

Potential impact of LDC graduation and the role of foreign direct investment (FDI) in Bangladesh

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Abstract: The United Nations Committee for Development Policy (CDP) recommended that Bangladesh's graduation from the LDC will take place in 2026. The LDC graduation brings many benefits and opens up new opportunities to a graduated country. However, to realize benefits from LDC graduation can be challenging to a country as it comes with some costs, such as higher borrowing costs after graduation. Foreign direct investment (FDI) can play a crucial role in this context to support ongoing growth and economic development and to reap potential benefits from the LDC graduation. The purpose of this article is to understand the impact of LDC graduation on Bangladesh and the role of FDI in this context. For this purpose, this report analyzes historical FDI data for Bangladesh, identifies the factors that determine FDI flows as predicted by theories and empirical literature, critically analyzes Bangladesh's performance against the FDI determinants, and provides few recommendations on how Bangladesh can make further progress to attract more FDI and to reap benefits from LDC graduation.

Keywords: Foreign direct investment (FDI), Bangladesh, LDC graduation, Governance, Human capital, Infrastructure

1. Introduction

The United Nations Committee for Development Policy (CDP) recommended that Bangladesh's graduation from the LDC will take place in 2026. The eligibility criteria/thresholds that a country must fulfill to graduate from LDC are: GNI per capita is \$1222 or above, Human Asset Index is 66 or above, and Economic vulnerability index 32 or below (Graduation from the LDC category, n.d). So far, six countries (Botswana, Cape Verde, Maldives, Samoa, Equatorial Guinea, and Vanuatu) graduated from the LDC group. Bangladesh has exceeded in all three criteria to be a candidate for LDC graduation. To date, Bangladesh's GNI per capita is \$1827, Human Asset Index is 75.3, and Economic Vulnerability Index is 27.2 (Country Profile: Bangladesh 2021). The LDC graduation brings benefits and opens up new opportunities to the graduated country and comes with some costs too. The LDC graduation is likely to reduce the costs of borrowing from the international financial market due to improved perceived risk about a country. LDC graduation not only lowers the borrowing costs but also can make a country an attractive destination to foreign investors. Foreign direct investment (FDI) is crucial for Bangladesh for supporting ongoing growth and economic development and to reap potential benefits from the LDC graduation. Foreign direct investment (FDI) is a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in another economy and owns a 10 percent or more voting power in an enterprise (OECD).

The purpose of this chapter is to analyze the impact of LDC graduation and the role of FDI in this context. The rest of this chapter is organized as follows: Section 2 presents the FDI experience of the countries to understand how LDC graduation impacts FDI inflows. Section 3 presents current status on FDI flows to Bangladesh. Section 4 discusses the adverse impact of LDC graduation on external financing can be compensated by FDI. Section 5 introduces relevant empirical literature and theoretical predictions about the determinants of FDI. Based on the empirical literature and theoretical prediction, Section 6 provides a detailed analysis of the major FDI determinants for Bangladesh. Section 7 discusses potential benefits of FDI to Bangladesh. Section 8 provides recommendations and concludes the chapter.

2. FDI flows to LDC graduated countries

The experience of already graduated countries might give us an idea on how LDC graduation impact FDI inflows. To understand this, we can use the experience of already graduated countries and examine what happened to FDI inflows in those countries after LDC graduation. Six

countries already have graduated from LDC are: Botswana in 1994, Cape Verde in 2007, Maldives in 2011, Samoa in 2014, Equatorial Guinea in 2017, and Vanuatu in 2020.

Botswana observed a steady rise in FDI inflows in the aftermath of the years of LDC graduation in 1994. Botswana received an amount of \$70m FDI in 1995, which reached to \$400m in the early 2000s and to a peak of the FDI inflows of \$520m in 2008 right before the global financial crisis (GFC). Cape Verde received \$210m FDI in the following year of LDC graduation in 2008, however the flows were impacted by the GFC in the following years and remained stable at around \$100m in the recent past years till 2019. Maldives, one of our South Asian neighboring countries, was the most successful in attracting FDI inflows right after the LDC graduation. Since the year of graduation in 2011, Maldives experienced a continuous rise in FDI inflows and received \$450m FDI inflows on average every year since 2011 and the largest flow took place in 2019 to almost a billion dollars. Samoa's growth in FDI was not stable whereas Equatorial Guinea showed increased FDI inflows since LDC graduation in 2017.

The experiences of FDI inflows since LDC graduation show that many countries realized some positive shocks in FDI inflows but not a consistent positive inflow of FDI. Among the six countries, Maldives received a recorded 17% of FDI as a share of its GDP in 2019. However, it is also important to note that such interpretation of the link between FDI inflows and LDC graduation requires more explanation of why some countries received more FDI while others did not and why the countries did not. There are many factors responsible behind such variation. It is true that LDC graduation can bring higher FDI to the graduated countries through a better reputation of the country due to better credit rating and better resilience of the country. To generate further FDI into a country, foreign investors must be convinced that the graduated country is a good location for potential investment.

The experience of the countries suggests that there is a likely possibility that Bangladesh may receive a higher level of FDI after LDC graduation. However, it is not guaranteed that Bangladesh will receive more FDI inflows only because the country graduated from LDC. Rather, FDI inflows will depend on many other relevant factors that are considered to be important determinants of FDI. To understand the complete picture on the impact of LDC graduation on FDI inflows to Bangladesh, the following sections are developed in this chapter.

3. Current status of FDI flows to Bangladesh

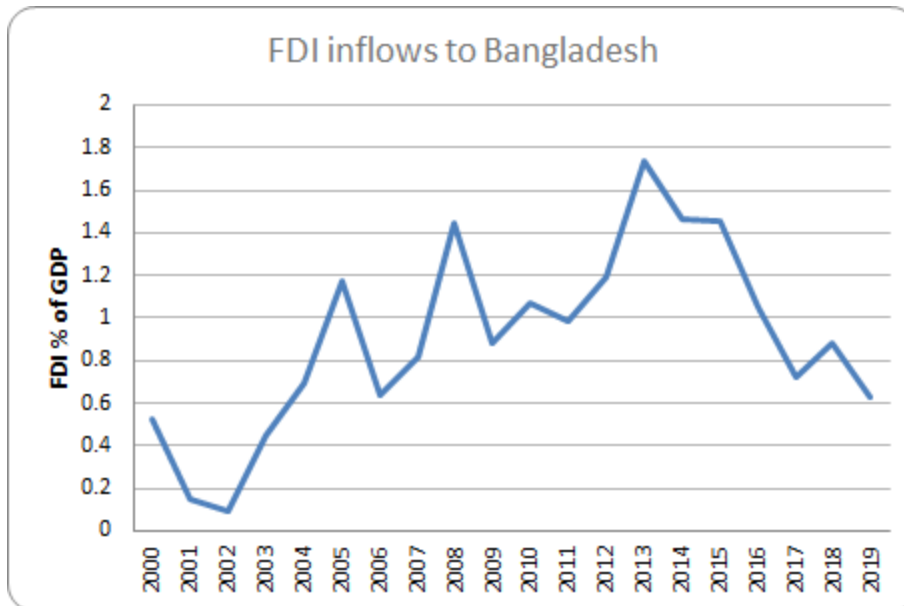
Despite many success stories in many development aspects, Bangladesh however has not been successful in attracting sufficient amounts of FDI. At the time of the heyday of globalization in

the 1990s and in the early 2000s, FDI inflows to Bangladesh were very small and were a few hundred million. Over the last 10 years from 2010 to 2019, FDI inflows (net) remained in the range of 1 to 2 billion dollars and reached the highest level to \$2.4 billion in 2018 (WDI, 2020). Most recent data on FDI from the Bangladesh Bank reports that net FDI inflows (FDI inflows minus FDI outflows) in fiscal year 2020 was USD 2.3 billion which is a 39% decrease compared to fiscal year 2019 (BB 2020). The report also showed major sectors that received most of the FDI inflows are the manufacturing sector (29.1%) followed by power, gas and petroleum (26.7%), trade and commerce (18.9%), and transport and communication (11.7%). Major FDI source countries for Bangladesh in terms of stock of FDI are the USA (USD3.9b), the UK (USD2.4b), Netherlands (USD1.4b), Singapore (USD1.3b).

The recent spike in FDI in 2018 was due to a one-off investment that came from Japan when Japan Tobacco acquired Akij Tobacco by 1.42 \$billion (Kim, 2018). However, this one-off big inflow does not reflect the real picture of FDI inflows to Bangladesh. And, these figures are absolute values of FDI that do not reflect the actual picture of FDI to Bangladesh. A relative picture of how much FDI flowed into Bangladesh becomes clear when FDI inflows are compared to the size of the economy (GDP). Despite Bangladesh's economy has been booming continuously over the last many years, the share of FDI as a percent of GDP has not grown at all, see Figure 1. FDI inflows are on average 0.73% of GDP over the last 25 years (WDI, 2021). Another concern apparent from the graph is the falling trend in FDI. Since 2013, FDI share has continuously been falling. This finding suggests a clear picture that historically Bangladesh was not an attractive location to foreign investors. However, that does not mean that Bangladesh has no potential to be an attractive location to foreign investors. Important point is to understand why some countries receive more FDI while Bangladesh does not, what the major determinants of FDI are, and what the policy makers in Bangladesh can do to make the country more attractive to foreign investors and in particular at the time when Bangladesh is securing the status of LDC graduate.

Figure 1

FDI inflows (% of GDP) to Bangladesh: 2000-2019



4. LDC graduation and external financing

The LDC status is linked to concessional loan and debt relief that LDC countries are benefited from. The concessional rate on external debt that Bangladesh currently enjoys will no longer be available after the LDC graduation. Also, external debt servicing will be costly for Bangladesh after LDC graduation. Bangladesh has a significant amount of external debt. According to the World Bank, Bangladesh has a stock of \$57 billion (current USD) total external debt stock out of which the public sector has \$41 billion, which is 18.01% of GNI (WDI 2019). For example, after the LDC graduation Bangladesh would be required to pay at 2% rate instead of the current 0.75% rate for the World Bank's International Development Association (IDA) loans. Most of the government's external debt in Bangladesh is channeled to projects on infrastructure development that play an important role in the country's growth and development. Bangladesh will no longer be able to avail the rate after graduation which will raise the cost of servicing the debt and will hurt the ongoing growth and development of the country if not compensated by other types of external financing, such as FDI.

Under such circumstances, FDI can play a vital role to keep the pace of ongoing growth and development in Bangladesh. And, FDI will not only bring the required capital for financing but also bring the technical and managerial know-how which will have a ripple effect on the growth and development of the country. However, the FDI market is highly competitive and is

determined by the country's investment environment instead of whether a country is LDC graduate or not.

5. FDI Determinants: Theoretical prediction and empirical findings

Theory suggests that FDI brings many benefits to FDI recipient countries. The simplest benchmark neoclassical growth model (e.g., Solow, 1956) suggests that capital (e.g., FDI) should flow from capital-abundant rich countries to capital-scarce poor countries as the simple result of *diminishing returns to capital*. Allocative efficiency of capital is the main focus of neoclassical growth theory and predicts that reallocation of capital is beneficial for capital scarce poor countries. The allocative efficiency of neoclassical models received a number of criticisms. In particular, the neoclassical predictions of higher marginal productivity of capital (MPK) in poor countries and the beneficial impact of higher FDI are criticized by many scholars (Lucas, 1990; Caselli and Feyrer, 2007; Bhagwati, 1998; Rodrik, 1998). New growth theory (NGT) abandons the neoclassical assumption of diminishing returns to capital and introduces ideas such as learning by doing, spillover effects, and economies of scale. When such impacts are considered, MPK is not diminishing in the aggregate capital stock. Lucas (1990), refers to fundamental differences (e.g., differences in stocks of human capital) between countries that potentially explain why capital does not flow from rich to poor countries.

Empirical literature suggests mixed evidence about the determinants of FDI and considers a wide range of factors as FDI determinants. In broad category, three major determinants of FDI are: *fundamentals* that directly influence the *ex-ante* returns to capital in the absence of unexpected events (e.g., Clemens and Williamson, 2004); *capital market imperfections / frictions* that contribute to the wedge between the expected returns and *ex post* returns to capital (e.g., Reinhardt et al. 2013); *institutions* that reduce political risks and the cost of doing business and influence the *ex-ante* returns to capital and capital inflows (e.g., Alfaro et al. 2008). Akhtaruzzman et al. (2017) found that countries with weak institutions (i.e., higher level risk of expropriation, lack of rule of law or political instability) are less attractive to foreign investors despite the countries offering higher levels of return to capital. They found that expropriation risk trumps other types of political risks, such as political instability or lack of democracy. The empirical literature also emphasized on the importance of political regimes, such as democracy and autocracy (e.g., Oneal 1994; Jensen, 2003; Li, 2009) and government corruption (e.g., Wei, 2000; Habib and Zurawicki, 2002; Méon and Sekkat, 2004; Egger and Winner, 2005). Other studies found that political stability (e.g., Asiedu, 2002), rule of law and bureaucratic quality (e.g., Kinoshita and Campos, 2003), property rights and expropriation (e.g., Adam and Filippaios,

2007; Asiedu et al., 2009) are also important determinants of FDI. The existing literature found other important determinants of FDI in recipient countries are infrastructure (e.g., in Alfaro et al., 2008) and market size (e.g., Asiedu, 2006; Chakrabarti, 2001; Root and Ahmed, 1979) and suggests a positive relationship between FDI, infrastructure and market size. These theoretical models and empirical findings provide a basis of the analysis of Bangladesh's performance on the major determinants of FDI and help us to predict future FDI inflows to Bangladesh after LDC graduation.

6. FDI determinants in Bangladesh

The determinants of FDI are identified as suggested by existing literature and theoretical prediction. The following sections discuss the condition of these determinants in Bangladesh. Whether Bangladesh would be able to attract more FDI from the LDC graduation will depend on how Bangladesh makes progress on the major determinants of FDI. Four major determinants of FDI are: human capital development; institutional development and infrastructure development; market size. The following section portrays a picture of current status of the FDI determinants in Bangladesh.

6.1 Human capital development

The importance of human capital as a determinant of FDI is largely emphasized in FDI literature. In FDI literature (e.g., Lucas, 1990; Borenztein et al, 1998), it is well established that a higher level of FDI is strongly associated with a higher level of stock of human capital in the FDI recipient countries. Human capital index is considered as a complementary factor to FDI and reflects a better absorptive capacity of an economy. Foreign investors are kept to invest in an economy with strong absorptive capacity. FDI flows to the countries where the marginal productivity of capital (MPK) is higher. This higher MPK is determined by the stock of human capital. The difference in stock of human capital makes the difference in FDI flows between countries.

Human capital is one of the three major criteria of LDC graduation and included in human assets index (HAI), which emphasizes on human capital development through gross secondary enrollment, adult literacy, and gender parity in gross secondary enrollment. Among the three criteria (GNI per capita, HAI and Economic vulnerability index) for LDC graduation, the HAI can be considered as an aspect where specific strategic actions can be undertaken to improve this index. GNI per capita might have spillover effects on human capital development. However, improvement in GNI per capita is not always transformed to improvement in human capital if

GNI per capita rises with a large income gap between high-income and low-income groups within a country and if appropriate policies are not taken to allocate resources for human capital development.

Bangladesh has already achieved the graduation threshold (66 or above) of HAI and the current score in this index for Bangladesh is 73.2; however, achieving the threshold level does not mean that the human capital index is good in Bangladesh. The current score in HAI is a necessary condition for LDC graduation but not sufficient to attract a larger amount of FDI. The foreign investors would like to see that Bangladesh has improved the absorptive capacity by accumulating sufficient stock of human capital.

The World Bank's human capital index (HCI) measures the effects of education and health of a worker on worker's productivity where the score ranges from 0 (least) to 1 (most). Bangladesh's score on the HCI from 2017-2020, as the data only available of these years, is 0.47. Bangladesh's score in human capital is much less than the countries that were successful in attracting FDI, such as the score for Vietnam is 0.68. Despite having a similar size of the economy and having many other similarities, Vietnam is an attractive destination to foreign investors because of the country's strong position in the human capital index. Also, Bangladesh's current score is still below the developing country average (76.4) (UN, 2018)

The current status of HCI suggests instead of being complacent about the score on HAI, further works need to be done in this regard. A strong skilled workforce is one of the major drawbacks for Bangladesh particularly in attracting FDI. Higher levels of school enrollment are not sufficient for strengthening the human capital index and for generating a skilled workforce unless new strategies are developed by the Bangladesh government. Therefore, there is a definitive need to make improvements in human capital and the Bangladesh government can undertake initiatives to improve human capital or in order to attract a higher level of FDI beneficial for the growth and development of the country. This may include strengthening vocational education instead of only emphasizing on education in general, revising curriculum to make it more applied and technology driven and other necessary measures. A taskforce can be created to determine what types of skills and workforce are demanded by foreign investments and what skillsets are generated by the current education system in Bangladesh and how to fill the gap.

6.2 Governance (Institutional) quality

An important criterion that determines allocation of foreign direct investment is the governance quality and/or institutional quality of the capital recipient country. The institutions (governance)

set the rules for business in a country. According to North (1991), the institutions are the humanly devised constraints that structure political, economic, and social interaction in a country. Institutions can affect the economic performance of a country by improving the investment environment if the investors are protected from adverse investment risks (e.g., risk of investment expropriation). The government has an important role in ensuring governance and protecting the investors. Absence of good institutions (e.g., weak property rights or risk of expropriation) leads to uncertainties and discourages foreign investors to invest in such risky locations when they are making a choice about an investment location. A survey of 750 multinational investors and corporate executives highlighted that governance quality (e.g., political stability, security and stable legal regulatory environment) is far more important than tax rates or labor costs (McPhillips, 2019). Existing literature (e.g., Alfaro et al. 2008, Wei, 2000; Habib and Zurawicki, 2002) also support this survey findings. Foreign investors consider the governance condition and evaluate investment risks of potential investment location carefully.

The institutional quality of a country is measured by different agencies worldwide, such as WGI (World Government Indicators), ICRG (International Country Risks Guide), WEO's Global Competitiveness Index. A commonly used and publicly available measure for governance quality is World Bank's Worldwide Governance Indicators (WGI). The WGI consist of six composite indicators of broad dimensions of governance covering over 200 countries since 1996: Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption (Kaufmann et al, 2011).

Figure 2

Governance (institutional quality) in Bangladesh: 2000-2019

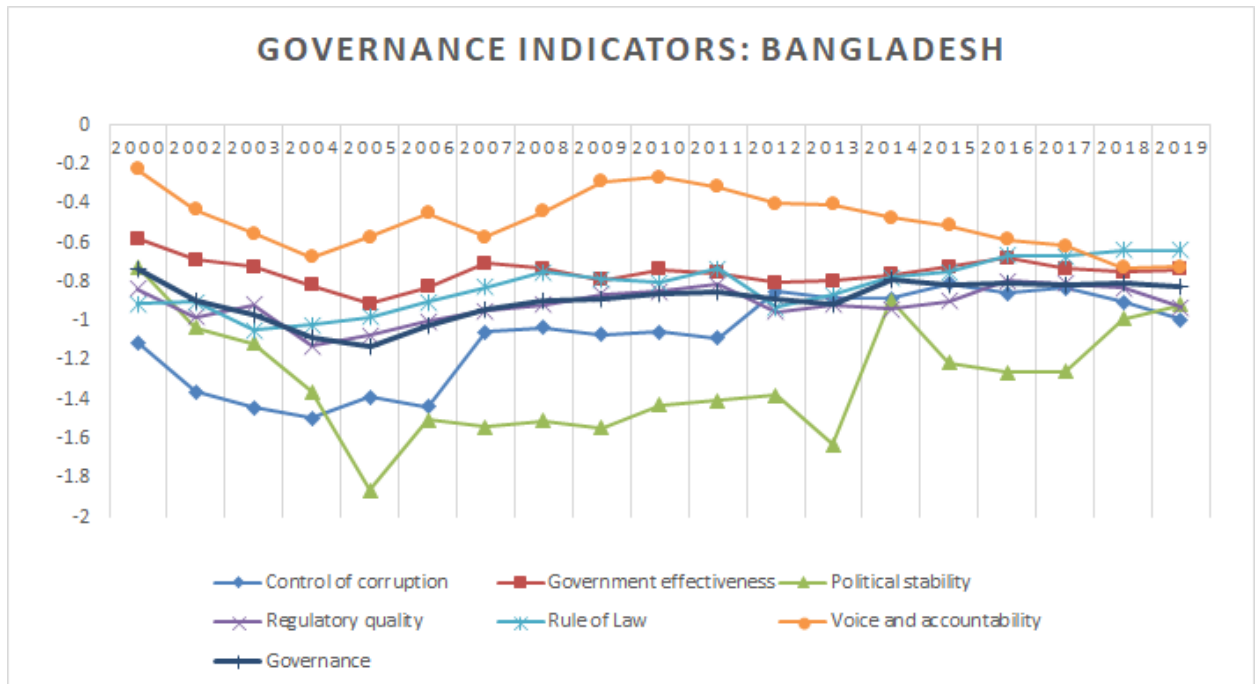


Figure 2 presents Bangladesh’s status regarding various aspects (control of corruption, government effectiveness, political stability, rule of law, and voice and accountability) of governance from 2000 to 2019. Among the six dimensions of governance, Bangladesh made some improvements in a few aspects of governance, such as control of corruption, rule of law and political stability; however, there is an apparent deterioration in voice and accountability, which reflects the degree of democracy. The overall governance (average of the six governance indicators) shown as the thicker blue line in Figure 2 shows a steady improvement in overall governance. However, there are other measures of institutions and they present a different picture. Bangladesh’s performance in governance is observed in WEO’s (World Economic Forum) global competitiveness index. WEO measures twelve different pillars of global competitiveness. The WEO 12 pillars are: Institutions, Infrastructure, Macroeconomic environment, Health and primary education, Higher education and training, Labor market efficiency, Market size, Business sophistication, Innovation. Among these 12 pillars, institutions are one of the least performing pillars in Bangladesh. According to this report, Bangladesh’s comparative performance score in institutions is 2.9 out of 7 (best performing institutions). The other poorly performing pillars are innovation, higher education and training, technological readiness, and infrastructure.

However, the impact of institutions on FDI is not straightforward and also depends on other FDI supporting complementary factors, such as improved infrastructure and availability of human

capital. The impact of governance on FDI will also depend on the relative attractiveness of the governance condition of Bangladesh in comparison to other FDI competitor countries. Foreign investors make comparisons of institutional quality across the potential investment locations to find a most suitable location.

It is true that Bangladesh's graduation from LDC is likely to enhance investors' confidence in Bangladesh as a safer destination and that confidence can further be strengthened by improvement in governance conditions. If Bangladesh can make further improvement in governance, LDC graduation is likely to boost FDI flows to Bangladesh, if other factors of the investment environment (e.g., infrastructure, human capital) are also improved. In contrast, if governance conditions deteriorate by for example increased political instability, absence of rule of law or by increased corruption, foreign investors might consider Bangladesh as a risky destination. If this is the case, Bangladesh might fail to capture sufficient FDI in future and to reap benefits from the LDC graduation in attracting higher levels of FDI.

6.3 Infrastructure development

FDI flows to the country where physical infrastructure is good. Existing literature supports this claim and suggests that a well-developed infrastructure attracts foreign investments because it reduces transaction costs associated with these investments. A commonly used measure for infrastructure (e.g., in Alfaro et al. 2008) development is the percentage of paved roads in total roads. The World Bank used to provide data on paved roads across countries, which no longer is available. A new infrastructure variable developed by the World Bank is the Logistic Performance Index. As per the World Bank definition, the score of the Logistics Performance Index reflects perceptions of a country's logistics based on efficiency of customs clearance process, quality of trade- and transport-related infrastructure, ease of arranging competitively priced shipments, quality of logistics services, ability to track and trace consignments, and frequency with which shipments reach the consignee within the scheduled time. The index ranges from 1 to 5, with a higher score representing a better performance.

Bangladesh's score on the logistics performance index (overall), based on the latest data available from the World Bank, is 2.39 out of 5 (World Bank 2018). The score of the logistic performance index for other LDC graduate countries, such as Maldives is 2.72. The score of this index for Maldives at the time of LDC graduation was 2.47 (in 2011), which suggests that over the last few years after the LDC graduation, Maldives made some improvements in the infrastructure index. Another country similar to Bangladesh is Vietnam and the score in this index for Vietnam is 3.01.

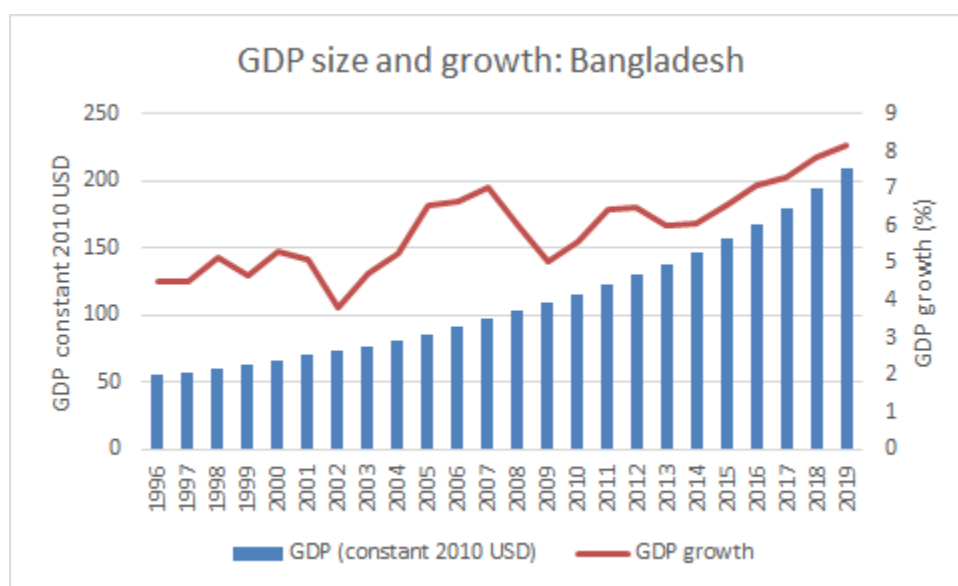
These statistics suggest that Bangladesh is lacking in this important FDI determining index and more work needs to be done to improve all aspects of logistic performance if aimed to attract more FDI with the changed status of LDC graduation.

6.4 Market size

Market size is found to be an important determinant of FDI. The argument behind this positive relationship is that a larger market indicates a higher demand for produced goods and services. A larger market attracts a higher market-seeking FDI. Market seeking FDI motivates foreign investors to serve the domestic market and to serve the neighboring countries or the region. Market size is measured by the overall economic activities (e.g., Gross Domestic Product) in a country and market potential is by GDP growth.

Figure 3

GDP size and growth in Bangladesh: 1996-2019



The GDP size and GDP growth rate presented in Figure 3 show a promising picture of Bangladesh and a continuous expansion of the economy over the last 25 years. Bangladesh economy expanded substantially and quadrupled over the last 25 years from \$50b in 1996 to \$200b in 2019. The GDP growth rate is also strong and showing an overall upward trend in GDP growth over this long period of time, on average is almost 6% (5.9%). It is quite apparent that Bangladesh failed to realize the benefits of market size and to attract FDI. Bangladesh should have received a larger amount of FDI than what it actually received, if the market size and market

growth were being supported by other FDI determining factors. The LDC graduation can create a new opportunity and help to overcome this drawback by bringing a higher level of FDI for Bangladesh. However, Bangladesh needs to work more on improving other FDI determining factors, such as human capital development, institutional quality and infrastructure to reap the benefits of LDC graduation by attracting more FDI.

7. Potential benefits of higher FDI inflows

Above discussion was about the determinants of FDI and the current status of Bangladesh on these determinants. The following sections briefly highlight some of the potential benefits that Bangladesh can reap from increased FDI inflows.

7.1 Employment generation: FDI generates new employment and brings new managerial know-how which is linked to skilled employment generation. Currently, FDI flows to Bangladesh are relatively low and the factors responsible for such low flows are explained above. It is also identified that low stock of human capital in Bangladesh is found to be one of the most significant weaknesses that resulted in such low level of FDI to Bangladesh. A better human capital index is also linked to future employment generation by FDI. Because, FDI investments are usually high tech based and seek for complementary factors to capital such as skilled labor. In order to generate more employment from FDI, Bangladesh needs to develop a pool of skilled workers and talents (human capital) that will attract a higher level of FDI and eventually the benefits on employment generation from FDI inflows will be realized.

7.2 Technical and managerial know-how: FDI not only brings capital to the host country but also brings managerial and technological know-how. According to the GLObal Competitiveness Index, labor market efficiency is one of the low performing index out of the total 12 performance measurement pillars. The current score of the labor market efficiency is 3.7 out of the highest score of 7 (WEO, 2020). Similarly, the performance in technological readiness is low of 2.7. Labour market efficiency is largely determined by technological development and managerial efficiency. FDI can improve the labor market efficiency and technological readiness of Bangladesh if policies are designed to attract the right type of FDI (the efficiency seeking FDI) that will bring new technical and new managerial expertise to Bangladesh. The spillover effects of technological improvement from FDI can also help local businesses and to increase overall efficiency of the production process of the country.

7.3 Export boost: The largest export sector in Bangladesh is textile and apparel. The sector received a significant amount of FDI; on average the sector received approximately \$400 million

from 2014 to 2018 (Ovi, 2019). FDI can boost the export sector by bringing capital intensive technology and management know-how to the RMG sector and in other export sectors in Bangladesh. Experts in a recently held seminar suggested that Bangladesh should promote more FDI to the apparel sector which could help to ease adverse COVID-19 impact on the sector and on overall export of the country (Allow FDI in RMG sector, 2020).

8. Conclusion and recommendation

The contribution of this chapter is to provide an analysis of how Bangladesh can reap potential benefits from LDC graduation by attracting a higher level of FDI inflows. In doing this, this chapter presented the experiences of already graduated countries in FDI inflows, analyzed the current status of FDI inflows to Bangladesh, identified the determinants of FDI, evaluated the conditions on these FDI determinants in Bangladesh and provided recommendations on how to improve them further, and presented potential benefits of FDI flows to Bangladesh. FDI flows to Bangladesh is found to be relatively low compared to many LDC countries and particularly compared to the size of the Bangladesh economy. The FDI determinants are discussed on the basis of theoretical predictions and empirical findings to demonstrate which specific factors are important in attracting FDI flows in particular from Bangladesh perspective. Four major determinants identified and analyzed are: human capital index, governance, infrastructure, and market size. Each of the determinants was analyzed and Bangladesh's performance was presented against these determinants. The analysis identified that Bangladesh is lacking behind in regards human capital development, good governance, and quality infrastructure. Despite having a relatively large market size, Bangladesh failed to attract adequate FDI due to the underperformance in these determinants.

Based on the analysis and the data, it can also be said that labor market inefficiency and lack of technological readiness exist in Bangladesh. Underperformance in labor market efficiency, technological readiness, and lack of human capital in combination with low performing infrastructure and low confidence in good governance are the main barriers that can explain historical low FDI flows to Bangladesh.

This chapter has explained in detail about the low performing indexes that are mainly responsible for low FDI flows to Bangladesh and showed that these indexes are interlinked. For example, only investing in infrastructure may not be sufficient to attract FDI unless the foreign investors are convinced that the country does not pose an institutional risk (e.g., political instability or expropriation). Improvement in political risks by good governance may not be sufficient unless

foreign investors are convinced that the country has an adequate stock of human capital. Improvement in human capital is not only increasing the school enrolment but also many other steps to develop a skilled workforce by proper training and vocational skills. LDC graduation will open a new window for higher FDI inflows if Bangladesh manages to make required progress in the main determinants of FDI such as human capital index, governance, and in infrastructure.

Moreover, the experiences of already graduated countries were analyzed in order to understand how LDC graduation could potentially impact FDI inflows to Bangladesh conditional on that each country has its own strengths and weaknesses which are country specific. Various data sources including the World Bank and IMF, the Bangladesh Bank were used for the analysis presented in this chapter. In sum, the analysis and the findings in this chapter provide an answer to the critical question of why Bangladesh failed to attract sufficient FDI despite the country succeeding in many other aspects of growth and development and also provide hints on whether and how Bangladesh will be successful in attracting more FDI after LDC graduation.

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