MANOHAR PARRIKAR INSTITUTE FOR DEFENCE STUDIES AND ANALYSES
मनोहर पर्रिकर रक्षा अध्ययन एवं विश्लेषण संस्थान

MP-IDSA

Issue Brief

Bangladesh in Transition: Foreign Investments and Supply Chains

Akash Sahu

August 27, 2024

Summary

The Muhammad Yunus-led transition government in Bangladesh has its task cut out to bring targeted investments (including from foreign sources), and take measures to improve energy security, lessen dependence on imported fossil fuels, strengthen connectivity infrastructure, and create a favourable business environment.

Bangladesh is an important part of the regional supply chains in South Asia and the larger Indo-Pacific due to its manufacturing capabilities and strategic geography. The country witnessed considerable economic progress in the past two decades, especially in textile manufacturing and exports. It was the world's major textile exporter only second to China, and had a higher per capita income of US$ 2620 than India's at US$ 2500 in 2023.[1] This was a major feat as its per capita income crossed US$ 500 for the first time in 2006.

Economic troubles, however, derailed the country's growth story, and pushed it into socio-political upheaval. About one million or 25 per cent jobs were lost in Bangladesh's textile sector, which contributes to more than 80 per cent of its exports, during the time of COVID-19 as many factories were shut down. In 2022, the government stopped subsidising fuel, leading to a steep increase in fuel prices by as much as 50 per cent, eventually causing record high inflation of 9.52 per cent.[2]

Coupled with rising youth unemployment and very low wages, people found it increasingly difficult to make ends meet. The dismissive and authoritarian administration of Hasina turned out to be the tipping point in an already brewing cauldron of dissent among the Bangladeshis.

The Sheikh Hasina-led government collapsed on 5 August and an interim government with Nobel laureate Muhammad Yunus as the leader is in the saddle. With large-scale vandalism and violence since then, the security situation remains fragile. The Brief places in perspective foreign direct investments and Bangladesh's current status of integration with the global economy.

Foreign Direct Investments

In the fiscal year 2022–2023, the net FDI inflows in Bangladesh amounted to US$ 3.25 billion. In 2022, the total FDI stock in the country was reported to be US$ 21.1 billion.[3] It remains to be seen how the political instability will impact potential FDI inflows going forward. Foreign investments already began to decline in late 2023 to US$ 3 billion mark. Foreign exchange reserves fell from more than

[1] Ishan Gera, "**Shattered Glass: Broken and Bruised, Bangladesh Emerges Out of an Economic Mirage**", *Money Control,* 6 August 2024.

[2] Lauren Frayer, "**How Bangladesh Went From an Economic Miracle to Needing IMF Help**", *NPR*, 9 November 2024.

[3] "**Foreign Direct Investment (FDI) in Bangladesh**", Lloyds Bank, April 2024.

US$ 40 billion in 2021 to less than US$ 19 billion in mid-2024. The taka also fell by 35 per cent in value against the US dollar from 2022 to 2024.[4]

Country-wise Analysis

As of December 2023, the FDI stock of the top 10 foreign countries that have invested in Bangladesh is listed in Table 1. The FDI stock of the US and the UK is among the largest, and exceeds US$ 3 billion, while China (including Hong Kong) comes in at third with US$ 2.65 billion. The AUKUS countries have total FDI stock in Bangladesh amounting to US$ 7.63 billion, while Quad countries' FDI is at US$ 5.9 billion. Other notable countries apart from the top 10 with investments include Sri Lanka at US$ 403 million and Pakistan at US$ 196 million. India ranks 8th with FDI stock at US$ 782.2 million. As of 2023, the largest private sector creditors of Bangladesh come from China at US$ 3.97 billion, the UK at US$ 1.03 billion, the Netherlands at US$ 840 million, and the US at US$ 735 million.[5]

This shows that almost all major Asian economies, and some European economies, are heavily invested in Bangladesh. The US, the UK and China seem to be in a position of influence with the new interim government, given their considerable economic investments and debt with Bangladesh. The future of their investments also depends on whether the new government perceives the presence of these foreign countries as benevolent. While the US was not seen as favourable by the Hasina government due to its stance on democratic rights and elections,[6] the relationship with the UK seems to have been robust.[7] With a change of government in both London and Dhaka, it remains to be seen if that continues. There may be appetite in Washington as well to work with the new government and protect its economic interests.[8]

Bangladesh's relationship with China was about maximising economic gain without compromising on its strategic autonomy, and hedging between Beijing and New Delhi.[9] The interim government will have its task cut out as it pertains to maintaining relations with China as was done by the previous government. The relationship with

[4] Md Fazlur Rahman and Sukanta Haldar, "**FDI Slips But Stays Above $3b**", *The Daily Star*, 29 May 2024.

[5] "**Foreign Direct Investment and External Debt**", *Bangladesh Bank*, July–December 2023.

[6] Jannatul Naym Pieal, "**The Bad Blood Between Sheikh Hasina and the US**", *The Diplomat*, 13 August 2024.

[7] "**Boost to Bilateral Ties as UK Indo-Pacific Minister Visits Bangladesh**", British High Commission Dhaka, 7 May 2024.

[8] Geoffrey Macdonald, "**Bangladesh's Revolution Remains Unfinished**", United States Institute of Peace, 19 August 2024.

[9] Syed Munir Khasru, "**Why Bangladesh's India-China Balancing Act is Becoming Increasingly Difficult**", *Indian Express*, 12 July 2024.

India is tied to both its investments in the country as well as its unique geographical position with a 4,096 km long shared land border. Among the European countries, the Netherlands stands out as an important partner with large investments and credit to Bangladesh.

Table 1

	Country	**FDI Stock in billion US$ (As in December 2023)**
1.	United States	3.93
2.	United Kingdom	3.04
3.	China	2.65
4.	Singapore	1.55
5.	South Korea	1.49
6.	Netherlands	1.33
7.	Malaysia	0.85
8.	India	0.78
9.	Australia	0.65
10.	Japan	0.53

Source: "**Foreign Direct Investment and External Debt**", Bangladesh Bank, July–December, 2023, p. 87.

Sector-wise Analysis

At the end of 2023, 'Manufacturing' sector had the largest FDI stock at US$ 7.51 billion, with textiles having the largest share of US$ 4 billion. This is followed by 'Power, Gas, & Petroleum' at US$ 6.3 billion, with US$ 2.53 billion in power and US$ 3.76 billion in petroleum and gas. 'Trade & Commerce' had third largest FDI stock at US$ 3.8 billion, where banking had the largest share of US$ 2.7 billion. Telecommunications within the 'Transport, Storage & Communication' sector had FDI worth US$ 1.32 billion, while 'Agriculture' stood at US$ 325 million. FDI in 'Construction' was valued at US$ 294.5 million only, indicating limited foreign capital involved for infrastructure development. The construction sector received FDI for the first time only in 2009. Other sectors with low FDI include Information Technology with only US$ 98.6 million.

Power, Gas & Petroleum sector had the largest share of FDI in 2008. Substantial increase of FDI in Manufacturing indicates diversification of economy over the past one and a half decades, and underscores the role of foreign investment in the success of Bangladesh's textiles sector, where FDI grew by more than US$ 3 billion in the same time. Notably, the Hasina government had come to power in 2009.

Despite a large FDI share, the banking sector in Bangladesh is in a crisis.[10] It means that capacity building is required for good health of the Bangladeshi banking sector as the lack of capital doesn't seem to have been a problem. In fact, this anomaly suggests that allegations of widespread corruption in the banking sector may be true.

The largest share of FDI in textiles is from South Korea exceeding 25 per cent, whereas the US has largest share in gas & petroleum FDI with 75.9 per cent. The UK tops FDI in Banking sector with 58.5 per cent, while China tops FDI share in the power sector with 38.6 per cent. Malaysia is the largest investor in the telecommunications sector with over 47 per cent, followed by Norway's share exceeding 25 per cent and Singapore's share at 19 per cent. India's largest investments include US$ 183 million in the textile sector, US$ 203 million in the banking sector, and US$ 173.7 million in the power sector. India has no FDI in Bangladesh's telecommunications sector, despite domestic strength in that sector.[11] India's share in the construction sector is 1.24 per cent whereas China has a share of 18.27 per cent, and Japan leads with 22 per cent.[12]

The socio-political tensions today in Bangladesh are linked to economic troubles, as noted earlier. The energy sector is a major area of concern, as fuel price rise has caused soaring inflation, because of the country's acute dependence on imported fossil fuels.[13] FDI is needed in Bangladesh's renewable energy sector, which currently meets less than 5 per cent of the country's total energy demand. The government had set a target of meeting at least 40 per cent of energy demand through renewable sources by 2041. However, estimates suggest that it may be possible only with investments of US$ 1.71 billion to install 20,000 MW of renewable energy capacity.[14] Limited capital for infrastructure development is also a concern. Even after allocating US$ 3 billion annually for disaster management and adaptation, Bangladesh consistently loses around 2 per cent of GDP due to climate change.[15] There is a need for FDI in more specialised areas such as resilient infrastructure. It will increase

---

[10] Star Business Report, **"Crisis in Banks Deeper Than Anyone Could Imagine"**, *The Daily Star*, 15 August 2024.

[11] **"Indian Telecom Industry Analysis"**, India Brand Equity Foundation, July 2024.

[12] **"Foreign Direct Investment and External Debt"**, no. 5.

[13] Aaqib Md. Shatil, **"Renewing Bangladesh's Energy Transition"**, *East Asia Forum*, 19 August 2023.

[14] Ibid.

[15] Sudhir Muralidharan and Syed Munir Khasru, **"Bangladesh's Energy Transition Journey So Far"**, United Nations Bangladesh, 17 February 2024.

Bangladesh's attractiveness as an investment destination while boosting economic growth.

Some factors that favour Bangladesh for attracting FDI are its strategic position connecting South and Southeast Asia, government measures for ease-of-doing-business, and willingness to take necessary pro-investment measures. The interim government bears the responsibility to not undo the steps taken for creating a favourable business environment, and facilitate its improvement on advice of domain experts, especially with regard to overhauling and rejuvenating the banks and domestic credit systems. These efforts will help elevate Bangladesh's ranking in the economic indexes such as Global Innovation Index (105th out of 132), or the Index of Economic freedom (116th out of 184),[16] thereby boosting confidence among foreign investors.

Regional Supply Chains

By virtue of its geographic location, Bangladesh is a natural regional hub which connects South and Southeast Asia through land and oceans, which are primary modes of trade connectivity. It is also a manufacturing hub, making it an important centre for trade facilitation in South Asia. As part of the 'South Asian Association for Regional Cooperation', the 'Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation', and 'Bangladesh, Bhutan, India and Nepal Motor Vehicles Agreement', it is imbibed in the regional cooperation frameworks.[17]

The need to restructure supply chains has been felt increasingly to avoid dependence on China for critical minerals, raw material and industrial goods. The degree to which this restructuring can happen is still a matter of debate,[18] but efforts are underway nonetheless. The Bay of Bengal region is a suitable option for diversifying supply chains, however, only if key countries like Bangladesh remain stable.

The top destination countries for Bangladesh's exports are the US at 21.7 per cent, Germany at 13.3 per cent, and the UK at 5.9 per cent. Other notable export destinations, which are manufacturing hubs themselves, are China at 3.4 per cent, India at 3.1 per cent, and Japan at 3 per cent. In 2021, Bangladesh's trade-based total Global Value Chains (GVC) participation rate was 26.1 per cent, lower than the

[16] **"Foreign Direct Investment (FDI) in Bangladesh"**, no. 3.

[17] Shahidul Haque, **"The Role of Bangladesh in Sub-Regional Connectivity"**, Centre for Social and economic Progress, 14 February 2023.

[18] Charmaine Jacob, **"China is a 'Critical' Global Supplier, Full Decoupling May be Impossible, Survey Shows"**, *CNBC*, 17 May 2024.

world average of 46 per cent.[19] This indicates much lesser integration and value add to the regional supply chains by Bangladesh, and highlights the scope of increase in exports if the government invested efforts in strengthening GVC participation rate. This can be done by reducing tariffs, improving customs efficiency, developing infrastructure, improving skill and flexibility in the labour market.[20] Trade-based GVC participation for sectors in Bangladesh shows decline in important sectors like food and beverages, finance, health and transport services. The readymade garments sector is critical to Bangladesh’s exports, and it suffered heavily as orders were suspended after COVID-19.[21]

With the current political crisis, many factories have shut operations leading to a supply crunch for large apparel brands relying on Bangladesh for imports.[22] These companies may diversify their sourcing away from Bangladesh, which will be catastrophic for its textile industry that is the main driver of the Bangladeshi economy.

The Road Ahead

The significance of Bangladesh as a potential manufacturing hub in South Asia to decouple from China cannot be overstated.[23] The role of regional powers like India and Japan will be important. Bilateral trade between India and Bangladesh stood at US$ 15.9 billion in 2023, and Akhaura-Agartala cross-border rail, Khulna-Mongla Port rail and Maitree Super Thermal Power Plant are some notable bilateral projects. India–Bangladesh Friendship Pipeline carries diesel from India, and ONGC Videsh Limited is involved in off-shore oil exploration. India has extended four Lines of Credit in the past eight years of around US$ 8 billion for infrastructure projects.[24]

Meanwhile, Japan has earmarked US$ 350 million as special loans for setting up of an Economic Zone (EZ) at Araihazar near Dhaka. It will supposedly attract Japanese

[19] “**Transforming Bangladesh’s Participation in Trade and Global Value Chains**”, Asian Development Bank and Islamic Development Bank Institute, May 2023.

[20] Sabyasachi Mitra, Abhijit Sen Gupta and Atul Sanganeria, “**Drivers and Benefits of Enhancing Participation in Global Value Chains**”, *Asian Development Bank South Asia Working Paper Series*, No. 79, December 2020.

[21] “**Transforming Bangladesh’s Participation in Trade and Global Value Chains**”, no. 19.

[22] “**Crisis in Bangladesh: A Turning Point for Global Apparel Supply Chains**”, *Fibre2Fashion*, 14 August 2024.

[23] Riya Sinha and Niara Sareen, “**South Asia Must Now Build Resilient Supply Chains**”, *Hindustan Times*, 9 June 2020.

[24] “**India-Bangladesh Bilateral Relations**”, Ministry of External Affairs, Government of India, February 2024.

investment of about US$ 20 billion in the coming years.[25] The bilateral trade between the two countries was US$ 4.1 billion in 2023.[26] Given Japan’s strong record of assistance in the development of infrastructure projects, Tokyo can be helpful in ensuring that Bangladesh continues to make strides in manufacturing. The development of the country’s ports, and modernising main ports of Chattogram and Mongla, can be a major step in amplifying export-import traffic through the sea routes.[27]

India can help streamline diplomatic processes of the new regime with its close partners like the US, Japan, Germany and the Netherlands, which have substantial investments in Bangladesh, and are linked to the Bangladeshi economy through trade and credit. But this can happen only after assurance from Dhaka that their own bilateral relationship will remain unaffected by this major reshuffle of power in Bangladesh, notwithstanding some minor changes.

Bangladesh Investment Development Authority is the principal agency for investment promotion. Bangladesh Hi-Tech Park Authority has commissioned setting up of 28 technology and IT parks, while Bangladesh Economic Zones Authorities is developing the Bangabandhu Sheikh Mujib Shilpa Nagar, which will be a mega industrial hub in the Mrisarai, Sitakundu and Sonagazi provinces. Like the EZ being built with Japanese assistance, two other SEZs are being developed with Indian assistance at Kustia and Mongla. A Chinese Economic and Industrial Zone is under development in Anwara.[28]

The success of Bangladesh’s textile sector can be replicated in other sectors as well. But that would require the new government to bring targeted investment (including from foreign sources), and take measures like improving energy security, lessening dependence on imported fossil fuels, strengthening connectivity infrastructure, and creating a favourable business environment.

---

[25] Melissa Cyrill and Yashoda Kapur, **“Diversifying Your Asia Supply Chain: What Does Bangladesh Have to Offer?”**, *India Briefing, Dezan Shira & Associates*, 2 June 2021.

[26] **“Trade, Commerce and Investment”**, Embassy of the People’s Republic of Bangladesh in Tokyo.

[27] Sohini Bose, **“Bangladesh's Seaports: Securing Domestic and Regional Economic Interests”**, Observer Research Foundation, 10 January 2023.

[28] **“Trade and Investment Opportunities in Bangladesh”**, High Commission for the People’s Republic of Bangladesh in Canberra.

About the Author

Mr. Akash Sahu is Research Analyst at the Manohar Parrikar Institute for Defence Studies and Analyses, New Delhi.

Manohar Parrikar Institute for Defence Studies and Analyses is a non-partisan, autonomous body dedicated to objective research and policy relevant studies on all aspects of defence and security. Its mission is to promote national and international security through the generation and dissemination of knowledge on defence and security-related issues.

Manohar Parrikar Institute for Defence Studies and Analyses
1, Development Enclave, Rao Tula Ram Marg
New Delhi 110 010 India
T +91-11-2671 7983 F +91-11-2615 4191
www.idsa.in
Twitter @IDSAIndia
www.facebook.com/ManoharParrikarInstituteforDefenceStudiesAnalyses