

BANGLADESH, 2022

# FDI IN LOGISTICS SECTOR WHITE PAPER



 **NORDIC CHAMBER OF COMMERCE  
AND INDUSTRY (NCCI) IN BANGLADESH**

PREPARED BY:

**EDGE**  
RESEARCH & CONSULTING



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# EXECUTIVE SUMMARY



Bangladesh has achieved significant economic growth in the last two decades, close to doubling its external trade in the last ten years. However, compared to the growth in the real economy, the logistics sector has been lagging behind. This has led to this sector being plagued by a multitude of bottlenecks and challenges. A country's logistics sector forms the backbone for all trade, and if Bangladesh wishes to attain the economic goals it has set for itself in the long run, and establish itself as a relevant global player, it will have to give due importance to the logistics sector immediately. In a positive development, the Bangladesh government has already taken steps in line with acknowledging the importance of this sector, and has already prepared the draft 'National Logistics Development Policy, 2022'.

This paper looks at the current state and problems faced by the logistics sector of Bangladesh, before taking a deeper dive into the core issues that have caused this current scenario. Given the broadness of the logistics sector, it is difficult to define it as it encompasses multiple areas, including transport and transport infrastructure, shipping and delivery, warehousing and storage, cold chain, courier and postal services, etc. This white paper deals only with the first two, and to some extent the third (warehousing and storage), in an attempt to provide a generalized idea of the sector.

Bangladesh's logistics sector performance, especially concerning infrastructure development has been lacking. This is especially true at key points, such as ports. This has led to overall high levels of inefficiencies in the form of severe congestion, long lead times, and storage space issues. These shortcomings are further worsened by the current processes in place, which are time-consuming and complex. The sector also suffers from wide-ranging inefficiencies stemming from an overall lack of digitization. A World Bank report estimates that a comprehensive approach that reduces inefficiencies and a well-rounded logistics policy could reduce logistics costs by up to 26%, translating into an increase in exports by 19%.

We identify two main causes for the so far subpar and inefficient performance— institutional weaknesses and lack of funding, especially when it comes to FDI inflows. The logistics sector is governed by multiple government bodies (nine ministries and more than twenty government agencies) that fail to coordinate with each other due to the complex structure. The bodies prioritize short-term goals over the long-term development of the sector and have so far, been weak at enforcing the rules currently in place. These rules are also inadequate to address the challenges faced by the sector and are more concerned with policing rather than encouraging logistics activities and fund flows. Therefore, it stands as no surprise, that the logistics sector has seen historically very low levels of funding— both public and private. A World Bank report estimates Bangladesh's annual infrastructure investment needs to be as high as 10% of GDP (transport infrastructure represents half). In stark contrast, public investment in infrastructure in the last 15 years (until 2019), has been less than 2% of GDP, representing a growing gap between what is needed, and what is available.

FDI inflow has been hindered by multiple factors, most of which are byproducts of institutional weakness and legacy policy settings. A major blockade to foreign fund inflow in logistics is the restriction on full private foreign ownership. As per the rule, there is a bar on 100% foreign ownership (capped at 49%) in the logistics sector. This discourages foreign participants to invest as they are required to form joint ventures with local companies and share valuable technologies, know-how, and network benefits, without having majority ownership. The combined effect of the lack of policy support and transparency concerning laws and regulations, as well as unpredictability about future plans is that the logistics sector received barely any investment from foreign parties (Bangladesh's net FDI inflow in the last 10 years averaged only 1% of GDP). Also, foreign players have been largely left out of critical conversations regarding planning and policy setting, causing a business environment that is discouraging for foreign participants.

Bangladesh will have to position itself as a competitive partner in trade moving forward; failure to do so will cause the country to see both trade and fund inflows being diverted to competitors. This is becoming even more relevant as the country is set to graduate from LDC status by 2026 end. This will mean that the country will no longer enjoy many of the preferential treatment facilities it does now, and therefore, will have to develop a competitive edge to hold onto its export performance. To do so, and also to become a regional trade hub, the country will have to improve its logistics expertise. Bangladesh's geographical position means it is a natural gateway to growing South East Asian markets and development in the logistic sector will help the country transform into a regional hub for trade. FDI can fast-track development in this sector, propelling the economy forward. FDI in logistics should not be thought of on its own, as it has multidimensional positive effects across various industries. FDI will bridge the gap between Bangladesh and significantly more efficient and advanced foreign participants, allowing crucial transfer of best practices and technology. It would also ensure the country gains investor confidence, and help tap into Bangladesh's potential.

This paper, therefore, lands on a critical conclusion— policy dialogues and policy changes concerning FDI inflows are essential for progressing the development of the logistics sector of Bangladesh in the future, to help the country hold onto its competitiveness. To this end, we make some policy recommendations, that would help encourage FDI to flow into this sector.

**Recognize the importance of the logistics sector in the growth of the economy:**

The Bangladesh government needs to formally recognize the logistics industry and clearly define the scope of the industry, followed by long-term objectives. This could be done through a formal logistics policy with a long-term horizon (of 30 years), effectively drawing a blueprint for the sector to follow.

**Empowering a central body to coordinate and implement long-term policy goals:**

A central coordinating agency responsible for communicating with the various ministries and is also responsible for attaining the long-term logistic sector objective will need to be set. This will provide direction to the development of this sector and place accountability for attaining goals.

**Remove restrictions on foreign ownership:** This rule has deprived the logistics sector of much-needed injection of foreign investment, and as a result, better technologies and methods. A change in this restriction is crucial as it will provide foreign participants with control over their investments and thereby encourage FDI.

**Introduce incentives and subsidies:** The government should also provide sufficient advantages (tax benefits) to encourage participation. This would garner attention and attract funds from both foreign and domestic players. Additionally, the following of rules, and usage of greener options should be incentivized.

**Licensing needs to be made easier:** The process needs to be made convenient. Licenses granted should be for longer tenure; the renewal process should be simplified and overall regulatory hassle should be minimized.

**Enhance transparency and digitization:** There needs to be an effort across the industry to enhance and adopt digitization as it will solve a multitude of efficiency-related issues currently being faced. All laws and regulations are available and easily accessible online and a joint effort should be undertaken to reduce paper documentation and enhance cohesiveness across documents. Government systems should be synchronized and linked to allow the seamless flow of information and reduce the amount of regulatory work that needs to be done. Additionally, this will also help combat facilitation payments. Efforts taken by industry stakeholders to enhance digitization should be facilitated and incentivized.

**Consultation with broad stakeholder groups while policy preparation:** There needs to be an open dialogue between the various participants and the government, with the latter making an effort to include their viewpoints when designing policies. Foreign participants in this sector have more advanced technology and a wealthy repository of know-how, which could solve several bottlenecks in the local industry, and propel forward.

# BANGLADESH OVERVIEW

The Bangladesh story so far has been impressive, with the gross domestic product growing by almost seven times in the last two decades. The country has showcased incredible resilience amidst several challenges and has come a long way in its 50 years of independence. Bangladesh's government remains optimistic about the country's economic performance and has estimated a GDP growth rate of 7.25% for FY22 and projected a growth of 7.5% for FY23. This is higher than the forecasts of development partners— World Bank has set a forecast of 6.7% and ADB of 7.1% for FY23. The country is on track to graduate to a 'developing nation', but will however go through a delayed phase of five years (till 2026) due to COVID-19-related challenges. Bangladesh's growth has been consistent, and the country has made exemplary progress on both the economic and social front. GDP growth rates have been amongst some of the global highest in the last ten years and have shown incredible resilience to unprecedented shocks.

Bangladesh has a very large population —165.6 million as of June 2019. It is the 8th most populous country in the world, however, much of the population is very young (median age of 27.9 years). The country's young age, combined with rising literacy and income levels, provides it the advantage of a large demographic dividend that is up for extraction. The population has continued to prosper; per capita income increased to USD2,591 in FY21. This growth has been supported by exports, remittances, and rising private consumption. Despite this, the country struggles with rises in poverty in the last 2 years, resulting from informal sector shutdowns amid the COVID-19 pandemic.

Export grew ~5% annually in the last 10 years (CAGR till 2021) and by 34% in the last fiscal year (FY22). While this naturally faced contraction during the pandemic, it quickly bounced back by 2021. This has been largely dominated by ready-made garments which account for more than 80% of all exports. Multiple other sectors have shown promise as well, of which pharmaceuticals are highly notable. Remittance has been robust throughout; Bangladesh has been fortunate to have its strong inflow of remittance to support it through difficulties. As of the end of 2021, remittance inflow grew to a record high of USD22.1bn. Both exports and remittance inflows play a dominant role in the plans of the country, as mapped out in 'Vision 2041' and "Delta Plan 2100".

Bangladesh's economy remains highly agrarian, with ~38% of the population employed in the agriculture sector<sup>1</sup>. Rice, the major crop, saw production growing to 35.85mn MT<sup>2</sup>. This sector has helped the country fend off some of its food security-related concerns, however, the country is still highly reliant on imports for a number of essentials— notably, on fuel. This made the country especially sensitive to global price hikes and supply-related bottlenecks that arose due to the Russia-Ukraine war. We already witnessed the country taking promising steps to ensure energy security through the implementation of renewable energy projects (especially with regard to solar projects). Bangladesh is a country that is highly vulnerable to climate change events, and we are already seeing the country's exposed vulnerabilities to floods, heat waves, etc. This was a point stressed upon in the recent COP26 meeting, where Bangladesh played a dominant role.

Overall, Bangladesh has had a remarkable story so far, and we will see this play out well into the future. While certain issues do remain (in terms of inadequate infrastructure and inflation), the government has been taking steps to ensure these are simply transitory issues, while maintaining a positive long-term theme.

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<sup>1</sup> Report on Agriculture and Rural Statistics 2018, Bangladesh Bureau of Statistics

<sup>2</sup> Marketing Year 2022 to 2023, as per USDA estimates.

## LOGISTICS OVERVIEW

A country's logistics industry forms the backbone of all its trade activities. The country has seen its GDP grow from ~USD53bn in 2000 to ~USD416bn in 2021. On the trade front, exports grew 5% annually in the last decade to USD44bn in 2021. The country has also grown to become the 2nd largest RMG supplier (fluctuated to 3rd position in 2020). While logistics sector development did not undergo comparable levels of improvement, it was still able to support the country's growth thus far. However, if the same pace of logistics development is maintained going forward, it is unlikely that Bangladesh will be able to attain the goals it has mapped out for itself. In its 8th Five Year Plan, the country has a real GDP growth rate target of 8.51%, and in the 'Vision 2041' plan, it has a target of 9.9% for 2041. Both plans also place a high priority on the enhancement and diversification of exports. Currently, the logistics sector is overwhelmed and therefore, faces inefficiencies and obstacles at various key points. Bangladesh has already begun to take commendable steps in addressing major challenges, however, there is still much to be done. The country will need to solve the bottlenecks in place in order to achieve its broad long-term plans. Notably, its goal of export growth and export diversification. A World Bank report estimates that a comprehensive approach that reduces inefficiencies and a well-rounded logistics policy could reduce logistics costs by up to 26%. This would translate into an increase in Bangladesh exports by 19%.

Bangladesh's performance on the Agility Emerging Markets Logistics Index was disheartening where it received a score of 4.44 (4.45 in 2016). Out of 50 countries, Bangladesh ranked 39 in 2022 whereas, its main competitor in terms of RMG exports, Vietnam ranked 11 and its neighbor, India, ranked 2 (Table 1). World Bank's Logistics Performance Index (LPI) paints a similar picture. In 2018, Bangladesh ranked 100, whereas Vietnam and India ranked 39 and 44 respectively (Table 2). Interestingly, thanks to high population density and relatively flat terrain, Bangladesh is uniquely suited to have excellent connectivity as each bridge, road and highway connect unusually large chunks of the population on both sides, leading to excellent utilization and reap high rewards. In addition to this, Bangladesh also has an advantageous geographical position, which allows it to act as a natural gateway to growing South-East Asian markets. If Bangladesh can solve its logistics challenges, it can leverage its location to become a regional hub for these markets.

Table 1: Agility Emerging Market Index 2022

Country	Domestic Logistics Opportunities	International Logistics Opportunities	Business Fundamentals	Digital Readiness	Overall Score	Rank (out of 50 countries)
China	8.54	9.75	7.06	7.25	8.5	1
India	8.01	7.23	5.96	6.74	7.21	2
Vietnam	5.02	6.01	5.48	5.75	5.55	11
Pakistan	5.03	4.58	4.33	5.1	4.78	27
Cambodia	4.4	4.47	4.22	4.34	4.39	40
<b>Bangladesh</b>	<b>4.99</b>	<b>4.38</b>	<b>3.44</b>	<b>4.38</b>	<b>4.44</b>	<b>39</b>

Source: Agility Emerging Market Index 2022

Table 2: Logistic Performance Index 2018 (Rank, out of 160 countries)

Country	Overall	Customs	Infrastructure	International Shipments	Logistics Quality & Competence	Tracking & Tracing	Timeliness
<b>China</b>	26	31	20	18	27	27	27
<b>Vietnam</b>	39	41	47	49	33	34	40
<b>India</b>	44	40	52	44	42	38	52
<b>Cambodia</b>	98	109	130	71	111	111	84
<b>Bangladesh</b>	100	121	100	104	102	79	107
<b>Pakistan</b>	122	139	121	97	89	136	136

Source: Logistics Performance Index 2018, World Bank

Bangladesh's logistics industry size is estimated to be ~USD1.5bn to USD2bn (without the ports), employing ~4 million people. As of October 2020, ~1600 local and ~20-30 international logistics and freight forwarding companies were operating in Bangladesh. Dhaka and Chittagong are the largest logistics business clusters as these two cities are major hubs of manufacturing units, the origin of export and import trade, and the largest centers of consumption. Other regional logistics business clusters include Khulna, Barisal, Bogura, Rangpur, and Cumilla.

Since coming to power in 2008, the government has undertaken significant infrastructure projects to sort out the lingering supply-side issues. A number of these projects are set to come online in the next few years. A core project that became operational this year (2022) was the Padma bridge, which now permits easy access to the southwest region of the country. According to the World Bank lead economist, the bridge effectively has cut travel distance by 100km for 27% of the population. It provides easier access now to the country's second-largest port, opening opportunities for port-diversification. To further maximize Padma bridge's utility, additional infrastructure projects were also undertaken, of which, the Dhaka Mawa expressway is already in operation (since 2020). Others include the Dhaka-Jessore Railway, Kalna Bridge, and Payra bridge.

The railway system of Bangladesh is archaic and heavily underutilized; efforts to revamp it are usually met with a myriad of challenges (suboptimal planning, land acquisition challenges, and cost hikes). Currently, there are 40 railway projects under implementation, of which 5 are set to come online within FY23. Notable projects include the Dhaka-Jessore railway link through the Padma Bridge Rail Link, which is expected to cut the distance between the capital and southern districts by half, and the Bangabandhu Railway Bridge, a link to the North-Western parts of the country.

In response to the country's growing trade, Bangladesh is currently developing two new seaports, one of which is a deep-sea port (details included in Table 3). 2022 was a notable year, with coordinated efforts undertaken to modernize existing ports and speed up the development of new ports. While these moves are commendable, these moves have been much delayed .

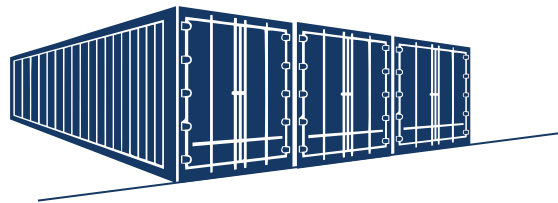
There has not been a similar amount of effort on the services front of the logistics sector, especially in connection to digitization and security (of people, information, and infrastructure). The government seemed to have focused mainly on the physical infrastructure part of the story, and as a result, the policy and services front has remained largely overlooked. This has led to inefficiencies therestricting optimum useage of the infrastructures already in place. Lack of strategic planning and inadequate funding are the key causes behind this. However, the tide on this challenge seems to be turning now, with both public and private stakeholders realizing how important of a role logistics plays in the enhancement of a country's economy. We will see Bangladesh's logistics sector play an ever-increasingly important role in the near future, and it is imperative that all parties are prepared for this.

## SNAPSHOT OF CURRENT LOGISTICS INFRASTRUCTURE.



In 2020, Chattogram port handled a total of 103mn metric tonnes with a container volume of 2.8mn TEUs. During the same time, the number of vessels handled by the port was 3728, which increased from 3014 in 2016. The port was ranked 64th busiest port under Lloyd's List's One Hundred Ports. Chittagong port handles 92% of export-import trade, with the rest being handled by Mongla port, the second busiest and also a riverine port. The opening of the Padma bridge reduced the distance from Mongla port to Dhaka to 170km (Chittagong Port to Dhaka distance is 250km) and this will lead to the port playing an increasingly important role in the upcoming years.”

The third, Payra seaport is yet to be fully operational, with development expected to be completed by 2023. Matabari deep sea port, situated in Cox's Bazar, is being developed in consultancy with JICA. The Matabari deep sea port is expected to be ready by 2026, which will allow the unloading of mother vessels. The annual capacity of 2.25mn tonnes, and ~8000 containers at a time.



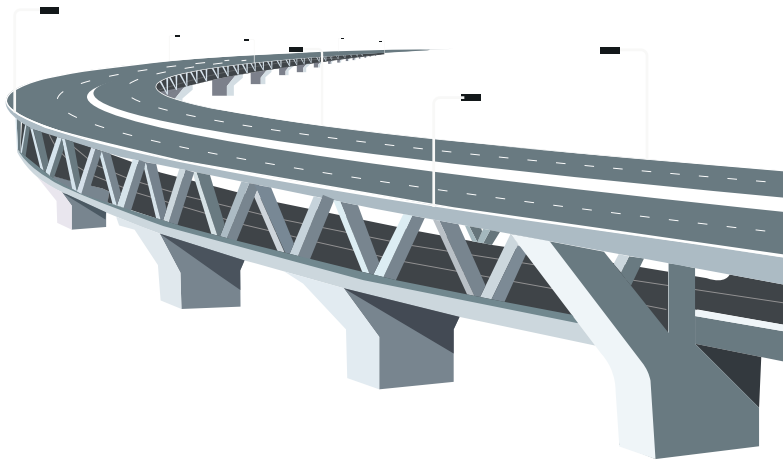
The country has 19 private ICDs (inland container depots), having an overall capacity of 76,000 TEUs (twenty-foot equivalent units). Bangladesh Customs, under the government's revenue authority, has recently drafted the first-ever off-dock policy, titled 'Private inland container depots (ICD) and container freight station (CFS) policy-2021'



The country also has three international airports (in Dhaka, Sylhet, and Chattogram), however, only the Dhaka airport can handle trade cargo. Both the Dhaka and Cox's Bazar airports are currently under development for additional capacity and facilities.

<sup>3</sup> Source: UN ESCAP Working Paper— “Mainstreaming inland waterways into national logistics network: national experience of Bangladesh”, published on December 2021. The data is outdated.

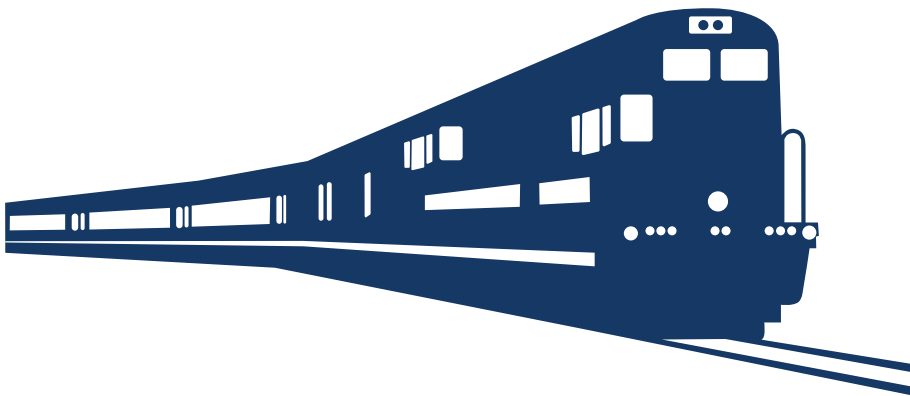




The road is the dominant form of transport in Bangladesh, with almost 90% of all inland goods transportation being done through this mode. The rest is through rail and inland waterways. Road density stands at 1.9km per 1000 people. Comparatively, the figure is 1.5, 3.5, and 5.5 for Pakistan, India, and Sri Lanka respectively. There are 13 operational land ports. ~70-80% of all overland trade between Bangladesh and India passes through Benapole/Petrapole border point leading to high congestion on this route.



The country also has an extensive river network (of 24,000km), however, only 6,000km of riverways are navigable during monsoon season and 3,800km during dry seasons. The country has ~30 inland river ports, with 12 handling most of the cargo transported. Around 76mn tonners of cargo are transported through this channel annually, of which 61% are imports.



Bangladesh Railway serves 44 of the country's 64 districts, with 2,877 kilometers of rail tracks, and connects with India's railway track at several points. There are more than 450 stations, however, freight carried by Bangladesh Railways is almost entirely handled by only 55 stations. There is only one functional rail-based container depot (capacity of 90,000 TRU), in Kamalapur, which is connected to Chattogram Port.



Table 3: Notable Infrastructure Development Projects

Domain	Project	Completion Date	Objective and Details	Impact
Roads, Highways & Bridges	Bangabandhu (Jamuna) Railway Bridge	Late 2025	4.8km long rail bridge between Sirajganj and Tangail. ~22 trains can travel on this route in a day. Enhance connectivity via rail between the capital and the Northwestern region	Improve train capacity between the capital and the western part of the country; will allow at least 50 more trails to travel through the Bangabandhu bridge. Save 20 mins of commute time.
	Rupsha Rail Bridge	2022	5.13km bridge connecting Khulna with Mongla Port.	Improve connectivity with Mongla port and an alternative route for rail and maritime trade.
	Karnaphuli Underwater Tunnel	Late 2022	3.3km underwater expressway tunnel in the port city of Chattogram under the Karnaphuli river to ease Cox's to Chattogram communication	Will carry 17 thousand vehicles per day. Reduce Dhaka-Cox's distance by 50km and Chattogram-Cox's by 15km.
	Chattogram Elevated Expressway	2023	16.5km 4-lane elevated expressway connecting Lalkhan Bazar to the Airport to improve communication in the port city	Enhance connectivity inside the port city via the expressway— help reduce traffic in key points and add to time savings.
Railways	Padma Rail Link	2024	169km railway link connecting Dhaka and Jashore that links South-Western to Northern and Eastern Region	Enhance all the benefits of Padma bridge to include the railway as well
	Chattogram-Cox's Bazar Railway Link	2024	129-kilometre-long railway connecting Chattogram to Cox's	16mn capacity/year, ~50% time saved traveling from CTG-Cox's.
Airport	Hazrat Shah Jalal International Airport's third terminal	2023	An extension of the current airport, the third terminal will have 24 boarding bridges and 12 conveyor belts. This will improve airport handling performance	Increase passenger capacity to 20mn from 8mn, cargo handling capacity to 0.5mn from 0.2mn per annum
	Osmani International Airport Expansion Project	-	Addition of a terminal building, cargo building, ATC tower, taxiway, and fire station.	Upgrade passenger capacity to 2mn per annum.
Port	Payra Sea Port	2023	On the Ramnabad Channel, near the Bay of Bengal, the distance between this port and the capital is 190km.	Lower Dependency on Chattogram Sea Port and Expected to lower the cost of importing commodities (fuel). Expected to help improve GDP by 2%.
	Matarbari Deep Seaport	2026	First deep-sea port of Bangladesh, expected to reduce pressure on Chattogram port, expected capacity of 2.8mn TEUs	Expected to contribute 2-3% to GDP, ships with 800 TEU capacity will be able to dock
Terminals	Bay Terminal	2025	3.55km long, 1225m long Container Terminal-1, 830m long Container Terminal-2, and 1500m long Multipurpose Terminal with 13 jetties in total and will connect Chattogram EPZ and Halishohor coast of Bay of Bengal	Increase capacity of Chattogram port by 2mn TEUs, berth ships with a maximum capacity of 6000 TEUs in 10-12m drafts
	Patenga Terminal	2022	Enhance container capacity of the Chattogram port and will have 3 container jetties and 1 oil unloading jetty, a capacity of 0.45mn TEUs	Container storage capacity of Chattogram port will increase to 4,500TEUs and handling to go up by 0.5mn TEU annually.

Source: EDGE Research Compilation

Figure 1: Logistics Subsectors

Storage	Infrastructure Development	Transportation					Delivery and Retail	Service support and digitization
		Sea	River	Air	Rail	Road		
Private warehouse services		Sea port services	Inland Water Transport Services	Aircraft/Aviation Services.	Rail transport services	Road transport and communication services	E-commerce logistics services	
Private Inland Container Depot and Container Freight Station		Cargo Ocean Shipping Services				Ride Sharing Services	Clearing and forwarding services and Freight Forwarding	
Temperature Controlled Logistics / Cold Chain and Cold storage		Main Line Operator					Information and technical logistics services D	
Oil/Gas/LNG Tank Terminal		Deep sea fishing with motorized trawlers					Financial logistics services	
		Regional feeder vessel and lighter/Coastal Shipping Industry					Global Logistics Center	
		Courier and Postal Service						

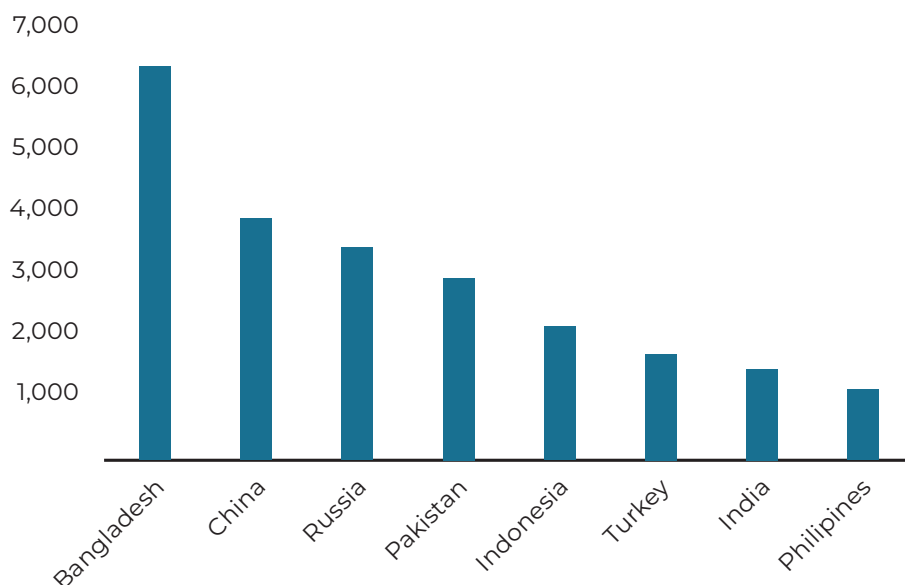
# A DIFFICULT-TO-NAVIGATE LOGISTICS SECTOR

## Infrastructure development has been subpar

### Performance lags peers

The failure to develop a multimodal logistics system has long been a drag to Bangladesh's economic development. While infrastructure development has performed relatively better compared to services, digitization and policy, even that has lagged the expansion in trade. In 2018, Bangladesh ranked 100 on the LPI of the World Bank. The rank was 104 and 100 for international shipments and infrastructure respectively (out of a total of 160 countries). Additionally, infrastructure development in the country is very expensive. For example, building a road in Bangladesh costs 4.38 times that of India and 2.15 times that of Pakistan (Figure 1). It is also very difficult to carry out construction projects in Bangladesh and projects face multiple rounds of delays and roadblocks. (Table 4)

Figure 2: Cost of Building roads in USD



Source: Asian Infrastructure Finance 2019, Asian Infrastructure Investment Bank

Economy	Ease of Construction	Ease of Registering Property
China	33	28
India	27	154
Vietnam	25	64
Cambodia	178	129
Pakistan	112	151
<b>Bangladesh</b>	<b>135</b>	<b>184</b>

Table 4: Doing Business Rank (out of 190 countries)

Bangladesh has also not managed to take advantage of its geographical position and benefit from facilitating trade between countries. Bangladesh is in an advantageous geographical position and allows access to multiple landlocked countries and regions. This is the perfect setup for mutually beneficial bilateral trade agreements. Bangladesh

is also a natural gateway to one of the lucrative and growing South-East Asia market and there is much potential to be tapped into.

However, the country has underperformed with regards to this development. For example, India is one of Bangladesh’ largest trade partners, and most trade is done using road transportation and through land ports. This is expensive, inefficient and the least green choice of transport. There is much opportunity to simply and diversify trade routes, for the benefit of both countries. According to a World Bank report<sup>4</sup>, “seamless transport connectivity between India and Bangladesh has the potential to increase national income by 17% in Bangladesh and 8% in India”.

## Development has been done in ‘Silos’

Most of the focus of infrastructure development so far has been on the road front; efforts to ease transport through rail and river have been limited. This is a part of a much wider problem where most of the country’s transport infrastructure was developed in silos, instead of with a wide strategic goal, leading to very poor integration, both within similar modes and multimodal logistics. An example of the former is seen in the varying wideness of roads and bridges, with the narrowest link acting as bottlenecks (Wide roads leading into narrow bridges). On the multimodal logistics front, we see examples of inefficient connections of rivers to road or rail networks. For example, access to river terminals in the capital is only through a narrow and congested road. This is the same for railways. The only functional railway container depot is in Kamalapur, which is a highly congested and difficult-to-access area, as well as located deep inside Dhaka city. This effectively increases the cost of using a variety of transport methods and diminishes their viability. Waterways are one of the ‘greener’ methods of transportation, especially when compared to road transportation. However, the development of this mode of travel has been widely ignored in the country and as a result, not much focus has been put to connect it with other transportation modes or encourage its use.

## Inadequate Port Development

The port suffers from severe capacity constraints associated with inadequate infrastructure and processes. For example, there are a limited number of cranes available, and the port relies on comparatively less efficient vessel-mounted cranes to handle large numbers of containers. Development had so far been slow, however, this trend changed in 2022. Previously, this had led to the equipment at the port to be both inadequate and unreliable; and overall, has hindered port efficiency.

Airport shipment also faces a myriad of issues. A prominent example is the insufficient number of scanners at the airport, adding to congestion. Also, the airport does not have an explosive detection system facility and as a result, it cannot get the approval to fly goods to Europe directly. However, in 2022, notable progress has been made in establishing direct shipping routes to multiple countries.

Table 5: Efficiency Indicators at Chattogram Port

Indicators	2018-19	2019-20
Ship’s turn-around time (days)	2.88	2.86
Dwell time of container (days)	10.78	9.99
Berth occupancy (in %)	90.55	89.42
Equipment availability (in %)	45.64	45.03

Source: Chattogram Port Authority Annual Report 2019-20

## Absence of appropriate infrastructure

The overall infrastructure is missing various key components that would make logistics efficient and sustainable in the long term. For example, there is an absence of climate proofing of infrastructure despite the fact that Bangladesh experiences extreme weather events quite frequently — monsoon storms and flooding, as well as frequent

<sup>5</sup> Moving Forward, Connectivity and Logistics to Sustain Bangladesh’s Success, World Bank Report, 2019

small earthquakes. Large sections (a majority) of the transport network are vulnerable to these climate events. Flooding and blockage of roads are quite frequent. More than half of all road types are exposed to flooding, according to the Bangladesh Ministry of Disaster and Relief. This problem is only set to get worse as Bangladesh faces even more frequent unpredictable weather.

A separate example can be seen in the country's cold chain logistics, which currently is severely underdeveloped. Currently, there are few to no companies offering complete cold chain services to agriculture and related industries. There are very limited cold chain facilities at the ports. This leads to a high wastage of food and Agri-products. Solving this problem could easily add a significant amount of value, both to Bangladesh's domestic and export markets. An efficient cold chain network will also allow Bangladesh to play a bigger role in global agriculture exports, enhance the productivity of the Agri-sector and diversify exports as well.

## A logistics sector that suffers from inefficiencies

### Congestion is a major headache

Congestion on roads doubles standard trucking costs<sup>5</sup>. The average speed in Bangladesh on roads is 19km/hr compared to 40km/hr in uncongested circumstances. The average duration of a trip in the country (118km) is 18 hours, six times that of the uncongested duration of 2.8 hours (Table 6). The problem is the most acute in the corridor that links the capital to the port city. Two factors have resulted in massive levels of congestion in Bangladesh: demand exceeding supply and inefficiencies within the system.

Table 6: Summary Statistics for Actual and Uncongested Conditions for Sampled Truck Trips

Variable	Mean		Minimum		Maximum	
	Uncongested	Actual	Uncongested	Actual	Uncongested	Actual
Distance (in km)	113	114	20	20	318	306
Duration (in hours)	2.8	18	0.7	2.5	7.4	96.2
Speed (in km/hour)	40	19	20	0.4	60	36

Source: Moving Forward, World Bank

On the port side, the average dwell time is very high at Chattogram Port. The time for a shipment to be cleared at Chattogram Port is 11 days for imports. To put the number in perspective, exports from Bangladesh will increase by 7.4% if the dwell time were to decrease by 1 day. The Chittagong Port was built with a 1.7mn TEU capacity but in the last few years, it has handled ~3mn TEU annually. Several factors are to blame for the congestion at ports, including inadequate storage space, the treatment of containers as bonded goods, and the rule that requires all commodities apart from 38 items to be cleared at the port. There is also a tendency for importers to use the port and containers for storage, taking up vital port space. As a result of the rule treating containers as bonded goods, 95% of containers are destuffed at Chattogram port, increasing the number of vehicles on the road (1.25 vehicles are needed to carry one container worth of goods).

Table 7: Port Performance

Item	2016	2017	2018	2019	2020	CAGR
Total (MTs) handled	77,255,731	85,246,948	96,311,224	103,077,736	103,209,724	7.51%
Container (TEUs)	2,421,880	2,667,223	2,903,996	3,088,187	2,839,977	4.06%
Vessels	3,014	3,370	3,747	3,807	3,728	5.46%

Source: CPA annual Report

<sup>5</sup> Moving Forward, Connectivity and Logistics to Sustain Bangladesh's Success, World Bank Report, 2019

The few cranes that operate also face frequent breakdowns. Additionally, the port gantries before the new additions could handle only 10 containers per hour, according to industry sources; in comparison, Singapore port gantries can handle 30+ containers an hour. However, as previously mentioned, this is seeing a turnabout. The government added 16 more equipment mid-2022, with 19 more to arrive in December. Berthing time for loading and unloading cargoes have come down by an entire day to 2 days in Chittagong port, and ship waiting time fell by 2 days to 0 days. Ships arriving at the port rose significantly in the one year between 2021 and 2022. In June of this year, the port received 342 ships, compared to 305 same period last year.

At this rate growth, the port will have to develop at a must faster rate and incorporate automated solutions (following global examples), to keep up with trade seamlessly.

Table 8: Average Release Time, Bangladesh vs India

	Average Release Time (hour: minute)	
	Bangladesh	India
Release from Port <sup>6</sup>	270:23	94:42
Release from Air Port <sup>7</sup>	179:19	49:56
Release from Land Port <sup>8</sup>	248:11	17:07

Source: Daily Star<sup>9</sup> and National TRS 2022 (Ministry of Finance, Government of India)<sup>10</sup>

Congestion both directly and indirectly affects costs. Direct effects are seen through increased fuel requirements, fleet requirements, labor costs, etc. Indirectly, it affects firms' inventory carrying costs, which represents 17-56% of logistics cost in the country and exceeds 30% in most industries. As a result of the congestion, as well as other factors (accidents and facilitation payments discussed later in the paper), road transport cost in the country is quite high<sup>11</sup>.

There is also a very heavy externality of congestion. The social cost of annual carbon dioxide (CO2) emissions from inter-district road freight transport is ~1.2% of GDP; if congestion was to be eliminated, the emission would fall to half, and the social value of which is ~0.7% of GDP<sup>10</sup>.

## Single Port Dependence

There are currently no contingency plans in place in the event a disruption occurs at Chittagong Port. Since 90% of all trade is through this port, any event that halts trade processing at this port will have devastating effects on the country. For containers, the split is even more uneven, with Chattogram handling more than 98% of containers. However, it is important to note that with the development of the Padma bridge, as well as further development projects being carried out at Payra port, this port is becoming a more relevant option. We are already seeing a shifting of trade from Chattogram port to Payra Port.

<sup>6</sup> Chattogram Port for Bangladesh and four seaports for India

<sup>7</sup> Hazarat Shahjalal International Airport Dhaka for Bangladesh and six Air Cargo Complexes (ACC) for India

<sup>8</sup> Benapole Land Port for Bangladesh and two Integrated Check Posts (ICPs) for India

<sup>9</sup> Bangladesh's National Board of Revenue (NBR) conducted the Time Release Study (TRS) 2022 which was reported on the newspaper article titled "Sea cargo release time averages 11 hours". The report is yet to be available online

<sup>10</sup> From the National Time Release Study conducted by the National Revenue board of India in 2022. It can be found here: <https://www.cbic.gov.in/resources/htdocs-cbec/implmntin-trade-facilitation/national-time-release-study-2022.pdf>

<sup>11</sup> Moving Forward, Connectivity and Logistics to Sustain Bangladesh's Success, World Bank Report, 2019

## Space and Storage Issues

The overall lack of storage space cannot be separated from the congestion issue, which contemporaneously affects each other. While trade has grown exponentially in the last 5 years, the number of ICDs grew by only 1. There is a clear mismatch between what is required for the smooth functioning of trade and what is available, even if we discount the massive inefficiency issues. Apart from that, most of the ICD and CFS are concentrated around Chattogram port (out of 19, only one is Dhaka). There is an overall disinterest in setting up ICDs as land cost around the port is prohibitively high. CFS facilities are operating at ~85% capacity, and due to policy restrictions regarding distance, there have been no new setups.

There is a storage issue inside the port as well, and congestion makes the issue worse. Idle containers occupy port space; according to the CPA, the removal of these containers would release 7% of total port capacity (~200,000 TEU annually). Imports are currently required to be cleared inside ports (with some exceptions). This adds to the space issue as these goods stay at the port for long time periods. In certain instances, importers have also chosen to use the port as good storage. The NBR also physically checks all documents, which adds more time lag to imports being released. Around 15-20% of imports are physically verified by customs at the Chattogram port. The global standard is 0.5%. As a result, ICD service providers are unable to find space in the port to unload export good-laden containers and have to store these containers at their own facilities (raising cost and safety issues). An export zone, which would facilitate this process, is currently not available.

The warehouses at the airport are also not sufficient to handle the volume of cargo. As a result, imported cargo is often left at the parking bays exposing it to risks of theft and damage. There is also an overall lack of warehousing in the country; most manufacturing firms tend to maintain their own storage facilities and outsourcing of warehousing services is very low. This means clogs in ports (sea and air) have detrimental effects throughout the supply chain. This is usually experienced during peak seasons (Eid).

## Tiresome process coupled with a lack of digitization.

Like most business processes in the country, the logistics process is tiresome and time-consuming. There is minimal tracking of shipments and overall, very poor use of logistics IT across the logistics sector, which results in poor supply chain visibility.

Businesses operating in this segment need to coordinate among several regulatory bodies and go through multiple levels of documentation, several of which are redundant. Additionally, the process is not transparent and rules and laws are not easily accessible. This adds an additional level of inefficiency. For example, in the customs clearing process, the customs clearing house has to upload the documents onto the customs system (digitized), however, also has to submit the documents physically. Part of the process is manual and this negates the efficiency brought by the digitization step. On the customs inspection front, it typically takes 5-10 days to complete the physical assessment of imported cargo. A major reason for this delay is that an IT infrastructure that can communicate with various departments operating at the port and trade front (Border Guards Bangladesh, the Land Port Authority, National Board of Revenue) is missing and the process is highly dependent on the physical movement of documents. In the 2022 Agility Emerging Markets Index, Bangladesh had a score of 5.1 on digital readiness, much lower compared to its neighbors and competitors (Table 9)

Table 9: Agility Emerging Markets Index Digital Readiness

	Digital Readiness	Overall Score
China	7.25	8.5
India	6.74	7.21
Vietnam	5.75	5.55
Pakistan	5.10	4.78
<b>Bangladesh</b>	<b>4.38</b>	<b>4.44</b>
Cambodia	4.34	4.39

Source: Agility Emerging Markets Index

There is a similar problem on the road front, where the physical documents signifying proof of delivery need to be taken back to the source, which is a waste of time and fuel. The NBR introduced the automated challan system in late 2020, however, it is yet to be widely adopted. In a positive move, the NBR had launched a digitization project – National Single Window (NSW)— in 2019 which aims to expedite export-import trade, transit goods movement and check duty evasion.

## REASON FOR POOR PERFORMANCE

### Institutional weakness

#### Fragmented and ineffective governance

Bangladesh's logistic sector is a victim of fragmented governance as a result of the existence of multiple bodies that fail to coordinate with each other. There are nine ministries and more than twenty government agencies that play a role in setting policies, planning, building and operating infrastructure, and providing services (Figure 3). There is a lack of coordination between these bodies and as a result, Bangladesh's infrastructure development has occurred in silos, with different structures not necessarily 'speaking' to each other. It also causes a major barrier of entry for foreign participants, who must deal with the complexities of dealing with various needs from various ministries, most of which are not clear.

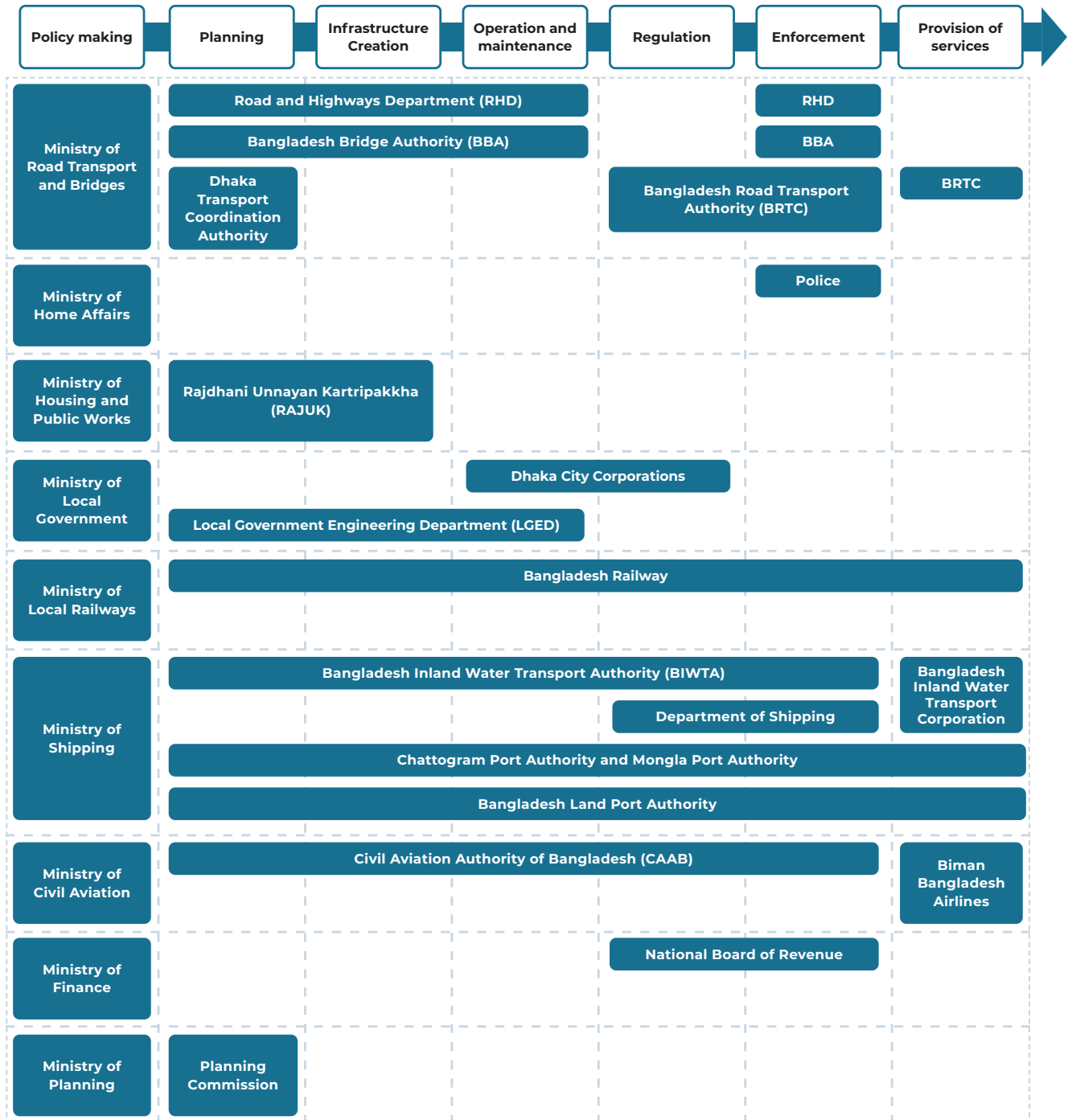
This lack of coordination and policy planning has sector-wide negative externalities, which are felt directly through multiple other issues discussed later (congestion, underdeveloped and uncoordinated infrastructure, and lack of digitization). Each regulatory body tends to focus on its short-term objective without considering the long-term objective of an efficient logistics system (case in point: limited inland containerization). This resulted in rules that are difficult to follow and discourages foreign participation.

Multiple industry insiders consider the regulatory bodies to be more focused on policing activities rather than encouraging activities in an industry that desperately requires the latter. This can be seen in customs activities in both sea and air ports— industry participants complain of harassment that led to delays and facilitation payments which discourage foreign participation. According to various experts, this leads to further spillover effects in reducing exports— ~20% of exports are missed every year due to logistics challenges<sup>12</sup>

<sup>12</sup> According to a Policy Dialogue session conducted by American Chamber of Commerce in Bangladesh on the Logistics Sector of Bangladesh. More details can be found here: <https://www.amchambd.org/amcham-policy-dialogue-logistics-sector-of-bangladesh-opportunities-concerns>.



Figure 3: Institutions in Bangladesh's Logistics sector



Source: PwC 2018.

## Logistics sector master plan is missing

An equally challenging issue is the lack of planning involving this sector. The logistics industry is not formally recognized or defined and there has not been much foresight in planning in the previous years. The policy and regulations that do exist are outdated and there are multiple over-breaching mandates. Much of the focus of sectoral policies has been on infrastructure development, rather than on the quality of the infrastructure, multimodal transport, quality of services, and digitization. To enhance integrated planning across various transport modes, Bangladesh Cabinet approved the National Integrated Multimodal Transport Policy in 2013. However, the changes and commitments made in the document were not followed through to their full extent .

This too is now on a positive trajectory. The logistics policy draft is a major step the government has also undertaken to solve this challenge. A master plan for the sector adds vision and direction to the sector.

## Facilitation Payments

Bangladesh struggles with corruption issues, and the logistics sector is no different in this regard. This has led to this sector being riddled with issues such as a lack of transparency, widespread facilitation payments, and regular breaches of rules and regulations. Logistic infrastructure and service users make regular facilitation payments, to use roads, ports, and ferry crossings or border posts, while transporting goods. Depending on the route, this payment could range from BDT3,000-BDT5,000 per trip, (Table X: Facilitation payment per route) representing ~11% of total trucking costs. Where rules exist, they are not enforced. For example, while regulations responsible for the licensing of drivers and vehicles meant to reduce accidents are in place, they are hardly ever enforced. Unqualified drivers (without licenses, or training and drivers that do not adder to the law) and unfit vehicles (vehicles that are past their maintenance date, lack of registration, etc.) can avoid the regulations if facilitation payments are paid. Given the system backlog, receiving licenses for driving trucks are severely difficult, further discouraging drivers to apply for required documentation and training. On average, a truck is involved in one major accident and several minor ones in a year<sup>13</sup>. Accidents represent ~11% of trucking costs.

## Associations and Lack of competition

Despite being a lucrative sector with a large number of businesses and market operators, the sector suffers from a lack of competition. A major contributing factor to this issue, apart from unhealthy regulatory practices, is associations and the role they play. Drivers' unions, owners' associations, or brokers related to them set prices and control access to cargo, interfering with the market mechanisms. In some instances, they act as a barrier between service providers and shippers— business is provided either on the basis of first come and first serve or relationships. This removes incentives to provide superior services or digitize to cut costs. Associations may also act as an obstacle to regulatory changes and prevent the clearing of inefficiencies that benefit them.

A separate problem exists where associations are relied upon to set tariffs and charges. However, associations may not include the largest players (especially foreign players) or players with a stake in the matter. This leads to a mismatch between the rates that are being set as well as leads to a barrier in the conversations that need to exist between the regulator and market players.

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<sup>13</sup> Moving Forward, Connectivity and Logistics to Sustain Bangladesh's Success, World Bank Report, 2019

## Lack of Funding

### Public and Private funding not up to the mark

It's evident that despite marked improvements, the overall logistics sector performance in the country could be vastly improved. In the last decade, the country has its exports and imports grow by 5% and 7% annually, respectively. Meanwhile, the logistics industry did not see significant progress in its performance (LPI rank 100 out of 160 countries). The lack of investment and financing solutions available, combined with the lack of strategic focus in this sector can be highlighted as the core reasons for this lagged performance. A World Bank report estimates Bangladesh's annual infrastructure investment needs to be as high as 10% of GDP (transport infrastructure represents half). In stark contrast, public investment in infrastructure in the last 15 years (Since 2019), has been lower than 2% of GDP, representing a growing gap between what is needed, and what is available.

The private sector investing scenario paints an even starker image, especially in the transport and logistics sector, owing to a myriad of challenges. Since 1990, only 65 Private Public Partnership (PPP) were implemented, which included 1 airport, 2 roads, and 3 land projects<sup>12</sup>. It is evident that the PPP framework in Bangladesh is currently underdeveloped and this reduces the private sector's confidence in executing such projects (which usually require heavy investment and are long-term).

Given the country's growth trajectory, especially that of RMG exports, the country will need to solve challenges revolving around investment in the logistics sector, which in turn will solve multiple key issues faced in the sector. Solving these will be vital for Bangladesh's economic growth, trade sustainability, and competitiveness in the future, especially as advantages from lower wages erode and the country graduates from LDC status. The Global Infrastructure Outlook estimates that Bangladesh will require ~USD25bn worth of infrastructure investment by the year 2025 to meet the SDGs. Other estimates report there to be a gap of USD10bn between the demand and supply of resources in Bangladesh.

### FDI performance is very poor

Private investors, both local and foreign, have been discouraged by the institutional weaknesses mentioned above, despite the growing potential of Bangladesh's logistics sector. Bangladesh's net FDI inflow in the last 10 years averaged only 1% of GDP. When we look at 'transport, storage and others' as a segment separately, the number is more disheartening (a third of 1% of GDP). However, it is important to note that 2021 saw a record high of USD32.2mn flowing into this sector (tripling YoY). The value was still only 1% of the total FDI that flowed into the country.

FDI can have quite a transformative power in this sector, especially in guiding the country to improve standards at global levels. It could transform the current health and safety scenario of Bangladesh, as well as reduce the sector's environmental impact. It could help transfer technology and know-how, speeding up the digitization process, which will solve the majority of the inefficiencies faced in this sector. Benefits stemming from improvements in the logistics sector ultimately benefit all industries and sectors, both foreign and local. It is a net benefit to all.

The World Bank report<sup>1</sup> estimates that a comprehensive approach that reduces inefficiencies at the port and on roads, as well as a well-rounded logistics policy could reduce logistics costs by up to 26%. This would translate into an increase in Bangladesh exports by 19%. Given that the global trend now is diversification of sourcing away from China, it is imperative Bangladesh addresses this soon and takes full advantage of the export sourcing benefits.

Figure 4: FDI over the years in USD bn

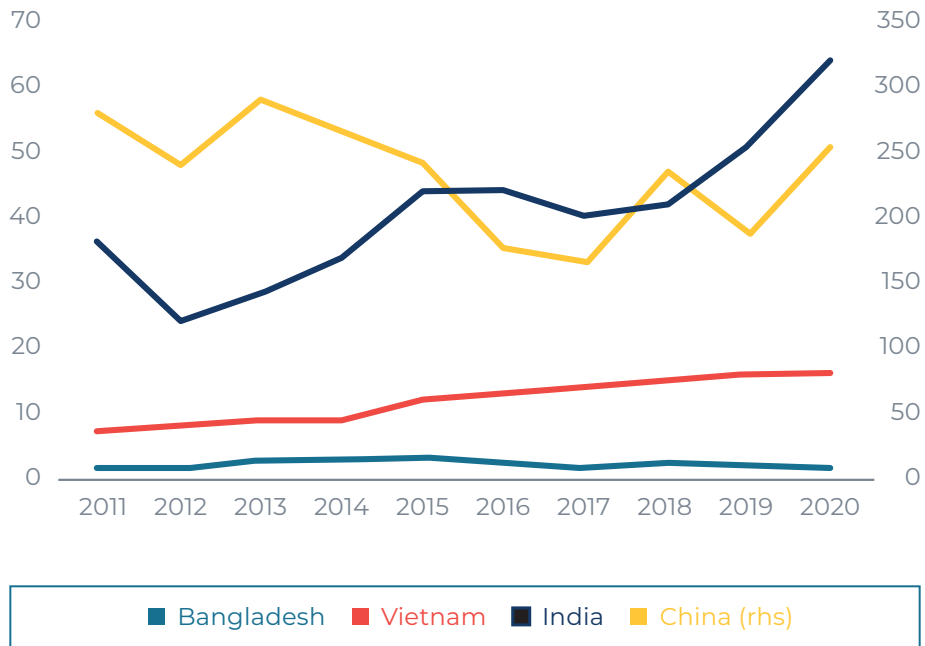
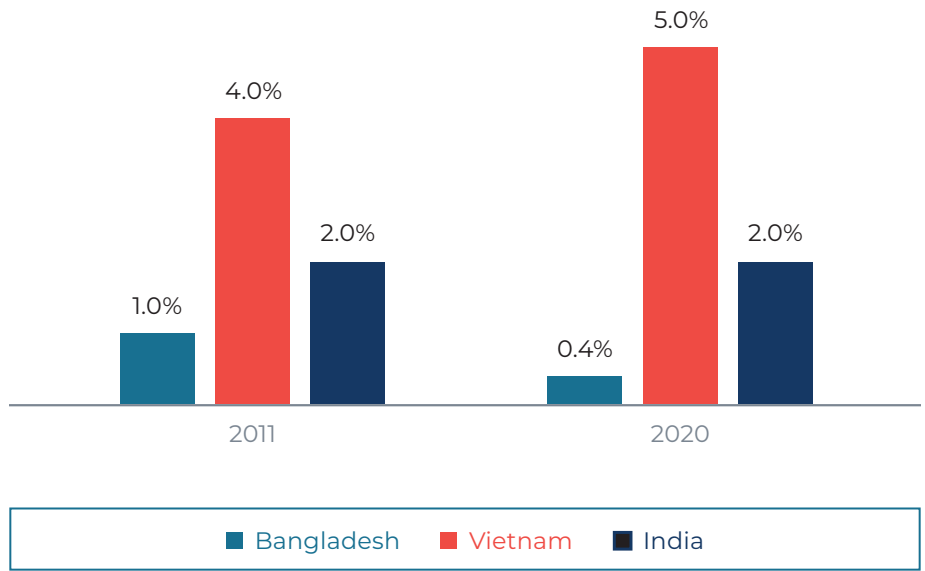


Figure 5: FDI as a percentage of GDP



Source:  
World Bank for figure 4 And for Figure 5  
World Bank and Edge Calculations

## IMPORTANCE OF FDI INFLOW IN THE LOGISTICS SECTOR

Bangladesh is lagging behind its key competitors both in terms of its logistics sector development (Logistics overview, Table 1 and Table 2), and FDI attraction (Reasons For Poor Performance, Figure 4 and Figure 5). While Bangladesh's achievements both in terms of economic growth and trade growth have been impressive, it will be difficult to extend this robust performance into the future if Bangladesh does not recognize the importance of FDI and logistics.

Bangladesh's key competitors in RMG exports (which comprises of more than 80% of all exports) are India and Vietnam, with these three countries absorbing the majority of the orders stemming from the diversification away from China as well as increased demand. Bangladesh has so far been able to compensate for its poor logistics performance with cheap manufacturing costs, which had kept the country competitive. Currently, the logistics sector is already stressed and unable to cater to the demands and with burgeoning trade, logistics challenges will become more significant in the future. Bangladesh will see its competitive advantage erode as wages grow and these challenges mount. Its competitors, India and Vietnam, outperform Bangladesh in logistics performance and will be taking up a bigger portion of the exports pie comparatively. This will become even more relevant as Bangladesh graduates from "Least Developed Country" status towards the end of 2026. The country will no longer receive the preferential treatment extend to LDC countries, which is particularly relevant for its main export item (RMG). The country will need to figure out how to be the sourcing country of choice following graduation, to keep up its export performance. If Bangladesh intends to stay competitive, and relevant in trade, it will have to undertake rapid logistics development.

FDI is essential for rapid development and improvement in any sector. Bangladesh is not competitively positioned to attract FDI (discussed in the following chapter). However, FDI can fast-track development in this sector, propelling the economy forward. First off, FDI brings key know-how into the sector. Foreign participants are much more advanced, with superior practices and technology, and FDI creates a bridge through which best practices are implemented in the recipient country. This knowledge transfer has further benefits. First of which, is the enhancement of digitization— this would solve a large portion of Bangladesh's inefficiency issues. Logistics digitization would ease the process of carrying out business activities for essentially all industries. Knowledge transfer would also allow Bangladesh to adopt the best and most sustainable practices, which is a major concern given the country's climate vulnerabilities. Additionally, it will also develop the country's workforce and talent, bringing in much-needed skillsets and training , as foreign companies bring in these skill development capabilities.

FDI in logistics would ensure Bangladesh becomes a major player on the map and build investor confidence in the country, bringing in investment in multiple other sectors. This essentially, would transform the country, and help tap its full potential . 2022 was a promising year and saw a number of encouraging initiatives and projects come online. The most notable of which are the opening of the Padma Bridge, the onset of development work at Payra and Mongla ports, the steps taken to modernize Chattogram Port, and most importantly, the development of the draft National Logistics Policy. We believe now is the most appropriate time to focus on encouraging FDI into this sector and fast track its development for the sake of the country's future progress.

# WHY HAS FDI BEEN SO WEAK?



## 1. The industry has not been given due recognition

The logistics industry is not recognized as a priority sector and its contribution to facilitating trade is often overlooked. A case in point would be the lack of incentives given to this sector in comparison with other 'export-related industries'. The lack of recognition has led to a gap in policy formation concerning logistics and a significant absence of a long-term strategy on how to develop this industry. Players in this sector are usually not provided any incentives to improve services.

As a result of this lack of recognition, the industry has gone neglected— resulting in the current state of fragmented governance and infrastructure, and slow development. Investors are not shown any long-term prospects in investing in this sector.

## 2. Restrictive regulations

Current regulations in place discourage investment inflow i) infrastructure is not included in the list of permitted foreign investments ii) Multinational players that are willing to enter the logistics market in Bangladesh have to create joint ventures with local companies since 2016. In addition to the above two, the poor quality of judicial processes in Bangladesh acts as further discouragement.

Regulations are also not easily found, and are not openly available on the internet. This adds an additional layer of opacity; investors and industry participants find themselves faced with an overall lack of clarity regarding legal rulings and procedures. License renewal is also a severely difficult and time-consuming process, and licenses are provided for comparatively a short time frame (~5 years).

## 3. Lack of process transparency:

There is a lack of clarity on the process, with no formal guidelines easily available. This leads to high levels of information asymmetries— which is further exacerbated by multiple middlemen and agents, and facilitation payments. The process is also overly complex, requiring the movement of physical documents from one place to another. Shippers/logistics users have to coordinate between the needs of multiple regulatory bodies and deal with the redundant paperwork. This problem is particularly prominent for expatriating earnings or fees abroad — a process that is highly complex and faces multiple regulatory barriers. This acts as a barrier to foreign investment, as there is a high level of uncertainty regarding the repatriation of earnings.

This problem also relates to the overall severe lack of digitization the sector has seen, which has resulted in the whole industry is highly opaque and inefficient.

## 4. Lack of transparency regarding future plans

There is not much visibility regarding future plans, including plans for infrastructure development, service development, and policy formation. As a result of the lack of focus given to this sector, plans are usually not formed strategically, and whatever infrastructure development plans are made, they are usually delayed. For example, a third terminal is being developed in the Dhaka airport, however, there is no visibility regarding the design and the usage plan of the terminal— due to which investors are not able to form concrete investment plans that involve the third terminal.

The lack of visibility and changing rules bring in a significant amount of uncertainty, discouraging the flow of investment.

## 5. Existing private participants not regularly consulted

Despite foreign private companies playing a major role, they are not regularly consulted when the government makes decisions that affect this sector. This is true even in cases where foreign companies are providing the majority of the service (for example freight forwarding). This implies that not only are these companies left out of the conversation, but decisions are also not made in consideration of the implication they have on their businesses.

# POLICY RECOMMENDATIONS

## **1. Recognize the importance of the logistics sector in the growth of the economy**

The Bangladesh government needs to formally recognize the logistics industry and clearly define the scope of the industry. It should also set a long-term objective for the sector and map out the steps in attaining it in a holistically formed Logistic Policy. The policy should set its objective for the long-term horizon, (till 2050 or beyond), as much of the work is time intensive, and benefits are experienced over decades. This will have a long-term impact, as it both launches the sector into fast drive and provides the blueprint for its future.

## **2. Empowering a central body to coordinate and implement long-term policy goals**

The current state of multiple governing bodies and conflicting short-term goals need to be resolved through the setting of a central coordinating agency. This central body will be responsible for coordinating the various ministries with the objective of attaining the long-term logistic sector objective. This policy move will provide much-needed direction to the development of this sector and place accountability on the governing bodies for achieving their goals.

## **3. Remove restrictions on foreign ownership**

Current regulations require foreign investors interested in operating in Bangladesh to come through a joint venture with a local firm. Foreign investors are not allowed more than 49% of ownership. This is a highly restrictive regulation for foreign participants, as it takes away significant managerial and financial control from the investors. In the logistics space, investments are usually long-term and capital heavy, and this act as a barrier to entry both due to the lack of control provided as well as due to the lack of qualified available local parties. This has deprived the logistics sector of much-needed injection of foreign investment, and as a result, better technologies and methods. A change in this restriction will reverse this effect and encourage investment. This will have major knock-on benefits— in terms of shared technologies, efficiencies, and know-how resulting in overall trade enhancement.

## **4. Introduce incentives and subsidies**

The government needs to acknowledge the spillover benefits that development in the logistics sector will have across all industries in the country, as well as in transforming the country into a regional hub. Currently, the playing field is unlevelled, disproportionately favoring players who do not follow the set rules. The government should incentivize the following rules and encourage the usage of greener options (such as trains and river routes). The government should also provide sufficient advantages (in the form of tax structure) to encourage participation in this sector. This would garner attention and attract funds from foreign participants in this sector.

## **5. Licensing needs to be made easier**

The licensing process needs to be made easier and more accessible. It could be provided for a longer tenure and the renewal process could be made simpler and less time-consuming. Reducing the regulatory hassle will encourage foreign participation, as well as have sector-wide benefits stemming from time and resource savings.

## 6. Enhance transparency and digitization

There needs to be an effort across all the regulatory bodies and stakeholders involved in this sector to enhance and adopt digitization, to improve efficiency. Digitization will massively contribute to enhancing efficiency in the sector, as well as with the enforceability of rules and regulations. The first and foremost step should be making all laws and regulations available and easily accessible online. There should also be a joint effort to reduce the need for paper documentation and enhance cohesiveness across the various required documentation. The current state of the sector that relies on paper documentation and severely lacks reliance on digitization has proven to be a major cause of inefficiency. Government systems should also be linked to each other, to allow seamless transfer of information from one regulatory body to another. This would prevent the need of having to do the same regulatory work multiple times (2-3 times), and would add to both time and cost savings. Additionally, this would also help combat facilitation payments. To this end, the government should incentivize and facilitate stakeholders in bringing in digital solutions and processes.

## 7. Consultation with broad stakeholder groups while policy preparation

Private participants have broadly been left out of conversations that affect this sector. There needs to be an open dialogue between the various participants and the government, with the latter making an effort to include their viewpoints when designing policies. So far, decision-making has largely left key players (in terms of contribution) out of the conversation. It is important to include such stakeholders as they have the expertise as well as the visibility required to make policy decisions. Foreign participants in this sector have more advanced technology and a wealthy repository of know-how, which could solve several bottlenecks in this industry, and propel the industry forward.







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