

THE EFFECTS OF FOREIGN DIRECT INVESTMENT ON EPZs IN BANGLADESH USING GENERALIZED METHOD OF MOMENTS AND AUTO REGRESSIVE DISTRIBUTED LAG APPROACH

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Abstract

This study analyzes the effects of FDI inflows on EPZs in terms of export of EPZ and employment in EPZs using secondary data from 1997 to 2018 in Bangladesh. The study has applied Generalized Method of Moments (GMM) model for export of EPZ and Auto Regressive Distributed Lag (ARDL) bound test approach for employment generation, respectively. Inward FDI is the key explanatory variable, and there are also some control variables to overcome the problem of omitted variables. The empirical results show that FDI inflows in EPZs positively influence export volume and employment generation. The valid empirical results are diagnosed by several tests, and the stability of the models is also checked by CUSUM and CUSUM square tests. GMM approach supports our first hypothesis that FDI inflows have a positive impact on EPZ export, and it is statistically significant. ARDL bound test approach supports our second hypothesis that in the long-run and short-run, there is a positive association between FDI inflows and EPZ employment. Most of the researchers have done research on the effects of FDI on the economic growth in Bangladesh. Some of the researchers have also examined the effects of FDI on domestic investment, trade, and other sectors of the economy. But as far as we know, the effects of FDI on EPZs in Bangladesh are not examined. The study will use secondary data to explore the possible effects for the export processing zones in Bangladesh and how the local firms will benefit from foreign investors. We cannot deny the limitations; the reliability of data cannot be confirmed, observation is small as some variables are not available before 1997 and after 2018.

Keywords: EPZ, FDI, Export, Employment, GMM, ARDL