Impact of Global Financial Crisis on FDI Inflows in India and Bangladesh

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ABSTRACT

The investment climate in India and Bangladesh has undoubtedly become friendlier and investing in these countries has been an attractive proposition today than in earlier years. According to A.T. Kearney’s FDI Confidence Index (2014) India ranks 7th on the basis of FDI inflows in the world while Bangladesh ranks 3rd among SAARC countries. The present analysis attempts to show that though the global financial crisis (2008) had adversely impacted the growth in GDP and employment opportunities and FDI flows throughout the world, India and Bangladesh both had shown considerable resilience to the global economic crisis by maintaining a high growth rate during this period in the world. It highlights the changes the policy regimes in the two countries. It also tries to examine empirically, using secondary time series data, the amount of FDI inflows, component-wise and sector-wise break-up in FDI inflows in both countries during the pre and post-crisis era, based on Exogenous Structural Break Model. The empirical analysis clearly reveals both FDI and FDI-GDP ratio exhibits stationary trend in India while they are difference stationary in case of Bangladesh. It also focuses on the crisis management policies in the two nations for smooth flow of FDI in the long run.

KEYWORDS

Crisis Management Policies, Exogenous Structural Break Analysis, FDI and FDI-GDP Ratio, FDI Flows, Foreign Investment Policy in India and Bangladesh, Global Crisis, Secondary Time-Series Data

INTRODUCTION

The global financial (2008) had adversely impacted the growth in GDP and employment opportunities throughout the world- both developed and developing economies. Though the global economic slowdown had its epicenter in the US, but the contagion is being witnessed in all major economies of the world. Unlike many other developing countries of the world, India and Bangladesh both had shown considerable resilience to the global economic crisis by maintaining a high growth rate during this period in the world. India recorded a growth rate of 4.9 percent in 2008, which was just half of the growth rate in 2007 (9.8 per cent). But it regained its position in 2009 and 2010 by achieving a GDP growth rate of 9.1 and 8.8 respectively. The government’s initial estimates for FY2014 show that economic growth accelerated to 7.4% (see Figure 1). After growing by 4.5% in FY2013, industry accelerated to 5.9% in FY2014, helped by a 6.8% expansion in manufacturing. Service sector growth rose to 10.6% in FY2014. Agriculture growth slipped to 1.1% in FY2014 largely because the monsoon was erratic, particularly affecting the summer crop.

Similarly, GDP growth rates in Bangladesh remained stable at an average of 6.1 percent during the period 2007 to 2010. In Bangladesh, economic growth in FY2014 (ended June 2014) is estimated at 6.1%, slightly improved from 6.0% in FY2013 (see Figure 1). Agriculture expanded by 3.3%, aided by good weather and continued government support. Industry growth slumped to 8.4% from 9.6% a year earlier, however, because political unrest before the parliamentary election in January
2014 disrupted the supply of materials and undermined consumer confidence. Services advanced by 5.8%, up slightly from 5.5% the year before, mainly on stronger trade in the second half of the year.

From the point of view of FDI flows, total FDI in India dipped by about 10 percent in 2009-10 compared to the earlier year 2008-09 (a fall from US$ 41873 million in 2008-09 to US$ 37745 million in 2009-10). In 2011-12 it increased by 34% as compared to its previous year 2010-11 but it again dropped by 26% in 2012-13. In 2013-14 it increased by about 6% compared to its previous year. In Bangladesh FDI in 2009-10 declined by about 5 percent compared to its previous year (total FDI fell from US$ 960.59 million in 2008-09 to US$ 913.02 million 2009-10). In recent times, in Bangladesh, total FDI inflows (net) reached to US$ 754.28 million during July-December, 2014 which was decreased by US$ 18.14 million or 2.35% compared to FDI inflows (net) during January-June, 2014 (US$ 772.42 million). While in January-June, 2014 FDI inflows (net) was increased by US$ 106.35 million or 15.97% compared to July-December, 2013 and a decrease of US$ 267.02 million or 28.62% during the July-December, 2013 compared to January-June, 2013.

In view of this, India continued to take steps to ensure an enabling business environment to improve India’s attractiveness as an investment destination and a global manufacturing hub. The investment climate in India has undoubtedly become friendlier and investing in India is a much more attractive proposition today than in earlier years. The Industrial Policy of 1991 and subsequent amendments provide a liberalized policy framework to attract FDI into the country. Beginning 2000, the government allowed foreign investment through automatic route in all industries for FDI/ NRI/ OCBs (Overseas Corporate Bodies) and this led to significant increase in FDI. Inbound investments in India during 2000-01 increased under automatic route. The total FDI inflows in India rose, from Rs. 122 billion in 2000 to Rs. 700 billion in 2010 (in constant prices Rs. 2004-05). While FDI has witnessed dramatic rise in the services sector, it has also increased significantly in the manufacturing sector. In more recent years, real FDI in India within manufacturing sector from top 10 investing countries has increased more than four times, from Rs. 46.3 billion in 2000 to Rs. 240.4 billion in 2010 (in constant prices 2004-05 prices).

The Inflow of FDI in Bangladesh ranks third among SAARC countries. Bangladesh GDP growth rate about 6per cent on an average over the last five years or so. The main FDI sectors are power and energy, manufacturing, telecommunications, agricultural, industrial and trade and

Figure 1. Supply-side contribution to growth. (Sources: Bangladesh Bureau of Statistics. 2014. Implementation: http://www.mospi.nic.in; Ministry of Statistics and Programme National Accounts Statistics. June; ADB estimates.)
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