U.S. DEPARTMENT OF STATE
DIPLOMACY IN ACTION

Executive Summary

With 6% annual growth sustained over the past two decades, a large, young and hard-working workforce, and vibrant private sector, Bangladesh, the world's seventh largest country by population, offers opportunities for investment, especially in the energy, power, pharmaceutical, information technology, telecommunications, and infrastructure sectors as well as in labor-intensive industries such as readymade garments, household textiles, and leather processing. There is also significant demand in major cities for U.S. consumer products and franchises.

The Government of Bangladesh actively seeks foreign investment, particularly in energy, power, and infrastructure projects. It offers a range of investment incentives under its industrial policy and export-oriented growth strategy, with few formal distinctions between foreign and domestic private investors. According to the 2013 World Investment Report, Bangladesh received $990 million in foreign direct investment (FDI) in FY13, down from $1.13 billion in the previous year. This is a nominal amount of investment compared to $38.9 billion in foreign investment that the entire South Asia region attracted, as India continues to dominate FDI inflows for the region.

Bangladesh has made gradual progress in reducing some constraints on investment, but inadequate infrastructure, financial constraints, bureaucratic delays, and corruption continue to hinder foreign investment. The lack of effective alternative dispute resolution mechanisms and slow judicial processes impede the enforcement of contracts and the resolution of business disputes. National elections in January 2014 were preceded by a year of unprecedented political violence and uncertainty, which adversely affected the business and investment climate. The political turbulence subsided after the election, and the return to stability has helped restore business confidence to some extent.

On November 25, 2013, the U.S.-Bangladesh Trade and Investment Cooperation Forum Agreement (TICFA) was signed in Washington, D.C. The agreement provides a mechanism for both countries to meet regularly and identify obstacles to increasing bilateral trade and investment and how to overcome those obstacles. The successful inaugural TICFA Council meeting was held in Dhaka on April 28, 2014.

On June 27, 2013, President Obama announced his decision to suspend Bangladesh's trade benefits under the Generalized System of Preferences (GSP) in view of insufficient progress by the Government of Bangladesh in affording Bangladeshi workers internationally recognized worker rights. At the time of the announcement, the Administration provided the Government of Bangladesh with a 16-point action plan outlining next steps in a longstanding effort to address in a meaningful way worker rights and safety problems in Bangladesh. If implemented, the plan would provide a basis for the President to consider reinstating GSP trade benefits; it would also drive transformation of the Bangladeshi apparel sector by bringing it to international standards in terms of fire safety, factory structural soundness, and respect for labor rights.

1. Openness To, and Restrictions Upon, Foreign Investment

With six percent annual growth sustained over the past two decades, a large workforce, and vibrant private sector, Bangladesh, the world's seventh largest country by population, offers opportunities for investment, especially in the energy, power, pharmaceutical, information technology, telecommunications, and infrastructure sectors as well as in labor-intensive industries such as readymade garments, household textiles, and leather processing. There is also significant demand in major cities for U.S. consumer products and franchises. The government actively seeks foreign investment, particularly in energy, power, and infrastructure projects. It offers a range of investment incentives under its industrial policy and export-oriented growth strategy, with few formal distinctions between foreign and domestic private investors.

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Energy and Infrastructure Development

The government has pursued ambitious plans for infrastructure development, particularly in the power sector, where it pledged to double generation capacity from 6,000 MW to 12,000 MW by 2015 and to 20,000 MW by 2020. In late-2013 the government announced it had an installed capacity of 10,000MW. In 2009, the government launched an initiative with modest funding for public private partnerships (PPP) and began to develop a legal and regulatory framework to implement this initiative. In 2010, due to critical power shortages and chronic delays in implementing power projects, the government amended procurement requirements to allow unsolicited bids and expedited the approval of power generation projects. It also aims to formulate a coal policy to encourage investment in developing coal resources and coal-based power projects. Administrative approval of the production plan of a foreign-owned, open-cast coal mine in northwest Bangladesh has remained pending since November 2005 due to local opposition and political pressure from civil society groups. The government has improved the efficiency of the main seaport in Chittagong and is constructing a four-lane highway to connect Chittagong with the capital city of Dhaka. Prolonged and contentious public procurement processes, however, continue to challenge government efforts to develop infrastructure projects. The landmark $3.1 billion donor financed Padma Multipurpose Bridge project, which would have substantially improved interregional connectivity, was shelved by the government because of disputes with the World Bank on the way forward after the World Bank raised concerns about transparency in the procurement process. On January 23, 2014, the Prime Minister announced six fast-tracked large infrastructure projects to address transportation and energy bottlenecks, among them a new self-financed Padma Bridge project.

Legal Framework

Major laws affecting foreign investment include: the Foreign Private Investment (Promotion and Protection) Act of 1980; the Industrial Policy Act of 2005, the Bangladesh Export Processing Zones Authority Act of 1980; the Companies Act of 1994, and the Telecommunications Act of 2001. Legislation offers incentives for investors, including: 100 percent foreign ownership in most sectors, tax holidays and exemptions, reduced import duties on capital machinery and spare parts, and duty-free imports for 100 percent exporters of ready-made garments. The government extended a tax holiday scheme for start-up industries through June 30, 2015.

Beneficiary industries include agro-processing, steel production, jute industries, some textile units, and telecom infrastructure except for mobile phones. A tax rebate facility to non-resident Bangladeshi investors was also extended to induce investment from abroad. Import duties and supplemental taxes remain high and constitute an important source of government revenue. Customs bonded warehouses enable companies located in export processing zones (EPZs) to avoid duty payments on inputs for goods that will be exported. There are few performance requirements, and these do not generally impede investment. Land registration has historically been prone to disputes over competing titles, and scarcity of land is a significant investment constraint.

While discrimination against foreign investors is not widespread, the government frequently promotes local industries and some discriminatory policies and regulations exist. For example, the government closely controls approvals for imported medicines that compete with domestically-manufactured pharmaceutical products and it has required majority local ownership of new shipping companies, albeit with exemptions for existing foreign-owned firms, following a prime ministerial directive.

Investment Promotion Agencies

The Board of Investment (BOI) and the Bangladesh Export Processing Zones Authority (BEPZA) are the primary investment promotion agencies in Bangladesh. Companies must register with the BOI to obtain benefits such as tax incentives or preferential duties for imported equipment. The BOI also administers the approval of some foreign loans and payments on behalf of the Bangladesh Bank. Though the BOI is frequently touted as a one-stop shop for all investors, authority for managing foreign investment remains fragmented. The BOI can register investors in industrial projects outside the EPZs and assist them with tax inquiries, land acquisition, utility hook-ups, and incorporation. The BEPZA performs the same functions for companies investing in the EPZs. Investors in infrastructure and natural resource sectors, including power, mineral resources and telecommunications must seek approval from the corresponding government ministries. Although the BOI is housed organizationally in the Prime Minister's Office, regulatory and administrative powers remain vested in the line ministries. Companies often complain that ministries require unnecessary licenses and permissions.

Currency Convertibility

Free repatriation of profits is allowed for registered companies and profits are almost fully convertible on the current account; however, companies report that the procedures for repatriation of foreign currency are lengthy and cumbersome. When rising fuel imports helped swing balance of payments from surplus to deficit in 2010-2011, scarcity of foreign exchange and currency depreciation temporarily increased convertibility risks. Since 2011, the balance of payments has swung back into surplus, foreign reserves reached an all-time high of over $20 billion, and convertibility risks have declined.

Privatization

The government privatized some state-owned enterprises (SOEs) during the past twenty years, but many SOEs retain an important role in the economy, particularly in the financial and energy sectors. The current government has taken steps to restructure several SOEs to improve their competitiveness. Biman Bangladesh Airline was converted into a public limited company that initiated a rebranding and fleet renewal program, including the purchase of 10 aircraft from Boeing, four of which were delivered by March, 2014. Three nationalized commercial banks (NCBs) -- Sonali, Janata and Agrani -- have been converted to public limited companies. Bangladesh allows private investment in power generation and natural gas exploration, but efforts to allow full foreign participation in petroleum marketing and gas distribution have stalled.

The telecommunications sector was liberalized during the last decade, leading to the development of a competitive cellular phone market. The government has been slow to allow greater competition for international connectivity and internet telephony. In 2007, the government revised the International Long Distance Telecommunication Services Policy (ILDTSP) to legalize voice over internet protocol (VoIP), but has not yet implemented this policy, and restrictions remain on international video conferencing and voice chat. Internet protocol telephony service has been licensed under IP Telephony Service Providers (IPTSP) but infrastructure constraints limit its use. Business process outsourcing companies (BPOs), particularly call centers, are limited by stringent policy that affects the cost of business. Although the present government has further liberalized licensing ILDTS Policy 2010, a VoIP gray market exists.

TABLE 1: The following chart summarizes several well-regarded indices and rankings.

asure	**ır**	**ık or value**	**bsite Address**
Corruption Perceptions index	3	6 of 177)	://cpi.transparency.org/cpi2013/results/
itage Foundation's Economic Freedom index	4	1 of 178)	://www.heritage.org/index/ranking
rld Bank's Doing Business Report "Ease of Doing Business"	4	0 of 189)	//doingbusiness.org/rankings

bal Innovation Index	3	) of 142)	://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
rld Bank GNI per capita	2	) 840	://data.worldbank.org/indicator/NY.GNP.PCAP.CD

TABLE 1B - Scorecards**:** The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a 2012 per capita gross national income (GNI) or $4,085 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: http://www.mcc.gov/pages/selection/scorecards. Details on each of the MCC's indicators and a guide to reading the scorecards, are available here: http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf

Measure	**Year**	**Index/Ranking**
MCC Government Effectiveness	2014	60th percentile
MCC Rule of Law	2014	49th percentile
MCC Control of Corruption	2014	55th percentile
MCC Fiscal Policy	2014	38th percentile
MCC Trade Policy	2014	13th percentile
MCC Regulatory Quality	2014	35th percentile
MCC Business Start Up	2014	83rd percentile
MCC Land Rights Access	2014	23rd percentile
MCC Natural Resource Management	2014	19th percentile
MCC Access to Credit	2014	66th percentile
MCC Inflation	2014	36th percentile

2. Conversion and Transfer Policies

Bangladesh Bank, the central bank of Bangladesh, does not fix the exchange rate against foreign currencies, but it regulates conversion. The Bangladesh taka is almost fully convertible for current account transactions, such as import trade and travel needs, but not for capital account transactions, such as investing, currency speculation, or e-commerce. The Foreign Investment Act guarantees the right of repatriation of invested capital, profits, capital gains, post-tax dividends, and approved royalties and fees for businesses. The central bank's exchange control regulations and the U.S.-Bangladesh Bilateral Investment Treaty (in force since 1989) provide similar investment transfer guarantees. The BOI may need to approve repatriation of royalties and other fees. The Bangladesh taka depreciated more than 15 percent against the U.S. dollar in 2011, but strengthened at the end of 2012, and has remained relatively stable, supported by overseas remittances and foreign reserves reaching record highs.

3. Expropriation and Compensation

Since the Foreign Investment Act of 1980 banned nationalization or expropriation without adequate compensation, the Government of Bangladesh has not nationalized or expropriated property from foreign investors. In the years immediately following independence in 1971, widespread nationalization resulted in government ownership of over 90 percent of fixed assets in the modern manufacturing sector, including textile, jute and sugar industries as well as all banking and insurance interests, except those in foreign (but non-Pakistani) hands. The government has since taken steps to privatize many of these industries during the last twenty years and the private sector has developed into a main driver of the country's sustained economic growth of 5-6 percent per year during the past two decades.

4. Dispute Settlement

A fundamental impediment to investment in Bangladesh is a weak and slow legal system in which the enforceability of contracts is uncertain. The judicial system does not provide for interest to be charged in tort judgments, thus there is no penalty for delaying proceedings. In a significant milestone, the government in 2007 separated the country's judiciary from the executive, but the executive retains strong influence over the judiciary through control of judicial appointments. Other pillars of the justice system including the police, courts, and legal profession are also closely aligned with the executive branch. In lower courts, corruption is widely perceived as a serious problem. The High Court's previous reputation for impartiality has also been brought into question in recent years. Nonetheless, Bangladeshi law allows contracts to refer dispute settlement to third country forums for resolution. Bangladesh is a signatory to the International Convention for the Settlement of Disputes (ICSID) and it acceded (on May 6, 1992) to the United Nations Convention for the Recognition and Enforcement of Foreign Arbitral Awards. Bangladesh is also a party to the South Asia Association for Regional Cooperation (SAARC) Agreement for the Establishment of an Arbitration Council, signed November 13, 2005, which aims to establish a permanent alternative dispute resolution center in one of the SAARC member countries. A provision of the U.S.-Bangladesh Bilateral Investment Treaty permits submission of investment disputes to ICSID for third-party settlement.

The ability of the Bangladeshi judicial system to enforce its own awards is weak, and there is no reason to believe that enforcement of foreign judgments would be stronger. The Bangladesh Export Promotion Bureau is sometimes helpful in facilitating dispute settlement for export-related transactions. Major Bangladeshi trade and business associations can also help to resolve transaction disputes.

Many laws affecting investment in Bangladesh are old and outdated. Bankruptcy laws, which apply mainly to individual insolvency, are sometimes not used in business cases because of a web of falsified assets and uncollectible cross-indebtedness supporting insolvent banks and companies. A Bankruptcy Act was enacted in 1997 but has been ineffective in addressing these issues. A new Companies Act is in process of enactment by the parliament. Some bankruptcy cases fall under the Money Loan Court Act, which has more stringent and timely procedures.

Dispute settlement is also hampered by shortcomings in accounting practices and in the registration of real property. With the exception of those conducted by a few internationally affiliated accounting firms, audits of balance sheets and profit and loss statements often follow clients' instructions and fail to conform to international standards. Documents affecting title to real property are often not registered, complicating transfer of ownership and collateral agreements.

5. Performance Requirements and Investment Incentives

The government's industrial policies favor manufacturing and labor-intensive industries that use local inputs. A variety of subsidies and other incentives are available to different industrial ventures, primarily in export sectors and, to a certain extent, import substitution sectors. The Government also provides loans at concessionary rates through state banks and government-owned development banks for exports, cottage industries, and agriculture. These incentives are available to both domestic and foreign investors.

In order to simplify the tariff structure and generate more revenue through import duties, the government developed a four-tier duty structure with higher duties on finished products, but reduced duties on industrial inputs such as capital machinery, spare parts, basic raw materials, and intermediate raw materials.

The government also offers a variety of tax incentives to selected sectors of the economy, including:

-- A 50 percent rebate for taxable income generated from export earnings (according to section 44(1) and the paragraph 28 of 6th Schedule Part A of Income Tax Ordinance, 1984);

-- An income tax exemption on export earnings from handicrafts and cottage industries (according to S.R.O No. 339-L/86, dated 13 August, 1986);

-- Tax holidays of five to seven years, depending on location, for new industrial enterprises in the textile, pharmaceuticals, plastic, ceramics, sanitary ware, iron, steel, fertilizer, insecticide, computer hardware, petrochemicals, pharmaceutical raw materials, agricultural equipment, and industrial machinery. (Note: This provision has been extended annually, with the current extension allowing business to begin claiming this incentive by June 2015);

-- Industries set up within EPZs are exempted from five to seven years depending on the location of the EPZ according to SRO No. 219 of 2012;

-- Accelerated depreciation for enterprises not eligible for a tax holiday is provided for in paragraph 7 of 3rd Schedule of Income Tax Ordinance, 1984;

-- Power projects are exempt from income taxes for up to 15 years according to the National Power Policy, S.R.O. 211-Law/Income Tax/2013 dated 1 July, 2013 amended by S.R.O. 354-Law/Income Tax/2013 dated 18 November, 2013 and S.R.O. 213-Law/Income Tax/2013 dated 1 July, 2013.

6. Right to Private Ownership and Establishment

Foreign and domestic private entities can establish and own, operate, and dispose of interests in most types of business enterprises. Four sectors, however, are reserved for government investment:

-- Arms and ammunition and other defense equipment and machinery;

-- Forest plantation and mechanized extraction within the bounds of reserved forests;

-- Production of nuclear energy;

-- Security printing.

7. Protection of Property Rights

Although land, whether for purchase or lease, is often critical for investment and as security against loans, antiquated real property laws and poor record-keeping systems can complicate land and property transactions. Land registration records have been historically prone to competing claims. Instruments take effect from the date of execution, not the date of registration, so a bona fide purchaser can never be certain of title. Property owners can obtain mortgages, but parties avoid registering mortgages, liens, and encumbrances due to the high cost of stamp duties (i.e., transaction taxes based on property value) and other charges.

Bangladesh has slowly made progress towards bringing its legislative framework into compliance with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The government enacted a Copyright Law in July 2000 (later amended in 2005) and a Trademarks Act in 2009, and it is preparing draft Patent and Design laws to modernize its current Patent and Design legislation dating from 1911. Once fully implemented, this legislation is intended to bring the country's intellectual property laws into full compliance with TRIPS requirements. The Department of Patent, Designs and Trademarks DPDT drafted a new Patent Act, 2014 which has been prepared in compliance with the requirements of the TRIPS Agreement, and is under Ministry of Industries review. After Ministry of Industry review, it will be uploaded on DPDT’s website for public comment.

The government has limited resources for intellectual property rights (IPR) protection. Enforcement actions against IPR violators are rare despite widespread availability of pirated goods, and industry estimates that 90 percent of business software is pirated. BSA, the Software Alliance, launched a Bangladesh office in early 2014 as a platform to improve IPR protection in Bangladesh. A number of American firms, including film studios, manufacturers of consumer goods, and software firms, have reported violations of their intellectual property rights. Bangladesh is a member of the World Intellectual Property Organization (WIPO); and acceded to the Paris Convention on Intellectual Property in 1991.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Local attorneys list: http://dhaka.usembassy.gov/legal_resources.html

8. Transparency of the Regulatory System

Starting from a position of extreme over-regulation, the government has gradually moved since 1989 to decrease regulatory obstruction of private business. Although some officials have shown genuine commitment to these reforms, in general, changes encountered broad-based resistance from many domestic groups in the economy, including influential members of the business community. The official chambers of commerce include manufacturers in protected industries and well-connected commission agents pursuing government contracts. Chamber members have called for a greater voice for the private sector in government decisions and for privatization, but at the same time many support protectionism and subsidies for their own industries.

Policy and regulations in Bangladesh are often not clear, consistent, or publicized. Generally, the civil service, businesses, professionals, trade unions, and political parties have vested interests in a system in which confidentiality is used as an excuse for lack of transparency and in which patron-client relationships are the norm. Registration and regulatory processes are often used as rent-seeking opportunities. Bangladesh has made incremental progress in using information technology to improve the transparency and efficiency of some government services and developing independent agencies to regulate the energy and telecommunication sectors.

In practice, government laws, regulations and their implementation often do not reduce distortions or impediments to investment, but create them. The government has historically limited opportunities for the private sector to comment on proposed regulations but several agencies, including the Commerce Ministry and telecommunications regulator have posted draft legislation and regulations online and solicited input from the business community.

9. Efficient Capital Markets and Portfolio Investment

While Bangladesh has made gradual progress in developing capital markets, the markets have relied primarily on domestic investors with limited participation from international portfolio investors. A 2010-2011 stock market bubble and correction underscored weaknesses in capital markets and deficiencies in regulatory oversight. The Dhaka Stock Exchange (DSE) market capitalization rose to a peak of $48 billion in December 2010 before declining to roughly $30 billion in January 2012. A sharp increase in retail investors combined with loose monetary policy and lax regulatory oversight fueled inflation of share prices in 2010. Since this episode, regulatory oversight has nonetheless improved.

As steady economic growth has fueled rising domestic investment, Bangladeshi firms have increasingly relied on capital markets to finance investment projects. The DSE has attracted some foreign portfolio investors to the country's capital market; however the volume of foreign investment in Bangladesh has remained a small fraction of total market capitalization. As a result, foreign portfolio investment has had limited influence on market trends and Bangladesh's capital markets have been largely insulated from volatility of international financial markets.

Foreign investors have access to local credit markets, but many seek offshore financing at more competitive rates. If they finance locally, it is usually with a foreign bank branch. State-owned banks, known as nationalized commercial banks (NCBs), comprise roughly 25 percent of total lending. Financial analysts estimate that a significant share of the country's total asset base is non-performing based on their long-outstanding debts to the NCBs. Following the January 2014 elections, the government agreed to allow financial institutions to reschedule non-performing loans until June 2014. An important part of the IMF's ongoing Extended Credit Facility (ECF) with Bangladesh is related to financial sector reforms.

The Securities and Exchange Commission (SEC) was formed in 1993 to regulate the DSE and Chittagong Stock Exchange (CSE) and protect investors. In 1997, the SEC imposed new restrictions on the involvement of foreign investors in the Bangladesh capital market. The guidelines stipulate that 10 percent of primary issues are reserved for non-resident Bangladeshis. Foreign investors have complained that this measure exacerbates a significant market drawback: the difficulty of buying or selling in volume over a reasonably short period. Bangladesh is a rare case in South Asia which allows 100 percent company ownership by foreigners in most sectors. The SEC considers the 10 percent allowance for non-resident Bangladeshis to be an incentive for foreign investment.

10. Competition from State-Owned Enterprises

State-Owned Enterprises (SOEs) are active in banking, energy, transportation and agricultural sectors. SOEs usually report to line ministries, though the government has allowed some increased autonomy for certain SOEs such as national carrier Biman Bangladesh Airline. State-owned banks generally maintain a wider network of branches and depositors than private banks, but private banks have gradually increased their role. Private energy companies can invest in power generation through independent power purchase (IPP) agreements with the Bangladesh Power Development Board. Oil and gas firms can pursue exploration and production ventures through production sharing agreements with the state-owned oil and gas company, Petrobangla. SOEs maintain control of rail transportation, but private companies compete freely in air and road transportation.

11. Corporate Social Responsibility

The business community is increasingly aware and engaged in corporate social responsibility (CSR) activities with multinational firms and local business conglomerates leading the way. U.S. companies present in Bangladesh maintain diverse CSR activities. Consumers are generally less aware of CSR and there is little pressure from consumers or shareholders for companies to engage in CSR activities. While many international firms are aware of OECD guidelines and international best practices in CSR, most local firms have limited familiarity with international standards.

12. Political Violence

Incidents of violence targeting foreign projects or installations have been isolated and criminal, rather than political, in nature. Extortion of money from businesses by thugs claiming political backing is common. Clashes between supporters of rival political parties and their student and youth wings and even factions within the same party are frequent occurrences, particularly in the run-up to elections. General strikes and blockades called by political parties mostly affect businesses by keeping workers away with the threat of violence and blocking transport, resulting in productivity losses. Vehicles and other property are at risk from vandalism or arson during such programs, and looting of shops has occurred.

Responding to public concern over law and order, the government in March 2004 created a special elite force, known as the Rapid Action Battalion (RAB) as part of its anti-crime initiative. The RAB is comprised of members of the armed forces, the police, and the Bangladesh Border Guard and Ansars, both paramilitary groups. The RAB became operational in June 2004 and has been credited by many Bangladeshis with improving domestic law and order. Soon after its formation, however, the local media began reporting on "cross-fires," a euphemism for extrajudicial killings, particularly by the RAB. Reports of cross-fire incidents continue.

In February 2005 the government banned two extremist groups: Jama'atul Mujahedin Bangladesh (JMB) and Jagroto Muslim Janata Bangladesh (JMJB). On August 17, 2005, JMB, with the assistance of JMJB, set off over 500 small, improvised explosive devices (IEDs) in a coordinated attack in 63 of the 64 districts of Bangladesh. The devices were accompanied by leaflets demanding the establishment of Islamic law in Bangladesh. From September to early December 2005, JMB conducted several suicide attacks targeting local judges, courts and district government facilities. The government responded vigorously, arresting several high-ranking leaders of JMB and recovering detonators, explosives and related materials used to construct IEDs. As of January 2014, there had been no attacks by extremist groups on foreign diplomatic, commercial or social interests in Bangladesh; the current Awami League government has demonstrated a strong commitment to combating terrorism.

13. Corruption

Bangladesh has made some progress in reducing corruption during the last decade, but it remains a serious impediment to investment and economic growth in Bangladesh. While the government has established legislation to combat bribery, embezzlement and other forms of corruption, enforcement is inconsistent. The Anti-Corruption Commission (ACC) is the main institutional anti-corruption watchdog. The current Awami League-led government has publicly underscored its commitment to anti-corruption efforts and reaffirmed the need for a strong ACC. However, efforts to ease public procurement rules and proposals to curb the independence of the ACC may undermine institutional safeguards against corruption. Bangladesh is a party to the UN Anticorruption Convention, but has still not joined the OECD Convention on Combating Bribery of Public Officials.

Corruption is common in public procurement, tax and customs collection, and regulatory authorities. Corruption, including bribery, raises the costs and risks of doing business. By some estimates, off-the-record payments by firms may result in an annual reduction of 2–3 percent of

GDP. Corruption has a corrosive impact on the broader business climate market and opportunities for U.S. companies in Bangladesh. It also deters investment, stifles economic growth and development, distorts prices, and undermines the rule of law.

14. Bilateral Investment Agreements

The U.S.-Bangladesh Bilateral Investment Treaty, signed on March 12, 1986, entered into force on July 23, 1989. Bangladesh has also signed investment treaties with a number of other countries. The Foreign Investment Act includes a guarantee of national treatment.

A bilateral treaty between the United States and Bangladesh for the avoidance of double taxation was signed on September 26, 2004 and ratified by the United States on March 31, 2006. The parties exchanged Instruments of ratification on August 7, 2006. The treaty has been effective for most taxpayers beginning in the 2007 tax year.

On June 27, 2013, President Obama announced his decision to suspend Bangladesh's trade benefits under the Generalized System of Preferences (GSP) in view of insufficient progress by the Government of Bangladesh in affording Bangladeshi workers internationally recognized worker rights. At the time of the announcement, the Administration provided the Government of Bangladesh with a 16-point action plan outlining next steps in a longstanding effort to address in a meaningful way worker safety problems in Bangladesh – the severity of which were exemplified in the tragedies of the November 2012 Tazreen Fashions factory fire and the April 2013 Rana Plaza building collapse – and, more broadly, the ability of Bangladeshi workers to exercise their full range of labor rights. If implemented, the plan would provide a basis for the President to consider reinstating GSP trade benefits; it would also drive transformation of the Bangladeshi apparel sector by bringing it to international standards in terms of fire safety, factory structural soundness, and respect for labor rights.

The United States also associated itself with the July 8, 2013 European Union (EU)-Bangladesh-International Labor Organization (ILO) *Sustainability Compact for continuous improvements in labor rights and factory safety in the ready-made garment and knitwear industry in Bangladesh* (Compact). The United States works as a full partner with the EU, Bangladesh, and the ILO to implement the goals of the Compact, many of which are broadly consistent with the GSP Action Plan.

On November 25, 2013, the U.S.-Bangladesh Trade and Investment Cooperation Forum Agreement (TICFA) was signed in Washington, D.C. The agreement provides a mechanism for both countries to meet regularly and identify obstacles to increasing bilateral trade and investment and how to overcome those obstacles. The successful inaugural TICFA Council meeting was held in Dhaka on April 28, 2014.

Bangladesh has successfully negotiated several regional trade and economic agreements, including the South Asian Free Trade Area (SAFTA), the Asia-Pacific Trade Agreement (APTA), and the Bay of Bengal Initiative for Multi-Sectoral, Technical and Economic Cooperation (BIMSTEC). Bangladesh has taken steps to strengthen bilateral economic relations with India by reducing trade barriers and improving connectivity. Bangladesh gained duty free access to India via regional, not bilateral trade agreements. The first is the South Asian Association for Regional Cooperation (SAARC) Preferential Trading Arrangement (SAPTA) which was signed in April 1993 and operationalized in December 1995, which gives limited preferential market access to exports of member countries. The second is the South Asian Free Trade Area (SAFTA) agreement which was signed in January 2004 in Islamabad and entered into force from January 2006. Tariff reduction under SAFTA started from July 2006. Under these two agreements, Bangladesh can export goods duty free to India except for alcohol, tobacco, RMG and a limited number of other products from a 'sensitive list.' As a founding member of the World Trade Organization (WTO) and as a least-developed country (LDC), Bangladesh has been an active advocate for LDC interests in WTO negotiations.

15. OPIC and Other Investment Insurance Programs

The U.S. Overseas Private Investment Corporation (OPIC) provides insurance coverage for some U.S. firms currently doing business in Bangladesh. OPIC and the Government of Bangladesh signed an updated bilateral agreement in May 1998. More information on OPIC services can be found on www.opic.gov. Bangladesh is a member of the Multilateral Investment Guarantee Agency.

The Export-Import Bank (EXIM) of the United States provides U.S. export-oriented risk protection and financing for some U.S. firms exporting to Bangladesh. In 2013, EXIM maintained $240,590,228 in exposure related to Bangladesh.

16. Labor

Bangladesh has a population of over 155 million people and a labor force of 57 million people, including 2.5 million union members. Over 60 percent of the labor force works in the agricultural sector, roughly 10 percent in industry, and the remaining in the services sector. Low official unemployment statistics obscure a huge and growing under-employment problem in Bangladesh. Bangladesh's comparative advantage in cheap labor for manufacturing is partially offset by low productivity due to low skills, poor management, and inefficient infrastructure and machinery, as well as rising minimum wage rates, particularly in the garment sector.

Bangladesh has labor laws that specify employment conditions, working hours, minimum wage levels, leave policies, health and sanitary conditions, and compensation for injured workers. Freedom of association and the right to join unions are guaranteed in the constitution. In practice, compliance and enforcement of labor laws are inconsistent, and companies frequently discourage the formation of active labor unions. Historically, unions are heavily politicized, and labor-management relations are often contentious, particularly in the ready-made garment (RMG) sector which registered over 100 new unions in 2013.

In July 2004, parliament enacted a law granting limited freedom of association in the export processing zones. Workers of the industrial units are allowed to form a welfare council to develop and grow into organizations, defending their welfare through collective bargaining, according to the law which was renewed and updated in 2010. These special labor provisions for export processing zones were due to expire in 2013, but remain in force. Employers are required to form worker welfare councils once the workers apply for such formation. However, some restrictions related to strikes expired in 2013. For industries outside of EPZs the Labor Act, 2006 provides similar rights to form labor union by the workers. The implementation of worker welfare councils in the export processing zones is uneven with many larger factories ignoring the provision altogether. Labor disputes do not necessarily need to be heard before a court. Many companies have found it effective to resolve issues before a Labor Tribunal.

The ILO also launched in October 2013 a $24.2 million, a three-and-a-half year program to support implementation of Bangladesh's National Tripartite Plan of action on fire safety an structural integrity in the ready-made garment (RMG) sector. Key elements are already being implemented, including building and fire safety assessments; labor inspection reforms; and occupational safety and health, rehabilitation and skills training. The ILO, in partnership with the International Finance Corporation (IFC), also initiated the largest ever Better Work program in Bangladesh in an effort to improve labor standards. Better Work will provide assessments of factory compliance with national law and core international labor standards, paired with transparent public reporting on findings. The program will also provide advisory services to factories, concentrating on building worker/management dialogue to improve working conditions and competitiveness, and engage with national partners to promote sectoral changes, including effective industrial relations.

Child Labor

Bangladeshi law sets a minimum age of 14 for employment and 18 for hazardous work. Numerous laws prohibit child labor in certain sectors, ranging from transport workers to tea plantation labor, but these have not been consistently applied to informal sectors, such as agriculture and domestic work, where the majority of children are employed. As a result, child labor in Bangladesh has historically been a problem. On July 4, 1995, Bangladesh's garment exporters association signed a memorandum of understanding (MOU) with the United Nations Children's Fund (UNICEF) and the ILO under which child laborers were removed from EPZ textile factories and enrolled in education programs. ILO-assisted monitoring teams, which found child laborers in 43 percent of EPZ factories in 1996, found them in fewer than 5 percent in 2001. The MOU program has been phased out, and the U.S. Embassy considers the project a success, with most child labor now eradicated from the EPZs, and from the garment sector in general. Child labor laws are not effectively enforced outside of the EPZs, particularly in the informal sector that employs 80 percent of the workforce. Bangladesh, however, is working to improve compliance with ILO conventions on child labor.

17. Foreign Trade Zones/Free Ports

Under the Bangladesh Export Processing Zones Authority Act of 1980, the government established an EPZ in Chittagong in 1983. Additional EPZs now operate in Dhaka (Savar), Mongla, Ishwardi, Comilla, Uttara, Karnaphuli (Chittagong) and Adamjee (Dhaka). Korean investors are developing a private EPZ in Chittagong. Investments that are wholly foreign-owned, joint ventures and wholly Bangladeshi-owned companies are all permitted to operate and enjoy equal treatment in the EPZs. Approximately a dozen U.S. firms -- mostly textile producers -- are currently operating in Bangladesh EPZs, and U.S. garment sector buyers source heavily from EPZs. Investors are generally satisfied with the operation of Bangladesh's EPZs, which have played a significant role in the success of Bangladesh's RMG industry.

In 2010, Bangladesh enacted a Special Economic Zone Law that allows the creation of privately-owned special economic zones (SEZs) that can produce for export and domestic markets. The IFC is assisting the government to establish an SEZ authority, Bangladesh Economic Zones Authority (BEZA), modeled after BEPZA, to implement the new law and oversee the establishment of SEZs. The Bangladesh Economic Zones Act 2010 is still in place. On 18 April, 2012 the BEZA Governing Board decided to establish five economic zones in the country:

1. Mongla, Bagerhat (http://www.beza.gov.bd/mongla_khulna.php)
2. Sirajganj, Rajshahi (http://www.beza.gov.bd/sirajganj_rajshahi.php)
3. Anowara, Chittagong (http://www.beza.gov.bd/anwara_chittagong.php)
4. Mirershorai, Chittagong (http://www.beza.gov.bd/mirershorai_chittagong.php)
5. Maulvibazar, Sylhet (http://www.beza.gov.bd/moulvibazar_sylhet.php)

18. Foreign Direct Investment and Foreign Portfolio Statistics

According to the United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2013, FDI inflows to Bangladesh decreased by 13 percent to just under $1 billion. Nonetheless, Bangladesh remained the third largest recipient of FDI in the region, after India and the Islamic Republic of Iran. Outward FDI flows stood at $53 million, approximately 76 percent more than that of 2012. Major sources of investment include the United States, the United Kingdom, South Korea, Japan, Norway and India.

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Host Country Statistical source*		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (*Millions U.S. Dollars)*	2012	11,579	2012	11,640	http://www.worldbank.org/en/country

Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (*Millions U.S. Dollars, stock positions)*	2013	551.43	2012	368	http://www.bea.gov By Country only (all countries) (Millions of Dollars)
Host country's FDI in the United States (*Millions U.S. Dollars, stock positions)*	N/A	N/A	2012	5	http://www.bea.gov By Country only (all countries) (Millions of Dollars)
Total inbound stock of FDI as % host GDP	2012	6.5	2012	6.5	UNCTAD World Investment Report 2013

* http://www.mof.gov.bd/en/budget/13_14/ber/en/chapter-2_en.pdf
* www.bangladesh-bank.org
* http://www.mincom.gov.bd

TABLE 3: Sources and Destination of FDI
(US Dollars, Millions)

From Top Five Sources/Destinations of FDI					
Inward Direct Investment			Outward Direct Investment		
Total Inward	8,063	100%	Total Outward	90	100%
United Kingdom	886	11%	United Kingdom	26	28%
Australia	877	11%	United Arab Emirates	21	23%
United States	702	9%	India	12	13%
Korea, Republic of	628	8%	Sri Lanka	9	10%
Netherlands	516	6%	Nepal	6	7%
"0" reflects amounts rounded to +/- USD 500,000.					

Source: http://cdis.imf.org/

19. Contact Point at Post for Public Inquiries

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