Major challenges and impediments to FDI

AF NESARUDDIN

AMONG many other developing countries, especially in Asia, Bangladesh has been struggling to improve the foreign direct investments (FDI) inflow.

Generally, FDI comprises equity, reinvested earnings and intra-company loans. A recent report released by the central bank revealed that in Bangladesh, out of total annual FDI of $1,137 million, equity represents $432 million (38 percent), reinvested earnings $490 million (43 percent), and intra-company loans $215 million (19 percent).

Sectoral position of FDI consists of power, gas and petroleum 21 percent, followed by manufacturing 37 percent, textile 24 percent and cement 4 percent.

If we look at the year wise trend, it was $666 million in 2007, $1,086 million in 2008, $700 million in 2009, $913 million in 2010 and $1,137 million in 2011. There is no major variation of the position in 2012. The aforesaid FDI information is also reflected in UNCTAD prepared World Investment Report (WIR) FY 12 registering a growth of about 25 percent from the previous year.

Now the question is whether this achievement is enough or do we have more opportunities yet to explore. Frankly speaking, the recent FDI scenario so far reported by various agencies is not visible in view of the fact that inter-company loans and reinvested earnings has increased as opposed to investment in equity and setting up new industries.

Noticeably, majority of the investment has taken place in power, gas and petroleum sectors and investment in industrial sector is not as expected. FDI in infrastructure is very frustrating in view of the stuck up of the Padma bridge project.

Further, the reported figures are mainly projected ones as provided to Board of Investment (BoI) at the time of project application. Reality can be very different. Investors of many countries, including Japan, are planning to invest in Bangladesh, but still feel that inadequate energy and infrastructure constraints are the main obstacles as stated recently by the Japanese Ambassador in Bangladesh.

Incidentally, a WIR 2012 report categorising Bangladesh as "structurally weak, vulnerable and small economies" stated that Bangladesh has been able to attract over $1 billion FDI annually. Even with the slightly higher trend of overall FDI, it is still less than 1 percent of GDP. If we look at the investment scenario, the position of FDI has not improved as expected. Power, communications and infrastructure are very prominent sectors, but it directly requires government participation, approval and support. On the other hand, creating facilities, including infrastructure and policy supports, are important for encouraging FDI. Land scarcity in setting up large industries especially in preferred area like EPZ and other industrial areas is another major impediment.

Recently, the price of private land in Bangladesh has gone up significantly and as a result, it does not commensurate the total project cost a significant part of the project fund is exhausted for land creating pressure on overall project costs. Taiwanese investors indicated the same problems of scarce and expensive industrial land, power crisis and weak infrastructure as main obstacles to their proposed investment in Bangladesh as raised in a workshop on "Doing Business in Bangladesh" organised in Taipei by the Taiwanese government.

In addition, there are many constraints for FDI in Bangladesh, including-

- Bureaucratic inertia time taken for processing various regulatory approvals is very high.
- Uncertain legal protection civil courts take very long time to settle industrial disputes. Also no separate court for expeditious settlement of trade disputes and dishonoured cheques, which takes a long time and is still uncertain even being a criminal offence.
- Outdated Companies Act, VAT and Income Tax Ordinance.
- Lack of clarity on many laws affecting industries.
- Inadequate intellectual property rights protection.
- Congested ports and customs restrictions.
- High cost of local financing.
- Long gestation time for setting up industries.
- Export oriented fiscal benefits for industry are less attractive compared to those offered by neighbouring countries.
- Restrictions on current account on certain issues such as overseas legal fees, technical assistance fees, salaries of expatriates.
- Frequent changes in policies on import duties for raw materials, machinery and equipment etc

The recent scam in the banking sector, corruption, political unrest such as strikes and labour unrest also weigh down investment.

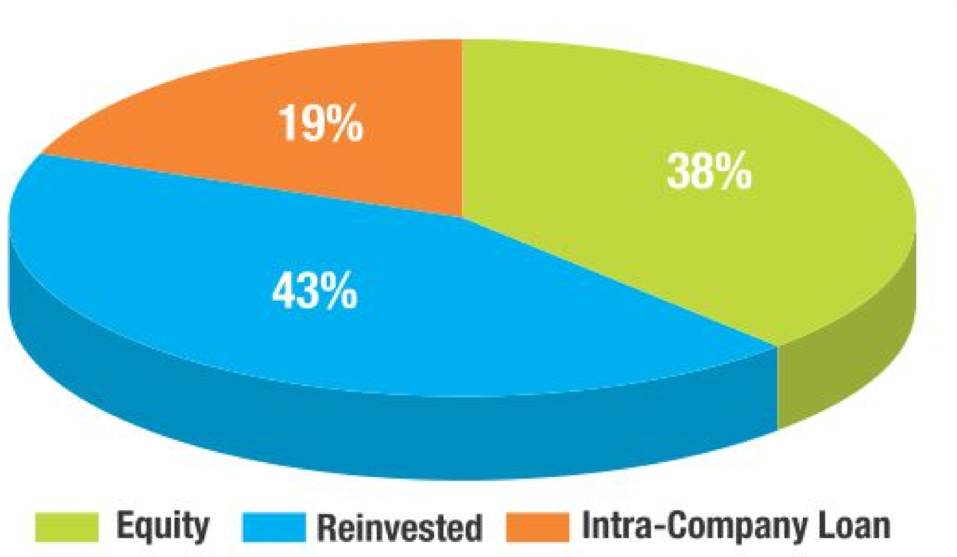
It is important to note that BoI is supposed to be a "One Stop Solution" but in reality, separate approvals have to be taken from various ministries and departments.

It is not possible to eradicate all the problems within short span of time but at least, on priority basis, some of the major problems like land, power and infrastructure can be taken up for industrial zones and areas for making it attractive for foreign investors while others can be dealt with gradually.

Bangladesh still has competitive advantage in labour, language and support services. Many new investors want land in and around Dhaka and Chittagong. They are reluctant to go for other areas even in the EPZs in north and south Bengal due to absence of other facilities and high transport costs. In many countries, industrial parks like EPZs are created providing all kinds of infrastructure facilities. Bangladesh has experience in running EPZs and accordingly, it is suggested that either existing EPZs in and around Dhaka and Chittagong be expanded or new ones are set up in those areas. Board of Investment needs to be more efficient in resolving the issues. Further, BoI should be made better equipped to provide one stop services, including various approvals necessary to allow investment to be easier.

The writer is a practicing chartered accountant and a partner of Hoda Vasi Chowdhury & Co, an affiliated firm of Deloitte.

FDI COMPOSITION



SOURCE: BOARD OF INVESTMENT

UK's Perkins diesel, gas engines now in Bangladesh

Matthew Bradshaw

STAR BUSINESS REPORT

PERKINS, a UK-based power equipment manufacturer, entered the Bangladeshi market last Thursday to provide energy solutions.

Robin United Power Solutions, a joint venture between Robin Group of Bangladesh and United Group of India, will be Perkins's agent in Bangladesh.

"Perkins diesel engines have earned a reputation for easing the service along with the low costs of maintenance and repair," said Matthew Bradshaw, the company's director of sales for the Asia Pacific region, at the launch ceremony.

He predicts Asia to be the largest consumer of big engines in the near future.

"Perkins Engines Company will open its new factory in India by 2013, which would have a capacity of manufacturing 3000 to 5000 units and producing half a million units a year," he said.

While Shamim Hussain, managing director of Robin United Power Solutions, said: "We are single window power solutions provider from the concept of commission with subsequent operations and maintenance support."

Arijit Bose, an executive director of Captiva Energy Solutions, an associate of United Group, said the demand for power is on the rise in Bangladesh with the rapid industrialisation the country is going through.

"Our power generator will be helpful to meet the demand of power in Bangladesh," he said.

Hindujas 'close' to $1.1b deal to buy US chemical firm

AFP, *New Delhi*

INDIA'S Hinduja Group is close to acquiring US oils and chemicals firm Houghton for $1.1 billion as the family-owned conglomerate seeks a tie-up for its lubricants business, a report said Saturday.

Pennsylvania-based Houghton International, owned by private equity firm AEA Investors, is among the world's biggest manufacturers of hydraulic fuels, rust preventatives and lubricants for the automotive and steel sectors.

The deal is expected to be announced soon as most of the terms have been agreed, the Business Standard newspaper quoted a senior unnamed Hinduja official as saying.

"We are awaiting an announcement as some last-minute negotiations are going on," the official said, according to Business Standard.

The Hinduja group is one of India's biggest industrial houses with interests from banking to chemicals while the Hinduja brothers, who steer the group, are based in London and Indian financial hub Mumbai.

A spokesman for the group -- run by chairman Srichand Hinduja, with the help of his brothers, Gopichand, Prakash and Ashok -- could not be immediately reached for comment.

The purchase of Houghton, which has manufacturing plants throughout the world, would mark the biggest foreign acquisition by an Indian company this year and would be Hindujas' largest ever abroad, Business Standard said.

The Hindujas have a presence around the globe, employing over 40,000 people, according to the group's website.

Many Indian companies are scouting for foreign purchases as good assets abroad are becoming cheaper due to the economic slowdown gripping the west, analysts say.

India's giant Tata group last month made a bid to buy US-based Orient-Express for $1.8 billion. The luxury hotel chain said Friday it was consulting financial and legal advisors on the takeover bid and would reply "in due course of time".

In seeking to acquire Houghton, the Hindujas see benefits for Mumbai-based listed group company Gulf Oil, which is among the top five private sector lubricant players in India, Business Standard said.

Google's Android software in 3 out of 4 smartphones

REUTERS, *San Francisco*

THREE out of every four smartphones sold in the third quarter featured Google Inc's Android mobile operating system, as the gap between Google and Apple Inc-based phones widened further, according to a new research report.

Shipments of Android-based smartphones made by Samsung, HTC and other vendors nearly doubled in the third quarter, reaching 136 million units, according to industry research firm IDC. The strong sales boosted Android's share of the worldwide smartphone market to 75 percent, from 57.5 percent in the year-ago period.

Apple's share of the market increased to 14.9 percent during the third quarter, from 13.8 percent a year earlier. Apple's iPhone uses the company's iOS mobile software.

While Android pulled further ahead of Apple's iOS, its gains have come mainly at the expense of rival operating systems Blackberry and Symbian, with shipments of phones running those systems declining significantly.

IDC analyst Kevin Restivo cited Android's close "tie-ins" to Google's broad array of online services, which include online search and maps, as an important asset that has helped Android grow.

"Google has a thriving, multi-faceted product portfolio. Many of its competitors, with weaker tie-ins to the mobile OS, do not," Restivo said in the IDC report, which was released on Thursday.

Google offers its Android operating system free to phone manufacturers, and primarily makes money from online advertising when consumers access its services on the devices.

Research in Motion's Blackberry operating system had 7.7 percent share in the third quarter, compared with 9.5 percent a year earlier.

Symbian, which had 14.6 percent share a year ago, had a 4.1 percent share in the third quarter. Smartphone maker Nokia still offers the Symbian software in some of its phones, but the company has largely shifted to Microsoft Corp's software.

Mobile versions of Microsoft's software accounted for 3.6 percent of the smartphone market in the third quarter. But IDC said that the recent launch of the new Microsoft Phone 8 operating system could improve its position in the fast-growing market.

REUTERS

Attendees gather at the Android developer sandbox during the Google I/O Conference at Moscone Centre in San Francisco, California.

US jobs picture brightens ahead of Tuesday's election

AFP, *Washington*

THE United States added 171,000 jobs in October, far more than expected, though the jobless rate rose as the labour force expanded, the government said Friday in a crucial look at the economy four days ahead of the presidential election.

The unemployment rate edged up to 7.9 percent, after a surprising three-point drop in September to 7.8 percent, the same level when Obama took office in January 2009.

The encouraging Labour Department report provided a final snapshot of a slowly improving economy as President Barack Obama battles for re-election Tuesday in a neck-and-neck race against Republican challenger Mitt Romney.

Muddling growth and high unemployment are uppermost on Americans' minds as they head to the polls.

Most analysts had forecast the higher jobless rate, but job growth far outpaced their consensus estimate of 125,000.

Nigel Gault, chief US economist at IHS Global Insight, said the report gave both presidential candidates something to grab onto. "President Obama can point to faster job creation, while Governor Romney can say that the unemployment rate is higher now than in January 2009 when the president took office," Gault said.

"On balance the report is better than expected, which should help the incumbent, but not sufficiently so to be a game-changer."

The effects of Hurricane Sandy, the deadly storm that ravaged the eastern seaboard on Monday and Tuesday, were not reflected in the jobs report, calculated on surveys of businesses and households in mid-month.

The Labour Department's sharp revisions to previous months' numbers showed a substantial improvement in job growth since mid-2012. The department raised its estimates for August and September net new jobs by 33 percent.

The three-month average suggests a job creation trend that is picking up pace: the US added 170,000 jobs per month over August-October, compared with 104,000 in the May-July period.

The private sector again led the way with growth in professional and business services, health care and the retail sector.

A net 184,000 private-sector jobs were added in October, a jump of 44 percent from September and the best growth since February, while governments pared 13,000. The struggling manufacturing sector gained 13,000 jobs.

The White House as usual cautioned against reading too much into the monthly numbers because they can be volatile.

"While more work remains to be done, today's employment report provides further evidence that the US economy is continuing to heal from the wounds inflicted by the worst downturn since the Great Depression," said Alan Krueger, head of the president's Council of Economic Advisers.

Republican nominee Romney slammed the rise in the unemployment rate.

"Today's increase in the unemployment rate is a sad reminder that the economy is at a virtual standstill," he said, noting the rate is higher than it was when Obama took office.