Competitiveness, Performance and Factors Behind the Low Foreign Direct Investment Inflow in Bangladesh

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ABSTRACT

The underlying purpose of the study is to find out the competitiveness and performance of Bangladesh in attracting FDI and the factors inhibiting FDI inflow in Bangladesh. It is well known that investment is crucial in attaining sound economic growth. The capital requirement can be met by the foreign investment. Unfortunately, Bangladesh is unable to generate sufficient domestic saving to fuel their aspirations for economic growth. Bangladesh has had low rate of GDP growth, savings and investment historically. This represents macro-economic weakness. But the situation is improving with the steady stead growth rate of more than 6% for last couple of years. Saving investment gap of Bangladesh could be fulfilled by the inflow of FDI to achieve the targeted economic growth rate. The recent performance of Asian region coincided with the enhanced investment activity particularly FDI. However, the performances of the South Asian countries especially Bangladesh has not been encouraging compare to countries in East and South East Asia. Bangladesh is giving an attractive package of incentives compare to the FDI receiving Asian countries but its success is little. The sectoral composition of FDI has been changing significantly from primary sector to manufacturing sector. The contribution of FDI in gross domestic capital formation also came last in Bangladesh among the Asian countries. Share of FDI-GDP ratio is also one of lowest in Bangladesh among the Asian countries. The causes responsible for the low FDI in Bangladesh has been identified as historical factors, socio-economic factors, governance factors, political factors and social and cultural factors.

***Keywords**: Determinants of FDI, Performance of FDI, Global Competitiveness, low Inflow of FDI, Bangladesh.*

INTRODUCTION

Bangladesh is a developing country of South Asia, having 157.9 million populations with a remarkable annual population growth rate of 1.37 in an area of 147,570 sq. km having density of more 1142 people per square kilometer with a low middle income per capita US $ 1314. Bangladesh is maintaining an outstanding performance of economic growth of more than 6% of last six years and advanced 14 steps from the 58th to 44th in the world economy in the last two years (World Bank, 2015). The economy of Bangladesh mainly hinges on agriculture about 47.30 % of workforces work in the agricultural sector, industrial sector accounts for about 17.64% and 35.06 % belongs to service sector. Domestic savings and national savings are 23.43% and 30.54% respectively. Total Investment is 28.59% and out of the investment 7.30 % and 21.39% are public and private investment respectively (Ministry of Finance, 2015). In order to mitigate poverty, it's necessary to accelerate the growth rate of GDP. Higher growth rate as a result of higher investment and greater productivity will generate additional revenue and wealth that can provide employment for everyone willing and able to work (Bhuiyan, A. R. 1995). To flourish this country, the contribution of all necessary sectors to GDP is essential because, if the growth of all necessary sectors can't be increased proportionally, the base of Bangladesh will be weak. Therefore, industrial sectors (such as agro industry, manufacturing and service), both large and small should be met by efficient and effective investment. It is well known that investment is crucial in attaining sound economic growth. Unfortunately, Bangladesh is unable to generate sufficient domestic saving to finance necessary investment for economic growth. In such a context, the capital requirement of the country can be met by raising foreign capital (Ahmed, Abu. 1993). After all the Asian newly industrial countries of today were once poor like Bangladesh and foreign capital have played a vital role in the early stage of their economic development (e.g.). Without such inflow, the prospect of initiating the economic growth, employment generation and development of Bangladesh would remain quite unpromising and the goals of changing the lot of the people remain beyond the reach of all concerned.

There are several sources of foreign capital but the widely used sources are namely, foreign debt, Official Development Assistant (ODA), Foreign Direct Investment (FDI), portfolio investment and wage earner's remittances. These are the sources through which developing countries can make their deficiency of domestic capital (Akkas, M. A. 1996). This study is confined only Foreign Direct Investment (FDI) in Bangladesh. The limited revenue base may be responsible for this low rate of savings and investment. The gross domestic savings in Bangladesh is by far one of lowest among the countries of the South Asia (World Bank, 2015). Because of low saving rate, the investment rate is also low, that is saving investment gap is high but improved a lot from the previous condition. The low investment ratio inhibits economic growth. The poverty of the country cannot be alleviated unless increase the required level of capital investment and to reach middle income country with the targeted growth rate of 8%. However, the method for achieving the targeted growth rate is different. The World Bank approach uses the ICOR (incremental capital output ratio) concept. Assuming an ICOR of 3 implies that investment must be 24 % of GDP in order for GDP growth rate to be 8%. It is believed that the two-gap model is needed to explain why the developing countries like Bangladesh are needed foreign investment, loan and assistance that are the savings gap (domestic real resources) and the foreign exchange gap model. Bangladesh has received one of lowest amount of FDI among the Asian countries and failed to attract a sizable amount of FDI and it is clear that Bangladesh has to borrow heavily from the external sources to meet the resources gap. FDI has played a vital role in accelerating the economic development of the newly industrializing South East Asian countries. It is hope that foreign capital in the form of FDI will help increase countries export earnings, acquire new technologies, generation of employment and sustain high level of growth. In a study in the U.S. 70% of growth was owing to technological improvements during of 1950-1994. FDI can help expedite the process of technology transfer from the developed world to Bangladesh (Bhuiyan, A. R. 1995). Bangladesh should decide whether the country will depend on ODA or replace those ODA with FDI in the changing world. It is the question of thinking that Bangladesh should take ODA for the infrastructure development only and put emphasis on FDI that can generate employment opportunity for the people of Bangladesh.

Competitiveness, performance and factors behind the low FDI inflow in Bangladesh will be the main focusing point of this paper. The area of this study is very important for Bangladesh as FDI shows an important factor for development as it transfer technology, generate employment, improve trade balance, improve technical know how of the labor, use domestic resources, filling savings gap, improve managerial skills and many more that ultimately can bring economic growth and development of Bangladesh. The objective of the study is to examine the competitiveness and performance of Bangladesh in attracting FDI and to assess the factors hindering FDI inflow in Bangladesh and to suggests policy measures to improve the performance of attracting FDI in Bangladesh. The research question of the study is to what extent global competitiveness has and performances affecting foreign direct investment and what are the major causes of hindering low FDI inflow in Bangladesh?

LITERATURE REVIEW

Krugman and Obstfeld (2000) define FDI as International capital flows in which a firm in one country creates or expand a subsidiary in another. They also say that distinct feature of FDI is that it involves not only the transfer of technology. Professor K. Ohno (2005) defined FDI as an international financial flow with the intention of controlling or participating in the management of an enterprise in a foreign country. The importance of location in the theory of FDI was emphasized by Vernon (1996) in his analysis of the product life cycle theory and the potential for the firm to exploit a foreign market Cassidy, J. F. (1994). According to John H. Dunning (1994) firms invest abroad because they possess ownership advantages, locational factors and internalization factors. Ozawa (1992) noted that there was no FDI theory of economic development and thus developed a stage approach based on Rostow (1960), Chenery (1979), Balassa (1980) and Porter (1990). This is a variation of Vernon's product cycle (1966). Cassidy, J. F. (1994) referred that where FDI takes place it is geographically focused and has the capacity to provide linkages with the local economy. Marshal (1949) notes, one of the fundamental characteristics of enterprises are their tendency to agglomerate or congregate in a distinct geographical area. Capital accumulation is found to be the most important sources of economic growth in most of the least developed countries (Ahmed Abu, 1989). Further the process of economic growth and capital accumulation is clearly connected to the pattern of whether there is abundant labor or not (Cairncross, 1963). To accelerate economic growth in most of the Least Developed Countries, one important strategy is therefore to increase the rate of investment (Rostow 1960, Lewis 1955). It is a known fact that the overall development of LDCs like Bangladesh depend in foreign capital inflow. Without such inflow, the prospect of initiating the economic growth of Bangladesh would remain quite bleak and the goal of changing the lot of the people would remain beyond the reach of all concerned (Akkas, M. A. 1996).

Furthermore, FDI has some inherent advantages for development the transfer of technology, managerial expertise and other resources and access to markets. Recent trends show that FDI is an important and stable source of foreign private capital for developing economies, particularly to those that are able to create a hospitable environment for these investments (Singh, H., & Jun, K. W. 1996). Bangladesh received a meager amount of FDI. The reasons for this failure can be identified as government policy, bureaucratic dishonesty, low productively of labor, deterioration of low and order situation, infrastructure and political instability (Reza & Rashid, 1993). In fact, Bangladesh has an image problem among foreign investors as most business people view the country as one of the world's least developed nations, plagued by political instability, labor unrest, natural disasters, disease, malnutrition and over population (Choudhuri, N. I. & Saha, S. R. 1993). Urata (1994) found that neither product differentiation nor technological superiority were the important determinants of Japanese FDI in East Asian economies but that trade in terms of export dependence and import penetration were positively associated with FDI. Cassidy, J. F. (1994) noted that with regard to locational determinants of FDI in China based on the literature, one can say that market size, cost of capital, political stability, levels of illiteracy, exports from foreign invested enterprises in China, township and village enterprise growth rates, wages, exchange rates, economic integration, and cultural differences have been found to be determinants of FDI in China. Main reasons for increased Japanese FDI in China and East Asia was the loss of competitiveness of Japanese products in exports markets as a result of appreciating Japanese currency yen to reduce trade deficit with other developed countries and the high labor cost in Japan and low labor cost in China and East Asia.

John H. Dunning (1994) mentioned that there are four main types of FDI as follows 1) natural resource-seeking, 2) market seeking, 3) Efficiency seeking and 4) Strategic (created) asset seeking. The first two, resource-seeking and market-seeking investment represents the main motives for an initial foreign entry by a firm. The latter two embrace the main modes of expansion by established foreign investors. There are three sets of FDI determinants are often identified the first is set of locational factors, which lead to differences since the rate of return to capital in different locations such as: Economies of size, Economic growth, Wage rates, Interest rates, Tax rates and Exchange rates. The second is the set of factors related to the ability of multinationals to internalize transactions within the firm. The third is a set of organizational factors related to the firm specific assets multinationals may possess such as: production technology, marketing network, organizational advantage and entrepreneurship. Demirhan, E., & Masca, M. (2008) in their paper found that political risk has not been an important factor in attracting FDI in the mentioned period. When the host countries present high returns, firms may ignore political risk. As long as the foreign company is confident of being able to operate profitably without excessive risk to its capital and personnel, it may continue to invest. Buracom, P. (2014) in his recent study mentioned that foreign direct investment is considered to be one of the most important forces of economic growth and globalization. FDI is more likely to flow to countries with appropriate institutional environment. Effective government and better rule of law and property rights protection can reduce investment risk and cost of doing business. These institutional factors therefore, tend to promote the inflows of FDI. To wrap up, it is reasonable to mention that beyond the domestic economic performances some scholar studied on non-economic performances especially the effect of institutions and governances on the inflows of FDI and found them as determinants of FDI.

METHODOLOGY

Gathering evidence for the study can be usefully divided into two broad arrays such as; document research and field research. In this study, it has been employed document search research technique to gather necessary evidences and information from a wide variety of literatures including journal articles, books and dissertations, publications and reports, government publications and research documents, online resources and relevant policy documents. On the basis of secondary data and document research it has been analyzed the overall performance and competitiveness of Bangladesh in attracting FDI and to find out the underlying factors behind the low inflows of FDI in Bangladesh.

FDI POLICY IN BANGLADESH AND OTHER DEVELOPING COUNTRIES

The government of Bangladesh has put in a place a comprehensive array of policies aimed at bringing about significant socio-economic improvement to the people of Bangladesh and, ultimately, self-reliance for the nation. The recognition of the private sectors ability to contribute towards achievement of these goals, the government has implemented a number of significant policy reforms. These are designed to create more open and competitive climate for foreign investment. The industrial policy simplified procedural obstacles to private investment. There are no investment sanctioning requirements and power, gas, telecommunication and air communication sectors are now open to private investment. The government has liberalized the trade regime. Measures to attract foreign private investment have been implemented. There is no ceiling on equity participation, no obligation to sell shares through public issue, no restriction on repatriation of invested capital, profit and dividends. Private investment from overseas sources is welcome in all areas of the economy with the exception of only few reserved industrial sectors namely arms, ammunition and other defense equipment and machinery. On other hand 100% foreign investments as well as joint venture with local private sponsor or with the public sector are allowed (Board of Investment, Bangladesh 2011).

COMPARATIVE ADVANTAGES FOR INVESTMENT IN BANGLADESH

Bangladesh enjoys comparative advantage for foreign investment over other Asian countries. In January 2010, JETRO conducted a comparative survey of investment related costs in 29 major cities and regions in Asia and found that the following competitive cost advantage in Bangladesh. Bangladesh offers a truly low competitive cost base. Wages and salaries are still lowest in the region, a strong business advantage. Yet this is an increasingly well-educated, adaptive and peaceful population with many skilled workers. Dhaka's skilled labor cost base is still less than the other major cities. Dhaka's management grades are 2-3 times less than in Singapore, Shanghai, and Bangkok. Industrial estate rent in Dhaka is cost effective than Shanghai, Jakarta, Bangkok. Office rents are also very competitive with other international cities. Dhaka's housing rent for foreigners are less expensive than Singapore, Mumbai, Karachi, and Hanoi. Cost of diesel in Dhaka is found to be more competitively priced than most other large cities. Vehicles increasingly use LPG as Dhaka gasoline costs are competitive with most other cities (Bangladesh, Board of Investment 2015). According to United Nations Statistics Division, Bangladesh offers a most liberal FDI regime in South Asia, with no prior approval requirements or limits on equity participation and repatriation of profits and income in most sectors (Bangladesh, Board of Investment 2015). Bangladesh has the following comparative advantages and incentives to foreign investors (Bangladesh, Board of Investment 2015): Bangladesh is one of the Asian countries who offer unconditional 100% foreign equity or ownership in industrial investments. There is no restriction on issuing work permit to a foreign national. Tax holyday allowed for new investment for 5 & 7 years in most of the areas of Bangladesh on some conditions and 10 years in Export Processing Zones (EPZs). Tax holiday for private power plants is 15 years. Foreign exchange regulation has been relaxed to the maximum limit by the introduction of free convertibility of Bangladeshi currency BDT. This has accelerated the free flow of international business transactions. Bangladesh introduced free-floating exchange rate of its currency. Repatriation of foreign capital investment along with profits and dividends has been made easy and simplified. Now no prior permission of any authority is required for their repatriation. Cost of land and energy prices are one of the lowest in the Asian region. There is a huge proven and recoverable deposit of natural gas in Bangladesh. Actually the cheapest and easily trainable labor is abundant and available in Bangladesh. Out of the total population of 157.9 million, the labor forces are about 50%. There are demographic advantages in Bangladesh as the population of young age structure about one third.

COMPETITIVENESS AND DOING BUSINESS IN BANGLADESH

The government of Bangladesh has declared and offered the best incentives and investment opportunities in the written documents among the FDI recipient countries in the world. The investment incentives and cost of doing business are the important and indispensable factors in attracting FDI. According to World Bank Report (2015) on ease of doing business Bangladesh is degrading its position stands at 174 out of 189 countries. Bangladesh is in the lowest position among the South Asian countries. According to world economic forum (2015) the ranking of Bangladesh in the global competitiveness report is 109 among the 144 countries. The incentives are tax holyday, tariff reduction, legal protection, concessionary import duty on capital machinery etc. But why the investors are not coming in Bangladesh? Does Bangladesh have really a conducive environment for the foreign investors compare to the other FDI recipient countries? Have the foreign investors any other better place to invest their capital safely or the

Bangladesh is the only country to invest in the world? Why the investors will come to Bangladesh to invest their capital? These are the questions the policy maker and the people of Bangladesh really need to understand. The foreign investors have the alternative best and safe place to invest and make money.

COMPARATIVE BASIC FEATURES AND INDICATORS OF HIGH AND LOW FDI RECEIVING ASIAN COUNTRIES

It is inevitable to discuss the investment climate or business operating condition proxied by a wide range of factors that includes political stability, attitudes towards foreign investors, balance of payment performance, economic growth, enforceability of law, infrastructure, social order and security, labor cost, skills and education of labor, market size, availability of raw materials, port facility and transaction or transport cost, local management, geographical location and economic indicators (Tu, J. H., & Schive, C. 1995). All the indicators are favorable in China, Malaysia, Singapore, South Korea, Thailand and Vietnam and they are offering conducive business environment for the foreign investors. So they are receiving more FDI than the Asian country like Bangladesh. The size of the market, typically proxied by the level of GDP, appears to be the important determinant of FDI flows that is also high in China, Korea, Malaysia, Singapore, India and Thailand as compare to Bangladesh. There is wide spread perception that open economy receives more FDI. Export plus import as % of GDP is the indicators of openness of a country.

GLOBAL TRENDS OF FDI

The world economy witnessed a period of significant surge in the flow of FDI during 1980 when it grew at a rate of almost 30% per annum i.e. three times the rate of growth of world export and four times the rate of growth of world GDP. But now the situation has changed the global inflows of FDI declined by 16 % to $ 1.23 trillion in 2014 mostly because of the fragility of the global economy, policy uncertainty for investors and elevated geopolitical risks. New investments were also offset by some large divestments. Inward FDI flows to developing economies reached at the highest level at $681 billion with a 2 per cent rise. Developing economies are leading in taking global inflows. China has become the world's largest recipient of FDI but in manufacturing sector the share declined and increases in the services sector as they open their retail market. The low level of inflows to developed countries and declined by 28 per cent to $499 billion in 2014. Developing Asia are now investing abroad and their investment reached a record level. Over the last 10 years FDI has continued to shift to service sectors. In 2012 service sector accounts for 63% of global FDI stock more than more than twice the share of manufacturing and primary sector accounts for 10 % of the total. Greenfield investment declined by 2 per cent to $696 billion but in case of Bangladesh Greenfield investment increases. Global FDI inflows are projected to grow by 11 per cent to $1.4 trillion in 2015, $1.5 trillion in 2016 and to $1.7 trillion in 2017. The Asia–Pacific region, being one of the most dynamic areas of the present world economy, obviously attracted bulk of the FDI inflow. China, the Asian NICs, ASEAN-4 and had been the fore most important host countries absorbing the major share of FDI at all flows to the developing countries (UNCTAD ,2015).

EXTENT OF INFLOW OF FDI IN SELECTED ASIAN COUNTRIES

In the global context, FDI into some Asian countries has been increasing continuously though total global FDI flows continue to decreases. Within the Asian developing countries China has received the highest amount of FDI and Bangladesh is one of the low FDI receiving countries. The table 1 shows that Bangladesh has received a meagre FDI inflow of US$ 1527 million in 2014. Hong Kong, India, Philippines, Singapore are the main recipients of FDI and India is the top one country among the South Asian countries. India has received a sizable amount of FDI in 2014 about US$ 34417 million. South Asian countries have not traditionally been large recipients of FDI. Recently India's performance in attracting FDI is mentionable among the South Asian countries and the position of Bangladesh is almost even for every year but the trend tends to decrease in 2014. However, it is India who experienced a jump regarding inflow of FDI in the South Asian countries. Another country in Asia, Indonesia has shown a very good performance in attracting FDI in 2014 received US$ 22580 million. Vietnam is also performing very well in attracting FDI.

Table 1

FDI Inflow in selected Asian countries (million US dollars)

Country	2009	2010	2011	2012	2013	2014
Bangladesh	700	913	1136	1293	1599	1527
Cambodia	928	1342	1372	1835	1872	1730
China	95000	114734	123985	121080	123911	128500
HongKong	55535	70541	96581	70180	74294	103254
India	35634	27417	36190	24196	28199	34417
Indonesia	4877	13771	19241	19138	18817	22580
Laos	190	279	301	294	427	721
Malaysia	1453	9060	12198	9239	12115	10799
Myanmar	27	6669	1118	497	584	946

(continued)

Country	2009	2010	2011	2012	2013	2014
Pakistan	2338	2022	1326	859	1333	1747
Philippines	1963	1298	1852	2033	3737	6201
Singapore	23821	55076	48002	56569	64793	67523
Sri Lanka	404	478	981	941	933	944
Thailand	4854	9147	1195	9168	14016	12566
Vietnam	7600	8000	7519	8368	8900	9200

Source: UNCTAD (2015)

PERFORMANCE OF FDI IN BANGLADESH

The world has entered a new era, a time when significant changes are reshaping the world's trade, commerce and industrial relations. A changing environment, new and sophisticated technology, new products, new services and diverse customer needs have quickened the pace of growth in trade industry. Demand for better facilities and services are also increasing at an unprecedented rate. With the introduction of free trade policy in most parts of the world, partnership between the leading business groups of different countries has become virtually inevitable. The industrial and FDI policy Bangladesh reflects the commitment of a democratically elected government to the principle of market economy where in foreign investors have almost total freedom in choosing the field and also of investment. But we have seen that the gloomy performance of Bangladesh in attracting FDI. Although FDI flows have increased rapidly then decreased throughout the world, foreign investment in Bangladesh has more or less increased very slowly. In order to properly capture a country's performance, it is necessary to supplement the analysis of trends in absolute volume of FDI inflows by the analyzing on relative role played by inward FDI in gross domestic capital formation (GDCF). Gross domestic capital formation through mobilization of investment is one the principle objective of FDI in capital starved country like Bangladesh. In Bangladesh FDI GDCF ratio is one of lowest among the selected Asian countries.

Although the low-spirited performance of Bangladesh in attracting FDI it is contributing by and large well in creating new employment, transferring technology and managerial skills, expanding exports, modernizing the economy and access to the global market. Performance of EPZs in creating new employment opportunities for Bangladeshi national had been one of the compelling reasons for establishing EPZs in Bangladesh. Till June 2015, about 420101 people have been employed in the EPZs and US$

3594.42 million have been invested (BEPZA, 2015). It has been observed that there was a significant amount of employment generated and most of the employees are the Bangladeshi nationals. It is a good performance in comparing the level of investment as some industry like garments are labor intensive. Most of the investments in the EPZs are foreign investment. On the other hand, one major attractions of EPZs for foreign exchange constrained economies like Bangladesh is the possible balance of payment that the country may derive from the exports earning by the EPZs units. The gross exports receipts from the EPZs are US$ 46141.16 million and the trend is increasing every fiscal year which is encouraging for the future expansion of EPZs operation (BEPZA, 2015). The EPZs of Bangladesh are contributing a lot for employment generation and export earnings and it is significant for the economy of Bangladesh.

COUNTRY WISE DISTRIBUTION OF FDI IN BANGLADESH

The distribution of FDI by home countries shows that remarkable change has also occurred in the country wise distribution of FDI inflow into Bangladesh as revealed. Developed market economy dominated foreign investment in Bangladesh. This pattern has substantially changed recently with USA and UK is the leading position now. But during 1997/1998 Malaysia was the leading position followed by Japan Singapore and Hong Kong. The source of foreign investment in Bangladesh has changed because of investment in gas and oil exploration sector by the USA and UK (Bank, Bangladesh 2015). The source of FDI in Bangladesh also appears that the Asian developing countries and developed countries are the main source of FDI in Bangladesh.

Table: 2

FDI Stock classified by Major Countries as on end of June, 2015 (In million US$)

Country	Total
United States of America (USA)	2811.94
United Kingdom (UK)	1294.42
South Korea	1019.93
Australia	921.07
Netherlands	734.62
Hong Kong	617.06

(continued)

Country	Total
Malaysia	604.91
Malta	457.90
Singapore	445.66
Taiwan	328.90
India	311.68
Japan	297.59
Pakistan	287.43
Saudi Arabia	258.90
Sri Lanka	217.11
British Virgin Island	216.80
China	186.41
Norway	185.88
Thailand	163.24
United Arab Emirates (UAE)	142.66
Other Country	997.02
Total	12501.13

Source: Foreign Investment & External Debt (FIED) Division, Statistics Department, Bangladesh Bank.

SECTOR-WISE DISTRIBUTION OF FDI INFLOW IN BANGLADESH

The distribution of FDI inflow among the various industrial sectors will make it clear that gas and petroleum, textile, banking, telecommunication, food cement, leather and power have been the prime choice of the foreign investors. This sectoral distribution has changed previously chemical and textile sector was the prime choice of the foreign investors. The industry mix is clearly indicative of some diversification in the industrial composition of FDI in Bangladesh. Foreign investors have been showing interest not only in traditional, import substitution but also in a number of export oriented production including ready made garments, chemicals and other food processing industries and gas and petroleum. The sectoral composition of FDI has been changing significantly from the primary sector to manufacturing and service sector. This change in sectoral emphasis of foreign investment is not difficult to explain. The industrial strategy of Pakistan regime was import substituting. After independence the government of Bangladesh adopted export oriented trade strategy that created attraction of foreign investors. Readymade garments and other manufacturing goods had excellent export prospects in addition to a local market and hence FDI was attracted to these industries. South Korea, Australia, Netherlands, Malaysia, Hong Kong and Japan are the main sources of FDI who has invested in the manufacturing sector in Bangladesh. USA and European investments spread over manufacturing and service sectors like textile, Cement, agro chemical, leather goods, drugs and pharmaceuticals, telecommunication, LPG bottling, lubricants, power generation, industrial gas etc. Investments from South, East & South East Asian nations like China, Hong Kong, India, Malaysia, Pakistan, Singapore, Sri Lanka, Taiwan and Thailand are concentrated on manufacturing sectors (Bank, Bangladesh 2015).

Table: 3

FDI Stock classified by Sectors as on end of June, 2015 (In million US$)

Sector	**Amount**
Gas & Petroleum	3974.42
Textile and Weaving	2518.94
Banking	1916.27
Telecommunication	1228.12
Power	501.14
Food	341.08
Cement	245.09
Leather and Leather Products	238.93
Trading	193.83
Chemicals and Pharmaceuticals	166.03
Agriculture and Fishing	148.79
Metal and Machinery Products	110.10
NBFI	103.67
Fertilizer	78.29
Construction	62.06
Others Sector	1175.51
Total	12501.13

Source: Foreign Investment & External Debt (FIED) Division, Statistics Department, Bangladesh Bank.

FACTORS BEHIND THE LOW INFLOW OF FDI IN BANGLADESH

Bangladesh has so far, as seen from the analysis and figures mentioned above, not succeeded in attracting a sizable amount of FDI. So far, the private sector, which has the pivotal role in the market economy, has not shown dynamics and has moreover, been characterized by large-scale financial indiscipline. The FDI policy frame as currently obtaining in Bangladesh those are very similar with such policies in ASEAN and Asian NICs. The government has adopted an "Open door policy" to attract foreign investment. In spite of substantial changes in government policies, Bangladesh has failed to lure satisfactory levels of FDI. There are however, a number of reasons for this poor response from the foreign investors. Bangladesh does not meet most of the basic requirements for attracting FDI. The important factors inhibiting the inflow of FDI are 1) historical factors 2) socio-economic factors 3) governance and political factors 4) social and cultural factors and 5) others.

Historical Factors

Due to the discriminatory economic policy in Pakistan period, there was no recognizable investment in East Pakistan (Present Bangladesh). The investment that occurred that period is very negligible. Bangladesh came out of a union with Pakistan that pursued a mixed approach heavily characterized by public investment and regulations of the economy are to a continuously legitimated socialistic paradigm and also opened foreign investment with the equity participation with government (Ahmed, Abu. 1993).

Socio-Economic Factors

The global competitiveness score of World Economic Forum (2015) that is defined as the set of institutions, policies, and factors that determine the level of productivity of a country. The productivity of a country determines its ability to sustain a high level of income; it is also one of the central determinants of its return on investment, which is one of the key factors explaining an economy's growth potential. The score is 0-7 (7= most competitive and productive countries). Among the SAARC countries India (4.21) and Sri Lanka's (4.19) score is high that confirms the productivity of India is high and receiving a sizable amount of foreign direct investment. The position of Bangladesh is far behind only (3.72) score it implies that the productivity and return on investment is low in Bangladesh among the SAARC countries. The global competitiveness score comprises infrastructure, institutions, macroeconomic environment, market size, labor market efficiency, innovation, financial market development, technological readiness, health and primary education, higher education and training, business sophistication and goods market efficiency. Infrastructure is one of the twelve pillars of the index. The infrastructure of Bangladesh is at all not developed. The road and air communication is poor among the Asian FDI receiving countries. Power and energy supply is yet insufficient. But these are very important for foreign investment. On the other hand, the social infrastructure is also not developed. There are limited human development institutions and quality health care institutions. Inadequate supply of physical infrastructure is the main problematic factors for doing business in Bangladesh (World Economic Forum, 2015). It reveals that inadequate supply of physical infrastructure is the number one cause of low investment in Bangladesh. The labor cost is low but their productivity is also low. The size of the market typically refer by the GDP appears to be important determinant factors of FDI inflows. The GDP of Bangladesh is only tk. 1716700 Crore (MOF, Bangladesh 2015). It is not particularly an attractive market for foreign investors because of low purchasing power of the people. There are indiscipline and lack of good governance prevails in financial sector with loan default and pilferage (MCCI, 2016). Much of the private foreign investment is to come through joint collaboration with the local investors, but the local investors failed miserably in this case. Local business class likes to import goods rather than set up industry to make money quickly.

Governance and Political Factors

The World Bank world governance indicators (2015) reveal facts about the world wide governance indicators that is also important non-economic and intuitional determinants of attracting foreign direct investment. The countries those have better value of index are receiving more foreign direct investment in Asian region. Singapore, Malaysia, Hong Kong, Taiwan, Thailand and China has better indices. It tends to have positive relation between higher the governance index and higher the attraction of foreign direct investment. The index shows the value between -2.5 to 2.5 and 0 is the average. Bangladesh belongs one of the lowest value of all the six indices of control of corruption (-0.91), government effectiveness (-0.77), political stability and violence (-0.88), rule of law (-0.94), regulatory quality (-0.72) and voice and accountability (-0.47). Bangladesh is far behind the international property right index of Property Rights Alliance (2015) and its score is only 2.6 out of 10 (128 ranking among 129 countries). The democracy index score of Economist Intelligence Unit (2015) is 5.73 out of 10 (ranking 86 among 167 countries). It is believed that foreign investors place a very high value on political stability while determining whether or not to invest in a particular developing country. Vested political and social group agitation and strikes are timely phenomenon in Bangladesh. So investors are not interested to invest in Bangladesh in this regard, the foreigner is more concerned about the maintenance of the law and order, rule of law and good quality of regulation. Labor unrest as a result of the activities of labor force backed by political parties often restricted FDI inflows into Bangladesh. Corruption and inefficient government bureaucracy are the second and third problematic factors for doing business in Bangladesh (World Economic Forum, 2015). The administrative culture also has not proved yet that they are good for dealing with the foreign investors. As there are lots of safe destination of the MNCs so why do they come to invest in Bangladesh? Deteriorating law and order situation and killing of foreigners assailing the foreign investor sense of insecurity.

Social and Cultural Factors

Bangladesh has an image problem among the foreign investors as most business people view the country as one of the world's developing country afflicted by political instability, labor unrest, and natural disasters. The negative country image is one of hindrance for attracting the satisfactory level of FDI though things are improving day by day. Due to over population and lack of waste management, Bangladesh is one of the most environmentally polluted country in the world and Dhaka has become the second least liveable city in the world out of 140 cities (The Economist Intelligence Unit, 2015). The investors are concerned about environmental pollution. There is land acquisition problem for new industry outside EPZs as shortage of available land. The international language is literally absent in the government office and communication is a problem with foreigners. There are limited areas for amusement for the investors or foreigners used to western culture.

Others

Low natural resources and raw materials, inadequate technology level, poor level of e-government services, quality food security and non-availability of information are some of the impediments of FDI.

FUTURE PROSPECTS OF BANGLADESH IN ATTRACTING FDI

Bangladesh is a low FDI receiving country among the FDI receiving countries in Asia. There are many reasons for not receiving a sizable amount of FDI. The determinants of high FDI is far away in Bangladesh in the context of institutional effectiveness proxies by the governance indicators of World Bank (2015) and there are many countries in East and South East Asia where the determining factors of FDI are prevailing and they are receiving major portion of the world FDI. Bangladesh can attract more FDI by improving the institutional effectiveness that seems to be the causes of low FDI. It is believed that the prospect of Bangladesh in attracting FDI is very bright in many aspect of world economic situation and trade relations among the nations. China has become the labor shortage country due to aging and they are transforming into high-tech industry. Many manufacturers, long used to a cheap and mobile workforce, are leaving the country for alternate destinations like Thailand, Vietnam and Bangladesh (Morris, D. W. 2012). Time is coming to shift manufacturing company owned by foreign investors to other developing countries like India, Bangladesh, Vietnam and Myanmar. Japanese investors may shift their factory to these developing countries to produce and export to USA and other countries as they were shifted to China and East Asia in 1980's. Chinese and Japanese investors may shift their factory again to Asia and Africa due to the hollowing out phenomenon of currency and labor cost and shortage of labor supply. People's Republic of China, following in the footsteps of Japan and South Korea, is transforming itself with giant steps into a more mature and rapidly aging industrial society and many manufacturers of shoes and toys have already moved to cheaper countries, like Vietnam and Cambodia (Follath, E and Wagner, W. 2012). Now the time to think whether Bangladesh should remain a poor country or want to become a rich county. The political parties should come to consensus for not to call any strike and ensure institutional effectiveness especially control of corruption, political stability, government effectiveness and regulatory quality to attract more FDI. The size of market is increasing because of increasing the middle class in Bangladesh. The global trends show that India and Vietnam are the most potential countries for the foreign investors and Myanmar might become next potential country of the investors if political situation improve after the historic election in 2015 as the monthly wage rate is one of lowest as well as Bangladesh among the Asian countries (ESCAP, 2013). If Bangladesh cannot able to attract a sizable amount of FDI right at this moment it would need to wait for long days. By ensuring good governance which comprises control of corruption, government effectiveness, political stability and violence, rule of law, regulatory quality and voice and accountability (World Bank, 2015), adequate infrastructural facilities and power and energy supply Bangladesh can attract more investors who invested in China. It is found that FDI share of manufacturing sector in China is decreasing and China now started to invest in other developing countries (UNCTAD 2015). There are prospects of Chinese outward FDI as the labor cost is one of lowest in Bangladesh (ESCAP (2013).

POLICY RECOMMENDATIONS

The short comings restrict the FDI inflows to a significant extent in Bangladesh in view of the inadequate capital formation and domestic savings, management capabilities, institutional effectiveness, insufficient infrastructure and inadequate technologies. Bangladesh has limited option other than to encourage and attract FDI inflows in a conducive investment atmosphere of non-discrimination between the local and the foreign investors. Bangladesh has developed a FDI strategy that is in harmony with the government's objectives and the country's natural endowment but it needs to make sure that it is consistently implemented for attracting FDI. The first and perhaps most important preconditions are to establish political stability, governance, institutional effectiveness and provide security of investment. The priority should be given to eliminate the hassle of doing business. Rule of law and property rights must be ensured for attracting FDI. Huge public investment is required for physical infrastructure like roads, airport and power generation. The size of domestic market needs to increase by increasing economic growth rate and per capita income. The board of investment should be developed into an efficient and effective organization by imparting training to those of its officials and one stop services should be provided to the investors. People should be helpful to the tourist. Ecotourism can be a source of huge foreign exchange earnings for Bangladesh. Public services delivery as e-government by using information and communication technology should be expediting. It needs proper monitoring and oversight in the financial sector as huge indiscipline prevails. A sense of confidence on business operating condition can be generated among the multi national companies as the sense of insecurity and lack of confidence assailed them. Dependency on traditional items has to be reduced and dependency on non-traditional items has to be strengthened. Last of all good governance, human development, institutional effectiveness, competitiveness and adequate infrastructure are the key determinants of FDI in Bangladesh. It might be an area of future research with empirical studies on the determinants of FDI in Bangladesh.

CONCLUSION

Bangladesh has so far seen from prevailing data not succeeded in attracting a significant amount of FDI. So far the private sector that has pivotal role in the market economy has not shown dynamism in joint investment collaboration in Bangladesh. The FDI policy of Bangladesh has been framed along with such policies in ASEAN and Asian Newly Industrialized Countries (NICs). The government has adopted open door policies to lure foreign investment. Despite of substantial changes in government policies, Bangladesh has failed to attract satisfactory level of FDI. Bangladesh does not meet most of the requirements for attracting FDI than the other developing countries in Asia. If Bangladesh want to attract the foreign investors, it should mitigate the hindrance of attracting foreign investment and the incentives and facilities should not be paper based rather it should be investment friendly and conducive to the investors for coming in Bangladesh. These study reveals that the main determinants of FDI in Bangladesh are the good governance which comprises control of corruption, government effectiveness, political stability and violence, rule of law, regulatory quality and voice and accountability (World Bank, 2015), adequate infrastructural facilities specially the roads, power and energy, and investor's confidence on institutions, human capabilities, productivity or competitiveness and institutional effectiveness. Capital is no problem in these days, many multinational companies are really looking for better place to invest the investors have lot of safe place to invest and get return. Now it is the right time to think about the fate of the people of Bangladesh by the government, the citizen, the policy maker and the policy implementer.

ACKNOWLEDGEMENT

I would like to acknowledge the cordial assistance of my supervising Professor Okita Yoichi, National Graduate Institute for Policy Studies (GRIPS), Program Director of Public Policy Program during the period of studding at the institution without his earnest assistance and advise I could not able to write the paper. I would like to express my heartiest gratitude and thanks to my supervisor. I would also like to acknowledge the help and support from all the supporting staff of GRIPS and my friends in GRIPS who gave me some advice to write this paper. I also acknowledge the GRIPS authority and the MEXT for giving me the scholarship to study in Japan. I also would like to thanks Professor Dr. Sutham Cheurprakobkit, Kennesaw State University for inspiring me in his lecture on how to publish paper in a refereed journal. Finally, I would like to acknowledge and thanks to GSPA, NIDA to give me the opportunity to study further in PhD. in Development Administration and special thanks to Professor Ponlapat Buracom, Program Director of International PhD. Program in Development Administration.

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