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WANING FOREIGN INVESTMENT: A WAKE-UP CALL FOR POLICY-MAKERS IN BANGLADESH

by Selim Raihan

Bangladesh has struggled to attract substantial foreign direct investment (FDI), reflected in its low FDI as a percentage of GDP compared to regional peers. In 2023, Bangladesh's FDI to GDP ratio was only 0.4%, while Vietnam's was 4.3%. In that year, Vietnam attracted around 39 billion US dollars in FDI, whereas Bangladesh only saw around 3 billion. The July-September quarter of FY25 showed a 71% year-on-year decline in FDI for Bangladesh. It is well known that foreign investment drives economic growth by bringing capital, creating jobs, transferring technology, and enhancing global market access. For Bangladesh, with its large workforce, FDI is essential for industrialization. Therefore, the decline in FDI threatens Bangladesh's goal of becoming a middle-income country and requires immediate policy reforms.

Several factors contribute to the low inflow of FDI and the recent decline. Reversing the unsatisfactory FDI trend requires bold, forward-thinking policies and decisive action. Policymakers must take a holistic approach to creating a more attractive investment climate.

Firstly, bureaucratic red tape and corruption are significant deterrents to investment in Bangladesh. The country ranks poorly in global business environment indices and Transparency International's Corruption Perceptions Index. Investors face excessive red tape, unpredictable and unfriendly tax systems, slow decision-making, and policy uncertainty. Lengthy procedures for obtaining permits, land, and utilities, combined with demands for bribes, frustrate both domestic and foreign businesses. The lack of transparency and accountability in governance further erodes investor trust. To address these issues, bureaucratic reforms are essential. Simplifying procedures, digitizing services, and operationalizing One-Stop Service Centers (which are largely dysfunctional now) can reduce delays. Strengthening anti-corruption measures and ensuring accountability will help rebuild trust in the system.

Second, Bangladesh's political landscape, marked by partisan conflict, the dominance of the crony capitalists, and policy reversals, adds to investor uncertainty. Additionally, macroeconomic instability-high inflation, currency depreciation, and fiscal deficits—raises concerns about business viability. Investors seek stability, which Bangladesh struggles to guarantee. Establishing consistent policies, ensuring fair competition, and combating corruption are crucial. Strengthening institutions, enforcing contract laws, and maintaining political stability will foster a conducive environment for long-term investment.

Third, while the country has made some progress in infrastructure development, including mega-projects like the Padma Bridge and metro rail, significant gaps remain. Power shortages, inefficient ports, and congested transport networks raise business costs. In contrast, Vietnam's integrated industrial zones offer a seamless experience. Bangladesh must prioritize infrastructure by accelerating key projects and improving maintenance. Public-private partnerships (PPPs) should be used to mobilize resources, but transparency is essential to avoid corruption and inefficiency.

Fourth, weaknesses in the country's banking sector, including high non-performing loans (NPLs), financial mismanagement, and lack of oversight, dampen investor sentiment. Foreign investors are wary of a system with weak financial governance and regulatory oversight. Unstable exchange rates and low foreign exchange reserves further discourage investment. Stabilizing the financial sector through stricter regulation and better governance is essential. Decisive actions to address NPLs, punish fraud, and restore confidence in the banking system are crucial for attracting foreign investment.

> "THE LOW LEVEL AND THE DECLINE IN FOREIGN INVESTMENT IS NOT JUST AN ECONOMIC ISSUE BUT A REFLECTION OF DEEPER STRUCTURAL AND GOVERNANCE CHALLENGES."

Fifth, Bangladesh boasts a young and growing workforce, but the quality of human capital remains a challenge. Many investors struggle to find adequately trained workers, particularly in technology-intensive sectors. Without substantial investment in education and vocational training, Bangladesh risks losing out on high-value FDI to competitors with better-equipped labour markets. Bangladesh must revamp its education system, align vocational training with industry needs, and promote STEM (Science, Technology, Engineering, and Mathematics) education to prepare workers for the evolving job market.

Finally, Bangladesh's reliance on the ready-made garment (RMG) sector, which accounts for over 80% of exports, makes it vulnerable to external shocks and limits its appeal to diversified investors. While the RMG sector has been a success story, over-dependence on a single industry is risky, especially as global demand fluctuates, and competition intensifies from other countries. To attract a broader range of investors, Bangladesh must diversify its economy. Policymakers must create an enabling environment for emerging industries by offering incentives, investing in skills development, and fostering innovation. Special economic zones (SEZs) with world-class facilities and streamlined regulations can serve as hubs for new industries and attract foreign investors.

The low level and the decline in foreign investment is not just an economic issue but a reflection of deeper structural and governance challenges. For Bangladesh to achieve its ambitious development goals, it must confront these challenges head-on. Policymakers must recognize that attracting foreign investment is not just about offering tax breaks or incentives but about creating a stable, transparent, and business-friendly environment.

The time to act is now. The global economic landscape is rapidly evolving, and competition for investment is fiercer than ever. If Bangladesh fails to address the root causes of its waning FDI, it risks falling behind its peers. The wake-up call has been sounded; the question is whether policymakers will heed it.

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DIVERSIFYING FEMALE EMPLOYMENT BEYOND THE RMG SECTOR

by Ekramul Hasan and Dipa Das

Bangladesh's female labour market is predominantly characterized by informal employment, which accounts for 96.6% of total female employment. Although women's participation in the labour force has increased from 36.3% in 2016-17 to 42.7% in 2022, it still lags far behind the male labour force participation rate of 80%. Female participation in formal and technical jobs remains significantly lower. Major proportion of employed female (74.1%) are engaged in agriculture, while only 8.7% work in industry and 17.2% in the service sector. Representation of women in managerial positions is also significantly lower, even in industries such as ready-made garments (RMG) where women constitute 57.8% of its workforce. Additionally, the RMG sector's employability of women is at risk due to the increasing trend of automation, 4IR, rising demand for skilled labour, and unfavourable impact on the sector being anticipated as an aftermath of Bangladesh's LDC graduation by 2026 as it may lead to reduced exports and diminished opportunities for women in the sector.

In this context, creating more opportunities and exploring untapped sectors to absorb more female workers is essential apart from traditional labour-based agriculture and RMG. Much of the existing research on this topic are focused on supply side factors, leading towards a biased result. In one of our studies titled "What Drives Female Employment in Contemporary Sectors? Evidence from Bangladesh's Agro-Processing, Jute, and IT Industries", we identified this gap and set out to explore demand-side factors impacting female employment and managerial representation in Bangladesh's agro-processing, jute, and IT sectors. The sectors were identified from a pool of 29 sectors based on various parameters such as domestic and international market size, sector readiness, SME linkage possibility, job creation and job quality etc.

The study revealed several key insights. Female-owned firms were found to employ significantly more women at both general and managerial levels. Larger firms tend to employ more women overall, but size alone does not translate into greater female representation in leadership. Agro-processing and jute industries showed higher levels of female employment compared to IT. However, the IT sector's technical skill requirements and ingrained gender biases create significant barriers for women. Patriarchal attitudes and perceptions of women's limited technical capabilities further exacerbate this issue.

The study highlighted that firms with a higher share of female employees were more likely to have women in managerial roles. However, joint ventures and foreign-owned firms showed a reluctance to promote women to managerial levels, despite hiring them in general roles. Interestingly, factors like exporter status and international certification—often associated with formalization—did not significantly boost female employment. This anomaly might stem from the limited export contributions of the analyzed sectors compared to RMG, which dominates Bangladesh's export basket. Nonetheless, it implies that the emerging export-oriented firms face structural challenges or business models less conducive to gender diversity.

> "FOSTERING AN INCLUSIVE WORKFORCE CAN LEAD TO CULTURAL SHIFTS THAT SUPPORT WOMEN'S ADVANCEMENT INTO LEADERSHIP POSITIONS."

Aligning with the prior research, the study witnessed firms with a higher share of low-skilled workers requirement to be hiring women more likely, which highlights that a lack of skills often pushes women into lower-wage jobs. Low-skilled roles, however, do not lead to leadership opportunities for women, reflecting limited upward mobility within these positions. In contrast, firms with a higher share of high-skilled workers requirement slightly increase opportunities for women in leadership, as high-skill sectors exhibit fewer gender biases and are more conducive to promoting women.

The findings underline the urgency of strategic interventions to enhance female employment and leadership in Bangladesh. Key recommendations include promoting female entrepreneurship, as initiatives to support women-led businesses can significantly boost female employment. Providing access to credit, mentorship, and training tailored for female entrepreneurs can empower more women to enter and thrive in the business world. Addressing the skill gap is crucial, particularly in STEM fields and technical roles. Policies should focus on training programs that equip women with industry-specific skills, enabling them to participate in high-demand sectors like IT. Tackling patriarchal attitudes and male-centric hiring practices is essential, especially in the IT sector. Awareness campaigns and gender-sensitivity training for employers can help create a more inclusive workplace culture.

Firms should be incentivized to adopt hiring strategies that prioritize gender diversity. For instance, tax benefits or recognition programs could motivate businesses to employ and promote more women. Encouraging women's representation in managerial positions is critical for driving workplace inclusivity. Policies should mandate gender diversity at leadership levels, particularly in larger firms and joint ventures. Agro-processing and jute sectors have demonstrated their potential for employing women. Strengthening these industries through investments and supportive policies can further increase female participation.

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BREAKING BOUNDARIES: SHIFT FROM UNPAID WORK TO SELF-EMPLOYMENT

by Ekramul Hasan, Dipa Das, and Md. Tuhin Ahmed

Bangladesh has been going through a demographic window of opportunity since 1991 but is yet to reap its potential benefits. The national unemployment rate, which is around 3.5 per cent according to the Quarterly Labour Force Survey (QLFS) 2022, might indicate Bangladesh doing well in employment generation, notable disparity exists across different age groups, education levels and types of employment. For instance, youth unemployment is thrice as much as the national rate, with the highest unemployment rate among graduates. Educated youths suffer the most as they are overqualified for low-tier jobs and cursed by the scarcity of medium to high-tier market jobs. This leads them into the dilemma of entering low-tier jobs or remaining jobless and trying to secure traditional employment repeatedly. In this scenario, self-employment and entrepreneurship can be a way out for the youths and people in general, who are either unemployed or not satisfied with their current job opportunities.

Additionally, many females in the country work as contributing family workers, especially in rural areas compared to males. For these females burdened with care work, self-employment can be a suitable pathway to gain economic independence along with their care work and other responsibilities. Moreover, self-employment dynamics are no longer limited to people with fewer opportunities in traditional wage-earning jobs. Rather it is increasingly viewed as a viable option for ambitious professionals who prefer alternative career models, breaking away from the constraints of traditional employment. Nowadays, self-employment is considered a choice-based decision and it is becoming more attractive to people who believe their wage work value is low and they have more autonomy and flexibility in entrepreneurship.

Given this context, we examined the demographic, socio-economic and regional factors which might influence individuals' decisions to pursue self-employment over unpaid labour. To do this, we used QLFS 2022 to estimate the relative risk ratios (RRRs) from a Multinomial Logit Model. In this setting, our dependent variable was employment status which includes four types of employment such as unpaid workers, own account workers (self-employment), employers and wage workers, with unpaid work as the reference category. Therefore, the RRRs represent the risk of an individual being in one of the employment categories relative to unpaid labour.

> “UNPAID LABOUR IS STILL THE DOMINANT EMPLOYMENT FORM FOR MANY FEMALES, LIMITING THEIR ECONOMIC INDEPENDENCE.”

The results revealed that age, education, and household wealth significantly increase the relative risk of choosing self-employment over unpaid labour. With the increase in age, older individuals are more likely to be shifted to self-employment. Compared to males, females are less likely to have any paid employment highlighting the structural barriers faced by females' employment opportunities. For instance, as opposed to males, the risk of an individual being female is 0.400 times less likely to become self-employed and 0.170 times less likely to become an employer. This indicates that unpaid labour is still the dominant employment form for many females, limiting their economic independence.

Marital status also plays an important role, with married individuals more likely to transition to self-employment, but showing no significant effect on wage employment. This suggests that marital responsibilities push individuals toward entrepreneurship but do not necessarily promote wage employment. Education emerges as a key driver of entrepreneurship. Compared to individuals with no education, those with tertiary education have a relative risk of becoming an employer that is 6.788 times higher, while individuals with secondary education have a relative risk of becoming self-employed that is 2.152 times higher. Higher education fosters the skills and opportunity recognition necessary for entrepreneurial success.

Being the head of a household strongly influences self-employment, with household heads having a relative risk of 15.693 times higher for pursuing self-employment and a relative risk of 19.013 times higher for becoming employers. This is likely due to their financial responsibilities, which push them toward income-generating activities. Wealthier individuals have a relative risk of 9.493 times higher for becoming employers, suggesting that wealth facilitates risk-taking in entrepreneurship. However, wealth reduced the relative risk of wage employment, as wealthier individuals often prefer to create businesses rather than work for others. Land ownership shows a negative correlation with all employment categories, especially wage employment, indicating that individuals with substantial landholdings may prioritise unpaid labour or agriculture.

Urban residency significantly increases the relative risk of both self-employment and wage employment, reflecting better access to opportunities in urban areas. There are regional disparities as well, with individuals from Barishal, Chattogram, and Khulna being more likely to be self-employed or employers compared to those in Dhaka. In contrast, Rajshahi and Rangpur show negative associations with economic independence.

The findings highlight the need to address gender and regional disparities in access to self-employment opportunities. Policymakers should focus on supporting women entrepreneurs through various initiatives to increase their participation in self-employment. Inclusive policies are vital to fostering a balanced labour market, driving economic growth, and reducing dependence on unpaid labour.

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SANEM Events

PANEL DISCUSSION: SANEM and the Institute for Human Development (IHD) co-organized a panel discussion titled "Dynamics of Emerging Labour Markets and Changing Industrial Relations: Perspectives from South Asia," at the 65th Indian Society of Labour Economics (ISLE) Conference in Bengaluru, India on January 10, 2025. Dr Selim Raihan was a panellist at the discussion. The discussion also included Dr Greg Bamber, Professor & Co-Director, International Consortium for Research in Employment & Work, Department of Management, Monash Business School, Dr Ganga Tilakaratna, Research Fellow and Head, Poverty and Social Welfare Policy Research, IPS Sri Lanka, Dr Paras Kharel, Executive Director, SAWTEE, Dr Ernesto Noronha, Professor, IIM Ahmedabad, and Dr Kingshuk Sarkar, Associate Professor, Goa Institute of Management.

CONFERENCE: SANEM researchers presented two significant papers at the 65th ISLE Conference. The first paper, “The Role of Demographic, Socioeconomic and Regional Factors in Shifting from Unpaid Labour”, was authored by Ekramul Hasan, Research Associate, Dipa Das, Research Associate, and Tuhin Ahmed, Senior Research Associate at SANEM. The second paper, “What Drives Female Employment in Contemporary Sectors? Evidence from Bangladesh's Agro-Processing, Jute, and IT Industries”, authored by Ekramul Hasan and Dipa Das, won the prestigious Ruddar Dutt Memorial Award for Best Paper.

SEMINAR: The second session titled “Economic Reforms and Institutions” of the symposium titled "White Paper and Thereafter: Economic Management, Reforms, and National Budget" was held at the Bangabandhu International Conference Centre in Dhaka on January 18, 2025. The seminar featured distinguished personnel including Commerce Adviser Sk. Bashir Uddin, Dr Zahid Hussain, former lead economist at the World Bank, Dr Debapriya Bhattacharya, distinguished fellow at CPD, Professor Mustafizur Rahman, distinguished fellow at CPD, Dr Sayema Haque Bidisha, pro-vice chancellor of Dhaka University, Owais Parray, Senior Economic Adviser at UNDP Bangladesh. Dr Selim Raihan delivered a presentation in the second session.

WORKSHOP: Afia Mubasshira Tiasha, Senior Research Associate at SANEM, participated in Oxfam Bangladesh's workshop on "Collaborative Pathways to a Just Energy Transition (JET)" held on January 15–16, 2025, at Dream Square Resort, Gazipur. The event focused on creating green jobs, empowering marginalized communities, and fostering global solidarity for equitable climate solutions and a sustainable future. Sheikh Tausif Ahmed, Research Associate at SANEM attended a workshop organized by BBS on the formulation GDP and QGDP on January 23, 2025.

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