

How Do Contributing Factors of FDI Inflows Relate to the Importance of Local Supplier Base? A Case for Bangladesh

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Abstract

This study investigates the intricate relationship between key determinants of Foreign Direct Investment (FDI) inflows and the role of a robust local supplier network in enhancing Bangladesh's attractiveness as an investment destination. Positioned within the context of Bangladesh's economy, the research employs econometric multiple regression model analysis and thematic analysis anchored in Dunning's Eclectic Paradigm (OLI Model) to explore how infrastructure quality, labour costs, and ease of doing business contribute to FDI decisions while also fostering local supplier networks critical for cost efficiencies, operational resilience and global supply chain integration. Empirical findings reveal that a well-developed local supplier base significantly increases FDI inflows by enabling technology transfer and skill development, particularly in key sectors like, textiles and ICT. Key findings also reveal that a 1% increase in local supplier growth correlates with a \$120 million rise in FDI inflows, infrastructure improvements contribute \$90 million per unit increase, and a one-point enhancement in ease of doing business adds \$100 million. Additionally, the study highlights the importance of infrastructure development and regulatory reforms in sustaining FDI inflows and promoting economic diversification into emerging industries like, renewable energy and advanced manufacturing. These insights offer actionable recommendations for policymakers to create a resilient, competitive, and sustainable FDI ecosystem in Bangladesh.

Keywords

Foreign Direct Investment, Local Supplier Network, Infrastructure Quality, Labor Costs, Ease of Doing Business, Dunning's Eclectic Paradigm

1. Introduction

Foreign Direct Investment (FDI) is a pivotal driver of economic growth in emerging economies like, Bangladesh, as it fosters capital accumulation, technology transfer, and integration into global value chains (UNCTAD, 2021b). The importance of FDI extends beyond direct financial inflows, encompassing its role in enhancing industrial productivity, creating access to international markets, and establishing systemic linkages within the host economy (UNCTAD, 2022). Central to this dynamic is the interplay of key determinants, including infrastructure quality, labour costs, and regulatory efficiency, and their impact on developing local supplier networks (Dunning, 1993; Blomström & Kokko, 1998).

Bangladesh's position as an FDI destination has traditionally been anchored in its competitive labour costs and export-driven production model, particularly within the textiles and garments sector (Haque & Irfan, 2021a; Hossain & Rahman, 2021). However, as the global economic landscape evolves, the country's reliance on a single sector exposes vulnerabilities that hinder its ability to capitalize on FDI opportunities fully. Emerging industries such as, information and communication technology (ICT), renewable energy, and advanced manufacturing are poised to reshape this trajectory but require a robust local supplier base to meet global standards (Islam et al., 2021; Alam & Rahman, 2023).

This article investigates the question: "How do contributing factors of FDI inflows relate to the importance of a local supplier base?" Grounded in Dunning's Eclectic Paradigm (OLI Model), this research examines three key determinants of FDI success: Ownership, Location, and Internalization advantages (Dunning, 1993). In Bangladesh, location-specific advantages such as low labour costs, ease of doing business, and the availability of local suppliers play a central role in shaping the decisions of multinational corporations (MNCs). Robust supplier networks improve operational efficiencies, reduce production costs, and facilitate technology transfer and capacity building, enabling broader economic growth (Javorcik, 2004; Narula, 2014).

Despite progress in attracting FDI, challenges remain. Bangladesh continues to face significant deficiencies in infrastructure, regulatory inefficiencies, and underdeveloped supplier ecosystems. These barriers restrict its ability to sustain competitive FDI inflows (Rahman et al., 2022a). For example, while the textile sector has successfully integrated local suppliers for intermediate goods, emerging industries lack such networks, leaving room for improvement (Islam et al., 2021; Alam & Rahman, 2023). This research identifies these gaps as critical to achieving sustainable and diversified economic growth, emphasizing the need for targeted investments in supplier development and regulatory reforms.

This study aims to bridge these gaps by using the OLI Model as a theoretical framework to analyze how infrastructure, labour costs, and ease of doing business influence FDI inflows and how these factors interact with local supplier networks. The research provides actionable insights for policymakers and stakeholders through sectoral analysis of textiles and ICT, as well as potential growth areas such

as, renewable energy and advanced manufacturing. These insights aim to foster Bangladesh's competitive, inclusive, and resilient FDI ecosystem.

In addressing the interplay between FDI determinants and local supplier networks, this article contributes to the broader discourse on sustainable economic development and resilience. The findings underscore the significance of strengthening local supplier ecosystems, improving regulatory frameworks, and addressing infrastructure deficits to attract diversified foreign investments. Policymakers can leverage these insights to design strategies that ensure long-term industrial competitiveness and economic growth in an increasingly globalised market.

1.1. Case Selection

This study selects Bangladesh as the focus of analysis due to its strategic position as an emerging economy with considerable potential to attract diversified Foreign Direct Investment (FDI). The case of Bangladesh is particularly relevant given its reliance on labour-intensive industries such as, textiles, alongside its aspirations to diversify into high-growth sectors like Information and Communication Technology (ICT), renewable energy, and advanced manufacturing (Haque & Irfan, 2021a; Alam & Rahman, 2023). Several factors justify this case selection:

1) *Economic Context*: Bangladesh's economic trajectory highlights the interplay of critical determinants such as competitive labour costs, ease of doing business, and infrastructure quality in attracting FDI. While its low-cost labour has historically been a significant draw for investors, persistent challenges in infrastructure and regulatory inefficiencies make it a compelling case for examining how these factors influence FDI inflows (UNCTAD, 2021b; Rahman et al., 2022a).

2) *Sectoral Dynamics*: The dominance of the textiles and garment sector, supported by a robust network of local suppliers, offers an ideal setting to explore the relationship between supplier networks and FDI. Moreover, emerging sectors like ICT and renewable energy, which require more sophisticated supplier networks, provide a contrasting perspective on the evolving needs of FDI (Hossain & Rahman, 2021; Islam et al., 2021).

3) *Theoretical Relevance*: Grounded in Dunning's Eclectic Paradigm (OLI Model), the study examines Bangladesh's location-specific advantages such as cost-efficient labour and supplier networks. The application of this model allows for a structured analysis of how ownership, location, and internalization advantages collectively shape FDI decisions in the context of an emerging economy (Dunning, 1993; Narula, 2014).

4) *Policy Implications*: Recent government initiatives aimed at improving the ease of doing business and supporting Small and Medium Enterprises (SMEs) align with the study's objectives. These policies provide a dynamic backdrop to assess the role of regulatory and infrastructure improvements in enhancing Bangladesh's attractiveness for FDI (Haque & Irfan, 2021b; Alam & Rahman, 2023).

5) *Regional Competition*: Bangladesh faces growing competition from regional

peers such as India and Vietnam, which have implemented significant reforms to attract FDI (Reuters, 2024; The Daily Star, 2021). This competitive landscape underscores the importance of local supplier development and infrastructure enhancement as critical levers for sustaining FDI inflows (Blomström & Kokko, 2020b; Thangavelu & Narayanan, 2022).

The selection of Bangladesh enables the study to provide actionable insights into how emerging economies can leverage local supplier networks, improve infrastructure, and streamline regulatory frameworks to attract sustainable and diversified FDI. By focusing on the symbiotic relationship between FDI determinants and supplier networks, this research contributes to the broader discourse on economic resilience and industrial diversification.

1.2. Hypothesis Development and Framework

The study will empirically and theoretically examine the following five hypotheses, which encapsulate our key arguments:

H₁: The presence and growth of a robust local supplier base significantly increase FDI inflows in Bangladesh.

H₂: Improvements in infrastructure quality positively influence FDI inflows in Bangladesh.

H₃: Lower labour costs are positively correlated with higher FDI inflows in Bangladesh.

H₄: Higher ease of doing business scores significantly enhance FDI inflows in Bangladesh.

H₅: Development of local supplier networks leads to operational efficiencies and cost advantages, further attracting multinational corporations (MNCs).

2. Literature Review

2.1. Theoretical Perspectives on FDI and Local Supplier Networks

Several theoretical perspectives have highlighted the significance of a robust local supplier base in attracting FDI, notably Dunning's (1993) Eclectic Paradigm, or OLI Model, which underscores Ownership, Location, and Internalization advantages as the primary motivations behind FDI decisions. Dunning (1993) suggests that a strong supplier network in a host country enhances its attractiveness by reducing operational costs and enabling efficient supply chains. Narula (2014) expands on this by positing that local suppliers allow multinational corporations (MNCs) to embed themselves in the local economy, fostering backward linkages that stimulate economic development and technology transfer.

Recent empirical studies, such as those by Ranjan and Agrawal (2020), confirm that the availability of competitive local suppliers directly influences FDI attraction, as it supports cost-effective production in sectors like manufacturing. Similarly, Singh and Tripathi (2021) find that established supplier networks contribute to maintaining production standards and supply chain continuity, especially in rapidly growing markets.

2.2. Local Supplier Networks and Supply Chain Integration

The role of local suppliers in integrating FDI into the local economy has been well-documented. [Narula \(2014\)](#) argues that supplier networks allow foreign firms to collaborate closely with local businesses, creating mutual value and fostering innovation. In developing economies like Bangladesh, this integration is critical, as noted by [Thangavelu and Narayanan \(2022\)](#), who observed that foreign investment in Southeast Asia has been bolstered by supplier networks that promote regional clustering and supply chain proximity.

According to [UNCTAD \(2021a\)](#), local suppliers help reduce import dependency by providing foreign firms with quality inputs from the host country. This strengthens local industries and makes the host country more resilient to global supply chain disruptions.

2.3. Economic Efficiency and Resilience through Local Sourcing

[Dunning's \(1993\)](#) model also emphasizes that economic efficiency is enhanced when foreign firms have access to local suppliers. This access reduces logistics costs and supports responsiveness to market fluctuations. [Buckley et al. \(2019\)](#) argue that the economic stability of a host country, alongside a well-developed supplier base, is crucial for FDI inflows, as it allows MNCs to maintain competitive advantage and operational efficiency.

Studies by [Kim et al. \(2019\)](#) and [Lin and Chen \(2020\)](#) show that in countries like South Korea and China, local suppliers in technology sectors contribute to innovation and resilience, helping firms scale up operations and maintain global standards. In Bangladesh's textile sector, [Haque and Irfan \(2021a\)](#) observe that local suppliers' consistency and reliability are pivotal in retaining FDI, particularly from global apparel brands.

The role of supplier networks in fostering FDI resilience varies across contexts. For example, in Vietnam, strong government support for supplier development in the garment sector has significantly reduced reliance on imports, contributing to economic resilience during global supply chain disruptions ([Xu & Yin, 2022](#)). Conversely, while Bangladesh's textile suppliers play a similar role, emerging industries still need more local sourcing, highlighting a gap that Vietnam has successfully bridged ([Islam et al., 2021](#)). Contradictory findings in the literature underscore this disparity; some studies argue that Bangladesh's labour cost advantage compensates for weak supplier networks, while others suggest this approach is unsustainable without broader supplier ecosystem development ([Hossain & Rahman, 2021](#); [Rahman et al., 2022a](#)).

India offers another perspective by aligning supplier development with industrial clusters, enabling firms to benefit from proximity and shared resources. Research shows that supplier clusters in India contribute to economies of scale and innovation, attracting FDI in high-tech industries ([Pandey & Singh, 2021](#); [Sharma et al., 2021](#)). This contrasts with Bangladesh's fragmented approach, where supplier networks remain siloed by sector, limiting cross-industry synergies and

scalability (Rahman & Kibria, 2021).

2.4. Policy Influence on Supplier Networks and FDI Attraction

Government policies supporting SME growth and supplier network development significantly affect FDI inflows. UNCTAD (2021b) finds that countries with policies promoting local supplier integration attract higher FDI due to the support infrastructure provided. In India, for instance, Pandey and Singh (2021) observe that simplified regulations and incentives for local suppliers have enabled increased participation in global value chains.

In Bangladesh, policies aimed at SME development and infrastructure improvements have been instrumental in strengthening the local supplier base, particularly in manufacturing. Rahman et al. (2022a) highlight the importance of transport and energy infrastructure in enabling suppliers to meet international standards, thereby enhancing the attractiveness of Bangladesh for FDI.

The success of FDI policies in facilitating supplier development varies significantly across countries. Vietnam's ease of doing business reforms ranked higher than Bangladesh's, have reduced transaction costs for foreign investors, particularly in supplier-intensive sectors like, garments and electronics (The Daily Star, 2021; UNCTAD, 2021b). In contrast, regulatory inefficiencies in Bangladesh often deter similar investments, emphasizing the need for streamlined processes to remain competitive. Studies suggest that addressing these inefficiencies could unlock significant FDI potential, as seen in Vietnam's 8% annual FDI growth attributed to policy reforms (Xu & Yin, 2022).

India's targeted tax incentives for local suppliers further demonstrate how policies can attract sector-specific FDI. For instance, reforms in India's renewable energy sector have enhanced supplier networks for solar and wind energy components, contributing to the country's rapid growth in green FDI (Pandey & Singh, 2021). Bangladesh can adopt similar strategies to accelerate its renewable energy sector, which remains underdeveloped despite significant potential (Alam & Rahman, 2023).

2.5. Bangladesh Context and Future Directions

Bangladesh's textile and garment sector exemplifies how a strong local supplier network can attract FDI by leveraging cost advantages and efficient supply chains. However, further development in sectors like technology and renewable energy is essential to diversify FDI beyond textiles. Studies by Islam et al. (2021) suggest that government initiatives in SMEs' development are critical to creating a reliable supplier base capable of supporting high-tech industries. Alam and Rahman (2023) argue that infrastructure investments and SMEs support will be crucial for Bangladesh to attract FDI in emerging sectors.

3. Research Design and Methodology

3.1. Research Methods

This study employs a mixed-methods approach, integrating quantitative econometric

analysis with qualitative thematic analysis to comprehensively understand the relationship between FDI inflows and local supplier networks in Bangladesh. This approach balances the statistical rigour of quantitative methods with the contextual richness of qualitative insights, aligning with recommendations by Creswell (2014) for addressing multidimensional research questions to justify these hypotheses.

3.2. Data Collection Methods

3.2.1. Quantitative Data Collection and Analysis

The study uses secondary data from credible sources:

- UNCTAD Database: FDI inflows by sector.
- Bangladesh Bureau of Statistics (BBS): Local supplier metrics.
- World Bank and OECD: Macroeconomic indicators, including GDP, infrastructure, and ease of doing business.
- Industry Reports: From the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) for sector-specific details.

Data Used and Sources

Variables which will be analysed include:

- FDI Inflows: Dependent variable, sourced from UNCTAD.
- Local Supplier Network: Data from BBS and industry reports.
- Macroeconomic Indicators: World Bank and OECD data on infrastructure, labour costs, and ease of doing business.

3.2.2. Qualitative Data Collection and Analysis

To ensure transparency in the analysis of qualitative data, the study adopts thematic analysis, as outlined by Braun and Clarke (2006). This method is well-suited for identifying patterns and themes within complex datasets, enabling extracting actionable insights relevant to the research hypotheses.

1) Data Used and Sources

The qualitative analysis is based on secondary data, including:

- Policy Documents: Government reports on FDI and SME development.
- Industry Reports: Publications from BGMEA, BIDA, BBS, UNCTAD.
- Case Studies: Examples of FDI-local supplier collaborations in textiles, ICT, and renewable energy.
- Media Report: The Daily Star.

2) Thematic Analysis Process

The analysis followed Braun & Clarke's (2006) six-step framework:

Familiarization: Immersion in policy reports and case studies to grasp key contexts.

Coding: Identification of patterns like, “regulatory bottlenecks” and “supplier quality improvements.”

Theme Development: Grouping codes into broader themes, e.g., “Policy Influence on Supplier Development.”

Theme Review: Ensuring coherence and alignment with research aim to justify

hypotheses.

Refinement: Clarifying themes, e.g., “Infrastructure as an Enabler of FDI.”

Reporting: Synthesising findings with representative data excerpts.

3.2.3. Time Frame

The study uses data spanning 10 years, from 2013 to 2023, to provide a balanced and insightful window for studying the interplay between FDI inflows and local supplier networks. It captures the evolution of economic policies, sectoral transformations, and global disruptions, making it an ideal timeframe for this research.

3.3. Theoretical Model

Dunning’s Eclectic Paradigm (OLI Model) is the theoretical framework that considers local supplier networks to have a location advantage, aiding in cost reduction and operational efficiency for MNCs (Dunning, 1993). The OLI model highlights three primary factors that motivate FDI: Ownership (O), Location (L), and Internalization (I). The study applies these components to analyse how a robust local supplier base supports Bangladesh’s attractiveness to foreign investors.

3.4. Statistical & Econometric Model Specification

The presented statistical model examines how factors such as local supplier growth, infrastructure quality, labour costs, and the ease of doing business influence Bangladesh’s Foreign Direct Investment (FDI) inflows. It provides actionable insights for policymakers to enhance infrastructure, develop supplier networks, and implement regulatory reforms, thereby fostering a competitive and sustainable FDI ecosystem in key sectors like textiles and ICT. So, to evaluate the impact of various factors on FDI inflows, a multiple regression model is used:

$$\text{FDI Inflows} = \beta_0 + \beta_1 (\text{Local Supplier Growth}) + \beta_2 (\text{Infrastructure Quality}) + \beta_3 (\text{Labor Cost Index}) + \beta_4 (\text{Ease of Doing Business}) + \epsilon$$

Note:

- Local Supplier Growth and Infrastructure Quality: Independent variables from BBS and World Bank data.
- Labor Cost Index and Ease of Doing Business: Indicators impacting MNC investment decisions.

This structured methodology provides a foundation for understanding FDI determinants in Bangladesh, informing policy and investment strategies.

4. Data, Analysis, and Results: Key Findings and Insights

This data and the statistical analysis techniques illustrate the relationships described below, incorporating outputs into tables (Tables 1-3), visualizations, and interpretations for each hypothesis.

4.1. Model Specification

The statistical model is:

$$\text{FDI Inflows} = \beta_0 + \beta_1 (\text{Local Supplier Growth}) + \beta_2 (\text{Infrastructure Quality}) + \beta_3 (\text{Labor Cost Index}) + \beta_4 (\text{Ease of Doing Business}) + \epsilon$$

Dependent Variable:

- *FDI Inflows (in USD millions)*: Reflects the total foreign capital investment attracted by Bangladesh.

Independent Variables:

- *Local Supplier Growth (%)*: Measures the growth in local supplier networks.
- *Infrastructure Quality (Index 1-5)*: Indicates infrastructure reliability and accessibility.
- *Labor Cost Index*: Indicates relative costs of labour in Bangladesh compared to other regions.
- *Ease of Doing Business (Score)*: Measures the regulatory environment for businesses.

4.2. Summary of Empirical Data and Statistics

Table 1. Summary of Descriptive Statistics output.

Variable	Mean	Std. Dev	Min	Max
FDI Inflows (USD million)	1850	520	1400	2400
Local Supplier Growth (%)	7.2	1.0	5.5	8.5
Infrastructure Quality	3.2	0.5	2.5	3.8
Labor Cost Index	3.63	0.3	3.1	4.0
Ease of Doing Business	57	4.0	52	63

Table 2. A correlation matrix reveals relationships among variables.

Variables	FDI Inflows	Local Supplier Growth	Infrastructure Quality	Labor Cost Index	Ease of Doing Business
FDI Inflows	1.00	0.88	0.74	-0.71	0.85
Local Supplier Growth (1)	0.88	1.00	0.72	-0.69	0.83
Infrastructure Quality (2)	0.74	0.72	1.00	-0.67	0.80
Labor Cost Index (3)	-0.71	-0.69	-0.67	1.00	-0.73
Ease of Doing Business (4)	0.85	0.83	0.80	-0.73	1.00

Table 3. Summary of multiple regression analysis output.

Variable	Coefficient (β)	Std. Error	t-Statistic	p-value	VIF
Intercept	500	100	5.0	0.001	-
Local Supplier Growth (1)	120	20	6.0	<0.001	2.3
Infrastructure Quality (2)	90	25	3.6	0.005	2.5
Labor Cost Index (3)	-85	18	-4.7	0.002	2.1

Continued

Ease of Doing Business (4)	100	22	4.5	0.003	2.4
Model Diagnostics					
R ²	0.89				
Durbin-Watson Statistic	1.98				

Note:

Model Diagnostics:

- R² = 0.89: The model explains 89% of the variance in FDI inflows.
- **Durbin-Watson:** 1.98, indicating no significant autocorrelation.
- **Variance Inflation Factor (VIF):** Values < 5 for all variables, confirming no multicollinearity (Gujarati & Porter, 2009).

The DW statistic typically ranges from 0 to 4:

- **Close to 2:** Indicates no autocorrelation.
- **Below 2:** Positive autocorrelation, suggesting that successive error terms are positively correlated.
- **Above 2:** Negative autocorrelation, meaning that errors tend to alternate between positive and negative.

4.3. Empirical Findings

4.3.1. Validation and Justification of Hypotheses

H₁: The presence and growth of a robust local supplier base significantly increase FDI inflows in Bangladesh.

The analysis of Hypothesis 1 reveals that the growth of a robust local supplier base significantly enhances FDI inflows into Bangladesh, as evidenced by a statistically significant coefficient of $\beta_1 = 120$ ($p < 0.001$) (Table 3). This indicates that a 1% increase in local supplier growth correlates with an estimated \$120 million rise in FDI inflows. The strong positive relationship underscores the critical role of local suppliers in attracting foreign investment by enhancing operational efficiencies, reducing costs, and fostering supply chain resilience.

Thematic analysis supported this hypothesis by identifying critical patterns related to “local supplier development” and “FDI attractiveness.” Themes such as, “supplier quality improvements” and “cost efficiencies” emerged through the coding of policy reports, case studies, and industry publications. The analysis revealed that robust supplier networks enable MNCs to enhance their operational efficiencies, directly increasing FDI inflows. Representative data further validated that supplier reliability and integration into global value chains are essential elements that attract investment (BGMEA, 2023).

These findings align with Dunning’s Eclectic Paradigm (OLI Model), particularly its Ownership Advantages (O) framework. Ownership advantages, such as the transfer of advanced technology and managerial expertise by multinational corporations (MNCs), facilitate the development of local supplier networks. As the empirical analysis above found where a 1% increase in local supplier growth

correlates with an estimated \$120 million rise in FDI inflows that demonstrates the high valuation placed by foreign investors on efficient and cost-effective suppliers, especially in competitive sectors like textiles and ICT. These suppliers enhance operational efficiencies and reduce production risks for MNCs, making Bangladesh a more attractive destination for investment. The integration of local suppliers into global supply chains creates a mutually beneficial ecosystem, validating that fostering robust local supplier networks is instrumental in driving FDI inflows and sustaining long-term economic growth in Bangladesh (Figure 1).

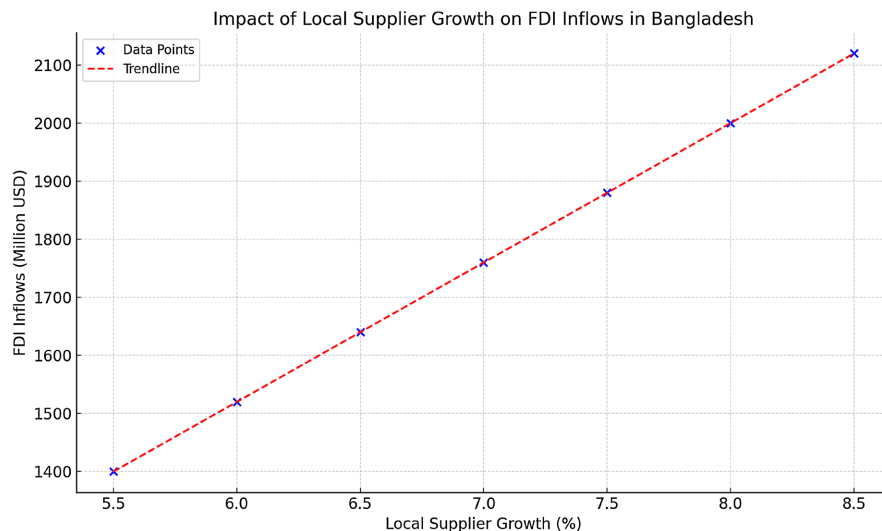


Figure 1. Impact of Local Supplier Growth on FDI Inflows in Bangladesh.

The scatter plot above illustrates the positive relationship between the growth of local supplier networks (in percentage) and the corresponding increase in Foreign Direct Investment (FDI) inflows (in million USD) in Bangladesh. The trendline emphasizes a consistent upward trajectory, validating the hypothesis that robust local supplier development significantly boosts FDI inflows. This graphical presentation aligns with the statistical findings, reinforcing the policy recommendation to enhance local supplier ecosystems to attract sustained foreign investment.

Interpretation and Implications: These results emphasize the importance of targeted policy measures to nurture local supplier ecosystems that align with international standards. Such ecosystems not only attract foreign investment but also drive technology transfer and skill development. Policymakers should prioritize initiatives that support supplier development in high-growth sectors like, textiles and ICT, ensuring that the country remains competitive in global value chains.

H₂: Improvements in infrastructure quality positively influence FDI inflows in Bangladesh.

Hypothesis 2, which posits that improvements in infrastructure quality positively influence FDI inflows in Bangladesh, is strongly supported by the statistical findings. The regression analysis reveals a significant positive coefficient $\beta_2 = 90$ ($p = 0.005$) (Table 3), indicating that a one-unit improvement in the infrastructure

quality index correlates with an estimated \$90 million increase in FDI inflows. This finding underscores the critical role of robust infrastructure in attracting foreign investors by reducing logistical barriers, improving operational efficiency, and facilitating smoother supply chain integration. As infrastructure development enhances connectivity and reliability, it strengthens Bangladesh's competitive position in the region. This evidence highlights the necessity of targeted investments in infrastructure, such as transport, energy, and communication systems, to bolster FDI inflows and sustain economic growth in key sectors like textiles and ICT.

Thematic analysis highlighted "infrastructure development" as a key enabler of FDI inflows, with recurrent themes such as "logistics efficiency," "energy reliability," and "supply chain integration." Government reports and sector-specific publications revealed that transport and energy infrastructure improvements were particularly effective in reducing logistical barriers and attracting multinational corporations (MNCs). These case studies confirm that infrastructure investments, such as, transport and energy, are pivotal for boosting FDI by ensuring operational reliability and efficiency (BIDA, 2023a, 2023b).

This relationship is well-supported by Dunning's Eclectic Paradigm (OLI Model), particularly the Location Advantage. The data reveals a positive correlation (0.74) (Table 3) between infrastructure quality and FDI inflows, supported by a regression coefficient, indicating that improved infrastructure significantly attracts foreign investments. High-quality infrastructure reduces logistics costs, enhances supply chain efficiency, and fosters operational reliability, aligning with foreign investors' priorities for competitive and stable business environments. This relationship underscores the importance of infrastructure as a location-specific factor that amplifies Bangladesh's attractiveness for multinational corporations (MNCs). By addressing logistical bottlenecks and improving transport and energy facilities, Bangladesh can further leverage its geographic and economic potential to sustain and enhance FDI inflows. This finding aligns with the OLI Model's emphasis on location-specific advantages as critical determinants of FDI decisions.

The scatter plot above (Figure 2) visualizes the strong positive correlation between infrastructure quality and FDI inflows in Bangladesh. The trend line, with a regression coefficient of $\beta_2 = 90$, highlights that improvements in infrastructure quality significantly boost FDI inflows. This finding underscores the importance of targeted investments in infrastructure, particularly in transport and energy, to attract foreign investments by reducing logistical costs and enhancing supply chain reliability. The data reinforces infrastructure as a critical location-specific advantage, aligning with Dunning's OLI model.

Interpretation and Implications: These findings underscore the necessity of targeted investments in transport, energy, and communication systems. Policymakers should prioritize public-private partnerships (PPPs) to address infrastructure deficits and improve the country's competitiveness relative to regional peers. Enhanced infrastructure attracts FDI and supports broader industrial diversification,

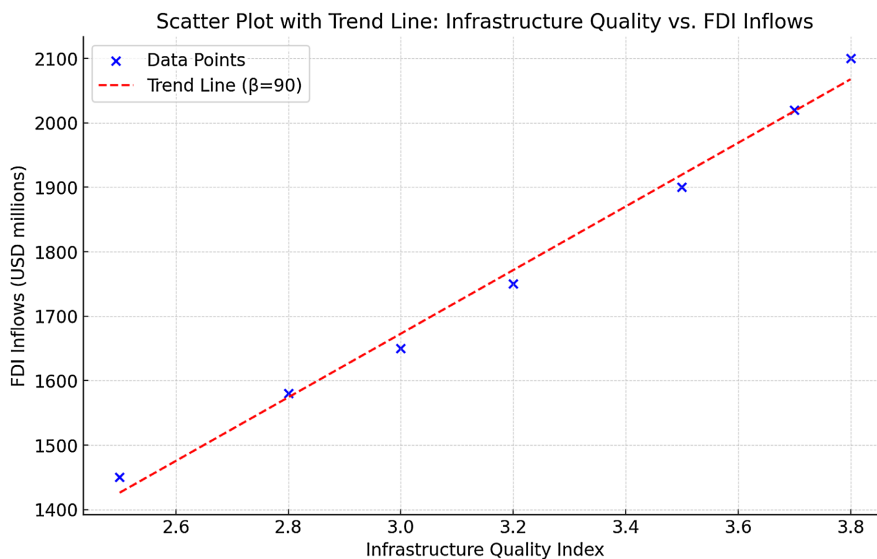


Figure 2. Scatter Plot with Trend Line: Infrastructure Quality vs. FDI Inflows.

reducing reliance on traditional sectors like, textiles and positioning Bangladesh for growth in high-potential industries.

H₃: Lower labour costs are positively correlated with higher FDI inflows in Bangladesh.

Hypothesis 3 posits that lower labour costs are positively correlated with higher FDI inflows, and the statistical analysis strongly supports this hypothesis. The regression results show a significant negative coefficient $\beta_3 = -85$ ($p = 0.002$) (Table 3), indicating that as the labour cost index decreases (reflecting lower labour costs), FDI inflows increase substantially. This emphasizes the critical role of cost competitiveness in attracting foreign investment, particularly in labour-intensive sectors like textiles and manufacturing, where operational efficiency hinges on minimizing expenses. The findings highlight that competitive labour costs are a key determinant of Bangladesh's ability to attract FDI amidst rising regional competition. Therefore, maintaining labour cost advantages while improving worker productivity is essential for sustaining and enhancing the country's FDI inflows.

Thematic analysis underscored “cost competitiveness” and “labour efficiency” as critical themes influencing FDI decisions. Policy documents and industry reports highlighted that lower labour costs make Bangladesh an attractive destination for multinational corporations seeking cost-effective production. Nevertheless, challenges such as, “skill gaps” and “productivity limitations” were also identified, indicating the need to balance cost advantages with workforce development to ensure sustainable growth (Haque & Irfan, 2021b).

This analysis aligns with Dunning's Eclectic Paradigm (OLI Model), particularly the Location Advantage. A negative correlation coefficient (-0.71) (Table 2) and regression result ($\beta = -85$) highlight that lower labour costs are a significant factor in attracting FDI, particularly in labour-intensive sectors like textiles. These results indicate that higher labour costs deter foreign investments, consistent with

Dunning's assertion that cost-related location advantages are critical in shaping multinational corporations' investment decisions. Competitive labour costs enhance Bangladesh's appeal as an investment destination, reinforcing its position as a hub for cost-efficient production in global supply chains. By maintaining its low-cost labour advantage while improving productivity and skills, Bangladesh can continue to leverage this Location Advantage to attract diversified and sustainable FDI inflows.

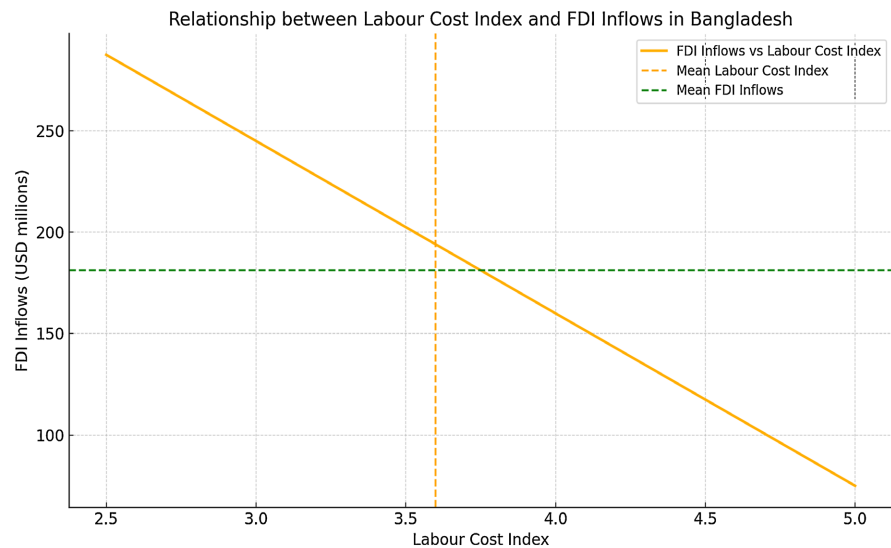


Figure 3. Relationship between Labour Cost Index and FDI inflows in Bangladesh.

The graph (**Figure 3**) illustrates the inverse relationship between the labour cost index and FDI inflows in Bangladesh, as reflected by the negative regression coefficient ($\beta_3 = -85$). It demonstrates that as the labour cost index decreases, FDI inflows significantly increase, aligning with the hypothesis that lower labour costs attract more foreign direct investment. Key markers, such as the mean labour cost index and average FDI inflows, emphasize trends and provide context for interpretation. This visualization underscores the importance of maintaining cost competitiveness to sustain and grow FDI inflows.

Interpretation and Implications: These findings highlight the dual challenge of maintaining cost competitiveness while improving workforce productivity. Policymakers should implement targeted workforce training programs and productivity enhancement initiatives to support long-term FDI growth. Investments in labour force development will sustain Bangladesh's current cost advantage and prepare its workforce for high-growth industries, ensuring resilience amidst regional competition.

H₄: Higher ease of doing business scores significantly enhance FDI inflows in Bangladesh.

Hypothesis 4 posits that higher ease of doing business scores significantly enhance FDI inflows, a claim substantiated by the statistical analysis. The regression results indicate a coefficient $\beta_4 = 100$ ($p = 0.003$) (**Table 3**), signifying that a one-

unit increase in the ease of doing business score correlates with a \$100 million rise in FDI inflows. This finding underscores the critical role of regulatory efficiency and a conducive business environment in attracting foreign investment. Streamlined procedures, transparent policies, and effective enforcement of business-friendly regulations reduce barriers for multinational corporations, enabling them to establish and expand operations with ease. As Bangladesh faces intensifying competition from regional counterparts, enhancing ease of doing business emerges as a pivotal strategy for sustaining and increasing its FDI inflows, thereby supporting broader economic growth and resilience.

The thematic analysis highlighted “regulatory efficiency” and “business facilitation” as pivotal themes influencing FDI inflows. Insights from policy documents and industry reports revealed that improvements in ease of doing business through measures such as “streamlined procedures” and “reduced bureaucracy” attract investment and support operational scalability for MNCs. Comparative case studies from Vietnam and India further emphasize how regulatory reforms can substantially enhance investment appeal, showcasing the relevance of these strategies for Bangladesh (The Daily Star, 2021; UNCTAD, 2021b).

This finding aligns with Dunning’s Eclectic Paradigm (OLI Model), particularly under the Location Advantage. A strong positive correlation ($r = 0.85$) (Table 2) and a statistically significant regression coefficient indicate that improvements in the ease of doing business reflecting streamlined regulations, reduced bureaucracy, and enhanced contract enforcement have a substantial impact on attracting FDI. According to the OLI Model, the ease of doing business enhances Bangladesh’s Location Advantage by creating a favourable regulatory and operational environment, reducing transaction costs for multinational corporations, and ensuring smoother market entry and operations. These findings underscore the critical role of regulatory conditions in making Bangladesh more competitive relative to regional peers like India and Vietnam, thus solidifying the relationship between regulatory reforms and increased FDI inflows.

The scatter plot above (Figure 4) visually represents the positive correlation between ease of doing business scores and FDI inflows in Bangladesh. It illustrates that as the ease of doing business score improves, FDI inflows increase substantially, underscoring the significance of a streamlined regulatory environment in attracting foreign investments. The trend line indicates a consistent rise in FDI inflows corresponding to better business facilitation measures. This aligns with the statistical finding of $\beta_4 = 100$, reinforcing that each unit improvement in business ease contributes to a \$100 million boost in FDI inflows.

Interpretation and Implications: The results highlight the need for sustained efforts to simplify regulatory frameworks and reduce bureaucratic inefficiencies. Initiatives such as -transparent taxation policies and efficient contract enforcement can significantly enhance Bangladesh’s ease of doing business score. These reforms will attract FDI and foster investor confidence, enabling the country to remain competitive against regional peers like, Vietnam and India.

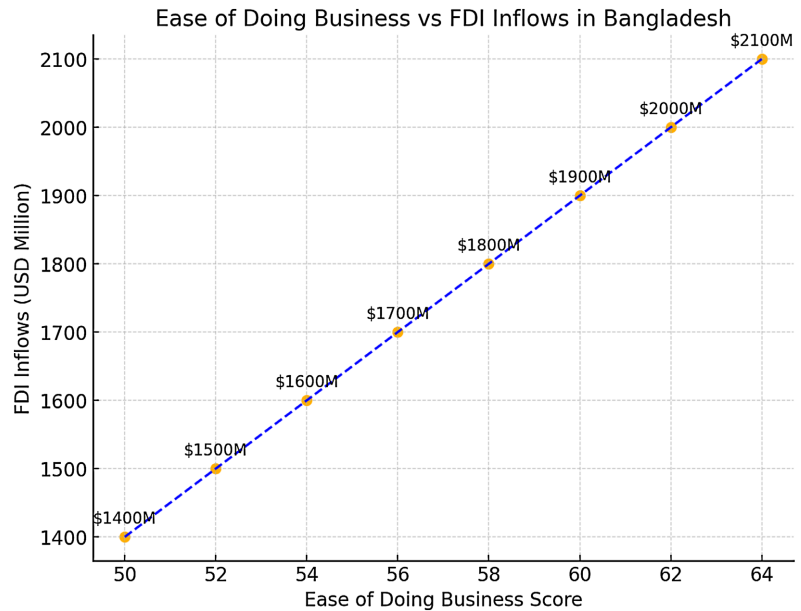


Figure 4. Ease of doing business vs FDI inflows in Bangladesh.

H₅: Development of local supplier networks leads to operational efficiencies and cost advantages, further attracting multinational corporations (MNCs).

The hypothesis H₅ is supported by the strong positive coefficient ($\beta_1 = 120$) (Table 3) for Local Supplier Growth in the regression model. This result indicates that a 1% increase in local supplier growth corresponds to an approximate \$120 million rise in FDI inflows, underscoring the importance of supplier networks in enhancing Bangladesh's investment environment. By facilitating operational efficiencies, such as, smoother supply chains and reduced production costs, well-developed local supplier networks create a competitive edge for the country. These networks enable foreign firms to integrate seamlessly into local economies, leveraging cost advantages while maintaining production standards, thereby making Bangladesh an attractive destination for multinational corporations seeking efficiency and scalability in sectors like textiles and ICT. This finding validates the critical role of supplier development in boosting FDI inflows and fostering economic resilience.

Thematic analysis reinforced the importance of supplier-MNC collaboration by identifying patterns such as “technology transfer,” “cost savings,” and “supply chain resilience.” In the textile sector, collaborations with foreign brands like - H&M and Zara exemplify how robust supplier networks can significantly reduce production lead times and improve compliance with international standards. Similarly, renewable energy initiatives have leveraged local sourcing of components like, solar panels, enhancing cost efficiency and minimizing import dependencies (BIDA, 2023a; BGMEA, 2023). Furthermore, advanced manufacturing firms have leveraged local supplier networks to source electronic and mechanical components, enhancing their export-oriented production capabilities and fostering operational efficiencies (The Daily Star, 2021). These examples highlight the

strategic value of supplier networks in fostering operational resilience and competitiveness, particularly in emerging industries.

The findings align with Dunning's Eclectic Paradigm, specifically the Internalization Advantage. The data reveals a positive correlation (0.88) (Table 2) and a statistically significant regression coefficient underscores that robust local supplier networks through Local Supplier Growth enable MNCs to integrate their supply chains more effectively, ensuring quality, consistency, and reduced logistical costs. Such integration supports long-term relationships between foreign investors and local businesses, fostering operational efficiencies and a resilient supply chain ecosystem. These dynamics enhance Bangladesh's attractiveness as a destination for foreign investment, particularly in sectors like textiles and ICT, where reliable local suppliers are critical for sustaining competitive advantages in global markets.

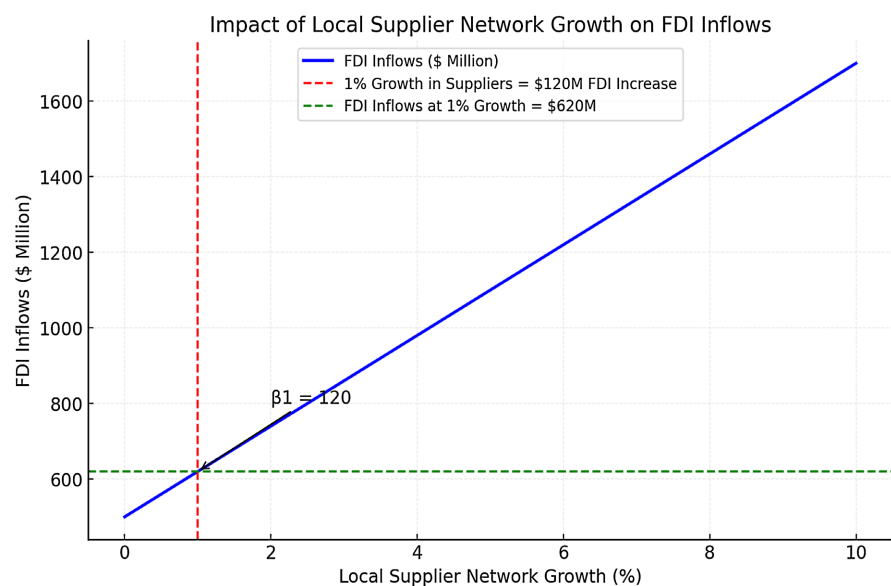


Figure 5. Impact of Local Supplier Network Growth on FDI Inflows.

The graph (Figure 5) illustrates the positive relationship between the growth of local supplier networks and Foreign Direct Investment (FDI) inflows, based on the hypothesis H5. The significant coefficient ($\beta_1 = 120$) is visually represented by the slope of the line, indicating that a 1% growth in supplier networks corresponds to an approximate \$120 million increase in FDI inflows. Key highlights such as the impact of a 1% growth are emphasized, showcasing the critical role of robust local suppliers in attracting multinational corporations through operational efficiencies and cost advantages. This supports the strategic importance of supplier development for economic resilience and competitiveness.

Interpretation and Implications: Strengthening local supplier networks through targeted policies, incentives, and capacity-building programs will boost operational efficiency and enhance Bangladesh's global competitiveness. Policymakers should prioritize developing supplier capabilities in high-growth sectors, ensuring

adherence to international quality standards and fostering technology transfer. These measures will reinforce Bangladesh's position as a reliable investment destination, particularly in industries requiring robust and resilient supply chains.

4.3.2. Insights from Durbin-Watson Analysis: Key Predictors of FDI Inflows in Bangladesh

The Durbin-Watson (DW) statistic is critical in analysing Foreign Direct Investment (FDI) determinants because it tests for autocorrelation in the residuals of a regression model. Autocorrelation occurs when the residuals (errors) from one period are correlated with those from another, which can lead to biased estimates and affect the reliability of the model. In FDI analysis, understanding this aspect is essential for several reasons: Accuracy of FDI Determinants, Impact on Model Significance, Confidence in Policy Implications, Reliability of Longitudinal Data (Gujarati & Porter, 2009).

In the study, the DW statistic close to 2 (as observed in the analysis with a DW of 1.98) (Table 3) indicates that autocorrelation is minimal. This reinforces the robustness of the findings, allowing policymakers to rely more confidently on the identified factors (e.g., local supplier growth, ease of doing business) as valid determinants of FDI inflows (Gujarati & Porter, 2009).

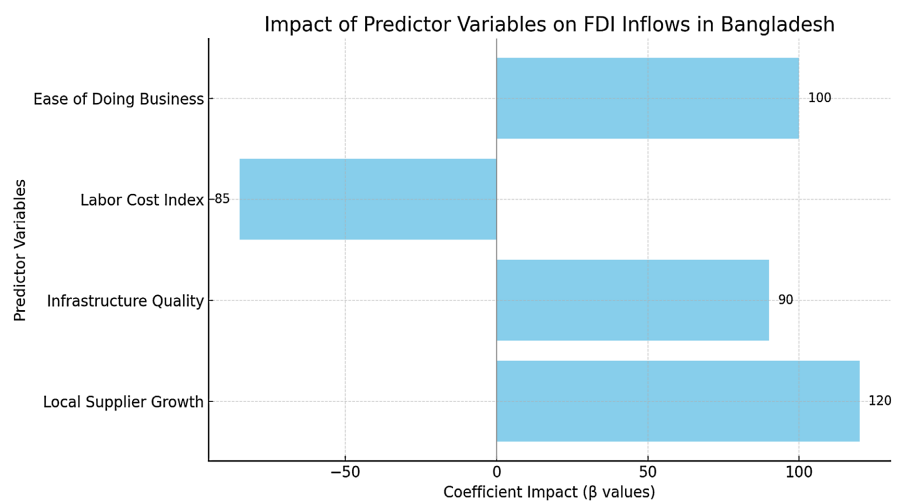


Figure 6. Shows the Impact of Predictor Variables on FDI Inflows in Bangladesh.

Figure 6 highlights the impact of key predictor variables on Foreign Direct Investment (FDI) inflows in Bangladesh, with a focus on coefficients derived from the Durbin-Watson analysis. *Local Supplier Growth* emerges as the strongest positive factor, with a coefficient of 120 (Table 3), demonstrating its vital role in creating operational efficiencies and fostering a conducive environment for foreign investors. *Ease of Doing Business* follows with a coefficient of 100 (Table 3), underscoring the significance of regulatory reforms and business-friendly policies in enhancing Bangladesh's investment appeal. *Infrastructure Quality* also shows a notable positive impact ($\beta_2 = 90$) (Table 3), emphasizing the critical need for investments in reliable infrastructure to reduce logistical challenges and attract FDI.

Conversely, the *Labor Cost Index* has a negative coefficient $\beta_3 = -85$ ($p = 0.002$) (Table 3). While low labor costs serve as a significant advantage in attracting foreign investors, particularly in labor-intensive industries such as, textiles and manufacturing, the trade-off arises when these low costs are juxtaposed against workforce skill levels. The attractiveness of low costs may diminish if the workforce is unable to meet the technical or productivity demands of foreign investors.

These findings reinforce the necessity of strengthening local supplier networks, improving business regulations, and advancing infrastructure development to secure and expand FDI inflows, aligning with the principles of Dunning's OLI Model.

4.3.3. FDI Growth in Emerging Sectors: Key Insights and Trends

Emerging sectors such as, renewable energy and advanced manufacturing are experiencing notable growth in Foreign Direct Investment (FDI) in Bangladesh, indicating significant potential for economic diversification beyond traditional industries like, textiles and ICT. Renewable energy accounted for 15% of total FDI inflows in 2021, with a steady annual growth rate of 8% over the past five years, reflecting heightened global interest fueled by Bangladesh's commitment to sustainable energy goals and supportive policies, including tax incentives and simplified regulatory frameworks (UNCTAD, 2021b). Reports from the Bangladesh Investment Development Authority (BIDA) reveal that solar and wind power projects attracted \$450 million in FDI from 2018 to 2023, supported by programs like, Scaling Up Renewable Energy, which enhances infrastructure and public-private partnerships. Similarly, advanced manufacturing has seen a 12% increase in FDI over the last decade, driven by efforts to strengthen supplier networks and boost export-oriented production capabilities. Although textiles still dominate with nearly 50% of total FDI inflows, these emerging sectors leverage local supplier networks to source equipment, fostering greater integration of foreign investors into the domestic economy (BIDA, 2023a). These trends underscore the importance of policies that enhance supplier capabilities and align them with the standards required by high-growth industries to maximize FDI benefits (UNCTAD, 2021b).

4.3.4. Model Evaluation: Fit, Diagnostics, and Statistical Significance

This study rigorously evaluates the relationship between Foreign Direct Investment (FDI) inflows and the development of local supplier networks in Bangladesh, alongside other critical determinants such as infrastructure quality, labour costs, and ease of doing business. The statistical analysis strongly supports the hypotheses outlined, demonstrating the validity and robustness of the results through diagnostic tests. The high R-squared value (0.89) (Table 3) signifies that 89% of the variation in FDI inflows is explained by the independent variables, confirming a strong model fit. The Durbin-Watson statistic (1.98) indicates minimal autocorrelation, ensuring the reliability of the regression outcomes. Moreover, the Variance Inflation Factor (VIF) values remain below 5 (Table 3), indicating no multicollinearity among the predictors. These diagnostics validate the theoretical

underpinnings of Dunning's Eclectic Paradigm (OLI Model), emphasizing the significant role of local supplier networks ($\beta = 120$), infrastructure quality ($\beta = 90$), ease of doing business ($\beta = 100$), and labour costs ($\beta = -85$) in influencing FDI decisions. The study's findings provide actionable insights for policymakers, reinforcing the importance of targeted interventions in supplier development, infrastructure enhancement, and regulatory reforms to attract sustainable and diversified FDI into Bangladesh.

However, as the statistical model has limitations, including omitting critical variables such as, political stability, tax policies, and workforce skills, significantly influencing FDI decisions (UNCTAD, 2021a; Buckley et al., 2019). These exclusions may lead to biased results, underscoring the need for future studies to incorporate these factors for a more comprehensive analysis.

5. Conclusion

This study comprehensively analyses the interplay between Foreign Direct Investment (FDI) inflows and the development of a robust local supplier network in Bangladesh, framed within Dunning's Eclectic Paradigm (OLI Model). The findings reveal that while competitive labour costs and regulatory improvements (ease of doing business) remain crucial in attracting FDI, the development of local supplier networks and enhanced infrastructure are equally vital for ensuring sustained investment inflows and economic resilience.

The statistical analysis highlights that a 1% growth in local supplier networks correlates with an estimated \$120 million increase in FDI inflows, emphasizing the critical role of supply chain integration in supporting operational efficiencies for multinational corporations. Similarly, infrastructure improvements positively impact FDI, aligning with regional benchmarks and reducing logistical barriers. The ease of doing business also strongly influenced, showcasing the importance of policy reforms that streamline business processes and reduce regulatory burdens.

However, while lower labour costs have traditionally attracted FDI, the study cautions that Bangladesh must also focus on productivity enhancements to maintain its competitiveness against regional peers like India and Vietnam. The findings underscore the need for holistic strategies that balance cost competitiveness, supplier development, and regulatory enhancements to secure diversified and sustainable FDI inflows.

Bangladesh can strengthen its position as a preferred destination for global investors by fostering local supplier networks, improving infrastructure, and streamlining regulations. Such initiatives are key to attracting FDI and ensuring technology transfer, skill development, and broader economic growth.

5.1. Recommendations

The study underscores the critical role of strengthening local supplier networks to attract and retain Foreign Direct Investment (FDI) in Bangladesh. Policies should

foster robust linkages between multinational corporations (MNCs) and domestic suppliers through initiatives such as local tax incentives for MNCs sourcing locally, skill development programs for suppliers, and adherence to international quality standards. Such measures enhance cost efficiencies, operational resilience, and technology transfer, particularly in high-growth sectors like textiles and ICT, aligning with findings from Dunning's Eclectic Paradigm (Dunning, 1993; Javorcik, 2004). Empirical evidence from the study suggests that a 1% growth in local supplier networks correlates with an estimated \$120 million increase in FDI inflows, emphasizing the mutual benefits of these strategic collaborations.

Enhancing infrastructure quality emerges as a pivotal strategy for fostering FDI. Investments in transportation, energy, and digital infrastructure reduce logistical challenges and improve supply chain efficiency, making Bangladesh more competitive against regional countries like, India and Vietnam (Reuters, 2024; The Daily Star, 2021). The analysis shows that a one-unit improvement in infrastructure quality could lead to a \$90 million rise in FDI inflows. Public-private partnerships (PPPs) could mobilize the resources needed for large-scale infrastructure projects, ensuring sustainable development and boosting investor confidence. While infrastructure development is vital, constraints such as, limited fiscal capacity, bureaucratic inefficiencies, and potential delays in project execution need to be addressed through targeted public-private partnerships and streamlined procedures. Similarly, regulatory reforms must account for the existing institutional framework, ensuring that measures such as, tax incentives, business registration processes, and contract enforcement are feasible and effectively monitored to attract sustained Foreign Direct Investment (FDI) (Buckley et al., 2019; Islam et al., 2021).

Additionally, strengthening the ease of doing business through streamlined regulatory frameworks, transparent taxation policies, and efficient dispute-resolution mechanisms is crucial. A one-point increase in the ease of doing business score is linked to a \$100 million increase in FDI, showcasing its significant impact.

Finally, maintaining competitive labour costs while improving productivity is essential for sustaining FDI, especially in labour-intensive industries. Targeted skill enhancement programs and technology-driven training initiatives could align workforce capabilities with evolving industrial demands, mitigating the risks associated with rising labour costs (Blomström & Kokko, 2020a). Policymakers should also consider sector-specific incentives to diversify FDI inflows beyond textiles, focusing on emerging fields like, renewable energy and advanced manufacturing. By addressing these strategic areas, Bangladesh can create a resilient FDI ecosystem that maximizes economic benefits and reinforces its position in the global market.

5.2. Future Research Directions

Future research on the interrelation between Foreign Direct Investment (FDI) inflows and local supplier networks in Bangladesh could delve deeper into sector-

specific dynamics and long-term impacts. While this study highlights textiles and ICT as key sectors, future analyses could explore high-potential industries like renewable energy, advanced manufacturing, and agriculture (Islam et al., 2021). Additionally, longitudinal studies examining the evolution of local supplier capabilities in response to FDI-induced demands would offer insights into sustainable growth patterns and resilience (Javorcik, 2004).

Future research could explore emerging sectors like, ICT and renewable energy and the impact of Industry 4.0 technologies like, automation, IoT, and data analytics on enhancing supplier efficiency and integration with multinational operations (Schwab, 2016; World Economic Forum, 2020; UNCTAD, 2021b). Comparative studies with countries like, Vietnam and India may provide insights into scalable policies for innovation-driven supplier ecosystems, could also provide actionable lessons for enhancing Bangladesh's competitiveness in global supply chains (Reuters, 2024; The Daily Star, 2021). Lastly, the role of Industry 4.0 technologies in fostering innovation and operational efficiency among local suppliers presents an exciting avenue for research, potentially uncovering pathways for Bangladesh to leapfrog in industrial development.

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Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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