

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

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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.

Index terms— Development, Foreign Direct Investment (FDI), Incentives.

1 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].

2 II.

3 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 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].

4 III.

5 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.

6 Research Methodology

The present study is conducted based on secondary data. These data have been collected from 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. The figure-IV shows joint venture investment in different sector. The service sector investment alone 65.80% and investment in chemical secctor is 13.89%.

7 Foreign

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

8 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. VII.

9 Global

10 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.



Figure 1: Figure 2 :

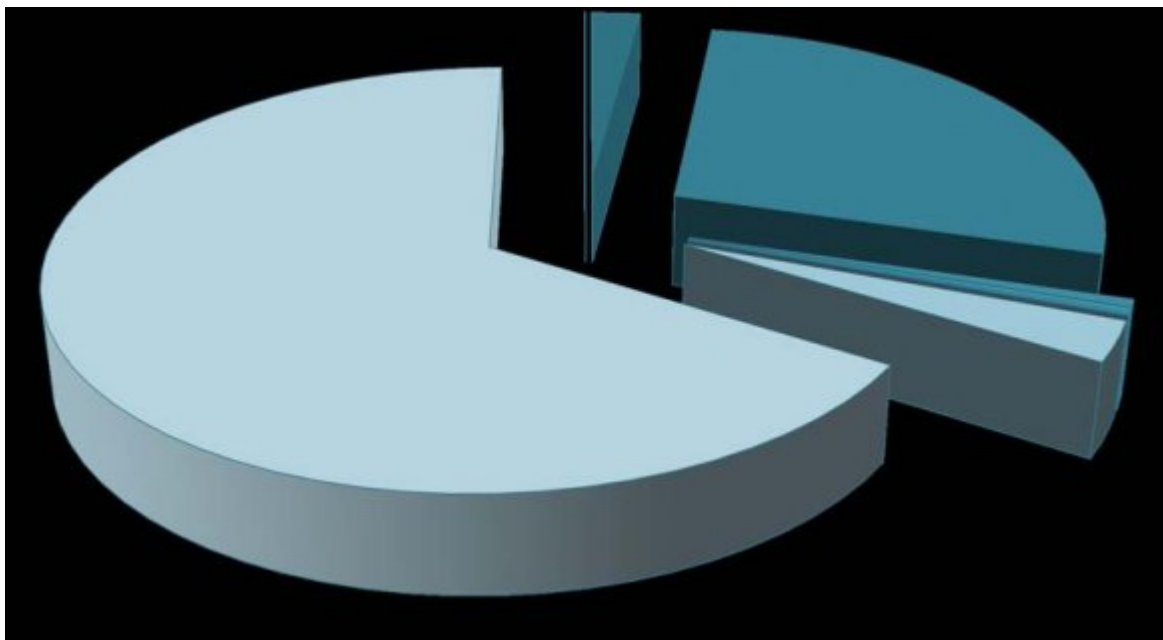


Figure 2: C

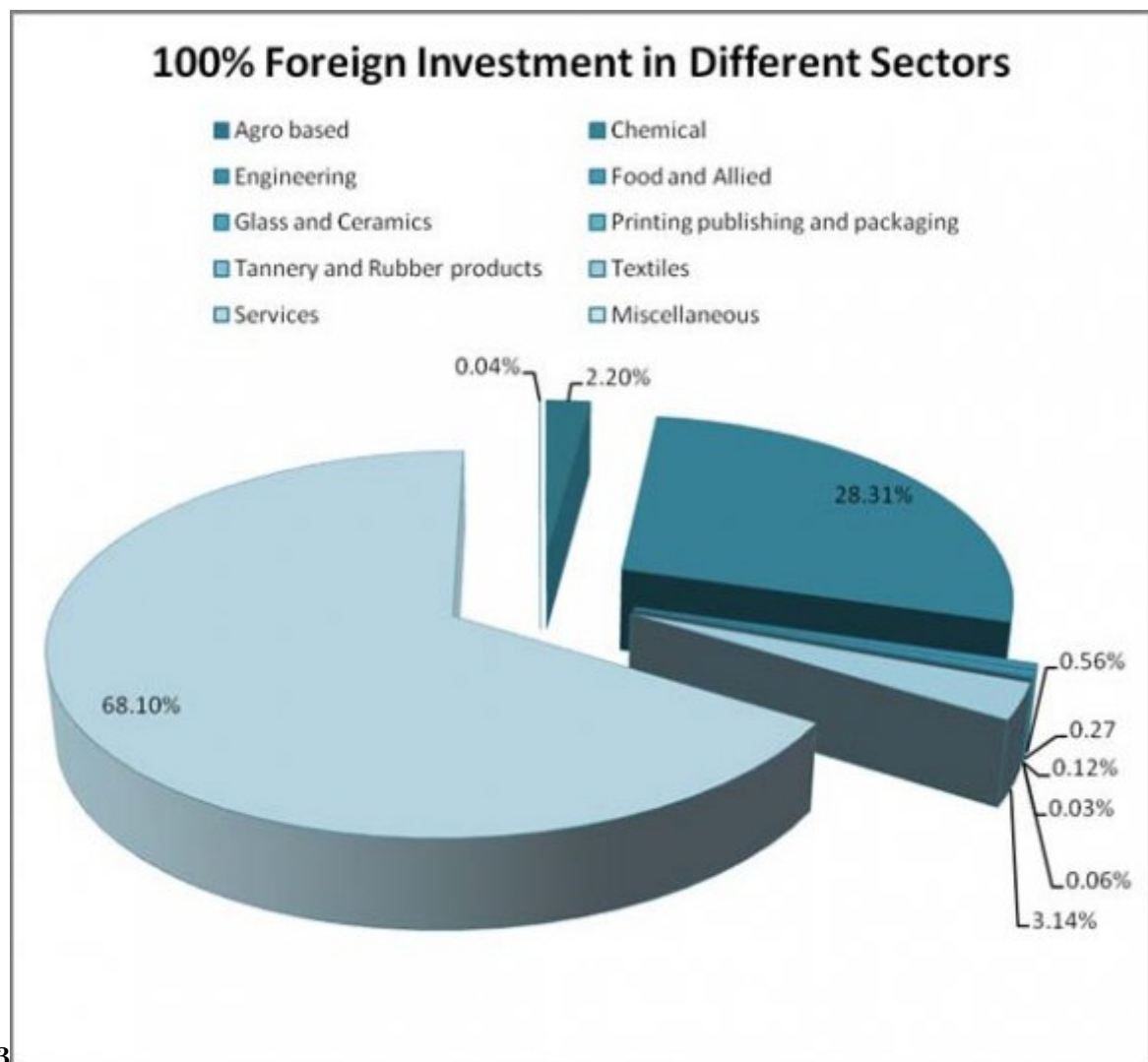


Figure 3: Figure 3 :

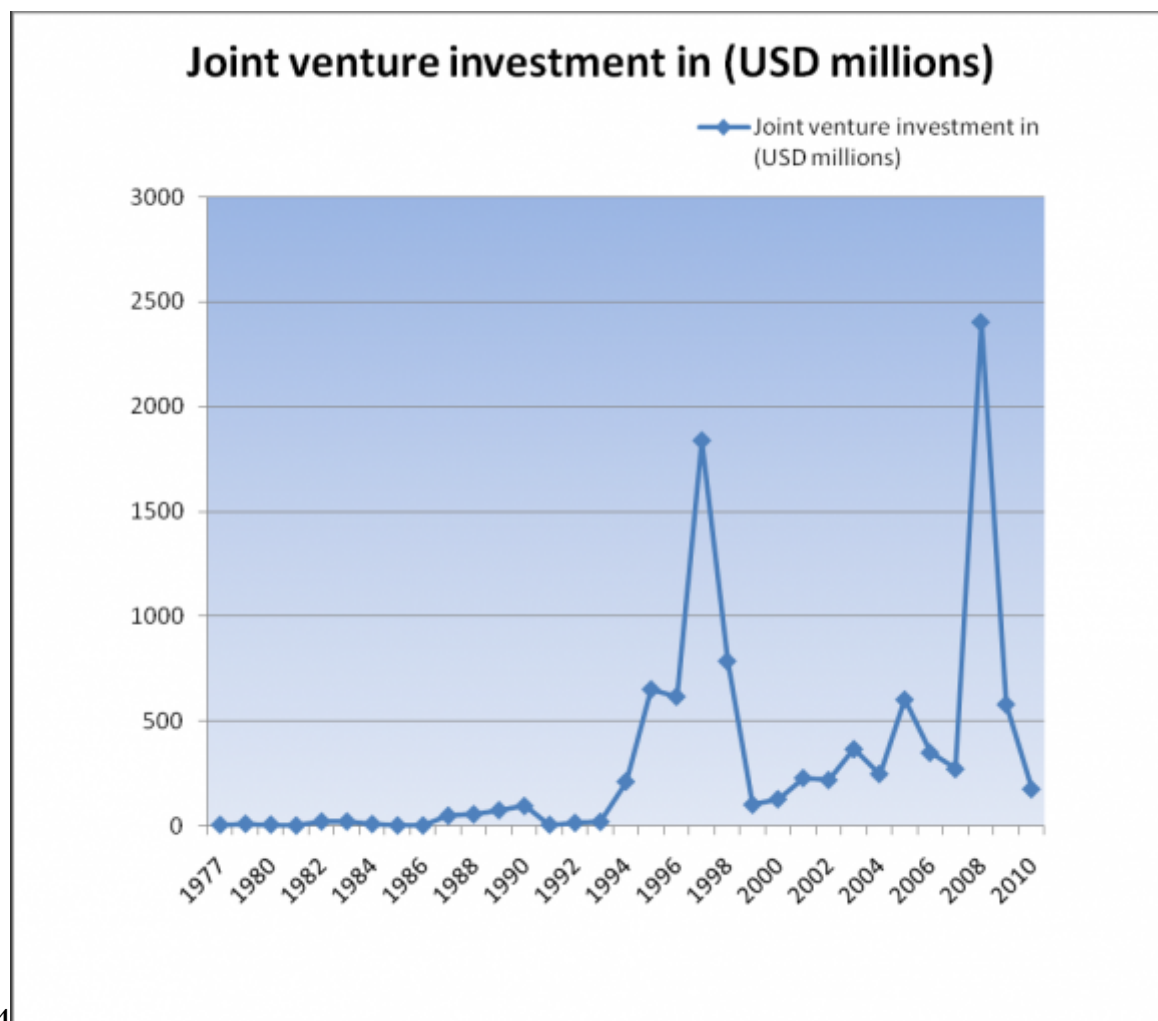


Figure 4: Figure 4 :

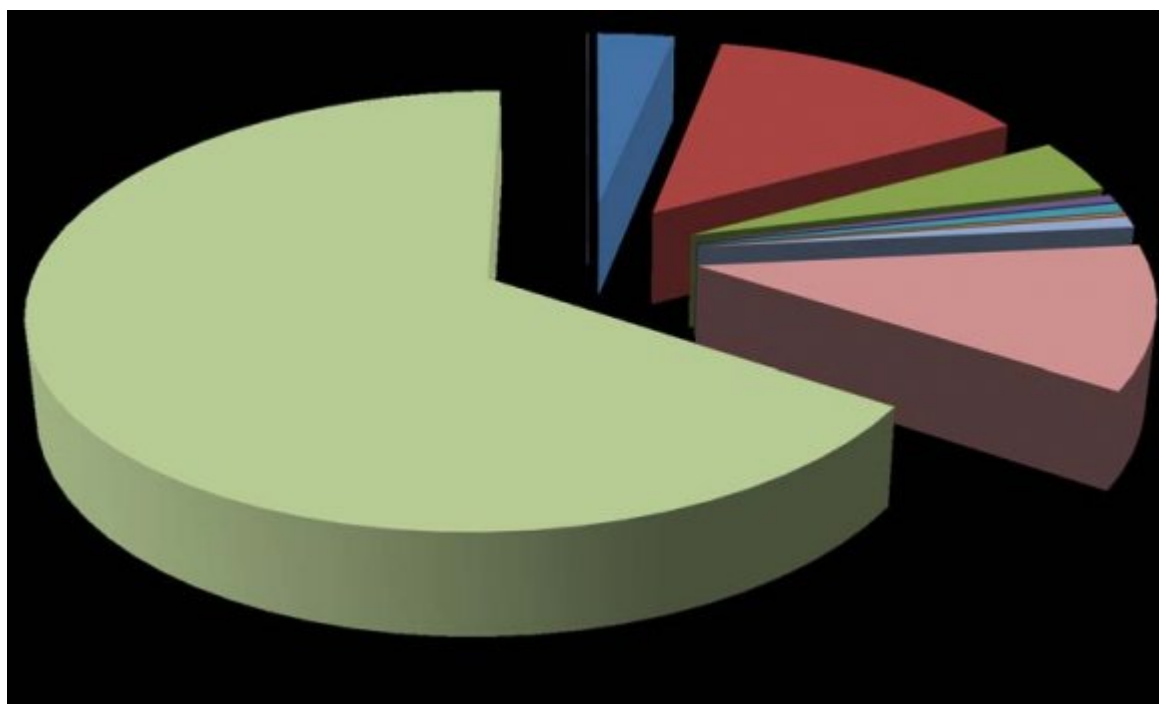


Figure 5: C

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Sl	Particulars	No.	units	Investment in (USD million)	Employment (person)
A	100% Foreign Investment	418	registered	7012.768	141957
B	Joint Venture Investment	1179		10172.47	259207
	Total	1597		17185.238	401164

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

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

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

Figure 6: Table 1 :

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increase flow of FDI in Bangladesh [10]. Bouoiyour in 2013

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b)

Year	Investment in (USD mil- lion)	Employment Oppor- tunities(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

Figure 7: Table 2 :

Sl	Sectors	No. of units	Investment in(USD million)	Percentage of investment total	Employment (person) op- portunities
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 prod- ucts	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 8: Scenario and Incentives of Foreign Direct Investment (FDI) in Bangladesh

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Year	Joint venture investment in (USD	Employment opportunities(person)
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Figure 9: Table 4 :

Figure 10: and Incentives of Foreign Direct Investment (FDI) in Bangladesh

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Sl Sectors

		No. of	Investment	Percentage	Employment
		units	in(USD	of	opportunities(p
			million)	total	erson)
				investment	
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

[Note: Source: Investment Implementation Monitoring Cell (IIMC), Board of Investment © 2013 Global Journals Inc. (US)]

Figure 11: Table 5 :

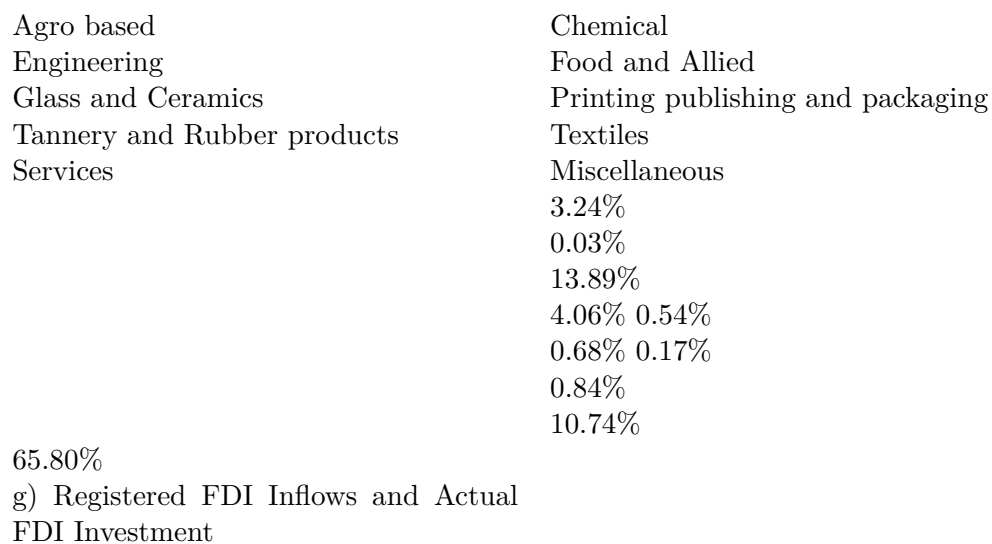


Figure 12: Joint venture Investment in different Sectors

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Year	Registered FDI investment	Actual FDI investment in USD
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Figure 13: Table 6 :

.1 The package of Incentives is Listed Below

Many developing countries have developed their economy tremendously through attracting FDI ? 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.

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[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, (Like 100% foreign investment joint venture investment also shows no specific trend)]