**Independent University** **Bangladesh (IUB)**

**IUB Academic Repository**

Conference and Proceedings International Conference on Economics, Business and Technology Manag

2025-11

# Globalization and foreign government policy changes for economic development: lessons from Bangladesh

Alam, Md. Shah

School of Business and Entrepreneurship, Independent University, Bangladesh (IUB)

https://ar.iub.edu.bd/handle/11348/1408

*Downloaded from IUB Academic Repository*

# Globalization and Foreign Government Policy Changes for Economic Development: Lessons from Bangladesh

Md. Shah Alam
Bangladesh Army University of Science and Technology
*dean_bs@baust.edu.bd*

Paper ID: ICEBTM-25-1011

*Abstract:* **The paper aims to present globalization and government policy changes for economic development. Emphasis has been given to the prevailing situation in the economy of Bangladesh. Globalization intends to make the world economy increasingly integrated. This study has been conducted on secondary data only. It is clarified that globalization opens up many global opportunities for countries. To avail the facilities, many countries change their policies to record a high growth rate, which inspires the Government of the People's Republic of Bangladesh to start liberalization in the case of investment policy and fiscal policy for creating a conducive environment to attract foreign investors to invest in Bangladesh to accelerate economic growth. It is clear in the study that despite the liberation policy adopted by the Government of the People's Republic of Bangladesh, the FDI inflows in the country are not up to the mark. The study has outlined some modest possible suggestions for better FDI inflows.**

*Keywords:* **Globalization, world economy, Investment policy, Fiscal policy, Economic development, Foreign direct investment.**

## I. INTRODUCTION

The present century is the century of globalization. The world economy is becoming increasingly integrated in this century. It refers to an emerging "global culture" and a common business language, which is "English," to facilitate economic integration in the world [1]. Globalization started functioning after the collapse of communism and the disintegration of the Soviet Union into a dozen states [2]. It is seen in the world that one group of countries has developed technologies and know-how and adequate equity capital, and the other group of countries has rudimentary infrastructures along with huge natural resources, called emerging countries [3]. So, the mutual transformation of available resources is required among the countries for economic development Globalization brings many changes [3] as (a) huge flows of private capital (b)rapid expansion in global trade and a change in its composition (c) the revolutionary change in information and telecommunication (d) the growth in the power of multinational corporations and their penetration into the emerging markets (e) the growth of civil society (f) the evolution of the international institutional structure (g) the demographic change in the industrial world and many parts of the developing world
National governments, firms, and people in the world affect everyone through the interconnection of the said aspects [4]. Exciting business opportunities, rapid growth of knowledge and innovation, and the transformation of new ideas lead to the economic development of the world in general and a country in particular.

## II. LITERATURE REVIEW

To find out the research gap, the following literature is reviewed: Transfer of factors of production from one country to another has been emphasized during globalization [5]. Globalization points out the motives for improving profitability and enhancing shareholders' wealth of multinational companies. Revenue-related and cost-related motives under the purview of globalization and the transfer of factors of production from one country to another have been emphasized. With the changes over time, possible benefits also change from using the changing environment in various countries based on positively bearing advanced technology management and practices for economic development. In a study by [6], it is seen that innovation and the transfer of factors of production of a developing country may be the result of the government's initiatives on changing investment policy and fiscal policy relating to the investment recipient country.
Globalization is considered to be a movement towards open economic policies for international economic flows in the countries of the world for economic development [7]. Globalization accelerates to bring down the trade barriers, increasing the transformation of factors of production, utilizing the available resources optimally for economic development [8]. Judging on the above-mentioned review of literature, the present study on "Globalization and Government Policy Changes for Economic Development: Lessons from Bangladesh".

## III. OBJECTIVES

The objectives are:

i) To present globalization and its impact.
ii) To understand the Government's policy for economic development with the advent of globalization, emphasizing the economic development of the world.
iii) To know the policy changes of the Government of the People's Republic of Bangladesh for economic Development;
iv) To assess the FDI flows for the betterment of the economic development of Bangladesh.

## IV. METHODOLOGY



ISBN 978-984-35-5270-9 *https://icebtm.iub.edu.bd*

The study is conducted on secondary data, which has been collected from different books, published articles, published reports of the Asian Development Bank, Economic outlooks of different countries, and the economic review of the Government of the People's Republic of Bangladesh. The data used in the study have been analyzed in tabular form.

## V. GOVERNMENT POLICY CHANGES

As mentioned earlier, one group of countries has modern technologies, know-how, and equity capital, but has a shortage of material and physical resources. Another group of countries has huge material and physical resources but has a shortage of modern technology, know-how, and equity capital. Optimum utilization of available resources may be the result of the economic development of the world in general. So, factors of production are required to be transferred among countries mutually. Since the 1980s, exciting opportunities have been provided by many countries globally through the liberalization of investment policy, fiscal policy, and the reforming of financial institutions. Some countries in Asia, Latin America, and Eastern Europe started growing economically at rates considered to be far outpaced by more developed countries [9]. Urbanization and a burgeoning middle class give rise to generation consumers with a high demand for consumer goods and infrastructure development for new lifestyles. So, investors enjoy a period of exceptional returns on major asset classes. Today's world economy presents a new investment proposition. Developing economies hold 86% of the world's population, 75% of the world's land and resources, and hold 50% of world GDP in terms of purchasing power parity, and count about 12% of the global equity market capitalization on a float-adjusted basis, as referred to by BlackRock Investment Institute. For optimum resource utilization, developing countries need to transfer factors of production like advanced technology, know-how, and equity capital. Mutual transfer may happen through Foreign Direct Investment (FDI).Macroeconomic indicators of the top six developing countries are shown in Table 1 Four macroeconomic indicators of six developing countries are shown in Table 1. All countries adopt liberalization policies. Five years of data are shown in the table. Fluctuation in data is seen among the countries. Data from China and South Korea have fluctuated less. In terms of per capita GDP, South Korea recorded the highest GDP, followed by Turkey and China, and the lowest per capita GDP is seen in India. China has the highest GDP growth rate, followed by India, Indonesia, Turkey, and so on. China showed the highest exports than imports, followed by South Korea, and all other countries recorded more imports than exports in most of the year.

Table I
Macro-economic Indicators of the Top Six Countries

| Name of the Countries | Macro-economic indicators | Years | | | | |
|---|---|---|---|---|---|---|
| | | 2014 | 2015 | 2016 | 2017 | 2018 |
| China | Per Capita GDP (US$ $) | 7,650 | 7,945 | 8,134 | 8,858 | 9,916 |
| | GDP Growth rate (%) | 7.3 | 7.0 | 6.8 | 6.9 | 6.7 |
| | Exports (US$ billions) | 2,342 | 2,273 | 2,098 | 2,263 | 2,487 |
| | Imports (US$ billions) | 1,959 | 1,680 | 1,588 | 1,844 | 2,136 |
| India | Per Capita GDP (US$ ) | 1,614 | 1,633 | 1,763 | 2,017 | 2,027 |
| | GDP Growth rate | 7.4 | 8.0 | 8.3 | 7.0 | 6.1 |
| | Exports (US$ billions) | 311 | 262 | 275 | 305 | 330 |
| | Imports (US$ $billions) | 448 | 379 | 384 | 463 | 512 |
| Indonesia | Per Capita GDP (US$ ) | 3,532 | 3,368 | 3,607 | 3,885 | 3,946 |
| | GDP Growth rate (%) | 5.0 | 4.9 | 5.0 | 5.1 | 5.2 |
| | Exports (US$ $billions) | 176 | 150 | 145 | 169 | 180 |
| | Imports (US$ billions) | 178 | 143 | 136 | 157 | 189 |
| South Africa | Per Capita GDP (US$ $) | 6,635 | 6,022 | 5,291 | 6,220 | 6,137 |
| | GDP Growth rate (%) | 1.8 | 1.2 | 0.4 | 1.4 | 0.8 |
| | Exports (US$ billions) | 94.9 | 81.9 | 77.0 | 86.6 | 94.1 |
| | Imports (US$ billions) | 102 | 85.5 | 74.8 | 81.8 | 92.3 |
| South Korea | Per Capita GDP (US $) | 29,254 | 28,723 | 29,273 | 31,555 | 33,308 |



ISBN 978-984-35-5270-9 *https://icebtm.iub.edu.bd*

| | | | | | | |
|---|---|---|---|---|---|---|
| | GDP Growth rate (%) | 3.2 | 2.8 | 2.9 | 3.2 | 2.7 |
| | Exports (US$ $billions) | 573 | 527 | 495 | 574 | 605 |
| | Imports (US$ billions) | 526 | 436 | 406 | 478 | 535 |
| Turkey | Per Capita GDP (US$ ) | 12,026 | 10,898 | 10,805 | 10,556 | 9,384 |
| | GDP Growth rate | 5.2 | 6.1 | 3.2 | 7.5 | 2.8 |
| | Exports (US$ billions) | 169 | 155 | 153 | 169 | 179 |
| | Imports (US$ billions) | 233 | 204 | 193 | 228 | 222 |

Source: www. Google search; Focus-economics.com/countries/economic data

## VI. ECONOMY OF BANGLADESH

On December 16, 1971, Bangladesh became independent. The Government of Bangladesh, since then, has been planning for the economic development of the country. Her location is in South Asia, and her land area is 147570 $KM^2$ where 170 million people are living. Bangladesh ranks as the eighth-largest country in the world in terms of population. Her economy consists of the agricultural sector, industrial sector, and service sector. The Gross Domestic Product (GDP) of the sectors is shown in Table 2.

Available natural resources of the country are gas, coal, limestone, hard rock, glass, ceramic clay, etc. Of these resources, gas, limestone, and coal are being extracted, and others are in the process of extraction.

The economic development of the country needs a huge investment. It is a function of mobilization of resources, and it depends upon the interaction of the economic activities of the country. Clarified it with some macroeconomic indicators, which are shown in Table 3.

Table 2
Sector-wise GDP change in percentage during 2014-2018

| Year | Agriculture (%) | Industry (%) | Service (%) | Total (%) |
|---|---|---|---|---|
| 2018 | 14 | 33 | 53 | 100 |
| 2019 | 13 | 34 | 53 | 100 |
| 2020 | 13 | 35 | 52 | 100 |
| 2021 | 13 | 34 | 53 | 100 |
| 2022 | 12 | 36 | 52 | 100 |

Source: Bangladesh Economic Survey 2022, Ministry of Finance, Government of the People's Republic of Bangladesh.

From Table 2, it is seen that the agriculture sector recorded the lowest contribution to the economy of the country. But with time, the other sectors' contribution to the GDP is more and a little bit fluctuating.

**Table 3**
**Some macroeconomic indicators of Bangladesh**

| Items | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Population (Million) | 163 | 165 | 167 | 169 | 171 |
| GDP per capita (US $) | 1964 | 2122 | 2234 | 2462 | 2723 |
| Economic growth rate(% to GDP) | 7.2 | 7.88 | 3.45 | 6.94 | 7.20 |
| Inflation rate (CPI) | 5.78 | 5.48 | 5.65 | 5.56 | 5.30 |
| Current Account (% of GDP) | -2.98 | -1.45 | -1.26 | -0.91 | -0.06 |
| Exports (% of GDP) | 6.7 | 9.1 | -17.1 | 15.4 | 12.0 |
| Imports (% of GDP) | 25.2 | 1.8 | -8.6 | 19.7 | 11.0 |

Source: Bangladesh Economic Survey 2022, Ministry of Finance, Government of the People's Republic of Bangladesh.

Table 3 presents the macroeconomic indicators from 2014 to 2018. Over the past of years, GDP per capita has been increasing; the economic growth rate has also been increasing; the inflation rate has been decreasing. The current account balance showed a fluctuating trend. The population of the country has been increasing with time. Over the years, imports have been more than exports, which has imbued the attraction of Foreign Direct Investment (FDI). The macroeconomic indicators point out that the economy of Bangladesh has started growing increasingly as the Government of the People's Republic of Bangladesh started following a liberalization policy to attract FDI to create a competitive environment in trade and commerce in the country.

## VI. FACTORS FOR ECONOMIC DEVELOPMENT

Economic Development in Bangladesh is the function of the Government's plans, policies, and timely implementation. To prepare plans and policies, there are many impediments in the process of economic development that are to be traced. Though Table 3 shows an increasing



ISBN 978-984-35-5270-9 https://icebtm.iub.edu.bd

trend of economic growth in Bangladesh, its economy has been facing poverty, unemployment, illiteracy, resource constraints, adverse balance of payments, etc. Presently, about 20.5% of people are living below the poverty line in Bangladesh, the unemployment rate is 4.5% and the illiteracy rate is about 28% (www. Google.com, Bangladesh Economy data 2019). The economic activities are interrelated to one another in any economy; thus, the whole economy is interlinked with each other's activities. So, the economy of Bangladesh confronting the problems is to be addressed simultaneously in the national priority plans to accelerate economic development. Using human and material resources in terms of productivity is considered to be a precondition for economic development. There is a positive relationship between productivity and optimum job opportunities. Moreover, productivity is linked with the cost of living, per capita income, GDP growth rate, education, technological development, know-how, resource generation, etc. Therefore, the low productivity of any economy hurts the aforementioned indicators adversely.

To keep the economy progressing, a pragmatic plan would be considered important for exploiting human and material resources in terms of productivity. So, there is a necessity for huge investments in the form of equity capital, developed technology, know-how, managerial skills, and so on. Bangladesh as a developing country, has continuous resource constraints, underdeveloped technology and technology, inadequate managerial skills, and so on. FDI may be supplemented for the required factors of production in the domestic economy, considering economies of scale and economies of scope.

## VII. GOVERNMENT POLICY TOWARDS FOREIGN DIRECT INVESTMENT

The Government policy in the case of Foreign Direct Investment (FDI) in Bangladesh may be classified in two phases, viz., the first phase during 1971-79 and the second phase during 1980 onwards.

### Government Policy during 1971-79

Since her independence, the Government of Bangladesh has planned to establish socialism as one of the state principles. Accordingly, the Government formed a planning commission for the preparation of a policy plan for economic development. Based on the social, economic, and political situation of the country, a radical change in the modern capitalistic sector was formed to prevent the concentration of resources in the hands of the upper class. The Government of Bangladesh proclaimed a nationalization policy in February 1972. As per policy, the enterprise with fixed assets amounting to over US$0.040 million (US$1 Bangladesh Taka 36.596) was nationalized, thus 86% of total industrial assets were brought under Government control [12].

For the development of Bangladesh, the Government launched the First Five-Year Plan (1973-78), giving much emphasis on the public sector. Public sector allocation was 89 % while private sector allocation was 11% in the plan. In 1974, the Government revised industrial policy with little change in private sector investment, boosting up the ceiling to US$0.068 million (US$ $ = BDT 36.596) fixed earlier with the provision of increasing the investment up to US$0.096 million (US BDT 1= 36.596 through the investment of profits. In 1976, the Government started encouraging private investment with the change of industrial policy. For the planned development, the Government undertook a two-year plan (1978-80). The allocations of funds were 84% for the public sector and 16% for the private sector.

During the two plan periods, the financial performance of the public sector was not satisfactory. During 1974-80, sector corporations incurred losses except in 1979-80 (Third Five-Year Plan, 1985-1990). Emphasis was given by the government on the private sector for economic growth and development since 1976. At the embryonic stage of development, domestic private entrepreneurs are not in a position to invest huge amounts of funds because of their inability to manage the funds, uncertainty of profits, or profits at low rates. At the nascent stage of the development of domestic entrepreneurs, the Government of Bangladesh started attracting foreign investors to invest in the country to create a competitive environment in business.

### Government Policy during 1980 Onwards

The government of the People's Republic of Bangladesh promulgated the Foreign Private Investment Act in 1980. To boost the private sector to be more active in economic growth and development, along with foreign investment, the Government started revising the industrial policy in 1982, 1986, and 1991, respectively. The Government also opened all kinds of industries open for the private sector, withdrawing ceilings except for defense goods, nuclear energy, mechanized forest extraction, as well as printing and minting etc. Since 1980, five plans, viz., Second Five-Year Plan (1980-85), Third Five-Year Plan (1985-90), Fourth Five-Year Plan (1990-95), Fifth Five-Year Plan, and Sixth Five-Year Plan have been completed. Allocations of funds provided for the private sector were 35.5 % for the Second Five-Year Plan, 35.2% for the Third Five-Year Plan and 39.4% for the Fourth Five-Year Plan, 40% for the Fifth Five-Year Plan, and 77.2% for the Sixth Five-Year Plan. The Seventh Five-Year Plan is going on.. 78%of the fund is earmarked for the Seventh Five-Year Plan.

The Government also realized that domestic entrepreneurs would not do well in the industrial sector because of resource constraints, underdeveloped technology and know-how, and inadequate managerial skills etc. To make the domestic entrepreneurs competitive, the Government has allowed free access of foreign investors into the Bangladesh economy. The provisions made for foreign investments are (Bangladesh: A New Horizon for Investment-1994) [11]:



ISBN 978-984-35-5270-9 *https://icebtm.iub.edu.bd*

i) No approval or permission, or no objection certificate is required for establishing an industry in the free sectors with its own source of financing.
ii) No approval is also required either for credit or for projects involving foreign loans or credit in which the effective rate of interest is within the London Interbank Offer Rate (LIBOR) plus 4%, the down payment is less than 10% and repayment periods exceed 7 years.
iii) There will be no limitation in respect of foreign equity holding.
iv) A unit has to be registered with its sponsoring agencies to avail of institutional and infrastructural services and for monitoring.
v) Several agencies have to be created with specific promotional roles for foreign investors. The agencies are Bangladesh Small and Cottage Industries Corporation (BSCIC), Bangladesh Export Processing Zones Authority (BEPZA), and the Board of Investment (BOI).

Considering the present needs of the economy, the Government has identified some priority sectors where foreign investments can be made with 100 percent ownership, as well as joint ventures with local private sponsors or with the public sector. The areas are (Bangladesh: A New Horizon for Investment-1994)[12]

i) Export-oriented industries
ii) Industries in the export processing zones
iii) High-technology products that are either import substitutes or export-oriented
iv) Undertakings in which a more diversified use of indigenous natural resources is possible
v) Basic industries depending mainly on local raw materials
vi) Investment towards improvements in the quality and marketing of goods manufactured and/or increase in production capabilities of the existing industries and
vii) Labor-intensive, technology incentive, and capital-intensive industries, etc.

To increase foreign investment in Bangladesh, the Government announced some incentives as expediting approvals for industrial licensing or investment or collaboration; tax holidays for 5-12 years, concessionary rate of import duty on machinery, import of machinery under supplier's credit or pay as you earn scheme, liberalized export policy, repatriation of profits, dividends, capital gain, royalties and salaries, tax exemption, tax rebate, financing facilities, and residence facilities to foreign investors.

The Government has announced special incentives to encourage non-resident Bangladeshis to invest in Bangladesh. which are considered equal to the facilities being offered to foreign investors. Moreover, non-resident Bangladeshis can enjoy buying newly issued shares and debentures of Bangladeshi companies. Besides, they can maintain foreign currency deposits in the Non-resident Foreign Currency Deposit (NFCD) Account for up to 5 years (Bangladesh- A new Horizon for Investment-1994). Besides, export processing zones (EPZs) offer some additional facilities to foreign investors in setting up industries in the country. The facilities are free from national import policy restrictions, offshore banking facilities, back-to-back letter of credit facilities, equal treatment of foreigners with indigenous investors, one-stop service to investors, and all customs formalities within EPZs (Bangladesh- A New Horizon for Investment-1994)

To ensure available manpower for employment in the industrial sector, the Government of Bangladesh has been trying to develop human resources by setting up institutions, Viz, universities, vocational and technical training centers, apprenticeship and workers education, etc. Workers' wages are generally fixed through a collective bargaining process, but in the absence of a collective bargaining process, wages would, however, be fixed by the minimum wages board (Bangladesh -A New Horizon for Investment-1994)[10]

The Government of Bangladesh ensured legal protection to foreign investment in the country against nationalization and expropriation. The Government also protected intellectual property rights, viz., patents, designs, trademarks, and copyrights. For this, some investment treaties have also been made between Bangladesh and other countries. The countries are the USA, the UK, Romania, Belgium, the Republic of Korea, Thailand, Turkey, France, and Italy. Besides, Bangladesh is a signatory to some multilateral agencies by which foreign investors can be ensured protection for their investments. The agencies are the Multinational Investment Guarantee Agency (MIGA), Overseas Private Investment Corporation (OPIC), and International Centre for Settlement of Investment Disputes (ICSID) (Bangladesh- A New Horizon for Investment-1994).

## VIII. FOREIGN DIRECT INVESTMENT IN BANGLADESH

It is clarified that the Government of Bangladesh has liberalized its investment policy for foreign investors. Following the liberalization policy, foreign investors started coming to Bangladesh with investment proposals. The investments made by foreign investors during 2014-2018 are presented in Table 4.

Table 4

Foreign Direct Investment (FDI) in Bangladesh during 2014-2018

| years | US $ Billion |
|---|---|
| 2016 | 233 |
| 2017 | 215 |
| 2018 | 242 |
| 2019 | 1.91 |
| 2020 | 1.53 |

Source:https://www.macrotrends.net>countries>BGD>foreign



ISBN 978-984-35-5270-9 https://icebtm.iub.edu.bd

Table 4 shows the yearly FDI inflows into Bangladesh for the period of 2014-2018. The table presented the fluctuations of FDI inflows into Bangladesh. It is clarified in the table that the highest investment of FDI inflows was US$283 in 2015, and the lowest was US$215 in 2017. Many reasons might be attributed to these fluctuations. The reasons are inadequate incentives to investors, political volatility, red tape, and capital-intensive and labor-intensive projects. Among the reasons, political volatility may be considered the dominant factor for the fluctuation of FDI inflows into Bangladesh.

## IX.CONCLUDING REMARKS

As stated earlier, globalization refers to the process of making the world economy increasingly integrated. During globalization, emerging economies have developed tremendously, as seen earlier. Following the development, the Government of the People's Republic of Bangladesh has liberalized investment policy, fiscal policy, and reformed financial institutions to attract foreign direct investment into the country. Consequently, many foreign investors started coming to Bangladesh with investments in Bangladesh. The economy of Bangladesh has been accelerating day by day as there is a competitive environment between domestic and foreign investors.

## REFERENCES

[1] Todaro, M.P. & Smith, S.C., Economic Development, Tenth Edition, Wesley, Harlow, England,2010

[2] Burki, S.J., "Globalization: What does it imply for South Asia?", Conference paper, Salzburg Global Seminar, Austria,2000

[3] En.wikipedia, emerging markets, google.com,2020

[4] Madura, J. International Financial Management, 9th Edition, Thomson South Western, USA,2007-2008.

[5] Alam, M.S., "Foreign Direct Investment in Bangladesh in Bangladesh and India: A Comparative Study", An unpublished Postdoctoral Research Report, Pune University, India. 1997

[6] Vyaptakesh, S. (2011), International Business-Concepts, Environment and Strategy, Third Edition, Pearson, Delhi,2011

[7] Sidney, J.G., Global Accounting and Control- A Managerial Emphasis, John Wiley & Sons, Inc., New York,2001

[8] Ahmed, K. B., The Financial Express, kbahmed1@gmail.com, 2014

[9] www.google.com, focus-economies/Bangladesh economy data,2019.

[10] Mishra, R. K. (et. al), Public Enterprise in the world, Himalaya Publishing House, Bombay,1986

[11] Third Five-Year Plan (1985-1990), Planning Commission, Government of the People's Republic in Bangladesh, Dhaka.

[12] Bangladesh New Horizon for Investment, Board of Investment, Government of the People's Republic of Bangladesh, Dhaka. 1994



ISBN 978-984-35-5270-9 *https://icebtm.iub.edu.bd*