

Investment Climate and Foreign Direct Investment: Comparing Bangladesh with Selected Countries in Asia

*Sonjoy Chkaraborty

Abstract

This paper analyses investment climate and Foreign Direct Investment (FDI) for selected 10(ten) economies in Asia - Bangladesh, India, Sri Lanka, Pakistan, China, Malaysia, Thailand, Indonesia, Vietnam and Singapore. Amongst the ten, business operating cost components are the cheapest (specially, the wage rate is the lowest) for Bangladesh, suggesting that the country may have a comparative advantage for attracting FDI vis-à-vis the other nine countries. But unfortunately Bangladesh' per capita FDI is the lowest except Pakistan and rank of FDI/GDP ratio is 8th (better than only India and Pakistan) among the above mentioned ten countries. Furthermore, this study finds that low wage rate and investment related low cost could not harvest the comparative advantage for attracting inflow of FDI.

Key Words: Foreign Direct Investment, Per capita FDI, FDI-GDP ratio

1. Introduction

Generally Foreign Direct Investment means “Establishing or expanding business operations into a foreign country with transfer of capital”. FDI is defined by UNCAD as “An investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy. The World Bank World Development Indicators defines inward FDI as “the net inflows of investment to acquire a lasting management interest in an enterprise operating in an economy other than that of the investor” (World Bank 2006, p. 319). Inward FDI not only serves the long-term financial interests of foreign investors, it can also play a significant role in the growth dynamics of host countries. FDI can fill the “investment gap” by providing capital for domestic investment in one hand and can also fill the “foreign exchange gap” by providing foreign currency through initial investments and subsequent export earnings on the other hand finally, FDI can help close the “tax revenue gap” by generating tax revenues through creation of additional economic activities (Smith, 1997). Many empirical studies have revealed that FDI can also help generate domestic investment in matching funds, facilitate transfer of managerial skills and technological knowledge, increase local market competition, create modern job opportunities and increase global market access for export commodities, etc.

At the end of the Cold War in the early 1990s in a new political dynamics, LDCs become heavily dependent on foreign public aid regardless of their political ideological leanings, to find out alternative sources of foreign private capital. Trends in information and communication technologies (ICT) and globalization have also resulted in greater integration of capital markets easing the flow of capitals across the globe. As a result, According to WIR, 1991 and 2014, the annual FDI inflows to LDC's increased from \$0.17 billion in 1988-89 (0.1% of global share) to about \$28 billion (1.9% of global share) in 2013 and the FDI inflows to East, South and South-East Asia was only \$15.20 billion (8.8% of global share) in 1988-89, which was \$3.20 billion (1.9% of global share) in 1988-89 in Africa. But in 2013 the FDI inflows to Asia become \$426 billion (29.4% of global share) and \$57 billion (3.9% of global share) in Africa.

*Sonjoy Chkaraborty, MSS (Economics) First Class, Ph. D. (Research Fellow), Deputy Director (Research and development), BOI, Prime Minister's Office

The reasons are manifold and include: cheaper labour, increasing purchasing power and more liberalised and investor-friendly economic environments in LDC's countries. In this article industrial climate of ten Asian countries like Bangladesh, India, Sri Lanka, Pakistan, China, Malaysia, Thailand, Indonesia, Vietnam and Singapore have been compared. Due to the low (lowest among the ten concern country) income, it is very tough to increase the investment/GDP ratio of Bangladesh for rapid economic growth and attracting FDI can be the alternative strategy for fill-up the investment gap. In spite of the lowest wage, this is the most important comparative advantage for attracting FDI, but the country fails to attract substantial amount of FDI and still per capita FDI of Bangladesh is the lowest except Pakistan among the concern ten Asian countries. With this in mind, the main objective of this paper is to identify the factors for which Bangladesh's per capita FDI inflow ratio is the lowest among ten Asian countries.

2. Review of the Previous Work

A numerous of literature exists on the study trends, impact and determinants of FDI. Most of these studies have identified as the determinants of FDI is availability of natural resource, labour quality, inflation of the country, domestic economic environment, market size, quality of infrastructure, labor cost, economic openness, return on capital, political stability, etc. There are many instances of conflicting findings regarding the direction of influence of the determinants of FDI (Chakrabarti 2001). Notwithstanding these differences, the FDI literature has continued to grow and capture the fascination of applied development economists and policy makers.

Kojima (1978) portrayed a comparative picture of FDI in Japanese model versus American model. According to him FDI sources endeavoured to invest in developing countries with the object of obtaining increased imports of primary products which are vitally important for the country. Natural resources like oil, natural gas, iron ore, coal, copper, bauxite and other metals are targets in this type of investment.

Many studies have found that political instability seriously erodes foreign investors' confidence in the local investment climate. Barro (1991) and Corbo and Schmidt-Hebbel (1991) state that political instability creates an uncertain economic environment detrimental to long-term planning, which reduces economic growth and investment opportunities.

Quazi and Mahmud (2006) used 1995-2000 panel data for five South Asian countries (Bangladesh, India, Nepal, Pakistan and Sri Lanka) and found that the significant determinants of FDI in this region are economic freedom, trade openness, market size, human capital, incremental lagged changes in FDI, and political instability.

Jaspersen et al (2000) and Asiedu (2002) found that the rate of return on investment positively affects FDI, while Wheeler and Mody (1992) and Asiedu (2002) found that availability of infrastructure significantly boosts FDI.

In a study of the impact of economic freedom and investment climate on FDI in Latin America, Quazi (2007) found that FDI inflow is negatively correlated with policy changes that result in diminished economic freedom, and excessive bureaucracy and inefficient

financial markets have created locational disadvantages for Mexico vis-à-vis other countries in the region.

Abdul Rehman, Orangzab, Ali Raza (2009) conducted an analysis by using the data collected over the period of 1975-2008 and identified the determinants of FDI and its impact on GDP growth in Pakistan through different statistical tests and found positively significant impact of FDI on GDP growth of Pakistan. Furthermore, these results indicate that market size, trade openness / access to international market and quality of labor are the major determinants that have significant impact on the FDI inflow. The study also found no impact of market potential and communication facility on the attraction of FDI inflow in Pakistan.

A summary conducted by Moosa (2002) provides from many recent studies investigated the determinants of FDI. For example, Cheng and Kwan (2000) found that regional market size, Tuman and Emmert (1999) found market size, economic policies and political instability affected Japanese FDI in Latin America and Lehmann (1999) found political and economic risks to deter FDI; good infrastructure and preferential policy affect FDI location in China.

Quader, Syed Manzur (2009) applied extreme bounds analysis to the data of the various catalyst variables of FDI inflows in Bangladesh. They found FDI and domestic investment have a positive effect on economic growth.

Mottaleb (2007) studied the determinants of FDI and its effect on economic growth in developing countries. He studied panel data of FDI flows of sixty low-income and lower middle income countries and found that FDI has an important effect on economic growth of third world countries by creating bridge between the gap of domestic savings and investment and introducing familiarizing the up to date technology and management skill from developed countries.

Sadik and Bolbol (2001) investigate the effect of FDI through technology spillovers on overall total factor productivity for India, Pakistan, Bangladesh and Srilanka over a 10-year period. They find that FDI has not had any manifest positive spillover on technology and productivity over and above those of other types of capital formation.

3. Objective of the Paper

This paper is designed to accomplish the following specific objectives:

- The broad objective of this paper is to compare investment climate of Bangladesh with ten Selected Countries in Asia.

In this broad objective the following research questions will also be examined:

- What are the indicators that measure the investment climate?
- What is the comparative scenario of investment climate of the ten selected Asian countries?
- What are the main barriers of inflow of DFI in Bangladesh?

4. Methodology

An exploratory research has been conducted in preparing the paper. The methodology includes simple statistical tools such as mean, standard deviation, and percentage. This paper is primarily based on secondary information. Internet resources from various websites had been facilitating in locating and gathering data. The relevant secondary data are collected from Statistics Department and Research Department of Bangladesh Bank (Central Bank of Bangladesh), Board of Investment (BOI), Bangladesh, Economic Trend, Bangladesh Economic Review, World Investment Report 2014 published by UNCTAD, various survey, websites, journals, Working Papers, books and newspapers etc. These data has been analyzed to assess the investment climate as well as foreign direct investment of Bangladesh, India, Sri Lanka, Pakistan, China, Malaysia, Thailand, Indonesia, Vietnam and Singapore. Lastly, the paper tries to identify the real hindrance of inflow of FDI in Bangladesh.

5. Evaluation of Investment climate in Bangladesh and Comparing with Selected Countries in Asia

5.1. Investment Climate and Economic Development

An idea of Investment climate is easy to perceive but difficult to define precisely According to the World Development Report 2005, investment climate is the set of location-specific factors shaping the opportunities and incentives for firms to invest productively, create jobs, and expand. Clearly, this definition is wider, which encompasses government policies, institutions and behavioral environment that have significant influence on costs, risks and barriers to business. It has emphasized on a good investment climate is the one that serves the society as a whole on the one hand (through its impact on job creation, lower prices, and broadening the tax base) and serves all firms, including both large and small, on the other. A sound investment climate not only encourages more investment but also promotes higher productivity because of increased competition.

For Bangladesh to make significant impact on the existing poverty incidence, annual GDP growth of 7-8 percent is needed (Razzak, A. and Raihan, S., 2007). Considering the experience of the past 30 years or so, it can be inferred that a growth rate of 7 percent would require an investment-GDP ratio of more than 30 percent as against of the current level of 26.896 percent (www.economywatch.com). When investment is based on domestic saving alone, we have to sacrifice current consumption for future prosperity. At a low level of income it is very difficult option and for this reason investment from foreign sources (such as foreign direct investment or FDI) can greatly help a country achieve higher growth without constraining the current consumption too much.

One important factor in determining the prospect of higher investment is the socio-economic condition that influences returns from investment by private enterprises. As the profitability of investment is hampered by such factors as macroeconomic instability, poor infrastructural facilities, deteriorating law and order situation, poverty, crime, workforce, national security, political instability, regime uncertainty, taxes, rule of law, property rights, government regulations, government transparency and government accountability etc. potential investors tend to be discouraged from putting their resources into investment. Given this backdrop, lot

of emphasis has been given to the importance of creating a sound investment climate in Bangladesh.

In recent times discussion of investment climate becomes an important issue in the Business arena. There are a number of cross-country comparisons in different reports often seem to be conflicting, giving rise to controversies and misunderstandings. These make it difficult for the policymakers to derive necessary inputs from the analyses that are made available. The underlying methodologies and their implications for investment, business activities and overall economic growth are often not clear to most of the stakeholders while they pay maximum attention to the ranking of the countries that a number of studies provide. There has not been any serious attempt to provide a simple presentation of these analyses evaluating the usefulness of the cross-country comparisons. As such, this article has been given attention of ten Asian countries and compared their investment climate to Bangladesh and then to explore the real problem for attracting FDI.

5.2 Investment Climate Assessment

There are a number of surveys and analyses evaluating the investment climate of countries around the world. The results from these surveys are regularly used to provide inter-country comparison in terms of investment and business environment in different countries. Some of these indicators are concretely defined and thus can be measured precisely, while others are based on the complete perception of the respondents. These indicators vary widely; from the number of days required to start a business to business executives' perception about the level of corruption in the countries. Often, country-specific broad indices are constructed on the basis of some predetermined formula requiring weights to be assigned to different indicators on which information is collected. These broad indices then make it feasible to make cross-country aggregate investment climate comparison feasible. In this section, I highlight a few investment climate assessments.

Investment Assessment by the World Bank

The World Bank's evaluation of individual country specific investment climate environment has been based on two major indicators, i.e., (a) Doing Business Project and (b) Investment Climate Assessment (ICA) survey.

(a) Doing Business Project

The doing business project as relative ranking of the countries is presented considering the 10 indicators. According to the Doing Business Report 2013, Bangladesh ranks 130th among a total of 189 countries considered in terms of the overall 'ease of doing business' indicators. It provides better protection to the investors (22th), and Starting a business (74th) are relatively easier. Getting credit in Bangladesh and dealing with construction permit are also better than many countries (ranks 86th and 93rd respectively). However, the country performs very poor in terms of getting electricity (lowest in the world, 189th), enforcing contract (185th), registering property (177th), trading across border (130rd) resolving insolvency (119rd) and paying tax (100rd).

Figure 1: Rank of Bangladesh Economy (among 189 countries)

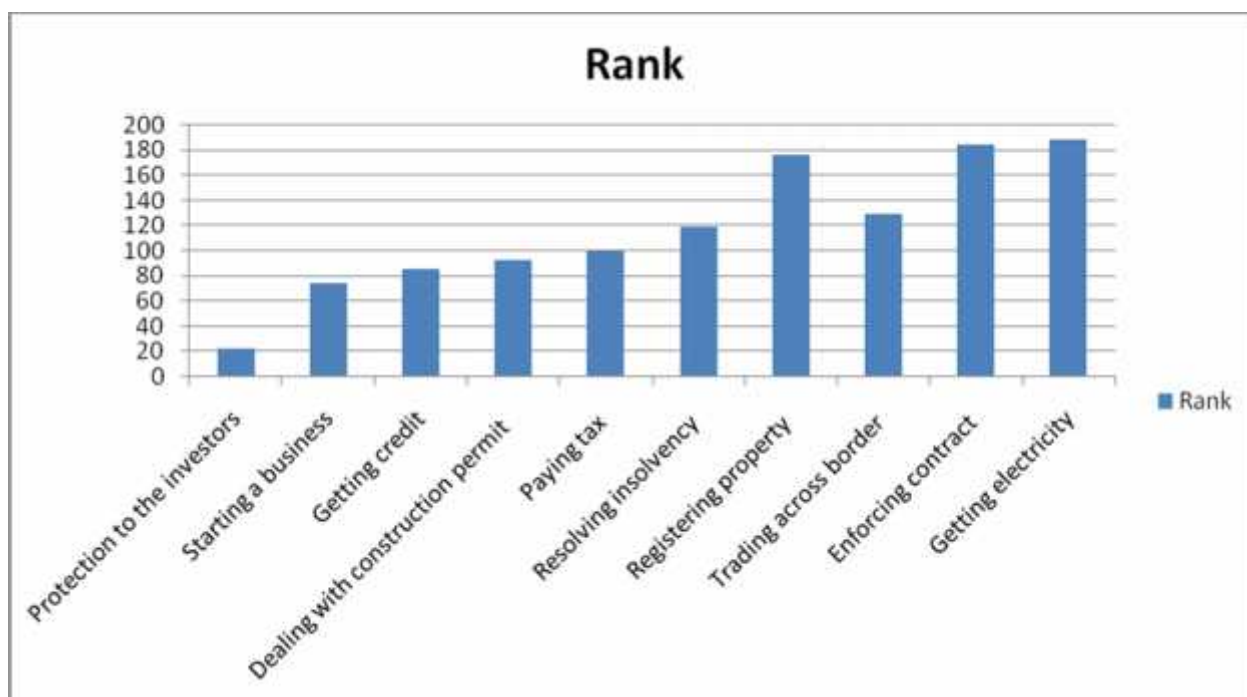


Table 1 provides us investment climate indicator named the Ease of Doing Business prepared by World Bank of the ten Asian countries, which also gives us a comparison with Bangladesh.

Table 1: Comparative Rank of Ten Selected Economy of Asia (among 189 countries)

Country	Bangladesh	India	Sri-lanka	Pakistan	China	Malaysia	Thailand	Indonesia	Vietnam	Singapore
Ease of Doing Business	130	134	85	110	96	06	18	120	99	01
Starting a business	74	179	54	105	158	16	91	175	109	03
Dealing with construction permit	93	182	108	109	185	43	19	188	29	03
Getting electricity	189	111	91	175	119	21	12	121	156	06
Registering property	177	92	145	125	48	35	29	101	51	28
Getting credit	86	28	73	73	73	01	73	86	42	03
Protection to the investors	22	34	52	34	98	04	12	52	157	02
Paying tax	100	158	171	166	120	36	70	137	149	05
Trading across border	130	132	51	91	74	05	24	54	65	01
Enforcing contract	185	186	135	158	19	30	22	147	46	12
Resolving insolvency	119	121	59	71	78	42	58	144	149	04

Source: World Bank, 2013

Note: Smaller values represents better doing business situations. 6

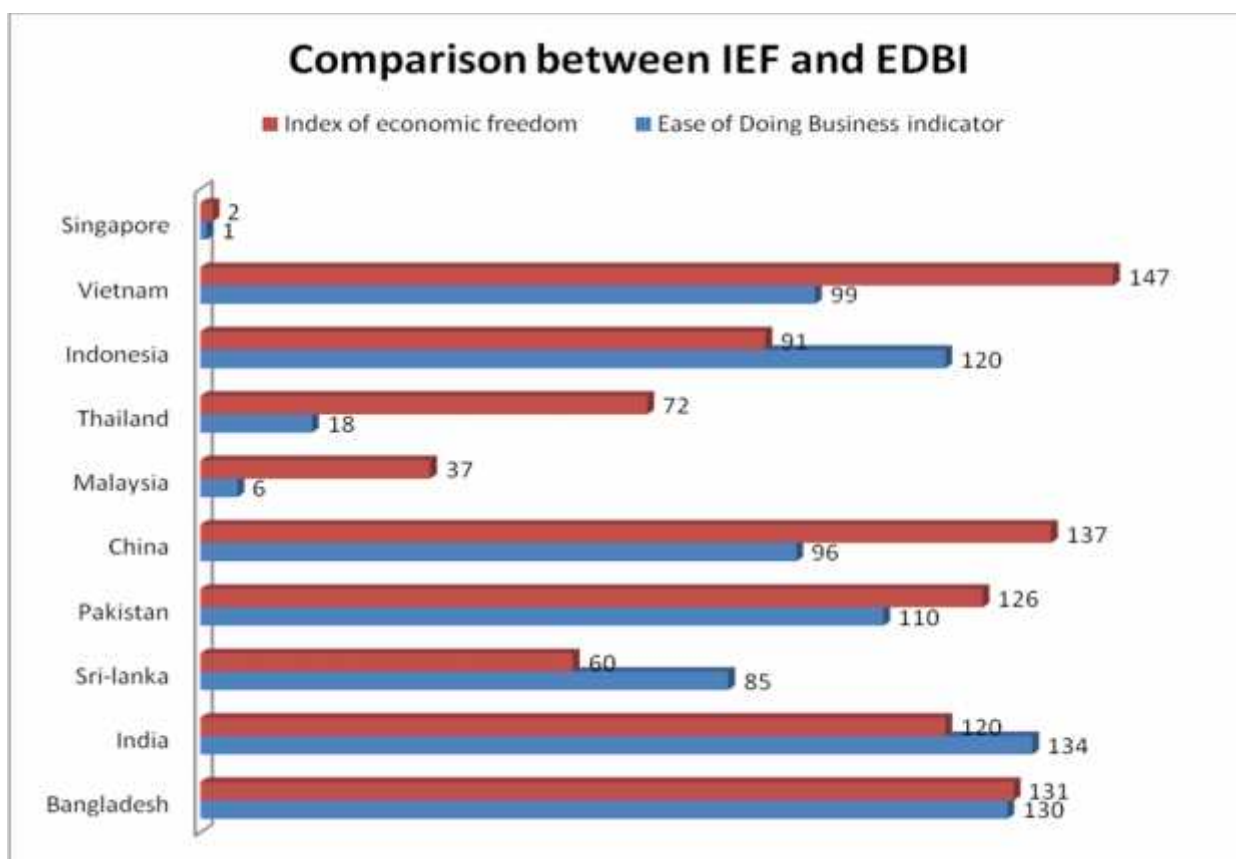
It is found that, among the 10 Asian countries, position of Singapore is first (also first in the world ranking) and the position of India is last (134th in the world ranking). Malaysia and Thailand is also in the very good position considering the world ranking (respectively 6th and

18th). Excluding Singapore, Malaysia and Thailand rest of the 7 countries position are existing within the 99th to 134th where the position of Bangladesh is just above the last one, that is, India. Among the 10 indicators, getting electricity is the top most problematic for the Ease of Doing Business in the world.

It is interesting to learn from the aforementioned report that overall doing business is easier in Bangladesh compared to India only. A number of other findings may appear to be quite interesting (Table 1). For example, launching a business in Bangladesh is less difficult than in such countries as India, Thailand, Pakistan, China, Indonesia and Vietnam. Protection to the investors is easier to all considered countries except Singapore, Thailand and Malaysia. Getting credit is difficult except Indonesia. What is perhaps most striking is that Bangladesh performs better than India in all the ‘doing business’ indicators except Getting electricity, registering property and getting credit.

Index of Economic Freedom (Ref. <http://www.heritage.org/index/>) is another popular indicator which is also considered as the economy is either FDI friendly or not.

Figure 2: Comparison between Ease of Doing Business indicator (considering 189 countries) and Index of economic freedom (considering 177 countries)



Source: World Bank, 2013 for Ease Doing Business and The Heritage Foundation, in partnership with Wills Street Journal for Index of Economic Freedom

In economically free societies, governments allow labor, capital and goods to move freely, and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself. Index of economic freedom based on 10 quantitative and qualitative factors, grouped into four broad categories, or pillars, of economic freedom and they are Rule of Law (property rights, freedom from corruption), Limited Government (fiscal freedom, government spending), Regulatory Efficiency (business freedom, labor freedom, monetary freedom) and Open Markets (trade freedom, investment freedom, financial freedom).

Each of the ten economic freedoms within these categories is graded on a scale of 0 to 100. A country's overall score is derived by averaging these ten economic freedoms, with equal weight being given to each. The ideals of economic freedom are strongly associated with healthier societies, cleaner environments, greater per capita wealth, human development, democracy, and poverty elimination.

China, Thailand, Indonesia, Vietnam have the large difference of the two (Index of Economic Freedom and Ease of Doing Business) indicators. Though the Ranking with Sri-lanka and India is in opposite direction to Bangladesh but the absolute values are closer to Bangladesh. Ranking of Bangladesh between the two indicators is around the same.

(b) Investment Climate Assessment (ICA) surveys

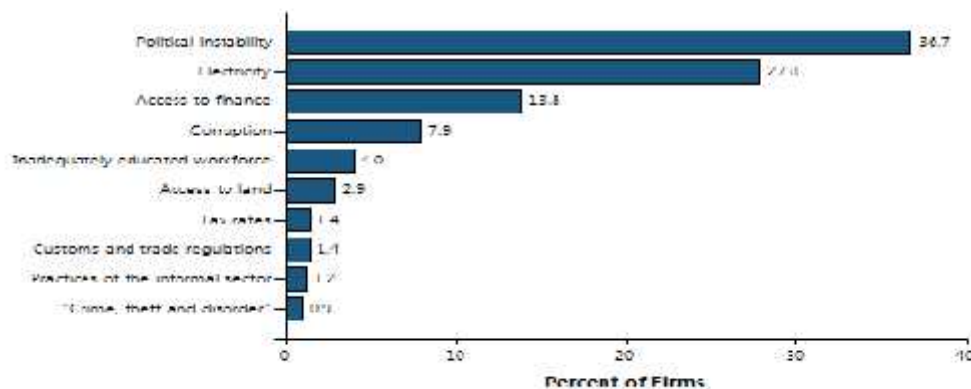
The objective of ICA are to evaluate the state of the private sector, identify the key constraints to increasing firm productivity, evaluate how competitive firms in a particular country are with respect to those of in our neighboring countries or in other regions of the world, and identify policies that will alleviate obstacles and improve firm productivity and export competitiveness. ICA surveys cover representative sample of firms from which information is gathered on a large number of issues based on regulations, governance, access to finance, infrastructure service, firm productivity, investment and employment decisions. On the other hand, under the doing business project data are gathered on ten business environment-related indicators viz. starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting business, paying taxes, trading across borders, enforcing contracts and closing a information e.g. the number of procedures, time required, costs, etc. and they depict formal regulatory requirements as assessed by local experts for both firms and transactions.

The ICA survey conducted in Bangladesh covered 1,442 firms were interviewed from April 2013 through September 2013 from 09 business sector – food, garments, leather products, chemical and chemical products, furniture, other manufacturing, retail, other services, motor vehicle and transport. The main conclusions from the study are : (1) Bangladeshi manufacturing firms report very high levels of capacity utilization, (2) Bangladeshi firms are also exporting at higher rates compared to businesses in other countries, (3) Female inclusion in economic activity lags behind most countries, (4) The Bangladeshi private sector considers political instability as the biggest business environment obstacle, (5) Electricity outages are numerous and of short duration, and (6) Firms in Bangladesh experience a high level of corruption when obtaining licenses and utility connections.

Business owners and top managers in 1,442 firms were asked to choose the top ten business environment obstacles. According to their opinion political instability is the most severe problem, with about more than one-third (36.7%) of the surveyed firms considered it as a

major constraint. It was followed electricity (27.8%), access to finance (13.8%), corruption (7.9%), indicated educated workforce (4.0%), access to land (2.9%), tax rate (1.4%), custom and trade regulation (1.4%), practice of the informal sector (1.2%), crime theft and disorder (1.2%).

Figure 3: Firms' Perception about Major Constraints to Business Operation in Bangladesh



Source: World Bank, 2013

5.3 World Economic Forum (WEF) Indices

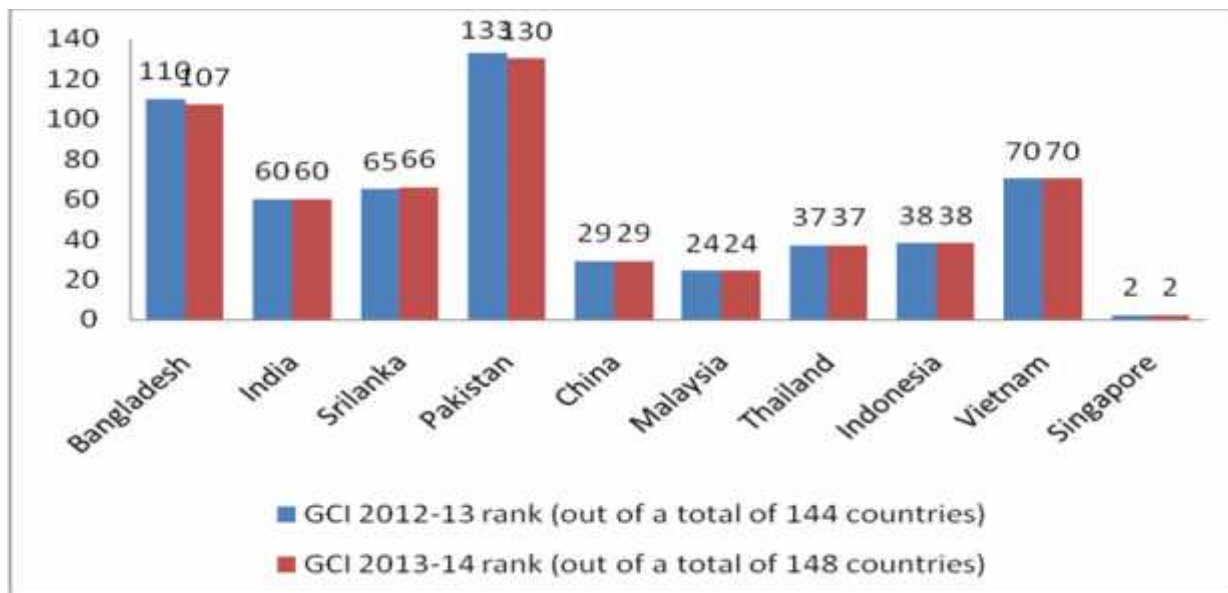
The World Economic Forum (WEF) is a Swiss nonprofit foundation, based in Cologny, Geneva. The World Economic Forum (WEF) has been publishing the Global Competitiveness Report (GCR) since 2004. It attempts to provide what is known as the competitiveness rankings of countries. The two competitiveness index provided by GCR are (1) the Global Competitiveness Index (GCI) and (2) the Business Competitiveness Index (BCI). In 2004, the number of countries in GCR sample was 104, which increased to 117 in 2005-06 and further increased to 148 in the year of 2013-14.

a. Global Competitiveness Index (GCI)

More than three decades, the World Economic Forum's annual Global Competitiveness Reports have studied and benchmarked the many factors underpinning national competitiveness. From the onset, the goal has been to provide insight and stimulate discussion among all stakeholders about the best strategies and policies to help countries to overcome the obstacles to improved competitiveness. The GCI index examines the potentials of countries across the world to achieve growth that is sustainable in the medium and long term. The three components of this index are: macroeconomic environment, quality of public institutions, and technology, Figure 4 provides the GCI rankings for some selected countries in 2012-13 and 2013-14, in terms of the individual GCI Components, Bangladesh Ranked 113th in the Basic requirements index, 108th in the Efficiency enhancers index, and 124th in the Innovation and sophistication factors index in 2013-14. On the whole, the country ranked at 110th among the 148 countries. In the ranking exercise of 2012-13 Bangladesh is ranked at 107th out of a total of 144 countries. Bangladesh is assessed to have the worst Innovation and

sophistication factors (ranked at 124th), while its relative positions in basic requirements and efficiency enhancers are worked out to be 113th and 108th respectively. Among the considered ten Asian countries, except Pakistan, all other countries perform better than Bangladesh.

Figure 4: Global Competitiveness Index Ranking for some selected countries

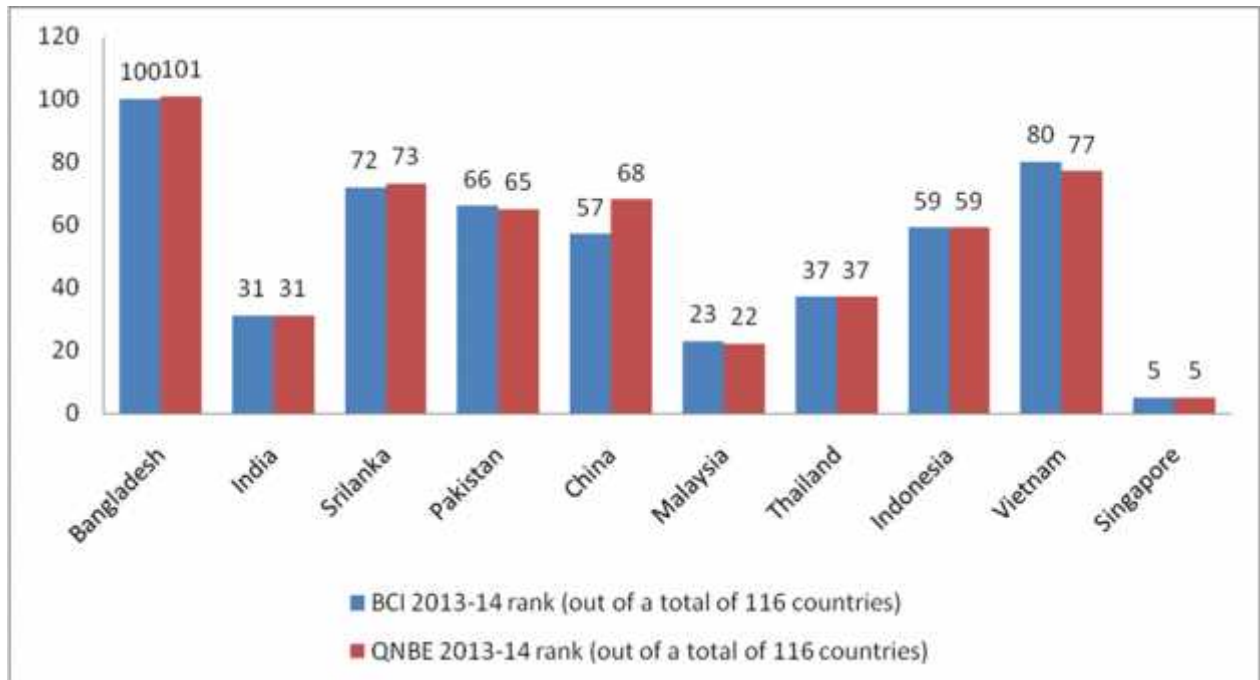


Source: Global Competitiveness Report of WEF (various issues)

b. Business Competitiveness Index (BCI)

Competitiveness is a central concern of both advanced and developing countries in an increasingly open and integrated world economy. While many discussions of competitiveness remain focused on the macroeconomic, political, legal, and social circumstances that strengthen a successful economy, progress in these areas is necessary but not sufficient. A sound and stable circumstance improves the opportunity to create wealth, but does not create wealth. Wealth is actually created by the productivity with which a nation can utilize its human resource, capital, and natural resources to produce goods and services. Productivity ultimately depends on the microeconomic capability of the economy, rooted in the sophistication of companies (both local and subsidiaries of multinationals), the quality of the national business environment, and the externalities arising from the presence of clusters of related and supporting industries. Unless microeconomic capabilities improve, sustainable improvements in prosperity will not occur. The Business Competitiveness Index (BCI) is based on this conceptual framework (Porter, M. E., Ketels, C., and Delgad, M., (2007). BCI is a weighted average of the ‘index for sophistication and company operation and strategy’ and the ‘index for quality of national business environment’ with the weights assigned to them are 0.2 and 0.8, respectively. Due to a much higher weight given to the quality of national business environment (QNBE), the BCI is often very close to the QNBE index (see figure 5).

Figure 5: The Business Competitiveness Index (BCI) Ranking and the Quality of the National Business Environment (QNBE) Ranking



Source: WEF (2013 and 2014)

The BCI ranking for Bangladesh was 87th in 2004-05, which became 100th in 2013-14. Bangladesh's relative position in QNBE also deteriorated from 86 to 101. The country has consistently performed worse relative to all other concern Asian Countries. This reveals that the basic elements that constitute the business environment have performed quite poorly in Bangladesh. The factors included quality of physical and administrative infrastructures, quality of human resources and technology infrastructure, development of capital markets, sophistication, local suppliers' quality, efficiency in corporate bodies, intellectual property protection, intensity of local competition, effectiveness of antitrust policy, and prevalence of trade barriers (Bhattacharya et al., 2006).

5.4 Investment-Related Cost Comparison

The 23rd Survey of Investment Related Costs in Asia and Oceania Japan External Trade Organization (JETRO) conducted a comparative survey of investment-related costs in 41 major cities and regions throughout Asia and Oceania in the period between December 2012 and January 2013. The survey revealed that Japanese companies are mainly concerned about wages.

Table 2: The Investment-Related Cost Comparison of Survey of the Concern 10 Countries' Main City

Sl. No.	City (Country)	Wage of General Workers (per Month)(US dollar)	Industrial Estate (land) Rent (per sq.m.)	Electricity Rate for Business Use (per kWh)	Water Rate for Business Use (per cu.m)	Gas Rate for Business Use (per kg)	Diesel oil Price (1liter)	Corporate Income tax Rate
01	Dhaka (Bangladesh)	74	0.19	0.11	0.34	0.12	0.85	37.50%
02	New Delhi (India)	276	3.93	0.15	1.82	1.28	0.86	30%
03	Colombo (Sri Lanka)	118	1.05	0.10	0.59	1.51	0.90	28%
04	Karachi (Pakistan)	173	0.29	0.13	0.39	4.73	1.13	25%
05	Beijing (China)	466	7.16	0.13	0.99	0.45	1.20	25%
06	Kuala Lumpur (Malaysia)	344	n.a	0.10	0.75	6.25	0.59	25%
07	Bangkok (Thailand)	345	7.22	0.15	0.53	0.99	0.99	35%
08	Jakarta (Indonesia)	239	6	0.07	1.29	8.45	1.06	25%
09	Hanoi (Vietnam)	145	0.17	0.11	0.58	1.75	1.05	25%
10	Singapore (Singapore)	1,230	6.51	0.13	1.81	0.19	1.32	17%

Source: The 23rd Survey of Investment Related Costs in Asia and Oceania, May 2013, Overseas Research Department Japan External Trade Organization (JETRO)

The Japan External Trade Organization (JETRO) has conducted a survey in 41 major Asian cities on investment-related costs in 2013 for the fiscal year of 2012. Amongst the set of mainly 06 cost components a. Wages, b. Land price, office rents, etc c. Public utility rate d. Transportation e. Tax f. School fee and these broad cost components are sub-divided into 35 cost-components. Most of the cases of cost components, Dhaka have the cheapest cost. In table 2, 10 countries seven important cost component are presented. Except Corporate income tax rates all other i.e. 6 other cost component are the lowest in Dhaka city. The report highlighted a few number of disadvantages for Dhaka such as (1) container transportation costs, (2) rate of corporate income tax (3) Regular gasoline price and (4) Corporate income tax rate.

To understand the current business activities of Japanese-affiliated companies operating in Asia and Oceania and to disseminate those findings widely the Japan External Trade Organization (JETRO) has conducted a survey from October 8 to November 15, 2013. Of a total of 9,371 surveys sent out, JETRO received valid responses from 4,561 firms (48.7%) and there were 11 manufacturing Industries and 6 non-manufacturing Industries. From the detail survey very important gist areas are depicted in the following table.

From the this indicators we can see that, the rate of wage increase for Bangladesh is 13 percent which is second highest of the concern 10 countries but it is not the problem of the Bangladesh because absolute wage of Bangladesh is the lowest. Estimating operating profit in 2013 is not also encouraging for attracting FDI. On the other hand, procurements of raw

materials and parts from local markets is only 29.1% is the second lowest among the concern ten countries.

Table 3: Some Indicators' value of the JETRO Survey Conducted from October 8 to November 15

Country	Estimating Operating Profit in 2013 (% of firm)	Expansion of Business Development within 1-2 Years (%)	Procurement of Raw Materials and Parts from Local Markets (%)	Wage Increase over the Previous Year in Percentage (2013 to 2014)	Monthly Wage Oct./2013 in Manufacturing Industry (US Dollar)	DI* (Diffusion Index)
Bangladesh	45.8(n=34)	79.9(n=34)	29.1(n=14)	13.0(n=13)	86(n=12)	29.4(n=54)
India	68.9(n=334)	78.3(n=341)	43.4(n=123)	10.9(n=)	217(n=91)	27.7(n=335)
Srilanka	38.7(n=31)	51.5(n=33)	17.9(n=13)	8.9(n=22)	130(n=12)	15.8(n=32)
Pakistan	74.1(n=27)	81.5(n=27)	34.1(n=13)	12.8(n=23)	154(n=14)	44.5(n=27)
China	60.7(n=929)	54.2(n=931)	64.2(n=530)	6.6(n=677)	375(n=477)	15.5(n=930)
Malaysia	63.8(n=276)	51.6(n=277)	42.8 (n=161)	4.6 (n=194)	429(n=168)	13.1(n=75)
Thailand	72.4(n=820)	66.2(n=822)	52.7 (n=444)	5.0(n=64)	366(n=328)	15.4(n=822)
Indonesia	64.8(n=273)	66.4(n=227)	40.8(n=165)	17.0(n=193)	234(n=155)	14.2(n=217)
Vietnam	59.9(n=434)	69.9(n=435)	32.2(n=208)	10.8(n=327)	162(n=234)	22.4(n=428)
Singapore	68.9 (n=286)	52.8(n=286)	40.4(n=47)	3.7(n=231)	1433(n=44)	10.1(n=286)

Source: Japan External Trade Organization (JETRO) Survey, 2013

Note: In parenthesis n is the number of firm surveyed

* DI is an abbreviation for Diffusion Index, the proportion of firms expecting improvement minus the proportion of firms expecting worsening. This figure reflects changes in business confidence.

According to the survey report, the most five problems for the Bangladesh are difficulty in local procurement of raw materials and parts, power shortage or blackout, quality of employees, lack of employee performance/employee awareness among local staff and wage increase. All other country's most problematic issue is the increase rate of wage except Singapore and Pakistan But absolute wage of Singapore is substantially high. The top most problem of Pakistan and Singapore is respectfully Power shortage or blackout and difficulty in recruiting general workers.

5.5 Governance Indicators

The Worldwide Governance Indicator (WGI) report six aggregate governance indicators for 215 countries and territories covering i) Voice and Accountability, ii) Political Stability and Absence of Violence, iii) Government Effectiveness, iv) Regulatory Quality, v) Rule of Law, and vi) Control of Corruption. Governance literature that attempts to analyze cross-country growth, and trade and investment flows. There are many indicators in this regard, but here we consider six developed by Kaufmann et al. (1999, 2002), reflecting different aspects of governance. These governance measures combine information (mostly subjective) for up to 60 indicators from a number of sources. The voice and accountability indicator measures citizens' abilities to take part in the selection of government; political stability measures the probability that the government would be destabilized by some unconstitutional means; government effectiveness reflects the quality of 'inputs' like public service and bureaucracy that are required to implement policies effectively; regulatory quality measures the quality of government policies; rule of law reflects the extent to which people have faith on the rules and to the extent they comply with the rules; control of corruption indicates the level of

corruption. The values of governance indicators range from -2.5 to 2.5 and the higher the value the better the governance outcomes. In Table 4, depending on the point estimates, the countries are ranked in as ascending order. A lower rank means worse governance and vice versa.

Table 4: Aggregate Governance Indicators for Selected Countries: 2009 and 2012

Country	Voice and Accountability		Political Stability		Government Effectiveness		Regulatory Quality		Rule of Law		Control of corruption	
	2009	2012	2009	2012	2009	2012	2009	2012	2009	2012	2009	2012
Bangladesh	39	34	09	09	23	22	23	20	25	19	15	21
India	60	58	11	12	56	47	43	34	55	53	39	35
Srilanka	32	30	10	23	51	46	45	48	54	52	44	52
Pakistan	22	24	01	01	24	23	33	25	21	19	14	14
China	05	05	31	28	85	87	46	44	46	39	35	39
Malaysia	32	38	42	45	79	80	62	70	64	66	58	66
Thailand	33	37	10	13	63	61	58	58	48	50	50	47
Indonesia	47	51	21	27	47	44	40	43	35	34	23	29
Vietnam	08	09	52	56	48	44	29	27	40	38	36	35
Singapore	41	54	90	97	100	100	98	100	92	96	98	97

Note: Lower values represent poorer government performance,

Source: <http://info.worldbank.org/governance/wgi/index.aspx#reports>

It appears from Table 4 that, except Control of corruption in all other indicators Bangladesh performed poorly in 2012 compared to 2009. In terms of political stability Bangladesh performed extremely poor among the concern 10 countries in each of these indicators. The country's best relative position was found to be in voice and accountability (39 in 1009 and 34 in 2012) which is also poor than India and Indonesia. Bangladesh's political stability ranking remains same in 1009 and 2012. When compared to other concern 09 Asian countries, Bangladesh performed extremely poor (except only Pakistan) in all indicators excluding Regulatory Quality. In all other areas Bangladesh was the worst performer among the ten Asian countries except Pakistan though in the case of regulatory quality indicator, Pakistan did better than Bangladesh.

5.6 Transparency International's Corruption Perception Index

The Corruption Perceptions Index ranks countries/territories based on how corrupt their public sector is or perceived to be. A country/territory's score indicates the perceived level of public sector corruption on a scale of 0 - 100, where 0 means that a country is perceived as highly corrupt and 100 means that a country is perceived as very clean. A country's rank indicates its position relative to the other countries/territories included in the index.

In the recent years, the index that has been the most talked mostly about in Bangladesh, is the Transparency International's Corruption Perception Index (CPI). The CPI ranks countries in terms of the extent to which corruption is perceived to exist among public officials and politicians.

Table 5: Transparency International's Corruption Perception Index of ten Asian Countries

Country	2011		2012		2013	
	Rank	Score	Rank	Score	Rank	Score
Bangladesh	120	27	144	26	136	27
India	95	31	94	36	94	36
Srilanka	86	33	89	40	91	37
Pakistan	124	25	139	27	127	28
China	75	36	80	39	80	40
Malaysia	60	43	54	49	53	50
Thailand	80	34	88	37	102	35
Indonesia	100	30	118	32	114	32
Vietnam	112	29	123	31	116	31
Singapore	05	92	05	87	05	86

Source: Transparency International's Corruption Perception Index (various issues)

It is a composite index, drawing on corruption-related data gathered from the perception of selected groups of people. It reflects the views of business people and other observers who are supposed to be knowledgeable about the business environment and practices in the countries under evaluation.

Bangladesh has been ranked last in this index for 5 consecutive years. In the latest available reports, its relative position improved very marginally. As reflected in Table 5, India and Malaysia is shown to have registered marginally improvement in 2013, where all other countries situation deteriorates during the same period. Bangladesh is the most corrupt country among the concern 10 South Asian countries in 2013 and at the same time the relative position of Bangladesh also deteriorated from 2011 to 2013.

6. Over-all Evaluation of the Status of FDI in Bangladesh: Comparing with ten Asian Countries

Table 6 shows that per capita FDI of Bangladesh is the lowest among the 10 concern countries except Pakistan. If we examine the above analysis we can observe that most of the cases, indicator of Bangladesh was lowest except Pakistan. These indicators were CPI, Governance Indicators such as Voice and Accountability, Political Stability, Government Effectiveness, Rule of Law, Control of corruption except Regulatory Quality, Global Competitiveness Index etc. GDP growth rate is highest in Bangladesh except China, and Srilanka (Srilanka is very marginally better than Bangladesh). The growth performance of GDP is very much related with investment (% of GDP). Very important factor of FDI inflow is market openness which is the worst position (74th) for Bangladesh of the concern 10 countries. Marginal propensity of savings depends on the level of income.

Table 6: FDI, GDP, Population, FDI-Population ratio, FDI-GDP ratio, GDP Growth, Investment (% of GDP), Per capita GDP, and Market Openness Index Ranking of the ten countries

Country	FDI (Million US dollar)	GDP(Million US dollar)	Population (Million)	GDP Growth	Investment (% of GDP)	Per capita GDP (US dollar)	Market Openness Index Ranking*	FDI /Population	(FDI/GDP)* 100
Bangladesh	1599.1	135143	151.639	6.006	26.896	891.21	73	10.54	01.18
India	18199.4	1972840	1239.26	5.676	35.145	1591.95	64	14.68	00.92
Srilanka	0915.6	65266	20.824	6.250	31.878	3134.48	65	43.96	01.40
Pakistan	1307.0	238935	182.584	3.500	12.945	1308.63	59	7.15	00.54
China	123911.0	9020310	1360.70	8.038	47.692	6628.86	57	91.06	01.37
Malaysia	12.305.7	327910	29.957	5.10	26.4	10945.89	30	410.77	03.75
Thailand	12945.6	424980	64.667	5.88	29.846	6571.91	49	200.18	03.04
Indonesia	18444.0	946391	247.95	6.03	35.569	3816.80	53	74.38	01.94
Vietnam	8900.00	155952	91.47	5.23	22.779	1704.89	46	97.29	05.70
Singapore	63772.3	286930	5.499	2.01	27.69	52174.87	02	11597.07	22.22

Source: Column 1 is collected from WIR, 2013, Column 3 to 5 are collected from the website of www.economywatch.com, Market Openness Index Ranking is collected from the website of www.iccwbo.org and Column 8 and 9 are computed by the author.

Note: All data are for the year of 2013

*The Open Markets Index (OMI) is prepared by International Chamber of Commerce comprising four key components and these four components are observed openness to trade, trade policy, foreign direct investment (FDI) openness, and infrastructure for trade.

As per capita GDP is the lowest in of Bangladesh, so the country should not be very much optimistic for increasing local investment. FDI can play a vital role for increasing Investment (% of GDP) but for that reason stable political situation is essential. Political condition of Bangladesh is not still supportive for foreign direct investment of the country. Foreign investors are fully convinced regarding their return on investment due to weak socio-economic framework of Bangladesh. Corruption and religious consideration also encourage them to divert their investment to other neighboring countries (Rahman, L., Islam, E., Islam, S., 2011).

Including the lowest wage rate, investment related most of the costs are low in Bangladesh compare to the ten Asian countries concern. On the other hand, government is providing a lot of incentives for the foreign investors such as corporate tax holiday, reduced tariff on import of raw materials and capital machinery, bonded warehousing facility, export subsidy, fund for export promotion, export credit guarantee scheme and many others. In spite of all these comparative advantages, per capita FDI is the second lowest and FDI/GDP ratio is the third lowest among the ten Asian countries. But, fortunately FDI growth rate of Bangladesh was significantly high (24%) in 2013. For continuing this FDI growth or above, Bangladesh have to be more concern about governance indicators such as Voice and Accountability, Political Stability, Government Effectiveness, Rule of Law, Control of corruption, Regulatory Quality, Competitiveness, etc. In the Global Competitiveness Report 2007-2008 © 2007 World Economic Forum mentions that Competitiveness depends not on costs, but on productivity. Low wages can be a sign of low competitiveness, not a competitive advantage. High wages in a country, if they are justified by high productivity, can be an excellent value. It is not absolutely correct that wage comparative advantage can play a vital role for attracting FDI.

7. Conclusion

For attracting more FDI, Bangladesh will have to ensure healthy investment climate conducive to the both traditional and non-traditional export sector. According to the Ease of Doing Business indicator, among the concern ten Asian countries the position of Bangladesh is (134th) just above the last one, that is, India and among the 10 indicators of Ease of Doing Business, getting electricity is the top most problematic in the world (189th). On the other hand, JETRO survey reveals, Bangladesh is the most cost comparative advantageous country for operating business. Despite this advantageous situation per capita FDI is the second lowest among the concern ten Asian countries.

This article reviewed a number of inter-country surveys and some indicators to understand investment climate in Bangladesh so that useful lessons can be derived. Due to the different methodology and various limitations, the ranking of the survey result were contradictory though the objectives of the surveys were the same. Despite the problems mentioned above, policy makers and relevant stakeholders need to learn from success stories of other countries, especially from the countries with comparables of development. Policy makers should also recognize the fact that the best evaluation of investment climate is the country-specific assessment. Bangladesh should develop its own indicators of business environment and investment climate especially in the arena of governance indicator. Keeping aside the inter-country ranking, Bangladesh needs to develop a pragmatic way of studying investment climate issues and taking the necessary corrective measures. Comprehensive multi-level corrective measures such as policy level, institutional level, and enterprise level can be formulated. At first the policy makers with stakeholders may devise accurate and priority basis short-, medium-, and long-term strategies to overcome the difficulties of the investment climate and have to implement through the institutions. It is also true that for harvesting better success, enterprise will have to be dynamic, innovative and they also have to maintain regular well-informed interaction amongst other enterprise, institutions and policy makers to identify the problem and have to take remedial measures. Finally, in the present situation policy maker should be more concerned for the improvement of the governance indicator rather than financial and other special incentives for attracting more inflow of FDI in Bangladesh.

References

- Andreasen, N. C. (2001). *Brave new brain: Conquering mental illness in the era of the genome*. Oxford, England: Oxford University Press.
- Asiedu, E. (2002) "On the Determinants of Foreign Direct Investment to Developing Countries: Is Africa Different?" *World Development*, 30(1), 107-118.
- Bhattacharya, D., Moazzem, K.G., Rahaman, K.M. and Hossain, S.S. (2006), "Business Competitiveness Environment in Bangladesh in 2005: Domestic Perception and Global Comparison." Occasional paper 59. Centre for Policy Dialogue (CPD), Dhaka
- Barro, R. (1991) "Economic Growth in Cross Section of Countries," *Quarterly Journal of Economics*, 12,106(2), 407-444.
- Chakrabarti, A. (2001) "The Determinants of Foreign Direct Investment: Sensitivity Analyses of Cross-country Regressions," *Kyklos*, 54(1), 89-114.
- Jaspersen, F., Aylward, A. and Knox, A. (2000) "The Effects of Risk on Private Investment: Africa Compared with Other Developing Areas," in P. Collier and C. Pattillo (Eds.), *Investment and Risk in Africa*, New York: St. Martin's Press, 71-95. Source: *Japan External Trade Organization (JETRO) Survey, 2013*
- Japan External Trade Organization (JETRO) Survey, 2013
- Kaufmann, D., Kraay, A. and Zoido-Lobaton, P. (1999), "Aggregating Governance Indicators", World Bank Policy Research Working Paper No. 2195, Washington DC: World Bank.
- Kaufmann, D., Kraay, A. and Zoido-Lobaton, P. (2002), "Governance Matters II: Updated Indicators for 2000-01", World Bank Policy Research Working Paper No. 2772, Washington DC: World Bank.
- Kaufmann D, Kraay A, and Mastruzzi M (2005), "Governance Matters iv: Governance indicators for 1996-2004". World Bank Policy Research working Paper 3630, The World Bank, Washington DC.
- Kojima, K., (1978) *Direct Foreign Investment: A Japanese Model of Multinational Business Operations*. Croom Helm: UK
- Kojima, K. (2000) "The "flying geese" model of Asian economic development: origin, theoretical extensions, and regional policy implications." *Journal of Asian Economics*. pp.375-401.
- Mallampally., Sauvant, K., P. (1999) *Foreign Direct Investment in Developing Countries*. Finance and Development, 36, No.1
- Moosa, I. (2002) *Foreign Direct Investment: Theory, Evidence and Practice*, New York: Palgrave.
- Mottaleb, Khondoker Abdul (2007): *Determinants of Foreign Direct Investment and Its Impact on Economic Growth in Developing Countries*. MPRA Paper
- Porter, M. E., Ketels, C., and Delgad, M., (2007), *the Microeconomic Foundations of Prosperity: Findings from the Business Competitiveness Index*, Chapter 1.2, Institute for Strategy and Competitiveness, Harvard Business School. Retrieved from <http://www.enterprisesurveys.org/~media/GIAWB/EnterpriseSurveys/Documents/CountryHighlights/Bangladesh-2013.pdf>
- Quader, Syed Manzur, 2009, 'Foreign Direct Investment in Bangladesh: An Empirical Analysis on its Determinants and Impacts', Retrieved from <http://mpa.ub.unimuenchen.de/26134/MPRA Paper No.26134>.
- Quazi, R. and Mahmud, M. (2006) "Determinants of Foreign Direct Investment in South Asia," *The International Journal of Business and Public Administration*, 3(1), 1-13.
- Rahman, L., Islam, E., Islam, S., 2011 "An Empirical Study on the Foreign Direct Investment Climate in Bangladesh: Applicability of the Purchasing Power Parity Theory and International Fisher Effect" *Journal of Banking & Financial Services*, Department of Banking Faculty of Business Studies, University of Dhaka, Vol. 5 Number 1
- Razzak, A. and Raihan, S., (2007) *Trade and Industrial Policy Environment in Bangladesh with Special Reference to Some Non-traditional Export Sectors*, Pathak Shambash, Sahabag, Dhaka, Bangladesh.

Rehman, A., Orangzab, Ali R., 2011, 'Determinants of Foreign Direct investment and its impact on GDP Growth in Pakistan', *Interdisciplinary Journal of Contemporary Research in Business* Vol. 2, Issue. 9, pp. 198-205.

Sadik, Ali, and Bolbol, Ali (2001), Capital Flows, FDI, and Technology Spillovers: Evidence from Arab Countries. *World Development*. 29 (12): 2111-2125

Smith, S. (1997) "Restrictive Policy toward Multinationals: Argentina and Korea," *Case Studies in Economic Development*, 2nd ed, Upper Saddle River, NJ: Addison Wesley, 178-189.

The Global Competitiveness Report 2007-2008 © 2007 World Economic Forum

The Heritage Foundation, in partnership with Wills Street Journal, Retrieved from <http://www.heritage.org/index/ranking>

The 23rd Survey of Investment Related Costs in Asia and Oceania, May 2013, Overseas Research Department Japan External Trade Organization (JETRO)

Wheeler, D. and Mody, A. (1992) "International Investment Location Decisions: The Case of U.S. Firms," *Journal of International Economics*, 33(1-2), 57-76.

World Bank (2006) *World Development Indicators (CD-ROM)*, Washington, DC: World Bank.

World Bank, 2013, Retrieved from, [http://www.enterprisesurveys.org/~media/GIAWB/Enterprise Surveys/Documents/Country Highlights/Bang](http://www.enterprisesurveys.org/~media/GIAWB/Enterprise%20Surveys/Documents/Country%20Highlights/Bang)

<http://info.worldbank.org/governance/wgi/index>

<http://www.transparency.org>

<http://www.transparency.org/cpi2013/results>

http://www.heritage.org/index/?utm_source=heritagefoundation&utm_medium=homepage&utm_campaign=headline140114

<http://www.enterprisesurveys.org/~media/GIAWB/EnterpriseSurveys/Documents/CountryHighlights/Bang>

<http://www.heritage.org/index/>