IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN: 2278-487X, p-ISSN: 2319-7668 PP 66-73
www.iosrjournals.org

FDI Inflows in Banglad9esh: An Analysis from April (2006 To 2022)

Aman panday[1], Aditya Pundir[2]
([1]MBA 2nd year, Quantum University, Roorkee, Uttrakhand, India)
([2]MBA 2nd year, Quantum University, Roorkee, Uttrakhand, India)

ABSTRACT: *The nation's development depends heavily on foreign direct investment. When it comes to a nation's total development, domestic capital is occasionally insufficient. The use of foreign capital is thought to be helpful in reducing the gap between domestic savings and investment. In comparison to the past, Bangladesh can bring in far higher amounts of foreign investment. The current study presents the trends of FDI inflows in Bangladesh from the year 2000 to 2022. The research also lists the countries that have invested in FDI inflows to Bangladesh and FDI inflows by sector from April 2006 to March 2022. Regression analysis was done to explore the relationship between foreign direct investment and other economic variables like foreign exchange reserve (FER), growth (GDP), and exports of goods and services(X).*

Key words*: Economic growth, financial crisis, GDP,*

I. INTRODUCTION:

One of the efficient tools of the escalating economic globalization is foreign direct investment. The question of investment has always been a problem for emerging economies like Bangladesh. The globe has become more globalised, and all nations are liberalizing their investment from nations with plentiful financial resources. Large capital inflows across a variety of industries across the nation are encouraged by the vision of cutting- edge growth potential and significant earnings. The wealthy nations are concentrating on emerging areas where there is access to plenty of land. Labour markets, product opportunities and high profits. Foreign Direct investment is therefore is extremely important in emerging countries. Many nations provide numerous incentives for attracting the foreign Direct Investment (FDI). FDI is heavily influenced by a nation’s rate of investment and savings. To bridge the gap between savings and investments, foreign direct investment serves as a conduit. Access to innovative technology and foreign money and foreign money assists to increase the efficiency and productivity of the current production capacity as well as open up new production opportunities. Foreign capital also helps to meet the local saving cap. Wage rates, labour skills, the size of the local market , the availability of raw materials at reduced prices, logistics etc are just few of the many variables that draw FDI. Foreign Direct investment are the growing source of funding that has helped developing nations to bridge the technological gap with more rich and developed nations and develop their domestic export markets. This study aims to examine the patterns of FDI inflows into Bangladesh from 2006-07 to 2021-22. Analysis of FDI inflows to Bangladesh by Sector and nation is another goal.

II. REVIEW OF LITERATURE:

The perspective of economics FDI is a term used to describe how MNCs significantly complement local industry and welfare and promote economic growth in the host nation.

FDI inflows have a wide range of effects on the host nation’s economy. As a result of its transmission, the receiving economy benefits from capital accumulations and technical diversification (Borensztein et al. 1998; Dunning 1993; Blomstrom et al. 1996 and Irandoust 2016). Using quarterly data from 1994 to 2008, Acaravci and Ozturk (2012) examined the causal relationship between economic growth and FDI and export in four of ten European nations.When FDI and exports are compared in terms of their effects on economic growth, FDI plays a critical role in accelerating economic growth in those nations.According to Carlos and Eddie’s (2015) empirical analysis using the VAR model, there is no causal relationship between FDI and GDP in Brazil, China, Mexico, Peru, and South Korea. The association

between “FDI as a percentage of total gross fixed capital formation (GFCF) and economic growth,” or vice versa, is, however, limited to China. Additionally, some research.

Hypothesized to have a favourable impact on economic growth over the long and short terms on FDI transactions. Andraz and Rodrigues (2010) used data from 1977 to 2004 in Portugal to find that FDI, exports, and economic growth had a positive long-term connection. Additionally, the VECM study results of Miankhel et al. (2010) revealed strong evidence on the impact of trade and foreign direct investment on economic growth in the East Asia region. Babatunde (2011) used panel data from 42 sub-Saharan African (SSA) nations from 1980 to 2003 to examine the relationship between FDI, economic growth, trade openness, and infrastructure development.

In their investigation of an infinite first-order Markov chain technique across 269 European areas using data from 2003 to 2010, Vollmecke et al. (2016) discovered a feeble process of overall income convergence across all EU regions. Additionally, they looked into whether any areas of the Central and Eastern European Countries (CEECs) were impoverished and falling into a “poverty trap” for lower-class residents. Specifically, as the capital areas of the Central and Eastern European nations (CEECs) had rapid per capita growth, the beneficial spillover effects of foreign direct investment (FDI) supporting regional convergence and catch-up are highly concentrated. Additionally, Su and Liu (2016) conducted an empirical study in Chinese cities to show that FDI and human capital are the two main drivers of economic growth, with human capital acting as a catalyst for the proliferation of new technologies included in FDI. Through investments in education, worker skills, scientific knowledge, and social institutions, human capital accelerates the percentage of the technological revolution (Nelson and Phelps 1966; Benhabib and Spiegel 1994 and Acemoglu 1998). Using the simultaneous system of equations model, Iamsiraroj (2016) investigated the relationship between foreign direct investment (FDI) inflows and per capita GDP growth among 124 cross-country data sets from 1971 to 2010. The econometric findings indicate that FDI is associated with higher rates of GDP growth and vice versa, while other controlled variables can further stimulate economic growth.

Boateng and colleagues (2015) employed quarterly data pertaining to macroeconomic policies in Norway between 1986 and 2008. The real GDP, sector GDP, trade openness, and exchange rate all positively and significantly influence FDI inflows, according to the FMOLS technique. However, Norway’s FDI inflows are negatively impacted by the money supply, interest rate, and unemployment. Nevertheless, FDI inflows’ technological spill overs are still insufficiently linked to human capital to support economic expansion. Time series data from 1975 to 2010 by Fadhil and Almsafir (2015) demonstrated that FDI inflows and the development of human capital greatly contribute to Malaysia’s economic growth, on the other hand the technology spill overs of Inwards FDI are still insufficiently linked with human capital to contribute to the host countries economic growth. On the other hand, Chen and Zulkifli (2012) study investigated with Outward FDI as the independent variable and labour and domestic investment as the controlled variables by VECM, the study found that there is a positive long-run relationship between outward FDI and growth as well as long-run bi- directional causation between them. They do not find Granger-causality between outward FDI and growth in the short-run.

Amoah et al. (2015) used Granger causality analysis and co-integration to investigate the Ghanaian economy from 1980 to 2013 in order to determine whether or not all variables had a long-run equilibrium relationship. Nonetheless, the Granger causality test indicated a bidirectional causal relationship between GDP and the inflation rate as well as between the inflation rate and the exchange rate. Additionally, the relationship between GDP growth rate and exchange rate is unidirectional; that is, FDI does not cause GDP, exchange rate, or inflation rate, and vice versa. The findings of another empirical investigation revealed that capital stock (GFCF) had no discernible impact on economic growth, but that inflation, exchange rates, and foreign direct investment all have a substantial impact. However, there is a favourable correlation between FDI and Pakistan’s GDP growth. They recommended that in order to boost economic growth, the nation should draw in more foreign investment (Ahmad et al. 2013). In a similar vein, the findings of the Garcia-Fuentes et al. (2016) study indicated that remittances from U.S. foreign direct investment (FDI) flows may boost the per capita GDP growth of Latin American countries (LACs) and that remittances from abroad may have a favourable impact on the economic development of emerging nations.

Therefore, it is clear from the literature analysis above that foreign direct investment (FDI) is a crucial tool for economic progress in any developing nation. As a result, the study also makes an effort to identify the key economic factors influencing foreign direct investment inflows into Bangladesh by developing a model using a chosen variable.

AIMS OF THE RESEARCH:

1. To analyse the growth, trends, and patterns of FDI inflows in Bangladesh from the year 2006 to 2022.
2. To study sector wise and country wise inflow of FDI in Bangladesh.

THE STUDY’S HYPOTHESIS:

1. H1: FDI inflows show the positive trend over the period from 2006 to 2022.

III. METHODOLOGY:

In this paper, descriptive analysis methodology has been employed to examine the trend of sectoral FDI inflows in Bangladesh. This study incorporates especially the sources of FDI investment in Bangladesh. However, the FDI inflows analysis has been fragmented in major ten sector of Bangladesh economy, where service sector observed as on priority for investor along with tele-communication sector. The study is basically secondary in nature, for this, data has been collected from various national and international journals and finally UNCTAD data base helped a lot for accomplishing the goal of study. Additionally, the effort has been made to get the FDIGR (foreign direct investment growth rate) with assuming previous year as a base year in order to highlight the most successive period for FDI inflows in Bangladesh. The following formula has been applied for obtaining FDI Growth Rate.

FDI GROWTH RATE = (P1 - P0) / P0

P1 = Current year P0 = Previous year

In this paper the data in concern to trends of FDI inflows has been compiled from last twelve years from 2006 to 2022, in order to facilitate the analysis and for getting more constructive results that may expected to be helpful in framing more stable macroeconomic policy in context of FDI flows in Bangladesh economy. In spite of this to make this study more friendly used graphs and tables to represent the statistical data.

DATA DESCRIPTION:

This section reveals in detail the trends of FDI inflow in Bangladesh during the period 2000 to 2012. This period will assist in explaining the clearer picture related to FDI inflows in Bangladesh. Further, this section divided into some sub-section with a motive to generate some constructive results which might be helpful in economic development of Bangladesh. These sub-sections are.

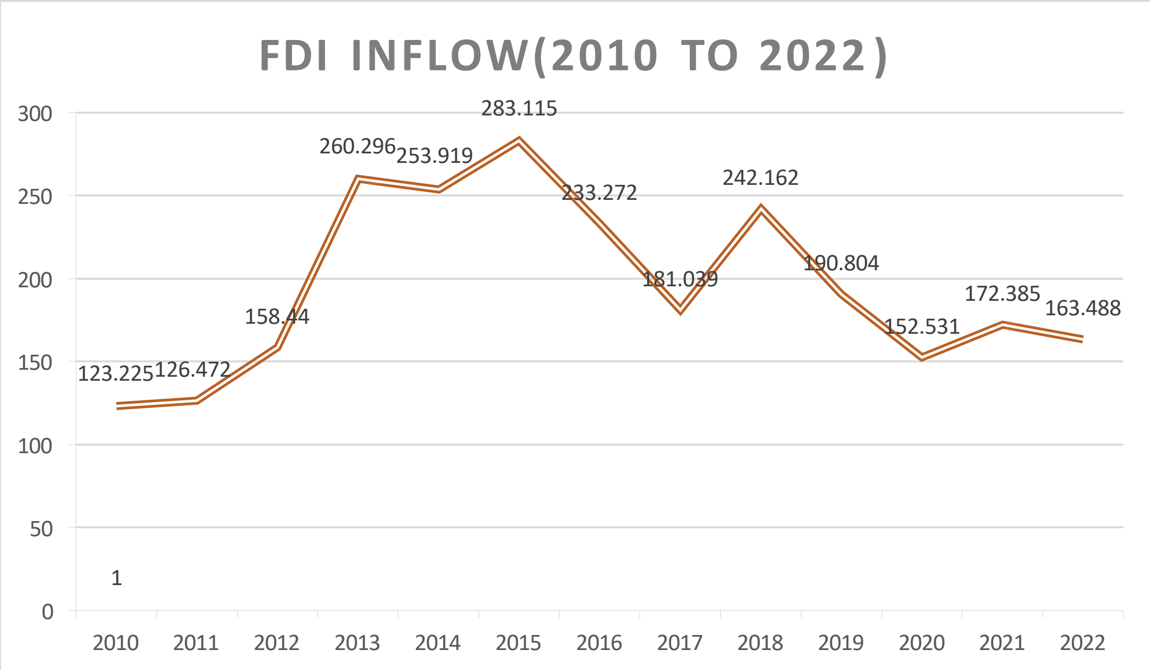
1. Trend of FDI Inflow
2 .Sector wise FDI inflow
3. Major source of FDI inflow in Bangladesh.

Table: 1
Trends of FDI inflow in Bangladesh

Year	FDI Inflow(Million US $)	FDI Growth Rate (% chance)
2006	45.7	----
2007	65.1	42.45077
2008	132	102.765
2009	90.1	-31.7424
2010	123.225	36.72
2011	126.472	2.635017
2012	158.440	25.27674
2013	260.296	64.2868
2014	253.919	-2.4499
2015	283.115	11.49815
2016	233.272	-17.6052
2017	181.039	-22.3915
2018	242.162	33.76234
2019	190.804	-21.2081
2020	152.531	-20.0588
2021	172.385	13.01637
2022	163.488	-5.16112

Source: FIED Management Cell, Statistics Department, Bangladesh Bank.

Figure: 1
Trends of FDI inflow in Bangladesh



Interpretation:
In above, Table -1 and Figure -1, X axis represents number of years and Y axis represents the amount of FDI inflows. From above table and chart, we can interpret that during 2010 to 2022, the FDI inflows reveals explosive FDI growth in Bangladesh. In this period the government initiated major reforms in FDI policies and further large market motivated the foreign investors such as USA, Singapore and others confidently to invest in Bangladesh through FIPB and Automatic routes for reaping huge benefits. Year 2013 to 2016, Bangladesh received highest FDI inflow that may be because of relatively well developed financial sector, strong industrial base and critical mass of well educated workers and low labour. During the First quarter of Financial Year 2019, the worlds are facing financial crisis badly due to covid-19, affected the stock market throughout the world. This sudden crisis created a kind of turbulent situation. After the unfavourable condition Bangladesh economy again rises and investors are again putting their capitals into Bangladesh economy.

Table 2
Sectoral distribution of FDI Inflow in Bangladesh's Economy

In million US$

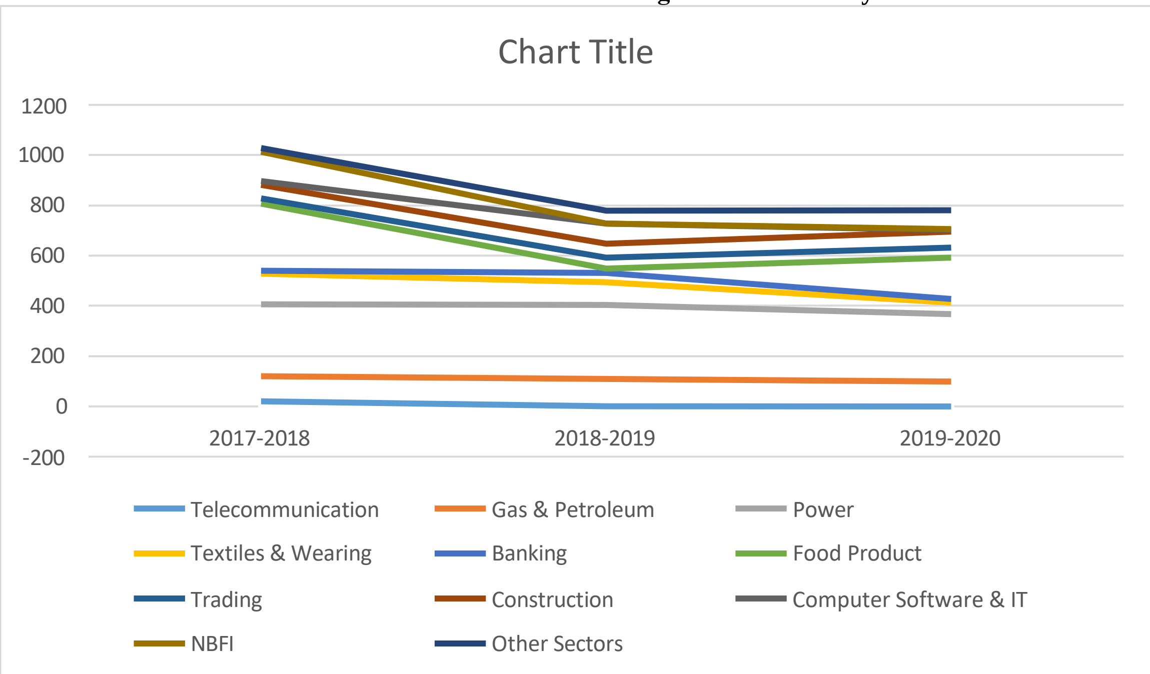
S. N.	Name of Sector	2018 (net Equity Capital)	2019(net Equity Capital)	2020(net Equity Capital)	Sector-wise cumulative of net Equity capital inflow from 2006 to 2020	% to total Equity capital inflow
1	Telecommunication	20.28	0.20	-0.24	2172.35	25.7
2	Gas & Petroleum	99.83	108.41	99.16	1648.38	19.4
3	Power	286.15	295.69	268.21	1184.95	14.0
4	Textiles & Wearing	121.90	90.32	45.95	910.10	10.7
5	Banking	11.70	37.27	14.45	730.94	8.6
6	Food Product	267.17	16.60	164.60	549.38	6.5
7	Trading	20.84	43.50	39.28	265.94	3.1
8	Construction	53.75	55.53	64.64	211.83	2.5

9	Computer Software & IT	15.07	78.86	5.87	153.83	1.8
10	NBFI	116.66	0.62	3.71	140.34	1.7
11	Other Sectors	14.81	51.94	75.53	500.95	5.9
Total		**1028.16**	**718.94**	**781.16**	**8466.99**	**100**

Note:* Other Sectors: Agriculture & Fishing, Mining & Quarrying, Pharmaceuticals & Chemicals, Metal & Machinery products, Vehicle & Transport Equipment, Fertilizer, Cement, Leather & Leather products, other mfg, Insurance, Transport, Storage & Others, Hotel/Restaurant & tourism, Clinical, and other services & other

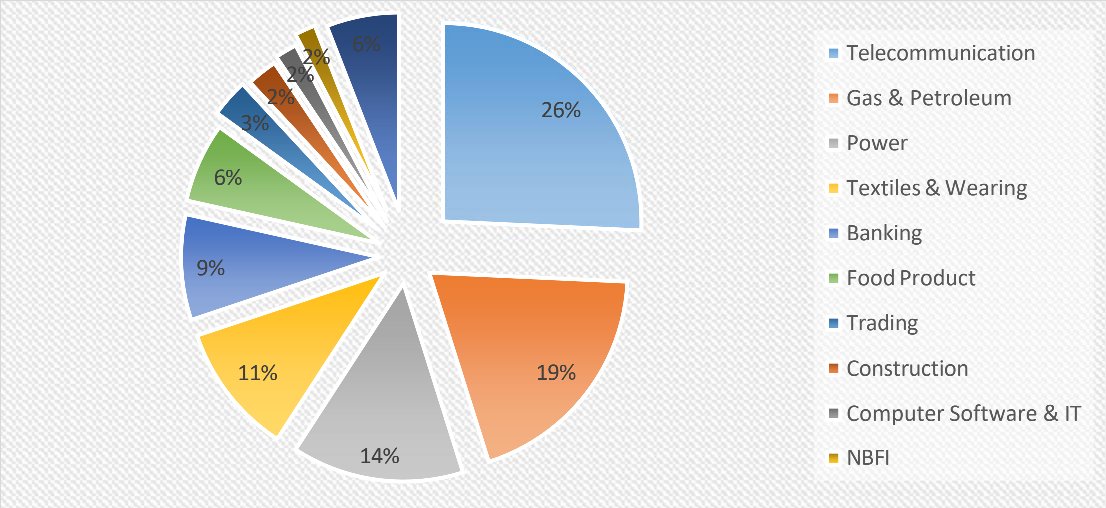
Source: FIED Management Cell, Statistics Department, Bangladesh Bank.

Figure 2
Sectoral Trend of FDI inflows in Bangladesh's Economy



In above Table no-2 and Figure - no 2, X axis represents number of years and Y axis represents the amount of FDI inflows. From above table and chart, we can interpret that FDI investment in Service sector of Bangladesh remained on first priority for foreign investors during last three financial years. However, this trend is not on upward direction but reveals the highest growth than other sectors of Bangladesh's economy. In year 2019-2020, construction sector has beaten the telecommunication sectors FDI inflows and marked highest FDI. Moreover, some of the sectors such as Telecommunication, construction related activities registered a significant growth that might be due to availability of large work force or due to huge population prompt to increase the opportunities in construction activities in Bangladesh.

Figure -3
Sector-wise FDI Inflow (Cum. Percent)



From Table no-2 and Figure no-3, we can interpret that in Bangladesh about 69.8% cumulative FDI has been emerged in particularly four sectors; Gas & Petroleum , Telecommunications, Power, textile and wearing and remaining received by rest of economy during 2006 to 2022. Among all, Service sector remained on top priority for investment in Bangladesh on account of low cost of labour force and wide gap between demand and supply of financial services.

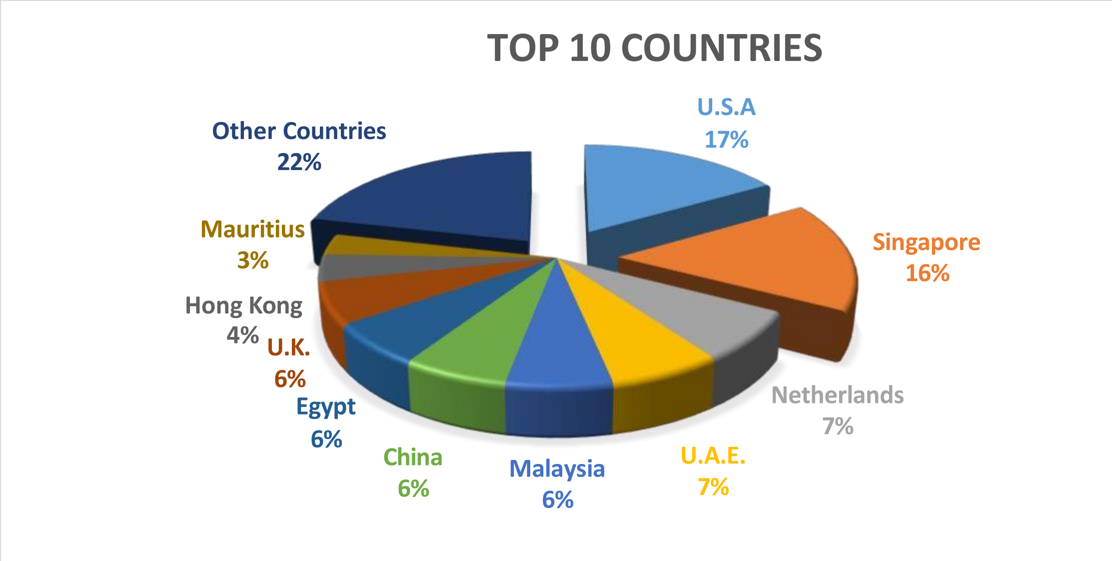
Table-4
Top 10 Investing Countries by FDI Net Equity Capital Inflows in Bangladesh

Data in US Dollar Millions

S.N.	Name of Sector	2018 (net Equity Capital)	2019(net Equity Capital)	2020(net Equity Capital)	Sector- wise cumulative of net Equity capital inflow from 2006 to 2020	% to total Equity capital inflow
1	U.S.A	116.12	128.32	118.47	1511.42	16.6
2	Singapore	76.91	119.38	88.07	1467.17	16.1
3	Netherlands	225.33	7.69	315.46	665.88	7.3
4	U.A.E.	20.51	125.9	78.94	611.07	6.7
5	Malaysia	30.25	1.33	0.07	577.83	6.3
6	China	342.56	69.96	24.42	570.26	6.3
7	Egypt	0.00	0.00	0.00	564.81	6.2
8	U.K.	43.52	79.55	7.17	555.02	6.1
9	Hong Kong	58.08	48.71	15.22	356.96	3.9
10	Mauritius	64.19	42.97	36.13	281.17	3.1
11	Other Countries	146.66	179.89	158.34	1959.36	21.4
	Total	1124.13	803.7	842.29	9120.95	100

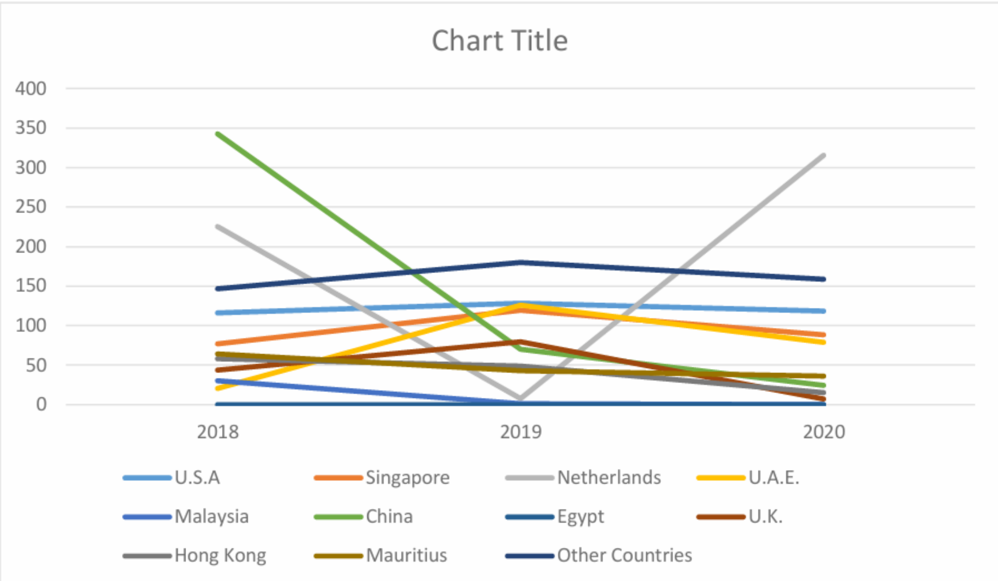
Source: FIED Management Cell, Statistics Department, Bangladesh Bank.
*__Note__: Maximum FDI Inflows from Egypt are recorded during the year 2006-2013.

Figure 4



From Figure no.-4 and Table no -4, we can interpret that Bangladesh 's 65% of cumulative FDI inflow is contributed by six countries while remaining 35 % contributed by rest of the world. The country specific FDI inflow analysis indicates that during 2006 to 2022, Bangladesh received US $9120.95 Millions FDI inflow around 120 countries of the world. In regards of this, U.S.A. has contributed largely and further recognized as a most dominant source of FDI investment in the country because of favourable Double Taxation Avoidance Agreement (DTAA) between the two countries. Singapore remained on second dominant source of FDI inflows with 16% of the total inflows whereas, Netherlands slipped to third position by contributing 7.3% of total inflows.

Figure-5



In above figure-5, we can interpret that U.S.A. is on peak in terms of FDI inflows in Bangladesh after year 2010. However, from FY 2019-20 onwards, the inflows reveals down ward trend because several countries struggling with the situation of Covid-19, which affected unfavourable throughout world economy resultant the investors begun to retain their investment in order to smooth rotation of funds in their own economy. Secondly, the Singapore and then Netherlands. They also contributed substantial amount of FDI flows in Bangladesh since FY2018. In FY2019-20 FDI inflows reduced to least in Bangladesh.

IV. RESULTS AND DISCUSSION:

Our study indicates that during 2006 to 2016 average annual FDI inflow emerged, From 2010 to 2018, FDI entered with explosive growth rate and afterwards from 2018 to 20222 the trend of FDI inflow reduced in Bangladesh's economy. The major cause for against situation during 2018 to 2022 was Covid-19 situation, which affected largely the economic fundamentals of developing countries. In Bangladesh about 120 countries contributed the FDI investment. Among all, U.S.A. evaluated as a most dominant source of FDI inflows contributing 17% of the total investment in the country because of favourable Double Taxation Avoidance Agreement (DTAA) which facilitate total exemption from capital-gains tax and quick incorporation of company in U.S.A (within two weeks). Afterwards, Singapore and Netherlands occupied second and third position in Bangladesh in terms of FDI inflow because these countries contributed the large amount of FDI inflows in various sectors of Bangladesh's economy for year 2018. Approximately, 48 sectors are such in Bangladesh's economy where FDI inflows entertained. I observed that Gas & Petrolium sector along with telecommunication sector accounted approx 48% FDI inflows in Bangladesh's economy because of low cost wages and wide demand-supply gap in financial services in banking, insurance and telecommunication. In addition to this, Bangladesh emerged as a center of back-office processing, call centers, technical support, knowledge process outsourcing (KPOs).However, South-East Asia crisis during 1998 -99 and US financial crisis in 2008 both adversely affected the FDI inflow in Bangladesh .

V. CONCLUSION:

There is a global race for attracting FDI in all developed and developing countries of the world. Although, the developing countries need to modify the level of educational, technological and infrastructure background to promote the FDI. However, Bangladesh has observed a remarkable growth in the flow of FDI over the last one decade may be because of large market size in terms of GDPand GNI, tax incentives and availability of high quality multilingual work force. One of the significant reasons to invest in Bangladesh is the youth of this country who are brand loyal and more conscious about taste and preference. In Bangladesh some of the sectors such as Telecommunication, Gas & Petroleum sectors are most preferred in terms of Foreign investment and U.S.A. and Singapore are such countries which revealed full confidence in Bangladesh concerning to FDI inflow. However, Bangladesh receives comparatively much lesser FDI than Pakistan and other smaller economies in Asia. To achieve the highest Foreign investment Bangladesh need to develop such an attractive investment avenues and need to framed liberal economic policies and required to develop the level of Infrastructure in Bangladesh.

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