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Determinants of Foreign Direct Investment: A Cross-Country Analysis of South Asia

Babar Ali [1], ***Khuram Shahzad*** [2,*], ***Furqan ul Haq Siddique*** [2], ***Bilal Sarwar*** [1]

Affiliations

1. Balochistan University of Information Technology, Engineering and Management Sciences
2. University of Balochistan

*Corresponding Author Email: Khurram.ims@um.uob.edu.pk

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Abstract

The study presents a cross-country analysis of the determinants of FDI in selected South Asian countries, namely Bangladesh, India, Pakistan, and Sri Lanka. The primary determinants considered are gross domestic product, gross domestic product per capita, inflation, lending interest rate, openness of trade, and the CPIA index. The study uses panel data analysis to estimate the impact of various factors on FDI inflows to these countries from 1996 to 2022. The study results indicate that gross domestic product is negatively associated with FDI in the fixed effect model. In contrast, GDP per capita and GDP growth rate are negatively associated in the random effect model, and they are the most important determinants of FDI in South Asian countries. The findings suggest that economic, political, institutional, and social factors can attract foreign investment and promote economic growth and development in these countries. Policymakers should focus on creating a favorable business environment that addresses these factors to attract more FDI and unlock the region's economic growth potential.

Keywords: *Foreign Direct Investment, Trade Openness, Interest Rate*

JEL Classification: *F21*

1. Introduction

Foreign Direct Investment (FDI) is an essential economic growth and development driver, especially for emerging economies. A larger market provides more opportunities for businesses to sell their products and services, leading to higher profitability and attracting more foreign investment. A transparent and predictable legal and regulatory environment provides a level playing field for foreign investors and reduces risks. Trade openness increases access to international markets and creates investment opportunities, while a well-developed financial sector facilitates investment and reduces risks. Finally, the study suggests these factors also significantly attract FDI to South Asian countries (Baloch et al., 2024). Recently, the world has become a global village with increased economic, financial, political, and environmental interdependence. Multinational companies have expanded their business across the border to maximize their cost efficiency and business growth, along with extended research to approach countries that welcome foreign direct investment (Setyadhrama & Fadhilah, 2021). Developing countries offer lucrative incentives to MNCs to increase FDI inflow. FDI is considered a significant source of a country's non-debt financial resources of capital inflow. However, determinants of FDI inflow vary from site to site. Much work has been done on identifying the determinants of FDI inflow; however, these determinants have changed over time due to changing economic, political, and environmental factors (Nupehewa et al., 2022).

Developing countries are shifting their focus from ritual investment strategies to being more open to newness by offering trade liberalization, larger market size, cheap labor, advanced technology, and relaxed

financial limitations regarding zero taxation and affordable loans in local currency (Omor & Faruq, 2023). Asian countries provide a vast and rich market that offers many business opportunities. In South Asia, being the pivot point of the world's economic development, FDI has dramatically impacted the economic growth of fellow countries, showing significant positive effects in the shape of higher GDP and improved resources such as human capital, economic infrastructure, and capital formation while at the same time boosting uncontrolled increase in population, technological gap and inflation have been the negative side of FDI (Behname, 2012; Khan & Ejaz, 2023).

Any country's gross domestic product of GDP plays a positive role in FDI influx; theoretically, it is proven that GDP or market size is positively related to FDI influx in a country. Market size can represent any form of GDP (Fedderke & Romm, 2006). However, some studies have shown that different countries may have other relationships between FDI and GDP, even in the same region. According to (Iqbal, Rahman, & Yusuf, 2018; Khan et al., 2022), no statistically significant relationship was found between FDI influx and market size for India, but a positive and significant relationship was found between FDI and market size for Sri Lanka. Evidence of a long-run relationship between FDI inflow and Institutional quality, GDP, and Trade openness is found in the case of Pakistan. Still, a negative relationship exists between FDI and political instability, exchange rates, and inflation. (Saleem et al., 2020; Shabbir et al., 2021).

Privatizing different industries in a country also stimulates FDI by vending government-operated organizations. It has served as the change agent in the economy. Most of the sectors that are presumed to lose or lose their potential customers and revenue streams due to hidden corruption, loose control of business operations, or lack of technological adaptation to the environment but, at the same time, possess a margin for growth and revival of business are most suitable for privatization (Saleem & Zaheer, 2018). However, it is proven theoretically, yet several studies have ambiguous conclusions about their causal relationship. Privatization enhances incentives to attract FDI, which magnifies the privatization benefits; however, a country does not have to induce privatization to such a degree that attracts FDI (Mukherjee & Suetrong, 2009; Halizam et al., 2021). A more significant potential lies in many sectors, such as power, telecommunication, industries, and banking, if the right investor benefits both the host country and the investor. Privatization remains unstable in Pakistan; a consistent rise is observed in the GDP and economic growth of the country (Mehmood & Faridi, 2013; Wahyuningsih, 2021).

The capacity for economic growth has several opportunities open for external and internal investors. Healthy economic activity provides in-house resources in the shape of experienced human capital, emerging GDP, and higher GDP per capita with increased purchasing power. In the early 2000s, Pakistan introduced new market reforms, which helped it become one of South Asia's fastest-growing economies by providing investment opportunities to foreign investors. Here, openness to trade and potential economic growth played a vital role in grabbing the attention of foreign investors (Kobilov, 2020). Recently, the Pakistan Economic Corridor (CPEC) has opened a vast field of opportunities for foreign investors in Pakistan. However, with the CPEC's initiative, China is relocating its industry to neighboring countries (Shahzad & Ahmed, 2024). Hence, there lies a great responsibility on the Pakistani government to capture these potential investors by depicting a positive image of the country through potential and sustained economic growth, stable political structure, openness to trade, promoting its market size, and putting stringent control on corruption & terrorism (Shahzad & Ahmed, 2024).

Prevailing tax regimes of the host country may have positive or adverse effects on the inflow of FDI. However, it mainly depends on the investing party as to how they foresee the earnings after taxes and select the most suitable country among all the options available. Foreign investors take precautionary measures to secure their investment, ranging from investment return, payback period, political stability, economic growth rate, tax relief, and market size of the host country (Kusairi et al., 2023). Foreign investment in Pakistan's telecom sector has faced a significant slash due to heavy taxes and low returns

on cellular operations. In Pakistan, there is an inverse relationship between foreign investment and corporate tax in the long and short run (Crasta & Shailashri, 2021). However, discounted corporate tax rates have shown a positive relationship with domestic investment (Lodhi, 2017).

Even though still in the Association of Southeast Asian Nations (ASEAN) countries, Singapore and the Philippines depict a bi-directional relationship between FDI inflow and their respective exchange rate; simultaneously, a long-run unidirectional causal relationship exists between exchange rate and FDI in Malaysia (Alam, Akram, & Iqbal, 2017). It has been observed through different studies that among the price appreciation of Ringgit, Peso, and Dollar of Malaysia, the Philippines, and Singapore, only price appreciation in the Singapore Dollar attracts more foreign direct investment in their host countries. (Lily et al., 2014; Coveri & Zanfei, 2022).

Understanding the determinants of foreign direct investment is crucial for developing countries seeking to attract more international capital. Examining the factors that drive FDI can help these countries develop effective policies and strategies to increase their attractiveness to foreign investors, which is vital for their economic development and growth. Foreign direct investment (FDI) plays a crucial role in the economic development of developing countries (Kumari & Sharma, 2017; Kok & Ersoy, 2009).

There is no literature presenting an analysis of foreign direct investment among South Asian countries in recent years, so there is a clear gap in the literature for the study. The study's objective is to present a cross-country analysis of the factors that determine foreign direct investment for South Asian countries. South Asian countries are developing countries that require foreign investment for development. The selected countries are Bangladesh, India, Pakistan, and Sri Lanka. The primary determinants considered are gross domestic product, gross domestic product per capita, inflation, lending interest rate, openness of trade, and the CPIA index. The study presents the relationship between the determinants and foreign direct investments.

2. Literature Review

Understanding Foreign direct investment may be harmful to domestic business but undoubtedly essential for economic growth too; however, the host country's decision as to what extent FDI is allowed in the country is the deciding factor. Foreign investors are searching for countries where they can avail themselves of valuable resources, experienced labor, and long-term loans at a cheaper cost. Accumulation of the net benefit of FDI depends upon the host country's willingness and conditions (Setyadharma & Fadhilah, 2021). Trade, financial, and economic liberalization pose a positive picture in attracting FDI in the host country. Education and health level, the host country's technological enhancement, stricter policies of trade openness, poor regulatory frameworks, and low market competition are some of the significant factors that reduce the FDI benefits for a developing country (Kurtishi-Kastrati, 2013).

Among all the other factors, the host country's technological advancement is an essential and most sought-after element of economic growth (Romer, 1994). The host country's technological resources can be upgraded by developing upgraded technological infrastructure. (Rath & Samal, 2015) Hence, with an offer of advanced technology, a host country can attract foreign investors, resulting in increased GDP and more openness to change.

An example is India, where the telecom sector has shown rapid growth and development, attracting all the top global investors to invest here. From 2000 to 2020, India emerged as the worthiest FDI in South Asia by allowing relaxed trade policies, ease of business, and trade liberalization. FDI inflow limits in telecom were pushed to a maximum of 100% in 2013 to increase foreign investment and make the nation the favorite for telecom investors. (Baruah & Baruah, 2014). With limited domestic resources, South Asian countries have to rely on external finance, such as foreign direct investment, to achieve their desired level

of prosperity (Ravinthirakumaran et al., 2015). Ravinthirakumarn et al. (2015) investigated the determinants of foreign direct investment in Sri Lanka and compared the attractiveness of India, Sri Lanka, Bangladesh, and Pakistan for foreign direct investment during the period of 1975-2012; the study concluded that Bangladesh's political and economic conditions are better than other countries for FDI (Anwer et al., 2023).

Trade liberalization and financial and economic liberalization enable the investors to represent themselves globally and provide an economic boost to the host country, along with the development of human capital in the shape of skilled labor with enhanced knowledge and know-how of the latest technology (Sahu, 2021). However, the host country always has the upper hand in the shape of improved control of its physical and financial resources along with political influence on the investment policies, yet FDI is the primary source for underdeveloped countries to grow. Increased national income, utilization of resources for growth, reduced disparity between revenues and costs, consumer benefits, and increase in local saving and investment are some advantages (Alam et al., 2017).

Many empirical studies show a relationship between FDI and different Macroeconomic variables. The most promising and authenticated work was done by Dunning in 1993. He explained MNCs' FDI intentions through an OLI paradigm (Ownership Location Internationalization) (Sultana et al., 2022). This theory suggests a direct link between macroeconomic variables such as social, economic, political, and cultural and the host country's FDI inflow rate. The theory proposes that host countries attracting investment from MNCs portray large markets with potential growth, a high GDP, substantially low manufacturing costs, and political stability. (Dunning & Lundan, 2008)

FDI treatment depends on a certain number of factors. Matters related to the determinants of FDI are multi-dimensional, as MNC foreign investment decision is based on multiple objectives. Several MNCs are looking for large domestic markets, while some are looking for a cheap supply of natural resources (Bekmurodova, 2020). Meanwhile, some MNCs strategically relocate their production units to control production costs. So, the candidacy for being the determinant of FDI might be multiple. (Athukorala, 2009)

FDI is an important financing source for developing countries and needs to be efficiently managed. Internal weaknesses can hinder the efficient management of FDI funds, resulting in opportunities for corruption. FDI can play a vital role in industrial improvement and economic growth in underdeveloped countries, and this can be done by reducing the gap between national savings and investment through enhanced knowledge (Alderete, 2019).

Asian countries and many lower-income countries are mainly interested in the growth of their domestic market in the international market with multinational businesses and generally offer a more business-friendly setting to overseas investors. They are empirically proven that besides a country's GDP with its growth rate, a country's international trade connection and relationship with the central investing countries in the form of foreign funding and friendly business theme defined by the time obligatory to set a new business, is essential and critical factors in defining FDI influx to the emerging countries (Mottaleb & Kalirajan, 2010).

Different studies show the impact of trade and financial liberalization on economic growth. It has been found that capital stock, financial liberalization, and an expert labor force positively correlate with economic growth. The observed finding of a study depicts that the financial liberalization index and the host country's economic growth are positively correlated in the short run. While the financial liberalization index is found to be insignificant in the long run (Hye & Wizarat, 2013). Pradhan (2002) attempts to clarify the relationship between FDI inflow and economic growth in India, resulting in the FDI influx not substantially impacting the economy. However, another study shows that the influx of FDI in India significantly impacts total factor productivity through positive spillover effects (Choi & Baek, 2017; Thuy et al., 2023).

According to a study by the World Bank, countries with more developed infrastructure tend to have greater purchasing power parity compared to underdeveloped infrastructure. Infrastructure includes civil structures, logistics, and communication with well-developed administrative setups for business. More suitable countries attract additional foreign investment. Agri-based and industry-based economies provide opportunities for FDI through safety, a healthy and sound environment, highly educated human resources, efficient energy, and ease of communication (Rath & Samal, 2015).

A host country with a developed Internet infrastructure attracts higher investments from consumer-based MNCs, creating better opportunities for domestic market followers than market leaders (Lee, Oh, & Lee, 2017). FDI also positively responds to well-managed macroeconomic variables, such as stable exchange rates and economic development, while negatively reacting to the high inflation of the host country. Investors are more attracted to choose a country with already available infrastructure, measured through telephone density; however, it is susceptible to alternate measures but matches the estimation model specifications (Shah & Faiz, 2015).

Declined FDI, negative exports, weakening infrastructure, and the China-Pakistan Economic Corridor- all aspects needed to be determined to understand their relationship. In Pakistan, infrastructure development through the public sector is unsuccessful due to the state's lack of funds and inefficiency (Chend et al., 2022). However, foreign investment cases are diverted towards equities and bonds with more relaxed financial liberalization policies. CPEC can be a source of significant infrastructure improvement (Mehar, 2017). The determinants of the influx of FDI reveal that host country economic conditions enhance the locational advantage for MNCs, as suggested by Dunning's electric paradigm in 1993. The host country's market size, GDP, per capita income levels, technical skills, available infrastructure, and stable political status measure the cross-country pattern of FDI (Aqeel, Nishat, & Bilquees, 2004).

China has seen different phases of FDI, from the most minuscule growth era of the 1980s to the peak era of the 1990s. Today, China is a primary industrial and commercial market and is listed as the second principal receiver of FDI in the World. However, a more significant inflow of FDI was lacking until 1979 due to poor industrial infrastructure in China. A study based on a sample of 22 firms from China to determine the significant factors of FDI shows that market size is a major factor of FDI for US Firms, while Asian firms' low labor costs are the crucial determinants (Ali & Guo, 2005).

FDI inflow is fruitful in countries with more skilled and younger human resources. In South Asia, Pakistan, Bangladesh, and India are in an era where about 60% of their population is in their youth and skilled in different sets, providing a lucrative opportunity for foreign investors (Saleh et al., 2020). FDI inflow can create opportunities for the host country's human capital by developing infrastructure, providing new technological skills, and increasing productivity. Local markets gain global market access, and new technologies enhance international competitiveness and help firms fully benefit from FDI, thus attracting more FDI in the country. The cause-and-effect mechanism for exports, FDI, and economic growth (Apergis et al., 2008).

The exogenous and endogenous growth theories explain a country's economic growth sources. In recent times, human resources have gained high attention as one of the significant factors affecting the FDI influx in host countries. Human capital positively impacted the country's growth in the same period (Hassan & Sakar, 2013; Hoi, 2020). Higher remittances to the host country enhance the number of school students, producing more skilled human resources and ensuring that foreign investment directly correlates to human resources. It is observed that a higher inflow of foreign investment has increased the education level in 34 selected countries (Azam et al., 2015).

Openness to trade is a ratio between the sum of exports and imports of a host country to its GDP, depicting the ease of business, trade liberalization, and its bipolar effects on a country's economy. This ratio indicates how easily foreign investors can enter or leave the host country's business market (Lim, 2018). However, this is not always the case, and FDI may have a negative effect. Affordable and skilled labor, relaxed trade

policies, and easy access to worthy resources can be a primary source of attraction for foreign investors. Many studies have confirmed that MNCs sometimes do not initiate growth patterns for local labor or companies and appoint foreign labor familiar with their technology, leaving little opportunities for local labor (Baloch et al., 2024).

Some studies show that trade liberalization positively affects economic growth during financial liberalization, whereas in the post-financial era, some countries, like Pakistan, show a negative relationship (Chaudhry & Akhter, 2016). In another 2016 study, it was confirmed that a long-term relationship exists between human resources, FDI, and openness to trade (Dar, Muhammad, & Mehmood, 2016). Along with other factors, privatization is decisive in attracting FDI in a country. This statement is supported by De Fraja and Delbono (1989); however, much literature is focused on explaining the association between sector privatization and other chief features, such as incentive delegation (Barros,1995), endogenous market structure (Anderson et al.,1997), entry deterrence (Fershtman, 1990), costa symmetry (Matsumura,1998) and innovation (Ishibashi & Matsumura., 2006; Mukherjee & Suetrong, 2009). A plethora of work has been done to determine the factors affecting the FDI influx in Pakistan. As in the case of Pakistan, the Granger causality test suggests that FDI does not cause an increase in GDP.

The results suggest that the country's GDP is not very lucrative to foreign investors. Pakistan's economic instability may deflect foreign investors and lose potential and worthy foreign investments (Attari, Kamal, & Attaria, 2011). Another study suggests that policy variables such as tariff rate, tax and exchange rate, index of share pricing, and loans to the private sector are vital in appealing to foreign investment and determining its growth in the long and short run in Pakistan. The study also specifies a positive and essential influence of restructuring on foreign investment in Pakistan (Aqeel et al., 2004; Mouneer et al., 2023). The following hypotheses are developed.

H_1: Foreign direct investment in selected South Asian countries is affected by GDP, GDP per capita, inflation, lending interest rate, openness to trade, and CPIA rating.

3. Methodology and Data

The study aims to identify and explain the impact of the dependent variable on the independent variable. The study has developed the following hypothesis based on the selected variable. Data on dependent Variable Foreign Direct Investment inflow in Pakistan, India, Bangladesh, and Sri Lanka is taken for the past 26 years from 1996 to 2022 (Sadiq et al., 2021). In contrast, data on independent variables GDP, GDP per capita, CPIA transparency, accountability, corruption in the public sector rating, GDP Annual growth, inflation and consumer prices, lending interest rate, and openness to trade is taken for the same period. The equation based on the casual relationship is as follows.

$$FDI_t = \beta o + \beta 1\ GDP_t + \beta 2\ GDPPC_t + \beta 3\ GDPG_t + \beta 4\ INF_t + \beta 5\ LIR_t + \beta 6\ OPT_t + \beta 7\ CPIA_t + \varepsilon_t$$

Where the GDP of each country is in common currency, GDPPC is the GDP per capita in each country, GDPG is the annual GDP growth rate, INF is inflation and consumer prices, LIR is lending investment rate, OPT is openness to trade (import and export), CPIA is transparency, accountability, and corruption in the public sector rating, and Ɛ is error term (Baloch et al., 2024).

The data was taken over the past 26 years, from 1996 to 2022, and a balanced cross-country panel was used for multiple linear panel regression analysis. Balanced panel data means the number of observations involved in a study is balanced, i.e., in terms of time used, and every panel observation is constant (Zulfikar & STp, 2019). Some missing data has been found in these years for the CIPA index and taken as zero, whereas no missing data is found in dependent or independent variables. FDI net inflows, GDP, and GDP per capita are taken in the current US dollar, while openness to trade is taken as the ratio of the sum of

Imports and Exports of goods and services in the US dollar for each country and divided by the GDP of the respective country.

GDP Growth rate, inflation and consumer price index, and Lending interest rate are in percentage, respectively. To select whether the most effective model is used for hypothesis testing, the Hausman Test is applied for balanced panel data regression, which will tell us if the fixed effect or random effect is an appropriate model. Hausman Test suggests selection as under (Zulfikar & STp, 2019).

4. Results and Discussions

4.1 Descriptive Statistics

Descriptive statistics for a cross-country panel data analysis of 4 countries with independent and dependent variables are shown in the table with minimum and max values. Table 1 reports the results here; 104 observations of FDI are used, which have a mean value of 21.047 with a standard deviation of 1.845, whereas means of GDP, GDPPC, GDP Growth, inflation, lending interest rate, and openness to trade are 25.746, 6.896, -2.982, -2.735, -2.165 and -0.922 with a standard deviation of 1.408, 0.671, 0.418, 0.5, 0.187 and 0.351 respectively.

Table 1 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Lnfdi	104	21.047	1.845	14.455	24.888
Lngdp	104	25.746	1.408	23.29	28.686
Lngdppc	104	6.896	.671	5.797	8.313
Lngdpg	100	-2.982	.418	-4.591	-2.392
Lninf	104	-2.735	.5	-3.908	-1.489
Lnlir	88	-2.165	.187	-2.665	-1.666
Lnopt	104	-.922	.351	-1.517	-.121

Table 2 presents the Pairwise correlation, or Pearson Correlation, a statistical measure of the extent of relatedness of Independent and dependent variables. The coefficient of pairwise correlations between the dependent variable, i.e., FDI, and the Independent variables, i.e., GDP, GDPPC, GDP Growth, inflation, lending interest rate, openness to trade, and CPIA, are 0.889, 0.317, 0.187, 0.033, -0.273, -0.056 and 0.420 respectively. It shows that FDI inflow is positively and highly correlated with GDP and GDP per capita and CIPA index of the respective country; however, a noticeably low and negative correlation is observed between FDI inflow and openness to trade and lending interest rate (Wostner et al., 2023).

There is a noticeable difference between the regression results of Fixed Effects and Random effect models (Table 3). Here, GDP and GDP per Capita are statistically highly significant, and openness to trade is statistically substantial in Fixed effect as their p values are less than 0.001 and 0.05, respectively. However, the GDP growth rate, inflation lending investment rate, and CIPA index have insignificant values that exceed p-value limits. The coefficient of GDP per capita is negative, which harms the dependent variable (Zreik et al., 2022).

Table 2 Pairwise Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) lnfdi							
(2) lngdp	.889*						
(3) lngdppc	0.31*	0.166					
(4) lngdpg	0.187	0.20*	0.047				
(5) lninf	0.033	-0.122	-0.047	-0.070			
(6) lnlir	-0.27*	-0.29*	-0.38*	-0.23*	0.370*		
(7) lnopt	-0.056	-0.33*	0.44*	0.136	0.281*	-0.012	
(8) CPIA	0.42*	0.35*	0.149	0.218	-0.008	-0.099	0.524*

**** p<0.01, ** p<0.05, * p<0.1*

There is a negative significant correlation between the lending interest rate and other independent variables such as GDP, GDP per capita, and GDP growth rate; however, there is a positive correlation between LIR and inflation and openness to trade. Similarly, the CIPA index also shows a positive correlation with openness to trade (Sijabat, 2023) (Table 2).

Table 3 Fixed Effect vs. Random Effect

Lnfdi	Coef.		St.Err.		t-value		p-value		[95% Conf		Interval]	
	FE	RE	FE	RE	FE	RE	FE	RE	FE	RE	FE	RE
Lngdp	-5.7	1.08	1.895	0.074	-3.1	14.7	0.004	0	-9.61	0.942	-1.963	1.232
Lngdppc	7.57	-0.20	2.214	0.169	3.42	-1.1	0.001	0.23	3.10	-0.532	12.05	0.13
Lngdpg	0.02	-0.01	0.157	0.18	0.13	-0.1	0.896	0.95	-0.29	-0.363	0.337	0.342
Lninf	0.02	0.25	0.178	0.189	0.09	1.32	0.925	0.18	-0.34	-0.121	0.377	0.621
Lnlir	0.32	0.07	0.4	0.46	0.81	0.17	0.421	0.86	-0.48	-0.822	1.134	0.979
Lnopt	1.33	0.88	0.626	0.465	2.13	1.91	0.039	0.05	0.07	-0.024	2.596	1.798
CPIA	0.54	0.04	0.41	0.253	1.33	0.17	0.19	0.86	-0.28	-0.453	1.373	0.539
Constant	117	-3.83	32.76	1.976	3.6	-1.9	0.001	0.05	51.74	-7.703	184.07	0.042
Fixed Effect F-test			5.438***									
Random Effect				356.996***								
Fixed Effect R^2				0.873								
Random Effect R^2				0.923								
**** p<.01, ** p<.05, * p<.1*												

As the outcome p-value of the Hausman test is less than 0.05, use a fixed effect model for this study. In the Random effect model, only GDP and openness to trade among the independent variables show a significance level, while the rest of the IVs, including GDP per capita, GDP growth rate, inflation, lending investment rate, and CIPA index, have a p-value greater than 0.05. Here, in Fixed effect, R square has a value equal to 0.5, i.e., 0.48, proving that the predictor variable can explain the response variable, i.e.,

FDI. In Random effect, overall R square has a value greater than 0.5, i.e., 0.89, proving that the predictor variable can explain the response variable, i.e., FDI (Joshua et al., 2020).

The probability of F-Test is 0.000. The p-value of the model indicates the level of reliability of independent variables in predicting dependent variables. The p-value is lower than 0.05, showing a statistically significant relationship between independent and dependent variables.

The regression equation in the fixed effect model is.

$FDI_t = 117.908_t - 5.79\ GDP_t + 7.579\ GDPPC_t + 0.021\ GDPG_t + 0.017\ INF_t + 0.325\ LIR_t + 1.333\ OPT_t + 0.545\ CPIA_t$

The regression equation in the Random effect model is.

$FDI = -3.83 + 1.087\ GD_tP - 0.201\ GDPPC_t - 0.011\ GDPG_t + 0.25\ INF_t + 0.079\ LIR_t + 0.887\ OPT_t + 0.043\ CPIA_t$

Based on the results, it can be deduced that one united change in the value of dependent variables, i.e., GDP, GDP per capita, GDP growth rate, Inflation, Lending interest rate, openness to trade (OT), and CPIA index, will bring a change in the value of an independent variable, i.e., FDI inflow with the values determined respectively.

It can infer the p values of the test to either support or reject Ho. Here, the p-value is $p < 0.05$ for GDP, GDP per capita, and openness to trade, i.e. 0.004, 0.001, and 0.039, respectively, while it is more significant than 0.05 in case of GDP growth, inflation, lending interest rate, and CIPA, i.e. 0.896, 0.925, 0.421 and 0.19 respectively; thus this concludes that there is at least one beta value that is not equal to zero hence do not support Ho, concluding that there is a correlation between inflow of foreign investment in selected south Asian countries and GDP growth, inflation, lending interest rate, and CIPA.

5. Conclusions and Policy Recommendation

Local and international forces hinder Pakistan's domestic stability. Foreign direct investment plays a vital role in the financial development of any country. However, underdeveloped countries such as Pakistan, India, Bangladesh, and Sri Lanka have managed to increase foreign direct investment. This study intends to explain the causal relationship between FDI influx and economic factors that attract FDI in selected South Asian countries (Grabner et al., 2020; Fan, 2020; Reyes-Heroles et al., 2020).

Among the many economic factors here, GDP, GDP Per capita, and Openness to trade are independent variables, whereas FDI is a dependent Variable. Balanced panel data from 1995 to 2020 was used for multiple linear panel regression analysis. Fixed and random effect models are used, where the fixed effect model is used with the Husman test for building regression equations. The Fixed effect model results show a correlation between the selected independent variables and FDI inflow in Pakistan, India, Bangladesh, and Sri Lanka. Hence, it can be inferred that GDP growth, inflation, lending interest rate, and CIPA affect the selected country's FDI inflow (Diaz, 2022; Violin & Lutfi, 2022; Bugenbayev et al., 2020; Antwi, 2019)

The practical implications of this study's findings suggest that policymakers in South Asian countries should focus on improving trade openness, strengthening the financial sector, and creating a stable and transparent legal and regulatory environment to attract more FDI (Ayesha et al., 2024). The study's recommendation also suggests that policymakers should prioritize increasing GDP per capita and maintaining stable inflation rates to improve the investment climate in the region. Additionally, the findings highlight the importance of promoting education and improving health indicators to enhance the quality of the workforce and reduce the cost of doing business. Overall, the study's recommendations provide valuable insights for policymakers seeking to attract foreign investment and promote economic growth in South Asian countries.

The study is limited to some important macroeconomic variables but did not consider all the macroeconomic indicators; the data was used for 26 years. The study did not consider the political, social, and technological factors concerning the economy. It is difficult to compare the different social, political, and technological factors of all South Asian countries.

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Ethical Approval
Ethical approval has been obtained from the relevant forum(s) of the authors' affiliated department(s).

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The data supporting this study's findings are available from the corresponding author upon reasonable request.

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