

# FOREIGN DIRECT INVESTMENT IN BANGLADESH: A CASE STUDY ON THE TEXTILE SECTOR

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## **Abstract:**

*Textile was declared as a 'Thrust Sector' in 1992 aiming at attracting foreign direct investment in Bangladesh. This stimulating thrust sector is now being threatened by several factors. The textile sector of the country has been facing crisis after a slump in orders from abroad – especially from the USA since September 11, 2001. Besides, in a quota free and GSP free situation after the year 2005, the countries from where the fabrics are being imported are likely to emerge Bangladesh's competitors in the international market. However, the time to revitalize the sector is passing by and the Government of Bangladesh along with private promoters should take necessary measures immediately in this regard. This study provides a detailed description on FDI in Bangladesh with special emphasis on the textile sector. A number of recommendations have been made at the end of the paper to take remedial actions in order to regain the sector as well as to enhance FDI in the country.*

## **1. Introduction**

Foreign Direct Investment (FDI) refers to investment made to acquire lasting interest in enterprises operating outside of the economy of the investor.<sup>2</sup> It was Stephen Hymer who in 1976 first pointed out that FDI is a transfer of a package of resources, capital, technology transfer, equity participation, R&D etc. – not only a transfer of capital<sup>3</sup>. FDI is now been considered as the most important factor contributing to the global economy though once it was treated as an adverse force for the sustainable development of which might ultimately threat to dominion of a country. In the beginning of 1980s FDI was considered as 'good news' being a driving force of emerging global economy. Today, all countries admit FDI in principle<sup>4</sup>. In a world of inter-dependence, based on mutual trust, both developed and developing countries have been intended to attract FDI with a view to coping with changing environment of technologies, having economics scale, creating employment opportunities etc. Now-a-days FDI has been considered as a major source of economic growth around the world.

In 1971, Bangladesh became an independent country where formation of socialistic pattern of economy was one of the political agenda of the government, which vastly discouraged FDI flows into Bangladesh. The new policy measures came into effect with liberalised attitudes to FDI in the beginning of the 1980s. The industrial policy envisages a growing role for the foreign private investment (promotion and protection) Act of 1980. The Act reflects the government's clear objective of welcoming direct foreign investment as well as foreign participation in joint venture in the country. Pursuant to the World

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<sup>2</sup> Balance of Payment Manual, IMF, 1977 & 1993

<sup>3</sup> Muksed M. Rubaiyat (1999), FDI in Bangladesh: Problems and Prospects P.2

<sup>4</sup> World Investment Report - 1998

Investment Report – 1998 published by the UN Conference on Trade and Development (UNCTAD), inflow of FDI to Bangladesh reached 145 million US dollars in 1997, which is 10 times over the 1996. While the percentage rise is found apparently impressive, but the real inflows are not appreciable as compared to some other Asian countries like China, India etc.

However, FDI in Bangladesh attracted by few important sectors like service, chemicals, textile, metal & engineering, food processing and so on. Once textile and garment industry was in the leading position in terms of FDI flows into the country, but now it is in the 3<sup>rd</sup> position since last couple of years. This paper is an attempt to focus the FDI scenario in Bangladesh through a case study on the textile sector<sup>3</sup>.

## **2. Objectives of the Study**

The main objective of this study is to highlight the FDI inflows into the textile sector in Bangladesh along with other key issues. The specific objectives of this study are:

1. To highlight the overall FDI situation in Bangladesh;
2. To find out the strength and weakness of this sector;
3. To identify the problems towards FDI, particularly in textile & garments industries;
4. To suggest measures for attracting FDI in this sector & in Bangladesh as well.

## **3. Methodology**

Secondary sources of data have been used in the study. Data & information have mainly been collected from various publications of World Bank, UNCTAD, Economic Survey of Bangladesh, Board of Investment (BOI) of Bangladesh, Bangladesh Export Processing Zones (BEPZs) and Internet. Relevant books, journals and research monographs have also been consulted to build up the theoretical premise of the study. The paper has been prepared by using the findings of the study.

## **4. 1 - An Overall FDI Situation in Bangladesh**

Bangladesh is apparently now seen as an investor-friendly economic environment with a wide range of incentive packages for the private investors-both local and foreign. The Industrial Policy of 1991 and recent amendments, reforms in trade policies and fiscal and taxation policies now argue well for investment by foreign and Bangladeshi nationals. The Foreign Investment (Promotion and Protection) Act 1980 guarantees protection to foreign investment against nationalization and also guarantees equal treatment. Bangladesh as a signatory of both Multilateral Investment Guarantee Agency (MIGA) and International Center for Settlement of Investment Disputes (ICSID) guarantee protection to investor against political and other risks. To energize the private sector and reduce the cost of doing business, the government is trying to eliminate the remaining distortions in the policy environment, moving forward with badly needed financial sector reforms, and taking necessary steps to facilitate continued reduction in infrastructure bottlenecks. Even though, there is a downward slope in receiving FDI.

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<sup>3</sup> Textile and garment industry is considered as similar industrial field as Textile Sector in Bangladesh.

From 1991-92 to 2001-02, total investment of BOI registered industries in Bangladesh stands US\$21,650 million. The amount of registered investment has been increased from US\$116 million in 1991-92 to 1,835 million in 2001-02. The FDI has also been increased from US\$25 million in 1991-92 to US\$304 million in 2001-02. But the overall scenario is declining year to year. The total FDI in Bangladesh has been decreased from 1053.50 million US\$ in 1996-97 to 304.15 million US\$ in 2001-02. (*vide Table 1*). FDI in Bangladesh is concerned with only a handful of countries. The top five countries are the USA (3270.21 million US\$), the UK (1044.25 million US\$), Hong Kong (755.82 million US\$), Singapore (547.13 million US\$) and Norway (519.17 million US\$).

**TABLE: 1**  
**Countrywide FDI in Bangladesh**  
*(From 1996-97 to 2002-03 March)*

*Amount in million US dollar*

Country	96-97	97-98	98-99	99-00	00-01	01-02	02-03 M	Total
Malaysia	43.67	288.02	16.36	6.13	11.39	1.19	5.00	371.76
Japan	12.42	58.56	68.32	24.46	0.94	0.82	69.38	222.00
Hong Kong	484.92	156.54	13.18	35.48	1.17	59.75	4.78	755.82
UK	73.39	31.12	827.15	15.96	28.08	3.88	63.67	1044.25
India	48.83	5.48	154.87	7.60	31.62	15.32	4.56	268.28
Germany	12.63	23.59	57.74	1.93	115.54	1.79	1.07	214.29
USA	8.17	1378.54	382.01	1178.35	308.99	2.51	11.64	3270.21
Singapore	132.15	33.06	273.14	20.39	86.11	2.28	0.00	547.13
S. Korea	84.75	89.78	14.10	5.14	43.19	24.61	4.18	265.75
China	9.97	25.38	18.33	10.29	27.23	9.49	2.22	102.91
Switzerland	2.38	37.87	1.12	0.75	8.34	7.73	0.00	58.19
Netherlands	0.00	2.63	0.00	3.04	4.82	27.21	0.84	38.54
Italy	2.80	4.95	2.71	0.00	0.56	0.00	0.00	11.02
Canada	4.81	0.11	2.20	0.92	0.42	50.00	0.18	58.64
Sweden	0.26	0.00	0.00	0.00	0.19	2.57	0.62	3.64
Norway	0.00	0.00	0.00	0.00	518.16	0.00	1.01	519.17
Belgium	0.00	0.00	0.00	0.00	0.00	40.26	0.00	40.26
Others	132.35	1299.46	94.31	803.91	128.25	52.74	24.85	2535.87
<b>Total</b>	<b>1053.50</b>	<b>3440.05</b>	<b>1925.54</b>	<b>2119.88</b>	<b>1271.88</b>	<b>304.15</b>	<b>212.55</b>	<b>10327.55</b>

*Source: Bangladesh Economic Survey 2003 (Bengali), P.71*

The Government of Bangladesh has identified a number of state-owned enterprises (SOEs) for sale in the near future as the policy of privatisation, which includes textile, jute, sugar & food, chemicals, steel & engineering and cement industries etc. The government is also trying to offer a suitable environment conducive to private sector development. To boost up FDI, the govt. has set-up Export Processing Zones (EPZs) at some economically attractive locations, and also, for the first time, permitted to establish private EPZs, which is treated as milestone for the investors. But still the foreigners are gradually being hesitated & frustrated to invest their capital in a developing country like ours. The flow of FDI for the last seven years may be shown in this regard as under:

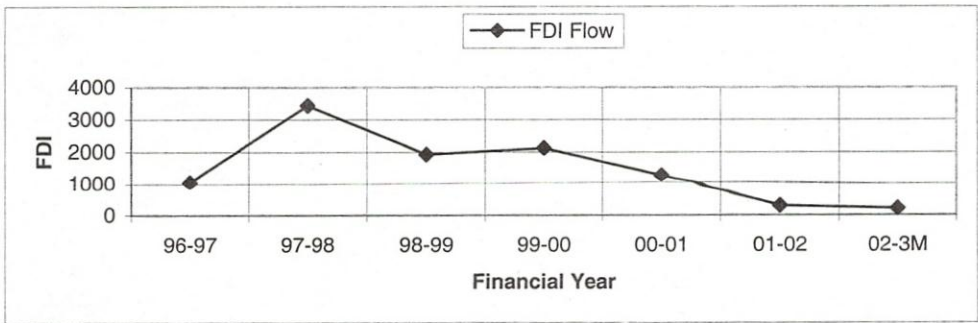
**TABLE: 2**  
**Foreign Direct Investment in Bangladesh (From 1996-97 to 2002-03 March)**

Year	FDI in million US\$	Increase / decrease Over previous year	Growth (%) over previous year
96-97	1053.50	-	-
97-98	3440.05	2386.55	226.54%
98-99	1925.54	(1514.51)	(44.03%)
99-00	2119.88	194.34	10.09%
00-01	1271.88	(848.00)	(40.00%)
01-02	304.15	(967.73)	(131.43%)
02-3M	212.55	(91.60)	(30.12%)

*Source: Bangladesh Economic Survey 2003 (Bengali), P.71*

The trend of FDI flows from 1996-97 to 2002-03 March in Bangladesh may be shown graphically as under:

**Figure 1- Trend of FDI flows in Bangladesh**  
*(From 1996-97 to 2002-03)*



From the above figure 1, it is seen that the trend is declining in the FDI flow in Bangladesh. The highest FDI was received in the financial year 1997-98. On the other side, as per 15 years record<sup>5</sup> of FDI flows, the highest increase of FDI over the previous year was in 1993-94 that was about 1228% and the lowest being recorded in 2001-02, which is negative i.e. (131.43%). Attack on September 11, declaration of withdrawal of quota facilities, slump of orders from the foreign buyers, instability of international socio-political scenario, US attack on Afghanistan and Iraq etc. caused this sluggishness although the government took required policy measures to increase FDI before that.

#### **4.2 World Bank Report on FDI situation of Bangladesh**

<sup>5</sup> PDEXCIL: NEWSLETTER: Textile Industry of Bangladesh, P.1-4

Although the trend of FDI is towards downward, but the World Bank forecast on FDI was a bit positive. According to a report<sup>6</sup> of the World Bank, Bangladesh stands to gain from FDI flows if inflows are managed efficiently. In an earlier report it was mentioned that inflows of private foreign direct investment in Bangladesh have risen to nearly \$400 million<sup>7</sup> in fiscal year 1997-98 up from a trickle in the 1980s and are expected to average about \$780 million a year for the next five years. Trade and exchange liberalization, current account convertibility, and liberalization of the investment regime might help to bring this increase about.

According to the report, FDI flows were expected to average about \$900 million annually from 2000-2010, as compared to \$620 million annually during 1992-2000. Outflows in this case would rise, on an annual basis, from a mere \$129 million during 1996-2000, to almost \$600 million during 2001-2005, and \$1.2 billion during 2006-2010.

Four major conclusions can be drawn from the whole report:

- Bangladesh has experienced a more stable (less vulnerable) form of capital inflow, with making up about 85-90 percent of the total inflows so far.
- Both FDI and private financial inflows in Bangladesh have largely financed imports of machinery and equipment in the country.
- FDI and debt inflows have not helped in augmenting foreign exchange reserves so far and are not expected to do so over the next 10 years.
- The benefits of FDI are many and worth harnessing. But the downside risks must be overlooked. The growing repayment obligation presents the prospects of net negative transfers in the future and poses a major challenge requiring the country to search for new avenues of earning (or saving) additional foreign exchange.

## **5. Background of the Textile Sector of Bangladesh**

Since gaining independence in 1971, industrial development in Bangladesh has been slow. Many of its problems were consequences of the country's war with Pakistan. As the war ended, Pakistanis took back all the movable assets of the many business establishments they had set up in the former East Pakistan. This left the new nation of Bangladesh with little potential for industrialisation. To make matters worse for economic development, the new constitution prohibited the development of any industry that would add to environmental pollution. While such laws were rarely enforced, they did discourage investors.

However, in the late 1970's, some foreign businessmen began to realise Bangladesh's potential as a garment-producing nation. Investors from Europe and other areas of Asia came to Bangladesh to set up a small number of factories. These early businessmen laid the foundation of the country's garment industry. Now, Bangladesh is known as one of the major producer of garments in the international market and the garment industry has

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<sup>6</sup> Internet. *Op. cit.*

<sup>7</sup> Data differ from source to source

become one of the nation's major industrial sectors, employing nearly ten lakhs people. While garment-manufacturing plants are located in many areas of the country, the industry is highly concentrated in Dhaka and Chittagong. In these two cities, there are seemingly garment factories everywhere. Compared to other industries such as jute, the garment industry has grown very rapidly. There are approximately two thousand factories currently operating in the country and approximately one thousand more is under construction around the capital city.

Bangladesh has declared textiles as a "Thrust Sector" in 1992 and also formulated a Textile Policy 1995, with the primary aim of achieving self-sufficiency in textiles and to meet requirement of RMG industry through establishing backward linkages. It targets the private sector to achieve this goal. Bangladesh also provides a cash incentive of 25% on use of local fabric for export purposes but administrative delays in getting the proceeds is seen as a hurdle in fully realizing this incentive. Another incentive provided is duty-free import of cotton as the domestic production of cotton is too little to meet the demand of textile industry. Other facilities available for investments are tax holidays, duty-free import of capital machinery, spare parts and tax exemption on the interest payable on foreign loans.

The European Union is the biggest export market in Bangladesh accounting for 54% of its RMG exports. Bangladesh enjoys GSP facilities in EU under which apparels originating from Bangladesh can be imported duty free into EU, without any quantity restriction. The derogation from the rules of origin granted to Bangladesh under which finished fabrics for woven products could be imported from ASEAN and SAARC countries by Bangladesh and still qualify for the GSP facilities expired on December 31, 1998. EU is considering renewal of derogation but has not yet reached a decision.

The USA is the next biggest market for Bangladesh accounting for 43% of its RMG exports. The USA has identified 21 categories of clothing, import of which from Bangladesh is restricted by quotas. The quota restriction has, however, not adversely affected Bangladesh exports, as the quota utilisation is presently around 85%. This, in fact, has given it a captive market, free from other competitors.

The main factors contributing to the growth of RMG industry are the availability of cheap manpower, captive export markets and the liberal policies of government which include duty free import of fabric under back to back LCs and concessionary duty structure on import of capital machinery<sup>8</sup>.

#### **6.1- FDI Inflows to the Textile Sector**

The textile sector, particularly the garments industry that is one of the youngest export industries in Bangladesh, has made rapid strides since the early nineties and has emerged as the dominant export industry in Bangladesh. A good amount of FDI has been received by the

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<sup>8</sup> PDEXCIL: NEWSLETTER: Textile Industry of Bangladesh P. 1 - 4

textile sector as compared to other industrial sectors in Bangladesh. To see the sectoral distribution of FDI, we may look into the following table:

**TABLE-3**  
**Sector-wise distribution of FDI (amounts in million US\$)**

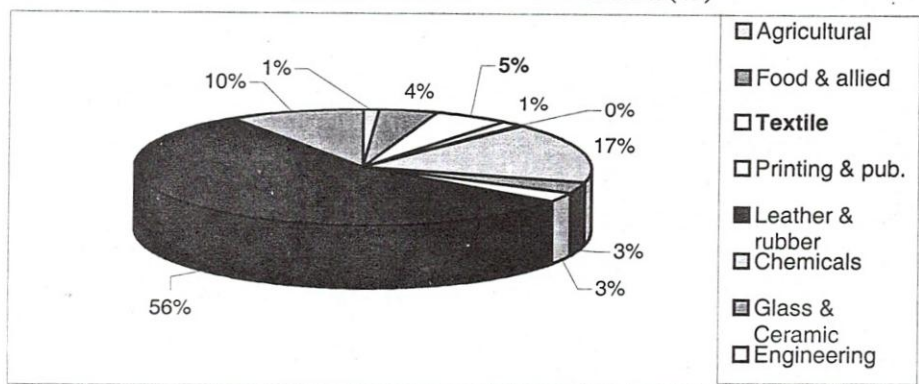
Sector	96-97	97-98	98-99	99-00	00-01	01-02	02-3M	Total
Agricultural	15.90	7.95	63.65	5.95	0.72	0.28	27.30	121.75
Food & allied	48.89	346.47	19.97	2.41	-0.62	4.34	2.61	425.31
<b>Textile</b>	<b>106.91</b>	<b>92.76</b>	<b>50.28</b>	<b>41.03</b>	<b>201.57</b>	<b>50.64</b>	<b>2.64</b>	<b>545.83</b>
Printing & pub.	9.00	0.00	2.00	0.18	122.01	2.35	0.58	136.12
Leather & rubber	4.05	21.09	8.62	0.63	0.00	0.00	0.36	34.75
Chemicals	113.64	53.85	336.51	962.43	201.35	44.84	2.27	1718.89
Glass & Ceramic	0.00	99.39	53.26	142.13	17.11	5.30	0.84	318.03
Engineering	21.31	10.62	96.84	20.98	29.77	57.86	21.68	259.06
Services	596.59	2279.30	1290.85	770.99	650.70	137.56	42.27	5768.26
Miscellaneous	137.21	528.62	3.56	172.27	48.03	0.98	112.00	1003.55
<b>Total</b>	<b>1053.50</b>	<b>3440.05</b>	<b>1925.54</b>	<b>2119.88</b>	<b>1271.88</b>	<b>304.15</b>	<b>212.55</b>	<b>10327.55</b>

Source: Bangladesh Economic Survey 2003, p.71

The above table shows that textile sector received highest amount of FDI i.e. 201.57 million US dollar in the year of 2000-01. A downward trend is found during the years 1997-98 to 2002-3M except 1996-97. On the other side, the rising trend of FDI in textile sector has been observed from the fiscal year 1995-96. From 1991-92 to 2002-03 March, it received more FDI in the fiscal year 1993-94 (360 million US\$)<sup>9</sup>

Considering the previous data, we can show the sectoral distribution of FDI by a Pie Chart, which looks as follows:

**FIGURE 2**  
**Sector-wise distribution of FDI (%)**



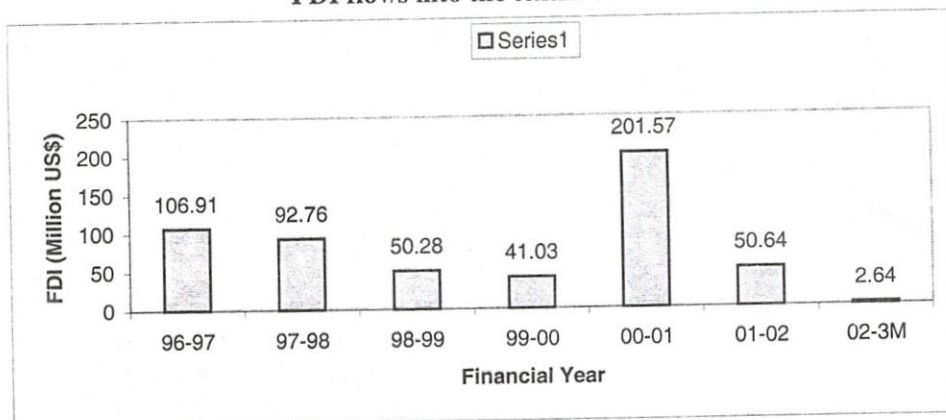
The chart shows that textile sector occupied 5% of total FDI, which is higher than agriculture, food & allied, printing & publication, leather & rubber, glass & ceramic, and engineering sectors in Bangladesh. Service sector comes first receiving 56% of total FDI

<sup>9</sup> PDEXCIL: NEWSLETTER: Textile Industry of Bangladesh P. 1 - 4

followed by Chemicals, food & allied and so on. Textile sector secured 3<sup>rd</sup> position in view of total FDI received in Bangladesh.

The trend of FDI towards textile sector may be shown in the columnar diagram as under:

**FIGURE 3**  
**FDI flows into the textile sector**



From the above figure, it is obvious that FDI in textile sector was highest in FY2000-01 and lowest in 2001-02. The FDI in the FY2002-03 is also not at the satisfactory level. Total FDI in 2002-03 financial year may be the same or lesser than that of immediate previous year.

**Registration of textile FDI projects:**

**TABLE-4**  
**Projects registered with BOI & BEPZA (from 1971 to 2002)**

Year	1971	1972-78	1979	1980	1981	1982	1983	1984	1985	1986
Projects	01	00	01	01	00	01	04	09	01	05

(Contd.)

Year	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Projects	09	04	04	21	11	07	21	44	56	48

(Contd.)

Year	1997	1998	1999	2000	2001	2002	Total
Projects	45	51	38	57	69	41	549

Source: Unpublished Records of BOI & BEPZA

There are total 549 textile projects registered with Board of Investment (BOI) and Bangladesh Export Processing Zone Authority (BEPZA) by the foreign investors from 1971 till today (see table 4). Bangladesh received no foreign investment from 1972 to 1978. Virtually, Bangladesh started to receive

foreign direct investment projects at the end of 1980s. Booming of garment industries is the most important reason for increasing the number of registered projects from 1993. Due to political crisis and other critical problems only 07 projects were registered during 1992. Due to declaration of new textile policy, textile sector received a good number of investment projects after 1995 and highest number of projects in 2001.

### 6.2-Country-wise FDI in textile sector:

Textile sector received FDI from more than 15 countries of the world. Korea is in the highest position in terms of total foreign investment in Bangladesh.

**TABLE-5**  
**Country-wise distribution of FDI in Textile Sector of Bangladesh**  
**(From 1971 to 2002)**

Country	South Korea	Malaysia	Hong Kong	Japan	Singapore	UK
FDI (US\$ million)	410	345	196	69	78	58

*Contd.*

USA	Germany	China	Pak	India	Thai	KSA	Others	Total
49	25	12	11	10	4	1	105	1373 (app.)

*Source: Unpublished Records of BOI & BEPZA*

According to the above data, South Korea occupied first place, which is about 30% of total FDI. According to a report published by the World Bank in 1989, the garment industry in Bangladesh was virtually begun by the DaeWoo Corporation of South Korea. Koreans were active in training Bangladesh workers both in the technical and business sides of the garment industry over the years. The trend, however, shows moving pattern from the previous type of foreign investment. Where once the Koreans and Malaysians were responsible for the majority of orders for the total number of garments exported, now only about 10% are the result of Korean orders. Another 30% are from Hong Kong, and the remaining is made under direct order.

Recently Bangladesh has a big investment from Australia to set-up denim production plant. According to a textile news<sup>10</sup>, Bramill Undare Group, the largest textile group of Australia, started a joint venture with a Bangladeshi company setting-up a Denim fabrics production plant involving US\$ 40 million and this is becoming the largest single investment by an Australian company in Bangladesh. Bradmill has an excellent reputation worldwide for this production. The proposed project will be the largest Denim production factory in Bangladesh with a production capacity of 10 million meters annually, which meet high quality standards of Levy, Wrangler, Lee etc.

<sup>10</sup> [http://www.texguide.com/news\\_group/bdnews.htm](http://www.texguide.com/news_group/bdnews.htm)

### **6.3-WTO Secretariat Report on Textile Sector of Bangladesh**

A World Trade Organization (WTO) Secretariat report<sup>11</sup> on the trade policies of Bangladesh says that it has made considerable progress in reducing tariffs and quantitative restrictions on imports. The report says that textiles, and particularly clothing, have dominated Bangladesh's exports, with their combined share growing from 70.4% in 1992 to 83.5% in 1998. These exports have been a principal source of Bangladesh's economic growth in the 1990s. The exports are enhanced mostly for the U.S. and European Union markets, to which Bangladesh has privileged access. The report notes that such heavy dependence on a limited number of products makes the Bangladesh economy vulnerable to increased competition from other Asian countries that produce labor-intensive garments, as these countries recover from the recent economic crisis with substantially depreciated currencies. Moreover, the phasing out of preferential access to these markets and the full integration of all textile and clothing products into the GATT 1994, scheduled for 1 January 2005, will require Bangladeshi ready-made garment exporters to increase efficiency and improve product quality.

### **7. Considerable factors to the growth of Textile Sector in Bangladesh**

It is obvious that the export of textiles, particularly garment is one of the major sources of income for Bangladesh. This industry has grown rapidly over the past ten years, making the country a major garment producer. In fact, there are a lot of factors including comparative advantages may contribute towards the rapid growth of the sector, which are as follows:

- i) The Bangladeshi textile & garment industry is able to hire its workers at a low wage because of the country's huge labor force. This situation will probably not change very much in the near future and foreign buyers would continue to take advantage of this situation.
- ii) Most garment factories hire workers on a permanent basis. A well run factory can almost always begin a new order as soon as they have completed the last order and it is very important to the owners to keep on their well trained staff. Therefore, employment in the garment industry is stable and good workers do not have to worry about losing their jobs. This raises the laborers' commitment to work, thus maximizing production capability.
- iii) The local businessmen have learned a great deal about the workings of this complicated industry and are now nearly ready to deal with foreign buyers without help from the foreign companies.
- iv) More than 80% of the workers in the textile & garment factories are women and it is a fact that women labor forces are comparatively cheaper.
- v) Bangladesh govt. offers unconditional 100% foreign equity or ownership in establishing textile & garment industry.
- vi) Under bilateral treaty & Most Favored Nation (MFN) treatment, textile & garment products get more comparative advantages towards export.

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<sup>11</sup> [http://www.wto.org/spanish/tratop\\_s/tpr\\_s/tp132\\_s.htm](http://www.wto.org/spanish/tratop_s/tpr_s/tp132_s.htm)

- vii) As one of the Least Developed Countries (LDCs), Bangladesh enjoys Generalized System of Preference (GSP) facilities for favorable export to the USA. Huge amounts of RMG products are exported under this privilege.
- viii) The license system of textile and garment industries has been liberalized and it is the most liberalized & privatized sector in the country.
- ix) Technology transfer through machinery and skilled manpower has made it a sophisticated sector in the country.
- x) Textile and garment factories have the location facilities. It has many trajectory advantages in technology too.
- xi) The quality of the textile and garment products are strictly controlled by the updated QC departments and rejected products are used locally not exported abroad.
- xii) Above all, RMG products of Bangladesh have got the world recognition.

### **8. Problems faced by the Textile & Garments Industries**

According to the recent report of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), textile and garment business in the country is not in a good shape. It is in declining trend due to increased competition in the international market especially in the rest of Asia. Bangladesh is not among the 74 of the world's least developed countries, which are allowed duty and quota free access to the US market for their readymade garments. Besides, the textile sector is facing severe crisis after a drastic fall in orders from the overseas countries particularly from the USA after September 11, 2001. As a result, the country has lost millions of foreign currencies, FDIs and hundreds of thousands people have lost their jobs from the largest employer of the country, the textile sector<sup>12</sup>.

On the other side, there are a number of weaknesses within the textile industries of the country, which are as follows:

- i) Backdated textile mills are an important drawback in the textile sector of Bangladesh. There are about 45 spinning mills and unfortunately all of them are over 25 years old, have become uneconomical. More than 40,000 looms for manufacturing grey fabric are also old and, therefore, unable to produce fabric of international quality. Most of the looms are synthetic based and not suitable for processing cotton and blended yarn.
- ii) Number of skilled workers in the textile sector is very limited. Many of the workers and staff have no fundamental training on pattern making, standardising sizes and cutting & sewing.
- iii) Many industries have no computerised dyeing & finishing section and latest compacting machine.
- iv) Lack of required power supply is an important drawback of this sector etc.

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<sup>12</sup> BBC news in business, Tuesday, 15 January, 2002, 11:37 GMT (Internet)

- Besides, there are a number of complaints against the textile & garment industries. Using child labour is one of them. In a recent survey, it is found that 30% of the workers in the garment industries are children, which is a violation of WTO rules. The workers have also complaints against the owners and managers of few garment factories that the staff of these factories are not paid their wages regularly, sometimes they receive only one month's wage while they worked for 2 / 3 months having no holidays, never a day off etc.

Political instability and always-negative role of opposition party is a major problem for the poor flows of FDI in Bangladesh. It has a bad impact on the textile sector too. Frequent hartals and strikes called by the political parties, labour unions and transport workers delay the production schedule and thus jeopardise the delivery of the finished garments. Transport strikes hold-up the delivery of the raw materials to the factories and the transportation of the finished goods to the airport or the seaport, thus interfering with both the production and delivery schedules. The other problems which caused the poor performance of FDI in textile and other sectors are as follows:

- i) Lack of adequate infrastructure facilities;
- ii) Lack of technical know-how;
- iii) Credibility gap of the MPs<sup>13</sup> and govt. officials;
- iv) Bureaucratic redtapism / administrative bottlenecks;
- v) Late implementation of the FDI project proposals;
- vi) Excessive formalities;
- vii) Low labour productivity;
- viii) Poor economy;
- ix) Lack of structured capital market;
- x) Lack of independent credit rating agency etc.

The present Government of Bangladesh (GOB) is taking a number of measures to attract foreign investment to textile and other sectors in Bangladesh. Financial and other lucrative incentives are also being offered to the foreign & local private investors by the GOB. But the feedback is not up to the satisfactory level till today.

### **9. Suggestions for the development and attracting FDI**

Bangladesh certainly needs FDI to develop its poor economy. FDI is mainly needed not only for short run investment, but also for long term ones to set-up value adding enterprises that would expand the country's local production capacities and its export. The govt. has already taken a lot of steps to attract FDI in Bangladesh. In addition to that, the following measures may be considered for rapid growth of FDI inflows to the country, in particular to the textile sector:

- i) The GOB should encourage the garment manufacturers & exporters to specialize their trade to improve their quality. For example, if a factory concentrated on

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<sup>13</sup> Members of Parliament

producing only one type of item, such as shirts, they could improve the quality of their work, as the workers would become experts on this item. The work at such specialized factories would also be faster and more cost effective.

- ii) The government could also help the businessmen in the construction of textile plants. The factories in Bangladesh do not currently produce enough textiles for the country's garment manufactures. Most garment companies in Bangladesh import textiles from other nations, such as Korea, Indonesia, China, India, and Taiwan. Bangladesh currently imports about 80% of the fabrics needed for garment manufacturing from foreign companies. By setting up their own textile mills and linkage industries, Bangladesh could earn much greater profits and employ many more people.
- iii) Financial and other facilities to textile & garment manufacturers should be increased.
- iv) All factories should have computerized (knitting, dyeing and finishing) machine.
- v) There should be a sound inspection twice at gray level and after dyeing level to uphold quality level products.
- vi) Textile Policy of 1995 should be implemented properly.
- vii) All companies should adopt latest scientific management system.
- viii) The garment factories should be free from child labor.
- ix) There should be an appropriate composition of labor force in the textile & garment industries.
- x) All companies should have standard service rules for the employees that will ensure the facilities of the workers.
- xi) There should be a qualitative change in the typical inputs-transformation-outputs system in textile industries.
- xii) Above all, textile and garment industries should take necessary steps to be ISO Certified companies to maintain world-class quality.

The government must eliminate the external threats to the textile & garment industry. The following suggestions may be taken into consideration in this respect:

- a) The political parties should avoid hartals and strikes for the greater interest of the nation.
- b) Ruling party & opposition party should work together in attracting FDI in Bangladesh.
- c) Stable structure is most essential for rapid growth of investment.
- d) Steps should be taken to develop infrastructure facilities.
- e) The GOB should give emphasis in establishing technology & knowledge based industry.
- f) Expertise and institutional machinery for meeting standards and technical requirements should be hired.
- g) The Prime Minister's Office and the Board of Investment (BOI) may be brought together to implement the FDI projects in time, effectively and efficiently.

- h) A special FDI cell may be formed under the Ministry of Commerce & Industries.
- i) Professional should be ensured in BOI and BEPZs etc.

### 10. Concluding Remarks

This paper was an attempt to cover some aspects of FDI in Bangladesh. Textile sector has been highlighted during the study. From the study, it is easy to realize that the garment & textile industry in Bangladesh has grown rapidly at an astonishing pace, but it is now declining day by day. It produced about 70% of the country's total export earning in 1998, US\$ 3483 million. This can be compared to the 0.02% of the nation's total export earnings produced in 1978 and the 59.3% of the country's total export earning in 1992. Deregulation and privatization efforts had made the textile sector the lead sector of Bangladesh.<sup>14</sup>

In a quota free and GSP free situation emerging after the year 2005, the countries from where the fabrics are now being imported are likely to emerge Bangladesh's competitors in the international market. This threat could affect the present supplies of fabric. Bangladesh is likely to face difficulties to meet this situation unless local sources of fabrics are developed.

Despite of existence of certain barriers in the textile sector, there is a huge potentiality in Bangladesh to attract FDI and to boost up its economy. The hard working and cheap labor force can be exploited if timely and necessary measures would be taken. Bangladesh may become an ideal place for investment in textile and other sectors if government could be able to materialize the suggested measures effectively and efficiently. It is the time for the Govt. of Bangladesh to take necessary steps to attract more FDI and enhance its growth and to become one of the biggest markets for FDI.]

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