

FOREIGN DIRECT INVESTMENT IN BANGLADESH: PROSPECTS AND CHALLENGES

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Introduction

Foreign direct investment (FDI) engrosses transfer of tangible or intangible assets from one country into another for the purpose of use in that country to generate wealth under the total or partial control of the owner of the assets. According to the OECD definition, “Foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy (“direct investor”) in an entity resident in an economy other than that of the investor (“direct investment enterprise”). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise”.¹ Today the transnational corporations (TNCs) initiates the majority of the FDI, which involve flow of large sums of money and the exercise of control – often as a part of a larger, multinational or global strategy. The role of FDI in countries’ ongoing processes and efforts to meet development objectives can differ significantly across countries, depending on the nature of the economy as well as the government. Nevertheless, most developing countries today consider FDI as an important channel for obtaining access to resources as well as technological know-how for development.

Distinct from other trans-border financial transactions arising out of the sale of goods, services, knowledge and technology or from the purchase of portfolio assets or of currency and other speculation, FDI thus involves the very visible presence or participation in an economy of a major, non-national or alien agent which may not be fully amenable to the regulating or governing actions of the state, thus creating the potential for either government-to-TNC or host-government-to-home-government conflict.

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¹ OECD Benchmark Definition of Foreign Direct Investment, OECD, 1999.

Over the last 25 years, FDI in low-income countries has been highly concentrated in three countries, China, Nigeria and India because of their large market size, low labour costs and high returns in natural resources. New major destinations for FDI flows in the 1990s include Vietnam, Ghana and Bangladesh. The relatively progressive flows on FDI in these economies are mainly determined by the low cost of labour and the availability of natural resources. However, in reality for the majority of these low-income countries, however, the flow of FDI is very nominal. The structural weaknesses of these economies, the inefficiencies of their small markets, their skill shortages and weak technological capabilities which includes the adoption know-how of technology, are all characteristics that depress the prospective profitability of investment. These factors also make it less worthwhile for potential international investors to incur the costs of a serious examination of local investment opportunities, thus leading to informational inefficiencies. (Bhattacharya: 2002).

FDI in Bangladesh

Bangladesh is a high performing LDC, which has made significant progress in the 1990s. This represents Bangladesh as an interesting case for FDI destination for the other countries. Bangladesh currently accelerates her GDP growth rate (from 1980s: 3.84% to 1990s: 4.88%), decline in population growth rate (from 2.32% in early eighties to 1.5% in late nineties), achieved near full self-sufficiency in foodgrain production through expansion of HYV rice cultivation (17.85 MlnMT in 1991 and 23.07 MlnMT in 2000), performed high growth of export sector (12.98% per annum during 1990s), made subsequent improvement in human development index (Infant mortality rate declined from 153 per thousand live births in 1975 to 94 in 1990, and to 66 in 2000), achieved considerable success in mainstreaming of women by achieving gender parity in primary education, and almost removed gender gap in secondary education, demonstrated significant progress towards a viable democratic structure – change of government through three successive national elections. Share of private investment in GDP increased from 10.3% in FY91 to 16.5% in FY03. However, there is little room of exercise if the country desires to accomplish her targets as mentioned in the Millennium Development Goal (MDG) and MTMF (Medium-Term Macroeconomic Framework) of its Poverty Reduction Strategy Paper (PRSP) - the implementation framework of the National

Strategy for Economic Growth, Poverty Reduction and Social Development. For sustained development with equity, Bangladesh desperately needs both domestic and foreign direct investment to boost the present trend of growth.

Coverage of the paper

Therefore, a case study on Bangladesh is quite useful in terms of understanding the potentials as well as limits of impact of FDI in the process of development in the low-income countries. Moreover, as a leading member of the Least Developed Countries (LDCs), Bangladesh could be a potential test case for FDI. It is a matter of further interest to explore the role of FDI in poverty alleviation as the country is on the way to on finalising its Poverty Reduction Strategy Paper (PRSP).

Over the last two decades, Bangladesh has deregulated and liberalized its foreign investment regime largely under the World Bank and IMF induced Structural Adjustment Policy initiative. Being visible with this liberal policy regime, per capita FDI inflow remains less than \$2. There is no denying the fact that FDI inflow in a developing country like Bangladesh is influenced by her overall national policies. Macroeconomic stability- is an essential prerequisite for not only the foreign investments but also the domestic investment. Among other aspects of broader economic policies, trade regime is quite important. A number of other aspects of broad development policies including the policies related to the development of human resources and physical infrastructure may either complement or counter the impact of FDI policies. Efforts to magnetize FDI should, therefore, be fastened in an overall framework of policies that create an air-cooling (favourable) environment for FDI.

However with the ongoing process of globalisation, a number of new issues, including IMF promoted “capital account convertibility”, “Trade and Investment Policy” of the so-called Singapore Issues of the WTO, and the concept of “Corporate Social Responsibility (CSR)” have been introduced to the policy debate on FDI.

In this context, the paper (a) revisits existing policies as regards FDI in Bangladesh, (b) reviews the trends in FDI flow in Bangladesh, (c) compares Bangladesh position in perspective to other South Asian