AN INSIGHT INTO FOREIGN DIRECT INVESTMENT IN BANGLADESH

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Declaration

I declare that this research thesis entitled "An Insight into Foreign Direct Investment in Bangladesh" submitted to the Department of Finance, University of Dhaka for the award of degree of Master of Philosophy in Finance has been accomplished under the supervision and guidance of Dr. A. A. Mahboob Uddin Chowdhury, Professor and former Chairman, Department of Finance, University of Dhaka, Dhaka-1000, Bangladesh. This thesis is my original work and has not been presented for award of any degree in any University or other similar purposes.

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ABSTRACT

Foreign Direct Investment (FDI) plays a crucial role in accelerating the development and economic growth of a country. Most of the developing countries rely on FDI to promote their economy as they face capital shortage for their development process. FDI can enable a country to build up capital, developed productive capacity, reduce unemployment and ensure overall economic development. With this background in mind this study was undertaken to give an insight into the determinants and role of FDI for the economic development process of Bangladesh. The present study examines the factors that potentially affect the Foreign Direct Investment (FDI) of a country and identifies the key determinants of the FDI in Bangladesh. This study also explores the FDI theories and how they explain FDI decisions of a developing country like Bangladesh. Based on the data 1999–2013 of FDI factors, this study uses the statistical estimation method to identify the determinants of FDI.

In this study we have identified the potential determinants of FDI in Bangladesh. For the empirical analysis, eleven independent variables have been taken. Which are market size, gross national income, inflation, openness, corporate tax rate, domestic investment, external debt, labor force, average exchange rate, average wage in manufacturing and urbanization. As for the estimates out of eleven variables nine variables were significant and having the expected positive sign. On the basis of the correlation and regression analysis it is observed that market size, gross national

income, inflation, openness, external debt, labor force, average exchange rate, average wage in manufacturing and urbanization have positive relation and relevant factors of FDI. The other factors corporate tax rate and domestic investment have negative sign and irrelevant factors in determining FDI inflow in Bangladesh.

It is observed that there are some administrative loopholes and policy issues that hinder the inflow of FDI in Bangladesh. It may be argued that addressing those issues and making favorable environment, rules and regulation are to be enacted to overcome those problem and to build up confidence for existing and new investors. We are optimistic that Bangladesh will undertake positive move to reduce these barriers and take appropriate measures to attract sizable FDI in Bangladesh to maintain the development wheel of the economy in the years to come.

ACKNOWLEDGEMENT

The supreme power almighty 'Allah' made it possible for me to study and write this thesis.

This study is the outcome of a long time effort and owes a great deal of many individuals and organizations for their help and assistance in different ways. But only a few of them can be mentioned here keeping all others' contribution in mind with due gratitude.

I am deeply indebted to my respected teacher and supervisor, Dr. A. A. Mahboob Uddin Chowdhury, Professor and former chairman, Department of Finance, University of Dhaka for his valuable guidance, cooperation and inspiration through the study of my M.Phil program. He has always made him available for help whenever required.

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Chapter – 1

Introduction

Maximum production, full employment, attainment of overall economic development and ensuring social justice are the ultimate objectives of any country. The attainment of the above mentioned objectives largely depends on the efficient accumulation and allocation of the national resources to the different competitive economic units. Thus, it is essential to address these two issues i.e., the accumulation of capital and its proper use in the desired direction (Chowdhury, 2013).

One of the most important problems of developing countries is the lack of national savings to finance their economic development projects. The fund available for these projects can be collected from domestic and other sources. Due to the shortage of funds internally they require foreign capital in the form of both direct and indirect investment. Foreign Direct Investment (FDI) has historically contributed in many host countries by providing infrastructure, technical know- how, technical skills, entrepreneurial abilities and financing to these countries.

Economic supremacy is one of the important characteristics of present economic system. The available literature suggests that countries characterized by low per capita income, low GDP growth rate, poor industrialization, lack of infrastructure, high unemployment rate largely depend on FDI to accelerate their development wheels. Since FDI is expected to expand opportunities of development, its demand has rapidly increased over the recent years. Moreover, the shortage of external financing and official loans from international financial institutions and aid from other countries, the need for FDI has further increased significantly in the developing countries.

Historically, the flow of FDI to developing countries has followed an uneven path being modest at the beginning of 1980s and tending to rise in subsequent periods (Yasmin et al., 2003).

Foreign direct investment has a number of economic effects on the host country which benefit both the domestic industry as well as the consumer, by providing opportunities for technological transfer and up gradation, access to global managerial skills and practices, optimal utilization of human capabilities and natural resources, making industry internationally competitive, opening up export markets and diversify production and export capacities, providing backward and forward linkages and access to international quality goods and services and augmenting employment opportunities. So, in the light of the above potential benefits, FDI is regarded as an important vehicle for economic development particularly for developing economies and if channeled properly, FDI can contribute to capital formation in the developing host economy. The current issue of the Bangladesh Economic Update focuses on the magnitude, dynamics, sectoral distribution, and country wise sources of FDI inflow in the country. The flow of foreign direct investment is of utmost importance in the current backdrop of overall slump in investment in the economy in recent days. The promotion of growth and development in the third world states is seen as one of the most fundamental problems confronting the world today and among the most fundamental principles in economics is that economic growth requires capital investment.

As the Bangladesh economy is characterized by low GDP, low national income, high inflation, high level of unemployment and illiteracy etc. The need for rapid economic development is the prime need of the time in the age of rapid development era. Bangladesh as one of the promising developing countries has attracted wide spread

attention at national and international levels for various reasons. The country has long been struggling for its development since its independence. It is paying a huge cost for its identity as the "basket case" since the liberation. But after the 1990s it has been showing relatively better economic performance compared to the earlier two decades. As a result, nowadays the country has been widely considered as the "test case for development".

It is well recognized that economic development is a complex issue and it covers a broad spectrum. Generally, economic development requires achievement of success in different economic parameters. One of the most important and fundamental issues in economic development is the Gross Domestic Product (GDP). If we analyze the status of GDP in Bangladesh we will observe that the average GDP from 1975 to 1990 was 3.2 percent and the average was 4.5 percent from 1990 to 2008. The average GDP during the last three years was around 6 percent (Chowdhury, 2013).

It is evident that, in a developing, capital poor, Least Developed Countries (LDC) with insufficient domestic savings rate for investment after fulfilling its basic needs, the importance of foreign investment is absolute. FDI can emerge as a significant vehicle to build up physical capital, create employment opportunities, develop productive capacity, enhance skills of local labor and help integrate the domestic economy. Keeping in view of the above issues, the present study has been undertaken to shed light on the FDI issues in the development context of Bangladesh.

1.1 Justification of the Study

This study was conducted bearing in mind the need for more empirical research in both Foreign Direct Investment in developing countries in general and Bangladesh in particular. The need of Foreign Direct Investment in developing countries is crucial compared to developed countries.

Due to the imperfect market condition, companies in emerging/developing markets are not able to follow the clear Foreign Direct Investment approaches that have been explained by widely – known theories. Therefore, examining the determinants of Foreign Direct Investment in such countries like Bangladesh is highly important in an attempt to understand the Foreign Direct Investment behaviors of foreign firms and influencing Foreign Direct Investment decisions in emerging/developing markets.

1.2 Objectives of the Study:

The objectives of this thesis paper are as follows:

1. To explore the theoretical framework of Foreign Direct Investment and previous studies related to Foreign Direct Investment.
2. To focus on the administration of Foreign Direct Investment in Bangladesh.
3. To shed light on the present scenario of Foreign Direct Investment in Bangladesh.
4. To determine the relationship between Foreign Direct Investment and specific potential factors based on theoretical and empirical findings and identify the empirical determinants of Foreign Direct Investment in Bangladesh.
5. To identify the problems of Foreign Direct Investment in Bangladesh and provide suggested measures thereto.

1.3 Methodology

This study is fully based on secondary information. The relevant secondary data are collected from Statistics Department and Research Department of Bangladesh Bank (Central Bank of Bangladesh), Board of Investment of Bangladesh, Bangladesh Bank Bulletin, Economic Trend, Bangladesh Economic Review, different academic journals and other published materials etc. The study covers a time frame of 1999-2013. Statistical tools have been used to materialize the objectives of the study. Multiple regression and other statistical tools have been used in the study with SPSS -20.

1.4 Limitation of the Study

The main limitations of the study are:

1. More variables can be added in the analysis of the study.
2. More time periods can be considered and
3. Lack of available data.

1.5 Organization of the Study

This study is composed of seven chapters:

1. Chapter-1 (Introduction) is an introduction to the study, including a brief background, justification, objectives and methodology of the study.
2. Chapter-2 (Literature Review) provides a review of current theoretical and empirical research that has been conducted on the topic of Foreign Direct Investment at home and abroad.

3. Chapter-3 (Administration of Foreign Direct Investment) sheds light on the different policy, regulatory and other issues related to Foreign Direct Investment.
4. Chapter-4 (Present Scenario of Foreign Direct Investment) is an attempt to focus on the present scenario of Foreign Direct Investment in Bangladesh.
5. Chapter-5 (Research Design) presents the description of variables and their measurement issues studied in this thesis and the methodology of the study and data analysis.
6. Chapter-6 (Empirical Analysis) provides the main analysis including descriptive analysis, correlation matrix, and regression matrix and how it leads to the main findings.
7. Chapter-7 (Summary and Conclusion of the study) summarizes the main points of study and presents the limitations and ideas for future research.

Chapter–2

Theoretical Development and Previous Studies

Economists agree to the fact that capital flows from countries where capital per worker is abundant and has a relatively low real rate of return to countries where capital per worker is scarcer and has a higher real rate of return. In the context of international trade theory it is evident that, where comparative advantage derives in large part from differences in relative factor endowments, capital flows to a country can serve as a substitute for trade in goods. Thus a relatively capital poor country could benefit either from labor-intensive goods and exchanging them for capital-intensive goods or from having a current account deficit to enable to increase its relative stock of capital.

It is also said that FDI enables managers and workers in the recipient country to acquire managerial and marketing know-how and access to latest technology that would otherwise be possible. From the ramification of the Mexican and Asian crises it is believed that a higher ratio of FDI to total flow reduces the probability of currency crisis. Studies reveal that availability of sufficient and appropriate type of FDI can ensure export growth, employment generation, technological improvement, managerial and marketing know-how and strengthen balance of payment support which is most necessary for a country like Bangladesh for economic emancipation and growth.

2.1 Reasons of International Business

Traditionally many companies have stayed focused in their domestic markets and have refrained from competing globally. They know their domestic markets better and understand that they have to make fundamental changes in the way they work to be able to compete globally.

But increasingly companies are choosing or are being forced to sell their products in markets other than their domestic markets. It has become imperative for most companies to compete in foreign markets. There are some reasons for going international business that are given below:

2.1.1 Domestic market saturated

Domestic markets are saturated and there is pressure to raise sales and profits. Most companies have very ambitious sales and profit targets. If such figures have to be realized, companies have to move out of their domestic markets.

2.1.2 Small domestic market

Domestic markets are small. Companies which have ambitions to becomes big will try to look for bigger markets outside their boundaries.

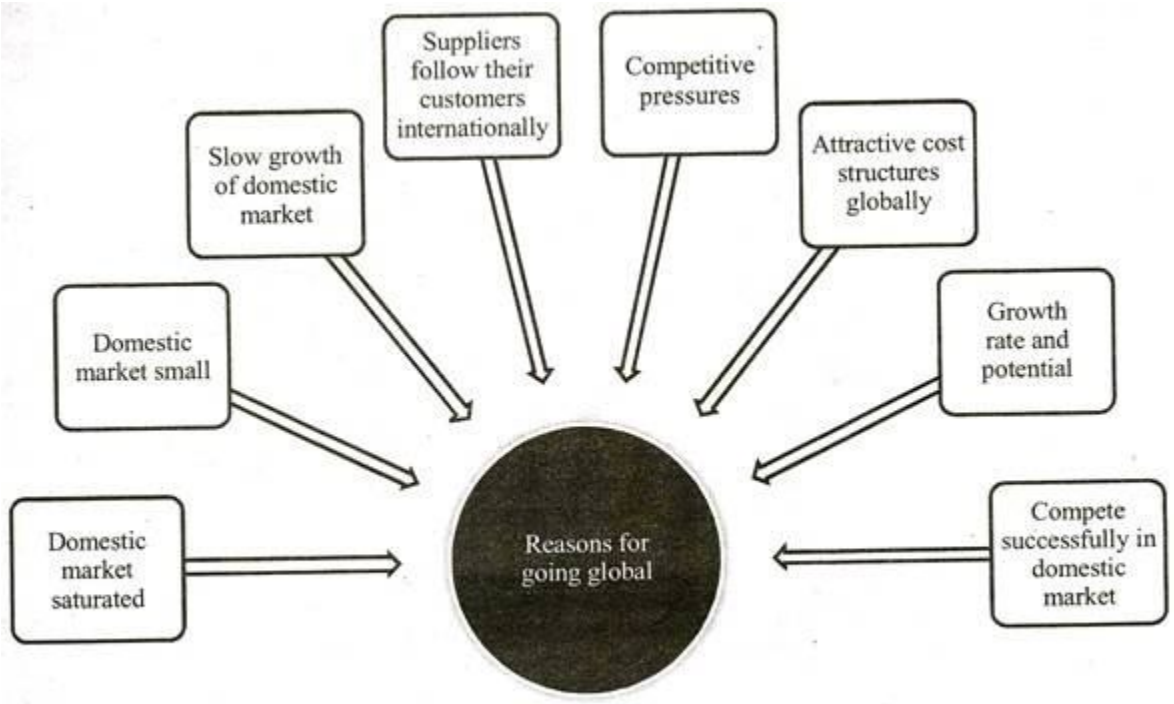
2.1.3 Slow growth of domestic market

Domestic markets are growing slowly. Most companies are no longer content to grow incrementally. If such companies have to achieve high growth rates, they have to obtain some of their sales from international markets.

2.1.4 Suppliers follow their customers internationally

In some industries like advertising, customers want their suppliers to have international presence so that suppliers can contribute in most of the markets where the buyer is operating. For instance, a multinational will choose an advertising agency which has a presence in all the markets where the multinational is selling its product. The customer does not want the hassle of hiring a separate advertising agency for each of its markets. This process will be replicated in more industries.

A multinational company seeking materials and equipment's would want its supplier to supply to all its international manufacturing locations. The supplier is forced to develop competencies and resources at many international locations to be able to serve the international manufacturing locations of its buyer.



Reasons for Companies Going Global

2.1.5 Competitive pressures

Some companies will have to move out of their domestic markets when their competitors have done so, if they want to maintain their market share. If the competitor is allowed to pursue its international growth alone, the competitor is likely to plough back some of the earnings from its international operations to the domestic market, making it difficult for the companies which refrained from pursuing international markets, to focus on the domestic market. In other cases, a domestic player would start operations in the home country of its global competitor, to divert the attention and resources of its competitor towards operations at home to safeguard its home market.

2.1.6 Attractive cost structures globally

Developed markets have high cost structures and companies may move their operations to regions and countries where costs of production are lower. Once a company starts operating in a geographical region, it becomes easier and profitable to market their products in that area.

2.1.7 Growth rate and potential countries

Countries and regions are at different stages of development, and their growth rates and potential are different. Companies do not like to concentrate all their efforts in limited regions and want to spread out their risk. Such companies will look for markets which are likely to behave differently from their existing ones in terms of economic parameters like growth rate, size, affluence of customers, stage of market development, etc.

A company would not like all its markets to be under recession or inflation simultaneously, and would not like all its markets to be in mature stage, or in growth stage. Having different type of markets will make revenues and profits more consistent. The investment requirements would also be more balanced.

2.1.8 Compete successfully in domestic market

Even if a company decides to concentrate on its domestic market, it will not be allowed to pursue its goals unhindered. Multinational companies will enter its market and make a dent in its market share and profit. The company has no choice but to enter foreign markets to maintain its market share and growth.

Companies are realizing that it is no longer an option to stay put in one's domestic market. The ability to compete successfully in domestic markets will depend upon their ability to match the resources and competencies of multinational companies, with whom they have to compete in their domestic markets.

And once they decide to take on the multinational companies on their home turf, they have to improve their resources and competencies to be able to match those of the multinational companies. They will also learn about the ways of operation of multinational companies. This experience will be helpful when they have to protect their domestic markets against the multinational companies.

2.2 Theories of Foreign Direct Investment

2.2.1 Competitive advantage theory

Competitive advantage theory suggests that specialization by countries can increase production efficiency.

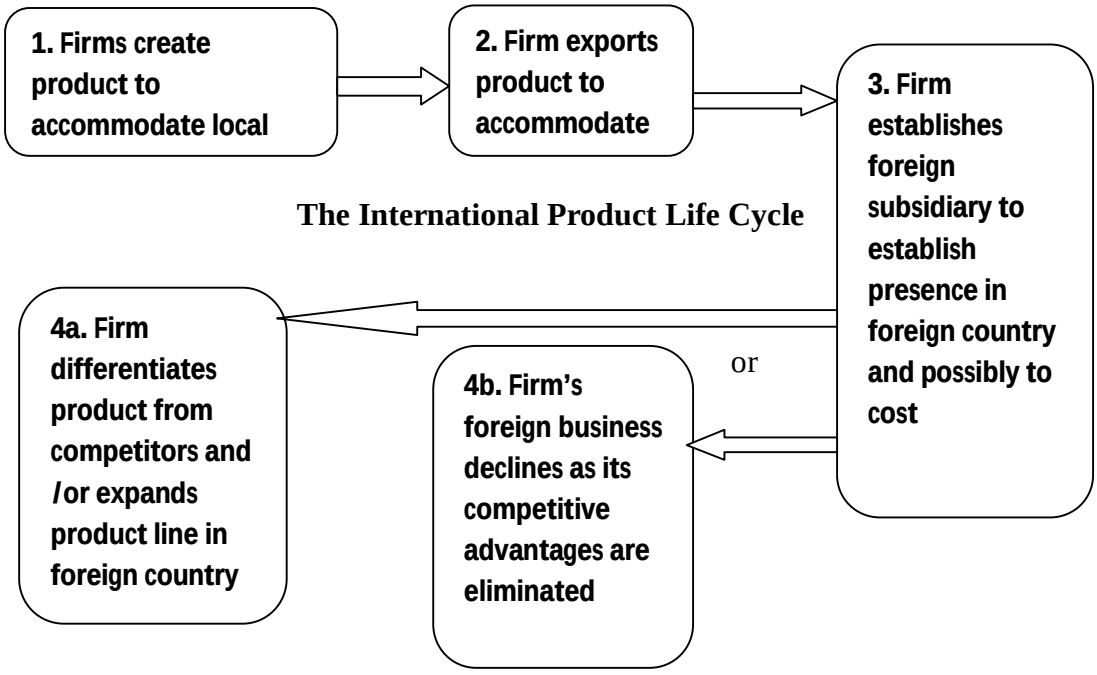
2.2.2 Industrial organization theory

This theory reveals that once a firm has achieved a superior growth rate, it has a compulsion or incentive to maintain the rapid growth of sales or profits. In the long run when growth rate for one or several firms within an industry is higher than that for the industry as a whole-some firms with below-average growth rates leave the industry. As the industry become oligopolistic each firm may find it difficult to maintain its growth rate. For that it will search for foreign markets with new products. As the firm prefers to cross the political boundaries with its traditional product lines FDI occurs.

2.2.3 Product life-cycle theory

This theory holds that as a firm matures, it may recognize additional opportunities outside its home country. The product cycle theory can be explained by the following diagram:

The International Product Life Cycle



2.2.4 Internalization theory of FDI

This theory asserts that firms prefer FDI when they perceive that net benefits of other joint ownership of domestic and foreign activities are more than external trading relationships and is primarily concerned with identifying the situations in which the markets for intermediate products are likely to be internalized and those in which firms own and control value-adding activities outside their natural boundaries.

2.2.5 Macroeconomic theory of FDI

Macro economic theory of FDI showed that Japanese FDI is primarily 'trade oriented' and responds to the principles of comparative advantage. On the other hand, US FDI is mainly 'anti trade oriented' and conducted within an oligopolistic market structure and operates to the long-term disadvantage of both the source and the host countries.

According to him FDI should be undertaken by firms that produce intermediate products that require resources and capabilities in which the home country has a comparative advantage but on the contrary comparative disadvantage in generating value-added activities that require resources and capabilities.

2.2.6 Eclectic theory of international production

The 'eclectic theory' of FDI combines the ownership advantage from the industrial organization approach with the location advantage associated with the product cycle.

2.2.7 Transactional theory

A transactional theory of MNE (Multinational Enterprises) focused on the following three issues: i). Horizontal multi-plant firms ii).Vertical multi-plant firms and iii) Diversified MNEs

2.2.7.1 Horizontal integration—the "Intangible Asset" theory

It has been empirically observed that plants in different countries under common control of an MNE tend to have greater profitability through lower costs than if they operate under different managements. An explanation for this behavior is found in some peculiar characteristic which an MNE possesses—some "intangible asset"—unique to the firm. Such intangible asset may be in the form of a special skill—technology, know-how—or it may be in the form of a trade mark, or special skill in marketing a product..

2.2.7.2 Vertical integration

An MNE can exist in vertical integration as well. Suppose a processing firm needs information about future prices and available raw materials for its production plans. The producers of that raw material may withhold that information. In such a case, the processing firm stands to gain by vertical integration.

2.2.7.3 Diversified MNEs

Multinational firms can be divided into a third category—the diversified MNE. According to Caves, since foreign investment is a "risky activity", an MNE could diversify its risks by investing across countries. Economic conditions are generally uncorrelated across countries. Therefore, adverse economic conditions, government's policy changes, etc. could have a downward effect on investments in a country, but if investments were spread among countries, such losses could be wholly or partially offset by gains in another country.

2.3 Motives and Effects of Foreign Direct Investment

MNCs commonly consider the direct foreign investment because it can improve their profitability and enhance shareholder wealth. In most case, MNCs engage in FDI because they are interest in boosting revenues, reducing costs, both.

2.3.1. Revenue related motives

2.3.1.1 Attract new sources of demand

A corporation often reaches a stage when growth is limited in its home country, possibly because of intense competition. Even if it faces little competition, its market share in its home country may already be near its potential peak. Thus, the firm may consider of foreign markets where there is potential demand.

2.3.1.2 Enter profitable market

If other corporations in the industry have proved that superior earnings can be realized in other markets, an MNC may also decides to sell in those markets. It may plan to undercut the prevailing, excessively high prices. A common problem with this strategy is that previously established sellers in a new market may prevent a new competitor attempts to break in to this market.

2.3.1.3 Exploit monopolistic advantages

Firm may become internationalized if they possess resources or skills not available to competing firms. If a firm possesses advanced technology and has exploited thess advantages successfully in local markets, the firm may attempt to exploit it

internationally as well; In fact the firm may have a more distinct advantage in markets that have less advanced technology.

2.3.1.4 React to trade restriction

In some cases, MNCs use FDI as a defensive rather than an aggressive strategy. Specifically, MNCs may pursue DFI to circumvent trade barriers.

2.3.1.5 Diversify internationally

Since economies of countries do not move perfectly in tandem over time, net cash flow from sales of products across countries should be more stable than comparable sales of the products in a single country. By diversifying sales (possibly even production) internally, a firm can make its net cash flow less volatile. Thus the possibility or liquidity deficiency is less likely. In addition, the firm may enjoy lower cost of capital as shareholders and potential benefits to MNSs that diversify internationally are examined more thoroughly.

2.3.2. Cost related motives

MNCs also engage in DFI in an effort the reduce costs. The following are typically motives of MNCs that are trying to cut costs.

2.3.2.1. Fully benefit from economics of scales

A corporation that attempt to sell its primary products in new markets may increase its earnings and shareholders wealth due to economies of scales (lower average cost per unit resulting from increased production). Firm that use much machinery are most likely to benefit from economies of sales.

2.3.2.2. Use foreign factors of production

Labor and land cost can vary dramatically among countries. MNCs often attempt to set up production in location where land and labor are cheap. Due to market imperfections such as imperfect information, relocation transaction cost and barrier to industry entry, specific labor costs do not necessarily become equal among markets. Thus, it is worthwhile for MNCs to survey markets to determine where they can benefit from cheaper cost by producing in those markets.

2.3.2.3. Use foreign new raw materials

Due to transaction costs, a corporation may attempt to avoid importing raw materials form a given country, specially where it plans to sell the finished products back to consumers in that country. Under such circumstances a more feasible solution may be to develop the product in the country where the raw materials are located.

2.3.2.4. Use foreign technology

Corporations are increasingly establishing overseas plants or acquiring existing overseas plants to learn the technology of foreign countries. This technology is then used to improve their own production processes and increase production efficiency at all subsidiary plants around the world.

2.3.2.5. React to exchange rate movement

When a firm perceives that a foreign currency is undervalued, the firm may consider DFI in that country as the initial outlay should relatively low.

Table -2.1

Summary of Motives for Foreign Direct Investment

Revenue related Motive		
1	Attract new sources of demand	Establish a subsidiary or acquire a competitor in a new market.
2	Enter market where superior profits are possible	Acquire a competitor that has controlled it local market.
3	Exploit monopolistic advantages	Establish a subsidiary in a market where competitors are unable to produce the identical product; sell products in that country.
4	React to trade restriction	Establish a subsidiary in a market where tougher trade restrictions will adversely affected the firm's port volume.
5	Diversify internationally	Establish a subsidiary in markets whose business cycles differ from those where existing subsidiaries are based.
Cost –Related Motive		
6	Fully benefit from economies of scale	Establish a subsidiary in a new market that sells products produced elsewhere; this allows for increased production and possibly greater production efficiently.
7	Use foreign factor of production	Establish a subsidiary in a market that has relatively low costs of labor or land; sell the finished products to countries where the cost of production is higher.
8	Use foreign raw materials	Establish a subsidiary in a market where raw materials are cheap and accessible; sell the finished products to countries where the raw materials are more expensive.
9	Use foreign Technology	Participate in a joint venture in order to learn about a production process or other operation.
10	React to exchange tare movement	Establish a subsidiary in a market where the local currency is weak but is expected to strengthen over time.

Motives of FDI can be divided into following three forms:

i) **Resource orientation:**

This is the case in which firms are established to develop such natural resources like oil and minerals or forestry and maritime resources at the source.

ii) **Market orientation:**

When new export markets are developed to some extent, there are cases in which in the next stage the establishment of the firms at the market for direct production and sale are more favorable. Market size matters for domestic market oriented FDI (ADB Institute, 2006).

iii) **Factor orientation:**

Among the factors of production, labor movement is subject to greater legal restriction than that of capital. According World Development Report, 2006 four main motives influence investment decisions by TNCs are (1) Market-seeking, (2) Efficiency-seeking,(3) Resource-seeking (all of which are asset exploiting strategies) and (4) created-asset-seeking (an asset-augmenting strategy.)

2.3.3.1 Effects of Foreign Direct Investment

List of major effects that take place due to foreign direct investment are described by Lindblad (1998) and Saravanamutto (1999) which are as follows:

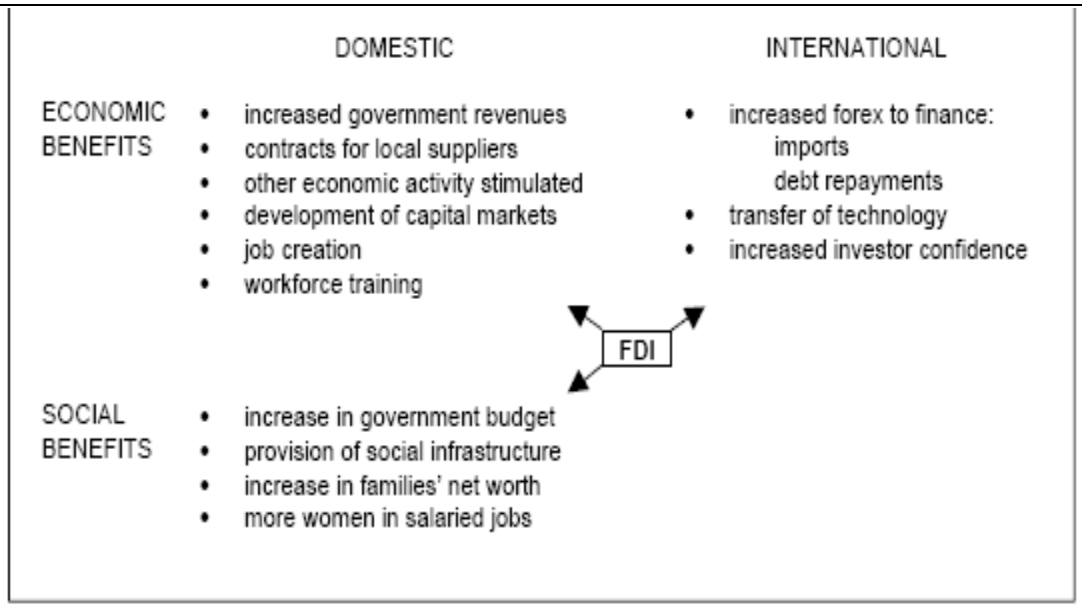
i. Income effects
ii. Employment effects
iii. Balance of payments effects
iv. Structural effects

v. Technology transfer effects

vi. Market effects

vii. Taxation effects

Box: 1 Possible Developmental Benefit from Foreign Direct Investment



Source: Saravanamutto, N. (1999)

FDI has positive effect both for the investing country as well as for the investors which can be shown in the following ways:

To Host Country	To Investor
Capital for investment	Extension of market
Foreign exchange	Higher ROCE
Employment	Access to skilled labor
Technology	Reduced transport costs
Training	Lower production costs
Increase in demand	Acquisition
Exports	Regional production base
Tax Revenue	Regional management base

Source: KDI School of Public Policy and Management

2.4 Components of Foreign Direct Investment

FDI comprises of basically three components: equity capital, reinvested earnings and intra-company loans. Equity capital is the foreign direct investor's purchase of shares of an enterprise in a country other than its own. Reinvested earnings equal the direct investor's share of earnings (in proportion to direct equity participation), not distributed as dividends by affiliates, or earnings not remitted to the direct investor. Such retained profits by affiliates are reinvested. Intra-company loans are intra-company debt transactions, and refer to short or long-term borrowing and lending of funds between direct investors (parent enterprise) and affiliated enterprises (BOI, 2010). The three components of Foreign Direct Investment (FDI) are as follows.

1. Equity capital: Direct investor's purchase of share of an enterprise in another country.
2. Reinvestment Earnings: Direct investor's shares of profits not distributed as dividend or remitted to it which is reinvested.
3. Intra company loans: Debt transactions between parent enterprises and affiliates.

2.4.1. Equity capital

Remittance received by the incorporated or unincorporated direct investment enterprises operating in Bangladesh on account of equity participation in these by the nonresident direct investors. Equity capital comprises:

a) Ordinary share

This item represents the total paid-up capital against issue of ordinary shares.

b) Revaluation and capital reserve

This item comprises revaluation reserve, capital reserve, non-remittable special capital reserve, non-distributable special reserve and premium on shares.

c) Share money deposit

These are the deposits of the shareholders to get ordinary shares in future.

d) Other reserve

This item comprises tax holiday reserve, reserve for bonus shares, general reserve, special reserve etc.

2.4.2. Reinvestment earnings

Direct investor's shares of profits not distributed as dividend or remitted to it which is reinvested.

2.4.3. Intra-company loan

Intra-company loans or intra-company debt transactions refer to short or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises. The traditional distinction between short and long term maturity based on the formal criterion of original maturity retained.

a) Short-term debt

Short-term loan is defined as the debt with an original maturity of one year or less. It includes loans, overdrafts, supplier's credit, buyer's credit; deferred payment etc. of a resident enterprise borrows from direct investors.

b) Long-term debt

Long-term debt is defined as debt with an original maturity of more than one year. It includes loans, overdrafts, supplier's credit, buyer's credit; deferred payment etc. of a resident enterprise borrows from direct investors.

c) Trade credit and accounts payable (liability)

Trade credit may arise due to direct extension of credit by buyers (nonresident) to the reporting enterprise for goods and services transactions. It also arises due to advance payment by nonresidents to the reporting enterprises for "work that is in progress or to undertaken". Trade Credit increases due to purchase (foreign) or import of goods (yarn, raw materials etc.) from non-resident and decreases when its value is paid. It is called accounts payable.

d) Trade credit and accounts receivable (claims)

Trade credit may arise due to direct extension or credit by suppliers (reporting enterprises) to nonresidents for goods and services transactions. Trade credits increases due to export of goods to nonresidents and decrease when its value is received. It is called accounts receivable.

e) Other debt

Other short-term debt covers money market instruments, such as bills, commercial papers, and bank's acceptances that usually give the holder the conditional right to receive a stated, fixed sum of money on a specific date. It also includes debt securities that have been sold under repurchase agreements. In long-term it is also covers debt securities that have been sold under repurchase agreements and debt securities that have lent under a securities leading agreement.

f) Bonds and notes

It covers bond, debentures and notes that usually give the holder the unconditional right to a fixed cash flow or contractually determined variable money income.

2.4.4. Equity securities

A security is defined as an instrument that is traded or tradable. It covers all instruments, and records acknowledging, after the claims of all creditors have been met, claims to the residual values of enterprise. Equity security comprises of ordinary share and preference share.

External debt:

Gross external debt, at any specific time, is the outstanding amount of those actual current, and not contingent, liabilities that require payments of principal and/or interest by the debtor at some points in the future and that are owed to non-residents by residents of a country.

2.5. Methods of Foreign Direct Investment:

2.5.1 International Trade

International Trade is a relatively conservative approach that can be used by firms to penetrate markets (by exporting) or to obtain supplies at a low cost (by importing). This approach entails minimal risk because the firm does not place any of its capital at risk. If the firm experiences a decline in its exporting or importing, it can normally reduce or discontinue this part of its business at a low cost. Many firms use their websites to list their products that they sell, along with the price of each product. Firms also use their website to accept orders online. Some products such as software can be delivered directly to the importer over the internet in the form of a file that land in the importer's computer. Other products must be shipped, but the Internet makes it easier to track the shipping process. An importer can transmit its order for products via e-mail to the exporter. (Madura J., 2000.)

2.5.2. Licensing

Licensing obligates a firm to provide its technology (copy rights, patents, trade marks or trade names) in exchange for fees or some other specified benefits. For example AT

& T and Verizon Communications have licensing agreements to build and operate parts of India's telephone system.

2.5.3. Franchising

Franchising obligates a firm to provide a specialized sale or service strategy, support assistance, and possibly an initial investment in the franchise in exchange for periodic fees. For example McDonald's, Pizza Hut, Subway Sandwiches, Blockbuster Video and dairy Queen have franchises that are owned and managed by local residents in many foreign countries. Like Licensing franchising allows firms to penetrate foreign markets without a major investment in foreign countries.

2.5.4 Joint Ventures

Foreign joint ventures have much in common with licensing. The major difference is that in joint ventures, the international firm has an equity position and a management voice in the foreign firm. This type of agreement is very popular in international management. Its popularity stems from the fact that it permits the avoidance of control problems of the other types of foreign market entry strategies. In addition, the presence of the local firm facilitates the integration of the international firm in a foreign environment.

2.5.5. Strategic Alliances

A strategic alliance is a term used to describe a variety of cooperative agreements between different firms, such as shared research, formal joint ventures, or minority equity participation. The modern form of strategic alliances is becoming increasingly popular and has three distinguishing characteristics:

- they are usually between firms in high - industrialized nations

- the focus is often on creating new products and technologies rather than distributing existing ones
- They are often only created for short term durations.

2.5.6. Direct Investments

In this arrangement, the international firm makes a direct investment in a production unit in a foreign market. It is the greatest commitment since there is a 100% ownership. There are two primary ways for direct investments: firms can make a direct acquisition in the host market or they can develop its own facilities from the ground up and this form is called Greenfield investment.

2.5.7. Acquisitions of existing operations

MNCs frequently acquire existing operations in foreign countries to penetrate those markets. But this method exposes the firm to large capital loss since it requires the firms to make large investment.

2.5.8. Establishing new foreign subsidiaries

Firms can penetrate foreign markets through establishing subsidiaries. This method also exposes firms to large capital loss due to the required large investment.

There are potential investment opportunities in the South Asia countries because of the diverse incentives provided. The evidence of such potentials is observed through recent trends in FDI inflows into South Asia, enlarged by 32% amounting to US$ 4 billion in 2001 whereas worldwide FDI inflows fell by 51%.

2.6. Types of Foreign Direct Investment:

In above issues there are other consideration and types of foreign direct investment which are outlined in sequential ways below:

2.6.1 General FDI

General FDI entails establishment of new production facilities and movement of intangible capital (in services) contributing to capital formation and employment generation.

2.6.2. Cross-border M & A

Cross-border M & A end up transferring production assets to foreign investors and does not increase capital stock.

2.6.3. Round-tripped investment

Round-tripped investment involves channeling of local investor's funds abroad and subsequent return to local economy in the form of direct investment.

2.6.4. Trans-shipped investment

Trans-shipped investment or investment mainly intended for FDI in some other country does not increase capital stock.

2.7 Barriers to Foreign Direct Investment:

The available literature and studies suggest that in spite of having several positive contributions of FDI for the development of a country it is not free from limitations. The major shortcomings of FDI in a country and their impact are delineated below:

2.7.1 Protective barriers

When MNCs consider engaging in FDI by acquiring a foreign company, they may face various barriers imposed by host government agencies. All countries have one or more government agencies that monitor mergers and acquisitions. These agencies may prevent am MNC from acquiring companies in their country if they believe it will attempt to lay off employees. They may even restrict foreign ownership of any local firms.

2.7.2 Red tape barriers

An implicit barrier to FDI in some countries is the “red tape” involved, such as procedural and documentation requirements. An MNC pursuing DFI is subject to a different set of requirement in each country. Therefore, It is difficult for an MNC to become prescient at the process unless it concentrates on FDI within a single foreign country. The current efforts to make regulations uniform across Europe have simplified the paperwork require acquiring European form.

2.7.3 Industry barriers

The local firms of some industries in particular countries have substantial influence on the government and will likely use their influence to prevent competition from MNC

that attempt FDI. MNCs that consider FDI need to recognize the influence that these local firms have on the local government.

2.7.4 Ethical difference

There is no consensus standard of business conduct that applies to all countries. A business practice that is perceived to be unethical in one country may be totally ethical in other country. For example, U.S. based MNCs are well were that certain business practices that are accepted in some less developed countries would be illegal in the United States. Bribes to government in order to receive special tax breaks or other favors are common in some countries. MNCs do not participate in such practices, they may be at a competitive disadvantage when attempting FDI in particular country.

2.7.5 Environmental barriers

Each country enforces its own environmental constraints. Some countries may enforce more of these restrictions on subsidiary whose parent is based in different country. Building code, disposal of productions, waste materials and pollution controls are example of restrictions that force subsidiaries to incur additional costs. Many European countries have recently imposed tougher antipollution laws as a result of severe problems.

2.7.6 Regulatory barriers

Each country also enforces its own regulatory constraints pertaining to taxes, currency convertibility, earnings remittances, employee rights and other policies that can affect cash flows of a subsidiary established there. Because these regulations can influence cash flows, financial manager must consider them when assessing policies. Also, any change in these regulations may require revision of existing financial policies, so

financial managers should monitor the regulations for any potential changes over time. Some counties may require extensive protection of employee right. If so, managers should attempt to reward employees for efficient productions so that the goals of labor and shareholders will be closely aligned.

2.7.7 Political instability

The governments of some countries may prevent DFI. If a country is susceptible to abrupt changes in government and political conflicts, the feasibility of FDI may be dependent on the outcome of those conflicts. MNCs want to avoid a situation in which they pursue DFI under a government that is likely to be removed after FDI occurs.

2.8 Key Findings on previous studies

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. There is global race for attracting FDI, but how much it can contribute to host country's economic development is a matter of assessment. The following is an attempt to sketch out the findings of studies conducted at home and abroad.

2.8.1 International Studies

Piotr (2010) examined the influence of FDI on the economic growth in the Romania in period of 2000-2009 using the Vector Auto regression Model (VAR) and found linear relationship between FDI and economic growth. Pattama (1999) analyzed the long run relationship between FDI and domestic investment in case of Thailand. He found that FDI has a significant and positive long term effect on domestic investment in

Thailand. Jung et al. (2008) analyzed the correlation between FDI inflows, exchange rate, and economic growth of Kazakhstan by a multivariate regression model with weighted least squares estimates. The results revealed the minimum significant impact of FDI on GDP growth of Kazakhstan.

The majority of studies (e.g., Balasubramanyam. et al, 1996 conclude that FDI contributes to total factor productivity and income growth in host economies, over and above what domestic investment would trigger. The studies find, further, that policies that promote indigenous technological capability, such as education, technical training, and R&D, increase the aggregate rate of technology transfer from FDI and that export promoting trade regimes are also important prerequisites for positive FDI impact. Horstmann and Markusen (1996) and Nicholas (1994) found that foreign firms first license local agents or export to a country as a way of information acquisition before investing locally to avoid agency fees. Carkovic and Levine (2002) show that marginal macroeconomic impacts, with FDI actually crowding out local investments and other types of foreign flows in some countries, adversely affect their current accounts.

Abdul et al. (2009) conducted an analysis by using the data collected over the period of 1975-2008 and identified the determinants of FDI and its impact on GDP growth in Pakistan through different statistical tests and found positively significant impact of FDI on GDP growth of Pakistan. Furthermore, these results indicate that market size, trade openness / access to international market and quality of labor are the major determinants that have significant affect on the FDI inflow. The study also found no affect of market potential and communication facility on the attraction of FDI inflow in Pakistan. Aitken and Harrison (1999) had evaluated the contribution of FDI to

domestic productivity and found positive impacts of FDI on economic development. Again, Levine et al. (2000) found negative results on economic development.

Borenszteina et al. (1998) examined the data on FDI inflows of sixty nine developing countries by regression framework. In his study he found the importance of FDI as a means of transferring technology that contributes more to growth than domestic investment. Like other developing country, FDI plays significant role in economic development in Bangladesh. Bengoa and Sanchez-Robles (1997) examined the relationship between the FDI and the economic growth. He showed that there is a positive correlation between FDI and economic growth. In this connection, with a view to getting benefit from long term FDI inflows, human capital, stable economic condition and liberalized markets are required in host countries.

Balasubramanyam et al. (1996) examined the impact of FDI on economic growth in developing economies using ordinary least squares. Applying the export promotion strategy, they sound positive and significant import of FDI on economic growth in developing countries. Simultaneously, it also showed that such relations do not exist in developing countries applying the import substitution strategy.

In another study, Rothgeb (1984) found immediate troublesome effect of FDI flows on developing countries. This effect would overcome after a short period of time, with positive impacts on growth. Rothgeb (1984) used his model to explore the impact of foreign investment on the growth of Bangladesh and found that FDI has a positive impact on growth. He also found a strong positive effect of the change in the level of domestic investment on growth. FDI has also proved to be resilient during financial crises. Loungani and Razin (2001) point out that such investment was remarkably stable in East Asian countries during the global financial crises of 1997-98 in contrast

to portfolio equity and debt flows, which are subject to large reversals during the same period.

Velde and Bezemer (2004) argued that membership of a region leads to further extra regional FDI inflows, but the type of regional provisions matters. They also mentioned that the position of countries within a region also matters. While Hanson (2001) states that all FDIs do not generate positive spill over for host economies.

Mallampally and Sauvant (1999) observed that the importance of FDI also lies in the fact that it not only a means of transferring technology and skills and managerial practices, but also of accessing international marketing networks. The greater the supply and distribution links between foreign affiliates and domestic firms, and the stronger the capabilities of domestic firms to learn from the presence and competition from foreign firms, the more likely it is that the qualities/attributes of FDI that enhance productivity and competition will spread. Mabey and McNally (1999) found that FDI by foreign companies in overseas subsidiaries or joint ventures has a traditional reliance on natural resource use and attraction, particularly agriculture, mineral and fuel production.

It is revealed that preference varies among the member countries of specific region. Sahoo (2006) indicates that the major determinants of FDI in South Asia are market size, labor force growth, infrastructure index and trade openness. While, the most significant and influential factors are market size and labor force growth. Ahmed (1993) finds that FDI plays an important role in the process of industrialization and economic growth in the developing countries. Most of the countries in the world have recognized that FDI by Transitional Corporations (TNCs) contributes in many ways to

the process of economic growth of the host countries. Since 1980s, there has been a dramatic shift in the attitude of developing countries towards FDI.

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

Kumer. (2002) revealed that Foreign Direct Investment (FDI) has emerged as the most important source of external resources flows to developing countries over the 1990s and has become a significant part of capital formation in the country despite their share in global distribution of FDI continues to remain small or even declining. Ikiara (2003) proposed that compared to foreign bank loans and portfolio investment, the capital flow into productive capacity, and is largely motivated by prospects of long–term profitability.

Determinant wise Studies

Artige and Nicolini (2005) stated that market size as measured by GDP or GDP *per capita* seems to be the most robust FDI determinant in econometric studies. Jordaan (2004) mentioned that FDI will move to countries with larger and expanding markets and greater purchasing power, where firms can potentially receive a higher return on their capital and by implication receive higher profit from their investments.

Charkrabarti (2001) observed that the market-size hypothesis supports an idea that a large market is required for efficient utilization of resources and exploitation of economies of scale: as the market-size grows to some critical value, FDI will start to increase thereafter with its further expansion. This hypothesis has been quite popular

and a variable representing the size of the host country market has come out as an explanatory variable in nearly all empirical studies on the determinants of FDI.

Lunn (1980), Schneider and Frey (1985) and Culem (1988) found a significantly positive effect of growth on FDI, while Tsai (1994) obtains a strong support for the hypothesis over the period 1983 to 1986, but only a weak link from 1975 to 1978. Nigh (1985) reported a weak positive correlation for the less developed economies and a weak negative correlation for the developed countries. Ancharaz (2003) found a positive effect with lagged growth for the full sample and for the non-Sub-Saharan African countries, but an insignificant effect for the Sub-Saharan Africa sample. Gastanaga *et al.* (1998) and Schneider and Frey (1985) found positive significant effects of growth on FDI. So Bangladesh should be concerned enough to ensure high growth rate to attract satisfactory rate of FDI.

Charkrabarti (2001) mentioned that there is mixed evidence concerning the significance of openness, which is measured mostly by the ratio of exports plus imports to GDP, in determining FDI, as well. The maintained hypothesis is: given that most investment projects are directed towards the tradable sector, a country's degree of openness to international trade should be a relevant factor in the decision.

Jordaan (2004) found that the impact of openness on FDI depends on the type of investment. When investments are market-seeking, trade restrictions (and therefore less openness) can have a positive impact on FDI. Kravis and Lipsey (1982), Culem (1988), Edwards (1990) find a strong positive effect of openness on FDI and Schmitz and Bieri (1972) obtain a weak positive link. Pärletun(2008) finds that trade openness is positive but statistically significant from zero.

Charkrabarti (2001) observed that wage as an indicator of labor cost has been the most contentious of all the potential determinants of FDI. Theoretically, the importance of cheap labor in attracting multinationals is agreed upon by the proponents of the dependency hypothesis as well as those of the modernization hypothesis, though with very different implications. There is, however, no unanimity even among the comparatively small number of studies that have explored the role of wage in affecting.

Other researchers also demonstrated that higher wages discourage FDI. Tsai (1994) obtained strong support for the cheap-labor hypothesis over the period 1983 to 1986, but weak support from 1975 to 1978. In ODI (1997), it is stated that empirical research has also found relative labor costs to be statistically significant, particularly for foreign investment in labor-intensive industries and for export-oriented subsidiaries.

Jordaan (2004) found that good quality and well-developed infrastructure increases the productivity potential of investments in a country and therefore stimulates FDI flows towards the country. According to Asiedu (2002) and Ancharaz (2003), the number of telephones *per* 1,000 inhabitants is a standard measurement in the literature for infrastructure development. However, according to Asiedu (2002), this measure falls short, because it only captures the availability and not the reliability of the infrastructure.

Jaspersen *et al*. (2000) and Hausmann and Fernandez-Arias (2000) found no relationship between FDI flows and political risk. Schneider and Frey (1985) observed an inverse relationship between the two variables. Using data on U.S. FDI for two time periods, Loree and Guisinger (1995) found that political risk had a negative impact on FDI in 1982 but no effect in 1977. Edwards (1990) uses two

indices, namely political instability and political violence, to measure political risk. In Bangladesh the probability of a change of government, violent riots and politically motivated strikes are the barriers of FDI.

2.8.2 Domestic Studies

The literature related to FDI in Bangladesh is limited in nature. Here is an attempt has been to highlight the major works conducted concerning FDI's in Bangladesh.

Arif (2012) examined the Foreign Direct Investment for Bangladesh Perspective. In his study he showed that Bangladesh cannot properly negotiate with the giant foreign investors due to the weak bargaining power of the government and officials. 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.

Azam (2010) observed the impacts of exports and FDI on economic growth of South Asian countries namely Bangladesh, India, Pakistan and Sri Lanka with simple log linear regression model using secondary data ranging from 1980 to 2009 and found that due to promotion of exports, economic growth of each country would increase. He also found FDI as positively significant at 1% level of significance for Bangladesh and Pakistan, while for India it's insignificant and in case of Sri Lanka though it is significant but with unexpected negative sign.

Amir (2009) examined the impacts of Foreign Direct Investment on Bangladesh's Balance of Payment (BOP). In his study reports he showed that there is high positive correlation between FDI inflows and Bangladesh's aggregate exports and imports. The net impact on the current account balance and the balance of payments is positive. Bangladesh's investment incentives and regulations for FDI are found competitive with those offered by similar other countries. Effective implementation of these measures and success in attracting higher FDI inflows, however, needs significant institutional reforms, radically reduced levels of control, better provision of essential infrastructures, perceived improvement in investment climate, and sustained socio-political stability.

Quader (2009) applied extreme bounds analysis to the data of the various catalyst variables of FDI inflows in Bangladesh. He found FDI and domestic investment have a positive effect on economic growth. Mottaleb (2007) studied the determinants of FDI and its effect on economic growth in developing countries. He studied panel data of FDI flows of sixty low-income and lower-middle income countries and found that FDI has an important effect on economic growth of third world countries by creating bridge between the gape of domestic savings and investment and familiarizing the up to data technology and management skill from developed countries.

Kabir (2007) observed that FDI plays pivotal role in providing Bangladesh, the necessary finance and capital to achieve sustainable growth as well as poverty alleviation. FDI inflows have been able to increase GDP by raising the economy's output capacity and full employment level. FDI can provide the necessary tools for Bangladesh to progress further and realize higher growth levels by utilizing all its resources to their fullest potential.

Chapter-3

Administration of Foreign Direct Investment in Bangladesh

Foreign Direct Investment (FDI) is taking place in Bangladesh by the investors under certain rules and regulations, some policy prescriptions and guidelines provided by the government through their different policy issues. This chapter is an attempt to highlight the administrative and regulatory setup under which FDI's are taking place in Bangladesh.

3.1 Bangladesh Small and Cottage Industries Corporation (BSCIC)

Bangladesh Small and Cottage Industries Corporation (BSCIC) provide comprehensive services to development and expansion of small and cottage industries. Create a cluster of reliable quality and competitive supply source to the large foreign investments. BSCIC provides medium and long term loan to small industries, either directly, or through consortium of commercial banks. BSCIC also provides assistance in all other matters relating to development and expansion of Small and Cottage Industries (SCI). The Bangladesh Small and Cottage Industry Corporation (BSCIC) is the official body which monitors the development of self-employment, cottage industries and small enterprises. It produces statistics on the types of enterprises, their activities and the number of people employed. Bangladesh Small and Cottage Industry Corporation (BSCIC) is a corporate body, and it Provides services to the private sector entrepreneurs in creation of new capacity and maximization of existing capacity

through its 4 divisional and 64 district offices. Besides, BSCIC also providing services to the private sector entrepreneur, artisans, unemployed, youths through its Design Center and Small and Cottage Industries Training Institute (SCITI). To improve the overall efficiency, BSCIC has received assistance from World Bank under the EGBMP (Enterprise Growth and Bank Modernization) project for its capacity building through implementing the Technical Assistance (TA) project, BSCIC (ISBBPB).

The its major functions of (BSCIC) are

i. Promotion and registration of small and cottage industries
ii. Conducting advisory and industrial promotion services including training of entrepreneurs
iii. Skill development for artisans and craftsmen
iv. Creation of jobs for SCIs
v. Construction and development of industrial estates with necessary infrastructural facilities for SCI
vi. Development of linkages between SCIs and large and medium sized industries.
vii. Online Service for registration of Industry, Application for Industrial plots, Application for Training facilities will be provide very soon. At present forms for different

3.1.1 FDI policy framework and incentives

i. Tax exemption on royalties, technical how know and technical assistance fees and facilities for their repatriation.
ii. Tax exemption on interest and foreign loan
iii. Tax exemption on capital gains from transfer of share by the investing company.
iv. Remittance of up to 50% o salaries of the foreign employed in Bangladesh and facilities for repatriation of their savings and retirement benefits at the time of their return
v. No restriction on issuance of work permits to project related to foreign nationals and employees.

vi. Facilities for repatriation of invested capital, profit and dividends.

vii. Provision of transfer of shares held by foreign share holders of local investors.

viii. Take the Bangladeshi currency would be convertible for international payments for the foreign investors.

ix. Reinvestment of remittable dividends would be treated as new investments.

x. Level playing field: Foreign owned companies duly registered in Bangladesh will be on the same footing as locally owned ones.

xi. Foreign investment in Bangladesh is secured and highly profitable.

xii. According the available records on foreign investor has ever lost money in Bangladesh.

xiii. Extremely competitive labor costs, perhaps the lowest in Asia.

xiv. Easily trainable workforce of 56 million.

xv. A large domestic market, with disposable income growing especially among the middle class.

xvi. Strategic location as the bridge between South and East Asian high-growth regions as well as links with other markets e.g. India, Pakistan, Malaysia, Singapore etc.

xvii. Low land and energy costs.

xviii. Good road / bridge / rail infrastructure, which are being improved; two sea-ports being further developed.

xix. Enjoys Most Favored Nations status.

xx. Legal protection to foreign investment against nationalization and expropriation.

xxi. Equitable treatment with local investors regarding indemnification, compensation etc.

3.1.2 Fiscal incentives for industries

i. Corporate Tax holiday of 5 to 7 years for selected sectors.

ii. Reduced tariff on import of Raw materials capital machineries.

iii. Bonded warehousing facility.

iv. Accelerated depreciation on cost of machineries id admissible for new industrial undertaking (50% in the first year of commercial production, 30% in the second year, and 20% in the third year).

v. Tax exemption on capital gains from the transfer of share of public limited companies listed with stock exchanges.

vi. Reduction of corporate Tax for 5 to 7 years in lieu of tax holding and agricultural depreciation.

3.1.3 Financial incentives for export oriented industry

i. Cash Incentives and export subsidies ranging from 5% to 20% granted on the FOB value of the selected products.

ii. 90% loan against letter of credits.

iii. Fund for export promotion.

iv. Export credit Guarantee scheme.

v. Permission for domestic market sales of up to 20% of export-oriented companies outside EPZ.

3.1.4 Additional facilities and incentives

i. 100% Foreign equity allowed

ii. Unrestricted exit policy.

iii. Remittance of Royalty, technical know-how and technical assistance fees.

iv. Full repatriation facilities of dividends and capital at exit.

v. Citizenship by investing a minimum of USD.5,00,000.00

vi. Permanent resident permits on investing USD.75,000.00

vii. An investor can wind up investment either through a decision of the AGM or EGM he or she can repatriate the sales proceeds after securing authorization from the Central Bank.

3.1.5 Special incentive for the power sector

i. The private power companies shall be exempted from corporate income tax for period of years.

ii. The companies will be allowed to import plan and equipments and spare parts at the % of the original value of total plant and equipment within a period of commercial operation.

iii. Without payment of customs duties vat and any surcharges as well as import permit fee except for indigenously produced according to international standards.

iv. Repatriation of equity along with dividends will be allowed freely.

v. Exemption from income tax in Bangladesh for foreign lender to such companies.

vi. Tax exemption on royalties, technical know-how and technical assistances fees and facilities for other repatriation.

vii. Tax exemption on interest of foreign loan.

viii. Avoidance of double taxation in case of foreign investors on the basis of bilateral agreements.

ix. Remittance of up % of salary of the foreign employed in Bangladesh and facilities for repatriation of their savings and retirement benefits at the time of their return.

x. No restriction on issuance of work permits to project related to foreign nationals and employees.

xi. Provision of transfer of shares held by foreign share holders to local shareholders / investors.

xii. Re-investment of remittable dividend to be treated as new foreign investment.

xiii. Companies are eligible for all other concession which is available to industrial project.

xiv. License fees for captive power of taka, is waivered. (Privatization Act 1980)

3.2 Bangladesh Export Processing Zone Authority (BEPZA)

Bangladesh Export Processing Zone Authority (BEPZA) was established in 1980 to set up and operate export processing zones in Bangladesh with a view to providing a congenial investment climate free from procedural communications. Export Processing Zone (EPZ) are export oriented industrial enclaves that provide infrastructural facilities, administrative and support services to the investors along with rewarding incentives. In order to stimulate rapid economic growth of the country, particularly through industrialization, the government has adopted an 'Open Door Policy' to attract foreign investment to Bangladesh. The Bangladesh Export Processing Zone Authority (BEPZA) is the official argon of the government to promote, attract and facilitate foreign investment in the Export Processing Zone. The primary objectives of an EPZ is to provide special areas where potential investors would find a congenial investment climate, free form cumbersome procedures.

3.2.1 Objective of BEPZA

- Promotion of Foreign (FDI) & local investment
- Diversification of export
- Dev. Of backward & Forward linkages
- Generation of employment
- Transfer of technology
- Up gradation of skill
- Development of management

3.2.2 About EPZ

An Export Processing Zone (EPZ) is defined as a territorial or economic enclave in which goods may be imported and manufactured and reshipped with a reduction in duties / and/or minimal intervention by custom officials (World Bank 1999). EPZ Provides:

- Plots/factory BLDG in custom bonded area
- Infrastructural facilities
- Administrative facilities

- Fiscal & non-fiscal incentives
- EPZ attracts: foreign & local investment

3.2.3 Type of EPZ

- A – 100% foreign ownership 205 (58%)
- B – joint venture 49 (14%)
- C – 100% local venture 98 (28%)

3.3 Privatization Commission

After the independence of Bangladesh in 1971 all major industries like Jute, Textiles, and Chemicals etc. were nationalized under a nationalization programmed. In 1993, Privatization Board (new privatization commission) was set up and entrusted with the overall responsibility of privatizing state owned Enterprises that have been identified by the government. It is hereby enacted as follows:

a) "foreign capital" means capital invested in Bangladesh in any industrial undertaking by a citizen of any foreign country or by a company incorporated outside Bangladesh, in the form of foreign exchange, imported machinery and equipment, or in such other form as the Government may approve of the purpose of such investment;

b) "foreign private Investment" means investment of foreign capital by a person who is not a citizen of Bangladesh or by a company incorporated outside Bangladesh, but does not include investment by a foreign Government or an agency of foreign Government;

c) "industrial undertaking" means an industry, establishment or other undertaking engaged in the production or processing of any goods, or in the development and extraction of such mineral resources or products, or in the providing of such services, as may be specified in this behalf by the Government.

(2) Words and expressions used but not defined in this act shall have the same meaning as in the companies Act, 1913 (VII of 1913).

3.3.1.1 **Foreign private investment**

The Government may for the promotion of foreign private investment, sanction establishment with foreign capital of any industrial undertaking-

a) Which does not exist in Bangladesh and the establishment whereof, in the opinion of the Government, is desirable; or

b) Which is not being carried on the Bangladesh on a scale adequate to the economic and social needs of the country; or

c) Which is likely to contribute to the development of capital, technical and managerial resources of Bangladesh, discovery mobilization or better utilization of the natural resources, strengthening or the balance of payment of Bangladesh, increasing employment opportunities in Bangladesh, the economic development of the country in any other manner?

3.3.1.2 Protection and equitable treatment

The Government shall accord fair and equitable treatment to foreign private investment which shall enjoy full protection and security in Bangladesh.

3.3.1.3 Terms of sanction

The terms of sanction, permission of license granted by Government to on industrial undertaking having foreign private investment shall not be unilaterally changed so as to adversely alter the conditions under which the establishment of such undertaking was sanctioned; nor shall foreign private investment be accorded a less favorable treatment than what is accorded to similar private investment by the citizens of Bangladesh in the application of relevant rules and regulations.

3.3.1.4 Indemnification

-In the event of losses of foreign investment owing to civil commotion, insurrection, or riot, foreign private investment shall be accorded the same treatment with regard to indemnification, compensation, restitution, or other settlement as is accorded to investment by the citizens of Bangladesh.

3.3.1.5 Expropriation and nationalization

i. Foreign private investment shall not be expropriated or nationalized or be subject to any measures having effect of expropriation or nationalization except for a public purpose against adequate compensation which shall be paid expeditiously and be freely transferable.

ii. Adequate compensation for the purpose of sub-section (1) shall be an amount equivalent to the market value of investment expropriated or nationalized immediately before the expropriation or nationalization.

3.3.1.6 Repatriation of investment

i. In respect of foreign private investment, the transfer of capital and the returns from in and, in the event of liquidation of industrial undertaking having such investment, of the proceeds from such liquidation is guaranteed.

ii. The guarantee under sub-section (1) shall be subject to the right which, in circumstances of exceptional financial and economic difficulties, the Government may exercise in accordance with the applicable laws and regulations in such circumstances.

3.3.1.7 Removal of difficulty - If any difficulty arises in giving effect to any provision of this Act, the Government may make such order, not inconsistent with the provision of this Act, as may appear to it to be necessary for the purpose of removing the difficulty.

3.3.2 Procedure for obtaining facilities and services provided for setting up industries in Bangladesh

- The industrial Policy 1991 (revised in 1992) has clearly emphasized importance on the pole of the private sector in industrial development. The role of the government has been changed from regulatory to promotional. As a result of this policy, sanctioning and other procedures for obtaining different facilities and services have been simplified.

- Industrial Policy ensures equal treatment for local and foreign investment.

According to the policy on formal permission of the government is required to set up industries and for BMR/BMRE of the existing industries with the entrepreneurs' own fund or with the fund from private banks or private financing institutions. Industries set up under foreign loan, suppliers' credit, Pay-As-You-Earn (PAYE) scheme and non- repatriable foreign exchange are deemed to have been set up with own fund.

- However, for availing institutional facilities such as, import entitlement for raw materials under restricted list, infrastructure facilities (industrial plot, electric, gas, telephone, water & sewerage connection etc.) industries are required to be registered with the concerned sponsoring agency.

- To avail of the facilities and services provided by the BOI for setting up of industries the procedures mentioned below are the be followed by the entrepreneurs.

Registration of joint venture/100% foreign investment proposals in the private sector.

- No prior approval or No-Objection Certificate is required for setting up of a joint venture/100% foreign direct investment.

- To avail of facilities and the institutional support services provided by the govt. entrepreneurs/investors are advised to apply for registration to BOI in a simple prescribed for.

- Registration of self financed local investment proposals including industries sanctioned/financed by financial institutions or commercial banks.

- The entrepreneurs of such projects are the fill up a simple prescribed application form and submit to BOI for registration. After a first hand scrutiny of the information, BOI issues registration letter. (Privatization Act 1980).

3.3.3 Permission for setting up joint venture industrial units with the public sector corporations

An entrepreneur, either local or foreign, can set up an industry with Public Sector Corporation. Such joint venture is required to be registered with the BOI if the private

sector's contribution is more than 50% of the project cost and in such case it is treated as private sector project. For any public sector which makes contribution out of their own fund needs approval of the concerned ministry. If the contribution of the corporation is 50% or above, it is treated as a public sector project. The public sector project is processed by the concerned ministry for approval of the Planning Commission. (Privatization Act 1980)

3.3.4 Procedure for import of raw and pecking materials and spare parts by industrial units

No permission is required for import of free list items. For items in the restricted list, BOI, BEPZA and BSCIC are responsible for issuance of import entitlement. Import registration Certificate (IRC) will be issued by the concerned authority in the banned list cannot be imported unless otherwise specified.

3.3.5 Procedure for obtaining work permit

Work permit for foreign nationals is a pre-requisite for employment in Bangladesh. Private sector industrial enterprises desiring to employ foreign nationals are required to apply in advance in the prescribed from of BOI. For expatriate employment the guide-lines followed are:

a. Nationals of the countries recognized by Bangladesh are considered for employment.
b. Employment of expatriate personnel be considered only in industrial establishments which are sanctioned/ registered by the appropriate authority.
c. Employment of foreign nationals is normally considered for the job for which local experts/technicians are not avoidable and persons below 18 years of age are not eligible for employment.
d. Decision of the Board of Directors of the concerned company for one employment /extension is to be furnished.
e. Number of foreign employees should not exceed 5% of the total employees including top management personnel.
f. Initially employment of any foreign national is considered for a term of 2 years which is extensible on the basis of merit of the case.

g. Necessary security clearance by the Ministry of Home Affairs. (Privatization Act 1980)

3.3.6 Procedure for obtaining industrial plot

Entrepreneurs requiring industrial plot for setting up of an industry in any industrial areas/estates apart from BEPZA and BSCIC, may approach BOI mentioning the size of plot required by them along with copies of sanction/registration letter and industrial layout plan for justifying actual requirement. After receiving the application BOI provides assistance to get the industrial plot.

Most of the industrial areas/estates are owned/controlled by city development authorities in three divisional head quarters, RAJUK in Dhaka, CDA in Chittagong and KDA in Khulna. Besides these, there are a few industrial estates owned and controlled by some other government agencies namely, (a) Public Works Department and (b) Housing and Settlement Directorate.

BOI also recommends for acquisition of land to the concerned authorities if required by the industrial units. In such cases the entrepreneurs are required to submit relevant papers and information in connection with the land to be acquired by the Deputy Commissioners (D.C.) concerned. (Privatization Act 1980)

3.4 Board of Investment (BOI)

The Board of Investment (BO1) was established in 1989 by the Investment Board Act to encourage investment in private sector, to identify the hindrance of investment and provide necessary facilities and assistance in the establishment of industries. The Board, headed by the Prime Minister of the republic and represented by Ministers and Secretaries of the concerned ministries and public representatives and private sector peoples is vested with necessary powers to take decisions for speedy implementation of new industrial projects and provide operational support services to the existing ones (Investment Board Act 1989).

3.4.1 Functions of Board of Investment

3.4.1.1 Investment Promotion

- Country promotion
- Sector /industry promotions
- Publications cm business processes

3.4.1.2 Investment Facilitation

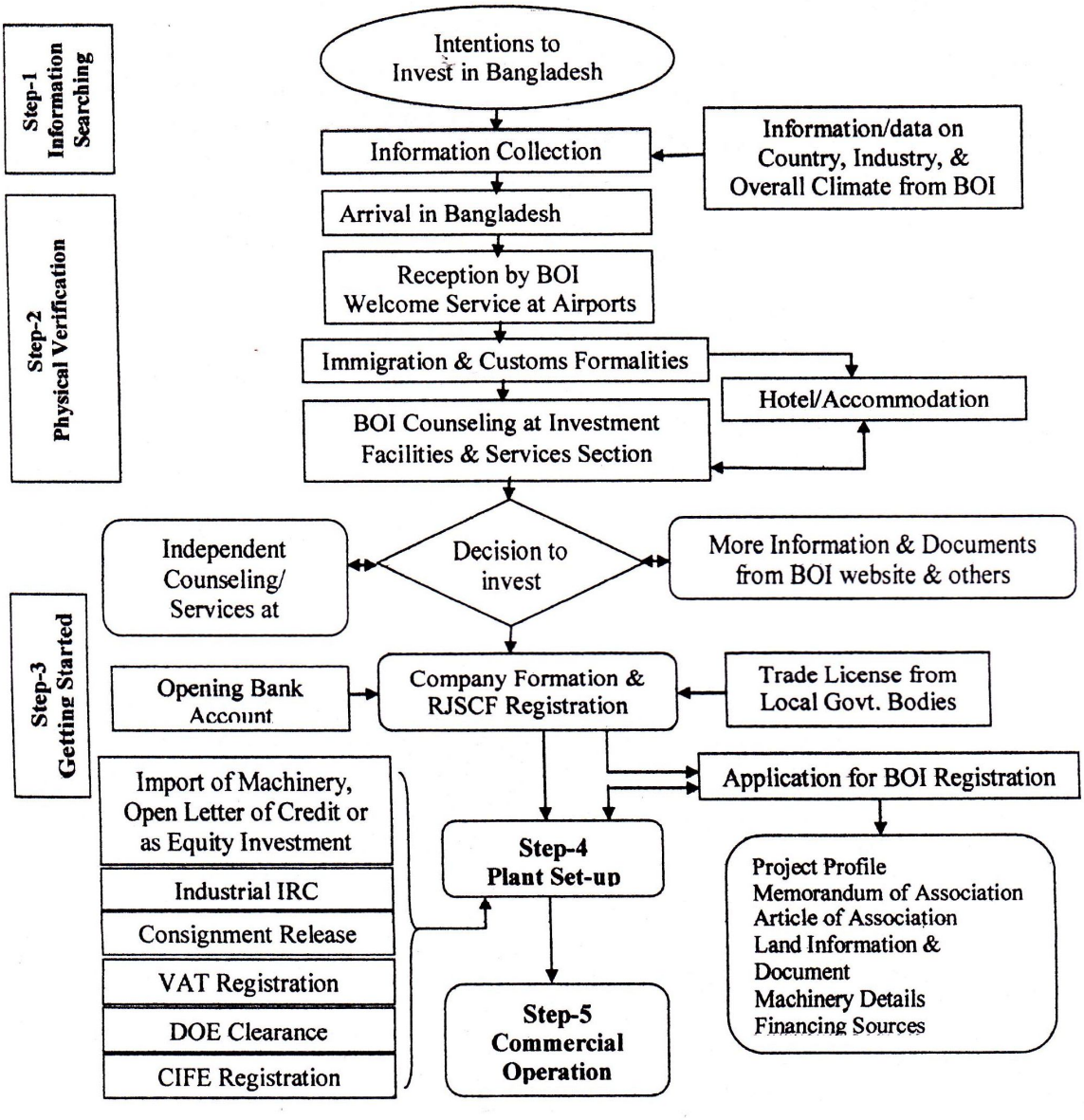
- Pre-investment information and counseling service.
- Registration/approval of foreign, joint-venture and local project.
- Approving work permit for the foreign nationals.
- Facilitating utility connections and assistance in obtaining industrial plots.
- Approving remittance of royalty, technical know-how and technical assistance fees.
- Approving foreign loan suppliers' credit, PA YE scheme etc.

3.4.1.3 Policy Advocacy

- Advocating policy suggestions to the government.
- Assisting the government in framing new policies for private sector development.
- Assisting the National Taskforce on investment climate facilitation.

3.4.2 Investment Procedure Road-Map

Implementing a private sector industrial project in Bangladesh either local, joint venture or 100% foreign follows a rather simplified process. Once an investor to do business n first thing is to have relevant, sufficient and reliable information on the investment and business climate, opportunities, competitive strengths, industry structure etc. Its procedure is given below:



Source: Board of Investment.

The chart shows the five basic steps you will probably want to go through to start your business in Bangladesh.

Step 1-Information searches and registration

- There are many information sources. These days you will probably start with the internet. BOI can also help and suggest other government agencies, chambers of commerce, and professional associations, international organizations such as the World Bank, Asian Development Bank, UNCTAD and IFC. There are independent consultants too.

- Register your intentions. Investors are advised to apply to the BOI for registration as early as possible in order to benefit from the many incentives and tax concessions available. The application form can be found online at this website.

Step 2- A Fact-finding visit

- Make a physical verification of your researches by visiting Bangladesh. Make your own travel arrangements or let BOI arrange things for you and benefit from our welcoming Service.

- Business travelers may request a visa for limited or multiple entries which can vary from one month to five years. Given certain conditions there is also the possibility of a landing permit and visa on arrival. BOI or the Bangladesh diplomatic mission in your country can advise you on this.

- Counseling. On arrival investors can take advantage of in-depth BOI counseling. Professional investment and business counselors can offer advice and

practical assistance over the phone, via email or fax or, best of all, at a personal meeting in the BOI offices here in Dhaka, Chittagong, Sylhet, Rajshahi, Khulna and Barisal.

Step 3- Getting started

By this stage you will know if you are going to operate as a branch/liaison representative office (or Buying House) or if you will be establishing an industrial project. This is relevant to the type of business structure you will then need to form.

Incorporation. Business in Bangladesh can be carried out by a company formed and incorporated locally or by a company incorporated abroad but registered in Bangladesh.

The incorporation or registration is done by the Registrar of Joint Stock Companies and Firms (RJSC&F).

Companies may be private or public limited companies or unlimited companies. In establishing a place of business of a foreign company, the company has to be registered with the RJSC&F as the place of business. Such registration is required in respect of capital issue and obtaining clearance from the Bangladesh Bank.

To open or extend a branch/liaison representative office of a foreign company, the company has to apply to the BOI.

Step- 4 Business/plant set-up

- Obtaining industrial plots.
- Approval of foreign loans, supplier's credit, PA YE schemes etc.

- Obtaining utility connections: water, gas, electricity, phones.
- Registration for certification for importing raw materials.
- Registration with the Factories Act which regulates work conditions.
- Registration with environmental legislation.
- Remittance of royalty, technical know- how and technical assistance fees.

Step -5 Commercial Operation

After starting commercial operations BOI will be following up with what you need subsequently. Investors need to a submit half-yearly performance report to the BOI on production and employment in their projects. Any changes to the information provided in the registration should be indicated to the BOI.

3.5 Special Economic Zone (SEZ)

The term **special economic zone** (**SEZ**) is commonly used as a generic term to refer to any modern economic zone. In these zones business and trades laws differ from the rest of the country. Broadly, SEZs are located within a country's national borders. The aims of the zones include: increased trade, increased investment, job creation and effective administration. To encourage businesses to set up in the zone, financially libertarian policies are introduced. These policies typically regard investing, trading, quotas, customs and labor regulations. Additionally, companies may be offered tax holidays.

The creation of special economic zones by the host country may be motivated by the desire to attract FDI. The benefits a company gains by being in a Special Economic

Zone may mean it can produce and trade goods at a globally competitive price. The operating definition of an economic zone is determined individually by each country. In some countries the zones have been criticized for being little more than Chinese labor camps, where labor rights are denied for workers.

SEZ is mandated by the Bangladesh Economic Zones Act, 2010, the Bangladesh Economic Zones Authority (BEZA) was officially instituted by the government on 9 November 2010.BEZA aims to establish economic zones in all potential areas in Bangladesh including backward and underdeveloped regions with a view to encouraging rapid economic development through increase and diversification of industry, employment, production and export'.

3.5.1 The objectives of SEZs can be explained as

1. Generation of additional economic activity;
2. Promotion of exports of goods and services;
3. Promotion of investment from domestic and foreign sources;
4. Creation of employment opportunities;
5. Development of infrastructure facilities.

3.5.2 The incentives and facilities available to SEZ developers include

- Exemption from customs/excise duties for development of SEZs for authorized operations approved by the BOA.
- Income Tax exemption on income derived from the business of development of the SEZ in a block of 10 years in 15 years under the Income Tax Act.

- Exemption from minimum alternate tax under the Income Tax Act.
- Exemption from dividend distribution tax under the Income Tax Act.
- Exemption from Central Sales Tax (CST).
- Exemption from Service Tax under the SEZ Act.

3.5.3 The description of SEZ types are given below:

Table-3.1

Types of Special Economic Zone

Type	Objective	Size	Typical Location	Typical Activities	Markets
EPZ (hybrid)	Export manufacturing	<100 hectares	None	Manufacturing, processing	Export, domestic
EPZ (single Unit/free enterprise)	Export manufacturing	No minimum	Countrywide	Manufacturing, processing	Mostly export
EPZ (traditional)	Export manufacturing	<100 hectares	None	Manufacturing, processing	Mostly export
free port/SEZ	Integrated development	>1000 hectares	None	Multi-use	Internal, domestic, export
FTZ	Support trade	<50 hectares	Port of entry	Enterprise and trade related	Domestic, re-export

3.5.4 Three SEZ of Bangladesh

The scoring of three Special Economic Zones in Bangladesh accordingly –

Table – 3.2

Scoring of three Special Economic Zones

Feature/Component	Possible	Dhaka	Chittagong	Comilla
Physical Location	3	2	3	1
Infrastructure (hard)	3	3	3	2
Infrastructure (soft)	3	2	2	1
Management and Governance	3	2	2	2
Export Composition	3	3	3	1
Labor and Linkages	3	2	3	2
Total Points	18/18	14/18	16/18	9/18

Despite the fact that Bangladeshi zones are given generous fiscal incentives , the non-fiscal attributes of its zones, such as the proximity to airports, seaports, and commercial centers, plays a significant role in the economic vitality of each zone's contribution to the country's economy as well as its ability to provide strong linkages to the surrounding areas and economies. While the fiscal policies and tax breaks are similar to those given to Indian SEZs, zones in Bangladesh are obviously constrained further by the financial risk associated with its political instability, its factor endowments and small coastal area, and its limited manufacturing and services resources. If there is anything for India to learn from the Bangladeshi experiment, it is that the establishment of a strong social infrastructure in and around the zones can be achieved as a means to attract foreign capital and talent, even in a developing country with a poorly ranked business climate.

The sequence of analysis suggest that, Bangladesh government has introduced investment friendly laws, rules, policies and made structural changes to be an attractive, competitive and profitable destination of FDI. According to Bangladesh

Country Fact Sheet of World Bank, 2005, “Bangladesh is the 10th most rapidly growing economy among 31 large developing countries with population above 160 million and GDP averaging 6% since 1990.” The economic growth of Bangladesh is achieved from the resulted of investment-friendly policy and improved investment climate.

Chapter-4

Present Scenario of Foreign Direct Investment in Bangladesh

This chapter is an attempt to focus on the present scenario of FDI in Bangladesh. A recent study reveals that the ranking of Bangladesh for ease of doing business is 107 which was109 in previous year. According to "Bangladesh 2020: A long run perspective study" draft prepared by the World Bank, Bangladesh needs substantial reduction of poverty, 7%-8% GDP growth rate, adult literacy and basic health care, environment protection, creation of 50 million employment in25 years, diversification of products in global markets to develop itself (Appendix: 2). Assessing the inflow of FDI with growth, estimating performance and potential ranking and forecast of FDI inflow will contribute to get an overall idea of FDI scenario in Bangladesh.

4.1 FDI Inflow in Bangladesh

This section gives an overview of the inflow of FDI in Bangladesh. The study reveals that there is no observable trend in the flow of FDI (Figure: 4.1). The flow of FDI increased at a staggering rate of 64.45, 47.16 and 182.86 percent in FY 1997-98, FY 2000-01 and FY 2004-05 respectively than that of FY 1996-97, FY 1999-00 and FY 2003-04. The flow of FDI totals at USD 603.3 million, USD 563.93 million and USD 803.78 million in FY 1997-98, FY 2001-02 and FY 2004-05 respectively. After FY 2004-05, the flow of FDI declined in the next three fiscal years. The country received an increased amount of USD 960 .59 million in FY 2008-09 but witnessed a fall in FDI inflow in next fiscal years.

Table - 4.1

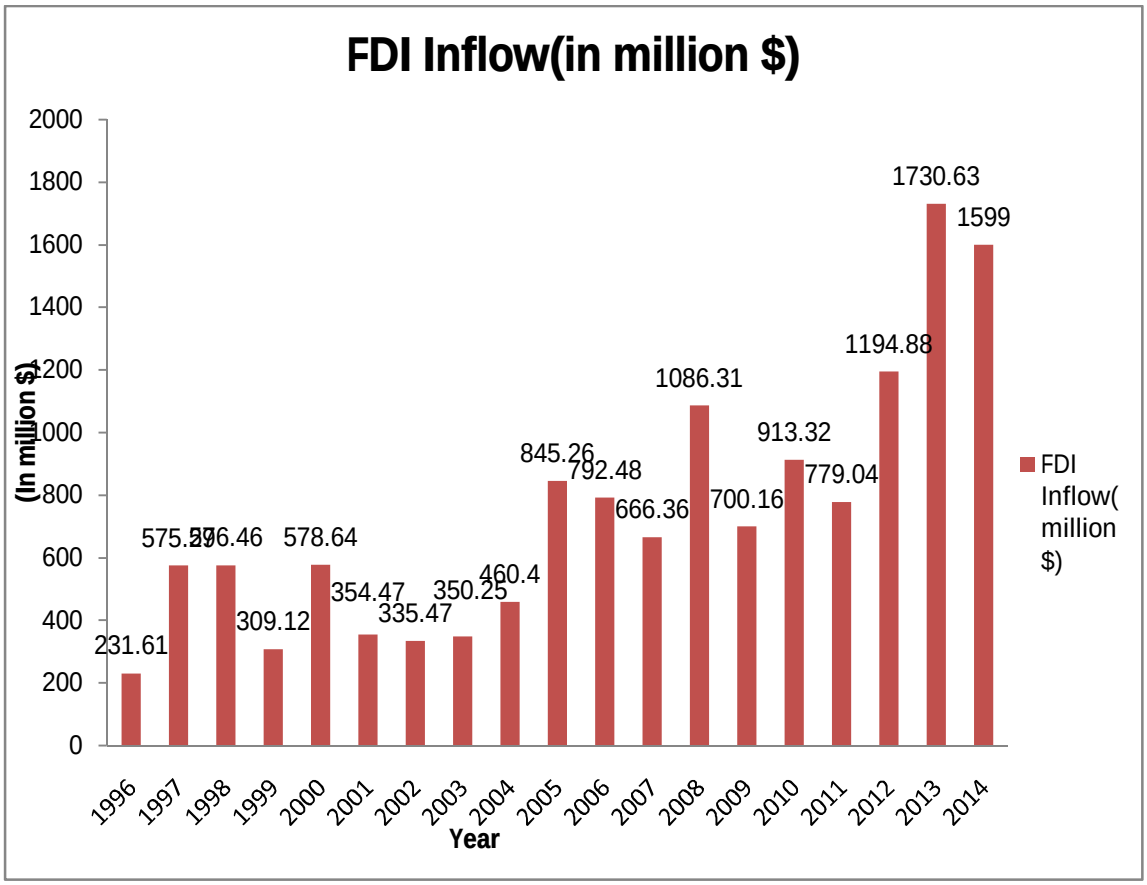
FDI inflow in Bangladesh (In million $)

Year	FDI Inflow (million $)
1996	231.61
1997	575.29
1998	576.46
1999	309.12
2000	578.64
2001	354.47
2002	335.47
2003	350.25
2004	460.4
2005	845.26
2006	792.48
2007	666.36
2008	1086.31
2009	700.16
2010	913.32
2011	779.04
2012	1194.88
2013	1730.63
2014	1599

Source: Bangladesh Bank Publications and own calculation

Figure - 4.1

FDI inflow in Bangladesh (In million $)



Source: Bangladesh Bank Publications and own calculation

It is to be noted here that FDI inflow to Bangladesh has traditionally been lower, even compared with other South Asian countries. Considering FY 1996-97 as the base year, the statistics reveals that FY 2011-12 might be a net FDI receipt of USD 1194.88 million. The current trend of FDI inflow decreased, the country received USD 1599 million of FDI in FY 2014 which lower than 1730.63 million in 2013 and growth rate of FDI might be only 3.19 percent. There was a significant jump from FY 2003-04 to Financial Year 2004-05 but after that, the incremental growth rate is neither significant nor adequate and in 2014 the rate is decreasing.

4.2 FDI as a percentage of GDP

Table 4.2 and Figure 4.2 show the FDI as a percentage of GDP in Bangladesh. It is observed that although the amount of FDI is increasing over the years, FDI as a percentage of GDP is following a declining trend after FY 2004-05. FDI as a percentage of GDP increased to 1.33 percent in FY 2004-05 while GDP and FDI flow were Tk. 3707.0 billion and Tk. 49.34 billion respectively. Then FDI as a percentage of GDP declined until FY 2007-08 and the scenario changed only in FY 2008-09. The growth of FDI in FY 2008-09 was 24.96 percent higher than that of previous fiscal year and FDI as percentage of GDP increased to 1.07 percent. After FY 2008-09, FDI as a percentage of GDP started to decline sharply. In FY 2010-11, the amount of FDI and GDP were Tk. 55.45 billion and Tk. 7874.95 billion respectively against Tk. 63.16 billion and Tk. 6943.24 billion of FY 2009-10. The share of FDI in GDP in FY 2010-11 was only 0.70 percent, which is 21 percentage points less than that of the previous fiscal year.

Table - 4.2

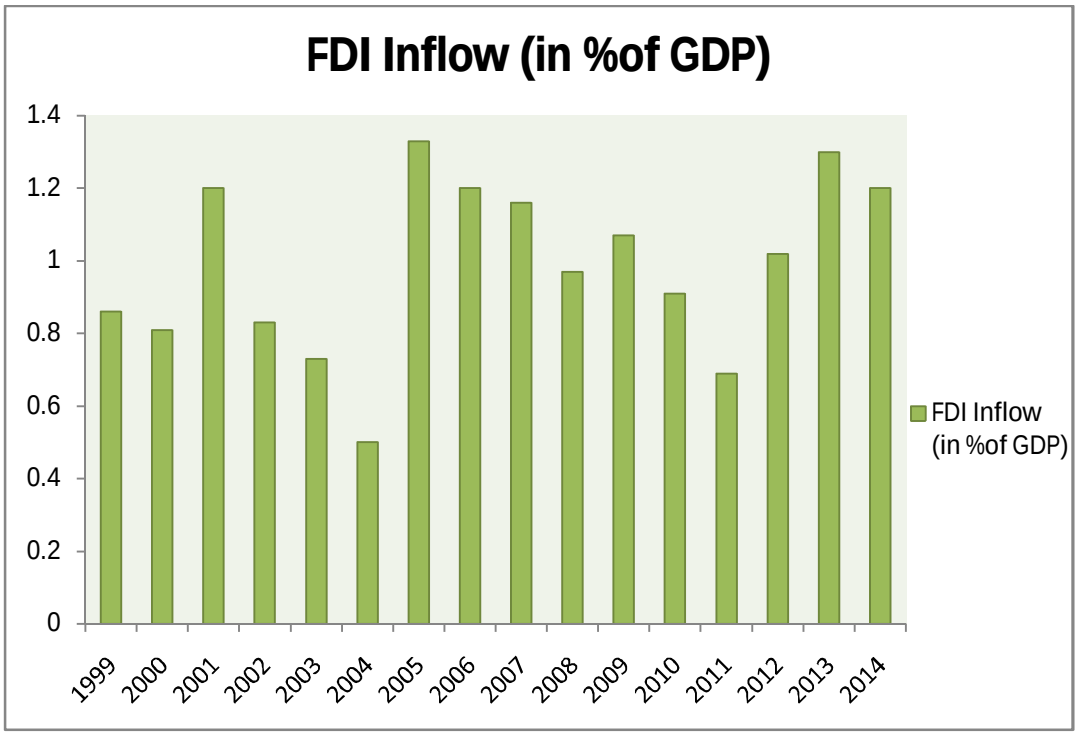
FDI as a Percentage of GDP

Year	FDI Inflow (in %of GDP)
1999	0.86
2000	0.81
2001	1.2
2002	0.83
2003	0.73
2004	0.5
2005	1.33
2006	1.2
2007	1.16
2008	0.97
2009	1.07
2010	0.91
2011	0.69
2012	1.02
2013	1.3
2014	1.2

Source: Author's calculation based on Bangladesh Bank, Bangladesh Bureau of Statistics

Figure - 4.2

FDI as a percentage of GDP



Source: Author's calculation based on Bangladesh Bank, Bangladesh Bureau of Statistics

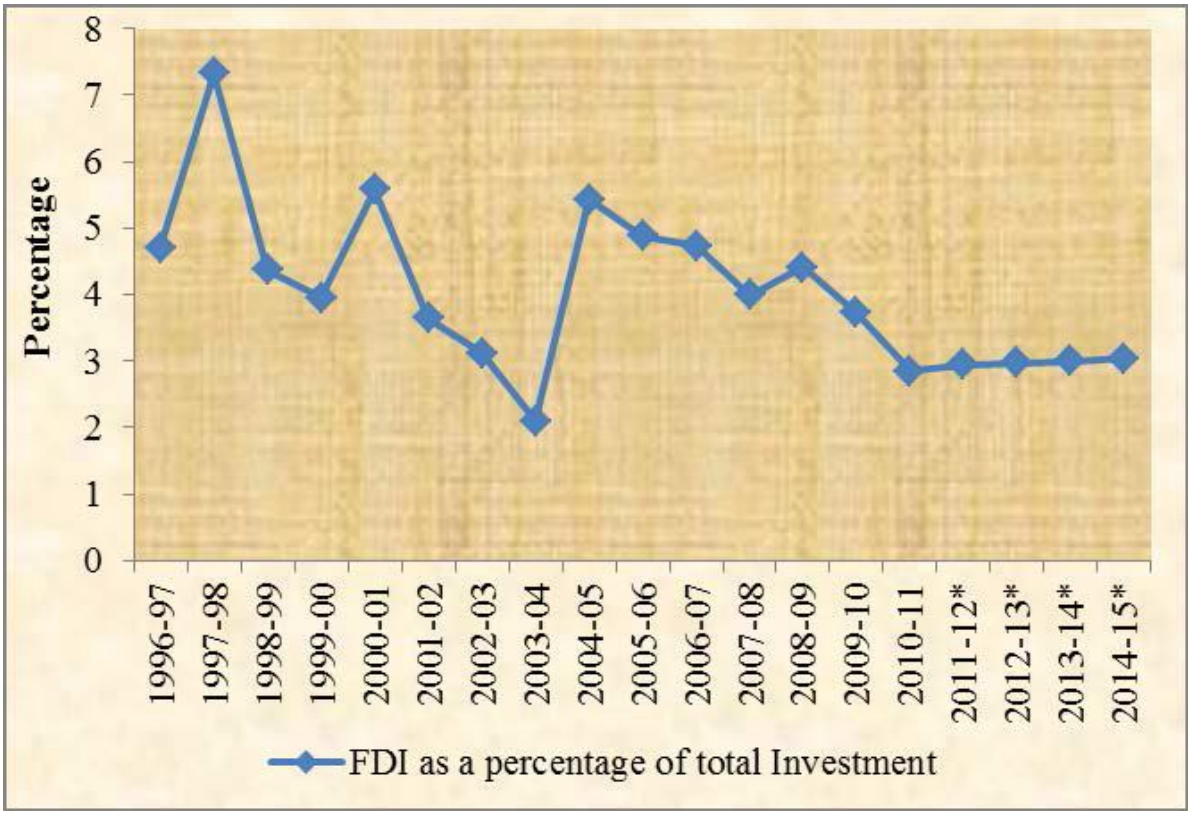
If the current trend continues, the inflow of FDI in the current fiscal year might reach at Tk. 60.06 billion and the share of FDI in GDP might be only 0.67 percent, which is 3 percentage points less than that of the previous fiscal year. Under the business as usual scenario, FDI in FY 2014-15 might increase to Tk. 70.33 billion while FDI as percent of GDP might stand at only 0.66 percent.

4.3 FDI as a Percentage of Total Investment

FDI is one of the major sources of investment of a country. The economic development of a country largely depends on the flow of FDI to the total investment in a country. This chapter shows the FDI as a percentage of total investment in Bangladesh. It is observed that the share of FDI in total investment is following a downward trend. FDI as percentage of total investment was the highest in FY 1997-98 while the contribution of FDI in total investment was 7.3 percent. After then FDI as percentage of total investment was the highest in FY 2000-01 while the contribution of FDI in total investment was 5.6 percent. FDI as percentage of total investment was 5.43 in FY 2004-05 while the contribution of FDI in total investment was USD 49.34 million. The share of FDI in total investment in FY 2008-09 increased after continuous declining in three successive fiscal years. In FY 2008-09, the share of FDI in GDP was 1.07 percent. Global economic recession had an adverse effect on the flow of FDI in the country. The share of FDI in total investment was 4.41, 3.73 and 2.85 percent in FY 2008-09, FY 2009-10 and FY 2010-11 respectively. If the current trend of FDI inflow persists, the share of FDI in total investment might stand at 2.94 percent in FY 2011-12 and 3.03 percent in FY 2014-15.

Figure - 4.3

FDI as a percentage of Total Investment



Source: Bangladesh Bank Publications and own calculation

4.4 Foreign Direct Investment by Components

Foreign direct investment (FDI) contributes a great portion in providing industrial credit in our country. Foreign Direct Investment (FDI) has played a key role in the modernization of the Bangladesh economy for the last 15 years. Foreign direct investment (FDI) may be come from equity, reinvestment, or from intra-company. Here, equity means, direct investment amount coming from abroad; reinvestment refers, investing the interest that is generated from this investment and intra-company source indicates, the amount coming from the parent company to its subsidiary.

Table - 4.3

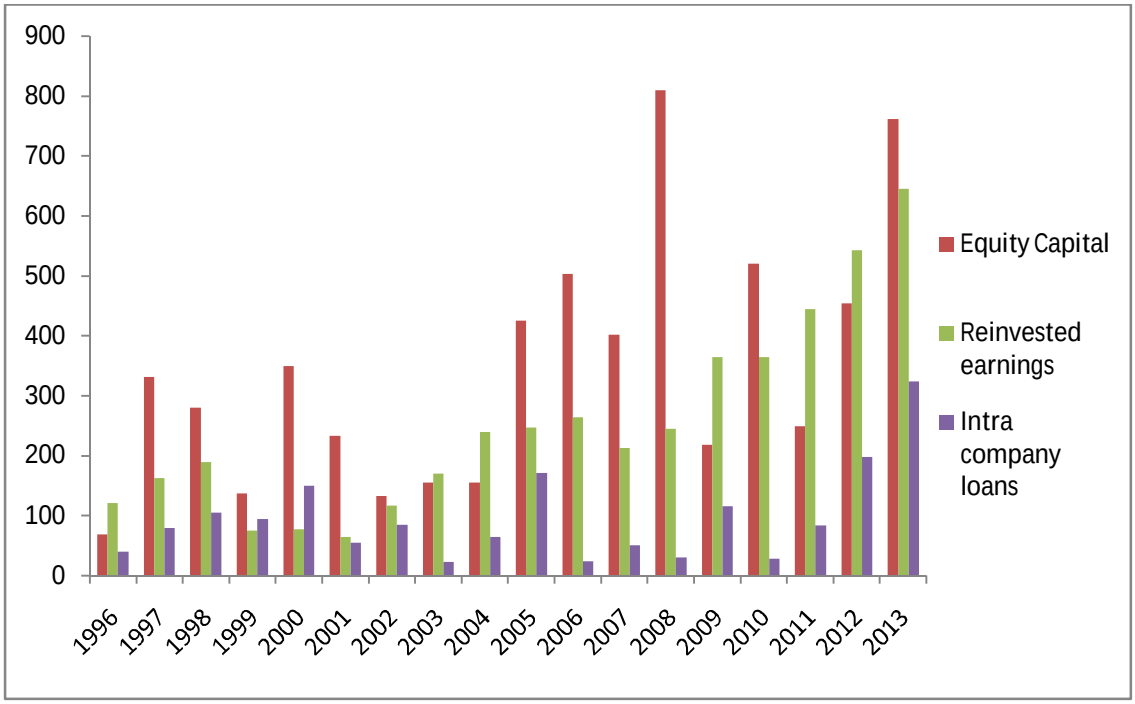
Foreign Direct Investment by Components

YEAR	Equity Capital	Reinvested earnings	Intra company loans
1996	69.63	121.65	40.33
1997	332.06	163.45	79.78
1998	280.51	189.88	105.07
1999	137.47	76.23	95.42
2000	350.18	77.77	150.69
2001	233.78	65.01	55.68
2002	133.81	116.82	84.84
2003	156.14	170.13	23.98
2004	155.89	239.79	64.72
2005	425.59	247.48	172.19
2006	503.65	264.74	24.09
2007	401.61	213.24	51.51
2008	809.25	245.73	31.33
2009	218.55	364.94	116.67
2010	519.98	364.62	28.72
2011	249.95	445.19	83.9
2012	454.1	542.35	198.43
2013	761.03	645.64	323.96

Source: Survey Report, Statistics Department of Bangladesh Bank and Foreign Direct Investment in Bangladesh, Board of Investment

Figure - 4.4

FDI Inflows in USD in Bangladesh by Components



Source: Survey Report, Statistics Department of Bangladesh Bank, Foreign Direct Investment in Bangladesh and 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. After that equity capital holds the largest portion of FDI inflows. Intra- company loan always holds the smaller part of FDI inflows. Then there is a sudden decline in terms of equity capital as a component FDI than reinvested capital in 2003. This declining trend continues up to 2004. 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.

4.4.1 FDI Inflows in percentage in Bangladesh by components

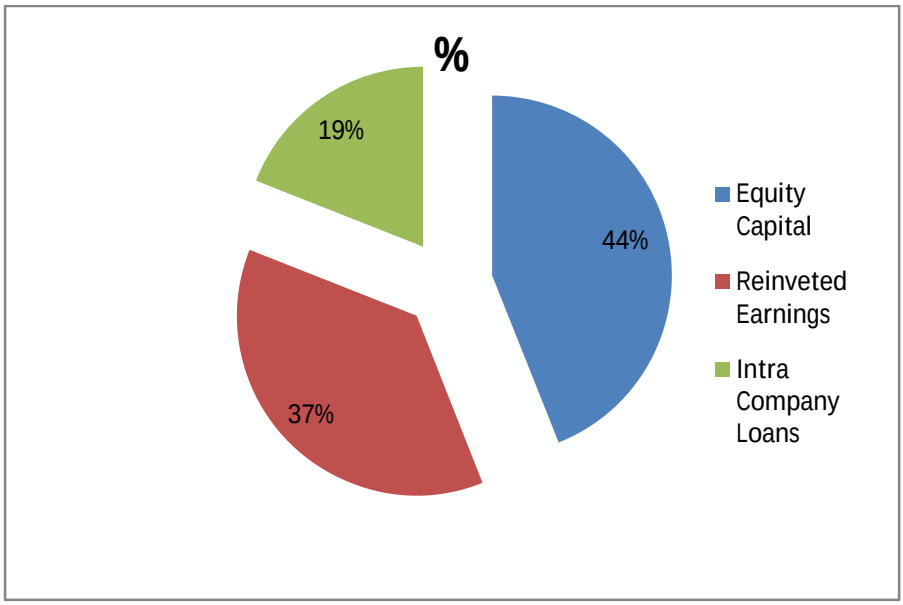
Table - 4.4

FDI Inflows in percentage in Bangladesh by components

Components	percentage
Equity Capital	44%
Reinvested Earnings	37%
Intra Company Loans	19%

Figure - 4.5

FDI Inflows in percentage in Bangladesh by components



Source: Survey Report. Statistics Department of Bangladesh Bank, Foreign Direct Investment in Bangladesh and Board of Investment.

The component wise FDI inflow in Bangladesh is clearly in the Figure – 4.5. In year 2013, 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 44 percent in 2013. In 1996 share of reinvested earnings was 53 percent which decreased to 37 percent in 2013. On the other hand, share of intra-company loan was 17 percent which then increased to 19 percent in 2013. 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.

4.4.2 Percentage of Contribution of Equity, Reinvestment, & Intra-company in Total FDI:

The following table shows the Percentage of Contribution of Equity, Reinvestment, & Intra-company in Total FDI:

Table - 4.5

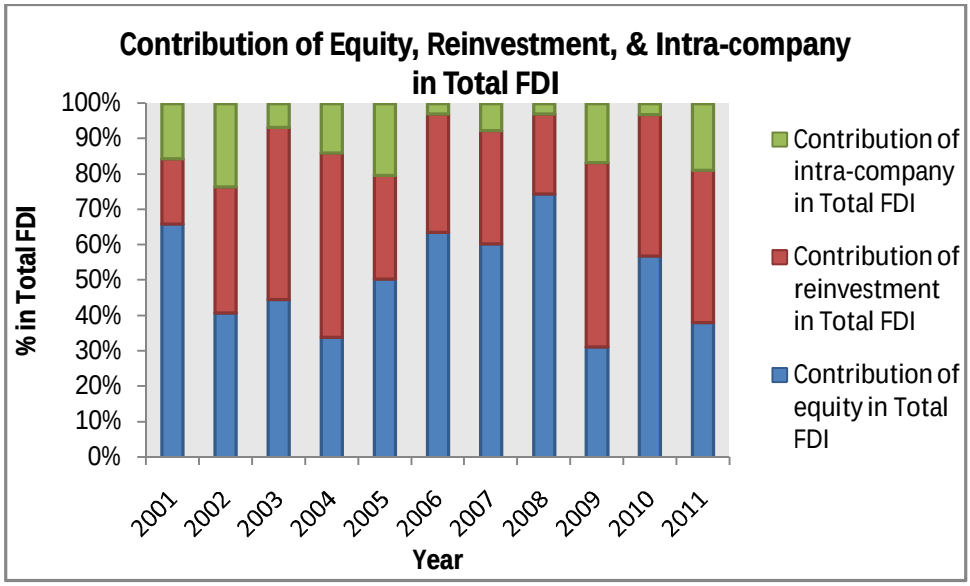
Percentage of Contribution of Equity, Reinvestment, & Intra-company in Total FDI

Year	Contribution of equity in Total FDI	Contribution of reinvestment in Total FDI	Contribution of intra-company in Total FDI
2001	65.95%	18.34%	15.71%
2002	40.76%	35.58%	23.67%
2003	44.56%	48.59%	6.85%
2004	33.86%	52.09%	14.05%
2005	50.35%	29.28%	20.37%
2006	63.56%	33.40%	3.04%
2007	60.27%	32.00%	7.73%
2008	74.50%	22.62%	2.88%
2009	31.21%	52.12%	16.66%
2010	56.93%	39.92%	3.14%
2011	38.00%	43.09%	18.91%

Source- Bangladesh bank selected macro-economic indicators 2001-2011

Figure - 4.6

Contribution of Equity, Reinvestment, and Intra-company in Total FDI



Source- Bangladesh bank selected macro-economic indicators

Figure- 4.6 shows the Percentage of Contribution of Equity, Reinvestment, & Intra-company in Total FDI from 2001 to 2011. Over this time period, every year source of Equity contributed a great portion in Total FDI. That is, direct investment come from abroad has always contributed a great portion in Total FDI. At the same time, Contribution of Reinvestment in Total FDI has also a large portion over this period of time. Here, Intra-company contributed a fewer portion in Total FDI compare to others. That means, investment of parent company to its subsidiary was not so good compared to other options.

4.5 Contribution of FDI & Local Financing in Total Industrial Credit

Commercial and industrial loans can be made in order to provide either working capital or to finance major capital expenditures. Most of the portion of capital funds of our business sector are collected and based on debt financing, rather than equity financing. To focus on the contribution of different sources of total Industrial credit, the sources are segmented as based on: sources of financing (Local & FDI), term of financing (Short term & Long Term) and capital structure of financing (Debt & Equity).The following table shows the percentage of Contribution of sources of financing that is FDI and Local Financing in Total Industrial Credit from 2001 to 2011,

Table - 4.6

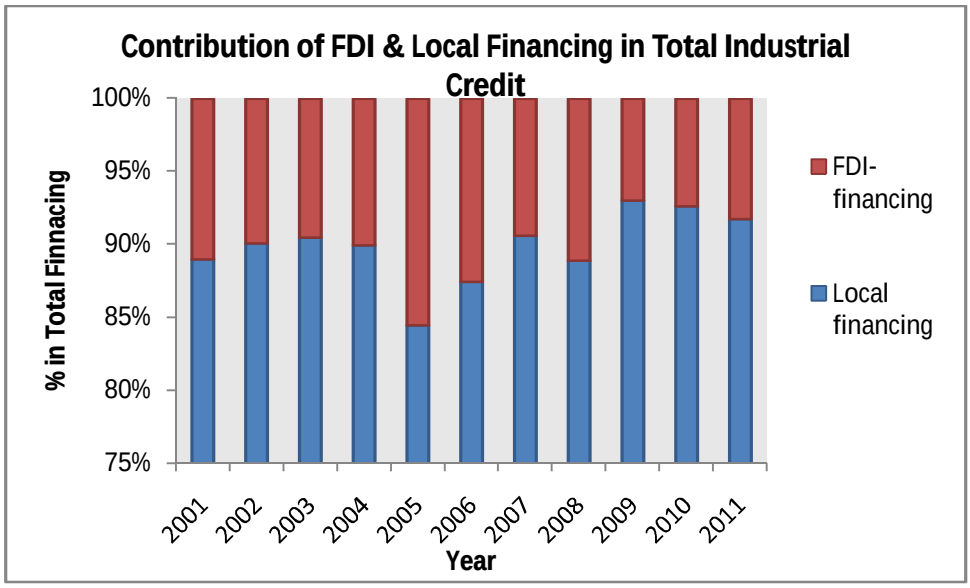
Contribution of FDI and Local Financing in Total Industrial Credit

Year	Local financing	FDI- financing
2001	89.0%	11.0%
2002	90.1%	9.9%
2003	90.5%	9.5%
2004	90.0%	10.0%
2005	84.5%	15.5%
2006	87.5%	12.5%
2007	90.6%	9.4%
2008	88.9%	11.1%
2009	93.0%	7.0%
2010	92.6%	7.4%
2011	91.8%	8.2%
Average	**89.9%**	**10.1%**

Source- Bangladesh Bank Annual Report

Figure - 4.7

Contribution of FDI and Local Financing in Total Industrial Credit



Source- Bangladesh bank annual report

From the Figure-4.7 it is clear that, from 2001 to 2011 most of the portion of industrial credit come from local financing. From 2001 to 2005 the contribution of FDI in total industrial credit had been increasing, that implying a good sign of our country to increase the interest of foreign investors. After 2005, this portion had been declining, which is not good at all for our business. And, over this time period on an average, contribution of local financing in total industrial credit was 89.9% and contribution of FDI in total industrial credit was 10.1%.

4.6 Contribution of Short term and Long Term Financing in Total Industrial Credit:

Table - 4.7shows the percentage of Contribution of each term of financing that is short term and long term financing in Total Industrial Credit from 2001 to 2011.

Table - 4.7

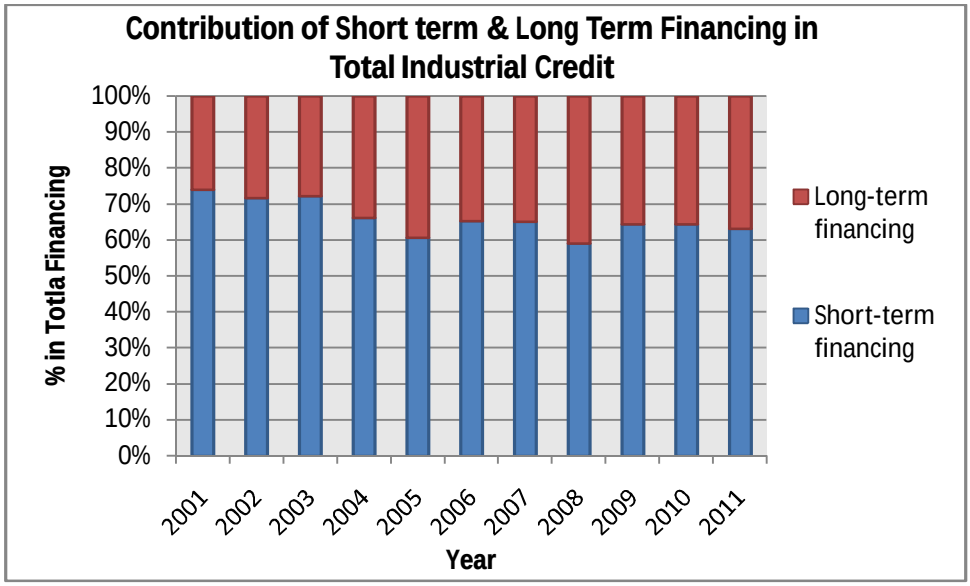
Contribution of Short term and Long Term Financing in Total Industrial Credit

Year	Short-term financing	Long-term financing
2001	74.1%	25.9%
2002	71.8%	28.2%
2003	72.2%	27.8%
2004	66.3%	33.7%
2005	60.7%	39.3%
2006	65.3%	34.7%
2007	65.1%	34.9%
2008	59.1%	40.9%
2009	64.5%	35.5%
2010	64.4%	35.6%
2011	63.2%	36.8%
Average	**66.1%**	**33.9%**

Source: Bangladesh Bank Annual Report

Figure - 4.8

Contribution of Short term and Long Term Financing in Total Industrial Credit



Source: Bangladesh Bank Annual Report

The percentage of contribution of short term and long term financing in Total Industrial Credit from 2001 to 2011 is revealed the Figure - 4.8, it is clear that, from 2001 to 2011 most of the portion of industrial credit come from short term financing rather than long term financing. But most of the businesses are needed to have loan for long period of time, then small portion contribution of long term financing in total industrial credit did not encourage FIs to invest for long term. On an average, contribution of short term financing in total industrial credit was 66.1% and contribution of long term financing in total industrial credit was 33.9%.

4.7 Contribution of Debt and Equity Financing in Total Industrial Credit

To have better understanding into the issue Table - 4.8 shows the percentage of contribution of capital structure of financing of each financing that is equity and debt financing in Total Industrial Credit from 2001 to 2011,

Table – 4.8

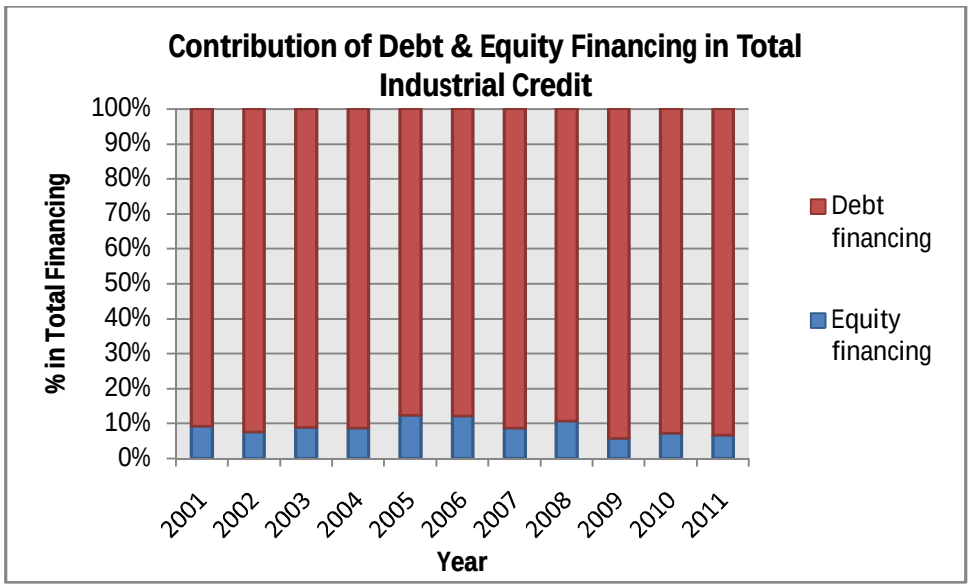
Contribution of Debt and Equity Financing in Total Industrial Credit

Year	Equity financing	Debt financing
2001	9.3%	90.7%
2002	7.6%	92.4%
2003	8.9%	91.1%
2004	8.6%	91.4%
2005	12.4%	87.6%
2006	12.1%	87.9%
2007	8.7%	91.3%
2008	10.8%	89.2%
2009	5.8%	94.2%
2010	7.1%	92.9%
2011	6.7%	93.3%
Average	**8.9%**	**91.1%**

Source: Bangladesh Bank Annual Report

Figure - 4.9

Contribution of Debt and Equity Financing in Total Industrial Credit



Source: Bangladesh Bank Annual Report

Debt and equity is the major components of debt and equity financing in total industrial credit. Figure- 4.9 represents percentage of Contribution of debt and equity financing in Total Industrial Credit from 2001 to 2011. From this graph, it is clear that, from 2001 to 2011 most of the portion of industrial credit come from debt financing. And, on an average, contribution of debt financing in total industrial credit was 91.1% and contribution of equity financing in total industrial credit was only 8.9%.

4.8 Foreign Direct Investment Inflows by Areas

Table – 4.9

FDI Inflows in Bangladesh by EPZ and Non-EPZ Area

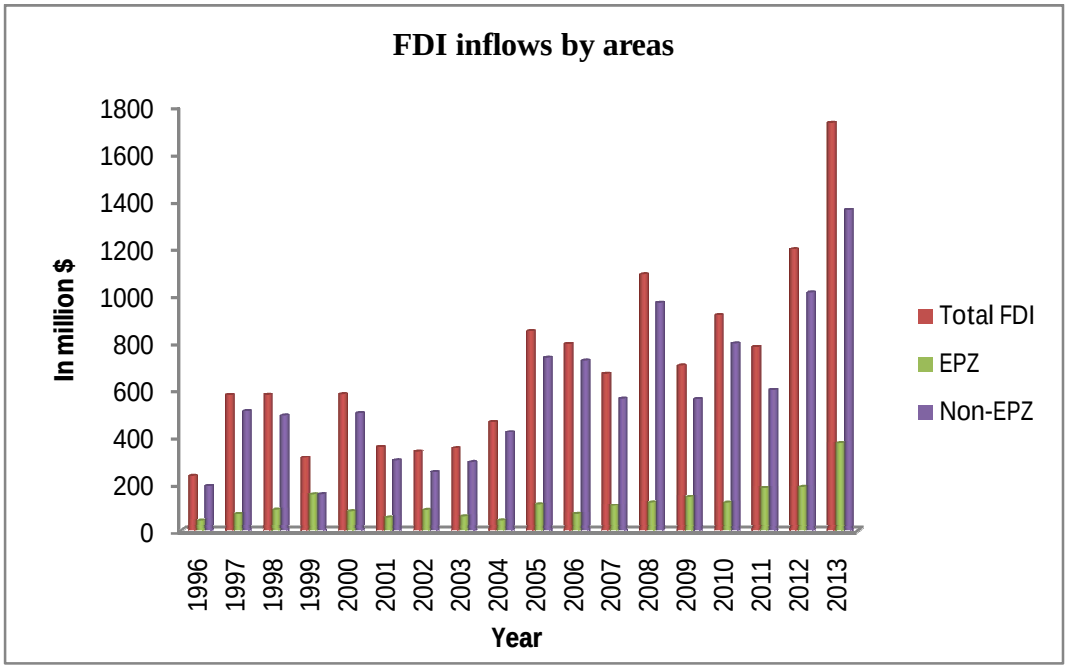
(in million $)

Year	Total FDI	EPZ	Non-EPZ
1996	231.61	42.31	189.3
1997	575.29	69.25	506.04
1998	576.46	88.31	488.15
1999	309.12	154.43	154.69
2000	578.64	81.2	497.44
2001	354.47	56.06	298.41
2002	335.47	87.53	247.94
2003	350.25	59.31	290.94
2004	460.4	42.68	417.72
2005	845.26	110.82	734.44
2006	792.47	71.03	721.44
2007	666.37	105.44	560.93
2008	1086.31	118.55	967.76
2009	700.16	141.88	558.28
2010	913.32	118.17	795.15
2011	779.04	181.45	597.59
2012	1194.88	185.26	1009.62
2013	1730.63	369.75	1360.88

Source: Survey Report, Statistics Department of Bangladesh Bank and Board of Investment.

Figure - 4.10

FDI Inflows by area (EPZ and non EPZ) in Bangladesh



Source: Survey Report, Statistics Department of Bangladesh Bank and Board of Investment.

Figure - 4.10 reveals that despite the initial increase and steady continuation, FDI inflows in Non-EPZ areas was in increasing trend in initial time (Table-4.9)._But it was declining trend during the period of 2001-2003. In 2004 it increased to 417.72 million USD and this trend continued up to 2005. Then it again declined and continued up to 2007. There was an increasing trend in Non-EPZ areas from 2009 to 2011. The FDI inflows in Non-EPZ areas in 2011 recorded to USD 871.62 million which is 76.7 percent of total inflows whereas in the beginning of this period (in 1996) it was USD 189.3 million which is 81.7 percent of total inflows. In the EPZ areas, the

FDI inflows were always in a steady direction. There was a slightly increasing trend in EPZ areas from 1996 to 1999. Then it declined slightly. After that in 2007 there is steady increasing direction of FDI Inflows in EPZ areas up to 2013.

4.9 FDI Inflows by Areas and Components

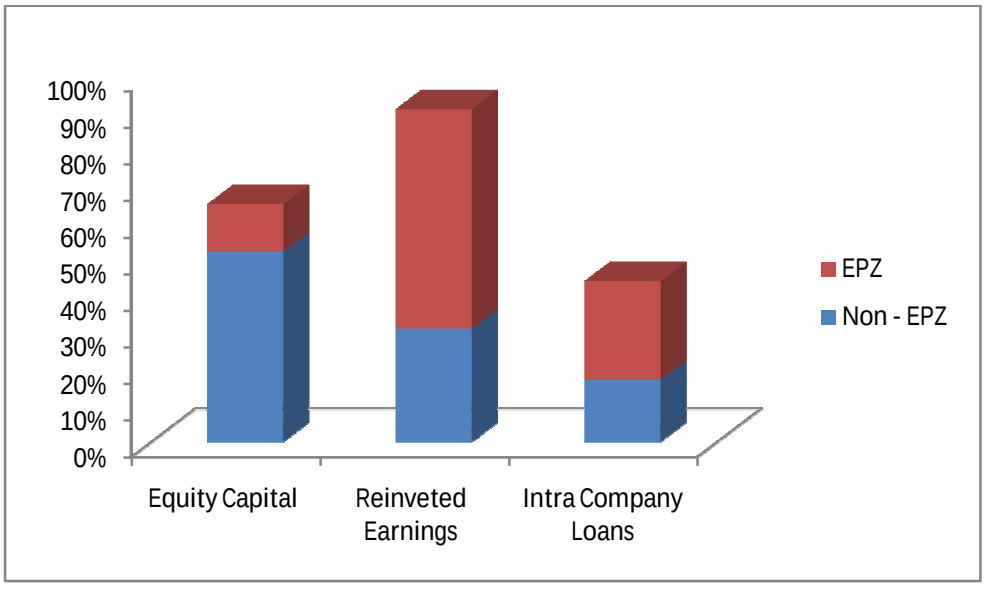
Table- 4.10

FDI Inflows by Areas and Components

Components	Non - EPZ	EPZ
Equity Capital	52%	13%
Reinvested Earnings	31%	60%
Intra Company Loans	17%	27%

Figure-4.11

FDI Inflows by Areas and Components



In Table- 4.10 and Figure-4.1, it is seen that, in Non – EPZ areas the highest portion comes from the equity capital which is 52% and in the EPZ area the highest portion from the reinvested earnings which is 60% in 2013.

4.10 Foreign Direct Investment Inflows by Sectors

Table-4.11

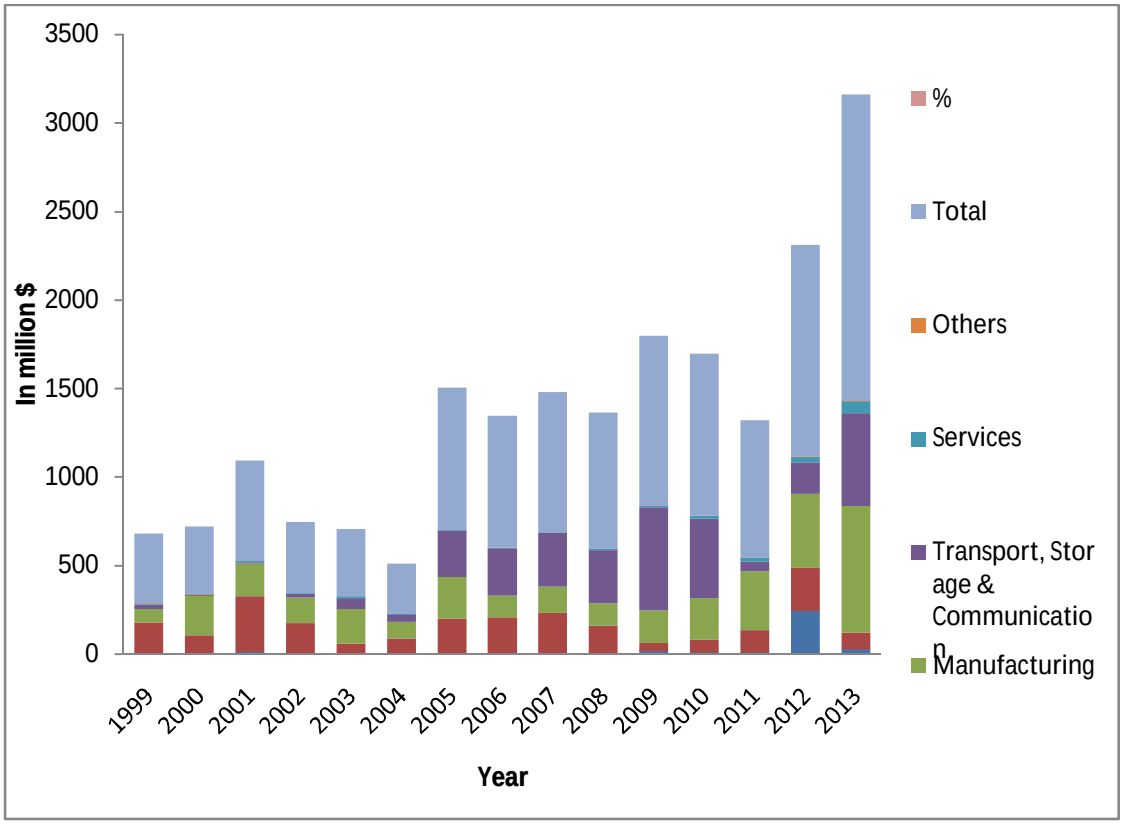
Foreign Direct Investment Inflows by Sectors

Year	Agriculture & Fishing	Power Gas & Petroleum	Manufacturing	Trade & commerce	Transport, Storage & Communication	Services	Others	Total
1999	0.46	180.87	76.45	105.32	24.05	6.94	0.01	394.1
2000	2.88	106.57	225.79	44.12	0.47	3.32	0.07	383.22
2001	15.72	313.78	183.95	35.25	5.5	9.83		563.93
2002	0.95	176.12	143.99	55.3	20.71	3.86		400.93
2003	2.41	58.07	196.22	49.24	61.74	11.5		379.18
2004	4.11	87.44	90.94	55.31	43.76	2.6		284.16
2005	2.07	198.4	235.51	101.8	263.96	2.04		803.78
2006	1.37	209.32	120.94	142.19	269.01	1.07		744.61
2007	4.57	229.93	147.46	103.84	305.12	1.82		792.74
2008	3.65	157.92	128.92	171.26	299.92	7.02		768.69
2009	19.14	46.89	183.96	122.53	579.62	7.77		960.59
2010	10.95	73.66	233.74	128.8	445.99	19.68		913.02
2011	11.53	127.19	330.25	234.82	54.5	20.39		779.04
2012	244.94	244.94	414.98	272.75	179.04	32.6	0.03	1194.89
2013	29.72	93.67	712.88	295.05	527.09	65.18	0.19	1730.63

Source: Survey Report, Statistics Department of Bangladesh Bank and Board of Investment

Figure-4.12

FDI Inflows in USD in Bangladesh by Sectors



Source: Survey Report, Statistics Department of Bangladesh Bank and Board of Investment

Figure - 4.12 reveals the fact that a shift has been made by the foreign investors in their investment in Bangladesh. The figure shows the trend of FDI is good in textile and wearing, telecommunication, banking, gas and petroleum, whereas the neglected sectors were agricultural, insurance, leather products, chemical and Pharmaceuticals, metal and machinery, power and computer software (Table-4.11). The success in textiles through the ready-made garments (RMG) industry was a vital part of this investment. The chart draws a clear picture how the dimensions of FDI inflows have

changed in recent years. The reduction in FDI shares of manufacturing demonstrates that its stronghold position for foreign investment is in declining state. On the other hand, telecom sector is gaining prominence during present years. In 2008 the telecommunications sector overtook manufacturing sector as the leading recipient of FDI. Due to increased privatization efforts by the government, telecom has emerged as one of the fastest growing sectors in the Bangladesh economy. In addition to that, the energy sector draws lower amount of FDI, which is explained by the country's natural gas reserves. Another factor is the country's difficulty in electricity generation. The government's lacking of the capital and liquidity of building power-grids and expanding the country's electric capacity opens the door of much scope for foreign investment.

4.11 Foreign Direct Investment Inflows by Major Sectors

The sectors that attracted maximum FDI during the first half of the year 2013 from January – June , include Banking Sector (US$ 238.85 million), Textile & Wearing Sector US237.65 million), Telecommunication Sector (US$ 185.41million), Power Sector US$ 41.61million) and Chemicals and Pharmaceuticals Sector (US$ 16.44 million) which were 25.60%, 25.47%,19.87%,4.46%, and 1.76% respectively towards the contribution of total FDI inflow.

Table- 4.12

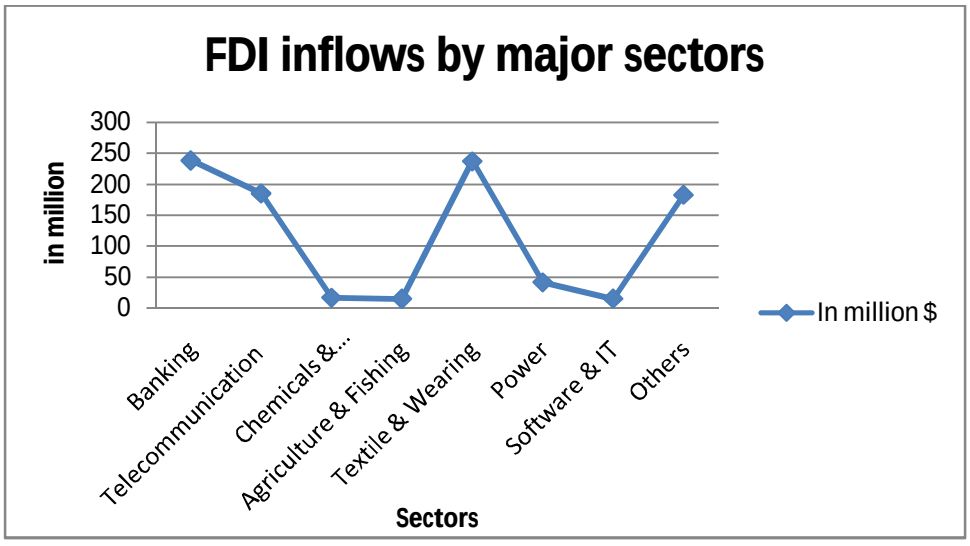
Foreign Direct Investment Inflows by Major Sectors

Sectors	In million $	In percentage
Banking	238.85	25.60%
Telecommunication	185.41	19.87%
Chemicals & Pharmaceuticals	16.44	1.76%
Agriculture & Fishing	14.86	1.59%
Textile & Wearing	237.65	25.47%
Power	41.61	4.46%
Software & IT	14.96	1.60%
Others	183.31	19.65%

Source: Survey Report, Statistics Department of Bangladesh Bank and Board of Investment.

Figure-4.13

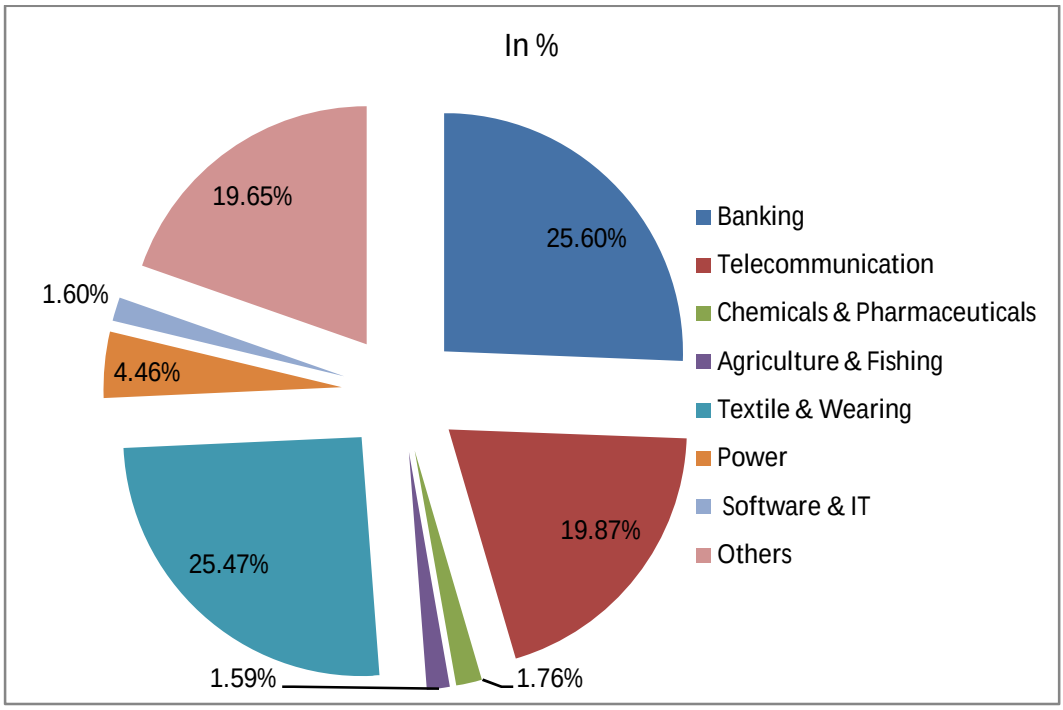
Foreign Direct Investment Inflows by Major Sectors



Source: Survey Report, Statistics Department of Bangladesh Bank and Board of Investment.

Figure-4.14

Foreign Direct Investment Inflows by Major Sectors in Percentage



Source: Statistics Department of Bangladesh Bank and Board of Investment.

In the Figure – 4.14 reveals the percentage of FDI in major sectors. The highest inflow gained in Bank sector and secondly in the Textile and Wearing sector which is 25.47%. In Telecommunication sector the FDI inflow increases from previous few years.

4.12 Foreign Direct Investment Inflows by Major Countries

The country-wise FDI inflows in Bangladesh from different countries during 2013 are presented in Table - 4.13 and Figure – 4.15.

Table-4.13

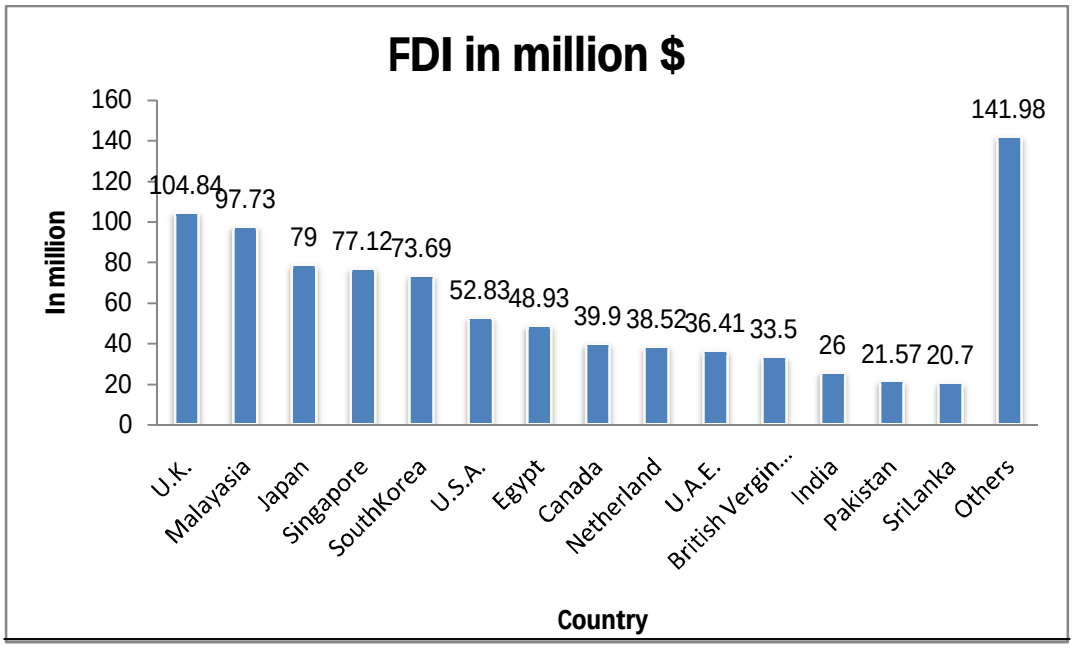
Foreign Direct Investment Inflows by Major Countries

Countries	FDI in million $
U.K.	104.84
Malaysia	97.73
Japan	79
Singapore	77.12
South Korea	73.69
U.S.A.	52.83
Egypt	48.93
Canada	39.9
Netherland	38.52
U.A.E.	36.41
British V. Island	33.5
India	26
Pakistan	21.57
Sri Lanka	20.7
Others	141.98

Source: Statistics Department, Bangladesh Bank and Board of Investment

Figure-4.15

FDI Inflows in USD in Bangladesh by Major Countries



Source: Statistics Department, Bangladesh Bank and Board of Investment

FDI inflows from major countries for the period January-June, 2013 arranged in descending order of magnitude were: UK (US $104.84 million),Malaysia (US$ 97.73 million), Japan (US$79million), Singapore (US$ 77 million), South Korea US$ 51.25 million), USA (US$ 52.83 million), Hong Kong (US$48.93 million), Egypt(US$ 40.37 million), Canada (US$ 39.90 million), and Netherlands (US$ 38.52 million), which were 11.24%, 10.47%, 8.47%, 8.27%, 7.90%, 5.66%, 5.24%, 4.33%,4.28%,and 4.13% respectively toward the contribution of total FDI inflow.

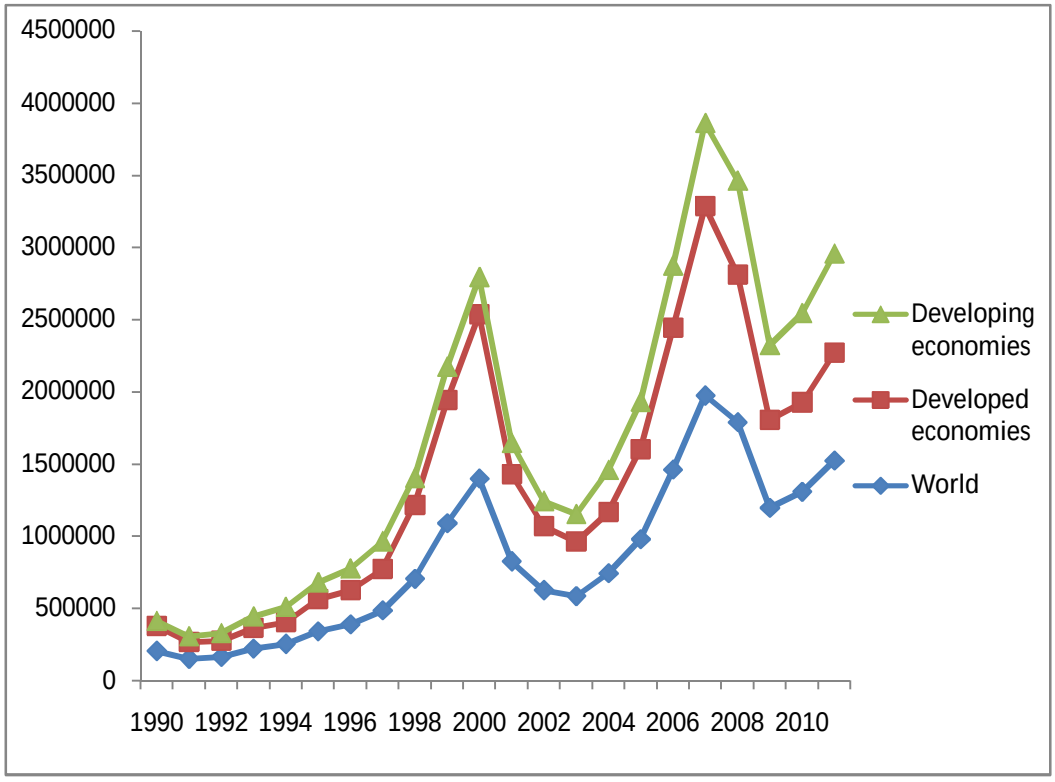
4.13 Foreign Direct Investment Inflows in Other Measurement

4.13.1 FDI Inflows in USD by different Economies

Figure-4.16 reveals the inflow of FDI in terms of US$ by different economies for the years 1990-2010.

Figure - 4.16

FDI Inflows in USD by different Economies



Source: Survey Report, Statistics Department Bangladesh Bank and Foreign Direct Investment in Bangladesh, Board of Investment.

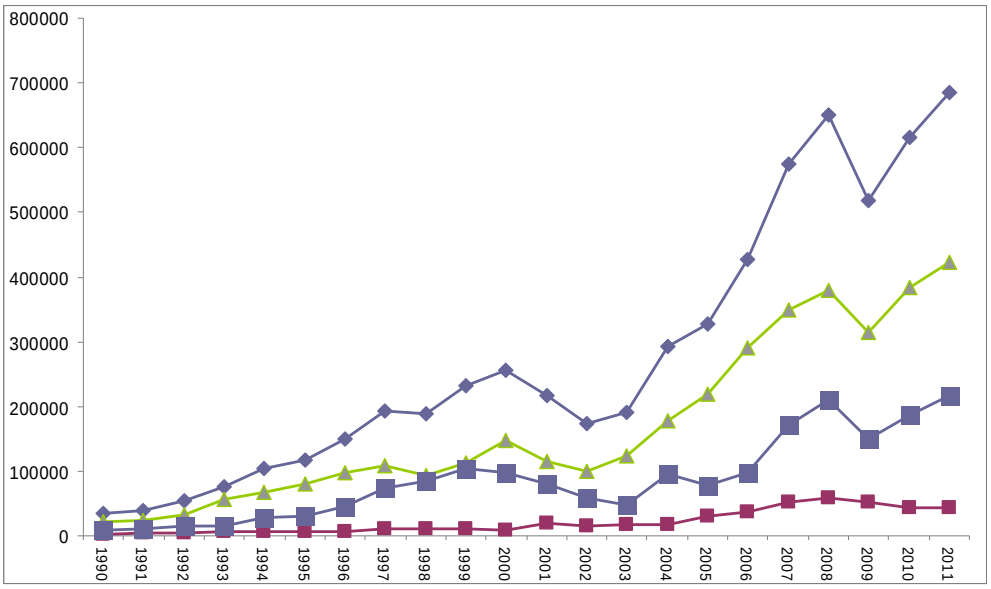
Figure - 4.16 reveals the feet that FDI investment in developed economies was always greater than developing and transition economies. In recent years, FDI investment in developed economies was decreasing. On the other hand FDI investment in developing economies was increasing at an increasing rate. But the FDI investment in

transition economies was in steady direction. Bangladesh holds only 0.16% of FDI investment in developing economies during 1990-2011.

4.13.2 FDI Inflows by Developing Economies

Figure - 4.17

FDI Inflows in USD by Developing Economies



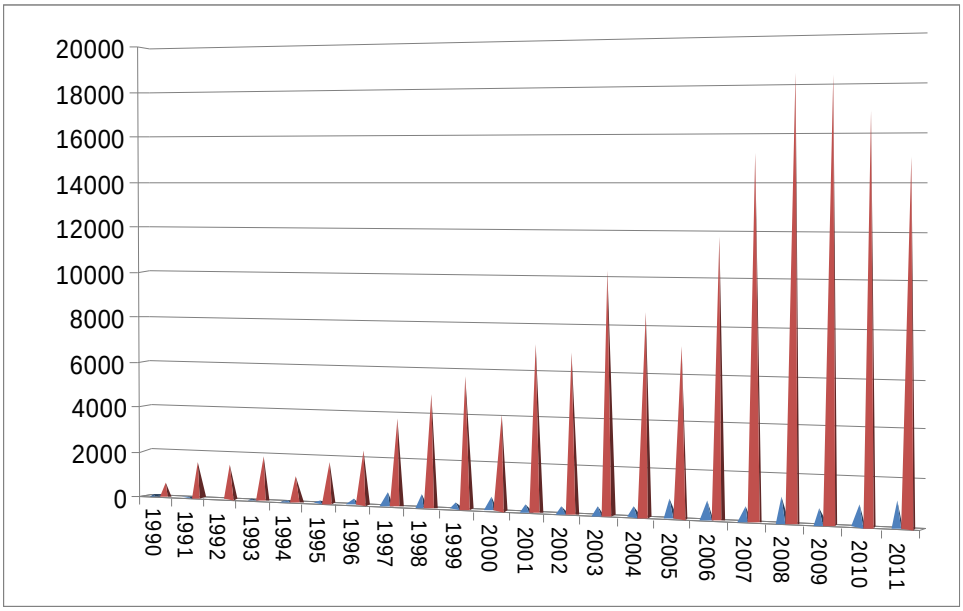
Source: Survey Report, Statistics Department Bangladesh Bank and Foreign Direct Investment in Bangladesh, Board of Investment.

Figure - 4.17sheds light on the FDI investment in Asian Countries was always greater than African, Latin America and the Caribbean and Oceania Countries (Table-3 in Appendix). FDI investment in Asian Countries and Latin America and the Caribbean was increasing at an increasing rate. But the FDI investment in Oceania Countries was in steady direction. On the other hand FDI investment in African Countries was increasing trend after 2004. Bangladesh holds only 0.27% of FDI investment in Asian Countries during 1990-2011.

4.13.3: FDI Inflows in Bangladesh as Least Development Countries

Figure - 4.18

FDI Inflows in USD in Bangladesh as LDCs



Source: Survey Report, Statistics Department, Bangladesh Bank, Foreign Direct Investment in Bangladesh, and Board of Investment.

Figure- 4.18 reveals the fact that FDI investment in Bangladesh increased though the FDI investment in Least Developed Countries (LDCS) decreased in recent years (Table-4 in Appendix). Bangladesh holds only 6.08% of FDI investment in Least Developed Countries during 1990-2011.

The analysis of this chapter reveals that, starting from 1990 Bangladesh has been able to attract seven times more FDI after 23 years. It is true that such growth of FDI inflow is not sufficient for Bangladesh. FDI has diverse impacts on the economy of a country. It plays important role in terms of capital formation, output growth,

technological progress, exports and employment generation etc. All of them are vital for a country like Bangladesh seeking rapid growth. Discussion done in this chapter the trend of FDI inflow to Bangladesh cannot be considered as satisfactory. If we consider the impacts of FDI in Bangladesh, changes occurred in different socioeconomic aspects in the last two decades will supplement to the fact that inflows of FDI are insufficient for expected growth of a densely populated low income country like Bangladesh.

Chapter-5

Research Design

Generally, there are many theories which attempt to explain the determinants of FDI. These theories are significant steps towards the development of a systematic framework for the emergence of FDI. Moreover, Foreign Direct Investment (FDI) for a country is now widely regarded to be determined by a broad range of factors. However, there is relatively little empirical evidence on the determinants of FDI of a country. Here, we have made an attempt to identify the factors that affect FDI in Bangladesh.

5.1 Specification of the Model and Measurement Issues

Theoretical and empirical studies suggest that the most influencing factors of FDI are market size, gross national income, inflation, openness, corporate tax rate, domestic investment, external debt, labor force, average exchange rate, average wage in manufacturing and urbanization.

This study is based on the following model for the determinants of FDI. According to this model FDI is determined by the variables shown in the following equation.

$$FDI = \alpha+\beta_1 MS+\beta_2 GNI+\beta_3 INF+\beta_4 OPEN+ \beta_5 CTR+ \beta_6 DI + \beta_7 ED +\beta_8 LF+ \beta_9 ER+ \beta_{10} WM+ \beta_{11} URB$$

Where, FDI: Foreign Direct Investment is net inflows as a percentage of Gross Domestic Product (GDP).

α = Constant term,

β_1, β_2, β_3, β_4, β_5, β_6, β_7, β_8, β_9, β_{10}, and β_{11} = Regression coefficients for the independent variable,

Here, FDI inflow is the dependent variable, while the others are the independent variables. This test has been used to find out whether there is a relationship between dependent variable and the independent variables. Collected data have been processed and analyzed with the help of SPSS software.

MS = Market Size: Growth Rate of per Capita GDP.

GNI = Gross National Income**:** GNI or GNP is the total market value of all final goods and services produced within a nation in a given period of time.

INF = Inflation**:** The rate of inflation measured by annual percentage change of consumer price, a proxy of economic stability.

OPEN = Openness: Trade Openness constructed as import plus exports as percentage of real gross domestic product per capita.

CTR =Corporate Tax Rate: Corporate top tax rate which is determined in a year.

DI = Domestic Investment: Real Gross Domestic Investment both private and public as percentage of GDP per capita.

ED = External Debt: External Debt that consists of total long-term and short- term stocks expressed by type of borrower.

LF = Labor Force**:** Labor Force is the economically active population excluding the unpaid workers and is measured in thousands (only employed people).

ER = Average Exchange Rate: Yearly approximate exchange rate by which the transaction occurred with the foreign countries.

WM = Average Wages in Manufacturing**:** Labor Cost per worker in percentage in manufacturing sector.

URB = Urbanization: Extent of Urbanization measured by urban population as percentage of total population.

Dependent Variable

Foreign Direct Investment Inflow

The dependent variable used in this study for Foreign Direct Investment is net inflows as a percentage of Gross Domestic Product (GDP). The percentage value instead of total value is used in our study because it has been successfully used in several empirical studies of FDI (Demirhan and Masca, 2008).

Independent Variable

Market Size (MS)

Available literature suggested that market size as measured by GDP or GDP per capita seems to be the most robust FDI determinant in econometric studies. Jordaan (2004) mentions that FDI will move to countries with larger and expanding markets and greater purchasing power, where firms can potentially receive a higher return on their capital and by implication receive higher profit from their investments. Charkrabarti (2001) states that resources and exploitation of economies of scale: as the market-size grows to some critical value, FDI will start to increase thereafter with its further expansion. This hypothesis has been quite popular and a variable representing the size

of the host country market has come out as an explanatory variable in nearly all empirical studies on the determinants of FDI.

Gross National Income (GNI)

Gross National Income is the major instrument or measure tool which shows the growth or the economy of the country, in simple words GNI or GNP can define as it is a monetary measure of all factor of payments to resource owners: It represents the total market value of all final goods and services produced factors of production located within a nation's boundaries in a given period of time.

Inflation (Consumer Price Index)

Different studies have successfully used the rate of inflation in a country as one of the determinants of FDI. Following the previous studies this study has also taken this variable as one of the independent variable. Inflation (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living and also affect the foreign direct Investment.

Openness (OPEN)

Charkrabarti (2001) states that there is mixed evidence concerning the significance of openness, which is measured mostly by the ratio of exports plus imports to GDP, in determining FDI, as well. The maintained hypothesis is: given that most investment projects are directed towards the tradable sector, a country's degree of openness to international trade should be a relevant factor in the decision.

Jordaan (2004) claims that the impact of openness on FDI depends on the type of investment. When investments are market-seeking, trade restrictions (and therefore less openness) can have a positive impact on FDI. The reason stems from the "*tariff jumping*" hypothesis, which argues that foreign firms that seek to serve local markets may decide to set up subsidiaries in the host country if it is difficult to import their products to the country.

Corporate Tax Rate (CTR)

The literature remains fairly indecisive regarding whether FDI may be sensitive to tax incentives. Some studies have shown that host country corporate taxes have a significant negative effect on FDI flows (Demirhan and Masca, 2008). Others have reported that taxes do not have a significant effect on FDI. Hartman (1994), Grubert and Mutti (1991), Hines and Rice (1994), Loree and Guisinger (1995), Cassou (1997) and Kemsley (1998) found that host country corporate income taxes have a significant negative effect on attracting FDI flows. However, Root and Ahmed (1979), Lim (1983), Wheeler and Mody (1992), Jackson and Markowski (1995), Yulin and Reed (1995) and Porcano and Price (1996) conclude that taxes do not have a significant effect on FDI. Swenson (1994) reports a positive correlation.

Domestic Investment (DI)

It represents that, Real Gross Domestic Investment both private and public as % of GDP per capita It is an important determinant and has significant impact on FDI , as foreign investors have greater incentive in investing in open economy as compared to countries with restricted trade policies.

External Debt (ED)

External Debt is that part of the total debt in a country which is owed to the creditors outside the country. The debtors can be the government, corporations or citizens of that country. External debt of the developing countries is generally in large quantities beyond the government's ability to repay.

Labor Force (LF)

There are many factors that can affect FDI Inflow. It is assumed that labor force is one of the prominent factors that influence the FDI Inflow. Countries that have greater potential for labor force are more suitable for foreign direct investment. Foreign investors try to capitalize the opportunity of low cost production by establishing business there.

Exchange Rate (ER)

Firms prefer to foreign direct investment in those countries where the local currency is expected to strengthen against their own. Under these conditions foreign investors can invest funds to establish their operations in a country where currency is relatively cheap.

Wages or Labor Cost (WM)

Human Capital is used to evaluate the significance of what, according to the most recent theoretical models imperfect competition modes (Zhang and Markusen, 1999); the human capital is an essential factor in the location strategies of multinational firms. Charkrabarti (2001) claims that wage as an indicator of labor cost has been the most contentious of all the potential determinants of FDI. Theoretically, the importance of cheap labor in attracting multinationals is agreed upon by the proponents of the dependency hypothesis as well as those of the modernization hypothesis, though with

very different implications. There is, however, no unanimity even among the comparatively small number of studies that have explored the role of wage in affecting. Unit labor cost is generally assumed that a foreign investment would invest in host country if costs (wages) of producing in that country are lower than in the home country and if productivity is higher. FDI on some specific sectors (such as garments industry) of Bangladesh increases day by day because of the low wage rate of this country.

Urbanization (URB)

Infrastructure covers many dimensions ranging from roads, ports, railways and telecommunication systems to institutional development (*e.g.* accounting, legal services, *etc.*). According to ODI (1997), poor infrastructure can be seen, however, as both an obstacle and an opportunity for foreign investment. For the majority of low-income countries, it is often cited as one of the major constraints. But foreign investors also point to the potential for attracting significant FDI if host governments permit more substantial foreign participation in the infrastructure sector. Jordaan (2004) claims that good quality and well-developed infrastructure increases the productivity potential of investments in a country and therefore stimulates FDI flows towards the country. According to Asiedu (2002) and Ancharaz (2003), the number of telephones *per* 1,000 inhabitants is a standard measurement in the literature for infrastructure development. However, according to Asiedu (2002), this measure falls short, because it only captures the availability and not the reliability of the infrastructure. Furthermore, it only includes fixed-line infrastructure and not cellular (mobile) telephones. Infrastructure is weak in Bangladesh. While this is a disadvantage for doing business, it also means that the area offers substantial prospects for investment.

5.2 Hypothesis Test

Null hypothesis

H_0: Market size, gross national income, inflation, openness, corporate tax rate, domestic investment, external debt, labor force, average exchange rate, average wage in manufacturing, urbanization have no positive and significant relationship with FDI Inflow.

Alternative Hypothesis

H_1: Market size, gross national income, inflation, openness, corporate tax rate, domestic investment, external debt, labor force, average exchange rate, average wage in manufacturing, urbanization have positive and significant relationship with FDI inflow.

Chapter-6

Empirical Analysis

The variation in Foreign Direct Investment (FDI) across the countries can be explained by the eleven explanatory variables that are included in the model. Moreover, the theory and evidence argue that market size, gross national income, inflation, openness, external debt, labor force, average exchange rate, average wage in manufacturing and urbanization will have positive effect on FDI and corporate tax rate and domestic investment will have negative effect on FDI.

6.1 Sample Characteristics and Test of Statistical Assumption

To test the hypothesis of this study, Multiple Regression Analysis using the least square estimation method is used. Least Square Method of estimates require certain assumptions. Which includes : i) the relationship between the dependent and independent variables are linear and ii) The residual term should be normally distributed with zero expectation, not correlated with the independent variable and have constant variance (Neter & Wasserman, 1974).

The test for model specification error employed is an F test procedure to determine if the empirical model explains a significant proportion of the total variance in FDI. If the F value is significant it is held that the relationship is linear. The other assumptions involving error terms are tested directly. The presence of multicollinearity is tested through Pearson correlation method (Chowdhury, 2004).

Table-6.1

Variable Definitions

Variables	Definition
Foreign Direct Investment	FDI net inflows as a % of Gross Domestic Product (GDP).
Market Size	Growth Rate of per Capita GDP.
Gross National Income	GNI or GNP is the total market value of all final goods and services produced within a nation in a given period of time.
Inflation	The rate of inflation measured by annual % change of consumer price, a proxy of economic stability.
Openness	Trade Openness constructed as import plus exports as % of real gross domestic product per capita.
Corporate Tax Rate	Corporate top tax rate which is determined in a year.
Domestic Investment	Real Gross Domestic Investment both private and public as % of GDP per capita.
External Debt	External Debt that consists of total long-term & short- term stocks expressed by type of borrower.
Labor Force	Labor Force is the economically active population excluding the unpaid workers and is measured in thousands (only employed people).
Average Exchange Rate	Yearly approximate exchange rate by which the transaction occurred with the foreign countries.
Average Wages in Manufacturing	Labor Cost per worker in % in manufacturing sector.
Urbanization	Extent of Urbanization measured by urban population as % of total population.

Financial data are obtained for the period 1999–2013 for the variables discussed in the previous chapter. The data are collected from the secondary sources. Table- 6.1 provides the definitions of all the variables used in the study followed by summaries of sample characteristics of the variables included in the model. Descriptive statistics is the first step in this research. It helped to describe relevant aspects of phenomena of Foreign Direct Investment and provides detailed information about each relevant variable.

Table- 6.2

Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
FDI Inflow (in %)	1.10	13.50	8.3533	4.04084
Market Size (in %)	4.30	6.90	5.8800	.68159
Gross National Income (in %)	4.90	7.90	6.3000	.94567
Inflation (in %)	3.10	9.10	6.8067	1.70355
Corporate tax rate (in %)	9.60	18.00	13.9333	3.13270
Domestic Investment (in %)	27.50	35.00	30.5000	3.01780
External Debt (in %)	22.20	27.00	24.5067	1.46115
Labor Force (in %)	20.58	34.79	28.2593	4.80171
Average Exchange Rate (in %)	60.00	66.90	65.8533	.56172
Average wages in manufacturing (%)	1.11	1.90	1.5033	.24578
Rate of urbanization (in %)	5.70	7.90	6.9800	1.08246
Openness(in %)	24.00	30.00	26.6000	1.91982

Descriptive Statistics show the mean and standard deviation of the different variables used in the study. It also presents the minimum and maximum values of the variables, which help in getting a clear view about the minimum and maximum values of a variance. Table- 6.2 reveals the descriptive statistics for FDI in Bangladesh for the period under consideration.

Table-6.3

Correlation Matrix

Correlations													
		FDI Inflow (in %)	**Market Size (in %)**	**Gross National Income (in %)**	**Inflation (in %)**	**Corporate tax rate (in %**	**Domestic Investment (in %)**	**External Debt (in %)**	**Labor Force (in %)**	**Average Exchange Rate (in %)**	**Average wages in manufacturing (%)**	**Rate of urbanization (in %)**	**Openness (in %)**
Pearson Correlation	FDI Inflow (in %)	1.000											
	Market Size (in %)	0.784*	1.000										
	Gross National Income(in %)	0.498**	0.675*	1.000									
	Inflation (in %)	.190	.059	.061	1.000								
	Corporate tax rate (in %	0.695*	0.583*	0.456**	.136	1.000							
	Domestic Investment (in %)	-.768*	-.707*	-.407	.149	-.856*	1.000						
	External Debt (in %)	0.741*	0.593*	.307	.057	0.946*	-.880*	1.000					
	Labor Force (in %)	-.688*	-.551**	-.262	-.122	-.923*	0.791*	-.965*	1.000				
	Average Exchange Rate(in %)	-.707*	-.654*	-.418	.142	-.775	0.952*	-.785*	0.658*	1.000			
	Average wages in manufacturing (%)	0.806*	0.645*	.391	.014	0.946*	-.915*	0.959*	-.896*	-.848*	1.000		
	Rate of urbanization(in %)	0.854*	0.660*	0.512**	.206	0.872*	-.800*	0.818*	-.832*	-.723*	0.886*	1.000	
	Openness (in %)	0.772*	0.648*	.417	.073	0.948*	-.888*	0.945*	-.886*	-.794*	0.967*	0.862*	1.000

The values with *,** and *** are significant at 1%, 5% and 10% respectively.

To test if multicollinearity problem exists or not, i.e., if the independent variables included in the model are collinear, standard errors of the regression coefficient may be artificially inflated causing difficulty in the interpreting the statistical results (Pearson Correlation Coefficients) that are shown in the Table 6.3. The available literature suggests that the decision rule is to reject the null hypothesis of independence if any correlation co-efficient exceeds 0.50 was instituted. It is very clear from the tables that there is no multicollinearity problem in this study. None of the co-efficient appears to be a material consideration in interpreting the regression model.

6.2 Analysis and Interpretation of the Result

There is a lack of empirical studies related to the determinants of FDI both at home and abroad. Since FDI has been an important mechanism of accelerating economic development process of a country. The present study has been under taken to give an insight into the issue.

The hypothesis of the variation in the Foreign Direct Investment (FDI) across the countries can be explained by the eleven explanatory variables in the model. Moreover, the available literature suggests that market size (+), gross national income (+), inflation (+), openness (+) , external debt (+), labor force (+), average exchange rate (+), average wage in manufacturing (+), urbanization (+), corporate tax rate (-) and domestic investment (-). To test the hypothesis of this study multiple regression analysis using the least square method is used.

Table- 6.4

Regression Results

Independent Variables	Estimated Coefficient	Standard Error	t Statistic	Significance
Intercept	-1380.761	296.225	-4.661	
Market Size (in %)	6.964	1.793	3.885	0.03**
Gross National Income (in %)	-3.969	1.334	-2.974	0.059***
Inflation (in %)	-1.285	0.522	-2.462	0.091***
Openness (in %)	-2.665	0.791	-3.371	0.043**
Corporate tax rate (in %)	1.826	0.984	1.855	0.161
Domestic Investment (in %)	1.109	0.71	1.562	0.216
External Debt (in %)	24.573	5.4	4.551	0.02**
Labor Force (in %)	5.541	1.283	4.319	0.023**
Average Exchange Rate (in %)	6.671	2.043	3.266	0.047**
Average wages in manufacturing (in %)	-63.698	20.082	-3.172	0.05**
Rate of urbanization (in %)	13.043	2.723	4.791	0.017**
		R2 = 0.991		
		F Statistic = 0.008		
		Durbin Watson Test = 2.946		
	** Significant at the 5% level			
	***Significant at the 10% level			

As indicated by the parameter estimates out of eleven variables this study has identified the nine most important and reliable factors influencing the Foreign Direct Investment in Bangladesh and correct sign. These variables are market size, gross national income, inflation, openness, external debt, labor force, average exchange rate, average wages in manufacturing and rate of urbanization. The insignificant variables are corporate tax rate and domestic investment.

1) Market Size

The study reveals that market size measured by growth rate of per capita GDP, has a positive impact on the FDI in Bangladesh. It is expected that FDI will move to countries with larger and expanding markets and higher purchasing power. From this country, firm's can potentially receive a higher return on their investment. In other studies, Ang (2008) finds that real GDP has a significant positive impact on FDI inflows. He also finds that growth rate of GDP exerts a small positive impact on inward FDI.

2) Gross National Income:

The study reveals that, gross national income has a positive influence on FDI in Bangladesh. In a developing country, there is need of FDI for its growth and our result showed the importance of gross national income for attracting more FDI in Bangladesh.

3) Inflation:

According to the findings of the study, inflation rate has a positive impact on FDI in Bangladesh. In this study, the rate of inflation is measured by annual percent change of consumer prices, which is proxy of economic stability. Foreign investors who want to invest in a foreign country may desire more stable economy for profitability and easy earning flow, therefore the expected sign of inflation is negative. The result of the study is not in line with the expected sign.

4) Openness:

The findings of the study also point out that Openness has a positive impact on FDI in Bangladesh. Wheeler and Mody (1992) observe a strong positive support for the hypothesis in the manufacturing sector, but a weak negative link in the economic sector. Fravis and Lopsey (1982), Culen(1988), Edwards (1990) find a strong link. The result of this study has supported the existing findings.

5) External Debt:

External debt is found to have positive influence on FDI for BD. level of external debt has been found as affecting FDI significantly in the lower-middle income countries. It is observed that, 1% increase in External Debt found to increase FDI by 2.027%. In general, highly indebted countries not only need greater flow of FDI but are also attracting it more than other countries. To this end, these countries need to adopt policies responsive to the requirement of foreign investors (Bushra et al. 2003).

6) Labor Force:

According to the findings of this study, labor force has a positive impact on FDI in Bangladesh. These findings match the expectation that, countries that have greater potential for labor force are more suitable for FDI. Foreign investors always try to capitalize the opportunity of labor force by establishing business in foreign countries.

7) Average Exchange Rate:

   The study also reveals that, there has been positive relationship between exchange rate and FDI. It is expected that, firms prefer to FDI in those countries where the local currency is expected to strengthen against their own.

8) Average Wages in Manufacturing:

   Labor cost has been the most potential determinants of FDI having positive sign in this study. Theoretically, the importance of cheap labor in attracting FDI in a country. Studies by Saunders (1982), Flamn (1984), Scheneider & Frey (1985), Cluem (1988) and Shamsuddin (1994) have documented this finding.

9) Rate of Urbanization:

   In this study the extent of urbanization is associated with the expected positive sign and is statistically significant in determining the flow of FDI. The reason is that in urban areas, the products used as inputs are easily available to the investors.

Insignificant Factors:

In this study, it is observed that, corporate tax rate and domestic investment have no positive and significant relationship with the Foreign Direct Investment in Bangladesh.

This study was an attempt to give an insight into the theoretical and empirical issues that determine the level of Foreign Direct Investment (FDI) in Bangladesh. Multiple Regression Analysis was conducted to find out the determinants of FDI in Bangladesh. Our results are mostly consistent and supported by the previous studies. The results of this study can provide a guideline to the policy makers, planners and other concerned

to attract more foreign direct investment in Bangladesh. This study has documented that Bangladesh as a developing country needs more Foreign Direct Investment to uphold the economic development wheels and should undertake favorable environment and policy issues to attract more FDI in Bangladesh and to materialize the development dreams of the country in the years to come.

Chapter-7

Summary and Conclusion

Foreign Direct Investment (FDI) has bothered financial economists from a long time ago. No unambiguous proposition has been accepted as the solution to the determinants of FDI in a country. The fundamental theoretical questions are: Why do firms invest abroad (globally)? What are the determinants of FDI? What are the effects of FDI in a country? Investigation of these issues have developed "FDI puzzle". The purpose of this study was to investigate into the above issue.

The literature related to FDI is diverse in nature. It is observed that different theories advocate different propositions for FDI in a country. There is no consensus point regarding terms and conditions under which FDI will be taking place in a particular country or to a particular region. Modernization Theory also suggests that FDI transfers knowledge, technologies, managerial skills, and ideas which can contribute to the economic development of the recipient country (Mengistu & Adams, 2007). Endorsing this idea, Borensztien et al. (1998) argue that foreign investment enhances economic growth by transferring technology and knowledge to developing countries. Evidence also shows that foreign investment encourages domestic investment. In a study of developing countries, Makki and Somwaru (2004) found that FDI stimulated domestic investment, which further advanced economic growth. Other research carried out by Agosin and Mayer (2000) claimed that foreign investment positively influenced domestic investment in Asian countries.

Dependency Theory claims that foreign investment has a negative impact on the economic development of the recipient country (Dutt, 1997). This theory is supported by Brecher and Diaz-Alejandro (1977) where they argue that FDI may have a negative effect on the economic growth of the host country if the FDI-financed companies repatriate excessive profits to the parent country. This circumstance is known as repatriation of profit, which adversely affects the BOP of the host country (Brecher & Diaz-Alejandro, 1977).

It is observed that FDI not only brings capital for productive development to the host economy, it also transfers a considerable amount of technical and managerial knowledge and skills, which is likely to spill over to domestic enterprise in that economy (Balasubramanyam *et al* 1996; Kumar and Podhan,2002). It is recognized that FDI can contribute to the growth of GDP, Gross Fixed Capital Formation (GFCF) (total investment in a host economy) and balance of payments (Baskaran and Muchie, 2008).

The previous literature suggests that FDI can positively contribute to economic growth in developing countries. According to Modernization Theory, the demand for capital formation in developing nations can be met by FDI through capital investment which can augment economic growth (Firebaugh, 1992). This concept is supported by Mello (1999) who concluded that foreign investment is an important element to fill the resource gap in many developing nations. For instance, FDI has enabled economic growth in South and East Asia by increasing capital formation (Fry, 1999). Moreover, Romer (1993) stated that foreign investment is useful to build physical infrastructure such as roads and factories. Improved physical infrastructure, in turn, will increase the absorptive capacity of the host country, which may attract further FDI.

Baliamoune (2004) found that foreign investment has a positive impact on economic growth through improving exports. A similar view was shared by Kabir (2007), who argues that FDI increases the amount of exports and thus enhances foreign currency earnings, which can be used to pay external debts. Zhang (2006) also found that foreign investment has enhanced the economic growth of China by raising its export volume. Furthermore, FDI has been shown to increase GDP, GNP, and PPP (Islam, 2003; Ahmed, 2005; Khan, 2007; Haque, 2007; Gupta, 1999; Kabir, 2007). Other studies suggested that FDI also plays a role in reducing the domestic savings gap, foreign exchange gap, BOP deficit, unemployment rate, inflation rate, and level of poverty. The available literature argued that FDI has also been linked with introducing corporate social responsibility, diversifying exports, and developing financial institutions.

Experts assert that FDI has an adverse effect on economic development by crowding out domestic investment. For instant, in a study on eleven Central and Eastern European countries, Eller et al. (2005) found that foreign investment crowded out domestic capital. In another study, Bornschier and Chase-Dunn (1985) concluded that in addition to crowded out domestic investment, FDI would be responsible for creating a monopoly. Moreover, Quazi (2004) stated that FDI might have a negative impact on the host country due to capital flight, which is the outflow of domestic capital, resulting in an adverse effect on the country's current account and foreign exchange account.

FDI increases the host country's imports because FDI-financed companies often need high-tech capital machinery and intermediate goods that are often not available in the host country (Rahman, 2008). Increasing imports may have a negative impact on

economic growth due to the resulting trade deficit (Fry, 1999). Biersteker (1978) and Helleiner (1989) are skeptics about the role of FDI on the economic growth of developing nations. They argue that FDI is a mechanism for exploiting and controlling developing countries by western industrialized nations.

There are different organizations which are involved in the managing of FDI in Bangladesh. Bangladesh Small and Cottage Corporation (BSCIC), Bangladesh Export Processing Zone Authority (BEPZA), Privatization Commission, Board of Investment (BOI) and Specialized Export Zone (SEZ) in Bangladesh, which were created for speedy implementation of new industrial projects, provides a wide range of services to foreign investors including infrastructure facilities, import and export facilities, dispute resolution for foreign investors, and pre-investment counseling (Foreign Investment, 2009). They also provide different services to visiting foreign investors such as reception at the airport, hotel booking, and transportation arrangements.

The study observed that FDI in Bangladesh is encouraged in different areas such as energy and power infrastructure, as well as industries such as telecommunications, computers, aircraft and motor parts, textiles, agriculture, and pharmaceuticals (Foreign Investment, 2009). While these are preferred sectors, foreign investors are welcome to invest any sector of their choice except the “reserved industries” such as arms and ammunition, forest plantation, nuclear energy, and printing currency notes. In all sectors except for the reserved industries, Bangladesh provides non-discriminatory treatment between foreign and local investors.

It is revealed that, a wide variety of respects, foreign investors enjoy the same benefits as local investors, including a tax holiday, payment of royalties, and technical know-

how fees (Foreign Investment, 2009). Foreign investors also enjoy 100% foreign equity and full repatriation of profits. In addition to the FDI-friendly policy, the GOB has established EPZs to provide lucrative incentives to the foreign investors.

This study observed that during the last fifteen years, the amount of FDI inflow in Bangladesh has increased from $394 million in 1999 to $1.73 billion in 2013 (Bangladesh Bank Report, 2013). Nevertheless, the amount of FDI in Bangladesh is still disproportionately low compared to neighboring India (population of 1.2 billion) for example in 2013, India received $28 billion FDI (UNCTAD, 2013). Factors behind of the limited FDI inflow in Bangladesh include political instability, inadequate infrastructure, inefficient bureaucracy, widespread corruption, unskilled labor force, and a slow moving privatization process (Rahman, 2008).

In this study we have shown the potential determinants of FDI in Bangladesh. For the empirical analysis, eleven independent variables have been taken. Which are market size, gross national income, inflation, openness, corporate tax rate, domestic investment, external debt, labor force, average exchange rate, average wage in manufacturing and urbanization. As for the estimates out of eleven variables nine variables were significant and having the expected positive sign. In the descriptive analysis mean, standard deviation, minimum and maximum values have also been shown. On the basis of the correlation and regression analysis it is observed that market size, gross national income, inflation, openness, external debt, labor force, average exchange rate, average wage in manufacturing and urbanization have positive relation and relevant factors of FDI. The other factors corporate tax rate and domestic investment have negative sign and irrelevant factors in determining FDI inflow in Bangladesh.

The significant features and contributions of this study are as follows:

i) This study has documented the potential determinants of Foreign Direct Investment in Bangladesh.

ii) This study has confirmed that Bangladesh has enough potentialities for the FDI.

iii) We have documented that market size, gross national income, inflation, openness , labor force, external debt, average exchange rate, average wage in manufacturing and urbanization are the determinants of FDI in Bangladesh and found statistically significant having positive sign. On the other hand, corporate tax rate and domestic investment are not the potential determinants of FDI in Bangladesh. These variables were found insignificant for the determinants of FDI having negative sign.

iv) This study documented that flow of FDI has mixed trend in Bangladesh.

v) It is observed that there are some administrative loopholes and policy issues that hinder the inflow of FDI in Bangladesh and creates obstacles for new investors to come to this country for investment. It may be argued that addressing those issues and making congenial and favorable environment, rules and regulation are to be enacted to overcome those problem and to build up confidence for existing and new investors to come in future.

It is observed that FDI is a complex issue in the free market and globalized economy. The flow of FDI in different countries are restricted by different barriers such as tax, tariff, quota, cultural differences, labor immobility, urbanization, openness, market size, inflation and other relevant factors. However, these barriers can create unique

opportunities for some specific country or geographic region that will attract FDI. We are optimistic that Bangladesh will undertake positive move to reduce these barriers and take appropriate measures to attract sizable FDI in Bangladesh to maintain the development wheel of the economy in the years to come.

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Data Appendix

Table–1

FDI inflow and selected macroeconomic indicators

Year	FDI Inflow (in %)	Market Size (in %)	Gross National Income (in %)	Inflation (in %)	Openness in (%)	Corporate tax rate (in %)	Domestic Investment (in %)	External Debt (in %)	Labor Force (in %)	Average Exchange Rate (in %)	Average wages in manufacturing (%)	URB (in %)
1999	0.39	5	4.9	9	13.9	35	22.2	34.79	96.9	2.08	5.7	24
2000	0.59	5.9	6.4	9	15.4	35	23	31.92	96.7	1.98	5.7	24
2001	0.17	5	4.9	5.8	10.7	35	23.1	30.69	96.6	1.85	5.7	24
2002	0.11	4.3	5.7	5.8	11.5	35	23.1	33.43	96.6	1.74	5.7	25
2003	0.52	5.6	6.4	3.1	9.5	30	23.4	33.56	95.7	1.72	5.7	25
2004	0.79	6.3	6	5.6	11.6	30	23.9	33.02	95.5	1.69	5.7	26
2005	1.35	5.9	5.7	6	11.7	30	24.2	29.12	95.7	1.62	7.8	26
2006	1.13	6.4	7.9	7	14.9	30	24.3	30.49	95.8	1.49	7.8	28
2007	0.95	6.9	7.7	7.2	14.9	30	24.2	29.07	95.7	1.44	7.8	27
2008	1.27	6	7.5	9.1	16.6	30	24	26.5	95.6	1.45	7.8	27
2009	0.82	5.7	6	8.9	14.9	27.5	24	25.25	95	1.44	7.8	28
2010	0.91	6.1	6.6	5.4	12	27.5	24.2	23.48	95.5	1.43	7.8	28
2011	1.02	6.3	6.2	6	12.2	27.5	25.2	22.38	95.5	1.34	7.8	28
2012	1.08	6.6	7.2	6.6	13.8	27.5	26.8	20.58	95.5	1.22	7.8	29
2013	1.2	6.2	5.4	7.6	13	27.5	27	21	95.5	1.27	7.8	30

Sources: Bangladesh Bank Annual Reports

Website: http://www.bb/pub/publictn.php

Table-2

Investment Requirement of Bangladesh to 2020 (in US$ billion)

SL. No	Sectors	Annual Average	Total
1	Social sector	1.0	25.0
2	Urban housing & infrastructure	4.0	100.0
3	. Physical infrastructure	3.0	75.0
4	Industry & Agriculture	4.0	100.0
5	Environment & other	1.0	25.0
Total		13.0	325.0

Source: The World Bank Publications, Various Issues.

Table-3

FDI Inflows in USD by Developing Economies

(Figures in million USD)

Year	Africa	Asia	Latin America and the Caribbean	Oceania	Developing economies
1990	34868.2	2845.3	22628.4	8940.8	453.7
1991	39854.5	3541.9	24154.8	11624.1	533.7
1992	53126.7	3839.8	32932.6	16161.5	192.8
1993	76749.2	5443.2	55967.3	15148.6	190.1
1994	103375.6	6104.7	68103.4	29003.5	164.0
1995	116207.7	5655.0	80489.6	29513.1	550.0
1996	148999.4	6038.6	96559.9	46271.3	129.6
1997	192123.2	11033.3	107395.6	73396.2	298.2
1998	189406.0	9993.6	93462.1	85586.3	364.0
1999	231013.7	11877.8	113758.7	104871.4	505.7
2000	255498.0	9671.1	147786.8	97816.5	223.7
2001	216883.0	19961.0	115968.1	80743.0	210.9
2002	173326.7	14629.9	100083.4	58490.8	122.7
2003	190119.3	18190.5	123706.8	47873.8	348.1
2004	291889.8	17357.1	177983.5	96188.5	360.7
2005	327284.1	30504.8	218420.4	78093.6	265.3
2006	427163.4	36782.9	290907.0	98175.4	1298.2
2007	574311.5	51478.9	349412.2	172280.9	1139.5
2008	650016.8	57841.5	380360.4	209517.0	2297.8
2009	519225.0	52644.9	315237.6	149402.4	1940.1
2010	616660.7	43122.1	384063.0	187400.7	2074.9
2011	684399.3	42651.9	423157.0	216988.3	1602.1

Table-4

FDI Inflows in USD in Bangladesh as LDCs

(Figures in million USD)

Year	FDI Inflow in Bangladesh	Least developed countries (LDCs)
1990	3.2	572.8
1991	1.4	1571.4
1992	3.7	1507.4
1993	14.0	1894.7
1994	11.1	1092.1
1995	92.3	1760.1
1996	231.6	2361.8
1997	575.3	3788.3
1998	575.5	4852.6
1999	309.1	5726.4
2000	578.6	4133.3
2001	354.5	7107.5
2002	335.5	6842.7
2003	350.3	10327.6
2004	460.4	8536.3
2005	845.3	7173.3
2006	792.5	11738.7
2007	666.4	15237.4
2008	1086.3	18496.7
2009	700.2	183415
2010	913.3	16899.2
2011	1136.4	15010.9