

A Comparative Analysis of Foreign Direct Investment (FDI) in South Asia: Charting a Roadmap for Bangladesh

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Abstract: Foreign Direct Investment (FDI) plays a vital role for the economic development and an important determinant of the economic growth and development of Bangladesh. This paper is analyzed in the form of trends of FDI inflows, sources of FDI in Bangladesh along with Country Share and Ranks, status of FDI inflows as compared to SAARC Countries, major attracting determinants and some suggestions regarding issue. The analysis is mainly based on yearly variations and changes in growth of FDI inflows. Data have been presented in tabular form to facilitate numerical examinations and graphical representations. FDI has emerged as the most important source of external resource flow for developing countries over the 1990s and has become a significant part of capital formation in the country despite their share in global distribution of FDI continuing to remain small or even declining. The trends of FDI show that during 1980-2006, Bangladesh received a meager amount of FDI. However, the flow of FDI increased in the later years but not significantly. But, recent trends of FDI in Bangladesh could be regarded as very insignificant compared to SAARC Countries. Due to the friendly investment policy measures taken by the present GOB, foreign investors are showing their interest to invest in Bangladesh and the country holds better prospects for significant FDI inflows in the coming years.

Introduction:

Foreign Direct Investment (FDI) is defined as long-term investment reflecting a lasting interest and control, by foreign direct investor or parent enterprise of an enterprise entity resident in an economy other than that of the foreign investor (WIR 2005). Bangladesh has embarked on a massive program to attract foreign investment both of direct and portfolio types. In this situation FDI is generally welcomed because it does not create any fixed obligations for Bangladesh. FDI is often accredited with import of superior technology developed in the industrially advanced countries at a huge cost on research and development. FDI is thought to be able to infuse new management skills and training facilities, which can have a beneficial impact on the local management practices. Besides,

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foreign entrepreneurs usually maintain branch network at the international level. They can employ this network for marketing the local products in the overseas markets.¹ The government has therefore launched vigorous campaigns to attract foreign investments. Official and unofficial delegations are being sent abroad to scout potential investors and to erase the negative images created by the western media about Bangladesh.² The Board of Investment-the BOI-are churning out attractively illustrated booklets with recitations of the incentive packages for the foreign investors. Since 1980s, the government of Bangladesh introduced open door economic policy and implemented macro and micro economic reform programs to attract foreign investment. Consequently, Bangladesh has been experiencing an upward trend in FDI inflow. However, by international standards, so far Bangladesh could attract only an insignificant amount of foreign capital. This paper attempts to measure the Trend of FDI inflows in Bangladesh including Country Share and Rank, Sector-wise Trend as a Percentage of Gross Fixed Capital Formation and Trends of Global FDI Inflows within SAARC Countries. In addition it also investigates the problems and prospects of FDI in Bangladesh and identifies major determinants affecting the investment climate.

2.0 Literature Review

Barro, Robert J (1991) FDI plays an important role in the process of industrialization and economic growth in the developing countries. Most of the countries in the world have recognized that FDI by Transnational Corporations (TNCs) contribute in many ways to the process of economic growth of host countries. Since 1980s, there has been a dramatic shift in the attitude of developing countries towards FDI.

Reza, S., and M. A. Rashid (1997) prepared a study and define that FDI as investment by multinational corporations in foreign countries in order to control assets and manage production activities in those countries.

Kumar, Nagesh (2002)³ says that Foreign Direct Investment (FDI) has emerged as the most important source of external resource flows to developing countries over the 1990s and has become a significant part of capital formation in the country despite their share in global distribution of FDI continuing to remain small or even declining.

1 Soloiman, M. and Akheruzzaman, Export Processing Zone in Bangladesh problems and Prospects, The journal of ICMAB, Dhaka, 1999, pp. 12-15.

2 Special News of Daily News Paper, Prothom Alo, 6th March, 2006, Monday, p.14.

3 Kumar, Nagesh (2002). *Globalization and Quality of Foreign Direct Investment*; RIS, New Delhi

Ikiara, M. M (2003)⁴ proposed that compared to foreign bank loans and portfolio investment, the capital flow associated with FDI is more stable, has no fixed interest payments or repayments, is invested directly into productive capacity, and is largely motivated by prospects of long-term profitability

Mamun, AL. A. (2003)⁵ states that FDI is widely thought to bring it, into the host country, a bundle of productive assets, including long-term foreign capital, entrepreneurship, technology, skills, innovative capacity and managerial, organizational, and export marketing etc.

Emad Ullah Mian and Quamrul Alam (2006)⁶ prepared an important study entitled “Foreign direct investment and development: The Bangladesh scenario”. They mentioned that Foreign Direct investment is an important determinant of the economic growth and development of Bangladesh. Both government ineffectiveness in controlling corruption, improving political stability and establishing rule of law and its failure to create physical and policy infrastructure is the most influential determinant for FDI in Bangladesh.

The number of studies examining these aspects of FDI into Bangladesh is very limited and most of the studies are based on traditional methods, further study on FDI based on recent information and analytical tools will be able to put fundamental contribution to the store of knowledge on FDI in Bangladesh. In this backdrop the main reason for undertaking the study is planed to identify the problems & prospects of FDI in Bangladesh.

3.0 Objective of the Study

The main objective of the study is to measure scenario of BDI in Bangladesh by analyzing the trends including problems and prospects. The specific objectives of the study are as follows:

- i. To measure the trends of FDI inflows in Bangladesh during 1980 – 2006.
- ii. To highlight the sources of FDI in Bangladesh in terms of Country Share and Ranks.

⁴ Ikiara, M. M (2003) “Foreign Direct Investment (FDI), Technology Transfer, and Poverty Alleviation: Africa’s Hopes and Dilemma “, ATPS Special Paper Series, No. 16, Nairobi, Kenya, p. 3.

⁵ Mamun, AL. A (2003). “Globalization and Foreign Direct Investment: Policies, Strategies, Status and Challenges for Bangladesh. “A Quarterly-Periodical of BIBM, Vol. 6, No 1 and 2, pp. 1-4.

⁶ Emad Ullah Mian and Quamrul Alam “Foreign direct investment and development: The Bangladesh scenario, “Monash Business Review Volume 2, Issue 1- April 2006, pp. 1-9. Quamrul.Alam@buseco.monash.edu.au

- iii. To measure the status of FDI inflows in Bangladesh as compare to SAARC Countries.
- iv. To indicate the major determinants attracting FDI in Bangladesh
- v. To identify the major problems of FDI in Bangladesh
- vi. To identify the prospects of FDI in Bangladesh; and finally-
- vii. To provide suggestions regarding FDI in Bangladesh.

4.0 Methodology of the Study

4.1 Data Sources: Data required for the study are taken from different sources i.e. World Investment Report (WIR), Yearly Publications of the UNCTAD, UNI Nations and Key Development Indicators, a Yearly Publication of the Asian Development Bank (ADB). Also relevant data has been collected from Annual Reports of Bangladesh Bank and Bangladesh Economic Survey ~ published documents from Board of Investment (Bol) of Bangladesh. Period of the Study: This study covers for the period of 1998-2006.

4.2 Techniques of Analysis

In order to review the trends of FDI in Bangladesh this paper is analysed in the form of the Trend of FDI inflows in Bangladesh during 1980-2006, Sector-wise Trend of FDI Inflows as a Percentage of Gross Fixed Capital Formation, FDI inflows in BD including Country Share and Rank, Trends in Global FDI Inflows within SAARC Countries, Sector-wise FDI inflows in Bangladesh. The analysis is mainly based on yearly variations and changes in growth of FDI inflows. Data have been presented in tabular form to facilitate numerical examinations and graphical representations.

4.3 Analysis and Interpretation of Data

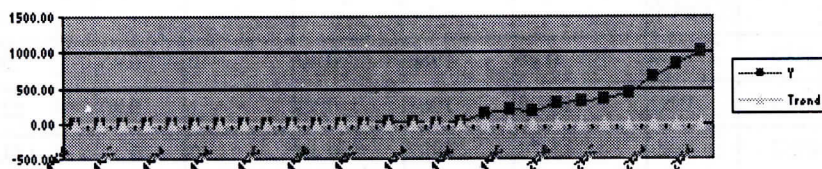
Table No. 1 : Trend of FDI inflows in Bangladesh during 1980-2006.

(US \$ in Million)

(in %)

Year	FDI Inflow	Year-wise Change	Trends of Year-wise Changes				Year-wise Change
			Year	Y	X	Trend	
1980	0.90	0.00	1980	0.90	0	0.64	0.00
1981	1.80	100.00	1981	1.80	1	0.65	1.32
1982	0.70	-61.11	1982	0.70	2	0.03	-96.09
1983	1.90	171.43	1983	1.90	3	0.67	2521.43

1984	0.50	-73.68	1984	0.50	4	0.68	1.27
1985	-6.70	-1440.00	1985	-6.70	5	0.68	1.26
1986	2.40	-135.82	1986	2.40	6	0.69	1.24
1987	3.20	33.33	1987	3.20	7	0.70	1.22
1988	1.80	-43.75	1988	1.80	8	0.71	1.21
1989	0.30	-83.33	1989	0.30	9	0.72	1.20
1990	3.20	966.67	1990	3.20	10	0.08	-88.19
1991	1.40	-56.25	1991	1.40	11	0.74	766.43
1992	3.70	164.29	1992	3.70	12	0.74	1.15
1993	14.10	281.08	1993	14.10	13	0.75	1.14
1994	11.20	-20.57	1994	11.20	14	0.64	-14.67
1995	1.90	-83.04	1995	1.90	15	0.77	19.83
1996	13.50	610.53	1996	13.50	16	0.78	1.10
1997	139.40	932.59	1997	139.40	17	0.14	-81.45
1998	190.10	36.37	1998	190.10	18	0.79	450.84
1999	178.00	-6.37	1999	178.00	19	0.80	1.07
2000	279.80	57.19	2000	279.80	20	0.81	1.06
2001	310.58	11.00	2001	310.58	21	0.82	1.05
2002	328.30	5.71	2002	328.30	22	0.83	1.03
2003	441.40	34.45	2003	441.40	23	0.64	-22.53
2004	652.52	47.83	2004	652.52	24	0.85	31.73
2005	845.40	29.56	2005	845.40	25	0.85	1.00
2006	1000.00	18.29	2006	1000.00	26	0.86	0.99
AVG	163.75					0.67	
SD	276.08					0.22	
CV	168.60					33.18	
AAGR	57.55		$Y_c = a + b x$			134.83	
Max. Lev.	1000.00		Intercept	a	0.64182	0.86	
Min. Lev.	-6.70		Slope	b	0.00848	0.03	



Sources: World Development Indicators 1992, UNCTAD, World Investment Report during 1980-2006, FDI in a Least Developed Countries at a Glance 2006, UNCTAD.

This table shows that the Trend of FDI in Bangladesh during 1998-2006. The economy of Bangladesh has been gradually drawing the attention of foreign private investors since it opened up in the early 1990s. During 1980 to 2006, cumulative foreign Private investment (both 100 percent equity and joint venture) registered with Board of Investment (BOI) totaled US\$ 1,188 million (BER-2006). The FDI inflow in Bangladesh was very much insignificant i.e. US\$ 0.90 to 3.70 million during 1980-1992. That gradually over time it was increasing but not at a satisfactory level. Inward FDI never exceeded on an average US\$ 200 million between 1980-2006, increased nearly 1139 to 1000 million during 1997 to 2006. SD indicates the huge fluctuation during the period. Year-wise change of FDI inflows have dramatically decreased during 1997 to 2006 and it reached to only 966.67 percent in 1990. In terms of economic conditions, over the past two decades, particularly during the 1990s, the economic growth in Bangladesh registered remarkable progress. Although AAGR position of FDI in Bangladesh was found 57.55 percent yet overall position of the same was not so good. But the inflow positions of FDI in BD fluctuate but trend line of the same represents the plane line during 1980-2006. The average growth rate of Gross Domestic Product (BER-2006) was around 5 percent in this decade. Implementation of a wide array of reforms during the early 1990s made it possible to achieve this higher rate of growth. The rate of inflation in the economy is reasonably low and averaged 5.5% annually in 1980-2006. The level of industrialization in Bangladesh is yet to make headway.

Table No. 2: Sector-wise Trend of FDI Inflows as a Percentage of Gross Fixed Capital Formation

(In %)

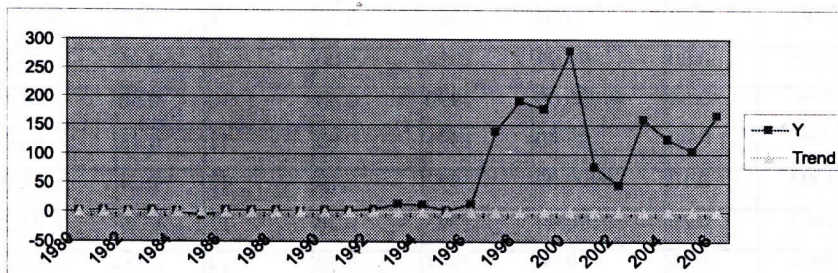
(in %)

Year	FDI Inflow as % of GFCF	Year-wise Change	Trends of Year-wise Changes				Year-wise Change
			Year	Y	X	Trend	
1980	0.40	0.00	1980	0.40	0	0.45	0.00
1981	0.52	30.00	1981	0.52	1	0.40	-12.70
1982	0.49	-5.77	1982	0.49	2	-0.17	-143.64
1983	0.34	-30.61	1983	0.34	3	0.28	-262.48

Year	FDI Inflow as % of GFCF	Year-wise Change	Trends of Year-wise Changes				Year-wise Change
			Year	Y	X	Trend	
1984	0.19	-44.12	1984	0.19	4	0.22	-20.52
1985	-0.40	-310.53	1985	-0.40	5	0.17	-25.81
1986	0.20	-150.00	1986	0.20	6	0.11	-34.79
1987	0.10	-50.00	1987	0.10	7	0.05	-53.35
1988	0.10	0.00	1988	0.10	8	-0.01	-114.36
1989	0.00	-99.00	1989	0.00	9	-0.06	796.22
1990	0.50	49900.00	1990	0.50	10	-0.58	788.42
1991	0.00	-99.80	1991	0.00	11	-0.18	-68.74
1992	0.10	9900.00	1992	0.10	12	-0.24	31.99
1993	0.20	100.00	1993	0.20	13	-0.29	24.24
1994	0.20	0.00	1994	0.20	14	0.00	-100.00
1995	0.50	150.00	1995	0.50	15	-0.41	0.00
1996	0.20	-60.00	1996	0.20	16	-0.47	14.03
1997	1.60	700.00	1997	1.60	17	-0.98	109.22
1998	2.10	31.25	1998	2.10	18	-0.58	-40.44
1999	1.80	-14.29	1999	1.80	19	-0.64	9.88
2000	2.70	50.00	2000	2.70	20	-0.70	8.99
2001	2.30	-14.81	2001	2.30	21	-0.76	8.25
2002	2.64	14.78	2002	2.64	22	-0.81	7.62
2003	3.10	17.42	2003	3.10	23	0.45	-155.75
2004	2.92	-5.81	2004	2.92	24	-0.93	-304.78
2005	3.41	16.78	2005	3.41	25	-0.99	6.20
2006	3.92	14.96	2006	3.92	26	-1.04	5.84
AVG	1.12						
SD	1.29						
CV	115.15						
AAGR	2309.25		$Y_c = a + b x$				
Max. Lev.	3.92		Intercept	a	0.45295		
Min. Lev.	-0.40		Slope	b	-0.0575		

Source: FDI in Least Developed Countries at a Glance 2002, UNCTAD

This table shows that the position of FDI Inflows as a % of GFCF in Bangladesh. In order to properly capture a country's performance it is necessary to supplement the analysis of trends in absolute volume of FDI inflows by the analysis on relative role played by FDI in gross fixed capital formation (GFCF) The contribution of FDI in GFCF was not so significant in Bangladesh during 1980-1990. It was below 1.00% during 1980-1996. However, in 1997 the ratio has increased gradually, which is sign of good performance presented in a following graph;



According to UNCTAD report inflow, which indicates the above graph increased mainly due to the huge investment in energy sector. It is very clear from the graph that the FDI inflows were level off from 1986 to 1995. There was a rising trend from 1996 to onward until the year 2006. It reached peak at US\$ 280 million in 2000, and a tapering off thereafter in the trend. One notable feature emerging from the various table is that the inflows of FDI in Bangladesh has been marked by significant periodical as well as variations, with the peak inflow in 1998, after major policy reforms were introduced in the economy in the early 1990. Though no discernible pattern can be traced in respect of annual variations, a clear difference can be easily observed in the overall quantum of FDI above into Bangladesh in different periods coinciding with changes in governments and policies.

Table No. 3: FDI inflows in BD including Country Share and Rank during 2005 and 2006
(US \$ in Million)

Source / Regions	No. of Projects	FDI Inflow for 2005 and 2006			Country Share	Country Rank
		2005	2006	Change		
Developed Countries	46	347.39	434.90	87.51	51.45	-
Western Europe	30	252.40	245.90	-6.50	29.09	-
European Union	26	247.15	243.60	-3.55	28.82	-
Denmark	1	0.40	18.20	17.80	2.15	13
France	2	0.51	1.70	1.19	0.20	20

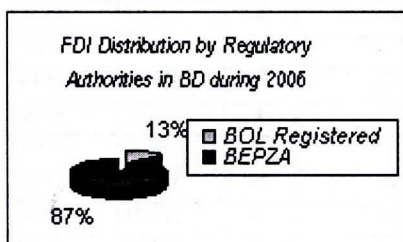
Source / Regions	No. of Projects	FDI Inflow for 2005 and 2006			Country Share	Country Rank
		2005	2006	Change		
Germany	3	5.80	1.60	-4.20	0.19	21
Luxembourg	1	0.10	0.40	0.30	0.05	27
Netherlands	1	0.51	15.40	14.89	1.82	14
Norway	1	40.50	53.50	13.00	6.33	5th
United Kingdom	17	237.43	152.80	-84.63	18.08	1st
Other Western Europe	4	5.24	2.30	-2.94	0.27	-
Switzerland	4	5.25	2.30	-2.95	0.27	19
North America	8	90.01	142.50	52.49	16.86	-
Canada	3	79.47	0.70	-78.77	0.08	25
USA	5	10.55	141.80	131.25	16.78	2nd
Other Developing Countries	8	4.97	46.50	41.53	5.50	-
Japan	8	4.97	46.50	41.53	5.50	8
Developing Countries	74	538.08	365.40	-172.68	43.23	-
Africa	1	0.78	48.40	47.62	5.73	-
Egypt	1	40.48	48.40	7.92	5.73	7
Asian and the Pacific	70	526.21	317.00	-209.21	37.50	-
Asian	70	526.21	317.00	-209.21	37.50	-
West Asia	6	62.24	56.30	-5.94	6.66	-
Saudia Arabia	2	57.05	0.90	-56.15	0.11	24
United Arab Emirates	3	4.87	55.40	50.53	6.55	4th
South, East and South -East Asia	64	463.97	260.70	-203.27	30.84	-
China	14	25.50	1.60	-23.90	0.19	22
Hong Kong	4	9.64	53.10	43.46	6.28	6
India	16	19.43	2.70	-16.73	0.32	18
Indonesia	2	5.71	1.30	-4.41	0.15	23
Malaysia	1	313.04	33.10	-279.94	3.92	9
Nepal	2	0.10	0.10	0.00	0.01	30
Pakistan	5	16.62	25.50	8.88	3.02	12
Singapore	2	90.58	97.50	6.92	11.53	3rd
South Korea	2	7.82	29.80	21.98	3.53	11
Sri Lanka	2	1.76	4.10	2.34	0.49	17
Taiwan	9	35.58	11.40	-24.18	1.35	16
Thailand	2	1.28	0.20	-1.08	0.02	29
Vanuatu	2	0.25	0.30	0.05	0.04	28
Others	15	43.56	45.00	1.44	5.32	-
ADB	8	10.15	12.70	2.55	1.50	15
IFC	5	25.13	31.70	6.57	3.75	10
Others	2	0.50	0.60	0.10	0.07	26
Total		929.03	845.30	-83.73	100.00	-

Sources: Bangladesh Bank Enterprise Survey, 2006. and Bangladesh Economic Review 2006, p. 101.

This table implies the FDI inflows in BD including Country Share and Rank under the two heads like developed & developing countries during 2005 and 2006. Actually country share covered by the developed countries, , developing countries & others by 51.45, 43.23 and 1.44 percent & Regarding this, if we look at the Ranking position for the same find that United Kingdom stood first position followed by USA, Singapore, United Arab Emirates & Norway.

In 2006, most of the FDI i.e. 87% have been brought by companies registered with the Board of Investment BOI) balance 13% have been invested in companies registered with Bangladesh Export Processing Zone Authority (BEPZA). Graphically presented below;

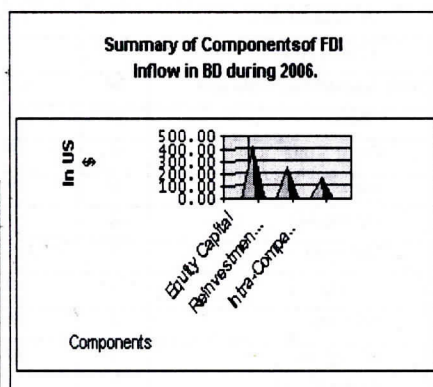
BOL Registered 13%,



BEPZA 87%

Summary of Components of FDI inflows in Bangladesh during 2006.

FDI Components	2006 (US \$ in Million)	Country Share	Country Rank
Equity Capital	425.60	50.35	1
Reinvestment Earning	247.50	29.28	2
Intra-Company Loans	172.20	20.37	3
Total	845.30	100.00	



It implies that **FDI** have been originated from 30 different sources dominated by the developed Economics i.e. 51.45%. Interestingly, a significant share of FDI also came from developing economics i.e. 43.23% rest 5.32% comes from other sources in BD. But among the 32 Countries the Top – 5 sources are selected by the ranking position on the basis of utilization of funds UK 18.04%, USA 16.78%, Singapore 11.53%, UAE 6.55 % and Norway 6.33%. Investors from Norway invested \$ 175.70 million in 2004 followed by those from the United Kingdom (\$72.86 million), Malaysia (\$38.97 million), Canada (\$29.19

million), and Egypt (\$19.96 million). Investors from Denmark, Switzerland, China, Germany and Hong Kong are the major investors who registered with the Bol.⁷ **As a Region:** An analysis of the source of FDI projects registered with BOI shows⁸ that investors came from 29 countries. Among them, about 64.2% of the investment sources are developed economies lead by Europe as a whole (50.57%). South and South-East Asia is the second largest region contributing about 34.15%. North America is the third largest investment source (10.90%). **As a Country:** UK is the single largest source (36.55%) followed by China (17.49%), South Korea (9.13%) USA (5.98%), Switzerland (4.95%) and Canada (4.92%). Europe is still the main source while investment from Southeast Asia has increased.

Table No. 4: Trends in Global FDI Inflows to SAARC Countries during 1990-2006.

S A A R C Countries															
	Bangladesh		Bhutan		India		Maldives		Nepal		Pakistan		Sri Lanka		Total
	%	T	%	T	%	T	%	T	%	T	%	T	%	T	
1990	0.65	39.68	0	0	34.91	257.64	1.29	6.08	1.29	5.11	52.59	430.36	9.27	77.45	464.00
1991	0.21	42.27	0	0	32.98	520.18	1.49	6.55	0.43	5.62	54.68	414.97	10.21	91.68	470.00
1992	0.57	44.87	0	0	33.14	782.72	1.00	7.02	0.14	6.13	47.65	399.58	17.50	105.91	703.00
1993	1.23	47.46	0	0	50.31	1045.26	0.61	7.48	0.35	6.64	30.41	384.20	17.09	120.13	1141.00
1994	0.57	50.05	0	0	68.37	1307.80	0.31	7.95	0.31	7.15	21.80	368.81	8.64	134.36	1922.00
1995	0.08	52.65	0	0	72.99	1570.34	0.19	8.42	0.19	7.66	24.18	353.42	2.38	148.59	2643.00
1996	0.39	55.24	0	0	69.79	1832.88	0.25	8.89	0.53	8.17	25.37	338.03	3.68	162.82	3618.00
1997	2.98	57.83	0	0	77.69	2095.41	0.24	9.35	0.49	8.68	9.30	322.64	9.30	177.05	4658.00
1998	6.04	60.43	0	0	83.67	2357.95	0.38	9.82	0.38	9.19	4.77	307.25	4.77	191.27	3147.00
1999	6.51	63.02	0	0	78.38	2620.49	0.43	10.29	0.14	9.70	7.27	291.86	7.27	205.50	2766.00
2000	9.45	65.61	0	0	78.29	2883.03	0.44	10.76	0.00	10.21	5.91	276.47	5.91	219.73	2962.00
2001	2.15	68.21	0	0	92.50	3145.57	0.33	11.22	0.57	10.72	2.23	261.08	2.23	233.96	3679.00
2002	1.13	70.80	0	0	86.23	3408.11	0.30	11.69	0.25	11.23	6.05	245.69	6.05	248.19	4000.00
2003	0.68	73.39	0	0	88.33	3670.65	0.33	12.16	0.16	11.74	3.95	230.30	6.56	262.42	3675.00
2004	0.90	75.99	0	0	89.01	3933.19	0.23	12.63	0.29	12.25	3.80	214.92	5.76	276.64	5125.00
2004	1.24	78.58	0	0	85.67	4195.72	0.32	13.09	0.24	12.76	4.39	199.53	8.15	290.87	3803.00
2005	0.23	81.17	0	0	88.72	4458.26	0.25	13.56	0.25	13.27	4.23	184.14	6.31	305.10	5149.00
2006	0.36	83.77	0	0	88.37	4720.80	0.25	14.03	0.26	13.78	4.24	168.75	6.52	319.33	5306.00
Avg	1.96				72.19		0.48		0.35		17.38		7.64		100

Source: Key Indicators of Developing Asia and Pacific Countries, ADB, 2006.

Asian Development Outlook, ADB, 2004, World Investment Report, 1990 to 2006.

Note: Figures in parentheses are percentage shares in total FDI per year in SAARC countries.

7 The Daily News Paper, "The Daily Star," 12 May 2005.

8 Investment Directory, Board of Investment of Bangladesh. Prime Minister's Office, 2006. Web: <http://www.boibd.org>, e-mail: ecboi@bdmail.net, bdboi@bdmail.net and boibd@btb.net

This record shows that FDI inflow in Bangladesh is not satisfactory according to the country's expectation compared to other SAARC members. Actually INDIA had the maximum average % of share i.e. 72.19 % global FDI inflow to SAARC countries followed by Pakistan, Shi-Lanka, Bangladesh, Maldives, Nepal i.e. 17.38 & , 7.64 %, 1.96 & , 0.48% & 0.35 % respectively during 1990-2006. Practically incentives and policy package would have a positive significant influence on the foreign investors to come with large amount of FDI. But significant FDI has yet to be poured in Bangladesh as compared to the FDI flows into South and South-East Asian countries like Malaysia, Singapore, India, Pakistan, and Sri Lanka. According to UNCTAD WIR, 2002, the flow of FDI to Bangladesh was the lowest in the world in 2001.

Table No. 5: (Sector-wise FDI inflows in Bangladesh during 1995-2006):

Pearson Correlation

	fdi _ ag. X1	fdi _ ind. X2	fdi _ srv. X3	gr _ ag. X4	gr _ ind. X5	gr _ srv. X6
X1- fdi _ ag. Pearson Correlation Sig. (1-tailed) N	1 10					
X2 fdi-ind. Pearson Correlation Sig. (1-tailed) N	0.579* 0.40 10	1 10				
X3 fdi-srv. Pearson Correlation Sig. (1-tailed) N	-0.215 0.276 10	0.332 0.174 10				
X4 gr-ag. Pearson Correlation Sig. (1-tailed) N	-0.105 0.386 10	-0.476 0.82 10	-0.175 0.315 10	1 10		
X5 gr-ind. Pearson Correlation Sig. (1-tailed) N	0.058 0.436 10	0.111 0.380 10	0.161 0.329 10	0.665* 0.018 10	1 10	
X6 gr_srv. Pearson Correlation Sig. (1-tailed) N	0.067 0.427 10	-0.148 0.342 10	0.296 0.203 10	0.149 0.341 10	0.133 0.358 10	1 10

*. Correlation is significant at the 0.05 level (1-tailed). This Matrix has been generated by the Xls Programme.

(Sector-wise FDI inflows in BD1996-2006): X1 - 'fdi _ ag.' means FDI Inflow in Agriculture Sector, X2 - 'fdi _ ind.' means FDI Inflow in Industrial Sector, X3 - 'fdi _ srv.' means FDI Inflow in Service Sector, X4 - 'gr _ ag.' means FDI Inflow in growth in Agriculture Sector, X5 - 'gr _ ind.' means FDI Inflow growth in Industrial Sector, & X6 - 'gr

_srv' means FDI Inflow growth in Service Sector during 1996-2006. If we look at the compute Pearson Correlation and corresponding p- values (Probability) between the FDI inflow and the sectoral growth pattern, using the data we obtained the following results (table No. 5) for 10 observations (1996-2006). From the estimated Pearson Correlation Coefficient & corresponding p- values (shown in parentheses), it is evident that FDI inflow in Industrial Sector does not appear to correlate much to industrial growth. It relates better to service sector growth. On the other hand, FDI inflow in the agriculture sector does not have any close relationship with the sectoral growth pattern. Practically close relationships are found in between FDI inflow in Agriculture to FDI inflow in Industry i.e. 0.57 % and FDI inflow in growth in Agriculture to FDI inflow in growth Industry i.e. 0.665 % during 1996-2006. The paucity of data prevents further inference.

5.0 Findings of the Study

Foreign direct investment (FDI) is increasingly becoming a preferred form of capital flows to developing countries in recent years, as compared to other forms of capital flows. The reasons for this are not hard to seek. In the context of the gloom and despair of the heavy debt burden plaguing these countries, FDI promises to be the bright ray of hope for harnessing capital flows to the country's economic development without the pangs of capital repayment with interest. The major impacts of FDI are as follows;⁹

- **Job Opportunity:** FDI inflows generate jobs through expanded activities
- **Competition:** FDI indirectly increase competition within domestic markets
- **Technology and Management Techniques:** FDI facilitates the transfer of improved technology and management techniques.
- **Industrial Activities:** Foreign Investment with particular preference to foreign direct investment encourages in all industrial activities in Bangladesh
- **Marketing Benefits:** The investors benefit by penetrating a market, gaining access to raw materials, diversifying business activity, better

⁹ Board Of Investment, Investing in Bangladesh: A Guide to Opportunities, Prime Minister Office, Oct. 1999, pp. 9-11.

rationalizing production processes and overcoming some exporting drawbacks, like trade barriers and transport costs.

5.1 Following critical determinants for attracting FDI are selected

- **Cheap Labour:** The recent inflow of FDI in the RMG and Textiles sector and labor intensive processes of electronics and machinery in Bangladesh has been induced by cheap labour.
- **Economic Policies:** It implies the interest rate, exchange rates, tax etc),
- **Economic Conditions:** The overall economic condition and business climate as well as various specific economic factors have a serious bearing for FDI.
- **Infrastructure:** Infrastructure refers to the quality and quantity of physical infrastructure (such as Power, Transport and Telecommunications, Roads and Highway, Railway, and Air port, Sea Port, Bridges, Energy and Water, Low Cost Utilities and others facilities are most important infrastructural factors in attracting FDI.
- **Financial Infrastructure:** Financial infrastructure refers as banking to access for financing. Access to finance influences a firm's propensity to invest.
- **Governance:** Governance relates to government interactions with business, which typically mean regulation and corruption, both of which affect the costs of starting and running a business.
- **Human Resources:** Bangladesh has created an improved education infrastructure but failed to generate a pool of skilled workforce to attract investment in non-traditional industry sectors.
- **Investment Environment:** Investment is driven by profit, and foreign investors will always prefer a country with a buoyant business sector (measured in terms of GDP growth rate, rate of inflation, level of industrialization etc.) than one, where the outlook is, at best, sluggish.
- **Internal factors:** It indicates the availability of raw material, labour of the host countries
- **International Integration:** International integration is another determinant associated with investment. The low level of

incoming FDI in Bangladesh indicates poor integration with the global economy. Bangladesh has been very slow to integrate into the global economy, despite some growth in trade in recent years.

- **Legal and Infrastructural Aspects:** Corruption is a major governance problem in Bangladesh. Transparency International ranked Bangladesh the most corrupted country in the world for five consecutive years.
- **Location Factors:** Location factors are related of the host country is to be considered for the same.
- **Macroeconomic Environment:** Macroeconomic / Country-level factors include issues such as fiscal, monetary, and exchange rate policies and political stability
- **Macro-economic Policies:** Foreign investors choose a location where there is evidence of success and availability of favorable macro-economic conditions.
- **Natural Resources:** It is the most attracting factors for FDI like the gas field of Bangladesh.
- **Poor Investment Climate:** though Bangladesh performs well on some areas, it still fails to keep up with the growth in other low-income countries, which means it needs to improve its investment climate and also to attract FDI.
- **Political Stability:** Political factors like change of government, attitude of opposition group, transparency in bureaucracy, degree of nationalism, corruption, terrorism and so on, are seriously considered by the investors in pre-investment decision making. Moreover, a deterioration of law and order, political rivalry, unauthorized strike, militant gang action / incidents and ineffective enforcement of regulations has affected the confidence of foreign investors in Bangladesh.
- **Pricing Factors:** It is especially considered regarding FDI.
- **Profitability:** The growth of profitability are to be considered for the same.
- **Protection:** Protection afforded towards investing firms by tariffs is to be ensured.
- **Skills and Adequate Knowledge Infrastructure:** In the absence of skills and adequate knowledge infrastructure development programs the traditional sector has not been able to improve productivity and efficiency.

- **Proximity to Markets:** Alternative products are to be used.
- **Regulatory Practices:** Actually FDI depends of the role of Regulatory practices in BD.
- **Tax Regime:** It is also the vital matter for the same.
- **Technological Infrastructure:** Technological Infrastructural change and progress plays an important role in economic growth, which stimulates FDI. It includes more modest advances and the implementation of better business processes and involves the adaptation and adoption of new technologies.
- **Domestic and Foreign Market:** It is also be considered which depends on the size and growth of the host country market.

5.2 Problems of FDI in Bangladesh

The GOB has been taking efforts since the early 1980s, to attract FDI for speedy industrialization to bridge the gap of capital, technology and managerial skills of the country. Due to severe problems FDI does not play role exactly for economic development of Bangladesh. Potentials problems regarding FDI in Bangladesh are identified by the different Experts, these are as follows;

- **Mal-practices:** Some times Foreign Investors are not interested due to mal-practices in the field of investment sectors in Bangladesh.
- **Corruption:** It is the major problem because corruption does not favorable impact for the investment sectors in Bangladesh.
- **Poor Governance:** Poor governance does not attract the mind of the Foreign Investors to invest the funds in any Country.
- **Political Instability:** It creates the bad impact to the Investors.
- **Weak Rule of Law:** This does not support to create the favourable sign for the development of investment market.
- **Inefficient Power Supply:** Efficient Power Supply should be ensured; otherwise it is a great problem to produce the products investing their funds in Bangladesh.
- **Administrative Burden:** Large numbers of countries are interested to invest their funds in BD, to maintain the administrative role for the issue of FDI.
- **Shortage Of Skilled Labour :** Although Bangladesh bears easy labour supply systems but skilled manpower is limited in BD.

- **Communication Networks:** There is huge number of communication medias are available in BD but to maintain the communication network is too difficult as a developing country like BD.
- **Transport Systems (Air Ports and Sea ports):** Only limited ports are used for transport purpose in BD like Zia International Air Port, Chittagong Sea Port and Mongla Sea Port.
- **The Lack of Continuity of Policy Regime:** Short-term policies are the major problems regarding FDI in BD.
- **Inadequate Knowledge Infrastructure:** It is another critical problem about FDI in BD.
- **Lack of Long-Term Industrial Development Strategy:** Due to lack of Long-Term Industrial Development Strategies FDI attitudes are hampered in BD.
- **Reform Initiatives:** The lack of reform initiatives places constraints upon the flow of FDI.
- **Interrelationship:** Bangladesh is not well integrated with the global economy, which puts the country at a disadvantageous position to channel more foreign investment.
- **Poor Infrastructural Development:** As a developing country poor Infrastructural Development bears a discredit for creating the real environment regarding FDI in BD.
- **Human and Institutional Facilities:** With out any support of Human and Institutional facilities, no country is capable to attract the satisfactory issues of FDI in BD.

6.0 Conclusions

There is no doubt that globalization has resulted in large increase in FDI providing huge incentives; FDI is still low in Bangladesh. Bangladesh provides the best package of incentives in the region for the foreign investors. In reality, expected amount of FDI yet not come as compared to the FDI flows into the SAARC Countries. Bangladesh has finally been able to convince investors about emerging lucrative opportunities, holding better prospects for significant FDI inflows in the coming years and the government has been taken strong efforts regarding FDI. Bangladesh facing the critical problems such as Govt. decisions, conflict between BEPZA and customs, strong policies, customers harassment,

communication gap, modern machine, old technology, lack of proper training, load shedding, regular power failure, load shedding in the EPZ areas, in sufficient current supply of zone area, lack of telecommunication, mis-management, lack of MIS and AIS, regular traffic jam in the EPZ area, lack of raw materials, two days holiday in our country i.e. three days gap for foreign correspondence with foreign countries, lack of proper rules and regulations for the management, no implements of existing planning, no securities, adequate securities, misunderstanding between staff and managers, illiterate workforce etc. We have more opportunities for the development of FDI environment in different region. Promotion of export-oriented industries is one of the trusts for the economic recovery program of Bangladesh. Overcoming the identified problems economic development may be possible by the prompts action of the govt. of a country. Now, foreign investors can enjoy various facilities by investing in Bangladesh. Bangladeshi leaders are flow focusing on attracting new foreign investments to the country.

7.0 Recommendations

A strong integration with international economy could influence Bangladesh to improve the investment climate and make it conducive for FDI. So special steps should be taken by the Govt. of BD to protect intellectual property in respect of new goods and formulas by investing the funds through FDI in Bangladesh.

- **Attractive Incentives:** Government should offer attractive incentives to the foreign investors to explore the investment prospects by keeping in view the incentive as well as the accessibility to various markets.
- **Strategic Location and Liberal Investment Policy:** It leads favorable position for FDI in a Country.
- **Government Clearance:** Government clearance regarding FDI should be provided within the shortest possible time (within one Month). Otherwise it creates lots of problems or the Investors like Investment of TATA Groups in Bangladesh, which is hanging during last four years.
- **Cost Minimization:** All types of Fees, Charges, VAT, Customs duty and costs for FDI should be minimized.

- **Infrastructural Supports:** Infrastructural supports should be provided at minimum cost to attract the Investors attitude like as CHINA (Outsider's facilities are ensured by the Govt. of CHINA to the Investors for developing the Industrial Sectors tremendously.
- **Safety and Security:** Safety and Security should be ensured by the GOB in all respects.
- **Political Stability:** It creates the favorable impact to the Investors.

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Special News of Daily News Paper, Prothom Alo, 6th March 2006, Monday, p.14.