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Foreign Direct Investment and Employment Generation for Host Country: An Analysis on Service Sector *of* Bangladesh

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Abstract: *The concern of Foreign Direct Investment (FDI) has been an exponential factor for the purpose of continuing economic growth and employment generation; Bangladesh is not lagging behind in this respect. Host country can make a sustainable growth and explore the potential of raising the productivity in the free market economy by resource transfer effect, employment effect, the balance-of-payment effect and the effect on competition and economic growth. The major challenge for the host country is to ensure the business environment that must be conducive. The whole analysis is mainly based on secondary data. In recent years, Bangladesh has been devoting efforts for attracting FDI offering in service sector with manifold compelling incentives and benefit but the result achieved is not appreciable enough for Bangladesh. Trade liberalization helps to escalate the FDI in service sector in Bangladesh excluding relevant problems like poor infrastructure, bureaucratic problems, land acquisitions and decrepit policies and programs regarding taxing situation. The study reveals that for the continuation of FDI in service sector and guaranteeing employment growth the country should reform the trade policy, industrial policy, monetary and fiscal policy, exchange rate policy and political reconciliation.*

Keywords: *FDI, Host Country, Resource Transfer Effect, Employment Effect, The Balance-of-Payment Effect, Trade Policy, Exchange Rate Policy, Political Reconciliation*.

1 Introduction

At the macro–level, FDI is a non-debt-creating source of additional external finances. This might boost the overall output, employment and exports of an economy. At the micro-level, the effects of FDI need to be analyzed for changes that might occur at the sector-level output, employment and forward and backward linkages with other sectors of the economy. The rapid expansion of FDI by multinational enterprises (MNEs) since the mid-eighties may be attributed to significant changes in technologies, liberalization of trade and investment regimes, and deregulation and privatization of markets in many countries including developing countries like Bangladesh. Foreign direct investment (FDI) plays a complementary role in overall capital formation by filling the gap between domestic savings and investment. There has been an expectation that foreign investors would bring not only new technology and capital, which would accelerate structural changes, but would also maintain employment. Foreign direct investment can increase competition in a national market, thereby driving down prices and increasing the economic welfare of consumers. In the long term this FDI increased productivity growth, product and process innovations and greater economic growth. Trade liberalization definitely helps to escalate the FDI but relevant problems like poor infrastructure enable to create impediment of FDI and making an adverse effect on employment generation in least developing country like Bangladesh.

1.1 Objectives

1. To determine the condition of FDI and employment generation in service sector in Bangladesh.
2. To address the potentiality and constraints of investment in service sector in Bangladesh.
3. To analysis the current business environment in Bangladesh and how it can affect the investment in service sector in Bangladesh.

1.2 Research Methodology

The study has been conducted mainly on the basis of literature survey and secondary information. Various seminar papers and summary of discussion in those seminars, taskforce reports of research organization, journals and some periodicals on business environment related journals have been surveyed. For the purpose of analysis we really focus on the report of foreign direct investment by the Board of Investment (BoI) from 1990 to 2010. Based on the secondary information, we strive to verify the overall condition of FDI in Bangladesh in service sector.

2 Literature Review

FDI plays a multidimensional role in the overall development of host economies. It is widely discussed in the literature that, besides capital flows, FDI generates considerable benefits. These include employment generation, the acquisition of new technology and knowledge, human capital development, contribution to international trade integration, creation of a more competitive business environment and enhanced domestic enterprise development, flows of ideas and global best practice standards and increased tax revenues from corporate profits generated by FDI (Klein et al., 2001; Tambunan, 2005).
In Bangladesh due to the trade liberalization and having the low labor cost, this country received a significant amount of FDI, but it being interrupted due to poor infrastructure, poor economic policy and programme. The costs to the host economy can arise from the market power of large firms and their associated ability to generate very high profits or by domestic political interference by multinational corporations. But the empirical evidence shows that the negative effects from FDI are inconclusive, while the evidence of positive effects is overwhelming, i.e., its net positive effect on economic welfare (Graham, 1995). FDI tends to expand the local market, attracting large domestic private investment. This "crowding in" effect creates additional employment in the economy (Jenkins and Thomas, 2002). FDI also tends to improve the productive efficiency of resource allocation by facilitating the transfer of resources across different sectors of the economy. But the pattern and nature of the growth process in an economy also assumes importance. It has been found that FDI had a positive impact on poverty reduction in areas where the concentration of labour-intensive industries was relatively high (Jalilian and Weiss, 2001; Doanh, 2002). However, a higher level of investment accelerates economic growth, showing wider positive effects across the economy. Tambunan (2005) found that FDI has positive effects on poverty reduction mainly through three important ways, viz., labour-intensive growth with export growth as the most important engine; technological innovation and knowledge spill-over effects from FDI-based firms on the local economy; and poverty alleviation programmes or projects financed by tax revenues collected from

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FDI-based firms. Recent reviews by Morris (2004) clearly point to positive direct (intra-firm) effects of FDI on human capital through technology and capital investment in host economies. Transfer of technology from the parent company induces demand from the local affiliate for skilled labour.

A fair conclusion is reached by Borenzstein et al. (1998) who point out that:

> "FDI inflows have improved the overall growth potential of the recipient economies, but primarily through productivity improvements within the foreign affiliates themselves, rather than through increased capital investment, or technology spillovers to domestic firms".

However, the host country's policies and institutions, the quality of investment, the nature of the regulatory framework and the flexibility of labour markets are important to attain the expected benefits from FDI (Melo, 1999; Klein et al., 2001). So in Bangladesh there is an immense potential to attract the investment but related grounds need to be transformed.

3 FDI Trends in Bangladesh

Bangladesh is a developing country, in Bangladesh there are multifarious crises even though this country has enough potential to attract the foreign investors to invest in Bangladesh. In the year 2010, Bangladesh has attracted US$913 million, a leap by 30 percent and also upgrading the position to 114 from 119 out of 141 nations, according to the world Investment Report (WIR). The Telecom sector has received $360 million FDI, while the manufacturing sector has also attained $238 million in investment. Singapore ranked top by investing $317.19 million in Bangladesh in the year of 2010, whereas UK enjoy second with $105.68 million investment, the Netherlands third with $64.92 million, Hong Kong fourth with $63.84 million, USA fifth with $56.95 million and India sixth by investing $43.19 million. In the year of 2010, the total FDI inflow and outflow in the world has reached $1243671million and $1323337 million respectively whereas Bangladesh has reached inflow and out flow $913 and $15 million. Here the table shows FDI flows for the last three years:

Table-1: FDI Overviews in Selected Years

(Amount in Millions of Dollars)

Country/Region	FDI Flows	2008	2009	2010
Bangladesh	Inward	1086	700	913
	Outward	9	29	15
India	Inward	42,546	35,649	24,640
	Outward	19,397	15,929	14,626
South Asia	Inward	51,901	42,458	31,954
	Outward	19,897	16,405	15,079
Developing Economy	Inward	658002	510578	573568
	Outward	308891	270750	327564
World	Inward	1744101	1185030	1243671
	Outward	1910509	1170527	1323337

Source: World Investment Report (WIR) of a United Nation's Agency

In the year 2010, the stock of FDI inward and outward has reached $6072 and $100 million respectively which ensures a 20% increase over the year 2008.

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4 Foreign Direct Investment Policy

- Tax exemption on royalties, technical knowhow and technical assistance fees and facilities for their repatriations Tax exemption on interests on foreign loans.
- Tax exemptions on capital gains from transfer of shares by the investing company.
- Remittances of up to 50% of salaries of the foreigners employed in Bangladesh and facilities for repatriation of their savings and retirement benefits at the time of their return.
- No restrictions on issuance of work permits to project related foreign nationals and employees.
- Facilities for repatriation of invested capital, profits and dividends.
- Provision of transfer of shares held by foreign share holders to local investors.
- 'Taka' the Bangladesh currency would be convertible for international payments for the foreign investors.
- Reinvestment of remittable dividends would be treated as new investment.
- Level playing field: foreign owned companies duly registered in Bangladesh will be on the same footing as locally owned ones.
- Foreign investment in Bangladesh is secure and highly profitable.

5 Business Environment in Bangladesh

Moody’s and Standard & Poor’s have assigned Ba3 and BB- which really encouraging sign for Bangladesh in the global market. The position of Bangladesh has just behind India in the sub-region .Moody’s also assigned Ba2 to the country’s foreign currency bond ceiling,Ba3 for foreign and local-currency sovereign bond rating, B1 for foreign currency bank deposit ceiling and Baa3 for long-term local currency bond and deposit ceiling. According to the world Bank report the rank of doing business index is 107 in the year of 2010, other related field in Bangladesh is not satisfactory at all, like corruption, economic freedom, trade openness and so on.

Table- 2: Bangladesh's Ranking and Progress (relative to other countries)

Name of Index	**Ranking**
Corruption Perception Index	134 (out of 178) 2010
Doing Business Index	107 (out of 183) 2010
Economic freedom index	137 (out of 179) 2010
Global competitiveness Index	107 (out of 139) 2010
Global Peace Index	87 (out of 149) 2010
Global enabling trade report	113 (out of 125) 2010
International logistic performance Index	79 (out of 155) 2010
Inward FDI potential Index	119 (out of 141) 2010
KOF Index of Globalization	157 (out of 1860 2010
Management Index (political Leadership towards Democracy and a market Economy)	68 (out of 128)
Networked readiness Index	118 (out of 133)
Open Budget Index	46 (out of 96)
Status Index (political and Economic Transformation)	63 (out of 128)

Source: Bangladesh Development Research Center Inc. (BDRC), 2010.

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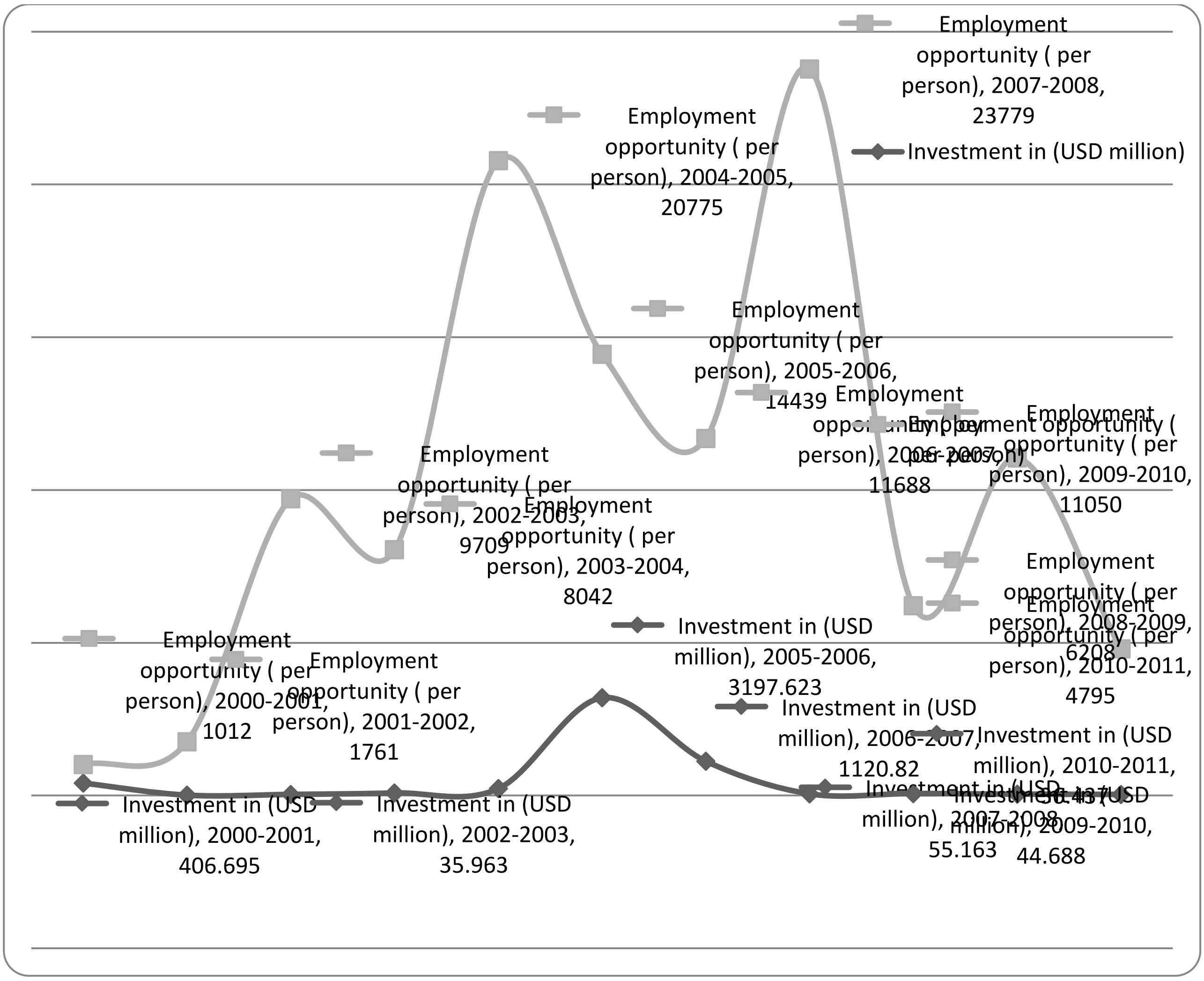
6 FDI and Employment Generation in Bangladesh

Board of Investment of Bangladesh has attracted the foreign investors to invest in Bangladesh by developing admissible policy and promotional programs. Board of Investment has endeavored in to portray a brief on foreign investment registered from 1977 to 2010 for joint venture investment and from 1990 to 2010 for the 100% foreign investment projects. FDI in Bangladesh mainly comprise 100% foreign owned investment and joint venture. The total amount of investment from 100% Foreign Direct Investment (FDI) is $7,012.768 million and from these investment 141,957 jobs is being created.

Figure-1: The Year wise registration of 100% Foreign Direct Investment proposals registered with Board of Investment is shown below:



Data Source: Investment Implementation Monitoring Cell (IIMC), Board of Investment.

From 1990 to 2010 the service sector has attained the considerable amount of FDI and the amount is $4575.901miiion and generates 18,758 jobs after that chemical sector has received $1985.938 million and then

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textile sector has received $221.259 million. Here the table shows that 100% FDI from 1990 to 2010 in different sectors.

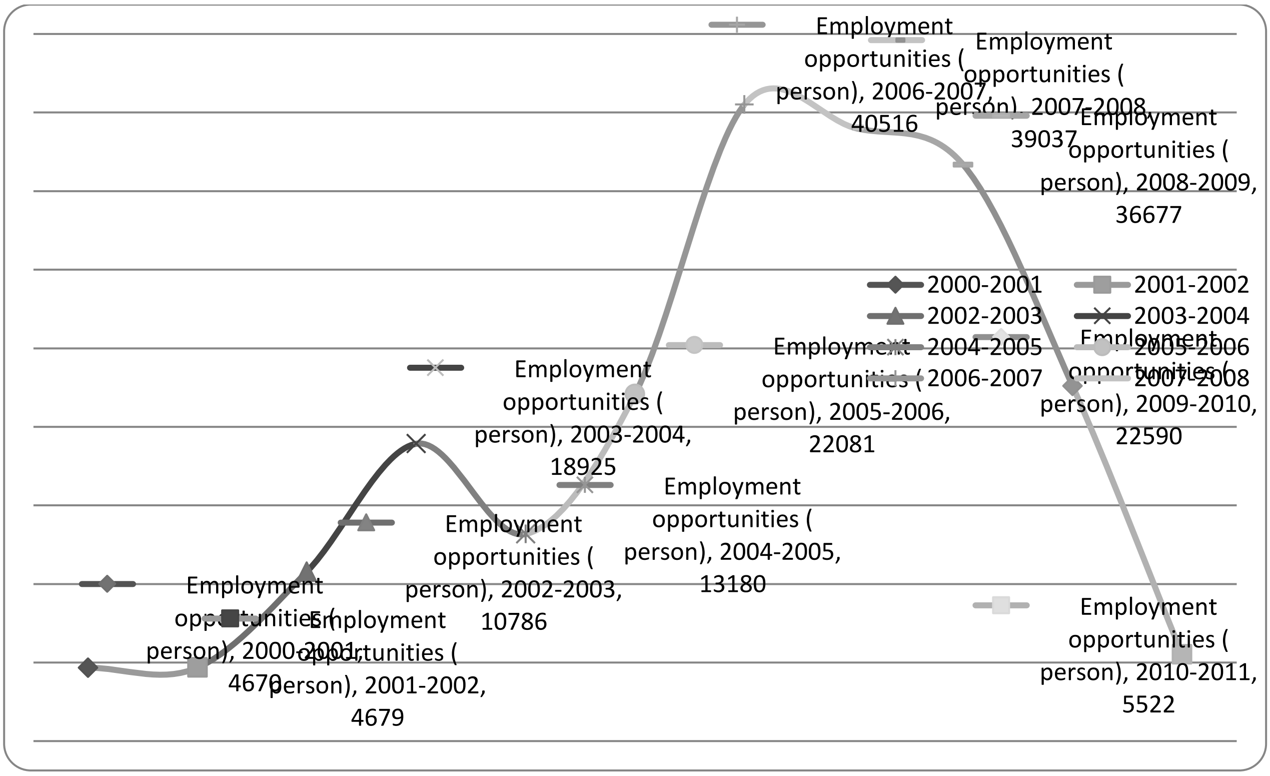
Table- 3: 100% Foreign Investment has come to Bangladesh in the following sectors

SL	Sector	Investment (In millions)
1	Agro based	154
2	Chemical	1985.938
3	Engineering	38.963
4	Food and Allied	19.112
5	Glass and Ceramics	8.188
6	Printing Publishing and packaging	2,269
7	Tannery and Rubber products	4
8	Textile	221
9	Services	4,576
10	Miscellaneous	3

Source: Investment Implementation Monitoring Cell (IIMC), Board of Investment.

Another type of FDI is from the joint venture; from 1977 to 2010 Bangladesh has attained $10,172.47 million and generates 259,207 jobs. The highest number of FDI coming in the year of 2008 which was $2403.328 and that generates 36,677 jobs.

Figure-2: Year wise lists of Joint Venture Investment proposals registered with Board of Investment are as follows:



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Data Source: Investment Implementation Monitoring Cell (IIMC), Board of Investment.

The most significant number of FDI in joint venture has come in service sector from 1977 to 2010 and the figure is $6693.352 million and generates 47,394 employment opportunity but 135,035 the highest number of employment opportunity has created in textile sector against $1093.168 million. From 1977-2010 in Agro based , chemical, engineering, food and allied, glass and ceramics, printing publishing and packaging, tannery and rubber products the FDI has come $329.807,$1413.025,$412.821,$54.650, $69.424,$17.159,$85.754 million respectively.

7 Relationship between Investment and Employment

From the Statistical analysis, there is an attempt to investigate the relationship between employment and investment. To find out the relationship, we analyse the data from 1990 to 2010.

		INVESTMENT	EMPLOYMENT
N	Valid	21	21
	Missing	0	0
Mean		333.94133333	6759.86
Std. Error of Mean		159.175654392	1508.684
Median		44.68800000	4125.00
Mode		.200000(a)	100(a)
Std. Deviation		729.434485043	6913.661
Skewness		3.401	1.129
Std. Error of Skewness		.501	.501
Kurtosis		12.710	.631
Std. Error of Kurtosis		.972	.972

Here the standard deviation of employment is high than investment but skewness of investment is 3.401 and employment is 1.129.

From the regression analysis we try to determinate how employment changes on the bases of investment. Here dependent variable is employment and independent variable is investment.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.307(a)	.094	.047	6749.905

7.1 ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	90311014.142	1	90311014.14	1.98	.175(a)
	Residual	865663046.430	19	45561212.97		
	Total	955974060.571	20			

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7.2 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5787.022	1626.972		3.557	.002
	INVESTMENT	2.913	2.069	.307	1.408	.175

The estimated value of alpha=5787.022 which implies that on average the increase in employment (%) is 5787.022 when increase in investment (%) = 0 the estimated value of beta= 2.913 which implies that for 1% increase in investment the amount of employment increase is 2.913

Comment on significance:

Here p-value for alpha=0.02, since p value is <0.05 we reject the null hypothesis at a 5% level of significance. Here P value for beta= 0.02 which means that p value is <0.05 we reject the null hypothesis at a 5% level of confidence.

Comment on model fitting:

Here R Square = 0.094 which implies that 9.4% of the total variation in employment can be explained by the regression model.

According to the BOI, From 1977-2010 the 100% and joint venture foreign direct investment has come in different sector that generates lots of employment opportunity along with advancement in human resources, technological enhancement and also flourishment in economic segment. In both field of investment the highest number of units are registered in textile sector 115 and 320 units respectively that produce 84,578 and 135,053 employment opportunity.

8 FDI and Employment Generation in Service

Service sectors are increasingly becoming the core of Bangladesh economy. Trade liberalization has been one of the major policy reforms in Bangladesh. During the course of the overall trade liberalization programme, the liberalization of service sectors (especially telecom and financial sectors) also received much importance. For augmentation of FDI government taking propitious initiatives, such as reforms in trade policy, industrial policy, monetary and fiscal policy and exchange rate policy that assists a lucrative avenue in services sector for investment.

From 1996 to 2010 the total 100% FDI for service sector was $4,575.901 million and that created 18,758 employment opportunities. In the year of 2005, $1,318.328 million of FDI came which was the highest amount and created 3,800 employment opportunities but the highest amount of employment opportunity was created in the year of 2006 and number was 3,919 person against $1,093.470 million. In the year of 2010 service sector aggregated $5.156 million FDI and made 647 employment opportunities from 100% FDI. From 2000 to 2010 the amount of FDI was mentioned here, $378.841, $0.206, $3.748, $5.450, $150.673, $1,318.328, $1,093.470, $2.199, $53.374, $15.295 and $5.929 million. the figure shows us the employment opportunities in the last ten years that was generated from 100% FDI.

Figure-3: Year wise employment opportunities from 100% FDI in service sector

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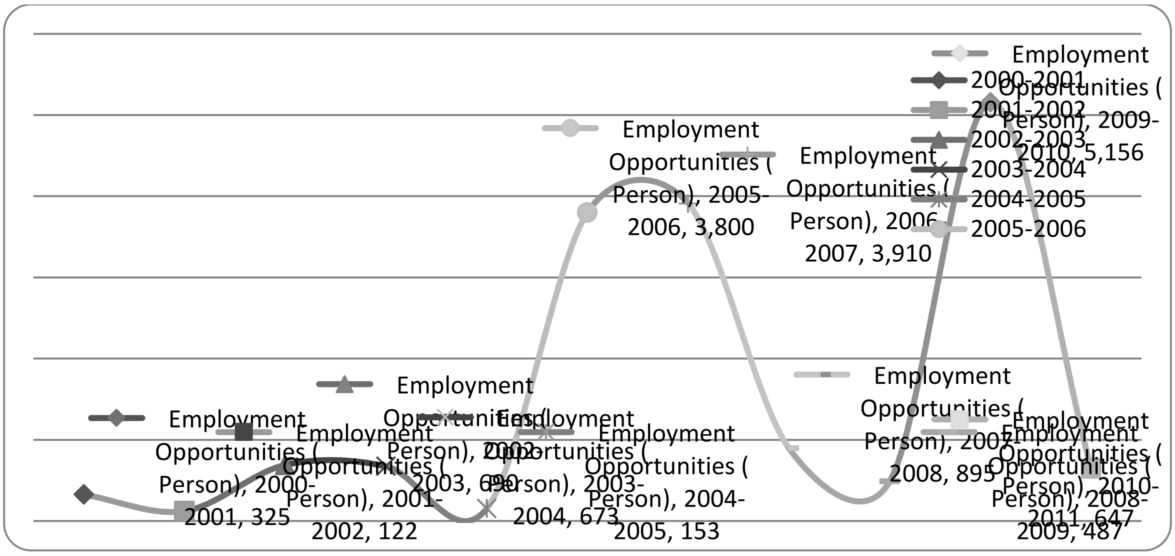
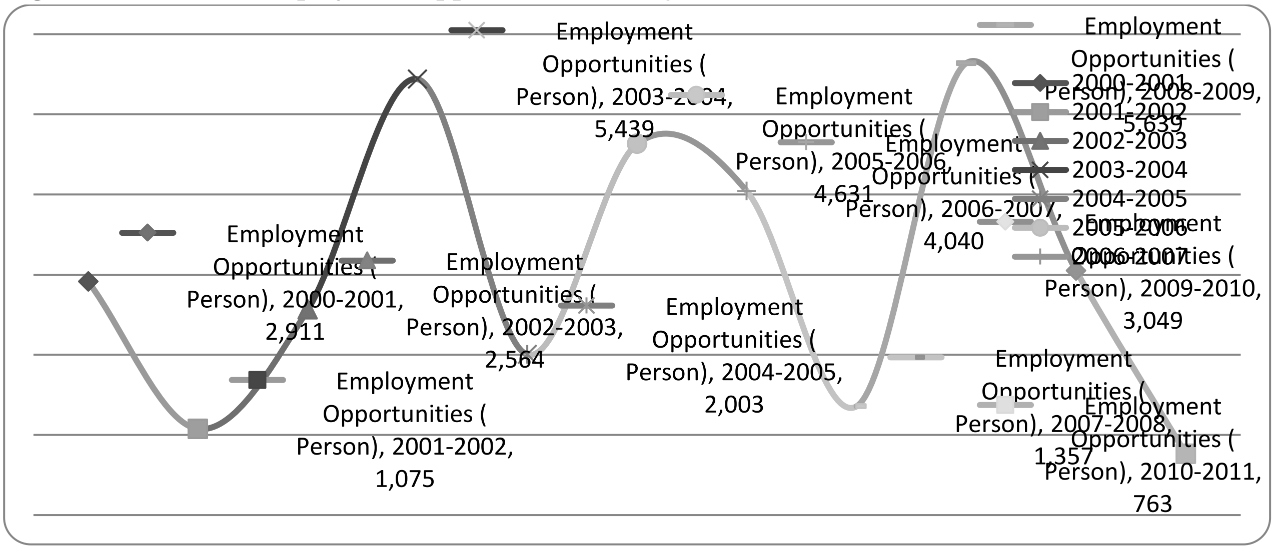


Data Source: Investment Implementation Monitoring Cell (IIMC), Board of Investment.

The service sector is the largest shareholding among the joint venture investment in Bangladesh, 301 projects have so far been registered with BOI in this sector. From 1987 to 2010 the total joint venture FDI for service sector was $6693.352 million and that created 47,394 employment opportunities. In the year of 2008, $1925.839 million of FDI came which was the highest amount and created 5,639 employment opportunities but the highest amount of employment opportunity was created in the year of 1998 and number was 6,728 against $714.450 million. In the year of 2010, service sector aggregated $133.985million of FDI and created 647 employment opportunities from 100% FDI. From 2000 to 2010 the service sector received FDI in the following manner, $59.406, $184.252, $92.079, $199.012, $124.931, $412.679, $179.253, $12.174, $1925.839, $525.289 and $133.985 million. the following figure will provide a conception on the employment opportunities in the last ten years that was generated from joint venture FDI.

Figure-4: Year wise employment opportunities from joint venture FDI in service sector



Data Source: Investment Implementation Monitoring Cell (IIMC), Board of Investment.

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In the service sector there are different sub-sectors like, LPG Bottling, Building Industry, Computer Software (IT), Hotel, Motel and Tourism, Oil & Gas, Sports & Games, Washing Plant, Container Terminal, Technical Services, Inspection & Testing, Coal Exploration, Mobile Card, Plan & Design of Network, Telecom Tower, Guarding Services, T.V Channel, Leasing Company, Technical services. In Bangladesh the service sector is booming especially in telecommunication because of trade liberalization. Deregulation policy for the telecommunication sector and market driven reforms have created a huge demand for new products, which have been instrumental in attracting new foreign investment in this sub-sector. In terms of GDP-composition by sector, Agriculture: 18.4%, Industry: 28.7% and Services: 52.9% in the year of 2010 and labor forces- by occupation in agriculture-45%, Industry-30% and services-25% in the year of 2008.

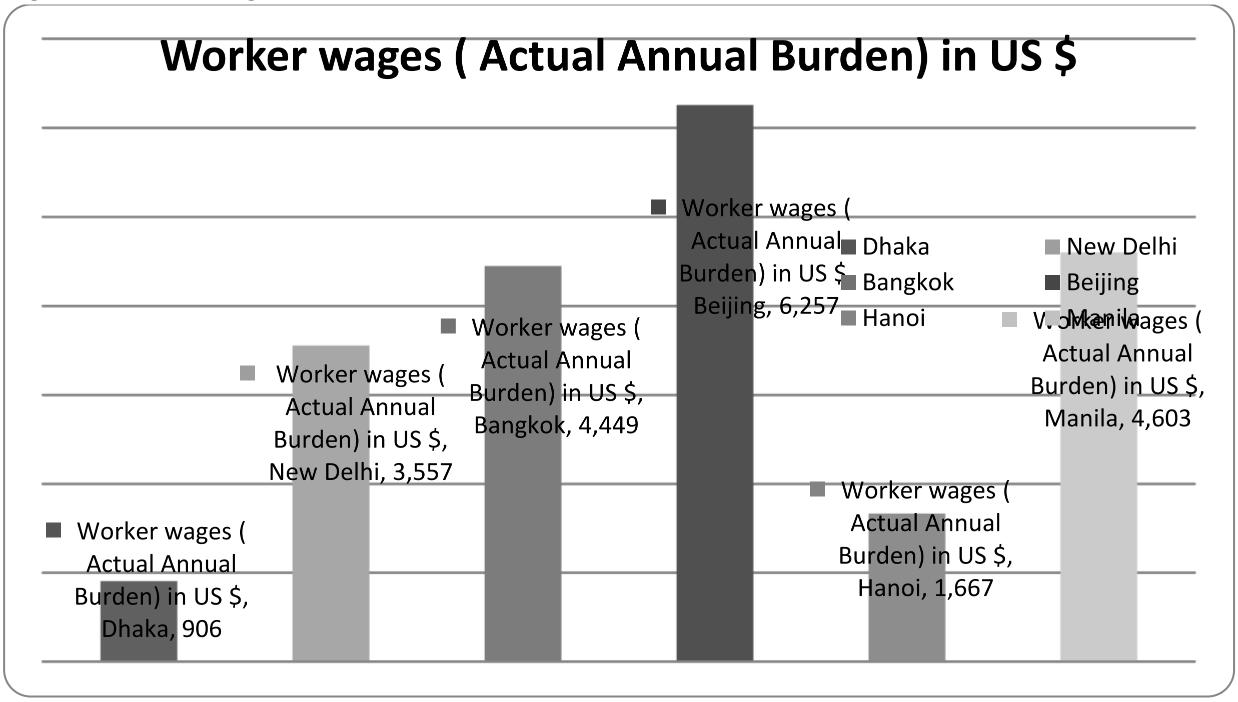
9 ReasonS for FDI in Service Sector

Bangladesh is a winning combination with its competitive market, business-friendly environment and lucrative cost structure that can help to achieve sustainable economic development. Bangladesh is a least developing country (LDC) but there is a great potential to be enlisted as a middle income country in the year of 2025. Because of the strategic location & regional connectivity, industrious low-cost workforces, strong local market and growth, low cost of energy, proven export competitiveness, competitive incentives, export and economic zones and positive investment climate.

9.1 Low-Cost Workforce:

Bangladesh offers a well-educated, highly adaptive and industrious workforce with the lowest wages and salaries in the region. 57.3% of the population is under 25, providing a youthful group for recruitment. The country has consistently developed a skilled workforce catering to investors needs. English is widely spoken, making communication easy.

Figure 5: Worker wages rate in US$



Data Source: Investment Implementation Monitoring Cell (IIMC), Board of Investment.

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9.2 Regional Connectivity and Accessibility:

Bangladesh is strategically located next to India, China and ASEAN markets. As the South Asian Free Trade Area (SAFTA) comes into force, investors in Bangladesh will enjoy duty-free access to India and other member countries. Bangladesh has amassed huge amount of FDI (100%) from ASEAN country that include Malaysia, Thailand, Singapore and Philippine and the amount of FDI are $162.006, $48.418, $51.636 and $0.492 million which has created 3,532 employment opportunities from 1977 to 2010. Bangladesh has a highest amount of trade deficiency with China and India. From that two countries Bangladesh has accumulated $55.622 and $93.803 million of 100% FDI and has created 7,072 and 7,982 employment opportunities from 1977 to 2010.

9.3 Local Growth Market:

With approximately 150.0 million people in Bangladesh has a strong local market and having consistent growth in economy, this country can attract the foreign investors. The GDP in Bangladesh was 6.1% in the year of 2010-2011.In the fiscal year of 2011 real GDP growth (%) will 6.2, Investment growth (% of GDP) will 25.5 , export growth (%) will 27 and import growth will (%) 36.1 in Bangladesh.

9.4 Low Energy cost:

Energy prices in Bangladesh are the most competitive in the region. Transportation on green compressed natural gas is less than 20% of the diesel price.

9.5 Export Competitiveness:

Bangladesh enjoys tariff-free access to the European Union, Canada, Australia and Japan. In Europe, Bangladesh enjoys 60% of the market share and is the top manufacturing exporter amongst 50 least developed countries.

9.6 Export Processing Zones:

Bangladesh offers export-oriented industrial enclaves with infrastructural facilities and logistical support for foreign investors. The country is also developing its core infrastructures, including roads, highways, surface transport and port facilities for a better business environment.

10 Determining the Employment Growth Due to Investment in Service Sector

Here is an attempt to determinate, due to the FDI in host country that creates employment opportunities and contributes economic growth in a least developing country like Bangladesh. For this purpose we use the data from 1995 to 2010. In this analysis the dependent variable is employment and independent variable is investment.Sometimes investment do not creates significant employment opportunities for host country. Through the following analysis we try to determinate from 1995 to 2010 the investment creates enormous employment opportunities in Bangladesh.

		INVESTMENT	EMPLOYMENT
INVESTMENT	Pearson Correlation	1	.477
	Sig. (2-tailed)	.	.072
	N	15	15
EMPLOYMENT	Pearson Correlation	.477	1
	Sig. (2-tailed)	.072	.

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	N	15	15

In service sector there is a positive correlation between investment and employment. It means that from 1995 to 2010 it creates the employment opportunities in service sector but not significantly. It means that Bangladesh has enough potential but due to having poor infrastructure and policy we are not able to attract the foreign investment in service sector.

10.1 Tests of Between-Subjects Effects

Source	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	.000(a)	0	.	.	.
Intercept	23457504.267	1	23457504.267	8.991	.010
Error	36526169.733	14	2609012.124		
Total	59983674.000	15			
Corrected Total	36526169.733	14			

10.2 One-Sample Kolmogorov-Smirnov Test

		INVESTMENT	EMPLOYMENT
N		15	15
Normal Parameters(a,b)	Mean	305.06360000	1250.53
	Std. Deviation	451.164565972	1615.244
Most Extreme Differences	Absolute	.279	.387
	Positive	.279	.387
	Negative	-.250	-.242
Kolmogorov-Smirnov Z		1.080	1.499
Asymp. Sig. (2-tailed)		.194	.022

From the two statistical analyses, we conclude that the distribution is Normal. It means that there is a positive correlation.

Hypothesis test: Investment and employment are inter-related, when ever investment increase it means that employment increase, when ever investment decrease it means that employment is also decrease.

Ho: $p_i = p_e$ H$_1$: $p_i \neq p_e$

10.3 Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	INVESTMENT	305.063600	15	451.164565972	116.490190027
	EMPLOYMENT	1250.53	15	1615.244	417.054

10.4 Paired Samples Test

		Paired Differences					T	df	Sig. (2-tailed)
		Mean	Std. Dev.	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	INVEST – EMPLOY	-945.46	1454.90	375.65	-1751.16	-139.78	-2.52	14	.025

We may reject the null hypothesis it means that always investment may not effect on employment generation, it means they are not interrelated. It indicates that if the investment increases it doesn't mean that employment increase.

From the correlation analysis we decided that there is a relation between invest and employment in service sector. Now we determinate if the 1% increase of investment then what is the effect on employment. For that purpose we make a regression analysis. Here is the dependent variable is employment and independent variable is investment**.**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
Service	.477(a)	.228	.169	1472.846

10.5 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
Service	Regression	8325597.800	1	8325597.800	3.84	.072(a)
	Residual	28200571.934	13	2169274.764		
	Total	36526169.733	14			

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10.6 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
Service	(Constant)	729.100	464.178		1.571	.140
	INVESTMENT	1.709	.872	.477	1.959	.072

10.7 Coefficient Correlations

Model			INVESTMENT
Service	Correlations	INVESTMENT	1.000
	Covariances	INVESTMENT	.761

The estimated value of alpha=729.100 which implies that on average the increase in employment (%) is 729.100 when increase in investment (%) = 0 the estimated value of beta= 1.709 which implies that for 1% increase in investment the amount of employment increase is 1.709%

Comment on significance:

Here p-value for alpha=0.140, since p value is >0.05 we do not reject the null hypothesis at a 5% level of significance. Here P value for beta= 0.072 which means that p value is >0.05 we do not reject the null hypothesis at a 5% level of confidence.

Comment on model fitting:

Here R Square = 0.228 which implies that 22.8% of the total variation in employment can be explained by the regression model.

Through the following graph we try to determinate the relationship between investment and employment in service sector. Through the graph we estimate that there is a linear relationship exists between investment and employment.

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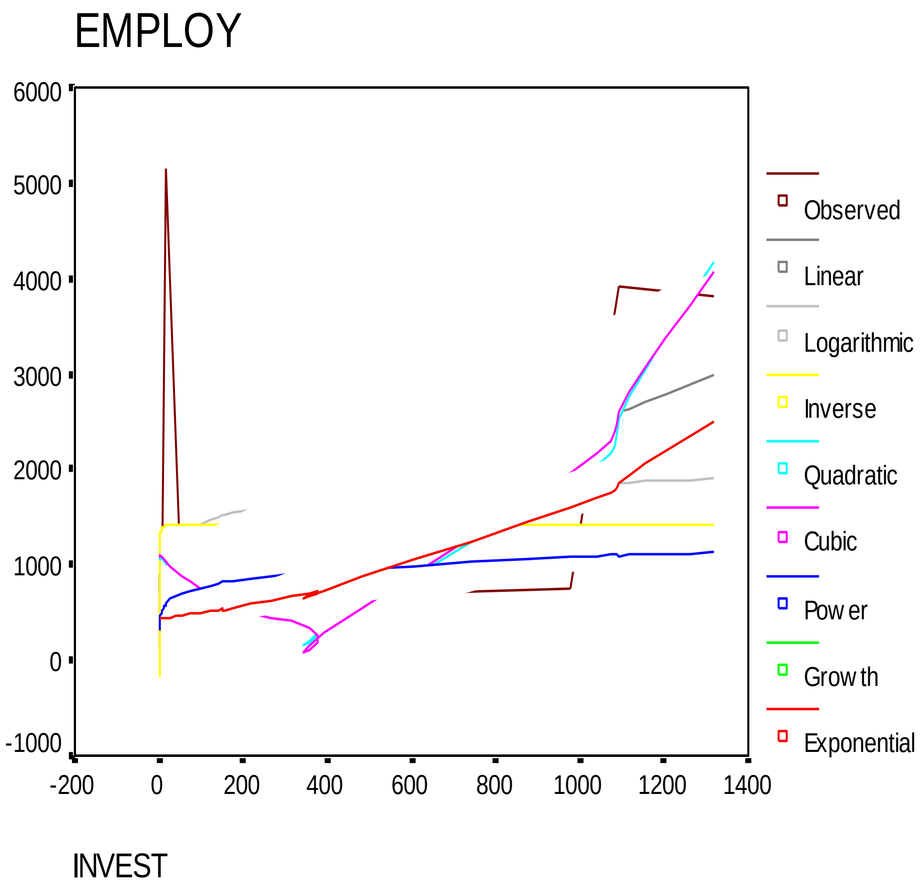
Figure 6: Relationship between Investment and Employment



Source: Based on the Statistical Analysis

From 1992 to 2010 Bangladesh accumulate $4575.901 million in service sector from 100% FDI and the highest amount of FDI is coming for telecommunication sector and the amount is $2585.519 and $2357.24 million from 100% and from joint venture respectively. Power generation, oil and coal mining is also lucrative option for foreign investors. Oil and gas is the second highest sector which accumulate $859.792 million of FDI from 100% FDI. Power generation sector also attract significant FDI around $741.197 million. Here the graph shows the 100% FDI from 1992 to 2010 in service sector.

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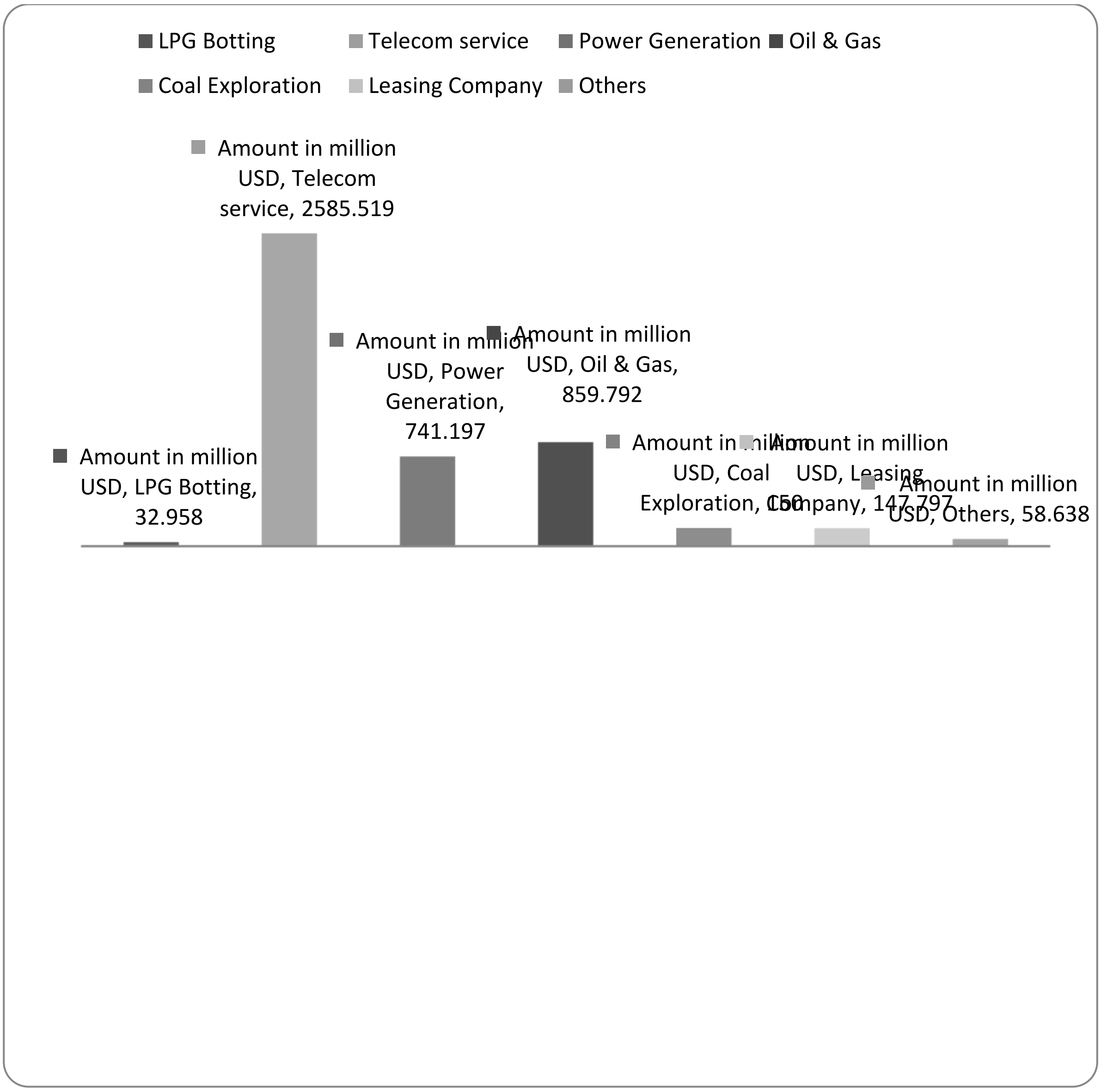
Figure 7: 100% FDI from 1992 to 2010 in service sector



Data Source: Investment Implementation Monitoring Cell (IIMC), Board of Investment

11 Findings

Bangladesh has attracted US$ 913 million in foreign direct investment in 2010 calendar year, a leap by 30 per cent, upgrading the country's position to 114 from 119 out of 141 nations. Trade liberalization has been one of the major policy reforms in Bangladesh. During the course of the overall trade liberalization programme, the liberalization of service sectors (especially telecom and financial sectors) also received much importance. From 1996 to 2010 the total 100% FDI for service sector was $4,575.901 million and that created 18,758 employment opportunities. In the year of 2010 service sector aggregated $5.156 million FDI and made 647 employment opportunities from 100% FDI.

Availability of land for public and private sector industrial projects has emerged as a major challenge for getting FDI. Other challenges are also confronting Bangladesh -- up gradation of its infrastructure and how to develop a large and skilled workforce. Moody's investor’s services that rated Bangladesh Ba3 for 2011 recently found that land acquisition in the country is problematic and the registration is in need of reform. Neither the government nor the central bank tried to get any funds from external sources to strengthen its balance-of-payment (BoP) position. There is no denying that increased FDI flow depends on sustained economic growth performance of a country. Bangladesh's annual GDP growth rate is still not enough. If this growth rate rises to an average 8.0 per cent and the literacy rate increases to 65 per cent, FDI flow will be much higher than expected. There were severe supply shortage of electricity and gas in the country and that is why investment is being disrupted.

According to the world Bank Report the ranking of easy of doing business in Bangladesh is 107 out of 183 in the year of 2010. Others like Corruption Perception Index was 134 out of 178, economic freedom index was 137 out of 179, global competitive index was 107 out of 139, inward FDI potential index was 119 out of 141 and international logistic performance index was 79 out of 155. Bureaucratic rules and regulation, successive price raise of land, poor implementation of policies makes vulnerable crisis in FDI in Bangladesh.

12 Conclusion

Foreign direct investment (FDI) plays a multidimensional role in the overall development of the host economies. It generates benefits through bringing in non-debt-creating foreign capital resources, technological upgrading, skill enhancement, new employment, spill-over and make efficiency effects. So, Bangladesh has immense potential to make a sustainable development and growth with the assist of foreign direct investment.

13 Recommendations

The government of Bangladesh needs to extricate excessive bureaucratic interference, ensure regularities in processing papers, reduces inordinate delays in selecting projects for feasibility studies and frequent changes in policies on import duties for raw materials, machinery and equipment. Board of Investment (BOI) needs to be braced to accelerate FDI especially from foreign countries.Land prices, especially in the industrial areas in Bangladesh have doubled in the last five years, price should be reduced. Scarcity of land in the EPZs coupled with high acquisition cost in other places increase the cost estimates. As a result, many investors who follow the cost leadership strategy are shifting at other Asian countries with relatively lower land price, such as China and India. The government should focus on the expansion of land in the EPZ areas. From the airport up to the registration of an investment proposal, a foreign investor has to wait for months after months. There is a provision for 'one-stop service' in BoI for the foreign investors, but that is yet to become operational, in its real sense; it should be implemented as early as possible. Government and the central bank should try to get funds from external sources to strengthen the balance-of-payment (BoP) position. Government should try to reduce the power related crisis and also strengthen the infrastructure for attracting the foreign direct investment and also give emphasize on skill development programmes.

The country should give more emphasize on economic reforms, regional integration and political reconciliation. Government should restructure the related bodies give more attention to improve the efficiency. Public-private partnership (PPP) should be made workable and substantial policies and programmes need to be developed and implemented in an even-handed approach to ensure the inflow of FDI; besides, a considerable focus must be placed on embedded knowledge know-how and technology know-how.

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