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Foreign Direct Investment in Bangladesh: Problems and Prospects

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Abstract

Rapid industrialization is essential in Bangladesh to keep pace with its development needs. But the low rate of Gross Domestic Savings and Investment as well as low level of technology base hamper the expected industrialization process. Foreign aids and grants had been serving to bridge the gap. As the developing countries are in the process of graduating from being aid-dependent economy into a trading economy, therefore, FDI is viewed as a major stimulus to economic growth in these countries. Despite some policies reforms, Bangladesh could not attract handsome flow of FDI as yet. Furthermore, the lion's share of FDI is being repatriated. The main focus of this paper is to reveal some general features of FDI, to find out the problems associated with attracting FDI and to suggest remedial measures to overcome those problems. The paper analyses the trends of FDI inflow and repatriation as well as what Bangladesh is doing presently to attract handsome flow of FDI.

Keywords: Foreign Direct Investor (FDI), Board of Investment (BOI), Export Processing Zones (EPZs), Developing countries, Industrialization, Infrastructure, Repatriation.

Introduction

Bangladesh, a densely populated, agro-based, developing South Asian country having per capita income of US$ 690 and GDP growth rate around 5.88%, wants to boost its economic performance for better future. Bangladesh is distinguished among the LDCs because of its relative success in economic and rural development. No doubt, rapid industrialization is necessary in this country to keep pace with the developmental needs. But the low rate of Gross Domestic Savings and Gross Domestic Investment as well as low level technology base hamper the expected industrialization process. There is a significant Savings-Investment gap[1] in Bangladesh. Foreign aid and grants had been serving to bridge the gap. But foreign aid is decreasing every year. To cope with the new situation, FDI is viewed as a major stimulus to economic growth and industrialization process in developing the country.

At the time of independence in 1971, Bangladesh inherited only a small stock of FDI, most of it by TNCs and geared toward exploiting a domestic market protected by the then prevailing import-substitution policy. Since then Bangladesh has been trying to attract foreign investment to underwrite its savings-investment gap as well as to redress its export-import imbalance. The country has over the last two decades deregulated and liberalized its foreign investment regime. This has been done largely under a World Bank and IMF backed Structural Adjustment Policy

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[1] The savings-investment gap has been persistent from the early 1990s except in the year 2000-01 when there was excess investment over savings. This excess liquidity- excess of savings over investment- in the recent years has been almost 2 percent of GDP.

(SAP) package. Moreover, with a view to encouraging the flow of FDI, EPZs were established. The capital markets were allowed to receive foreign portfolio investments in both primary and secondary markets.

The Foreign Private Investment Act has also been enacted to ensure legal protection to foreign investment in Bangladesh against nationalization and expropriation. It also guarantees repatriation of profit, capital and dividend and equitable treatment with local investors. Intellectual property rights, such as patents, designs and trademarks and copyrights, are protected. Bilateral Investment Guarantee Agreements have been signed with a number of countries. Bangladesh is the signatory to the International Convention for Settlement of Investment Dispute (ICSID), The Multilateral Investment Guarantee (MIGA), and member of World Intellectual Property Organization (WIPO) and the world Association of Investment Promotion Agencies (WAIPA). Hence, property and other rights of foreign investors are safeguarded according to international standards. Trade has been liberalized and duties reduced. Customs and bonded warehouses assist exporters. Free repatriation of profits is allowed, and the Taka is almost fully convertible on the current account. No prior approval is required for FDI except registration with the Board of Investment (BOI). Despite such policies reforms, Bangladesh could not attract handsome flow of FDI as yet.

FDI and its Concepts

The term FDI refers to investment that is made to acquire a lasting interest in an enterprise operating abroad, the investor's purpose being to have an effective voice in the management of the enterprise. In other words, FDI is an international financial flow with the intention of controlling or participating in the management of an enterprise in a foreign country.

It is observed that there is serious conceptual ambiguity in understanding FDI. The following definitional aspects of FDI have been cited from World Investment Directory to facilitate a better understanding of the phenomenon.

The two main definitions of FDI are contained in the Balance of Payment Manual (Washington, D.C., IMF, 1997 and 1993) and the second edition of the detailed benchmark definitions of FDI (Paris, Organization for Economic Co-operation and Development (OECD) 1992 and 1996).

According to Balance of Payment Manual, FDI refers to investment made to acquire lasting interest in enterprises operating outside of the economy of the investor. Further, in cases of FDI, the investor's purpose is to gain an effective voice in management of the enterprise. The foreign entity or group of associated entities that make the investment is termed as the "Direct Investor". The unincorporated or incorporated enterprise- a branch or subsidiary, respectively, in which direct investment is made- is referred to as a 'direct investment enterprise'. Some degree of equity ownership is almost always considered to be associated with an effective voice in the management of an enterprise. In the revised edition of the manual, IMF suggests a threshold of 10% of equity ownership to qualify an investor as a foreign direct investor.

According to the benchmark definition of the OECD, a direct investment enterprise is an incorporated or unincorporated enterprise in which a single foreign investor either owns 10% or more of the ordinary shares or voting power of an enterprise (unless it can be proved that the 10%

ownership does not allow the investor an effective voice in the management) or owns less than 10% of the ordinary shares or voting power of an enterprise, yet still maintains an effective voice in management. An effective voice in management only implies that direct investors are able to influence the management of an enterprise and does not imply that they have absolute control. The most important characteristic of FDI, which distinguishes it from portfolio investment, is that it is undertaken with the intention of exercising control over an enterprise.

The World Investment Report 2002 (UNCTAD: 2002:291) has detailed FDI as following: FDI is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated or unincorporated. FDI may be undertaken by individuals as well as business entities.

Ahmed S. finds that 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 Transitional Corporations (TNCs) contributes in many ways to the process of economic growth of the host countries. Since 1980s, there has been a dramatic shift in the attitude of developing countries towards FDI.

Reza, S., and Rashid, M.A. (1987) conducted a study and defined FDI as investment by multinational corporations in foreign countries in order to control assets and manage production activities in those countries.

Kumer, N. (2002) says that Foreign Direct Investment (FDI) has emerged as the most important source of external resources 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 continues to remain small or even declining.

Ikiara, M.M (2003) proposed that compared to foreign bank loans and portfolio investment, the capital flow into productive capacity, and is largely motivated by prospects of long –term-profitability.

Mallampally and Sauvant (1999) states that FDI is widely thought to bring with 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 know-how.

Mian, E.U. and Alam, Q. (2006), conducted an important study entitled “Foreign direct investment and development: The Bangladesh Scenario”. They mentioned that Foreign Direct Investment is a 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 are the most influential determinants for attracting FDI in Bangladesh.

The majority of studies (e.g., Balasubramanyam.1996: Keller. 1996: and OECD. 2002), conclude that FDI contributes to total factor productivity and income growth in host economies, over and above what domestic investment would trigger. The studies find, further, that policies that promote indigenous technological capability, such as education, technical training, and R&D, increase the aggregate rate of technology transfer from FDI and that export promoting trade regimes are also important prerequisites for positive FDI impact.

Horstmann and Markusen (1996) and Nicholas (1994) find that foreign firms first license local agents or export to a country as a way of information acquisition before investing locally to avoid agency fees.

Carkovic and Levine (2002) show that marginal macroeconomic impacts, with FDI actually crowding out local investments and other types of foreign flows in some countries, adversely affect their current accounts.

Objectives of the Study

As the developing countries are in the process of graduating from being the aid-dependent economy into a trading economy, therefore, the main focus of this paper is to reveal some general features of FDI, to discuss the problems associated with attracting FDI in Bangladesh and to suggest remedial measures to overcome those problems. The paper analyzes the trends of FDI inflow and repatriation as well as what Bangladesh is doing presently to attract healthy flow of FDI. The specific objectives of the study are as follows:

i) To study the importance of FDI in Bangladesh;
ii) To outline the major policies attracting FDI in Bangladesh;
iii) To measure the status of FDI inflows in Bangladesh as compared to SAARC countries;
iv) To compare the inflows and outflows of FDI;
v) To identify the major prospects and problems of FDI in Bangladesh; and
vi) To provide some modest suggestions regarding FDI in Bangladesh.

Methodology of the Study

Source of Data: This study covers the period of 1985-2007. Data required for the study are taken from different sources i.e. World Investment Bank Report (WIR), Yearly Publications of UNCTAD, UNO, ESCAP, SANEI and Key Development Indicators and Yearly Publications of the Asian Development Bank (ADB). Relevant data are also collected from Annual Reports of Bangladesh Bank, Bangladesh Economic Review, and Published documents from Board of Investment (BOI).

Technique of Analysis: The study is descriptive in nature. In order to review the trends of FDI in Bangladesh, sector-wise trend of FDI inflows as a Percentage of Gross Fixed Capital Formation, FDI inflows in Bangladesh including Country Share and Rank, trends in Global FDI inflows within SAARC Countries, etc. are shown in figure and graph accordingly.

Importance of FDI

In Bangladesh the country's savings-investment gap had been mainly bridged by external economic assistance. However, after the cold war era, the availability of foreign aid is decreasing gradually. As a result, there is now widespread support for the need for FDI in Bangladesh. If the economy is to grow faster, as is being envisaged, there is the need for larger inflow of FDI in Bangladesh with a view to creating jobs for vast labor force, increasing foreign exchange earnings, acquiring new and modern technology and management skills, accelerating overall growth and development of the economy. FDI is thought of contributing to economic development (and therefore poverty reduction) through initial macroeconomic stimulus and by raising total factor productivity and efficiency of resource use in the recipient economy by:

- transferring more advanced technology and organizational forms directly to MNC affiliates in the host country
- triggering technological and other spillovers to domestically owned enterprises
- assisting human capital formation
- contributing to international trade integration
- helping to create a more competitive business environment
- enhancing enterprise development and
- improving environmental and social conditions

These transmission mechanisms are illustrated in Fig. 1. They all lead to higher economic growth, which is the most potent tool for poverty reduction in the developing countries (UNCTAD, 2002a: OECD 2002).

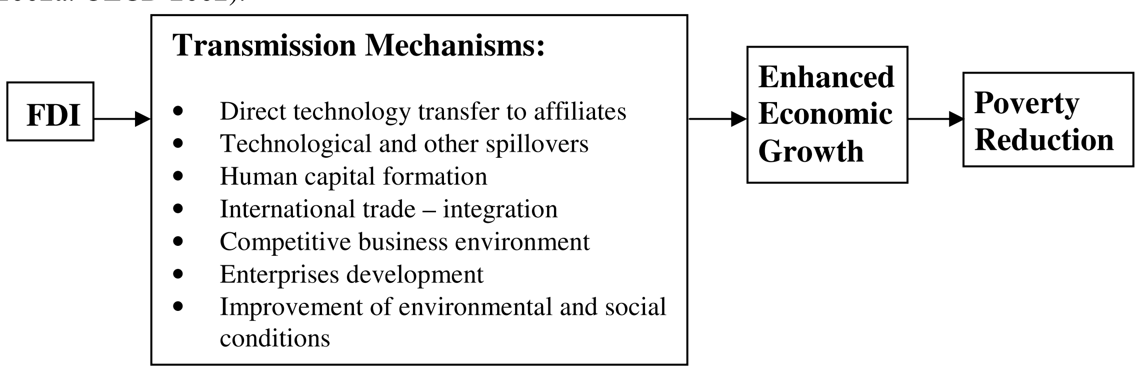


Fig. 1: Transmission mechanisms between FDI and poverty reduction

Bangladesh has gradually increased its focus on FDI as a major means for raising resources for its developmental need. However, concerns are being raised about the poverty-alleviating impact of foreign capital flow. This is particularly important given the fact that more than forty percent of the population of the country lives in poverty on the basis of Direct Calorie Intake (DCI) . Bangladesh PRSP reported that the rate of poverty reduction during the '90s was one percent point per year. On the other hand, GDP growth rate during the period was 4.8 percent in real terms per year. Bhattacharaya, D. (2004) has estimated that a ten percent increase in FDI would result in 3.71 percent increase in the GDP of Bangladesh. Thus, a one percent reduction in poverty would require an annual growth in FDI of thirteen percent. Hence, augmentation of FDI inflow remains a key task of the Bangladesh government.

Policy Framework of Bangladesh Government toward FDI

Investment in an economy raises output and improves standard of living of the people. Since the supply of capital from the local source in Bangladesh is not adequate to meet the growing need for investment due to low rate of domestic savings, the importance of foreign capital in the form of FDI is increasing gradually. Now FDI is termed as a major stimulus to economic growth in the developing countries. Bangladesh Government has adopted several policy measures to boost the FDI flow in Bangladesh. The government of Bangladesh has listed the following five areas in which FDI should be encouraged under joint venture and 100% ownership by the foreigners:

a) Export oriented industries
b) Industries located in the Export Processing Zones (EPZs)
c) Industries that are based on high technology, which will either be import substitute or export oriented
d) Basic industries based mainly on local raw materials and investment towards improvement of quality and marketing of goods manufactured and/or the increase of production capacities of existing industries
e) Physical infrastructure projects on Build-Operate-Own (BOO) and Build-Operate-Transfer (BOT).

In Bangladesh, FDI has to be registered either with the Bangladesh Export Processing Zone Authority (BEPZA) for investing in an EPZ, or with the Board of Investment (BOI) in the case of investing within the country but outside of EPZ. This registration process is to enable the investors to avail themselves of the necessary government policy support and receive certification to relieve the difficulties often experienced in dealing with the various public enterprises.

Some of the recent major measures undertaken by the government to attract FDI are:

a) Private Export processing Zone Act has been enacted. Korea has set up a private EPZ at Chittagong.
b) A Regulatory Reform Commission (RRC) has been set up.
c) A permanent Law Reform Commission has been set up to ensure greater transparency and predictability in the way rules and regulations work.
d) An Administrative Reform Commission has been set up
e) The company law 1913 has been updated and revised in 1994.
f) The Industrial relations Act has been enacted to enhance labor market efficiency.
g) Power generation in the private sector has been allowed.
h) Telecommunication in the private sector has been allowed.

i) Multiple entry visas to visiting foreign investors are being given by all the Bangladesh missions abroad.
j) Provision made for allowing import of standby generators free of tax and sale of excess electricity to nearby industrial units without permission from any agency provided own distribution line is used.
k) Licenses issued to six cellular telecom phone operators, which illustrate government's commitment to a competitive and market economy.
l) Establishment of Bangladesh Better Business Forum (BBBF)

On the other hand, some of the incentives allowed for attracting FDI in Bangladesh are:

i) No ceiling on investment
ii) 100% foreign equity participation allowed
iii) Tax holiday up to 10 years
iv) Allowances of accelerated depreciation in lieu of tax holiday
v) Tax exemption and duty free importation of capital machinery and spare parts for 100% export oriented industries
vi) Residency permits for foreign nationals
vii) No restriction on issuing work permit to a foreign national
viii) Capital, profit and dividend repatriation facilities
ix) Term loans and working capital loans from local banks
x) Avoidance of double taxation on the basis of bilateral agreement
xi) Tax exemption on the interest of payable to foreign loans and on royalties and technical know how fees
xii) Open exchange control
xiii) Multiple entry visas for investors
xiv) Convertibility of Taka for current account transactions
xv) Protection of foreign investment through 'The Foreign Private Investment Act-1980' and Settlement of Investment Dispute (ICSID), The Multilateral Investment Guarantee (MIGA), and World Intellectual Property Organization (WIPO).
xvi) Adequate protection is available for intellectual property rights such as patents, designs, trademarks and copyrights.

Inflow of FDI in Bangladesh

There are no reliable estimates in Bangladesh relating to FDI performance. A debate on differing accounting practices observed by the BOI, the investment promotion agency of the country and the Bangladesh Bank continues in the country. On the one hand, there is a systematic tendency by the BOI to inflate investment figure; on the other hand, FDI flow remains underreported in the BOP statement of the Bangladesh Bank, which often does not fully record capital machinery brought in, reinvested earnings or inter-company loans under appropriate heads. Curiously, the current BOP accounts also do not include foreign investments in EPZs. However, the central bank still remains the final authority for confirming FDI estimates using the IMF methodology.

Table 1: Net inflow of foreign investments (in million US$)

Year	FDI			Portfolio Investment			Foreign Invest-ment in EPZs	Total Net In-flow of Foreign Invest-ment	Net In-flow of FDI as percent of GDP	Net FDI Inflow as percent of Priv.-Sector Invest-ment	Per Capita FDI In-flow (in US$)
	In-flow	Out-flow	Net In-flow	In-flow	Out-flow	Net In-flow	(Net In-flow) a				
FY97	17	1	16	16	148	-132	53.88	-62.12	-0.15	-1.07	-0.51
FY98	273	24	249	14	11	3	68.82	320.82	0.73	4.77	2.59
FY99	200	2	198	3	9	-6	70.61	262.61	0.57	3.71	2.08
FY00	194.4	0.8	193.6	10.7	10.6	0.1	34.98	228.68	0.49	3.11	1.79
FY01	166.1	0.1	166	5.9	6.3	-0.4	48.41	214.01	0.46	2.88	1.65
FY02	65.24	0.56	64.68	0.5	6.09	-5.59	55.71	114.8	0.24	1.44	0.87
FY03	94.9	3	91.9	2	0.4	1.6	103.13	196.63	0.39	2.24	1.47

a: Includes investments in joint-venture enterprises with local entrepreneurs.
Source: CPD Database

The figures show Bangladesh has had fluctuating fortunes regarding FDI and portfolio-investment flows. Its extreme dip, a net outflow of more than $62 million in 1996-97, followed the crash of the capital market. Conversely, in 1997-98, the economy registered its highest inflow (about $132 million), caused by major international oil companies investments following the discovery of new natural gas wells. Since then, foreign investment has stabilized at a low level. Following the drop from the peak in FY 98, the decline was reversed in FY 03, and indications are that a further rise in FY 04 is likely. However, the FY 03 figure is still far below the historic high of FY 98.

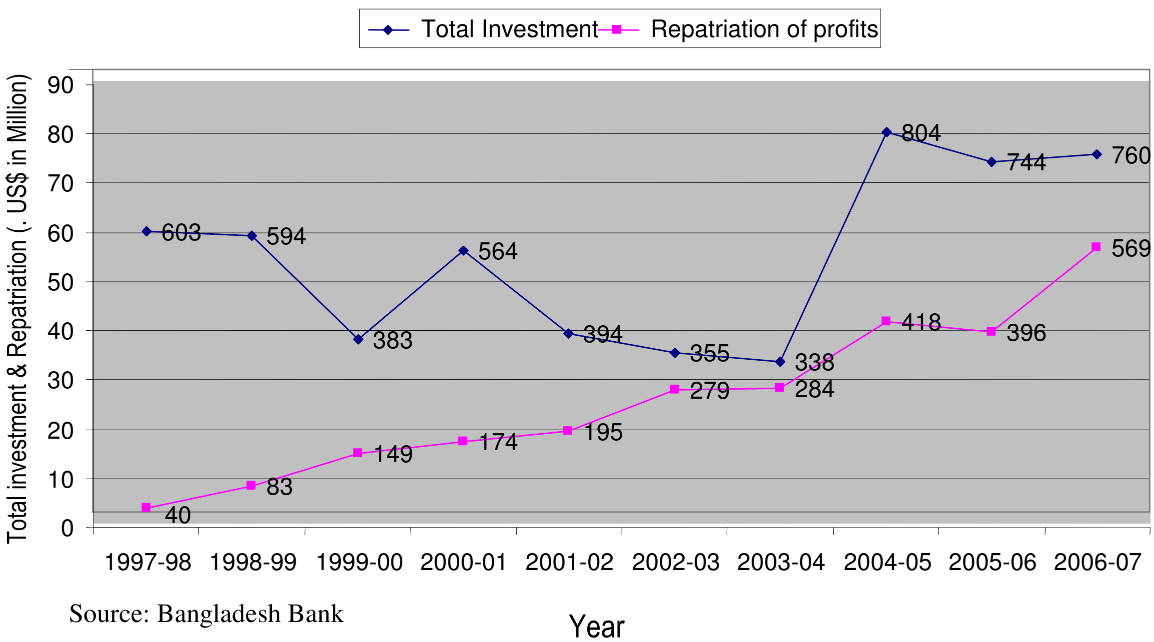
Estimates on the basis of BOP data on FDI and portfolio investment as well as foreign investments in EPZs indicate that a net total of $196.63 million in foreign investment came to Bangladesh during FY’03. Of the total inflows, almost 47 percent came as FDI in the Domestic Tariff Area (DTA), and another 53 percent in the EPZs. Portfolio investment remained marginal. Net inflow of FDI saw robust growth of about 42 percent in FY 03, while foreign investment in EPZ recorded an impressive 85 percent increase, continuing the recovery since the drop in FY 00.

The observed trend reveals that the share of EPZ in annual inflow is growing, whereas the share of portfolio investment is still marginal. However, it is well accepted that FDI in the domestic tariff area is usually the best-quality foreign investment. FDI in the EPZs is mainly motivated by financial incentives conceded by the government, and focuses on import and re-export of technically low-level products with marginal added value for Bangladesh. Therefore, if any foreign investment in Bangladesh has a potential for offering the potential benefits often attributed to FDI, such as technical upgrading or improving the quality of locally produced goods and services, then it is foreign investment in non-EPZ areas.

Inflows and Outflows of FDI in Bangladesh: A Comparative Study

After the war of liberation in 1971, the flow of FDI started to come to newly independent Bangladesh from 1973. But the FDI flow was very much insignificant at that time. Since then Bangladesh has been trying to attract foreign investment to underwrite its savings-investment gap as well as to redress its export-import imbalance. Recently in Bangladesh FDI inflow in each year shows a positive rising trend but not at a satisfactory level. Moreover, almost 65% of FDI has been repatriated over the last 10 years. The Bangladesh Bank published a trend of FDI inflows to and outflows from Bangladesh over the period (1997-98 to 2006-07), which is shown diagrammatically in Graph 1.

Graph 1: FDI in Bangladesh (US$ in Million)



Source: Bangladesh Bank

Bangladesh received more than 5.5 billion dollar of FDI over the last ten years out of which 804 million dollar were received in 2004-05 which is the highest amount and 284 million dollar in 2003-04 which is the lowest amount respectively during the study period.

The foreign investors have repatriated 2.72 billion dollar at home in the form of dividends and profits during the period. In addition, 30 million dollars were repatriated by winding up businesses. Analyzing these statistics it is vivid that almost 65% of total FDI has been repatriated over the last 10 years. Profits and dividends were repatriated as per law because Bangladesh allows the foreign investors to repatriate their invested capital and dividends. Over the last 10 years, the highest amount of repatriation took place in 2006-07 which was 570 million dollars. And the lowest amount of repatriation was 40 million dollars in 1998-99. Generally, repatriation starts after the inflow of FDI and the volume of repatriation increases with the expansion of business. Sector-wise figures show that 40% of the total investment went to infrastructural sectors of which 2.29 billion dollars in gas and oil, 965 million dollars in telecommunication over the last 10 years. Apart from these, various service-oriented businesses receive about 910 million dollar while among the manufacturing industries, the readymade garments industries receive 903 million dollars. Yet, the contribution of FDI to GDP is still insignificant in Bangladesh. While the contribution was 1.4% in 1998-99 but in 2003-04 and 2006-07 it was 0.5% and 1% respectively. Similarly, the contribution of FDI to total investment is also low. While the contribution was 3.2% in 1997-98 but in 2003-04 and 2006-07 it was only 1.2% and 2.75% respectively.

FDI Inflows in the SAARC Region

FDI flows to South Asia started to pick up in the mid-1990s largely as a result of progressive liberalization of FDI policies in most of the countries in the region (Table 2) and adoption of generally more outward oriented policies[2]. The study revealed that South Asia has improved its share in terms of total FDI inflows to the world, developing countries and Asia over the period 1985-2005 (Table 3). Nevertheless, the magnitude of inflows attracted by the region remains relatively meager. In 1998, it was only US $ 3.43 billion, a mere 0.5 percent of global flows. In contrast, China received more than 10 per cent of all global inflows. The bulk of FDI to the SAARC region has come to India (Table 4).

Table 2: FDI inflows (US$ million)

	1985-90	**1995**	**2000**	**2005-06**
World	49813	203341	331189	643879
Developing Countries	12634	31345	105511	165936
Asia	5043	18984	67386	84880
SAARC	**178.8**	**458**	**2753**	**3433**
Bangladesh	-0.1	3	2	317
Bhutan	Na	Na	Na	Na
India	62	162	1964	2258
Maldives	-0.3	Na	7	7
Nepal	0.2	6	5	9
Pakistan	75	244	719	497
Sri Lanka	42	43	53	345

Source: UNCTAD, World Investment Report, various Years

Table 3: Share of SAARC in FDI Inflows (percentage)

	1985-90	**1995**	**2000**	**2005-06**
World	0.36	0.23	0.83	0.53
Developing Countries	1.42	1.46	2.61	2.07
Asia	3.55	2.42	4.09	4.04
SAARC	0.13	0.06	0.17	0.16

Source: Computed from table 2

[2] There are major problems with the available FDI figures for the SAARC countries. Often the data available is for approvals, but not for realized investments. Annual data are often cumulated with no adjustments for changes in purchasing power. Hence the data given here should be treated with considerable caution.

Table 4: Country share of FDI as a percentage of total inflows to SAARC countries

	1985-90	**1995**	**2000**	**2005-06**
Bangladesh	-0.1	0.1	0.1	9.2
Bhutan	Na	Na	Na	Na
India	34.7	35.4	71.3	65.8
Maldives	-0.2	Na	0.2	0.2
Nepal	0.1	1.3	0.2	0.3
Pakistan	42	53.3	26.2	14.5
Sri Lanka	23.5	9.4	1.9	10.0

Note: Columns may not add exactly to 100 due to rounding.
Source: Computed from table 2

Despite this growth, FDI inflow in the SAARC region particularly in Bangladesh is not satisfactory. For example, in the mid-1995s, the share of FDI in GDP for Pakistan and Sri Lanka was approximately 1 per cent, while the corresponding figure for India was in the region of 0.5 per cent. During the same period, Malaysia was attracting FDI equivalent to nearly 6 per cent of its GDP, whilst the corresponding figure for China was approximately 5 per cent of its GDP. According to UNCTAD, in 2003 Bangladesh achieved only 0.05 percent of total FDI while the proportion was 0.9 percent in India, 0.52 percent in Vietnam, 10.2 percent in Indonesia, and 70 percent in China. The statistics show that China has become the most attractive destination for FDI. China's success in FDI attraction can be explained by its abundant cheap labor-supply and large domestic market with strong consumption behavior. We also cannot deny the possibility of herd-like behavior of foreign investors. It is thought that India is lagging behind from China due to weak consumption behavior of its market. Moreover, India's policy toward FDI somewhat restricts easy flow of FDI. Although Bangladesh offers attractive package facilities for foreign investors, why is FDI flow in Bangladesh lower than that in the similar advantaged countries? This is not only a question for Bangladesh -- this is a question on FDI dynamics, as this is true for many countries.

The only possibility for Bangladesh is to get more access into Indian market if Indian investors come to Bangladesh by targeting mainly the Indian market. Tata's $2 billion investment proposal is one such example. Exploring all investment facilities in Bangladesh, their target is to produce goods that have demand in both the markets. Their investment proposal up to now is in infrastructure sector for which we have already achieved technological capability. The main target of technological transfer would not be achieved in this case. Attracting Indian FDI is important for various reasons. As Bangladesh has good opportunity to explore the market of India's seven-sister provinces, India's investors can explore that market by investing in Bangladesh. If they come here, they will act as an agent to remove quantitative restrictions of India imposed on Bangladeshi goods. In this way Bangladeshi manufacturers may also get the same advantages if they could produce competitive products.

Although Bangladesh has become the member of ASEAN Regional Forum (ARF) in 2006, another option is to integrate with ASEAN. Joining ASEAN will open the window for attracting more FDI for cheap labor-intensive products. As the labor-intensive FDIs are now shifting from ASEAN4 to mainly Vietnam and China due to increased wage level, Bangladesh could also get benefit with integration. Since China's wage level is also increasing, Bangladesh and Vietnam should be the next destinations of FDI. These two countries may get more attention because these two countries are small and less diversified. Moreover, Bangladesh can be used as a center for marketing goods to India and Myanmar. On top of this, joining ASEAN may uphold our low-profile image which is also important to attract FDI.

Major Obstacles to FDI in Bangladesh

Though Bangladesh has most attractive FDI policies in SAARC region and though there is an evidence of boom of FDI flow in energy sector, the overall scenario of FDI inflow to Bangladesh is not at all satisfactory. The following factors can be identified as major obstacles to FDI in Bangladesh:

a) Poorly developed socio-economic and physical infrastructure
b) Lack of skilled people at various levels
c) Unreliable energy supply
d) Corruption
e) Administrative complexity and non-transparency
f) Poor implementation of existing policies
g) Low labor productivity
h) Frequent change in govt. policies
i) Unhealthy trade union practices
j) Underdeveloped money and capital markets and regulations on these markets
k) Less improved seaport facilities & malpractices at the port
l) Deteriorating law and order situation
m) Political instability and disturbances
n) High cost of doing business
o) Redtapism and corruption in getting infrastructural facilities
p) Unfriendly legal system

Recommendations and Conclusion

FDI is viewed as a major stimulus to economic growth in developing countries as it brings prosperity to the recipient countries through technological transfer, increasing volume of exports, enhancing job opportunities and increasing government revenue. Realizing the importance of FDI, Bangladesh offers one of the most liberal regimes for FDI in South Asia and these policies are producing results in terms of increased inward investment. Despite, FDI inflow in the SAARC region particularly in Bangladesh is not satisfactory. Furthermore, the lion's share of FDI is being repatriated.

To attract FDI, Bangladesh has to reinforce its infrastructure facilities, and improve the quality of services. Furthermore, a consistent incentive package should be implemented which may include fiscal measures (such as rationalization of para tariffs, elimination of non-tariff barriers), financial measures (such as reducing interest rates, access to financing), and institutional measures (such as enhancement of competitiveness through capacity building). It is true that FDI follows domestic investment, and if the level of domestic investment is low, it will not help FDI to rise at the desired level. Thus, to boost foreign investors' confidence and encourage them to invest in Bangladesh, the domestic investment rate, which is closely related to improvement of the business environment and of economic governance, should be increased. Simply providing incentive packages and liberalization measures will not attract FDI, nor has FDI always proved to have a positive impact on the economic growth of the country. Last but not the least; good governance is crucial to ensuring increased flow of FDI and thereby sustaining pro-poor growth. But policy alone is not sufficient to attract the handsome flow of FDI. We have to overcome the aforesaid impediments towards the inflow of FDI in Bangladesh. If it is possible, definitely Bangladesh would be able to attract a lion's share of FDI among South Asian regions and thereby achieve its target of higher economic growth and poverty alleviation.

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