



Economic sustainability requires increasing FDI

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Conceptually, Foreign Direct Investment (FDI) refers to the direct investment of equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross border investment associated with a resident of one economy having control or a significant degree of influence over the management of an enterprise that is resident in another economy. Ownership of 10 percent or more of ordinary shares or voting stock is the criterion for determining the existence of a direct investment relationship. FDI aims at three broad categories: natural resource-based, manufacturing, and labour-intensive manufacturing. Natural resource-based activities include petroleum, minerals, and agricultural production, which tend to be large and capital intensive. Manufacturing services include processed food, apparel, steel, chemicals, transportation, communication, electricity, business services, and finance. On the other hand, labour intensive manufacturing is based on export to world markets, including apparel, electronics, textiles, footwear, and toys, which are highly dependent on cheap labour (Perkins & Redlet).

Since the independence of Bangladesh, the inflow of FDI, in absolute terms, remained minimal until 1995. The growth curve was relatively flat during this period due to a lack of major structural policy reforms, clear guidelines, and innovation, which failed to attract significant FDI. According to the United Nations Conference on Trade and Development (UNCTAD) World Investment Report (1994-2023), FDI inflow stood at \$139 million in 1997, increasing to \$280 million by 2000. In 2004, the figure reached \$460 million, marking a period

of positive growth. Between 2004 and 2008, FDI inflows showed a noticeable and consistent upward trend, culminating in \$1,086 million in 2008. Maintaining this momentum, Bangladesh recorded \$2,235 million in 2015, which further increased by \$1,149 million over the next seven years. For the first time, FDI

over \$1 billion.

A peer analysis of the percentage of FDI inflow to GDP ratio among five Asian countries over the last 40 years, from 1983 to 2023, reveals significant insights. From 1983 to 1999, the FDI-to-GDP ratio in Bangladesh was less than 0.50 percent, reflecting minimal foreign investment

the 40 year period, Bangladesh has never achieved an FDI-to-GDP ratio of 2 percent. In comparison, Sri Lanka surpassed 1.39 percent in 1992 and maintained this level for a few years before experiencing a decline over the next eight years. The ratio rebounded to 1.26 percent in 2005, peaking at 2.85 percent in 2010, and remained consistently above 1 percent for a decade. For Pakistan, the ratio reached 1.19 percent in 1995, fluctuating thereafter, and recorded its highest value of 3.04 percent in 2007, maintaining balance until 2010. However, for the last decade, Pakistan's FDI-to-GDP ratio has been below 1 percent. From Bangladesh's perspective, both Sri Lanka and Pakistan demonstrate relatively better performance in FDI-to-GDP ratios.

Indonesia's performance showed early progress, exceeding 1 percent in the early 1990s and accelerating to 2.72 percent in 1996. However, the ratio deteriorated to less than 1 percent for the next seven consecutive years. It then surged to its highest level of 2.92 percent in 2005 and maintained consistency at over 1.5 percent for nearly one and a half decades. Malaysia has been a significant hub for attracting FDI. In 1983, the country recorded an FDI-to-GDP ratio of 4.15 percent, the highest among its five peer countries at the time. Notably, in 1992, this ratio peaked at 8.72 percent and maintained a stable outlook above 4 percent until 2000. Since then, Malaysia has demonstrated consistent efficiency with robust FDI figures relative to GDP. Among the peer countries, India has the largest GDP in absolute terms. From 1992, India's FDI-to-GDP ratio showed an upward trend, surpassing 1.06 percent within a decade. This momentum continued, reaching a peak of 3.62 percent in 2008, and has remained relatively stable at around 2 percent in subsequent years. Overall, in terms of FDI efficiency,

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- » Foreign Direct Investment refers to cross-border equity investments where an investor holds at least 10 percent of a foreign enterprise, categorised into natural resource-based, manufacturing, and labour-intensive manufacturing sectors.
- » Since its independence, Bangladesh's FDI inflow remained minimal until 1995, but it gradually increased, peaking at \$3,613 million in 2018, although the growth slowed in subsequent years.
- » Bangladesh's FDI-to-GDP ratio has remained relatively low, never surpassing 2 percent, whereas countries like India, Malaysia, and Indonesia have performed better in attracting FDI.
- » Issues such as poor Ease of Doing Business rankings, political instability, bureaucratic red tape, and corruption have hindered Bangladesh's ability to attract significant foreign investment.
- » To boost FDI, Bangladesh needs comprehensive policy reforms, better infrastructure, improved regulatory frameworks, streamlined administrative procedures, economic diplomacy, and stronger country branding.

inflow crossed \$3,613 million in 2018, the highest amount recorded in a single year. However, this growth trajectory slowed during the subsequent years of 2019, 2020, and 2021. In 2022, FDI inflow stood at \$3,480 million. Overall, it is evident that the Bangladeshi economy took 37 years to achieve an annual FDI inflow of

inflow. In 2000, the ratio reached 0.50 percent, and, with some variability, it increased to 1.17 percent in 2005 and further to 1.45 percent in 2008. Between 2010 and 2015, the ratio remained stable at over 1 percent. However, from 2016 to 2023, it chronologically declined, standing at just 0.32 percent in 2023. Over

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