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Foreign Direct Investment in Bangladesh (FDI): Stimulating Corruption or Development

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Abstract

Foreign direct investment (FDI) is frequently claimed with conviction to have helped host economies thrive. In the context of Bangladesh, this paper is designed to explore the costs and benefits of FDI and analyze if it is a victim to either corruption or a means of sustainable growth for the country as well as this study seeks to go into the valley of economic and political abyss. FDI contributes to the creation of new jobs, the increase of export income, the advancement of technology, the extension of managerial expertise, the improvement of living standards, and the reduction of poverty. The strengths and weaknesses of FDIs are examined in this study, along with recommendations for resolving FDI-related difficulties. Opportunities for Bangladesh include the fact that FDI contributes to GDP growth, but every year a large amount of foreign capital leaves the country due to the shortcomings of our own policies. To achieve its economic development and poverty reduction goals, Bangladesh should be able to attract the largest share of FDIs and to secure the country's balance of payments, the authorities need to take suitable economic policies to stimulate it scientifically. The paper suggests that by eliminating corrupt culture and creating an inclusive, democratic and progressive ideals for all – Bangladesh should be able to take advantage of foreign direct investment to speed up its development process.

Keywords: FDI, Corruption, Development, SWOT, Bangladesh

Prolegomenon

A Foreign Direct Investment (FDI) is an investment made by a company or individual across international borders for commercial interests. It may appear in the guise of a new company or investing in an existing multinational firm. FDIs have had accelerating impact on the competitive interests and economic growth in many developing nation-states, but there are competing drawbacks and opportunity costs. Therefore, although many

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developing and least-developed countries like Bangladesh are inclined towards FDI, it demands rigorous feasibility studies for determining if FDIs are stimulating economic growth or plaguing the countries through systemic corruption.

In contrast to nations that strictly regulate their economies, the FDIs are often made through free-trade economies that provide a competent workforce and above-average growth scheme for the investors (Chen, 2021). An FDI usually entails more than a monetary investment, often containing executive and technological provisions. The essential aspect of FDI is that it creates significant influence over a foreign business's decision-making body. According to OECD standards, the threshold for a foreign direct investment that develops a controlling interest in a foreign-based firm is a least 10% ownership share in a foreign-based company(OECD, 2008). However, that criterion is flexible, since effective controlling interest in a corporation can be formed with less than 10% of the company's voting shares in some cases(Chen, 2021).

FDIs are one of the primary drivers of economic development in South Asia. In the age of volatile globalization, conflicting modes of paper and crypto-currencies, and rampant epidemics – FDI offers a promising scheme for poorer countries like Bangladesh to achieve a faster economic growth. While FDI aids in the growth of Bangladesh's economic structure, corruption in many areas may stymie the development process. Therefore, this paper attempts to explore the valley of economic and political loopholes regarding FDIs and the paradox of growth and corruption surrounding it.

Methodology

Design and Objectives

This small study is based primarily upon qualitative surveys via Content Analysis, although data and statistical trends from various years will be analyzed and portrayed in brief breakdowns. Secondary literature reviews were done via online platforms such as Google Scholar, Pubmed, Taylor and Francis Online, Elsevier, Springer, National Institute of Health (NIH), Bangladesh Bureau of Statistics (BBS), Bangladesh Bank (BB),Bangladesh Statistical Yearbook 2018, and various journals and esteemed newspapers like the Financial Times, The Business Standard, The Daily Star and The Dhaka Tribune.

The primary objectives of this paper are to –

a) Define and explore the notion of Foreign Direct Investment in the context of Bangladesh

b) Explore the trends, sources and current status of FDI in Bangladesh

c) Identify the grounds for systemic corruption and/or economic growth stimulated by FDI in Bangladesh

d) Portray a comparative feasibility analysis of the influence of FDI in Bangladesh and recommend plausible future pathways

Research Questions and Hypothesis

This paper is carefully articulated to answer a single research question:

i. Does FDI stimulate corruption or development in Bangladesh?

This paper hypothesizes that although there are many impediments to FDI, especially in the corruptive sociopolitical environment of Bangladesh – but the full potential of it is still attainable and can be immensely helpful for the country to join the ranks of the richer countries in the future.

Graphical Representation and Coding

The graphical representations in this paper are mostly produced by the author via the RStudio programming software. The *ggplot2* package was used to create these visualizations by using secondary data from highly authentic sources.

Defining FDI and its Determinants in the Context of Bangladesh

When a state or group of nations invests directly in another country while maintaining control of the firm, this is referred to as FDI. In this aspect, Bangladesh's EPZ is a standout example. FDI refers to net inflows of capital into a company concern with a long-term managerial interest, 10% or more of voting stock, in a country. Sanchez-Robles (1997) established a positive association connecting financial development and economic growth, indicating that in order to reap the benefits of long-term FDI inflows, host countries must possess human capital, a stable economic environment, and liberalized markets.

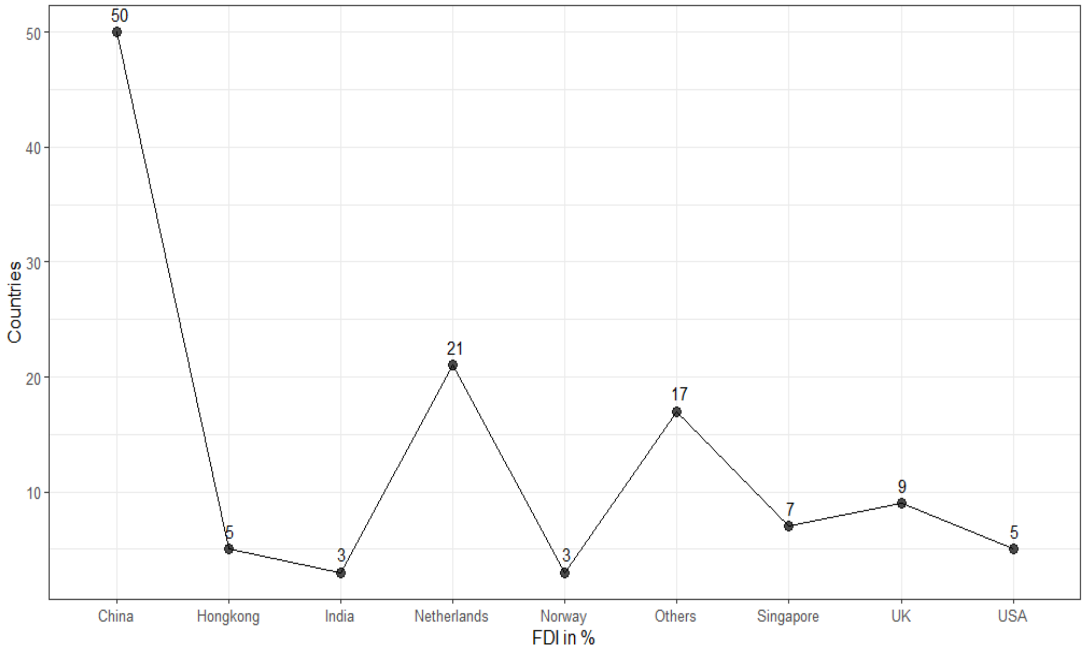
Trends, Sources and Current Status of FDI in Bangladesh

Bangladesh has made a concerted effort since independence to develop attractive foreign direct investment locations. As a result, total FDI inflows have grown throughout the years. Annual FDI inflows totaled US$ 0,090 billion in 1972, US$ 92, 3 million in 1995, US$ 578,6 million in 2000, and US$ 845,3 million in 2005, following 33 years of independence and 1997. While FDI inflows into Bangladesh decreased in the prior fiscal year owing to Covid-19, they remained stable from 2012 to 2019(Dhaka Tribune, 2020a).

Trend and Nature

Global trade and financial flows have shifted drastically over the previous decade, most notably the expansion of FDI. Despite the recent epidemic, Bangladesh has contributed to rising FDI inflows through trade liberalization, current-account convertibility, prioritizing private sector growth, opening up private sector infrastructure investment programs, and expanding services.

Figure 1: FDI Inflow to Bangladesh in 2019 (USD 3.89 Billion)



Source: *Prepared by the Author from Data by Bangladesh Bank*

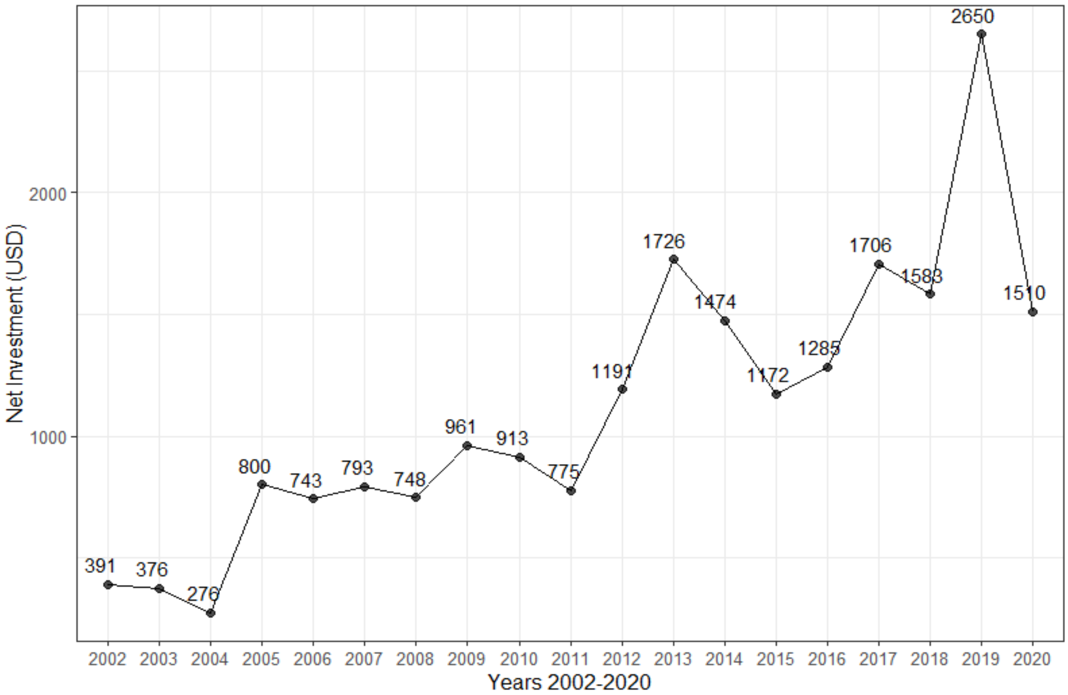
China was Bangladesh's top foreign investor in 2019 with a net inflow of 1159.42 million dollars. Netherlands came in second place after the United Kingdom, Singapore, the United States of America, Hong Kong, Norway, and India, with net inflows of USD 802,84 million.

Japan has been diversifying its investments away from China and toward Bangladesh in recent years, and is a preferred site for Bangladesh. Japan Tabacco International (JTI) acquired the tobacco business of Akij Group for USD 1,47 billion in November 2018, the largest single FDI into Bangladesh.

FDI in Bangladesh during the COVID-19 Pandemic

The U.N. research shows that global FDI inflows will drop from $1.5 brl the previous year as a result of Covid-19 drastically to $859 billion in 2020.The projected global FDI dropped by 42 percent(The Financial Express, 2020).In the first nine months of 2020 the net inflow to the country of FDI declines by 19.5%, and it is estimated at $1.74 billion. The number was $2.15 billion at the same time as 2019(Dhaka Tribune, 2020b).

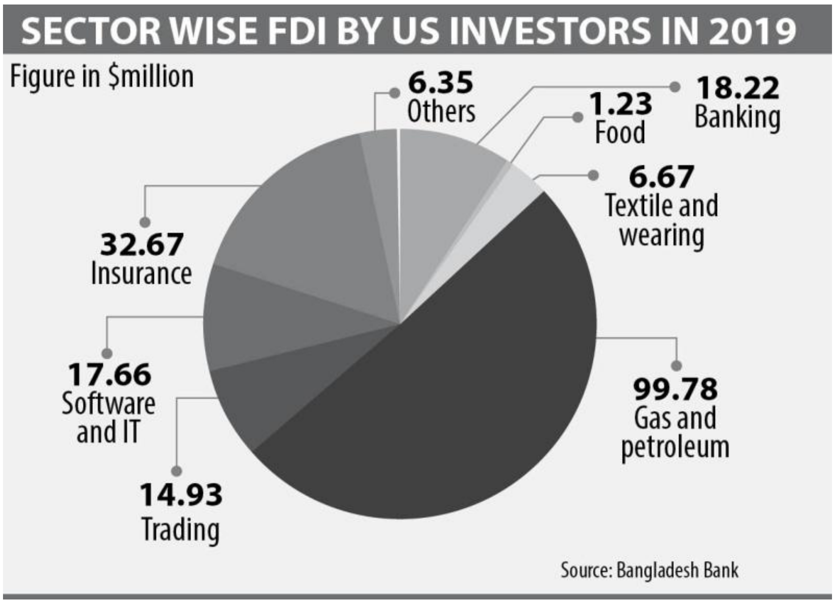
Figure 2: Net FDI inflow in Bangladesh (2002-2020) in Millions



Source: *Prepared by the Author from Data by Bangladesh Bank*

According to UNCTAD, green field trends and project funding announcements are a major cause of concern in Bangladesh. According to the United Nations, the risk associated with the latest pandemic wave, the pace of implementation of vaccination programs and packages of economic aid, fragile macroeconomic conditions and uncertainty over the global investment policy environment will all continue to affect the FDI in 2021(Khan et al., 2019).

Figure 3: Sector-wise Allocation of FDI from USA to Bangladesh in 2019



Source: *Adapted from* (The Financial Express, 2020)

Corruption, FDI and Legal-Juridical Loopholes in Bangladesh

Through corrupt politics, culture and society have been perverted. Current corruption is ravaging the officials and regulators. Corruption is a tax or lubricant cost for businesses. Many businesses consider bribery to be merely one of the costs of doing business i.e., the *Lubrification Cost* (Kafi et al., 2008). But in this connection the current situation is as dull as it was in the past. Control and administration by the government were very inefficient and wasteful. Inefficient telecommunications, energy, port, aviation, rail, banking, and many more industries are affected in the country. The overall cost of local and international companies is greatly increased by all these industry inefficiencies. In Bangladesh, the ways that corruption impedes foreign investment are portrayed in brief below:

Bureaucratic Corruption

In terms of capital creation, production growth, technical advancement, exports and jobs, FDI playing a significant role in the economic development of Bangladesh.

The country has a bureaucratic system which is inconsistent with an investment climate. Investment-related policies are being concretely implemented, thereby obstructing both local and foreign investors. The lack of FDI in the nation is largely responsible for an ineffective and dishonest bureaucratic structure (Kafi et al., 2008).

Corrupt Political Scenario

The political climate in Bangladesh is highly fragile since political parties continue to be hostile, polluting the investment environment as a whole. It is regrettable that the majority of political violence in Bangladesh has been focused in the industry (Mody, 2006). Even EPZs are by no means exempt from it. However, since the current temporary administration took office, the situation has allegedly improved.

Inefficiency and Lack of Regulatory Bodies

Control and administration by the government were very inefficient and wasteful. Inefficient telecommunications, energy, port, aviation, rail, banking, and many more industries are affected in the country(Moran et al., 2005). The politically affected government agencies work without operational autonomy as regulatory entities. In Bangladesh, there is therefore seemingly no effective and quick reaction to provide the required services to investors.

Deferential and Inconsistent Policies

While the rules ensure equality for local and international businesses, many unfair customs with foreign investors are followed. In situations of permission requirements for foreign investment, capacity growth obstacles, supplier financing, etc., such discrepancies are obvious. Under a liberalized industrial policy, Bangladesh offers numerous advantageous investment facilities and incentives. Export orientation and privatization-based growth plan are being promoted by institutions such as Export Processing Zones(Khan et al., 2019). However, none of these positive policies and initiatives is really executed, thereby discouraging foreign investment.

Corruption in Power Supply

Often more than 40% of Bangladesh's total electricity output is affected by a system loss that is the least power consumption per capita and the network coverage in developing nations. Investments in electricity demanding sectors are therefore tremendously discouraged.

Corruption in Taxation and Customs Duties

Bangladesh's government has discretionary powers for its tax administrators and has inappropriately used these powers to annoy business people and investors. Many officials have been very corrupt by this authority. Bangladesh is currently striving to raise this controversy to the surface. Besides, the sluggish customs system frequently takes over 20 signatories to unload shipments and physical examination by authorized staff(Islam, 1996).

Corrupt Board of Investment (BOI) and Legal Loopholes

The BOI in Bangladesh provides a one-stop service unit for different investment facilities to serve and help, in particular FDI. The legal system which has been extended over the years puts companies in a problem in investing their valuable money in companies in Bangladesh. The government declares each year that its fiscal policies are very often unfavorable to investors, and in both short and long terms disturbs their business and operating schemes and strategies. Policies and processes are not concurrently implemented due to lack of administrative communication and coordination across government departments. This leads to high company costs and problems for investors.

Promising Aspects of FDI for Bangladesh

Bangladesh has a sizable workforce. FDI is regarded as a critical stimulant for Bangladesh's economic growth because it benefits job opportunities, export revenue, management knowledge, standard of living, poverty reduction, increased employment opportunities, and increased government revenue. Bangladesh is moving to capital-intensive nations as labor and manufacturing costs rise. On the other hand, multinational and transnational corporations are constantly on the lookout for new markets in which they may manufacture and sell at fair and competitive rates (Billah, 2012).

Industry and the Domestic Market

The greatest investment in Bangladesh was given to the power industry in 2019 at USD 1217.84 million. Furthermore, all major foreign investment industries across the nation include food products, trade and trade, transport and communication, the leather and leather products, medicinal products and chemicals, agriculture and fisheries and computer software, as well as IT services. Foreign direct investment has risen by 68 percent to $3,61 billion last year(Dhaka Tribune, 2020b), more than doubling from 2011, according to the United Nations Conference on Commerce and Development (UNCTAD).

The Booming Technology Sector

Technological advancement is critical for economic development that draws foreign direct investment. While some critical technological improvements are required to attract foreign investment, Bangladesh benefits from FDI development in this sector as well. Multinational companies, particularly in developing economies such as Bangladesh, have evolved into vehicles for knowledge transfer. Prospects for research and development require significant expenditures, which are the primary source of new technology. Initially, the technology is created and transferred to Bangladesh via FDI.

Structural Development

The development of special economic zones around the nation and a host of additional incentives are a successful method for attracting investment. Among the Japanese companies who have already indicated interest are *Sumitomo*, *Sojitz*, *Nippon Steel*, *Shinwa*, and *Maruhisa*. According to the Economic Zone authorities in Bangladesh, *Sojitz* will spend $2 billion in the Mirsarai, Chittagong. The area manager has so far punished land with $17.9 billion worth of foreign investment offers(Khan et al., 2019).However, with a number of countries, Bangladesh has preferential trade rules that facilitate FDI. As part of China's *One Belt, One Road Initiative* (BRI), China and India have made recent commitments of around $31 billion and $4.5 billion respectively.

Female Employment

With complete and equal participation of men and women, Bangladesh economic progress may be realized. According to IMF, equality between the sexes was connected to economic growth. In addition, the closure of gender disparity in work, incomes, health and education may lower poverty and encourage long-term economic growth, as declared by OECD in 2012(OECD, 2012). In this context, FDI can generate more equality for the sexes by growing and generating more jobs for women. The ready-made clothing sector has played an important part in Bangladesh's economic strong development, the elimination of poverty and women's empowerment throughout the past thirty years.

Findings: Does FDI promote Corruption or Growth in the Long Run?

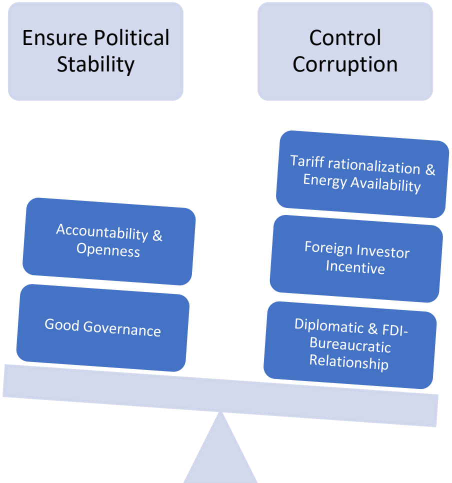
FDI has substantial and positive export impacts, that FDI has considerable positive GDP connections, and that FDI has a positive investment relationship(Bermejo Carbonell & Werner, 2018). The study therefore concludes that FDI has a substantial and beneficial influence on Bangladesh's economic growth. Direct foreign investment offers a potential for economic development. Due to the growth in labor and production costs, developed and emerging nations are migrating to capital-intensive countries(Alam, 2012). However, multinational and transnational enterprises are continuously seeking a new market for producing and selling on the local or international markets at fair and competitive prices. Both propose that Bangladesh be an appealing and promising place to stay. Investing substantially in Bangladesh every year, USA, China, Japan, Korea, United Kingdom, Switzerland, Malaysia, France, Germany(Kim, 2017).

The blazing example in this is the EPZ. Some problems do not attract international investment, including political turmoil, services, investment, etc. Bangladesh has high time to foster its current strength and prospects for attracting international investment. FDI helps to create new jobs, export income, technology progress, increase management expertise, improve the standard of living and alleviate poverty. Effective measures to expedite government, Investment Board and other investment agencies' FDI inflows should be taken and effectively executed. Good administration must be guaranteed, accountability, openness, and political stability. It should also simplify the process of investing processes. Although the FDI has certain adverse effects, like a monopolistic market, lack of tax income, potential damage to the environment, incentive tourism, etc.

Concluding Statement and SWOT Suggestions

In Bangladesh, the *Strength* of FDI is that it pushes employment possibilities and the nation to become a booming industrial economy. But the *Weakness* lies in poor negotiation capacity of the administration. Bangladesh cannot effectively deal with the large international investors. The worse *Threat* in this regard is systemic corruption. Besides, the MNCs are not yet interested to build their centers of research and development in Bangladesh, while FDI introduces numerous modern technologies. Another *Threat* is that Bangladesh is not very technologically advanced to get massive foreign investment into the nation. Sometimes foreign investors are influential in the government's policy. However, the *Opportunities* for Bangladesh is that FDI helps to achieve GDP growth, however every year a great deal of foreign flows from the nation due to the weaknesses of our own policies. FDI also improves social welfare activities and contributes to building strong international partnerships.

Figure 4: Ways to Remove Impediments and Accelerate Growth via FDI



Source: *Created by the Author*

According to the UNCTAD World Investment Report 2019, FDI inflows into Asian developing countries grew by 3.9 percent in 2018. South Asia witnessed an increase of 3.5 percent in FDI inflows in the same year, with Bangladesh ranking second in the region. Foreign direct investment has a favorable association with GDP and a positive investment link.

The SWOT analysis, as well as aforementioned in-depth views can help conclude that FDI is a critical component of Bangladesh's economic development, not a strategic choice. Bangladesh must overcome the aforementioned obstacles to FDI inflows, including the corruption barrier. Bangladesh, if possible, will be able to attract the greatest FDI share in South Asia and accomplish its goal of economic development and poverty reduction. Additionally, authorities need to implement suitable economic policies to increase FDI and strengthen the country's balance of payments. Bangladesh should consequently be able to leverage FDI to accelerate its development process through the elimination of corrupt culture and inclusion of democratic and progressive values for all.

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