

South Asia FDI Roundtable
Dhaka: 9-10 April 2002

COMPETING FOR FDI:

**How can South
Asia be more
successful?**

WELCOME ADDRESS

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Board of Investment
Bangladesh



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On behalf of Government of Bangladesh and Board of Investment, it is my pleasure to welcome the resource persons and the participants of this very important roundtable on South Asia FDI situation. Over the past two decades, FDI has played an extremely significant role in the economic development of a large number of countries. During the last half of 90's, global FDI inflow registered a dramatic rise which peaked in 2000. Starting from a figure of US\$ 478 billion in the year 1997, FDI reached the dizzying peak of US\$ 1,271 billion in the year 2000. During this period, per capita average global FDI inflow was about US\$ 135. It is now widely acknowledged that FDI offer tremendous advantages to recipient economy. It is not only access to financial resource, but also access to technology, modern management techniques and global market access. As a result, competitiveness of the various enterprise sectors of the host country improves significantly. At macro economic level, foreign capital inflows can complement domestic savings, leading to higher investment and growth. Such positive macro-economic effect is highly valuable for low-savings economies like Bangladesh.

But, how do you attract FDI? TNC's are always attracted to locations that offer the most appropriate condition to ensure highest rate of return on their investments. Against a global per capita average FDI inflow of about US\$ 135 during 1997-2000, per capita FDI to Asia was only US\$ 37 and to South Asia a meager US\$ 3 during the same period. Therefore, it can be concluded that South Asia has been bypassed during this great golden period of FDI flow. Another strange phenomenon occurred during 1997-2000 in South Asia. While the spectacular growth in global FDI inflow started in 1997 and peaked in 2000, the situation in South Asia was just reverse. From a figure of US\$ 4.90 billion in 1997, the FDI inflow to South Asia slumped down to US\$ 3.00 billion in the year 2000, nearly 40% drop in 3 years as shown in the following table:

Table: FDI Inflows by Host Region and Economy, 1989-2000

Host Region / Economy	1989-94 Annual Avg.	1995	1996	1997	1998	1999	2000
World	200,145	331,068	384,910	477,918	692,544	1,075,049	1,270,764
LDCs	1,430	2,016	2,450	2,976	3,679	5,176	4,414
Share in World FDI(%)	0.71%	0.61%	0.64%	0.62%	0.53%	0.48%	0.35%
Asia	37,569	75,293	94,351	107,205	95,599	99,728	143,479
Share in World FDI(%)	18.77%	22.74%	24.51%	22.43%	13.80%	9.28%	11.29%
South Asia*	816	2,945	3,684	4,936	3,541	3,057	3,035
Share in SA FDI(%)	0.41%	0.89%	0.96%	1.03%	0.51%	0.28%	0.24%

Source: World Investment Report 2001. UNCTAD, Geneva 2001.

* Excluding Bhutan, because of nonavailability of data for required years.

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A close look at FDI flows into the Asia region shows that FDI flows appear to focus on some selected countries. If we consider Japanese FDI as a case study, it will be noticed that beginning in the 1980's, Japan's manufacturing industries shifted to four ASEAN economies (Thailand, Philippines, Indonesia and Malaysia) after the appreciation of Japanese Yen (¥) and then in the 1990's, to Vietnam and China bringing about so-called "flying geese" pattern on regional development. Since Asian financial crises, it seems China has been quickly emerging as 'the Investment Destination of Asia'. During this turbulent era of ever-changing investment destination, South Asia was nearly non-existent.

South Asia as a region is the land of one fifth of world's population promising a substantial domestic market as well as supply source of low-cost but reasonably skilled labor force. Half of the South Asian Countries being bracketed as LDCs enjoy easy global market access. Fiscal policies of most of the member countries of the region are liberal, transparent and supportive to foreign investment. Then why we have collectively failed to attract a more proportionate share of FDI on the basis of region's size and populations? Let me try to list probable causes:

1. Poor collective image of the region
2. Wrong strategies
3. Poor Governance
4. Failure of the IPAs
5. Lack of understanding among the member countries
6. High cost of business
7. Ineffective implementation of policies and
8. Poor track record of intra-regional trade and investment.

To address the above issues, such a roundtable was long overdue to be hosted in South Asia. On behalf of the Government of the People's Republic of Bangladesh, I congratulate FIAS, DFID and ADB for organizing the first South Asia specific FDI roundtable in Dhaka. We hope, at the end of the two-day long seminar a clearer vision will emerge to formulate a new strategy to realize a much greater share of inward FDI.

Once again, we warmly welcome all the participants to engage in a meaningful policy discussion for the next two days to promote understanding and finally reach a consensus on future action.

Thank you all.