

Foreign investment trends in bangladesh essay sample

[Finance](#), [Investment](#)



Foreign direct investment is considered as a crucial ingredient for economic development of a developing country. Countries that are lagging behind to attract FDI are formulating and implementing new policies for attracting more investment. Foreign direct investment (FDI) plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills and financing. For a host country or the foreign firm which receives the investment, it can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development. In this current world we are realizing the fact that the economic development and economic supremacy become the top subjective matter. Bangladesh is a poor country which has not enough domestic savings to invest for developing the country's economic condition. As a matter of fact for any kind of development investment is obvious. As Bangladesh has not enough savings to invest in own country FDI become the most resourceful sector to develop the country's economic condition. Defining FDI

Foreign direct investment is the process whereby residents of one country acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country. The international monetary fund's balance of payments manual defines FDI as 'an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprise'. The united nations 1999 world investment report (UNCTAD 1999)

defines FDI 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).

Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities. . Flows of FDI comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an FDI enterprise, or capital received from an FDI enterprise by a foreign direct investor. FDI has three components: equity capital, reinvested earnings and intra-company loans.

Present FDI status in Bangladesh

Bangladesh ranked 16th among the top 74 FDI recipient countries across the world with a record US\$1. 13 billion received in foreign direct investment (FDI) in 2011, said the latest World Investment Report (WIR). The Board of Investment (BoI) released the WIR of the United Nations Conference on Trade and Development (UNCTAD) on Thursday.

According to the WIR, increased reinvestment and intra-company loans offered by existing foreign companies, including those in telecom, energy and financial sectors, helped boost the FDI flow to Bangladesh in 2011.

Bangladesh secured 15th position in the WIR ranking in 2010 with the country receiving \$ 910. 33 million, while the ranking was 24th in 2008.

For the lacking of domestic savings Bangladesh needs FDI to develop its economic condition. The present condition of FDI is better than any other times. The total inflow has been increasing over the years. In 1972, annual FDI inflow as 0. 090 million US \$, and after 33 years, in 2005 annual FDI reached to 845. 30 million US\$ and to 989 million US \$in 2006 (UNCTAD-2005, Bangladesh Investment Handbook 2007- BOI). Contribution of FDI was not remarkable until 1980, a year of policy change. That year government enacted the ' Foreign Investment Promotion and Protection Act, 1980' with an attempt to attract FDI.

The country's overall FDI (foreign direct investment) inflow rose by US\$ 228. 58 million or 66. 79 per cent, to \$570. 80 million during the January-June period of 2010 over the corresponding period of 2009 due mainly to significant increase of equity capital inflow, the findings of the latest survey by Bangladesh Bank (BB) showed. The inflow of equity capital marked a 253. 99 per cent increase during the January-June period 2010, despite a significant fall in reinvested earnings and intra-company loans by 14. 04 per cent and 68. 28 per cent respectively during the same period, said the survey report on ' Foreign Direct Investment in Bangladesh'. On a fiscal year-on-year basis, the total FDI inflow dropped by \$47. 57 million or 4. 95 per cent to \$913. 02 million in fiscal year (FY) 2010 compared to the increase of \$191. 90 million or 24. 96 per cent in fiscal 2009 and decrease of \$24. 05 million or 3. 03 per cent in fiscal 2008, the BB survey revealed.

According to the survey, the reinvested earnings decreased by US\$ 25. 00 million or 14. 04 per cent to \$153. 05 million during January-June, 2010 compared to the decrease of \$8. 84 million or 4. 73 per cent over July-December, 2009 and an increase of \$37. 17 million or 24. 83 per cent during the same period of the previous year. Bangladesh has attracted USD 913 million foreign direct investments (FDI) in 2010 calendar year, a leap by 30 per cent. This upgrades the country's position to 114 from 119 out of 141 nations in the World Investment Report (WIR). During this period the telecom sector received USD 360 million FDI, the manufacturing sector received USD 238 million in investment from abroad, USD 145 million in the textile and clothing sector, while leather and leather products got USD 46 million. (The financial Express, 27 July, 2011)

As a developing country, Bangladesh needs Foreign Direct Investment (FDI) for its ongoing development process. Since independence, Bangladesh is trying to be a suitable country for FDI. In order to accelerate economic growth, Bangladesh opened her economy in the late 1980s to reap the benefits of FDI. In 1989 the government set up Board of Investment (BOI). The primary objective of which is aimed at attracting and facilitating investment from abroad (Mondal 2003). The government also lifted restrictions on capital and profit repatriation gradually and opened up almost all industrial sectors for foreigners to invest either independently or jointly with the local partners.

Further, the government also introduced various financial and non-financial incentives like tax exemptions for power generations, import duty

exemptions for export processing industries, tax holiday schemes for undertaking investment in priority sectors and low development areas, zero duty rate for the import of capital machinery and spare parts for 100 percent export oriented industries, almost no restrictions on the entry and exit mode, and reduction of bureaucratic hassles in getting faster approvals of foreign projects. Together with all these incentives followed by a low labor cost structure, Bangladesh has been an attractive destination for FDI in the South Asian region since the late 1980s.

The trend of Inflow of FDI in Bangladesh has increased over the 1980s as compared to earlier periods and this same momentum continues in 1990s as well. The total inflow of FDI has been increasing over the years. During the period of 1977-2010, total inflows of FDI were USD 8927.9 million, among which the total inflows of FDI during 2006-2010 was USD 4158.63 million. In 1977, this inflow was USD 7 million and in 2008, annual FDI reached to USD 1086.31 million. Unfortunately, there was a declination in inflows of FDI in 2010 which was USD 913.32 million (Source: Survey Report, Statistics Department, Bangladesh Bank).

Figure 3.1 illustrates the trend of FDI inflows in Bangladesh during 1996-2010.

Figure FDI Inflows in USD in Bangladesh during 1996-2010

Source: Survey Report, Statistics Department of Bangladesh Bank and Foreign Direct Investment in Bangladesh (1971-2010), Board of Investment.

The figure shows an inconsistent proceeding of FDI inflows during the period. In 1999 there was a sudden decline in the FDI and the falling trend continued for many reasons again in 2001, 2002 and 2003. Serious political unrest during the period discouraged foreign investment and it took quite some time to regain the confidence of foreign investors. There were also some other factors that force this declination in the inflows. After that, there was very good news for Bangladesh. The FDI inflow was on the steady rise from 2003 to 2005. It rose to US\$ 1086.3 million in 2008 but slumped to US\$ 700.16 in 2009 and again increased to \$913.32.

3.2 FDI Inflows by Components

Figure 3.2.1: FDI Inflows (in million USD) by components in Bangladesh during 1996-2010

Source: Survey Report, Statistics Department of Bangladesh Bank and Foreign Direct Investment in Bangladesh (1971-2010), Board of Investment.

Figure 3.2.2 FDI Inflows, in million USD by components in 1996

Figure 3.2.3 FDI Inflows, in million USD by components in 2010

Source: Survey Report, Statistics Department of Bangladesh Bank and Foreign Direct Investment in Bangladesh (1971-2010), Board of Investment.

FDI in Bangladesh consists of three components: Equity capital, Reinvested Earnings and Intra-company loans. These components have fluctuated considerably in the last two decades. In the early year of 1996, the total FDI

inflow was only 210 million USD where reinvested earnings were the bigger portion. This trend continued up to 1998. Then there is a sudden decline in terms of total inflow as well as component wise inflow of FDI. Beside a slight increase in 2000, this declining trend continues up to 2003. After then total inflow continues to rise with some ups and downs. The portion of equity capital continues to have a bigger part in the total FDI inflows. In 2008 the total inflows was 1100 million USD which is the highest ever.

The shifting of component wise FDI inflow in Bangladesh is clearly in the figure 3. 2. 2 and 3. 2. 3. In present years, the major share of FDI inflow in Bangladesh come in equity capital form. In 1996 the share of equity capital in total FDI was 30 percent which increases to 57 percent in 2010. In 1996 share of reinvested earnings was 53 percent which decreased to 40 percent in 2010. On the other hand, share of intra-company loan was 17 percent which then decreased to 3 percent in 2010. This shows that the net transfer of resources from abroad into Bangladesh is fairly negligible. The contribution of FDI is very little in case of transfer of ' hardware' technology.

3. 3 FDI Inflows by Areas (EPZ and non EPZ)

Figure 3. 3. 1: FDI Inflows (in million USD) by area (EPZ and non EPZ) in Bangladesh during 1996- 2010

Source: Survey Report, Statistics Department of Bangladesh Bank and Foreign Direct Investment in Bangladesh (1971-2010), Board of Investment.

Figure 3. 3. 1 reveals that despite the initial increase and steady continuation, FDI inflows in Non-EPZ areas was in declining trend during the

period of 2001-2003. In 2004 it increased to 800 million USD and this trend continued up to 2005. The FDI inflows in Non-EPZ areas in 2010 recorded to USD 795.15 million which is 87 percent of total inflows whereas in the beginning of this period (in 1996) it was USD 189.3 million which is 82 percent of total inflows. In the EPZ areas, the FDI inflows were always in a steady direction.

Inflows of Foreign Direct Investment

There was an inflow of \$666m foreign direct investment in 2007 which raised significantly in 2008 to \$1086m. As of 2010, inflows of foreign direct investment recorded to \$571m.

Source: Bangladesh Economic Review-2011 (Bangla version), Ministry of Finance Foreign and Joint Venture Investment

In the year 2009-10 (February), there were 89 new foreign and joint venture investment projects registered to BOI which amount to \$590m. The projects were invested to mainly in the service, engineering, clothing and agricultural sectors. Sectorwise foreign and joint venture investment during 2010-2011*

* As of March, 2011

Source: Bangladesh Economic Review-2011 (Bangla version), Ministry of Finance

Countrywise foreign and joint venture investment during 2009-2010*

Country| No. of Projects| Proposed Investment (US\$ m)|

Saudi Arabia| 3| 478.652|

Australia| 4| 2.036|

USA| 5| 2. 990|
Finland| 2| 3. 023|
India| 9| 8. 451|
South Korea| 12| 33. 768|
Malaysia| 3| 3. 056|
Netherlands| 5| 8. 544|
China| 12| 21. 000|
United Kingdom| 5| 3. 507|
Pakistan| 2| 0. 990|
Japan| 8| 2. 624|
Denmark| 1| 1. 217|
Sri Lanka| 2| 0. 646|
Canada| 2| 1. 017|
Taiwan| 1| 0. 502|
Singapore| 4| 1. 929|
Turkey| 1| 0. 150|
Greece| 1| 0. 156|
Italy| 2| 1. 039|
Hong Kong| 5| 14. 805|
Total| 89| 590. 102|
As of February, 2010

Source: Bangladesh Economic Review-2011 (Bangla version), Ministry of Finance

Investment Climate in Bangladesh

Bangladesh offers an unparalleled investment climate compared to the other South Asian economies. Here are eight key pointers to Bangladesh's investment climate today. 1. Bangladesh is a largely homogeneous society with no major internal or external tensions and a population with great resilience in the face of adversity (e. g. natural calamities). 2. Bangladesh is a liberal democracy. The population of this country irrespective of race or religion have been living in harmony and understanding for thousands of years. 3. Broad non-partisan political support for market oriented reform and the most investor-friendly regulatory regime in South Asia. 4. Trainable, enthusiastic, hardworking and low-cost (even by regional standards) labor force suitable for any labor-intensive industry. 5. The geographic location of the country is ideal for global trade, with very convenient access to international sea and air routes. 6. Bangladesh is endowed with abundant supply of natural gas, water and its soil is very fertile. 7. Although Bengali (Bangla) is the official language, English is generally used as a second language. The majority of the educated population can read, write and speak in English.

8. As a result of low per capita GDP, present domestic consumption is not significant. However, it should always be considered that there exists a middle class with over 10% of the population. As economic growth picks up, the purchasing power will also grow substantially. Bangladeshi products enjoy duty free and quota free access to almost all the developed countries. This access to the global market is further helped by the fact that the policy

regime of Bangladesh for foreign direct investment is by far the best in South Asia. Most Bangladeshi products enjoy complete duty and quota free access to EU, Canada, Australia and Norway. Though in limited scale, Bangladesh products already found their access with lower duty in the markets of Thailand, India and Pakistan. However, talks are underway with China, Russia, Malaysia and other neighboring countries in this regard. Sectors for FDI in Bangladesh

Though Bangladesh is a poor country it has some certain attractable areas or sector which are able to attract the foreign country or company's to make investment in this country. The government of this country also provides some certain amenities for the investors in this country which also induce to make investment. The policy and investment act also sees to be very convenient to the investors. Some sectors names are given below. 1.

Telecommunication and Service sectors

2. Engineering

3. Glass and ceramics

4. Chemical

5. Publications

6. Leather products

7. Clothing

8. Food and food grain

9. Agriculture

10. Textiles

11. Others

Textile:

Sector Highlights:

- The fastest growing industry in Bangladesh with RMG accounting for more than 75% of total exports.
 - Bangladesh is best placed in the region for textiles and garments because of cheap labor and trade status with the EU.
 - Government incentives for the spinning and weaving industries include a 15% cash subsidy of the fabric cost to exporters sourcing fabrics locally.
 - There is a huge fabric demand supply gap in the RMG industry which is being met by imports. Thus the potential for backward linkage industry is enormous.
- RMG and Backward Linkage:

The phenomenal growth in RMG was experienced in the last decade. With about 2,600 factories and a workforce of 1.4 million, RMG jointly with knitwear accounted for more than 70% of total investments in the manufacturing sector during the first half of the 1990's.

Electronics:

- Semi-Conductor
- Cell Phone Assembly
- Other Electronics

Sector Highlights

- Manufacturing of semi-conductors could be established as a potential cottage industry.
 - Bangladesh is going to be the largest cell-phone market in South Asia.
- Industry Outlook

Bangladesh's experience in basic electronics spans over two decades. In recent years, European and Asian electronic firms have established technical collaboration with their Bangladeshi counterparts to produce some electronic goods at competitive prices. This has tremendous potentiality for expansion. The Government of Bangladesh has adopted National Telecommunication Policy, 1998. Investment is encouraged through BLT-BOT/BOO/BTO and other joint venture schemes which by greatly increasing the capacity, quality and type of services, will create improved efficiencies in other sectors such as transportation energy and the textile industry.

To meet the telecommunication requirements of the country the government has been developing and expanding the systems and services of BTTB.

Private sector operations in the rural telecommunication, paging, cellular telephones and riverine radio trunking have already been allowed. At present 7 private operators are providing their services to about 100, 000 customers. Government has allowed expanding 300, 000 digital telephones in Dhaka by private sector participation through open tendering. In accordance with overall national policy, liberalization of the telecommunications sector will continue. However, the government retains the sale authority to determine the number of competitions that are economically viable for certain services. The strategy is to provide equal and rational opportunities to all competitors.

Information Technology:

- Data Processing
- Software Development

Sector Highlights

- Investment is mostly confined to information processing.
- Bangladesh has a cheaper and rapidly growing IT workforce.
- Government is keen in establishing IT related infrastructure for the development of the industry.

Industry Outlook

Availability of substantial number of qualified and experienced young people in various branches of engineering, science and technologies have opened up the scope of profitable investment in these sectors. Comparatively short training period and low investment have made such ventures highly profitable. A number of Bangladeshi IT firms are interested in finding international investors or collaborators in various sub-sectors. Natural Gas-based Industries:

- Electricity
- Fertilizer
- Petro-chemicals

Sector Highlights

- Bangladesh has a substantial gas reserve of about 20 trillion cubic feet (tcf)
- There is a huge demand for fertilizer in Bangladesh as the agriculture is the principal sector of the economy.

Industry Outlook

The private sector power generation policy announced in 1996 under which private power companies are exempt from income tax for 15 years. Several barge-mounted power plants are in operation. But an extensive demand gap for electricity is crucial. Opportunities exist in developing new plants (barge-

mounted and other, large, small and mini), constructing transmission and distribution system, rehabilitating or upgrading existing plants and supplying a variety of support services. Investment opportunities are available on a build-operate-transfer (BOT) basis

Frozen Foods:

Sector Highlights:

- Government is promoting semi-intensive shrimp farming.
- Fish and prawn exports grew at an average 20% in the past decade.
- Shrimp processing and export industry is largely dominated by the smaller unorganized sector.

Industry Outlook

The frozen foods export is the second largest export sector of the country. The average annual growth rate is about 28%. This export-oriented industry includes the following sub-sectors which need proper attention for augmentation of production and export earnings. * Hatcheries

* Sustainable aqua-culture technology

* Feed meals plants

* Processing unit for value-added products.

Investment in frozen food sector with new technology and equipment has a vast potential for growth Leather:

a. Finished Leather

b. Leather Goods

Sector Highlights:

- The labor-intensive leather industry is well suited to Bangladesh having

cheap and abundant labor. • Bangladesh has a domestic supply of good quality raw material, as hides and skins are a by-product of large livestock industry. • Adequate government support in the form of tax holidays, duty free imports of raw materials and machinery for export-oriented leather market • The industry lacks domestic technology and expertise and local support industries such as chemicals are still under-developed. Investment Incentive:

- Present Government is in the process of setting up of separate Leather Zone relocating the existing industry sites to an well-organized place. • New FDI inflow is highly encouraged and foreign investors are welcome to have the opportunity. Industry Outlook:

There is already a substantial domestic leather industry, mostly export-oriented. The leather includes some ready-made garments, although that aspect is continued mainly to a small export-trade in “ Italian-make” garments for the US market. Footwear is more important in terms of value addition. This is the fast growing sector for leather products. Presently Bangladesh produces between 2 and 3 percent of the world’s leather market. Most of the livestock base for this production is domestic which is estimated as comprising 1. 8 percent of the world’s cattle stock and 3. 7 percent of the goat stock. The hides and skins (average annual output is 150 million sq. ft.) have a good international reputation. Foreign direct investment in this sector along with the production of tanning chemicals appears to be highly rewarding. Having the basic raw materials for leather goods as well as for the production of leather shoe, a large pool of low cost but trainable labour

force together with tariff concession facility to major importing countries under GSP coverage, Bangladesh can be a potential off shore location for leather and leather products manufacturing with low cost but high quality.

Ceramic:

* Tableware

* Sanitary ware

* Insulator

Sector Highlights

- Bangladesh has a skilled manpower in ceramic industry.
 - Historically, tableware industry is labor-intensive.
 - The clean gas reserve required for firing is a great competitive advantage for Bangladesh.
- Industry Outlook

Global ceramic tableware industry is currently going through a phase of acquisition and consolidation as smaller industries in the developed countries are becoming incompetent and bankrupt. As a result, the big names like Noritake, Wedgwood, Lenox, Villeroy & Boch and Royal Doulton are all individually becoming billion-dollar operations. Historically, tableware industry is labor-intensive and even after spending billions of dollars on automation, developed countries could not reduce the number of workforce according to their expectations. As a result, the cost of production will always remain extremely high in developed countries and the premium brands are only surviving because they are charging huge price to the consumers for their brand equity. Bangladesh, being a gas-rich and low-labor-cost economy, offers to be a strategic partners in production and supply of

ceramic products. Investment interests in this sector are strongly welcomed.

Light Engineering:

- Machinery Parts
- Consumer Items

Sector Highlights

- A growing and increasingly affluent middle class indicates demand for consumer durables.
- There is a significant sector of cottage industries engaged in simple electronic goods.
- Export-oriented production in light industries has gained momentum in the past few years.

Industry Outlook

Light industries in Bangladesh produce a multitude of labour intensive goods including toys, consumer items, small tools and paper products for the domestic market. Further development for these industries offers various investment opportunities. Export-oriented production in light industries has gained momentum in the past few years. Entrepreneurs from Hong Kong, Japan and Korea have taken advantage of Bangladesh's cheap and easily trainable labour and its infrastructure facilities to manufacture products for the export market

Agro-based Industry

- Canned Juice / Fruit
- Dairy and Poultry

Sector Highlights

- Bangladesh has a huge supply of raw materials for the agro-based industry.
- Fruits and vegetable production has increased significantly in recent years.

- Government and NGOs have been conducting regular training programs in developing a skilled manpower for this industry.
 - There is a substantial demand supply gap in the agro-based industry.
- Industry Outlook

Bangladesh has the basic attributes for successful agro-based industries, namely, rich alluvial soil, a year-round frost-free environment, an adequate water supply and an abundance of cheap labour. Increased cultivation of vegetables, spices and tropical fruits now grown in Bangladesh could supply raw materials to local agro-processing industries for both domestic and export markets. Progressive agricultural practices, improved marketing technique and modern processing facilities would enable the agro-processing industry to improve its quality and expand production levels significantly. Investment interests in agro-based industries are highly encouraged.