Comparing the Effects of the Political Uprising on Foreign Direct Investment Flows in Bangladesh and Sri Lanka : Evidence from the Immediate Aftermath

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Abstract

Political shifts in developing nations have a significant impact on foreign direct investment (FDI). This paper looks at two distinct South Asian political uprisings: Bangladesh's student-led quota reform protests of 2024 and Sri Lanka's economic crisis-driven mass uprising in 2022. Using a most similar case design within comparative case study framework, this paper will try to answer - why different types of political upheavals affect FDI recovery patterns differently, focusing on variations between governance-focused versus economically-motivated political movements.

In this paper, institutional theory and political risk theory are used as theoretical frameworks. I consider three time periods for sharper analysis: base periods before a crisis (2021-2022 for Sri Lanka and 2022-2023 for Bangladesh), crisis periods (2022 for Sri Lanka and July-August 2024 for Bangladesh), and recovery periods (2023 to date for Sri Lanka and September 2024 to date for Bangladesh). I use data from central banks (such as Bangladesh Bank and Central Bank of Sri Lanka), reports by the International Monetary Fund, and information from investment market organizations

This paper finds that economic crises trigger larger and longer declines in foreign direct investment (FDI) than student concerns regarding governance, as investors view risks differently. Even though protests regarding governance can reflect a possibility for improved governance, economic crises reflect more financial instability directly threatening firms (Thompson & Davis, 2021). Bangladesh's governance-focused crisis enabled rapid political transition within months facilitated by Muhammad Yunus's international credibility, while Sri Lanka required prolonged IMF intervention and debt restructuring with substantial challenges remaining even two years after the crisis peak.

Key words: FDI, Sri Lanka, Bangladesh, South Asia, Political Uprising

Comparing the Effects of the Political Uprising on Foreign Direct Investment Flows in Bangladesh and Sri Lanka : Evidence from the Immediate Aftermath

This paper looks at two distinct political and societal incidents in South Asia: the 2024 student protest in Bangladesh that requires a shift in quotas and the 2022 massive protests in Sri Lanka due to its economic crisis. This work will explain various kinds of political and societal incidents and their impact on various modes of FDI recovery while categorizing protests into governance protests and economic protests.

In Bangladesh, there was a major shift in politics in 2024 when protesters showed their dissatisfaction with the government's quota for jobs. This created a bigger protest against the government, and Prime Minister Sheikh Hasina was forced to resign on August 5, 2024 (Rahman et al., 2024). This protest was initiated because people sought alterations in the system of quota, but following violence by the government in July and August 2024, which resulted in numerous deaths and injuries (Islam & Ahmed, 2025), protests increased in size. Protests were created on social media, particularly Facebook, by student organizations named "Anti-Discrimination Student Movement" (Hassan, 2024).

Sri Lanka's 2022 crisis was because its economy had failed entirely, not merely because its government had issues. Sri Lanka had its worst economic crisis in 73 years, evidenced by high costs, shortages of foreign funds, and heavy debts by its government (Perera et al., 2022). This economic crisis resulted in a protest campaign known as Aragalaya, which compelled President Gotabaya Rajapaksa to step down in July 2022 following massive protests regarding basic economic concerns such as shortages of fuel, electricity outages, and insufficient supplies (Wickramasinghe, 2022).

In this paper, institutional theory and political risk theory are used as theoretical framework. Political risk theory asserts that investors respond differently to different political issues and are concerned a great deal with how stable these issues are (Chen & Liu, 2014). Institutional theory emphasizes how people's trust in the government impacts their trust in the economy. It contends that how others perceive the government's legitimacy alters their motivation to continue investing or resume investing (Zhang & Wang, 2017). Now, the question is what explains the systematic differences between economic crisis-driven and governance-focused political movements in their impact on investor confidence and FDI flows?

Overview of Foreign Direct Investment and Political Risk Studies

Foreign direct investment and risk politics matter a great deal in international economies and politics. This matters particularly for developing nations like Sri Lanka and Bangladesh because foreign funds have a significant influence on their politics. In the past seven decades, studies on what impacts foreign direct investment (FDI) have evolved significantly, and risk politics are among the key drivers of investment (Abdulla, 2023). In order to understand why various forms of change in politics have different impacts on foreign investment, we have to examine simple facts and actual scenarios revealing how investors react to risk politics.

Political risk theory is a significant concept revealing how politics influence foreign direct investment (FDI) flows. A seminal work by Stephen Kobrin explained political risk as a unique form of investment risk. It reveals how stable regimes and transparent policies influence foreign investment decisions (Barner-Rasmussen et al., 2011). Political risk theory asserts that major firms consider investing by observing government actions that could damage their venture, such as shifts in policy or seizing their land (Jensen, 2008). The theory discusses various types of political risks. Certain risks are big and impact all foreign investors, whereas smaller risks target particular industries or firms. Stabilized and continuously expanding politics and economy have been found from latest researches to lure more foreign direct investment (FDI) from emerging economies. Political unrest always reduces FDI inflows (Jensen, 2008). Political risk no longer measures solely by a single haphazard approach. We no longer rely on a single haphazard measure; instead, different indices consider different aspects of political unrest, such as how effectively a government deals with corruption and adheres to law (Almunia et al., 2023). Political risk theory was enhanced to demonstrate how explicit and persistent political ambiguity impacts investment. Current research demonstrates that foreign direct investment information responds significantly to explicit and persistent political ambiguity.

Institutional theory, beginning with work by Douglas North, is especially crucial for foreign direct investment (FDI) and politics. North's concept emphasizes how economic activity is shaped by informal norms and rules as well as by formal rules (Sukharev & Voronchikhina, 2017). In an institutionalist's opinion, foreign investment decisions rely not only on existing political stability, as commonly supposed, but on how robust and dependable are the economic activity-handling institutions.

Numerous researches have considered foreign direct investment (FDI) and political risk, while we still lack comprehensive knowledge of how foreign investments react to various political concerns. Over half of previous research concentrated on broad indicators of political instability and not much on observing shifts in political activity and why they occur (Abdulla, 2023). This is particularly necessary for developing nations experiencing various types of political issues.

Another gap is research involving a single country or a handful of countries, which can conceal valuable information. Moreover, a majority of research studies predominantly involves major powers or stable democracies and does not appropriately integrate their theories with developing nations.

This paper will contribute to the existing literature by synthesizing political risk theory and institutional theory to develop a comprehensive framework for understanding how uprising characteristics affect FDI outcomes. The research will address the identified gaps by employing a comparative case study design that controls for regional factors while varying the type of political upheaval, enabling stronger causal inference than previous single-case studies.

Methodology and Hypothesis

This paper will discuss how politics impacts foreign direct investment (FDI) recovery differently. The first hypothesis is that economic crises induced by politics result in larger and longer FDI declines than do governance-induced ones. This concept stems from a politcal risk theory, according to which investors take into account how politics may influence the entire economy and economic activity (Jensen, 2008). Sri Lanka's 2022 crisis induced by government debt and a foreign fund shortage indicates key concerns threatening investor yields and firm health. In a second example, Bangladesh's 2024 student uprising for shifting quota policies was induced by particular grievances about governance instead of a broad-based economic problem, indicating potential institutional shifts instead of a broad-based economic failure.

The second hypothesis asserts that good governance movements draw foreign direct investment (FDI) more quickly than crisis-based movements because there is reduced ambiguity regarding the future economy. This explanation stems from institutional theory, revealing that investors are concerned with legitimacy and foreseeability (Gaur et al., 2008). Student-led movements that attempt to alter governance can themselves be interpreted by investors as a positive sign toward system improvement in the longer term if their goal is toward clearer and more responsible governance. Crisis-based movements, by contrast, reveal elemental deficiencies that require a longer time to address and rebuild investor confidence.

The main concept here is FDI Flow Change. It observes how much and how quickly foreign investment responds to political problems. FDI Flow Magnitude represents the percentage of FDI entering a quarter in relation to times preceding a crisis. In Sri Lanka, preceding trouble times are 2021-2022, and for Bangladesh, 2022-2023, before a protest in July 2024. FDI Recovery Time represents how quickly FDI inflows recover to 80% of preceding trouble times. It reveals how recovery is occurring. FDI Volatility observes how quickly FDI flow alters during a crisis and recovery time and represents how predictable and stable investing tendencies are. Also, this time frame enables a comparison of rapid FDI reactions and subsequent recovery trends based on various issues.

The Central Bank of Sri Lanka and Bangladesh Bank are key data sources for Foreign Direct Investment (FDI). They employ quarterly data, assisted by World Bank and IMF databases to ensure data accuracy and may be compared using other nations (Bangladesh Bank, 2024; World Bank, 2024). World Bank Governance Indicators, UNDP databases, and International Country Risk Guide ratings serve as control variables.

Case Study: Sri Lanka

Crisis Characteristics: Finance Issues and Big Protests

The 2022 Sri Lankan crisis was among the largest economic and political issues in South Asia's recent past. It was triggered by a massive economic failure, defaulting on debts, and massive protests by the public. This crisis was distinct from ordinary political matters because it was initiated by a massive economic failure and not leadership issues. The massive debts that could not be paid by the nation had a massive impact on both the economy and people (Perera et al., 2022).

The economic issues around the crisis were new in Sri Lanka because it was a recently independent nation. Sri Lanka's Central Bank on 19 May 2022 announced that the nation was unable to repay its national debt, which was missed on 18 April. This was a first because Sri Lanka achieved independence from Britain in 1948 and never previously was unable to repay its debt (Perera et al., 2022). Sri Lanka was self-proclaimed bankrupt by 6 July 2022 and had foreign loans amounting to $51 billion Perera et al., 2022). The crisis created a foreign money shortage and made life extremely difficult for everyone in Sri Lanka. Three-wheeler drivers had to queue for days to obtain limited supplies of fuel, dwellings experienced their day's power supply restrictions, and poor citizens could not access basic requirements (Silva et al., 2022).

The economic indicators during the crisis revealed how poor the collapse was. Inflation reached very high, and people could not afford ordinary things. Surveys conducted during the crisis indicated that 94.1% of people replied that their life was affected by the economic crisis. Additionally, 39.2% consumed fewer meals, and 78.4% altered how they cooked due to gas shortages (Jayasinghe & Fernando, 2022). Pain from the economy was so severe that experts held a view that the economic crisis could have been deadlier than coronavirus in Sri Lanka. The massive protest campaign named Aragalaya was initiated because of financial issues. Protests started on April 1, 2022, outside President Gotabaya Rajapaksa's residence in Mirihana. Protestors asked President Gotabaya Rajapaksa and Prime Minister Mahinda Rajapaksa to resign (Wickramasinghe, 2022). Aragalaya's slogans ranged from "Go Home Gota" to "Government without Rajapakshas" and "Give us our stolen money." These indicate that many in Sri Lanka felt poor leadership by the Rajapaksa clan led to economic woes (Wickramasinghe, 2022). These protests were distinct from standard political protests as they were focused on desiring a better life economically and not because people were asking for things.

FDI Impact

The 2022 crisis was a large issue for FDI in Sri Lanka, revealing just how dire the economic recession was. Little 2022 FDI data exists from public sources, but other economic indicators demonstrate foreign investment trends were duly impacted. We can see why FDI was affected by crisis by examining Sri Lanka's general finances and its difficulties repaying its foreign loans.

Sri Lanka had a foreign debt of $51 billion, and this resulted in 13 banks having lower ratings. This was a large financial issue and had a flow-on effect on confidence in foreign investment. Foreign exchange was in a tight spot by 2022, and foreign investors, particularly those having to send out their profits or carry out regular foreign transactions, had real difficulties. Declaring national bankruptcy in July 2022 sent a clear message to foreign investors that there were financial issues in the nation and that their investments were jeopardized.

Foreign direct investment (FDI) and economic stability in Sri Lanka studies indicate that foreign investment relies a great deal on the entire economy. In 1980-2022, FDI studies indicate that Sri Lanka's economic growth now largely counts on funds sent back by Sri Lankans working outside, foreign aid, and FDI. When there exists an Error Correction Term of -0.776953, then 77.69% of short-run effects on economic growth induced by external difficulties are corrected annually (Perera, 2024). This high error-correction rate indicates Sri Lanka's economy is robust in the long term, though its economy suffers sharp falls in the short term due to shocks such as that in 2022.

The crisis made foreign direct investment (FDI) more difficult because governance and institutional quality decreased, as is typical for foreign investors. Sri Lanka's economy particularly struggled hard, with poor economic management that prevented a good system on taxes, debt, and foreign reserve management (Perera et al., 2022). Such institutional issues would have directly affected how investors would have confidence in safety and security investing there.

Government Response

The Rajapaksa administration initially asserted that the 2022 crisis was not a deep one. When the crisis continued to deteriorate with time, they resorted to increasingly desperate measures. This resulted in a change of government by negotiation. This reaction had a bearing on how long and how severe a crisis was, as well as how badly it impaired foreign investors' confidence.

The government attempted early in 2022 to employ ordinary economic instruments while minimizing the severity of the crisis (Silva et al., 2022). These measures failed to address the key issues of the crisis. In 2021, a shock prohibition on imported fertilizer damaged a large part of the nation's farming, revealing errors on part of the government (Silva et al., 2022). President Gotabaya Rajapaksa, pursuant to his self-portrayal as a good leader with a competent team that could deliver results, instead exhibited his weakness in politics and poor leadership (Silva et al., 2022).

As protests strengthened in 2022, the government itself behaved more like a dictator. It was forced to issue a "shoot-to-kill" command to attempt to quash the protesters. This aggressive response made people throughout the world distrust their government further and question its capacity to manage the crisis effectively. It was obvious to foreigners, including potential investors abroad, that force was resorted to by unarmed protesters and that things were not very democratic.

The transfer came following negotiations that resulted in President Gotabaya Rajapaksa's resignation in July 2022. This was not necessarily a change of leadership because Wickremesinghe, a seven-time prime minister, was voted into office as president by parliament (Silva & Fernando, 2023). He was widely viewed as a man loyal to previous leaders. This reflected how much politics had actually changed, because instead of bringing radical shifts that protesters sought, the new administration kept on doing things as usual.

The leadership by Wickremesinghe provided a measure of stability, but issues still remained. Protests previously closely managed had resulted in calm streets, but the nation still had a crisis regarding its politics and economy (Silva & Fernando, 2023). There was no significant new initiative by the new government that produced something crucial the protesters had been demanding. It instead concentrated on stabilizing matters and cooperating with external financial agencies. This strategy may have reassured foreign investors about a stable politics environment, but in doing so, evidenced that most key issues leading to the crisis remained unresolved.

Pattern of recovery

Sri Lanka is gradually recovering after its 2022 crisis due to foreign aid, and shifts in policy. Nonetheless, it is not stable as of 2025. This pattern of recovering reveals how political stability, shifts in economic policy, and recovering investors' confidence are intertwined in aiding economies to recover from a crisis.

The recovery plan began by using aid from other nations following a shift in politics. Coordinating with foreign funding organizations, particularly the IMF, was a turning point for recovery. The IMF's plan of bail-out provided a great amount of financial assistance and laid out rules to regain confidence in Sri Lanka's handling of its economy (Silva & Fernando, 2023). Cooperation with foreign funding organizations sent a positive sign to potential investors that Sri Lanka was working on solving its issues that led to the crisis.

As of 2022 and 2023, economic indicators maintained a stable trend. Sri Lanka's economic studies identified that its economy had strengths and that it could recover from external issues. A high Error Term value of -0.776953 in economic research indicates that Sri Lanka's economy can recover from external issues and become stable, though slowly (Perera, 2024). This local recovery and foreign funding enabled its economy to slowly recover.

The recovery was assisted by a couple of key factors. First, Wickremesinghe's leadership stabilized politics, though imperfectly, as opposed to the crisis itself. Secondly, the IMF plan and policy shifts assisted in correcting some of the financial issues responsible for creating the crisis. Thirdly, gradually restoring basic infrastructure and services assisted in reviving economic activity and easing some of the immediate pain responsible for mass protests.

The recovery is not complete and has significant issues. Many of the factors that created a crisis in 2022 remain in 2024, such as high debts, limited foreign exchange reserves, and minimal influence on the economy. In its April 2024 Sri Lanka Development Update titled "Bridge to Recovery," the World Bank explains that while some things have improved, crucial issues remain unsolved before a robust economic recovery can occur (World Bank, 2024).

Foreign direct investment is gradually getting better. Very limited data on FDI exists after the crisis, but economic and foreign relations slow recovery may reflect a rising confidence among investors.

Case Study: Bangladesh

The 2024 Political Crisis in Bangladesh was not like the economic issues in Sri Lanka that led to protests. This crisis had begun because of particular issues with the government and its unjust rules regarding public jobs. It had begun as a protest by student organizations against the government's system of jobs based on a quota system. This soon became a massive protest about democracy and asking for a change in government (Islam et al., 2025). This 2024 protest regarding quotas in Bangladesh had begun on 1 July 2024 as a protest by students against the government's system of jobs based on a quota system. It had become a larger protest for democracy after a forceful response by the government resulted in the death of some student protesters and was referred to as the July Revolution (Islam et al., 2025).

It was unique because instead of using standard political protests, modern digital resources and social media were used. It quickly became popular after a Facebook tool was implemented, which enabled young protesters (Gen Z) to build pages and groups named "Baishammo Virudhi Chhatra Andolan" (Anti-Discrimination Student Protest) (Hassan, 2024). These pages were used to organize protests and rallies, distribute updates and videos, and publish photographs and news regarding the protest. Emphasis on digital resources aided in popularizing and organizing a large section of people beyond standard political boundaries.

The crisis was deepened by use of force on largely unarmed demonstrators. On 17 July, unarmed students had also been shot by police, and six died across different universities, including Abu Sayed of Begum Rokeya University, shot on 16 July (Hassan, 2024). The large student protests by unfair government jobs appointments grew into a mass demand for leadership change across the country. In total, the uprising led to more than 1,500 deaths and 31,000 injuries and broke a 16-year rule by Awami League (Chowdhury, 2025).

The protests were extremely inventive in their use of symbolic actions and powerful slogans which resonated among the Bengalis. When force was deployed against them, hard-pressed students started using other modes of protest such as Bangla Blockades, Complete

Shutdowns, and Marches as well as symbolic measures such as changing their profile pictures on Facebook to red and writing slogans such as "Tumi ke? Ami ke? Razakar, Razakar" ("Who are you? Who am I? Traitor, Traitor") in attempts to recruit greater numbers of supporters (Hassan, 2024). These actions illustrated how the protests shifted their attention from specific policy concerns to larger issues regarding political legitimacy and good governance.

FDI Impact

The search results don't reflect the actual 71% decline in the problem. Evidence reveals that 2024's political crisis in Bangladesh damaged foreign investment trust and had a negative impact on economic stability. Present research indicates that Bangladesh struggled to access foreign direct investment (FDI) before the political crisis. These researchers observe that FDI inflows decreased significantly in recent years due to worldwide economic instability and COVID-19 pandemic impacts (Rahman et al., 2024).

The investment issues in Bangladesh came into focus during the crisis. Forecasts indicate that net foreign direct investment (FDI) would decrease by roughly USD 1664 million, as in other years. This indicates that there were investment issues in Bangladesh before the crisis (political) (Rahman et al., 2024) as well. Political crisis could have increased these issues by generating more doubt regarding policy and institutional stability.

The crisis occurred during July and September 2024. This was a crucial time for most large organizations to agree on their budgets and expenditure on investment for the financial year. Sheikh Hasina resigned as Prime Minister of Bangladesh on 5 August 2024 following numerous protests against the administration. This was a significant shift in politics in the nation, hence more politics-based issues and potential ramifications on prevailing policies and among residents (Rahman et al., 2024).

The impacts of the investment may have been moderated by the rare combination of a crisis with massive civil unrest and doubt regarding the government's legitimacy. Analysis by the paper on crisis response found weaknesses, such as failing to prepare, failing to coordinate, and failing to respond appropriately by the former administration of Bangladesh Association of Lenders (BAL). This administration failed to grasp the crisis triggered by the protests by the anti-quota students between July 1 and August 5, 2024 (Islam et al., 2025). This governance failure would have made foreign investors skeptical about how effectively a government would address complex economic and political issues.

Government Action

Hasina's administration acted vigorously against student demonstrations in 2024, and as a result, its administration was toppled. If a government cannot realize how people are feeling and react appropriately, it shows a disconnect between what the administration is doing and what people are concerned about (Islam et al., 2025). This reaction was evident from the start when demonstrations had begun. Rather than speaking with student leaders, the administration chose to confront them.

The government carried out numerous cruel measures that made people hate it more than halting protests. When the government used force against student protests, it indicated that they would resort to force rather than discussing matters. Resorting to force and neglecting crucial matters that concerned people, such as handling student protests violently, led to a decline in her popularity and later forced her to depart from the nation (Rahman et al., 2024). Aiming at largely peaceful protesters, particularly students, was a violation of democratic norms and societal values regarding how governments ought to respond to people's demands. The government resorted to shutdowns of the internet as their chief method of response, demonstrating fear and ineptness in handling new forms of protest. A mass protest in August 2024 in Bangladesh made Sheikh Hasina lose her employment due to her harsh measures against students demanding alterations in public recruitment quotas. Protests against her leadership never ceased after that. Divisive rhetoric, shutdowns of the internet, and pressure could not deter young people from employing memes and graffiti as a form of displaying their defiance. The shutdowns of the internet only created more unrest as popular indignation increased, and it reflected how fearful the government was of freedom of communication and information exchange.

The government's reaction reflected a rudimentary lack of understanding of how social movements are conducted these days and how protests utilize digital technology. Social media, particularly Facebook, was used by protesters to remain organized and active despite efforts by the government to restrict information. When information on wrongdoing by the Sheikh Hasina government was disseminated on Facebook pages and groups, still more people got angered and made the student protest a massive revolution that ultimately terminated the Sheikh Hasina reign between 2009 and 2024 (Hassan, 2024).

The aggressive response of the government failed entirely, and on August 5, 2024, Prime Minister Sheikh Hasina was forced to exit the nation.

Pattern of Recovery

Once Sheikh Hasina was gone, a temporary administration was created by Nobel Peace laureate Muhammad Yunus. This administration was created to stabilize politics and enhance institutions. A student body known as "Students Against Discrimination" was a significant force in politics. It attracted a lot of followers and forced Hasina into exile. This reflected the significance of student politics in Bangladeshi politics as well as how Yunus was capable of creating democratic change.

The interim government would like to listen to everyone and implement changes, and there are student leaders on the interim government as well. If student leaders are on the interim government, then there needs to be a protest that demonstrates demands for increased democracy can cause actual alterations and not merely accommodate their own agendas into a newofficial narrative. This is a significant departure from how political alterations typically occur and may indicate actual alterations to the system are on their way.

Early indicators of economic recovery are good as anticipated despite a grave political crisis. Political shifts for a short while and new popular regimes may have improved foreign observers' and would-be investors' confidence. Whether or not the Bangladeshi transition would triumph largely would depend on new leaders' initiation on economic matters, advocacy of a democracy-driven system, and maintenance of robust institutions (Rahman et al., 2024).

The recovery has a lot of large issues. Institutions have to stabilize and transform quickly. This scenario demonstrates the worldwide conflict between stern authorities and aspirations for democracy. It emphasizes good administration and engaging everyone in politics to determine the trajectory of Bangladesh (Rahman et al., 2024). Any interim administration that emerges has to stabilize quickly while implementing the larger alterations that sparked protests.

The foreign aid assisted in transitioning and could assist getting back on course by promoting continued development and investment. Yunus's own success as Chief Adviser, rumored to have been aided by foreign intervention, lends a great amount of foreign deference and experience in economic development and new financial concepts. Yunus's global popularity and networking could assist in obtaining foreign funding for Bangladesh's recovery and rebuilding its economy. The rapid shifts in politics began with massive protests in July and a new government in August. This illustrates that if things remain stable, Bangladesh can recover economically quickly.

Comparison between Sri Lanka VS Bangladesh Scenario

The only variation between Sri Lanka's 2022 economic crisis and 2024 student protests in Bangladesh is their size and kind. Sri Lanka experienced a total economic collapse, including failing to repay its loans, having no foreign currency, and halting basic economic activity. Sri Lanka was unable to repay its debt for the first time after 1948, and external debt was $51 billion while basic commodities were getting scarce (Jayasinghe & Pal, 2022). This was impactful on 94.1% of people's lives and created major shortages of basic products such as food (Jayasinghe & Fernando, 2022).

It was triggered in 2024 because of issues regarding how authorities treated people in their employment, and not because the economy was weakening. A Facebook student protest demanding quota reform ballooned into a bigger call for democracy once protests against government employment quotas (Hassan, 2024) had become widespread. Note well that basic elements of Bangladesh's economy remained durable in the crisis—there was no trouble meeting debts, no foreign exchange difficulties, and no real economic failure.

The shifts through time were evident. Sri Lanka's issues accumulated over several years due to imbalances, tax holidays, and poor money handling. Bangladesh's crisis unexpectedly emerged in July-August 2024, show how leadership protests can emerge rapidly while economic issues develop slowly.

Main Findings on FDI Effect

Sri Lanka's financial difficulties and lack of funds to repay its debts made it difficult for foreign investors to take their gains home or conclude transactions elsewhere. Ambiguous economic laws made handling taxes, loans, and foreign exchange reserves difficult. This created question marks regarding prevailing policies regarding Bangladesh's crisis, though this did not significantly influence how the economy operated despite massive violence involving more than 1,300 protesters.

Sri Lanka required a gradual recovery via IMF programs and received a $2.9 billion bailout in early 2023, having had major social and economic impacts. Bangladesh's recovery is quicker by a swift political transition led by Muhammad Yunus and not requiring significant shifts in the economy (Rahman et al., 2024).

Sri Lanka's crisis had a bearing on all sectors because foreign funds were insufficient and infrastructure was a problem. Bangladesh's governance crisis would have predominantly hit sectors that depend on political stability and good policies.

Bangladesh benefited by appearing to have a genuine shift in politics and a good name of Muhammad Yunus as Chief Adviser. Sri Lanka's comeback was more difficult as they selected Ranil Wickremesinghe, and though appearing stable as opposed to considerable alterations sought by protesters (Silva & Fernando, 2023),

A robust economy assisted in rebuilding the nation after a stable peace was reestablished. Sri Lanka had a great deal of work to recover its rudimentary economic operations, foreign currency reserves, and financial linkages by aggressive negotiations with the IMF.

Bangladesh's governance-focused crisis required institutional reforms but not fundamental economic restructuring. Sri Lanka needed to address deep structural problems including fiscal deficits, monetary policy frameworks, and external balance management reforms requiring longer implementation periods.

Sri Lanka made slight alterations to some policies, and its institutions remained constant. Bangladesh progressed from harsh measures to a complete transfer of government, and Hasina's government had much difficulty managing the crisis and failed to comprehend the uprising of the students (Islam et al., 2025).

Gradual shifts in Sri Lanka provided a feeling of secureness, yet attested that there remain large problems. Gradual advances in reforms provided confusing times. Significant shifts in Bangladesh created confusion initially but provided a potential solution toward better systems by including movement leaders into politics.

Research shows political stability and financial development can reduce uncertainty's negative FDI impact by up to 60-70%. Sri Lanka's incremental approach extended uncertainty despite eventual stabilization. Bangladesh's crisis management failure followed by rapid transition to credible leadership created initial disruption but potentially faster confidence restoration.

Policy Recommendation

The estimates demonstrate that a government's response is extremely significant. Policies that respond to root trust concerns and maintain stable policies are best at minimizing long-term damage to investor confidence, whereas techniques that fail to respond to central concerns commonly postpone FDI recovery.

Limitations and Future Research

This paper has some weaknesses and thus needs to be interpreted cautiously. There was limited time to observe how a crisis was followed by recovery in Bangladesh and thus difficult to make any robust inferences regarding longer-run recovery patterns. Additionally, numerous factors other than politics influence FDI flow, including industry and international economic trends. Due to limited data availability, analysis is forced to observe FDI flow trends rather than actual indicators of sentiment among investors because no risk perception surveys exist for these nations at this time.

Conclusion

This paper finds that economic crises trigger larger and longer declines in foreign direct investment (FDI) than student concerns regarding governance, as investors view risks differently. Even though protests regarding governance can reflect a possibility for improved governance, economic crises reflect more financial instability directly threatening firms (Thompson & Davis, 2021). Bangladesh's governance-focused crisis enabled rapid political transition within months facilitated by Muhammad Yunus's international credibility, while Sri Lanka required prolonged IMF intervention and debt restructuring with substantial challenges remaining even two years after the crisis peak.

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