

# Determinants of Foreign Direct Investment: A Study on Bangladesh

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## Abstract

Foreign direct investment (FDI) enables a capital-poor country like Bangladesh to build up capital, avoid the threat of unemployment, develop productive capacity, involve local labor and help integrate the domestic economy with the global economy. Bangladesh's investment incentives and regulations for FDI are sometimes found competitive with those offered by other countries. Rapid industrialization is essential in Bangladesh to keep pace with its development needs. But the low rate of Investment hampers the expected industrialization process. Foreign aids and grants had been serving to bridge the gap. The main focus of this paper is to reveal the determinants of FDI. This is a qualitative study and is based on secondary data. Author tried to find out the main determinants of FDI in Bangladesh. Actually there is no widely accepted set of variables that can be regarded as the "true" determinants of FDI. This study focused on ten determinants of FDI in Bangladesh which are determinant: 1- market size, determinant: 2- economic environment, determinant: 3- growth, determinant: 4- trade performance, determinant: 5- competitiveness, determinant: 6- labor Costs and productivity, determinant: 7- infrastructure, determinant: 8- political risk, determinant: 9- tax, and determinant: 10- regulatory policies. Author also found out that there are some problems faced by the foreign direct investor and tried to give some suggestions to overcome these problems from the perspective of Bangladesh.

**Keywords:** Determinants, Foreign Direct Investor (FDI), Board of Investment (BOI), Developing countries, Bangladesh.

## 1.0 Introduction

Economic supremacy is the foremost feature of the current world. In order to survive, Bangladesh has no other options but to attain economic development. Foreign Direct Investment (FDI) is recognized as a key component for economic growth for Bangladesh. Being one of the Least Developed Countries (LDC) with insufficient domestic savings rate for investment after fulfilling its basic needs, the importance of foreign investment is absolute. Countries that are lagging behind to attract FDI are implementing new policies for attracting more investment. FDI inflow to Bangladesh has traditionally been lower than other South Asian countries. Foreign direct investment (FDI) is a powerful weapon of developing the Bangladesh economy. Through this Bangladesh can achieve some socio-economic objectives including poverty reduction goals. In a capital-poor country like Bangladesh, FDI can emerge as a significant vehicle to build up physical capital, create employment opportunities, develop productive capacity, enhance skills of local labor and help integrate the domestic economy. This paper provides an assessment of the current situation of FDI in Bangladesh and its determinants. The Foreign Private Investment Act has been enacted to ensure legal protection to foreign investment in Bangladesh against nationalization. It also guarantees repatriation of profit, capital and dividend and equitable treatment with local investors. Intellectual property rights, such as patents, designs and trademarks and copyrights, are protected. Bangladesh is the participant to the International Convention for Settlement of Investment Dispute (ICSID), The Multilateral Investment Guarantee (MIGA), and member of World Intellectual Property Organization (WIPO) and the world Association of Investment Promotion Agencies (WAIPA). Hence, property and other rights of foreign investors are safeguarded according to international standards. Trade has been liberalized and duties reduced. Customs and bonded warehouses assist exporters. Free repatriation of profits is allowed, and the Taka is almost fully convertible on the current account. No prior approval is required for FDI except registration with the Board of Investment (BOI). Despite such policies reforms, Bangladesh could not attract handsome flow of FDI as yet. Though there are some problems of FDI in Bangladesh, government and related bodies tries hard and soul to improve present scenario and to make Bangladesh a golden place for foreign direct investing. Some factors determine the flow of FDI in Bangladesh. Considering the above facts the overall purpose of preparing the paper was to identify the determinants of Foreign Direct Investment in Bangladesh.

## 2.0 Literature Review

Kumer, N. (2002) says that Foreign Direct Investment (FDI) has emerged as the most important source of external resources flows to developing countries over the 1990s and has become a significant part of capital formation in the country despite their share in global distribution of FDI continues to remain small or even

declining. Mallampally and Sauvant (1999) states that FDI is widely thought to bring with it, into the host country, a bundle of productive assets, including long-term foreign capital, entrepreneurship, technology, skills, innovative capacity and managerial, organizational and export marketing know-how. Joong-Wan Cho (2004) explains in "Foreign direct investment: determinants, trends in flows and promotion policies" that most developing countries were starting to look to FDI as a source of capital when flows of official development assistance (ODA) declined sharply in the 1990s. FDI usually represented a long-term commitment to the host country and contributed significantly to gross fixed capital formation in developing countries. FDI had several advantages over other types of capital flows, in particular its greater stability and the fact that it would not create obligations for the host country, as had been observed in the context of the Asian financial crisis of 1997-1998. FDI can play a key role in improving the capacity of the host country to respond to the opportunities offered by global economic integration, a goal increasingly recognized as one of the key aims of any development strategy. Krugman and Obstfeld defined FDI as international capital flows in which a firm in one country creates or expand a subsidiary in another. Iftekhar Ahmed (2006) works on article entitled 'foreign direct investment: impact on scrotal growth in Bangladesh'. He explains, while welcoming FDI, we should also formulate a set of priorities to guide FDI decisions. The general principle one can easily agree on, is to promote long term sustainable economic growth through labor-intensive economic activities, which should be the primary goal of any investment. The issue of advanced technology and its diffusion, strengthening of the country's comparative advantage that should be to help develop the domestic capital market are among the elements that should be the next level of focus. However, within these broad guidelines, it can be observed that foreign investors are often keen to private loans. As a result, they have to remit more outside the country for repayment purposes, which creates pressure on the country; foreign exchange reserves. In spite of the negative flows generated in some years, overall FDI has helped output growth, particularly in the service and industrial sectors of the economy. However, one should weigh both the positive and negative implications of individual FDI proposals before taking any decision on them. It would appear that specific policy directives might be revalued so as to reduce dependence on foreign bank borrowing, instead foreign and domestic investors alike should be tapped to raise more capital from the domestic equity market. Razeen Kabir (2007) analysis about foreign direct investment and sustainable growth: a case study on Bangladesh. Here he explains several benefits of Foreign Direct Investment (FDI) on a macroeconomic level, particularly for a Third World Nation such as Bangladesh, where inflows of foreign investment can expand economic production and growth. FDI provides capital from sources abroad which the country is unable to supply domestically. The inflows facilitate the growth of a number of economic sectors, including industry, manufacturing, infrastructure, and energy. The expansion leads to a rise in the availability of jobs and a fall in the unemployment rate. Consequently, GDP and per capita income increase which, in a developing country, fosters poverty alleviation. In addition, FDI strengthens ties with developed countries that may yield cost advantages in the form of advanced technology transfers and resulting positive externalities. Mottaleb (2007) works on determinants of foreign direct investment and its impact on economic growth in developing countries. According to his works; by bridging the gap between domestic savings and investment and bringing the latest technology and management know-how from developed countries, foreign direct investment (FDI) can play important role in achieving rapid economic growth in the developing countries. The fact is that FDI mostly flows towards the developed countries and only a small portion of FDI flows to a limited number of developing countries. Thus, most of the developing nations almost fail to attract a handsome amount of FDI. Patil and Nawani (2007) works entitled 'ethnological Capability as a determinant of FDI Inflows: Evidence from Developing Asia & India'. Their paper attempts to explain the country-wise variations in the pattern of FDI flows to developing Asian economies by empirically identifying location specific features influencing such flows. The paper argues that some countries in the region, which have developed long term sources of comparative advantages in the form of superior technological capabilities and supporting infrastructure, have consistently attracted greater volumes of export-oriented FDI. These attributes are also crucial for explaining the steady improvement in FDI flows to India. The paper finds that with production processes becoming increasingly complex and technology-intensive, developing countries like India, must devote greater attention to the development of R&D and frontier technologies, failing which, they might lose out in the race for FDI. Khan (2008) analyzed about on globalization and the Climate of Foreign Direct Investment: A Case for Bangladesh. Foreign Direct Investment is dramatically increasing in this age of globalization. It has played important role for economic growth in this global process. But, the distribution of FDI is not smooth in all over the world. Some countries are ahead and some are lag behind to attract foreign direct investment. The poorest countries are disappointing in attracting FDI. This study explores the determining factors of FDI in Bangladesh.

### 3.0 FDI in Bangladesh

#### 3.1 Investment Registration Statistics in Bangladesh

The industrial investment mainly consists of private versus public, and local versus foreign investment. The analysis of industrial investment status will provide good information as to how FDI is used. The economy of Bangladesh has been gradually drawing the attention of private sector investors since it's opening up in early '90s. Manufacturing is becoming increasingly vibrant claiming a significant share in the total investment.

(Million USD)

| Year         | Proposed local Investment |                | Proposed foreign Investment |                | Total Proposed Investment |                | Growth |
|--------------|---------------------------|----------------|-----------------------------|----------------|---------------------------|----------------|--------|
|              | Project                   | US\$ (million) | Project                     | US\$ (million) | Project                   | US\$ (million) |        |
| 2005-2006    | 1,754                     | 2,662.31       | 135                         | 3,621.15       | 1,889                     | 6,283          | 125%   |
| 2006-2007    | 1,930                     | 2,848.98       | 191                         | 1,728.26       | 2,121                     | 4,577          | (-27%) |
| 2008-2009    | 1,336                     | 2,480.72       | 132                         | 2,137.53       | 1,468                     | 4,618          | (-21%) |
| 2009-2010*   | 876                       | 1,831.44       | 92                          | 617.68         | 968                       | 2,449          | 27%    |
| <b>Total</b> | <b>7,511</b>              | <b>12,657</b>  | <b>693</b>                  | <b>8,892</b>   | <b>8,204</b>              | <b>21,549</b>  |        |

\*February, 2010

Source : Bangladesh Economic review (February -2010)

**Table: 1- Distribution of Private Investment Projects (Local and Foreign) Registered with BOI from FY 2005-2006 to FY 2009-2010.**

During FY 2005-2006 to FY 2009-2010, cumulative private investment registered with Board of Investment (BOI), the apex private investment promoting and facilitating body, totaled US\$ 21,549 million. The registered investments consist of 58.74 percent as local and 41.26 percent as foreign (100 percent and Joint Venture). In the above Table presents the time-series data during FY 2005-2006 to FY 2009-2010. In FY 2005-2006, total private investment registered amounted US\$ 6283.46 million, whereas in 2009-2010, it reached US\$ 2449.12 million. 2008-2009 experienced a 27 percent growth in the overall investment comprising of -12.45% percent growths in local and 171.51% percent growth in foreign investment. See table in above for more information.

#### 3.2 Foreign Private Investment Projects Registrar with Bangladesh

Textile and Service are the two most growing sectors in FY 2009-10. Agro based industry also growth in FY 2009-10 compared to FY 2008-09. Simultaneously, total share of Agro based industry grew 59 units in 2009-10.

(Million USD)

| Sl No.       | Sector                   | No. of Unit | Investment In USD\$ million | Employment opportunities (person) |
|--------------|--------------------------|-------------|-----------------------------|-----------------------------------|
| 1            | Agro Based               | 59          | 154.29                      | 24,434                            |
| 2            | Chemical                 | 65          | 1,985.94                    | 6,147                             |
| 3            | Engineering              | 57          | 38.96                       | 4,388                             |
| 4            | Food & Allied            | 13          | 19.11                       | 1,662                             |
| 5            | Glass & Ceramic          | 3           | 8.19                        | 328                               |
| 6            | Painting & Packaging     | 7           | 2.27                        | 325                               |
| 7            | Tannery & Rubber product | 4           | 4.01                        | 602                               |
| 8            | Textile                  | 115         | 221.26                      | 84,578                            |
| 9            | service                  | 91          | 4,575.90                    | 18,758                            |
| 10           | Miscellaneous            | 7           | 2.83                        | 735                               |
| <b>Total</b> |                          | <b>421</b>  | <b>7,012.77</b>             | <b>141,957</b>                    |

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

**Table: 2- Sector-wise Distribution of Foreign Private Investment Projects registered with BOI from FY 2009-2010.**

### 4.0 Determinants of FDI in Bangladesh

#### 4.1 Market Determinants

##### 4.1.1 Determinant: 1- Market Size

Artige and Nicolini (2005) state that market size as measured by GDP or GDP *per capita* seems to be the most robust FDI determinant in econometric studies. Jordaan (2004) mentions that FDI will move to countries with larger and expanding markets and greater purchasing power, where firms can potentially receive a higher return on their capital and by implication receive higher profit from their investments. Charkrabarti (2001) states that the market-size hypothesis supports an idea that a large market is required for efficient utilization of resources and exploitation of economies of scale: as the market-size grows to some critical value, FDI will start to increase

thereafter with its further expansion. This hypothesis has been quite popular and a variable representing the size of the host country market has come out as an explanatory variable in nearly all empirical studies on the determinants of FDI.

In ODI (1997), it is stated that econometric studies comparing a cross section of countries point to a well-established correlation between FDI and the size of the market, which is a proxy for the size of GDP, as well as some of its characteristics, such as average income levels and growth rates. Some studies found GDP growth rate to be a significant explanatory variable, whereas GDP was not, probably indicating that where the current size of national income is very small, increases may have less relevance to FDI decisions than growth performance, as an indicator of market potential. Econometric results on market size are far from being unanimous. Edwards (1990) and Jaspersen *et al.* (2000) use the inverse of income *per capita* as a proxy for the return on capital and conclude that real GDP *per capita* is inversely related to FDI/GDP, but Schneider and Frey (1985), Tsai (1994) and Asiedu (2002) find a positive relationship between the two variables. They argue that a higher GDP *per capita* implies better prospects for FDI in the host country. Pärletun (2008) finds that the variable GDP is positive and statistically significant at less than 1% level. She argues that the enlargement of market size tends to stimulate the attraction of FDI to the economy. Ang (2008) finds that real GDP has a significant positive impact on FDI inflows. He also finds that growth rate of GDP exerts a small positive impact on inward FDI.

The external impression of Bangladesh is that of a populous and poor country – 128 million people with little purchasing power. Such an impression needs to be balanced by several considerations. In the first place, there is a middle class with some purchasing power in Bangladesh as in the rest of South Asia. As economic growth has begun to pick up, in significant measure as a consequence of the opening up of relatively closed economies, this class and its purchasing power are beginning to grow. And in a country with 128 million people, even a small middle class may constitute a significant market. One might also note that the purchasing-power-parity figures for GDP are more than three times as high for Bangladesh as GDP figures at the market exchange rate.

Bangladesh is a member of the South Asian Association for Regional Co-operation (SAARC), created in 1985, which aims to accelerate the processes of economic, social and cultural exchanges among its members. Other members of SAARC are: Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The South Asia Preferential Trade Arrangement (SAPTA) was established in 1993 and the first round of concessions and preferences was held in 1995. In 1996, during the second round of negotiations, commerce ministers of SAARC members announced a commitment to establish a South Asian free-trade area by 2005.

A single South Asian market would be large indeed, even taking the relative poverty of the region into account, given the size of the population (over 1,250 million) and the acceleration of economic growth following progressive liberalization in the region. Bangladesh has by no means been a laggard in liberalization by regional standards. Its policy regime for foreign direct investment may be the best in South Asia.

#### **4.1.2 Determinant: 2- Economic Environment**

Bangladesh is in the process of a transition from a predominantly agrarian economy to an industrial and service economy. The private sector is playing an increasingly active role in the economic life of the country, while the public sector concentrates more on the physical and social infrastructure. There have been significant structural shifts in the economy over the past two decades. The share of value added by agriculture in Bangladesh's GDP has fallen from 34 per cent in 1980 to 23 per cent in 1998. The service sector's contribution has increased during the same period from 42 to 49 per cent. Industry's contribution has increased from 24 to 28 per cent.

#### **4.1.3 Determinant: 3- Growth**

Lunn (1980), Schneider and Frey (1985) and Culem (1988) find a significantly positive effect of growth on FDI, while Tsai (1994) obtains a strong support for the hypothesis over the period 1983 to 1986, but only a weak link from 1975 to 1978. On the other hand, Nigh (1985) reports a weak positive correlation for the less developed economies and a weak negative correlation for the developed countries. Ancharaz (2003) finds a positive effect with lagged growth for the full sample and for the non-Sub-Saharan African countries, but an insignificant effect for the Sub-Saharan Africa sample. Gastanaga *et al.* (1998) and Schneider and Frey (1985) found positive significant effects of growth on FDI. So Bangladesh should be concerned enough to ensure high growth rate to attract satisfactory rate of FDI.

#### **4.1.4 Determinant: 4- Trade Performance**

The impact of this variable depends on the strategy followed by MNEs. In the case of "vertical" investment, theoretical imperfect competition models predict a complementary relationship between FDI and trade flows (Helpman, 1984 and Helpman and Krugman, 1985). However, in the case of "horizontal" investments, FDI and trade should be substitutes (Markusens and Venables, 1998). Bangladesh depends on both types of investments and for that should be aware of the relationship between FDI and trade performance.

#### **4.1.5 Determinant: 5- Competitiveness**

The influence of this variable on FDI is vague, and depends on the motivation of foreign investors. For instance, depreciation makes local assets and production cost cheaper, leading to higher in inflows of FDI. However it can

also soften protectionism and hence reduce the incentive for foreign firms to enter the local market through producing locally, as tariff jumping becomes less useful (see Bénassy et al, 2000). Like other developing countries the mass people of Bangladesh sometimes think that globalization as well as global competition is a threat for local business, but they also believe that these type of local competition encourages the local firms to be more conscious about the customers, products, competitors, quality of services and differentiation strategies. For that competitiveness is an important determinant of FDI in Bangladesh.

#### **4.2 Cost and Infrastructure Determinants:**

##### **4.2.1 Determinant: 6- Labor Costs and Productivity**

Human Capital is used to evaluate the significance of what, according to the most recent theoretical models (imperfect competition modes, Zhang and Markusen, 1999); the human capital is an essential factor in the location strategies of multinational firms.

Charkrabarti (2001) claims that wage as an indicator of labor cost has been the most contentious of all the potential determinants of FDI. Theoretically, the importance of cheap labor in attracting multinationals is agreed upon by the proponents of the dependency hypothesis as well as those of the modernization hypothesis, though with very different implications. There is, however, no unanimity even among the comparatively small number of studies that have explored the role of wage in affecting.

There is no unanimity in the studies regarding the role of wages in attracting FDI. Goldsbrough (1979), Saunders (1982), Flamm (1984), Schneider and Frey (1985), Culem (1988), and Shamsuddin (1994) demonstrate that higher wages discourage FDI. Tsai (1994) obtains strong support for the cheap-labor hypothesis over the period 1983 to 1986, but weak support from 1975 to 1978. In ODI (1997), it is stated that empirical research has also found relative labor costs to be statistically significant, particularly for foreign investment in labor-intensive industries and for export-oriented subsidiaries. However, when the cost of labor is relatively insignificant (when wage rates vary little from country to country), the skills of the labor force are expected to have an impact on decisions about FDI location.

Unit labor cost is generally assumed that a foreign investment would invest in host country if costs (wages) of producing in that country are lower than in the home country and if productivity is higher. FDI on some specific sectors (such as garments industry) of Bangladesh increases day by day because of the low wage rate of this country.

##### **4.2.2 Determinant: 7- Infrastructure**

Infrastructure covers many dimensions ranging from roads, ports, railways and telecommunication systems to institutional development (*e.g.* accounting, legal services, *etc.*). According to ODI (1997), poor infrastructure can be seen, however, as both an obstacle and an opportunity for foreign investment. For the majority of low-income countries, it is often cited as one of the major constraints. But foreign investors also point to the potential for attracting significant FDI if host governments permit more substantial foreign participation in the infrastructure sector. Jordaan (2004) claims that good quality and well-developed infrastructure increases the productivity potential of investments in a country and therefore stimulates FDI flows towards the country. According to Asiedu (2002) and Ancharaz (2003), the number of telephones *per* 1,000 inhabitants is a standard measurement in the literature for infrastructure development. However, according to Asiedu (2002), this measure falls short, because it only captures the availability and not the reliability of the infrastructure. Furthermore, it only includes fixed-line infrastructure and not cellular (mobile) telephones. Infrastructure is weak in Bangladesh. While this is a disadvantage for doing business, it also means that the area offers substantial prospects for investment.

#### **4.3 Political and Legal Determinants:**

##### **4.3.1 Determinant: 8- Political Risk**

The ranking of political risk among FDI determinants remains rather unclear. According to ODI (1997), where the host country owns rich natural resources, no further incentive may be required, as it is seen in politically unstable countries, such as Nigeria and Angola, where high returns in the extractive industries seem to compensate for political instability. In general, as long as the foreign company is confident of being able to operate profitably without excessive risk to its capital and personnel, it will continue to invest. Specific proxy variables (*e.g.* number of strikes and riots, work days lost, *etc.*) have proved significant in some studies; but these quantitative estimates can capture only some aspects of the qualitative nature of political risk. Empirical relationship between political instability and FDI flows is unclear. For example, Jaspersen *et al.* (2000) and Hausmann and Fernandez-Arias (2000) find no relationship between FDI flows and political risk while Schneider and Frey (1985) find an inverse relationship between the two variables. Using data on U.S. FDI for two time periods, Loree and Guisinger (1995) found that political risk had a negative impact on FDI in 1982 but no effect in 1977. Edwards (1990) uses two indices, namely political instability and political violence, to measure political risk. In Bangladesh the probability of a change of government, violent riots and politically motivated strikes are the barriers of FDI.

##### **4.3.2 Determinant: 9- Tax**

The literature remains fairly indecisive regarding whether FDI may be sensitive to tax incentives. Some studies have shown that host country corporate taxes have a significant negative effect on FDI flows. Others have reported that taxes do not have a significant effect on FDI. Hartman (1994), Grubert and Mutti (1991), Hines and Rice (1994), Loree and Guisinger (1995), Cassou (1997) and Kemsley (1998) find that host country corporate income taxes have a significant negative effect on attracting FDI flows. However, Root and Ahmed (1979), Lim (1983), Wheeler and Mody (1992), Jackson and Markowski (1995), Yulin and Reed (1995) and Porcano and Price (1996) conclude that taxes do not have a significant effect on FDI. Swenson (1994) reports a positive correlation. The direction of the effects of above mentioned determinants on FDI may be different.

As elsewhere in the region, the tax base is narrow in Bangladesh and the revenue comes mainly from indirect taxes. There are three income-tax rates, applicable to income above Tk 100,000 (\$1,850) p.a.: 10 per cent on the first TK 50,000 over the tax-exempt 100,000; 18 percent on the next Tk 125,000; and 25 per cent on the balance. Salaries of foreign technicians are exempt from tax for a period of three from the date of their arrival in Bangladesh when their salaries are for services provided under a contract approved by the National Board of Revenue either before commencement of employment or within one year of commencement. A technician in this context is a person with specialized knowledge and experience in the industrial arts and sciences.

The corporate tax rate is 35 per cent for publicly traded companies and 40 per cent for all other companies. Corporate tax rates are competitive within the region. Capital gains from the transfer of shares of public limited companies listed with a stock exchange are tax-exempt. In computing capital gain, deductions are made from the full value or sales proceeds or the fair market price, whichever is higher, of the capital assets. Dividend income in respect of shareholders other than companies is tax-exempt. This benefit is not, however, available to shareholders of private limited companies. As the foreign direct investors as well as their activities are positively or negatively influenced by the tax policies of the country, tax is one of the important variables of FDI in Bangladesh.

#### 4.3.3 Determinant: 10- Regulatory Policies

The Bangladeshi workforce is one of the country's principal assets. It arouses considerable enthusiasm among business people, both foreign and domestic, with some qualifications. It is seen as enthusiastic, flexible, hard-working and trainable. It is also seen as poorly trained. Wages are low in Bangladesh, even by regional standards. Wage rates vary but the BOI's Investing in Bangladesh estimates the remuneration of unskilled workers at about \$50 p. m., that of semi-skilled workers at \$60 p. m. and that of skilled workers at \$70 p.m. Something over 40 per cent of this consists of benefits, mainly forms of pension benefits: provident fund and gratuity. The normal work-week consists of five days, with Friday and Saturday as the weekly holidays. However, much of the private sector works on Saturdays. The normal work-day is eight-and a half hours, which includes half an hour for lunch. Government and the related bodies should concern about favorable regulatory policies which will attract huge FDI in Bangladesh and create a scope for the local people to be employed as well as to enjoy a standard working policy.

#### 5.0 Model Specification:

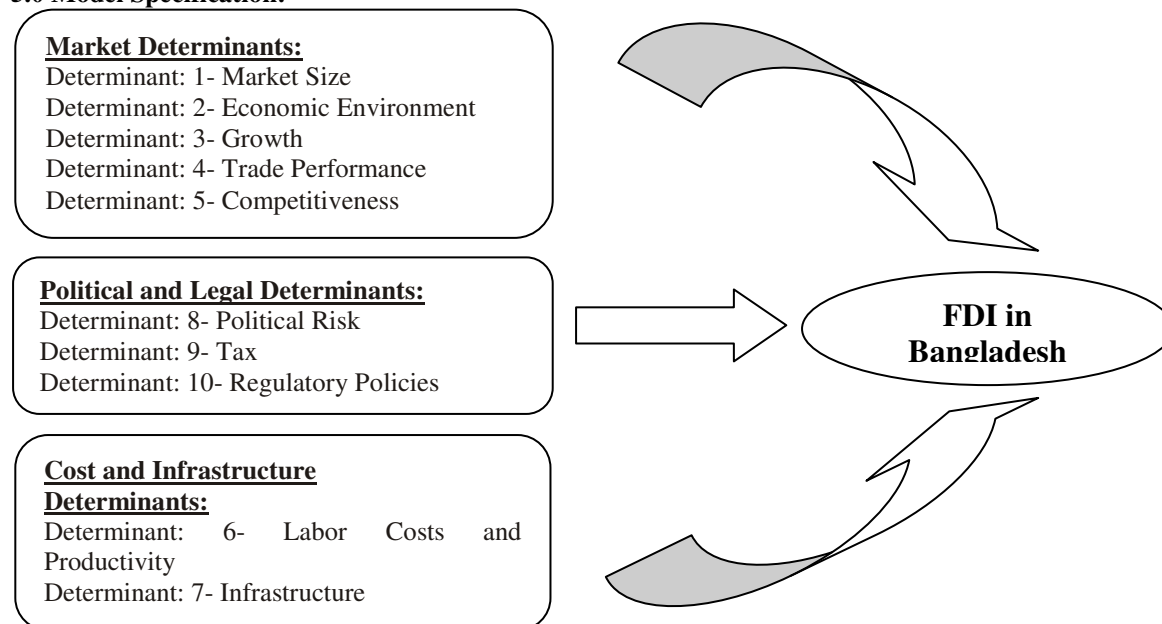


Figure: 1 - Determinants of FDI in Bangladesh.

## 6.0 Limitations of the Research

Author has relied extensively on published data and other secondary sources to precede the report. But some of other sources were not approachable. In analyzing the report author has presented some factors that determine the shape of the flow of FDI. But these are not surely the only factors and many important factors may be omitted from the study. And another thing is that the underlying factors are mostly in qualitative factors in nature and therefore cannot be measured in numerical way.

## 7.0 Conclusion and Recommendation

Bangladesh has considered FDI as more favorable factor for stimulating economic growth. Some factors can be identified as major obstacles to FDI in Bangladesh such as poorly developed socio-economic and physical infrastructure, lack of skilled people at various levels, unreliable energy supply, corruption, administrative complexity and non-transparency, poor implementation of existing policies, low labor productivity, frequent change in govt. policies, unhealthy trade union practices, underdeveloped money and capital markets and regulations on these markets, less improved seaport facilities & malpractices at the port, deteriorating law and order situation, political instability and disturbances, high cost of doing business and unfriendly legal system. Though there are some interrelated administrative barriers which result inferiority in policy formulation and implementation, competitive drawbacks, poor quality of skills and infrastructure, ineffective institutions, and below average governance which dampen potential of FDI. To improve the present scenario of FDI some initiatives should be taken such as, maintaining coordination among dynamic and independent government agencies and ensuring accountability and transparency, developing diplomatic relations and devoting efforts to shift FDI track; ensuring power and energy supply. To boost foreign investors' confidence and encourage them to invest in Bangladesh, the domestic investment rate, which is closely related to improvement of the business environment and of economic governance, should be increased. Government and other related bodies should take corrective actions so that Bangladesh can take a strong place in the mind of customers.

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