



GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH
FINANCE
Volume 13 Issue 11 Version 1.0 Year 2013
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Scenario and Incentives of Foreign Direct Investment (FDI) in Bangladesh

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Keywords: Development, Foreign Direct Investment (FDI), Incentives.

GJMBR-C Classification : FOR Code:150304 JEL Code: O31, F31



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Scenario and Incentives of Foreign Direct Investment (FDI) in Bangladesh

Md. Abdullah Al Mamun^α & Md. Hasebur Rahman^ο

Abstract- FDI is considered as an important tool for economic development of developing country. The term foreign direct investment is considered as one of the important contributors for the economic development of a country in particular and the world in general with the concept of globalization. Foreign direct investment has great impact on the development of developing country like Bangladesh. Foreign Direct Investment increases trade and investment, labor mobility, capital inflow, technology and know-how to the recipient country. The secondary data has been analyzed using tabular and graphical tools. Governments have now changed their policies from restricting towards promoting foreign investment. Though the government of Bangladesh provides fiscal, financial and other incentives, the actual flow of FDI is below the desired level.

Keywords: Development, Foreign Direct Investment (FDI), Incentives.

I. INTRODUCTION

Bangladesh is a developing country. Government of Bangladesh is looking forward to be a middle income country within 2021. In order to do that requires huge investment. There exists a saving investment gap. Investible fund may come from internal as well as external. External sources may foreign direct investment and foreign aid. Foreign Direct Investment is considered as one of the crucial ingredients for fostering economic development of developing country. The gap between actual flow of total investment and target of Government articulated in the medium term macroeconomic framework is on the rise and might grow sharply in the upcoming years [1]. FDI plays an important part in creating jobs but also considered as a source of income. But the strong argument in favor of public support to FDI is based on the prospect for knowledge spillovers. Indeed, FDI appears as the way to get capital without assuming the risk linked to the debt. Despite the controversies surrounding the benefits and cost of FDI a number of developing. Governments have now changed their policies from restricting towards promoting foreign investment [2]. The gains from FDI inflows are unquestionable as it contributes to economic growth through an increase in productivity by providing new investment, better technologies and managerial skills to the host countries. The impact of FDI on economic growth depends on the degree of capacity of

the host country to use FDI efficiently. Similarly, trade liberalization may facilitate economic growth through efficiency in production by utilizing the abundant factors of production more effectively and absorbing better technologies from advanced countries. On the one hand, it may harm the growth process through various forms of macroeconomic instability such as terms of trade deterioration and balance of payments crisis. Therefore, it is a challenge for developing countries to find out the appropriate direction of the role of FDI and trade liberalization in economic growth [3]. FDI is considered as an important tool for economic development of developing country. If the investing country is wealthier than the host country then capital will flow to the host country [4].

II. LITERATURE REVIEW

Foreign direct investment has great impact on the development of developing country like Bangladesh. Several studies have been conducted on FDI. Faruk in his study "Effect of FDI to accelerate the economic growth of Bangladesh and some problem and prospect of FDI" found that FDI has greater impact on GDP or economic growth of Bangladesh [5]. Saha has seen that market instability, natural disaster, political instability, corruption, bureaucratic difficulties, power generation, inefficient labor, poor infrastructure, lack of joint effort, investors suspicious sentiments, regional and international politics are considered to be the hindrance in getting the sound FDI in Bangladesh [6]. Macroeconomic environment, governance, infrastructure, financial incentives, international integration, political stability, human resources, technological infrastructure plays vital role to bring more FDI in Bangladesh [7]. Nasrin et al in the paper "Major determinants and hindrance of FDI inflow in Bangladesh: perceptions and experience of foreign investors and policy maker" cheap labor, government incentives, investment friendly public policy and geographical location attract FDI [8]. Bhattacharya in his article he shown that industrious low cost workforce, strategic location, regional connectivity, strong vibrant local market and growth, openness to trade, low cost energy, proven export competitiveness, export and economic zones financial and fiscal incentives brings more FDI [9]. Alam in his paper shown that Bangladesh offers various fiscal, financial and other facilities to

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increase flow of FDI in Bangladesh [10]. Bouoiyour in his research found that market size, labor cost, human resources, macroeconomic instability, regulatory policy, trade performance and competitiveness affect FDI[2]. Kafi et al in their study opined that infrastructure, macroeconomic environment, governance, international integration, political stability, human resources, technological infrastructures, bureaucracy, political unrest, corruption, insufficient power supply are fundamental ingredients to secure FDI[11]. Shahabuddin et al the study investigated that Bangladesh provides tax incentives, direct financial grants subsidies, loan guarantees to find more FDI[12].

III. OBJECTIVE OF THE RESEARCH WORK

The study is conducted for attaining the following objectives,

- To show the scenario of FDI.
- To analyze the incentives available for investor in Bangladesh.

IV. RESEARCH METHODOLOGY

The present study is conducted based on secondary data. These data have been collected from

Table 1 : FDI registered in Board of Investment from 1977-2010

Sl	Particulars	No. units registered	Investment in (USD million)	Employment (person)
A	100%Foreign Investment	418	7012.768	141957
B	Joint Venture Investment	1179	10172.470	259207
	Total	1597	17185.238	401164

Source: Investment Implementation Monitoring Cell (IIMC), Board of Investment

b) 100% Foreign Investment.

The below table shows yearly 100% foreign investment registered in Bangladesh employment opportunities for the period of 1990-2010.and appears that there is fluctuation in investment. The year 2005 has

various sources. They are -journal, books, Daily news paper, Bangladesh economic review, Bangladesh bank, Bureau of statistics, various websites. The analysis has been performed through tabular form, charts, and diagrams on the basis of available data. Specially methodology is known as content analysis.

V. FOREIGN DIRECT INVESTMENT IN BANGLADESH

a) Present Status of FDI

After independence Bangladesh is seeking foreign capital. For that reason in nineties it liberalizes investment policy. As a result FDI has increased over the period. FDI in Bangladesh comprises of 100% Direct Investment and Joint Venture. The below table depicts the scenario of FDI in Bangladesh. The number of units registered to board of investment is 1597 to which 418 totally foreign owned and 1179 are joint venture. Total investment USD 17185.238 million and it generated 401164 persons employment opportunities.

received the highest USD 3197.623 million and year 1994 received lowest USD 0.200 million investment. The fluctuation may cause of political unrest and incentives to the investor.

Table 2 : Year wise flow of 100% direct investment from 1990-2010

Year	Investment in (USD million)	Employment Opportunities(Person)
1990	0.623	100
1991	2.841	344
1992	18.919	206
1993	0.200	150
1994	28.037	2521
1995	10.318	252
1996	22.257	4125
1997	191.242	3998
1998	1018.871	3887
1999	436.907	13116

2000	406.695	1012
2001	11.258	1761
2002	35.963	9709
2003	83.516	8042
2004	224.806	20775
2005	3197.623	14439
2006	1120.820	11688
2007	55.163	23779
2008	65.584	6208
2009	44.688	11050
2010	36.437	4795
Total	7012.768	141957

Source: Investment Implementation Monitoring Cell (IIMC), Board of Investment

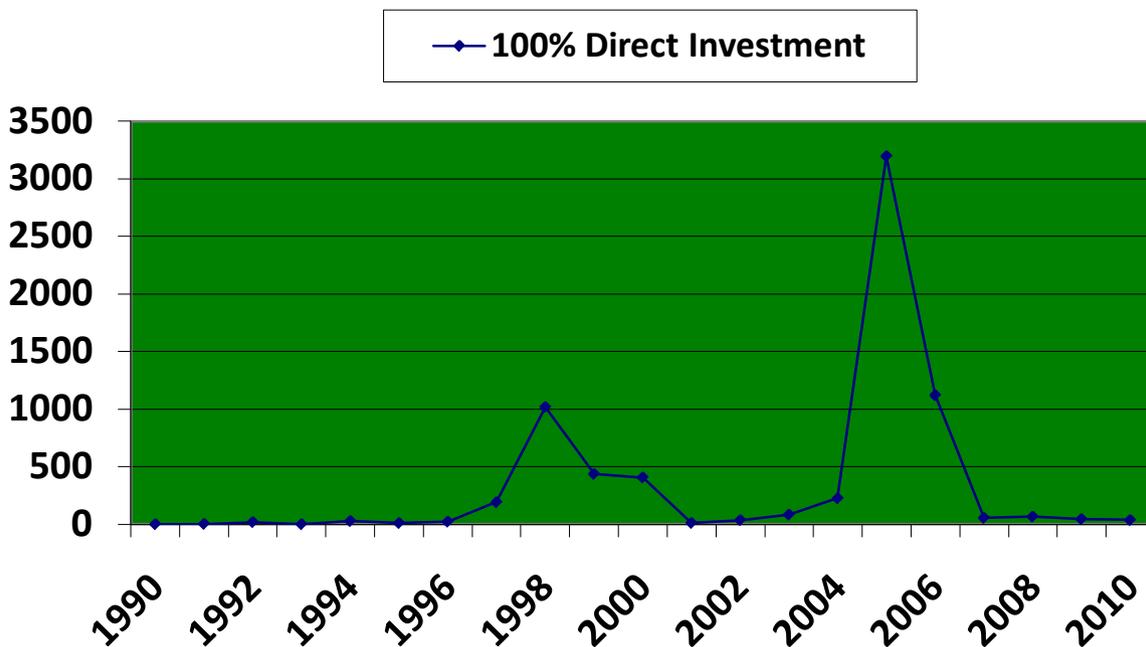


Figure 1 : Shows 100% foreign investment trend from 1990-2010

The figure shows inconsistent proceedings of 100% foreign investment in Bangladesh since 1990. In spite of having incentives, friendly investment policies, low labor cost, comparative advantages, establishment of EPZs Bangladesh not attain desirable investment. The above figure shows an increasing trend from year 1995 to 1999. But after that there is a decreasing up to 2001 and again upward trend to year 2005 and again a down ward trend up to 2010.

c) Contribution of Different Sectors in 100% Foreign Investment

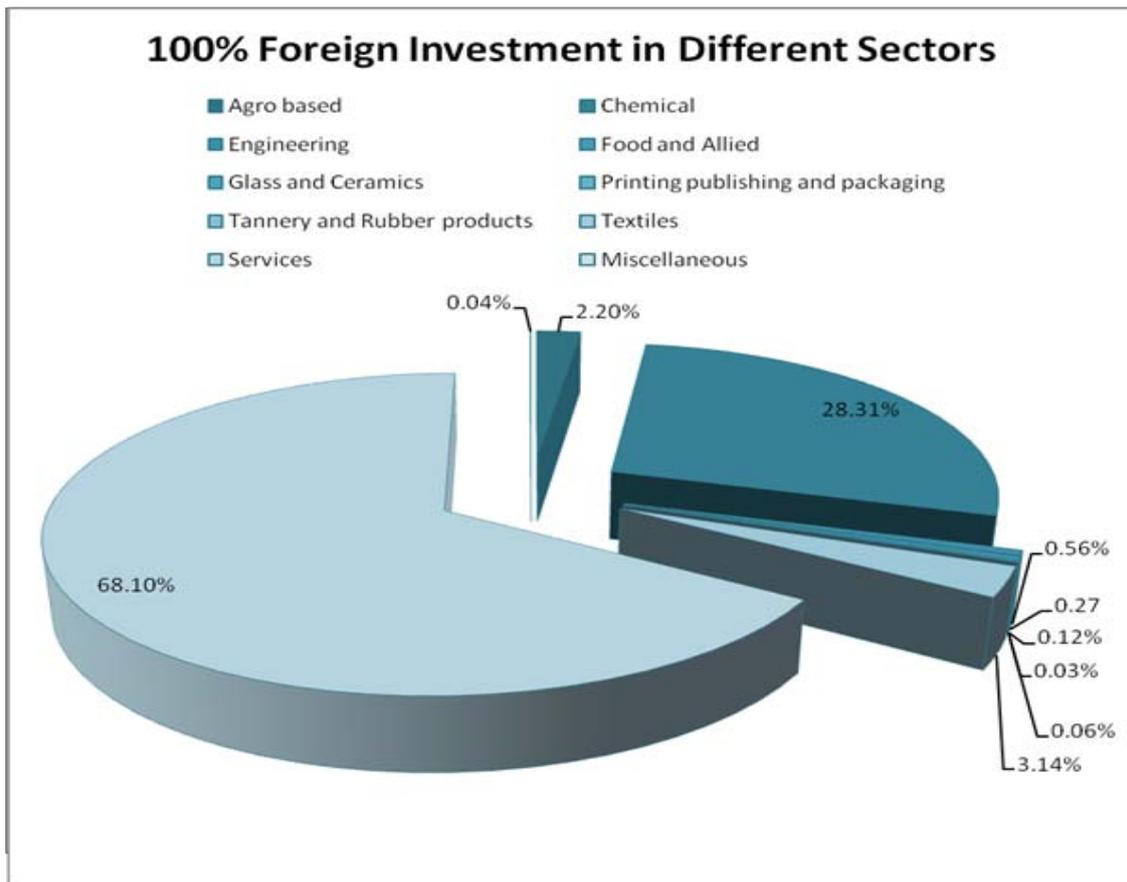
The below table shows sector wise distribution 100% foreign investment from year 1990-2010. From table it appears that service sector has received the

highest USD 4575.901 million which is 68.10% of total investment. Printing publishing and packaging sector received the lowest investment only 0.03% of total investment. The second highest investment is USD 1985.938 million in chemical sector.

Table 3 : 100% foreign investment in different sector.

Sl	Sectors	No. of units	Investment in(USD million)	Percentage of total investment	Employment opportunities (person)
1	Agro based	59	154.291	2.20	24434
2	Chemical	65	1985.938	28.31	6147
3	Engineering	57	38.963	0.56	4388
4	Food and Allied	13	19.112	0.27	1662
5	Glass and Ceramics	3	8.188	0.12	328
6	Printing publishing and packaging	7	2.269	0.03	325
7	Tannery and Rubber products	4	4.013	0.06	602
8	Textiles	115	221.259	3.16	84578
9	Services	91	4775.901	68.10	18758
10	Miscellaneous	7	2.834	0.04	735
	Total	418	7012.678	100	141957

Figure 2 : Shows 100% foreign investment in different sector from 1990-2010



The figure-2 shows 100% foreign investment in different sector. The service sector investment alone 68.10% and investment in chemical sector is 28.31%. The lowest investment in Printing publishing and packaging is accounted only 0.03% of total investment.

d) Joint Venture Investment

Joint venture investment refers to investment by Bangladeshi investor and foreign investor. The

investment comes in the form of equity, borrowings and reinvested earnings of existing the projects. The highest joint venture investment had come in the year of 2008 of USD 2403.328 million and the lowest investment USD 1.938 million in year of 1981

Table 4 : Joint venture investment from year 1977-2010

Year	Joint venture investment in (USD	Employment opportunities(person)
1977	5.031	60
1979	10.160	260
1980	6.203	327
1981	1.938	140
1982	21.118	680
1983	21.111	110
1984	9.284	229
1985	2.490	210
1986	2.228	136
1987	49.133	480
1988	55.620	330
1989	75.085	280
1990	95.377	1011
1991	5.617	415
1992	14.545	1248
1993	19.608	717
1994	211.622	1522
1995	651.816	1313
1996	616.978	6692
1997	1838.911	10820
1998	786.090	8713
1999	101.657	4851
2000	127.779	4670
2001	228.445	4679
2002	218.827	10786
2003	365.974	18925
2004	247.894	13180
2005	602.498	22081
2006	349.148	40516
2007	271.687	39037
2008	2403.328	36677
2009	579.750	22590
2010	175.518	5522
Total	10172.47	259207

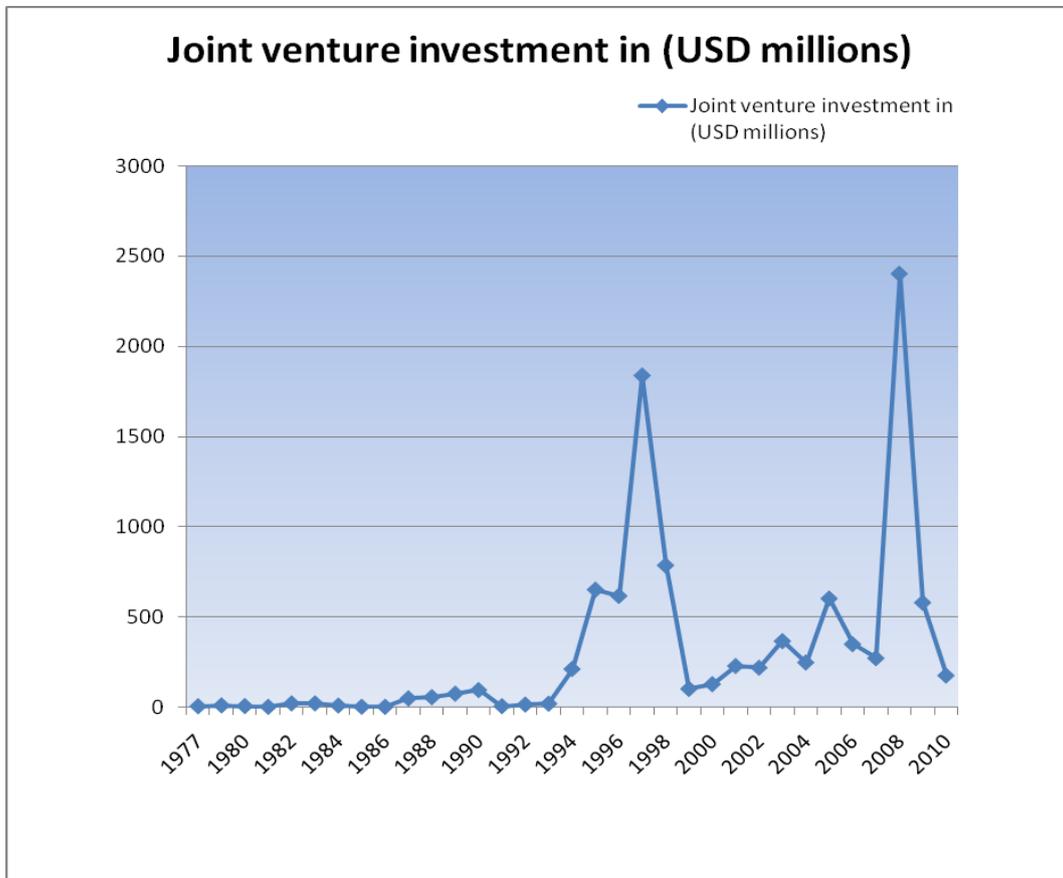
Source: Investment Implementation Monitoring Cell (IIMC), Board of Investment

e) *Trend of Joint Venture Investment from Year 1977-2010*

Like 100% foreign investment joint venture investment also shows no specific trend. There is a

upward trend up to year 1990 again a drift in trend line and again upward trend to 1997. The trend line in at the peak in year 2008. The reason for that are incentives and change of Government and change of regulations.

Figure 3: Shows Joint Venture Investment trend from 1977-2010



f) *Contribution of Different Sectors in Joint Venture Investment.*

The chemical, engineering, textile and service sector received most of the investment. The service

sector represents the highest joint investment of 301 proposal amounting USD 6693.352 million. The lowest contribution to the total is printing publishing and packaging sector of USD 17.159 million.

Table 5: Sectoral distribution joint venture investments

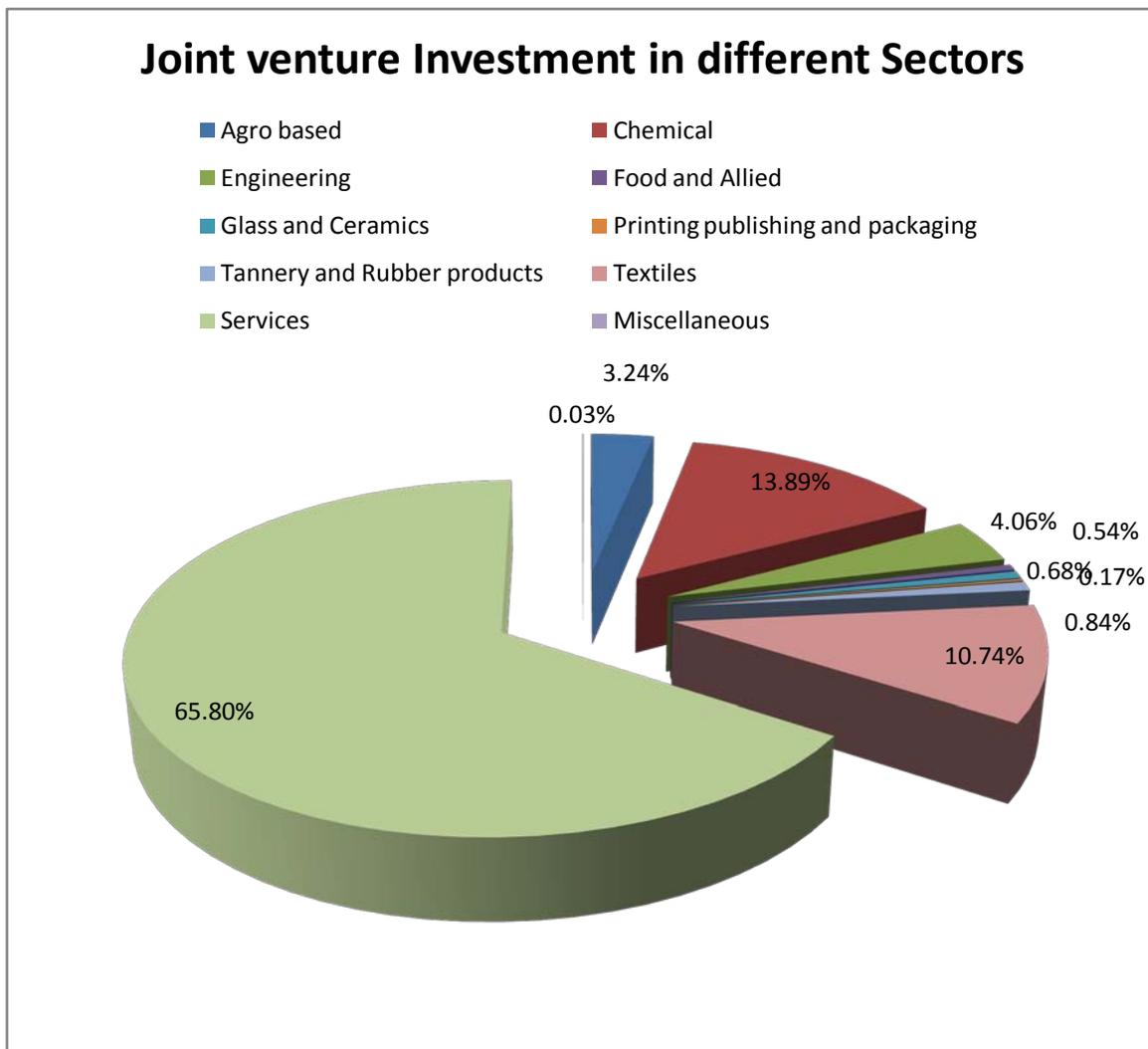
Sl	Sectors	No. of units	Investment in(USD million)	Percentage of total investment	Employment opportunities(p erson)
1	Agro based	111	329.807	3.24	12588
2	Chemical	169	1413.025	13.89	21319
3	Engineering	151	412.821	4.06	18847
4	Food and Allied	50	54.650	0.54	3069
5	Glass and Ceramics	15	69.424	0.68	2334
6	Printing publishing and packaging	13	17.159	0.17	877
7	Tannery and Rubber products	42	85.754	0.84	17219
8	Textiles	320	1093.168	10.74	135053
9	Services	301	6693.352	65.79	47394
10	Miscellaneous	8	3.310	0.03	507
	Total	1179	10172.47	100	259207

Source: Investment Implementation Monitoring Cell (IIMC), Board of Investment

The figure-IV shows joint venture investment in different sector. The service sector investment alone 65.80% and investment in chemical sector is 13.89%.

The lowest investment in Printing publishing and packaging is accounted only 0.17% of total investment.

Figure 4 : Shows joint venture investment in different sector from 1977-2010



g) Registered FDI Inflows and Actual FDI Investment

Table 6 : Registered FDI inflows and Actual FDI investment during 1996-2009

Year	Registered FDI investment	Actual FDI investment in USD
1996	639	232
1997	2030	575
1998	1805	576
1999	538	309
2000	534	579
2001	240	355
2002	255	328
2003	450	350
2004	473	460

2005	3800	845
2006	1470	793
2007	327	666
2008	2469	1086
2009	624	700

Source: Investment Implementation Monitoring Cell (IIMC), Board of Investment

Table VI shows the registered FDI investment inflows and actual FDI investment inflows from 1996-2009. Actual inflows in Bangladesh are lower than registered FDI except in the year 2000, 2001, 2002, 2007 and 2009. The reason may be less political problem in the country.

inflows. To be a middle income country, the Government of Bangladesh has also given wide range of incentives to attract more FDI inflows (Foreign Direct Investment in Bangladesh, 1971-2010) [13]. These incentives are fiscal incentives, financial incentives and additional incentives:

Fiscal incentives for industries

- Corporate tax holiday of 5 to 7 years for selected sectors.
- Reduced tariff on import of raw materials capital machinery.
- Bonded warehousing
- Accelerated depreciation on cost of machinery is admissible for new industrial undertaking (50% in the first year of commercial production, 30% in the second year, and 20% in the third year)
- Tax exemption on capital gains from the transfer of shares of public limited companies listed with a stock exchange.
- Reduced corporate tax for 5 to 7 year in lieu of tax holding and agricultural depreciation.

Financial incentives for export oriented industries:

VI. THE PACKAGE OF INCENTIVES IS LISTED BELOW

Many developing countries have developed their economy tremendously through attracting FDI

- Cash incentives and export subsidies ranging from 5% to 20% granted on the FOB value of the selected products
- 90% loans against letter of credit (by banks)
- Funds for export promotion
- Export credit guarantee scheme
- Permission for domestic market sales up to 20% of export oriented companies outside EPZ Additional incentives:
 - 100% foreign equity allowed
 - Unrestricted exit policy
 - Remittance of royalty, technical know-how and technical assistance fees

- Full repatriation facilities of dividends and Capital at exit
- Citizenship by investing a minimum of USD 500000.
- Permanent resident permits on investing USD 75000.
- An investor can wind up investment either through a decision of AGM or EGM. He or she can repatriate the sales proceeds after securing proper authorization from the Central Bank.

Special incentives for power sector

Incentives for private sector power generation for private sector power generation policy of Bangladesh (revised in Nov 2004) provide a number of fiscal incentives for foreign investment in power sector [14]. Some of them are depicted below.

- The private power companies shall be exempted from corporate income tax for a period of 15 years.
- The companies will be allowed to import plant and equipment and spare parts up to ten percent of original value of total plant and equipment within a period of twelve year of commercial operation.
- Repatriation of equity along with dividends will be allowed freely.
- Exemption from income tax in Bangladesh for repatriation of equity along with dividends will be allowed freely.
- Exemption from income tax in Bangladesh for foreign lenders to such companies.
- Tax exemption on interest on foreign loans.
- Avoidance of double taxation incase of foreign investors.
- Remittance of up to 50% of salary of the foreigners employed in Bangladesh and facilities of for repatriation of their savings and retirement benefits at the time of their return.
- No restriction on issuance of work permit.
- Provision of transfer of shares held by foreign shareholders to local shareholder.
- Re-investment of remittable dividend to be treated as new foreign investment.
- Facilities for repatriation of invested capital, profits and dividends.
- Free importing of furnace oil, equipments, and spare parts for captive and commercial power plants entrepreneurs.
- License fee for captive power of taka 500000 is waived.

VII. CONCLUSION

There are number of positive factors which can draw attention of foreign investor from developed and developing country. Factors those make Bangladesh distinct from other country are availability of skilled and unskilled labor, relative low wage, natural resources, port, geographical location, large size of local market, reasonable macroeconomic environment. To attract more FDI, the Government of the People's Republic of Bangladesh has offered many fiscal, financial and other incentives for foreign investors. Still, it is seen in the study that actual FDI investment has been remain at very insignificant level compared to registered FDI investment proposal.

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