

Obstacles of Foreign investment and their solutions

Case study Bangladesh

Anamika Islam Priom

Abstract- Bangladesh is a small country with great possibilities. In South Asia, Bangladesh is the fastest-growing country. In this growth, one of the essential parts is Foreign Direct Investment. Foreign Direct investment refers to the investment which happens by a company of one country to another country in the form of controlling ownership in a business or a project. The interest in this investment lasts long. Bangladesh has seen remarkable inflows of FDI till 2019. However, covid creates a downslope to this inflow. Despite rapid economic growth, Bangladesh is still in a minor position in the global rank of FDI. Multiple obstacles must be addressed to attract FDI from different countries. The hindrances are mostly policy level. Such as taxation problems, inability to fulfil the business's commitments, not getting proper justice, bureaucratic involvement, No good brand image, lack of infrastructure development, etc. These are one of the significant backblocks to this country's development. BIDA is working to overcome these complexions. Still, there are good opportunities for Bangladesh to attract FDI by showing the promising opportunities in Bangladesh. The changes need to make at in policy level and using the KPI of Bangladesh's economy. This paper identifies the significant problems and provides possible and practical solutions to overcome the situation and increase the inflow of FDI.

Index Terms- Bangladesh, Foreign Direct Investment, Foreign Investment, Obstacles, Economic Growth, Bangladesh, Development

1 INTRODUCTION

In the era of modernization and globalization foreign direct investment is an essential business policy between two or more nations. Through foreign direct investment, several countries have developed their economy and created a good market value in the global market. FDI develops not only economic relations but also political and strategic relations. There are direct and indirect investments in many countries. For example, sharing technologies with other countries is an indirect investment, whereas financial investments are considered direct investments.

Bangladesh is a country of high potential, and prior covid pandemic, the economic growth of Bangladesh was 8.1%, which is remarkable¹. Despite these positive indicators, Bangladesh struggles to attract foreign direct investment for various reasons. Foreign direct investment work as a powerful engine in economic growth. Presents Bangladesh with a golden opportunity that the country must seize with a policy-backed, well-regulated and favorable investment climate. In

2019, FDI inflow picked its highest number in Bangladesh since its birth. China is leading among the foreign direct investor's countries around the world with a net inflow worth 1159.42 million

dollars in 2019². The Netherlands secured second place with net inflows of \$802.84 million, followed by the UK, Singapore, the US, Hong Kong, Norway and India. Japan has recently started shifting investments away from China, with Bangladesh being the priority. The largest single FDI in Bangladesh was Japan Tobacco International (JTI)'s acquisition of Akij Group's tobacco business for his \$1.47 billion in November 2018³. Such a significant investment by Japan in Bangladesh reflects Japan's confidence in doing business and could further help attract the attention of other prominent. However, there was a downfall in FDI after the pandemic and Ukraine-Russian. It significantly impacted the FDI in Bangladesh because the running projects faced severe financial backlash and extended the delivery period. Bangladesh still has different opportunities to attract FDI from other foreign countries through robust policy-making, infrastructure development, and low-cost labor

¹

<https://www.lightcastlebd.com/insights/2020/10/fdi-inflow-in-bangladesh-time-to-rethink-and-redesign-policies/>

² Foreign Direct Investment (FDI) in Bangladesh – Bangladesh Bank

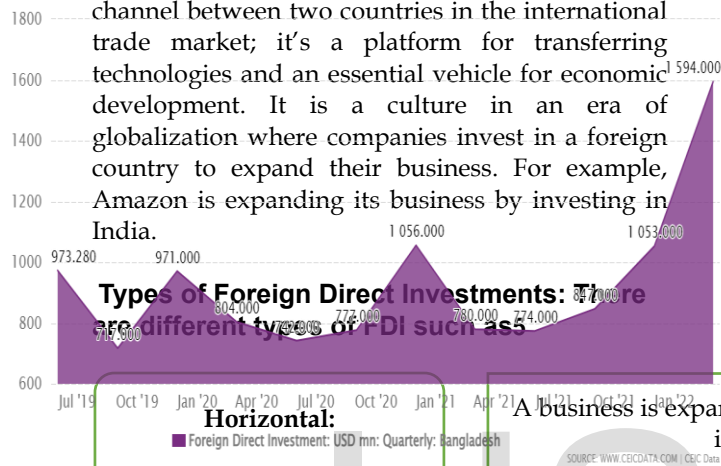
³ Japan Tobacco closes \$1.47b acquisition of Akij venture– The Daily Star

DEFINITION OF FOREIGN DIRECT INVESTMENT:

Foreign direct investment is one of the key elements of international integration. It creates solidity and harmony among the nations and stabilizes the economy.

Foreign direct investment is an investment from one country to another for lasting interest and significantly influences another economy. To define an FDI, it is necessary to have a 10% stake in a foreign company's voting power⁴. It is a vital channel between two countries in the international trade market; it's a platform for transferring technologies and an essential vehicle for economic development. It is a culture in an era of globalization where companies invest in a foreign country to expand their business. For example, Amazon is expanding its business by investing in India.

businesses and industries. FDI enables capital to create employment, build up physical wealth, enhance laborers' skills through different technologies, develop product capacities, and integrate the domestic economy into the international market and global economy. By bridging the gap between local savings and investment and by introducing and familiarizing wealthy countries with current technology and management abilities, FDI significantly impacts the economic progress of third-world countries. Since the birth of Bangladesh, Bangladesh has been trying to increase FDI to develop the country's economy.



<p>Horizontal:</p>	<p>A business is expanding in a foreign country and conducting the same activities in a new country is called a Horizontal FDI.</p>
<p>Vertical</p>	<p>A business conducting different level of activities in a foreign country but related to the origin business in order to expand their business in called Vertical FDI.</p>
<p>Platform</p>	<p>A business expand to a foreign country and the furnished product is sell to a third country is called a platform FDI. Here the second foreign country is a buffer zone. For example: USA invest money in Garments sector of Bangladesh to make finest clothes and sell it to Europe</p>
<p>Conglomerate</p>	<p>A business is opening a new area of business in a foreign country is called Conglomerate, however it is not common in practice and there are vital obstacles.</p>

FDI to be \$19.4 billion in 2020. As long as investment commitments are weak, Bangladesh's FDI inflows

TRENDS OF FOREIGN DIRECT INVESTMENT IN BANGLADESH:

Foreign direct investment is a potential weapon for Bangladesh to achieve its overall economic development. Bangladesh's primary goal is to become a developed country by 2041. To fulfill this dream, Bangladesh needs foreign direct investments to grow its different kinds of

4
<https://abc.us.org/ojs/index.php/abr/article/view/13>

5
<https://www.ceicdata.com/en/indicator/bangladesh/foreign-direct-investment>

will take a long time to recover. For instance, Bangladesh's Greenfield investment projects announced in 2020, a leading indicator of FDI trends in the years to come, have dramatically shrunk by - 87 percent. According to statistics issued by Bangladesh Bank, the net inflow of FDI into Bangladesh decreased by roughly 4.74 percent in the first half of 2021. China, South Korea, India, Egypt, the United Kingdom, the United Arab Emirates, and Malaysia are the top foreign investors in the nation.⁶

According to this graph, the FDI has increased from January to march quarter year⁷. According to data from the central bank, the reinvestment of earnings accelerated to \$613.53 million in Q1 2022, representing a growth of 61.11% over last year's \$381 million. Additionally, according to data from Bangladesh Bank, intra-company loans decreased by 119% in the quarter, as mentioned above⁸.

It is believed that foreign capital inflows have increased domestic capital in Bangladesh. FDI quickens economic activity and ultimately leads our nation to economic growth. It broadens the pool of available jobs. FDI infuses the recipient economy with highly productive resources. It has a positive impact on job growth not only in the industries that draw FDI but also in the local industries that support them⁹.

DIRECT IMPACT OF FDI IN BANGLADESH:

⁶ <https://www.lloydsbanktrade.com/en/market-potential/bangladesh/investment>

⁷ <https://www.dhakatribune.com/foreign-affairs/2022/09/16/pm-hasina-bangladesh-eager-to-take-part-in-vaccine-research-and-development>

⁸ <https://www.dhakatribune.com/foreign-affairs/2022/09/16/pm-hasina-bangladesh-eager-to-take-part-in-vaccine-research-and-development>
⁹

<https://www.researchgate.net/publication/3610928>

According to statistical reports, there is a positive correlation between FDI and GDP growth. However, it has a negative correlation with the Balance of Trade. According to the World Bank, Bangladesh has made significant economic progress, reflected in the country's GDP, which increased more than six-fold in real terms from \$53.37 billion in 2000 to \$324.24 billion in 2020. Net FDI inflows into the country were USD 8.91 billion in 2018-2020. Bangladesh's Foreign Direct Investment (FDI) recorded a growth of 0.3% of the country's nominal GDP in June 2021.

However, FDI affects an increasing inflation rate, which reduces people's purchase power and eventually impacts the liquidity of money in the market and economic growth. As Bangladesh's import is higher than its export, it creates a resource gap, which is an obstacle to economic development.¹⁰

Bangladesh Foreign Direct Investment - Historical Data¹¹

Year	Inflows, US \$	% of GDP
2020	\$1.53	0.41%
2019	\$1.91B	0.54%
2018	\$2.42B	0.75%
2017	\$1.81B	0.62%
2016	\$2.33B	0.88%

¹⁰ https://www.researchgate.net/publication/269399741_Impact_of_Foreign_Direct_Investment_on_Economic_Growth_Empirical_Evidence_from_Bangladesh

¹¹ <https://www.macrotrands.net/countries/BGD/bangladesh/foreign-direct-investment#:~:text=Bangladesh%20foreign%20direct%20investment%20for,a%2033.76%25%20increase%20from%202017.>

Bangladesh Foreign Direct Investment - Historical Data		
Year	Inflows, US \$	% of GDP
2015	\$2.83B	1.45%
2014	\$2.54B	1.47%
2013	\$2.60B	1.74%
2012	\$1.58B	1.19%
2011	\$1.26B	0.98%
2010	\$1.23B	1.07%

The graph shows that from 2010 to 2020, the inflow of FDI fluctuated a lot and positively impacted GDP. If we observe the inflow of FDI in Bangladesh, we can see that, till 2018, the FDI inflow increased; however, in 2019 and 2020, the FDI is down.

THE MAIN OBSTACLES OF FOREIGN DIRECT INVESTMENTS:

Despite the increase of FDI in Bangladesh, there are still 37 million people living in poverty in Bangladesh. To continue development, Bangladesh needs to increase the number of FDI in the domestic market. The country still lags in the World Bank Ease of Doing Business Index, ranking 176 out of 190 in 2018. However, a few vital challenges and obstacles play significant roles in decreasing the FDI in Bangladesh.

PRIMARY DATA FINDINGS:

Through my focus group discussion, I have found that, with the price rise of the dollar, the price of raw materials also increased rapidly, and the dollar instability in Bangladesh impacts the domestic markets. For example, because of the increased cost, different government projects slow down, stop, or

are extended for a few years. Because of the extension of time, the foreign companies who invest in the project face huge interest rate baggage in their company. That is one of the reasons why foreign countries do not get confident in investing in Bangladesh.

Brand Image of Bangladesh: Few countries around the world know about Bangladesh and the opportunities in Bangladesh. There is no brand image of Bangladesh in front of developed countries. As foreign companies think Bangladesh is an unsuitable, politically unstable, and disaster-prone country, foreign companies do not take a risk.

Keeping promises: There are different projects where it has promised to finish and give the best products within a limited time. However, Bangladeshi companies often break the grand chart schedules. It gave the foreign companies a considerable loss. They moved to Vietnam and Indonesia for these causes.

Tourism of Bangladesh: The more strong tourism Bangladesh has more possibilities for FDI will increase. There is a lack of development in the tourism sector such as Shunderban is one of the most extensive mangroves and a heritage site. However, there is no proper way to visit Shunderban outside the country.

Dependency on few countries: Bangladesh still depends on a few countries for export and foreign direct investment. It is too dependent on garments exports and slightly spreads its industries in different sectors. The agro-agricultural sector has a vast opportunity as most developing countries import foods.

Bangladesh taxation policy: The taxation policy of Bangladesh is not favorable to Foreign Direct Investment. There are many cases where MNCs face the unnecessary tax. It is said that NRB has imposed an additional tax burden to fulfill its revenue target. MNCs claim they do not get a level playing field with local competitors or proper justice against unfair treatment.

There are also other major obstacles in FDI:

Irregularities in paperwork
Lack of professional staff
Lack of commitment from local investors

Unexpected delays in project selection in feasibility studies
Frequent import taxes on raw materials, machinery, equipment, etc. policy change.
Bureaucratic interference
Frequent power outages
Poor infrastructural support
Industrial unrest
Political instability
Duplication of administrative procedures
Lack of transparent procedural systems
Continuation and prevention of timely implementation of strategic, procedural and even routine operations

STEPS TO ATTRACT FDI IN BANGLADESH:

The country does not have enough industrial land. In this case, the government can release closed and non-functioning state-owned enterprises and give land to foreign investors by declaring special economic zones, which are ongoing in Bangladesh. As a priority, bureaucratic control and interference with business and investment activities should be minimized. Both governments and the private sector must step forward to invest in infrastructure development. Strengthening economic and trade diplomacy is a key factor in attracting foreign direct investment in today's world, characterized by rapid globalization and increased competition.

Not only to improve relations with countries that have already invested in Bangladesh but also to identify potential investors from other countries and take appropriate steps to attract them to invest in the country¹³.

Bangladesh needs to formulate some rules for Multinational companies that they cannot take all benefits from our country and reinvest a portion of the profits in Bangladesh. We must develop good production and strong labor and fulfill our commitment to projects. Maintain time schedules. Textiles, telecommunications, leather products, frozen foods, jute goods, oils, gas, coal, electricity, air Transportation, Electronics, Lighting Engineering industry, tourism sector, agro-industries, etc., are essential sectors of Bangladesh to attract FDI¹⁴

¹³ <https://www.thedailystar.net/supplements/24th-anniversary-the-daily-star-part-2/the-importance-fdi-constraints-and-potential>

CONCLUSION:

Bangladesh has achieved remarkable economic progress and cleared its name as an underdeveloped country. Bangladesh Investment Development Authority (BIDA) has worked to attract FDI in many ways.

FDI has played a vital role in the development of Bangladesh. The private sector of Bangladesh is expanding the country. Bangladesh has also created multiple economic zones to attract foreign companies. Companies often step back for different risk factors. Foreign countries still have an image of Bangladesh as a disaster-prone country with fewer facilities costing them more for factory installations. Still, the progress of FDI is going on and different countries are prioritizing Bangladesh because of its strategic location and labor-friendly and cost-effect policies.

However, there is significant policy level complexity which takes much time to solve. A comprehensive FDI policy with clear objectives should be developed. Banks in Bangladesh should make it easy for investors to repatriate their profits. Tax simplification, customs procedures, and currency reform are vital issues that require attention. To maintain solid economic performance in the long term, the authorities need to focus on implementing policies to attract more foreign direct investment to the country.

INDEX:

¹⁴

<https://abc.us.org/ojs/index.php/abr/article/view/13>

No:	Male	Female	Age
1.	6	2	45-55
2.	10	12	35-45
3	4	6	25-35
Total=40	20	20	Age limit 25-55

REFERENCES:

1. <https://abc.us.org/ojs/index.php/abr/article/view/13>

2. <https://www.ceicdata.com/en/indicator/bangladesh/foreign-direct-investment>

3. <https://corporatefinanceinstitute.com/resources/knowledge/economics/foreign-direct-investment-fdi/>

4. <https://www.dhakatribune.com/foreign-affairs/2022/09/16/pm-hasina-bangladesh-eager-to-take-part-in-vaccine-research-and-development>

5. <https://www.lloydsbanktrade.com/en/market-potential/bangladesh/investment>

6. <https://www.lightcastlebd.com/insights/2020/10/fdi-inflow-in-bangladesh-time-to-rethink-and-redesign-policies/>

7. Foreign Direct Investment (FDI) in Bangladesh - Bangladesh Bank

8. Japan Tobacco closes \$1.47b acquisition of Akij venture- The Daily Star

9. <https://www.macrotrends.net/countries/BGD/bangladesh/foreign-direct-investment#:~:text=Bangladesh%20foreign%20direct%20investment%20for,a%2033.76%25%20increase%20from%202017.>

10. https://www.oecd-ilibrary.org/finance-and-investment/foreign-direct-investment-fdi/indicator-group/english_9a523b18-en

11. https://www.researchgate.net/publication/269399741_Impact_of_Foreign_Direct_Investment_on_Economic_Growth_Empirical_Evidence_from_Bangladesh

12. https://www.researchgate.net/publication/361092851_Impact_of_Foreign_Direct_Investment_in_Bangladesh

13. <https://www.thedailystar.net/supplements/24th-anniversary-the-daily-star-part-2/the-importance-fdi-constraints-and-potential>