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The Role of Chinese Foreign Direct Investment (FDI) in accelerating the Economic Growth of Bangladesh

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Abstract: *Chinese direct investment has good impact on Bangladeshi economic growth. Last four years Chinese investment raise rapidly in Bangladesh. Almost every important sector got Chinese investment; here have an overview of Chinese foreign direct investment secondary data, Bangladesh Bank (2004-2017) & others statistics data. This paper shows total Chinese direct investment & foreign direct investment in Bangladesh. The multiple regression results confirmed that, Bangladesh has positive impact of Chinese direct investment which increases GDP, in order to attract direct Chinese investment into Bangladesh, need to develop infrastructure, stabilized political environment, law and order situation, healthy economic environment, curtailing on external debt. If Bangladesh give due attention to Chinese direct investment role in economic development Chinese direct investment can facilitate more GDP growth.*

Key words: *Foreign Direct Investment, Multiple-regressions, GDP, Economy, Bangladesh*

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I. Introduction

Bangladesh is a south Asian country with very fast-growing economy. Bangladesh and china have long friendship history. China has lots of Business scope in Bangladesh Because Bangladeshi infrastructure is not developed that much. For more economic development Bangladesh need to develop its structure as soon as possible. In another hand china has a good capacity to help Bangladeshi infrastructure and, communication such as IT, Banking sector, Power plants. Garments, water source, sea resource etc. Last one-decade china gave a huge investment in Bangladesh. Gradually investment is going upward.Last few years Chinese invest goes hundred percepts. Recently Bangladesh government is very attentive about Chinese investment. Chinese president first time visited in Bangladesh in year 2016. That was a remarkable year for Bangladesh to get 24.5 billion USD investments from china.Bangladesh-China Trade relation is old. China is a big country and it has rapid growing economy.Chinese economy has huge influence on world economy as a result it has influence on Asian economy also. Bangladesh has an important geographic location in world map so Bangladesh economy and trade commerce is very important to influence others. China Bangladesh trade and commerce has huge influence on Bangladeshi market. Bangladeshi market is full of Chinese product.Its rapid growing.Chinese lots of company has good market over there so they want to make their production house in Bangladesh. As a result, automaticinvestment creates in Bangladesh. The market-based economy of Bangladesh is the 46th largest in the world in nominal terms, and 33rd largest by purchasing power parity; it is classified among the Next Eleven emerging market economies and a Frontier market. According to the IMF, Bangladesh's economy is the second fastest growing major economy of 2016, with a rate of 7.1%. Dhaka and Chittagong are the principal financial centers of the country, being home to the Dhaka Stock Exchange and the Chittagong Stock Exchange. The financial sector of Bangladesh is the second largest in the subcontinent. In the decade since 2004, Bangladesh averaged a GDP growth of 6.5% that has been largely driven by its exports of ready-made garments, remittances and the domestic agricultural sector. The country has pursued export-oriented industrialization, with its key export sectors include textiles, shipbuilding, fish and seafood, jute and leather goods. It has also developed self-sufficient industries in pharmaceuticals, steel and food processing. Bangladesh's telecommunication industry has witnessed rapid growth over the years, receiving high investment from foreign companies. Bangladesh also has substantial reserves of natural gas and is Asia's seventh largest gas producer. Offshore exploration activities are increasing in its maritime territory in the Bay of Bengal. It also has large deposits of limestone. The government promotes the Digital Bangladesh scheme as part of its efforts to develop the country's growing information technology sector. Bangladesh is strategically important for the economies of Northeast India, Nepal and Bhutan, as Bangladeshi seaports provide maritime access for these landlocked regions and countries. China also views Bangladesh as a potential gateway for its landlocked southwest, including Tibet, Sichuan and Yunnan.Except Government to Government direct Chinese investment, Bangladesh also receive lots of Chinese investment which not Big amount investment but this type of investment came from Bangladesh and Chinese business man personal relation and partnership. So, there is no confusion in future china will create more Business, investment and Business scope in Bangladesh.

II. Related Work

Nowadays the issue of foreign direct investments is being paid more attention, both at national and international level. There are many theoretical papers that examine foreign direct investments issues, and main research on the motivations underlying FDI were developed by J. Dunning, S. Hymer or R.Vernon.

Economists believe that FDI is a significant element of economic development in all countries, especially in the developing countries. In this section, authors will give a short overview on some of the main FDI Theories. The absolute purpose of these theories is to better explain why a firm would choose to produce internationally rather than stay at home or involve in some simpler globalization modes such as exports or licensing.

One of the earliest theories on FDI was the one that explains FDI through market imperfections. Kindleberger (1969) argued that in a perfect market companies cannot gain any advantages. The assumption here is that markets are imperfect. He stated that for a firm to be competitive in a foreign environment, it should be worth some advantages to offset local firms' familiarity with environment. These firm-specific advantages can only be created in an imperfect market.

Numerous firm-specific advantages have been listed throughout the years-superior technology and marketing (Caves 1971), cheap labor (Grubel 1968), management skills (Wolf1977), access to natural resources (Lall and Streeten 1977) etc.

(Hymer 1976) also argued that in order for a company to compensate its disadvantage (culture, language, lack of local network, communication and transportation costs, etc.) of being foreigner it must occupy a firm-specific advantage. He pointed out that companies will see their foreign production facilities as a channel through which knowledge and other assets will easily be transferred. By exploiting its ownership-specific advantages the firm, using market imperfections, will be able to create oligopolistic or monopolistic positions thus performing better than the competition.

Life cycle theory, Vernon's product life cycle theory was probably the first major theory to try to explain the rationale behind FDI. According to Vernon (1966) a product would typically go through 3 stages, innovation phase, maturity phase and standardization phase. Developed countries would create innovative products chiefly because of their abundance with state-of-the-art technologies. In the first phase, the product would be sold mainly in the domestic market while the over plus would be exported. The price will be implacable since demand is very strong and typically, highly innovative goods can influence prices. As time goes by, the product develops, technology becomes known and foreign firms start to emulate the product. Foreign competitors become better at copying the product, the exporting firm will not be competitive anymore and will be forced to set up a production facility in local markets in order to keep its market shares and deal with severe price competition. This phase is called the maturity phase and the driving force for FDI is reduction of costs (achieved mainly by lower labor cost in host country). In the third phase, the company achieves full economy of scales by completely standardizing the product and moving its production to cheaper countries (low labor wages).

Internationalization theory, the internalization theory developed by Buckley and Casson (1976) is one of the major FDI theories. Internationalization theory seeks to explain why an organization prefers foreign direct investment over licensing as a strategy for entering foreign markets.

According to globalizations theory, licensing has three major drawbacks as a strategy to explain foreign market opportunities. Such as first, licensing may result in a firm's giving away valuable technological knowledge how to a potential foreign competitor. Second problem is that licensing does not give a firm the full control over manufacturing, marketing, and strategy in a foreign country that may be required to maximize its profitability. Third problem with licensing arises when the firm's competitive advantage is based not as much on its products as on the management, marketing, and manufacturing capabilities that produce those products. While a foreign licensee may be able to physically reproduce the firm's product under license, it often may not be able do so as efficiently as the firm could itself. As a result, the licensee may not be able to fully exploit the profit potential inherent in a market.

And finally, the internalization advantages, firms may organize the creation and exploitation of their core competencies. The greater the net benefits of internalizing cross-border intermediate product markets, the more likely a firm will prefer to engage in foreign production itself rather than license the right to do so.

III. Methodology

The relationship between Chinese FDI and the economic development are positively correlated, but very few studies have been done in this sector, especially for Chinese FDI into Bangladesh. In this research tried to find out the impact of Chinese FDI in the economic growth of Bangladesh, for this research it has been used ordinary least squared regression model to analyze the Chinese FDI effects on GDP.Ithas beencollected data from World Bank Database, Bangladesh Bank Database and Annual Economic Report of Bangladesh. Due to the limited availability of the data we downloaded 26 half yearly economic report from Bangladesh Bank website and we have collected our required data from that report and entry into MS excel. It used total 13 years of data which is from 2004-2016.Multiple Ordinary Least Squared regression model to see the relationship between Chinese FDI and Economic growth of Bangladesh.

$$y_i = a_i + \sum_{i=0} \beta_i X_i + \varepsilon_i$$

Where,

yi = $DependentVariable$

αi = $Interceptof$ the$eEquation$

βi = $coefficientofXivarables$

Xi = $DifferentIndependentvariables\varepsilon i$ = $errorterms$

After implementation of the variables into the model it would be like this

$GDPt$ = α + β1FDIt + β2Exp$t$ + μt ------------------------------ (1)

Where,GDP = Gross Domestic Product at time t

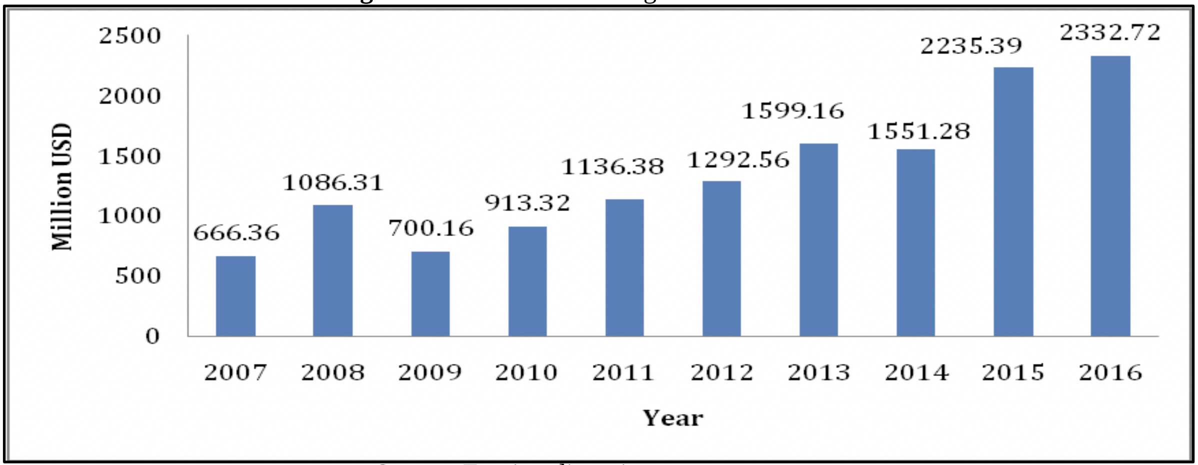
FDI = Foreign Direct Investment (Chinese FDI only) at time t Exp = Total Export Earning at time t

μ = Error terms at time t

IV. Chinese investment in whole world and Bangladesh

FDI has been encouraged in almost all major sectors and areas both in terms of joint venture and 100 per cent ownership which include investment in a) export-oriented industries; b) export processing zones (EPZs); c) industries that are based on high technology either import- substituted or export-oriented; d) basic industries based on local raw materials; and e) physical infrastructure projects under the term of ‘Build-Operate-Own (BOO)’ or ‘Build-Operate- Transfer (BOT)’. Bangladesh follows a very liberal FDI regime compare to any other South Asian countries which allows 100 per cent foreign equity with unrestricted exit policy. Since the late 1980s, Bangladesh has opened up her economy with the objective of attracting and availing the benefits of foreign investment. Moreover, financial and non-financial incentives such as tax exemptions from power generations, exclusion of import duty for export processing industries, imposition of zero duty rate for the import of capital machinery and auxiliary parts for 100% export oriented industries, almost no restrictions on entry and exit mode and the decline in bureaucratic hassles in getting faster approvals of foreign projects were introduced by the government.

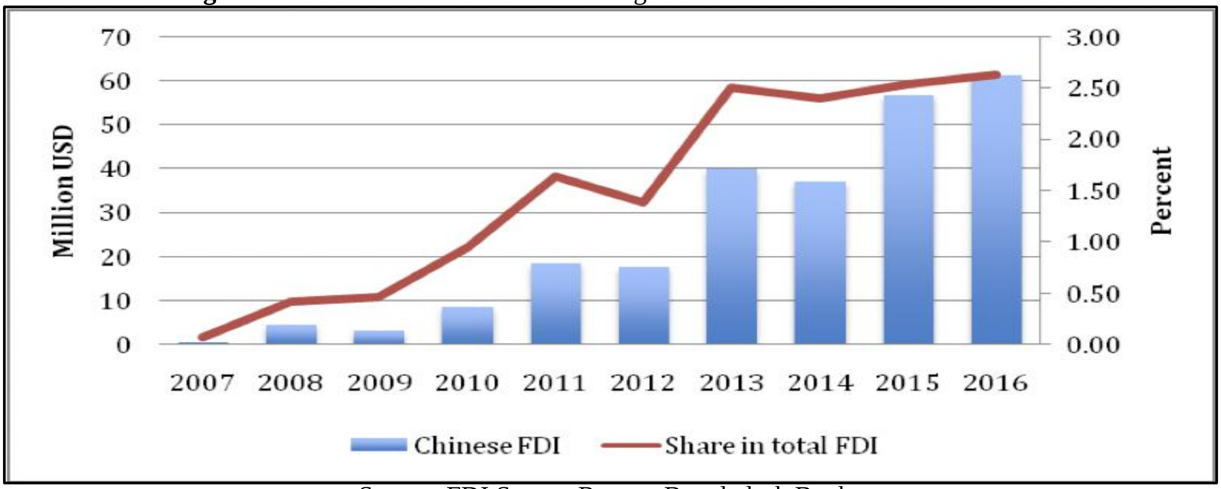
Figure 2: FDI inflow to Bangladesh since 2007



Source: Foreign direct investment report

Bangladesh is the green land for investment for any kinds of products. Most of the country is more interested for investing in green country Bangladesh. China is the one of them who invested more in Bangladesh. (Fig:2) All these incentives along with a cheap labour cost structure has enabled to attract foreign investment in the recent years from 2007 till presently as shown by the rise in direct investment from 666.36 million USD in 2009 to 2332.72 million US dollars in 2016.

Figure 3: Chinese total FDI inflow in Bangladesh and share in total FDI inflow



Source: FDI Survey Report, Bangladesh Bank

FDI coming from the Chinese investors in Bangladesh is continuously increasing as well as the share of Chinese FDI (figure:3). Total Chinese FDI inflow in Bangladesh was recorded USD 4.5 million during the year 2008. The FDI inflow has increased to 61.4 million at the end of 2016. Chinese investors are mostly investing in textile and wearing sectors as Bangladesh has higher competitive advantage in this sector. It is important to note that a large portion of investment is regarded as other sectors. However, Chinese investors are also interested in leather and trading sectors.

Table 1: FDI Stock by China Classified by Major Sectors (End of Dec 2016, million USD)

Sectors	**China**
Textile& Wearing	83.67
Power	2.39
Agriculture & Fishing	2.32
Trading	9.97
Chemical & Pharmaceutical	0.35
Leather & Leather Products	21.7
Metal & Machinery	1.02
Construction	0.3

Others Sector	124.57
Total	241.21

Current Chinese Ambassador to Dhaka Ma Ming Qiang is very much optimistic about investing in Bangladesh, as the country has been a good option for Chinese investor as opposed to higher labour cost in China.There are unlimited opportunities for investment in Bangladesh but challenges are many. Chinese investment in Bangladesh will exceed US investment in a very short period of time. Chinese investors face various types of problem while investing in Bangladesh such as land acquisition, high land prices, and ambiguity of ownership, inadequate infrastructure and high import duty on raw materials are the major challenges to boosting investment in Bangladesh. A recent trend shows that Chinese businessmen are looking beyond China and seeking to invest in South Asia, especially Bangladesh. Many have already convinced to invest in Bangladesh's infrastructure, manufacturing, textile and other sectors(Table:1) where the end of the December in 2016, FDI stock by China classified by major sectors.

V. Impact of FDI inflow

Recently Bangladesh takes a lot of steps to increase foreign direct investment that leads to increasing her economic stipulation. Bangladesh has liberalized a number of policies so that can catch the attention and enhance of more foreign direct investment into the country. It is habitually considered that foreign capital inflows can increase up domestic capital and ultimately make a significant role to increase GDP. It is a fact that FDI accelerates economic activities and eventually causes economic growth. It increases employment opportunities, strong economic backbone and powerful financial aspect. FDI brings highly productive resources into the receiver economy. This causes positive effects on the employment creation. Sectors those FDI inflows encouraging domestic industries and economy. So, there is no perplexity that FDI must be support economy of a country.

5.1 Dependent Variables

Gross domestic product (GDP): GDP is the market value of all final goods and services produced within a country within a given period.Many factorsinfluence to speed up GDP. It is assumed that the GDP is influenced by FDI Inflow with larger amount. If the explanatory power of FDI Inflow, the independent variable is high over Gross domestic product (GDP), the dependent variable, the assumption will be proved.

Export: There are many factors that can influence export. It is assumed that FDI Inflow is one of the prominent factors that influence the export. If the explanatory power of FDI Inflow, the independent variable is high over export, the dependent variable, the assumption will be proved.

Domestic Investment: There are many factors that can affect domestic investment. It is assumed that FDI Inflow is one of the prominent factors that influence the domestic investment through increasing competitiveness. If the explanatory power of FDI Inflow, the independent variable is higher over domestic investment, the dependent variable, the assumption will be proved.

5.2 Independent Variable*:* FDI Inflow refers to the long-term investment in a foreign country. However, it consists of three components: equity capital, reinvested earnings and intra-company loans.

Table2: Year wise FDI Inflow, GDP, Domestic InvestmentExport, and FDI and Export proportion to GDP

Year	FDI inflow in million USD	GDP in million	Domestic investment in million USD	Export in million USD	FDI/GDP	Exp/GDP
2008	323	8798	8973	1098	.0011	.0877
2009	377	7898	8795	2908	.0013	.0764
2010	399	6788	9087	8900	.0054	.0933
2011	578	8798	9900	1010	.0045	.0044
2012	881.44	10500	10407.33	7888.1	.0003	.08853
2013	999.3	12588	12437.40	10999.1	.00042	.0853
2014	1001.5	13497	13222.44	11888.3	.00052	.0955
2015	1029.23	15556	16444.1	15778.9	.00032	.0743
2016	1089.32	19008	17888.3	20733.4	.00092	.0921
2017	1099.32	20021	25699.4	22301.3	.000023	.0712

Table 2 shows the year wise FDI inflow, GDP,Domestic Investment, Export, FDI and Export proportion to GDP in the year 2008 to 2017. It shows the increasing trend of investment flow but the FDI inflow not that much as compared with domestic investment. The higher the FDI inflow, the greater the amount of FDI into GDP proportion.

Table3: FDI Inflows by Components (Figures in million USD)

Year	Equity	Reinvestment earnings	Intra company loan	Total
2008	1.5	6.7	10.1	17.9
2009	2.3	4.3	12.4	18.9
2011	3	7	15	25
2012	3.5	14.3	23.2	41.0
2013	3.5	14.3	23.2	41.0
2014	888.4	444.3	99.6	1432.3
2015	999.5	666.3	105.4	1771.2
2016	900.4	777.1	187.1	1864.6
2017	100.5	888.5	200.1	1189.1

FDI Inflows by Components is presented in table 3. FDI may include different componets to invest, such as acquisitions, retail, logistics, manufacturing, service sector, infrastructural development, merge with another company etc.Table 3 shows FDI inflow with different components in total including equity, reinvestment and intra company loan etc.

Table4 :FDI Inflows by major Sectors (2008-2017) (Figures in million USD)

Sector/Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Agricultural & Fishing	3	3.4	3.4	3.6	3.5	14.3	23.2	99-4	104.1	204.1
Power	33	34	35	40	44.3	50.3	30.2	66.7	112.2	241.2
Gas & generator	189	192	198	200	228.4	280.3	33.6	228	224.7	243.4
Textile	120	122	132	140	140.4	304.5	777.5	185	664.2	331.2
Chemicals	8	99	111.1	139	180.4	888.8	889.5	590	552.3	666.6
Machineries	00	00	00	00	00	00	00	3.1	6.2	8.3
Leather	22	32	36	37	44.6	3.0	10	30.2	40.2	60.3
Banking	101	103	106	110	201.4	160.5	232	555	666.1	721.2
Insurance	4	8	9	11.3	12.4	14.2	223	666.1	666	803.2
Tele	333	444	595	565	666.4	401.2	222.1	770.3	800.1	700.5
Software	.3	.4	.06	.9	.4	00	1,8	990.1	104.2	10.5

Table 4 displays FDI inflows by major sectors. These all are the potential sectors invested by foreign countries as FDI and it is no surprise that such a type sectors are a lot to explore to invest further. Agriculture, power, textile , Chemicals, Banking, Insurance etc. are at the highest margin of FDI in the last decade in Bangladesh.

VI. Analysis and Results:

Table5: Descriptive statistics

	GDP	*FDI*	*Export*	*LINV*
Mean	122925.7	1198	19596	12072.31
Standard error	13964.9	162.2	2543	1444.5
Median	115279.1	1086	16204	9900
Mode	#N/A	#N/A	#N/A	#N/A
Standard deviation	50351.4	584.7	9170	5208
Sample Variance	2525259	341805	84093476	27123754
Kurtosis	-0.5130	0.0038	-1.456	3.023
Skewness	0.6830	0.9141	0.255	1.752
Range	156306	1871.9	26654	17824
Minimum	65198	460.4	7602	7875
Maximum	221415	2332.4	34257	25699
Sum	1596734	15586	254752	15699
Observations	13	13	13	13
Confidence level	30427.1	353.29	5541.6	3147

Table 5 shows the conclusive results of descriptive statistics for variables. Variables are described in details including measures of normality and measures of dispertion. The mean value is described the average of each of the variable. The median is considered as a middle value of a variable. The standard deviation postulates that, how far our observations are from the sample average and it varies from country to country. Skewness is described as a measurement of the degree of symmetry whereas kurtosis is considered as a measurement of the degree of peakness or flatness in relation to normal distribution.

Table6: Summary statistics:

Multiple R	0.98898279
R Square	0.97808697
Adjusted R Square	0.97471573
Standard Error	8337.17063
Observation	16

Table 6 shows the summary statistics of our empirical analysis. Adjusted R square shows the goodness of fitness of a model. Findings show that, Adjusted R Squared is 0.97 which means our model is well fitted and highly significant. In the regression output table 7 and table 8, we have two independent variable which are FDI (Foreign Direct Investment- Chinese FDI Only) and EXP (Total Export Earning) and the dependent variable is GDP (Gross Domestic Product). By running the OLS regression analysis. Taking our results into consideration, we can see that for the independent variable FDI, the P value is 0.028 and for EXP the P value of is 0.001, so both of the P value of the independent variables are less than 0.05 which means both are statistically significant at 5% significance level.

Table7: ANOVA

	DF	SS	MS	F	Significance F
Regression	2	40332557704	20166278852	290.1271608	1.63895E-11
Residual	13	903609384	69508414.15		
Total	15	4136167088			

Table8: The result of OLS regression analysis of EQ:1

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	20064.39887	4300.908178	4.6651539	0.0004	10772.8516	29355.9460
FDI	26.01498557	10.52779298	2.4710768	0.0280	3.27107160	48.7588995
EXP	3.696838117	0.672754683	5.4950760	0.0001	2.24343998	5.15023624

VII. Discussion and Conclusion

In 2016, per-capita income was estimated as per IMF data at US$3,840 (PPP) and US$1,466 (Nominal). Bangladesh is a member of the D-8 Organization for Economic Cooperation, the South Asian Association for Regional Cooperation, the International Monetary Fund, the World Bank, the World Trade Organization and the Asian Infrastructure Investment Bank. The economy faces challenges of infrastructure bottlenecks, insufficient power and gas supplies, bureaucratic corruption, political instability, natural calamities and a lack of skilled workers. As a developing country, Bangladesh needs FDI for its ongoing development process. It is a potent weapon for developing the economy and achieving the country's socio-economic objectives. The climate for investment is determined by the interplay of a whole set of factors: economic, social, political, technological and environmental that has a bearing on the operation of businesses. Despite being a recent phenomenon, several underlying factors have contributed to increasing the FDI inflow in Bangladesh. These are trade and exchange rate liberalization, current account convertibility, emphasis on a private sector led development, liberalization of the investment regime, opening up of infrastructure and services to the private sector both domestic and foreign, and above all the growing interest of foreign investors in energy and telecommunication sectors. It is argued that more open trade policies are associated with the presence of foreign firms and economy wide technological and productivity gains in developing countries like Bangladesh. The private sector is envisaged to play an increasingly active role with public sector development programmers concentrating on basic infrastructure and human resource development. In recognition of the private sector's ability to contribute towards achievement of the goal of socio- economic improvement of its people, the government has recently implemented policy reforms to create a more open and competitive climate for both foreign and local investment. Future, insufficient power supplies, and slow embodiment of economic reforms, Bangladesh has made some headway improving the climate for foreign investors and liberalizing the capital markets; for example, it has negotiated with foreign firms for oil and gas exploration, better countrywide distribution of cooking gas, and the construction of natural gas pipelines and power stations. Progress on other economic reforms has been halting because of opponency from the bureaucracy, public sector unions, and other abiding interest groups. The especially severe floods of 1998 increased the flow of international aid. So far, the global financial crisis has not had a major impact on the economy. Foreign aid has seen a gradual decline over the last few decades but economists see this as a good sign for self-reliance. There has been a dramatic growth in exports and remittance inflow which has helped the economy to expand at a steady rate.The multiple regression results confirmed that, Chinese direct investment has positive impact on Bangladeshi GDP growth. Multiple regressions show that Chinese direct investment P value is 0.02. P value of EXP is 0.001, P value of the independent variables are less than 0.05 which means this model is statistically significant and a good mode, which is statistically significant, so it's clear that Chinese direct investment and Bangladeshi GDP has positive correlation. Attract direct Chinese investment into

Bangladesh, need to develop infrastructure, stabilized political environment, law and others situation. Healthy economic environment of Bangladeshi economy will stable, if Chinese direct investment rise in near future.

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