ECO 4395 Guided Research

Factors Affecting Foreign Direct Investment (FDI) in Bangladesh

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Fall 2015

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Date of Submission: Jan 17, 2018

CHAPTER 1

INTRODUCTION

Bangladesh is one of the N11 Countries. There are a lot of opportunities in the country because it has been growing at a rate of 6%-7% annually for the past fifteen years . Despite significant barriers like power shortage, insufficient infrastructure and political instability and natural disasters, the country has grown at around 6% for the past decade. Industrial specialization is absent in the country and as such industrial base is not matured in any sector. The foreign direct investment (FDI) is important as it is one of the major means of reducing unemployment by creating new jobs, capital transfer, introducing new ideas to local firms, promoting market competiton and bringing higher tax revenue to the government in a developing country. FDI has been playing a signigicant role for pushing up the rate of economic growth not only in the present but also in the past and as such competition among developing countries has increased to attract FDI. Rising competition among Multinational Corporations (MNCs) is forcing them to locate in the developing world where the factors of production like land, labour and capital are relatively cheaper than the developed world. This helps MNCs to produce at a lower cost and as such they can offer lower prices which helps them to compete effectively in the market. Thus many labour intensive industries are shifting to developing countries where wage rates are copmparatively lower.

Governments of least developed countries offer various financial and non-financial incentives to attract foreingn firms as FDI along with export earnings and remittance falls under three main sources of revenue for such countries. Though, it cannot be denied that Least Developed Countries (LDCs) are not in such a strong position to attrract FDI like developing countries, but when it comes to land and labour cost some LDCs have an absolute advantage over the developing countries along with having large manpower, large domestic market alongside various government incentives.

Soon after the independence in 1971, the government of Bangladesh started a nationalizatin scheme and so it was difficult to attract FDI in the initial stages. However, the policy makers realised that private sector has to take the lead and the economy cannot be run single-handedly by the government. So 1980 onwards foreign firms were allowed to operate as a joint venture, however, a discouraging tendency existed. Between 1980-1995 FDI inflows into Bangladesh ranged from US$ 308 million to US$ 356 million, which started with an amount of US $ 0.090 million in 1972. Since the mid 90s FDI inflows increased significantly. This was due to the the opening up of telecommunication sector along with energy sector by the government. Besides other reasons like setting up the Investment Board (1989) and relaxing the control of capital lead to significant rise in inflow of FDI from 1997 which was almost triple (US$ 39.4 million) compared to 1996 (US$ 13.5 million). Despite fulfilling all the prerequisites of a free market economy, offering various financial and non-financial incentives, establishing EPZs, etc. still Bangladesh has not attracted satisfactory amount of FDI. A question may arise that the economy is not growing as it is supposed to since Bangladesh earned US$ 823.6 million FDI in 2009 which is higher by 63% relative to the value of 2008. The value increased to USD 1184.8, 1474.5 million in 2011 and 2012 respectively. In 2014, Bangladesh earned US$ 1581.8 million.

In the era of increased integration and interdependence of world economies, i.e. globalization, the concept of exchanging and sharing views & ideas along with capital & human resources has become very important. As a response, the government of Bangladesh is offering various incentives to foreign investors, backing up privatisation and developing sound economic policies to create investment friendly environment as FDI is mandatory for accelerating the rate economic growth.

FDI plays a significant role in accelerating total output along with economic growth. FDI brings several benefits to the country in the form of higher employment, transfer of technology, introduction of new ideas and management techniques to domestic firms, increased exports which helps to integrate the economy with rest of the world, higher tax revenue for the government,etc. All of these are essential for a higher rate of economic growth.

BACKGROUND STUDY

FDI is one of the vital elements for developmet of Bangladesh. One major requirement for promting growth in a developing country is Indstrial Development. Bangladesh is basically agriculture based economy and to enhance economic development, industrial economy is essential. FDI has been marked as a major point by researchers enhencing economic growth of a country as it brings several benefits to the country.

Investors from both, the developed and developing world, have been attracted to invest in Bangladesh. The country has become an attractive destination to invest due to the presence of cheap skilled labors along with macroeconomic environment stability.

Between 1980-1995 FDI inflow into Bangaldesh varied from US$ 308 million to US$ 356 million which started with an amount of US $ 0.090 million in 1972. Since the mid 90s FDI inflow increased significantly. This was due to the the opening up of telecommunication sector along with energy sector by the government. Besides other reasons like setting up the Investment Board (1989) and relaxing the control of capital lead to significant rise in inflow of FDI from 1997 which was almost triple (US$ 39.4 million) compared to 1996 (US$ 13.5 million). Despite fulfilling all the prerequisites of a free market economy, offering various financial and non-financial incentives, establishing EPZs, etc. still Bangladesh has not attracted satisfactory amount of FDI. A question may arise that the economy is not growing as it is supposed to since Bangladesh earned US$ 823.6 million FDI in 2009 which is higher by 63% relative to the value of 2008. The value increased to USD 1184.8, 1474.5 million in 2011 and 2012 respectively. In 2014, Bangladesh earned US$ 1581.8 million.

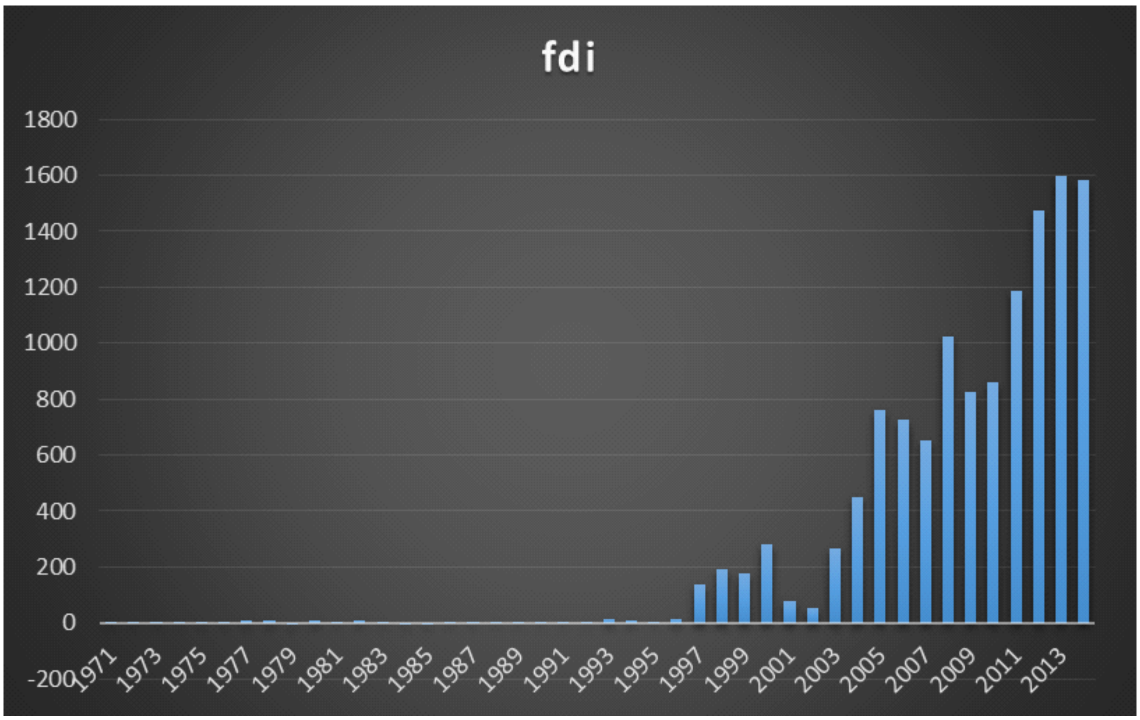

Fig1: Inflow of FDI over the years (1971-2014)

The above graph shows that since 1971 FDI levels were inconsistent despite comparative advantage in labor-intensive policies along with regulations and other options, which is quite concerning. This fig shows that most of the times over the years FDI is increasing. Starting from 1971 the level of FDI was US$ 0.85 million, which was quite low because 1972 was the beginning on Bangladesh. As the time passed Bangladesh became more developed in different sectors and its FDI values also increased, such as in the next 10 years the value rose to US$ 6.89

million but eventually after that it fell down into US$0.4 million. On the other hand, within three years this rate again increased from US$ 5.61 to 6.37 million. These ups and downs continued until 2008. After 2008 the FDI rate increased every year. In 2014 the value of FDI became

US$ 1581.8 million.

PROBLEM STATEMENT

Bangladesh, located in South Asia, is a lower middle income country where 36% of its population lives below the poverty line. The size of the working population is 5.67 crores, where 26 lacs workers are unemployed. Almost 13 lacs qualified workers enter the job market each year. It has become a challenin task for the goverment and the private sector firms to provide employment to the growing size of the workforce. Thus, the Bangladesh government is trying to attract FDI through various financial and non-financial incentives as more foreign firms entering the country would create more job opportunities, promote growth and help to reduce poverty in the society. However, despite government incentives and avaailabiity of cheap factors of production, the rate of FDI into the economy of Bangladesh is not gaining pace.

RESEARCH QUESTIONS

- To find out connection between FDI and GDP?
- To find out connection between FDI and IGS?
- Is there any relationship between FDI and INF?

OBJECTIVE OF THE STUDY

The objectives of this study were to investigate the connection between foreign direct investment and different factors which affect FDI of Bangladesh. In this study, to analyze the empirical study of FDI of Bangladesh for investigating the effect of different factors on FDI in Bangladesh. The objectives of this paper are as follows:

- To examine the benefits and drawbacks of FDI in Bangladesh.
- To investigate the relationship between imports of goods and services and FDI inflows in Bangladesh.
- To examine the outcome between gross domestic product and FDI inflows in Bangladesh
- To assess the outcome between rate of Inflation and FDI inflows in Bangladesh

SIGNIFICANCE OF THE STUDY

Factors that affect FDI is a topic that is gaining interest of researchers. In this case some variables used by me in the model included imports of goods and services and GNP (gross national product) in order to find out whether there is any relationship between the amount of imports of goods & services and FDI along with the connection between GNP and FDI inflow of Bangladesh. The results of the study will aid policymakers like the Central bank of Bangladesh, i.e. Bangladesh Bank as it can help while developing macroeconomic policies like monetary and fiscal measures to meet up the requirements of foreign investors willing to invest in Bangladesh.

SCOPE OF THE STUDY

This study focuses on factors that affected Foreign Indirect Investment inflow of Bangladesh. This study try to look out overall scenario of FDI inflow of Bangladesh economy.

LIMITATIONS OF THE STUDY

There are a number of constraints regarding this thesis. Major constraint is shortage of time. Another limitation of this study is funding. There is no financial investor who contributed for this paper.

CHAPTER 2

LITERATURE REVIEW

Shah (2013) claimed that FDI enables a poor country like Bangladesh to reduce unemployment, increase productive potential through transfer of technology and introductoin of new ideas.

Besides FDI helps to increase exports which, in turn, integrates domestic economy with rest of the world. It must be noted that "rapid industrialisation" is essential to match development needs for the economy of Bangladesh but low levels of private sector investment hampers the required industrialisation. FDI and aids from foreign countries help to narrow the gap. The study mainly concentrrated on discovering the determinants of FDI. Based on secondary data, the study was qualitative where the author attempted to find out the main factors influencing FDI in Bangladesh and focused on ten determinants, including labour costs and productivity, growth rate, infrastucture, trade performance, competitiveness of the country, economic environment, political risk, tax rate and regulatory policies.

Iftekhar Ahmed (2006) worked on impact of FDI on growth of Bangladesh. He suggested certain principle should be developed to attract FDI. The main aim should be to promote high and sustainable rate of economic growth through industries that are labour intensive while the next level focus should be on innovating technology along with improving comparative advantage. However, it must be noted that foreign firms repatriate large amounts of profits to their home country which, has had a negative impact on BOP current account and created pressue on the forex reserves, but still have helped to increase total output , specially in the secondary and tertiary sectors of the economy.

Khan (2008) assessed a case for Bangladesh in improving the conditions for FDI. A Case for Bangladesh. In the era of globalisation the movement of Transnatinal Corporations (TNCs) has increased a lot to avail cheaper labours, advanced machinery, bigger markets, etc. FDI is palying an important role in promoting growth and development around the globe. While some countries have been much successul in attracting FDI, others, specially the poor countries, have been lagging behind, thus FDI is unevenly distributed around the world. The study considered the factors influencing FDI in Bangladesh along with benefits and drawbacks of hosting FDI. The study suggested that policy directives must be reformed to reduce dependence on foreign borrowing in order to reduce repayments that increase remittance and rather rely more on capital from domestic equity market.

Bhagwati (1998) claimed that relation between FDI and growth was positive in case of those countries that promote exports but negative for small developing economies. The thesis also found out that the FDI and GDP and Current account balance and GDP were inversely related for eight transition economies.

Akhtar (2000) analyzed locational determinants of FDI and suggested that the factors having a positive and significant relationship with FDI were market size, exchange rate and relative interest rate.

Woodward (2003) claimed that one major factor contributing towards BOP current account deficits was FDI. Analysing the data of six countries, the study depicted that owing to the repayments of loans to foreign countries and repatriation of profits by foreign firms were one of the major reasons causing a deicit in BOP current account.

Aqeel and Nishat (2005) revealed the factors that influenced FDI in Pakistan between 1961-2003. The results from the study were that import tarifffs, exchange rate i.e. devaluation of rupee, corporate tax rates and liberisation policies had a positive correlatin with FDI.

Fedderke and Romm (2004) investigated into the South African economy and discovered that market size, labour costs, corporate taxes, political risks and openness were the main factors infuencing FDI.

Moolman et al. (2006) concentrated on the supply side determinants of FDI in South Africa for the peiod 1970-2003 and the study revealed that infastructure, nominal exchange rates, openness and size of the market were the factors that should be concentrated upon by policymakers for attracting FDI.

Hossain (2007) depicted that FDI inflows initially affect BOP positively. However, the impact might be reversed in the medium term when foreign firms import more intermediate goods and services along with sending a part of their profits to their home country.

Azam and Luqman (2008) investigated various economic factors affecting FDI into India along with Pakistan and Indonesia for the period starting 1971 till 2005. The results of the study were that trade openness, domestic investment, return on investment, market size and infrastructrure had a positive relationship with FDI whereas indirect taxes and external debt had a negative relationship.

Yol and Teng (2009) explored that infastructure, GDP and exchange rate had a positive realtion while in the long run, exports had an inverse realtiuonship with FDI. On the contrary, export along with GDP and infrastructure had an inverse relatinship whereas exchange rate and trade openness had a direct relationship with FDI in the short run. The study covered the period 1975-2006 for the economy of Malaysia.

Shahrudin et al (2010) inspected determinants of FDI in Malaysian economy for a time period of 39 years (1970-2008) and concluded that GDP growth rate and money supply had a significantly positive correlation with FDI.

Rihab and Lotfi (2011) analysed essential variables determining FDI level for developing countries for a time period of 5 years (2001-2006). The study included 71 countries. They discovered that human resources, GDP, trade openness and quality of governance system had a direct relation whereas corruption along with individualism and hierarchal distance had an inverse relationship with FDI.

CONCEPT OF FDI

Any investment by a firm or an individual in another country in terms of buying a company or expanding operations of an existing business overseas. Basically, it refers to overseas capital investment into an economy.

COMPONENTS OF FDI

FDI has three components:

1. Equity Capital- It refers to the purchase of shares of a public limited company in a country by foreign investors.

2. Reinvested Earnings- It comprises of the direct investor's sharen of earnings, which are not distributed as dividends but rather retained by affiliates to be reinvested later.

3. Intra-company loans or debt transactions- It refers to lending and borrowing, whether short term or long term, between parent enterprises and affiliate enterprises.

MEACHANISM OF FOREIGN DIRECT INVESTMENT

According to IMF, a person who lives in one country but owns 10% of shares or voting rights in a company located overseas, is involved in direct investment. There is an explanation of “Foreign Controlled Resident Corporation". Enterprises like subsidiaries are controlled by a foreign parent, which have more than 50% ownership and voting power.

(1) (2)

Fig: Inflow of FDI

In figure (1) home country make available technology and capital to the host country, in figure (2) the host country return the profit on the FDI to the host country. In this process social welfare improves and revenues of the both country's Governments also increase.

CHAPTER 3

REASEARCH METHODOLOGY

In methodology, to explain the methods and approaches used to collected data. Research methodology describes the research activities and how to process them. For the purpose of research, several methods and approaches are used. The reunion of these methods and approaches depends upon the nature of the work and the research that is going to be presented. I used the methodology, which is suitable to conduct this thesis.

The main aim of this study is to find out either IMP, GDP, INF are the key factors of Foreign Direct Investment (FDI) or not. In order to attain this objective, the study employs several analytical tools and methods of statistics. The reunion of these methods and approaches depends upon the nature of the work and the research that is going to be presented. The used methodologies which are suitable to conduct this research are,

- Descriptive statistics,
2. ANOVA,
- Correlation Analysis
4. Coefficients
- KMO and Bartlett's Test, and
6. Graphical Relation
- Linear Regression techniques.

RESEARCH FRAMEWORK

The chart represents the relationship between FDI and GDP, IGS, and INF.

RESEARCH APPROACH USED IN STUDY

For the research point of view, there are two types of approaches widely used in the research. These are quantitative and qualitative approaches. We used quantitative research method to perform this research study. My data nature is quantitative.

TYPE OF DATA & DATA RESOURCES

There are two types of data used in the earlier research, primary and secondary. We used the secondary time series information and valuable information from following official departments of Bangladesh and some International organizations for this research.

SELECTED VARIABLES IN THIS STUDY

- Dependent variable
  - Foreign direct investment
- Independent variables
  - Gross Domestic Product
  - Imports of goods and services
  - Inflation Rate

DESCRIPTION OF VARIABLES

FOREIGN DIRECT INVESTMENT

Any investment by a firm or an individual in another country in terms of buying a company or expanding operations of an existing business overseas. It is undertaken with the intention of continuing the operations in the long run. Investment could also be done to influence decisions of the management of a company..

- **<u>GROSS DOMESTIC PRODUCT</u>**

It is the total value of goods and services produced in a country in a given year at constant prices. Basically, GDP=AD=C+I+G+(X-M)

FDI helps to promote GDP to a lare extent. Thus, the government should try to attract FDI by improving the factor that foreign firms consider before investing in a country.

IMPORTS

Our key imports are finished goods but our exports are mainly of finished goods, which is the reason of our negative trade balance, as a result concern was that the effect of imports on FDI is negative.

INFLATION RATE

It refers to the percentage increase in price level of goods and services in an economy over a given period of time. A low rate of inlation increases certainty about futurte costs and revenues and increases investor's confidence. Therefore, investors become optimistic and are encouraged to invest in the country. So, the policymakers of Bangladesh should try to lower inflation rate to attract more FDI into the economy.

MODEL SPECIFICATION & STATISTICAL TECHNIQUES

We used the following model for our study. We selected the variables which are affecting the FDI inflow in Bangladesh from the period 1971 to 2014.

FDI = *f* (IGS, GDP, INF)………………… (1)

Where,

FDI= Foreign Direct Investment	IMP = Import of Goods and Services
GDP= Gross Domestic Product	INF = Inflation Rate

HYPOTHESES OF THE STUDY

Main Hypotheses

H0: There is no connection between all independent variables and FDI inflow in Bangladesh

H1: There is a connection between all independent variables and FDI inflow in Bangladesh

All Alternative Hypotheses

H1: There is correlation between gross domestic product and FDI inflow in Bangladesh.

H1: There is connection between imports and FDI inflow in Bangladesh

H1: There is correlation between inflation rate and FDI inflow in Bangladesh

CHAPTER 4

RESULTS AND FINDINGS OF THE STUDY

For the purpose of this research and based on the assumption in previous chapter our Expected Model is,

$$\mathbf{y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e}$$

Where,

X_1 = GDP	X_2 = INF
X_3 = IGS	Y = FDI

So, the following regression model is

$$\mathbf{FDI = \beta_0 + \beta_1 GDP + \beta_2 INF + \beta_3 IGS + e}$$

Where,

FDI= Foreign Direct Investment

GDP= Gross Domestic Product

INF= Inflation Rate

IGS= Imports of Goods and Services

TABLE 1: DESCRIPTIVE STATISTICS

Descriptive Statistics			
	Mean	**Std. Deviation**	**N**
FDI	2.821	472.08232	44
GDP	4.5054	38228.41217	44
IGS	9.6874	11303.40963	44
INF	10.5053	15.96387	44

In the table we can see that all variables has same number of observation 44,but mean and standard deviation values are different such as FDI (Foreign Direct Investment) has a mean value 2.821 and S.D value 472.08232, this are the lowest value among all variables. On the other hand Inflation has a maximum mean & S.D value 10.5053 and 15.96387.

TABLE 2: ESTIMATED CORRELATION

	FDI	GDP	IGS	INF
FDI	1			
GDP	**.797*** **	1		
IGS	**.976*** **	**.838*** **	1	
INF	-.148	-.200	-.176	1

In table (2) we can see that correlation between all independent variables, where it measures the relationship among all of them.

(*) represent variables correlation values are not close to 1, means 0.01 to 0.49

(**) represent variables correlation values are between 0.5 to 0.7

(***) represent variables correlation values are close to 1, means 0.71 to 1

First consider the correlation between Imports of goods and services (IGS) and Gross Domestic Product (GDP), so their correlated value is .838 which is close to 1 and indicates a strong positive relation between them. More specifically, as the values of IGS increases GDP value also increases and vice versa. On the other hand the correlation value between IGS and INF is -0.176 that means there is a negative relation between them. More specifically as the value of import goods and services increases the inflation rate decreases.

Let consider the correlation among GDP and other variables such as IGS and INF. So there correlation values are respectively .838, -.200.Where only IGS value is strongly correlated with

GDP because the value is very close to 1. On the other hand INF correlated values are less and negative.

So from the above dictation of correlation table we can say that only two variables are strongly correlated to each other that imply the presence of Multicollinearity is less and that is a good condition for the model or we can say this model is good for this research.

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TABLE 3: ANOVA

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9155273.374	3	3051757.791	285.357	.000[a]
	Residual	427780.439	40	10694.511		
	Total	9583053.813	43			
a. Predictors: (Constant), INF, IGS,GDP						
b. Dependent Variable: FDI						

The above table reveals that F value is significant at .000 level means 1% level. So, it can be said that the variation caused by FDI on GDP, INF and IGS is significant.

Table shows that the Model`s total sum of squares is 9583053.813 with 43 decrees of freedom, where sum of regression is 9155273.374 and sum of error is 427780.439. As the test is significant the ANOVA value or F test value is 285.357 with 1% level of significant. Means the Alternative Hypothesis is accepted with 1% level of significant. That’s mean the R square value is not zero.

TABLE: 4 MODEL SUMMARY

MODEL SUMMARY				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.977[a]	.955	.952	103.41427

a. Predictors: (Constant), INF, IGS, GDP
b. Dependent Variable: FDI

The values of correlation coefficient or the size of R-square for the estimated model is 0.977, which showed that the explanatory power of this model was very high. Means 97.7% of the variability in FDI (dependent variable) can be explained by variation of all independent variables. That means the data used in this analysis were well fitted in the regression line. And R square is .955 which become 95.5%. Therefore, it can be deduced that that FDI has high degree of correlation with GDP, INF and IGS.

TABLE 5: KMO and BARTLETT’S TEST

KMO and Bartlett's Test	
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.678

Bartlett's Test of Sphericity	Approx. Chi-Square	178.082
	df	6
	Sig.	.000

This test represents the effectiveness of dependent variable on independent variables means what are the independent variables are most efficient for the result of this paper. It also helps for measuring either sampling of particular research is well enough or not.

In table, Kaiser-Meyer-Olkin Measure of Sampling Adequacy test that represents total sampling of this paper is good enough because KMO value is 67.8% which is more than 50%. The Bartlett's Test of Sphericity shows that the Approximate Chi-Square value is 178.082 with 6 decrease of freedom. This test is also representing that the significant level is so good and it become significant in 1% level. That means all the variables & information which are including in this model as well as in the survey of research has some influence over measuring the factors are affecting Foreign Direct Investment (FDI).

TABLE: 6 ESTIMATED REGRESSION COEFFICIENTS

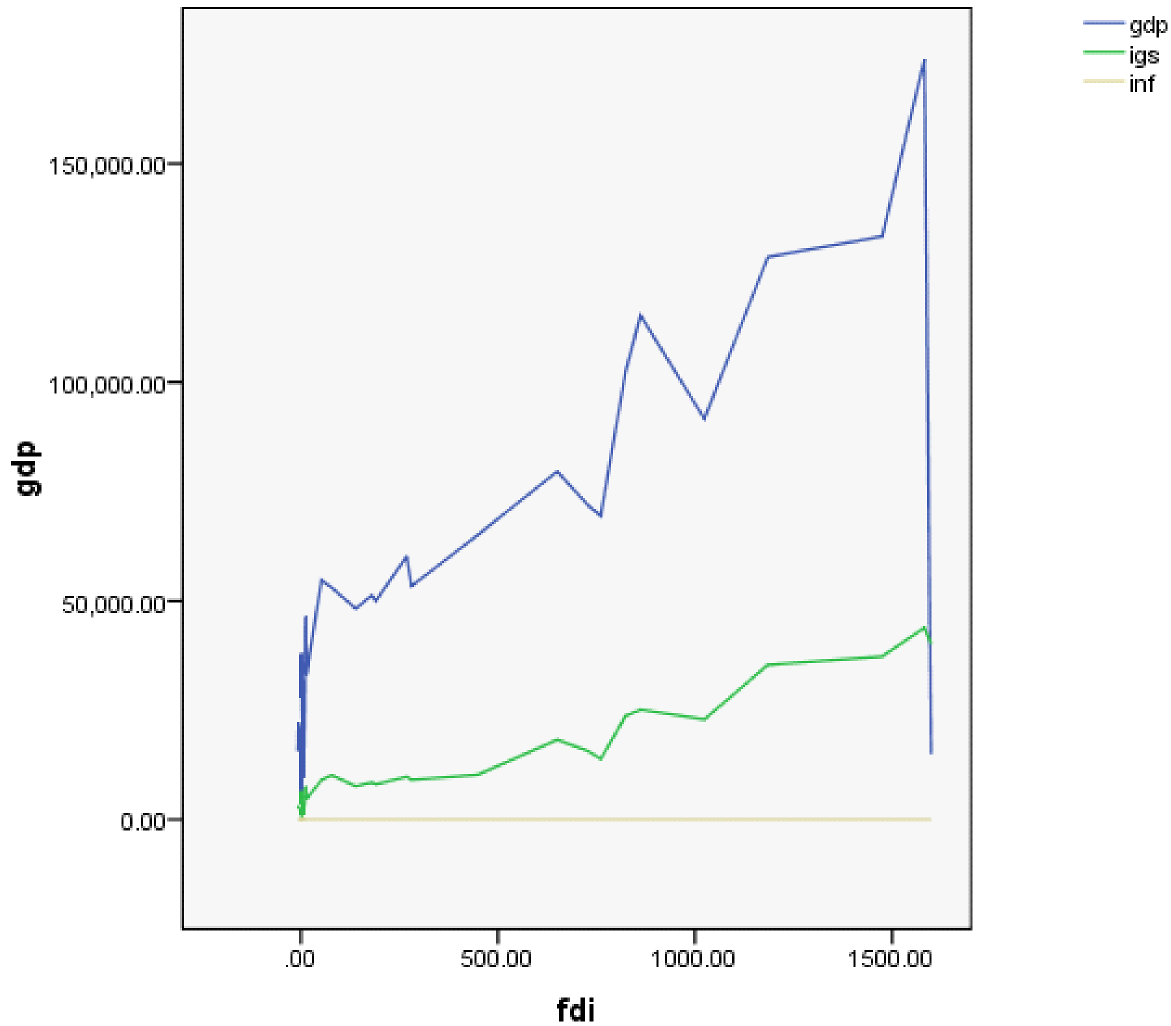
Coefficients				
	Unstandardized	**Standardized**		

Model		Coefficients		Coefficients	t	Sig
		B	**Std. Error**	**Beta**		
1	Constant	-106.039	28.430		-3.730	.001
	GDP	.000	.001	-.068	-1.111	.273
	IGS	.043	.003	1.037	16.949	.000
	INF	.622	1.008	.021	.617	.541
• **Dependent Variable: FDI**						

From the above table, it is observed that the dependent variable, FDI Inflow, has not significantly influenced independent variables.

By running the regression between dependent and independent variables table (5) shows the coefficient of determination of all variables and constant coefficient values. This table represents that constant coefficient Beta (β) values that influences the independent variables. Such as β_1 = .043 which represent the positive relation with Import goods & services and this relation is significant with 1% level. Also found that other all independent variables like Gross domestic product, are not significant by individually such as Gross domestic product is significant with more than 10% level of significant and its β value also represent negative relation on FDI. Similarly another independent variables are also significant with more than 10% level. That means only one variable is good to represent this model or measuring the factors of FDI.

GRAPHICAL RELATION



The figure represents that relationship among all independent variables represented in Y axis because all variable act as a dependent variable in this case and FDI represented by X axis act as an independent variable in this case. On the other hand different color lines shows individual relation between FDI & independent variables, such as yellow line represent the constant relation between FDI and INF (inflation rate). That means there is a constant relation between them, means as the foreign direct investment increases their value also increases proportionately. That is also a good indication.

At the same time other line like green represented the relation between import goods & services respectively with FDI is upwards going, means as the foreign direct investment increases the amount of both variables also increases, that means there is a positive relation among them which is also good indication for an economy.

FINDINGS

The thesis was started with the F-test to check the significane of the linear regressions model. After proving with statistical analysis that the model is significant, diagnostic checking was performed, including KMO and Bartlett's Test, normality to see whether the sampling of this models is ok or we need to add more sample for better result. But KMO and Bartlett's Test represent that this sampling process is perfect for the conducting model and it become significant with 1% level. Above results show that the imports of goods and services and gross domestic product are 1 percent level of significance, while inflation rate have more than 1 percent level of significance, which is a matter of thinking again about the model but after conducting correlation we find out that only two variables are correlated to each other, that indicates to not presence of Multicollinearity in the model. So we can use this model further. In 2014, net FDI inflows in Bangladesh were

US$1526.70 million, where Gross FDI inflows were US$2058.98 million and disinvestment (including repatriation of capital, loans to parent company, repayment of Intra company loans to parent company) were US$ 532.28 million.

GDP growth has not fallen below 5% over the past decade and it must be mentioned that even in 2009, during the global economic crisis, the growth rate was 5.9% where FDI played palyed an important role as seen from the explanation of the results.

It can be deduced from the results that Inflation rate is an insignificant factor of FDI in Bangladesh. There is an inverse realtionship between the two. However, the bright side is that as FDI inflows have increased, rate of Inflation has fallen which is good for the country since lower inflation rate would increase business confidence and attract more FDI in the future.

CHAPTER: 6

CONCLUSION AND RECOMMENDATIONS

FDI, along with trade, has been an important mechanism which has brought about a greater integration of the Bangladesh's economy with the world economy. The role of FDI is quite important in the economy to seek expected growth rate. FDI helps to increase total GDP along with employment and income level as greater investment by foreign firms helps to use the idle resources and take the country towards full employment, thereby, enhancing growth.

There are many factors that should attract FDI from around the world. Increased availability of relatively cheaper workers along stable macroeconomic environment are among the factors that should catch the eye of foreign investors. Besides, it is noteable that among the Asian coumtries, wages are the lowest in Bangladesh. Moreover tolerable inflation rate along with stable exchange rate, non-discriminatory custom regulations for domestic and foreign firms and significant government incentives for foreign investors also exist to encourage them to invest in Bangladesh. It must be noted that few measures still have to be taken to maintain current growth rate and existing FDI inflow level. The country's administrative system has to be refornmed along with reducing the level of bureaucracy. Besides, a friendly envirnment for business must be created. The country needs to integrate with world economy and improve its economic and commercial diplomacy in order to attract FDI. Furthermore, strong governance and political stability would also play a role in attracting FDI. Therefore, strong corporate governance should be applied in the financial sector to enhance investment climate in Bangladesh.

Looking into the analysis it can be said that Bangladesh has not been succesful to a large extent in attracting FDI because of many reasons. The country is lagging behind in attracting FDI compared to other regional developing countries. Thus, it can be deduced that all barriers to industrialisation and FDI must be overcomed.

Owing to the fact that sample size proves to be the main problem, hence, it is suggested that any further study into this topic by any researcher should consider more than thirty (30) observations. A bigger sample size would help to decrease the chances of multicollinearity and autocorrelationl, so, researchers could use monthly/quarterly/semi-annual data rather than annual data. It is suggested that Hypotheses testing shall provide researchers with improved results in discovering these problems.

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APPENDIX

ALL DATA SET FROM 1971-2014

Year	FDI	GDP	IGS	INF
1971	0.85	8751.84	938.9	2.96
1972	0.9	6288.24	863.5	4.40
1973	2.34	8067.03	956.4	61.40
1974	2.2	12459.28	1289.35	44.54

1975	1.54	19395.9	1571.2	80.57
1976	5.42	10083.16	1778.3	-17.63
1977	6.98	9632.45	1192.6	-3.21
1978	7.7	13299.36	2058.9	25.62
1979	-8.01	15585.96	2462.2	12.56
1980	8.5	18114.64	3239.4	17.55
1981	5.3	20299.39	2865.5	9.89
1982	6.96	18562.45	2883.1	9.85
1983	0.4	17579.45	2586.5	8.48
1984	-0.55	18996.83	2548.51	7.87
1985	-6.7	22278.42	2860.03	18.49
1986	2.44	21846.86	2585.8	8.25
1987	3.2	24615.65	2879.5	11.11
1988	1.8	26579.01	3255.8	7.49
1989	0.25	27828.1	3557.8	8.33
1990	3.2	31218.78	4076.6	6.53
1991	1.4	30957.48	3785.2	2.73
1992	3.7	31708.87	3915.2	2.58
1993	14	33166.52	4677.9	0.15
1994	11.1	33768.66	4681.79	3.97
1995	1.9	37939.75	6580.6	7.14
1996	13.5	46438.48	7601.8	19.14
1997	139.4	48244.31	7625.1	3.80
1998	190.1	49984.56	8058.9	4.74

1999	179.7	51270.57	8525.9	3.78
2000	280.4	53369.79	9060.9	3.45
2001	78.5	52991.29	10102.7	3.26
2002	52.33	54724.08	9060.9	3.89
2003	268.3	60158.93	9761.8	5.82
2004	448.9	65108.54	10229.7	4.56
2005	760.5	69442.94	13891.4	4.59
2006	728.6	71819.08	15626.7	5.88
2007	650.1	79611.89	18268.6	6.47
2008	1023.7	91631.28	22873.1	7.86
2009	823.6	102477.8	23726.33	6.76
2010	861.7	115279.1	25106.3	7.14
2011	1184.8	128637.9	35373.86	7.86
2012	1474.5	133355.8	37272.04	8.16
2013	1598.8	14999.05	40135.23	7.17
2014	1581.8	173818.9	43853.97	6.18