



## Impact of Foreign Direct Investment and Trade Openness on Economic Growth of Bangladesh: An Empirical Analysis

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**Abstract:** This paper aims to assess the impact of Foreign Direct Investment and Trade Openness on the Economic growth of Bangladesh taking into consideration annual data from 1992-2020. Among the variables, Trade Openness has a long-term causality on Economic growth and FDI has not been found to have an impact on economic growth though this contradicts the theoretical expectation. Other matters are at play in this matter as well. Also, this study includes the data of 2020, which means the first year in which COVID-19 struck the world as well as Bangladesh, is covered in the study. As the initial impact of COVID-19 on the Bangladeshi Economy is covered in this study, the study adds to the knowledge base from this perspective. The paper progresses to further analyze these findings by using models such as Augmented Dickey-Fuller test, Johansen Co-integration test, and Vector error correction model, and Granger Causality test and generate insightful policy recommendations for Bangladeshi.

Keywords: GDP; FDI; Trade Openness; Co-Integration; VECM.

Introduction: A sustained, healthy economic growth has always been a priority for governments all over the world with the determinants of economic growth drawing considerable attention from academicians and policymakers. Economic growth indicates the ability of a country to make use of the resources a country has and also to ensure a steady economic climate in the country [2]. Bangladesh has enjoyed sound economic development over the past few years as marked by an impressive GDP growth rate. After 45 years of being included in the Least Developing Country (LDC) category, Bangladesh is soon to graduate from the category and will move to the Developing Country category. At this stage, ensuring the sustainability of the tremendous economic growth that Bangladesh has been experiencing over the years is a paramount task. In 2019, the world economy was struck hard by the COVID-19 Pandemic. However, the impact of the pandemic was far less catastrophic on the Economy of Bangladesh compared to that on the economy of the neighboring countries. This has been possible mainly for the factors that have been channeling the economic growth of Bangladesh. The most important among these factors is the Foreign Direct Investment and Exports. For the last two decades, Bangladesh has been the hub of economic activity. Many countries are investing in Bangladesh. The Government of Bangladesh has been easing the restrictions on FDI and started giving tax incentives and subsidies to attract FDIs. The Government has also taken many steps toward trade liberalization as well. The measures taken by the government in this regard include reduction of Tariff, simplification and rationalization of the structure of Tariff, liberalization of imports through quantitative restrictions and import licensing, and the current account convertibility, etc. Export has been an important contributor to the stable and growing economic growth of the country. Though FDI, Import, and Export amounts fell due to the COVID Pandemic, the country is trying to make up for the losses. As the impact of the Pandemic has been slowing down, Bangladesh is trying to go back to its pre-pandemic glory.

Moreover, other development indicators such as employment rate, foreign remittance, export growth, etc. have also exhibited improvements. However, the challenge lies in maintaining a stable macroeconomic environment after being promoted to the Developing Nations category. The relationship among the growth rates of GDP, FDI, and Trade Openness from the year 1992-2020 can be seen in the following graph:



Fig. 1: Relationship among the growth rates of GDP, FDI, and trade openness from 1992-2020.

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As can be seen from the graph above, Trade openness and GDP went on hand in hand over the years. The difference between the growth rates of the mentioned variables is minimal. But the growth of FDI shows a higher amount of volatility in the 90s but in recent years the growth of FDI is becoming stable again and is getting in line with the other two variables. The objective of this study is to examine whether FDI and Trade openness can cause GDP in the Long-run from the perspective of Bangladesh. Very few works on the economy of Bangladesh have been done considering the initial impact of Covid-19 on the concerned variables. This study adds value to the knowledge base in this regard.

There is a myriad of research that has looked into the impact that different macroeconomic variables have on the GDP of a nation. [3] conducted a study on Eurozone countries for the period of 2002-2012 and identified that there exists a positive longrun co-integrating relationship between the FDI stock and economic growth of the countries. According to this study, the policymakers of a country should attempt to enhance the stock of foreign direct investment to boost the economic growth of the nation. The findings of this study corroborate another study conducted on Southeast European countries by [4]. In that study, the authors adopted a Prais-Winsten regression model approach to show that FDI has a statistically significant positive impact on the economic growth of a country. Moreover, this relationship between FDI and economic growth is sufficiently robust even while considering the issue of inverse causality. [13] have identified Foreign Direct Investment as a major determinant of GDP and as such have advocated for the liberalization of economies and the provision of tax incentives to bolster economic growth. They argued that in an environment where private sector credit is declining, FDI is needed to provide impetus to the economy. [8] claim that foreign investment produces externalities in the form of technology transfers and spillovers that is conducive to economic growth. However, [11] argue that the mere availability of FDI is not sufficient to guarantee healthy economic growth. Rather, the FDI has to be complemented by a highly educated workforce for economic growth to materialize. Similarly, [12] has used cross-sectional data to show that a robust institutional capability as evidenced by the degree of property rights protection and bureaucratic efficiency is required to bring economic growth targets to fruition. [1] found that FDI has an impact on explaining the economic growth of Bangladesh. They suggested that policies should be changed to attract more FDI Inflows which will create more opportunities in the form of increased employment and output. The unavailability of a highly educated local workforce and questionable institutional capability, therefore, present a research gap regarding the efficacy of FDI in promoting economic growth in the context of Bangladesh.

Trade openness is another macroeconomic variable that influences economic growth. [6] have shown that there is a unidirectional relationship between economic growth and trade liberalization measures from the perspective of Bangladesh. This unidirectional causality is arising from economic growth causing trade openness and implicit nominal tariff rate, not vice versa. [10] found a positive relationship between trade liberalization and the economic growth of Bangladesh. [2] conducted a comprehensive study in the context of Cote d'Ivoire encompassing a study period of 49 years. In this study, the author applied the autoregressive distributed lag bounds test to show that trade openness positively impacted the level of economic growth of the country. The results of this study are also interesting because they also showed that it is possible to positively affect the capital formation of a country by adopting measures of trade liberalization. However, this relationship is contradictory to the findings of [5] who conducted a panel study and found that there is a lack of conclusive evidence to show that a reduction in trade barriers will always result in greater economic growth. [16] examined the relationship between trade openness and GDP growth rate in a study comprising several Asian economies. He found evidence of no causality in four of these economies.

[9], [14], and [7] have conducted research examining the impact that macro-economic variables such as broad money, external debt stock, and inflation have on the economic growth of a nation. [17] concluded that an adverse relationship exists between inflation and economic growth. They conducted a study with 47 sample countries covering the period of 1950-1977 and showed that an increase in inflation by 1% results in a decrease in economic growth by 0.57%. This is a critical relationship that needs to be explored in the context of Bangladesh because, if present, it will deliver a conundrum for the monetary policymakers of the country. A potentially tricky tradeoff has to be achieved between curtailing inflation in the pursuit of economic growth whilst not stifling the money supply to such a level that the economy shrinks. There is extensive literature available exploring the relationship between FDI and economic growth and Trade openness and economic growth, separately. However, few studies have utilized a model that analyzes the relationship between these three, holistically. Moreover, the relationship between these factors from the perspective of Bangladesh's economy needs to be further studied. This paper hopes to fill these research gaps identified through the literature review. The remainder of the paper is organized such that Section 2 defines the materials and methods used in this study. The results and discussions are in section 3. Finally, the study is concluded in Section 4 with policy recommendations.

**Materials & Method:** This study is conducted using secondary data collected from 1992 to 2020 from various sources including the World Bank database, Bangladesh Bureau of Statistics, and Bangladesh Bank database. A thorough effort was exerted to ensure the consistency of the data units and their reliability. Annual data has been used for all the variables. The sample period is 29 years. This is because the researchers found the values of all the variables from authentic sources for the above-mentioned years only.

The study examines the impact of Foreign Direct Investment and Trade Openness on the economic growth of Bangladesh. Three other variables, namely, Broad Money, External Debt Stock, and Inflation are control Variables. GDP growth rate is used as the

proxy for economic growth and it is the dependent variable whereas FDI, Trade openness, Broad Money, External Debt stock, and Inflation are the five independent variables incorporated in the model tested in this study. These variables have been selected based on the literature review conducted. The definition and notation of the variables are summarized and discussed as follows.

Notation	Definition
GDP	Growth rate of GDP
FDI	Growth rate of FDI
Trade openness	Growth rate of trade Openness (Import
	plus Export)
Broad money	Growth rate of Broad money
External debt stock	Growth rate of External debt stock
Inflation	Growth rate of inflation (CPI)

Table 1. Definition of	of Variables.
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Gross Domestic Product refers to the value of the total goods and services produced in a geographical region in a specific period. It includes a country's total private and public consumption, government outlays, and exports minus imports of a defined territory or region. Foreign Direct Investment refers to the investment made by a foreign entity in the host country. The investment might be for establishing a controlling entity there or investing to earn a healthy return. A positive relationship is expected between GDP and foreign direct investment albeit many papers have proved that the relationship is not long-term but rather a short-term relationship. Import and export have been used as a proxy for trade openness in this paper. The more liberal a country's trade policies are the more likely that its imports and exports will increase. Usually, as the amount of export and import increases so does a nation's GDP. Thus, a positive relationship is expected between these two. Broad money usually means the money in addition to the physical money (Currency and coins) such as demand deposits in a bank or other easily accessible sources of money. A positive relationship is expected between Broad Money and the GDP growth rate. This is because as the money supply in a country increases, people spending increases, and consequently producers have more money to invest in technology and production and all these factors add to the GDP of a country. The long-term debt received by a country from a foreign country has been used as a proxy for external debt stock. Growth in the influx in external debt often allows the borrowing country to increase its investment in local infrastructure, technology, and economic development thereby enhancing GDP. Thus, a positive relationship is expected between these two variables. Inflation is an artificial term that is created when a currency loses its purchasing power compared to a benchmark currency. Usually, the interest rate has a real interest part and an inflation part which constitutes the nominal interest rate. The growth of GDP has a similar case. We need to ensure as a country that, the growth in GDP is caused by real development and not by inflation.



Fig. 2: Research Framework.

As it can be seen from observing many macroeconomic variables, such as GDP and other trade data, they exhibit a non-stationary trend. A variable which is non-stationary in nature shows an upward or downward trend which means its basic properties change over time. On the other hand, the basic properties of a stationary time series do not change over time. If variables are not stationary, then the usual assumption of asymptotic analysis will be invalid. That means the "t-ratios" will not follow a t-distribution. So hypothesis tests about regression parameters cannot be undertaken. To ensure that the regression results do not show spurious results, whether the variables have unit root or not, should be tested [18]. In this study, the ADF test has been used to test for unit roots. If Johansen's co-integration test and the VECM or VAR test have to be used, ensuring that the variables are non-stationary at level and stationary at 1<sup>st</sup> difference is a requirement. This is necessary because the VECM model converts the variables to 1<sup>st</sup> difference and then calculates the significance of the causality. So, the 1<sup>st</sup> difference has to be stationary. ADF test is adopted by adding lagged values of the dependent variable using the following general equation:

Where is  $\alpha$  constant, t is a linear time trend,  $\beta$ ,  $\delta$  and  $\gamma$  are slope coefficients, and  $\epsilon$  is the error term. The lag length n, for the ADF test, was chosen by minimizing Akaike's information criteria.

Next, the error terms are identified in the model. This has been done using Johansen's Cointegration test. [15] pointed out that the variables that can be tested for Co-Integration have to be the variables with the same order of integration. Thus, in the context of this study if GDP, FDI, Broad Money, Trade openness, External debt stock, and Inflation are each I(1), then it may be true that any linear combination of these variables will also be I(1). Having established that all of these variables are of the same integration order, the study can proceed to determine the long-run relationships among GDP, FDI, Broad Money, Trade openness, External debt stock, and Inflation equation has been stated in a more flexible form with a consistent term as follows:

 $GDP=\beta_0+\beta_1$  FDI+ $\beta_2$  Broad Money+ $\beta_3$  Trade openness+ $\beta_4$  External debt stock + $\beta_5$  Inflation + $\epsilon_t$  eq.2

At last, to test the Long Run causality from the Independent Variables to the dependent variable, the Vector error correction model is used. The Vector Autoregressive model also known as VAR, is a model used to show the dynamic interrelationships of stationary variables. After starting the time series analysis, the stationarity of the variables has to be checked. If the variables are not stationary at level, 1<sup>st</sup> difference of the variables has to be checked for stationarity. Usually, if the level or log levels of the variables are not stationary, most of the time the 1<sup>st</sup> difference will be.

If the variables are not stationary at level, the model has to be modified a bit for the consistent estimation of relationships among variables in the series. VECM is just a modified form of the VAR. Another requirement is that, if the variables have co-integration among themselves, then the VEC model is used and if the variables don't have any co-integration among themselves, the VAR model is used.

VEC model has an advantage. It treats each variable in the system as endogenous and then it relates each variable to its past values and the past values of all other variables of the model. If the VECM term is negative and the probability is significant, then it means the dependent variables have a long-run relationship with the independent variable. But if the VECM value is positive or the probability is non-significant, then it means no long-run relationship exists and then the short-run relationship is checked.

In the study, the Error Correction Model can be organized as follows:

 $\Delta GDP = \beta 0 + \Sigma \beta_{1t} \ GDP + \Sigma \beta_{2t} \ \Delta FDI + \Sigma \beta_{3t} \ \Delta Broad \ Money + \Sigma \beta_{4t} \ \Delta Trade \ openness + \Sigma \beta_{5t} \ \Delta External \ debt \ stock + \Sigma \beta_{6t} \ \Delta Inflation + \Sigma \beta_{7} EC_{t-1} + \epsilon_{t}$ 

eq.3

**Results and Discussion:** At first, The descriptive statistics have been calculated for the model variables tested in this study to get a general feel regarding their distribution and nature. Moreover, descriptive statistics allow the identification of the skewness, kurtosis, and range of our data variables. The summary statistics for all the variables are represented below.

Statistics	GDP	FDI	Trade Openness	Broad Money	External Debt Stock	Inflation
Mean	0.08099	0.24709	0.09781	0.11622	0.05007	0.02422
Standard Deviation	0.04828	0.85779	0.10358	0.04997	0.06083	0.90663
Variance	0.00233	0.73581	0.01073	0.00249	0.00369	0.821977
Skewness	0.29425	0.30569	0.67125	1.34232	-0.03205	0.347021
Kurtosis	2.44691	3.82820	3.70277	5.93711	3.129028	9.828749

Table 2. Summary Descriptive Statistics.

As evident from Table 2, for the past 29 years, the GDP growth of Bangladesh has been an astounding 8.099% with a volatility of 4.82% which is not very much. The average FDI growth rate has been a magnificent 24.71% with the volatility being around 86%. This shows the instability that the Bangladesh government has faced when it comes to managing its FDI stream. But as it has been seen from the graph shown in the introduction section, the volatility of FDI has been reducing very much in recent years. The growth rate of Trade openness has been an impressive 9.78% which is very close to the growth rate of the GDP, as has been seen in the relationship graph from section 1. The volatility of 10.36% is not very low but not very high as well. As can be said from the dataset itself, the growth rates of GDP and Trade Openness have been moving in line with each other whereas the growth rate of FDI has been quite volatile and different from the other two variables.

Next, it is imperative to ascertain whether the variables are stationary or non-stationary before conducting further econometric analysis. This has been checked using the ADF test and the number of lags selected for the model has been 6. The hypothesis being tested are as follows:

H<sub>0</sub>: The variable has unit root or is non-stationary

H1: The variable does not have a unit root or is stationary

The criteria are that if the test statistics is greater than the critical value, then the variable is stationary and if the test statistics is less than the critical value, then the variable is non-stationary. An important point to note here is that the term L1 which appears just before the lag term has to be negative. Otherwise, the model can give erroneous results. The summary of the test result is given below:

Variables	Test for Unit Root in	ADF Test Statistic *(Number of Lags)	Critical value	p-value	Remarks
CDR	Level	-1.953 (6)	-3.600	0.6268	Non-Stationary
ODF	First Difference	-5.965 (0)	-3.592	0.0000	Stationary
EDI	Level	-3.214 (6)	-3.600	0.0816	Non-Stationary
FDI	First Difference	-6.194 (0)	-3.592	0.0000	Stationary
Trada anonnasa	Level	-1.354 (6)	-3.600	0.8739	Non-Stationary
Trade openness	First Difference	-8.683 (0)	-3.592	0.0000	Stationary
Prood Monoy	Level	-1.811 (6)	-3.600	0.6993	Non-Stationary
Broad Wroney	First Difference	-6.690 (0)	-3.592	0.0000	Stationary
External debt	Level	-1.622 (6)	-3.600	0.7837	Non-Stationary
stock	First Difference	-5.387 (0)	-3.592	0.0000	Stationary
Inflation	Level	-2.112 (6)	-3.600	0.5394	Non-Stationary
IIIIauoii	First Difference	-12.214 (0)	-3.592	0.0000	Stationary

Table 3.	ADF 1	test F	Results	Summary.

A non-stationary variable using shows an upward or downward trend which means its basic properties change over time. On the other hand, a stationary time series's basic properties do not change over time. If variables are non-stationary, then our usual assumption of asymptotic analysis will be invalid. That means the "t-ratios" will not follow a t-distribution. The application of the ADF test shows that all the variables (Including the dependent variable) are non-stationary at level and stationary at 1<sup>st</sup> difference. This means that the null hypotheses cannot be rejected for all the variables at level but are rejected at 1<sup>st</sup> difference. The fact that the variables are non-stationary at level but stationary at 1<sup>st</sup> difference fulfills the criteria for performing the Co-integration test.

Before going for Johansen's Co-Integration test and Vector error correction model test, Optimal Lag length selection has been done. The Final Predictor Error (FPE), Akaike's information criterion (AIC), and the Hannan and Quinn information criterion (HQIC) criteria suggest an optimal lag length of 3. That's why a lag length of 3 has been selected. The results of the lag selection test are shown below:

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Lag	LR	df	р	FPE	AIC	HQIC	SBIC
0				0.00078	-8.44552	-8.36438	-8.15299
1	84.105	36	0.000	0.00058	-8.92973	-8.36178	-6.88202
2	120.88	36	0.000	0.00015	-10.885	-9.83025	-7.08212
3	242.46	36	0.000	0.00014*	-374.07*	-372.041*	-366.575
4	8981.2*	36	0.000		-374.01	-372.015	-366.757*

Table 4.	Optimal	Lag	Length	Selection	Test.

Next, Johansen's Co-integration test has been used to assess whether there exists any long-run relationship between the dependent and independent variables. After application, if the Co-Integrating rank shows a number output, that means the variables have that number of Co-Integration among themselves. The bigger the number, the better the long-run causality there is. The cointegration test relies on two statistics namely; Trace statistics and Max statistics for identifying co-integration among the variables. Two hypotheses are formed for each of the numbers.

 $\mathrm{H}_{0}\!\!:$  There is 0 Co-Integration among the variables.

H1: The variables don't have 0 Co-Integration among themselves.

If the trace statistics is greater than the critical value, then the null hypothesis is rejected and the alternative hypothesis is accepted. This process is then repeated for subsequent numbers. For example, for number 1 two more hypotheses are formed and tested:

H<sub>0</sub>: There is 1 Co-Integration among the variables.

H1: The variables don't have 1 Co-Integration among themselves

Table 5. Johansen's C	o-integration	test result.
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Maximum Rank	Eigen Value	Trace Statistic	5% Critical Value	Max Statistic	5% Critical Value
0		209.6048	94.15	118.6823	39.37
1	0.98959	90.9225	68.52	48.7650	33.46
2	0.84673	42.1575*	47.21	19.1692	27.07
3	0.52158	22.9883	29.68	17.7252	20.97
4	0.49426	5.2632	15.41	4.9090	14.07
5	0.17205	0.3542	3.76	0.3542	3.76
6	0.01353				

Since both the trace statistics and max statistics certify that there are two cointegrating equations at a 5% significance level. The presence of such co-integration implies that there exists a long-run relationship between the variables tested in this study and economic growth. However, the significance of the long-run relationship among the variables needs to be tested. This has warranted the application of the Vector Error Correction Model (VECM) in this study. The VECM will correct the 2 error terms and will show us the relationship of the model.

The VEC model tests the following hypothesis.

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H<sub>0</sub>: The Independent variables don't cause the dependent variable in the long run.

H1: The independent variables cause the dependent variable in the long run

After running the Vector Error Correction Model, the following cointegrating equation has been found:

-		•	•			1	
	GDP	FDI	Trade Openness	Broad Money	External Debt Stock	Inflation	Constan
Coefficient	1	-0.0000027	6473607	4095406	6386304	.50647	.046683
Standard Error	-	0.0000027	.184966	.3098659	.2986198	.0483215	1010000
Z			-3.50	-1.32	-2.14	10.48	
P> z			0.007	0.001	0.000	0.000	

Table 6. 1<sup>st</sup> Normalized Cointegrating coefficients from VECM.

The above Normalized long-run equation can be written as follows:

GDP Growth= 0.047+0.0000027\*FDI+0.64737\*Trade Openness+0.0.4096\*Broad Money+0.6386\*External Debt Stock+0.5065\*Inflation ea.4

-.3742534; P>|z|=0.050

As can be seen from Table No. 6, the overall model has been found significant. This means that FDI, Trade Openness, Broad Money, External Debt Stock, and Inflation can cause GDP in the long run. Individually all the variables except the FDI have been found significant. This might have been caused by some external factors which have been discussed in the policy implication section. The expected and actual Directional relationship between GDP growth and the Independent variables are shown below:

Variables	Expected Sign	Actual Sign
FDI	+	+
Trade openness	+	+
Broad Money	+	+
External debt stock	+	+
Inflation	-	-

Table 7. Expected and Actua	l Directional	Relationship.
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Next, whether the variables of concern have a unidirectional or bidirectional relationship have been tested. The results of the Granger Causality test of GDP, FDI, and Trade Openness are shown below:

Table 8.	Granger	Causality	Test	Results.
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Dependent Variable	Independent Variable	Chi <sup>2</sup>	p-value
GDP	FDI	5.6372	0.131
FDI	GDP	14.309	0.003
GDP	Trade Openness	30.337	0.000
Trade Openness	GDP	1.4315	0.698

As can be seen from the table, FDI doesn't cause GDP but GDP can cause FDI which means the directional relationship goes from GDP to FDI and not FDI to GDP. On the other hand, Trade Openness can cause GDP but GDP can't cause Trade Openness which means the directional relationship goes from Trade openness to GDP and not GDP to Trade Openness. At last, some diagnostic tests have been conducted on the data of this study. First, the normality test has been conducted on the data set. The results of the Normality test using the Shapiro-Wilkin test are given below:

Variables	Z value	Prob>Z
GDP	0.93297	0.06569
FDI	0.95184	0.20433
Broad Money	0.90143	0.01060
Trade Openness	0.90158	0.01069
External Debt Stock	0.95226	0.20947
Inflation	0.69665	0.00000

In the Shapiro-Wilkin Normality test, if the p-value is less than 5%, it can be said the data is not normal and if the p-value is greater than 5%, the data is normally distributed. As can be seen from Table 9, all the variables except, Broad money, Trade openness, and Inflation are normal.

Next, the Eigenvalue stability has been tested as well. It has been found that the VECM model is stable with 4 unit moduli. Next, The Durbin-Watson test has been conducted to check for autocorrelation of the model. The value is 2.15. Values between 1.5-2.5 are considered to be acceptable and show no presence of autocorrelation. As the result is between 1.5-2.5, it can be said that the results are free from autocorrelation.

At last, the multicollinearity test has been conducted. The variance inflation factor (VIF) test has been used to determine multicollinearity between the variables. The results of the multicollinearity problem have been given below:

Variables	VIF
FDI	1.53
Broad Money	1.41
Trade Openness	1.34
External Debt Stock	1.14
Inflation	1.13
Mean VIF	1.31

**Table 10.** VIF test results.

As it is known that a VIF of less than 5 means there is no multicollinearity present among the independent variables. So, the dataset is free from multicollinearity problems as each variable's VIF and the Mean VIF is less than 5.

Conclusions: The study tried to see the impact of FDI and Trade Openness on Economic growth and the results show that Trade Openness can cause Economic growth in the long run. The relationship between Economic growth and FDI has been found insignificant which may have been caused by some external factors. As Trade Openness impacts economic growth significantly, government of the country should take some steps to promote trade. Firstly, the government should consider adopting a trade liberalization policy to promote exports, in particular. This will require a cohesive action plan that addresses several critical aspects. Next, the government must focus on enhancing the quality of domestic products via investment in technology, enhancement of labor efficiency, and increasing the robustness of quality control measures. Moreover, international trade diplomacy efforts have to be intensified to unlock new potential foreign markets for our exports. Finally, incentives must be provided to the exporters in the form of tax exemption, expedited paperwork processing, fast-tracked port clearing processes, etc. One surprising revelation made through this study is that FDI does not have a significant impact on the Economic growth rate of Bangladesh. This finding is counter-intuitive and contradictory to expectations. However, two plausible explanations for this supposed anomaly are identified in the literature. The first explanation is the lack of a highly educated workforce. Foreign-direct investment made in the country is not giving desired results because of the lack of knowledge of the laborers. The second explanation is a poor domestic business infrastructure and environment. This acts as a deterrent for FDI and minimizes the efficiency of existing FDI. This means that from a policy perspective, the government of Bangladesh needs to work hard on improving the local business infrastructure and environment and should promote education. Finally, corruption has to be tackled with zero tolerance.

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