

## Abstract

*Bangladesh, a developing country, has witnessed remarkable economic growth and social progress in recent decades. Nevertheless, the country confronts some challenges due to the restrictive and complex foreign exchange regulations and transaction guidelines, which constrain its potential and competitiveness in the global market. This paper intends to analyze the causes, consequences, and solutions of the restrictive foreign exchange regulation and transaction guidelines that affect various sectors of the economy such as freelancing, e-commerce and f-commerce, fintech companies and their customers, and retail investment in global financial markets. It will investigate the historical background and rationale of these regulations, as well as their current status and future implications. The paper will also suggest some recommendations to urge for revamping the foreign exchange policies of Bangladesh by adopting a more liberal and flexible approach to foreign exchange regulation and transaction guidelines for these sectors to flourish and contribute to the vision of achieving a smart Bangladesh digital economy.*

**Keywords:** foreign exchange policies, digital economy, freelancing, e-commerce, f-commerce, fintech, financial markets, liberalization, flexibility

## Introduction

Bangladesh is a developing country that has achieved remarkable economic growth and social progress in the last few decades with the presence of one thing that has remained quite constant - the reluctance of flexible foreign exchange policies involving global financial transactions. Foreign exchange policies are the rules and regulations that govern the exchange of currencies between countries. They affect various aspects of the economy such as trade, investment, inflation, growth, etc. Foreign exchange policies vary across countries depending on their economic, political, and strategic objectives and constraints. There are different types of foreign exchange policies such as fixed exchange rates, floating exchange rates, managed exchange rates, currency unions, etc. Each type has its advantages and disadvantages for different countries. Bangladesh with its protectionist economic legacy weighs on disadvantages much, and has kept its people refrained from sending money abroad for various purposes except for bare minimum education and health needs. As a consequence, the country also faces some challenges and constraints that limit its potential and competitiveness in the global market. These restrictive regulations affect various sectors of the economy such as Freelancing, E-commerce and F-commerce, Fintech, and, Retail Investment in global financial markets, which are the emerging trends and opportunities in the smart economy that can benefit Bangladesh in terms of creating more jobs, earning more foreign exchange earnings, increasing financial inclusion and efficiency, diversifying income sources and investment opportunities, and achieving economic growth and development. However, due to foreign exchange regulations and transaction guidelines, these sectors face various difficulties and barriers in accessing international markets, customers, vendors, platforms, products, services, etc. This situation curbs their growth, innovation, and competitiveness in the global market.

This paper aims to analyze the causes, consequences, and solutions of the restrictive foreign exchange regulation and transaction guidelines in Bangladesh. After the introduction, the paper will present the regulatory frameworks of foreign exchange policies in Bangladesh to explore the historical background and rationale of these regulations, as well as their current status and implementation. Next, it will examine the impact of these regulations on various sectors of the economy such as Freelancing, E-commerce and F-commerce, Fintech, and, Retail Investment in global financial markets, as well as their prospects and challenges. After discussing the reflection of skepticism around the nexus of protectionist policies and ineffective liberalization regarding foreign exchange policies, it will also propose some recommendations for revamping these regulations to create a more conducive environment for these sectors to thrive and contribute to the economic development of Bangladesh. The paper hopes to provide a timely call for revamping the foreign exchange policies of Bangladesh to unleash its full potential in the digital economy.

## **Literature Review**

### ***Theoretical Propositions of Foreign Exchange Policies***

Academic pieces of literature have developed various theories and frameworks to understand and explain foreign exchange policies from different perspectives. The monetary approach focuses on the role of money supply and demand in determining the exchange rate (Frenkel, 1977). According to this perspective, foreign exchange policies can affect the exchange rate by changing the money supply or the demand for money. For example, an expansionary monetary policy can lower the domestic interest rate and increase the money supply, which can lead to a depreciation of the domestic currency. In Bangladesh, the central bank (Bangladesh Bank) conducts monetary policy by using various instruments such as policy rates, reserve requirements, open market operations, and refinancing schemes.

The balance of payments approach focuses on the role of international transactions in determining the exchange rate (Krugman, 1979). It assumes that the exchange rate is determined by the balance of payments, which is the record of all transactions between a country and the rest of the world (Krugman, 1969). According to this perspective, foreign exchange policies can affect the exchange rate by changing the current account or the capital account (Kouri, 1976). For example, a trade surplus can increase the demand for the domestic currency and appreciate it, while a capital outflow can decrease the supply of the domestic currency and depreciate it.

The asset market approach focuses on the role of financial assets in determining the exchange rate. It assumes that the exchange rate is determined by the relative returns and risks of holding different currencies as assets (Ethier, 1979). According to this perspective, foreign exchange policies can affect the exchange rate by changing the expectations or preferences of investors (Frenkel & Mussa, 1985). For example, a credible commitment to maintain a fixed exchange rate can reduce the risk premium and appreciate the domestic currency, while political instability can increase the uncertainty and depreciate it.

The institutional approach focuses on the role of institutions in determining the exchange rate. It assumes that the exchange rate is determined by the formal and informal rules and norms that shape the behavior and interactions of economic agents (Ikenberry, 1988). According to this perspective, foreign exchange policies can affect the exchange rate by changing or creating institutions that influence or constrain the choices and actions of economic agents (ibid, 1988). For example, a central bank's independence can enhance its credibility and effectiveness in conducting monetary policy and stabilizing the exchange rate, while a currency board can limit its discretion and flexibility in responding to external shocks.

### ***Regulatory Frameworks of Bangladesh***

The regulatory mechanism of funds received and transferred through foreign currency in Bangladesh is based on the (Bangladesh Bank, 1947) and the Guidelines for Foreign Exchange Transactions (GFET) issued by the Bangladesh Bank, the central bank of Bangladesh (Bangladesh Bank, November 30, 2017). FERA provides the legal framework for regulating certain payments, dealings in foreign exchange and securities, and the import and export of currency and bullion (Bangladesh Bank, November 30, 2017). GFET contains the instructions and procedures to be followed by authorized dealers (ADs) and money changers in their reporting of foreign exchange transactions to the Bangladesh Bank.

According to FERA, no person in Bangladesh can buy borrow from, sell lend to, or exchange with any person outside Bangladesh any foreign exchange without obtaining general or special permission from the Bangladesh Bank (Bangladesh Bank, 1947). Similarly, no person can make any payment to or for the credit of any person outside Bangladesh, or receive any payment from any person outside Bangladesh, without such permission. Any person who contravenes these provisions is liable to be punished with imprisonment fine or both (Bangladesh Bank, 1947). The ADs are the only entities that are allowed to transact and hold foreign exchange both at home and abroad. They are licensed by the Bangladesh Bank to deal in foreign exchange with their customers following FERA and GFET (Bangladesh Bank, November 30, 2017). The ADs are required to keep proper records of all dealings in foreign exchange and submit periodic returns and statements to the Bangladesh Bank as prescribed in GFET (Bangladesh Bank, November 30, 2017). The ADs are also responsible for ensuring compliance with the foreign exchange regulations by their customers and reporting any suspicious transactions to the Bangladesh Bank. The money changers are registered entities that can buy foreign currencies from tourists and sell them to outgoing Bangladeshi travelers as per entitlement. They are also required to maintain records and submit returns to the Bangladesh Bank as per GFET (Bangladesh Bank, November 30, 2017). Some service institutions like hotels and shops have also obtained limited money-changing licenses to accept foreign currencies from foreign tourists, but they have to sell them to ADs within a specified period (Bangladesh Bank, November 30, 2017).

The funds received and transferred through foreign currency in Bangladesh can be categorized into two broad types: current account transactions and capital account transactions. Current account transactions are those that relate to trade, services, income, remittances, etc. Capital account transactions are those that relate to investments, loans, assets, liabilities, etc. Both types of transactions are subject to certain restrictions and conditions as per FERA and GFET. The regulatory mechanisms in this regard are the following:

- A foreign investor can bring in foreign exchange in any form including cash without limit. But for amounts over US\$5,000, a declaration on the FMJ form is required to be

made to the Customs Authorities at the time of entry. Amounts brought in may also be taken out freely, subject to production of the declaration where applicable (Bangladesh Bank, November 30, 2017).

- A foreign investor can repatriate their invested capital, profits, capital gains, post-tax dividends, and approved royalties and fees through an AD provided the appropriate documentation is in order (Bangladesh Bank, November 30, 2017).
- A Bangladeshi exporter can receive payment for their exports in foreign currency through an AD within four months from the date of shipment. The exporter has to surrender the foreign exchange to an AD within two working days from the date of receipt (Bangladesh Bank, 1947).
- A Bangladeshi importer can make payment for their imports in foreign currency through an AD subject to certain conditions such as registration of import contract, opening of letter of credit, submission of import documents, etc (Bangladesh Bank, 1947).
- A Bangladeshi resident can remit up to US\$12,000 per calendar year for various purposes such as education, medical treatment, travel, etc. through an AD subject to certain conditions such as submission of application form, supporting documents, tax clearance certificate, etc (Bangladesh Bank, 1947).
- A Bangladeshi resident can borrow or lend in foreign currency from or to a non-resident with prior approval from the Bangladesh Bank. The borrowing or lending should be for a specific purpose and within a specified limit as per GFET (Bangladesh Bank, November 30, 2017).
- A Bangladeshi resident can invest in foreign currency-denominated securities issued by a non-resident with prior approval from the Bangladesh Bank. The investment should be for a specific purpose and within a specified limit as per GFET (Bangladesh Bank, November 30, 2017).

The legacy of such conservative financial policies to safeguard domestic industries in Bangladesh can be traced back to the post-independence period when the country adopted a state-led development strategy that aimed to protect and promote the domestic industrial sector from foreign competition and dependence. The strategy involved high tariffs, import substitution, subsidies, public ownership, and strict controls on foreign exchange transactions. The rationale behind such policies was to foster self-reliance, economic sovereignty, and industrialization in a war-torn and underdeveloped country (French-Davis et al., 2000; Minton & Wruck, 2001).

However, the conservative financial policies also had some negative consequences for the economy. They created inefficiencies, distortions, rent-seeking, corruption, and fiscal deficits in the public sector. They also discouraged private investment, innovation, and competition in the private sector. They also isolated the country from the global market and prevented it from benefiting from trade liberalization, foreign direct investment, and technology transfer (Minton & Wruck, 2001; Rondinelli et al., 1983).

The late and ineffective processes of liberalization in Bangladesh occurred as the gradual and partial reforms that were initiated in the 1980s and 1990s under the pressure of international financial institutions such as the World Bank and the IMF (IMF, 2013). The reforms aimed to reduce the role of the state and increase the role of the market in the economy. The reforms included lowering tariffs, deregulating imports, privatizing public enterprises, relaxing foreign exchange controls, and introducing market-based exchange rates (Kalirajan & Salim, 1997; Bhattacharya, 2000). However, the liberalization processes also faced some challenges and limitations (Rondinelli et al., 1983). They were often resisted by powerful interest groups such as bureaucrats, politicians, businessmen, and trade unions who benefited from the status quo. They were also hampered by weak institutions, poor governance, political instability, and social unrest. They also failed to address some of the structural problems of the economy such as low productivity, poor infrastructure, inadequate human capital, and high poverty (IMF, 2013; Ayoo, 2022). As a result, we are failing to compete in many jobs and trade segments in the world of globalization and digitally structured activities. These strict financial regulations are also not allowing us to take part in the emerging opportunities around the world. As a new decade has started, we are badly in need of a rejuvenation of the policies for the fluidity of transferring money by understanding the potentials and challenges around this measure. Here we will focus on four particular aspects that can have immense potential in the ongoing fourth industrial revolution. They are: Freelancing, E-commerce and F-commerce, Fintech and, Retail Investment in global financial markets.

## **Emerging Avenues in Smart Economy**

### ***Freelancing***

Freelancing is a form of self-employment that allows individuals to offer their skills and services to clients across the world through online platforms. Freelancing has been an emerging profession in Bangladesh for the last decade, as it provides opportunities for income generation, skill development, and flexibility. According to a report by the Oxford Internet Institute, Bangladesh ranked second in the world in terms of online workers per 10,000 people, with over a million freelancers in total (Dhaka Tribune, July 22, 2017). The most popular categories of freelancing in Bangladesh are graphic design, web development, content writing, data entry,

digital marketing, etc. The prospects of freelancing in Bangladesh are promising, as the demand for online work is increasing due to the COVID-19 pandemic and the digital transformation of the economy. Freelancing can help Bangladesh to create more jobs, especially for the youth and women, who face high unemployment rates. Freelancing can also help Bangladesh earn more foreign exchange remittances, which are vital for its balance of payments and economic growth. According to a study by Payoneer, a global payment platform for freelancers, Bangladesh earned \$474 million from freelancing in 2020, ranking sixth in the world (The Daily Star, July 27, 2021). However, freelancing also faces some challenges due to the foreign exchange regulations and transaction guidelines in Bangladesh.

One of the main challenges is the restriction on receiving and transferring funds in foreign currency. According to the FERA and GEFT, no person in Bangladesh can buy or sell foreign exchange without obtaining permission from the Bangladesh Bank (Bangladesh Bank, 1947). This means that freelancers cannot receive payments from their clients or pay for their expenses in foreign currency through online platforms like PayPal<sup>1</sup>, Payoneer<sup>2</sup>, etc. They have to rely on alternative methods such as bank transfers, mobile wallets, or cash transactions, which are often costly, time-consuming, and risky.

Another challenge is the limitation on purchasing software, web applications, technical products, and services that are essential for freelancing. Many of these products and services are not available or affordable in Bangladesh and require payment in foreign currency. For example, a graphic designer may need to buy Adobe Photoshop or Illustrator licenses, a web developer may need to buy domain names or hosting services, a content writer may need to buy Grammarly<sup>3</sup> or Quilbot<sup>4</sup> subscriptions, etc. However, due to foreign exchange regulations and transaction guidelines, freelancers cannot buy these products and services directly from the providers or online marketplaces. They have to use intermediaries such as friends, relatives, or agents who have access to foreign currency accounts or cards.

A third challenge is the difficulty in scaling up their business and expanding their market. Freelancers often need to invest in their professional development and growth by acquiring new skills, upgrading their equipment, hiring assistants, etc. Also, freelancers are finding it difficult to

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<sup>1</sup> An American multinational financial technology company operating an online payments system in the majority of countries that support online money transfers, and serves as an electronic alternative to traditional paper methods such as checks and money orders.

<sup>2</sup> An American financial services company that provides online money transfer, digital payment services and provides customers with working capital.

<sup>3</sup> An American cloud-based typing assistant. It reviews spelling, grammar, punctuation, clarity, engagement, and delivery mistakes in English texts, detects plagiarism, and suggests replacements for the identified errors.

<sup>4</sup> An AI-powered writing assistant designed to help people improve their writing skills. It uses natural language processing and deep learning to provide users with personalized feedback on their writings

scale up their business since the money transfer system doesn't allow them to initiate transactions in online marketplaces like Upwork<sup>5</sup>, Freelancers<sup>6</sup>, or Fiverr<sup>7</sup> to purchase services. They also need to access new clients and markets by creating portfolios, bidding for projects, joining networks, etc. However, due to foreign exchange regulations and transaction guidelines, freelancers cannot access many of the online resources and platforms that can help them achieve these goals. They have to use local or limited options that may not meet their needs or expectations.

### ***E-commerce and F-commerce***

E-commerce and f-commerce are forms of online commerce that allow individuals and businesses to buy and sell goods and services through the Internet. E-commerce refers to the use of websites or applications as platforms for transactions, while f-commerce refers to the use of social media platforms, especially Facebook, as platforms for transactions. E-commerce and f-commerce have been growing rapidly in Bangladesh for the last few years, as they provide convenience, variety, and affordability for consumers and sellers. According to a report by e-CAB, the apex trade body of e-commerce in Bangladesh, the e-commerce market size in Bangladesh was estimated at \$2.5 billion in 2020, with over 50,000 e-commerce platforms operating in the country (The Business Standard, September 08, 2021). The most popular categories of e-commerce and f-commerce in Bangladesh are fashion, electronics, groceries, healthcare, education, travel, etc. The prospects of e-commerce and f-commerce in Bangladesh are promising, as the demand for online shopping is increasing due to the COVID-19 pandemic and the digital transformation of the economy. E-commerce and f-commerce can help Bangladesh to create more jobs, especially for the micro, small, and medium enterprises (MSMEs), which account for 99% of all businesses in the country (Banga & Mendez-Parra, 2021). E-commerce and F-commerce can also help Bangladesh earn more foreign exchange earnings by exporting products to international customers. According to ADB, Bangladesh's e-commerce market is to triple by 2023, expecting \$3 billion worth of products through e-commerce and f-commerce platforms (Dhaka Tribune, February 26, 2022). However, e-commerce and f-commerce also face some challenges due to the foreign exchange regulations and transaction guidelines in Bangladesh.

One of the main challenges is the restriction on importing and exporting goods and services in foreign currency. According to the FERA and GEFT, E-commerce and F-commerce platforms

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<sup>5</sup> An American freelancing platform formerly known as Elance-oDesk before merging in 2015

<sup>6</sup> An Australian freelance marketplace website, which allows potential employers to post jobs that freelancers can then bid to complete.

<sup>7</sup> An Israeli multinational online marketplace for freelance services.

cannot accept or process payments from foreign customers or pay for foreign vendors in foreign currency through online payment gateways like PayPal, Stripe, etc. They have to use alternative methods such as bank transfers, mobile wallets, or cash on delivery, which are often costly, time-consuming, and risky.

Another challenge is the high taxation rates and duties on imported goods and services. According to the National Board of Revenue (NBR), imported goods and services are subject to various taxes and duties such as customs duty, value-added tax (VAT), supplementary duty (SD), advance income tax (AIT), advance trade VAT (ATV), regulatory duty (RD), etc. These taxes and duties increase the cost of imported goods and services and reduce the competitiveness of e-commerce and f-commerce platforms in the market. They also create incentives for tax evasion and smuggling of goods.

A third challenge is the lack of access to online business support and solutions from international marketplaces. Many e-commerce and f-commerce platforms need to use online resources and tools that can help them improve their operations, marketing, customer service, etc. For example, an e-commerce platform may need to use Shopify<sup>8</sup> or WooCommerce<sup>9</sup> to create an online store, Google Ads<sup>10</sup>, or Facebook Ads<sup>11</sup> to promote their products and provide customer support, etc. However, due to foreign exchange regulations and transaction guidelines, e-commerce and f-commerce platforms cannot purchase these resources and tools directly from providers or online marketplaces. They have to use intermediaries such as friends, relatives, or agents who have access to foreign currency accounts or cards.

### ***Fintech***

Fintech companies are those that use technology to provide innovative and efficient solutions for the financial sector. They offer services such as online payment, money transfer, digital banking, lending, investing, etc. Fintech companies have managed to revolutionize the modern way of transferring money around the globe and empowering people to be their banks. The fintech market size in Bangladesh was estimated at \$1.45 billion in 2022, with over 200 fintech companies operating in the country (Prove, January 12, 2022). The most popular categories of fintech in Bangladesh are mobile financial services, payment gateways, peer-to-peer lending,

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<sup>8</sup> An Canadian multinational e-commerce company with its proprietary e-commerce platform for online stores and retail point-of-sale systems.

<sup>9</sup> An open-source e-commerce plugin for WordPress, designed for small to large-sized online merchants

<sup>10</sup> An online advertising platform developed by Google, where advertisers bid to display brief advertisements, service offerings, product listings, and videos to web users.

<sup>11</sup> A paid messages that businesses place on Facebook

robo-advisory, etc. with companies like Bkash<sup>12</sup>, Nagad<sup>13</sup>, and Rocket<sup>14</sup> flourishing in this space for a sustained period. The prospects of fintech in Bangladesh are promising, as the demand for digital financial services is increasing due to the COVID-19 pandemic and the digital transformation of the economy. Fintech can help Bangladesh to increase financial inclusion, especially for the unbanked and underbanked population, which accounts for 47% of the adult population (PwC, May 2023). Fintech can also help Bangladesh improve financial efficiency, transparency, and security by reducing transaction costs, enhancing data analytics, and preventing fraud. According to a study by BCG, a global management consulting firm, fintech can potentially add \$6.2 billion to Bangladesh's GDP by 2025 (The Business Standard, April 20, 2022). However, fintech companies and their customers in Bangladesh face some challenges due to the foreign exchange regulations and transaction guidelines in Bangladesh.

One of the main challenges is the lack of access to international payment gateways, credit cards, or digital wallets. According to the FERA and GEFT, fintech companies cannot operate or integrate their services with international platforms such as PayPal, Payoneer, Western Union<sup>15</sup>, etc. These platforms are widely used by millions of people around the world for online payment, money transfer, e-commerce, freelancing, etc. They also offer convenience, security, and low fees for their users. However, due to foreign exchange regulation and transaction guidelines, fintech companies and their customers in Bangladesh cannot use these platforms for their transactions. They have to use alternative methods such as bank transfers, mobile wallets, or cash transactions, which are often costly, time-consuming, and risky.

Another challenge is the limitation on purchasing or selling goods and services from or to international e-commerce websites. Many fintech companies and their customers in Bangladesh want to buy or sell products from or to international e-commerce websites such as Amazon<sup>16</sup>, eBay<sup>17</sup>, AliExpress<sup>18</sup>, etc. These websites offer a wide range of products at competitive prices and deliver them to the customers' doorstep. However, due to foreign exchange regulation and transaction guidelines, fintech companies and their customers in Bangladesh cannot purchase or

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<sup>12</sup> A mobile financial service (MFS) in Bangladesh operating under the authority of Bangladesh Bank as a subsidiary of BRAC Bank PLC.

<sup>13</sup> A Bangladeshi Digital Financial Service, operating under the authority of Bangladesh Post Office, an attached department of the Ministry of Post and Telecommunication.

<sup>14</sup> A Banking process without bank branch which provides financial services to unbanked communities efficiently and at affordable cost.

<sup>15</sup> A global payment gateway network backed by American multinational financial services corporation

<sup>16</sup> An American multinational technology company focusing on e-commerce, cloud computing, online advertising, digital streaming, and artificial intelligence.

<sup>17</sup> An American multinational e-commerce company that facilitates consumer-to-consumer and business-to-consumer sales through its website.

<sup>18</sup> An online retail service based in China and owned by the Alibaba Group.

sell products from or to these websites using their preferred payment methods. They have to use intermediaries such as friends, relatives, or agents who have access to foreign currency accounts or cards. They also have to pay high taxes and duties on imported goods and services.

A third challenge is the difficulty in expanding their market and reaching new customers. Fintech companies and their customers in Bangladesh want to access new markets and customers by offering their services across borders. They want to tap into the huge potential of the global fintech market, which is expected to reach \$305 billion by 2025 (MIT Sloan, February 04, 2021). They also want to benefit from the network effects and economies of scale that come with a larger customer base. However, due to foreign exchange regulation and transaction guidelines, fintech companies and their customers in Bangladesh cannot expand their market and reach new customers easily. They have to comply with different regulations and requirements in different countries. They also have to face competition from established players who have more resources and experience.

### ***Retail Investment in Global Financial Markets***

Investing in financial markets is a form of saving or allocating money for future returns. It involves buying and selling various financial assets such as stocks, bonds, currencies, commodities, etc. Investing in financial markets can help individuals and businesses to diversify their income sources, hedge against risks, and achieve their financial goals. The perspective of public investors can be categorized threefold. First, the exchange-traded financial instrument is an assurance of having long-term profit because it is designed to perform in the long run as only the best-performing companies are listed in it. Second, exchange-traded financial instruments act as an asset, inflation becomes a worth riser for it where bank interest loses valuation by fighting against inflation. So exchange traded instruments almost every time stay ahead in the game of better return. Finally, it allows diversifying a portfolio as the listing gets time to time considering the performance graph. So public investors do not have to worry about whether their investment decisions are right or wrong. However, investing in financial markets in Bangladesh faces some challenges due to the foreign exchange regulations and transaction guidelines in Bangladesh.

One of the main challenges is the lack of access to international financial markets. According to the FERA and GEFT, retail investors in Bangladesh cannot deposit money in international stock exchanges, buy bonds, foreign currencies, precious metals, commodities, real estate, etc. without prior approval from the central bank. They have to use alternative methods such as mutual funds, exchange-traded funds (ETFs), or foreign currency deposits (FCDs) that are offered by ADs or money changers. However, these methods are often limited in scope, availability, and performance.

Another challenge is the vulnerability and unattractiveness of the domestic financial markets. The domestic financial markets in Bangladesh are mainly composed of the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE) for equities, the Bangladesh Bank for bonds and treasury bills, and the interbank market for currencies. However, these markets are often plagued by market manipulation, insider trading, lack of transparency, poor governance, low liquidity, high volatility, etc. These factors reduce the confidence and interest of investors in the domestic financial markets. They also limit the potential returns and growth of the domestic financial markets.

A third challenge is the absence of complex and facilitated forms of financial instruments. The domestic financial markets in Bangladesh do not offer many of the advanced and sophisticated forms of financial instruments that are available in international financial markets. These include shorting the market, buying ETFs, trading futures and options, etc. These instruments allow investors to take advantage of different market scenarios, hedge against risks, and leverage their positions. They also increase the efficiency and diversity of the financial markets. However, due to the foreign exchange regulation and transaction guidelines, investors in Bangladesh cannot access these instruments for their investments.

## **Discussion**

There has been a skeptical attitude in the nexus between the legacy of conservative financial policies to safeguard domestic industries and, the late and ineffective processes of liberalization in Bangladesh. As a result, the aforementioned challenges on Freelancing, E-commerce and F-commerce, Fintech, and, Investment in global financial markets are significant in the context of Bangladesh. It affects the quality, quantity, and diversity of the work that working professionals and enterprises can offer. It reduces the income potential and profitability of these potential sectors. It discourages many potential employees from entering or continuing this field. It also deprives the country of valuable remittance inflows and economic opportunities that these sectors can generate. The underlying aspects of such a scenario can be explained by the following factors: the historical experience, the existing context, and the prospects.

The historical experience of Bangladesh with protectionism and liberalization has been mixed and controversial. On one hand, protectionism helped to create a domestic industrial base and a sense of national identity in a newly independent country. On the other hand, protectionism also led to economic stagnation and isolation from the world economy. Similarly, liberalization helped to improve economic efficiency and integration with the global market. However, liberalization also exposed the country to external shocks and increased inequality (Winters, 2004; Raihan, 2008). In Bangladesh, the balance of payments has been deteriorating in recent years due to widening trade deficits, declining remittances, and rising external debt. (Salman,

2009). The country also faces some constraints in managing its balance of payments, such as low export diversification, high import dependence, limited foreign exchange reserves, and weak governance (Bhowmick, 20 December 2022).

The current situation in Bangladesh concerning foreign exchange regulation and transaction guidelines is still restrictive and inconsistent. Despite some reforms in recent years, Bangladesh still maintains a complex and cumbersome system of foreign exchange regulation that involves multiple authorities, multiple rates, multiple restrictions, multiple approvals, and multiple documents (Raihan, 2008). The system creates uncertainty, delays, costs, and risks for both domestic and foreign participants in various sectors such as freelancing, e-commerce and f-commerce, fintech companies and their customers, and investing in global financial markets. From the monetary approach of foreign exchange policies, the central bank aims to control inflation, generate employment, and promote GDP growth through policy actions (The Daily Star. August 02, 2021). However, Bangladesh faces some challenges in implementing effective monetary policy, such as high fiscal deficits, weak financial sector, low tax revenue, and external shocks (IMF, 2013).

The prospects of Bangladesh concerning foreign exchange regulation and transaction guidelines are uncertain and dependent on various factors. Some of these factors include the political will and commitment of the government to further liberalize and simplify the system; the institutional capacity and governance of the relevant authorities to implement and monitor the system; the social consensus and acceptance of the stakeholders to support and comply with the system; the economic performance and resilience of the country to cope with the potential benefits and costs of the system; and the external environment and opportunities of the global market to offer attractive incentives and alternatives for the system (IMF, 2013).

Now when it comes to easing up the transactional regulations, there are a couple of issues that emerged from these contextual dynamics that need to be salvaged. Although the problems are philosophically quite old-fashioned, it is high time the government debunked the myths. The government needs to prioritize the freedom and flexibility of monetary transactions outside the country. It has to take the trade-off between the convenience of globalization and the protective mindset of being constrained.

Money laundering has been one of the major concerns being reserved with monetary policies since billions of dollars are going out of the country every year (IMF, 2013; The Daily Star, July 02, 2020). Now from the philosophical point of view, there is a concern that easing up the transactional regulations will make the scenario worse. But if we look at the money laundering incidents closely, we will find a strong correlation of corruption with it. People who are involved with these illegitimate activities do not care about the system being digitalized or not. They even

do not need to send millions of dollars abroad through digital procedures since they have strong connections to serve their interests through the existing system (IMF, 2013; Ayoo, 2022). So, restricting retailers from transacting money abroad does not necessarily stop money laundering. Rather, the government should focus more on eradicating corruption with strict law enforcement and system cleansing.

Strict monetary policies are also caused by the conventional mindset of keeping money in the domestic economy for the sake of an adequate supply of capital for economic activities (Huh, 2021). Since our independence, we struggled to maintain sustainable economic development for a long time. In Bangladesh, the asset market is still underdeveloped and dominated by banks and government securities. (IMF, 2013). The country also faces some challenges in developing its asset market, such as low financial inclusion, high interest rates, weak regulation, and limited access to international capital markets (The Daily Star. August 02, 2021). To mitigate that, there has been a tendency of the government to encourage more inward investment for the local industries to grow. Easing up transactional facilities is considered to be a threat to the distortion of the local economy (Minton & Wruck, 2001; Rondinelli et al., 1983). But in the era of globalization, money needs to move cyclically all over the globe to achieve better exposure to trade and finance. As flexible regulations will bring newer opportunities, the money supply will increase and the investment facilities will be much more widespread. By that, the domestic economy will eventually benefit and the industries will acquire international recognition which will boost the economy in the long run.

The convenient global transaction is key for the fintech startups to bring diverse options of financial instruments and services. However, the government is fearful of the byproduct of this feature, less control over financial security (The Daily Star, January 10, 2022). Since the transfer of money will become easier, more people will likely get scammed without a proper institutional framework. In Bangladesh, the institutional quality is still low and affects various aspects of economic performance (IMF, 2013). The country also faces some challenges in improving its institutional quality, such as corruption, political interference, lack of transparency, and weak enforcement. As we have a bitter history of financial vulnerability and Ponzi schemes, the government has remained protective on this subject for a long time (The Daily Star, August 31, 2023). But again when it comes to calculating the pros and cons, the advantages of transactional freedom outpaces the drawbacks by some distance. The government should try to limit the disadvantages of international transactions by regulating the potential scamming possibilities and maintaining authenticity rather than limiting the movement of money.

## **Recommendations**

Since the government is quite concerned about the negative impacts of a more open system of transferring money internationally, here are some recommendations to bridge the gap between comfort and protection and create a better framework for international transaction policies.

- Relaxing the foreign exchange regulation and transaction guidelines for Freelancers, E-commerce and F-commerce platforms, fintech companies and their customers, and, retail investors in global financial markets by allowing them to open and operate foreign currency accounts or cards with ADs or money changers. Proper monitoring of International transactions should be ensured while allowing them to access international financial markets without prior approval from the Bangladesh Bank rather than complete restriction.
- Reducing the taxation rates and duties on imported goods and services by rationalizing the tariff structure. Taxes should be calculated and paid properly with administrative efficiency and convenience to the taxpayers by simplifying the tax administration and providing exemptions or refunds for certain categories of goods or services.
- The information about Inflows and outflows of money should be transparent. Transactional details should be well preserved to avoid the unwanted occurrence. Suspicious financial activities should remain under strict observation to counter money laundering. Scamming and illegal monetary activities such as gambling or betting should strictly be prohibited to safeguard people's rights to financial transactions. Therefore it can ensure a stable growth of the financial market as it brings trust, competition, and proper monitoring to the table which attracts people to invest and experience a long-term gradual growth of wealth.
- Laws regarding financial corruption should be redesigned and applied to take the facilities of international transactions for Freelancers, E-commerce and F-commerce platforms, Fintech companies and their customers, and, retail investors in global financial markets into account. All the stakeholders should be allowed to participate in the discussion about bringing regulations around transferring money internationally.
- Recognizing Freelancing as a formal sector and providing legal protection, social security, taxation benefits, and other facilities for freelancers. Supporting freelancers to access online resources and platforms that can help them improve their skills, showcase their work, find new clients, and join global networks.
- Local fintech services should be encouraged for global expansion but necessary accountabilities to the government need to ensure by facilitating their payment options,

providing incentives or subsidies for their purchases, creating partnerships or collaborations with foreign providers or platforms, etc.

- Global marketplaces, E-commerce and F-commerce industries, investment solutions, and fintech services should be welcome to spread their businesses and make partnerships with the local ones in Bangladesh by making necessary changes in the policies, supporting their customers to access international payment gateways, credit cards, or digital wallets by facilitating their integration options, providing incentives or subsidies for their usage.
- Introducing complex and facilitated forms of financial instruments in the domestic financial markets by developing new products, creating new platforms, providing education and awareness, and encouraging innovation. The businesses have less havoc getting public investment than getting investments through bank loans. It will ease capital accumulation and run the business rather than paying interest no matter what the business is doing. In addition, there will be healthy competition among the businesses both listed inside and outside exchange traded financial instruments as the companies will try their best to have positive revenue, earnings, and cash flow to remain or enter the listing for getting better funding in the future.
- Last but not least, it is imperative to improve the governance, transparency, liquidity, and stability of the domestic financial markets by strengthening the regulatory framework, protecting consumer rights, data security, cybercrime prevention, enhancing disclosure standards, promoting market competition, and developing market infrastructure.

## **Conclusion**

The smart economy offers immense potential and opportunities for Bangladesh, but it also poses some barriers and challenges that hinder its full participation and integration in the global market. One of these barriers is the restrictive and complex foreign exchange regulation and transaction guidelines that govern the inflow and outflow of foreign currency in the country. Flexible international transaction policies have been a necessity for the people of our country since we are constantly getting global engagement and the financial issues regarding that are also increasing gradually. Freelancing, E-commerce and F-commerce, Fintech, and, Retail Investment in global financial markets are some of the emerging trends and opportunities in the digital economy that can benefit Bangladesh. In this paper, we have tried to understand the origins, effects, and solutions of the restrictive foreign exchange regulation and transaction guidelines in Bangladesh. By having global access to our funds we can achieve significant outcomes in our already involved digital activities and explore potential involvement in the ocean of numerous

options the modern world has presented to us. We believe that Bangladesh can overcome its challenges and seize its opportunities in the digital economy by adopting a more liberal and flexible approach to foreign exchange regulation and transaction guidelines. So, the government needs to assess the scenario to overcome the challenges in the process of customizing the desired policies which will empower the people to cash in the high-yield opportunities and raise the bar of financial activities of the country to international standards.

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