

FOREIGN DIRECT INVESTMENT IN BANGLADESH: A CRITICAL ANALYSIS

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ABSTRACT

The term foreign direct investment (hereinafter FDI) emerges as one of the important contributors for the economic development of a country in particular and the world in general with the advent of the concept of globalization. FDI emphasizes on rising trade and investment flows, greater labor mobility, transfer of capital, technology and know-how etc. FDI may have positive impact on the exploitation of unused resources of host and home countries, thus expediting economic development. FDI in a host country would depend upon how much incentives are given to home countries in order to attract FDI. The study intends to focus on presenting the incentives offered by the Government of the People's Republic of Bangladesh for attracting FDI and its trend. To conduct the study, secondary sources of data are used. During the study, it is seen that despite the incentives given by the Government, FDI inflows in Bangladesh are not at satisfactory level. For the better FDI inflows in Bangladesh, the study has outlined some modest suggestions.

Keywords: Foreign Direct Investment; Home country; Host Country; Fiscal incentives; Financial incentives; Push factor; and pull factor.

INTRODUCTION

FDI emerges as one of the important aspects for the economic development of a country in particular and the world in general. It is the direct investment made by transnational corporations or by a non-resident from investing countries to investment recipient countries in which investing units have power to control decision making process over the investment (World Bank, 1996). FDI emphasizes on mergers and acquisition in the form of equity participation, transferring of technology and knowhow etc. in order to yield private return in accordance investing and investment recipient countries macro-economic policies. Since 1980s FDI flows have increased three times faster than the growth of exports and four times the growth of world trade, which constitute the major portion of capital flows around the globe (Gray, et al, 2001). Many middle income developing countries viz., Indonesia, Malaysia, Singapore, Thailand and so on, have developed their economy tremendously. The economic growth rate of these countries accelerated from 4 percent to 10-12 percent a year. FDI may have a positive bearing on economic growth and development of Bangladesh.

REVIEW OF RELATED LITERATURE

Review of related literatures points out the clues in order to develop the research gap. Considering the point, few related literatures have been reviewed.

Earlier, FDI was considered as 'parasitic' and 'retarding' for the development of domestic industries for export promotion. However, Bende Nabende et al, (2002) mention that technology transfer, the development of human capital and the opening up of the economy in the globe *inter alia* have served to change the earlier concepts. Caves, (1996) observes that FDI has positive impact on productivity gains, technology transfer, the introduction of new processes, managerial skills and know-how etc. in the domestic market, employee training, international production networks and access to markets. Findlay (1978) points out that FDI has a contagious effect on advanced technology management and practices. So, to attract FDI in a country, concerned Government has often provided special incentives to investors of investing countries. Alam (2003) mentions that FDI inflows of a developing countries, like Bangladesh depend upon to some extent, Government's initiatives toward reform of investment policy. Samuel and Festus (2011) point out that country's economic development largely, depends upon FDI inflows. This inflow may be increased through tax incentives by the host countries.

The review of the literatures points out that FDI inflow of a country has an important bearing on the economic growth and development. Mobilization of FDI would depend upon macro-economic policies of home countries and host countries. Inflows of FDI are the result of pull factors of the investment recipient country and outflows of FDI is the result of push factor of investing country.

OBJECTIVES OF THE STUDY

The objectives of the study *inter alia* are as follows:

- i) To understand the economy of Bangladesh;
- ii) To find out the need for FDI to the economic development of Bangladesh;
- iii) To focus on the incentives offered by the Government of Bangladesh to attract more FDI;
- iv) To present the trend of FDI inflows into Bangladesh;
- v) To outline the possible suggestions for the better inflows of FDI into Bangladesh for economic development.

METHODOLOGY OF THE STUDY

The data used in the study is mainly secondary in nature. The data are collected from Board of Investment, Ministry of Planning, Export Processing Zones, various articles, Publications of the World Bank, and various books etc. Tabular form has been used in analyzing the collected data. Percentage and ratio are also used in analyzing the collected data.

ECONOMY OF BANGLADESH

Bangladesh is a small country with the area of 1, 47,570 square kilometer. Presently, about 160 million people live in Bangladesh. Economy of Bangladesh mainly consists of three broad sectors of Agriculture, Industry and Natural Resources etc. Bangladesh is strategically located for the global trade with access to international sea and air route and endowed with hardworking workforce, natural gas, sweet water, fertile land, favorable climate and social tranquility. Per capita GDP is US \$ 684, total exports are amounted to US \$ 16.2 billion and total imports are amounted to US \$ 21.5 billion (Foreign Direct Investment in Bangladesh, 1971-2010). As the country has a sizable market of about 160 million people mentioned above, there is an expectation of potential increase of domestic consumption with continuous and accelerated growth in national income. Besides, the local market, Bangladesh has duty and quota free access to the European Union, USA, Canada, Australia, New Zealand, Japan, India and other developed countries. Bangladesh is at the threshold of development. Domestic investors are not alone capable to exploit the countries unused resources. For optimum uses of the resources the country needs advanced technology, equity capital and know-how etc. FDI may cater the need in order to achieve economic development like Malaysia, Singapore, and Republic of Korea etc.

INCENTIVES TOWARDS FDI

As stated earlier that many developing countries have developed their economy tremendously through attracting FDI inflows. Considering the development, the Government of Bangladesh has also provided some incentives to attract more FDI inflows (Foreign Direct Investment in Bangladesh, 1971-2010). These incentives are fiscal incentives, financial incentives and additional incentives:

Fiscal incentives: Fiscal incentives include the following:

- I. Corporate tax holiday of 5 to 7 years for selected sectors;
- II. Reduced tariff on import of raw materials capital machinery;
- III. Bonded warehousing;
- IV. Accelerated depreciation on cost of machinery is admissible for new industrial undertaking;
- V. Tax exemption on capital gains from the transfer of shares of public limited companies listed with a stock exchange;
- VI. Reduced corporate tax for 5-7 years in lieu of tax holding and agricultural depreciation.

Financial Incentives: Financial incentives include the following:

- I. Cash incentives and export subsidies ranging from 5%-20% granted on the FOB value of the selected product;
- II. 90% loans against letters of credit;
- III. Funds for export promotion;
- IV. Export credit guarantee scheme;
- V. Permission for domestic market sales of up to 20% of export oriented companies outside EPZ.

Additional facilities: Additional facilities include the following:

- I. 100% foreign equity allowed;
- II. Unrestricted exit policy;
- III. Remittance of royalty, technical know-how and technical assistance fees;
- IV. Full repatriation facilities of dividends and capital at exit;
- V. Citizenship by investing a minimum of US \$ 5,00,000;
- VI. Permanent resident permits on investing US \$ 75,000;
- VII. An investor can wind up investment either through a decision of the AGM or EGM. The investor can repatriate the sales proceeds after securing proper authorization from the central Bank.

FDI TRENDS IN BANGLADESH

Following the incentives offered by the Government of Bangladesh, the foreign investors have started coming to Bangladesh for investment. FDI inflows into Bangladesh may consist of 100% foreign owned investment and joint venture projects between Bangladeshi investor and foreign investor. Foreign investments registered with Board of Investment during 1990 to 2010 are presented in Table 1:

Table 1: Foreign Investment Registered with Board of Investment during 1990-2010

Foreign Investment	No. of units registered	Investment in US \$(in Millions)	Employment opportunities(Person)
100% Foreign Investment	418(22%)	7012.768(41%)	1, 41,957(35%)
Joint venture Investment	1179(78%)	10,172.470(59%)	2, 59,207(65%)
Total	1597(100%)	17,185.238(100%)	4, 01,164(100%)

Source: Investment Implementation and Monitoring Cell (IIMC), Board of Investment, Prime Minister's Office, Government of the People's Republic of Bangladesh, Dhaka

Note: Figures in the bracket indicate % of total of the concerned column.

Table 1 clarifies that registered foreign investment consists of 78% of joint venture investment compared to total investment units while 22% of sole foreign investment. In case of required investment cent percent foreign investment needs 41% of total investment required and 59% of total investment is required for joint venture investment. But employment opportunity has not been happened according to investment opportunity and no. of registered units. These might have been happened because of labor intensive and capital intensive projects. The Table 1 has not shown year-wise registered units, required investment and employment opportunities. The Table 2 shows the year-wise break up of 100% registered FDI proposals:

Table 2: 100% Registered Foreign Direct Investment Proposals

Year	Investment(US \$ in Millions)	Employment Opportunities(Person)
1990	0.623	100
1991	2.841	344
1992	18.919	206
1993	0.200	150
1994	28.037	2521
1995	10.318	252
1996	22.257	4125
1997	191.242	3998
1998	1018.871	3887
1999	436.907	13116
2000	406.695	1012
2001	11.258	1761
2002	35.963	9709
2003	83.516	8042
2004	224.806	20775
2005	3197.623	14439
2006	1120.820	11688
2007	55.163	23779
2008	65.584	6208
2009	44.688	11050
2010	36.437	4795
Total	7012.768	141,957

Source: Investment Implementation and Monitoring Cell (IIMC), Board of Investment, Prime Minister's Office, Government of the People's Republic of Bangladesh, Dhaka

Table 2 shows the yearly break up of 100% proposed registered FDI into Bangladesh and employment opportunity for the period of 1990-2010. The table clarifies the fluctuations in the proposed registered FDI inflows into Bangladesh. The fluctuations in case of employment opportunities are also seen in the table. It is seen in the Table that the highest investment FDI inflows in 2005 and lowest in 1994. Employment opportunities are seen highest in 2007 and lowest in 1990. There may be many reasons attributed for these fluctuations. The reasons may be inadequate incentives to investors, political volatility, red tapism, capital intensive and labor intensive projects. Among the reasons capital incentives and labor incentives projects may be the dominant factors for the fluctuations of FDI inflows into Bangladesh. The FDI inflows into Bangladesh have been concentrated in different sub- sectors. The sector-wise FDI inflows into Bangladesh are presented in Table 3.

Table 3 presents the sector-wise FDI inflows into Bangladesh and employment opportunities. There are fluctuations in investment inflows and employment opportunities in the Table. It is

Table 3: Sector-wise Registered FDI inflows and Employment Opportunities during 1990-2010

Sl No.	Sectors	No. of Units	Investment (in Millions US \$)	Employment opportunities
1	Agro based	59	154.291	24,434
2	Chemical	65	1,985.938	6,147
3	Engineering	57	38.963	4,388
4	Food and allied	13	19.112	1,662
5	Glass and Ceramics	3	8.188	328
6	Printing Publishing and Packaging	7	2.269	325
7	Tannery and Rubber Products	4	4.013	602
8	Textile	115	221.259	84,578
9	Services	91	4,575.901	18,758
	Miscellaneous	7	2.834	735
	Total	418	7,012.678	141,957

Source: Investment Implementation and Monitoring Cell (IIMC), Board of Investment, Prime Minister's Office, Government of the People's Republic of Bangladesh, Dhaka

seen in the table that Services Sector attract highest investment inflows, followed by chemical sub-sector. The lowest investment inflows are seen in Printing, Publishing and Packaging Sector. In case of employment opportunities, Textile Sector shows the highest number of employees, followed by agro-based Sector and the lowest number of employees is seen in Printing, Publishing and Packaging Sector. There is no consistency between investment and number of employments. This might be happened because of capital intensive and labor intensive projects.

The FDI investment flows have come from many countries. The FDI inflows coming from top ten countries are presented in Table 4:

Table 4 presents the investment inflows, number of units and employment opportunities of ten top investing countries. There are fluctuations in invested amount, employment opportunities and number of units in the countries. The Table clarifies that there is no correlation between amount invested and employment opportunities. This may be happened because of the capital intensive and labor intensive natures of investment. United Arab Emirates invested the highest amount in 6 units, followed by Kingdom of Saudi Arabia in 4 units while employment generation of United Arab Emirates is 6,513 and Kingdom of Saudi Arabia is 2,154. The lowest investment is seen for China, but employment generation from the investment is 7071. The highest employment generation comes from the investment of South Korea and the lowest employment generation comes from the investment of Egypt.

Table 5 presents the FDI inflows and employment opportunities through joint venture investments in Bangladesh. There are fluctuations in FDI inflows and employment opportunities over the years as seen in the Table. The highest investment inflows are seen in 2008, followed by 1997. The lowest investment inflows are seen in 1991. The highest employment opportunities are seen in 2006, followed by 2007. The lowest employment opportunities are seen in 1991. Relationship between invested amount and employment opportunities is not consistent. There may be the reasons of capital intensive and labor intensive projects.

Table 4: Registered FDI Inflows of Top Ten Countries

Country	No. of units	Investment in Millions US \$	Employment opportunities (Person)
United Arab Emirates	6	2,229.898	6,513
Kingdom of Saudi Arabia (KSA)	4	1,850.406	2,154
United Kingdom	45	982.035	26,194
United States	23	735.376	3,881
The Netherlands	7	351.197	595
Egypt	2	177.149	243
Malaysia	7	162.006	833
South Korea	88	123.708	46,089
India	43	93.803	7,982
China	54	55.622	7,071
Total 10-countries	279	6,761.200	1,01,555

Source: Ibid

FDI investment inflows into Bangladesh from joint venture investment consist of a significant amount. The year-wise FDI inflows into Bangladesh through joint venture are presented in Table 5.

Table 5: Registered FDI Inflows through Joint Venture (during 1990-2010 in million US\$)

Year	Investment in million US \$	Employment opportunities (Persons)
1977-1989	259.401	3242
1990	95.377	1011
1991	5.617	415
1992	14.545	1248
1993	19.608	717
1994	211.622	1522
1995	651.816	1313
1996	616.978	6692
1997	1838.911	10,820
1998	786.090	8,713
1999	101.657	4,851
2000	127.779	4,670
2001	228.445	4,679
2002	218.827	10,786
2003	365.974	18,925
2004	247.894	13,180
2005	602.498	22,081
2006	349.148	40,516
2007	271.687	39,037
2008	2403.328	36,677
2009	579.750	22,590
2010	175.518	5,522
Total 21-year	10,172.470	2,59,207

Source: Ibid

Foreign investors through joint venture projects have come from different countries. The top ten countries from where investors have come to Bangladesh are shown in Table 6.

Table 6: FDI inflows through Registered Joint Venture Projects with top ten Countries

Country	Investment in million US \$	Employment opportunities(Person)
Kingdom of Saudi Arabia	2,275.663	2,373
Norway	1,651.704	2,525
USA	1,045.679	18,857
Japan	911.379	14,108
United Kingdom	687.668	32,967
Malaysia	569.535	7,998
Hong Kong	309.329	13,329
Singapore	294.185	7,848
France	274.428	4,174
United Arab Emirates	223.895	4,616
Total 10-Countries	4,243.465	1,08,795

Source: Investment Implementation and Monitoring Cell (IIMC), Board of Investment, Prime Minister's Office, Government of the People's Republic of Bangladesh, Dhaka

The highest FDI joint venture investment has come from Kingdom of Saudi Arabia, followed by Norway. The lowest FDI joint venture investment has come from the United Arab Emirates. In terms of employment opportunities United Kingdom has shown the highest investment opportunities and lowest employment opportunities are seen for the Kingdom of Saudi Arabia.

The actual FDI investment inflows have not been equal to registered FDI investment inflows as presented earlier. The year-wise actual FDI inflows into Bangladesh during 1996-2009 are presented in Table 7:

Table 7 shows the highest actual FDI inflows into Bangladesh in 2008 followed by the year 2006 and the lowest actual FDI investment inflows are seen 1996 followed by the year 1999. The highest FDI inflows in terms of fixed capital formation is seen in the year 1997 followed by the year 1998. The lowest FDI inflows in terms of fixed capital formation are seen in the year 1996 and 2003 followed by the year 1999. The table has not shown the consistent actual FDI inflows into Bangladesh. This might be happened because of political instability of the country, inadequate infrastructure facilities, redtapism, inadequate fiscal and financial incentives towards foreign investors and non-resident Bangladeshi investors etc. Among the factors, political instability and inadequate infrastructure facilities are considered to be dominant. The actual investment in terms of registered investment is not satisfactory. The registered FDI investment inflows and actual FDI investment inflows into Bangladesh are presented in Table 8:

Table 8 shows the registered FDI investment inflows and actual FDI investment inflows during 1996-2009. Actual FDI investment inflows into Bangladesh have been fallen short from registered FDI investment inflows most of the years except the years 2000, 2001, 2002, 2007 and 2009. The reason may be that there was less political turmoil in the country during the years.

Table 7: Actual FDI inflows into Bangladesh during 1996-2009

Year	Actual FDI Inflows In million US&	Actual FDI inflows as % of fixed capital formation
1996	232	2.9%
1997	575	6.7
1998	576	6.2
1999	309	3.1
2000	579	5.5
2001	355	3.4
2002	328	3.0
2003	350	2.9
2004	460	3.4
2005	845	6.0
2006	793	5.3
2007	666	4.0
2008	1,086	5.9
2009	700	-
Total	7,854	-

Source: Investment Implementation and Monitoring Cell (IIMC), Board of Investment, Prime Minister's Office, Government of the People's Republic of Bangladesh, Dhaka

Table 8: Registered FDI investment inflows and actual FDI investment inflows during 1996-2009

Year	Registered FDI investment(million US \$)	Actual FDI investment (million US \$)
1996	639	232
1997	2,030	575
1998	1,805	576
1999	538	309
2000	534	579
2001	240	355
2002	255	328
2003	450	350
2004	473	460
2005	3800	845
2006	1470	793
2007	327	666
2008	2469	1,086
2009	624	700

Source: Investment Implementation and Monitoring Cell (IIMC), Board of Investment, Prime Minister's Office, Government of the People's Republic of Bangladesh, Dhaka

CONCLUDING REMARKS

The study deals with the nature of economy of Bangladesh. Review of the related literature points out that economic development of a country like Bangladesh by and large depends upon FDI inflows. To attract more FDI, the Government of the People's Republic of Bangladesh has offered many incentives for foreign investors. Still, it is seen in the study that actual FDI investment has been remained at a very insignificant level compared to fixed capital formation and registered FDI investment proposals. For better FDI investment flows, the study has outlined the following modest possible suggestions:

- (i) In addition to the incentives offered to attract FDI inflows, the Government of Bangladesh is to ensure political stability of the country. The investors need to keep their investment secured without facing any problem. Though there are many agreements between Bangladesh and other countries, it will not bring positive results until, the Government and opposition political parties work altogether.
- (ii) In order to find out loopholes of our FDI policies, the Government should compare our FDI policies with the FDI policies of successful countries

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