



Turun yliopisto  
University of Turku

# **THE IMPACT OF FOREIGN DIRECT INVEST- MENT INFLOWS ON THE ECONOMIC GROWTH OF BANGLADESH**

## **The Roles of Infrastructural Facilities**

Master's Thesis  
in International Business

Author:  
Md Showkat Mostafa

Supervisors:  
D.Sc. (Econ.) Esa Stenberg  
M.Sc. Jonathan Mumford

10.12.2015  
Turku, Finland



Turun kauppakorkeakoulu • Turku School of Economics



## **Acknowledgement**

As I have approached the master's thesis during the past years, I have realized and learnt that organizing a study on economics is very challenging and in the meantime immensely promising. I have been always extremely inquisitive to complete this project. Now, on completion of this thesis, my name appears in the cover page as an author; though, there are many other individuals, who have contributed to achieve this final outcome. Hence, I would like to take the opportunity to express my gratitude to those individuals, who have made this thesis possible.

First and foremost, I would like to thank my supervisors, professor Esa Stenberg and Jonathan Mumford, who have guided me throughout the process of completing this master's thesis. Their regular comments and recommendations were extremely important to acquire this study in the right track. Moreover, their interest towards the selected research field encouraged me further to deliver good via this study.

I would also like to thank my research group classmates and students of Turku school of economics from all around the world, who have shared their valuable feedback and opinions in each stage of the writing process.

Most importantly, none of these could have been possible without the support of my family members. I would like to express my heart-felt gratitude to my parents, elder brother and younger sister. Especially, my mother Mrs. Shamima Chowdhury, because of whom I had the initial encouragement to study in Turku school of economics and her round-the-clock support makes me feel better to progress my study. Moreover, my father-in-law A. K. M. Amiruzzaman have continuously encouraged me to put more effort on my studies. Besides, a thank goes to my wife Maimona Anjum, who have always been very supportive and sacrificed time so that I could complete my study in abroad.

Turku, December 2015

Md Showkat Mostafa

Author



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## **List of abbreviations**

BEPZA	Bangladesh Export Processing Zone Authority
BOI	Board of Investment
FDI	Foreign direct investment
FIAS	Foreign Investment Advisory Service
GCR	Global Competitiveness Report
GOB	Government of Bangladesh
IFC	International Finance Corporation
JETRO	Japanese External Trade Organization
LDCs	Least Developed countries
MNCs	Multinational corporations
OECD	Organization for Economic Cooperation and Development
TNCS	Transnational corporations
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
USD	United States dollar
WB	World Bank
WIR	World Investment Report
WTO	World Trade Organization



## 1 INTRODUCTION

Foreign direct investment (FDI) promotes economic development, and establishes a major relationship in between increasing international capital transfer and the productivity of the recipient country, especially to developing economies, which requires supplementary capital to develop the economy. This trend is receiving enormous attention globally because of the globalization phenomenon. Moreover, FDI inflows contribute to the host countries economic growth<sup>1</sup> by increasing domestic investments, human capital, improved managerial skills, technology for production progress, and know-how. Based on these sources, both developed and developing countries, over the years, have lessened their barriers to entry for FDI and offered attractive incentives for investors to encourage foreign direct investment in their economy (Caves 1996; Blomström & Kokko 1998).

FDI has become a remarkable factor in international business for many nations across the world. After the end of the Second World War, foreign direct investment started to uncover around the globe, particularly in developing countries. From the late 1980s until now FDI has significantly full-fledged capital flows in developing countries. In the 1980s, total global FDI flows was \$14 billion<sup>2</sup> and at present, the United Nations Conference on Trade and Development (UNCTAD) projects that it will be rising to \$1.6 trillion in 2014, \$1.75 trillion in 2015, and \$1.85 trillion in 2016. This surely indicates how quickly FDI flows are rising every year all over the world: “As economic growth accelerates around the world, this flow will continue to increase further” (Bhandari, Dhakal, Pradhan & Upadhyaya 2007, 2).

It has been a belief for the economists that FDI is a key aspect of economic development for all the countries, especially the developing ones (Denisia 2010, 104). Developing countries, particularly with low domestic investments, aims to take full advantage of FDI to balance and fill the gap of their desire growth. It is a reliable source for backing up the host country’s growth potential, access to markets, and raw material accessibility for a long term period (UNCTAD 1999). To make the most out of FDI, the host country requires balancing the ‘trade liberalization’ in economic growth; more about it is discussed in section 5.3. Governments seek forward to use FDI efficiently, and for this to happen they require constructing a favorable investment environment by forming economic policies, incentives for investors, privatization, etc. (Muchie, Nasrin & Baskaran 2010, 2). In addition, they must have consistency to maintain the investment envi-

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<sup>1</sup> Economic growth is a positive transform in the output of an economy over a period of time. It increases the amount of produced goods and services in an economy and improves the quality of life.

<sup>2</sup> Note that in this study “US dollars” is indicated by the symbol (\$)

ronment. However, it has been seen that governments failed to catch the attention of foreign investors<sup>3</sup> because of weak major determinants in the host country; details of the determinants are discussed in section 2.2.

Many studies have been completed on FDI and its correlation with countries economic development in past decades. The result of its impact is complex. In the end, it is possible that the pressure created from foreign direct investment can force domestic firms to move their position to somewhere else. Eventually, it can hamper economic development terribly. Johnson (2005) opines that FDI can have negative impact as well. Relating to this, agriculture and mining sectors receive less positive effects in comparison to other sectors (Hirschman 1958, 109). However, more or less, it is the positive impact on the economy, that persuading countries to draw attention of foreign direct investment. Lipsey (2002) confirms that FDI has positive effects though there is not any steady connection in between FDI and economic growth. Also, effects may vary depending on the sectors. Furthermore, countries need some fundamental components for economic expansion, such as technical expertise, natural resources, human assets, ventures, and capital formation. These mechanisms can speed up the process of economic development in the host nation.

Foreign direct investment inflow has remained as a very significant phenomenon into the Bangladesh economy since its modification of policy. Like every other nation, FDI contributes to the Bangladesh economy by enhancing GDP and total import/export turnover. Presently, many foreign companies are focusing to invest in Bangladesh as it is one of the strongest emerging markets in South Asia. Despite of being an emerging market and having a stable increase in FDI, the country is still facing some challenges for its infrastructure deficits.

Now, to foster the country's economic development largely, it is highly dependent on investments in infrastructure. Because of this hindrance, Bangladesh is unable to generate as much FDI as it is capable of. Therefore, the main concentration of this research work is going to focus on infrastructural facilities such as energy, governance, telecommunication, transportation, and education system. The end result of this research will help foreign investors to understand the current situation of the country and take decisions regarding their investment. In addition, this paper will support different officials in the country to obtain an overlook of the whole scenario.

Bangladesh is a blessed country with full of natural resources. The country is gifted with plenteous supply of natural gas, water, and fertile soil (Bodiozzaman 2008, 45).

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<sup>3</sup> A private sector invests outside of its home country to take advantage and become a credible part in the operation of the enterprise. In order to become a foreign direct investor, they must possess 10% or more of the ordinary shares or voting stock of an enterprise according to OECD.

Besides, its labor force can be one of the strongest weapons to obtain FDI's. Though, currently the country is overpopulated and the labor force is not trained enough to make full use of them. However, if Bangladesh can prepare its labors in such way that they can be productive, then the day is not so far when the economy will start booming rapidly. On the other hand, due to having lack of economic freedom, the country could not endorse its rules of law efficiently. The property rights leftover faintly unprotected and judicial system causes difficulty to political intervention (UNCTAD 2013). Thus, it is hampering the economic activity in every sector. Nevertheless, the national economy thought to acquire positive benefits from FDI. It can contribute to Gross Domestic Product (GDP), Balance of Payments (BOP), and Gross Fixed Capital Formation (entire investment of the host economy). Many empirical studies indicate a positive connection between FDI inflows and higher GDP (OECD a.).

According to World Bank (2013), due to having inhibited public services, weak accountability, and troubled institutions, Bangladesh remains one of the world's poorest countries. Though, this situation is changing progressively. Recently, the country has changed its position from a low income country to a lower middle income country. Now, it has aim to become a middle income country by 2021; and to achieve this, the country needs to increase its growth by 8 percent per annum. It can only happen, when the appropriate efforts will be made to improve governance, narrow power and transportation deficits, manage urbanization, capitalize on low labor costs, and promote migration for increase remittance. The Government of Bangladesh (GOB) has been trying to set up private investment friendly environment for foreign investors in order to attract FDI's in numbers.

## 1.1 Bangladesh at a Glance

Bangladesh is a country in South Asia and a member of the Commonwealth of Nations since 1971. The official name of the country is People's Republic of Bangladesh. It is sharing the border with India at the west, north and east; Burma at the southeast; Nepal and Bhutan at the narrow of land stretch on the northern side. Its political system is parliamentary democracy, the official language is Bangla (Bengali) and currency is Taka (Tk). Its largest cities are Dhaka, Chittagong, and Khulna.

For many years, Bangladesh was graded as one of the poorest nations in the world. In the past, throughout the cold war Bangladesh was known as a Third world country. However, at present, because of the consistent development, it is identified as a 'Developing country' by the International Monetary Fund (IMF) or a 'Lower middle income country' by World Bank. Over the past decades, Bangladesh has transformed itself from a struggling economic performance into a vastly improved performance. The economy

has enhanced immensely during 1990's. Now the country is categorized as a Next Eleven emerging market (Wilson & Stupnytska 2007, 2). The country is considered as one of the biggest readymade garments and agro based product exporters in the world.

World Bank states that, Bangladesh has a noticeable track record on growth and development. In the last 10 years, the economy rose at almost 6% per annum and meantime, the human development was closely associated with economic growth. Contribution from FDI started flowing after 1980, because in that year the Government of Bangladesh (GOB) has changed its policy, name as 'Foreign investment promotion and protection act, 1980' to encourage FDI. Through this act, the GOB unlocked all segments for FDI except nuclear energy, defense equipment, railways, security printing and minting, and forestry in the reserve forest area (Foreign investment promotion and protection act 1980). Moreover, there is a continuous increasing rate on life expectancy, literacy rate, and per capita food intake. On the other side, poverty jumped down by approximately a third and from 1992 more than 15 million citizens have moved out from poverty. Bangladesh is one of the prospective nations to pull FDI in numbers. This dissertation is intended to comprehend the impact of FDI inflow on economic growth of Bangladesh.

## 1.2 Statement of Research Problem

Developing countries and newly industrializing countries have been strongly recommended to depend on foreign direct investment in order to add-on national savings by capital inflows and support economic development (Nunnenkamp 2002, 7). Asian countries are nowadays implementing their ambience to compete with other countries and attract more FDI inflow. Bangladesh as a least developed country (LDC) has vast resources and an attractive market to draw attention to foreign investors. In addition, the country is considered as one of the major beneficiaries of FDI in Asia and has favorable business climate better than Sri Lanka and India (Doing Business 2006). The increasing rate of FDI in Bangladesh is a good indication for its economy, but because of poor infrastructure in some sectors, it is not becoming possible to pull enough FDI inflow toward its potential in the country.

In 2013, FDI Inflows to South Asia rose by 10 per cent to \$36 billion and in Bangladesh it was from \$1.3 billion in 2012 to \$1.6 billion in 2013 (UNCTAD 2014). Manufacturing sector played an important role for those inflows and created job opportunities (UNCTAD 2013a). Additionally, RMG/Textiles sector contributed almost 15% of GDP in the same year. Nevertheless, Bangladesh is facing severe challenges to maintain the overall business environment owing to its underdevelopment of various sectors particularly for its infrastructural facilities (Ara & Rahman 2010, 13)

Foreign investors from different countries have pointed lack of infrastructure as not so encouraging for FDI. Bangladesh is surviving with different ultimatums to develop its economic condition due to having lack of infrastructures (Ara & Rahman 2010, 10). It is lacking in infrastructures such as governance, bureaucracy, power, road, fuel supply, railway communication, information sufficiency etc. These deficiencies are not only hindering the FDI inflows but also the quality of life to economic growth.

Thus, there is a research gap in the connection of infrastructural facilities and FDI inflows in Bangladesh. This research is sought to establish that infrastructural facilities can enhance FDI inflows in the country. Simultaneously, the quality of life and economic growth receives improvement. Additionally, other factors involved in these issues will be revealed.

### 1.3 Research Questions

This study aims to provide detail information about the impact of FDI inflows on the economic growth of Bangladesh from the very beginning until now. The prime boundary of this research is to focus purposely on FDI inflows not the outflows. The connection between FDI inflow and economic growth is the major concern of this study. Moreover, this connection is researched based on particular time series data. The results of the data are justified by the selected theories. Hence, the main research question of this thesis is “**How can FDI inflows have impact into Bangladesh?**”

Besides, the role of infrastructural facilities is taken into account to justify the major concern. Thus, the next major concern of this research is to focus on infrastructures; exceptionally, those infrastructures which are lacking in terms of FDI inflows and quality of life. Accordingly, following sub-questions are going to be considered for this research:

- How the intensity of infrastructural facilities in a country affect the inflow of foreign direct investment?
- What are the key obstructions of attracting sufficient FDI inflow in Bangladesh?
- How foreign direct investment inflows can influence the economic growth of Bangladesh negatively?

These sub-questions were not a major concern to narrow down the topic before starting this research. However, selected sub-questions were prepared to focus on research areas precisely. Furthermore, these research areas guided the research process to enhance the understanding of the phenomenon and produce new knowledge by analyzing the time series data.

## 1.4 Objectives of the Study

Some earlier studies were mainly having the connection between the FDI and economic growth of Bangladesh. However, between the time of those reports created and the present situation, many things have changed. Moreover, no research has been done focusing the impact of FDI inflows on the economic growth of Bangladesh. Specifically, the issue of infrastructural influence and determinants towards FDI inflows in Bangladesh does not have any conscious effort. Therefore, these matters are going to be researched through this thesis paper.

This dissertation has investigated the present scenario of infrastructural facilities related to FDI inflow in Bangladesh. To do so, the most important determinants of FDI in South Asian countries specifically in Bangladesh based on time series data is figured out and the impact of FDI inflow on GDP is analyzed. Additionally, the projection of the consequences of infrastructure and administration on the inflow of FDI in Bangladesh has been established. Moreover, it is showed that how infrastructural facilities can influence not only FDI inflows but also quality of life. Nevertheless, all these affairs are given an insight into the theoretical matters linking to FDI.

Under the country assistance strategy (CAS) for FY11-15, Bangladesh will prolong economic growth, business environment for private sector growth, strong governance at both central and local levels. More importantly, massive infrastructure investment and valuable business environment for private sector growth will be prepared (World Bank 2013). This study evaluates the most significant determinants of foreign direct investment in diverse market environments and the part of infrastructural facilities in order to increase the FDI inflows in Bangladesh.

It is believed that this research will put more emphasis on the current status of infrastructural facilities in Bangladesh for foreign investors. Furthermore, it will look upon the present conditions of foreign investors operating in the country and determinants will be assessed based on the past and present scenario. The correlation between FDI and economic growth will be discussed, and the exertion of FDI inflow to growth will be discovered. In conclusion, it will create a better understanding that the improvement in the requirement of the determinants and infrastructural facilities in Bangladesh will make a positive impact in the whole economy and generate more foreign direct investment inflows in the country.

## 1.5 Structure of the Research

This study consists of 8 chapters. Below figure 1 shows the breakdown of chapters to complete this research.



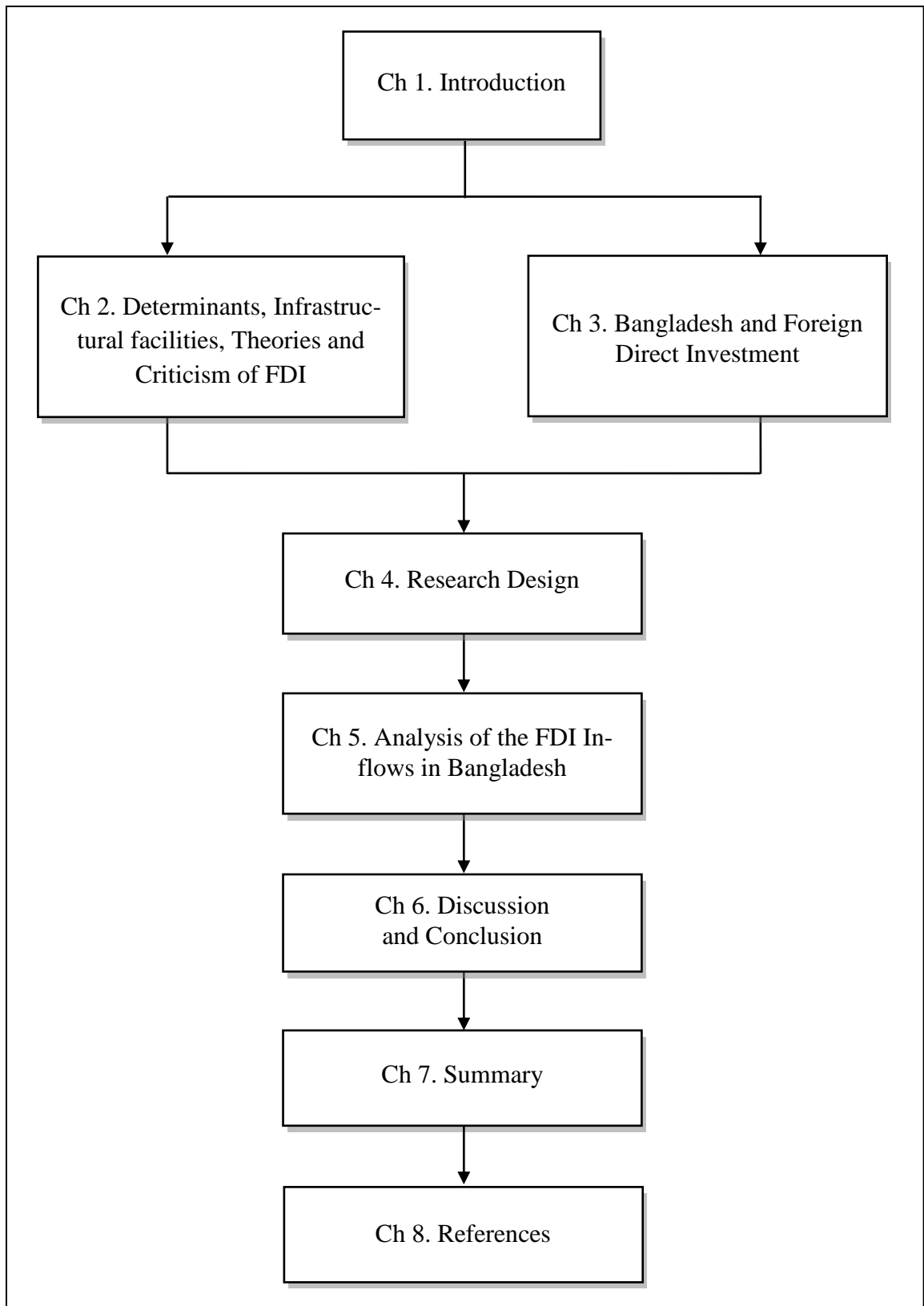


Figure 1 Chapters breakdown according to the research

Firstly, introduction chapter provides necessary information regarding the selected field and this research. Consequently, chapter 2 and 3 introduces different segments of

this research such as determinants of FDI, infrastructural facilities, selected theories for this research, Bangladesh and foreign direct investment in details. Next, in chapter 4, research design is generated to proceed further with this research. Through the support of the research design, analysis of the FDI inflows in Bangladesh is completed in chapter 5 based on different criteria's such as determinants and infrastructural facilities of Bangladesh, trade liberalization, economic growth and factors affecting FDI inflows. Then, discussion and conclusion in chapter 6 provides the in depth understanding and implications regarding this research. In the end, a summary is presented to obtain the overall research work. Last but the least, all the references used for this research is located under chapter 8.

## **2 DETERMINANTS, INFRASTRUCTURAL FACILITIES, THEORIES AND CRITISISM OF FOREIGN DIRECT INVESTMENT**

This chapter broadly examines the impact of infrastructural facilities, and determinants of foreign direct investment inflows in Bangladesh by taking into account different authors and research results contribution. Furthermore, this chapter explains different theories, which are considered to discuss several matters in next chapters. In the end, criticism of foreign direct investment is made.

### **2.1 The Concept of FDI**

Foreign direct investment is considered as a significant instrument to add prosperity to the economy of a country. Especially in the developing nations, governments have been trying to raise the economy through FDI. This is an international venture, in which an investor who resides in the parent country obtains a long-term “influence” in the management of an associate firm in the host country (IMF/OECD 2011). It tries to contribute to the economic growth by supplying foreign capital, and crowding in additional domestic investment (Jenkins & Thomas 2002, 12). Economic growth fundamentally depends on both domestic and foreign investments, particularly for developing countries (Mello 1997).

FDI add values to economic growth through a number of mediums. For instance, it advances technology, management, labor skills, and enhance tax revenues in host countries (Todaro & Smith 2003; Hayami 2001). Equally important, ‘innovation’ is another direct advantage of FDI. Local firms in the host countries try to innovate as much as possible in order to remain competitive by increasing competition (Ikiara 2003, 16). There are some advantages in the shape of externalities as well. These externalities can be in the form of imitation, licensing, acceptance of foreign technology, employee training, and the preface of innovative ways by foreign enterprises (Alfaro, Chanda, Kalemli-Ozean & Sayek 2006, 1). In addition, the employment creation prospect has been a major role of FDI since it started implementing by the host nations. It can have either a direct or indirect approach to generate employment opportunities. Results shows that an indirect approach can be superior to the direct approach and it can stimulate economic development (Dupuy & Savary 1993, 115).

Countries can have both the inward investment as a host country and outward investment as an investor of projects in other countries. Todaro (1999) mentioned that investments of FDI are made by big multinational corporations. He perceived multinational corporations as enterprises that controls and carry out production related activities in more than one country, and have headquarters in developed countries. According to

Dunning's (1980) Eclectic theory of FDI, we can identify how outside investors become motivated to invest in other countries. Through his OLI framework, he explicated the determinants of FDI in ownership, location, and internationalization benefits. A country can have any of these advantages to obtain FDI. However, depending on the country's development condition, these advantages can vary (Dunning 1988).

There are four kinds of FDI acquired from OLI theory of Dunning. These are market seeking FDI, resource seeking FDI, efficiency seeking FDI, and strategic asset seeking FDI. The principal aim of market seeking FDI is to go through the local markets of host countries dealing with market size and per capita income, access to regional and global market, market growth, consumer preferences, and the structure of domestic market. The resource-asset seeking FDI seek and secure natural resources, such as, raw materials, lower unit labor cost of the unskilled labor force and pool of skilled labor, physical infrastructure (ports, roads, power, and telecommunication), and the level of technology. The efficiency-seeking FDI is motivated by creating new sources of competitiveness for firms and it goes where the costs of production are lower. And last of all, strategic asset seeking FDI intends to advance enterprise's global or regional strategy, so that it can guide throughout the operation in international market (Faeth 2009; Wadhwa 2011, 220).

FDI is an investment to the host country to obtain lasting management interest (normally 10% of the voting stock) in a business enterprise or else the investor clarified according to residency (World Bank 1996). Less than 10% of ownership is considered as portfolio investment (Ayanwale 2007, 1). There are two ways that can form FDI. Firstly, 'Greenfield' investment which is also known as 'Mortar and Brick' investment and secondly, 'Merger and Acquisition (M&A)', which involves acquisition on the existing field of business rather than creating new investment. Beside of these investment ways, FDI brings back its earnings to the parent enterprise and its partners.

IMF (1999) pointed out that, FDI is a long term investment that foreign investors have durable interest to manage its activities. If the parent country is prosperous than the host country then the capital will likely to flow towards the host country (Muchie et al. 2010, 3). Moreover, the government's successful policy implementation plays an important role to boost up economic development. Its ability to do so mainly depend on her capability to administer a satisfactory number of FDI consists of technological, capital, and managerial resources to increase the present production capacity (Omankhanlen 2011, 5).

For developing countries FDI is one of the major sources of capital; because they have many economic difficulties. Nwankwo (1989) states that the progress of FDI becomes vulnerable by factors like bad macroeconomic management, a fall in per capital income, the high external debt burden, and fall in domestic savings. One of the foremost problems is the deprived external image. On the other side, FDI supports to overcome

the host country's poverty reduction. It depends very much on the host country's policies and institutions, economic situation, the merit of the labor market, nature of the regularity framework etc. (Mayne 1997, 243). According to Kakwani (2000), the positive effects of FDI tend to take over the negative effects; as a result, economic growth and poverty reduction turns out into better form.

## 2.2 Determinants of FDI

Foreign direct investment in developing countries is increasing at a faster speed. Countries are also becoming successful in attracting FDI's. Based on this statement, it is very essential to understand what determinants effectively attract FDI and how these determinants have changed over the years. According to Sahoo (2006, 36), "FDI flowing into any country depends upon the rate of return on investment and the certainties and uncertainties surrounding those returns". He further opines that foreign investors always determine the risk and return based on the context of the host country. In addition, in the host country, foreign investors have different anticipation regarding a host of economic, institutional, regulatory, and infrastructure related factors. Therefore, before making investment, investors look at certain major economic policy issues, particularly relating to trade, labor, governance and regulatory framework, and the availability of physical and social infrastructure.

The most important determinants of FDI inflows can be separated into several policy and macroeconomic factors. Some of the basic determinants of FDI policies are incentives, investment promotion, international trade, performance requirements, investment treaties, and FDI macro-economic factors functioning as infrastructure, human resource, market size and growth, firm specific factors like technology (UNCTAD 2006). A range of research results have established the positive effects of FDI based on market size, economic growth, and the intensity of development (Crenshaw 1991, 1171). Whereas, Bennett and Green (1972) and Schneider and Frey (1985) established a negative connection between FDI and unstable political condition. Furthermore, Kumar (2002) argues that developing countries are affected by host factors such as income, taxes, distance and good quality infrastructure such as transport, telecommunication, energy and information as a positive and important determinant of FDI. However, there are several fundamental determinants such as geographical location, resource endowment and size of the market, which cannot be controlled via national policy (UNCTAD 2003). Nevertheless, host countries can act on their economic determinants to enhance their economic prospective (Sahoo 2006, 36).

### 2.3 Infrastructural Facilities and FDI

Economic development is highly connected with infrastructural facilities. The rate of return gets higher only when there is adequate investment on the improvement of infrastructural facilities (Bivens 2012). American Heritage Dictionary of the English Language (1996, 927) defined the term ‘infrastructure’ as “an underlying base or foundation especially for an organization or system; the basic facilities, services, and installations needed for functioning a community or society”; such as transportation and communications systems, water and power lines, and public institutions including schools, post offices and prisons (Tahmisoglu & Özen 2009, 53). Below Figure 2 End process of infrastructural facilities shows the end process of infrastructural facilities.

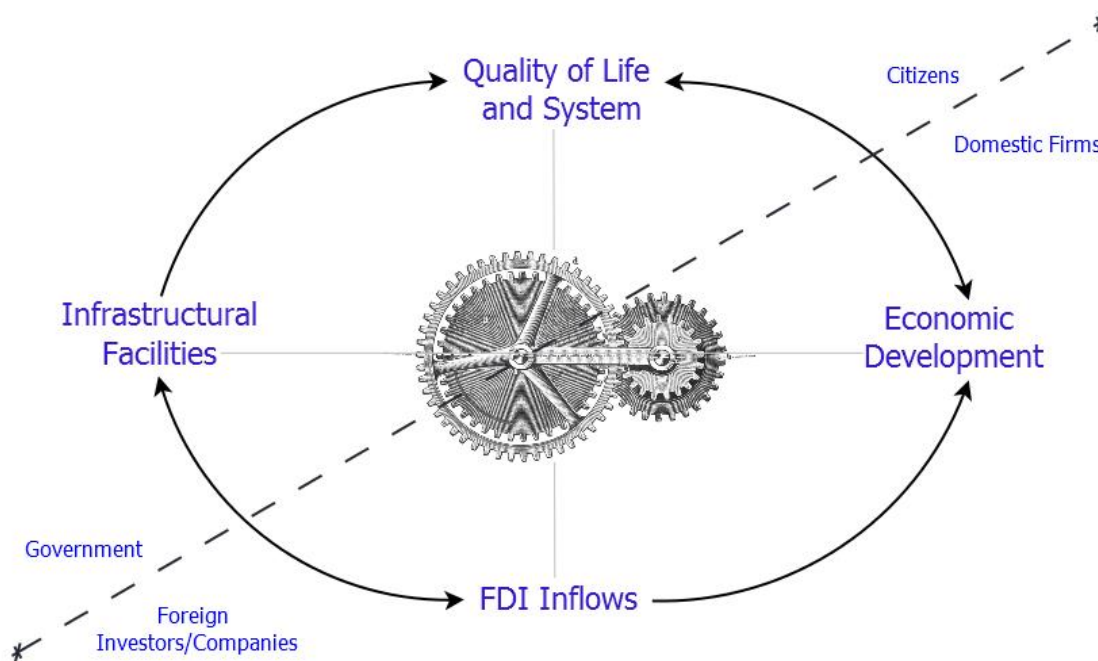


Figure 2 End process of infrastructural facilities

We already know that FDI inflow can have positive impact on economic growth. Particularly, when this impact takes place because of the contribution of infrastructural facilities, it includes a number of actors in the process, and has some other benefits than FDI inflows. Figure 2 End process of infrastructural facilities shows that different actors, for instance, government and foreign investors in one side is responsible for improving infrastructure facilities, and quality of life and system. This generates more FDI inflows in the country. As a result, this enhances economic development, which is also partially enhanced by domestic firms as an actor. Next, this economic development improves the quality of life and system according to infrastructural facilities and thus, citi-

zens receive a better life and further acts as labor force to make the infrastructure stronger.

A strong infrastructural environment can produce not only FDI inflows but also domestic investment. Hence, we can say that infrastructure has both direct and indirect impact on economic growth (Udjo 2000). This impact much depends on how a country is shaping its natural resources to facilitate quality infrastructures. Infrastructure quality is a key variable for developing countries, which are looking for FDI's from the United States; however, it is not highly important for developed countries since they already have good infrastructures (Wheeler & Mody 1992, 71).

Part of the development of a country also depends on natural resources. Bangladesh is sanctified with full of natural resources. This resource can play a major part in developing the country's economy. However, the government is not giving much attention in it. Political and leadership issues are hampering this matter. Frischmann (2007, 29) relates to the term infrastructure as resource systems that is responsible for the improvement of the environment and society. These resource systems include transportation, telecommunication, energy, governance, and other public utilities. These terms, especially "governance" is discussed more in section 5.2. Kirkpatrick, Parker, and Zhang (2006, 150) point out that, 'governance' covers dimensions such as quality of public institutions, together with government efficiency and effectiveness.

There are two types of infrastructures: hard and soft. According to Neil Chambers (2010), hard infrastructure points to physical facilities and/or installations and this is required to control a system with the intention that it will provide service everlastingly. As an example, when communication towers, roads, railways are built, the target for them is to be on that place for a long period of time. On the other hand, soft infrastructure is allied to institutions; this retains the standard of a culture, for example health, education, law enforcement, and emergency services. Together, hard and soft infrastructures play a crucial role for country's development. High-quality physical infrastructure supposes to attract more FDI inflows towards the country.

It has been seen that to improve the quality of life, facilities such as economic and social, constructs a better environment. Infrastructure as the aggregate of all facilities allows a city to function effectively (Nubi 2002). According to the Bangladesh quarterly economic update (2014, 3), Bangladesh is in need of intense investment on infrastructural facilities to obtain comprehensive economic growth. This investment will provide better infrastructure and higher connectivity to expand the economy. Moreover, it will enhance capital efficiency, labor productivity, and total factor productivity growth to maintain the continuous up trend of economic growth.

## 2.4 Theoretical Part

There are quite a lot of theories based on foreign direct investment. Many of those endeavored to assess the contribution of FDI from a positive and negative perspective. The essential purpose of this discussion will be based on economic theories such as neo-classical theory, product life cycle theory, endogenous theory, and dependency theory.

### 2.4.1 *Neo-Classical Theory*

**Neo-classical theory**, from its beginning, has passed an age to become the basic principle in advanced economics. Capital formation intensity can possibly influence FDI and economic growth (Adhikary 2011, 16). Moreover, capital investment in long term assurance is an exceptionally important requirement for economic growth (Adams 2009, 939-949). The neo-classical theory believes that developing countries with insufficient capital economy can receive entailed financial support from FDI in the form of long-term investment and this will assist to boost the economic growth rate in short-run by rising marginal productivity capital. Furthermore, it has three driving forces such as labor, capital, and technology to control a stable economic growth rate. The theory briefly outlined that by varying the amount of production source, with the capital and labor as determinants of the out-turn, balance position can be accomplished. However, as soon as new technology becomes accessible, both the labor and capital needs to be accustomed to uphold growth equilibrium. Clearly, this theory constructs a strong bond in between FDI and economic growth development specifically in developing countries.

### 2.4.2 *Product Life Cycle Theory*

According to Edoumiekumo (2009), the **product life cycle theory** stands for the cheaper cost of production that holds the existence of FDI. It explains that, enterprises from developed countries first produce their products in which they have undergone with research and development. Then, over the period of product life cycle, production becomes mature such as capital intensive and moves to foreign location. Thus, the process ends up producing the product elsewhere, and after that imports it back into that country. Product life cycle theory has four stages:

Firstly, innovation, production, and sales are introduced in the parent country; Secondly, in the growth stage, the parent enterprise seeks for foreign production with attributes like increasing export by the innovating (developed) country, escalating competition, and capital intensity; Thirdly, in the maturity stage, parent enterprises reduce exports



from the innovating country and they focus more on product standardization, capital intensity, and enhance competitiveness of price; Finally, in the last stage, the decline stage, concentrates on the production in LDCs and the innovating country turns into net importer. These stages of 'Product life cycle theory' resemble a rising progression of globalization.

On the other hand, assimilation of the world economy nullifies this theory. Globalization is meant to break trade barriers so that the innovating country without any difficulty can manage cheap aspects of production from LDCs. Furthermore, this theory also resembles classical theory in some ways. For instance, moving production from the innovating country to the host country signifies as an increasing tax base and foreign exchange earnings, transfer of capital and technology, improving infrastructural development and balance of payments (BOC), generating employment, and last but not the least going globalized (Edoumiekumo 2009).

### **2.4.3 Endogenous Theory**

**Endogenous theory** states that, the faster level of innovation and additional funding in the human capital can be connected to the development of productivity. This theory emphasizes that a higher level of capital investment receives an increasing rate of return. Moreover, research and development (R&D) needs private funding as the vital source for technical advancement. Several economic models of endogenous growth have been used to inspect the consequences of foreign direct investment on the economic growth via the diffusion of technology. Romer (1990) mentioned that, the power of human capital through R&D can enable FDI to enhance economic growth (Barro 1990; Barrell & Pain 1997).

Shifting technology and spillovers from FDI are able to increase economic growth in long-run; however, the degree to which this happens fundamentally depends on the stock of human capital and the absorptive capability of enterprises in the host country (Borensztein, De Gregorio & Lee 1998, 115-135). Helpman (2004) point out that, endogenous theory highlighted a couple of significant channels for investment to affect economic growth; firstly, through the effect on the scope of available products and secondly, through the effect on the stock of knowledge available for R&D.

### **2.4.4 Dependency Theory**

The last theory going to be considered is **Dependency theory**. While all the theories discussed above confirmed that the countries depend on FDI should have positive im-

pact on economic growth, dependency theory argues that it would have negative impact. It explains that foreign direct investment from developed countries can harm the economic growth of developing countries in long-run. Furthermore, natural resources of developing countries are ineffectually compensated; hence, they have to face continuous poverty (Patrick 2012).

Dependency theory affirms that, developed nations turned into prosperous by drawing out labor and additional possessions from poorer nations. Singer (1950) and Prebisch (1968) argue that, recipient countries of FDI obtain insignificant benefits, since a good number of the benefits are relocated to the multinational firm's (MNF) country. Prebisch (1968) approaches a very clear-cut clarification for it: poor nations, in the beginning, exports principal merchandises to rich nations in order to manufacture the products and then the ready products out of those merchandises are sold back to the poorer nations. Thereby, for poorer nations, it is hard to earn from their exports and compensate for their imports. At this point, it simply shows that the FDI and economic growth has a negative connection.

#### **2.4.5 Theoretical Framework**

The selected theories for this research provides different outcome of foreign direct investment. Theories such as neo-classical theory, product life cycle theory, and endogenous theory finds a positive outcome from FDI. On the other side, dependency theory confirms the negative elevation of FDI. Figure 3 categorizes the above explained theories to simplify this research work.

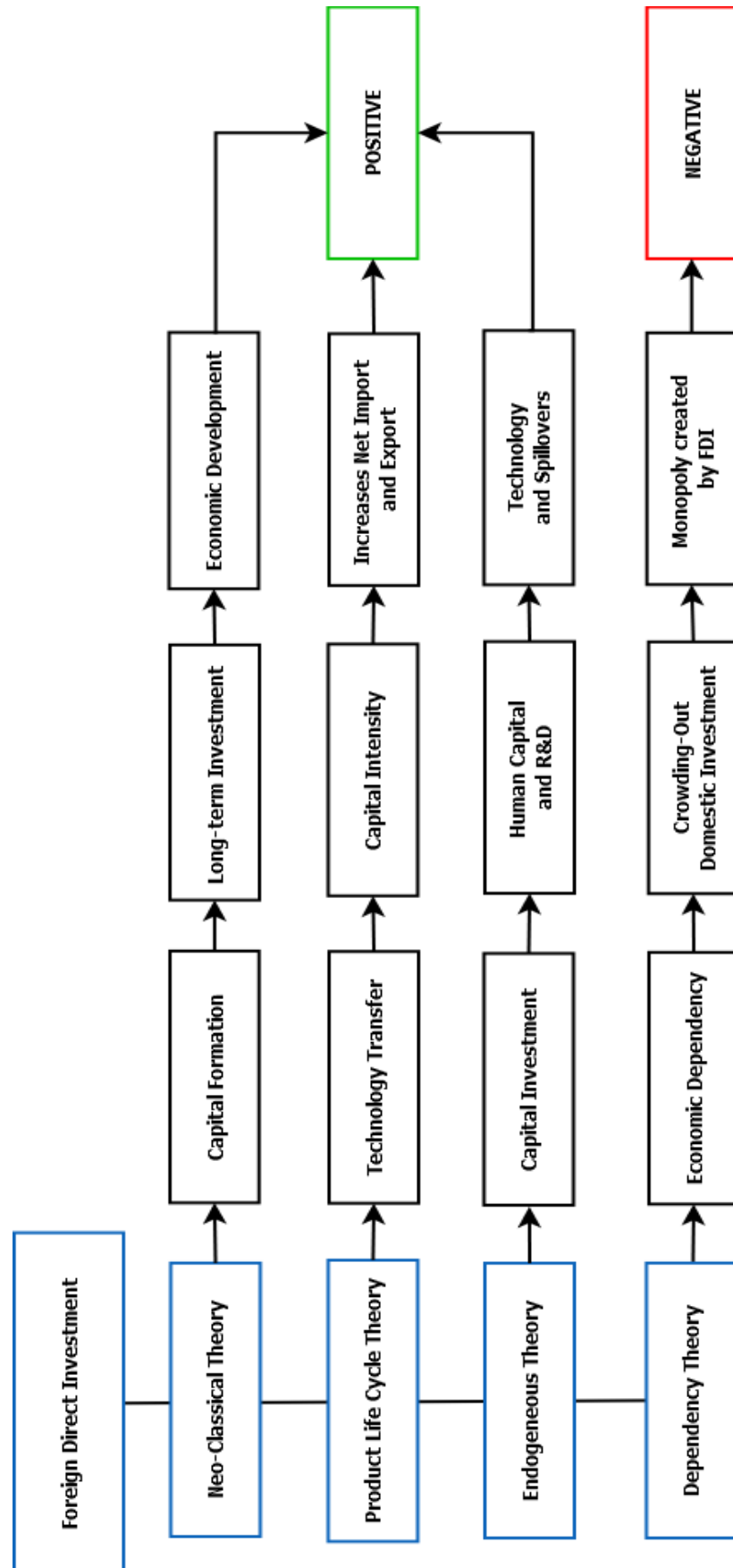


Figure 3 Theoretical framework

According to foreign direct investment, the end result may vary depending on various matters. In neo-classical theory, matters like capital formation, long-term investment and economic development leads to a positive outcome. Furthermore, technology transfer, capital intensity and increase of net import and export carries a positive result by product life cycle theory. In addition, endogenous theory clarifies that capital investment, human capital and R&D, technology and spillovers can also direct FDI in the positive route. However, dependency theory proved to be wrong on the above explained theories. Dependency theory justifies that economic development through crowding-out domestic investment and monopoly created by FDI increases the chance of having negative effect from FDI.

## **2.5 Foreign Direct Investment: A Critique**

At present, a great deal of debate on FDI and economic growth has received the attention all around the world, especially in developing nations. FDI is known to be having both positive and negative effects on economic growth. Researchers scrutinized this matter to come up how much wealth or damage it can bring to the host country. It has been seen over the years that, developing countries due to having poor form of major determinants of FDI, particularly infrastructure facilities in the country, fall short of attracting FDI's.

Carkovic and Levine (2002) disputes that, FDI does not convey any strong positive influence on economic growth. For instance, new technologies and organizational methods may not fit into the smaller local competitors because of their lack of knowledge and experience to adjust these. On the other side, many researchers established a positive outcome from FDI and its connection with economic growth. Among them Caves (1996) insists that the underlying principle for greater attempt to pull more foreign direct investment stems from the belief that foreign direct investment has several positive effects and it includes productivity gains, technology transfers, the introduction of new processes, managerial skills, know-how in the domestic market, employee training, international production networks, and access to markets. FDI is considered as a practical process in linking technological and resources gap of underdeveloped nations (UNCTAD 2005).

### 3 BANGLADESH AND FOREIGN DIRECT INVESTMENT

This chapter is intended to provide extensive information on the relationship in between Bangladesh and foreign direct investment. Five different sections of this chapter are designed to provide information sequentially. Overall, this chapter will facilitate the history, functional activities, growth, operational meaning, and consequences of foreign direct investment on the economy of Bangladesh.

#### 3.1 Definitions of Foreign Direct Investment

According to Organization for Economic Cooperation and Development (OECD)'s benchmark definition of foreign direct investment 3<sup>rd</sup> edition (OECD 1999):

*“Foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy (direct investor) in an entity resident in an economy other than that of the investor (direct investment enterprise).”*

Bangladesh Board of Investment (2004) defined, FDI has three core parts; Equity Capital, Reinvested Earnings, and Intra-company Loans. Equity Capital refers to ownership and a foreign investor's purchase of shares of an enterprise that is in a country other than his own. Reinvested earnings refer to the investor's share of earnings that are not distributed back to him, i.e. profits that are not given out as dividends but kept within the firm (or any of its affiliates) as retained earnings. And lastly, intra-company loans involve debt transactions in the form of short and long-term lending by the foreign parent company to its affiliates. More to the point, Investopedia (2003) defines FDI as following:

*“An investment made by a company or entity based in one country, into a company or entity based in another country. Foreign direct investments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies.”*

### 3.2 Genesis of FDI in Bangladesh

After the independence in 1971, Bangladesh has gone through with many policy reforms but it could not improve the economy in comparison to other low income countries. During that period of time, the country had lack of knowledge, technology, management, and financial ability. There was not any other way to improve the situation but foreign direct investment. Along with other developing countries, it also got influenced by foreign direct investment laws and regulations. As a result, in 1980, the GOB has formed 'The Foreign Private Investment Promotion and Protection Act (FPIPPA)' to regulate the entry of foreign companies by government and to ensure legal protection to foreign investors; though, the scope and coverage were limited. Taking into count this issue, later it has formed 'Investment Board Act, 1989' to promote, handle FDI, and guiding foreign investors (UNCTAD 2013a).

Bangladesh started believing in FDI from 1990. In that year, the country unlocked the door of economy and started attracting foreign investors. Development perspective towards FDI had changed significantly (World Development Report 1991). In 1980, when developed countries were up to adopting FDI, Bangladesh had zero figures for its FDI, which increased effectually to \$300 million in the end of 1990, and it stood at around \$692 million in 2005. According to the report of 'Doing Business' by World Bank and IMF, Bangladesh ranked 68<sup>th</sup> as a starting business among 175 countries. Mortoza and Das (2007) have empirically proved that FDI in Bangladesh had an impact from liberalization of trade (more about this is discussed in section 5.3). Its large population and low-cost labor force offers attractive value for foreign investors. Among all the natural resources, the biggest FDI inflow of Bangladesh receives from its natural gas sector. This sector had successfully attracted corporations like Unocal, Shell, and Cairn energy (UNCTAD 2000, 19). Importantly, the country has moved from its agrarian economy to an industrial economy.

The People's Republic of Bangladesh encourages FDI towards its economy and to do so it has been taking all the necessary positive steps over the years. It has two key institutions: Board of Investment (BOI) and Bangladesh Export Processing Zone Authority (BEPZA). Under the Investment act of 1989, the Government of Bangladesh had established 'BOI'. It endorses and assists all kinds of industrial investments in private sectors from domestic and international level. In addition, it welcomes and guides foreign investors to make the investment procedure easier. Furthermore, investment act of 1980 had established 'BEPZA' and it assists all the export affairs. Moreover, there is 'Bangladesh Small and Cottage Industries Corporation (BSCIC)', which handles and promotes all sort of smaller domestic and international investments.

### 3.3 Interrelationship between Bangladesh's Economy and FDI Growth

The history of Bangladesh shows that, how strongly the country achieved a good position in terms of FDI inflows in South Asia. The importance of having it is immeasurable. Since the domestic capital was very low in the country, FDI inflows eventually filled the gap from 1990. Now because of this, domestic capital has increased a way more than foreign investment capital.

Every sector is not equally holder of FDI inflows in the country. Hirschman (1958, 109) identifies that, depending on the strengths of the sectors, FDI inflows obtain technologies to create a connection with rest of the economy. He further identifies that, in comparison to other sectors, agriculture and mining sector receives weak response from FDI; thus, this can have a weak result on the economic growth. From Bangladesh's perspective, majority of its FDI inflow receives by manufacturing sector followed by transport, storage and communication sectors. More about this is discussed and analyzed in chapter 5.4.

The Government of Bangladesh is putting lots of effort to achieve certain targets in upcoming years. For instance, in *The Daily Observer*, Islam (2015) mentioned that, the prime minister (PM) Sheikh Hasina is very concern about the investment climate and has a vision to make Bangladesh a middle-income country by 2021. Moreover, he stated that, in last five years, whenever the PM visited a country, tried to convey the opportunities and attractiveness of doing business in Bangladesh to them. This certainly can boost the confidence of foreign investors of different nations. In most recent, the senior vice president of India, Mr. Moody ranked Bangladesh superior than Pakistan and Sri Lanka, although to some extent lower than India.

FDI inflows have dramatically grown in the economy of Bangladesh from \$666 million in 2007 to \$1599 million in 2013. BOI officials are predicting that, once the mark will cross \$2 billion in 2015, it will be possible to reach \$5-7 billion in just five years by our present government (Islam 2015).

### 3.4 Incentives to Foreign Investors

OECD (1989) defines the term incentives as a government measure that attracts foreign investors to influence their decision making towards the host country; taking the possible investment, escalating profit, and reducing related risks from them. The GOB is enthusiastically improving the nature of incentives whenever it is necessary. In addition, there are marketing teams to promote this as well. Below table 1 shows the list of incentives and facilities that the GOB provides to the foreign investors.

Table 1 Incentives and facilities to attract FDI

Incentives	Facilities
1. The established industries before 1 <sup>st</sup> January, 2012 can enjoy 10 years' tax holiday and for the industries which set up after 31 <sup>st</sup> December, 2011 enjoys the tax exemption for the first two years is 100 percent and tax exemption is 50 and 25 percent for the next 2 years and 1 year respectively.	1. No UD, IRC, ERC and renewal of Bond license, secured and protected bond bonded area and accords residents and citizenship
2. Duty free import of construction materials, machineries, office equipment and spare parts, raw materials and finished goods	2. Import on Documentary Acceptance (DA) allowed
3. Relief from double taxation and exemption from dividend tax	3. Back to back L/C
4. Duty and quota free access to EU, Canada, Norway, Australia etc.	4. Import and Export on CM basis allowed
5. 100% foreign ownership permissible and no ceiling on foreign and local investment	5. Import from DTA (Domestic Tariff Area) and 10% sale to DTA (Domestic Tariff Area)
6. Foreign currency loan from abroad under direct automatic route	6. Sub-contracting with export oriented industries inside and outside EPZ allowed

Source: Export Processing Zone (EPZ), 2014

### 3.5 Bangladesh and Its Economy

Bangladesh has experienced a striking increase of foreign direct investment over the last decade. It has been regarded to offer attractive investment climate in contrast to other South Asian countries. In comparison to other South Asian countries, Bangladesh has relatively low FDI inflow. FDI came to be very essential for Bangladesh taking into consideration that it brings foreign investors into the country. Lack of financial resources and technological advancement were always being a threat for the economy of



Bangladesh. To recover the situation, it requires proper financial and technological improvement in all the sectors (Bodiozzaman 2008, 19). Bangladesh government has recognized the importance of FDI thereby tried to reorganize its legal structure and other sectors. These reorganize facilitated the entry of FDI at present.

According to Bangladesh bank, in the past decade, due to progress of micro credit and garment industry, the country has recorded GDP growth rates above 5 percent. Overall the GDP growth rate is above 6% (Cia.gov 2015). This increasing rate has a major contribution from the developed export-oriented industrialization. Exceptionally, textile industry has been the strong dominator of total export at the rate of 16.5% per year in comparison to 10% of other export sectors and this rate is increasing continuously (Financial Times 2015). Bangladesh textile industry has ranked as second largest in the whole world after China (Dhaka Tribune 2015). In addition, other sectors such as ship building, electronics, pharmaceuticals, ceramics, and leather goods have identical contributions to the GDP growth. Additionally, Bangladeshi diasporas provide a huge amount of remittance as foreign exchange.

On the other side, having the most fertile regions in Earth, Bangladesh is capable of producing a large number of rice, tea, jute, sugarcane, wheat, and cotton. This productive nature ranked the country as fifth largest for seafood and fish producer (Bangladesh Investment and Business Guide 2015). Moreover, the country is blessed with demanding natural resources like gas and coal. International energy based corporations are engaged with these production systems. Besides, under the 'Digital Bangladesh' scheme, the GOB has strong attention on hi-tech and software industries. This attention successfully attracted foreign investors particularly for telecom industry; as a result, the country has observed speedy growth over the last decade. On the other hand, geographical area made Bangladesh a point where regional neighbors are interested to acquire benefits of Bangladeshi railway and port systems. Thus, it makes the country as a potential center of regional logistics.

Despite of having many problems such as weak infrastructure, corruption, political instability, inadequate energy systems and so on, the economy of Bangladesh has grown at a rapid pace of 5-6% every year since 1996 (Cia.gov 2015). However, the country is still on the list of poor countries in the world with overpopulation and insufficiently-governed nation where 45% population is employed in the agriculture sector (Cia.gov 2015). Regard to this situation, the GOB is trying hard to overcome the image and as a recent success, Bangladesh has moved from 'low income' country to 'lower middle income' countries. This indicates the positive sign to take out the countries' name from the list of poor countries very soon.

## 4 RESEARCH DESIGN

Prior to proceed with this research, a research method is required which can proficiently answer the research questions of this study. Hence, this chapter shall discuss about the research methods in general and the selected method for this research. Furthermore, specific explanation and structure will be presented to show the planned progress of this research.

### 4.1 Research Approach and Method

During the time of developing the conceptual understanding on FDI and economic growth, the researcher has figured out that a lot of studies have been already accomplished on this field based on Bangladesh. Particularly, foreign direct investment is covered through different studies. However, it does not have conscious effort on recent situations and FDI inflow. Moreover, the interesting aspect of infrastructural facilities involvement in the process between FDI inflows and economic growth has not been explored yet. Therefore, in this research, the researcher is going to exploit this issue depending on mixed method research.

Mixed method research is one of the significant research methods of all time. According to Kuhn (1962), this research method takes third major position in the research paradigm after qualitative and quantitative research methods. Creswell (2003, 12) states that, "*in mixed methods research, investigators use both quantitative and qualitative data because they work to provide the best understanding of a research problem*". This research method is an approach towards knowledge of theory and practice, which taken into account multiple viewpoints, positions, perspectives, and standpoints (Johnson, Onwuegbuzie & Turner 2007, 113). This study requires mixed method research in order to answer respective research questions. To understand the present scenario of infrastructural facilities in Bangladesh, it requires qualitative research. Furthermore, to analyze its impact on FDI inflows to economic growth, it is essential to conduct this research based on quantitative method as well.

Many scholars find these two research methods as opposed to each other. However, both of these research methods can contribute simultaneously to create a new theory or evaluating the existing one, thus, to contribute valuable knowledge based on the research questions. Houman Andersen and Wagtmann (2004) mention that, research approaches can be as different as like modeling or commentary papers, qualitative, quantitative and view-oriented. They further affirm that, modeling or commentary papers are used to compile general commentaries and to develop a new theory. Moreover, qualitative approach is for linking primary source of data via interviews or secondary data

based on the internal company credentials, and archival texts. On the other side, quantitative approach is for testing the casual relationships or the validity of a proposition based on quantitatively measurable data (Houman Andersen & Wagtmann 2004, 466).

In contrast to quantitative research, qualitative research method is much more capable of having in-depth understanding and analysis on the research phenomenon (Silverman 2005, 89; Danailova-Trainor & Laczko 2010, 69). Additionally, through qualitative research method, the final written report can have flexibility upon the structure such as free narrative, whereas, quantitative research method possesses a fixed structure (Creswell 2009, 3-4). In fact, it is largely depending on the research questions and the structure of the written report.

A qualitative research approach has been preferred to accomplish a part of this study. According to QSR international, “*qualitative research is about exploring issues, understanding phenomenon, and answering questions by analyzing and making sense of unstructured data*”. This research method scientifically utilizes a specific set of procedures to gather data, answer research questions, and generate findings that were not obtainable in advance (Mack, Woodsong, McQueen, Guest & Namey 2005, 1). In addition, it follows to express certain events, identify the actions, and present a theoretically justified analysis of the phenomenon (Eskola & Suoranta 1998, 61). Nevertheless, this research method is exceptionally suitable to answer the research questions of this study.

Infrastructural facilities involvement into FDI inflows and economic growth is a new phenomenon that yet to be discovered in many countries particularly in Bangladesh. Its role in the process of FDI inflows and economic growth has not been detained by any author yet. Thus, qualitative research approach will provide the necessary data to cover the interrelated issues. These interrelated issues are strongly related with social and human problems respectively. Hence, research questions related with infrastructural facilities requires descriptive answers that qualitative research method can be the best fit for this study. Creswell (2009, 4) highlighted that qualitative research is relevant “for exploring and understanding the meaning individuals or groups ascribe to a social or human problem”. More precisely, aim of this study is to give in-depth understanding to the selective issues related with FDI inflows and economic growth.

In-depth understanding via qualitative research is able to give imagination of those selected issues. This is highly essential in order to contribute on the existing knowledge. According to Woods (2006), qualitative research is able to present depth understanding of the phenomenon. Moreover, this method is able to answer questions such as what, when, where, and how. In addition, based on the phenomenon of this study, qualitative research method apprehends opinion, culture, act, and denotation. Figure 4 displays the multiple focal points that are capable of finding the appropriate answers of the research questions.

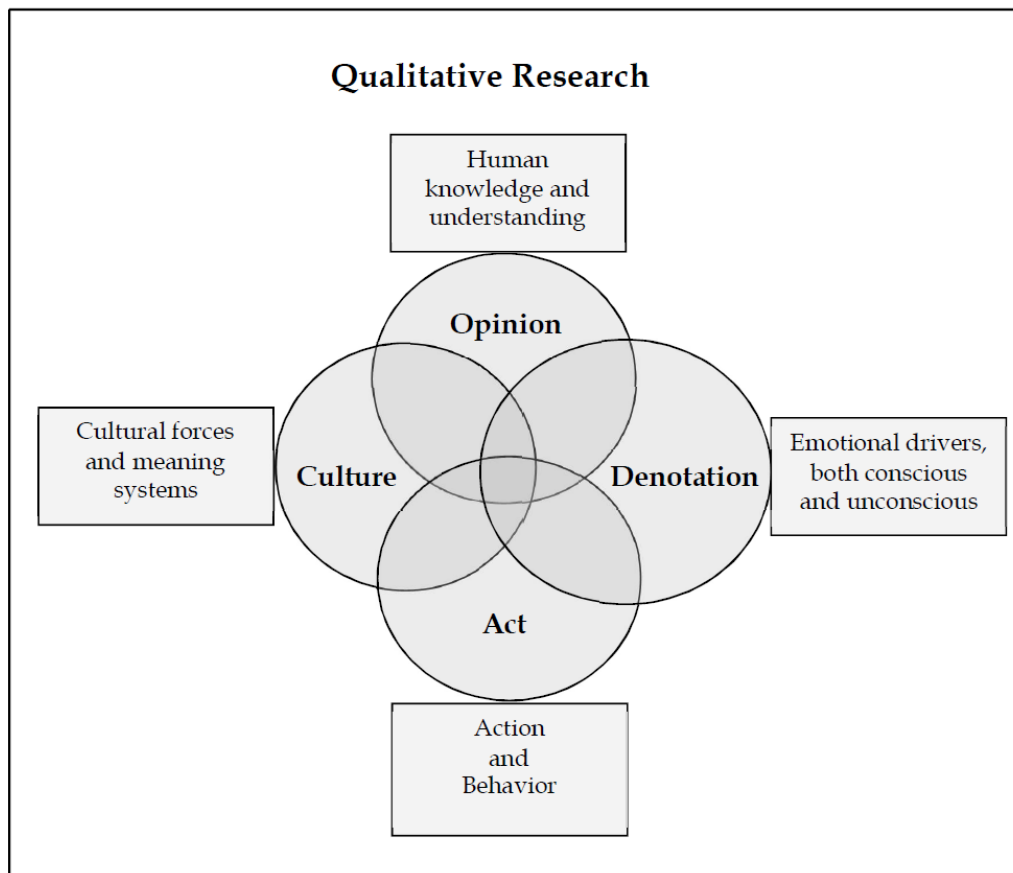


Figure 4 Multiple focal points of qualitative research (Mustak 2011, 50)<sup>4</sup>

Here, opinion refers to the intensity of understanding and knowledge about the substance, and conscious mind on the research that are required to do a scientific research. Equally important, denotation resembles both conscious and unconscious emotional drivers to comprehend the awareness. Besides, act is the insightful of actions performed by the subject and their own observation of it. Furthermore, culture refers to the structure of the phenomenon which includes norms, codes, and shared meanings.<sup>5</sup> Finally, there are three facts that required choosing qualitative research and completing a part of this research. These three facts are to understand the actions, validate, look for the reasons underlies of behaviors and seek the details of the surface.

Qualitative research method does not generate statistical data, rather it explains and hubs on the action, then to analyze with theoretical background and ends up with proper solution (Yin 2003, 10). Additionally, this method focuses each and every detail possible through verbal and non-verbal behaviors, to pierce fonts, complexity of issues, dis-

<sup>4</sup> Originally this figure belongs to Qsrinternational.com, modified by Mustak M., 2011

<sup>5</sup> For example, see QSR international

cover meanings and subtlety (Mustak 2011, 49). By nature of this study, its logic type is inductive. Ormerod (2010, 1210) defined inductive as the inference from the particular to the general and obtain conclusions depending on the observation or a pile of data.

Due to the uniqueness of this research, part of the characteristics of different subjects needs to be obtained quantitative research method. This mode of research is one of the traditional research methods. Earlier I have mentioned that this research type is opposed to qualitative method. However, it is not always the same case. For instance, depending on the research questions and objective of the study, research methods are taken into account differently (Mariampolski 2001, 22). She has also mentioned that quantitative method is capable of answering questions like ‘how much’ or ‘how many’. Moreover, this method is regarded as primary study along with scientific goals (Koskinen, Alasuutari & Peltonen 2005, 24) and to go underneath of the phenomenon, quantitative approach gives a cautious way (Hirsjärvi & Hurme 2004, 127-8). Underneath figure 5 shows the process used to complete a part of this research using quantitative method.

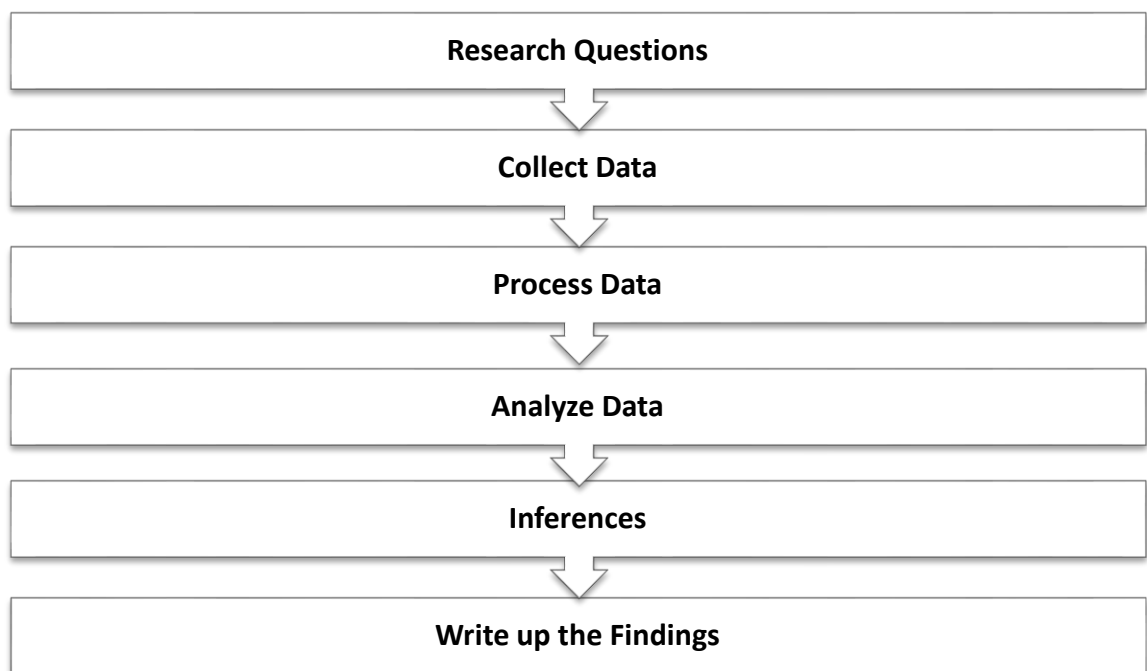


Figure 5 Quantitative research process

The ultimate purpose of the quantitative research is “to measure and analyze causal relationships between the variables within a value free network” (Sale, Lohfeld & Brazil

2002, 44)<sup>6</sup>. This method deals with a number of statistical data based on predetermined instruments. Besides, to develop knowledge, researcher in this approach, follows post-positivist assumptions and the stage of inquiry is experimental design (Creswell 2003, 20).

In terms of justification, Greene, Caracelli and Graham (1989, 259) provided a design of mixed-method research. This design contains five different justifications combining both qualitative and quantitative research.

- Triangulation: this seeks results such as convergence, correspondence, and corroboration from the different methods.
- Complementary: “seeks elaboration, enhancement, illustration, clarification of the results from one method with the results from another” (Greene et al. 1989, 259).
- Development: “seeks to use the results from one method to help develop or inform the other method, where development is broadly construed to include sampling and implementation, as well as measurement decisions” (Greene et al. 1989, 259).
- Initiation: “seeks the discovery of paradox and contradiction, new perspectives of frameworks, the recasting of questions or results from one method with questions or results from the other method” (Greene et al. 1989, 259).
- Expansion: “seeks to extend the breadth and range of enquiry by using different methods for different inquiry components” (Greene et al. 1989, 259).

Concerning the design, this research follows triangulation to provide justified answers of the research questions. This is because, only one part of the research, following qualitative or quantitative will not be able to provide results that make sense. Hence, through mixed-method research and triangulation, this research is committed to present superlative findings based on the phenomenon. In one part – using qualitative research method – issues such as determinants, infrastructural facilities, affecting factors, economic growth and inflows of FDI based on Bangladesh is researched according to research questions. In another part – using quantitative research method – all the selected numerical data is assessed to provide justification to those qualitative research findings and research questions.

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<sup>6</sup> Original text: Denzin, N. K. – Lincoln, Y. S. (1994) Introduction: Entering the field of qualitative research. In: N. K. Denzin and Y. S. Lincoln (eds.), *Handbook of Qualitative Research*. Sage Publications: Thousand Oaks, CA.

## 4.2 Data Collection

As previously mentioned, mixed method research has been chosen to complete this research; therefore, secondary source of data is taken into consideration for data collection. This source can be defined as the “analysis of already existing data collected for other purposes” (Ganeva 2012, 47). Moreover, this research is entirely designed and conducted based on secondary source of data in the form of diverse materials. The reason for selecting secondary source of data collection method was specifically determined by the opportunity it provides to gather authentic, valid, and reliable data which are appropriate to the research objectives of this study.

This study is interested in the major determinants and role of infrastructural facilities in Bangladesh. It aims to investigate the time series data of 1980-2014. By nature, this study follows ‘external desk research’ in order to achieve its outlined objectives. According to Management Study Guide (2015) ‘external desk research’ is conducted outside of the organizational boundaries along with collecting relevant information. Both the quantitative and qualitative data collected sequentially. First, to explain the research questions based on the qualitative research, such as infrastructural facilities and the FDI inflow scenario of Bangladesh were completed. Then, for the analyzing section and research questions related to it was accomplished. However, both of these research methods have equal priority for data collection in this research process.

To enrich the understanding on infrastructural facilities and its role, different journals and articles are considered. In addition, to present the current situation of infrastructural facilities of Bangladesh, several newspapers, blogs, and empirical evidence are evaluated. Furthermore, different data sources from online, particularly government published data was mainly collected from the authentic government websites of Bangladesh. Several reports such as ‘Bureau of Economic and Business Affairs’ was used from government approved websites. Annual reports were the most important tool that was considered to analysis various perspectives related to infrastructural facilities, FDI inflows, and economic growth. Thus, the website of Board of Investment (BOI) Bangladesh was fully utilized to gather the relevant reports. However, the most recent reports available in the website are in ‘Bangla’ language (native language of the Bangladesh), which are converted to ‘English’ form for further analysis. More about of this is mentioned in next section.

Furthermore, annual reports of different ministries and institutions are evaluated, exceptionally ‘Ministry of Finance’ of Bangladesh. In addition, published printed booklets and investment surveys of Board of Investment (BOI) are collected to analyze from several sources such as online newspapers, magazine, and as mentioned earlier from the website of BOI. Additionally, different information’s related to incentives, rules and

regulations for foreign investors are collected from the government published reports of Bangladesh Export Processing Zone Authority (BEPZA).

Based on the time series data, Key Development Indicators and World Investment Report (WIR) of UNCTAD, Global Competitiveness Report (GCR), and Japanese External Trade Organization (JETRO) are collected through internet. These reports have key role in analyzing the key situations (ex. economy, infrastructure, FDI etc.) among different countries in detail.

### 4.3 Data Analysis

This section focuses on the analysis of the collected data. The key parts of this study are interpretation, analyzing, and writing up the findings. The substance of this study is to clarify the study, develop new knowledge, and construct novel information by investing the phenomenon. However, this should be kept in our mind that the end result is based on the researchers own calculation and interpretation of the collected data. Equally important, after analyzing the data, a summary is developed in order to keep the value of the data.

The outward appearance of this study is mostly descriptive. According to mixed-method research, both qualitative and quantitative methods have been used in the analysis process. Firstly, using qualitative method, it all started reviewing literatures of foreign direct investment and previously completed reports on FDI in Bangladesh. Based on these reports, the researcher structured the present scenario on infrastructural facilities, FDI inflows, and economic growth of Bangladesh. A connection in between these terms has been established in this study. After evaluating the present scenario on infrastructural facilities, most importantly, the researcher tried to come up with the facilities which are lacking in terms of FDI inflows in Bangladesh. Additionally, the positive and negative sides are highlighted for further analysis in chapter 5.

Secondly, using quantitative method, interpreting with statistics is crucial. There is large amount of data available on the selected categories for this research. Hence, it is very sharply completed to import only the necessary data for this research. Such example can be the reports of BOI, these consists statistics that provides information not only on FDI but also other segments of the economy. Consequently, it was taken well care of to add only that information's which are capable of illustrating the expected results. Likewise, reports from WIR, GCR are improvised in terms of data collection. Moreover, as mentioned in previous section, some of the collected data were in 'Bangla' language before processed to analysis; those statistics first converted to English form in order to obtain flexibility in analyzing. To do that, Microsoft Excel has been used and every data sheet is carefully checked several times to make error free.



Information's related with this study such as the trends of FDI inflows, year wise reports on economy are shown in figures and graphs accordingly. Column, line, pie, bar, and radar chart are used to present the best possible outcome of the statistics for this research. In addition, after collecting the data, table is used to organize and present time series of data. Besides, several theories have been used to show the contrast between the results. These theories are neo-classical theory, product-life-cycle theory, endogenous theory, and dependency theory. More of the characteristics of these theories can be found in section 2.4. Most importantly, scholarly opinions and implications are argued thoroughly in the reading.

At first stage in this research process, the researcher researched particularly on infra-structural facilities in general and Bangladesh's perspective. This has been prepared using qualitative method. In addition, according to multi-strategy, the researcher has used quantitative method for further argument and analysis. With the descriptive part, for analyzing, quantitative method is utilized to show statistics. This strengthens the outcome from qualitative method.

#### **4.4 Trustworthiness of the Research**

The importance of trustworthiness is immense for practicing science. Contemporary scholars have always been notified the significance of trustworthiness on the detachment of scientific affirmations, since the aim behind providing science is for practical understanding of the phenomena under study (Peräskylä 1997, 201). A high-quality research must possess the grounds to evaluate the trustworthiness of the study. There are couples of ways to evaluate trustworthiness; these are reliability and validity.

Reliability is intimately related to repeatability of the study (Yin 1994, 36). This is a probability measurement that can assure the study free from random errors. We know that random errors are one of the biggest issues of lacking reliability. From this point of view, if a measurement that have been applied for a long time and capable of providing consistently error free results can be considered reliable. In this research, universal theories of foreign direct investment have been corresponded with the literatures and final result is coherent based on the context of this study. Hence, in my belief, the reliability of this research is justified.

On the other hand, validity refers to the truthfulness and accurateness of the measurement (Korhonen 2005, 164). Here, subject opinions are the assessment of validity based on the judgment of the researcher. Research questions of this study are designed in a way that it can answer truthfully and avoid unclear interpretations. Additionally, biasness and confounding have given special attention to keep away throughout in this

study. Moreover, high awareness is given on choosing literatures for this study; as a result, it has established the validity of this research.

In terms of generalisability, a research finding may be suitable in one setting but may not be suitable in other settings (Yin 1994, 35-36). Regarding this research, Bangladesh in general is taken into account to present the image and solution of the phenomenon. Thus, the findings are appropriate for the whole country. Furthermore, FDI inflow particularly executed in this study, not the whole FDI concept and then its association with infrastructure facilities is revealed. To justify this, both the research methods contributed exceptional view point of the research questions.

According to Hirsjärvi and Hurme (2004, 217), both reliability and validity are more appropriate for quantitative than qualitative research. However, Aaltio and Puusa (2011, 155) argued that these terms fit with both of the research methods. Since this research follows mixed method, reliability and validity are remarkably suitable to justify the transparency and strengths of this research. Moreover, the generalisability provides the extent to which the findings of this research are applicable.

#### **4.5 Limitations**

During this research work, the researcher has faced several limitations in different circumstances. Primarily, there are lacks of up-to-date data channels which are required to do this thesis. In addition, under the official secrets act, several government departments of Bangladesh are prohibited in providing information's without prior permission. As a result, their reports are available neither online nor hard copies. Because of this rationale, author has combined all the available latest and existing information's with the accessible data's. Another major limitation, as mentioned earlier, is the 'Bangla' language of some collected data. Besides, as this phenomenon is completely new from Bangladesh's perspective, it is not easy to connect both the FDI inflows and infrastructural facilities with economic growth due to lack of previously completed research.

## **5 ANALYSIS OF THE FOREIGN DIRECT INVESTMENT INFLOWS IN BANGLADESH**

This chapter is intended to analyze determinants of FDI and infrastructural facilities in Bangladesh. It also critically examines the growth relationships in between foreign direct investment, liberalization, and the economy of Bangladesh. Genesis of FDI, actual meaning of FDI in Bangladesh is clarified in this chapter. Moreover, it focuses on the impacts of FDI and factors affecting FDI inflows in the country. These all have been argued by different authors and theories point of view. In the end, this chapter provides an overview of Bangladesh economies' now and then scenario.

### **5.1 Determinants of Foreign Direct Investment**

Foreign direct investment inflows are fully affected by determinants of the host country. Determinants have the ability to influence FDI inflows; for instance, if foreign investors receive an investment offer from a host country, which has feasible environment with all the necessary structures, then they will positively response to that. There has not been any exact outline in support of appropriate determinants for countries, in general to influence FDI.

Different countries have assorted situations based on infrastructure, resources, political firmness and so on. In that case, Bangladesh is not exceptional. It has some major determinants which influences its FDI inflows in numbers. Dunning (1993) has mentioned in his location advantages theory that accessibility and low cost of natural resource, adequate infrastructure, political, and macroeconomic stability are basic factors that should be fulfilled before engaging in cross border activities. However, determinants vary a lot depending on the prototype of the business. Thereby, foreign investors need to examine and study precisely on the most suitable environment for their business before going for an investment. They can spot the determinants considering the current situation of domestic investments. Following explained determinants are considered as most affecting to FDI inflows in the host country specifically in Bangladesh:

#### **5.1.1 Infrastructure**

Higher FDI inflow requires quality infrastructure facilities within the country. Infrastructure itself is a broad term, which includes roads, ports, communication systems, bridges, railways to institutions like legal services, governance and many more. Foreign investors importantly look for these major determinants in the host country. Good quali-

ty infrastructures can strengthen the efficiency of investments, and hence, stimulate FDI flows (Asiedu 2002). Weak infrastructure facilities may fail to attract foreign investors at first impression, because it creates poor image of the country to them. Availability and reliability of telecommunication services, developed and adequate road and air transport services, reliable water, and electricity supply facilities have vital significance on the profitability of foreign companies and in attracting FDI (Berhanu 1999). Ultimately, poor infrastructure can cost foreign investors on transit their goods and consume lot of time.

Bangladesh has improved their infrastructure facilities in last couple of decades but the slow progress does not seem to attract FDI's in comparison to other Asian countries. Infrastructure facilities not only pull attention of foreign investors, but also develop the quality of life and domestic investments as discussed in Figure 2 (section 2.3). In recent competitive situation, FDI inflows among developing countries, it is guaranteed that the country with most effective infrastructural facilities will lead ahead than others.

### **5.1.2 *Natural Resources***

A country is praised when it is full of natural resources. It has been a great attraction for FDI's all over the world. Does not matter how other determinants are performing in the country, foreign companies always go for an investment on natural resources. For instance, despite of having lack of infrastructure, terrible political situation and so on, Bangladesh is successful in attracting foreign gas companies because of its existing natural gas. This gas sector receives majority of the FDI inflows in the country (UNCTAD 2000). Beside natural gas, the country is blessed with other sources such as timber, coal, water, fertile soil etc. According to Dunning (1993), Europe and North America (then) looks for natural resources to meet economic requirements of mineral and primary products, which eventually expanded FDI.

### **5.1.3 *Labor Cost and Available Efficiency***

Since globalization, companies are looking for cheap labor force to carry on their production in this competitive world. This subject matter appeared to be true because of the available skilled labor and cost effective wages of a country. Konings and Murphy (2006) point out that, beside the importance of wage intensity, skilled labor and its value for production are essential determinants for investment decision. Relating to this, they also mention that, in the post-1992, FDI's from United States were totally unmotivated to invest in the EU nations. This determinant gradually became an important fac-

tor for FDI inflow. It is profoundly connected with development and growth of an economy. In comparison to other major determinants, labor cost has been the most continuous determinants of FDI (Chakrabarti 2001, 99). Usually foreign investors calculate the cost of investment in between the host country and home country. After evaluation, if they find the host country more cost-effective then they go for foreign direct investment.

After asking many foreign investors about the attractiveness of Bangladesh as an investment location, they mentioned low labor cost is the most attractive determinant along with other determinants such as market size, location, openness, and natural resources (UNCTAD 2000, 44). World Bank reported that Bangladesh has 77million labor force as of 2014. Labor cost in Bangladesh is much lower in comparison to other Asian countries like China and Vietnam. This is why garments industry in Bangladesh is receiving enormously high FDI inflows.

#### **5.1.4 Privatization**

FDI inflow gets highly influenced by privatization. It can be considered as a medium for transnational corporations (TNCs) to enter and invest in a country. Bangladesh has adopted and committed to privatization since 1995. It has an official privatization board to look after related issues, and this sends an indication to foreign investors that the government is friendly enough to take initiatives for making a worthy FDI environment. IFC (1997) has confirmed that, sectors under privatization of infrastructure companies such as telecommunication, and manufacturing companies would have huge effect on FDI flows in a country.

#### **5.1.5 Political Firmness**

It is a critical determinant for foreign investors and their multinational companies. O'Neil (2005, 15) explained the key characteristics of an insurgency are politics and violence. He also defined this term as:

*“A struggle between a non-ruling group and the ruling authorities in which the non-ruling group consciously uses political resources and violence to destroy, reformulate, or sustain the basis of legitimacy of one or more aspects of politics”*

There is much debate on whether political firmness has an effect on FDI inflows or not. Some authors like Hausmann and Fernandez-Arias (2000) found no connection in be-

tween political firmness and FDI flows; while Schneider and Frey (1985) had established a strong link in between these two variables. Unstable political condition discourages foreign investors; after all they feel unsecure about their investment. Instability in a host country's government or monetary and fiscal policies results in more uncertain investment outcomes, and detracts from firm value (Brewer 1983, 147-153). Bangladesh regularly faces strikes from opponent parties called 'hartal'. It certainly slows down the entire economic situation in the country. That aside, the country tries to minimize its drawbacks from the situation as soon as possible, and to make the environment politically firm.

### **5.1.6 *Macroeconomic Stability***

Developing countries are facing challenges to overcome their macroeconomic instability in order to encourage FDI inflows. Macroeconomic variables are national income, growth rate, inflation, unemployment, currency, gross domestic product. The motive that works for a country is to have balanced combination of these variables. Only then FDI inflow would start to take place. Exchange rates are considered to influence macroeconomic stability to a great extent. It controls a firm's expected profitability, cash flow, and the worthiness of domestic resources to foreign investors (Erdal & Tatoglu 2002, 24; Maniam 1998). Bangladesh has concerned about these issues and acting accordingly.

### **5.1.7 *Degree of Openness***

A country can successfully pull additional FDI inflows through the openness to international trade. Openness has two types of approach towards an economy; Market-seeking and Export-Oriented. Based on the approach, it has different affects in the economy. Many researchers have found Market-seeking as a positive way for FDI's. 'Tariff jumping'<sup>7</sup> hypothesis explains that trade restrictions on less open economy can bring a positive result on FDI as Market-Seeking. Another essential approach, Export-Oriented MNC's look for further open economies to do business, since trade restriction increases

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<sup>7</sup> In FDI, tariff-jumping permits foreign investors to avoid trade barrier and set up their production in the host country. Ultimately, this reduces the number of trade activities (Blonigen, B. A. – Tomlin, K. – Wilson, W. W. 2004, 657).

export transaction cost. According to Kosteletou and Liargovas (2000), trade openness motivates foreign investors for export-oriented FDI, whereas trade restriction attracts ‘tariff-jumping’ FDI. This initially intends to obtain benefits of the domestic market. More about openness from Bangladesh’s perspective is discussed in section 3.6.

### **5.1.8 Regulatory Framework**

The Government of Bangladesh is extremely aware of the transparent legal framework. Moreover, the country is taking initiatives on regulatory policies to create a favorable business environment. Berhanu and Kibre (2003) emphasized that, well balanced reliable transparent legal and regulatory frameworks enhance both domestic and foreign investments, while inefficient and ineffective legal system hampers the practice of laws and contacts.

To sum up, beside the major determinants explained earlier from Bangladesh’s point of view, there are many other important determinants based on different countries location and situation; such as inflation, foreign debt, geographical propinquity, investment promotion strategy, accessibility of investment fund, trade liberalization, government support, market size, fiscal deficit, exchange rate changeability, and incentive structure. After working on determinants of foreign direct investment and its impact on economic growth, Mottaleb (2007, 1) comes up with a result that, filling the deficient between investment and domestic savings, additionally, introducing the latest technology and management know-how from developed countries, FDI can do a turn on gaining gradual economic growth in developing countries.

## **5.2 Infrastructural Facilities in Bangladesh**

A countries economic development is strongly related with infrastructural facilities. Economic growth and quality of life improves if the nation has standard infrastructure system within the country. From the past decades it has been seen that countries with developed infrastructure are successful in attracting foreign investors, and domestic investors obtain flexibility in doing business. This is how FDI inflows increase as well. This section is discussed based on both hard and soft infrastructures, moreover, on empirical evidence of Bangladesh’s infrastructure facilities. This paper has already defined two types of infrastructures in details in section 2.3. Shortly, hard infrastructure includes transportation, energy, earth monitoring and measurement networks, water manage-

ment, solid waste management, and communication; and soft infrastructure includes governance, education systems, law enforcements etc.

Infrastructure can be identified in various forms such as physical, economic, and social. All these forms are equally important to gain overall infrastructure quality. According to Stone (1974), infrastructure is a sort of physical structure and facilities that is used to improve governmental systems by public agencies and additionally, to supply transportation system, power, waste removal, water and other facilities to cover basic social and economic objectives to gain a quality life style. Oxford Dictionary (2015) defined infrastructure as “*the basic physical and organizational structures and facilities such as buildings, roads, and power supplies needed for the operation of a society or enterprise: the social and economic infrastructure of a country*”. Fox (1994) states that, infrastructure is those social services, which are extracted from a set of public works, traditionally provided by the public sector, to enhance private sectors production, and to allocate domestic utilizations such as hospitals, schools, roads, sewage, water supply etc. Moreover, infrastructure is those kind of mechanical configuration that can support the whole system of a society and provide indispensable amenities to perform for quality living.

The economy of Bangladesh obliges for extensive investment on its infrastructure to advance the quality of it. The GOB has listed 16 sectors as ‘thrust sectors’, which needs special attention on incentives and additional support; infrastructure is one of those sectors. Moreover, the country has always faced shortage of fund to endorse its furtherance of infrastructures. Every year the government faces several challenges to make budget for infrastructure development and its maintenance activity. Hence, it does not obtain enough budgets because of government’s lack of financial resources.

However, many private sources are coming forward to overcome the situation in the country such as World Bank, International Development Association (IDA), Asian Development Bank (ADB), Japan Bank for International Cooperation (JBIC), OPEC Fund for Development (OFID), Saudi Fund for Development (SFD) and many others. According to World Bank, considering the present state of affairs, Bangladesh is in need of \$7.4 billion to \$10 billion per annum until 2020 to construct its infrastructure powerfully. This budget demands to improve the country’s power grids, roads, and water supply up to a degree to serve its increasing population. “*The task would be difficult but not impossible with a concerted effort by governments in the region, where access to infrastructure compares with Sub-Saharan Africa*” (The Daily Star 2014).

Comparing to big Asian countries, improvement in infrastructures, Bangladesh is relatively behind. Though, after evaluating the data from Global competitiveness report (GCR) 2011-2014, it shows that infrastructural facilities have improved. The report further shows that in 2013-2014 infrastructure of the country ranked 132 out of 148 countries and in 2014-2015 it moved to 127 out of 144 countries. This indicates modest im-



provement in infrastructures from last few years. However, in comparison to Asian countries like India and China, Bangladesh is still falling behind from the economic growth to infrastructural development. India ranked 87 and China 46 out of 144 countries in 2014-2015 GCR. If we see developed nations, then it is easily understandable that how much effort they provide to get better infrastructures. For instance, over the years, USA provided special attention to public infrastructures and their seriousness to the country's economy and quality of life (Baker 2005, 1).

While population and engagement of different economic event increases, the need of strong infrastructure arises evenly in Bangladesh. Alam, Mian and Smith (2005, 8) have established that, 76% of their research respondents (foreign investors) are dissatisfied for the quality of ports and around 60% said the quality of transportation is below average. Having these issues on mind, in past decade, the GOB has done major infrastructural improvement on transport and communication, power and energy, education system, and governance services. As per figure 6 shows, these infrastructural facilities are considered as most important for FDI inflows in Bangladesh.

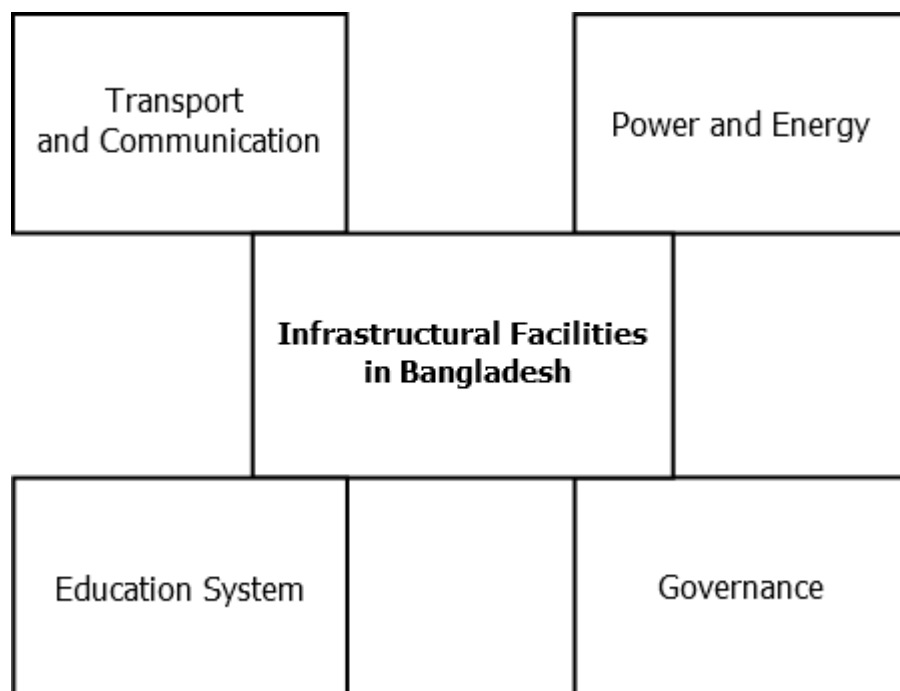


Figure 6 Most important infrastructure requirements for FDI inflows in Bangladesh

It is very important to maintain telecommunication services up-to-date in order to generate foreign direct inflows efficiently in the country. Telecommunication sector has improved massively in last decade. A number of foreign companies have built strong

position in the market such as Grameenphone and Airtel<sup>8</sup>. The GOB provides extra attention to good quality communication service through mobile operators and internet in the whole country. As a consequence, foreign investors are getting priority to do so. Many foreign companies are now operating their services in the country and running it successfully as per their report. The whole nation is now under mobile network and internet accessibility. Therefore, it can be said that, it is one of the strong infrastructures available now in Bangladesh and successful enough to make a competitive market in the country to gain measurable profit from FDI inflow.

According to Bureau of economic and business affairs (2013), to keep foreign investors satisfied and increase FDI inflows, The Government of Bangladesh has enhanced the effectiveness of the prime seaport Chittagong. In addition, a four-lane highway connecting Chittagong and the capital city Dhaka is in under construction. However, extended controversial procurement processes hampering the overall development of infrastructural facilities. In recent, World Bank has raised the issue of transparency in the procurement process of \$3.1 billion for the Padma Bridge project. This project is designed to advance interregional connectivity; however, it is now delayed.

In terms of connectivity, traffic jam is an immense problem in the whole nation. This is the biggest obstacle in current infrastructure system to consume time. Many initiatives are in process to reduce the traffic jam, especially in the capital city 'Dhaka'. Some of those initiatives have already implemented in some areas and received positive results. Based on Canning and Fay (1993, 28) findings, developing nations achieved a high rate of return on transport infrastructure, which shows comparatively positive sign than those of developed nations. Despite that fact, Bangladesh is facing awful time ever for its transportation infrastructure. For instance, the distance between the capital city Dhaka and the biggest port of the country Chittagong has a distance of 150miles, but because of poor transportation system and traffic jam, it can take up to 24 hours or more to move products connecting these two cities (Allchin 2014). As a result, narrow roads and traffic jam increases the transportation cost of the product, and this discourages foreign investors extremely. To overcome the situation, at present, many flyovers have been already established and some are still in under constructions. Philippe Le Houérou, vice president for the South Asia region at the World Bank, said in a declaration that:

*“The World Bank will work harder here to address infrastructure bottlenecks, especially in the power and transport sectors.”*

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<sup>8</sup> Grameenphone is the partner of Telenor Group from Norway and Airtel is from India.

In either way, according to CIA World Factbook, Bangladesh has good infrastructure for its airport services with 16 airports with paved run-ways, and two big international airports in Dhaka and Chittagong. Hazrat Shahjalal International Airport is the biggest in the country and has capability of managing 150,000 tons of cargo and 8 million passengers per year (Hsia.gov.bd 2015).

Good education system can enrich the human capital which indeed generates high number of FDI inflows. Educational institutions have increased in numbers all over the country and reduced illiteracy rate certainly. After testing 69 countries, Borensztein et al. (1998) proved that, high level of education (a measure of absorptive capacity) can increase the economic growth by effective FDI. This happens, when educated workforce spreads the advantages new technology across the nation. The GOB is trying hard to make the illiteracy rate zero as soon as possible and in order to do that it is establishing schools in every union in the country. In recent, since the country alone is not enough to improve the situation, on 17th December 2014, World Bank approved \$1.1 billion to progress the education system and resolve some other issues of the country (Worldbank.org 2014).

Despite all the weak infrastructures improving to some extent, power and energy infrastructure seems to be same like before in Bangladesh. The country has ranked 124<sup>th</sup> among 144 countries for its quality of electricity supply in 2014-2015 GCR (Schwab & Sala-i-Martin 2014). Beside the biggest cities in the country, villages and suburb areas are still lacking of electricity and other energy related infrastructures such as gas, petroleum, etc. Even the biggest cities face load shedding for a number of times per week. Moreover, it is not only hampering the production process in industries but also disturbing economic evolution. Alam et al. (2005, 8) found in their research that, almost 80% (17 out of 21) foreign investors finds electricity supply in Bangladesh as either frustrating or very frustrating. Because of this unfortunate situation, they usually have to rely on alternative power supply.

According to Bureau of economic and business affairs (2013), the GOB has aimed to develop strong infrastructure all over the country, specifically for power sector. This aims to develop generation capacity from 6,000 MW to 12,000 MW by 2015 and to 20,000 MW by 2020. In past years, different projects were lunched with government funding such as public private partnerships (PPP) in 2009. However, there were significant power shortages and constant interruptions in 2010, which forced the GOB to permit voluntary bids and speed up the projects. Eventually, they have implemented several legal and regulatory frameworks. Furthermore, this project promotes investment on coal-based power projects and coal resources. Though, due to political pressure from opponent parties, administrative approvals are still pending since 2005, particularly for the foreign-owned production, open-cast coal mine in northwest Bangladesh.

These all are important issues to be undertaken as soon as possible. Because, availability and reliability of services such as quality roads and air transport services, telecommunication services, trustworthy water and electricity supply facilities have leading importance for foreign investor's profits related to their company and receiving attention to the host country (Berhanu 1999).

On the contrary, infrastructure supports individuals who are suffering from various types of poverty (Amis & Kumar 2000, 185). This statement concisely indicates that how well infrastructure can prevent poverty from a country. Moreover, based on **dependency theory**, natural resources of developing countries are incompetently rewarded; hence, they have to face continuous poverty. Bangladesh is stricken with a number of poverty. According to World Bank, Bangladesh has successfully pulling down the number of poverty from the year 2000 (Worldbank.org 2013). In current scenario, the country has 26% people living under national poverty line and has \$2 income per day. Before that, it was 31.5% in 2010 and 40% in 2005. To generate a country's economic growth, the welfare of its citizens is a crucial requirement. Citizens of the country are responsible to work for the economy and improve it; but as long as citizen's welfare is in doubt, country's economy decreases. Understandably, it is quite connected with the development of the infrastructure. While it is improving from one side, the other side of poverty rate is getting down.

If we look on the soft infrastructures, then 'governance' comes first in the priority list by foreign investors in Bangladesh. According to Smarzynska and Wei (2000), Governance is a country's universal arrangement, that administers communication between government and business, commonly provides support to the firms having problems with government laws, monitors the excellence of government services and the level of corruption involved with the attainment of these services. This corruption makes the time harder for both domestic and foreign investors. For example, investors need to provide payments to the inspectors who are in charge who approves the permits. Latest empirical research results prove that corruption is negatively associated with FDI inflows. Moreover, "The Kaufmann governance variables are combined with measures of physical, human and environmental capital to explain FDI flows. The results indicate that the quality of governance infrastructure is an important determinant of both FDI inflows and outflows" (Kirkpatrick et al. 2006, 150)<sup>9</sup>.

In Bangladesh governance improvises are very sluggish. Things happen to be here, for instance, to take a project approval from different government departments, consume lots of time to get the final outcome. Sometime it is just the habit of process or

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<sup>9</sup> Original text: Globerman, Steven – Shapiro, Daniel (2002) Global foreign direct investment flows: The role of governance infrastructure. World development, Vol. 30(11), 1899-1919.

else corruption makes it all delay. According to Smith (2004), developing countries likely to have complex and bureaucratic regulations than needed, most of the time they do not correct the market intentionally or do not protect consumers, and gets associated with corruption. While governance of Bangladesh is favorable for the foreign investors, economic governance such as excellence of public services delivery and public private connections that straightly influence the operations of the foreign firms is quite weak and it hampers the economic growth of the country (Alam et al. 2005, 12). James W.S. Ashworth, Managing Director Shell Marketing Bangladesh Limited, mentioned that:

*“Bangladesh presents a rare opportunity for investment and a mixed climate for it. A large population and impressive economic growth over recent years have been matched by liberal investment policies and a willing and trainable workforce. If these assets could be matched by a more streamlined bureaucracy and more transparent governance, the investment potential could be huge.”<sup>10</sup>*

Natural resource comes as a blessing in a country. In most of the cases natural resources require some additional modification to attain it in proper shape to increase its efficiency. Bangladesh is blessed with full of natural resources, but because of corruption its modification is not taking place and it remains as unattended. Level of corruption is very high in the public sectors of Bangladesh. More about the corruption is discussed in the section 5.2. Its weak infrastructure is present not only for corruption on natural resources and its modification, but also corruption on physical and organization structures in Bangladesh. Logically, this unattended factors affecting its overall infrastructural system; thereby, in the whole world it is now considered as one of the under-developed infrastructural systems. Furthermore, it can be said that Sultan Hafeez Rahman, country director of the International Growth Centre, a development research institute that works with the London School of Economics and the University of Oxford, said to Financial Times that:

*“Corruption and rent seeking is at such an extent that FDI is not happening, you need the political will to claw back these vested interest. No foreign investor will come and invest, it’s completely unpredictable, all because a few powerful people want a piece of the cake.”*

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<sup>10</sup> UNCTAD., (2000). An investment guide to Bangladesh. United Nations: New York and Geneva, USA.

Globerman and Shapiro (2002), in their article, “Global foreign direct investment flows: The role of governance infrastructure,” affirmed that governance infrastructure classifies host countries investment environment, which in turn affects both domestic and foreign investors; therefore, it creates positive provisions to enhance economic growth. They maintained that, governance infrastructure is strongly related with other foreign direct investment (FDI) determinants such as political, institutional, and legal environments. These institutions and policies can take an essential part in escalating FDI inflows. However, the impact of governance infrastructure may vary based on the country context. Countries with low a stock of governance infrastructure will likely to have stronger marginal effects of government improvements. The authors argued that governance infrastructure will bring diminishing return to the governance. In addition, it will bring more FDI inflows in the host country in comparison to other countries that has less attractive environments for private investment.

This study also discussed about the per capita GDP, the physical infrastructure, and human capital as determinants of FDI inflows. The whole governance system is capable of having an effect on both foreign direct inflows and outflows (FDO). These flows are suggested by the authors, as being symmetrical. The different variables related to governance infrastructure have been explained as identifying the connection between the above determinants and economic growth. As a result, they found that investment in education can increase FDI inflows. Nevertheless, their results indicate that weak environmental protection regimes are evident to discourage FDI. In conclusion, the authors of the study, Globerman and Shapiro discuss better governance that is more reliable with a smaller economic and regulatory role of the government. Subsequently, policies are capable to compliment economic growth that can boost the number of FDI inflows indirectly through supporting an upward trend of real GDP.

According to Bangladesh Quarterly economic update (2014, 3), the GOB has taken six priority projects to place higher importance on infrastructure development. These projects are metro rail in Dhaka, a terminal to import liquefied natural gas (LNG), a nuclear power plant, Padma bridge, a coal-based power plant at Rampal (southwest of the country), and a deep-sea port in southern Sonadia. A high-level technical team is established to execute these projects. Moreover, the report observes that, Bangladesh is in need of finance for infrastructure and human development. As per **Endogenous theory**, higher level of capital investment receives increasing rate of return. To do so, the GOB needs to mobilize its domestic resources by updating traditional tax systems and reforming tax machinery. There are already some changes implemented in the tax systems, however, additional alterations are required to streamline tax laws and collection systems.

In conclusion, better infrastructure does support the host country, to be more attractive to acquire attention of foreign investors. In reality, foreign investors always meas-

ure host country's infrastructural facilities in terms of international standard. This is, because well-organized infrastructure supports them to reduce transaction costs and ease the pressure of doing business in the hot country.

### 5.3 Relationship between FDI Inflows and Trade Liberalization

FDI inflows and trade liberalization have a strong relationship to bring economic growth. Research results show that, higher degree of openness receives higher number of FDI flows in the country (Ahamad & Tanin 2010, 27). Bajona, Gibson, Kehoe and Ruhl (2008, 33) concluded that, "trade liberalization leads to higher productivity or higher rates of growth in real GDP". Government of a country implements trade liberalization by removing the trade barrier to welcome free trade between different countries. This brings improved specialization and increased competition in the country. In addition, consumers can have lower prices because of the exclusion of trade barrier. Nevertheless, the country does not discriminate between import and export.

Trade liberalization, however, can have negative impact on the economy at some extent. According to **dependency theory**, FDI from developed countries can harm the economic growth of developing nations in long-run. To overcome those situations such as trade deficit, the country must pursue active liberalization policies and additionally, it will support investment in export-led sectors (Khan 2007, 15).

Bangladesh's economy has started to integrate with world economy in 1990. The intention of the policies implemented in that year was to promote FDI and trade liberalization, results as the present openness of the country's economy. Bangladesh has extremely liberalized trade regime to keep the flow of finances and investments from foreign countries (Ahamad & Tanin 2010, 18). Figure 7 illustrates the trade-GDP ratio<sup>11</sup> from 1976-2014.

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<sup>11</sup> According to OECD, The trade-to-GDP ratio used to evaluate the significance of international transactions relative to domestic transactions. This is calculated by taking a country's simple average (i.e. the mean) of total trade (i.e. the sum of exports and imports of goods and services) relative to GDP.

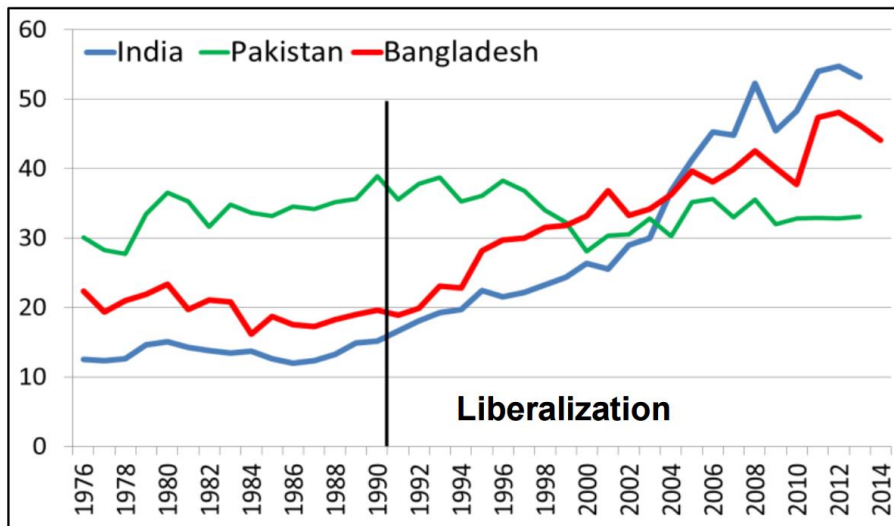


Figure 7 Evolution of the openness index (Trade-GDP Ratio) in South Asia (Bangladesh Bank, January-June 2015, 34)

In that figure, Bangladesh's two neighbor countries India and Pakistan are included to compare the situation. The figure shows that India and Bangladesh both have raised the trade-GDP ratio since mid-1990s. However, Pakistan has different scenario, where their trade-GDP ratio is declining.

According to Ahamad and Tanin (2010, 11), BOI has taken different steps to transform Bangladesh into the most liberalized nation in South Asia. The effects of the steps are already visible on increasingly capitalistic model of the economy, where major growth of the country is influenced by private sectors. Consequently, foreign firms can attempt joint ventures with domestic firms; as a result, they can reduce related business risks. In addition, the country with 160 million<sup>12</sup> people, low-cost labor, and most prominently, sizeable market still makes a leading destination for FDI.

#### 5.4 Investigation on FDI Inflows, Economic Growth and Infrastructure Facilities of Bangladesh

The phenomenon 'Foreign Direct Investment' has been a main concentration all over the world over the years. This is because of its gigantic impact on the economic growth. This section will thoroughly discuss about the impact of FDI inflows and answer related research questions. Different views and opinions will be taken into account to make strong judgment on the selected issues. Many authors around the globe have debated on

<sup>12</sup> Total population is revised as of it is 160 million in 2015.



this matter that, whether FDI inflow brings positive or negative impact to the economy. Though from all the debates, it is quite apparent in the research results that positive contact with the economy brings FDI inflows to the country. Specifically, now-a-days developing countries are engaging with it more than developed countries and as a result, they are able to take advantages of the resources coming from FDI inflows.

The investment capital that comes from FDI inflows is utilized by the government, and domestic sectors obtain improvement with it. For this to happen, higher level of investment and saving is required in order to increase the rate of capital formation. **Neo-classical theory** expresses that, capital formation influences not only FDI but also economic growth in long-run. According to World Bank report, Gross Domestic Savings<sup>13</sup> (% of GDP) of Bangladesh remained quite consistent in last few years. According to Bangladesh Bureau of Statistics, that is increased from 20.5% in 2010 to 21.2% in the end of 2014. As a result of this increase, in 2014 the country achieved 30.128% gross domestic savings. This is quite high in comparison to the average of world and advanced economies.<sup>14</sup> Borensztein et al. (1988, 117) found in their test that the contribution from FDI to growth is higher than domestic investments. This statement clearly proves on the economic growth of Bangladesh, that it has gained high growth rates through FDI, over the years, in comparison to its domestic investment. Therefore, it has successfully filled up the gap between domestic savings and desired level of investment. Below figure 8 points up the economic and social benefits of having FDI in a country from domestic and international's perspective.

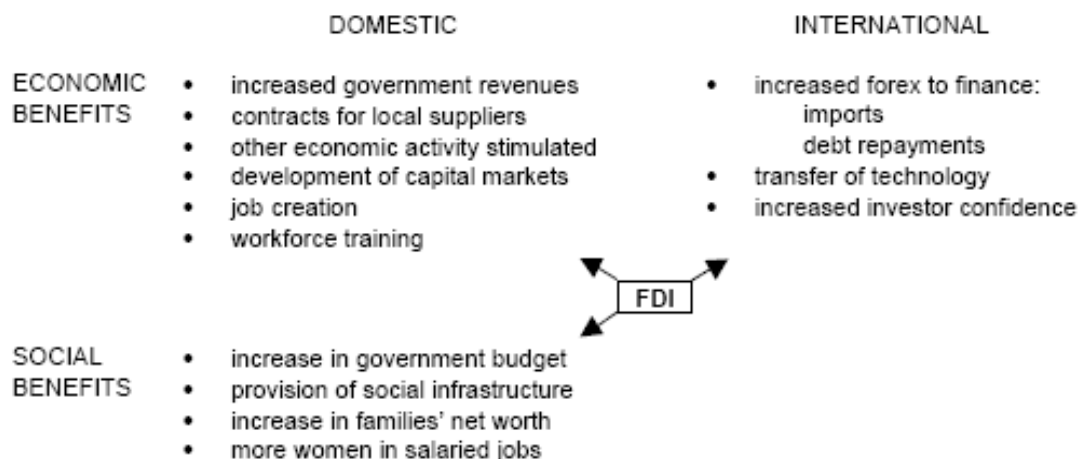


Figure 8 Benefits of FDI (Saravanamutto 1999)

<sup>13</sup> According to World Bank, gross domestic savings are calculated as GDP less final consumption expenditure (total consumption).

<sup>14</sup> In 2014, the average is 18.06% in the world economies and 20.35% in advanced economies (IMF 2014)

To achieve the best result for capital formation, developing countries require the perfect mixture of both domestic and international contribution. Consequently, it will convey social and economic benefits in the country. All these benefits together can lead the economic development. From the figure above, we can understand that how economic and social benefits can be formed in domestic and international sectors. Particularly, when we talk about the impact, FDI inflow from international sector contributes to the transfer of technology and know-how to the host country and thus, workforce training becomes effective in the domestic sector. This produces quality human capital as infrastructure in the country.

According to **Neo-classical theory**, three driving forces such as labor, capital, and technology are highly responsible for stable economic growth. So far, Bangladesh has successfully completed the combination of both domestic and international sectors. For example, social benefits like women in salaried jobs has increased over the years; exceptionally, in garments sector. Moreover, economic benefits such as employment rate, government revenues have increased. Though, these are not to an optimal level at the moment, which can able to bring social and economic benefits as expected.

Bangladesh has enormous impact on its economic growth from FDI. Since 1980 after the modification of foreign direct investment act named as ‘The Foreign Private Investment Promotion and Protection Act (FPIPPA)’ FDI inflows started flowing dramatically into Bangladesh economy from \$330 million in the end of 1990 to \$1181 million in the end of September 2014 (Bangladesh Bank 2015). For the better understanding of the analysis and comparison of the impact over the years, researcher has divided the statistics related to economic growth of Bangladesh into two periods. The first period is from 1996 to 2005 and the second period is from 2006 to 2014.

Total FDI inflows, in past two decades, Bangladesh economy rose gradually. The first period from 1996 to 2005 is marked as low impact to the economy, because of the yearly total inflows was inconsistent below \$600 million, and averaged \$461 million during that period. On the other side, the second period, from 2006 to 2014 as high impact due to the consistency of yearly more than \$600 million of total FDI inflows, and averaged as \$1001 million in that period. Figure 9 exhibits the total FDI inflows and annual GDP growth from 1996 to 2014 (June).

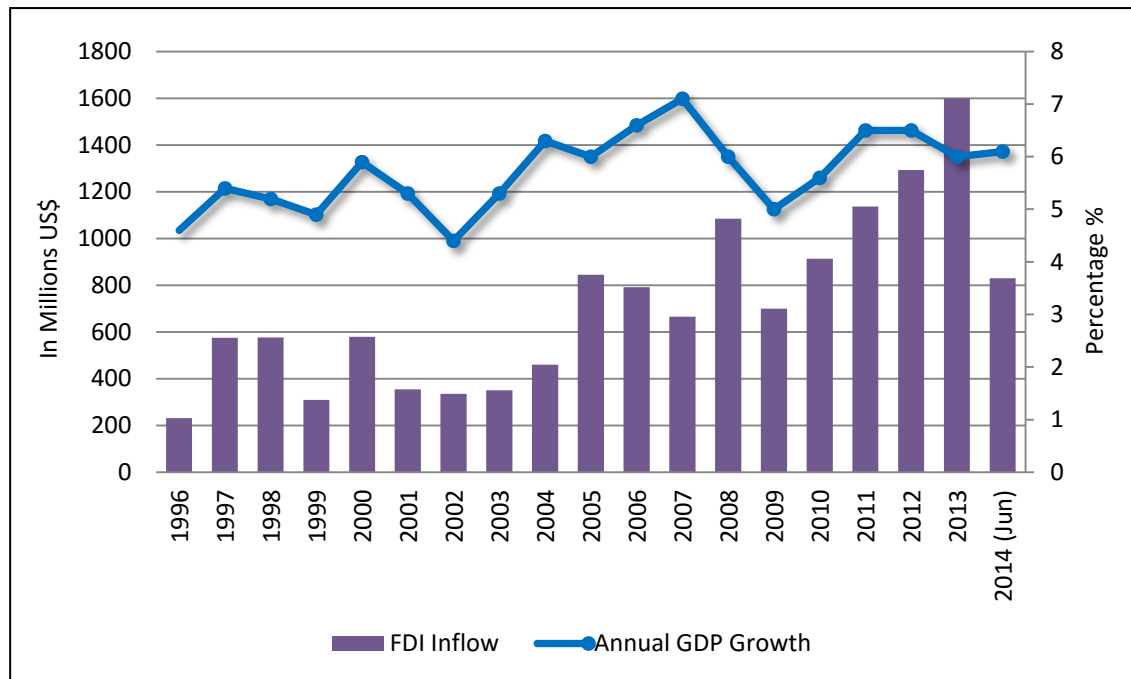


Figure 9 Authors calculation based on time series data of FDI inflows and annual GDP growth of Bangladesh (Statistics Department, Bangladesh Bank, 2014)

Bangladesh has maintained a stable annual GDP growth of 6.15% from 2006-2014. This is a strong base of economic development for the country. In the past, from 1996-2005 the average is 5.33%. Comparison of these two periods shows a steady improvement in GDP growth from last decade.

Now, if we look at the Figure 9, by comparing these two important elements FDI inflows and GDP growth for economic development, both has been consistently improved in past decade. Furthermore, the figure shows that GDP growth is not fully but slightly affected by the numbers of FDI inflows. Rahman (2015, 179) hypothesized that “There is a strong positive relationship between FDI and GDP growth in Bangladesh”. Understandably, we can say that FDI inflows have been affecting the economic growth of Bangladesh positively.

There are different sectors that receive FDI inflows in the country. Major sectors are transport, storage and communication, manufacturing, power, gas and petroleum, trade and commerce. Figure 10 shows the comparison of sector-wise FDI inflows between two periods.

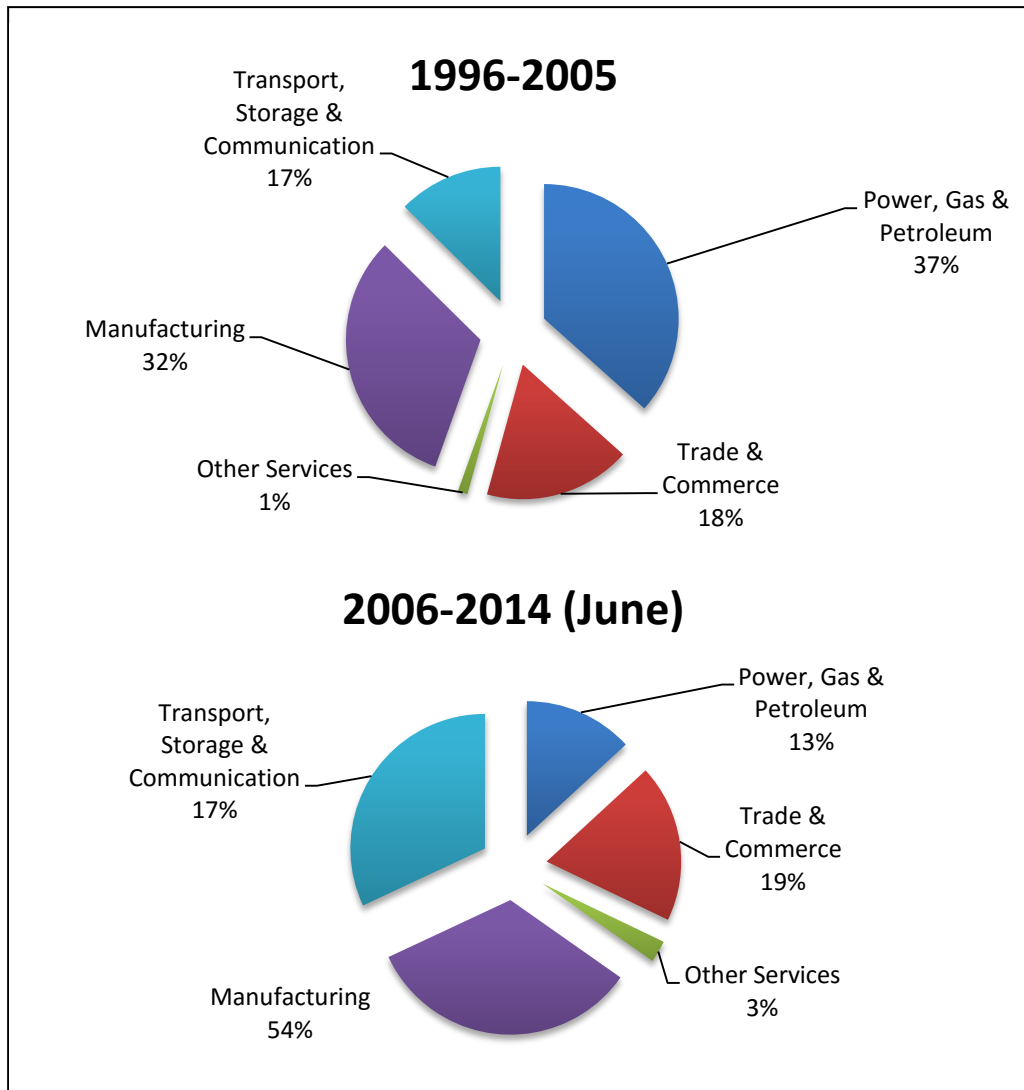


Figure 10 Comparison of sector-wise FDI inflows in between two periods (Bangladesh Economic Review, Ministry of Finance, 2014)

Author's calculations show that, in both the periods, sectors have increased FDI inflows. Sectors like manufacturing has increased FDI inflows from 32% to 54%. This is the highest increase among the other sectors. In addition, trade and commerce, and other services have slightly increased by 1% and 2% respectively. Though, there is an unchanged sector such as transport, storage and communication, which remains same as 17%.

In any case, power, gas and petroleum sector has performed very poorly over the years. This sector has decreased from 37% to 13%. It is already mentioned in this paper that these are the natural resources of the country. Thus, numerous infrastructural facilities are needed to improve FDI inflows in this sector. Comparing these two periods, we can perceive that different sectors have been either improved or decreased FDI inflows. We will further perceive that, what can cause of these decreases later in this section.

South Asia consists of developing nations. These nations are trying their best to attract FDI inflows towards them. Based on the size of the country, FDI inflow matters a lot. For instance, the biggest country in South Asia is India; hence, it receives highest numbers of FDI inflows in comparison to other countries in that continent. Table 2 provides an idea about how South Asian countries have been performing from 1995 to 2013.

Table 2 FDI inflows by South Asian countries (Millions of dollars) (Authors calculation based on WIR 2010 & 2014 report)

Countries	1995-2005	2006	2007	2008	2009	2010	2011	2012	2013
Afghanistan	52	238	243	94	76	211	83	94	69
Bangladesh	427	793	666	1,086	700	913	1,136	1,293	1,599
Bhutan	2	6	73	20	72	31	26	22	21
India	4,137	20,328	25,001	47,139	35,657	27,431	36,190	24,196	28,199
Maldives	12	14	15	181	158	216	256	284	325a
Nepal	8	7	6	1	39	87	95	92	74
Pakistan	732	4,273	5,590	5,438	2,338	2,022	1,326	859	1,307
Sri Lanka	205	480	603	752	404	404	981	941	916
South Asia	6,826	27,771	33,868	56,692	42,427	35,038	44,372	32,442	35,561

South Asian countries such as Bangladesh, India, and Sri Lanka have been consistent in pulling FDI inflows. In comparison to other countries in that continent, Bangladesh has consistently increased FDI inflows in last 5 years. Dhaka Tribune (2015), in their report, mention that “Dr Atiur in his paper said that, the performance of external sector including export and import, inflow of remittance and foreign direct investment (FDI) and reserve and exchange rate remained robust in the past five years, making the country favourable to trade, business and investment”.

Furthermore, other countries such as Afghanistan, Nepal, Bhutan, and Maldives performance was vulnerable. On the other side, Pakistan’s performance was outstanding from 1995 to 2008; however, this gradually declined the numbers by less than half in

last 5 years. At the end of the table 1, the total number of FDI inflows in South Asian countries<sup>15</sup> shows the balanced performance over the years. In 2013, total FDI inflows in South Asia increased by 10%, which is equal to \$36 billion (WIR 2014, 54) and major contributors to that performance are India, Bangladesh and Pakistan respectively.

In the new era of globalization, the connection between FDI and economic growth is progressively **endogenous** that promotes human capital, technological capabilities, and more importantly economic development to direct FDI inflows (Li & Liu 2005, 404). Furthermore, in endogenous growth model, human capital and technological gap are two most essential determinants of economic growth, therefore, relations between FDI and these two determinants can scrutinize the absorptive ability of foreign technology through FDI (Li & Liu 2005, 396). Borensztein et al. (1998, 116) mention that, according to endogenous growth model, technological diffusion from leading countries can raise economic growth to the host country. Sequentially, this will encourage more economic growth and increase competitiveness (Li & Liu 2005, 404).

The significance of FDI inflows, in general, can transfer the technology and bring managerial know-how to the host country; indeed, it upgrades the skills of existing human capital for foreign and domestic services. This is a positive sign of FDI inflow. In addition, it does not matter which sector receives the inflows, since job opportunity increases in the whole economy. Ultimately, this process leads to reduce unemployment and additionally poverty from the economy.

For instance, if we talk about developing countries, it is quite predictable that the country possesses poverty; in Bangladesh when somebody becomes employed, as a result they are able to move out from poverty. Todaro (1994) asserts that, variety of factors can influence economic progress; largely, investments are able to enhance the quality of accessible physical and human resources. This can boost the capacity of the same productive resources and therefore, increase the efficiency of all or particular resources through invention, innovation and technological progress, and these factors will always remain as key factors in generating economic progress in every civilization.

Political firmness is one of the major determinants for FDI inflows in Bangladesh. This is briefly explained in section 5.1.5. Election in the country takes place in every 5 years. Fairness in election is very crucial for political stability. However, during the time of election the parties involved for seeking votes, tries to manipulate the system. As a result, the country remains politically unstable throughout that time. This leads to an immense problem for FDI inflows indeed. According to Global competitiveness re-

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<sup>15</sup> Rather than the countries listed in the table 1, there is another South Asian country “Islamic Rep. of Iran”, which is excluded in the table 1 but included in the calculation to show the total FDI inflows of South Asian countries.

port, Bangladesh has scored 1.8 out of 7 which resembles that public trust on politicians is low. In that sense, it can be assumed that foreign investors trust on the politicians in the country is tremendously low. In the table 3, we can see the sector-wise FDI inflows in details from 1995 to 2014 (June).

Table 3 Sector-wise FDI inflow, 1995-2014 (US\$ in millions)

Year	Manufacturing	Power, Gas & Petroleum	Transport, Storage & Telecom	Trade & Commerce	Other Services	Total FDI inflows to Bangladesh
1995	45.5	3.2	1.7	41.3	0.6	92.3
1996	89.2	47	1.5	92.3	1.3	231.6
1997	162.4	242.1	5.9	92.3	4.6	575.3
1998	139.8	235.2	25.3	164.3	10.5	576.5
1999	191.8	83.5	0.5	27.5	2.9	309.1
2000	193.5	301	5.4	53.2	10.3	578.6
2001	132.2	192.4	0.9	27.6	0.3	354.5
2002	142.9	57.9	48.5	63.7	13.7	335.47
2003	165.2	88.1	45.9	44	2.9	350
2004	139.4	124.1	127.5	66.6	1.1	460.4
2005	21.3	208.3	281.9	130.5	3	845.3
2006	104	208.2	347	130.2	0.2	792
2007	148.68	215.94	201.9	92.87	5.64	666
2008	168.49	101.02	641.39	153.4	7.58	1085
2009	211.29	51.15	250.14	161.59	13.45	700.16
2010	238.78	92.06	360.31	186.63	21.7	913.32
2011	425.5	238.21	182.78	263.39	20.45	1136.38
2012	515.21	126.63	375.64	163.72	47.52	1292.56
2013	702.5	98.88	326.21	345.51	88.81	1599.16
2014 (Jun)	427.19	29.79	138.51	178.56	27.12	829.43

Source: Statistics department of Bangladesh Bank (2014)

To identify the politically unstable years, researcher has marked the years with red color. If we have a closer look on those red marked rows, it shows how before and after parliamentary election years, many sectors affected by political instability. Mostly, power, gas and petroleum sector has been consistently affected due to political instability throughout the years.

Elections were taking part in 1999, 2008 and 2014. Beside the election years, the effect of unstable political environment remained in some other years. For instance, after

the election of 1999, because of the opponent party, Bangladesh faced severe instances in 2001. Furthermore, election in 2008 took place in December thus, the circumstances of the election kept going on in the next year 2009 and the last election took place in January 2014.

In the Daily Observer, Islam (2015) stated that, despite of having the political unrest, election in January, FDI inflows kept rising in 2014. The total number of proposed investment has increased in that year; total internal projects were 1,432 and foreign projects were 123, in total 1,555 proposed investments. These investment proposals were worth of Tk. 536347.194 million. As a result of these proposed investment, all together 2,50866 jobs were created in the market in 2014. BOI officials credited present government for this success in attracting FDI inflows in last five years.

Institutions can be defined in variety of ways. North (1990) defined institution as the term 'institutional framework', this invokes to the set of formal and informal 'rules of the game' that confines different interactions such as economic, political and social. Relating to this point of view, Kirkpatrick et al. (2006, 149) mentioned, "a 'good' institutional environment is one that establishes an incentive structure that reduces uncertainty and promotes efficiency, thereby contributing to stronger economic performance".

Corruption has always been an issue in the country. Directionless executions and explanation of laws and regulations are liable for rising corruption (Sukhoruchenko 2007, 154). Additionally, corruption rises due to giving extensive power to civil servants, gaps left in the legal system, and low salary structure in the public sector (Sukhoruchenko 2007, 154). More of the corruption and governance is discussed in section 5.2. Following figure 11 demonstrates the status of FDI inflows and corruption index<sup>16</sup> of Bangladesh.

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<sup>16</sup> Corruption index is calculated from 0-10 score, where 0 resembles worst and 10 is in very good condition.



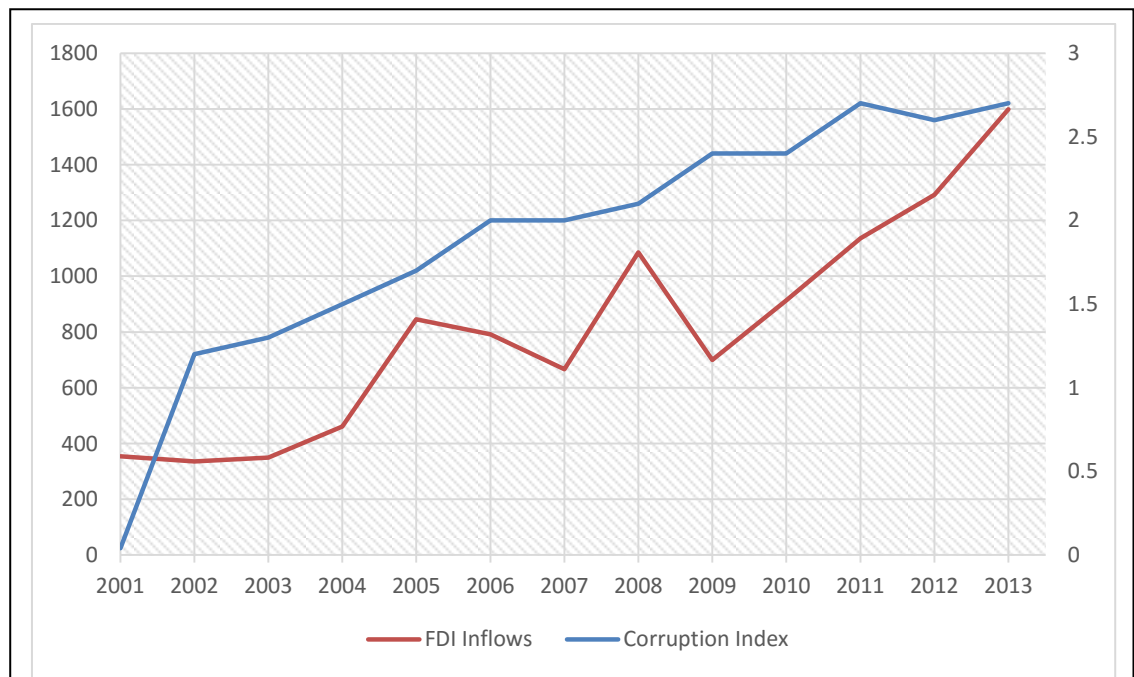


Figure 11 FDI inflows and corruption (Statistics Department, Bangladesh Bank, 2014 and Transparency International)

Corruption index is kept rising every year, which indicates the country is becoming strong in institutions. Additionally, FDI inflows also increased in the same manner. Thus, the effect of corruption has some influence over the FDI inflows. However, Wiig and Kolstad (2014, 1) found that, “corruption has no effect on FDI in the energy provision industries”. They further found that “Bangladesh needs to expand its access to energy and depends on foreign investment”.

In 2014, Bangladesh has shown positive outcomes for foreign investors in different segments. However, there are several segments in which the country could not have any identical improvement at all. Figure 12, the radar chart exemplifies the global competitiveness index of Bangladesh and comparison with developing Asia.

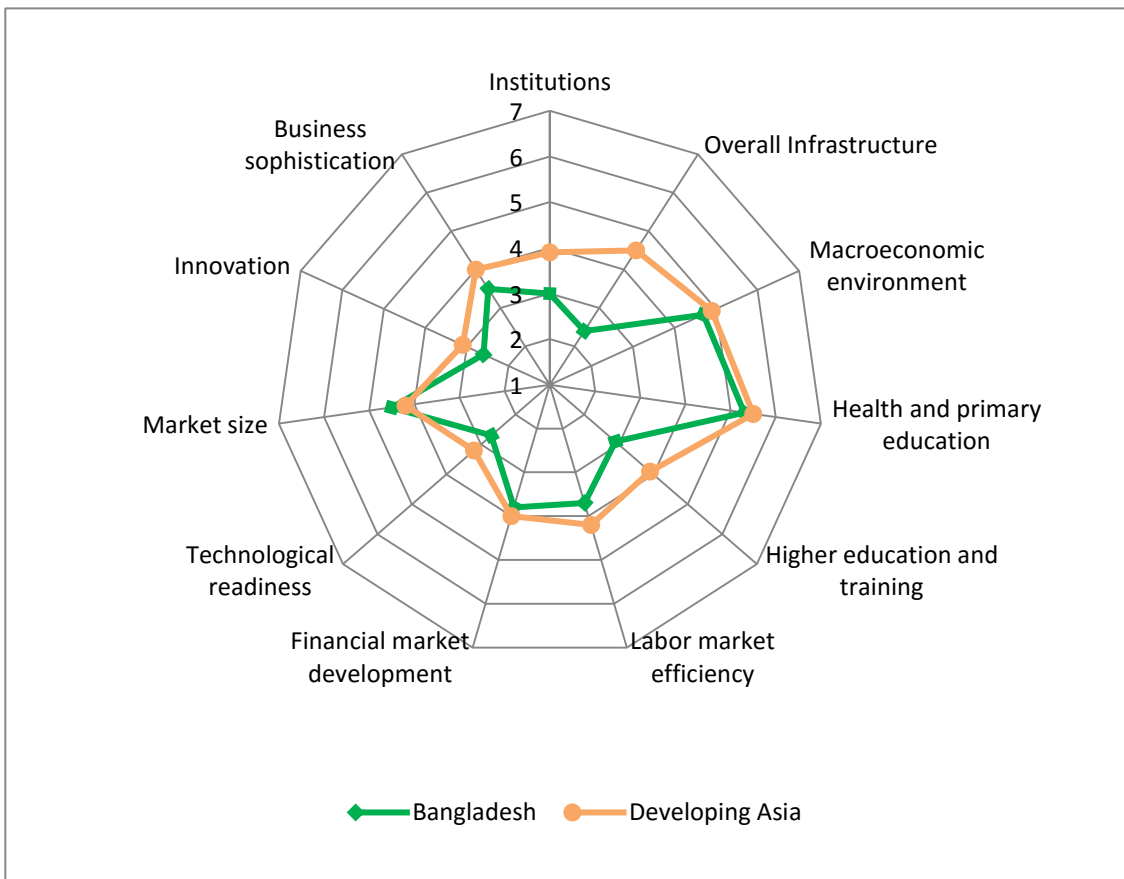


Figure 12 Author's calculation based global competitiveness index of Bangladesh and comparison with developing Asia (global competitiveness report, 2014-2015)

In terms of market size, the country possesses a large space for foreign investors. Then, technological readiness and business sophistication is catching up the developing Asia. However, macroeconomic environment, financial market development, health and primary education are as big as in developing Asia. In contrast of these criteria's, the country is lacking behind on institutions, higher education and training, and mainly in infrastructure. As per the radar chart, Bangladesh is way behind in comparison to developing Asia. Notably, these major lacking is causing the country to lose a great number of FDI inflows every year.

Labor cost is one of the most important determinants for FDI inflow in Bangladesh (Azim 1999). The country is offering low labor cost not only in South Asia but also in the whole Asia. **Product life cycle theory** explains that cheaper cost of production holds the existence of FDI. Figure 13 shows the comparison of labor cost in different Asian countries.

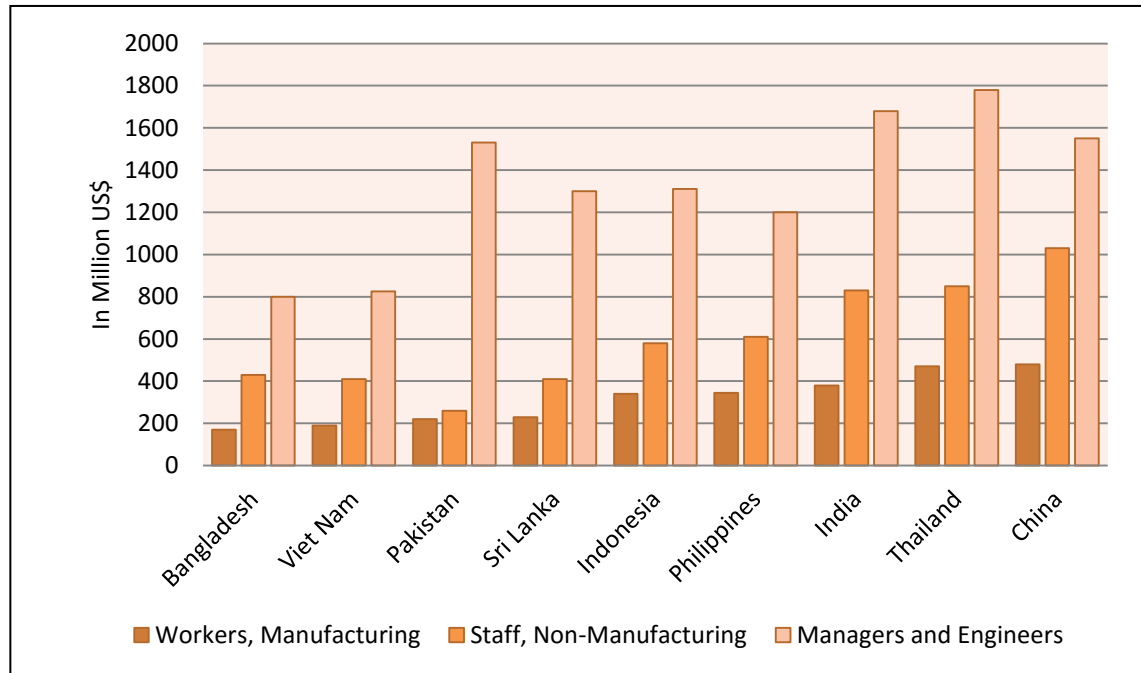


Figure 13 Monthly labor cost in Asian countries (JETRO, 2011a)

The statistic shows that Bangladesh is able to offer lowest labor cost in two categories, such as manufacturing workers, managers and engineers. According to the research findings of Azim and Uddin (2001, 299), 60% of the foreign investors classified labor cost of Bangladesh as most attractive for them. This is able to generate FDI inflows in different sectors in the country; particularly in garments and textiles sector because of lowest manufacturing labor cost. Therefore, this attractiveness is playing crucial role in creating employment in the country.

Other countries in South Asia mainly India, Pakistan and Sri Lanka are competing hard with each other to attract FDI inflows; and to do so, they are trying to improve each and every categories of the country such as institutions, infrastructure, higher education and training, labor market efficiency, and market size. The comparison of these categories are displayed in figure 14 based on author's calculation.

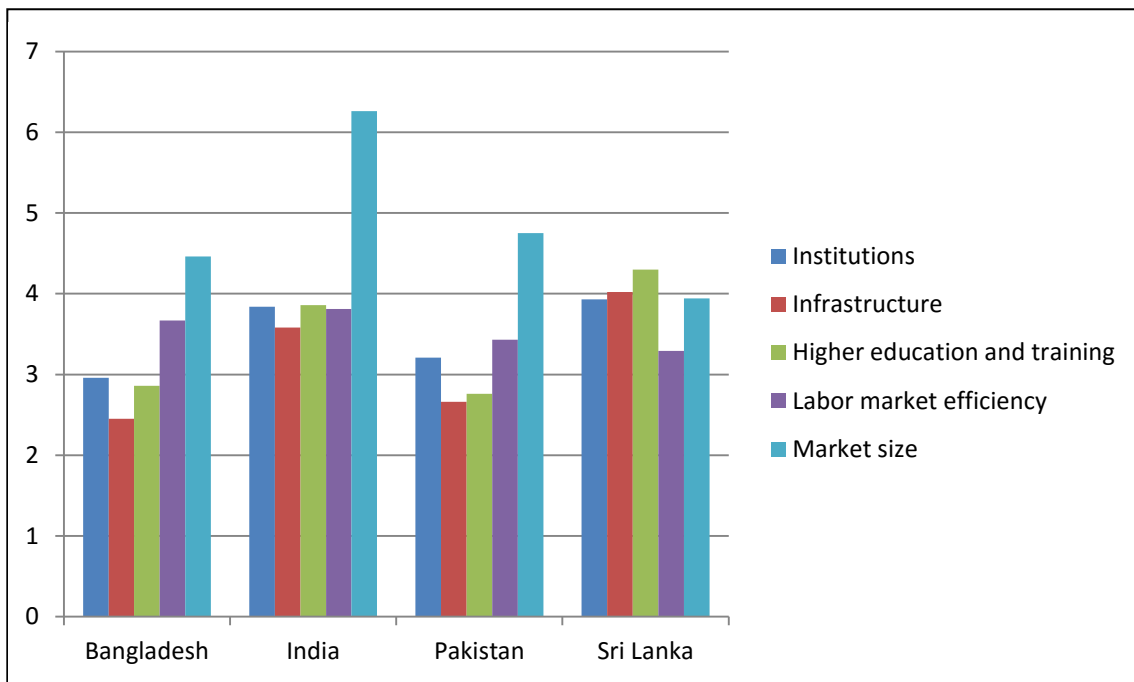


Figure 14 Author's calculation on comparison of South Asian countries (global competitiveness report, 2014-2015)

Despite of being a small country, Bangladesh successfully offers a large market size in comparison to other big countries like India, Pakistan, and Sri Lanka. More attractively, labor efficiency is also high in contrast to those countries. Predominantly, where Bangladesh is 23 times smaller than India, she has still managed to achieve a very good position in terms of market size and labor market efficiency. Foreign investors prefer a big market where they can have regional trade integration and additionally, a greater prospect for investment from trade agreements in the country (Ahamad & Tanin 2010, 17). Furthermore, institutions, higher education and training are in average position. Conversely, infrastructure remains very low comparing to the selected countries.

Doing business in a country requires consideration of different factors before taking the final decision. However, depending on the nature of the business, the importance of the factors varies. Figure 15 demonstrates the most problematic factors for doing business in Bangladesh.

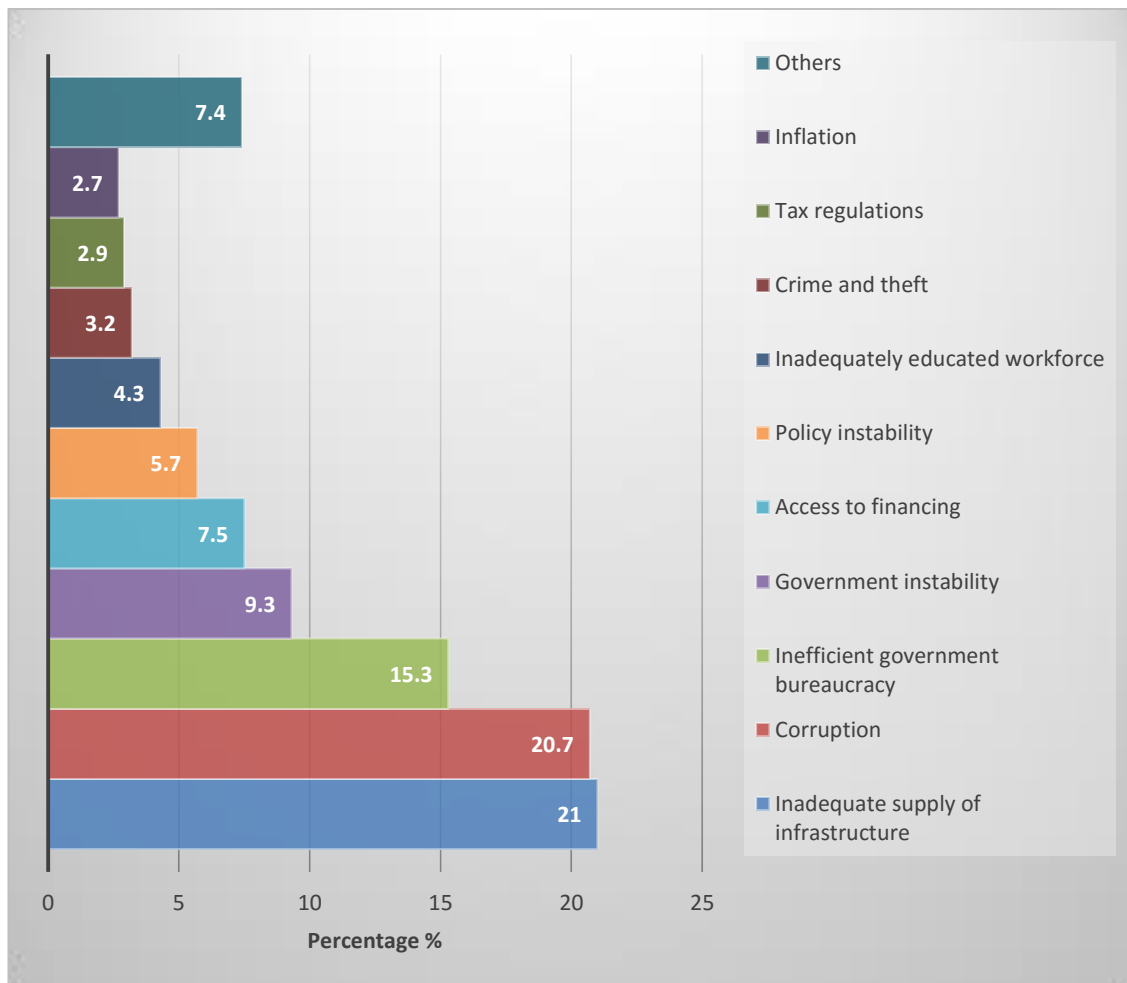


Figure 15 The most problematic factors for doing business in Bangladesh (global competitiveness report, 2014-2015)

Above of all the factors, respondents mentioned inadequate supply of infrastructure and corruption are the most problematic in the country. Consequently, inefficient government bureaucracy, government instability, and access to financing are moderately problematic. In addition, political instability and inadequately educated workforce have some issues on doing business in the country. By contrast with these factors, crime and theft, tax regulations, inflation, and other factors such as tax rates, foreign currency regulations, and poor work ethic in national labor force are low problematic (Schwab & Sala-i-Martin 2014, 122).

Earlier, we have discussed and found that FDI inflows do have positive impact on the economic growth of Bangladesh. However, it has some uncertainties as well, which can lead to negative impact towards the economy; this should have awareness from the GOB. Based on the dependency theory, we have discussed in the literature that, foreign investment can bring negative impact on the economic development of the host country (Dutt 1977). Brecher and Diaz-Alejandro (1977) argued further on this based on the term 'repatriation of profit' and postulated that, if the FDI financed companies can send

excessive profit from the host country to the parent country, then it can have negative effect. Relating to this, the GOB should implement a policy whereby it will restrict a certain amount of profits, that to be transferred to the parent country. Furthermore, FDI inflows may create a high level of income inequality and slow down the economic growth (Adams 2009).

In addition, crowding out domestic investment can create difficult environment for Bangladesh. Though, to happen this, FDI should responsible to construct monopoly in the country (Bornschiefer & Chase-Dunn 1985). Based on the findings of Quazi (2010) it can be argued that, from Bangladesh's perspective, the negative impact of FDI may arise in the country, as a result of capital flight; this is the outflow of domestic investment that can have a harmful consequence on the country's current and foreign exchange account. From the study on 'eleven Central and Eastern European countries', Eller, Haiss, and Steiner (2005) figured out that, foreign direct investment crowded out domestic capital in their researched countries.

In other studies, Biersteker (1978) and Helleiner (1989) argued that, FDI as an instrument in the host country can exploit and control developing countries by western industrialized countries. Therefore, they have doubt on FDI's role in the economic growth of developing countries. Furthermore, the numbers of import increases in the host country due to FDI financed companies require a range of intermediate goods and hi-tech capital machinery, which is usually not available in the host country, in order to operate their business (Rahman 2008). As a consequence, this import may cause negative impact on the economic growth because of trade deficit (Fry 1999).

## **5.5 Factors Affecting the Amount of FDI Inflow in Bangladesh**

Every country is different in terms of the factors that affect the FDI inflow. It is because, there are different conditions of economic components. Bangladesh has many advantages due to its geographical location, low labor cost, human capital, natural resources and so on. However, there are several factors which affect FDI inflows strongly, such factors are legal framework, political instability, environmental issues, corruption, macroeconomic uncertainties, and weak infrastructure. This section will investigate in these factors concisely.

### **5.5.1 *Macroeconomic Uncertainties***

Before investing in a country, it is a principal task for foreign investors to examine the macroeconomic environment of the host country. Foreign investors try to gather strong

evidences in order to become sure about the macroeconomic condition of the country. This environment indicates the entire existing condition of the economy. Hence, this factor consists of issues such as monetary, Gross Domestic Product (GDP), fiscal policy, inflation, employment, and exchange rate policy.

These issues aka overall business climate of Bangladesh is certainly not satisfactory for FDI inflows. After the independence in 1971, the GOB has taken six initiatives to improve the overall situation of the country. As a result, at present, improvement has seen specifically on education system, exchange rate policy, and increasing GDP. However, issues under fiscal policy such as unemployment rate, interest rate, and steady business cycle's performance is not up to the mark. Furthermore, inflation is checked from the GOB for a long period of time. Nevertheless, all these are not well associate to attract FDI inflows in numbers.

### **5.5.2 Political Issues**

Foreign investors highly investigate on the political instability of Bangladesh. The political situation remains under control only after the year of the election gets over, though it starts losing the balance again as the next election time comes near around. Moreover, in the history of the country, there was few terrorist attack which leads to a bad sign in attracting foreign firms. After analyzing the data from table 3 in section 5.4, researcher has clearly confirmed that how well political instability can affect the number of FDI inflows in different sectors. Azim and Uddin (2001, 291) found in their research that, before making the final decision, foreign investors do scrutinize on the nonexistence of transparency in the government areas, extreme nationalism, continuous change of the government, chances of terrorism, and corruption.

### **5.5.3 Corruption**

The corruption level of Bangladesh is becoming lower day by day but unfortunately, the progress is not fast enough to enhance the efficiency of the GOB. Corruption does create problems to foreign investors, although the statistic shows lower impact of it on FDI inflows. However, effectiveness to some extent gets slower because of this and it can be predicted that if the corruption level improves to a good position then the development of FDI inflows will be must faster, thus the economic growth will be enhanced. Bardhan (1997, 1320-1346) defined the term corruption as a practice, where government officials maximize their own revenue by bribing foreign investors. Alam et al. (2005, 2) mention that, corruption as one of the components shows the incompetence of the GOB to de-

velop both policy and physical infrastructure in order to gain trust of the foreign investors.

#### **5.5.4 *Human Capital***

Human capital is certainly a major attraction for foreign enterprises. To attract foreign enterprises, it is highly required to have skilled workforce in the host country. Bangladesh is a country of 160 million people. This indicates how strong base the country has in terms of providing human capital. This capital is not only big in numbers but also capable of providing cheapest labor cost in the whole world. As a result, over the years, a great influence of it is seen in garments and textile industries, and assembly of electronics and machineries. However, this result received positive effect only because of the unskilled human capital, which is cheap and extensively offered in the country. Conversely, after evaluating data from different sources, it can be said that Bangladesh has improved its education system largely. Nevertheless, the country still does not have any superior effect on the human capital that it can increase the FDI inflow. To transform this situation, the GOB should take initiatives to generate more skillful workforce in the country by different training programs; hence, it will bring new foreign enterprises in the country for both traditional and non-traditional industries.

#### **5.5.5 *Weak Infrastructure***

In Bangladesh, both hard and soft Infrastructures are comparatively in weak form. Infrastructures such as road, telecommunication, power and water supply, governance are the back bone of a country. Superior quality of these infrastructures can attract foreign investors without any doubt. According to the Global Competiveness Report (2014), Bangladesh's overall infrastructure quality ranks 130<sup>th</sup> out of 144 countries. This result resembles the poor quality of infrastructures at present. Moreover, various research findings also prove that foreign investors are not satisfied at all about the infrastructure of the country. They have been raising the issue of electricity to hamper their work flow. Although, the generation of power has been doubled over the decade, it is certainly still not enough to handle the daily need of the whole nation. This factor ultimately creates a big disadvantage for FDI inflows.



## 6 DISCUSSION AND CONCLUSION

In this chapter, a brief discussion is presented based on the theories of FDI, various determinants of FDI, its impact and contributions on the economic growth of Bangladesh from infrastructural facilities point of view. Moreover, the most important objective of this chapter is to present how the purpose of this study has been met and research questions are answered. Following this, conclusion and recommendation is presented. Lastly, a prospect for future research is established.

### 6.1 Discussion

Over the years, many researchers all over the world have been studying the impact of FDI inflow on the economic growth. There is nothing new on it, since it is already proved that how much wellbeing it can bring to the host country. However, there are always other mechanisms involved with FDI, which directly or indirectly influences the impact of it. These mechanisms, in the end, can manipulate the overall impact positively or negatively. Infrastructural facilities are one of those mechanisms that strongly influence the end result of FDI inflow in a country. This unique phenomenon was not researched with conscious effort on Bangladesh. As a result, this study is developed to figure out how the role of infrastructural facilities influences the impact of FDI inflows in Bangladesh.

Different aspects of FDI are taken into consideration to develop this study. There are both advantages and disadvantages that can occur by FDI inflows. On this note, there are many criticisms from different authors. To justify the scenarios, several theories have been selected to strengthen the arguments of different authors. In addition, a large pool of authentic data is measured to provide sensible results and determinants of FDI inflows based on Bangladesh. Most importantly, the contribution of FDI inflows from infrastructural facilities point of view is exacted.

In comparison to disadvantages of FDI, advantages are way more for the host country. Caves (1996) claimed this in his research as well. He listed down the possible positive implications of FDI, which are responsible for attracting FDI to the host country. These positive implications are gaining overall productivity, transferring technology, and introducing new practices in the domestic market such as workforce training, managerial skills and know-how, entry to market, and enhancing global production associated networks.

Borensztein et al. (1998, 115-135) mention that technology transfer is one of the important mediums for economic growth, which can be easily covered by FDI. Additionally, it is a superior way than domestic investment to accelerate growth. After evaluating

the data in chapter 5, one of the important results confirm that how Bangladesh has improved over the years economically. Behind this improvement, technology transfer from FDI inflow has played a crucial role. This has an effect on the overall systems of the country, starting from the enterprises to infrastructural facilities improvement in Bangladesh. Findlay (1978) explained that foreign firms carry advanced technology and administration to the host country in order to accomplish their work; this is done through 'contagion effect', which indicates the increase of technological progress by foreign direct investment.

FDI is very strongly related to growth theory. Many authors have talked about and empirically originated the relation in between FDI and growth theory in the host country. Such authors are Glass and Saggi (1998), and Borensztein et al. (1998). More specifically, De Mello Jr (1997) researched on Latin American countries and explained the positive correlation. In addition, Dees (1998) investigated China's economic growth with the positivity of FDI.

In general, FDI inflows increase the investment level of the host country. This certainly boosts the economic growth of the country. There is couple of classifications for FDI and economic growth. Initially, FDI guarantees the growth process by the direct effect on trade (Markussen & Vernables 1998). Lastly, FDI supplements domestic capital to the host country and this fuels the efficiency of domestic investments (Borensztein et al. 1998; Driffield 2001). These two classifications are compliance of cross-country models of industrialization (Chenery, Robinson & Syrquin 1986) and endogenous growth theory (Romer 1990).

This study discussed about the importance of infrastructural facilities not only for FDI inflows but also to improve the quality of life. Infrastructural facilities are a powerful way to perk up economic growth. Moreover, it plays crucial role to poverty reduction. Particularly, in developing countries the necessity of having infrastructural facilities is higher; since, to attract more FDI inflows they need to demonstrate infrastructural facilities at optimal level to the foreign investors. Otherwise, they will only receive FDI inflows in less number those are not concerned with infrastructural facilities.

In general, public sector takes care of improving the infrastructural facilities in a country. Big State owned enterprises (SOE), usually, are responsible for the investment and development of the service. They are very costly to produce and incompetent in service delivery. However, in developing nations, the situation is very inflexible. This is why governments in these countries try to involve private sectors to improve the situation. Private sectors help in financing and delivery the infrastructural service in the country. This method is called 'privatization', which is highly promoted by World Bank, so that developing nations can reduce their financial load and attract foreign direct investment along with domestic investment (World Bank 1995).

In Bangladesh, part of the infrastructural facilities improvement is hand over to private sectors, as it is a developing country. Every year the country reserves budget for the improvement of its infrastructural facilities. This budget is allocated for the development of the whole nation including rural areas. Exceptionally, the priority is specified based on the importance of the spot. Besides this public sector, Bangladesh welcomed FDI inflows to do rest of the development, which cannot be done by the government. FDI inflow is a straight forward way to mature the economic condition of a developing county. Before the FDI, foreign aids and Overseas Development Assistance (ODA), in general, are the main methods to overcome the situation in developing countries like Bangladesh. Conversely, the attractiveness and enormous advantages of FDI inflows took over ODA and foreign aid now-a-days. As a host country, Bangladesh is very comfortable with FDI inflows at present. This outcome is highly visible on its infrastructural facilities over the years.

Other than the infrastructural facilities, there are various conditions that can influence the scenario of FDI inflows in the host country. This influence can bring either positive or negative outcome. Bengos and Sanchez-Robles (2003, 532) explored some pre-requisites that are required to obtain positive outcome; such pre-requisites are sufficient human capital and infrastructural facilities, economic and political stability, liberalization of markets. In most cases, it is seen that there are lacking of these features in developing countries. To acquire a long-term benefit from FDI inflows, it is necessary to provide above mentioned pre-requisites in order to attract and sustain foreign investors. The Government of Bangladesh has been trying to provide all the essentials since the country started to receive FDI inflows. To a certain extent, the data presented in this study is able to show that the GOB has successfully done that. The long-term results from last decade strengths this effect undoubtedly.

Despite of having hard competition from other Asian countries for FDI inflows, Bangladesh is successful to enhance its economic growth from it. The analysis result shows that the market size of the country offers a lot in comparison to other big Asian countries such as India and China. In addition, natural resources take the attraction of foreign investors because of its huge demand all over the world. However, the analysis also shows that the country has not received enough FDI inflows compared to its resources and potentiality. Though, the connection in between economic growth and FDI inflows is clearly visible.

Natural resources are one of the leading attractions for FDI inflows in Bangladesh and strengthening the economy. The country without any doubt can attract foreign investors based on its large amount of natural resources. Natural gas is one of the biggest natural resources in Bangladesh that contributes most to enhance the economy. In addition, timber, coal, water, and fertile soil also make an impact. Arene and Okpukpara

(2006), in their book, highlighted several times that natural resources have the ability to persuade a country's gross domestic product (GDP).

At present, Bangladesh is in good position to acquire FDI inflows in numbers in comparison to its situation ten years back. The total FDI inflows in 2013 was 1599\$ million, which is almost double in amount than in 2005. This resembles how fast the economy is growing. However, this speed could have been much better if there were no hindrances such as political unrest, poverty and instabilities. UNCTAD in their different reports mention that, the country is listed as under-performer for FDI inflows because of such problems. Despite having those issues, after 2006, the country showed steady improvement. As mentioned earlier, the importance of natural resources is significant for the economy. Moreover, there are other sectors, which have grown comparatively big over the years, for instance manufacturing, trade and commerce, other services.

A big part of this dissertation discusses the determinants of FDI in Bangladesh. After evaluating a numbers of determinants of FDI, author has listed down the most important ones from the countries perspective. These determinants are infrastructure, natural resources, labor cost and available efficiency, privatization, political firmness, degree of openness, macroeconomic stability, and regularity framework. To achieve a higher amount of FDI inflows, it is extremely important to have a good combination of the listed determinants in the host country.

From Bangladesh's perspective, except poor infrastructural facilities, political issues and macroeconomic factors, all other determinants strengthen the pillar of attracting FDI inflow. Predominantly, poor infrastructural facilities weaken the attraction most. It obstructs the process of big achievement from FDI inflows in the country. This study is devoted to show that how it is happening and at what range. In addition, it shows that infrastructural facility is involved strongly with other determinants and because of this the overall economic growth is hampering. On the other side, natural resources, cheap labor cost and its availability, openness attracts a great deal of foreign investors in comparison to other south Asian countries.

So far, Bangladesh has shown positive improvement on attracting FDI inflow. But certainly, in comparison to south Asian countries like China and India, there is a lot of lacking that the country needs to focus very soon. For instance, in the analyzing section it is identified that the country provides exceptional competition on market size to south Asian countries. However, this cannot bring significant growth to the economy as long as it can provide more flexibility on administrative barriers. Based on 'Eclectic Model', it can be said that this barrier can restrict foreign investor's some advantages such as internalization and ownership, which are necessary to increase FDI inflow to any country. More importantly, above discussed changes require having more attention so that the foreign investors can find the country as their first choice of destination.

Infrastructure as a term contains a broad view of meaning in a country. In this dissertation, different authors' perspectives have been evaluated on infrastructural facilities, exceptionally those which are strongly linked with FDI inflows. Moreover, how a society can be benefited is discussed and on this fact, figure 2 has been established. According to Frischmann (2005, 923), infrastructure is "physical resource systems made by humans for public consumption". Additionally, he categorized the term into four divisions; these are transportation systems, communication systems, governance systems, basic public services and facilities.

This dissertation has exceptionally linked FDI inflows and infrastructural facilities of Bangladesh. As a result, it figured out four major infrastructural facilities that are important for the country at present. These are transport and communication system, power and energy, education system, and governance. Insufficient resources are the main reason for listing these infrastructural facilities. This lacking cause the poor society lifestyle and reduced number of FDI inflows in the country. The GOB is making full effort to fill the gap with necessary resources. On the other side, existing resources are not used properly, which is taking the situation to worst level.

Under the belt of infrastructure and resource management, Frischmann (2005) has produced "An Economic Theory of Infrastructure and Commons Management". In this theory, he deposes that resources can bring value only when it is extensively used for productive processes such as public and nonmarket goods. Furthermore, these processes will carry positive externalities to the society. Therefore, it is worth to say that existing resources should be used justifiably and efforts should be made to improve the situation in order to fill up the lacking in the country. Every year, efforts have been attempted to perk up the condition, however, that is slow in nature and not able to create strong impact yet on the economy and society.

Weak infrastructure indeed discourages foreign investors. Alam et al. (2005) in their research presents that infrastructural facilities are the major reason for the dissatisfaction of foreign investors in Bangladesh. This is becoming an alarming reason for them to invest further in the country. For an example, less access of electricity and water increases the production cost of the companies. Consequently, it increases the overall operation and product cost, which effects the end consumers negatively. Azim and Uddin (2001, 299) found in their research that all foreign investors in the country are not satisfied. However, they are hopeful and keep investing in the country; because of the way Bangladesh is progressing, it will be a superior place to do business very soon. World Bank (2006) maintained that weak infrastructure dispirits foreign investors highly over the years.

Other than the foreign investors, the whole society is also affected badly because of weak infrastructural facilities. Starting from the corruption, health services, and poor traffic to road systems, all makes the condition harder to do business and lead the life.

Unfortunate health services mostly in rural areas are responsible to decrease life expectancy. Though, the overall life expectancy of the country has increased in recent years, but because of the poor health facilities in rural areas, it is not increasing as well as expected. According to World Bank report, at present, Bangladesh is leading in life expectancy rate in South Asian countries after Sri Lanka.

## 6.2 Conclusion and Recommendation

This thesis has reviewed different positive contributions as well as negative possibilities of FDI inflows by taking into account infrastructural facilities. In general, economic growth depends on both domestic and foreign investment. Due to less contribution from FDI inflows than domestic investments, Bangladesh has to look forward to resolve its bottlenecks and implement a correlation in between FDI inflows and economic growth.

### 6.2.1 *Theoretical Implications*

The core point of this research as affirmed in the preceding chapters was to discover the impact of FDI inflows on the economic growth of Bangladesh. This was clarified from the preliminary part of this research. Moreover, the author of this research has interpreted and attempted a realistic research problem which can bring economic viability and compatibility of FDI inflows in the country. Therefore, the overall contribution of this research to theoretical knowledge is limited to a certain extent.

The major theoretical contribution of this research can be credited to provide the unified overview of the existing theories in the field of foreign direct investment. Fundamentally this study selected theories from a variety of research areas. Such areas are transfer of technology, human capital, short and long run investment, cost of production, natural resources, economic development, and capital investment. The selected theories of this study have been presented synchronically in a theoretical framework (figure 3) in section 2.4.5. These theories are neo-classical theory, product life cycle theory, endogenous theory, and dependency theory. All of these theories are associated with economic development. However, except dependency theory, all other theory shows positive correlation with the economic development.

A noteworthy theoretical contribution of this thesis is to prove how theories like neo-classical theory, product life cycle theory, and endogenous theory can be practical based on the history and current situation of Bangladesh. This research has provided another confirmation that effects of foreign direct investment in Bangladesh are running accord-

ing to the above selected theories of this study. Time series statistics make this statement much stronger in the analysis chapter 5.

Several circumstances can be considered based on the above mentioned theories. All the situations have some sort of effect on the economy of Bangladesh. Among those situations, the long-term investment of foreign direct investment proved to be successful, over the years, on the country's economy. According to neo-classical theory and endogenous theory, a developing country like Bangladesh has received gigantic financial support from FDI inflows; as a result, this enhanced the economic growth in short run and consequently, different forces such as labor and capital with the latest technologies uphold the result. Additionally, the transfers of technology increased the efficiency of doing business in the country. However, less funding on human capital and technological advancement slowed down the increasing rate of return and could not offer much success on foreign direct investment from the country's context.

On the contrary, after evaluating preferred data's, it can be said that considering dependency theory, Bangladesh has not faced any negativity from FDI inflows yet. The overall import and export condition of the country is in under control due to having strong rules and regulations. Thus, Bangladesh is not having hard time to earn from their exports and also not compensating heavily for their imports.

Another major theoretical contribution of this research is to introducing infrastructural facilities on the process of FDI inflows, which in the author's assessment has not been explored in the past. In the analysis part, the preference of infrastructural facilities proved that how importantly it influences the overall economic outcomes exceptionally those from FDI inflows. The increasing demand of FDI inflows require a more justified view of infrastructural facilities to insure rising progress of the economy. In addition, strong infrastructural facilities initiate the superior quality of life. Importantly, this thesis emphasized this idea which is recently started to intrigue in the field of foreign direct investment. In this attention, foreign direct investment is not just a procedure to grow the economy but also an immense research of the related affairs like infrastructural facilities to make it successful. This subject has not been comprehensively researched previously; hence, this thesis provides a preliminary theoretical ground for further research on this field.

### **6.2.2 Practitioners Implications**

In the present globalized world, business ambiance changes more frequently than ever. This requires constant innovation in terms of keeping things positive. The author's ambition regarding this research was to provide an inclusive overview of the objectives to the policy makers. It has been seen that unproductive institutions can take place and

continues even after they are primarily hampering economic performance (Acemoglu & Johnson 2003). To overcome these sorts of circumstances, it is highly obligatory to implement good policies and activity. Per se this research was not endeavored to offer any solution to specific issues or practitioner challenges, rather this research provides undisputed advantages to the Government of Bangladesh and its policy makers.

Strong infrastructure and friendly investment policies are the two important pre-criteria's for FDI inflow to the host country. Currently, Bangladesh has very friendly investment policies to attract foreign investors; however, there is still room for improvement. Considerably, the improvement is necessary to avoid negative impacts on the economic growth. From the perspective of the GOB, some essential steps can be taken into account very soon to perk up the current situation.

Government should always be concerned on the policies that FDI inflows can be restricted at a level, so that it cannot take over domestic market. Furthermore, FDI inflows should have some involvement with domestic investments. For instance, the policy could increase the fact where foreign investors must have some sort of involvement with domestic economic activity; they can use local contributions in order to have final production. On the other side, to attract foreign investors largely, identified weak infrastructures needs to have appropriate policies to control a stable performance.

Education system requires more efficiency all over the country. It is known that foreign investors are attracted to efficient human capital, which provides better quality service. Hence, the GOB should start promoting not only general education but also vocational and technical educations to attract more foreign companies. Despite of providing cheapest labor, Bangladesh still not up to the mark in terms of receiving FDI inflows. If we consider other countries like Korea and Singapore, they have expensive labor cost than Bangladesh but still maintained high FDI inflows. This proves how important it is to make education system available all over the country.

Similarly, transport and communication needs to be improved further. Under certain policies, FDI inflows from communication sectors should have effective structure to balance the business climate in between domestic and international companies. Besides, transport sectors should have more quality road and fastest transportation service in order to avoid traffic jam and long period time transporting goods from one district to another. Equally important, the availability of power and energy is mandatory to complete the production process of both domestic and foreign companies. Therefore, the GOB should have more calculative concern on exporting its resources. The first priority of the resources should be fulfilling the country needs then to export to other destinations around the world.

Last but not the least, the major concern should be provided on the governance. At present, corruption has an alarming status in the governance of Bangladesh, where all other things stated above are suffering under this issue. Directionless executions and



explanation of laws and regulations are the main reason of increasing corruption (Sukhoruchenko 2007, 154). In addition, corruption can also be increased by giving extensive power to civil servants, gaps left in the legal system, and low salary structure in the public sector (Sukhoruchenko 2007, 154). In recent, the GOB has positively improvised the salary structure in the public sector. However, severe focus has to be accomplished on the gaps left in the legal system and to monitor the use of the extensive powers of the civil servants. Furthermore, the GOB should promote social awareness for the citizens of Bangladesh so that they can follow the rules and regulations more firmly. In conclusion, strict management needs to be executed in the government bodies as soon as possible to take other infrastructural projects effectively.

### **6.3 Future Research Prospects**

This research contributes to perceive an overall investment condition and FDI inflows of Bangladesh. Among various determinants and factors, infrastructural facilities are highlighted throughout this study to establish the strong connection in between FDI inflow and infrastructural facilities. In terms of the economy of Bangladesh, analysis of this research proved that how this connection is important to enhance the economic growth and quality of life.

A number of benefits from FDI inflow encouraged Bangladesh to open its door for foreign investors. Similarly, foreign investors found attractive resources to invest in the country. Beside infrastructural facilities, there are various determinants and factors, which strongly influences FDI inflow. Such as natural resources, labor efficiency and its availability, in particular, can be researched in depth from Bangladesh's perspective. Since, these determinants are considered as the strongest attractors for foreign investors and till date no research has any conscious effort yet. To research in this field based on other countries than Bangladesh, it is recommended to figure out the determinants of foreign direct investment from the country's context primarily. Consequently, it will be flexible to find the research gap from the previous researches.

## 7 SUMMARY

Foreign direct investment inflow is one of the dominant weapons to build an economy of a country. It has the strength to enhance the economic growth. Bangladesh's economy, over the years, has increased at a constant rate. Noticeably, gross domestic product (GDP) and the level of income have increased significantly. These outcomes indicate a positive sign of having FDI inflows in the country. However, there are several other problems affecting the overall FDI inflows in Bangladesh. Therefore, the main research question of this study attempted to answer is:

- *How can FDI inflows have impact into Bangladesh?*

This dissertation identified the determinants of FDI inflow and then classified infrastructural facilities in details based on Bangladesh. Among different determinants, infrastructural facilities are the most important that the country is lacking behind at present. FDI inflow is fundamentally depending upon infrastructural facilities to achieve its desire success. Foreign investors undoubtedly suffer because of weak infrastructure of the country. As a result of these sufferings, their transportation and production cost increases, and the ease of doing business turn out to be very frustrating. Hence, foreign investors find it incredibly risky to invest in the host country like Bangladesh. This research problem has been solved through the following three sub questions:

- How the intensity of infrastructural facilities in a country affect the inflow of foreign direct investment?
- What are the key obstructions of attracting sufficient FDI inflow in Bangladesh?
- How foreign direct investment inflows can influence the economic growth of Bangladesh negatively?

In order to make the infrastructural facilities happen, it is highly required to organize each of the systems under of it. The body of this study discussed about the weak infrastructures in Bangladesh such as transport and communication, power and energy, education system, and governance services. Improvement in one of these systems cannot provide valuable positive changes on FDI inflows. It requires improvement in all the weak systems to grasp multinational companies and attract foreign investors. Moreover, the improvement not only increases the number of FDI inflows but also enhances the quality of life. As a result, citizens will be more resourceful for both domestic and international employment.

Bangladesh has the ability and resources, to some extent, to develop those infrastructures, but unfortunately the level of corruption ruins the overall system. As per analysis of this study, FDI inflows do not have any direct influence from corruption. However, indirectly, corruption makes the whole process slower and vulnerable thus, the ambition of improving the overall system remains hanged for a long time. The Government of Bangladesh, in that sense, is guilty for this situation. All political parties in the country

are looking forward to achieve the government position. However, they do not take the importance of general people seriously, particularly about the infrastructures. For that reason, bureaucracy must be reorganized as early as possible. Moreover, analysis of this study proved that, during the year of elections, total number of FDI inflow decreases dramatically. Therefore, people are losing their interest day by day to vote and elect the appropriate leader.

It is already found that FDI inflow and the economy of Bangladesh has a positive correlation. In the analysis section, it is shown that the country is in a very good position in terms of receiving FDI inflows per year comparing to other South Asian countries. Though, the overall performance in Asia is not satisfactory. At present, its position is way behind from the leading FDI inflow receivers like China. On the other note, despite of being a good receiver of FDI inflows, its contribution to economic growth is very low in comparison to domestic investment. The investment capital that comes from FDI inflows, if, utilized properly by the GOB then domestic sectors can receive significant development.

There is no doubt that the amount of contribution from FDI inflows can be much higher for the economic development than any other form of capital inflows. However, there is a great chance that the precious FDI inflow can turn up things negatively for the economy. Beside infrastructural facilities, there are several factors which are affecting the FDI inflows such as legal framework, political instability, environmental issues, corruption, and macroeconomic uncertainties. This requires continuous attention on the current policies on foreign direct investment and foreign investors. To realize this, the GOB needs to work as an active organization and develop appropriate policies to control overall system related to FDI inflows.

Bangladesh is a developing nation. Its resources are not well enough to meet all the criteria's for foreign direct investment. The key to overcome this situation is FDI inflows. It has been over two decades that the country has accepted and simultaneously enhancing FDI activities. This improved the overall resources and systems. However, the bottlenecks of several determinants still slowing down the entire process of receiving FDI inflows. Exceptionally infrastructural facilities, this is the most significant determinant not only for FDI inflows but also for the society. Both the government and private sectors should come forward to build up the necessary infrastructures in the country. The increasing population and its demand can largely be satisfied through proper infrastructural facilities. Moreover, due to having strong competition in between Asian countries, it is highly required to show quality infrastructure to obtain the attention of foreign investors. Thereby, it can be concluded that Bangladesh is in need of FDI inflows to keep the rising flow of its economy and meanwhile improving the infrastructural facilities.

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## List of Maps



Map 1 South Asia



Map 2 Bangladesh