



Clarity In Labor Law Can Unlock FDI

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As Bangladesh moves toward LDC graduation amid rising domestic demand and an increasingly competitive global manufacturing landscape, foreign direct investment (FDI) has become more critical than ever. Large infrastructure projects, capital-intensive industries, and oil and gas exploration all depend on steady inflows of long-term capital, technology transfer, and institutional expertise. Yet despite steady economic growth, Bangladesh continues to lag behind regional peers in attracting meaningful volumes of FDI.

In the most recent fiscal year, Bangladesh received less than USD 2.0 billion in net FDI inflows. By contrast, Vietnam attracted more than USD 18 billion, while Indonesia exceeded USD 20 billion, despite Bangladesh's comparable labor-cost advantages and market potential. The gap highlights a deeper issue: investors today prioritize regulatory certainty over promotional narratives.

Investors increasingly compare regulatory environments rather than marketing slogans. Vietnam has sustained strong FDI inflows for more than two decades, largely because investors understand the rules of engagement and can rely on stable and predictable labor and fiscal regimes. Malaysia and Indonesia have followed a similar path. Bangladesh, meanwhile, has a large and youthful labor force, a strong RMG and textile export legacy, and a strategic geographic position between South and Southeast Asia. Yet foreign investors consistently raise concerns about policy ambiguity, particularly regarding labor compliance obligations for wholly foreign-owned companies.

A prominent example is the Workers' Profit Participation Fund (WPPF) under Section 232 of the Bangladesh Labor Act, 2006. The WPPF was designed to ensure that a portion of corporate profits is shared with workers, a reasonable principle in a labor-intensive economy. Recognizing the



distinct nature of fully foreign exchange-investing companies, the Labor Act was amended in 2013 to allow a tailored mechanism “instead of WPPF.” However, more than a decade later, the specific rules envisaged under Section 232 have yet to be issued. The result is a persistent legal and regulatory vacuum.

The impact of this uncertainty is tangible. Investors frequently cite ambiguity around labor obligations and the risk that regulatory interpretations may change after investment decisions are made. A multinational energy or technology company may already offer above-market salaries, global benefits, private health insurance, international training, and performance-based compensation. From their perspective, undefined WPPF obligations represent overlapping labor costs and poorly defined compliance risks, especially if enforcement varies across agencies or evolves. Few international investors are willing to commit capital for 20 years without clarity on how regulations will be applied five years down the line.

This issue extends well beyond a single sector. Capital-intensive industries

such as energy, pharmaceuticals, petrochemicals, ports, technology parks, and even RMG backward linkages all depend on long-term investment backed by international balance sheets. Yet foreign investment across Bangladesh’s broader manufacturing and industrial ecosystem remains modest compared with Vietnam, Cambodia, or China’s extended manufacturing belt.

The most recent offshore bidding round illustrates the problem. While geological complexity, global energy prices, and contract terms played important roles, industry feedback suggests that unresolved regulatory issues, including uncertainty surrounding labor obligations such as WPPF treatment for fully foreign exchange-investing companies, also factored into investors’ risk assessments. In high-stakes sectors like offshore energy, even secondary uncertainties can tilt investment decisions elsewhere.

For the government, clarifying Section 232 is not about weakening worker protections. On the contrary, it offers an opportunity to strengthen them. One practical approach would be to

mirror the existing framework for 100 percent export-oriented enterprises, where firms make a clear, fixed annual contribution to a national workers’ welfare fund instead of firm-level WPPF distributions. Such a model would enhance predictability for investors while expanding welfare coverage to a broader group of workers.

Policymakers now have a chance to convert ambiguity into assurance. A time-bound, tripartite process involving government agencies, worker representatives, and foreign exchange-investing companies could finalize a transparent, durable, and enforceable rule. This would signal that Bangladesh is serious about regulatory reform that balances investor confidence with labor welfare.

As global capital becomes more cautious and competition for investment intensifies, Bangladesh cannot afford to lose opportunities due to avoidable uncertainty. Clarifying Section 232 is not merely a technical labor-law adjustment – it is a strategic signal that Bangladesh intends to compete credibly and sustainably for the next generation of global investment. **EP**