**Why are foreign investors shy of investing in Bangladesh?**

Rahman Jahangir



A covered van on fire at Feni amid the BNP-led alliance's non-stop nationwide transport blockade on January 10, 2015.

Investment involves precious money which is hard-earned. Investors are intelligent enough to make their choices about investing their money. There is hardly any good reason why foreign investors will be eager for investing in Bangladesh when local investors are shy of doing so.  
  
In these days of modern information technology, info on individual countries that invite investment from abroad is on the potential investors' finger-tips. All investors --domestic or foreign -- have no reason to differ with what the American business magnate Warren Buffet had once said: "Rule No.1: Never lose money. Rule No.2: Never forget rule No.1."  
  
So the FE report that foreign direct investment (FDI) to Bangladesh dropped by 4.0 per cent in 2014 from that of the previous year is no surprise. Previously, there had been an uptrend for three years. The upswing was there because of political stability.  
  
But the foreign investors apparently felt shy when instability in the form of hartals (shutdowns) and blockades struck the country. The media in 2013 splashed the sight of a foreign apparel buyer being scared over cocktail blast on a Dhaka road across the world in 2013.  
  
While domestic investors kept their investible funds on hold in bank accounts, foreigners simply went away to find elsewhere profitable outlets for investment of their money. Although many other factors like one-stop service, well-built infrastructure, uninterrupted gas and power supply, etc., are vital factors that lure an investor, political stability is the number one factor topping all these.  
  
Investors, domestic or foreign, need to be assured that there will be no hartal or blockade in the country disrupting business. They will certainly like to see consignments of their goods being transported to ports and other destinations without police or paramilitary troops escorting covered vans or lorries for safety and security on the highways.  
  
No investor will like to come to Bangladesh when violence on highways and roads will compel him to send his manufactured goods by air. Air shipment is highly expensive that may make his products uncompetitive in countries he will sell. Shipment by air cannot go on perennially.          
  
An analysis of the FDI component shows that around 50 per cent of the total inflow was the reinvested earnings of the existing multinational entities doing business in Bangladesh. Less than 25 per cent of the total FDI was fresh injection of capital known as equity capital. Almost all the FDIs went to service sector, not manufacturing.  
  
Political stability, along with other enabling conditions, must be ensured at all costs to encourage FDI inflows. Admittedly, the time for registering a firm has considerably been lowered in Bangladesh in recent years, yet there are still many developing countries where this is done at a faster pace. There are vested interests involved in the whole process that relates to FDI. Regulatory reforms are necessary to remove the bottlenecks that impede the FDI inflows. Industry in Bangladesh is growing at a pace more than that of agriculture and reducing the cost of doing business is very important in this regard.  
  
Bangladesh needs FDIs more in manufacturing sector than in service sector not only to sustain its present rate of gross domestic product (GDP) growth but also to help raise it to the targeted level of 7.0 to 8.0 per cent.  
  
Many consider the increasing volume of FDI inflow as a sign of development. But it is not always the case. A major portion of the FDIs in Bangladesh comes to the service sector. It is sad but true that many foreign entrepreneurs and enterprises are taking away hefty profits from here by investing in service sector, such as telecommunications. This is, at least, what the public perception is about the existing FDI-related 'enterprises'. This is hardly creating any positive impact on the country's macro economy.  
  
Moreover, if there is no proper monitoring of FDI flows, local businesses will have fears about being 'swallowed' up in course of time.  
  
Along with service sector, there is a need for FDI in other sectors including manufacturing and financial sectors. But, prior to that, the country needs to establish its reliability and credibility before the foreign entrepreneurs.  
  
While without privatisation, state-owned enterprises (SoEs) will be a burden on the economy, without FDI, it will be difficult to sustain the present GDP growth rate with limited domestic resources. This is the considered view of a good number of the country's economists.  
  
The country does not have adequate infrastructure to meet the demands of prospective foreign investors who want to find everything in right places. Investors are hard-nosed people.  
  
A high corporate tax is one of the major deterrents to bringing in FDI. Besides, the country's tax structure is un-uniformed and unpredictable. As a result, the potential foreign investors can't estimate the long-term cost of a project.  
  
Absence of policy continuity is yet another major reason behind the slow flow of FDIs to the country. The lack of policy continuity is not only witnessed when governments change but also within the tenure of the same government. Some regulatory bodies give one decision in the morning only to change it in the evening. This should stop as investors always take a long-term view.  
  
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