Describe the problems in measuring the GDP of a country.

First, GDP figures omit production of goods and services that are not sold on markets. This component includes housework, meals cooked at home, and child care provided by parents, as well as services volunteered for charities and other groups. For example, when parents care for their own children, the value of their care does not appear in GDP. However, when parents pay for child care, those services appear in GDP.

Second, GDP includes only a very imperfect estimate of production of goods and services sold on the underground economy (or black market). This activity includes production of illegal goods and services (such as drugs and prostitution). It also includes production of legal goods that goes unreported to avoid taxes. Many estimates suggest that the underground economy in the United States amounts to between 5 and 10 percent of GDP; this figure is even larger in many other countries.

Third, special measurement problems result when GDP includes certain goods that are not sold on markets. When you rent a house or apartment, your expenses appear in GDP as payments for housing services. However, if you own the house or apartment where you live, GDP includes the government’s estimate of the rent that you would pay if you were renting.

Fourth: Substitution bias: As consumers’ tastes change and as new technological improvements are introduced, the relative prices of goods change. Such changes are independent of inflation so optimally we would like the real GDP measure to take them into consideration. For example, as more people started using cellular phones, the cost of supplying this service went down and so has price. In the real GDP the value of these services is measured using old, higher prices, overstating the increase in the value of production.

New-good bias: it is very difficult to include new goods into the real GDP: In the base year they did not exist and hence their price was infinite.

Quality-change bias: if you simply take the number of TV sets produced and multiply it by the price of a typical TV set in the base year, the value of production is going to be underestimated, as this measure does not take into account the improvements in quality.

GDP is the value of goods and services produce in a country during the time period of year.

Measuring of economy on GDP standards consist some drawbacks.

Double Counting Problem: Including the price of intermediate goods individually and with final product.
Self doing activities: Unrecorded economy in personal activities like the duties performed by oneself, housewives etc are not included in the GDP.
Illegal Economy: The economy which can be shown incorrectly due to corruption, bribery and drugs business.
Statistical Errors: People measuring the economy not performing their duties with honesty or the standard they are using are not current to measure the accurate value of GDP.
Pollution Factor: Pollution factor cannot be included in GDP.
Facilities and living standards: Facilities and living standards improvement cannot be indicated by GDP, to show whether the people of the country are worst off or well off.
Quality Improvement: As the time passes quality improve with speed as compared to the price, GDP can only measure the price as value but not quality.
Methods of Calculating GDP

The general definition of GDP is rather simple – however, economists seldom like simplicity, and therefore there are three different ways to calculate GDP.

1. Production Method

The production approach to GDP is the market value of all final goods and services. Also called the “net product” method, it includes three statistics:

- **Gross Value Added**: Estimation of the gross value of various domestic economic activities.
- **Intermediate Consumption**: Determination of the cost of materials, supplies, and labor used to create goods and services.
- **Value of Output**: Deduction of the intermediate consumption from the gross value, which gives you the GDP. This is how you determine GDP via the production method.

**Weakness of the Production Method**

The major problem with the production method of measuring GDP is that there is no 100% accurate way to determine what is true production. Services like babysitting have no way of being measured, and therefore are not included – though it can be argued that a babysitter allows parents to go out and spend money on a service, like dinner at a restaurant, and therefore has a positive effect on the economy. Also, if you make baked goods or have a small garden, you are producing, but your output is likely not included in the GDP, especially if you do not sell your goods.

If you do sell your baked goods, that could be considered part of the underground economy. For example, if you pay a person cash under the table to fix your car, it does not count toward GDP, although a service has been rendered.

2. Income Approach

Many economists dislike the production method as a means to measure GDP as it does not include income. Rather, they believe that the money each family brings home is a better way to evaluate the economic strength of the country. Therefore, the income approach measures the annual incomes of all individuals in a country.

*Incomes are culled from five different areas:*

- Wages, salaries, and supplementary labor income
- Corporate profits
- Interest and miscellaneous investment income
- Farmers’ income
- Income from non-farm unincorporated businesses

Once these numbers are added, two further adjustments must be made to arrive at the GDP via this method. Indirect taxes, such as sales taxes at a convenience store, minus tax subsidies (tax breaks or credits) are added to arrive at market prices. Then, depreciation on various hard assets (buildings, equipment, etc.) is added to that to arrive at the GDP number. The idea behind the income method is to try to get a better handle on real economic activity.

**Weakness of the Income Approach**

A quick review of the items utilized in the income approach makes its weakness obvious: Production is not included, nor is saving or investment. When you sit with an investment advisor and invest money in a mutual fund, you are releasing money from your hands to get more back. That is economic activity, but it is not counted in the income approach. Similarly, increased production at factories can occur without higher wages, and because there is a delay from the time the increased production of goods hits the marketplace and sales are recorded, the increased income may not show up in the corporate profits until later.

3. Expenditure Approach

There are, in fact, other economic theorists who believe that neither the income approach nor the production method is sufficient. In theory, income is not generated to be hoarded. People *might* save and invest, but they will definitely purchase needed and desired goods. From this basic viewpoint, the expenditure approach was developed. This approach measures all expenditures by individuals within one year.
The components of this method are:

**Consumption** as defined by purchases of durable goods, non-durable goods, and services. Examples include food, rent, gas, clothes, dental expenses, and hairstyling. The purchase of a new house, however, is not included as consumption. Consumption is the largest component of this method of determining GDP.

**Investment** means capital investments, such as equipment, machinery, software, or digging a new coal mine. It does not mean investments in financial products, like stocks and mutual funds.

**Government Spending** is the total of government expenditures on goods and services, including all costs of government employee salaries, weapons purchased by the military, and infrastructure costs. For example, the money spent on the war in Iraq is included, as is the money spent in the stimulus bill in 2008. Social Security and unemployment benefits, however, are not included.

**Net Exports** are calculated by subtracting the value of imports from the value of exports. Exports are goods that are created in this country for other nations to consume, while imports are created in other nations and consumed domestically.

**Weakness of the Expenditure Method**
The weakness of this method is similar in nature to the weakness of the income approach. First, savings are not included in the equation – so savings accounts and stock investments are not accounted for. Also, deeply discounted and even free services from government, business, and nonprofit organizations are included. This presents a problem because the actual value of these services – not what is charged for them – is estimated. For this reason, the final GDP number is likely to be inaccurate.

Lastly, some services are counted based on their costs, but that value can be substantially higher than is estimated or reported. For example, when a major infrastructure collapse happens, such as the result of 9/11 or the tornadoes in Alabama, medical and building costs go up. This creates a temporary increase in infrastructure costs, which increases the final GDP number. This skews the numbers by representing a spike – but not a growth curve that is sustainable. Consider this: When you buy a new house, you may spend a lot of money on new furniture – but you do not buy new furniture every month.

Money is the set of assets in the economy that people regularly use to buy goods and services from other people. The cash in your wallet is money because you can use it to buy a meal at a restaurant or a shirt at a clothing store.

To an economist, money does not refer to all wealth but only to one type of it: money is the stock of assets that can be readily used to make transactions. Roughly speaking, the dollars in the hands of the public make up the nation’s stock of money.

Money plays different types of significant roles in modern production system and social lives. While describing the functions of money, the poet says,

‘the thing that measures exchange and value
  Paying the loans and savings,
  Everyone knows that, Money it is’

The following two lines of an English poem refers to the functions of money-
"Money is a matter of functions four; A medium, a measure, a standard, a store." This means that, money has four functions. Those are: medium of exchange, measure of price, means of savings and standard of delayed or postponed transaction.
Below is a description of the four major functions of money:

**Medium of exchange:**
Transaction is done through exchange of money as money is acceptable to everyone. A salesman takes money in exchange of things and a customer buys thing by paying money. In this way, by exchanging money anytime any product or service can be purchased. For that reason transaction becomes easy and fast. So, it can be said that money is the easiest and the most convenient medium of exchange.

**Measure of price:**
The way meter measures length and kilogram measures weight, money is also used as the scale to measure the price of product and services. For example, Amir buys a book with 50 taka. Here, 50 taka is the assessor of price of that book. Through money, we can easily measure the price of product and services and we can also make comparisons between the former and upcoming price of product and services.

**Means of savings:**
Savings cannot be built through products as most of the products are perishable. On the other hand, service is a living item for consumption so industry and services cannot be stored. But the price of these kinds of products and services can be stored by money as everything can be exchanged through money. Nowadays people can save their surplus after subtracting the consumption cost from the production wages because saving through money is more secure and comparatively stable.

**Standard of delayed or postponed transaction:**
Delayed transaction refers to future dealings. The calculation of these dealings is done through money. Moreover, taking and returning loan by money is more appropriate. As a result, economic activities can be done without any hindrance. At present, most of the business transaction cheques, bank drafts, exchange bills etc. are finalized through debentures. The bank circulates these debentures on the basis of the cash saved as fixed deposit. Thus, money is considered to be the basis of loan and the standard of delayed transaction. Apart from the above mentioned tasks, money also works as price transmission medium, standard of liquidity and symbol of social status. These roles of money are not different; rather one has been arisen from another. Hence, it is said that the economic development of the society has become easily accessible because of the functions of money.

**Monetary policy**

Monetary policy is the management of money supply and interest rates by central banks to influence prices and employment. It works through expansion or contraction of investment and consumption expenditure. The Bangladesh Bank Order of 1972 outlines the main objectives of monetary policy in Bangladesh, which comprises—

- To achieve the price stability (control of inflation)
- To regulate currency and reserves (exchange rate stability)
- To promote and maintain a high level of production, employment and real income, and economic growth, since independence BB operated under a variety of pegged exchange rate systems amid capital controls
- To manage the monetary and credit system
- To maintain the par value of domestic currency
- To promote growth and development of the country's productive resources in the best national interest. (economic growth)

Although the long term focus of monetary policy in Bangladesh is on growth with stability, the short-term objectives are determined after a careful and realistic appraisal of the current economic situation of the country.
INSTRUMENTS OF MONETARY POLICY:
Major instruments of monetary control available with Bangladesh Bank are the bank rate, open market operations, rediscount policy, and statutory reserve requirement.

The methods of credit control can be classified as follows:

a) Quantitative/General credit control measures include:
   - Bank rate policy
   - Open market policy
   - Variation of reserve ratio

b) Qualitative/selective credit control measures include:
   - Prescription of margin requirements
   - Consumer credit regulation
   - Moral suasion
   - Direct action
   - Credit rationing

a) Quantitative/General Methods:

The methods by which Central Bank controls the total amount of credit in the economy are termed as quantitative methods of credit control.

**Bank rate policy**: The rate at which the central bank advances loans to the commercial banks. Bank rate is also called as the discount rate. To contract money supply, bank rate is increased and vice versa.

**Open market operation**: The sale or purchase of securities by the central bank to withdraw liquid funds from the banking system (commercial banks) or inject the same into that system. To increase the money supply, the Central bank buys securities from commercial banks and public and vice versa.

**Varying reserve requirements**: There are two ratios (CRR & SLR) by changing those central bank control money supply. All the commercial banks have to maintain a certain percentage of their deposits as cash reserves with the central bank is called cash reserve ratio (CRR). Statutory Liquidity Ratio (SLR) refers to the amount that the commercial banks require to maintain in the form of cash, or gold or govt. approved securities before providing credit to the customers. To increase money supply, central bank reduces CRR & SLR ratios and vice-versa.

b) Qualitative/selective credit control measures include:

**Prescription of margin requirements**: Generally, commercial banks give loan against ‘stocks or ‘securities’. While giving loans against stocks or securities they keep margin. Margin is the difference between the market value of a security and its maximum loan value. Let us assume, a commercial bank grants a loan of Rs. 8000 against a security worth Rs. 10,000. Here, margin is Rs. 2000 or 20%. To reduce money supply, margin requirements are increased and vice versa.

**Consumer credit regulation**: Now-a-days, most of the consumer durables like T.V., Refrigerator, Motorcar, etc. are available on installment basis financed through bank credit. Such credit made available by commercial banks for the purchase of consumer durables is known as consumer credit. If there is excess demand for certain consumer durables leading to their high prices, central bank can reduce consumer credit by (a) increasing down payment, and (b) reducing the number of installments of repayment of such credit and vice versa.
**Moral suasion:** Moral suasion means persuasion and request. To arrest inflationary situation central bank persuades and request the commercial banks to refrain from giving loans for speculative and non-essential purposes. On the other hand, to counteract deflation central bank persuades the commercial banks to extend credit for different purposes.

**Direct Action:** This method is accepted when a commercial bank does not co-operate the central bank in achieving its desirable objectives. Direct action may take any of the following forms:

Central banks may charge a penal (punishing) rate of interest over and above the bank rate upon the defaulting banks; may refuse to rediscout the bills of those banks; may refuse to grant further accommodation.

**Credit rationing:** Refers to the situation where Central Bank (lender) limit the supply of additional credit to Commercial Banks (borrowers) who demand funds, even if the latter are willing to pay higher interest rates.

**A repo or repurchase agreement:** is an instrument of money market. Repo is a collateralized lending i.e. the commercial banks which borrow money from central bank by selling securities to meet short term needs with an agreement to repurchase the same at a predetermined rate and date. The central bank charges some interest rate on the cash borrowed by banks, but this rate (called repo rate) will be less than the interest rate on bonds.

**Reverse repo:** In a reverse repo central bank borrows money from commercial banks by lending securities. The interest paid by central bank in this case is called reverse repo rate.

The Money Measures announced by central bank were as follows-

1) \( M_1: \text{Cash} + \text{Net Demand Deposits} + \text{Other Deposits with central bank} \)
2) \( M_2: M_1 + \text{Post Office Saving Deposits} \)
3) \( M_3: M_2 + \text{Net Time Deposits With Banks} \)

**The role of small and medium enterprises**

Vision-2021 is the first document of its kind in Bangladesh which presents a roadmap for the country’s economic development. It projects that contribution of the industrial sector to the Gross Domestic Product (GDP) would increase from 28 per cent (2008) to 40 per cent, contribution of the agriculture and services sectors would fall from 22 per cent and 50 per cent (in 2008) to 15 per cent and 45 per cent respectively by 2021. That means emphasis would be put on local industrialization and rehabilitating the surplus labour force of the agriculture sector in the industrial sector.

To implement Vision-2021 the Planning Commission has drawn up the Perspective Plan of Bangladesh (2010-21). Perspective Plan target of achieving the annual GDP (gross domestic product) growth rate of 10 per cent by 2021 is premised on a competitive manufacturing sector growing at or nearly a double-digit rate during the 2010-21 decade. Consequently, the broad industrial sector will continue to account for a much larger share of GDP, approaching 37 per cent by 2021, compensating for the decline in the share of the agricultural sector, which will fall to 15 per cent.

For Bangladesh to reach the middle income threshold by 2021, industrial expansion must move hand-in-hand with highly productive farm and non-farm agriculture. Furthermore, a strong and competitive manufacturing sector is especially important for generating productive and high income jobs.
Manufacturing is the predominant and leading sector within the broad industry which also includes such activities as power generation, water and sewerage, and mining and quarrying. Manufacturing is and will remain the driver of industrial growth and employment for years to come.

Vision 2021 stipulates the middle income status for Bangladesh by 2021 with the achievement of an annual GDP growth rate of 10 per cent by that year and averaging 9.2 per cent for the period of 2011-21. Fulfillment of this vision requires good performance of the manufacturing sector to take its share in the GDP to 27 per cent by 2021 and that of the industrial sector to 37 per cent.

The small and medium enterprises (SMEs) sector was given priority in the National Industrial Policy-2010. It was stated that achieving the recently-announced Digital Bangladesh goal by 2021 and creating employment opportunities for at least one person from each household in order to reduce poverty and unemployment were among the central policy objectives of the government. There is no alternative to creating an environment conducive to development of small and medium enterprises for attaining that goal. Attaching priority to this very fact, the National Industrial Policy-2010 has considered the SMEs as the thrust sector, given the planned and balanced development of these labour-intensive industries as the engine of growth.

**Definition Of SMEs:** According to the National Industrial Policy-2010 medium industrial units in the manufacturing sector are enterprises with either the value (replacement cost) of fixed assets, excluding land and building, ranging between Tk 100 million and Tk 300 million or the number of workers ranging between 100 and 250. In the services sector, a ‘medium industry’ is an enterprise with either the value (replacement cost) of fixed assets, excluding land and building, ranging between Tk 10 million and Tk 150 million or the number of workers ranging between 50 and 100.

In the manufacturing sector, a small industry is an enterprise with either the value (replacement cost) of fixed assets, excluding land and building, ranging between Tk 5 million and Tk 100 million or the number of workers ranging between 25 and 99. In the services sector, a ‘small industry’ is an enterprise with either the value (replacement cost) of fixed assets, excluding land and building, ranging between Tk 0.5 million and Tk 10 million or the number of workers ranging between 10 and 25.

If a firm is in the ‘small’ category as per a certain criterion and in the ‘medium’ category based on another criterion, the firm will be deemed a ‘medium’ category one.

**ROLE OF SMES IN BANGLADESH’S ECONOMY:** Currently the economy of Bangladesh is witnessing transformation from an agro-based economy to an industrial one. As per the Word Development Indicators Study Report published by the Word Bank, the contributions of industry and agriculture to GDP were respectively 21.7 per cent and 30.4 per cent in 1991, 25.9 per cent and 24.1 per cent in 2001, 28.5 per cent and 18.6 per cent in 2010. As per recent statistics of Bangladesh Economic Review-2014 the contributions of agriculture and industry to the GDP were 13.09 per cent and 29 per cent respectively in the fiscal year 2012-13.

Small and medium enterprises (SMEs) proved their potentiality in productivity, employment generation and poverty reduction as a reliable tool. As a result, policymakers throughout the world emphasise SMEs as the engine of growth and reduction of unemployment and poverty. SMEs are generating more jobs with comparatively nominal investments.

**SME Cluster Development:** There are 177 SME clusters all over Bangladesh. It is easy to transform these SME clusters into SME export processing zones, if the government and development organisations pay proper attention to it. A balanced development is possible, if the SME clusters are developed, because the clusters are located in different districts, upzilas, unions and even in villages throughout the country. It requires minimum resources to ensure all industrial facilities and utility services available in a specific area to develop an industrial cluster and get maximum output from it.
**Diversification Of Exports:** There are only a few products in the export basket of Bangladesh. Therefore, it is necessary to identify products having export potential and diversify the products in the export basket. Development of export-oriented SMEs could lead to robust employment generation, increase in export earnings and poverty alleviation.

**Introducing An Industry-Friendly Tax Regime And Justification Of The Existing Tariff Structure:** Export and import are linked with industrialisation. Export without import of raw materials is quite difficult. Therefore, an industry-friendly tax regime should be introduced to promote local investments and attract foreign direct investment (FDI). The existing tariff structure should also be justified to promote local industrialisation.

**Exploring Prospective Export Markets And Signing Free Trade Agreements:** The government should take necessary measures to explore the prospective export markets for Bangladeshi products and sign free trade agreements with them to ensure Bangladeshi products’ duty-free and quota-free market access there.

**Technological Upgradation And Increasing Productivity:** Most of the industries in Bangladesh are lagging behind in terms of technology and productivity. As a result, we are unable to produce high-quality products for sale at competitive prices. Therefore, it is the government’s duty to take necessary fiscal and monetary measures to facilitate technological upgradation to increase productivity of the local firms.

**Establishing Testing Laboratory And Assisting In Achieving International Quality Certification:** Most of the industrial sectors are suffering from the lack of proper testing facilities for their products to ensure their world class quality. Therefore, Bangladeshi companies are not getting international quality certificates. As a result, foreign buyers are not accepting our products on a large scale in the absence of quality assurance. So, it is the government who could help local entrepreneurs establish sector-specific testing laboratories and get international quality certificates and thus increase the acceptance of Bangladeshi products to foreign buyers. It will help to build the brand image and charge premium prices for quality products.

**Ensuring Adequate Supply Of Raw Materials And Introducing A Syndicate Control Mechanism:** Most of the industrial sectors are somehow dependent on foreign raw materials. Maximum SME entrepreneurs are unable to import raw materials directly for many reasons. By capitalising on this limitation, a small group of importers import raw materials and charge irrational prices. It makes our products uncompetitive in the international market. For this reason, the government should allow sectoral trade bodies or owners’ associations to import raw materials together in a group or introduce a syndicate control mechanism to ensure rational prices for raw materials in the local market.

**Supply Of Industrial Loan As Per Sectoral/Local Demand:** The demand for loan packages differs based on sectors and locations of firms. A single loan package of any of the existing commercial banks cannot meet the demand from all sectors. Therefore, the government may encourage the scheduled banks to design sector-specific loan products to meet the local or sectoral demand.

It is necessary to develop SME clusters, SME sector and export-oriented SMEs throughout the country to implement Vision-2021 and achieving the middle income status by 2021.

**Money Laundering**

Money Laundering is happened by launderers worldwide to conceal the proceeds earned from criminal activities. It happens in almost every country in the world, and a single scheme typically involves transferring money through several countries in order to obscure its origins. And the rise of global financial markets makes money laundering easier than ever, making it possible to anonymously deposit proceeds of crime in one country and then have it transferred to any other country for use.
Money laundering has a major impact on a country’s economy as a whole, impeding the social, economic, political, and cultural development of a society. Both money laundering and terrorist financing can weaken individual financial institution, and they are also threats to a country’s overall financial sector reputation. Combating money laundering and terrorist financing is, therefore, a key element in promoting a strong, sound and stable financial sector.

Problems of BD to attract foreign direct investment

Foreign Direct Investors try to find out such a country which has some good facilities for production or operation. Factors of production like land, labor, capital, entrepreneurship although are very important, but now the most important things for production and investment are good supply of electricity and gas, good transportation, active and strong human resource and congenial atmosphere. Although Bangladesh has a lot of human resource, others factors like electricity and gas are not sufficient. That’s why we get few foreign direct investments than that of others. It is known to all that TATA, a renowned car company, wanted to come in our country but we could not afford it due the unavailability of gas and electricity. We have a lot of human resources but there is still lack of skilled human resources. Natural resources are also limited. We have a huge amount of gas but no proper way of lifting and storing because fuel is the life of production. So first of all we have to ensure gas, electricity, skilled and strong manpower to attract more FDI in Bangladesh.

In an era of volatile flows of capital, the stability of FDI and its emergence is an important source of foreign capital for any developing economy. FDI and economic prosperity of a country are related terms, it is necessary to know about FDI, it impact and the future prospects though there may be some argument against it present. But due global economic crisis, lack of image of our country outside the world and political instability FDI fluctuate year by year. Following are the reasons for fluctuating FDI.

Political instability and uncertainty:
Investors want to come back their return certainly. If political conditions of a country are not stable it is not possible to get return certainly. In 2006-07 the political condition was stable so in this year FDI reach 79.3. And in previous year due to strike, hartal investors were afraid to come to our country so in those year FDI was lowest.

Lack of good image:
In outside world Bangladesh is familiar as a poor, terrorist, full of natural calamities and extremist country. In 2003-04, due to flood and hartal investors are afraid to in this country. Generally people outside the world feel that we cannot get our expected return back. So they don’t feel any interest to invest in our country. Ultimately it leads to decrease FDI.

Lack of infrastructure:
It is necessary to ensure Gas fuel power supply to set up industry. Foreign investors always consider these facilities to establish industry in foreign country. Bangladesh cannot ensure proper energy supply to their investor that’s why investors are not interested to invest our country. Lack of infrastructure does not inspire to invest in a country.

Indecision of Government:
Government of our country cannot take the decision effectively regarding the FDI issue. Because of the difference in opinion of political parties govt. cannot take the decision. For example, we can say the FDI proposal of TATA group government cannot take the decision within one and half years. One reason is that the lack of effectiveness of the govt. in case of big proposal.

Lack of proper policy regarding FDI:
When the government changes FDI policy also changes. And government cannot take the better policy regarding coal policy. Due to change policy within a short period of time investors are not interested to invest in our country.
Lack of good governance:
Establishment of good governance is the foremost condition for economic development. Due to lack of indiscipline we cannot get the expected success. For the lack of good governance investors are not interested to invest our country.

Obsolete technology:
We have labor surplus. But we have lack of trained labor and also technology. Due to obsolete technology foreign investors are not interested to invest our country. In present world we see where technological advancement is high investors come to invest to that particular area. So for attraction of good foreign investment we have to old technology by modern technology.

Corruption and bureaucratic delay:
Corruption spread in every sector of our country. Due to corruption in every sector investors are afraid to invest in our country. And another problem face by the investors is the bureaucratic delay in every sector. The cost of doing business in our country due to bureaucratic delay is very high as compared to the others. It creates pressure on the production cost. When production cost increase investors will not be interested to in our country.

Competitive Strength of Bangladesh for Investment

The democratic government has already taken a number of measures to stimulate the economy. In macro-economic terms, we have very prudent and market oriented fiscal policies. However, to improve the overall economy of the country and achieve the ultimate goal of eradicating poverty, annual investment has to grow rapidly from the present low base.

1. Location: Geographic location of the country is ideal for global trades with very convenient access to international sea and air route.

2. Natural Resources: Bangladesh is endowed with abundant supply of natural gas, water and its soil is very fertile.

3. Human Resources: We have a population of 130 million who are hard working and generally intelligent. There is an abundant supply of disciplined, easily trainable, and low-cost workforce suitable for any labor-intensive industry.

4. Social Stability: Bangladesh is a liberal democracy and mostly a one race and one religion country. The population of this country irrespective of race or religion have been living in total harmony and understanding for thousands of years.

5. Language: Although Bengali is the official language, but English is generally used as second language. Majority of even moderately educated population can read, write and speak in English.

6. Market Access: As a result of low per capita GDP of only US$386, present domestic consumption is not significant. However, it should always be considered that there exists a middle class with some purchasing power. As economic growth picks up, the purchasing power will also grow substantially. And in a country of more than 130 million people, even a small middle class may constitute a significant market.

7. GSP Facility: Most Bangladeshi products enjoy complete duty and quota free access to EU, Japan, USA, Australia and most of the developed countries. However, for apparel export to USA, we have certain quota regime which is generally favorable to Bangladesh.
Prospects of Foreign Direct Investment in Bangladesh

In early part of 1990’s Bangladesh introduced various reforms for liberalizing its trade and investment policies with necessary protection and alternative incentive package. As a result, potential investors from local and foreign countries have grown substantially in Bangladesh. A number of multinational companies are operating in various sectors in Bangladesh for decades. Among these sectors manufacturing, telecommunication, energy and gas sectors attract the foreign investment most in addition to this, the following sectors or sub sectors are very promising for potential private investment.

Composite textiles and linkage industries: In the last two decades, the RMG (Ready Made Garments) of Bangladesh have grown substantially and now constitute 70% of total exports of Bangladesh. Currently, 2500 RMG units spend approximately 60% of their export earning on import of fabrics. To meet the import requirements of the RMG industries additional investment in spinning, weaving, dyeing, printing and finishing is required on a top priority basis.

Telecommunication:
In Bangladesh, the systems and services of telecommunication have been expanded. Government has already allowed private operation in this sector and has plans to increase the number of fixed telephone lines by 1.6 million. As a result, it has emerged as one of the largest sectors having huge growth potential in the reform environment of telecom sector.

Information and Telecommunication Technology (ICT):
Bangladesh has the scope of profitable investment of ICT. Bangladesh IT firms are interested to join in with foreign investors. In accordance with greater interest with the Government it would be given the highest level of support from the government.

Energy and Gas sector:
The energy sector of Bangladesh has remained the chief recipient of FDI inflow up to the period 1988-1990. In the 1988-1990 fiscal more than half of the dollar 380 million of the FDI came to the gas sector alone. But, after that a share of energy and gas sector has sharply declined. This sector was able to attract 10.6% of FDI during January-June 2003. However, given the present utility infrastructure situation of the country and projection faster growth of industries in recent years, energy and gas could be attractive sector for investment in future.

Infrastructure:
Bangladesh needs to develop its infrastructure facilities and a service in various sectors and in this context has encouraged private participant with a number5 of policy initiatives. The potential areas are:

- Power generation.
- Exploration and exploration of gas and other mineral resources.
- Highway development including bridge, express-way and tunnels.
- Port infrastructure facilities.
- Industrial parks/private export processing.

In addition to this sector, the following sectors are considered to be potential for investment in Bangladesh:

- Computer software and electronics.
- Diversified jute goods and jute based pulp and study.
- Chemicals and petrochemicals.
- LP gas, Environment friendly insecticides etc.
- Leather and leather goods.
- Tourism.
- Food processing, Fruit canning and allied products.
- Sports goods.
- Light, Engineering and agro-based industry.
Measures for attracting FDI in Bangladesh

The present government in Bangladesh has identified public-private partnership (PPP) as one of the key focus areas and is committed to attracting foreign investors to thrust sectors. *The government has resolved to ensure economic and political stability and foster transparency and availability of information.*

There are several other determinants of inward foreign direct investment (FDI) attractiveness of an economy. Economic growth trend, more importantly projected growth rate, is a key indicator. Subjective and more difficult-to-measure factors like level of terrorism, political stability, and corruption are also equally important. Various controllable and out-of-control factors play significant role in determining what portion of inward FDI of the world is going to which country.

There are a few problems that are holding us back but we can create sufficient control over the situation. These must be fixed so we can reach our maximum potentials. We need to eliminate bureaucracy, make land acquisition and construction easier, up-grade and update regulations.

*Average wage of workers increased in India, Indonesia and China during the past years, which in turn increased our competitiveness.* Despite all the challenges, during 2009-2010, a total of 89 new foreign and joint venture investment projects registered with Board of Investment (BoI) worth a total of $590 million. 82.5 per cent of these investments were in the service sector, distantly followed by 8.5 per cent in clothing sector. Within the next 2 years, the composition is expected to change. Larger shares will most likely be occupied by the thrust sectors such as energy and power, transportation, etc. A number of bilateral agreements are in place for avoidance of double taxation.

After much anticipation, *public-private partnership (PPP) policy has been made effective* since August 2010. With proper implementation, PPP can become the chosen vehicle for FDI. We have made good progress in the foreign relations, particularly with United States and India, during the recent years. It is hoped that some good news are also due from the ongoing *discussions with trade authorities of India, Turkey, Japan and Denmark* that we read about in the newspapers. Many multi-national companies (MNC) have re-invested their earnings from Bangladesh for expansion of their business and operations rather than remitting out, which shows their confidence in the country's growth prospects.

FDI inflow is most necessary for Bangladesh not only from the capital and foreign currency perspectives, but also because it *transfers new technologies, skills and management practices* embedded with the investors. After the global economic downturn, the world is turning to Asia and thus, it is much easier for us to attract attention than earlier times. Global FDI inflow is expected to head towards $2.0 trillion by 2012. In Asia, more countries and more industries are being included every year. All we got to do is create the right climate and allow the right investors as this is definitely the right time.

Local entrepreneurs' attitude to competition from FDI is really not very welcoming as they fear of being competed out. In theory we preach that competition makes us excel and put in our best. But when it comes to practice, local entrepreneurs start advocacy to protect their business by creating high entry barriers. This is also true that FDI follows strong domestic investment, which carries testimony to encouraging business environment as well as ‘opportunity to make money’. All the stakeholders therefore should understand and appreciate the synergy between domestic and foreign investment.
All the while we have to keep in mind that FDI is not an end in itself, it is a means towards economic growth. It is not wise to grant lower priced lands and utilities to investors just because they are foreigners. The policy-makers can perform a deep dive objective analysis and who knows, the conclusion may be against FDI! But the approach should be to assess how much investments we need to attain the aspired GDP growth, how much can be contributed by domestic sector in itself, and how much foreign investment we need to bridge the gap. Then comes the question: Does Bangladesh have the right investment climate to guarantee FDI? If not, what is the strategy to ensure the desired amount of FDI?

Current mechanism of FDI generation in Bangladesh and future trends: It has been argued that until the early 1980s the economy of Bangladesh was highly protected and inward-oriented and import substitution was the key aspect of the government's development strategy, which primarily attracted global multi-national enterprises (MNE) with the motive of capturing domestic markets or tariff jumping-type investments.

However, recently two forces have played a key role in the surge of FDI into Bangladesh. First, liberalisation of the economy, which began in the early 1990s, especially the lifting of restrictions on FDI. Secondly, MNEs' shift toward more integrated global investment and production strategies based on the country's chief resource endowments, namely low cost labour. The country's labour-intensive ready made garments (RMG) sector allows foreign MNE to set up offshore production facilities for duty free re-import of goods and components in the country's export processing zones (EPZ). Bangladesh has an abundant gas reserve, which is chiefly influencing global MNE toward FDI generation in Bangladesh, and also enabled them to shift their focus from the traditional forms of foreign investments, such as marketing seeking to more dynamic forms like resource and efficiency seeking export oriented production platforms.

It has been argued that if FDI is a substitute for imports, it can improve the host country's balance of payments, as has been seen that much of the FDI by Japanese automobile companies in the United Kingdom and United States in their initial phase of market entry were chiefly looked upon as substitution for imports from Japan, which improved the US balance of payments to a certain extent. However, it has been also argued that when foreign investments are directed towards third country markets or rich regional markets, they can substantially improve a country's balance of payment positions.

It is believed that export-oriented FDI is a special type of FDI and is governed by different factors than is domestic market seeking FDI. Being efficiency seeking in nature, export-oriented FDI could be more sensitive to availability of quality infrastructure than overall FDI. It has been argued that infrastructure development should become an integral part of any host government's strategy to attract FDI inflows in general and export oriented production from MNE in particular. Studies have also shown that in a number of developed and developing countries, governments have indulged in policy competition between themselves to attract FDI through a package of investment incentives.

However, countervailing arguments also suggest that investment incentives tend to distort the patterns of FDI in favour of developed countries given their capacity to provide substantial fiscal incentives. So, it has been argued that rather than getting sucked into competition with developed countries by offering investment incentives, governments of developing countries would do well to focus on the development of physical infrastructure in their respective countries. This would help to mobilise the domestic as well as foreign investments and help expediting the process of their development.

Therefore, the Government of Bangladesh should give top priority to more export-oriented FDI. This will help
foreign subsidiaries to mobilise their resources both in the domestic economy and also global markets. Thus additional foreign exchange will be earned and the country’s present balance of payments position will significantly improve. Besides, more local jobs will be created and the overall economic development of the country will be benefited.

Moreover, Bangladesh should leverage its core competencies for high-value added production activities, especially its RMG sector, for exploiting new potential markets. It should develop its other potential growth areas like leather, frozen food, silk or the emerging information technology (IT) sector. It should also tap some of its other unrealised potentials like fisheries, light manufacturing (for example, tools and consumer electronics) by working in close partnership with global MNE. This would help Bangladesh develop the kinds of customised assets such as skilled labour and public infrastructure. Global MNEs essentially seek these facilities in a host country in order to more efficiently deploy or harness their 'created assets', namely communications infrastructure, marketing networks, technology and innovative capacity to maintain their competitiveness in the global economy and more efficiently serve their host markets. Moreover, this would help Bangladesh promote its dynamic comparative advantages and add greater value to its own resources and competencies for additional foreign exchange generation, improving the country’s present balance of payments position and also enhancing its overall export competitiveness in the global economy.

It could be safely assumed that Bangladesh is making good progress toward attracting truly outward-oriented investments or Direct Foreign Investment by adopting a very liberal trade regime in South Asia by means of a rich package of investment incentives (for example, the absence of any prior approval requirements on FDI or even limits on foreign equity participation, nor are there limits to profit repatriation), maintaining sound macro-economic policies and also giving top priority on issues like building knowledge related infrastructure (for example, the bulk of its current FDI is concentrated in the country’s service sector). These are helping to create an environment conducive to the growth of these kinds of foreign investments in the future.

**Measures of Economic Development**

Here is a list of the most commonly used measures of economic development:

- GNP per capita;
- Population Growth;
- Occupational Structure of the Labor Force;
- Urbanization;
- Consumption per capita;
- Infrastructure and Social Conditions (literacy rate; life expectancy; health care; caloric intake; infant mortality & others)