ISSN 2072-0149

The AUST

Journal of Science and Technology

Volume-2 Issue-1 January 2010

Ahsanullah University of
Science and Technology

THE AUST
Journal of Science and Technology
Volume-2, Issue-1, January-2010

Determinants of Foreign Direct Investment in Bangladesh

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Abstract : *Foreign Direct Investment (FDI) grasps lots of benefit on a macroeconomic level. The FDI inflow facilitates capital formation and the growth of economy, including industry, manufacturing, infrastructure, and energy. The expansion of the GDP creates jobs and reduces unemployment rate. On the basis of intricate link between FDI and growth, the trade regime of Bangladesh has been intensely liberalized to maintain the streams of investments and finance from abroad. Although several attempts (Foreign Investment Protection Law, Tax incentives, Special Investment Zones) have been made to create an investment friendly climate, Bangladesh has yet to be successful in creating domestic policy settings factors, hospitable to the facilitation of business and inducement of inflow of Foreign Direct Investment.*

Key word: *FDI, FDI Determinants, Economic Growth, Incentives, Special Investment Zones.*

1. Introduction

Economic growth in any country depends upon the persistent growth of productive capacity, supported by savings and investment. Low levels of savings and investment, particularly in developing countries and least developed countries, result in a low level of capital stock and economic growth. The recognition of the role of capital in economic growth creates a basis for analyzing the role of FDI, which brings new technology and knowledge along with capital. The proponents of foreign direct investment (FDI) argue that FDI brings prosperity to the recipient countries through technology transfer, increasing volume of exports, enhancing job opportunities, and increasing government revenue. After independence in 1971, Bangladesh nationalized the abandoned industries of the Pakistani owners. However, it liberalized her industrial policies afterward, which started with the announcement of Industrial Policy in 1982. Later, 'The Foreign Investment Act' was enacted to ensure legal protection to foreign investment in Bangladesh. Even though there are lots opportunities for foreign investors in Bangladesh, inflow of FDI is not satisfactory.

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2. Objective of the Study

The objectives of this study are:

- To examine the suitability and favourable environment for FDI in Bangladesh through a cross county comparison.
- To assess the major determinants of FDI inflow in Bangladesh.
- To suggest pragmatic recommendations improving the prospect of FDI in Bangladesh.

3. Methodology

The study has been undertaken on the basis of secondary and primary data. The data for statistical analysis were collected from the World Bank Investment Report, Bangladesh Bureau of Statistics Publications, Bangladesh Bank FDI Survey. The main source was the World Bank Data Sources: World Development Indicators and data from other countries were used for the construction of the data structure. For the analysis of collected information both qualitative and quantitative methods are used. Following the objectives of the study analytical framework was designed to assess the major determinant (Growth prospect of economy, human capital, openness of the system, human capital, infrastructure, rate of return on investment etc.) of FDI inflow and to provide evidence on it. The data set for this analysis used are from year 1990-2009. The database has been built using number of sources. All the data used in the analysis are expressed in relative terms (growth percentage). We estimate equation which takes the following form: $\mathbf{Y = \mu + \beta X + \varepsilon}$. Where Y and X are respectively the dependent and the matrix of explanatory variables and μ is a parameter. ε is another parameter is introducing to take account into unmeasured features. The set of independent variables is measured prior to the investment decision. To examine the impact of determinant following equation has been used:

$$\mathbf{FDI = \mu + \beta_1 FDI/Y + \beta_2 Y + \beta_3 GY + \beta_4 h + \beta_5 Exp + \beta_6 Imp + \beta_7 GFCF + \beta_8 Infst. + \beta_9 Urbpg + \varepsilon.}$$

Where: '(FDI/Y)' denotes the share of FDI to GDP percentage; 'GY' denotes the real GDP growth and 'Y' is the GDP per capita both introduced as indicators showing the level of development, and the growth potential of each country. The openness of the economy (trade regime) is indicated by the variable named through Export (Exp) and Import (Imp), which are defined as the ratio of trade (exports plus imports) to GDP. In our equation 'h' denotes the level of human capital measured as the ratio of population enrolled in secondary education. Urbanization is considered as growth rate of urban population. Finally percentage of roads paved and railway network are considered as variables for measuring the development of the physical infrastructure. These variables are assumed to signify the level of development that makes the host country attractive for the inflow of the FDI.

4. Literature Review

Foreign direct investment, in its classic definition, is described as physical investment of a company from one country into another country in building a factory. The *United Nations Conference on Trade and Development (UNCTAD)* states that "FDI is an investment involving a long-term relationship and reflecting a lasting interest and controlled 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 (*World Investment Report*, 2006).

A direct investment enterprise is an incorporated or unincorporated enterprise in which a direct investor owns 10 percent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise) (IMF, Balance of Payment Manual, 5th addition,1993.page-86). The components of FDI are: a) Equity capital b) Reinvested earnings and c) Intra-company loans[1]

According to Bangladesh Board of Investment, FDI is mainly of three types - Type A, B and C. *Type A* includes the investment by the foreign investors in 100% foreign owned projects as well as investment by Bangladesh nationals ordinarily residing abroad. *Type B* includes investment in joint venture projects between foreign and Bangladesh entrepreneurs resident in Bangladesh. *Type C* includes investment by 100% Bangladeshi entrepreneurs resident in Bangladesh.[2]

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[1]'Equity *capital* is the foreign direct investor's purchase of shares of an enterprise in a country other than own. *Reinvested earnings* comprise the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates, or earnings not remitted to the direct investor. *Intra-company loans or intra-company* debt transactions refer to short or long-term borrowing lending of funds between direct investors (parent enterprises) and affiliate enterprises.' United Nations Conference on Trade and Development, "World Investment Report 2006, FDI from Developing and Transitioning Economies: Implications for Development."

[2]www.bepza.bd.org

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.[3]

Bruce A. Blonigen (2005) states that the most fundamental question about FDI activity is why a firm would choose to service a foreign market through affiliate production, rather than other options such as exporting or licensing arrangements. The standard answer revolves around the presence of intangible assets specific to the firm, such as technologies, managerial skills, etc.[4]

Delali Accolley (2007) has focused on some theories on the determinants and impacts of Foreign Direct Investment (FDI). In the empirical investigations which follow this, the effects of some macroeconomic variables such as economic growth, market size, and degree of openness, real effective exchange rate, and labor cost on flows of FDI into the USA have been tested. Open-market operations have been proposed as economic policy to attract FDI.[5]

Razeen Kabir (2007) explains several benefits of Foreign Direct Investment (FDI) on a macroeconomic level, particularly for a Third World Nation such as Bangladesh, where inflows of foreign investment can expand economic production and growth. The inflows facilitate the growth of a number of economic sectors, including industry, manufacturing, infrastructure, and energy. Consequently, GDP and per capita income increase which, in a developing country, fosters poverty alleviation.[6]

Khan Md. Azizur Rahman (2008) says in the pursuit of achieving industrialized status, countries must develop a competitive edge in terms of quality products, market efficiency and ability to develop and upgrade technology.[7]

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[3]Mallampally and Sauvant(1999) 'FDI and Poverty Reduction: Transmission Mechanism", ATPS Special Paper Series no. 16 pp. 3-4

[4]Bruce A. Blonigen "A Review of the Empirical Literature on FDI Determinants" International Atlantic Economic Society session at the 2005, ASSA conference in Philadelphia, PA.

[5]Accolley, Delali, "The Determinants and Impacts of Foreign Direct Investment", Department of Economics, London Metropolitan University, 2004

[6]Kabir, Razeen, "Foreign Direct Investment and Sustainable Growth: A Case Study on Bangladesh", Department of Economics, Emory College of Emory University, 2007.

[7]Khan Md. Azizur Rahman "Globalizaion and Climate for Foreign Direct Investment: A case for Bangladesh" Journal of Money, Investment and Banking, EuroJournal Publishing, 2008.

Bhasin et al (1994) followed by Mustafa Mujeri and Binayak Sen (2002), claims that the size of the domestic market, as well as, growth prospects of recipient economy are highly taken into consideration when foreign investors relocate production in the host country.[8]

Kwan and Sing (1995) having examined empirical evidence on governmental capabilities and recourses found that governments are major catalysts for economic restructuring and location attraction of inward FDI. Indeed, when the Chinese government launched an *open door policy*, China has emerged as the second largest recipient of in the world (after US).[9]

According to Borensztein's (1998) governments tend to consider FDI as a subsidy on their own investment; and FDI investment is usually matched locally. FDI is beneficial for the recipient country as GDP growth is indeed increased through improved productivity, caused by transfer of advanced technology and improved working methods. But it is only in those countries fully effective where the recipient nations have a sufficient *existing* stock of human capital.[10]

5. FDI in Bangladesh and in other countries: A cross country comparison

Foreign Direct Investment (FDI) has long been recognized as an important channel of capital and technology flows from developed to the developing countries. The flow of FDI in Bangladesh is very much inconsistent Though FDI was started to inflow from early 1980s, it was minimal in amount. Majority of inflow was started from middle of 90's. In 1995 the FDI in Bangladesh was only $92.3 million. A remarkable change was found from 2004 to 2008 it increased strongly, however the change was incoherent. In 1995 and 2008 the FDI was $92.3 million and $1,086 million respectively which means a ten times increase of the FDI (Annexure-1 and Graph -1.1)[11].

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[8]Mustafa Mujeri and Binayak Sen. "A Quiet Transition of the History of Economic Growth in Bangladesh, 1970-2000. Bangladesh Institute of Development Studies(August 2002).

[9]Singh Harindar and Kwang W.Jun (1995). "Some New Evidence on Determinants of Foreign direct investment in developing countries, policy research working paper," World Bank, policy research working paper,1531.

[10]Borensztein, E., 1998, 'How does foreign direct investment affect economic growth?', *Journal of International Economics 45*, 115–135.

[11]World Bank statistics.

If we go through Sector-wise inflow of the FDI from 2004 to 2008 shows that the most of the FDI in Bangladesh took place in Gas & Petroleum, Textiles & Wearing, and Banking sectors (Annexure-2). But it was found that in the beginning of the millennium, Power and Food product sectors gaining most attraction in the global perspectives.[12] But rate of FDI inflow in this sector is not satisfactory in case of Bangladesh. In fertilizer and other sectors the FDI inflow in Bangladesh remained low and dissatisfactory.

Component wise FDI distributions (Annuxure-3) show that a major part of the FDI inflow took place as the investment of the earnings. The analysis of the FDI inflow in Bangladesh shows that it was not significant. Though FDI began to inflow in our country from 1980s, still it could not reach up to $1 billion from single investors. Besides, a considerable part of the FDI was the reinvestment of the profit; in 2008 it was 22.55% comparing with other components. Country wise growth of the capital stock from 2004 to 2009 shows that in the most of the developed and newly developed countries hold that stock (Annexure 6&7). The market size and growth prospect are the major challenges of FDI inflow. India and China hold a large market size; and today China has been the world largest FDI recipient among other developing countries since early 1990s. FDI to China accounts for 1/4 to 1/3 of total FDI inflow to developing countries. Foreign investment has become an important source for China's investment in fixed assets.

We compare Bangladesh with other similar developing and developed countries, the economic performance of Bangladesh from beginning of this century may be considered as satisfactory. From 2004 to 2009 in average the growth of Bangladesh economy was consistently about 6% (Annexure-7). Though the performance of China and India was better than Bangladesh, the growth of Bangladesh economy should be indicated as good. In this regard, it may be mention that recently the performance of China and India suffered from world economic crisis, but Bangladesh economy survived the crisis relatively in a comfortable way. So, it could be said that Bangladesh can be identified as an attractive place for FDI inflow. But practically, the scenario is not that much satisfactory. We have gone through different aspect of businesses and found the following scenario.

In the 'easy of doing businesses'[13] Bangladesh possessed in 2008 the position of 102 in the world ranking and in 2009 its position became 98th. Comparing with the contemporary countries, in the recent years Bangladesh had far better position in the world ranking than India and Nepal; but Pakistan possessed better position than Bangladesh, India and Nepal (Annexure-8). Consideration of the law enforcement, and infrastructure condition Bangladesh is lagging behind. According to Competitiveness index ranking Bangladesh position is 120 (Global Competitiveness Report of the World Economic Forum).

Ranking of countries in view of the tax rate shows that Bangladesh possessed in 2008 the position of 102 in world ranking; in 2009 its position deteriorated and had the world ranking of 119. Many developing countries including others reduced the tax rate to attract FDI in recent times. The analysis of the secondary data and information above shows that Bangladesh has potential and scope to improve its taxation policies to encourage FDI inflow in Bangladesh.

It was evident that most developing countries follow the same criteria for attracting more FDI (Table 1). In Bangladesh it will take at least 74 days to start a business where as the numbers in India is only 33 and in china is 20. Bangladesh is worst case to start a business with respect to time in days. Sometimes even more hazards happen because of bureaucratic attitudes. Other factors like protecting investors and paying taxes, Bangladesh is lagging behind than other prospective countries like India and China.

A comparison of the incentives given among Bangladesh, China, India Nepal and Pakistan (Table-1) shows that China gives far more incentive than the other countries. However, Bangladesh stands on the give the second poison next to China. The provision for the investment in EPZ in China is far favourable than other countries. Besides, EPZ it has the provision of Special

[13] The 'Ease of Doing Business Index' is an index created by the World Bank. Higher rankings indicate better, usually simpler, regulations for businesses and stronger protections of property rights. Empirical research funded by the World Bank to justify their work claims to show that the effect of improving these regulations on economic growth is strong. "Empirical research is needed to establish the optimal level of business regulation—for example, what the duration of court procedures should be and what the optimal degree of social protection is. The indicators compiled in the Doing Business project allow such research to take place. Since the start of the project in November 2001, more than 800 academic papers have used one or more indicators constructed in Doing Business and the related background papers by its authors.

Economic Zones (SEZ), 'High Tech Development Zones (HTDZ), Economic and Technical Development Zones (ETDZ) and reduces 15% tax for foreign high tech companies

Table 1: Foreign Investment Policies in Different Countries

Items	Bangladesh	India	Pakistan	Nepal	China
LFEP	100% foreign owned permission of the sectors except the negative list.	Up to 51% in most industries and 100% in export oriented industries	100% without any government permission	100% foreign owned permission of the sectors except the negative list.	100% foreign owned permission of the sectors except the negative list.
FI	i. Tax holidays up to 5 to 10 years vary for different location. ii. Tax exemption on royalties, interest on foreign loans and capital gains form transfer of share. iii. Tax exemption on income of the power sector for 15 years from the date of commercial production. iv. Duty free import of materials for construction of factory buildings in the zones.	i. Income tax holiday for EPZ firms 5 to 10 years. ii. Access to finance for export-oriented industries at concessional interest rate. iii. Tax relief under avoidance of double taxation agreements	i. no custom duty on imports of plant, machinery & equipment and hi-tech industries. ii. Zero import tariffs on plant and machinery used for agriculture.	i. Corpo-rate tax rate for export – oriented industries is 8% of profit or 5% of export earnings. ii. Corporate tax rate for import competing industries is 20% iii. 5 to 10% duties on most industrial intermediate inputs.	i. Tax rate in the first two years are fully exempted and in the following three years 50% reduction ii. Foreign invested service companies and banks can also benefit from tax concession but subject to special zone regulation.

RPT	100% repatriation of capital and dividend is allowed.	100% repatriation of capital, profits and dividend is allowed after payment of tax	100% repatriation of capital, dividend and profit is allowed	100% repatriation of dividend and capital is allowed	40% of the tax paid on reinvested profit could be claimed. investing in export-oriented sectors even 100%.of tax could be claimed
PFI	i. Guarantee against nationalization. ii. International convention for settlement of industrial disputes.	i. Settlement of disputes is governed by the Indian Arbitration Act 1940.	i. Guarantee against nationalization. ii. Settlement of disputes through the international commission	i. Guarantee against nationalization. ii. Settlement of disputes through consultations and arbitration of UN.	-------------
OB	i. Provision of EPZs. ii. Citizenship by investing a minimum of US $ 500,000 or by transferring US$ 1,000,000 to any recognised financial institution.	i. Provision of EPZs. ii. NRI allowed acquiring any property except agricultural land, firm house and plantations.	i. Provision of EPZs. ii. Self arrangement of land and utilities.	i. Provision of EPZs.	i. Provisions of Special Economic Zones, 'High Tech Development Zones (HTDZ), ii. 15% tax reduction for foreign high tech companies.

Note: LMEP: Limit on Foreign equity Participation, FI: Fiscal Incentives, RPT: Repatriation of Profit and Tax on expatriates' income, PFI: Protection of Foreign Investment, OB: Other Benefits.[14]

[14] Source: Various Country Reports

6. Findings and Analysis

Studies found that the most significant determinant of FDI is the higher rate of return on FDI than other forms of foreign investment. Though much of the return is financial but some are also intangible like hedging risk than other form of investment. Why investors increasingly choose foreign direct investment instead of typical investment is- more favourable legal environment. The adaptation of different countries toward FDI shows that number of countries that introduced changes in their investment regimes has nearly 24.39% increased in 10 years from 1995 to 2008. In view of the regulatory changes it is more encouraging. In this regard, the positive change took place in 271 countries. Favourable change to FDI increased from 106 to 235 countries. In 2008, only 36 countries the environment FDI remained less favourable (Table-2). This analysis shows that more and more countries are taking favourable steps for FDI.

Table 2: Adaptation of Different Countries toward Foreign Investment

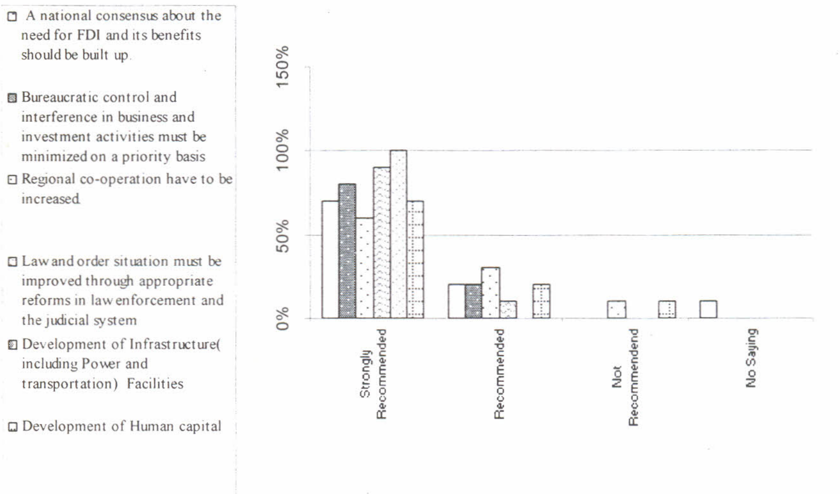
Item	1995	1996	1997	1998	1999	2000	2001	2003	2005	2008
N.C.	64	65	76	60	63	69	71	70	82	102
N.R.C.	112	114	151	145	140	150	208	248	244	271
F.FDI	106	98	135	136	131	147	194	236	220	235
L.F.FDI	6	16	16	9	9	3	14	12	24	36

N.C.: Number of countries that introduced changes in their investment regimes, N.R.C.: Number of regulatory changes, F.FDI: Favourable to FDI, L.F.FDI: Less favourable to FDI.[15]

We surveyed the view of different officials of EPZs and BOIs to take their notion regarding the FDI. In the survey it was found that the majority of the experts emphasized on the 'Building of National Consensus' about FDI. But it was also remarked that FDI flows only in the most profitable sectors. They further mentioned that for the flow of FDI infrastructural facilities (Power and Transportation) and the law and order situation must be updated. According to their opinion Bangladesh needs to develop infrastructural facilities. Some of them gave importance for the development of human capital to get competitive advantages. Some others have given importance for improving image of country (Graph – 1.2).

[15] Various Country Sources and World Investment Reports 2003-2009

Graph 1.2 : Perception toward increase of FDI in Bangladesh by Different Officials



In this regard it must be mentioned that FDI goes where there are most updated and modern infrastructure facilities. So there is the greatest possibility that the most of FDI will flow further in those countries if the situation in the other countries like Bangladesh does not improve.

The coefficient of correlation between FDI and different determinants of the FDI has been computed to analyse the impact of different determinants on inflow of FDI (Table -3). The coefficient of correlation between per capita GDP and FDI is 0.947 (Table -3). The positive sign before the coefficient of correlation signifies that there is positive correlation between GDP and FDI. That means, with the increase of the GDP, the FDI also grows. The amount of coefficient of correlation 0.947 indicates that in the case of Bangladesh the FDI has very big influence on the growth of the economy.

The coefficient of correlation between growth rate of per capita GDP and FDI is 0.813 (Table -3). The positive sign before the coefficient of correlation signifies that there is positive correlation between growth rate of per capita GDP and FDI. That means, with the increasing of the FDI the growth rate of per capita GDP and FDI also grows. The amount of coefficient of correlation 0.813 indicates that the FDI has big positive impact on the growth of the per capita GDP.

Table 3: Coefficient of Correlation FDI and the determinants of FDI

Calculation	Items	FDI	FDIGDP	GY	EXP	IMP	URBGR	INFST	GFCF
Pearson Correlation	FDI	1.000	.947	.813	.017	.197	-.759	.822	-.093
	FDIGDP	.947	1.000	.651	-.050	.127	-.664	.672	-.203
	GY	.813	.651	1.000	.004	.374	-.575	.698	.302
	EXP	.017	-.050	.004	1.000	-.335	.118	.119	.122
	IMP	.197	.127	.374	-.335	1.000	-.246	.055	.364
	URBGR	-.759	-.664	-.575	.118	-.246	1.000	-.875	.110
	INFST	.822	.672	.698	.119	.055	-.875	1.000	-.216
	GFCF	-.093	-.203	.302	.122	.364	.110	-.216	1.000
Significance (1-tailed)	FDI	.	.000	.001	.479	.270	.002	.001	.387
	FDIGDP	.000	.	.011	.439	.348	.009	.008	.263
	GY	.001	.011	.	.495	.115	.025	.006	.170
	EXP	.479	.439	.495	.	.143	.358	.356	.353
	IMP	.270	.348	.115	.143	.	.220	.432	.122
	URBGR	.002	.009	.025	.358	.220	.	.000	.367
	INFST	.001	.008	.006	.356	.432	.000	.	.250
	GFCF	.387	.263	.170	.353	.122	.367	.250	.

Note: FDIGDP – FDI as percentage of GDP, GDPGR – GDP Growth Rate, EXP – Growth of Export, IMP – Growth of Import, URBPG- Growth of Urbanization, GFCP- Growth of Gross Fixed Capital Formation.

The FDI has very weak positive influence on the export and import. The correlation between FDI and export and FDI and import are only 0.017 and 0.197 respectively (Table -3). The cause may be that the most of the FDI in Bangladesh flows in utility sectors like gas and power sectors. These sectors have directly little to do with the export and import. The correlation between FDI inflow and urbanization grade shows that inflows of FDI deters urbanization. The FDI inflow in Bangladesh has strong negative (- 0.759) correlation with urbanization grade (Table -3). The utility sectors grow normally in the rural and non-urbanized region, so it attracts people in the suburban areas and encounter rapid urbanization in the developing countries.

Growth of Gross Fixed Capital Formation has a weak negative correlation (-0.093) with the FDI inflow in Bangladesh (Table -3). This indicates that inflow of FDI hinders capital formation at home. The inflow of FDI increases capital supply and makes the capital cheap.

Table 4: Model Summary

R	R Square	Std. Error of the Estimate	Change Statistics				
			R Square Change	F Change	df1	df2	Sig. F Change
.994(a)	.988	20.2726751	.988	30.104	8	3	.009

The multiple regressions show that all determinants[16] of the FDI together have a big impact on the inflow of the FDI. The determinants of FDI considered in this study have a correlation of 0.988. It means that all determinants together influence 98.8% of the inflow of the FDI (Table -4). In other word, one unit change in the determinants causes 0.988 unit change in the FDI inflow.

7. Recommendation and Conclusion

It is evident that still now Bangladesh is not getting that much from FDI. As it is a developing country, Bangladesh needs much more investment in different sector. So FDI can be one way to meet up the capital deficiency. Heavy capital flow along with supportive human capital and infrastructural facilities can improve the today's development scenario of the country.

One problem has been found in recent years is that some of the companies misuse the tax exemption and tax holidays facilities. For this reason, Bangladesh government loses lots of revenues every year. A study "*Tax expenditures in Bangladesh: An introductory analysis*" conducted by the Bangladesh Bank's Policy Analysis Unit has found that the 'tax-holiday' provided to induce foreign direct investment (FDI) is widely misused and its opportunity cost is higher than the stated objectives. 'A large number of foreign technicians are now working in Bangladesh, and many companies fraudulently use this measure'. Also some opponents argue that it increases

[16] The determinants of the FDI are FDIGDP – FDI as percentage of GDP, GY- GDP per capital, EXP – Growth of Export, IMP – Growth of Import, URBPG- Growth of Urbanization, GFCP- Growth of Gross Fixed Capital Formation, Road – Percentage of Road Increased. For data unavailability human capital proxies cannot be used.

dependency of the recipient countries which makes them vulnerable to the footloose nature of FDI. Another view is that development of a country should come through a process of domestic industry development such as development of small and medium scale enterprises (SMEs) and state-owned enterprises (SOEs). But whatever the opponents' or proponents' view, FDI is generally welcomed in Bangladesh as well as worldwide. Promoting more inflow of FDI Bangladesh has to take following steps:

- ☐ Growth prospects of the economy – Steps must be undertaken to improve the growth prospect of the country. Only in countries where there is high growth rate the FDI flows.
- ☐ Rate of return on investment – The business must be made profitable. FDI flows considering higher profit rate.
- ☐ Urbanization – The rate of urbanization should be swift, because it ensures the supply of the required manpower.
- ☐ Industrialization – Government should set a high rate of industrialization policies which attracts FDI.
- ☐ Labour cost – The labour cost must be kept minimum, because the most significant elements of cost which can make the production most competitive.
- ☐ Skill of the human capital – The work force must be educated and trained to skill them, because it improves overall efficiency of the production.
- ☐ Physical infrastructure – Transport, communication, energy supply, etc must be regularised. It is the precondition for any kind of investment.
- ☐ Attitudes towards the promotion of the private ownership – Attitudes of the government towards the promotion of the private ownership must be visibly positive.
- ☐ Trade policies – The industrialization policy should be export oriented.
- ☐ Quality of bureaucracy – The administration of the government must the efficient, speedy, corruption free and willing to promote FDI.
- ☐ Favourable legal framework – Legal reform must be made to protect FDI from nationalization or appropriation.
- ☐ Positive image of the country – Government must undertake each and every step establishes a positive, liberal and democratic image of the country.

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Annexure:

Annexure-1: FDI Inflow in Bangladesh (US$ Million)

Year	Total FDI to Bangladesh	Change (%)
1995*	92.3	100.00
1996	231.6	250.92
1997	575.3	248.40
1998	576.5	100.21
1999	309.1	53.62
2000	578.6	187.19
2001	354.3	61.23
2002	328.3	92.66
2003	350.2	106.67
2004	460.4	131.47
2005	845.3	183.60
2006	793	93.813
2007	666	83.98
2008	1086	163.06

Source: World Investment Report 2003-2009; World Data bank (www.worldbank.org) * Note: Year 1995 taken as constant.

Annexure-2: Sector Wise FDI

Sector	2004	2005	2006	2007	2008
Gas & Petroleum	867.09	900.21	1167.22	1375.74	1203.4
(%)		103.82	129.66	117.86	87.47
Telecommunication	225.45	441.54	749.91	749.64	1045.96
(%)		195.85	169.84	99.96	139.53
Textiles & Wearing	346.59	475.43	493.21	543.94	925.03
(%)		137.17	103.74	110.29	170.06
Banking	483	549.25	648.4	669.47	728.4
(%)		113.72	118.052	103.25	108.80
Power	289.09	316.68	344.83	364.84	251.45
(%)		109.541	108.89	105.80	68.92
Cement	209.89	238.47	238	135.8	139.07
(%)		113.62	0.99	0.57	1.02
Food Products	209.29	191.63	155.57	150.93	104.71
(%)		0.92	0.81	0.97	0.69
Fertilizer	188.81	167.49	133.2	122.82	103.71
(%)		88.71	79.53	92.21	84.44
Others	278.18	256.45	256.88	285.9	315.86
(%)		92.19	100.17	111.30	110.48

Source: Bangladesh Bank Survey, 2008

Annexure-3: Component wise FDI Distribution (Million US$)

FDI	1995	'97	'99	2000	'02	'03	'06	'07	'08
E.C.	37.3	332.1	137.5	350.2	133.8	156	503.7	401.6	809.3
(%)		477.84	49.02	254.69	57.23	116.59	118.35	79.73	201.51
ERI	35.5	163.4	76.2	77.8	116.8	170	264.7	213.4	245.7
(%)		134.26	40.13	102.10	179.69	145.54	106.94	80.62	115.13
ICL	19.5	79.8	95.4	150.6	77.7	24	24.7	51.5	31.3
(%)		197.5	89.92	157.86	139.49	30.89	14.34	208.50	60.77
Total	92.3	575.3	309.1	578.6	328.3	350	792.5	666.8	1086.3
(%)		248.40	53.62	187.19	92.61	106.61	93.75	84.14	162.91

Note: E.C.: Equity Capital, RI: Earnings Re-investment, ICL: Intra-company loans. Source: Bangladesh Bank Survey, 2008

Annexure-4: Time Series Data on Major Country-wise FDI Stock[17] (Million US$)

Country	2004	2005	2006	2007	2008
U.K.	1088.7	1080.38	1057.75	1222.15	1283.39
(%)		99.23	97.91	115.54	105.01
U.S.A	487.16	498.54	761.01	856.73	655.2
(%)		102.32	152.65	112.58	76.48
Japan	195.29	198.24	169.91	161.43	410.33
(%)		102.33	86.34	95.98	254.13
South Korea	196.07	209.92	251.53	221.76	270.94
(%)		107.06	119.82	88.16	122.18
Hong Kong	108.18	165.84	181.28	239.28	248.15
(%)		153.30	109.31	131.99	103.71
Netherlands'	175.78	209.2	237.14	286.09	241.16
(%)		119.01	113.36	120.64	84.29
Malaysia	67.5	108.35	143.46	128.93	189.27
(%)		160.52	132.40	89.87	146.80
Norway	145.84	180.72	256.02	235.96	169.3
(%)		123.92	141.67	92.16	71.75
Singapore	60.05	91.03	123.77	112.18	106.16
(%)		151.59	135.97	90.64	94.63
Others	558.96	734.45	842.35	694.43	633
(%)		131.340	114.69	82.43	91.15

Source: Bangladesh Bank Survey, 2008

Annexure-5: FDI Flows as a Percentage of Gross Fixed Capital Formation

Country		1985-95	2000	2003	2005	2006	2007	2008
Bangladesh	Inward	0.1	2.7	2.9	4.9	5.3	4.0	5.9
	Outward	-	-	0.1	0.1	-	0.1	0.1
India	Inward	0.6	2.3	3.4	3.5	6.9	6.5	9.6
	Outward	-	0.5	1.0	0.7	4.8	4.5	4.1
Pakistan	Inward	-	-	4.2	13.0	16.4	18.3	18.3
	Outward	-	-	0.1	0.3	0.4	0.3	0.2
East Asia	Inward	5.4	15.2	9.7	9.5	9.8	9.5	9.3
	Outward	2.9	8.9	2.4	5.2	5.5	6.6	5.9
World	Inward	3.9	19.8	7.5	7.7	13.4	16.0	12.3
	Outward	4.6	17.1	8.4	9.3	12.9	17.4	13.5

Source: UNCTAD, World Investment Report, 2004, 2006, 2009

[17] FDI stock is the value of the share of capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprise. Inward stock is the value of the capital and reserves in the economy attributable to a parent enterprise resident in a different economy. Outward stock refers to the value of capital and reserves in another economy attributable to a parent enterprise resident in the economy.

Annexure-6: FDI Stock as a Percentage of Gross Domestic Products

Country		**1980**	**1990**	**2000**	**2005**	**2008**
Bangladesh	Inward	1.7	1.1	5.2	4.9	5.9
	Outward	-	-	0.1	0.1	0.1
India	Inward	0.2	0.5	3.8	5.7	9.9
	Outward	-	-	0.4	0.2	5.0
Pakistan	Inward	3.6	9.8	-	8.8	20.9
	Outward	0.5	0.7	-	0.7	0.9
East Asia	Inward	27.4	20.8	30.5	25.8	23.8
	Outward	1.0	2.6	18.8	15.7	17.1
World	Inward	6.6	9.3	19.3	22.7	24.5
	Outward	5.8	8.6	9.1	23.9	26.9

Source: UNCTAD, World Investment Report, 2004, 2006, 2009

Annexure-7: Economic Growth (%) in Selected Economies

Economy	2004-05	2005-06	2006-07	2007-08	2008-09
Bangladesh	6.0	6.6	6.4	6.0	5.9
China	10.4	11.6	13.0	9.0	8.5
India	9.2	9.8	9.3	7.3	5.4
Malaysia	5.3	5.8	6.2	4.6	(3.6)
Developed Economics	2.6	3.0	2.7	.06	(3.4)
World	4.5	5.1	5.2	3.0	1.1

Source: IMF World Economic Outlook, October 2009, Bangladesh Bureau of Statistics (BBS)

Annexure-8: Ease of Doing Business

Country	**Rank 2008**	**Rank 2009**
Bangladesh	102	98
India	120	169
Pakistan	76	63
Nepal	111	123
China	96	115
Malaysia	21	23
Hongkong	3	3

Source: www. doingbusiness.org. (The rankings are from the *Doing Business 2010* report, covering the period June 2008 through May 2009)

Annexure-9: Tax rate

Country	Rank 2008	Profit tax (%) 2008	Rank 2009	Profit tax (%) 2009
Bangladesh	102	30.3	119	30.3
India	120	19.6	133	19.6
Pakistan	76	25.8	85	25.8
Nepal	111	20	123	20
China	96	-	86	-
Hong kong	-	-	3	3
Malaysia	-	-	21	24

Source: www. doingbusiness.org. (the rankings are from the *Doing Business 2010* report, covering the period June 2008 through May 2009)

Annexure-10: Difficulty in Hiring Manpower Index (2009)

Country	Rank 2009
Bangladesh	44
India	6
Pakistan	67
Nepal	78
China	11
Malaysia	6
Hong kong	0

Source: www. doingbusiness.org. (rankings are from the *Doing Business 2010* report, covering the period June 2008 through May 2009)