

Foreign Direct Investment in Bangladesh: Policy, Incentives, and Trends

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Abstract

Foreign direct investment plays an important role in economic growth and generating employment in a globalized world. It is one of the major stimuli to economic development of the developing countries. But the distribution of FDI is unequal all over the world. Some countries are ahead, while others lag behind in attracting foreign direct investment. Bangladesh is a potential country for receiving a good amount of FDI, but the results are not satisfactory. Inflow of FDI in a host country would depend upon how much incentives are given by the host countries. This study highlights the present FDI policies and incentives offered by the Government of Bangladesh for attracting FDI and it also focuses on the trend of FDI inflows.

Keywords: foreign direct investment, FDI, FDI inflow, developing country, incentives

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FDI inflow into an economy benefits the economy in terms of investment capital, technology transfer, management skills, and job creation. At present, many developing and least developed countries rely on FDI inflows as the engine of growth due to shortage of domestic investment and resources. As a result, these countries are continuously trying to attract more FDI for their own benefits, which facilitates global economic integration. Host countries can take advantage of this global economic integration. FDI is not only an alternative to domestic investment, but also can improve the host country's balance of payments (Sahoo, 2006). As a developing country, the Government of Bangladesh felt the significance of FDI for its growth and economic development through industrialization. For this reason, the Government of Bangladesh adopted different steps to promote the inflow of FDI. In 1980, the Government passed the Investment Promotion and Protection Act. Although significant liberalization measures have been taken in recent years, but the overall FDI scenario in Bangladesh is extremely dissatisfactory.

Investment Climate in Bangladesh

Bangladesh is a regional hub for global trade in South and South-East Asian countries, and the country's economy is the most liberal and investor friendly in this region. Bangladesh also has ample supply of key resources like natural gas, laborious young working force, congenial climate, prolific land, and good sea and air routes. By all indicators, Bangladesh truly represents a high return zone for investors because of its cheap labor, availability of raw materials, and investment facilitation. The economy of Bangladesh is much more open than its neighboring countries. The government has been trying continuously to make this country an attractive location for foreign investment (Murtaza, 2006).

In independent Bangladesh, foreign investment was found to be, on an average, 0.78% of the total investment. The new policy measures came into effect with a liberalized attitude to FDI in the beginning of the 1980s. Though

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gradual liberalization of industrial and fiscal policy started in 1982, foreign investment was extended by the the industrial policy of 1991. Local investment, joint ventures, and even 100% foreign investment are treated equally by this investment policy (Reza & Ali, 1997). After 1990, four democratic governments (1991-2013) proposed a number of steps to remove administrative problems and bureaucratic bottlenecks and reformed fiscal and monetary policies to contain inflation.

The amount of foreign direct investment in Bangladesh is not satisfactory as yet. According to the UNCTAD World Investment Report (2004) in 2003, Bangladesh received only 0.05% of the total FDI, while the proportion was 0.9% in India, 0.52% in Vietnam, and 10.2% in Indonesia. In the most recent WIR-2011, in 2010, Bangladesh received only \$913 million FDI, which is 28% greater than the previous year's amount (\$716 million), upgrading the country's position to 114 from 120 out of 141 nations. Most of the FDI went to the telecommunications sector. However, the FDI in the manufacturing sector has been comparatively low.

FDI Policy Framework in Bangladesh

The Government of Bangladesh has given priority to attract foreign investment in Bangladesh. In this regard, a quote from the Honorable Prime Minister's speech at the 25th board meeting of Board of Investment (BOI) is cited here, "...Foreign investors are coming to Bangladesh and they must be given more congenial atmosphere to bring momentum to national economy..." (p. 1, Board of Investment (BOI), 2010). The Government of Bangladesh has offered the most liberal FDI policy regime in comparison to other South Asian countries. Foreign direct investment is encouraged in all industrial activities in Bangladesh, excluding some reserved industries. The capital market also remains open for portfolio investment. The Foreign Private Investment (Promotion and Protection) Act, 1980 (Act no. XI of 1980) does business with investment protection and promotion, ensuring legal protection to foreign investment in Bangladesh. Foreign investors are equally treated against expropriation and nationalization along with the local investors by this Act. The main provisions of the Act cover the following (Board of Investment (BOI), 1980; Privatization Commission Bangladesh (PCB), 1980 ; Reza, Ali, & Alam, 1987):

(1) The government may, for the promotion of foreign private investment, permit the establishment of any industrial undertaking with foreign capital.

(2) The government shall accord fair and equitable treatment to foreign private investment which shall enjoy full protection and security in Bangladesh.

(3) The terms of sanction, permission, or license granted by the government to an industrial undertaking having foreign private investment shall not be unilaterally changed so as to adversely alter the conditions.

(4) 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, or other settlement as is accorded to investment by the local investors.

(5) Foreign private investment shall not be expropriated or nationalized or be subject to any measure having effect of expropriation except for a public purpose against adequate compensation, which shall be paid expeditiously and be freely transferable.

(6) In respect of foreign private investment, the transfer of capital and the returns from it, and in the event of liquidation of industrial undertaking having such investment, the proceeds from such liquidation are guaranteed.

➤ **Facilities and Incentives for Foreign Investors :** Bangladesh has also adopted a number of policies and provides generous incentives to attract foreign direct investment (FDI) into the country. Some of the major incentives are as follows (BOI, 2010):

- ➔ Tax exemption on royalties, technical know-how, and technical assistance fees and foreign loans;
- ➔ Tax exemption on interests on foreign loans,
- ➔ Tax exemptions on capital gains from transfer of shares by the investing company,
- ➔ Remittance of 50% of the salary of foreign nationals per month subject to an approved ceiling,
- ➔ No restrictions on issuance of work permits to projects related to foreign nationals and employees,
- ➔ Facilities for repatriation of invested capital, profits, and dividends,
- ➔ Provision of transfer of shares held by foreign shareholders to local investors, and
- ➔ Reinvestment of remittable dividends would be treated as a new investment.

➔ **Fiscal Incentives for Industries**

- ➔ Corporate tax holiday of 5 to 7 years for selected sectors,
- ➔ Reduced tariff on import of raw materials and 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),
- ➔ Reduced corporate tax for 5 to 7 years in lieu of tax holiday and agricultural depreciation.

➔ **Financial Incentives for Export Oriented Industries**

- ➔ Cash incentives and export subsidies ranging from 5% to 20% granted on the FOB value of the selected product,
- ➔ 90% loans against letters of credit,
- ➔ Funds for export promotion,
- ➔ Permission for domestic market sales of up to 20% of export-oriented companies outside EPZ,
- ➔ Permanent residency for foreign nationals investing more than US \$ 75,000 or equivalent,
- ➔ Bangladesh is also a signatory of Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group, Overseas Private Investment Corporation (OPIC) of USA, International Centre for Settlement of Investment Disputes (ICSID), and is also a member of World Intellectual Property Organization (WIPO), World Association of Investment Promotion Agencies (WAIPA), and World Trade organization (WTO) (Barkat, 2005).

➔ **FDI Trends in Bangladesh :** Board of Investment (BOI) is the key investment institution in Bangladesh, and is engaged in investment facilitation and promotion. It also provides all kinds of technical assistance to local and foreign investors. Foreign direct investment in Bangladesh generally comprises of full foreign investment and joint ventures between local and foreign investors. Bangladesh receives FDI in the form of intra-company loans, equity, and reinvested earnings of the existing or new projects (BOI, 2010). The FDI units registered with the Board of Investment (till June 2010) are summarized in the Table 1.

Table 1. FDI Registered with the Board of Investment

Particulars	No of Units Registered	Investment in (USD million)	Employment Opportunities (Persons)
100% Foreign Investment	418	7,012.768	141,957
Joint Investment	1179	10,172.470	259,207
Total	1597	17,185.238	401,164

Source : Investment Implementation Monitoring Cell (IIMC). (n.d.). Board of investment (BOI). Prime Minister's Office, Dhaka, Bangladesh.

Table 2. Year-Wise Registration

Year	100% FDI proposals (USD million)	Joint Venture Investment Proposals (USD million)
1991	2.84	5.61
1992	18.92	14.55
1993	0.20	19.60
1994	28.02	211.62
1995	10.31	651.81
1996	22.25	616.97
1997	191.24	1838.91
1998	1018.87	786.09
1999	436.90	101.65
2000	406.69	127.77
2001	11.25	228.44
2002	35.96	218.82
2003	83.52	365.97
2004	224.80	247.89
2005	3197.62	602.49
2006	1120.82	349.14
2007	55.16	271.68
2008	65.58	2403.32
2009	44.69	579.75
2010	36.43	175.52

Source : Investment Implementation Monitoring Cell (IIMC). (n.d.). Board of investment (BOI). Prime Minister's Office, Dhaka, Bangladesh.

➤ **Investment Registered with BOI :** 100% foreign direct investment proposals represent projects having full ownership of the foreign investors. They enjoy equal privileges as the local investors. Generally, registration is a commitment of investment over a period of time, which is not the actual investment of that period. The year-wise registration of 100% foreign direct investment and joint venture investment proposals registered with the Board of Investment are shown in the Table 2.

➤ **Year-Wise Actual FDI Flows in Bangladesh:** It is evident that since 1980, Bangladesh has been continuously trying to attract more FDI into its economy. The Government has set-up export processing zones (EPZ) at different locations in the country, which are economically attractive and has also permitted the establishment of private EPZs (Karnaphuly EPZ at Chittagong), which is regarded as a milestone for the local as well as foreign investors. The Table 3 shows the actual FDI inflows in Bangladesh during the period from 1991 to 2010.

Data in the Table 3 shows an upward trend (with some fluctuations) in the FDI inflows over two decades. However, total FDI (actual) has been rising over the years. In 1991, annual FDI inflow was \$ 1 million and after 20 years, in 2010, the annual FDI reached the figure of \$ 913 million. Contribution of FDI was not remarkable until 1995. There was a quick fall in FDI in 1999, and again in 2001 and 2002, and Bangladesh took quite some time to regain the confidence of the foreign investors. Again, FDI tended to increase from 2003 through 2005. In 2006, FDI decreased by 6.18% than the previous year's figures. Finally, in 2010, FDI increased by 28 % than its previous figure (UNCTAD, 2011). The Figure 1 presents a graphical representation of FDI inflows over the years.

The Figure 1 shows some fluctuations with upward trend in actual FDI figures (2001-2010). It is a matter of great concern that in spite of comparative advantages in labor-intensive industries and adoption of investment friendly policies and regulations, FDI inflows have failed to increase. However, the year 2008 showed a substantial improvement in FDI inflows in Bangladesh.

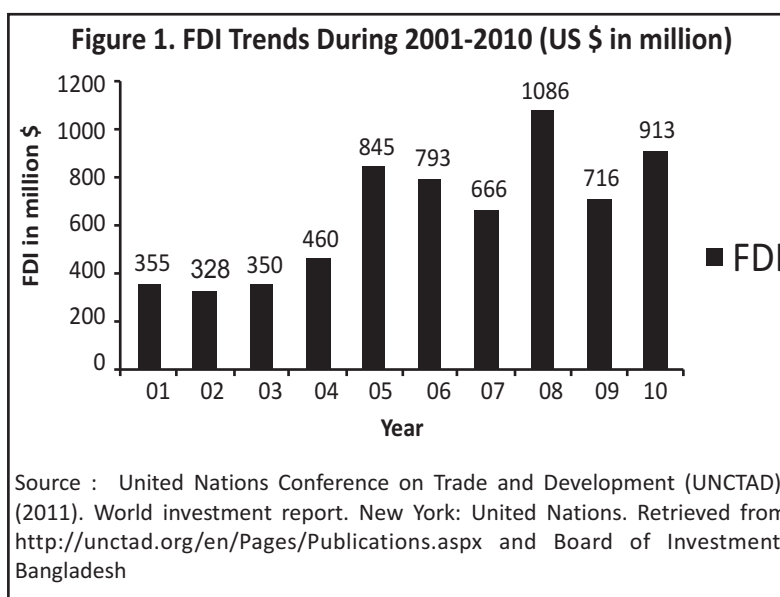
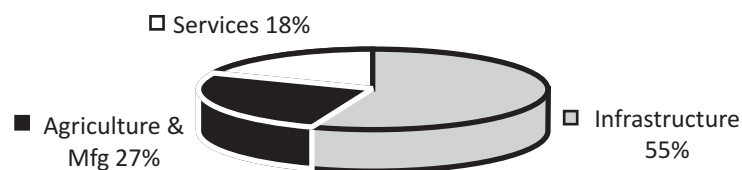


Table 3. Actual FDI Inflows in Bangladesh from 1991 to 2010

Year	FDI in million USD	Growth
1991	1	0.00
1992	4	300.00
1993	14	250.00
1994	11	-21.43
1995	92.3	739.09
1996	231.6	150.92
1997	575.3	148.40
1998	576.5	0.20
1999	309.1	-46.38
2000	578.6	87.19
2001	354.5	-38.73
2002	328.3	-7.39
2003	350.2	6.67
2004	460.2	31.41
2005	845.3	83.68
2006	793	-6.18
2007	666	-16.01
2008	1086	63.06
2009	716	-34.06
2010	913	27.51

Source : United Nations Conference on Trade and Development (UNCTAD). (2011). World investment report. New York: United Nations. Retrieved from <http://unctad.org/en/Pages/Publications.aspx> and Board of Investment, Bangladesh

➤ **Sector-Wise Distribution of FDI Inflows :** The increasing trend of FDI in recent years is a good sign for Bangladesh. However, a sector-wise FDI analysis reveals that the foreign investors have so far made major shifts in their investments in Bangladesh. The Table 4 shows that more FDI has come into the manufacturing,

Figure 2. Major Sector-Wise Share of FDI Inflows (2001-09)**Table 4. Sector-Wise Distribution of FDI Inflows During 2001-2009 (in million \$)**

Sector	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Infrastructure	193.4	106.4	134	251.6	490.2	526	394	742.5	301.9	3140
Power, Gas & Petroleum	192.5	57.9	88.1	124.1	208.3	258	122	101	51.2	1203.1
Tel. & Trans.	0.9	48.5	45.9	127.5	281.9	268	272	641.5	250.7	1936.9
Agric. & Mfg	133.2	144.5	169.6	141.1	221.6	107	109	182.5	239.1	1447.3
Service	27.9	77.5	46.9	67.7	133.5	160	163	160.9	175.1	1012.4
Trade & Com	27.6	63.7	44	66.6	130.5	142	145	153.4	161.6	934.4
Other service	0.3	13.7	2.9	1.1	3	18	18	7.58	13.45	78.03
Total FDI	354.5	328.3	350.2	460.4	845.3	793	666	1086	716	5599.7

Source : Investment Implementation Monitoring Cell (IIMC). (n.d.). Board of investment (BOI). Prime Minister's Office, Dhaka, Bangladesh.

Table 5. Component-Wise FDI Inflows in Bangladesh During 2001-2009 (in million \$)

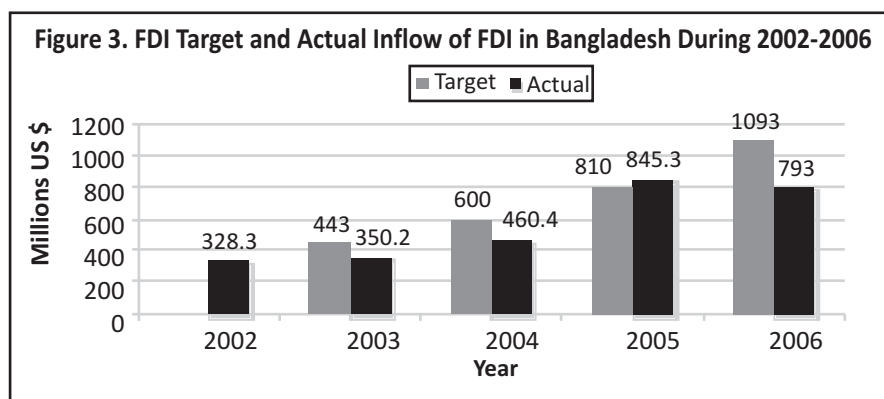
Components	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Equity	162.5	167.2	135.2	307.4	425.6	495	307	809	218.5	3029.4
Reinvested earnings	81	85	165	115.2	247.5	199	266	245.7	364.9	1769.3
Intra-company loans	111	75.4	50	37.8	172.2	99	91	31.3	132.6	801
Total FDI	354.5	328.3	350.2	460.4	845.3	793	666	1086	716	5599.7

Source : Investment Implementation Monitoring Cell (IIMC). (n.d.). Board of investment (BOI). Prime Minister's Office, Dhaka, Bangladesh.

telecommunications, power and energy sectors, whereas trade and commerce and agriculture have received much less attention. There are three broad sectors of FDI inflows, namely - infrastructure, agriculture, manufacturing, and services. In the infrastructure sector, power, gas, and the petroleum sectors were the main recipients of FDI amounting to US \$ 1203.1 million (22% of total FDI). Meanwhile, there was a sharp growth in FDI inflow into the telecommunications and transport sectors in FY 2005 (\$ 281.9 million).

Agriculture and manufacturing sectors received \$1447.3 million (27% of total FDI). The service sector, where FDI amounted to \$1012.4 million (18%) during the period out of which trade and commerce were the highest recipients, with \$934.4 million (17%). Over the 2001-2007 period, power, gas, petroleum and agriculture, and the manufacturing sector dominated the first 3 years in terms of FDI inflows, whereas telecommunications and the transport sectors were the highest recipients of FDI during the last 4 years of the sample period. The Figure 2 shows a sector-wise distribution of FDI inflows among the three sectors from 2001 to 2009.

➔ **Actual FDI Inflow Survey in Bangladesh:** FDI inflow survey is a statistical approach of collecting primary information on the actual FDI inflow into a country in a given period. This approach was first made known by BOI in Bangladesh. In February 2003, BOI first conducted a survey on component wise actual FDI inflows in accordance with UNCTAD's definition (BOI, 2004). It was welcomed and appreciated by the local and foreign investors, policy makers, multilateral agencies, and concerned people. This recognition motivated BOI to



conduct this kind of surveys on a regular basis. This FDI inflow survey for the period from January-December 2004 was conducted by BOI's Investment Implementation Monitoring Cell (IIMC). The Table 5 illustrates the distribution of FDI by its main components.

According to the Table 5, over the 2001-2009 period, the aggregate FDI inflow to Bangladesh was \$5599.7 million. In this total amount, equity was \$3029.4 million (54% of aggregate FDI), reinvested earnings amounted to \$1769.3 million (32%), and intra-company loans stood at \$801 million (14%). More reinvestments indicate more confidence in the country's business climate and competitiveness. Among the three main components, reinvestment accounted for the second highest share (32%) of the aggregate FDI inflows, but it was not sufficient to give positive signals about the investment climate. The share of reinvestment into FDI increased to 48% in 2009.

➤ **Mid-Term Strategic Plan 2002-2006:** Under the Mid-term Strategic Plan (MSP) 2002-2006, FDI target for 2006 was set at US \$ 1 billion. The target was based on the annual growth of 35% during the previous period (Bangladesh Bank (BB), 2008). The Figure 3 portrays the year-wise FDI target and its actual achievement scenario during the period from 2002-2006. The Figure 3 has been drawn on the basis of information collected from different FDI Inflow Survey of BOI and Mid-term Strategic Promotion Plan 2003-2006. The FDI target was set up in 2003. In 2003 and 2004, the FDI targets were not achieved. In 2005, the FDI target was \$810 million and actual FDI was \$845.3 million. Mega FDI target of \$1 billion was only achieved in 2008 (\$1086 million).

Implications of the Study

One of the main objectives of this study was to outline the major FDI policies and incentives in Bangladesh. In this regard, the study has revealed the FDI policy framework and focused on the incentives offered by the Government of Bangladesh that determine the investment decisions of foreign investors in Bangladesh. Another objective was to present the trends of FDI inflows in Bangladesh. The study has revealed that the overall FDI scenario in Bangladesh is extremely dissatisfactory. Bangladesh has not been able to attract a significant amount of FDI into its economy. This study will make the policy makers and concerned authorities to sit up and evaluate the FDI figures in Bangladesh so that they can examine the factors responsible for poor FDI inflows into the country. Furthermore, this study can be extended by researchers in the future by considering the following areas for research :

- Why is FDI low in Bangladesh as compared to other SAARC countries ?
- What are the major prospects and hindrances of FDI inflows in Bangladesh ?
- What is deterring FDI in Bangladesh?

Conclusion

The study shows that Bangladesh offers an incentive structure that is highly conducive to foreign investments as the incentive structure favorably compares with the facilities existing elsewhere. In spite of it, Bangladesh has not been able to attract FDI by similar volumes as Indonesia, India, or other countries. An analysis of the structure of FDI suggests that although investments are spread over a number of sectors, the sectors like telecommunications and transport and trade and commerce have been preferred for foreign direct investments. The experiences of FDI receiving countries suggest that depending on the country context, the benefit of FDI can become ambiguous. However, given its past experience, Bangladesh is likely to benefit through more FDI inflows.

Bangladesh has been growing at a decent rate, in terms of GDP, over the last two decades or so. However, the growth of GDP can be attributed mostly to the flourishing of the services sector and the small-scale manufacturing sector including the labor-intensive readymade garment industry. The heavy industries are yet to make a real headway. The major obstacle in the growth of heavy industries is the low state of domestic saving-GDP ratio. Adequate FDI inflow can greatly uplift this sector. A stable FDI regime requires political stability in a country besides having investment-friendly climate and good governance. The stability of the FDI inflow to Bangladesh in the 1990s supports this view.

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