Title: Investigating the crowding effect of FDI on domestic investments: Evidence from Bangladesh

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Abstract: This study empirically investigates the crowding effect of Foreign Direct Investment (FDI) on domestic investments in Bangladesh, utilizing annual time series data from 1972 to 2022. Initially, unit root tests are conducted with and without considering structural breaks in the dataset. This study employs the Johansen test of cointegration to investigate the enduring association between the variables and utilizes the Vector Error Correction Model (VECM) to accommodate this relationship over the long term. Following the estimation of the VECM, formulas about the magnitude of the crowding effect (CE) are applied to examine the impact of FDI on domestic investment in Bangladesh. Results indicate that FDI positively influences domestic investments in both the short and long run.

Keywords: Crowding effect, Domestic investments, Foreign direct investment (FDI), Vector error correction model (VECM)

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