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# Foreign Direct Investment Scenario: Bangladesh Perspective

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***Abstract:*** *One of the most remarkable trends in the world economy over the past two decades has been the increasing global economic integration and growing internationalization, reflected in terms of the rising share of international trade and foreign direct investment (FDI). The role of foreign direct investment (FDI) in the growth process has for long been a topic of intense debate. Although this debate has provided rich insights into the relationships between FDI and growth, there is very little analysis of the issue. FDI generally has a positive impact on economic growth in developing countries. It enables a capital-poor country like Bangladesh to build up physical capital, create employment opportunities, develop productive capacity, enhance skills of local labor through transfer of technology and managerial know– how, and help integrate the domestic economy with the global economy. The investment plans in Bangladesh do not have appropriate mechanisms for the progressive development of foreign investment. In the absence of a long-term industrial development strategy, the reforms initiatives have had negligible success to create conditions favorable to promote foreign direct investment. The present scenario of FDI in Bangladesh in not still satisfactory enough but given the availability of abundant resources, skilled and cheap labor forces, a stable political atmosphere, effective monetary and fiscal policy, improvement of infrastructure and long term strategic planning to stimulate FDI might be able to make the condition favorable to attract foreign investment in Bangladesh. This paper recommends some guidelines that can be used to attract foreign investment in Bangladesh. This paper also investigates the state of the business environment in Bangladesh, identifies major determinants affecting the FDI and the benefits that the country may derive from it.*

***Key Words****:* Foreign Direct Investment *(FDI), Development, Growth benefits.*

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# I. Introduction

As a developing country, Bangladesh needs FDI for its ongoing development process. It is a potent weapon for developing the economy and achieving the country's socio-economic objectives. The climate for investment is determined by the interplay of a whole set of factors: economic, social, political, technological and environmental that has a bearing on the operation of businesses. Foreign direct investment (FDI) has the potential to generate employment, raise productivity, transfer skills and technology, enhance exports, and contribute to the long-term economic development of the world's developing countries.

More than ever, countries at all levels of development seek to obtain FDI for enhancing growth and creating jobs. Foreign affiliates of some 64,000 corporations now generate 53 million jobs **(The World Bank Research Observer, 2002).** FDI is the largest source of external finance for developing countries. The total inflows of FDI have been increasing over the years. In 1972, annual FDI inflow in Bangladesh was 0.090 million USD, and after 33 years, in 2005 annual FDI rose to 845.30 million USD and to 989 million USD in 2006. **(http://www.banglaembassy.com.bd/FDI%20in%20Bangladesh.htm)**.FDI played a minor role in the economy of Bangladesh until 1980, a crucial year of policy change. The Government of Bangladesh (GOB) enacted the 'Foreign Investment Promotion and Protection Act, 1980' in an attempt to attract FDI. Except five industries, which were reserved for the public sector: defense equipment and machinery, nuclear energy, forestry in the reserved forest area, security printing and railways, FDI was allowed in every sector of the economy.

## II. Objective of the Paper

The major objective of this paper is to evaluate the contribution to Bangladesh's economic development. In line with this objective, the paper focuses on the present scenario of FDI in Bangladesh, assesses the impact of FDI on the economy of Bangladesh, and suggests a few necessary steps to make the FDI more useful for Bangladesh.

## III. Methodology

The paper is primarily based on secondary data collected from different websites, journals, books and newspapers. By using these data, the study at first has figured out the present condition of FDI of Bangladesh. Thereafter, these data were analyzed to assess the impact of foreign direct investment in the economic development of Bangladesh. Lastly, some policies are suggested for the efficient and useful utilization of FDI by removing existing obstacles to achieve the desired level of economic development for the country.

## IV. Present Situation of FDI in Bangladesh

Bangladesh is in the process of transition from a predominantly agricultural economy to a modern economy there has been a considerable change in global flows of trade and finance including a surge in FDI. Despite being a recent phenomenon, several underlying factors have contributed to increasing the FDI inflow in Bangladesh. These are trade and exchange rate liberalization, current account convertibility, emphasis on a private sector led development, liberalization of the investment regime, opening up of infrastructure and services to the private sector– both domestic and foreign, and above all the growing interest of foreign investors in energy and telecommunication sectors. It is argued that more open trade policies are associated with the presence of foreign firms and economy wide technological and productivity gains in developing countries like Bangladesh. The private sector is envisaged to play an increasingly active role with public sector development programmers concentrating on basic infrastructure and human resource development. In recognition of the private sector's ability to contribute towards achievement of the goal of socio-economic improvement of its people, the government has recently implemented policy reforms to create a more open and competitive climate for both foreign and local investment.

### Actual Foreign Direct Investment- FDI

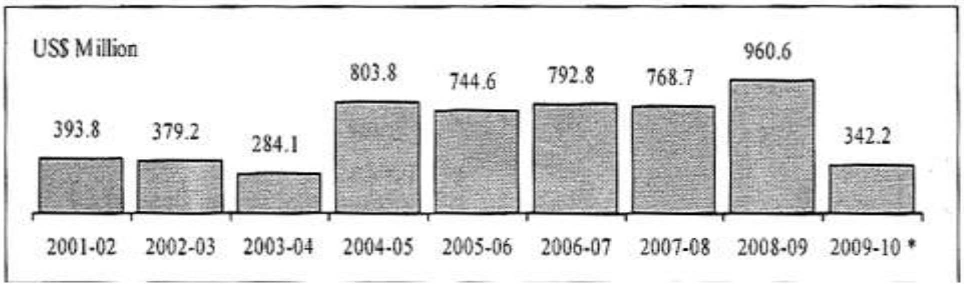
The actual FDI recorded US$ 768.7 million in FY 2007-08. During FY 2008-09; the actual FDI recorded US$ 960.6 million, which was higher than the previous fiscal year. The key feature of this increasing flow of investment during FY 2008-09 was a favorable investment environment and political stability. In FY 2009-10(up to Dec'10) the actual FDI recorded US$ 342.2 which is lower than the previous fiscal year because of world economic recession. Table 1 presents the recent trend in FDI inflow in Bangladesh:

**Table 1: Recent Trend in FDI Inflow in Bangladesh. (US$ Millions)**

| FY 2001-02 | FY 2002-03 | FY 2003-04 | FY 2004-05 | FY 2005-06 | FY 2006-07 | FY 2007-08 | FY 2008-09 | **FY 2009-10*** |
|---|---|---|---|---|---|---|---|---|
| 393.8 | 379.2 | 284.1 | 803.8 | 744.6 | 792.8 | 768.7 | 960.6 | **342.2*** |

Source: Enterprise Survey, Bangladesh Bank *July-Dec'10, *Estimated

**Figure1: Recent Trend in FDI Inflow in Bangladesh. (US$ Millions)**




Source: Enterprise Survey, Bangladesh Bank *July-Dec'10, *Estimated

## Trends in FDI in Bangladesh

Despite the wide-ranging incentives offered by Bangladesh to foreign investors, and the identification of the country by global institutions as a highly attractive investment destination, the volume of FDI has remained historically low in this country. In per capita terms, FDI in Bangladesh in 2008 was only $7, as compared to $31 in India and $32 in Pakistan. **(UNCTAD, World Investment Report, 2010).** Not only that the volume of FDI is low in Bangladesh, it also lags well behind other countries of the region, as UNCTAD data presented in Table 4 would indicate. The Table shows that FDI inflow to Bangladesh was $1086 million in 2008, the highest so far in its history, but it fell significantly thereafter, falling by 34.1 percent to $716 million in 2009.

**Table 2: Foreign Direct Investment Inflow**

| Countries | FDI Inflows (Million US$) | | | FDI Stock Million US$) | | |
|---|---|---|---|---|---|---|
| | 1995-2005 (Annual Avg.) | 2008 | 2009 | 1995 | 2008 | 2009 |
| Bangladesh | 427 | 1086 | 716 | 600 | 4816 | 5139 |
| India | 4137 | 40148 | 34613 | 5641 | 123294 | 163959 |
| Pakistan | 732 | 5438 | 2387 | 5408 | 16473 | 17789 |
| Vietnam | 1657 | 8050 | 4500 | 7150 | 48325 | 52825 |

Source: UNCTAD, *World Investment Report*, 2010

The decline in FDI was mainly due to the deep global economic recession, which spared no country or region.[i] Global FDI flows plummeted by 37 percent in 2009 to $1,114 billion – following a 16 percent decline in 2008. The decline occurred across all three sectors of FDI – primary, manufacturing and services, and most FDI components – equity investment, intra-company loans or reinvested earnings – contracted. In the first half of 2010, the global FDI witnessed a modest recovery, sparking some cautious optimism for FDI prospects in the short term and for a full recovery further on, but these prospects are fraught with risks and uncertainties, including the fragility of global economic recovery. (UNCTAD, op. cit)

**Table 3: Actual FDI Inflow in Bangladesh by Components** (US $ Million)

| FDI Components | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10* |
|---|---|---|---|---|---|---|
| Equity Capital | 361.14 | 447.22 | 464.50 | 545.69 | 353.42 | 113.47 |
| Reinvested Earnings | 297.11 | 198.64 | 281.01 | 197.71 | 336.61 | 178.05 |
| Intra-Company Loans | 145.53 | 98.75 | 47.25 | 25.29 | 88.56 | 50.70 |
| Total | 803.74 | 744.61 | 792.75 | 768.69 | 960.59 | 342.22 |

Source: Enterprise Survey, Bangladesh Bank* Estimated

Table 3 indicates that equity capital is the major component of FDI followed by reinvestment and intra-company borrowing.

## Foreign and Joint Venture Investment

In FY2009-10, as many as 160 new foreign and joint venture projects registered with Board of Investment (BOI) have proposed an investment of Tk.5916 crore. Besides, 101 registered projects had amended their proposed investment which increased the registered investment by Tk.344 cores. On the whole, investment registered during this period stood at Tk. 6,260.crore.Table 4 presents private investment proposals registered with BOI.

**Table4: Private Investment Proposals Registered with BOI**

| Fiscal Year | Proposed Local Investment | | Proposed Foreign Investment | | Total Proposed Investment | | Growth in Project Value(%) |
|---|---|---|---|---|---|---|---|
| | Projects | Crore TK | Projects | Crore TK | Projects | Crore TK | |
| 2005-06 | 1,754 | 18,370 | 135 | 24,986 | 1,889 | 43,356 | 124.62 |
| 2006-07 | 1,930 | 19,658 | 191 | 11,925 | 2,121 | 31,583 | -27.15 |
| 2007-08 | 1,615 | 19,553 | 143 | 5,433 | 1,758 | 24,986 | -20.89 |
| 2008-09 | 1,336 | 17,117 | 132 | 14,750 | 1,468 | 31,867 | 27.54 |
| 2009-10 | 1,470 | 27,413 | 160 | 6,260 | 1,630 | 33,674 | 5.67 |

Sources: Bangladesh Economic Review- 2011 (Bangla Version), Ministry of Finance. Board of Investment, Bangladesh, July 2010, * Provisional

Major sectors of the registered 160 foreign and joint venture projects in FY 2009-10 are services (77.57 percent), textile (8.51 percent) and chemical (7.28 percent).Table 5 presents the sector-wise break-up of the registered foreign and joint venture projects.

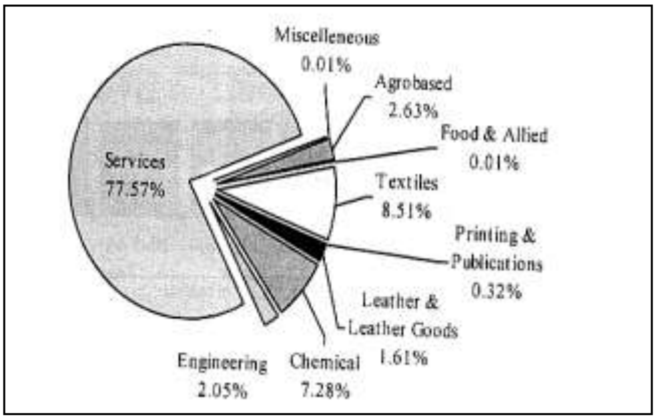
**Table 5: Sector wise Break-up of Registered FDI Projects during 2009-2010* (in Crore Taka.)**

| FDI Sectors | FDI (2009-10) | 2009-10 Shares (%) |
|---|---|---|
| Services | 4589.33 | 77.57% |
| Engineering | 121.29 | 2.05% |
| Glass and Ceramics | 0 | 0% |
| Chemical | 430.76 | 7.28% |
| Publications | 18.88 | 0.32% |
| Leather & Leather goods | 95.49 | 1.61% |
| Textiles | 503.65 | 8.51% |
| Food & Allied | 0.64 | 0.01% |
| Agro based | 155.62 | 2.63% |
| Miscellaneous | 0.65 | 0.01% |
| Total | 5916.31 | 100% |

Source: Board of Investment, Bangladesh. July 2010*Provisional

Figure2 presents the sector-wise break-up of the registered foreign and joint venture projects.

**Figure 2: Sector wise Break-up of Registered FDI Projects during 2009-2010***




Source: Board of Investment, Bangladesh. July 2010*Provisional

The sources of foreign and joint venture projects registered in FY 2009-10 represent 26 countries/economies from different regions of the world. The West Asia is the largest source in terms of investment portfolio followed by South, East and South East Asia, European Union, North America and CIS region .Table 6 presents the source–wise distribution of the new projects registered with BOI in FY 2009-10.

**Table 6: Sources of the Foreign and Joint Venture Projects 2009-10***

| Country | Projects | Total-2010-11 (in Crore Taka) |
|---|---|---|
| 1. Saudi Arabia | 3 | 3302.700 |
| 2. Germany | 3 | 14.884 |
| 3. USA | 12 | 999.980 |
| 4. Thailand | 6 | 21.232 |
| 5. India | 14 | 108.356 |
| 6. South Korea | 19 | 263.967 |
| 7. Netherlands | 6 | 63.254 |
| 8. China | 21 | 188.324 |
| 9. Japan | 15 | 47.620 |
| 10. United Kingdom | 6 | 30.705 |
| 11. Singapore | 7 | 32.431 |
| 12. Denmark | 1 | 8.400 |
| 13. Pakistan | 3 | 8.692 |
| 14. Srilanka | 4 | 7.828 |
| 15. Malaysia | 4 | 38.190 |
| 16. Canada | 3 | 8.419 |
| 17. Finland | 2 | 20.865 |
| 18. Taiwan | 3 | 76.727 |
| 19. Philippines | 1 | 142.000 |
| 20. Australia | 6 | 25.786 |
| 21. Turkey | 2 | 1.641 |
| 22. Greece | 1 | 1.082 |
| 23. British Virgin Island | 1 | 22.351 |
| 24. Italy | 3 | 28.308 |
| 25. Sweden | 4 | 21.511 |
| 26. Hong Kong | 10 | 431.044 |
| **Total** | **160** | **5916.307** |

Source: Board of Investment, 2009-10*(July-April).

One of the important factors to attract the foreign investors in Bangladesh is the low labor wage rate and sound weather condition. The country has abundant resources of its own to attract investors. It has also been observed that FDI is positively correlated with stable political atmospheres, infrastructure facilities, low interest rates, large potential domestic markets, low inflation rate, positive and stable exchange rates, fruitful monetary and fiscal policy by the central bank and the government. Bangladesh government should develop long-term strategy to stimulate foreign investment in Bangladesh. If FDI increases then surely GDP growth will accelerate and unemployment will fall, and the country might convert to middle income country. The recent years witnessed tremendous interests of foreign investors to invest in diversified sectors in Bangladesh. In FY 2009-10 total investment proposals worth about Taka 5916.307 crores **(Source: BOI 2009- 10)** negotiation and / or approval stages. These include investment proposals from different developed and developing countries like China, Malaysia, India, Taiwan, USA, UK, Australia, Singapore, Thailand and Saudi Arabia.

## V. Factors affecting FDI climate in Bangladesh

To me, good and productive physical infrastructure is a key factor which influences FDI inflow. Apart from this, there are some other factors that can affect FDI climate in Bangladesh.

### Macroeconomic Environment

Macroeconomic factors include issues such as fiscal, monetary, and exchange rate policies and political stability. The overall economic condition and business climate as well as various specific economic factors have a serious bearing for FDI. Foreign investors choose a location where there is evidence of success and availability of favorable macro-economic conditions. Bangladesh started its journey towards development immediately after independence and formulated six consecutive plans emphasizing growth of income and employment, poverty alleviation programs and business development. Later a Structural Adjustment Reform (SAR) initiative gradually opened the economy to more internal and external competition. At the same time Bangladesh undertook substantial investments in human development, making great strides in such areas as primary enrollment, education, and child nutrition and fertility reduction. The Program to divest state enterprises in manufacturing stagnated and state enterprises are a huge drag on the Bangladesh economy. In the financial sector, progress was uneven in the 1990s. Private Banks gained market share throughout the decade, and their financial situation improved in recent years, though their share of loans remained high at around 17 percent in 2001. Despite the mixed picture in reform, Bangladesh achieved positive growth results. In 1991-2000 real GDP growth averaged about 5 percent a year. Export of selected items mainly contributed to this growth. Bangladesh’s economic performance and slowing population growth over the past two decades produced real per capita GDP growth of 3.1 percent a year. The country has moved to a flexible exchange rate regime since May 31, 2003 so that it can improve its export competitiveness and absorb external shocks more efficiently.

**Governance**

Governance relates to government interactions with business, which typically mean regulation and corruption, both of which affect the costs of starting and running a business. Bangladesh scores relatively well on the indexes for voice and accountability, regulatory quality, and government effectiveness, exceeding the average for low-income countries on all three measures (in an index measure named government hexagon). In addition, it performs better than China, India, and Pakistan on regulatory quality but worse than all three on government effectiveness, control of corruption, political stability and rule of law and also worse than the average for low income countries. A particularly important aspect of governance is the ease with which firms can enter and exit a market, an important determinant of productivity, investment, and entrepreneurship. Study found that stricter regulation of entry is correlated with more corruption and a larger economy. Corruption is a major governance problem in Bangladesh.

**Infrastructure**

Infrastructure refers to the quantity of physical infrastructure (such as power, transport, and telecommunications). The better the infrastructure of the host economy, the more attractive it is to foreign investors. The quality of infrastructure appears to be relatively poor in Bangladesh. In a survey of business executives from 75 countries, the quality of infrastructure in Bangladesh was rated as being “poorly developed and inefficient’’. Of all countries in the world, Bangladesh was ranked as 74th. In terms of power supply, evidence from firm-level investment climate surveys confirms that electricity (supply, transmission and distribution) is a problem in Bangladesh. Over the past two decades the country’s power generating capacity increased almost threefold, from 1.0 million kilowatts in 1980 to 3.3 million, but firms have reported experiencing power outages and surges of about 2 days a year on an average. To buffer these outages, about 72 percent of enterprises in Bangladesh reported having a generator while 42 percent in Pakistan and only 27 percent in China. Firms have reported losing more than 3 percent on average of production as a result of problems in the electricity grid. This factor creates an unattractive climate for investment. Result from surveys of transport (ports and roads) suggest that transport is also a problem in Bangladesh in comparison to other countries. **According to the Global**

**Competitiveness Report 2001/02,** Bangladesh ranked 70th among the 75 countries for the quality of roads and 72nd for ports. Although Bangladesh outperformed Sri Lanka, India, and the Philippines in the ranking for roads, it ranked lower than any of the comparable Countries for pulls. India was ranked 57th on ports and China took 51st position, well developed telecommunication services are important for FDI.

The number of fixed line telephones per 100 people in Bangladesh rose significantly in the past two decades, from 0.11 in 1980 to 0.39 in 2001. The dramatic growth of the mobile phone market is more encouraging. Introduced only in the 1990s, 0.4 percent of people used mobile phones in the year 2001. However, Bangladesh still lags behind other countries in both fixed line and cellular telephony.

### Financial Infrastructure

The private sector in Bangladesh gets reasonable access to finance. Between July 2009

and June 2010 (FY2009-10), credit to the private sector increased by 21.1 percent while credit to the public sector increased by 9.4 percent. This is in sharp contrast with credit flows in FY2008-09 when credit to the private sector increased by 14.6 percent and credit to the public sector rose by as much as 20.3 percent.[ii] In order to contain inflation the central bank twice raised the CRR in the recent months – from 5.0% to 5.5% in May 2010 and again to 6.0% in December 2010 – and also raised the prime lending rates – repo and reverse repo – but maintained an accommodating credit policy to ensure easy credit access to important but under-served sectors.

### International Integration

International integration is another determinant associated with investment. Countries that aggressively pursued integration with the global economy (such as Brazil, China, India, Malaysia) grew more quickly in the 1990s than those that did not. The low level of FDI incoming in Bangladesh indicates poor integration with the global economy. Other evidence of poor integration with the global economy is the low level of FDI inflows and per capita remittance receipts. FDI inflow in Bangladesh in 2008 was just 1.2% of GDP, as against 1.9% in Sri Lanka, 3.3% in Pakistan, 3.4% in China, 3.6% in India, and a staggering 10.6% in Vietnam. As regards inward remittances, inflows into Bangladesh are about 11.3 percent of GDP compared to 4.3% in both India and Pakistan, and between 7 and 8 percent in Sri Lanka and Vietnam but per capita remittance in Bangladesh (US$56), though slightly higher than

Pakistan's $42, India's $44, and China's $37, is well behind that of Vietnam ($84), Nepal ($95), and Sri Lanka ($146).[iii]

**Political Stability**

Political instability of a host country changes the 'rules of the game' under which businesses operate that has an impact on profit and future FDI inflows. Political factors like change of government, attitude of opposition group, transparency in bureaucracy, degree of nationalism, corruption, and terrorism and so on, are seriously considered by the investors in pre-investment decision making. In Bangladesh, there is no broad national consensus on some of the major political issues. Although a democratic political process has been initiated, a sound bipartisan system is yet to be developed. Moreover, a deterioration of law and order, political rivalry, unauthorized strike, militant gang incidents and ineffective enforcement of regulations has affected the confidence of foreign investors.

**Human Resources**

Bangladesh has created an improved education infrastructure but failed to generate a pool of skilled workforce to attract investment in non-traditional industry sectors. **The Global Competitiveness Report 2001/02** ranked Bangladesh 58th among the 75 countries in the survey, ahead of China ($59^{th}$) and Malaysia ($60^{th}$) but below other comparable countries in terms of skilled and trained labor. In terms of unskilled labor, it is widely believed that Bangladesh offers the most competitive labor cost in the South Asian region. The recent inflow of FDI in the garments and textiles sector and labor-intensive processes of electronics and machinery in Bangladesh has been induced by cheap labor.

**Technological Infrastructure**

Technological progress plays an important role in economic growth, which stimulates FDI. It includes more modest advances the implementation of better business processes, involves the adaptation and adoption of new technologies.

**Business start up**

Data from the World Bank's 'Doing Business Project' suggest that to start up a new firm in Bangladesh is relatively costly. Hiring and firing workers is generally perceived easier than most other developing countries in East and South Asia. An entrepreneur must complete seven procedures to start a firm - the smallest number among a group of comparator countries in Asia (Malaysia is also seven). Another measure suggests that including regulatory and utility connection is relatively difficult in Bangladesh compared with other Asian countries. Executives surveyed for Global Competitiveness Report 2001/02 ranked Bangladesh 60th out of the 75 countries in regard to the difficulty of starting a new business. This is worse than the ranking for all the comparator countries in East and South Asia.

## VI. Some Key Roles of FDI Played in Bangladesh

### Proper Utilization of Domestic Resources (Raw Materials and Llabor)

Some nations have valuable and more resources, which can be utilized to earn a lot of profits. But due to the lack of the proper investment and efficient management, they cannot do that. By the FDI, local resources can be used to increase the GNP of those countries. By the efficient use of these local resources, the product cost will be reduced and the local people can consume the products with their low income. Apart from these a country can export the final products and can earn a lot of foreign currencies. For example Bangladesh has been utilizing domestic resources at an increasing rate and these domestic resources currently finance more than 90% of its budget, which reached US $10 billion in the fiscal year 2006-07.

### Investment in Unconventional and Profitable Sectors

FDI has initiated the door of tourism and hotel business in Bangladesh. When the Westin is going to start its journey, at least two other international chain hotels (Intercontinental Dhaka and Holiday Inn, Dhaka are also under construction) showing the growth of hotel business in the country. Dhaka's new hotel Radisson Water Garden has emerged as the best performing hotel in the International chain's Asia Pacific region. Registering $9.5 million revenue in the first year of operation, FDI in hotel is gradually increasing in Bangladesh. Bangladesh has the potentiality to be recognized as a popular tourist destination because some international tourist spots such as Nepal, India, Bhutan, and Sri Lanka surround the country.

### Development of Skilled Personnel

Foreign technology and know-how play a vital role to create efficient and skilled personnel in commodity and service industries of the country. FDI help create employment opportunities in various sectors e.g., five-star hotels in big cities like, Dhaka and Chittagong.

### Bangladesh- A promising Market Segment

According to market research in Asia titled 'eye on Asia' to better understand the region's consumer behavior found that over 50 percent of Bangladeshi consumers are young. They welcome new innovations, helping new companies introduce with new products and services. This research indicates Bangladesh is one of the fastest growing market in Asia for new investing opportunity.

### Bangladesh-An attractive Investment Center

Considering abundant, cheap labor and low cost of infrastructures as well as congenial investment climate in Bangladesh, Thailand has expressed interest to relocate its textile and Ready-Made Garments (RMG) industry here. TATA Company has also keen interest to make huge investment in fertilizer, power sector, steel, etc. A Malaysian company invests in power. Different foreign companies have invested in textile sector in different EPZs of the country. As a result different jobs have been created.

#### FDI Reduces Imports, Saves Currency and Provides Lower Price of Product

Bangladesh Garments Manufacturers and Exporters Association (BGMEA) have adopted a three year plan to double exports. Different local and foreign companies have invested in the Garments sector, which has created opportunity to export instead of import as well as lower the price of Garments product available in Bangladesh. BGMEA is implementing a new strategy to resolve the local and global barriers. They would look into enforcement of the tripartite agreement on RMG workers minimum wages and compliance issues to augment exports from $ 9 billion to $ 18 billion. This demands ensuring the infrastructure facilities. FDI in deep-sea port Chittagong and maintenance of Chittagong seaport creates a huge opportunity to export and CCCI (Chittagong Chamber of Commerce and Industry) seeks 150-day storage time for imported goods which also helps the import based companies to produce goods.

### Introduction of Advanced Technology

For the FDI, a country can enjoy advanced technology in various sectors, which is not available in that country. The Multinational Corporations (MNCs) have become vehicles for transfer of technology, especially to the developing countries like Bangladesh. The Research and Development (R&D) prospects need a lot of investment, which is the main source of the introduction of advanced technology. They first invent the technology and after some period they transfer it to the developing and underdeveloped nations through FDI. For example, we can consider the telecommunications sector of Bangladesh. Its immense growth is mainly for foreign investment in the sector.

## VII. Findings

FDI increases employment opportunities in Bangladesh and it helps the country to transform itself into an industrial economy. Bangladesh cannot properly negotiate with the giant foreign investors due to the weak bargaining power of the government and officials. They cannot manage huge amount of investment for the betterment of the country. Though FDI introduces many advanced technology, the MNCs in Bangladesh are not yet interested to build their research and development centers in the country. Bangladesh is not much developed technologically to attract huge foreign investment in the country. FDI helps attain the GDP growth but for the shortcomings of our own policy, a huge amount of foreign exchange flows out of the country every year. FDI also enhances social welfare activities and helps build strong international relationship. The giant foreign investors demand a lot of facilities, which are difficult to provide by a developing country like Bangladesh. The foreign investors sometimes influence the government to formulate policies in their favor. Most of the MNCs in Bangladesh are not enlisted with the stock exchange and they are not public limited companies. So the people of Bangladesh are deprived of the ownership and a share of their profit.

## 8. Conclusions and Policy Suggestions

The global experience suggests that, depending on the country context, the benefits of FDI are highly uneven and can become ambiguous or possibly negative. However, given its present characteristics, Bangladesh is likely to benefit through more FDI inflows. It is important, therefore, for Bangladesh to ensure an investment climate that can attract more FDI flows to the country. For the purpose, several policy areas are important that include:

**Quality of Bureaucracy and Governance**: Appropriate reforms are needed in the country's administrative system. The bureaucracy needs reorganization in order to bring about a perceptible improvement in its efficiency and productivity. Bureaucratic control and interference in business and investment activities should be minimized on a priority basis.

**Improvement of Law and Order Situation:** Law and order situation needs to be improved through appropriate reforms in law enforcement and introducing other measures. A social consensus is needed to establish the rule of law, avoid political confrontation, and reduce corruption.

**Development of Infrastructure and Human Resource:** Both the government and private sector need to come forward to invest in infrastructure development including under Public Private Partnership(PPP) arrangements. Appropriate mechanisms like BOO, BOT, BOOT etc. may be devised to encourage foreign investors to invest infrastructure services both public and private universities should come forward in introducing courses/programs that produce graduates with technical and management skills required in modem industrial and other activities.

**Improvement of Port Services:** Despite recent improvements, the efficiency of the port services can be further improved through appropriate measures. Similarly, the custom clearance procedures can be further simplified along with improvement in physical facilities and reforms in the labor management system.

**Privatization and further Reforms:** The privatization program of the state owned enterprises needs to be equipped that would stimulate domestic and foreign investments. Several financial institutions and some of the public utilities may be privatized in order to ensure better and more efficient services. The policies should encourage private sector participation in several key sectors like agricultural processing, manufacturing, infrastructure including transportation, telecommunication, power, port, and in the production of high value added products.

**Modernization of Business Law:** It is important for Bangladesh to modernize and revamp all laws relating to business and investment keeping in view the international practices and requirements of globalization.

**Setting up Industrial Parks:** The development of new industrial parks can help in creating a favorable environment of foreign investment. The availability of ready infrastructure along with secure and enabling investment climate can act as a powerful catalyst in attracting foreign investors for investment in profitable ventures.

**Setting up new EPZs**: The government may come up with a phased program of setting up new EPZs in order to extend facilities to export oriented investors. The private sector may also be encouraged to set up new EPZs.

**Improving the Country's Image in Abroad:** Positive developments regarding the country's economy, society, and future prospects, including the hospitable investment climate existing in the country and the facilities available to foreign investors, should be effectively projected abroad, especially among the potential investors. Such 'image building' efforts would be crucial to dispel the negative images that have persisted for long and discouraged the investors to come forward. In addition to the above, maintaining consistency in policies and actions is important so that no 'wrong signal' is conveyed to the investors.

**Policies Regarding Macroeconomic Stability:** The government should implement appropriate policies to ensure macroeconomic stability, foster growth promoting and growth accommodating policies, and undertake further actions to reduce poverty at a faster rate. Bangladesh has already achieved notable success in this regard and achievements in both economic and social development should be actively publicized abroad to promote a positive image of the country among the prospective foreign investors.

**Economic and Commercial Diplomacy:** Strengthening economic and commercial diplomacy is a key factor in attracting FDI in the present world characterized by rapid globalization and increasing competition. In this respect, improved bilateral relations with potential investor countries can act as a catalyst to increasing FDI inflows to Bangladesh. Moreover, it is important not only to improve relations with countries that have already invested in Bangladesh, but also to identify potential investors in other countries and undertake appropriate measures to attract them to invest in the country.

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[i] As elsewhere, FDI inflows declined in all major South Asian countries in 2009, and, in some of them, very drastically. Thus, FDI inflow declined from $40.14 billion to $34.61 billion in India (a 13.8% decline); from $5.43 billion to $ 2.38 billion in Pakistan (a 56.2% decline); from $752 million to $404 million in Sri Lanka (a 46.3% decline); and from $300 million to $185 million in Afghanistan (a 38.3% decline). In Vietnam, FDI declined by 44.1%.

[ii] Bangladesh Bank, *Monetary Policy Statement July-December 2010,* 19 July 2011.

[iii] UNDP, *Human Development Report 2010.*