

**Study
On
The Innovator Guide in Bangladesh-A Case Study on Foreign Direct Investment (FDI)**

Understanding Foreign Direct Investment (FDI)

A. Introduction and Definition

Foreign direct investment (FDI) plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills and financing. For a host country or the foreign firm which receives the investment, it can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development. Foreign direct investment, in its classic definition, is defined as a company from one country making a physical investment into building a factory in another country. The direct investment in buildings, machinery and equipment is in contrast with making a portfolio investment, which is considered an indirect investment. In recent years, given rapid growth and change in global investment patterns, the definition has been broadened to include the acquisition of a lasting management interest in a company or enterprise outside the investing firm's home country. As such, it may take many forms, such as a direct acquisition of a foreign firm, construction of a facility, or investment in a joint venture or strategic alliance with a local firm with attendant input of technology, licensing of intellectual property etc.

B. FDI in Global Perspectives

B.1 Global Balance Sheet

Global economy grew 4.8% year on year in 2005, with 4.9% growth projected for 2006, while recorded growth of 5.3% in 2004. The global economy looks set to grow at 5% in 2006. Global Merchandise export grew 13.2% in 2005, reaching a record US\$ 10.3 trillion according to JETRO. This surge was driven mainly by developing countries, which accounted for 42.7%. Global export of services grew by 10.8% in 2005.

Fuelled by active cross-border Merger and Acquisition in Europe, global FDI inflow rose by 23.2% to US\$ 964.7 billion in 2005, recovering to more than 60% of the peak achieved in 2000. Large scale corporate reorganizations in Europe and robust Merger and Acquisitions activity in mobile phone, electric and finance industries helped account for the dramatic 84.9% rise (US\$ 819.3 billion) in global cross border Merger and Acquisitions in 2005.

An assessment of the risks associated with the increasing reliance of developing countries on FDI and some of the potential difficulties faced by these countries in maintaining domestic economic policy autonomy, exchange rate policy and domestic financial stability have been crucial. Global FDI for few years are appended in Annexure-1.

B.2 Portfolio investment

Portfolio investments in developing countries, both equities and bonds, have increased dramatically in recent years. The World Bank estimates that portfolio investment more than doubled between 1990 and 1991, reaching more than US\$20 billion, and then increased again in 1992 to about US\$34 billion and now it stands at about US\$ 75 billion. The reason for this

is that the equity and bond markets in developing countries are thin and investments in them are risky. Prices are subject to sharp fluctuations in response to speculative sales and purchases and to changes in a country's creditworthiness. Foreigners as well as domestic investors are likely in effect to treat their investments in equities and bonds as short term assets and to withdraw from the market whenever short term prospects deteriorate.

B.3 Capital flight

Capital flight from developing countries constitutes an outflow of resources that otherwise could be used to finance investment and human development and promote faster economic growth. It offsets positive inflows of capital (foreign aid, commercial loans, foreign direct investment) and helps to perpetuate underdevelopment. World Bank calculations indicate that capital flight increased sharply beginning in 1977 and reached a peak in 1988. Indeed by the end of 1990 the cumulative total of capital flight from developing countries was approximately US\$700 billion, equivalent to more than half the size of the external debt of developing countries. It now stands at more than US\$1000 billion. In effect, roughly half of the foreign borrowing by developing countries was transformed into an outward movement of private capital by citizens of the indebted countries.

B.4 Modeling FDI Inflows and Outflows

The basic question we seek to address is whether governance infrastructure, as measured by Governance Infrastructure Index(GII), affects FDI inflows and outflows across countries. In doing so, we also consider the impact of physical and environmental infrastructure, as well as human capital. In order to estimate the impacts of the variables of interest, we need to hold constant other potentially important influences on FDI within the confines of a parsimonious model.

The presumption is that capital outflows may be stimulated by the same factors that encourage capital inflows. Specifically, superior governance encourages inward FDI, as well as increased capital investment more generally. Some of the successful firms created through the domestic investment process may, in turn, invest abroad as world-class multinational companies. In effect, superior governance encourages capital investment and the expansion of businesses that, in turn, are associated with increases in inward and outward FDI. Accordingly, the same specification is also used to estimate equations whose dependent variables are either capital outflows, or net capital flows.

B.5 Doha Round Trade Liberalization:

According to UNCTAD report 2006 Bangladesh, Mexico and Vietnam would stand to lose Doha round Trade Liberalization benefits. Six countries- Argentina, Brazil, China, India, Indonesia and Thailand would receive 73.3 percent of developing country benefits by 2015. Brazil's potential gains alone would account for 22.40% global food price would rise by 4-5% because of the liberalization in agriculture sector. Vegetables and poultry are among the few items in which Bangladesh has the potentiality to increase exports. Under the Doha scenario by 2015 developing countries total exports will be higher by US\$ 78 billion, which is about 37% of the estimated global increase in exports. On a sectoral basis about 55 % of the global increase would be in manufacturing exports, 26% in agricultural and food exports, and 19% in textile and clothing exports.

Foreign Direct Investment- Bangladesh Context

1. Economic Development Scenario:

1.1 Selected Economic Indicators of Bangladesh (2006):

S/L #	Indicators	2006
01	Gross National Income (per capita)	US\$ 482
02	Population in million	140
03	Life expectancy-years	64.9
04	Population growth rate %	1.5
05	fertility rate	2.57
06	urbanization-% of urban population	22.0
07	labor force participation	57.3
08	GDP growth rate %	6.7
09	GDP per capita growth rate %	5.2
10	Aid as % of GNI	2.3
11	National Poverty Rate %	48
12	Child malnutrition %	39
13	Net primary enrolment	80
14	Infant Mortality Rate %	80

For more details please see Annexure-II

1. 2. Messo Economy (as in PRSP)

National Strategy for Accelerated Poverty Reduction by the government of Bangladesh in its Poverty Reduction Strategy Paper (PRSP) said, a major challenge of economic growth and poverty reduction in Bangladesh is raising investment rate from its current 23.6% to over 30% (and also improving the efficiency). This could add another 2% to the growth rate. The enhanced growth rate is essential to achieve poverty reduction targets set by the millennium development goals (MDG). The need for massive dose of investment is viewed from the above statement of the PRSP of Bangladesh.

The Government has completed Poverty Reduction Strategy Paper unlocking the Potentials:

- Some 63 million people live in deprivation, two-thirds of them in extreme poverty. Inequality may be rising.
- Adult illiteracy remains persistent and is falling only slowly. With malnutrition and maternal mortality levels in South Asia still amongst the highest in the world.
- Attaining the MDGs calls for accelerating economic growth to 8-9% a year. This will not be easy. While garment exports have continued to perform well, risks to the sector remain.
- Garment exports, three-quarters of all exports, are vulnerable to competition from low-cost producers now that the Multi Fiber Agreement (MFA) has come to an end.
- The availability of cultivable land is declining.
- Accelerating growth will require higher investment levels—to diversify into areas of comparative advantage and to finance infrastructure—and higher productivity. This in turn calls for a substantial improvement in the investment climate, harmed by perceived high levels of corruption and lack of transparency.

2. Why Industrial Development is not Picking-up adequately in Bangladesh

Bangladesh has adopted a number of policies and provided generous incentives to attract foreign direct investment (FDI) into the country and the country seems to offer perhaps the most liberal FDI regime in South Asia. Yet, the flow of FDI has not been satisfactory. There is also serious lacuna in estimation of the FDI figures. There was till recently serious discrepancy between the Board of Investment (BOI) and Bangladesh Bank figures on FDI. There has been an attempt at reducing this gap by addressing the issues related to the registration and realization of FDI. There are also methodological problems in counting FDI figures, particularly in case of multinational corporations (MNCs) based in Bangladesh. These are many such questions, which need to be addressed in order to streamline the FDI figures. Salient features of this regime will help us understand the regulatory issues concerning the inflow and operation of FDI.

Bangladesh

Ease of...	2006 rank	2005 rank	Change in rank
<i>Doing Business</i>	88	81	-7
Starting a Business	68	63	-5
Dealing with Licenses	67	64	-3
Employing Workers	75	75	0
Registering Property	167	167	0
Getting Credit	48	41	-7
Protecting Investors	15	15	0
Paying Taxes	72	69	-3
Trading Across Borders	134	132	-2
Enforcing Contracts	174	174	0
Closing a Business	93	87	-6

GNI per capita (US\$): 470

Source: Global Economic Prospects-2007, WB

Starting a Business (2006)

The challenges of launching a business in are shown below. Included are: the number of steps entrepreneurs can expect to go through to launch, the time it takes on average, and the cost and minimum capital required as a percentage of gross national income (GNI) per capita.

Indicator	Bangladesh	Region	OECD
Procedures (number)	8	7.9	6.2
Time (days)	37	32.5	16.6
Cost (% of income per capita)	87.6	46.6	5.3
Min. capital (% of income per capita)	0.0	0.8	36.1

Dealing with Licenses (2006) Source: Global Economic Prospects-2007, WB

Shown below are the procedures, time, and costs to build a warehouse in, including obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections.

Indicator	Bangladesh	Region	OECD
Procedures (number)	13	16.1	14.0
Time (days)	185	226.6	149.5
Cost (% of income per capita)	272.3	375.7	72.0

Employing Workers (2006) Source : Global Economic Prospects-2007, WB

The difficulties that employers in face in hiring and firing workers are shown below. Each index assigns values between 0 and 100, with higher values representing more rigid regulations. The Rigidity of Employment Index is an average of the three indices.

Indicator	Bangladesh	Region	OECD
Difficulty of Hiring Index	11	41.8	27.0
Rigidity of Hours Index	40	25.0	45.2
Difficulty of Firing Index	40	37.5	27.4
Rigidity of Employment Index	30	34.8	33.3
Hiring cost (% of salary)	0.0	6.8	21.4
Firing costs (weeks of wages)	51.0	71.5	31.3

Registering Property (2006) Source: Global Economic Prospects-2007, WB

The ease with which businesses in can secure rights to property is shown below. Included are the number of steps, time, and cost involved in registering property.

Indicator	Bangladesh	Region	OECD
Procedures (number)	8	5.8	4.7
Time (days)	425	118.6	31.8
Cost (% of property value)	10.5	5.3	4.3

Getting Credit (2006)

Measures on credit information sharing and the legal rights of borrowers and lenders in Bangladesh are shown below. The Legal Rights Index ranges from 0-10, with higher scores indicating that those laws are better designed to expand access to credit. The Credit Information Index measures the scope, access and quality of credit information available through public registries or private bureaus. It ranges from 0-6, with higher values indicating that more credit information is available from a public registry or private bureau.

Indicator	Bangladesh	Region	OECD
Legal Rights Index	7	3.8	6.3
Credit Information Index	2	1.8	5.0
Public registry coverage (% adults)	0.6	0.1	8.4
Private bureau coverage (% adults)	0.0	1.3	60.8

Protecting Investors (2006) Source : Global Economic Prospects-2007, WB

The indicators below describe three dimensions of investor protection: transparency of transactions (Extent of Disclosure Index), liability for self-dealing (Extent of Director Liability Index), shareholders' ability to sue officers and directors for misconduct (Ease of Shareholder Suits Index) and Strength of Investor Protection Index. The indexes vary between 0 and 10, with higher values indicating greater disclosure, greater liability of directors, greater powers of shareholders to challenge the transaction, and better investor protection.

Indicator	Bangladesh	Region	OECD
Disclosure Index	6	4.4	6.3
Director Liability Index	7	4.3	5.0
Shareholder Suits Index	7	6.4	6.6
Investor Protection Index	6.7	5.0	6.0

Paying Taxes (2006) Source: Global Economic Prospects-2007, WB

The data below shows the tax that a medium-size company in must pay or withhold in a given year, as well as measures of the administrative burden in paying taxes. These measures include the number of payments an entrepreneur must make; the number of hours spent preparing, filing, and paying; and the percentage of their profits they must pay in taxes.

Indicator	Bangladesh	Region	OECD
Payments (number)	17	30.1	15.3
Time (hours)	400	304.6	202.9
Total tax rate (% profit)	40.3	45.1	47.8

Trading Across Borders (2006) Source: Global Economic Prospects-2007, WB

The costs and procedures involved in importing and exporting a standardized shipment of goods in Bangladesh are detailed under this topic. Every official procedure involved is recorded - starting from the final contractual agreement between the two parties, and ending with the delivery of the goods.

Indicator	Bangladesh	Region	OECD
Documents for export (number)	7	8.1	4.8
Time for export (days)	35	34.4	10.5
Cost to export (US\$ per container)	902	1,236	811
Documents for import (number)	16	12.5	5.9
Time for import (days)	57	41.5	12.2
Cost to import (US\$ per container)	1,287	1,495	883

Enforcing Contracts (2006) Source: Global Economic Prospects-2007, WB

The ease or difficulty of enforcing commercial contracts in is measured below. This is determined by following the evolution of a payment dispute and tracking the time, cost, and number of procedures involved from the moment a plaintiff files the lawsuit until actual payment.

Indicator	Bangladesh	Region	OECD
Procedures (number)	50	38.7	22.2
Time (days)	1,442	968.9	351.2
Cost (% of debt)	45.7	26.4	11.2

Closing a Business (2006)

The time and cost required to resolve bankruptcies in is shown below. The data identifies weaknesses in existing bankruptcy law and the main procedural and administrative bottlenecks in the bankruptcy process. The recovery rate, expressed in terms of how many cents on the dollar claimants recover from the insolvent firm, is also shown.

Indicator	Bangladesh	Region	OECD
Time (years)	4.0	3.6	1.4
Cost (% of estate)	8.0	6.3	7.1
Recovery rate (cents on the dollar)	24.9	19.5	74.0

Source: Global Economic Prospects-2007, WB

3. Why international investors are not interested to invest in Bangladesh

Cost of Doing Business in Bangladesh

3.1 Underground Economy

Under ground economy is growing much faster than the over ground/surface/ Legal economy. Due to tax evasion alone black money accounts for about 213% of the GDP and the yearly tax evasion is about 6000 million U.S dollars. Auditor's inconnance with the tax men are the main facilitators for this tax evasion.

The Gross Corrupt/Criminal Products (GCP) is much higher than this figure. IMF said in 2005 the total GCP of the world was about U.S \$ 700,000 million, where Bangladesh has contributed about U.S \$ 8000 million by tax evasion alone.

3. 2 ADB Observations

- Asian Development Bank (ADB) identified the following 9 impediments of implementing Projects in Bangladesh.
- Excessive time consumption by the Planning Commission in project clearance and amendments.
- Relevant ministries take unnecessarily longer time in inviting and approving tenders.
- Most of the time finance ministry does not give prompt advice to the Bangladesh Bank (Central Bank) to release project fund.
- Weak project supervision delays project implementation.
- Strong project supervision exercise for implementation of the project has never been taken
- Land acquisition is terrible delayed.
- Frequent transfer of the Project Director.

3. 3 Cost of Corruption-Public Procurement:

Public procurement provides another example of how poor governance is a drain on public resources and reduces the benefits of public expenditures. About 30% of public expenditure, and up to 80% of foreign assisted public expenditure, go through the procurement process .We estimate that 90-95% of public procurement is subject to corruption. This is a huge waste of scarce public resources, be it domestic savings or. external aid. It leads to poor quality of goods, works and services, erodes public confidence in the government and deteriorated the investment climate.

3. 4 How Corruption Affects Investment?

A study by Cheryl and Daniel Kaufman has identified as follows:

- there was no basis for the argument that corruption/bribery could increase efficiency by cutting down red-tapism
- enterprises paying bribes also spent a greater share of management times with bureaucrats for negotiations on the deals.
- The cost of capital for firms tends to be higher where bribery is more prevalent

3. 5 Effects of Corruption:

- Multiplier Effects
- Competitiveness Effects
- Fiscal Effects
- Debt Effects
- Growth and Investment Effects

3. 6 Types of Undesirable Business Expenses:

- Additional payments made to keep different utility connections in order such as telephone, electricity, water and sewerage
- Additional payments to be made for renewing licenses and for taking new licenses or new utility connections.
- Compulsory imposition of subscription and donation amount by persons who terrorize/ pressurize businessmen in the name of clubs, organizations etc.

- Payment made to some of the members of certain law enforcing agencies by some businessmen who cannot perform their business function peacefully if demands are not met.
- Payments to certain bank officials who sanctions credit and provide prompt service facilities to businessmen.
- Donation and subscription to political parties or their front organization.
- Expenses incurred to provide additional protection due to deteriorating security condition including payment made to the goons.
- Payments made to some of the employees/officials of statutory authorities, such as Factories Inspector, Various Tax Officials, city corporation Officials etc.
- Donation and subscription to help perform social and religious festivals.
- Donation and subscription to labor unions, employees unions, owners' organization etc.

3.7 Doing Business in Bangladesh:

Bangladesh's ranking on doing business dropped this year to 88th position from previous year's 81st position a global survey prepared jointly by the International Finance Corporation and the World Bank. Bangladesh is ahead of Sri Lanka, Nepal, India and Bhutan. The country's business competitiveness dipped in seven criteria—starting a business, dealing with licenses, getting credit, paying taxes, trading across borders and closing a business. In the areas of enforcing contracts, employing workers, and registering properties Bangladesh's ranking has remained unchanged. Bangladesh was placed in the third position in South Asia after Maldives and Pakistan. Among South Asian Countries Maldives topped in the overall business friendly economy ranking at 52 followed by Pakistan at 74, Bangladesh at 88, Sri Lanka at 89, Nepal at 100, India at 134, Bhutan at 138 and Afghanistan at 162. Singapore topped the global listing, followed by New Zealand, USA and Canada. Among the Asian nations Hong Kong ranked 5th Japan ranked 11th, Thailand 18th, South Korea 23rd, and Malaysia 25th, while China ranked 93 rd position.

The global ranking puts Bangladesh at the top among the eight South Asian countries and in the global ranking it is 15th in the areas of protecting investors and getting credits it is 48th for business. Pakistan ranked 19th, India ranked 33rd in protecting investors, while Maldives, Sri Lanka, and Nepal ranked 60th, Bhutan ranked 79th and Afghanistan ranked lowest-173rd. For obtaining business license in Bangladesh it requires 13 procedures and 185 days, while in India it requires 19 procedures and 224 days, in Pakistan 12 procedures and 218 days. Enforcing business contracts Bangladesh ranked 174th out of the total 175 countries. It takes 50 steps and 1442 days to enforce contracts in Bangladesh. In India it requires 1420 days and 56 procedures. In trading across borders, Bangladesh needs seven documents and 35 days to export and 16 documents and 57 days to import ranking 134th. India needs 10 documents and 27 days to export and 15 documents and 41 days to import. Pakistan needs 8 documents and 24 days to export and 12 documents and 19 days to import.

British investment in Bangladesh is now pound sterling 80 million and it could be tripled to pound sterling 240 million by 2007, if Bangladesh can overcome certain obstacles. In the 80's Asia's share of the global economy was 21 percent, Asia's share in the global economy, excluding China will be 43 percent by the year 2020.

4. Why diversification of export products is not possible, what are the obstacles:

4.1 Export Policy- 2005

Main incentives for exports are:

- a) Fiscal incentives
- b) Financial Incentives
- c) General Incentives

4.2 Non-traditional Export Sectors are

Oven fabrics, tropical fruits, vegetables, fresh water shrimp, computer software and data processing services, export of cut flower, stuffed toys, jewelry, light engineering goods etc.

4.3 Export Growth:

Export earning reached US\$ 10.53 billion with a 21.63% growth during the FY 2005-06. the country earned US\$ 8.65 billion in the FY 2004-005 and the item wise breakup is as under for the FY 2005-06 over the previous year:

Item	Amount in billion us\$	Growth in % over 2004-05
Knitwear	3.82 billion	35.38
Woven products	4.08 billion	13.5
Cut flower	21.07 million	187.06
Petroleum by products	88.43 million	152.08
Textile fabrics	36.88 million	117.45
Frozen food	459.11 million	9.12

Export Promotion Bureau has undertaken one District one Export product Strategy in order to boost up country's export though expansion of exportable products base. Under the program potential export items will be selected and necessary support will be provided for export. Bangladesh has set a export target of US\$ 11.50 billion for the FY 2007 and US\$ 13.11 billion for 2008 and US\$ 15.21 billion for FY 2009. Export target for next three years has to increase by 13.20% 14 % and 15.9% respectively.

4.4 The Exporter's Survey highlighted the following:

- *Customs delays* - On average it took
 - 12 days (with a maximum of 30 days) for the exporters' imported inputs to be released through customs at the ports or airports.
 - 9 days (with a maximum of 75 days) to obtain customs clearance for exporting a shipment.
 - 7 days (with a maximum of 30 days) to complete all the documents required for exports.
- *Cost of Interaction* - A great deal of time - more than half a person-year - is needed to deal with Government agencies such as customs, port authority, tax department, EPB, and various ministries. Firms had to spend, on average, 7 percent of their sales revenue to overcome the import and export delays by government agencies. Most exporters (82 percent) employ a person specifically to deal with government agencies.

- *Duty drawback* - On average it takes 58 days with a maximum of 120 days, and 6 percent additional expenditure, to get a refund cheque from the Duty Exemption and Drawback Office.
- *Lost orders* - 73 percent of the exporters have lost export orders at some point.
- *Causes of delay* - The most important reasons cited for delays in meeting deadlines for shipment were hartals or labor strikes, customs clearance, power failures, delays by fabric suppliers, and delays at ports.
- *Bonded Warehouses* - Nearly half of the Special Bonded Warehouse users indicated that their experience with the customs authority was not satisfactory.
- *Export Institutions* - Although 52 percent of the exporters received direct assistance from the Export Promotion Bureau (EPB) during the preceding twelve months, 76 percent of them think that EPB would function better if it were managed by the private sector.

4.5 Cost of Delay (COD):

Cost of Delay is such an important consideration that it must be abbreviated as COD and remembered so. Nature of Project delay costs:

- ♥ all costs for rescheduling
- ♥ capital cost
- ♥ organizational cost
- ♥ loss of value of money
- ♥ production loss /income loss
- ♥ loss of potential market
- ♥ loss of other vertically integrated project
- ♥ loss of other horizontally integrated project
- ♥ loss of good will for all involved
- ♥ balance of trade disadvantage
- ♥ raises anger and annoyance of the financiers/donors

4.6 Incentives to export-oriented and export-linkage industries:

Concessional duty rate for import of capital machineries and spare parts. Bonded Warehouse and back-to-back Letter of Credit allowed. Duty drawback on exportable and potentially exportable goods. Easy availability of loans up to 90 percent of the value against irrevocable and confirmed Letter of Credit/Sales Agreement. Incentives to the “deemed exporters” supplying indigenous raw materials to export-oriented industries.

The export-oriented industries are entitled to receive additional foreign exchange on a case to case basis for publicity campaign in opening overseas offices and participating in international trade fairs.

Export earning from handicrafts and cottage industries is exempted from income tax. For all other industries, income tax rebate on export earnings is given at 50 percent. Import of raw materials, which are included in the banned / restricted list, will be allowed if required in the manufacture of exportable commodities.

Specified quantities of duty-free samples for manufacturing exportable products are allowed. Locally manufactured products supplied to local industries or projects against foreign exchange payment or foreign exchange L/C is treated as indirect exports.

Export Credit Guarantee Scheme 10 percent of production of enterprises, located in both public and private EPZs is allowed to be exported to domestic tariff area against foreign currency L/C on payment of applicable duties and taxes. 100% export-oriented industry outside EPZ is allowed to sell 20% percent of their products in the domestic market on payment of applicable duties and taxes. The Export-oriented industries which are identified by the government as “Thrust Sector” are provided special facilities and venture capital support.

5. Importance of Foreign Investment in Bangladesh

Foreign direct investment is the key to economic development of any country. Since the liberation of Bangladesh it has been offering lucrative incentives to foreign investors. But the country has so far failed to attract significant amount of investments. During the same period, Southeast Asian countries like Thailand, Malaysia, Indonesia and the Philippines with their cheap and skilled laborer and better infrastructure facilities attracted a huge number of investors from developed countries. Recently the investment situation has changed considerably as Bangladesh has been receiving a number of investment proposals from foreign countries. It is expected that in the next 3-4 years time Bangladesh will be able to implement FDI of about US\$12.5 billion and through which employment of about 1.2 million people will be possible.

5.1 Foreign Direct Investment in Bangladesh

The amount of FDI stood at 441.4 million in 2003 against the target of US \$ 400 million. The figure was \$ 328.3 million in 2002. Among the three main components, reinvestment (47.7%) accounted for the highest share of the total FDI inflow, followed by equity (46.5%) and intra-company borrowings (5.8%) in 2004.

FDI Target & Achievements by BOI: 2003-2006

Year	FDI Target Million US \$	Actual FDI Inflows Million US \$	% increase
2002	-	328	
2003	400	414.4	33.3
2004	600	660.8	49.7
2005	800	-	33.33
2006	1,000	-	25.00
2003-6	700	-	35.42

Source: Mid term Strategic Promotional Plan 2003-6 and results of FDI inflow survey by BOI & BEPZA.

The highest FDI came for telecommunications (36%) sector in 2004, followed by manufacturing (31%), energy and power (20%) and others (13%). In the year 2004 service sector emerged as the leading sector as the recipient of such investments followed by manufacturing. As a result of opening of PSTN telephony to the private sector, a sustainable robust growth in telecom sector is expected in the coming years. Besides, existing cellular operators are also likely to invest more to firm up healthier market position.

The principal constituents of manufacturing sector that received the FDI inflows were textile (17.69%), chemical (7.16%) and leather and rubber(2.83%), representing about 88% of this

sector. Textile continued to be the highest recipient in the manufacturing sector. Agro-based, food and allied and glass and ceramics also have been attracting FDI to a certain extent, accounting for 1.37%, 0.49% and 0.19% of inflows respectively in 2004.

The Western Europe (45.22%) was the largest source of FDI in Bangladesh during 2004. America's investment accounted for 13.33% of FDI flows in Bangladesh. Among the EU countries, UK made 26.26% of total FDI which was 90.33% of FDI inflows from EU.

Foreign direct investment does offer the advantages of providing considerable financial flows to the recipient countries and of creating wealth in them. In view of the increased scarcity of public aid and the problem of financing development, raising the level of private foreign investment could make a considerable contribution. FDI can offer poor countries interesting opportunities in terms of the technology and the transfer of Know-how, enabling them to convert their comparative advantage into competitive advantages. FDI act as a catalyst profiting from the recent technologies boom in the tertiary sector. FDI brings employment, and also provides motivation through the effects of formal training, which arises from sub-contracting and domestic investments. But FDI, if not trigger genuine development dynamism may prove harmful. The importance of FDI can be measured only in terms of genuine spin-offs and recipient's capacity to manage investment in a balanced way.

Bangladesh is a country of over 140 million people. It has a developing economy with annual GDP growth of over six percent the per capita income and standard of living has been going up. The people are hard working, peace loving and are easily adaptable. Cost of labor is also very cheap. In spite of these positive factors industrialization trend is very low. Bangladesh Government policy on foreign investment 2005 is as follows:

- ◆ Foreign direct investment will be encouraged in all industries in Bangladesh except those in the reserved lists, banking, insurance and other financial institutions. These type of investments can be made in local private and public sectors individually or jointly. The capital market IS open for "portfolio" investments.
- ◆ The legal framework for foreign investments has been drawn up on the basis of the Foreign investment (Development and Preservation) Act 1980.The framework is as follows:
 - Equal treatment of both local and foreign investments
 - Safeguarding foreign investments from state expropriation, and
 - Assurance of repatriating finance and profit derived from share disposal.
- ◆ There will be no restrictions to foreign investment in terms of equity participation, i.e. 100% foreign equity can be invested. While setting up industries with complete foreign investment or in joint venture, there will be no restrictions to the sale of shares through public issue irrespective of paid up capital. However, foreign investors or institutions can purchase shares through Stock exchange. Foreign investors or institutions can avail loan from local banks to meet their running costs. Conditions for such type of loan will be determined on the basis of the relations between the bank and the borrower.
- ◆ Foreign investors can avail of the same facilities as local investors in terms of tax holiday, royalty payment, technical fees, personal income taxes need not be paid by foreign technicians appointed in foreign companies for up to three years, and after that period, they have to pay on the basis of a dual taxation revocation agreement or any other agreement reached with their respective countries.
- ◆ In respect of foreign investment, full repatriation facility of invested capital will be given .Profits and dividends are also repatriable.

- ◆ If foreign investors choose to reinvest their repatriable dividend or earned profit, then this will be treated as new investment. Foreign citizens appointed in Bangladesh will be entitled to a remittance of 50% of their wage and full repatriation of their saving and retirement benefits.
- ◆ There will be no restriction to the issuing of work permit for efficient foreign professionals on the basis of the recommendations of local and foreign investing companies or joint venture companies. Multiple entry visa will be issued to foreign investors for three years and to efficient professionals for the whole period of their appointment.
- ◆ In respect of foreign investments in thrust sectors, preference will be given to small and medium scale investors when allotting plots in BSCIC industrial enclaves.
- ◆ Investments by non-resident Bangladeshi will be treated as foreign direct investment.
- ◆ Steps will be taken to protect intellectual property rights in respect of new goods and formulae.
- ◆ International norms and systems will be followed in respect of providing investment assurance and conflict resolution.
- ◆ Initiatives will be taken to expand the facilities of EPZ areas to those 100% export – oriented industries that are established in non-EPZ areas.

It is to be noted that, investment in the Export Processing Zones is very fast and the investors find it comfortable investing in EPZs. Foreign investors do not feel encouraged to invest outside the Export Processing Zones, in spite of the fact that the demand for and consumption of quality and foreign made industrial consumable items have been increasing rapidly in the country. Initially, private investors register investment proposals with BOI expressing their intent to invest in the respective projects. Practically registration is a commitment of investment over a period of time.

5.2 FDI in Bangladesh –Target & Achievement in 2004

Sectoral increase 2004:

Sector	Increase
Service sector Telecom	36%
Manufacturing	31%
Energy &Power	20%
Others	13%
Total	100%

Regional Increase 2004:

Region	Increase
Western Europe	44.22%
European Union	18.00%
North America	33.00%
African	4.78%
Total	100.00%

Foreign investment Registration during 2003-04 Distribution by sectors

Sectors	Investment
Services	61.46%
Textile	15.68%
Food & Allied	3.29%
Agro-based	6.49%
Printing & Publication	1.64%
Lather & Rubber	2.80%
Chemical	6.88%
Glass & Ceramics	0.18%
Engineering	1.49%
Miscellaneous	0.09%
Total	100%

Undoubtedly, we need foreign investment, but not for trading, housing, laundry, shopping mall, restaurants, real estates etc. Under the pretense of foreign investment, sometimes the investors arrange employment for themselves and for their fellow citizens and sometimes they work against the security and sovereignty of the country. We seldom require foreign consultants in national and international projects. Taking out huge foreign exchange by service sector companies like foreign banks, mobile phone companies etc. has been creating huge pressure on the scarce foreign currency reserve of the country, which has opened the eyes of many conscious citizens of the country and the government should positively respond to the issue. For more please see annexure III & IV

6. Analysis of Government Policy on FDI

6.1 New Industrial Policy-2005

The Government adopted the Industrial Policy 2005 in order to achieve the objective of accelerated industrial growth. The policy the objectives outlined in the policy statement project a clear sense of direction; the strategies and the policy framework are coherent and consistent; the policy pronouncements are backed by adequate legislative endorsements and effective modalities of implementation involving close interaction between the Government and the private sector; and there is a monitoring system in place to assess the performance of the sector on a regular basis to bring about necessary modifications in the policy framework as needed.

6.2 Vision

Bangladesh will have within a decade a sizable industrial sector where manufacturing will account for at least 25 percent of the GDP, and at least 20 percent of employed workforce. This will mean a considerable rise from the figure of 10 percent around which the sector's share in GDP and employed population have hovered for most of the past two decades. A vibrant and dynamic private sector will be the principal actor in Bangladesh's industrial arena. Industrial Policy 2005 aims at addressing these concerns building on earlier efforts and gains towards industrialization of Bangladesh economy;

6.3 Objectives

Expand the production base of the economy by accelerating the level of industrial investment. Promote the private sector to lead the growth of industrial production and investment. To

focus the role of the government as a facilitator in creating an enabling environment for expanding private investment. To permit public undertaking only in those industrial activities where public sector involvement is essential to facilitate the growth of the private sector and/or where there are overriding social concerns to be accommodated. To attract foreign direct investment in both export and domestic market-oriented industries to make up for the deficient domestic investment resources and to acquire evolving technology and gain access to export markets. To diversify and rapidly increase export manufactures. To encourage the competitive strength of import substituting industries for catering to a growing domestic market. To ensure a process of industrialization which is environmentally sound and consistent with the resource endowment of the economy.

6.4 Thrust sectors

Agriculture and Agro based Industry, Textile Industry, Jute and Jute Mixed Products, Readymade Garments, Computer Software and ICT products, Electronics, Automobiles light Engineering, Pharmaceuticals Products, Leather and Leather Products, Ceramics, High Fashion Value Added RMG, Synthetic Flowers, Frozen Foods, *Shrimp Cultivation, Flower Cultivation, Infrastructure, Jewelry and Diamond cutting and polishing, Oil and Gas, Silk worm cultivation and silk industry, Stuffed toys, Tourism Industry, Basic Chemicals/ Industrial Raw materials, Textile related color and chemicals, Frame for Spectacles, Furniture, Fashionable Luggage Products, Cosmetics and Toiletries, CR Coil, Handicrafts, Stationery Products, Herbal Medicine, Commercial Plantation , Horticulture.

6.5 Deserving Factors in Assessing Bangladesh

Bangladesh has never defaulted in its debt-service liabilities to multi-lateral and bilateral donors. Bangladesh never experienced negative economic growth during last 35 years of its independence. The cheapest and easily trainable labor is abundantly available in Bangladesh. Out of the total population of about 140 million, labor force comprises more than 56 million. Bangladesh has the lowest import-tariff rate in the South Asian region.

6.6 Other incentives:

Tax exemption on royalties, technical know-how fees received by any foreign collaborator, firm, company, an expert.

Tax exemption on the interest on foreign loans under certain conditions.

Avoidance of double taxation in case of foreign investors on the basis of bilateral agreements.

Exemption of income tax up to 3 years for the foreign technicians employed in industries specified in the relevant schedule of income tax ordinance.

Tax exemption on income of the private sector power generation company for 15 years from the date of commercial production.

Facilities for full repatriation of invested capital, profit & dividend.

Six months' multiple entry visa for the prospective new investors.

Citizenship by investing a minimum of US\$500,000 or by transferring US\$1,000,000 to any recognized financial institution (non-repatriable).

Permanent residency by investing a minimum of US\$75,000 (non-repatriable).

Tax exemption on capital gains from the transfer of shares of public limited companies listed with a stock exchange.

Special facilities and venture capital support provided to export-oriented industries under "Thrust sectors"

6.7 Present Investment Spree in Bangladesh

- Riyadh-based Group (Hi-tech International) keen to invest \$2b for oil refinery\
- Thailand keen to invest in health sector.
- Indian TATA will invest 2.5 b US\$ in Steel, Power and Fertilizer
- Dhahi Group of UAE will invest US\$1 billion in telecommunication, oil refinery, infrastructure, and bank and tourism sectors. They also intend to invest some 4450cr Taka in the telecom sector.
- The Japanese company will set up a six-million dollar plant to produce fuel (bio diesel for diesel engines and power generators by refining palm oil waste.
- A Japanese company will invest US\$10 million to set up a plastic car parts manufacturing industry in CEPZ.
- Japan will invest seven and one a half crore US \$ to set up two hospitals.
- Spanish co. keen to set up leather processing plant of \$10 million
- Bangla-German joint venture to invest Tk75 crore in textiles.
- Malaysia is interested to invest Tk180 crore in Bangladesh in telecommunication, electricity and fuel, LPG, construction of bridge etc.
- Britain's Cairn Energy will invest 80 Million \$ for exploration in Bangladesh next year.
- US firm; Global Volcan Energy has signed investment of US\$1.6 billion in the power, coal, and fertilizer sectors. For more please see annexure-VI-VII

6.8 Potential sectors for Investment

Textile: Textile has got potential for investment in Bangladesh as the country has already exposed in the international markets and RMG is the highest (76%) export sector of the country.

RMG: Particular emphasis should be given on penetrating the Japanese garments markets. China occupies 80 percent of Japan's total RMG market due to its geographical proximity and historic relations. Bangladesh could enter the market only with quality products, including traditional fabrics like muslin, at competitive prices. Emphasis should be given on publicity of Bangladeshi products that have huge popularity in the US and European markets for its quality. As the Quality of Bangladesh garments is good and there is huge supply of efficient labor force, Bangladesh and Japan can jointly set up more backward linkage industries for the readymade garments industry (RMG) in Bangladesh.

Agro-based Industry: Bangladesh has fertile land, abundant rural workforce and infrastructure which provide opportunities for establishing agro-processing industries.

Tourism: Bangladesh has a lot of prospects in the tourism sector. Cox's Bazar is the longest sea-beach in the world. Besides, there are many attractive tourist places in Bangladesh such as Kuakata, Rangamati, and Saint Martin's Island etc. Japan and Bangladesh can jointly invest in this sector and generate huge employment and income.

ICT: Information and communication technology (ICT) is the most potential sector in Bangladesh where Japan can provide technical and investment support and build a ICT village like Silicon valley of USA.

HRD: Japan can help Bangladesh in human resource development through extensive training in different required fields. A mission from Japan International Training Cooperation Organization (JITCO), led by Mr. Kagefumi Ueno, visited DCCI in March 2003. The meeting discussed about industrial training between JITCO and DCCI. Steps may be taken to implement a program which may help supply necessary skilled labor force for broadening industrial base and diversification of exports of Bangladesh.

Infrastructure: In view of liberalization, market reforms and growth objectives, tremendous opportunities in energy, telecommunications, oil & gas, ports, highways and bridges are available in Bangladesh. Japan can also invest in different SME sector, power sector and infrastructure development and deep sea port.

Pharmaceuticals: Pharmaceuticals is another area which is growing fast. Apart from satisfying local demand. Pharmaceutical products of Bangladesh are now being exported to more than sixty countries of the world.

6.9 JETRO Recommended Sustainable Competitive Sectors:

Considering the strength of Bangladesh either in the form of offering substantial resource advantages or low-cost, skilled manpower and global market demand, the following sectors could form the backbone of industrial development of the country:

Investment Opportunity: Sustainable Competitive Sectors in Bangladesh

<p>1. Textile a. RMG Backward linkage industries</p> <p>2. Electronics a. Semi-Conductor b. Cell Phone Assembly c. Other Electronics</p> <p>3. Information Technology a. Data Processing b. Software Development</p> <p>4. Natural Gas -based Industries a. Electricity b. Fertilizer c. Petro-Chemicals</p>	<p>5. Frozen Foods</p> <p>6. Leather a. Finished Leather b. Leather Goods</p> <p>7. Ceramic a. Tableware b. Sanitary ware c. Insulator</p> <p>8. Light Engineering a. Machinery Parts b. Consumer Items</p> <p>9. Agro-based Industry a. Canned Juice/Fruit</p>
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6.10 Areas of concerns for sustaining investment climate in Bangladesh:

Implementation of Policies: Bangladesh is favored with a plethora of policies that permeate

almost every aspect of our socio-economic life, but it has to be realized that it is not so much the existence of a well-documented policy but how much this works out at the practical level in terms of implementation that generates confidence amongst the stakeholders. A strong perception should grow amongst the foreign investors that incentives and facilities that are promised to them within the framework of the policy are easily accessible and realistically available with a minimum of hassle, bureaucratic or otherwise.

Poor infrastructure: The surveys undertaken by BOI in June 2005 and JETRO in March 2005 identified infrastructure as one of the bottlenecks for which Bangladesh should pay attention. JETRO Survey said that Water & Electricity are cheaper in Bangladesh but their stable supply is to be guaranteed. Many companies have their own captive power supply. BOI in its survey report said the projected growth of industry in the coming years would require establishment of sufficient utility infrastructure like energy and power to support the momentum of FDI that has been visible in Bangladesh now.

Bureaucratic complexities: Bureaucratic complexity is one of the major problems while investment of money in any sector by foreign investors. Bureaucracies, who are responsible for administration of tariffs and protective controls, see trade liberalization as a threat to their jobs and income which go with them, both their salaries and informal opportunities that their positions provide for extra-legal incomes.

Confrontational politics: Confrontational politics are main hindrances to foreign direct investment in the country. An investor has to count huge loss for one day hartal or Strike. Recently an UNDP study on hartal said that hartal eats up 3-4% of GDP.

Corruption bribery and other forms of corruption: Corruption is a big threat to businesses in Bangladesh. It increases cost of doing business. A recent survey done by the Dhaka Chamber of Commerce said that corruption increases cost of doing business by about 12-13%.

Lack of Skill labor force: There is a lack of skill labor force in Bangladesh. Most of the Readymade garment workers and officials are not well educated.

Burden of excessive regulation: Investor falls in loss of time and money due to Burden of excessive ill-managed regulations.

Problem of domestic finance flow: It is the main problem for foreign investors. Cost of finance in the form of higher lending rate is yet another obstacle to stronger export performance of Bangladesh.

Lack of transparency and good governance: Lack of transparency and good governance is a big problem in the country. We have lost our position in the world market due to lack of transparency and good governance.

6.11 Investment Opportunities- Major Considerations

Bangladesh is located virtually as a land-bridge between the emerging markets of South Asia and the fastest growing markets of South East Asia and the ASEAN countries. The proposed concept of a “Bay of Bengal Growth Triangle” has its apex in Bangladesh, extending South-West via Madras to Colombo and the South-Eastern arm extends through Myanmar & Thailand to Penang, Malaysia, with the third arm to Sri-Lanka, attracting greater attention

from the investment world. Bangladesh is a possible entrepot, a potential Singapore, for servicing the region covering Bangladesh, Nepal, Bhutan, the seven North-East Indian states and also for the resource-rich Northern Myanmar, a land locked region.

6.12 Summary of Major Constraints:

The following are the major constraints and are responsible for cost of doing business in Bangladesh

- Corruption –BRIBERY
- Time Schedule is not maintained
- Non implementation of law
- Political unrest & Political Hypocrisy
- Uncontrolled price rise
- Non patriotic leadership
- Unethical business practice
- Lack of proper information and data
- Lack of transparency
- Poor image of the country
- Poor backward linkage industry
- Lack of proper knowledge & training
- Port Congestion and Strike
- Business loss due to Natural Calamities

In order to identify a government as a failed government, certain criteria have been developed by G-8 countries. The basic elements of a failed government according to G-8 include the following:

- a government that fails to protect the life , liberty and property of its citizens
- a government whose rules and laws fail to guarantee the rights of its citizens
- a government that fails to provide the minimum medical facilities to its citizens
- a government that fails to provide the minimum education to its nationals
- a government that fails to ensure a sound banking system
- a government that fails to guarantee freedom of speech and fails to protect the rights of civil societies, journalists, and its intellectuals
- a government that fails to ensure transparent, judicious and non-corrupt business practices and fails to guarantee impartiality of the government officials
- a government that fails to enforce the laws of the land and the verdict of courts

If these conditions prevail in a country that country might be termed as a failed government and once it would be identified as a failed government in addition to reduction of aid flow its inward FDI will surely decline. Its credit rating will also go down and subsequently its cost of doing business and trade will be expensive. Such situation will bring disaster to any economy. Under the circumstances it is the responsibility of the citizens to take appropriate steps so that their government does not fail. However, the leadership of a failed government is more likely to blame others for their inefficiency and poor performance (you assess yourself by what you could do, but others assess you by what you have done). They are more likely to develop conspiracy theory as well

6.13 Third party Ranking of Business Constraints in Bangladesh:

Constraints	Ranking
Electricity	01
Corruption	02
Tax Administration	03
Cost of Financing	04
Economic Policy Uncertainty	05
Customs	06
Access to Finance	07

Source: World Economic Forum (Structural modification done by the author/consultant of this paper)

Average Tariffs in Comparator Countries:

Here Bangladesh ranks as the second highest tariff rate country among the 8 comparator countries.

Country	Ranking & Average Tariff %
India	29 (1)
Bangladesh	21(2)
Pakistan	17(3)
Thailand	15(4)
China	14(5)
Sri Lanka & Malaysia	10(6)
Philippines	08(7)
Indonesia	07(8)

Source: World Economic Forum (Structural modification done by the author/ consultant of this paper)

Rankings of Bangladesh and Comparator Countries by the extent of Irregular payments for Imports and Exports: Here Bangladesh ranks highest in-terms of irregular payment.

Country	Ranking
Bangladesh	01
Indonesia	02
Philippines	03
Sri Lanka	04
Thailand	05
India	06
Malaysia	07
China	08

Source: World Economic Forum (Structural modification done by the author/consultant of this paper)

Rankings of Bangladesh and Comparator Countries by Overall Quality of Infrastructure:
(Lower # > higher# indicates better position, hence Bangladesh is in the worst position among the comparator countries)

Country	Ranking
Bangladesh	01
Vietnam	02
Philippines	03
India	04
Sri Lanka	05
China	06
Indonesia	07
Thailand	08
Malaysia	09

Source: World Economic Forum (Structural modification done by the author/consultant of this paper)

Rankings & Rate of Electricity Generation by Bangladesh and Comparator Countries: Here Bangladesh having the lowest per capita electricity generation.

Country	Kwh/per capita	Ranking
Malaysia	0.58	01
Thailand	0.29	02
China	0.21	03
Philippines	0.16	04
Pakistan	0.12	05
India/Indonesia	0.10	06
Sri Lanka	0.08	07
Bangladesh	0.03	08

Source: World Economic Forum (Structural modification done by the author/consultant of this paper)

Rankings of Bangladesh and Comparator Countries by Quality of Roads:
(higher# indicates bad position). Here Bangladesh ranks 5th position.

Country	Ranking
Thailand	01
Malaysia	02
China	03
Indonesia	04
Bangladesh	05
Sri Lanka	06
India	07
Philippines	08

Source: World Economic Forum (Structural modification done by the author/consultant of this paper)

Rankings of Bangladesh and Comparator Countries by Quality of Ports:
 In Quality of Ports Bangladesh ranks the lowest position among the Comparator Countries.

Country	Ranking
Malaysia	01
Thailand	02
Sri Lanka	03
China	04
Indonesia	05
India	06
Philippines	07
Bangladesh	08

Source: World Economic Forum (Structural modification done by the author/consultant of this paper)

Rankings of Bangladesh and Comparator Countries by per 100 Fixed Line Telephone Faults:
 Here Bangladesh having the highest percentage of telephone defaults

Country	# of faults/100 lines	Ranking
Bangladesh	208	01
India	203	02
Pakistan	99	03
Malaysia	38	04
Philippines	29	05
Sri Lanka	15	06
Indonesia	13	07

Ref: ITU (Structural modification done by the author/consultant of this paper)

Rankings of Bangladesh and Comparator Countries by Cost to start a business:

Country	Ranking	Remarks-Costliest>less costliest
Bangladesh	01	Costliest
India	02	Second Costliest
Malaysia	03	3rd costliest
Sri Lanka	04	4th costliest
Philippines	05	5th costliest
China	06	6th costliest
Thailand	07	7th costliest

Source: World Economic Forum (Structural modification done by the author/consultant of this paper)

Rankings of Bangladesh and Comparator Countries by Procedures to start a business:
 Arranged in descending order (from higher number to lower number of procedures)

Country	Ranking
China	01
India/Philippines	02
Thailand/Sri Lanka	03
Bangladesh/Malaysia	04

Source: World Economic Forum (Structural modification done by the author/consultant of this paper)

Rankings of Bangladesh and Comparator Countries by percentage of GDP spent for Research and Development: Here Bangladesh spends lowest amount for research and development.

Country	% of GDP	Ranking
Malaysia	0.70	01
China	0.65	02
Malaysia	0.25	03
Philippines	0.20	04
Thailand	0.15	05
Indonesia	0.09	06
Bangladesh	0.03	07

Source: World Economic Forum (Structural modification done by the author/consultant of this paper)

Bangladesh is also a signatory of the Multilateral Investment Guarantee Agency insuring investors against political risk. As a member of World Intellectual Property Organization (WIPO) and World Association of Investment Promotion Agencies (WAIPA) the country further safeguards the interest of foreign investment.

Standard dispute settlement procedures are followed in case there is any dispute with the government or with any private party. If the foreign investors feel that their rights have been violated, they can file writs with the High Courts.

6.14 Incentives Provided to Industrial Investment:

There is no discrimination in case of duties and taxes for the same type of industries set up by foreign and local investors in the public and private sectors. Following is the summary of incentives provided to the investors outside EPZs.

- ◆ The exemption on royalties, technical know-how fees received by any foreign collaborator, firm, company or expert.
- ◆ Tax exemption on the interest on foreign loans under certain conditions.
- ◆ Exemption of income tax up to 3 years for the foreign technicians employed in industries specified in the relevant schedule tax ordinance.
- ◆ Tax exemption on income of the private sector power generation company for 15 years from the date of commercial production.
- ◆ Multiple entry visa facilities for the prospective new investors.
- ◆ Re- investment of repatriable dividend will be treated as new investment.
- ◆ Citizenship by investing a minimum of US\$ 5, 00,000 or by transferring US\$ 10, 00,000 to any recognized financial institution (non-repatriable).
- ◆ Permanent residents by investing a minimum of US\$ 75,000 (non- repatriable)
- ◆ Tax exemption on capital gains from the transfer of shares of public limited companies listed with a stock exchange.

6.15 Investment Position in Bangladesh

According to UNCTAD report 2006 the picture of foreign investment in 10 least developed countries of the world during 2004 is as under:

Country	Total investment in crore US\$	Per capita Investment in US\$
Angola	204.70	132.10
Equatorial Guinea	166.40	3328.00
Sudan	151.10	42.60
Congo	90.00	16.10
Myanmar	55.60	11.10
Ethiopia	54.50	7.20
Chad	47.8	50.90
Tanzania	47.00	12.50
Bangladesh	46.00	3.30
Zambia	23.40	20.30

In per capita FDI Bangladesh ranks the lowest position

6.16 FDI Forecast 2006 -10:

Bangladesh will rank 77th among the 82 countries in the global in terms of possible foreign direct investment inflow during the period 2006-10. The London based Economist Intelligence Unit in its report on “World Investment Prospects to 2010: Boom or Backlash?” has showed that Bangladesh will receive US\$ 0.6 billion FDI on an average a year during the period between 2006-2010, which is only 0.05% of the World’s total FDI share of US\$ 1.16 trillion, 22% higher than 2005. Bangladesh will be in the third position in the south Asian nations, while India will secure 19th and Pakistan in the 64th positioning the global ranking.

India will receive US\$ 11.6 billion FDI during 2006-2010 period on an annual average, which is 0.9% of total World FDI inflow, while Pakistan will receive US\$1.6 billion, which is 0.13% of total FDI inflow and Sri Lanka will receive US\$0.3 billion, which is 0.02% of total FDI inflow in the world. The report put USA on the top of the position receiving US\$ 298.1 billion on an average per year, which is 23.21 % of the total FDI inflow. Followed by U.K, China, France, the Netherlands, Germany, Canada, Belgium, Hong Kong, and Spain respectively. Interms of per head FDI inflow during 2006-2010 period Bangladesh will rank 81st position while it will attain 75th position interms of GDP percentage among 82 countries. China has been the main emerging market for FDI inflow in future, which will receive more than US\$80 billion in 2006 alone. Global FDI inflow is projected to grow at an annual average rate of 8%.

6. 17 FDI Harming Syndromes:

Recent data from Bangladesh Bank and the Board of Investment suggest that Bangladesh is more encountering pitfalls than any thing more positive by admitting FDIs without a proper evaluation of their impact on the economy. Reportedly between 2001 and 2005 foreign investors repatriated US\$ 2744 million, while the total FDI inflow in this period was US\$ 2185 million. That establishes that they have taken out more resources from Bangladesh than what they have pumped into it. FDIs are mainly concentrating in the services sectors than manufacturing sectors. Foreign mobile companies topped the list in repatriating in big bulk amounts. There is no reason to BLINDLY believe that FDIs are sacred and must be accepted.

There have been mixed feelings on the Asia Energy Corporation and TATA investment proposal in Bangladesh. Foreign investors are not one way streets that bring only resources to a country. While such investments initially cause inflow of resources, the longer term reverse process of outflow of resources needs to be considered while considering and allowing these investments. There can be no ground for cheer if FDIs create more resources to be pumped out of the country compared to what come into it. Some time FDIs inflow may be for fishing in muddy water, in a corrupt atmosphere, tax evasion, siphoning money to tax heavens, terrorist financing etc. The government of the day must take adequate care to safeguard the interest of the country. If they fail to do so they must be brought to book for financial compensation of the national loss.

The inflow of FDI seems to have created less than expected impact in propping up various sectors of the country. It appears to have been so as the turf was laid by the authorities only aiming at luring foreign investors, but they did not measure its trickle down effect on the economy. As a result, the net FDI outflow has almost superseded its inflow into the country. Still the rate of FDI flow into Bangladesh lags far behind in comparison to other countries in the region despite the offer of a package of lucrative incentives. In some years there was negative net inflow of FDI as the foreign investors took away more money than they pumped into the country through repatriation of profit/dividend, capital and payment to foreign banks and other sources of their funds. The principal aim to attract FDI should be to promote long term sustainable economic growth through labor intensive economic activities. Issues of advanced technology and its diffusion, strengthening of the country's comparative advantage in exports, help develop the country's capital market should be among other objectives.

The foreign investors are often keen to take loans from outside sources. So they have to remit more to outside the country in repayment of their loans creating pressure on the foreign exchange reserves. Foreign companies are often reluctant to mobilize funds internally or float shares in the domestic market.

FDI related outward remittance, 1995-2005(Calendar Year)

US\$ in Million

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Dividend/ Profit Repatriation	19	18	26	40	83	149	175	195	355	338	418
Inv liquidation/ Cap. Repatriation	0.3	-	0.6	0.1	2.9	0.5	0.5	2.6	2.2	10.5	3.3
Private debt amortization	20	34	84	53	168	227	188	243	229	372	208
Family Maintenance	0.99	0.74	1.41	1.56	1.92	2.43	1.84	2.82	4.19	4.72	2.58
Total Outward flow (A)	40.29	52.74	112.01	94.66	255.82	378.93	365.34	443.42	590.39	725.22	631.88
Gross FDI inflow including private outside loan (B)	106.3	267.6	610.3	668.5	455.1	703.6	568.5	573.3	466.2	545.4	927.3
Net Inflow/Outflow (B)-(A)	66.01	214.86	498.29	573.84	199.28	324.67	203.16	129.88	-124.19	-179.82	295.42

Source: Bangladesh Bank -Statistics Department

6.18 SME POLICY STRATEGY:

Though the statistics on small and medium enterprises ("SMEs") in Bangladesh are limited, their roles in the nation's economy, particularly in terms of employment generation, are well

recognized. A recent survey estimated that SMEs employ about 31 million people of 15 years and older, and contribute to 20 to 25 percent of GDP in Bangladesh. While SMEs face a number of constraints including natural disasters and insufficient infrastructure such as electricity and roads, access to finance is often cited as a major difficulty. The problem appears to be particularly serious in rural areas, where banks lend only about 10% of their portfolio. The thriving microfinance sector is yet to respond to the needs of SMEs, too big for traditional microfinance institutions but too small for the formal banking sector.

1. Accepting SME as an indispensable player in growth acceleration and poverty reduction, worth of its great potential and commitment in the requisite overall policy formulation and execution.
2. The SME policy strategies shall be embedded in a broad based and integrated manner, in the government's PRSP.
3. Encourage and induce private sector development and promote the growth of FDI, develop a code of ethics and establish good governance, ICT based knowledge managements and customer supremacy in the market
4. Identify and establish an appropriate physical and ICT network of infrastructure and institutional delivery mechanism that facilitate the promotion of SMEs.
5. Re-orient the existing fiscal and regulatory framework and government support institutions towards facilitating achievement of the goals of SME policy
6. Create innovative but meritocratic arrangements so that deserving and small enterprises with desired entrepreneurial track record and/or promise can be offered financial incentives within industries prescribed on some well agreed bases.
7. Help implement dispute settlement procedures that proactively shield small enterprises especially from high legal costs and insidious harassment, if any.
8. take measures to create avenues of mobilizing debt without collaterals in order to assist small enterprises in dealing with their pervasive lack of access to finance
9. Systematically accord precedence to small versus medium enterprises within the limitations of government's resources
10. Harness information and communications technologies, internet protocol based infrastructure and electronic governance in an effort to parley regulatory services, all kinds of useful information and mentoring inputs with an accent on increasing the viability of SMEs in all sectors of the economy.

7. Analysis of investments in EPZ and incentives for investment in EPZ

Industries in EPZ

There are eight export-processing zones in the country, and all zones are under the control of Bangladesh Export Processing Zones Authority (BEPZA). The whole EPZ is customs bonded area. Both local and foreign investors can invest in zones; Investors in EPZ are divided in three types, which are: types A for 100% foreign investors, type B for joint Venture between local and foreign investors and type C for 100% local investors. Both ready standard factory building (SFB) and ready plots are leased out by BEPZA to investors. Because of very high rentals of the building and lease status of plots, local investors are seldom interested to invest in EPZ.

Cumulative Scenario of Operating EPZs upto June 2006

EPZs	Units in Operation	Units Under Impl	Export(M US\$)	Investment in M US\$	Employment (local) in #
Chittagong	129	32	6901.53	508.82	104155
Dhaka	84	26	4861.83	420.98	64636
Comilla	12	22	49.90	40.93	5787
Mongla	11	18	22.67	2.87	300
Uttara	01	06	-	1.50	1250
Ishwardi	02	14	3.63	0.81	56
Adamjee	03	07	0.23	4.00	1625
Karnaphuli	-	05	-	-	-
Total	242	130	11839.80	979.89	177809

Performance for the FY 2005-06

Particulars	Amount in Crore Tk.	% of Export
Wages	673	5.23
Rental	92	0.71
Utility	172	1.33
Service Charge	541	4.21
DTA Goods	3338	25.98
Admin. Expenses	351	2.73
Telecom.	78	0.60
Surplus Retained by Local Investors	294	2.28
Total	5539	43.07

Total export equivalent to Tk. 12848 crore for the FY 2005-06
Countrywise number of Units in Operation:

Country	# of Units
South Korea	59
Bangladesh	57
China+Hong Kong	25
Japan	24
USA	12
U.K	10
India	13
Taiwan	10
Malaysia	06
Germany	04
Pakistan	04
The Netherlands	03
Singapore	02
British Virgin Islands	02
Panama	01
Denmark	01
Sweden	01
Italy	01
Belgium	01

Switzerland	01
France	01
Nepal	01
Thailand	01
Ireland	01
Canada	01

Total thirty countries are producing brand products and among the prominents are: Nike, Reebok, Lafuma, H&M (Sweden), GAP, J.C. Penny, Walmart, Kmart, OSPIG(Germany), Mother Care(U.K), Lee, Wrangler, Dockers, NBA, Tommy, Hilfier, Out Door, Adidas, Falcon(USA), EdieBauyer, Eagle,Raleigh(U.K), Emmilee, Free Spiril(U.K), Miles(Germany), Brouks, American Eagle, Hi-Tech(U.K), Decathlon.

Under Implementation;

Australia- Joint venture, Mauritius- Joint Venture, Sri Lanka, Indonesia and UAE- Joint Venture

7.1 Performance:

BEPZA so far sanctioned total 375 industries and 242 are already in operation and the rest 133 are in various stages of implementation. During the FY 2005-2006 enterprises exported goods worth US\$ 1836.18 million. This is the 6th year in a row that BEPZA's export earnings crossed the billion dollar mark. In the previous year about US\$ 113 million was added to capital investment and it generated employment for 23021 local people. After implementation of all the factories about 400000 people will be getting employment in the EPZs. The average industrial growth in the EPZs is 37%, while export growth in money value is about 86.20% and FDI in EPZs rose by 81.54%, employment generation has increased by 61.8% during the period in question. About 60% workers are female in the EPZs.

7.2 BEPZA Incentive Package:

- No ceiling on foreign joint venture and local investments
- tax holiday for 10 years
- no dividend tax during tax holiday period
- no double taxation
- duty free import of raw materials, equipment, machineries and construction materials
- duty free export of finished goods
- 10% sales facility in local market
- inter and intra zone export facilities
- sub-contracting inside and outside of EPZs
- relocation of existing foreign industries
- expatriates' tax exemption for three years
- providing plots and factory buildings with infrastructural and utility advantage
- single widow same day service
- customs formalities at factory gate
- import/export and work permit granted by BEPZA
- Support and Banking Services

For mere please see Annexure VIII-IX

Investment climate in Export Processing Zones (EPZ) is better than domestic tariff areas (DTA). Plots are in high demand only in Dhaka and Chittagong Export Processing Zones. But in spite of all these facilities Export Processing Zones in Mongla, Ishurdi and Uttara (in the Nilphamari district) are almost vacant even offering the rental at half of the normal rate.

Trade unionism is being opened in the export processing zones. The pattern of behaviors of trade union in Bangladesh and the recent violence in the Dhaka Export Processing Zone has made the investors panicky. Trade unionism will be fully opened in all export processing zones by the end of this year and the investors are panicky waiting to see what happens after full opening of the trade union activities.

There are some other problems in the EPZ, which need be addressed. Those are:

- ◆ The fixation of salary and wages in US dollar and conversion at different rates by different industries and for different months.
- ◆ The instruction to the investors for yearly 10% increment without proper is counter productive. The rule need be revised to make it pro-productive.
- ◆ Smuggling from inside the Zone with or without the knowledge of security and custom people is alleged. Sub-contracting out of the zone is a potential source of smuggling. Sub-contracting to and from the zone are made case to case basis. There are factories which gives sub-contract round the year.
- ◆ Sale of waste materials may be another source of smuggling out bonded goods. Waste materials which is commonly known as 'Jute' is purchased by local influential peoples/Mastans. So smuggling out bonded goods by them may not be difficult.
- ◆ Services in zone offices need be transparent.
- ◆ There is no system of local selling of defective goods produced in the factories in EPZs. So, the investors face problem in the disposal of those goods.

8. Role of BOI in Attracting and Influencing FDI

8.1 Major functions:

- a. Undertaking investment promotion activities at home and abroad
- b. Providing all types of facilities for promotion of capital investment and rapid industrialization
- c. Registration of industrial projects as well as royalty, technical know-how and technical assistance agreements wherever required
- d. Approval of payment of royalty, technical know-how and technical assistance fees to foreign nationals/organizations beyond the prescribed limits
- e. Issuing work permit to expatriate personnel working in private sector industrial enterprises
- f. Providing import facilities to industrial units in the private sector
- g. Approval of the terms and conditions of foreign private loan and suppliers' credit
- h. Conciliation of disputes relating to foreign investors
- I. Providing assistance to obtain infrastructure facilities

8.2 One Stop Service Center:

The infrastructure and institutional support service that are available with the One Stop Service Centre at the Board of Investment are:

- a) pre investment counseling
- b) electricity connection
- c) gas connection
- d) water and sewerage connection
- e) telecommunication facilities
- f) solution of problems in case of any difficulty arising in clearing imported machinery under concessional rate of import duty and obtaining bonded warehouse license
- g) environmental clearance

Sectorwise FDI Composition in 2005 is as under:

Sector	Investment Percentage
Telecommunications	33
Manufacturing	26
Energy	25
Trade & Commerce	15

FDI Registration in 2006-07 FY is as under:

Month	Amount in Tk. billion
July	2.066
August	2.327
September	78.387
October	2.30
November	1.128

Although FDI position is of declining trend but still it is maintained that by the end of the current FY the country will be able to achieve BOI FDI target of US\$ 1.0 billion.

8.3 Incentives for the Investors:

Tax holiday:

Tax holiday facilities are available for 5 or 7 years depending on location of the industrial enterprise.

Accelerated depreciation:

Industrial undertakings not enjoying tax holiday will enjoy accelerated depreciation allowance.

9. Governance Conundrum:

It is widely argued that a country's economic performance over time is determined to a great extent by its political, institutional and legal environment (OECD, 2001). We refer to these institutions and policies as the governance infrastructure of a country. The governance infrastructure of a country helps to define its investment environment, and thus creates favorable conditions for economic growth. Recent empirical evidence tends to confirm the hypothesis that cross-country differences in growth and productivity are related to differences in governance infrastructure.

Governance infrastructure is not the only infrastructure that can contribute to economic well being and create a favorable climate for FDI. Investments in human capital, physical infrastructure and the environment may also be important. In the context of FDI, the absence of educated and healthy workers can pose a significant deterrent to foreign entry. As increasing amounts of FDI becomes skill- and efficiency-seeking, access to an educated and skilled workforce becomes essential. There is evidence that a more highly educated populace does in fact attract FDI (Mody and Srinivasan, 1998), but the role of health has to our knowledge not been explored. Similarly, environmental regulation may increase the costs of doing business and thus deter FDI. On the other hand, a clean environment may be associated with a higher quality of life, and thus attract FDI.

9.1 Concept of Governance :

Good Governance is epitomized by predictable open and enlightened policy making, a bureaucracy imbued with a professional ethos acting in furtherance of the public good, the rule of law, transparent processes, and a strong civil society participating in public affairs. Poor governance on the other hand is characterized by arbitrary policy making, unaccountable bureaucracies, unenforced or unjust legal systems, the abuse of executive power, a civil society unengaged in public life, and widespread corruption.—World Bank

9.2 Corporate Governance in Bangladesh:

A 5 member task force including the President of DCCI has been formed to advocate on the issues related to corporate governance and corporate social responsibility. The advocacy task force has been formed under an initiative of the management and resources development initiative (MRDI) supported by the Manusher Jonno Foundation. It is expected that the initiative will help bridge the gap between the corporate sector and the media. The task force will work on internal governance, disclosure and compliance issues, public affairs relations and corporate social responsibility issues and also promote corporate governance and CSR issues through media. The task force has primarily identified some stakeholders with whom it will hold advocacy meetings to improve the existing corporate governance situation and make the corporate bodies more responsive towards the society.

After the issue of Corporate Governance Guidelines on February 20, 2006 by the Security and Exchange Commission an analysis was made which reads as under:

Out of one hundred and eleven companies that held AGM after the SEC notification of Corporate Governance Guidelines in 11 industrial sectors seventy(63%) companies furnished compliance reporting in the Directors' report in annual report. Forty one companies(37%) did not provide any reporting on the status of corporate governance. Out of seventy companies that provided compliance reporting fifty eight(83%) complied with the conditions and only 23(33%) reported to have complied with the provision of independent director. The remaining 47 companies(67%) provided explanation(s) for non-compliance. However, companies are in the process of making necessary amendment of their Article(Qualification of Director)by EGM.

9.3 Characteristics of Good Governance:

4. participatory
5. sustainable
6. legitimate and acceptable to the people

7. transparent
8. able to develop the resources and methods of governance
9. promotes gender balance
10. tolerates and accepts diverse perspectives
11. able to mobilize resources for social purposes
12. strengthens indigenous mechanisms
13. operates by rule of law
14. efficient and effective in the use of resources
15. engenders and commands respect and trust
16. accountable
17. able to define and take ownership of national solutions
18. enabling and facilitative
19. regulatory rather than controlling
20. able to deal with temporal issues
21. service oriented

9.4 Governance Indicators:

- Voice and Accountability
- Political Stability and Absence of Violence
- Government Effectiveness
- Regulatory Quality
- Rule of Law
- Control of Corruption

9.5 Protecting Investors: Corporate Governance:

Enron, WorldCom, Bank of Credit and Commerce International are high profile cases of failures in corporate governance in rich countries. But good corporate governance is just as relevant for entrepreneurs in poor countries that seek equity from business partners . Potential investors everywhere worry about expropriation by controlling owners or managers .Whether in rich or poor countries, the same principles of good corporate governance apply.

The database presents an index of disclosure that captures sever ways of enhancing disclosure: whether laws and regulations require reporting (i) family (ii) indirect and (iii) beneficial ownership; (iv) disclosing information on voting agreements between shareholders; (v) audit committees reporting to the board of directors; (vi) use of external auditors; and (vii) ownership and financial information is publicly available to all current and potential investors. The index varies between 0 and 7, with higher values indicating more disclosure .

10. Foreign Exchange Reserve and NRB Remittance:

There are three components to worker remittances: (i) "labor income" classified under net factor services in balance of payments accounts, (ii) "worker remittances" listed under unrequited private transfers in the balance of payments accounts and (iii) "migrant transfers" also listed under unrequited private transfers. "Labor income" consists of income earned by migrants working abroad for less than one year. "Worker remittances" consist of income earned by migrants who have been abroad for more than one year. Each component can be either a credit or a debit item in the balance of payments accounts. Many developing

countries both receive migrants from other countries and export migrant labor abroad. Hence some countries are net recipients of remittances from abroad whereas others are net payers.

Low earning causes low savings and ultimately low capital formation for investment. Such is the case in Bangladesh. So, Bangladesh needs government investment in the infrastructure sector like power, electricity, telecommunication, mass communication etc. and foreign direct investment (FDI) in the private sector. Improper macro economic policy deprived the country of proper investment of about 5 billion dollars annual foreign currency remitted by the non-resident Bangladesh (NRB). Most of this fund is being used in non-productive sectors, which creates tremendous pressure on the scarce land of the country and on the price level. A large portion of this hard earned foreign currency is being sent abroad legally and illegally in different ways.

Forex reserve increased to US\$ 4.00 billion in January 2007. The reasons for increase of reserve re due to increased receipt of export proceeds by 22 percent, against a lower import by 11 percent coupled with repayments of foreign currency loans by commercial banks simultaneously and increase of remittance by 30 percent in the first half of the current fiscal year. The remittance from NRB has never been properly utilized either for industrial development or for any other collective greater national interest, other than individual investment mostly in the real estate sector. This kind of NRB remittance has also increased the price of goods and services. If the NRB remittances could be properly utilized in the industrial development the country could see a consistent industrial growth of about 12% per annum and increasing the GDP by about 2% more per annum. This could in-turn increase primary employment opportunity by about 4% per annum and secondary employment by 6% per annum. The recent trend in increase in foreign remittance is also for meeting the national election expenses of the politicians, exports and eid-u-adhal. In July-December 2006 remittance rose to US\$ 2840 million compared to US\$ 2178 million over the same period of the last fiscal year.

11. Recommendations:

1. **Infrastructure**: Government will have to take all out effort to develop infrastructure facilities. Problems of port, ware house, gas, water supply, transport and communication. Deep Sea port is an urgent requirement.
2. **Problem of bureaucratic complexity**: BOI should offer a complete package of facilities for the foreign investors. As a result they do not have to face unnecessary harassment and they will be able to save money and time while registration of investment.
3. **Confrontational politics**: Political consensus among politicians is essential for FDI inflow in Bangladesh. Foreign investors seriously considers political stability while investment in any country. Investment is a long term venture, it requires security for investment.
4. **Continuity of policies**: There must be the continuity of policies by successive governments which is prerequisite for investment.
5. **Skilled labor force**: If Bangladesh wants to elevate its position in the world as an FDI destination, it has to raise the skill of its labor force.
6. **Reduce corruption**: Corruption is the single most difficult problem for FDI in Bangladesh and it must be reduced immediately.
7. **Burden of Excessive Regulations**: Regulation must be reduced to its minimum requirement and simplified to. Ensure transparency and good governance
8. **Improved law and order**: It is one of the pre-conditions for FDI sustainability

9. **Corporate Tax** in Bangladesh, being 37.5% **TO CHECK??** for general enterprises (not listed in the Stock Exchange), is one of the highest in Asia.
10. **More attractive incentives** are to be offered comparing to those given by China, Vietnam and the other ASEAN countries. The tax holiday in the Export Processing Zones of Iran is for 15 years, that in the Jebel Ali Free Zone of Dubai is for 40 years and it is for unlimited period in the Free Zone of Egypt.
11. **Reduce lending rate of Interest** to single digit compared to other competing countries (e.g: project loan interest-7%, Working Capital loan interest-8%, Export credit interest- 5%)
12. Good Governance and Clear accountability of government officials with reward and financial punishment provisions for financial crimes
13. Strengthening anti dumping efforts & Introduction of counter veiling duties
14. Simplification of tax and all other trade related laws

12. Conclusion

Limit of repatriation of profit and encourage participation of Bangladeshis in equity. During the period 2001-2005 foreign investors have repatriated their profit amounting to US\$ 218 crore against investment of US\$ 274.4 crore and from 1996-2005 profit of US\$ 362.6 crore (81%) was repatriated against investment of US\$ 445.7 crore. Of this amount 36% was repatriated in telecommunication sector, 18% in textile sector, 7 % in chemical industries, 18% in energy sector, 10% in banking, 2% in electricity generation. Under the above corollary foreign investors can take out their total investment in about 6 years time. There must be an analysis of benefit of for the country interms of employment generation, tax, duty and VAT revenue income, and appears to be inadequate. Adequate participation of Bangladeshis in the form of joint venture will ensure having more profit within the country.

Limiting repatriation of capital gain:

Capital gain is a non-operational income and almost is an windfall income and should not be allowed to be repatriated before elapse of at least 10 years from the date of commercial operation. Presently capital gain can be repatriated at any time.

Pricing of energy:

Since land and many other infrastructural facilities are given to foreign investors at no cost or little cost, energy pricing should also be at per with local companies and the agreement must not be executed at the cost of the country. Asia Energy is a bitter example of such imbalanced agreement among others.

Nation Branding:

It is an art of promoting and projecting the own country in a fare and balanced way. It is a field of theory and practice that aims to measure, build and manage the reputation of a country. If a nation really wants to change its brand image, it must learn to behave differently. The 'nation brand hexagon' of governance, culture, people, products, tourism and trade and investment promotion—needs to be harmonized around a single, clear, visionary strategy for positioning the nation competitively.

Annexure -I

Global FDI Inflows (billions \$US)

	1997	1998	1999 2000		2001	2002	2003(e)
World Total	482	686	1,079	1,393	824	651	630
annual% change	24.9	42.3	57.3	29.1	-40.8	-21.0	-3.2
Developed Countries	270	471	825	1,121	589	460	450
annual % change	22.7	74.4	75.2	35.9	-47.5	-21.9	-2.2
share of total (%)	56.0	68.7	76.5	80.5	71.5	70.7	71.4
Developing Countries	212	215	254	272	235	191	180
annual % change	27.7	1.4	18.1	7.1	-13.6	-18.7	-5.8
share of total (%)	44.0	31.3	23.5	19.5	28.5	29.3	28.6

Source: UNCTAD World Investment Report, 2003.

Annexure -II

Bangladesh at a glance

POVERTY and SOCIAL	Bangladesh	South Asia
2005		
Population, mid-year(millions)	141.8	1,470
GNI per capita(Atlas-method, US\$)	470	684
GNI (Atlas method, US\$ billions)	66.7	1,005
Average annual growth,1999-05		
Population (%)	1.9	1.7
Labor force (%)	2.2	2.1
Most recent estimate (latest year available, 1999-05)		
Poverty (% of population below national poverty line)	50	..
Urban population (% of total population)	25	29
Life expectancy at birth(years)	63	63
Infant mortality(per 1,000 live births)	56	66
Child malnutrition (% of children under 5)	48	45
Access to an improved water source(% of population)	74	84
Literacy (% of population age 15+)	..	60
Gross primary enrollment(% of school-age population)	109	110
Male	107	116

STRUCTURE of the ECONOMY				
(% of GDP)	1985	1995	2004	2005
Agriculture	32.8	26.4	21.0	20.1
Industry	21.4	24.6	26.6	27.2
Manufacturing	14.2	15.3	16.1	16.5
Services	45.8	49.1	52.4	52.6
Household final consumption expenditure	87.2	82.7	75.8	76.4
General gov't final consumption	4.2	4.6	5.5	5.5

expenditure				
Imports of goods and services	13.2	17.3	20.8	23.0
	1985-95	1995-05	2004	2005
(average annual growth)				
Agriculture	2.2	3.8	4.1	2.2
Industry	6.03	6.08	7.6	8.3
Manufacturing	6.3	6.0	7.1	8.2
Services	3.7	5.3	5.7	6.4
Household final consumption expenditure	3.2	3.3	4.6	5.1
General gov't consumption expenditure	4.0	7.4	10.7	7.8
Gross capital formation	6.3	8.9	9.2	10.7
Imports of goods and services	5.6	5.0	10.6	19.1

PRICES and GOVERNMENT FINANCE				
	1985	1995	2004	2005
Domestic Prices(% change)				
Consumer prices	..	10.2	3.2	
Implicit GDP deflator	11.1	7.3	4.2	5.1
Government Finance				
Current revenue(% of GDP, includes current grants)	6.2	9.3	10.2	10.5
Current budget balance	1.0	2.5	2.4	2.1
Overall surplus/deficit	-6.6	-5.2	-4.0	-3.8
TRADE				
	1985	1995	2004	2005
(US\$ millions)				
Total exports (fob)	940	3,473	7,521	8,573
Raw jute	151	79
Leather and leather products	70	225
Manufactures	571	2,830	6,529	7,530
Total imports (cif)	2,647	5,834	9,840	11,870
Food	607	499
Fuel and energy	359	209	1,074	..
Capital goods	691	1,480	3,865	4,342
Export price index (2000=100)	41	83	115	119
Import price index (2000=100)	44	77	130	134
Terms of trade(2000=100)	95	108	89	89

BALANCE of PAYMENTS				
(US\$ millions)	1985	1995	2004	2005
Exports of goods and services	1,162	4,130	8,445	9,750
Imports of goods and services	2,864	6,580	11,638	13,917
Resource balance	-1,702	-2,450	-3,193	-4,167
Net income	-90	-41	-374	-641
Net current transfers	1,178	1,827	3,743	4,290
Current account balance	-613	-664	176	-518
Financing items(net)	536	1,116	-5	679
Changes in net reserves	77	-452	-171	-161
Memo:				
Reserved including gold (US\$ millions)	..	3,007	2,703	2,929
Conversion rate (DEC, local/US\$)	26.0	40.2	58.8	61.8

EXTERNAL DEBT and RESOURCE FLOWS				
(US\$ millions)	1985	1995	2004	2005
Total debt outstanding and disbursed	6,658	15,927	20,344	..
IBRD	55	55	0	0
IDA	2,021	5,638	8,895	8,688
Total debt service	332	780	675	..
IBRD	3	8	8	0
IDA	22	84	209	223
Composition of net resource flows				
Official grants	472	693	822	..
Official creditors	548	254	557	..
Private creditors	-5	-21	-16	..
Foreign direct investment (net inflows)	0	2	449	..
Portfolio equity (net inflows)	0	-15	4	..
World Bank program				
Commitments	378	359	707	..
Disbursements	279	198	615	547
Principle repayments	6	46	148	153
Net flows	273	152	467	394
Interest payments	19	46	68	70
Net transfers	254	106	399	325s

The World Bank Group: This table was prepared by country unit staff. 9/15/06

Sectoral Distribution of FDI during 2004

Sector	BOI Registered	BEPZA Institutions	Financial Institutions	Total	Sectoral Share	Sectoral Rank
	In million US\$	In million US\$	In million US\$	In million US\$	In million US\$	In million US\$
Service	374.252	0.354	66.518	441.124	66.76%	-
Telecom	237.410	-	-	237.410	35.93%	1
Energy & Power	133.045	-	-	133.045	20.13%	2
Power Gen	15.676	-	-	15.676	2.37%	-
Oil, Gas & Coal	117.369	-	-	117.369	17.76%	-
Other services	3.797	0.354	66.518	70.669	10.69%	4
Financial Institutions	-	-	66.518	66.518	10.07%	-
Others	3.797	0.354	-	4.151	0.63%	-
Manufacturing	55.676	151.146	-	206.822	31.30%	-
Textile	14.995	101.893	-	116.888	17.69%	3
Chemical	19.681	27.642	-	47.323	7.16%	5
Leather & Rubber	8.666	10.026	-	18.692	2.83%	6
Agro-based	7.284	1.752	-	9.036	1.37%	9
Food & Allied	3.212	-	-	3.212	0.49%	10
Glass & ceramics	1.280	-	-	1.280	0.19%	11
Printing & Publication	0.558	-	-	0.558	0.08%	12
Misc/NEC	-	9.833	-	9.833	1.49%	8
Engineering	0.771	12.089	-	12.860	1.95%	7
Total	430.699	163.589	66.518	660.806	100%	

Source: BOI the 4th FDI inflow survey

Annexure-IV

FDI Inflows, by host region and economy, 1992-2003 (Millions of Dollars)

Areas	1992-1997 Annual Average	1998	1999	2000	2001	2002	2003
World	310 879	690 905	1086750	1387953	817574	678751	559576
Developed Countries	180750	472545	828352	1107987	571483	489907	366573
Western Europe	100796	263016	500045	697436	368828	380245	310235
EU	95845	249931	479372	671417	357441	374000	295154
Central Asia	1551	3013	2511	1890	3527	4503	6073
South, East and South East Asia	69 609	92136	109115	142683	102228	86326	96915
Western Europe	4950	13086	20673	26019	11387	6245	15080
South Asia:							
Bangladesh	31	190	180	280	79	52	121
Bhutan							
India	1676	2633	2168	2319	3403	3449	4269
Maldives	8	12	12	13	12	12	12
Nepal	11	12	4	-	21	2	30
Pakistan	577	507	530	305	385	823	1405
Sri Lanka	168	150	201	175	82	197	229
Total							

Source: World Investment Report 2004

Annexure -V

FDI Inflow in Bangladesh in 2004 by source country and their ranking

FDI	BOI Registered		Registered		Financial Institutions		Total FDI		Country Rank	
	Project	US\$ Mil.	Project	US\$ Mil.	Project	US\$ Mil.	Project	US\$ Mil.	%	Position
Developed Economies	38	325.798	38	49.745	7	42.718	83	418.264	63.30%	-
Western Europe	20	265.622	19	13.016	4	29.189	43	298.827	45.22%	-
European Union	18	77.102	18	12.640	4	29.189	40	118.831	18.00%	-
Belgium	-	-	1	0.130	-	-	1	0.130	0.02%	28
Denmark	2	0.496	-	-	-	-	2	0.496	0.08%	24
France	2	1.937	1	0.211	-	-	3	2.148	0.33%	21
Germany	1	0.006	2	3.145	-	-	3	3.151	0.48%	19
Ireland	1	0.189	-	-	-	-	1	0.189	0.03%	25
Italy	-	-	1	0.105	-	-	1	0.105	0.02%	28
Sweden	-	-	1	0.793	-	-	1	0.793	0.12%	22
The Netherlands	1	0.162	3	3.524	1	0.761	5	4.447	0.67%	17
U.K.	11	74.312	9	4.752	3	28.428	23	107.472	16.26%	2
Other Western Europe	2	179.520	1	0.376	-	-	3	179.896	27.22%	-
Norway	1	175.700	-	-	-	-	1	175.700	28.59%	1
Switzerland	1	3.820	1	0.376	-	-	2	4.196	0.63%	18
North America	10	67.641	5	7.213	2	13.207	17	88.061	13.33%	-
Canada	3	26.993	-	-	-	-	3	26.993	4.08%	9
U.S.A.	7	40.648	5	7.213	2	13.207	14	61.376	9.24%	3
Other Developed Economies	8	1.535	14	29.519	1	0.322	23	31.376	4.75%	-
Australia	3	0.120	-	-	-	-	3	0.120	0.02%	27
Japan	4	1.355	14	29.519	1	0.322	19	31.196	4.72%	8
New Zealand	1	0.060	-	-	-	-	1	0.060	0.01%	29
Developing Economies	53	104.901	78	113.841	8	23.800	138	242.542	36.70%	-
Africa	1	19.960	-	-	-	-	1	19.960	3.02%	-
Egypt	1	19.960	-	-	-	-	1	19.960	3.02%	10
Latin America & the Caribbean	-	-	1	0.526	-	-	1	0.516	0.08%	-

Other Latin America & Caribbean	-	-	1	0.516	-	-	1	0.516	0.08	-
Panama	-	-	77	0.516	-	-	1	0.516	0.08	23
Asia & the Pacific	-	84.941	77	112.325	8	23.800	137	222.066	33.61	-
Asia	52	84.941	-	113.325	8	23.800	137	222.065	33.61	-
West Asia	5	14.115	-	-	-	-	5	14.115	2.14	-
Saudi Arabia	1	2.821	-	-	-	-	1	2.821	0.43	20
U.A.E.	4	11.294	-	-	-	-	4	11.294	1.71	12
South, East & South-East Asia	47	70.826	77	113.325	8	23.800	132	207.951	31.47	-
China	9	8.101	1	1.927	-	-	10	10.028	1.52	13
Hong Kong	4	3.042	12	22.120	2	7.356	18	32.519	4.92	6
India	7	3.295	9	2.129	2	7.100	18	12.524	1.90	11
Malaysia	5	44.485	3	0.448	-	-	8	44.933	6.80	5
Pakistan	1	0.038	2	0.722	1	3.739	4	4.499	0.68	16
Singapore	2	3.737	1	1.853	-	-	3	5.590	0.85	14
South Korea	11	4.458	36	53.831	1	2.040	48	60.329	9.13	4
Sri Lanka	3	1.519	-	-	2	3.565	5	5.084	0.77	15
Taiwan	4	2.091	13	30.295	-	-	17	32.386	4.90	7
Thailand	1	0.060	-	-	-	-	1	0.060	0.01	30
Total FDI Inflow in 2004	91	430.889	116	163.589	15	66.518	222	660.806	100%	-

Annexure -VI

Investment Registration Statistics:

Distribution of Private Investment Project (Local and Foreign with BOI from FY 1991 -92 to FY 2003-2004)in Million US \$

Fiscal year	Local Investment	Foreign Investment	Total	Growth (%)
1991-1992	91	25	116	-
1992-1993	90	53	143	23%
1993-1994	457	804	1,261	782%
1994-1995	846	730	1,576	25%
1995-1996	1,171	1,516	2,687	70%
1996-1997	1,108	1,054	2,162	-20%
1997-1998	1,137	3,440	4,577	112%
1998-1999	1,183	1,926	3,109	-32%
1999-2000	1,324	2,119	3,443	11%
2000-2001	1,420	1,271	2,691	-22%
2001-2002	1,531	302	1,833	-32%
2002-2003	2,027	368	2,395	31%
2003-2004	1,522	390	1,912	29%
2004-2005		3,810		
2005-2006		211		

Annexure -VII

Group sector-wise Foreign Investment Projects Registered with BOI during the period from 1971 (pre-liberation) to June, 2006

Group Name	No. of Units	Investment (In Mill. Tk.)	Investment (In Mill US\$)	Employment
Agro- based	211	31,170	704	39,227
Food and allied	95	4,416	96	5,564
Textile	379	69,586	1,516	123,618
Printing & Packaging	33	1,280	26	2,407
Tannery & Rubber Product	63	6,018	170	15,591
Chemicals	296	269,330	5,117	28,338
Gas & Ceramics	34	3,964	83	2,862
Engineering	270	29,470	627	22,620
Service	436	597,974	11,716	87,599
Miscellaneous	18	444	10	1,352
Grand Total	1,835	1,014,353	20,065	329,178

Calendar year-wise Foreign Investment Projects Registered with BOI during the period 1971 (pre-liberation) to June, 2006

Employment Generated in EPZs

Year	No. of units	Investment (In Mill. Tk.)	Investment (In Mill US\$)	Employment
1971 (pre- liberation)	24	750	95	1,043
1977	4	33	7	120
1979	3	152	10	260
1980	11	132	9	417
1981	5	56	3	170
1982	8	527	23	745
1983	5	723	30	180
1984	8	284	10	289
1985	9	398	14	380
1986	8	185	6	331
1987	17	3,655	117	780
1988	17	2,893	90	637
1989	11	2,677	83	622
1990	34	4,136	119	1,593
1991	25	64	17	1,404
1992	22	3,543	89	1,926
1993	34	1,825	46	1,651
1994	170	43,317	1,083	10,111
1995	133	63,976	1,535	6,581
1996	120	36,365	871	20,694
1997	138	158,542	3,106	28,997
1998	160	210,856	4,593	47,929
1999	147	35,894	727	35,706
2000	101	82,252	1,642	11,182
2001	77	22,420	406	11,684
2002	104	21,013	365	23,031
2003	125	26,617	462	28,772
2004	119	28,678	487	34,307
2005	132	247,234	3,810	36,757
2006	64	14,585	211	21,059
Total	1,835	1,014,353	20,065	329,178

Annexure-IX

INVESTMENT (In million US\$):

Year	EPZ-Ctg.	EPZ-Dhk	EPZ-Mon	EPZ-Com	EPZ-Utra	EPZ-Isd	EPZ-Admj	TOTAL
1983-84	0.87	-	-	-	-	-	-	0.87
1984-85	1.60	-	-	-	-	-	-	1.60
1985-86	3.60	-	-	-	-	-	-	3.60
1986-87	6.63	-	-	-	-	-	-	6.63
1987-88	1.79	-	-	-	-	-	-	1.79
1988-89	2.72	-	-	-	-	-	-	2.72
1989-90	8.58	-	-	-	-	-	-	8.58
1990-91	22.05	-	-	-	-	-	-	22.05
1991-92	23.66	-	-	-	-	-	-	23.66
1992-93	22.05	-	-	-	-	-	-	22.05
1993-94	29.18	8.22	-	-	-	-	-	37.41
1994-95	27.67	8.27	-	-	-	-	-	35.93
1995-96	16.13	14.46	-	-	-	-	-	30.58
1996-97	22.89	31.01	-	-	-	-	-	53.90
1997-98	42.59	26.24	-	-	-	-	-	68.83
1998-99	36.11	35.50	-	-	-	-	-	71.61
1999-00	15.18	19.80	-	-	-	-	-	34.98
2000-01	24.30	24.06	0.05	-	-	-	-	48.41
2001-02	22.37	32.01	0.43	0.64	0.16	0.00	-	55.61
2002-03	42.14	59.14	0.11	1.05	0.20	0.00	-	102.63
2003-04	55.43	49.36	0.80	9.03	0.42	0.00	-	115.04
2004-05	45.31	51.35	1.49	19.59	0.72	0.05	-	118.52
2005-06 (Jul-Jun)	35.95	61.57	0.00	10.62	0.00	0.76	4.00	112.89
TOTAL	508.82	420.98	2.87	40.93	1.50	0.81	4.00	979.89