A NEW INVESTMENT REGIME FOR BANGLADESH

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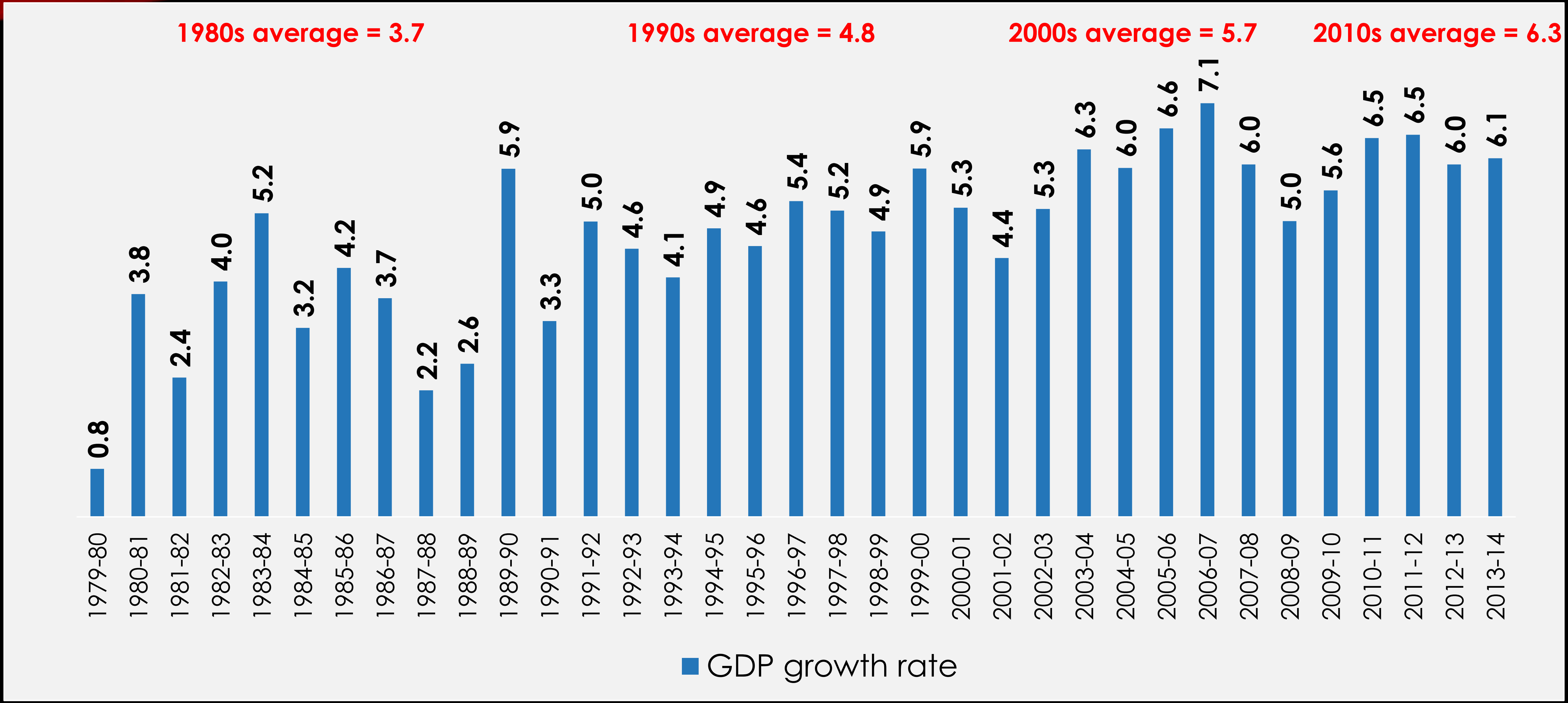
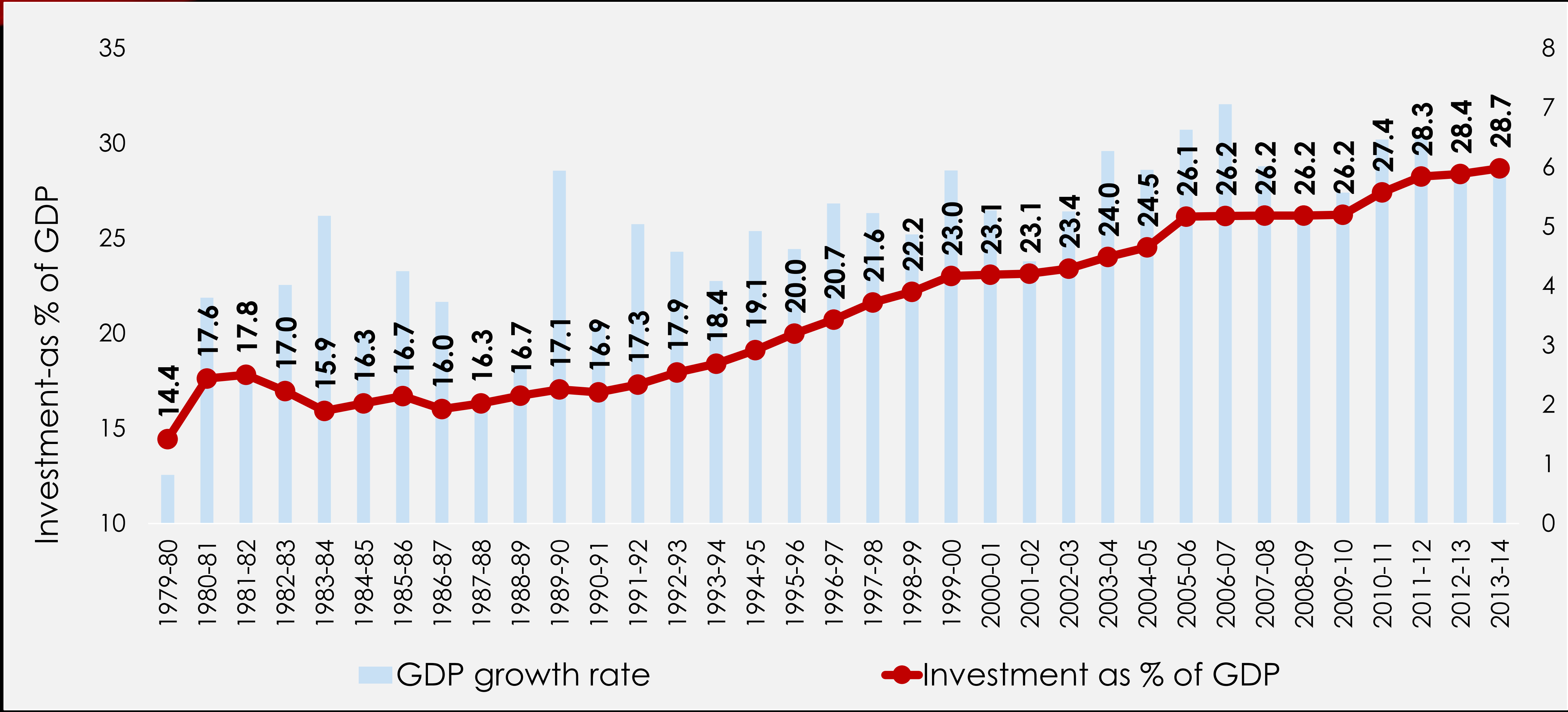
WHAT ARE THE ISSUES?

- Bangladesh's achievement in economic growth. Over the last 12 years the average GDP growth rate has been 6%.
- The country has recently been upgraded from low income country (LIC) to lower-middle income country (LMIC) as per World Bank's classification.
- Aspiration of graduating from LDC status to middle income country by 2021 as per UN classification.
- However, there are concerns over getting stuck with the 6% growth rate.
- There are concerns over falling private investment in recent years.
- 7th five year plan sets the target of 8% GDP growth by 2020. This requires a leap forward from the current level of 6% average growth.
- Bangladesh needs a new investment regime for the growth target of 8% to be achieved.

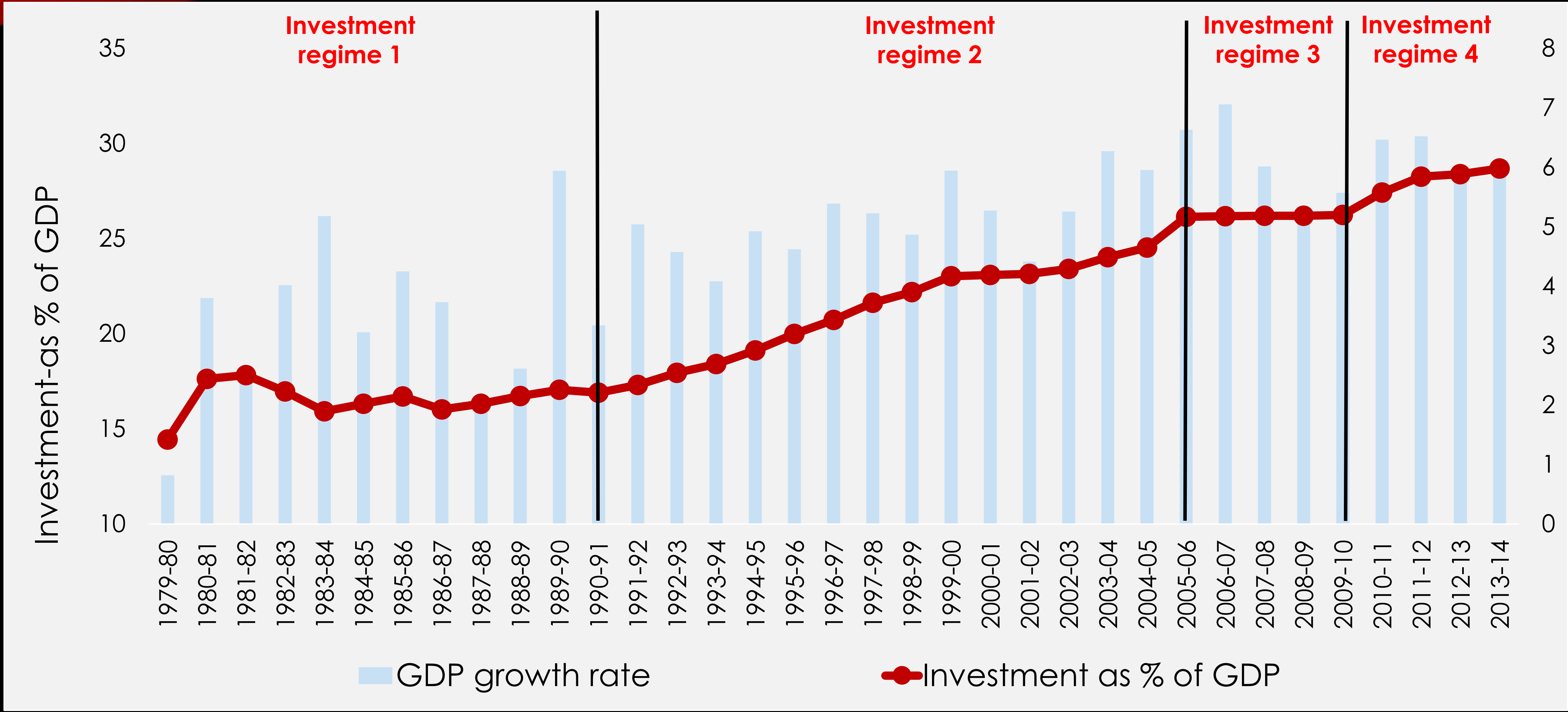
GDP GROWTH RATE



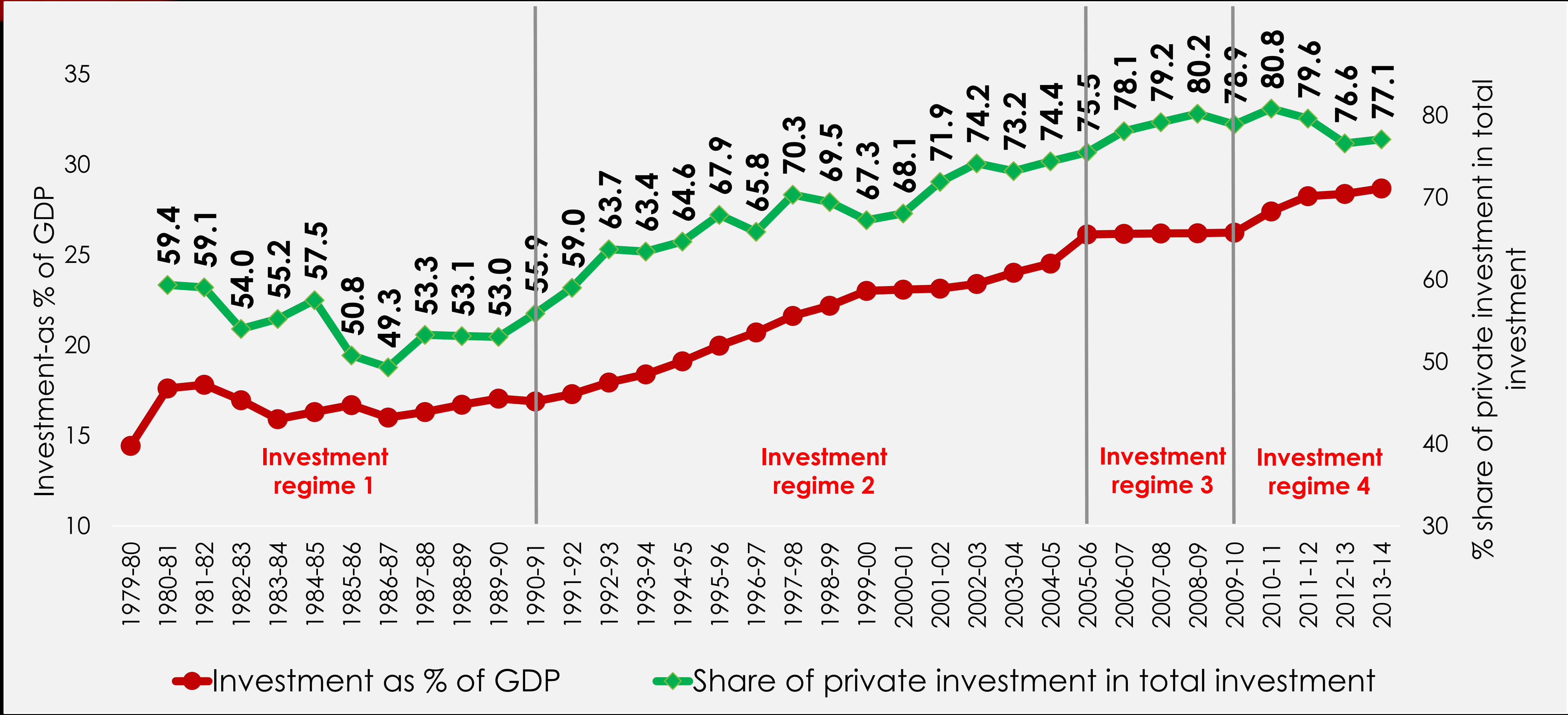
INVESTMENT-GDP RATIO



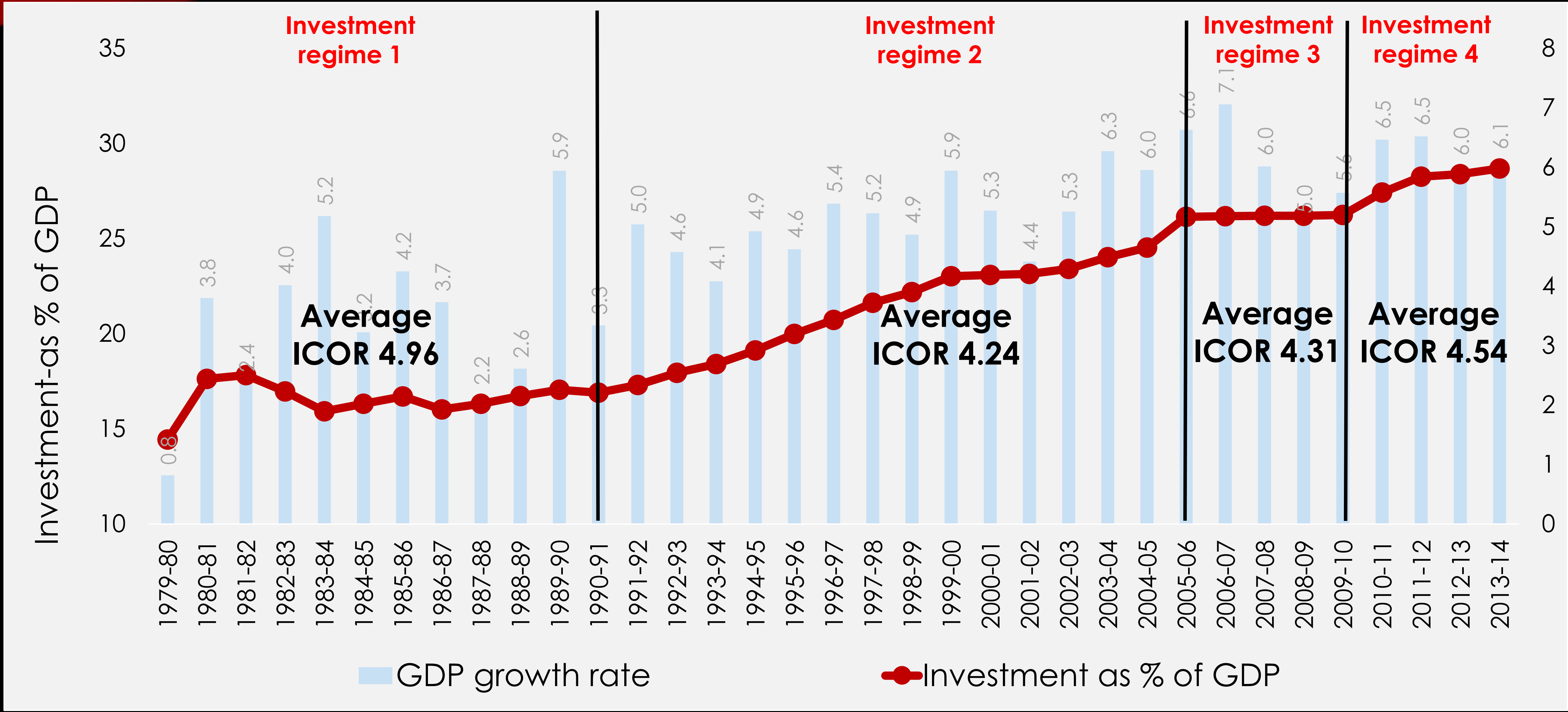
INVESTMENT REGIMES



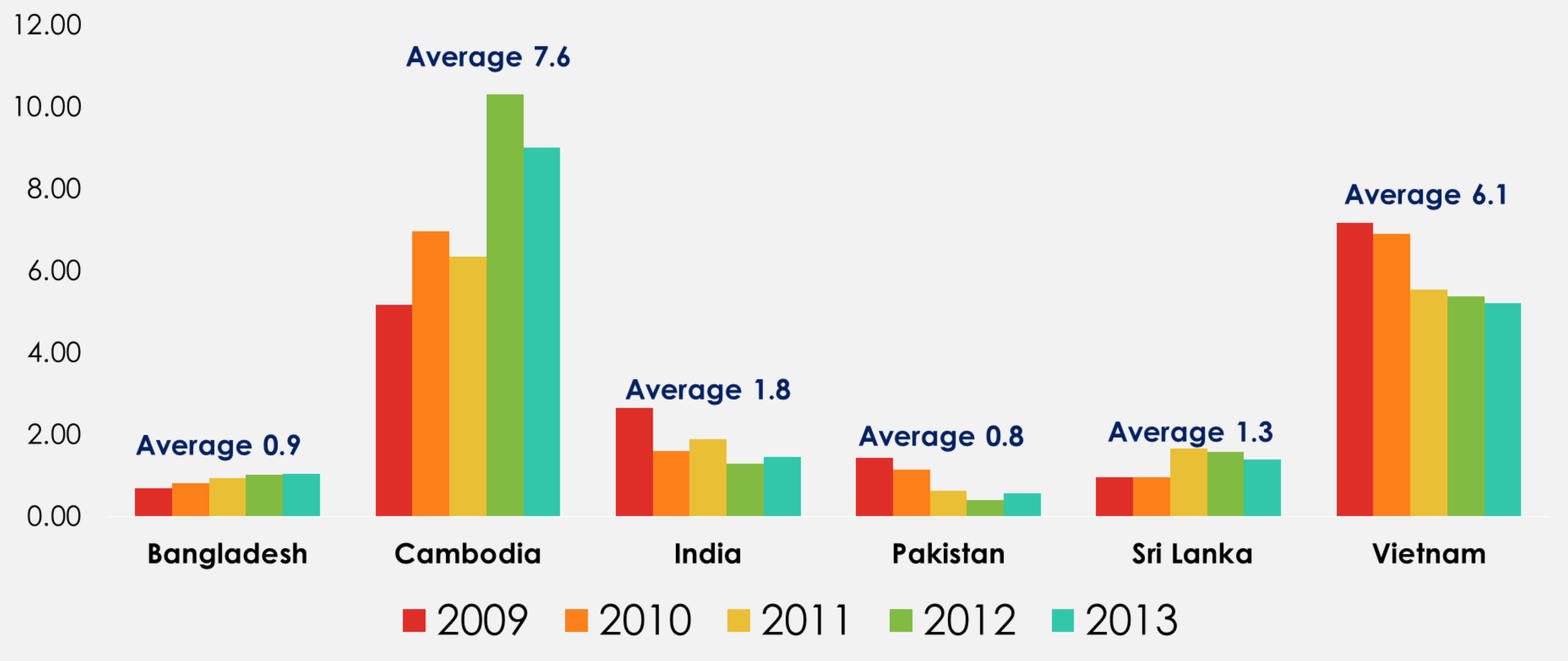
PRIVATE INVESTMENT



INCREMENTAL CAPITAL-OUTPUT RATIO

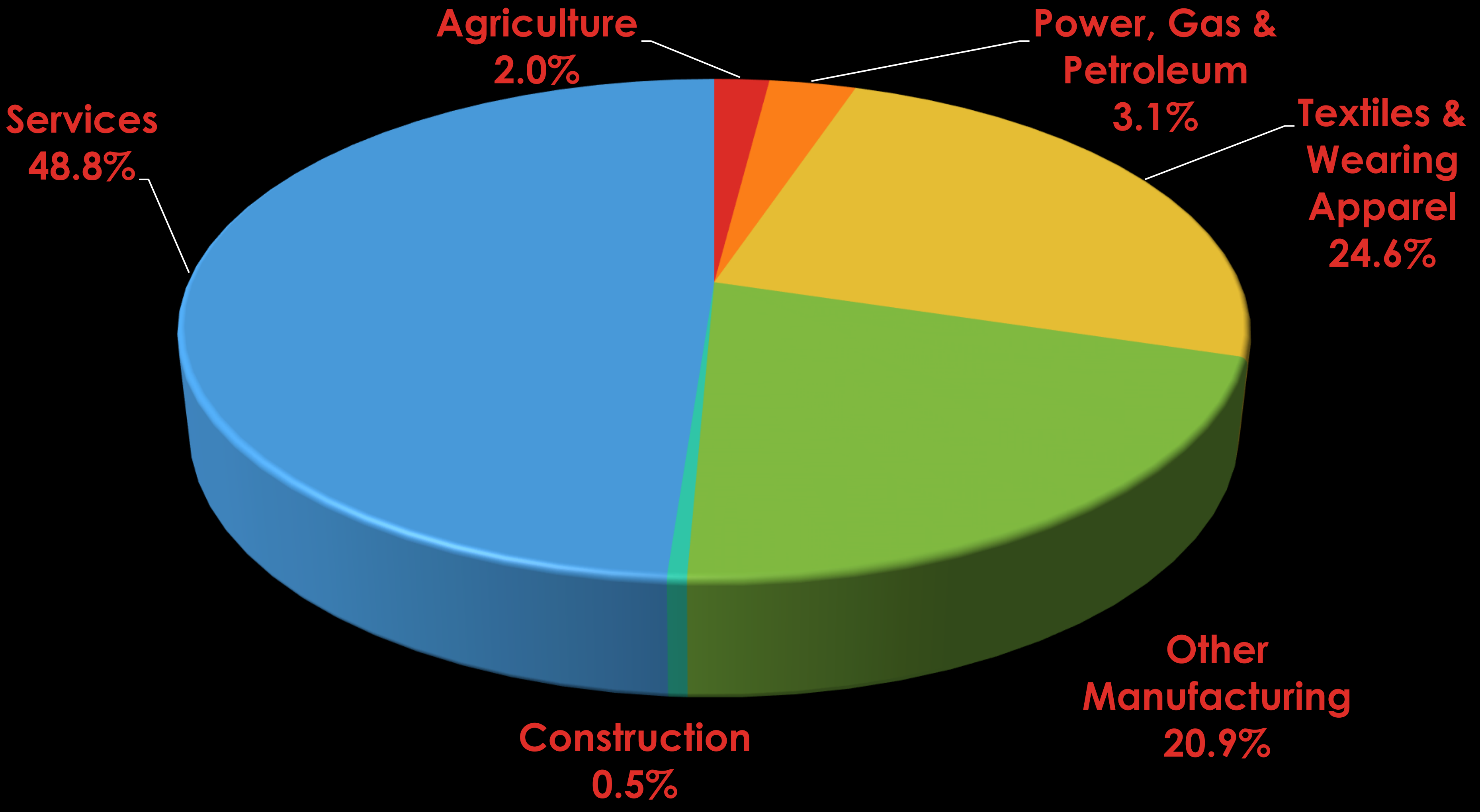


FDI AS % OF GDP



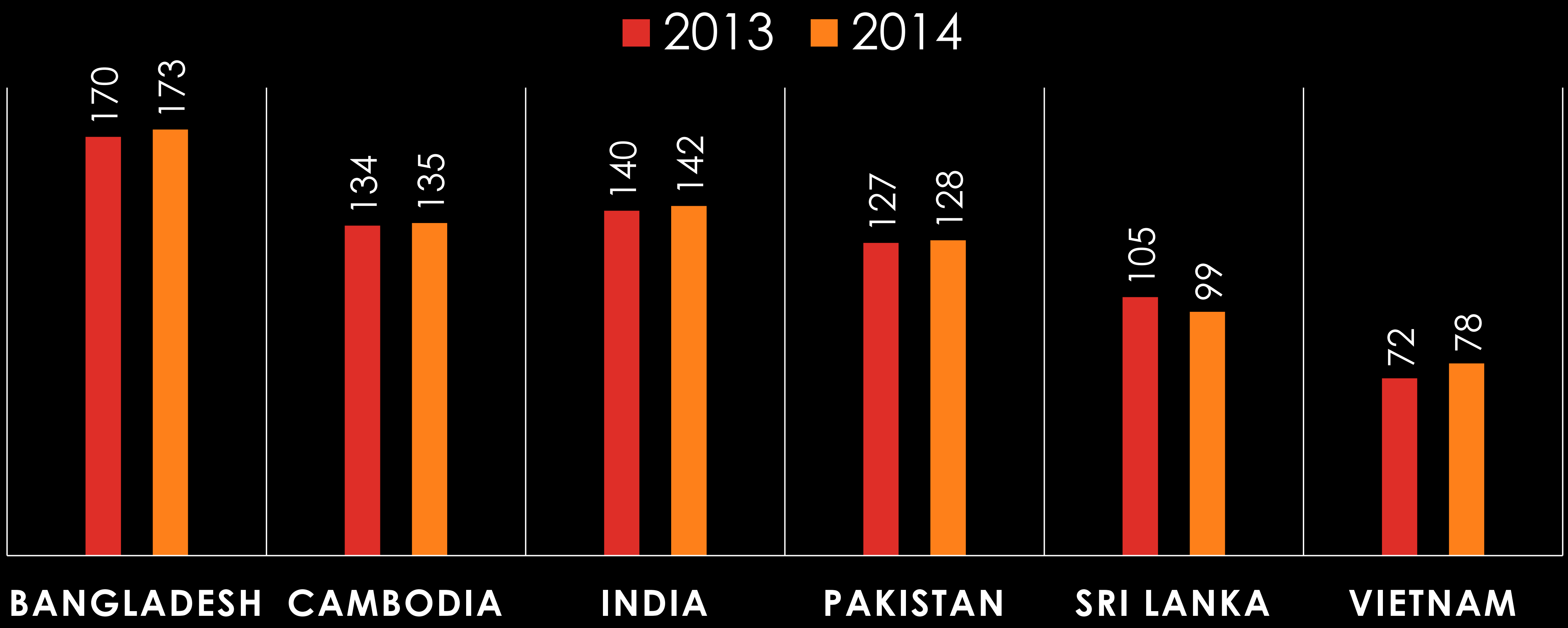
Source: http://unctadstat.unctad.org/

SECTORAL SHARES OF FDI IN 2014



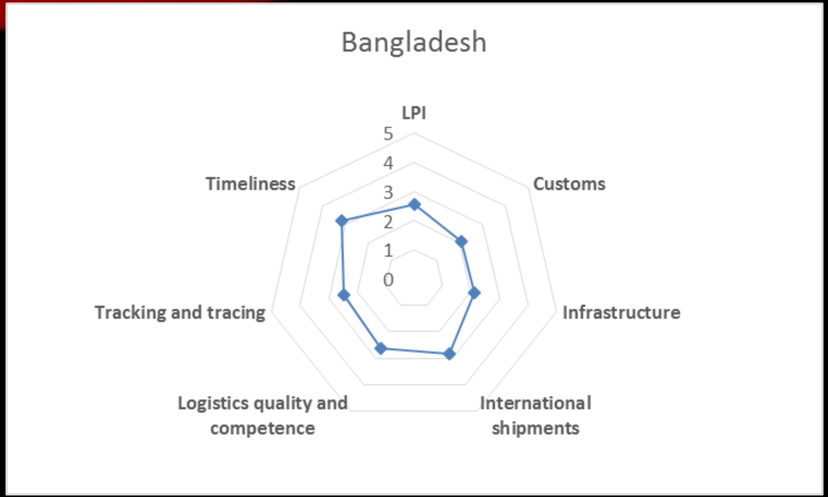
Source: Bangladesh Bank

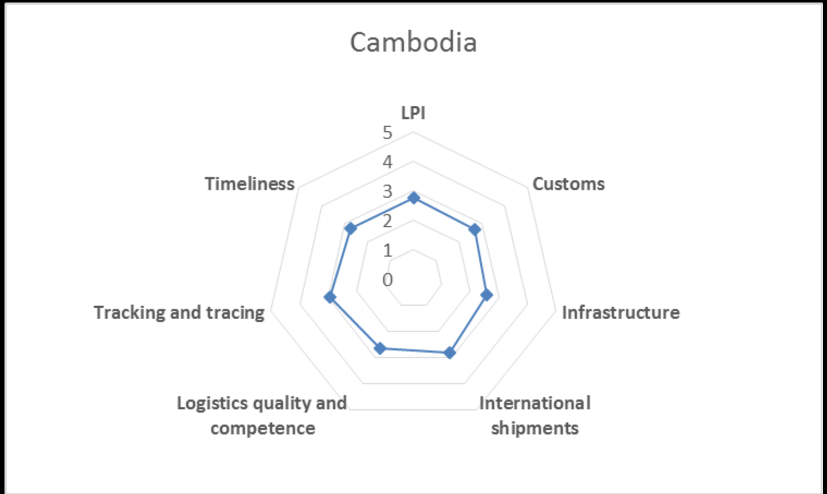
EASE OF DOING BUSINESS RANKING OUT OF 189 COUNTRIES

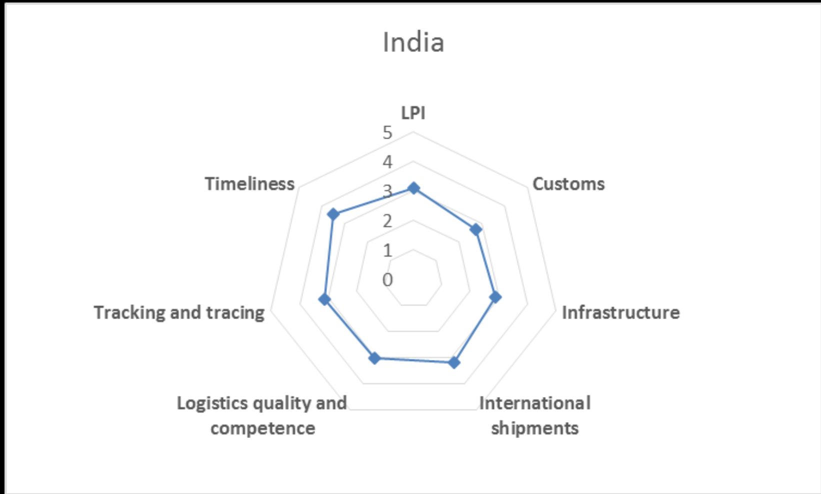


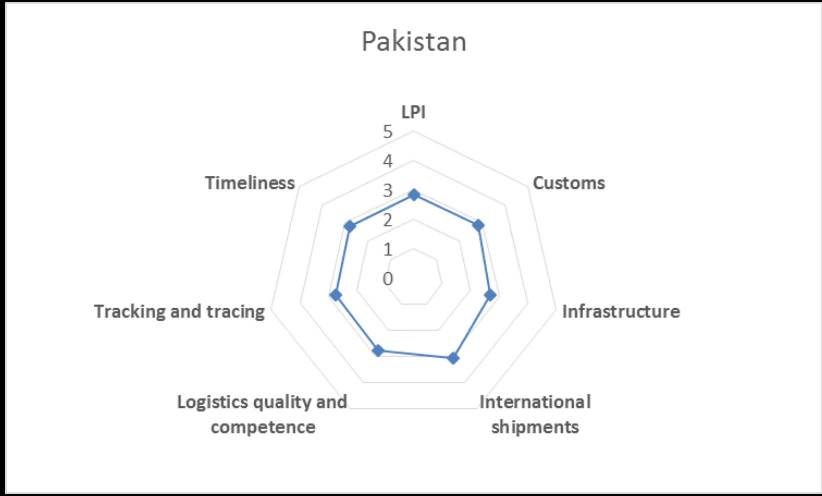
Source: World Bank

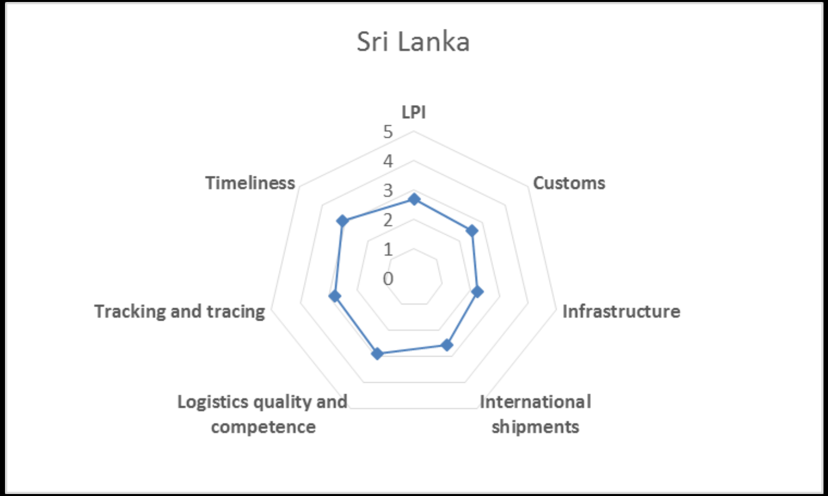
LOGISTIC PERFORMANCE INDEX IN 2014

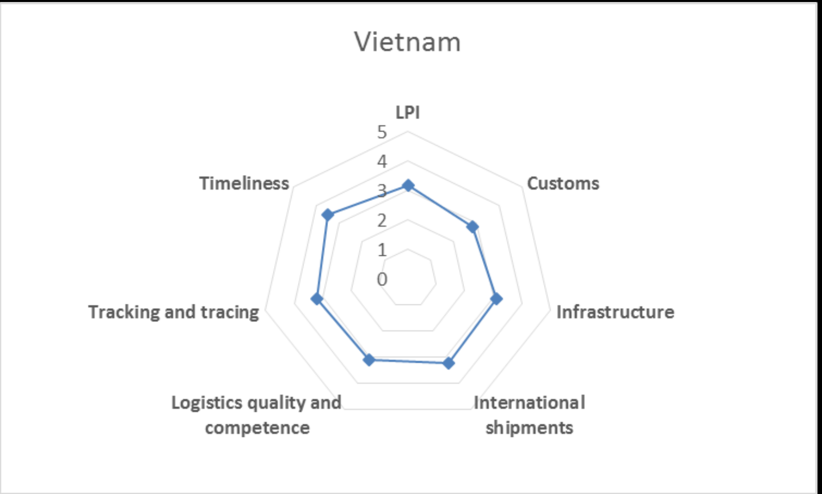








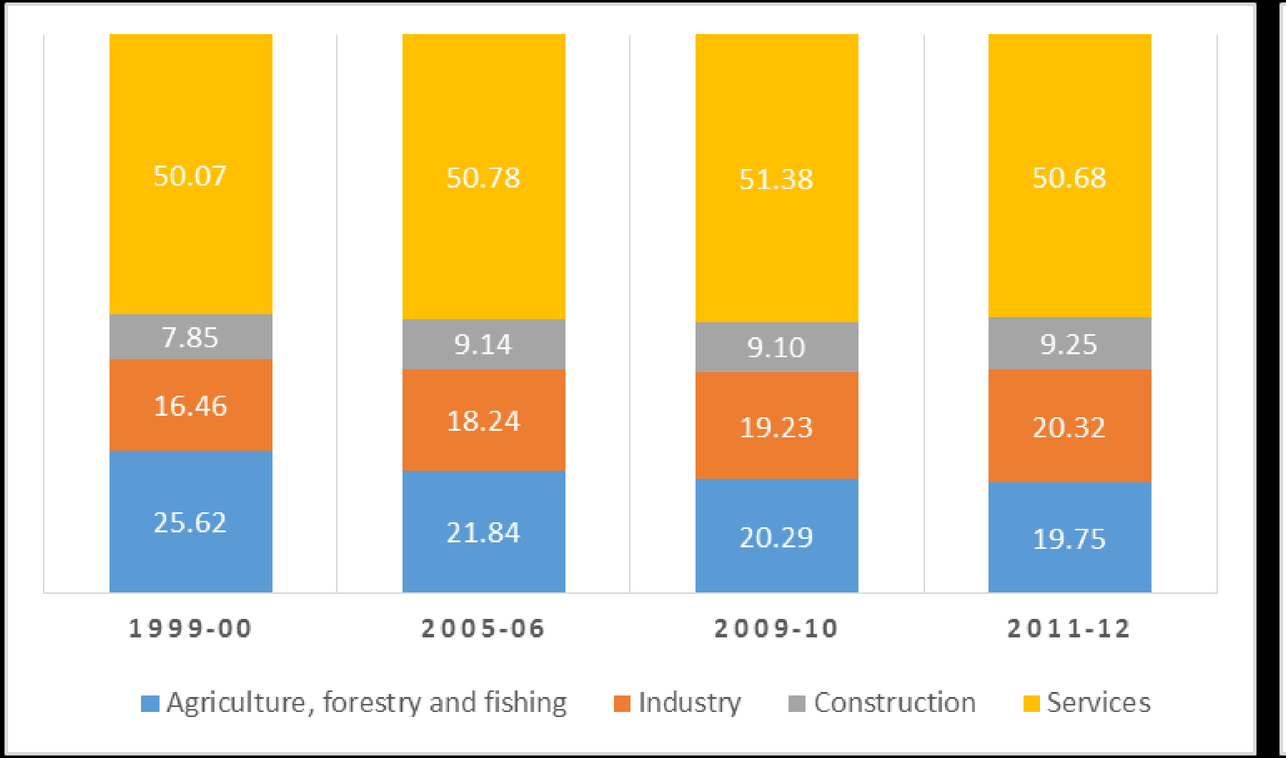




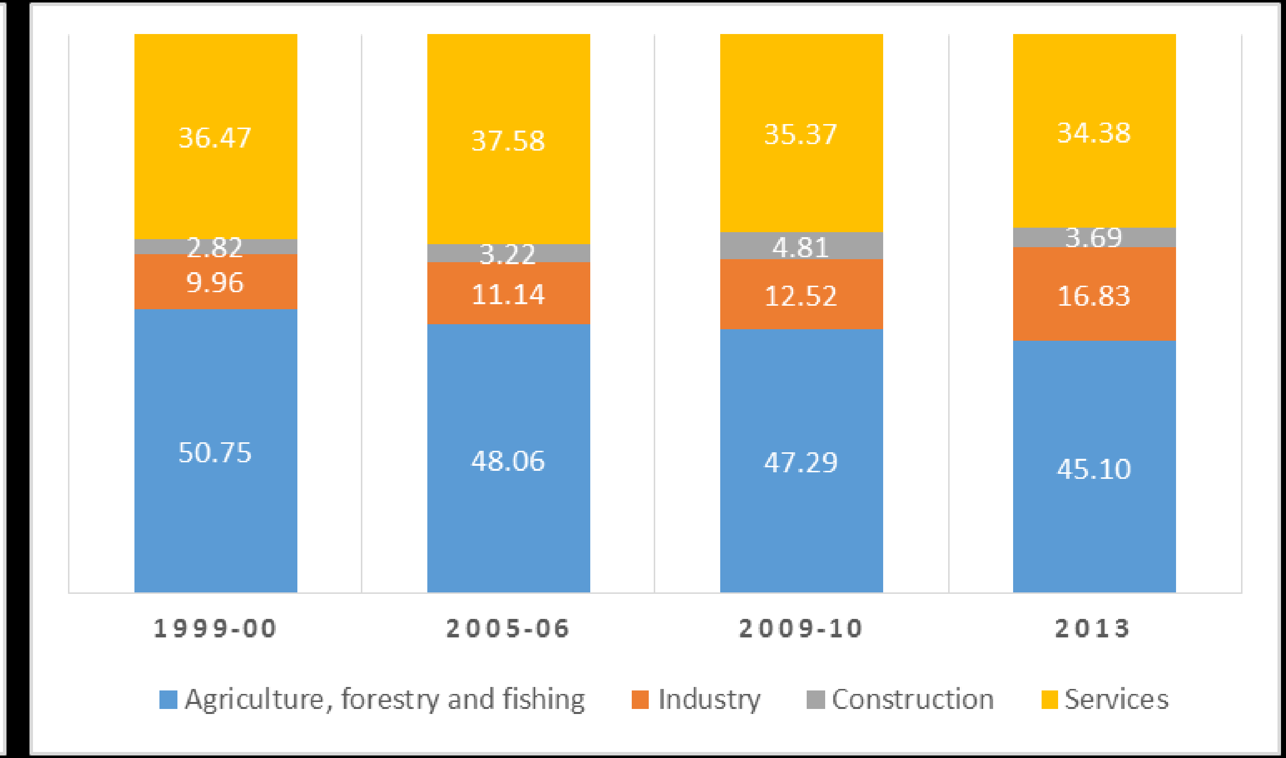
Source: World Bank

STRUCTURAL TRANSFORMATION

Share in GDP



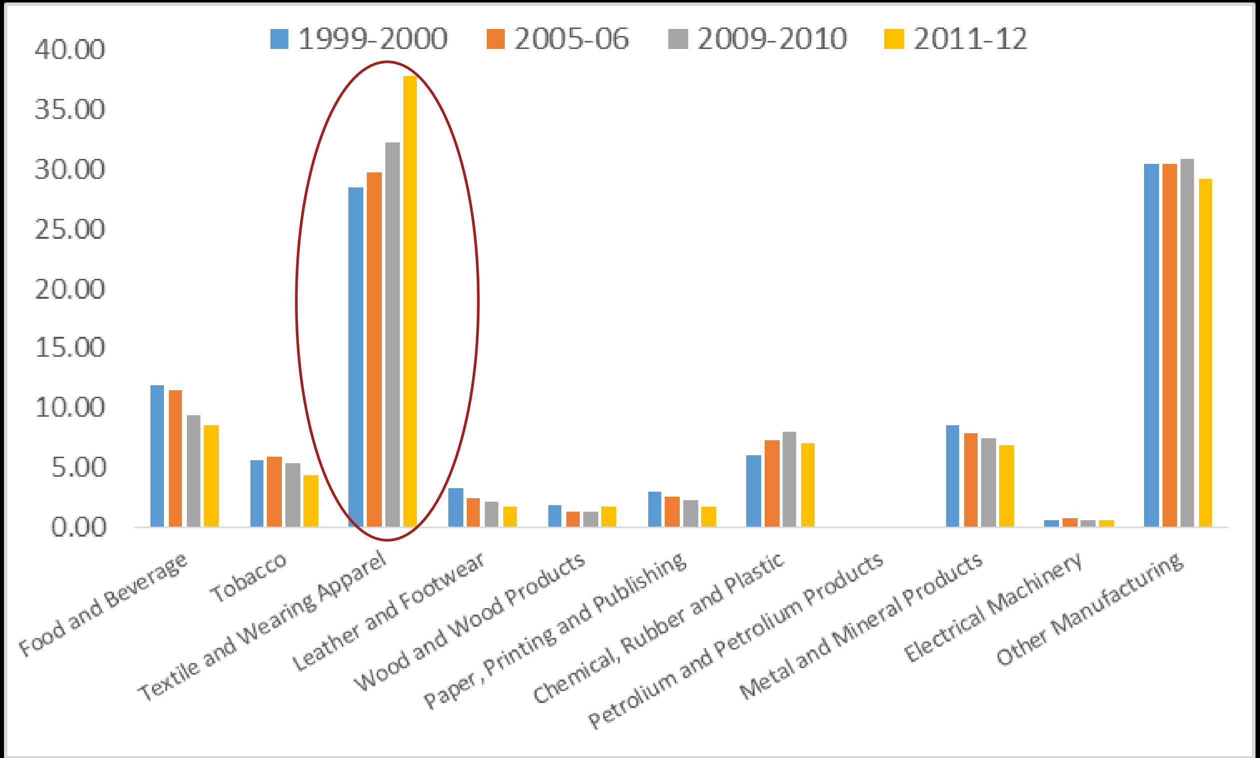
Share in Employment



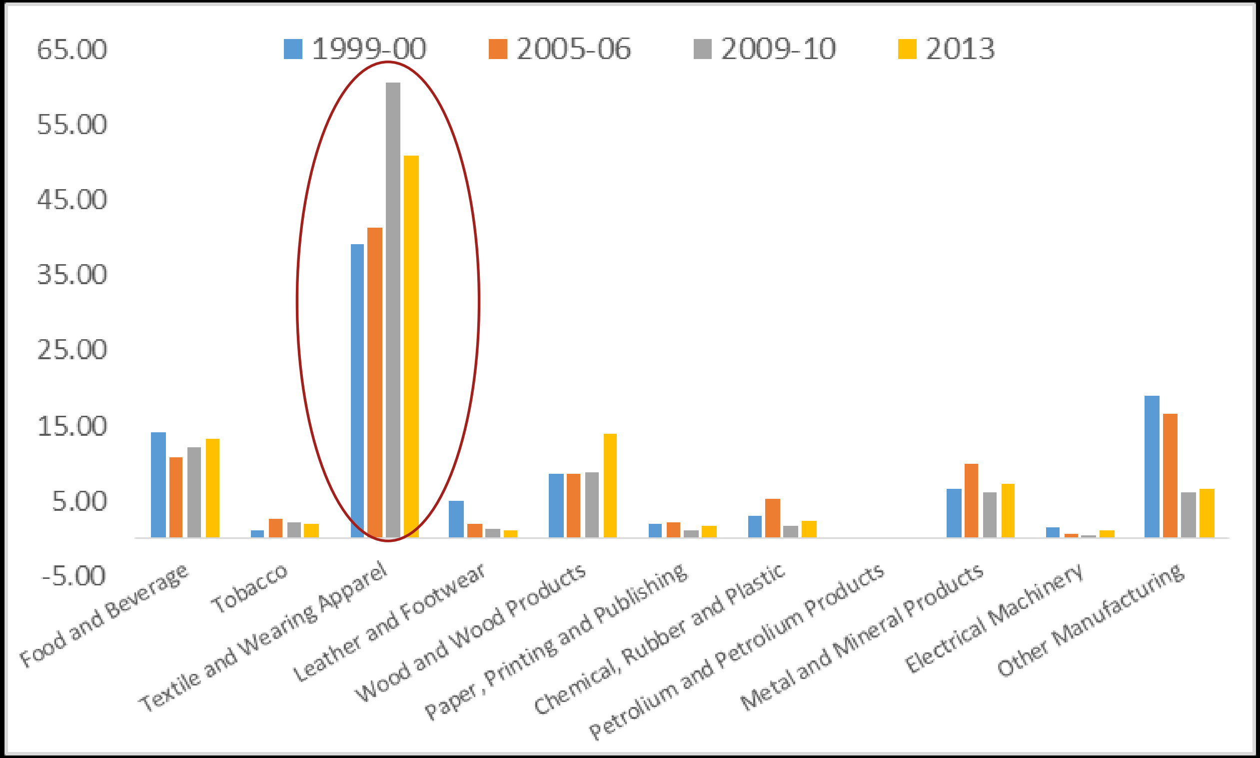
Data Source: BBS

CONCENTRATION IN MANUFACTURING GDP AND EMPLOYMENT

Share in Manufacturing GDP



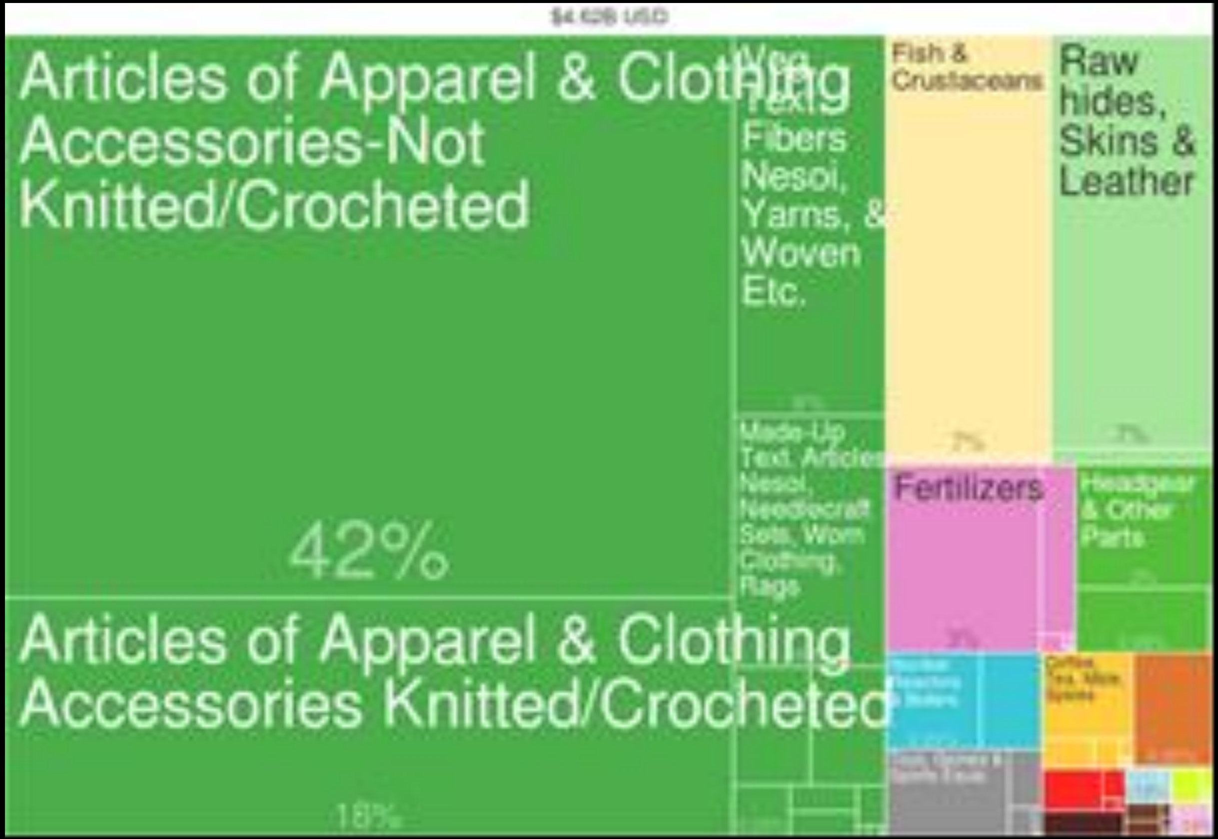
Share in Manufacturing Employment



Data Source: BBS

EXPORT CONCENTRATION

Export Basket in 1995 with around 4.6 billion US$



Export Basket in 2013 with more than 31 billion US$

- RMG at a cross-road: Comparative advantage and competitive advantage
- What are the other sectors?

WHAT SHOULD THE OBJECTIVE OF NEW REGIME IN BANGLADESH?

- Increase domestic private investment and FDI targeting broader economic diversification and export diversification.

- Emphasis should be not only on raising the level of investment but also on the efficiency of investment. Importance should be attached to more on efficiency gains.

THREE MAJOR AREAS

- Policy reform
- Institutional reform
- Infrastructure

WHY POLICY REFORM?

- No major policy reform over the last two decades.
- The marginal benefits of the first generation reforms have diminished quite significantly.

NEED FOR SECOND GENERATION REFORMS

- **A new paradigm of macro, trade and investment policies aiming at economic diversification**
  - **Export policy:** Existing policy is ineffective in export diversification. Issue of comparative advantage in quality products. Meeting the global and regional standards.
  - **Import policy:** Tariffs rates need to be further brought down and rationalized for economic diversification.
  - **Fiscal policy:** Tax-GDP ratio is the lowest in this region. Tax-incentive structure is imbalanced.

NEED FOR SECOND GENERATION REFORMS…

- **Monetary policy:** The cost of capital is too high for emerging sectors. Need for financial sector institutional reforms. Current monetary policy just maintains the status quo.
- **Industrial policy:** Very conventional. No effective direction on supporting the emerging and dynamic sectors. Pre-dominantly focus is on the manufacturing sector.
- **FDI policy:** Practical solution to problems. Incentives to foreign investors. Create success examples. One of the major issues is land. Macro management vs micro management.

POLICY REFORM: RETHINKING INDUSTRIAL POLICY

- Industrial policy is about incentive structure.
- Time-bound support to emerging dynamic sectors
- Effective designing of the incentive structure
- Pioneering firm: Discovery cost
- Export of value-added vs. gross exports
- ‘Manufacturing content’ of services and ‘Services value-added’ in gross exports

WHY INSTITUTIONAL REFORM?

- Reform of economic and political institutions for efficiency gains.
- Reform of economic institutions:
  - Improving the bureaucracy quality
  - Management of corruption
  - Contract viability: reducing the risk of contract modification or cancellation.
  - Management of labor regime.
- Reform of political institutions:
  - Reducing political uncertainties and establishing political stability
  - Generating political capital for larger private sector investment and accelerated economic growth.

WHAT ARE THE ISSUES WITH INFRASTRUCTURE?

- Weak infrastructure is a big concern.
- Electricity and gas: Increased production vs. entitlement failure.
- Delayed implementation of the infrastructural projects. Increase cost.
- Need for efficient public investment in social and physical infrastructures facilitating further private investment.

IS SEZ A SOLUTION?

- Need to seriously think about how to make SEZs successful.
- Location, infrastructure, logistics and professional zone management are four key factors determining success of SEZs.
- A major reason for the success of SEZs in China was the creation of complementary infrastructure, power, roads and ports.
- Difference between the models followed by China and India— while China created a limited number of large, self-sustainable, confined enclaves near port facilities to boost exports, India opted to license a large number of SEZs without ensuring proper infrastructure outside the zones.
- Other concerns of WTO compliance.