bangladesh Merchandise Imports, FY2010



Source: Bangladesh Bank, Monthly Economic Trends, September 2010

- The largest category of imports is textile-related inputs. In order to supply its readymade garment sector, Bangladesh needs to import raw materials, particularly raw cotton and textiles, which represent about 50% of the typical garment cost.
- Textile-related inputs (17%), followed by petroleum related products (15%) and food items (14%), make up the core of the country's imports; all are critically important to the Bangladesh economy.
- Bangladesh imports goods primarily from Asian countries (68%), including China (17%), India (13%), Singapore (8%), Japan (5%),[2] and all other Asian countries (25%), while imports from the European Union and North America combined account for only (11%) of the total value.

Widening Trade Deficit

Even though Bangladesh's exports have increased significantly, Bangladesh still suffers from a chronically weak foreign trade account because of its dependence on imports of most essential goods.

- Bangladesh's trade deficit over the last 10 years widened significantly, from US$2.8 billion in 2001 to US$7.5 billion in 2010.

[2] See http://www.economywatch.com/world_economy/bangladesh/export-import.html.

- Bangladesh's trade balance also struggles against pressures from the declining value of its exports (in spite of an increase in aggregate volume) relative to the increasing value of its commodity-intensive imports.

Global, Regional, and Bilateral Trade Agreements

Bangladesh trade, and exports in particular, has benefited greatly from a number of multilateral and bilateral trade agreements, especially preferential arrangements with developed countries. However, Bangladesh has received little or no benefit from its various regional agreements, though it is hoped that this will change in the near future.

Global Agreements

- Since Bangladesh joined the World Trade Organization in January 2005, it has taken advantage of its least developed country status to obtain a schedule of concessions in goods and favorable treatment. The country has been allowed to delay its application for intellectual property rights under the treaty until 2013.
- Bangladesh exports have benefited greatly from the European Union's Everything But Arms initiative, which provides that all imports to the European Union from least developed countries, with the exception of armaments, are duty free and quota free.
- Bangladesh also enjoys duty-free and export quota-free access in Canada, Australia, Japan, Norway, and China (4,721 products as of March 2010).
- Bangladesh does not receive duty-free or export quota-free access for its exports to the United States; however, a small portion of its products qualify for the Generalized System of Preferences program that the United States grants to developing countries.
- Bangladesh is also a member of a number of other agreements that provide preferential trade agreements. These include the Organization of the Islamic Conference, the Developing-8 Countries, and the Asia Pacific Trade Agreement. However, in reality, Bangladesh exports very little to these countries, and in some cases, Bangladesh imports more from these countries than it exports.

Regional

- South Asia is the least economically integrated region in the world. However, since her election in 2008, Prime Minister Sheikh Hasina's government has reached out to India and Nepal and expressed a desire to expand trade relations. There are tremendous opportunities for all of the countries in the region.
- Bangladesh is a member of a number of regional trade arrangements, including the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Co-operation, the South Asia Association for Regional Cooperation (SAARC), the Agreement on South Asian Free Trade Area, as well as bilateral free trade agreements with India, Pakistan, and Sri Lanka, but they have had very little impact on the country's imports or exports to date.

- A study conducted by the Federation of Indian Chambers of Commerce and Industry and the Asian Development Bank suggested that India, as the economic leader in the region, should help catalyze opportunities for the private sector in intraregional trade and investment by granting unilateral trade concessions to SAARC nations. This is under way, but the pace of change needs to accelerate significantly in order to be meaningful.

FOREIGN INVESTMENT

Foreign Direct Investment

Despite a substantial increase in trade activities, FDI flows into Bangladesh have been consistently low over the past decade. Moreover, more than 40% of annual FDI flows came through reinvested earnings and intracompany loans from foreign companies already operating in Bangladesh rather than equity from new foreign investors.

- Bangladesh Bank reported that annual FDI inflows to Bangladesh reached US$961 million in fiscal year 2009, before falling to an estimated US$716 million in fiscal year 2010.

FDI Inflows by Composition (US$ million)

Component	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	Total
Equity Capital	361	447	465	546	535	—	**2,354**
Reinvested Earnings	297	199	281	198	337	—	**1,311**
Intra-Company Loans	146	99	47	25	89	—	**405**
Total	**804**	**745**	**793**	**769**	**961**	**716**	**4,788**

Source: Bangladesh Bank, FDI Survey Report, December 2009; Statistics Department, Bangladesh Bank, September 2010

- FDI flows into Bangladesh also are skewed by a number of very large investments. For example, during the period 2005–2009, Egypt was the largest source of FDI at US$675 million, representing a single telecommunications investment. Companies from the United Kingdom (US$611 million) and the United States (US$546 million) have also been major investors in Bangladesh, and these amounts reflect very large investments by companies such as Chevron.

- There are 832 foreign enterprises located in Bangladesh, which have invested about US$5.1 billion. Currently, 228 (27%) foreign enterprises are located in the country's eight Export Processing Zones, and the other 604 are located mainly in the greater Dhaka and Chittagong areas.

• Total FDI stock at end of 2009 was US$5.3 billion,[3] ranking among the lowest in the Asian region. Since 2000, the country has attracted only US$2.9 billion in FDI, an amount that is well below all other Asian countries and even lower than the inflows received by Cambodia and war-torn Sri Lanka.

FDI Stock by Country (US$ billion)

Country	2000	2009	Increase
China	193.3	**473.1**	279.8
India	16.3	**164.0**	147.7
Thailand	30.0	**99.0**	69.0
Indonesia	25.1	**72.8**	47.7
Vietnam	20.6	**52.8**	32.2
Malaysia	52.7	**74.6**	21.9
Pakistan	6.9	**17.8**	10.9
Philippines	18.2	**23.6**	5.4
Cambodia	1.6	**5.2**	3.6
Sri Lanka	1.6	**4.7**	3.1
Bangladesh	**2.2**	**5.1**	**2.9**

Source: UNCTAD, World Investment Report 2010

• The four sectors receiving the largest amounts of FDI are gas and petroleum, telecommunications, textiles and wearing, and banking; combined, these sectors accounted for 76% of the total FDI stock in Bangladesh at the end of December 2009.

[3] Bangladesh Bank, 2010.

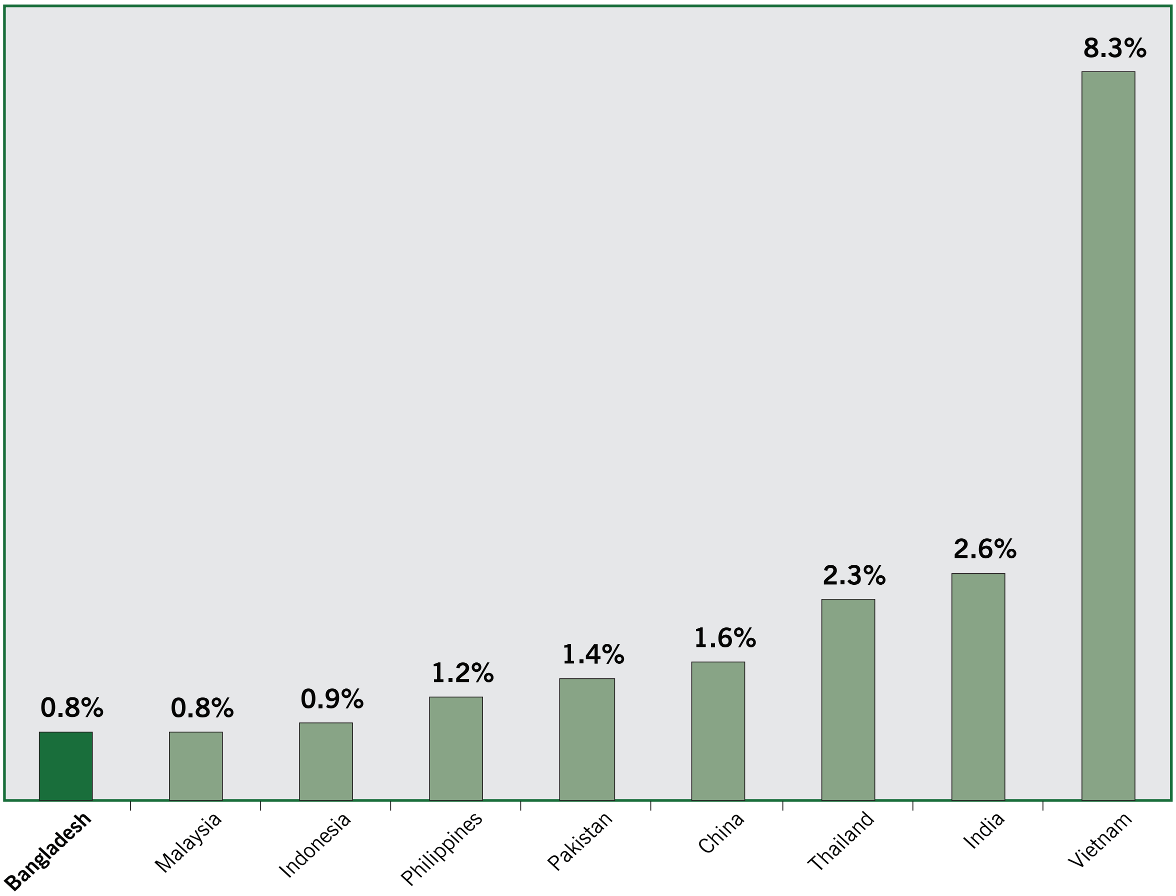
FDI Stock by Sector, December 2009 (US$ million)

Sector	FDI Stock
Gas & Petroleum	1,217
Textiles & Wearing	1,099
Banking	841
Telecommunications	828
Power	271
Food Products	225
Cement	144
Fertilizer	113
Others	362
Total	**5,100**

Source: Bangladesh Bank, FDI Survey Report, July-December 2009

- While overall domestic private investment in Bangladesh has grown steadily from 12.8% to 18.5% of GDP over the past 15 years, FDI has remained stagnant at 1% of GDP.
- Compared with other developing countries in South and Southeast Asia, the production from FDI enterprises barely contributes to national income in Bangladesh.
- A wide range of investment opportunities are available in Bangladesh, but they will not happen unless the government plays an active role in attracting, developing, facilitating and nurturing them. This is particularly true for investment in much needed infrastructure development including: gas and coal, power plants, highways, ports, railways, waterways, roadways, airports and telecommunications. In these areas the utilization of the government's new Public Private Partnership is critical and without this program not much will be achieved.
- There are also opportunities to attract low end production that is currently located in China and is looking to relocate to other Southeast and South Asian countries. These activities include textiles, footwear, electronics, assembly and other such labor intensive activities.

FDI Inflows as Percentage of GDP, 2009 (%)



Source: FDI and GDP data from World Development Indicators, World Bank 2010

Foreign Portfolio Investment

Foreign portfolio investment in Bangladesh is negligible, less than 1% of the Dhaka Stock Exchange, and among the lowest in Asia. Consequently, it has not contributed to the country's growth. This is unfortunate, as the DSE has been one of the better-performing equity markets in the world since 2007.

- According to DSE statistics, foreign investors, mainly from Europe and the United States, invested only US$128 million in Bangladesh's stock market in 2007. It is estimated that with the recent rise in DSE market capitalization, FPI in Bangladesh is around US$480 million.[4]
  - In comparison, foreign portfolio investment in India increased from only US$6 million in 1990 to more than US$17.6 billion in 2009. For the first ten months of 2010, it reached US$28.5 billion, which is the highest amount ever invested in India by overseas institutional investors.

[4] AT Capital Bi-Weekly, October 28, 2010 http://at-capital.com/images/at/at_capital_biweekly_28_oct_2010.pdf; Bangladesh Stock Market, http://www.bdstock.com/marketcapitalization.php.

Foreign Portfolio Investment Flows (US$ million)

Country	2005	2007	2009	YTD 2010
India	10,901	18,518	17,639	28,467
Vietnam	N/A	1,430	71	467
Thailand	2,947	1,853	1,137	1,654
Indonesia	(1,733)	3,596	1,383	2,193
Philippines	354	1,354	420	1,270
Pakistan	453	1,326	20	443
Bangladesh	**2**	**130**	**(40)**	**4**

Source: Bloomberg, Macquarie Research, November 2010

- Presently, 250 companies are listed on the Dhaka Stock Exchange, whose market capitalization has grown steadily from US$1.7 billion in December 2003 to US$32.7 billion in February 2010, and to US$43.3 billion in September 2010.
- There is no reason why Bangladesh should not be able to attract a much greater amount of investment from institutional investors in Europe, the United States, and Asia, who are now reallocating a substantial portion of their portfolios to invest in emerging markets, particularly in Asia.
- The Bangladesh stock market has done very well over the last few years and the market outperformed other emerging markets in 2008 and 2009. The main constraints faced by institutional investors are: the small size of the market; lack of liquidity and limited choice of companies. The market is dominated by financial institutions and banks and among non financial institutions, there are few large companies like Grameenphone, DESCO, Titas Gas but the size dwindles very quickly after that. A combination of limited choice with low liquidity, are the key concerns of institutional investors.
- Another concern is that DSE is a market driven significantly by local speculative forces, which have left it very pricey relative to most other emerging markets. Recently, Bangladesh introduced capital gains tax, which requires foreign funds to appoint a local tax consultant, which is an irritant to some institutional investors.

U.S.–Bangladesh Bilateral Economic Relationship

"Bangladesh and USA are time-tested friends enjoying shared values and commitments. Bangladesh looks on USA as a trusted ally, and as a major development and trading partner."

– Prime Minister Sheikh Hasina at a luncheon in New York hosted by the Asia Society and the U.S. Chamber of Commerce, September 22, 2010

INCREASING TRADE AND INVESTMENT

Both the U.S. and Bangladesh governments believe that expanding bilateral trade and U.S. investment and economic cooperation will help increase economic growth, employment, political stability, and security in Bangladesh. Therefore, the two governments and their business communities are supportive of enhancing the U.S.–Bangladesh economic relationship.

Indeed, bilateral trade and investment between the United States and Bangladesh have become more important over the past five years; however, much more can be done on both sides to significantly increase the level of economic activity between the two countries in the future. In order for this to happen, there are outstanding issues on both sides that must be resolved.

The United States would like to conclude a new Trade and Investment Framework Agreement (TIFA) or, alternatively, establish a U.S.–Bangladesh Trade and Economic Cooperation Forum, similar to what is being set up with India. The United States believes that either of these options would create a sound structure for regular high-level economic dialogue between the two countries, so that each side could raise issues related to bilateral trade and investment. The United States firmly believes that such an agreement would facilitate greater trade and investment opportunities for American and Bangladeshi companies.

Bangladesh would like the U.S. government's support for the adoption of pending legislation in Congress, namely H.R. 401, introduced by Representative Jim McDermott, which would give Bangladesh exports increased duty-free and quota-free access to the American market. At present, the United States is the only developed country that withholds these facilities to exports from least developed countries (LDCs) in Asia, even though these facilities are offered to Mexico and African LDCs.

On the investment side, both countries wish to increase U.S. investment in Bangladesh, and, in particular, Bangladesh would like to encourage American investment in infrastructure, such as highways and power plants, under its new public–private partnership policy. U.S. companies are particularly interested in increasing investment activities in the energy, power, and retail sectors, but they often complain about the bureaucratic hurdles and the extensive time required to undertake large investment projects in Bangladesh.

In order to enhance the bilateral economic relationship, the United States could focus attention on trade and investment assistance among a range of government agencies and institutions, such as the U.S. Agency for International Development (USAID), the U.S. Trade and Development Agency, the Export-Import Bank, and the Overseas Private Investment Corporation. In recent years, these agencies have supported U.S. projects in Bangladesh; however, their involvement has not been as significant as it could be, or as it has been in other countries.

Finally, it would be helpful if the U.S.–Bangladesh Business Council (USBBC) were resurrected under the aegis of the U.S. Chamber of Commerce in Washington, D.C. This organization was active in the 1990s, but it disbanded in 2000 after the Bangladesh government delayed many planned large-scale energy and power investments. If it were revived, the council could provide U.S. companies interested in investing and trading with Bangladesh with a platform for raising concerns and for developing relationships with high-level Bangladeshi officials when they visit the United States.

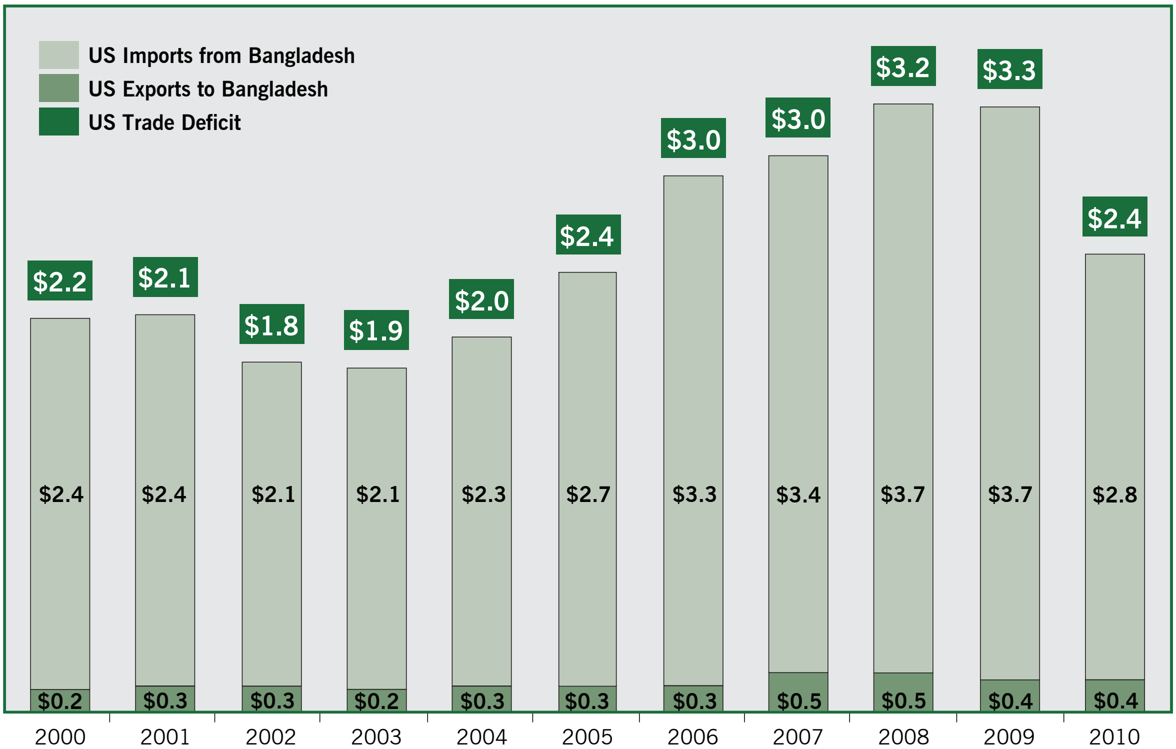
U.S. TRADE WITH BANGLADESH

Trade Balance

The United States hosted its first trade show in Bangladesh in 1992, showcasing numerous U.S. products and services. Since that time, trade between the United States and Bangladesh has quadrupled, from US$1 billion per year to US$4 billion by the end of 2009.[1] Bangladesh exports to the United States are far greater than U.S. exports to Bangladesh, and this gap has been growing in the recent years.

[1] U.S. Ambassador James F. Moriarty, speech delivered at the U.S. Trade Show 2010 in Bangladesh, February 18, 2010.

Trade Trends between Bangladesh and the U.S. (US$ billion)



Source: U.S. Census Bureau, 2010 (data for 2010 are from January to August).

- Between 2004 and 2009, U.S. exports to Bangladesh increased by 33%, and there is opportunity for further expansion. Over the same period, Bangladesh's exports to the United States increased by 61%, from US$2.3 billion to US$3.7 billion, primarily as a result of a significant rise in readymade garment exports. Consequently, Bangladesh's trade surplus with the United States increased from US$2.2 billion in 2000 to US$3.3 billion in 2009, before declining to US$2.4 billion in 2010.

Bangladesh Exports to the United States

Approximately 96% of Bangladesh's total exports to the United States are readymade garments and textile products.

- The United States (20%) is second to the European Union countries (48%) as the largest export destination for Bangladeshi goods.
- U.S. retailers such as Walmart, JCPenney, H&M, Gap, and Target find that readymade garments manufactured in Bangladesh are very affordable because of the country's low labor and production costs, even after they pay a 15.3% import duty in the United States. As a result, all of these U.S. companies have increased their imports of Bangladesh-made garments significantly in recent years.

Apparel Jobs Alter Women's Roles

While visiting garment factories in Bangladesh on assignment recently, I met young women who had migrated from villages to towns and cities in search of jobs to support their families back home. It is fairly standard story in this part of the world.

What struck me, however, was how their journeys had changed them and their views about life. Take Maasuda Akthar, who moved with her sister to Gazipur, a town about 50 kilometers, or 30 miles, outside Dhaka, when she was 16. She married a man whom she met at the factory. As an experienced seamstress, she now makes more money than he does. Ms. Akthar, 21, told me that her husband had offered to become a sole breadwinner in the home so that she could stay home and "be comfortable," but she had refused because she enjoyed working. Not only that, she told me she did not plan to have children for a few years.

My conversations with Ms. Akthar and other workers appeared to confirm what economists, policy makers and business men had told me: by giving women an independent source of livelihood, the garment industry in Bangladesh has changed the society of this conservative Muslim country in immeasurable ways. More than 80 percent of the three million people who work in the industry are women.

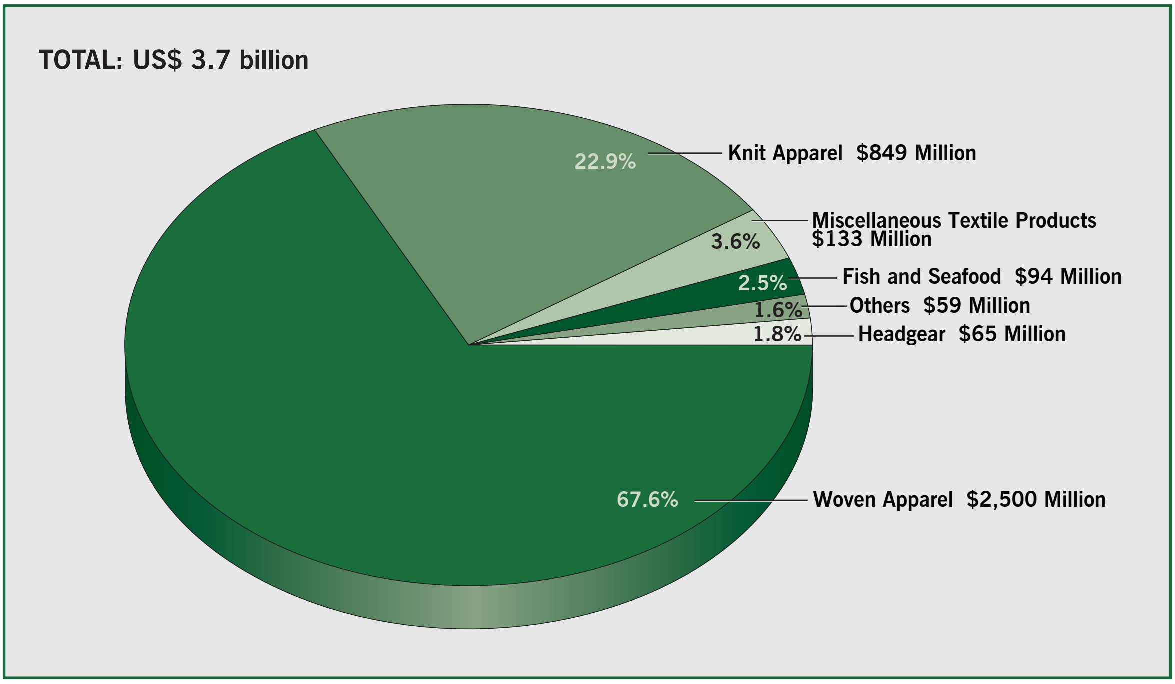
I later spoke to Ahmed Mushfiq Mobarak, an economist at the Yale School of Management, whose research applies academic rigor to the assertions. Mr. Mobarak, a Bangladeshi who has advised his country's government, found that the presence of apparel jobs appeared to bolster school enrollments of girls, especially young girls.

"A doubling of garment jobs causes a 6.71 percent increase in the probability that a 5-year-old girl is in school," Mr. Mobarak wrote in a summary of his findings. The effect is more muted for girls 16-19, who are most likely to drop out earlier to start working in the factories.

Mr. Mobarak also found that girls who live in villages with garment factories tend to marry later and have children later than girls who grew up in villages without factories.

Source: Vikas Bajaj, *International Herald Tribune*, July 23, 2010.

Bangladesh Exports to the U.S., 2009 (US$)



Source: U.S. Trade Representative, Bangladesh Country Sheet, 2009

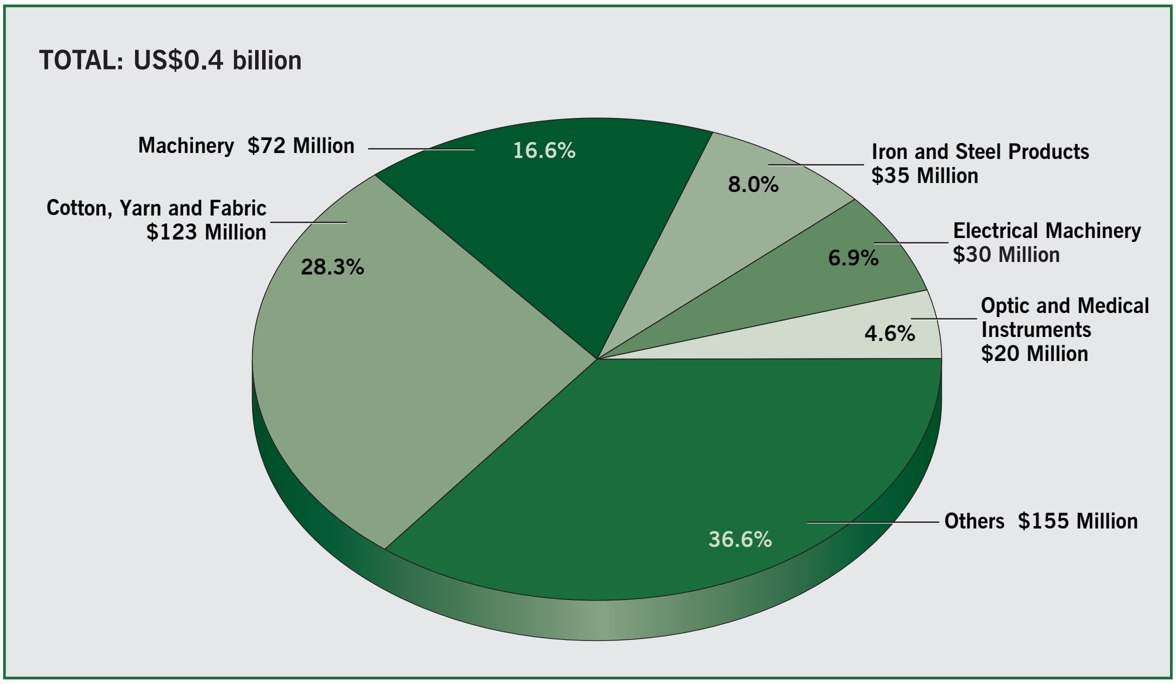
- U.S. imports of Bangladeshi products have had a major impact not only on the country's revenue generation, but also on employment, especially the employment of women, who make up 85% of Bangladesh's garment labor force (see sidebar).

U.S. Exports to Bangladesh

- Currently, U.S. companies sell roughly US$400 million in goods to Bangladesh, including agricultural products such as cotton and wheat, as well as industrial machinery and consumer goods.
- However, the true value of U.S. exports to Bangladesh is somewhat higher, as U.S. companies such as Dell, Hewlett-Packard, Johnson & Johnson, and Procter & Gamble export products to Bangladesh directly from their manufacturing centers in China, Malaysia, and India.
- Overall, U.S. exports to Bangladesh represented only 2% of the country's total imports (US$22.5 billion) in 2009.

U.S. Exports to Bangladesh, 2009

(US$)



Source: U.S. Trade Representative, Bangladesh Country Sheet, 2009

- A number of U.S. companies have expressed concern that Bangladesh's prohibitively high tariffs and regulations act as barriers to U.S. imports. Others have complained that charged the Bangladesh government with adopts protectionist measures with regard to certain imported retail products by increasing import tariffs and customs duties under the guise of helping local industries.
- Other companies have noted delays in Bangladesh's processing regulations and procedures: export procedures take 25 days and cost US$970, while import procedures take 29 days and cost US$1,375.[2]
- According to the World Economic Forum's 2010 Global Enabling Trade Report, Bangladesh's import duties are considered high, and tariffs generally are determined by the position of the imported goods in the supply chain.

[2] See the full report at http://www.weforum.org/en/initiatives/gcp/GlobalEnablingTradeReport/index.htm.

Bangladesh Import Duties (%)

Product Category	Import Duties
Raw Materials	0%-6%
Capital Machines	0%-6%
Intermediate Products	6%-13%
Finished Products	25%

Source: National Board of Revenue, Bangladesh, 2010

- In addition, supplementary duties often are assessed at 20% to 100% on certain products, particularly chemicals.
- According to the 2010 Global Enabling Trade Report, Bangladesh's high average tariff rates, along with additional taxes and customs duties and inefficient administration procedures, are major trade barriers. As a result, the country ranks 119 out of 121 in the report's global ranking, far below Bangladesh's competitors in the Asian region, including Vietnam (83), India (65), and Thailand (48).
- The United States is keen to increase exports to Bangladesh as part of President Barack Obama's National Export Initiative, which aims to double U.S. exports within the next five years. This can be achieved in Bangladesh, but it will take a much more focused U.S. effort, as competing Asian companies are very aggressive and offer lower-cost products.
- While the share of U.S. imports in Bangladesh is still small, there are opportunities for the United States to increase exports, particularly in agricultural products, consumer goods, and industrial machinery.
- Besides direct trade, there are also opportunities for U.S. firms to partner with Bangladeshi companies to market and distribute their products in Bangladesh. In particular, opportunities exist in consumer electronics (the television and cell phone market) and food security in the form of initiatives to increase food productivity and technical innovation.
- One of the most successful trade deals between the United States and Bangladesh was the recent sale of 10 new airplanes by the Boeing Corporation to Biman Bangladesh Airlines (see sidebar).

A Successful Deal for Biman Bangladesh and Boeing

In 2008, Biman Bangladesh Airlines signed agreements with Boeing at the U.S. Department of Commerce for four 777-300ER, four 787-8, and two Boeing Next Generation 737-800 airplanes, with the purchase rights for up to 10 additional aircraft. This contract was worth more than $2.5 billion in catalog prices, and was part of the Bangladesh government's plan to revitalize Biman and restore itself as one of the strongest carriers in South Asia. With this new order, the airline will be able to upgrade its current aging fleet and set forward a plan for domestic and international growth.

The airline will continue to work closely with Boeing to arrange financing from major international banks and to prepare its application for export credit financing from the U.S. Export-Import Bank. Biman was able to finance its first tranche of deposit payments through local Bangladeshi banks, which points to the resiliency of the domestic financing market in Bangladesh. Boeing has been working closely with Biman for more than 10 years and also has helped the airline get government ratification of the Capetown Convention and supported Biman in formulating its business turnaround strategy.

Most importantly, the purchase adhered to the government's strict rules and regulations for acquisitions and purchases in a fully transparent manner. The agreement took a number of years to complete, but soon, Biman Bangladesh Airlines' new aircraft will be flying direct from Dhaka to New York City.

U.S. FOREIGN INVESTMENT IN BANGLADESH

The United States has been one of Bangladesh's largest foreign investors over the past five years. During that period, U.S. companies have invested a total of US$522 million, representing about 13% of the country's total stock of foreign direct investment (FDI).

- However, the U.S. share of FDI in Bangladesh has been declining steadily; in 2009, FDI from the United States was only 6.1% of the total FDI investment in the country.

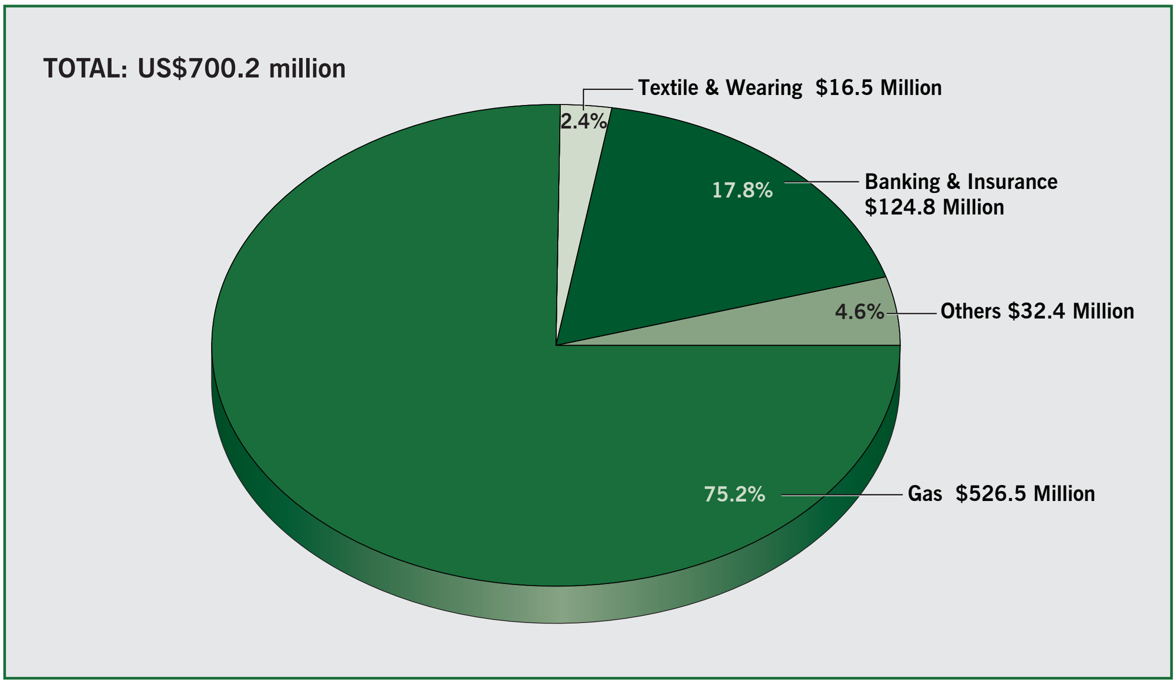
US FDI Flows to Bangladesh (US$ million)

Year	Total FDI in Bangladesh	US FDI Inflow	US FDI/ Total FDI
2009	$700.2	**$42.9**	6.1%
2008	$1,086.3	**$40.9**	3.8%
2007	$666.4	**$120.4**	18.1%
2006	$792.5	**$175.7**	22.2%
2005	$ 845.3	**$141.8**	16.8%
Total	**$4,090.7**	**$521.7**	**12.8%**

Bangladesh Bank, FDI Survey Report, December 2009.

- U.S. investments in Bangladesh have focused mainly on the energy and power sectors (79%), the financial sector (insurance, banks, and varied services), along with some in manufacturing.

U.S. FDI Stock in Bangladesh by Sector, 2009 (US$)



Source: Bangladesh Bank, FDI Survey Report, December 2009.

- By far, the largest and most important U.S. investor in Bangladesh is Chevron, which has operated three gas fields—Bibiyana, Molvibazar, and Jalalabad—in the Sylhet region for a number of years. Chevron's development of gas fields has increased steadily, and the company now supplies approximately 50% of Bangladesh gas.
- U.S. investments in Bangladesh have introduced new technologies and industrial standards, created significant local job opportunities and benefit packages, increased training, and supported a wide range of social and charitable activities.
- There is great potential for investments by U.S. corporations in the energy and power sectors, particularly in gas exploration and production and coal mining and refining as a result of increasing demand for fuel and power generation.3
- There are also opportunities for U.S. firms that currently export to Bangladesh to package, assemble, or manufacture their products in the country. Similarly, U.S. companies that currently export products from Bangladesh, such as Walmart, may be interested in a joint venture investment project, especially if trade is facilitated with India, or if the United States gives duty-free access to Bangladeshi products.
- Bangladesh is a growing consumer market, having the world's seventh-largest population and an estimated 8 million urban Bangladeshis with an annual income in excess of US$10,000. This represents a sizable and growing domestic market for a wide range of goods and services,4 especially in the retail sector.
- A major U.S. corporation, the Coca-Cola Company, has been a long term investor in the Asian region, including Bangladesh. Over the past year, Coca-Cola has focused on increasing its investment in Bangladesh. The Company has been in an ongoing dialogue with the Board of Investment of Bangladesh to finalize the expansion of their activities and The Coca-Cola system in Bangladesh has proposed an additional investment of over US$50 million in the country. .As an industry that has a significant multiplier effect on the economy, this investment will also catalyze the growth of related industries like glass, resin, packaging, marketing and communication services and many others. The company has also committed to undertake several water access and replenishment projects in conjunction with Plan Bangladesh and Urban Partnerships for Poverty Reduction project and UN Habitat.
- Over the past five years, Yum! Brands, the owner of Kentucky Fried Chicken, Pizza Hut, and other chain restaurants, has established 10 stores in Dhaka that have been very successful, and the company plans to expand its activity by opening another 16 stores in the coming years. However, this expansion has been slow because it now takes three months to install power in the new stores.
- U.S. companies with experience investing in Bangladesh believe that U.S. investments would be much higher if companies did not face long and often frustrating bureaucratic delays in approving large-scale projects and long implementation periods before projects are actually implemented.

[3] Asia Society meeting with Ambassador James F. Moriarty, June 30, 2010.
[4] U.S. Embassy in Bangladesh, "Doing Business in Bangladesh: Country Commercial Guide to U.S. Corporations," 2007, http://dhaka.usembassy.gov/doing_business.html.

U.S.–BANGLADESH TRADE AND INVESTMENT ISSUES

Although the United States and Bangladesh would like to increase trade and investment activities, there are a number of issues on both sides that need to be discussed, clarified, and resolved if there is to be any meaningful increase in these activities.

U.S. Tariffs and Quotas on Exports from Bangladesh

An issue that the Bangladesh government would like to see resolved is U.S. tariffs and quotas on products exported from Bangladesh. While the government is pleased to receive the Generalized System of Preferences (GSP) facility enjoyed by some Bangladesh exports, it also would like to receive duty-free and quota-free status, as is given to Mexico and the African LDCs.

Generalized System of Preferences

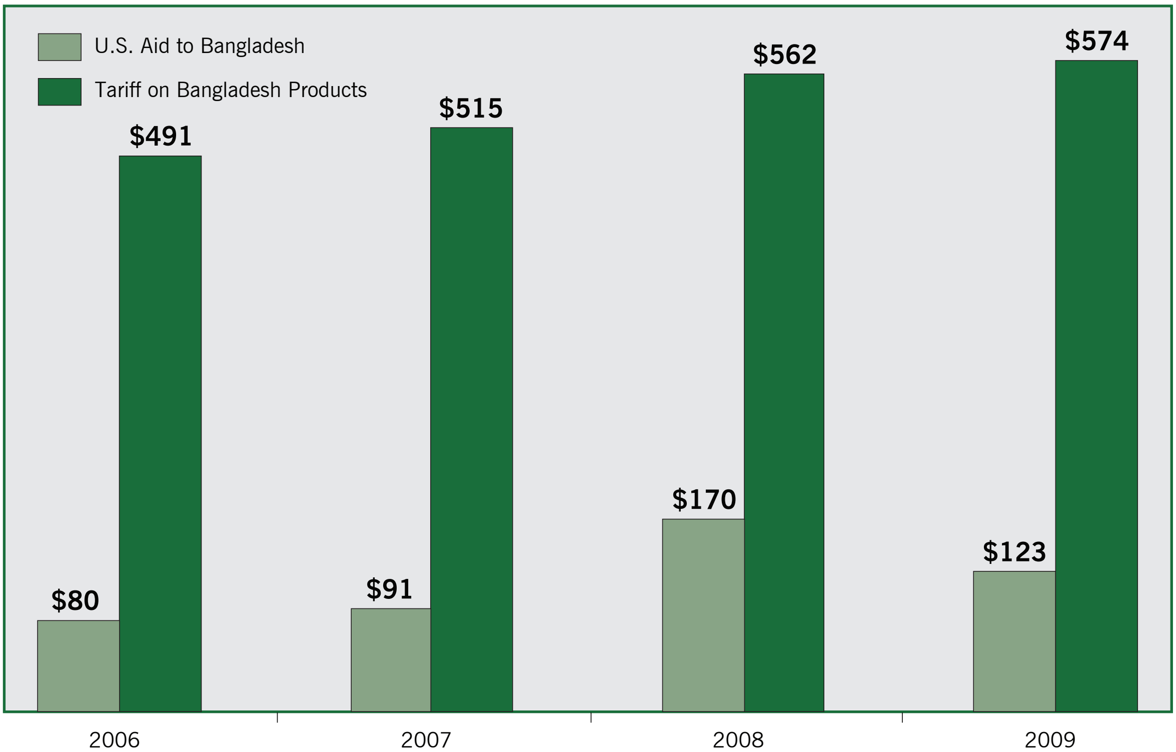
- The GSP was instituted in 1976 based on the Trade Act of 1974. It offers duty-free treatment for 4,800 products from 131 designated countries and territories around the world.
- Under the GSP, Bangladesh can apply for preferential tariff rates on certain products. However, a very small percentage of goods—only US$23 million out of US$3.7 billion, or 0.62% of the total—exported from Bangladesh to the United States in 2009 enjoyed duty-free preferences under the GSP. The remaining products are subject to an average tariff of 15.3%. By contrast, member countries of the Organisation for Economic Co-operation and Development face an average U.S. tariff of only 0.7%.
- The Bangladesh government has asked the United States to extend continuous GSP facilities for duty-free and quota-free market access to the United States for its products as an LDC.
- The U.S. Congress recently extended the GSP program, which expired in June 2010, to December 2010. The program is expected to be extended further and will be reviewed and revised over the next few years.

Import Duties

- Exports from Bangladesh to the United States totaled US$3.7 billion in 2009, of which ready-made garments accounted for 96%. Although this represented 27% of Bangladesh's exports, it was only 0.24% of annual U.S. imports.
- The European Union, Canada, and Japan all give duty-free access to Bangladesh exports. The United States remains the only major country in the developed world in which Asian LDCs do not enjoy duty-free access.
- The United States currently allows exports from Mexico and 33 African LDCs to access duty-free treatment, but no country from Asia.
- Only 0.6% of Bangladesh exports to the United States are duty free. The rest of Bangladesh exports (99.4%) to the United States are subject to a 15% tariff for the remaining products, making Bangladesh the highest among all tariff-paying trade partners to the United States

- Importers of Bangladeshi goods to the United States, such as Walmart, Target, and Gap, imported US$3.7 billion in products and paid US$574 million in U.S. customs duties. In contrast, USAID development assistance grants to Bangladesh totaled only US$123 million in the same year.

U.S. Import Tariffs on Bangladesh Products (US$ million)



Sanchita B. Saxena, "Domestic Coalition and the Push for Policy Change in Bangladesh's Garments and Textiles Industry," August 12, 2010; Speech of Akramul Qader, Bangladesh Ambassador to the United States at the launch of the U.S.–Bangladesh Working Group, May 28, 2010.

- In comparison, far larger imports from France (US$43.4 billion) and the United Kingdom (US$53.4 billion) were subject to fewer duties than Bangladesh.

U.S. Import Tariffs Comparison, 2008

Country	U.S. Imports	Tariff Rate	Tariff Paid
Bangladesh	**$3.7 billion**	**15.3%**	**$574 million**
France	$43.4 billion	**0.9%**	$391 million
U.K.	$53.4 billion	**0.7%**	$400 million

Speech of Akramul Qader , Bangladesh Ambassador to the United States at the launch of the U.S.–Bangladesh Working Group, May 28, 2010.

New Partnership for Trade Development Act

- In November 2009, Representative Jim McDermott (D-WA) introduced the New Partnership for Trade Development Act (H.R. 4101), which would extend duty-free access to all LDCs, including Bangladesh. The Bangladesh government strongly supports this legislation, as it would significantly expand export production in Bangladesh.
- The duty-free benefits under H.R. 4101 would still be restrictive and apply to specific products. Thus, it is expected that about 60% of Bangladesh's apparel exports to the United States still would face tariff restrictions.[5]
- Bangladesh officials believe that duty-free access is critical for the country's economy, and will have a particularly beneficial impact on the employment of women.
- Trade legislation in the United States is always controversial, but extending duty-free access to Bangladesh and other LDCs would have a greater impact on poverty reduction, the employment of women, and economic growth, than all aid and development assistance from the United States combined.

Labor Rights, Wages, and Benefits

- Bangladesh, as one of the beneficiary countries under the GSP, is required to take steps to implement internationally recognized worker rights, including acceptable conditions of work with respect to minimum wages, hours of work, and occupational health and safety.
- Labor rights have become part of the trade conflict between the United States and Bangladesh. One reason is that the Bangladesh government provides incentives to investors in Export Processing Zones (EPZ). One such incentive that was provided in recent years was an exemption from certain labor laws, such as freedom of labor unionism, in EPZs. As a result, a U.S. labor organization has filed a petition with the U.S. government to suspend Bangladesh's GSP privileges.
- While most garment factories are now compliant, with basic provisions for child care, fire safety, and eating facilities, continued dialogue among the various actors in the garment sector—buyers, government, owners, workers, middle managers—is necessary to continue factory-level improvements, national-level policy changes, and the implementation of policies at the factory level.
- The biggest impediment to policy implementation at the factory level is the lack of training of middle managers. Better training, incentives for promotions, and opportunities for women are needed in these managerial roles.
- Both international and domestic investors understand that labor relations in Bangladesh are a major challenge, with occasional outbursts of work stoppage and unrest. Foreign investors are concerned about improving labor conditions and wages, as this makes good business sense. Strikes, which often are violent, generally are initiated by political parties. Not only do these strikes affect businesses by keeping workers away, they also result in productivity losses.

[5] U.S.–Bangladesh Advisory Council,http://www.usbac.org/Press_ReleaseNov1909.html.

- Major Western retailers, including Walmart, H&M, Carrefour, and Levi Strauss, wrote to the prime minister in January 2010 requesting across-the-board wage increases. "Current wages are 'below the poverty line' and have 'contributed to unrest' among workers," the letter said.
- A few months later, after labor strikes and wage increases in China, Bangladeshi workers protested and a factory was shut down in July 2010. The Bangladesh government then announced a minimum wage increase for garment workers that nearly doubled their salaries from US$25 per month to US$43 per month. This was the first wage increase in four years.
- The government-backed minimum wage increase is a positive signal that the stakeholders in the country's garment sectors—including factory owners, trade unions, nongovernment organizations, and international buyers—are finally coming together to improve salaries and working conditions.[6]

Corruption

- A serious impediment to greater U.S. investment in Bangladesh has been the endemic corruption in the country. This is unfortunate because business and private enterprises thrive when decisions are made on purely commercial terms. The situation is gradually improving, but it remains a major problem for U.S. companies.
- U.S. companies need to be aware of another risk, the expanding enforcement of the U.S. Foreign Corrupt Practices Act (FCPA) and other anti bribery laws.
- The U.S. Department of Justice strictly enforces the Foreign Corrupt Practices Act, which outlaws bribery activities. In 2010 alone, the Justice Department assessed more than US$1 billion in criminal penalties against U.S. companies in cases related to violation of the act.
- In order to ensure that U.S. companies do not simply consider fines for FCPA violations as part of the cost of doing business, there is a deliberate emphasis on charging individuals – including CEOs, marketing and sales representatives, intermediaries, and in some cases foreign officials.[7]

Commercial and Legal Disputes

- A number of commercial and legal disputes have arisen between U.S. and Bangladeshi companies and, in some cases, the government. Unfortunately, if they are not resolved in a timely manner, and through a transparent process, these can often become irritants to bilateral commercial relations.
- It is critically important that there is an accepted, established process for resolving disputes that is transparent and completed in a timely manner. Such a process needs to be instituted in Bangladesh (see sidebar).

[6] Sanchita Saxena, "Bangladesh's Case for Tariff Break in US," *Daily Star* (Dhaka), November 2, 2010, http://www.thedailystar.net/newDesign/news-details.php?nid=160870.
[7] Mark Brzezinski, "That bribe could be costly," *International Herald Tribune*, November 10, 2010, http://www.nytimes.com/2010/11/11/opinion/11iht-edbrzezinski.html?_r=2.

Commercial Dispute between Cargill and the Bangladesh Government

A commercial dispute originated from Cargill's sale in 1995 of 200,000 metric tons of wheat to the Ministry of Food and Disaster Management. The case eventually was referred to an arbitrator in Bangladesh, who in 2003 issued a ruling in Cargill's favor ordering the Bangladesh government to release the performance bond of $820,000 and pay additional damages of $ $750,805 as a result of its failure to release the performance bond. The government of Bangladesh appealed the arbitration ruling, and the case remains unresolved, three governments and 15 years later. Cargill has expressed its interest to the government in seeking a mutually beneficial settlement. This case has implications for the sanctity of contracts, the enforceability of arbitration rulings, and mechanisms for resolving commercial disputes in Bangladesh. The failure to resolve this case has prevented Cargill, and could discourage other foreign firms, from doing business with the Bangladesh government. This is unfortunate, as Cargill is one of the world's largest agro-industry companies and has a long history of supplying food to Bangladesh during times

U.S.–Bangladesh Bilateral Agreements

- Bilateral Investment Treaty (1989)
    - The U.S. and Bangladesh governments need to review the current utility of the existing Bilateral Investment Treaty signed in 1989, with the objective of creating a predictable investment climate; this is of paramount importance particularly for the development of infrastructure and energy projects.
- Double Taxation Avoidance Treaty (2004)
    - This treaty is designed to encourage bilateral trade and investment between the United States and Bangladesh by reducing the double taxation of income arising from trade and investment activities between the two countries, as well as by providing mechanisms for the resolution of disputes.
- Debate over a Trade and Investment Framework Agreement (TIFA)
    - High-level economic dialogues between U.S. and Bangladesh officials are needed to address mutual trade and investment concerns. The United States believes that an institutional framework or body should be established to help resolve disputes with U.S. or Bangladesh companies.
    - TIFA is a framework that forms the basis for future trade agreements that the United States has negotiated with numerous countries. The United States proposed to sign a TIFA with Bangladesh, but the Bangladesh government has been reluctant to agree.
    - The Bangladesh government opined that TIFA incorporated some labor standards, environmental regulations, and intellectual property rights clauses that currently run counter to its national interests. Hence, the government has formally refused to sign a TIFA with the United States.

- An alternative approach would be to establish a U.S.–Bangladesh Economic and Trade Cooperation Forum. This option would also create a platform for mutual cooperation and regular higher-level dialogue in which both sides could raise issues related to bilateral trade and investments.

Involvement of U.S. Government Agencies

The United States is a major ally of and development assistance donor to Bangladesh. Since Bangladesh attained independence in 1971, the United States has provided the country with US$5.1 billion in donor funds. A large amount of U.S. assistance understandably has been focused on basic needs. Going forward, and in line with the principle of "trade not aid," however, the United States should consider how its agencies can provide more direct assistance to trade and investment. As shown earlier, the best way to improve the lives of women is for them to have a job.

- USAID has funded a wide range of activities in Bangladesh, but they fall mostly in the category of humanitarian aid and social development. Little funding has been allotted for trade or investment activities.
- A small portion of the U.S. assistance funding has been proved to improve bilateral trade relations. As such, the United States has provided trade capacity-building support to Bangladesh over the past 11 years, totaling US$32 million for trade facilitation, export promotion, business services and training, human resources and labor standards, environmental trade and standards, and trade-related agriculture. However, in recent years, the amount of capacity-building support for these activities has declined steadily.
- Moreover, the US$32 million for trade capacity building and support distributed through USAID grants over the past 11 years to Bangladesh is far less than the total US$195 million provided to Jordan, a country of only 6 million people.

Trade Capacity Building Support from the U.S. (US$ million)

Country	2009	2007	2004	2001	1999–2009
Bangladesh	**1.1**	**0.8**	**2.3**	**3.2**	**31.9**
Jordan	26	17.5	17.3	32	**194.5**

Source: USAID, Economic Analysis and Data Services, November 2010.

- There is also an opportunity to involve U.S financial institutions such as U.S. Export-Import Bank (EXIM), the Overseas Private Investment Corporation (OPIC), and the U.S Trade and Development Agency (USTDA) to facilitate the involvement of U.S companies in large infrastructure projects in Bangladesh.
- The U.S. Trade and Development Agency undertakes technical and feasibility studies for funding infrastructure projects in Bangladesh. However, the agency has not been active in the country over the past five years; the last project undertaken in Bangladesh was a feasibility study for a hospital in 2005.

U.S. Government Agencies' Projects in Bangladesh

Year	Agencies	Amount (US$ million)	Project Description
2008	OPIC	16.7	On-lending to Micro-Borrowers
2007	OPIC	0.5	Economic Development Activities
2006	OPIC	15.0	Expansion of Cellular Telephone Network
2005	USTDA	0.3	Chittagong Port Facility
2000	EXIM Bank	8.0	Micro Power Projects
1998	OPIC	87.0	Power Plant
	Total	**127.5**	

Source: OPIC, USTDA and EXIM Bank websites, August 2010

U.S.–Bangladesh Private Sector Business Organizations

- Currently, the U.S.–Bangladesh Advisory Council, which was established to study bilateral relations, is one of the only groups in the U.S. to focus on Bangladesh, but this organization does not include any U.S. corporate members.
- In the 1990s, there was a formal U.S.–Bangladesh Business Council (USBBC) under the U.S. Chamber of Commerce with 35 active members. Its membership was made up primarily of U.S. oil, gas, and power companies, but it disbanded in 2000 when the Bangladesh government did not proceed with planned investment programs.
- A reconstituted USBBC could be a very important and effective body for both Bangladesh and the United States. It should be revived to become a more active forum for U.S. corporations trading with, and investing in, Bangladesh. This forum would offer a number of opportunities for both countries and would provide a platform in the United States to discuss issues and opportunities in Bangladesh and to host visiting Bangladeshi officials when they come to Washington.
- Another group that should be better organized and utilized for investment promotion is the Bangladeshi diaspora in North America. The Bangladesh government should make efforts to establish a business forum for nonresident Bangladeshis, with regional centers in cities such as Washington, D.C., Boston, San Francisco, Toronto, and any other city with a significant nonresident Bangladeshi population. This could be modeled on a similar nonresident Indian organization called TiE-DC, which has chapters in Washington and many other cities in North America. Many nonresident Bangladeshis are very successful in their fields and would

be pleased to assist Bangladesh's development efforts. To the best of our knowledge, there is no formal record or database of nonresident Bangladeshis; one should be developed to tap their ideas and resources for possible investments in Bangladesh.

Improving the Investment Climate

"An integral part of Brand Bangladesh is a healthy business climate here. Bangladesh must strive without ceasing, to reduce bureaucratic barriers to business, and to ensure clear and consistent rules for investors."

– James F. Moriarty, U.S. Ambassador to Bangladesh, at a Dhaka seminar on Branding Bangladesh, June 2, 2010

PLACING BANGLADESH ON THE GLOBAL INVESTOR MAP

Although Bangladesh's economy has made significant strides in recent years, a negative image of the country persists throughout the world. In the popular imagination, Bangladesh conjures terms such as *poverty, overpopulation, donor aid, natural disaster, political instability, failed state,* and *corruption*. Some of these characterizations are accurate; others reflect the country's past, but none gives Bangladesh credit for the major social, economic, and political improvements that have taken place in recent years.

The country's poor reputation has been an ongoing problem since independence. Over the past 10 years, however, the situation in Bangladesh has changed, even though world opinion has not. It will take time to change the world's perceptions of Bangladesh, and meaningful change must be accomplished through concrete actions, not simply hollow words from government officials.

Bangladesh has been slow to integrate economically with the rest of the world because for most of its history, the country has been dependent on donor aid. Multilateral and bilateral assistance to Bangladesh has been much appreciated and generally utilized in an appropriate manner, but this has lead to a sense of aid dependency that the government now is trying to change. "Trade not aid" is the new mantra of the Bangladesh government, but the transition will not be easy, and it certainly will take time to implement both domestically and internationally.

Recent country ratings given by the two international credit rating agencies, Moody's and Standard & Poor's,[1] have placed Bangladesh on par with some Southeast Asian countries. This is a sig-

[1] In April 2010, Moody's Investors Service, a U.S.-based credit rating agency, announced for the first time a sovereign credit rating for Bangladesh of Ba3; see Adam Shamim, "Bangladesh Gets First Sovereign Rating from Moody's," *Business Week*, April 12, 2010. On August 10, 2010, Standard & Poor's gave Bangladesh a sovereign rating of BB– and rated the country's outlook as "stable."

nificant milestone and a first for Bangladesh. Without a doubt, earning a rating gives the country a certain legitimacy in the eyes of global investors.

The next step should be for the government to issue a sovereign bond, which would generate further ratings, published rating reports, a global investor following, as well as follow-up research reports written by international investment banks. Already, Goldman Sachs has included Bangladesh in its list of the "Next Eleven," as has J.P. Morgan in its "Frontier Five" investment reports. These are positive steps, but much more needs to be done to maintain the momentum. In particular, investors will not continue reading investment reports unless they have something to invest in, whether it is a sovereign bond or stocks on the Dhaka Stock Exchange. For this reason, it is critical that Bangladesh find a way to attract more foreign portfolio investment.

Much more also needs to be done on the global economic integration front, including support for, and adherence to, formal trade agreements, increased access to international financial markets, and liberalization of the country's capital markets.

Increased garment exports to developed countries in Europe and North America have drawn attention to Bangladesh's economic opportunities. The rise of India has resulted in much greater interest in Bangladesh, especially among Indian companies, but also a greater awareness of investment and trade opportunities among other foreign companies that are looking at the Indian market. Nevertheless, Bangladesh needs to do a better job of reaching out to international corporations and financial institutions in order to promote the country's opportunities and to global investors who are looking for a manufacturing platform located in the heart of Asia.

The good news is that government and business leaders in Bangladesh now realize that perceptions of the country can make a significant difference in the success of its business, trade, investment, and tourism activities, as well as its overall economic relations with other nations.[2] The government is on the right track in this area, but it must sharply accelerate the pace.

Reversing decades of negative opinion and ignorance will be a long-term effort. However, communication efforts must be undertaken to educate the global audience about the changes that Bangladesh is making. A multifaceted but coordinated low-cost initiative should be developed to start the process. This probably should be done with assistance from an international communications firm that has offices in London, New York, Washington and Hong Kong, which are all major financial centers, as well as important markets for Bangladesh.

AMBIVALENT FEELINGS ABOUT FOREIGN INVESTMENT

A concern that must be addressed is the ambivalent attitude toward foreign investment in Bangladesh. While there is strong support for increased foreign investment from Prime Minister Sheikh Hasina, her advisors, and cabinet ministers, the same cannot be said for many members of the bureaucracy, Parliament, the media, and nongovernmental organizations.

- Some of the resistance may be philosophical, but overall, there is a lack of appreciation of the substantial economic benefits that increased foreign direct investment (FDI) could bring to

[2] See http://www.gfkamerica.com/practice_areas/roper_pam/placebranding/nbi/index.en.html.

Bangladesh, and of the beneficial role that FDI has played in neighboring Asian countries.

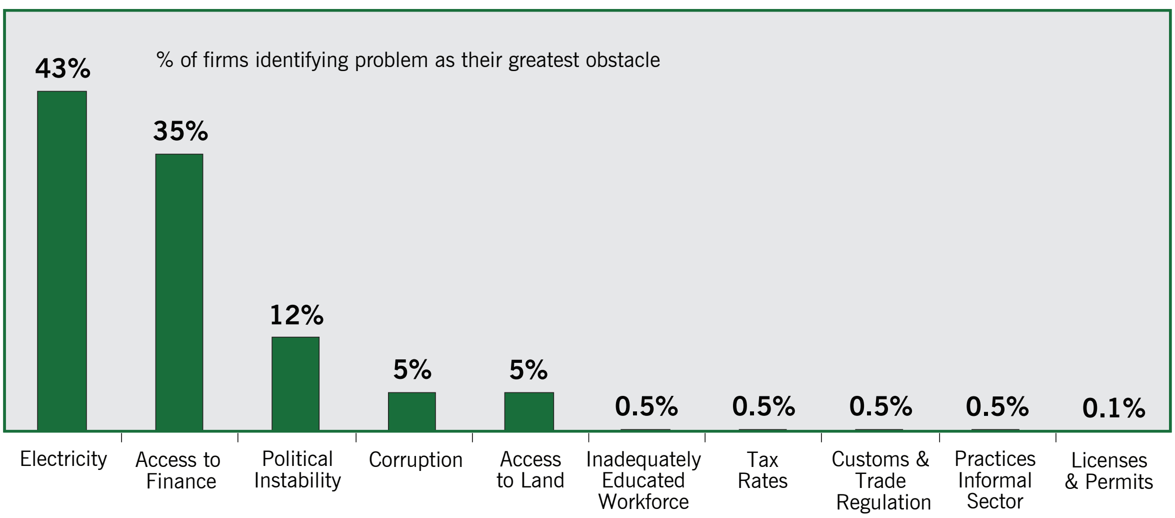
- Existing FDI in Bangladesh has brought additional capital, introduced improved technology and management expertise, created employment, and improved access to international markets. It also has led to improved standards and changes in the local business culture, in addition to a great deal of social welfare philanthropy, such as support for training programs, schools, and health projects.
- Many people are not aware that in addition to the foregoing benefits, foreign investors are among the largest taxpayers in Bangladesh, when individual, corporate, and value-added taxes are combined with customs duties paid on imports and exports.
- Despite all of these benefits, one of the reasons that FDI in Bangladesh has been lower than that in neighboring countries is that there is little understanding of the benefits of FDI to the Bangladesh economy.
- Some government officials believe that the rate of FDI inflows is simply exogenous, and that nothing can be done to generate or increase it in Bangladesh in the near future. Others have even proposed that FDI be restricted in some sectors, like the garment industry.

IMPEDIMENTS TO INVESTMENT

Although Bangladesh offers many production advantages, the country's investment climate is plagued by a variety of problems and issues. As a result, the investment process remains challenging and unnecessarily lengthy, especially for first-time investors.

- According to the World Bank, the major structural problems seen by investors include power outages, access to land, limited access to finance, political instability, and bureaucracy and corruption.

Top 10 Constraints to Investment in Bangladesh



Source: World Bank, Enterprise Survey, 2010. http://www.enterprisesurveys.org/ExploreEconomies/?economyid=17&year=2007.

- In reality, a range of issues are having a negative affect on the country's investment climate: bureaucracy and corruption; infrastructure constraints in the areas of power, energy, transportation, and telecommunications; revenue administration; taxation; employment and labor issues; the legal framework; and access to financing. Each of these of these is discussed in the following sections of this chapter.

Bureaucracy and Corruption

Burden of Government Bureaucracy

All governments intervene through regulations, some for the purpose of protecting industries. However, government bureaucracy in Bangladesh greatly impedes both domestic and foreign private-sector activity through a myriad of licenses, permits, and approvals required across the economy.

- Despite the prime minister's desire to streamline the bureaucracy, improve transparency, and reduce corruption, both new and existing foreign investors consider bureaucratic delays and corruption to be serious impediments to increasing foreign investment.
- In particular, the systemic weaknesses of the government's overlapping and slow decision-making process result in lengthy responses to foreign investors' application processing and project startup. For most investors, the process is frustratingly long and even worse, far from transparent.
- Even after an investment is finally approved and a company is ready to begin operations, multiple decision makers in the bureaucracy take an inordinately long time to provide documents and signatures needed for the provision of things such as water, power and telephone lines, resulting in unnecessary, and frustrating operational delays.
- As in most countries, the bureaucracy in Bangladesh suffers from political interference, including the repudiation of decisions made under previous governments and the sacking or removal of key bureaucrats for unspecified reasons. In a few cases, civil servants have been targeted for criminal action, which has appeared to some observers to be politically motivated. This has led to a crisis of confidence and a reluctance among civil servants to make decisions for which they later could be penalized.

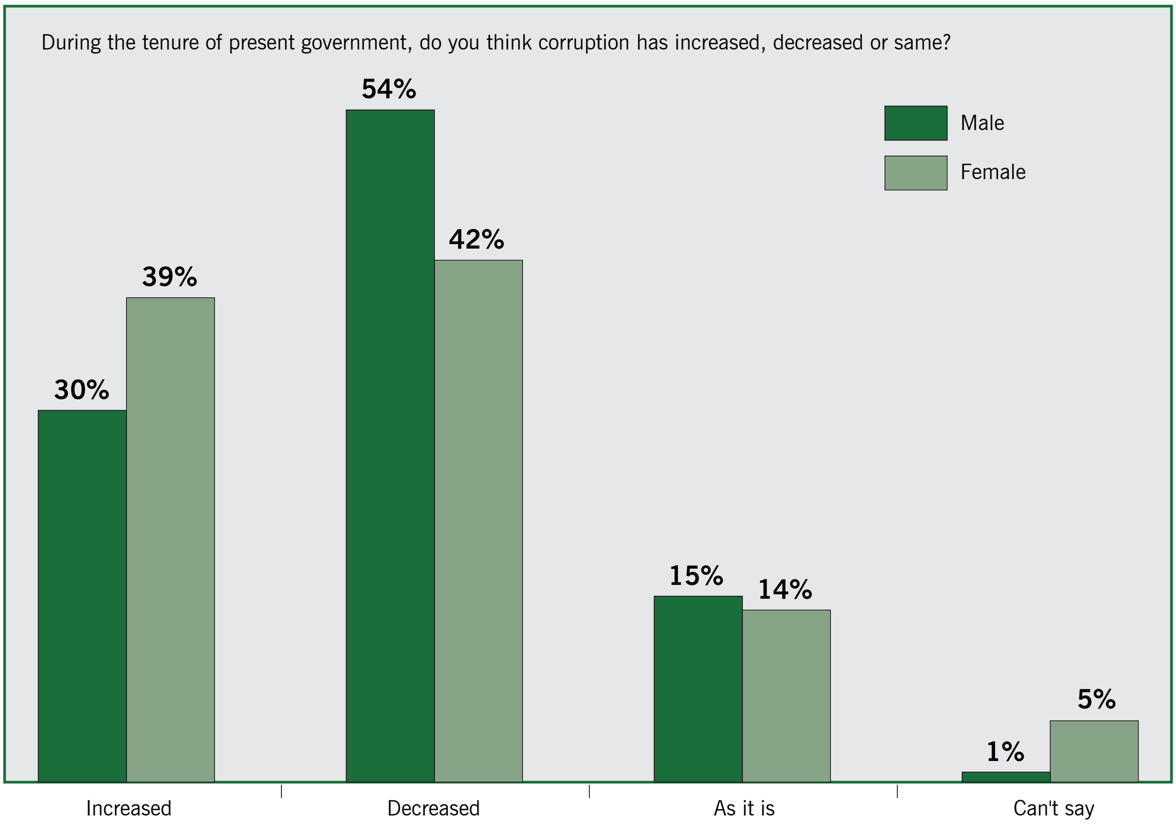
Corruption

Corruption has long been recognized as a severe problem in Bangladesh. Hence, the country's consistent ranking as one of the most corrupt nations according to Transparency International's Corruption Perceptions Index comes as no surprise.

- Bangladesh ranked among the lowest countries in Transparency International's corruption surveys from 2001 to 2007—lower than Nigeria, Somalia, Myanmar, Afghanistan, and Sudan.
- However, some progress has been made over last two years, and Bangladesh's ranking has improved somewhat: 147 out of 180 countries in 2008, 139 in 2009, and 134 in 2010. By comparison, Vietnam ranked 116; Indonesia, 110; Sri Lanka, 96; India, 87; China, 78; and Malaysia, 56.

- Despite this improvement, the country remains riddled with corruption throughout the bureaucracy. At the higher levels, there often have been large payments for project tenders and approvals, and at the lower levels, smaller amounts in the form of speed money required for expedited processing and approval of applications.
- To reduce corruption in public procurement and contracting and in major foreign investments, the government is trying to ensure greater transparency and accountability from the ministries and agencies involved, but to date, it has achieved only partial success as indicated in the chart below.

Public Corruption Perception



Source: The Nielsen Company - Bangladesh, July 2010

- The Bangladesh government has been trying to address these structural corruption problems, but the country's poorly paid civil servants have long regarded businessmen, especially foreign companies, as an opportunity to use their administrative power to make money.
- Consequently, firms typically are expected to provide gifts when meeting tax inspectors, and to make unofficial payments to obtain government services such as post office boxes, telephone lines, licenses, customs clearances, and the like.

- Given this environment, it is difficult for multinational corporations, especially those from the United States and other Organisation for Economic Co-operation and Development countries, to carry on business without breaking anticorruption laws imposed by their home countries. As a result, it typically takes these companies much longer to establish their foreign investment operations in Bangladesh, sometimes as long as two to three years.
- In 2007, Bangladesh's Anti-Corruption Commission (ACC) implemented institutional and legal reforms for good governance to fight corruption. It also has attempted to comply with international standards, including the United Nations Convention Against Corruption. However, most foreign observers believe that the ACC has been only partially successful, and is not completely free of political interference.
- Going forward, the ACC should be given operational and financial independence, as well as the freedom to work without government interference. This should increase the ACC's effectiveness and creditability, while at the same time improving the country's business environment.
- Some NGOs in Bangladesh might even want to follow an example from India and set up a website like IpaidABribe.com, which is a unique initiative to tackle corruption by allowing citizens the opportunity to report on the nature, location, frequency and value of corrupt acts.

Infrastructure Constraints

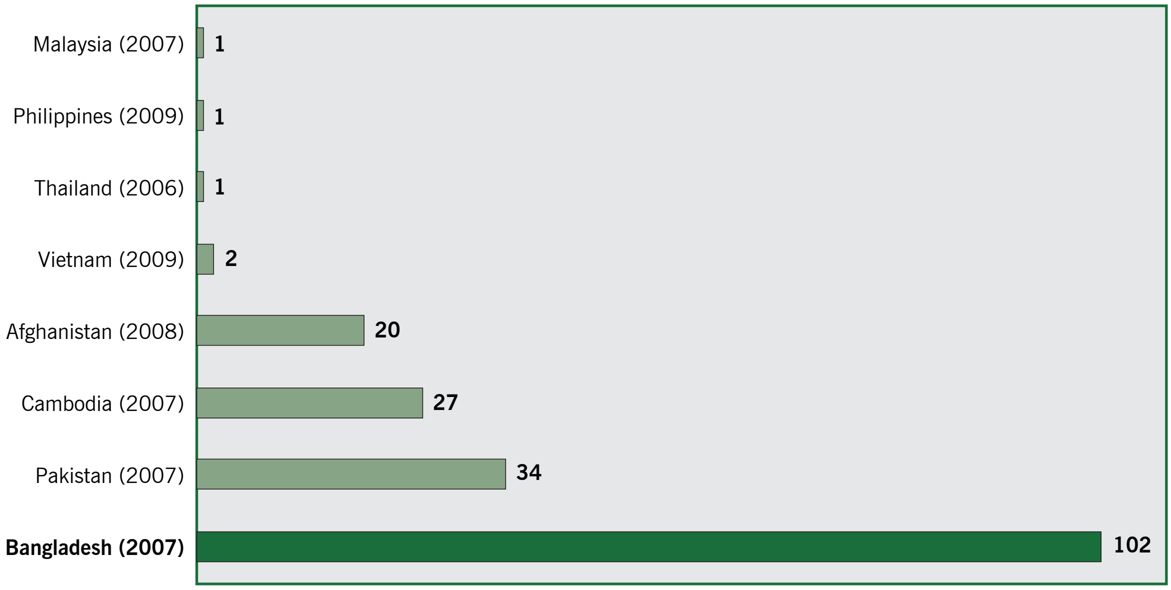
According to the World Economic Forum's 2009–2010 Global Competitiveness Report, corporate investors identified infrastructure as the most problematic issue in Bangladesh. In particular, they cited an inadequate power and energy supply, as well as congested ports and underdeveloped transport networks connecting the ports with the hinterland without a doubt. These constraints impose significant operational surcharges on foreign and local investors and can be a major drag on a company's economic performance.

Power

Over the past few years, Bangladesh has suffered from a serious national power crisis as a result of the government's failure to develop Bangladeshi natural gas and coal resources and to establish an efficient gas pipeline network—all of which are essential for supplying the country's power sector.

- Power shortages and blackouts of up to eight hours a day are common in Bangladesh. This is by far the most serious problem facing the government, industry, and the urban population. Power cuts and blackouts have a serious impact not only on business operations, but also on public services, especially hospitals and water pumping stations.
- Bangladesh ranks last among its Asian competitors in terms of power outages. The situation in 2010 was even worse than the 2007 figures shown in the following table.

Monthly Power Outages by Country



Source: World Bank, Enterprise Survey, 2010.[3]

- As of April 2010, demand for electricity in Bangladesh was estimated at 5,500–6,000 megawatts (MW) per day. However, the country currently generates only 3,800 MW, thereby creating a shortage of approximately 1,700 MW.[4]
- This situation is expected to become more difficult, as it is estimated that demand for electricity will grow at an annual rate of about 8% over the next 10 years.
- Currently, 87% of the country's power plants are run using domestic natural gas, and almost all plants operate at less than capacity because of a shortage of gas. An inadequate gas distribution system and leakage of electricity in the form of illegal connections and meter tampering only exacerbates the country's power shortage problem.
- Frequent power shortages are costly to business operations in Bangladesh and represent a major deterrent to new private investment. Industry representatives estimate that the power crisis is responsible for annual manufacturing production losses of US$1.3 billion, reflecting a 2% loss in annual gross domestic product.[5]
    - Companies operating in Bangladesh must install and operate their own captive power generators, raising their electricity costs by half.[6] Recently, even gas availability to run these generators has become a problem.

[3] The complete survey is available at http://www.enterprisesurveys.org/ExploreTopics/?topicid=8.
[4] *Financial Times*, April 14, 2010.
[5] "Government's Efforts to Tackle the Worsening Energy Crisis Hampered by Political Opposition," Eurasia Group Note.
[6] World Bank, "Bangladesh: Strategy for Sustained Growth," 2007, http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/0,,contentMDK:21421907~pagePK:146736~piPK:146830~theSitePK:223547,00.html.

- Power outages are particularly problematic in the apparel sector, as they reduce productivity, disrupt production and necessitate the use of higher-cost generators. This is one reason why manufacturing productivity in Bangladesh remains much lower than in countries such as Vietnam and China.
- Compared to bangladesh's productivity level of 35%, its competitors in Southeast Asia average around 70% and China achieves 80%.
- As a result of power outages, a number of garment factories have lost sales because they have not been able to meet their contract delivery schedule, and some factories have had to outsource work to other countries.
- New investors cannot get electrical connections for at least three months after starting operations. Obviously, this adds significantly to their startup costs.

• The government is committed to tackling the power problem in both the short term and the medium term.

• During the past six months, the government has scheduled daily power cuts, restricted the use of air-conditioning during the peak hours of 6:00 p.m. and 11:00 p.m., and even shut down five fertilizer factories in order to divert gas to power plants.

• Over the past six months, the government also has approved the establishment and operation of eight oil-fueled rental power plants, which will increase the country's power supply by 530 MW.[7] At least 10 more plants are expected to be approved in the coming months, increasing the power supply by a total of 1,360 MW.

• These plants, though they will help alleviate the problem in the short term, are costly and do not address the country's long-term problem. Therefore, the government is expediting the approval of a number of large power plants that will be supplied by dedicated gas pipelines; however, these will not come on stream for a few years.

• The new government's highest priority is to alleviate the power shortage, but given the depth of the problem and political opposition to any serious long-term reforms, the power problem is likely to take three to five years to rectify.

Energy

The shortage of power in Bangladesh results from a complexity of factors, the foremost being that for the last ten years, previous governments have not allowed sufficient energy exploration and investment, even though there has been strong interest in gas and coal investments from a number of world class foreign companies.

Although Bangladesh has rich gas resources and high quality coal deposits, government authorities have until recently, been unwilling to accelerate the exploration of gas and have delayed all efforts to develop its coal resources. As a result of this, Bangladesh's energy supply has not been able to meet country's increasing electricity demand.

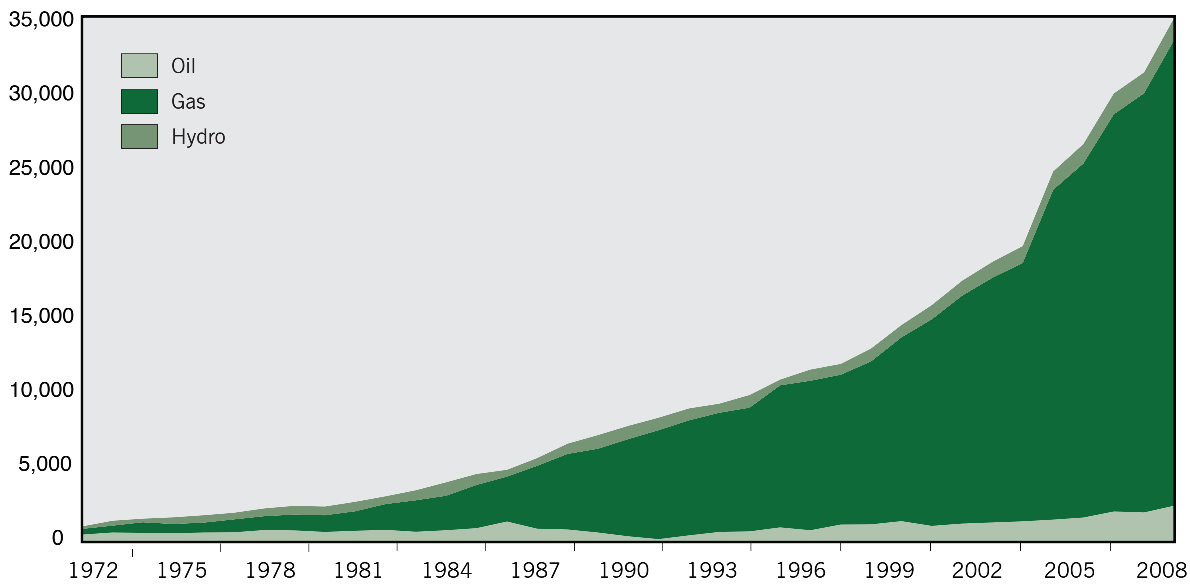
[7] "Siddhirganj Power Plant Switched On," Daily Star (Dhaka), February 15, 2010.

There is no doubt that significant energy investments in Bangladesh are required for both production and exploration. The government recently expedited approval procedures for both activities, but much needs to be done within a short time frame. Currently, natural gas remains the only significant source of commercial energy in Bangladesh, and the country's reserves are sufficient to supply power stations in the medium term. Although they have not been developed, the country's coal reserves are more than adequate to ensure electricity generation for 30 years, and it is estimated that more than 80% of the reserves could be extracted through open-pit mining that adheres to international standards.

Bangladesh Natural Gas Resources

- Over the past three decades, Bangladesh has witnessed an increase in the use of various fuel sources to generate electricity. However, at present, 90% of the country's energy demand is met through domestically produced gas.[8]

Bangladesh Electricity Generation by Fuel (gigawatt hours, GWh)



Source: International Energy Agency, 2010[9]

- For a number of years, the government has used an unofficial estimate of 9 trillion cubic feet (TCF) of capacity, which was used as a reason to restrict development of the country's gas reserves by foreign companies. However, a study carried out by the U.S. Geological Service estimated that Bangladesh possesses 32–40 TCF of additional natural gas resources that have yet to be identified. A Norwegian Petroleum Directorate analysis commissioned by the Bangladesh government determined that proven gas reserves are even higher at 56 TCF. It is now estimated that Bangladesh has roughly 32–56 TCF, which is ample to meet the country's energy needs over the medium term.

[8] "Chevron for Further Exploration to Find New Gas Reserves," Financial Express, June 29, 2010.
[9] Chart available on the IEA website at: http://www.iea.org/stats/pdf_graphs/BDELEC.pdf

- The current official estimate of Bangladesh's proven and probable natural gas reserves is about 28.4 TCF, out of which 20.5 TCF is recoverable. To date, approximately 9.2 TCF of the country's natural gas reserves have been utilized.
- Government-owned Petrobangla is the principal buyer of natural gas produced in the country, and it is the main entity that defines usage, pricing, and distribution of revenue. Gas distribution is controlled by Petrobangla under the administration of the Ministry of Power, Energy, and Mineral Resources.
- Onshore gas exploration and development is undertaken by Petrobangla and a few foreign firms; Chevron is by far the largest among them.
- The country's gas production is currently around 1.9 billion cubic feet per day (bcfd), while demand is more than 2.15 bcfd, creating a supply shortage of approximately 250 mcfd.
- Total gas production has stagnated in recent years, primarily because of restrictions on development by foreign companies, poor maintenance of existing fields, and a lack of investment funds for increased exploration by Petrobangla.[10]
- Chevron's production from its three gas fields—Bibiyana, Molvibazar, and Jalalabad—has increased steadily. Chevron's fields now supply almost 50% of Bangladesh's gas production, or 832 million cubic feet of gas per day.
- The government realizes that investments in energy exploration have been woefully inadequate to meet today's demands. In particular, there has been a lack of appreciation within the government regarding the 8- to 10-year timeline required to bring gas on stream, while it is even longer for offshore locations.
- As a result, the government recently expedited the approval of exploration of a new gas block by Chevron in southwest Bangladesh, as well as the company's development plan, which includes adding a compressor to one gas pipeline that will boost gas production to about 1,200 million cubic feet per day.
- In order to improve gas distribution and utilization from current fields, Chevron has advised that the three compressor stations planned will help boost gas flow. Most important is a new pipeline that the government plans to construct, as well as other dedicated pipelines for large power plants, that will make the entire distribution system much more efficient.[11]
- Bangladesh also has 25 offshore natural gas blocks, but only one has been explored successfully over the past two decades. However, because of the acute power shortage, the government also recently removed the ban on providing onshore and offshore production-sharing contracts for the country's gas fields in order to attract more foreign investment to the lagging energy sector.[12]
- ConocoPhillips was the lowest bidder in the latest government bidding for eight offshore national blocks for oil and gas exploration, but the company was awarded only two blocks because of competing claims on the other six by Myanmar and India. Bangladesh has referred this issue to the

[10] "Government's Efforts to Tackle the Worsening Energy Crisis Hampered by Political Opposition."
[11] *Financial Express*, March 28 2010.
[12] *Financial Express*, June 29, 2010.

United Nations for resolution, and it is expected to be resolved within the next two years. ConocoPhillips is moving ahead to develop the first two offshore blocks, and plans to start development of the disputed six blocks once the territorial issues are resolved and the blocks are officially awarded.

- Multilateral institutions such as the World Bank and the Asian Development Bank (ADB) are providing assistance to the energy sector. The ADB is extending loans totaling US$261 million to help Bangladesh address its natural gas supply constraints, and its board of directors approved a further US$5 million from its concessional Asian Development Fund for the Bangladesh Natural Gas Access Improvement Project.

Bangladesh Coal Reserves

- It is ironic that Bangladesh suffers from an acute shortage of energy when it is sitting on large reserves of high-quality coal that, if mined, would ensure the country's electricity supply for the next 30 years. Although the price of coal-fired plants has risen in recent years, coal has proved cheaper than natural gas or nuclear power.
- Coal was discovered at Phulbari in northwest Bangladesh between 1994 and 1997 by the Australian mining company BHP, and it is estimated that more than 80% of the country's reserves could be extracted through open-pit mining. However, this project has been opposed by farmers and nongovernmental organizations, and protests resulted in violence a few years ago.
- As a result of this opposition, the country's long-pending coal policy has not been instituted, and thus Bangladesh cannot utilize its huge reserves of coal to generate low-cost electricity. Even worse, the country currently has to import about 60,000 tons of coal from China, India, and Indonesia.[13]
- Despite climate change concerns, numerous coal-fired plants continue to be built around the world, including more than 30 in the United States, where such plants provide more than 50% of America's electricity.
- A number of joint ventures between public- and private-sector enterprises have been proposed to develop the coal resources, but these have failed to materialize in the past because of government inaction on its coal policy. In contrast, the Indian government sold shares in its state-owned company, Coal India, and raised US$3.4 billion through a public offering.
- The government's delay in instituting a coal policy has frustrated foreign investors, who are now unwilling to build large, efficient coal-fired power plants, as all coal would have to be imported at a higher cost.
- Given the country's abundant coal resources and increasing power demand, there is an urgent need for the government to institute a coal policy to expedite the development of the country's coal resources. However, given the political opposition, Prime Minister Sheikh Hasina has been cautious in pushing forward this subject. At a meeting of the National Science and Technology Council held in June 2010, she said, "We will not take any decision whimsically; we will examine pros and cons of any proposal before implementing it."[14]

[13] See http://www.mbendi.com.
[14] "No Hasty Decision Regarding Bangladesh Coal Policy," Energy Bangla, June 28, 2010, http://www.energybangla.com/index.php?mod=article&cat=CoalSector&article=2491.

- Nevertheless, it is critical for the government to actively promote the development of coal in order to ease its reliance on natural gas and provide power generation over the next 30 years. If this happens, a large number of international coal companies, power producers, and foreign investors will become very interested in investing in Bangladesh.

Alternative Energy Options

- Because of the current energy crisis, numerous alternative energy proposals have been considered, including imported Liquefied Natural Gas (LNG) and domestic nuclear, hydro, wind, and solar energy. At the present time, these are all extremely expensive alternatives, especially considering the availability of natural gas and coal.
- In the longer term, it is possible that cost-effective hydro energy could be imported from Nepal, Bhutan, and northeast India. But in order for this to occur, significant investments would have to be made in these countries to greatly expand their existing capacity.

Transportation

The World Bank's Logistic Performance Index found Bangladesh's transportation infrastructure and services to be of poor quality, seriously impairing the efficient flow of freight both within the country and overseas. According to the World Economic Forum's 2010 Global Enabling Trade Report, Bangladesh is at a competitive disadvantage in terms of: airport density; paved roads; the quality of air transport, railroads, and port infrastructure; logistics industry competence as well as postal service efficiency.

If Bangladesh is serious about becoming a regional transport hub, it will need to undertake massive improvements to its roads, railways, ports, and airports. Obviously, the Bangladesh government will not be able to fund all of the required infrastructure improvements, and will have to reply on foreign investments through its Public–Private Partnership (PPP) program.

Roads

- The country's transportation links are predominantly by road, as railways are inefficient, and waterways and barge container transport are underutilized.
- By far, the most important link for transporting goods from factories to ports and vice versa is the connection from Dhaka to Chittagong,[15] which needs to be improved in order to meet future freight demand. Other key links to Tripura in India and Myanmar in the east and to India in the west need to be upgraded significantly.
- Given the riverine nature of the country, bridges are a key, but also an expensive part of Bangladesh's highway network. A major improvement is the 4.8-kilometer Bangabandhu Bridge, which connects the eastern and western parts of Bangladesh. Its completion has made an important contribution to the development of the country's transportation network.

[15] CIA World Factbook, https://www.cia.gov/library/publications/the-world-factbook/geos/bg.html.

- A proposal to construct a bridge over the Feni River to connect Tripura in India with Khagrachari in Bangladesh also will facilitate the easy movement of labor and materials between the two countries and provide access to Chittagong's port.
- Over the long term, if Bangladesh is connected with the planned Asian Highway, the country could act as a transit point for freight transport from India, China, and Southeast Asia. Integration with the Asian Highway is also critical for any new investment in improved sea ports to be viable.
- The upgrading of the Bangladeshi highway network will be an ongoing effort for a number of years, and it is critical that the country attract investors to its Private–Public Partnership program.

Railways

- The Bangladesh railway system is in need of a major upgrade, as it does not serve manufacturers well. For example, there is only one freight train a day that connects Dhaka to the country's major port in Chittagong, requiring all goods to be sent by road.
- In 2008, Bangladesh and India reestablished train service between Dhaka and Kolkata. During Prime Minister Sheikh Hasina's recent visit to India, both governments agreed on expanding the Dhaka–Kolkata rail line to connect to Agartala, the capital of the Indian state of Tripura. The expansion and improvement of both railway lines will bring major trade benefits to Bangladesh.

Ports and Waterways

- There are two major ports in Bangladesh, both of which are shallow-water ports:
    - Chittagong is the principal seaport, handling about 92% of the country's export/import trade.
    - Mongla in the Khulna region serves the western part of Bangladesh; however, this port faces problems during low tides and must be dredged frequently. Mongla has substantial potential, but its revitalization as the country's second port will depend on increased investment in its operations and complementary infrastructure.
- Bangladesh urgently needs a deep-sea port if it is serious about becoming a global manufacturing center. A deep-sea port in the Bay of Bengal would open up numerous investment opportunities. Bangladesh can provide an alternative for shipping lines doing business in the region. The deep-sea port could act as a transit port, with vessels offloading containers for other ships to pick up. Bangladesh also could earn significant revenues from a deep-water port such as those in Singapore and Malaysia.
- Although there has been a considerable improvement in recent years, the performance of Chittagong port is still far behind its potential. The average container dwell time is 18 days, compared with 10–12 days for other ports in the Asian region. Container handling costs are estimated to be four times higher than those in Colombo, and twice as much as in Bangkok.[16]

[16] World Bank, "Bangladesh: Strategy for Sustained Growth," p. xxii.

- Holdups at the Chittagong port are attributable to complex customs procedures, informal payments to custom officers, and inefficient dockworkers who lack incentives (especially competition) to improve their performance.
- Bangladesh export/import trade is increasing by more than 20% every year, but the capacity of Chittagong port remains stagnant. Investment is required to construct more jetties and to build private ports. The combination of new investments in Chittagong port to set up an adjacent private port along with a deep-sea port in the Bay of Bengal would help make Chittagong a global commercial hub.
- Ports in Bangladesh currently are classified as public-sector entities and managed by the Ministry of Shipping. However, in order to increase investment and efficiency, private-sector investments are needed, either through management contracts or a Public–Private Partnership, both of which are commonly used by governments in a number of Asian ports.
- Bangladesh's waterways are not used efficiently for moving domestic cargo; however, they offer tremendous potential. On May 29, 2010, Bangladesh and India agreed on measures to improve the country's waterway communications and port facilities. As part of this agreement, Bangladesh has agreed in principle to allow India to use its waterways, employing Ashuganj seaport to transport heavy machines for the Oil and Natural Gas Corporation's upcoming 740 MW power project being built in the landlocked Indian state of Tripura.

Airports

- Airports are critical to the Bangladesh economy. Currently, there are 11 operational airports in Bangladesh, but of these, only the airports at Dhaka, Chittagong, and Sylhet serve international routes.
- Hazrat Shahjalal International Airport (formerly Zia International Airport) in Dhaka is the principal airport and the base of Biman Bangladesh, the national airline. Biman operates international flights from Dhaka, connecting with 27 world cities. The airline is in the process of rebuilding its fleet, and has purchased 10 new regional and long-range aircraft from Boeing, which will significantly enhance its operational efficiency.
- Hazrat Shahjalal Airport, built in 1980, is incapable of handling the large and growing flow of passengers and cargo traffic that Bangladesh generates. In addition, its cargo handling and warehouse facilities are woefully inadequate—so much so that some garment exporters must leave their goods on pallets outdoors because of a lack of storage space in the warehouse.
- Feasibility studies have determined that the existing airport could not be expanded because of lack of land. Consequently, in April 2010, the government approved a plan to build a new international airport. The airport will be located outside Dhaka in order to cope with the growing air traffic and to reduce the pressure on the existing airport. The new airport will allow for further growth in cargo, and Biman Bangladesh can position itself to capture some of this cargo market share as it expands its fleet over the next 5–10 years.
- Civil aviation officials estimate that the proposed airport will be approximately the size of Bangkok's Suvarnabhumi airport, which has a capacity to serve 45 million passengers a year, 76 flights

an hour, and 3 million tons of cargo annually. This will be a major improvement for foreign investors manufacturing in and exporting from Bangladesh, and certainly will enhance the investment climate in Bangladesh.

Telecommunications

- Over the past decade, Bangladesh's telecommunications sector has witnessed significant market penetration of cell phones, computers, and mobile banking. These developments have been welcomed by foreign investors looking to enhance market connectivity.
- The use of information and communications technology (ICT) is now an imperative worldwide, and it is a rapidly growing sector in Bangladesh. ICT in Bangladesh is now one of the fastest-growing sectors in the economy. The government of Bangladesh views ICT as immensely important for development. It has launched a program called "Digital Bangladesh," which includes among other things, setting up six information technology villages throughout the country.
- This surge in ICT activities in Bangladesh has generated numerous investment activities in the areas of digital government, e-business, e-commerce, IT training, and education.
- To support its ICT efforts, the government has made significant reforms in the mobile telecommunications sector. For example, the state-owned telecommunications provider, Bangladesh Telegraph and Telephone Board, was converted into a limited public company, and the telecom market was opened to the private sector. The government's policy of increased competition in the cellular market, with six mobile operators, has led to significant growth in connectivity quality and lower tariffs.[17] It also has led to a major increase in multiple phone use throughout Bangladesh.
- Underlying all of Bangladesh's ICT activities is a sole fiber-optic submarine cable that connects the main international cable to Cox's Bazar, from which data are transmitted by landline to Chittagong and Dhaka. This line is critical, as it carries high-speed Internet and telecommunications data for both mobile and landline operators. However, on occasion, because of a lack of regular maintenance as well as vandalism, the land link from Cox's Bazar to Chittagong and Dhaka gets disrupted, shutting down the country's entire communications and Internet traffic.
- When this happens, the problem is compounded by the fact that satellite services act only as a backup measure and provide limited bandwidth.
- Without a doubt, telecommunications is critically important to modern business operations and if Bangladesh hopes to attract more foreign investment, especially ICT investment, a second fiber-optic submarine cable is needed to connect to Cox's Bazar, as well as an alternate land line in Dhaka, in order to meet the country's rapidly increasing telecommunications demand.

[17] International Finance Corporation, "Bangladesh Recent Reforms and Future Policy Options," 2008, p. 6.

Revenue Administration

- The National Board of Revenue (NBR) is the central authority overseeing tax administration under the Ministry of Finance. The NBR is in charge of the following taxes, which affect most foreign investments and foreign investors:
  - Personal and business income tax
  - Valued-added tax (15%), which is levied on all imports and domestically produced goods and services. with some exceptions
  - Customs and import duties

Although these three departments all are housed under the NBR, there appears to be little coordination among them, and the available tax data reflect this fact.

- Bangladesh's revenue and administrative structure under the NBR is in need of an urgent overhaul if the country wants to attract more foreign investors. Although the tax incentives for foreign investors are adequate, companies believe that both tax policy and tax administration in the country are complex and, in too many cases, arbitrary. Bangladesh's unnecessarily complicated taxation system remains a major concern among foreign investors.
- Over the years, the country's tax code has been modified to give tax relief or subsidies to a variety of interest groups, and, as a result, there are now too many tax rates and categories. Compounding this problem is a lengthy and often uncertain application of the tax code that lacks transparency.
- For these reasons foreign investors believe that the tax regime in Bangladesh is fair but complicated. There is often confusion over tax rates, and tax officials have substantial discretion in deciding which rate to apply. This situation often leads to negotiations for tax payment settlements.
- Foreign individuals and companies are liable for taxes, although investors are eligible for tax holidays and lower tax rates under specific conditions, as well as under the framework of free trade agreements signed by Bangladesh with other parties. Bangladesh has signed Avoidance of Double Taxation Agreements with 28 countries, including the United States. Therefore, foreign investors from those countries are not liable for multiple taxation on their income.
- Foreign investors can avail themselves of a number of tax incentives.

Tax Incentives for Foreign Investors

Conditions for Incentives	Tax Rate	Tax Holiday
General Business Investment		5-7 years
Investment in Electric Power Generation		15 years
Investment set up in the Bangladesh Export Processing Zones Authority (BEPZA)		10 years; concessionary tax for 5 years, after the first ten
Export-oriented Industries	0% to 5% of concessionary duty on imported capital machinery depending on the location and industry	
Exemption of income tax for foreign technicians employed in specific industries		Up to 3 years

Source: Board of Investment Bangladesh and National Board of Revenue, August 2010.

- In spite of a number of generous tax benefits, foreign investors are still among the top taxpayers in Bangladesh in almost every category. Thus, individual, corporate, and value-added taxes, combined with customs duties paid by foreign companies on imported goods and exported products, represent a major revenue source for the government.
- It is estimated that the 832 foreign enterprises located in Bangladesh generate a significant amount of tax revenue for the country. It is difficult to determine the exact amount, as the NBR does not have a comprehensive database.
- According to the World Economic Forum's 2010 Global Enabling Trade Report, the country's high average tariff rates, additional taxes and customs duties, and inefficient tax administration procedures are significant barriers to doing business in Bangladesh. In fact, in terms of the "burden of customs procedures", the country ranks 119 out of 121 countries, far behind its competitors in the Asian region.

Customs Efficiency Country Comparison

Indicator	Bangladesh	India	Vietnam	Indonesia	Philippines	Thailand	China
Efficiency of Customs Administration							
Burden of Customs Procedures	**119**	65	83	86	95	48	40
Customs Services Index	**88**	48	112	64	31	38	53
Efficiency of Import-Export Procedures							
Effectiveness and Efficiency of Clearance	**106**	47	37	43	51	32	35
Time for Import	**91**	54	67	83	40	30	74
Documents for Import	**66**	85	66	30	66	2	30
Time for Export	**75**	37	35	9	22	20	3
Cost to Import	**91**	46	82	70	43	33	70
Documents for Export	**42**	83	42	24	83	5	67
Cost to Export	**47**	46	22	15	31	7	3

Source: World Economic Forum, Global Enabling Trade Report (121 countries), 2010.

Employment and Labor Issues

Productivity

As Bangladesh tries to attract a more foreign investors to establish manufacturing facilities in the country, labor productivity will be a key factor in the assessment of Bangladesh's desirability as an investment location. Coupled with that are considerations regarding the educational quality and skill level of Bangladeshi workers.

- One of the key factors leading Bangladesh's manufacturing competitiveness is the country's ample supply of labor. Currently, Bangladesh has approximately 80 million people in its labor force and its workers are perceived as hardworking, reliable, and enterprising.

- The country's workforce is its main asset, but a majority of the workforce lacks the skill sets required by employers, both domestically and overseas.[18] Much more needs to be done to increase workers training and productivity in order to enable foreign and domestic manufacturers to produce high-quality goods and services in an efficient manner.
- Labor productivity growth in Bangladesh improved from 1.9% in 2003 to 4.8% in 2007. Though impressive, this is still lower than the productivity rates achieved by India (7.6%) and Vietnam (5.7%).
- Bangladeshi workers with technical skills, especially middle-level management professionals, are in short supply, yet the country's vocational education and training system is not geared toward addressing the market needs of even domestic companies, let alone foreign manufacturers.

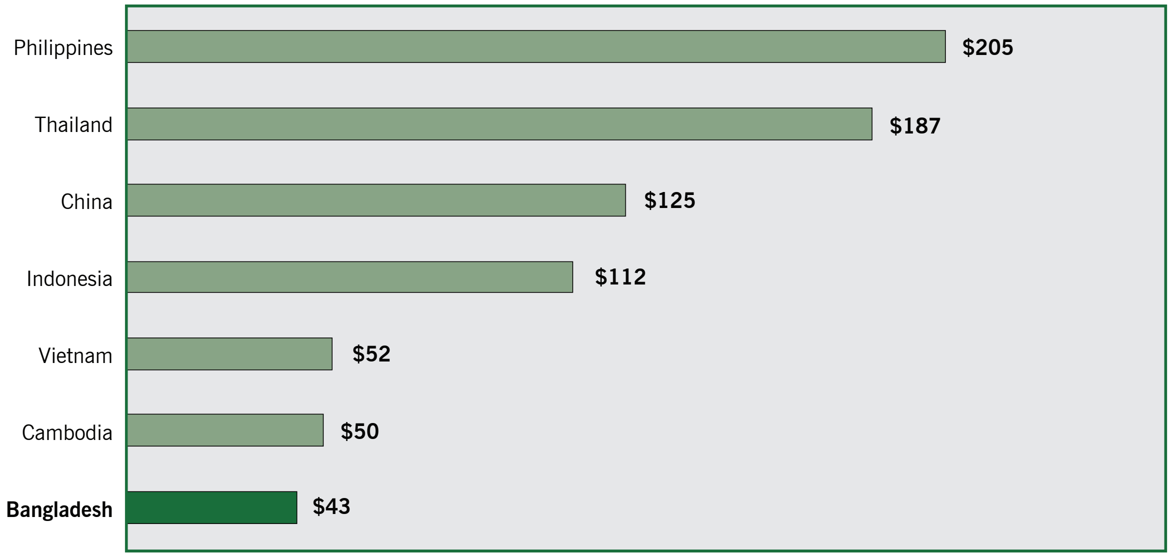
Labor Relations

Labor unrest and strikes in some factories have had an impact on foreign investors, dampening the overall business investment environment. Nevertheless, Bangladesh is one of the world's lowest-cost manufacturing locations, with a minimum wage of approximately US$43 per month, after the recent wage increase. The new minimum wage also includes an additional allowance of approximately US$3 per month for medical expenses and US$11.50 per month for housing. Previously, the wage rate was only US$25 per month.

- Because of low wages and wage increases in China, on April 29, 2010, more than 1,000 Bangladeshi garment workers attacked factories with stones and blocked streets in Dhaka to demand a higher minimum wage.[19] The wave of strikes soon spread to locations around the country. This was not without cause, as wages had not been adjusted in four years despite a period of rising food and fuel costs.
- As a result of the labor unrest, the government increased the minimum wage for garment workers to US$43 per month, although the garment workers' union had requested an increase to US$75 per month.
- Labor leaders were not happy with the increase, and after continued protests, three prominent labor rights leaders were arrested and charged with inciting unrest. They were released a few weeks later after concerns were raised by the international community, most notably the United States.
- Though the recent wage increase is in line with the demands from both the major Western retailers and the Bangladesh Garment and Manufacturers Export Association, the pay for workers in Bangladesh is low in comparison to China and other apparel production centers such as Cambodia, Indonesia, and Vietnam, all of which have faced similar labor unrest over the past nine months.

[18] Nathan Associates, "USAID Bangladesh Economic Performance Assessment," 2010, p. 7, http://www.countrycompass.com/_docs/library/Bangladesh%20Economic%20Growth%20Assessment.pdf.
[19] "Garment Workers Protest over Wages," *Strait Times*, April 30, 2010.

Minimum Monthly Wages in Asia, July 2010



Source: National Wages and Productivity Commission, *Financial Times*, August 2010.

- It is important to note that most garment factory owners were not opposed to the wage increases; however, they were opposed to a large increase all at once, which could hurt their competitiveness. Going forward, they believe that the government should increase the minimum wage incrementally, every year or every two years.
- The Bangladesh government faces the challenge of finding the right balance between worker compensation and benefits and the maintenance of its export competitiveness. This is an issue that will continue to confront government officials in the years ahead.

Legal Framework

The legal framework in Bangladesh is an impediment for foreign investors in a number of areas, particularly land acquisition, dispute settlement, and, to some extent, intellectual property rights. A broad issue is the need for Bangladesh to modernize a number of its existing laws, such as the Company Law, which should be brought up to date with global business practices. Another pressing issue is that a number of new laws need to be enacted in order to cover many new business and financial activities, especially in the fast-changing financial and telecommunication fields.

Land Acquisition and Property Rights

Access to land is regarded by foreign investors as one of the major impediments to establishing manufacturing operations in Bangladesh. Although foreign investors are allowed to own land, availability is severely limited, as large unused tracts are unavailable, either owned by state-owned enterprises or the government, or used for agriculture.

- A large share of property in Bangladesh is not properly registered, which makes it more difficult and costly to transfer property to foreign buyers. The property registration process also takes an inordinately long time to complete.
- According to the World Bank's 2011 Doing Business Report, Bangladesh ranks lowest among Asian countries in this area. Property registration typically takes 245 days in Bangladesh, compared with 44 days in India, 57 days in Vietnam, 22 days in Indonesia, and only 2 days in Thailand. Certainly, this process can be improved.

Property Registration, Country Comparison

Country	Rank (out of 183 countries)	Procedures* (number)	Time** (days)	Cost*** (% of property value)
Thailand	6	2	2	4.3
Vietnam	40	4	57	0.6
India	93	5	44	7.4
Indonesia	95	6	22	10.9
Philippines	102	8	33	4.3
Pakistan	119	6	50	9.2
Bangladesh	**176**	**8**	**245**	**6.6**

* Procedures: steps to check encumbrances, obtain clearance certificates, prepare deed, and transfer title so that the property can be occupied, sold, or used as collateral.
** Time: days to transfer property in the main city.
*** Cost: share of property value, no bribes included.

Source: World Bank, Doing Business Report, 2011.

- With the recent passage of the Special Economic Zone legislation and the public–private partnership program, the government is seeking out ways to provide land for investment, either by recatorgorizing government-owned land or by allocating unused land held by state-owned enterprises.
- A recent success story is the establishment of a new Export Processing Zone at a closed state-owned jute mill at Adamjee. At its height, the mill employed 25,000 people, but at its closure, the employees numbered only 2,500. The new Export Processing Zone opened in March 2006, covering 294 acres of land. As of September 2010, about US$100,000 had been invested by private companies employing approximately 13,000 people and exporting approximately US$100 million a year. The government expects a fully operational Adamjee EPZ to employee 100,000 Bangladeshi workers.
- There are a number of other closed-down state-owned mills with hundreds of acres of land that could be converted into industrial parks located around the country in places such as Chittagong, Khulna, and other cities.

Investment Protection and Arbitration

The existence of an institutional mechanism to protect the rights of foreign investors is essential. As described in the case of Cargill in the previous chapter, there is currently no accepted established dispute process that is transparent and carried out in a timely manner in Bangladesh.

Dispute Settlement

- According to foreign investors, a fundamental impediment to increased investment in Bangladesh is the weak and slow legal system, with no penalty for delaying proceedings and uncertainty of contract enforcement.
- Bangladesh is a signatory to the International Convention for Settlement of Investment Disputes (ICSID), and acceded to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards on May 16, 1992. A provision of the U.S.–Bangladesh Bilateral Investment Treaty permits the submission of investment disputes to the ICSID for third-party settlements.
- The World Bank's 2011 Doing Business Report tracks the efficiency of Bangladesh's judicial system in resolving commercial disputes compared to other countries in the Asian region. Bangladesh ranks among the lowest of the countries surveyed.

Dispute Resolution, Country Comparison

Country	Steps to file claim, obtain and enforce the judgment	Days to resolve commercial sale dispute	Attorney, court, and enforcement costs as percentage of claim value
Vietnam	34	295	28.5
Cambodia	44	401	102.7
Thailand	36	479	12.3
Indonesia	40	570	122.7
Malaysia	30	585	27.5
Philippines	37	842	26.0
Pakistan	47	976	23.8
Sri Lanka	40	1,318	22.8
India	46	1,420	39.6
Bangladesh	**41**	**1,442**	**63.3**

Source: World Bank, Doing Business Report, 2011

- With the exception of those conducted by internationally affiliated accounting firms, audits in Bangladesh generally fail to conform to international accounting standards. Consequently, dispute settlements are hampered by shoddy accounting practices and the inappropriate registration of retail property.
- To help address this problem, in March 2010, the Bangladesh Investment Climate Fund partnered with the Bangladesh International Arbitration Centre to develop a center to resolve commercial disputes out of court. The new center is expected to help businesses and investors save time and money by giving them an alternative venue to deal with disputes outside the courts.

Intellectual Property Rights

- Although Bangladesh primarily manufactures low-end products, there have been complaints about intellectual property rights from some foreign companies. In particular, some international garment manufacturers have complained that their clothing designs have been copied without their permission.
- Bangladesh is a member of the World Intellectual Property Organization, and acceded to the Paris Convention for the Protection of Industrial Property of 1991. However, the government is proceeding slowly in bringing its intellectual property laws into compliance with the World Trade Organization's Trade-Related Intellectual Property Rights.
- The government enacted a copyright law in 2000, updating its copyright system, and an amendment to the Trademark Act of 1940 currently is being studied.

Investment Financing

Availability of Financing

To make investing in Bangladesh more attractive to foreign companies, more coordination is needed between the government and domestic lending institutions to provide loans to potential investors. This is beginning to happen, particularly with the growth of private-sector financial institutions.

- Most large international investors can arrange their own project financing. However, for other foreign firms, project financing from local sources is not always possible because of the unavailability of long-term funds. Currently, the maximum domestic loan is available for five years at an interest rate of around 15%.
- To increase project investment levels, there needs to be a smoother mechanism that will enable entrepreneurs to have ready access to cheaper and long-term capital within the country.
- Government bureaucracy is also another impediment, as obtaining a loan from overseas sources with a repayment period of greater than one year requires authorization from the government of Bangladesh. This process can be quite time-consuming.[20]

[20] Foreign Investment Advisory Service and South Asia Enterprise Development Fung, "Pursuing Investment Climate Improvements: From Analysis to Reform—An Administrative Barriers Review in Bangladesh," 2006, p. xx.

- The system of foreign loan approval applies to all loans, small or large, regardless of whether the loan is for export purposes, long-term infrastructure projects, or consumption spending.
- The processing of foreign loan applications by the government is not time bound, and the time required to complete the process averages around six and half months, unnecessarily delaying investment projects.

- Despite a huge increase in exports in recent years, trade financing remains a major problem, and Bangladesh letters of credit still are not readily accepted in other countries. However, this situation recently has improved, as Bangladesh now has country ratings from Moody's and Standard & Poor's, and foreign banks are more willing to enter into financial transactions with banks in Bangladesh.

Increasing Number of Financial Institutions

In the past, state banks have completely dominated the country's financial sector. However, in recent years, the share of financial sector assets owned by a growing number of private sector banks has increased considerably.

- Despite this large increase in financial institutions, there is still a limited number of financial instruments available to investors in Bangladesh as a result of several factors:
  - Limited capital market financing is available.
  - No corporate bond market is established.
  - No secured transactions are available.
  - No international factoring is available.

Foreign Exchange Risk/Convertibility

Despite the government's liberalization policies, financial policies in Bangladesh remain restrictive. However, in recent years, capital account liberalization policies in Bangladesh have eased restrictions on the capital and money markets, derivatives and other instruments, credit operations, direct investments, real estate transactions, personal capital movements, provisions specific to commercial banks, and provisions specific to institutional investors.

- The Bangladesh Foreign Investment Act of 1980 guarantees the right of full repatriation of invested capital, profits, capital gains, post tax dividends, and approved royalties and fees.
- The central banks' exchange control regulations and the U.S.–Bangladesh Bilateral Investment Treaty (enacted in 1980) provide similar investment transfer guarantees. In practice, foreign firms can repatriate funds without much difficulty in Bangladesh.
- The value of the Bangladesh taka has been very steady against the U.S. dollar, averaging 67–71 take per dollar. This is good for business, as a great deal of Bangladeshi foreign trade is denominated in U.S. dollars.[21] The currency is fully convertible on current account transactions such as import, trade, and travel needs, but not for capital account transactions such as investing or currency speculation.

[21] Asian Tiger Capital Partners, "AT Capital–PRI Bangladesh Update," October 28, 2010, p. 8.

Trade and Investment Agenda

"We recognize foreign investment as the key driver and catalyst of economic growth and development and have recently announced a Public–Private Partnership opportunity to develop strategic relationships with investors in the industrial and social infrastructure sectors"

– Syed A. Samad, Executive Chairman, Board of Investment, Bangladesh, 2010

NEED FOR A GOVERNMENT TRADE AND INVESTMENT AGENDA

In recent years, the Bangladesh government has instituted a number of policy and institutional changes to expand exports and to promote foreign investment. However, these efforts have been carried out by a number of ministries and agencies in an uncoordinated and fragmented manner, and generally have produced suboptimal results, compared to the achievements of Bangladesh's Asian competitors. Not surprisingly, Bangladesh ranks last among Asian nations in terms of export revenues and foreign investment. This is unfortunate, as Bangladesh desperately needs to expand its manufacturing sector in order to generate employment for its rapidly growing labor force, including a large number of women who rely on those jobs to support their families.

In order to achieve the challenging economic growth targets established by Prime Minister Sheikh Hasina under the Vision 2021 policy, Bangladesh requires a large increase in export revenue, as well as significant investment funds to reach its economic growth targets over the next 11 years. This will necessitate a major expansion of the manufacturing sector and the rapid development of the country's transport and communications network, which will have to be funded by the government together with domestic and foreign investors. Under current conditions, this is unlikely to occur, as government expenditures on infrastructure have been limited, domestic investment has focused almost exclusively on readymade garment exports, and flows of foreign investment have stagnated between $700 million to $1 billion annually over the past six years.

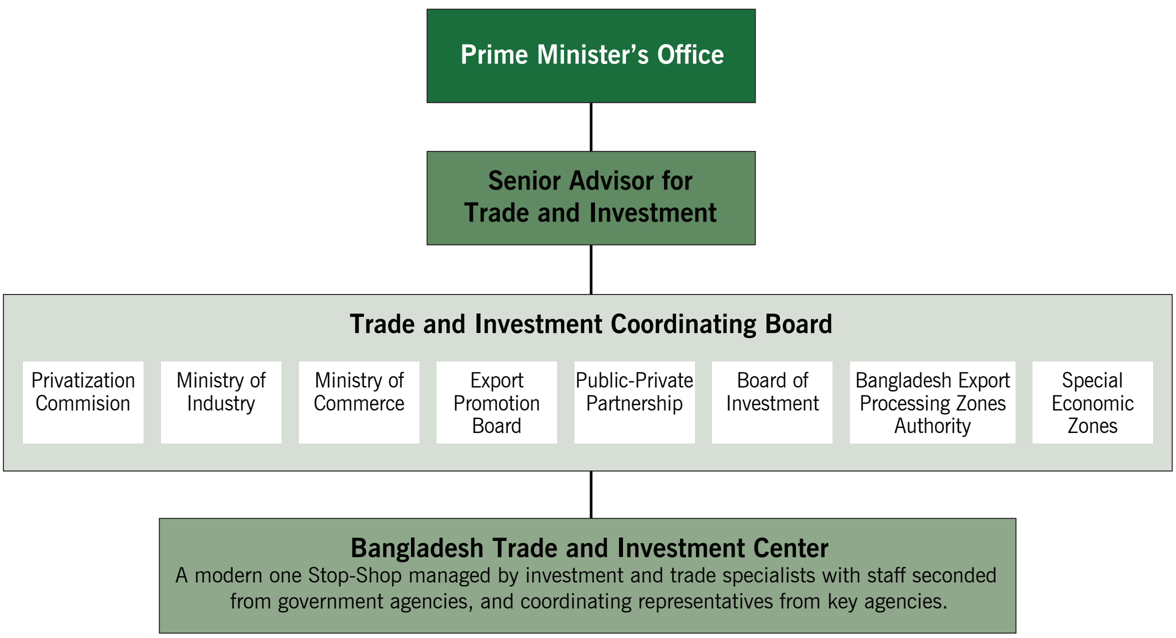
In order to maximize the country's trade and investment opportunities over the next eleven years, the Bangladesh Government will need to establish a clearly defined and comprehensive trade and investment agenda. The government has done this successfully in other sectors, such as health and education.

The government's new trade and investment agenda should include:

- a comprehensive government policy, overseen by a senior advisor who reports to the prime minister;
- a coordinated ministry and agency board;
- a focused trade and investment organization;
- a Public–Private Business Council to promote dialogue between government officials and private-sector representatives; and
- an international communications platform.

COMPREHENSIVE GOVERNMENT POLICY

The first component of the government's trade and investment agenda is to outline a comprehensive trade and investment policy framework that would encompass all of Bangladesh's trade and investment activities, including: the Ministries of Commerce and Industry, the Export Promotion Board, Board of Investment, Bangladesh Export Processing Zones Authority, Special Economic Zones, Public–Private Partnership, and Privatization Commission. All of these trade and investment activities should be overseen by an appointed senior advisor for trade and investment, who would report directly to the prime minister. The advisor in charge of trade and investment should be a new member of the Prime Minister's team of senior advisors and he would help define specific targets and development objectives to be achieved by the agencies within its purview.



MINISTRY AND AGENCY COORDINATING BODY

To ensure better coordination among the ministries and agencies involved in trade and investment in Bangladesh, a Trade and Investment Coordinating Board should be set up that includes the relevant ministers and agency heads including the Ministry of Commerce, Ministry of Industry, Board of Investment, Bangladesh Export Processing Zones Authority, Special Economic Zones, Export Promotion Board, Public–Private Partnership, Privatization Commission, and the head of the Bangladesh Trade and Investment Center (BTIC).

The board should be chaired by the senior advisor for trade and investment and should meet monthly to discuss a range of issues, particularly to agree on a clear set of quantitative targets to be achieved in terms of trade volumes and new investments in order to expand economic growth in Bangladesh. Once these annual targets are established then the Trade and Investment Coordinating Board should review monthly/ quarterly up-to-date export and investment, achievements, and propose measures that could be taken to improve those results.

BANGLADESH TRADE AND INVESTMENT CENTER

A key element of the government's trade and investment agenda would be the establishment of the Bangladesh Trade and Investment Center (BTIC), which would be the primary interface and conduit for domestic and foreign exporters and for foreign investors seeking to work with any of the trade and investment agencies. The BTIC would be a "one-stop shop" storefront that could be managed by a small number of donor-funded specialists, and staff seconded from relevant government agencies. It is important that the BTIC facility be located in Dhaka's modern business area, such as Gulshan, and that the office be modern with a technologically savvy staff in order to emphasize Bangladesh's young and internationally connected business image. This would also be a marked contrast and improvement to the current BOI office in Motijheel, which unfortunately gives exactly the opposite impression.

The BTIC facility should also house coordinating representatives from the Board of Investment, Bangladesh Export Processing Zones Authority, Special Economic Zones, Public–Private Partnership, and Export Promotion Board, who would be able to assist with inquires by exporters and investors and coordinate necessary follow-up actions. The front office of the BTIC should assist with the following:

- Trade and investment coordination;
- Research and information provision;
- Export and investment generation;
- Monthly exports and investment status report;s
- Investor facilitation for access to financing, legal, real estate firms, and accountants etc.; and
- Liaison with international communications firm.

The BTIC's trade and investment coordination activities would include:

- answering client inquiries;
- handling online registration; and
- assigning staff as account officers to accompany clients to meet with the appropriate agency coordinators and then to the relevant ministries for any required processing and approvals. These account officers would then be the main point of contact for individual foreign companies throughout the entire approval and operation start up phase.

The BTIC's research and information provision actions would entail providing all necessary research and information about Bangladesh and maintaining websites.

The BTIC's trade and investment generation activities would involve:

- Conducting targeted research on sectors and companies that may be interested in exporting or investing in Bangladesh;
- Identifying companies manufacturing low cost products in China that might be interested in relocating to Bangladesh;
- Focusing on ways to expand trade and investment activities with India;
- Indentifying companies that could utilize the PPP program for infrastructure development;
- Contacting targeted companies and sending them relevant information about Bangladesh; and
- Organizing trade and investment road shows and preparing all road show materials.

The BTIC's reporting responsibilities would include preparing monthly trade and investment reports for the Trade and Investment Coordinating Board and the senior advisor for trade and investment.

The BTIC's investor facilitation role would include supporting the design and implementation of proactive campaigns that include:

- following up on investment inquiries;
- organizing and providing hands on support for site visits;
- following up on any requests from potential investors;
- tracking investment discussions and eventual outcomes; and
- analyzing and following up on outcomes – if yes, a decision to invest then provide hand holding support until the investment is operational, and if no, identify issues that prevented the investment from materializing.

The BTIC's communication role would include:

- Coordinating with a Bangladesh government designated communication firm;
- Sending out trade and investment newsletters and press releases; and
- Maintaining the BTIC's trade and investment website.

In carrying out the above tasks the BTIC should be encouraged to actively engage professional Bangladesh private sector firms and policy research organizations to help carry out these responsibilities.

PUBLIC–PRIVATE DIALOGUE

The Bangladesh private sector is very dynamic and has been a major driver of exports and economic growth in Bangladesh over the past ten years. It is obvious that it needs to work in concert with the government to help the country achieve its Vision 2021 goals. At present, however, there is no formal structure for any public–private dialogue to take place. This is unfortunate, as currently the only organized business organizations are the chambers of commerce and business associations, most of which are located in Dhaka.

The Bangladesh Better Business Forum was established in 2007, but its activities ceased early in 2009. Although the forum had some shortcomings, it offered a space for members of the government and private-sector business to meet, discuss, and collaborate on identifying and eliminating constraints to doing business in Bangladesh.

Under the government's trade and investment agenda, a new public–private dialogue should be established as another step to improve government relations with businessmen in Bangladesh. Such public–private dialogue councils and partnerships have been established in more than 30 emerging-market countries, and in most cases have proved very effective.

In Bangladesh, this forum would be particularly useful for the government's recently announced public–private partnership for joint infrastructure development, as well as the newly passed legislation on establishing Special Economic Zones (SEZ).

The new Public–Private Business Council could include senior members of government, heads of trade and investment agencies, and representatives from the chambers of commerce, business associations, foreign companies, and multilateral financial institutions to start. Other members could be added as warranted. To enhance cooperation, all committees should be co-chaired by one member from government and one representative from the private sector. It also is critical that the Public–Private Business Council meet in plenary session twice a year, and at one of these sessions, the prime minister should address the council.

The establishment of the Public–Private Business Council will be an important piece of the government's trade and investment agenda, and will help improve coordination and implementation of the government's policies in this critical area of the economy. More importantly, though, it will assist the private sector in accepting the opportunities provided by government policy, maximize economic growth, and provide the jobs that Bangladesh so desperately needs.

INTERNATIONAL COMMUNICATIONS STRATEGY

Bangladesh suffers from a generally poor image overseas. This is not always deserved, but Bangladesh has done little or nothing to overcome this problem. As part of the government's trade and investment agenda, this must by changed, particularly by reaching out to the country's logical constituencies in Asia, Europe, and North America, where most of its trading partners, foreign investors, financial institution partners, potential foreign institutional investors, as well as influential media outlets are located.

It is critical to reach all of these constituencies on a regular basis with economic policy, business, trade and investment, and stock market news from Bangladesh. If the government does not let the world know about the good things that are happening in Bangladesh, who will? For example, in recent months, the Supreme Court reinstated Bangladesh to its founding status as a secular state, Parliament passed legislation to establish Special Economic Zones, and U.S. president Barack Obama congratulated Prime Minister Sheikh Hasina on Bangladesh winning a United Nations Millennium Development Goal award—yet not one word was seen in the U.S. press, never mind a photo, about these important events.

Other countries in Asia do a much better job with international communications, and most engage professional public relations and communication firms to assist them. Bangladesh needs to do the same, but it should start in a moderate way and then gradually expand the activity over the next few years. Whichever firm is engaged, it should have a presence in Hong Kong, Singapore, London, and New York or Washington. Over time, this will prove to be money well spent, and it certainly will help improve Bangladesh's image.

Biographies of Advisory Committee Members

Mr. Javed Hamid is the Chairman of the Advisory Committee. He is a leading expert on investment and business with experience in South and East Asia. Mr. Hamid has a strong background in investing in emerging markets, structuring investments, negotiating investment agreements between governments and institutional investors, managing international investment portfolios, and providing technical assistance to companies in developing countries. He is Senior Managing Director in the Financial Service Division of the International Executive Service Corporation in the United States. Previously, he worked for the International Finance Corporation (IFC) for 27 years and served as Director of the East Asia and Pacific Region from 1997 to 2006. He received the Long Term Performance Award in 2005 and 2006 for the best investment portfolio in IFC. Mr. Hamid contributed to business education in South Asia by establishing the first privately financed university in Pakistan in 1984, developing the charter, vision, curriculum, and governance structure for the Graduate School of Business.

Mr. James Crittle recently retired as Head of the Bangladesh Investment Climate Facility, the IFC's largest single-country technical assistance fund based in Dhaka. His five years managing the fund gives him unique experience with the investment climate in Bangladesh. Prior to that appointment, he was the Regional Program Coordinator for South Asia for the Foreign Investment Advisory Service (FIAS), a joint facility of the World Bank and the IFC based in Dhaka. While with FIAS, he completed advisory and implementation projects in Afghanistan, Bangladesh, Bhutan, India, Pakistan, Nepal, Thailand, Cambodia, Indonesia, East Timor, Papua New Guinea, the Marshall Islands, the Solomon Islands, Samoa, Fiji, and Tonga. Previously, he spent 16 years in private consulting, focused primarily on the provision of tax, industry, and investment policy advice to governments in Central, South, and Southeast Asia. Before joining FIAS, he worked in Kazakhstan, and Pakistan.

Ms. Janet Howard is Vice President for International Relations with The Coca-Cola Company. Her background encompasses politics, government, and the diplomatic arena. Her career in public service includes 12 years on Capitol Hill, where she worked for three senators and the chairman of the House Judiciary Committee; she also served as Director of the Democratic House and Senate Council and as Executive Director of the White House Preservation Fund. In 1980, she joined Governor W. Averell Harriman and Pamela Harriman as Chief of Staff, and soon after also became Director of Democrats for the 80s (later Democrats for the 90s), an independent political committee. When Ms. Harriman was appointed U.S. Ambassador to France in May 1993, Ms. Howard accompanied her to the Paris Embassy, where she served as Chief of Staff. In that position, she was the ambassador's representative to promote American business interests in France and the ambassador's liaison to the White House, State Department, and Capitol Hill. She studied at American University and is a graduate of the University of Texas in political science and public administration.

Ms. Laura Hudson is the Manager for International Government Affairs at the Chevron Corporation, where she has worked since September 2005. Previously, she worked for 10 years in Unocal's Washington, D.C., Government Relations Division. Prior to her work in the private sector, Laura was Legislative Director for former U.S. Senator Bennett Johnston (D-LA) for more than two decades, handling trade, tax, budget, and international issues. Ms. Hudson received her juris doctor degree from Georgetown University Law School and a master's and bachelor's degrees (in government and economics) from the University of Virginia. She is a member of the District of Columbia and Maryland bar associations, Phi Beta Kappa, and several legal honorary societies.

Mr. David Merrill was the U.S. Ambassador to Bangladesh from 1994 to 1997. In that post, he helped Bangladesh gain a $500 million increase in U.S. investment in the energy sector and built a coalition of private sectors, nongovernmental organizations, donors and governments to address U.S. buyers' concerns in Bangladesh and to maintain industrial employment. Mr. Merrill is currently the president of the U.S.–Indonesia Society. Previously, he served as Deputy Assistant Administrator of the U.S. Agency for International Development (USAID) in Washington (1990–1993) and as Mission Director of USAID in Indonesia (1987–1990). From 1966 to 1987, Mr. Merrill held other posts with USAID, overseeing U.S. economic aid to East Asia and the Pacific, conducting USAID's congressional relations, and serving in USAID posts in Asia. Mr. Merrill earned his master of public administration degree in Asian economic development and public administration from the John F. Kennedy School of Government at Harvard University, in addition to a master's degree in international affairs from the Fletcher School of Law and Diplomacy, Tufts University, and a bachelor's degree from Brandeis University.

Ms. Shamarukh Mohiuddin is the Executive Director of the U.S.–Bangladesh Advisory Council, where she leads the organization's programs, operations, and policy advocacy initiatives. The Council is a nonprofit, nonpartisan organization that works to strengthen the relationship between the United States and Bangladesh and aims to stimulate economic development in Bangladesh through dialogue and public policy. Prior to joining the Council, Ms. Mohiuddin served as Director of the Trade, Aid and Security Coalition and the Business Council for Global Development, where she managed policy development and programs. Ms. Mohiuddin also served as Director at Fontheim International LLC, a leading consulting firm focused on government relations, public policy, and corporate social responsibility. Prior to that, Ms. Mohiuddin was a Research Associate at the Democratic Leadership Council and Progressive Policy Institute. Ms. Mohiuddin has authored numerous articles and policy reports on topics including trade policy, corporate social responsibility, labor standards, global development, and climate change, some of which have been cited in the press. Ms. Mohiuddin also has worked for the Council on Foreign Relations, the Center on Budget and Policy Priorities, and the World Bank. Ms. Mohiuddin graduated with degrees in international affairs and economics from the University of Maine.

Mr. Andrew Proctor has worked with the Bangladesh Board of Investment (BOI) on preparing a new strategic plan to promote increased investment. He has had a long career in private-sector development, specializing for the last 20 years in foreign investment policy and promotion. Until 2003, he was the Regional Manager for Asia and the Pacific for the Foreign Investment Advisory Service (FIAS). Prior to joining FIAS, he spent 12 years as a consultant with Coopers & Lybrand, based in London, Nairobi, the Eastern Caribbean, Canberra, and Washington. While in the Caribbean, he worked on a large regional private-sector development project funded by the U.S. Agency for International Development and was involved with projects funded by a range of development assistance agencies, often dealing with the policy interface between government and the private sector. Early in his career, Mr. Proctor was employed as a Country Economist and Project Economist at the Asian Development Bank and served for several years in the Australian Government in Canberra. He earned a certificate in agriculture from Yanco Agricultural University, a bachelor's degree in economics from Australian National University, and a master's degree in economics from the University of New England.

Dr. Gustav F. Papanek is President of the Boston Institute for Developing Economies (BIDE) and Professor Emeritus of Economics at Boston University. In more than 45 years of work on the economics of development, he has directed 10 major policy advisory and research teams, most focusing on aspects of development strategy. He has written or edited eight books, 48 articles, and 52 other publications. For the last three decades, he has been considered one of the outstanding development economists, as exemplified by his leadership of the Harvard University Development Advisory Service, the Boston University Economics Department, BIDE, and several U.S. Agency for International Development, World Bank, Asian Development Bank, and Harvard University advisory and research teams. He has provided economic advice to prime ministers, presidents, ministers, central bank governors, and senior officials in such countries as Indonesia, Pakistan, Colombia, Bangladesh, Argentina, Sri Lanka, Ghana, Korea, India, Iran, Liberia, Ethiopia, Micronesia, Palau, Malaysia, Greece, Guinea and Egypt. His work in Indonesia included a major study of obstacles to foreign private investment. Currently, he is working on causes for the decline of employment in industries producing manufactured exports. His economic work in Bangladesh began in 1954 and included recommendations on industrial policy. Dr. Papanek holds a doctorate and master's degree in economics from Harvard University and a bachelor's degree in agricultural economics from Cornell University.

Dr. Gowher Rizvi is an internationally renowned political scientist who is an advisor to Prime Minister Sheikh Hasina of Bangladesh. Recently, Dr. Rizvi worked as a consultant to the United Nations Development Programme on reforming civil service change management in Bangladesh. Previously, he was Director of the Ash Institute for Democratic Governance and Innovation at Harvard University's John F. Kennedy School of Government; Vice Provost for International Programs at the University of Virginia (2008–2009); Representative for South Asia at the Ford Foundation's office in New Delhi (1998–2003) and Deputy Director for Governance and Civil Society at the New York office (1995–1998); and Director of Contemporary Affairs at the Asia Society in New York (1994–1995). Before that, Dr. Rizvi was the United Nations' Coordinator for Afghanistan, Geneva, Islamabad, and Kabul (1988–1990). He is the Founding Editor of Contemporary South Asia, an academic and policy studies journal published by Oxford University Press. Dr. Rizvi earned bachelor's and master's degree from the University of Dhaka, and a doctorate from Trinity College, Oxford, where he studied as a Rhodes Scholar.

Mr. Mark Riedy is a Member of the Corporate Practice and Energy and Clean Technology Practice Group at Mintz Levin in its Washington, D.C., office. Throughout his 30-year career, Mr. Riedy has represented domestic and international clients in negotiating and drafting project development and debt and equity financing contracts and in general corporate transactions, including acquisitions, mergers, private placements and the establishment of new entities. He has counseled clients with respect to tax and technology issues, including outsourcing and licensing as well as investment fund structuring matters such as infrastructure, venture capital, private equity, and hedge funds. In addition, he has vast experience handling regulatory and legislative issues and a variety of international issues including import duty classification and export licensing. Mr. Riedy is active in a number of the U.S.–India Business Council, American Council on Renewable Energy, Clean Fuels Development Coalition, Indian American Republican Council, South Asia Regional Energy Coalition, and U.S.–Pakistan Business Council, and serves as the general counsel of each of these organizations. Mr. Riedy is a graduate of the University of Michigan and Georgetown University Law Center.

Ms. Jennifer Sullivan was the General Counsel for the International Finance Corporation (IFC), where she was responsible for advising IFC senior management and the IFC board of directors, in addition to the overall management of the work of 140 professional and support staff located in 12 countries. Prior to that, she was IFC Deputy General Counsel (1995–2002) and Chief Counsel (1992–1995) responsible for IFC's investment activities in the power sector, the financial markets sector, and all investments in Russia, Ukraine, and Belarus. Before joining IFC, Ms. Sullivan spent several years with the international law firm of White & Case, where she had responsibility for a variety of international project finance and financial markets transactions. Ms. Sullivan has held a number of key positions in professional organizations, including Chair of the American Bar Association's Committee on International Investment and Development. She is currently a member of the board of directors of the Washington Humane Society. Ms. Sullivan received her juris doctor degree from Harvard Law School and holds a bachelor's degree from Brandeis University.

Dr. Sanchita Saxena is Associate Director of the Center for South Asia Studies (CSAS) at the University of California, Berkeley. Dr. Saxena was a Public Policy Fellow at the Woodrow Wilson International Center for Scholars in Washington, D.C. (July–August 2010), where she worked on a forthcoming book (*Policy Reforms Influencing Competitiveness in the Garments and Textiles Industries: Case Studies from Bangladesh, Cambodia and Sri Lanka*, Cambria Press) that examines domestic coalitions in the garment industry and their influence on enacting policy reforms in Bangladesh, Cambodia, and Sri Lanka. Prior to joining the CSAS, Dr. Saxena was Assistant Director of Economic Programs at the Asia Foundation, where she coauthored "The Phase-Out of Multi-Fiber Arrangement: Policy Options and Opportunities for Asia." She received her doctorate in political Science (focus on comparative political economy) from the University of California, Los Angeles, in 2002. Her research interests include the politics of economic policy and reform, the role of non-governmental organizations in development, local economic governance, and decentralization, and international trade. Dr. Saxena has taught courses in comparative politics, the politics of developing countries, and the politics of economic reform in Asia and Latin America at the University of California campuses at Los Angeles and Davis, as well as the University of San Francisco. She is a trustee of the American Institute of Indian Studies, the American Institute of Bangladesh Studies, and the American Institute of Sri Lankan Studies. She is also a member of the Advocacy Committee of Human Rights Watch, San Francisco.

Mr. Sajeeb Wazed is the Special Advisor to the Honorable Prime Minister Sheikh Hasina of Bangladesh, with a specialization in information technology and service. He is the son of the Honorable Prime Minister of Bangladesh. Mr. Wazed is President of Blue Ridge Investment and Finance, based in the United States. Previously, he was a cofounder of Mvion, Inc., a computer software company, and the Customer Service Manager at Ecom Systems, Inc. He was honored as a Young Global Leader by the World Economic Forum in 2007. Mr. Wazed earned his master's degree from the John F. Kennedy School of Government at Harvard University, a bachelor's degree in computer engineering from the University of Texas at Arlington, and a bachelor's degree in computer science, physics, and mathematics from Bangalore University in India.

Mr. Jack Garrity is the Project Director of the study and the Executive Director of the Asia Society in Washington D.C. since 2007. Prior to that, Jack lived and worked for over 20 years in Asia, specializing in advising government officials and corporate executives on international business, foreign investment, emerging markets portfolio and equity funds, corporate communications and economic development policy issues. Jack's corporate experience in Asia includes working as CEO, Managing Director, Investor Relation's Director and Foreign Investment Advisor with: GT Asia Pacific Holdings and Tuan Sing Holdings in Singapore, Shanghai and Melbourne; Emerging Markets Infrastructure Fund and the Gajah Tunggal Group in Jakarta and the Asian Development Bank (ADB) in Manila. Jack started his professional career working for the Congressional Budget Office in Washington, D.C., and he later worked with the World Bank Group as a Senior Capital Markets Advisor and Head of Corporate Relations at the International Finance Corporation (IFC). Early in his career Jack worked on rural development and transport projects in the Philippines, Thailand, Bangladesh, Yemen, Egypt, Sudan, Kenya, Ethiopia and the Dominican Republic. Jack graduated from Harvard College and earned a MBA from Stanford University and a MA in Economics from Boston University.