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FOREIGN DIRECT INVESTMENT IN BANGLADESH : TREND AND PATTERN

Abstract

The paper aims at tracing the trajectory of Foreign Direct Investment (FDI) flowing into Bangladesh. Data used in the study concern the volume of FDI registered in Bangladesh up to December 1997. It did not cover FDI in the extractive and financial services. The study revealed that as of December 1997, as many as 948 projects with commitments of Tk. 1,46,082 million foreign capital had been registered with the Ministry of Industries/Board of Investment and Bangladesh Export Processing Zone Authority. The analysis of the trend and pattern of FDI in the country indicates that, on the whole, the volume of FDI had been increasing over the years. As regards sources of FDI, Malaysia promised to be the largest investor in the country followed by South Korea, Hong Kong, UK, Japan, Singapore, USA, Germany, India and China. The sectoral pattern of FDI demonstrated that textiles and garments as a composite sector was the largest recipient of FDI followed by service sector, drugs and chemicals, agro-based sector, paper & allied products, and cement & ceramics sectors. Export Processing Zones (EPZs) were found to have a notable role in FDI scenario of Bangladesh, and on an average foreign capital in EPZs contributed to around 20% of the total stock of FDI in the country. The study concludes that in order to entice foreign investors, Bangladesh had to improve its overall investment climate with an emphasis on political climate, labour productivity and infrastructure development.

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1. Introduction

Now-a-days there has been pervasive enthusiasm about the role that FDI can play in the capital and technology hungry third world. It has been considered as the direct substitute for capital flows and the main source of fund available to finance development and stimulate growth. Consequently for last couple of decades the governments in developing countries have been competing for foreign direct investment in the same way the exporters compete for market share.

As a least developed country, the economy of Bangladesh is characterized by dominance of agriculture, absence of raw materials, low investment, over reliance on foreign assistance, low growth rate, low share of manufacturing in national income, few exportable items, and heavy reliance on imports of manufactured goods. With an annual per capita income of just over $ 250, it characteristically suffers from problems relating both to shortage of savings and foreign exchange resources. So not being an exception, the successive governments of Bangladesh in recent years, have been putting greater emphasis on FDI as one of the vehicles to achieve the economic goals. In order to entice investors, the government has put in place an extensive programme of incentives. These include: no ceiling on investment, tax-holidays up to 10 years, duty-free importation of capital machinery and spare parts for 100 percent export-oriented industries, capital, profit and dividend repatriation facilities and so on. The country also offers extremely competitive labour costs, moderately developed infrastructure and a growing market with higher disposable income in the hands of the middle class. A Private Foreign Investment (Promotion and Protection) Act was introduced in 1980. The country has two EPZs already in operation and two additional Zones are going to be set up soon. Furthermore, the government is actively engaged in investment promotion through the state sponsored Board of Investment (BOI). However, despite all these positive measures the inflow of FDI into the economy has been rather meager and does not even constitute 1 percent of its gross capital formation. Therefore, the relevant search in this connection is the anatomy of the trend and pattern of the existing foreign investment in the country. The present study has been designed along this line. The main objectives of the study were:

- to analyze the existing trend and pattern of FDI in Bangladesh;
- to delve into the reasons for poor performance of FDI in Bangladesh.

2. Data Source and Limitations of the Study

The study was based on secondary data. Being constrained by the availability of sufficient detailed data on actual flow of FDI into Bangladesh, volume of FDI registered with the Ministry of Industries/Board of Investment and Bangladesh Export Processing Zones Authority was used to analyze the trend and pattern of FDI in the country. The main sources of secondary data were various publications of related agencies of Government of Bangladesh, World Bank, IMF, United Nations, OECD, UNCTAD, and related papers published in national and international journals.

As the sanctioned amount of FDI, instead of actual flow, was used to analyze the trend and pattern of FDI in Bangladesh, the study, in true sense, did not refer to the actual scenario of FDI in the country. Discussion on compasition of FDI, however, reflects actual investemnt. Another limitation of the study is that it did not cover FDI in extractive industries and financial services.

3. Trend and Pattern of FDI in Bangladesh

3.1. Flow of Investment

By international standard, the magnitude of FDI flowing into Bangladesh has been precariously low. According to UNCTAD sources, as a percentage of gross capital formation, the inflow of FDI in 1994 accounted for only 0.3% for Bangladesh while it was 4.5% for all countries and 1.3% for least developed countries (of which Bangladesh is a member). Among other South Asian countries, the share of FDI was 2.4% for India, 4.6% for Pakistan, 5.3% for Sri Lanka, and 1% for Nepal. However as far as the FDI scenario of Bangladesh against the backdrop of its history and other factors affecting FDI flows is concerned, it has been showing an improving trend, specially since 1987. As of December 1997, as many as 948 projects with commitments of Tk. 1,46,082 million foreign capital have been registered with the Ministry of Industries, BOI and Bangladesh Export Processing Zones Authority (BEPZA). But the 55% realisation rate of approved/registered projects indicates that until December 1997, Bangladesh received a cumulative flow of Tk. 80,345 million as FDI.[1]

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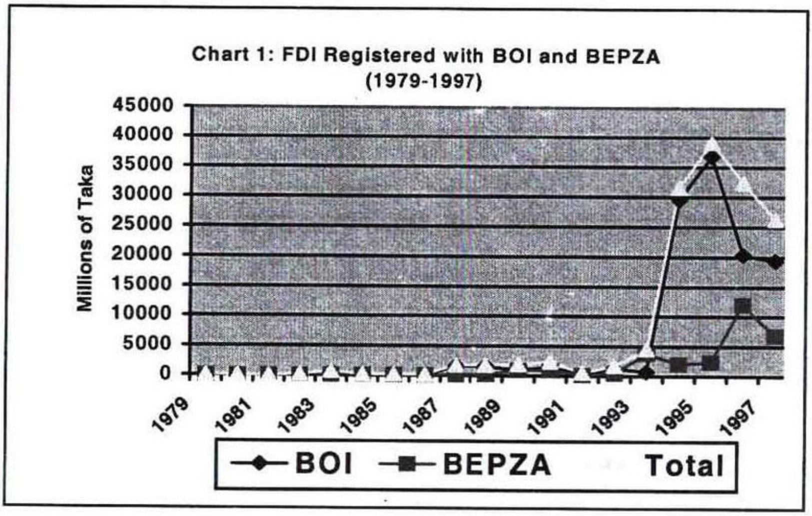
[1] Source: Board of Investment and Bangladesh and Export Processing Zones Authority unpublished records. An investigation by a news group (The Daily *Shangbad*) in Bangladesh found that the rate of realisation of approved FDI projects in the country was to be 55 percent. (Quoted in A. H. M. N. I. Choudhury, N. I. and S. R. Saha, (1993), "Foreign Direct Investment in Bangladesh: Expectation and Realities", *Bank Parikrama*, Vol. 5, No. 2, 1993, Dhaka.



Source: Board of Investment and Bangladesh Export Processing Zones Authority

During pre-liberation period when Bangladesh was a part of Pakistan, only 22 projects amounting to Tk. 270 million were registered with the Ministry of Industries. After liberation due to the socialistic policy with overwhelming emphasis on public sector investment, no foreign involved projects were registered during 1972-76 period. Since mid-1970s, after the political change over in the country, the successive governments gradually initiated several reform measures to liberalise investment regime. Since then the flow of FDI started to increase over time. Creation of two EPZs in the country, one in 1983 and the other in 1993, also brought about a momentum in investment commitments. Now Bangladesh offers a wide range of generous incentives and facilities towards foreign investors and actively pursues investment promotion through the state sponsored BOI.

Chart I and Appendix table show that the inflow of FDI (as per registration) increased from only Tk. 10 million in 1977 to

Tk. 26,731 million in 1997. The highest foreign investment took place in 1995 when the registration reached the Tk. 39,151 million mark. The trend in FDI flow indicates a plausible relationship with policy changes in the country. In 1983, after the adoption of New Industrial Policy(1982), the FDI increased by 287% from that of previous year. In 1987, after enunciation of the Revised Industrial Policy(1986), the growth rate was 1022% and in 1992, following adoption of another Industrial Policy(1991), it was 233%. However, the growth rates are measured in terms of current prices and if the FDI volumes were deflated by the import prices it would have resulted in lower growth rates.

The major breakthrough in FDI registration took place in 1987 and 1994 when the volume increased from only Tk. 160 million (in 1986) to Tk. 1774 million and from Tk. 4464 million (in 1993) to Tk. 31,545 million, respectively. There is also a conceivable linkage of investment registration with political swings in the country. In 1981, when the political climate of the country was cloudy, FDI registration decreased by 90% from Tk. 51 million in 1980 to Tk. 05 million in 1981. Political turmoils and general elections held in 1986, 1991 and 1996 in the country also seemed to have bearing on FDI volume. In 1986, 1991 and 1996 the FDI registration fell by 26%, 81% and 16%, respectively. Investments in EPZs (where political disturbance have minimal impact on the operation of the enterprises) in those years further reinforced this assumption. Corresponding investment in EPZs in those years constituted 39%, 29% and 37% of total investments respectively, while the average contribution of EPZs in total FDI is only 20.60%. The phenomenal increase of FDI since 1994 may be attributed to the development of confidence in the minds of the investors about the stability and consistency of the government policy regarding foreign investment and also due to corresponding increase in domestic private investment, which increased by 46% in 1992-93 and 37% in 1994-95. Increased private domestic investment demonstrates the prospects of the country as an investment location and creates opportunity for the foreign investors to enter into joint ventures with the local entrepreneurs.

3.2 Sectoral Distribution of FDI

An analysis of distribution of FDI amongst different sectors[2] indicates that the Textiles, Garments and accessories sector, with

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[2] The sectors have been identified in line with the sectors developed by Bangladesh Bureau of Statistics for export/import purposes to help relating FDI volume with export and import volumes in different sectors. Different sectors and their contents are given below:

- Drugs and Chemicals: Drugs, Pharmaceuticals, basic chemicals, paints and varnishes, toiletries, pesticides, fertiliser, cosmetics, dyes and chemicals etc.
- Paper and Paper Products: Paper, paperboard, tissue paper, paper converting etc.
- Cement and Ceramics: Cement clinkers, Portland cement, cement concrete poles, heavy clay and ceramic product, bricks, tiles etc.
- Agro-based: food processing, poultry, hatcheries, catching, canning and preservation of fish, palm oil refinery, wooden pencil, handicrafts, furniture, mineral water, flower farming etc.
- Textiles and Garments: ready made garments, textiles and fabrics, knitwear, terry towels, garments accessories, textiles dyeing and finishing, socks manufacturing etc.
- Machinery: electrical switch, fan, batteries, pumps, motors and engines, radio set, television, computer peripherals, four wheeler vehicles, measuring instruments etc.
- Leather and Footwear: Tanning and curing of leather, tannery, footwear and other leather goods.
- Services: Computer data entry, soft ware development, air services, printing and publications, constructions, hotel and motel, restaurant, hospital and clinic, cold storage, leasing, power plant, telecommunication services, recreation park, industrial estate etc.

  Others: Welding electrode, LP gases, can manufacturing, rubber products, steel and metals, plastic products, jewellery, natural stone, toys, etc.

an investment proposal of Tk. 48,190 million topped the race and accounted for 33% of total investment, followed by Service sector (29.26%), Drugs and Chemicals (18.23%), and Agro-based sector (4.34%). The larger share of Drugs and Chemicals sector is due to two huge investments of Tk. 10,933 million and Tk. 12,425 million in one Methanol Plant and one Fertiliser Factory, respectively. The volume of investment in Service sector is also dominated by two major investments, one in an industrial Park/Estate by South Korea and Malaysia, and the other in a 5-Star Hotel by a consortium of Taiwan, Singapore and Hong Kong with an amount of Tk. 17,500 million and Tk. 10,000 million, respectively.

However, in terms of the number of projects registered until December 1997, the sectoral distribution shows a different picture. Out of total 948 projects, the highest number of projects (297) were found registered in Textiles, Garments and accessories sector and accounted for 31.33% of total projects. A total of 136 (14.34%) projects were in Agro-based sector, 119 (12.55%) in Service sector, and 116 (12.23%) were in Electrical, Electronics and Machinery sector.

The huge investment in Textiles and Garments sector can be attributed to the success of this sector as an export oriented industry and easy availability of cheap labour in the country. This is also related to the backward integration initiatives from customers in UK, USA and Japan and from the Buying Houses in Hong Kong and Singapore. Moreover, the investors seemed be attracted to this sector to take opportunity of the quota facility that is being currently enjoyed by Bangladesh under Multi-fibre Arrangement (MFA) in exporting garments to industrial countries.

Significant investment in service sector, particularly since 1994, indicates the expanding internal consumer as well as industrial market in the country. Investment in Hotel & Motel, Restaurant, Hospital & Clinic, domestic Air Services, Recreation Park etc. are to cater to the needs of the increased local demand due to higher disposable income and modernisation outlook of the middle and elite class of the society. Investment in Industrial Park, Leasing Services, Construction, Power and Communication, Cold Storage etc. are mainly to feed the local aspiration for higher industrialisation.

The considerable investment in the Agro-sector is primarily resource seeking in nature and based on the available agricultural raw materials like crops, fruits, and fish in the country. Opportunity for exporting, particularly of tea, fish and frozen foods, is another reason for investment in this sector. In 1994/95, fish products contributed 10.1% of total export earnings in the country. The Machinery sector has so far attracted rather insignificant volume of investment (2.70% of the total). This can be attributed to low domestic demand due to predominance of labour-intensive manufacturing processes and low level of industrialisation and modernisation in the country. Lack of sufficient skilled engineers and technical personnel may also partly explain the meagre investment in the sector.

Even though the cost of labour (both skilled and unskilled) is very cheap in Bangladesh, this sector requires human intellects, experience and sound academic background, which can not be substituted by unskilled labour. Thus, it is not surprising to find a significant positive correlation between FDI and cost of labour, as found by Schneider and Frey (1985) in their analysis of FDI in developed countries. Higher labour cost may reflect the presence of a cadre of well trained and motivated labour force, which in high technology sectors in particular, may act an incentive to

Table 1: Year wise and Sector wise distribution of FDI in Bangladesh Registered with BOI and BEPZA for 1971-1997 (Million Taka)

Year	Drugs & Chemicals	Paper & allied	Cement & ceramics	Agro based	Textiles & Garments	Machinery	Leather & footwear	Services	Others	Total
Upto 1971	32	--	--	94	0.7	17	123	--	03	270
1972-76	--	--	--	--	--	--	--	--	--	--
1977	0.5	--	--	--	--	10	--	0.45	--	11
1978	--	--	--	--	--	--	--	--	--	--
1979	--	--	--	25	0.37	--	--	50	--	75
1980	14				06	16	04		10	51
1981						01			04	05
1982	06			09	06	08	146			175
1983	12			481	79	55		04	46	677
1984				103	97				15	215
1985	18				14	114	05	23	41	215
1986	23			37	87	07			06	160
1987	180	76		93	422	29		808	166	1774
1988	34			321	55	69	51	546	712	1788
1989	06	42		304	546	63			934	1895
1990	55		372	87	784	1454	25	02	44	2823
1991	03			87	233	111	47	--	17	498
1992	09			1045	441	88	19	20	39	1661
1993	11			350	3619	21	13	37	412	4464
1994	10986	487	1186	861	15020	1042	397	645	921	31545
1995	2594	908	2987	722	5970	334	561	23459	2517	39151
1996	12521	379	425	763	13862	256	1493	1613	1070	32382
1997	140	28	1520	957	6948	254	159	15534	707	26731
Total	26645 (18.23)	1920 (1.31)	5590 (3.82)	6339 (4.34)	48190 (32.99)	3949 (2.70)	3043 (2.08)	42742 (29.26)	7664 (5.25)	146082 (100)

Source: Board of Investment and Bangladesh Export Processing Zones Authority unpublished records.

inward investment. Low volume of investment in EPZ, in machinery sector (only 3.88%) also justifies the proposition.

Table 2: Number of projects registered with BOI and BEPZA (1971-1997)

Year	Drugs & Chemicals	Paper & allied	Cement & ceramics	Agro based	Textiles & Garments	Mac hi-nery	Leather & footwear	Servi ces	Others	Total
Upto 1971	10	---	---	02	01	05	01	---	03	22
1972-76	---	---	---	---	---	---	---	---	---	---
1977	01	---	---	---	---	02	---	01	---	04
1978	---	---	---	--	---	---	---	---	---	---
1979	---	---	---	01	01	---	---	---	01	03
1980	01	---	---	---	01	06	01	---	01	10
1981	---	---	---	---	---	01	---	---	02	03
1982	01	---	---	02	01	01	02	---	---	07
1983	01	---	---	04	04	02	---	01	03	15
1984	---	---	---	02	09		---	01	01	13
1985	01	---	---	01	01	01	01	01	02	08
1986	02	---	---	01	05	02	---		06	16
1987	01	01	---	03	09	02	---	03	02	21
1988	03	---	---	03	04	02	01	02	04	19
1989	01	01	---	03	04	03	---	01	03	16
1990	02	---	02	05	21	07	02	03	06	48
1991	01	---	---	04	11	05	04	---	02	26
1992	01	---	---	05	07	02	02	03	07	27
1993	01	---	---	06	21	03	01	04	11	47
1994	08	05	05	27	44	30	09	26	29	183
1995	12	05	06	12	56	17	10	20	20	158
1996	02	01	04	28	48	15	04	17	19	138
1997	07	01	03	27	45	11	08	38	24	164
Total	57	17	20	136	297	116	46	119	141	948

Source: Board of Investment and Bangladesh Export Processing Zones Authority unpublished records.

Paper & Paper Products and Cement and Ceramics are the relatively newer recipients of FDI in the country. Production disruption in the country's major paper mills (Karnaphully Paper Mill and Khulna Newsprint Mill) under public sector in early 1990s, lack of government initiatives for further investment in public sector in the face of the increased demand as well as the government's inducement for import substituting FDI, gave rise to private investment in Paper & Paper Products. Investment in Cement sector is also in response to the increased domestic demand. However, some opportunity for export of ceramic items might also have encouraged some investment. Foreign investment in Leather and Footwear sector is mainly resource seeking and meant for export markets. In 1994/95, leather and leather goods contributed 6.7% of total export earnings of the country. Greater portion of FDI in this sector is located in EPZ (61%), which again signifies its export opportunity from Bangladesh.

3.3 Country of Origin

As regards distribution of FDI by home country, investment came mainly from Malaysia (14.45%), South Korea (13.35%), Hong Kong (5.15%), UK (4.43%), Japan (3.69%), Singapore (3.19%), USA (3.02%), Germany (2.22%), India (1.63%) and China (0.76%, excluding Taiwan). Saudi investment of Tk. 11,165 million in only 3 projects, particularly in one Methanol Plant with Tk.10,933 million makes Kingdom of Saudi Arabia as the third largest investor (7.64%) in Bangladesh. Pakistan, Netherlands, Canada, Switzerland, Italy, Taiwan, Sweden, France etc. are other important sources of investment in the country. One recent trend in relation to the origins of FDI in Bangladesh is joint investment by consortiums of two or more countries/international agencies. About 47 such projects amounting to Tk. 49,480 million were registered with the BOI till December 1997, which accounted for 33.87% of total investment.

Table 3: Year-wise and Country-wise distribution of FDI in Bangladesh Registered with BOI and BEPZA for 1971-1997 (Million Taka)

Year	Malay-sia	South Korea	Hong Kong	UK	Japan	Sing-apore	USA	Germ-any	India	China	Pakist-an	others	Total
Up to 1971	--	--	--	110	0.7	--	22	--	--	--	--	137.3	270
1977	--	--	0.45	4.5	---	---	---	---	---	---	---	06	11
1978	---	---	---	---	---	---	---	---	---	---	---	---	---
1979	---	---	---	---	24.5	---	---	---	---	---	---	50	75
1980	---	---	---	11	---	02	---	19	09	---	---	10	51
1981	---	---	---	---	---	3.5	---	01	---	---	---	0.5	05
1982	---	5.6	0.65	---	08	--	---	---	---	---	---	161	175
1983	---	09	70	60	---	70	---	---	---	4.5	---	463.5	677
1984	---	4.75	18.5	14.7	---	45	123	---	----	----	05	04	215
1985	---	---	2.4	17.5	39	---	14	22.5	---	114	---	5.6	215
1986	---	---	17	66.7	3.7	---	18	----	---	---	47	7.5	160
1987	---	125	822	358	15	03	42	---	4.7	---	----	404	1774
1988	---	99	1.71	487	69	125	01	0.49	04	74	06	921	1788
1989	---	41	86.5	06	924	---	---	3.3	---	57	---	777	1895
1990	---	605	1511	76	201.3	---	05		08	7.8	07	402	2823
1991	---	65	84	70.6	113	---	---	3.7	16	---	3.74	142	498
1992	---	337	153	---	78	800		3.7	---	11.4	---	278	1661
1993	---	3484	215	39	140	---	94	07	10	91.4	2.3	381	4464
1994	8840	1706	805	1079	2788	1410	481	841	300	405	172	12718	31545
1995	3953	1585	695	1841	418	839	1541	1899	1357	94.5	404	24525	39151
1996	6195	7033	1788	1023	258	238	386	312	225	138	256	14430	32382
1997	2127	4407	1262	1155	323	1427	1697	141	452	126	128	13002	26247
Total	21115 (14.45)	19506 (13.35)	7532 (5.15)	6479 (4.43)	5403 (3.69)	4662 (3.19)	4414 (3.02)	3254 (2.22)	2386 (1.63)	1124 (0.76)	1031 (0.70)	69176 (47.35)	146082 (100)

Source: Board of Investment and Bangladesh Export Processing Zones Authority unpublished records.

In terms of number of projects, as of December 1997, a total of 948 projects were registered with the Ministry of Industry/BOI and BEPZA. S. Korea by far the largest investor in this regard, investing in 180 (18.98%) projects, followed by UK (97, 10.23%), Japan (92, 9.70%), Hong Kong (69, 7.27%), India (69, 7.27%), Germany (53, 5.59%), USA (53, 5.59%), Pakistan (52, 5.48%), Singapore(35,3.69%),China(33, 3.48%) and Malaysia (28, 2.95%).

In the 1970s and early 1980s, the high income countries like UK, USA, Germany, Italy, Canada, Netherlands etc. dominated the FDI scenario in the country. Colonial relations with UK seemed to have bearing on UK based investment in Bangladesh, particularly in Tea Estates and consumer goods. However, in recent years the Asian NICs including those from India and other neighbouring countries have been coming up with larger investment proposals. According to cumulative investment commitments, Asian countries (including Japan, Middle East and West Asia) contributed 73.55% of total investment while European and North American (USA & Canada) contribution were only 9.46% and 3.72% respectively. Note that the figures did not include investments in joint projects financed by two or more countries from different regions/continents. The lower level of investment from developed countries indicates that so far Bangladesh could attract very few world leading MNCs having better technology and managerial and marketing skill than their Asian (except Japan) counterparts. Even though Bangladesh could

Table 4 : Sector-wise and Country-wise distribution of FDI in Bangladesh Registered with BOI and BEPZA for 1971-1997 (Million Taka)

Country	Drugs & Chemicals	Paper & allied	Cement & ceramics	Agro based	Textiles & Garments	Machinery	Leather & footwear	Services	Others	Total
Malaysia		5.2	293	101	15534	282.8	---	4682	217	21115
S. Korea	19.75	---	593.37	294	15745	381	1738	212	524	19506
Saudi Arabia	10933			195.6	36					11165
Hong Kong			163.5	177.4	3859	1186	36.8	2022	88.09	7532
UK	93.08	337.8	31.5	1192	2535	143	92	483	1572	6479
Japan	11.27			130	2955	730	140	192	1244	5403
Singapore	43		1006	893	2603	34		174	209	4962
USA	38			121	1185	216	32	2623	210	4424
Germany	22	1459		291	646	02	555	517	119	3254
India	282.37		1154	41	107.26	167.58		479.5	154	2386
Kajakistan								1206		1206
China	333.29	42.28		101	310	114.13		85	138.29	1124
Pakistan	19.41			433	164	240	5.46	75	94	1031
Thailand				29	49	0.9	7.35	490	132.4	709
Others	14850	75.8	2349	2340	2462	452	436	29501	2962	50787
	26645	1920	5590	6339	48190	3949	3043	42742	7664	46082

Source: Board of Investment and Bangladesh Export Processing Zones Authority unpublished records.

attract some Japanese investment in recent years, it is quite insignificant in comparison to Japanese investment in other Asian countries. In recent years Japan has become the largest source of FDI to the Asian countries through the recycling of its current account surpluses. (Chawdhury and Saha, 1993).

Increased flow of investment into Bangladesh from developing Asian countries (specially Asian NICs) can be attributed to the following reasons. For last two decades, the Newly Industrialised Countries (NICs) of Asia have been pursuing private sector led industrialisation strategy actively facilitated by their respective governments. It resulted in the emergence of many small and medium sized Multinational Companies with huge investible surpluses as well as technical and managerial skill to operate outside the country. In the face of stiff competition in the global market place, they are now looking outward for investment opportunity, which promises lower cost and increased efficiency. As an outcome of gradual industrialisation, the Asian NICs experienced increased exports of manufactures to the advanced countries. The effects of this particular growth in exports were two fold. Firstly, they lost their GSP status and secondly, they faced newer restrictions on their exports. It eventually generated export oriented FDI in less developed countries to take advantage of their GSP status and quota facilities. Thus, in some cases, to have access to developed country markets the Asian NICs found Bangladesh as a worthwhile export platform. The share of investment by these countries in EPZs in relation to their total investment in the country justifies this assumption. In case of S. Korea, Malaysia and Hong Kong, investment in EPZs accounted for 68.57%, 35.06% and 37.04% of their total investment in Bangladesh. Most of the outward investors in the region, such as S. Korea, Singapore, Hong

Kong and Taiwan are basically resource poor. So their main inducements for investing abroad come either from their need to secure stable supplies at a reasonable prices or processing of the easily accessible resources in the host country. Investment in the Agro-based and leather sectors in Bangladesh by these countries can be assumed to be induced by such motives. One explanation of FDI originating from developing Asian countries is attributed to what is called "Pecking order approach" related to their ability to grafting imported technology to local economies, both local and foreign. Many FDI projects from S. Korea, Taiwan and India in relatively labour intensive and technologically standardised products, such as textiles, footwear etc. and the unsophisticated product lines of electric and electronics appliances in Bangladesh are likely to be of this nature. Finally, in line with the recent competition among developing countries to host more and more FDI primarily to bridge their savings-investment gap and accelerate economic growth, Bangladesh offers extremely generous incentive packages to the foreign investors. Mostly export oriented footloose investments seem to be lured by such initiatives. The export oriented FDI in Bangladesh from developing Asian countries can be viewed as the response to these incentives.

3.4 Structure of Investment

One aspect of FDI in Bangladesh is that in spite of almost continuous rise in the volume and number of projects over the years, one or two large investments have accounted for the bulk of total investment in a particular year. In 1977, out of 4 projects, one Swedish project for Marine Diesel Engines worth Tk. 5.52 million accounted for 49.27% of the total investment. One Thai investment for Tk. 50 million contributed 66.67% of total investment in 1979. About 48.40% of total investment in 1980 was made up of only two projects, one from Thailand (Tk. 10.38 million) and the other from Germany (Tk. 14.3 million). Singapore based investment in Fertiliser baggging accounted for 60% of the total investment in 1981. In 1982, Bata Shoe Co (Bangladesh) Ltd of Canada invested Tk. 123.25 million, which contributed 70.42% to the total FDI in that year. Swedish investment in "Safety Match" amounting Tk.408.10 million in 1983 accounted for 60.26% of the year's total FDI. Out of 13 projects, 3 largest projects amounting to Tk. 157 million were registered in 1984 and accounted for 73% of total FDI in that year. 53% of FDI in 1985 was credited to only one Chinese investment of Tk.114 million in an electrical plant. Investment (Tk. 36 million) in Shrimp Culture by Lever Brothers (Bangladesh) Ltd and a Pakistan based Textiles project in Chittagong EPZ (Tk. 38 million) together accounted for 46.62% of total FDI from 16 projects in 1986. An investment of Tk. 744 million in Hotel and Motel by International Hotel Holdings Ltd of Hong Kong contributed 42% of total FDI in 1987. In 1988, four major projects with Tk. 261 million, Tk. 355 million, Tk. 420.63 million and Tk. 226 million, together accounted for 71% of total FDI in that year.

Three significant projects with BOI (Tk. 279.5 million, Tk. 218 million and Tk. 195.6 million) and one huge Japanese project with BEPZA amounting to Tk. 903 million, together contributed 84.16% to the total FDI in 1989. Out of 48 projects only four projects amounting to Tk. 1822 million accounted for 64.54% of total FDI in 1990. In 1991, three projects of Tk. 192 million together contributed 38.55% to the year's total FDI. One Singapore based Palm Oil Refinery of Tk. 737 million and one Tk. 245 million Swiss Condensed Milk Project together accounted for 58.82% of total FDI in 1992. Three S. Korean Textiles projects in EPZs invested Tk. 2,522 million and contributed 54.47% to total

FDI in 1993. In 1994, Malaysian investment of Tk. 8,507 million in an integrated textiles mill and Saudi investment of Tk. 10,933 million in a Methanol Plant together constituted 61.62% of total investment in that year. An investment of Tk. 17,500 million by a consortium of Malaysia and S. Korea in an Industrial Park/Estate along with three other major projects of Tk. 2223.62 million, Tk. 2100 million and Tk. 2600 million accounted for 62.38% of total FDI registration in 1995. In 1996, out of 138 projects, only four projects amounting to Tk. 21811 million contributed 67.35% to total FDI in that year. In 1997, a huge investment of Tk. 10,000 million in 5-Star Hotel-Cum-Supermarket by a consortium of Taiwan, Singapore, and Hong Kong as well as four other projects of Tk. 1006 million, Tk. 1554.7 million, Tk. 1265 million and

Table 5: Pivotal FDI Projects in Bangladesh (1977-1997)

Year	Total number of projects	Number of pivotal project(s)	% of total investment attributed to the pivotal project(s).
1977	04	01	49.27
1978	--	--	--
1979	03	01	66.67
1980	10	02	48.40
1981	03	01	60.00
1982	07	01	70.42
1983	15	01	60.26
1984	13	03	73.00
1985	08	01	53.00
1986	16	02	46.62
1987	21	01	42.00
1988	19	04	71.00
1989	16	04	84.16
1990	48	04	64.54
1991	26	03	38.55
1992	27	02	58.82
1993	47	03	54.47
1994	183	02	61.62
1995	158	04	62.38
1996	138	04	67.35
1997	164	05	61.60

Source : Board of Investment and Bangladesh Export Processing Zones Authority unpublished records.

Tk. 2343 million together accounted for 61.60% of the year's total FDI registration. The table below shows the number of dominant projects and their share in total FDI volume in the country.

Obviously, the dominance of a few projects in total FDI registered in Bangladesh every year indicates the vulnerability of the country's FDI flow to the implementation of those pivotal projects. It also suggests that as yet Bangladesh could not make any significant headway in attracting a steady flow of FDI.

3. 5 Composition of Investment

An analysis of actual flow of FDI into Bangladesh reveals that not all investment represents a net transfer of resources from abroad into the country. The volume of FDI in a particular year includes fresh capital injection, reinvested earnings and capital equipment brought in. A look into the composition of FDI demonstrates that reinvested earnings dominate the FDI volume and ranges from 34.93% in 1983 to 90.75% in 1990. It accounted for around 64% of cumulative FDI for 1979-1994 period. Capital equipment brought in represents the smallest component in FDI composition. Its share ranges from 0.01% in 1980 and 1986 to 35.57% in 1983. It accounted for 9.72% of total cumulative flow of FDI between 1979 and 1994. Contribution of net transfer of cash capital ranges from –13.41% in 1984 to 57.70% in 1986 and accounted for 26.16% of total cumulative FDI in the country for the period of 1979-1994. The table below shows the actual volume and share of different components of FDI in Bangladesh from 1979 to 1994.

Sheer dominance of reinvested earnings in FDI volume brings several points to the fore. Since the reinvested earnings could, in principle, be transferred out of the country after payment of taxes, its importance as capital money could not be undermined. However, the corresponding negligible inflow of cash and capital

Table 6 : Actual Flow of FDI into Bangladesh b Categories for 1979-1994 (Million Taka)

Year/ Categories	Cash Capital	Capital Equipment	Reinvested Earnings	Total Investment
1979	30.389 (40.84)	11.094 (14.91)	32.930 (44.25)	74.413 (100)
1980	14.087 (20.67)	0.007 (0.01)	54.072 (79.32)	68.166 (100)
1981	27.169 (26.31)	5.031 (4.87)	71.054 (68.82)	103.254 (100)
1982	14.912 (14.58)	0.878 (0.86)	86.558 (84.56)	102.358 (100)
1983	21.291 (29.50)	25.67 (35.57)	25.208 (34.93)	72.170 (100)
1984	(-)10.831 (-13.41)	23.159 (28.67)	68.460 (84.74)	80.788 (100)
1985	88.284 (35.42)	3.696 (1.48)	157.282 (63.10)	249.262 (100)
1986	108.170 (57.70)	0.014 (0.01)	79.265 (42.29)	187.449 (100)
1987	107.473 (32.37)	0.732 (0.22)	223.777 (67.41)	331.982 (100)
1988	26.781 (9.48)	0.127 (0.04)	255.705 (90.48)	282.613 (100)
1989	41.257 (10.83)	7.784 (2.04)	331.944 (87.13)	380.985 (100)
1990	28.310 (7.87)	4.960 (1.38)	326.393 (90.75)	359.663 (100)
1991	207.536 (37.27)	49.764 (8.94)	299.473 (53.78)	556.773 (100)
1992	185.036 (26.53)	163.240 (23.41)	349.064 (50.05)	697.340 (100)
1993	126.973 (31.78)	67.381 (16.86)	205.204 (51.35)	399.558 (100)
1994	97.875 (31.10)	50.605 (16.08)	166.214 (52.82)	314.694 (100)
Total	1114.722 (26.16)	414.143 (9.72)	2732.603 (64.12)	4261.468 (100)

Note: Figures in parenthesis indicate percentages to the total.

Source: Bangladesh Bank, Foreign Liabilities and Assets and Foreign Investment in Private sector in Bangladesh, Various issues.

equipment implies lower injection of new FDI and associated technology transfer. This amply demonstrates that Bangladesh is yet to achieve any concrete success in attracting new investors. (Chawdhury and Saha, 1993). In fact, decisions about reinvested earnings or expansionary FDI by a firm are made on more liberal considerations than that of initial investment and do not necessarily depend upon the comparative attractiveness of a particular country as an investment location. In analysing decision processes of firms for initial and expansionary FDI, Barlow and Wender (1955) argued that foreign earnings are treated by a company more like *gamblers' dollars* and it is much more willing to take a chance with them than with a new FDI. Analysing the historical development of the subsidiaries of General Motors in Australia, Penrose (1956) maintained that the original investment of many a foreign firm has been little more than exploratory venture to discover the desirability of the investment in the first place. The cost of investigations, together with the cost of planning, organising and actually establishing the new firm must, other things being equal, obviously limits the number and extent of such ventures. However, when an existing profitable subsidiary proposes for expansion with retained earnings, the case is different. The parent firm is presented with a programme of expansion, which has already been evaluated by the management of the subsidiary who has knowledge about local conditions. Thus the degree of uncertainty surrounding such investment and the cost of making it, is surely lower than that associated with a new venture. Therefore, there is every possibility that the proposal gets approved with or without modification by the parent company and obviously the decision process in this regard is not comparable to that of a new venture.

Nevertheless, the dominance of reinvested earnings in FDI suggests that once established, the economy of Bangladesh offers prospects and opportunities to the foreign firms to grow within the country. But this point should be taken with great care, as the volume of FDI into the country itself is very low.

3.6 Mode of Investments

Out of different modes of FDI like technical co-operation arrangements, marketing and management collaborations, licensing agreements and equity participation in Bangladesh, FDI through equity participation remains the dominant mode. As a matter of fact, at present there is no ceiling on foreign equity and no rigidity about the extent of foreign participation. Bangladesh now welcomes 100% foreign equity holding in almost every sector. However, in most cases, the foreign investors prefer equity joint venture to 100% equity holdings. As of December 1997, a total of 236 projects (25% of all projects) registered with BOI and BEPZA. The foreign equity shares in joint venture projects ranges from as low as 9% to as high as 98%. In the face of the absence of any pressure from the government, the overwhelming interest of the investors for joint venture over wholly owned subsidiary can be attributed to various reasons. In view of the political and economic uncertainty in the country, the investors may desire to spread their business risk as well as the risk of unpredictability of the environment. More importantly, the investors may perceive that the need for local facilities and resources can best be obtained through a local interest with local influence and knowledge of the customs and legal system. Number of wholly owned foreign projects in EPZs supports the proposition. Out of 236 projects, 107 projects are located in EPZs and accounted for 70% of total foreign involved projects registered with BEPZA, where the investors enjoy the facility of "one-stop shop" and operate in a sheltered area, in many respect isolated from outside world.

3.7 Investments in EPZs

As of December 1997, a total of 203 local as well as foreign projects were registered with BEPZA to locate their operations within the country's two EPZs in Dhaka and Chittagong. Of them 113 (55.67%) projects started their operation. Proposed investment by the approved projects amounted to US $887.955 million while an investment of $292.614 million has actually been took place by this time. A few indicators of EPZs in Bangladesh are given below.

Table 7 : Investment and Employment in EPZs in Bangladesh for 1983-1997

No. of Projects		Investment ($ '000)		Proposed Employment		Actual Employment	
Proposed	Actual	Proposed	Actual	Local	Foreign	Local	Foreign
203	113	887955	292614	118206	1460	65973	545

Source: Bangladesh Export Processing Zones Authority, 1998.

As far as the FDIs in EPZs is concerned, it is found that a total of 153 foreign projects of wholly owned or joint venture type, have been approved by BEPZA until December 1997. Proposed investment by these projects amounted to Tk.30082 million. As regards the country of origin, South Korea is the largest investor in EPZs with Tk.13449 million investment proposal and accounted for.44.69% of total FDI in EPZs. Other major investors include Malaysia (Tk 7403 million, 24.60%), Hong Kong (Tk 2790 million, 9.27%), Japan (Tk 1919 million, 6.34%), UK (Tk 1418 million, 4.71%) and USA (Tk 1187 million, 3.94%). The sectoral distribution of FDI in EPZs demonstrates that the Textiles and Garments sector is the largest recipient of FDI. Total FDI commitment in this sector amounted to Tk.24498 million and accounted for 81.40% of total volume. Leather and Machinery sectors are other major recipients of FDI in EPZs with Tk.1864 million (6.19%) and Tk.1169 million (3.88), respectively. No registration took place in Drugs and Chemicals Paper allied and Cement and ceramics sectors.

Contribution of Foreign investment in EPZs to the total FDI commitment in the country ranges from 6.09% in 1995 to 84.14% in 1993. However, on the average it accounted for 20.60% of total cumulative FDI upto end of 1997. The significant share of FDI in EPZs to total FDI in the country indicates the footloose nature of the investment and further questions the attractiveness of Bangladesh as an investment location.

4. Summary and Conclusion

In order to solve the severely felt problems of low savings, dearth of foreign exchange, higher rate of unemployment and lack of technological and managerial skills, Bangladesh has kept its door open for FDI since independence. However, due to unsatisfactory investment climate in the country, so far it could attract very meagre amount of FDI by international standard. Nevertheless, as far as the flow of FDI in the country is concerned, it shows an over all improving trend since 1979.

Just after liberation in 1971, Bangladesh government opted for a pro-socialist economic system and accordingly adopted the investment and industrial policy. The latter part of the 1970s marked a shift of emphasis from public to private sector led economic growth and successive governments have initiated several reform measures to liberalise investment regime with greater focus on FDI. In 1980, a Private Foreign Investment (Promotion and Protection) Act was introduced in order to attract more FDI in the country. In line with the government's emphasis on export oriented FDI, two EPZs were established in 1983 and 1993. Besides, the government has put in place an extensive programme of incentives, which include: no ceiling of investment, tax holiday upto 10 years, duty free importation of capital machinery and spare parts for 100% export oriented industries, capital, profit and dividend repatriation facility, convertibility of Taka (local currency) for current account transactions etc. So far Bangladesh concluded bilateral agreement for avoidance of double taxation with 20 countries and investment treaty with 16 countries. In 1989, BOI, a government sponsored investment promotion agency was created to facilitate and attract foreign investment in the country through state marketing. The government is also active in creating a conducive environment for foreign investment through legal, administrative, financial and other policy reforms. Thus, in terms of policy measures and government attitudes toward FDI, Bangladesh now offers considerably libera conditions for foreign investment. Apart from this, it also offers most competitive labour cost in the region. However, despite these positive aspects, many other constituents of investment climate in the country seem to be not very conducive to the foreign investors. Political climate in Bangladesh, which is always characterised by frequent changes of government, lack of mutual tolerance among political parties, strikes, demonstrations and overwhelming role of pressure groups in politics, is an oft-quoted deterrent to FDI in the country. With an annual per capita income of just over US $250, Bangladesh has a very small internal market to attract foreign investors. Being a resource poor country, it can offer very little opportunity to the resource seeking investors. The fragile infrastructure in the country, particularly power and telecommunication sector, is another main reason why foreign investors have shied away from the country. Lower level of industrialisation and associated inflow of FDI are also responsible for not creating a bandwagon effect in the FDI scenario of Bangladesh. However, various indicators of the economy look promising and have been showing considerable improvement over the years. Foreign investors are also found keen to invest as demonstrated by the sharp rise in FDI registration in the country since 1993.

The analysis of the trend and pattern of FDI registered in the country indicates that, on the whole, the volume of FDI has been increasing over the years. However, the policy instruments and political swings in the country are observed to have a bearing on FDI. Substantial growth in FDI took place in 1994 onward, which can be attributed to the development of confidence in the minds of the investors about the stability and consistency of the government policy regarding foreign investment and also due to corresponding increase in domestic private investment. As regards sources of FDI in Bangladesh, Malaysia, by far promises to be the largest investor in the country followed by South Korea, Hong Kong, UK, Japan, Singapore, USA, Germany, India, and China. The hegemony of FDI from high-income countries like UK, Germany, Italy, Netherlands, Canada, USA, Switzerland, Sweden and France in 1970s and early 1980s has recently been replaced by the investments from developing Asian countries. Such a trend implies a lower level of inflow of advanced technology and managerial and marketing skills in the country that are usually associated with FDI from developed countries. The sectoral pattern of FDI demonstrates that Textiles and Garments sector is the largest recipient of FDI in Bangladesh followed by Service sector, Drugs and Chemicals, and Agro-based sector. Paper and allied and Cement and Ceramics sector are relatively new recipients of FDI and look promising. Investments in EPZs constitute a notable portion of FDI registered in the country, which indicate the footloose nature of the foreign investment. Cheap labour, convenient export opportunity from Bangladesh, expanding internal market (for some products and services), hyper generous government incentives and EPZ facility in the country are observed to be the influential inducements for foreign investors in Bangladesh.

Equity participation is found to be the dominant mode of investment and the investors prefer joint venture with local entrepreneurs to 100% equity holdings. In a limited scale, it implies the suspicion of the foreign investors over the business environment in the country. One prominent feature of FDI in Bangladesh is that one or two large investments accounted for the bulk of total investment in a particular year, which indicates the vulnerability of the country's FDI flow to the implementation of those pivotal projects. It also suggests that as yet Bangladesh could not make any significant headway in attracting FDI. An analysis of the composition of FDI in the country demonstrates that the reinvested earnings represents the major part of FDI followed by fresh capital injection and capital equipment brought in. The dominance of reinvested earnings in FDI, on the one hand, suggests that once established, the economy of Bangladesh offers prospects and opportunities to the foreign firms to grow within the country. But on the other hand, it also indicates the country's inability to attract significant amount of fresh capital and associated technology.

All said, Bangladesh has to improve its over all investment climate so as to induce foreign investors. Improvement of political climate, labour productivity and infrastructure are very crucial in this respect. The investment promotion drives of the country should focus more on attracting investors from developing Asian countries and Japan than from Europe and North America. In order to sustain the recent flow of FDI, existing incentive measures and export oriented growth strategy are also very significant to be followed.

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Appendix Table for Chart # 1FDI Registered with BOI and BEPZA for 1979-1997(in Million Taka)

Appendix

Table for Chart # 1

FDI Registered with Board of Investment and Bangladesh Export Processing Zones Authority for 1979-1997 (in Million Taka)

Year	BOI	BEPZA	Total
1979	75	---	75
1980	51	---	51
1981	05	---	05
1982	175	---	175
1983	610	67	677
1984	129	86	215
1985	162	53	215
1986	98	62	160
1987	1605	169	1774
1988	1594	194	1788
1989	911	984	1895
1990	1426	902	2328
1991	353	145	498
1992	1244	417	1661
1993	708	3756	4464
1994	29502	2043	31545
1995	36766	2385	39151
1996	20360	12012	32382
1997	19438	6809	26247

Source: Board of Investment and Bangladesh Export Processing Zones Authority Unpublished Records.