

Foreign Direct Investment In Bangladesh: A Comparative Study Between Pre Covid And During Covid Period

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Abstract: This paper attempted to demonstrate the current FDI position as of the end of the financial year 2021 in Bangladesh and to analyze the country and sector-wise foreign direct investment in Bangladesh during Covid-19 and pre-Covid-19 period. The result of chart (3) shows that net inflows of FDI are 2507.31 million U.S.D among which 2254.67 million U.S.D is coming from the EPZ area and the rest are coming from Non-EPZ area from chart (4), there is a positive shift in inflow of FDI by 50.71% in 2019 from 2018 whereas a significant reduction takes place in 2020 which is -39.05% and after that 5.77% increases in 2021 which is not sufficient to offset the loss in 2020. chart (6) represent that power, textile, telecommunication, banking, and petroleum sector bring almost 71% of total net FDI inflow in 2021 while the fertilizer, computer, and leather sectors are lagging behind in generating FDI to the country. Chart (5) represents that, the Netherlands, United Kingdom(UK), United States of America, and Singapore are dominating in contributing to FDI in Bangladesh by providing 357.97, 344.47, 240.2, and 239.67 million (US) dollars. So the govt. of Bangladesh should adopt a monetary policy, fiscal policy, and trade policy in such a way that we can generate more foreign direct investment in the target area by arranging a bilateral or multilateral agreement.

Keywords: FDI; COVID-19; Sector-wise FDI inflow; Financial year; Monetary policy; Trade policy.

Introduction: Foreign direct investment is greatly affected by the Covid-19 pandemic all over the world. In Bangladesh, FDI plays a significant role in creating a congenial business environment as well as job creation in the labor market. The unfortunate outbreak of Covid-19 influenced the overall foreign direct position of almost every country at the current time and Bangladesh is no exception from them.

Foreign direct investment (FDI) is a mode of international outlays of funds in which one country made a substantial investment in another country in a number of sectors.

The COVID-19 pandemic hit the regular inflow of FDI across the world. It reduces the overall trade among the countries as a result economic contraction takes place forcing different business ventures to shut down. The ultimate result of this pandemic outbreak caused a significant reduction of FDI inflow in different countries and Bangladesh is not an exception from them.

According to the report of (UNCTAD) reveal that, 42% reduction in the global FDI to an anticipated USD 859 billion in 2020 from USD 1.5 trillion in 2019. On the contrary situation A report published by IMF in October 2020 reveals that, Bangladesh economy proved to be handy by addressing the pressure of COVID-19 by maintaining positive growth whereas global economy is estimated to a negative growth by -4.4% on average. Not only that, Bangladesh's per capita gross domestic product of \$1888 is set to overtake India's \$1876.5, a prediction which is causing a lot of noise in the Indian media. Though the result of world economic estimation shows a positive stand during COVID-19 period the total sum of FDI inflow has decreased presumably in Bangladesh.

The COVID-19 outbreak has caused serious damage to the economy of Bangladesh by reducing the estimated rate of GDP growth rate and decreasing the export volume by 15% compared to the previous year due to sudden order suspensions along with cancellation for major export items of RMG industry. The total volume of FDI inflow was shocked by the sudden outbreak of COVID -19 almost every sector which bring FDI to Bangladesh. The current COVID-19 situation influences the researchers to investigate the status of FDI inflow in Bangladesh and analyze the sector-wise FDI inflow during COVID-19 and pre-COVID-19 periods.

Upon considering the present scenario in the FDI inflows throughout the world. It becomes eminent to study whether in Bangladesh the FDI inflows have increased compared to pre covid or not. To get a first-hand experience regarding FDI inflow the study will attempt to reveal the true position of FDI inflow in Bangladesh during COVID and pre-COVID situation.

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Objectives of the study:

- ❖ To demonstrate the current foreign direct investment position in Bangladesh.
- ❖ Analyze the component-wise FDI before COVID-19 and during the COVID-19 period in Bangladesh.
- ❖ To present the country and sector-wise FDI inflow in Bangladesh.

Review of Related literature

The COVID -19 hit Bangladesh in a situation in which the country's economy was already under challenges. With an exception in remittance income, all other major economic indicators were below the target mark during the first few months of the fiscal year of 2020 [1]. COVID-19 Pandemic disheveled the entire world economy. Bangladesh is one of the few emerging countries that remain rationally unscathed economically during the pandemic period by ensuring its economy growth nearly 4% [2]. An investigative study reveal that there is a positive influence of FDI on the economic development on the other hand it influences negatively on the socio economic development [3]. There is a significance influence of FDI on the economic growth in Bangladesh and found domestic investment bring positive changes on growth [4]. According to their studies there is a significant influence of FDI on the economic rise in the developing nations, but they also found that when they are using import substitution strategy there exist no relation of FDI on economic growth [5]. Another studies revealed that, there is a positive association between FDI and economic growth but it requires stable economy, efficient human capital and series of long term FDI inflow in the respective nations [6]. An author found an important association between FDI inflows with the means of transferring technology which provide more aid to the growth and domestic investment of several developing nations [7]. Another author analyzes the long term relationship in between FDI and domestic investment and confer that there is a significant and long term impact on national savings in Thailand, but their empirical result shows adverse impact of FDI on national savings as it tends to bind the host country with dependency [8]. The COVID-19 pandemic has influenced every single aspect of business and foreign direct investment (FDI) which is estimated by a report of UNCTAD that, global FDI flows will decrease by 40% in the Financial year 2020-2021 [9]. COVID-19 has influenced the overall business environment in Bangladesh causing sharp decline in flow of fund by the foreign companies. The pandemic resulted in shutdown of the many business venture and losing interest of the foreign companies to mobilize their fund in different countries [10]. Catalyst variables of FDI inflow were examined and found FDI and domestic investment a positive effect on economic growth in Bangladesh [11].

The above literature shows some specific findings regarding the status of FDI inflow in Bangladesh as well as the impact of FDI inflow as contributing factors of economic growth of the different economies. But there are no such studies so far that provide insight regarding the effect of COVID on the volume of FDI inflows in Bangladesh. This literature motivates us to further analyze the details status of FDI inflow in Bangladesh and to determine the country and sector -wise FDI inflow during COVID-19 and pre COVID-19 situation.

Materials & Method:

The study is conducted on the basis of secondary data. The data of this paper were collected from secondary sources mainly from the Bangladesh Bank website. Microsoft excel were used to represent the summary of the data. The financial data were collected from Bangladesh Bank websites because Bangladesh Bank keeps an appropriate record of inflows and outflows of funds from our country. The study is carried out within the time frame of January 2022 to March 2022. The components of the data were classified according to their sectors and country-wise for retrieving the true picture of FDI inflow in Bangladesh. The net FDI inflow in pre COVID-19 and during the COVID-19 period was analyzed to show the level of impact on the total fund flow as FDI in Bangladesh.

Results and Discussion:

Status of FDI inflow during FY 2021: the status of FDI inflow in Bangladesh is subdivided into two main sectors. The first one is the EPZ area and the other one is the non-EPZ area. The summary of their respective results is presented below:

FDI inflow in EPZ area:

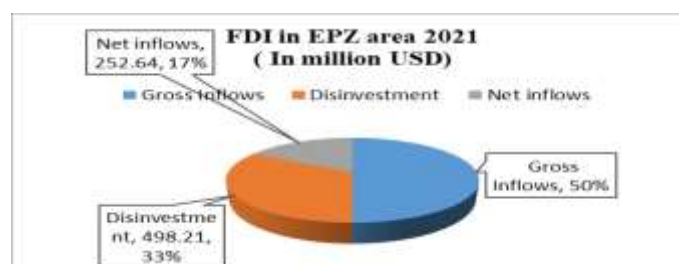


Fig. 1: FDI inflows in EPZ area FY 2021(in Million USD).

(Source: Foreign Investment & External Debt (FIED) Management Cell, Statistics Department, Bangladesh Bank).

From the above chart we can observe that, gross inflows were 750.85 million (USD) and there was a significant portion of disinvestment amounting in 498.21 million which generate a net inflow of 252.64 million during the FY 2021. From the chart, it is eminent that, the net inflow of FDI is positive but there is a signal of significant disinvestment from our country which may be a cause of future uncertainty of FDI inflows in Bangladesh.

FDI inflow in Non EPZ area:

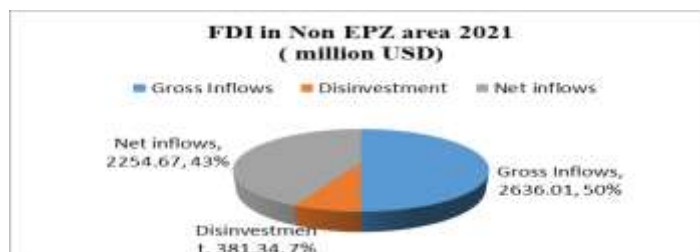


Fig. 2: FDI inflows in Non EPZ area FY 2021(in Million USD).

From chart (2), we see that the gross inflow of FDI is 2636.01 million USD of which 7% was withdrawn by disinvestment and the rest of the volume incoming as a net inflow in Non EPZ area amounting to 2254.67 million USD in FY 2021. So comparing the EPZ area to Non- EPZ area the rate of disinvestment differs significantly. The net disinvestment in EPZ area is higher 33% and in Non –EPZ area it is only 7% which indicate that, the EPZ area FDI inflows are more volatile than Non – EPZ area.

Total FDI inflow during FY 2021:

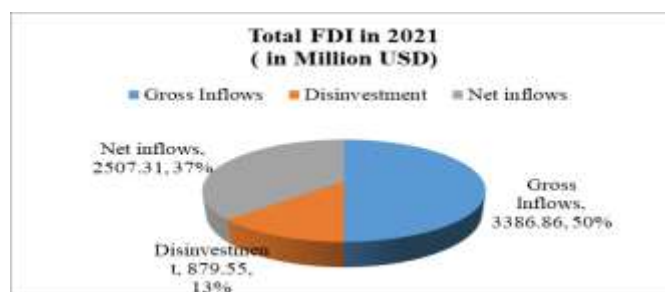


Fig. 3: Total FDI inflow during FY 2021(in Million USD).

(Source: Foreign Investment & External Debt (FIED) Management Cell, Statistics Department, Bangladesh Bank).

The gross total volume of FDI inflow in Bangladesh was 3386.86 million USD and disinvestment volume was only 879.55 million USD contributing a significant volume of net inflows of 2507.31 million USD during FY 2021. Though the net inflows remain up to 37 % in the financial year 2021 it may be depleted in the upcoming years if the Non – EPZ area cannot keep pace with the challenges of FDI inflows in the sectors.

Area and component wise FDI Inflows (Net) by component from FY 2018 to FY 2021

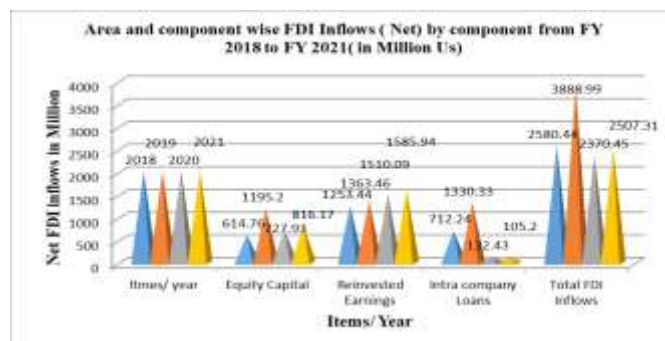


Fig. 4: Area and component-wise FDI inflow (Net) from FY 2018-FY 2021 (in Million USD).

(Source: Foreign Investment & External Debt (FIED) Management Cell, Statistics Department, Bangladesh Bank).

From the graph (4), we see there is a positive shift of FDI inflow by 50.71% compared to 2018 to 2019 which indicate a sharp upward pattern of inducement of foreign investment. When we are glimpsing in the year between 2019-2020 there is a significant reduction in FDI inflow by 39.05% compared to the previous year. The result is attributed to the COVID-19 period which affect the overall inflow of FDI in Bangladesh. On the other hand, the upward trend is still prevailing between the year 2020-2021 ensuring a 5.77% growth in FDI inflow which seems to be inadequate to offset the loss incurred in during the COVID-19 period. The equity capital as the portion of net FDI inflow increased from 614.76 million to 1195.2million in the year 2018-2019 indicating a sharp growth rate. But in the year of 2020-2021 the net equity capital decreased significantly attributed to the COVID-19 pandemic. On the other hand, reinvested earnings net inflow keeps a moderate growth throughout the year 2018-2021 but the intra-company loans reduced significantly from 1330.330 million to 132.43 million, and 105.2 million respectively in the years 2020,2021 respectively.

FDI Net Inflows classified by Major Countries during FY 2021

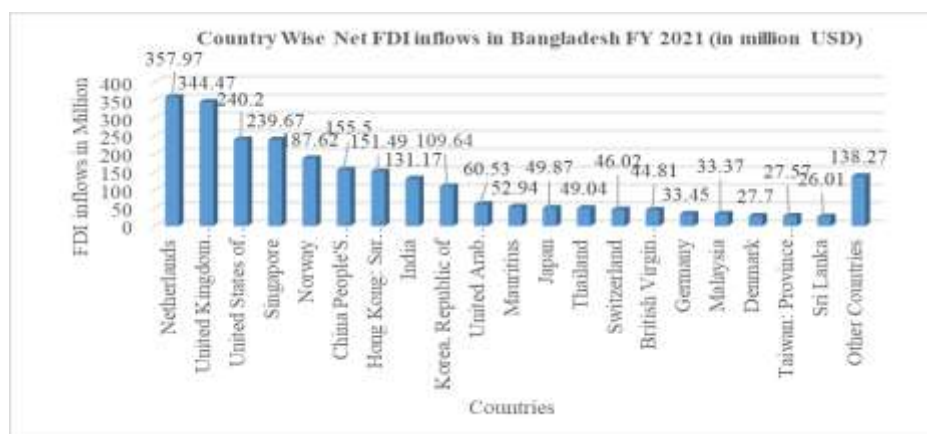


Fig. 5: Country Wise Net FDI inflows in Bangladesh FY 2021(in million USD).

(Source: Foreign Investment & External Debt (FIED) Management Cell, Statistics Department, Bangladesh Bank).

From chart (5) we see that, Netherlands providing 357.97 million of FDI in Bangladesh and standing on the top of the list and (UK), USA, Singapore and Norway providing 344.47, 240.2, 239.67 and 187.62 million of (USD) as FDI in Bangladesh in FY 2021. On the other hand, we are receiving significantly less volume of FDI from Sri Lanka, Taiwan, Denmark, Malaysia and Germany who are listing in the bottom line on the graph. The uprising trend of FDI inflows from the Netherlands, United Kingdom, USA, and Singapore may be due to the positive balance of payment with respect to Bangladesh and the countries might have a significant volume of investment in Bangladesh. On the other hand, the lower FDI earning countries with respect to Bangladesh may be due to the negative balance of payment among countries.

FDI Net Inflows classified by Major Sectors during FY 2021

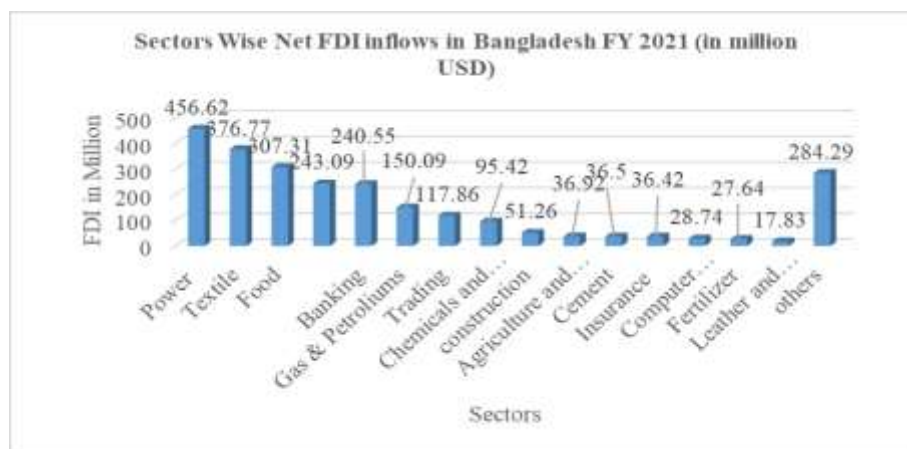


Fig. 6: Sector Wise Net FDI inflows in Bangladesh (in million USD).

(Source: Foreign Investment & External Debt (FIED) Management Cell, Statistics Department, Bangladesh Bank).

From chart (6) we see that the promising sectors of generating FDI in Bangladesh are Power, Textile, Food, Telecommunication, Banking, and Petroleum's receiving 456.62, 376.77, 307.31, 243.09, 240.55, and 150.09 million USD respectively in the FY 2021 which constitute almost 71% of total volume FDI inflow in Bangladesh. On the other hand, sectors like Leather, Fertilizer, Computer, Insurance, Cement, and Agriculture are lagging far behind in generating FDI to Bangladesh. The reason behind the accelerating rate of FDI inflows from are Power, Textile, Food, Telecommunication, Banking, and Petroleum's sectors may be due to conducive business environment and industry growth rate in Bangladesh. On the other hand, lagging sectors like Leather, Fertilizer, Computer, Insurance, Cement, and Agriculture are suffering lack of diversification and govt. patronization in receiving FDI in Bangladesh.

Conclusions and Recommendations: From the results and discussion portion, we have found some specific areas and components of the FDI inflows which needed to be corrected towards the acceleration of the volume of FDI inflow in Bangladesh. Now the key points of recommendation are outlined below:

1. Government of Bangladesh should adopt a monetary and fiscal policy in which foreign investments are patronized.
2. The consequences of the unfortunate outbreak of COVID-19 in FDI inflow should be minimized by taking appropriate remedial measures which may be in the form of a stimuli package of foreign investment in the prospective sectors.
3. The government of Bangladesh should emphasize on foreign diplomacy to attract FDI in the country.

As FDI plays an important role in job creation in the labor market of an economy it becomes our primary target to ensure an adequate flow of FDI by keeping track of the possible sources. on the current situation of COVID-19 government must prioritize the most promising sectors of FDI inflows as well as the new ones for bringing more opportunities in FDI generation however we can address the problems of inadequate flow of FDI during the COVID-19 period in Bangladesh.

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