

A Study on FDI in Bangladesh

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I. Introduction

High rates of saving and investment are essential prerequisites for high economic growth, but domestic saving in Bangladesh, on which investment greatly depends, has remained stagnant at around 20.0% of GDP in the most recent years (Table 1). Public saving has always been negative in the country as the growing fiscal deficits in successive annual budgets would indicate. Domestic saving in the country therefore comes essentially from the private sector. Private saving is, however, low partly because of weak intermediation in the banking sector but largely due to low per capita incomes.

Table 1: Saving and Investment (as percent of GDP)

Fiscal Year	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 ^p
Gross Domestic Saving	20.01	20.25	20.35	20.31	20.01	20.0
Gross National Saving	25.84	27.67	28.66	30.21	32.37	N.A.
Gross Investment	24.53	24.65	24.46	24.21	24.18	24.3
Public	6.21	6.00	5.45	4.95	4.63	N.A.
Private	18.32	18.65	19.02	19.25	19.55	N.A.
Investment-Saving Gap	4.52	4.40	4.11	3.90	4.17	N.A.

Source: Bangladesh Bureau of Statistics. ^p = Provisional

The national savings rate has of course depicted a rising trend since FY2004-05, due mainly to a robust remittance growth, but remittance inflows generally go to add to the country's foreign exchange reserves. Apart from financing private consumption, foreign exchange remittances in this country are hardly used for investment purposes.

Because of low domestic saving rates, gross capital formation has slowed down consistently in the recent years, hovering at around 24% of GDP (Table 1). The main reason behind the slowing down of investment has been a secular decline in public investment, which, as proportion of GDP, fell to a historic low of 4.6% in FY2008-09 from 6.2% in FY2004-05. As public investment did not increase, the private investment did not roll in either.

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The country needs a lot more resources to invest in physical infrastructure as well as for the development of power and gas sectors, which are among the major causes of the sluggish private investment in the country. The power sector alone will need as much as \$10 billion of new investment,¹ which cannot be generated from domestic sources.

The targeted GDP growth in the present and in the coming years will require a considerable increase in investment – perhaps worth almost an additional 2% of GDP every year. Preliminary estimates made by the Finance Division prior to the formulation of last year’s budget showed an investment shortfall of \$1.04 billion in FY2009-10. The shortfall would rise to \$9.40 billion in 2013-14, when the cumulative shortfall would stand at \$28 billion (see Table 2).

**Table 2: Investments Needed to Achieve the Targeted GDP Growth Rate
(2009-10 to 2013-14)**

	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Targeted GDP Growth (%)	6.0	6.8	7.5	8.0	8.0	-
Required Investment (US\$ billion)	24.59	30.63	37.18	43.82	49.69	185.9 1
Investment as percent of GDP	24.0	27.02	29.25	30.40	30.40	-
MTMF-estimate of Available Investment (US\$ billion)	23.55	27.10	31.36	35.54	40.29	157.8 4
Investment Shortfall (US\$ billion)	1.04	3.53	5.82	8.27	9.40	28.06

Source: Finance Division, Ministry of Finance

The huge investment need would require resource mobilization by increased public savings through higher revenue earnings, and increased private savings– by both individuals and the corporate sector. However, since available domestic saving will be insufficient to meet the needs of increased investment, the country will need larger doses of foreign direct investment (FDI) to meet the resource shortfall.

Foreign investment, however, has its costs, which may often exceed its benefits to the economy. Countries aspiring to attract foreign investment should therefore weigh the costs against the advantages and shape their investment policies accordingly. Some guidelines in that regard are suggested in this paper. Section II discusses the prevailing FDI regime in Bangladesh and the country’s potential as an attractive investment destination. Section III presents recent trends in FDI inflow to the country and discusses the weaknesses of the country’s investment regime as gathered from local experience as well as from observations of various multilateral bodies and

findings of recent surveys of investment-related costs of comparator host countries. Sector IV discusses the major factors that create a favourable investment climate and examines how far these factors do prevail in Bangladesh. Benefits and risks of FDI are assessed, and on the basis of this assessment, their implications for policy are discussed in Section V. Section VI concludes.

II. Bangladesh's Investment Regime

To attract more FDI into the country, Government has put in place an elaborate incentive package with wide-ranging investment-friendly support measures. The prevailing incentives, together with market-oriented reforms, significant socio-economic achievements and highly favourable demography, make Bangladesh one of the most attractive investment destinations in the world.

Bangladesh is well positioned as a favourable investment destination because of its large and growing local market.² The economy has experienced a moderately accelerated annual growth of 5-6 percent since 1996, a range of constraints notwithstanding. Bangladesh's growth was resilient during the 2008-09 global financial crises (Table 3). The realized GDP growth in Bangladesh was in fact higher in 2010 (6.3%) than the IMF's projection of 5.4% growth for that year. The targeted GDP growth rate is 6.7% in 2011 and above 7% in the years till 2015.³

Table 3: Comparative Scenario of GDP Growth (%)

Country/Region	Actual			Projections		
	2007	2008	2009	2010	2011	2015
Bangladesh	6.3	6.0	5.4	5.4	5.9	6.2
Cambodia	10.2	6.7	-2.6	4.8	6.8	6.8
India	9.4	7.3	5.7	8.8	8.8	8.1
Vietnam	8.5	6.2	5.3	6.0	6.5	7.5
Developing Asian Economies	10.6	7.9	6.6	8.7	8.7	8.5
Emerging Economies and Developing Economies	6.5	9.2	5.2	6.2	4.7	3.8
Developed Economies	0.2	0.5	0.4	0.4	0.3	0.1
World	5.2	3.0	-0.6	4.2	4.3	4.6

Source: IMF, World Economic Outlook, 2010

Other favourable factors for FDI are the country's geographically strategic location and moderate climate, efficient regional transport connectivity in

terms of roads, ports and telecommunications infrastructure, lower energy costs, the presence of export processing zones that offer special facilities to foreign investors over local investors, and an investment-friendly legal framework. Bangladesh in fact offers the most generous of incentives in the South Asian region for foreign investment under its liberalized investment regime shaped by industrial policy and export-oriented, private sector-led growth strategy.

The Foreign Private Investment (Promotion and Protection) Act 1980, which covers the legal framework for foreign investment in Bangladesh, allows 100% equity participation by foreign investors, provides for fair and equitable treatment between local and foreign investments, guarantees foreign investors protection against nationalization or expropriation by the State, provides full indemnification in the event of financial loss due to civil unrest, and ensures repatriation of invested capital, dividends, and the proceeds from sales of shares. Repatriable dividends, if invested, are treated as new investments. For bringing in new investments, government approval is not needed. Foreign firms and companies may also raise loans locally and they do not require permission of the central bank for remittance of profit, technical assistance fees and royalties.

Foreign investment is further facilitated by the provision of tax holiday facilities.⁴ There is a long list of tax incentives for foreign investors, viz., tax exemption, tax holiday, accelerated depreciation allowances, tax policy benefits, incentives for non-resident Bangladeshis (NRBs), equal treatment for local and foreign investors etc. Under the prevailing tax holiday facilities, investors in Dhaka and Chittagong Divisions, except the three Hill Districts, enjoy 100% tax exemption in the first two years, 50% tax exemption in the next two years, and 25% tax exemption in the fifth and final year. In the case of Rajshahi, Khulna, Sylhet and Barisal Divisions and the 3 Hill Districts of Chittagong Division, 100% tax exemption is allowed in the first three years, 50% in the next three years, and 25% in the seventh and final year. There is also tax exemption on royalties, technical know-how and technical assistance fees, and facilities for their repatriation.

As regards depreciation allowances, accelerated depreciation is allowed on the cost of plant and machinery for new industries at the rate of 50%, 30% and 20% for the first, second and third years, respectively. New industries that do not enjoy tax-holiday facilities and/or accelerated depreciation allowances are entitled to additional tax incentives in the form of reduced income tax liability (5% in 1st and 2nd years, 10% in 3rd and 4th years, and 15% in the 5th year in Dhaka and Chittagong Divisions (except the three Hill Districts); and 5% in

1st, 2nd and 3rd years, 10% in 3rd, 4th and 5th years, and 15% in the 7th year in Rajshahi, Khulna, Sylhet and Barisal Divisions and the 3 Hill Districts of Chittagong Division).

For avoidance of double taxation by foreign investors as well as promotion and protection of investment, Bangladesh has bilateral agreements with a large number of both developed and developing countries. In addition, Bangladesh is a signatory to MIGA (Multilateral Investment Guarantee Agency), OPIC (Overseas Private Investment Corporation) of the United States, and ICSID (International Centre for Settlement of Investment Disputes).

Government also allows permanent resident status to foreigners on investing a minimum of US\$75,000 or equivalent amount (non-repatriable) and citizenship on investing a minimum of US\$500,000 or transferring US\$1 million to any recognized financial institution, which shall be non-repatriable. Above all, Bangladesh has a young, highly adaptable work force, which is a crucial element in a country's investment climate. The 2005-06 Labour Force Survey estimated Bangladesh's civilian labour force at 49.5 million, of which the female labour force was 12.1 million.⁵

The favourable natural factors and various policy supports extended by government for attracting foreign investment led global banks and multilateral institutions portray a highly optimistic outlook. JP Morgan, Goldman Sachs, Citicorp, and Merrill Lynch have identified Bangladesh as a highly attractive investment destination, projecting the country to be the next Asian Tiger.

- JP Morgan included Bangladesh in their 'Frontier Five'. The Frontier Five was selected on the relative attractiveness of these countries based on macroeconomic and demographic trends.
- Goldman Sachs included Bangladesh in its list of 'Next 11' after the BRIC countries (Brazil, Russia, India, and China) and identified it as a country with the future potential to emulate the BRIC nations.
- Japan External Trade Organization (JETRO) in its 19th Survey of Investment-related Cost Comparison during January 2009 reported that Bangladesh is competitive in business support services like communications (mobile phone usage charges) and utilities (tariff for water and gas). Cost per cubic meter general use of gas in Bangladesh is the lowest compared to other Asian countries.
- The World Bank in its report 'Doing Business 2010' has ranked Bangladesh in the 20th position for 'Protecting Investors' – much

above India (40), China (93), and Vietnam (172). For ‘starting a business’, Bangladesh was positioned at 98, showing a more favourable investment environment compared to India (169), China (151), and Vietnam (116).

- A survey conducted by Japan Bank for International Cooperation (JBIC) in 2010 has ranked Bangladesh as 15th best investment destination. In JBIC’s 2009 ranking Bangladesh was in the 28th place.⁶
- Global multinationals such as Mobil, BP, Procter & Gamble, and Lafarge have their strong presence in Bangladesh.

III. Trends in FDI in Bangladesh and Weaknesses of the Country’s Investment Regime

Despite the wide-ranging incentives offered by Bangladesh to foreign investors, and the identification of the country by global institutions as a highly attractive investment destination, the volume of FDI has remained historically low in this country. In per capita terms, FDI in Bangladesh in 2008 was only \$7, as compared to \$31 in India and \$32 in Pakistan.⁷ Not only that the volume of FDI is low in Bangladesh, it also lags well behind other countries of the region, as UNCTAD data presented in Table 4 would indicate. The Table shows that FDI inflow to Bangladesh was \$1086 million in 2008, the highest so far in its history, but it fell significantly thereafter, falling by 34.1 percent to \$716 million in 2009.

Table 4: Foreign Direct Investment Inflow

Countries	FDI Inflows (Million US\$)			FDI Stock Million US\$)		
	1995-2005 (Annual Avg.)	2008	2009	1995	2008	2009
Bangladesh	427	1086	716	600	4816	5139
India	4137	40148	34613	5641	123294	163959
Pakistan	732	5438	2387	5408	16473	17789
Vietnam	1657	8050	4500	7150	48325	52825

Source: UNCTAD, *World Investment Report*, 2010

The decline in FDI was mainly due to the deep global economic recession, which spared no country or region.⁸ Global FDI flows plummeted by 37

percent in 2009 to \$1,114 billion – following a 16 percent decline in 2008. The decline occurred across all three sectors of FDI – primary, manufacturing and services, and most FDI components – equity investment, intra-company loans or reinvested earnings – contracted. In the first half of 2010, the global FDI witnessed a modest recovery, sparking some cautious optimism for FDI prospects in the short term and for a full recovery further on, but these prospects are fraught with risks and uncertainties, including the fragility of global economic recovery.⁹

However, in Bangladesh the registration of new investment with the Board of Investment rose significantly since 2009. In 2010, 1785 companies were registered with BOI, with a combined proposal for \$9472 million (local \$6298 million and foreign \$3174 million) – a 105 percent increase over the previous year. The proposed foreign investment in the country was 48% higher, and the proposed local investment was 158% higher than in 2009 (Table 5).

Table 5: Proposed Local and Foreign Private Investment

Year	Proposed Local Investment		Proposed Foreign Investment		Total Proposed Investment		Growth %
	Project	US\$ m	Project	US\$ m	Project	US\$ m	
2006	1754	2,662	135	3,621	1889	6,283	125%
2007	1930	2,849	191	1,728	2121	4,577	-27%
2008	1615	2,834	143	787	1758	3,621	-21%
2009	1336	2,481	132	2,138	1468	4,618	27%
2010	1600	6298	185	3174	1785	9472	105%

Source: Provisional data from BOI

The basic reasons behind low FDI inflows in Bangladesh can be traced to the country's poor investment climate to which we will presently turn. The reasons include governance issues like policy discontinuity, red tapes, administrative hassles, corruption in public services, ineffective implementation of the legal system, political turmoil, unsatisfactory law and order situation, poor conditions of infrastructure (roads, ports etc), shortage of skilled labour, and trade policy-related impediments.¹⁰ There is also the problem of inadequate and erratic supply of power and gas, which discourage investors to invest in the country. These weaknesses in Bangladesh's investment environment are also detected in recently conducted surveys of some reputed international organizations, which should be instructive for the nation's policy makers.

- A survey conducted by the Japan External Trade Organization (JETRO) in May 2009 reveals that as an investment destination Bangladesh is gradually losing its attractiveness to foreign investors because of relatively high and growing investment-related costs (high corporate tax rates, expensive internet tariffs, high container transportation cost etc). The JETRO survey also finds a significant gap between existing government policies and their implementation in practice.
- The World Bank's Worldwide Governance Indicators (WGI), published in June 2009, reports that Bangladesh has performed poorly in the rule of law, government effectiveness, and regulatory quality, all of which are among important determinants of the country's investment climate.
- The World Economic Forum's regular annual publication "The Global Competitiveness Report" for 2009, released in September 2009, ranks Bangladesh's infrastructure among the worst in the world.

Government should take note of and draw lessons from these reports and take appropriate action to address problems that impede investment, improve the investment climate, and make the country an attractive destination for overseas investors.

A prominent feature of FDI inflows in Bangladesh is that the bulk of the FDI is concentrated in the non-tradable, services, sectors (Table 6), which hardly contribute anything to export earnings but generate repayment obligations in respect of profits, dividends and repatriation of capital.¹¹ Table 6 shows that the composition of FDI changed in the direction of manufacturing and other tradable sectors in 2009, but even then the services sectors accounted for 62 percent of total FDI inflows.

Table 6: FDI Inflow: Distribution by Sector in 2008 and 2009 (in million US\$)

FDI Sectors	2008		2009		% change 2009/2008
	US\$ m	Share (%)	US\$ m	Share (%)	
Services	884.17	81.39%	443.86	61.99%	(-)49.8%
Power, Gas & Petroleum	101.02	9.30%	51.15	7.31%	(-)49.4%
Banking	141.76	13.05%	142.57	20.35%	0.57%
Telecommunications	641.39	59.04%	250.14	35.73%	(-)61.0%
Manufacturing	163.68	15.07%	172.71	24.12%	5.5%

Food Products	22.89	2.11%	24.54	3.51%	7.2%
Textile and Wearing Apparel	126.36	11.63%	136.38	19.48%	7.9%
Agriculture and Fishing	14.43	1.33%	11.79	1.68%	(-)18.3
Others	38.48	3.54%	99.43	13.89%	158.4%
Total	1,086.33	100.00%	716.00	100.00%	34.1%

Source: Bangladesh Bank *FDI Survey Report*, July-December, 2009; UNCTAD, *World Investment report 2010*.

In telecoms, FDI inflow declined by 61 percent, to \$250 million in 2009 from \$641 million in 2008. In power, gas and petroleum sectors, FDI fell by 49 percent and stood at \$51 million in 2009, as against \$101 million in the year before. However, the FDI inflow in textile and wearing apparel increased by 8 percent and stood at \$136 million in 2009. In 2008 the inflow was \$126 million. In the banking sector, FDI inflow remained about the same as in the past year (\$141).

However, a significant change in the composition of investment is noticed in the investment proposals registered with the BOI in 2010. In the proposals, the highest 30.8 percent of the investment was offered for the services sectors. The proposed investments for other sectors were 30 percent for textiles, 18.8 percent for chemicals, 7.8 percent for engineering, 6.6 percent for agriculture, and 4.4 percent for food and allied sector.¹²

IV. Improving the Investment Climate

The country's business community has long been complaining about the absence of a favourable 'investment climate' in the country. Investment climate is widely understood as the present and expected policy, institutional and behavioural environment, which influences the returns and risks associated with investment.¹³ Major factors that influence this environment are (i) *macroeconomic conditions*, (ii) *governance*, and (iii) *infrastructure*.

Macroeconomic factors include such obvious issues as fiscal, monetary, and exchange rate policies, and also political stability. *Governance* relates to government interactions with business, which typically mean regulation and corruption, both of which affect the cost of starting and running a business.¹⁴

Infrastructure refers to the quality and quantity of physical infrastructure (such as power, transport, and telecommunications). Poor infrastructure can undermine the competitiveness of firms and deter them from entering markets where they would otherwise have been able to operate efficiently. More

broadly, infrastructure can also refer to financial infrastructure (such as banking) – or access to finance. A healthy financial system frees firms of credit constraints and reduces the cost of investment. Therefore, countries with well-developed financial systems (banks, stock and bond markets) tend to grow faster than countries with less-developed systems.¹⁵

Apart from the three features mentioned above, the extent of international integration as understood from the country's trade openness (measured by the ratio of imports plus exports to GDP) and the availability of competent human resources are crucial elements of the investment climate.¹⁶ Research has shown that countries that aggressively opened their economies (such as Brazil, China, India, Malaysia, Mexico, Philippines and Thailand) attracted more FDI and grew more rapidly in the 1990s than those that did not.¹⁷ As for the availability of competent human resources, it does not just mean an abundant supply of labour, but a large workforce with sufficient education and technological know-how.

It will be interesting to see how far the aforementioned factors favour or adversely influence the investment climate in Bangladesh. In the event there are negative factors that vitiate the investment climate, government will need to seriously address the problems so that Bangladesh can compete effectively with other countries for attracting FDI.

Macroeconomic Conditions. As mentioned earlier, Bangladesh's macroeconomic performance has been strong in the most recent years. The growth rate of real GDP per capita, negative in the 1970s, accelerated strongly to 1.8% in the 1980s, 3.5% in the 1990s, and close to 4% in the first decade of the new millennium (2001-2009). The increase in per capita income is well above the average for developing countries and has also been accompanied by a host of successes in certain other areas like the reduction in poverty, a significant drop in fertility and infant mortality rates, an increase in life expectancy, improvements in school enrollment, and a reduction in adult illiteracy (Table 7).

Table 7: Bangladesh's Progress in Human Development

	1980	1990	2000	2010
Human Development Index	0.259	0.313	0.390	0.469
Population below National Poverty Line (%)	-	58.8	49.8	40.0*
Fertility Rate (birth per woman)	5.0	4.3	3.0	2.2
Infant Mortality Rate (per thousand people)	101.4	94.0	66.3	43.0
Life Expectancy at birth (years)	56.9	56.0	60.6	66.9

Gross Primary Enrollment Ratio (%)	61.0	72.0	97.5	93.8**
Gross Secondary Enrollment Ratio (%)	18.0	19.0	42.0	44.1**
Adult Literacy Rate (age 15 and older (%))	29.0	35.0	45.0	55.0

Source: UNDP, Human Development Report. * relates to 2008; ** relate to 2009.

There are also other positive trends. Fiscal deficit has been brought down. Tax net has now widened and revenue collection increased. The central bank enjoys greater independence in formulating monetary and credit policies and in its supervisory and monitoring functions. The prudential regulation enabled the banking sector to remain unhurt during the global financial turmoil of 2007-2008. The inflation rate, of course, remains high relative to many industrial countries but it is significantly below the level where it can adversely affect growth.¹⁸

The increase in income growth is heartening, but much more progress is possible. Other major reforming low-income countries in South and East Asia grew at a much faster pace, which indicates that Bangladesh's economic growth is well below its potential. Take the case of India and China, the two countries that achieved phenomenal growth in the past decades. In 1980, per capita income of Bangladesh in purchasing power parity (PPP) terms was US\$550, which was slightly less than India's \$668 and slightly more than China's \$464. In 2010, per capita income in PPP dollars rose to \$1587 in Bangladesh – but to \$3337 in India and \$7258 in China. In this 30-year period, Bangladesh's per capita income grew by 3.6% per year, as against 5.5% in India and 10.1% in China (all in PPP dollars). Thus, while these three countries had similar income levels three decades ago, the slower growth in Bangladesh means that an average Indian today earns more than twice, and an average Chinaman more than 4.5 times income than an average Bangladesh citizen. The failure on the part of Bangladesh to keep up with the growth in other countries thus points to the need to improve its investment climate.

Access to Finance. The private sector in Bangladesh gets reasonable access to finance. Between July 2009 and June 2010 (FY2009-10), credit to the private sector increased by 21.1 percent while credit to the public sector increased by 9.4 percent. This is in sharp contrast with credit flows in FY2008-09 when credit to the private sector increased by 14.6 percent and credit to the public sector rose by as much as 20.3 percent.¹⁹ In order to contain inflation the central bank twice raised the CRR in the recent months – from 5.0% to 5.5% in May 2010 and again to 6.0% in December 2010 – and also raised the prime lending rates – repo and reverse repo – but maintained an accommodating

credit policy to ensure easy credit access to important but under-served sectors.

Integration with the Global Economy. Bangladesh experienced high growth in exports and imports in the recent times but yet it cannot be said to be well integrated with the global economy. The country's trade openness (as measured by the sum of exports and imports as proportion of GDP) is, of course, greater than India's or Pakistan's but less so compared to many low- and middle-income Asian countries. The increase in openness in the 1990s was mainly because of significant liberalization of tariff, which was brought down from 100 percent in 1990 to about 20 percent in 2001. However, the pace of trade liberalization has weakened in the recent years. Nominal protection afforded by tariffs and other protective taxes is still too much high and too highly dispersed. Many activities receive total protection of more than 37.5% as a result of non-tariff protection on account of VAT, supplementary duty and surcharges. By world standard, Bangladesh has still a highly protected trade regime, which is heavily biased against exports, despite various types of duty exemption for exporters. World Bank's assessment is that the effective exchange rate for import substitutes is on average 26 percent more favourable than the effective exchange rate for exports.²⁰

Other evidence of poor integration with the global economy is the low level of FDI inflows and per capita remittance receipts. FDI inflow in Bangladesh in 2008 was just 1.2% of GDP, as against 1.9% in Sri Lanka, 3.3% in Pakistan, 3.4% in China, 3.6% in India, and a staggering 10.6% in Vietnam. As regards inward remittances, inflows into Bangladesh are about 11.3 percent of GDP compared to 4.3% in both India and Pakistan, and between 7 and 8 percent in Sri Lanka and Vietnam but per capita remittance in Bangladesh (US\$56), though slightly higher than Pakistan's \$42, India's \$44, and China's \$37, is well behind that of Vietnam (\$84), Nepal (\$95), and Sri Lanka (\$146).²¹

Governance Issues. Good governance is critical for the investment climate and key to long-term economic growth. Bangladesh has some positive achievements in the sphere of governance such as in reducing the gender bias, ensuring the liberty of press and media, restoration of democratic government, adoption of the Right to Information Act, the separation of judiciary from the executive, etc. but instances of governance failures on economic, political and institutional fronts are overwhelmingly large, which vitiate the overall investment environment and threaten the process of economic growth.

On the *economic front*, governance difficulties are observed in inefficient public spending, high losses of public sector enterprises (PSEs), power sector thefts, and the default culture in the banking system. These indicators show the substantial incidence of inefficiency and corruption in public administration. A comprehensive solution of the corruption problem in banking, power sector, and PSEs would require privatization along with improvements in the regulatory capacity of the public sector, but, sadly enough, the process of privatization that started in the 1990s has been largely halted in the present decade.

On the *political side*, serious government difficulties are reflected in the extremely confrontational politics and poor law and order situation. Hartals, terrorism and extortion, often perpetrated under political patronage, are major obstacles to expansion of business, which damage the country's image abroad. To the average citizen, the most pressing governance problem is the weak law and order situation, which threatens to erode people's confidence in the law-enforcing agencies.²² Strong and meaningful action will be needed to put an end to the law and order crisis and establish the rule law, which is a prerequisite for improving the country's investment climate.

On the *institutional front*, weak governance encompasses the entire spectrum of the country's civil administration and also in local governments in rural and urban areas. Two World Bank reports reveal glaring institutional weaknesses and corruption in civil service, public audit and accounts, the law and order institutions, and the judiciary.²³ Reports of the Transparency International also corroborate the World Bank's findings. The present government has pledged to eradicate corruption by strengthening the reformed Anti-Corruption Commission, but reforms will now be needed in the civil service to make it transparent and accountable to the people. Strengthening government institutions and the rule of law will do much to improve the climate for investment, productivity and growth.

Infrastructural Weaknesses. The quality of infrastructure services, a critical feature of a country's investment climate, is very poor in Bangladesh, which increases the cost of doing business in the country. The biggest concern is with electricity. About 59.3 percent of the people do not have access to power in Bangladesh, whereas the number of people not having access to electricity is 23.4 percent in Sri Lanka, 34.2 percent in India, and 39.8 percent in Pakistan.²⁴ Because of the shortage in generating capacity that results in frequent power outages and load-shedding, electricity supplies for firms are

unreliable. The power problems significantly raise the costs to firms as they are forced to rely heavily on costly generators to maintain their production.

System loss is a perennial problem in Bangladesh's power sector, which is perhaps the highest in the developing world. It is in large part a reflection of power sector theft and poor collection of bills. Improving the low access to power will therefore depend critically on reducing the high system loss and improving billing and collection significantly.

Port services in Bangladesh are worse than in any other Asian country. Much of the inefficiency in Bangladesh ports is centered in Chittagong port, which is plagued by labour problems, poor management and lack of equipment. Ship turnaround time is five to six days compared with about one day in more efficient ports, and the port faces serious congestion, resulting in high shipping costs. For example, the cost of moving a container through Chittagong port comes to \$600 compared to \$150-300 in neighbouring country ports. The high port charges reduce the competitiveness of the country's exports and also raise the costs of imports to consumers and domestic industries, and hampers investment.²⁵

Having a well-developed telecommunications sector is becoming increasingly important these days for business and industry but in Bangladesh the telecommunication network is inadequate, inefficient and expensive. In the past decade there has been a tremendous expansion in the mobile phone market but still Bangladesh lags behind other low-income countries in cellular telephony. Also, internet connectivity lags behind other comparator countries in East and South Asia. Internet users per 100 people in Bangladesh are just 0.3 percent, whereas the numbers are 4.5% in India, 5.8% in Sri Lanka, 11.1% in Pakistan, 22.5% in China, 23.5% in Maldives, 23.9% in Thailand, and 55.8% in Malaysia.²⁶ Again, broadband subscriptions per 100 people in Bangladesh are next to insignificant, as against 0.5% in India and Sri Lanka, 1.4% in Thailand, 5.2% in Malaysia, and 6.2% in China.²⁷ The IT sector in Bangladesh will be unable to take off unless telecommunications and power systems are substantially improved.

Human Resources. Improved access to education is essential in creating a workforce with the skills and knowledge needed for a healthy investment climate. Firms, whether domestic or foreign, are more eager to invest when they know that they will be able to draw on a skilled workforce to make their investment productive. Also, a healthy investment climate is not possible without a healthy labour force.

Bangladesh has made significant achievements in the areas of education and health in the past thirty years, but many challenges remain because certain other elements for a strong capital base are missing. School enrollment rates have increased but the ratios are lower than those in any comparator countries of East and South Asia. Tertiary enrolment remains low at about 7 percent, compared to 13.5 percent in India, 18 percent in Indonesia, 22 percent in China, and 30 percent in Malaysia.²⁸ There are fewer scientists and engineers than in many other developing countries. Bangladesh has a low record of the technological innovation. The country spends less on research and development (R&D) as a share of GDP than do most other developing countries in East and South Asia. While R&D spending by Bangladesh is less than one-sixth of 1 percent of GDP, it amounts to 0.2% in Sri Lanka and Thailand, 0.6% in Malaysia, 0.7% in Pakistan, 0.8% in India, and 1.5% in China.²⁹ The shortage of skilled workers is also a cause of concern. Adult illiteracy, despite improvements, remains high. And concerns about the quality of education remain.

In the area of health, there has been significant progress, particularly in reducing fertility and infant mortality rates, eliminating polio and leprosy as public health problems, and developing nutrition and family welfare services, but there is widespread malnutrition and unacceptably high maternal mortality and morbidity rates.

Bangladesh should intensify efforts to make a faster progress in human development. Overall, the most pressing problem in human development is the low quality of public services, reflected in low education achievements and poor health standards. Resolute implementation of planned reforms, bold new policy measure, and effective implementation of routine activities are needed to address the key issues in education and health. This will require a significant increase in public spending on education and health, which currently is only 2.4% and 1.1%, respectively, of the country's GDP.

V. Benefits and Risks of FDI³⁰

While acknowledging the overriding need for obtaining larger flows of FDI, it should be understood that FDI is not an unmixed blessing. There are benefits and costs accompanying foreign investment. The task for policy makers and analysts is to ascertain the determinants of the benefits and costs, and attempt to devise policies to increase the benefits and reduce the costs, with the aim of ensuring that there are net benefits.

Net benefits of FDI will be maximized and lead to fruitful, balanced growth of the host economy under certain conditions. It is upon the government to ensure that these conditions are in place if they are going to make investment work towards their own development goals rather than just generating profits for the foreign company.

Benefits of FDI

At the theoretical level, the benefits of FDI include the following:

- 1) **Overcoming domestic resource constraint.** FDI can close the domestic resource gap by providing an outside source of financing for investment. FDI inflows are believed to be more stable and easier to service than other sources of foreign private capital such as commercial debts or portfolio investment.
- 2) **Raising the productivity of labour and capital.** FDI raises the productivity of labour, and so raises the quality of employment. Economies of scope and scale and managerial efficiency can raise the productivity and returns of all production inputs. In technical jargon, when foreign capital is used with locally available labour and capital, the marginal productivity of these domestic inputs increases. This will lead to an increase in the real wages for workers and to an increase in the real rate of return to the domestic capital.³¹
- 3) **Generating employment.** By creating new productive facilities, FDI creates more jobs in the economy. Increased employment, like investment, will have a multiplier effect on the economy and stimulate a dynamic growth cycle.
- 4) **Easing the balance of payments constraints.** FDI leads to an improvement in the host country's balance of payments and possibly also terms of trade. Foreign investment constitutes an inflow on the capital account and therefore allows the economy to sustain the deficit on the current account without devaluing the currency or introducing austerity measures.
- 5) **Raising exports.** Export-oriented TNCs can raise exports significantly. This is in fact one reason why developing country governments try to attract FDI through the creation of export processing zones (EPZs).
- 6) **Access to technology.** FDI brings in new technology, which may have positive spillover effects for other local firms.

- 7) **Access to markets.** TNCs can help host countries gain easy access to the lucrative markets of the rich countries.
- 8) **Benefits to environment.** TNCs have better access to and knowledge of environmentally sound technologies and are expected to bring such technologies to the host country.
- 9) **Benefits to consumers.** Consumers are likely to benefit from increased FDI inflows in the form of lower prices and improved product quality when the investment is cost-reducing and product-improving. Benefits also accrue to consumers because FDI is likely to introduce new products and thus widen the choice in consumer goods markets.
- 10) FDI may also contribute increased revenue to the government.

Risks associated with FDI

At the same time as FDI offers many potential benefits, it also poses some real risks for the host economy. Empirical studies on the effects of FDI on savings, financial inflows and outflows, trade, and growth conclude that successful growth in developing countries is premised essentially on raising the domestic savings rate to a high level and productively investing the savings. This is more important than the role of foreign capital – aid, debt and FDI. The East Asian growth success is based mainly on high domestic savings rather than FDI, although FDI has many advantages as mentioned above.

A UN economist, addressing a seminar in Dhaka recently, said that FDI should not be considered indispensable for economic progress. Countries like Taiwan, Korea, Japan, China and even western economies did not rely much on foreign investment. Economic progress there was actually always laid by the domestic ventures. Foreign investment is necessary to gain access to certain foreign markets or certain fast-changing technologies.³²

Impact on domestic savings. Normally FDI should raise real income and domestic savings. But this effect may be offset by redistribution of income away from domestic capital if the foreign investment competes with home investment and reduces profits of domestic industries. The consequent reduction in domestic savings is an indirect cost of foreign investment. The FDI may also have a negative effect on domestic savings, as it gives room for an increase in consumption in the recipient country.

Decapitalization effect. FDI generates both positive and negative effects on the flow of foreign exchange on two accounts: financial and trade. On the financial side, FDI brings in capital, but also leads to a stream of return flow

of profit, other investment incomes and accumulated interest, and repatriation of capital. This return flow increases through time as the stock of foreign capital rises. Thus, FDI has a tendency to lead to “decapitalization”. Since the rate of return of FDI is much higher than the rate of interest paid on aid or debt, the “decapitalization” effect of FDI is likely to be greater than that of aid or debt.

Effects on balance of payments. On the trade side, FDI has a positive effect through higher export earnings and a savings on imports (for products locally produced), but a negative effect through higher imports of intermediate and capital goods. In many cases, FDI is heavily reliant on large imports of capital and intermediate goods. The high import content reduces the positive trade effect. If investors import more than they export, FDI can end up worsening the balance of payments situation of the country. In order for FDI to have a positive effect on balance of payments, there must be a strong enough positive trade effect to offset the negative decapitalization effect. Without careful policy planning, the negative effect could grow through time and be serious as profit outflow builds up.

“Denationalization” effect. Too rapid a buildup of FDI could lead to “denationalization”, where the ownership of firms is transferred from domestic to foreign hands and the foreign share of the nation’s wealth stock increases relative to local share. To avoid economic or social problems that this may cause, the rate of growth of domestic investment should exceed FDI growth.

Impact on development. The impact of FDI on development also depends upon the type of FDI, i.e., whether it is in the form of “Greenfield investment” or “merger and acquisition” (M&A). Greenfield investments should be preferred by developing countries because they create new productive facilities and create jobs, instead of FDI through M&As, which consists of the purchase of existing assets, especially through privatization and in the services sector. M&A type FDI, which is often called “yellow field investment”, does not generate employment at the time of entry into the host economy and may even lead to lay-offs as the acquired firm is restructured. Developing countries should also encourage FDI in tradable sectors, which has a positive trade effect, rather than FDI in the non-tradable services sectors, which do not yield much export earnings.

Instability. Contrary to the conventional wisdom that FDI is a stable form of longer-term foreign capital inflows, an UNCTAD report shows that FDI can also be a source of considerable financial instability. Even when FDI is governed by long-term considerations, aggregate FDI flows can respond

rapidly to changes in short-term economic conditions. Thus, profit remittance and profits retained (profit re-investment) by the subsidiary are now significant components of FDI flows in many host countries. The composition of FDI in Bangladesh, too, has been undergoing a shift away from equity capital in the direction of reinvested earnings. In 2009, reinvested earnings accounted for 52 percent of all FDIs (Table 8). These are highly volatile and indeed can be just as volatile as portfolio investment flows, especially during an economic crisis. Therefore, the old presumption that FDI flows are less volatile than portfolio investment may no longer hold.

Table 8: Components of FDI Inflow in Bangladesh, 2008 and 2009

FDI Components	2008		2009		Growth %
	US\$ m	Share	US\$ m	Share	
Equity Capital	809.3	74.50%	218.55	31.21%	-73%
Reinvested Earnings	245.7	22.62%	364.94	52.12%	48%
Intra-Company Loans	31.3	2.88%	116.67	16.66%	273%
Total	1,086.3	100%	700.16	100%	-36%

Source: Bangladesh Bank FDI Survey Report, July-December, 2009

The effects of volatility in capital markets caused by large and rapid outflows of foreign capital can be seen clearly in the East Asian crisis that began with the devaluation of the Thai baht in 1997. The flight of foreign investors from Korea, Thailand, and Indonesia etc. had a huge impact on the real domestic economies of these countries causing growth to plummet. This experience should be read as a cautionary tale by other developing countries like Bangladesh that are opening up their capital markets.

Impact on domestic investment. FDI does not necessarily lead to an increase in investment by the same amount, because it may ‘crowd out’ domestic investment. Since they have access to cheaper capital than most firms in the host country, TNCs are able to snap up profitable investment opportunities that domestic investors would have made if they had the chance.

Crowding out may also take place because TNCs have privileged access to skilled personnel, again because of their reputation and size. They can thus raise entry costs for local firms, or deprive them of the best factor inputs. Note that foreign firms are usually able to attract top graduates at the expense of local firms.

Impact on domestic competition. FDI and in particular M&As are likely to have a negative impact on the level of competition in the domestic market. Developing countries are understandably concerned that the takeover of domestic firms by giant TNCs will allow them to engage in anti-competitive practices and abuse of their dominant market positions. This points to the pressing need for developing countries to strengthen their domestic competition policies and law. For countries that do not yet have any national competition law or policy should quickly move towards enacting legislation in that regard, if they want their local firms stay alive alongside powerful multinational companies.

Transfer pricing. Transfer pricing refers to the pricing of intra-firm transactions of goods, services, know-how and intellectual property. The prices at which such items are transferred do not reflect the true value of products entering and leaving the country, and hence transfer pricing may result in a drain of national resources. Countries involved may lose out on tax revenue from TNCs as they are able to juggle their accounts in such a way as to avoid their tax liabilities.

Developing countries can deal with the transfer pricing issue by enacting legislation whereby there shall be a system of penalties on firms for deliberate manipulation of records to avoid tax obligations.

Risk of loss of control over strategic sectors. The host country's politico-strategic interests will be at stake if FDI comprises a large component of total investment and involves loss of local control over strategic sectors, infrastructure and natural resources.

Effect on R&D. An important argument raised against FDI concerns its effects on domestic research and development (R&D). Foreign ownership of important parts of a country's industry can stifle scientific research and development work in the host country. Foreign direct investments usually tend to be made in technologically advanced industries, but research for further development of these key industries tends to be located in the investing country. Thereby the host countries are deprived of the important stimulus given by research in these industries. The tendency, inherent in direct investments, to lead to a reallocation of research activities could also induce scientists and technicians to leave their own country and move to the investing country – a phenomenon popularly called the “brain drain”. How one views the effects of direct investment on research activity and the consequent “brain drain” is largely a matter of values, because while brain drain tends to siphon off scientific and technical talent from the relatively poor host economies to

the richer home countries, it also enables the immigrant population to remit at least part of their earnings back to their own countries and improve their balance of payments position.

Cost of FDI incentives. Given the limited supply of global FDI, resource-poor countries compete fiercely with one another to attract foreign investment. They are prone to engage in a ‘race to the sky’, offering investors more and more attractive financial incentives, or in a ‘race to the bottom’, reducing regulatory requirements on firms. Engaging in this type of competition almost inevitably means that even the country that wins the investment has to pay a heavy price.

One way in which a country may be able to attract FDI without engaging in reckless competition on incentives is to establish specific EPZs, where businesses are offered a combination of reduced tax rates, tax holidays, subsidies (e.g., based on the number of jobs created), and reduced regulation.

Other costs of FDI. Other costs are damages to the physical environment, if FDI is involved in projects that pollute the environment; distortion of consumption patterns, if costly foreign foods from FDI supplant local and more nutritious foods in the diet of the urban poor; the net loss of jobs when capital-intensive FDI displaces labour-intensive local firms; fiscal costs, in the form of increased government expenditure or foregone revenue, involved in providing subsidized inputs and additional services; and so on. All these factors have to be taken into account in an overall net evaluation of the costs and benefits of FDI.

VI. Concluding Observations

FDI offers great potential to contribute to the development of poor countries, and hence most countries try their best to attract as much FDI as possible. Since, however, there is evidence that FDI can have both positive and negative effects, a major objective of development policy should be to maximize the positive effects and minimize the negative ones, so that on balance there is a significant benefit.

Lessons of economic theory and historical evidence indicate that not all FDI is conducive to development. Some kinds of FDI may even do more harm than good. Hence, the policy to embrace all types of FDI without screening may cause serious long run economic difficulties, thereby harming the country’s development prospects. To limit the risks, and avoid harmful effects on the economy, Government should take a selective policy to FDI with respect to its

type (e.g., Greenfield or M&As), and with respect to specific projects (e.g., confining FDI to priority tradable sectors instead of non-tradable ones). For FDI to be used successfully (with net overall benefit), the following conditions should be met:

- Availability of foreign capital should not detract from own saving effort.
- FDI must be concentrated in the tradable sector, especially in export oriented industries, instead of in non-tradable services sectors that do not contribute to export earnings.
- To prevent foreigners gaining control of the nation's strategically important assets, the growth of domestic investment should exceed FDI growth.
- FDI should bring the most modern technology. Foreign investors that do not bring the latest technologies should not be allowed to do business in the country.
- To avoid dependence on foreign capital, the host country should increase its savings rate and maintain sound economic and political conditions.

Experience also shows that for FDI to play a positive role, government must have the power to regulate their entry and operations. Government regulation has an extremely important role to play in guiding and shaping investment flows and their impact on the economy. In terms of technology transfer, the transfer of R&D activities as part of FDI, and employment creation, host governments can impose specific requirements on TNCs. In labour and environment issues, governments should maintain their national standards.

The host country should also have policies that favour the growth of local companies. For example, tax breaks, if allowed to a local company, may not be given to foreign companies. Such a policy can be justified on ground of national development, similar to the argument for infant industry protection that local firms need to be given a special treatment at least for some time so that they can be in a position to compete with more powerful and better endowed foreign companies.

Active policy-making and thoughtful regulation becomes all the more important for the host country government because it cannot shirk its responsibility to its citizens to pursue sustainable development. Multinational corporations engage in FDI in order to make profits. They cannot be expected to give priority to development concerns of the FDI recipient country. This is

the responsibility of the host governments, and they must design their investment policy accordingly.³³

The global economic crisis was no doubt partly responsible for the decline in FDI to Bangladesh, but, as has been seen in the foregoing, the problems are largely endogenous, which affect both domestic and foreign investment alike. Bangladesh offers the most generous incentives to foreign investors, but overshadowing these lucrative incentives, there are a lot of negative factors such as the poor condition of the country's physical infrastructure (roads, ports, harbours etc.), the acute shortage of gas and electricity, corruption in public services, administrative hassles, the absence of a conducive business environment and hence the high cost of doing business, and, above all, poor law and order conditions, which discourage entrepreneurs, both domestic and foreign, to invest in the country. For investors, whether local entrepreneurs or foreign, to be encouraged to invest more in the country, government will need to adopt appropriate steps to solve the aforementioned problems.

According to a top policymaker linked with the national Board of Investment, the main impediment to FDI in Bangladesh was bureaucratic red tape, not the shortage of gas and electricity. While one would definitely agree that bureaucratic lethargy and red tape was a significant deterrent to investment, one should not downplay the crucial role of gas and electricity in attracting foreign investment in the country. For quite some time now, the country's industry circle and business community have been saying that the major obstacle to investment in Bangladesh is the gas and electricity crisis. A good number of established industries have reportedly closed down operation and many more are contemplating to shut down production for lack of adequate gas supply.

Developing the power and energy sector for meeting the scarcity of gas and electricity should therefore be the top priority of the government now. Since the government's success in this task will hinge upon the sector's ability to utilize the country's coal resources, government will need to quickly finalize and announce the long-awaited coal policy, settling once and for all the controversy about the appropriate technology for coal mining that will enable extraction of the maximum amount of coal from the mines.

Bureaucratic reform has been a pretty old issue. The Regulatory Reforms Commission and the Better Business Forum formed during the last caretaker government (2007-2008) were disbanded by the present government and their recommendations remain largely unimplemented. The Finance Minister in his first budget speech in June 2009 promised to form a new body to push through

regulatory reforms but the body is still to see the light of the day. The sooner the promise is materialized, the better.

Bangladesh offers opportunities to foreign investors for investing in the country's basic infrastructure, apart from the three traditional sectors – primary, manufacturing, and services sectors. The Board of Investment may take initiative to present Bangladesh as an attractive investment destination in infrastructure building under different implementation modes, viz., Build-Own-Operate (BOO), Build-Operate-Transfer (BOT), and Build-Own-Operate-Transfer (BOOT) or any other method. The government has plans to undertake large infrastructure projects, including several by-pass roads, Dhaka-Chittagong Expressway etc. It is now necessary to quickly adopt and successfully implement these projects.

Notes and References

¹ This is in fact the minimum amount required to meet the power sector's short and medium term needs.

² Bangladesh is ninth most populous country of the world at present having about 150 million people with a growing number of middle class populations.

³ Government of Bangladesh: Ministry of Finance, *Budget Document FY 2010-11*.

⁴ Government of Bangladesh: Ministry of Industries, *Industrial Policy 2010*.

⁵ Bangladesh Bureau of Statistics (BBS), *Labour Force Survey 2005-06*.

⁶ *The Daily Star*, Dhaka, 7 January 2011.

⁷ UNCTAD, *World Investment Report*, 2010.

⁸ As elsewhere, FDI inflows declined in all major South Asian countries in 2009, and, in some of them, very drastically. Thus, FDI inflow declined from \$40.14 billion to \$34.61 billion in India (a 13.8% decline); from \$5.43 billion to \$ 2.38 billion in Pakistan (a 56.2% decline); from \$752 million to \$404 million in Sri Lanka (a 46.3% decline); and from \$300 million to \$185 million in Afghanistan (a 38.3% decline). In Vietnam, FDI declined by 44.1%.

⁹ UNCTAD, *op. cit.*

¹⁰ IMF and World Bank have always regarded these factors as the basic reasons behind poor investment in the country.

¹¹ Given, however, that the shortage of power is a big constraint to the country's industrial development and growth, FDI in gas and power sectors should benefit the country. FDI in gas and power will result in extra power generation (much of the country's gas is used in power generation), boost industrial production and exports, and bring in the extra foreign exchange required to finance payments on FDI inflows. World Bank, *Foreign Direct Investment in Bangladesh: Issues of Long-run Sustainability*, Dhaka, October 1999.

¹² Government sources cited by Star Business Report, The Daily Star (Dhaka), Thursday 20 January 2011.

¹³ Nicholas Stern, "The Investment Climate, Governance, and Inclusion in Bangladesh". World Bank, Washington, D.C., 2002.

¹⁴ Overregulation is often associated with corruption, which can easily deter foreign and domestic investment. See Beata Smarzynska and Shang-Jin Wei. "Corruption and Composition of Foreign Direct Investment: Firm-Level Evidence." Policy Research Working Paper 2360. World Bank, Washington, D.C., 2000.

¹⁵ *Improving the Investment Climate in Bangladesh*. Bangladesh Enterprise Institute (BEI), Dhaka, and World Bank, Washington, D.C., June 2003, P.3.

¹⁶ BEI and World Bank, *ibid*.

¹⁷ David Dollar and Aart Kraay, "Trade, Growth, and Poverty." *Finance and Development*, 38(3), 2001.

¹⁸ There is in fact no strong empirical evidence to show that inflation affects growth even where it is between 20 and 40 percent. See Michael Bruno and William Easterly, "Inflation Crises and Long-term Growth". *Journal of Monetary Economics*, 41(1), 1998.

¹⁹ Bangladesh Bank, *Monetary Policy Statement July-December 2010*, 19 July 2011.

²⁰ Nicholas H. Stern, *The Investment Climate, Governance, and Inclusion in Bangladesh*. Public Lecture delivered at Bangladesh Economic Association, Dhaka, 8 January 2002.

²¹ UNDP, *Human Development Report 2010*.

²² Sadiq Ahmed, "Bangladesh since Independence: Development Performance, Constraints and Challenges." *Bangladesh Journal of Political Economy*, 15 (1), 2001.

²³ World Bank, *Bangladesh: Government That Works – Reforming the Public Sector*. Washington, D. C., 1996; Idem, *Corruption in Bangladesh: Costs and Cures*. Washington, D. C., April 7, 2000.

²⁴ UNDP, *Human Development Report 2010*.

²⁵ The cost of shipping a container of garments from Chittagong to US markets is about twice as high as shipping from Bombay or Shanghai. Nicholas Stern, *op. cit.*, p.19.

²⁶ UNDP, *Human Development Report 2010*.

²⁷ UNDP, *ibid.*

²⁸ UNDP, *ibid.*

²⁹ UNDP, *ibid.*

³⁰ Benefits and risks of FDI have been aptly discussed in two seminal monographs: (i) Martin Khor, *Globalization and the South: Some Critical Issues*, UNCTAD Discussion Paper No. 147, April 2000, Geneva and (ii) CUTS Centre for International Trade, Economics & Environment: *Making Investment Work for Developing Countries*, Jaipur (India), 2001. This section draws in part on these monographs.

³¹ Bo Sodersten, *International Economics*. London: Macmillan, 1971.

³² Lecture by Jomo K. Sundaram at the Conference entitled "Bangladesh: the Next Investment Destination" organized by the Metropolitan Chamber of Commerce and Industry, Dhaka, on 1 December 2010.

³³ CUTS Centre, *op .cit.*