Fahmida Akter Khatun

PRIVATISATION OF INDUSTRIES IN BANGLADESH: PROBLEMS AND PROSPECTS OF PRIVATE FOREIGN INVESTMENT

Privatisation has emerged as a major public policy issue in the eighties in many parts of the world. Although nothing new as an economic category, debate and deliberation on privatisation has intensified in recent years particularly in the developing world including Bangladesh. At independence in 1971 Bangladesh inherited a weak and backward industrial sector. This backwardness continues 17 years after independence, and there are multifarious reasons for this. The problem is certainly associated with the overall complex set of issues of development in the country. On a closer focus, however, continued weakness of the industry sector can be viewed to be largely the outcome of shortage of investment funds on the one hand and low entrepreneurial and technological base on the other.

Bangladesh started off with a 'socialist biased' economic strategy including a policy of nationalisation of the industry sector. The experimentation with nationalisation was however shortlived and, rightly or wrongly, gave way to privatisation. On the other hand, the resource scarcity and capital shortage continue to limit the activities of private entrepreneurs to a great extent. Even if anybody possesses the capability to invest for industrialisation, he is usually less interested to do so and opts for indenting business, hotel construction, trade and commerce, service industry and various speculative business. In fact the new capitalists want to prosper at least cost. So, it is not surprising that the amount of investment was only Tk. 30 crore in 1987 out of the estimated "income from other sources" (black money) of Tk. 400 crore even getting an opportunity to invest after a straightway payment of tax only at the rate of 20 percent.[1] On the other hand the denationalised sectors have already shown bad performance in terms of employment, production, profit and loan repayment.[2] Therefore, the crisis of investment from internal resources both in view of capital shortage and unwillingness calls forth the importance of foreign capital for industrialisation. The role of private foreign investment (PFI) as one form of foreign capital inflow to a developing resource-poor country like Bangladesh, particularly for its growing debt-burden on the one hand and critically low level of domestic savings on the other is a subject of growing interest and debate.

Needless to mention, PFI is not always an unbiased blessing. It may cause serious problems detrimental to long term economic development prospect of the host country. Notwithstanding its important role in promoting industrial development through capital and technology transfer, export promotion, entrepreneurial and managerial improvement, its negative impacts are also matters of commonplace wisdom.

The present paper is an attempt at an assessment of the problems and prospects of PFI in the industries sector of Bangladesh. A theoretical discussion and a review of industrial policy of Bangladesh are followed by an examination into the status of PFI

1. 1988-89 Budget Speech of the Finance Minister, Government of Bangladesh, Quoied in *The Bangladesh Observer*, 17 June, 1988.
2. For details see R. Sobhan, and A. Ahsan, : "Disinvestment and Denationalisation: Profile and Performance", *BIDS, Research Report, New Series* No. 38, July 1984, and R. Sobhan, and S. Akhter Mahmood, "The Economic Performance of Denationalised Industries in Jute and Cotton Textile Industries" BIDS (Mimeo), June 1986.

in Bangladesh industry which provide the basis for some comments on the future outlook.

PRIVATE FOREIGN INVESTMENT: A THEORETICAL DISCUSSION

Most of the Third World countries attained their political independence after World War II. However, this did not provide an automatic improvement of their economic well-being. Indeed, the economic situation of many countries gradually deteriorated. To arrest this regression and propell the Third World towards development, international organizations including the United Nations declared numerous assistance programmes. These programmes advocated, on the one hand, outright grants and soft term loans, on the other hand, urged the developed rich countries to invest in the Third World industrialization efforts.

The assumption behind such support is that an addition of extra capital to a nation's economy will not only bring the needed capital for development and help in the balance of payment but this capital will also work within the host economy to generate domestic savings and hence investment. Along with the technological and managerial skills that it will bring, foreign capital will also provide employment and help market of the host country's products. The views about the role of foreign private investment in the Third World can be elaborated under the heading of capital transfer, technology transfer, organizational and managerial skills and improvement of internal market.

Transfer of Capital

As the poor countries can not generate sufficient savings to purchase foreign technology or to undertake development on their own the multinational corporations and foreign investment in general can provide funds to assist in the development venture of those countries. That is, foreign private investment bring in capital from outside of the host country. However, the actual inflow of capital from multinational corporations may not be really large and would probably appear even less. Lall and Streeton[3] note that the transnational corporations (TNCs) prefer to commit a small amount of their own capital for the initial investment and to raise the bulk of their requirements locally.

Despite the minimal contributions, the TNCs manage to get large part of the equity and as such of profits. Muller notes that the use of local capital is facilitated by the presence of multinational banks in the Third World countries which control close to 50 percent of the private capital in the host country. It is also found that the host country receives very little in terms of capital, a far greater proportion is taken out of the host country. This is done inter alia, through transfer of profits and an intricate mechanism of book keeping, which is known as "transfer pricing". Transfer pricing involves under-pricing of the goods sold to it and often readjustment of profits and paying of taxes in countries with liberal tax laws. So it appears that capital transfer is not a one-way street. It flows both ways.

Technology Transfer

In the modern world a comprehensive technology transfer from the industrialized to the developing countries is simply unavoidable because, in many cases, this is the fastest and most efficient way of getting access to the latest technology. In this process, the TNCs through private foreign investment can play an impor-

---

3. S. Lall, and P. Streeton, *Foreign Investment, Transnationals and Developing Countries*, London, Macmillan, 1977, pp. 28-30.
4. Ronald Muller (1973), "The Multinational Corporation and the Underdevelopment of the Third World" in C.K. Wilber (ed), *The Political Economy of Development and Underdevelopment*, New York; Random House. p. 108.

tant role.[5] Lall and Streeton[6] point out that the main advantage offered by the TNCs are not in finance but in technology, marketing and superior management. The transfer of technology substantially raises the level of technology in the receipient country directly and indirectly by training individuals and thereby raising their level of technology. It gives rise to local research and development. They go so far as to argue that this reduces the technological gap among nations and thus reduces their income differentials.

However, techonlogies are produced to meet the needs of the producing countries. So their technology can hardly help development efforts of the developing countries.

In addition it may cause problems like (i) unemployment, (ii) income inequalities, (ii) distorting influence on technology used by other firms, (iv) a bias towards production of high income, sophisticated and differentiated produce for which the technology has been developed. In almost all areas of production the transferred technology tends to display the vices of inappropriateness. They are either capital intensive, or have not been adapted to suit the local peculiarities of labour, employment or economic and social conditions of production. The developing countries have to spend large amounts to pay for the fees and royalties for the borrowed technology which drains out their scarce resources.

Organisational and Managerial Skills

The managerial superiority of TNCs offer some benefits which may arise from better training and entrepreneurial ability to seek new products and processes. Certain externalities are associated

5. H. Seifert, "Direct Investment and Technology Transfer in Developing Countries" *Economics*, New York, Vol. 20, 1979, page 198.
6. United Nations, "Transnational Corporations in World Development : A Re-examination", New York, United Nations 1978. p. 45.

with training received by employees who later leave the firm. All these are expected to be reflected in lower costs and prices and a general improvement in the managerial standard of the host country. But the centralisation of authority in a TNC may lead to dependence and subordination and external benefits of training may be irrelevant to the interest of the host country. Again by offering better paying jobs, the foreign investors lure away the best talents in the country and at the same time higher income induce employees to adopt life styles damaging to the economy or at least at variance with the population in general.

Marketing

It is argued that TNCs break the stagnation of the local market and integrate it with world market. It may help to improve internal marketing and distribution networks by creating storage and transport facilities and lending to improved delivery and lower prices of products with the improvement of internal market, manufactured exports may be greatly increased by using the world-wide marketing outlets, skills and reputations of TNCs.[7] But improved marketing practices may not necessarily be reflected in lower prices to the consumers and may add only to the profits of the TNCs. Certain social costs may arise in the form of excessive product differentiation, need and taste creation and elite consumption which may be wasteful and undesirable from the receipent's points of view.

From the above discussion it can be noticed that no specific conclusion can be drawn about the role of private foreign investment in the developing countries. It depends on the relative attitude and bargaining capabilites of the host country and it differs from one TNC to another. One way to comment is that it is not a one way process and it includes both merits and demerits to certain extent. Hence, a comprehensive approach with proper

7. H. Seifert, *op. cit.*, pp. 205.

appreciation of benefits and costs with both immediate and long term perspectives should provide the basis for policy measures in relation to the PFIs in the Third World context.

Why PFI is Needed for Bangladesh

Bangladesh is placed at the bottom of the World's least developed countries with a per capita income of only US $130 which creates the gap between savings and investment and between exports and imports. To minimize these two gaps and also to finance the development efforts substantial injection of foreign capital is essential. During the First Five Year Plan (1973-78) foreign aid financed 76 percent of public sector development outlay against 40 percent envisaged in the plan document. In the Two Year Plan (1978-80) the share of external finance was 67 percent. And now (1988/89) the share of external aid has increased to more than 85 percent.[8] As a matter of fact the lion's share of our development activities, now-a-days, is financed by foreign capital inflow, including official development assistance, multilateral assistance and foreign private investment.

Notwithstanding this dependency on foreign assistance it is very often argued that in the prevailing poverty-ridden situation more resources are needed to have any structural transformation of the economy through industrialisation. As a matter of fact, the industrial performance in the country is not stisfactory at all. An important reason that can be attributed to it is that because of widely followed import-substitution strategy which led to unduly capital intensive industrial structure this sector experienced sluggish growth over a long time. According to recent World Bank data the growth rates of GDP (gross domestic product) showed a descending pattern from the strongly-outward oriented (export-led) to the strongly inward-oriented (import-led) economies. During 1973-85, GDP growth in strongly outward-oriented

8. *Annual Budget* 1988-89, *op. cit.*

group was 7.7 percent compared 2.5 percent attained by strongly inward-oriented group. As a result of these trends in GDP, during the same period, per capita income in strongly outward-oriented economies grew by an annual average of 5.9 percent, whereas in the strongly inward-oriented countries it declined by 0.1 percent. The outward-oriented countries also achieved a higher share of manufacturing in GDP. Over the same period, the growth of manufacturing sector was 10 percent in strongly outward-oriented economies. The share of manufacturing sector in GDP in strongly outward-oriented countries in 1985 was 26.3 percent as against 15.9 percent in strongly inward-oriented countries. The outward-oriented economies also performed better in terms of all other indicators like gross domestic saving ratio, investment rate, job creation, etc. Outward-oriented countries include (according to World Bank Report) Hongkong, South Korea, Singapore, Malaysia Brazil, etc and inward-oriented economies include Bangladesh, Ethiopia, Nigeria, Sudan, Zambia, etc.[9]

Along with the above mentioned strategy many other factors like limited role of private sector as well as weakness of the private entrepreneurs have affected the growth of both public and private sector. Hence private foreign capital is needed not only to meet up the resource scarcity but also to boost up industrialisation in terms of productivity and profitability.

REVIEW OF INDUSTRIAL POLICY OF BANGLADESH

The basic elements of the industrialisation policy pursued by the Pakistan government were (i) industrialisation through private enterprise, (ii) promotion of industrialisation through suitable and active intervention, (iii) import-substitution strategy for industria-

9. *Chamber News*, May 1988, Metropolitan Chamber of Commerce and Industries, Dhaka, p. (i)

lisation (iv) tolerating but not encouraging foreign direct investment.[10]

The private entrepreneurs interested in establishing industrial enterprise got active government support in financial terms and other facilities since partition in 1947. Direct involvement of the private sector in industrial investment was sought through easy credit policy, tax holiday, tariff protection, high prices of industrial goods, etc. As a result industrial share to GDP (gross domestic product) increased from 0.6 percent in 1949-50 to 3 percent in 1969-70.[11] However, those facilities were limited only within the Pakistani capitalists. As a result of deliberate central government policies East Pakistan (Bangladesh) lagged behind in terms of potential investors as well as industrialisation. And the country's industry sector was left in a vacuum in the wake of independence.

Economic exploitation was at the core of the factors that led to the movements resulting in political independence of Bangladesh. One of the important demands that were perceived to be able to bring economic emancipation of the country was a greater role of the public sector including nationalisation of the industry sector. Indeed, the country at independence adopted what was coined as a socialist-oriented strategy of growth. The other factor that prompted immediate large-scale nationalisation of the industry sector was that the vast majority of whatever industrial infrastructure was available at independence had an abandoned status while the private entreprenuerial base was at the best at too nascent stage to take over. Thus, to start with the private sector in Bangladesh was given a very little role to play. With the announcement of the nationalisation programme on March 26, 1972

10. Q K. Ahmad "The Manufacturing Sector of Bangladesh: An Overview" *The Bangladesh Development Studies*, Vol. 6, 1978, Autumn, pp. 403 497.

11. Raquibuddin Ahmed, "Strategy for Industrial Development in Bangladesh', *Political Economy*, Vol. 2, No. 1, Dhaka, 1979, pp. 553.

nearly 90 percent of the modern industrial sector was brought under the control of public sector[12]. The step covered all units in the jute, cotton, textile and sugar industries and thereby 381 industrial enterprises under government control. The Abandoned Properties Ordinance of January 2, 1972 brought 725 industrial enterprises individually with a book value of TK. 1.5 million each.

The industrial policy statement of 1972 allowed private foreign investment to work only in collaboration with the public sector. Hence all activities of foreign collaboration needed to be approved by the government. Transfer of profits was allowed. Repatriation of capital spread over a number of years and a minimum dividend of 15 percent subject to the availability of profits were guaranteed. Assurance was given that no nationalization would take place with a period of 10 years from the placement of the investment and a fair and equitable compensation would be provided in case nationalisation took place. In July, 1974 the investment policy was revised and in consideration of sharp rise in the prices and costs, investment ceiling was enhanced from Tk. 25 million to Tk. 30 million and private investors, both local and foreign, were allowed to setup enterprise along with public sector corporations except in some basic industries. In addition, the period of moratorium on nationalization was extended from ten to fifteen years and tax holiday for less developed areas was extended from five to seven years.

The change in political power in 1975 brought about a significant change in the attitude towards nationalised industries and changes were made in the institutional arrangement of the sector corporations. A significant shift was made in the industrial policy in December, 1975 increasing the investment ceiling to Tk. 100 million and the ceiling was altogether abolished in September 1978. Private investment was permitted in additional 10 sectors

12. Q.K. Ahmad, *op. cit.*

previously reserved for only public sector. The assurance of a moratorium on nationalization was deleted.

In 1976 a clearly defined policy of encouraging private sector investmement and a favourable climate was created by the government to accelerate the process of disinvestment of a number of abandoned and taken over industries through public tender and also to return the taken-over industries belonging to the Bangladeshis. In 1978 the policy package for attracting private investment was further improved and streamlined. This policy was adopted both in the Two-Year Plan (1978-80) and in the Second Five-Year Plan (1980-85).

Foreign Investment Promotion and Protection Act was passed in 1980 which reflected government's commitment towards private foreign investment. At the same time to initiate export-led industrialisation Bangladesh Export Processing Zone Authority Act 1980 was passed in order to establish Export Processing Zones in Dhaka, Chittagong and Chalna.

According to the New Industrial Policy of 1982 foreign investment will continue to receive due consideration and government will welcome foreign participation in joint venture on mutually beneficial terms and conditions. This New Industrial Policy (NIP) broadened the existing incentive scheme, simplified the sanctioning procedure and identified the preferred areas of foreign investment. The NIP had the following objectives : (i) expand the manufacturing sector with increased participation of private sector; (ii) limit the role of public sector to the establishment of basic, heavy and strategic industries; (iii) limit the growth of investment/ industries having monopoly character; and (iv) improve the efficiency and profitability of public sector enterprises by cutting down overheads, and reducing wastage.

The Revised New Industrial Policy (RNIP 1986) has been announced in time with its prime focus on joint participation and private sector-led investment and growth in the industrial sector of the country. Interest rates have been restructured. Widening of the free sector, further liberalization of sanctioning procedure, expansion of tax holiday periods, provision of research and development facility are the salient features of revised new industrial policy.

In this policy it has been announced that the government will encourage foreign investment specially in : (i) export oriented industries; (ii) industries in Export Processing Zones; (iii) high technology products that will be either efficient import substitutes or export oriented; (iv) undertakings in which more diversified use of natural resources is made; and (v) existing public or private sector enterprises for increasing productivity and/or improving quality of products.

With support from United Nations Development Programme (UNDP) and in collaboration with United Nations Indusrrial Development Organization (UNIDO), the government organised Investors' Forum in Dhaka January, 1987. The forum was attended by about 80 foreign participants, 110 Bangladeshi nationals working abroad and 450 local sponsors. The first Investors' Forum was held in February, 1986 in a bid to draw a sizeable foreign capital inflow to Bangladesh. But only two investors group had come up with capital and technology after that forum.

The main objectives of the Second Investors' Forum (1987) was to line up potential overseas participants in joint venture operations with Bangladeshi investors in about 135 industrial projects particularly in (i) high technology, (ii) import-substitution, (iii) export-oriented and (iv) labour intensive projects. For the Second Investors' Forum, UNIDO circulated more than eight thousand copies of invitations all over the world with a list of 135 projects seeking foreign collaborations in the form of (i) equity participations, (ii) long term loans, (iii) licensing, (iv) know-how and training, (v) managerial assistance and (vi) access to foreign markets.[13]

PFI IN BANGLADESH : AN ASSESSMENT

Flow of PFI

The volume of foreign investment flows to the developing world has fluctuated from time to time. This fluctuation has occurred in case of Bangladesh also. During 1947-87 the pattern of foreign investment has undergone significant changes. These changes occured in response to the changing environment which includes social and political changes in the country.

As a matter of fact the volume of private foreign capital inflow in Bangladesh is quite low in comparison to other countries. In the pre-liberation period, foreign investment constituted only 1 percent of fixed assets in industry. In independent Bangladesh (1973/74-1983/84) it is found to be on average 0.81 percent of total investment.

It should be noted that while there is an increase in the inflow of private foreign investment since 1972-75 period, the incremental amounts brought in are not significant by any standard. Table I shows that as a ratio of total industrial investment in Bangladesh and total capital inflow into the country the contribution by private foreign investment remains negligible.

If we compare the foreign capital inflow to Bangladesh with some other countries of Asia, it is seen that it receives a small amount of private foreign capital. Table II illustrates this.

The latest report (1988) on foreign direct investment prepared by International Finance Corporation points out that 90 foreign direct inverstment projeets were accorded sanctions in Bangladesh since independence till 1986. This together with 26 foreign direct investment units operating before independence, gave the total number

13. *Dhaka Courier*, January 25, 1987.

Table - I **Financing Investment in Bangladesh 1973-83 (Million Taka at current prices)**

Year	Total investment	Total foreign capital inflow	Private foreign investment	Private foreign investment as % of total investment	Private foreign investment as % of total foreign capital inflow
1973-74	5600	4405	1.95	0.04	0.04
1974-75	10193	8911	1.68	0.02	0.02
1975-76	11158	12580	430.37	3.86	3.43
1976-77	10614	6218	17.18	0.10	0.28
1977-78	16512	1174	105.80	0.40	0.90
1978-79	18812	12635	235.54	1.25	1.86
1979-80	29158	22164	96.32	0.33	0.43
1980-81	33741	23291	193.85	0.58	0.83
1981-82	36345	28276	61.89	0.21	0.22
1982-83	38304	27340	501.94	1.31	1.80

Source : S. Reza, M. Alam and A. Rashid "Scope of Private Foreign Investment in Bangladesh," Dhaka, External Resources Division, Ministry of Finance, 1984, p. 24.

of foreign invested projects at 116. Out of these only 78 foreign firms run on-going concerns in Bangladesh. For 38 of such projects, full implementation is far from reality. Thus in reality, only 52 foreign direct investment units came up in the country in the last one and a half decades, giving an annual average of 3.5 units.[14] The available statistics from the Ministry of Industries shows that 22 joint venture projects involving a foreign investment component of 133 million US dollars received sanctions over the last one period since the Investors Forum was held in January 1987.[15]

Over the seven years (1980-86) foreign direct investment totalled only 16.13 million US dollars giving an annual average of 2.3 million dollars.[16] IFC report cites the cases of Indonesia, Thailand, Egypt, the Philippines, Sri Lanka, India and Pakistan to compare with Bangladesh. The flow of foreign direct investment for the period 1980-86 is depicted in table III.

TABLE II

Net Direct Private Foreign Investment Selected Asian Countries. (in million dollers)

Country	Amount (in million $) 1982	1985
Singapore	2093	1076
Malaysia	1230	685
Philippines	253	—14
Thailand	185	160
Indonesia	133	271
Pakistan	65	124
Sri Lanka	64	30
Republic of Korea	77	200
Bangladesh	4.7	—1

Source: World Development Report, 1984, p. 244-245, and World Dev. Report, 1987,—p. 230-231.

14. *The New Nation,* March 21, 1288.
15. *Ibid.*
16. *Ibid.*

TABLE—III

Annual Direct Foreign Investment in Selected Countries for the Period 1980-86

Countries	Amounts (in million dollars)
Indonesia	825
Thailand	218
Egypt	210
Philippines	64
India	34
Sri Lanka	20
Pakistan	5
Bangladesh	2.3

Source: IFC Report 1988

On the other hand the foreign direct investment stock (capital assets) in Bangladesh at book value in 1986 stood at US $ 85.7 million only. The average value of such stock in other developing countries was 2.4 billion dollars which were twenty times larger than that of Bangladesh.[17]

Role of PFI in Industrialisation[18]

For assessing the role of PFI in Bangladesh industry the sectoral distribution of PFI and the relative position of capability utilization are examined below.

(i) Financing Industrialization

During the pre-independence period the bulk of private foreign capital inflow went into the pharmaceuticals and petroleum industries and some capital was also tied up in the exploitation of

17. *Ibid.*

18. For this section information has been taken from : S. Reza, M. Alam A. Rashid, "Scope of Private Foreign Investment in Bangladesh", A research report of the ERD, Dhaka, 1984.

agricultural products like jute and tea. There were very few joint ventures in operation during this period.

But in independent Bangladesh relative importance of these sectors has diminished and food processing sector has taken the dominant position in foreign investment. Table IV shows that between 1973 and 1983 the largest share of foreign investment has been received by the food-processing sector (67.5%). This sector was followed by chemical industries other than pharmaceuticals (7.9%), textile industries (6.3%) and electronics (3.1%). It can be noted that prior to 1972 there was no foreign investment in food-processing and only one foreign firm in the textile industry. In 1984 as many as 16 foreign firms invested in marine food processing and 15 in ready-made garments.

During the period of 1977-82, the highest share of foreign investments was on commerce (56.2%). which was followed by manufacturing industries (30.77%). The miscellaneous sector occupied 12.42% of the private foreign investment. Mining and quarrying and utilities are the two sectors which could not attract any fareign investments. The sectors like agriculture, transport and communication, construction, etc. also commanded an insignificant amount of foreign investment.

The change in sectoral emphasis of foreign investment can be explained in relation to the policy taken by the government. The industrialization strategy of Pakistan was import-substituting in nature. Hence foreign investment in the petroleum and pharmaceutical industries was geared to meet domestic demand only and had no export potential. However, due to a move towards export oriented growth strategy by the government, the manufacturing sector (marine food, ready-made garments and electronics) got the highest priority because of the excellent export prospects in addition to a local market. So, substantial amount of private foreign investment flowed into these industries.

Table—IV Year-Wise Private Foreign Investment in Bangladesh by Major Industrial Sectors (in million US dollars)

Year	Food processing	Tobacco	Textiles	Pharmaceuticals	Other chemicals	Metal	Electrical goods	Electronics	Miscellaneous	Total PFI
1973-74	0.24[a] (0.16)[b]	—	—	—	—	—	—	—	—	0.24 (0.16)
1974-75	—	—	0.14 (0.07)	—	—	—	—	—	0.05 (0.02)	0.19 (0.09)
1975-76	29.01 (14.82)	—	0.01 (0.005)	—	—	—	—	—	—	29.02 (14.90)
1976-77	0.92 (0.49)	—	0.03 (0.02)	0.14 (0.08)	—	0.03 (0.02	—	—	—	1.12 (0.61)
1977-78	6.38 (3.48)	—	—	—	—	0.61 (0.34)	—	—	—	6.99 (3.82)
1978-79	15.08 (8.41)	—	0.11 (0.05)	—	—	0.19 (0.09)	—	—	0.10 (0.05)	15.48 (8.60)
1979-80	4.28 (1.71)	—	1.81 (0.72)	—	—	0.04 (0.02)	—	—	0.10 (0.05)	6.23 (2.50)
1980-81	—	—	1.41 (0.50)	—	7.39 (2.60)	0.36 (0.13)	1.85 (0.64)	0.28 (0.10)	0.60 (0.21)	11.87 (4.1)
1981-82	—	—	—	—	—	0.13 (0.04)	—	2.33 (0.82)	0.82 (0.29)	3.28 (1.15)
1982-83	8.62 (2.78)	1.68 (0.54)	2 53 (0.82)	—	0.19 (0.06)	—	0.50 (0.16)	0.39 (0.13)	7.21 (2.32)	21.12 (6.81)
Total PFI in cash sector (1973-74 to 1982-83	64.53 (31.92)	1.68 (0.54)	6.04 (2.19)	0.14 (0.08)	7.58 (2.66)	1.36 (0.64)	2.33 (0.80)	3.00 (1.05)	8.88 (2.94)	95.54 (42.82)
PFI in particular sector as % of total PFI for the period 1973-74 to 1982-83	67.54%	1.76%	6.32%	0.15%	7.93%	1.42%	2.44%	3.14%	9.29%	

Notes : a. At current prices.

b. Figures in parentheses are at constant 1972-73 prices ; the average import price index, constructed by World Bank.

Source : S. Reza, M. Alam, A. Rashid, "Scope of Private Foreign Investment in Bangladesh. ERD, Dhaka". 1984, p. 28.

(ii) Utilization of Capacity

A study[19] has shown that capacity utilization is higher for textiles, metal, electrical goods and electronics industries in case of foreign firms while it is higher for food processing and other chemical industries in case of local firms. Foreign firms in the metal industry have the highest rate of capacity utilization with 95% of installed capacity. The industry with the lowest rate of capacity utilization for foreign firms is food processing. In the case of local firms, other chemicals have the highest rate of capacity utilization (94.52%). The performance of local firms in terms of utilization of capacity is very poor in the electronics industry with only 15% of capacity being utilized. On the average foreign and local firms have respectively 74.7 and 58.4 percent of their capacities utilized.

TABLE—V

The Extent of Capacity Utilization of Sample Firms.

Name of Industry/Group	Local	Foreign
Food processing	73.80	69.90
Tobacco	70.00	——
Textiles	52.83	70.95
Pharmaceuticals	——	——
Other chemicals	94.52	78.37
Metal	71.52	95.00
Electrical goods	31.52	74.00
Electronics	15.00	60.00

Source: S. Reza, M. Alam and M.A. Rashid, "Scope of Private Foreign Investment in Bangladesh", *op. cit.*, p. 108

Most of the firms, both local and foreign, depend largely on imported raw material and intermediate goods. While the foreign

19. *Ibid*, p. 108.

firms had an assured supply of these inputs from home country or other foreign source, their local counterparts had no such assured supply of inputs. This explains to a great extent why the foreign firms have done better than local firms as regards capacity utilization. In the absence of adequate data reflection on the relative position of local and foreign firms in terms of capacity utilization may be difficult. It may be possible to observe, nevertheless, that although firms with foreign capital involvement are generally thought to have an edge over local ones, there can be little justification to see a causal relation between foreign capital (or for that matter any other factor) and better capacity utilization.

PROBLEMS IN PFI : THE OUTLOOK

In the recent years the strategy of export oriented industrialisation is being adopted by the government. Along with the overall thrust of greater role for the private sector initiatives have been taken to attract the private foreign investment. But the result is not satisfactory. As we have already mentioned, during the period 1973-74 to 1983-84 the value of private foreign investment as a percentage of total investment did not exceed 1 percent.

Most of the PFI activities have again been concentrated on the commerce sector which means that even the small amount of foreign private capital that is attracted to Bangladesh goes more to the circulation phase of the reproduction of the economy than to the production. This contributes relatively little to the process of industrialization. Again these investment did not show better capacity utilization.

Since Bangladesh possesses ample and cheap labour force it can attract the foreign investors to a great extent. Problems intrinsic to the country's social and political structure have however become the main obstacle before greater flow of private foreign investment. If we analyse the amount of yearwise foreign private investment (Table - 1) a relationship between the inflow and political atmosphere is revealed. Thus in the year 1973-74 when policies were initiated towards socialism with greater intervention of government, private foreign investment had a very limited scope to play any important role. The volume of PFI during the period was only US $ 0.24 million. In the next year (1974-75) it declined further to only US $ 0.19 million. The year 1975-76 however shows an increase in the amount (US $ 29.02 million) which implies certain relation of PFI inflow with change in the country's political orientation as the period marked a notable shift. The sudden fall in the amount (only US $ 1.12 million) in 1976-77 can be linked to the uncertainty and continued instability which the foreign investors might have perceived about the return from their investment. However, next two years showed an increase in the foreign investment when the political situation was not that much turmoiled. In subsequent years commensurate with lack of political stability the inflow of PFI also showed notable instability, reaching its nadir in 1981-82 which can be partially attributed again to the change in political scenario (the period when President Ziaur Rahman was killed). However, the trend towards privatisation did not stop with Zia's assassination. Policy measures introduced during Zia's regime like Foreign Investment Promotion and Protection Act, 1980 were valid in the post-Zia period and these contributed to an increase in the inflow of PFI, in 1982-83 (US $ 21.12). With the present government's more open and liberalised policy towards privatisation, the increasing trend in the inflow of PFI is likely to continue.

The other important factors which affect PFI in Bangladesh are associated with the overall underdeveloped condition of the economy. The political instability of the country is itself a product of an underdeveloped infrastructure, inadequate institutions, administrative inefficiencies and bureaucratic red-tappism, all of which constitute serious constraints for potential investors. The gravity of these factors is sufficient to neutralize the effect of the incentive package on offer along with the supply of cheap labour in the country.

The limited size of domestic market and the geographic location of Bangladesh significantly reduce advantages which may be reaped from proximity to prospective foreign markets. Furthermore, as many other countries in this region, e.g. Sri Lanka, India, Malaysia, the Philippines, etc., are making all out efforts to attract PFI to their shores, Bangladesh is to face stiff competition with them. All these factors have to be taken into consideration in planning and devising ways for enhancing the level of PFI in Bangladesh. What is required is a comprehensive approach and a long-term vision keeping in view the existing and future constraints and possibilities.

PFI cannot be considered as a blanket solution to the problems of industrialisation in Bangladesh. In order to have any gain from PFI, industries should be selected to which foreign capital is to be utilized. Hence evaluation of relative costs and benefits of PFI for industries is essential. PFI needs to be restricted from entry into industries where there is the possility that domestic production may be disrupted due to competition from foreign investors. PFI can be encouraged in industries whose development is compatiable with the objectives of the national development plan. Labour intensive and export-oriented investment deserve priority in this regard. Those technology intensive investments need to be encouraged which lead to upgradation of the level of domestic technologies and facilitate import-substitution and ultimately help export-promotion. New package which offers a management contract to selected foreign private investors, with the state retaining equity ownership in these companies, may be considered as an interim step. Again all out efforts should be made for smooth investment procedure without unnecessary administrative, and other constraints. Foreign private investors seem to be more interested in securing a clearly defined comprehensive, stable and long-term set of guidelines than in the apparently attractive incentives on offer. The question of PFI in Bangladesh is also linked with the over-all socio-politcal direction of the country and the stability of the national political order. In these circumstances realism would appear to demand conducive political atmosphere and continued stability which are essential for greater confidence on the part of potential investors.