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AN INVESTMENT GUIDE TO BANGLADESH

Opportunities and conditions
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The International Chamber of Commerce (ICC) is the world business organization. It is the only body that speaks with authority on behalf of enterprises from all sectors in every part of the world, grouping thousands of members companies and associations from 130 countries. ICC promotes an open international trade and investment system and the market economy in the context of sustainable growth and development. It makes rules that govern the conduct of business across borders. Within a year of the creation of the United Nations it was granted consultative status at the highest level (category A) with the United Nations Economic and Social Council. This is now known as General Category consultative status.

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Reference to "dollars" (\$) means United States dollars, unless otherwise indicated.

Contents

Preface	iv
Acknowledgements	v
Note to the Reader	vi
Executive Summary	1
I. Introducing Bangladesh	6
History and Government	6
Health and Education	7
Government Priorities	9
II. The Investor's Environment	11
Market Size and Access	11
Economic Environment	12
Trade and Investment	15
Infrastructure and Utilities	18
Human Resources	20
Taxation	22
The Private Sector in Bangladesh	23
Investment Climate: Key Factors for Foreign Investors	24
III. Areas of Opportunity	26
Sectors	26
Special Zones and Sources of Finance	30
IV. The Regulatory Framework	32
Institutional Framework	32
Entry and Exit	34
Ownership, Property and Management Control	37
Investment Protection	38
Exchanging and Remitting Funds	39
Competition and Price Policies	40
Fiscal and Financial Incentives	40
Foreign Trade	42
V. Private-sector Feedback	44
Appendices	46
External Perceptions	46
Priorities and Restrictions	47
Major Foreign Investors	48
Sources of Further Information	53
Stages of Implementation	56
List of Public Holidays 2000	57
Project Champions	58

Preface

Foreign direct investment has come to be widely recognized over the past decade as a major potential contributor to growth and development. It can bring capital, technology, management know-how and access to new markets. In comparison with other forms of capital flows, it is also more stable, with a longer-term commitment to the host economy.

The project of which this publication – *An Investment Guide to Bangladesh* – is the third concrete product is a collaborative venture by the United Nations Conference on Trade and Development (UNCTAD) and the International Chamber of Commerce (ICC). Its objective is to bring together two parties with complementary interests: *firms* that seek new locations and *countries* that seek new investors. This is not always a straightforward exercise, for firms are driven by their global strategies as much as lured by specific opportunities, and countries have economic and social objectives that transcend attracting foreign investment.

The UNCTAD-ICC investment guides are thus properly seen as parts of a process, a long-term process at the heart of which is an ongoing *dialogue* between investors and governments. The guides *themselves* are the product of a dialogue, including that occurring among and between the representatives of business and government during the workshops that precede the completion of each guide. It is our hope that the guides will in turn *contribute* to the dialogue, helping to strengthen and sustain it, for we are convinced that in the long run it is this alone that will create conditions increasingly conducive to greater flows of foreign investment.



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We also want to take the opportunity to thank those most directly involved in the process leading up to this publication and without whose co-operation the project could not have been implemented: the Board of Investment of Bangladesh and in particular its Executive Chairman, M. Mokammel Haque, and ICC Bangladesh and in particular its President, Mahbubur Rahman. Our thanks are also owed to the Permanent Mission of Bangladesh to the United Nations in Geneva, which played a facilitating role.

This guide was prepared, with the assistance of consultants and advisors both internal and external, by an UNCTAD-ICC project team that included Vishwas P. Govitrikar, Torbjörn Fredriksson, Ludger Odenthal, Åsa Fennessy, Mohiuddin Babar, Anne Miroux, Bartolomeo D'Addario and Aleksandar Stojanoski. Overall guidance was provided by Karl P. Sauvart and Martin Wassell.

Note to the Reader

This booklet is published as part of the UNCTAD-ICC series of investment guides. The publications in this series are intended for the use of foreign investors who are largely unfamiliar with the countries covered. They are thus designed to offer overviews of potential locations for investment, rather than constitute exhaustive works of reference or provide detailed practical instructions. They do, however, offer pointers to sources of further information, in the private as well as the public sector.

There are two further features of these publications that the reader will find worth noting. One is that they are third-party documents, intended to offer a balanced and objective account of investment conditions. Their principal advantage in drawing the attention of investors to the countries they cover is credibility. The second feature is that both their general structure and some of their specific content are the result of consultations with the private sector.

After the Executive Summary and a brief introductory chapter, the bulk of the contents of this guide is organized into three chapters. The first, 'The Investor's Environment', describes the general conditions in which investors must operate: macro-economic conditions, infrastructure, human resources, et al. The second, 'Areas of Opportunity', offers a brief description of areas of potential interest to foreign investors. The third, 'The Regulatory Framework', focuses on regulations governing investment and *foreign direct investment* in particular. The final chapter provides a summary of the feedback received from the private sector in workshops that preceded the finalization of the guide.

The primary source of further information for an investor wishing to explore investing in Bangladesh is the Board of Investment (BOI) – see box on page 8. Contact details of other selected sources of information, including websites, are provided in appendix 4. A box on business association appears on page 23. Appendix 3 also provides a list, including contact details, of 60 major foreign investors in Bangladesh.

“The investment policies of the Government of Bangladesh are excellent. Bangladesh has already created one of the most attractive and liberal investment regimes in the region.”

Wali Bhuiyan

President

Foreign Investors ' Chamber of Commerce & Industry

& Managing Director, BOC Bangladesh Limited

(a member of The BOC Group plc.UK)

Foreign direct investment is welcome

Since the beginning of the 1990s, Bangladesh has adopted a number of policies to facilitate the expansion of the private sector and increase the inflow of foreign investment. The private sector is recognized as the engine of growth. Although the transition process from an agrarian to an industrial economy has only started, there is a consensus among the political parties on promoting a market-oriented economic policy. Foreign companies are welcome. In fact, a recent assessment showed that the country offers perhaps the most liberal FDI regime in South Asia, with no prior approval requirements or limits on equity participation or restrictions on the repatriation of profits and income.

Significant investment opportunities

Notwithstanding the obstacles that face foreign investors in countries with low levels of economic development, Bangladesh offers important investment opportunities for foreign companies. These opportunities are reflected in the inflows of foreign direct investment (FDI), which increased from virtually zero in the 1980s to over \$300 million in the late 1990s. The international investor may consider investing in Bangladesh to access a growing market, low-cost production facilities or abundant natural resources.

With its nearly 130 million inhabitants, Bangladesh is one of the most populous countries of the world and potentially a sizeable market. Thanks to relatively high growth rates in recent years, there is a growing middle class with increasing purchasing power and a growing demand for various products and services. In terms of GDP, when adjusted for purchasing power, the Bangladesh economy amounts to over \$170 billion.

Besides representing a potential market in itself (and potential access to the much larger South Asian market) Bangladesh also offers considerable potential as a base for *labour-intensive manufacturing*. Low-cost labour is the factor most often cited by the private as well as the public sector in Bangladesh when asked to name the most attractive features of the country. For example, in 1998, the average hourly labour cost in apparel manufacturing was a mere \$0.43, which is competitive even by regional standards. For export-oriented activities, the Government has set up two export-processing zones (EPZs) in the two largest urban areas, Dhaka and Chittagong, and a further four are being developed. The advantages of EPZs include facilitation services and a variety of fiscal and non-fiscal incentives.

In addition to its large population and low-cost labour, Bangladesh offers major reserves of natural resources, in particular natural gas. According to the United States Geographical Survey, proven gas reserves are in excess of 10 trillion cubic feet (tcf) and private estimates of probable reserves go as high as 50 tcf. These resources have attracted the attention of major corporations such as Cairn Energy, Shell and Unocal. The gas sector accounted for more than half of the total inflow of FDI in 1998.

Bangladesh currently hosts some twenty gas fields, most of them in the eastern part of the country, and one offshore field. Investment opportunities in this area relate to the extraction as well as the distribution of gas.

Finally, the Bangladesh economy is in need of major investment to upgrade its infrastructure. Partly thanks to support programmes undertaken by the World Bank and other multilateral and bilateral institutions, investment opportunities exist in the areas of power generation, telecommunication, et al.

Difficulties facing the investor

As in all developing economies moving towards an increasingly market-based economy, there are important areas in need of improvement, which affect the profitability of investment. According to foreign investors in Bangladesh, this applies to the quality of the transport and communication infrastructure, unreliable energy supply, administrative complexity and non-transparency, and a lack of skilled people at various levels. Moreover, major parts of Bangladesh are frequently affected by torrential rainfalls with adverse impacts on the country's production. Investors also voice concerns over confrontational trade unions, political strikes called *hartals*, and the slow implementation of good policies.

Economic developments

Government reforms aimed at transforming Bangladesh into a market-based economy have brought some positive results. Between 1990 and 1998, GDP growth rates increased to nearly 5 per cent. The stronger economic growth is attributed partly to rising export earnings, which increased by more than 60 per cent between 1994 and 1999. The bulk of the country's exports consists of ready-made clothing. The Bangladesh economy was largely unaffected by the Asian financial crisis and bounced back vigorously after the major floods of 1998. The acceleration in growth has been accompanied by a decline in poverty but poverty reduction still has a considerable way to go.

Challenges and opportunities ahead

With half of the population still very poor, poverty alleviation is the number one priority of the Government's development policy. In reaching this goal, stronger economic growth and a dynamic private sector will play crucial roles. In order to attract increased FDI, there is an urgent need for improvements particularly in the areas of infrastructure, education and technical training, and the rapid and effective implementation of what are generally enlightened policies.

Meanwhile, the recognition by the Government that the private sector is the engine of growth is encouraging and offers much hope for the future. There is also an important inflow of FDI and skills, the latter in the form of young Bangladeshis who have been educated abroad. These factors will together play a key role in the economic transformation of Bangladesh in the years ahead.

Bangladesh at a Glance

Official name	The People's Republic of Bangladesh
Political system	Parliamentary democracy
Head of state	President Shahabuddin Ahmed
Central government	Ruling party: The Awami League
Head of Government	Prime Minister Sheikh Hasina
Next election due	By June 2001
Population	128 million
Population density	867 per km ²
Area	147,570 km ²
Official language	Bangla (Bengali) English is widely used in government, business and universities
Religion	Muslims (88 %) Hindus (10 %)
Time zone	6 hours ahead of GMT
GDP per capita	\$386
Currency	Bangladeshi taka (Tk)
Exchange rates	\$1 = Tk 54.25 (approximate, as of mid-2000) €1 = Tk 45.57 (approximate, as of mid-2000) ¥100 = Tk 50.67 (approximate, as of mid-2000)
Largest cities	
Dhaka	9.6 million inhabitants
Chittagong	3.4 million inhabitants
Khulna	1.3 million inhabitants
Neighbours	India and Myanmar
Climate	Sub-tropical. Heavy rainfall during the monsoons (July-October).
Numbers	As elsewhere in South Asia, large numbers are expressed in <i>lakhs</i> (one hundred thousand, written 1,00,000) and <i>crores</i> (100 lakhs or ten million, written 1,00,00,000).



Source: Based on the map of Bangladesh by the United Nation Cartographic Section, 1992.



Source: Based on the map of Asia by the Central Intelligence Agency, 1999.

History and Government

With the political partition of the Indian subcontinent on the eve of its independence in 1947, the eastern part of the province of Bengal became East Pakistan. Divided from West Pakistan by a considerable stretch of Indian territory, East Pakistan was never a comfortable partner in the new country, owing in particular to differences of language and culture. Dissension eventually led to a movement for independence that culminated, in 1971, in the creation of the Republic of Bangladesh with Sheikh Mujibur Rahman, who had led the movement, as President.

The 1970s and 1980s were a period of political instability for the new country. There were many coups and counter-coups, with brief intervals of democracy. In 1990, a popular mass movement led to the overthrow of the Jatiya Party government headed by General Ershad and a democratic parliamentary election was held under a caretaker government in 1991. The Bangladesh Nationalist Party (BNP), led by Begum Khaleda Zia, won the majority of the seats and formed a government. The Awami League, led by Sheikh Hasina, won the 1996 parliamentary elections and is currently in power. The next election must be held by mid-2001.

Barring brief episodes, Bangladesh has enjoyed political stability for the past decade. Despite some differences, there is now a consensus among the two main political parties (the Awami League and the BNP) on working through democratic institutions. There is also a convergence of opinion as to the economic agenda and broad-based political support for market-oriented reforms.

Under the constitution adopted in 1972, Bangladesh was declared a secular socialist democracy headed by a Prime Minister. Since then the country's constitution has been amended a number of times, with resulting changes in the form of government. After a few switches between the presidential and parliamentary forms of government, the political parties finally decided on the latter.

The constitution places all executive power in the hands of the Prime Minister who is the head of government. A cabinet of ministers assists the Prime Minister. The head of state is the President, who is chosen by parliament for a five-year term. The tenure of the national parliament, known as the *Jatiya Sangsad*, is also for a five-year period. It is a unicameral body vested with legislative powers and has 300 elected members.

The print media enjoy considerable freedom in Bangladesh. Radio remains under government control, although one private television channel is now operating. The national parliament is highly vocal when in session and its proceedings are regularly broadcast.

Health and Education

Bangladesh is the world's ninth most populous nation with a population density of more than 860 people per square kilometre. Population growth and fertility rates are therefore important. During the last two decades, the population growth rate has come down by more than one percentage point to 1.6 per cent a year, while the fertility rate has fallen to 3.2, indicating a decline of more than 50 per cent. These figures compare well with other South Asian countries, giving Bangladesh a lower population growth rate than most of the region.

Bangladesh can boast of some other achievements in the health sector. For instance, in the field of child immunization, the country has achieved rates of 91 per cent against tuberculosis and 67 per cent against measles. The infant mortality rate has been lowered, though it still remains high. Life expectancy at birth is close to the regional average.

TABLE I: POPULATION

COUNTRY	TOTAL POPULATION millions 1998	AVERAGE ANNUAL POPULATION GROWTH RATE % 1998	POPULATION DENSITY people per sq. km 1998	URBAN POPULATION % of total population 1998
BANGLADESH	126	1.6	867	23
India	980	1.8	330	28
Nepal	23	2.3	160	11
Pakistan	132	2.4	171	36
Sri Lanka	19	1.2	291	23
South Asia Average ^a	..	2.1	273	28

Source: Based on the World Bank, *World Development Indicators, 2000*, and Government of Bangladesh (for the population density of Bangladesh)

a South Asia Average also includes Afghanistan, Bhutan and Maldives.

COUNTRY	LIFE EXPECTANCY AT BIRTH years 1998	INFANT MORTALITY RATE per 1000 live births 1998	PHYSICIANS per 100,000 people 1993	HEALTH EXPENDITURE % of GDP 1995
	59 (60.8) ^a		18	
India	63	69	48	0.7
Nepal	58	72	5	1.2
Pakistan	64	95	52	0.8
Sri Lanka	73	17	23	1.4
South Asia Average ^b	65	72	44	0.9

Source: Based on the UNDP, *Human Development Report, 2000*.

a Figures in parantheses according to information provided by the Planning Commission, drawing upon the Bangladesh Bureau of Statistics, in mid-2000.

b South Asia Average also includes Bhutan, Iran and Maldives.

In the field of education, Bangladesh has made progress but much remains to be done. The primary net enrolment ratio was comparable to India's in 1997 – both in terms of the whole age group and in terms of girl pupils. The ratio was much lower when it comes to secondary education – two-fifths of the regional average for the whole age group and one-third for girls. Adult literacy was comparable to Nepal's and Pakistan's, about 40 per cent.

The country's higher educational facilities include 11 public and 16 private universities, 4 engineering colleges, 13 public and 9 private medical colleges, and 20 polytechnic institutes.

TABLE III: EDUCATION

COUNTRY	NET ENROLMENT RATIO ^a				ADULT LITERACY RATE % of people 15 and above 1998
	PRIMARY		SECONDARY		
	Total % of relevant age group 1997	Female % of relevant age group 1997	Total % of relevant age group 1997	Female % of relevant age group 1997	
BANGLADESH	75.1 (85.2) ^b	69.6	21.6	15.6	40.1 (51.3) ^b
India	77.2	71.0	59.7	48.0	55.7
Nepal	78.4	62.5	54.6	39.7	39.2
Pakistan	.. ^c	.. ^c	.. ^c	.. ^c	44.0
Sri Lanka	99.9	99.9	76.0	79.3	91.1
South Asia Average ^d	78.0	72.1	56.5	46.0	54.3

Source: Based on the UNDP, *Human Development Report 2000*.

a Net enrolment ratio is the number of children of official school age enrolled in school as a percentage of the number of children of official school age in the population. **b** Figures in parentheses according to information provided by the Planning Commission, drawing upon the Bangladesh Bureau of Statistics, in mid-2000. **c** Figures not available.

d South Asia Average also includes Bhutan, Iran and Maldives.

Board of Investment

The Board of Investment (BOI) was established by the Investment Board Act of 1989, to encourage and facilitate private investment. It is headed by the Prime Minister and is a part of the Prime Minister's Office. Its membership includes representatives (at the highest level) of the relevant ministries — industry, finance, planning, textiles, et al.— as well as others, such as the Governor of Bangladesh Bank and heads of some business associations. The operating head of the BOI is the Executive Chairman, currently M. Mokammel Haque, who carries the rank of Minister.

The functions of the BOI include investment promotion at home and abroad, registration of industrial projects, approval of payments for royalties and other fees when they exceed prescribed limits, issuance of work permits to expatriates, allotment of land in industrial areas, approval of terms and conditions for loans and credit, and assisting investors in acquiring infrastructure facilities. The BOI also includes a one-stop-service centre that offers pre-investment counseling, facilitation of utility connections and assistance with import clearance and warehousing licenses.

The BOI has published a number of investment guides over the past decade, the most recent of which is *Investing in Bangladesh: A Guide to Opportunities*, released in November 1999 and intended to showcase the most recent changes in policies and procedures, in particular the Industrial Policy, 1999. The BOI's website (www.citechco.net/business/boi) is currently under construction. For contact details, see appendix 4.

Government Priorities

Primary Objectives

The Government's primary objective for development remains poverty alleviation. To this end, the Government is focussing on improving the living standard of the rural poor through a set of interventions which encourage employment-augmenting and income-generating activities, particularly in the non-farm sector. It has also placed a special emphasis on human-resource development and aims to raise the literacy rate to 70 per cent by the year 2002. Finally, the Government has recognized that the private sector must be the engine of economic growth and has been pursuing policies which encourage entrepreneurs, both local and foreign, to invest in the economy. (See boxes on the Board of Investment and the Industrial Policy 1999 on pages 8 and 9.)

Priority Sectors and Industries

Bangladesh has identified sixteen priority sectors and industries with a view to giving them special incentives and support. These include agro-based industries, electronics, infrastructure, oil and gas, software, textiles and tourism. (For a complete list, see Appendix 2.) The incentives include duty-free import of capital machinery and spare parts, bonded warehouse facilities, duty-drawback and cash-compensation schemes for exporters, and tax rebates and exemptions.

The information technology industry, for example, has been offered special financing support and a waiver of taxes on the import of computers and their accessories. Infrastructure development has also been given priority, since it plays a critical role in attracting FDI to Bangladesh. In addition to increased public-sector investment, the infrastructure sector has been opened up for private participation through Build-Operate-Own (BOO) and Build-Operate-Transfer (BOT) arrangements.

Given the availability of a wide range of agricultural raw materials, agro-based industries are a priority. Agro-processing is thought to have considerable potential in Bangladesh and a number of fiscal and monetary incentives have been introduced to encourage investment in this sector.

The ready-made garments sector, which has emerged as the leading exporter in Bangladesh over the past decade, has already attracted substantial foreign investment, mostly in the EPZs. The sector depends heavily, however, on imported yarns and fabrics, and textiles are a high priority for investment in order to reduce this dependence.

Industrial Policy 1999: Primary Objectives

1. To expand the production base of the economy by accelerating the level of industrial investment.
2. To promote the private sector to lead the growth of industrial production and investment.
3. To focus the role of the Government as a facilitator in creating an enabling environment for expanding private investment.
4. To permit public undertaking only in those industrial activities where public sector involvement is essential to facilitate the growth of the private sector and/or where there are overriding social concerns to be accommodated.
5. To attract foreign direct investment in both export and domestic market oriented industries to make up for the deficient domestic investment resources, and to acquire evolving technology and gain access to export markets.
6. To ensure rapid growth of industrial employment by encouraging investment in labour intensive manufacturing industries including investment in efficient small and cottage industries.
7. To generate female employment in higher skill categories through special emphasis on skill development.
8. To raise industrial productivity and to move progressively to higher value added products through skill and technology upgradation.
9. To enhance operational efficiency in all remaining public manufacturing enterprises through appropriate management restructuring and pursuit of market oriented policies.
10. To diversify and rapidly increase export of manufactures.
11. To encourage the competitive strength of import substituting industries for catering to a growing domestic market.
12. To ensure a process of industrialisation which is environmentally sound and consistent with the resource endowment of the economy.
13. To encourage balanced industrial development throughout the country by introducing suitable measures and incentives.
14. To effectively utilise the existing production capacity.
15. To co-ordinate with trade and fiscal policies.
16. To develop indigenous technology and to expand production based on domestic raw materials.
17. To rehabilitate deserving sick industries.

Source: Based on 'Industrial Policy 1999', *Investing in Bangladesh: A Guide to Opportunities*, Board of Investment, 1999.

Privatization

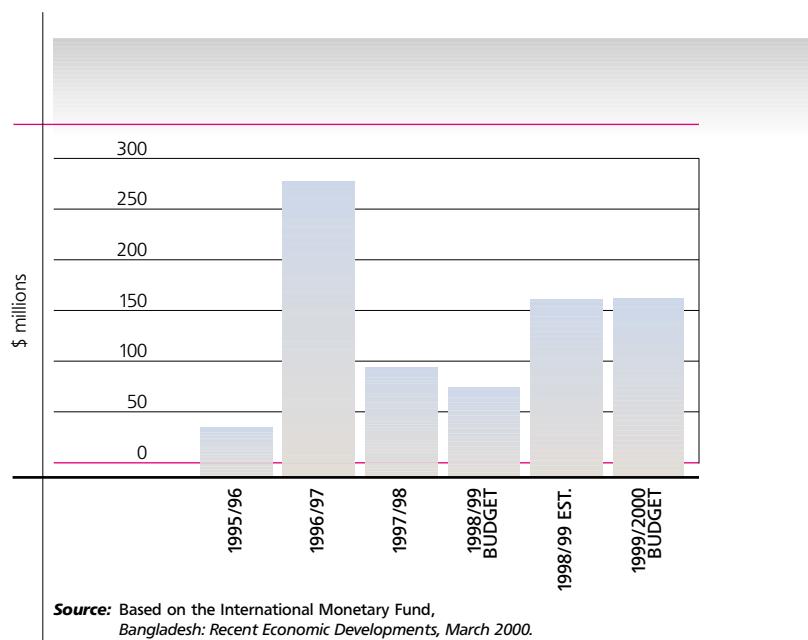
As elsewhere in South Asia, the state was strongly interventionist in Bangladesh until the 1990s and state-owned enterprises (SOEs) dominated the economy. SOEs were to be found in a number of industries including gas, steel, jute, chemicals, and textiles. Official attitudes have now changed. Only four sectors are still reserved for public investment: defence, forestry, nuclear energy and security printing (currency notes). In other areas, the Government is now committed to privatization.

A Privatization Board has been set up and a prominent businessman has been appointed to chair it. The board includes six MPs, including two from the main opposition party, as well as trade union representatives. 62 SOEs are slated for privatization. Since 1995, 7 units have been privatized and a further 11 are at various stages of privatization. The national airline, Biman, is negotiating a partial buy-out with a strategic partner. FDI is welcome in enterprises to be privatized. (See list in Chapter III.)

The process is moving slowly, however. The private sector would like to see the pace of privatization pick up but there is considerable opposition on the part of the trade unions. The SOEs in the meanwhile are generally loss-making ventures.

The Government has recently reviewed the procedures for privatization and introduced some pragmatic changes. Earlier, the entire assets of an enterprise, including land, used to be put up for sale as one package and there were restrictions on restructuring the assets or reducing the workforce. This naturally discouraged potential buyers. The new procedures require that the *Government* take the responsibility for reducing the workforce, so that the buyer can start without excess labour. The assets can also be unbundled, to separate operating assets like machinery and inventory from land not in use, and sold separately. The buyer is also allowed to restructure the operating assets to make the enterprise commercially viable.

With a view to strengthening the legal basis of the privatization programme, the draft of a Privatization Act has recently been endorsed by the cabinet. The Privatization Board has also embarked upon a public awareness campaign to broaden the public acceptance of its programme.



Market Size and Access

The external impression of Bangladesh is that of a populous and poor country – 128 million people with little purchasing power. Such an impression needs to be balanced by several considerations. In the first place, there is a middle class with some purchasing power in Bangladesh as in the rest of South Asia. As economic growth has begun to pick up, in significant measure as a consequence of the opening up of relatively closed economies, this class and its purchasing power are beginning to grow. And in a country with 128 million people, even a small middle class may constitute a significant market. One might also note that the purchasing-power-parity figures for GDP are more than three times as high for Bangladesh as GDP figures at the market exchange rate.

The second point to be noted in this context is the potential access to the South Asian market. Bangladesh is a member of the South Asian Association for Regional Co-operation (SAARC), created in 1985, which aims to accelerate the processes of economic, social and cultural exchanges among its members. Other members of SAARC are: Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The South Asia Preferential Trade Arrangement (SAPTA) was established in 1993 and the first round of concessions and preferences was held in 1995. In 1996, during the second round of negotiations, commerce ministers of SAARC members announced a commitment to establish a South Asian free-trade area by 2005.

A single South Asian market would be large indeed, even taking the relative poverty of the region into account, given the size of the population (over 1,250 million) and the acceleration of economic growth following progressive liberalization in the region. Bangladesh has by no means been a laggard in liberalization by regional standards. Its policy regime for foreign direct investment may be the best in South Asia.

COUNTRY	SOUTH ASIA		NET		GDP PER CAPITA PPP
	POPULATION	GDP ^a	GDP PER CAPITA	GDP PPP ^b	
	millions 1998	\$ billions 1998	\$ 1998	\$ billions 1998	\$ 1998
	126 (128) ^c		341 (386) ^c		1,361
India	980	430	439	2,034	2,077
Nepal	23	5	217	26	1,157
Pakistan	132	63	477	226	1,714
Sri Lanka	19	16	842	56	2,978
South Asia Average ^d	..	..	435	..	1,960
South Asia Total ^d	1,154	557	-	2,513	-

Source: Based on the World bank, *World Development Indicators, 2000.*

a GDP at market prices (current US\$), **b** GDP at Purchasing Power Parity (current international \$),

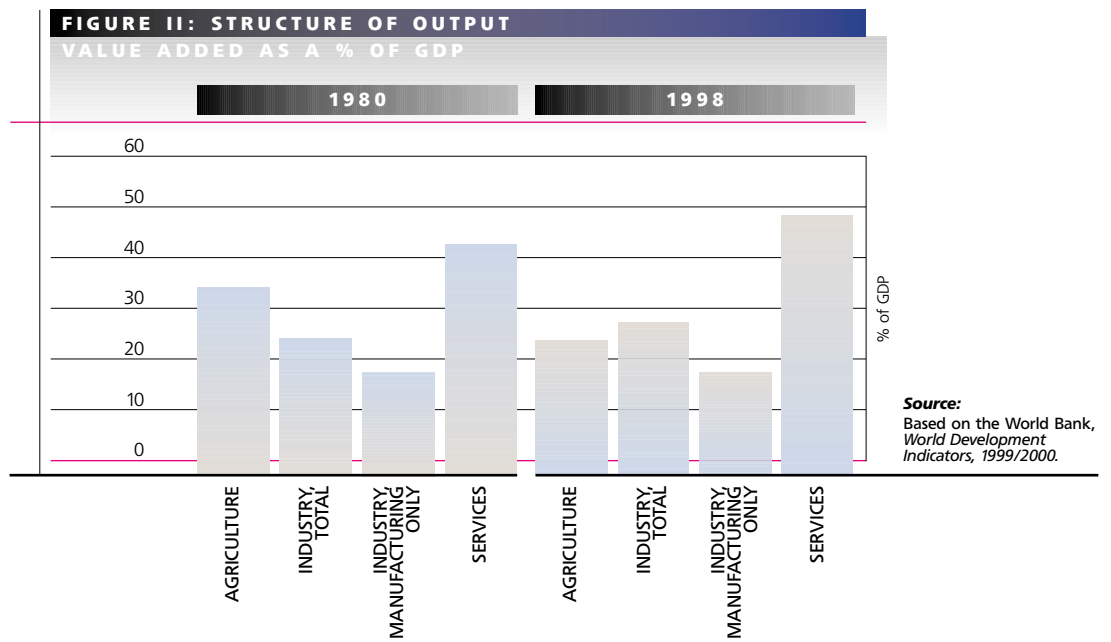
c Figures in parenthesis are as provided by the Government of Bangladesh in mid-2000,

d South Asia Average and Total do not include Afghanistan, Bhutan and Maldives.

Economic Environment

Bangladesh is in the process of a transition from a predominantly agrarian economy to an industrial and service economy. The private sector is playing an increasingly active role in the economic life of the country, while the public sector concentrates more on the physical and social infrastructure.

There have been significant structural shifts in the economy over the past two decades. The share of value added by agriculture in Bangladesh’s GDP has fallen from 34 per cent in 1980 to 23 per cent in 1998. The service sector’s contribution has increased during the same period from 42 to 49 per cent. Industry’s contribution has increased from 24 to 28 per cent.



Economic growth has perceptibly accelerated in the 1990s — with an average annual rate of 4.7 per cent. For the first time in the history of Bangladesh, the country has posted GDP growth of 5 per cent or more in four consecutive years (1995-1998), this despite the prolonged and

devastating flood that afflicted the country in 1998. Notwithstanding the floods of 1998, which resulted in an estimated loss of about 2 million tonnes, the aggregate food grain production in 1998-1999 was 21.35 million tonnes, 3.4 per cent higher than the 20.64 million tonnes during the preceding year.

COUNTRY	GDP AVERAGE ANNUAL GROWTH RATES (PERCENTAGES)				
	1995	1996	1997	1998	1990-98
India	5.5	7.2	5.3	6.1	4.7
Nepal	8.0	5.3	4.9	2.3	6.1
Pakistan	3.5	5.0	5.0	3.1	5.0
Sri Lanka	5.1	3.8	1.2	4.7	4.2
South Asia Average *	5.5	3.8	6.4	4.7	5.3
	..	..	..	..	5.7

Source: Based on the World Bank, *World Development Indicators, 2000*.
* South Asia Average also includes Afghanistan, Bhutan and Maldives.

Floods

Bangladesh is a deltaic plain and the only drainage outlet for the Ganges, the Brahmaputra and the Meghna rivers. The soil is very fertile but the land is flat and vulnerable to floods. Its rivers and their numerous tributaries acquire heavy silt deposits during the monsoons and contribute to recurring floods. While moderate flooding contributes to the fertility of the soil, heavy flooding causes extensive damage to crops and infrastructure. In a normal monsoon season, one-third of the 22 million acres of cultivated land is flooded but farmers take this in their stride and make use of the flood waters for rice, jute and fisheries. Abnormal floods, such as the ones in 1998 which affected almost two-thirds of the country, are a different matter. Bangladesh is also affected by cyclones, which are common in the Bay of Bengal in the periods immediately before and after the monsoon season.

Since these problems are recurrent features of Bangladeshi life, the people have developed great resilience in dealing with them. The remarkable performance of the economy after the 1998 floods, the worst in living memory, testifies to this resilience. The Government of Bangladesh has also put in place a consolidated Disaster Management Plan, which covers planning for prevention, mitigation, response and recovery as well as operational activities such as mobilization.

Source: Based on the Asian Disaster Reduction Centre, Country Profile – Bangladesh (<http://www.advc.or.jp>).

Industrial output grew at an average rate of 7 per cent during the 1990s although it was pushed down in FY1999 because of the damage caused by the 1998 floods. The latest statistics show signs of mixed recovery, as Bangladesh's industrial sector undergoes a painful liberalization-driven restructuring.

In recent years, there has been a substantial improvement in the overall macroeconomic performance in Bangladesh and maintaining macroeconomic stability has been the cornerstone of economic policy. The Government pursues an active policy, resorting to periodic depreciation of the currency on the basis of the trade-weighted currency movements of its major trading partners. (It is worth noting that Bangladesh fared relatively well during the Asian financial crisis.) The exchange rate of the taka against the dollar was 54.25 to 1 in mid-2000.

Monetary management has been relatively tight until recently as the Government has tried to improve the quality of credit creation and remained vigilant about public expenditure control. Inflation has been low, at 3-4 per cent over FY 1996 and FY 1997, with a rise in the past two years to 6-7 per cent.

COUNTRY	BALANCE OF PAYMENTS		NET INCOME ^a	NET CURRENT TRANSFERS ^b	CURRENT ACCOUNT BALANCE	GROSS INTERNATIONAL RESERVES
	GOODS AND SERVICES					
	Exports \$ millions 1998	Imports \$ millions 1998	\$ millions 1998	\$ millions 1998	\$ millions 1998	\$ millions 1998
India	5,879	8,049		2,017		1,936
Nepal	47,419	59,138	-3,546	10,280	-4,984	30,647
Pakistan	1,108	1,646	13	103	-422	800
Sri Lanka	10,017	12,819	-2,330	3,430	-1,702	1,626
Sri Lanka	5,648	6,661	-178	903	-288	1,998
South Asia Total ^c	70,071	88,313	..	16,733	..	37,007

Source: Based on the World Bank, *World Development Indicators*, 2000.

^a Net income refers to employee compensation paid to nonresident workers and investment income.

^b Net current transfers are recorded in the balance of payments whenever an economy provides or receives goods, services, income or financial items without a quid pro quo. ^c South Asia Total does not include Afghanistan, Bhutan and Maldives.

The budget deficit has been a little over 5 per cent of GDP in the late 1990s. Foreign exchange reserves, underwritten by export receipts and remittances from migrant workers, have remained stable but only at a level sufficient to cover merchandise imports for something over three months. Potentially, Bangladesh faces some foreign-exchange difficulties, especially as foreign direct investment accelerates (see next heading).

TABLE VII: EXTERNAL DEBT MANAGEMENT					
COUNTRY	TOTAL LONG-TERM DEBT ^a		TOTAL DEBT SERVICE ^b		
	\$ MILLIONS	% OF GNP	\$ MILLIONS	% OF EXPORTS OF GOODS AND SERVICES	% OF GNP
	1998	1998	1998	1998	1998
BANGLADESH	15,804	36	683	9.1	1.5
India	93,616	22	12,085	20.6	2.8
Nepal	2,591	53	88	7	1.8
Pakistan	28,663	47	2,743	23.6	4.5
Sri Lanka	7,726	51	452	6.6	2.9
South Asia Average ^c	..	..	..	18.9	2.9
South Asia Total ^d	148,400	..	16,051	..	..

Source: Based on the World Bank, *World Development Indicators, 2000*.

a Total long-term debt is debt that has an original or extended maturity of more than one year. **b** Total debt-service is the sum of principal repayments and interest actually paid in foreign currency, goods, or services on long-term debt, interest paid on short-term debt, and repayments to the IM. **c** South Asia Average also includes Afghanistan, Bhutan and Maldives. **d** South Asia Total does not include Afghanistan, Bhutan and Maldives.

Trade and Investment

International Trade

Exports from Bangladesh have both grown and changed substantially, as the tables below indicate. (See also the box on the RMG industry that follows.) There is considerable unrealized potential for expanding exports in such categories as fisheries, in particular of new, value-added items. There may be similar potential in light manufacturing (tools, consumer electronics) to be exploited.

TABLE VIII: BANGLADESH AND INTERNATIONAL TRADE A: MAIN EXPORTS

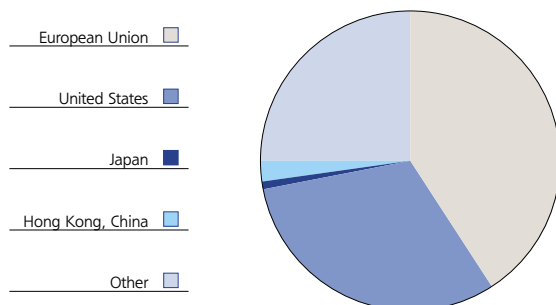
MERCHANDISE	TOTAL MERCHANDISE EXPORTS					
	\$ millions 1994/95	\$ millions 1995/96	\$ millions 1996/97	\$ millions 1997/98	\$ millions 1998/99	\$ millions 1999/00
Ready-made garments	1,839.0	1,948.8	2,238.0	2,843.3	2,985.0	3,056.6
Knitwear and hosiery products	393.0	598.3	763.3	940.3	1,035.0	1,268.2
Jute goods (excl. carpets)	310.0	324.8	313.3	278.6	303.4	266.4
Frozen shrimps and fish	306.0	313.7	320.0	293.8	274.7	343.9
Leather and leather products	202.0	211.7	195.0	190.3	168.7	195.0
Raw jute	79.0	90.7	116.0	107.8	71.6	71.5
Tea	33.0	33.1	38.0	47.5	38.6	17.7
Total exports	3,473.0	3,882.4	4,418.3	5,161.2	5,312.2	5,748.0

Source: Based on the International Monetary Fund, *Bangladesh: Recent Economic Developments, March 2000* and Export Promotion Bureau, 1999 and 2000.

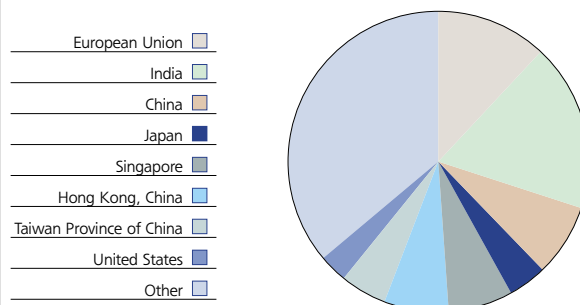
BANGLADESH AND INTERNATIONAL TRADE B: MAIN IMPORTS

MERCHANDISE	TOTAL MERCHANDISE IMPORTS					
	\$ millions 1994/95	\$ millions 1995/96	\$ millions 1996/97	\$ millions 1997/98	\$ millions 1998/99	\$ millions 1999/00 (Apr.)
Capital goods	1,688.0	1,918.0	1,937.0	2,072.0	1,969.0	1,523.3
Textiles	1,025.0	1,043.0	1,098.0	1,264.0	1,109.0	998.1
Food grains	476.0	586.0	184.0	369.0	712.0	331.9
Edible oil	220.0	179.0	216.0	216.0	286.9	229.5
Yarn	200.0	296.0	395.0	327.0	283.0	255.3
Petroleum products	206.0	290.0	341.0	295.0	270.1	349.1
Cotton	135.0	185.0	195.0	207.0	233.0	236.6
Total imports	5,834.0	6,881.0	7,162.1	7,520.0	8,007.1	6,667.7

Source: Based on the International Monetary Fund, *Bangladesh: Recent Economic Developments, March 2000* and Bangladesh Bank, *Economic Trends, August 2000*.

FIGURE III: MAIN DESTINATIONS OF EXPORTS 1998-1999

Source: Based on *Annual Export Receipts, 1998-1999*, Statistical Department, Bangladesh Bank.

FIGURE IV: MAIN SOURCES OF IMPORTS 1998-1999

Source: Based on *Annual Import Payments, 1998-1999*, Statistical Department, Bangladesh Bank.

Foreign Direct Investment

Foreign direct investment (FDI) has been growing in Bangladesh, although from a very low base, prompted in part by liberalization measures. Among South Asian FDI regimes, a recent World Bank report (*Foreign Direct Investment in Bangladesh: Issues of Long-run Sustainability*, 1999) judges the Bangladeshi regime to be the most liberal, with no prior approval requirements or limits on equity participation or on the repatriation of profits and income.

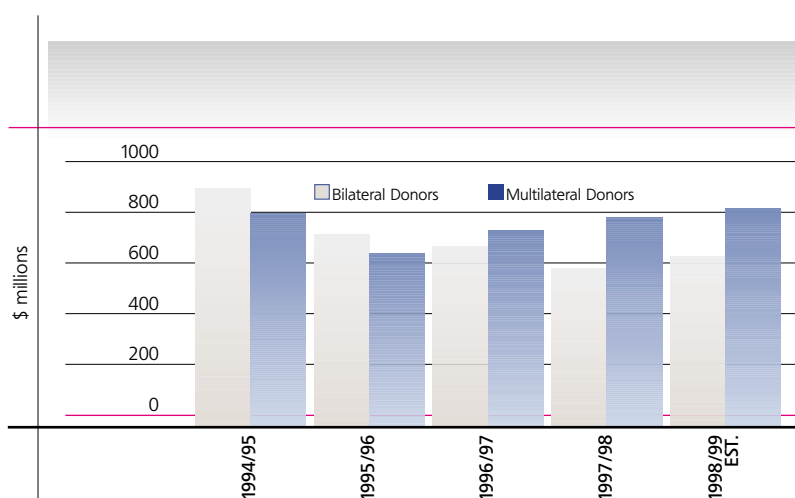
According to the report, not only has FDI in Bangladesh been growing but it may be significantly underreported, on account in part of the more open regime. FDI flows are expected to average \$750 million annually over the next five years, the main recipient being the energy sector. If current trends continue, however, manufacturing and services could overtake energy by 2006. Most of the recent FDI flows have gone into the import of capital equipment and machinery.

COUNTRY	1986-90 FDI INFLOWS		1991-95 FDI INFLOWS		1996 FDI INFLOWS		1997 FDI INFLOWS		1998 FDI INFLOWS		1999 FDI INFLOWS	
	\$ millions	PER \$ 1,000 GDP	\$ millions	PER \$ 1,000 GDP	\$ millions	PER \$ 1,000 GDP	\$ millions	PER \$ 1,000 GDP	\$ millions	PER \$ 1,000 GDP	\$ millions	PER \$ 1,000 GDP
	2	0.1			14	0.3			308	7.2		
India	167	0.6	803	2.6	2,426	6.7	3,577	8.6	2,635	6.3	2,168	..
Nepal	2	0.6	5	1.4	19	4.2	23	4.7	12	2.7	132	..
Pakistan	176	4.7	417	7.8	918	14.2	713	11.6	507	7.9	531	..
Sri Lanka	40	5.7	123	11.6	133	9.6	435	28.8	206	13.1	202	..
South Asia Average ^a	392	1.1	1,363	3.3	3,520	7.3	4,901	9.1	3,679	6.7	3,193	..
Asia Average ^b	15,763	9.3	49,490	18.3	90,004	24.3	95,596	25.6	90,298	26.3	98,910	..

Source: Based on the UNCTAD, FDI/TNC database.

^a For South Asia, both the averages and the totals are based on the inclusion of Afghanistan and Maldives in addition to the five countries in the table.

^b For Asia, the figures are based on the inclusion of Central, East, South, South-East and West Asia. ^c Figures not available at time of printing (Aug 2000).



Source: Based on the International Monetary Fund, Bangladesh: Recent Economic Developments, March 2000.

The increased inflows will over time create increased foreign-exchange payment requirements for profits and interest, which will call for new avenues of earning foreign exchange. The principal current earner of foreign exchange, the ready-made-garment industry, will need careful preparation against the phasing out of MFA quotas in 2005 (see box on the RMG industry below).

Another prospective foreign-exchange earner is the export of natural gas. This is, however, a charged issue in Bangladesh. Foreign investors see a straightforward commercial logic in the export

of gas to India, which could earn the foreign exchange necessary to meet payment requirements and thus justify major investments on their part. The domestic private sector also supports the export of a portion of gas, since it would earn foreign exchange that could help with a number of development objectives. The Government, on the other hand, has understandable concerns over a substantial but exhaustible natural resource. It sees natural gas as destined for the internal market, for power generation and for fertilizer and other gas-based industries.

RMG EXPORTS: A SUCCESS STORY

About 20 years ago, when the principal export of Bangladesh was jute, there were 21 units producing ready-made garments (RMGs) and earning \$3.5 million in exports. By 1999, when jute and jute goods accounted for about 7 per cent of exports, there were 2,700 RMG units earning almost \$4 billion in exports. The industry is estimated to employ around 1.5 million workers, nearly 90 per cent of whom are women, and accounts for 75 per cent of the country's export earnings.

Among the factors contributing to the phenomenal growth of the RMG industry is the Multi-Fibre Arrangement (MFA), set up in 1973. The MFA regulated imports from developing countries in the interests of the textile industry in the developed world. One of its consequences was to provide incentives to major exporters of textiles and clothing to invest in other countries, like Bangladesh, to benefit from their quota allocations. The Uruguay Round Negotiations led to an agreement to phase out the MFA in four stages, to be completed by 1 January 2005.

The ending of the quotas associated with the MFA will create a more competitive environment for the RMG industry, in which its high import dependence (for yarn, fabric and accessories) could be a disadvantage vis-à-vis countries like China, which have more integrated industries. The Government is aware of the challenges facing its star exporter and is implementing a variety of measures to strengthen its 'backward linkages', among other things to attract FDI in the textile industry. (See the chapter on Areas of Opportunity for further details.)

RMG EXPORTS					
FINANCIAL YEAR	TOTAL MERCHANDISE EXPORTS	RMG EXPORTS	GROWTH RATE OF TOTAL EXPORTS	GROWTH RATE OF RMG EXPORTS	RMG EXPORTS AS A PERCENTAGE OF TOTAL EXPORTS
	(\$ millions)	(\$ millions)	(%)	(%)	(%)
1990-1991	1,718	867	12.7	42.3	50.5
1991-1992	1,994	1,183	16.1	36.4	59.7
1992-1993	2,383	1,445	19.5	22.2	60.6
1993-1994	2,534	1,556	6.3	7.7	61.4
1994-1995	3,473	2,228	37.0	43.2	64.2
1995-1996	3,882	2,547	11.8	14.3	65.6
1996-1997	4,418	3,001	13.8	17.8	67.9
1997-1998	5,172	3,784	17.0	26.1	73.1

Sources: Based on UNCTAD, *Least Developed Countries Reports, 1998 and 1999*, and the Government of Bangladesh, Ministry of Textiles.

Infrastructure and Utilities

Infrastructure is weak in Bangladesh. While this is a disadvantage for doing business, it also means that the area offers substantial prospects for investment (see chapter III).

Telecommunication

Until recently, telecommunication in Bangladesh has been characterized by a low teledensity of only 3 telephone lines per 1000 persons, most of them analogue. This is mainly because of the lack of capacity of the state-owned telephone company, the Bangladesh Telegraph and Telephone Board (BTTB). With its opening up to private investment, a number of cellular telephone companies have entered the sector, many in operational partnerships with major international corporations.

There are 125 telephone exchanges with nationwide dialling facilities in Bangladesh. International calls are routed through two trunk exchanges located at Dhaka. Four satellite earth stations provide the international communication link. International direct dialling is offered to subscribers in Dhaka, Chittagong and some other districts. The Government is encouraging private participation to set up card-phone systems and public-call centres to take telecommunication to the grassroots. It is also working on a high-speed data transmission system to facilitate international communication.

To let the sector grow within a sound regulatory and institutional framework, the Government has announced a new National Telecommunication Policy. The policy separates the role of the state-owned BTTB as a *regulator* from its role as a *service provider* (a separation much desired by the private sector in other areas as well).

Mobiles

90 per cent of Bangladesh's 68,000 villages have no access to a phone. But the country is now seeing the birth of a new breed of entrepreneur: 'phone ladies' who make their living out of connecting the poor to the rest of the world. They buy expensive state-of-the-art cellphones, using loans made available by the Grameen Bank, a private company famous for making microloans to villagers to buy cows or build fishponds. It is now trying to provide peasants with a portal on to the digital world. With its new subsidiary, Grameen Telecom, it has launched a programme, which in the past two years has supplied 300 villages with phones. The company hopes that in five years' time everybody in the country will be within two kilometres of a cellular phone.

Source: *The Economist*, October 9th 1999, A Survey of Telecommunications.

COUNTRY	PER 1,000 PEOPLE	TELEPHONE MAINLINES		WAITING TIME YEARS	COST OF TELEPHONE CALLS	
		IN LARGEST CITY PER 1,000 PEOPLE	WAITING LIST THOUSANDS		COST OF LOCAL CALL \$ PER 3 MIN.	COST OF CALL TO U.S. \$ PER 3 MIN.
	1998	1998	1998	1998	1998	1998
India	22	21	145	1.0	0.04	4.80 ^a
Nepal	8	104	2,706	5.8	0.02	5.45
Pakistan	19	69 ^a	215	1.4	0.02	6.51 ^b
Sri Lanka	28	61	298	6.3	0.03	3.53 ^b
		271	284		0.03	4.49

Source: Based on the World Bank, *World Development Indicators*, 2000.
^a Data from 1997. ^b Based on private-sector communication.

Transport

Almost all parts of Bangladesh, even the remote ones, are today connected by a road network. Trucking is a major industry. The railway system is being upgraded through management contracts with private operators. The ultimate goal is to privatize the railway fully.

Biman, the state-owned airline, has a fleet of 11 aircraft and flies to a number of international destinations in Asia, Europe, the Middle East and North America. Besides the International Airport at Dhaka, two more airports, one at the port city of Chittagong and the other at Sylhet in the north-east, are being upgraded to international standards. The domestic air routes have been opened to private competition and several private operators have entered the market, for both passenger and cargo service.

Bangladesh has perhaps the best water transport system in the region, which accounts for two-thirds of cargo transport within the country. Hundreds of rivers criss-cross the land, connecting all parts of the country. The major rivers run to the Bay of Bengal in the south where the Chittagong Port plays the pivotal role in the country's international trade. The port has two container terminals and handles most international cargo. The second sea-port, Mongla Port, is being upgraded. Private container terminals have been planned, with foreign investment, in Chittagong and Dhaka to expand capacity. Progress on making the plans operational has been slow, however, and the existing facilities have suffered from poor industrial relations.

Energy

Energy consumption per capita is low in Bangladesh even by regional standards – less than half of Sri Lanka's and less than a third of India's. Transmission losses are the highest in the region, around 30 per cent. 'Load-shedding' is common. The lack of reliable sources of energy is a major problem for the private sector and private generators are required to cope with shortages. Installed capacity is around 3,200MW. Private investment is welcome in the power sector and several barge-mounted plants are now operational.

Bangladesh has huge reserves of natural gas, with proven reserves around 11 trillion cubic feet (tcf) and estimated reserves very much higher. A number of foreign firms, including Unocal, Shell and Cairn Energy, are active in exploring and developing these reserves. Gas is used for fertilizer production as well as power generation. Both the World Bank and the Asian Development Bank are financing projects in gas distribution and electricity transmission.

COUNTRY	ELECTRIC POWER				PRODUCTION AVERAGE ANNUAL % GROWTH
	CONSUMPTION PER CAPITA KWH		TRANSMISSION AND DISTRIBUTION LOSSES % OF OUTPUT		
	1980	1996	1980	1996	
	16	97	35	30	
India	130	347	18	18	8.6
Nepal	13	39	29	28	11.1
Pakistan	125	333	29	23	8.9
Sri Lanka	96	203	15	17	6.5
South Asia Average ^a	116	313	19	19	8.6

Source: Based on the World Bank, *World Development Indicators, 2000*, and *World Development Report 1999/2000*.

^a South Asia Average also includes Afghanistan, Bhutan and Maldives.

Human Resources

The Bangladeshi workforce is one of the country's principal assets. It arouses considerable enthusiasm among business people, both foreign and domestic, with some qualifications. It is seen as enthusiastic, flexible, hard-working and trainable. It is also seen as poorly trained. Wages are low in Bangladesh, even by regional standards. Wage rates vary but the BOI's *Investing in Bangladesh* estimates the remuneration of unskilled workers at about \$50 p. m., that of semi-skilled workers at \$60 p. m. and that of skilled workers at \$70 p.m. Something over 40 per cent of this consists of benefits, mainly forms of pension benefits: provident fund and gratuity.

The normal work-week consists of five days, with Friday and Saturday as the weekly holidays. However, much of the private sector works on Saturdays. The normal work-day is eight-and-a-half hours, which includes half an hour for lunch. Overtime work generally requires a double wage. Salaried workers are usually entitled to 30 days of annual leave and 15 days of casual leave.

TABLE XII: LABOUR COST COMPARISONS IN THE TEXTILE INDUSTRY, 1998

COUNTRY	AVERAGE COST PER OPERATOR HOUR \$	OVERTIME OVER NORMAL PAY		SHIFT PREMIUM	
		weekdays more than 3 hours %	national and religious holidays %	second shift %	night shift %
		67	63	6	28
China	0.62	150	200	4	10
India	0.60	164	54	2	7
Pakistan	0.40	20	20	0	0
Philippines	1.12	45	170	10	15
Sri Lanka	0.49	25	50	0	25

Source: Based on Werner International Management Consultants, *Spinning and Weaving Labour Cost Comparisons, Spring 1998*.

TABLE XIII: LABOUR FORCE STRUCTURE

COUNTRY	TOTAL LABOUR FORCE millions 1998	AVERAGE ANNUAL GROWTH RATE % 1980-98	FEMALE % of labour force 1998
	64		42.3
India	431	2.0	32.1
Nepal	11	2.3	40.5
Pakistan	49	2.9	27.7
Sri Lanka	8	2.2	36.2
South Asia Average ^a	..	2.1	33.1
South Asia Total ^b	563	..	..

Source: Based on the World Bank, *World Development Indicators, 2000*.

^a South Asia Average also includes Afghanistan, Bhutan and Maldives.

^b South Asia Total does not include Afghanistan, Bhutan and Maldives.

Workers are entitled to elect collective bargaining agents (CBAs) to negotiate their demands with management. A trade union may be formed if 30 per cent of employees support it. All trade unions need to be registered. Where there is more than one union in a plant, the Registrar of Trade Unions selects the CBA through a secret ballot for a two-year period. In the event of a failure of agreement between labour and management, either side may seek government intervention. (This is not required and the government does not often intervene.) The labour court, in the event of a submission to it, tries to resolve the dispute taking labour legislation as well as ILO conventions into account. There are 47 labour laws, covering such matters as wages, industrial disputes, working conditions, et al., among which are the following:

- Workmen's Compensation Act, 1923
- Payment of Wages Act, 1936
- Maternity Benefit Act, 1936
- Employment of Labour (Standing Orders) Act, 1965
- Shops & Establishments Act, 1965
- Factories Act, 1965
- Industrial Relations Ordinance, 1969

Employment of foreign nationals is permitted as long as the numbers do not exceed 15 per cent of total employees. A work permit is required and is issued for a one-year period by the BOI. It is renewable on the basis of the merit of each individual case. A significant number of technical and management personnel work in the export-processing zones.

Hartals

Hartals are political strikes intended to disrupt the normal functioning of society, typically for a day. In 1999, they numbered 27. This is a mode of protest against the government with a long history in South Asia and has been used often in Bangladesh in the 1990s by the party in opposition. A *hartal* bans most motorized transport on the day it is in effect but people do manage to move about and get to work. Some private-sector sources estimate the cost to the economy at up to \$50 million per day. There is now considerable pressure from business, the media and others to discard this particular mode of protest and the Prime Minister has recently announced that her party would not call hartals in the future. The main opposition, the BNP, had not reciprocated by mid-August 2000.

Taxation

As elsewhere in the region, the tax base is narrow in Bangladesh and the revenue comes mainly from indirect taxes. There are three income-tax rates, applicable to income above Tk 100,000 (\$1,850) p.a.: 10 per cent on the first TK 50,000 over the tax-exempt 100,000; 18 percent on the next TK 125,000; and 25 per cent on the balance. Salaries of foreign technicians are exempt from tax for a period of three from the date of their arrival in Bangladesh when their salaries are for services provided under a contract approved by the National Board of Revenue either before commencement of employment or within one year of commencement. A technician in this context is a person with specialized knowledge and experience in the industrial arts and sciences.

The corporate tax rate is 35 per cent for publicly traded companies and 40 per cent for all other companies. Corporate tax rates are competitive within the region.

Capital gains from the transfer of shares of public limited companies listed with a stock exchange are tax-exempt. In computing capital gain, deductions are made from the full value or sales proceeds or the fair market price, whichever is higher, of the capital assets.

Dividend income in respect of shareholders other than companies is tax-exempt. This benefit is not, however, available to shareholders of private limited companies. Royalties and technical know-how fees received by any foreign collaborator, firm, company or expert are also tax-exempt.

Bangladesh has mostly replaced the erstwhile sales and excise taxes by the more modern value added tax (VAT). The VAT is imposed at a flat rate of 15 per cent. A number of commodities and services at the retail level have already been brought under its coverage, which is being extended on an ongoing basis. Excise duties do exist on a few items like the home-made *bidi* (cigarettes) and a turnover tax is imposed on some small-scale activities which remain outside the purview of the VAT.

TABLE XIV: TAX RATES IN SOUTH ASIA

COUNTRY	CORPORATE TAX	BRANCH TAX	CAPITAL GAINS TAX
BANGLADESH	35-40^a	40	25
India	35	48	20
Pakistan	43	43	43
Sri Lanka	35	35	25 ^b

Sources: Ernst & Young, (www.doingbusinessin.com), 2000, and Government of Bangladesh, National Board of Revenue.

a 35: Publicly traded, 40: Not publicly traded.

b Rates vary; 25 per cent is the maximum.

The Private Sector in Bangladesh

With the new, market-oriented, direction of economic policy, the private sector is now the major source of investment in the country. The Government has decided to make no new investment in the manufacturing sector, barring the reserved areas (defence, forestry, nuclear power and security printing). Public investment is now mainly going into the modernization and renovation of existing state-owned ventures with a view to making them viable for privatization. Currently, the share of aggregate investment in Bangladesh is a little above 18.5 per cent of GDP, of which the public sector accounts for less than 38 per cent.

Relations between the foreign and domestic private sectors are positive. While they compete with each other in certain product markets, in many instances they have also developed a healthy partnership in the supply of raw materials, the marketing of products and other activities. Sub-contracting arrangements are common.

Foreign companies buy packing materials and product components from local firms, which in turn depend on foreign firms for their raw materials (e.g., textiles). Many local companies supply accessories to foreign-owned RMG factories in the EPZs. Foreign and joint-venture firms in the leather industry buy raw materials from local tanneries.

As for the foreign private sector, as noted above, FDI inflows have risen in Bangladesh in the 1990s, as elsewhere in South Asia. *Approved* investment in FDI projects including joint-ventures, registered in 1997 and 1998, totals nearly \$4.5 billion. The primary attraction is Bangladesh's gas reserves. Other areas of proposed or implemented investment are container ports, airports, hotels, and composite textile mills. Among the main home countries of foreign investors are the United States, Japan, Malaysia, the Republic of Korea, Singapore, India, China and the United Kingdom. Foreign investors have their own association, the Foreign Investors' Chamber of Commerce and Industry (FICCI), which currently has 120 members.

Business Associations

Bangladesh has a substantial number of business associations which play an important role in the economy. The Federation of the Bangladesh Chambers of Commerce and Industry (FBCCI) is the apex body of the country's trade bodies. It holds consultative meetings with the Government, makes representations on policy matters, and provides advisory services to investors. FBCCI is also the body that advises the Government on budgetary measures on behalf of the private sector.

Other influential bodies include the Dhaka Chamber of Commerce and Industry (DCCI), the Metropolitan Chamber of Commerce and Industry (MCCI), the Foreign Investors' Chamber of Commerce and Industry (FICCI) and the International Chamber of Commerce – Bangladesh (ICCB). The basic objectives and principal activities of these bodies are broadly similar: they support market-oriented reforms, provide inputs into proposed policies and legislation from a business perspective, and serve as forums for the exchange of views among members and guests.

The MCCI was founded in 1904 and counts among its members not only the major local and foreign business entities but most public-sector corporations as well. It also serves as the secretariat of the Bangladesh Employers' Federation (BEF). The DCCI, like the MCCI, offers an arbitration service for trade disputes. It also issues Certificates of Origin (CO) and authenticates export documents.

The FICCI was founded in 1963 in Chittagong and moved to Dhaka in 1987. It is a service-oriented association of companies with more than 50 per cent of their equity in foreign hands. Its purpose is to serve the interests of its members, who numbered 120 in mid-2000, in the broad context of promoting the growth of trade, commerce and industry. ICCB was founded in 1995. Its objectives are the objectives of the Paris-based ICC (founded in 1919) generally: to promote an open international trade and investment system and the market economy. Its membership of 91 includes domestic as well as foreign firms and among its main activities are those of its nine standing committees on such issues as competition, insurance and taxation.

Representatives of the business community sit on many committees set up by the Government and their representatives are included in government delegations abroad. Collectively, the community's clout and its ability to affect policy changes is greater than at any time in the past.

Source: UNCTAD-ICC.

Investment Climate: Key Factors for Foreign Investors

Strengths

- A largely homogeneous society with no major internal or external tensions and a population with great resilience in the face of adversity (e.g., floods).
- Broad non-partisan political support for market-oriented reform and perhaps the most investor-friendly regulatory regime in South Asia.
- Trainable, enthusiastic, hardworking and low-cost (even by regional standards) labour force.
- Potentially significant market, especially with potential access to South Asia.

Weaknesses

- Large perceived gap between good policies and weak implementation (as illustrated, for example, by the pace of privatization).
- Low levels of skills and training in the workplace.
- Unreliable power supply and poor transport and communication infrastructure.

Opportunities

- Natural gas exploration – proven reserves of 11 trillion cubic feet and estimated reserves of up to 50 tcf.
- Infrastructure, including power generation, transmission and distribution; telecommunication, including cellular telephony; and upgrading of ports, railways and airports.*
- Fisheries, agro-processing, textiles, leather goods and light manufacturing generally.
- Health, education and other services including software services.

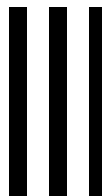
* Multilateral and bilateral financing may be available for infrastructure projects.

Threats

- Periodic flooding and cyclones.
- Law and order problems, including *hartals* (political strikes).
- Anticipated end in 2005 to the export quotas provided under the Multi-Fibre Arrangement (MFA) to the ready-made-garment (RMG) industry, currently the principal foreign-exchange earner.

“Bangladesh presents a rare opportunity for investment and a mixed climate for it. A large population and impressive economic growth over recent years have been matched by liberal investment policies and a willing and trainable workforce. If these assets could be matched by a more streamlined bureaucracy and more transparent governance, the investment potential could be huge.”

*James W.S. Ashworth
Managing Director
Shell Marketing Bangladesh Limited*



Sectors

Investment opportunities in Bangladesh might be seen as falling into two broad categories: areas in which Bangladesh offers substantial resource advantages and areas in which it has strong needs. In the first category are opportunities related to natural gas, fisheries, and low-cost labour. In the second are opportunities in the upgrading of infrastructure: power, telecommunications, ports, roads and railways. In the latter category, financing is often available from multi-lateral and bilateral sources.

Natural Gas

Proven gas reserves are in excess of 10 trillion cubic feet (tcf). Industry estimates put probable reserves much higher. The Shell Bangladesh estimate is 38 tcf; others go as high as 50 tcf. A number of foreign firms are currently involved in gas exploration: Cairn Energy, Occidental, Shell, Unocal, et al. Of the \$308 million in FDI flows that Bangladesh received in 1998, more than half was in the gas sector.

There are about twenty gas fields, discovered over the past four decades, most of them in eastern Bangladesh. There is also a major offshore field, Sangu, being developed by a consortium of foreign firms. Bangladesh currently produces about 900 mcf of gas per day of which about 150 mcf is from Shell, 100 mcf from Unocal and the rest from Petrobangla, a state-owned enterprise. Official growth figures for gas production are 7 to 10 per cent per annum. Private sector estimates are that demand growth is unlikely to exceed 3 per cent per annum. Contracts with foreign firms have thus far been on a production-sharing basis. About half the natural gas blocks are to be developed on this basis. Two licensing rounds have been held thus far. There may be further bidding rounds as there are blocks still unassigned. Gas transmission also offers opportunities for investment, as many parts of the country are not served by the existing pipelines. The existing facilities themselves need to be modernized. The World Bank and the Asian Development Bank are providing funding for projects related to gas distribution.

Electricity

Although installed capacity is around 3,200 MW, peak production is only around 2,200 MW, while peak-hour demand is 3,000 MW and increasing rapidly. Breakdowns are common and investment to bridge the gap and meet growing demand is badly needed. The Private Sector Power Generation Policy was announced in 1996, under which private power companies are exempt from income tax for 15 years. Several barge-mounted power plants are now in operation which have a capacity of around 300 MW. Firms from the United States, France, Japan and Malaysia are among those currently involved in the power sector. Opportunities exist in developing new plants (barge-mounted and other, large, small and mini), constructing transmission and distribution systems, rehabilitating or upgrading existing plants, and supplying a variety of support services, including engineering and consulting, as well as equipment of various kinds. Some opportunities are available on a build-operate-transfer (BOT) basis.

Telecommunications

Telecommunication is a major priority in Bangladesh. Less than half a million fixed lines currently serve a population in excess of 120 million. The majority of these lines use analogue switches and call connection is poor. To some extent, urban needs are currently being met by companies, both local and foreign, providing mobile service. Seven private operators were providing services to 100,000 customers in 1999. 300,000 digital lines are to be added in Dhaka through private participation. The unmet need, in both quantity and quality, remains huge. The Bangladesh Telegraph and Telephone Board, an SOE, stopped being a monopoly when Bangladesh began to liberalize some ten years ago and may be privatized in the foreseeable future. Upgrading telecommunications is important to Bangladesh not only to meet individual and business demand but because the country has declared information technology a thrust sector. Without an adequate and cost-competitive telecom infrastructure, any serious development of the IT sector will remain unlikely. Opportunities exist in supplying equipment, installing digital lines, and upgrading the existing transmission network. Some are available on a BOT basis.

Textiles and Leather

The highly successful ready-made-garments (RMG) industry in Bangladesh, which accounts for 75 per cent of exports, is itself heavily dependent on imported inputs of yarn and fabric. If this dependence is to be reduced, substantial investment in backward linkage facilities – spinning, weaving, knitting, dyeing – will be required. Government estimates of the total investment needed by the end of the fifth five-year plan in 2002 are \$7.7 billion.

In 1998-99, the total demand for yarn and fabrics (domestic and export) was 531 million kgs and 3,722 million metres respectively while total production was only 147 million kgs and 1,424 million metres, leaving a demand gap of 384 million kgs of yarn and 2,298 million metres of fabric. To meet production targets by 2002, Bangladesh may need over 170 spinning units (with 25,000 spindles each), over 200 weaving units (with 200 shuttleless looms each) and over 200 dyeing and finishing units. A variety of policy measures have been announced to increase investment, including the privatization of a number of textile mills. Various projects to upgrade the six Institutes of Textile Engineering and Technology and the 28 Textile Vocational Schools under the Ministry of Textiles are in progress. The World Bank, through the IDA, is also funding a pilot project to strengthen the silk industry in Bangladesh, in which the country has a long history and agro-climatic advantages. A Silk Foundation governed by stakeholders is to be set up and will be responsible for implementing the project.

Bangladesh is estimated to have 1.8 per cent of the world's cattle stock and 3.7 per cent of its goat stock and is an important exporter of hides and skins. The leather industry thus has considerable potential, especially in footwear, given the availability of low-cost labour. Investment is required to upgrade technology, train labour and expand the leather goods industry, in particular footwear.

Jute Goods

Although jute no longer plays the role in Bangladeshi exports that it once did, the country remains the world's second largest producer of this natural fibre. Traditionally, jute has been used principally as packing material. Today, it may have a more diversified future through the use of new technologies and processes developed by the International Jute Organization in co-operation with national and international research institutes. Among the new products that might be developed from jute are products made by blending jute with cotton and other fibres: curtains, mattress covers, soft luggage bags, et al. Jute can also be reinforced with plastic to produce moulded products and can be used as input for paper pulp. In an environmentally more conscious age, this cheap annual crop may have a new potential.

Fisheries and Food

Fisheries are another area in which Bangladesh is blessed with very substantial natural resources, including both coastal and offshore waters as well as inland waters such as ponds, canals and rivers. Shrimp and fish are an important export item and, although fisheries do not come anywhere near RMGs as a foreign-exchange earner, the sector employs almost as many people as the RMG industry does. The Government is promoting semi-intensive shrimp farming and fish farming more generally is a growing industry. There are thus significant opportunities for foreign investors in hatcheries, feed meal plants and, in particular, to add value by processing seafood products for exports. This would require upgrading of quality standards in freezing, packaging and the like.

Fertile land and ample water allow Bangladesh to produce a variety of crops. Fruit and vegetable production has increased significantly in recent years and offers considerable export potential. The United Kingdom in Europe and a number of countries in the Middle East are currently important destinations for these products. Foreign investment could play an important role in upgrading export quality, especially in packaging and storage, which are often inadequate, and in providing access to new consumer markets.

Information Technology

Computer software, data entry and management, electronic communication, and related activities constitute one of the sixteen 'thrust areas' in which Bangladesh wishes to attract FDI. Thus far, investment has been limited. In part, this is a reflection of the poor telecom infrastructure that makes data transmission difficult, in part, a consequence of a lack of trained personnel. (With respect to software, there is also the requirement of adequate protection of intellectual property rights, an issue of some importance in other areas of FDI as well.) Although Bangladesh is thought to have considerable latent talent in computer programming, the current pool of trained talent is limited. There may nonetheless be niche markets that can be exploited, e.g., health care claims.

Other Areas

Given the availability of trainable, low-cost labour, Bangladesh has enormous unused potential in electronics and light manufacturing. There is already a foreign presence in electronic goods which could be significantly strengthened. There are also opportunities in tools, toys and paper products. Firms from a number of Asian economies – Hong Kong (China), Japan and the Republic of Korea – are already beginning to exploit these opportunities.

“The processed food industry in Bangladesh is at an early stage of development and the government is commendably supportive of further growth. The challenge for increasing FDI in our sector is to assure quality raw materials at competitive prices and find the right balance of duty levels between raw materials and finished goods. With improved enforcement of manufacturing quality standards and effective protection of intellectual property rights, an investor can certainly achieve long-term, sustainable and profitable growth in Bangladesh.”

*Aldo Siegrist
Managing Director
Nestlé Bangladesh Limited*

Special Zones and Sources of Finance

The Bangladesh Export Processing Zones Authority (BEPZA) was created in 1980. The Authority is entrusted with the development, management and control of the EPZs in the public sector.

Two EPZs are currently in operation: one in the port of Chittagong and the other in Savar near Dhaka. The Chittagong EPZ started operation in 1983 and the Dhaka EPZ in 1993. Four other EPZs are being created, two of which, at Mongla and Ishurdi, may become operational in 2000. In accordance

with a law passed in 1997, private EPZs are now allowed and the first private EPZ, operated by the Youngone Corporation of the Republic of Korea, is expected to begin operations in Chittagong towards the end of 2001. All fiscal and other benefits and facilities available to investors in public EPZs will also be available in this private EPZ, which is expected to emphasize investment in high-technology, agro-based, and textile-linkage industries.

The incentive package offered by BEPZA is highly competitive. The main facilities and incentives offered are as follows.

Facilities

- Secured and protected industrial area,
- Land and factory buildings for rent,
- Electricity, telecommunication, gas and water facilities,
- Export and import permits issued in one day,
- Work permits for foreign nationals,
- Recreational facilities for foreign nationals, and
- Just one authority (BEPZA) to deal with for all operational purposes.

Incentives

Fiscal

- Tax holiday for 10 years,
- Exemption of income tax on interest on borrowed capital,
- Relief from double taxation subject to bilateral agreements,
- Complete exemption from dividend tax for 3 years subject to certain conditions,
- Exemption of income tax on salaries of foreign technicians for 3 years subject to certain conditions,
- Duty-free import of machinery, equipment and raw materials,
- Duty-free import of three motor vehicles under certain conditions,
- Duty-free import of materials for constructing factory buildings, and
- Duty-free export of goods produced in the zones.

Non-Fiscal

- Project expansion and product diversification without permission,
- Off-shore, local and international banking facilities,
- Freedom from national import policy restrictions,
- Expeditious import of raw materials on Documentary Acceptance (DA) basis,
- Back-to-back L/C for the import of raw materials in certain industries,
- Import of goods from the Domestic Tariff Area (DTA),
- Option to sell 10 per cent of output to the DTA under certain conditions,
- Option to relocate existing industries from abroad,
- Option to relocate from one zone to another,
- Option to sub-contract within the zone,
- Inter-zone and intra-zone export,
- Customs formalities carried out at enterprise site,
- Liberal allowance of expatriate employment (technicians/experts),
- No unions or strikes, and
- Equal rights with Bangladeshi nationals for foreign employees.

An investor can also set up a small or medium-sized enterprise on the industrial estates maintained by the Bangladesh Small and Cottage Industries Corporation (BSCIC) if the investment does not exceed Tk 100 million (\$2 million). These estates, intended to promote decentralized industrialization, offer land and utility services to investors in almost all district headquarters.

Sources of Finance

The main sources of finance for infrastructure development are multilateral. The World Bank is establishing a Private Sector Infrastructure Development Fund (PSIDF) to provide limited long-term debt financing to selected projects in energy and other infrastructure. The financing is to be administered by the Infrastructure Development Company Limited (IDCOL) on behalf of GOB. The project is expected to contribute to the addition of 800-plus MW of thermal power generation capacity in the private sector, as well as help develop private port facilities and water supply facilities. Total financing by PSIDF will be close to \$250 million. The Asian Development Bank (ADB) is funding the Dhaka Power Systems Upgrade Project which will complete the 230 KV ring around Dhaka city, strengthen the 132 KV network and upgrade distribution in the Dhaka area. The loan amount is \$157 million. The ADB is also funding a Gas Sector Development Project in the amount of \$170 million to help implement sector reforms and catalyze commercial funds for the north-south line expansion.

Bilateral development agencies may also be sources of finance, especially for such activities as feasibility studies, e.g., DANIDA (Denmark), CDC (United Kingdom), CIDA (Canada), FMO (the Netherlands). In addition, a number of institutions set up by the Government of Bangladesh, often with support from multilateral institutions, may be of financial and related assistance. These include the Infrastructure Development Company Ltd (IDCOL), the Industrial Promotion and Development Company (IPDC) and the Industrial Development Leasing Company (IDLC).

Institutional Framework

Unless an investor is setting up operations in one of the export-processing zones or industrial estates, the Board of Investment is the investor's point of contact (see box on page 8).

The legal regime for FDI is based on the *Foreign Private Investment (Promotion and Protection) Act of 1980*, which provides for non-discriminatory treatment, protection against expropriation, and repatriation guarantees. Other relevant acts are the *Bangladesh Export-processing Zones Authority Act of 1980*, the *Industrial Policy of 1999* and the *Companies Act of 1994*. The Government has also recently created a Money Loan Court and a Bankruptcy Court to deal with debt default. Disputes involving the Government, if they cannot be resolved in Bangladeshi courts, may be referred to the World Bank's International Centre for Settlement of Investment Disputes.

The box below provides a broad picture of current FDI policy as given in the Industrial Policy 1999.

Industrial Policy 1999: On Foreign Investment

1. The policy framework for foreign investment in Bangladesh is based on Foreign Investment (Promotion and Protection) Act, 1980, which provides for non-discriminatory treatment between foreign and local investment; protection of foreign investment from expropriation by the State; and ensured repatriation of proceeds from sale of shares and profit.
2. Foreign investment, with particular preference to foreign direct investment, will be encouraged in all industrial activities in Bangladesh including service industries and toll manufacturing, excluding those in the list of "Reserved Industries" and RMG, banks, insurance companies and other financial institutions. (See appendix 2). Such investments may be undertaken either independently or through joint ventures, either with the local private or public sector. The capital market will also remain open for portfolio investment.
3. For foreign investments in Bangladesh, there will be no limitation pertaining to equity participation, i.e., 100 per cent foreign equity will be allowed. Fully foreign-owned firms or joint ventures will in no way be obliged to sell their shares through public issues, irrespective of the amount of their paid-up capital. However, foreign investors and companies with foreign investments will be eligible to buy shares through the stock exchange and their participation will be guided by framing appropriate rules. Foreign investors or companies may obtain full working capital loans from local banks. The terms of such loans will be determined on the basis of bank-client relationships.
4. Foreign entrepreneurs will enjoy the same facilities as the domestic entrepreneurs in respect of tax holidays, payment of royalty, technical know-how fees, etc. A foreign technician employed in a foreign company will not be subjected to personal income tax for up to three years, and beyond that period his/her personal income tax payment will be governed by the existence or non-existence of an agreement on the avoidance of double taxation with his/her country of citizenship.
5. Full repatriation of capital invested from foreign sources will be allowed. Similarly, profits and dividends accruing to foreign investments may be transferred in full. If foreign investors reinvest their reportable dividends and/or retained earnings, those will be treated as new investment. Foreigners employed in Bangladesh are entitled to remit up to 50 per cent of their salary and will enjoy facilities for full repatriation of their savings and retirement benefits.
6. The process of issuing work permits to foreign experts on the recommendation of investing foreign companies or joint ventures will operate without any hindrance or restriction. Multiple-entry visas will be issued to prospective foreign investors for three years. In the case of experts, multiple-entry visas will be issued for the whole tenure of their assignments.
7. Foreign investment in the "thrust sectors", particularly in small industrial units, will be given priority in the allocation of plots in BSCIC Industrial Estates.
8. Investment by non-resident Bangladeshis will be treated on a par with foreign direct investment.
9. Measures will be taken to protect the intellectual property rights of new products and processes.
10. Investment guarantees and dispute settlement will be guided by international arrangements and provisions.

Source: Based on 'Industrial Policy 1999', *Investing in Bangladesh: A Guide to Opportunities*, Board of Investment, 1999.

Membership in International Agreements

Bangladesh is a founding member of the World Trade Organization. It is also a member of the Multilateral Investment Guarantee Agency (MIGA), an arm of the World Bank that insures foreign investors against political risks such as expropriation, inconvertibility and war damage. MIGA's guarantee programme is operational in Bangladesh. The country has signed the World Bank's Convention on the Settlement of Investment Disputes between States and Nationals of Other States, which provides for the international arbitration of disputes with foreign investors. Bangladesh is a member as well of the World Intellectual Property Organization's permanent committee on development co-operation related to industrial property.

In addition, Bangladesh is a member of several regional organizations, one of which, SAARC, and its off shoot SAPTA, have already been mentioned (under Market Size and Access in the chapter on The Investor's Environment). Other organizations that the country has joined are BIMSTEC (Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Co-operation) and D-8 (involving Bangladesh, Pakistan, Egypt, Malaysia, Indonesia, Turkey, Nigeria, and Iran). Bangladesh is also looking for sub-regional opportunities by involving itself with the 'Development Quadrangle' which includes Nepal, Bhutan, East and North-East India and Bangladesh. Such 'growth zones' have proved successful in other regions of Asia, e.g., the SIJORI Growth Zone which includes Singapore, the Johor state of Malaysia and the Rio Island of Indonesia.

Bangladesh has also entered into a number of investment and taxation agreements, as indicated in the table below.

TABLE XV: BITs AND DTTs

Bilateral treaties on investment promotion and protection (BITs), as well as bilateral treaties for the avoidance of double taxation (DTTs), have been concluded by Bangladesh with a number of countries.

BITs	
Belgium	Pakistan
China	Philippines
France	Poland
Germany	Republic of Korea
Indonesia	Romania
Iran	Switzerland
Italy	Thailand
Japan	Turkey
Malaysia	United Kingdom
Netherlands	United States
Belgium	Netherlands
Canada	Pakistan
China	Poland
Denmark	Republic of Korea
France	Romania
Germany	Singapore
India	Sri Lanka
Italy	Sweden
Japan	Thailand
Malaysia	United Kingdom

Source: Board of Investment of Bangladesh: *Investing in Bangladesh: A Guide to Opportunities*, 1999.

Entry and Exit

Basic Approval Procedures

Screening, Registration and Authorization

All FDI needs to be registered. If the business is to be set up in an EPZ or industrial estate (see section on EPZs in the preceding chapter), registration must take place with BEPZA or BSCIC. If the business is to be set up elsewhere, it must register with the BOI. A manufacturing firm employing ten or more workers must also register with the Chief Inspector of Factories and Establishments. Pre-registration clearance is required for investment in the following areas: ready-made garments, banks, insurance companies, and other financial institutions. (FDI is discouraged in these areas.)

All industrial and other projects that may be potentially polluting are required, in accordance with the Environment Conservation Act 1995, to undertake some form of environmental impact assessment. Environmental clearance must be obtained from the Department of the Environment. The process takes 15 days for projects with low levels of potentially adverse impact and 30 days for projects with significant impact.

Any entrepreneur, either local or foreign, can set up a business in collaboration with a public-sector corporation. These joint ventures are required to be registered with the BOI if the private sector's contribution is more than 50 per cent of the project cost. In such cases, the ventures are treated as private-sector projects. For a public-sector enterprise which contributes to the venture out of its own fund, approval is required from the ministry concerned. If the contribution of the SOE is 50 per cent or above, the project is treated as a public-sector project. It is then processed by the ministry concerned for approval by the Planning Commission.

Incorporation and Related Requirements

Business may be carried out in Bangladesh by a company incorporated locally or by a company incorporated abroad but registered in Bangladesh. The incorporation or registration is done by the Registrar of Joint Stock Companies and Firms. Companies are incorporated and registered under the provisions of the Companies Act, 1994, which provides company directors with the authority to manage their company. There are three kinds of companies: a) companies limited by shares, b) companies limited by guarantees, and c) unlimited companies.

There are two broad categories of companies limited by shares, the public and the private. A private limited company is restricted in its rights to transfer its shares and also limited in the number of its members from a minimum of 2 to a maximum of 50, excluding persons employed in the company. A private company may *not* invite the public to subscribe to the shares or debentures of the company.

On the other hand, a public limited company offers shares and debentures to the public through a prospectus which complies with the requirements of the Companies Act of 1994 and the Securities and Exchange Commission Act of 1993. The minimum number of members for a public limited company is seven. A company can be formed as a public limited company to begin with or can be converted from a private into a public company. Publicly traded companies pay a lower rate of corporate tax – 35 per cent rather than 40 per cent.

Forms for incorporation and registration are available with the office of the Registrar of Joint Stock Companies and Firms. Nominal fees are charged for registering the Article of Memorandum of a proposed company.

Regional or Zonal Restrictions

There are no regional or zonal restrictions on investment. Anybody can invest in any part of the country, excepting the areas earmarked for the armed forces or declared environmental preserves (e.g., the mangrove forests in the Sunderbans). Conversely, the availability of investment incentives including tariff concessions and tax-holiday periods varies according to location, with the less developed regions providing the best offer.

Building and Related Permits

Investors requiring industrial plots to set up factories in areas outside of the BEPZA zones and BSCIC estates may approach the BOI for assistance. For this, they need to be registered and to have an industrial lay-out plan to justify actual requirements. After receiving complete applications, the BOI will provide assistance in acquiring industrial plots.

Most industrial areas or estates in Bangladesh are owned or controlled by the city development authorities, e.g., RAJUK, the capital city development authority, in the case of Dhaka. There are also a few industrial estates owned and controlled by other government agencies, e.g., the Public Works Department or the Housing and Settlement Directorate. Firms can also rent custom-made premises in the EPZs.

Investors need to have the designs of their buildings approved by the city development authorities. They also need to get clearance from the Department of the Environment that mandates appropriate arrangements for anti-pollution and safety measures. For utility services, investors may apply directly to the authorities concerned or approach the BOI for assistance.

Expatriate Employees

Any foreign or local investor who wants to employ foreign nationals must apply in advance to the BOI on prescribed forms. Employment of foreigners is allowed only when local experts or technicians are not available to do the job. Moreover, an industrial unit is required to limit the number of foreign employees to a maximum of 15 per cent of its total workforce including its senior management.

Privatization, Limitation, Exclusion

The scope of the privatization programme is being increased to cover service enterprises, along with those in manufacturing. Only four sectors are reserved *exclusively* for public-sector investment: the manufacturing of arms and ammunitions and other defence equipment, the production of nuclear energy, security printing (currency notes) and minting, and forest plantation and mechanized extraction within the bounds of reserved forests.

Acquisition and Access

There is no barrier to the acquisition of local enterprises by foreign investors. Foreign investors may also buy enterprises earmarked for privatization. As for access to sectors and industries, foreign investment is encouraged in all industrial activities excluding the four reserved industries and ready-made garments, banks, insurance companies and other financial institutions. (See appendix 2.) Such investment may be undertaken either independently or through joint ventures with the local private or public sector.

Performance requirements

Local Content Requirements

There is no general local-content requirement for foreign investment in Bangladesh. Industries are free to use raw materials procured locally or from outside the country at competitive prices. However, in the case of the pharmaceuticals industry, raw materials of some drugs have to be locally procured. The Government also encourages the use of local raw materials in garments and some other non-traditional exports by providing either cash compensation or duty-drawback facilities applicable to the export item.

In this context, it should be noted that, as a least developed country (LDC), Bangladesh offers the benefits associated with the Generalized System of Preferences (GSP) to importers in developed countries when the share of raw materials is 60 per cent or more.

Technology-transfer Requirements

There are no general technology-transfer requirements which are binding on all FDI. Certain specific requirements do exist. For example, contracts signed with foreign oil companies stipulate the transfer of technology to the national oil company, Petrobangla.

Environment-related Requirements

Investors need to conform to certain environmental safety standards to get clearance certificates from the Department of the Environment (DOE). These include appropriate water-treatment plants, air-pollution-controlling devices, noise-pollution and safety measures, et al. For example, export-oriented shrimp factories need to conform to the HACCP requirements. The DOE has classified industrial activities into three categories: 'Green', 'Yellow' and 'Red', with the environmental safety standards becoming stricter in ascending order.

All project proposals must include appropriate environmental impact assessment (EIA) and pollution-control measures. Existing industries with possibly negative implications for the environment or public health will be required to take corrective measures. No venture that poses a threat to wildlife is permitted.

Exit

An investor can wind up an investment either through a decision of the annual general meeting or an extraordinary general meeting. The company must inform the public through the Government gazette or a newspaper within ten days of taking such a decision.

The directors of the company must agree to pay off any liabilities of the enterprise within three years of the winding up and this agreement must be backed by an auditor's report. The company can appoint liquidators to pay off its liabilities. After completing the task, the liquidator must prepare a report on the liquidation process and explain how liabilities have been paid off. This report should be submitted to the Registrar of Joint Stock Companies.

On the other hand, a company can opt for a court intervention to wind up its operations, in the absence of the annual general meeting or the extraordinary general meeting. The court can also wind up a company if it fails to pay off its liabilities. Foreign investors have the right to sell their concerns to local entrepreneurs. Once a foreign investor completes the formalities to exit the country, (s)he can repatriate the sales proceeds or the balance after securing proper authorization from the Bangladesh Bank. Fully documented applications are disposed of promptly. No approval by the Bank is required for the repatriation of portfolio investment.

Other Issues

Minimum Wage

Bangladesh has no law mandating a minimum wage for industrial labour. However, there are some sector-specific minimum wages (e.g., in textiles) negotiated through a tripartite consultative process. A national minimum wage may be instituted in the near future, though this is not expected radically to alter the wage structure.

Local Capital Sources

Bangladesh has a large number of banks, including both state-owned (4) and private (28) commercial banks and foreign (13) banks. There are also 5 specialized banks, which are state-owned institutions for development finance. In addition, there are 18 leasing and finance companies, including the three mentioned under Sources of Finance in the previous chapter, as well as other co-operative, public and specialized institutions.

The banking industry has suffered from a high percentage of non-performing loans, although the Government has now considerably strengthened prudential supervision and tightened standards of loan classification and provision. The incidence of non-performing loans has thus fallen in the late 1990s among the private commercial banks from over 40 to under 30 per cent, although it has risen among the state-owned ones.

Foreign investors have access to local capital sources. Trade finance, term loans and working capital are easily available, especially to major foreign investors. Interest rates vary from 9 to 16 per cent.

Real Estate

Investors can buy or lease land or buildings either from the government or from private parties. Purchasing land from private hands may be risky unless the ownership is properly checked. The safest method is to purchase land from the Government or to set up in Government-designated industrial zones. Transfer of ownership requires the purchase of Government stamps for legal authorization. Once land is purchased, there is no restriction on its transfer or sale.

Ownership, Property and Management Control

There is no general restriction on equity participation, acquisition of property or management control by a foreign firm.

Ownership

Bangladesh welcomes foreign investors in any form and type. Except for the reserved sectors, the number of which has declined over time and is currently only four, private-sector investment is allowed in all activities, although it is discouraged in the RMG and financial industries. Investment may be made either independently or through joint ventures.

There is no limitation on equity participation for foreign investment in Bangladesh. Foreign participation is allowed up to 100 per cent under the existing laws in all areas except the four reserved ones. Projects with foreign participation, whether fully owned or joint ventures, are not required to secure prior approval. Joint ventures must register with the BOI or other authorities as must fully owned ventures.

Shares and Securities

Foreign investors may invest in shares and securities quoted on the stock exchange, with foreign exchange sent or brought into Bangladesh. They may also invest in new private placements of the shares of industrial enterprises and need not carry out such transactions through registered brokers or members of the stock exchange. There are no restrictions on the transfer of shares to other non-residents.

Foreign investors may *not* buy national savings bonds. They also may not sell their shares, irrespective of their percentage of equity and paid-up capital, through public issues.

Intellectual Property Rights

The Government recognizes the importance of intellectual property rights (IPRs) for attracting FDI and is making efforts to update legislation and improve enforcement. The country has been a member of the World Intellectual Property

Organization (WIPO) since 1985 and signed the Paris Convention on Intellectual Property in 1991. The existing Bangladeshi legislation in this area, however, dates mostly from the period of British rule and includes the Patent and Design Act of 1911, the Patent and Design Rule of 1933, the Trademark Act of 1940 and the Copyright Ordinance of 1962. Draft legislation is currently awaiting cabinet approval and will, if approved by the cabinet and passed by parliament, ensure compliance with the WTO's Agreement on Trade-related Aspects of Intellectual Property (TRIPs).

No prior permission is required for entering into agreements for remitting fees for royalties, technical know-how and technical assistance. Approval is automatically granted for remitting these fees if the total of the fees and other expenses connected with technology licensing are within the following limits: i) for new projects, 6 per cent of the cost of imported machinery, and ii) for established firms, 6 per cent of the previous year's sales as declared in the firm's tax return.

Once the agreements are signed, they are to be furnished to the BOI for registration. Proposals which exceed the prescribed limits will require the prior approval of the BOI.

Management Control

Bangladesh places no restrictions on the nationality of company directors or managers, with one exception. Since the country does not have diplomatic relations with the state of Israel, holders of Israeli citizenship cannot serve as directors or managers. The employment of foreign nationals is subject to a demonstration that the relevant expertise is not locally available. Employment of foreign nationals is approved for an initial period of one year, which may be extended on a case-by-case basis. A security clearance, furnished by the Home Ministry, is also required in each case. The number of foreign employees should not exceed 15 per cent of the total, including senior management.

Intervention in board appointments and management decisions is unknown.

Investment Protection

The Foreign Private Investment (Promotion and Protection) Act of 1980 guarantees protection against expropriation. If a foreign investor becomes subject to a legal measure that has the effect of expropriation, adequate compensation will be paid and it will be freely repatriable. The amount of the compensation will be determined by appraising the market value of the investment immediately before the measure went into effect. (As noted earlier, Bangladesh is also a signatory in good standing of the Multilateral Investment Guarantee Agency, which insures investors against political risk.)

There has been no instance of expropriation of foreign property since the Foreign Investment Act was passed in 1980.

Exchanging and Remitting Funds

Current Transactions

Since the Bangladesh Taka was declared convertible for current-account transactions in March 1994, payment settlements against trade in goods and services have been freely permitted. Authorized dealers can settle payments for all imports in conformity with the Import Policy. They may also settle payments abroad for freights and passages, technical service fees and royalties, and issue foreign exchange for travel abroad by residents. Before effecting remittances, authorized dealers must scrutinize the remittance request to be satisfied that these represent *bona fide* current transactions and are not disguised attempts to circumvent capital transfer restrictions. Limits on the amounts of foreign exchange that may be purchased from authorized dealers for travel abroad are \$1,000 per person annually for visits to SAARC member countries and Myanmar and \$3,000 for other countries. For medical treatment, the annual limit is \$10,000. Requests for larger amounts can be accommodated by the Bangladesh Bank after scrutiny.

Exporters are required to repatriate their export proceeds within 4 months. Merchandise exporters may retain up to 40 per cent of the realized FOB value of their exports in foreign-currency accounts. For export items with a high import content (e.g., RMGs), the retention quota is 7.5 per cent. For service exporters, the limit is 5 per cent. Funds from these accounts can be used to meet *bona fide* business expenses, such as business visits abroad, imports of raw materials, machinery and spares, etc. Funds from these accounts may also be used to set up offices abroad without the prior permission of the Bangladesh Bank.

Outward remittances for the payment of interest and repayment instalments of principal on all permitted foreign borrowings are freely effected by authorized dealers, reporting *post facto* to the Bangladesh Bank.

Capital Flows

Inflows of foreign portfolio investment and of FDI in the industrial sector are freely permitted. Outward remittances of post-tax profits and dividends on such investments are effected by authorized dealers, subject to *post facto* scrutiny by the central bank. Disinvestment outflows, along with capital gains, of non-resident investment in companies listed in the stock exchange are also effected in the same way. Outward remittances representing disinvestment of foreign equity in companies *not* listed with stock exchanges require prior authorization by the Bank, which is accorded after scrutiny to establish the appropriate sale price of the unlisted company's equity.

Fully foreign-owned companies in EPZs may borrow from foreign sources without Bank approval. They may also borrow from off-shore banking units in Bangladesh. Other enterprises may borrow from foreign sources with the approval of the Board of Investment. Foreign companies may borrow working capital from banks (in takas) without Bank approval.

Competition and Price Policies

Bangladesh now has an avowed policy commitment to creating a competitive market in the country. It is thus moving on a number of fronts – trade policy, investment framework, regulations governing service providers and product distributors, procurement practices, subsidies to SOEs – to end the concentration and abuse of market power. Wide-ranging privatization measures have been announced, although implementation is slow and public-sector monopolies still dominate major utilities.

One source of unfair competition in the Bangladeshi economy is the illegal imports of goods from across the border, by land or sea. Productivity growth in domestic industries and the liberalization of trade are the two basic components of the country's anti-smuggling strategy. Another source is the entry of foreign goods into the Bangladeshi market through legal channels at prices below the global level. Although the country does have provisions for assigning anti-dumping (ADD) or countervailing duties (CVD) to such imports, Bangladesh is yet to exercise its rights in such cases.

The private sector also reports concern over problems arising from the failure to separate the regulatory function of state-owned enterprises from other functions. Conflicts of interest are created when public enterprises are simultaneously partners, competitors and regulators *vis-à-vis* private ones.

With some important exceptions, prices are set by the market in Bangladesh. The exceptions include petroleum products, pharmaceutical products and food grains, which the government believes to be of either strategic significance or overriding consumer interest. Resale prices are also mainly market-driven.

Fiscal and Financial Incentives

Tax Exemptions

The Government offers special tax incentives (tax holidays and exemptions) for FDI in a number of sectors. These incentives are available to firms that establish themselves by 30 June 2005. Newly established firms in the industrial, tourism and physical infrastructure areas are exempt from tax for a period of 7 years if set up in the Barisal, Khulna, Rajshahi and Sylhet divisions or the Chittagong Hill Tracts and 5 years in other administrative divisions.

These exemptions also apply to the exploration and extraction of mineral resources and the processing of agricultural products. 'Physical infrastructure' here includes the generation, transformation, conversion, transmission and distribution of electrical energy or hydraulic power; the construction of roads, highways, bridges and fly-overs; the development of sea-ports, river-ports, airports, railways and telecommunications; the construction of cargo and container terminals and water purification plants; and the laying of gas pipe-lines.

A new private hospital established before 30 June 2005 will be eligible for exemption from income tax for 5 years subject to certain conditions. Other classes of industries specified by the National Board of Revenue for the purposes of exemption under the tax-holiday scheme are: chemicals, drugs and pharmaceuticals (basic manufactures), insecticides and pesticides (basic manufactures), petro-chemicals, wires and cables, agricultural machinery, boilers and compressors, tractors, machine tools and other capital equipment, the manufacture of trucks, cars, scooters, auto-rickshaws and bicycles, shipping and repair, and diesel engines and I.C. Engines.

Tax exemption is allowed for a period of 15 years from the commencement date of commercial production on the income of a power generation company set up in accordance with the provisions of the Private Sector Power Generation Policy. Accelerated depreciation of up to 100 per cent of the value of plant and machinery is also available in lieu of tax holidays.

The income of a commercial investment company operating on a commercial basis in any sector in Bangladesh which is set up under an agreement between the GOB and any foreign government is exempt from the payment of income tax for the period specified in the agreement. An export-oriented industry is fully exempt from the payment of VAT.

Accelerated Depreciation and Losses Carried Forward

Industrial undertakings not enjoying tax holidays benefit from an accelerated depreciation allowance. This allowance is available at the rate of 100 per cent of the cost of machinery or plant to undertakings set up in areas falling within the cities of Dhaka, Narayanganj, Chittagong and Khulna or in areas within a radius of ten miles from the municipal limits of these cities. For undertakings set up elsewhere in the country, accelerated depreciation is allowed at the rate of 80 per cent in the first year and 20 per cent in the second year.

For fully export-oriented industries, no import duty used to be charged in the case of capital machinery and spare parts listed in the relevant notification by the NBR. However, an import duty of 7.5 per cent was secured in the form of a bank guarantee or an indemnity bond to be returned after the installation of the machinery. The system is likely to be further improved and revised in the budget for FY2000-2001, whereby fully export-oriented units will in the future be allowed to import machinery and spare parts free of duty.

Any loss of an undertaking can be carried forward and set off against its income of subsequent years up to the period of the tax holiday or exemption, or up to 6 years when there are no tax holidays.

Export-based Tax Credits, Reductions and Exemptions

To boost exports, Bangladesh offers a special package of tax incentives, either directly or indirectly, to export-based industries.

Exporters can get a 50 per cent exemption of taxes on their export earnings. The tax deduction at source on export earnings has been fully withdrawn. To stimulate investment in SMEs, all export earnings from handicraft and cottage industries are exempted from income tax. In the case of other industries, a proportional income-tax rebate on export earnings is given, ranging between 30 and 100 per cent. Export-oriented industries are also exempted from paying local taxes like the municipal tax and from the payment of the VAT.

The Export Policy of 1997-2002 has recommended waiving customs duty on the import of wet blue and pickled leather for use in export-oriented leather industries. Inputs for export-oriented industries receive duty-free treatment either in the form of bonded warehouse facilities (enjoyed by RMG and some other non-traditional industries) or in the form of duty-drawback facilities operated by the Duty Exemption and Drawback Office (DEDO). It should be noted that the duty-drawback facility is also applicable in the case of indirect exports ('deemed exports'). To stimulate export-oriented information technology and computer industries, the government has also removed taxes on the imports of computer accessories.

(See also the section on EPZs in the preceding chapter, pages 30-31.)

Financial Incentives

Bangladesh provides direct cash subsidies to industries in some 'thrust' areas (see Appendix 2). The fabric industry is one of them. Fabric manufacturers supplying their products to fully export-oriented garment industries receive a cash subsidy equivalent to 25 per cent of the value of their product.

Some other thrust industries also get special facilities in the form of cash incentives, venture capital and other facilities. These include manufacturers of toys, luggage, fashion articles, electronic goods, leather goods, jewellery, stationery goods, silk cloth, gift items and artificial flowers, as well as providers of engineering consultancy services.

Under the recently initiated Bangladesh Export Diversification Project, exporters are to receive matching grants of up to 50 per cent of their incremental investment with a view to consolidating their equity base and enhancing their efficiency. Bangladesh also hedges its exporters against possible commercial and political risks. Exporters can take out several types of risk coverage under the Export Credit Guarantee Scheme (ECGS): the export credit guarantee (pre-shipment and post-shipment), the export payment risk policy (comprehensive guarantee), and the whole turnover pre-shipment finance guarantee. The Government is planning to restructure this scheme to make it more effective. Manufacturers and exporters of non-traditional items can also get special rebates on the premiums on fire and marine insurance.

Foreign Trade

As a member of the WTO, Bangladesh is committed to withdrawing all quantitative restrictions on imports and keeping the tariff level low. Quantitative restrictions on commodity imports declined from 239 items in 1991 to about 90 items in 1999. The tariff peak was brought down during the 1990s from 350 per cent to 50 per cent. As a result, the effective rate of protection fell to less than 25 per cent in FY2000 from about 90 per cent in the early 1990s. Today, Bangladesh has one of the lowest average import-weighted tariff rates (less than 15 per cent) in the developing world.

The Government has sometimes imposed supplementary duties on certain items for revenue generation for development purposes. The recent introduction of the Infrastructure Development Surcharge (2.5 per cent) was guided by its targeted domestic mobilization objective.

“The foreign investment community in Bangladesh is encouraged by the policies and pronouncements of the Government of Bangladesh. It is the rapid and effective implementation of these policies that will help attract and retain additional FDI.”

*R.T.(Terry)Budden
President
Unocal Bangladesh Limited*

This section summarizes the results of consultations with the private sector in Bangladesh (both foreign and domestic) held during two project workshops in Dhaka and related discussions. The consultations included closed sessions with investors (restricted to the private sector) and a brief questionnaire. Roughly 25-30 private-sector persons participated in each workshop, mostly the same persons, and 26 completed the questionnaire, 10 from foreign firms and 16 from domestic ones. The summary below is based on the questionnaire responses as well as informal interviews and discussions. It should be regarded as no more than suggestive of the opinion of the private sector in Bangladesh.

General Observations

When asked to name the three most attractive features of Bangladesh as an investment location, low-cost labour was picked by most participants. Among the other features mentioned often were an open government policy, natural resources (gas), and the ease of remittance of profits and royalties. Market size and location were also mentioned.

When asked to pick three items to head the agenda for a dialogue between investors and the Government, the following were mentioned most often: good governance (including law and order), upgrading infrastructure, and reducing red tape.

Private-sector participants across the board thought that government policies were generally headed in the right direction and that FDI policies in particular were notably liberal. Policy implementation, on the other hand, left much to be desired. It was slow and uneven, and improvements in this area were seen as the primary challenge facing the government.

Specific Points

• Regulatory Framework

Foreign firms saw Bangladesh as quite open to foreign investment, with little discriminatory treatment, and considerable progress over the past five years. Most were dissatisfied with the way *basic approval procedures* were implemented but half thought there had been 'some progress' or 'considerable progress'. None knew of a foreign firm that had experienced interference by the Government in *management control*. A sizeable majority was concerned about the issue of *intellectual property rights*, with trademarks the main concern. *Monopolies and market dominance* were not an issue for the majority. Most also thought that Bangladeshi *foreign trade* regulations were not an obstacle to doing business and that, in any case, there had been some or considerable progress in this area.

- **Taxation**

Administrative complexity in the income-tax area aroused the strongest private-sector concerns. Domestic firms were far more concerned over the complexity of the VAT than foreign firms. Foreign firms, for their part, were much more concerned about the lack of transparency with respect to both the corporate tax and the income tax. There was broad agreement with respect to progress in this area, however, with a clear majority in both groups judging there to have been 'some progress' in the past five years.

- **Human Resources**

The Bangladeshi workforce was regarded as flexible, trainable and hard-working — a genuine asset to the economy. The challenges in this area were seen as basically two: training and industrial relations. Both foreign and domestic firms saw educational qualifications and technical skills as the primary issues, with foreign firms more concerned about technical skills. The cost of labour was not a concern; productivity was.

There was broad agreement that there had been 'some progress' in the areas of technical skills and educational qualifications over the past five years. The perception was quite different with regard to industrial relations. More than half the private sector considered that there had been either 'regress' or 'no change' in industrial relations, with the foreign private sector again being rather more optimistic.

- **Infrastructure and Utilities**

Here as elsewhere, foreign firms saw more progress in recent years than did domestic firms. The overriding concern of both was the unreliability of the energy supply, which they saw as the primary infrastructure-related obstacle to doing business in Bangladesh. The unreliability of telecommunications came next. Cost was generally less of a concern to foreign firms, although domestic firms were quite concerned about the cost of transport.

In response to a question about progress in these areas over the past five years, most participants thought there had been 'some progress' in telecommunications and in transport. There were no significant differences between foreign and domestic firms, with foreign firms being slightly more positive in both areas. With respect to energy, the perception was quite different. A very substantial majority thought that there had been 'no change' or 'regress' in the energy area. Foreign firms were notably more positive here, with about half saying there had been 'some progress', while only one domestic firm shared this view.

- **Other**

Nearly all respondents agreed that the BOI needed to improve its service delivery. It was thought that the Board needed more authority and institutional capacity. Its one-stop service was very frequently mentioned as being in need of effective delivery. A higher degree of professionalism and dynamism and more timely and transparent decision-making were needed.

With respect to state-owned enterprises, there was concern over the pace of privatization, which was thought to be much too slow despite declared intentions. Concern was also expressed over the conflicts of interest resulting from the failure to separate the regulatory from the operational function.

Appendix 1

External Perceptions

This appendix summarizes the results of a small external-perception survey of advisors and consultants to investors and governments abroad carried out by an UNCTAD-ICC consultant in October 1999. Ten persons from six private agencies and four public ones were interviewed on the basis of a questionnaire that covered perceived strengths and weaknesses, promising areas of opportunity, and the effectiveness of attraction arrangements. The results should be seen as no more than *suggestive* of some general perceptions.

1. Strengths and Weaknesses

Market Access: The local market is seen as potentially large but currently limited, given a large population with limited spending power. Access to other markets, e.g., the EU, is currently positive for principal exports but may change. Access to the South Asian market is unclear.

Soft and Hard Infrastructure: Local private-sector services are seen positively; public-sector service is seen as highly bureaucratic. It is a strength that the society is fairly homogeneous and that there are no significant internal tensions involving minority groups. Hard infrastructure is seen as weak, especially power and telecommunications. The Government is seen to have recognized the weakness and to be acting to improve it, among other things by welcoming foreign investment in infrastructure.

Labour Supply: The workforce is universally seen as enthusiastic, trainable and hard-working. Since it is also low-cost, even by regional standards, there is great potential for certain kinds of manufacturing. On the other hand, labour productivity is seen as low because of low skill levels and poor training.

Ease of Market Entry: Positive in that the Government has adopted an open policy towards foreign investment. Negative in so far as implementation is poor, 'with too many people to fill out too many forms'. The BOI's one-stop service is not seen as functioning well.

Other Points: Opinion was divided with regard to real estate. Some thought property was readily available at low cost; others thought availability was limited and the quality was variable. Politically, the environment was seen as relatively stable, with it being an important strength that both the major political parties were in principle pro-private-sector. The incentive package for foreign investors was seen as very good and the tax situation as competitive. Implementation and communication were again seen as poor. That English was widely spoken was a plus.

2. Areas of Opportunity

All respondents thought that infrastructure was an area of opportunity, in particular gas exploration, also telecommunication and transport. Labour-intensive manufacturing, including garments but also tools and consumer electronics, were generally seen as offering opportunities. Fisheries and seafood processing, packaging and freezing were another area of opportunity but it was seen as having potential problems with respect to perception/branding.

3. Trends and Improvements Needed

Relative to other competing locations, Bangladesh was seen as slowly improving its competitiveness by some respondents but as static by others. The ending of the MFA in 2005 was a potential threat, as it would require the country to compete with other exporters of ready-made garments who were more efficient and less import-dependent. The top priorities for improvements were infrastructure and bureaucracy, with education following closely. As for attraction arrangements, it was felt that Bangladesh had a strong package for investors but an unfocussed approach.

Priorities and Restrictions

1. The following 16 areas have been declared '*thrust sectors*' for attracting investment and are entitled to special incentives and support:

Agro-based industries
Artificial flower-making
Computer software and information technology
Electronics
Frozen foods
Floriculture
Gift items
Infrastructure
Jute goods
Jewellery and diamond cutting and polishing
Leather
Oil and gas
Sericulture and silk industry
Stuffed toys
Textiles
Tourism

2. The following 4 areas are *reserved* for public-sector investment:

Arms and ammunition and other defence equipment and machinery
Forest plantation and mechanized extraction within the bounds of reserved forests
The production of nuclear energy
Security printing (currency notes) and minting

3. In addition, foreign direct investment is *discouraged* in the following areas:

Ready-made garments
Banks, insurance companies, and other financial institutions

Appendix 3

Major Foreign Investors

This list is made available courtesy of the Foreign Investors' Chamber of Commerce & Industry (FICCI), Bangladesh, and is not intended to be exhaustive.

	Name of Company	Ownership	Business	Address
1	American Express Bank Mr. Jhon A. Smetanka <i>General Manager</i>	United States	Banking	Alico Building, 18-20, Motijheel C/A, Dhaka-1000 Tel: 02-9561751, 9561805 Fax: 02-9561806
2	American Life Insurance Co. Mr. Md. Nurul Islam <i>Regional Vice President & General Manager</i>	United States	Insurance	Alico Building, 18-20 Motijheel C/A, Dhaka-1000 Tel: 02-9561791-3 Fax: 02-9558682
3	Aventis Bangladesh Ltd. Mr. A.K.M Shamsuddin <i>Managing Director</i>	France/Germany/ United Kingdom/ United States	Pharmaceuticals	6/2 A, Segunbagicha, Dhaka-1000 Tel: 02-9550010-14 Fax: 02-9550009, 9562149
4	Aventis Cropscience Bangladesh Ltd. Mr. Russell Brown <i>Managing Director</i>	France/Germany	Pharmaceuticals	29, Tophkana Road, Dhaka-1000 Tel: 02-9563335, 9562473, 9555820 Fax: 02-95550462, 9551540
5	Baghabari Power Company Ltd. (Synergy Global Power) Mr. John G. Hides <i>Managing Director</i>	United Kingdom	Power Generation	54, Park Road Baridhara, Dhaka-1212 Tel: 02-8812457 Fax: 02-9882007 E-mail: cinergy@bdonline.com
6	BASF Bangladesh Ltd. Mr. Ruhul Amin <i>Managing Director</i>	Germany	Industrial Chemicals	HR. Bhaban (4th floor) 26/1, Kakrail Road, Dhaka-1000 Tel: 02-9348374-6, 8313479 Fax: 02-8313599
7	Bata Shoe Co. (Bangladesh) Ltd. Mr. Fernando Garcia <i>Managing Director</i>	Canada	Shoe Making	Tongi Industrial Area, Gazipur Tel: 02-9800500, 9800501-5 Fax: 02-9800511
8	Bangladesh Edible Oil Ltd. Mr. James Poh. <i>General Manager</i>	Singapore	Edible Oil Refining	Land View Commercial Centre Floor No: 10 28 Gulshan North C/A, Gulshan-2 Tel: 02-8815319, 881562931, 8815538-9 Fax: 02-8815321
9	Berger Paints Bangladesh Ltd. Mr. Masih Ul Karim <i>Managing Director</i>	United Kingdom	Paints Manufacturing	43/3, Chatteshwari Road Chittagong 4000 Tel: 031-613419, 615893-4 Fax: 031-610664
10	British American Tobacco Bangladesh Co. Ltd. Mr. Paul Kirkham <i>Managing Director</i>	United Kingdom	Cigarette Making	New DOHS Road Mohakhali , Dhaka-1212 Tel: 02-8822791-5, 8829716-18 Fax: 02-8822786
11	BOC Bangladesh Ltd. Mr. Waliur Rahman Bhuyan <i>Managing Director</i>	United Kingdom	Industrial/ Medical Gas	4, Mahakhali C/A, Dhaka-1212 Tel: 02-8821240-47, 8823972 Fax: 02-8823771, 8821247

12	Bureau Veritas (Bivac) Bangladesh Ltd. Dr. A. Qayyum Khan <i>Managing Director.</i>	France	Inspection Services	84, Kazi Nazrul Islam Avenue Farmgate, Dhaka -1215 Tel: 02-9112183, 9127714, 8118196 Fax: 02-8117891, 9126486
13	Cemex Cement Bangladesh Ltd. Mr. Santiago Ortiz <i>Managing Director</i>	Mexico	Cement Production	Gulshan Lake Palace House # 2E, Road # 29, Gulshan, Dhaka-1212 Tel: 02-8810261 Fax: 02-9881366
14	Citibank N. A. Mr. David E. Rees <i>Chief Executive Officer</i>	United States	Banking	Chamber Building 122-124, Motijheel C/A Dhaka-1000 Tel: 02-9550060-69, 9550061 (D) Fax: 02-9562236
15	Clariant (Bangladesh) Ltd. Mr. Roland Borufka <i>Managing Director</i>	Switzerland	Industrial Chemicals	Safura Tower (14 Floor) 20, Kemal Ataturk Avenue Banani, Dhaka-1212 Tel: 02-8810807, 8811100 Fax: 02-8811344
16	Credit Agricole Indosuez Mr. Francis Dubus <i>Country Manager</i>	France	Banking	47, Motijheel C/A. Dhaka-1000 Tel: 02-9566566-7 Fax: 02- 9565707
17	Daewoo (Bangladesh) Co. Ltd. Mr. Chan Kun Han <i>Managing Director</i>	Republic of Korea	Automobiles/ Electronics	Brac Centre (7th Floor) 75, Mahakhali C/A, Dhaka-1212 Tel: 02-9882548, 9881171, 9881315-25 Fax: 02-8829484
18	Daeyu Bangladesh Ltd. Mr. Chan Woo Park <i>General Manager</i>	Republic of Korea	Textile Mill	Gulshan Tower, Plot # 31, Road No.53, Gulshan-2, Dhaka-1212 Tel: 02-9883071, 9885380 Fax: 02-9883072
19	East West Seed (Bangladesh) Ltd. Mr. Michel Deverware <i>General Manager</i>	Netherlands	Agro-seed Production	Bashon. Jaidevpur, Gazipur Tel: 011-864090 Fax: 011-8618861-62
20	Everest Rug Production Ltd. Bangladesh Mr. Mostafa Koker, <i>Managing Director</i> Mr. Bulent Duzgun, <i>General Manager</i>	Turkey	Rug Production	Turkish Int'l Hope School House No. 27 A, Road No. 103 Gulshan, Dhaka-1212 Tel: 02-8812560, 8812375, 018-216783 Zubair: 8917202, 019-54693 Fax: 02-8812597
21	Fu-Wang Foods Ltd. Mr. Hsu Chin Hua <i>Managing Director</i>	Taiwan Province of China	Food Processing	House No. 55, Road No. 17 Banani, Dhaka-1213 Tel: 02-9883274-4, 8825573 Fax: 02-8823985
22	GlaxoWellcome Bangladesh Ltd. Mr. Syed Fazul Haque <i>Managing Director</i>	United Kingdom	Pharmaceuticals	House No. 2A, Road No. 138 Gulshan -1 , Dhaka-1212 Tel: 02-8827758, 8825112, 8823675 Fax: 02-8826628
23	Grameen Phone Ltd. Mr. Trond Moe <i>Managing Director</i>	Norway	Telecommunications	Celebration Point Road # 113/A, Plot # 3 & 5 Gulshan, Dhaka-1212 Tel: 02-9882990 Fax: 02-9882970

24	Guangdong Dhaka Knitting Co. Ltd. Mr. Md. Ruhul Amin <i>Chairman</i>	China/ Bangladesh	Knit Fabrics	Plot No. 28, Sector-4 Export Processing Zone South Halishahar, Chittagong Tel: 031-741640 Fax: 031-741639
25	Hong Kong Shanghai Manjala Textiles Ltd. Mr. Kazi Zafarullah <i>Managing Director</i>	Hong Kong, China/ Bangladesh	Textiles	Moon Mansion (4th Floor) 12, Motijheel C/A, Dhaka-1000 Tel: 02-9552209, 9550267 Fax: 02-9565139
26	IBCS Primax Software Bangladesh Ltd. Mr. Abdul Towhid <i>Director</i>	United Kingdom/ Bangladesh	Software	House No. 40, Road No. 4/A Dhanmondi R/A, Dhaka-1209 Tel: 02-8622047,8622357-8 Fax: 02-8622293 E.mail: ipsb@bdonline.com
27	IBM World Trade Corporation Mr. Sajjad Hossain <i>Branch Manager</i>	United States	Computers	Pacific Centre (6th Floor) 14, Mahakhali C/A, Dhaka-1212 Tel: 02-8829783-86 Fax: 02-8829788
28	James Finlay Plc. Mr. A. Q. I. Choudhury <i>General Manager</i>	United Kingdom	Tea	Finlay House, Agrabad, C/A , Chittagong Tel: 031-716321-5 Fax: 031-710207, 710006
29	Japan Garden City Ltd. Mr. Masakuni Yoshimoto <i>Managing Director</i>	Japan	Real Estate	House No. 17, Road No.9 Block - K, Baridhara Model Town Tel: 02-9885683, 881610 Fax: 02-8815766 E-mail:21japan@global-bd.net
30	Karnaphuli Fertilizer Co. Ltd. Dr. J.H. Wilson <i>Managing Director</i>	Japan/ Netherlands	Fertilizer Production	IDB Bhaban (13th Floor) E/8-A, Rokeya Sharani Sher-e- Bangla Nagar, Dhaka-1207 Tel: 02-8124988, 8125377, 8125520 Fax: 02-8124490
31	Khulna Power Co. Ltd. Mr. Vijay Sirse <i>VP & COO</i>	United States	Power Generation	Summit Centre (5th Floor) 18, Kawran Bazar C/A, Dhaka-1215 Tel: 02-9132437-8 Fax: 02-8117901, 9125682
32	Lafarge Surma Cement Ltd. Mr. Michael Folliet <i>Managing Director</i>	France	Cement Production	House No. 35, Road No. 24 Gulshan-1, Dhaka-1212 Tel: 02-8812026. 558982 Fax: 02-8825413
33	Lever Brothers Bangladesh Ltd. Mr. Jean Francois Gabriel Alfonsi <i>Managing Director</i>	United Kingdom/ Netherlands	Toiletries/ Cosmetics	51, Kalurghat Heavy I/A, Chittagong Tel: 031-670500-5, 670400 Fax: 031-67776, 670107
34	Masse Manufacturing Ltd. Mr. Gopal K. Khaitani <i>Managing Director</i>	Hong Kong, China	Garment Manufacturing	H-79, Block-M, (4th-7th Floor) Dhaka-1213 Tel: 02-8826464, 9880343 Fax: 02-8824914
35	Muslim Commercial Bank Ltd Mr. Sajjad Minhas <i>Acting CEO</i>	Pakistan	Banking	4, Dilkusha C/A Dhaka-1000 Tel: 02-9568871-73, 9563650-51 Fax: 02-9563649
36	Nestlé Bangladesh Ltd. Mr. Aldo Siegrist <i>Managing Director</i>	Switzerland	Food & Drink Products	Gulshan Tower (4th Floor) Gulshan Avenue , Dhaka-1212 Tel: 02-9882759-65 Fax: 02-8822035

37	New Zealand Milk Products Bangladesh Ltd. Mr. Syed Fazle Rabbi <i>Chief Executive</i>	New Zealand	Dairy Products	Brac Centre (5th Floor) 75, Mohakhali C/A. Dhaka-1212 Tel: 02-9882140-42 Fax: 02-9882143
38	Novartis (Bangladesh) Ltd. Mr. Gerhard G. Doege <i>Managing Director</i>	Switzerland	Pharmaceuticals	House No. 50, Road No. 2.A Dhanmondi R/A, Dhaka-1209 Tel: 02-8615302, 8613195(D) Fax: 02-8613489
39	Organon Bangladesh Ltd. Mr. K. Ali Arshad <i>Managing Director</i>	United Kingdom/ Netherlands	Pharmaceuticals	Pacific Centre (9th Floor) 14, Mohakhali C/A, Dhaka-1212 Tel: 02-8811431-34 Fax: 02-8823438
40	Pfeiffer Apparels (Pvt) Ltd. Mr. H. T. Harsha Caldera <i>Managing Director</i>	Hong Kong, China	Garments	House No. 14, Road No.35 Gulshan-2, Dhaka-1212 Tel: 02-8821036, 8821627, 011-850199 Fax: 02-8826203
41	Picard Bangladesh Ltd. Mr. Saiful Islam <i>Managing Director</i>	Germany	Leather Goods	9/1. Shah Ali Bagh Section-1, Mirpur, Dhaka-1210 Tel: 02-9010230, 9010579 Fax: 02-9008037
42	Procter & Gamble Bangladesh Ltd. Mr. Bharat Patel <i>Managing Director</i>	United States	Toiletries	House No. 57 (1st Floor) Road No. 13, Block-E Banani. Dhaka-1213 Tel: 02-8812405, 8825529, 8812427 Fax: 02-8810763
43	R.A.K Ceramics Bangladesh (Pvt) Ltd. Mr. Z. H. Chowdhury <i>Managing Director</i>	United Arab Emirates	Ceramics	House No. 26/A , Road No. 18 Banani, Dhaka Tel: 02-8813987 Fax: 02-601811. E-mail: rakbd@bol-online.com
44	Reckitt & Colman Bangladesh Ltd. Mr. Abdul Haque <i>Managing Director</i>	United Kingdom	Consumer Products/ Insecticides	58/59, Nasirabad I/A, Chittagong Tel: 031-681404-07 Fax: 031-682827
45	Robintex (Bangladesh) Ltd. Mr. Abu Sakhawat <i>Managing Director</i>	Germany/ Bangladesh	Textiles	Youth Tower (7th Floor) 822/2, Begum Rokeya Sharani Shewrapara, Dhaka-1216 Tel: 02-8116587, 8116736 Fax: 02-8111759 E-mail: shine@global-bd.net
46	Saudi Bangladesh Industrial & Agricultural Investment Co. Ltd. Mr. Md. Kutubuddin <i>Managing Director</i>	Saudi Arabia/ Bangladesh	Financing	Steel House (5th Floor) 102, Kazi Nazrul Islam Avenue Dhaka-1215 Tel: 02-8115883-5, 8115127 Fax: 02-8113512
47	Scancem Bangladesh Ltd. Mr. Martin Schjolbarg <i>General Manager</i>	Sweden	Cement Production	Iqbal Centre (11th Floor) 42, Kemal Ataturk Avenue Banani, Dhaka-1213 Tel: 02-8811691 Fax: 02-8812584
48	Shell Bangladesh Exploration & Development B.V. Mr. Andrew Vaughan <i>Managing Director</i>	United Kingdom/ Netherlands	Oil/Gas Exploration	I D B Bhaban (9th Floor) E-8/A, Rokeya Sharani, Agargaon Dhaka-1207 Tel: 02-9882954, 8828194 Fax: 02-9882947, 9882957

49	Singer Bangladesh Ltd. Mr. Mahbub Jamil <i>Managing Director</i>	Canada	Consumer Durables	I D B Bhaban (7th Floor) E/8-A, Rokeya Sharani Agargaon, Dhaka-1207 Tel: 02-8123980, 8123965-69 Fax: 02-8123970
50	Siemens Bangladesh Ltd. Mr. Soeren Rendal <i>Managing Director</i>	Germany	Electronics	Jiban Bima Tower (12th Floor) 10, Dilkusha C/A, Dhaka-1000 Tel: 02-9563734-37, 9653739 Fax: 02-9564525, 9563740
51	Standard Chartered Bank Mr. Sethu Venkateswaran <i>General Manager</i>	United Kingdom	Banking	18-20 Alico Building Motijheel C/A, Dhaka-1000 Tel: 02-9561465-68, 9651713 Fax: 02-9561485
52	State Bank Of India Mr. Ashitava Ghosh <i>Chief Executive Officer</i>	India	Banking	24-25, Dilkusha C/A, Dhaka-1000 Tel: 02-9559935, 9653992 Fax: 02-9563991
53	The Bank of Nova Scotia Mr. Sean Watts <i>Country Head & Manager</i>	Canada	Banking	113-116 Old Airport Road Tejgaon, Dhaka-1215 Tel: 02-9122359, 8110161, 011-866380 Fax: 02-9123077
54	The Hong Kong & Shanghai Banking Corporation Ltd. Mr. Mark Humble <i>Chief Executive</i>	United Kingdom	Banking	Anchor Tower (5th Floor) 1/1b, Sonargaon Road, Dhaka-1205 Tel: 02-9660544 Fax: 02-9660554
55	T M International (Bangladesh) Ltd. Mr. Dato' Ezanee Abd.Aziz <i>Managing Director</i>	Malaysia	Telecommunications	Brac Centre (9th Floor) 75, Mohakhali C/A, Dhaka-1212 Tel: 02-9887150-53 Fax: 02-9885463
56	Unocal Bangladesh Ltd. Mr. Terry Budden <i>President</i>	United States	Oil/Gas Exploration	House No.12 ,Road No.137 Gulshan-1, Dhaka-1212 Tel: 02-9885881, 011-855983 Fax: 02-9884398
57	Van Ommeren Tank Terminal (BD) Ltd. Mr. Md. Najmul Haq Chaudhury <i>Managing Director</i>	Netherlands	Storage	North Patenga, Chittagong Tel: 031-740921 Fax: 031-671257, 741514
58	VANIK Bangladesh Ltd. Mr. Ivor Pratap <i>Senior Vice President</i>	Sri Lanka	Fund Management	20, Kemal Ataturk Avenue Safura Tower (11th Floor) Banani, Dhaka-1213 Tel: 02-9883701 Fax: 02-8810998
59	Westmont Power Bangladesh (Pvt) Ltd. Mr. Kazi Tajul Islam Faruque <i>Chairman</i>	Malaysia	Power Generation	House 7A, Road 124, Gulshan -1, Dhaka-1212 Tel: 02-9886676, 8812150 Fax: 02-9887268
60	Youngone (CEPZ) Ltd. Mr. Peter Bauer <i>President</i>	Republic of Korea	Garments	Plot No. 1-16, Sector-2 Chittagong Export Processing Zone South Haliashahar, Chittagong Tel: 031-740431-6 Fax: 031-740051, 740044

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 Fax: 02-933 4012
www.asiadevbank.org

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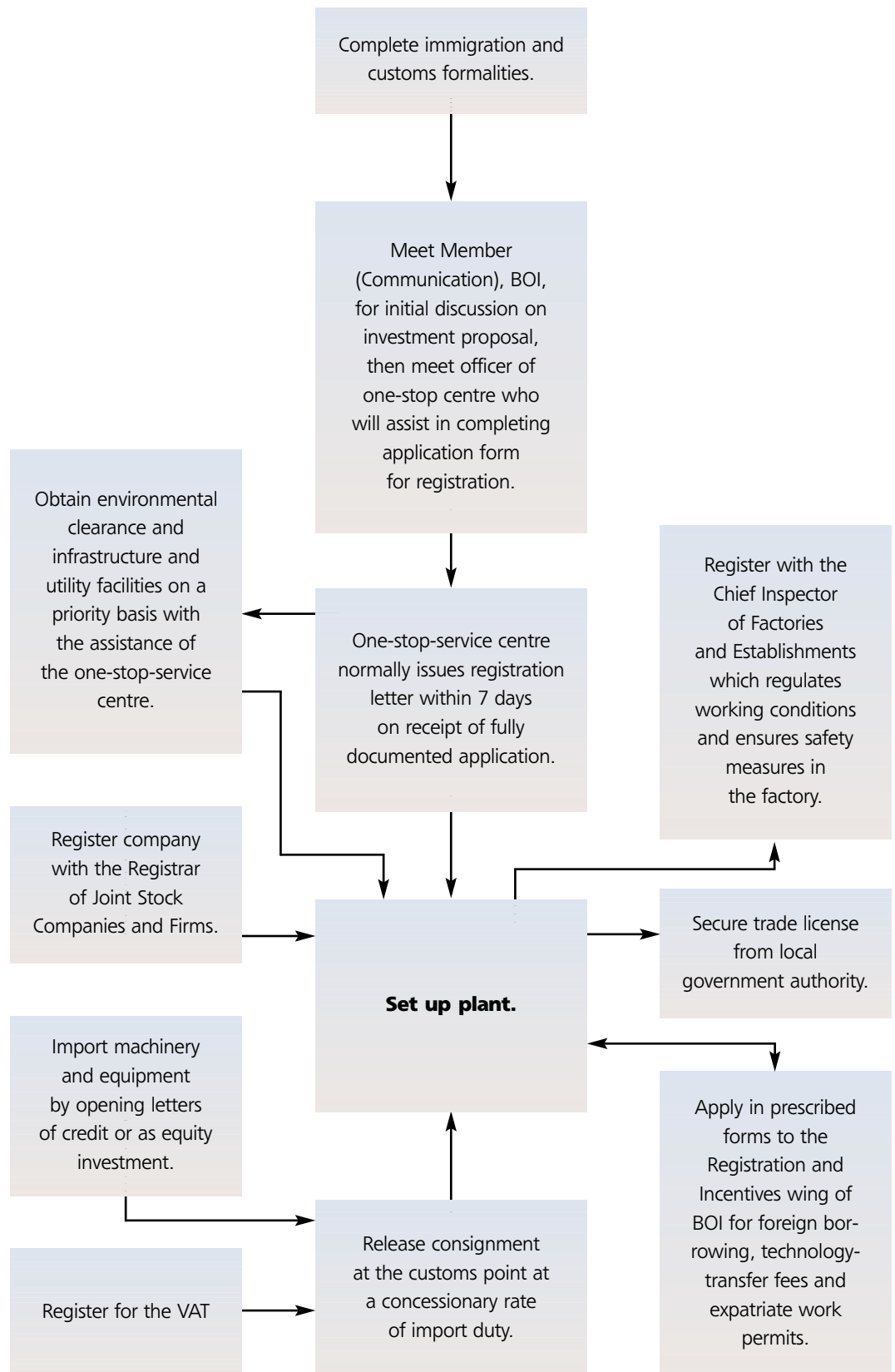
CDC Partners
 6th floor (North), Safura Tower
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 Fax: 02-882 1016

Relevant web sites in Bangladesh

Bangladesh Agribusiness Online	www.agrobengal.org
Bangladesh Government	www.bangladeshgov.org
Bangladesh Online	www.bangladeshonline.com
Dhaka Stock Exchange	www.dsebd.org
Securities & Exchange Commission	www.secbd.org

Appendix 5

Stages of implementation of a wholly owned or joint-venture industrial project to be registered with the BOI



Appendix 6

List of Public Holidays 2000 *

	Date	Name of Day	Name of Holiday	Days	
	7	January	Friday	Jumatul Bida	1
	8-10	January	Saturday-Monday	Eid-ul-Fitar	3
	21	February	Monday	Saahiddibos	1
	16-18	March	Thursday-Saturday	Eid-ul-Azha	3
	17	March	Friday	Birthday of Bangabandhu	1
	26	March	Sunday	Independence Day	1
	14	April	Friday	Bengali New Year	1
	16	April	Sunday	Moharam (Ashura)	1
	1	May	Monday	May day	1
	17	May	Wednesday	Buddah Purnima	1
	16	June	Friday	Eid-E-Miladunnabi	1
	15	August	Tuesday	National Mourning Day	1
	21	August	Monday	Janmastami	1
	8	October	Sunday	Durga Puja	1
	13	November	Monday	Shab-E-Barat	1
	16	December	Saturday	Victory Day	1
	22	December	Friday	Jumatul Bida	1
	25	December	Monday	Christmas Day	1
	26	December	Tuesday	Shob-E-Kadar	1
	28-30	December	Thursday-Saturday	Eid-ul-Fitar	3

* 1 July and 31 December are bank holidays.

Religious holidays depend on the lunar calendar and may fall on different days in different years.

Source: The Permanent Mission of Bangladesh to the United Nations in Geneva and the Board of Investment, Bangladesh.

Appendix 7

UNCTAD-ICC Project on
Investment Guides and Capacity-building for Least Developed Countries

Project Champions

The following twenty-eight companies have agreed to serve as 'project champions'. Their role includes participation in the substantive aspects of the project (assessments, workshops), facilitating the work of the project team in individual countries in which they have a presence, and supporting the project more generally with donors, et al.

Agip
Akzo Nobel
Anglogold
Banque Nationale de Paris (BNP)
BAT
Bata
Bayer
British Petroleum (BP)
Cargill
Coca-Cola
Commonwealth Development Corporation (CDC)
DaimlerChrysler
Eskom
Hilton Hotels International
Marubeni Corporation
Moving Water Industries (MWI)
Myungsung International Development
Nestlé SA
Novartis
Rio Tinto
Shell
Sheraton Hotels International
Siemens
Société Générale de Surveillance (SGS)
South African Breweries
Standard Chartered Bank
Unilever
Vodafone

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