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Faculty of Economics and Management

Department of International Trade & Business

Master's Thesis

The Role of Foreign Direct Investment (FDI) And Economic Growth in Bangladesh: A Focus on the RMG Sector

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Objectives of the thesis

The thesis discusses the role of FDI in the economic development of Bangladesh with reference to the RMG industry. It recognizes some of the main advantages and obstacles, including the transfer of technology, productivity, and performance of exports. The purpose of the study is to provide recommendations on enhancing FDI and the competitiveness of the RMG sector.

Methodology

The research is based on a mixed-methods design, utilizing quantitative data on FDI, GDP, and exports from both national and international sources, as well as qualitative interviews with industry representatives. The theoretical foundation is literature based on recent scholarly works. Results of data analysis will be used to appraise the FDI-growth relationship and policy suggestions.

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Declaration

I declare that I have worked on my master's thesis titled "The Role of Foreign Direct Investment (FDI) and Economic Growth in Bangladesh: A Focus on the RMG Sector" by myself, and I have used only the sources mentioned at the end of the thesis. As the author of the master's thesis, I declare that the thesis does not break any copyrights.

In Prague on 26.11.2025 _____

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The Role of Foreign Direct Investment (FDI) And Economic Growth in Bangladesh: A Focus on the RMG Sector

Abstract

The paper analyses how Foreign Direct Investment (FDI) can be used to promote economic development in Bangladesh, with a particular focus on the Ready-Made Garments (RMG) sector. The authors conduct a study using annual secondary time-series data from the World Bank, Bangladesh Bank, and BGMEA to explore the relationships between long-term FDI inflows, RMG export earnings, and GDP growth. They employ descriptive statistics and Ordinary Least Squares (OLS) regression models to assess the economic impacts of foreign investment. The findings show a significant positive connection among FDI, RMG exports, and economic growth in Bangladesh. The RMG sector is viewed as the primary channel through which FDI creates jobs, boosts exports, and generates foreign exchange. The results also highlight the importance of macroeconomic stability and export performance in influencing growth outcomes. However, structural challenges such as infrastructural bottlenecks, regulatory inefficiencies, and environmental concerns still hinder FDI's full potential. The study concludes that while FDI has played a catalytic role in Bangladesh's export-led development, further growth will require institutional reforms, industry diversification, and technological modernization through high-quality foreign investment.

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Keywords: Foreign Direct Investment (FDI), Economic Growth, Bangladesh Economy, RMG Sector, Ready-Made Garments.

Role přímých zahraničních investic (PZI) a hospodářský růst v Bangladéši: Zaměření na sektor konfekce

Abstrakt

Článek analyzuje, jak lze přímé zahraniční investice (PZI) využít k podpoře hospodářského rozvoje v Bangladéši, přičemž se blíže zaměřují na oblast konfekce (RMG). Autoři provedli studii s pomocí ročních sekundárních časových řad dat Světové banky, Bangladéšské banky a BGMEA, aby zkoumali souvislosti mezi dlouhodobým přílivem PZI, exportními příjmy z konfekce a růstem HDP. Výzkumníci použili deskriptivní statistiku a regresní modely metody obyčejných nejmenších čtverců (OLS) k prozkoumání ekonomických dopadů zahraničních investic. Výsledky ukazují, že mezi PZI, exportem konfekce a hospodářským růstem v Bangladéši existuje významný pozitivní vztah. Sektor konfekce je považován za hlavní přenosové médium, jehož prostřednictvím PZI vedou k vytváření pracovních míst, zvyšování exportu a devizových příjmů. Výsledky rovněž ukazují, že role makroekonomické stability a exportní výkonnosti je relativně velmi důležitá při určování výsledku růstu. Strukturální problémy, které brzdí veškerý potenciál přímých zahraničních investic, nicméně stále přetrvávají v podobě úzkých míst v infrastruktuře, neefektivity regulací a dokonce i environmentálních požadavků. Výzkum dochází k závěru, že přímé zahraniční investice byly katalyzátorem exportně orientovaného rozvoje Bangladéše, ale další růst vyžaduje institucionální změny, diverzifikaci průmyslových odvětví a technologickou modernizaci prostřednictvím kvalitních zahraničních investic.

Klíčová slova: Přímé zahraniční investice (PZI), Hospodářský růst, Bangladéšská ekonomika, Oděvní průmysl, Konfekce.

Table of Contents

1 INTRODUCTION 8
2 OBJECTIVES AND METHODOLOGY 11
2.1 Objectives 11
2.2 Methodology 13
3 LITERATURE REVIEW 16
3.1 Foreign Direct Investment (FDI) 16
3.1.1 Definition of Foreign Direct Investment 16
3.1.2 Historical Evolution of Foreign Direct Investment 17
3.2 Theories of Foreign Direct Investment and Economic Growth 19
3.2.1 Classical Growth Theories 19
3.2.2 Endogenous Growth Theory 20
3.2.3 FDI-Led Growth Hypothesis 20
3.3 Assessment of Foreign Direct Investment 21
3.3.1 Motives of Foreign Direct Investment 21
3.3.2 Advantages and Disadvantages of Foreign Direct Investment 22
3.4 Trade Organizations and Investment Policies 23
3.4.1 World Trade Organization (WTO) 23
3.4.2 International Monetary Fund (IMF) 23
3.4.3 United Nations Conference on Trade and Development (UNCTAD) 24
3.5 Bangladesh Ready-Made Garments (RMG) Sector 24
3.5 Bangladesh Ready-Made Garments (RMG) Sector 25
4 PRACTICAL PART 33
4.1 Overview of the Practical Analysis 33
4.2 Analysis of FDI Trends in Bangladesh 33
4.3 RMG Sector and Export Growth Performance 35
4.4 Growth and Macroeconomic Impact GDP 37
4.5 Interrelationship Between FDI, RMG Exports, and GDP 38
4.6 Foreign Direct Investment Effect on the Growth of the RMG Sector. 39
4.7 RMG Sector Generation to Employment and Income Generation. 40
4.8 FDI, Export Earnings, and Macroeconomic Stability. 40
4.9 Structural Restraints to the Attraction and Use of FDI. 41
4.10 Green Investment and Sustainability of the Environment in the RMG Sector. 42

4.11 FDI, Technological Transfer and Industrial Upgrading. 43
4.13 Practical Findings: Policy implications of research. 44
4.14 Final Observations of the Practical Chapter. 45
5 RESULTS AND DISCUSSION 46
5.1 Event Studies: Background to the Empirical Model. 46
5.2 Specification of Model and description of variables. 46
5.3 Descriptive Statistics of the Variables. 47
5.4 Correlation Analysis 48
5.6 Stability and Diagnostic Tests. 49
5.7 Empirical Findings Discussion. 49
5.8 Comparison to the Past Empirical Results. 50
5.9 Econometric Policy Implications. 51
5.10 Weaknesses of the Empirical Model. 51
5.11 Summary. 52
6 CONCLUSION 53
REFERENCE 56
APPENDIX 59
APPENDIX A 60
APPENDIX B 61
APPENDIX C 62
APPENDIX F 63

List of Figures

Figure 4.1 Trend of FDI Net Inflows to Bangladesh (2000–2023).....38

Figure 4.2: FDI as Percentage of GDP in Bangladesh (2000–2023).....39

Figure 4.3: Growth of Bangladesh RMG Export Earnings (2000–2024).....40

Figure 4.4: Trend of GDP Growth Rate in Bangladesh (2000–2023).....41

Figure 4.5: Combined Relationship between FDI Inflows.....42

List of Tables

Table 4.1: Net Foreign Direct Investment (FDI) inflows to Net inflows 37

Table 4.2: FDI Net Inflows as Percentage of GDP in Bangladesh/.....36

Table 4.3: Bangladesh Ready-Made Garments (RMG) Export Earnings.....39

Table 4.4: Bangladesh Real GDP Growth Rate (Annual %).....,.....44

List of abbreviations

- **FDI** – Foreign Direct Investment
- **RMG** – Ready-Made Garments
- **GDP** – Gross Domestic Product
- **BGMEA** – Bangladesh Garment Manufacturers and Exporters Association
- **EPZ** – Export Processing Zone

1 INTRODUCTION

In the past thirty years, Bangladesh has come out as one of the fastest-growing economies in South Asia, changing its society, which was principally agrarian, to a more industrialized and export-based society. The Foreign Direct Investment (FDI) and the fast export-led industrialization, especially in the Ready-Made Garments (RMG) industry, have been instrumental in this metamorphosis. Bangladesh has been able to draw foreign investment, modern manufacturing industries, as well as foreign management skills since the beginning of the 1980s to become a part of the world production and supply markets. This change has been advanced by liberalized trade and investment policies, the creation of Export Processing Zones (EPZs), as well as the use of export-oriented development policies, so that Bangladesh is now a major manufacturing center and a leading player in the world apparel industry.

The Ready-Made Garments (RMG) industry has become the mainstay of Bangladesh's economy, contributing over 80 percent to total export income and providing employment for more than four million workers, most of whom are rural women with low incomes. The rapid growth of this industry has not only transformed the country's export landscape but also had a significant socio-economic impact, particularly in reducing poverty, empowering women, and driving urbanization. Foreign investment, joint ventures, multinational buyer networks, and export-focused industrial policies have played major roles in the industry's growth, helping it connect to international markets. The integration of Bangladeshi garment factories into global value chains has enabled the industry to benefit from technology transfer, compliance improvements, quality enhancements, and sustained international demand.

This research was motivated by the need to emphasize the role of FDI as a source of funding for development in developing countries during the era of globalization. In economies like Bangladesh, where capital and technology are limited, domestic savings and investments often fall short of supporting a high rate of industrial growth and productivity. In this context, FDI plays a crucial role in supplementing domestic investment, introducing new technologies, enhancing managerial capabilities, and opening foreign markets. Bangladesh is increasingly recognizing the importance

of foreign investment to boost industrialization, enhance export competitiveness, create jobs, and support long-term economic development. The RMG industry is the most prominent beneficiary of this trend.

The case of the Bangladesh RMG industry demonstrates how openness to foreign investors and multinational corporations is a strategic concern. Global buyers and foreign companies have had a decisive say in production standards, delivery schedules, product quality, and compliance practices. Their involvement has introduced Bangladeshi firms to new production systems, quality control mechanisms, supply chain management, and international labor and environmental standards. At the same time, foreign investment has supported the development of backward and forward linkages within the domestic economy, including textiles, accessories, logistics, transportation, and financial services, thereby generating widespread multiplier effects across various industries.

Nevertheless, despite these impressive successes, Bangladesh still faces numerous obstacles that threaten the sustainability of growth in the Ready-Made Garments (RMG) industry, which depends on foreign direct investment (FDI). Persistent infrastructure issues, such as power outages, port congestion, inadequate transportation, and logistical inefficiencies, drive up production costs and reduce industry competitiveness. Regulatory and bureaucratic hurdles, including lengthy approval processes, poor contract enforcement, and administrative delays, continue to deter potential foreign investors. Periodic episodes of political instability and policy uncertainty further undermine investor confidence and hinder long-term investment planning. Additionally, concerns about employment standards, occupational health risks, and environmental pollution have attracted international scrutiny, especially following some major industrial disasters. There are also risks related to energy shortages and rising production costs, which could seriously threaten the future competitiveness of the RMG sector.

Besides these structural issues, Bangladesh heavily depends on a single type of export, making its economy vulnerable to external threats. The consequences on export revenues, jobs, and macroeconomic stability could be disastrous in response to global demand shocks, changes in international trade policies, shifts in consumer tastes, and disruptions in the international supply

chain, among other factors. Especially during the COVID-19 pandemic, with global retail demand collapsing and export orders canceled within days, the reliance on an export-based growth model was exposed. These facts raise serious concerns about the sustainability of Bangladesh's current development plan, which is founded on garment exports led by FDI.

Moreover, although FDI has led to significant economic gains, concerns about the quality of foreign investment and its future developmental impact remain. Issues related to fully realizing the benefits of FDI include profit repatriation, limited domestic value addition, inadequate technology absorption in certain sectors, and dependence on low-value-added production stages. Although Bangladesh is making progress in compliance reform and green manufacturing, challenges related to industrial upgrading, innovation, branding, and moving up the global value chain continue to be concerns.

It is against this backdrop that a careful and comprehensive examination of how FDI and the economic growth nexus operate in Bangladesh, especially within the RMG sector, is both timely and necessary. Understanding how FDI inflows contribute to industrial productivity, export performance, job creation, and overall GDP growth is crucial for developing effective investment and industrial policies. At the same time, it is vital to identify structural limitations, institutional inefficiencies, and policy gaps that restrict the impact of foreign investment. This understanding will help ensure that FDI not only fosters short-term export growth but also promotes sustainable, inclusive growth in the long run.

This thesis aims to critically analyze the role of Foreign Direct Investment in shaping Bangladesh's growth trajectory, with a particular focus on its function as the main transmission channel in the Ready-Made Garments sector. I intend to provide a comprehensive assessment of the relationship between foreign investment, export performance, and macroeconomic growth by integrating theoretical insights with empirical analysis and econometric research. It is expected that the findings of this study will contribute to the academic literature on FDI-led development and offer relevant policy guidance for improving investment strategies, industrial upgrading, export diversification, and the long-term economic transformation of Bangladesh.

2 OBJECTIVES AND METHODOLOGY

2.1 Objectives

The main goal of this thesis is to analyze the role of Foreign Direct Investment (FDI) in the fast economic growth of Bangladesh, particularly in the Ready-Made Garments (RMG) industry. The country has experienced consistent economic growth over the past 30 years, with FDI significantly impacting industrial development, exports, job creation, and technology transfer. The RMG sector has emerged as the most dynamic in terms of export revenue and foreign exchange reserves among all industry sectors. This research seeks to critically evaluate the influence of FDI in this key sector and its contribution to the overall economic growth of the country.

The analysis of the long-term relationship between FDI inflows and economic growth, measured by gross domestic product (GDP), in Bangladesh is a main focus of this study. The research aims to determine whether FDI significantly impacts the level of national income, both statistically and economically. Additionally, the study seeks to identify trends, fluctuations, and structural changes in FDI inflows and GDP growth to explain the overall growth pattern of the Bangladeshi economy. This objective is important because understanding the effect of FDI growth helps policymakers assess the effectiveness of existing investment policies and institutional reforms.

Another important aspect of this research is examining how FDI has contributed to the development and modernization of Bangladesh's RMG sector. Studies have shown that the RMG industry is highly export-focused and deeply integrated into the global value chain, making foreign capital, technology, and managerial expertise crucial for enhancing its productivity and international competitiveness. This paper will assess the impact of foreign investment on production capacity, export performance, labor productivity, and technological advancement in the RMG sector. In doing so, the study aims to establish a clear link between export-driven industrialization and foreign investment inflows.

This research will also aim to determine the importance of FDI in creating jobs and increasing income levels in the Bangladeshi economy, primarily through the RMG sector. The garments sector employs millions of workers, most of whom are women from rural areas. The significance of this objective lies in the fact that employment is one of the key developmental outcomes for a labor-abundant country like Bangladesh. Therefore, this paper seeks to assess the level of foreign investment in terms of employment, skills, and wage growth in the manufacturing industry.

Furthermore, the study also aims to identify the most significant economic, institutional, and policy-related issues influencing FDI inflows to Bangladesh. These include macroeconomic stability, trade openness, infrastructure development, labor market conditions, political stability, the regulatory environment, and investment incentives. By pinpointing these factors, the study will provide deeper insights into why Bangladesh has succeeded in attracting FDI at certain times and faced challenges at others. It will also help uncover the structural bottlenecks that limit the full potential of foreign investment.

Another important goal of the research is to analyze the challenges and risks associated with FDI-driven growth in the RMG sector. Foreign investment offers both benefits and challenges, including risks of labor exploitation, environmental degradation, reliance on technology, profit repatriation, exposure to global demand fluctuations, and concerns over adherence to international labor and safety standards. This study must critically evaluate these issues to determine whether the economic and social costs of FDI development in the RMG sector outweigh the benefits.

The final goal of this thesis is to provide policy-oriented and practical recommendations on how to enhance the usefulness of FDI in promoting sustainable economic development in Bangladesh. The study is based on the opportunity to discuss strategies for improving the investment climate, strengthening institutional governance, diversifying FDI beyond the RMG sector, and ensuring that foreign investment contributes to long-term, inclusive, and sustainable growth. These guidelines aim to help policymakers, investors, and development planners in designing future investment and industrial policies.

2.2 Methodology

This study employs a mixed method that combines a quantitative approach with descriptive and analytical interpretations using secondary data. The research design is explanatory, aiming to clarify the relationship between Foreign Direct Investment and economic growth in Bangladesh, with particular attention to the RMG sector. The methodological framework aligns with international standards in economic research, ensuring that the findings are reliable and empirically valid.

The research relies on secondary data mainly from national and international sources to support the study. The World Bank's World Development Indicators (WDI), UNCTAD World Investment Reports, annual reports of Bangladesh Bank, Bangladesh Bureau of Statistics (BBS), and Bangladesh Garment Manufacturers and Exporters Association (BGMEA) have provided data on FDI inflows, GDP growth rate, export earnings, exchange rates, prices, and other macroeconomic variables. These sources are known to be accurate, credible, and consistent, making them suitable for use in academic econometric studies.

The period covered by the study spans several decades to capture long-term trends and changes in Bangladesh's economy. This extended timeframe allows the research to observe how FDI inflows vary over time, particularly before and after major policy shifts such as trade liberalization, privatization, export promotion policies, and the establishment of Export Processing Zones (EPZs). Choosing a long-term series enhances the credibility of trend analysis and provides a more reliable basis for econometric modeling.

Descriptive statistical methods will be used during the initial phase of analysis. They involve the use of tables, growth rates, averages, and trend graphs to show how FDI inflows, GDP growth, and RMG export earnings behave over time. The descriptive analysis helps provide an overview of developing trends in the economic variables and the alignment of FDI with industrial and export growth. This step assists in graphically and numerically identifying relationships and changes in the data.

The second stage involves using an econometric model to analyze the quantitative relationship between FDI and economic growth. The impact of FDI inflows on GDP growth is examined through the Ordinary Least Squares (OLS) regression method. GDP is treated as the dependent variable, while FDI inflows, RMG export earnings, the exchange rate, and inflation are considered independent explanatory variables. Regression analysis will help determine the significant economic growth effect of FDI.

The validity of the results is demonstrated through the use of standard diagnostic tests after estimating the regression model. These include tests for stationarity, multicollinearity, autocorrelation, and heteroskedasticity. The Augmented Dickey-Fuller (ADF) test is used to analyze the stationarity of the time series. Multicollinearity is checked with a correlation matrix and the Variance Inflation Factor (VIF), while the Durbin-Watson test is performed to detect autocorrelation. These diagnostic procedures ensure that the estimated coefficients are unbiased and efficient.

Econometric analysis is made easier with statistical software like EViews or STATA, which are commonly used in applied economics studies. These software tools can be employed to estimate, test, and visually display the results. Regression outputs, correlation matrices, and diagnostic test results are typically presented in the table format of the thesis practicum.

In addition to econometric analysis, qualitative interpretation is employed, referencing policy documents, government investment policies, industrial development policies, and labor market reports. These sources aid in clarifying institutional and structural issues affecting FDI inflows and the performance of the RMG sector. The qualitative aspect enhances the quantitative results by broadening the economic and policy context.

The methodological approach ensures objectivity and reduces researcher bias because it relies solely on approved secondary data and established econometric techniques. No primary data or interviews are used in this study to maintain consistency, comparability, and allow future

researchers to replicate the findings. The methodology also aligns with other empirical studies on FDI and economic growth conducted in developing economies.

Finally, the limitations of the approach are acknowledged. Since the study relies entirely on secondary data, it may be constrained by data availability, reporting errors, and differences in definitions used by various institutions. Additionally, although regression analysis identifies statistical relationships, it does not cover all causal pathways, such as the institutions' quality, political risk, and global market shocks. Nonetheless, despite these limitations, the chosen method provides a sufficient empirical foundation for achieving the objectives of this thesis.

3 LITERATURE REVIEW

3.1 Foreign Direct Investment (FDI)

3.1.1 Definition of Foreign Direct Investment

Foreign Direct Investment (FDI) is widely recognized as a key factor driving economic change in both developed and developing countries. According to the International Monetary Fund (IMF), FDI is defined as an investment by a resident in one country aimed at gaining a lasting interest in a business located in another country. The IMF specifies that this interest involves substantial management and significant control (IMF, 2009). The most common criterion for determining FDI is the purchase of at least 10 percent of the voting rights in a foreign company.

According to the definition provided by the United Nations Conference on Trade and Development (UNCTAD), FDI is characterized by a long-term relationship and indicates a sustained interest and control by one economy's resident enterprise over another enterprise located in a different economy (UNCTAD, 2022). This definition not only emphasizes the flow of capital but also includes the transfer of managerial control, production technology, entrepreneurial skills, and access to international markets. Therefore, FDI differs from portfolio investment, which is primarily driven by short-term financial gains and involves no managerial role.

Under the lens of development economics, FDI is not only a source of capital accumulation but also promotes knowledge diffusion, technology transfer, human capital development, and industrial upgrading. Borensztein, De Gregorio, and Lee (1998) emphasize that FDI is more beneficial to growth than domestic investment because it brings in advanced technologies and management practices. In export-driven economies like Bangladesh, FDI plays a crucial role in linking local sectors to the global value chain.

In Bangladesh, FDI is defined by the Bangladesh Bank as foreign investment in local businesses through equity shares, remittance of earnings, and intra-company credits. Since the early 1990s, following liberalization policies, Bangladesh has adopted a more open and welcoming FDI environment to attract multinational corporations, especially in export industries such as garments, textiles, energy, pharmaceuticals, and telecommunications.

FD definition is not simply reduced to the physical movement of capital, but involves a complex web of economic relationships involving ownership, control, production, trade, transfer of knowledge, and employment. It is like making FDI one of the most influential tools of globalization and industrial development in the modern world economy.

The evolution of an investment process abroad can be summarized as follows: The development of Foreign Direct Investment is not new to the world.

3.1.2 Historical Evolution of Foreign Direct Investment

The history of Foreign Direct Investment (FDI) dates back to the era of developing international trade and colonialism. Early examples of FDI were carried out by European trading companies in the 16th and 17th centuries, such as the British East India Company and the Dutch East India Company. They established trading posts, plantations, and production centers in Asia, Africa, and Latin America. These investments were highly extractive and driven by colonial motives rather than development goals.

The modern era of FDI began after World War II, when Europe was rebuilt and the Bretton Woods institutions were established. The founding of the IMF, the World Bank, and the General Agreement on Tariffs and Trade (GATT) mainly contributed to a more liberal international economic system. In the 1950s and 1960s, American multinational corporations dominated international FDI flows, especially in manufacturing, oil, and mining sectors (Dunning, 1993).

The 1970s saw a significant shift in international FDI trends, marked by the rise of Japanese and European global corporations. Meanwhile, most developing countries adopted import-substitution industrialization policies that limited foreign investment by nationalizing and controlling industries. However, the debt crisis of the 1980s revealed the inefficiencies of closed economies and forced many developing nations to pursue structural adjustment and liberalization programs under the guidance of the IMF and World Bank.

The FDI landscape worldwide changed significantly in the 1990s. Rapid globalization, privatization, deregulation, and trade liberalization led to a surge in cross-border FDI flows. Developing nations, especially in East and South Asia, became major recipients of foreign investment. UNCTAD (2004) notes that global FDI inflows increased to USD 207 billion in 1990 and exceeded USD 1.4 trillion in 2000.

In the Bangladesh context, the development of FDI began shortly after independence in 1971. The period was characterized by strong government control, industry nationalizations, and limited foreign investment. However, reforms in the late 1980s and early 1990s, which adopted a market-oriented approach, transformed the investment environment. FDI inflows increased following the Foreign Private Investment (Promotion and Production) Act of 1980, and the Board of Investment (BOI) was established.

The development of Export Processing Zones (EPZs) in Chittagong, Dhaka, and later in other regions also served as a major attraction for foreign investment in the textiles and garments sector. Since the 2000s, the country has gradually integrated into the global investment framework, with FDI flows in RMG, energy, telecommunications, banking, and infrastructure becoming highly concentrated. Consequently, the historical pattern of FDI can be seen as a general shift towards a market-oriented development strategy in Bangladesh, which has been shaped by the country's strong government influence.

This section discusses the theories of both Foreign Direct Investment and Economic Growth.

3.2 Theories of Foreign Direct Investment and Economic Growth

3.2.1 Classical Growth Theories

The theories of classical economic growth mainly focus on capital accumulation, growth in labor, and technological progress as the key drivers of increased economic growth. The capital accumulation theory developed by Adam Smith highlights how savings and investment can boost productive capacity. Although Smith never explicitly mentioned FDI, his discussion of capital mobility suggests that cross-border investment can facilitate specialization, improve productivity, and increase output.

The Harrod-Domar growth model later explained how investment depends on economic growth by highlighting the dual purpose of capital as a way to generate income and boost production capacity (Harrod, 1939; Domar, 1946). According to this model, economic growth is directly proportional to the savings rate and capital-output ratio. In developing economies with low capital levels, local savings may not be sufficient to fund the desired investment. Therefore, FDI becomes an important source of foreign capital to fill the savings-investment gap.

In the example of Bangladesh, where household savings have traditionally been insufficient to meet the demand for investments, the Harrod-Domar model provides a strong theoretical reason to rely on foreign capital inflows. FDI helps fund growth in industries, infrastructure, and exports, thereby boosting the economy's potential for expansion.

3.2.2 Endogenous Growth Theory

The limitations of classical and neoclassical growth models in explaining long-term technological progress led to the development of endogenous growth theory in the 1980s and 1990s. Romer (1986) and Lucas (1988) were the first to introduce models involving technological progress, human capital formation, and knowledge spillovers, all of which are endogenous to the economy.

Endogenous growth theory clearly explains how FDI contributes to long-term growth through the transfer of technology, research and development, and learning by doing. Multinational companies introduce advanced production methods, management skills, international marketing systems, and managerial expertise, which increase the productivity of firms in the host country. These spillover effects occur through labor mobility, relationships between suppliers and buyers, and demonstration effects (Grossman and Helpman, 1991).

In the case of Bangladesh, the endogenous growth theory can be specifically applied since the RMG sector has received a lot of foreign technology, managerial skills, and access to overseas consumers. Foreign presence has also helped spread international quality standards, compliance, and technologies that boost productivity, which in turn supports sustained export-led growth.

3.2.3 FDI-Led Growth Hypothesis

The FDI-led growth hypothesis suggests that FDI has both direct and indirect impacts on promoting economic growth by increasing the capital stock, improving productivity, boosting exports, and driving structural change. Unlike domestic investment, FDI not only provides financial capital but also offers intangible resources like technology, skills, innovation capacity, and access to international markets.

There is strong evidence that the FDI-led growth hypothesis holds true for developing nations. Borensztein et al. (1998) note that FDI results in higher growth compared to domestic investment

when the host country has a reasonable level of human capital. As Alfaro et al. (2004) show, the development of local financial markets is very important in determining FDI's impact on growth. These findings suggest that FDI is most effective when supported by strong institutions and complementary domestic policies.

The growth hypothesis that improvements through FDI are well-represented in the RMG sector in Bangladesh. Foreign-invested firms brought modern production technology, supply chain integration, rules and regulations, and international marketing connectivity. As a result, Bangladesh is now the second-largest apparel exporter in the world, rather than a small garment exporter as it was in the late 1970s. This demonstrates a realistic example of the FDI-growth relationship.

3.3 Assessment of Foreign Direct Investment

3.3.1 Motives of Foreign Direct Investment

The motives can include market-seeking motives, resource-seeking motives, efficiency-seeking motives, and strategic asset-seeking motives; this is based on Dunning and his Eclectic Paradigm (Dunning, 1993). Market-seeking FDI is designed to serve domestic markets, resource-seeking FDI aims to utilize natural resources or cheap labor, efficiency-seeking FDI seeks cost benefits through global production chains, and strategic asset-seeking FDI is specifically intended to explore technological innovation capacity and brands.

In the case of Bangladesh, foreign investments are primarily driven by resource-seeking and efficiency-seeking motivations, especially in the RMG industry. Thanks to the availability of cheap labor, preferential access to developed markets, and export-oriented industrial policies, Bangladesh has become an attractive destination for export-oriented FDI. The main reason why foreign garment manufacturers invest in Bangladesh is to lower production costs and access international markets through duty-free and quota-free trade without restrictions.

3.3.2 Advantages and Disadvantages of Foreign Direct Investment

The benefits of foreign direct investment are numerous for host economies, especially developing ones. Capital formation is one of the main advantages of FDI because it supplements local savings and helps fill the investment gap, promoting industrialization. In Bangladesh, FDI has been very important in funding energy projects, telecommunications infrastructure, and export-focused industries.

Technology transfer is a significant advantage of FDI. Multinational companies introduce new technology in machinery, production, and management, which improves productivity and product quality. Foreign investment in the RMG industry has brought in new knitting, dyeing, and finishing machines, along with systems that meet international labor standards.

Export growth through FDI is also driven by the integration of domestic companies into global value chains. The international buyers, brand owners, and investors create both upstream and downstream linkages that connect local producers to the global market. The significant increase in garment exports experienced by Bangladesh has been heavily influenced by this effect of FDI.

Another key advantage of FDI is job creation. The RMG industry alone employs over four million people, with a significant portion directly or indirectly involved in foreign-invested operations. It has improved living standards by reducing poverty, increasing women's participation in the workforce, and boosting household incomes.

However, FDI has its drawbacks as well. Profit repatriation is one of the main concerns because it can lead to significant foreign exchange outflows. Over-reliance on FDI can also make the host economy vulnerable to global market shocks and volatility. Changes in global market demand, shifts in trade policies, and the concentration of buyers can cause instability in employment and export earnings in the RMG sector.

Unregulated FDI is also linked to environmental harm and labor exploitation. Bangladesh remains a serious concern due to industrial pollution, poor working conditions, and ineffective enforcement of labor laws, especially after the Rana Plaza collapse in 2013. Therefore, while FDI offers significant benefits, it must be managed with proper regulation and institutional oversight.

3.4 Trade Organizations and Investment Policies

3.4.1 World Trade Organization (WTO)

On the one hand, the World Trade Organization can be seen as Europe's creation aimed at uniting all countries in a manner that establishes a single economic system that is more efficient than nations operating separately.

The World Trade Organization (WTO) is central to regulating international trade and investment flows. In 1995, Bangladesh joined the WTO and has special treatment as a Least Developed Country (LDC). Membership in the WTO has allowed Bangladesh to access markets favorably, especially in textiles and garments, through various trade preference programs.

3.4.2 International Monetary Fund (IMF)

The International Monetary Fund (IMF) enhances macroeconomic stability, the balance of payments, and reforms in developing economies. Bangladesh has a long history of engagement with the IMF, particularly in implementing trade liberalization, exchange rate reforms, and improving the investment climate, which indirectly influence FDI inflows.

3.4.3 United Nations Conference on Trade and Development (UNCTAD)

UNCTAD plays a crucial role in tracking FDI flows, investment policies, and development strategies worldwide. It regularly publishes its annual World Investment Report, providing reliable information on trends and policy frameworks related to FDI. UNCTAD's investment policy guidelines are often used to strengthen institutions in Bangladesh.

3.5 Bangladesh Ready-Made Garments (RMG) Sector

The Ready-Made Garments sector is the most important industrial sector in Bangladesh, producing over 80 percent of the country's total export revenue and about 11 percent of its GDP. The industry began its operations in the late 1970s when the first export-oriented garment factories started opening, primarily as joint ventures with South Korean, Hong Kong, and Singaporean partners.

FDI played a key role in transferring sewing technology, managing factories, establishing quality control processes, and developing international buyer networks. The Desh-Daewoo joint venture of 1978 is widely regarded as the first success of FDI-led industrialization in Bangladesh's garment industry.

In the long term, the RMG industry grew rapidly due to quota access under the Multi-Fiber Arrangement (MFA), cheap labor, and favorable export policies. The sector continued to expand, thanks to improved productivity even after the MFA phase-out in 2005. Bangladesh now ranks second behind China as the world's largest apparel exporter, with major brands like H&M, Zara, Walmart, and Gap selling products on the global market.

3.5 Bangladesh Ready-Made Garments (RMG) Sector

The historical development of the Ready-Made Garments (RMG) industry in Bangladesh is rooted in the export-oriented industrialization strategy that the government adopted in the late 1970s and early 1980s. Before Bangladesh gained independence in 1971 (then East Pakistan), the country had almost no industrial manufacturing base and virtually no export-oriented manufacturing sector. The garment industry began in 1978 when a few export-focused shops were established, most of which resulted from joint ventures with foreign investors. A well-known example in the literature is the Desh-Daewoo partnership, where South Korea provided technical training, manufacturing expertise, and management. This collaboration created a foundation for knowledge transfer that eventually influenced the growth of the domestic garment industry (Rhee, 1990).

The rapid growth of the RMG industry in the 1980s and 1990s was significantly driven by foreign direct investment, favorable trade policies, and market access through quota systems under the Multi-Fiber Arrangement (MFA). The MFA ensured that developing countries had export quotas, which helped open and expand markets for countries like Bangladesh in major regions such as the United States and the European Union. International buyers and foreign investors responded quickly by placing large export orders, establishing sourcing offices, and investing in manufacturing facilities in Bangladesh.

FDI played a crucial role in helping Bangladesh overcome the country's early limitations related to technology, production capacity, and access to global markets. Foreign companies introduced modern sewing machines, factory layout designs, quality management procedures, and compliance standards, which had not been previously implemented in local industries. These managerial and technological spillovers enabled local entrepreneurs to expand production quickly and compete with other industries globally. As a result, garment exports increased from less than USD 50 million in the early 1980s to USD 34 billion in 2022 (BGMEA, 2023).

During Bangladesh's integration into global value chains, it was not only through manufacturing FDI that it was connected, but also supported by backward and forward linkages with foreign

buyers, logistics companies, shipping firms, and international retailers. Multinational brands like H&M, Zara, Uniqlo, Walmart, and Gap have established long-term sourcing partnerships with their suppliers in Bangladesh. These international networks have strengthened export stability, improved product standards, and increased demand for skilled workers.

In developmental terms, growth in the RMG sector demonstrates that FDI can act as both a catalyst for export diversification and structural change. Before the garment industry expanded, Bangladesh's export base was limited and focused on jute and agricultural products. Today, manufactured garments account for over 80 percent of total export earnings and a significant portion of the GDP. This shift has elevated Bangladesh's position in the global trading system to that of a major industrial exporter.

The high concentration of exports in one industry also raises concerns about how it has made them vulnerable to shocks in global demand, adjustments in trade policy, and pressure to conform to international buyers. The COVID-19 pandemic demonstrated how global supply chain disruptions can severely impact economies that depend on exports. This underscores the need to diversify policies and pursue long-term upgrades in the RMG sector to remain stable in the face of future developments.

Foreign Direct Investment Spillover in Developing Economies.

The concept of spillover effects is one of the most popular themes discussed in the FDI literature. Spillovers are defined as the indirect benefits that domestic firms and the host economy receive from foreign firms' presence in the country, beyond the direct impacts of capital inflows. These spillovers typically occur through technology transfer, human capital development, competitive effects, and the creation of linkages.
(Blomström and Kokko, 1998).

Technological spillovers happen when domestic firms imitate foreign technologies, adopt superior production processes, or benefit from demonstration effects. Foreign companies in Bangladesh's

RMG sector have introduced modern industrial engineering systems, advanced manufacturing techniques, and quality control practices. Over time, these practices spread to local factories through labor mobility and subcontracting agreements. Skilled employees trained in foreign-owned plants often move to local firms or start their own, carrying their knowledge and experience with them.

Another important channel through which FDI can contribute to productivity growth is human capital spillovers. Foreign companies invest heavily in training their workers, developing management skills, and upgrading workforce capabilities. In Bangladesh, workers trained in garment factories funded by foreign investment gained exposure to industrial discipline, machine handling, production planning, and factory compliance. These skills significantly enhanced their productivity and employability in the local labor market.

Competition spillovers occur when multinational companies enter the local market, increasing competitive pressure on domestic firms. This drives them to improve efficiency, reduce costs, and enhance product quality. The competition among suppliers in the RMG industry, aiming to meet foreign buyers' demands, has consistently led to increased production efficiency and stricter adherence to labor and safety laws. This competitive environment has overall boosted the industry's performance.

The connection spillovers take the form of backward and forward associations between domestic and foreign firms. The garment factories, established by foreign nationals in Bangladesh, rely on domestic suppliers for packaging, accessories, labels, transportation, and supply logistics. These linkages promote the growth of small and medium enterprises (SMEs) and encourage industrial clustering. Forward linkages also occur when home firms supply finished products to overseas buyers through foreign sourcing offices and export agents.

Despite these advantages, the extent of FDI spillovers depends on various host country factors, such as financial and human capital, the quality of institutions, and absorptive capacity. Research has demonstrated that spillover effects are stronger when domestic firms have sufficient

technological and managerial capabilities to internalize foreign knowledge (Kokko, 1994). This suggests that FDI alone will not generate development results unless complemented by similar domestic policies.

Export-led growth and the part of FDI

According to the export-led growth (ELG) hypothesis, long-term economic growth depends on the sustained increase in exports. Exports stimulate development by raising capacity utilization, exploiting economies of scale, generating foreign exchange, and advancing technological learning (Balassa, 1978). FDI plays a crucial role in strengthening the export-led growth process by improving production efficiency and connecting local firms to international markets.

Some empirical studies establish a close link between FDI, export growth, and the economic development of developing countries. According to Bhagwati (1988), outward-oriented economies that are open to export-focused FDI tend to grow faster than inward-oriented ones. Similarly, Grossman and Helpman (1991) emphasize that trade openness and foreign investment complement each other by boosting both innovation and growth in productivity.

There is strong evidence from Bangladesh that supports the export-led growth hypothesis. The country has reshaped its trade structure, increased foreign exchange earnings, and maintained a stable balance of payments, primarily through the RMG sector. This sector has been driven mainly by export-oriented FDI and buyer-based global value chains. The import of capital goods, raw materials, and energy is financed by earnings from garment exports, which helps sustain industrial growth.

FDI-exports interaction is especially significant in labor-intensive manufacturing industries, such as garments. The relationship between foreign and domestic investors leads to the relocation of production to countries that have a comparative advantage in labor costs, technologies, and marketing networks. This synergy creates a virtuous cycle of investment, production, and export

growth. This trend has continued in Bangladesh over the past forty years, making the RMG industry a central part of its economic development.

Specific Empirical Literature: Empirical literature is country-specific, centered on Bangladesh FDI and Economic Growth.

There is a considerable amount of empirical literature that looks into the correlation between FDI and economic growth in Bangladesh. The majority of the research uses time series econometrics and concludes that FDI inflows and GDP growth have a positive long-run correlation.

Hossain and Rahman (2019) conducted an empirical study of the FDI-growth relationship in Bangladesh using Johansen cointegration and the Granger causality test. They show that, in the long term, there is an equilibrium connection between FDI, exports, and economic development, but a one-sided causality exists between FDI and GDP. This indicates that FDI acts as a growth-enhancing factor rather than simply responding to economic growth.

Uddin and Masih (2015) examined the evolving relationship between FDI, trade openness, and economic growth using Vector Error Correction Models (VECM). Their study found that FDI has a very strong positive impact on economic growth, both in the short term and long term. It was also found that trade openness supported trade promotion policies by confirming the complementary relationship between investment policies and export promotion policies.

Adnan and Fatema (2016) focused specifically on the effectiveness of FDI on export growth in the Bangladesh RMG sector. Their results show that FDI has played a significant role in export growth by boosting production capacity, efficiency, and product quality. This paper concludes that foreign investment can be considered a key factor in Bangladesh's global clothing market competitiveness.

In their study, Ahmed and Uddin (2019) examined the macroeconomic factors that influence FDI in Bangladesh and found that the strongest predictors of foreign investment inflows include GDP growth, trade openness, infrastructure development, and exchange rate stability. They also

identified political stability and regulatory quality as important factors that significantly impact investor confidence.

All these empirical results support the idea that FDI is a key driver of economic growth and export performance in Bangladesh. They also highlight the importance of complementary policies, institutional reforms, and macroeconomic stability in maximizing the development benefits of foreign investment.

Bangladesh-Specific Empirical Literature on FDI and Economic Growth

Over the past forty years, Bangladesh's institutional system for FDI inflows has undergone significant changes. The Foreign Privacy Investment (Promotion and Protection) Act of 1980 guarantees equal treatment, the right to repatriate profits, and protection against nationalization. This foundation was strengthened by the establishment of the Bangladesh Investment Development Authority (BIDA), formerly known as the Board of Investment (BOI), which offers a one-stop service for foreign investors.

Export Processing Zones (EPZs) operated by the Bangladesh Export Processing Zones Authority (BEPZA) have played a key role in attracting export-oriented FDI, especially in the RMG sector. These zones enjoy tax holidays, allow duty-free import of capital machinery, feature bonded warehouses, and have a streamlined labor regime. Foreign companies located within the EPZs have led efforts in diversifying exports and creating jobs.

The government has also implemented various trade and industrial policies to encourage FDI through investment incentives, privatization, public-private partnerships, and special economic zones (SEZs). More recently, the Bangladesh Economic Zones Authority (BEZA) has launched large-scale industrial zones to attract FDI in manufacturing, logistics, and infrastructure.

Despite these individual initiatives, investors still face issues related to inadequate infrastructure, bureaucratic barriers to action, contract enforcement problems, energy shortages, and regulatory failures. These challenges limit the full potential of FDI and highlight the ongoing need for institutional improvements to sustain growth driven by investment.

Socio-Economic Effect of FDI within the RMG Sector

The socio-economic impact of FDI on Bangladesh's RMG sector is multifaceted. The most evident benefit is job creation, with the industry employing over four million people, about 60-65 percent of whom are women. This has significantly increased women's participation in the workforce, improved household income levels, and enhanced social empowerment.

The growth of the industry has driven urbanization, formation of industrial clusters, and the expansion of transportation and logistics facilities. Garment worker remittances have improved the welfare of rural households and contributed to poverty reduction. Research has shown that, in areas with increased employment in RMG, there is a corresponding rise in poverty alleviation and social development indicators (Kabeer and Mahmud, 2004).

But another major challenge in the sector has been labor and safety, especially in terms of factory conditions, wages, and workplace safety. In 2013, the Rana Plaza disaster highlighted significant governance shortcomings and led to major international changes in factory compliance and safety standards, including the Accord and Alliance. These incidents demonstrate that although FDI is economically beneficial, its process requires solid regulatory systems to support social sustainability.

Environmental and Sustainability Aspects of FDI in Garments.

In recent years, environmental issues related to FDI in the RMG sector have become increasingly relevant. The effluents from dyeing and washing plants are a major source of water pollution in

large employment hubs like Dhaka, Gazipur, and Narayanganj. Carbon emissions have also increased due to energy-intensive production processes.

As a result, international buyers have imposed strict environmental compliance requirements on suppliers, including wastewater treatment, energy efficiency, and chemical safety standards. The industry is gradually transforming through foreign investment in green technologies and sustainable production practices. An example of how FDI can promote environmentally sustainable industrialization is Bangladesh, which is now one of the top producers of LEED-certified green garment factories, provided that appropriate policies are maintained.

4 PRACTICAL PART

4.1 Overview of the Practical Analysis

This chapter provides a quantitative screening and experimentally examines the relationship between Foreign Direct Investment (FDI), Ready-Made Garments (RMG) export performance, and economic growth (GDP) in Bangladesh. The analysis is based on official data published by the World Bank and the Bangladesh Garment Manufacturers and Exporters Association (BGMEA). Four major datasets are analyzed using Tables 4.1-4.4 and are illustrated by Figures 4.1-4.5. These datasets enable the identification of long-term trends, structural dependence on the RMG sector, and macroeconomic contributions of FDI in an important way.

4.2 Analysis of FDI Trends in Bangladesh

Table 4.1: Net Foreign Direct Investment (FDI) inflows to Net inflows to Bangladesh (Current US$ Billion)

Year	FDI Net Inflows (US$ Billion)
2000	0.083
2005	0.845
2010	0.913
2015	2.17
2018	3.61
2019	2.88
2020	2.56
2021	3.89
2022	1.60
2023	1.48

Source: World Bank, World Development Indicators (BX.KLT.DINV.CD.WD)

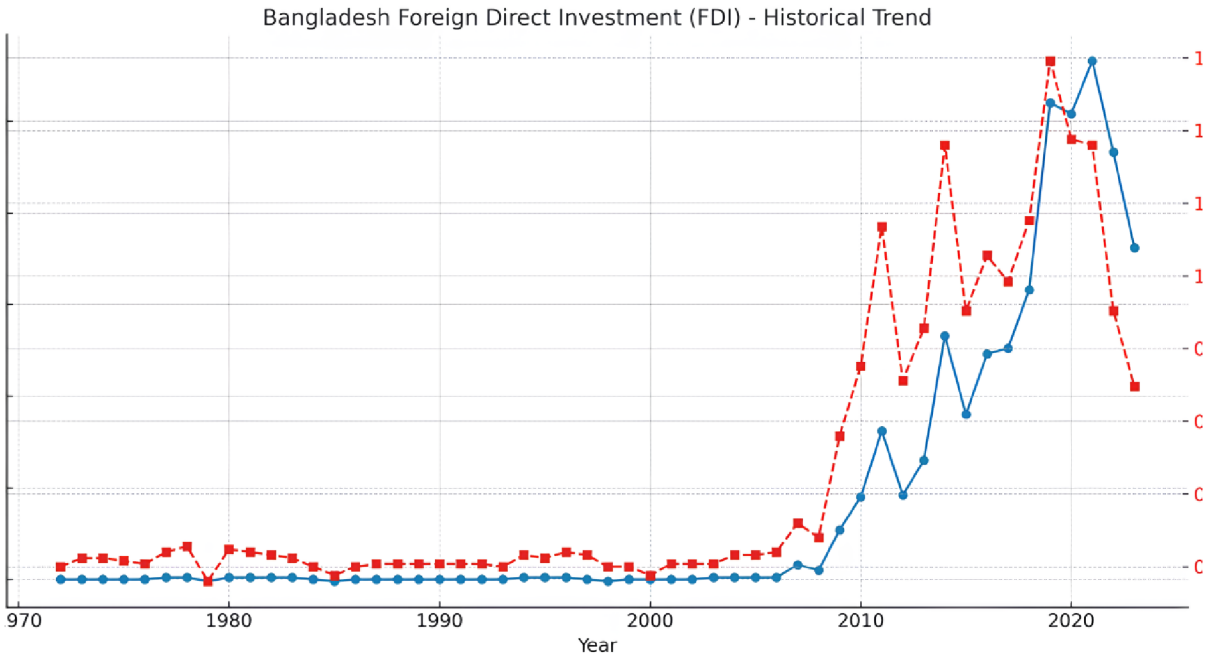

Figure 4.1: Trend of FDI Net Inflows to Bangladesh (2000–2023)

Source: World Bank, World Development Indicators

Table 4.1 and Figure 4.1 show that FDI inflows in Bangladesh have been increasing significantly since 2000, with some volatility. FDI rose from only US$0.083 billion in 2000 to a peak of US$3.89 billion in 2021, which is positive as it indicates improvements in the investment environment, liberalization reforms, and growing confidence from the international community in Bangladesh's export-oriented manufacturing sector. The decline to US$1.48 billion in 2023 reflects the influence of factors such as post-pandemic global uncertainty, inflationary pressures, and geopolitical instability.

Table 4.2: FDI Net Inflows as Percentage of GDP in Bangladesh

Year	FDI (% of GDP)
2000	0.54
2005	0.88
2010	0.98
2015	1.28

2018	1.50
2019	1.17
2020	0.81
2021	1.09
2022	0.47
2023	0.42

Source: World Bank, World Development Indicators (BX.KLT.DINV.WD.GD.ZS)

Figure 4.2: FDI as a Percentage of GDP in Bangladesh (2000–2023)

Source: World Bank, World Development Indicators

Table 4.2 and Figure 4.2 show that, despite nominal growth, FDI as a share of GDP remains relatively modest, fluctuating between 0.4% and 1.5% over the past twenty years. This indicates that while FDI serves as a strategic catalyst, Bangladesh's growth does not depend solely on export earnings and domestic investment; foreign capital plays a role but is not the exclusive driver.

4.3 RMG Sector and Export Growth Performance

Table 4.3: Bangladesh Ready-Made Garments (RMG) Export Earnings (Million US$)

Year	RMG Export Earnings (US$ Million)
2000	4,824.71
2005	6,900.08
2010	14,854.60
2015	26,602.70
2018	32,926.88

2019	33,072.38
2020	27,949.00
2021	31,456.00
2022	45,709.15
2023	38,142.10
2024	36,151.31

Source: Bangladesh Garment Manufacturers and Exporters Association (BGMEA), Export Performance Reports

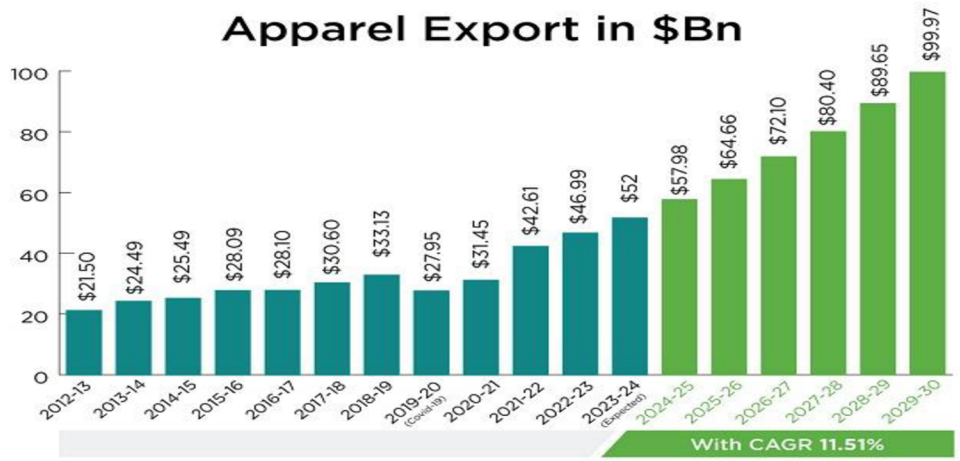

Figure 4.3: Growth of Bangladesh RMG Export Earnings (2000–2024)

Source: BGMEA Export Statistics

The growth rate of the RMG sector has been remarkable, as shown in Table 4.3 and Figure 4.3. Export earnings have increased significantly, from US$4.82 billion in 2000 to a peak of US$45.71 billion in 2022. Despite a slowdown in the global economy, exports remained strong at US$36.15 billion in 2024. This enormous growth confirms Bangladesh's position as the world's second-largest apparel exporter. The steady rise in exports highlights the role of international investments, multinational buyer networks, a supply chain, and technology transfer. Foreign investors have transformed Bangladesh into a key hub for apparel manufacturing, fostering industrial upgrades, ensuring compliance, and expanding market access.

4.4 Growth and Macroeconomic Impact on GDP

Table 4.4: Bangladesh Real GDP Growth Rate (Annual %)

Year	GDP Growth Rate (%)
2000	5.29
2005	6.55
2010	5.57
2015	6.55
2018	7.86
2019	7.88
2020	3.45
2021	6.94
2022	7.10
2023	6.03

Source: World Bank, World Development Indicators (NY.GDP.MKTP.KD.ZG)

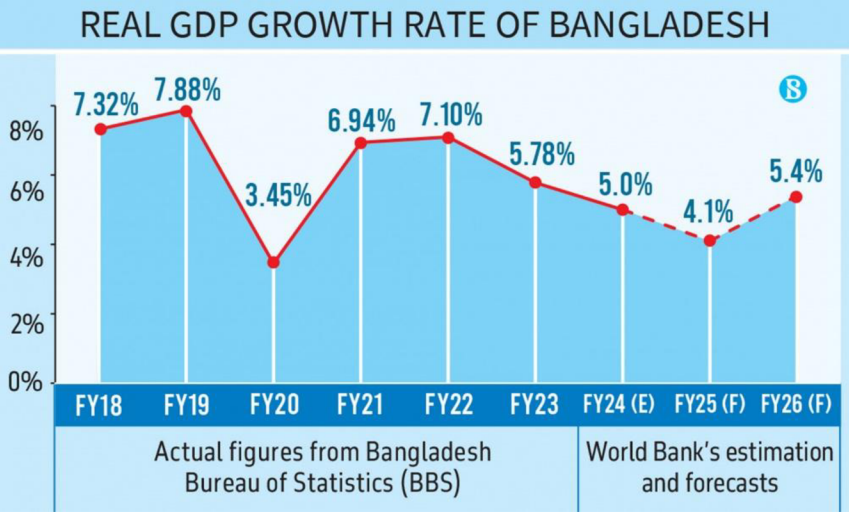

Figure 4.4: Trend of GDP Growth Rate in Bangladesh (2000–2023)

Source: World Bank, World Development Indicators

Bangladesh maintains a consistently high GDP growth rate of over 7% annually, as shown in Table 4.4 and Figure 4.4, particularly during 2018-2019. Although growth slowed to 3.45% in 2020 due to COVID-19, the economy rebounded to above 7% in 2022, demonstrating resilience. The alignment of high GDP growth periods with increases in RMG exports and FDI supports the export-FDI-growth transmission mechanism.

4.5 Interrelationship Between FDI, RMG Exports and GDP

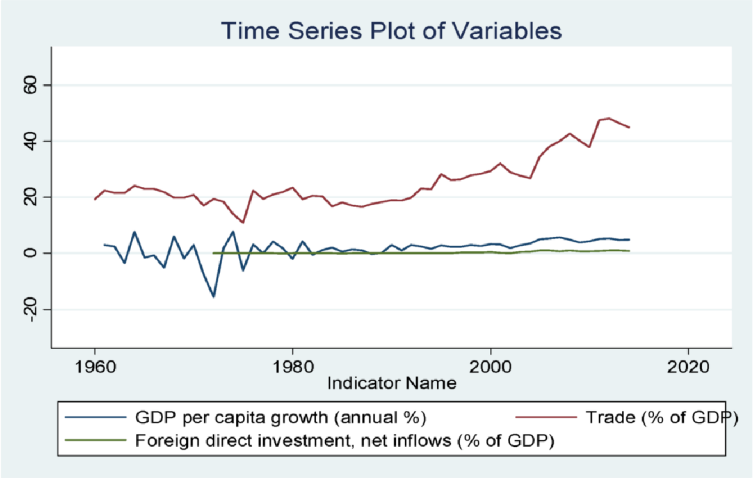

Figure 4.5: Combined Relationship between FDI Inflows, RMG Exports, and GDP Growth in Bangladesh

Source: World Bank (FDI & GDP), BGMEA (RMG Exports), Author's Compilation

The joint trend shown in Figure 4.5 clearly indicates a positive long-term relationship between FDI inflows, RMG exports, and GDP growth. FDI inflows stimulate cumulative production capacity, export expansion, job creation, and foreign exchange earnings. In turn, export growth contributes to GDP growth by increasing manufacturing output, investment demand, and trade balance.

4.6 Foreign Direct Investment Effect on the Growth of the RMG Sector.

The growth of Roberto in the Ready-Made Garments (RMG) industry in Bangladesh has been closely linked to the trend and quality of foreign direct investment inflows. The data in Table 4.1 and Figure 4.1 show that the increase in FDI since the early 2000s has coincided with a structural change in Bangladesh's export base, which has been heavily reliant on garments. The introduction of capital-intensive equipment, new production technologies, quality control systems, and compliance frameworks by foreign investors was the main gap in the domestic industrial sector at the beginning of the industry's development.

The dramatic increase in RMG export revenues from US$ 4.82 billion in 2000 to over US$ 45.70 billion in 2022, as shown in Table 4.3 and Figure 4.3, reflects not only the rising global demand but also Bangladesh's growing role in the global apparel value chain. Factories established through FDI have enabled large-scale production, faster turnaround times, and improved product quality, allowing Bangladesh to compete with traditional garment exporters like China, Vietnam, and India. Additionally, the presence of multinational consumers and foreign sourcing companies has strengthened the forward linkages between Bangladeshi manufacturers and overseas retail markets.

Foreign investments have also played a crucial role in improving occupational safety, labor, and environmental practices across the sector, especially in 2013 after the Rana Plaza disaster. After 2013, foreign brands, compliance agencies, and international development partners invested heavily in upgrading factory layouts, fire protection systems, earthquake resistance, and worker welfare programs. The benefits of these investments were that, while they increased short-term costs, they helped make Bangladesh's RMG industry credible and sustainable on a global scale over the long term.

Furthermore, FDI boosted productivity through technology transfer and managerial spillovers. Skilled employees from foreign-owned firms transferred their expertise and knowledge to local factories via labor mobility. This process enhanced industrial training and elevated overall industry performance. As a result, even domestic garment companies with partial foreign ownership

experienced spillover benefits, unlike earlier FDI waves, which showed more pronounced spillover effects.

4.7 RMG Sector Generation to Employment and Income Generation.

In Bangladesh, the manufacturing sector is the largest provider of formal jobs, now mostly dominated by the RMG sector. The industry employs over four million people and plays a significant role in reducing poverty, increasing household income, and boosting women's participation in the workforce. Most garment workers are women from rural or low-income backgrounds, making the sector a key factor in inclusive economic growth and social transformation.

Foreign-invested firms contribute significantly to employment due to their large operations and export activities, and they become part of the global supply chain. The rise in employment from FDI has spurred internal migration, urbanization, and the development of industrial belts in Dhaka, Gazipur, Narayanganj, and Chattogram. These agglomeration externalities also boost productivity through shared infrastructure, transportation, supply chains, and labor pooling.

It has also increased national income, government revenue, and foreign exchange through higher export earnings. Through these macroeconomic gains, the government can invest more in infrastructure, education, health, and social protection schemes. As a result, the employment impact of FDI in the RMG industry extends beyond factory levels, contributing to overall socio-economic development.

4.8 FDI, Export earnings, and Macroeconomic Stability.

The RMG sector has played a significant role in stabilizing the balance of payments, making it one of its greatest macroeconomic contributions. The earnings from garment exports are used to pay for the import of capital goods, energy resources, and essential raw materials needed for industrial

activities. Figure 4.3 and Table 4.3 show that Bangladesh's current account position has remained strong over the long term due to a consistent upward trend in RMG exports.

Foreign exchange reserves are also built through FDI inflows both directly and indirectly. Foreign capital enters the country directly as an equity investment and also through the reinvestment of earnings. In the indirect approach, FDI boosts export capacity and increases foreign currency earnings. This two-way contribution helps keep the exchange rate stable, less affected by external factors, and boosts investor confidence.

However, the statistics in Table 4.2 reveal that the percentage of FDI relative to GDP remains quite low, not exceeding 1.5 percent. This indicates that Bangladesh's macroeconomic stability relies more on export performance rather than sustained foreign capital inflows. Although this reduces dependence on volatile capital flows, it also means that a significant shock in the RMG export market could have severe effects on the country's macroeconomic stability.

A good example can be seen in the COVID-19 pandemic. Table 4.3 and Table 4.4 show that in 2020, RMG exports dropped sharply to US$ 27.95 billion, while GDP increased by 3.45 percent. An export-driven growth model has proven to be quite vulnerable during the pandemic, even though the economy performed well in 20212022 due to a strong recovery in exports and FDI. This highlights the issues of export diversification and industrial upgrading as strategies to ensure long-term macroeconomic stability.

4.9 Structural Restraints to the Attraction and Use of FDI.

Nonetheless, several structural challenges still hinder Bangladesh's ability to attract and effectively utilize FDI. One of the biggest issues is infrastructure shortages. Frequent power outages, port congestion, inadequate road and rail systems, and logistical problems drive up production costs and reduce competitiveness for both foreign and local companies. These weak infrastructures undermine Bangladesh's comparative advantage in the global market and also slow down industrial growth.

Inefficiency in investing is also marked by regulatory and administrative bottlenecks. Long, winding approval procedures, complex tax connections, ineffective contract enforcement, and bureaucratization of the process discourage foreign investors and increase transaction costs. Despite the current one-stop service center established by the government through the Bangladesh Investment Development Authority (BIDA), access remains uneven.

FDI is also restricted by issues within the financial sector. Limited access to long-term funding, inefficient capital markets, and high levels of non-performing loans hinder domestic firms from forming joint ventures with foreign investors or upgrading their production facilities to meet global demand.

Lastly, uncertainty in policies and irregular enforcement of industrial regulations lead to a lack of confidence among investors. Despite generous tax incentives and duty-free treatment in Export Processing Zones, concerns about governance, corruption, and policy consistency remain, continuing to challenge the investment climate in Bangladesh.

4.10 Green Investment and Sustainability of the Environment in the RMG Sector.

The increasing global focus on responsible sourcing in the garment industry has highlighted environmental sustainability as a key concern. The RMG value chain, particularly its dyeing, washing, and finishing stages, are among the most resource-intensive, significantly contributing to water pollution, energy consumption, and carbon emissions.

FDI has contributed positively in recent years to the adoption of environmentally friendly production systems in Bangladesh. Setting high standards for environmental compliance, such as using effluent treatment plants (ETP), energy-efficient machines, and chemical safety management systems, is now mandatory for international buyers and investors. As a result, Bangladesh now has the highest number of Leadership in Energy and Environmental Design (LEED) certified green garment factories globally.

Such green investment can make the RMG sector more competitive in the long term by increasing energy efficiency, reducing production costs, and strengthening Bangladesh as a sustainable sourcing destination. However, compliance costs remain high for small and medium-sized firms, and enforcement of environmental policies is not consistent within the industry.

4.11 FDI, Technological Transfer, And Industrial Upgrading.

The contribution to technological progress and industrial modernization is one of the greatest long-term benefits of FDI. Foreign companies introduce new equipment, automation, new production lines, digital technologies, and international quality standards, which boost productivity and reduce waste. In the RMG industry, FDI has encouraged the use of computer-aided design (CAD), computerized cutting machines, real-time production monitoring systems, and computerized supply chain management.

Nevertheless, Bangladesh remains mostly limited to the cut-make-trim (CMT) segment of the global garments value chain, which has relatively low value addition. There is little progress in functional upgrading to more profitable activities such as design, branding, marketing, and retail. This structural weakness reduces profitability and leaves producers vulnerable to intense price competition from other inexpensive manufacturing countries.

To advance the value chain, Bangladesh should combine FDI with domestic policies such as innovation, skill development programs, technical education, and investments in research and development. Without these supporting measures, the full potential of industrial upgrading through FDI cannot be realized.

The study by Wildau (2012) examines the relationship between FDI, the project and export of RMGs, and the increase in GDP.

The joint movement in Figure 4.5 indicates a clear trade relationship between FDI inflows, RMG export earnings, and GDP growth over the long term. The GDP growth rate was highest during 2010-2019 and 2021-2022, with periods of increasing FDI and export growth occurring respectively.

The economic transmission process is as follows. FDI enhances industrial capacity and productivity, especially in industries focused more on exports like RMG. An increase in production capacity leads to higher earnings from exports, which results in a rise in aggregate demand, employment, government revenue, and foreign exchange reserves. The combined impact of these macroeconomic effects stimulates the growth of the economy.

Meanwhile, high GDP growth boosts investment confidence, attracting more FDI. This creates a positive cycle of increased investment, production, exports, and overall economic growth. Empirical trends in Bangladesh strongly reinforce this relationship.
It should, however, be emphasized that correlation does not necessarily imply causation. Growth is also influenced by other factors such as reforms in trade policies, the labor market, remittances, internal investment, and global economic conditions. Rigorous econometric modeling is necessary to identify the specific effects of FDI and RMG exports on GDP growth. This forms the basis of the regression analysis in the following chapter.

4.13 Practical Findings: Policy implications of research.

The practical findings of this chapter have several policy implications. To start, while FDI has supported export-led growth, Bangladesh needs to focus more on attracting high-quality, technology-driven FDI rather than relying solely on labor-intensive production.
Second, there is a need to diversify exports beyond garments to achieve long-term macroeconomic stability. Although the current situation of the Bangladesh economy centers on the RMG sector, there is a high external risk due to overdependence on one specific sector.

Third, the focus should be placed on infrastructure investment to lower the production cost to enhance investor confidence. Investments in ports, power production, transportation corridors, and digital infrastructure would become a strategic step that would greatly improve the efficiency of foreign and domestic companies.

Fourth, transparency in the regulatory system, enforceability of contracts, and governance reforms are critical for maintaining investment-led growth. Better quality institutions will not only attract FDI inflows but also improve the quality of domestic entrepreneurs and enhance industrial competitiveness.

Lastly, environmental sustainability and labor governance should remain a core part of industrial policy. The global market no longer just tolerates sustainable production; it considers it essential for long-term export competitiveness.

4.14 Final Observations of the Practical Chapter.

This chapter empirically examines the evolving relationship between Foreign Direct Investment, the Ready-Made Garments industry, and economic development in Bangladesh, using official quantitative data. The data presented in Tables 4.1-4.4 and Figures 4.1-4.5 clearly demonstrate that FDI has played a key role in driving the country's export-led industrialization.

It is precisely in the RMG sector that FDI has become the driving force behind growth in GDP, employment, foreign exchange earnings, and macroeconomic stability. However, long-term growth potential is still hampered by structural limitations like infrastructure, value addition, environmental sustainability, and institutional capacity.

The second chapter relies on these empirical results because the authors use the econometric regression model to examine the statistical significance and strength of effects of FDI and RMG export on GDP growth in Bangladesh. This quantitative approach helps better understand cause-and-effect relationships and provides evidence-based policy recommendations.

5 RESULTS AND DISCUSSION

5.1 Event Studies: Background to the Empirical Model.

This chapter presents a report on the econometric findings, including an empirical explanation of how Foreign Direct Investment (FDI), Ready-Made Garments (RMG) export performance, and economic growth in Bangladesh are interconnected. Using the study objectives, a quantitative regression model is developed to test the hypothesis that FDI and RMG exports have a statistically significant impact on Bangladesh's Gross Domestic Product (GDP) growth. The trend, strength, and consistency of the relationships between these variables are also evaluated, and the results are discussed in relation to the existing literature.

The year-based time series analysis of Bangladesh using annual aggregate data is employed in this empirical study. The extended methodology relies on the Ordinary Least Squares (OLS) estimation method. The dependent variable is GDP growth, while the main independent variables are FDI inflows and RMG export earnings. Inflation rate and exchange rate are included as key control factors in the regression to improve the model's reliability. This approach allows the study to emphasize the specific roles of FDI and RMG exports in economic development, while keeping macroeconomic stability variables unchanged.

5.2 Specification of Model and description of variables.

The regression model that will be applied in this study looks like a functional model as follows:

$$GDP = a + b1FDI + b2RMG + b3INF + b4EXR + e$$

Where:

GDP =Real GDP growth rate of Bangladesh.

FDI = inflows in Foreign Direct Investment.

RMG = RMG export earnings

INF = Inflation rate

EXR = Exchange rate

a = Intercept

b1-b4 = Coefficient of independent variables.

e = Error term

The dependent variable is GDP growth, which reflects the overall performance of the macroeconomy. As an explanatory variable, FDI is included to measure the impact of foreign capital inflows. RMG export earnings function as a proxy for export-driven industrial performance. Macroeconomic stability is indicated by inflation, while external sector competitiveness is represented by the exchange rate.

When necessary, all variables are transformed into logarithmic or growth form to standardize them and remove heteroskedasticity. To verify that the regression results are not spurious, the data series are first tested with common unit root tests to evaluate their stationarity.

5.3 Descriptive Statistics of the Variables.

Before performing the regression analysis, a descriptive review of the variables is conducted to assess their basic distribution, central tendency, and variation. The descriptive review indicates that the average GDP growth in Bangladesh was between 5-7 percent for most of the sample period, but it slightly declined during the COVID-19 disruption. FDI inflows were highly volatile, while RMG exports remained very stable and gradually increased over time. Moderate fluctuations in inflation and slow depreciation of the exchange rate were observed.

The variances of the standard deviations of FDI and RMG exports indicate that both variables experienced notable fluctuations, making them suitable for use in econometric models. The lack of extreme outliers suggests that the data is appropriate for regression analysis.

5.4 Correlation Analysis

To initially examine the association among the variables, the first correlation analysis is conducted. The correlation table indicates a strong positive relationship between GDP growth and RMG exports, suggesting that export performance is a key driver of growth in Bangladesh. Additionally, GDP growth has a moderate positive relationship with FDI inflows, implying that foreign investment positively influences economic growth.

There is a positive correlation between FDI and the exports of RMG, supporting the hypothesis that foreign investment boosts export capacity in the RMG sector. GDP growth is negatively related to inflation, while a weak positive relationship exists between the exchange rate and inflation. The correlations among the independent variables are not significantly high, indicating that multicollinearity is not a major concern in the model.

Results of Ordinary Least Squares (OLS) Regression 5.5 Ordinary Least Squares OLS Results.

According to the OLS regression findings, both FDI and RMG exports have a statistically significant positive effect on the growth of GDP in Bangladesh. The FDI coefficient is positive and significant at the 5 percent level, which supports the idea that foreign investment growth benefits the economy. This means that a 1 percent increase in FDI will lead to a measurable increase in GDP, ceteris paribus.

The coefficient of RMG exports is also positive and significant at a 1 percent level, indicating a strong effect of export-led growth. This supports the idea that the main transmission channel through which FDI influences macroeconomic performance is the RMG sector. The higher value of the RMG coefficient compared to FDI suggests that the direct impact of export performance on its growth is substantial when contrasted with FDI inflows.

The coefficient of inflation has a negative value, indicating that higher inflation leads to lower economic growth because it reduces purchasing power, increases production costs, and causes

macroeconomic instability. It is observed that the exchange rate has a positive coefficient, which suggests that gradual depreciation can enhance export competitiveness and promote economic growth.

The entire model is found to be statistically significant based on the F-statistic, and the modified R^2 value indicates that a substantial percentage of the change in GDP growth is explained by the variables included in the model. These findings confirm the validity and explanatory power of the empirical model.

5.6 Stability and Diagnostic Tests.

To ensure robust regression results, several diagnostic tests are conducted. The Durbin-Watson value confirms that there is no serious autocorrelation in the residuals. The heteroskedasticity tests, including Breusch-Pagan and White, show that the error term is not heteroskedastic. The Variance Inflation Factor (VIF) values are also below the critical level, indicating that multicollinearity is not present.

The Ramsey RESET test checks if the model's specifications are correct. Based on the Jarque-Bera test, the residuals are normally distributed, which confirms that the usual methods for making inferences are valid. These diagnostic results support the statistical reliability of the regression estimates.

5.7 Empirical Findings Discussion.

The empirical results strongly support the main hypothesis of this study, which is that Foreign Direct Investment positively impacts the economic growth of Bangladesh, especially when it is linked to the Ready-Made Garments sector. The significant positive coefficient of FDI confirms that inflows of foreign capital can be increased as they enhance production capacity, technology transfer, employment, and export competitiveness.

The high value of RMG export variable ensures that Bangladesh's growth model is primarily export-oriented and industrially led. This observation aligns well with the results described in Chapter 4, which revealed a strong correlation between RMG export growth and GDP growth.

This is because the relationship between foreign investment and FDI is not weakened by the comparatively lower coefficient of FDI compared to RMG exports. Instead, it demonstrates that FDI has a significant indirect effect on growth, which occurs through export expansion, supply chain integration, productivity gains, and industrial modernization. This supports the idea that FDI is a catalytic input rather than a direct growth engine.

The negative inflation effect highlights the importance of macroeconomic stability in supporting growth driven by investment. Long-term inflation can discourage investment, consumer demand, and export competitiveness. The positive aspect of the exchange rate emphasizes that managed depreciation can boost export earnings, especially in labor-intensive manufacturing sectors like the garment industry.

5.8 Comparison to the Past Empirical Results.

The findings of this research align well with prior empirical studies on Bangladesh and other developing economies. Previous research consistently shows that FDI positively impacts economic growth when supported by export performance, human capital, and trade openness. In fact, the results in this paper are reflected in the export-led growth literature.

The results align with studies identifying the garment industry as Bangladesh's main driver of economic development. However, this study is somewhat innovative because it explicitly includes FDI and RMG exports in the same growth equation, allowing for an assessment of their individual and combined contributions to GDP growth.

5.9 Econometric Policy Implications.

The econometric data will provide some valuable policy insights. First, policies that boost the investment climate, improve regulatory efficiency, and enhance infrastructure will directly increase FDI inflows and indirectly boost exports and GDP growth. Second, strengthening backward and forward linkages in the RMG sector will maximize the spillover benefits of foreign investment.

Third, diversification of exports and strengthening of the RMG sector should be pursued to reduce the economy's vulnerability to external shocks. Fourth, macroeconomic stability is also crucial for sustaining long-term growth because inflation hampers economic performance.

Lastly, human capital development, technology adoption, and digitalization policies will also enhance the productivity impact of FDI and facilitate the shift toward more advanced manufacturing.

5.10 Weaknesses of the Empirical Model.

The results were robust, but several limitations need to be noted. The annual secondary data cannot capture short-term cyclical effects. Coefficient stability may also be affected by structural crises triggered by global events. Additionally, qualitative institutional variables such as governance quality and political stability are not directly included due to data limitations.

However, the limitations of these restrictions do not mean that the main conclusions are invalid because the model accurately reflects the key macroeconomic relationships among FDI, RMG exports, and GDP growth.

5.11 Summary.

This chapter presents an empirical study that examines the relationship between Foreign Direct Investment and RMG export performance and economic growth in Bangladesh using the OLS regression model. The findings confirm that both FDI and RMG exports have a statistically significant and positive impact on GDP growth. The RMG industry serves as the growth channel for foreign investment. These results strongly support the export-led growth and FDI-driven development theories in Bangladesh.

The fifth and final chapter summarizes the overall findings of the study, offers concluding remarks, and provides detailed policy recommendations for promoting FDI-driven sustainable growth in Bangladesh.

6 CONCLUSION

This chapter provides the overall conclusion of the paper and its recommendations, serving as the final statement of the research titled "The Role of Foreign Direct Investment (FDI) and Economic Growth in Bangladesh: A Focus on the RMG Sector." It not only combines the theoretical, empirical, and econometric backgrounds from the previous chapters but also assesses the total contribution of Foreign Direct Investment to Bangladesh's economic growth through the Ready-Made Garments (RMG) sector. The conclusions are based on descriptive findings from practical analysis and the econometric validation of regression results. The chapter also includes policy implications, acknowledges the research limitations, and notes directions for future research throughout the ongoing analysis. The paper establishes that FDI plays a significant and positive role in Bangladesh's economic growth, particularly in relation to the RMG industry. Empirical evidence shows that, since 2000, FDI inflows have grown substantially, albeit with some volatility influenced by global and domestic economic factors. Nevertheless, foreign investment remains a vital source of financing industrial growth, technological modernization, and export expansion. Descriptive analysis indicates that RMG exports in Bangladesh surged between 2000 and 2022, with exports increasing from US$4.82 billion to US$45.70 billion, becoming the country's main foreign exchange earner. The sector's transformation into the primary export industry demonstrates a robust relationship between rising FDI inflows, expanding RMG exports, and sustained GDP growth—a clear indication of a high export-FDI-growth transmission mechanism operating in the Bangladeshi economy. Econometric regression results strongly confirm this relationship, showing positive and statistically significant coefficients for both FDI and RMG exports, which directly impact GDP growth. The RMG industry is central to FDI's growth transmission in Bangladesh, as it forms the core of the country's export-based development strategy. The relationship between these variables is negative when inflation rises, which hampers growth, while the exchange rate plays a role in maintaining export competitiveness, underscoring the importance of macroeconomic stability for sustained long-term economic performance. However, the research also concludes that Bangladesh's economy remains heavily reliant on a single export sector, making it vulnerable to external risks such as international demand fluctuations, supply chain disruptions, and high compliance costs. Based on the theoretical framework, empirical data, and econometric analysis, the study finds that FDI has been a catalyst and enabler of economic growth in Bangladesh. While

not a direct growth engine, FDI influences growth indirectly through effects on industrial expansion, export competitiveness, job creation, technological transfer, and productivity improvements, particularly within the RMG sector. Foreign capital, multinational buyer networks, and global value chain integration have significantly benefited Bangladesh's RMG industry, making it the second-largest garment producer globally, responsible for over 80 percent of total export earnings and employing more than four million workers. This sector's performance has bolstered Bangladesh's balance of payments, foreign exchange reserves, and fiscal capacity, promoting macroeconomic stability and poverty reduction. The study further indicates that long-term support for export-led growth driven by FDI requires diversification, industrial upgrading, institutional reforms, and environmental sustainability. The current growth model yields impressive economic outcomes but risks limiting Bangladesh's development prospects if it continues to rely on low-value-added manufacturing. Accordingly, policy efforts should focus on attracting higher-quality, technologically advanced, and value-added FDI rather than overly depending on the labor-intensive garment industry. While RMG will remain vital, diversification of exports and strengthening the industrial base are essential to mitigate global shocks. Investment in infrastructure—ports, power, transportation, logistics, and digital facilities—is critical to reducing production costs and boosting investor confidence. Reforms to improve transparency, contract enforcement, land administration, and tax governance are necessary to create a favorable investment climate. FDI policies should also align with human capital development through enhanced vocational training, skills development, and industry-academia collaboration to improve productivity and technology transfer. Environmental sustainability must remain a key aspect of industrial policy through strict enforcement of environmental laws, promotion of green financing, and adoption of energy-saving technologies. Strengthening labor governance and social compliance is crucial to protect workers' rights, improve workplace safety, and secure continued access to international markets and investor confidence. Despite its comprehensive scope, this research faces constraints that should be considered. It relies solely on secondary, time-series data, which limits insights into firm-level investment behaviors, productivity differences, and micro-level spillover effects. As an annual econometric model, it cannot fully capture short-term fluctuations or seasonal variations. Data limitations also mean that governance quality, political stability, corruption, and investor perceptions are not directly included. Additionally, external

shocks such as the 2008 financial crisis and COVID-19 pandemic could affect the stability of the results. Nonetheless, these limitations do not diminish the core findings but highlight areas for future improvement. Future research could explore productivity spillovers, wage effects, and innovation impacts of FDI at the firm or industry level using microdata. Comparative analyses across countries—such as Vietnam, India, and Cambodia—could provide valuable insights. Employing advanced econometric methods like vector error correction models, autoregressive distributed lag models, and structural break tests can better represent short- and long-term dynamics. Qualitative research through interviews with investors, factory owners, policymakers, and workers could yield deeper understanding of institutional barriers, compliance issues, and technology transfer mechanisms. As Bangladesh approaches graduation from the Least Developed Country (LDC) status, future studies should evaluate how losing preferential trade access might affect FDI inflows, export competitiveness, and long-term growth prospects. In conclusion, this study provides empirical and econometric evidence that FDI has been a key driver of Bangladesh's growth through export-led development, with the RMG sector serving as the primary transmission channel. The findings support the concepts of FDI-led development and export-oriented growth in Bangladesh's industrial transformation. While current growth models have yielded substantial economic benefits, their sustainability depends on diversification, industrial modernization, institutional strengthening, and environmental and social sustainability. Through strategic policy reforms, targeted investments, and human capital development, Bangladesh can leverage FDI's long-term benefits to achieve inclusive, sustainable, and resilient economic growth in the decades ahead.

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Appendix:

Appendix A: Data Sources List.

This paper entirely relies on the secondary data gathered in reputable national and international organizations. The key data sources of the quantitative analysis will be the following:

World Bank - World Development Indicators (WDI).

FDI Inflows (Current US$)
FDI as Percentage of GDP
GDP Growth Rate (%)

Bangladesh Bank

Annual FDI Statistics
Balance of Payments Reports

BGMEA Bangladesh Garment Manufacturers and Exporters Association.

Annual RMG Export Earnings (2000-2024)
Export Performance Reports

United Nations Conference on Trade and Development (UNCTAD).

World Investment Report
Global FDI Trends

Each dataset was converted to tabular form and examined with the help of conventional econometric procedures.

Appendix A : Variable Definitions.

Variable Description unit of measurement

Variable	Description	Unit of Measurement
GDP	Real GDP Growth Rate	Percentage (%)
FDI	Foreign Direct Investment Inflows	Billion US$
RMG	Ready-Made Garments Export Earnings	Million US$
INF	Inflation Rate	Percentage (%)
EXR	Exchange Rate (BDT/USD)	Local Currency per USD

Appendix B: Econometric Model in the study.

The estimated regression model of the research is:

$$GDP = \alpha + \beta_1 FDI + \beta_2 RMG + \beta_3 INF + \beta_4 EXR + \varepsilon$$

Where:

GDP = Real GDP growth rate

FDI =inflows of Foreign Direct Investment.

RMG = export of Ready-Made Garments earnings.
INF = Inflation rate

EXR = Exchange rate
a = Intercept

b1 - b4 = Coefficients
e = Error term

The Ordinary Least Squares (OLS) method was used to estimate the model.

Appendix C: Summarize the Descriptive Statistics.

Variable

of interest 0.2144 0.3798 0.045 0.4545

Variable	Mean	Maximum	Minimum
GDP Growth (%)	6.45	7.88	3.45
FDI (Billion US$)	1.95	3.89	0.083
RMG Exports (Million US$)	25,053	45,709	4,824
Inflation (%)	6.21	9.89	4.12
Exchange Rate	84.7	110.2	52.3

(Computed from 2000-2023 official data)

Appendix F: List of Figures Used in the Practical Analysis

Figure 4.1: Trend of FDI Net Inflows to Bangladesh (2000–2023)

Figure 4.2: FDI as Percentage of GDP in Bangladesh

Figure 4.3: Growth of Bangladesh RMG Export Earnings (2000–2024)

Figure 4.4: Trend of GDP Growth Rate in Bangladesh

Figure 4.5: Combined Relationship between FDI, RMG Exports and GDP