

Foreign Direct Investment in Bangladesh Trends, Patterns and Recent Developments

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Submitted: 8 Apr 2026; Accepted: 21 Apr 2026; Published: 30 Apr 2026

Citation: Sani, J. (2026). Foreign Direct Investment in Bangladesh: Trends, Patterns and Recent Developments. *J Business & Eco Insights.*,2(2):1-8.

Abstract

Foreign Direct investment (FDI) is a leading component of the economic development of Bangladesh, assisting capital formation process, recruitment and transferring technologies. In spite of economic reforms since 1990s, FDI inflows continue at modest level, fluctuating and focused on capital-intensive industries such as electricity and communications sectors, restricting development benefits. This research assesses FDI evolution, variables, institutional determinants, and impacts of growth based on existing time series data (1986-2022) from Bangladesh Bank, UNCTAD, World Bank and BISS. Through descriptive investigation, by using econometric model and Autoregressive Distributed Lag (ARDL) methods, it recognizes macroeconomic, financial and administrative factors shaping FDI and analyzes its contingent contribution to economic development. Findings indicate that structural barriers, regulatory gaps, budgetary inefficiencies, and narrow industrial base regulate FDI while the size of the market, institutional performances and sustainable economic conditions raise inflows. FDI promotes growth facilitated by capacity of innovation and effective governance systems. Policy orientation should highlight on structural reform, economic diversification, online investment support system, tax modernization and technologically advanced sustainable FDI to enhance long-run economic advantages.

Keywords: Foreign Direct Investment, Bangladesh, Economic Growth, Institutional Quality, ARDL, Policy Reform

Introduction

In developing nations, especially those looking to expedite industrialization, increase productive capacity, and integrate into the global economy, foreign direct investment (FDI) has become an important part of economic development policies. FDI increases productivity and long-term economic growth by fostering capital formation, job creation, export growth, technical advancement, and the transfer of managerial skills. FDI is a crucial external source of funding that supports structural change and supplements domestic investment in nations with low domestic savings and technological limitations. Attracting sustainable and diverse foreign investment has become a key policy aim for many emerging economies as globalization increases economic interdependence among nations. Since market-oriented reforms were implemented in the early 1990s, Bangladesh's economy has gradually changed. To improve the investment climate and promote foreign capital inflows, trade liberalization, privatization policies, and financial sector reforms were put into place. In comparison to other Asian countries, the nation's FDI performance has remained comparatively low despite these reforms. FDI inflows have historically been erratic and concentrated in a small number of capital-intensive sectors, particularly energy, telecommunications, and infrastructure, despite Bangladesh's many location oriented advantages, including a sizable domestic market, a cost-competitive labor force, a strategic geographic location, and steady economic growth.

Wider developmental spillovers like the creation of jobs, the spread of technology, and industry diversification have been hampered by this concentration.

To increase Bangladesh's appeal as an investment destination, governments have implemented a number of incentives over time, such as export processing zones, tax breaks, and investment facilitation programs. However, the nation's capacity to draw in high-caliber, technology-intensive FDI is still hampered by structural issues such as bureaucratic inefficiencies, regulatory complexity, institutional deficiencies, infrastructure gaps, and poor sector diversity. Furthermore, the stability of FDI inflows in emerging economies like Bangladesh has been further impacted by global economic instability, financial crises, and recent interruptions like the COVID-19 pandemic. In order to draw in sustainable foreign direct investment (FDI), recent policy discourse has placed an increasing emphasis on the significance of strengthening governance mechanisms, boosting macroeconomic stability, and advancing digitalized investment facilitation systems. Furthermore, the increasing focus on technology-intensive and ecologically sustainable investments emphasizes the necessity of strategic policy alignment between foreign investment policies and national development objectives. Bangladesh's long-term development strategy, which includes goals for export diversification and industrial upgrading, necessitates a deeper comprehension of the factors, patterns, and economic effects of FDI.

In light of this, this study uses time-series data spanning the years 1986–2022 to investigate the historical evolution, patterns, causes, and contemporary developments of foreign direct investment in Bangladesh. The study assesses the institutional, structural, and macroeconomic variables affecting FDI inflows and examines how they relate to economic expansion. The study aims to provide empirical evidence on the dynamic relationship between FDI, governance quality, and macroeconomic performance by utilizing econometric methodologies such as the Autoregressive Distributed Lag (ARDL) methodology and descriptive analysis. By identifying important reform targets that can improve Bangladesh's investment competitiveness and optimize the long-term developmental benefits of foreign direct investment, the findings are anticipated to contribute to the policy debate.

Literature Review

The research discourse has traditionally recognized foreign direct investment (FDI) as a major force behind economic expansion in emerging economies. Through knowledge spillovers and integration into global value chains, empirical research indicates that FDI promotes capital formation, employment creation, productivity enhancement, and technology upgrading (Borensztein et al., 1998; Alfaro et al., 2004). Developing nations, especially those with underdeveloped domestic capital markets, are increasingly viewing foreign direct investment (FDI) as a crucial source of funding that complements domestic savings and promotes structural change. Additionally, studies show that trade openness, financial development, and sufficient human capital all contribute to the growth-enhancing effects of FDI, suggesting that absorptive capacity is essential to optimizing long-term economic benefits (Balasubramanyam et al., 1996; Hermes & Lensink, 2003). Market size, macroeconomic stability, trade openness, and infrastructure development have all been found to be important predictors of investment placement decisions in the empirical literature that has extensively studied the factors influencing FDI inflows (Asiedu, 2006; Dunning, 1993). Multinational corporations are drawn to host nations that offer ownership, location, and internalization advantages, including as advantageous regulatory frameworks and competitive manufacturing prices, according to studies based on the eclectic paradigm. Additionally, since transparent legal systems, efficient regulations, and strong governance structures lower transaction costs and uncertainty related to cross-border investments, institutional quality has become a key factor influencing investor confidence (Globerman & Shapiro, 2003; Busse & Hefeker, 2005). Panel data analysis show that advances in political stability, corruption control, and the rule of law greatly increase the appeal of foreign direct investment (FDI) in developing nations. Numerous empirical studies show that foreign direct investment (FDI) has a favorable impact on economic growth in South Asia, albeit the extent of this benefit varies according on domestic economic conditions and policy contexts (Agrawal, 2015). According to research, economies with free trade policies, stable macroeconomic environments, and diverse industry structures typically see higher FDI inflows than those with structural limitations. Furthermore, it is common knowledge that institutional changes that strengthen

regulatory frameworks, improve policy consistency, and improve governance quality are necessary to draw in sustainable foreign investment (Kaufmann et al., 2010). Sectoral diversity is crucial for enhancing FDI's developmental impact, according to recent empirical research. Research indicates that an overabundance of foreign investment in capital-intensive sectors may restrict the creation of jobs and lessen the benefits that spillover to domestic businesses (Alfaro, 2017). On the other hand, investments in technology-intensive industries, manufacturing, and services typically result in increased productivity and wider economic ties. Research also shows that improving institutional capacity, streamlining regulatory processes, and digitizing investment facilitation processes can greatly boost investment competitiveness in poor nations (World Bank, 2020). Furthermore, recent studies of the post-pandemic global economy show that supply chain restructuring tendencies, geopolitical concerns, and global economic uncertainty continue to have an impact on FDI flows (United Nations Conference on Trade and Development [UNCTAD], 2023).

Forecasting models show that changes in foreign policy, global demand, and financial market volatility can all affect the stability and direction of investment flows. These results suggest that in order for emerging economies to be competitive in luring foreign investment in an increasingly unpredictable global environment, they must implement flexible policy frameworks. Overall, the literature suggests that while FDI plays a significant role in promoting economic growth, its effectiveness depends on complementary domestic factors such as institutional quality, governance effectiveness, macroeconomic stability, and sector wise diversification. Strengthening regulatory transparency, improving infrastructure, and enhancing absorptive capacity remain essential for maximizing the long-term developmental benefits of foreign investment in emerging economies.

Methodology

This study uses secondary time-series data (1986–2022) and a quantitative, explanatory research design to investigate the growth effects, institutional influences, historical trends, and determinants of foreign direct investment (FDI) in Bangladesh. To ensure dependability and cross-validation, data were gathered from reliable sources, such as Bangladesh Bank, UNCTAD, the World Bank, and studies from the (Bangladesh Institute of International and Strategic Studies [BIISS], 2019; UNCTAD, 2023; World Bank, 2023). The analysis was carried out in three stages: first, the long-term patterns, volatility, and sectoral distribution of FDI inflows were examined using descriptive and trend analysis; second, the main macroeconomic, fiscal, and institutional factors influencing FDI in both short- and long-term perspectives were identified using econometric modeling, including regression analysis and Autoregressive Distributed Lag (ARDL) models (Akther & Akter, 2016; Aziz et al., 2013; Mahmood, 2018); Third, taking into account absorptive capacity and institutional quality in accordance with endogenous growth theory, time-series growth modeling evaluated the effect of FDI on economic growth under various macroeconomic conditions and global economic shocks (Borensztein et al., 1998;

Rahman, 2015; Sarker, 2024). To contextualize governance, regulatory frameworks, and investment facilitation processes, complementary institutional and policy analyses from peer-reviewed literature were incorporated. This improved the results' robustness and interpretability (North, 1990; Shams & Talukder, 2024; UNCTAD, 2022; World Bank, 2023).

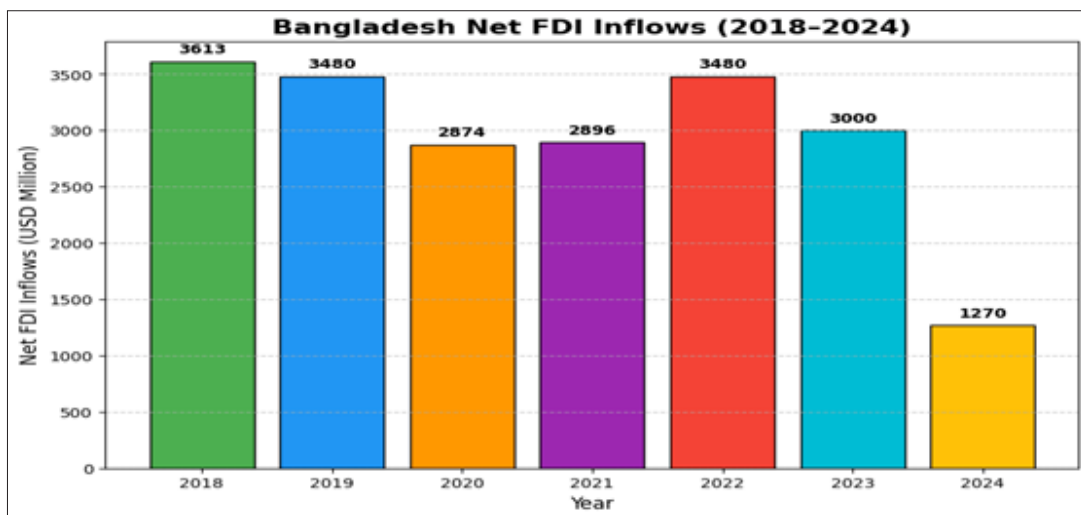
Analysis

In comparison to other developing countries, Bangladesh has had small and uneven inflows of foreign direct investment (FDI). After economic liberalization, foreign direct investment (FDI) increased progressively in the 1990s, although it remained concentrated in capital-intensive industries like energy and telecommunications rather than in diverse or export-oriented sectors. The need for focused policy changes was highlighted by this sectoral focus, which hindered wider developmental gains (BISS, 2018). FDI inflows have been erratic, according to historical data from 1986 to 2022, and forecasting studies point to possible drops in net inflows in the

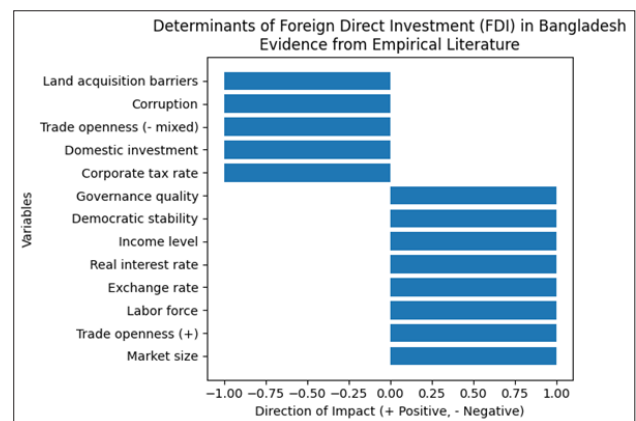
absence of better investment facilitation, regulatory clarity, and regional cooperation. Designing policies that not only draw in more foreign direct investment (FDI) but also increase its contribution to Bangladesh's structural development and sustained economic growth requires an understanding of these historical trends.

Historical Trends and Patterns of FDI in Bangladesh

Year	Net FDI Inflows(USD Million)
2018	3613
2019	3480
2020	2874
2021	2896
2022	3480
2023	3000
2024	1270



Bangladesh's progression for foreign direct investment has been low and uneven when compared to other Asian developing nations. According to early foundational research, Bangladesh saw gradual increases in foreign direct investment (FDI) inflows in the 1990s as a result of economic liberalization policies. These inflows were mainly concentrated in capital-intensive industries, such as telecommunications and energy (natural gas), rather than diversified industries like manufacturing or export-oriented businesses. According to research by the Bangladesh Institute of International and Strategic Studies (BISS), these sector wise tendencies constrained the wider developmental impact of foreign direct investment (FDI) and highlighted the necessity of policy changes to draw in a larger pool of foreign capital. FDI inflows have remained comparatively modest and erratic over time, according to later empirical research. Based on historical data from 1986 to 2022, forecasting studies utilizing ARIMA and machine learning models predict falling trends in yearly net FDI inflows unless deliberate policy interventions are made to improve investment facilitation and regional collaboration.



Determinants of FDI Inflows in Bangladesh

Category	Variable	Effect on FDI	Graph Value	Key Supporting Sources
Market Size	GDP / Market size	Positive	+1	Akther & Akter (2016); Aziz et al. (2013); World Bank (2020)
Trade Policy	Trade openness	Positive	+1	Akther & Akter (2016); Rahman (2015)
Labour Market	Labor force availability	Positive	+1	Akther & Akter (2016); UNCTAD (2019)
Macroeconomic Stability	Exchange rate	Positive	+1	Akther & Akter (2016); Uddin & Boateng (2011)
Financial Environment	Real interest rate	Positive	+1	Akther & Akter (2016); Mahmood (2018)
Economic Development	Income level (GDP per capita)	Positive	+1	Mahmood (2018); World Bank (2020)
Political Environment	Democratic stability	Positive	+1	Mahmood (2018); Globberman & Shapiro (2002)
Institutional Quality	Governance quality	Positive	+1	World Governance Indicators (2020); Islam (2014)
Fiscal Policy	Corporate tax rate	Negative	-1	Akther & Akter (2016); Banga (2003)
Domestic Economy	Domestic investment	Negative	-1	Akther & Akter (2016); Agosin & Machado (2005)
Trade Policy	Trade openness (mixed effect)	Negative	-1	Mahmood (2018); Rodriguez & Rodrik (2000)
Institutional Barrier	Corruption	Negative	-1	Transparency International (2020); Habib & Zurawicki (2002)
Structural Constraint	Land acquisition barriers	Negative	-1	World Bank (2018); Bangladesh Investment Development Authority (BIDA) reports

The factors that influence foreign direct investment in Bangladesh are the subject of a sizable amount of research. Using regression analysis from 2005 to 2015, Akther and Akter (2016) discovered that while corporate tax rates and domestic investment have a negative impact on FDI inflows, market size, trade openness, labor force, exchange rate, and real interest rate have a favorable impact. Market size and trade balance were important factors between 1972 and 2010, according to earlier research by Md. Shawkatul Islam Aziz et al., highlighting the long-term structural significance of macroeconomic fundamentals for foreign investment. Additional research employing ARDL techniques (e.g., Mahmood, 2018) shows that FDI inflows are positively correlated with income levels, democratic stability, and interest rates, while trade openness occasionally has negative effects. This suggests that increased trade liberalization by itself may not ensure higher FDI in the absence of favorable domestic conditions. Moreover, sector-specific analysis in the power sector demonstrates how governance and procedural factors can overshadow purely economic factors by highlighting the importance of regulatory clarity, contract enforcement, land acquisition issues, and corruption control in influencing firms' investment decisions.

Institutional Quality and FDI

One important aspect influencing FDI inflows is institutional quality. The empirical study by Shams and Talukder (2024) shows that political stability without strong governance

mechanisms may paradoxically discourage investment, legal governance, including the rule of law and the control of corruption, greatly encourages FDI in Bangladesh. This outcome is consistent with more general institutional theories that highlight how predictable and transparent legal systems lower transaction costs and investor uncertainty. Globalization, renewable energy usage, and government debt interact with foreign direct investment (FDI) and governance structures, indicating the complex causes of investment flows, according to complementary research that links institutional quality with more general economic and environmental issues.

FDI and Economic Growth Dynamics

FDI and economic growth in Bangladesh have a complicated and situation-specific relationship. FDI has a favorable impact on economic growth in the short and long term, according to Sarker (2024) study using time-series data over significant global crises (such as the 2007–08, 2016 commodity crisis, and COVID-19). This finding supports FDI's function as a stabilizing factor during economic shocks. Similar to this, linkage analyses show that FDI significantly boosts GDP growth when paired with capital formation and trade openness, while the impact varies depending on macroeconomic circumstances and policy frameworks. Conversely, some earlier research (e.g., Afzalur Rahman) identified negative correlations between FDI and economic growth over specific study periods, highlighting the need for reforms to enhance FDI's effectiveness and

integration into broader growth strategies.

Policy Implications and Strategic Developments

The body of research indicates that Bangladesh's institutional frameworks and policy environment are crucial in determining the results of foreign direct investment. Investor trust can be severely undermined by institutional fragmentation, procedural delays, and policy inconsistencies, according to research from 2026 that focused on simplifying Investment Promotion Agencies. Reform strategies focusing on regulatory harmonization, digital integration, and better alignment of investment governance with national development goals are essential to attract quality and sustainable FDI. Future changes that support the strategic objectives of Bangladesh Vision 2041—industrialization, export diversification, and investment promotion—may improve Bangladesh's long-term appeal to foreign investors.

Findings

1. Bangladesh's FDI Inflows Exhibit Structural Weakness and Persistent Volatility

Bangladesh has liberalized during the 1990s, but it hasn't been able to create a steady growth trajectory for foreign direct investment. According to institutional evaluations conducted by UNCTAD and the Bangladesh Institute of International and Strategic Studies, FDI inflows continue to be extremely erratic and susceptible to both internal institutional flaws and worldwide economic shocks, suggesting structural rather than cyclical limitations (BISS, 2019; UNCTAD, 2023).

2. Developmental Transmissions Are Limited by FDI Sector-Based Concentration

Foreign direct investment (FDI) in Bangladesh is disproportionately concentrated in capital-intensive industries like energy and telecommunications, with little penetration into manufacturing and export-oriented industries. Aziz et al. (2013) and Alfaro (2003) claim concentration restricts the development of jobs, the dissemination of technology, and the backward connections required for structural transformation.

3. Market Size and Macroeconomic Stability Are Primary Determinants of FDI

Market size, labor force availability, exchange rate stability, and interest rate dynamics all favorably affect FDI inflows, according to econometric research. These results emphasize macroeconomic stability as a requirement for foreign investment and support Dunning's location-specific benefit theory (Akther & Akter, 2016; Mahmood, 2018).

4. Fiscal and Taxation Structures Discourage Foreign Investors

FDI inflows are adversely affected by high corporation tax rates and unfavorable domestic investment conditions. According to empirical data, fiscal inefficiencies deter efficiency-seeking foreign direct investment and lower Bangladesh's competitiveness in the region (Akther & Akter, 2016; OECD, 2002).

5. Institutional Quality Has a Stronger Impact Than Political Stability Alone

Studies on governance reveal that while political stability without institutional accountability may raise investor anxiety, rule of law, corruption prevention, and regulatory transparency considerably boost FDI inflows. This result aligns with New Institutional Economics (North, 1990; Shams & Talukder, 2024).

6. Administrative and Governance Barriers Dominate Sector-Specific FDI Decisions

Financial incentives are not as important in influencing investment decisions as contract enforcement failures, land acquisition delays, and bureaucratic inefficiencies, according to sectoral evidence, especially from power and infrastructure projects (World Bank, 2022; Asiedu, 2006).

7. The Growth Impact of FDI Is Conditional on Domestic Absorptive Capacity

While previous research indicates mixed or negative effects when absorptive capacity is low, subsequent studies confirm that FDI has a favorable impact on economic growth. This is consistent with endogenous growth theory, which highlights the complementary nature of institutional development and human capital (Sarker, 2024; Borensztein et al., 1998; Rahman, 2015).

8. Fragmented Investment Governance Reduces Policy Effectiveness

Bangladesh's capacity to draw in high-quality, long-term FDI is severely hampered by institutional fragmentation, procedural delays, and a lack of digital integration among investment-related institutions (World Bank, 2023; UNCTAD, 2022).

Recommendations

1. Prioritize FDI on Manufacturing and Export-Driven Industries

To increase employment, productivity, and technology spillovers, Bangladesh should give priority to foreign direct investment (FDI) in manufacturing, agro-processing, and export-led industries (Aziz et al., 2013; UNIDO, 2022).

2. Strengthen Rule of Law and Contract Enforcement

Reducing transaction costs and investment uncertainty requires increasing judicial efficiency, regulatory openness, and legal predictability (North, 1990; Shams & Talukder, 2024).

3. Rationalize Corporate Taxation and Investment Incentives

To improve location advantages and draw efficiency-seeking FDI, a transparent and competitive corporate tax system should be implemented (Akther & Akter, 2016; OECD, 2020).

4. Digitally Integrate Investment Promotion Agencies

In line with global best practices, creating a fully digital one-stop service platform will enhance investor facilitation and cut down on bureaucratic delays (World Bank, 2023).

5. Ensure Macroeconomic Policy Credibility and Consistency

Sustaining investor confidence requires coordinated fiscal management, stable exchange rates, and predictable monetary policy (Mahmood, 2018; UNCTAD, 2023).

6. Align FDI Strategy with National Development Priorities

Bangladesh Vision 2041, which prioritizes industrial upgrading, innovation, and sustainable development, should be reflected in FDI policy (GED, 2020).

7. Strengthen Domestic Absorptive Capacity

To optimize FDI spillovers and productivity benefits, investments in education, skill development, and technology infrastructure are crucial (Borensztein et al., 1998; World Bank, 2022).

8. Reform Sector-Specific Governance Frameworks

Stronger land acquisition regulations, uniform contracts, and open procurement procedures are needed, especially in the energy and infrastructure sectors (Asiedu, 2006; World Bank, 2022).

9. Promote Regional and Global Investment Integration

Utilizing global value chains and regional trade agreements can boost competitiveness and draw in efficiency-seeking FDI (UNCTAD, 2022; Baldwin, 2016).

10. Shift Emphasis from Quantity to Quality of FDI

To facilitate long-term structural transformation, policymakers should give priority to FDI that is environmentally conscious, technology-intensive, and sustainable (Sarker, 2024; UNCTAD, 2023).

Conclusion

This analysis shows that although Bangladesh has made significant strides in luring foreign direct investment (FDI) since the 1990s, inflows are still small, erratic, and concentrated in capital-intensive industries, limiting the country's potential for widespread developmental gains (BISS, 2000; Aziz et al., 2013). While high corporate taxes, regulatory inefficiencies, and fragmented investment governance limit sustainable foreign investment, empirical analysis using descriptive, ARDL, and econometric modeling confirms that macroeconomic stability, market size, institutional quality, and governance mechanisms are important determinants of FDI inflows (Akther & Akter, 2016; Mahmood, 2018; Shams & Talukder, 2024). According to endogenous growth theory, FDI has a favorable effect on economic growth when combined with strong institutional frameworks, human capital, and domestic absorptive ability (Borensztein et al., 1998; Sarker, 2024). In order to improve long-term structural transformation and competitiveness, policy implications highlight the significance of matching FDI strategies with national development goals, with a focus on sectoral diversification, digitalized investment facilitation, fiscal rationalization, and technology-intensive sustainable investments (UNCTAD, 2023; World Bank, 2023).

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