Interview: Bangladeshis investing abroad: Long-term benefits outweigh the costs of any potential shocks

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Illustration: TBS

Bangladeshi investors will now be able to invest 20 percent of their average exports earnings from the past five years or 25 percent of their net assets abroad. The declaration came on 16 January from the Financial Institutions Division of the Ministry of Finance.

As of now, only export-oriented companies have been allowed to invest abroad given that they abide by seven conditions and receive permission from Bangladesh Bank. To qualify, prospective investors must have a credit rating of at least 2.0 and have an adequate balance in their Export Retention Quota (ERQ) accounts.

For those in the dark, exporters are required to keep a share of their export earnings as foreign currencies in these accounts. The central bank is primarily in charge of determining the credibility and sustainability of the investment proposal by potential investors.

While exporters and many economists have welcomed this decision as a step towards the right direction, certain issues need to be addressed such as the risks involving increased money laundering, exposing domestic firms to shocks in the international market and the overall impact on the economy.

The Business Standard spoke to Dr Ahsan H Mansur, the Executive Director of the Policy Research Institute of Bangladesh to delve deeper into the topic.

The Business Standard: Under certain conditions, Bangladeshi exporters are being allowed to invest at most 25 percent of their net wealth abroad. How would you evaluate this decision?

Ahsan H Mansur: First, we have to evaluate the current condition of Bangladesh juxtaposed against the condition of our neighbouring countries like India and China, who are doing well. We need to assess the policies that have worked well for them and whether we can adopt similar policies as well.

From Policy Research Institute (PRI), we have repeatedly urged the former Governor Atiur Rahman that Bangladesh Bank needed to liberalise its policies for foreign investment. The law currently dictating foreign investment was passed during the Pakistan period and had become rather outdated for a modern globalised economy.

Both India and China were able to achieve massive economic growth after adopting trade liberalisation, much more than Bangladesh.

Inevitably, Bangladesh had to adopt more liberalised policies as well to allow domestic companies, particularly the multi-billion dollar Bangladeshi companies, to grow beyond the confines of the national border. This policy would also make sure that domestic companies are not forced to leave the country or shift their operations abroad because of capital account restrictions and for more investment-friendly regulations.

While the introduction of this policy should be appreciated, future policies should gradually become even more open to trade.

TBS: Will Bangladeshi companies investing abroad create a culture of reciprocity where *foreign direct investment in Bangladesh increases as well?*

AHM: Earlier experience suggests that countries that liberalised their capital account accompanied by sound domestic policies, enjoyed increased foreign direct investment as well. Capital account liberalisation increases the confidence of foreign investors in the domestic market. For instance, before the 1990s, India didn't receive much FDI. However, after capital account liberalisation in the '90s, the FDI flow to India increased overwhelmingly.

The same could be said for China. In China, there are restrictions on capital accounts in terms of investing in foreign real estate or other similar assets. However, there are no restrictions on investing in foreign companies. Such policies limit money laundering while ensuring economic growth as well.

Ahsan H Mansur. Illustration: TBS

TBS: There's the classic infant industry argument that suggests the domestic companies may suffer because of the potential outflow of capital and subsequent crowding out of investment. What are your thoughts on that?

AHM: Look, there is a culture in Bangladesh where discretionary forces launder their money either way. I believe this money being invested in foreign companies instead may foster domestic economic growth. In terms of increased competition for investment, it's better for the growth of the domestic companies that they face foreign competition to receive investment. Such competition would drive them to innovate, improve quality and increase their hold on the market by reducing prices which would, in turn, benefit the consumers.

TBS: Regulatory authorities in Bangladesh have often succumbed to the discretionary forces. Bangladesh Bank has been tasked with regulating and giving permits for foreign investment? Do you believe they are well-equipped to take on these challenges given their less-than-ideal performance in regulating private banks?

AHM: These regulations have been put in place to make sure only the companies with stable accounts get to invest abroad. However, the government and its affiliated organisations must maintain their objectivity to follow through on the promises of this policy. It will also require substantial political goodwill to not provide any leeway to the discretionary forces.

TBS: Investing in foreign markets may expose domestic companies to undue risks beyond the control of the GOB. For instance, although the 2008 financial crisis primarily hit Wall Street, its effect could be felt worldwide. Do you think Bangladeshi companies can exhibit sufficient resilience to absorb such shocks?

AHM: If you keep living in a well, you will not feel the storm. But is that something we should aspire to be? I don't think so. Yes, weathering the storm may leave you stranded in the short run, but you can also recover from these shocks faster. Just look at South Korea. The Korean economy was over-exposed to the US financial market and the Korean economy was dealt a heavy blow during the 2008 financial crisis. But they recovered from the shock within 1-2 years.

I believe that the economy of Bangladesh already has sufficient economic resilience to absorb global economic shocks and will only become more resilient in the future. In short, the long-term benefits from capital account liberalisation outweigh the costs of any potential shocks.

TBS: Bangladesh Bank will prioritise permitting companies or investors who will employ Bangladeshi workers. How would this affect the overseas employment of Bangladeshi migrants?

AHM: Whenever any company invests abroad or expands its operations to a new country, they initially bring in people from their home country (in this case, Bangladesh), to set up the operation. So, this has the potential to create more employment opportunities for Bangladeshi citizens currently living abroad, as well as those seeking overseas employment. For instance, there are Bangladeshi companies currently operating in Jordan that only employ Bangladeshi workers.

TBS: Since liberalisation in the 1990s, multi-billion dollar companies in India have gained much influence over the democratic institutions of the country. Do you think capital account liberalisation may have a similar impact on the already-compromised democratic institutions of Bangladesh?

AHM: It's very natural for large companies employing hundreds of thousands of people to have a certain degree of influence over the political process. It's the extent of the influence that the government must remain careful of. Under no circumstances should it be allowed to sacrifice public welfare for the sake of economic growth. Consumer rights must be protected under all circumstances and the government must play the role of the mediator and maintain a balance between economic growth and the welfare of its citizens.

For instance, in recent history, the Chinese government took a political decision to crack down on corporations like Alibaba that were considered too big to fail. While such a practice is not recommended, it goes on to show how powerful the government is and as mentioned before, only needs to possess goodwill to keep the discretionary forces in check.

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